Roll No. .... **INTERMEDIATE (IPC) GROUP II - PAPER 5 ADVANCED ACCOUNTING** 2013

Total No. of Questions – 7 Total No. of Pr... – 11

Time Allowed – **3** Hours Maximum M...

PBS

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.

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) Net profit for the year 2012 : ₹ 24,00,000
Weighted average number of equity shares outstanding during the year 2012 : 10,00,000
Average Fair value of one equity share during the year 2012 : ₹ 25.00
Weighted average number of shares under option during the year 2012 : 2,00,000
Exercise price for shares under option during the year 2012 : ₹ 20.00
Compute Basic and Diluted earning per share.

(b) Closing Stock for the year ending on 31st March, 2013 is ₹ 1,50,000 which includes stock damaged in a fire in 2011-12. On 31st March, 2012, the estimated net realizable value of the damaged stock was ₹ 12,000. The revised estimate of net realizable value of damaged stock included in closing stock at 2012-13 is ₹ 4,000. Find the value of closing stock to be shown in Profit and Loss Account for the year 2012-13, using provisions of Accounting Standard 5.

(c) An engineering goods company provides after sales warranty for 2 years to customers. Based on past experience, the company has the following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period :

Less than 1 year : 2% provision

More than 1 year : 3% provision

The company has raised invoices as under :

Invoice Date	Amount ₹
19th January, 2011	40,000
29th January, 2012	25,000
15th October, 2012	90,000

Calculate the provision to be made for warranty under Accounting Standard 29 as at 31st March, 2012 and 31st March, 2013. Also compute amount to be debited to Profit and Loss Account for the year ended 31st March, 2013.

(d) An enterprise acquired patent right for ₹ 400 lakhs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of estimated future cash flows which are as under :

Year	Estimated Future Cash Flows (₹ in lakhs)
1	200
2	200
3	200
4	100
5	100

After 3rd year, it was ascertained that the patent would have an estimated balance future life of 3 years and the estimated cash flow after 5th year is expected to be ₹ 50 lakhs each year. Determine the amortization under Accounting Standard 26.

Marks

2. The following is the Balance Sheet of M/S. P and Q as on 31st March, 2012 : 16

Liabilities	₹	Assets	₹
Capital Accounts :		Machinery	54,000
P	50,000	Furniture	5,000
Q	30,000	Investment	50,000
Reserves	20,000	Stock	20,000
Loan Account of Q	15,000	Debtors	21,000
Creditors	40,000	Cash	5,000
	1,55,000		**1,55,000**

It was agreed that Mr. R is to be admitted for a fourth share in the future profits from 1st April, 2012. He is required to contribute cash towards goodwill and ₹ 15,000 towards capital.

The following further information is furnished :

(a) P & Q share the profits in the ratio 3 : 2

(b) P was receiving salary of ₹ 750 p.m. from the very inception of the firm in 2005 in addition to share of profit.

(c) The future profit ratio between P, Q & R will be 2 : 1 : 1. P will not get any salary after the admission of R.

(d) It was agreed that the value of goodwill of the firm shall appear in the books of the firm. The goodwill of the firm shall be determined on the basis of 3 years' purchase of the average profits from business of the last 5 years. The particulars of the profits are as under :

Year ended	Profit / (Loss) ₹
31st March, 2008	25,000
31st March, 2009	12,500
31st March, 2010	(2,500)
31st March, 2011	35,000
31st March, 2012	30,000

The above Profits and Losses are after charging the Salary of P. The Profit of the year ended 31st March, 2008 included an extraneous profit of ₹ 40,000 and the loss for the year ended 31st March, 2010 was on account of loss by strike to the extent of ₹ 20,000.

(e) The cash trading profit for the year ended 31st March, 2013 was ₹ 50,00[illegible] before depreciation.

(f) The partners had drawn each ₹ 1,000 p.m. as drawings.

(g) The value of other assets and liabilities as on 31st March, 2013 were as under :

	₹
Machinery (before depreciation)	60,000
Furniture (before depreciation)	10,000
Investment	50,000
Stock	15,000
Debtors	30,000
Creditors	20,000

(h) Provide depreciation @ 10% on Machinery and @ 5% on Furniture on the Closing Balance and interest is accumulated @ 6% on Q's loan. The loan alongwith interest would be repaid within next 12 months.

(i) Investments are held from inception of the firm and interest is received @ 10% p.a.

(j) The partners applied for conversion of the firm into a Private Limited Company. Certificate was received on 1st April, 2013. They decided to convert Capital A/cs of the partners into share capital in the ratio of 2 : 1 : 1 on the basis of total Capital as on 31st March, 2013. If necessary, partners have to subscribe to fresh capital or withdraw.

Prepare the Profit and Loss Account of the firm for the year ended 31st March, 2013 and the Balance Sheet of the Company on 1st April, 2013.

 Marks

3. (a) A company issued 1,50,000 shares of ₹ 10 each at a premium of ₹ 10. The entire issue was underwritten as follows :

X – 90000 shares (Firm underwriting 12000 shares)

Y – 37500 shares (Firm underwriting 4500 shares)

Z – 22500 shares (Firm underwriting 15000 shares)

Total subscriptions received by the company (excluding firm underwriting and marked applications) were 22500 shares.

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

X – 15000 shares

Y – 30000 shares

Z – 7500 shares

Commission payable to underwriters is at 5% of the issue price. The underwriting contract provides that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten and benefit of firm underwriting is to be given to individual underwriters.

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

(ii) Compute the amounts payable or due from underwriters; and

(iii) Pass Journal Entries in the books of the company relating to underwriting.

(b) Arihant Limited has its share capital divided into equity shares of ₹ 10 each. On 1-10-2012, it granted 20,000 employees' stock option at ₹ 50 per share, when the market price was ₹ 120 per share. The options were to be exercised between 10th December, 2012 and 31st March, 2013. The employees exercised their options for 16,000 shares only and the remaining options lapsed. The company closes its books on 31st March every year. Show Journal Entries (with narration) as would appear in the books of the company upto 31st March, 2013. 4

4. The summarized Balance Sheet of Bad Luck Ltd. as on 31st March, 2013 was as follows :

	Note	Amount ₹	Amount ₹
A. Equity and Liabilities			
1. Shareholder's Fund			
(a) Share Capital	1	7,50,000	
(b) Reserves and Surplus	2	(10,00,000)	(2,50,000)
2. Non-current Liabilities			
(a) Long Term borrowings	3		5,00,000
3. Current Liabilities			
(a) Short Term Borrowings	4	5,00,000	
(b) Trade Payables		2,50,000	7,50,000
Total			**10,00,000**
B. Assets			
1. Non-current assets			
(a) Fixed Assets			
(i) Tangible assets	5	5,50,000	
(ii) Intangible assets	6	1,50,000	7,00,000
2. Current Assets			
(a) Inventories		1,50,000	
(b) Trade Receivables		1,25,000	
(c) Deferred revenue expenditure		25,000	3,00,000
Total			**10,00,000**

Notes to Accounts	Amount ₹	Amount ₹
1. Share Capital		
Authorised, issued & fully paid		
5,000 equity shares of ₹ 100 each	5,00,000	
2,500 8% preference shares of ₹ 100 each	2,50,000	7,50,000
2. Reserves and Surplus		
Profit and Loss Account		(10,00,000)
3. Long Term borrowings		
8% Debentures		5,00,000
4. Short Term Borrowings		
Loan from Directors	3,00,000	
Bank overdraft	2,00,000	5,00,000
5. Tangible Assets		
Freehold property	4,00,000	
Plant	1,50,000	5,50,000
6. Intangible Assets		
Goodwill	1,00,000	
Trademark	50,000	1,50,000

The following scheme of internal reconstruction was framed, approved by the Court, all the concerned parties and implemented :

(i) The preference shares to be written down to ₹ 25 each and the equity shares to ₹ 20 each. Each class of shares then to be converted into shares of ₹ 100 each.

(ii) The debenture holders to take over freehold property (book value ₹ 2,00,000) at a valuation of ₹ 2,50,000 in part repayment of their holdings. Remaining freehold property to be revalued at ₹ 6,00,000.

(iii) Loan from directors to be waived off in full.

(iv) Stock of ₹ 50,000 to be written off, ₹ 12,500 to be provided for bad debts.

(v) Profit and Loss account balance, Trademark, goodwill and deferred revenue expenditure to be written off.

Pass Journal Entries for all the above mentioned transactions. Also, Prepare Capital Reduction account and company's Balance Sheet immediately after reconstruction.

5. (a) From the following information as on 31st March, 2013 of Bachao Insura[nce] Co. Ltd. engaged in fire insurance business, prepare the Revenue Account, reserving 40% of the net premiums for unexpired risks and an additional reserve of ₹ 3,50,000 :

Particulars	Amount ₹
Reserve for unexpired risk on 31st March, 2012	7,50,000
Additional reserve on 31st March, 2012	1,50,000
Claims paid	9,60,000
Estimated liability in respect of outstanding claims on 31st March, 2012	97,500
Estimated liability in respect of outstanding claims on 31st March, 2013	1,35,000
Expenses of management (including ₹ 45,000 in connection with claims)	4,20,000
Re-insurance premium	1,12,500
Re-insurance recoveries	30,000
Premiums	16,80,000
Interest and dividend	75,000
Profit on sale of investments	15,000
Commission	1,75,000

(b) The following information is available in the books of X Bank Limited as on 31st March, 2013 : **8**

	₹
Bills discounted	1,37,05,000
Rebate on bills discounted (as on 1-4-2012)	2,21,600
Discount received	10,56,650

Details of bills discounted are as follows :

Value of Bills (₹)	Due Date	Rate of Discount
18,25,000	05-06-2013	12 %
50,00,000	12-06-2013	12 %
28,20,000	25-06-2013	14 %
40,60,000	06-07-2013	16 %

Calculate the rebate on bills discounted as on 31-3-2013 and give necessary Journal Entries in the books of X Bank Ltd. as on 31st March, 2013.

6. ABCD Ltd., Delhi has a branch in New York, USA, which is an integral foreign operation of the company. At the end of 31st March, 2013, the following ledger balances have been extracted from the books of the Delhi office and the New York Branch :

Particulars	Delhi (₹ thousands)		New York ($ thousands)	
	Debit	Credit	Debit	Credit
Share Capital		1,250		
Reserves and Surplus		940		
Land	475			
Building (cost)	1,000			
Buildings Depreciation Reserve		200		
Plant & Machinery (cost)	2,000		100	
Plant & Machinery Depreciation Reserve		500		20
Trade receivables/payables	500	270	60	20
Stock (01-04-2012)	250		25	
Branch Stock Reserve		65		
Cash & Bank Balances	125		4	
Purchases/Sales	275	600	25	125
Goods sent to Branch		1,500	30	
Managing Director's salary	50			
Wages & Salaries	100		18	
Rent			6	
Office Expenses	25		12	
Commission receipts		275		100
Branch/H.O. Current A/c	800			15
Total	**5,600**	**5,600**	**280**	**280**

The following information is also available :

(1) Stock as at 31-03-2013
Delhi - ₹ 2,00,000
New York - $ 10 (all stock received from Delhi)

(2) Head Office always sent goods to the Branch at cost plus 25%.

(3) Provision is to be made for doubtful debts at 5%.

(4) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down values.

You are required :

(a) To convert the Branch Trial Balance into rupees, using the following rates of exchange :

Opening rate	1 \$ = ₹ 50
Closing rate	1 \$ = ₹ 55
Average rate	1 \$ = ₹ 52
For fixed assets	1 \$ = ₹ 45

(b) To prepare the Trading and Profit & Loss Account for the year ended 31st March, 2013, showing to the extent possible, Head Office results and Branch results separately.

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

(a) Neel Limited has its corporate office in Mumbai and sells its products to stockists all over India. On 31st March, 2013, the company wants to recognize receipt of cheques bearing date 31st March, 2013 or before, as "Cheques in Hand" by reducing "Trade Receivables". The "Cheques in Hand" is shown in the Balance Sheet as an item of cash and cash equivalents. All cheques are presented to the bank in the month of April 2013 and are also realized in the same month in normal course after deposit in the bank. State with reasons, whether each of the following is an adjusting event and how this fact is to be disclosed by the company, with reference to the relevant accounting standard.

(i) Cheques collected by the marketing personnel of the company from the stockists on or before 31st March, 2013.

(ii) Cheques sent by the stockists through courier on or before 31st March, 2013.

(b) Explain "monetary item" as per Accounting Standard 11. How are foreign currency monetary items to be recognized at each Balance Sheet date ? Classify the following as monetary or non-monetary item :

(i) Share Capital
(ii) Trade Receivables
(iii) Investments
(iv) Fixed Assets

(c) Department A sells goods to Department B at a profit of 50% on cost and to Department C at 20% on cost. Department B sells goods to A and C at a profit of 25% and 15% respectively on sales. Department C charges 30% and 40% profit on cost to Department A and B respectively.

Stock lying at different departments at the end of the year are as under :

	Department A	Department B	Department C
	₹	₹	₹
Transfer from Department A	–	45,000	42,000
Transfer from Department B	40,000	–	72,000
Transfer from Department C	39,000	42,000	–

Calculate the unrealized profit of each department and also total unrealized profit.

(d) Explain Garner V/S Murray rule applicable in the case of partnership firms. State, when is this rule not applicable.

(e) What are the qualitative characteristics of the financial statements which improve the usefulness of the information furnished therein ?