IPCC
GROUP-II PAPER-5
ADVANCED ACCOUNTING

Roll No. ....

Total No. of Questions – **7** | NOV 2011 | Total No. of Printed Pages – **11**

Time Allowed – **3** Hours | 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.

Attempt any **five** questions from the remaining **six** questions.

Working notes should form part of the answer.

Wherever necessary, suitable assumptions should be made by the candidates.

Marks

1. Answer the following questions : **4×5 =20**

(a) On 25^{th} April, 2010 Neel Limited obtained a loan from the bank for ₹ 70 lakhs to be utilised as under :

	₹ in lakhs
Construction of factory shed	28
Purchase of Machinery	21
Working Capital	14
Advance for purchase of truck	7

In March 2011, Construction of shed was completed and machinery installed. Delivery of truck was not received. Total interest charged by the bank for the year ending 31^{st} March, 2011 was ₹ 12 lakhs. Show the treatment of interest under Accounting Standard – 16.

Marks

(b) An equipment having expected useful life of 5 years, is leased for 3 years. Both the cost and the fair value of the equipment are ₹ 6,00,000. The amount will be paid in 3 equal instalments and at the termination of lease, lessor will get back the equipment. The unguaranteed residual value at the end of 3 years is ₹ 60,000. The IRR of the investment is 10%. The present value of annuity factor of ₹ 1 due at the end of 3^{rd} year at 10% IRR is 2.4868. The present value of ₹ 1 due at the end of 3^{rd} year at 10% rate of interest is 0.7513. State with reason whether the lease constitutes finance lease and also compute the unearned finance income.

(c) On 1^{st} April, 2010, A Ltd had outstanding in its books 1,00,000 Debentures of ₹ 100 each, interest @ 12% per annum. The interest on debentures was paid half-yearly on 30^{th} September and 31^{st} March of every year. On 31^{st} May, 2010 the company purchased 30,000 Debentures of its own @ ₹ 98 (ex-interest) per debenture. The company cancelled the debentures so purchased on 31^{st} March, 2011.

Pass the necessary Journal Entries to record the above transactions for the year ended 31^{st} March, 2011.

(d) Global Limited has a branch which closes its books of account every year on 31^{st} March. This is an independent branch which maintains comprehensive books of account for recording their transactions.

You are required to show journal entries in the books of branch on 31^{st} March, 2011 to rectify or adjust the following :

(i) Head Office allocates ₹ 1,35,000 to the branch as head office expenses, which have not yet been recorded by branch.

Marks

(ii) Depreciation of branch fixed assets, whose accounts are kept by head office in its books, not yet recorded in the branch books, ₹ 1,15,000.

(iii) Branch paid ₹ 1,40,000 as salary to an official from head office on visit to branch and debited the amount to its Salaries Account.

(iv) Head Office collected ₹ 1,30,000 directly from a branch customer on behalf of the branch, but no intimation was received earlier by the branch. Now the branch learns about it.

(v) It is learnt that a remittance of ₹ 1,50,000 sent by the branch has not been received by head office till date.

2. P, Q, R and S had been carrying on business in partnership sharing profit & losses in the ratio of 4 : 3 : 2 : 1. They decide to dissolve the partnership on the basis of following Balance Sheet as on 30th April, 2011 : 16

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital Accounts			Land & Building		2,46,000
P	1,68,000		Furniture & Fixtures		65,000
Q	1,08,000	2,76,000	Stock		1,00,000
General Reserve		95,000	Debtors		72,500
Capital Reserve		25,000	Cash in hand		15,500
Sundry Creditors		36,000	Capital overdrawn :		
Mortgage Loan		1,10,000	R	25,000	
			S	18,000	43,000
		5,42,000			**5,42,000**

(i) The assets were realized as under :

Land & Building	2,30,000
Furniture & Fixture	42,000
Stock	72,000
Debtors	65,000

Marks

(ii) Expenses of dissolution amounted to ₹ 7,800.

(iii) Further creditors of ₹ 18,000 had to be met.

(iv) R became insolvent and nothing was realized from his private estate.

Applying the principles laid down in Garner Vs. Murray, prepare the Realisation Account, Partner's Capital Accounts and Cash Account.

3. X Ltd and Y Ltd were carrying on same business independently. The companies agreed to amalgamate on and from 1-4-2011 and formed a new company Z Ltd. to take over the assets and liabilities of the existing companies. The Balance Sheets of two companies as on 31-3-2011 are as follows : 16

Liabilities	**X Ltd. (₹)**	**Y Ltd. (₹)**
Share capital : Equity shares of ₹ 10 each (fully paid up)	30,00,000	18,00,000
Securities Premium	6,00,000	–
General Reserve	9,00,000	7,50,000
Profit & Loss Account	5,40,000	4,80,000
10% Debentures	15,00,000	–
Secured Loan	–	9,00,000
Sundry Creditors	7,80,000	5,10,000
	73,20,000	**44,40,000**
Assets	**X Ltd. (₹)**	**Y Ltd. (₹)**
Land & Building	27,00,000	13,50,000
Plant & Machinery	15,00,000	11,40,000
Investments (15,000 Shares of Y Ltd.)	2,40,000	–
Stock	15,60,000	10,50,000
Debtors	12,30,000	7,80,000
Cash at Bank	90,000	1,20,000
	73,20,000	**44,40,000**

Following are the additional information :

(i) For the purpose of amalgamation, the shares of the existing companies are to be valued as under :

X Ltd. = ₹ 18 per share

Y Ltd. = ₹ 20 per share

(ii) A contingent liability of X Ltd. of ₹ 1,80,000 is to be treated as actual existing liability.

(iii) The shareholders of X Ltd and Y Ltd. are to be paid by issuing sufficient number of shares of Z Ltd. at a premium of ₹ 6 per share.

(iv) The face value of shares of Z Ltd. is to be of ₹ 10 each.

You are required to :

(i) Calculate the purchase consideration (i.e. the number of shares to be issued to X Ltd. and Y Ltd.)

(ii) Prepare Realisation Account and Shareholders Account in the books of X Ltd. & Y Ltd.

(iii) Prepare the Balance Sheet of Z Ltd. after amalgamation.

4. M/s. Access Electricity Company earned a profit of ₹ 75,00,000 (after tax for the year 2010-11) after paying ₹ 2,40,000 @ 12% as debenture interest for the year ended March 31, 2011. The following further information has been extracted from the Books of company. 16

	Amount (₹)
Share Capital	3,00,00,000
Fixed Assets	9,00,00,000
Depreciation Reserve on Fixed Assets	3,00,00,000
Loan from Electricity Board	1,20,00,000
Reserve Fund Investments, at par, invested in 8% Govt. securities	50,00,000

Contingencies Reserve Investments, at par, 10%	24,00,000
Tariff and Dividends Control Reserve	16,00,000
Security Deposits of Consumers	10,00,000
Consumer's contribution to cost of fixed assets	3,40,000
Intangible Assets	7,60,000
Monthly average of current assets, including amount due from consumers, ₹ 7,00,000	34,60,000
Development Reserve	12,00,000

Show, how the profits have to be dealt with by the company under the provisions of the Electricity Act. Assume the Bank Rate to be 10%.

5. (a) M/s. AM Enterprise had two departments, Cloth and Readymade Clothes. The Readymade clothes were made by the firm itself out of the cloth supplied by the Cloth Department at its usual selling price. From the following figures, prepare Departmental Trading and Profit & Loss Account for the year ended 31st March, 2011 : **8**

	Cloth Department ₹	Readymade Clothes Department ₹
Opening Stock on 1st April, 2010	31,50,000	5,32,000
Purchases	2,10,00,000	1,68,000
Sales	2,31,00,000	47,25,000
Transfer to Readymade Clothes Department	31,50,000	—
Manufacturing Expenses	—	6,30,000
Selling Expenses	2,10,000	73,500
Rent & Warehousing	8,40,000	5,60,000
Stock on 31st March, 2011	21,00,000	6,72,000

Marks

In addition to the above, the following information is made available for necessary consideration :

The stock in the Readymade Clothes Department may be considered as consisting of 75% cloth and 25% other expenses. The Cloth Department earned a gross profit at the rate of 15% in 2009-10. General Expenses of the business as a whole amount to ₹ 10,85,000.

(b) The following particulars are extracted from the records of M/s. Engco Bank Limited for the year ended 31st March, 2011 : 8

	Amount (₹)
Rebate on bills discounted (not due on March 31st, 2010)	60,610
Discount received	6,10,800
Bills Discounted	24,42,250

An analysis of the bills discounted is as follows :

Amount (₹)	Due Date
3,75,000	April 15, 2011
4,90,000	May 6, 2011
2,45,000	June 1, 2011
3,68,000	June 20, 2011
4,85,000	July 4, 2011

The rate of discount is 12% per annum. You are required to :

(i) Calculate rebate on bills discounted as on 31st March, 2011.

(ii) Determine the amount of discount to be credited to the profit and loss account for the year ended 31st March, 2011.

(iii) Show the necessary Journal Entries in the books of M/s. Engco bank Ltd. as on 31st March, 2011.

6. (a) M/s. ABC Limited has gone into liquidation on 25th June, 2011. Certain creditors could not receive payments out of the realization of assets and out of the contributions from A list contributories. The following are the details of certain transfers which took place in the year ended 31st March, 2011 : **8**

Shareholders	No. of shares transferred	Date of ceasing to be a member	Creditors remaining unpaid and outstanding on the date of transfer (₹)
P	4,000	10-5-2010	9,000
Q	3,000	22-7-2010	12,000
R	2,400	15-9-2010	13,500
S	1,600	14-12-2010	14,000
T	1,000	09-03-2011	14,200

All the shares are of ₹ 10 each, ₹ 8 per share paid up. Show the amount to be realized from the persons listed above. Ignore remuneration to liquidator and other expenses.

Marks

(b) From the following information of M/s. Bigfish Marine Insurance Co. Ltd., prepare the Revenue Account as per regulations of IRDA for the year ended 31st March, 2011 : 8

Particulars	Amount (₹)
Premiums Received	18,75,000
Premium outstanding on March 31, 2011	1,25,000
Premium paid on reinsurance ceded	2,28,000
Claims paid	10,54,000
Estimated liability in respect of outstanding claims :	
On April 1, 2010	1,89,000
On March 31, 2011	2,25,000
Expenses of management (includes ₹ 45,000 Surveyor's fee and ₹ 65,000 Legal expenses paid for settlement of claims)	4,85,000
Interest and Dividend (Gross)	1,65,250
Income tax on the above	49,575
Profit on sale of investments	46,000
Commission paid	1,94,000

Balance of fund on 1st April, 2010 was ₹ 18,50,000 including Additional reserve of ₹ 1,80,000. Additional reserve has to be maintained at 10% of net premiums for the year.

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7. Answer any **four** of the following : $4 \times 4 =$

(a) MEC Limited could not recover an amount of ₹ 8 lakhs from a debtor. The company is aware that the debtor is in great financial difficulty. The accounts of the company for the year ended 31-3-2011 were finalized by making a provision @ 25% of the amount due from that debtor. In May 2011, the debtor became bankrupt and nothing is recoverable from him. Do you advise the company to provide for the entire loss of ₹ 8 lakhs in books of account for the year ended 31-3-2011 ?

(b) Sunshine Company Limited imported raw materials worth US Dollars 9,000 on 25th February, 2011, when the exchange rate was ₹ 44 per US Dollar. The transaction was recorded in the books at the above mentioned rate. The payment for the transaction was made on 10th April, 2011, when the exchange rate was ₹ 48 per US Dollar. At the year end 31st March, 2011, the rate of exchange was ₹ 49 per US Dollar.

The Chief Accountant of company passed an entry on 31st March, 2011 adjusting the cost of raw material consumed for the difference between ₹ 48 and ₹ 44 per US Dollar. Discuss whether this treatment is justified as per the provisions of AS-11 (Revised)

(c) A company has its share capital divided into shares of ₹ 10 each. On 1-4-2010, it granted 5,000 employees stock option at ₹ 50, when the market price was ₹ 140. The options were to be exercised between 1-12-2010 to 28-2-2011. The employees exercised their options for 4,800 shares only; the remaining option lapsed. Pass the necessary Journal Entries for the year ended 31-3-2011, with regard to employee's stock option.

(d) Explain the treatment of Refund of Government Grants as per Accounting Standard-12

(e) What are the qualitative characteristics that improve the usefulness of information provided in the financial statements ?