INTERMEDIATE (IPC)
Roll No. .... GROUP II - PAPER 5 — MAY 2017
ADVANCED ACCOUNTING

Total No. of Questions – **7** Total No. of Printed Pages – **15**

Time Allowed – **3** Hours Maximum Marks – **100**

AFM

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 who has not opted for Hindi medium answers in Hindi, his/her answers in Hindi will not be valued.

Question **No. 1** is compulsory.

Candidates are required to answer any **five** questions from the remaining **six** questions.

In case, any candidate answers extra question(s)/sub question(s) over and above the required number, then, only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.

Working notes should form part of the respective answers.

Wherever necessary, suitable assumptions may be made by the candidate and it must be disclosed as a separate note forming part of the main answer.

Marks

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

(a) Fast Ltd. acquired a patent at a cost of ₹ 40,00,000 for a period of five years and its product life-cycle is also five years. The company capitalized the cost and started amortizing the asset at ₹ 5,00,000 per annum. After two years, it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years are expected to be ₹ 18,00,000, ₹ 23,00,000, ₹ 22,00,000, ₹ 20,00,000 and ₹ 17,00,000. Find out the amortization cost of the patent for each of the years. **5**

Marks

(b) ABC Ltd. took a machine on lease from XYZ Ltd., the fair value being ₹ 10,00,000. The economic life of the machine as well as the lease term is 4 years. At the end of each year, ABC Ltd. pays ₹ 3,50,000. The lessee has guaranteed a residual value of ₹ 50,000 on expiry of the lease to the lessor. However, XYZ Ltd. estimates that the residual value of the machinery will be ₹ 35,000 only. The implicit rate of return is 16% and PV factors at 16% for year 1, year 2, year 3 and year 4 are 0.8621, 0.7432, 0.6407 and 0.5523 respectively. You are required to calculate the value of machinery to be considered by ABC Ltd. and the finance charges for each year. **5**

(c) Ram Ltd. purchased machinery for ₹ 80 lakhs. (useful life 4 years and residual value ₹ 8 lakhs). Government grant received is ₹ 32 lakhs. Show the Journal Entry to be passed at the time of refund of grant and the value of the fixed assets in the third year and the amount of depreciation for remaining two years, if **5**

(i) the grant is credited to Fixed Assets A/c.

(ii) the grant is credited to Deferred Grant A/c.

(d) The Board of Directors of M/s. New Graphics Ltd. in its Board Meeting held on 18th April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31st March, 2017 and recommended a divided of ₹ 2 per equity share (on 2 crore fully paid up equity shares of ₹ 10 each) for the year ended 31st March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the company on 18th June, 2017, the same will be paid to all the eligible shareholders. **5**

Discuss on the *accounting treatment and presentation* of the said proposed dividend in the annual accounts of the company for the year ended 31st March, 2017 as per the applicable Accounting Standard and Other Statutory Requirements.

2. Ali and Beta were carrying on business, sharing profits and losses equally. The firm's balance sheet as at 31-12-2015 was : **16**

Liabilities		**₹**	**Assets**		**₹**
Sundry Creditors		1,44,000	Stock		1,44,000
Bank Overdraft		84,000	Machinery		3,60,000
Capital A/c.			Debtors		1,68,000
Ali	3,36,000		Joint Life Policy		21,600
Beta	3,12,000	6,48,000	Leasehold Premises		81,600
			Profit & Loss A/c.		62,400
			Drawing A/c.		
			Ali	24,000	
			Beta	14,400	38,400
		8,76,000			**8,76,000**

The business was carried on till 30-6-2016. The partners withdrew the amounts equal to half the amount of profit made during the period of six months ended on 30-6-2016, in equal proportion. The profit was calculated after charging depreciation at 10% p.a. on machinery and after writing off 5% on leasehold premises. In the half year, sundry creditors were reduced by ₹ 24,000 and bank overdraft by ₹ 36,000.

On 30-6-2016, stock was valued at ₹ 1,80,000 and debtors at ₹ 1,44,000; the Joint Life Policy had been surrendered for ₹ 21,600 before 30-6-2016 and other items remained the same as at 31-12-2015.

On 30-6-2016, the firm sold the business to a limited company. The value of goodwill was fixed at ₹ 2,40,000 and the rest of the assets were valued on the basis of the balance sheet as at 30-6-2016. The company paid the purchase consideration in equity shares of ₹ 10 each.

You are required to prepare :

(a) Balance Sheet of the firm as at 30-6-2016;

(b) Realisation Account; and

(c) Partners' Capital Account showing the final settlement between them.

Marks

3. (a) Paper Limited comes out with a public issue of share capital on 01-01-2016 of 30,00,000 equity shares of ₹ 10 each at a premium of 5%. ₹ 2.50 is payable on application (on or before 31-01-2016) and ₹ 3 on allotment (31-3-2016) including premium. **8**

This issue was underwritten by two underwriters namely White and Black, equally, the commission being 4% of the issue price. Each of the underwriters underwrites 60,000 shares firm. Subscriptions including firm underwriting came for 28,80,000 shares, the distribution of forms being White : 15,60,000; Black : 10,80,000 and Unmarked 2,40,000.

One of the allottees (using forms marked with name of White) for 6000 shares fails to pay the amount due to allotment, all the other money due being received in full including any due from the shares devolving upon the underwriters. The commission due was paid separately.

6000 shares of one allottee who failed to pay the allotment money were finally forfeited by 30-6-2016 and were re-allotted for payment in cash of ₹ 4 per share. You are required to prepare each underwriter's liability (in shares) in statement form and to pass necessary journal entries to record the above events and transactions (including cash)

Marks

(b) SMM Ltd. has the following capital structure as on 31st March, 2017 : 8

₹ in crores

Particulars	Situation I	Situation II
(i) Equity share capital (shares of ₹ 10 each)	1,200	1,200
(ii) Reserves :		
General Reserves	1,080	1,080
Securities Premium	400	400
Profit & Loss	200	200
Infrastructure Development Reserve (Statutory Reserve)	320	320
(iii) Loan Funds	3,200	6,000

The company has offered a buy back price of ₹ 30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries.

Marks

4. P Ltd. and Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of P Ltd. and Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd. **16**

The Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below :

Summarised Balance sheet as at 31-03-2017

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
<u>Equity & Liability :</u>			<u>Assets :</u>		
1. Shareholders Fund			<u>Non-current Assets :</u>		
a. Share Capital	6,00,000	8,40,000	Fixed Assets (excluding Goodwill)	7,20,000	10,80,000
b. Reserves	10,20,000	6,00,000	<u>Current Assets</u>		
2. <u>Current Liabilities :</u>			a. Inventories	3,60,000	6,60,000
Bank Overdraft	–	5,40,000	b. Trade receivables	4,80,000	7,80,000
Trade Payable	2,40,000	5,40,000	c. Cash at Bank	3,00,000	–
	18,60,000	**25,20,000**		**18,60,000**	**25,20,000**

The consideration was to be based on the net assets of the companies as shown in the above Balance Sheets, but subject to an additional payment to P. Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2017. The weights for this purpose for the years 2014-15, 2015-16 and 2016-17 were agreed as 1, 2 and 3 respectively.

The profit had been :

2014-15 ₹ 3,00,000 ; 2015-16 ₹ 5,25,000 and 2016-17 ₹ 6,30,000.

The shares of PQ Ltd. were to be issued to P Ltd. and Q Ltd. at a premium and in proportion to the agreed net assets value of these companies.

In order to raise working capital, PQ Ltd. increased its authorized capital by ₹ 12,00,000 and proceeded to issue 72,000 shares of ₹ 10 each at the same rate of premium as issued for discharging purchase considerations to P Ltd. and Q Ltd.

You are required to :

(i) Calculate the number of shares issued to P Ltd. and Q Ltd; and

(ii) Prepare the Balance Sheet of PQ Ltd. as per Schedule III after recording its journal entries.

Marks

5. (a) From the following balances extracted from the books of REAL 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. **10**

Particulars	Fire ₹	Marine ₹
Outstanding Claims as on 1st April, 2016	28,000	7,000
Claims Paid	1,00,000	80,000
Reserve for Unexpired Risk as on 1st April, 2016	2,00,000	1,40,000
Premiums Received	4,50,000	3,30,000
Agent's Commission	40,000	20,000
Expenses of Management	60,000	45,000
Re Insurance Premium – Dr.	25,000	15,000

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 – ₹ 10,000

(b) Marine Insurance – ₹ 15,000

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

(a) Fire Insurance – ₹ 30,000

(b) Marine Insurance – ₹ 20,000

(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 ₹ 10,000 for Fire Insurance and ₹ 5,000 in respect of Marine Insurance.

Marks

(b) A commercial bank has the following capital funds and assets. You are required to segregate the capital funds into Tier-I and Tier-II capitals and also find out the risk adjusted and risk weighted assets and capital adequacy ratio. 6

Capital Funds and Assets	₹ in crores
Paid up share capital	1500
Statutory Reserves	300
Securities Premium	300
Capital Reserve (of which ₹ 80 crores were due to revaluation of assets and balance due to sale)	180
Assets :	
Cash balance with R.B.I.	120
Claims on Banks	340
Other Investments	4600
Loans & Advances :	
Guaranteed by Government of India and State Governments	800
Bank Staff Advances – Fully covered by Super Annuation Benefits	100
Other loans and advances	340
Premises, Furniture & Fixtures, Other Assets	7,850
Intangible Assets	30
Off Balance Sheet Items :	
Acceptance, Endorsements, Letter of Credits, Guarantees and Other Obligations	3,100

Marks

6. (a) The following balances were extracted from the books of Beta. You are required to prepare Departmental Trading Account and General Profit & Loss Account for the year ended 31st December, 2016 : **8**

Particulars	**Deptt. A** ₹	**Deptt. B** ₹
Opening Stock	3,00,000	2,40,000
Purchases	39,00,000	54,60,000
Sales	60,00,000	90,00,000

General expenses incurred for both the Departments were ₹ 7,50,000 and you are also supplied with the following information :

(i) Closing stock of Department A ₹ 6,00,000 including goods from Department B for ₹ 1,20,000 at cost to Department A.

(ii) Closing stock of Department B ₹ 12,00,000 including goods for Department A for ₹ 1,80,000 at cost to Department B.

Marks

(iii) Opening stock of Department A and Department B include goods of the value of ₹ 60,000 and ₹ 90,000 taken from Department B and Department A respectively at cost to transferee departments.

(iv) The gross profit is uniform from year to year.

(b) Show Adjustment Journal Entry alongwith working notes in the books of head office at the end of April, 2017 for incorporation of interbranch transactions assuming that only head office maintains different branch account in its books : **8**

(A) Delhi Branch :

(i) Received goods from Mumbai ₹ 1,40,000 and ₹ 60,000 from Kolkata.

(ii) Sent goods to Chennai ₹ 1,00,000, Kolkata ₹ 80,000

(iii) Bill receivable received ₹ 80,000 from Chennai

(iv) Acceptances sent to Mumbai ₹ 1,00,000, Kolkata ₹ 40,000

(B) Mumbai Branch (Apart from the above) :

(i) Received goods from Kolkata ₹ 60,000, Delhi ₹ 80,000

(ii) Cash sent to Delhi ₹ 60,000, Kolkata ₹ 28,000

(C) Chennai Branch (Apart from the above) :

(i) Received goods from Kolkata ₹ 1,20,000

(ii) Acceptances and cash sent to Kolkata ₹ 80,000 and ₹ 40,000 respectively.

(D) Kolkata Branch (Apart from the above)

(i) Sent goods to Chennai ₹ 1,40,000

(ii) Paid cash to Chennai ₹ 60,000

(iii) Acceptances sent to Chennai ₹ 60,000

7. Answer any **four** of the following :

(a) Write short note on main elements of Financial Statements. 4

Marks

(b) A company had issued 30,000, 14% convertible debentures of ₹ 100 each on 1st April, 2014. The debentures are due for redemption on 1st July, 2016. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debentureholders to convert 20% of their holding into equity shares (Nominal value ₹ 10) at a price of ₹ 15 per share. Debentureholders, holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debentureholders exercising the option to the maximum. **4**

(c) State the circumstances when LLP can be wound up by the Tribunal. **4**

(d) ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom-made machine amounting to ₹ 4,00,000. As on 31st March, 2016 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is 'NIL'. **4**

Show the treatment of machine in the books of ABC Ltd.

Marks

(e) M/s. Cloud Limited has gone into liquidation on 25th June, 2016. Certain creditors could not receive payment out of realization of assets and contributions from 'A list' contributories. The following are the details of certain transfers which took place during the year ended 31st March, 2016 : 4

Shareholders	No. of shares transferred	Date of ceasing to be a member	Creditors remaining unpaid and outstanding on the date of transfer (₹)
K	4,000	10-05-2015	9,000
L	3,000	22-07-2015	12,000
M	2,400	15-09-2015	13,500
N	1,600	14-12-2015	14,000
O	1,000	09-03-2016	14,200

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