(All Batches)

DATE: 29.03.2017 **MAXIMUM MARKS: 100** **TIMING: 3 Hours**

Advanced Accounting

Q. No. 1 is compulsory.
Wherever necessary suitable assumptions should be made by the candidates.
Working notes should form part of the answer.
Candidates are also required to answer any five questions from the remaining six questions.

Answer 1:

(a) Exchange differences arising on restatement or repayment of liabilities incurred for the purpose of acquiring fixed assets should be adjusted in the carrying amount of the respective fixed assets as Path Ltd. has exercised the option and it is long term foreign currency monetary item.

Thus, the entire exchange loss due to variation of Rs. 20 lakhs on 31.03.2015 on payment of US $ 10 lakhs, should be added to the carrying amount of fixed assets and not to the cost of goods sold. **2M**

Calculation of Exchange loss:

Foreign currency loan (in Rs.) = (50 lakhs $ x Rs. 60) = Rs. 3,000 lakhs

Exchange loss on outstanding loan on 31.03.2015 = Rs. 40 lakhs US $ x (62.00-60.00) = Rs. 80 lakhs.

So, Rs. 80 lakhs should also be added to cost of fixed asset with corresponding credit to outstanding loan in addition to Rs. 20 lakhs on account of exchange loss on payment of instalment. The total cost of fixed asset to be increased by Rs. 100 lakhs. **2M**

Total depreciation to be provided for the year 2014 -15 = 20% of (Rs. 3,000 lakhs + 100 lakhs) = Rs. 620 lakhs. **1M**

(b)

(i) Whether a subsidy applied is to be classified as prior period item as pe r AS 5, depends upon whether the company has committed an error in 2013 -14 by not recognising the subsidy? The answer is in para 13 of AS 12 "Accounting for Government Grants" which permits recognition of grant only when there is reasonable assurance that (i) the enterprise will comply with the conditions attached to them and (ii) the subsidy will be received. Mere making of an application does not provide the reasonable assurance that the subsidy will be received. Letter of sanction from IREDA is required to provide this assurance. Since, the subsidy was granted in June, 2014 after approval of accounts, non - recognition of grant in 2013-14 will not be considered as an error. Hence, this is not a prior period item. Therefore, the company was right in no t recognizing the grant.

Further, AS 4 requires adjustment of events occurring after the balance sheet date only upto the date of approval of accounts by the Board of Directors. In view of this, the company is correct in not adjusting the same in the a ccounts in the year 2013-14. **3M**

(ii) The subsidy should be deducted from the cost of the generator. The revised unamortised amount of generator should be written off over the remaining useful life.

Alternatively, the same may be treated as Deferred Income and allocated over the remaining useful life in the proportion in which depreciation is charged. →2M

(c) For the information given, the following will be recommended treatment with reference to the provisions of AS 4: Contingencies and Events Occurring After t he Balance Sheet Date.

(1) The event is a non-adjusting event since it occurred after the year -end and does not relate to the conditions existing at the year -end. However, the event would appear to be of such significance as to require a disclosure in the report of the approving authority to enable users of the financial statements to make proper evaluation and decision, hence, such disclosure is recommended. →2M

(2) AS 4 defines events occurring after the balance sheet date as those significant event- both favorable and unfavorable – that occur between the balance sheet date and the date on which the financial statements are approved by the approving authority. Accordingly, negotiation for acquisitions of two manufacturing units which started on 30th April, 2015 should be disclosed in the Board"s Report. No adjustments of assets and liabilities are required, as the negotiation does not affect the determination and the conditions of the amounts stated in the financial statements for the year ended 31 st March, 2015. →2M

(3) The foreign exchange loss due to changes in exchange rates during the period 1st April 2015 and 1st June 2015, is a non adjusting event since it does not relate to the conditions existing at the balance sheet date. The amount of loss appears material and may be of such significance that requires disclosure in the report of the approving authority. →1M

(d) Determination of Nature of Lease

Present value of unguaranteed residual value at the end of 3 rd year

= Rs. 50,000 x 0.7513 = Rs. 37,565

Present value of lease payments = Rs. 5,00,000 – Rs. 37,565

= Rs. 4,62,435

The percentage of present value of lease payments to fair value of the equipment is (Rs. 4,62,435/ Rs. 5,00,000) x 100 = 92.487%. →5M

Since, it substantially covers the major portion of the lease payments, the lease constitutes a finance lease.

2. **Realisation Account**

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Goodwill		10,000	By provision to doubtful Debts		2,000
To land		20,000	By Trade creditors		96,000
To Buildings		1,10,000	By Bills Payable		14,000
To Machinery		50,000	By Bank overdraft		60,000
To Motor Car		28,000	By Mrs. Aman"s loan		15,000
To Furniture		12,000	By ABC Ltd. (Purchase		1,95,500

			price)		
To Investments		18,000	By Aman"s Capital A/c (Investments)		13,000
To Loose tools		7,000	By Cash A/c:		
To Stock		18,000	Debtors	20,000	
To Bill receivable		20,000	Motor Car	24,000	
To Debtors		40,000	Furniture	4,000	
To Aman"s Capital A/c (Mrs. Aman"s Loan)		15,000	Loose tools	1,000	49,000
To Cash A/c:					
Creditors	94,000				
Realisation expenses	500	94,500			
To Profit on Realisation t/f to:					
Aman"s Capital A/c	1,000				
Baal"s Capital A/c	667				
Chand"s Capital A/c	333	2,000			
		4,44,500			4,44,500

→6M

ABC Ltd. Account

Particulars	Rs.	Particulars	Rs.
To Realisation A/c	1,95,500	By Cash A/c	75,500
		By Shares in ABC Ltd.	1,20,000
	1,95,500		1,95,500

→1M

Partners' Capital Accounts

Particulars	*Aman Rs.*	*Baal Rs.*	*Chand Rs.*	*Particulars*	*Aman Rs.*	*Baal Rs.*	*Chand Rs.*
To Profit and Loss A/c	6,000	4,000	2,000	By Balance b/d	70,000	80,000	10,000
To Realisation A/c	13,000	-	-	By Chand"s Loan A/c	-	-	33,000
To Chand"s Current A/c	-	-	56,000	By General reserve	9,000	6,000	3,000
To shares in ABC Ltd.	60,000	40,000	20,000	By Investment Fluctuation Fund	2,000	1,333	667
To Cash A/c	18,000	44,000	-	By Realization A/c	1,000	667	333
				By Realisation	15,000	-	-

				A/c (Mrs. Aman‟s loan A/c)			
				By Cash A/c	-		31,000
	97,000	88,000	78,000		97,000	88,000	78,000

→**5M**

Chand's Current Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	56,000	By Chand‟s Capital A/c-transfer	56,000
	56,000		56,000

→**1M**

Shares in ABC Ltd. Account

Particulars	Rs.	Particulars	Rs.
To ABC Ltd. Account	1,20,000	By Aman‟s Capital A/c	60,000
		By Baal‟s Capital A/c	40,000
		By Chand‟s Capital A/c	20,000
	1,20,000		1,20,000

→**1M**

Cash Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,000	By Realisation A/c (Liabilities and expenses)	94,500
To ABC Ltd.	75,500	By Aman‟s Capital A/c	18,000
To Realisation A/c (sale of assets)	49,000	By Baal‟s Capital A/c	44,000
To Chand‟s Capital A/c	31,000		-
	1,56,500		1,56,500

Note: Investment Fluctuation Fund Account may be transferred to Realisation Account. →**2M**

3. (a) **FORM B– RA**

Name of the Insurer: Shah Insurance Company Limited

Registration No. and Date of registration with IRDA: ……………………..

Revenue Account for the year ended 31st March, 2016

Particulars	*Schedule*	*Amount (Rs.)*
Premium earned (net)	1	21,70,000
Profit or loss on sale/redemption of investment		22,000
Others		-
Interest dividend & rent (Gross)		1,28,500
Total (A)		23,20,500

Claim incurred (Net)	2	13,90,000	
Commission	3	3,04,000	
Operating expenses related to insurance	4	5,00,000	
Total (B)		21,94,000	
Operating profit/loss from fire insurance business		1,26,500	→4M
Schedule –1 (Premium earned net)		Rs.	
Premium received		22,40,000	
Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.)		70,000	
Total premium earned		21,70,000	→1M
Schedule -2 (Claims incurred net)			
Claim paid		12,80,000	
Add: Legal expenses regarding claims		60,000	
		13,40,000	
Add: Claims outstanding as on 31st March 2016		1,80,000	
		15,20,000	
Less: Claims outstanding as on 31st March 2015		1,30,000	
		13,90,000	→1M
Schedule-3 (Commission)			
Commission paid		3,04,000	→1M
Schedule-4 (Operating expenses related to Insurance Business)		-	
Expenses of management (5,60,000 – 60,000)		5,00,000	→1M

Working Note:

Calculation for change in Reserve for Unexpired risk:		Rs.	
As on 31st March, 2016:			
Reserve for Unexpired Risk	11,20,000		
Additional Reserve	1,50,000	12,70,000	
Less: Reserve for Unexpired risks as on 31st March, 2015	10,00,000		
Additional reserve as on 31st March, 2015	2,00,000	(12,00,000)	
		70,000	→2M

Note: Interest and dividends are shown at gross value in Revenue A/c. Income tax on the above will not be included in Revenue A/c of an insurance company.

(b) Statement showing the recomputation of Departmental Profit or Loss

	Particulars	A Rs.	B Rs.	C Rs.	D Rs.
A	Final Profit/(Loss) (Computed earlier)	(38,000)	50,400	72,000	1,08,000
B	*Add:* Departmental Manager"s Commission @ 10% of Deptt. Profit subject to a minimum of Rs. 6,000 [Working Note (i)]	6,000	6,000	8,000	12,000
C	Profit before Deptt. Manager"s commission (A+B)	(32,000)	56,400	80,000	1,20,000
D	*Less:* Profit earned through transfer of goods at loaded price remaining in stock at transfer department (W.N. 2)	(2,200)	-	(8,600)	-
E	Correct Departmental Profit (before manager"s commission)(C-D)	(34,200)	56,400	71,400	1,20,000
F	*Less:* Manager"s commission @ 10% of profit subject to a minimum of Rs. 6,000	(6,000)	(6,000)	(7,140)	(12,000)
G	Departmental Profit after Manager"s commission (E-F)	(40,200)	50,400	64,260	1,08,000

1×4=4

Working Note:

1. Manager's Commission:

	Deptt. Profit/Loss	Commission	
A	(-) 38,000	6,000	
B	50,400	6,000	i.e. (50,400 x 1/9 = Rs. 5,600 less than Rs. 6,000
C	72,000	8,000	i.e. (72,000 x 1/9 = Rs. 8,000)
D	1,08,000	12,000	i.e. (1,08,000 x 1/9 = Rs. 12,000)

1M

2. Unrealised Profit on stock transfer:

		Rs.
Dept. A	Rs. 22,000 to Deptt. B @ 110%, Profit thereon 22,000 x 10/110	2,000
	Rs. 1,200 to Deptt. D @ 120% Profit thereon 1,200 x 20/120	200
		2,200
Dept. C	Rs. 48,000 to Deptt. B 120% Profit thereon 48,000 x 20/120	8,000
	Rs. 3,600 to Deptt. D @ 120 % Profit thereon 3,600 x 20/120	600
		8,600

1M

4. **Centura Bank Limited** →1M

Profit and Loss account for the year ended 31st March, 2016

		Schedule No.	Year ended 31.3.2016	
			Rs.	
I.	Income			
	Interest earned	13	74,03,000	
	Other income	14	9,10,000	
			83,13,000	→1M
II.	Expenditure			
	Interest expended	15	40,74,000	
	Operating expenses	16	9,10,000	
	Provisions and contingencies (W.N.2)		26,00,000	
			75,84,000	→1M
III.	Profit			
	Net profit for the year		7,29,000	
	Profit brought forward		-	
			7,29,000	→1M
IV.	Appropriations			
	Transfer to Statutory Reserve		1,82,250	
	Proposed dividend		2,00,000	
	Balance carried over to balance sheet		3,46,750	
			7,29,000	→2M

Schedule 13 – Interest earned

	Rs.	
Interest and discount earned (W.N.1)	74,03,000	
	74,03,000	→1M

Schedule 14 - Other Income

	Rs.	
Commission, exchange and brokerage	3,80,000	
Profit on sale of investment	4,00,000	
Rent	1,30,000	
	9,10,000	→1M

Schedule 15-Interest Expended

	Rs.
Interest paid on deposits	40,74,000
	40,74,000

→1M

Schedule 16-Operating Expenses

	Rs.
Payment and provisions for employees	4,00,000
Rent and taxes paid	1,80,000
Depreciation on bank"s property	60,000
Directors" fees and allowances	60,000
Auditors" fees	10,000
Law charges	80,000
Postage and Telegrams	1,20,000
	9,10,000

→3M

Working Notes:

			Rs.
1.	**Calculation of interest earned**		
	Interest and discount received		74,11,000
	Add: Rebate on bills discounted as on 31st March, 2013		24,000
			74,35,000
	Less: Rebate on bills discounted as on 31st March, 2014		(32,000)
			74,03,000
2.	**Provisions and Contingencies**		
	Provision for doubtful debts:		
	Doubtful debts due to insolvency of a customer (50% of Rs. 20 lakhs)	10,00,000	
	Provision for other debts	3,00,000	13,00,000
	Provision for income tax		13,00,000
			26,00,000

→2M (Note 1) →2M (Note 2)

5. (a) **Pune Branch Account**

Particulars		Rs.	Particulars	Rs.	Rs.
To Opening Balance			By Opening Balance:		
Stock		10,000	Salaries outstanding		100
Debtors		4,000	By Remittances:		
Petty Cash		500	Cash sales	1,30,000	

Furniture		2,000	Cash received from debtors	35,000	
Prepaid Insurance		150	Cash paid by debtors directly to H.O.	2,000	
To Goods sent to Branch Account		80,000	Received from Insurance Company	1,000	1,68,000
To Bank (expenses)			By Goods sent to branch (return of goods by the branch to H.O.)		1,000
Rent	2,000		By Closing Balances:		
Salaries	2,400		Stock		5,000
Petty Cash	1,000		Petty Cash		650
Insurance	600	6,000	Debtors		4,900
To Net Profit		78,950	Furniture (2,000 – 10% depreciation)		1,800
			Prepaid insurance (1/4x Rs. 600)		150
		1,81,600			1,81,600

→**8M**

Working Note:

Calculation of petty cash balance at the end:	Rs.
Opening balance	500
Add: Cash received form the Head Office	1,000
Total Cash with branch	1,500
Less : Spent by the branch	850
Closing balance	650

→**2M**

(b) **Journal of Alia Ltd.**

			(Rs.)	*(Rs.)*
1	Sundry Assets A/c	Dr.	5,00,000	
	Goodwill [Balancing Figure]	Dr.	1,20,000	
	To Creditors			70,000
	To Bharat & Co.			5,50,000
	(Being the purchase of Business from Bharat & Co.)			
2	Bharat & Co.	Dr.	5,50,000	
	Loss on Issue of Debentures A/c	Dr.	25,000	
	To 12% Debentures A/c			5,00,000
	To Securities Premium A/c			50,000

→**1½ M**

	To Premium on Redemption of Debenture A/c			25,000	→1½ M
	(Being the issue of 5000, 12% Debentures at a premium of 10% and repayable at a premium of 5%)				
4	Profit & Loss A/c	Dr.	1,25,000		
	To Debenture Redemption Reserve A/c			1,25,000	
	(Being the creation of DRR @ 25% of the value of debentures issued)				
5	Debenture Redemption Reserve Investments A/c	Dr.	75,000		
	To Bank A/c			75,000	
	(Being the DRR Investments made equal to 15% of the value of debentures)				
6	Bank A/c	Dr.	75,000		
	To Debenture Redemption Reserve Investments A/c			75,000	
	(Being the DRR investments realized)				
7	12% Debentures A/c	Dr.	5,00,000		
	Premium on Redemption of Debentures A/c	Dr.	25,000		
	To Debentureholders A/c			5,25,000	
	(Being the amount due on redemption)				
8	Debentureholders A/c	Dr.	5,25,000		
	To Bank A/C			5,25,000	
	(Being the payment made to Debentureholders)				
9	Debenture Redemption Reserve A/c	Dr.	1,25,000		
	To General Reserve			1,25,000	
	(Being the transfer of DRR to General Reserve)				

→½×6= 3M

6. (i) Calculation of the number of equity shares and preference shares to be allotted by Careful Ltd. in discharge of purchase consideration

Calculation of purchase consideration:	*Rs.*
Agreed value of assets taken over:	
Bills receivable	15,000
Freehold premises	4,00,000
Furniture & fittings	80,000
Machinery	1,60,000

Inventory	3,45,000
	10,00,000

Discharge of purchase consideration:

1. Amount paid by allotment of 13% preference shares

$$= \text{Rs. } 10,00,000 \times \frac{1}{4} = \text{Rs. } 2,50,000$$

Number of 13% preference shares of Rs. 100 each

$$= \frac{2,50,000}{100} = 2,500 \text{ preference shares}$$ →3M

2. Amount paid by allotment of equity shares

= Rs. 10,00,000 – Rs. 2,50,000 = Rs. 7,50,000 Paid up value of one equity share = Rs. 8 each

Hence, the number of equity shares allotted =

$$\frac{\text{Rs. } 7,50,000}{\text{Rs. } 8} = 93,750 \text{ equity shares}$$ →3M

(ii) Ledger accounts in the books of Reckless Ltd.

Realisation Account

		Rs.			Rs.
To	Freehold Premises	2,20,000	By	Creditors	1,13,000
To	Machinery	1,77,000	By	Acceptances	20,000
To	Furniture & Fittings	90,800	By	Provision for tax	1,10,000
To	Inventory	3,87,400	By	Provision for doubtful debts	4,000
To	Sundry Debtors	80,000	By	Careful Ltd.	10,00,000
To	Bills Receivable	15,000	By	Cash/Bank:	
To	Cash/ Bank:			Sundry Debtors	79,500
	Acceptances	19,000			
	Provision for tax	1,11,600			
	Creditors	1,03,700			
To	Cash/Bank:				
	Liquidation expenses	4,000			
To	Profit	1,18,000			
		13,26,500			13,26,500

→5M

Cash and Bank Account

		Rs.			Rs.
To	Balance b/d (cash at bank)	1,56,500	By	Realisation A/c (Acceptances)	19,000

→2M

To	Cash in hand	2,300	By	Provision for tax	1,11,600
To	Realisation A/c	79,500	By	Realisation (Expenses)	4,000
			By	Realisation A/c [Creditors (bal fig.)]	1,03,700
		2,38,300			2,38,300

Equity Shareholders Account

		Rs.			Rs.
To	13% Cumulative preference shares in Careful Ltd.	2,50,000	By	Equity Share Capital	6,00,000
			By	Pre-incorporation profit	21,000
			By	Contingency reserve	1,35,000
To	Equity Shares in Careful Ltd.	7,50,000	By	Profit & Loss Account	1,26,000
			By	Realisation Account	1,18,000
		10,00,000			10,00,000

→**2M**

Careful Ltd. Account

		Rs.			Rs.
To	Realisation Account	10,00,000	By	13% Cumulative preference shares in Careful Ltd.	2,50,000
			By	Equity shares in Careful Ltd.	7,50,000
		10,00,000			10,00,000

→**1M**

Answer 7:

(a) Computation of theoretical ex-rights fair value per share

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights + Total amount received from exercise of rights}}{\text{Number of shares outstanding prior to exercise + number of shares issued in the exercise}}$$

$$\frac{(\text{Rs. } 21.00 \times 5,00,000 \text{ shares}) + (\text{Rs. } 15.00 \times 1,00,000 \text{ shares})}{5,00,000 \text{ shares} + 1,00,000 \text{ shares}}$$

Theoretical ex-rights fair value per share = Rs. 20.00

→**2M**

(a) **Computation of adjustment factor**

(b) $$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretica l ex - rights value per share}} = \frac{\text{Rs. } (21.00)}{\text{Rs. } (20.00)} = 1.05$$

Computation of earnings per share

	Year 2013-14	Year 2014-15
EPS for the year 2013-14 as originally reported:	Rs. 2.20	

(Rs. 11,00,000/5,00,000 shares)		
EPS for the year 2013-14 restated for rights issue: [Rs. 11,00,000/ (5,00,000 shares x 1.05)]	Rs. 2.10	
EPS for the year 2014-15 including effects of rights issue $\frac{\text{Rs. } 15{,}00{,}000}{(5{,}00{,}000 \times 1.05 \times 2 / 12) + (6{,}00{,}000 \times 10 / 12)}$		Rs. 2.55

→2M

(b) As per AS 26 „Intangible Assets", the depreciable amount of an intangible asset should be allocated on a systematic basis over its useful life. Also there is a rebuttable presumption that the useful life of an intangible asset will not ex ceed 10 years from the date it is available for use. The amortization should commence when the asset is available for use. As per para 78 of AS 26, if there has been a significant change in the expected pattern of economic benefits from the asset, the amortisation method should be changed to reflect the changed pattern. →2M

The company has been following a policy of amortization over a period of 8 years. As on 01-4-2015, 5 years have passed and the carrying amount stands at Rs. 30 lakhs. If the same treatment were to be continued, this would have been amortized over the next 3 years. But the revised estimate of remaining useful life would extend the period by another 5 years to amortize the carrying amount, the Company would be advised to amortise the carrying value over the next 5 years. Thus after revision in estimated useful life, the amount of Rs. 30 lacs would be amortised over next 5 years. →2M

(c) Investments other than investment properties are not qualifying assets as per AS 16 "Borrowing Costs". Therefore, interest cost of holding such investments cannot be capitalized. Further, even interest in respect of investment properties can only be capitalized if such properties meet the definition of qualifying asset, namely, that it necessarily takes a substantial period of time to get ready for its intended use or sale. Even where the investment properties meet the definition of 'qualifying asset', for the capitalisation of borrowing costs the other requirements of the standard such as that borrowing cost should be directly attributable to the acquisition or construction of the investment property and suspension of capitalization as per paragraphs 17 and 18 of AS 16 have to be complied with. →4M

(d) As per section 34 of the LLP Act, 2008, every LLP shall maintain s uch proper books of accounts as may be prescribed relating to its affairs for each year of its existence on cash basis or accrual basis and according to the double entry system of accounting and shall maintain the same at its registered office for such per iod as may be prescribed. Every LLP shall, within six months of the end of each financial year, prepare a Statement of Account and Solvency for the said financial year as at the last day of the said financial year, in such form as may be prescribed, and su ch statement shall be signed by the designated partners of the LLP. Every LLP shall also file within the prescribed time, the Statement of Account and Solvency with the Registrar every year in such form and manner and accompanied by such fee as may be prescribed. The accounts of an LLP must be audited in accordance with such rules as may be prescribed. →4M

Under Section 35 (1) of the LLP Act every LLP is required to file an Annual Return which is duly authenticated with the registrar within sixty days of the c losure of its financial year in such form and manner and with such fees as may be prescribed

(e) **Journal Entries**

			Rs.	Rs.
1.1.16 to 28.2.16	Bank A/c	Dr.	12,00,000	
	Employees compensation expense A/c	Dr.	21,60,000	
	To Equity Share Capital A/c			2,40,000
	To Securities Premium A/c			31,20,000
	(Allotment of 24,000 equity shares of Rs.10 each at a premium of Rs.130 per share to the employees)			
31.3.16	Profit and Loss A/c	Dr.	21,60,000	
	To Employees Compensation Expense A/c			21,60,000
	(For transfer of employees compensation expense to profit and loss account)			

→ **2×2 =4M**

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