IPCC
GROUP-II PAPER-5
ADVANCED ACCOUNTING

Roll No.....

MAY 2010

Total No. of Questions—6] [Total No. of Printed Pages—11

Time Allowed—3 Hours Maximum Marks—100

# GAP

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, his answers in Hindi will not be valued.

**All** questions are compulsory.

Working notes should form part of the answer.

Wherever necessary suitable assumptions may be made by the candidates.

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1. Answer the following questions : 10×2 =20

(i) A Company had issued 20,000, 13% Convertible debentures of Rs. 100 each on 1st April, 2007. The debentures are due for redemption on 1st July, 2009. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture-holders to convert 20% of their holding into equity shares (Nominal value Rs. 10) at a price of Rs. 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.

(ii) Santosh Ltd. has received a grant of Rs. 8 crores from the Govt. for setting up a factory in a backward area. Out of this grant, the company distributed Rs. 2 crores as dividend. Also, Santosh Ltd. received land free of cost from the State Government but it has not recorded it at all in the books as no money has been spent. In the light of AS 12, examine, whether the treatment of both the grants is correct.

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(iii) Rohini Limited has obtained loan from an Institution for Rs. 500 lacs for modernization and renovating its Plant and Machinery. The installation of plant and machinery was completed on 31.3.2009 amounting to Rs. 320 lacs and Rs. 50 lacs advanced to suppliers of additional assets and the balance of Rs. 130 lacs has been utilized for working capital requirements. Total interest paid for the above loan amounted to Rs. 65 lacs during 2008-09. You are required to state how the interest on institutional loan is to be accounted for in the year 2008-09.

(iv) A Company follows April to March as its Financial Year. The Company recognizes cheques dated 31st March or before, received from customers after balance sheet date, but before approval of Financial statement by debiting cheques in hand A/c and crediting Debtors A/c. The cheques in hand is shown in the Balance Sheet as an item of cash and cash equivalents. All cheques in hand are presented to bank in the month of April and are also realised in the same month in normal course after deposit in the bank. State with reasons, whether the collection of cheques bearing date 31st March or before, but received after Balance Sheet date is an adjusting event and how this fact is to be disclosed by the company ?

(v) What is Piecemeal payments method under Partnership Dissolution ? Briefly explain the two methods followed for determining the order in which the payments are made ?

(vi) Briefly explain "Reserve for Unexpired Risks" under General Insurance Business. What are the percentages of such reserve to be created under IRDA Act for various General Insurance ?

(vii) On 31st March, 2010, the following Ledger balances have been extracted from the books of Washington branch office :

| Ledger A/c | $ |
|---|---|
| Building | 180 |
| Stock as on 1.4.2009 | 26 |
| Cash and Bank Balances | 57 |
| Purchases | 96 |
| Sales | 110 |
| Commission receipts | 28 |
| Debtors | 46 |
| Creditors | 65 |

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You are required to convert above Ledger balances into Indian Rupees.

Use the following rates of exchange :

Opening Rate $ = 46

Closing Rate $ = 50

Average Rate $ = 48

For Fixed Assets $ = 42

(viii) Mention the condition when a Cash credit overdraft account is treated as 'Out of order'.

(ix) From the following information, calculate the amount of Sundry Debtors as on 31.3.2010 :

Balance as on 1.4.2009 is Rs. 50,000.

Bad debts are 2% and discount to the customers is given @ 1% of the opening balance of Sundry Debtors.

Returns from the customers are Rs. 3,000.

Cash received from Debtors is Rs. 2,30,000.

Cash received from Debtors in transit is Rs. 14,000.

Cash Sales are Rs. 5,00,000.

Credit Sales are Rs. 2,50,000.

(x) Closing stock for the year ending on 31.3.2010 is Rs. 50,000 which includes stock damaged in a fire in 2008-09. On 31.3.2009 the estimated net realisable value of the damaged stock was Rs. 12,000. The revised estimate of net realisable value included in closing stock of 2009-10 is Rs. 4,000.

Find the value of Closing stock to be shown in Profit and Loss account for the year 2009-10.

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2. P and Q are partners of P & Co. sharing Profit and Losses in the ratio of 3 : 1 and Q and R are partners of R & Co., sharing Profits and Losses in the ratio of 2 : 1. On 31st March, 2009, they decide to amalgamate and form a new firm M/s. PQR & Co., wherein P, Q and R would be partners sharing Profits and Losses in the ratio of 3 : 2 : 1. The Balance Sheets of two firms on the above date are as under : 16

Figures in Rs.

| Liabilities | P & Co. | R & Co. | Assets | P & Co. | R & Co. |
|---|---|---|---|---|---|
| Capitals : | | | Fixed Assets : | | |
| P | 2,40,000 | — | Building | 50,000 | 60,000 |
| Q | 1,60,000 | 2,00,000 | Plan & Machinery | 1,50,000 | 1,60,000 |
| R | — | 1,00,000 | Office equipment | 20,000 | 6,000 |
| Reserves | 50,000 | 1,50,000 | Current Assets : | | |
| Sundry Creditors | 1,20,000 | 1,16,000 | Stock-in trade | 1,20,000 | 1,40,000 |
| Due to P & Co. | — | 1,00,000 | Sundry Debtors | 1,60,000 | 2,00,000 |
| Bank Overdraft | 80,000 | — | Bank Balance | 30,000 | 90,000 |
| | | | Cash in hand | 20,000 | 10,000 |
| | | | Due from R & Co. | 1,00,000 | — |
| | 6,50,000 | 6,66,000 | | 6,50,000 | 6,66,000 |

The amalgamated firm took over the business on the following terms :

(a) Building of P & Co. was valued at Rs. 1,00,000.

(b) Plant and Machinery of P & Co. was valued at Rs. 2,50,000 and that of R & Co. at Rs. 2,00,000.

(c) All Stock in Trade is to be appreciated by 20%.

(d) Goodwill valued of P & Co. at Rs. 1,20,000 and R & Co. at Rs. 60,000, but the same will not appear in the books of PQR & Co.

(e) Partners of new firm will bring the necessary cash to pay other partners to adjust their capitals according to the Profit sharing ratio.

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(f) Provisions for doubtful debts has to be carried forward at Rs. 12,000 in respect of debtors of P & Co. and Rs. 26,000 in respect of debtors of R & Co.

You are required to prepare the Balance Sheet of new firm and Capital accounts of the partners in the books of old firms.

3. Following is the Balance Sheet of XYZ Ltd. as on 31st March, 2010 : 16

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| 8000 – 7½% Preference | | Plant and Machinery | 8,50,000 |
| shares @ Rs. 100 each | | Furniture and Fittings | 1,60,000 |
| fully paid | 8,00,000 | Patents and Copy right | 60,000 |
| 1,80,000 Equity shares | | Goodwill | 35,000 |
| @ Rs. 10 each fully paid | 18,00,000 | Investments (at cost) | 65,000 |
| 11% Debentures | 10,00,000 | Sundry debtors | 12,00,000 |
| Bank overdraft | 1,65,000 | Stock | 13,00,000 |
| Loan from director | 15,000 | Cash in hand | 12,000 |
| Trade creditors | 6,20,000 | Profit & Loss A/c | 7,18,000 |
| | 44,00,000 | | 44,00,000 |

Due to heavy losses and overvaluation of Assets, the following scheme of reconstruction was finalised :

(i) Preference shareholder will surrender their 20% shares and they have been allotted 9% (new) preference shares for remaining amount.

(ii) Debentureholders having charge on plant and machinery would accept plant and machinery in full settlement.

(iii) Trade creditors accepted to take over the stock upto the value of Rs. 6,20,000.

(iv) Equity shareholders are to accept reduction of Rs. 4 per share.

(v) Investment is to be valued at market price i.e. Rs. 60,000.

(vi) Sundry debtors and remaining stock is to be valued at 90% of their book value.

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(vii) Directors have to forgo their loan in full.

(viii) Patents and Copy Right and Goodwill have no more value.

Pass necessary Journal entries in the books of XYZ Ltd. assuming that all the legal formalities have been completed. Prepare Capital reduction account and Balance Sheet of the company after reduction.

4. (a) Ram Limited of Chennai has a branch at Nagpur to which office, goods are invoiced at cost plus 25%. The branch makes sales both for cash and on credit. Branch expenses are paid direct from Head Office and the branch has to remit all cash received into the Head Office Bank Account at Nagpur. 8

From the following details, relating to the year 2009, prepare the accounts in Head Office Ledger and ascertain Branch Profit. Branch does not maintain any books of accounts, but sends weekly returns to Head Office :

| | Rs. |
|---|---|
| Goods received from Head Office at invoice price | 1,20,000 |
| Returns of Head Office at invoice price | 2,400 |
| Stock at Nagpur Branch on 1.1.2009 | 12,000 |
| Sales during the year— Cash | 40,000 |
| Credit | 72,000 |
| Debtors at Nagpur Branch | 14,400 |
| Cash received from Debtors | 64,000 |
| Discounts allowed to Debtors | 1,200 |
| Bad Debts during the year | 800 |
| Sales Returns at Nagpur Branch | 1,600 |
| Salaries and Wages at Branch | 12,000 |
| Rent, Rates and Taxes at Branch | 3,600 |
| Office expenses at Nagpur Branch | 1,200 |
| Stock at Branch on 31.12.2009 at invoice price | 24,000 |

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(b) From the following information furnished to you by Ayushman Insurance Co. Ltd., you are required to pass Journal entries relating to unexpired risk reserve and show in columnar form "Unexpired Risks Reserve A/c" for 2009. 8

(a) On 31.12.2008, it had reserve for unexpired risks amounting to Rs. 40 crores. It comprised of Rs. 15 crores in respect of Marine Insurance business, Rs. 20 crores in respect of Fire Insurance business and Rs. 5 crores in respect of Miscellaneous Insurance business.

(b) Ayushman Insurance Co. Ltd. creates reserves 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.

(c) During 2009, the following Business was conducted :

| | (Amount in crores) | | |
|---|---|---|---|
| | Marine | Fire | Miscellaneous |
| Premium collected from : | | | |
| (a) Insured in respect of policies issued | 18.00 | 43.00 | 12.00 |
| (b) Other insurance companies in respect of risks undertaken | 7.00 | 5.00 | 4.00 |
| Premium paid/payable to other insurance companies on business ceded | 6.70 | 4.30 | 7.00 |

5. (a) Given below is an extract from the trial-balance of T.K. Bank Limited as on 31st December, 2009 : 8

| Particulars | Debit | Credit |
|---|---|---|
| | Rs. | Rs. |
| Bills discounted | 12,64,000 | — |
| Rebate on bills discounted (1.1.2009) | — | 8,340 |
| Discount received for the year | — | 85,912 |

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An analysis of the bills discounted is shown below :

| Amount Rs. | Due date in 2010 | Rate of discount (% p.a.) |
|---|---|---|
| 1,40,000 | March 6th | 5 |
| 4,36,000 | March 12th | 4.5 |
| 2,82,000 | March 26th | 6 |
| 4,06,000 | April 6th | 4 |

Show the workings, how the relevant items appear in the Bank's Profit and Loss account as on 31st December, 2009 and in Bank's Balance Sheet as on 31st December, 2009.

(b) From the following Trial Balance of PQ Ltd. on 31.12.2009, prepare liquidators Final statement of account : 8

| | Rs. | Rs. |
|---|---|---|
| 9% Preference share capital (1250 Pref. shares @ 100 each fully paid) | — | 1,25,000 |
| Equity share capital : | | |
| 2,000 Equity shares @ 100 each fully paid | — | 2,00,000 |
| 2,000 Equity shares @ 100 each Rs. 50 paid up | — | 1,00,000 |
| Plant | 3,00,000 | — |
| Stock-in-trade | 3,60,000 | — |
| Sundry Debtors | 85,000 | — |
| Sundry Creditors | — | 2,21,000 |
| Bank balance | 1,20,000 | — |
| Preliminary expenses | 6,000 | — |
| 6% Mortgage loan | — | 2,30,000 |
| Outstanding liabilities for expenses | — | 25,000 |
| Profit and Loss A/c (Trading loss for the year 2009) | 30,000 | — |
| | 9,01,000 | 9,01,000 |

Marks

Following points should be kept in mind :

(i) On 21 January, 2010 the liquidator of PQ Ltd. sold plant for Rs. 2,95,000 and stock in trade at 10% less than the book value. He realised 80% of Sundry debtors and incurred cost of collection of Rs. 1,850 (remaining debtors are to be treated as bad).

(ii) The loan mortagage was discharged as 31st January, 2010 alongwith interest for 6 months. Creditors were discharged subject to 5% discount. Out standing expenses paid at 20% less.

(iii) Preference share dividend is due for one year and paid with final payment.

(iv) Liquidation expenses incurred are Rs. 1,800 and liquidators remuneration is settled at 4% on disbursement to members, subject to minimum of Rs. 10,000.

6. Answer the following :

(a) Chaitanya Limited issues 40,000 shares. Issue is underwritten by A, B and C in the ratio of 5 : 3 : 2 respectively. Unmarked applications totalled 2000 whereas marked applications are as follows : 4

| | | |
|---|---|---|
| A | — | 16,000 |
| B | — | 5,700 |
| C | — | 8,300 |

Calculate the Net liability of each one of the underwriters.

(b) How will you disclose the following Ledger balances in the Final accounts of DVD bank : 4

| | Rs. in Lacs |
|---|---|
| Current accounts | 700 |
| Saving accounts | 500 |
| Fixed deposits | 700 |
| Cash credits | 600 |
| Term Loans | 500 |
| Bills discounted & purchased | 800 |

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Additional information :

(i) Included in the Current accounts ledger are accounts overdrawn to the extent of Rs. 250 lacs.

(ii) One of the Cash Credit account of Rs. 10 lacs (including interest Rs. 1 lacs) is doubtful.

(iii) 60% of term loans are secured by government guarantees, 20% of cash credits are unsecured, other portion is secured by tangible assets.

(c) B&P Ltd. availed a lease from N&L Ltd. The conditions of the lease terms are as under : 4

(i) Lease period is 3 years, in the beginning of the year 2009, for equipment costing Rs. 10,00,000 and has an expected useful life of 5 years.

(ii) The Fair market value is also Rs. 10,00,000.

(iii) The property reverts back to the lessor on termination of the lease.

(iv) The unguaranteed value is estimated at Rs. 1,00,000 at the end of the year 2011.

(v) 3 equal annual payments are made at the end of each year.

Consider IRR = 10%

The present value of Re. 1 due at the end of 3rd year at 10% rate of interest is Re. 0.7513.

The present value of annuity of Re. 1 due at the end of 3rd year at 10% IRR is Rs. 2.4868.

State whether the lease constitute finance lease and also calculate unearned Finance income.

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(d) ABC Electricity Company laid down a main at a cost of Rs. 24,00,000. Some years later the company replaced by improving the plant 2/3 portion of the main at a cost of Rs. 40,00,000. The cost of material and labour having gone up by 25%. Sale of old material realised Rs. 95,000. Old material value Rs. 1,05,000 were used in renewal (included in above). 4

Calculate the amount to be Capitalised and show the Journal entries for recording the transaction.