NOV 2017

Roll No. ....

INTERMEDIATE (IPC)
GROUP II - PAPER 5
ADVANCED ACCOUNTING

Total No. of Questions – 7

Total No. of Printed Pages – 16

Time Allowed – 3 Hours

Maximum Marks – 100

AHF

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.

Answer to 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 :

   (a) From the following information compute Basic and Diluted Earnings Per Share (EPS) of M/s. XYZ Limited for the year ended 31st March, 2017 : **5**

Marks

Net Profit for the year after tax : ₹ 75,00,000

Number of Equity Shares of ₹ 10 each outstanding : 10,00,000

Convertible Debentures Issued by the Company

Particulars	Nos.
8% Convertible Debentures of ₹100 each	1,00,000
Equity Shares to be issued on conversion	1,10,000

Rate of Income Tax : 30%

(b) Legal department of XYZ Limited provides that as on 31st March 2017, there were 25 law suits pending which have not been settled till the approval of accounts by the Board of Directors. The possible outcome of suits are follows: 5

Particulars	Probability	Loss (₹)
In respect of Seven cases (Win)	100%	
Next Twelve cases (Win)	60%	
Loss (Low damages)	30%	1,50,000
Loss (High damages)	10%	2,50,000
Remaining Six cases (Win)	50%	
Loss (Low damages)	35%	1,25,000
Loss (High damages)	15%	3,00,000

Outcome of each case is to be taken as a separate one. Ascertain the amount of contingent loss to be reported in the Financial Statement.

Marks

(c) Small Limited began construction of a building on 1st April, 2016 which is expected to cost ₹ 25,00,000. The construction of the building was financed through a special loan of ₹ 10,00,000 obtained at an interest rate of 10% per annum on 1st April, 2016. Further, expenditure on the building was financed through other non–specific finance arrangements of the company. Details of non–specific finance arrangements are as under : 5

Amount	**Rate of Interest P.a.**
₹ 30,00,000	12%
₹ 20,00,000	15%

Cumulative expenses incurred on the building were as follows :

Date	**Amount**
1st April, 2016	₹ 5,00,000
1st July, 2016	₹ 13,00,000
1st November, 2016	₹ 20,00,000
31st January, 2017	₹ 25,00,000

Construction of the building was completed on 31st March, 2017. Following the principles specified in AS 16 'Borrowing Cost', calculate the amount of interest to be capitalized.

Marks

(d) The Accountant of **Mobile Limited** has sought your **opinion with relevant reasons**, whether the following transactions will be treated as change in **Accounting Policy** or not for the year ended 31st March, 2017. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard; 5

(i) Provision for doubtful debts was created @ 2% till 31st March, 2016. From the Financial year 2016- 2017, the rate of provision has been changed to 3%.

(ii) During the year ended 31st March, 2017, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.

(iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.

(iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

(v) During the year ended 31st March, 2017, there was change in cost formula in measuring the cost of inventories.

Marks

2. R and S are partners of RS & Co. sharing the profit and losses in the ratio of 3 : 2 and S and M were partners in SM & Co. sharing the profits and losses in the ratio of 4 : 1. On 31st March, 2017, they decided to amalgamate their firms and form a new firm namely M/s RSM & Co. wherein R, S, and M will share the profits and losses in the ratio of 5 : 3 : 2. The Balance Sheets of the two firms as on 31st March, 2017 were as under : 16

Liabilities	RS & Co.	SM & Co.	Assets	RS & Co.	SM & Co.
Capitals			Fixed Assets :		
R	2,50,000		Building	75,000	80,000
S	1,50,000	1,75,000	Plant and Machinery	2,00,000	1,50,000
M		1,25,000	Office Equipment	30,000	15,000
			Current Assets :		
Reserves	40,000	1,25,000	Stock-in-trade	1,30,000	1,25,000
Sundry Creditors	60,000	2,25,000	Sundry Debtors	1,50,000	1,75,000
Due to SM & Co.	50,000		Bank Balances	40,000	35,000
Bank Overdraft	1,00,000		Cash in Hand	25,000	20,000
			Due from RS & Co.		50,000
Total	**6,50,000**	**6,50,000**	**Total**	**6,50,000**	**6,50,000**

The amalgamation of the firms was done on the following terms :

(a) Building of both the firms were valued at ₹ 1.00 lac each.

(b) Plant and Machinery of RS & Co. was valued at ₹ 1,75,000 and of SM & Co. was at ₹ 1,60,000.

(c) Stock in trade of RS & Co. was to be appreciated by 10 % and of SM & Co. by 15%.

(d) Goodwill of RS & Co. was valued at ₹ 1,50,000 and of SM & Co. at ₹ 1,00,000, but the same will not appear in the books of accounts of the amalgamated firm.

(e) Provisions for doubtful debts @ 5% for debtors of both the firms have to be made.

(f) Other assets and liabilities will be taken over at their respective book value.

(g) The partners will bring necessary cash as may be required to pay the other partners to adjust their capitals according to their profit sharing ratio.

Prepare the **Balance Sheet** of the **Amalgamated Firm** and **Capital Accounts** of the partners in the books of the **old Firms**.

3. (a) You are provided with the following details in respect of ABC Limited : **8**

(i) 10,000 equity shares of nominal value of ₹ 10 each were issued on 31st March, 2014 ;

(ii) Exercise price of equity shares granted under ESOP was ₹ 160 per share ;

Marks

(iii) Market price of share was ₹ 400 each on the date of the grant ;

(iv) Vesting of shares was in the ratio of 30%, 60% and 100% after 1 year, 2 year and 3 year respectively from the date of grant ;

(v) Vested options can be exercised up to 1 year from the date of vesting ;

(vi) The number of shares expired and exercised are as under :

Particulars	**Year Ended**		
	31.03.2015	**31.03.2016**	**31.03.2017**
Vested Options Lapsed during the year	-	200	600
Unvested Options Lapsed during the year	400	600	1,000
Options Exercised during the year	-	2,500	2,000

From the above details you are required to calculate:

(i) Employee Compensation Expense for the year ending 31st March, 2015, 31st March, 2016 and 31st March, 2017

(ii) Balance of Employee Stock Option Outstanding Account as on 31st March, 2015, 31st March, 2016 and 31st March, 2017

Entries relating to ESOP lapsed and options exercised were passed at the end of the respective financial year.

Marks

(b) The following balances appeared in the books of Heaven Ltd. on 1st April, 2016 : **8**

(i) 12% Debentures ₹ 9,50,000 ;

(ii) Balance of Sinking Fund ₹ 8,00,000 ;

(iii) Sinking Fund Investment ₹ 8,00,000 represented by 10% ₹ 8,50,000 Secured Bonds of Government of India.

Annual contribution to the Sinking Fund was ₹ 1,50,000 made on 31st March every year. On 31st March, 2017, balance at bank was ₹ 4,00,000 before receipt of interest. The company sold the 90% face value of its investments, for redemption of debentures, at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended on 31st March, 2017 :

(a) Debentures Account;

(b) Sinking Fund Account ;

(c) Sinking Fund Investment Account;

(d) Bank Account; and

(e) Debenture Holders Account.

Marks

4. The summarized balance sheet of Z Limited as on 31st March, 2017 is as under : 16

LIABILITIES	Amount in ₹
Share Capital:	
5,00,000 Equity shares of ₹ 10 each fully paid up	50,00,000
9%, 20,000 Preference shares of ₹ 100 each fully paid up	20,00,000
Reserves and Surplus:	
Profit and Loss Account	(14,60,000)
Non-Current Liabilities:	
10% Secured Debentures	16,00,000
Current Liabilities:	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000
Loan from Directors	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000
Total	**81,00,000**

ASSETS:	Amount in ₹
Non-Current Assets:	
Fixed Assets:	
(a) Tangible Assets:	
Land & Buildings	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
(b) Intangible Assets:	
Goodwill	10,00,000
Patents	5,00,000
Current Assets:	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000
Discount on issue of debentures	1,00,000
Total	**81,00,000**

Note: Preference dividend is in arrears for last 2 years.

Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover ₹ 1,00,000 and ₹ 60,000 were also payable to Mr. Y and Mr. Z respectively as trade payable.

The following scheme of reconstruction has been agreed upon and duly approved.

(i) All the equity shares to be converted into fully paid equity shares of ₹ 5.00 each.

 Marks

(ii) The Preference shares be reduced to ₹ 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.

(iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay ₹ 1,00,000 and ₹ 60,000 respectively in cash and to receive new 12% debentures for the balance amount.

(iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.

(v) Directors also waived 60% of their loans and accepted equity shares for the balance.

(vi) Capital commitments of ₹ 3.00 lacs were cancelled on payment of ₹ 15,000 as penalty.

(vii) Directors refunded ₹ 1,00,000 of the fees previously received by them.

(viii) Reconstruction expenses paid ₹ 15,000.

(ix) The taxation liability of the company was settled for ₹ 75,000 and was paid immediately.

(x) The Assets were revalued as under :

Land and Building	32,00,000
Plant and Machinery	6,00,000
Inventory	7,50,000
Trade Receivables	4,00,000
Furniture and Fixtures	1,50,000
Trade Investments	4,50,000

You are required to pass journal entries for all the above mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit and Loss account and Discount on issue of debentures. And also prepare Bank Account and Reconstruction A/c.

Marks

5. (a) From the following information as on 31st March, 2017 from the books of Ocean Insurance Company Limited, which is engaged in Marine Insurance business prepare the Revenue Account. **10**

	Particulars		Direct Business ₹	Re-Insurance ₹
I	Premium:			
	Received		22,00,000	3,40,000
	Receivable	- 1st April, 2016	1,20,000	21,000
		- 31st March, 2017	1,80,000	28,000
	Premium paid		2,50,000	-
	Payable	- 1st April, 2016	-	22,000
		- 31st March, 2017	-	40,000
II	Claims:			
	Paid		16,50,000	1,25,000
	Payable	- 1st April, 2016	98,000	12,000
		- 31st March, 2017	1,90,000	24,000
	Received			1,05,000
	Receivable	- 1st April, 2016	-	12,000
		- 31st March, 2017	-	10,000
III	Commission			
	On Insurance accepted		1,40,000	12,000
	On Insurance ceded		-	16,000

Marks

Other expenses and income:

Salaries – ₹ 2,50,000; Rent, Rates and Taxes – ₹ 15,000; Printing and Stationery – ₹ 22,000; Interest, Dividend and Rent Received (Net) – ₹ 1,10,000; Income tax deduction at source – ₹ 24,000; Legal expenses (Inclusive of ₹ 15,000 in connection with the settlement of claims)- ₹ 50,000;

Balance of fund as on 1st April, 2016 was ₹ 25,50,000 including additional reserve of ₹ 3,25,000. Additional Reserve has to be maintained at 5% of the net premium of the year.

(b) The following is an extract from the trial balance of Novel Bank Limited as on 31st March 2017 : 6

Rebate on bills discounted as on 1st April 2016	₹ 78,566 (Cr. bal)
Discount Received	₹ 1,60,572 (Cr. bal)

An analysis of bills discounted is as follows :

Amount ₹	Due Date
2,90,000	01 June 2017
8,75,000	08 June 2017
5,65,000	21 June 2017
8,12,000	01 July 2017
6,50,000	05 July 2017

Find out the amount of discount to be credited to Profit and Loss Account for the year ending on 31st March, 2017 and pass the necessary journal entries. The rate of discount shall be taken at 10% per annum.

Marks

6. (a) M & S Co. of Lucknow has a branch in Canberra, Australia. At the end of 31st March 2017, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra. 12

	(₹ in thousands)		(Aust. Dollars in thousands)	
	Dr.	Cr.	Dr.	Cr.
Capital	-	2,000	-	-
Reserves & Surplus	-	1,000	-	-
Land	500	-	-	-
Buildings (Cost)	1,000	-	-	-
Buildings Dep. Reserves	-	200	-	-
Plant and Machinery (Cost)	2,500	-	200	
Plant and Machinery Dep. Reserves	-	600	-	130
Debtors/Creditors	280	200	60	30
Stock as on 1-4-2016	100	-	20	-
Branch Stock Reserve	-	4	-	-
Cash & Bank Balances	10	-	10	-
Purchases/Sales	240	520	20	123
Goods sent to Branch	-	100	5	-
Managing Partner's Salary	30	-	-	-
Wages and Salary	75	-	45	-
Rent	-	-	12	-
Office Expenses	25	-	18	-
Commission Receipts	-	256	-	100
Branch/HO Current Account	120	-	-	7
	4,880	**4,880**	**390**	**390**

The following information is also available :

(i) Stock as at 31st March 2017

Lucknow ₹ 1,50,000

Canberra A $ 3125 (all stock are out of purchases made at Abroad)

Marks

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

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

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

You are required to :

(1) Convert the Branch Trial Balance into rupees by using the following exchange rates :

Opening rate	1 A \$ = ₹ 50
Closing rate	1 A \$ = ₹ 53
Average rate	1 A\$ = ₹ 51.00
For Fixed Assets	1 A \$ = ₹ 46.00

(2) Prepare Trading and Profit and Loss Account for the year ended 31st March 2017 showing to the extent possible H.O. results and Branch results separately.

4

(b) Department X sells goods to Department Y at a profit of 50% on cost and to Department Z at 20% on cost. Department Y sells goods to Department X and Z at a profit of 25% and 15% respectively on sales. Department Z charges 30 % profit on cost to Department X and 40% profit on sale to Y.

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

	Dept. X	Dept. Y	Dept. Z
	₹	₹	₹
Transfer from Department X		75,000	48,000
Transfer from Department Y	50,000		82000
Transfer from Department Z	52,000	56,000	

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

Marks

7. Answer any **FOUR** of the followings:

(a) Rahul Ltd. purchased a plant for US$ 2,00,000 on 1st January 2017, payable after 5 months. Company entered into a forward contract for five months @ ₹ 64.75 per dollar. Exchange rate per dollar on 1st Jan. 2017 was ₹ 64.25. How will you recognize the profit or loss on forward contract in the books of Rahul Ltd. ? **4**

(b) Briefly define the Fundamental Accounting Assumptions ? **4**

(c) Explain the nature of Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership ? **4**

(d) Discuss the following types of FIRE INSURANCE Policies : **4**

(i) Average Policy;

(ii) Comprehensive Policy;

(iii) Excess Policy; and

(iv) Floating Policy.

(e) List out the criteria laid down for classification of non-corporate entities to bring them under Level I category as per ICAI. **4**