INTERMEDIATE (IPC)
GROUP II - PAPER 5
ADVANCED ACCOUNTING

NOV 2019

Roll No. ....

Total No. of Questions – **7**

Total No. of Printed Pages – **12**

Time Allowed – **3** Hours

Maximum Marks – **100**

SJC

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 out of the remaining **six** questions.

Working notes should form part of the answers.

Marks

1. (a) Bansal Company Ltd. imported raw material worth US Dollars 12,000 on 15th Jan, 2019 when the exchange rate was ₹ 68 per US Dollar. The payment for the transaction was made on 5th May, 2019 when exchange rate was ₹ 64 per US Dollar. At the year end, 31st March, 2019, the rate of exchange was ₹ 65 per US Dollar. The accountant of the company passed entry on 31st March, 2019 adjusting the cost of raw material consumed for the difference between ₹ 64 and ₹ 68 US Dollar. Discuss whether this treatment is justified as per the provisions of AS-11 (Revised). **4×5 =20**

Marks

(b) State with reasons, how the following events would be dealt with in the financial statements of Hari Ltd. for the year ended 31st March, 2019 (accounts were approved on 25th July, 2019):

(1) Negotiations with another company for acquisition of its business was started on 21st January, 2019. Hari Ltd. invested ₹ 40 lakh on 22nd April, 2019.

(2) The company made a provision for bad debts @ 4% of its total debtors (as per trend followed from the previous years). In the second week of March 2019, a debtor for ₹ 2,50,000 had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In May, 2019 the debtor became bankrupt.

(3) During the year 2018-2019, Hari Ltd. was sued by a competitor for ₹ 13 lakhs for infringement of a trademark. Based on the advice of the company's legal counsel, Hari Ltd. provided for a sum of ₹ 8 lakhs in its financial statements for the year ended 31st March, 2019. On 26th May, 2019, the Court decided in favour of the party alleging infringement of the trademark and ordered Hari Ltd. to pay the aggrieved party a sum of ₹ 12 lakhs.

(4) Cashier of Hari Ltd. embezzled cash amounting to ₹ 3,00,000 during March, 2019. However the same comes to the notice of Company management during August, 2019.

(5) Cheques dated 31st March, 2019 collected in the month of April, 2019. All cheques are presented to the bank in the month of April, 2019 and are also realized in the same month in the normal course after deposit in the bank.

(c) Honey Ltd. is in the process of developing a new production method. During the financial year ended 31st March, 2018, total expenditure incurred on development of this production method was ₹ 98,00,000. On 1st Jan, 2018, the production method met the criteria as an intangible asset and expenditure incurred till this date was ₹ 68,00,000. Further expenditure incurred on the new method was ₹ 72,00,000 for the year ended 31st March, 2019 and recoverable amount of the know-how embodied in the new method for this financial year is ₹ 52,00,000.

You are required to calculate;

(1) The carrying amount of the Intangible asset on 31st March, 2018.

(2) The expenditure to be shown in Statement of Profit and Loss Account for the year ended 31st March, 2019.

(3) The carrying amount of the Intangible asset on 31st March, 2019.

(d) From the following information, compute unearned finance income as per AS-19.

Fair value of Machine	₹ 65 lakh
Lease Term	5 years
Lease Rent	₹ 10 lakh per annum
Guaranteed Residual Value	₹ 1.4 lakh
Expected Residual Value	₹ 2.3 lakh
Internal Rate of Return	10%

Discount rates from 1st to 5th year are 0.909, 0.826, 0.751, 0.683 and 0.621 respectively

Marks

2. Sagar & Sons is a partnership firm consisting of Mr. X, Mr. Y and Mr. Z who share profits and losses in the ratio of 2:2:1 and UTS Ltd. is a company doing similar business. 16

Following is the summarized Balance Sheet of the firm and that of the company as at 31.3.2019:

Liabilities	Sagar & Sons (₹)	UTS Ltd. (₹)	Assets	Sagar & Sons (₹)	UTS Ltd. (₹)
Equity share capital:			Plant & Machinery	5,00,000	16,00,000
Equity shares of ₹ 10 each		20,00,000	Furniture & Fixtures	50,000	2,25,000
Partners capital:			Inventories	2,00,000	8,50,000
X	2,00,000		Trade receivables	2,00,000	8,25,000
Y	3,00,000		Cash at bank	10,000	4,00,000
Z	1,00,000		Cash in hand	40,000	1,00,000
General reserve	1,00,000	7,00,000			
Trade payables	3,00,000	13,00,000			
	10,00,000	**40,00,000**		**10,00,000**	**40,00,000**

On the Balance Sheet date it was decided that the firm M/s Sagar & Sons be dissolved and all the assets (except cash in hand and cash at bank) and all the liabilities of the firm be taken over by UTS Ltd. by issuing 50,000 shares of ₹ 10 each at a premium of ₹ 2 per share.

Marks

Partners of Sagar & Sons agreed to divide the shares issued by UTS Ltd. in the profit sharing ratio and bring necessary cash for settlement of their capital.

The trade payables of Sagar & Sons includes ₹ 1,00,000 payable to UTS Ltd. An unrecorded liability of ₹ 25,000 of Sagar & Sons must also be taken over by UTS Ltd.

Prepare:

(1) Realisation account, Partners' capital accounts and Cash in hand/Bank account in the books of Sagar & Sons.

(2) Pass journal entries in the books of UTS Ltd. for acquisition of Sagar & Sons and draw the Balance Sheet of UTS Ltd. after the takeover.

3. (a) A Limited grants 5,000 options to its employees on 1.04.2015 at ₹ 90/-, when the market price was ₹ 150/-. The vesting period is 3 years. The maximum exercise period is one year. 4,500 options were exercised on 31.03.2019, the remaining options lapsed. Journalise the transactions, if the fair value of equity shares is ₹ 10/-per share. **8**

(b) On 1st April, 2018 Star Ltd. had 9,000, 9% debentures of ₹ 100 each. On 30th September, 2018, 1,500 own debentures @ 96 each were purchased by the company in the open market. Debenture interest is payable half yearly on 30th September and 31st March. The company cancelled all the purchased debentures on 31st March, 2019. There was a balance of ₹ 3,25,000 in the Debenture Reserve Account. Accounts are closed on 31st March every year. **8**

Pass necessary journal entries for the year ended 31st March, 2019 ignoring tax.

Marks

4. The financial position of two companies Orange Ltd. and Yellow Ltd. as on 31st March, 2019 was as under: **16**

Assets	Orange Ltd. (₹)	Yellow Ltd. (₹)
Goodwill	2, 10,000	90,000
Building	7,90,000	2,50,000
Machinery	12,50,000	3,80,000
Inventory	6,60,000	3,30,000
Trade receivables	4,80,000	3,60,000
Cash at Bank	2,40,000	85,000
	36,30,000	**14,95,000**
Liabilities	**Orange Ltd. (₹)**	**Yellow Ltd. (₹)**
Share Capital:		
Equity Shares of ₹10 each	25,00,000	9,00,000
8% Preference Shares of ₹ 100 each	2,50,000	–
10% Preference Shares of ₹ 100 each	–	3,00,000
General Reserve	3,05,000	1,15,000
Retirement Gratuity fund	1,50,000	35,000
Trade Payables	4,25,000	1,45,000
	36,30,000	**14,95,000**

Yellow Ltd. is absorbed by Orange Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Orange Ltd.

Marks

(b) Goodwill of Yellow Ltd. is valued at ₹ 1,50,000, Buildings is worth ₹ 3,50,000, and Machinery ₹ 4,25,000.

(c) Inventory of Yellow Ltd. has been shown at 10% above its cost and expected realisation from Trade Receivables is ₹ 3,33,000.

(d) Equity Shareholders of Yellow Ltd. will be issued Equity Shares of Orange Ltd. @ 10% premium.

You are required to :

(1) Prepare necessary Ledger Accounts to close the books of Yellow Ltd.

(2) Show the acquisition entries in the books of Orange Ltd.

(3) Also draft the Balance Sheet of Orange Ltd. after putting through the scheme assuming that the assets and liabilities of Yellow Ltd. are incorporated at fair value and assets and liabilities of Orange Ltd. are incorporated at carrying values only as at 31st March, 2019.

5. (a) From the following information of Royal Bank, compute the amount of provisions to be made in the Profit and Loss account. 6

Assets	₹ (In Lakhs)
Standard Assets	25,000
Sub-Standard Assets (including Unsecured ₹ 8,000 lakhs)	15,000
Doubtful Assets	
a. Upto 1 year [Realisable value of Security ₹ 2,200)	4,500
b. 1 to 3 years [Realisable value of Security ₹ 1,200)	3,200
c. More than 3 years (no Security)	1,300
Loss Assets	530

Marks

(b) The books of account of Assurance Company provide the following information as on 31st March, 2019. **10**

Particulars	Amount (₹)
Reserve for Unexpired Risks on March 31, 2018	4,00,000
Additional Reserve for Unexpired Risks on March 31, 2018	80,000
Premiums	12,50,000
Claims Paid	5,90,000
Outstanding Claims:	
On March, 2018	55,000
On March, 2019	85,000
Expenses of management	2,50,000
Legal Expenses for claims	30,000
Interest and Dividend	74,750
Income Tax on the above	7,920
Profit on sale of Investment	12,000
Commission paid	1,75,000
Reserve for Unexpired Risks on March 31, 2019	6,10,000
Additional Reserve for Unexpired Risks on March 31, 2019	78,000

You are required to prepare the Fire Insurance Revenue Account as per the regulation of IRDA for the year ended 31st March, 2019.

Marks

6. (a) Rohit of Delhi has a branch at Nagpur. Following is the information of Nagpur Branch for the year ending 31st March, 2019. **6**

(1) Goods are invoiced to the branch at cost plus 25%.

(2) Sale Price is cost plus 40%.

(3) Goods sent during the year at invoice price ₹ 13,50,000

(4) Sales during the year ₹ 14,70,000

(5) Branch Expenses ₹ 55,000

(6) Stock as on 1st April, 2018 at Invoice Price ₹ 3,20,000

Calculate the profit earned by the branch during the year and Branch Stock Reserve in respect of unrealized profit.

(b) Deepa Ltd. has three departments A, B and C, details of which are given below; **10**

Particulars	A (₹)	B (₹)	C (₹)
Stock as on 1-1-2018	35,000	45,000	20,000
Purchases	1,80,000	1,40,000	75,000
Actual Sales	1,95,000	1,72,000	99,000
Gross Profit on Sales price	18%	25%	35%

Marks

During the year 2018, some items were sold at discount and these discounts were reflected in the above sales value. The details are given below.

Particulars	A (₹)	B (₹)	C (₹)
Sales at normal price	18,000	14,000	4,500
Sales at actual price	14,000	13,000	2,500

Compute:

(1) Departmental Results

(2) The value of stock as on 31st December, 2018

7. Answer any **four** of the following: 16

(a) ABC Limited went into voluntary liquidation. Details are as follows : 4

1,000 – 10% Preference Shares of ₹ 100 each fully paid up

Class A – 1,200 equity shares of ₹ 100 each (₹ 80 paid up)

Class B – 800 equity shares of ₹ 100 each (₹ 65 paid up)

Assets realised ₹ 3,50,000 and liquidation expenses is ₹ 8,000. Company has secured Bank Loan of ₹ 60,000 and salary of 3 clerks for 3 months at a rate of ₹ 500 per month are outstanding. Creditors are ₹ 70,000.

Calculate amount receivable / or returnable to or from equity shareholders.

Marks

(b) Opening Balance Sheet of Mr. A is showing the aggregate value of assets, liabilities and equity ₹ 8 lakh, ₹ 3 lakh and ₹ 5 lakh respectively. 4

During accounting period, Mr. A has the following transactions :

(1) Earned 10% dividend on 2000 equity shares held of ₹ 100 each

(2) Paid ₹ 50,000 to creditors for settlement of ₹ 70,000

(3) Rent of the premises is outstanding ₹ 10,000

(4) Mr. A withdrew ₹ 9,000 for his personal use.

You are required to show the effect of above transactions on Balance Sheet in the form of Assets – Liabilities = Equity after each transaction.

(c) For a banking company, bills for collection was ₹ 21 lakhs as on 1st April, 2018. During 2018-19, bills received for collection amounted to ₹ 193.50 lakhs. Bills collected were ₹ 141 lakhs. Bills dishonoured was ₹ 16.50 lakhs. Prepare Bills for Collection (Assets) and Bills for Collection (Liabilities) Account. 4

Marks

(d) Under what circumstances, an LLP can be wound up by the Tribunal ? 4

(e) Explain in brief Non-Integral Foreign Operation (NFO) and Integral Foreign Operation (IFO) as per AS-11. 4