

PAPER – 5 : ADVANCED ACCOUNTING

Question No. 1 is compulsory.

Attempt any five questions from the remaining six questions.

Working notes should form part of the answer.

Wherever necessary suitable assumption(s) may be made by the candidates.

Question 1

Answer the following questions:

- (i) Rama Limited issued 8% Debentures of ₹ 3,00,000 in earlier year on which interest is payable half yearly on 31st March and 30th September. The company has power to purchase its own debentures in the open market for cancellation thereof. The following purchases were made during the financial year 2009-10 and cancellation made on 31st March, 2010:
- (a) On 1st April, ₹ 50,000 nominal value debentures purchased for ₹ 49,450, ex-interest.
- (b) On 1st September, ₹ 30,000 nominal value debentures purchased for ₹ 30,250 cum interest.

Show the Journal Entries (without narrations) for the transactions held in the year 2009-10.

- (ii) From the following information of details of advances of Zenith Bank Ltd., calculate the amount of provisions to be made in Profit and Loss Account for the year ended on 31-3-2010:

Assets classification	(₹ in lakhs)
Standard	10,000
Sub-standard	6,400
Doubtful:	
for one year	3,200
for two years	1,800
For three years	900
For more than three years	1,100
Loss assets	3,000

- (iii) While preparing its final accounts for the year ended 31st March 2010, a company made a provision for bad debts @ 4% of its total debtors (as per trend follows from the previous years). In the first week of March 2010, a debtor for ₹ 3,00,000 had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2010 the debtor became a bankrupt. Can the company provide for the full loss

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2010.

- (iv) *"Recognizing the need to harmonize the diverse accounting policies and practices, accounting standards are framed." Give examples of areas in which different accounting policies may be adopted by the enterprise.* (4 × 5 = 20 Marks)

Answer

(i)		In the books of Rama Limited			
		Journal Entries			
				Dr. (₹)	Cr. (₹)
1 st April, 2009	Own debentures A/c	Dr.	49,450		
	To Bank A/c				49,450
1 st September 2009	Own debentures A/c	Dr.	29,250		
	Interest on own debentures A/c	Dr.	1,000		
	$[30,000 \times 8\% \times \frac{5}{12}]$				
	To Bank A/c				30,250
30 th Sept. 2009	Interest on debentures A/c	Dr.	12,000		
	To Bank A/c				8,800
	To Interest on own debentures A/c				3,200
31 st March, 2010	Interest on debentures A/c	Dr.	12,000		
	To Bank A/c				8,800
	To Interest on own debentures A/c				3,200
31 st March, 2010	8% Debentures A/c	Dr.	80,000		
	To Own debentures A/c				78,700
	To Profit on cancellation of Debentures A/c				1,300
31 st March, 2010	Interest on own debentures A/c	Dr.	5,400		
	To Profit and Loss A/c (3,200+3,200-1,000)				5,400
31 st March, 2010	Profit and Loss A/c (1,000+12,000)	Dr.	24,000		
	To Interest on debentures A/c				24,000
31 st March, 2010	Profit on cancellation of debentures A/c	Dr.	1,300		
	To Capital reserve A/c				1,300

PAPER – 5 : ADVANCED ACCOUNTING

- (ii) Statement showing provisions on various performing and non performing assets of Zenith Bank Ltd.

<i>Assets classification</i>	<i>Amount (₹ in lakhs)</i>	<i>Provision (%)</i>	<i>Amount of provision (₹ in lakhs)</i>
Standard	10,000	0.40	40
Sub-standard	6,400	10	640
Doubtful:			
for one year	3,200	20	640
for two years	1,800	30	540
for three years	900	30	270
for more than 3 years	1,100	100	1,100
Loss assets	3,000	100	<u>3,000</u>
		Total	<u>6,230</u>

Note: It is assumed that sub-standard assets and all doubtful assets are fully secured.

- (iii) As per para 8 of AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date.

A debtor for ₹ 3,00,000 suffered heavy loss due to earthquake in the first week of March, 2010 and he became bankrupt in April, 2010 (after the balance sheet date). The loss was also not covered by any insurance policy. Accordingly, full provision for bad debts amounting ₹ 3,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2010.

- (iv) The following are examples* of the areas in which different accounting policies may be adopted by different enterprise:
- Methods of depreciation, depletion and amortization;
 - Valuation of inventories;
 - Recognition of profit on long-term contracts;
 - Valuation of fixed assets.

* The list of examples given here is not exhaustive.

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

Question 2

A, B, C and D are sharing profits and losses in the ratio 5 : 5 : 4 : 2. Frauds committed by C during the year were found out and it was decided to dissolve the partnership on 31st March, 2010 when their Balance Sheet was as under :

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital		Building	1,20,000
A	90,000	Stock	85,500
B	90,000	Investments	29,000
C	-	Debtors	42,000
D	35,000	Cash	14,500
General reserve	24,000	C	15,000
Trade creditors	47,000		
Bills payable	20,000		
	<u>3,06,000</u>		<u>3,06,000</u>

Following information is given to you:

- (i) A cheque for ₹ 4,300 received from debtor was not recorded in the books and was misappropriated by C.
 - (ii) Investments costing ₹ 5,400 were sold by C at ₹ 7,900 and the funds transferred to his personal account. This sale was omitted from the firm's books.
 - (iii) A creditor agreed to take over investments of the book value of ₹ 5,400 at ₹ 8,400. The rest of the creditors were paid off at a discount of 2%.
 - (iv) The other assets realized as follows:

Building	105% of book value
Stock	₹ 78,000
Investments	The rest of investments were sold at a profit of ₹ 4,800
Debtors	The rest of the debtors were realized at a discount of 12%
 - (v) The bills payable were settled at a discount of ₹ 400.
 - (vi) The expenses of dissolution amounted to ₹ 4,900
 - (vii) It was found out that realization from C's private assets would only be ₹ 4,000.
- Prepare the necessary Ledger Accounts. (16 Marks)

PAPER – 5 : ADVANCED ACCOUNTING

Answer

Realisation account

Particulars	₹	Particulars	₹
To Building	1,20,000	By Trade creditors	47,000
To Stock	85,500	By Bills payable	20,000
To Investment	29,000	By Cash	
To Debtors	42,000	Building	1,26,000
To Cash-creditors paid (W. N. 1)	37,828	Stock	78,000
To Cash-expenses	4,900	Investments(W.N.2)	23,000
To Cash-bills payable (20,000-400)	19,600	Debtors (W.N. 3)	<u>33,176</u>
To Partners' Capital A/cs		By Debtors-unrecorded	4,300
A	171	By Investments- unrecorded	7,900
B	171		
C	137		
D	<u>69</u>		
	<u>548</u>		
	<u>3,39,376</u>		<u>3,39,376</u>

Cash account

Particulars	Amount	Particulars	Amount
	₹		₹
To Balance b/d	14,500	By Realisation-creditors paid	37,828
To Realisation - assets realised		By Realisation-bills payable	19,600
Building 1,26,000		By Realisation-expenses	4,900
Stock 78,000		By Capital account	
Investments 23,000		A	90,528
Debtors <u>33,176</u>	2,60,176	B	90,528
To C's capital A/c.	<u>4,000</u>	D	<u>35,292</u>
	<u>2,78,676</u>		<u>2,78,676</u>

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

Partners' Capital Accounts

<i>Particulars</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>Particulars</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>
	₹	₹	₹	₹		₹	₹	₹	₹
To Balance b/d			15,000		By Balance b/d	90,000	90,000	-	35,000
To Debtors-misappropriation			4,300		By General reserve	7,500	7,500	6,000	3,000
To Investment-misappropriation			7,900		By Realisation profit	171	171	137	69
To C's capital A/c (W.N. 4)	7,143	7,143		2,777	By Cash A/c			4,000	
					By A's capital A/c			7,143	
					By B's capital A/c			7,143	
To Cash A/c	<u>90,528</u>	<u>90,528</u>		<u>35,292</u>	By D's capital A/c			<u>2,777</u>	
	<u>97,671</u>	<u>97,671</u>	<u>27,200</u>	<u>38,069</u>		<u>97,671</u>	<u>97,671</u>	<u>27,200</u>	<u>38,069</u>

PAPER – 5 : ADVANCED ACCOUNTING

Working Notes:

1. Amount paid to creditors	₹
Book value	47,000
Less: Creditors taking over investments	<u>(8,400)</u>
	38,600
Less: Discount @ 2%	<u>(772)</u>
	<u>37,828</u>
2. Amount received from sale of investments	₹
Book value	29,000
Less: Misappropriated by C	<u>(5,400)</u>
	23,600
Less: Taken over by a creditor	<u>(5,400)</u>
	18,200
Add: Profit on sale of investments	<u>4,800</u>
	<u>23,000</u>
3. Amount received from debtors	₹
Book value	42,000
Less: Unrecorded receipt	<u>(4,300)</u>
	37,700
Less: Discount @ 12%	<u>(4,524)</u>
	<u>33,176</u>
4. Deficiency of C	₹
Balance of capital as on 31 st March, 2010	15,000
Debtors-misappropriation	4,300
Investment-misappropriation	<u>7,900</u>
	27,200
Less: Realisation Profit	(137)
General reserve	(6,000)
Contribution from private assets	<u>(4,000)</u>
Net deficiency of capital	<u>17,063</u>
This deficiency of ₹ 17,063 in C's capital account will be shared by other partners A, B and D in their capital ratio of 90 : 90 : 35	
Accordingly,	
A's share of deficiency	=[17,063 x (90/215)] = ₹ 7,143
B's share of deficiency	=[17,063 x (90/215)] = ₹ 7,143
D's share of deficiency	=[17,063 x (35/215)] = ₹ 2,777

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

Question 3

Extra Ltd. furnishes you with the following Balance Sheet as on 31st March, 2010:

		(₹ in lakhs)	
Liabilities	Amount	Assets	Amount
Share capital		Fixed assets less depreciation	50
Equity shares of ₹ 10 each fully paid A	100	Investments at cost	120
9% Redeemable preference shares of ₹ 100 each fully paid	20	Current assets	142
Capital reserves	8		
Revenue reserves	50		
Securities premium	60		
10% Debentures	4		
Current liabilities	70		
	<u>312</u>		<u>312</u>

- (i) The company redeemed the preference shares at a premium of 10% on 1st April, 2010.
- (ii) It also bought back 3 lakhs equity shares of ₹ 10 each at ₹ 30 per share.
The payment for the above were made out of huge bank balances, which appeared as a part of the current assets.
- (iii) Included in its investment were "investments in own debentures" costing ₹ 2 lakhs (face value ₹ 2.20 lakhs). These debentures were cancelled on 1st April, 2010.
- (iv) The company had 1,00,000 equity stock options outstanding on the above mentioned date, to the employees at ₹ 20 when the market price was ₹ 30. (This was included under current liabilities). On 1.04.2010 employees exercised their options for 50,000 shares.
- (v) Pass the journal entries to record the above.
- (vi) Prepare Balance Sheet as at 01.04.2010. (16 Marks)

PAPER – 5 : ADVANCED ACCOUNTING

Answer

		(₹ in lakhs)	
<i>Date</i>	<i>Particulars</i>	<i>Debit</i> ₹	<i>Credit</i> ₹
01.04.2010	9% Redeemable preference share capital A/c Dr.	20.00	
	Premium on redemption of preference shares A/c Dr.	2.00	
	To Preference shareholders A/c		22.00
	(Being preference share capital transferred to shareholders account)		
01.04.2010	Preference shareholders A/c Dr.	22.00	
	To Bank A/c		22.00
	(Being payment made to shareholders)		
01.04.2010	Equity shares buy back A/c Dr.	90.00	
	To Bank A/c		90.00
	(Being 3 lakhs equity shares of ₹ 10 each bought back @ ₹ 30 per share)		
01.04.2010	Equity share capital A/c Dr.	30.00	
	Securities premium A/c Dr.	60.00	
	To Equity Shares buy back A/c		90.00
	(Being cancellation of shares bought back)		
01.04.2010	Revenue reserve A/c (20 + 30) Dr.	50.00	
	To Capital redemption reserve A/c		50.00
	(Being creation of capital redemption reserve account to the extent of the face value of preference shares redeemed and equity shares bought back as per the law)		
01.04.2010	10% Debentures A/c Dr.	2.20	
	To Investment (own debentures) A/c		2.00
	To Profit on cancellation of own debentures A/c		0.20
	(Being cancellation of own debentures costing ₹ 2 lakhs, face value being ₹ 2.20 lakhs and the balance being profit on cancellation of debentures)		

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

1.04.2010	Profit on cancellation of debentures A/c	Dr.	0.20	
	To Capital reserve A/c			0.20
	(Being profit on cancellation of debentures transferred to capital reserve account)			
01.04.2010	Bank A/c	Dr.	10.00	
	Employees stock option outstanding (Current liabilities) A/c	Dr.	5.00	
	To Equity share capital A/c			5.00
	To Securities premium A/c			10.00
	(Being the allotment to employees, of 50,000 shares of ₹ 10 each at a premium of 20 per share in exercise of stock options by employees)			
01.04.2010	Securities premium A/c	Dr.	2.00	
	To Premium on redemption of preference shares A/c			2.00
	(Being premium on redemption of preference shares adjusted through securities premium)			

Balance Sheet of Extra Ltd. as on 01.04.2010

(₹ in lakhs)

Liabilities	Amount	Assets	Amount
<u>Share capital</u>		Fixed assets less depreciation	50.00
Equity shares of ₹10 each fully paid	75.00	Investments at cost (W.N. 7)	118.00
Capital reserve (W.N. 2)	8.20	Current assets (W.N.8)	40.00
Securities premium (W.N. 4)	8.00		
Capital redemption reserve	50.00		
10% Debentures (W.N. 5)	1.80		
Current liabilities (W.N. 6)	<u>65.00</u>		
	<u>208.00</u>		<u>208.00</u>

Working Notes:

(₹ in lakhs)

1. Equity share capital

Opening balance	100.00
Less : Cancellation of bought back shares	(30.00)
Add : Shares issued against ESOP	<u>5.00</u>
	<u>75.00</u>

PAPER – 5 : ADVANCED ACCOUNTING

2.	Capital Reserve	
	Opening balance	8.00
	Add: Profit on cancellation of debentures	<u>0.20</u>
		<u>8.20</u>
3.	Revenue reserves	(₹ in lakhs)
	Opening balance	50.00
	Less: Creation of Capital Redemption Reserve	<u>(50.00)</u>
		<u>0</u>
4.	Securities Premium	
	Opening balance	60.00
	Less : Adjustment for cancellation of equity shares	(60.00)
	Less: Adjustment for premium on redemption of preference shares	(2.00)
	Add: Shares issued against ESOP shares at premium	<u>10.00</u>
		<u>8.00</u>
5.	10% Debentures	
	Opening balance	4.00
	Less: Cancellation of own debentures	<u>(2.20)</u>
		<u>1.80</u>
6.	Current liabilities	
	Opening balance	70.00
	Less: Adjustment for ESOP outstanding	<u>(5.00)</u>
		<u>65.00</u>
7.	Investments at cost	
	Opening balance	120.00
	Less: Investment in own debentures	<u>(2.00)</u>
		<u>118.00</u>
8.	Current assets	
	Opening balance	142.00
	Less : Payment to preference shareholders	(22.00)

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

Less : Payment to equity shareholders	(90.00)
Add : Share price received against ESOP	<u>10.00</u>
	<u>40.00</u>

Question 4

- (a) Department R sells goods to Department S at a profit of 25% on cost and Department T at 10% profit on cost. Department S sells goods to R and T at a profit of 15% and 20% on sales respectively. Department T charges 20% and 25% profit on cost to Department R and S respectively.

Department managers are entitled to 10% commission on net profit subject to unrealized profit on departmental sales being eliminated. Departmental profits after charging manager's commission, but before adjustment of unrealized profit are as under:

	₹		
Department R	54,000		
Department S	40,500		
Department T	27,000		

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

	Deptt. R ₹	Deptt. S ₹	Deptt. T ₹
Transfer from Department R	-	22,500	16,500
Transfer from Department S	21,000	-	18,000
Transfer from Department T	9,000	7,500	-

Find out the correct departmental profits after charging manager's commission. (8 Marks)

- (b) From the following information of Reliable Marine Insurance Ltd. for the year ending 31st March, 2010 find out the
- Net premiums earned
 - Net claims incurred

	(₹) Direct Business	(₹) Re-insurance
Premium:		
Received	88,00,000	7,52,000
Receivable – 01.04.2009	4,39,000	36,000
Receivable – 31.03.2010	3,77,000	32,000
Paid	6,09,000	

PAPER – 5 : ADVANCED ACCOUNTING

Payable – 01.04.2009		27,000
Payable – 31.03.2010		18,000
Claims:		
Paid	69,00,000	5,54,000
Payable – 01.04.2009	89,000	15,000
Payable – 31.03.2010	95,000	12,000
Received		2,01,000
Receivable – 01.04.2009		40,000
Receivable – 31.03.2010		38,000
		(8 Marks)

Answer

(a)

	<i>Departments</i>		
	<i>R</i>	<i>S</i>	<i>T</i>
	₹	₹	₹
Profit	54,000	40,500	27,000
Add : Managerial commission (1/9)	<u>6,000</u>	<u>4,500</u>	<u>3,000</u>
	60,000	45,000	30,000
Less: Unrealised profit on stock (Refer W.N.)	<u>6,000</u>	<u>6,750</u>	<u>3,000</u>
	54,000	38,250	27,000
Less: Managers' commission @ 10%	<u>5,400</u>	<u>3,825</u>	<u>2,700</u>
	<u>48,600</u>	<u>34,425</u>	<u>24,300</u>

Working Notes:

Value of unrealised profit

₹

Transfer by department R to

S department $(22,500 \times \frac{25}{125}) = 4,500$

T department $(16,500 \times \frac{10}{110}) = \underline{1,500}$

6,000

Transfer by department S to

R department $(21,000 \times \frac{15}{100}) = 3,150$

T department $(18,000 \times \frac{20}{100}) = \underline{3,600}$

6,750

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

Transfer by department T to

R department (9,000 ´ 20/120) = 1,500

S department (7,500 ´ 25/125) = 1,500 3,000

(b) (i) Net Premium earned

₹

Premium from direct business received	88,00,000	
Add : Receivable as 31.03.2010	3,77,000	
Less : Receivable as on 01.04.2009	<u>(4,39,000)</u>	87,38,000
Add : Premium on re-insurance accepted	7,52,000	
Add : Receivable as on 31.03.2010	32,000	
Less : Receivable as on 01.04.2009	<u>(36,000)</u>	<u>7,48,000</u>
		94,86,000
Less : Premium on re-insurance ceded	6,09,000	
Add : Payable as on 31.03.2010	18,000	
Less : Payable as on 01.04.2009	<u>(27,000)</u>	<u>(6,00,000)</u>
Net Premium earned		<u>88,86,000</u>

(ii) Net Claims incurred

₹

Claims paid on direct business		69,00,000
Add: Re-insurance	5,54,000	
Add: Outstanding as on 31.3.2010	12,000	
Less: Outstanding as on 1.4.2009	<u>(15,000)</u>	<u>5,51,000</u>
		74,51,000
Less : Claims received from re-insurance	2,01,000	
Add: Outstanding as on 31.3.2010	38,000	
Less: Outstanding as on 1.4.2009	<u>(40,000)</u>	<u>(1,99,000)</u>
		72,52,000
Add : Outstanding direct claims at the end of the year		<u>95,000</u>
		73,47,000
Less : Outstanding claims at the beginning of the year		<u>(89,000)</u>
Net claims incurred		<u>72,58,000</u>

PAPER – 5 : ADVANCED ACCOUNTING

Question 5

Following is the Balance Sheet of Y Ltd., as at 31st March, 2010:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets:	
Issued & paid up:		Goodwill	8,00,000
2,50,000 Equity shares of ₹ 10 each,	20,00,000	Building	7,00,000
₹ 8 per share paid up		Plant and machinery	13,00,000
1,00,000 (10%) Preference shares of	10,00,000	Current Assets:	
₹ 10 each fully paid up		Stock	7,00,000
Reserves & Surplus:		Sundry debtors	9,00,000
General reserve	6,00,000	Bank balance	6,60,000
Profit & Loss A/c	8,00,000		
Current Liabilities:		Miscellaneous expenditure	
Creditors	4,00,000	Preliminary expense	40,000
Workmen's profit sharing fund	3,00,000		
	<u>51,00,000</u>		<u>51,00,000</u>

X Ltd. decided to absorb the business of Y Ltd., at the respective book value of assets and trade liabilities except building which was valued at ₹ 12,00,000 and plant & machinery at ₹10,00,000.

The purchase consideration was payable as follows:

- (i) Payment of liquidation expenses ₹ 5,000 and workmen's profit sharing fund at 10% premium;
- (ii) Issue of equity share of ₹ 10 each fully paid at ₹ 11 per share for every preference share and every equity share of Y Ltd., and a payment of ₹ 4 per equity share in cash.

Calculate the purchase consideration, show the necessary ledger accounts in the books of Y Ltd., and opening journal entries in the books of X Ltd. (16 Marks)

Answer

(i) Calculation of purchase consideration	₹ in lakhs	₹ in lakhs
Cash payment for:		
Liquidation expenses	5,000	
Workmen's profit sharing fund	3,30,000	
Cash to equity shareholders (2,50,000 x 4)	<u>10,00,000</u>	13,35,000

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

Payment by Equity shares to

Preference shareholders (1,00,000 x 11)	11,00,000	
Equity shareholders (2,50,000 x 11)	<u>27,50,000</u>	<u>38,50,000</u>

Purchase consideration		<u>51,85,000</u>
------------------------	--	------------------

(ii) In the books of Y Ltd.

Realisation A/c

	₹		₹
To Goodwill	8,00,000	By Creditors	4,00,000
To Building	7,00,000	By X Ltd.	51,85,000
To Plant & machinery	13,00,000		
To Stock	7,00,000		
To Sundry debtors	9,00,000		
To Bank	6,60,000		
To Workmen's profit sharing fund	30,000		
To Preference shareholders	1,00,000		
To Bank (Expenses)	5,000		
To Profit	<u>3,90,000</u>		
	<u>55,85,000</u>		<u>55,85,000</u>

X Ltd. A/c

	₹		₹
To Realisation A/c	51,85,000	By Bank	13,35,000
		By Equity shares in X Ltd.	<u>38,50,000</u>
	<u>51,85,000</u>		<u>51,85,000</u>

Bank A/c

	₹		₹
To X Ltd.	13,35,000	By Realisation (Expenses)	5,000
		By Workmen's profit sharing fund	3,30,000
		By Equity shareholders	<u>10,00,000</u>
	<u>13,35,000</u>		<u>13,35,000</u>

PAPER – 5 : ADVANCED ACCOUNTING

Preference Shareholders A/c

	₹		₹
To Equity Shares in X Ltd.	11,00,000	By Preference shares capital	10,00,000
		By Realisation A/c (Bal. fig.)	<u>1,00,000</u>
	<u>11,00,000</u>		<u>11,00,000</u>

Equity Shareholders A/c

	₹		₹
To Preliminary expenses	40,000	By Equity share capital	20,00,000
To Bank	10,00,000	By General reserve	6,00,000
To Equity shares in Y Ltd.	27,50,000	By Profit & Loss A/c	8,00,000
		By Profit on realisation (Bal.fig.)	<u>3,90,000</u>
	<u>37,90,000</u>		<u>37,90,000</u>

Equity Shares in X Ltd. A/c

	₹		₹
To X Ltd.	38,50,000	By Preference shareholders	11,00,000
		By Equity shareholders	<u>27,50,000</u>
	<u>38,50,000</u>		<u>38,50,000</u>

Workmen's Profit Sharing Fund A/c

	₹		₹
To Bank	3,30,000	By Balance b/d	3,00,000
		By Realisation (Bal. Fig.))	<u>30,000</u>
	<u>3,30,000</u>		<u>3,30,000</u>

(iii) In the books of X Ltd.

Journal Entries

	Dr. (₹)	Cr. (₹)
1. Business purchase A/c	Dr. 51,85,000	
To Liquidators of Y Ltd.		51,85,000
(Being business purchased of Y Ltd.)		

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

2. Building A/c	Dr.	12,00,000	
Plant & machinery A/c	Dr.	10,00,000	
Stock A/c	Dr.	7,00,000	
Debtors A/c	Dr.	9,00,000	
Bank A/c	Dr.	6,60,000	
Goodwill A/c (Bal. fig.)	Dr.	11,25,000	
To Creditors			4,00,000
To Business purchase A/c			51,85,000
(Being assets and liabilities taken over and purchase consideration due)			
2. Liquidators of Y Ltd.	Dr.	51,85,000	
To Bank			13,35,000
To Equity share capital			35,00,000
To Securities premium			3,50,000
(Being payment of purchase consideration)			

Question 6

- (a) A Commercial Bank has the following capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. Find out the risk adjusted asset and risk weighted assets ratio.

	(₹ in crores)
Equity share capital	500.00
Statutory Reserve	270.00
Capital reserve (of which ₹ 16 crores were due to revaluation of assets and the balance due to sale of capital asset)	78.00
Assets:	
Cash balance with RBI	10.00
Balance with other banks	18.00
Other investments	36.00
Loans and advances:	
(i) Guaranteed by the Government	16.50
(ii) Others	5,675.00
Premises, furniture and fixtures	78.00
Off-Balance Sheet items:	
(i) Guarantee and other obligations	800.00
(ii) Acceptances, endorsements and letter of credit	4,800.00
	(8 Marks)

PAPER – 5 : ADVANCED ACCOUNTING

- (b) The Super Electricity Company maintains accounts under the Double Accounts System. It decides to replace one of its old plant with a technologically advanced plant with a larger capacity. The plant when installed in 2000, cost the company ₹ 90,00,000, the components of materials, labour and overheads being in the ratio 5 : 3 : 2.

It is ascertained that the costs of materials has gone up by 200% and the cost of labour has gone up by 300%. The proportion of material, labour and overheads has changed to 10 : 9 : 6.

The cost of the new plant is ₹ 2,80,00,000 and in addition, goods worth ₹ 12,60,000 have been used in the construction of the new plant. The old plant was scrapped and sold for ₹ 19,00,000.

Find out the amount to be capitalized and also the amount to be charged to revenue. Draw the necessary Ledger Accounts. (8 Marks)

Answer

(a)

	₹ in crores	₹ in crores	
(i)			
Capital funds – Tier I			
Equity share capital		500	
Statutory reserve		270	
Capital reserve (arising out of sale of assets) (78-16)		<u>62</u>	
		832	
Capital funds – Tier II			
Capital reserve (arising out of revaluation of assets)	16		
Less: Discount to the extent of 55%			
	<u>(8.8)</u>	<u>7.2</u>	
		824.8	
	₹ in crores	% of weight	₹ in crores
(ii) Risk Adjusted Assets			
Funded Risk Assets			
Cash balance with RBI	10	0	0
Balance with other banks	18	20	3.60
Other investments	36	100	36
Loans and advances:			
(i) Guaranteed by the government	16.5	0	0

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

(ii) Others	5,675	100	5,675
Premises, furniture and fixtures	78	100	<u>78</u>
			5,792.60

₹ in crores Credit
conversion
factor

Off-Balance Sheet items:

Guarantees and other obligations	800	100	800
Acceptances, endorsements and letters of credit	4,800	100	<u>4,800</u>
			<u>11,392.60</u>

Risk Weighted Assets Ratio:

$$\frac{\text{Capital fund} \times 100}{\text{Risk adjusted assets}}$$

$$(824.8/11,392.60) \times 100 = 7.24\%$$

(b) Table showing calculation of current cost of old plant

	Old ratio	Cost of existing plant	% increase	Current cost	New Ratio
		₹		₹	
Material	5	45,00,000	200	90,00,000	10
Labour	3	27,00,000	300	81,00,000	9
Overhead	2	<u>18,00,000</u>		<u>54,00,000*</u>	<u>6</u>
Total		<u>90,00,000</u>		<u>2,25,00,000</u>	<u>25</u>

Amount to be capitalized

	₹
Cost of new plant (cash)	2,80,00,000
Add: Cost of old material used	<u>12,60,000</u>
	2,92,60,000
Less: Estimated current cost of replacing old plant	<u>(2,25,00,000)</u>
Amount to be capitalized	<u>67,60,000</u>

* Current cost of overhead = $\frac{(90,00,000 + 81,00,000)}{\frac{5}{10} + \frac{3}{9} + \frac{2}{6}} \times \frac{6}{25} = ₹ 54,00,000$

PAPER – 5 : ADVANCED ACCOUNTING

Amount to be charged to Revenue A/c		
Estimated current cost of replacement		2,25,00,000
Less : Cash on sale of scrap	19,00,000	
Less : Old material reused	<u>12,60,000</u>	<u>(31,60,000)</u>
Amount to be charged to revenue		<u>1,93,40,000</u>

Super Electricity Company

Plant Account

Particulars	Amount	Particulars	Amount
	₹		₹
To Balance b/d	90,00,000	By Balance c/d	1,57,60,000
To Bank A/c	55,00,000		
To Replacement A/c	<u>12,60,000</u>		
	<u>1,57,60,000</u>		<u>1,57,60,000</u>

Replacement Account

To Bank A/c	2,25,00,000	By Bank A/c	19,00,000
		By Plant A/c	12,60,000
		By Revenue A/c	<u>1,93,40,000</u>
	<u>2,25,00,000</u>		<u>2,25,00,000</u>

Question 7

Answer any *four* of the followings:

(a) Following is the information of the Jammu branch of Best Ltd., New Delhi for the year ending 31st March, 2010 from the following:

- (1) Goods are invoiced to the branch at cost plus 20%.
- (2) The sale price is cost plus 50%.
- (3) Other informations:

	₹
Stock as on 01.04.2009	2,20,000
Goods sent during the year	11,00,000
Sales during the year	12,00,000
Expenses incurred at the branch	45,000

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

Ascertain

- (i) the profit earned by the branch during the year
 - (ii) branch stock reserve in respect of unrealized profit.
- (b) Ram Ltd. had 12,00,000 equity shares on April 1, 2009. The company earned a profit of ₹ 30,00,000 during the year 2009-10. The average fair value per share during 2009-10 was ₹ 25. The company has given share option to its employees of 2,00,000 equity shares at option price of ₹ 15. Calculate basic E.P.S. and diluted E.P.S.
- (c) On 1st April, 2009, Amazing Construction Ltd. obtained a loan of ₹ 32 crores to be utilized as under:
- (i) Construction of sealink across two cities:
(work was held up totally for a month during the year due to high water levels) : ₹ 25 crores
 - (ii) Purchase of equipments and machineries : ₹ 3 crores
 - (iii) Working capital : ₹ 2 crores
 - (iv) Purchase of vehicles : ₹ 50,00,000
 - (v) Advance for tools/cranes etc. : ₹ 50,00,000
 - (vi) Purchase of technical know-how : ₹ 1 crores
 - (vii) Total interest charged by the bank for the year ending 31st March, 2010 : ₹ 80,00,000

Show the treatment of interest by Amazing Construction Ltd.

- (d) A company went into liquidation whose creditors are ₹ 36,000 includes ₹ 6,000 on account of wages of 15 men at ₹ 100 per month for 4 months immediately before the date of winding up; ₹ 9,000 being the salaries of 5 employees at ₹ 300 per month for the previous 6 months, Rent for godown for the last six months amounting to ₹ 3,000; Income-tax deducted out of salaries of employees ₹ 1,000 and Directors fees ₹ 500; in addition it is estimated that the company would have to pay ₹ 5,000 as compensation to an employee for injuries suffered by him, which was contingent liability not accepted by the company and not included in above said creditors figure.

Find the amount of Preferential Creditors.

- (e) M Ltd. launched a project for producing product A in Nov. 2008. The company incurred ₹ 30 lakhs towards Research and Development expenses upto 31st March, 2010. Due to unfavourable market conditions the management feels that it is not possible to manufacture and sold the product in the market for next so many years.

The management hence wants to defer the expenditure write off to future years.

Advise the company as per the applicable Accounting Standard. (4 x 4 = 16 Marks)

PAPER – 5 : ADVANCED ACCOUNTING

Answer

(a) (i) Calculation of profit earned by the branch

In the books of Jammu Branch			
Trading Account			
Particulars	Amount	Particulars	Amount
	₹		₹
To Opening stock	2,20,000	By Sales	12,00,000
To Goods received by Head office	11,00,000	By Closing stock (Refer W.N.)	3,60,000
To Expenses	45,000		
To Gross profit	<u>1,95,000</u>		
	<u>15,60,000</u>		<u>15,60,000</u>

(ii) Stock reserve in respect of unrealised profit

$$= ₹ 3,60,000 \times (20/120) = ₹ 60,000$$

Working Note:

Cost Price	100
Invoice Price	120
Sale Price	150

Calculation of closing stock at invoice price

	₹	
Opening stock at invoice price	2,20,000	
Goods received during the year at invoice price	<u>11,00,000</u>	
	13,20,000	
Less : Cost of goods sold at invoice price	<u>(9,60,000)</u>	[12,00,000 x (120/150)]
Closing stock	<u>3,60,000</u>	

Note : It is assumed that all figures given in the questions is at invoice price.

(b) Computation of Earnings Per Share

	Earnings	Shares	Earnings per share
	₹		₹
Net Profit for the year 2009-10	30,00,000		
Weighted average number of shares outstanding during the year 2009-10		12,00,000	

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER, 2010

Basic Earning Per Share 2.50

$$= \frac{30,00,000}{12,00,000}$$

Number of shares under option 2,00,000

Number of shares that would have been issued at fair value (As indicated in Working Note) (1,20,000)

$$2,00,000 \times \frac{15}{25}$$

Diluted Earnings Per Share	<u>30,00,000</u>	<u>12,80,000</u>	2.34
----------------------------	------------------	------------------	------

$$\left[\frac{30,00,000}{12,80,000} \right]$$

Working Note:

The earnings have not been increased as the total number of shares has been increased only by the number of shares (80,000) deemed for the purpose of the computation to have been issued for no consideration.

- (c) According to para 3 of AS 16 'Borrowing costs', qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use.

As per para 6 of the standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. Other borrowing costs should be recognised as an expense in the period in which they are incurred

The treatment of interest by Amazing Construction Ltd. can be shown as:

	Qualifying Asset	Interest to be capitalized ₹	Interest to be charged to Profit & Loss A/c ₹
Construction of sea-link	Yes	62,50,000	(80,00,000*(25/32))
Purchase of equipments and machineries	No		7,50,000 (80,00,000*(3/32))
Working capital	No		5,00,000 (80,00,000*(2/32))
Purchase of vehicles	No		1,25,000 (80,00,000*(.5/32))
Advance for tools, cranes etc.	No.		1,25,000 (80,00,000*(.5/32))
Purchase of technical know-how	No		2,50,000 (80,00,000*(1/32))
Total		<u>62,50,000</u>	<u>17,50,000</u>

PAPER – 5 : ADVANCED ACCOUNTING

(d) Calculation of Preferential Creditors

	₹
Tax deducted at source on salaries	1,000
Wages (15 men for 4 months at ₹ 100 each)	6,000
Salaries (5 men for 4 months at ₹ 300 each) (Refer Note 1)	6,000
Workmen's compensation	<u>5,000</u>
Total	<u>18,000</u>

Note :

- (i) Salaries payable to any employee due for the period not exceeding 4 months within the twelve months next before commencement of winding up subject to maximum ₹ 20,000 per person.
- (ii) Directors fees, rent for godown are not included in preferential creditors.
- (e) As per para 41 of AS 26 "Intangible Assets", expenditure on research should be recognised as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognised when no future economic benefits are expected from its use according to the provisions of AS 26. Therefore, the management can not defer the expenditure write off to future years and the company is required to expense the entire amount of ₹ 30 lakhs in the Profit and Loss account of the year ended 31st March, 2010.