

Free of Cost

ISBN : 978-81-7666-805-7

Solved
SCANNER™ Appendix

IPCC Gr. II Paper - 5
May - 2009

Solution of May 2009 Examination	1
Question Paper of November 2009 Examination	7

Solution of May 2009 Examination

Paper - 5 : Advanced Accounting

Chapter - 2 : Accounting Standards

2009 - May [5] (vi)

As per AS 16, the Financial Statements should disclose the following:

- (a) The accounting policy adopted for borrowing costs and
- (b) The amount of borrowing costs capitalized during the period.

2009 - May [6]

- (b) As per AS 5, period items are income or expenses, which arise, in the current period as a result of errors or omission in the preparation of financial statements of one or more prior periods. The term does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period. Example: arrears payable to workers in current period as a result of retrospective revision of wages.

The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in manner that their impact on current profit or loss can be perceived.

As per para 19 of AS 5, prior period items are normally included in determination of net profit or loss for the current profit, they can be added (or deducted as the case may be) from the current profit. An alternative approach is to show such items in the statement of profit or loss after determination of current net profit or loss. In either case, the objective is to indicate the effect of such items on the current profit or loss.

- (d) **Adjusted Net profit for the current year**
 = 2,00,00,000 + 5,50,000 – 1,65,000 = Rs. 2,03,85,000
 Number of equity shares resulting from conversion of debentures
 = 50,000 × 8 = 4,00,000 equity shares
 Total number of equity shares resulting from conversion of debentures
 = 40,00,000 + 4,00,000 = 44,00,000 shares
 Diluted Earnings per share = $\frac{\text{Rs. 2,03,85,000}}{44,00,000}$
 = Rs. 4.63 (Approximately)

Chapter - 3 : Underwriting of Shares and Debentures**2009 - May [5] (v)**

Gross Liability (Rs.50,00,000 × 60%)	30,00,000
Less: Marked applications Rs.35,00,000	
which is more than the Liability but credit will not be given more than gross liability	<u>30,00,000</u>
Net liability	NIL
Add: Firm underwriting	<u>5,00,000</u>
Total liability	<u>5,00,000</u>

Calculation of underwriting commission

$$= 30,00,000 \times \frac{2.5}{100} = \text{Rs. } 75,000$$

Underwriting Commission payable @ 2.5%¹ 75,000**Chapter - 6 : Liquidation of Companies****2009 - May [4] (b)****Liquidator's Final Statement of Account**

	Rs.		Rs.
To Cash in hand	7,50,000	By Liquidator's remuneration	5,300
		(2% on 2,65,000*)	
To Cash/ bank	45,710	By Preferential creditors	35,000
(Amount received		By Unsecured creditors	2,30,000
on call for 7,000 equity		By Preference shareholders	5,00,000
shares @ Rs.6.53 per share)		By Equity shareholders	
		(Amount paid to holders	
		of 3,000 equity shares @	
		Rs.8 47 per equity share)	<u>25,410</u>
	<u>7,95,710</u>		<u>7,95,710</u>

¹ Section 76 of the Companies Act provides that underwriting commission is provided only at a rate authorized by the articles of the company, not exceeding 2.5% of the issue price of debentures. Therefore, in the above solution, underwriting commission has been calculated at 2.5%.

Working Note:

Calculation of amount receivable from equity shareholders or payable to equity shareholders

	Rs.	Rs.
Cash in hand (Assets realized)		7,50,000
<i>Less:</i> Payments made:		
Liquidator's remuneration	5,300	
Preference creditors	35,000	
Unsecured creditors	2,30,000	
Preference shareholders	<u>5,00,000</u>	<u>7,70,300</u>
		20,300
<i>Add:</i> Amount payable to equity shareholders (paid up); 3,000 equity share of Rs.100 each Rs. 75 paid up	2,25,000	
7,000 equity share of Rs.100 each Rs. 60 paid up	<u>4,20,000</u>	<u>6,45,000</u>
Total loss to be borne by equity shareholders		<u>6,65,300</u>
No. of equity shares		10,000 shares
Loss per equity shares $\frac{6,65,300}{10,000}$	= Rs.66.53	

Amount receivable from 7,000 equity shareholders = $7,000 \times 6.53$ (i.e. $66.53 - 60$) = Rs. 45,710

Amount payable to 3,000 equity shareholders = $3,000 \times 8.47$ (i.e. $75 - 66.53$) = Rs. 25,410

* $35,000 + 2,30,000 = 2,65,000$

Chapter - 8 : Financial Statement of Insurance Companies

2009 - May [5] (i)

Valuation Balance Sheet as on

	Rs. in Lacs		Rs. In Lacs
To Net liabilities	4,800	By Life Assurance Fund	5,000
To Profit b/d	<u>200</u>		
	<u>5,000</u>		<u>5,000</u>

2009 - May [6] (e)

Statement showing Correct Life Assurance Fund

	Rs.
Balance of Life Assurance Fund	62,21,310
<i>Add:</i> (i) Bonus utilized in reduction of premium	4,500
(ii) Interest on Securities	8,260
(iii) Outstanding premium	<u>5,410</u>
	<u>62,39,480</u>
<i>Less:</i> (i) Claims intimated but not admitted	26,500

<i>Less:</i> Recovered under reinsurance	<u>12,000</u>	
	14,500	
(ii) Bonus in reduction of premium	<u>4,500</u>	<u>19,000</u>
Correct Balance of Life Assurance Fund		<u>62,20,480</u>

Chapter - 9 : Financial Statements of Electricity Companies

2009 - May [4] (a)

(i) Calculation of amount chargeable to revenue Rs. Rs.

Estimated current cost of replacing old plant		65,00,000
<i>Less:</i> Value of replacing old plant	3,00,000	
Value of materials belonging to the old Plant used in the construction of new plant	<u>3,80,000</u>	<u>6,80,000</u>
Total		<u>58,20,000</u>

(ii) Calculation of amount to be capitalized

Cost of building new plant (cash)	1,05,00,000	
<i>Add:</i> Value of materials belonging to the old plant used in the construction of the new plant	<u>3,80,000</u>	1,08,80,000
<i>Less:</i> Estimated current cost of replacing old plant		<u>65,00,000</u>
Total		<u>43,80,000</u>

(iii) Plant Account

	Rs.		Rs.
To Balance b/d	35,00,000	By Balance c/d	78,80,000
To Cost of construction:			
Cash	40,00,000		
(1,05,00,000-65,00,000)			
Cost of old material used	<u>3,80,000</u>		
	<u>78,80,000</u>		<u>78,80,000</u>

(iv) Replacement Account

	Rs.		Rs.
To Bank account		By Bank account	3,00,000
(portion to be written off out of the replacement cost)		By Plant account	3,80,000
		By Revenue account	<u>58,20,000</u>
	<u>65,00,000</u>		<u>65,00,000</u>
	<u>65,00,000</u>		<u>65,00,000</u>

Chapter - 13: Amalgamation, Conversion and Sale of Partnership Firms

2009 - May [3] (a)

(a) Profit and Loss Account for the year ended 31.3.09

	Total (Rs.)	Ratio	Pre (Rs.)	Post (Rs.)		Total (Rs.)	Ratio	Pre (Rs.)	Post (Rs.)
To Salaries	23,40,000	1:12	1,80,000	21,60,00	By Gross profit	1,40,40,000	1:8	15,60,000	1,24,80,000
To Depreciation	3,60,000	1:4	72,000	2,88,000	By Goodwill			38,000	
To Advertisement	14,04,000	1:8	1,56,000	12,48,000	(bal. fig.)				
To Discount	23,40,000	1:8	2,60,00	20,80,000					
To Managing director's remuneration	1,80,000	Post		1,80,000					
To Office cum showroom rent	14,40,000	Actual	1,80,000	12,60,000					
To Mis-cellaneous office expenses	2,40,000	1:4	48,000	1,92,000					
To Interest	19,02,000	Actual	7,02,000	12,00,000					
To Net profit (Bal. fig.)				38,72,000					
			15,98,000	1,24,80,000				15,98,000	1,24,80,000

Note: Since the profits prior to incorporation are in the negative, they would:

- (a) either be considered as a reduction from any capital reserve accruing in relation to the transaction, or
- (b) be treated as goodwill.

Working Notes:**(1) Calculation of Time Ratio**Pre-Incorporation Period1st January, 2008 to 31st March, 2008
(3 Months)

3:

1:

Post-Incorporation Period1st April, 2008 to 31st
March, 2009 (12 Months)

12

4

(2) Calculation of Sales RatioPre-Incorporation Period

3 Months

 3×1

3:

1:

Post-Incorporation Period

12 Months

 12×2

24

8

(3) Calculation of Staff Salary RatioPre-Incorporation Period

3 Months

 3×1

3:

1:

Post-Incorporation Period

12 Months

 12×3

36

12

(4) Calculation of InterestPre-Incorporation Period $2,34,00,000 \times 3/12 \times 12/100$
= Rs. 7,02,000Post-Incorporation Period $1,00,00,000 \times 12/100$
= Rs. 12,00,000**(5) Calculation of Rent**

1 July 2008 to

31st March, 2009

= 9 Months

Total additional rent = $60,000 \times 9 = \text{Rs. } 5,40,000$ Remaining rent = $14,40,000 - 5,40,000 = \text{Rs. } 9,00,000$ Rent per month = $\frac{9,00,000}{15} = \text{Rs. } 60,000$ per month**15**Pre-Incorporation Period rent = $60,000 \times 3 = \underline{1,80,000}$ Post-Incorporation Period rent = $60,000 \times 12 = \underline{7,20,000}$ Additional rent = $\underline{5,40,000}$ 12,60,000**(6) Calculation of Gross Profit****Trading Account**

	Rs.		Rs.
To Cost of goods sold	3,27,60,000	By Sales	4,68,00,000
To Gross profit (Bal.fig.)	1,40,40,000		
	<u>4,68,00,000</u>		<u>4,68,00,000</u>

Question Paper of November 2009 Examination**Paper - 5 : Advanced Accounting****Chapter-2 : Accounting Standards**

2009 - Nov [1] Answer the following questions :

- (i) Goods worth Rs. 5,00,000 were destroyed due to flood in September, 2006. A claim was lodged with insurance company. But not entry was passed in the books for insurance claim in the financial year 2006-07. In March, 2008, the claim was passed and the company received a payment of Rs. 3,50,000 against the claim. Explain the treatment of such receipt in final accounts for the year ended 31st March, 2008.
(2 marks)
- (ii) Briefly indicate the items which are included in the expressions "Borrowing Cost" as per AS-16.
(2 marks)
- (iii) Sterling Ltd. purchased a plant for US \$ 20,000 on 31st December, 07 payable after 4 months. The company entered into a forward contract for 4 months @ Rs. 48.85 per dollar. On 31st December, 07, the exchange rate was Rs. 47.50 per dollar.
How will you recognise the profit or loss on forward contract in the books of Sterling Limited for the year ended 31st March, 2008.
(2 marks)
- (iv) A company created a provision of Rs. 75,000 for staff welfare while preparing the financial statements for the year 2007-08. On 31st March, in a meeting with staff welfare association, it was decided to increase the amount of provision for staff welfare to Rs. 1,00,000. The accounts were approved by Board of directors on 15th April, 2008.
Explain the treatment of such revision in financial statements for the year ended 31st March, 2008.
(2 marks)
- (vi) A company entered into an agreement to sell its immovable property to another company for 35 lakhs. The property was shown in the Balance Sheet at Rs. 7 lakhs. The agreement to sell was concluded on 15th February, 2008 and sale deed was registered on 30th April, 2008. The financial statements for the year 2007-08 were approved by the board on 12th May, 08.
You are required to state, how this transaction would be dealt with in the financial statements for the year ended 31st March, 2008.
(2 marks)

- (vii) A Ltd. entered into a binding contract with C Ltd. to buy a machine for Rs. 1,00,000. The machine is to be delivered on 15th February, 2009. On 1st January, 09 A Ltd. changed its process of production. The new process will not require the machine ordered and it shall have to be scrapped after delivery. The expected scrap value of the machine is nil. Explain how A Ltd. should recognise the entire transaction in the books of account for the year ended 31st March, 2009. (2 marks)
- (ix) X Ltd. received a revenue grant of Rs. 10 crores during 2006-07 from Government for welfare activities to be carried on by the company for its employees. The grant prescribed the conditions for utilisation. However during the year 2008-09, it was found that the prescribed conditions were not fulfilled and the grant should be refunded to the Government.
State how this matter will have to be dealt with in the financial statements of X Ltd. for the year ended 2008-09. (2 marks)

2009 - Nov [6] (b) Answer the following :

- (i) Axe Limited began construction of a new plant on 1st April, 08 and obtained a special loan of Rs. 4,00,000 to finance the construction of the plant. The rate of interest on loan was 10%.

The expenditure that were made on the project of plant were as follows :

	Rs.
1st April, 08	5,00,000
1st August, 08	12,00,000
1st January, 09	2,00,000

The company's other outstanding non-specific loan was Rs. 23,00,000 at an interest rate of 12%.

The construction of the plant completed on 31st March, 09. You are required to :

- (a) Calculate the amount of interest to be capitalized as per the provisions of AS-16 "Borrowing cost".
- (b) Pass a journal entry for capitalizing the cost and the borrowing cost in respect of the plant. (5 marks)
- (ii) Compute Basic earning per share from the following information :

Date	Particulars	No. of Shares
1st April, 08	Balance at the beginning of the year	1,500
1st August, 08	Issue of shares for cash	600
31st March, 09	Buy back of shares	500

Net profit for the year ended 31st March, 2009 was Rs. 2,75,000.

(5 marks)

Chapter-4 : Amalgamation and Reconstruction

2009 - Nov [2] Sun Ltd. and Moon Ltd. were amalgamated on and from 1st April, 2009. A new company Star Ltd. was formed to take over the business of the existing companies. The Balance Sheets of Sun Ltd. and Moon Ltd. as at 31st March, 2009 are given below :

				(Rs. in Lakhs)	
Liabilities	Sun Ltd.	Moon Ltd.	Assets	Sun Ltd.	Moon Ltd.
Share Capital :			Fixed Assets		
Equity Shares of Rs. 100 each	400	375	Land & Building	275	200
12% Preference Shares of Rs. 100 each	150	100	Plant & Machinery	175	125
Reserves and Surplus			Investments	75	25
Revaluation reserve	75	50			
General reserve	85	75			
Investment allowance reserve	25	25			
P & L Account	25	15			
Secured Loan			Current Assets, Loans and Advances		
10% Debentures (Rs. 100 each)	30	15	Stock	175	125
Current Liabilities and Provisions :			Sundry Debtors	125	150
Sundry creditors	135	60	Bills Receivables	25	25
Acceptance	75	35	Cash and Bank balances	150	100
Total	<u>1,000</u>	<u>750</u>	Total	<u>1,000</u>	<u>750</u>

Additional information :

- Star Ltd. will issue 5 equity shares for each equity share of Sun Ltd. and 4 equity shares for each equity share of Moon Ltd. The shares are to be issued @ Rs. 30 each, having a face value of Rs. 10 per share.
- Preference shareholders of the two companies are issued equivalent number of 15% preference shares of Star Ltd. at a price of Rs. 150 per share (face value Rs. 100).
- 10% Debentureholders of Sun Ltd. and Moon Ltd. are discharged by Star Ltd., issuing such number of its 15% Debentures of Rs. 100 each so as to maintain the same amount of interest.
- Investment allowance reserve is to be maintained for 4 more years.

- (e) Liquidation expenses are :
- | | |
|-----------|--------------|
| Sun Ltd. | Rs. 2,00,000 |
| Moon Ltd. | Rs. 1,00,000 |
- It was decided that these expenses would be borne by Star Ltd.
- (f) All the assets and liabilities of Sun Ltd. and Moon Ltd. are taken over at book value.
- (g) Authorised equity share capital of Star Ltd. is Rs. 5,00,00,000, divided into equity shares of Rs. 10 each. After issuing required number of shares to the Liquidators of Sun Ltd. and Moon Ltd., Star Ltd. issued balance shares to Public. The issue was fully subscribed.

Required :

Prepare the Balance Sheet of Star Ltd. as at 1st April, 2009 after amalgamation has been carried out on the basis of Amalgamation in the nature of Purchase.
(16 marks)

Chapter-5 : Redemption of Debentures

2009 - Nov [1] Answer the following questions :

- (x) "Conversion of debt into equity is a non-cash transaction." Comment.
(2 marks)

2009 - Nov [3] The Balance Sheet of Dee Limited on 31st March, 2009 was as follows :

Balance Sheet as at 31st March, 2009			
Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Share capital :		Fixed assets (at cost	
Authorised capital 50,000		less depreciation)	8,00,000
equity shares of Rs. 10 each	<u>5,00,000</u>	Debenture redemption	
Issued and subscribed capital		fund investments	2,00,000
25,000 equity shares of		Cash balance	2,50,000
Rs. 10 fully paid up	2,50,000	Other current assets	10,00,000

Reserves and surplus :

General reserve	2,75,000
Profit and Loss A/c	1,00,000
Debenture redemption reserve	2,50,000
Secured loans :	
12% convertible debentures	
(5,000 Deb. of Rs. 100 each)	5,00,000
Other secured loans	2,50,000

Current liabilities and provisions	6,00,000	
Proposed dividend	25,000	
	<u>22,50,000</u>	<u>22,50,000</u>

At the General meeting it was resolved to :

1. Pay proposed dividend of 10% in cash.
2. Give existing shareholders the option to purchase one share of Rs. 10 each at Rs.15 for every five shares held. This option was taken up by all the shareholders.
3. Redeem the debentures at a premium of 5% and also confer option to the debentureholders to convert 50% of their holding into equity shares at a predetermined price of Rs. 15 per share and balance payment to be made in cash.

Holders of 3,000 debentures opted to get their debentures redeemed in cash only while the rest opted for getting the same converted into equity shares as per the terms of issue. Debenture redemption fund investments realised Rs. 1,80,000 on sales.

You are required to redraft the Balance Sheet after giving effects to the right issue and redemption of debentures. Also show the calculations in respect of no. of equity shares issued and cash payment. (16 marks)

Chapter-7 : Financial Statements of Banking Companies

2009 - Nov [5] (a) From the following information, you are required to prepare Profit and Loss Account of Zee Bank Ltd., for the year ending 31st March, 2009 :

	Rs.		Rs.
Interest and Discount	44,00,000	Interest Expended	13,60,000
Other Income	1,25,000	Operating Expenses	13,31,000
Income on investments	5,000	Interest on balance with RBI	25,000

Additional information :

- (a) Rebate on bills discounted to be provided for Rs. 15,000
- (b) Classification of advances :

Standard Assets	25,00,000
Sub-standard Assets	5,60,000
Doubtful Assets not covered by security	2,55,000
Doubtful Assets covered by security	
For 1 year	25,000
For 2 years	50,000
For 3 years	1,00,000
For 4 years	75,000

- Loss Assets 1,00,000
 (c) Make Tax Provision @ 35%
 (d) Profit and Loss A/c (Cr.) Rs. 40,000. (8 marks)

Chapter-10 : Departmental Accounts**2009 - Nov [1]** Answer the following questions :

- (viii) Goods are transferred from Department P to Department Q at a price 50% above cost.

If closing stock of Department Q is Rs. 27,000, compute the amount of stock reserve. (2 marks)

Chapter-11 : Branch Accounts & Foreign Branches**2009 - Nov [4]** DM Ltd., Delhi has a branch in London. London branch is an integral foreign operation of DM Ltd. At the end of the year 31st March, 2009, the branch furnishes the following trial balance in U.K. Pound :

Particulars	£	
	Dr.	Cr.
Fixed assets (Acquired on 1st April, 2005)	24,000	
Stock as on 1st April, 2008	11,200	
Goods from Head Office	64,000	
Expenses	4,800	
Debtors	4,800	
Creditors		3,200
Cash at bank	1,200	
Head Office Account		22,800
Purchases	12,000	
Sales		<u>96,000</u>
	<u>1,22,000</u>	<u>1,22,000</u>

In head office books, the branch account stood as shown below :

London Branch A/c			
Dr		Cr.	
Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Balance B/d	20,10,000	By Bank A/c	52,16,000
To Goods sent to branch	<u>49,26,000</u>	By Balance C/d	<u>17,20,000</u>
	<u>69,36,000</u>		<u>69,36,000</u>

The following further information are given :

- (a) Fixed assets are to be depreciated @ 10% p.a. on straight line basis.
 (b) On 31st March, 2008 :
 Expenses outstanding — £ 400
 Prepaid expenses — £ 200
 Closing stock — £ 8,000

- (c) Rate of Exchange :
- | | | |
|------------------|---|---------------|
| 1st April, 2005 | — | Rs. 70 to £ 1 |
| 1st April, 2008 | — | Rs. 76 to £ 1 |
| 31st March, 2009 | — | Rs. 77 to £ 1 |
| Average | — | Rs. 75 to £ 1 |

You are required to prepare :

- (1) Trial balance, incorporating adjustments of outstanding and prepaid expenses, converting U.K. pound into Indian rupees.
- (2) Trading and profit and loss A/c for the year ended 31st March, 2009 and the Balance Sheet as on that date of London branch as would appear in the books of Delhi head office of DM Ltd. (16 marks)

Chapter-12 : Dissolution of Partnership Firms

2009 - Nov [6] (a) P, Q and R are partners sharing profits and losses in the ratio of 2 : 2 : 1. Their Balance sheet as on 31st March, 2009 is as follows :

Liabilities	Rs.	Assets	Rs.
Capital Accounts :		Plant & Machinery	1,08,000
P	1,20,000	Fixtures	24,000
Q	48,000	Stock	60,000
R	<u>24,000</u>	Sundry debtors	48,000
Reserve fund	60,000	Cash	60,000
Creditors	<u>48,000</u>		
	<u>3,00,000</u>		<u>3,00,000</u>

They decided to dissolve the firm. The following are the amounts realised from the assets :

	Rs.
Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realisation expenses amounted to Rs. 1,500. A bill for Rs. 4,200 due for sales tax was received during the course of realisation and this was also paid.

You are required to prepare :

- Realisation account
- Partners capital account
- Cash account. (6 marks)

Company Accounts (New Chapter)

2009 - Nov [1] Answer the following questions :

- Explain "Employee's stock option plan". (2 marks)

2009 - Nov [5] (b) Dee Limited furnishes the following Balance Sheet as at 31st March, 2008 :

	Rs. '000	Rs. '000
Liabilities		
Share Capital :		
Authorised Capital		<u>30,00</u>
Issued and subscribed capital :		
2,50,000 equity shares of Rs. 10 each fully paid up	25,00	
2,000, 10% Preference shares of Rs. 100 each (Issued two months back for the purpose of buy back)	<u>2,00</u>	27,00
Reserves and surplus :		
Capital Reserve	10,00	
Revenue Reserve	30,00	
Securities premium	22,00	
Profit and loss A/c	<u>35,00</u>	97,00
Current liabilities and provisions :		<u>14,00</u>
		<u>1,38,00</u>
Assets	Rs. '000	Rs. '000
Fixed assets		93,00
Investments		30,00
Current assets, loans and advances (including cash and bank balance)		<u>15,00</u>
		<u>1,38,00</u>

The company passed a resolution to buy back 20% of its equity capital @ Rs. 50 per share. For this purpose, it sold all of its investments for Rs. 22,00,000.

You are required to pass necessary journal entries and prepare the Balance Sheet. (8 marks)

Shuchita Prakashan (P) Ltd.

25/19, L.I.C. Colony, Tagore Town,
Allahabad - 211002

Visti us : www.shuchita.com

