

# Shree Guru Kripa's Institute of Management

## Accounting – IPCC

Reg. No.....

Total Number of Printed Pages: 8 Date: 22.03.2015

Time Allowed: 3 Hr Maximum Marks: 100

**Question 1 is compulsory.**

**Answer 5 Questions from remaining 6 Questions.**

1. (a) The following information is available for AB Ltd. For the accounting year 2012–13 and 2013–14:

<i>Net Profit for</i>		Rs
Year	2012-13	22,00,000
Year	2013-14	30,00,000

No of shares outstanding prior to right issue 10,00,000 shares.

Right issue : One new share for each five shares outstanding i.e. 2,00,000 shares.

: Right issue price Rs. 25

: Last date to exercise right 31<sup>st</sup> July, 2013

Fair value of one equity share immediately prior to exercise of rights on 31.07.2013 is Rs 32.

You are required to compute:

(i) Basic earnings per share for the year 2012-13.

(ii) Restated basic earnings per share for the year 2012-13 for right issue.

(iii) Basic earnings per share for the year 2013-14.

**6 Marks**

(b) X Ltd has leased equipment over its useful life that costs Rs 7,46,55,100 for a three year lease period. After the lease term the asset would revert to the Lessor. You are informed that:

(i) The estimated unguaranteed residual value would be Rs 1 lakh only.

(ii) The annual lease payments have been structured in such a way that the sum of their present values together with that of the residual value of the asset will equal the cost thereof.

(iii) Implicit interest rate is 10%

You are required to ascertain the annual lease payment and the unearned finance income. Annual lease payments are made at the end of each accounting year. P.V. factor @ 10% for years 1 to 3 are 0.909, 0.826, 0.751 respectively.

**6 Marks**

(c) Suhana Ltd issued 12% secured debentures of Rs 100 Lakhs on 01.05.2013, to be utilized as under:

<i>Particulars</i>	<i>Amount( Rs in lakhs)</i>
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25



In March 2014, construction of the factory building was completed and machinery was installed and ready for its intended use. Total interest on debentures for the financial year ended 31.03.2014 was Rs 11,00,000. During the year 2013-14, the company had invested idle fund out of money raised from debentures in banks fixed deposit and had earned an interest of Rs 2,00,000.

Show the treatment of interest under Accounting Standard 16 and also explain nature of assets.

**8 Marks**

2. (a) The following balances were extracted from the books of M/s Division. You are required to prepare Departmental Trading Account and Profit and Loss Account for the year ended 31<sup>st</sup> December, 2014 after adjusting the unrealized department profits if any

	Deptt A (Rs)	Deptt B (Rs)
Opening Stock	5,000	40,000
Purchases	6,50,000	9,10,000
Sales	10,00,000	15,00,000

General expenses incurred for both the departments were Rs.1,25,000 and you are also supplied with the following information:

- Closing stock of department A Rs. 1,00,00 including goods from department B for Rs. 20,000 at cost of department A
- Closing stock of department B Rs. 2,00,000 including goods from department A for Rs. 30,000 at cost of department B
- Opening stock of department A and department B include goods of the value of Rs. 10,000 and Rs. 15,000 taken from department B and department A respectively at the cost of transferee departments
- The rate of gross profit is uniform from year to year

**8 Marks**

- (b) ABC Ltd. has head office at Delhi (India) and a branch at New York (U.S.A). New York branch is an integral foreign operation of ABC Ltd. New York branch furnishes you with its Trial Balance as on 31<sup>st</sup> March, 2015 and the additional information given thereafter:

	Dr (\$)	Cr (\$)
Stock as on 1 <sup>st</sup> April, 2014	150	-
Purchases and Sales	400	750
Sundry Debtors and Creditors	200	150
Bills of Exchange	60	120
Sundry Expenses	540	-
Bank balances	210	-
Delhi head office A/c	-	540
	<b>1,560</b>	<b>1,560</b>



Rates of Exchange may be taken as follows:

- On 01.04.2014 @ Rs. 40 per USD
- On 31.03.2015 @Rs. 42 per USD
- Average exchange rate for the year @ 41 per USD

New York Branch account showed a debit balance of Rs. 22,190 on 31.03.2015 in Delhi books and there was no items pending reconciliation.

You are asked to prepare trial balances of New York branch in Rs in the books of ABC Ltd.

**8 Marks**

3. (a) From the following information of XYZ Marine insurance Ltd. for the year ending 31<sup>st</sup> March, 2014, find out the

- (i) Net Premium earned
- (ii) Net Claims incurred

Particulars	Direct Business (Rs.)	Re – insurance (Rs.)
Premium Received	92,00,000	7,86,000
Premium Receivable as on 01.04.2013	4,59,000	37,000
Premium Receivable as on 31.03.2014	3,94,000	33,000
Premium Paid		6,36,000
Premium Payable as on 01.04.2013		28,000
Premium Payable as on 31.03.2014		20,000
Claims Paid	73,00,000	5,80,000
Claims Payable as on 01.04.2013	94,000	16,000
Claims Payable as on 31.03.2014	1,01,000	12,000
Claims Received		2,10,000
Claims Receivable as on 01.04.2013		42,000
Claims Receivable as on 31.03.2014		39,000

**8 Marks**

(b) Following information has been provided in respect of Watson Power Generation Project:

1. Date of commercial operation/work completed date : 1<sup>st</sup> April, 1995
2. Capital Cost at the beginning of the year 2010-11 : Rs. 133.39 Crore
3. Useful life : 35 Years
4. Details of allowed capital expenditure, details of actual repayment of loan and weighted average rate of interest on loan is as follows:

	2010-11 Rs in Crores	2011-12 Rs in Crores	2012-13 Rs in Crores
Additional Capital expenditure (allowed above)	1.63	0.98	0.52
Repayment of Loan during the year (net)	0.96	0.87	0.68
Weighted Average Rate of Interest of loan	7.35%	7.48%	7.50%
Value of Land	0.00	0.00	0.00



5. Depreciation recovered upto 2008-09 : Rs. 49.05 Crore  
 6. Depreciation recovered in 2009-10 : Rs. 3.26 Crore  
 7. Cumulative Repayment of loan upto 2009-10 : Rs.14.00 Crore

From the above information, Calculate a) interest on loans considering loan amount as 70% of the total capital cost; b) Depreciation as per the Central Electricity Commission (terms and Condition of tariff) Regulations, 2009.

**8 Marks**

4.

- (a) The following is the summarized Balance Sheet of Shah Ltd Co. which is in the hands of the liquidator:

**Balance Sheet as at 31.03.2015**

<b>Capital and Liabilities</b>	<b>Rs</b>	<b>Asstes</b>	<b>Rs</b>
Share Capital:			
1,000, 6% Preference Shares of Rs 100 each, fully paid	1,00,000	Fixed assets	2,00,000
2,000 Equity shares of Rs 100 each, fully paid	2,00,000	Inventory	1,20,000
2,000 Equity shares of Rs 100 each Rs 75 paid up	1,50,000	Book Debts	2,40,000
Loan from bank (on security of stock)	1,00,000	Cash in hand	40,000
Trade payables	3,50,000	Profit and loss A/c	3,00,000
<b>Total</b>	<b>9,00,000</b>	<b>Total</b>	<b>9,00,000</b>

The assets realized the following amounts (after all costs of realization and liquidator's commission amounting to Rs 5,000 paid out of cash in hand).

	<b>Rs</b>
Fixed Assets	1,68,000
Inventory	1,10,000
Trade Receivables	2,30,000

Calls on partly paid shares were made but the amounts due on 200 shares were found to be irrecoverable.

You are required to prepared Liquidator's Final Statement of Receipts and Payments.

**8 Marks**



- (b) 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 asset ratio.

<i>Particulars</i>	<i>Amount ( Rs in lakhs)</i>
Equity Share Capital	400.000
Statutory Reserve	250.000
Capital Reserve (of which Statutory Reserve Rs 18 crores were due to revaluation of assets and the balances due to sale of capital assets)	86.000
<u>Assets</u>	
Cash Balance with RBI	12.00
Balance with other Banks	20.00
Other in Investments	40.00
<u>Loan &amp; Advances</u>	
(i) Guaranteed by Government	14.50
(ii) Others	5,465.00
Premises Furniture & Fixtures	74.00
<u>Off Balance Sheet items</u>	
(i) Guarantees and other obligations	700
(ii) Acceptances, endorsements and letter of credit	4,900.00

**8 Marks**

5. (a). Malik Ltd has authorized capital of 8, 00,000 equity shares of Rs. 10 each. But out of these 2, 40,000 shares have been issued as fully paid.

The company has an outstanding 14% Debenture loan of Rs. 24, 00,000 redeemable at 102 percent and the interest has been paid up to date on December 31, 2012. On that date, the balance of the Debenture Redemption Reserve Account is Rs. 20,00,000 and corresponding Investment Account Rs. 20,00,000 (at cost) of which the market value is Rs. 18,00,000.

The directors resolved to redeem the Debentures on January 1, 2013 and the holders are given an option to receive payment either wholly in cash or wholly in fully paid equity shares @ 8 shares for every Rs. 100 of debentures.

75% of the holders decided to exercise the option for taking shares in repayment and cash for the rest is procured by realizing an adequate amount of investment at the prevailing market value.

Draw up journal entries (including Cash Book entries) to give effect to the above transactions.

**8 Marks**



(b). The following was the summarized balance sheet of Gamma (an unlisted company) Ltd., as on 31<sup>st</sup> March, 2014:

Equity and Liabilities	Amount (Rs. in lakhs)	Assets	Amount (Rs. in Lakhs)
<b>Authorized capital:</b>		Fixed Assets	56,000
Equity shares of Rs. 10 each	40,000	Investments	12,000
<b>Issued capital:</b>		Cash at Bank	6,600
Equity Shares of Rs. 10 each fully paid up	32,000	Trade Receivables	33,000
10% Redeemable Preference Shares of 10 each, Fully paid up	10,000		
<b>Reserves and surplus</b>			
Capital Redemption Reserve	4,000		
Securities premium	3,200		
General Reserve	24,000		
Profit and loss account	1,200		
9% debentures	20,000		
Trade Payables	13,200		
<b>Total</b>	<b>1,07,600</b>	<b>Total</b>	<b>1,07,600</b>

On 1<sup>st</sup> April 2014, The Company redeemed all its Preference Shares at a premium of 10% and bought back 25% of its equity shares at Rs. 20 per share. In order to make cash available, the company sold all the investments for Rs. 12,600 lakhs and raised a Bank Loan amounting to Rs. 8000 Lakh on the security of the company's Plant.

Give the necessary Journal Entries considering that the buyback is authorized by the articles of company and necessary resolution is passed by the company for this. The amount of Securities premium will be utilized to the maximum extent as allowed by the law.

**8 Marks**

6. (a) The summarized Balance Sheet of Vaibhav Ltd. as on 31<sup>st</sup> March 2014 is as follows:

Liabilities	Amount(Rs.)	Assets	Amount (Rs.)
Equity shares of Rs. 100 each	2,00,00,000	Fixed Assets	2,50,00,000
6% Cumulative Preference shares of Rs. 100 each	1,00,00,000	Investments (Market value Rs. 19,00,000)	20,00,000
5% Debentures of Rs. 100 each	80,00,000	Current Assets	2,00,00,000
Trade Payables	1,00,00,000	P & L A/c	12,00,000
Provision for Taxation	2,00,000		
<b>TOTAL</b>	<b>4,82,00,000</b>	<b>TOTAL</b>	<b>4,82,00,000</b>

The following scheme of Internal Reconstruction is sanctioned:

- All the existing equity shares are reduced to Rs. 40 each.
- All Preference Shares are reduced to RS. 60 each



- iii. The rate of interest on Debentures increased to 6%. The Debenture holders surrender their existing debentures of Rs. 100 each and exchange the same for fresh debentures of Rs. 70 each for every debenture held by them.
- iv. Fixed Assets are to be written down by 20%
- v. Current Assets are to be revalued at Rs.90,00,000
- vi. Investments are to be brought to their market value.
- vii. One of the creditors of the company (included under trade payables in the above balance sheet) to whom the company owes Rs. 40, 00,000 decides to forgo 40% of his claim. The creditor is allotted with 60000 equity shares of Rs. 40 each in full and final settlement of his claim.
- viii. The taxation liability is to be settled at Rs. 3,00,000
- ix. It is decided to write off the debit balance of Profit and Loss account.

Pass the necessary Journal entries and show the balance sheet of the company after giving effect to the above. **12 Marks**

(b) The following facts have been taken out from the records of City Bank Ltd. As on 31<sup>st</sup> March 2015:

	Rs.	Rs.
Rebate on bill discounted (not due on March 31 <sup>st</sup> , 2014)		91,600
Discount received		4,05,000
Bill discounted	24,50,000	

An analysis of the bills discounted is as follows:

	Amount	Due Date	Rate of Discount
	Rs.	2015	
(i)	7,50,000	April 8	12%
(ii)	3,00,000	May 5	14%
(iii)	4,40,000	June 12	14%
(iv)	9,60,000	July 15	15%

You are required to:

- i. Calculate Rebate on Bill Discounted as on 31<sup>st</sup> March 2015
- ii. The amount of discount to be credited to the profit and loss account.

**4 Marks**

7. (a) The following particulars in respect of stock options granted by a company are available:

Grant Date	April 1, 2011
Number of employees covered	50
Number options granted per employee	1,000
Fair value of option per share on grant date (Rs)	9

The options will vest to employees serving continuously for 3 years from vesting date, provided the share price is Rs 70 or above at the end of 2013-14.

The estimates of number of employees satisfying the condition of continuous employment were 48 on 31/03/12, 47 on 31/03/13. The number of employees actually satisfying the condition of continuous employment was 45.



The share price at the end of 2013-14 was Rs 68. Compute expenses to recognize in each year and show important accounts in books of the company. **8 Marks**

(b) During 2014-15, an enterprise incurred costs to develop and produce a routine, low risk computer software product, as follows:

	<b>Amount (Rs)</b>
Completion of detailed programme and design	25,000
Coding and testing	20,000
Other costing costs	42,000
Testing costs	12,000
Product masters for training materials	13,000
Packing the product (1,000 units)	11,000

What amount should be capitalized as software costs in the books of the company, on Balance Sheet date? **4 Marks**

(c) On 01.04.2011, ABC Ltd. received Government grant of Rs. 300 Lakhs for acquisition of machinery costing Rs. 1,500 lakhs. The grant was credited to the cost of the asset. The life of the machinery is 5 years. The machinery is depreciated at 20% on WDV basis. The company had to refund the grant in May 2014 due to non – fulfillment of certain conditions.

How you would deal with the refund of the grant in the books of ABC Ltd.

**4 Marks**