Gurukripa's Guideline Answers for May 2016 IPCC Exam Questions ADVANCED ACCOUNTING Group – II

Question No.1 is Compulsory. Answer any 5 Questions from the remaining 6 Questions. [Any 4 out of 5 in Q.7]
Wherever appropriate, suitable assumption(s) should be made and indicated in the answer by the Candidates.
Working Notes should form part of the answer.

All Page References given here are from **Padhuka's Students' Handbook on Advanced Accounting–For CA Inter (IPC)**

Question 1(a): AS–4 5 Marks

With reference to AS 4, state whether the following events will be treated as Contingencies, Adjusting Events or Non–Adjusting Events occurring after Balance Sheet date, in case of a Company which follows April to March as its Financial Year.

Question	Hint / Answers
(i) A major fire has damaged the Assets in a Factory on 5th April, 5 days after the year end. However, the Assets are fully insured and the books have not been approved by the Directors.	**Refer Principles in Page B.1.2, Q.No.3 [Similar to F – RTP,P (A/c) – RTP, M 95, M 03, M 05, M 09, M 10]** • The Fire and the damage of Asset did not pertain to any conditions that existed at the B/s date. So, it is a **Non–Adjusting Event**. It is sufficient if the Fire incident & the damage thereof is **disclosed** in the Board's Report. • However, this shall become an **Adjusting Event**, if the Going Concern Assumption is not appropriate.
(ii) A suit against the Company's Advertisement was filed by a party on 10th April, 10 days after the year– end claiming damages of ₹ 20 Lakhs.	**Refer Principles in Page B.1.7, Q.No.22 [Similar to F (A/c) – RTP,P (A/c) – RTP, M 03]** This does not pertain to conditions on B/s date. So, it is a **Non–Adjusting Event**. Suit filed against the Company being a Contingent Liability must be disclosed along with the nature of contingency, an estimate of the financial effect and uncertainties which may affect the future outcome, as per AS–29.
(iii) It sends a proposal to purchase an Immovable Property for ₹ 30 Lakhs in March. The Book Value of the Property is ₹ 20 Lakhs as on year end date. However, the Deed was registered as on 15th April.	**Refer Principles in Page B.1.5, Q.No.13 [Similar to P (A/c) – RTP, N 13]** Only Proposal is sent as on B/s dated 31st March and the Sale (Registration of Deed) is completed on 15th April. As on the B/s date, neither the possession of the Property is handed over to the Buyer nor has the Buyer paid entire amount to the Seller. So, it is a **Non–Adjusting Event**.
(iv) The terms and conditions for acquisition of business of another Company have been decided by March end. But the financial resources were arranged in April and amount invested was ₹ 40 Lakhs.	**Refer Principles in Page B.1.3, Q.No.5 [Similar to F (A/c) – M 98, N 09 P (A/c) –M 11, N 13]** Terms and Conditions for acquisition of Business of another Company have **only** been decided before B/s date, but actual transaction has not taken place. Hence, it is a **Non–Adjusting Event**. Disclosure in Board's Report is required for material changes, affecting the financial position of the Entity.
(v) Theft of Cash of ₹ 2 Lakhs by the Cashier on 31st March but was detected the next day after the Financial Statements have been approved by the Directors.	**Refer Principles in Page B.1.3, Q.No.7 [Similar to P (A/c) –M 12]** AS–4 covers only events occurring after the B/s date but **before** the approval of Financial Statements by Board of Directors. Since the theft of Cash came to light only **after approval** of Financial Statements, it should be adjusted as a **Prior Period Item** in the next Financial Year.

Question 1(b): AS–29 5 Marks

AB Ltd is in the process of finalizing its accounts for the year ended 31st March 2015. The Company seeks your advice on the following matters –

Question	Hint / Answers
(i) The Company's Sales Tax Assessment for Assessment Year 2012–13 has been completed on 14th February 2015, with a demand of ₹ 5.40 Crore. The Company paid the entire due under protest without prejudice to its right of appeal. The Company files its appeal before the Appellate Authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of ₹ 3.70 Crore.	**Refer Principles in Page B.9.12, Q.No.27 [Similar to F (A/c) –M 09]** Since the Company is not appealing against the addition of ₹ 1.70 Crore, the same should be provided for in the Accounts for the year ended 31.03.2015. The amount paid under protest can be kept under the heading "Loans and Advances" and disclosed along with the Contingent Liability of ₹ 3.70 Crores.

Question	Hint / Answers
(ii) The Company has entered into a Wage Agreement in May 2015 whereby the Labour Union has accepted a revision in wage from June 2014. The agreement provides that the hike till May 2015 will not be paid to the Employees but will be settled to them at the time of retirement. The Company agrees to deposit the arrears in Government Bonds by September 2015.	**Refer Principles in Page B.9.12, Q.No.27 [Similar to F (A/c) –M 09]** The arrears for the period from June 2014 to March 2015 are required to be provided for in the Accounts of Company for the year ended on 31.03.2015

Question 1(c): AS–12 5 Marks

ABC Ltd purchased Fixed Assets for ₹ 50,00,000. Government Grant received towards it is 20%. Residual Value is ₹ 8,00,000 and useful life is 8 years. Assume Depreciation is on the basis of Straight Line Method. Asset is shown in the Balance Sheet net of Grant. After one year, Grant becomes refundable to the extent of ₹ 7,00,000 due to non–compliance of certain conditions. Pass Journal Entries for 2nd year in the Books of the Company.

Solution: **Similar to Page B.4.12, Q.No.34 – P (A/c) – N 10**

Particulars	Dr. (₹)	Cr. (₹)
Fixed Assets A/c	7,00,000	
To Bank A/c		7,00,000
(Being Grant Refunded to the Government or non–compliance of related conditions, and Cost of the Asset thereby increased) **[See computations below]**		

- Grant Received = ₹ 50,00,000 × 20% = ₹ 10,00,000
- Depreciation p.a. = $\frac{\text{Cost 50 Lakhs} - \text{Grant 10 Lakhs} - \text{Residual Value 8 Lakhs}}{\text{8 Years Useful Life}}$ = ₹ 4,00,000 p.a.
- WDV of Asset before the above Journal Entry = Cost ₹ 50,00,000 **less** Grant Credited at inception ₹ 10,00,000 **less** Depreciation for Year 1 ₹ 4,00,000 = ₹ 36,00,000
- Carrying Book Value of Asset after above Journal Entry = ₹ 36,00,000 + ₹ 7,00,000 = ₹ 43,00,000

Question 1(d): AS–11 5 Marks

Power Track Ltd purchased a Plant for US $ 50,000 on 31st October 2015, payable after 6 months. The Company entered into a Forward Contract for 6 months @ ₹ 64.25 per Dollar. On 31st October, 2015 the Exchange Rate was ₹ 61.50 per Dollar.

Required: Recognize the Profit or Loss on Forward Contract in the books of the Company for the year ended 31st March 2016.

Solution: **Similar to Page B.3.15, Q.No.32 – P (A/c) – N 09 (Modified)**

Particulars		₹
1. Value at the rate prevailing at the inception of Forward Contract	(USD 50,000 × 61.50)	30,75,000
2. Value at the Forward Rate	(USD 50,000 × 64.25)	32,12,500
3. Total Loss on entering into the Forward Contract = arising at inception, for 6 months Contract Period		1,37,500
4. Loss to be recognized for the year ended 31st March 2016, i.e. for 5 months = 1,37,500 × $\frac{5}{6}$		**1,14,583**

Question 2: Amalgamation of Firms 16 Marks

P and Q are Partners of P & Co. sharing Profit and Losses in the Ratio of 3:1, and Q and R are Partners of R & Co. sharing Profits and Losses in the ratio of 2:1. On 31st March 2015, they decide to amalgamate and form a new Firm M/s PQR & Co wherein P, Q and R would be Partners sharing Profits and Losses in the Ratio of 3:2:1. The Balance Sheets of the two Firms on the above date are as under: (amount in ₹)

Liabilities	P & Co.	R & Co.	Assets	P & Co.	R & Co.
Capitals:			Fixed Assets:		
P	2,50,000	–	Buildings	50,000	60,000
Q	1,80,000	2,20,000	Plant & Machinery	1,60,000	1,70,000
R	–	1,20,000	Office Equipment	50,000	46,000
Reserves	60,000	1,50,000	Current Assets:		
Sundry Creditors	1,30,000	1,36,000	Stock–in–Trade	1,20,000	1,40,000

Liabilities	P & Co.	R & Co.	Assets	P & Co.	R & Co.
Due to P & Co.	–	1,00,000	Sundry Debtors	1,60,000	2,00,000
Bank Overdraft	80,000	–	Bank Balance	40,000	1,00,000
			Cash in Hand	20,000	10,000
			Due to R & Co.	1,00,000	–
Total	7,00,000	7,26,000	Total	7,00,000	7,26,000

The amalgamated Firm took over the business on the following terms:

(a) Building of P & Co. was valued at ₹ 1,50,000.

(b) Plant & Machinery of P & Co. was valued at ₹ 2,75,000 and that of R & Co. at ₹ 2,50,000.

(c) All Stocks in Trade is to be appreciated by 20%.

(d) Goodwill of P & Co. was valued at ₹ 1,20,000 and of R & Co. at ₹ 60,000, but the same will not appear in the books of PQR & Co.

(e) Partners of New Firm will bring the necessary cash to pay other Partners to adjust their Capitals according to the Profit Sharing Ratio.

(f) Provisions for Doubtful Debts has to be carried forward at ₹ 15,000 in respect of Debtors of P & Co, and ₹ 30,000 in respect of Debtors of R & Co.

You are required to prepare the Balance Sheet of New Firm and Capital Accounts of the Partners in the Books of Old Firms.

Solution: **Similar to, Page A.2.60, Illustration 34 [N 13 Qn.]**

1. Adjustment for raising & writing off of Goodwill

Particulars		P	Q	R	Total
Goodwill of P & Co. (raised in 3:1)		90,000	30,000	–	1,20,000
Goodwill of R & Co. (raised in 2:1)		–	40,000	20,000	60,000
Total	**(Cr.)**	90,000	70,000	20,000	1,80,000
Written off in New Ratio (3:2:1)	**(Dr.)**	90,000	60,000	30,000	1,80,000
Difference		**–**	**Cr. 10,000**	**Dr. 10,000**	**–**

2. Revaluation A/c in the books of P & Co.

Particulars		₹	Particulars	₹
To Provision for Doubtful Debts (given)		15,000	By Building (1,50,000 – 50,000)	1,00,000
To Partners' Capital A/c (transfer in 3:1)			By Plant & Machinery (2,75,000 – 1,60,000)	1,15,000
– P [2,24,000 × ¾]	1,68,000		By Stock (1,20,000 ×20%)	24,000
– Q [2,24,000 × ¼]	56,000	2,24,000		
Total		**2,39,000**	**Total**	**2,39,000**

3. Partners' Capital A/c in the Books of P & Co.

Particulars	P	Q	Particulars		P	Q
To balance c/d	4,63,000	2,51,000	By balance b/d		2,50,000	1,80,000
			By Reserves	(3:1)	45,000	15,000
			By Revaluation A/c	(3:1)	1,68,000	56,000
Total	**4,63,000**	**2,51,000**	**Total**		**4,63,000**	**2,51,000**

4. Revaluation A/c in the books of R & Co.

Particulars		₹	Particulars	₹
To Provision for Doubtful Debts (given)		30,000	By Plant & Machinery (2,50,000 – 1,70,000)	80,000
To Partners' Capital A/c (transfer in 2:1)			By Stock (1,40,000 ×20%)	28,000
– Q [78,000 × 2/3]	52,000			
– R [78,000 × 1/3]	26,000	78,000		
Total		**1,08,000**	**Total**	**1,08,000**

5. Partners' Capital A/c in the books of R & Co.

Particulars	Q	R	Particulars		Q	R
To balance c/d	3,72,000	1,96,000	By balance b/d		2,20,000	1,20,000
			By Reserves	(2:1)	1,00,000	50,000
			By Revaluation A/c	(2:1)	52,000	26,000
Total	**3,72,000**	**1,96,000**	**Total**		**3,72,000**	**1,96,000**

6. Computation of Capital of the PQR & Co.

Particulars	P	Q	R
Transferred from P & Co.	4,63,000	2,51,000	–
Transferred from R & Co.	–	3,72,000	1,96,000
Total Capital Balance	4,63,000	6,23,000	1,96,000
(+)/(–):Adjustment for Goodwill **(WN 1)**	–	10,000	(10,000)
Sub Total [A]	4,63,000	6,33,000	1,86,000
Total Capital of the Firm [Total of above]	**12,82,000**		
Required Capital in new Profit Sharing Ratio i.e, 3:2:1 **[B]**	6,41,000	4,27,333	2,13,667
Capital to be brought in / withdrawn **[B – A]**	**1,78,000** (brought in)	**(2,05,667)** (withdrawn)	**27,667** (brought in)

7. Balance Sheet of M/s. PQR & Co.

Capital and Liabilities		₹	Properties and Assets		₹
Capital Account:			**Non–Current Assets: Tangible Fixed Assets**		
– P	6,41,000		Building (1,50,000 + 60,000)		2,10,000
– Q	4,27,333		Plant & Machinery(2,75,000 + 2,50,000)		5,25,000
– R	2,13,667	12,82,000	Office Equipments (50,000 + 46,000)		96,000
Current Liabilities:			**Current Assets:**		
Sundry Creditors		2,66,000	Stock–in–Trade (1,44,000 + 1,68,000)		3,12,000
(1,30,000 + 1,36,000)			Debtors (1,60,000 + 2,00,000)	3,60,000	
Bank Overdraft		80,000	**Less:** Provision for Bad Debts	(45,000)	3,15,000
			Bank Balance		1,40,000
			Cash in Hand [20,000 + 10,000 + 1,78,000 – 2,05,667 + 27,667]		30,000
Total		**16,28,000**	**Total**		**16,28,000**

Note: Due to R & Co. and Due from R & Co. will be mutually cancelled on amalgamation.

Question 3(a): Buyback & Preparation of Post Buyback B/s. 12 Marks

Following is the summarized Balance Sheet of Complicated Ltd as on 31st March 2016:

Liabilities	₹
Equity Shares of ₹ 10 each fully Paid Up	12,50,000
Bonus Shares	1,00,000
Share Option Outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	1,00,000
Revaluation Reserve	1,00,000
Unpaid Dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from Related Parties (Unsecured)	10,00,000
Current Maturities of Long Term Borrowings	16,50,000
Application Money Received for Allotment Due for Refund	2,00,000
Total	86,50,000
Assets	**₹**
Fixed Assets	46,50,000
Current Assets	40,00,000
Total	86,50,000

The Company wants to buy back 25,000 Equity Shares of ₹ 10 each, on 1st April 2016, at ₹ 20 per Share. Buy Back of Shares is duly authorized by its Articles and necessary resolution has been passed by the Company towards this. The payment for buy back of Shares will be made by the Company out of sufficient bank balance available shown as part of Current Assets.

Comment with your calculations, whether Buy Back of Shares by the Company is within the provisions of the Companies Act, 2013. If yes, pass necessary Journal Entries towards buy back of Shares and prepare the Balance Sheet after buy back of Shares.

Solution: **Similar to Page, A.3.19, Illustration 7 [M 12 Qn.]**

[**Note:** FV per Share = ₹ 10, So, Present No. of Shares = (Given ₹ 12,50,000 + Bonus ₹ 1,00,000) ÷ ₹ 10 = **1,35,000**.]

1. Computation of Maximum Permissible Buyback under Companies Act

Rule 1: Percentage of Shares Bought Back: Maximum Permissible Percentage of Buyback Shares = 25% of Total Shares Outstanding, i.e. 25% of 1,35,000 Shares = **33,750** Shares. (Shareholders' approval by Special Resolution)

Rule 2: Amount ≤ 25% of (ESC + Free Reserves): (For Sec.68, Free Reserves **include** Securities Premium A/c.)

- 25% of Paid Up Capital and Free Reserves = 25% × (12,50,000 + 1,00,000 + 15,00,000 + 2,50,000 + 1,25,000) = 25% of ₹ 32,25,000 = ₹ 8,06,250.
- Maximum Permissible Buyback = ₹ 8,06,250 ÷ ₹ 20 per Share = **40,312** Shares.

Rule 3: Debt Equity Ratio to be 2:1

	Particulars	Value
(a)	Desired Debt Equity Ratio after Buyback u/s 77A	2:1
(b)	Debt (given) (18,75,000 + 10,00,000)	₹ 28,75,000
(c)	Equity to be maintained after Buyback =(b) ÷ 2	₹ 14,37,500
(d)	Existing Equity (Sh. Cap.& All Free Reserves) (12,50,000 + 1,00,000 + 15,00,000 + 2,50,000 + 1,25,000)	₹ 32,25,000
(e)	Permissible Dilution in Equity = (d) – (c)	₹ 17,87,500
(f)	Buyback Price as calculated above	₹ 20
(g)	Maximum Permissible Buyback in Crores of Shares = (e) ÷ [(f) + FV]	89,375 Shares

Summary of above for determining the maximum number of Shares that can be bought back

Particulars	No. of Shares
Rule 1: Percentage of Shares Bought Back	33,750
Rule 2: Cash Availability	40,312
Rule 3: Debt Equity Ratio to be 2:1	89,375
Maximum Permissible Buyback = Least of the above	**33,750**

Note: The Buyback Offer of 25,000 Shares is within the above limit, and is hence permissible.

2. Journal Entries

	Particulars		Dr. (₹)	Cr. (₹)
1.	Equity Share Capital A/c (25,000 × ₹ 10)	Dr.	2,50,000	
	Premium on Buyback A/c	Dr.	2,50,000	
	To Equity Shareholders A/c (25,000 × ₹ 20)			5,00,000
	(Being Equity Shares Bought Back vide Resolution No. ……..dated…, Share Capital cancelled and Premium on Buyback payable to Shareholders)			
2.	Securities Premium A/c	Dr.	2,50,000	
	To Premium on Buyback A/c			2,50,000
	(Being Premium on Equity Shares Buyback provided out of Securities Premium)			
3.	Revenue Reserve A/c	Dr.	2,50,000	
	To Capital Redemption Reserve A/c			2,50,000
	(Being transfer to Capital Redemption Reserve on account of Equity Shares being bought back)			
4.	Equity Shareholders A/c	Dr.	5,00,000	
	To Current Assets A/c			5,00,000
	(Being payment to Equity Shareholders on Buyback)			

3. Balance Sheet of Complicated Ltd as on …….. (after Buyback of Shares)

	Particulars		Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES:**				
(1)	**Shareholders' Funds:**				
	(a) Share Capital		**1**	11,00,000	
	(b) Reserves and Surplus		**2**	22,25,000	
(2)	**Non–Current Liabilities:**	– Long Term Borrowings	**3**	28,75,000	
(3)	**Current Liabilities:**	– Other Current Liabilities		19,50,000	
	Total			**81,50,000**	
II	**ASSETS**				
(1)	**Non–Current Assets:**	– Fixed Assets		46,50,000	
(2)	**Current Assets:**	– Other Current Assets (40,00,000–5,00,000)		35,00,000	
	Total			**81,50,000**	

Note 1: Share Capital

Particulars	This Year	Prev. Yr
Authorised: ………………..Equity Shares of …… each		
Issued, Subscribed & Paid up: 1,10,000 Equity Shares of ₹ 10 each Fully Paid Up (of the above 10,000 Shares issued by way of Bonus Issue)	**11,00,000**	
Total	**11,00,000**	

Note: Additional Disclosures are required under Schedule III, in the Annual Financial Statements, in respect of Buyback of Shares and Reconciliation of Number and Amount of Shares.

Note 2: Reserves and Surplus (showing appropriations and transfers) (all figures for this year)

Particulars	Opg Bal.	Additions	Deductions	Clg Bal.
Capital Redemption Reserve	–	Tfr from Rev. Res. = 2,50,000	–	2,50,000
Securities Premium Account	2,50,000		Buyback Premium = 2,50,000	–
Other Reserves (Revenue Reserve)	15,00,000		Tfr to CRR = 2,50,000	12,50,000
Capital Reserves	1,00,000			1,00,000
Revaluation Reserve	1,00,000			1,00,000
Share Options Outstanding	4,00,000			4,00,000
Surplus (P&L A/c)	1,25,000	–	–	1,25,000
Total	**24,75,000**	**2,50,000**		**22,25,000**

Note 3: Long Term Borrowings

Particulars	This Year	Prev. Yr
12% Debentures – Secured against………………………	18,75,000	
Unsecured Loans (all the above From Related Parties)	10,00,000	
Total	**28,75,000**	

Note 4: Current Liabilities

Particulars	₹
Current Maturities of Long–Term Borrowings	16,50,000
Unpaid Dividends	1,00,000
Application Money Received for Allotment, due for Refund	2,00,000
Total	**19,50,000**

Question 3(b): Debentures – Redemption 4 Marks

Mention the ways by which Redeemable Debentures may be redeemed under Companies Act, 2013.

Solution: **Refer Page, A.3.59, Q.No.1**

Question 4: Liquidation – Statement of Affairs and Deficiency A/c 16 Marks

From the following particulars, prepare a Statement of Affairs and the Deficiency Account for submission to the Official Liquidator of Sun City Development Ltd, which went into liquidation on 31st March 2016.

Liabilities	(₹)	(₹)
6,00,000 Equity Shares of ₹ 10 each, ₹ 8 Paid–Up		48,00,000
6% 2,00,000 Preferences Shares of ₹ 10 each	20,00,000	
Less: Call in Arrears	1,00,000	19,00,000
5% Debentures having a Floating Charge on the Assets (Interest paid up to 30th September 2015)		20,00,000
Mortgage on Land & Building		16,00,000
Trade Payable		53,10,000
Wages Payable		4,00,000
Secretary's Salary Payable @ ₹ 10,000 p.m.		60,000
Managing Director's Salary Payable @ ₹ 30,000 p.m.		1,20,000

Assets	Estimated to Produce ₹	Book Value ₹
Land & Building	26,00,000	24,00,000
Plant & Machinery	26,00,000	40,00,000
Tools & Equipments	80,000	4,00,000
Patents & Copyrights	6,00,000	10,00,000
Inventories	14,80,000	17,40,000
Investments in the hand of a Bank for an Overdraft of ₹ 38,00,000	34,00,000	36,00,000
Trade Receivables	12,00,000	18,00,000

On 31st March 2011, the Balance Sheet of the Company showed a General Reserve of ₹ 8,00,000 accompanied by a Debit Balance of ₹ 5,00,000 in the Profit & Loss Account.

In 2012, the Company made a Profit of ₹ 8,00,000 and declared a Dividend of 10% on Equity Shares.

The company suffered a Total Loss of ₹ 21,80,000 besides Loss of Stock due to fire to the tune of ₹ 8,00,000 during Financial Years ending March 2013, 2014 and 2015. For the Financial year ended 31st March, 2016, accounts were not made.

The Cost of Winding–Up is expected to be ₹ 3,00,000.

Solution: **Similar to Page A.6.34, Q.No.13 (all figures multiplied by 20)**

1.Profit and Loss Account

	Particulars	₹ Lakhs
	Balance on 31.03.2011	(5.00)
Add / (Less):	Profit for 2011–2012 = Earned Profit 8.00 (–) 6% PSC Dividend on 19.00 (–) 10% ESC Dividend on 48.00	2.06
	Balance on 31.03.2012 (for showing in the **Deficiency Account**)	**(2.94)**
Add / (Less):	Profit / (Loss) for the years ending 31 March 2013, 2014 & 2015 = (21.80 + Fire 8.00)	(29.80)
	Balance on 31.03.2015	**32.74**

2. Trial Balance (to compute loss for the year)

Particulars	Dr. (₹ Lakhs)	Cr. (₹ Lakhs)
Land & Building	24.00	
Plant & Machinery	40.00	
Tools & Equipments	4.00	
Patents & Copyrights	10.00	
Inventories	17.40	
Investments	36.00	
Trade Receivables	18.00	
Equity Share Capital		48.00
Preference Capital		20.00
Calls in Arrears (Preference Capital)	1.00	

Particulars	Dr. (₹ Lakhs)	Cr. (₹ Lakhs)
5% Debentures		20.00
Mortgage on L & B		16.00
Trade Payable		53.10
Wages Payable		4.00
Secretary's Salary Payable		0.60
MD's Salary Payable		1.20
Interest on Debentures Payable (₹ 20,00,000 × 5% × 1/2 Year)		0.50
Bank Overdraft		38.00
General Reserves (given) (assumed no change since 31.03.2011)		8.00
P & L Opening Balance on 31.03.2015 (as per **WN 1**)	32.74	
P & L Current Year Loss (**balancing figure**)	**26.26**	
Total	**209.40**	**209.40**

3. Statement of Affairs as on 31st March (in ₹)

Particulars					₹
Assets Not Specifically Pledged as per List A: (Taken at ERV = Estimated Realisable Value)					
Calls in Arrears					1,00,000
Inventories					14,80,000
Trade Receivables					12,00,000
Patents & Copy Rights					6,00,000
Tools and Equipments					80,000
Plant and Machinery					26,00,000
				Total (A)	**60,60,000**
Assets Specifically Pledged as per List B					
	ERV	**Due to Secured Creditors**	**Deficiency ranking as unsecured**	**Surplus carried to last Column**	
Land and Building	26,00,000	16,00,000	–	10,00,000	
Investments	34,00,000	38,00,000	4,00,000	–	
	(C) 60,00,000	**54,00,000**	**4,00,000**	**(B) 10,00,000**	
Estimated Total Assets available for Preferential Creditors, Debenture holders having a Floating Charge and Unsecured Creditors **(A + B)** (60,60,000 + 10,00,000)					**70,60,000**

Summary of Gross Assets

Particulars		₹
Gross Realisable Value of Assets Specifically Pledged	**(C)**	60,00,000
Assets Not Specifically Pledged	**(A)**	60,60,000
	Total (D = A + C)	**1,20,60,000**

Gross Liabilities (to be deducted from Surplus or added to Deficiency)

Gross Liab.	Particulars	₹
54,00,000	Secured Creditors as per **List B** to the extent to which Claims are estimated to be covered by Assets specifically pledged	
4,40,000	Preferential Creditors as per **List C**: Wages payable (Given) **4,00,000** Secretary's Salary (10,000 × 4 Months)= **40,000**	4,40,000
	Estimated Balance of Assets available for Debentureholders secured by a Floating Charge and **Unsecured Creditors** (70,60,000 – 4,40,000)	66,20,000
20,50,000	Deb holders secured by a Floating Charge as per **List D** [20,00,000+(20,00,000×5%× 6/12)]	20,50,000
	Estimated Surplus as regards Debentureholders	45,70,000
58,50,000	Unsecured Creditors as per **List E** [Bank OD 4,00,000 + Trade P'ble 53,10,000 + Secy's Salary Payable (60,000–40,000) 20,000 + MD Salary Payable (30,000×4) = 1,20,000]	58,50,000
(E)1,37,40,000		
	Estimated Deficiency as regards Creditors	**(12,80,000)**

Gross Liab.	Particulars	₹
	Issued & Called up Capital:	
	Preference Share Capital as per **List F**	20,00,000
	6,00,000 Equity Shares of ₹ 10 each, ₹ 8 paid up as per **List G**	48,00,000
	Estimated Deficiency as regards Members	**(80,80,000)**

Note: The above Estimated Deficiency is subject to the following – (a) Calls in Arrears on Preference Capital, (b) Unpaid Capital on Equity Shares liable to be called up in case of Deficiency, (c) Estimated Costs of winding up, (d) Surplus or Deficiency on trading pending realization of Assets.

Note: The above Estimated Deficiency is explained / reconciled by preparing the Deficiency Account as under –

List H Deficiency Account

Particulars		₹
A.Items contributing to Deficiency:		
1. Excess of Capital & Liabilities over Assets 3 years ago as shown by the B/s (Dr. Bal in P&L) (**WN 1**)		(2,94,000)
2. Net Dividends or Bonuses declared during the 3–year period		Nil
3. Net Trading Losses after charging Depreciation, Taxation, Interest on Debentures, etc. during the same period (**See Note**)		(21,80,000)
4. Losses other than Trading Losses written off or for which provision has been made in the Books during the same period		(8,00,000)
5. Estimated Losses now written off for which provision has been for the purposes of preparing the Statement of Affairs:		
Plant and Machinery (40,00,000 – 26,00,000)	14,00,000	
Tools and Equipments (4,00,000 – 80,000)	3,20,000	
Patents and Copyrights (10,00,000 – 6,00,000)	4,00,000	
Inventories (17,40,000 – 14,80,000)	2,60,000	
Investments (36,00,000 – 34,00,000)	2,00,000	
Trade Receivables (18,00,000 – 12,00,000)	6,00,000	
Trading Loss for FY 2015–2016 (as per TB **WN 2**)	26,26,000	(58,06,000)
6. Other Items contributing to Deficiency:		Nil
B.Items reducing Deficiency:		
7. Excess of Assets over Capital & Liabilities 3 years ago as shown by the B/s (Gen.Reserve)		8,00,000
8. Net Trading Profits after charging Depreciation, Taxation, Interest on Debentures, etc. during the 3–year period		Nil
9. Profits and Incomes other than Trading Profit during the same period		Nil
10. Other Items reducing Deficiency: Land and Buildings (26,00,000 – 24,00,000)		2,00,000
Deficiency as shown by the Statement of Affairs		**(80,80,000)**

Question 5(a): Banking Companies – P & L A/c 10 Marks

Form the following information of Wealth Bank Limited, Prepare Profit and Loss Account for the year ended 31st March 2016–

Particulars	₹ in Lakhs	Particulars	₹ in Lakhs
Interest on Cash Credit	364	Interest paid on Recurring Deposits	17
Interest on Overdraft	150	Interest paid on Savings Bank Deposits	12
Interest on Term Loans	308	Auditor's Fees and Allowances	24
Income on Investments	168	Directors' Fees and Allowances	50
Interest on Balance with RBI	30	Advertisements	36
Commission on Remittances and Transfer	15	Salaries, Allowances and Bonus to Employees	248
Commission on Letters of Credit	24	Payment to Provident Fund	56
Commission on Government Business	16	Printing & Stationery	28
Profit on Sale of Land & Building	5	Repairs & Maintenance	10
Loss on Exchange Transactions	10	Postage, Courier & Telephones	16
Interest paid on Fixed Deposits	25		

Other Information: (₹ Lakhs)

	Earned	Collected
(i) Interest on NPA is as follows:		
Cash Credit	164	80
Term Loans	90	20
Overdraft	150	50
(ii) Classification of Non–Performing Advances:		
Standard		60
Sub–Standard – fully secured		22
Doubtful Assets – fully unsecured		40
Less than 1 year		6
More than 1 year upto 3 years		3
More than 3 years		2
Loss		38

(iii) Investments: Bank should not keep more than 25% of its Investment as 'Held–for–Maturity' investment, the Market Value of its rest 75% investment is ₹ 3,95,00,000 as on 31.03.2016.
(iv) Provide 35% of the Profits towards Provision for Taxation.
(v) Transfer 20% of the Profit to Statutory Reserves.

Solution: **See Page A.7.41, Illustration 9, and Page A.7.42, Illustration 11.**

1. Provision on Advances

Classification of Assets	% of Provision	Amount (₹ Lakhs)	Provision (₹ Lakhs)
Standard Assets	0.40	60	0.24
Sub–Standard Assets	15	22	3.30
Doubtful Assets			
(a) Secured			
Less than 1 year	25	6	1.50
More than 1 year but less than 3 years	40	3	1.20
More than 3 years	100	2	2.00
(b) Unsecured	100%	40	40.00
Loss Assets	100	38	38.00
Total Provision to be made			**86.24**

2. Provision based on Valuation of Investments: Not made, since Book Value of Investment is not given in this case.

3. Profit and Loss Account of Wealth Bank Limited for the year ended 31.03.2016 (₹ in Lakhs)

Particulars		Sch. No.	31.3.2016	31.3.2015
I. Income:	Interest Earned	13	766.000	
	Other Income	14	50.000	
	Total		**816.000**	
II. Expenditure:	Interest Expended	15	54.000	
	Operating Expenses		468.000	
	Provisions & Contingencies (86.24+72.716) **(Note)**		158.956	
	Total		**680.956**	
III. Profit / Loss:	Net Profit / (Loss) for the Year		**135.044**	
	Add: Profit / (Loss) Brought Forward		Not Given	
	Total		**135.044**	
IV. Appropriations:	Statutory Reserves		27.009	
	Balance carried forward to B/s		108.035	
	Total		**135.044**	

Note: Total of Provisions and Contingencies (₹ in Lakhs) is computed as under –

(a) Provision on Advances **(WN 1)** **86.24**
(b) Provision for diminution in Value of Investments **(WN 2)** **0**
(c) Provision for Taxation = [₹ 816 – (54 + 468 + 86.24 + 0)] × 35% = **72.716**

Schedules to the Profit and Loss Account (₹ Lakhs)

Schedule 13 – Interest Earned	**31.3.2016**	**31.3.2015**
I. Interest on CC/OD/TL		
(a) Interest on Cash Credit [364 – 164 + 80] **(Note)**	280	
(b) Interest on Overdraft [150 – 150 + 50]	50	
(c) Interest on Term Loans [308 – 90 + 20]	238	
II. Income on Investments	168	
III. Interest on Balances with RBI	30	
Total	**766**	
Schedule 14 – Other Income		
I. Commision		
(a) Commission on Remittance & Transfers	15	
(b) Commission on Letters of Credit	24	
(c) Commission on Govt. Business	16	
II. Profit on Sale of Land	5	
III. Loss on Exchange Transactions	(10)	
Total	**50**	
Schedule 15 – Interest Expended		
(a) Interest on Fixed Deposits	25	
(b) Interest on Recurring Deposits	17	
(c) Interest paid on Savings Bank Deposits	12	
Total	**54**	
Schedule 16 – Operating Expenses		
I. Payment to and Provisions for Employees (Salary 248 + PF 56)	304	
II. Printing & Stationery	28	
III. Advertisements	36	
IV. Director's Fees & Allowances	50	
V. Auditors Fees & Allowances	24	
VI. Postage Courier & Telephones	16	
VII. Repairs & Maintenance	10	
Total	**468**	

Notes: For Assets classified as NPA, Interest should be recognized only when it is received and not to be recognized on accrual basis. Therefore, in the Profit & Loss Account, **Interest Received** from NPAs is recognized.

Question 5(b): Insurance Companies – Meaning of Terms 6 Marks

Write short notes on the following principles and terms of Insurance Business:

Question	**Hint / Answer Reference**
(i) Principle of Indemnity	**Page A.8.1, Q.No.1**
(ii) Insurable Interest	**Page A.8.1, Q.No.1**
(iii) Principle of UBERRIMAE FIDEI	**Page A.8.1, Q.No.1**
(iv) Catastrophic Loss	**Page A.8.12, Q.No.22, Point 10**

Question 6(a): Departmental Accounts – Rectification of Profits – Manager's Commission 8 Marks

There is transfer / sale among the three departments as below:

- Department X sells goods to Department Y at a profit of 25% on cost, and to Department Z at 20% profit on cost.
- Department Y sells goods to X and Z at a profit of 15% and 20% on Sales respectively.
- Department Z charges 20% and 25% profit on cost to Department X and Y respectively.

Department Managers are entitled to 10% Commission on Net Profit subject to Unrealised profit on departmental sales being eliminated. Departmental Profits after charging Managers' Commission, but before adjustment of Unrealised Profit are as under:

	₹
Department X	1,80,000
Department Y	1,35,000
Department Z	90,000

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	57,000
Transfer from Department Y	70,000	–	60,000
Transfer from Department Z	30,000	25,000	–

Find out the correct departmental profits after charging Managers' Commission.

Solution: **Similar to Page A.1.9, Illustration 3,4 [N 01, N 10, N 12, M 14 Qn.]**

1. Computation of Unrealised Profits

Particulars of transfer to	**Department X**	**Department Y**	**Department Z**	**Total**
From Department X to Y and Z at 25% and 20% of Cost	Nil	$75{,}000 \times \frac{25}{125} = 15{,}000$	$57{,}000 \times \frac{20}{120} = 9{,}500$	24,500
From Department Y to X and Z at 15% and 20% of Sales	$70{,}000 \times \frac{15}{100} = 10{,}500$	Nil	$60{,}000 \times \frac{20}{100} = 12{,}00$	22,500
From Department X to Y and Z at 20% and 25% of Cost	$30{,}000 \times \frac{20}{120} = 5{,}000$	$25{,}000 \times \frac{25}{125} = 5{,}000$	Nil	10,000
Total	**15,500**	**20,000**	**21,500**	57,000

2. Computation of Correct Departmental Profits after charging Manager's Commission correctly

	Particulars	**Department A**	**Department B**	**Department C**
	Profits after charging Manger's Commission	1,80,000	1,35,000	90,000
Add:	Wrong Commission = 10% of Profits = 1/10 on Profits before charging Commission = 1/9 on Profits after charging Commission	1/9 × 1,80,000 = 20,000	1/9 × 1,35,000 = 15,000	1/9 × 90,000 = 10,000
	Profits before charging Commission	2,00,000	1,50,000	1,00,000
Less:	Unrealised Profits i.e. Stock Reserve	(15,500)	(20,000)	(21,500)
	Profits qualifying for Commission	1,84,500	1,30,000	78,500
Less:	Commission at 10% of above	(18,450)	(13,000)	(7,850)
	Correct Profits after charging Commission	**1,66,050**	**1,17,000**	**70,650**

Question 6(b): Branch Accounts – Foreign Branch – Financial Statements in US Dollars 8 Marks

ABC & Co. has Head Office at New York (U.S.A) and Branch in Bangalore (India). Bangalore Branch is an Integral Foreign Operation of ABC & Co.

Bangalore Branch furnishes you with its Trial Balance on 31st March 2015, and additional information given thereafter: (₹ 000s)

	Dr.	Cr.
Stock on 1st April 2014	300	–
Purchases and Sales	800	1,200
Sundry Debtors & Creditors	400	300
Bills of Exchange	120	240
Wages & Salaries	560	–
Rent, Rates & Taxes	360	–
Sundry Charges	160	–
Computers	240	–
Bank Balance	420	–
New York Office A/c	–	1,620
Total	3,360	3,360

Additional information:

(a) Computers were acquired from a remittance of US $ 6,000 received from New York Head Office and paid to the Suppliers. Depreciate Computers at 60% for the year.

(b) Unsold Stock of Bangalore Branch was worth ₹ 4,20,000 on 31st March 2015.

(c) The Rates of Exchange may be taken as follows–
- On 01.04.2014 @ ₹ 55 per US $
- On 31.03.2015 @ ₹ 60 per US $
- Average Exchange Rate for the year @ ₹ 58 per US $
- Conversion in $ shall be made up to two decimal accuracy.

You are asked to prepare in US Dollars, the Revenue Statement for the year ended 31st March 2015, and the Balance Sheet as on that date of Bangalore Branch as would appear in the books of New York Head Office of ABC & Co. You are informed that Bangalore Branch Account showed a Debit Balance of US $ 29845.35 on 31.03.2015, in New York Books and there were no items pending reconciliation.

Solution: **Same as Page 1.78, Illustration 31 [M 99 Qn.] (Only Exchange Rate is different.)**

1. Conversion of Bangalore Branch Trial Balance as at 31st March 2015 into US Dollars

Particulars	Debit (₹ in 000's)	Credit (₹ in 000's)	Rate per US $ (₹)	Dr. US $	Cr US $
Stock as on 01.04.2014	300	–	55	5,454.55	–
Purchases & Sales	800	1,200	58	13,793.10	20,689.66
Debtors & Creditors	400	300	60	6,666.67	5,000.00
Bills of Exchange	120	240	60	2,000.00	4,000.00
Wages & Salaries	560	–	58	9,655.17	–
Rent, Rates & Taxes	360	–	58	6,206.90	–
Sundry Charges	160	–	58	2,758.62	–
Computers	240	–	Actual	6,000.00	–
Bank Balance	420	–	60	7,000.00	–
New York Office A/c	–	1,620	Actual	–	29,845.35
Total	**3,360**	**3,360**		**59,535.01**	**59,535.01**

2. Trading and Profit & Loss Account for the year ended 31st March 2015 (Amount in US $)

Particulars	Amount	Particulars	Amount
To Opening Stock	5,454.55	By Sales	20,689.66
To Purchases	13,793.10	By Closing Stock (₹ 4,20,000 ÷ 60)	7,000.00
To Wages & Salaries	9,655.17	By Gross Loss c/d (bal.fig)	**1,213.16**
Total	**28,902.82**	**Total**	**28,902.82**
To Gross Loss b/d	1,213.16	By Net Loss c/d to Balance Sheet (bal.fig)	**13,778.68**
To Rent, Rates & Taxes	6,206.90		
To Sundry Charges	2,758.62		
To Depn. On Computers (6,000 × 60%)	3,600.00		
Total	**13,778.68**	**Total**	**13,778.68**

3. Balance Sheet of Bangalore Branch as on 31st March 2015 (Amount in US $)

Capital and Liabilities	Amount	Properties and Assets		Amount
Capital:		**Fixed Assets:**		
New York Office A/c	29,845.35	Computers	6,000.00	
Less: Net Loss for the year	(13,778.68)	**Less:** Depreciation	(3,600.00)	2,400.00
Net Balance in HO A/c	16,066.67	**Current Assets, Loans and Advances:**		
Current Liabilities & Provisions:		Closing Stock		7,000.00
Sundry Creditors	5,000.00	Sundry Debtors		6,666.67
Bills Payable	4,000.00	Bank Balance		7,000.00
		Bills Receivable		2,000.00
Total	**25,066.67**	**Total**		**25,066.67**

Question 7(a): Partnership vs LLP 4 Marks

What are the distinction between an Ordinary Partnership Firm and a Limited Liability Partnership (LLP)?

Solution: **Any 4 points from the Table below**

Point	Partnership	LLP
Governing Law	The Indian Partnership Act, 1932	The Limited Liability Partnership Act, 2008
Registration	Registration with Registrar of Firms **optional**	Registration with Registrar of LLP **mandatory**.
Name	Any name as per choice	Name should contain 'Limited Liability Partnership' or 'LLP' as suffix.
Creation	Created by **Contract**	Created by **Law**
Separate Entity	Not a separate legal entity	Separate Legal Entity under LLP Act, 2008.
Perpetual Succession	Firm does **not** have perpetual succession as this depends upon the will of Partners.	LLP has perpetual succession, and Partners may come and go.
Legal Proceedings	Only Registered Firm can sue a Third Party.	A LLP is a legal entity can sue and be sued.
Annual Filing of Forms	No Annual Form / Return is required to be filed with Registrar of Firms.	Annual Stmt of Accounts and Solvency & Annual Return to be filed with Registrar every year.
Digital Signature for Partners	Optional.	As eforms are filled electronically, atleast one Designated Partner should have Digital Signature.
Designated Partner Identification Number (DPIN)	Partners are not required to obtain any Identification Number as such.	Each Designated Partner should have a DPIN, **before** being appointed as a Designated Partner of an LLP.
Agency Relationship	Partners are Agents of the Firm and other Partners.	Partners act as Agents of LLP, and **not** of the other Partners.
Liability of Partners	**Unlimited.** Partners are severally and jointly liable for actions of other Partners and the Firm, and their liability extends to their personal assets also.	**Limited**, to the extent their contribution towards LLP, except in case of intentional fraud or wrongful act of omission or commission by the Partner.

Question 7(b): AS–29 4 Marks

With reference to AS 29 "Provisions, Contingent Liabilities and Contingent Assets", define the following terms –

Question	Hint / Answer Reference
(i) A Provision	**Page B.9.2, Q.No.4**
(ii) A Liability	**Page B.9.2, Q.No.3, Point 1.**
(iii) A Contingent Asset	**Page B.9.16, Q.No.36, Point 1.**
(iv) Present Obligation	**Page B.9.2, Q.No.2, Point 3.**

Question 7(c): Banking Companies – Advances 4 Marks

Write short notes on classification of Advances in case of Banking Company.

Solution: **Refer Page A.7.27, Q.No.35**

Question 7(d): Departmental Accounts – Allocation of Expenses. 4 Marks

Give the basis of allocation of the following common expenditure among different departments:

Question	Answer: Refer Page A.1.7, Q.No.2
(i) Insurance of Building	Floor Area occupied by each Department (or) Time Basis
(ii) Discount and Bad Debts	Sales of each Department
(iii) Discount Received	Purchases of each Department
(iv) Repairs and Maintenance of Capital Assets	Value of Assets used by each Department (or) Time Basis
(v) Advertisement Expenses	Sales of each Department
(vi) Labour Welfare Expenses	No. of Employees in each Department.
(vii) PF/ESI Contributions	Wages and Salaries of each Department.
(viii) Carriage Inward	Purchases of each Department.

Question 7(e): AS–16 4 Marks

Write short note on 'Suspension of Capitalisation' in context of Accounting Standard 16.

Solution: **Refer Page B.5.13, Q.No.31 [F (And) – N 01 Qn.]**