Gurukripa's Guideline Answers for Nov 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 – 20 – Diluted EPS **5 Marks**

While calculating Diluted EPS, effect is given to all dilutive Potential Equity Shares that were outstanding during that period." Explain. Also calculate the Diluted Earnings per Share from the following information:

Net Profit for the Current Year	**₹ 1,00,00,000**
No. of Equity Shares Outstanding	**10,00,000**
No. of 10% fully Convertible Debentures of ₹ 100 each	**1,00,000**
(Each Debenture is compulsory and fully convertible into 10 Equity Shares)	
Debenture Interest Expenses for the current year (Assume applicable Income Tax Rate is 30%)	**₹ 5,00,000**

Solution: **Similar to Page B.7.17, Q.No.40 [N 10]**

Computation of Basic and Diluted EPS

Particulars	For Basic EPS	Adjustment for Dilution	For Adjusted EPS
(1)	**(2)**	**(3)**	**(4) = (2) + (3)**
1. Net Profit for the period attributable to Equity Shareholders	1,00,00,000	**(Note 1)** ₹ 3,50,000	1,03,50,000
2. Weighted Avg No. of Equity Shares	10,00,000	$1,00,000 \times 10 \times \frac{6}{12} = 5,00,000$	15,00,000
3. EPS = 1 ÷ 2	Basic EPS = ₹ 10		Diluted EPS = ₹ 6.90

Note:

1. Tax Adjusted Interest on 10% Convertible Debentures = Interest as given × (100% – Tax Rate)
= ₹ 5,00,000 × (100% – 30%) = ₹ 3,50,000.

2. Annual Interest on Debentures = 10% × ₹ 100 × 1,00,000 Debentures = ₹ 10,00,000. However, Interest Expense for the current year is given as ₹ 5,00,000. Hence, it implies that Debentures are issued during the year. **Period = 6 Months**, by comparing Annual Interest at 10% ₹ 10,00,000, with the given Interest Expense of ₹ 5,00,000.

Question 1(b): AS – 16 – Borrowing Cost **5 Marks**

M/s. Zen Bridge Construction Ltd obtained a loan of ₹ 64 Crores to be utilized as under –

Particulars	₹ Crores	Particulars	₹ Crores
Construction of Hill Link Road in Kedarnath (work was held up totally for a month during the year due to heavy rain, which is common in that region)	**50.00**	**Working Capital**	**4.00**
		Purchase of Vehicles	**1.00**
		Advance for Tools/Cranes, etc.	**1.00**
Purchase of Equipments and Machineries	**6.00**	**Purchase of Technical Know–How**	**2.00**

Total Interest charged by the Bank for the relevant financial year is ₹ 1.6 Crores. Show the treatment of interest according to AS.

Solution: **Similar to Page B.5.5, Q.No.13 [N 10]**

Effective Interest Rate = $\frac{1.60 \text{ Crores}}{64 \text{ Crores}}$ = 2.5%. The treatment for the Total Interest of ₹ 1.60 Crores is as under –

Note: Interest Amount = Loan Amount × 2.5%. Both Amounts in ₹ **Crores.**

Purpose / Utilisation	Loan	Interest	Treatment
1. Construction of Hill–Link Road	50	1.25	Added to Cost of Asset (It is assumed that during temporary suspension, some Administrative Activities were carried on)
2. Purchase of Equipments & M/c	6	0.15	Added to Cost of Equipments and Machineries

Purpose / Utilisation	Loan	Interest	Treatment
3. Working Capital	4	0.10	Written off to P&L A/c as **Expense**, as per AS – 16.
4. Purchase of Vehicles	1	0.025	Debited to Profit and Loss A/c. (Assumed immediate delivery taken and it is ready for use and hence not a Qualifying Asset)
5. Advance for Tools / Cranes, etc.	1	0.025	Kept in Interest Suspense A/c (Capital WIP A/c) till the date of acquisition/installation of the Asset & capitalized later. [Assumed as Qualifying Asset]
6. Purchase of Technical Know–How	2	0.05	Added to the Cost of Intangibles.
Total	**64**	**1.60**	

Question 1(c): AS – 4 – Events occurring after the Balance Sheet date **5 Marks**

While preparing its Final Accounts for the year ended 31st March 2016, a Company made Provision for Bad Debts @ 5% of its Total Debtors. In the last week of February 2016, a Debtor for ₹ 20 Lakhs had suffered heavy loss due to an earthquake, the loss was not covered by any Insurance Policy. In April 2016, the Debtors became bankrupt. Can the Company provide for the full loss arising out of insolvency of the Debtor in the Final Accounts for the year ended 31st March 2016? Comment with reference to relevant Accounting Standard.

Solution: **Similar to Page B.1.5, Q.No.15 [N 10, M 14]**

1. **Analysis:** Here, the Debtor suffered the loss in February, and the circumstances were existing as on the Balance Sheet Date. The fact of bankruptcy in April only confirms the circumstances that existed on the Balance Sheet Date.

2. **Conclusion:** The Company should provide for the entire amount of loss of ₹ 20 Lakhs arising out of insolvency of the Debtor. The fact that the Company has already made a General Provision for Bad Debts at 5% of its Total Debtors is **irrelevant** in this context.

Question 1(d): AS – 26 – Intangible Assets **5 Marks**

A Company with a Turnover of ₹ 375 Crores and an annual advertising budget of ₹ 3 Crores had taken up the marketing of a new product. It was estimated that the Company would have a turnover of ₹ 37.5 Crores from the new product. The Company had debited to its Profit & Loss Account, the total expenditure of ₹ 3 Crores incurred on extensive Special Initial Advertisement Campaign for the new product. Is the procedure adopted by the Company correct?

Solution: **Similar to Page B.8.11, Q.No.30 [F – N 06]**

1. **Principle:** Sometimes, Expenditure is incurred to provide future economic benefits to an Enterprise, but no Intangible Asset or Other Asset is acquired or created that can be recognised. In such cases, the expenditure is recognised as an **Expense**, when it is incurred.

2. **Conclusion:** The Company should treat the Advertising Expenditure as an "Expense". Hence, writing off the entire Advertisement Expense in the year of incurrence to the P&L A/c is proper.

Question 2: Partnership – Dissolution – Piecemeal Distribution – Higher Relative Capital Method **16 Marks**

X, Y and Z are in Partnership sharing Profits and Losses in the ratio of 5:4:4. The Balance Sheet of the Firm as on 31st March 2016 is as below:

Capital and Liabilities	₹	Assets	₹
X's Capital	60,000	Factory Building	96,640
Y's Capital	40,000	Plant & Machinery	65,100
Z's Capital	50,000	Trade Receivables	21,600
Y's Loan A/c	18,000	Inventories	49,560
Trade Payables	66,000	Cash at Bank	1,100
Total	**2,34,000**	**Total**	**2,34,000**

On the Balance Sheet date, all the three Partners have decided to dissolve their Partnership. Since the realisation of Assets was protracted, they decided to distribute amounts as and when feasible, and for this purpose they appoint Z who was to get as his remuneration 1% of the value of the Assets realised other that Cash at Bank, and 10% of the amount distributed to the Partners. Assets were realised piecemeal as under:

Particulars	₹
First Instalment	**74,600**
Second Instalment	**69,301**
Third Instalment	**40,000**
Last Instalment	**28,000**
Dissolution Expenses were provided for estimated amount of	**12,000**
The Creditors were settled finally for	**63,600**

Prepare a statement showing distribution of Cash amongst the Partners by 'Higher Relative Capital Method".

Solution: **Similar to Page.A.2.26, Illus. 16 [M 12]**

1. Computation of Higher Relative Excess Capital (in ₹)

Particulars	X	Y	Z
1. Capital Account Balance Net	60,000	40,000	50,000
2. Profit Sharing Ratio	5	4	4
3. Capital per unit of Profit (1 ÷ 2)	12,000	10,000	12,500
4. Relative Capital taking Y's Cap. as Base (least of above)	10,000×5 = 50,000	10,000×4=40,000	10,000×4=40,000
5. Excess Capital of X and Z (1 – 4)	10,000	–	10,000
6. Capital per unit of Profit (5 ÷ 2)	2,000	–	2,500
7. Relative Capital taking X's Cap.as Base (least of above)	2,000 × 5 = 10,000	–	2,000×4 = 8,000
8. Higher Relative Excess Capital (5 – 7)	–	–	2,000

Note: Surplus Cash available should first be distributed to Z to the extent of ₹ 2,000 representing the Higher Relative Excess Capital. Further realisations to the extent of ₹ 10,000 and ₹ 8,000 should be distributed to X and Z respectively towards Excess Capital invested by them. Any further realisation should be shared in 5:4:4 ratio among the Partners.

2. Piecemeal Distribution Statement under Higher Relative Capital Method (in ₹)

	Particulars	Amt. Avlble	S. Crs	Y's Loan	X's Capital	Y's Capital	Z's Capital
	Balance due	1,100	63,600	18,000	60,000	40,000	50,000
	1st Instalment	74,600					
Less:	Commn on Realsn 1%	(746)					
		74,954					
Less:	Liquidator's Exps	(12,000)					
	Balance Avlble / O/s	62,954	63,600	18,000	60,000	40,000	50,000
Less:	Paid to Creditors	(62,954)	(62,954)				
	Balance Due	–	646	18,000	60,000	40,000	50,000
	2nd Instalment	69,301					
Less:	Commn on Realsn 1%	(693)					
Less:	Paid to Creditors	(646)	(646)				
	Balance Avlble / O/s	67,962	–	18,000	60,000	40,000	50,000
Less:	Y's Loan repaid	(18,000)	–	(18,000)	–	–	–
	Balance Avlble / O/s	49,962					
Less:	Liquidator Remn at 10%	(4,996)					
Less:	Paid to Z towards Higher Relative Capital	(2,000)					(2,000)
	Balance Avlble / O/s	42,966	–	–	60,000	40,000	48,000
Less:	Paid to X towards Higher Relative Capital	(10,000)			(10,000)		
Less:	Paid to C towards Higher Relative Capital restricted to amt avlble	(8,000)					(8,000)
	Balance Avlble / O/s	24,966			50,000	40,000	40,000
Less:	Payment to all Partners (5:4:4)	(24,966)	–	–	9,602	7,682	7,682

	Particulars	Amt. Avlble	S. Crs	Y's Loan	X's Capital	Y's Capital	Z's Capital
	Balance Avlble/O/s	–	–	–	40,398	32,318	32,318
	3rd Instalment						
Less:	Commn on Realsn 1%	(400)					
Less:	Liquidator Remn at 10%	(3,960)					
	Balance Avlble / O/s	35,640	–	–	40,398	32,318	32,318
Less:	Payment to all Partners in 5:4:4	(35,640)	–	–	13,708	10,966	10,966
	Balance Due	–			26,690	21,352	21,352
	4th Instalment	28,000					
Less:	Commn on Realsn 1%	(280)					
Less:	Liquidator Remn at 10%	(2,772)					
	Balance Avlble / O/s	24,948			26,690	21,352	21,352
Less:	Payment to all Partners in 5:4:4	(24,948)			9,595	7,677	7,676
Bal.being Loss on Realisation		**–**	**–**	**–**	**17,095**	**13,675**	**13,676**

3. Realisation Account (To verify Loss on Realisation)

Particulars		₹	Particulars	₹
To Factory Building	(transfer)	96,640	By Sundry Creditors (transfer)	66,000
To Plant & Machinery	(transfer)	65,100	By Cash / Bank (74,600+69,301+40,000+28,000)	2,11,901
To Sundry Debtors	(transfer)	21,600	By Loss on Realisation Ltd to Partners (5:4:4)	**44,446**
To Stock–in–Trade	(transfer)	49,560	**Note:** This tallies with (17,095+13,675+13,676)	
To Cash / Bank	(Creditors)	63,600	as per Statement above, i.e. Total 44,446	
To Cash / Bank	(Realisation Exps)	12,000		
To Cash / Bank	(Liquidator Commn)	13,847		
Total		**3,22,347**	**Total**	**3,22,347**

Question 3(a): Debenture Redemption through Sinking Fund **10 Marks**

A Company had ₹ 40,000, 10% Debentures of ₹ 100 each outstanding as on 1st April 2015, redeemable on 31st March 2016. On that day, Sinking Fund was ₹ 37,45,000 represented by 5,000 Own Debentures purchased at an average price of ₹ 99, and 9% Stocks of Face Value of ₹ 33,00,000. The annual instalment towards Sinking Fund was ₹ 1,42,000. On 31st March 2016, the Investments were realized at ₹ 98 and the Debentures were redeemed.

Draw the following Accounts for the year ended 31st March 2016:

(i) 10% Debenture Accounts,

(ii) Debenture Redemption Sinking Fund Account,

Solution: **Similar to Page A.3.71, Illus. 8 [M 14]**

1. Investment in Own Debentures A/c

Date	Particulars	FV	Cost	Date	Particulars	FV	Cost
1st Apr 2015	To balance b/d	5,00,000 (5,000 × 100)	4,95,000 (5,000 × 99)				
31st Mar 2016	To Deb. Red. Snkng Fund A/c	–	5,000 (Gain on cancellation)	31st Mar 2016	By 10% Deb. A/c – Cancellation	5,00,000	5,00,000
	Total		**5,00,000**		**Total**	**5,00,000**	**5,00,000**

2. Investment in 9% Stock A/c

Date	Particulars	FV	Cost	Date	Particulars	FV	Cost
1st Apr 2015	To bal. b/d (Note)	33,00,000	32,50,000	31st Mar 2016	By Bank A/c	33,00,000	32,34,000 (33,000×98)
				31st Mar 2016	By Deb.Red. Sinking Fund		16,000 (Loss on Sale)
	Total	**33,00,000**	**32,50,000**		**Total**	**33,00,000**	**32,50,000**

Notes:
- It is assumed that Interest on 10% Debentures and 9% Stock is paid on annual basis (year–end).
- Cost of 9% Stock = Total Sinking Fund Balance – Cost of Own Debentures [₹ 37,45,000 – (5,000 × ₹ 99, i.e. ₹ 4,95,000)] = ₹ 32,50,000

3. 10% Debentures A/c

Date	Particulars	₹	Date	Particulars	₹
31.03.16	To Own Debentures A/c (Cancelled)	5,00,000	01.04.2015	By balance b/d	40,00,000
31.03.16	To Bank A/c – Payment (bal. fig.)	**35,00,000**			
	Total	**40,00,000**		**Total**	**40,00,000**

4. Debenture Redemption Sinking Fund A/c

Date	Particulars	₹	Date	Particulars	₹
31.03.16	To Gen. Reserve (FV of Deb tfr)	40,00,000	01.04.16	By balance b/d (given)	37,45,000
31.03.16	By 9% Stock **WN 2**(Loss on Sale)	16,000	31.03.16	By P&L A/c (Annual Approp.)	1,42,000
31.03.14	To Capital Reserve A/c (bal. fig.) (excess tfr to Capital Reserve)	**2,23,000**		By Bank – Int. on 9% Stock A/c (33,00,000 × 9%)	2,97,000
				By Int. on Own Debentures A/c (5,00,000 × 10%)	50,000
				By Own Debentures A/c **(WN 1)**	5,000
	Total	**42,39,000**		**Total**	**42,39,000**

Question 3(b): Buy back, Bonus Issue, etc. **6 Marks**

The following is the Summarized Balance Sheet of M/s. Vriddhi Infra Ltd as on 31st March –

Equity & Liabilities	₹	Assets	₹
1. Shareholders Funds:		**1. Non–Current Assets**	
(a) Share Capital:		**(a) Fixed (Tangible) Assets:**	
1,00,000 Equity Shares of ₹ 10 each fully paid up	**10,00,000**	**Land & Building**	**21,50,000**
(b) Reserve & Surplus:		**Plant and Machinery**	**15,00,000**
Securities Premium	**3,00,000**	**(b) Non–Current Investments**	**2,00,000**
General Reserve	**2,50,000**	**2. Current Assets**	
Profit & Loss Account Surplus	**1,50,000**	**(a) Trade Receivables**	**5,50,000**
2. Non–Current Liabilities		**(b) Inventories**	**1,80,000**
Long Term Borrowings:		**(c) Cash & Cash Equivalents**	**40,000**
10% Debentures (Secured by floating charge on all assets)	**20,00,000**		
Unsecured Loans	**8,00,000**		
3. Current Liabilities & Provisions: Trade Payables	**1,20,000**		
Total	**46,20,000**	**Total**	**46,20,000**

On 21st April, the Company announced the Buy Back of 25,000 of its Equity Shares at ₹ 15 per Share. For this purpose, it sold all of its Investments for ₹ 2.50 Lakhs. On 25th April, the Company achieved the target of Buy Back. On 1st May, the Company issued one fully paid up Equity Share of ₹ 10 by way of Bonus, for every Five Equity Shares held by the Equity Shareholders. Pass necessary Journal Entries for the above transactions.

Solution: **Similar to Page A.3.23, Illus. 9 [M 00, N 10]**

Journal Entries

Date	Particulars		Dr.	Cr.
21st Apr	Bank A/c	Dr.	2,50,000	
	To Investments A/c			2,00,000
	To Profit and Loss A/c			50,000
	(Being Investments sold at a Profit)			
25th Apr	Equity Share Capital A/c (25,000 × ₹ 10)	Dr.	2,50,000	
	Premium on Buyback A/c (FV ₹ 10, Offer Price ₹ 15, So Premium 50%)	Dr.	1,25,000	
	To Equity Shareholders A/c			3,75,000
	(Being Share Capital and Premium on Buyback transferred to Equity Shareholders A/c vide Board's Resolution No. ………… dated………..)			

Date	Particulars		Dr.	Cr.
25th Apr	Securities Premium A/c To Premium on Buyback A/c (Being Premium on Buy Back provided from Securities Premium)	Dr.	1,25,000	 1,25,000
25th Apr	Equity Shareholders A/c To Bank A/c (Being amount paid to Equity Shareholders on Buy Back)	Dr.	3,75,000	 3,75,000
25th Apr	General Reserve A/c To Capital Redemption Reserve A/c (Being amount transferred to Capital Redemption Reserve, to the extent of Nominal Value of Shares bought back)	Dr.	2,50,000	 2,50,000
1st May	Capital Redemption Reserve A/c To Bonus to Equity Shareholders A/c (Being Capital Redemption Reserve used for the purpose of issue of Bonus Shares = 1,00,000 – 25,000 = 75,000 Shares × 1/5 = 15,000 Shares)	Dr.	1,50,000	 1,50,000
30th Apr	Bonus to Equity Shareholders A/c To Equity Share Capital A/c (Being Bonus Shares allotted to Equity Shareholders)	Dr.	1,50,000	 1,50,000

Question 4: Liquidator's Statement of Account **16 Marks**

The summarized Balance Sheet of M/s X Ltd as on 31st March 2016, are as follows:

Equity and Liabilities	₹	Assets	₹
Shareholders Fund:		**Non–Current Assets**	
Share Capital		**Land & Building**	**6,50,000**
50,000 Equity Shares of ₹ 10 each fully paid	**5,00,000**		
75,000, 10% Preference Shares of ₹ 10 fully paid up	**7,50,000**	**Sundry Current Assets**	**21,80,000**
25,000 Equity Shares of ₹ 10 each, ₹ 8 per Share paid up	**2,00,000**		
Profit & Loss Account	**(1,75,000)**	**Debentures Issue Expenses not written–off**	**10,000**
Non–Current Liabilities:			
13% Debentures	**7,50,000**		
Mortgage Loan	**3,50,000**		
Current Liabilities:			
Bank Overdraft	**1.50,000**		
Trade Creditors	**1,90,000**		
Income Tax Arrears (Assessment completed in Feb 2016)	**1,25,000**		
Total	**28,40,000**	**Total**	**28,40,000**

Mortgage Loan was secured against Land & Buildings. Debentures were secured by a Floating Charge on all assets. The Company was unable to meet the payments and therefore the Debenture Holders appointed a Receiver for the Debenture Holders. He brought the Land & Building to auction and realised ₹ 8,00,000. He also took charge of Sundry Assets of value of ₹ 11,80,000 and realised ₹ 10,00,000. The Bank Overdraft was secured by personal guarantee of the Directors of the Company and on the Bank raising a demand, the Directors paid off the due from their personal resources. Costs incurred by the Receiver were ₹ 9,750 and by the Liquidator ₹ 15,000. The Receiver was not entitled to any remuneration but the Liquidator was to receive 2% Fee on the value of assets realized by him. Preference Shareholders have not been paid Dividend for period after 31st March 2014, and Interest for the last half year was due to the Debenture Holders. Rest of the Assets were realised at ₹ 7,50,000.

Prepare the accounts to be submitted by the Receiver and Liquidator.

Solution: **Similar to Page A.6.15, Illus. 12 [M 88, M 93, N 14]**

1. Determination of Surplus received by Liquidator from Receiver

Receipts from Sale of	₹	Payments towards –		₹
Land and Buildings	8,00,000	Debenture Interest	(7,50,000 × 13% × 6/12)	48,750
Sundry Current Assets	10,00,000	Income Tax Arrears		1,25,000
		Expenses of Receiver	Given	9,750

Receipts from Sale of	₹	Payments towards –	₹
		Mortgage Loan Given	3,50,000
		Debentureholders	7,50,000
		Balance Surplus handed over to Liquidator **(bal. fig.)**	**5,16,500**
Total	**18,00,000**	**Total**	**18,00,000**

2. Liquidator's Final Statement of Account

Receipts	₹	Payments		₹
Surplus received from Receiver(WN 1)	5,16,500	**Remuneration to Liquidator** (7,50,000 × 2%)		15,000
Sundry Assets realised	7,50,000	**Costs of Liquidation**		15,000
Calls on Contributories:		**Unsecured Creditors:**		
From 25,000 Partly Paid Shares at ₹1.38 per Share **(WN 3)**	34,500	Trade Creditors	1,90,000	
		Directors (for Bank OD paid)	1,50,000	3,40,000
		Preference Shareholders:		
		Share Capital	7,50,000	
		Arrears of Dividend (2 yrs)	1,50,000	9,00,000
		Equity Shareholders: (paid to Holders of 50,000 Fully Paid Shares at ₹0.62 each) **(WN 3)**		31,000
Total	**13,01,000**	**Total**		**13,01,000**

3. Calls from Holders of Partly Paid Shares

Particulars	₹
(a) Total Receipts before considering Call Money (5,16,500 + 7,50,000)	12,66,500
(b) Total Payments before final payment to Equity Shares	12,70,000
(c) Surplus / (Deficit) from above before Calls made on Equity Shares **(a – b)** (+ve = Surplus, –ve = Deficit)	(3,500)
(d) Notional Call on 25,000 Partly Paid Shares at ₹ 2 each	50,000
(e) Surplus Cash Balance after Notional Call **(c + d)**	**46,500**
(f) Number of Shares deemed fully paid (50,000 + 25,000)	75,000
(g) Hence, Refund on Fully Paid Shares **(e ÷ f) =** ₹ 46,500 ÷ 75,000 Shares	₹ 0.62
(h) Therefore, **Required Call on Partly Paid Shares** = Notional Call ₹2.00 – Refund ₹ 0.62	**₹ 1.38**

Question 5(a): Banking Company – Various Accounting Aspects **10 Marks**

From the following facts drawn from the records of Honest Bank for the year ended 31st March 2016, prepare the accounts as mentioned below:

(i) On 1st April 2015, Bills for Collection were ₹ 28,00,000. During 2015–2016, Bills received for collection were ₹ 2,58,00,000. Bills collected were ₹ 1,88,00,000. Bills dishonoured and returned were ₹ 22,00,000.
Prepare Bills for Collection (Assets) Accounts and Bills for Collection (Liability) Accounts.

(ii) On 1st April 2015, Acceptance, Endorsements etc. not yet satisfied amounted to ₹ 58,00,000. During the year, Acceptances, Endorsements, Guarantees, etc. were ₹ 1,76,00,000. The Bank honoured acceptances of ₹ 1,00,00,000 and a Client paid ₹ 40,00,000 against guaranteed liabilities. The Bank paid ₹ 4,00,000 which clients failed to pay.
Prepare "Acceptances, Endorsements and other Obligations Accounts" in the General Ledger.

(iii) A Loan of ₹ 24,00,000 advanced by the Bank on 30th August 2015 @ 10% per annum, whose interest is payable half–yearly. The Loan was outstanding as on 31st March 2016. Nothing was paid either towards Principal or Interest of this loan. The Security for the loan was 40,000 fully paid Shares of ₹ 100 each. The Shares were quoted on the Stock Exchange on 30th September 2015 at ₹ 90 per Share. Due to fluctuations, the price fell to ₹ 50 per Share in January 2016. On 31st March 2016 the Share Price quoted on the Stock Exchange was ₹ 96 per Share.

State giving reasons, whether the Loan would be classified as Secured or Unsecured in the Balance Sheet of the Company as on 31st March 2016.

(iv) The following balances were taken from the Trial Balance as on 31st March 2016.

	Dr. (₹)	Cr. (₹)
Interest & Discounts		**3,92,00,000**
Rebate for Bill Discounted		**80,000**
Bills Discounted & Purchased	**16,00,000**	

Proportionate discounts not yet earned for Bills to mature in 2015–2016 were ₹ 56,000.

Prepare the following Accounts:

(a) Rebate on Bills Discounted Account

(b) Interest and Discount Account

Solution: Part (i): Bills for Collection – Asset and Liability A/c – Similar to Page A.7.46, Illus. 20 [M 06]

1. Bills for Collection (Asset) A/c

Particulars	₹	Particulars	₹
To Balance b/d (as on 01.04.15)	28,00,000	By Bills for Collection (Liability) A/c	1,88,00,000
To Bills for Collection (Liability) A/c	2,58,00,000	By Bills for Collection (Liability) A/c	22,00,000
		By balance c/d (as on 31.03.16) **(bal. fig.)**	**76,00,000**
Total	**2,86,00,000**	**Total**	**2,86,00,000**

2. Bills for Collection (Liability) A/c

Particulars	₹	Particulars	₹
To Bills for Collection (Asset)A/c	1,88,00,000	By balance b/d (as on 01.04.2015)	28,00,000
To Bills for Collection (Asset)A/c	22,00,000	By Bills for Collection (Asset) A/c	2,58,00,000
To balance c/d (as on 31.03.16) **(bal. fig.)**	**76,00,000**		
Total	**2,86,00,000**	**Total**	**2,86,00,000**

Part (ii): Acceptances, Endorsements, etc. Similar to Page A.7.47, Illus. 21 [N 99]

Acceptances, Endorsements and Other Obligations Account (in General Ledger)

Date	Particulars	₹	Date	Particulars	₹
2015–16	To Constituents' Liabilities for Acceptances / Guarantees etc. (Paid off by Clients)	40,00,000	01.04.15	By balance b/d	58,00,000
2015–16	To Constituents Liabilities for Acceptances / Guarantees etc. (Honoured by Bank)	1,00,00,000	2015–16	By Constituent's Liabilities for acceptance / guarantees, etc.	1,76,00,000
2015–16	To Constituents Liabilities for Acceptances / Guarantees etc. (Honored by Bank on Party's failure to pay)	4,00,000			
31.03.16	To balance c/d – Acceptance not yet satisfied [shown as Contingent Liability]	**90,00,000**			
	Total	**2,34,00,000**		**Total**	**2,34,00,000**

Part (iii): Valuation of Security and Classification of Asset Refer Principles in Chapter – 7

1. For Classification of Assets as Secured, the Realizable Value of the Security should be taken on realistic basis.
2. The Stock Prices on 30th Sep and 31 Mar, i.e. half–year end, and B/s date are comparatively higher. It is also given that the fall in price in Jan is due to fluctuations.
3. Value of the Security for the Loan as on 31.03.2016 = 40,000 fully paid shares × ₹ 96 = ₹ 38,40,000, which is more than the Loan amount of ₹ 24,00,000.
4. Hence, the Loan may be classified as **Secured Loan** by the Banking Company.

Part (iv): Rebate on Bills Discounted **Similar to Page A.7.40, Illus. 8 [N 03, M 12]**

1. Rebate on Bills Discounted Account

Date	Particulars	₹	Date	Particulars	₹
01.04.2015	To Interest and Discount A/c	80,000	01.04.2015	By balance b/d	80,000
31.03.2016	To balance c/d	56,000	31.03.2016	By Interest and Discount A/c (Rebate Required at year–end)	56,000
	Total	**1,36,000**		**Total**	**1,36,000**

2.Interest and Discount Account

Date	Particulars	₹	Date	Particulars	₹
31.03.2016	To Rebate on Bills Discounted	56,000	01.04.2015	By Rebate on Bills Discounted (Opening Balance)	80,000
31.03.2016	To Profit&Loss A/c**(bal. fig.)** (Income for the year)	**3,92,24,000**	31.03.2016	By Cash and Sundries	3,92,00,000
	Total	**3,92,80,000**		**Total**	**3,92,80,000**

Question 5(b): Insurance Companies – Journal Entries for Unexpired Risk Reserve **6 Marks**

From the following information given by M/s. Long Live Insurance Co. Ltd. you are required to pass necessary Journal Entries (with narration and required working notes) relating to Unexpired Risk Reserve. Also show "Unexpired Risk Reserve Account for 2015–16" in columnar form.

1. **On 31.3.2015, it had Reserve for Unexpired Risks amounting to ₹ 80 Crores. Its composition was as under:**
   ₹ 30 Crores in respect of Marine Insurance Business,
   ₹ 40 Crores in respect of Fire Insurance Business, and
   ₹ 10 Crores in respect of Miscellaneous Insurance Business.
2. **M/s. Long Live Insurance Co. Ltd reserves 100% of Net Premium Income in respect of Marine Insurance Business and 50% of Net Premium Income in respect of Fire and Miscellaneous Insurance Policies.**
3. **During year 2015–2016, the following business was conducted – (₹ Crores)**

Particulars	Marine	Fire	Misc.
Premia collected from:			
– Insured in respect of Policies issued	**36**	**86**	**24**
– Other Insurance Companies in respect of risks undertaken	**14**	**10**	**8**
Premia paid / payable to Other Insurance Companies on Business Ceded	**20**	**10**	**15**

Solution: **Similar to Page A.8.40, Q.No.5 [M 98, M 10]**

1. Computation of Transfer required for Unexpired Risks Reserve (₹ Crores)

	Particulars	Marine	Fire	Misc.
	Net Premium Income	36 + 14 – 20 = 30	86 + 10 – 10 = 86	24 + 8 – 15 = 17
	Closing Balance of Reserve required	100% of 30 = 30	50% of 86 = 43	50% of 17 = 8.5
Less:	Opening Balance of Reserve avlble	30	40	10
	Additional Reserve required	**–**	**3**	**(1.5)**

2. Journal Entries (₹ Crores)

	Particulars	Dr.	Cr.
1.	Fire Revenue A/c Dr.	3.0	
	To Unexpired Risks Reserve A/c		3.0
	(Being transfer towards Unexpired Risks Reserve **WN 1**)		
2.	Unexpired Risk Reserve A/c	1.5	
	To Miscellaneous Revenue A/c		1.5
	(Being transfer from Unexpired Risks Reserve **WN 1**)		

3. Unexpired Risk Reserve A/c (₹ Crores)

Date	Particulars	Marine	Fire	Misc.	Date	Particulars	Marine	Fire	Misc.
31.03.16	To Revenue A/c	–	–	1.50	01.04.15	By balance b/d	30	40	10
31.03.16	To balance c/d	30	43	8.50	31.03.16	By Revenue A/c	–	3	–
	Total	**30**	**43**	**10.00**		**Total**	**30**	**43**	**10**

Question 6(a): Departmental Accounts – Stock & Mark–up Account **8 Marks**

M/s Shyam Udyog, a Retail Store, has two Departments X and Department Y for each of which Stock Account and Memorandum Mark–Up Account are kept. All the goods supplied to each Departments are debited to the Stock Account at Cost plus Mark–Up, which together make up the Selling Price of the goods, and in the account the Sale Proceeds of the goods are credited. The amount of 'Mark–Up' is credited to the Departmental Mark–Up Account. If the Selling Price of any goods is reduced below its Normal Selling Price, the reduction 'Marked Down' is adjusted both in the Stock Account and the Departmental Mark–up Account. The rate of 'Mark up' for X Department is 33–1/3% of the cost and for Y Department it is 50% of the cost.

The following figures have been taken from the books of the year ended March 2016.

Particulars	Dept. X (₹)	Dept.Y (₹)
Stock as on April 1st at Cost	3,15,000	5,58,000
Purchases	22,77,000	28,02,000
Sales	28,68,000	37,50,000

(1) The Stock of Department X on 1st April 2015 included goods the Selling Price of which had been marked down by ₹ 37,800. These goods were sold the year at the reduced prices.

(2) Certain Stock of the value of ₹ 2,07,000 purchased from the Department X, was later in the year transferred to Department Y, and sold for ₹ 3,10,500. As a result, though cost of the goods is included in Department X, the Sale Proceeds have been credited to the Department Y.

(3) During the year 2015–2016, to promote the goods, they were marked down as follows:

	Cost (₹)	Marked Down (₹)
Department X	1,68,000	10,800
Department Y	3,00,000	60,000

All the Goods Marked Down, were sold except of Department Y of the value of ₹ 1,50,000 marked down by ₹ 30,000

(4) At the time of stock taking on 31st March 2016, it was discovered that Cloth of Department X of the cost of ₹ 11,700 was missing and it was decided that the amount be written–off.

You are required to prepare for both the Departments for the year ended 31st March 2016 –

(a) The Memorandum Stock Account, and

(b) The Memorandum Mark–up Account.

Solution: **Similar to Page A.1.21, Q.No.15 [N 87, M 89]**

1. Memorandum Stock Account (in ₹)

Particulars	X	Y	Particulars	X	Y
To balance b/d (Given Cost + 33.33% & 50% Mark–Up)	4,20,000	8,37,000	By balance b/d (Mark Down b/fd as given)	37,800	–
To Purchases (given)	22,77,000	28,02,000	By Sales (given)	28,68,000	37,50,000
To Memorandum Mark Up (33.33% & 50% on Purchase)	7,59,000	14,01,000	By Int. Tfr (as per contra)	2,07,000	
			By Memorandum Mark Up (Mark–up on Int. Trfr)	69,000	–
To Internal Transfer (as per contra)		2,07,000	By Memorandum Mark Up (Mark Down = given)	10,800	60,000
To Memorandum Mark Up (50% on Internal Transfer)		1,03,500	By Abnormal Loss Cost transferred to P & L A/c	11,700	–
To Memorandum Mark Up (on Marked Down Goods still in Stock – **Given**)		30,000	By Memorandum Mark Up (Mark–up on Stock Lost)	3,900	–
			By balance c/d (Closing Stock – **balancing figure**)	**2,47,800**	**15,70,500**
Total	**34,56,000**	**53,80,500**	**Total**	**34,56,000**	**53,80,500**

2. Valuation of Closing Stock at Cost (in ₹)

	Department	X	Y
	Closing Stock at Invoice Price as per Memorandum Stock A/c	2,47,800	15,70,500
Less:	Markup = 33.33% & 50% on Cost = 1/4th & 1/3rd on Invoice Price respectively	1/4th = 61,950	1/3rd = 5,23,500
	Closing Stock at Cost	**1,85,850**	**10,47,000**

3. Trading Account for the year (in ₹)

Particulars	X	Y	Particulars	X	Y
To Opening Stock	3,15,000	5,58,000	By Sales	28,68,000	37,50,000
To Purchases	22,77,000	28,02,000	By Internal Transfer	2,07,000	–
To Internal Transfer	–	2,07,000	By Abnormal Loss	11,700	–
To Gross Profit **(bal. fig.)**	**6,80,550**	**12,30,000**	By Closing Stock **(WN 2)**	1,85,850	10,47,000
Total	**32,72,550**	**47,97,000**	**Total**	**32,72,550**	**47,97,000**

4. Memorandum Mark Up Account (in ₹)

Particulars	X	Y	Particulars	X	Y
To balance b/d (Mark Down–given – per contra)	37,800		By balance b/d (1/3rd and 50% on given cost)	1,05,000	2,79,000
To Memorandum Stock A/c (Mark–up on Int. Transfer)	69,000		By Memorandum Stock A/c (Mark Up on Purchase)	7,59,000	14,01,000
To Memorandum Stock A/c (Mark Down – given)	10,800	60,000	By Memorandum Stock A/c (2,07,000 × 50%) (Mark Up on Int. tfr)		1,03,500
To Memorandum Stock A/c (Mark–up on Goods Lost)	3,900		By Memorandum Stock A/c (Marked Down goods still in Stock)		30,000
To Gross Profit (as above)	6,80,550	12,30,000			
To balance c/d **(b/f) (Note)**	**61,950**	**5,23,500**			
Total	**8,64,000**	**18,13,500**	**Total**	**8,64,000**	**18,13,500**

Note: This figure (i.e. Closing Balance in Memo Mark–Up A/c) to match with **WN 2** above, i.e. Mark–Up on Closing Stock.

5. Confirmation / Verification of Gross Profit (in ₹)

	Department	P	Q
	Sales (given)	28,68,000	37,50,000
Add back:	Reduction / Mark down	(37,800 + 10,800)= 48,600	(60,000–30,000)=30,000
	Total	**29,16,600**	**37,80,000**
	Normal Gross Profit at 1/4 and 1/3 of above	7,29,150	12,60,000
Less:	Reduction / Mark down	48,600	30,000
	Gross Profit (to match with Trading A/c)	**6,80,550**	**12,30,000**

Question 6(b): Branch Accounts under Debtors Method, HO Trading P&L A/c **8 Marks**

Mr. Chena Swami of Chennai trades in Refined Oil and Ghee, with a Branch at Salem. He despatches 30 tins of Refined Oil @ ₹ 1,500 per tin and 20 tins of Ghee @ 5,000 per tin on 1st of every month. The Branch has incurred expenditure of ₹ 45,890 which is met out of its collections, this is in addition to expenditure directly paid by Head Office.

Following are the other details. (Amounts in ₹)

Particulars		Chennai H.O	Salem B.O
Purchases:	**Refined Oil**	**27,50,000**	
	Ghee	**48,28,000**	
Direct Expenses		**6,35,800**	
Expenses paid by H.O			**76,800**
Sales:	**Refined Oil**	**24,10,000**	**5,95,000**
	Ghee	**38,40,500**	**14,50,000**
Collection during the year (including Cash Sales)			**20,15,000**
Remittance by Branch to Head Office			**19,50,000**

Chennai Head Office: Balances as on (in ₹)	**01.04.2015**	**31.03.2016**
Stock: Refined Oil	**44,000**	**8,90,000**
Ghee	**10,65,000**	**15,70,000**
Building	**5,10,800**	**7,14,780**
Furniture & Fixtures	**88,600**	**79,740**

Salem Branch Office: Balances as on (in ₹)	**01.04.2015**	**31.03.2016**
Stock: Refined Oil	**22,500**	**19,500**
Ghee	**40,000**	**90,000**
Sundry Debtors	**1,80,000**	**?**
Cash in Hand	**25,690**	**?**
Furniture & Fixtures	**23,800**	**21,420**

Additional Information:

(i) Addition to Building on 01–04–2015 ₹ 2,41,600 by H.O

(ii) Rate of Depreciation: Furniture & Fixtures @ 10% and Building @ 5% (already adjusted in the above figure)

(iii) The Branch Manager is entitled to 10% Commission on overall organisational Profits after charging such Commission.

(iv) The General Manager is entitled to a Salary of ₹ 20,000 per month.

(v) General Expenses incurred by Head Office is ₹ 1,86,000.

You are requested to Prepare Branch Account in the Head Office books and also prepare Chena Swami's Trading and Profit & Loss Account (excluding Branch transactions) for the year ended 31st March 2016.

Solution: **Similar to Page A.1.91, Q.No.14 and Other Illustrations under Debtors Method**

1. Salem Branch A/c (In the Books of Chennai HO)

Particulars	**₹**	**Particulars**	**₹**
To balances b/d		By Bank (Remittance to HO)	19,50,000
Stock: Refined Oil	22,500	By balances c/d	
Ghee	40,000	Stock: Refined Oil	19,500
Debtors	1,80,000	Ghee	90,000
Cash in hand	25,690	Debtors **(WN1)**	2,10,000
Furniture	23,800	Cash in Hand **(WN2)**	44,800
To Goods sent to Branch: Refined Oil (30 × ₹ 1500 × 12)	5,40,000	Furniture	21,420
Ghee (20 × ₹ 5,000 × 12)	12,00,000		
To Bank (Exp. Paid by HO)	76,800		
To Profit before Branch Manager Commission	**2,26,930**		
Total	**23,35,720**	**Total**	**23,35,720**
To Branch Manager Commission (₹ 2,26,930 × 10/110)	20,630	By Profit b/d	**2,26,930**
To Net Profit transferred to General P&L	**2,06,300**		
Total	**2,26,930**	**Total**	**2,26,930**

WN 1: Debtors (at Branch) A/c (to compute Closing Balance)

Particulars	**₹**	**Particulars**	**₹**
To balance b/d	1,80,000	By Cash Collection	20,15,000
To Sales: Refined Oil	5,95,000	By balance c/d (bal fig)	**2,10,000**
Ghee	14,50,000		
Total	**22,25,000**	**Total**	**22,25,000**

WN 2: Cash A/c (at Branch) (to compute Closing Cash Balance)

Particulars	₹	Particulars	₹
To balance b/d	25,690	By Remittance to HO	19,50,000
To Cash Collection from Debtors	20,15,000	By Expenses	45,890
		By Balance c/d (bal fig)	**44,800**
Total	**20,40,690**	**Total**	**20,40,690**

2.Trading & Profit & Loss A/c for the year ended 31.03.2016 (excluding Branch Transactions)

Particulars		₹	Particulars	₹
To Opening Stock: Refined Oil		44,000	By Sales: Refined Oil	24,10,000
Ghee		10,65,000	Ghee	38,40,500
To Purchases:			By Closing Stock	
Refined Oil	27,50,000		Refined Oil	8,90,000
Less: Goods sent to Branch	(5,40,000)	22,10,000	Ghee	15,70,000
Ghee	48,28,000			
Less: Goods sent to Branch	(12,00,000)	36,28,000		
To Direct Expenses		6,35,800		
To Gross Profit c/d		11,27,700		
Total		**87,10,500**	**Total**	**87,10,500**
To Manager Salary (20,000 × 12)		2,40,000	By Gross Profit b/d	11,27,700
To General Expenses		1,86,000	By Branch Profit	2,06,300
To Depreciation: Building: 5% × (5,10,800+2,41,600)		37,620		
Furniture: (10% × 88,600)		8,860		
To Net Profit		**8,61,520**		
Total		**13,34,000**	**Total**	**13,34,000**

Question 7(a): AS–11 **4 Marks**

Which reference to AS–11, define – (i) Integral Foreign Operation, and (ii) Non–Integral Foreign Operation.

Refer Page B.3.16, Q.No.34 [RTP]

Question 7(b): AS–29 **4 Marks**

M/s. XYZ Ltd. is in a dispute with a competitor company. The dispute is regarding alleged infringement of Copyrights. The Competitor has filed a suit in the court of law seeking damages of ₹ 200 Lakhs.

The Directors are of the view that the claim can be successfully resisted by the Company.

How would the matter be dealt in the annual accounts of the Company in the light of AS–29? Explain in brief giving reasons for your answer.

Same as Page B.9.16, Q.No.21 [N 12]

Question 7(c): Accounting Basics **4 Marks**

Explain in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the Balance Sheet or Statement of Profit and Loss.

Refer Page A.14, Q.No.13

Question 7(d): LLP – Theory **4 Marks**

Write short notes on Designated Partner in a Limited Liability Partnership and what are their Liabilities.

Sec.7 of LLP Act deals with Designated Partners, and Sec.8 deals with Liabilities of Designated Partners, given below –

Sec.7	1. Every LLP shall atleast 2 Designated Partners (DPs). 2. DPs shall be **individuals only**. **[Note:** If all Partners of LLP are Bodies Corporate, or one or more Partners are Individuals or Body(ies) Corporate, atleast 2 **Individuals** who are **Partners** of such LLP or **Nominees** of such Bodies Corporate, shall act as Designated Partners.] 3. Atleast 1 DP should be **resident** in India. [**Note:** Resident means a person who has stayed in India for ≥ 182 days during the immediately preceding 1 year.] 4. An Individual can become a DP in any LLP, **only** if he has given his **consent** to act as such, to the LLP.
Sec.8	Unless otherwise provided in the LLP Act, DP shall be – 1. responsible for doing of **all acts, matters and things required to be done by the LLP** for compliance with the LLP Act, including filing of documents, returns, statements, reports, etc. 2. liable to all **penalties** imposed on the LLP for any **contravention** of the provisions of LLP Act.

Question 7(e): Insurance Companies – Premium Income and Claims Cost **4 Marks**

From the following particulars of M/s. Tsunami Marine Insurance Limited for the year ending 31st March, 2016 find – (i) Net Premium earned, (ii) Net Claims incurred.

Particulars (amounts in ₹ Lakhs)	**Direct Business**	**Re–Insurance**
Premium: Received	**4,400**	**376**
Receivable – 01.04.2015	**220**	**18**
Receivable – 01.04.2016	**189**	**16**
Paid	**305**	
Payable – 01.04.2015		**14**
Payable – 01.04.2016		**9**
Claims: Paid	**3,450**	**277**
Payable – 01.04.2015	**45**	**8**
Payable – 01.04.2016	**48**	**6**
Received		**101**
Receivable – 01.04.2015		**20**
Receivable – 01.04.2016		**19**

Solution: **Similar to Page A.8.38, Illus 3 [N 10]**

1.Computation of Net Premium earned

	Particulars	**₹ Lakhs**
	Premium on Direct Business (Recd 4,400 + Due at end 189 – Due at opg 220)	4,369
Add:	Premium on Re–Insurance Accepted (Recd 376 + Due at end 16 – Due at opg 18,000)	374
Less:	Premium on Re–Insurance Ceded (Paid 305 + Due at end 9 – Due at opg 14)	(300)
	Net Premium Earned	**4,443**

2. Computation of Claims Expense

	Particulars	**₹ Lakhs**
	Claims Paid Direct (Paid 3,450)	3,450
Add:	Re–Insurance Accepted (Paid 277)	277
Less:	Re–Insurance Ceded (Recd 101)	(101)
	Net Claims Paid	**3,626**
Add:	Claims Outstanding at the end of the year (Direct 48 + On Re–Insurance Accepted 6 (**less**) On Re–Insurance Ceded 19)	35
Less:	Claims Outstanding at the beginning of the year (Direct 45 + On Re–Insurance Accepted 8 (**less**) On Re–Insurance Ceded 20)	(33)
	Total Claims Incurred	3,628

Note: Alternative presentation methods of computing the Net Premium Income / Net Claims Expense, to obtain the above numbers are also possible.