Solved Scanner Appendix

IPCC Gr. II

(Solution of November - 2014)

Paper - 5 : Advanced Accounting

Chapter - 2 : Accounting Standards

2014 - Nov [1] {C} (a), (b), (c), (d)

(a) (1) The lease term is 66.67% of asset's useful life. Also present value of lease payments is around 93% of the fair value, constituting substantial portion of the fair value.

Therefore, the lease is a finance lease on the basis of calculation below:

(a) **Present value of Ungauranteed Residual Value (UGRV):**

= 70,000 × 0.683 = ₹ 47,810

(b) **Present value of Lease Payments (PV of MLP):**

= 7,00,000 - 47,810 = ₹ 6,52,190

(c) **% of PV of MLP to fair value:**

$= \frac{6,52,190}{7,00,000} \times 100 = 93.17\%$

(2) **Computation of Unearned Finance Income:**

$\text{Annual Lease Payments} = \frac{\text{PV of Lease Payments}}{\text{Annuity factor for 3 years at 20\%}}$

$= \frac{6,52,190}{3.169} =$ ₹ 2,05,803 p.a.

		₹
Total lease rentals for the lease period		
= 2,05,803 p.a.× 4 years	=	8,23,212
+ Residual value	=	70,000
Gross investment in lease	=	8,93,212
(-) P.V. of MLP & UGRV = (6,52,190 + 47,810)	=	(7,00,000)
Unearned Finance Income	=	1,93,212

(b) • As per para 67 of AS-26, there may be persuasive evidence in some cases that the useful life will be a specific period longer than 10 years. In such cases the enterprise should:
(a) Amortise the intangible asset over the best estimate of its useful life.
(b) Estimate the recoverable amount of the intangible asset at least annually in order to identify any impairment loss, and
(c) Disclose the reasons for overriding the persuasive period of 10 years and the factors that played a significant role in determining the useful life of the asset.

• AS - 26 assumes that the useful life of an intangible asset will not exceed a period of 10 years, but this presumption is rebuttable.

• Amortisation Amount as per company policy:
(a) Amortisation Amount = $\frac{₹120\ \text{lakhs}}{15\ \text{years}}$ = ₹ 8 lakhs p.a.
(b) Accumulated Amortisation upto 31st March, 2013 (for three years) = 8× 3 = ₹ 24 lakhs.
(c) Carrying Amount = (₹ 120 lakhs - 24 lakhs) = ₹ 96 lakhs
(d) However, carrying amount as per books = ₹ 88 lakhs

Therefore, the difference of ₹ 8 lakhs should be written off to the P&L A/c in the current year.

• **Future Amortisation:** The balance carrying amount of ₹ 88 lakhs should be amortised over the balance useful life of ₹ 12 years at ₹ 8 lakhs p.a.

(c) (i) Value at the rate prevailing at the inception of forward contract = (USD ₹ 30,000 × 60.75) = ₹ 18,22,500
(ii) Value at forward rate = (USD 30,000 × 62.15) = ₹ 18,64,500
(iii) Total loss on entering into the forward contract = arising at inception for 6 months contract period = ₹ 42,000
(iv) Loss to be recognised for the year ended 31st March, 2014 =

$$42{,}000 \times \frac{4}{6} = ₹\ 28{,}000$$

(d) The claim for the patent for infringement of patents by a competitor company who is seeking damages of a huge sum of ₹ 1,000 lakhs. The directors are of the opinion that the claim can be successfully resisted by the company. Then such liabilities of ₹ 1,000 lakhs should be shown as contingent liability and should be shown under balance sheet as contingent liability.

2014 - Nov [7] (a), (c)

(a) (i) Change in Accounting Policy:

→ Change in method of depreciation from SLM to WDV.

→ Change in valuation of inventory from FIFO to weighted average.

(ii) Change in Accounting Estimate:

→ During the purchase of asset estimated useful life of asset is 15 years, after 2 years, it is estimated 10 years from now.

→ Change in percentage of provision for doubtful debt.

(iii) Extraordinary Items:

→ Loss of ₹ 100 lakhs due to earthquake.

→ Profit due to winning in case.

(iv) Prior period Item:

→ Sales to a party not recorded in previous year now recorded.

→ Unrecorded liabilities of previous 2 years.

(c)

	When equity shares are issued	**Included with effect from-**
(i)	In exchange of cash	Date when cash is receivable
(ii)	As a result of conversion of a debt instrument	Date of conversion
(iii)	In exchange for the settlement of a liability of the enterprise	Date when settlement becomes effective
(iv)	For rendering services to the enterprise	Date on which the services are rendered
(v)	In lieu of interest and/or principal of another financial instrument	Date when interest ceases to accrue
(vi)	For acquisition of an asset other than in cash	Date on which the acquisition is recognised

Potential Equity Shares:

→ A Potential Equity Share is a financial instrument or other contract that entitles, or may entitle, its holder to equity shares.

Some examples are:

(a) Debt instruments or preference shares that are convertible into equity shares.

(b) Share Warrants.

(c) Options including Employee Stock Option Plans (ESOP) under which employees of an enterprise are entitle to receive equity shares as part of their remuneration and other similar plans, and

(d) Shares which would be issued upon the satisfaction of certain conditions resulting from contractual arrangements such as the acquisition of a business or other assets or shares issuable under a loan contract upon default of payment of principal or interest, if the contract so provides.

Chapter - 3 : Company Accounts

2014 - Nov [3] (a) **Calculation of expense to be recognised:**

(a) Fair value of option per share = MPS on grant date = ₹ 140
(-) Excercise price = ₹ (50)
₹ 90

(b) No. of shares given = 500 shares

(c) Fair value of option to be recognised as expense in $2\frac{1}{2}$ years on straight line basis = 500× ₹ 90
= ₹ 45,000

(d) **Expense to be recognised:**
for 1st year (2011-12) = ₹ 18,000
for 2nd year (2012-13) = ₹ 18,000
for 3rd year (2013-14) = ₹ 9,000

Journal Entries

Date	Particulars	LF	Dr.	Cr.
Year - 1				
31-3-12	Employees Compensation Expense A/c ..... Dr.		18,000	
	To Employee Stock option o/s			18,000
	(Being Employee Compensation Expense recognised for 500 options granted to employees at discount of 90 each amortised on SLM basis over $2^{1/2}$ years)			
31-3-12	P & L A/c Dr.		18,000	
	To Employees Compensation Expense			18,000
	(Being Employee Compensation Expense of the year transferred to P& L A/c)			
Year-2 31-3-13	Employee Compensation Expense A/c Dr.		18,000	
	To Employee Stock option o/s			18,000
	(Being Employee Compensation Expense Recognised for 500 shares granted to employees at discount of ₹ 30 each, amortised on SLM basis over $2\frac{1}{2}$ years)			

31-3-13	P & L A/c Dr.		18,000	
	To Employees Compensation Expense			18,000
	(Being Employees Compensation Transferred to P&L)			
Year-3 30-9-13	Employee Compensation Expense A/c Dr.		9,000	
	To Employee Stock options			9,000
	(Being balance of Employee Compensation Expense amortised)			
30-6-13	Bank A/c Dr.		2,50,000	
	Employee Stock option o/s Dr.		45,000	
	To Equity Share Capital A/c			5,000
	To Securities Premium A/c			2,90,000
	(Being 1,000 shares gifted to employees under ESOP at a premium of ₹ 580 in cash balance being ESOP entitlement)			
31-3-14	P & L A/c Dr.		9,000	
	To Employee Compensation Expense A/c			9,000
	(Being Employee Compensation Expense Transfer to P & L A/c)			

Chapter - 5 : Amalgamation and Reconstruction

2014 - Nov [4]

In the books of X Ltd.
Journal Entries

No.	Particulars	L F	Dr.	Cr.
1	Equity Share Capital A/c (₹ 100) Dr.		40,00,000	
	To Equity Share Capital (₹ 25)			10,00,000
	To Capital Reduction			30,00,000
	(Being Equity share reduced to ₹ 25)			
2	10% Preference Share Capital (₹ 100) Dr.		20,00,000	
	To 10% Preference Share Capital (₹ 75)			15,00,000
	To Capital Reduction			5,00,000
	(Being Preference share reduced to ₹ 75)			
3	10% Preference Capital A/c (₹ 75) Dr.		15,00,000	
	To 13% Preference share (₹ 50)			10,00,000
	To Equity Share Capital (₹ 25)			5,00,000
	(Being Preference share converted in Preference shares & Equity shares)			

4	Capital Reduction A/c Dr. To Equity share Capital (Being Preference dividend paid in shares)	2,00,000	 2,00,000
5	7% debentures A/c Dr. To 13% Preference share (50) To Cash To Capital Reduction (Being debenture holders to issued 2,000 Preference share and balance in cash)	4,00,000	 1,00,000 2,70,000 30,000
6	Loan from director A/c Dr. To Bank A/c (Being contingent liability payable)	2,00,000	 2,00,000
7	Capital Reduction A/c Dr. To Plant & Machinery To Stock To Debtors (Being Devaluation of asset)	6,00,000	 3,00,000 1,00,000 2,00,000
8	Land & Building A/c Dr. To Capital Reduction (Being decrease in value of Land & Building)	5,00,000	 5,00,000
9	Bank A/c Dr. To Equity share capital (Being shares issued)	12,50,000	 12,50,000
10	Underwriting Commission A/c Dr. To underwriters (Being commission payable)	50,000	 50,000
11	Capital Reduction A/c Dr. To Underwriting Commission (Being underwriting commission transferred)	50,000	 50,000
12	Capital Reduction A/c Dr. To Bank A/c (Being liquidation expense paid)	20,000	 20,000
13	Capital Reduction A/c Dr. To P&L A/c To Goodwill To Capital Reserve (Being fictitious asset written/off & balance transferred to Capital Reserve)	31,60,000	 23,00,000 4,00,000 4,60,000

Chapter - 6 : Redemption of Debentures

2014 - Nov [3] (b) **In the books of Venus Ltd.**

Journal Entries

Date	Particulars	L F	Dr.	Cr.
1-6-13	Bank A/c Dr. To 10% Debentures Application A/c		3,00,00,000	 3,00,00,000
1-6-13	Underwriters Dr. To Debenture Application A/c (Being Amount Received from underwriters)		1,00,00,000	 1,00,00,000
1-7-13	Debenture A/c Dr. To 10% Debentures (Being debenture allotted)		4,00,00,000	 4,00,00,000
30-9-13	Debentures Interest A/c Dr. To Bank (Being Debenture Interest paid)		10,00,000	 10,00,000
31-12-13	10% Debentures Interest A/c Dr. To Equity Share Capital (10) To Security Premium A/c (Being Debentures Converted in ₹ 8,00,000 equity shares of ₹ 10 each)		3,20,00,000	 80,00,000 2,40,00,000
31-3-14	Debenture Interest A/c Dr. To Bank (Being interest paid)		12,00,000	 12,00,000
31-3-14	P & L A/c Dr. To Debenture Interest A/c (Being interest charged to P & L A/c)		22,00,000	 22,00,000
31-3-14	Underwriting Commission A/c Dr. To Underwriters (Being Underwriting Commission Payable to underwriters)		12,00,000	 12,00,000
31-3-14	Underwriters A/c Dr. To Bank (Being final settlement for underwriters)		2,00,000	 2,00,000

Chapter - 8 : Financial Statements of Banking Companies

2014 - Nov [5] (b)

1. **Calculation of Tier-I Capital fund**

Particulars	Amt. (₹ in Cr.)
Equity share Capital	400
(+) Statutory Reserve	250
(+) Capital Reserve	68
Tier - I Capital	718

2. **Calculation of Tier -II Capital**

Revaluation Reserve at 45%	8.1

3. **Calculation of Risk Weighted Asset:**

	(₹ in Cr.)
Balance with other Banks (20%)	4
Other investments (100%)	40
Other loans & Advances (100%)	5,465
Premises furniture & fixtures (100%)	74
Guarantees & other obligations (100%)	700
Acceptances (100%)	4,900
Risk Weighted Asset	11,183

4. **Calculation of Risk Weighted Asset Ratio:**

$$\text{RWAR} = \frac{\text{Risk Weighted Asset}}{\text{All Asset}} \times 100$$

$$= \frac{11{,}183}{11{,}225.5} \times 100$$

Risk Weighted Ratio = 99.62%

2014 - Nov [7] (d)

In the books of ABC Bank Ltd.
Income to be recognised

Particulars	₹ in lakh Performing Asset	NPA (in lakhs)
Term loan	280	20
Cash credits & O.D.	1,700	48
Bills purchased & discounted	400	70
Total	2,380	138

Chapter - 9 : Financial Statements of Insurance Companies

2014 - Nov [5] (a)

In the books of Metro General Insurance Co.
Revenue A/c

		Particulars	Schedule	Amount
I		Premium Earned (Net)	1	75,56,000
		Total A		75,56,000
II	1	Claims incurred	2	55,58,000
	2	Commission	3	1,57,000

3	Operating Expenses related to insurance		4	1,90,000
		Total B		59,05,000
	Operating Profit from business			16,51,000
	+ OP balance			-
		Total		16,51,000
	Appropriation			-
	Transfer to P&L A/c			16,51,000

Schedules

1	**Premium earned**		
	Premium received	75,25,000	
	(+) reinsurance accepted	8,25,000	
	(-) reinsurance ceded	(4,90,000)	78,60,000
	(-) Reserve for Unexpired Risk		(3,04,000)
			75,56,000
2	**Claims paid**		
	Claims paid	49,70,000	
	(+) Reinsurance	5,10,000	
		54,80,000	
	Payable (direct) (1/4/2013)	(6,85,000)	
	direct (31/3/2014)	7,38,000	
	Payable (reinsurance) (1/4/2013)	(95,000)	
	reinsurance (31-3-2014)	70,000	
	Receivable (reinsurance) (1/4/2013)	75,000	
	(reinsurance) (31/3/2014)	(1,25,000)	54,58,000
	+ Exp. for survey & legal		1,00,000
			55,58,000
3	**Commission**		
	Commission	1,60,000	
	(+) Reinsurance accepted	15,000	
	(-) Reinsurance ceded	(18,000)	1,57,000

2. **Calculation of Reserve for unexpired risk**

Premium = 78,60,000
X 40% = 31,44,000
Balance as on 1/4/2013 = 28,40,000

Additional Reserve to be
Created is = 31,44,000
(-) Balance = (28,40,000)
Reserve Created = 3,04,000

Chapter - 10 : Financial Statements of Electricity Companies

2014 - Nov [7] (e)

→ **There are four alternatives**

(i) The fund received shall be first shown as liability in Balance Sheet then written off on the basis of the year of the fund.

(ii) The fund received can be credited to P & L A/c for the period.

(iii) It can be distributed towards capital expenditure/service line contributors.

(iv) It can be disclosed as and when received by the company.

Chapter - 11 : Departmental Accounts

2014 - Nov [6] (b)

In the books of Mega Ltd.
Dept. Trading A/c

Particulars	Dept. A	Dept. B	Particulars	Dept. A	Dept. B
To Op. Stock	70,000	54,000	By Sales	572000	460000
To Purchase	3,92,000	2,98,000	By Transfer (P)		
To C. I.	6,000	9,000	B to A	—	50,000
To Wages	54,000	36,000	A to B	36,000	—
To rec. from:			By Transfer (Finish Goods):		
A	—	36,000	B to A	—	1,18,000
B	50,000	—	A to B	1,30,000	—
To rec. from			By C/S		
A	—	1,30,000	Purchase	24,000	30,000
B	1,18,000	—	Finish Goods	1,02,000	62,000
To GP	1,74,000	1,57,000			
Total	8,64,000	7,20,000	Total	8,64,000	7,20,000

General P&L A/c

Particulars	Amount	Particulars	Amount
To Stock Reserve (W.N.2)	12,922	By NP	
To Profit	3,18,078	A	1,74,000
		B	1,57,000
Total	3,31,000	Total	3,31,000

1. **Working Note:**

Dept. P&L A/c

Particulars	A	B	Particulars	A	B
To NP	1,74,000	1,57,000	By GP	1,74,000	1,57,000
Total	1,74,000	1,57,000	Total	1,74,000	1,57,000

2. **Calculation of Reserve to be Created:**

	A	**B**
Finished Goods Stock	1,02,000	62,000
x (30%) each other	30,600	18,600

GP Ratio of :

A **B**

GP Ratio = $\frac{GP}{Sales} \times 100 = \frac{1,74,000}{5,72,000 + 1,30,000} \times 100 \quad = \frac{1,57,000}{4,60,000 + 1,18,000} \times 100$

= 24.79% = 27.16%

Profit in stock of A = 30,600 × 27.16% = 8311
Profit in stock of B = 18,600 × 24.79% = 4611
Total Stock Reserve = ₹ 12,922

Chapter - 12 : Branch Accounts & Foreign Branches

2014 - Nov [6] (a)

In the books of LMN Ltd.

Branch A/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By Stock Reserve	10,000
Stock	40,000	By Goods sent to Branch	
Debtors	25,000	(Loading)	45,000
Cash	1,000	By Goods sent to Branch	
Office furniture	4,000	(Return)	8,000
To Goods sent to Branch	1,80,000	By Cash/Bank (remittance)	1,85,000
To Goods sent to Branch		By Balance c/d	
(Loading)	2,000	Stock	35,000
To Bank		Debtors	28,450
Salary	4,000	Cash	300
Staff welfare	750	Office furniture	3,600
Telephone Expense	1,200		
To Stock Reserve	8,750		
To P & L A/c	48,650		
	3,15,350		3,15,350

Working Note:

1. **Calculation of closing balance of debtors**

Particulars	Amount	Particulars	Amount
To Balance b/d	25,000	By Return	1,250
To Sales	70,000	By Cash	65,000
		By Discount	300
		By Balance c/d	28,450
	95,000		95,000

2. **Calculation of Remittance to Head Office**

Cash Sales = 1,20,000
Collection from Customer = 65,000
Remittance = 1,85,000

3. **Closing Cash Balance:**

Opening Cash =1,000
(-) Misc. Exp. = (700)
Closing Cash = 300

2014 - Nov [7] (b)

Indicators of Non Integral Foreign Operations:

1. **Autonomy:**
   → While the reporting enterprise may control the foreign operation, the activities of the foreign operation are carried out with a significant degree of autonomy from those of the reporting enterprise.
2. **Transaction Pattern:**
   → Transactions with the reporting enterprise are not a high proportion of the foreign operation's activities.
3. **Financing:**
   → The activities of the foreign operation are financed mainly from its own operations or local borrowings rather than from reporting enterprise.
4. **Expenditure in local currency:**
   → Costs of labour, material and other components of the foreign operations products or services are primarily paid or settled in the local currency rather than in the reporting currency.
5. **Sales Pattern:**
   → The foreign operation's sales are mainly in currencies other than the reporting currency.
6. **Effect of Cash Flows:**
   → Cash Flows of the reporting enterprise are insulated from day to day activities of the foreign operation rather than being directly affected by the activities of the foreign operation.

7. **Prices of Products:**
   → Sales prices for the foreign operation's products are not primarily responsive on a short-term basis to changes in exchange rates but are determined more by local competition or Local Government Regulations.
8. **Local Market:**
   → There is an active local sales market for the foreign operations products, although there might be significant amounts of exports.

Chapter - 14 : Amalgamation, Conversion and Sale of Partnership Firms

2014 - Nov [2] **In the books of PQ**

Balance Sheet as at 30-6-2014

Liabilities		Amount	Asset	Amount
Capital			Plant	1,52,000
P	= 1,34,400			
Q	= 1,16,400	2,50,800		
Creditors		60,000	Building	45,600
Bank overdraft		40,000	Debtors	68,000
P&L		10,800	Stock	84,000
			Cash	6,000
			JLP	6,000
		3,61,600		3,61,600

Realisation A/c

Particulars	Amount	Particulars		Amount
To Plant	1,52,000	By Creditors		60,000
To Building	45,600	By BOD		40,000
To Debtors	68,000	By P Q Ltd.		2,55,600
To Stock	84,000			
To Cash	6,000	By P	= 65,000	
To Goodwill	1,30,000	Q	= 65,000	1,30,000
	4,85,600			4,85,600

Partner's Capital A/c

Particulars	P	Q	Particulars	P	Q
To Drawings	9,000	7,000	By Balance	1,50,000	1,30,000
To P&L	15,000	15,000	By Rev^{n}	5,400	5,400

To Bal. c/d	1,34,400	1,16,400	By JLP	3,000	3,000
	1,58,400	1,38,400		1,58,400	1,38,400
To Rec^n	65,000	65,000	By Balance	1,34,400	1,16,400
To PQ Ltd.	1,39,800	1,21,800	By P&L	5,400	5,400
			By Goodwill	65,000	65,000
	2,04,800	1,86,800		2,04,800	1,86,800

Working Note:

1. **Calculation of Profit earned during period - 31/ 4 to 30/6**

Revaluation A/c

Particulars	Amount	Particulars	Amount
To Depreciation (Plant)	8,000	By Creditors	20,000
To Building	2,400	By Bank O/D	5,000
To Debtors	7,000	By Stock	14,000
To P&L	10,800		
To P = 5,400			
Q = 5,400	10,800		
	39,000		39,000

2. **Calculation of Purchase Consideration:**

	Plant	=	1,52,000
	Building	=	45,600
	Debtors	=	68,000
	Stock	=	84,000
	Cash	=	6,000
(-)	Creditors	=	(60,000)
(-)	Bank O/D	=	(40,000)
Purchase Consideration		=	2,55,600

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FOR NOTES

FOR NOTES