MOCK TEST PAPER – 2

INTERMEDIATE (IPC) COURSE: GROUP – II

PAPER – 5: ADVANCED ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **five** questions from the remaining **six** questions.*

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working Notes should form part of the answer.

Time Allowed: 3 Hours **Maximum Marks: 100**

1. (a) S.T.B. Ltd. makes provision for expenses amounting Rs. 7,00,000 as on March 31, 2020, but the actual expenses during the year ending March 31, 2021 comes to Rs. 9,00,000 against provision made during the last year. State with reasons whether difference of Rs. 2,00,000 is to be treated as prior period item as per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies'.

(b) (i) Explain the treatment for the amount refundable in respect of a government grant related to revenue.

(ii) A Ltd. has set up its business in a designated backward area with an investment of Rs. 200 Lakhs. The Company is eligible for 25% subsidy and has received Rs. 50 Lakhs from the Government. Explain the treatment of the capital subsidy received from the Government in the Books of the Company.

(c) 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 Rs. 200 lacs. 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.

(d) Plymouth Ltd. is engaged in research on a new process design for its product. It had incurred Rs. 10 lakh on research during first 5 months of the financial year 2020-21. The development of the process began on 1st September, 2020 and up to 31st March, 2021, a sum of Rs. 8 lakh was incurred as Development Phase Expenditure, which meets assets recognition criteria. From 1st April, 2021, the Company has implemented the new process design and it is likely that this will result in after tax saving of Rs. 2 lakh per annum for next five years. The cost of capital is 10%. The present value of annuity factor of Rs. 1 for 5 years @ 10% is 3.7908. Decide the treatment of Research and Development Cost of the project as per AS 26. **(4 Parts x 5 Marks = 20 Marks)**

2. (a) Omega has a branch at Washington. Washington branch is a non-integral foreign operation of the Omega. Its Trial Balance as at 30th September, 2021 is as follows:

	Dr.	Cr.
	US $	US $
Plant and machinery	1,20,000	–
Furniture and fixtures	8,000	–
Stock, Oct. 1, 2020	56,000	–
Purchases	2,40,000	–
Sales	–	4,16,000
Goods from Omega (H.O.)	80,000	–
Wages	2,000	–

Carriage inward	1,000	–
Salaries	6,000	–
Rent, rates and taxes	2,000	–
Insurance	1,000	–
Trade expenses	1,000	–
Head Office A/c	–	1,14,000
Trade debtors	24,000	–
Trade creditors	–	17,000
Cash at bank	5,000	–
Cash in hand	1,000	–
	5,47,000	5,47,000

The following further information is given:

(1) Wages outstanding – $ 1,000.

(2) Depreciate Plant and Machinery and Furniture and Fixtures @ 10 % p.a on W.D.V basis.

(3) The Head Office sent goods to Branch for Rs. 39,40,000.

(4) The Head Office shows an amount of Rs. 43,00,000 due from Branch.

(5) Stock on 30th September, 2021 – $ 52,000.

(6) There were no in transit items either at the start or at the end of the year.

(7) On September 1, 2019, when the fixed assets were purchased, the rate of exchange was Rs. 38 to one $.

On October 1, 2020, the rate was Rs. 39 to one $.

On September 30, 2021, the rate was Rs. 41 to one $.

Average rate during the year was Rs. 40 to one $.

You are asked to prepare: (i) Trial balance incorporating adjustments given under 1 to 4 above, converting dollars into rupees; (ii) Trading and Profit and Loss Account for the year ended 30th September, 2021 and Balance Sheet as on that date depicting the profitability and net position of the Branch as would appear in India for the purpose of incorporating in the main Balance Sheet.

(b) Department A sells goods to Department B at a profit of 50% on cost and to Department C at 20% on cost. Department B sells goods to A and C at a profit of 25% and 15% respectively on sales. Department C charges 30% and 40% profit on cost to Department A and B respectively.

Stock lying at different departments at the end of the year are as under:

	Department A	Department B	Department C
	Rs.	Rs.	Rs.
Transfer from Department A	-	45,000	42,000
Transfer from Department B	40,000	-	72,000
Transfer from Department C	39,000	42,000	-

You are required to calculate the unrealized profit of each department. **(12+ 4= 16 Marks)**

3. (a) A partnership firm was dissolved on 30th June, 2020. Its Balance Sheet on the date of dissolution was as follows:

Liabilities	Rs.	Rs.	Assets	Rs.
Capitals:			Cash	10,800

A	76,000		Sundry Assets	1,89,200
B	48,000			
C	36,000	1,60,000		
Loan A/c – B		10,000		
Sundry Creditors		30,000		
		2,00,000		2,00,000

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid Rs. 29,000 in full settlement of their account. Expenses of realization were estimated to be Rs. 5,400 but actual amount spent was Rs. 4,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:

	Rs.
On 5th July, 2020	25,200
On 30th August, 2020	60,000
On 15th September, 2020	80,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

(b) Explain Garner v/s Murray rule applicable in the case of partnership firms. State the conditions when this rule is not applicable. **(12+4=16 Marks)**

4. Meghna Limited gives the following information as on 31-03-2021:

Particulars	Amount (Rs. in lakh)
Share capital	
Issued, subscribed and paid up:	
100 lakh Equity Shares of Rs. 10 each, full paid up	1,000
4 lakh 8% Preference Shares of Rs. 100 each, fully paid up	400
Debit balance of Profit & Loss A/c	522
6% Debentures (secured by Freehold Property)	400
Directors' Loan	300
Trade Payables	102
Interest accrued and outstanding on 6% Debentures	24
Freehold Property	550
Plant & Machinery	200
Current Investments (Investment in Equity Instruments)	200
Inventories (Finished goods)	300
Trade Receivables	450
Bank balance	4

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to Rs. 80 each and Equity Shares to Rs. 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of Rs. 2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of Rs. 300 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at Rs. 400 lakh.

(6) All investments sold out for Rs. 250 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of Rs. 2 each to be allowed.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to Rs. 600 lakh have been settled by paying 5% penalty of contract value.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Capital Reduction Account. **(16 Marks)**

5. (a) From the following balances extracted from the books of ABC General Insurance Company Ltd. as on 31st March, 2021, you are required to prepare Revenue Accounts in respect of Fire and Marine Insurance Business for the year ended 31st March, 2021.

Particulars	Fire (Rs.)	Marine (Rs.)
Outstanding Claim as on 1st April, 2020	56,000	14,000
Claims Paid	2,00,000	1,60,000
Reserve for unexpired risk as on 1st April, 2020	4,00,000	2,80,000
Premium Received	9,00,000	6,60,000
Agent's Commission	80,000	40,000
Expenses of management (Inclusive of legal expenses regarding settlement of claims Rs. 10,000 and Rs. 8,000 respectively for Fire and Marine business)	1,20,000	90,000
Re-Insurance Premium (Dr. balance)	50,000	30,000

The following additional points are also to be taken into consideration:

(1) Claims outstanding as on 31st March, 2021 were as follows:

(a) Fire Insurance Rs. 20,000

(b) Marine Insurance Rs. 30,000

(2) Premium outstanding as on 31st March, 2021 were as follows:

(a) Fire Insurance Rs. 60,000

(b) Marine Insurance Rs. 40,000

(3) Reserve for unexpired risk to be maintained at 50% and 100% of net premiums in respect of Fire & Marine Insurance respectively.

(4) Expenses of management due on 31st March, 2021 were Rs. 20,000 for Fire Insurance and Rs. 10,000 in respect of Marine Insurance.

(b) The following is an extract of Trial Balance a bank as on 31st March, 2021:

	Dr. (Rs.)	Cr. (Rs.)
Bill Discounted	15,16,800	
Discount Received		1,26,859
Rebate on Bills discounted not due on 31st March, 2020		26,592

An analysis of bill discounted is as follows :

Amount in Rs.	**Due Date**	**Rate of Discount**
1,46,200	4th May, 2021	15
2,30,400	12th May, 2021	15
4,35,900	28th May, 2021	15
4,36,200	18th June, 2021	16
2,68,100	4th July, 2021	16

You are required to calculate Rebate on Bills Discounted as on 31st March, 2021 and show necessary Journal Entries. **(10 + 6 =16 Marks)**

6. (a) Super Ltd. gives the following information as on 31st March, 2021.

	Rs.
Share Capital: Equity Shares of Rs. 10 each fully paid up	17,00,000
Revenue Reserve	23,50,000
Securities Premium	2,50,000
Profit & Loss Account (credit balance)	2,00,000
Infrastructure Development Reserve	1,50,000
9% Debentures (secured)	22,50,000
Unsecured Loan	8,50,000
Current Maturities of Long term borrowings (unsecured)	15,50,000
Property, Plant and Equipment	58,50,000
Current Assets	34,50,000

Super Limited wants to buy back 35,000 equity shares of Rs. 10 each fully paid up on 1st April, 2021 at Rs. 30 per share.

Buy Back of shares is fully authorised by its articles and necessary resolutions have 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 as part of the Current Assets. Comment with calculations, whether the buy Back of shares by the company is within the provisions of the Companies Act, 2013.

(b) Om Ltd. has its share capital divided into Equity Shares of Rs. 10 each. On 1st April, 2020, the company offered 250 shares to each of its 520 employees at Rs. 60 per share, when the market price was Rs. 150 per share. The options were to be exercised between 01-03-2021 to 31-03-2021. 410 employees accepted the offer and paid Rs. 60 per share on purchased shares and the remaining options lapsed. You are required to show Journal Entries (with narrations) as would appear in the books of Om Ltd. for the year ended 31st March, 2021 with regard to employee stock options. **(10+6 =16 Marks)**

7. Answer any **four** of the following:

(a) Sunshine Company Limited imported raw materials worth US Dollars 9,000 on 25th February, 2021, when the exchange rate was Rs. 44 per US Dollar. The transaction was recorded in the books at the above mentioned rate. The payment for the transaction was made on 10th April, 2021, when the exchange rate was Rs. 48 per US Dollar. At the year-end 31st March, 2021, the rate of exchange was Rs. 49 per US Dollar. The Chief Accountant of the company passed an entry on 31st March, 2021 adjusting the cost of raw material consumed for the difference between Rs. 48 and Rs. 44 per US Dollar. Discuss whether this treatment is justified as per the provisions of AS 11.

(b) A Liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for Rs. 37,50,000 against which payment was made as follows:

Liquidation Expenses	Rs. 37,500
Secured Creditors	Rs. 15,00,000
Preferential Creditors	Rs. 1,12,500

The amount due to Unsecured Creditors was Rs. 22,50,000. You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee.

(c) A Bank gives you the following details about its assets:

Assets		**Rs. in Lakhs**
Standard		75,00
Sub-Standard		60,00
Doubtful:	for 1 Year (fully secured)	12,00
	for 1 to 3 Year (fully secured)	9,00
	for more than 3 Years	9,00
Loss Assets		15,00

Additional Information:

(1) Standard Assets includes Rs. 15,00 Lakhs Advances to Commercial Real Estate (CRE).

(2) Out of Rs. 60,00 Lakhs of Sub-Standard Asset Rs. 20,00 Lakhs are unsecured. Unsecured amount includes Rs. 5,00 Lakhs in respect of Infrastructure Loan Accounts with ESCROW safeguard.

(3) Doubtful Asset for more than 3 Years includes Rs. 4,00 Lakhs, which is covered by 50% ECGC, value of security of which is Rs. 150 Lakhs.

You are required to find out the amount of provision to be shown in the Profit & Loss Account of Bank.

(d) Give necessary Journal Entries in the books of Head Office to rectify or adjust the following:

(i) Goods sent to Branch Rs. 12,000 stolen during transit. Branch manager refused to accept any liability. Refusal of branch manager (to accept liability of stolen goods) was accepted by the Head Office.

(ii) Branch paid Rs. 15,000 as salary to the officer of Head Office on his visit to the branch.

(iii) A remittance of Rs. 10,000 sent by the branch on 30th March, 2021, received by the Head Office on 1st April, 2021.

(iv) Head Office made payment of Rs. 25,000 for purchase of goods by Branch and wrongly debited its own purchase account.

(e) Explain the nature of Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership? **(4 Parts x 4 Marks = 16 Marks)**