Test Series: October, 2020

MOCK TEST PAPER

INTERMEDIATE (IPC) (OLD) 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) The financial statements of Alpha Ltd. for the year 2019-2020 were approved by the Board of Directors on 15th July, 2020. The following information was provided:

(i) A suit against the company's advertisement was filed by a party on 20th April, 2020 claiming damages of ₹ 25 lakhs.

(ii) The terms and conditions for acquisition of business of another company had been decided by March, 2020. But the financial resources were arranged in April, 2020 and amount invested was ₹ 50 lakhs.

(iii) Theft of cash of ₹ 5 lakhs by the cashier on 31st March, 2020, was detected on 16th July, 2020.

(iv) The company started a negotiation with a party to sell an immovable property for ₹ 40 lakhs in March, 2020. The book value of the property is ₹ 30 lakh on 31st March, 2020. However, the deed was registered on 15th April, 2020.

(v) A major fire had damaged the assets in a factory on 5th April, 2020. However, the assets were fully insured.

With reference to AS 4, state whether the above mentioned events will be treated as contingencies, adjusting events or non-adjusting events occurring after the balance sheet date.

(b) On 1st April, 2019 a company had 6,00,000 equity shares of ₹ 10 each (₹ 5 paid up by all shareholders). On 1st September, 2019 the remaining ₹ 5 was called up and paid by all shareholders except one shareholder having 60,000 equity shares. The net profit for the year ended 31st March, 2020 was ₹ 21,96,000 after considering dividend on preference shares and dividend distribution tax on such dividend totalling to ₹ 3,40,000.

You are required to compute Basic EPS for the year ended 31st March, 2020 as per Accounting Standard 20 "Earnings Per Share".

(c) Monu Ltd. sold machinery having WDV of ₹ 400 lakhs to Sonu Ltd. for ₹ 500 lakhs and the same machinery was leased back by Sonu Ltd. to Monu Ltd. The lease back was in nature of operating lease.

Explain the accounting treatment as per AS 19 in the following cases:

(i) Sale price of ₹ 500 lakhs is equal to fair value.

(ii) Fair value is ₹ 450 lakhs and sale price is ₹ 380 lakhs.

(iii) Fair value is ₹ 400 lakhs and sale price is ₹ 500 lakhs.

(iv) Fair value is ₹ 460 lakhs and sale price is ₹ 500 lakhs

(d) Change Ltd. acquired a patent (renewable in nature) at a cost of ₹ 2,40,00,000 for a period of 5 years and the product life cycle was also 5 years. The company capitalized the cost of patent and started amortizing the asset at ₹ 48,00,000 per annum. After two years it was found that the product life cycle may continue for another 5 years from then and the company got it renewed. The net cash flows from the product during these 5 years were expected to be ₹ 36,00,000, ₹ 46,00,000, ₹ 44,00,000, ₹ 40,00,000 and ₹ 34,00,000. Find out the amortization cost of the patent for each of the years.

(4 Parts x 5 Marks = 20 Marks)

2. M, N and O were Partners sharing Profits and Losses in the ratio of 5:3:2 respectively. The Trial Balance of the Firm as on 31st March, 2020 was as follows:

Particulars	₹	₹
Machinery at Cost	2,00,000	
Inventory	1,37,400	
Trade receivables	1,24,000	
Trade payables		1,69,400
Capital A/cs:		
M		1,36,000
N		90,000
O		46,000
Drawing A/cs:		
M	50,000	
N	46,000	
O	34,000	
Depreciation on Machinery		80,000
Profit for the year ended 31st March		2,48,600
Cash at Bank	1,78,600	
	7,70,000	7,70,000

Interest on Capital Accounts at 10% p.a. on the amount standing to the credit of Partners' Capital Accounts at the beginning of the year, was not provided before preparing the above Trial Balance. On the above date, they formed a MNO Private Limited Company with an Authorized Share Capital of 2,00,000 in shares of ₹ 10 each to be divided in different classes to take over the business of Partnership firm.

You are given the terms and conditions as under:

1. Machinery is to be transferred at ₹ 1,40,000.
2. Shares in the Company are to be issued to the partners, at par, in such numbers, and in such classes as will give the partners, by reason of their shareholdings alone, the same rights as regards interest on capital and the sharing of profit and losses as they had in the partnership.
3. Before transferring the business, the partners wish to draw from the partnership profits to such an extent that the bank balance is reduced to ₹ 1,00,000. For this purpose, sufficient profits of the year are to be retained in profit-sharing ratio.
4. Assets and liabilities except Machinery and Bank, are to be transferred at their book value as on the above date.

You are required to prepare:

(a) Statement showing the workings of the Number of Shares of each class to be issued by the company, to each partner.

(b) Capital Accounts showing all adjustments required to dissolve the Partnership.

(c) Balance Sheet of the Company immediately after acquiring the business of the Partnership and Issuing of Shares. **(16 Marks)**

3. Two companies named Alex Ltd. and Beta Ltd. provide you the following summary of ledger balances as on 31st March, 2020 was as under:

	Alex Ltd. (₹)	*Beta Ltd. (₹)*
Goodwill	1,40,000	70,000
Building	8,40,000	2,80,000
Machinery	14,00,000	4,20,000
Inventory	7,00,000	4,90,000
Trade receivables	5,60,000	2,80,000
Cash at Bank	1,40,000	56,000
Equity Shares of ₹ 10 each	28,00,000	8,40,000
8% Preference Shares of ₹ 100 each	2,80,000	–
10% Preference Shares of ₹ 100 each	–	2,80,000
General Reserve	1,96,000	1,96,000
Retirement Gratuity fund	1,40,000	56,000
Trade payables	3,64,000	2,24,000

Beta Ltd. is absorbed by Alex Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 8% Preference Shares of Alex Ltd.

(b) Goodwill of Beta Ltd. is valued at ₹ 1,40,000, Buildings are valued at ₹ 4,20,000 and the Machinery at ₹ 4,48,000.

(c) Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.

(d) Equity Shareholders of Beta Ltd. will be issued Equity Shares of Alex Ltd. @ 5% premium.

You are required to:

(i) Prepare necessary Ledger Accounts to close the books of Beta Ltd.

(ii) Show the acquisition entries in the books of Alex Ltd.

(iii) Also draft the Balance Sheet after absorption as at 31st March, 2020. **(16 Marks)**

4. (a) The books of account of Assurance Company provide the following information related with its fire insurance business as on 31st March, 2020:

Particulars	Amount (₹)
Reserve for Unexpired Risks on March 31, 2019	4,00,000
Additional Reserve for Unexpired Risks on March 31, 2019	80,000

Premiums	12,50,000
Claims Paid	5,90,000
Outstanding Claims:	
On 31st March, 2019	55,000
On 31st March, 2020	85,000
Expenses of management	2,50,000
Legal Expenses for claims	30,000
Interest and Dividend	74,750
Income Tax on the above	7,920
Profit on sale of Investment	12,000
Commission paid	1,75,000
Reserve for Unexpired Risks on March 31, 2020	6,10,000
Additional Reserve for Unexpired Risks on March 31, 2020	78,000

You are required to prepare the Fire Insurance Revenue Account as per the regulations of IRDA for the year ended 31st March, 2020.

(b) (i) What is meant by the term "Rebate on bills discounted"? Explain in brief.

(ii) For a banking company, bills for collection was ₹ 21 lakhs as on 1st April, 2019. During 2019-20, bills received for collection amounted to ₹ 193.50 lakhs. Bills collected were ₹ 141 lakhs. Bills dishonoured was ₹ 16.50 lakhs. Prepare Bills for Collection (Assets) and Bills for Collection (Liabilities) Account. **(10 + 6 = 16 Marks)**

5. (a) Alpha Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2020:

	₹ In lakhs	₹ In lakhs
Equity & Liabilities		
Shareholders' Funds:		
Equity share capital (fully paid up shares of ₹ 10 each)		2,400
Reserves and Surplus:		
Securities Premium	350	
General Reserve	530	
Capital Redemption Reserve	400	
Profit & Loss Account	340	1,620
Non-current Liabilities:		
12% Debentures		1,500
Current Liabilities:		
Trade Payables	1,490	
Other Current Liabilities	390	1,880
Total		7,400
Assets		
Non-current Assets:		
Property, Plant and Equipment		4,052

Current Assets:		
Current Investments	148	
Inventories	1,200	
Trade Receivables	520	
Cash and Bank	1,480	3,348
Total		7,400

(i) On 1st April, 2020, the company announced buy-back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all its investment for ₹ 150 lakhs.

(ii) On 10th April, 2020 the company achieved the target of buy-back.

(iii) On 30th April, 2020, the company issued one fully paid up equity share of ₹ 10 each by way of bonus for every four equity shares held by the equity shareholders by capitalization of Capital Redemption Reserve.

You are required to pass necessary journal entries.

(b) Suvidhi Ltd. offered 50 stock options to each of its 1500 employees on 1st April 2019 for ₹ 30. Option was exercisable within a year it was vested. The shares issued under this plan shall be subject to lock-in on transfer for three years from the grant date. The market price of shares of the company is ₹ 50 per share on grant date. Due to post vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 38 per share. On 31st March, 2020,1200 employees accepted the offer and paid ₹ 30 per share purchased. Nominal value of each share is ₹ 10. Record the issue of shares in the books of the company under the aforesaid plan.

(12 + 4 =16 Marks)

6. (a) The following balances were extracted from the books of Beta. You are required to prepare Departmental Trading Account and general Profit & Loss Account for the year ended 31st March, 2020:

Particulars	*Deptt. A* ₹	*Deptt. B* ₹
Opening Stock	3,00,000	2,40,000
Purchases	39,00,000	54,60,000
Sales	60,00,000	90,00,000

General expenses incurred for both the Departments were ₹ 7,50,000 and you are also supplied with the following information:

(i) Closing stock of Department A ₹ 6,00,000 including goods from Department B for ₹ 1,20,000 at cost to Department A.

(ii) Closing stock of Department B ₹ 12,00,000 including goods from Department A for ₹ 1,80,000 at cost to Department B.

(iii) Opening stock of Department A and Department B include goods of the value of ₹ 60,000 and ₹ 90,000 taken from Department B and Department A respectively at cost to transferee departments.

(iv) The gross profit is uniform from year to year.

(b) Pass necessary Journal entries in the books of an independent Branch of a business entity to rectify or adjust the following:

(i) Income of ₹ 2,800 allocated to the Branch by Head Office but not recorded in the Branch books.

(ii) Provision for doubtful debts, whose accounts are kept by the Head Office, not provided earlier for ₹1,000.

(iii) Branch paid ₹3,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.

(iv) Branch incurred travelling expenses of ₹5,000 on behalf of other Branches, this was not recorded in the books of Branch.

(v) A remittance of ₹1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.

(vi) Head Office allocates ₹75,000 to the Branch as Head Office expenses, which has not yet been recorded by the Branch.

(vii) Head Office collected ₹30,000 directly from a Branch Customer. The intimation of the fact has been received by the Branch only now, not recorded till now.

(viii) Goods dispatched by the Head office amounting to ₹10,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently. **(8+8= 16 Marks)**

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

(a) On 01.04.2017, XYZ Ltd. received Government grant of ₹ 100 Lakhs for an acquisition of new machinery costing ₹ 500 lakhs. The grant was received and credited to the cost of the assets. The life span of the machinery is 5 years. The machinery is depreciated at 20% on WDV method. The company had to refund the entire grant in 2nd April, 2020 due to non-fulfilment of certain conditions which was imposed by the government at the time of approval of grant. How do you deal with the refund of grant to the Government in the books of XYZ Ltd., as per AS 12?

(b) Explain the nature of Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership?

(c) Statement of interest on advances in respect of Performing assets and Non-Performing Assets of Omega Bank is as follows:- (in lakhs)

	Performing Assets		Non-Performing Assets	
	Interest earned	Interest received	Interest earned	Interest received
Cash credits and overdrafts	1800	1060	450	70
Term Loan	480	320	300	40
Bills purchased and discounted	700	550	350	36

Find out the income to be recognized for the year ended 31st March, 2020.

(d) 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 ₹ 25,00,000 against which payment was made as follows:

Liquidation expenses ₹ 25,000

Secured Creditors	₹ 10,00,000
Preferential Creditors	₹ 75,000

The amount due to Unsecured Creditors was ₹ 15,00,000. You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee.

(e) Ganesh Ltd. has head office at Delhi (India) and branch at New York. New York branch is an integral foreign operation of Ganesh Ltd. New York branch furnishes you with its trial balance as on 31st March, 2020 and the additional information given thereafter:

	Dr. ($)	*Cr. ($)*
Stock on 1st April, 2019	300	–
Purchases and sales	800	1,500
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Sundry expenses	1,080	–
Bank balance	420	–
Delhi office A/c	–	1,080
	3,120	3,120

The rates of exchange may be taken as follows:

- on 1.4.2019 @ ₹40 per US $
- on 31.3.2020 @ ₹42 per US $
- average exchange rate for the year @ ₹ 41 per US $.

New York branch account showed a debit balance of ₹ 44,380 on 31.3.2020 in Delhi books and there were no items pending reconciliation.

You are asked to prepare trial balance of New York in ₹ in the books of Ganesh Ltd.

(4 Parts x 4 Marks= 16 Marks)