Test Series: Ocrtober, 2020

MOCK TEST PAPER

INTERMEDIATE (IPC) : GROUP – II

PAPER – 5: ADVANCED ACCOUNTING

1. (a) (i) Non-adjusting event: Suit filed against the company is a contingent liability but it was not existing as on date of balance sheet date as the suit was filed on 20th April after the balance sheet date. As per AS 4, 'Contingencies' is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. Hence, it will have no effect on financial statement and will be a non-adjusting event.

(ii) Adjusting event: In the given case, terms and conditions for acquisition of business were finalised before the balance sheet date and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2020. Hence, necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st March 2020.

(iii) Non-adjusting event: Only those events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustments to assets and liabilities as at the balance sheet date or may require disclosure. In the given case, as the theft of cash was detected on 16th July, 2020 ie after approval of financial statements, no adjustment is required.

(iv) Non-adjusting event: Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. In the given case, sale of immovable property was under proposal stage (negotiations only started) on the balance sheet date, and was not finalized. Therefore, adjustment to assets for sale of immovable property is not necessary in the financial statements for the year ended 31st March, 2020. Disclosure may be given in Report of approving Authority.

(v) Non-adjusting event: Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. The condition of fire occurrence was not existing on the balance sheet date. Only the disclosure regarding fire and loss, being completely insured may be given in the report of approving authority.

(b) Basic Earnings per share (EPS) =

$$\frac{\text{Net profit attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$$

$$= \frac{21,96,000}{4,57,500 \text{ Shares (as per working note)}} = ₹\ 4.80 \text{ per share}$$

Working Note:

Calculation of weighted average number of equity shares

As per AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period. Assuming that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows:

Date	*No. of equity shares*	*Amount paid per share*	*Weighted average no. of equity shares*
	₹	₹	₹
1.4.2019	6,00,000	5	6,00,000 x 5/10 x 5/12 = 1,25,000
1.9.2019	5,40,000	10	5,40,000 x 7/12 = 3,15,000
1.9.2019	60,000	5	60,000 x 5/10 x 7/12 = 17,500
Total weighted average equity shares			4,57,500

(c) Following will be the treatment in the given cases:

(i) When sales price of ₹ 500 lakhs is equal to fair value, Monu Ltd. should immediately recognise the profit of ₹ 100 lakhs (i.e. 500 – 400) in its books.

(ii) When fair value of leased machinery is ₹ 450 lakhs & sales price is ₹ 380 lakhs, then loss of ₹ 20 lakhs (400 – 380) to be immediately recognised by Monu Ltd. in its books provided loss is not compensated by future lease payment.

(iii) When fair value is ₹ 400 lakhs & sales price is ₹ 500 lakhs then, profit of ₹ 100 lakhs is to be deferred and amortised over the lease period.

(iv) When fair value is ₹ 460 lakhs & sales price is ₹ 500 lakhs, profit of ₹ 60 lakhs (460-400) to be immediately recognised in its books and balance profit of ₹ 40 lakhs (500-460) is to be amortised/deferred over lease period.

(d) Change Limited amortised ₹ 48,00,000 per annum for the first two years i.e. ₹ 96,00,000. The remaining carrying cost can be amortized during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows:

Year	**Net cash flows ₹**	**Amortization Ratio**	**Amortization Amount ₹**
I	-	0.20	48,00,000
II	-	0.20	48,00,000
III	36,00,000	0.180	25,92,000
IV	46,00,000	0.230	33,12,000
V	44,00,000	0.220	31,68,000
VI	40,00,000	0.200	28,80,000
VII	34,00,000	0.170	24,48,000
Total	2,00,00,000	1.000	2,40,00,000

It may be seen from above that from third year onwards, the balance of carrying amount i.e., ₹ 1,44,00,000 has been amortized in the ratio of net cash flows arising from the product of Change Ltd.

2. (i) Number of Shares to be issued to Partners

	₹
Assets: Machinery ₹ 1,40,000 + Inventory ₹ 1,37,400 + Trade Receivable ₹1,24,000 + Bank ₹ 1,00,000	5,01,400
Less: Liabilities taken over	(1,69,400)
Net Assets taken over (Purchase Consideration)	3,32,000

Classes of Shares to be issued:	M	N	O	Total
10% Preference Shares of ₹ 10 each (to retain rights as to Interest on Capital)	1,36,000	90,000	46,000	2,72,000
Balance in Equity Shares of ₹ 10 each	30,000	18,000	12,000	60,000
(3,32,000 -2,72,000) (issued in profit sharing ratio)				
	1,66,000	1,08,000	58,000	3,32,000

(ii) Partners' Capital Accounts

Particulars	M	N	O	Particulars	M	N	O
To Drawings	50,000	46,000	34,000	By balance b/d	1,36,000	90,000	46,000
To 10% Preference share capital	1,36,000	90,000	46,000	By Interest on Capital	13,600	9,000	4,600
To Equity Shares	30,000	18,000	12,000	By profit for the year 5:3:2 (W.N. 1)	1,10,700	66,420	44,280
To Bank –Additional drawings (W.N. 2)	54,300	17,420	6,880	By Machinery* A/c	10,000	6,000	4,000
Total	2,70,300	1,71,420	98,880		2,70,300	1,71,420	98,880

* Gain on Transfer of Machinery = ₹ 1,40,000 – (₹ 2,00,000-₹ 80,000) = ₹ 20,000 in 5:3:2 ratio.

(iii) Balance sheet of MNO Ltd. as on 31st March, 2020 (after Takeover of Firm)

		Note no.	₹
I	**Equity and Liabilities:**		
	(1) Shareholders Funds		
	Share Capital	1	3,32,000
	(2) Current Liabilities		
	Trade Payables		1,69,400
	Total		5,01,400
II	**Assets**		
	(1) Non-Current Assets		
	Property, plant and equipment - Machinery		1,40,000
	(2) Current Assets:		
	(a) Inventories		1,37,400
	(b) Trade Receivables		1,24,000
	(c) Cash and Cash Equivalents		1,00,000
	Total		5,01,400

Notes to Accounts

Particulars	₹
Share capital	
Authorized shares capital	20,00,000
Issued, Subscribed & paid up	
6,000 Equity Shares of ₹ 10 each	60,000
27,200 10% Preference Shares capital of ₹ 10 each	2,72,000
(All above shares issued for consideration other than cash, in takeover of partnership firm)	**3,32,000**

Working Notes:

1. **Profit & Loss Appropriation Account for the year ended 31st March, 2020**

Particulars	₹	₹	Particulars	₹
To Interest on Capital:			By Net Profit (given)	2,48,600
M [₹ 1,36,000 x 10%]	13,600			
N [₹ 90,000 x 10%]	9,000			
O [₹ 46,000 x 10%]	4,600	27,200		
To Profits transferred to Capital in profit sharing ratio 5:3:2				
M	1,10,700			
N	66,420			
O	44,280	2,21,400		
		2,48,600		2,48,600

2. **Statement showing Additional Drawings in Cash**

(a) **Funds available for Drawings**

	Total Drawing of Partners (given)	1,30,000
Add:	Further Funds available for Drawings (1,78,600-1,00,000)	78,600
		2,08,600
Less:	Interest on Capital	(27,200)
	Amount available for Drawings	1,81,400

(b) **Ascertainment of Additional Drawings**

Particulars	M	N	O
As per above statement ₹ 1,81,400 (in profit sharing ratio)	90,700	54,420	36,280
Add: Interest	13,600	9,000	4,600
	1,04,300	63,420	40,880
Less: Already drawn	(50,000)	(46,000)	(34,000)
Additional Drawings	54,300	17,420	6,880

3. (i) **In the Books of Beta Ltd.**

Realisation Account

	₹		₹
To Sundry Assets	15,96,000	By Retirement Gratuity Fund	56,000
To Preference Shareholders (Premium on Redemption)	28,000	By Trade payables (Purchase Consideration)	2,24,000
To Equity Shareholders (Profit on Realisation)	1,40,000	By Alex Ltd.	14,84,000
	17,64,000		17,64,000

Equity Shareholders Account

	₹		₹
To Equity Shares of Alex Ltd.	11,76,000	By Share Capital	8,40,000
		By General Reserve	1,96,000
		By Realisation Account (Profit on Realisation)	1,40,000
	11,76,000		11,76,000

Preference Shareholders Account

	₹		₹
To 8% Preference Shares of Alex Ltd.	3,08,000	By Preference Share Capital	2,80,000
		By Realisation Account (Premium on Redemption of Preference Shares)	28,000
	3,08,000		3,08,000

Alex Ltd. Account

	₹		₹
To Realisation Account	14,84,000	By 8% Preference Shares	3,08,000
		By Equity Shares	11,76,000
	14,84,000		14,84,000

(ii) **Journal Entries In the Books of Alex Ltd.**

		Dr.	Cr.
		₹	₹
Business Purchase A/c	Dr.	14,84,000	
To Liquidators of Beta Ltd. Account			14,84,000
(Being business of Beta Ltd. taken over)			
Goodwill Account	Dr.	1,40,000	
Building Account	Dr.	4,20,000	
Machinery Account	Dr.	4,48,000	
Inventory Account	Dr.	4,41,000	
Trade receivables Account	Dr.	2,80,000	
Bank Account	Dr.	56,000	
To Retirement Gratuity Fund Account			56,000
To Trade payables Account			2,24,000
To Provision for Doubtful Debts Account			21,000
To Business Purchase A/c			14,84,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Beta Ltd. A/c	Dr.	14,84,000	
To 8% Preference Share Capital A/c			3,08,000
To Equity Share Capital A/c			11,20,000

To Securities Premium A/c		56,000
(Being Purchase Consideration satisfied as above).		

(iii) Balance Sheet of Alex Ltd. (after absorption) as at 31st March, 2020

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	45,08,000
	B	Reserves and Surplus	2	2,52,000
2		**Non-current liabilities**		
	A	Long-term provisions		1,96,000
3		**Current liabilities**		
	A	Trade Payables		5,88,000
	B	Short term provision		21,000
		Total		55,65,000
		Assets		
1		**Non-current assets**		
		Property, plant and equipment	3	31,08,000
		Intangible assets		2,80,000
2		**Current assets**		
	A	Inventories		11,41,000
	B	Trade receivables		8,40,000
	C	Cash and cash equivalents		1,96,000
		Total		55,65,000

Notes to accounts:

		₹
1	**Share Capital**	
	Equity share capital	
	3,92,000 Equity Shares of ₹ 10 each fully paid (Out of above 1,12,000 Equity Shares were issued in consideration other than for cash)	39,20,000
	Preference share capital	
	5,880 8% Preference Shares of ₹ 100 each (Out of above 3,080 Preference Shares were issued in consideration other than for cash)	5,88,000
	Total	45,08,000
2	**Reserves and Surplus**	
	Securities Premium	56,000
	General Reserve	1,96,000
	Total	2,52,000
3	**Property, plant and equipment**	
	Buildings	12,60,000
	Machinery	18,48,000
	Total	31,08,000

Working Notes:

Purchase Consideration:	₹
Goodwill	1,40,000
Building	4,20,000
Machinery	4,48,000
Inventory	4,41,000
Trade receivables	2,59,000
Cash at Bank	56,000
Less: Liabilities:	
Retirement Gratuity	(56,000)
Trade payables	(2,24,000)
Net Assets/ Purchase Consideration	14,84,000
To be satisfied as under:	
Preference Shareholders of Beta Ltd.	2,80,000
Add: 10% Premium	28,000
Satisfied by issue of 3,080 no. of 8% Preference Shares of Alex Ltd.	3,08,000
Equity Shareholders of Beta Ltd. to be satisfied by issue of 1,12,000 Equity Shares of Alex Ltd. at 5% Premium	11,76,000
Total	14,84,000

4. (a) Fire Revenue Account for the year ended 31st March, 2020

Particulars	*Schedule*	*Amount (₹)*
Premium earned (net)	1	10,42,000
Profit or loss on sale/redemption of investment		12,000
Others		–
Interest and dividend* (gross)		74,750
Total (A)		11,28,750
Claims incurred (Net)	2	6,50,000
Commission	3	1,75,000
Operating expenses related to insurance	4	2,50,000
Total (B)		10,75,000
Operating profit/loss from insurance business (B) – (A)		53,750

Schedule –1 Premium earned (net)

	₹
Premium received	12,50,000
Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.)	(2,08,000)
Total premium earned	10,42,000

Schedule -2 Claims incurred (net)

	₹
Claims paid	5,90,000
Add: Legal expenses regarding claims	30,000

	6,20,000
Add: Claims outstanding as on 31st March, 2020	85,000
	7,05,000
Less: Claims outstanding as on 31st March, 2019	(55,000)
	6,50,000

Schedule -3 Commission

	₹
Commission paid	1,75,000

Schedule-4

	₹
Operating expenses related to Insurance Business:	
Expenses of management	2,50,000

Working Note:

Calculation for change in Reserve for Unexpired risk:

		₹
Reserve for Unexpired Risk as on 31st March, 2020	6,10,000	
Additional Reserve as on 31st March, 2020	78,000	6,88,000
Less: Reserve for Unexpired Risk as on 31st March, 2019	4,00,000	
Additional Reserve as on 31st March, 2019	80,000	(4,80,000)
Transfer to reserve for unexpired risk on 31st March 2020		2,08,000

Note: *Interest and dividends are shown at gross value in Revenue account. Amount of ₹ 74,750 given in the question has been considered as the gross amount (before deduction of tax). Income tax on it will not be shown in the Revenue account as it is the part of Profit and Loss account of an insurance company.

(b) **(i)** Banks discount hundreds of bills every day and when someone gets a bill discounted, the bank credits the discount account with the full amount of the discount, the bank will earn in respect of that bill. But in practice, it frequently happens that some of these bills will not mature by the close of the accounting year. The portion of the discount which relates to the period falling after the close of the accounting period is called 'rebate on bills discounted', or 'unearned discount'.

(ii) **Bills for Collection (Assets) Account**

	₹ in lacs		₹ in lacs
To Balance b/d	21	By Bills for collection	141
To Bills for collection	193.5	By Bills dishonoured	16.5
		By Balance c/d	57
	214.5		214.5

Bills for Collection (Liabilities) Account

	₹ in lacs		₹ in lacs
To Bills for collection	141	By Balance b/d	21
To Bills dishonoured	16.5	By Bills for collection	193.5

To Balance c/d	57		
	214.5		214.5

5. (a) **Journal Entries in the books of Alpha Limited**

Date 2020	*Particulars*		*Dr.*	*Cr.*
			(₹ in lakhs)	
April 1	Bank A/c	Dr.	150	
	To Investment A/c			148
	To Profit on sale of investment			2
	(Being investment sold on profit)			
April 10	Equity share capital A/c	Dr.	600	
	Securities premium A/c	Dr.	300	
	To Equity shares buy back A/c			900
	(Being the amount due to equity shareholders on buy back)			
	Equity shares buy back A/c	Dr.	900	
	To Bank A/c			900
	(Being the payment made on account of buy back of ₹ 60 Lakh Equity Shares)			
April 10	General reserve A/c	Dr.	530	
	Profit and Loss A/c	Dr.	70	
	To Capital redemption reserve (CRR) A/c			600
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)			
April 30	Capital redemption reserve A/c	Dr.	450	
	To Bonus shares A/c (W.N.1)			450
	(Being the utilization of capital redemption reserve to issue bonus shares)			
	Bonus shares A/c	Dr.	450	
	To Equity share capital A/c			450
	(Being issue of one bonus equity share for every four equity shares held)			
	Profit on sale of Investment	Dr.	2	
	To Profit and Loss A/c			2
	(Profit on sale transfer to Profit and Loss A/c)			

Note: For transferring amount equal to nominal value of buy back shares from free reserves to capital redemption reserve account, the amount of ₹ 340 lakhs from P & L A/c and the balance from general reserve may also be utilized. The combination of different set of amounts (from General Reserve and Profit and Loss Account) aggregating ₹ 600 lakhs may also be considered for the purpose of transfer to CRR.

Working Notes:

1. **Amount of equity share capital** = 2,400 - 600 (buyback) + 450 (Bonus shares)
= 2,250

2. Cash at bank after issue of bonus shares

	₹ in lakhs
Cash balance as on 1st April, 2020	1480
Add: Sale of investments	150
	1630
Less: Payment for buy back of shares	(900)
	730

(b) Journal Entries in the books of Suvidhi Ltd.

Date	*Particulars*	*Dr. (₹)*	*Cr. (₹)*
31.3.20	Bank A/c (60,000 shares x ₹ 30) Dr.	18,00,000	
	Employees stock compensation expense A/c Dr.	4,80,000	
	To Share Capital A/c (60,000 shares x ₹ 10)		6,00,000
	To Securities Premium (60,000 shares x ₹ 28)		16,80,000
	(Being shares issued under ESOP @ ₹ 30 to 1,200 employees)		
	Profit & Loss A/c Dr.	4,80,000	
	To Employees stock compensation expense A/c		4,80,000
	(Being Employees stock compensation expense transferred to Profit & Loss A/c)		

Working Note:

Fair value of an option = ₹ 38 – ₹ 30 = ₹ 8

Number of shares issued = 1,200 employees x 50 shares = 60,000 shares

Fair value of ESOP which will be recognized as expenses in the year 2019-2020

= 60,000 shares x ₹ 8 = ₹ 4,80,000

Vesting period = 1 year

Expenses recognized in 2019-2020 = ₹ 4,80,000

6. (a) Departmental Trading Account for the year ended on 31st March,2020

Particulars	*A*	*B*	*Particulars*	*A*	*B*
	₹	₹		₹	₹
To Opening Stock	3,00,000	2,40,000	By Sales	60,00,000	90,00,000
To Purchases	39,00,000	54,60,000	By Closing Stock	6,00,000	12,00,000
To Gross Profit	24,00,000	45,00,000			
	66,00,000	1,02,00,000		66,00,000	1,02,00,000

General profit and loss account of Beta for the year ended on 31st March,2020

Particulars	*Amount*	*Particulars*	*Amount*
	₹		₹
To General expenses	7,50,000	By Stock reserve (opening stock)	

To Stock reserve (Closing Stock)		Dept. A	30,000
Dept. A	60,000	Dept. B	36,000
Dept. B	72,000	By Gross Profit	
To Net Profit	60,84,000	Dept. A	24,00,000
		Dept. B	45,00,000
	69,66,000		69,66,000

Working Notes:

	Dept. A	Dept. B
Percentage of Profit	24,00,000/60,00,000 x 100 = 40%	45,00,000/90,00,000 x 100 = 50%
Opening Stock reserve	60,000 x 50% = 30,000	90,000 X 40% = 36,000
Closing Stock reserve	1,20,000 x 50%=60,000	1,80,000 x 40% = 72,000

(b) Journal Entries in the books of Branch

		Amount in ₹	
Sr. No	Particulars	Dr.	Cr.
(i)	Head Office Account Dr. To Income Account (Being the income allocated by the Head office not recorded earlier, now recorded)	2,800	2,800
(ii)	Provision for Doubtful Debts A/c Dr. To Head Office Account (Being the provision for doubtful debts on branch debtors not provided earlier, now provided for)	1,000	1,000
(iii)	Head Office Account Dr. To Salaries Account (Being rectification of salary paid on behalf of Head Office)	3,000	3,000
(iv)	Head Office Account Dr. To Cash Account (Being expenditure incurred on account of other branch, now recorded in books)	5,000	5,000
(v)	No entry in Branch Books is required.		
(vi)	Expenses Account Dr. To Head Office Account (Being allocated expenses of Head Office recorded)	75,000	75,000
(vii)	Head Office Account Dr. To Debtors Account (Being adjustment entry for collection from Branch Debtors directly by Head Office)	30,000	30,000
(viii)	Goods -in- transit Account Dr. To Head Office Account (Being goods sent by Head Office still in-transit)	10,000	10,000

7. (a) According to AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset (if the grant had been credited to the cost of fixed asset at the time of receipt of grant) should be recorded by increasing the book value of the asset, by the amount refundable. Where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

		(₹ in lakhs)
1st April, 2017	Acquisition cost of machinery (₹ 500 – ₹ 100)	400.00
31st March, 2018	*Less*: Depreciation @ 20%	(80)
1st April, 2018	Book value	320.00
31st March, 2019	*Less*: Depreciation @ 20%	(64)
1st April, 2019	Book value	256.00
31st March, 2020	*Less*: Depreciation @ 20%	(51.20)
1st April, 2020	Book value	204.80
2nd April, 2020	*Add*: Refund of grant	100.00
	Revised book value	304.80

Depreciation @ 20% on the revised book value amounting ₹ 304.80 lakhs is to be provided prospectively over the residual useful life of the asset.

(b) **Nature of Limited Liability Partnership:** A limited liability partnership is a body corporate formed and incorporated under the LLP Act, 2008 and is a legal entity separate from that of its partners. A limited liability partnership shall have perpetual succession and any change in the partners of a limited liability partnership shall not affect the existence, rights or liabilities of the limited liability partnership.

Designated partners: Every limited liability partnership shall have at least two designated partners who are individuals and at least one of them shall be a resident in India. In case of a limited liability partnership in which all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such limited liability partnership or nominees of such bodies corporate shall act as designated partners

(c) Interest on performing assets should be recognised on accrual basis, but interest on NPA should be recognised on cash basis.

	₹ in lakhs	
Interest on cash credits and overdraft :	(1800+70)	= 1,870
Interest on Term Loan	(480+40)	= 520
Income from bills purchased and discounted :	(700+36)	= 736
		3,126

(d) **Calculation of Total Remuneration payable to Liquidator**

		Amount in ₹
2% on Assets realised	25,00,000 x 2%	50,000
3% on payment made to Preferential creditors	75,000 x 3%	2,250
3% on payment made to Unsecured creditors (Refer W.N)		39,255
Total Remuneration payable to Liquidator		91,505

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors, preferential creditors & liquidator's remuneration

= ₹ 25,00,000 – ₹ 25,000 – ₹ 10,00,000 – ₹ 75,000 – ₹ 50,000 – ₹ 2,250 = ₹ 13,47,750.

Liquidator's remuneration on payment to unsecured creditors = 3/103 x ₹ 13,47,750 = ₹ 39,255

(e) **In the books of Ganesh Ltd.**

New York Branch Trial Balance in (₹)
as on 31st March, 2020

	Conversion rate per US $ (₹)	*Dr.* ₹	*Cr.* ₹
Stock on 1.4.19	40	12,000	
Purchases and sales	41	32,800	61,500
Sundry debtors and creditors	42	16,800	12,600
Bills of exchange	42	5,040	10,080
Sundry expenses	41	44,280	
Bank balance	42	17,640	
Delhi office A/c	–		44,380
		1,28,560	1,28,560