Test Series: March, 2021

MOCK TEST PAPER – 1

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) A company created a provision of Rs. 7,50,000 for staff welfare while preparing the financial statements for the year 2020-21. On 31st March 2021, in a meeting with staff welfare association, it was decided to increase the amount of provision for staff welfare to Rs. 10,00,000. The accounts were approved by Board of Directors on 15th April, 2021.

   You are required to explain the treatment of such revision in financial statements for the year ended 31st March 2021 in line with the provisions of AS 5?

   (b) Viva Ltd. received a specific grant of Rs. 30 lakhs for acquiring the plant of Rs. 150 lakhs during 2016-17 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet and was not deducted from the cost of plant. During 2019-20, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was Rs. 21 lakhs and written down value of plant was Rs. 105 lakhs. What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2019-20 in profit and loss account?

   (c) An organization operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Ninety percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it and ten percent arise through the extraction of oil. At the balance sheet date, the rig has been constructed but no oil has been extracted. With reference to AS 29, how would you deal with this in the annual accounts of the company at the Balance Sheet date? Explain.

   (d) RC Ltd. is showing an intangible asset at Rs. 72 lakhs as on 31-3-2020. This asset was acquired for Rs. 120 lakhs as on 01-04-2014 and the same was used from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years, on straight line basis.

   You are required to comment on the accounting treatment of asset with reference to AS 26 "Intangible Assets" and also give the necessary rectification journal entry in the books.

(4 Parts x 5 Marks = 20 Marks)

2. (a) Axe Limited has four departments, A, B, C and D. Department A sells goods to other departments at a profit of 25% on cost. Department B sells goods to other department at a profit of 30% on sales. Department C sells goods to other departments at a profit of 10% on cost, Department D sells goods to other departments at a profit of 15% on sales.

Stock lying at different departments at the year-end was as follows:

	Department A	Department B	Department C	Department D
Transfer from Department A	-	45,000	50,000	60,000
Transfer from Department B	50,000	-	-	75,000
Transfer from Department C	33,000	22,000	-	-
Transfer from Department D	40,000	10,000	65,000	-

Departmental managers are entitled to 10% commission on net profit subject to unrealized profit on departmental sales being eliminated.

Departmental profits after charging manager's commission, but before adjustment of unrealized profit are as under:

	Rs.
Department A	2,25,000
Department B	3,37,500
Department C	1,80,000
Department D	4,50,000

Calculate the correct departmental profits after charging Manager's commission.

(b) M/s Rani & Co. has head office at Singapore and branch at Delhi (India). Delhi branch is an integral foreign operation of M/s Rani &Co. Delhi branch furnishes you with its Trial Balance as on 31st March, 2019 and the additional information thereafter:

	Dr.	Dr.
	Rupees in thousands	
Stock on 1st April, 2018	600	-
Purchases and Sales	1,600	2,400
Sundry Debtors and Creditors	800	600
Bills of Exchange	240	480
Wages	1,120	-
Rent, rates and tax rates	720	-
Sundry Expenses	320	
Computers	600	-
Bank Balance	520	-
Singapore Office sale	-	3,040
Total	6,520	6,520

Additional information :

(a) Computers were acquired from a remittance of Singapore dollar 12,000 received from Singapore Head Office and paid to the suppliers. Depreciate Computers at the rate of 40% for the year.

(b) Closing Stock of Delhi branch was Rs.15,60,000 on 31st March, 2019.

(c) The Rates of Exchange may be taken as follows :

(i) on 1.4.2018@ 50 per Singapore Dollar

(ii) on 31.3.2019@ 52 per Singapore Dollar

(iii) average Exchange Rate-for the year @ Rs. 51 per Singapore Dollar

(iv) conversion in Singapore Dollar shall be made upto two decimal accuracy.

(d) Delhi Branch Account showed a debit balance of Singapore Dollar 59,897.43 on 31.3.2019 in the Head office books and there were no items pending for reconciliation.

In the books of Head office, you are required to prepare :

(1) Revenue statement for the year ended 31^{st} March, 2019. (in Singapore Dollar)

(2) Balance Sheet as on that date. (in Singapore Dollar) **(6+ 10= 16 Marks)**

3. The following is the summarized Balance Sheet of M/s Red and Black as on 31^{st} March, 2018:

Liabilities		**(Rs.)**	**Assets**	**(Rs.)**
Red's Capital	80,000		Building	1,00,000
Black's Capital	1,00,000	1,80,000	Closing Stock	60,000
Red's Loan		20,000	Sundry Debtors	40,000
General Reserve		20,000	Investment	40,000
Sundry Creditors		40,000	(6% Debentures in XYZ Ltd.)	
			Cash	20,000
		2,60,000		2,60,000

It was agreed that Mr. White is to be admitted for a fifth share in the future profits from 1^{st} April, 2018. He is required to contribute cash towards goodwill and Rs. 20,000 towards capital.

(a) The following further information is furnished:

(i) The partners Red and Black shared the profits in the ratio of 3 : 2.

(ii) Mr. Red was receiving a salary of Rs. 1000 p.m. from the very inception of the firm in addition to the share of profit.

(iii) The future profit ratio between Red, Black and White will be 3 : 1 : 1. Mr. Red will not get any salary after the admission of Mr. White.

(iv) The goodwill of the firm should be determined on the basis of 2 years' purchase of the average profits from business of the last 5 years. The particulars of profits/losses are as under:

Year Ended	**(Rs.)**	**Profit/Loss**
31.3.2014	40,000	Profit
31.3.2015	20,000	Loss
31.3.2016	40,000	Profit
31.3.2017	50,000	Profit
31.3.2018	60,000	Profit

The above profits and losses are after charging the salary of Mr. Red. The profit of the year ended 31st March, 2014 included an extraneous profit of Rs.60,000 and the loss of the year ended 31st March, 2015 was on account of loss by strike to the extent of Rs.40,000.

(v) It was agreed that the value of the goodwill should not appear in the books of the firm.

(b) Trading profit for the year ended 31^{st} March, 2019 was Rs. 80,000 (Before charging depreciation)

(c) Each partner had drawn Rs.2,000 per month as drawing during the year 2018-19.

(d) On 31st March, 2019 the following balances appeared in the books:

Building (Before Depreciation)	Rs. 1,20,000
Closing Stock	Rs. 80,000
Sundry Debtors	Nil
Sundry Creditors	Nil
Investment	Rs.40,000

(e) Interest@ 6% per annum on Red's loan was not paid during the year.

(f) Interest on Debentures received during the year.

(g) Depreciation is to be provided @ 5% on closing balance of Building.

(h) Partners applied for conversion of the firm into a private Limited Company; i.e. RBW Private Limited. Certificate received on 1.4.2019.

They decided to convert Capital accounts of the partners into share capital, in the ratio of 3: 1: 1 (on the basis of total Capital as on 31.3.2019). If necessary, partners have to subscribe to fresh capital or withdraw.

You are required to prepare :

(1) Profit & Loss Account for the year ended 31st March, 2019 in the books of M/s Red and Black.

(2) Balance Sheet as on 1st April, 2019 in the books of RBW Private Limited. **(16 Marks)**

4. Shorya Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. It gives you the following information as on 31st March, 2020 (before reconstruction):

	Amount (Rs.)
Share Capital:	
50,000 shares of Rs. 50 each, fully paid up	25,00,000
1,00,000 shares of Rs. 50 each, Rs. 40 paid up	40,00,000
Capital Reserve	5,00,000
8% Debentures of Rs. 100 each	4,00,000
12% Debentures of Rs. 100 each	6,00,000
Trade payables	12,40,000
Outstanding Expenses	10,60,000
Land & Building	42,70,000
Machinery	8,50,000
Computers	5,20,000
Inventories	3,20,000
Trade receivables	10,90,000
Cash at Bank	2,68,000
Profit & Loss Account (Dr. balance)	29,82,000

Following is the interest of Mr. A and Mr. B in Shorya Limited:

	Mr. A	Mr. B
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	7,00,000	3,00,000

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

(1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of Rs. 40 each.

(2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for Rs. 12,50,000.

(3) Trade payables are given option of either to accept fully paid equity shares of Rs. 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade payables for Rs. 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.

(4) Mr. A agrees to cancel debentures amounting to Rs. 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to Rs. 1,00,000.

(5) Mr. B agrees to cancel debentures amounting to Rs. 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.

(6) Land & Building to be revalued at Rs. 51,84,000, Machinery at Rs. 7,20,000, Computers at Rs. 4,00,000, Inventories at Rs. 3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.

(7) Outstanding Expenses are fully paid in cash.

(8) Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to prepare necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction required under Part - I of Schedule III of the Companies Act, 2013. **(16 Marks)**

5. (a) From the following information, prepare the Profit & Loss A/c of Indus Bank Ltd. for the year ending 31st March, 2020. Also give necessary schedules.

Particulars	**Figures in '000**
Total Interest earned on term loans	2,550
Interest earned on term loans classified as NPA	731
Interest received on term loans classified as NPA	238
Total Interest earned on cash credits and overdrafts	5,663
Interest earned but not received on cash credit and overdrafts treated as NPA	923
Interest on deposits	4,120
Commission	201
Profit on sale of investments	1,876
Profit on revaluation of investments	342
Income from Investments	2,174
Payments to and provision for employees	2,745
Rent, Taxes and Lighting	385
Printing and Stationery	62
Director's fees, allowances and expenses	313

Repairs and Maintenance	56
Depreciation on Bank's property	99
Insurance	43

Also make necessary provision on Risk Assets as per the following details:

Particulars	Figures in '000
Standard	4,700
Sub-Standard (fully secured)	1,900
Doubtful Assets not covered by security	400
Doubtful Assets covered by security for 1 year	40
Loss Assets	300

(10 Marks)

(b) Srishti Insurance Co. Ltd. furnishes you the following information:

On 31st March, 2019 it had reserve for unexpired risk to the tune Rs. 100 Crores. It comprised of Rs. 35 Crores in respect of Marine Insurance business, Rs. 50 Crores in respect of Fire Insurance business and Rs. 15 Crores in respect of Miscellaneous Insurance business.

(i) It is the practice of Srishti Insurance Co. Ltd. to create reserve at 100% of net premium income in respect of Marine Insurance Policies and at 50% of net premium income in respect of Fire and Miscellaneous income policies.

(ii) During 2019-20 the following business was conducted:

(Rs. in Crores)

		Marine	Fire	Miscellaneous
	Premium collected from:			
(a)	Insureds in respect of policies issued	35	105	28
(b)	Other insurance companies in respect of risks undertaken:			
	Received during the year	12.5	26.3	7.8
	Receivable on 01-04-2019	3.2	9.8	1.3
	Receivable on 31-03-2020	4.4	15.5	2.6
	Premium paid/payable to other insurance companies on business ceded	7.5	5.3	8

You are asked to:

(a) Pass Journal Entries relating to "Unexpired Risk Reserve".

(b) Show in columnar form "Unexpired Risk Reserve A/c" for Financial year 2019-20. (**6 Marks)**

6. (a) Alpha Limited (a non-listed company) furnishes the following information as at 31st March, 2020:

	(Rs. in lakhs)
Equity share capital (fully paid up shares of Rs. 10 each)	2,400
Securities premium	350
General reserve	530
Capital redemption reserve	400

Profit & loss A/c	340
12% Debentures	1,500
Trade payables	1,400
Other current liabilities	478
Machinery	3,600
Furniture	450
Investment	148
Inventory	1,200
Trade receivables	500
Cash at bank	1,500

On 1st April, 2020, the company announced the buy-back of 60 lakh equity shares @ Rs. 15 per share. For this purpose, it sold all of its investments for Rs. 150 lakhs. On 5th April, 2020, the company achieved the target of buy back. You are required to pass necessary journal entries for the buy-back and prepare Balance Sheet of Alpha Limited after buy-back of the shares.

(b) A company has its share capital divided into equity shares of Rs. 10 each. On 1-1-2021, it granted 7,500 employees stock options at Rs. 50, when the market price was Rs. 140. The options were to be exercised between 1-3-2021 to 31-03-2021. The employees exercised their options for 7,200 shares only; remaining options lapsed. Pass the necessary journal entries for the year ended 31-3-2021, with regard to employees' stock options. **(12+4 =16 Marks)**

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

(a) Omega Limited has borrowed a sum of US $ 10,00,000 at the beginning of Financial Year 2019-20 for its residential project at 4 %. The interest is payable at the end of the Financial Year. At the time of availment of loan exchange rate was Rs. 56 per US $ and the rate as on 31st March, 2020 was Rs. 62 per US $. If Omega Limited had borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%.

You are required to compute Borrowing Cost and exchange difference for the year ending 31st March, 2020 as per applicable Accounting Standards.

(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. 45,00,000 against which payment was made as follows:

Liquidation expenses	Rs. 50,000
Secured Creditors	Rs. 15,00,000
Preferential Creditors	Rs. 1,25,000

The amount due to Unsecured Creditors was Rs. 30,00,000. You are asked to calculate the total remuneration payable to liquidator. Calculation shall be made to the nearest multiple of a rupee.

(c) Forward Bank Ltd furnishes the following information as on 31st March, 2019:

	Amount in Rs.
Bills Discounted	82,23,000
Rebate on bills discounted as on1st April, 2018	1,32,960
Discount received	6,33,990

Details of bills discounted is as given below:

Value of Bills (Rs.)	Due Date	Rate of Discount
10,95,000	15th June, 2019	14%
30,00,000	25th June, 2019	12%
16,92,000	5th July, 2019	16%
24,36,000	15th July, 2019	16%

(i) Calculate the rebate on bills discounted as on 31st March, 2019.

(ii) Pass necessary Journal Entry for transferring the amount of discount on bills to Profit and Loss account.

(d) How will you allocate the following expenses among different departments?

(i) Selling expenses;

(ii) Lighting and Heating expenses;

(iii) Rent, rates and taxes of building;

(iv) Depreciation, insurance and maintenance of capital assets.

(e) Under what circumstances, an LLP can be wound up by the Tribunal? Explain in brief.

(4 Parts x 4 Marks = 16 Marks)