MOCK TEST PAPER 1

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) 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 ₹ 3,40,000 on preference shares.

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

(b) Tee Ltd. closes its books of accounts every year on 31st March. The financial statements for the year ended 31 March 2020 are to be approved by the approving authority on 30 June 2020. During the first quarter of 2020-2021, the following events / transactions has taken place. The accountant of the company seeks your guidance for the following:

(i) Tee Ltd. has an inventory of 50 stitching machines costing at ₹ 5,500 per machine as on 31 March 2020. On 31 March 2020 the company is expecting a heavy decline in the demand in next year. The inventories are valued at cost or net realisable value, whichever is lower. During the month of April 2020, due to fall in demand, the prices have gone down drastically. The company has sold 5 machines during this month at a price of ₹ 4,000 per machine.

(ii) A fire has broken out in the company's godown on 15 April 2020. The company has estimated a loss of ₹ 25 lakhs of which 75% is recoverable from the Insurance company.

(iii) The company has entered into a sale agreement on 30 March 2020 to sell a property for a consideration of ₹ 7,50,000 which is being carried in the books at ₹ 5,50,000 at the year end. The transfer of risk and reward and sale is complete in the month of May 2020 when conveyance and possession get completed.

(iv) The company has received, during the year 2018-2019, a government grant of ₹ 15 lakhs for purchase of a machine. The company has received a notice for refund of the said grant on 15 June, 2020 due to violation of some of the conditions of grant during the year 2019-2020.

You are required to state with reasons, how the above transactions will be dealt with in the financial statement for the year ended 31st March 2020.

(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.

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(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) Saharsh Ltd. is engaged in manufacturing of electric home appliances. The company is in the process of finalizing its accounts for the year ended 31.3.2020 and needs your expert advice on the following issues in line with the provisions of AS 29:

(i) A case has been filed against the company in the consumer court and a notice for levy of a penalty of ₹ 20 lakhs has been received. The company has appointed a lawyer to defend the case for a fee of ₹ 2 lakhs. 50% of the fees has been paid and balance 50% will be paid after finalisation of the case. There are 75% chances that the penalty may not be levied.

(ii) The company had committed to supply a consignment worth ₹ 1 crore to one of its dealers by the year-end. As per the contract, if delivery is not made on time, a compensation of 15% is to be paid on the value of delayed/lost consignment . While the consignment was in transit, one of the trucks carrying goods worth ₹ 30 lakhs met with an accident. It was however covered by Insurance. According to the surveyor's report, the policy amount is collectable, subject to 10% deduction. Before closing the books of accounts, the company has received the information that the policy amount has been processed and the dealer has also claimed the compensation for the consignment of goods worth ₹ 30 lakhs which was in transit.

(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 the following:

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, 2020		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 MNO Private Limited Company with an Authorized Share Capital of 2,00,000 shares of ₹ 10 each to be divided in different classes to take over the business of Partnership firm.

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You are given 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:

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

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

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

3. Sun and Neptune (both companies) had been carrying on business independently. They agreed to amalgamate and form a new company Jupiter Ltd. with an authorised share capital of ₹ 4,00,000 divided into 80,000 equity shares of ₹ 5 each. On 31st March, 2021 Sun and Neptune give the following information:

	Sun (₹)	Neptune (₹)
Fixed Assets	6,35,000	3,65,000
Current Assets	3,27,000	1,67,750
	9,62,000	5,32,750
Less: Current Liabilities	(5,97,000)	(1,80,250)
Representing Capital	3,65,000	3,52,500

Additional Information:

(a) Revalued figures of Fixed and Current assets were as follows:

	Sun (₹)	Neptune (₹)
Fixed Assets	7,10,000	3,90,000
Current Assets	2,99,500	1,57,750

(b) The debtors and creditors include ₹ 43,350 owed by Sun to Neptune.

The purchase consideration is satisfied by issue of the following shares and debentures.

(i) 60,000 equity shares of Jupiter Ltd. to Sun and Neptune in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows:

	Sun (₹)	Neptune (₹)
2019 Profit	4,49,576	2,73,900
2020 (Loss)/Profit	(2,500)	3,42,100
2021 Profit	3,77,924	3,59,000

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(ii) 15% debenture in Jupiter Ltd. at par to provide an income equivalent to 8% return business as on capital employed in their respective business as on 31st March, 2021 after revaluation of assets.

You are required to :

(1) Compute the amount of debentures and shares to be issued to Sun and Neptune.

(2) A Balance sheet of Jupiter Ltd. showing the position immediately after amalgamation.

(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 received	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 "Discount 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) The following details are provided by Bhoomi Ltd. as on 31st March, 2020:

	₹ (in lakhs)
Issued Capital:	
Equity Shares of ₹10 each Fully Paid up	64,000
10% Redeemable Preference Shares of 10 each, Fully Paid Up	20,000
Capital Redemption Reserve	8,000
Securities Premium	6,400
General Reserve	48,000

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Profit & Loss Account	2,400
9% Debentures	40,000
Trade Payables	26,400
Property, plant and equipment	1,12,000
Investments	24,000
Cash at Bank	13,200
Trade Receivables	66,000

On 1st April,2020 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 25% of its Equity Shares at ₹20 per Share. In order to make cash available, Bhoomi Ltd. sold all the Investments for ₹25,000 Lakhs and raised a Bank Loan amounting to ₹16,000 lakh on the Security of the Company's Plant.

Give the necessary Journal Entries considering that the buy back is authorised by the articles of company and necessary resolution is passed by the company for this. The amount of Securities premium may be utilized to the maximum extent allowed by law.

(b) Virat Ltd. furnishes the following information as at 31st March, 2020:

	₹	₹
Share Capital:		
10,000, 12% Pref. Shares of ₹ 100 each fully paid up	10,00,000	
1,00,000 Equity shares of ₹ 10 each fully paid up	10,00,000	
50,000 Equity shares of ₹ 10 each, ₹ 8 paid up	4,00,000	24,00,000
Reserve and Surplus:		
Profit & Loss A/c. (Dr. Balance)		(3,50,000)
Non-current Liabilities:		
12% Debentures	15,00,000	
Loan on Mortgage	4,50,000	19,50,000
Current Liabilities:		
Bank Overdraft	2,75,000	
Trade Payables	7,30,000	10,05,000
Non-current Assets:		
Fixed Assets - Land & Buildings		6,00,000
Current Assets : Sundry Current Assets		44,05,000

The mortgage loan was secured against the Land & Buildings. Debentures were secured by a floating charge on all the assets of the company. The debenture holders appointed a Receiver. The company being voluntarily wound up, a liquidator was also appointed. The Receiver was entrusted with the task of realising the Land & Buildings which fetched ₹ 7,50,000 . Receiver also took charge of sundry current assets of value ₹ 30,00,000 and sold them for ₹ 28,75,000. The Bank overdraft was secured by a personal guarantee of the directors who discharged their obligations in full from personal resources. The costs of the Receiver amounted to ₹ 10,000 and his remuneration ₹ 15,000. Interest on debentures has already been paid before winding up proceedings.

The expenses of liquidator was ₹ 17,500 and his remuneration was decided at 2% on the value of the assets realised by him. The remaining assets were realised by liquidator for ₹ 12,50,000. Preference dividend was in arrear for 2 years. Articles of Association of the company provide for payment of preference dividend arrears in priority to return of equity capital.

Prepare the accounts to be submitted by the Receiver and the Liquidator. **(8 + 8 =16 Marks)**

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6. (a) Ram, Sham and Mahaan sons of Prabhu Dyal are running Punya Hotel in Chennai. Ram is heading Room division (A), Sham is heading banquet division (B) and Mahaan is heading Restaurant division (C). Each of the three brothers would receive 60% of the profits, if any, of the department of which he was incharge and remaining combined profits would be shared in 2:2:1 ratio. The following is the Trading and Profit and Loss Account of the firm for the year ended March 31,2021:

	(₹)	(₹)		(₹)	(₹)
To Opening Stock:			By Sales:		
Room (A)	25,650		Room (A)	2,70,000	
Banquet (B)	18,000		Banquet (B)	1,65,000	
Restaurant (C)	19,500	63,150	Restaurant (C)	86,700	5,21,700
To Purchases: Room (A)	2,35,000		By Discount received		1,650
Banquet (B)	1,56,000		By Closing Stock:		
Restaurant (C)	84,200	4,75,200	Room (A)	55,300	
To Salaries	34,400		Banquet (B)	31,800	
To Royalties	8,000		Restaurant (C)	42,500	1,29,600
To Parking fee & car washing charges	9,600				
To Discount allowed	2,500				
To Misc. Exp.	7,000				
To Depreciation	1,160	62,660			
To Net Profit		51,940			
Total		6,52,950	Total		6,52,950

Prepare: (I) Departmental Trading and Profit and Loss Account alongwith combined Profit & Loss account and (II) Profit and Loss Appropriation Account after incorporating the following information:

(i) Closing stock of Dept. B includes goods amounting ₹ 3,500 being transferred from Dept. A

(ii) Stock value ₹ 9,300 and other goods of the value of ₹ 1,500 were transferred at selling price by Departments A and C respectively to Department B.

(iii) The details of salaries were as follows:

(1) Admin Office 60%, Pantry 40%

(2) Allocate Admin Office in the proportion of 3: 2:1 among the Departments A, B, C

(3) Distribute Pantry expenses equally among the Department A and B.

(iv) The parking fee is ₹ 500 per month which is to be divided equally between Departments A, B & C.

(v) All other expenses are to be allocated in ratio of 2:2:1.

(vi) Discounts received are to be credited to the three Departments as follows:

A : ₹ 650; B : ₹ 600; C : ₹ 400.

(vii) The opening stock of Department B does not include any goods transferred from other departments and closing stock of Department B does not include any stock transferred from Department C.

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(b) From the following details of Western Branch Office of M/s. Alpha for the year ending 31st March, 2020, ascertain branch stock reserve in respect of unrealized profit in opening stock and closing stock:

(i) Goods are sent to the branch at invoice price and branch also maintains stock at the same price.

(ii) Sale price is cost plus 40%.

(iii) Invoice price is cost plus 15%.

(iv) Other information from accounts of branch:

Opening Stock as on 01-04-2019	3,45,000
Goods sent during the year by Head Office to Branch	16,10,000
Sales during the year	21,00,000
Expenses incurred at the branch	45,000

(12+4= 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) On 1st October, 2020, A Limited granted 25,000 Employees' Stock Option at ₹ 70 per share. The market price of share was ₹ 130 per share. The options were to be exercised between 1st December, 2020 and 31st March, 2021. The face value of shares is ₹ 10 each. The employees exercised option for 18,000 shares only and the balance options lapsed. The company closes its books of accounts on 31st March every year.

Pass necessary journal entries with narration to record the transaction in the books of the company.

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(e) During 2021-21, an enterprise incurred costs to develop and produce a routine low risk computer software product, as follows:

Particular	₹
Completion of detailed program and design (Phase 1)	50,000
Coding and Testing (Phase 2)	40,000
Other coding costs (Phase 3 & 4)	63,000
Testing costs (Phase 3 & 4)	18,000
Product masters for training materials (Phase 5)	19,500
Packing the products (1,500 units) (Phase 6)	16,500

After completion of phase 2, it was established that the product is technically feasible for the market.

You are required to state how the above cost to be recognized in the books of accounts in line with provisions of AS 26. **(4 Parts x 4 Marks = 16 Marks)**

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