# MOCK TEST PAPER – 2

## INTERMEDIATE (IPC): 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: Three hours)** **(Maximum Marks: 100)**

1. (a) An airline is required by law to overhaul its aircraft once in every five years. The pacific Airlines which operate aircrafts does not provide any provision as required by law in its final accounts. You are required to comment on the validity of the treatment done by the company in line with the provisions of AS 29.

(b) S. Square Private Limited has taken machinery on finance lease from S.K. Ltd. The information is as under:

Lease term = 4 years

Fair value at inception of lease = ₹ 20,00,000

Lease rent = ₹ 6,25,000 p.a. at the end of year

Guaranteed residual value = ₹ 1,25,000

Expected residual value = ₹ 3,75,000

Implicit interest rate = 15%

Discounted rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively.

You are required to calculate the value of the lease liability as per AS-19 and also disclose impact of this on Balance sheet and Profit & loss account at the end of year 1.

(c) An earthquake destroyed a major warehouse of PQR Ltd. on 30.4.2019. The accounting year of the company ended on 31.3.2019. The accounts were approved on 30.6.2019. The loss from earthquake is estimated at ₹ 25 lakhs. State with reasons, whether the loss due to earthquake is an adjusting or non-adjusting event and how the fact of loss is to be disclosed by the company.

(d) Bela Ltd. has a vacant land measuring 20,000 sq. mts, which it had no intention to use in the future. The Company decided to sell the land to tide over its liquidity problems and made a profit of Rs.10 Lakhs by selling the said land. There was a fire in the factory and a part of the unused factory shed valued at Rs.8 Lakhs was destroyed. The loss from fire was set off against the profit from sale of land and profit of Rs. 2 lakhs was disclosed as net profit from sale of assets. Do you agree with the treatment and disclosure? If not, state your views in line with AS 5. ***(4 Parts x 5 Marks = 20 Marks)***

2. A Ltd. gives the following information on 31st March, 2021:

| | ₹ |
|---|---|
| 8,000 Equity shares of ₹ 100 each | 8,00,000 |
| 10% Debentures | 4,00,000 |

| | |
|---|---|
| Loans | 1,60,000 |
| Trade payables | 3,20,000 |
| General Reserve | 80,000 |
| Building | 3,40,000 |
| Machinery | 6,40,000 |
| Inventory | 2,20,000 |
| Trade receivables | 2,60,000 |
| Bank | 1,36,000 |
| Patent | 1,30,000 |
| Profit & Loss account (Dr. balance) | 34,000 |

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

(1) B Ltd. would take over all assets, except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.

(2) B Ltd. is to take over trade payables at book value.

(3) The purchase consideration is to be paid in cash to the extent of ₹ 6,00,000 and the balance in fully paid equity shares of ₹ 100 each at ₹ 125 per share.

The average profit is ₹ 1,24,400. The liquidation expenses amounted to ₹ 16,000. B Ltd. sold prior to 31st March, 2021 goods costing ₹ 1,20,000 to A Ltd. for ₹ 1,60,000. ₹ 1,00,000 worth of goods are still in Inventory of A Ltd. on 31st March, 2021. Trade payables of A Ltd. include ₹ 40,000 still due to B Ltd.

Show the Realisation A/c, Bank A/c, B Ltd. A/cand Equity shareholders A/c to close the books of A Ltd. and prepare the extract of Balance Sheet of B Ltd. as at 1st April, 2021 after the takeover from the available information. ***(16 Marks)***

3. P, Q, R and S are sharing profits and losses in the ratio 3 : 3 : 2 : 1. Frauds committed by R during the year were found out and it was decided to dissolve the partnership on 31st March, 2021 when their Balance Sheet was as under:

| *Equity & Liabilities* | *Amount (₹)* | *Assets* | *Amount (₹)* |
|---|---|---|---|
| Capitals: | | Building | 1,90,000 |
| P | 1,50,000 | Stock | 1,30,000 |
| Q | 1,50,000 | Investments | 50,000 |
| R | - | Debtors | 70,000 |
| S | 60,000 | Cash | 30,000 |
| General reserve | 40,000 | R's capital | 40,000 |
| Trade creditors | 80,000 | (overdrawn) | |
| Bills payable | 30,000 | | |
| | 5,10,000 | | 5,10,000 |

Following information is given to you:

(i) A cheque for ₹ 7,000 received from debtor was not recorded in the books and was misappropriated by R.

(ii) Investments costing ₹ 8,000 were sold by R at ₹ 11,000 and the funds transferred to his personal account. This sale was omitted from the firm's books.

(iii) A creditor agreed to take over investments of the book value of ₹ 9,000 at ₹ 13,000. The rest of the creditors were paid off at a discount of 5%.

(iv) The other assets realized as follows:

Building 110% of book value

Stock ₹ 1,20,000

Investments The rest of investments were sold at a profit of ₹ 7,000

Debtors The rest of the debtors were realized at a discount of 10%

(v) The bills payable were settled at a discount of ₹ 500.

(vi) The expenses of dissolution amounted to ₹ 8,000

(vii) It was found out that realization from R's private assets would only be ₹ 7,000.

Prepare Realization Account, Cash Account and Partners' Capital Accounts. All workings should part of your answer. ***(16 Marks)***

4. (a) The following is an extract from the Trial Balance of Jeevan Bank Ltd. as at 31st March, 2021:

| | |
|---|---|
| Rebate on bills discounted as on 1-4- 2020 | 1,36,518 (Cr.) |
| Discount received | 3,40,312 (Cr.) |

Analysis of the bills discounted reveals as follows:

| *Amount (₹)* | *Due date* |
|---|---|
| 5,60,000 | June 1, 2021 |
| 17,44,000 | June 8,2021 |
| 11,28,000 | June 21, 2021 |
| 16,24,000 | July 1, 2021 |
| 12,00,000 | July 5, 2021 |

You are required to find out the amount of discount to be credited to Profit and Loss account for the year ending 31st March, 2021 and pass Journal Entries. The rate of discount may be taken at 10% per annum.

(b) Lifeline General Insurance Company provides the following information for the year ended 31st March, 2020:

| *Particulars* | *Related to Direct Business (₹)* | *Related to Reinsurance Business (₹)* |
|---|---|---|
| Premium received | 95,29,400 | 12,25,300 |
| Premium paid during the year | - | 6,99,000 |
| Claims received | - | 4,95,000 |
| Claims paid during the year | 59,76,000 | 7,18,000 |
| Claims payable: | | |
| 31st March, 2020 | 8,08,900 | 80,000 |
| 1st April, 2019 | 7,89,200 | 1,05,100 |
| Claims receivable: | | |
| 1st April, 2019 | - | 65,000 |

| | | |
|---|---|---|
| 31st March, 2020 | - | 1,51,000 |
| Expenses of Management | 3,85,050 | - |
| Commission: | | |
| On Insurance accepted | 2,05,000 | 25,000 |
| On Insurance ceded | - | 28,000 |

The following additional information is also available:

(i) Expenses of Management include ₹ 56,000 Surveyor's fees and ₹ 85,000 Legal expenses for settlement of claims.

(ii) The net premium income of the company during the FY 2018-19 was ₹ 38,00,000 on which reserve for unexpired risk@ 50% and additional reserve @ 6.5% was created. This year, the balance to be carried forward is 50% of net premium on reserve for unexpired risk and 5% as additional reserve.

You are required to make the Revenue Account for the year ended 31st March, 2020.

***(8 + 8 = 16 Marks)***

5 (a) Following is the Trial Balance of Mr. Mohan as on 31.03.2021:

| | Particulars | Debit (₹ ) | Credit (₹ ) |
|---|---|---|---|
| Capital Account | | | 40,000 |
| Drawing Account | | 1,500 | |
| Opening Stock | Department A | 8,500 | |
| | Department B | 5,700 | |
| | Department C | 1,200 | |
| Purchases | Department A | 22,000 | |
| | Department B | 17,000 | |
| | Department C | 8,000 | |
| Sales | Department A | | 54,000 |
| | Department B | | 33,000 |
| | Department C | | 21,000 |
| Sales Returns | Department A | 4,000 | |
| | Department B | 3,000 | |
| | Department C | 1,000 | |
| Freight and Carriage | Department A | 1,400 | |
| | Department B | 800 | |
| | Department C | 200 | |
| Furniture and fixtures | | 4,600 | |
| Plant and Machinery | | 20,000 | |
| Motor Vehicles | | 40,000 | |
| Sundry Debtors | | 12,200 | |
| Sundry Creditors | | | 15,000 |
| Salaries | | 4,500 | |
| Power and water | | 1,200 | |
| Telephone charges | | 2,100 | |
| Bad Debts | | 750 | |
| Rent and taxes | | 6,000 | |

| | | | |
|---|---|---|---|
| Insurance | | 1,500 | |
| Wages | Department A | 800 | |
| | Department B | 550 | |
| | Department C | 150 | |
| Printing and Stationeries | | 2,000 | |
| Advertising | | 3,500 | |
| Bank Overdraft | | | 12,000 |
| Cash in hand | | 850 | |
| | | 1,75,000 | 1,75,000 |

You are required to prepare Department Trading, Profit and Loss Account and the Balance Sheet taking into account the following adjustments:

(a) Outstanding Wages: Department B- ₹ 150, Department C – ₹ 50.

(b) Depreciate Plant and Machinery and Motor Vehicles at the rate of 10%.

(c) Each Department shall share all expenses in proportion to their sales.

(d) Closing Stock: Department A - ₹ 3,500, Department B - ₹ 2,000, Department C - ₹ 1,500.

(b) Pass necessary Journal entries in the books of an independent Branch of a Company, wherever required, to rectify or adjust the following:

(i) Branch incurred travelling expenses of ₹ 4,000 on behalf of other Branches, but not recorded in the books of Branch.

(ii) Goods dispatched by the Head office amounting to ₹ 8,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.

(iii) Provision for doubtful debts, whose accounts are kept by the Head Office, not provided earlier for ₹ 2,000.

(iv) Branch paid ₹ 2,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account. **(12 + 4 = 16 Marks)**

6. (a) SM Limited gives the following information as on 31st March, 2020:

| | | ₹ |
|---|---|---|
| Share capital | | |
| (60,000 Equity Shares of ₹ 10 Each) | | 6,00,000 |
| Reserve & Surplus: | | |
| Security premium | ₹ 70,000 | |
| General reserve | ₹ 63,000 | |
| Profit and Loss | ₹ 1,40,000 | 2,73,000 |
| Non-current liability: | | |
| 9% debentures (secured) | | 3,00,000 |
| Current Liabilities: | | |
| Term loan | | 40,000 |
| Creditors | | 65,000 |
| Provision for taxation | | 15,000 |
| Property plant and equipment | | 6,00,000 |

| | | |
|---|---|---|
| Non-current investment | | 1,50,000 |
| Current assets: | | |
| Stock | ₹ 2,00,000 | |
| Debtors | ₹ 2,60,000 | |
| Bank | ₹ 83,000 | 5,43,000 |

The shareholders adopted the resolution on 31st March, 2020 to:

(i) Buy back 25% of the paid up capital @ ₹ 15 each.

(ii) Issue 10% debentures of ₹ 60,000 at a premium of 10% to finance the buyback of shares.

(iii) Maintain a balance of ₹ 20,000 in General Reserve.

(iv) Sell investments worth ₹ 1,00,000 for ₹ 80,000.

(v) Buy back expenses were ₹ 2,000.

You are required to pass necessary journal entries to record the above transactions and prepare Ledger account of Bank.

*(b)* Sencom Limited (listed company) issued ₹ 1,50,000 5% Debentures on 30th September 20X0 on which interest is payable half yearly on 31st March and 30th September. The company has power to purchase debentures in the open market for cancellation thereof. The following purchases were made during the year ended 31st December, 20X2 and the cancellation were made on the same date. On 31 December 20X0, investments made for the purpose of redemption were ₹ 22,500.

1st March 20X2 - ₹ 25,000 nominal value purchased for ₹ 24,725 ex-interest.

1st September 20X2 - ₹ 20,000 nominal value purchased for ₹ 20,125 cum-interest.

You are required to draw up the following accounts up to the date of cancellation:

(i) Debentures Account; and

(ii) Own Debenture (Investment) Account.

Ignore taxation. ***(8 + 8 = 16 Marks)***

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

(a) ABC Limited has started construction of an asset on 1st December, 2020, which continues till 31st March, 2021 (and is expected to go beyond a year). The entity has not taken any specific borrowings to finance the construction of the asset but has incurred finance costs on its general borrowings during the construction period. The directly attributable expenditure at the beginning of the month on this asset was ₹ 10 lakh in December 2020 and ₹ 4 lakh in each of the months of January to March 2021.At the beginning of the year, the entity had taken Inter Corporate Deposits of ₹ 20 lakh at 9% rate of interest and had an overdraft of ₹ 4 lakh, which increased to ₹ 8 lakh on 1st March, 2021. Interest was paid on the overdraft at 10% until 1st January, 2021 and then the rate was increased to 12%. You are required to calculate the annual capitalization rate for computation of borrowing cost in accordance with AS 16 'Borrowing Costs'.

(b) A joint stock company resolved to issue 10 lakh equity shares of ₹ 10 each at a premium of ₹ 1 per share. One lakh of these shares were taken up by the directors of the company, their relatives, associates and friends, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications.

The issue was underwritten by X, Y and Z for a commission @2% of the issue price, 65% of the issue was underwritten by X, while Y's and Z's shares were 25% and 10% respectively. Their firm underwriting was as follows :

X 30,000 shares, Y 20,000 shares and Z 10,000 shares. The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with members of the general public.

Marked applications were as follows:

X 1,19,500 shares, Y 57,500 shares and Z 10,500 shares.

Unmarked applications totalled 7,00,000 shares.

Accounts with the underwriters were promptly settled.

You are required to prepare a statement calculating underwriters' liability (in shares) for shares other than shares underwritten firm.

(c) Explain the provisions related with liability of Limited Liability Partnership (LLP) and its partners as per LLP Act, 2008.

(d) Raja Ltd. has its share capital divided into equity shares of ₹ 10 each. On 01-08-2019, it granted 2,500 employees stock options at ₹ 50 per share, when the market price was ₹ 140 per share. The options were to be exercised between 1-10-2019 to 31-03-2020. The employees exercised their options for 2,400 shares only and the remaining options lapsed. Raja Ltd. closes its books of accounts on 31st March, every year.

You are to required to pass the necessary Journal Entries (including narration) for the year ended 31-03-2020, with regard to employees' stock options and give working notes also.

(e) The following information relates to M/s. XYZ Limited for the year ended 31$^{st}$ March, 2021:

Net Profit for the year after tax ₹ 37,50,000

Number of Equity Shares of ₹ 10 each outstanding ₹ 5,00,000

Convertible Debentures Issued by the Company (at the beginning of the year)

| Particulars | No. |
|---|---|
| 8% Convertible Debentures of ₹ 100 each | 50,000 |
| Equity Shares to be issued on conversion | 55,000 |

The Rate of Income Tax: 30%.

You are required to calculate Basic and Diluted Earnings Per Share (EPS).

***(4 parts x 4 Marks = 16 Marks)***