

MOCK TEST PAPER – 2
INTERMEDIATE (NEW) : GROUP – II
PAPER – 5: ADVANCED ACCOUNTING

Question No. 1 is compulsory.

*Answer any **four** questions from the remaining **five** 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) Ruby Ltd. sold goods through its agent. As per terms of sales, consideration is payable within one month. In the event of delay in payment, interest is chargeable @ 10% p.a. from the agent. The company has not realized interest from the agent in the past. For the year ended 31st March, 2017 interest due from agent (because of delay in payment) amounts to Rs. 5 lakhs. The accountant of Ruby Ltd. booked Rs. 5 lakhs as interest income in the year ended 31st March, 2017.

Examine and discuss the contention of the accountant with reference to AS 9 "Revenue Recognition".

- (b) EXOX Ltd. is in the process of finalising its accounts for the year ended 31st March, 2017. The company seeks your advice on the following:

(i) The Company's sales tax assessment for assessment year 2014-15 has been completed on 14th February, 2017 with a demand of Rs. 2.76 crore. The company paid the entire due under protest without prejudice to its right of appeal. The Company files its appeal before the appellate authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of 2.10 crore.

(ii) The Company has entered into a wage agreement in May, 2017 whereby the labour union has accepted a revision in wage from June, 2016. The agreement provided that the hike till May, 2017 will not be paid to the employees but will be settled to them at the time of retirement. The company agrees to deposit the arrears in Government Bonds by September, 2017.

You are required to examine and give suggestions in line with the relevant Accounting Standards.

- (c) A Ltd. has got the license to manufacture particular medicines for 10 years at a license fee of Rs. 200 lakhs. Given below is the pattern of expected production and expected operating cash inflow:

Year	Production in bottles (in lakhs)	Net operating cash flow (Rs. in lakhs)
1	300	900
2	600	1,800
3	650	2,300
4	800	3,200
5	800	3,200
6	800	3,200
7	800	3,200

8	800	3,200
9	800	3,200
10	800	3,200

Net operating cash flow has increased for third year because of better inventory management and handling method.

You are required to determine the amortization method in line with AS 26.

- (d) ABC Ltd. took a machine on lease from XYZ Ltd., the fair value being Rs. 10,00,000. The economic life of the machine as well as the lease term is 4 years. At the end of each year, ABC Ltd. pays Rs. 3,50,000. The lessee has guaranteed a residual value of Rs. 50,000 on expiry of the lease to the lessor. However, XYZ Ltd. estimates that the residential value of the machinery will be Rs. 35,000 only. The implicit rate of return is 16% and PV factors at 16% for year 1, year 2, year 3 and year 4 are 0.8621, 0.7432, 0.6407 and 0.5523 respectively.

You are required to calculate the value of machinery to be considered by ABC Ltd. and the finance charges for each year. **(4 parts x 5 Marks = 20 Marks)**

2. (a) Z Limited came up with an issue of 60,00,000 equity shares of Rs. 10 each at par. 15,00,000 shares were issued to the promoters and the balance offered to the public was underwritten by three underwriters D, E and F - equally with firm underwriting of 1,40,000 shares each, Subscriptions totalled 38,91,000 shares including the marked forms which were:

D 12,75,000 shares

E 13,50,000 shares

F 10,50,000 shares

The underwriters had applied for the number of shares covered by firm underwriting. The amounts payable on application and allotment were Rs. 2.50 and Rs. 2.00 respectively. The agreed commission was 5%.

You are required to give journal entries for -

- (a) The allotment of shares to the underwriters
(b) The commission due to each of them and
(c) The net cash paid and or received.

Note: Unmarked applications are to be credited to underwriters equally. Benefit of firm underwriting is given to individual underwriter.

- (b) SMM Ltd. has the following capital structure as on 31st March, 2017: Rs. in crore

	Particulars	Situation	Situation
(i)	Equity share capital (shares of Rs. 10 each)	1,200	1,200
(ii)	Reserves:		
	General Reserves	1,080	1,080
	Securities Premium	400	400
	Profit & Loss	200	200
	Infrastructure Development Reserve (Statutory Reserve)	320	320
(iii)	Loan Funds	3,200	6,000

The company has offered buy back price of Rs. 30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries. **(10 + 10 = 20 Marks)**

3. (a) The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31-3-20X1:

Liabilities	P Ltd. (Rs. in lakhs)	V Ltd. (Rs. in lakhs)
Equity Share Capital (Fully paid shares of Rs. 10 each)	15,000	6,000
Securities Premium	3,000	–
Foreign Project Reserve	–	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825
12% Debentures	–	1,000
Trade payables	1,200	463
Provisions	<u>1,830</u>	<u>702</u>
	33,400	12,500

Assets	P Ltd. (Rs. in lakhs)	V Ltd. (Rs. in lakhs)
Land and Buildings	6,000	–
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,700
Inventory	7,862	4,041
Trade receivables	2,120	1,100
Cash at Bank	1,114	609
Cost of Issue of Debentures	–	50
	<u>33,400</u>	<u>12,500</u>

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 20X1, P Ltd. took over V Ltd in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

Details of trade receivables and trade payables as under:

Assets	P Ltd. (Rs. in lakhs)	V Ltd. (Rs. in lakhs)
Trade payables		
Bills Payable	120	–
Creditors	<u>1,080</u>	<u>463</u>
	<u>1,200</u>	<u>463</u>

Trade receivables

Debtors	2,120	1,020
Bills Receivable	<u>—</u>	<u>80</u>
	<u>2,120</u>	<u>1,100</u>

Expenses of amalgamation amounting to Rs. 1 lakh were borne by P Ltd.

You are required to:

- Prepare journal entries in the books of P Ltd. and
 - Prepare P Ltd.'s Balance Sheet immediately after the merger considering that the cost of issue of debentures shown in the balance sheet of the V Ltd. company is not transferred to the P Ltd. company.
- (b) XYZ Limited is being wound up by the tribunal. All the assets of the company have been charged to the company's bankers to whom the company owes Rs. 5 crores. The company owes following amounts to others:

Dues to workers – Rs. 1,25,00,000

Taxes Payable to Government – Rs. 30,00,000

Unsecured Creditors – Rs. 60,00,000

You are required to compute with the reference to the provision of the Companies Act, 2013 the amount each kind of creditors is likely to get if the amount realized by the official liquidator from the secured assets and available for distribution among creditors is only Rs. 4,00,00,000/-

(15 + 5 = 20 Marks)

4. (a) The following are the figures extracted from the books of TOP Bank Limited as on 31.3.2017.

	Rs.
Interest and discount received	59,29,180
Interest paid on deposits	32,59,920
Issued and subscribed capital	16,00,000
Salaries and allowances	3,20,000
Directors fee and allowances	48,000
Rent and taxes paid	1,44,000
Postage and telegrams	96,460
Statutory reserve fund	12,80,000
Commission, exchange and brokerage	3,04,000
Rent received	1,04,000
Profit on sale of investments	3,20,000
Depreciation on bank's properties	48,000
Statutory expenses	44,000
Preliminary expenses	40,000
Auditor's fee	28,000

The following further information is given:

- (i) A customer to whom a sum of Rs. 16 lakhs has been advanced has become insolvent and it is expected only 40% can be recovered from his estate.
- (ii) There were also other debts for which a provision of Rs. 2,10,000 was found necessary by the auditors.
- (iii) Rebate on bills discounted on 31.3.2016 was Rs. 19,000 and on 31.3.2017 was Rs. 25,000.
- (iv) Preliminary expenses are to be fully written off during the year.
- (v) Provide Rs. 9,00,000 for Income-tax.
- (vi) Profit and Loss account opening balance was Nil as on 31.3.2016.

You are required to Prepare the Profit and Loss account of TOP Bank Limited for the year ended 31.3.2017.

- (b) From the following particulars of M/s. Tsunami Marine Insurance Limited for the year ending 31st March, 2016, find out the

- (i) Net Premium earned
- (ii) Net Claims incurred

	Direct Business	Re- Insurance
	(Rs.) lakhs	(Rs.) lakhs
PREMIUM:		
Received	4,400	376
Receivable -01.04.2015	220	18
Receivable -31.3.2016	189	16
Paid		305
Payable - 01.04.2015		14
Payable - 31.3.2016		9
CLAIMS:		
Paid	3,450	277
Payable - 01.04.2015	45	8
Payable - 31.3.2016	48	6
Received		101
Receivable - 01.04.2015		20
Receivable - 31.3.2016		19

(16+ 4= 20 Marks)

5. (a) Consider the following summarized balance sheets of subsidiary Neel Ltd.:

	2015	2016		2015	2016
	Rs.	Rs.		Rs.	Rs.
Share-Capital			Fixed Assets		
Issued & subscribed			Cost	1,60,000	1,60,000
2,500 equity shares			Less: Accumulated		
of Rs. 100 each	2,50,000	2,50,000	depreciation	(24,000)	(48,000)
Reserves & Surplus				1,36,000	1,12,000

Revenue reserves	1,43,000	3,57,000	Investments at cost		
Current Liabilities & Provisions:			Current Assets:	—	2,00,000
Trade Payables	2,45,000	2,47,000	Inventory	2,98,500	3,71,000
Bank overdraft	—	85,000	Trade Receivables	2,97,000	4,45,500
Provision for taxation	1,55,000	2,15,000	Prepaid Expenses	36,000	24,000
			Cash at Bank	25,500	1,500
	<u>7,93,000</u>	<u>11,54,000</u>		<u>7,93,000</u>	<u>11,54,000</u>

Also consider the following information:

- Neel Ltd. is a subsidiary of Sky Ltd. Both the companies follow calendar year as the accounting year.
- Sky Ltd. values inventory on LIFO basis while Neel Ltd. used FIFO basis. To bring Neel Ltd.'s values in line with those of Sky Ltd. its value of inventory is required to be reduced by Rs. 6,000 at the end of 2015 and Rs. 17,000 at the end of 2016.
- Neel Ltd. deducts 1% from Trade Receivables as a general provision against doubtful debts.
- Prepaid expenses in Neel Ltd. include advertising expenditure carried forward of Rs. 30,000 in 2015 and Rs. 15,000 in 2016, being part of initial advertising expenditure of Rs. 45,000 in 2015 which is being written off over three years. Similar amount of advertising expenditure of Sky Ltd. has been fully written off in 2015.

You are required to restate the balance sheet of Neel Ltd. as on 31st December, 2016 after considering the above information, for the purpose of consolidation. Make the necessary restatement which is necessary to make the accounting policies adopted by Sky Ltd. and Neel Ltd. uniform.

- The summarized Balance Sheet of K Ltd. for the year ended on 31st March, 2015, 2016 and 2017 are as follows:

	(Rs. in thousands)		
	31.3.2015	31.3.2016	31.3.2017
Liabilities			
1,60,000 equity shares of Rs. 10 each, fully paid	1,600	1,600	1,600
General reserve	1,200	1,400	1,600
Profit and Loss account	140	160	240
Trade Payables	600	800	1,000
	<u>3,540</u>	<u>3,960</u>	<u>4,440</u>
Assets			
Goodwill	1,000	800	600
Building and Machinery less, depreciation	1,400	1,600	1,600
Inventory	1,000	1,200	1,400
Trade Receivables	20	160	440
Bank balance	120	200	400
	<u>3,540</u>	<u>3,960</u>	<u>4,440</u>

Additional information:

(a) Actual valuations were as under:

Building and machinery less, depreciation	1,800	2,000	2,200
Inventory	1,200	1,400	1,600
Net profit (including opening balance after writing off depreciation, goodwill, tax provision and transferred to general reserve)	420	620	820

(b) Capital employed in the business at market value at the beginning of 2014-15 was Rs. 36,60,000 which included the cost of goodwill. The normal annual return on average capital employed in the line of business engaged by K Ltd. is 12½%.

(c) The balance in the general reserve on 1st April, 2014 was Rs. 10 lakhs.

(d) The goodwill shown on 31.3.2015 was purchased on 1.4.2014 for Rs. 10 lakhs on which date the balance in the Profit and Loss account was Rs. 1,20,000. Compute the average capital employed in each year.

Goodwill is to be valued at 5 year's purchase of Super profit (Simple average method). Also find out the total value of the business as on 31.3.2017. **(12 Marks + 8 Marks = 20 Marks)**

6. (a) A consumer goods producer has changed the product line as follows:

	Dish washing Bar (Per month)	Clothes washing Bar (Per month)
January 2016 - September 2016	2,00,000	2,00,000
October 2016 - December 2016	1,00,000	3,00,000
January 2017 - March 2017	Nil	4,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has passed a resolution in March 2016 to this effect. The company follows calendar year as its accounting year. You are required to advise whether it should be treated as discontinuing operation as per AS 24?

(b) Explain, in brief, the investment valuation norms for traded securities in case of mutual funds as per SEBI(Mutual fund) Regulations.

(c) **Balance Sheets of X Ltd.**

As on 31st March 2014 and 31st March 2015

(Rs. In lakhs)

Liabilities	31.3.14	31.3.15	Assets	31.3.14	31.3.15
Share Capital	18,00	18,00	Fixed assets	24,00	26,00
General Reserve	6,00	6,00	Investments	1,00	2,00
Profit & Loss A/c	6,80	9,40	Inventory	6,00	5,50
12% Debentures	2,00	2,00	Trade receivables	3,00	3,50
18% Term Loan	3,00	3,20	Cash and Bank	4,00	3,40

Cash Credit	1,20	80			
Trade payables	70	60			
Tax Provision	<u>30</u>	<u>40</u>			
	38,00	40,40		<u>38,00</u>	<u>40,40</u>

Non-trade investments were 75% of the total investments. Find capital employed as on 31.3.14 and as on 31.3.15 and average capital employed.

- (d) XYZ Ltd. purchased 80% shares of ABC Ltd. on 1st January, 2016 for Rs. 2,80,000. The issued capital of ABC Ltd., on 1st January, 2016 was Rs. 2,00,000 and the balance in the Profit & Loss Account was Rs. 1,20,000.

During the year ended 31st December, 2016, ABC Ltd. earned a profit of Rs. 40,000 and at year end, declared and paid a dividend of Rs. 60,000.

Show by an entry how the dividend should be recorded in the books of XYZ Ltd.

What is the amount of minority interest as on 1st January, 2016 and 31st December, 2016?

(4 Parts x 5 Marks = 20 Marks)