Test Series: April, 2019

MOCK TEST PAPER – 2

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) From the following information, you are required to compute the basic and adjusted Earnings per Share:

Net profit for 2017-18	Rs. 11 lakh
Net profit for 2018-19	Rs. 15 lakh
No. of shares issued before rights issue	5 lakhs
Right issue	One for every 5 held
Right issue price	Rs. 15 per share
Last date of exercising right option	1-06-2018
Fair value of shares before right issue	Rs. 21 per share

(b) A Ltd. sold machinery having WDV of Rs. 40 lakhs to B Ltd. for Rs. 50 lakhs and the same machinery was leased back by B Ltd. to A Ltd. The lease back is operating lease. You are required to comment on the accounting treatment as per AS 19 in the following situations:

(i) Sale price of Rs. 50 lakhs is equal to fair value.

(ii) Fair value is Rs. 45 lakhs and sale price is Rs. 38 lakhs.

(iii) Fair value is Rs. 40 lakhs and sale price is Rs. 50 lakhs.

(iv) Fair value is Rs. 46 lakhs and sale price is Rs. 50 lakhs

(v) Fair value is Rs. 35 lakhs and sale price is Rs. 39 lakhs.

(c) Sun Ltd. has entered into a sale contract of Rs. 5 crores with X Ltd. during 2015-2016 financial year. The profit on this transaction is Rs. 1 crore. The delivery of goods to take place during the first month of 2016-2017 financial year. In case of failure of Sun Ltd. to deliver within the schedule, a compensation of Rs. 1.5 crores is to be paid to X Ltd. Sun Ltd. planned to manufacture the goods during the last month of 2015-2016 financial year. As on balance sheet date (31.3.2016), the goods were not manufactured and it was unlikely that Sun Ltd. will be in a position to meet the contractual obligation.

(i) Should Sun Ltd. provide for contingency as per AS 29?

(ii) Should provision be measured as the excess of compensation to be paid over the profit?

(d) Omega Limited has borrowed a sum of US $ 10,00,000 at the beginning of Financial Year 2016-17 for its residential project at 4 %. The interest is payable at the end of the Financial Year. At the time of availment exchange rate was Rs. 56 per US $ and the rate as on 31st March, 2017 was Rs. 62 per US $. If Omega Limited 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, 2017 as per applicable Accounting Standards. ***(4 x 5 = 20 Marks)***

2. (a) From the following information as on 31st March, 2019 of Xeta Insurance Co. Ltd. engaged in fire insurance business, prepare the Revenue Account, reserving 50% of the net premiums for unexpired risks and an additional reserve of Rs. 7,00,000:

Particulars	Amount Rs.
Reserve for unexpired risk on 31st March, 2018	15,00,000
Additional reserve on 31st March, 2018	3,00,000
Claims paid	19,20,000
Estimated liability in respect of outstanding claims on 31st March, 2018	1,95,000
Estimated liability in respect of outstanding claims on 31st March, 2019	2,70,000
Expenses of management (including Rs. 90,000 incurred in connection with claims)	8,40,000
Re-insurance premium paid	2,25,000
Re-insurance recoveries	60,000
Premiums	33,60,000
Interest and dividend (gross before TDS)	1,50,000
Profit on sale of investments	30,000
Commission	50,000

(b) M/s P and Co., had four departments A, B, C and D. Each department being managed by manager whose commission was 10% of the respective departmental profit, subject to a minimum of Rs. 6,000 in each case. Inter-departmental transfers took place at a 'loaded' price as follows:

From Department A to Department B 10% above cost

From Department A to Department D 20% above cost

From Department C to Department D 20% above cost

From Department C to Department B 20% above cost

For the year ending on 31st March, 2019 the firm had already prepared and closed the departmental Trading and Profit and Loss Account. Subsequently, it was discovered that the closing stocks of departments had included interdepartmentally transferred goods at loaded price instead of cost price. From the following information prepare a statement recomputing the departmental profit or loss:

	Dept. A Rs.	**Dept. B Rs.**	**Dept. C Rs.**	**Dept. D Rs.**
Final Profit (Loss)	(38,000)	50,400	72,000	1,08,000
Inter departmental transfers included at loaded price in the departmental stock		70,000 (Rs. 22,000 from Dept. A and Rs. 48,000 from Dept. C)	-	4,800 (Rs. 3,600 from Dept. C and Rs. 1,200 from Dept. A)

(10 + 6 =16 Marks)

3. (a) XYZ is having its Branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses which are met by the Branch Manager.

From the following particulars, you are required to prepare branch account in the books of Head Office.

	(Rs.)		(Rs.)
Stock on 1st April 2017	30,000	Discount allowed to	
(invoice price)		debtors	160
Sundry Debtors on 1st April, 2017	18,000	Expenses paid by head office:	
Cash in hand as on 1st April, 2017	800	Rent	1,800
Office furniture on 1st April, 2017	3,000	Salary	3,200
Goods invoiced from the head office (invoice price)	1,60,000	Stationery & Printing	800
Goods returned to Head Office	2,000	Petty expenses paid by the branch	600
Goods returned by debtors	960	Depreciation to be provided on	
Cash received from debtors	60,000	branch furniture at 10% p.a.	
Cash Sales	1,00,000	Stock on 31st March, 2018	
Credit sales	60,000	(at invoice price)	28,000

(b) Ganesh Ltd. has head office at Delhi (India) and branch at New York. New York branch is an integral foreign operation of Ganesh Ltd. New York branch furnishes you with its trial balance as on 31st March, 2019 and the additional information given thereafter:

	Dr. ($)	*Cr. ($)*
Stock on 1st April, 2018	300	–
Purchases and sales	800	1,500
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Sundry expenses	1,080	–
Bank balance	420	–
Delhi office A/c	–	1,080
	3,120	3,120

The rates of exchange may be taken as follows:

- on 1.4.2018 @ *Rs.* 40 per US $
- on 31.3.2019 @ *Rs.* 42 per US $
- average exchange rate for the year @ Rs. 41 per US $.

New York branch account showed a debit balance of Rs. 44,380 on 31.3.2019 in Delhi books and there were no items pending reconciliation.

You are asked to prepare trial balance of New York in Rs. in the books of Ganesh Ltd.

(c) A company has its share capital divided into shares of Rs. 10 each. On 1-1-20X1, it granted 5,000 employees stock options at Rs. 50, when the market price was Rs. 140. The options were to be exercised between 1-3-20X2 to 31-03-20X2. The employees exercised their options for 4,800 shares only; remaining options lapsed.

You are required to pass the necessary journal entries for the year ended 31-3-20X2, with regard to employees' stock options. ***(8 + 4 + 4 = 16 Marks)***

4. L, M and N share profits and losses in the ratio of 5:3:2. Their firm was dissolved due to misconduct of M and their balance sheet on that date was as under:

Balance Sheet as at 31-3-2019

Liabilities		*Rs.*	*Assets*	*Rs.*
Capital Accounts :			Land and Building	2,00,000
L	3,00,000		Plants	2,00,000
M	2,00,000		Trade receivables	1,00,000
N	1,00,000	6,00,000	Inventories	1,50,000
Current Accounts:			Cash	1,00,000
L	50,000		Current Account:	
M	30,000	80,000	N	50,000
Trade payables		1,20,000		
		8,00,000		8,00,000

The whole business of the firm was sold to Preet Limited, on that day on the following terms:

(i) Preet Limited will issue the following securities in consideration for transfer of business:

10,000 equity shares @ Rs. 15 each, 15,000 preference shares @ Rs. 15 each; and 20,000 debentures @ Rs. 14.725.

(ii) The agreed value of assets and liabilities of partnership firm are as follows:

Land & Building – Rs. 3,00,000, Plants – Rs. 1,50,000, Inventory – Rs. 1,40,000, Trade Receivables – Rs. 97,500, and Trade Payables – Rs. 1,18,000.

It was mutually decided that preference shares and debentures will be distributed in profit sharing ratio and cash brought in by the partner (if any) will be shared equally by the remaining partners before distribution of equity shares. Equity shares are distributed on residual basis at the end.

You are required to prepare Realization Account, Cash Account, Partners' Current and Capital Accounts at the time of closing the books of the firm. ***(16 Marks)***

5. The Balance Sheet of Lion Limited as on 31-03-2019 is given below:

Particulars	*Note No.*	*Amount (Rs. in lakh)*
Equity & Liabilities		
Shareholders' Funds		
Shares' Capital	1	1,400
Reserves & Surplus	2	(522)
Non-Current Liabilities		
Long term Borrowings	3	700
Current Liabilities		
Trade Payables	4	102
Other Liabilities	5	24
Total		1704

Assets		
Non-Current Assets		
Fixed Assets		
Tangible Assets	6	750
Current Assets		
Current Investments	7	200
Inventories	8	300
Trade Receivables	9	450
Cash & Cash Equivalents	10	4
Total		1704

Notes to Accounts:

		Rs. in Lakhs
(1)	Share Capital	
	Authorised :	
	200 lakh shares of Rs. 10 each	2,000
	8 lakh, 8% Preference Shares of Rs. 100 each	800
		2,800
	Issued, Subscribed and paid up:	
	100 lakh Equity Shares of Rs. 10 each, full paid up	1,000
	4 lakh 8% Preference Shares of Rs. 100 each, fully paid up	400
	Total	1400
(2)	Reserves and Surplus	
	Debit balance of Profit & Loss A/c	(522)
(3)	Long Term Borrowings	
	6% Debentures (Secured by Freehold Property)	400
	Directors' Loan	300
		700
(4)	Trade Payables	
	Trade payables for Goods	102
(5)	Other Current Liabilities	
	Interest Accrued and Due on 6% Debentures	24
(6)	Tangible Assets	
	Freehold Property	550
	Plant & Machinery	200
		750
(7)	Current Investment	
	Investment in Equity Instruments	200
(8)	Inventories	
	Finished Goods	300

(9) Trade Receivables	
Trade receivables for Goods	450
(10) Cash and Cash Equivalents	
Balance with Bank	4

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to Rs. 80 each and Equity Shares to Rs. 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of Rs. 2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of Rs. 300 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at Rs. 400 lakh.

(6) All investments sold out for Rs. 250 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of Rs. 2 each to be allowed.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to Rs. 600 lakh have been settled by paying 5% penalty of contract value.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Capital Reduction Account; and

(c) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction. ***(16 Marks)***

6. (a) Paper Limited comes out with a public issue of share capital on 01-01-2016 of 30,00,000 equity shares of Rs. 10 each at a premium of 5%. Rs. 2.50 is payable on application (on or before 31-01-2016) and Rs. 3 on allotment (31-3-2016) including premium.

This issue was underwritten by two underwriters namely White and Black, equally, the commission being 4% of the issue price. Each of the underwriters underwrites 60,000 shares firm. Subscriptions including firm underwriting came for 28,80,000 shares, the distribution of forms being White: 15,60,000; Black; 10,80,000 and Unmarked 2,40,000.

One of the allottees (using forms marked with name of White) for 6,000 shares fails to pay the amount due to allotment, all the other money due being received in full including any due from the shares devolving upon the underwriters. The commission due was paid separately.

6,000 shares of one allottee who failed to pay the allotment money were finally forfeited by 30-06-2016 and were re-allotted for payment in cash of Rs. 4 per share.

You are required to prepare each underwriter's liability (in shares) in statement form assuming that the 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	
(i)	Equity share capital (shares of Rs. 10 each)	1,200
(ii)	Reserves:	

	General Reserves	1,080
	Securities Premium	400
	Profit & Loss	200
	Infrastructure Development Reserve (Statutory Reserve)	320
(iii)	Loan Funds	3,200

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 the above situation and also required to pass necessary Journal Entries. ***(4 + 12 = 16 Marks)***

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

(a) Explain the nature of Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership?

(b) A company had issued 30,000, 14% convertible debentures of Rs. 100 each on 1st April, 2014. The debentures are due for redemption on 1st July, 2016. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value Rs. 10) at a price of Rs. 15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders exercising the option to the maximum.

(c) ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom-made machine amounting to Rs. 4,00,000. As on 31st March, 2016 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is 'NIL'.

Show the treatment of machine in the books of ABC Ltd.

(d) A fixed asset is purchased for Rs. 20 lakhs. Government grant received towards it is Rs. 8 lakhs. Residual Value is Rs. 4 lakhs and useful life is 4 years. Assume depreciation on the basis of Straight Line method. Asset is shown in the balance sheet net of grant. After 1 year, grant becomes refundable to the extent of Rs. 5 lakhs due to non compliance with certain conditions. Pass journal entries for second year.

(e) The Board of Directors of New Graphics Ltd. in its Board Meeting held on 18th April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31st March, 2017 and recommended a dividend of Rs. 2 per equity share (on 2 crore fully paid up equity shares of Rs. 10 each) for the year ended 31st March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the company on 18th June, 2017, the same will be paid to all the eligible shareholders.

Discuss on the accounting treatment and presentation of the said proposed dividend in the annual accounts of the company for the year ended 31st March, 2017 as per the applicable Accounting Standards and other Statutory Requirements. ***(4 x 4 = 16 Marks)***