

**MOCK TEST PAPER - 1**  
**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) Mohan Ltd. is in a dispute involving allegation of infringement of patents by a competitor company who is seeking damages of a huge sum of Rs. 900 lakhs. The directors are of the opinion that the claim can be successfully resisted by the company.

How would you deal with the same in the annual accounts of the Mohan Ltd. as per provisions of AS 29?

(b) Explain the concept of 'weighted average number of equity shares outstanding during the period'. State how would you compute, based on AS-20, the weighted average number of equity shares in the following case:

		No. of shares
1 <sup>st</sup> April, 2016	Balance of equity shares	7,20,000
31 <sup>st</sup> August, 2016	Equity shares issued for cash	2,40,000
1 <sup>st</sup> February, 2017	Equity shares bought back	1,20,000
31 <sup>st</sup> March, 2017	Balance of equity shares	8,40,000

(c) 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 31<sup>st</sup> 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 31<sup>st</sup> March, 2017 as per applicable Accounting Standards.

(d) 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.

**(4 x 5 = 20 Marks)**

2. The following was the Balance Sheet of Omega Ltd. as on 31<sup>st</sup> March, 2018.

Equity & Liabilities	Rs. Lakhs	Assets	Rs. Lakhs
Share Capital:		Fixed Assets	14,000

Equity shares of Rs. 10 each Fully Paid Up	8,000	Investments	3,000
10% Redeemable Pref. Shares of Rs. 10 each Fully Paid Up	2,500	Cash at Bank	1,650
Reserves & Surplus		Other Current Assets	8,250
Capital Redemption Reserve	1,000		
Securities Premium	800		
General Reserve	6,000		
Profit & Loss Account	300		
Secured Loans:			
9% Debentures	5,000		
Current Liabilities:			
Trade Payables	2,300		
Sundry Provisions	1,000		
	26,900		26,900

On 1<sup>st</sup> April, 2018 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 15% of its Equity Shares at Rs. 20 per Share. In order to make cash available, the Company sold all the Investments for Rs. 3,150 lakhs and raised a Bank Loan amounting to Rs. 400 lakh on the Security of the Company's Plant.

You are required to

- (i) pass journal entries for the above and
- (ii) prepare the Company's Balance sheet immediately thereafter. **(16 Marks)**

3. 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 31-3-2018**

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

4. (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 1 <sup>st</sup> April 2017 (invoice price)	30,000	Discount allowed to debtors	160
Sundry Debtors on 1 <sup>st</sup> April, 2017	18,000	Expenses paid by head office:	
Cash in hand as on 1 <sup>st</sup> April, 2017	800	Rent	1,800
Office furniture on 1 <sup>st</sup> 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 branch furniture at 10% p.a.	
Cash received from debtors	60,000	Cash Sales	Stock on 31 <sup>st</sup> March, 2018
Cash Sales	1,00,000	Creditsales	(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 31<sup>st</sup> March, 2018 and the additional information given thereafter:

	Dr. (\$)	Cr. (\$)
Stock on 1 <sup>st</sup> April, 2017	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 1.4.2017 @ Rs. 40 per US \$
- on 31.3.2018 @ 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 31.3.2018 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)**

5. (a) The following facts have been taken out from the records of City Bank Ltd. as on 31<sup>st</sup> March, 2017:

	Rs.	Rs.
Rebate on bill discounted (not due on March 31 <sup>st</sup> , 2016)		66,400
Discount received		3,00,000
Bill discounted	24,50,000	

An analysis of the bills discounted is as follows:

	Amount	Due date	Rate of discount
	Rs.	2017	
(i)	7,50,000	April 8	12%
(ii)	3,00,000	May 5	14%
(iii)	4,40,000	June 12	14%
(iv)	9,60,000	July 15	15%

You are required to:-

(i) Calculate Rebate on Bill Discounted (not due) on 31<sup>st</sup> March, 2017.  
 (ii) The amount of discount to be credited to the profit and loss account.  
 (b) Modern Insurance Company's Fire Insurance division provide the following information, show the amount of claim as it would appear in the Revenue Account for the year ended 31<sup>st</sup> March, 2017.

	Direct Business	Re-insurance
	Rs.	Rs.
Claim paid during the year	7,06,000	1,64,000
Claim received		64,000
Claim payable		
1 <sup>st</sup> April, 2016	1,64,600	11,600
31 <sup>st</sup> March, 2017	1,75,000	17,400
Claim receivable:		
1 <sup>st</sup> April, 2016	-	17,000
31 <sup>st</sup> March, 2017	-	28,400
Expenses of management	69,000	
(Includes Rs. 7,600 Surveyor's fee and Rs. 8,400 Legal expenses for settlement of claims)		

(c) F Ltd. finalized their financial statements for the year ending 31<sup>st</sup> March, 2017 and got approved by their approving authority on 30<sup>th</sup> June, 2017. A major fire broke out in the night of 31<sup>st</sup> May, 2017 destroying factory premises. Loss of property estimated to be Rs. 25 lakhs. You are required to state how to deal with this information in the annual accounts. **(6 + 6 + 4 = 16 Marks)**

6. The Balance Sheet of Lion Limited as on 31-03-2018 is given below:

Particulars	Note No.	Amount (Rs. in lakh)
<b>Equity &amp; Liabilities</b>		
<b>Shareholders' Funds</b>		
Shares' Capital	1	1,400
Reserves & Surplus	2	(522)
<b>Non-Current Liabilities</b>		
Long term Borrowings	3	700
<b>Current Liabilities</b>		
Trade Payables	4	102
Other Liabilities	5	24
Total		1704
<b>Assets</b>		
<b>Non-Current Assets</b>		
Property, Plant & Equipment		
Tangible Assets	6	750
<b>Current Assets</b>		
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
		<u>700</u>
(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		<u>200</u>
		<u>750</u>
(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 2/3<sup>rd</sup> and for balance 1/3<sup>rd</sup>, 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)**

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

(a) 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.

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

(d) A company had issued 30,000, 14% convertible debentures of Rs. 100 each on 1<sup>st</sup> April, 2016. The debentures are due for redemption on 1<sup>st</sup> July, 2018. 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.

(e) K Ltd. launched a project for producing product X in October, 2016. The Company incurred Rs. 40 lakhs towards Research and Development expenses upto 31<sup>st</sup> March, 2018. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years. Advise the Company as per the applicable Accounting Standard.

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