

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 st April, 2016 | Balance of equity shares | 7,20,000 |
| 31 st August, 2016 | Equity shares issued for cash | 2,40,000 |
| 1 st February, 2017 | Equity shares bought back | 1,20,000 |
| 31 st 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 avilment 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.

- (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 31st 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 | <u>1,000</u> | | |
| | <u>26,900</u> | | <u>26,900</u> |

On 1st 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

- pass journal entries for the above and
- 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

| <i>Liabilities</i> | | <i>Rs.</i> | <i>Assets</i> | <i>Rs.</i> |
|--------------------|-----------------|-----------------|-------------------|-----------------|
| 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 | <u>1,00,000</u> | 6,00,000 | Inventories | 1,50,000 |
| Current Accounts: | | | Cash | 1,00,000 |
| L | 50,000 | | Current Account: | |
| M | <u>30,000</u> | 80,000 | N | 50,000 |
| Trade payables | | 1,20,000 | | |
| | | <u>8,00,000</u> | | <u>8,00,000</u> |

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

- 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.
- 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 st April 2017 (invoice price) | 30,000 | Discount allowed to debtors | 160 |
| Sundry Debtors on 1 st April, 2017 | 18,000 | Expenses paid by head office: | |
| Cash in hand as on 1 st April, 2017 | 800 | Rent | 1,800 |
| Office furniture on 1 st 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 | Stock on 31 st March, 2018 (at invoice price) | 28,000 |
| Cash Sales | 1,00,000 | | |
| Creditsales | 60,000 | | |

- (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, 2018 and the additional information given thereafter:

| | Dr. (\$) | Cr. (\$) |
|--------------------------------------|----------|----------|
| Stock on 1 st 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 31st March, 2017:

| | Rs. | Rs. |
|--|-----------|----------|
| Rebate on bill discounted (not due on March 31 st , 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 31st 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 31st 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 st April, 2016 | 1,64,600 | 11,600 |
| 31 st March, 2017 | 1,75,000 | 17,400 |
| Claim receivable: | | |
| 1 st April, 2016 | - | 17,000 |
| 31 st March, 2017 | - | 28,400 |
| Expenses of management (Includes Rs. 7,600 Surveyor's fee and Rs. 8,400 Legal expenses for settlement of claims) | 69,000 | |

- (c) F Ltd. finalized their financial statements for the year ending 31st March, 2017 and got approved by their approving authority on 30th June, 2017. A major fire broke out in the night of 31st 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:

| <i>Particulars</i> | <i>Note No.</i> | <i>Amount (Rs. in lakh)</i> |
|--|-----------------|---------------------------------|
| <u>Equity & Liabilities</u> | | |
| <u>Shareholders' Funds</u> | | |
| Shares' Capital | 1 | 1,400 |
| Reserves & Surplus | 2 | (522) |
| <u>Non-Current Liabilities</u> | | |
| Long term Borrowings | 3 | 700 |
| <u>Current Liabilities</u> | | |
| Trade Payables | 4 | 102 |
| Other Liabilities | 5 | 24 |
| Total | | 1704 |
| <u>Assets</u> | | |
| <u>Non-Current Assets</u> | | |
| <u>Property, Plant & Equipment</u> | | |
| Tangible Assets | 6 | 750 |
| <u>Current Assets</u> | | |
| 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 | <u>800</u> |
| | <u>2,800</u> |
| 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 | <u>400</u> |
| | Total <u>1400</u> |
| (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 | <u>300</u> |
| | <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 2/3rd 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)

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 1st April, 2016. The debentures are due for redemption on 1st 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 31st 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)**