Test Series: October, 2019

MOCK TEST PAPER 1

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) Suhana Ltd. issued 12% secured debentures of Rs. 100 Lakhs on 01.05.2018, to be utilized as under:

Particulars	*Amount (Rs. in lakhs)*
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2019, construction of the factory building was completed and machinery was installed and ready for it's intended use. Total interest on debentures for the financial year ended 31.03.2019 was Rs. 11,00,000. During the year 2018-19, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of Rs. 2,00,000.

Show the treatment of interest under Accounting Standard 16 and also explain nature of assets.

(b) 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. Suggest the amortization method.

(c) Ram Ltd. purchased machinery for Rs. 80 lakhs. (useful life 4 years and residual value Rs. 8 lakhs). Government grant received is Rs. 32 lakhs. Show the Journal Entry to be passed at the time of refund of grant and the value of the fixed assets in the third year and the amount of depreciation for remaining two years, if the grant has been credited to Fixed Assets A/c.

(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. M/s Xylem Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the company as on 31st March, 2019 before reconstruction:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Share Capital		Land & Building	42,70,000
50,000 shares of Rs. 50		Machinery	8,50,000
each fully paid up	25,00,000	Computers	5,20,000
1,00,000 shares of Rs. 50		Inventories	3,20,000
each Rs. 40 paid up	40,00,000	Trade receivables	10,90,000
Capital Reserve	5,00,000	Cash at Bank	2,68,000
8% Debentures of Rs. 100 each	4,00,000	Profit & Loss Account	29,82,000
12% Debentures of Rs. 100 each	6,00,000		
Trade payables	12,40,000		
Outstanding Expenses	10,60,000		
	1,03,00,000		1,03,00,000

Following is the interest of Mr. A and Mr. B in M/s Xylem Limited:

	Mr. A	Mr. B
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	7,00,000	3,00,000

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

(1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of Rs. 40 each.

(2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for Rs. 12,50,000.

(3) Trade payables are given option of either to accept fully paid equity shares of Rs. 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade payables for Rs. 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.

(4) Mr. A agrees to cancel debentures amounting to Rs. 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to Rs. 1,00,000.

(5) Mr. B agrees to cancel debentures amounting to Rs. 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.

(6) Land & Building to be revalued at Rs. 51,84,000, Machinery at Rs. 7,20,000, Computers at Rs. 4,00,000, Inventories at Rs. 3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.

(7) Outstanding Expenses are fully paid in cash.

(8) Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction. ***(16 Marks)***

3. From the following balances extracted from the books of General Insurance Company Limited as on 31.3.2019 you are required to prepare Revenue Accounts in respect of Fire and marine Insurance business for the year ended 31.3.2019 and a Profit and Loss Account for the same period:

	Rs.		Rs.
Directors' Fees	80,000	Interest received	19,000
Dividend received	1,00,000	Fixed Assets (1.4.2018)	90,000
Provision for Taxation (as on 1.4. 2018)	85,000	Income-tax paid during the year	60,000

	Fire	Marine
	Rs.	Rs.
Outstanding Claims on 1.4. 2018	28,000	7,000
Claims paid	1,00,000	80,000
Reserve for Unexpired Risk on 1.4.2018	2,00,000	1,40,000
Premiums Received	4,50,000	3,30,000
Agent's Commission	40,000	20,000
Expenses of Management	60,000	45,000
Re-insurance Premium (Dr.)	25,000	15,000

The following additional points are also to be taken into account:

(a) Depreciation on Fixed Assets to be provided at 10% p.a.

(b) Interest accrued on investments Rs. 10,000.

(c) Closing provision for taxation on 31.3.2019 to be maintained at Rs. 1,24,138.

(d) Claims outstanding on 31.3.2019 were Fire Insurance Rs. 10,000; Marine Insurance Rs. 15,000.

(e) Premium outstanding on 31.3.2019 were Fire Insurance Rs. 30,000; Marine Insurance Rs. 20,000.

(f) Reserve for unexpired risk to be maintained at 50% and 100% of net premiums in respect of Fire and Marine Insurance respectively.

(g) Expenses of management due on 31.3.2019 were Rs. 10,000 for Fire Insurance and Rs. 5,000 in respect of marine Insurance. ***(16 Marks)***

4. X, Y and Z are in partnership sharing profits and losses in the ratio of 5:4:4. The Balance Sheet of the firm as on 31st March, 2019 is as below:

Liabilities	Rs.	Assets	Rs.
X's Capital	60,000	Factory Building	96,640
Y's Capital	40,000	Plant and Machinery	65,100

Z's Capital	50,000	Trade Receivable	21,600
Y's Loan	18,000	Inventories	49,560
Trade Payable	66,000	Cash at Bank	1,100
	2,34,000		2,34,000

On Balance Sheet date, all the three partners have decided to dissolve their partnership. Since the realisation of assets was protracted, they decided to distribute amounts as and when feasible and for this purpose they appoint Z who was to get as his remuneration 1% of the value of the assets realised other than cash at bank and 10% of the amount distributed to the partners.

Assets were realised piecemeal as under:

	Rs.
First instalment	74,600
Second instalment	69,301
Third instalment	40,000
Last instalment	28,000
Dissolution expenses were provided for estimated amount of	Rs. 12,000
The creditors were settled finally for	Rs. 63,600

You are required to prepare a statement showing distribution of cash amongst the partners by "Highest Relative Capital Method". ***(16 Marks)***

5. (a) On 31st December, 2018 the following balances appeared in the books of Kolkata Branch of an English firm having its HO office in New York:

	Amount in Rs.	Amount in Rs.
Stock on 1st Jan., 2018	2,34,000	
Purchases and Sales	15,62,500	23,43,750
Debtors and Creditors	7,65,000	5,10,000
Bills Receivable and Payable	2,04,000	1,78,500
Salaries and Wages	1,00,000	-
Rent, Rates and Taxes	1,06,250	-
Furniture	91,000	-
Bank A/c	5,68,650	
New York Account	-	5,99,150
	36,31,400	36,31,400

Stock on 31st December, 2018 was Rs. 6,37,500.

Branch account in New York books showed a debit balance of $ 13,400 on 31st December, 2018 and Furniture appeared in the Head Office books at $ 1,750.

The rate of exchange on 31st December, 2017 was Rs. 52 and on 31st December, 2018 was Rs. 51. The average rate for the year was Rs. 50.

Prepare in the Head Office books the Profit and Loss A/c and the Balance Sheet of the Branch considering branch to be a non-corporate entity.

(b) Department A sells goods to Department B at a profit of 50% on cost and to Department C at 20% on cost. Department B sells goods to A and C at a profit of 25% and 15% respectively on sales. Department C charges 30% and 40% profit on cost to Department A and B respectively.

Stock lying at different departments at the end of the year are as under:

	Department A	Department B	Department C
	Rs.	Rs.	Rs.
Transfer from Department A	-	45,000	42,000
Transfer from Department B	40,000	-	72,000
Transfer from Department C	39,000	42,000	-

Calculate the unrealized profit of each department and also total unrealized profit.

(12 + 4 = 16 Marks)

6. (a) The following was the balance sheet of Mukta Ltd. as on 31st March, 2019

Equity & liability	*Rs. (in lakhs)*	*Assets*	*Rs.(in lakhs)*
Authorised Capital:		Fixed Assets	1,12,000
Equity shares of Rs. 10 each	80,000	Investments	24,000
Issued Capital		Cash at Bank	13,200
Equity Shares of Rs.10 each Fully Paid Up	64,000	Trade Receivables	66,000
10% Redeemable Preference Shares of 10 each, Fully Paid Up	20,000		
Reserves & Surplus:			
Capital Redemption Reserve	8,000		
Securities Premium	6,400		
General Reserve	48,000		
Profit & Loss Account	2,400		
9% Debentures	40,000		
Trade Payables	26,400		
	2,15,200		2,15,200

On 1st April,2019 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 25% of its Equity Shares at Rs.20 per Share. In order to make Cash available, the Company sold all the Investments for Rs.25,200 Lakhs and raised a Bank Loan amounting to Rs.16,000 lakh on the Security of the Company's Plant.

Give the necessary Journal Entries considering that the buy back is authorised by the articles of company and necessary resolution is passed by the company for this. The amount of Securities premium will be utilized to the maximum extents allowed by law.

(b) On 1st April, 2018, a company offered 100 shares to each of its 500 employees at Rs. 50 per share. The employees are given a year to accept the offer. The shares issued under the plan shall be subject to lock-in on transfer for three years from the grant date. The market price of shares of the company on the grant date is Rs. 60 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at Rs. 56 per share. On 31st March, 2019, 400 employees accepted the offer and paid Rs. 50 per share purchased. Nominal value of each shares is Rs. 10.

Record the issue of shares in the books of the company under the aforesaid plan.

(12 + 4 =16 Marks)

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

(a) The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended

31st March, 2019. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard;

(i) Provision for doubtful debts was created @ 2% till 31st March, 2018. From the Financial year 2018-2019, the rate of provision has been changed to 3%.

(ii) During the year ended 31st March, 2019, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.

(iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.

(iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organization.

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

(c) Zoo Ltd. had issued 30,000, 15% convertible debentures of Rs. 100 each on 1st April, 2016. The debentures are due for redemption on 1st March, 2019. 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.

(d) The company had a engineering contract with a foreign government, work to be carried out in foreign country and payments to be received in dollars. The work was completed in the year 2018, and the entire contracted amount was duly recorded in the books of the company at the prevalent exchange rate on the date of completion of the work. However, payments to the extent of Rs. 40 crores could not be released by the Foreign Government because of temporary foreign exchange crisis in that country. This Rs. 40 crores unrealized at the end, if converted at the year end rate would amount to Rs. 40.50 croes. The Company has adopted and follows the following accounting policy:

"In respect of foreign currency transactions, current assets and current liabilities are revalued at year end rates. However, if there is a net loss, due to exchange difference, the same is charged off to the P&L account, but if there is a net gain, the same is ignored in view of the prudent accounting policies of not recording unrealized gains due to exchange rate fluctuations".

Comment on the appropriateness of the above in line with AS 11.

(e) Omega Bank Statement of interest on advances in respect of Performing assets and Non-Performing Assets are as follows:- (in lakhs)

	Performing Assets		Non-Performing Assets	
	Interest earned	Interest received	Interest earned	Interest received
Cash credits and overdrafts	1800	1060	450	70
Term Loan	480	320	300	40
Bills purchased and discounted	700	550	350	36

Find out the income to be recognized for the year ended 31st March, 20X1.

(4 Parts x 4 Marks= 16 Marks)