MOCK TEST PAPER – 1

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) A machine was given on 3 years operating lease by a dealer of the machine for equal annual lease rentals to yield 30% profit margin on cost Rs. 1,50,000. Economic life of the machine is 5 years and output from the machine are estimated as 40,000 units, 50,000 units, 60,000 units, 80,000 units and 70,000 units consecutively for 5 years. Straight line depreciation in proportion of output is considered appropriate.

You are required to compute the following:

(i) Annual Lease Rent

(ii) Lease Rent income to be recognized in each operating year

(b) During 2019-20, an enterprise incurred costs to develop and produce a routine low risk computer software product, as follows:

Particular	Rs.
Completion of detailed program and design (Phase 1)	50,000
Coding and Testing (Phase 2)	40,000
Other coding costs (Phase 3 & 4)	63,000
Testing costs (Phase 3 & 4)	18,000
Product masters for training materials (Phase 5)	19,500
Packing the products (1,500 units) (Phase 6)	16,500

After completion of phase 2, it was established that the product is technically feasible for the market.

You are required to state how the above referred cost to be recognized in the books of accounts.

(c) With reference to AS 4 "Contingencies and events occurring after the balance sheet date", state whether the following events will be treated as contingencies, adjusting events or non-adjusting events occurring after balance sheet date in case of a company which follows financial year (April to March).

(i) A major fire has damaged the assets in a factory on 5th April, 5 days after the year end. The assets are not insured; and the books have not been approved by the Directors.

(ii) A suit against the company's advertisement was filed by a party on 10th April, 10 days after the year end claiming damages of Rs. 20 lakhs.

(d) Net Profit for financial year 2018-2019 — 30,00,000

Net Profit for financial year 2019-2020 — 50,00,000

No. of shares outstanding prior to rights issue — 20,00,000 shares

Rights Issue Price — Rs. 20

Last day to exercise rights — 1st June, 2019

Right issue is one new share for each five equity share outstanding (i.e. 4,00,000 new shares).

Fair value of one equity share immediately prior to exercise of rights on 1st June, 2019 was Rs. 26.00.

Compute Basic Earnings Per Share for financial year 2018-19, 2019-2020 and restated EPS for 2018-19. **(4 parts x 5 Marks = 20 Marks)**

2. The following were summarized Balance sheets of Robert Ltd. and Diamond Ltd. as at 31.03.2020

	Robert Ltd. (Rs. in lakhs)	Diamond Ltd. (Rs. in lakhs)
Liabilities		
Equity Share Capital (Fully paid shares of Rs. 10 each)	22,500	9,000
Securities Premium	4,500	-
Foreign Project Reserve	-	465
General Reserve	14,250	4,800
Profit and Loss Account	4,305	1,237.5
12% Debentures	-	1,500
Trade payables	1,800	694.5
Provisions	2,745	1,053
	50,100	18,750
Assets		
Land and Buildings	9,000	-
Plant and Machinery	21,000	7,500
Furniture, Fixtures and Fittings	3,456	2,550
Inventory	11,793	6,061.5
Trade receivables	3,180	1,650
Cash at Bank	1,671	913.5
Cost of Issue of Debentures	-	75
	50,100	18,750

All the bills receivable held by Diamond Ltd. were Robert Ltd.'s acceptances.

On 1st April 2020, Robert Ltd. took over Diamond Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business, Robert Ltd. would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in Diamond Ltd. It was also agreed that 12% debentures in Diamond Ltd. would be converted into 13% debentures in Robert Ltd. of the same amount and denomination.

Details of trade receivables and trade payables are as under:

Particulars	Robert Ltd.	Diamond Ltd.
		(Rs. in lakhs)
Trade Payables		
Creditors	1,620	694.5
Bills Payable	180	-
	1,800	694.5
Trade receivables		
Debtors	3,180	1,530
Bills Receivables	-	120
	3,180	1,650

Expenses of amalgamation amounting to Rs. 1.5 lakhs were borne by Robert Ltd.

You are required to:

(i) Pass journal entries in the books of Robert Ltd. and

(ii) Prepare Robert Ltd.'s Balance Sheet immediately after the merger considering that the cost of issue of debentures shown in the balance sheet of Diamond Ltd. is not transferred to Robert Ltd. **(20 Marks)**

3. (a) P, Q and R are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve the partnership on 31st March, 2020 when their Balance Sheet was as under:

Liabilities	Amount	Assets		Amount
Partners' Capital Accounts:		Land & Building		90,000
P	40,000	Plant & Machinery		30,000
Q	40,000	Furniture		17,000
General Reserve	33,000	Investments		10,000
R's Loan A/c	10,000	Book Debts	40,000	
Loan from D	80,000	Less: Provision for bad debts	(4,000)	36,000
Trade Creditors	20,000	Stock		24,000
Bills Payable	8,000	Bank		9,000
Outstanding Salary	5,000			
		R's Capital Account		20,000
Total	2,36,000	Total		2,36,000

The following information is given to you:

(i) Realisation expenses amounted to Rs. 12,000 out of which Rs. 2,000 was borne by P.

(ii) A creditor agreed to takeover furniture of book value Rs. 8,000 at Rs. 7,200. The rest of the creditors were paid off at a discount of 6.25%.

(iii) The other assets realized as follows:

Furniture	-	Remaining taken over by R at 90% of book value
Stock	-	Realised 120% of book value
Book Debts	-	Rs. 8,000 of debts proved bad, remaining were fully realized

Land & Building - Realised Rs. 1,10,000

Investments - Taken over by P at 15% discount

(iv) For half of his loan, D accepted Plant & Machinery and Rs. 5,000 cash. The remaining amount was paid at a discount of 10%.

(v) Bills payable were due on an average basis of one month after 31st March, 2020, but they were paid immediately on 31st March @ 6% discount "per annum".

Prepare the Realisation Account, Bank Account and Partners' Capital Accounts in columnar form in the books of Partnership firm.

(b) Babu Bhai Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ended 31st March, 2020:

Assets Funded	Interest Overdue but recognized in Profit & Loss		Net Book Value of Assets Outstanding
	Period Overdue	Interest Amount	
		(Rs. In crore)	(Rs. In crore)
LCD Televisions	Up to 12 Months	500.00	20,000
Washing Machines	For 24 Months	100.00	2,000
Refrigerators	For 30 Months	50.00	1,250
Air Conditioners	For 45 Months	25.00	600
Mobile Phones	For 60 Months	10.00	100

You are required to calculate the amount of provision to be made. **(15 + 5 = 20 Marks)**

4. (a) The summarized Profit and Loss Accounts of A Ltd. and its subsidiary B Ltd. for the year ended 31st March, 2020 are given below:

Rs. in Lakhs

Incomes	A Ltd.	B Ltd.
Sales and other income	7,500	1,500
Increase in Inventory	1,500	300
Total	9,000	1,800
Expenses		
Raw material consumed	1,200	300
Wages and Salaries	1,200	225
Production expenses	300	150
Administrative expenses	300	150
Selling and distribution expenses	300	75
Interest	150	75
Depreciation	150	75
Total	3,600	1,050
Profit before tax	5,400	750
Provision for tax	1,800	300
Profit after tax	3,600	450

The following information is also given:

(i) A Ltd sold goods of Rs. 180 Lakhs to B Ltd at cost plus 25% (1/6 of such goods were still in inventory of B Ltd at the end of the year).

(ii) Administrative expenses of B Ltd include Rs. 8 Lakhs paid to A Ltd as consultancy fees.

(iii) Selling and distribution expenses of A Ltd include Rs.15 Lakhs paid to B Ltd as commission.

(iv) A Ltd. holds 72% of the Equity Capital of B Ltd. The Equity Capital of B Ltd prior to 2018-19 is Rs.1,500 Lakhs.

Prepare a consolidated Profit and Loss Account of A Ltd. with its subsidiary B Ltd. for the year ended 31st March, 2020.

(b) What are circumstances when an LLP can be wound up by the Tribunal. Explain in brief.

(15 + 5 =20 Marks)

5. (a) BT Ltd. went into Voluntary Liquidation on 31st March, 2019, when their summarized Balance Sheet was as follows:

	In Rs.
Liabilities	
Issued & Subscribed Capital	
10,000 12% cumulative preference shares of Rs. 100 each, fully paid	10,00,000
10,000 Equity Shares of Rs. 100 each 75 per share paid up	7,50,000
20,000 Equity Shares of Rs. 100 each 60 per share paid up	12,00,000
Profit & Loss Account	(5,25,000)
12% Debentures (Secured by a floating charge)	10,00,000
Interest outstanding on Debentures	1,20,000
Creditors	8,50,000
	43,95,000
Assets	
Land & Building	17,60,000
Plant & Machinery	12,50,000
Furniture	4,75,000
Patents	1,45,000
Stock	1,80,000
Trade Receivables	5,09,300
Cash at Bank	75,700
	43,95,000

Preference dividends were in arrear for 1 year. Creditors include preferential creditors of Rs. 75,000. Balance creditors are discharged subject to 5% discount.

Assets are realised as under:

	In Rs.
Land & Building	24,50,000
Plant & Machinery	9,00,000
Furniture	2,85,000
Patents	90,000
Stock	2,80,000
Trade Receivables	3,15,000

Expenses of liquidation amounted to Rs. 45,000. The liquidator is entitled to a remuneration of 3% on all assets realised (except cash at bank). All payments were made on 30th June, 2019.

You are required to prepare the Liquidator's Final Statement of Account as on 30th June, 2019. Working Notes should form part of the answer.

(b) From the following information, prepare the Profit & Loss A/c of Indus Bank Ltd. for the year ending 31st March, 2020. Also give necessary schedules.

Particulars	Figures in '000
Total Interest earned on term loans	2,550
Interest earned on term loans classified as NPA	731
Interest received on term loans classified as NPA	238
Total Interest earned on cash credits and overdrafts	5,663
Interest earned but not received on cash credit and overdrafts treated as NPA	923
Interest on deposits	4,120
Commission	201
Profit on sale of investments	1,876
Profit on revaluation of investments	342
Income from Investments	2,174
Payments to and provision for employees	2,745
Rent, Taxes and Lighting	385
Printing and Stationery	62
Director's fees, allowances and expenses	313
Repairs and Maintenance	56
Depreciation on Bank's property	99
Insurance	43

Other Information:

Make necessary provision on Risk Assets:

Particulars	Figures in '000
Standard	4,700
Sub-Standard (fully secured)	1,900
Doubtful Assets not covered by security	400
Doubtful Assets covered by security for 1 year	40
Loss Assets	300

(10 + 10 = 20 Marks)

6. (a) You are required to identify the related parties in the following cases as per AS 18:

M Ltd. holds 61 % shares of S Ltd.

S Ltd. holds 51 % shares of F Ltd.

C Ltd. holds 49% shares of F Ltd.

(Give your answer - Reporting Entity wise for M Ltd., S Ltd., C Ltd. and F Ltd.)

(b) The Paid-up capital of S Limited amounted to Rs. 5,00,000 Equity Shares of Rs. 10 each. Due to continuous loss incurred by the company, the following scheme of Reconstruction has been approved for S Limited on 1st April, 2020.

(i) In lieu of present holding the Equity Shareholders are to receive:

(a) Fully Paid Equity Shares equal to 3/5th of their holding.

(b) 8% Preference Shares fully paid to the extent of 20% of the above new Equity Shares.

(c) 10% Second Debentures of Rs. 40,000.

(ii) An issue of 8% Debentures First Debentures of Rs. 1,00,000 was made and fully subscribed for cash,

(iii) The Assets were reduced as follows:-

(a) Building from Rs. 2,00,000 to Rs. 1,50,000

(b) Plant & Machinery from Rs. 1,50,000 to Rs. 1,30,000

(c) Goodwill from Rs. 30,000 to Nil.

Show the Journal Entries in the books of S Limited to give effect of the scheme of Reconstruction.

(c) The Accountant of a company has sought your opinion with relevant reasons, whether the following will be treated as change in Accounting Policy or not for the year ended 31st March, 2020. 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, 2019. From the Financial year 2019-2020, the rate of provision has been changed to 3%.

(ii) During the year ended 31st March, 2020, 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.

(v) During the year ended 31st March, 2020, there was change in cost formula in measuring the cost of inventories.

(d) Ganga Ltd. has its share capital divided into Equity Shares of Rs. 10 each. On 1st April, 2019, the company offered 250 shares to each of its 520 employees at Rs. 60 per share, when the market price was Rs. 150 per share. The options were to be exercised between 01-03-2020 to 31-03-2020. 410 employees accepted the offer and paid Rs. 60 per share on purchased shares and the remaining options lapsed. The company closes its books on 31st March every year.

You are required to show Journal Entries (with narrations) as would appear in the books of Ganga Ltd. for the year ended 31st March, 2020 with regard to employee stock options.

OR

Equity capital is held by L, M, N and O in the proportion of 30:40:20:10. A, B, C and D hold Preference share capital in the proportion of 40:30:10:20. If the paid up Equity Share capital of the company is Rs. 60 lakhs and Preference share capital is Rs. 30 lakhs, find the voting rights of shareholders (in percentage) in case of resolution of winding up of the company.

(4 Parts x 5 Marks = 20 Marks)