Test Series: August, 2018

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: Three hours) **(Maximum Marks: 100)**

1. (a) Sun Limited wishes to obtain a machine costing Rs. 30 lakhs by way of lease. The effective life of the machine is 14 years, but the company requires it only for the first 5 years. It enters into an agreement with Star Ltd., for a lease rental for Rs. 3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. The chief accountant of Sun Limited is not sure about the treatment of these lease rentals and seeks your advise. You are required to explain the necessary accounting treatment in line with AS 19. (use annuity factor at @ 15% for 3 years as 3.36)

(b) An airline is required by law to overhaul its aircraft once in every five years. The pacific Airlines which operate aircrafts does not provide any provision as required by law in its final accounts. Discuss with reference to relevant Accounting Standard 29.

(c) X Ltd. negotiates with Bharat Petroleum Corporation Ltd (BPCL), for construction of "Franchise Retail Petrol Outlet Stations". Based on proposals submitted to different "Zonal offices of BPCL, the final approval for one outlet each in Zone A, Zone B, Zone C, Zone D, is awarded to X Ltd. Agreement (in single document) is entered into with BPCL for Rs. 490 lakhs. The agreement lays down values for each of the four outlets (Rs. 88 + 132 + 160 + 110 lakhs) in addition to individual completion time. You are required to examine and comment whether X Ltd., will treat it as a single contract or four separate contracts.

(d) Fashion Limited is engaged in manufacturing of readymade garments. They provide you the following information on 31st March, 2017:

(i) On 15th January, 2017 garments worth Rs. 4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31st March, 2017.

(ii) Garments worth Rs. 1,95,000 were sold to Shine boutique on 25th March, 2017 but at the request of Shine Boutique, these were delivered on 15th April, 2017.

(iii) On 1st November, 2016 garments worth Rs. 2,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods up to 31st December, 2016 and no approval or disapproval received for the remaining goods till 31st March, 2017.

You are required to advise the accountant of Fashion Limited, the amount to be recognised as revenue in above cases in the context of AS 9. **(4 Parts x 5 Marks = 20 Marks)**

2. (a) Z Limited came up with an issue of 60,00,000 equity shares of Rs. 10 each at par. 15,00,000 shares were issued to the promoters and the balance offered to the public was underwritten by three underwriters D, E and F - equally with firm underwriting of 1,40,000 shares each, Subscriptions totalled 38,91,000 shares including the marked forms which were:

D	12,75,000 shares
E	13,50,000 shares
F	10,50,000 shares

The underwriters had applied for the number of shares covered by firm underwriting. The amounts payable on application and allotment were Rs. 2.50 and Rs. 2.00 respectively. The agreed commission was 5%.

You are required to give journal entries for -

(a) The allotment of shares to the underwriters

(b) The commission due to each of them and

(c) The net cash paid and or received.

Note: Unmarked applications are to be credited to underwriters equally. 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	Situation	Situation
(i)	Equity share capital (shares of Rs. 10 each)	1,200	1,200
(ii)	Reserves:		
	General Reserves	1,080	1,080
	Securities Premium	400	400
	Profit & Loss	200	200
	Infrastructure Development Reserve (Statutory Reserve)	320	320
(iii)	Loan Funds	3,200	6,000

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 both situations and also required to pass necessary Journal Entries. **(8 +12 = 20 Marks)**

3. (a) The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31-3-20X1:

Liabilities	P Ltd. (Rs. in lakhs)	V Ltd. (Rs. in lakhs)
Equity Share Capital (Fully paid shares of Rs. 10 each)	15,000	6,000
Securities Premium	3,000	–
Foreign Project Reserve	–	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825
12% Debentures	–	1,000
Trade payables	1,200	463
Provisions	1,830	702
	33,400	12,500

Assets	P Ltd. (Rs. in lakhs)	V Ltd. (Rs. in lakhs)
Land and Buildings	6,000	–
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,700
Inventory	7,862	4,041
Trade receivables	2,120	1,100
Cash at Bank	1,114	609
Cost of Issue of Debentures	—	50
	33,400	12,500

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 20X1, P Ltd. took over V Ltd in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

Details of trade receivables and trade payables as under:

Assets	P Ltd. (Rs. in lakhs)	V Ltd. (Rs. in lakhs)
Trade payables		
Bills Payable	120	-
Creditors	1,080	463
	1,200	463
Trade receivables		
Debtors	2,120	1,020
Bills Receivable	—	80
	2,120	1,100

Expenses of amalgamation amounting to Rs. 1 lakh were borne by P Ltd.

You are required to:

(i) Prepare journal entries in the books of P Ltd. and

(ii) Prepare P Ltd.'s Balance Sheet immediately after the merger considering that the cost of issue of debentures shown in the balance sheet of the V Ltd. company is not transferred to the P Ltd. company.

(b) XYZ Limited is being would up by the tribunal. All the assets of the company have been charged to the company's bankers to whom the company owes Rs. 5 crores. The company owes following amounts to others:

Dues to workers – Rs. 1,25,00,000

Unsecured Creditors – Rs. 60,00,000

You are required to compute, with the reference to the provision of the Companies Act, 2013, the amount each kind of creditors is likely to get if the amount realized by the official liquidator from the secured assets available for distribution among creditors is only Rs. 4,00,00,000/-

(15 + 5 = 20 Marks)

4. (a) The following are the figures extracted from the books of TOP Bank Limited as on 31.3.2017.

	Rs.
Interest and discount received	59,29,180
Interest paid on deposits	32,59,920
Issued and subscribed capital	16,00,000
Salaries and allowances	3,20,000
Directors fee and allowances	48,000
Rent and taxes paid	1,44,000
Postage and telegrams	96,460
Statutory reserve fund	12,80,000
Commission, exchange and brokerage	3,04,000

Rent received	1,04,000
Profit on sale of investments	3,20,000
Depreciation on bank's properties	48,000
Statutory expenses	44,000
Preliminary expenses	40,000
Auditor's fee	28,000

The following further information is given:

(i) A customer to whom a sum of Rs. 16 lakhs has been advanced has become insolvent and it is expected only 40% can be recovered from his estate.

(ii) There were also other debts for which a provision of Rs. 2,10,000 was found necessary by the auditors.

(iii) Rebate on bills discounted on 31.3.2016 was Rs. 19,000 and on 31.3.2017 was Rs. 25,000.

(iv) Preliminary expenses are to be fully written off during the year.

(v) Provide Rs. 9,00,000 for Income-tax.

(vi) Profit and Loss account opening balance was Nil as on 31.3.2016.

You are required to Prepare the Profit and Loss account of TOP Bank Limited for the year ended 31.3.2017.

(b) From the following particulars of M/s. Tsunami Marine Insurance Limited for the year ending 31st March, 2018, find out the

(i) Net Premium earned

(ii) Net Claims incurred

	Direct Business	Re- Insurance
	(Rs.) lakhs	(Rs.) lakhs
PREMIUM:		
Received	4,400	376
Receivable -01.04.2017	220	18
Receivable -31.03.2018	189	16
Paid		305
Payable - 01.04.2017		14
Payable - 31.03.2018		9
CLAIMS:		
Paid	3,450	277
Payable - 01.04.2017	45	8
Payable - 31.03.2018	48	6
Received		101
Receivable - 01.04.2017		20
Receivable - 31.03.2018		19

(16 + 4 = 20 Marks)

5. (a) Given below are the Profit & Loss Accounts of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2017:

	Hello Ltd. (Rs. in lacs)	Sun Ltd. (Rs. in lacs)
Incomes:		
Sales and other income	10,000	2,000
Increase in Inventory	2,000	400
	12,000	2,400
Expenses:		
Raw material consumed	1,600	400
Wages and Salaries	1,600	300
Production expenses	400	200
Administrative Expenses	400	200
Selling and Distribution Expenses	400	100
Interest	200	100
Depreciation	200	100
	4,800	1,400
Profit before tax	7,200	1,000
Provision for tax	2,400	400
Profit after tax	4,800	600
Dividend paid	2,400	300
Balance of Profit	2,400	300

Other Information:

Hello Ltd. sold goods to Sun Ltd. of Rs. 240 lacs at cost plus 20%. Inventory of Sun Ltd. includes such goods valuing Rs. 48 lacs. Administrative expenses of Sun Ltd. include Rs. 10 lacs paid to Hello Ltd. as consultancy fees. Selling and distribution expenses of Hello Ltd. include Rs. 20 lacs paid to Sun Ltd. as commission.

Hello Ltd. holds 80% of equity share capital of Rs. 2,000 lacs in Sun Ltd. prior to 2015-2016. Hello Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by Sun Ltd. for the year 2015-2016.

You are required to prepare a consolidated profit and loss account of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2017

(b) You are required to compute the value of Goodwill by equity approach in the following case:

(i)	Current cost of capital employed	Rs. 10,40,000
(ii)	Profit earned after current cost adjustments	Rs. 1,72,000
(iii)	10% long term loan	Rs. 4,50,000
(iv)	Normal rate of return on equity capital employed	15.6%

(16 Marks + 4 Marks = 20 Marks)

6. (a) How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? Explain.

Or

(a) A consumer goods producer has changed the product line as follows:

	Dish washing Bar (Per month)	Clothes washing Bar (Per month)
January 2016 - September 2016	2,00,000	2,00,000
October 2016 - December 2016	1,00,000	3,00,000
January 2017 - March 2017	Nil	4,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has passed a resolution in March 2016 to this effect. The company follows calendar year as its accounting year. You are required to examine whether it should it be treated as discontinuing operation as per AS 24?

(b) 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 prepare the necessary journal entries for the year ended 31-3-20X2, with regard to employees' stock options.

(c) Explain, in brief, the investment valuation norms for traded securities in case of mutual funds as per SEBI (Mutual fund) Regulations.

(d) **Balance Sheets of X Ltd.**

As on 31st March 2017 and 31st March 2018

(Rs. In lakhs)

Liabilities	31.3.17	31.3.18	Assets	31.3.17	31.3.18
Share Capital	18,00	18,00	Fixed assets	24,00	26,00
General Reserve	6,00	6,00	Investments	1,00	2,00
Profit &Loss A/c	6,80	9,40	Inventory	6,00	5,50
12% Debentures	2,00	2,00	Trade receivables	3,00	3,50
18% Term Loan	3,00	3,20	Cash and Bank	4,00	3,40
Cash Credit	1,20	80			
Trade payables	70	60			
Tax Provision	30	40			
	38,00	40,40		38,00	40,40

Non-trade investments were 75% of the total investments. You are required to compute capital employed as on 31.3.17 and as on 31.3.18 and average capital employed.

(4 Parts x 5 Marks = 20 Marks)