Test Series: May, 2020

MOCK TEST PAPER - 1

INTERMEDIATE (NEW): GROUP – II

PAPER – 5: ADVANCED ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) (i) Annual lease rent

Total lease rent

$$= 130\% \text{ of Rs. } 1,50,000 \times \frac{\text{Output during lease period}}{\text{Total output}}$$

= 130% of Rs. 1,50,000 x (40,000 +50,000+ 60,000)/(40,000 + 50,000 + 60,000 + 80,000 + 70,000)

= 1,95,000 x 1,50,000 units/3,00,000 units = Rs. 97,500

Annual lease rent = Rs. 97,500 / 3 = Rs. 32,500

(ii) Lease rent Income to be recognized in each operating year

Total lease rent should be recognized as income in proportion of output during lease period, i.e. in the proportion of 40 : 50 : 60.

Hence income recognized in years 1, 2 and 3 will be as:

Year 1 Rs. 26,000,

Year 2 Rs. 32,500 and

Year 3 Rs. 39,000.

(b) As per AS 26, costs incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility/asset recognition criteria has been established for the product. Technological feasibility/asset recognition criteria have been established upon completion of detailed program design or working model.

In this case, Rs. 90,000 would be recorded as an expense (Rs. 50,000 for completion of detailed program design and Rs. 40,000 for coding and testing to establish technological feasibility/asset recognition criteria).

Cost incurred from the point of technological feasibility/asset recognition criteria until the time when products costs are incurred are capitalized as software cost (63,000+ 18,000+ 19,500) = Rs. 1,00,500. Packing cost Rs. 16,500 should be recognized as expenses and charged to Profit & Loss A/c.

(c) According to AS 4 on 'Contingencies and Events Occurring after the Balance Sheet Date', adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. However, adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. "Contingencies" used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur.

(i) Fire has occurred after the balance sheet date and also the loss is not insured. Therefore, the event becomes material and the event is adjusting in nature.

(ii) The contingency is restricted to conditions existing at the balance sheet date. However, in the given case, suit was filed against the company's advertisement by a party on 10th April for amount of Rs. 20 lakhs. Therefore, it does not fit into the definition of a contingency and hence is a **non-adjusting event**.

(d) Computation of Basic Earnings Per Share (as per AS 20 Earnings Per Share)

	Year 2018-19 Rs.	Year 2019-20 Rs.
EPS for the year 2018-19 as originally reported		
$= \dfrac{\text{Net Profit of the year attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$		
= (Rs. 30,00,000 / 20,00,000 shares)	1.5	
EPS for the year 2018-19 restated for rights issue		
= [Rs. 30,00,000 / (20,00,000 shares × 1.04 (W.N. 2)]	1.44 (approx.)	
EPS for the year 2019-20 including effects of rights issue		
$\dfrac{Rs.\ 50,00,000}{(20,00,000\ shares \times 1.04 \times 2/12) + (24,00,000\ shares \times 10/12)}$		
Rs. 50,00,000/ 23,46,667 shares		2.13 (approx.)

Working Notes:

1. Computation of theoretical ex-rights fair value per share

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights + Total amount received from exercise}}{\text{Number of shares outstanding prior to exercise + Number of shares issued in the exercise}}$$

$$= \frac{(Rs.\ 26 \times 20,00,000 \text{ shares}) + (Rs.\ 20 \times 4,00,000 \text{ shares})}{20,00,000 \text{ shares} + 4,00,000 \text{ shares}}$$

$$= \frac{Rs.\ 6,00,00,000}{24,00,000\ shares} = Rs. 25$$

2. Computation of adjustment factor

$$= \frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex - rights value per share}} = \frac{Rs.\ 26}{Rs.\ 25\ (Refer\ Working\ Note\ 1)} =$$

$1.04\ (approx.)$

2. **Books of Robert Ltd.**

Journal Entries

		(Rs. in Lacs)	(Rs. in Lacs)
Business Purchase A/c	Dr.	13,500	
To Liquidator of Diamond Ltd.			13,500
(Being business of Diamond Ltd. taken over for consideration settled as per agreement)			
Plant and Machinery	Dr.	7,500	
Furniture & Fittings	Dr.	2,550	
Inventory	Dr.	6,061.5	
Debtors	Dr.	1,530	

Cash at Bank	Dr.	913.5	
Bills Receivable	Dr.	120	
To Foreign Project Reserve			465
To General Reserve Rs. (4,800 - 4,500)			300
To Profit and Loss A/c Rs. (1,237.5 – 75*)			1,162.5
To Liability for 12% Debentures			1,500
To Creditors			694.5
To Provisions			1,053
To Business Purchase A/c			13,500
(Being assets & liabilities taken over from Diamond Ltd.)			
Liquidator of Diamond Ltd. A/c	Dr.	13,500	
To Equity Share Capital A/c			13,500
(Purchase consideration discharged in the form of equity shares)			
Profit & Loss A/c	Dr.	1.5	
To Bank A/c			1.5
(Liquidation expenses paid and charged to P& L A/c)			
Liability for 12% Debentures A/c	Dr.	1,500	
To 13% Debentures A/c			1500
(12% debentures discharged by issue of 13% debentures)			
Bills Payable A/c	Dr.	120	
To Bills Receivable A/c			120
(Cancellation of mutual owing on account of bills)			

Balance Sheet of Robert Ltd. as at 1st April, 2020 (after merger)

		Particulars	Notes	Rs. (in lakhs)
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	36,000
	B	Reserves and Surplus	2	24,981
2		Non-current liabilities		
	A	Long-term borrowings	3	1,500
3		Current liabilities		
	A	Trade Payables (1,800+694.5-120)		2,374.5
	B	Short-term provisions (2,745+1,053)		3,798
		Total		68,653.5
		Assets		
1		Non-current assets		
	A	Property, Plant & Equipment	4	43,506
2		Current assets		

*Cost of issue of debentures adjusted against P & L A/c of Diamond Ltd.

A	Inventories (11,793+6,061.5)		17,854.5
B	Trade receivables (3,180+1,650-120)		4,710
C	Cash and cash equivalents (1,671+913.5-1.5)		2,583
	Total		68,653.5

Notes to Accounts

		Rs.
1.	Share Capital	
	Equity share capital	
	Authorized, issued, subscribed and paid-up: 36 crores equity shares of Rs. 10 each (out of these shares, 13.5 crores shares have been issued for consideration other than cash)	36,000
2.	Reserves and Surplus	
	General Reserve	14,550
	Securities Premium	4,500
	Foreign Project Reserve	465
	Profit and Loss Account Rs. (4,305 +1,162.5-1.5)	5,466
	Total	24,981
3.	Long-term borrowings	
	Secured	
	13% Debentures	1,500
4.	PPE	
	Land & Buildings	9,000
	Plant & Machinery	28,500
	Furniture & Fittings	6,006
	Total	43,506

Working Note:

Computation of purchase consideration

Purchase consideration was discharged in the form of three equity shares of *Robert* Ltd. for every two equity shares held in *Diamond* Ltd.

Purchase consideration = Rs. 9,000 lacs × $\frac{3}{2}$ = Rs. 13,500 lacs

3. (a) **Realization Account**

		Rs.			Rs.
To	Land and Building	90,000	By	Provision for bad debts	4,000
To	Plant and Machinery	30,000	By	Loan from D	80,000
To	Furniture	17,000	By	Trade creditors	20,000
To	Investments	10,000	By	Bills payable	8,000
To	Book debts	40,000	By	Outstanding salary	5,000
To	Stock	24,000	By	R - Furniture taken over (9,000 x .9)	8,100

To	Bank (Realization expenses)		10,000	By	Bank A/c		
					Stock Realized	28,800	
To	P – Realization expenses		2,000		Land & Building	1,10,000	
					Debtors	32,000	1,70,800
To	Bank A/c -						
	Bill payable		7,960	By	P (Investment taken over)		8,500
	D's Loan		5,000				
	D's Loan		36,000				
	Creditors		12,000				
	Salary		5,000				
To	Profit trs/f to partners' capital Accounts						
	P	6,176					
	Q	6,176					
	R	3,088	15,440				
			3,04,400				3,04,400

Bank Account

		Rs.			Rs.
To	Balance b/d	9,000	By	Realization A/c (payment of liabilities: 7,960+ 5,000 + 36,000 + 10,000 + 12,000 + 5,000)	75,960
To	Realization A/c (assets realized)	1,70,800	By	P	52,876
To	R	8,412	By	Q	59,376
		1,88,212			1,88,212

Partners' Capital Accounts

		P	Q	R			P	Q	R
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
To	Balance b/d.			20,000	By	Balance b/d	40,000	40,000	
To	Realization A/c	8,500			By	R's Loan			10,000
	(Investment taken over)				By	General Reserve	13,200	13,200	6,600
To	Realization A/c (Furniture taken over)			8,100	By	Realization A/c (expense)	2,000		
To	Bank A/c	52,876	59,376		By	Realization A/c (profit)	6,176	6,176	3,088
					By	Bank			8,412
		61,376	59,376	28,100			61,376	59,376	28,100

Working Notes:

1. Payment for Bills Payable

Particulars	Amount (Rs.)
Bills Payable as per Balance Sheet	8,000.00
Less: Discount for early payment {8,000 x 6% x (1/12)}	40.00
Amount Paid in Cash	7,960.00

2. Payment for D's Loan

Particulars	Amount (Rs.)
D's Loan as per Balance Sheet	80,000.00
50% of Loan adjusted as below:	
Plant & Machinery accepted at Book Value (Rs. 30,000) and Rs. 5,000 in cash.	5,000.00
Balance 50% of Loan adjusted as below:	
In cash after allowing discount of 10% i.e. Rs. 40,000 – Rs. 4,000 = Rs. 36,000.	36,000.00

3. Payment to Trade Creditors

Particulars	Amount (Rs.)
Trade Creditors as per Balance Sheet	20,000.00
Less: Furniture of Book Value Rs. 8,000 accepted at value Rs. 7,200	7,200.00
	12,800.00
Less: Discount @ 6.25%	800.00
Amount paid in Cash	12,000.00

4. Furniture taken over by R

Particulars	Amount (Rs.)
Furniture as per Balance Sheet	17,000.00
Less: Furniture of Book Value Rs. 8000 accepted by trade creditors	8,000.00
	9,000.00
Less: 10% of Book Value	900.00
Value of Furniture taken over by R	8,100.00

(b) On the basis of the information, in respect of hire purchase and leased assets, additional provision shall be made as under:

			(Rs. in crore)
(a)	Where hire charges are overdue upto 12 months	Nil	-
(b)	Where hire charges are overdue for more than 12 months but upto 24 months	10% of the net book value 10% x 2,000	200

(c) Where hire charges are overdue for more than 24 months but upto 36 months	40 percent of the net book value 40% x 1,250	500
(d) Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70 percent of the net book value 70% x 600	420
(e) Where hire charges or lease rentals are overdue for more than 48 months	100% of net book value (100% x 100)	100
	Total	1,220

4. (a) **Consolidated Profit & Loss Account of A Ltd. and its subsidiary B Ltd. for the year ended on 31st March, 2020**

Particulars	*Note No.*	*Rs. in Lacs*
I. Revenue from operations	1	8,797
II. Total revenue		8,797
III. Expenses		
Cost of Material purchased/consumed	3	1,770
Changes of Inventories of finished goods	2	(1,794)
Employee benefit expense	4	1,425
Finance cost	6	225
Depreciation and amortization expense	7	225
Other expenses	5	802
Total expenses		2,653
IV. Profit before Tax(II-III)		6,144
V. Tax Expenses	8	2,100
VI. Profit After Tax		4,044

Notes to Accounts

		Rs. in Lacs	*Rs. in Lacs*
1.	Revenue from Operations		
	Sales and other income		
	A Ltd.	7,500	
	B Ltd.	1,500	
		9,000	
	Less: Inter-company Sales	(180)	
	Consultancy fees received by A Ltd. from B Ltd.	(8)	
	Commission received by B Ltd. from A Ltd.	(15)	8,797
2.	Increase in Inventory		
	A Ltd.	1,500	
	B Ltd.	300	
		1,800	
	Less: Unrealized profits Rs. 180×1/6 x 25/125	(6)	1,794
3.	Cost of Material purchased/consumed		

	A Ltd.	1,200	
	B Ltd.	300	
		1,500	
	Less: Purchases by B Ltd. from A Ltd.	(180)	1,320
	Direct Expenses		
	A Ltd.	300	
	B Ltd.	150	450
			1,770
4.	Employee benefits and expenses		
	Wages and Salaries:		
	A Ltd.	1,200	
	B Ltd.	225	1,425
5.	Other Expenses		
	Administrative Expenses		
	A Ltd.	300	
	B Ltd.	150	
		450	
	Less: Consultancy fees received by A Ltd. from B Ltd.	(8)	442
	Selling and Distribution Expenses:		
	A Ltd.	300	
	B Ltd.	75	
		375	
	Less: Commission received from B Ltd. from A Ltd.	(15)	360
			802
6.	Finance Cost		
	Interest:		
	A Ltd.	150	
	B Ltd.	75	225
7.	Depreciation and Amortization		
	Depreciation:		
	A Ltd.	150	
	B Ltd.	75	225
8.	Provision for tax		
	A Ltd.	1800	
	B Ltd.	300	2100

(b) Under section 64 of the LLP Act, 2008, an LLP may be wound up by the Tribunal:

- If the LLP decides that it should be wound up by the Tribunal;
- If for a period of more than six months, the number of partners of the LLP is reduced below two;

- If the LLP is unable to pay its debts;
- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
- If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

5. (a) BT Limited

Liquidator's Statement of Account

Receipts		*Rs.*		*Payments*		*Rs.*
To Assets realized:			By	Liquidation expenses		45,000
Bank		75,700	By	Preferential creditors		75,000
Other assets:			By	Liquidator's Remuneration (W.N.1)		1,29,600
Land & building	24,50,000		By	Debenture holders:		
Plant & Machinery	9,00,000			Debentures	10,00,000	
Furniture	2,85,000			Interest accrued	1,20,000	
Patents	90,000			Interest 1-4-19 to 30-6-19	30,000	11,50,000
Stock	2,80,000		By	Unsecured creditors		7,36,250
Trade receivables	3,15,000	43,20,000	By	Preferential shareholders		
				Preference capital	10,00,000	
				Arrear of Dividend	1,20,000	11,20,000
						32,55,850
			By	Equity shareholders -		
				Rs. 32.995 on 20,000 shares		6,59,900
				Rs. 47.995 on 10,000 shares		4,79,950
		43,95,700				43,95,700

Working Notes:

(1) Liquidator's remuneration 43,20,000 × 3/100 =Rs. 1,29,600

(2) As the company is solvent, interest on the debentures will have to be paid for the period 1-4-2019 to 30-6-2019

10,00,000 x 12% x 3/12 = Rs. 30,000

(3) Total equity capital - paid up (7,50,000 +12,00,000)	Rs. 19,50,000
Less: Balance available (43,95,700 — 32,55,850)	Rs. (11,39,850)
	Rs. 8,10,150
Loss to be borne by 30,000 equity shares	
Loss per share	Rs. 27.005
Hence, Refund for share on Rs. 60 paid share (60 - 27.005)	Rs. 32.995
Refund for share on Rs. 75 paid (75 - 27.005)	Rs. 47.995

(b) **Indus Bank Limited**

Profit & Loss Account for the year ended 31st March, 2020

		Schedule	*Rs. '000s*
I.	Income		
	Interest earned	13	8,971
	Other income	14	2,419
	Total		11,390
II.	Expenditure		
	Interest expended	15	4,120
	Operating expenses	16	3,703
	Provisions (Refer W.N.)		1,013.8
	Total		8,836.8
III.	Profit/Loss		2,553.20

Schedule 13 – Interest Earned

	Rs. '000s
Interest / discount on advances bills	
Interest on term loans [2,550- (731-238)]	2,057
Interest on cash credits and overdrafts (5,663-923)	4,740
Income on investments	2,174
	8,971
Note: Interest on non-performing assets is recognized on receipt basis.	

Schedule 14 – Other Income

	Rs. '000s
Commission, exchange and brokerage	201
Profit on sale of investments	1,876
Profit on revaluation of investments	342
	2,419

Schedule 15 – Interest Expended

	Rs. '000s
Interest on deposits	4120

Schedule 16 – Operating Expenses

	Rs. '000s
Payments to and provision for employees - salaries, bonus and allowances	2,745
Rent, taxes and lighting	385
Printing & stationery	62
Director's fee, allowances and expenses	313
Depreciation Charges	99
Repairs & maintenance	56
Insurance	43

	3,703

Working Note:

Provisions		Rs. ’000s
Provision for standard and non-performing assets		
Standard (4,700 x .4%)		18.8
Sub-standard (1900 x 15%)		285
Doubtful (400 x 100%)		400
Doubtful (40 x25%)		10
Loss assets (300 x 100%)		300
		1,013.8

6. (a) (i) (a) Reporting entity- M Ltd.

- S Ltd. (subsidiary) is a related party
- F Ltd.(subsidiary) is a related party

(b) Reporting entity- S Ltd.

- M Ltd. (holding company) is a related party
- F Ltd. (subsidiary) is a related party

(c) Reporting entity- F Ltd.

- M Ltd. (holding company) is a related party
- S Ltd. (holding company) is a related party
- C Ltd. (investor/ investing party) is a related party

(d) Reporting entity- C Ltd.

- F Ltd. (associate) is a related party

(b) **Journal Entries in the books of S Ltd.**

2020			Dr. Rs.	Cr. Rs.
April 1	Equity Share Capital A/c (Rs. 10)	Dr.	5,00,000	
	To Equity Share Capital A/c			3,00,000
	To 8% Preference Equity Share Capital A/c			60,000
	To 10% Second Debentures A/c			40,000
	To Capital Reduction /Reconstruction A/c			1,00,000
	(Being reduction of equity shares to 3/5 shares, issue of preference shares and debentures as per Reconstruction Scheme dated...)			
	Capital Reduction / Reconstruction A/c	Dr.	1,00,000	
	To Building A/c			50,000
	To Plant and Machinery A/c			20,000
	To Goodwill A/c			30,000
	(Being value of building and plant and machinery reduced and goodwill written off completely.)			

	Bank A/c	Dr.	1,00,000	
	To 8% First Debentures A/c			1,00,000
	(Being Rs. 1,00,000 debentures issued)			

(c) (i) In the given case, company has created 2% provision for doubtful debts till 31st March, 2019. Subsequently in 2019-20, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.

(ii) As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous policy, will not be treated as change in an accounting policy.

(iii) Change in useful life of furniture from 5 years to 3 years is a change in estimate and is not a change in accounting policy.

(iv) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.

(v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

(d) **Journal Entries in the books of Ganga Ltd.**

			Rs.	*Rs.*
1.3.20	Bank A/c (1,02,500 x Rs. 60)	Dr.	61,50,000	
to 31.3.20	Employee compensation expense A/c (1,02,500 x Rs.90)	Dr.	92,25,000	
	To Equity share capital A/c (1,02,500 x Rs.10)			10,25,000
	To Securities premium A/c (1,02,500 x Rs.140)			1,43,50,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.20	Profit and Loss A/c	Dr.	92,25,000	
	To Employee compensation expense A/c			92,25,000
	(Being transfer of employee compensation expenses to Profit and Loss Account)			

OR

L, M, N and O hold Equity capital is held by in the proportion of 30:40:20:10 and A, B, C and D hold preference share capital in the proportion of 40:30:10:20. As the paid up equity share capital of the company is Rs.60 Lakhs and Preference share capital is Rs.30 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3.

The respective voting right of various shareholders will be:

L = 2/3X30/100 = 3/15 = 20%

M = 2/3X40/100 = 4/15 = 26.67%

N	=	2/3X20/100	=	2/15 = 13.33%
O	=	2/3X10/100	=	1/15 = 6.67%
A	=	1/3X40/100	=	4/30 = 13.33%
B	=	1/3X30/100	=	3/30 = 10%
C	=	1/3X10/100	=	1/30 = 3.33%
D	=	1/3X20/100	=	2/30 = 6.67%