

MOCK TEST PAPER – 1
INTERMEDIATE: 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) Given the following information of Rainbow Ltd.
- (i) On 15th November, goods worth ₹ 5,00,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods sold upto 31st January and no approval or disapproval received for the remaining goods till 31st March.
 - (ii) On 31st March, goods worth ₹ 2,40,000 were sold to Bright Ltd. but due to refurnishing of their show-room being underway, on their request, goods were delivered on 10th April.
 - (iii) Rainbow Ltd. supplied goods worth ₹ 6,00,000 to Shyam Ltd. and concurrently agrees to re-purchase the same goods on 14th April.
 - (iv) Dew Ltd, used certain assets of Rainbow Ltd. Rainbow Ltd. received ₹ 7.5 lakhs and ₹ 12 as interest and royalties respectively from Dew Ltd. during the year 2022-23.
 - (v) On 25th December, goods of ₹ 4,00,000 were sent on consignment basis of which 40% of the goods unsold are lying with the consignee at the year-end on 31st March.

In each of the above cases, you are required to advise, with valid reasons, the amount to be recognized as revenue under the provisions of AS-9.

- (b) Rajendra undertook a contract ₹ 20,00,000 on an arrangement that 80% of the value of work done, as certified by the architect of the contractee should be paid immediately and that the remaining 20% be retained until the Contract was completed.

In Year 1, the amounts expended were ₹ 8,60,000, the work was certified for ₹ 8,00,000 and 80% of this was paid as agreed. It was estimated that future expenditure to complete the Contract would be ₹ 10,00,000.

In Year 2, the amounts expended were ₹ 4,75,000. Three-fourth of the work under contract was certified as done by December 31st and 80% of this was received accordingly. It was estimated that future expenditure to complete the Contract would be ₹ 4,00,000.

In Year 3, the amounts expended were ₹ 3,10,000 and on June 30th, the whole Contract was completed.

Show how Contract revenue would be recognized in the P & L A/c of Mr. Rajendra each year.

- (c) SP hotels Limited enters into an agreement with Mr. A for running its hotel for a fixed return payable to the later every year. The contract involves the day-to-day management of the hotel, while all financial and operating policy decisions are taken by the Board of Directors of the company. Mr. A

does not own any voting power in SP Hotels Limited. Would he be considered as a related party of SP Hotels Limited”?

- (d) Aksat International Limited has given a machinery on lease for 36 months, and its useful life is 60 months. Cost & fair market value of the machinery is ₹ 5,00,000. The amount will be paid in 3 equal annual installments and the lessee will return the machinery to lessor at termination of lease. The unguaranteed residual value at the end of 3 years is ₹ 50,000. IRR of investment is 10% and present value of annuity factor of ₹ 1 due at the end of 3 years at 10% IRR is 2.4868 and present value of ₹ 1 due at the end of 3rd year at 10% IRR is 0.7513.

You are required to comment with reason whether the lease constitute finance lease or operating lease. If it is finance lease, calculate unearned finance income.

(4 Parts x 5 Marks = 20 Marks)

- 2 (a) High Ltd. and Low Ltd. were amalgamated on and from, 1st April, 2023. A new company Little Ltd. was formed to take over the business of the existing Companies. High Ltd. and Low Ltd. give the following information as on 31st March, 2023:

(₹ in Lakhs)

| | High Ltd. | Low Ltd. | | High Ltd. | Low Ltd. |
|-----------------------------------|-----------|----------|--------------------------------|-----------|----------|
| Share Capital: | | | Property, Plant and Equipment: | | |
| Equity Shares of ₹ 100 each | 1000 | 850 | Land & Building | 670 | 385 |
| 14% Pref Shares of ₹ 100 each | 320 | 175 | Plant & Machinery | 475 | 355 |
| Reserves & Surplus: | | | Investments | 95 | 80 |
| Revaluation Reserve | 225 | 110 | Current Assets: | | |
| General Reserve | 360 | 240 | Stock | 415 | 389 |
| Investment Allowance Reserve | 80 | 40 | Sundry Debtors | 322 | 213 |
| P & L Account | 85 | 82 | Bills Receivables | 35 | - |
| Non-Current Liabilities: | | | Cash & Bank | 303 | 166 |
| Secured Loans: | | | | | |
| 13% Debentures (₹ 100 each) | 100 | 56 | | | |
| Unsecured Loans (Public Deposits) | 50 | - | | | |
| Current Liabilities & Provisions: | | | | | |
| Sundry Creditors | 65 | 35 | | | |
| Bills Payable | 30 | - | | | |

Other Information :

- (1) 13% Debenture holders of High Ltd. & Low Ltd. are discharged by Little Ltd. by issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.
- (2) Preference Shareholders of the two companies are issued equivalent number of 15% Preference shares of Little Ltd. at a price of ₹ 125 per share (Face Value ₹ 100)

- (3) Little Ltd. will issue 4 Equity Shares for each Equity Share of High Ltd. & 3 equity shares for each Equity Share of Low Ltd. The shares are to be issued at ₹ 35 each having a face value of ₹ 10 per share.
- (4) Investment Allowance Reserve is to be maintained for two more years.

Prepare the Balance sheet of Little Ltd. as on 1st April, 2023 after the amalgamation, has been carried out, in the nature of Purchase.

- (b) In a winding up of a company creditor remain unpaid. The following persons had transferred their holdings before winding up.

| Name | Date of Transfer | No of shares transferred | Amt. due to creditors on the transfer (₹) |
|------|-------------------------------|--------------------------|---|
| D | 1 st January, 2022 | 1000 | 8,500 |
| E | 15th February, 2022 | 400 | 13,500 |
| H | 15th March, 2022 | 700 | 19,000 |
| J | 31st March, 2022 | 900 | 22,000 |
| K | 5th April, 2022 | 1000 | 31,000 |

The shares were of ₹ 100 each, ₹ 80 being called up and paid up on the date of transfers.

- (1) A member G, who holds 200 shares died on 28th Feb., 2022 when the amount due to creditors was ₹ 16000. His shares were transmitted to his Son X.
- (2) R was the transferee of shares held by J. R paid ₹ 20 per share as calls in advance immediately on becoming a member.
- (3) The liquidation of the Company commenced on 1st February, 2023. Then the liquidator made a call on the present and past contributories to pay the amount.

You are required to quantify the maximum liability of the transferors of shares mentioned in the above table. **(15 + 5 = 20 Marks)**

- 3 (a) (i) State with reason whether the following cash credit accounts are NPA or not:

| | Case-1 ₹ | Case-2 ₹ |
|--|-------------|-------------|
| Sanctioned limit | 60,00,000 | 45,00,000 |
| Drawing power | 56,00,000 | 42,00,000 |
| Amount outstanding continuously 01-01-23 to 31-03-23 | 48,00,000 | 30,00,000 |
| Total interest debited for the above period | 3,84,000 | 2,40,000 |
| Total credits for the above period | Nil | 3,20,000 |

- (ii) The following is an extract from the trial balance of Novel Bank Limited as on 31st March 2023:

| | |
|---|----------------------|
| Rebate on bills discounted as on 1st April 2022 | ₹ 78,566 (Cr. bal) |
| Discount Received | ₹ 1,60,572 (Cr. bal) |

An analysis of bills discounted is as follows:

| Amount ₹ | Due Date |
|----------|--------------|
| 2,90,000 | 01 June 2023 |
| 8,75,000 | 08 June 2023 |
| 5,65,000 | 21 June 2023 |
| 8,12,000 | 01 July 2023 |

| | |
|----------|--------------|
| 6,50,000 | 05 July 2023 |
|----------|--------------|

Find out the amount of discount to be credited to Profit and Loss Account for the year ending on 31st March, 2023 and pass the necessary journal entries. The rate of discount shall be taken at 10% per annum.

- (b) Pratham Ltd. (a non-listed company) has the following Capital structure as on 31st March, 2023:

| Particulars | ₹ | ₹ |
|---|-----------------|-----------|
| Equity Share Capital (shares of ₹ 10 each fully paid) | | 30,00,000 |
| Reserves & Surplus | | |
| General Reserve | 32,50,000 | |
| Security Premium Account | 6,00,000 | |
| Profit & Loss Account | 4,30,000 | |
| Revaluation Reserve | <u>6,20,000</u> | 49,00,000 |
| Loan Funds | | 42,00,000 |

You are required to compute by Debt Equity Ratio Test, the maximum number of shares that can be bought back in the light of above information, when the offer price for buy back is ₹ 30 per share.

(10+10= 20 Marks)

4. (a) Om, Sai and Radhe share profits and losses of a business as to 3:2:1 respectively. Their balance sheet as at 31st March, 2023 was as follows:

| Equity & Liabilities | ₹ | Assets | ₹ |
|----------------------|-----------------|---------------------|-----------------|
| Capital Accounts: | | Land and Building | 1,40,000 |
| Om | 70,000 | Machinery | 50,000 |
| Sai | 80,000 | Motor Car | 28,000 |
| Radhe | 10,000 | Furniture | 12,000 |
| General Reserve | 22,000 | Investments | 18,000 |
| Radhe's Loan | 33,000 | Stock | 18,000 |
| Mrs. Om's loan | 15,000 | Bills receivable | 20,000 |
| Creditors | 96,000 | Loose tools | 7,000 |
| Bills Payable | 14,000 | Debtors | 38,000 |
| Bank overdraft | 60,000 | Cash | 1,000 |
| | | Radhe's current A/c | 56,000 |
| | | Profit and Loss A/c | <u>12,000</u> |
| | <u>4,00,000</u> | | <u>4,00,000</u> |

The partners decide to convert their firm into a Joint Stock Company. For this purpose ABC Ltd. was formed with an authorized capital of ₹ 10,00,000 divided into ₹ 100 equity Shares. The business of the firm was sold to the company as at the date of balance sheet given above on the following terms:

- Motor car, furniture, investments, loose tools, debtors and cash are not to be taken over by the company.
- Liabilities for bills payable and bank overdraft are to be taken over by the company.
- The purchase price is settled at ₹ 1,95,500 payable as to ₹ 75,500 in cash and the balance

in company's fully paid shares of ₹ 100 each.

- (iv) The remaining assets and liabilities of the firm are directly disposed of by the firm as per details given below:

Investments are taken over by Om for ₹ 13,000; debtors realize in all ₹ 20,000; Motor Car, furniture and loose tools fetch ₹ 24,000, ₹ 4,000, and ₹ 1,000 respectively. Om agrees to pay his wife's loan. The creditors were paid ₹ 94,000 in final settlement of their claims. The realization expenses amount to ₹ 500. Radhe's loan was transferred to his capital account.

- (v) The equity share received from the vendor company are to be divided among the partners in profit-sharing ratio.

You are required to prepare Realization account, Partners' capital accounts, Cash account, ABC Ltd. account and Shares in ABC Ltd. account in the books of the partnership firm.

- (b) Write short note on Designated Partners in a Limited Liability Partnership and what are their liabilities. **(15 + 5 = 20 Marks)**

5. (a) H Limited acquired 64000 Equity Shares of ₹ 10 each in S Ltd. as on 1st October, 2022. H Ltd. and S Ltd. give the following information as on 31st March, 2023:

| Particulars | H Ltd. (₹) | S Ltd. (₹) |
|--|------------|------------|
| Equity Share Capital: Shares of ₹ 10 each | 20,00,000 | 8,00,000 |
| General Reserve (1 st April, 2022) | 9,60,000 | 4,20,000 |
| Profit & Loss Account | 2,28,800 | 3,28,000 |
| Preliminary Expenses (1 st April, 2022) | - | (20,000) |
| Bank Overdraft | 3,00,000 | - |
| Bills Payable | - | 52,000 |
| Trade Payables | 1,66,400 | 80,000 |
| Land and Building | 7,20,000 | 7,60,000 |
| Plant & Machinery | 9,60,000 | 5,40,000 |
| Investment in Equity Shares of S Ltd. | 12,27,200 | - |
| Inventories | 4,56,000 | 1,68,000 |
| Trade Receivables | 1,76,000 | 1,60,000 |
| Bills Receivable | 59,200 | - |
| Cash in Hand | 56,800 | 32,000 |

Additional Information:

- (1) The Profit & Loss Account of S Ltd. showed credit balance of ₹ 1,20,000 on 1st April, 2022. S Ltd. paid a dividend of 10% out of the same on 1st November, 2022 for the year 2021-22. The dividend was correctly accounted for by H Ltd.
- (2) The Plant & Machinery of S Ltd. which stood at ₹ 6,00,000 on 1st April, 2022 was considered worth ₹ 5,20,000 on the date of acquisition by H Ltd. S Ltd. charges depreciation @ 10% per annum on Plant & Machinery.

Prepare consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31st March, 2023 as per Schedule III of the Companies Act, 2013.

- (b) While closing its books of account on 31st March, 2023 a Non-Banking Finance Company has its advances classified as follows:

| | |
|--|-------------------|
| | ₹ in lakhs |
|--|-------------------|

| | |
|--------------------------------------|-------|
| Sub-standard assets | 2,680 |
| Secured portions of doubtful debts: | |
| – Up to one year | 640 |
| – one year to three years | 180 |
| – more than three years | 60 |
| Unsecured portions of doubtful debts | 194 |
| Loss assets | 96 |

You are required to calculate the amount of provision, which must be made against the above advances as per the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions 2016. **(15 + 5 = 20 Marks)**

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

(a) A company grants 2,000 Employees Stock Options on 1st April 2019 at ₹ 60 (face value ₹ 10) when the market price is ₹ 170. The vesting period is 2.5 years, and the maximum exercise period is 1 year. 600 unvested options lapse on 01.05.2021, 1200 options are exercised on 30.06.2022. 200 vested options lapse at the end of the exercise period. You required to pass necessary journal entries with narrations.

(b) A Limited sells goods with unlimited right of return from its customers.

The following pattern has been observed in the Return of Sales:

| Time frame of Return from date of purchase | % of Cumulative Sales |
|--|-----------------------|
| Between 0-1 month | 6% |
| Between 1-2 months | 7% |
| Between 2-3 months | 8% |

The Company has made Sales of ₹ 36 Lakhs in the month of January, ₹ 48 Lakhs in the month of February and of ₹ 60 Lakhs in the month of March. The Total Sales for the Financial Year have been ₹ 400 Lakhs and the Cost of Sales was ₹ 320 Lakhs. You are required to determine the amount of Provision to be made and Revenue to be recognized for the year ended 31st March.

(c) With reference to AS 29, how would you deal with the following in the Annual Accounts of the company at the Balance Sheet date:

(i) The company operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Eighty five percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and fifteen percent arise through the extraction of oil. At the balance sheet date, rig has been constructed but no oil has been extracted.

(ii) The Government introduces a number of changes to the taxation laws. As a result of these changes, the company will need to train a large proportion of its accounting and legal workforce in order to ensure continued compliances with tax law regulations. At the balance sheet date, no retraining of staff has taken place.

(d) M/s. Pasa Ltd. is developing a new production process. During the financial year ended 31st March, 2022, the total expenditure incurred on the process was ₹ 80 lakhs. The production process met the criteria for recognition as an intangible asset on 1st November, 2021. Expenditure incurred till this date was ₹ 42 lakhs.

Further expenditure incurred on the process for the financial year ending 31st March, 2023 was ₹ 90 lakhs. As on 31.03.2023, the recoverable amount of know how embodied in the process is estimated to be ₹ 82 lakhs. This includes estimates of future cash outflows and inflows.

You are required to work out :

- (1) What is the expenditure to be charged to Profit and Loss Account for the year ended 31st March, 2022 ?
- (2) What is the carrying amount of the intangible asset as on 31st March, 2022?
- (3) What amount of expenditure to be charged to Profit and Loss Account for the year ended 31st March, 2023 ?
- (e) The accountant of Parag Limited has furnished you with the following data related to its Business Divisions:

(₹ in Lacs)

| Division | A | B | C | D | Total |
|-----------------|-----|------|-----|------|-------|
| Segment Revenue | 100 | 300 | 200 | 400 | 1,000 |
| Segment Result | 45 | (70) | 80 | (10) | 45 |
| Segment Assets | 39 | 51 | 48 | 12 | 150 |

You are requested to identify the reportable segments in accordance with the criteria laid down in AS 17.
(4 Parts x 5 Marks = 20 Marks)