Test Series: August, 2018

MOCK TEST PAPER – 1

INTERMEDIATE (IPC) : 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: 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. (use annuity factor at @ 15% for 3 years as 3.36)

(b) The Board of Directors of New Graphics Ltd. in its Board Meeting held on 18th April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31st March, 2017 and recommended a dividend of Rs. 2 per equity share (on 2 crore fully paid up equity shares of Rs. 10 each) for the year ended 31st March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the company on 18th June, 2017, the same will be paid to all the eligible shareholders.

Discuss on the accounting treatment and presentation of the said proposed dividend in the annual accounts of the company for the year ended 31st March, 2017 as per the applicable Accounting Standard and other Statutory Requirements.

(c) Suhana Ltd. issued 12% secured debentures of Rs. 100 Lakhs on 01.05.2016, to be utilized as under:

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

In March 2017, 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 31.03.2017 was Rs. 11,00,000. During the year 2016-17, 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.

(d) During 2016-17, an enterprise incurred costs to develop and produce a routine, low risk computer software product, as follows:

	Amount (Rs.)
Completion of detailed programme and design	25,000
Coding and Testing	20,000
Other coding costs	42,000
Testing costs	12,000
Product masters for training materials	13,000
Packing the product (1,000 units)	11,000

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What amount should be capitalized as software costs in the books of the company, on Balance Sheet date? **(4 Parts x 5 Marks = 20 Marks)**

2. A, B and C share profits and losses of a business as to 3:2:1 respectively. Their balance sheet as at 31st March, 2018 was as follows:

Liabilities	*Rs.*	*Assets*		*Rs.*
Capital Accounts:		Goodwill		10,000
A	70,000	Land		20,000
B	80,000	Buildings		1,10,000
C	10,000	Machinery		50,000
General Reserve	18,000	Motor Car		28,000
Investment Fluctuation Fund	4,000	Furniture		12,000
C Loan	33,000	Investments		18,000
Mrs. A's loan	15,000	Loose tools		7,000
Creditors	96,000	Stock		18,000
Bills Payable	14,000	Bills receivable		20,000
Bank overdraft	60,000	Debtor:	40,000	
		Less: Provision	2,000	38,000
		Cash		1,000
		C's current A/c		56,000
		Profit and Loss A/c		12,000
	4,00,000			4,00,000

The partners decide to convert their firm into a Joint Stock Company. For this purpose ABC Ltd. was formed with an authorized capital of Rs. 10,00,000 divided into Rs. 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:

(i) Motor car, furniture, investments, loose tools, debtors and cash are not to be taken over by the company.

(ii) Liabilities for bills payable and bank overdraft are to be taken over by the company.

(iii) The purchase price is settled at Rs. 1,95,500 payable as to Rs. 75,500 in cash and the balance in company's fully paid shares of Rs. 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 A for Rs. 13,000; debtors realize in all Rs. 20,000; Motor Car, furniture and loose tools fetch Rs. 24,000, Rs. 4,000, and Rs. 1,000 respectively. A agrees to pay his wife's loan. The creditors were paid Rs. 94,000 in final settlement of their claims. The realization expenses amount to Rs. 500.

(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 the necessary ledger accounts. **(16 Marks)**

3. (a) Mr. Chena Swami of Chennai trades in Refined Oil and Ghee. It has a branch at Salem. He despatches 30 tins of Refined Oil @ Rs. 1,500 per tin and 20 tins of Ghee @ Rs. 5,000 per tin on 1st of every month. The Branch has incurred expenditure of Rs. 45,890 which is met out of its collections; this is in addition to expenditure directly paid by Head Office.

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Following are the other details:

	Chennai H.O.	Salem B.O.
	Amount (Rs.)	Amount (Rs.)
Purchases:		
Refined Oil	27,50,000	
Ghee	48,28,000	
Direct Expenses	6,35,800	
Expenses paid by H.O.		76,800
Sales:		
Refined Oil	24,10,000	5,95,000
Ghee	38,40,500	14,50,000
Collection during the year		20,15,000
Remittance by Branch to Head Office		19,50,000

Chennai H.O.		
Balance as on	01-04-2017 Amount (Rs.)	31-03-2018 Amount (Rs.)
Stock:		
Refined Oil	44,000	8,90,000
Ghee	10,65,000	15,70,000
Building	5,10,800	7,14,780
Furniture & Fixtures	88,600	79,740

Salem Brach Office		
Balance as on	01-04-2017 Amount (Rs.)	31-03-2018 Amount (Rs.)
Stock:		
Refined Oil	22,500	19,500
Ghee	40,000	90,000
Sundry Debtors	1,80,000	?
Cash in hand	25,690	?
Furniture & Fixtures	23,800	21,420

Additional information:

(i) Addition to Building on 01-04-2017 Rs. 2,41,600 by H.O.

(ii) Rate of depreciation: Furniture & Fixtures @ 10% and Building @ 5% (already adjusted in the above figure)

(iii) The Branch Manager is entitled to 10% commission on branch profits after charging such commission.

(iv) The General Manager is entitled to a salary of Rs. 20,000 per month.

(v) General expenses incurred by Head Office is Rs. 1,86,000.

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You are requested to prepare Branch Account in the Head Office books and also prepare Chena Swami's Trading and Profit & loss Account (excluding branch transactions) for the year ended 31st March, 2018.

(b) What are the conditions to be fulfilled by a company to buy-back its equity shares as per the companies Act, 2013. Explain in brief. **(12 + 4 = 16 Marks)**

4. 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**

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

You are required to:

(i) Pass 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. **(16 Marks)**

5. (a). X Fire Insurance Co. Ltd. commenced its business on 1.4.20X1. It submits you the following information for the year ended 31.3.20X2:

	Rs.
Premiums received	15,00,000
Re-insurance premiums paid	1,00,000
Claims paid	7,00,000
Expenses of Management	3,00,000
Commission paid	50,000
Claims outstanding on 31.3.20X2	1,00,000
Create reserve for unexpired risk @50%	

Prepare Revenue account of X Fire Insurance company for the year ended 31.3.20X2.

(b) A liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for Rs. 45,00,000 against which payment was made as follows :

Liquidation expenses	Rs. 50,000
Secured Creditors	Rs. 15,00,000
Preferential Creditors	Rs. 1,25,000

The amount due to Unsecured Creditors was Rs. 15,00,000. You are asked to calculate the total remuneration payable to liquidator. Calculation shall be made to the nearest multiple of a rupee.

(c) Mohan started a business on 1st April 2017 with Rs. 12,00,000 represented by 60,000 units of Rs. 20 each. During the financial year ending on 31st March, 2018, he sold the entire stock for Rs. 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Mohan in the year 2017-18 if Financial Capital is maintained at historical cost.

(8 +4 + 4 = 16 Marks)

6. 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

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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.

Prepare the Profit and Loss account of TOP Bank Limited for the year ended 31.3.2017. **(16 Marks)**

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

(a) 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.

(b) A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2017, when the exchange rate was Rs. 43 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2017 when the exchange rate was Rs. 47 per US Dollar. However, on 31st March, 2017, the rate of exchange was Rs. 48 per US Dollar. The company passed an entry on 31st March, 2017 adjusting the cost of raw materials consumed for the difference between Rs. 47 and Rs. 43 per US Dollar.

In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

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

(d) Department X sells goods to Department Y at a profit of 50% on cost and to Department Z at 20% on cost. Department Y sells goods to Department X and Z at a profit of 25% and 15% respectively on sales. Department Z charges 30% profit on cost to Department X and 40 profit on sale to Y.

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

	Dept. X	**Dept. Y**	**Dept. Z**
	Rs.	**Rs.**	**Rs.**
Transfer from Department X		75,000	48,000
Transfer from Department Y	50,000		82,000
Transfer from Department Z	52,000	56,000	

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

(e) Explain the Limitations of Liability of Limited Liability Partnership (LLP) and its partners.

(4 Parts x 4 Marks = 16 Marks)

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