**Test Series: October, 2018**

**MOCK TEST PAPER – 2**

**INTERMEDIATE (IPC) (OLD) COURSE: 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: 3 Hours** **Maximum Marks: 100**

1. (a) Kunal Ltd. received a specific grant of Rs. 60 lakhs for acquiring the plant of Rs. 300 lakhs during 2014-15 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet. During 2017-18, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was Rs. 42 lakhs and written down value of plant was Rs. 210 lakhs.

   (i) What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2017-2018 in profit and loss account?

   (ii) What should be the treatment of the refund, if grant was deducted from the cost of the plant during 2017-18 assuming plant account showed the balance of Rs. 168 lakhs as on 1.4.2014?

   (b) S Ltd. (a Public Sector Company) provides consultancy and engineering services to its clients. In the year 2016-17, the Government has set up a commission to decide about the pay revision. The pay will be revised with respect from 1-1-2012 based on the recommendations of the commission. The company makes the provision of Rs. 680 lakhs for pay revision in the financial year 2016-17 on the estimated basis as the report of the commission is yet to come. As per the contracts with the client on cost plus job, the billing is done on the actual payment made to the employees and allocated to jobs based on hours booked by these employees on each job.

   The company discloses through notes to accounts:

   "Salaries and benefits include the provision of Rs. 680 lakhs in respect of pay revision. The amount chargeable from reimbursable jobs will be billed as per the contract when the actual payment is made".

   The accountant feels that the company should also book/recognise the income by Rs. 680 lakhs in Profit and Loss Account as per the terms of the contract. Otherwise, it will be the violation of matching concept & understatement of profit. Comment on the opinion of the Accountant with reference to relevant accounting standards.

   (c) Omega Limited has borrowed a sum of US $ 10,00,000 at the beginning of Financial Year 2016-17 for its residential project at 4 %. The interest is payable at the end of the Financial Year. At the time of availment exchange rate was Rs. 56 per US $ and the rate as on 31st March, 2017 was Rs. 62 per US $. If Omega Limited borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%.



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You are required to compute Borrowing Cost and exchange difference for the year ending 31st March, 2017 as per applicable Accounting Standards.

(d) A Ltd. sold machinery having WDV of Rs. 40 lakhs to B Ltd. for Rs. 50 lakhs and the same machinery was leased back by B Ltd. to A Ltd. The lease back is operating lease. Comment if –

(i) Sale price of Rs. 50 lakhs is equal to fair value.

(ii) Fair value is Rs. 45 lakhs and sale price is Rs. 38 lakhs.

(iii) Fair value is Rs. 40 lakhs and sale price is Rs.50 lakhs.

(iv) Fair value is Rs. 46 lakhs and sale price is Rs. 50 lakhs

(v) Fair value is Rs. 35 lakhs and sale price is Rs.39 lakhs. ***(4 Parts x 5 Marks = 20 Marks)***

2. (a) Paper Limited comes out with a public issue of share capital on 01-01-2018 of 30,00,000 equity shares of Rs. 10 each at a premium of 5%. Rs. 2.50 is payable on application (on or before 31-01-2018) and Rs. 3 on allotment (31-3-2018) including premium.

This issue was underwritten by two underwriters namely White and Black, equally, the commission being 4% of the issue price. Each of the underwriters underwrites 60,000 shares firm. Subscriptions including firm underwriting came for 28,80,000 shares, the distribution of forms being White: 15,60,000; Black; 10,80,000 and Unmarked 2,40,000.

One of the allottees (using forms marked with name of White) for 6,000 shares fails to pay the amount due to allotment, all the other money due being received in full including any due from the shares devolving upon the underwriters. The commission due was paid separately.

6,000 shares of one allottee who failed to pay the allotment money were finally forfeited by 30-06-2018 and were re-allotted for payment in cash of Rs. 4 per share.

You are required to calculate each underwriter's liability (in shares) in statement form assuming that the benefit of firm underwriting is given to individual underwriter.

(b) Modern Insurance Company's Fire Insurance division provide the following information, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2017.

| | Direct Business | Re-insurance |
|---|---|---|
| | Rs. | Rs. |
| Claim paid during the year | 7,06,000 | 1,64,000 |
| Claim received | | 64,000 |
| Claim payable | | |
| 1st April, 2016 | 1,64,600 | 11,600 |
| 31st March, 2017 | 1,75,000 | 17,400 |
| Claim receivable: | | |
| 1st April, 2016 | - | 17,000 |
| 31st March, 2017 | - | 28,400 |
| Expenses of management | 69,000 | |
| (Includes Rs. 7,600 Surveyor's fee | | |
| and Rs. 8,400 Legal expenses for settlement of claims) | | |



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(c) The following information relates to M/s. XYZ Limited for the year ended 31st March, 2017:

Net Profit for the year after tax: Rs. 75,00,000

Number of Equity Shares of Rs. 10 each outstanding: 10,00,000

Convertible Debentures Issued by the Company (at the beginning of the year)

| Particulars | Nos. |
|---|---|
| 8% Convertible Debentures of Rs. 100 each | 1,00,000 |
| Equity Shares to be issued on conversion | 1,10,000 |

The Rate of Income Tax: 30%.

You are required to calculate Basic and Diluted Earnings Per Share (EPS). ***(6 + 5 +5 = 16 Marks)***

3. M, N and O were Partners sharing Profits and Losses in the ratio of 5:3:2 respectively. The Trial Balance of the Firm 31st March, 2017 was the following:

| Particulars | Rs. | Rs. |
|---|---|---|
| Machinery at Cost | 2,00,000 | |
| Inventory | 1,37,400 | |
| Trade receivables | 1,24,000 | |
| Trade payables | | 1,69,400 |
| Capital A/cs: | | |
| M | | 1,36,000 |
| N | | 90,000 |
| O | | 46,000 |
| Drawing A/cs: | | |
| M | 50,000 | |
| N | 46,000 | |
| O | 34,000 | |
| Depreciation on Machinery | | 80,000 |
| Profit for the year ended 31st March | | 2,48,600 |
| Cash at Bank | 1,78,600 | |
| | 7,70,000 | 7,70,000 |

Interest on Capital Accounts at 10% p.a. on the amount standing to the credit of Partners' Capital Account at the beginning of the year, was not provided before preparing the above Trial Balance. On the above date, they formed a company named MNO Private Limited Company with an Authorized Share Capital of 2,00,000 in shares of Rs. 10 each to be divided in different classes to take over the business of Partnership firm.

You are required as under:

1. Machinery is to be transferred at Rs. 1,40,000.
2. Shares in the Company are to be issued to the partners, at par, in such numbers, and in such classes as will give the partners, by reason of their shareholdings alone, the same rights as regards interest on capital and the sharing of profit and losses as they had in the partnership.
3. Before transferring the business, the partners wish to draw from the partnership profits to such an extent that the bank balance is reduced to Rs. 1,00,000. For this purpose, sufficient profits of the year are to be retained in profit-sharing ratio.



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4. Assets and liabilities except Machinery and Bank, are to be transferred at their book value as on the above date.

You are required to prepare:

(i) Statement showing the workings of the Number of Shares of each class to be issued by the company, to each partner.

(ii) Capital Accounts showing all adjustments required to dissolve the Partnership.

(iii) Balance Sheet of the Company immediately after acquiring the business of the Partnership and Issuing of Shares.

4. (a) On 31st December, 2016 the following balances appeared in the books of Kolkata Branch of an English firm having its HO office in New York:

| | Amount in Rs. | Amount in Rs. |
|---|---|---|
| Stock on 1st Jan., 2016 | 2,34,000 | |
| Purchases and Sales | 15,62,500 | 23,43,750 |
| Debtors and Creditors | 7,65,000 | 5,10,000 |
| Bills Receivable and Payable | 2,04,000 | 1,78,500 |
| Salaries and Wages | 1,00,000 | - |
| Rent, Rates and Taxes | 1,06,250 | - |
| Furniture | 91,000 | - |
| Bank A/c | 5,68,650 | |
| New York Account | - | 5,99,150 |
| | 36,31,400 | 36,31,400 |

Stock on 31st December, 2016 was Rs.6,37,500.

Branch account in New York books showed a debit balance of $ 13,400 on 31st December, 2016 and Furniture appeared in the Head Office books at $ 1,750.

The rate of exchange on 31st December, 2015 was Rs. 52 and on 31st December, 2016 was Rs. 51. The average rate for the year was Rs. 50.

Prepare in the Head Office books the Profit and Loss a/c and the Balance Sheet of the Branch.

(b) X Ltd has three departments A, B and C. From the particulars given below compute:

(i) the departmental results and

(ii) the values of stock as on 31st Dec. 2016

1.

| | A | B | C |
|---|---|---|---|
| | *Rs.* | *Rs.* | *Rs.* |
| Stock (on 1.1. 2016) | 24,000 | 36,000 | 12,000 |
| Purchases | 1,46,000 | 1,24,000 | 48,000 |
| Actual sales | 1,72,500 | 1,59,400 | 74,600 |
| Gross Profit on normal selling price | 20% | 25% | 33 1/3% |



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2. During the year certain items were sold at discount and these discounts were reflected in the value of sales shown above. The items sold at discount were:

| | A<br>Rs. | B<br>Rs. | C<br>Rs. |
|---|---|---|---|
| Sales at normal price | 10,000 | 3,000 | 1,000 |
| Sales at actual price | 7,500 | 2,400 | 600 |

***(8 + 8 = 16 Marks)***

5. P Ltd. and Q Ltd. decided to amalgamate as on 01.04.2016 Their summarized Balance Sheets as on 31.03.2016 were as follows: (Rs.in '000)

| *Particulars* | *P Ltd.* | *Q Ltd.* |
|---|---|---|
| Source of Funds: | | |
| Equity share capital (Rs.10 each) | 300 | 280 |
| 9% preference share Capital (Rs.100 each) | 60 | 40 |
| Investment allowance Reserve | 70 | 60 |
| Profit and Loss Account | 8 | 12 |
| 10 % Debentures | 100 | 60 |
| Trade Payables | 50 | 30 |
| Tax provision | 14 | 8 |
| Total | 602 | 490 |
| Application of Funds: | | |
| Building | 120 | 100 |
| Plant and Machinery | 160 | 140 |
| Investments | 80 | 50 |
| Trade receivables | 90 | 70 |
| Inventories | 72 | 80 |
| Cash and Bank | 80 | 50 |
| Total | 602 | 490 |

From the following information, you are required to prepare the Balance Sheet as on 01.04.2016 of a new company, R Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

(i) 50 % Debenture are to be converted into Equity Shares of the New Company.

(ii) Investments are non- current in nature.

(iii) Fixed Assets of P Ltd. were valued at 10% above cost and that of Q Ltd. at 5% above cost.

(iv) 10 % of trade receivables were doubtful for both the companies. Inventories to be carried at cost.

(v) Preference shareholders were discharged by issuing equal number of 9% preference shares at par.

(vi) Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of Rs.10 each of the new company at a premium of Rs. 5 per share.

Give your answer on the basis that amalgamation is in the nature of purchase. ***(16 Marks)***



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6. The following are the figures extracted from the books of TOP Bank Limited as on 31.3.2016.

| | 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 31.3.2015 was Rs. 19,000 and on 31.3.2016 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. 2015.

Prepare the Profit and Loss account of TOP Bank Limited for the year ended 31.3.2016. ***(16 Marks)***

7. Answer Any Four of the following:

(a) 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.



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(b) P Ltd. launched a project for producing product A in Nov. 2014. The company incurred Rs. 30 lakhs towards Research and Development expenses upto 31st March, 2016. Due to unfavourable market conditions the management feels that it is not possible to manufacture and sell the product in the market for next so many years.

The management hence wants to defer the expenditure write off to future years.

Advise the company as per the applicable Accounting Standard.

(c) Zoo Ltd. had issued 30,000, 15% convertible debentures of Rs. 100 each on 1st April, 2015. The debentures are due for redemption on 1st March, 2018. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal Value Rs. 10) at a price of Rs. 15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the Debenture holders exercising the option to the maximum.

(d) W paid a premium to other partners of the firm at the time of his admission to the firm, with a condition that the will not be dissolved before expiry of five years. The firm is dissolved after three years. W claims refund of premium.

(i) List the criteria for the calculation of the amount of refund.

(ii) Also list any two conditions when no claim in this respect will arise.

(e) On 1st April, 2017, a company offered 100 shares to each of its 500 employees at Rs. 50 per share. The employees are given a year to accept the offer. The shares issued under the plan shall be subject to lock-in on transfer for three years from the grant date. The market price of shares of the company on the grant date is Rs. 60 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at Rs. 56 per share.

On 31st March, 2018, 400 employees accepted the offer and paid Rs. 50 per share purchased. Nominal value of each shares is Rs. 10.

Record the issue of share in the books of the company under the aforesaid plan.

***(4 parts x 4 marks = 16 Marks)***



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