(CA INTERMEDIATE MOCK TEST MAY 2021)

DATE: 19.04.2021 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

ADVANCE ACCOUNTING

Answer to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium. His/her answer in Hindi will not be valued.
Question No. 1 is compulsory.
Candidates are also required to answer any Four questions from the remaining Five Questions.
In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then all answers shall be valued and best four will be considered.
Wherever necessary, suitable assumptions may be made and disclosed by way of note.

Question 1:

(a) The following information is available for AB Ltd. for the accounting year 2012-13 and 2013-14:

Net profit for		Rs.
Year	2012-13	22,00,000
Year	2013-14	30,00,000

No of shares outstanding prior to right issue 10,00,000 shares.
Right issue : One new share for each five shares outstanding i.e. 2,00,000 shares.
: Right Issue price Rs. 25
: Last date to exercise right 31st July, 2013
Fair value of one equity share immediately prior to exercise of rights on 31.07.2013 is Rs. 32.
You are required to compute:
(i) Basic earnings per share for the year 2012-13.
(ii) Restated basic earnings per share for the year 2012-13 for right issue.
(iii) Basic earnings per share for the year 2013-14.

(5 Marks)

(b) Given the following information of M/s. Paper Products Ltd.
(i) Goods of Rs. 60,000 were sold on 20-3-2015 but at the request of the buyer these were delivered on 10-4-2015.
(ii) On 15-1-2015 goods of Rs. 1,50,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-3-2015.
(iii) Rs. 1,20,000 worth of goods were sold on approval basis on 1-12-2014. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-1-2015 and no approval or disapproval received for the remaining goods till 31-3-2015.
(iv) Apart from the above, the company has made cash sales of Rs. 7,80,000 (gross). Trade discount of 5% was allowed on the cash sales.

You are required to advise the accountant of M/s. Paper Products Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9 and also determine the total revenue to be recognized for the year ending 31-3-2015.

(5 Marks)

(c) A machine having expected useful life of 6 years, is leased for 4 years. Both the cost and the fair value of the machinery are Rs. 7,00,000. The amount will be paid in 4 equal instalments and at the termination of lease, lessor will get back the machinery. The unguaranteed residual value at the end of the 4th year is Rs. 70,000. The IRR of the investment is 10%. The present value of annuity factor of Rs. 1 due at the end of 4th year at 10% IRR is 3.169. The present value of Rs. 1 due at the end of 4th year at 10% rate of interest is 0.683.
State with reasons whether the lease constitutes finance lease and also compute the unearned finance income.

(5 Marks)

(d) Identify the related parties in the following cases as per AS 18
A Ltd. holds 51% of B Ltd.
B Ltd holds 51% of O Ltd.
Z Ltd holds 49% of O Ltd.

(5 Marks)

Question 2:

(a) The summarized balance sheet of Z Limited as on 31st March, 2017 is as under:

Liabilities	Amount in Rs.
Share Capital:	
5,00,000 Equity shares of Rs. 10 each fully paid up	50,00,000
9%, 20,000 Preference shares of Rs. 100 each fully paid up	20,00,000
Reserves and Surplus:	
Profit and Loss Account	(14,60,000)
Non-Current Liabilities:	
10% Secured Debentures	16,00,000
Current Liabilities:	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000
Loan from Directors	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000
Total	81,00,000
Assets:	
Non-Current Assets:	
Fixed Assets:	
(a) Tangible Assets:	
Land & Buildings	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
(b) Intangible Assets:	
Goodwill	10,00,000
Patents	5,00,000
Current Assets:	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000
Discount on issue of debentures	1,00,000
Total	81,00,000

Note: Preference dividend is in arrears for last 2 years.

Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover Rs. 1,00,000 and Rs. 60,000 were also payable to Mr. Y and Mr. Z respectively as trade payable.

The following scheme of reconstruction has been agreed upon and duly approved.

(i) All the equity shares to be converted into fully paid equity shares of Rs. 5.00 each.

(ii) The Preference shares be reduced to Rs. 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.

(iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay Rs. 1,00,000 and Rs. 60,000 respectively in cash and to receive new 12% debentures for the balance amount.

(iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.

(v) Directors also waived 60% of their loans and accepted equity shares for the balance.

(vi) Capital commitments of Rs. 3.00 lacs were cancelled on payment of Rs. 15,000 as penalty.

(vii) Directors refunded Rs. 1,00,000 of the fees previously received by them.

(viii) Reconstruction expenses paid Rs. 15,000.

(ix) The taxation liability of the company was settled for Rs. 75,000 and was paid immediately.

(x) The Assets were revalued as under:

Land and Building	32,00,000
Plant and Machinery	6,00,000
Inventory	7,50,000
Trade Receivables	4,00,000
Furniture and Fixtures	1,50,000
Trade Investments	4,50,000

You are required to prepare necessary journal entries for all the above-mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit and Loss account arid Discount on issue of debentures. And also, prepare Bank Account and Reconstruction Account.

(15 Marks)

(b) Peoples Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ended 31st March, 2017:

Asset Funded	**Interest Overdue but recognized in Profit & Loss**		**Net Book Value of Assets outstanding**
	Period Overdue	**Interest Amount**	
		(Rs. in crore)	**(Rs. in crore)**
LCD Televisions	Upto 12 months	480.00	20,123.00
Washing Machines	For 24 months	102.00	2,410.00
Refrigerators	For 30 months	50.50	1,280.00
Air Conditioners	For 45 months	26.75	647.00

You are required to calculate the amount of provision to be made.

(5 Marks)

Question 3:

(a) From the following information, prepare Profit and Loss Account of Samsung Bank Ltd. for the year ended 31.3. 2013:

		(Rs. in '000)
Interest and Discount		8,860
(Includes interest accrued on investments)		
Other Income		220
Interest expended		2,720
Operating expenses		2,830
Interest accrued on Investments		10
Additional Information:		
(a)	Rebate on bills discounted to be provided for	30
(b)	Classification of Advances:	
	(i) Standard assets	4,000
	(ii) Sub-standard assets	2,240
	(iii) Doubtful assets-(fully unsecured)	390
	(iv) Doubtful assets – covered fully by security	
	Less than 1 year	100
	More than 1 year, but less than 3 years	600
	More than 3 years	600
	(v) Loss assets	376
(c)	Provide 35% of the profit towards provision for taxation.	
(d)	Transfer 25% of the profit to Statutory Reserve.	

(10 Marks)

(b) Consider the following summarized balance sheets of subsidiary Nitin Ltd.:

	2015	**2016**		**2015**	**2016**
	Rs.	**Rs.**		**Rs.**	**Rs.**
Share-Capital			Fixed Assets		
Issued & subscribed 2,500 equity shares of Rs. 100 each	2,50,000	2,50,000	Cost	1,60,000	1,60,000
			Less: Accumulated depreciation	(24,000)	(48,000)
Reserves & Surplus				1,36,000	1,12,000
Revenue reserves	1,43,000	3,57,000	Investments at cost	—	2,00,000
Current Liabilities & Provisions:			Current Assets:		
Trade Payables	2,45,000	2,47,000	Inventory	2,98,500	3,71,000
Bank overdraft	—	85,000	Trade Receivables	2,97,000	4,45,500
Provision for taxation	1,55,000	2,15,000	Prepaid Expenses	36,000	24,000
			Cash at Bank	25,500	1,500
	7,93,000	11,54,000		7,93,000	11,54,000

Also consider the following information:

(i) Nitin Ltd. is a subsidiary of Sky Ltd. Both the companies follow calendar year as the accounting year.

(ii) Sky Ltd. values inventory on LIFO basis while Nitin Ltd. used FIFO basis. To bring Nitin Ltd.'s values in line with those of Sky Ltd. its value of inventory is required to be reduced by Rs. 6,000 at the end of 2015 and Rs. 17,000 at the end of 2016.

(iii) Nitin Ltd. deducts 1% from Trade Receivables as a general provision against doubtful debts.

(iv) Prepaid expenses in Nitin Ltd. include advertising expenditure carried forward of Rs. 30,000 in 2015 and Rs. 15,000 in 2016, being part of initial advertising expenditure of Rs. 45,000 in 2015 which is being written off over three years. Similar amount of advertising expenditure of Sky Ltd. has been fully written off in 2015.

You are required to restate the balance sheet of Nitin Ltd. as on 31st December, 2016 after considering the above information, for the purpose of consolidation. Make the necessary restatement which is necessary to make the accounting policies adopted by Sky Ltd. and Nitin Ltd. uniform.

(10 Marks)

Question 4:

(a) The following figures are extracted from the books of KLM Bank Ltd. as on 31-03-20X2:

	Rs.
Interest and discount received	38,00,160
Interest paid on deposits	22,95,360
Issued and subscribed capital	10,00,000
Salaries and allowances	2,50,000
Directors Fees and allowances	35,000
Rent and taxes paid	1,00,000
Postage and telegrams	65,340
Statutory reserve fund	8,00,000
Commission, exchange and brokerage	1,90,000
Rent received	72,000
Profit on sale of investment	2,25,800
Depreciation on assets	40,000
Statutory expenses	38,000
Preliminary expenses	30,000
Auditor's fee	12,000

The following further information is given:

(1) A customer to whom a sum of Rs. 10 lakhs was advanced has become insolvent and it is expected only 55% can be recovered from his estate.

(2) There was also other debts for which a provisions of Rs. 2,00,000 was found necessary.

(3) Rebate on bill discounted on 31-03-20X1 was Rs. 15,000 and on 31-03-20X2 was Rs. 20,000.

(4) Income tax of Rs. 2,00,000 is to be provided.

The directors desire to declare 5% dividend.

Prepare the Profit and Loss account of KLM Bank Ltd. for the year ended 31-03-20X2 and also show, how the Profit and Loss account will appear in the Balance Sheet if the Profit and Loss account opening balance was NIL as on 31-03-20X1

(15 Marks)

(b) Given below is the summarized balance sheet of Rebuilt Ltd. as on 31.3.20X1:

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Authorised and issued capital:		Building at cost	
12,000, 7% Preference shares of	6,00,000	less depreciation	4,00,000
Rs. 50 each Note: Preference dividend		Plant at cost less	2,68,000
is in arrear for five years)		depreciation	
15,000 Equity shares of Rs. 50 each	7,50,000	Trademarks and	
	13,50,000	goodwill at cost	3,18,000
Loan	5,73,000	Inventory	4,00,000
Trade payables	2,07,000	Trade receivables	3,28,000
Other liabilities	35,000	Profit and loss A/c	4,51,000
	21,65,000		21,65,000

The Company is now earning profits short of working capital and a scheme of reconstruction has been approved by both the classes of shareholders. A summary of the scheme is as follows:

(a) The equity shareholders have agreed that their Rs. 50 shares should be reduced to Rs. 2.50 by cancellation of Rs. 47.50 per share. They have also agreed to subscribe for three new equity shares of Rs. 2.50 each for each equity share held.

(b) The preference shareholders have agreed to cancel the arrears of dividends and to accept for each Rs. 50 share, 4 new 5% preference shares of Rs. 10 each, plus 6 new equity shares of Rs. 2.50 each, all credited as fully paid.

(c) Lenders to the company for Rs. 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of Rs. 10 each and 12,000 new equity shares of Rs. 2.50 each.

(d) The directors have agreed to subscribe in cash for 40,000, new equity shares of Rs. 2.50 each in addition to any shares to be subscribed by them under (a) above.

(e) Of the cash received by the issue of new shares, Rs. 2,00,000 is to be used to reduce the loan due by the company.

(f) The equity share capital cancelled is to be applied:
   i. to write off the debit balance in the profit and loss A/c; and
   ii. to write off Rs. 35,000 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill.

Show by journal entries how the financial books are affected by the scheme. The nominal capital as reduced is to be increased to Rs. 6,50,000 for preference share capital and Rs. 7,50,000 for equity share capital.

(5 Marks)

Question 5:

The financial position of two companies Hari Ltd. and Vayu Ltd. as on 31st March, 20X1 was as under:

Assets	Hari Ltd. (Rs.)	Vayu Ltd. (Rs.)
Goodwill	50,000	25,000
Building	3,00,000	1,00,000
Machinery	5,00,000	1,50,000
Inventory	2,50,000	1,75,000
Trade receivables	2,00,000	1,00,000

Cash at Bank	50,000	20,000
	13,50,000	5,70,000
Liabilities	**Hari Ltd. (Rs.)**	**Vayu Ltd. (Rs.)**
Share Capital:		
Equity Shares of Rs. 10 each	10,00,000	3,00,000
9% Preference Shares of Rs. 100 each	1,00,000	–
10% Preference Shares of Rs. 100 each	–	1,00,000
General Reserve	70,000	70,000
Retirement Gratuity fund	50,000	20,000
Trade payables	1,30,000	80,000
	13,50,000	5,70,000

Hari Ltd. absorbs Vayu Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.

(b) Goodwill of Vayu Ltd. is valued at Rs. 50,000, Buildings are valued at Rs. 1,50,000 and the Machinery at Rs. 1,60,000.

(c) Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.

(d) Equity Shareholders of Vayu Ltd. will be issued Equity Shares @ 5% premium.

Prepare necessary Ledger Accounts to close the books of Vayu Ltd. and show the acquisition entries in the books of Hari Ltd. Also draft the Balance Sheet after absorption as at 31st March, 20X1.

(20 Marks)

Question 6: (Answer any four from the following)-

(a) Give four examples of activities that do not necessarily satisfy criterion (a) of paragraph 3 of AS 24, but that might do so in combination with other circumstances.

(5 Marks)

(b) Bright Finance Ltd. is a non-banking financial company. It provides you with the following information regarding its outstanding amount, Rs. 200 lakhs of which installments are overdue on 200 accounts for last two months (amount overdue Rs. 40 lakhs), on 24 accounts for three months (amount overdue Rs. 24 Iakhs), on 10 accounts for more than 30 months (amount overdue Rs. 20 lakhs) and on 4 accounts for more than three years (amount over due Rs. 20 lakhs-already identified as sub-standard assets) and one account of Rs. 10 lakhs which has been identified as non-recoverable by the management. Out of 10 accounts overdue for more than 30 months, 6 accounts are already identified as sub-standard (amount Rs. 6 lakhs) for more than fourteen months and other are identified as sub-standard asset for a period of less than fourteen months.

Classify the assets of the company in line with Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

(5 Marks)

(c) PQ Ltd. grants 100 stock options to each of its 1,000 employees on 1-4-2015, conditional upon the employee remaining in the company for 2 years. The fair value of the option is Rs. 18 on the grant date and the exercise price is Rs. 55 per share. The other information is given as under:

(i) Number of employees expected to satisfy service condition are 930 in the 1st year and 850 in the 2nd year.

(ii) 40 employees left the company in the 1st year of service and 880 employees have actually completed 2 year vesting period.

You are required to calculate ESOP cost to be amortized by PQ Ltd. in the years 2015- 2016 and 2016-2017.

(5 Marks)

(d) Base Limited is showing an intangible asset at Rs. 85 lakhs as on 1-4-2011. This asset was acquired for Rs. 112 lakhs on 1-4-2008 and the same was available for use from that date. The company has been following the policy of amortization of the intangible asset over a period of 12 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant accounting standard.

(5 Marks)

(e) At the end of the financial year ending on 31st December, 2017, a company finds that there are twenty law suits outstanding which have not been settled till the date of approval of accounts by the Board of Directors. The possible outcome as estimated by the Board is as follows:

	Probability	**Loss (Rs.)**
In respect of five cases (Win)	100%	–
Next ten cases (Win)	60%	–
Lose (Low damages)	30%	1,20,000
Lose (High damages)	10%	2,00,000
Remaining five cases		
Win	50%	–
Lose (Low damages)	30%	1,00,000
Lose (High damages)	20%	2,10,000

Outcome of each case is to be taken as a separate entity. Ascertain the amount of contingent loss and the accounting treatment in respect thereof.

(5 Marks)

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