

# MITTAL COMMERCE CLASSES INTERMEDIATE – MOCK TEST

(ALL BATCHES)

DATE: 01.10.2018

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

## PAPER 5 : 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 only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.

Wherever necessary, suitable assumptions may be made and disclosed by way of note.

### Question: 1

- (a) A firm of contractors obtained a contract for construction of bridges across river Revathi. The following details are available in the records kept for the year ended 31st March, 2017.

	(Rs. in lakhs)
Total Contract Price	1,000
Work Certified	500
Work not Certified	105
Estimated further Cost to Completion	495
Progress Payment Received	400
To be Received	140

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS 7 issued by your institute.

[5 Marks]

- (b) 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]

- (c) 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 outcomes as estimated by the Board is as follows:

	Probability	Loss (Rs.)
In respect of five cases (Win)	100%	-

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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]**

- (d) Explain the conditions involved in an amalgamation in the Nature of merger.

**[5 Marks]**

**Question: 2**

- (a) Choice Ltd. grants 100 stock options to each of its 1,000 employees on 1.4.20X1 for Rs. 20, depending upon the employees at the time of vesting of options. Options would be exercisable within a year it is vested. The market price of the share is Rs. 50 each. These options will vest at the end of year 1 if the earning of Choice Ltd. is 16%, or it will vest at the end of the year 2 if the average earning of two years is 13%, or lastly it will vest at the end of the third year if the average earning of 3 years will be 10%. 5,000 unvested options lapsed on 31.3.20X2. 4,000 unvested options lapsed on 31.3.20X3 and finally 3,500 unvested options lapsed on 31.3.20X4.

Following is the earning of Choice Ltd:

Year ended on	Earning (in %)
31.3.20X2	14%
31.3.20X3	10%
31.3.20X4	7%

850 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life. Pass Journal entries for the above.

**[10 Marks]**

- (b) A joint stock company resolved to issue 10 lakh equity shares of Rs.10 each at a premium of Rs.1 per share. One lakh of these shares were taken up by the directors of the company, their relatives, associates and friends, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications.

The issue was underwritten by X, Y and Z for a commission @2% of the issue price, 65% of the issue was underwritten by X, while Y's and Z's shares were 25% and 10% respectively. Their firm underwriting was as follows :

X 30,000 shares, Y 20,000 shares and Z 10,000 shares. The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with members of the general public.

Marked applications were as follows:

X 1,19,500 shares, Y 57,500 shares and Z 10,500 shares. Unmarked applications totaled 7,00,000 shares.

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Accounts with the underwriters were promptly settled.

You are required to:

- (i) Prepare a statement calculating underwriters' liability for shares other than shares underwritten firm.
- (ii) Pass journal entries for all the transactions including cash transactions.

**[10 Marks]**

### Question: 3

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	<u>50,000</u>	<u>20,000</u>
	<u>13,50,000</u>	<u>5,70,000</u>
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	<u>1,30,000</u>	<u>80,000</u>
	<u>13,50,000</u>	<u>5,70,000</u>

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: 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

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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 provision 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)** Templeton Finance Ltd. is a non-banking finance company. The extracts of its balance sheet are given below:

Liabilities	Amount	Assets	Amount
	Rs. in 000		Rs. in 000
Paid-up equity capital	100	Leased out assets	800
Free reserves	500	Investment:	
Loans	400	In shares of subsidiaries and	
Deposits	400	group companies	100
		In debentures of subsidiaries and group	100
		Companies	
		Cash and bank balances	200
		Deferred expenditure	<u>200</u>
	<u>1,400</u>		<u>1,400</u>

You are required to compute 'Net owned Fund' of Templeton Finance Ltd. as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

**[5 Marks]**

**Question: 5**

Given below are the Profit & Loss Accounts of H Ltd. and its subsidiary Ltd. for the year ended 31st March, 2017:

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	H Ltd. (Rs. in lacs)	S Ltd. (Rs. in lacs)
Incomes:		
Sales and other income	5,000	1,000
Increase in Inventory	<u>1,000</u>	<u>200</u>
	<u>6,000</u>	<u>1,200</u>
Expenses:		
Raw material consumed	800	200
Wages and Salaries	800	150
Production expenses	200	100
Administrative Expenses	200	100
Selling and Distribution Expenses	200	50
Interest	100	50
Depreciation	<u>100</u>	<u>50</u>
	<u>2,400</u>	<u>700</u>
Profit before tax	3,600	500
Provision for tax	<u>1,200</u>	<u>200</u>
Profit after tax	2,400	300
Dividend paid	<u>1,200</u>	<u>150</u>
Balance of Profit	<u>1,200</u>	<u>150</u>

Other Information:

H Ltd. sold goods to S Ltd. of Rs. 120 lacs at cost plus 20%. Inventory of S Ltd. includes such goods valuing Rs. 24 lacs. Administrative expenses of S Ltd. include Rs. 5 lacs paid to H Ltd. as consultancy fees. Selling and distribution expenses of H Ltd. include Rs. 10 lacs paid to S Ltd. as commission.

H Ltd. holds 80% of equity share capital of Rs. 1,000 lacs in S Ltd. prior to 2015-2016. H Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by S Ltd. for the year 2015-2016.

Prepare a consolidated profit and loss account.

**[20 Marks]**

**Question: 6 [Attempt any four]**

- (a)** P. Ltd. has 60% voting right in Q Ltd., Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a Listed Company and regularly supplies goods to P Ltd. The management of R Ltd. has not disclosed its relationship with P Ltd. How would you assess the situation from the view point of A.S.-18 on Related Party Disclosures?

**[5 Marks]**

- (b)** On 1.4.2016 a mutual fund scheme had 9 lakh units of face value Rs. 10 outstanding. The scheme earned Rs. 81 lakh in 2016-17, out of which Rs. 45 lakh was earned in first half-year. 1 lakh units were sold on 30.09.16 at NAV of Rs. 60.

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Show important accounting entries for sale of units and distribution of dividend at the end of 2016-17.

**[5 Marks]**

- (c) XYZ Limited is being wound up by the tribunal. All the assets of the company have been charged to the company's bankers to whom the company owes Rs. 5 crores. The company owes following amounts to others:

Dues to workers – Rs.1,25,00,000

✓ Taxes Payable to Government – Rs.30,00,000

✓ Unsecured Creditors – Rs.60,00,000

You are required to compute with the reference to the provision of the Companies Act, 2013 the amount each kind of creditors is likely to get if the amount realized by the official liquidator from the secured assets and available for distribution among creditors is only Rs.4,00,00,000/-

**[5 Marks]**

- (d) Find out Leverage effect on Goodwill in the following case:

(i)	Current cost of capital employed	Rs. 10,40,000
(ii)	Profit earned after current cost adjustments	Rs. 1,72,000
(iii)	10% long term loan	Rs. 4,50,000
(iv)	Normal rate of return:	
	On equity capital employed	15.6%
	On long-term capital employed	13.5%

**[5 Marks]**

- (e) X Fire Insurance Co. Ltd. commenced its business on 1.4.2012. It submits you the following information for the year ended 31.3.2013:

	Rs.
<i>Premiums received</i>	15,00,000
<i>Re-insurance premiums paid</i>	1,00,000
<i>Claims paid</i>	7,00,000
<i>Expenses of Management</i>	3,00,000
<i>Commission paid</i>	50,000
<i>Claims outstanding on 31.3.2013</i>	1,00,000
<i>Create reserve for unexpired risk @40%</i>	

Prepare Revenue account for the year ended 31.3.2013

**[5 Marks]**

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