

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: 3 Hours

Maximum Marks: 100

1. (a) (i) On the basis of provisions of AS 18 'Related Party Disclosures':
Identify the related parties in the following cases:
X Limited holds 60% shares of Y Limited
Y Limited holds 55% shares of W Limited
Z Limited holds 35% shares of W Limited
- (ii) Himalaya Limited sold goods for ₹ 40 Lakhs to Aravalli Limited during financial year ended on March 31, 2022. The Managing Director of Himalaya Limited owns 80% shares of Aravalli Limited. The sales were made to Aravalli Limited at normal selling prices followed by Himalaya Limited. The chief accountant of Himalaya Limited contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per AS 18. You are required to comment on this.
- (b) Tonk Tanners is engaged in manufacturing of leather shoes. They provide you the following information for the year ended 31st March, 2022:
- (i) On 31st December, 2021 shoes worth ₹ 3,20,000 were sent to Mohan Shoes for sale on consignment basis of which 25% shoes were unsold and lying with Mohan Shoes as on 31st March, 2022.
- (ii) On 10th January, 2022, Tonk Tanner supplied shoes worth ₹ 4,50,000 to Shani Shoes and concurrently agrees to re-purchase the same goods on 11th April, 2022.
- (iii) On 21st March, 2022 shoes worth ₹ 1,60,000 were sold to Shoe Shine but due to refurbishing of their showroom being underway, on their request, shoes were delivered on 12th April, 2022.

You are required to advise the accountant of Tonk Tanners when amount is to be recognised as revenue in 2021-2022 in above cases in the context of AS 9.

- (c) The Chief Accountant of Cotton Garments Limited gives the following data regarding its five segments:

(₹ in Crore)

Particulars	A	B	C	D	E	Total
Segment Assets	40	15	10	10	5	80
Segment Results	(95)	5	5	(5)	15	(75)
Segment Revenue	310	40	30	40	30	450

The Chief Accountant is of the opinion that segment "A" alone should be reported. Is he justified in his view? Examine his opinion in the light of provisions of AS 17 'Segment Reporting'.

- (d) Som Ltd. agreed to takeover Dove Ltd. on 1st April, 2022. The terms and conditions of takeover were as follows:
- Som Ltd. issued 56,000 equity shares of ₹100 each at a premium of ₹10 per share to the equity shareholders of Dove Ltd.
 - Cash payment of ₹ 1,00,000 was made to equity shareholders of Dove Ltd.
 - 20,000 fully paid preference shares of ₹ 70 each issued at par to discharge the preference shareholders of Dove Ltd.

You are required to calculate the amount of purchase consideration as per provisions of AS 14.

(4 Parts x 5 Marks = 20 Marks)

- 2 Read, Write and Add give you the following Balance Sheet as on 31st March, 2022:

Equity and Liabilities	₹	Assets	₹
Read's Loan	15,000	Plant and Machinery at cost	30,000
Capital Accounts:		Fixtures and Fittings	2,000
Read 30,000		Stock	10,400
Write 10,000		Debtors 18,400	
Add <u>2,000</u>	42,000	Less: Provision <u>(400)</u>	18,000
Sundry Creditors	17,800	Joint Life Policy	15,000
Loan on Hypothecation of		Patents and Trademarks	10,000
Stock	6,200	Cash at Bank	8,000
Joint Life Policy Reserve	12,400		
	<u>93,400</u>		<u>93,400</u>

The partners shared profits and losses in the ratio of Read 4/9, Write 2/9 and Add 1/3. Firm was dissolved on 31st March, 2022 and you are given the following information:

- Add had taken a loan from insurers for ₹ 5,000 on the security of Joint Life Policy.
The policy was surrendered and Insurers paid a sum of ₹ 10,200 after deducting ₹ 5,000 for Add's loan and ₹ 300 as interest thereon.
- One of the creditors took some of the patents whose book value was ₹ 6,000 at a valuation of ₹ 4,500. The balance to that creditor was paid in cash.
- The firm had previously purchased some shares in a joint stock company and had written them off on finding them useless. The shares were now found to be worth ₹ 3,000 and the loan creditor agreed to accept the shares at this value.
- The remaining assets realized the following amount: ₹

Plant and Machinery	17,000
Fixtures and Fittings	1,000
Stock	9,000
Debtors	16,500

 Patents 50% of their book value.
- The liabilities were paid and a total discount of ₹ 500 was allowed by the creditors.
- The expenses of realization amounted to ₹ 2,300.

Prepare the Realization Account, Bank Account and Partners' Capital Accounts in columnar form.

(20 Marks)

3. (a) A Ltd. gives the following information on 31st March, 2022:

	₹
8,000 Equity shares of ₹ 100 each	8,00,000
10% Debentures	4,00,000
Loans	1,60,000
Trade payables	3,20,000
General Reserve	80,000
Building	3,40,000
Machinery	6,40,000
Inventory	2,20,000
Trade receivables	2,60,000
Bank	1,36,000
Patent	1,30,000
Profit & Loss account (Dr. balance)	34,000

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

- (1) B Ltd. would take over all assets, except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.
- (2) B Ltd. is to take over trade payables at book value.
- (3) The purchase consideration is to be paid in cash to the extent of ₹ 6,00,000 and the balance in fully paid equity shares of ₹ 100 each at ₹ 125 per share.

The average profit is ₹ 1,24,400. The liquidation expenses amounted to ₹ 16,000. B Ltd. sold prior to 31st March, 2022 goods costing ₹ 1,20,000 to A Ltd. for ₹ 1,60,000. ₹ 1,00,000 worth of goods are still in Inventory of A Ltd. on 31st March, 2022. Trade payables of A Ltd. include ₹ 40,000 still due to B Ltd.

Show the Realisation A/c, Bank A/c, B Ltd. A/c and Equity shareholders A/c to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1st April, 2022 after the takeover from the available information.

- (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 ₹ 25,00,000 against which payment was made as follows:

Liquidation expenses	₹ 25,000
Secured Creditors	₹ 10,00,000
Preferential Creditors	₹ 75,000

The amount due to Unsecured Creditors was ₹ 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.

(16 + 4 = 20 Marks)

4. (a) Pratham Ltd. (a non-listed company) has the following Capital structure as on 31st March, 2022:

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.

- (b) While closing its books of account on 31st March, 2022, a Non-Banking Finance Company has classified its advances as follows:

	₹ in lakhs
Standard assets	13,400
Sub-standard assets	670
Secured portions of doubtful debts:	
– Up to one year	160
– one year to three years	45
– more than three years	20
Unsecured portions of doubtful debts	48
Loss assets	24

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

5. On 31st March, 2022 H Ltd. and its subsidiary S Ltd. give the following information:

	H Ltd.	S Ltd.
	₹	₹
Shareholders' Fund:		
Equity shares of ₹ 10 each	13,40,000	2,40,000
Reserves and Surplus	4,80,000	1,80,000
Profit & Loss Account	2,40,000	60,000
Secured Loans:		
12% Debentures	1,00,000	-
Current Liabilities:		
Creditors	2,00,000	1,22,000
Bank Overdraft	1,00,000	-
Bills Payable	60,000	14,800
Property, Plant & Equipment:		
Machinery	7,20,000	2,16,000
Furniture	3,60,000	40,800
Investments:		
Investments in S Ltd. (19,200 shares at ₹ 20 each)	3,84,000	-
Current Assets:		
Inventories	6,00,000	2,00,000

Debtors	3,00,000	90,000
Bill Receivables	1,00,000	30,000
Cash at Bank	56,000	40,000

The following information is also provided to you:

- H Ltd. purchased 19,200 shares of S Ltd. on 1st April, 2021, when the balances of Reserves & Surplus and Profit & Loss Account of S Ltd. stood at ₹ 60,000 and ₹ 36,000 respectively.
- Machinery (Book value ₹ 2,40,000) and Furniture (Book value ₹ 48,000) of S Ltd were revalued at ₹ 3,60,000 and ₹ 36,000 respectively on 1st April, 2021, for the purpose of fixing the price of its shares. (Rates of depreciation computed based on useful lives: Machinery 10%, Furniture 15%).
- On 31st March, 2022, Bills payable of ₹ 12,000 shown in S Ltd.'s Balance Sheet had been accepted in favour of H Ltd.

You are required to prepare Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2022. **(20 Marks)**

- Saharsh Ltd. is engaged in manufacturing of electric home appliances. The company is in the process of finalizing its accounts for the year ended 31.3.2022 and needs your expert advice on the following issues in line with the provisions of AS 29:
 - A case has been filed against the company in the consumer court and a notice for levy of a penalty of ₹ 20 lakhs has been received. The company has appointed a lawyer to defend the case for a fee of ₹ 2 lakhs. 50% of the fees has been paid and balance 50% will be paid after finalisation of the case. There are 75% chances that the penalty may not be levied.
 - The company had committed to supply a consignment worth ₹ 1 crore to one of its dealers by the year-end. As per the contract, if delivery is not made on time, a compensation of 15% is to be paid on the value of delayed/lost consignment. While the consignment was in transit, one of the trucks carrying goods worth ₹ 30 lakhs met with an accident. It was however covered by Insurance. According to the surveyor's report, the policy amount is collectable, subject to 10% deduction. Before closing the books of accounts, the company has received the information that the policy amount has been processed and the dealer has also claimed the compensation for the consignment of goods worth ₹ 30 lakhs which was in transit.
 - On 1st April, 2021 a company had 6,00,000 equity shares of ₹ 10 each (₹ 5 paid up by all shareholders). On 1st September, 2021 the remaining ₹ 5 was called up and paid by all shareholders except one shareholder having 60,000 equity shares. The net profit for the year ended 31st March, 2022 was ₹ 21,96,000 after considering dividend ₹ 3,40,000 on preference shares. You are required to compute Basic EPS for the year ended 31st March, 2022 as per Accounting Standard 20 "Earnings Per Share".

OR

X Ltd. carried on business of manufacturing of Bakery products. The company has two trademarks "Sun" and "Surya". One month before the company knows through one of the marketing managers that both trademarks have allegedly been infringed by other competitors engaged in the same field. After investigation, legal department of the company informed that it had weak case on trademark "Sun" and strong case in regard to trademark "Surya". X Ltd. incurred additional legal fees to stop infringement on both trademarks. Both trademarks have a remaining legal life of 10 years. How should X Ltd. account for these legal costs incurred relating to the two trademarks?

- 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 01-01-22 to 31-03-22	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

- (d) Raja Ltd. has its share capital divided into equity shares of ₹ 10 each. On 01-08-2021, it granted 2,500 employees stock options at ₹ 50 per share, when the market price was ₹ 140 per share. The options were to be exercised between 1-10-2021 to 31-03-2022. The employees exercised their options for 2,400 shares only and the remaining options lapsed. Raja Ltd. closes its books of accounts on 31st March, every year.

You are to required to pass the necessary Journal Entries (including narration) for the year ended 31-03-2022, with regard to employees' stock options and give working notes also.

(4 Parts x 5 Marks = 20 Marks)