Test Series: October, 2021

## **MOCK TEST PAPER 1**

INTERMEDIATE (NEW) : 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

- (a) Saharsh Ltd. is engaged in manufacturing of electric home appliances. The company is in the process of finalizing its accounts for the year ended 31.3.2020 and needs your expert advice on the following issues in line with the provisions of AS 29:
  - (i) 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.
  - (ii) 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.
  - (b) Old Era Publication Publishes a popular monthly magazine on 15<sup>th</sup> of every month. The publication sells the advertising space on terms of 90% payable in advance and the balance 10% payable within 30 days of release of the publication. The space for March 2020 issue of the magazine was sold in the month of February, 2020. The magazine was published as per schedule on 15<sup>th</sup> of the month. The amount of ₹ 2,70,000 has been received upto 31<sup>st</sup> March, 2020 and ₹ 30,000 was received on 10<sup>th</sup> April, 2020 for advertisement published in the March issue of the publication.
    - Please advise the accountant the amount of revenue to be recognized in the context of the provisions of AS 9 'Revenue Recognition' during the year ending on 31st March, 2020.
  - (c) PRZ & Sons Ltd. are Heavy Engineering contractors specializing in construction of dams. From the records of the company, the following data is available pertaining to year ended 31st March, 2021:

	(₹ crore)
Total Contract Price	2,400
Work Certified	1,250
Work pending certification	250
Estimated further cost to completion	1,750
Stage wise payments received	1,100
Progress payments in pipe line	300

Using the given data and applying the relevant Accounting Standard you are required to:

- (i) Compute the amount of profit/loss for the year ended 31st March, 2021.
- (ii) Arrive at the contract work in progress as at the end of financial year 2020-21.

- (iii) Determine the amount of revenue to be recognized out of the total contract value.
- (iv) Work out the amount due from/to customers as at year end.
- (d) During 2020-21, an enterprise incurred costs to develop and produce a routine low risk computer software product, as follows:

Particular	₹
Completion of detailed program and design (Phase 1)	50,000
Coding and Testing (Phase 2)	40,000
Other coding costs (Phase 3 & 4)	63,000
Testing costs (Phase 3 & 4)	18,000
Product masters for training materials (Phase 5)	19,500
Packing the products (1,500 units) (Phase 6)	16,500

After completion of phase 2, it was established that the product is technically feasible for the market. You are required to state how the above cost to be recognized in the books of accounts as per AS 26. (4 Parts x 5 Marks = 20 Marks)

2. (a) M, N and O were Partners sharing Profits and Losses in the ratio of 5:3:2 respectively. The Trial Balance of the Firm as on 31st March, 2020 was the following:

Particulars	₹	₹
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
0		46,000
Drawing A/cs:		
M	50,000	
N	46,000	
0	34,000	
Depreciation on Machinery		80,000
Profit for the year ended 31st March, 2020		2,48,600
Cash at Bank	<u>1,78,600</u>	
	7,70,000	7,70,000

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

You are given terms and conditions as under:

Machinery is to be transferred at ₹ 1,40,000.

- 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 ₹ 1,00,000. For this purpose, sufficient profits of the year are to be retained in profit-sharing ratio.
- 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.
- (b) Statement of interest on advances in respect of Performing assets and Non-Performing Assets of Omega Bank is as follows:- (in lakhs)

	Performing Assets		Non-Performing Assets	
	Interest	Interest	Interest	Interest
	earned	received	earned	received
Cash credits and overdrafts	1800	1060	450	70
Term Loan	480	320	300	40
Bills purchased and discounted	700	550	350	36

Find out the income to be recognized for the year ended 31st March, 2020. (16+4 = 20 Marks)

3. (a) Sun and Neptune (both companies) had been carrying on business independently. They agreed to amalgamate and form a new company Jupiter Ltd. with an authorised share capital of ₹ 4,00,000 divided into 80,000 equity shares of ₹ 5 each. On 31st March, 2021 Sun and Neptune provide the following information:

	Sun (₹)	Neptune (₹)
Fixed Assets	6,35,000	3,65,000
Current Assets	<u>3,27,000</u>	<u>1,67,750</u>
	9,62,000	5,32,750
Less: Current Liabilities	(5,97,000)	(1,80,250)
Representing Capital	3,65,000	3,52,500

### **Additional Information:**

(a) Revalued figures of Fixed and Current assets were as follows:

	Sun (₹)	Neptune (₹)
Fixed Assets	7,10,000	3,90,000
Current Assets	2,99,500	1,57,750

(b) The debtors and creditors include ₹ 43,350 owed by Sun to Neptune.

The purchase consideration is satisfied by issue of the following shares and debentures.

(i) 60,000 equity shares of Jupiter Ltd. to Sun and Neptune in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows:

	Sun (₹)	Neptune (₹)
2019 Profit	4,49,576	2,73,900
2020 (Loss)/Profit	(2,500)	3,42,100
2021 Profit	3,77,924	3,59,000

(ii) 15% debentures in Jupiter Ltd. at par to provide an income equivalent to 8% return business as on capital employed in their respective business as on 31st March, 2021 after revaluation of assets.

# You are required to:

- (1) Compute the amount of debentures and shares to be issued to Sun and Neptune.
- (2) A Balance sheet of Jupiter Ltd. showing the position immediately after amalgamation.
- (b) Explain the difference between pooling of interest and purchase method of accounting for amalgamations. (16 + 4 = 20 Marks)
- 4. (a) Astha Bank has the following Capital Funds and Assets as at 31st March, 2020:

	₹ in crores
Capital Funds:	
Equity Share Capital	600.00
Statutory Reserve	470.00
Profit and Loss Account (Dr. Balance)	30.00
Capital Reserve [out of which ₹ 25 crores were due to revaluation of assets (on which discount of 55% is to be provided) and balance due to sale of assets]	130.00
Assets:	
Balance with other banks	15.00
Cash balance with RBI	35.50
Claim on Banks	52.50
Other Investments	70.00
Loans and Advances:	
(i) Guaranteed by Government	22.50
(ii) Guaranteed by PSUs of Central Government	110.00
(iii) Other	9,365.00
Premises, furniture and fixtures	92.50
Leased assets	40.00

You are required to: (i) Segregate the capital funds into Tier I and Tier II capitals; and (ii) Find out the risk-adjusted assets.

# (b) XYZ Finance Ltd. is a non-banking finance company. It provides the following information: (₹ in lakhs)

	Amount
Equity and Liabilities	
Paid-up equity capital	200
General Reserve	600
Non-Current Liabilities	
Loans	500
Deposits	600
<u>Assets</u>	
Non-current assets	
Property Plant and Equipment	900
Investments:	
In shares of subsidiaries	250
In debentures of group companies	400
Current Assets	
Cash and bank balances	350

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

## (c) The following details are provided by Bhoomi Ltd. as on 31st March, 2020:

	₹
	(in lakhs)
Issued Capital:	
Equity Shares of ₹10 each Fully Paid up	64,000
10% Redeemable Preference Shares of 10 each, Fully Paid Up	20,000
Capital Redemption Reserve	8,000
Securities Premium	6,400
General Reserve	48,000
Profit & Loss Account	2,400
9% Debentures	40,000
Trade Payables	26,400
Property, plant and equipment	1,12,000
Investments	24,000
Cash at Bank	13,200
Trade Receivables	66,000

On 1st April,2020 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 25% of its Equity Shares at ₹20 per Share. In order to make cash available, Bhoomi Ltd. sold all the Investments for ₹25,000 Lakhs and raised a Bank Loan amounting to ₹16,000 lakh on the Security of the Company's Plant.

Give the necessary Journal Entries considering that the buy back is authorised by the articles of company and necessary resolution is passed by the company for this. The amount of Securities premium may be utilized to the maximum extent allowed by law.

(8 + 4 + 8 = 20 Marks)

5. (a) Consider the following information of subsidiary MNT Ltd.-

Liabilities	2019-20	2020-21
	Amount in ₹	Amount in ₹
Issued and subscribed: 7,500 Equity Shares of ₹ 100 each	7,50,000	7,50,000
Revenue Reserve	2,14,000	5,05,000
Securities Premium	72,000	2,07,000
Trade Payables	2,90,000	2,46,000
Bank Overdraft	-	1,70,000
Provision for Taxation	2,62,000	4,30,000
Property, plant and equipment (Cost)	9,20,000	9,20,000
Less: Accumulated Depreciation	<u>(1,70,000)</u>	(2,82,500)
	<u>7,50,000</u>	<u>6,37,500</u>
Investment (at cost)	-	5,30,000
Inventory	4,12,300	6,90,000
Trade Receivable	2,95,000	3,43,000
Prepaid expenses	78,000	65,000
Cash at Bank	52,700	42,500

### Other Information:

- (1) MNT Ltd. is a subsidiary of LTC Ltd.
- (2) LTC Ltd. values inventory on FIFO basis, while MNT Ltd. used LIFO basis. To bring MNT Ltd.'s inventories values in line with those of LTC Ltd., its value of inventory is required to be reduced by ₹ 5,000 at the end of 2019-2020 and increased by ₹ 12,000 at the end of 2020-2021. (Inventory of 2019-20 has been sold out during the year 2020-21)
- (3) MNT Ltd. deducts 2% from Trade Receivables as a general provision against doubtful debts.
- (4) Prepaid expenses in MNT Ltd. include Sales Promotion expenditure carried forward of ₹ 25,000 in 2019-20 and ₹ 12,500 in 2020-21 being part of initial Sales Promotion expenditure of ₹ 37,500 in 2019-20, which is being written off over three years. Similar nature of Sales Promotion expenditure of LTC Ltd. has been fully written off in 2019-20.

Restate the balance sheet of MNT Ltd. as on 31st March, 2021 after considering the above information for the purpose of consolidation. Such restatement is necessary to make the accounting policies adopted by LTC Ltd. and MNT Ltd. uniform.

- (b) A Ltd. had acquired 80% shares of B Ltd. for ₹ 15 lakhs at the beginning of year. During the year, A Ltd. sold the investment for ₹ 30 lakhs and net assets of B Ltd. on the date of disposal was ₹ 35 lakhs. Calculate the profit or loss on disposal of this investment to be recognized in the Financial Statements of A Ltd.
  (16 + 4 = 20 Marks)
- 6. (a) On 1<sup>st</sup> April, 2019 a company had 6,00,000 equity shares of ₹ 10 each (₹ 5 paid up by all shareholders). On 1<sup>st</sup> September, 2019 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 31<sup>st</sup> March, 2020 was ₹ 21,96,000 after considering dividend ₹ 3,40,000 on preference shares.
  - You are required to compute Basic EPS for the year ended 31<sup>st</sup> March, 2020 as per Accounting Standard 20 "Earnings Per Share".
  - (b) Tee Ltd. closes its books of accounts every year on 31st March. The financial statements for the year ended 31 March 2020 are to be approved by the approving authority on 30 June 2020. During the first quarter of 2020-2021, the following events / transactions has taken place. The accountant of the company seeks your guidance for the following:

- (i) Tee Ltd. has an inventory of 50 stitching machines costing at ₹ 5,500 per machine as on 31 March 2020. On 31 March 2020 the company is expecting a heavy decline in the demand in next year. The inventories are valued at cost or net realisable value, whichever is lower. During the month of April 2020, due to fall in demand, the prices have gone down drastically. The company has sold 5 machines during this month at a price of ₹ 4,000 per machine.
- (ii) A fire has broken out in the company's godown on 15 April 2020. The company has estimated a loss of ₹ 25 lakhs of which 75% is recoverable from the Insurance company.
- (iii) The company has entered into a sale agreement on 30 March 2020 to sell a property for a consideration of ₹ 7,50,000 which is being carried in the books at ₹ 5,50,000 at the year end. The transfer of risk and reward and sale is complete in the month of May 2020 when conveyance and possession get completed.
- (iv) The company has received, during the year 2018-2019, a government grant of ₹ 15 lakhs for purchase of a machine. The company has received a notice for refund of the said grant on 15 June, 2020 due to violation of some of the conditions of grant during the year 2019-2020.

You are required to state with reasons, how the above transactions will be dealt with in the financial statement for the year ended 31st March 2020.

#### OR

Monu Ltd. sold machinery having WDV of ₹ 400 lakhs to Sonu Ltd. for ₹ 500 lakhs and the same machinery was leased back by Sonu Ltd. to Monu Ltd. The lease back was in nature of operating lease.

Explain the accounting treatment as per AS 19 in the following cases:

- (i) Sale price of ₹ 500 lakhs is equal to fair value.
- (ii) Fair value is ₹ 450 lakhs and sale price is ₹ 380 lakhs.
- (iii) Fair value is ₹ 400 lakhs and sale price is ₹ 500 lakhs.
- (iv) Fair value is ₹ 460 lakhs and sale price is ₹ 500 lakhs
- (c) 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.

(d) On 1st October, 2020, A Limited granted 25,000 Employees' Stock Option at ₹ 70 per share. The market price of share was ₹ 130 per share. The options were to be exercised between 1st December, 2020 and 31st March, 2021. The face value of shares is ₹ 10 each. The employees exercised option for 18,000 shares only and the balance options lapsed. The company closes its books of accounts on 31st March every year.

Pass necessary journal entries with narration to record the transaction in the books of the company.

(4 Parts x 5 Marks = 20 Marks)