

MOCK TEST PAPER 2
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

1. (a) A contractor firm obtained a contract for construction of bridge. The following details are available in the records kept for the year ended March 31, 2021:

(₹ in Crore)

| | |
|--------------------------------------|-----|
| Total Contract Price | 500 |
| Work Certified | 250 |
| Work not Certified | 80 |
| Estimated further Cost to Completion | 220 |
| Progress Payment Received | 200 |
| Payment to be Received | 70 |

You are required to calculate :

- (i) The amount of revenue to be recognized.
- (ii) The amount of profit or loss to be recognized.
- (iii) The amount due from/ to customers.

Also present relevant disclosures as per AS-7 (Revised).

- (b) S. Square Private Limited has taken machinery on finance lease from S.K. Ltd. The information is as under:

Lease term = 4 years

Fair value at inception of lease = ₹ 20,00,000

Lease rent = ₹ 6,25,000 p.a. at the end of year

Guaranteed residual value = ₹ 1,25,000

Expected residual value = ₹ 3,75,000

Implicit interest rate = 15%

Discounted rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively.

You are required to calculate the value of the lease liability as per AS-19 and also disclose impact of this on Balance sheet and Profit & loss account at the end of year 1.

- (c) Fashion Limited is engaged in manufacturing of readymade garments. They provide you the following information on 31st March, 2021:

- (i) On 15th January, 2021 garments worth ₹ 4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31st March, 2021.

- (ii) Garments worth ₹ 1,95,000 were sold to Shine boutique on 25th March, 2021 but at the request of Shine Boutique, these were delivered on 15th April, 2021.
- (iii) On 1st November, 2020 garments worth ₹ 2,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods up to 31st December, 2020 and no approval or disapproval received for the remaining goods till 31st March, 2021.

You are required to advise the accountant of Fashion Limited, the amount to be recognised as revenue in above cases in the context of AS 9.

- (d) An airline is required by law to overhaul its aircraft once in every five years. The Pacific Airlines which operate aircrafts does not provide any provision as required by law in its final accounts. You are required to comment on the validity of the treatment done by the company in line with the provisions of AS 29. **(4 Parts x 5 Marks = 20 Marks)**

2. (a) P, Q, R and S are sharing profits and losses in the ratio 3 : 3 : 2 : 1. Frauds committed by R during the year were found out and it was decided to dissolve the partnership on 31st March, 2021 when their Balance Sheet was as under:

| Equity & Liabilities | Amount (₹) | Assets | Amount (₹) |
|----------------------|-----------------|-------------|-----------------|
| Capitals: | | Building | 1,90,000 |
| P | 1,50,000 | Stock | 1,30,000 |
| Q | 1,50,000 | Investments | 50,000 |
| R | - | Debtors | 70,000 |
| S | 60,000 | Cash | 30,000 |
| General reserve | 40,000 | R's capital | 40,000 |
| Trade creditors | 80,000 | (overdrawn) | |
| Bills payable | <u>30,000</u> | | |
| | <u>5,10,000</u> | | <u>5,10,000</u> |

Following information is given to you:

- (i) A cheque for ₹ 7,000 received from debtor was not recorded in the books and was misappropriated by R.
- (ii) Investments costing ₹ 8,000 were sold by R at ₹ 11,000 and the funds transferred to his personal account. This sale was omitted from the firm's books.
- (iii) A creditor agreed to take over investments of the book value of ₹ 9,000 at ₹ 13,000. The rest of the creditors were paid off at a discount of 5%.
- (iv) The other assets realized as follows:
- Building 110% of book value
- Stock ₹ 1,20,000
- Investments The rest of investments were sold at a profit of ₹ 7,000
- Debtors The rest of the debtors were realized at a discount of 10%
- (v) The bills payable were settled at a discount of ₹ 500.
- (vi) The expenses of dissolution amounted to ₹ 8,000
- (vii) It was found out that realization from R's private assets would only be ₹ 7,000.

Prepare Realization Account, Cash Account and Partners' Capital Accounts. All workings should part of your answer.

(b) Classify the following NPAs of the SG Banking Limited:

- Loan Assets overdue for more than 3 months but less than 12 months: ₹ 150 Lakhs, fully secured.
- Loan Assets overdue for more than 12 months: ₹ 90 Lakhs, fully secured.
- Loan Assets overdue for more than 36 months and considered uncollectible : ₹ 50 Lakhs. (This comprise of two assets worth ₹ 25 Lakhs each. One of these has a security value of ₹ 20 Lakhs).

Also, give the amount of provisioning required in each case.

(16 + 4 = 20 Marks)

3. (a) A Ltd. gives the following information on 31st March, 2021:

| | ₹ |
|-------------------------------------|----------|
| 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, 2021 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, 2021. 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, 2021 after the takeover from the available information.

(b) Explain B List Contributories and the liability of contributories included in the list.

(16 + 4 = 20 Marks)

4. (a) The following is an extract from the Trial Balance of Jeevan Bank Ltd. as at 31st March, 2021:

| | |
|---|----------------|
| Rebate on bills discounted as on 1-4-2020 | 1,36,518 (Cr.) |
|---|----------------|

Discount received | 3,40,312 (Cr.)

Analysis of the bills discounted reveals as follows:

| Amount (₹) | Due date |
|------------|---------------|
| 5,60,000 | June 1, 2021 |
| 17,44,000 | June 8, 2021 |
| 11,28,000 | June 21, 2021 |
| 16,24,000 | July 1, 2021 |
| 12,00,000 | July 5, 2021 |

You are required to find out the amount of discount to be credited to Profit and Loss account for the year ending 31st March, 2021 and pass Journal Entries. The rate of discount may be taken at 10% per annum.

- (b) While closing its books of account on 31st March, 2021 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.

- (c) SM Limited gives the following information as on 31st March, 2020:

| | | ₹ |
|--|-------------------|----------|
| Share capital (60,000 Equity Shares of ₹ 10 Each) | | 6,00,000 |
| Reserve & Surplus: | | |
| Security premium | ₹ 70,000 | |
| General reserve | ₹ 63,000 | |
| Profit and Loss | <u>₹ 1,40,000</u> | 2,73,000 |
| Non-current liability: | | |
| 9% debentures (secured) | | 3,00,000 |
| Current Liabilities: | | |
| Term loan | | 40,000 |
| Creditors | | 65,000 |
| Provision for taxation | | 15,000 |
| Property plant and equipment | | 6,00,000 |

| | | |
|------------------------|-----------------|----------|
| Non-current investment | | 1,50,000 |
| Current assets: | | |
| Stock | ₹ 2,00,000 | |
| Debtors | ₹ 2,60,000 | |
| Bank | ₹ <u>83,000</u> | 5,43,000 |

The shareholders adopted the resolution on 31st March, 2020 to:

- Buy back 25% of the paid up capital @ ₹ 15 each.
- Issue 10% debentures of ₹ 60,000 at a premium of 10% to finance the buyback of shares.
- Maintain a balance of ₹ 20,000 in General Reserve.
- Sell investments worth ₹ 1,00,000 for ₹ 80,000.
- Buy back expenses were ₹ 2,000.

You are required to pass necessary journal entries to record the above transactions and prepare Ledger account of Bank. **(8 + 4 + 8 = 20 Marks)**

5. On 31st March, 2020 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 |
| Trade Receivables | 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, 2019, 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, 2019, for the purpose of fixing the price of its shares. (Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%).
- On 31st March, 2020, 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, 2020. **(20 Marks)**

6. (a) The following information relates to XYZ Limited for the year ended 31st March, 2021:

Net Profit for the year after tax: ₹ 37,50,000

Number of Equity Shares of ₹ 10 each outstanding: ₹ 5,00,000

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

| Particulars | No. |
|--|--------|
| 8% Convertible Debentures of ₹ 100 each | 50,000 |
| Equity Shares to be issued on conversion | 55,000 |

The Rate of Income Tax: 30%.

You are required to calculate Basic and Diluted Earnings Per Share (EPS).

- (b) An earthquake destroyed a major warehouse of PQR Ltd. on 30.4.2021. The accounting year of the company ended on 31.3.2021. The accounts were approved on 30.6.2021. The loss from earthquake is estimated at ₹ 25 lakhs. State with reasons, whether the loss due to earthquake is an adjusting or non-adjusting event and how the fact of loss is to be disclosed by the company.

OR

A Company has an inter-segment transfer pricing policy of charging at cost less 5%. The market prices are generally 20% above cost.

You are required to examine whether the policy adopted by the company is correct or not?

- (c) W, X, Y and Z hold equity share capital in the proportion of 40:30:10:20. A, B, C and D hold preference share capital in the proportion of 30:40:20:10. You are required to find their voting rights in case of resolution of winding up of the company if the paid up capital of the company is Rs. 40 Lakh and Preference share capital is Rs. 20 Lakh,
- (d) Raja Ltd. has its share capital divided into equity shares of ₹ 10 each. On 01-08-2019, 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 1-10-2019 to 31-03-2020. 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 31-03-2020, with regard to employees' stock options and give working notes also.

(4 Parts x 5 Marks = 20 Marks)