Test Series: April, 2022

MOCK TEST PAPER – 2

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) You are required to give the necessary journal entry at the inception of lease to record the asset taken on finance lease in books of lessee from the following information:

Lease period	=	5 years;
Annual lease rents	=	₹ 50,000 at the end of each year.
Guaranteed residual value	=	₹ 25,000
Fair Value at the inception (beginning) of lease	=	₹ 2,00,000

Interest rate implicit on lease is = 12.6% (Discounted rates for year 1 to 5 are .890, .790, .700, .622 and .552 respectively).

(b) PIL Ltd. is showing an intangible asset at ₹ 72 lakhs as on 31-3-2022. This asset was acquired for ₹ 120 lakhs as on 01-04-2016 and the same was used from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years, on straight line basis.

You are required to comment on the accounting treatment of asset with reference to AS 26 "Intangible Assets" and also give the necessary rectification journal entry in the books.

(c) A company created a provision of ₹ 7,50,000 for staff welfare while preparing the financial statements for the year 2021-22. On 31st March 2022, in a meeting with staff welfare association, it was decided to increase the amount of provision for staff welfare to ₹ 10,00,000. The accounts were approved by Board of Directors on 15th April, 2022.

You are required to explain the treatment of such revision in financial statements for the year ended 31st March 2022 in line with the provisions of AS 5?

(d) (i) Bonfire Ltd. is in a dispute with a competitor company. The dispute is regarding alleged infringement of Copyrights. The competitor has filed a suit in the court of law seeking damages of ₹ 200 lacs.

The Directors are of the view that the claim can be successfully resisted by the Company.

How would the matter be dealt in the annual accounts of the Company in the light of AS 29 ? Explain in brief giving reasons for your answer.

(ii) What is meant by "Restructuring Provision" as per AS 29? What costs are excluded while computing such provision as per the standard? **(4 parts x 5 Marks = 20 Marks)**

2. (a) Sulpher Ltd. and Diamond Ltd. give the following information as at 31.03.2022:

	Sulpher Ltd. (₹ in lakhs)	Diamond Ltd. (₹ in lakhs)
Equity Share Capital (Fully paid shares of ₹ 10 each)	22,500	9,000
Securities Premium	4,500	-
Foreign Project Reserve	-	465
General Reserve	14,250	4,800
Profit and Loss Account	4,305	1,162.5
12% Debentures	-	1,500
Trade payables	1,800	694.5
Provisions	2,745	1,053
Land and Buildings	9,000	-
Plant and Machinery	21,000	7,500
Furniture, Fixtures and Fittings	3,456	2,550
Inventory	11,793	6,061.5
Trade receivables	3,180	1,650
Cash at Bank	1,671	913.5

All the bills receivable held by Diamond Ltd. were Sulpher Ltd.'s acceptances.

On 1st April 2022, Sulpher Ltd. took over Diamond Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business, Sulpher Ltd. would allot three fully paid equity shares of ₹ 10 each at par for every two shares held in Diamond Ltd. It was also agreed that 12% debentures in Diamond Ltd. would be converted into 13% debentures in Sulpher Ltd. of the same amount and denomination.

Details of trade receivables and trade payables are as under:

Particulars	Sulpher Ltd.	Diamond Ltd.
		(₹ in lakhs)
Trade Payables:		
Creditors	1,620	694.5
Bills Payable	180	-
	1,800	694.5
Trade receivables:		
Debtors	3,180	1,530
Bills Receivables	-	120
	3,180	1,650

Expenses of amalgamation amounting to ₹ 1.5 lakhs were borne by Sulpher Ltd.

You are required to:

(i) Pass journal entries in the books of Sulpher Ltd. and

(ii) Prepare Sulpher Ltd.'s Balance Sheet immediately after the merger. 1

(b) Minda 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, 2022:

Assets Funded	Interest Overdue but recognized in Profit & Loss		Net Book Value of Assets outstanding
	Period Overdue	Interest Amount	
		(₹ In crore)	(₹ In crore)
LCD Televisions	Up to 12 Months	500.00	20,000
Washing Machines	For 24 Months	100.00	2,000
Refrigerators	For 30 Months	50.00	1,250
Air Conditioners	For 45 Months	25.00	600
Mobile Phones	For 60 Months	10.00	100

You are required to calculate the amount of provision to be made. **(16+4 =20 Marks)**

3. The following is the summarized Balance Sheet of M/s Red and Black as on 31st March, 2021:

Liabilities		***(₹)***	***Assets***	***(₹)***
Red's Capital	80,000		Building	1,00,000
Black's Capital	1,00,000	1,80,000	Closing Stock	60,000
Red's Loan		20,000	Sundry Debtors	40,000
General Reserve		20,000	Investment	40,000
Sundry Creditors		40,000	(6% Debentures in XYZ Ltd.)	
			Cash	20,000
		2,60,000		2,60,000

It was agreed that Mr. White is to be admitted for a fifth share in the future profits from 1st April, 2021. He is required to contribute cash towards goodwill and ₹ 20,000 towards capital.

(a) The following further information is furnished:

(i) The partners Red and Black shared the profits in the ratio of 3 : 2.

(ii) Mr. Red was receiving a salary of ` 1000 p.m. from the very inception of the firm in addition to the share of profit.

(iii) The future profit ratio between Red, Black and White will be 3 : 1 : 1. Mr. Red will not get any salary after the admission of Mr. White.

(iv) The goodwill of the firm should be determined on the basis of 2 years' purchase of the average profits from business of the last 5 years. The particulars of profits/losses are as under:

Year Ended	***(₹)***	***Profit/Loss***
31.3.2017	40,000	Profit
31.3.2018	20,000	Loss
31.3.2019	40,000	Profit
31.3.2020	50,000	Profit
31.3.2021	60,000	Profit

The above profits and losses are after charging the salary of Mr. Red. The profit of the year ended 31st March, 2017 included an extraneous profit of ₹60,000 and the loss of the year ended 31st March, 2018 was on account of loss by strike to the extent of ₹40,000.

(v) It was agreed that the value of the goodwill should not appear in the books of the firm.

(b) Trading profit for the year ended 31st March, 2022 was ₹ 80,000 (Before charging depreciation)

(c) Each partner had drawn ₹ 2,000 per month as drawing during the year 2021-22.

(d) On 31st March, 2022 the following balances appeared in the books:

Building (Before Depreciation)	₹ 1,20,000
Closing Stock	₹ 80,000
Sundry Debtors	Nil
Sundry Creditors	Nil
Investment	₹40,000

(e) Interest@ 6% per annum on Red's loan was not paid during the year.

(f) Interest on Debentures received during the year.

(g) Depreciation is to be provided @ 5% on closing balance of Building.

(h) Partners applied for conversion of the firm into a private Limited Company; i.e. RBW Private Limited. Certificate received on 1.4.2022.

They decided to convert Capital accounts of the partners into share capital, in the ratio of 3: 1: 1 (on the basis of total Capital as on 31.3.2022). If necessary, partners have to subscribe to fresh capital or withdraw.

You are required to prepare: (1) Profit & Loss Account for the year ended 31st March, 2022 in the books of M/s Red and Black and (2) Balance Sheet as on 1st April, 2022 in the books of RBW Private Limited. **(20 Marks)**

4. (a) A Ltd. and its subsidiary B Ltd. give the following information for the year ended 31st March, 2022:

₹ in Lakhs

	A Ltd.	B Ltd.
Sales and other income	7,500	1,500
Increase in Inventory	1,500	300
Raw material consumed	1,200	300
Wages and Salaries	1,200	225
Production expenses	300	150
Administrative expenses	300	150
Selling and distribution expenses	300	75
Interest	150	75
Depreciation	150	75

The following information is also given:

(i) A Ltd sold goods of ₹ 180 Lakhs to B Ltd at cost plus 25% (1/6 of such goods were still in inventory of B Ltd at the end of the year).

(ii) A Ltd. holds 72% of the Equity Capital of B Ltd and the Equity Capital of B Ltd is ₹1,500 Lakhs on 1.4.2021 (date of acquisition of shares).

(iii) Administrative expenses of B Ltd include ₹ 8 Lakhs paid to A Ltd as consultancy fees. Moreover, selling and distribution expenses of A Ltd include ₹15 Lakhs paid to B Ltd as commission.

You are required to prepare a consolidated Statement of Profit and Loss of A Ltd. with its subsidiary B Ltd. for the year ended 31st March, 2022.

(b) The following is an extract of Trial Balance of a bank as on 31st March, 2022:

	Dr. (₹)	Cr. (₹)
Bill Discounted	15,16,800	
Discount Received		1,26,859
Rebate on Bills discounted not due on 31st March, 2021		26,592

An analysis of bill discounted is as follows:

Amount in ₹	**Due Date**	**Rate of Discount**
1,46,200	4th May, 2022	15
2,30,400	12th May, 2022	15
4,35,900	28th May, 2022	15
4,36,200	18th June, 2022	16
2,68,100	4th July, 2022	16

You are required to calculate Rebate on Bills Discounted as on 31st March, 2022 and show necessary Journal Entries. **(15 + 5 =20 Marks)**

5. (a) The following information relates to Surya Ltd. Co. which is in the hands of the liquidator:

Liabilities	₹
Share Capital:	
1,000, 6% Preference Shares of ₹ 100 each, fully paid	1,00,000
2,000 Equity shares of ₹ 100 each, fully paid	2,00,000
2,000 Equity shares of ₹ 100 each ₹ 75 paid up	1,50,000
Loan from bank (on security of stock)	1,00,000
Trade Payables	3,50,000
Property, Plant and Equipment	2,00,000
Inventory	1,20,000
Book Debts	2,40,000
Cash in hand	40,000
Profit and loss A/c (Dr. Balance)	3,00,000

The assets realized the following amounts (after all costs of realization and liquidator's commission amounting to ₹ 5,000 paid out of cash in hand):

	₹
Property, Plant and Equipment	1,68,000
Inventory	1,10,000
Trade Receivables	2,30,000

Calls on partly paid shares were made but the amounts due on 200 shares were found to be irrecoverable.

You are required to prepare Liquidator's Final Statement of Receipts and Payments.

(b) From the following information, prepare the Profit & Loss A/c of PNG Bank Ltd. for the year ending 31st March, 2022. Also give necessary schedules.

Particulars	Figures in '000
Total Interest earned on term loans	2,550
Interest earned on term loans classified as NPA	731
Interest received on term loans classified as NPA	238
Total Interest earned on cash credits and overdrafts	5,663
Interest earned but not received on cash credit and overdrafts treated as NPA	923
Interest on deposits	4,120
Commission	201
Profit on sale of investments	1,876
Profit on revaluation of investments	342
Income from Investments	2,174
Payments to and provision for employees	2,745
Rent, Taxes and Lighting	385
Printing and Stationery	62
Director's fees, allowances and expenses	313
Repairs and Maintenance	56
Depreciation on Bank's property	99
Insurance	43

Also make necessary provision on Risk Assets as per the following details:

Particulars	Figures in '000
Standard	4,700
Sub-Standard (fully secured)	1,900
Doubtful Assets not covered by security	400
Doubtful Assets covered by security for 1 year	40
Loss Assets	300

(10+10 = 20 Marks)

6. (a) Bricks Ltd. signed on 01/04/21, a construction contract for ₹ 1,50,00,000. Following particulars are extracted in respect of contract, for the period ending 31/03/22:

- Materials issued ₹ 75,00,000
- Labour charges paid ₹ 36,00,000
- Hire charges of plant ₹ 10,00,000
- Other contract cost incurred ₹ 15,00,000
- Out of material issued, material lying unused at the end of period is ₹ 4,00,000
- Labour charges of ₹ 2,00,000 are still outstanding on 31.3.22.
- It is estimated that by spending further ₹ 33,50,000 (including material unused ₹ 4,00,000), the work can be completed in all respect.

You are required to compute profit/loss to be taken to Profit & Loss Account and additional provision for foreseeable loss as per AS 7.

(b) Explain the concept of 'weighted average number of equity shares outstanding during the period'. Also compute, based on AS 20, the weighted average number of equity shares in the following case:

		No. of shares
1st April, 2021	Balance of equity shares	7,20,000
31st August, 2021	Equity shares issued for cash	2,40,000
1st February, 2022	Equity shares bought back	1,20,000
31st March, 2022	Balance of equity shares	8,40,000

(c) The Paid-up capital of S Limited amounted to ₹ 5,00,000 Equity Shares of ₹ 10 each. Due to continuous losses incurred by the company, the following scheme of reconstruction has been approved for S Limited on 1st April, 2022:

(i) In lieu of present holding the Equity Shareholders are to receive:

(a) Fully Paid Equity Shares equal to 3/5th of their holding.

(b) 8% Preference Shares fully paid to the extent of 20% of the above new Equity Shares.

(c) 10% Second Debentures of ₹ 40,000.

(ii) An issue of 8% Debentures First Debentures of ₹ 1,00,000 was made and fully subscribed for cash,

(iii) The Assets were reduced as follows:-

(a) Building from ₹ 2,00,000 to ₹ 1,50,000

(b) Plant & Machinery from ₹ 1,50,000 to ₹ 1,30,000

(c) Goodwill from ₹ 30,000 to Nil.

Show the Journal Entries in the books of S Limited to give effect of the scheme of Reconstruction.

(d) Shiv Ltd. has its share capital divided into Equity Shares of ₹ 10 each. On 1st April, 2021, the company offered 250 shares to each of its 520 employees at ₹ 60 per share, when the market price was ₹ 150 per share. The options were to be exercised between 01-03-2022 to 31-03-2022.

410 employees accepted the offer and paid ₹ 60 per share on purchased shares and the remaining options lapsed. You are required to show Journal Entries (with narrations) as would appear in the books of Shiv Ltd. for the year ended 31st March, 2022 with regard to employee stock options.

(4 Parts x 5 Marks = 20 Marks)

1