Test Series: October, 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) Surya Ltd. had the following transactions during the year ended 31st March, 2021.

(i) It acquired the business of Gomati Limited on a going concern basis for ₹ 25,00,000 on 1st June,2020. The fair value of the Net Assets of Gomati Limited was ₹ 18,75,000. Surya Ltd. believes that due to popularity of the products of Gomati Limited in the market, its goodwill exists.

(ii) On 20th August, 2020, Surya Ltd. incurred cost of ₹ 6,00,000 to register the patent for its product. Surya Ltd. expects the Patent's economic life to be 8 years.

(iii) On 1st October, 2020, Surya Ltd. has taken a franchise to operate an ice cream parlour from Volga Ltd. for ₹ 4,50,000 and at an Annual Fee of 10 % of Net Revenues (after deducting expenditure). The franchise expires after six years. Net Revenue for the year ended 31st March, 2021 amounted to ₹ 1,50,000.

Surya Ltd. follows an accounting policy to amortize all Intangibles on Straight Line basis (SLM) over the maximum period permitted by the Accounting Standards taking a full year amortization in the year of acquisition. Goodwill on acquisition of business is to be amortized over 5 years (SLM).

Prepare an extract showing the Intangible Assets section in the Balance Sheet of Surya Ltd. as at 31st March, 2021.

(b) Given below is the following information of B.S. Ltd.

(i) Goods of ₹ 50,000 were sold on 18-03-2021 but at the request of the buyer these were delivered on 15-04-2021.

(ii) On 13-01-2021 goods of ₹ 1,25,000 are sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-03-2021.

(iii) ₹ 1,00,000 worth of goods were sold on approval basis on 01-12-2020. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-01-2021 and no approval or disapproval received for the remaining goods till 31-03-2021.

You are required to advise the accountant of B.S. Ltd., with valid reasons, the amount to be recognized as revenue for the year ended 31st March, 2021 in above cases in the context of AS-9.

(c) The management of Pluto Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as changes in Accounting Policy or not for the year ended 31st March, 2021. Please advise them in the following situations in accordance with the provisions of Accounting Standard 5:

(i) During the year ended 31st March, 2021, the management has introduced a formal retirement gratuity scheme in place of ad-hoc ex-gratia payments to its employees on retirement.

(ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees would receive a pension of ₹ 25,000 per month. Earlier there was no such scheme of pension in the organization.

(iii) Provision for doubtful Trade Receivables was created @2.5% till 31st March, 2020. From 1st April,2020, the rate of provision has been changed to 5%

(iv) For the year ended 31st March,2021 there was change in the cost formula in measuring the cost of Inventories.

(v) Till the end of the previous year, Computers were depreciated on Straight Line Basis over a period of 5 years. From current year, the useful life of Computers has been changed to 3 years.

(d) A Company dealing in software provides after sales warranty for 2 years to its customer. Based on past experience, the company has been following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period:

Less than 1 year: 3% provision

More than 1 year: 4% provision

The company has raised invoices as under:

Invoice Date	Amount (₹)
19th January, 2019	1,20,000
29th January, 2020	75,000
15th October, 2020	2,70,000

You are required to calculate the provision to be made for warranty under Accounting Standard 29 as at 31st March, 2020 and 31st March, 2021. Also compute the amount to be debited to Profit and Loss Account for the year ended 31st March, 2021. **(4 Parts x 5 Marks = 20 Marks)**

2. A Limited and B Limited are carrying on business of same nature. On 31st March, 2021 the information given by both these companies is as follows:

	A Ltd.(₹)	B Ltd. (₹)
Share Capital		
- Equity Shares 10 each (Fully Paid)	12,00,000	7,20,000
- 10% Preference Shares of ₹ 100 each	6,00,000	-
- 8% Preference Shares of ₹ 100 each	-	5,00,000
General Reserve	3,00,000	2,50,000
Investment Allowance Reserve	-	60,000
Security Premium	2,40,000	-
Export Profit Reserve	1,80,000	1,20,000
Profit & Loss Account	2,16,000	1,92,000
9% Debentures (₹ 10 each)	3,00,000	2,00,000
Secured Loan	-	3,60,000
Sundry Creditors	3,12,000	2,04,000
Bills Payable	75,000	1,00,000
Other Current Liabilities	50,000	75,000
Land and Building	10,80,000	8,40,000
Plant and Machinery	6,00,000	5,60,000

Office Equipment	3,45,000	2,10,000
Investments	96,000	3,00,000
Stock in Trade	6,30,000	4,20,000
Sundry Debtors	4,90,000	3,20,000
Bills Receivables	60,000	70,000
Cash at Bank	1,72,000	61,000

A Limited take over B Limited on the above date, both companies agreeing on a scheme of Amalgamation on the following terms:

(a) A Limited will issue 80,000 Equity Shares of ₹ 10 each at par to the Equity Shareholders of B Limited.

(b) A Limited will issue 10% Preference Shares of ₹ 100 each to discharge the Preference Shareholders of B Limited at 15% premium in such a way that the existing dividend quantum of the preference shareholders of B Limited will not get affected. Accordingly, ₹ 5,00,000 pref. shares are discharged at ₹ 5,75,000 (5,00,000X 115%) by issue of 4,000 preference shares of ₹ 100 each at premium of ₹ 43.75 each.

(c) The Debentures of B Limited will be converted into equivalent number of Debentures of A Limited.

(d) All the Bills Receivable of A Limited were accepted by B Limited.

(e) A contingent liability of B Limited amounting to ₹ 72,000 to be treated as actual liability in trade payables.

(f) Expenses of Amalgamation amounted to ₹ 12,000 were borne by A Limited.

You are required to pass opening Journal Entries in the books of A Limited and prepare the opening Balance Sheet of A Limited as on 1st April, 2021 after amalgamation, assuming that the amalgamation is in the nature of Merger. **(20 Marks)**

3. A and B and are partners of AB & Co., sharing Profit and Losses in the ratio of 4: 1 and B and C are partners of BC & Co., sharing profits and losses in the ratio of 2: 1. On 31st March,2021, they decided to amalgamate and form a new firm namely M/s ABC & Co., wherein A, B and C would be partners sharing profits and losses in the ratio of 3:2:1. The Balance Sheets of two firms on the above date are as under:

Equity and Liabilities	AB & Co. ₹	BC & Co. ₹	Assets	AB & Co. ₹	BC & Co. ₹
Partners' Capital accounts:			Fixed assets:		
A	3,50,000	-	Building	1,10,000	90,000
B	1,50,000	2,50,000	Plant &		
C	-	1,20,000	Machinery	1,80,000	1,34,000
Reserves	39,000	1,47,000	Furniture	24,000	26,000
Sundry creditors	90,000	1,15,000	Current assets:		
Due to AB & Co.	-	75,000	Stock-in-trade	80,000	1,00,000
Loan from Bank	50,000		Sundry debtors	1,40,000	1,80,000
			Bank balance	45,000	1,65,000
			Cash in hand	25,000	12,000
			Due from BC &		

			Co.	75,000	-
	6,79,000	7,07,000		6,79,000	7,07,000

The amalgamated firm took over the business on the following terms:

(i) The assets and liabilities of AB & Co. and BC & Co. are to be valued as under:

Particulars	AB & Co. ₹	BC & Co. ₹
Building	No change	1,50,000
Plant & machinery	2,40,000	1,90,000
Stock-in trade	to be appreciated by 10 %	to be appreciated by 10%
Goodwill [Note (a)]–to be valued	5 year's purchase of super profit	6 year's purchase of super profit
Provision for doubtful debts to be created	14,000	30,000

Note the following:

(a) Goodwill should not appear in the books of ABC & Co. For the purpose of goodwill valuation, actual profit to be considered are ₹ 1,20,000 and ₹ 81,600 for AB & Co. and BC & Co. and BC & Co. respectively and normal rate of return for both firms is 18% per annum of Fixed Capital.

(b) All other assets and liabilities, appearing in the balance sheet of AB & Co. and BC & Co. are taken over by ABC & Co. at book value just before amalgamation.

(c) An unrecorded liability of ₹ 15,300 of AB & Co. must also be taken over by ABC & Co. The sundry creditors of AB & Co. do not include this unrecorded liability.

(ii) Partner of new firm will bring the necessary cash to pay other partners to adjust their capitals according to the profit -sharing ratio.

You are required to prepare the Balance Sheet of new firm and capital accounts of the partners in the books of old firms. Ignore taxation. **(20 Marks)**

4. Sun Ltd. acquired 3,200 ordinary shares of ₹ 100 each of Star Ltd. on 1st October, 2021. On 31st March, 2022, the balance sheets of the two companies were as given below:

Balance Sheet of Sun Ltd. and its subsidiary, Star Ltd. as at 31st March, 2022

Particulars	Note No.	Sun Ltd. (₹)	Star Ltd. (₹)
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital	1	10,00,000	4,00,000
(b) Reserves and Surplus	2	5,94,400	3,64,000
(2) Current Liabilities			
(a) Trade Payables		94,200	34,800
(b) Short term borrowings	3	1,60,000	-
Total		18,48,600	7,98,800
II. Assets			
(1) Non-current assets			
(a) Property, Plant and Equipment	4	7,80,000	6,30,000

	(b) Non-current Investments	5	6,80,000	
(2)	**Current assets**			
	(a) Inventories		2,40,000	72,800
	(b) Trade receivables		1,19,600	80,000
	(c) Cash & Cash equivalents	6	29,000	16,000
	Total		18,48,600	7,98,800

Notes to Accounts

		Sun Ltd. ₹	Star Ltd.. ₹
1	**Share Capital**		
	10,000 shares of ₹ 100 each, fully paid up	10,00,000	
	4,000 shares of ₹ 100 each, fully paid up		4,00,000
	Total	10,00,000	4,00,000
2	**Reserves and Surplus**		
	General Reserves	4,80,000	2,00,000
	Profit & loss	1,14,400	1,64,000
	Total	5,94,400	3,64,000
3	**Short term borrowings**		
	Bank overdraft	1,60,000	-
4	**Property plant and equipment**		
	Land and building	3,00,000	3,60,000
	Plant & Machinery	4,80,000	2,70,000
	Total	7,80,000	6,30,000
5	**Non-current Investments**		
	Investment in Star Ltd. (at cost)	6,80,000	-
6	**Cash & Cash equivalents**		
	Cash	29,000	16,000

The Profit & Loss Account of Star Ltd. showed a credit balance of ₹ 60,000 on 1st April, 2021 out of which a dividend of 10% was paid on 1st November, 2021; Sun Ltd. credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at ₹ 3,00,000 on 1st April, 2021 was considered as worth ₹ 3,60,000 on 1st October, 2021; this figure is to be considered while consolidating the Balance Sheets. The rate of depreciation on plant & machinery is 10% (computed on the basis of useful lives).

Prepare consolidated Balance Sheet as at 31st March, 2022. **(20 Marks)**

5. (a) The following are the Capital funds of Shreya Bank (Commercial).

₹ in Crores

Paid up Equity Share Capital	950
Statutory Reserve	380
Share Premium	250
Capital Reserve (of which ₹ 26 Crores were due to Revaluation of Assets and balance due to Sale of Capital Assets)	118

Assets: (a) Cash Balances with RBI (b) Balance with other Banks	 78 240
Other Investments	98
Loans and Advances: (a) Guaranteed by the Government (b) Granted to Staff of Bank, fully covered by Superannuation Benefits & Mortgage. (c) Other Loans & Advances.	 600 800 6,000
Premises, Furniture & Fixtures	100
Intangible Assets	20
Off Balance Sheet Items: (a) Guarantees and Other Obligations (b) Acceptance, Endorsements and Letter of Credit	 1,000 6,000

You are required to segregate the Capital Funds into Tier I and Tier II Capitals and also to find out the Risk Adjusted Asset and Risk weighted Assets Ratio.

(b) Super Ltd. gives the following information as on 31st March, 2022.

Liabilities	In ₹
Equity Shares of ₹ 10 each fully paid up	17,00,000
Revenue Reserve	23,50,000
Securities Premium	2,50,000
Profit & Loss Account	2,00,000
Infrastructure Development Reserve	1,50,000
9% Debentures	38,00,000
Unsecured Loan	8,50,000
Property, plant & equipment	58,50,000
Current Assets	34,50,000

Super Limited wants to buy back 35,000 equity shares of ₹ 10 each fully paid up on 1st April, 2022 at ₹ 30 per share.

Buy Back of shares is fully authorised by its articles and necessary resolutions have been passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available as part of the Current Assets. Comment with calculations, whether the Buy Back of shares by the company is within the provisions of the Companies Act, 2013. **(10 + 10 = 20 Marks)**

6. **Answer any four of the following:**

(a) Jaya Ltd. took a machine on lease from Deluxe Ltd., the fair value being ₹ 11,50,000. Economic life of the machine as well as lease term is 4 years. At the end of each year, lessee pays ₹ 3,50,000 to lessor. Jaya Ltd. has guaranteed a residual value of ₹ 70,000 on expiry of the lease to Deluxe Ltd., however Deluxe Ltd. estimates that residual value will be only ₹ 25,000. The implicit rate of return is 10% p.a. and present value factors at 10% are : 0.909, 0.826, 0.751 and 0.683 at the end of 1st, 2nd, 3rd and 4th year respectively.

Calculate the value of machinery to be considered by Jaya Ltd. and the value of the lease liability as per AS-19.

(b) A liquidator is entitled to receive remuneration at 5% of the assets realized and 8% of the amount distributed among the unsecured creditors. The assets realized ₹ 13,75,000. Payment was made from realised amount as follows:

	₹
Liquidation expenses	13,000
Preferential creditors (treated as unsecured creditors)	88,500
Secured creditors	1,00,000

There are no unsecured creditors (other than preferential creditors who are treated as unsecured creditors).

You are required to calculate remuneration payable to the liquidator.

(c) Explain the criterion of income recognition in the case of Non-Banking Financial Companies.

(d) For a banking company, bills for collection were amounting ₹ 21 lakhs as on 1st April, 2021. During 2021-22, bills received for collection amounted to ₹ 193.50 lakhs. Bills collected were ₹ 141 lakhs. Bills dishonoured was ₹ 16.50 lakhs. Prepare Bills for Collection (Assets) and Bills for Collection (Liabilities) Account.

(e) The following data is provided for M/s. Raj Construction Co.

(i) Contract Price - ₹ 85 lakhs

(ii) Materials issued - ₹ 21 Lakhs out of which Materials costing ₹ 4 Lakhs is still lying unused.at the end of the period.

(iii) Labour Expenses for workers engaged at site - ₹ 16 Lakhs (out of which ₹ 1 Lakh is still unpaid)

(iv) Specific Contract Costs = ₹ 5 Lakhs

(v) Sub-Contract Costs for work executed - ₹ 7 Lakhs, Advances paid to Suh-Contractors - ₹ 4 Lakhs

(vi) Further Cost estimated to be incurred to complete the contract - ₹ 35 Lakhs

You are required to compute the Percentage of Completion, the Contract Revenue and Cost to be recognized as per AS-7.

(4 Parts x 5 Marks = 20 Marks)