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**

1. (a) RC Ltd. is showing an intangible asset at Rs. 72 lakhs as on 31-3-2020. This asset was acquired for Rs. 120 lakhs as on 01-04-2014 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.

(b) A machine was given on 3 years operating lease by a dealer of the machine for equal annual lease rentals to yield 30% profit margin on cost Rs. 1,50,000. Economic life of the machine is 5 years and output from the machine are estimated as 40,000 units, 50,000 units, 60,000 units, 80,000 units and 70,000 units consecutively for 5 years. Straight line depreciation in proportion of output is considered appropriate.

You are required to compute: (i) Annual Lease Rent and (ii) Lease Rent income to be recognized in each operating year.

(c) A company created a provision of Rs. 7,50,000 for staff welfare while preparing the financial statements for the year *2020-21*. On 31st March 2021, in a meeting with staff welfare association, it was decided to increase the amount of provision for staff welfare to Rs. 10,00,000. The accounts were approved by Board of Directors on 15th April, 2021.

You are required to explain the treatment of such revision in financial statements for the year ended 31st March 2021 in line with the provisions of AS 5?

(d) An organization operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Ninety percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it and ten percent arise through the extraction of oil. At the balance sheet date, the rig has been constructed but no oil has been extracted. With reference to AS 29, how would you deal with this in the annual accounts of the company at the Balance Sheet date? Explain. **(4 parts x 5 Marks = 20 Marks)**

2. Robert Ltd. and Diamond Ltd. give the following information as at 31.03.2020:

	Robert Ltd. (Rs. in lakhs)	Diamond Ltd. (Rs. in lakhs)
Equity Share Capital (Fully paid shares of Rs. 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 Robert Ltd.'s acceptances.

On 1st April 2020, Robert Ltd. took over Diamond Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business, Robert Ltd. would allot three fully paid equity shares of Rs. 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 Robert Ltd. of the same amount and denomination.

Details of trade receivables and trade payables are as under:

Particulars	Robert Ltd.	Diamond Ltd.
		(Rs. 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 Rs. 1.5 lakhs were borne by Robert Ltd.

You are required to:

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

(ii) Prepare Robert Ltd.'s Balance Sheet immediately after the merger. **(20 Marks)**

3. (a) The following is the summarized Balance Sheet of M/s Red and Black as on 31st March, 2018:

Liabilities		***(Rs.)***	***Assets***	***(Rs.)***
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, 2018. He is required to contribute cash towards goodwill and Rs. 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 Rs. 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	*(Rs.)*	*Profit/Loss*
31.3.2014	40,000	Profit
31.3.2015	20,000	Loss
31.3.2016	40,000	Profit
31.3.2017	50,000	Profit
31.3.2018	60,000	Profit

   The above profits and losses are after charging the salary of Mr. Red. The profit of the year ended 31st March, 2014 included an extraneous profit of Rs.60,000 and the loss of the year ended 31st March, 2015 was on account of loss by strike to the extent of Rs.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, 2019 was Rs. 80,000 (Before charging depreciation)

(c) Each partner had drawn Rs.2,000 per month as drawing during the year 2018-19.

(d) On 31st March, 2019 the following balances appeared in the books:

Building (Before Depreciation)	Rs. 1,20,000
Closing Stock	Rs. 80,000
Sundry Debtors	Nil
Sundry Creditors	Nil
Investment	Rs.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 1.4.2019.

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 31.3.2019). 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, 2019 in the books of M/s Red and Black and (2) Balance Sheet as on 1st April, 2019 in the books of RBW Private Limited.

(b) Omega 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, 2020:

Assets Funded	Interest Overdue but recognized in Profit & Loss		Net Book Value of Assets outstanding
	Period Overdue	Interest Amount	
		(Rs. In crore)	(Rs. 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)**

4. (a) A Ltd. and its subsidiary B Ltd. give the following information for the year ended 31st March, 2020:

Rs. 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 Rs. 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 Rs.1,500 Lakhs on 1.4.2019 (date of acquisition of shares).

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

You are required to prepare a consolidated Statement of Profit and Loss Account of A Ltd. with its subsidiary B Ltd. for the year ended 31st March, 2020.

(b) What are circumstances when an LLP can be wound up by the Tribunal. Explain in brief.

(15 + 5 =20 Marks)

5. (a) BT Ltd. went into Voluntary Liquidation on 31st March, 2019. It gives the following information as on 31st March, 2019:

	Rs.
Issued & Subscribed Capital: 10,000 12% cumulative preference shares of Rs. 100 each, fully paid	 10,00,000

10,000 Equity Shares of Rs. 100 each 75 per share paid up	7,50,000
20,000 Equity Shares of Rs. 100 each 60 per share paid up	12,00,000
Profit & Loss Account (Dr. balance)	5,25,000
12% Debentures (Secured by a floating charge)	10,00,000
Interest outstanding on Debentures	1,20,000
Creditors	8,50,000
Land & Building	17,60,000
Plant & Machinery	12,50,000
Furniture	4,75,000
Patents	1,45,000
Stock	1,80,000
Trade Receivables	5,09,300
Cash at Bank	75,700

Preference dividends were in arrear for 1 year. Creditors include preferential creditors of Rs. 75,000. Balance creditors are discharged subject to 5% discount.

Assets are realised as under:

	Rs.
Land & Building	24,50,000
Plant & Machinery	9,00,000
Furniture	2,85,000
Patents	90,000
Stock	2,80,000
Trade Receivables	3,15,000

Expenses of liquidation amounted to Rs. 45,000. The liquidator is entitled to a remuneration of 3% on all assets realised (except cash at bank). All payments were made on 30th June, 2019.

You are required to prepare the Liquidator's Final Statement of Account as on 30th June, 2019. Working Notes should form part of the answer.

(b) From the following information, prepare the Profit & Loss A/c of Indus Bank Ltd. for the year ending 31st March, 2020. 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) (i) Mr. Raj a relative of key management personnel received remuneration of Rs. 2,50,000 for his services in the company for the period from 1.4.2020 to 30.6.2020. On 1.7.2020, he left the service. Should the relative be identified as at the closing date i.e. on 31.3.2021 for the purposes of AS 18?

(ii) X Ltd. sold goods to its associate Company during the 1st quarter ending 30.6.2020. After that, the related party relationship ceased to exist. However, goods were supplied as were supplied to any other ordinary customer. Decide whether transactions of the entire year need disclosure as related party transaction.

(b) The Paid-up capital of S Limited amounted to Rs. 5,00,000 Equity Shares of Rs. 10 each. Due to continuous losses incurred by the company, the following scheme of reconstruction has been approved for S Limited on 1st April, 2020:

(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 Rs. 40,000.

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

(iii) The Assets were reduced as follows:-

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

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

(c) Goodwill from Rs. 30,000 to Nil.

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

(c) Akar Ltd. Signed on 01/04/19, a construction contract for Rs. 1,50,00,000. Following particulars are extracted in respect of contract, for the period ending 31/03/20:

- Materials issued Rs. 75,00,000
- Labour charges paid Rs. 36,00,000
- Hire charges of plant Rs. 10,00,000
- Other contract cost incurred Rs. 15,00,000
- Out of material issued, material lying unused at the end of period is Rs. 4,00,000
- Labour charges of Rs. 2,00,000 are still outstanding on 31.3.20.
- It is estimated that by spending further Rs. 33,50,000 (including material unused Rs. 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.

(d) Ganga Ltd. has its share capital divided into Equity Shares of Rs. 10 each. On 1st April, 2019, the company offered 250 shares to each of its 520 employees at Rs. 60 per share, when the market price was Rs. 150 per share. The options were to be exercised between 01-03-2020 to 31-03-2020. 410 employees accepted the offer and paid Rs. 60 per share on purchased shares and the remaining options lapsed. The company closes its books on 31st March every year.

You are required to show Journal Entries (with narrations) as would appear in the books of Ganga Ltd. for the year ended 31st March, 2020 with regard to employee stock options.

OR

Equity capital is held by L, M, N and O in the proportion of 30:40:20:10. A, B, C and D hold Preference share capital in the proportion of 40:30:10:20. If the paid up Equity Share capital of the company is Rs. 60 lakhs and Preference share capital is Rs. 30 lakhs, find the voting rights of shareholders (in percentage) in case of resolution of winding up of the company.

(4 Parts x 5 Marks = 20 Marks)