MOCK TEST PAPER

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: Three hours) **(Maximum Marks: 100)**

1. (a) X Ltd. negotiates with Bharat Petroleum Corporation Ltd (BPCL), for construction of "Franchise Retail Petrol Outlet Stations". Based on proposals submitted to different "Zonal offices of BPCL, the final approval for one outlet each in Zone A, Zone B, Zone C, Zone D, is awarded to X Ltd. Agreement (in single document) is entered into with BPCL for ₹ 490 lakhs. The agreement lays down values for each of the four outlets (₹ 88 + 132 + 160 + 110 lakhs) in addition to individual completion time. Examine and Decide whether X Ltd., will treat it as a single contract or four separate contracts.

(b) From the following information, you are required to compute the basic and adjusted Earnings per share:

Net profit for 2015-16	11 lakh
Net profit for 2016-17	15 lakh
No. of shares issued before rights issue	5 lakhs
Right issue	One for every 5 held
Right issue price	15 per share
Last date of exercising right option	1-06-2016
Fair value of shares before right issue	21 per share

(c) A Ltd. sold machinery having WDV of ₹ 40 lakhs to B Ltd. for ₹ 50 lakhs and the same machinery was leased back by B Ltd. to A Ltd. The lease back is operating lease. Explain the accounting treatment as per AS 19 in the following cases:

(i) Sale price of ₹ 50 lakhs is equal to fair value.

(ii) Fair value is ₹ 45 lakhs and sale price is ₹ 38 lakhs.

(iii) Fair value is ₹ 40 lakhs and sale price is ₹ 50 lakhs.

(iv) Fair value is ₹ 46 lakhs and sale price is ₹ 50 lakhs

(v) Fair value is ₹ 35 lakhs and sale price is ₹ 39 lakhs.

(d) Sun Ltd. has entered into a sale contract of ₹ 5 crores with X Ltd. during 2015-2016 financial year. The profit on this transaction is ₹ 1 crore. The delivery of goods to take place during the first month of 2016-2017 financial year. In case of failure of Sun Ltd. to deliver within the schedule, a compensation of ₹ 1.5 crores is to be paid to X Ltd. Sun Ltd. planned to manufacture the goods during the last month of 2015-2016 financial year. As on balance sheet date (31.3.2016), the goods were not manufactured and it was unlikely that Sun Ltd. will be in a position to meet the contractual obligation.

(i) Should Sun Ltd. provide for contingency as per AS 29? Explain.

(ii) Should provision be measured as the excess of compensation to be paid over the profit?

(4 parts x 5 Marks = 20 Marks)

2. (a) Paper Limited comes out with a public issue of share capital on 01-01-2016 of 30,00,000 equity shares of ₹ 10 each at a premium of 5%. ₹ 2.50 is payable on application (on or before 31-01-2016) and ₹ 3 on allotment (31-3-2016) including premium.

This issue was underwritten by two underwriters namely White and Black, equally, the commission being 4% of the issue price. Each of the underwriters underwrites 60,000 shares firm. Subscriptions including firm underwriting came for 28,80,000 shares, the distribution of forms being White: 15,60,000; Black; 10,80,000 and Unmarked 2,40,000.

One of the allottees (using forms marked with name of White) for 6000 shares fails to pay the amount due to allotment, all the other money due being received in full including any due from the shares devolving upon the underwriters. The commission due was paid separately.

6,000 shares of one allottee who failed to pay the allotment money were finally forfeited by 30-06-2016 and were re-allotted for payment in cash of ₹ 4 per share. You are required to prepare each underwriter's liability (in shares) in statement form and to pass necessary journal entries to record the above events and transactions (including cash).

(b) SMM Ltd. has the following capital structure as on 31st March, 2017: ₹ in crore

	Particulars	Situation	Situation
(i)	Equity share capital (shares of ₹ 10 each)	1,200	1,200
(ii)	Reserves:		
	General Reserves	1,080	1,080
	Securities Premium	400	400
	Profit & Loss	200	200
	Infrastructure Development Reserve (Statutory Reserve)	320	320
(iii)	Loan Funds	3,200	6,000

The company has offered buy back price of ₹ 30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries. ***(8 +12 = 20 Marks)***

3. (a) The Balance Sheet of Lion Limited as on 31-03-2016 is given below:

Particulars	*Note No.*	*Amount (₹ in lakh)*
<u>Equity & Liabilities</u>		
<u>Shareholders' Funds</u>		
Shares' Capital	1	1,400
Reserves & Surplus	2	(522)
<u>Non-Current Liabilities</u>		
Long term Borrowings	3	700
<u>Current Liabilities</u>		
Trade Payables	4	102
Other Liabilities	5	24
Total		1704
Assets		
<u>Non-Current Assets</u>		
<u>Fixed Assets</u>		
Tangible Assets	6	750

<u>Current Assets</u>		
Current Investments	7	200
Inventories	8	300
Trade Receivables	9	450
Cash & Cash Equivalents	10	4
Total		1704

Notes to Accounts:

		₹ in Lakhs
(1)	Share Capital	
	Authorised :	
	200 lakh shares of ₹ 10 each	2,000
	8 lakh, 8% Preference Shares of ₹ 100 each	<u>800</u>
		<u>2,800</u>
	Issued, Subscribed and paid up:	
	100 lakh Equity Shares of ₹ 10 each, full paid up	1,000
	4 lakh 8% Preference Shares of ₹ 100 each, fully paid up	<u>400</u>
	Total	<u>1400</u>
(2)	Reserves and Surplus	
	Debit balance of Profit & Loss A/c	(522)
(3)	Long Term Borrowings	
	6% Debentures (Secured by Freehold Property)	400
	Directors' Loan	<u>300</u>
		<u>700</u>
(4)	Trade Payables	
	Trade payables for Goods	102
(5)	Other Current Liabilities	
	Interest Accrued and Due on 6% Debentures	24
(6)	Tangible Assets	
	Freehold Property	550
	Plant & Machinery	<u>200</u>
		<u>750</u>
(7)	Current Investment	
	Investment in Equity Instruments	200
(8)	Inventories	
	Finished Goods	300
(9)	Trade Receivables	
	Trade receivables for Goods	450
(10)	Cash and Cash Equivalents	
	Balance with Bank	4

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to ₹ 80 each and Equity Shares to ₹ 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of ₹ 300 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at ₹ 400 lakh.

(6) All investments sold out for ₹ 250 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allowed.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to ₹ 600 lakh have been settled by paying 5% penalty of contract value.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Capital Reduction Account; and

(c) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction.

(b) 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. ***(15 + 5 = 20 Marks)***

4. (a) From the following information as on 31st March, 2016 of Xeta Insurance Co. Ltd. engaged in fire insurance business, prepare the Revenue Account, reserving 50% of the net premiums for unexpired risks and an additional reserve of ₹ 7,00,000:

Particulars	Amount (₹)
Reserve for unexpired risk on 31st March, 2015	15,00,000
Additional reserve on 31st March, 2015	3,00,000
Claims paid	19,20,000
Estimated liability in respect of outstanding claims on 31st March, 2015	1,95,000
Estimated liability in respect of outstanding claims on 31st March, 2016	2,70,000
Expenses of management (including ₹ 90,000 incurred in connection with claims)	8,40,000
Re-insurance premium paid	2,25,000
Re-insurance recoveries	60,000

Premiums	33,60,000
Interest and dividend (gross before TDS)	1,50,000
Profit on sale of investments	30,000
Commission	50,000

(b) As on 31st March 2016, Strong Bank Ltd. has a balance of ₹ 27 crores in "rebate on bills discounted" account. The bank provides you the following further information:

(1) During the financial year ending 31st March 2017, Strong Bank Ltd. discounted bills of exchange of ₹ 4,000 crores charging interest @ 15% p.a. and the average period of discount being 146 days.

(2) Bills of exchange of ₹ 600 crores were due for realization from the acceptors/customers after 31st March 2017, the average period outstanding after 31st March 2017, being 73 days.

You are required to pass necessary journal entries in the books of Strong Bank Ltd. for the above transactions.

(c) A Mutual Fund raised 100 lakh on April 1, 2017 by issue of 10 lakh units of ₹ 10 per unit. The fund invested in several capital market instruments to build a portfolio of ₹ 90 lakhs. The initial expenses amounted to ₹ 5 lakh. During April, 2017, the fund sold certain securities of cost ₹ 38 lakhs for ₹ 40 lakhs and purchased certain other securities for ₹ 28.20 lakhs. The fund management expenses for the month amounted to ₹ 4.50 lakhs of which ₹ 0.35 lakh was in arrears. The dividend earned was ₹ 1.20 lakhs. 75% of the realized earnings were distributed. The market value of the portfolio on 30.04.2017 was ₹ 112 lakh.

Determine NAV per unit. ***(10 Marks +6 Marks +4 Marks = 20 Marks)***

5. (a) Given below are the Profit & Loss Accounts of H Ltd. and its subsidiary Ltd. for the year ended 31st March, 2017:

	H Ltd. (₹ in lacs)	S Ltd. (₹ in lacs)
Incomes:		
Sales and other income	5,000	1,000
Increase in Inventory	1,000	200
	6,000	1,200
Expenses:		
Raw material consumed	800	200
Wages and Salaries	800	150
Production expenses	200	100
Administrative Expenses	200	100
Selling and Distribution Expenses	200	50
Interest	100	50
Depreciation	100	50
	2,400	700
Profit before tax	3,600	500
Provision for tax	1,200	200
Profit after tax	2,400	300
Dividend paid	1,200	150
Balance of Profit	1,200	150

Other Information:

H Ltd. sold goods to S Ltd. of ₹ 120 lacs at cost plus 20%. Inventory of S Ltd. includes such goods valuing ₹ 24 lacs. Administrative expenses of S Ltd. include ₹ 5 lacs paid to H Ltd. as consultancy fees. Selling and distribution expenses of H Ltd. include ₹ 10 lacs paid to S Ltd. as commission.

H Ltd. holds 80% of equity share capital of ₹ 1,000 lacs in S Ltd. prior to 2015-2016. H Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by S Ltd. for the year 2015-2016.

You are required to prepare a consolidated profit and loss account of H Ltd. and its subsidiary S Ltd. for the year ended on 31st March, 2017.

(b) The summarized Balance Sheet of K Ltd. for the year ended on 31st March, 2015, 2016 and 2017 are as follows:

	(₹ in thousands)		
Liabilities	31.3.2015	31.3.2016	31.3.2017
1,60,000 equity shares of ₹ 10 each, fully paid	1,600	1,600	1,600
General reserve	1,200	1,400	1,600
Profit and Loss account	140	160	240
Trade Payables	600	800	1,000
	3,540	3,960	4,440
Assets			
Goodwill	1,000	800	600
Building and Machinery less, depreciation	1,400	1,600	1,600
Inventory	1,000	1,200	1,400
Trade Receivables	20	160	440
Bank balance	120	200	400
	3,540	3,960	4,440

Additional information:

(a) Actual valuations were as under:

Building and machinery less, depreciation	1,800	2,000	2,200
Inventory	1,200	1,400	1,600
Net profit (including opening balance after writing off depreciation, goodwill, tax provision and transferred to general reserve)	420	620	820

(b) Capital employed in the business at market value at the beginning of 2014-15 was ₹ 36,60,000 which included the cost of goodwill. The normal annual return on average capital employed in the line of business engaged by K Ltd. is 12½%.

(c) The balance in the general reserve on 1st April, 2014 was ₹ 10 lakhs.

(d) The goodwill shown on 31.3.2015 was purchased on 1.4.2014 for ₹ 10 lakhs on which date the balance in the Profit and Loss account was ₹ 1,20,000.

(e) Goodwill is to be valued at 5 year's purchase of Super profit (Simple average method).

You are required to compute the average capital employed in each year and find out the value of goodwill. ***(12 Marks +8 Marks = 20 Marks)***

6. (a) A company has its share capital divided into shares of ₹ 10 each. On 1-1-20X1, it granted 5,000 employees stock options at ₹ 50, when the market price was ₹ 140. The options were to be exercised between 1-3-20X2 to 31-03-20X2. The employees exercised their options for 4,800 shares only; remaining options lapsed. Pass the necessary journal entries for the year ended 31-3-20X2, with regard to employees' stock options.

(b) Explain "Non-Performing Assets" as per NBFC Prudential Norms (RBI) directions.

(c) Explain on 'presentation of MAT credit' in the financial statements in brief.

OR

How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? Explain.

(d) XYZ Ltd. purchased 80% shares of ABC Ltd. on 1st January, 2016 for ₹ 2,80,000. The issued capital of ABC Ltd., on 1st January, 2016 was ₹ 2,00,000 and the balance in the Profit & Loss Account was ₹ 1,20,000.

During the year ended 31st December, 2016, ABC Ltd. earned a profit of ₹ 40,000 and at year end, declared and paid a dividend of ₹ 60,000.

Show by an entry how the dividend should be recorded in the books of XYZ Ltd.

You are required to compute amount of minority interest as on 1st January, 2016 and 31st December, 2016? ***(4 Parts x 5 Marks = 20 Marks)***