Test Series: February, 2014

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – II

PAPER – 5 : ADVANCED ACCOUNTING

Question No. 1 is compulsory.

*Answer any **five** questions from the remaining **six** 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) Explain briefly the accounting treatment needed in the following cases as per AS 11:

(i) Trade receivables include amount receivable from Tug, U.S., ₹ 5,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at $1 = ₹ 38.70

(ii) Long term loan taken from a U.S. Company, amounting to ₹ 60,00,000. It was recorded at $1 = ₹ 35.60, taking exchange rate prevailing at the date of transactions.

Exchange rates at the end of the year were as under:

$1 Receivable = ₹ 45.80

$ 1 Payable = ₹ 45.90

(b) X Co. Ltd. has its share capital divided into equity shares of ₹ 10 each. On 1.4.2012 it granted 16,000 employees' stock option at ₹ 50 per share, when the market price was ₹ 120 per share. The options were to be exercised between 15th March, 2013 and 31st March, 2013. The employees exercised their options for 16,000 shares. The company closes its books on 31st March every year. Show Journal entries (with narration) as would appear in the books of the company up to 31st March, 2013.

(c) The company has to pay delayed cotton clearing charges over and above the negotiated price for taking delayed delivery of cotton from suppliers' godown. Upto 2012-13, the company has regularly included such charges in the valuation of closing stock. This being in the nature of interest the company has decided to exclude it from closing stock valuation for the year 2013-14. This would result into decrease in profit by ₹ 7.60 lakhs. State, how would you deal with the above in the annual accounts of a company for the year ended 31st March, 2014?

(d) Hera Ltd. has got the license to manufacture particular medicines for 10 years at a license fee of ₹ 200 lakhs. Given below is the pattern of expected production and expected operating cash inflow:

Year	Production in bottles (in lakhs)	Net operating cash flow (₹ in lakhs)
1	300	900
2	600	1,800
3	650	2,300
4	800	3,200
5	800	3,200
6	800	3,200
7	800	3,200
8	800	3,200
9	800	3,200
10	800	3,200

Net operating cash flow has increased for third year because of better inventory management and handling method. Suggest the amortization method.

(4 x 5 = 20 Marks)

2. X, Y and Z share profits and losses in the ratio of 5:3:2. Their firm was dissolved due to misconduct of Y and their balance sheet on that date was as under:

Balance Sheet as at 31-3-2011

Liabilities		₹	*Assets*	₹
Capital Accounts :			Land and Building	2,00,000
X	3,00,000		Plants	2,00,000
Y	2,00,000		Trade receivables	1,00,000
Z	1,00,000	6,00,000	Inventories	1,50,000
Current Accounts:			Cash	1,00,000
X	50,000		Current Account:	
Y	30,000	80,000	Z	50,000
Trade payables		1,20,000		
		8,00,000		8,00,000

The whole business of the firm was sold to Omega Limited, on that day on the following terms:

(i) Omega Limited will issue the following securities in consideration for transfer of business:

10,000 equity shares @ ₹ 15 each, 15,000 preference shares @ ₹ 15 each; and 20,000 debentures @ ₹ 14.725.

(ii) The agreed value of assets and liabilities of partnership firm are as follows:

Land & Building – ₹ 3,00,000, Plants – ₹ 1,50,000, Inventory – ₹ 1,40,000, Trade Receivable – ₹ 97,500, and Trade Payable – ₹ 1,18,000.

It is mutually decided that preference shares and debentures will be distributed in profit sharing ratio and cash brought in by the partner (if any) will be shared equally by the remaining partners before distribution of equity shares. Equity shares are distributed on residual basis at the end.

Prepare the necessary accounts, to close the books of the firm. *(16 Marks)*

3. The following was the Balance Sheet of C Ltd. as on 31st March ,2014.

Equity & Liabilities	₹ Lakhs	Assets	₹ Lakhs
Share Capital:		Fixed Assets	14,000
Equity shares of ₹ 10 each Fully Paid Up	8,000	Investments	3,000
10% Redeemable Pref. Shares of ₹ 10 each Fully Paid Up	2,500	Cash at Bank	1,650
Reserves & Surplus		Other Current Assets	8,250
Capital Redemption Reserve	1,000		
Securities Premium	800		
General Reserve	6,000		
Profit & Loss Account	300		
Secured Loans:			
9% Debentures	5,000		
Current Liabilities:			
Trade payables	2,300		
Sundry Provisions	1,000		
	26,900		26,900

On 1st April, 2014 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 15% of its Equity Shares at ₹ 20 per Share. In order to make cash available, the Company sold all the Investments for ₹ 3,150 lakhs and raised a Bank Loan amounting to ₹ 400 lakh on the Security of the Company's Plant.

You are required to

(i) pass journal entries for the above and

(ii) prepare the Company's Balance sheet immediately thereafter. *(16 Marks)*

4. (a) Department L sells goods to Department M at a profit of 25% on cost and to Department N at 10% profit on cost. Department M sells goods to L and N at a profit of 15% and 20% on sales, respectively. Department N charges 20% and 25% profit on cost to Department L and M, respectively.

Department Managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated. Departmental profits after charging Managers' commission, but before adjustment of unrealised profit are as under :

	₹
Department L	1,08,000
Department M	81,000
Department N	54,000

Stock lying at different departments at the end of the year are as under :

	Dept. L ₹	Dept. M ₹	Dept. N ₹
Transfer from Department L	—	45,000	33,000
Transfer from Department M	42,000	—	36,000
Transfer from Department N	18,000	15,000	—

Find out the correct departmental Profits after charging Managers' commission.

(b) Using the Stock and Debtors system, find out the profit or loss made at the Raipur Branch in 2013.

	₹
Stock (1st January) invoice price	12,000
Debtors (1st January)	6,200
Goods sent to the Branch (invoice price)	35,000
Goods returned by the Branch (invoice price)	1,000
Sales:	
Credit	21,000
Cash	20,000
Goods returned by customers	600
Cash received from debtors	19,800
Discount allowed to them	300
Cash sent for expenses at the Branch	6,100
Shortage of goods at the Branch (invoice price)	400

Goods are invoiced to the Branch at the selling price so as to show a profit of 30% on invoice price. *(8 + 8=16 Marks)*

5. (a) All India Motels Ltd. absorbed the business of West India Motels Ltd. as on 31st March, 2013. Their respective positions of assets and liabilities as on that date of absorption were as under:

	All India	West India
	₹	₹
Share Capital	6,00,00,000	6,00,00,000
Reserves and Surplus	5,40,00,000	3,60,00,000
Debentures	8,00,00,000	9,60,00,000
Trade payables	2,20,00,000	4,80,00,000
Goodwill	4,48,00,000	3,20,00,000
Buildings	11,60,00,000	11,20,00,000
Machinery	1,80,00,000	1,60,00,000
Trade receivables	60,00,000	5,60,00,000
Inventory	80,00,000	2,00,00,000
Cash	32,00,000	40,00,000
Investments	2,00,00,000	–

The intrinsic value of West India shares has to be determined. Equivalent intrinsic value worth of ₹ 10 fully paid up shares of All India are to be issued to the shareholders of West India. 50% of trade receivables of All India comprises of moneys due from West India. Inventory of West India includes goods worth ₹ 30 lakhs sold by All India at cost plus 20% value. Called and paid up on All India shares is ₹ 8 per share whilst it is ₹ 5 per share in case of West India. Face value of shares of both the companies is ₹ 10. Investments were valued at ₹ 2,60,00,000.

Indicate the necessary journal entries to record the above transactions assuming amalgamation in the nature of purchase.

(b) From the following information of STP Bank Ltd. pertaining to the financial year 2012-13, compute the provisions to be made in the Profit and Loss Account:

	₹ in lakh
Assets	
Standard	30,000
Sub-standard	20,000
Doubtful:	

For one year (secured)	8,000
For two years and three years (secured)	2,500
For more than three years (secured by mortgage of Plant & Machinery ₹ 500 lakh)	2,000
Loss Assets	1,700

(12 +4= 16 Marks)

6. (a) The following particulars are presented to you by Perfect General Insurance Company regarding its fire insurance business for the year ended 31st March, 2013:

	₹	₹
Reserve for unexpired risk on 31st March, 2012		
(i) 50% of net premium income for 2011-2012	3,12,500	
(ii) Additional reserve on 31st March, 2012	62,500	3,75,000
Claims paid		1,75,000
Commission paid		50,000
Expenses of management		1,81,250
Reinsurance premium paid		43,750
Premiums received		8,00,000
Claims outstanding on 31st March, 2012		62,500
Commission earned on reinsurance ceded		36,875
Estimated liability on 31st March, 2013 in respect of claims due or intimated		1,25,000

Prepare the Fire Revenue Account for the year ended 31st March, 2013 in the format prescribed by Schedule B given under IDRA Regulations along with necessary schedules. On 31st March, 2013 the company decides to keep total additional reserve for unexpired risk equal to 10% of the net premium income for the year.

(b) The liquidation of a joint stock company commenced on 1st April, 2013. Certain creditors could not receive payment out of realization of assets and the contributions from A list contributories. The following are the details of certain transfers which took place:

Shareholder's name	No. of shares transferred	Date of ceasing to be a member	Creditors remaining unpaid and outstanding on the date of each transfer ₹
A	2,000	2nd March, 2012	5,000
B	1,500	3rd May, 2012	3,300
C	1,000	1st Sept., 2012	4,300
D	500	23rd Nov., 2012	4,600
E	300	1st Feb.,2013	6,000

All the shares were of the face value of ₹ 10 each, ₹ 8 per share paid up.

Show the amount to be realized from the various persons listed above, ignoring expenses and remuneration to liquidator. *(8 + 8 =16 Marks)*

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

(a) Mohan started a business on 1st April 2012 with ₹ 12,00,000 represented by stock of 60,000 units of ₹ 20 each. During the financial year ending on 31st March, 2013 he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Mohan in the year 2012-13 if Financial Capital is maintained at historical cost.

(b) Viva Ltd. received a specific grant of ₹ 30 lakhs for acquiring the plant of ₹ 150 lakhs during 2010-11 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet. During 2013-14, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was ₹ 21 lakhs and written down value of plant was ₹ 105 lakhs.

(i) What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2013-14 in profit and loss account?

(ii) What should be the treatment of the refund, if grant was deducted from the cost of the plant during 2010-11 assuming plant account showed the balance of ₹ 84 lakhs as on 1.4.2013?

(c) A company is in a dispute involving allegation of infringement of patents by a competitor company who is seeking damages of a huge sum of ₹ 900 lakhs. The directors are of the opinion that the claim can be successfully resisted by the company. How would you deal with the same in the annual accounts of the company?

(d) Explain the concept of 'weighted average number of equity shares outstanding during the period'. State how would you compute, based on AS 20, the weighted average number of equity shares in the following case:

		No. of shares
1st April, 2012	Balance of equity shares	7,20,000
31st August, 2012	Equity shares issued for cash	2,40,000
1st February, 2013	Equity shares bought back	1,20,000
31st March, 2013	Balance of equity shares	8,40,000

(e) In May, 2011, Speed Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2012 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was ₹ 18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2012 amounted to ₹ 25 lakhs. Can ₹ 25 lakhs be treated as part of the cost of factory building and thus be capitalized on the plea that the loan was specifically taken for the construction of factory building? *(4 x 4 =16 Marks)*