

Test Series: February, 2012

MOCK TEST PAPER – 1

PCC: GROUP – I

PAPER – 1: ADVANCED ACCOUNTING

Question No. 1 is compulsory.

*Answer any **five** questions from the remaining **six** questions.*

Working notes should form part of the answer.

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) An Om limited company manufacturing fancy bedsheets had valued its closing stock of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.

Comment on the valuation of stocks by the company.

- (b) From the following information relating to Omega Ltd., calculate Diluted Earnings Per Share as per AS 20:

Net Profit for the current year	₹ 2,00,00,000
Number of equity shares outstanding	40,00,000
Basic earnings per share	₹ 5.00
Number of 11% convertible debentures of ₹ 100 each	50,000
Each debenture is convertible into 8 equity shares.	
Interest expense for the current year	₹ 5,50,000
Tax saving relating to interest expense (30%)	₹ 1,65,000

- (c) During the year 2010-11, A Limited incurred the following expenses on machinery:
₹ 2.50 lacs as routine repairs and ₹ 75,000 on partial replacement of a part.
₹ 7 lacs on replacement of part of machinery which will improve the efficiency of the machine. Which amount should be capitalized as per AS 10?

(d)

	Exchange Rate per \$
Goods purchased on 1.1.2010 of US \$ 10,000	₹ 45
Exchange rate on 31.3.2010	₹ 44
Date of actual payment 7.7.2010	₹ 43

Ascertain the loss/gain for financial years 2009-10 and 2010-11, also give their treatment as per AS 11.

(4 × 5 = 20 Marks)

2. The Balance Sheet of Sumit Ltd. as on 31st March, 2011 is as under:

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Authorised and issued share capital		Goodwill	3,00,000
20,000 equity shares of ₹ 100 each	20,00,000	Plant and machinery	18,00,000
10,000 preference shares (7%) of ₹ 100 each	10,00,000	Stock	3,00,000
Sundry creditors	7,00,000	Debtors	7,50,000
Bank overdraft	3,00,000	Cash	1,50,000
		Profit and loss account	<u>7,00,000</u>
	<u>40,00,000</u>		<u>40,00,000</u>

Two years' preference dividends are in arrears. The company had bad time during the last two years and hopes for better business in future, earning profit and dividend distribution, provided the capital base is reduced.

An internal reconstruction scheme as follows was agreed by all concerned:

- Creditors agreed to forego 50% of the claim.
- Preference shareholders withdrew arrear dividend claim. They also agreed to lower their capital claim by 20% by reducing nominal value in consideration of 9% dividend effective after reorganization in case equity shareholders' loss exceed 50% on the application of the scheme.
- Bank agreed to convert overdraft into term loan to the extent required for making current ratio equal to 2 : 1.
- Revalued figure for plant and machinery was accepted as ₹ 15,00,000.
- Debtors to the extent of ₹ 4,00,000 were considered good.
- Equity shares shall be exchanged for the same number of equity shares at a revised denomination as required after the reorganization.

Show:

- Total loss to be borne by the equity and preference shareholders for the reorganization;
- Share of loss to the individual classes of shareholders;
- New structure of share capital after reorganization;
- Working capital of the reorganized Company; and

(e) A proforma balance sheet after reorganization

(16 Marks)

3. A, B, C and D were partners sharing profits and losses in the ratio of 3:3:2:2. Following was the balance sheet as on 31st March, 2011:

Liabilities	₹	₹	Assets	₹	₹
Sundry creditors		15,500	Sundry debtors	16,000	
A's loan		10,000	Less: Provision for bad debts	<u>500</u>	15,500
Capital accounts:			Stock in trade		10,000
A	20,000		Cash at bank		2,000
B	<u>15,000</u>	35,000	Furniture and fixture		4,000
			Trade mark		7,000
			Capital accounts:		
			C	16,000	
			D	<u>6,000</u>	<u>22,000</u>
		<u>60,500</u>			<u>60,500</u>

On 31st March, 2011, the partnership firm was dissolved and B was appointed to realise the assets and pay off the liabilities. He was entitled to receive 5% commission on the amount finally paid to other partners as capital. He was to bear the expenses of realization.

The assets realised were as follows: sundry debtors ₹ 11,000; stock ₹ 8,000; furniture and fixture ₹ 1,000; trade mark ₹ 4,000; creditors were paid off in full; in addition a contingent liability for bills receivable discounted, materialized to the extent of ₹ 2,500. Also there was a joint life insurance policy for ₹ 30,000 This was surrendered for ₹ 3,000. Expenses of realisation amounted to ₹ 500. 'C' was insolvent, but ₹ 3,700 were recovered from his estate.

You are required to show the following accounts in the book of partnership firm:

1. Realisation account
2. Cash account
3. Partners' capital accounts.

(16 Marks)

4. Following is the Receipts and Payments Account of Aman Club for the year ended 31st March, 2011:

Receipts	Amount (₹)	Payments	Amount (₹)
Opening balance:		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000

Bank	3,850	Printing and stationery	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephone and fax	52,000
Interest received	58,000	Repairs and maintenance	48,000
Sale of fixed assets	8,000	Glass and table linen	12,000
Miscellaneous income	9,000	Crockery and cutlery	14,000
Receipts at coffee room	10,70,000	Garden upkeep	8,000
Wines and spirits	5,10,000	Membership fee	4,000
Swimming pool	80,000	Insurance	5,000
Tennis court	1,02,000	Electricity	28,000
		Closing balance:	
		Cash	8,000
		Bank	<u>2,24,600</u>
	<u>21,53,600</u>		<u>21,53,600</u>

Following additional information is provided to you:

(i) Assets and liabilities as on 31.3.2011 were as follows:

	₹
Fixed assets	5,00,000
Stock	3,80,000
Investment in 12% Government securities	5,00,000
Outstanding subscription	12,000
Gratuity fund	1,50,000
Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000

(ii) Subscription received in advance as on 31.3.2011 was ₹18,000.

(iii) Outstanding subscription as on 31.3.2011 was ₹7,000.

(iv) Outstanding expenses as on 31.3.2011 are:

Salaries	:	₹ 8,000
Electricity	:	₹ 15,000

- (v) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31.3.2011.
- (vi) The cost of assets sold as on 1.4.2010 was ₹10,000.
- (vii) Depreciation was provided @ 10% p.a. on fixed assets on written down value basis.
- (viii) A sum of ₹20,000 received in October, 2010 as entrance donation from an applicant was to be refunded, as he has not fulfilled the requisite membership qualification. The refund was made on 3.6.2011.
- (ix) Purchases made during the year 2010-11 amounted to ₹15,00,000.
- (x) The value of closing stock as on 31.3.2011 was ₹2,10,000.
- (xi) The Club as a matter of policy charges off to Income and Expenditure account, all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare:

- (i) Income and Expenditure account for the year ended 31st March, 2011.
 - (ii) Balance Sheet as on 31st March, 2011. (16 Marks)
5. (a) Agni Fire Insurance Co. Ltd. commenced its business on 1.4.2010. It submits you the following information for the year ended 31.3.2011:

	₹
Premiums received	15,00,000
Re-insurance premiums paid	1,00,000
Claims paid	7,00,000
Expenses of Management	3,00,000
Commission paid	50,000
Claims outstanding on 31.3.2011	1,00,000
Create reserve for unexpired risk @ 40%	
Prepare Revenue account for the year ended 31.3.2011.	

(8 Marks)

- (b) On 31st March, 2010, Uncertain Bank Ltd. had a balance of ₹ 9 crores in "rebate on bills discounted" account. During the year ended 31st March, 2011, Uncertain Bank Ltd. discounted bills of exchange of ₹ 4,000 crores charging interest at 18% per annum the average period of discount being for 73 days. Of these, bills of exchange of ₹ 600 crores were due for realisation from the acceptors/customers after 31st March, 2011, the average period outstanding after 31st March, 2011 being 365 days.

Uncertain Bank Ltd. asks you to pass journal entries and show the ledger accounts pertaining to :

- (i) discounting of bills of exchange and
- (ii) rebate on bills discounted. (8 Marks)

6 (a) From the data relating to a company which went into voluntary liquidation, you are required to prepare the liquidator's Final Statement of Account.

- (i) Cash with liquidators (after all assets are realised and secured creditors and debentureholders are paid) is ₹ 7,50,000.
- (ii) Preferential creditors to be paid ₹ 35,000.
- (iii) Other unsecured creditors ₹ 2,30,000.
- (iv) 5,000, 10% preference shares of ₹ 100 each fully paid.
- (v) 3,000 equity shares of ₹ 100 each, ₹ 75 per share paid up.
- (vi) 7,000 equity shares of ₹ 100 each, ₹ 60 per share paid up.
- (vii) Liquidator's remuneration is 2% on payments to preferential and other unsecured creditors. (8 Marks)

(b) The following transactions by Mr. Mohan took place during the year ended 31st March, 2011:

1 st April	Purchased ₹12,00,000 8% bonds @ ₹80.5 cum-interest. Interest is payable on 1 st November and 1 st May.
12 th April	Purchased 1,00,000 equity shares of ₹10 each in X Ltd. for ₹40,00,000.
1 st May	Received half year's interest on 8% bonds.
15 th May	X Ltd. made a bonus issue of three equity shares for every two held. Mr. Malamaal sold 1,25,000 bonus shares @ ₹20 each.
1 st October	Sold ₹3,00,000 8% bonds @ ₹81 ex-interest.
1 st November	Received half year's bond interest.
1 st December	Received 18% dividend on equity shares in X Ltd.

Prepare the relevant investment accounts in the books of Mr. Mohan for the year ended 31st March, 2011. (8 Marks)

7. Answer any **four** out of five

- (a) A firm of contractors obtained a contract for construction of bridges across river Revathi. The following details are available in the records kept for the year ended 31st March, 2011.

	(₹ in lakhs)
Total Contract Price	1,000
Work Certified	500
Work not Certified	105
Estimated further Cost to Completion	495
Progress Payment Received	400
To be Received	140

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS 7 (Revised) issued by ICAI.

- (b) A large size multi department's hospital decided to outsource the accounting functions. Hospital invited proposals from vendors through open tender and received three proposals. How will you select the vendor?
- (c) Rohan Limited wishes to obtain a machine costing ₹ 30 lakhs by way of lease. The effective life of the machine is 14 years, but the company requires it only for the first 5 years. It enters into an agreement with Ashok Ltd., for a lease rental for ₹ 3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. The chief accountant of Rohan Limited is not sure about the treatment of these lease rentals and seeks your advise.
- (d) N Co. Ltd. has its share capital divided into equity shares of ₹ 10 each. On 1.10.2010 it granted 20,000 employees' stock option at ₹ 50 per share, when the market price was ₹ 120 per share. The options were to be exercised between 10th December, 2010 and 31st March, 2011. The employees exercised their options for 16,000 shares only and the remaining options lapsed. The company closes its books on 31st March every year.

Show Journal entries (with narration) as would appear in the books of the company upto 31st March, 2011.

- (e) Himani Ltd. in the past three years spent ₹ 75,00,000 to develop a Drug to treat Cancer, which was charged to Profit and Loss Account since they did not meet AS 26 criteria for capitalization. In the current year approval of the concerned Government Authority has been received. The Company wishes to capitalize ₹ 75,00,000 and disclose it as a prior period item. Is it correct? Give reason for your views.
(4 × 4 = 16 Marks)