

Test Series: March, 2012

MOCK TEST PAPER – 2

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) Smart Ltd. sold farm equipments through its dealers. One of the conditions at the time of sale is payment of consideration in 14 days and in the event of delay interest is chargeable @ 15% per annum. The Company has not realized interest from the dealers in the past. However, for the year ended 31.3.2012, it wants to recognise interest due on the balances due from dealers. The amount is ascertained at ₹ 9 lakhs. Decide whether the income by way of interest from dealers is eligible for recognition as per AS 9.
- (b) Change Ltd. wants to re-classify its investments in accordance with AS 13. Decide on the amount of transfer, based on the following information:
 1. A portion of Current Investments purchased for ₹ 20 lakhs, to be re-classified as Long Term Investments, as the Company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 25 lakhs.
 2. Another portion of current investments purchased for ₹ 15 lakhs, to be re-classified as long term investments. The market value of these investments as on the date of balance sheet was ₹ 6.5 lakhs.
 3. Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these were ₹ 18 lakhs but had been written down to ₹ 12 lakhs to recognise permanent decline, as per AS 13.
- (c) At the end of the financial year ending on 31st December, 2011, a company finds that there are twenty law suits outstanding which have not been settled till the date of approval of accounts by the Board of Directors. The possible outcome as estimated by the Board is as follows:

	Probability	Loss (₹)
In respect of five cases (Win)	100%	-
Next ten cases (Win)	60%	-
Lose (Low damages)	30%	1,20,000

Lose (High damages)	10%	2,00,000
Remaining five cases		
Win	50%	-
Lose (Low damages)	30%	1,00,000
Lose (High damages)	20%	2,10,000

Outcome of each case is to be taken as a separate entity. Ascertain the amount of contingent loss and the accounting treatment in respect thereof.

- (d) Rishi Limited has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment. Having fulfilled all the conditions under the scheme, the company on its investment of ₹ 50 crore in capital assets, received ₹ 10 crore from the Government in January, 2012 (accounting period being 2011-2012). The company wants to treat this receipt as an item of revenue and thereby reduce the losses on profit and loss account for the year ended 31st March, 2012.

Keeping in view the relevant Accounting Standard, discuss whether this action is justified or not. *(5 Marks each)*

2. P, Q, R are three doctors who are running a Polyclinic. Their capital on 31st March, 2011 was ₹ 1,00,000 each. They agreed to admit X, Y and Z as partners w.e.f. 1st April 2011. The terms for sharing profits & losses were as follows:

- 70% of the visiting fee is to go to the specialist concerned.
- 50% of the chamber fee will be payable to the individual specialist.
- 40% of operation fee and fee for pathological reports, X-rays and ECG will accrue in favour of the doctor concerned.
- Balance of profit or loss is shared equally.
- All the partners are entitled for 6% interest on capital employed.

They further agreed that:

- X, Y and Z brought in ₹ 20,000 each as goodwill. Goodwill is shared by the existing partners equally.
- X, Y and Z brought in ₹ 50,000 each as capital. Each of the original partners also contributed ₹ 50,000 by way of capital.

The receipts for the year after admission of new partners were:

<i>Name of doctors</i>	<i>Particulars</i>	<i>Visiting Fee (₹)</i>	<i>Chamber Fee (₹)</i>	<i>Fee for reports, operation etc. (₹)</i>
P	General Physician	1,50,000	2,00,000	-
Q	Gynecologist	25,000	1,75,000	1,00,000
R	Cardiologist	-	1,00,000	75,000
X	Child Specialist	1,00,000	1,50,000	-
Y	Pathologist	-	-	1,00,000
Z	Radiologist	-	40,000	2,00,000
	Total	<u>2,75,000</u>	<u>6,65,000</u>	<u>4,75,000</u>

Expenses for the year were as follows:

<i>Particulars</i>	<i>₹</i>
Medicines, injections and other consumables	1,00,000
Printing and stationery	5,000
Telephone expenses	5,000
Rent	42,000
Power and light	10,000
Nurses salary	20,000
Attendants wages	<u>20,000</u>
Total	<u>2,02,000</u>
Depreciation:	
X-Ray machines	15,000
ECG equipments	5,000
Furniture	5,000
Surgical equipments	<u>5,000</u>
Total Depreciation	<u>30,000</u>

You are requested to:

- Pass necessary journal entries on admission of partners.
- Prepare the Profit and Loss Account of the polyclinic for the year ended 31st March, 2012.

- (iii) Prepare capital accounts of all the partners at the end of the financial year 2011-12. Also show the distribution of profit among partners. (16 Marks)

3. Success Ltd. issued ₹ 10,00,000, 6% Debenture Stock at par on 21.1.2002. Interest was payable on 30th June and 31st December, in each year.

Under the terms of the Debentures Trust the owned stock is redeemable at par. The trust deed obliges the Company to pay to the trustees on 31st December, 2009 and annually thereafter the sum of ₹ 1,00,000 to be utilized for the redemption and cancellation of an equivalent amount of stock, which is to be selected by drawing lots.

Alternatively, the Company is empowered as from 1st January, 2009 to purchase its own debentures from the open market. These Debentures must be surrendered to the Trustees for cancellation and any adjustments for accrued interest recorded in the books of account. If in any year the nominal amount of the stock surrendered under this alternative does not amount to ₹ 1,00,000 then the shortfall is to be paid by the Company to the Trustees in cash on 31st December.

The following purchases of stock were made by the Company:

	Nominal value of stock purchased ₹	Purchase price per ₹ 100 of stock ₹
(1) 30th September, 2009	1,20,000	98
(2) 31st May, 2010	75,000	95 (Ex-interest)
(3) 31st July, 2011	1,15,000	92

The Company fulfilled all its obligations under the trust deed.

Prepare the Ledger Accounts : (a) Debenture Stock A/c (b) Debenture Redemption A/c

(c) Debenture Interest A/c.

Note: Ignore costs and taxation (16 Marks)

4. The following information relates to the business of Mr. Incomplete, who requests you to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2012 and a Balance Sheet as on that date:

(a)	Balance as on 31st March, 2011 (₹)	Balance as on 31st March, 2012 (₹)
Building	3,20,000	3,60,000
Furniture	60,000	68,000
Motorcar	80,000	80,000

Stocks	–	40,000
Bills payable	28,000	16,000
Cash and Bank balances	1,80,000	1,04,000
Sundry Debtors	1,60,000	–
Bills receivable	32,000	28,000
Sundry Creditors	1,20,000	–

- (b) Cash transactions during the year included the following besides certain other items:

	₹		₹
Sale of old papers and miscellaneous income	20,000	Cash purchases	48,000
Miscellaneous Trade expenses (including salaries etc.)	80,000	Payment to creditors	1,84,000
Collection from debtors	2,00,000	Cash sales	80,000

- (c) Other information:

- (i) Bills receivable drawn during the year amount to ₹ 20,000 and Bills payable accepted ₹ 16,000.
- (ii) Some items of old furniture, whose written down value on 31st March, 2011 was ₹ 20,000 was sold on 30th September, 2011 for ₹ 8,000. Depreciation is to be provided on Building and Furniture @ 10% p.a. and on Motorcar @ 20% p.a. Depreciation on sale of furniture to be provided for 6 months and for additions to Building for whole year.
- (iii) Of the Debtors, a sum of ₹ 8,000 should be written off as Bad Debt and a reserve for doubtful debts is to be provided @ 2%.
- (iv) Mr. Incomplete has been maintaining a steady gross profit rate of 30% on turnover.
- (v) Outstanding salary on 31st March, 2011 was ₹ 8,000 and on 31st March, 2012 was ₹ 10,000 on 31st March, 2011. Profit and Loss Account had a credit balance of ₹ 40,000.
- (vi) 20% of total sales and total purchases are to be treated as for cash.
- (vii) Additions in Furniture Account took place in the beginning of the year and there was no opening provision for doubtful debts. (16 Marks)

5. (a) From the following information prepare Sales Ledger Adjustment Account and Bought Ledger Adjustment Account in the General Ledger:

On 1.4.2011 balance in bought ledger (Dr.) ₹ 10,000, (Cr.) ₹ 96,000, balance in sales ledger (Dr.) ₹ 1,41,880 (Cr.) ₹ 2,240:

31.3.2012	₹	31.3.2012	₹
Purchases	5,40,000	Discount received	7,200
Purchases return	20,000	Bills receivable received	40,000
Total sales	7,68,000	Bills payable issued	22,400
Cash sales	40,000	Reserve for doubtful debts	9,160
Sales return	10,000	Cash paid to customers	1,840
Cash received from customers	6,24,000	Bills receivable dishonoured	6,000
Discount allowed	11,200	Bought ledger balance	10,400
Cash paid to suppliers	4,80,000	Sales ledger balance	1,83,200
Transfer from sales to bought ledger	20,800		

(8 Marks)

- (b) Here and There and Co. of Mumbai started a branch at Bangalore on 1.4.2011 to which goods were sent at 20% above cost. The branch makes both cash sales and credit sales. Branch expenses are met from branch cash and balance money remitted to H.O. The branch does not maintain double entry books of account and necessary accounts relating to branch are maintained in H.O. Following further details are given for the year ending on 31.3.2012:

	₹
Cost of goods sent to branch	1,00,000
Goods received by branch till 31.3.2012 at Invoice price	1,08,000
Credit sales for the year	1,16,000
Closing debtors on 31.3.2012	41,600
Bad debts written off during the year	400
Cash remitted to H.O.	86,000
Closing cash on hand at branch on 31.3.2012	4,000
Cash remitted by H.O. to branch during the year	6,000
Closing stock in hand at branch at invoice price	12,000
Expenses incurred at branch	24,000

Draw up the necessary Ledger Accounts like Branch Debtors Account, Branch Stock Account, Goods sent to Branch Account, Branch Cash Account, Branch Expenses Account and Branch Adjustment Account for ascertaining gross profit and Branch Profit and Loss Account for ascertaining Branch profit. (8 Marks)

6. (a) Bright Electricity Company earned a profit of ₹ 1,20,00,000 (after tax) for the year ended 31st March, 2011 on which date it had a capital base of ₹ 8,74,00,000 and the bank rate was 8%. The following additional information about the company is also provided to you:

	₹
Reserve Fund Investment, invested in 8% Government securities at par	1,20,00,000
Contingencies Reserve Fund Investments @ 7% per annum	50,00,000
Loan from State Electricity Board	1,00,00,000
11% Debentures	8,00,000
Development Reserve	32,00,000

Show how the surplus of the company will be disposed of under the provisions of the Electricity Act. (8 Marks)

- (b) A joint stock company resolved to issue 10 lakh equity shares of ₹ 10 each at a premium of ₹ 1 per share. One lakh of these shares were taken up by the directors of the company, their relatives, associates and friends, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications. The issue was underwritten by X, Y and Z for a commission @ 2% of the issue price. 65% of the issue was underwritten by X, while Y's and Z's shares were 25% and 10% respectively.

The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with members of the general public.

Marked applications were as follows: X - 1,19,500 shares; Y - 57,500 shares and Z – 10,500 shares.

Unmarked applications totalled 7,00,000 shares.

Accounts with the underwriters were promptly settled.

You are required to:

- Prepare a statement calculating underwriter's liability for shares.
- Pass journal entries for all transactions including cash transactions. (8 Marks)

7. (a) Paras Ltd. had the following borrowings during a year in respect of capital expansion.

Plant	Cost of Asset	Remarks
	₹	
Plant P	100 lakhs	No specific borrowings
Plant Q	125 lakhs	Bank loan of ₹ 65 lakhs at 10%
Plant R	175 lakhs	9% Debentures of ₹ 125 lakhs were issued.

In addition to the specific borrowings stated above, the Company had obtained term loans from two banks (1) ₹ 100 lakhs at 10% from Corporation Bank and (2) ₹ 110 lakhs at 11.50% from State Bank of India, to meet its capital expansion requirements. Determine the amount of borrowing costs to be capitalized in each of the above Plants, as per AS-16.

- (b) From the following information of Honour Bank Limited, compute the provisions to be made in the Profit and Loss account:

	₹ in lakhs
Assets	
Standard	20,000
Substandard	16,000
Doubtful	
For one year (secured)	6,000
For two years and three years (secured)	4,000
For more than three years (secured by mortgage of plant and machinery ₹ 600 lakhs)	2,000
Non-recoverable Assets	1,500

- (c) 'X' lent ₹ 25,000 to 'Y' on 1st January, 2011. The amount is repayable in 5 half-yearly installments commencing from 1st January, 2012. Calculate the average due date and interest @ 10% per annum.
- (d) What are the reasons for increasing popularity of an ERP package in big organizations?
- (e) Bharat Ltd. grants 1,000 employees stock options on 1.4.2008 at ₹ 40, when the market price is ₹ 160. The vesting period is 2½ years and the maximum exercise period is one year. 300 unvested options lapse on 1.5.2010. 600 options are exercised on 30.6.2011. 100 vested options lapse at the end of the exercise period.

Pass Journal Entries giving suitable narrations.

(5 Marks each)