Test Series: February, 2012

MOCK TEST PAPER – 1

IPCC: GROUP – II

PAPER – 5 : 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) How would you treat the Government grant received relating to a depreciable asset under the following cases as per AS-12?

Case i: Gross value of asset ₹ 2 crores and Grant received ₹ 20 lakhs only.

Case ii: Gross value of asset ₹ 2 crores and Grant received ₹ 2 crores.

(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) Manisha Ltd. makes provision for expenses worth ₹ 7,00,000 for the year ending March 31, 2010, but the actual expenses during the year ending March 31, 2011 comes to ₹ 9,00,000 against provision made during the last year. State with reasons whether difference of ₹ 2,00,000 is to be treated as prior period item as per AS 5.

(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.

(5 Marks each)

2. L and T have been carrying on same business independently. Due to competition in the market, they decided to amalgamate and form a new company called LT Ltd.

Following is the Balance Sheet of L and T as at 31.3.2011:

Liabilities	L ₹	T ₹	Assets	L ₹	T ₹
Capital	7,75,000	8,55,000	Plant & machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
			Current assets	1,63,500	1,58,600
	13,98,500	14,12,600		13,98,500	14,12,600

Following are the additional information:

(i) The authorised capital of the new company will be ₹ 25,00,000 divided into 1,00,000 equity shares of ₹ 25 each.

(ii) Liabilities of L includes ₹ 50,000 due to T for the purchases made. T made a profit of 20% on sale to L.

(iii) L has goods purchased from T, cost to him ₹ 10,000. This is included in the current asset of L as at 31st March, 2011.

(iv) The assets of L and T are to be revalued as under:

	L ₹	T ₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

(v) The purchase consideration is to be discharged as under:

(a) Issue 24,000 equity shares of ₹ 25 each fully paid up in the proportion of their profitability in the preceding 2 years.

(b) Profits for the preceding 2 years are given below:

	L ₹	T ₹
1st year	2,62,800	2,75,125
IInd year	2,12,200	2,49,875
Total	4,75,000	5,25,000

(c) Issue 12% preference shares of ₹ 10 each fully paid up at par to provide income equivalent to 8% return on capital employed in the business as on 31.3.2011 after revaluation of assets of L and T respectively.

You are required to:

(i) Compute the amount of equity and preference shares issued to L and T.

(ii) Prepare the Balance Sheet of L & T Ltd. immediately after amalgamation.

(16 Marks)

3. Rohan Ltd. has three departments I,J,K. The following information is provided for the year ended 31.3.2011:

	I	J	K
	₹	₹	₹
Opening stock	5,000	8,000	19,000
Opening reserve for unrealised profit	–	2,000	3,000
Materials consumed	16,000	20,000	–
Direct labour	9,000	10,000	–
Closing stock	5,000	20,000	5,000
Sales	–	–	80,000
Area occupied (sq. mtr.)	2,500	1,500	1,000
No. of employees	30	20	10

Stock of each department is valued at cost to the department concerned. Stock of I is transferred to J at cost plus 20% and stock of J is transferred to K at a gross profit of 20% on sales. Other common expenses are salaries and staff welfare ₹ 18,000 and rent ₹ 6,000.

Prepare Departmental Trading, Profit and Loss Account for the year ending 31.3.2011.

(16 Marks)

4. 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	500	15,500
Capital accounts:			Stock in trade		10,000
A	20,000		Cash at bank		2,000
B	15,000	35,000	Furniture and fixture		4,000
			Trade mark		7,000
			Capital accounts:		

			C	16,000	
		______	D	6,000	22,000
		60,500			60,500

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)*

5. (a) 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)*

(b) 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:

	₹
Premium received	15,00,000
Re-insurance premium 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 31.3.20116.	

(8 Marks)

6. (a) Electric Supply Ltd. rebuilt and re-equipped one of their Mains at a Cash Cost of ₹ 40,00,000. The old Mains thus superseded cost ₹ 15,00,000. The capacity of the new Main is double that of the old Main. ₹ 70,000 was realised from sale of old materials. Four old motors valued at ₹ 2,00,000 salvaged from the old Main were used in the reconstruction. The cost of Labour and Materials is respectively 30% and 25% higher now than when the old Main was built. The proportion of Labour to Materials in the Main then and now is 2 : 3.

   Show the Journal entries for recording the above transactions. *(8 Marks)*

   (b) 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)*

7. Answer any four out of five:

   (a) A retail store has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known. Is it a liability?

   (b) In Nidhi Co. Ltd., theft of cash of ₹ 2 lakhs by the cashier in January, 2011 was detected in May, 2011. The accounts of the company were not yet approved by the Board of Directors of the company.

   Whether the theft of cash has to be adjusted in the accounts of the company for the year ended 31.3.2011. Decide.

   (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 Marks each)*