

Test Series: October, 2013

MOCK TEST PAPER – 2
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) On 1.4.2009, ABC Ltd. received Government grant of ₹ 300 lakhs for acquisition of a machinery costing ₹ 1,500 lakhs. The grant was credited to the cost of the asset. The life of the machinery is 5 years. The machinery is depreciated at 20% on WDV basis. The Company had to refund the grant in May 2012 due to non-fulfillment of certain conditions. How you would deal with the refund of grant in the books of ABC Ltd.?
- (b) Calculate the diluted earnings per share from the following information:
- | | |
|--|-------------|
| Net profit for the current year | ₹ 85,50,000 |
| Number of equity shares outstanding | 20,00,000 |
| Number of 8% convertible debentures of ₹ 100 each | 1,00,000 |
| Each debenture is convertible into 10 equity shares. | |
| Interest expenses for the current year | ₹ 6,00,000 |
| Tax relating to interest expenses | 30% |
- (c) Holy Ltd. has taken machinery on lease from Pawan Ltd. The information is as under:
- Lease term = 4 years
- Fair value at inception of lease = ₹ 10,00,000
- Lease rent = ₹ 3,12,500 p.a. at the end of year
- Guaranteed residual value = ₹ 62,500
- Expected residual value = ₹ 1,87,500
- Implicit interest rate = 15%
- Discounted rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively.

Calculate the value of the lease liability as per AS 19.

- (d) Calculate the amount of borrowing cost to be capitalized from the following information:

Particulars	Amount (₹)
Amount borrowed till 31-03-12	2,00,000
Amount transferred to construction during 2012-13	1,00,000
Cash payment during 2012-13	50,000
Expenditure incurred till 31-03-2012	3,50,000
Interest cost capitalized for the financial year 2011-12	15,000
Progress payment received	2,50,000
New borrowing during 2012-13 @ 15%	1,50,000

(4 x 5 = 20 Marks)

2. (a) From the data, prepare Departmental Trading Profit and Loss Account and thereafter the combined Profit and Loss Account revealing the concern's true result for the year ended on 31st December 2012:

	Departments	
	A (₹)	B (₹)
Stock (January)	40,000	-
Purchase from outside	2,00,000	20,000
Wages	10,000	1,000
Transfer of goods from Dept. A	-	50,000
Stock (December 31 st) at cost to the Department	30,000	10,000
Sale to outside	2,00,000	71,000

B's entire stock represents goods from Department A which transfers them at 25% above its cost. Administrative and selling expenses amount to ₹ 15,000 which are to be allocated between departments A and B in the ratio 4:1 respectively.

- (b) M/s X has a branch at Delhi and the goods are invoiced to branch at a profit of 20% on invoice price. Head Office paid all the branch expenses from its bank account, except petty cash expenses which were met by the branch. Branch expenses directly paid by M/s X on behalf of Delhi branch amounted to ₹ 10,000. Following information is available of the transactions at Delhi branch for the year ended 31st December, 2012:

	As on 1.1.2012	As on 31.12.2012
	₹	₹
Stock, at invoice price	40,000	50,000

Debtors	12,000	11,000
Petty cash	1,500	2,500
Transactions during year ended 31 st March, 2012:		₹
Goods sent to branch, at invoice price		4,20,000
Goods returned by branch to head office, at invoice price		15,000
Cash sales		1,55,000
Credit sales		1,80,000
Cash sent for petty expenses		6,000
Bad debts at Delhi branch		1,000
Goods returned by debtors		1,000

Prepare Branch account in the books of head office under Debtors System.

(8 + 8 = 16 Marks)

3. AX Ltd. and BX Ltd. amalgamated on and from 1st January, 2013. A new Company ABX Ltd. was formed to take over the businesses of the existing companies.

Summarized Balance Sheet as on 31-12-2012

<i>Equity and Liabilities</i>	<i>AX Ltd. ₹ '000</i>	<i>BX Ltd. ₹ '000</i>	<i>Assets</i>	<i>AX Ltd. ₹ '000</i>	<i>BX Ltd. ₹ '000</i>
Share Capital			Sundry Fixed		
Equity Shares of ₹ 10 each	60,00	70,00	Assets	85,00	75,00
General Reserve	15,00	20,00	Investment	10,50	5,50
P & L A/c	10,00	5,00	Stock	12,50	27,50
Investment Allowance Reserve	5,00	1,00	Trade receivables	18,00	40,00
Export Profit Reserve	50	1,00	Cash & Bank	4,50	4,00
12% Debentures	30,00	40,00			
Trade payables	<u>10,00</u>	<u>15,00</u>			
	<u>130,50</u>	<u>152,00</u>		<u>130,50</u>	<u>152,00</u>

ABX Ltd. issued requisite number of shares to discharge the claims of the equity shareholders of the transferor companies.

You are required to prepare (i) Note showing purchase consideration and discharge thereof, (ii) Journal entries in the books of ABX Ltd. for taking over both companies, (iii) Balance Sheet of ABX Ltd. as on 1st January, 2013 assuming the amalgamation is in the nature of purchase. (16 Marks)

4. (a) In liquidation of Alpha Co. Ltd. which commenced on 1st April, 2012, certain creditors could not receive payment out of the realization of the assets and out of contribution from "A" list contributories. The following are the details of certain transfers which took place after 1st April, 2011:

Shareholders	Number of Shares transferred	Date of ceasing to be member	Creditors remaining unpaid and outstanding on the date of ceasing to be member
			₹
Kamal	2,000	1 st May, 2011	12,000
Lokesh	3,000	1 st July, 2011	15,000
Som	600	1 st Nov., 2011	16,000
Om	400	1 st Feb. 2012	19,000

All the shares were of ₹ 10 each, ₹ 6 paid up. Ignoring expenses, remuneration to liquidator etc., show the amount to be realised from the various persons listed above.

- (b) 'Moon' Ltd., issued 2,00,000 equity shares of ₹ 10 each at par. The entire issue was underwritten as follows:

Big – 1,20,000 shares (Firm underwriting 16,000 shares)

Small – 60,000 shares (Firm underwriting 20,000 shares)

Fat- 20,000 shares (Firm underwriting 4,000 shares)

The total applications including firm underwriting were for 1,60,000 shares.

The marked applications were as follows:

Big- 40,000 shares; Small- 28,000 shares; Fat-12,000 shares.

The underwriting contract provides that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten. Determine the liability of each underwriter, if the benefit of Firm Underwriting is given to Individual Underwriters. (8 + 8 =16 Marks)

5. The following figures have been taken from the books of Centura Bank Limited as on 31st March, 2012:

	₹
Paid up share capital	20,00,000

Interest and discount received	74,11,000
Interest paid on deposits	40,74,000
Salaries and allowances	4,00,000
Rent and taxes paid	1,80,000
Directors' fees and allowances	60,000
Statutory reserve fund	16,00,000
Postages and telegrams	1,20,000
Rent received	1,30,000
Commission, exchange and brokerage	3,80,000
Profit on sale of investments	4,00,000
Depreciation on bank's property	60,000
Law charges	80,000
Auditors' fees	10,000

The following additional information is given to you:

- One customer to whom a sum of ₹ 20 lakhs was advanced has become insolvent and it is expected that only 50% of the amount will be recovered from his estate.
- Auditors find that a provision of ₹ 3 lakhs is necessary against other debts.
- Rebate on bills discounted on 31st March, 2011 was ₹ 24,000 and on 31st March, 2012 was ₹ 32,000.
- Provide ₹ 13,00,000 for income tax.
- The Board of Directors decides to declare dividend @ 10% after transfer of 25% of the year's profit to Statutory Reserve.

You are required to prepare Profit and Loss Account of the bank with all the necessary schedules for the year ended 31st March, 2012. Ignore figures for the previous year and corporate dividend tax. (16 Marks)

6. O and M are partners of O and Co., sharing profits and losses in the ratio of 3 : 1 and M and G are partners of M & Co., sharing profits and losses in the ratio of 2: 1. On 31st March, 2012, they decide to amalgamate and form a new firm M/s OMG & Co., wherein O, M and G would be partners sharing profits and losses in the ratio of 3 : 2 : 1. The Balance Sheets of two firms on the above date are as under:

Liabilities	O & Co.	M & Co.	Assets	O & Co.	M & Co.
	₹	₹		₹	₹
Capitals:			Fixed Assets:		
O	4,80,000	-	Building	1,00,000	-
M	3,20,000	4,00,000	Machinery	3,00,000	3,20,000
G	-	2,00,000	Furniture	40,000	12,000

Reserves	1,00,000	3,00,000	Current Assets:		
Creditors	2,40,000	2,32,000	Stock	2,40,000	2,80,000
Due to O & Co.	-	2,00,000	Debtors	3,20,000	4,00,000
Bank Loan	1,60,000	-	Cash at Bank	60,000	1,80,000
			Cash in hand	40,000	20,000
			Due from M & Co.,	2,00,000	-
			Advances	-	1,20,000
	13,00,000	13,32,000		13,00,000	13,32,000

The amalgamated firm took over the business on the following terms:

- Building of O & Co., was valued at ₹ 2,00,000.
- Machinery of O & Co., was valued at ₹ 4,50,000 and that of M & Co. at ₹ 4,00,000.
- Goodwill valued O and Co. ₹1,00,000 and M & Co., ₹ 82,000 but the same will not appear in the books of OMG & Co.,
- Partners of the new firm will bring the necessary cash to pay other partners to adjust their capitals according to the profit sharing ratio.

You are required to pass journal entries in the books of M/s OMG & Co. and prepare the Balance Sheet as at 31.3.2012. (16 Marks)

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

- Beta Ltd. has its share capital divided into shares of ₹ 10 each. On 1st April, 2011, it granted 25,000 employees stock options at ₹ 50 when the market price was ₹ 140 per share. The options were to be exercised between 1st January, 2012 and 28th February, 2012. The employees exercised options for 24,000 shares only; the remaining options lapsed. The company closes its books of account on 31st March every year. You are required to show necessary journal entries reflecting these transactions.
- From the following information of Reliable Marine Insurance Ltd. for the year ending 31st March, 2012, find out the Net claims incurred:

	(₹) Direct Business	(₹) Re-insurance Business
Claims:		
Paid	69,00,000	5,54,000
Payable – 01.04.2011	89,000	15,000
Payable – 31.03.2012	95,000	12,000
Received		2,01,000
Receivable – 01.04.2011		40,000
Receivable – 31.03.2012		38,000

- (c) Mr. P bought a forward contract for three months of US\$ 1,50,000 on 1st November at 1 US\$ = ₹ 48.00 when exchange rate was US\$ 1 = ₹ 47.10. On 31st December, he decided to sell the contract at ₹ 48.05 per dollar. Show how the profits from contract will be recognized in the books.
- (d) Sohan Ltd. provides you the following information:
- | | |
|----------------------|-------------------------------------|
| Issued capital | 1,00,000 equity shares of ₹ 10 each |
| Reserves and surplus | Capital reserve ₹ 5,00,000 |
| | Securities premium ₹ 9,00,000 |
| | Revenue reserve ₹ 15,00,000 |
- The company resolved to buy 10% of its equity share capital @ ₹ 60 per share. Give the necessary journal entries in the books of Sohan Ltd.
- (e) Expert Ltd. is in a dispute involving allegation of infringement of patents by a competitor Loyal Ltd. who is seeking damages of a huge sum of ₹ 500 lakhs. The directors of Expert Ltd. 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 Expert Ltd.?
(4 x 4 = 16 Marks)