

Test Series: August, 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) Hello Ltd. took a factory premises on lease on 1.4.2011 for ₹ 4,00,000 per month. The lease is operating lease. During March, 2012, Hello Ltd. relocates its operation to a new factory building. The lease on the old factory premises continues to be live upto 31.12.2014. The lease cannot be cancelled and cannot be sub-let to another user. The auditor insists that lease rent of balance 33 months upto 31.12.2014 should be provided in the accounts for the year ending 31.3.2012. Hello Ltd. seeks your advice.
- (b) An industry borrowed ₹ 20,00,000 for purchase of machinery on 1.6.2011. Interest on loan is 9% per annum. The machinery was put to use from 1.1.2012. Pass journal entry for the year ended 31.3.2012 to record the borrowing cost of loan as per AS 16.
- (c) A company with a turnover of ₹ 50 crores and an annual advertising budget of ₹ 0.4 crore had taken up the marketing of a new product. It was estimated that the company would have a turnover of ₹ 5 crores from the new product. The company had debited to its Profit and Loss account the total expenditure of ₹ 0.4 crore incurred on extensive special initial advertisement campaign for the new product.
- Is the procedure adopted by the company correct?
- (d) From the following information relating to Y Ltd. Calculate Earnings Per Share (EPS):

	₹ in crores
Profit before V.R.S. payments but after depreciation	75.00
Depreciation	10.00
VRS payments	32.10
Provision for taxation	15.00
Paid up share capital (shares of ₹10 each fully paid)	93.00

(5 Marks each)

2. Following are the summarised Balance Sheets of T Ltd. and P Ltd. as at 31.3.2012:

Particulars	T Ltd. ₹	P Ltd. ₹
Share capital: Equity shares of ₹10 each (fully paid up)	2,00,000	1,20,000
Securities premium	40,000	-
General reserve	60,000	50,000
Profit and loss account	36,000	32,000
10% Debentures	1,00,000	-
Secured loan	-	60,000
Sundry creditors	<u>52,000</u>	<u>34,000</u>
	<u>4,88,000</u>	<u>2,96,000</u>
Land and building	1,80,000	90,000
Plant and machinery	1,00,000	76,000
Investment	16,000	-
Stock	1,04,000	70,000
Debtors	82,000	52,000
Cash at bank	<u>6,000</u>	<u>8,000</u>
	<u>4,88,000</u>	<u>2,96,000</u>

The companies agree on a scheme of amalgamation on the following terms:

- (i) A new company is to be formed by name TP Ltd.
- (ii) TP Ltd. to take over all the assets and liabilities of the existing companies. Amalgamation is to be considered in the nature of purchase.
- (iii) For the purpose of amalgamation, the shares of the existing companies are to be valued as under:
T Ltd. = ₹ 18 per share
P Ltd. = ₹ 20 per share
- (iv) A contingent liability of T Ltd. of ₹ 12,000 is to be treated as actual existing liability.
- (v) The shareholders of T Ltd. and P Ltd. are to be paid by issuing sufficient number of shares of TP Ltd. at a premium of ₹ 6 per share.
- (vi) The face value of shares of TP Ltd. are to be of ₹ 10 each.

You are required to:

- (i) Calculate the purchase consideration (i.e., number of shares to be issued to T Ltd. and P Ltd.).
 - (ii) Pass journal entries in the books of T Ltd. for the transfer of assets and liabilities.
 - (iii) Pass journal entries in the books of TP Ltd. for acquisition of T Ltd. and P Ltd.
 - (iv) Prepare the Balance Sheet of TP Ltd. (16 Marks)
3. E, F and G were partners in business, sharing profits & losses in the ratio 2:1:1. Their Balance Sheet as at 31.3.2012 is as follows:

Balance Sheet as at 31.3.2012

(Figures in ₹ 000)

Liabilities		₹	Assets		₹
Fixed Capital:			Fixed Assets		9,00,000
E	6,00,000		Investments		1,50,000
F	3,00,000		Current		
G	<u>3,00,000</u>	12,00,000	Assets:		
Current Accounts:			Stock	3,00,000	
E	1,20,000		Debtors	1,80,000	
F	<u>60,000</u>	1,80,000	Cash & Bank	<u>4,50,000</u>	9,30,000
Unsecured Loans		<u>6,00,000</u>			
		<u>19,80,000</u>			<u>19,80,000</u>

On 1.4.2012, it is agreed among the partners that FG (P) Ltd. a newly formed company with F and G having each taken up 100 shares of ₹ 10 each will take over the firm as a going concern including goodwill but excluding cash & bank balances. The following points are also agreed upon:

- (a) Goodwill will be valued at 3 years purchase of super profits.
- (b) The actual profit for the purpose of goodwill valuation will be ₹ 3,00,000.
- (c) Normal rate of return will be 15% on fixed capital.
- (d) All other assets and liabilities will be taken over at book values.
- (e) The purchase consideration will be payable partly in shares of ₹ 10 each and partly in cash. Payment in cash being to meet the requirement to discharge E, who has agreed to retire.
- (f) F and G are to acquire equal interest in the new company by adjusting the difference through their capital accounts.
- (g) Expenses of liquidation ₹ 1,20,000.

You are required to prepare the necessary Ledger Accounts.

(16 Marks)

4. The London branch of Amit, Kolkata sent the following trial balance as on 31st December, 2012:

	\$	\$
Head office A/c	—	11,400
Sales	—	42,000
Debtors and creditors	2,400	1,700
Machinery	12,000	—
Cash at bank	600	—
Stock, 1 January, 2012	5,600	—
Goods from H.O.	32,000	—
Expenses	<u>2,500</u>	<u>—</u>
	<u>55,100</u>	<u>55,100</u>

In the books of head office, the Branch A/c stood as follows:

London Branch A/c

	₹		₹
To Balance b/d	4,05,000	By Cash	14,38,000
To Goods sent to branch	<u>14,63,000</u>	By Balance c/d	<u>4,30,000</u>
	<u>18,68,000</u>		<u>18,68,000</u>

Goods are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%. Machinery was acquired on 31st January, 2007, when \$ 1.00 = ₹ 40.

Rates of exchange were:

1 st January, 2012	\$ 1.00	=	₹ 46
31 st December, 2012	\$ 1.00	=	₹ 48
Average	\$ 1.00	=	₹ 47

Machinery is depreciated @ 10% and the branch manager is entitled to a commission of 5% on the profits of the branch before charging such commission.

You are required to:

- Prepare the Branch Trading & Profit & Loss A/c in dollars.
- Convert the Trial Balance of branch into Indian currency and prepare Branch Trading & Profit and Loss A/c and the Branch A/c in the books of head office.

(16 Marks)

5. (a) On 1st January, 2007 Gopal Limited issued fifteen years 10,000 debentures of ₹ 100 each bearing interest at 10% p.a. One of the conditions of issue was that the company could redeem the debentures by giving six months' notice at any time after 5 years, at a premium of 4% either by payment in cash or by allotment of preference shares and/or other debentures at the option of the debenture holders.

On 1st April, 2012 the Company gave notice to the debenture holders of its intention to redeem the debentures on 1st October, 2012 either by payment in cash or by allotment of 11% preference shares of ₹ 100 each at ₹ 130 per share or 11% Second Debentures of ₹ 100 at ₹ 96 per debenture.

Holders of 4,000 debentures accepted the offer of the preference shares, holders of 4,800 debentures accepted the offer of the 11% second debentures and the rest demanded cash on 1st October, 2012.

Give the journal entries to give effect to the above as of 1st October, 2012. (8 Marks)

- (b) Prepare the Fire Insurance Revenue A/c as per IRDA Regulations for the year ended 31st March, 2012 from the following details:

	₹
Claims paid	2,45,000
Legal expenses regarding claims	5,000
Premiums received	6,50,000
Re-insurance premium paid	50,000
Commission	1,50,000
Expenses of management	1,00,000
Provision against unexpired risk on 1 st April, 2011	2,75,000
Claims unpaid on 1 st April, 2011	25,000
Claims unpaid on 31 st March, 2012	40,000

(8 Marks)

6. (a) The following is an extract from the Trial Balance of Sanjay Bank Ltd. as at 31st March, 2012:

Rebate on bills discounted as on 1-4-2011	17,065 (Cr.)
Discount received	42,539 (Cr.)

Analysis of the bills discounted reveals as follows:

Amount (₹)	Due date
70,000	June 1, 2012
2,18,000	June 8, 2012
1,41,000	June 21, 2012

2,03,000	July 1, 2012
1,50,000	July 5, 2012

You are required to find out the amount of discount to be credited to Profit and Loss account for the year ending 31st March, 2012 and pass Journal Entries. The rate of discount may be taken at 10% per annum. (8 Marks)

- 6 (b) In a winding up of a company, certain creditors remained unpaid. The following persons had transferred their holding sometime before winding up :

Name	Date of Transfer (2011)	No. of Shares transferred	Amount due to creditors on the date of transfer ₹
X	January 1	1,000	7,500
Y	February 15	400	12,500
Z	March 15	700	18,000
A	March 31	900	21,000
B	April 5	1,000	30,000

The shares were of ₹ 100 each, ₹ 80 being called up and paid up on the date of transfers.

A member 'P' who held 200 shares died on 28th February, 2011 when the amount due to creditors was ₹ 15,000. His shares were transmitted to his son L.

Q was the transferee of shares held by A. Q paid ₹ 20 per share as calls in advance immediately on becoming a member.

The liquidation of the company commenced on 1st February, 2012 when the liquidator made a call on the present and the past contributories to pay the amount.

You are asked to quantify the maximum liability of the transferors of shares mentioned in the above table, when the transferees:

- pay the amount due as "present" member contributories;
- do not pay the amount due as "present" member contributories.

Also quantify the liability of L to whom shares were transmitted on the demise of his father 'P'. (8 Marks)

7. Answer any four out of five

- A Company entered into an agreement to sell its immovable property to another company for 70 lakhs. The property was shown in the Balance Sheet at ₹ 14 lakhs. The agreement to sell was concluded on 15th February, 2012 and sale deed was registered on 30th April, 2012.

You are required to state, with reasons, how this event would be dealt with in the financial statements for the year ended 31st March, 2012.

- (b) A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2012, when the exchange rate was ₹ 43 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2012 when the exchange rate was ₹ 47 per US Dollar. However, on 31st March, 2012, the rate of exchange was ₹ 48 per US Dollar. The company passed an entry on 31st March, 2012 adjusting the cost of raw materials consumed for the difference between ₹ 47 and ₹ 43 per US Dollar.

In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

- (c) Give computation of "claim expense" in the case of an insurance company.
- (d) On what basis common expenditures are allocated among different departments?
- (e) A Limited Company finds that the stock sheets as on 31.3.2011 had included twice an item, the cost of which was ₹ 60,000.

You are asked to suggest, how the error would be dealt with in the accounts of the year ended 31.3.2012. *(4 Marks each)*