Test Series: September, 2012

MOCK TEST PAPER - 2

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) KK Ltd. has to pay delayed cotton clearing charges over and above the negotiated price for taking delayed delivery of cotton from the Suppliers' godown. Up to 2010-11, the company has regularly included such charges in the valuation of closing stock. This being in the nature of interest the company has decided to exclude it from closing stock valuation for the year 2011-2012. This would result into decrease in profit by ₹ 7.60 lakhs. How would you deal with the following in the annual accounts of a company for the year ended 31st March, 2012?

(b) In May, 2011, Dream Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2012 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was ₹ 18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2012 amounted to ₹ 25 lakhs. Can ₹ 25 lakhs be treated as part of the cost of factory building and thus be capitalized on the plea that the loan was specifically taken for the construction of factory building?

(c) A company deals in petroleum products. The sale price of petrol is fixed by the government. After the Balance Sheet date, but before the finalisation of the company's accounts, the government unexpectedly increased the price retrospectively. Can the company account for additional revenue at the close of the year? Discuss.

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

	₹	₹
Bills discounted	51,50,000	
Rebate on bills discounted not yet due, April 1, 2011		30,501
Discount received		1,45,500

An analysis of the bills discounted as shown above shows the following:

Date of Bills	Amount (₹)	Term Months	Discount percentage p.a.
January 13, 2012	7,50,000	4	12
February 17, 2012	6,00,000	3	10
March 6, 2012	4,00,000	4	11
March 16, 2012	2,00,000	2	10

Find out the amount of discount received to be credited to Profit and Loss Account and how the relevant items will appear in the Bank's Balance Sheet? *(5 Marks each)*

2. PK, DK and LK are in partnership. The following is their Balance Sheet as at March 31, 2012 on which date they dissolved their partnership. They shared profit in the ratio of 5:3:2.

Liabilities		₹	Assets	₹
Creditors		1,60,000	Plant and machinery	1,20,000
Loan A/c –	PK	40,000	Premises	1,60,000
Capital A/cs -	PK	2,00,000	Stock	1,20,000
	DK	60,000	Debtors	2,40,000
	LK	1,80,000		
		6,40,000		6,40,000

It was agreed to repay the amounts due to the partners as and when the assets were realised, viz.

April 15, 2012	₹ 1,20,000
May 1, 2012	₹ 2,92,000
May 31, 2012	₹ 1,88,000

Prepare a statement showing how the distribution should be made under maximum loss method and write up the cash account and partner's capital accounts. *(16 Marks)*

3. (a) Sun Limited came up with an issue of 25,00,000 Equity shares of ₹ 10 each at par. 4,00,000 shares were issued to the promoters and balance offered to the public. Issue was underwritten by three underwriters X & Co., Y & Co., and Z & Co., equally, with firm underwriting of 1,00,000 shares each. Subscription totalled 17,26,000 shares, including the marked forms which were as under:

X& Co.	5,18,000 Shares
Y & Co.	5,50,000 Shares
Z & Co.	4,72,000 Shares

The underwriters had applied for the number of shares covered by firm underwriting. The amount payable on application and allotment were ₹ 3 & ₹ 2 respectively. The agreed commission is 3%.

You are required to calculate:

(i) The liability of each underwriter.

(ii) The amount payable and/or receivable by the underwriter. *(8 Marks)*

(b) The following particulars are presented to you by Jeevan General Insurance Company regarding its fire insurance business for the year ended 31st March, 2012:

	₹	₹
Reserve for unexpired risk on 31st March, 2011		
(i) 50% of net premium income for 2010-2011	7,50,000	
(ii) Additional reserve on 31st March, 2011	1,50,000	9,00,000
Claims paid		4,20,000
Commission paid		1,20,000
Bad debts		15,000
Expenses of management		4,35,000
Premiums received less reinsurances		18,15,000
Claims outstanding on 31st March, 2011		1,50,000
Commission earned on reinsurance ceded		88,500
Estimated liability on 31st March, 2012 in respect of claims due or intimated		3,00,000

Prepare the Fire Revenue Account for the year ended 31st March, 2012 in the proper form and with necessary schedules. On 31st March, 2012 the company decides to keep total additional reserve for unexpired risk equal to 15% of the net premium income for the year. *(8 Marks)*

4. Well Ltd. furnishes you with the following draft balance sheet as at 31st March, 2012:

		(₹ in crores)
Sources of Funds		
Share Capital:		
Authorised		200
Issued:		
12% Redeemable preference shares of ₹ 100 each fully paid up	150	
Equity shares of ₹ 10 each fully paid up	50	200

Reserves and surplus:		
Capital reserve	30	
Securities Premium	50	
Revenue reserves	520	600
		800
Application of Funds		
Fixed assets: cost	200	
Less: Provision for depreciation	(200)	nil
Investments at cost (Market value ₹ 800 Cr.)		200
Current assets (cash at bank)	680	
Less: Current liabilities	80	600
		800

The company redeemed preference shares on 1st April, 2012. It also bought back 100 lakh equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balances, which appeared as a part of current assets.

You are asked to:

(i) Pass journal entries to record the above.

(ii) Prepare balance sheet as at 1.4.2012.

(iii) Calculate the value of an equity share on net assets basis. *(16 Marks)*

5. Ram Ltd. has two departments One and Two. From the following particulars prepare departmental trading accounts and general profits and loss account for the year ending 31st March, 2012:

	Department One ₹	Department Two ₹
Opening stock (at cost)	80,000	48,000
Purchases	3,68,000	2,72,000
Carriage inward	8,000	8,000
Wages	48,000	32,000
Sales	5,60,000	4,48,000
Purchased goods transferred		
By department Two to One	40,000	-
By department One to Two	-	32,000

Finished goods transferred		
By department Two to One	1,40,000	-
By department One to Two	-	1,60,000
Return of finished goods		
By department Two to One	40,000	-
By department One to Two	-	28,000
Closing stock		
Purchased goods	18,000	24,000
Finished goods	96,000	56,000

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 25% of the closing finished stock with each department represents finished goods received from the other department. *(16 Marks)*

6. (a) G Limited has retail branch at Agra. Goods are sold to customers at cost plus 100%. The wholesale price is cost plus 80%. Goods are invoiced to Agra at wholesale price. From the following particulars, find out the profit made by the Head Office and Agra Branch for the year ended 31st March, 2012 using invoice method.

	Head Office ₹	Agra ₹
Stock on April 1, 2011	1,00,000	---
Purchases	6,00,000	---
Goods sent to branch (at invoice value)	2,16,000	---
Sales	6,12,000	2,00,000
Expenses	1,80,000	8,000

Sales at Head Office are made only on wholesale basis and sales at branch are made only to customers. Stock at branch is valued at invoice price. *(8 Marks)*

(b) The following figures have been taken from the books of 'X' 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' fee	10,000

The following additional information is given to you:

(i) 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.

(ii) Auditors find that a provision of ₹ 3 lakhs is necessary against other debts.

(iii) Rebate on bills discounted on 31st March, 2011 was ₹ 24,000 and on 31st March, 2012 was ₹ 32,000.

(iv) Provide ₹ 13,00,000 for income tax.

(v) 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. *(8 Marks)*

7. (a) An intangible item is appearing in the Balance Sheet of A Ltd. at ₹ 15 lakhs on 1-4-2012. The item was acquired for ₹ 25 lakhs on 1-4-2010. The enterprise has been following a policy of amortizing the intangible item over a period of 5 years on straight line basis. Applying paragraph 63 of AS 26 the enterprise determines the amortization period to be 8 years, being the best estimate of its useful life, from the date when the item was available for use i.e., April, 1, 2010. Comment.

(b) 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 assets ₹ 2 crores and Grant received ₹ 2 crores.

(c) In April, 2011, A Limited issued 9,00,000 Equity shares of ₹ 10 each, ₹ 5 per share was called up on that date which was paid by all the shareholders. The remaining ₹ 5 was called up on 1-9-2011. All the Shareholders (except one having 1,80,000 shares) paid the sum in September 2011. The net profit for the year ended 31-3-2012 is ₹ 16.5 lakhs after dividend on preference shares and dividend distribution tax of ₹ 3.30 lakhs.

Compute the basic EPS for the year ended 31st March, 2012 as per AS 20.

(d) The liquidator of a company is entitled to a remuneration of 2% on assets realized and 3% on the amount distributed to unsecured creditors. The assets realized ₹ 15,00,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration is ₹ 6,18,000. Calculate liquidator's remuneration if the surplus is insufficient to pay off unsecured creditors.

(e) Mukta Ltd. purchased fixed assets costing ₹ 6,000 lakhs on 1.1.2012. This was financed by foreign currency loan (U.S. Dollars) payable in three annual equal instalments. Exchange rates were 1 Dollar = ₹ 40 and ₹ 45 as on 1.1.2012 and 31.12.2012 respectively. First instalment was paid on 31.12.2012.

You are required to state, how these transactions would be accounted for?

(4 Marks each)