

Test Series: September, 2013

MOCK TEST PAPER – 1
INTERMEDIATE (IPC): 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) Suraj 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. and the implicit rate of interest is 15%. The chief accountant of Suraj Limited is not sure about the treatment of these lease rentals and seeks your advise. (Annuity factor of ₹ 1 at 15% for five years is 3.36 approximately).
- (b) Sun Ltd. has entered into a sale contract of ₹ 5 crores with X Ltd. during 2012-13 financial year. The profit on this transaction is ₹ 1 crore. The delivery of goods to take place during the first month of 2013-14 financial year. In case of failure of Sun Ltd. to deliver within the schedule, a compensation of ₹ 1.5 crores is to be paid to X Ltd. Sun Ltd. planned to manufacture the goods during the last month of 2012-13 financial year. As on balance sheet date (31.3.2013), the goods were not manufactured and it was unlikely that Sun Ltd. will be in a position to meet the contractual obligation. Should Sun Ltd. provide for contingency as per AS 29?
- (c) From the following information relating to W Ltd., calculate diluted earnings per share as per AS 20:

		₹
(i)	Net profit for the current year (PAT)	5,00,00,000
(ii)	Number of equity shares outstanding	1,00,00,000
(iii)	11% convertible debentures of ₹ 100 each (Nos.)	1,25,000
(iv)	Interest expenses for current year on Debentures	13,75,000
(v)	Tax saving relating to interest expense	30%
(vi)	Each debenture is convertible into eight equity shares.	

(d) The summarized Balance Sheet of Gunshot Ltd. as on 31.3.2012 is given below:

(₹ in '000)

Liabilities	Amount	Assets	Amount
Share Capital :		Fixed Assets	2,700
Equity shares of ₹ 10 each	800	Non-trade Investments	300
Securities Premium	100	Inventory	600
General Reserve	780	Trade receivables	360
Profit and Loss Account	120	Cash and Bank	160
10% Debenture	2,000		
Trade payables	<u>320</u>		
	<u>4,120</u>		<u>4,120</u>

Gunshot Ltd. buy back 16,000 shares of ₹ 20 per share. For this purpose, the Company sold its all non-trade investments for ₹ 3,20,000. Give Journal Entries with full narrations affecting the buy back. (4 x 5 = 20 Marks)

2. The following is the summarised Balance Sheet of Weak Ltd. as on 31.3.2012:

Liabilities	₹	Assets	₹
Equity shares of ₹ 100 each	1,00,00,000	Fixed assets	1,25,00,000
12% Cumulative preference shares of ₹ 100 each	50,00,000	Investments (Market value ₹ 9,50,000)	10,00,000
10% Debentures of ₹ 100 each	40,00,000	Current assets	1,00,00,000
Creditors	50,00,000	P & L A/c	6,00,000
Provision for taxation	1,00,000		
	<u>2,41,00,000</u>		<u>2,41,00,000</u>

The following scheme of reorganization is sanctioned:

- All the existing equity shares are reduced to ₹ 40 each.
- All preference shares are reduced to ₹ 60 each.
- The rate of interest on debentures is increased to 12%. The debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.
- One of the creditors of the company to whom the company owes ₹ 20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of ₹ 40 each in full satisfaction of his claim.
- Fixed assets are to be written down by 30%.

- (vi) Current assets are to be revalued at ₹ 45,00,000.
- (vii) The taxation liability of the company is settled at ₹ 1,50,000.
- (viii) Investments to be brought to their market value.
- (ix) It is decided to write off the debit balance of Profit and Loss account.

Pass Journal entries and show the Balance Sheet of the company after giving effect to the above. (16 Marks)

- 3 (a) Om Ltd. has three departments and submits the following information for the year ending on 31st March, 2013:

	A	B	C	Total (₹)
Purchases (units)	6,000	12,000	14,400	6,00,000
Purchases (Amount)				
Sales (Units)	6,120	11,520	14,976	
Selling Price (₹ per unit)	40	45	50	
Closing Stock (Units)	600	960	36	

You are required to prepare departmental trading account of Om Ltd., assuming that the rate of profit on sales is uniform in each case.

- (b) Ram Limited invited applications from public for 10,00,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The entire issue was underwritten by the underwriters X, Y, Z and T to the extent of 30%, 30%, 20% and 20% respectively with the provision of firm underwriting of 30,000, 20,000, 10,000 and 10,000 shares respectively. The underwriters were entitled to the maximum 2.5% commission.

The company received applications for 7,00,000 shares from public (excluding firm underwriting) , out of which applications for 1,90,000, 1,00,000, 2,10,000 and 80,000 shares were marked in favour of X, Y, Z and T respectively.

Calculate the gross liability of each underwriter in terms of shares if the benefit of firm underwriting is given to individual underwriter. (10 + 6 = 16 Marks)

4. (a) Following information is furnished to you by Sona Bank Ltd. for the year ended 31st March, 2013:

	(₹ in thousands)
Interest and discount - (Income)	8,860
Interest on public deposits – (Expenditure)	2,720
Operating expenses	2,662
Other incomes	250
Provisions and contingencies (it includes provision in respect of	2,004

Non-Performing Assets (NPAs) and tax provisions)	
Rebate on bills discounted to be provided for as on 31.3.2013	30
Classification of Advances:	
Standard Assets	5,000
Sub-standard Assets– fully secured	1,120
Doubtful Assets – fully unsecured	200
Doubtful assets – fully secured	
Less than 1 year	50
More than 1 year but less than 3 years	300
More than 3 years	300
Loss assets	200

You are required to:

- (i) prepare Profit and Loss Account of the Bank for the year ended 31st March, 2013.
 - (ii) calculate provision in respect of advances.
- (b) On 31st March, 2013 the books of Beta Insurance Company Limited, contained the following particulars in respect of fire insurance:

Particulars	Amount
	₹
Reserve for unexpired risks on March 31, 2012	5,00,000
Additional Reserve for unexpired risks on March 31, 2012	1,00,000
Premiums received	11,20,000
Claims paid	6,40,000
Estimated liability in respect of outstanding claims:	
On March 31, 2012	65,000
On March 31, 2013	90,000
Expenses of management (including ₹ 30,000 legal expenses paid in connection with the claims)	2,80,000
Interest and dividend	64,250
Income tax on the above	6,520
Profit on sale of investments	11,000
Commission paid	1,52,000

On 31st March, 2013 provide ₹ 5,60,000 as unexpired risk reserve and ₹75,000 as additional reserve.

You are required to prepare the Fire Insurance Revenue account as per regulations of IRDA, for the year ended 31st March, 2013. (8+8= 16 marks)

5. Following information relates to Raipur Branch of XYZ Ltd.:

	₹
Stock at invoice price on 1.04.2012	12,000
Debtors on 1.04.2012	6,200
Goods sent to the Branch (invoice price)	35,000
Goods returned by the Branch (invoice price)	1,000
Sales:	
Credit	21,000
Cash	20,000
Goods returned by customers	600
Cash received from debtors	19,800
Discount allowed to them	300
Cash sent for expenses to the Branch	6,100
Shortage of goods at the Branch (invoice price)	400

Goods are invoiced to the Branch at the selling price so as to show a profit of 30% on invoice price. You are required to find the amount of profit or loss for the branch in year 2012-2013, using stock and debtor system. (16 Marks)

6. Tinu, Mike and Shine are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2012 is as follows:

Liabilities	₹	Assets	₹
Capital accounts:		Plant and Machinery	1,08,000
Tinu 1,20,000		Fixtures	24,000
Mike 48,000		Stock	60,000
Shine <u>24,000</u>	1,92,000	Sundry debtors	48,000
Reserve Fund	60,000	Cash	60,000
Creditors	<u>48,000</u>		
	<u>3,00,000</u>		<u>3,00,000</u>

They decided to dissolve the business. The following are the amounts realized:

Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realization expenses amounted to ₹1,500. There was unrecorded assets of ₹ 6,000 which was taken over by Mike at ₹4,800. A bill for

₹ 4,200 due for sales tax was received during the course of realization and this was also paid.

You are required to prepare:

- (i) Realisation account;
- (ii) Partners' capital accounts and
- (iii) Cash account.

(16 Marks)

7. Answer any four of the following:

- (a) Alpha Ltd. had spent ₹ 45 lakhs for publicity and research expenses on one of its new consumer product, which was marketed in the accounting year 2012-2013, but proved to be a failure. How will you deal with this expenditure in the books of company ended 31st March, 2013 with reference to AS 26.
- (b) Define (i) Current Liabilities & Non-Current Liabilities, (ii) Operating Cycle as per Revised Schedule VI.
- (c) A Limited finds that the stock sheets as on 31.3.2013 had included twice an item the cost of which was ₹ 20,000. You are asked to suggest, how the error would be dealt with in the accounts of the year ended 31.3.2014.
- (d) Rainbow Limited borrowed an amount of ₹ 150 crores on 1.4.2012 for construction of boiler plant @ 11% p.a. The plant is expected to be completed in 4 years. Since the weighted average cost of capital is 13% p.a., the accountant of Rainbow Ltd. capitalized ₹ 19.50 crores for the accounting period ending on 31.3.2013. Due to surplus fund out of ₹ 150 crores an income of ₹ 3.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard.
- (e) What are the consequences if a partner of a firm goes insolvent? (4 x 4 = 16 Marks)