

AATMAN ACADEMY

Model Test – 1 Nov 2013 Paper 5 IPCC Gr. 2 Accounting

Time : 3 Hours

[100 marks]

Question 1 is compulsory, Attempt any Five from remaining.

Q. 1 [5 x 4 = 20 Marks]

a)

Brite Ltd. has its share capital divided into shares of ₹ 10 each. On 1st April, 2010, 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, 2011 and 28th February, 2011. 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 journal entries for all the above-mentioned transactions.

b)

X Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of ₹ 10 each at ₹ 22 per share. For the purpose, it issues 1 lakh 11 % preference shares of ₹ 10 each at par, the entire amount being payable with applications. The company uses ₹ 16 lakhs of its balance in Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions.

c)

X Limited began construction of a new plant on 1st April 2012 and obtained a special loan of 8 lakhs to finance the construction of the plant. The rate of interest on loan was 10 per cent per annum.

The expenditure that was made on the construction project of plant was as follows:

	₹
1-4-2012	10,00,000
1-8-2012	24,00,000
1-1-2013	4,00,000

The Company's other outstanding non - specific loan was ₹ 46,00,000 at an interest of 12 percent per annum.

The construction of the plant was completed on 31-3-2013. You are required to calculate the amount to be capitalized including amount of interest as per the provision of AS 16 'Borrowing Costs'.

d)

A Company had deferred research and development cost amounting ₹ 225 Lakhs. Sales expected in the subsequent years are as under:

Years	Sales (₹ in lakhs)
1	600
2	450
3	300
4	150

You are asked to suggest how should research and development cost be charged to Profit and Loss Account assuming entire cost of ₹ 225 Lakhs is development cost. If at the end of 3rd year, it is felt that no further benefit will accrue in the 4th year, how the unamortized expenditure would be dealt with in the accounts of the company ?

Q. 2 [16 Marks]

X Ltd. and Y Ltd. were amalgamated on and from 1st April, 2007 and formed a new company Z Ltd. to takeover the business of X Ltd. and Y Ltd. The summarized Balance Sheets of X Ltd. and Y Ltd., as on 31st March, 2012 are as follows:

Liabilities	X Ltd.	Y Ltd.	Assets	(₹ in Crores)	
				X Ltd.	Y Ltd.
Share Capital:			Land and Buildings	38	25
Equity share of ₹10 each	50	45	Plant and Machinery	24	17
10% Preference shares of ₹100	20	14	Investments	10	6

each					
Revaluation Reserve	10	6	Stock	22	15
General Reserve	12	8	Sundry Debtors	25	20
Investment Allowance Reserve	5	4	Bills Receivable	5	4
Profit & Loss Account	8	6	Cash at Bank	16	13
15% Debentures of ₹100 each (Secured)	4	5			
Sundry Creditors	19	7			
Bills Payable	12	5			
	140	100		140	100

Additional Information:

- (1) Z Ltd. will issue 6 equity shares for 10 equity shares of X Ltd. and 2 equity shares for 5 equity shares of B Ltd. The shares are issued @ ₹30 each having a face value of ₹10 per share.
- (2) Preference shareholders of two companies are issued equivalent number of 15% preference shares of Z Ltd. at a price of ₹120 per share (face value ₹100).
- (3) 15% Debentureholders of X Ltd. and Y Ltd. are discharged by Z Ltd. issuing such number of its 18% Debentures of ₹100 each so as to maintain the same amount of interest.
- (4) Investment allowance reserve is to be maintained for 4 more years. Prepare the Balance Sheet of Z Ltd. after amalgamation. The amalgamation took place in the nature of purchase.

Q. 3

[16 Marks]

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
Tinuu	1,20,000	Fixtures	24,000
Mike	48,000	Stock	60,000
Shine	24,000	Sundry debtors	48,000
Reserve Fund	60,000	Cash	60,000
Creditors	48,000		
	3,00,000		3,00,000

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 an 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:

- Realisation account.
- Partners capital account.
- Cash account

Q. 4

[8 + 8 Marks]

(a)

A company had 32,000, 12% debentures of ₹ 100 each outstanding as on 1st April, 2010, redeemable on 31st March, 2011. On that day, sinking fund was ₹ 29,96,000 represented by 4,000 own debentures purchased at the average price of ₹ 99 and 9% stocks face value of ₹ 26,40,000. The annual instalment was ₹ 1,13,600.

On 31st March, 2011 the investments were realized at ₹ 98 and the debentures were redeemed. You are required to write up the following accounts for the year ending 31st March 2011:

- (1) 12% Debentures account
- (2) Debenture redemption sinking fund account.

(b)

From the following information, you are required to calculate the amount of Provisions and Contingencies and prepare Profit and Loss Account of Good Bank Ltd. for the year ended 31.3.2012:

	(₹ in '000)
Interest and Discount	7,500
Other Income	100
Interest paid on deposits	2,000
Operating expenses	2,500
Additional Information:	
Classification of Advances:	
(i) Standard assets	3,000
(ii) Sub-standard assets (fully secured)	1,200
(iii) Doubtful assets (fully unsecured)	500
(iv) Doubtful assets (fully secured)	
Less than 1 year	80
More than 1 year, but less than 3 years	200
More than 3 years	200
(v) Loss assets	400
Provide 40% of the profits towards provision for taxation.	
Transfer 25% of the profits to Statutory Reserves.	

Q. 5

[8 + 8 Marks]

(a)

A company manufacturing electronic components operates with 2 departments. Transfers are made between the departments of both purchased goods and manufactured finished goods. Goods purchased are transferred at cost and manufactured goods are transferred only at selling price as is the case with open market.

Transactions for the year ended 30 June, 2004 are given below:

	Department X	Department Y
	Rs.	Rs.
Opening Stock	20,000	15,000
Sales	1,90,000	1,35,000
Wages	12,500	7,500
Purchases	1,00,000	80,000
Closing Stock		
Purchased Goods	2,000	5,000
Manufactured Goods	7,000	8,000

The following were the transfers from Department X to Department Y : Purchased goods Rs.6,000 and finished goods Rs. 20,000; and from Department Y to Department X : Purchased goods Rs.5,000 and finished goods Rs.35,000. Stocks were valued at cost to the department concerned. In closing stock of manufactured goods in the departments, transferred finished goods are 20%.

Draw out Departmental Trading Account and the Company's Trading Account for the year ended 30 June, 2004.

(b)

Time & Co., with its Head Office at Delhi has a branch at Kanpur. Goods are invoiced to the Branch at cost plus 33 1/3%. The following information is given in respect of the branch for the year ended 31st March, 2012:

	₹
Goods sent to Branch (Invoice price)	4,80,000
Stock at Branch on 1.4.2011 (Invoice price)	24,000
Cash sales	1,80,000
Return of goods by customers to the Branch	6,000
Branch expenses (paid in cash)	53,500
Branch debtors balance on 1.4.2011	30,000
Discount allowed	1,000
Bad debts	1,500
Collection from Debtors	2,70,000
Branch debtors cheques returned dishonoured	5,000
Stock at Branch on 31.3.2012 (Invoice price)	48,000
Branch debtors balance on 31.3.2012	36,500

Prepare, under the Stock and Debtors system, the following Ledger Accounts in the books of the Head Office:

- (i) Kanpur Branch Stock Account
- (ii) Kanpur Branch Debtors Account
- (iii) Kanpur Branch Adjustment Account.

Also compute shortage of Stock at Branch, if any.

Q. 6

[10 + 6 Marks]

(a)

Given below is the Balance Sheet of Sum up Ltd. as on 31st March, 2010:

Liabilities	Rs.	Assets	Rs.
Share Capital:		Fixed Assets:	
1,000, 6% Preference Shares of Rs. 100 each fully paid up	1,00,000	Machinery	1,90,000
2,000, Equity Shares of Rs. 100 each fully paid up	2,00,000	Furniture	10,000
2,000 Equity Shares of Rs. 100 each, Rs. 75 paid up	1,50,000	Current Assets:	
Bank Loan (secured on stock)	1,00,000	Stock	1,20,000
Current Liabilities and Provision:		Debtors	2,40,000
Creditors	3,50,000	Cash at Bank	50,000
Income-tax Payable	10,000	Miscellaneous Expenditure:	
		Profit and Loss Account	3,00,000
	9,10,000		9,10,000

The company went into liquidation on 1st April, 2010. The assets were realised as follows:

	Rs.
Machinery	1,66,000
Furniture	8,000
Stock	1,10,000
Debtors	2,30,000
Liquidation expenses	4,000

The liquidators are entitled to a commission at 2% on amount paid to unsecured creditors excluding payment made to preferential creditors. Calls on partly paid shares were made but the amount due on 200 shares were found to be irrecoverable.

Prepare Liquidator's Statement of Account.

(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, 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. Also ascertain the underwriting commission, payable to or by different underwriters.

Q. 7 [Answer Any four]

[16 Marks]

(a)

From the following information of Reliable Marine Insurance Ltd. for the year ending 31st March, 2012, find out the Net claims incurred:

	(₹) <i>Direct Business</i>	(₹) <i>Re-insurance Business</i>
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

(b)

During the year 2012-2013, Raj Ltd. was sued by a competitor for ₹ 15 lakhs for infringement of a trademark. Based on the advice of the company's legal counsel, Raj Ltd. provided for a sum of ₹ 10 lakhs in its financial statements for the year ended 31st March, 2013. On 18th May, 2013, the Court decided in favour of the party alleging infringement of the trademark and ordered Raj Ltd. to pay the aggrieved party a sum of ₹ 14 lakhs. The financial statements were prepared by the company's management on 30th April, 2013, and approved by the board on 30th May, 2013. Should Raj Ltd. adjust its financial statements for the year ended 31st March, 2013?

(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 lease liability as per AS 19.

(d) A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2005, when the exchange rate was Rs.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, 2005 when the exchange rate was Rs.47 per US Dollar. However, on 31st March, 2005, the rate of exchange was Rs.48 per US Dollar. The company passed an entry on 31st March, 2005 adjusting the cost of raw materials consumed for the difference between Rs.47 and Rs.43 per US Dollar.

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

(e)

A loan account remains out of order as on the date of Balance Sheet of a Bank. The account has been classified as doubtful assets (upto 1 year).

Details of the accounts are :

<i>Outstanding</i>	<i>₹ 6,73,000</i>
<i>ECGC coverage</i>	<i>25% (Limited to ₹ 1,00,000)</i>
<i>Value of security held</i>	<i>₹ 1,50,000</i>

Compute the necessary provision to be made by a Bank as per applicable rates.

Good Luck