Test Series: October, 2018

MOCK TEST PAPER - 2

INTERMEDIATE (NEW) : GROUP – II

PAPER – 5 : ADVANCED ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **four** questions from the remaining **five** 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: Three hours) **(Maximum Marks: 100)**

1. (a) S Ltd. (a Public Sector Company) provides consultancy and engineering services to its clients. In the year 2016-17, the Government has set up a commission to decide about the pay revision. The pay will be revised with respect from 1-1-2012 based on the recommendations of the commission. The company makes the provision of Rs. 680 lakhs for pay revision in the financial year 2016-17 on the estimated basis as the report of the commission is yet to come. As per the contracts with the client on cost plus job, the billing is done on the actual payment made to the employees and allocated to jobs based on hours booked by these employees on each job.

The company discloses through notes to accounts:

"Salaries and benefits include the provision of Rs. 680 lakhs in respect of pay revision. The amount chargeable from reimbursable jobs will be billed as per the contract when the actual payment is made".

The accountant feels that the company should also book/recognise the income by Rs. 680 lakhs in Profit and Loss Account as per the terms of the contract. Otherwise, it will be the violation of matching concept & understatement of profit. Comment on the opinion of the Accountant with reference to relevant accounting standards.

(b) M/s Highway Constructions undertook the construction of a highway on 01.04.2016. The contract was to be completed in 2 years. The contract price was estimated at Rs. 150 crores. Up to 31.03.2017 the company incurred Rs. 120 crores on the construction. The engineers involved in the project estimated that a further Rs. 45 crores would be incurred for completing the work.

What amount should be charged to profit and loss statement for the year 2016-17 as per the provisions of Accounting Standard 7 "Construction Contracts"?

(c) A Ltd. sold machinery having WDV of Rs. 40 lakhs to B Ltd. for Rs. 50 lakhs and the same machinery was leased back by B Ltd. to A Ltd. The lease back is operating lease. Comment if –

(i) Sale price of Rs. 50 lakhs is equal to fair value.

(ii) Fair value is Rs. 45 lakhs and sale price is Rs. 38 lakhs.

(iii) Fair value is Rs. 40 lakhs and sale price is Rs.50 lakhs.

(iv) Fair value is Rs. 46 lakhs and sale price is Rs. 50 lakhs

(v) Fair value is Rs. 35 lakhs and sale price is Rs.39 lakhs.

(d) The following information relates to M/s. XYZ Limited for the year ended 31st March, 2017:

Net Profit for the year after tax:	Rs. 75,00,000
Number of Equity Shares of Rs. 10 each outstanding:	10,00,000

Convertible Debentures Issued by the Company (at the beginning of the year)

Particulars	Nos.
8% Convertible Debentures of Rs. 100 each	1,00,000
Equity Shares to be issued on conversion	1,10,000

The Rate of Income Tax: 30%.

You are required to calculate Basic and Diluted Earnings Per Share (EPS).

(4 parts x 5 Marks = 20 Marks)

2. (a) Following is the summarized Balance Sheet of Complicated Ltd. as on 31st March, 2016 :

Liabilities	**Amount (Rs.)**
Equity shares of Rs. 10 each, fully paid up	12,50,000
Bonus shares of Rs. 10 each, fully paid up	1,00,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	2,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Unsecured)	10,00,000
Current maturities of long term borrowings	16,50,000
Application money received for allotment due for refund	2,00,000
	86,50,000
Fixed Assets	46,50,000
Current Assets	40,00,000
	86,50,000

The Company wants to buy back 25,000 equity shares of Rs. 10 each, on 1st April, 2016 at Rs. 20 per share. Buy back of shares is duly authorized by its Articles and necessary resolution has been passed by the Company towards this. The buy-back of shares by the Company is also within the provisions of the Companies Act, 2013. The payment for buy back of shares will be made by the Company out of sufficient bank balance available shown as part of Current Assets.

You are required to prepare the necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares.

(b) L, M, N and O hold Equity capital in the proportion of 30:30:20:20 in AB Ltd. X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10.

You are required to identify the voting rights of shareholders in case of resolution of winding up of the company if the paid-up capital of the company is Rs. 80 Lakh and Preference share capital is Rs. 40 Lakh. ***(15 + 5 = 20 Marks)***

3. (a) P Ltd. and Q Ltd. decided to amalgamate as on 01.04.2016 Their summarized Balance Sheets as on 31.03.2016 were as follows: (Rs.in '000)

Particulars	*P Ltd.*	*Q Ltd.*
Source of Funds:		
Equity share capital (Rs.10 each)	300	280
9% preference share Capital (Rs.100 each)	60	40
Investment allowance Reserve	70	60
Profit and Loss Account	8	12
10 % Debentures	100	60
Trade Payables	50	30
Tax provision	14	8
Total	602	490
Application of Funds:		
Building	120	100
Plant and Machinery	160	140
Investments	80	50
Trade receivables	90	70
Inventories	72	80
Cash and Bank	80	50
Total	602	490

From the following information, you are required to prepare the Balance Sheet as on 01.04.2016 of a new company, R Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

(i) 50 % Debenture are to be converted into Equity Shares of the New Company.

(ii) Investments are non- current in nature.

(iii) Fixed Assets of P Ltd. were valued at 10% above cost and that of Q Ltd. at 5% above cost.

(iv) 10 % of trade receivables were doubtful for both the companies. Inventories to be carried at cost.

(v) Preference shareholders were discharged by issuing equal number of 9% preference shares at par.

(vi) Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of Rs.10 each of the new company at a premium of Rs. 5 per share.

Give your answer on the basis that amalgamation is in the nature of purchase.

(b) A liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential creditors and 3% on the payment made to unsecured creditors. The assets were realized for Rs. 50,00,000 against which payment was made as follows:

Liquidation	Rs. 50,000
Secured Creditors	Rs. 20,00,000
Preferential Creditors	Rs. 1,50,000
The amount due to Unsecured creditors was	Rs. 30,00,000

You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee. ***(15 + 5 = 20 Marks)***

4. (a) X Fire Insurance Co. Ltd. commenced its business on 1.4.20X1. It submits you the following information for the year ended 31.3.20X2:

	Rs.
Premiums received	15,00,000
Re-insurance premiums paid	1,00,000
Claims paid	7,00,000
Expenses of Management	3,00,000
Commission paid	50,000
Claims outstanding on 31.3.20X2	1,00,000
Create reserve for unexpired risk @50%	

Prepare Revenue account for the year ended 31.3.20X2.

(b) The following facts have been taken out from the records of City Bank Ltd. as on 31st March, 2017:

	Rs.	*Rs.*
Rebate on bill discounted (not due on March 31st, 2016)		91,600
Discount received		4,05,000
Bill discounted	24,50,000	

An analysis of the bills discounted is as follows:

	Amount	*Due date*	*Rate of discount*
	Rs.	*2017*	
(i)	7,50,000	April 8	12%
(ii)	3,00,000	May 5	14%
(iii)	4,40,000	June 12	14%
(iv)	9,60,000	July 15	15%

You are required to:-

(i) Calculate Rebate on Bill Discounted as on 31st March, 2017.

(ii) The amount of discount to be credited to the profit and loss account.

(c) A Mutual Fund raised 100 lakh on April 1, 2017 by issue of 10 lakh units of Rs. 10 per unit. The fund invested in several capital market instruments to build a portfolio of Rs. 90 lakhs. The initial expenses amounted to Rs. 5 lakh. During April, 2017, the fund sold certain securities of cost Rs. 38 lakhs for Rs. 40 lakhs and purchased certain other securities for Rs. 28.20 lakhs. The fund management expenses for the month amounted to Rs. 4.50 lakhs of which Rs. 0.35 lakh was in arrears. The dividend earned was Rs. 1.20 lakhs. 75% of the realized earnings were distributed. The market value of the portfolio on 30.04.2017 was Rs. 112 lakh.

Determine NAV per unit. ***(10 Marks +6 Marks +4 Marks = 20 Marks)***

5. (a) Given below are the Profit & Loss Accounts of H Ltd. and its subsidiary Ltd. for the year ended 31st March, 2017:

	H Ltd. (Rs. in lacs)	S Ltd. (Rs. in lacs)
Incomes:		
Sales and other income	5,000	1,000
Increase in Inventory	1,000	200

	6,000	1,200
Expenses:		
Raw material consumed	800	200
Wages and Salaries	800	150
Production expenses	200	100
Administrative Expenses	200	100
Selling and Distribution Expenses	200	50
Interest	100	50
Depreciation	100	50
	2,400	700
Profit before tax	3,600	500
Provision for tax	1,200	200
Profit after tax	2,400	300
Dividend paid	1,200	150
Balance of Profit	1,200	150

Other Information:

H Ltd. sold goods to S Ltd. of Rs. 120 lacs at cost plus 20%. Inventory of S Ltd. includes such goods valuing Rs. 24 lacs. Administrative expenses of S Ltd. include Rs. 5 lacs paid to H Ltd. as consultancy fees. Selling and distribution expenses of H Ltd. include Rs. 10 lacs paid to S Ltd. as commission.

H Ltd. holds 80% of equity share capital of Rs. 1,000 lacs in S Ltd. prior to 2015-2016. H Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by
S Ltd. for the year 2015-2016.

You are required to prepare a consolidated profit and loss account of H Ltd. and its subsidiary S Ltd. for the year ended on 31st March, 2017.

(b) The summarized Balance Sheet of K Ltd. for the year ended on 31st March, 2015, 2016 and 2017 are as follows:

	(Rs. in thousands)		
Liabilities	31.3.2015	31.3.2016	31.3.2017
1,60,000 equity shares of Rs. 10 each, fully paid	1,600	1,600	1,600
General reserve	1,200	1,400	1,600
Profit and Loss account	140	160	240
Trade Payables	600	800	1,000
	3,540	3,960	4,440
Assets			
Goodwill	1,000	800	600
Building and Machinery less, depreciation	1,400	1,600	1,600
Inventory	1,000	1,200	1,400
Trade Receivables	20	160	440
Bank balance	120	200	400
	3,540	3,960	4,440

Additional information:

(a) Actual valuations were as under:

Building and machinery less, depreciation	1,800	2,000	2,200
Inventory	1,200	1,400	1,600
Net profit (including opening balance after writing off depreciation, goodwill, tax provision and transferred to general reserve)	420	620	820

(b) Capital employed in the business at market value at the beginning of 2014-15 was Rs. 36,60,000 which included the cost of goodwill. The normal annual return on average capital employed in the line of business engaged by K Ltd. is 12½%.

(c) The balance in the general reserve on 1st April, 2014 was Rs. 10 lakhs.

(d) The goodwill shown on 31.3.2015 was purchased on 1.4.2014 for Rs. 10 lakhs on which date the balance in the Profit and Loss account was Rs. 1,20,000.

(e) Goodwill is to be valued at 5 year's purchase of Super profit (Simple average method).

You are required to compute the average capital employed in each year and find out the value of goodwill. ***(12 Marks +8 Marks = 20 Marks)***

6. (a) Gemini Ltd. came up with public issue of 30,00,000 Equity shares of Rs. 10 each at Rs. 15 per share. A, B and C took underwriting of the issue in 3 : 2 : 1 ratio.

Applications were received for 27,00,000 shares.

The marked applications were received as under:

A	8,00,000 shares
B	7,00,000 shares
C	6,00,000 shares

Commission payable to underwriters is at 5% on the face value of shares.

You are required to compute the liability of each underwriter as regards the number of shares to be taken up.

(b) Write short note on earning value(equity share) in context of NBFC.

(c) Ruby Ltd. sold goods through its agent. As per terms of sales, consideration is payable within one month. In the event of delay in payment, interest is chargeable @ 10% p.a. from the agent. The company has not realized interest from the agent in the past. For the year ended 31st March, 2017 interest due from agent (because of delay in payment) amounts to Rs. 5 lakhs. The accountant of Ruby Ltd. booked Rs. 5 lakhs as interest income in the year ended 31st March, 2017. Discuss the contention of the accountant with reference to AS 9 "Revenue Recognition".

OR

How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? Explain.

(d) Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31st March, 2017 at a cost of Rs. 70 lakhs. The following information is available from the balance sheet of Zed Ltd. as on 31st March, 2017:

	Rs. in lakhs
Fixed Assets	120
Investments	55
Current Assets	70
Loans & Advances	15
15% Debentures	90
Current Liabilities	50

The following revaluations have been agreed upon (not included in the above figures):

Fixed Assets	Up by 20%
Investments	Down by 10%

Zed Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 2017. Exe Ltd. purchased the shares of Zed Ltd. @ Rs.20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Zed Ltd.

(4 Parts x 5 Marks = 20 Marks)