Test Series: April, 2021

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: 3 Hours **Maximum Marks: 100**

1. (a) You are required to give the necessary journal entry at the inception of lease to record the asset taken on finance lease in books of lessee from the following information:

Lease period	=	5 years;
Annual lease rents	=	Rs. 50,000 at the end of each year.
Guaranteed residual value	=	Rs. 25,000
Fair Value at the inception (beginning) of lease	=	Rs. 2,00,000

Interest rate implicit on lease is = 12.6% (Discounted rates for year 1 to 5 are .890, .790, .700, .622 and .552 respectively).

(b) Plymouth Ltd. is engaged in research on a new process design for its product. It had incurred Rs. 10 lakh on research during first 5 months of the financial year 2020-21. The development of the process began on 1st September, 2020 and upto 31st March, 2021, a sum of Rs. 8 lakh was incurred as Development Phase Expenditure, which meets assets recognition criteria. From 1st April, 2021, the Company has implemented the new process design and it is likely that this will result in after tax saving of Rs. 2 lakh per annum for next five years. The cost of capital is 10%. The present value of annuity factor of Rs. 1 for 5 years @ 10% is 3.7908.

Decide the treatment of Research and Development Cost of the project as per AS 26.

(c) S.T.B. Ltd. makes provision for expenses amounting Rs. 7,00,000 as on March 31, 2020, but the actual expenses during the year ending March 31, 2021 comes to Rs. 9,00,000 against provision made during the last year. State with reasons whether difference of Rs. 2,00,000 is to be treated as prior period item as per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies'.

(d) (i) XYZ Ltd. is in a dispute with a competitor company. The dispute is regarding alleged infringement of Copyrights. The competitor has filed a suit in the court of law seeking damages of Rs. 200 lacs.

The Directors are of the view that the claim can be successfully resisted by the Company.

How would the matter be dealt in the annual accounts of the Company in the light of AS 29 ? Explain in brief giving reasons for your answer.

(ii) What is meant by "Restructuring Provision" as per AS 29? What costs are excluded while computing such provision as per the standard? **(4 parts x 5 Marks = 20 Marks)**

2. (a) Meghna Limited gives the following information as on 31-03-2021:

Particulars	*Amount (Rs. in lakh)*
Share capital	
Issued, subscribed and paid up:	
100 lakh Equity Shares of Rs. 10 each, full paid up	1,000
4 lakh 8% Preference Shares of Rs. 100 each, fully paid up	400
Debit balance of Profit & Loss A/c	522
6% Debentures (secured by Freehold Property)	400
Directors' Loan	300
Trade Payables	102
Interest accrued and outstanding on 6% Debentures	24
Freehold Property	550
Plant & Machinery	200
Current Investments (Investment in Equity Instruments)	200
Inventories (Finished goods)	300
Trade Receivables	450
Bank balance	4

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to Rs. 80 each and Equity Shares to Rs. 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of Rs. 2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of Rs. 300 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at Rs. 400 lakh.

(6) All investments sold out for Rs. 250 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of Rs. 2 each to be allowed.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to Rs. 600 lakh have been settled by paying 5% penalty of contract value.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Capital Reduction Account.

(b) List the conditions to be fulfilled as per AS 14 (Revised) for an amalgamation to be in the nature of merger, in the case of companies. **(16+4 =20 Marks)**

3. (a) A partnership firm was dissolved on 30th June, 2020. Its Balance Sheet on the date of dissolution was as follows:

Liabilities	Rs.	Rs.	Assets	Rs.
Capitals:			Cash	10,800
A	76,000		Sundry Assets	1,89,200
B	48,000			
C	36,000	1,60,000		
Loan A/c – B		10,000		
Sundry Creditors		30,000		
		2,00,000		2,00,000

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid Rs. 29,000 in full settlement of their account. Expenses of realization were estimated to be Rs. 5,400 but actual amount spent was Rs. 4,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:

	Rs.
On 5th July, 2020	25,200
On 30th August, 2020	60,000
On 15th September, 2020	80,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

(b) Explain Garner v/s Murray rule applicable in the case of partnership firms. State the conditions when this rule is not applicable.

(c) A NBFC provides the following information:

	Rs. in crores
Investment in shares of subsidiaries and group companies	100
Investment in debentures of subsidiaries and group Companies	100
Cash and bank balances	200
Paid-up equity capital	150
Securities premium	50
Free reserves	200
Loans	400
Deposits	400

You are required to compute 'Net owned Fund' from the above information as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016. **(12 + 4 +4= 20 Marks)**

4. (a) H Ltd. and its subsidiary S Ltd. Give the following information as on 31st March, 2021:

	H Ltd. (Rs.)	S Ltd. (Rs.)
Share Capital		
Equity Share Capital (fully paid up shares of Rs. 10 each)	12,00,000	2,00,000
Reserves and Surplus		
General Reserve	4,35,000	1,55,000
Cr. Balance in Profit and Loss Account	2,80,000	65,000

Current Liabilities		
Trade Payables	3,22,000	1,23,000
Non-Current Assets		
Property, Plant and Equipment		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
Non-Current Investments		
Shares in S Ltd. - 16,000 shares @ Rs. 20 each	3,20,000	-
Current Assets		
Inventories	2,68,000	62,000
Trade Receivables	4,70,000	2,35,000
Cash and Bank	1,64,000	32,000

H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2020. On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at Rs. 50,000 and Rs. 30,000 respectively.

Machinery (book value Rs. 2,00,000) and Furniture (book value Rs. 40,000) of S Ltd. were revalued at Rs. 3,00,000 and Rs. 30,000 respectively on 1st April,2020 for the purpose of fixing the price of its shares (rates of depreciation on W.D.V basis: Machinery 10% and Furniture 15%). Trade Payables of H Ltd. include Rs. 35,000 due to S Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above cost. The inventories of H Ltd. includes goods costing Rs. 55,000 (cost to H Ltd.) purchased from S Ltd.

You are required to prepare the Consolidated Balance Sheet of H Ltd. With its subsidiary as at 31st March, 2021.

(b) Explain the nature of Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership? **(16 + 4 =20 Marks)**

5. (a) The following information relates to Shah Ltd. Co. which is in the hands of the liquidator:

Liabilities	Rs.
Share Capital:	
1,000, 6% Preference Shares of Rs. 100 each, fully paid	1,00,000
2,000 Equity shares of Rs. 100 each, fully paid	2,00,000
2,000 Equity shares of Rs. 100 each Rs. 75 paid up	1,50,000
Loan from bank (on security of stock)	1,00,000
Trade Payables	3,50,000
Property, Plant and Equipment	2,00,000
Inventory	1,20,000
Book Debts	2,40,000
Cash in hand	40,000
Profit and loss A/c (Dr. Balance)	3,00,000

The assets realized the following amounts (after all costs of realization and liquidator's commission amounting to Rs. 5,000 paid out of cash in hand):

	Rs.
Property, Plant and Equipment	1,68,000
Inventory	1,10,000
Trade Receivables	2,30,000

Calls on partly paid shares were made but the amounts due on 200 shares were found to be irrecoverable.

You are required to prepare Liquidator's Final Statement of Receipts and Payments. **(10 Marks)**

(b) (i) The following is an extract of Trial Balance of a bank as on 31st March, 2021:

	Dr. (Rs.)	Cr. (Rs.)
Bill Discounted	15,16,800	
Discount Received		1,26,859
Rebate on Bills discounted not due on 31st March, 2020		26,592

An analysis of bill discounted is as follows:

Amount in Rs.	**Due Date**	**Rate of Discount**
1,46,200	4th May, 2021	15
2,30,400	12th May, 2021	15
4,35,900	28th May, 2021	15
4,36,200	18th June, 2021	16
2,68,100	4th July, 2021	16

You are required to calculate Rebate on Bills Discounted as on 31st March, 2021 and show necessary Journal Entries.

(ii) The following information relates to a bank:

Assets	**Rs. in Lakhs**
Standard	75,00
Sub-Standard	60,00
Doubtful: for 1 Year (fully secured)	12,00
for 1 to 3 Year (fully secured)	9,00
for more than 3 Years	9,00
Loss Assets	15,00

Additional Information:

(1) Standard Assets includes Rs. 15,00 Lakhs Advances to Commercial Real Estate (CRE).

(2) Out of Rs. 60,00 Lakhs of Sub-Standard Asset Rs. 20,00 Lakhs are unsecured. Unsecured amount includes Rs. 5,00 Lakhs in respect of Infrastructure Loan Accounts with ESCROW safeguard.

(3) Doubtful Asset for more than 3 Years includes Rs. 4,00 Lakhs, which is covered by 50% ECGC, value of security of which is Rs. 150 Lakhs.

You are required to find out the amount of provision to be shown in the Profit & Loss Account of Bank. **(6+4=10 Marks)**

6. (a) SP hotels Limited enters into an agreement with Mr. A for running its hotel for a fixed return payable to the later every year. The contract involves the day-to-day management of the hotel, while all financial and operating policy decisions are taken by the Board of Directors of the company. Mr. A does not own any voting power in SP Hotels Limited. Would he be considered as a related party of SP Hotels Limited? Also explain the required related party disclosure requirements under AS 18?

(b) Explain the concept of 'weighted average number of equity shares outstanding during the period'. Also compute, based on AS 20, the weighted average number of equity shares in the following case:

		No. of shares
1st April, 2020	Balance of equity shares	7,20,000
31st August, 2020	Equity shares issued for cash	2,40,000
1st February, 2021	Equity shares bought back	1,20,000
31st March, 2021	Balance of equity shares	8,40,000

(c) In a company, equity share capital is held by X, Y and Z in the proportion of 40:40:20. Moreover, A, B and C hold preference share capital in the proportion of 50:30:20. If the paid-up equity share capital of the company is Rs. 1 Crore and Preference share capital is Rs. 50 Lakh, then compute the relative weights in the voting rights of all these equity shareholders and preference shareholders for the purpose of winding up of company.

(d) On 1st April, 2021, Bimal Ltd. take over the business of Vimal Ltd. and discharged purchase consideration as follows:

(i) Issued 50,000 fully paid Equity shares of Rs. 10 each at a premium of Rs. 5 per share to the equity shareholders of Vimal Ltd.

(ii) Cash payment of Rs. 50,000 was made to equity shareholders of Vimal Ltd.

(iii) Issued 2,000 fully paid 12% Preference shares of Rs. 100 each at par to discharge the preference shareholders of Vimal Ltd.

(iv) Debentures of Vimal Ltd. (Rs.1,20,000) will be converted into equal number and amount of 10% debentures of Bimal Ltd.

Calculate the amount of Purchase consideration as per AS 14 and pass Journal Entry relating to discharge of purchase consideration in the books of Bimal Ltd.

OR

Om Ltd. has its share capital divided into Equity Shares of Rs. 10 each. On 1st April, 2020, the company offered 250 shares to each of its 520 employees at Rs. 60 per share, when the market price was Rs. 150 per share. The options were to be exercised between 01-03-2021 to 31-03-2021.

410 employees accepted the offer and paid Rs. 60 per share on purchased shares and the remaining options lapsed. You are required to show Journal Entries (with narrations) as would appear in the books of Om Ltd. for the year ended 31st March, 2021 with regard to employee stock options. **(4 Parts x 5 Marks = 20 Marks)**