

**MOCK TEST PAPER 1**  
**INTERMEDIATE: 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) (i) Mr. Arnav a relative of key management personnel received remuneration of ₹ 3,00,000 for his services in the company for the period April 1, 2019 to June 30, 2019. On July 1, 2019 he left the job.

Should Mr. Arnav be identified as Related Party at the closing date i.e. March 31, 2020 for the purposes of AS 18?

- (ii) A limited company sold goods to its associate company for the 1<sup>st</sup> quarter ending June 30, 2020. After that, the related party relationship ceased to exist. However, goods were supplied continuously even after June 30, 2020 as was supplied to another ordinary customer. Does this require disclosure as related party transaction for the entire financial year?

- (b) New Era Publications publishes a monthly magazine on 15<sup>th</sup> of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2020 issue was made in February 2020. The magazine was published on its scheduled date. It received ₹ 2,40,000 on 10.3.2020 and ₹ 60,000 on 10.4.2020 for the March, 2020 issue.

Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2020. What will be the treatment if the publication is delayed till 2.4.2020?

- (c) Sarita Construction Co. obtained a contract for construction of a dam. The following details are available in records of company for the year ended 31<sup>st</sup> March, 2021:

	₹ In Lakhs
Total Contract Price	12,000
Work Certified	6,250
Work not certified	1,250
Estimated further cost to completion	8,750
Progress payment received	5,500
Progress payment to be received	1,500

Applying the provisions of Accounting Standard 7 "Accounting for Construction Contracts" you are required to compute:

- (i) Profit/Loss for the year ended 31<sup>st</sup> March, 2021.
- (ii) Contract work in progress as at end of financial year 2020-21.
- (iii) Revenue to be recognized out of the total contract value.
- (iv) Amount due from/to customers as at the year end.

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- (d) Sudesh Ltd. acquired a patent at a cost of ₹ 2,40,00,000 for a period of 5 years and the product life-cycle was also 5 years. The company capitalized the cost and started amortizing the asset at ₹ 48,00,000 per annum. After two years it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years were expected to be ₹ 36,00,000, ₹ 46,00,000, ₹ 44,00,000, ₹ 40,00,000 and ₹ 34,00,000. Find out the amortization cost of the patent for each of the years if the patent was renewable and Sudesh Ltd. got it renewed after expiry of five years. **(4 Parts x 5 Marks = 20 Marks)**

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

Equity & Liabilities	₹	₹	Assets	₹
Capitals:			Cash	10,800
A	76,000		Sundry Assets	1,89,200
B	48,000			
C	<u>36,000</u>	1,60,000		
Loan A/c – B		10,000		
Sundry Creditors		<u>30,000</u>		
		<u>2,00,000</u>		<u>2,00,000</u>

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

	₹
On 5 <sup>th</sup> July, 2020	25,200
On 30 <sup>th</sup> August, 2020	60,000
On 15 <sup>th</sup> 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 Ltd. holds 80% of the equity capital and voting power in B Ltd. A Ltd sells inventories costing ₹ 180 lacs to B Ltd at a price of ₹ 200 lacs. The entire inventories remain unsold with B Ltd at the financial year end i.e. 31 March 2020. What will be the accounting treatment for this transaction in the consolidated financial statements of A Ltd? **(12+4+4 = 20 Marks)**
3. (a) Two companies named Alex Ltd. and Beta Ltd. provide you the following summary of ledger balances as on 31<sup>st</sup> March, 2020:

	Alex Ltd. (₹)	Beta Ltd. (₹)
Goodwill	1,40,000	70,000
Building	8,40,000	2,80,000
Machinery	14,00,000	4,20,000
Inventory	7,00,000	4,90,000
Trade receivables	5,60,000	2,80,000
Cash at Bank	1,40,000	56,000
Equity Shares of ₹ 10 each	28,00,000	8,40,000
8% Preference Shares of ₹ 100 each	2,80,000	–

10% Preference Shares of ₹ 100 each	–	2,80,000
General Reserve	1,96,000	1,96,000
Retirement Gratuity fund	1,40,000	56,000
Trade payables	3,64,000	2,24,000

Beta Ltd. is absorbed by Alex Ltd. on the following terms:

- (a) 10% Preference Shareholders are to be paid at 10% premium by issue of 8% Preference Shares of Alex Ltd.
- (b) Goodwill of Beta Ltd. is valued at ₹ 1,40,000, Buildings are valued at ₹ 4,20,000 and the Machinery at ₹ 4,48,000.
- (c) Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.
- (d) Equity Shareholders of Beta Ltd. will be issued Equity Shares of Alex Ltd. @ 5% premium.

You are required to:

- (i) Prepare necessary Ledger Accounts to close the books of Beta Ltd.
  - (ii) Show the acquisition entries in the books of Alex Ltd.
  - (iii) Also draft the Balance Sheet after absorption as at 31<sup>st</sup> March, 2020.
- (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)**
4. (a) Alpha Ltd. furnishes the following information as at 31<sup>st</sup> March, 2021:

	₹ In lakhs	₹ In lakhs
<b>Shareholders' Funds</b>		
Equity share capital (fully paid up shares of ₹ 10 each)		2,400
Reserves and Surplus		
Securities Premium	350	
General Reserve	530	
Capital Redemption Reserve	400	
Profit & Loss Account	<u>340</u>	1,620
<b>Non-current Liabilities</b>		
12% Debentures		1,500
<b>Current Liabilities</b>		
Trade Payables	1,490	
Other Current Liabilities	<u>390</u>	1,880
<b>Non-current Assets</b>		
Property, plant and equipment		4,052
<b>Current Assets</b>		
Current Investments	148	
Inventories	1,200	
Trade Receivables	520	
Cash and Bank	<u>1,480</u>	3,348

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- (i) On 1<sup>st</sup> April, 2021, the company announced buy-back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all its investment for ₹ 150 lakhs.
- (ii) On 10<sup>th</sup> April, 2021 the company achieved the target of buy-back.
- (iii) On 30<sup>th</sup> April, 2021, the company issued one fully paid up equity share of ₹ 10 each by way of bonus for every four equity shares held by the equity shareholders by capitalization of Capital Redemption Reserve. Premium (excess of buy-back price over the par value) paid on buy-back should be adjusted against securities premium account.

You are required to pass necessary journal entries and prepare the Balance Sheet of Alpha Ltd. after bonus issue.

- (b) A non-banking finance company provides the extract of its balance sheet as given below:

Equity and Liabilities	Amount	Assets	Amount
	₹ in 000		₹ in 000
Paid-up equity capital	400	Leased out assets	3,200
Free reserves	2,000	Investment:	
Loans	1,600	In shares of subsidiaries and	
Deposits	1,600	group companies	400
		In debentures of subsidiaries and	
		group Companies	400
		Cash and bank balances	800
		Deferred expenditure	<u>800</u>
	<u>5,600</u>		<u>5,600</u>

You are required to compute 'Net owned Fund' of this NBFC as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

- (c) State with reason whether the following cash credit accounts are NPA or not:

	Case-1	Case-2	Case-3	Case-4
Sanctioned limit	50,00,000	60,00,000	55,00,000	45,00,000
Drawing power	44,00,000	56,00,000	50,00,000	42,00,000
Amount outstanding continuously 01-01-21 to 31-03-21	40,00,000	48,00,000	56,00,000	30,00,000
Total interest debited for the above period	3,20,000	3,84,000	4,48,000	2,40,000
Total credits for the above period	1,80,000	Nil	4,48,000	3,20,000

**(12 + 4 + 4 = 20 Marks)**

5. (a) H Ltd. and its subsidiary S Ltd. give the following information as on 31<sup>st</sup> March, 2021:

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

<b>Current Liabilities</b>		
Trade Payables	3,22,000	1,23,000
<b>Non-Current Assets</b>		
<u>Property, Plant and Equipment</u>		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
<b>Non-Current Investments</b>		
Shares in S Ltd. - 16,000 shares @ ₹ 20 each	3,20,000	-
<b>Current Assets</b>		
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 1<sup>st</sup> April, 2020. On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at ₹ 50,000 and ₹ 30,000 respectively.

Machinery (book value ₹ 2,00,000) and Furniture (book value ₹ 40,000) of S Ltd. were revalued at ₹ 3,00,000 and ₹ 30,000 respectively on 1<sup>st</sup> 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 ₹ 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 ₹ 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 31<sup>st</sup> March, 2021.

- (b) Preeti Limited gives the following information as on 31<sup>st</sup> March 2021, was as follows:

	(₹)
Authorized and subscribed capital:	
20,000 Equity shares of ₹ 100 each fully paid	20,00,000
Unsecured loans:	
15% Debentures	6,00,000
Interest payable thereon	90,000
Current Liabilities:	
Trade payables	1,04,000
Provision for income tax	72,000
Property, plant and equipment:	
Machineries	7,00,000
Current Assets:	
Inventory	5,06,000
Trade receivables	4,60,000
Bank	40,000
Profit & loss A/c (Dr.)	11,60,000

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It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

- (i) Each share be sub-divided into 10 fully paid up equity shares of ₹ 10 each.
- (ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.
- (iii) Out of shares surrendered 20,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.
- (iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of ₹ 2,00,000 which are converted out of shares surrendered.
- (v) Trade payables claim shall be reduced by 25%. Remaining trade payables are to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.
- (vi) Balance of Profit and Loss account to be written off.
- (vii) The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above.

**(15+5=20 Marks)**

6. (a) On 1<sup>st</sup> April, 2019 a company had 6,00,000 equity shares of ₹ 10 each (₹ 5 paid up by all shareholders). On 1<sup>st</sup> September, 2019 the remaining ₹ 5 was called up and paid by all shareholders except one shareholder having 60,000 equity shares. The net profit for the year ended 31<sup>st</sup> March, 2020 was ₹ 21,96,000 after considering dividend on preference shares and dividend distribution tax on such dividend totalling to ₹ 3,40,000.

You are required to compute Basic EPS for the year ended 31<sup>st</sup> March, 2020 as per Accounting Standard 20 "Earnings Per Share".

- (b) The financial statements of Alpha Ltd. for the year 2019-2020 were approved by the Board of Directors on 15<sup>th</sup> July, 2020. The following information was provided:
- (i) A suit against the company's advertisement was filed by a party on 20<sup>th</sup> April, 2020 claiming damages of ₹ 25 lakhs.
  - (ii) The terms and conditions for acquisition of business of another company had been decided by March, 2020. But the financial resources were arranged in April, 2020 and amount invested was ₹ 50 lakhs.
  - (iii) Theft of cash of ₹ 5 lakhs by the cashier on 31<sup>st</sup> March, 2020, was detected on 16<sup>th</sup> July, 2020.
  - (iv) The company started a negotiation with a party to sell an immovable property for ₹ 40 lakhs in March, 2020. The book value of the property is ₹ 30 lakh on 31<sup>st</sup> March, 2020. However, the deed was registered on 15<sup>th</sup> April, 2020.
  - (v) A major fire had damaged the assets in a factory on 5<sup>th</sup> April, 2020. However, the assets were fully insured.

With reference to AS 4, state whether the above mentioned events will be treated as contingencies, adjusting events or non-adjusting events occurring after the balance sheet date.

**OR**

XYZ Ltd. has not made provision for warranty in respect of certain goods due to the fact that the company can claim the warranty cost from the original supplier. Hence the accountant of the company says that the company is not having any liability for warranties on a particular date as the amount gets reimbursed. You are required to comment on the accounting treatment done by the XYZ Ltd. in line with the provisions of AS 29.

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(c) ABC Limited went into voluntary liquidation. Details are as follows :

1,000 - 10% Preference Shares of ₹ 100 each fully paid up

Class A - 1,200 Equity shares of ₹ 100 each (₹ 80 paid up)

Class B - 800 Equity shares of ₹ 100 each (₹ 65 paid up)

Assets realized ₹ 3,50,000 and liquidation expenses is ₹ 8,000. Company has secured Bank Loan of ₹ 60,000 and salary of 3 clerks for 3 months at a rate of ₹ 500 per month are outstanding. Creditors are ₹ 70,000.

Calculate amount receivable from / or returnable to equity shareholders.

(d) Suvidhi Ltd. offered 50 stock options to each of its 1500 employees on 1<sup>st</sup> April 2019 for ₹ 30. Option was exercisable within a year it was vested. The shares issued under this plan shall be subject to lock-in on transfer for three years from the grant date. The market price of shares of the company is ₹ 50 per share on grant date. Due to post vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 38 per share. On 31<sup>st</sup> March, 2020, 1200 employees accepted the offer and paid ₹ 30 per share purchased. Nominal value of each share is ₹ 10. Record the issue of shares in the books of the company under the aforesaid plan.

**(4 Parts x 5 Marks = 20 Marks)**