Test Series: April, 2023

MOCK TEST PAPER 2

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) PRZ & Sons Ltd. are Heavy Engineering contractors specializing in construction of dams. From the records of the company, the following data is available pertaining to year ended 31st March, 2023:

	(₹ crore)
Total Contract Price	2,400
Work Certified	1,250
Work pending certification	250
Estimated further cost to completion	1,750
Stage wise payments received	1,100
Progress payments in pipe line	300

Using the given data and applying the relevant Accounting Standard you are required to:

(i) Compute the amount of profit/loss for the year ended 31st March, 2023.

(ii) Arrive at the contract work in progress as at the end of financial year 2022-23.

(iii) Determine the amount of revenue to be recognized out of the total contract value.

(iv) Work out the amount due from/to customers as at year end.

(b) S. Square Private Limited has taken machinery on finance lease from S.K. Ltd. The information is as under:

Lease term = 4 years

Fair value at inception of lease = ₹ 20,00,000

Lease rent = ₹ 6,25,000 p.a. at the end of year

Guaranteed residual value = ₹ 1,25,000

Expected residual value = ₹ 3,75,000

Implicit interest rate = 15%

Discount rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively.

You are required to calculate the value of the lease liability as per AS-19 and also disclose impact of this on Balance sheet and Profit & loss account at the end of year 1.

(c) Old Era Publication Publishes a popular monthly magazine on 15th of every month. The publication sells the advertising space on terms of 90% payable in advance and the balance 10% payable within 30 days of release of the publication. The space for March 2023 issue of the magazine was sold in the month of February, 2023. The magazine was published as

© The Institute of Chartered Accountants of India

per schedule on 15th of the month. The amount of ₹ 2,70,000 has been received upto 31st March, 2023 and ₹ 30,000 was received on 10th April, 2023 for advertisement published in the March issue of the publication.

Please advise the accountant the amount of revenue to be recognized in the context of the provisions of AS 9 'Revenue Recognition' during the year ending on 31st March, 2023.

(d) An airline is required by law to overhaul its aircraft once in every five years. The pacific Airlines which operate aircrafts does not provide any provision as required by law in its final accounts. You are required to comment on the validity of the treatment done by the company in line with the provisions of AS 29. **(4 Parts x 5 Marks = 20 Marks)**

2. (a) P, Q, R and S are sharing profits and losses in the ratio 3 : 3 : 2 : 1. Frauds committed by R during the year were found out and it was decided to dissolve the partnership on 31st March, 2023 when their Balance Sheet was as under:

Equity & Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		Building	1,90,000
P	1,50,000	Stock	1,30,000
Q	1,50,000	Investments	50,000
R	-	Debtors	70,000
S	60,000	Cash	30,000
General reserve	40,000	R's capital	40,000
Trade creditors	80,000	(overdrawn)	
Bills payable	30,000		
	5,10,000		5,10,000

Following information is given to you:

(i) A cheque for ₹ 7,000 received from debtor was not recorded in the books and was misappropriated by R.

(ii) Investments costing ₹ 8,000 were sold by R at ₹ 11,000 and the funds transferred to his personal account. This sale was omitted from the firm's books.

(iii) A creditor agreed to take over investments of the book value of ₹ 9,000 at ₹ 13,000. The rest of the creditors were paid off at a discount of 5%.

(iv) The other assets realized as follows:

Building 110% of book value

Stock ₹ 1,20,000

Investments The rest of investments were sold at a profit of ₹ 7,000

Debtors The rest of the debtors were realized at a discount of 10%

(v) The bills payable were settled at a discount of ₹ 500.

(vi) The expenses of dissolution amounted to ₹ 8,000

(vii) It was found out that realization from R's private assets would only be ₹ 7,000. It was decided that deficiency arising due to him will be shared among the remaining partners in the capital ratio (before transfer of General reserve).

Prepare Realization Account, Cash Account and Partners' Capital Accounts. All workings should part of your answer.

© The Institute of Chartered Accountants of India

(b) Statement of interest on advances in respect of Performing assets and Non-Performing Assets of Omega Bank is as follows:- (₹ in lakhs)

	Performing Assets		Non-Performing Assets	
	Interest earned	Interest received	Interest earned	Interest received
Cash credits and overdrafts	1800	1060	450	70
Term Loan	480	320	300	40
Bills purchased and discounted	700	550	350	36

Find out the income to be recognized for the year ended 31st March, 2020.

(16 + 4 = 20 Marks)

3. (a) Sun and Neptune (both companies) had been carrying on business independently. They agreed to amalgamate and form a new company Jupiter Ltd. with an authorised share capital of ₹ 4,00,000 divided into 80,000 equity shares of ₹ 5 each. On 31st March, 2023 Sun and Neptune provide the following information:

	Sun (₹)	Neptune (₹)
Property, Plant & Equipment	6,35,000	3,65,000
Current Assets	3,27,000	1,67,750
	9,62,000	5,32,750
Less: Current Liabilities	(5,97,000)	(1,80,250)
Representing Capital	3,65,000	3,52,500

Additional Information:

(a) Revalued figures of Fixed and Current assets were as follows:

	Sun (₹)	Neptune (₹)
Fixed Assets	7,10,000	3,90,000
Current Assets	2,99,500	1,57,750

(b) The debtors and creditors include ₹ 43,350 owed by Sun to Neptune.

The purchase consideration is satisfied by issue of the following shares and debentures.

(i) 60,000 equity shares of Jupiter Ltd. to Sun and Neptune in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows:

	Sun (₹)	Neptune (₹)
2021 Profit	4,49,576	2,73,900
2022 (Loss)/Profit	(2,500)	3,42,100
2023 Profit	3,77,924	3,59,000

(ii) 15% debentures in Jupiter Ltd. at par to provide an income equivalent to 8% return business as on capital employed in their respective business as on 31st March, 2023 after revaluation of assets.

© The Institute of Chartered Accountants of India

You are required to :

(1) Compute the amount of debentures and shares to be issued to Sun and Neptune.

(2) A Balance sheet of Jupiter Ltd. showing the position immediately after amalgamation.

(b) Explain B List Contributories and the liability of contributories included in the list.

(16 + 4 = 20 Marks)

4. (a) The following is an extract from the Trial Balance of Jeevan Bank Ltd. as at 31st March, 2022:

Rebate on bills discounted as on 1-4- 2021	1,36,518 (Cr.)
Discount received	3,40,312 (Cr.)

Analysis of the bills discounted reveals as follows:

Amount (₹)	*Due date*
5,60,000	June 1, 2022
17,44,000	June 8, 2022
11,28,000	June 21, 2022
16,24,000	July 1, 2022
12,00,000	July 5, 2022

You are required to find out the amount of discount to be credited to Profit and Loss account for the year ending 31st March, 2022 and pass Journal Entries. The rate of discount may be taken at 10% per annum.

(b) While closing its books of account on 31st March, 2023 a Non-Banking Finance Company has classified its advances as follows:

	₹ in lakhs
Standard assets	13,400
Sub-standard assets	670
Secured portions of doubtful debts:	
– Up to one year	160
– one year to three years	45
– more than three years	20
Unsecured portions of doubtful debts	48
Loss assets	24

You are required to calculate the amount of provision, which must be made against the advances as per the Non-Banking Financial Company –Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016.

(c) SM Limited gives the following information as on 31st March, 2023:

		₹
Share capital		
(60,000 Equity Shares of ₹ 10 Each)		6,00,000
Reserve & Surplus:		
Security premium	₹ 70,000	
General reserve	₹ 63,000	

© The Institute of Chartered Accountants of India

Profit and Loss	₹ 1,40,000	2,73,000
Non-current liability:		
9% debentures (secured)		3,00,000
Current Liabilities:		
Term loan		40,000
Creditors		65,000
Provision for taxation		15,000
Property plant and equipment		6,00,000
Non-current investment		1,50,000
Current assets:		
Stock	₹ 2,00,000	
Debtors	₹ 2,60,000	
Bank	₹ 83,000	5,43,000

The shareholders adopted the resolution on 31st March, 2023 to:

(i) Buy back 25% of the paid up capital @ ₹ 15 each.

(ii) Issue 10% debentures of ₹ 60,000 at a premium of 10% to finance the buyback of shares.

(iii) Maintain a balance of ₹ 20,000 in General Reserve.

(iv) Sell investments worth ₹ 1,00,000 for ₹ 80,000.

(v) Buy back expenses were ₹ 2,000.

You are required to pass necessary journal entries to record the above transactions and prepare Ledger account of Bank. **(8 + 4 + 8 = 20 Marks)**

5. On 31st March, 2023 H Ltd. and its subsidiary S Ltd. give the following information:

	H Ltd.	S Ltd.
	₹	₹
Shareholders' Fund:		
Equity shares of ₹ 10 each	13,40,000	2,40,000
Reserves and Surplus	4,80,000	1,80,000
Profit & Loss Account	2,40,000	60,000
Secured Loans:		
12% Debentures	1,00,000	-
Current Liabilities:		
Trade Payables	2,00,000	1,22,000
Bank Overdraft	1,00,000	-
Bills Payable	60,000	14,800
Property, Plant & Equipment:		
Machinery	7,20,000	2,16,000
Furniture	3,60,000	40,800

© The Institute of Chartered Accountants of India

Investments:		
Investments in S Ltd.	3,84,000	-
(19,200 shares at ₹ 20 each)		
Current Assets:		
Inventories	6,00,000	2,00,000
Trade Receivables	3,00,000	90,000
Bill Receivables	1,00,000	30,000
Cash at Bank	56,000	40,000

The following information is also provided to you:

(a) H Ltd. purchased 19,200 shares of S Ltd. on 1st April, 2022, when the balances of Reserves & Surplus and Profit & Loss Account of S Ltd. stood at ₹ 60,000 and ₹ 36,000 respectively.

(b) Machinery (Book value ₹ 2,40,000) and Furniture (Book value ₹ 48,000) of S Ltd were revalued at ₹ 3,60,000 and ₹ 36,000 respectively on 1st April, 2022, for the purpose of fixing the price of its shares. (Rates of depreciation computed on the basis of useful lives:

Machinery 10%, Furniture 15%).

(c) On 31st March, 2023, Bills payable of ₹ 12,000 shown in S Ltd.'s Balance Sheet had been accepted in favour of H Ltd.

You are required to prepare Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2023. **(20 Marks)**

6. (a) During 2020-21, an enterprise incurred costs to develop and produce a routine low risk computer software product, as follows:

Particular	₹
Completion of detailed program and design (Phase 1)	50,000
Coding and Testing (Phase 2)	40,000
Other coding costs (Phase 3 & 4)	63,000
Testing costs (Phase 3 & 4)	18,000
Product masters for training materials (Phase 5)	19,500
Packing the products (1,500 units) (Phase 6)	16,500

After completion of phase 2, it was established that the product is technically feasible for the market. You are required to state how the above cost to be recognized in the books of accounts as per AS 26.

(b) An earthquake destroyed a major warehouse of PQR Ltd. on 30.4.2021. The accounting year of the company ended on 31.3.2021. The accounts were approved on 30.6.2021. The loss from earthquake is estimated at ₹ 25 lakhs. State with reasons, whether the loss due to earthquake is an adjusting or non-adjusting event and how the fact of loss is to be disclosed by the company.

OR

A Company has an inter-segment transfer pricing policy of charging at cost less 5%. The market prices are generally 20% above cost.

You are required to examine whether the policy adopted by the company is correct or not?

© The Institute of Chartered Accountants of India

(c) W, X, Y and Z hold equity share capital in the proportion of 40:30:10:20. A, B, C and D hold preference share capital in the proportion of 30:40:20:10. You are required to find their voting rights in case of resolution of winding up of the company if the paid up capital of the company is ₹ 40 Lakh and Preference share capital is ₹ 20 Lakh.

(d) On 1st October, 2022, A Limited granted 25,000 Employees' Stock Option at ₹ 70 per share. The market price of share was ₹ 130 per share. The options were to be exercised between 1st December, 2022 and 31st March, 2023. The face value of shares is ₹ 10 each. The employees exercised option for 18,000 shares only and the balance options lapsed. The company closes its books of accounts on 31st March every year.

Pass necessary journal entries with narration to record the transaction in the books of the company. **(4 Parts x 5 Marks = 20 Marks)**

© The Institute of Chartered Accountants of India