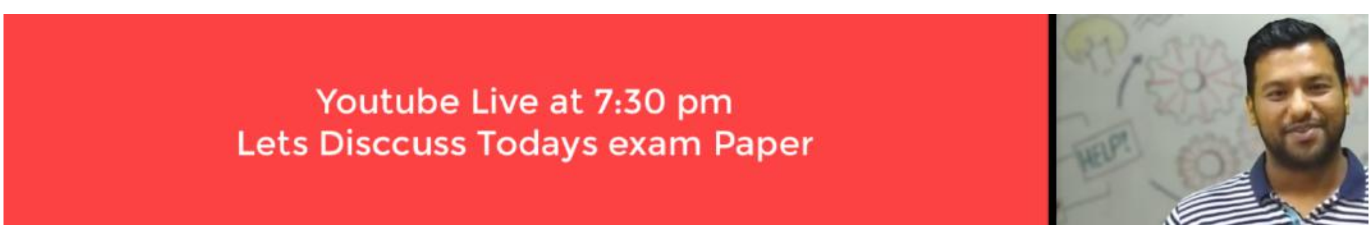
Test Paper 3

National Test Series

Test Instruction:

1. Please write your solution in new sheets of paper. It is advisable to create a separate notebook for writing test.
2. You have to give the test between 2 PM to 5 PM .
3. Suppose, if you are not able to complete the test (or any part of the test) in prescribed time, then please draw line in the sheet whenever the prescribed time is getting over and clearly mention "Time Over". But keep writing the remaining part we will check that. We want to check your accuracy.
4. Include all rough work in your answer sheet only. Don't use separate pages for rough work.
5. Start different part of the test paper in new pages. Properly mention **page number** on your every answer sheet.
6. For instruction on how to submit the test please watch http://bit.ly/CA_Inter_Test
7. Send us your answer sheets by way of email on paper@konceptca.com.
8. Make sure pictures are sharp, also make sure that you send single email for the whole paper after converting them into PDF for instructions how to make PDF watch https://youtu.be/q2hzXylYe0o
9. If your PDF size is greater than 25 MB, then please compress it using this link- https://pdfcompressor.com/
10. Email received after **30th April evening 7 PM** will not be assessed.
11. Do mention your KE-ID, name of the test series you are attempting for and name of the test in your answer sheet as well as in the subject of the mail while submitting your answer sheet.
12. Today Youtube live at 7:30 evening, result of National Test – 2 will be declared + Giveaway + Hacks for improving your Advanced Accounting score.

We will share your results and score only if you are able to send the answer sheets by **30th April evening 7 PM**



Subject: Advanced Accounting

Marks: 100 Marks **Duration:** 3 Hrs.

Question 1.

(A) With reference to AS 4 "Contingencies and events occurring after the balance sheet date", state whether the following events will be treated as contingencies, adjusting events or non-adjusting events occurring after balance sheet date in case of a company which follows April to March as its financial year.

(i) A major fire has damaged the assets in a factory on 5th April, 5 days after the year-end. However, the assets are fully insured and the books have not been approved by the Directors.

(ii) A suit against the company's advertisement was filed by a party on 10th April, 10 days after the year-end claiming damages of ₹ 20 lakhs.

(5 Marks)

(B) A construction contractor has a fixed price contract for ₹ 9,000 lacs to build a bridge in 3 years time frame. A summary of some of the financial data is as under:

	(Amount on lacs)		
Particulars	Year 1	Year 2	Year 3
Initial Amount for revenue agreed in contract	9,000	9,000	9,000
Variation in Revenue (+)	-	200	200
Contracts costs incurred up to the reporting date	2,093	6,168*	8,100**
Estimated profit for whole contract	950	1,000	1,000

*Includes ₹ 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.

**Excludes ₹ 100 lacs for standard material brought forward from year 2.

The variation in cost and revenue in year 2 has been approved by customer.

Compute year-wise amount of revenue, expenses, contract cost to complete and profit or loss to be recognized in the Statement of Profit and Loss as per AS-7 (revised).

(5 Marks)

(C) ABC Ltd. took a machine on lease from XYZ Ltd., the fair value being ₹ 10,00,000.

The economic life of the machine as well as the lease term is 4 years. At the end of each year, ABC Ltd. pays ₹ 3,50,000. The lessee has guaranteed a residual value of ₹ 50,000 on expiry of the lease to the lessor. However, XYZ Ltd. estimates that the residential value of the machinery will be ₹ 35,000 only. The implicit rate of return is 16% and PV factors at 16% for year 1, year 2, year 3 and year 4 are 0.8621, 0.7432, 0.6407 and 0.5523 respectively. You are required to calculate the value of machinery to be considered by ABC Ltd. and the finance charges for each year.

(5 Marks)

(D) From the following information, you are required to compute Basic and Diluted Earnings Per Share (EPS) of M/s. XYZ Limited for the year ended 31st March, 2019 :

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

1,00,000, 8% Convertible Debentures of ₹ 100 each were issued by the Company at the beginning of the year. 1,10,000 Equity Shares were supposed to be issued on conversion. Consider rate of Income Tax as 30%.

(5 Marks)

Question 2.

(A) Alpha Limited furnishes the following summarized Balance Sheet as at 31st March, 2017:

Liabilities	(₹ in lakhs)	Assets	(₹ in lakhs)
Equity share capital	2,400	Machinery	3,600
(fully paid up shares of ₹ 10 each)		Furniture	450
Securities premium	350	Investment	148
General reserve	530	Inventory	1,200
Capital redemption reserve	400	Trade receivables	500
Profit & loss A/c	340	Cash at bank	1,500
12% Debentures	1,500		
Trade payables	1,400		
Other current liabilities	478		
	7,398		7,398

On 1st April, 2017, the company announced the buy back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 150 lakhs. On 5th April, 2017, the company achieved the target of buy back.

You are required to:

(1) Pass necessary journal entries for the buy-back.

(2) Prepare Balance Sheet of Alpha Limited after buy-back of the shares.

(10 Marks)

(B) The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31-3-20X1:

	P Ltd. (Rs. In Lakhs)	**V Ltd. (Rs. In Lakhs)**
Liabilities		
Equity Share Capital (Fully paid shares of Rs. 10 each)	15,000	6,000
Securities Premium	3,000	–
Foreign Project Reserve	–	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825
12% Debentures	–	1,000
Trade payables	1,200	463

Provisions	1,830	702
	33,400	**12,500**
Assets		
Land and Buildings	6,000	–
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,700
Inventory	7,862	4,041
Trade receivables	2,120	1,100
Cash at Bank	1,114	609
Cost of Issue of Debentures	—	50
	33,400	**12,500**

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 20X1, P Ltd. took over V Ltd in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

Details of trade receivables and trade payables as under:

Assets	P Ltd.	V Ltd.
	(Rs. in Lakhs)	**(Rs. in Lakhs)**
Trade payables		
Bills payables	120	-
Creditors	1,080	463
	1,200	463
Trade receivables		
Debtors	2,120	1,020
Bills Receivables	-	80
	2,120	1,100

Expenses of amalgamation amounting to Rs. 1 lakh were borne by P Ltd.

You are required to:

(i) Prepare journal entries in the books of P Ltd. and

(ii) Prepare P Ltd.'s Balance Sheet immediately after the merger considering that the cost of issue of debentures shown in the balance sheet of the V Ltd. company is not transferred to the P Ltd. company.

(10 Marks)

Question 3.

(A) The Balance Sheet of A & Co. Ltd. as on 31-12-20X1 is as follows:

Assets	**₹**	**₹**
Fixed Assets:		
Freehold property	4,25,000	
Plant	50,000	
Patent	37,500	
Goodwill	1,30,000	6,42,500
Traded Investments (at cost)		55,000
Current Assets:		
Trade receivables	4,85,000	
Inventory	4,25,000	9,10,000
Profit and Loss Account		5,35,000
Total		**21,42,500**
Liabilities		
Share Capital:		
4,000 6% Cumulative Preference Shares of ₹ 100 each	4,00,000	
75,000 Equity Shares of ₹ 10 each	7,50,000	11,50,000
6% Debentures (Secured on Freehold Property)	3,75,000	
Accrued Interest	22,500	3,97,500
Current Liabilities:		
Bank Overdraft	1,95,000	
Trade payables	3,00,000	
Directors' Loans	1,00,000	5,95,000
Total		21,42,500

The Court approved a Scheme of re-organization to take effect on 1-1-20X1, whereby:

(i) The Preference shares to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.

(ii) Of the Preference Share dividends which are in arrears for four years, three fourths to be waived and Equity Shares of ₹ 2 each to be allotted for the remaining quarter.

(iii) Accrued interest on debentures to be paid in cash. (iv) Debenture-holders agreed to take over freehold property, book value ₹1,00,000 at a valuation of ₹ 1,20,000 in part repayment of their holdings and to provide additional cash of ₹ 1,30,000 secured by a floating charge on company's assets at an interest rate of 8% p.a.

(iv) Patents and Goodwill to be written off.

(v) Inventory to be written off by ₹ 65,000.

(vi) Amount of ₹ 68,500 to be provided for bad debts.

(vii) Remaining freehold property to be re-valued at ₹ 3,87,500.

(viii) Trade Investments be sold for ₹ 1,40,000.

(ix) Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of ₹ 2 each and as to 5% in cash, and balance 5% being waived.

(x) There were capital commitments totaling ₹ 2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.

(xi) Ignore taxation and cost of the scheme.

You are requested to show Journal entries reflecting the above transactions (including cash transactions) and prepare the Balance Sheet of the company after completion of the Scheme.

(10 Marks)

(B) Virat Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2018:

	Particulars	₹	₹
	Equity and liabilities		
(1)	Shareholders' Funds:		
	Share capital 10,000, 12% pref. shares of ₹100 each fully paid up	10,00,000	
	1,00,000 Equity shares of ₹ 10 each fully paid up	10,00,000	
	50,000 equity shares of ₹ 10 each, ₹8 paid up	4,00,000	24,00,000
(b)	Reserves and surplus		
	Profit & Loss A/c. (Dr. Balance)		(3,50,000)
	Non-current Liabilities:		
(2)	12% Debentures	15,00,000	
	Loan on Mortgage	4,50,000	19,50,000
	Current Liabilities:		
(3)	Bank Overdraft	2,75,000	
	Trade Payables	7,30,000	10,05,000
	Total		50,05,000
	Assets:		
(1)	Non-Current Assets:		
	Property, plant & equipment - Land & Buildings		6,00,000
(2)	Current assets: Sundry Current assets		44,05,000
	Total		50,05,000

The mortgage loan was secured against the Land & Buildings. Debentures were secured by a floating charge on all the assets of the company. The debenture holders appointed a Receiver. The company being voluntarily wound up, a liquidator was also appointed. The Receiver was entrusted with the task of realizing the Land & Buildings which fetched ₹ 7,50,000. Receiver also took charge of Sundry current assets of value ₹ 30,00,000 and sold them for ₹ 28,75,000. The Bank overdraft was secured by a personal guarantee of the directors who discharged their obligations in full from personal resources. The costs of the Receiver amounted to ₹ 10,000 and his remuneration ₹ 15,000.

The expenses of the liquidator was ₹ 17,500 and his remuneration was decided at 2% on the value of the assets realised by him. The remaining assets were realised by liquidator for ₹ 12,50,000. Preference dividend was in arrear for 2 years. Articles of Association of the company provide for payment of preference dividend arrears in priority to return of equity capital.

Prepare the accounts to be submitted by the Receiver and the Liquidator.

(10 Marks)

Question 4.

(A) From the following information, prepare Profit and Loss A/c of KC Bank for the year ended 31st March, 20X1:

Items	**₹ 000**
Interest on cash credit	18,20
Interest on overdraft	7,50
Interest on term loans	15,40
Income on investments	8,40
Interest on balance with RBI	1,50
Commission on remittances and transfer	75
Commission on letters of credit	1,18
Commission on government business	82
Profit on sale of land and building	27
loss on exchange transactions	52
Interest paid on deposit	27,20
Auditors' fees and allowances	1,20
Directors' fees and allowance	2,50
Advertisements	1,80
Salaries, allowances and bonus to employees	12,40
Payment to provident fund	2,80
Printing and stationery	1,40
Repairs and maintenance	50
Postage, telegrams, telephones	80

Other Information:

(i)	Interest on NPA is as follows		
		Earned (₹ '000)	Collected (₹ '000)
	Cash credit	8,20	400
	Overdraft	450	1,00
	Term Loans	750	2,50
(ii)	Classification of Non-Performing advance ('000 ₹)		
	Standard		30,00
	Sub-standard		11,20
	Doubtful assets not covered by security		2,00
	Doubtful assets covered by securities for one year		50
	Loss Assets		2,00
(iii)	Investments		27,50

Bank should not keep more than 25% of its investment as 'held-for-maturity' investment. The market value of its rest 75% investment is ₹ 19,75,000 as on 31-3-20X1.

(10 Marks)

(B) Peoples Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ended 31st March, 2017:

Asset Funded	Interest Overdue but recognized in Profit & loss		Net Book Value of Assets outstanding
	Period Overdue	Interest Amount	
		(₹ in crore)	(₹ in crore)
LCD Televisions	Upto 12 months	480.00	20,123.00
Washing Machines	For 24 months	102.00	2,410.00
Refrigerators	For 30 months	50.50	1,280.00
Air Conditioners	For 45 months	26.75	647.00

You are required to calculate the amount of provision to be made.

(5 Marks)

(C) A Ltd. has got the license to manufacture particular medicines for 10 years at a license fee of Rs. 200 lakhs. Given below is the pattern of expected production and expected operating cash inflow:

Year	Production in bottles (in lakhs)	Net operating cash flow (Rs. in lakhs)
1	300	900
2	600	1,800
3	650	2,300
4	800	3,200
5	800	3,200
6	800	3,200
7	800	3,200
8	800	3,200
9	800	3,200
10	800	3,200

Net operating cash flow has increased for the third year because of better inventory management and handling method.

You are required to determine the amortization method in line with AS 26.

(5 Marks)

Question 5.

(A) From the following summarized balance sheets of Kedar Ltd. and its subsidiary Vijay Ltd. drawn up at 31st March, 2019, prepare a consolidated balance sheet as at that date, having regard to the following:

(i) Reserves and Profit and Loss Account of Vijay Ltd. stood at ₹ 62,500 and ₹ 37,500 respectively on the date of acquisition of its 80% shares by Kedar Ltd. on 1 st April, 2018.

(ii) Machinery (Book-value ₹ 2,50,000) and Furniture (Book value ₹ 50,000) of Vijay Ltd. were revalued at ₹ 3,75,000 and ₹ 37,500 respectively on 1st April, 2018 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

Summarised Balance Sheet of Kedar Ltd. and Vijay Ltd. as on 31st March, 2019

Liabilities	Kedar Ltd. ₹	Vijay Ltd. ₹	Assets	Kedar Ltd. ₹	Vijay Ltd. ₹
Equity and Liabilities			Non-current asset		
Shareholders funds			Fixed assets		
Share capital			Machinery	7,50,000	2,25,000
Share of ₹ 100 each	15,00,000	2,50,000	Furniture	3,75,000	42,500
Reserves	5,00,000	1,87,500	Other non-current assets	11,00,000	3,75,000
Profit and Loss			Non- current Investments		
Account	2,50,000	62,500	Shares in Vijay Ltd:		
Trade Payables	3,75,000	1,42,500	2000 shares at ₹ 200 each	4,00,000	-
	26,25,000	6,42,500		26,25,000	6,42,500

(10 Marks)

(B) On 31st March 20X2, Sri Raman acquires on payment of ₹ 80,000 the business of M/s Gupta and Singh taking over at book value the following assets and liabilities :

Particulars	₹
Debtors	35,000
Furniture	3,000
Stock	46,000
Creditors	10,000

There was no change between 1st January, 20X2 and 31st March, 20X2 in the book value of the assets and liabilities not taken over.

The same set of books has been continued after the acquisition and no entries of the acquisition have been passed except for the payment of ₹ 80,000 made by Sri Raman. From the following balance sheet and trial balance prepare Business Purchase Account, Profit and Loss Account for the year ended 31st December, 20X2 and Balance Sheet at that date.

Balance Sheet as at December, 20X1

Liabilities		₹	Assets	₹
Capital Accounts			Furniture	3,000
Sri Gupta	30,000		Investments	5,000
Sri Singh	20,000	50,000	Insurance Policy	2,000
Bank Loan		18,000	Stock	40,000
Creditors		12,000	Debtors	30,000
		80,000		**80,000**

On 31st December 20X2 the trial balance is:

Particulars	(₹)	(₹)
Stock	40,000	
Furniture	3,000	
Investment	5,000	
Insurance Policy	2,000	
Business Purchase Account	80,000	
Bank Loan		18,000
Capital :		
Gupta		30,000
Singh		20,000
Raman		30,000
Bank	3,000	
Debtors	48,000	
Creditors		15,000
Purchases	3,20,000	
Expenses	12,000	
Sales		4,00,000
	5,13,000	**5,13,000**
Closing Stock ₹ 50,000		

(10 Marks)

Question 6.

(A) On 1st April, 2019, a company offered 100 shares to each of its 400 employees at ₹ 25 per share. The employees are given a month to accept the shares. The shares issued under the plan shall be subject to lock-in to transfer for three years from the grant date i.e. 30th, April 2019. The market price of shares of the company on the grant date is ₹ 30 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 28 per share.

Up to 30th April, 2019, 50% of employees accepted the offer and paid ₹ 25 per share purchased. Nominal value of each share is ₹ 10. You are required to record the issue of shares in the books of the company under the aforesaid plan.

(5 Marks)

(B) X, Y and Z are partners of the firm XYZ and Co., sharing Profits and Losses in the ratio of 4 : 3 : 2. Following is the Balance Sheet of the firm as at 31st March, 20X1 :

Balance Sheet as at 31st March, 20X1

Liabilities	**₹**	**Assets**	**₹**
Partners' Capitals:		Fixed Assets	5,00,000
X	4,00,000	Stock in trade	3,00,000
Y	3,00,000	Sundry debtors	5,00,000
Z	2,00,000	Cash in hand	10,000
General Reserve	90,000		
Sundry Creditors	3,20,000		
	13,10,000		**13,10,000**

Partners of the firm decided to dissolve the firm on the above said date.

Fixed assets realised ₹ 5,20,000 and book debts ₹ 4,40,000.

Stocks were valued at ₹ 2,50,000 and it was taken over by partner Y.

Creditors allowed discount of 5% and the expenses of realisation amounted to ₹ 6,000.

You are required to prepare:

(i) Realisation account;

(ii) Partners' capital account; and

(iii) Cash account.

(5 Marks)

(C) Gamma Limited is working on different projects which are likely to be completed within 3 years period. It recognizes revenue from these contracts on percentage of completion method for financial statements during 2014-2015, 2015-2016 and 2016-2017 for Rs. 11,00,000, Rs. 16,00,000 and Rs. 21,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognized revenue of Rs. 7,00,000, Rs. 18,00,000 and Rs. 23,00,000 for the years 2014-2015, 2015-2016 and 2016-2017 respectively. Income-tax rate is 35%.

You are required to compute the amount of deferred tax asset/liability for the years 2014-2015, 2015-2016 and 2016-2017. Also describe how this amount of deferred tax asset/liability will be disclosed in the balance sheet of Omega Limited as per provisions of AS 22.

(5 Marks)

(D) The following data is provided to you:

Case	Subsidiary Company	% shares owned	Cost	Date of acquisition		Consolidation Date	
				1.1.2018		31.12.2018	
			₹	Share Capital ₹	Profit & Loss Account ₹	Share Capital ₹	Profit & Loss Account ₹
Case 1	A	90%	1,40,000	1,00,000	50,000	1,00,000	70,000
Case 2	B	85%	1,04,000	1,00,000	30,000	1,00,000	20,000
Case 3	C	80%	56,000	50,000	20,000	50,000	20,000
Case 4	D	100%	1,00,000	50,000	40,000	50,000	55,000

Determine in each case:

(1) Minority interest at the date of acquisition and at the date of consolidation.

(2) Goodwill or Capital Reserve. **(5 Marks)**