National Test Series 2

Test Paper 5

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. Send us your answer sheets by way of email on paper@konceptca.com.
   (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)
7. Email received after **15th October evening 7 PM** will not be assessed.
8. For instruction on how to submit the test please watch http://bit.ly/CA_Inter_Test
9. 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.

We will share your results and score only if you are able to send the answer sheets by **15th October evening 7 PM.**

Subject:- Advanced Accounting

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

Question 1 is compulsory.

Answer any four out of remaining five questions.

Question 1.

(A) The Accountant of Virush Limited has sought your opinion, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2020. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard;

(i) Till the previous year the machinery was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.

(ii) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.

(5 Marks)

(B) Uday Constructions undertake to construct a bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2019 and is likely to be completed by the next financial year. The contract is for a fixed price of ₹ 12 crore with an escalation clause. You are given the following information for the year ended 31.03.2019:

Cost Incurred upto 31.03.2019	₹ 4 crore
Further cost estimated to complete the contract	₹ 6 crore

Escalation in cost was by 5%. Hence, the contract price is also increased by 5%.
You are required to ascertain the stage of completion and compute the amount of revenue and profit to be recognized for the year as per AS 7.

(5 Marks)

(C) On the basis of provisions of AS 18 'Related Party Disclosures':

(i) Identify the related parties in the following cases:

X Limited holds 60% shares of Y Limited

Y Limited holds 55% shares of W Limited

Z Limited holds 35% shares of W Limited

(ii) Himalaya Limited sold goods for ₹ 40 Lakhs to Aravalli Limited during financial year ended on March 31, 2019. The Managing Director of Himalaya Limited owns 80% shares of Aravalli Limited. The sales were made to Aravalli Limited at normal selling prices followed by Himalaya Limited. The chief accountant of Himalaya Limited contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per AS 18. You are required to comment on this.

(5 Marks)

(D) Viral Ltd. sold machinery having WDV of ₹ 40 lakhs to Saral Ltd. for ₹ 50 lakhs and the same machinery was leased back by Saral Ltd. to Viral Ltd. The lease back is in nature of operating lease. You are required to explain the treatment in the given cases –

(i) Fair value is ₹ 45 lakhs and sale price is ₹ 38 lakhs.
(ii) Fair value is ₹ 40 lakhs and sale price is ₹ 50 lakhs.
(iii) Fair value is ₹ 46 lakhs and sale price is ₹ 50 lakhs

(5 Marks)

Question 2.

(A) A company has its share capital divided into shares of ₹ 10 each. On 1-1-20X1, it granted 5,000 employees stock options at ₹ 50, when the market price was ₹ 140. The options were to be exercised between 1-3-20X2 to 31-03-20X2. The employees exercised their options for 4,800 shares only; remaining options lapsed. Pass the necessary journal entries for the year ended 31-3-20X2, with regard to employees' stock options.

(5 Marks)

(B) Pratham Ltd. (a non-listed company) has the following Capital structure as on 31st March, 2020:

Particulars	₹	₹
Equity Share Capital (shares of ₹ 10 each fully paid Reserves & Surplus		30,00,000
General Reserve	32,50,000	
Security Premium Account	6,00,000	
Profit & Loss Account	4,30,000	
Revaluation Reserve	6,20,000	49,0000
Loan Funds		42,00,000

You are required to compute by Debt Equity Ratio Test, the maximum number of shares that can be bought back in the light of above information, when the offer price for buy back is ₹ 30 per share.

(5 Marks)

(C) P Ltd. and Q Ltd. decided to amalgamate as on 01.04.2018 Their summarized Balance Sheets as on 31.03.2018 were as follows:

(₹ in '000)

Particulars	P Ltd.	Q Ltd.
Source of Funds:		
Equity share capital (₹10 each)	300	280
9% preference share Capital (₹100 each)	60	40
Investment allowance Reserve	10	4
Profit and Loss Account	68	68
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 01.04.2018 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 ₹ 10 each of the new company at a premium of ₹ 5 per share.

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

(10 Marks)

Question 3.

(A) The summarized Balance Sheet of SK Ltd. as on 31st March, 2018 is given below.

(₹ in '000)

	Amount
Liabilities	
Equity shares of 10 each	35,000
8%, Cumulative Preference Shares of ₹ 100 each	17,500
6% Debentures of ₹ 100 each	14,000
Sundry Creditors	17,500
Provision for taxation	350
Total	84,350
Assets	
Fixed Assets	43,750
Investments (Market value ₹ 3325 thousand)	3,500
Current Assets (Including Bank Balance)	35,000
Profit and Loss Account	2,100
Total	84,350

The following Scheme of Internal Reconstruction is approved and put into effect on 31st March, 2018.

(i) Investments are to be brought to their market value.
(ii) The Taxation Liability is settled at ₹ 5,25,000 out of current Assets.
(iii) The balance of Profit and Loss Account to be written off.
(iv) All the existing equity shares are reduced to ₹ 4 each.
(v) All preference shares are reduced to ₹ 60 each.
(vi) The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange them for fresh debentures of ₹ 80 each. Each old debenture is exchanged for one new debenture.
(vii) The balance of Current Assets left after settlement of taxation liability are revalued at ₹1,57,50,000.
(viii) Fixed Assets are written down to 80%.
(ix) One of the creditors of the Company for ₹ 70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of ₹ 4 each in full and final settlement of his claim.

Pass journal entries for the above transactions.

(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:		
	Fixed assets- 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) Astha Bank has the following Capital Funds and Assets as at 31st March, 2018:

	₹ in crores
Capital Funds:	
Equity Share Capital	600.00
Statutory Reserve	470.00
Profit and Loss Account (Dr. Balance)	30.00
Capital Reserve (out of which ₹25 crores were due to revaluation of assets and balance due to sale of assets)	130.00
Assets:	
Balance with other banks	15.00
Cash balance with RBI	35.50

Claim on Banks	52.50
Other Investments	70.00
Loans and Advances:	
(i) Guaranteed by government	22.50
(ii) Guaranteed by DICGC/ECGC	110.00
(iii) Other	9,365.00
Premises, furniture and fixtures	92.50
Leased assets	40.00
Off- Balance Sheet items:	
(i) Acceptances, endorsements and letters of credit	1,100.00
(ii) Guarantees and other obligations	6,200.00

You are required to:

(i) Segregate the capital funds into Tier I and Tier II capitals.

(ii) Find out the risk-adjusted assets and risk weighted assets ratio.

(10 Marks)

(B) While closing its books of accounts on 31st March 2018, a Non-Banking Finance Company has its advances classified as follows:

	₹ (in lakhs)
Standard assets	18,400
Sub-standard assets	1,250
Secured Portion of doubtful debts:	
Upto one year	300
One year to three years	90
More than three years	30
Unsecured portions of doubtful debts	92
Loss assets	47

Calculate the amount of provision which must be made against the Advances as per -

(i) The Non-banking Financial Company - Non-systematically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016; and

(ii) Non-banking Financial Company - Systematically Important Non- Deposit taking Company (Reserve Bank) Directions, 2016.

(10 Marks)

Question 5.

(A) On 31st March, 2017 the summarized Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Liabilities	**H Ltd.**	**S Ltd.**
	₹ in lakhs	**₹ in lakhs**
Share Capital:		
Authorized	15,000	6,000
Issued and Subscribed:		
Equity Shares of ₹ 10 each, fully paid up	12,000	4,800
General Reserve	2,784	1,380
Profit and Loss Account	2,715	1,620
Bills Payable	372	160
Trade Payables	1,461	854
Provision for Taxation	855	394
Dividend payable	1,200	-
	21,387	9,208
Assets	**H Ltd.**	**S Ltd.**
	₹ in lakhs	**₹ in lakhs**
Land and Buildings	2,718	-
Plant and Machinery	4,905	4,900
Furniture and Fittings	1,845	586
Investments in shares in S Ltd.	3,000	-
Stock	3,949	1,956
Trade Receivables	2,600	1,363
Cash and Bank Balances	1,490	204
Bills Receivable	360	199
Sundry Advances	520	-
	21,387	9,208

The following information is also provided to you:

a) H Ltd. purchased 180 lakh shares in S Ltd. on 1st April, 2016 when the balances of General Reserve and Profit and Loss Account of S Ltd. stood at ₹ 3,000 lakh and ₹ 1,200 lakh respectively.
b) On 31st March, 2016, S Ltd. declared a dividend @ 20% for the year ended 31st March, 2016. H Ltd. credited the dividend received by it to its Profit and Loss Account.
c) On 1st January, 2017, S Ltd. issued 3 fully paid-up bonus shares for every 5 shares held out of balances of its general reserve as on 31st March, 2016.
d) On 31st March, 2017, all the bills payable in S Ltd.'s balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only ₹ 45 lakh of these acceptances in hand, the rest having been endorsed in favour of its trade payables.
e) On 31st March, 2017, S Ltd.'s inventory included goods which it had purchased for ₹ 100 lakh from H Ltd. which made a profit @ 25% on cost.

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2017.

(15 Marks)

(B) Rohit Ltd. has provided the following information

Particulars	**₹**
Depreciation as per accounting records	2,50,000
Depreciation as per tax records	5,50,000
Unamortized preliminary expenses as per tax record	40,000

There is adequate evidence of future profit sufficiency. How much deferred tax assets/liability should be recognized as transition adjustment when the tax rate is 50%?

(5 Marks)

Question 6.

(A) Ram, Wazir and Adil give you the following Balance Sheet as on 31st March, 2019:

Liabilities		15,000	Plant and Machinery at cost		30,000
Ram's Loan			Fixtures and Fittings		2,000
Capital Accounts:			Stock		10,400
Ram	30,000		Debtors	18,400	
Wazir	10,000		Less: Provision	(400)	18,000
Adil	2,000	42,000	Joint Life Policy		15,000
Sundry Creditors		17,800	Patents and Trademarks		10,000
Loan on Hypothecation of Stock		6,200	Cash at Bank		8,000
Joint Life Policy Reserve		12,400			
		93,400			93,400

The partners shared profits and losses in the ratio of Ram 4/9, Wazir 2/9 and Adil 1/3. Firm was dissolved on 31st March, 2019 and you are given the following information:

(a) Adil had taken a loan from insurers for ₹ 5,000 on the security of Joint Life Policy.

The policy was surrendered and Insurers paid a sum of ₹ 10,200 after deducting ₹ 5,000 for Adil's loan and ₹ 300 as interest thereon.

(b) One of the creditors took some of the patents whose book value was ₹ 6,000 at a valuation of ₹ 4,500. The balance to that creditor was paid in cash.

(c) The firm had previously purchased some shares in a joint stock company and had written them off on finding them useless. The shares were now found to be worth ₹ 3,000 and the loan creditor agreed to accept the shares at this value.

(d)

The remaining assets realized the following amount:	₹
Plant and Machinery	17,000
Fixtures and Fittings	1,000
Stock	9,000
Debtors	16,500
Patents	at 50% of their book value

e) The liabilities were paid and a total discount of ₹ 500 was allowed by the creditors.

(f) The expenses of realization amounted to ₹ 2,300.

You are required to prepare the Realization Account, Bank Account and Partners' Capital Accounts in columnar form. Also provide necessary working notes in your answer.

(10 Marks)

(B) Mohit, Neel, and Om were Partners sharing Profits and Losses in the ratio of 5:3:2 respectively. The Trial Balance of the Firm on 31st March, 2019 was the following:

Particulars	**₹**	**₹**
Machinery at Cost	2,000	
Inventory	1,37,400	
Trade receivables	1,24,000	
Trade payables		1,69,400
Capital A/cs:		
Mohit		1,36,000
Neel		90,000
Om		46,000
Drawing A/cs:		
Mohit	50,000	
Neel	46,000	
Om	34,000	
Depreciation on Machinery		80,000
Profit for the year ended 31st March		2,48,600
Cash at Bank	1,78,600	-
	7,70,000	7,70,000

Interest on Capital Accounts at 10% p.a. on the amount standing to the credit of Partners' Capital Account at the beginning of the year, was not provided before preparing the above Trial Balance. On the above date, they formed a MNO Private Limited Company with an Authorized Share Capital of 2,00,000 shares of ₹ 10 each to be divided in different classes to take over the business of Partnership firm.

You are provided the following information:

1. Machinery is to be transferred at ₹ 1,40,000.

2. Shares in the Company are to be issued to the partners, at par, in such numbers, and in such classes as will give the partners, by reason of their shareholdings alone, the same rights as regards interest on capital and the sharing of profit and losses as they had in the partnership.

3. Before transferring the business, the partners wish to draw from the partnership profits to such an extent that the bank balance is reduced to ₹ 1,00,000. For this purpose, sufficient profits of the year are to be retained in profit -sharing ratio.

4. Assets and liabilities except Machinery and Bank, are to be transferred at their book value as on the above date.

You are required to prepare:

(a) Statement showing the workings of the Number of Shares of each class to be issued by the company, to each partner.

(b) Capital Accounts showing all adjustments required to dissolve the Partnership.

(c) Balance Sheet of the Company immediately after acquiring the business of the Partnership and Issuing of Shares.

(10 Marks)