

CA - Intermediate
ADVANCED ACCOUNTING



TEST PAPER- 2

QUESTION PAPER

FULL SYLLABUS

MARKS- 100

DURATION- 3 HOURS

INSTRUCTIONS:

1. All the questions are compulsory.
2. Properly mention Test no. on First Page and Page no. on every answer sheet.
3. In case of multiple choice questions, mention option number only.
4. Working Notes are compulsory wherever required in support of your solution.
5. Do not copy any solution from material.
6. Attempt as much as you know to fairly judge your performance.
7. Please upload your Answer Sheet Horizontally.
8. Copy once get evaluated by Evaluator cannot be re-uploaded by the student.
9. Always check correct Test No. of your subject while uploading answer sheet.
- 10 Handwriting should be clean.

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PART A
(MCQ SECTION)

(Each MCQ is of 2 Marks)

1. If goods are invoiced to branches at cost, trading results of branch can be ascertained by
 - a) Debtors method.
 - b) Stock and debtors method.
 - c) Either (a) or (b).
 - d) Both (a) and (b).

2. Under branch trading and profit loss account method
 - a) H.O prepares profit and loss account.
 - b) Each branch is treated separate entity.
 - c) Both (a) and (b).
 - d) Either (a) or (b).

3. A process of reconstruction, which is carried out without liquidating the company and forming a new one is called
 - a) Internal reconstruction.
 - b) External reconstruction.
 - c) Amalgamation in the nature of merger.
 - d) Amalgamation in the nature of purchase.

4. Reconstruction is a process by which affairs of a company are reorganized by
 - a) Revaluation of assets and Reassessment of liabilities.
 - b) Writing off the losses already suffered by reducing the paid up value of shares and/or varying the rights attached to different classes of shares.
 - c) Both (a) and (b).
 - d) None of the above.

5. A company into which the vendor company is merged is called
 - a) Transferee company.
 - b) Transferor company.
 - c) Selling company.
 - d) Acquiree company.

6. If the purchase consideration is more than net assets (at agreed values) of the transferor company, difference shall be recorded as the transferee company in the books of
- Goodwill.
 - Capital Reserve.
 - Profit.
 - Loss.
7. As per section 68(1) of the Companies Act, buy-back of own shares by the company, shall not exceed
- 25% of the total paid-up capital and free reserves of the company.
 - 20% of the total paid-up capital and free reserves of the company.
 - 15% of the total paid-up capital and free reserves of the company.
 - 10% of the total paid-up capital and free reserves of the company.
8. The companies are permitted to buy-back their own shares out of
- Free reserves and Securities premium
 - Proceeds of the issue of any shares.
 - Both (a) and (b)
 - Neither (a) nor (b).
9. "Fixed assets held for sale" will be classified in the company's balance sheet as
- Current asset
 - Non-current asset
 - Capital work-in-progress
 - Deferred tax assets
10. Current maturities of long-term debt will come under
- Current Liabilities.
 - Short term borrowings.
 - Long term borrowings.
 - Short term provisions
11. Hari Uttam, a stock broking firm, received 1,50,000 as premium for forward contracts entered for purchase of equity shares. How will you classify this amount in the cash flow statement of the firm?

- a) Operating Activities.
- b) Investing Activities.
- c) Financing Activities.
- d) Non-cash transaction

12. As per AS 3 on Cash Flow Statements, cash received by a manufacturing company from sale of shares of ABC Company Ltd. should be classified as

- a) Operating activity.
- b) Financing activity.
- c) Investing activity.
- d) Non-cash transaction

13. To encourage industrial promotion, IDCI offers subsidy worth 50 lakhs to all new industries set up in the specified industrial areas. This grant is in the nature of promoter's contribution. How such subsidy should be accounted in the books?

- a) Credit it to capital reserve
- b) Credit it as 'other income' in the profit and loss account in the year of commencement of commercial operations
- c) Both (a) and (b) are permitted
- d) Credit it to general reserve

14. As per AS 10 (Revised) 'Property, plant and equipment', which of the following costs is not included in the carrying amount of an item of PPE

- a) Costs of site preparation
- b) Costs of relocating
- c) Installation and assembly costs.
- d) initial delivery and handling costs

15. As per AS 10 (Revised) 'Property, Plant and Equipment', an enterprise holding investment properties should value Investment property

- a) as per fair value
- b) under discounted cash flow model.
- c) under cost model
- d) under cash flow model

PART B
(DESCRIPTIVE QUESTION)

Candidates are also required to answer any five questions from the six questions.

Working notes should form part of the respective answers.

QUESTION 1 (a)

Y Ltd., used certain resources of X Ltd. In return X Ltd. received @ 10 lakhs and @ 15 lakhs as interest and royalties respective from Y Ltd. during the year 20X1-X2. You are required to state whether and on what basis these revenues can be recognized by X Ltd. **(5 marks)**

QUESTON 1 (b)

Goods of Rs. 5,00,000 were destroyed due to flood in September, 2015. A claim was lodged with insurance company, but no entry was passed in the books for insurance claim. In March, 2018, the claim was passed and the company received a payment of Rs. 3,50,000 against the claim. Explain the treatment of such receipt in final accounts for the year ended 31st March, 2018. **(5 marks)**

QUESTION 1 (c)

On 1st December, 2018, "Sampath" Construction Company Limited undertook a contract to construct a building for Rs. 108 lakhs. On 31st March, 2019 the company found that it had already spent Rs. 83.99 lakhs on the construction. A prudent estimate of additional cost for completion was Rs. 36.01 lakhs. You are required to compute the amount of provision for foreseeable loss, which must be made in the Final Accounts for the year ended 31st March, 2019 based on AS 7 "Accounting for Construction Contracts." **(5 marks)**

QUESTION 1(d)

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"? **(5 marks)**

QUESTION 2

Mukti Ltd. (a non-listed company) provide the following information as on 31.3,2023:

| | |
|---|-----------|
| Land and Building | 21,50,000 |
| Plant & Machinery | 1500000 |
| Non-current Investment | 200000 |
| Trade Receivables | 550000 |
| Inventories | 180000 |
| Cash and Cash Equivalents | 40000 |
| Share capital:1,00,000 Equity Shares of & 10 each fully paid up | 1000000 |
| Securities Premium | 300000 |
| General Reserve | 250000 |
| Profit & Loss Account (Surplus) | 150000 |
| 10% Debentures (Secured by floating charge on all assets) | 2000000 |
| Unsecured Loans | 800000 |
| Trade Payables | 120000 |

On 21* April, 2023 the Company announced the buy back of 15,000 of its equity shares @ % 15 per share. For this purpose, it sold all its investment for € 2.50 lakhs. On 25" April, 2023, the company achieved the target of buy back. On 1* May, 2023 the company issued one fully paid up share of @ 10 each by way of bonus for every eight equity shares held by the equity shareholders.

You are required to pass necessary Journal Entries for the above transactions.

(10 marks)

QUESTION 3

As a part of the reconstruction scheme of Getting better Ltd, the following terms were agreed upon-

1. The shareholders to receive in lieu of their present holdings (viz. 10,000 shares of 50 each), the following-
 - a) 15,000 Fully paid equity shares of * 10 each;

- b) 12% fully paid preference shares to the extent of 2/5 of total equity shares;
- c) To pay them 50,000 and transfer the remaining to the reconstruction account.
- 2. 8% Preference share capital - 3,00,000
To write down the value of preference shares to 50 (original face value* 100).
- 3. 14% debentures of the nominal value of 2,00,000 along with accrued interest 56,000 was waived off for three fourths of the total amount, and the remaining being paid in cash.

Show the necessary journal entries in the books of Getting better company based on the above scheme. **(15 marks)**

OR

QUESTION 3

Zoom Ltd. acquired 70% shares of Star Ltd. @ % 30 per share. Following is the extract of Balance Sheet of Star Ltd.:

| | |
|--------------------------------------|-------------|
| 15,00,000 Equity Shares of @ 10 each | 1,50,00,000 |
| 15% Debentures | 15,00,000 |
| Trade Payables | 82,50,000 |
| Property, Plant and Equipment | 1,05,00,000 |
| Investments | 67,50,000 |
| Current Assets | 1,02,00,000 |
| Loans and Advances | 33,00,000 |

On the same day Star Ltd. declared dividend at 20% and as agreed between both the companies Property, Plant and Equipment were to be depreciated @ 10% and investment to be taken at market value of % 90,00,000.

Calculate the Goodwill or Capital Reserve to be recorded in Consolidated Financial Statements. **(15 marks)**

QUESTION 4

On 1st April, 2018, Tina Ltd. take over the business of Rina Ltd. and discharged purchase consideration as follows:

- i. Issued 50,000 fully paid Equity shares of 10 each at a premium of * 5 per share to the equity shareholders of Rina Ltd.
- ii. Cash payment of 50,000 was made to equity shareholders of Rina Ltd.

- iii. Issued 2,000 fully paid 12% Preference shares of 100 each at par to discharge the preference shareholders of Rina Ltd.
- iv. Debentures of Rina Ltd. 20,000) will be converted into equal number and amount of 10% debentures of Tina 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 Tina Ltd.

(10 marks)

QUESTION 5

The Bombay Traders invoiced goods to its Delhi branch at cost. Head Office paid all the branch expenses from its bank account, except petty cash expenses which were met by the Branch. All the cash collected by the branch was banked on the same day to the credit of the Head Office. The following is a summary of the transactions entered into at the branch during the year ended December 31, 20X1.

| | ₹ | | ₹ |
|---------------------------------|--------|-----------------------------------|--------|
| <i>Balances as on 1.1.20X1:</i> | | | |
| Stock | 7,000 | Bad Debts | 600 |
| Debtors | 12,600 | Goods returned by customers | 500 |
| Petty Cash, | 200 | Salaries & Wages | 6,200 |
| Goods sent from H.O. | 26,000 | Rent & Rates | 1,200 |
| Goods returned to H.O. | 1,000 | Sundry Expenses | 800 |
| Cash Sales | 17,500 | Cash received from Sundry Debtors | 28,500 |
| Credit Sales | 28,400 | <i>Balances as on 31.12.20X1:</i> | |
| Allowances to customers | 200 | Stock | 6,500 |
| Discount to customers | 1,400 | Debtors | 9,800 |
| | | Petty Cash | 100 |

Prepare: (a) Branch Account (Debtors Method), (b) Branch Stock Account, Branch Profit & Loss Account, Branch Debtors and Branch Expenses Account by adopting the Stock and Debtors Method and (c) Branch Trading and Profit & Loss Account to prove the results as disclosed by the Branch Account.

(15 marks)

QUESTION 6 (a)

Given below are the following information of B.S. Ltd.

- i. Goods of Rs. 50,000 were sold on 18-03-2018 but at the request of the buyer these were delivered on 15-04-2018.
- ii. On 13-01-2018 goods of Rs. 1,25,000 are sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-03-2018.
- iii. Rs. 1,00,000 worth of goods were sold on approval basis on 01-12-2017. The period of approval was 3 months after which they were considered sold.

Buyer sent approval for 75% goods up to 31-01-2018 and no approval or disapproval received for the remaining goods till 31-03-2018.

You are required to advise the accountant of B.S. Ltd., with valid reasons, the amount to be recognized as revenue for the year ended 31st March, 2018 in above cases in the context of AS-9. **(5 marks)**

QUESTION 6 (b)

Goods purchased on 1.1.20X1 for US \$ 15,000 Rs.75

Exchange rate on 31.3.20X1 per \$ Rs.74

Date of actual payment 7.7.20X1 per \$ Rs.73

You are required to ascertain the loss/gain to be recognized for financial years ended 31st March, 20X1 and 31st March, 20X2 as per AS 11. **(5 marks)**

QUESTION 6 (c)

In case an enterprise allows unutilised employee benefits, e.g., medical care, leave travel, etc., to be carried forward, whether it is required to recognise a provision in respect of carried forward benefits. **(5 marks)**

QUESTION 6 (d)

X Ltd. is having a plant (asset) carrying amount of which is 100 lakhs on 31.3.20X1. Its balance useful life is 5 years and residual value at the end of 5 years is 5 lakhs. Estimated future cash flow from using the plant in next 5 years are:

| For the year ended | Estimated cash flow (in lakhs) |
|--------------------|---------------------------------|
| 31.3.20X2 | 50 |
| 31.3.20X3 | 30 |
| 31.3.20X4 | 30 |
| 31.3.20X5 | 20 |
| 31.3.20X6 | 20 |

Calculate "value in use" for plant if the discount rate is 10% and also calculate the recoverable amount if net selling price of plant on 31.3.20X1 is 60 lakhs. **(5 marks)**