CA INTERMEDIATE

SUBJECT- ADVANCE ACCOUNT

Test Code – IMP 2411

(Date :)

(Marks - 100)

TOPIC : Full Course **Time allowed: 3 Hours**

Section – A

Multiple Choice Questions:

1. X Ltd. has received a grant of Rs. 20 crore for purchase of a qualified machine costing Rs. 80 crore. X Ltd. has a policy to recognize the grant as deferred income. The expected remaining useful life of the machine is 10 years. Assume that there is no salvage value and the depreciation method is straight – line. The amount of other income to be recognized in Profit and Loss Statement will be :
   (a) Rs. 10 crore
   (b) Rs. 6 crore
   (c) Rs. 2 crore
   (d) Rs. 8 crore **(2 MARKS)**
2. Under debtors method, opening balance of debtors is
   (a) Debited to branch account
   (b) Credited to branch account
   (c) Debited to H.O. account
   (d) Credited to H.O. account **(2 MARKS)**
3. AB decided to dispose of its Clothing division as part of its long – term strategy.
   (i) Date of Board approval – 1st March 20X1;
   (ii) Date of formal announcement made to affected parties – 15th March 20X1.
   (iii) Date of Binding Sale agreement – 1st July 20X1;
   (iv) Reporting date – 31st March 20X1
   The date of initial disclosure event would be :
   (a) 1st March 20X1
   (b) 15th March 20X1
   (c) 31st March 20X1
   (d) 31st July 20X1 **(2 MARKS)**
4. Amalgamation Adjustment Reserve is presented in the financial statements of the transferee company as
   (a) Other current assets.
   (b) Separate line item with a negative sign under the head 'Reserves and Surplus.'
   (c) Other non – current assets
   (d) Investment of the company **(2 MARKS)**
5. In case of an operating lease – identify which statement is correct :
   (a) The lessor continues to show the leased asset in its books of accounts.
   (b) The lessor de – recognises the asset from its Balance Sheet.
   (c) The lessor discontinues to claim depreciation in its books.
   (d) The lessee recognises the asset in its Balance Sheet. **(2 MARKS)**
6. Advantages of Buy – back of shares include to
   (a) Encourage others to make hostile bid to take over the company.
   (b) Decrease promoters holding as the shares which are bought back are cancelled.

(c) Discourage others to make hostile bid to take over the company as the buy – back will increase the promoters holding.
(d) All of the above. **(2 MARKS)**

7. AB Company Ltd. had 1,00,000 shares of common stock outstanding on January 1. Additional 50,000 shares were issued on July 1, and 25,000 shares were reacquired on September 1. The weighted average number of shares outstanding during the year on Dec. 31 is
(a) 1,40,000 shares
(b) 1,25,000 shares
(c) 1,16,667 shares
(d) 1,20,000 shares **(2 MARKS)**

8. 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 **(2 MARKS)**

9. ABC Limited has reported Rs. 85,000 as per tax profit in first quarter and expects a loss of Rs. 25,000 each in subsequent quarters. It has corporate tax rate slab of 20% on the first Rs. 20,000 earnings and 40% on all additional earnings. Calculate tax expenses that should report in first quarter interim financial report.
(a) Rs. 17,000
(b) Rs. 30,000
(c) Rs. 2,000
(d) As 25 does not mandate to report tax expenses **(2 MARKS)**

10. A plot of land with carrying amount of Rs. 1,00,000 was revalued to Rs.90,000 at the end of Year 2. Subsequently, due to increase in market values, the land was determined to have a fair value of Rs. 1,05,000 at the end of Year 4. Assuming that the entity adopts Revaluation Model, what would be the accounting treatment of Revaluation ?
(a) Initial downward valuation of Rs. 10,000 debited to Revaluation Reserve. Subsequent upward revaluation of Rs. 15,000 credited to P/L.
(b) Initial downward valuation of Rs. 10,000 debited to P/L. Subsequent upward revaluation of Rsd. 15,000 credited to P/L.
(c) Initial downward valuation of Rs. 10,000 debited to P/L. Subsequent upward revaluation of Rs. 10,000 credited to P/L and Rs. 5,000 credited to Revaluation Reserve.
(d) Initial downward valuation of Rs. 10,000 credited to P/L. Subsequent upward revaluation of Rs. 10,000 debited to P/L and Rs. 5,000 debited to Revaluation Reserve. **(2 MARKS)**

11. In case of Corporate assets in the Balance Sheet of an entity, the following is true :
(a) Apply Bottom up test if corporate assets cannot be allocated to CGU (cash generating unit) under review.
(b) Apply Top down test if corporate assets cannot be allocated to CGU (cash generating unit) under review.
(c) Apply both Bottom up test and Top down test if corporate assets cannot be allocated to CGU (cash generating unit) under review.
(d) Apply either Bottom up test or Top down test if corporate assets cannot be allocated to CGU (cash generating unit) under review. **(1 MARK)**

12. 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) **(1 MARK)**

13. The plans that are established by legislation to cover all enterprises and are operated by Governments include :
(a) Multi – Employer plans
(b) State plans
(c) Insured Benefits
(d) Employee benefit plan **(1 MARK)**

14. As per AS 17, reportable segments are those whose total revenue from external sales and inter – segment sales is
(a) 10% or more of the total revenue of all segments
(b) 10% or more of the total revenue of all external segments
(c) 12% or more of the total revenue of all segments
(d) 12% or more of the total revenue of all external segments **(1 MARK)**

15. A Ltd. sold its building for Rs. 50 lakhs to B Ltd. and has also given the possession to B Ltd. the book value of the building is Rs. 30 lakhs. As on 31st March, 20X1, the documentation and legal formalities are pending. For the financial year ended 31st March, 20X1
(a) The company should record the sale.
(b) The company should recognise the profit of Rs. 20 lakhs in its profit and loss account.
(c) Both (a) and (b)
(d) The company should disclose the profit of Rs. 20 lakhs in notes to accounts.
(1 MARK)

16. Identify which is / are features of a Jointly controlled entity (JCE) :
(i) Venturer creates a new entity for their joint venture business.
(ii) All the venturers pool their resources under new banner and this entity purchases its own assets, create its own liabilities, expenses are incurred by the entity itself and sales are also made by this entity.
(iii) The revenues and expenses of the entity is shares by the venturers in the ratio agreed upon in the contractual agreement.
(a) Point no. (i) only.
(b) Point no. (i) and (ii)
(c) Point no. (iii)
(d) Point no. (i) and (iii) **(1 MARK)**

17. All non – corporate entities engaged in commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees 250 crores in the immediately preceding accounting year, are classified as
(a) Level II entities.
(b) Level I entities
(c) Level III entities
(d) Level IV entities **(1 MARK)**

18. It is essential to standardize the accounting principles and policies in order to ensure
(a) Transparency
(b) Consistency
(c) Comparability
(d) All the above **(1 MARK)**

19. Current maturities of long – term debt will come under

(a) Current Liabilities
(b) Short term borrowings
(c) Long term borrowings
(d) Short term provisions **(1 MARK)**

20. When a company purchases its own shares out of free reserves; a sum equal to nominal value of shares so purchased shall be transferred to
(a) Revenue redemption reserve
(b) Capital Redemption reserve
(c) Buy – back reserve
(d) Special reserve **(1 MARK)**

Question 1 is compulsory.

Answer any three out of four.

QUESTION : 1(A)

Sweet and Sour Limited deals in Catering Service. In a wedding in 2018 – 19, ten people died in which Sweet and Sour Limited has given their Catering Services, possibly as a result of food poisoning. Legal proceedings were started seeking compensation of Rs. 10,00,000 from the Company but it disputes liability. Up to the date of approval of the financial statements for the year 31st March, 2019, the Company's lawyers advised that it is probable that the Company will not be found liable for any amount. However, when the Company prepares the financial statements for the year 31st March 2020, its lawyers advice that, owing to developments in the case, it is probable that the Company may be found liable and compensation of Rs. 10,00,000 may be payable. How would you deal with the above as at 31st March, 2019 and at 31st March, 2020 in context with AS 29 ?

(5 MARKS)

QUESTION : 1(B)

The inventory of Rich Ltd. as on 31st March, 2020 comprises of Product – A: 200 units and Product – B: 800 units.
Details of cost for these products are:
Product – A: Material cost, wages cost and overhead cost of each unit are Rs. 40, Rs. 30 and Rs. 20 respectively, Each unit is sold at Rs. 110, selling expenses amounts to 10% of selling costs.

Product – B: Material cost and wages cost of each unit are Rs. 45 and Rs. 35 respectively and normal selling rate is Rs. 150 each, however due to defect in the manufacturing process 800 units of Product – B were expected to be sold at Rs. 70.

You are requested to value closing inventory according to AS 2 after considering the above.

(5 MARKS)

QUESTION : 1(C)

In May, 2020, Omega Ltd. took a bank loan from a Bank. This loan was to be used specifically for the construction of a new factory building. The construction was completed in January, 2021 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was Rs. 18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2021 amounted to Rs. 25 lakhs.

The company wants to treat Rs. 25 lakhs as part of the cost of factory building and thus capitalize it on the plea that the loan was specifically taken for the construction of factory building? Explain the treatment in line with the provisions of AS 16.

(5 MARKS)

QUESTION : 1(D)

AB Limited has incurred Rs. 200 lakhs on Research of a new process during first 6 months of the financial year 2019-20. The development process began on 1st October, 2019 and upto 31st March, 2020 a sum of Rs. 320 lakhs was incurred as Development Phase Expenditure, which met recognition criteria.

From 1^{st} April, 2020, the company has implemented the new process and it is likely that this will result in after tax saving of Rs. 80 lakhs per annum for next five years. The cost of capital is 10%.

You are required to explain:

(i) Accounting treatment for research expenses.

(ii) The cost of internally generated intangible asset as per AS 26.

(iii) The amount of amortization of the assets (The present value of annuity factor of Rs. 1 for 5 years @ 10 = 3.7908)

(4 MARKS)

QUESTION : 2(A)

The following is the Balance Sheet of X Ltd. as at 31^{st} March, 20X1 :

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	36,00,000
	B	Reserve and Surplus	2	(14,40,000)
2		**Non – current liabilities**		
	A	Long – term borrowings	3	6,00,000
3		Current liabilities		
	A	Trade Payables		3,00,000
	B	Short term borrowings – Bank Overdraft		6,00,000
		Total		**36,60,000**
		Assets		
1		**Non – current assets**		
	A	Property, plant and equipment	4	30,00,000
	B	Intangible assets	5	90,000
2		**Current Assets**		
	A	Inventories		2,60,000
	B	Trade receivables		2,80,000
	C	Cash and cash equivalents		30,000
		Total		**36,60,000**

Notes to accounts

		Rs.
1	**Share Capital**	
	24,000 Equity Shares of Rs. 100 each	24,00,000
	12,000, 10% Preference shares of Rs. 100 each	12,00,000
	Total	**36,00,000**
2	**Reserve and Surplus**	
	Debit balance of Profit and loss account	(14,40,000)
		(14,40,000)
3	**Long – term borrowings**	
	10% debentures	6,00,000
		6,00,000
4.	**Property, plant and Equipment**	
	Land and Building	12,00,000
	Plant and Machinery	18,00,000
		30,00,000
5	**Intangible assets**	
	Goodwill	90,000
		90,000

On the above data, the company adopted the following scheme of reconstruction :

(i) The equity shares are to be reduced to shares of Rs. 40 each fully paid and the preference shares to be reduced to fully paid shares of Rs. 75 each.

(ii) The debenture holders took over Inventories and Trade receivables in full satisfaction of their claims.

(iii) The Land and Building to be appreciated by 30% and Plant and machinery to be depreciated by 30%.

(iv) The debit balance of profit and loss account and intangible assets are to be eliminated.

(v) Expenses of reconstruction amounted to Rs. 5,000.

Give journal entries incorporating the above scheme of reconstruction and prepare the reconstructed Balance sheet.

(8 MARKS)

QUESTION : 2(B)

On 1st April, 20X1, XY Ltd. has 15,000 equity shares of ABC Ltd. at a book value of Rs. 15 per share (nominal value Rs. 10 per share). On 1st June, 20X1, XY Ltd. acquired 5,000 equity shares of ABC Ltd. for Rs. 1,00,000. ABC Ltd. announced a bonus and right issue.

(1) Bonus was declared, at the rate of one equity share for every five shares held, on 1st July 20X1.

(2) Right shares are to be issued to the existing shareholders on 1st September 20X1. The company will issue one right share for every 6 shares at 20% premium. No dividend was payable on these shares.

(3) Dividend for the year ended 31.3.20X1 were declared by ABC Ltd. @ 20%, which was received by XY Ltd. on 31st October 20X1.

XY Ltd.

(i) Took up half the right issue.

(ii) Sold the remaining rights for Rs. 8 per share.

(iii) Sold half of its shareholdings on 1st January 20X2 at Rs. 16.50 per share. Brokerage being 1%.

You are required to prepare Investment account of XY Ltd. for the year ended 31st March 20X2 assuming the shares are being valued at average cost.

(9 MARKS)

QUESTION : 3(A)

H Limited acquired 64000 Equity Shares of Rs. 10 each in S Ltd. as on 1st October, 2019. The Balance Sheets of the two companies as on 31st March, 2020 were as under:

Particulars	H Ltd. (Rs.)	S Ltd. (Rs.)
Equities and Liabilities:		
Equity Share Capital: Shares of Rs. 10 each	20,00,000	8,00,000
General Reserve (1st April, 2019)	9,60,000	4,20,000
Profit & Loss Account	2,28,800	3,28,000
Preliminary Expenses (1st April, 2019)	-	(20,000)
Bank Overdraft	3,00,000	-
Bills Payable	-	52,000
Trade Payables	1,66,400	80,000
Total	36,55,200	16,60,000
Assets:		
Land and Building	7,20,000	7,60,000
Plant & Machinery	9,60,000	5,40,000
Investment in Equity Shares of S Ltd.	12,27,200	-
Inventories	4,56,000	1,68,000
Trade Receivables	1,76,000	1,60,000
Bills Receivable	59,200	-
Cash in Hand	56,800	32,000
Total	**36,55,200**	**16,60,000**

Additional Information:

(1) The Profit & Loss Account of S Ltd. showed credit balance of Rs. 1,20,000 on 1st April, 2019. S Ltd. paid a dividend of 10% out of the same on 1st November, 2019 for the year 2018-19. The dividend was correctly accounted for by H Ltd.

(2) The Plant & Machinery of S Ltd. which stood at Rs. 6,00,000 on 1st April, 2019 was considered worth Rs. 5,20,000 on the date of acquisition by H Ltd. S Ltd. charges depreciation @ 10% per annum on Plant & Machinery.

Prepare consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31st March, 2020 as per Schedule III of the Companies Act, 2013.

(12 MARKS)

QUESTION : 3(B)

The summarized Balance Sheet of SM Limited as on 31st March, 2020 was as follows:

			Particulars	Amount in Rs.	Amount in Rs.
1.	**Equity and liabilities**				
	a.	**Shareholder's fund**			
		Share capital			
		(60,000 Equity Shares of Rs. 10 Each)			6,00,000

			Reserve & Surplus		
			Security premium	70,000	
			General reserve	63,000	
			Profit and Loss	1,40,000	2,73,000
		b.	**Non-current liability**		
			9% debentures (secured)		3,00,000
		c.	**Current Liabilities**		
			Term loan		40,000
			Creditors		65,000
			Provision for taxation		15,000
					12,93,000
	2.	**Assets**			
		a.	**Non-current assets**		
			Property plant and equipment		6,00,000
		b.	**Non-current investment**		1,50,000
		c.	**Current assets**		
			Stock	2,00,000	
			Debtors	2,60,000	
			Bank	83,000	5,43,000
					12,93,000

The shareholders adopted the resolution on 31st March, 2020 to:

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

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

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

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

(v) Buy back expenses were Rs. 2,000.

You are required to pass necessary journal entries to record the above transactions.

(5 MARKS)

QUESTION : 4(A)

Following is the trial balance of Delta limited as on 31.3.20X2.

(Figure in Rs. '000)

Particulars	Debit	Particulars	Credit
Land at cost	800	Equity share capital (Shares of Rs. 10 each)	500
Calls in arrears	5	10% Debentures	300
Cash in hand	2	General reserve	150
Plant & Machinery at cost	824	Profit & Loss A/c. (balance on 1.4.X1)	75
Trade receivables	120	Securities Premium	40
Inventories (31.3.X2)	96	Sales	1200

Cash at Bank	28	Trade payables	30
Adjusted Purchases	400	Provision for depreciation	150
Factory expenses	80	Suspense Account	10
Administrative expenses	45		
Selling expenses	25		
Debenture Interest	30		
	2455		**2455**

Additional Information :

(i) The authorized share capital of the company is 80,000 shares of Rs. 10 each.

(ii) The company revalued the land at Rs. 9,60,000.

(iii) Equity share capital includes shares of Rs. 50,000 issued for consideration other than cash.

(iv) Suspense account of Rs. 10,000 represents cash received from the sale of some of the machinery on 1.4.20X1. The cost of the machinery was Rs.24,000 and the accumulated depreciation thereon being Rs. 20,000. The balance of Plant & Machinery given in trial balance is before adjustment of sale of machinery.

(v) Depreciation is to be provided on plant and machinery at 10% on cost.

(vi) Balance at bank includes Rs. 5,000 with ABC Bank Ltd., which is not a Scheduled Bank.

(vii) Make provision for income tax @ 30%.

(viii) Trade receivables of Rs. 50,000 are due for more than six months.

You are required to prepare Delta Limited's Balance Sheet as at 31.3.20X2 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.20X2 as per Schedule III. Ignore previous year's figures & taxation.

(12 MARKS)

QUESTION : 4(B)

Give answer the question :

The following data is provided for M/s. Raj Construction Co.

(i) Contract Price - Rs. 85 lakhs

(ii) Materials issued - Rs. 21 Lakhs out of which Materials costing Rs. 4 Lakhs is still lying unused at the end of the period.

(iii) Labour Expenses for workers engaged at site - Rs. 16 Lakhs (out of which Rs. 1 Lakh is still unpaid)

(iv) Specific Contract Costs - Rs. 5 Lakhs

(v) Sub-Contract Costs for work executed - Rs. 7 Lakhs, Advances paid to sub - contractors - Rs. 4 Lakhs

(vi) Further Cost estimated to be incurred to complete the contract - Rs. 35 Lakhs

You are required to compute the Percentage of Completion, the Contract Revenue and Cost to be recognized as per AS-7.

(5 MARKS)

QUESTION : 5(A)

M/s Marena, Delhi has a branch at Bangalore to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch Expenses are paid direct from head office and the Branch has to remit all cash received into the Head Office Bank Account.

From the following details, relating to calendar year 20X1, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit under Stock and Debtors Method :

Branch does not maintain any books of account, but sends weekly returns to the Head Office.

	(Rs.)
Goods received from Head Office at invoice price	45,00,000
Returns to Heads Office at invoice price	90,000
Stock at Bangalore as on 1st January, 20X1	4,50,000
Sales during the year – Cash	15,00,000
– Credit	27,00,000
Sundry Debtors at Bangalore as on 1st January, 20X1	5,40,000
Cash received from Debtors	24,00,000
Discount allowed to Debtors	45,000
Bad Debts in the year	30,000
Sales returns at Bangalore Branch	60,000
Rent, Rates and Taxes at Branch	1,35,000
Salaries, Wages and Bonus at Branch	4,50,000
Office Expenses	45,000
Stock at Branch on 31st December, 20X1 at invoice price	9,00,000

(9 MARKS)

QUESTION : 5(B)

(i) Khushi Limited enter into an agreement with Mr. Happy for running a business for a fixed amount payable to the later every year. The contract states that the day-to-day management of the business will be handled by Mr. Happy, while all financial and operating policy decisions are taken by the Board of Directors of the Company. Mr. Happy does not own any voting power in Khushi Limited.

(ii) Shri Bhanu a relative of key management personnel received remuneration of Rs. 3,50,000 for his services in the company for the period from 1st April, 2020 to 30th June, 2020. On 1st July, 2020, he left the service.

You are required to suggest how the above transactions will be treated as at the closing date i.e. on 31st March, 2021 for the purposes of AS 18- Related Party Disclosures.

(4 MARKS)

QUESTION : 5(C)

PNA Corp Limited has outstanding equity shares of 60,00,000 on 31-03-2020. It also has 13% 1,00,000 convertible debentures outstanding of Rs. 100 each, to be converted into 10 equity shares each. Tax rate is 40%. Net profit after tax for the year ended 31st March, 2020 is Rs. 1,70,00,000.

You are required to calculate:

(1) Basic EPS

(2) Diluted EPS

(4 MARKS)