J.K. SHAH® TEST SERIES

CA INTERMEDIATE

SUBJECT- ADVANCE ACCOUNT

Test Code – IMP 2401

(Date :)

(Marks - 100)

TOPIC: FULL COURSE

Time allowed – 3 hours 15 minutes

SECTION - A

MULTIPLE CHOICE QUESTION :

QUESTION : 1

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 recognise the grant as a deduction from the cost of the asset. 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 annual depreciation to be charged as an expense in Profit and Loss Statement will be :

   (a) Rs. 10 crore

   (b) Rs. 6 crore

   (c) Rs. 2 crore

   (d) Rs. 8 crore

2. The accumulated losses under scheme of internal reconstruction are written off against.

   (a) Capital Reduction account

   (b) Share Capital account

   (c) Shareholder's account

   (d) Reserve and surplus

3. Are the following statements in relation to related parties true or false, according to AS – 18 Related Party Disclosures ?

   (A) A party is related to another entity that it is jointly controlled by.

   (B) A party is related to another entity that it controls.

	Statement (A)	Statement (B)
(a)	False	False
(b)	False	True
(c)	True	False
(d)	True	True

4. If the purchase consideration is more than net assets (at agreed values) of the transferor company, difference shall be recorded as _____ in the books of the transferee company.

   (a) Goodwill

   (b) Capital Reserve

   (c) Profit

   (d) Loss

5. X Co. is a business that sells second hand cars. If a car develops a fault within 30 days of the sale, X Co. will repair it free of charge. At 1st March 20X1, X Co had made a provision for repairs of Rs. 25,000. At 31st March 20X1, X Co calculated that the provision should be Rs. 20,000. What entry should be made for the provision in X Co's income statement for the month 31st March 20X1 ?

   (a) A charge of Rs. 5,000

   (b) A credit of Rs. 5,000

   (c) A charge of Rs. 20,000

   (d) A credit of Rs. 25,000

6. As per section 68(1) of the Companies Act, buy – back of own shares by the company, shall not exceed

   (a) 25% of the total paid –up capital and free reserves of the company.

   (b) 20% of the total paid – up capital and free reserves of the company.

   (c) 15% of the total paid – up capital and free reserves of the company.

   (d) 10% of the total paid – up capital and free reserves of the company.

7. As per AS 20, potential equity shares should be treated as dilutive when, and only when, their conversion to equity shares would

   (a) Decrease net profit per share from continuing ordinary operations.

   (b) Increase net profit per share from continuing ordinary operations.

   (c) Make no change in net profit per share from continuing ordinary operations.

   (d) Decrease net loss per share from continuing ordinary operations.

8. When the object of reconstruction is usually to re – organise capital or to compound with creditors or to effect economies then such type of reconstruction is called

   (a) Internal reconstruction with liquidation

   (b) Internal reconstruction without liquidation of the company

   (c) External reconstruction

   (d) None of the above

9. An entity prepares quarterly interim financial reports in accordance with AS 25. The entity is engaged in sale of mobile phones and normally 5% of customers claim on their warranty. The provision in the first quarter was calculated as 5% of sales to date, which was Rs. 10 million. However, in the second quarter, a fault was found and warranty claims were expected to be 10% for the whole of the year. Sales in the second quarter were Rs. 15 million. What would be the provision charged in the second quarter's interim financial statements ?
   (a) Rs. 1 million
   (b) Rs. 2 million
   (c) Rs. 1.25 million
   (d) Rs. 1.5 million
10. A plot of land with carrying amount of Rs. 1,00,000 was revalued to Rs. 1,50,000 at the end of Year 2. Subsequently, due to drop in market values, the land was determined to have a fair value of Rs. 1,30,000 at the end of year 4. Assuming that the entity adopts Revaluation Model, what would be the accounting treatment of Revaluation ?
   (a) Initial upward valuation of Rs. 50,000 credited to Revaluation Reserve. Subsequent downward revaluation of Rs. 20,000 debited to P/L.
   (b) Initial upward valuation of Rs. 50,000 credited to P/L. Subsequent downward revaluation of Rs. 20,000 debited to P/L.
   (c) Initial upward valuation of Rs. 50,000 credited to Revaluation Reserve. Subsequent downward revaluation of Rs. 20,000 debited to Revaluation Reserve.
   (d) Initial upward valuation of Rs. 50,000 debited to P/L. Subsequent downward revaluation of Rs. 20,000 credited to P/L.

(10 * 2 MARKS = TOTAL 20)

11. In case of reversal of impairment loss, which statement is true :
   (a) Goodwill written off can never be reversed.
   (b) Goodwill written off can be reversed without any conditions to be met.
   (c) Goodwill written off can be reversed only if certain conditions are met.
   (d) Goodwill written off can be reversed.
12. 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) and (b)

(d) Both (a) and (b)

13. Actuarial gains /losses should be :

(a) Recognised through reserves

(b) Charged over the expected life of employees

(c) Charged immediately to Profit and Loss statement

(d) Do not charged to Profit and Loss Statement

14. Which of the following statements is correct ?

(a) The overall test of 75% considers only external revenue to compute the threshold limit.

(b) The overall test of 75% considers only internal revenue to compute the threshold limit.

(c) The overall test of 75% considers both internal and external revenue to compute the threshold limit.

(d) It is management choice whether they want to include both external and internal revenue for computing threshold limit.

15. Cash amounting to Rs. 4 lakhs, stolen by the cashier in the month of March 20X1, was detected in April, 20X1. The financial statements for the year ended 31^{st} March, 20X1 were approved by the Board of Directors on 15^{th} May, 20X1. As per Accounting Standards, this is _____ for the financial statements year ended on 31^{st} March, 20X1.

(a) An Adjusting event

(b) Non – adjusting event

(c) Contingency

(d) Provision

16. Identify which of the following is not a feature of a Jointly controlled operations (JCO) :

(a) Each venture has his own separate business.

(b) There is a separate entity for joint venture business.

(c) Each venture record only his own transactions without any separately set of books maintained for the joint venture business.

(d) There is a common agreement between all of them.

17. “Small and Medium Sized Company” (SMC) means, a company –

(a) Which may be a bank, financial institution or an insurance company.

(b) Whose turnover (excluding other income) does not exceed rupees two – fifty crores in the immediately preceding accounting year;

(c) Whose turnover (excluding other income) does not exceed rupees fifty crores in the immediately preceding accounting year;

(d) Whose turnover (excluding other income)does not exceed rupees five hundred crores in the immediately preceding accounting year.

18. Global Standards facilitate

(a) Cross border flow of money.

(b) Comparability of financial statements

(c) Uniformity and Transparency of financial statements.

(d) All the three

19. "Fixed assets held for sale" will be classified in the company's balance sheet as

(a) Current asset

(b) Non – current asset

(c) Capital work – in – progress

(d) Deferred tax assets

20. Premium (excess of buy – back price over the par value) paid on buy – back should be adjusted against

(a) Free reserves

(b) Securities premium

(c) Both (a) and (b)

(d) Neither (a) not (b)

(10 * 1 MARKS = Total 10)

SECTION : B

Question 1 is compulsory.

Answer any three out of four.

QUESTION : 1(A)

On 1st December, 20X1, Vishwakarma Construction Co. Ltd., undertook a contract to construct a building for Rs. 85 lakhs. On 31st March, 20X2, the company found that it had already spent Rs. 64,99,000 on the construction. Prudent estimate of additional cost for completion was Rs. 32,01,000. What amount should be recognized in the statement of profit and loss for the year ended 31st March, 20X2 as per provisions of Accounting Standard (Revised) ?

(5 MARKS)

QUESTION : 1(B)

A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2022, when the exchange rate was Rs. 43 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2022 when the exchange rate was Rs. 47 per US Dollar. However, on 31st March, 2022, the rate of exchange was Rs. 48 per US Dollar. The company passed an entry on 31st March, 2022 adjusting the cost of raw materials consumed for the difference between Rs. 47 and Rs. 43 per US Dollar.

In the background of the relevant accounting standard, is the company's accounting treatment correct ? Discuss.

(5 MARKS)

QUESTION: 1(C)

Mr. Rakshit gives the following information relating to items forming part of inventory as on 31st March, 2019. His factory produces product X using raw material A.

(i) 800 units of raw material A (purchased @ Rs. 140 per unit). Replacement cost of raw material A as on 31st March, 2019 is Rs. 190 per unit.

(ii) 650 units of partly finished goods in the process of producing X and cost incurred till date Rs. 310 per unit. These units can be finished next year by incurring additional cost of Rs. 50 per unit.

(iii) 1,800 units of finished product X and total cost incurred Rs. 360 per unit.

Expected selling price of product X is Rs. 350 per unit.

In the context of AS – 2, determine how each items of inventory will be valued as on 31st March, 2019. Also, calculate the value of total inventory as on 31st March, 2019.

(5 MARKS)

QUESTION : 1(D)

Swift Ltd. acquired a patent at a cost of Rs. 80,00,000 for a period of 5 years and the product life – cycle is also 5 years. The company capitalized the cost and started amortizing the asset at Rs. 10,00,000 per annum. The company had amortized the patent at 10,00,000 per annum in first two years on the basis of economic benefits derived from the product manufactured under the patent. After two years it was found that the product life – cycle may continue for another 5 years from them. The patent was renewable and Swift Ltd. got is renewed after expiry of five years. The net cash flows from the product during these 5 years were expected to be Rs. 36,00,000, Rs. 46,00,000, Rs. 44,00,000, Rs. 40,00,000 and Rs. 34,00,000. Find out the amortization cost of the patent for each of the years.

(4 MARKS)

QUESTION : 2(A)

Vaibhav Ltd. gives the following ledger balances as at 31st March 20X1:

	Rs.
Property, Plant and Equipment	2,50,00,000
Investments (Market-value Rs. 19,00,000)	20,00,000
Current Assets	2,00,00,000
P & L A/c (Dr. balance)	12,00,000
Share Capital: Equity Shares of Rs. 100 each	2,00,00,000

6%, Cumulative Preference Shares of Rs. 100 each	1,00,00,000
5% Debentures of Rs. 100 each	80,00,000
Creditors	1,00,00,000
Provision for taxation	2,00,000

The following scheme of Internal Reconstruction is sanctioned:

(i) All the existing equity shares are reduced to Rs. 40 each.

(ii) All preference shares are reduced to Rs. 60 each.

(iii) The rate of Interest on Debentures increased to 6%. The Debenture holders surrender their existing debentures of Rs. 100 each and exchange the same for fresh debentures of Rs. 70 each for every debenture held by them.

(iv) Property, Plant and Equipment is to be written down by 20%.

(v) Current assets are to be revalued at Rs. 90,00,000.

(vi) Investments are to be brought to their market value.

(vii) One of the creditors of the company to whom the company owes Rs. 40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60000 equity shares of Rs. 40 each in full and final settlement of his claim.

(viii) The taxation liability is to be settled at Rs. 3,00,000.

(ix) It is decided to write off the debit balance of Profit & Loss A/c.

Pass journal entries of the company after giving effect to the above.

(8 MARKS)

QUESTION : 2(B)

On 1st April, 2019 Mr. Shyam had an opening balance of 1000 equity shares of X Ltd. Rs. 1,20,000 (face value Rs. 100 each).
On 5.04.2019 he further purchased 200 cum – right shares for Rs. 135 each. On 8.04.2019 the director of X Ltd. announced right issue in the ratio of 1 : 6.
Mr. Shyam waived off 100% of his entitlement of right issue in the favour of Mr. Rahul at the rate of Rs. 20 each.

All the shares held by Shyam had been acquired on cum right basis and the total market price (ex – right) of all these shares after the declaration of rights got reduced by Rs. 3,400.

On 10.10.2019 Shyam sold 350 shares for Rs. 140 each.
31.03.2020 the market price of each share is Rs. 125 each.

You are required to prepare the Investment account in the books of Mr. Shyam for the year ended 31.03.2020 assuming that the shares are being valued at average cost.

(9 MARKS)

QUESTION: 3(A)

A Ltd. and B Ltd. were amalgamated on and from 1st April, 20X1. A new company C Ltd. was formed to take over the business of the existing companies. A Ltd. and B Ltd. have the following ledger balances as on 31st March, 20X1 :

	A Ltd.	B Ltd.
	(Rs. in Lakhs)	**(Rs. in lakhs)**
Land and Building	550	400
Plant and Machinery	350	250
Investments (Non – current)	150	50
Inventory	350	250
Trade Receivables	300	350
Cash and Bank	300	200
Share Capital :		
Equity Shares of Rs. 100 each	800	750
12% Preference shares of Rs. 100 each	300	200
Reserves and Surplus :		
Revaluation Reserve	150	100
General Reserve	170	150
Investment Allowance Reserve	50	50
Profit and Loss Account	50	30
Secured Loans :		
10% Debentures (Rs. 100 each)	60	30
Trade Payables	420	190

Additional Information:

(1) 10% Debenture holders of A Ltd. and B Ltd. are discharged by C Ltd. issuing such number of its 15% Debentures of Rs. 100 each so as to maintain the same amount of interest.

(2) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Ltd. at a price of Rs. 150 per share (face value of Rs. 100).

(3) C Ltd. will issue 5 equity shares for each equity share of A Ltd. and 4 equity shares for each equity share of B Ltd. The shares are to be issued @ Rs. 30 each, having a face value of Rs. 10 per share.

(4) Investment allowance reserve is to be maintained for 4 more years.

Prepare the Balance Sheet of C Ltd. as on 1st April, 20X1 after the amalgamation has been carried out on the basis of Amalgamation in the nature of purchase.

(12 MARKS)

QUESTION : 3(B)

Compute by Debt Equity Ratio Test, the maximum number of shares that can be bought back in the light of below information, when the offer price for buy-back is Rs. 30 per share:

Particulars	**Rs.**	**Rs.**
Equity Share Capital (share of Rs. 10 each fully paid)		45,00,000
Reserve & Surplus:		
General Reserve	48,75,000	
Security Premium Account	9,00,000	
Profit and Loss Account	6,45,000	
Revaluation Reserve	9,30,000	73,50,000
Loan Funds		63,00,000

(5 MARKS)

QUESTION : 4(A)

Ring Ltd. was registered with a nominal capital of Rs. 10,00,000 divided into shares of Rs. 100 each. The following Trial Balance is extracted from the books on 31st March, 20X2 :

Particulars	**Rs.**	**Particulars**		**Rs.**
Buildings	5,80,000	Sales		10,40,000
Machinery	2,00,000	Outstanding Expenses		4,000
Closing stock	1,80,000	Provision for Doubtful		6,000
Loose Tools	46,000	Debts (1.4.20X1)		
Purchases (finished goods)	4,20,000	Equity Share Capital		4,00,000
Salaries	1,20,000	General Reserve		80,000
Director's fees	20,000	Profit and Loss A/c. (1.4.20X1)		50,000
Rent	52,000	Creditors		1,84,000
Depreciation	40,000	Provision for depreciation :		
Bad Debts	12,000	On Building	1,00,000	
Investment	2,40,000	On Machinery	1,10,000	2,10,000
Interest accrued on investment	4,000	14% Debentures		4,00,000
Debenture Interest	56,000	Interest on Debentures		28,000
Advance Tax	1,20,000	Accrued but not due		
Sundry expenses	36,000	Interest on Investments		24,000
Debtors	2,50,000	Unclaimed dividend		10,000
Bank	60,000			
	24,36,000			**24,36,000**

You are required to prepare statement of Profit and Loss for the year ending 31st March, 20X2 and Balance Sheet as at that date after taking into consideration the following information :

(a) Closing stock is more than opening stock by Rs. 1,60,000.

(b) Provide to doubtful debts @ 4% on Debtors.

(c) Make a provision for income tax @ 30%

(d) Depreciation expense included depreciation of Rs. 16,000 on Building and that of Rs. 24,000 on Machinery.

(e) The directors declared a dividend @ 25% on 2nd April, 20X2 and transfer to General Reserve @ 10%.

(f) Bills Discounted but not yet matured Rs. 20,000.

(12 MARKS)

QUESTION : 4(B)

(i) Vital Limited borrowed an amount of Rs. 150 crores on 1.4.2019 for construction of boiler plant @ 10% p.a. The plant is expected to be completed in 4 years. Since the weighted average cost of capital is 13% p.a., the accountant of Vital Ltd. capitalized Rs. 19.50 crores for the accounting period ending on 31.3.2020. Due to surplus fund out of Rs. 150 crores, an income of Rs. 1.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard.

(ii) When capitalization of borrowing cost should cease as per Accounting Standard 16 ? Explain in brief.

(5 MARKS)

QUESTION : 5(A)

M/s Carlin has head office at New York (U.S.A.) and branch at Mumbai (India). Mumbai branch is an integral foreign operation of Carlin & Co.

Mumbai branch furnishes you with its trial balance as on 31st March, 20X2 and the additional information given thereafter:

	Dr.	**Cr.**
	Rupees in thousands	
Stock on 1st April, 20X1	300	–
Purchases and sales	800	1,200
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Wages and salaries	560	–
Rent, rates and taxes	360	–
Sundry charges	160	–
Computers	240	
Bank balance	420	–
New York office a/c	–	1,620
	3,360	**3,360**

Additional information:

(a) Computers were acquired from a remittance of US $ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.

(b) Unsold stock of Mumbai branch was worth Rs. 4,20,000 on 31st March, 20X2.

(c) The rates of exchange may be taken as follows:

- on 1.4.20X1 @ Rs. 40 per US $
- on 31.3.20X2 @ Rs. 42 per US $
- average exchange rate for the year @ Rs. 41 per US $ conversion in $ shall

be made upto two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 20X2 and the balance sheet as on that date of Mumbai branch as would appear in the books of New York head office of Carlin & Co. You are informed that Mumbai branch account showed a debit balance of US $ 39609.18 on 31.3.20X2 in New York books and there were no items pending reconciliation.

(9 MARKS)

QUESTION : 5(B)

Omega Limited is working on different projects which are likely to be completed within 3 years period. It recognises revenue from these contracts on percentage of completion method for financial statements during 20X0 – 20X1, 20X1 – 20X2 and 20X2 – 20X3 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 20X0 – 20X1, 20X1– 20X2 and 20X2 – 20X3 respectively. Income-tax rate is 35%. Compute the amount of deferred tax asset/liability for the years 20X0 – 20X1, 20X1 – 20X2 and 20X2 – 20X3.

(4 MARKS)

QUESTION : 5(C)

Analyse, how you would deal with following matters in the financial statements with reference to AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies':

(i) During the year 2022-23, a medium size manufacturing company wrote down its inventories by Rs. 10,00,000 to Net Realisable Value.

(ii) The company finds that the inventory sheets of 31.03.2023 did not include two pages containing details of inventory worth Rs. 15,00,000.

(4 MARKS)