Mock Test Paper - Series I: March, 2024

Date of Paper: 5 March, 2024

Time of Paper: 2 P.M. to 5 P.M.

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

ANSWER

Division A (30 Marks)

1. **(i)** **(a)**

(ii) **(d)**

(iii) **(c)**

(iv) **(c)**

2. **(i)** **(a)**

(ii) **(c)**

(iii) **(d)**

(iv) **(b)**

3 **(i)** **(b)**

(ii) **(d)**

(iii) **(c)**

(iv) **(c)**

4. **(b)**

5 **(b)**

6 **(a)**

Division B

1. **(a)** As per AS 13 (Revised) 'Accounting for Investments', for investment in shares if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value, i.e., in case of shares, at lower of cost (₹ 2,50,000) and market value (₹ 2,25,000) as on 31 March 2023, i.e., ₹ 2,25,000.

If equity shares are acquired with an intention to hold for long term period (more than one year), then should be considered as long-term investment to be shown at cost in the Balance Sheet of the company. However, provision for diminution should be made to recognise a decline, if other than temporary, in the value of the investments.

Gold and silver are generally purchased with an intention to hold it for long term period (more than one year) until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 1st March, 2020) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2023, i.e., ₹ 4,00,000 and ₹ 2,00,000 respectively, though their market values have been increased.

(b) As per AS 19 "Leases", the lessee should recognize the lease as an asset and a liability at the inception of a finance lease. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of lease. However, if the fair value of the leased asset exceeds the present value of minimum lease payment from the standpoint of the lessee, the amount recorded as an asset and liability should be the present value of minimum lease payments from the standpoint of the lessee.

Computation of Value of machinery:

Present value of minimum lease payment = ₹ 6,99,054

(See working note below)

Fair value of leased asset = ₹ 7,00,000

Therefore, the recognition will be at the lower of the two i.e. 6,99,054

Working Note - Present value of minimum lease payments:

Annual lease rental × PVIF+ Present value of guaranteed residual value

= ₹ 3,00,000 × (0.869 + 0.756 + 0.657) + ₹ 22,000 × 0.657

= ₹ 6,84,600 + ₹ 14,454 = 6,99,054

Computation of finance charges:

Year	Finance charge	Payment	Reduction in outstanding liability	Outstanding liability
1st Year beginning	–	–	–	6,99,054
End of 1st year	1,04,858	3,00,000	1,95,142	5,03,912
End of 2nd year	75,587	3,00,000	2,24,413	2,79,499
End of 3rd year	41,925	3,00,000	2,58,075	21,424

(c) Treatment of Impairment Loss

As per AS 28 "Impairment of assets", if the recoverable amount (higher of net selling price and its value in use) of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount. In the given case, net selling price is ₹ 64.50 lakhs (₹ 67.50 lakhs – ₹ 3 lakhs) and value in use is ₹ 60 lakhs. Therefore, recoverable amount will be ₹ 64.50 lakhs. Impairment loss will be calculated as ₹ 10.50 lakhs [₹ 75 lakhs (Carrying Amount after revaluation - Refer Working Note) less ₹ 64.50 lakhs (Recoverable Amount)].

Thus impairment loss of ₹ 10.50 lakhs should be recognised as an expense in the Statement of Profit and Loss immediately since there was downward revaluation of asset which was already charged to Statement of Profit and Loss.

Working Note:

Calculation of carrying amount of the Property, Plant and Equipment at the end of the fourth year on revaluation

	(₹ in lakhs)
Purchase price of a Property, Plant and Equipment	150.00
Less: Depreciation for four years [(150 lakhs / 10 years) x 4 years]	(60.00)
Carrying value at the end of fourth year	90.00
Less: Downward revaluation charged to profit and loss account	(15.00)
Revalued carrying amount	75.00

2. **Delta Limited**

Balance Sheet as at 31st March 2023

Particulars			**Note No.**	**(₹ in '000)**
A.	**Equity and Liabilities**			
1.	**Shareholders' funds**			
	(a)	Share Capital	1	495.00
	(b)	Reserves and Surplus	2	807.20
2.	**Non-Current Liabilities**			
	(a)	Long Term Borrowings	3	300.00
3.	**Current Liabilities**			
	(a)	Trade Payables		30.00
	(b)	Short- term provision	4	163.80
		Total		1,796.00
B.	**Assets**			
1.	**Non-Current Assets**			
	(a)	Property, Plant and Equipment	5	1,550.00
2.	**Current Assets**			
	(a)	Inventories		96.00
	(b)	Trade Receivables	6	120.00
	(c)	Cash and Cash equivalents	7	30.00
		Total		1,796.00

Statement of Profit and Loss for the year ended 31st March 2023

Particulars		**Note No.**	**(₹ in '000)**
I.	Revenue from Operations		1200.00
II.	Other Income	8	6.00
III.	Total Income (I +II)		1,206.00
IV.	Expenses:		
	Purchases (adjusted)		400.00
	Finance Costs	9	30.00
	Depreciation (10% of 800)		80.00
	Other expenses	10	150.00
	Total Expenses		660.00
V.	Profit / (Loss) for the period before tax (III – IV)		546.00
VI.	Tax expenses @30%		163.80
VII	Profit for the period		382.20

Notes to Accounts

	Particulars		**(₹ in '000)**
1	Share Capital		
	Equity Share Capital		

	Authorised		
	80,000 Shares of ₹ 10/- each		800
	Issued, Subscribed and Called-up		
	50,000 Shares of ₹ 10/- each	500	
	(Out of the above 5,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	(5)	495
2	Reserves and Surplus		
	Securities Premium		40.00
	Revaluation Reserve ₹ (960 – 800)		160.00
	General Reserve		150.00
	Surplus i.e. Profit & Loss Account Balance		
	Opening Balance	75.00	
	Add: Profit for the period	382.20	457.20
			807.20
3	Long-Term Borrowings		
	10% Debentures		300
4.	Short – term provision		
	Provision for tax		163.80
5	Property, plant & equipment		
	Land		
	Opening Balance	800	
	Add: Revaluation adjustment	160	
	Closing Balance		960
	Plant and Machinery		
	Opening Balance	824	
	Less: Disposed off	(24)	
		800	
	Less: Depreciation ₹ (150 – 20 + 80)	(210)	
	Closing Balance		590
	Total		1,550
6	Trade receivables		
	Debits outstanding for a period exceeding six months	50	
	Other debts	70	120
7	Cash and Cash Equivalents		
	Cash at Bank With scheduled banks	23	
	With others (ABC Bank Limited)	5	
	Cash in hand	2	30
8	Other Income		
	Profit on sale of machinery		
	Sale value of machinery	10	

	Less: Book value of machinery (24 – 20)	(4)	6
9	Finance Costs		
	Debenture Interest		30
10	Other Expenses:		
	Factory expenses	80	
	Selling expenses	25	
	Administrative expenses	45	150

3. (a) As per AS 9 on Revenue Recognition, revenue arising from the use by others of enterprise resources yielding interest and royalties should only be recognized when no significant uncertainty as to measurability or collectability exists. These revenues are recognized on the following bases:

(i) Interest: on a time proportion basis taking into account the amount outstanding and the rate applicable. Therefore X Ltd. should recognize interest revenue of ₹ 10 Lakhs.

(ii) Royalties: on an accrual basis in accordance with the terms of the relevant agreement. X Ltd. therefore should recognize royalty revenue of ₹ 15 Lakhs.

(b) **In the Books of ABC Ltd.**

Journal Entries

Particulars		₹	₹
8% Preference share capital A/c	Dr.	6,00,000	
To 11% Debentures A/c			4,20,000
To Capital reduction A/c			1,80,000
[Being 30% reduction in liability of preference share capital and issue of 11% debentures]			
9% Debentures A/c	Dr.	12,00,000	
To Plant & machinery A/c			9,00,000
To Capital reduction A/c			3,00,000
[Settlement of debenture holders by allotment of plant & machinery]			
Trade payables A/c	Dr.	5,92,000	
To Inventory A/c			5,00,000
To Capital reduction A/c			92,000
[Being settlement of creditors by giving Inventories]			
Bank A/c	Dr.	3,00,000	
To 11% Debentures A/c			3,00,000
[Being fresh issue of debentures]			
Bank overdraft A/c	Dr.	1,50,000	
To Bank A/c			1,50,000
[Being settlement of bank overdraft]			
Capital reduction A/c	Dr.	5,72,000	
To Investment A/c			13,000
To Profit and loss A/c			4,05,000

To Capital reserve A/c		1,54,000
[Being decrease in investment and profit and loss account (Dr. bal.); and balance of capital reduction account transferred to capital reserve]		

Capital Reduction Account

	₹		₹
To Investments A/c	13,000	By Preference share capital A/c	1,80,000
To Profit and loss A/c	4,05,000	By 9% Debenture holders A/c	3,00,000
To Capital reserve A/c	1,54,000	By Trade payables A/c	92,000
	5,72,000		5,72,000

Balance Sheet Extract of ABC Ltd. (And Reduced)
As at 31st March 2023

Particulars	Note No	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	20,00,000
(b) Reserves and Surplus	2	1,54,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	7,20,000
Total		28,74,000

Notes to Accounts

		₹
1.	**Share Capital**	
	2,00,000 Equity shares of ₹ 10 each fully paid-up	20,00,000
2.	**Reserve and Surplus**	
	Capital Reserve	1,54,000
3.	**Long Term Borrowings**	
	11% Debentures (₹ 4,20,000 + ₹ 3,00,000)	7,20,000

4. **In the Books of Hari Ltd.**

Journal Entries

		₹	₹
Business Purchase A/c	Dr.	5,30,000	
To Liquidators of Vayu Ltd. Account			5,30,000
(Being business of Vayu Ltd. taken over)			
Goodwill Account	Dr.	50,000	
Building Account	Dr.	1,50,000	
Machinery Account	Dr.	1,60,000	
Inventory Account	Dr.	1,57,500	
Trade receivables Account	Dr.	1,00,000	

Bank Account	Dr.	20,000	
To Retirement Gratuity Fund Account			20,000
To Trade payables Account			80,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c			5,30,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Vayu Ltd. A/c	Dr.	5,30,000	
To 9% Preference Share Capital A/c			1,10,000
To Equity Share Capital A/c			4,00,000
To Securities Premium A/c			20,000
(Being Purchase Consideration satisfied as above).			

Balance Sheet of Hari Ltd. (after absorption)
as at 31st March, 2023

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	16,10,000
	B	Reserves and Surplus	2	90,000
2		**Non-current liabilities**		
	A	Long-term provisions	3	70,000
3		**Current liabilities**		
	A	Trade Payables		2,10,000
		Total		19,80,000
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	4	11,10,000
	B	Intangible assets	5	1,00,000
2		**Current assets**		
	A	Inventories		4,07,500
	B	Trade receivables	6	2,92,500
	C	Cash and cash equivalents		70,000
		Total		19,80,000

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		
	1,40,000 Equity Shares of ₹ 10 each fully paid (Out of above 40,000 Equity Shares were issued in consideration other than for cash)		14,00,000

	Preference share capital		
	2,100 9% Preference Shares of ₹ 100 each (Out of above 1,100 Preference Shares were issued in consideration other than for cash)		2,10,000
	Total		16,10,000
2	**Reserves and Surplus**		
	Securities Premium		20,000
	General Reserve		70,000
	Total		90,000
3	**Long-term provisions**		
	Retirement Gratuity fund		70,000
	Total		70,000
4	**Property, Plant and Equipment**		
	Buildings		4,50,000
	Machinery		6,60,000
	Total		11,10,000
5	**Intangible assets**		
	Goodwill		1,00,000
6	**Trade receivables**		3,00,000
	Less: Provision for Doubtful Debts		7,500
			2,92,500

Working Notes:

Purchase Consideration:	₹
Goodwill	50,000
Building	1,50,000
Machinery	1,60,000
Inventory	1,57,500
Trade receivables	92,500
Cash at Bank	20,000
	6,30,000
Less: Liabilities:	
Retirement Gratuity Fund	(20,000)
Trade payables	(80,000)
Net Assets/ Purchase Consideration	5,30,000
To be satisfied as under:	
10% Preference Shareholders of Vayu Ltd.	1,00,000
Add: 10% Premium	10,000
1,100 9% Preference Shares of Hari Ltd.	1,10,000
Equity Shareholders of Vayu Ltd. to be satisfied by issue of 40,000 Equity Shares of Hari Ltd. at 5% Premium	4,20,000
Total	5,30,000

5. **Consolidated balance Sheet of Virat Ltd. and its Subsidiary Anushka Ltd. as at 31st March, 2023**

	Particulars	Note	Amount (₹)
I	**EQUITY AND LIABILITIES:**		
(1)	**Shareholders' Funds:**		
	(a) Share Capital	1	6,00,000
	(b) Reserve and Surplus	2	1,80,000
(2)	**Minority Interest**	3	1,00,000
(3)	**Non-Current Liabilities:**		
	Long Term Borrowings	4	3,00,000
(4)	**Current Liabilities:**		
	Trade Payables	5	2,00,000
	Total		**13,80,000**
II	**ASSETS:**		
(1)	**Non-Current Assets**		
	Property, Plant & Equipment	6	7,00,000
(2)	**Current Assets:**		
	(a) Inventories	7	3,60,000
	(b) Trade receivables	8	2,20,000
	(c) Cash and Cash Equivalents	9	1,00,000
	Total		**13,80,000**

Notes to Accounts

	Particulars	₹	₹
1.	**Share capital**		
	60,000 equity shares of ₹ 10 each fully paid up		6,00,000
2.	**Reserves and Surplus**		
	General Reserve	1,00,000	
	Add: General reserve of Anushka Ltd (80%)	80,000	
	Total		1,80,000
3.	**Minority interest**		
	20% share in Anushka Ltd (WN 3)		1,00,000
4	**Long term borrowings**		
	Long term borrowings of Virat	2,00,000	
	Add: Long term borrowings of Anushka	1,00,000	
	Total		3,00,000
5.	**Trade payables**		
	Trade payables of Virat	1,00,000	
	Add: Trade payables of Anushka	1,00,000	
	Total		2,00,000
6.	**Property, Plant and Equipment (PPE)**		
	PPE of Virat Ltd	4,00,000	
	Add: PPE of Anushka Ltd	3,00,000	

	Total		7,00,000
7.	**Inventories**		
	Inventories of Virat Ltd	1,60,000	
	Add: Inventories of Anushka Ltd	2,00,000	
	Total		3,60,000
8.	**Trade receivables**		
	Trade receivables of Virat Ltd	80,000	
	Add: Trade receivables of Anushka Ltd	1,40,000	
	Total		2,20,000
9	**Cash and cash equivalents**		
	Cash and cash equivalents of Virat Ltd	40,000	
	Add: Cash and cash equivalents of Anushka Ltd	60,000	
	Total		1,00,000

Working Notes:

1. Basic Information

Company Status	Dates	Holding Status
Holding Co. = Virat Ltd. Subsidiary = Anushka Ltd.	Acquisition: Anushka's Incorporation Consolidation: 31st March, 2023	Holding Company = 80% Minority Interest = 20%

2. Analysis of General Reserves of Anushka Ltd

Since Virat holds shares in Anushka since its incorporation, the entire Reserve balance of ₹1,00,000 will be Revenue.

3. Consolidation of Balances

Holding- 80%, Minority - 20%	Total	Minority Interest	Holding Company	
Equity Capital	4,00,000	80,000	3,20,000	-
General Reserves	1,00,000	20,000	Nil (pre-acq)	80,000 (post-acq)
Total		1,00,000	3,20,000	80,000
Cost of Investment Goodwill/ capital reserve			(3,20,000) NIL	-
Parent's Balance				1,00,000
Amount for Consolidated Balance Sheet				1,80,000

6. (a) The qualitative characteristics are attributes that improve the usefulness of information provided in financial statements. Understandability; Relevance; Reliability; Comparability are the qualitative characteristics of financial statements.

Qualitative Characteristics of Financial Statements

• Understandability	• Information presented in financial statements should be readily understandable by the users with reasonable knowledge of business and economic activities.
• Relevance	• Financial statements should contain relevant information only. Information, which is likely to influence the economic decisions of the users is called relevant.
• Reliability	• Information must be reliable; that is to say, they must be free from material error and bias.
• Comparability	• Financial statements should provide both inter-firm and intra-firm comparison.

Or

(a) Accounting Standards deal with the issues of (i) Recognition of events and transactions in the financial statements, (ii) Measurement of these transactions and events, (iii) Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and (iv) Disclosure requirements.

(b) **Cash Flow Statement of ......**

for the year ended March 31, 2023(Direct Method)

Particulars	₹	₹
Operating Activities:		
Cash received from sale of goods	1,40,000	
Cash received from Trade receivables	1,75,000	
Trade Commission received	50,000	3,65,000
Less: Payment for Cash Purchases	1,20,000	
Payment to Trade payables	1,57,000	
Office and Selling Expenses	75,000	
Payment for Income Tax	30,000	(3,82,000)
Net Cash Flow used in Operating Activities		(17,000)

(c) **(i)** **Calculation of profit earned by the branch**

In the books of Jammu Branch

Trading Account and Profit and Loss Account

Particulars	Amount	Particulars	Amount
	₹		₹
To Opening stock	2,20,000	By Sales	12,00,000
To Goods received by Head office	11,00,000	By Closing stock (Refer W.N.)	3,60,000
To Expenses	45,000		
To Net profit (Bal fig)	1,95,000		
	15,60,000		15,60,000

(ii) Stock reserve in respect of unrealised profit

= ₹ 3,60,000 x (20/120) = ₹ 60,000

Working Note:

	₹	
Cost Price	100	
Invoice Price	120	
Sale Price	150	
Calculation of closing stock at invoice price	**₹**	
Opening stock at invoice price	2,20,000	
Goods received during the year at invoice price	11,00,000	
	13,20,000	
Less: Cost of goods sold at invoice price	(9,60,000)	[12,00,000 x (120/150)]
Closing stock	3,60,000	

Mock Test Paper - Series II: April, 2024

Date of Paper: 2 April, 2024

Time of Paper: 2 P.M. to 5 P.M.

INTERMEDIATE COURSE: GROUP – I

PAPER – 1 : ADVANCED ACCOUNTING

1. (i) (c)

(ii) (b)

(iii) (c)

(iv) (d)

2. (i) (a)

(ii) (a)

(iii) (b)

(iv) (a)

(v) (b)

3. (i) (b)

(ii) (a)

(iii) (b)

4. (a)

5. (d)

6. (a)

PART II – Descriptive Questions (70 Marks)

1. (a) As per AS 26 “Intangible Assets”, expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognised when no future economic benefits are expected from its use according to para 87 of the standard. Thus, the manager cannot defer the expenditure write off to future years in the given case.

Hence, the expenses amounting ₹ 40 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2024.

(b) (i) As per AS 2 ‘Valuation of Inventories’, abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognised as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

(ii)	Material used	16,000 MT @ ₹ 190 = ₹ 30,40,000
	Normal Loss	(5% of 16,000 MT) 800 MT (included in calculation of cost of inventories)
	Net quantity of material	15,200 MT
(iii)	Abnormal Loss in quantity	(950 - 800) 150 MT
	Abnormal Loss	₹ 30,000

[150 units @ ₹ 200 (₹ 30,40,000/15,200)]

Amount of ₹ 30,000 (Abnormal loss) will be charged to the Profit and Loss statement.

(c) As per AS 13 (Revised) 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are **made at the lower of cost and carrying amount** at the date of transfer; and where investments are reclassified from current to long term, transfers are made **at lower of cost and fair value** on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 12 lakhs in the books.

(ii) In this case, reclassification of current investment into long-term investments will be made at ₹ 7 lakhs as cost is less than its fair value of ₹ 8.5 lakhs on the date of transfer.

2. **Oliva Company Ltd.**

Statement of Profit and loss for the year ended 31.03.2024

	Particulars	Note	Amount (₹)
I	Revenue from operations		17,10,000
II	Other income (3,900 +300)		4,200
III	**Total Revenue (I +II)**		17,14,200
IV	Expenses:		
	Cost of materials consumed	10	12,64,200
	Purchases of inventory-in-trade		--
	Changes in inventories of finished goods, work-in-progress and inventory-in-Trade	11	(13,500)
	Employee benefit expenses	12	44,700
	Finance costs		--
	Depreciation and amortization expenses		18,240

	Other expenses	13	3,51,510
	Total Expenses		16,65,150
V	Profit before exceptional and extraordinary items and tax		49,050
VI	Exceptional items		--
VII	Profit before extraordinary items and tax		49,050
VIII	Extraordinary items		--
IX	Profit before tax		49,050
X	Tax expense (40% of 49,050)		19,620
XI	Profit/Loss for the period from continuing operations		29,430

Oliva Company Ltd.
Balance Sheet for the year ended 31.03.2024

	Particulars	Note	Amount
1	**Equity and Liabilities**		
	(i) Shareholders' funds		
	(a) Share Capital		3,15,000
	(b) Reserves and surplus	1	50,430
2)	**Non-current liabilities**		
	(a) Long-term borrowings	2	24,300
(3)	**Current Liabilities**		
	(a) Short -term borrowings	3	6,000
	(b) Trade payables		3,27,000
	(c) Other current liability	4	72,000
	(d) Short term provision	5	19,620
			8,14,350
II	**ASSETS**		
(1)	**Non current assets**		
	(a) Property, Plant & equipment	6	2,04,160
	(b) Non-current investments		7,500
(2)	**Current assets**		
	(a) Current investments		4,500
	(b) Inventories	7	85,800
	(c) Trade receivables		2,38,500
	(d) Cash and cash equivalents		2,71,100

	(e)	Short-term loans and advances	8	2,490
	(f)	Other current assets	9	300
				8,14,350

Notes to accounts

No.	Particulars		Amount	Amount
1.	**Reserve & Surplus**			
	Profit & Loss Account: Balance b/f		48,000	
	Net Profit for the year		29,430	
	Less: Interim Dividend		(27,000)	50,430
2.	**Long term borrowings**			
	Secured loans		21,000	
	Fixed Deposits: Unsecured		3,300	24,300
3.	**Short term borrowings**			
	Secured loans		4,500	
	Fixed Deposits -Unsecured		1,500	6,000
4.	**Other current liabilities**			
	Expenses Payable (67,500 + 4,500)			72,000
5.	**Short term provisions**			
	Provision for Income tax			19,620
6.	**PPE**			
	Building	1,01,000		
	Less: Depreciation @ 2%	(2,020)	98,980	
	Plant & Machinery	70,400		
	Less: Depreciation @ 10%	(7,040)	63,360	
	Furniture	10,200		
	Less: Depreciation @ 10%	(1,020)	9,180	
	Motor vehicles	40,800		
	Less: Depreciation @ 20%	(8,160)	32,640	2,04,160
7	**Inventory**			
	Raw Material		25,800	
	Finished goods		60,000	85,800
8.	**Short term Loans & Advances**			
	General Charges prepaid			2,490
9.	**Other Current Assets**			
	Interest accrued			300

10.	**Cost of material consumed**			
	Opening inventory of raw material	30,000		
	Add: Purchases	12,15,000		
	Stores & spare parts consumed	45,000	12,90,000	
	Less: Closing inventory		(25,800)	12,64,200
11.	**Changes in inventory of Finished Goods & WIP**			
	Closing Inventory of Finished Goods		60,000	
	Less: Opening Inventory of Finished Goods		46,500	13,500
12.	**Employee Benefit expenses**			
	Salary & Wages (40,200 + 4,500)			44,700
13.	**Other Expenses**			
	Manufacturing Expenses (2,70,000 + 67,500)		3,37,500	
	General Charges (16,500 – 2,490)		14,010	3,51,510

3. (a) As per AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision.

It is apparent from the question that the company had not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier. However, the provision for warranty should have been made as per AS 29 and the amount claimable as reimbursement should be treated as a separate asset in the financial statements of the company rather than omitting the disclosure of such liability. Accordingly, it is viewed that the accounting treatment adopted by the company with respect to warranty is not correct.

(b) Balance Sheet of Radhika Ltd. (and Reduced) as on 1.4.2024

	Particulars	Notes	₹
I.	Equity & Liabilities		
A	Shareholders' Fund		
a	Share Capital	1	3,16,800
b	Reserves & Surplus	2	1,10,200
B	Non-Current Liabilities		
a	Long Term Borrowings	3	7,86,000
C	Current Liabilities		
a	Trade Payables		3,60,000
b	Short Term borrowings: Bank OD		2,34,000
	Total		18,07,000
II.	<u>Assets</u>		
A	Non-Current Assets		
a	Property, Plant & Equipment	4	7,09,000
b	Intangible assets: Patents		45,000
B	Current Assets		
a	Inventory (5,10,000-65,000)		4,45,000
b	Trade Receivable	5	4,31,500
c	Cash & Cash Equivalent		1,76,500
	Total		18,07,000

Notes to Accounts

	Particulars	₹
1	Share Capital	-
	Authorised, Issued, Subscribed & Paid Up Capital	
	Equity share Capital	
	15,840 Shares of ₹20 Paid up	<u>3,16,800</u>
	(Out of above 6,840 shares are issued for consideration other cash) (W.N 1)	
2	Reserves & Surplus	
	Capital Reserve (W.N 2)	1,10,200
3	Long Term Borrowings Secured	
a	6% Debentures	4,50,000
b	11% Debentures (70% of 4,80,000 preference shares)	<u>3,36,000</u>
		<u>7,86,000</u>
4	PPE	
	Freehold property	6,49,000

	Plant	60,000
		7,09,000
5	Trade receivable	5,00,000
	Less: Provision for Doubtful Debts	(68,500)
		4,31,500

Working notes:

1. **Computation of equity shares:**

			Equity share capital	No. of shares at ₹ 20 each
1	After the reduction to ₹ 20 each	90,000 x 20	1,80,000	9,000
2.	Equity shares allotted to preference shareholders for their ¼ arrears.	6% of 4,80,000	28,800	1,440
3.	Equity shares allotted to Directors in settlement of their loan	90% of 1,20,000	1,08,000	5,400
	Total equity shares		3,16,800	15,840

2. Calculation of capital reserve: Equity Share 7,20,000 + Preference share 1,44,000 + Freehold property 1,39,000 +Investment 74,000 + Director Loan 6,000 – Preference share dividend 28,800 - Goodwill 1,56,000 – Inventory 65,000 – Bad debts 68,500 – Profit & Loss A/c 6,42,000 = Capital Reserve 1,22,700

3. Cash balance:

		₹
Cash & cash equivalent		82,000
Add: Investment sold		1,40,000
Less: Directors Loan (1,20,000 x 5%)	6,000	
Penalty (2,50,000x 5%)	12,500	
Interest on debentures (6% on 4,50,000)	27,000	45,500
		1,76,500

4. Calculation of Net Assets

Particulars	Anu Ltd. (₹)	Banu Ltd. (₹)
Goodwill	1,75,000	50,000
Freehold property	3,75,000	3,00,000

Plant & Machinery	1,25,000	50,000
Motor vehicle	37,500	25,000
Trade receivable	2,50,000	1,00,000
Inventory	2,87,500	2,25,000
Cash at Bank	1,00,000	50,000
Total	13,50,000	8,00,000
Less : Trade payable	(2,62,500)	(1,62,500)
6% debentures	-	(1,57,500)
Net Assets	10,87,500	4,80,000

Calculation of Purchase Consideration

Sr. No.	Particulars	Computation	Anu Ltd	Banu Ltd
1	Amount payable to Equity Share Holder in the form of			
	1,08,750 Equity shares of ₹10 each	(1,08,750 × 10)	10,87,500	
	48,000 Equity shares of ₹10 each	(48,000 × 10)		4,80,000
	Purchase Consideration		10,87,500	4,80,000

Balance Sheet of Anban Ltd.
as on 1st April, 2023

	Particulars	Note No.	₹
	<u>Equity and Liabilities</u>		
(1)	Shareholders' Funds		
(a)	Share Capital	1	15,67,500
(2)	Non-current Liabilities		
(a)	Long term borrowings	2	1,57,500
(3)	Current Liabilities		
(a)	Trade Payables (2,62,500 + 1,62,500)		<u>4,25,000</u>
	Total		<u>21,50,000</u>
	<u>Assets</u>		
(1)	Non-current Assets		
(a)	Property Plant and Equipment	3	9,12,500
(b)	Intangible assets	4	2,25,000
(2)	Current Assets		
(a)	Inventories (2,87,500 + 2,25,000)		5,12,500

(b)	Trade Receivables (2,50,000 + 1,00,000)		3,50,000
(c)	Cash and cash equivalents (1,00,000 + 50,000)		1,50,000
	Total		21,50,000

Notes to Accounts:

Note No.	Particulars	₹
1	Share Capital	
	Equity share capital	
	1,56,750 equity shares of ₹10 each	15,67,500
	(out of above shares are issued for consideration other than cash)	
2	Long term borrowings	
	6% Debentures	1,57,500
3	Property, Plant & Equipment's	
	Freehold property (3,75,000 + 3,00,000)	6,75,000
	Plant & Machinery (1,25,000 + 50,000)	1,75,000
	Motor Vehicle (37,500+25,000)	62,500
		9,12,500
4	Intangible assets	
	Goodwill (1,75,000 + 50,000)	2,25,000

5. (a) Revalued net assets of Moon Ltd.as on 31st March, 2024

	₹ in lakhs	₹ in lakhs
Property, plant and equipment [240 x 120%]		288.0
Investments [110 X 90%]		99
Current Assets		140.0
Loans and Advances		30.0
Total Assets after revaluation		557
Less: 15% Debentures	180.0	
Current Liabilities	100.0	(280.0)
Equity / Net Worth		277
Star Ltd.'s share of net assets (70% of 277)		193.9
Star Ltd.'s cost of acquisition of shares of Moon Ltd.		
(₹ 140 lakhs – ₹ 14 lakhs*)		126.00
Capital reserve		67.9

* Total Cost of 70 % Equity of Moon Ltd. ₹ 140 lakhs

Purchase Price of each share	₹ 20
Number of shares purchased [140 lakhs /₹ 20]	7 lakhs
Dividend @ 20 % i.e. ₹ 2 per share	₹ 14 lakhs

Since dividend received is for pre-acquisition period, it has been reduced from the cost of investment in the subsidiary company.

(b) Impact of Revaluation of Plant and Machinery will be as -

	₹
Book value of Plant and Machinery as on 01-04-2023	2,25,000
Depreciation Rate $\frac{(2,25,000-2,02,500)}{2,25,000}$= 22,500/2,25000 x100	10%
Book value of Plant and Machinery as on 01-10-2023 after six months depreciation @10% (2,25,000-11,250)	2,13,750
Revalued at	2,70,000
Revaluation profit (2,70,000-2,13,750)	56,250
Share of Gamma Limited in Revaluation Profit (80%)	45,000
Share of Minority in Revaluation profit (20%)	11,250
Additional Depreciation on appreciated value to be charged from post-acquisition profits	
(10% of ₹ 22,5,000 for 6 months) + (10% of ₹ 2,70,000 for 6 months) less ₹ 22500 (as already charged)	2,250
Share of Gamma Limited in additional depreciation that will reduce its share (80%) in post-acquisition profit by	1,800
Share of Minority Interest in additional depreciation	450

Working note:

Percentage of holding:

		No. of Shares	Percentage
Holding Co.	:	24,000	(80%)
Minority shareholders	:	6,000	(20%)
TOTAL SHARES	:	30,000	

6. (a) Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias. Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion on the business results.

Or

Effects of each transaction on Balance sheet of the trader is shown below:

Transactions	Assets ₹ lakh	–	Liabilities ₹ lakh	=	Equity ₹ lakh
Opening	16.00	–	6.00	=	10.00
(1) Dividend earned	16.40	–	6.00	=	10.80
(2) Settlement of Creditors	15.40	-	4.60	=	10.80
(3) Rent Outstanding	15.40	–	4.80	=	10.60
(4) Drawings	15.22	–	4.80	=	10.42

(b) Journal Entries

			₹	₹
2022 June	Equity Share Capital A/c	Dr.	4,00,000	
	To Equity Stock A/c			4,00,000
	(Being conversion of 4,000 fully paid Equity Shares of ₹ 100 into ₹ 4,00,000 Equity Stock as per resolution in general meeting dated…)			
2023 June	Equity Stock A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being re-conversion of ₹ 4,00,000 Equity Stock into 40,000 shares of ₹ 10 fully paid Equity Shares as per resolution in General Meeting dated...)			

(c) Books of Harrison

Branch Stock Account

	₹		₹
To Balance b/d – Op Stock	30,000	By Branch Debtors (Sales)	1,65,000
To Goods Sent to Branch A/c	2,40,000	By Branch Cash	59,000
To Branch Adjustment A/c	2,000	By Balance c/d	

(Balancing Figure – Excess of Sale over Invoice Price)		Goods in Transit (₹ 2,40,000 – ₹ 2,20,000)	20,000
		Closing Stock at Branch	28,000
	2,72,000		2,72,000

Branch Debtors Account

	₹		₹
To Balance b/d	32,750	By Bad debts written off	750
To Branch Stock A/c (Sales)	1,65,000	By Branch Cash (bal. fig.)	1,71,000
		By Balance c/d	26,000
	1,97,750		1,97,750

Mock Test Paper - Series I: July, 2024

Date of Paper: 29th July, 2024

Time of Paper: 2 P.M. to 5 P.M.

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

ANSWERS

Case Scenario

1. **(a)** **(ii)**

(b) **(ii)**

(c) **(iii)**

d) **(iv)**

2. **(a)** **(iii)**

(b) **(ii)**

(c) **(iii)**

(d) **(iii)**

3. **(a)** **(iii)**

(b) **(iv)**

(c) **(ii)**

(d) **(ii)**

4. **(c)**

5. **(b)**

6. **(c)**

PART II – Descriptive Questions (70 Marks)

1. **(a)** As per AS 13 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are **made at the lower of cost and carrying amount** at the date of transfer; and where investments are reclassified from current to long term, transfers are made **at lower of cost and fair value** on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 12 lakhs in the books.

(ii) In this case also, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 5 lakhs in the books.

(iii) In this case, reclassification of current investment into long-term investments will be made at ₹ 7 lakhs as cost is less than its fair value of ₹ 8.5 lakhs on the date of transfer.

(iv) In this case, market value (considered as fair vale) is ₹ 3.8 lakhs on the date of transfer which is lower than the cost of ₹ 4 lakhs. The reclassification of current investment into long-term investments will be made at ₹ 3.8 lakhs.

(b) **(i)** Suit filed against the company is a contingent liability but it was not existing as on balance sheet date as the suit was filed on 20^{th} April after the balance Sheet date. As per AS 4, 'Contingencies' used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. Hence, it will have no effect on financial statements and will be a non-adjusting event.

(ii) In the given case, terms and conditions for acquisition of business were finalised and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2024. This is clearly an event occuring after the balance sheet date. Hence, necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31^{st} March 2024.

(iii) Only those significant events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustment to assets and liabilities existing on the balance sheet date or may require disclosure. In the given case, theft of cash was detected on 16^{th} July, 2024 after approval of financial statements by the Board of Directors, hence no treatment is required.

(iv) Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. In the given case, sale of immovable property was under proposal stage (negotiations also not started) on the balance sheet date. Therefore, no adjustment to assets for sale of immovable property is required in the financial statements for the year ended 31^{st} March, 2024.

(v) The condition of fire occurrence was not existing on the balance sheet date. Only the disclosure regarding event of fire and loss being completely insured may be given in the report of approving authority.

2. **Prashant Ltd.**

Balance Sheet as on 31st March, 2024

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	14,95,000
	b	Reserves and Surplus	2	3,76,800
2		**Non-current liabilities**		
		Long-term borrowings	3	3,65,000
3		**Current liabilities**		
	a	Trade Payables		2,67,000
	b	Other current liabilities	4	10,000
	c	Short-term provisions	5	72,000
		Total		25,85,800
		Assets		
1		**Non-current assets**		
		Property, Plant and Equipment	6	15,95,000
2		**Current assets**		
	a	Inventories		3,15,000
	b	Trade receivables	7	2,95,000
	c	Cash and bank balances	8	3,22,300
	d	Short-term loans and advances		58,500
		Total		25,85,800

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	Issued & subscribed & fully paid up		
	1,50,000 Equity Shares of ₹ 10 each		
	(of the above 10,000 shares have been issued for consideration other than cash)	15,00,000	
	Less: Calls in arrears	(5,000)	14,95,000
2	Reserves and Surplus		
	General Reserve		2,70,000
	Profit & Loss balance		1,06,800
		Total	3,76,800

3	Long-term borrowings		
	Secured		
	Loan from State Financial Corporation (2,10,000-10,000)		2,00,000
	(Secured by hypothecation of Plant and Machinery)		
	Unsecured Loan		1,65,000
	Total		3,65,000
4	Other current liabilities		
	Interest accrued but not due on loans (SFC)		10,000
5	Short-term provisions		
	Provision for taxation		72,000
6	Property, Plant & Equipment		
	Land		5,50,000
	Building	5,50,000	
	Less: Depreciation(b.f.)	(65,000)	4,85,000
	Plant & Machinery	6,25,000	
	Less: Depreciation (b.f.)	(65,000)	5,60,000
	Total		15,95,000
7	Trade receivables		
	Outstanding for a period exceeding six months		55,000
	Other Amounts		2,40,000
	Total		2,95,000
8	Cash and bank balances		
	Cash and cash equivalents		
	Cash at bank		2,85,000
	Cash in hand		37,300
	Other bank balances		Nil
	Total		3,22,300

3. (a) (i) PQR Ltd.

Cash Flow Statement for the year ended 31st March, 2024

(Using direct method)

Particulars	₹	₹
Cash flows from Operating Activities		
Cash sales (₹ 3,75,000/25%)		15,00,000
Less: Cash payments for trade payables	(6,10,000)	
Wages Paid	(5,55,000)	

Office and selling expenses ₹ (35,000 + 15,000)	(50,000)	(12,15,000)
Cash generated from operations before taxes		2,85,000
Income tax paid		(55,000)
Net cash generated from operating activities (A)		2,30,000
Cash flows from Investing activities		
Sale of investments ₹ (8,20,000 + 20,000)	8,40,000	
Payments for purchase of Plant & machinery	(3,50,000)	
Net cash used in investing activities (B)		4,90,000
Cash flows from financing activities		
Bank loan repayment (including interest)	(2,05,000)	
Dividend paid	(40,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,75,000
Cash and cash equivalents at beginning of the period		2,25,000
Cash and cash equivalents at end of the period		7,00,000

(ii) 'Cash Flow from Operating Activities' by indirect method

		₹
Net Profit for the year before tax and extraordinary items		2,80,000
Add: Non-Cash and Non-Operating Expenses:		
Depreciation		60,000
Interest Paid		5,000
Less: Non-Cash and Non-Operating Incomes:		
Profit on Sale of Investments		(20,000)
Net Profit after Adjustment for Non-Cash Items		3,25,000
Less: Decrease in trade payables	15,000	
Increase in inventory	25,000	(40,000)
Cash generated from operations before taxes		2,85,000

Working Note:

Calculation of net profit earned during the year

	₹	₹
Gross profit		3,75,000
Less: Office expenses, selling expenses	50,000	

Depreciation	60,000	
Interest paid	5,000	(1,15,000)
		2,60,000
Add: Profit on sale of investments		20,000
Net profit before tax		2,80,000

(b) As per AS 14, 'Accounting for Amalgamations' consideration for the amalgamation means the aggregate of shares and other securities issued and payment made in form of cash or other assets by the transferee company to the shareholders of the transferor company.

(i) Computation of Purchase Consideration

		₹
(a)	Preference Shares: ₹ 50 per share 24,000 Preference shares	12,00,000
(b)	Cash	39,000
(c)	Equity shares: 56,000 equity shares in Wow Ltd. @ ₹ 115	64,40,000
		76,79,000

(ii) Journal entry

		₹	₹
Liquidator of Wonder Ltd.	Dr.	76,79,000	
To Cash			39,000
To Preference Share Capital A/c			12,00,000
To Equity Share Capital A/c			56,00,000
To Securities Premium A/c [56,000 x ₹ 15 (115-100)]			8,40,000

4. (i) Journal Entries in the Books of VT Ltd.

		Dr. ₹	Cr. ₹
PPE	Dr.	2,10,000	
To Revaluation Reserve			2,10,000
(Revaluation of PPE at 15% above book value)			
Reserve and Surplus	Dr.	1,20,000	
To Equity Dividend			1,20,000
(Equity dividend @ 10%)			
Equity Dividend	Dr.	1,20,000	
To Bank Account			1,20,000

(Payment of equity dividend)			
Business Purchase Account	Dr.	9,80,000	
To Liquidator of MG Ltd.			9,80,000
(Consideration payable for the business taken over from MG Ltd.)			
PPE (115% of ₹ 5,00,000)	Dr.	5,75,000	
Inventory (95% of ₹ 6,40,000)	Dr.	6,08,000	
Debtors	Dr.	3,80,000	
Bills Receivable	Dr.	40,000	
Investment	Dr.	1,60,000	
Cash at Bank	Dr.	20,000	
(₹ 80,000 –₹ 60,000 dividend paid)			
To Provision for Bad Debts (5% of ₹ 3,60,000)			18,000
To Sundry Creditors			2,50,000
To 12% Debentures in MG Ltd.			3,24,000
To Bills Payable			50,000
To Business Purchase Account			9,80,000
To Capital Reserve (Balancing figure)			1,61,000
(Incorporation of various assets and liabilities taken over from MG Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)			
Liquidator of MG Ltd.	Dr.	9,80,000	
To Equity Share Capital			8,00,000
To 10% Preference Share Capital			1,80,000
(Discharge of consideration for MG Ltd.'s business)			
12% Debentures in MG Ltd. (₹ 3,00,000 × 108%)	Dr.	3,24,000	
Discount on Issue of Debentures (₹ 3,60,000 × 10%)	Dr.	36,000	
To 12% Debentures (₹ 3,24,000/90 × 100)			3,60,000
(Allotment of 12% Debentures to debenture holders of MG Ltd. at a discount of 10%)			
Sundry Creditors	Dr.	20,000	
To Sundry Debtors			20,000

(Cancellation of mutual owing)			
Goodwill	Dr.	60,000	
To Bank			60,000
(Being liquidation expenses reimbursed to MG Ltd.)			
Capital Reserve/P&L A/c	Dr.	60,000	
To Goodwill			60,000
(Being goodwill set off)			

(ii) Statement of Consideration payable by VT Ltd. for 60,000 shares (payment method)

Shares to be allotted 60,000/12 $\times$ 16 = 80,000 shares of VT Ltd.

Issued 80,000 shares of ₹ 10 each i.e. ₹ 8,00,000 (i)

For 10% preference shares, to be paid at 10% discount

₹ 2,00,000x 90/100 ₹ 1,80,000 (ii)

Consideration amount [(i) + (ii)] ₹ 9,80,000

5. Consolidated Balance Sheet of Kedar Ltd. and its Subsidiary Vijay Ltd. as at 31st March, 2024

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		15,00,000
(b) Reserves and Surplus	1	8,61,500
(2) Minority Interest (W.N.5)		1,20,375
(3) Current Liabilities		
(a) Trade Payables	2	5,17,500
Total		29,99,375
II. Assets		
(1) Non-current assets		
(i) Property, plant & Equipment	3	14,94,375
(ii) Intangible assets	4	30,000
(b) Other non- current assets	5	14,75,000
Total		29,99,375

Notes to Accounts

				₹
1.	**Reserves and Surplus**			
	Reserves		5,00,000	
	Add: 4/5th share of Vijay Ltd.'s post-acquisition reserves (W.N.3)		1,00,000	6,00,000
	Profit and Loss Account		2,50,000	
	Add: 4/5th share of Vijay Ltd.'s post-acquisition profits (W.N.4)		11,500	2,61,500
				8,61,500
2.	**Trade Payables**			
	Kedar Ltd.		3,75,000	
	Vijay Ltd.		1,42,500	5,17,500
3.	**Property, plant & Equipment**			
	Machinery			
	Kedar Ltd.		7,50,000	
	Vijay Ltd.	2,50,000		
	Add: Appreciation	1,25,000		
		3,75,000		
	Less: Depreciation	(37,500)	3,37,500	
	Furniture	-		
	Kedar Ltd.	-	3,75,000	
	Vijay Ltd.	50,000		
	Less: Decrease in value	(12,500)		
		37,500		
	Less: Depreciation	(5,625)	31,875	14,94,375
4.	**Intangible assets**			
	Goodwill [WN 6]			30,000
5.	**Other non-current assets**			
	Kedar Ltd.		11,00,000	
	Vijay Ltd.		3,75,000	14,75,000

Working Notes:

1. Pre-acquisition profits and reserves of Vijay Ltd.	₹
Reserves	62,500
Profit and Loss Account	37,500
	1,00,000
Kedar Ltd.'s = 4/5 × 1,00,000	80,000

	Minority Interest = 1/5 × 1,00,000	20,000
2.	**Profit on revaluation of assets of *Vijay* Ltd.**	-
	Profit on Machinery ₹ (3,75,000 – 2,50,000)	1,25,000
	Less: Loss on Furniture ₹(50,000 – 37,500)	12,500
	Net Profit on revaluation	1,12,500
	Kedar Ltd.'s share 4/5 × 1,12,500	90,000
	Minority Interest 1/5 × 1,12,500	22,500
3.	**Post-acquisition reserves of *Vijay* Ltd.**	-
	Post-acquisition reserves (Total reserves less pre-acquisition reserves = ₹ 1,87,500 – 62,500)	1,25,000
	Kedar Ltd.'s share 4/5 × 1,25,000	1,00,000
	Minority interest 1/5 × ,25,000	25,000
4.	**Post -acquisition profits of *Vijay* Ltd.**	-
	Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = ₹ 62,500 – 37,500)	25,000
	Add: Excess depreciation charged on furniture @ 15%	-
	on ₹ 12,500 i.e. (50,000 – 37,500)	1,875
		26,875
	Less: Under depreciation on machinery @ 10%	-
	on ₹ 1,25,000 i.e. (3,75,000 – 2,50,000)	(12,500)
	Adjusted post-acquisition profits	14,375
	Kedar Ltd.'s share 4/5 × 14,375	11,500
	Minority Interest 1/5 × 14,375	2,875
5.	**Minority Interest**	-
	Paid-up value of (2,500 – 2,000) = 500 shares	-
	held by outsiders i.e. 500 × ₹ 100	50,000
	Add: 1/5th share of pre-acquisition profits and reserves	20,000
	1/5th share of profit on revaluation	22,500
	1/5th share of post-acquisition reserves	25,000
	1/5th share of post-acquisition profit	2,875
		1,20,375
6.	**Cost of Control or Goodwill**	-
	Paid-up value of 2,000 shares held by Kedar Ltd. i.e. 2,000 × ₹ 100	2,00,000
	Add: 4/5th share of pre-acquisition profits and reserves	80,000
	4/5th share of profit on the revaluation	90,000

Intrinsic value of shares on the date of acquisition	3,70,000
Price paid by Kedar Ltd. for 2,000 shares	4,00,000
Less: Intrinsic value of the shares	(3,70,000)
Cost of control or Goodwill	30,000

6. (a) Difference between Amalgamation, Absorption and External Reconstruction

Basis	Amalgamation	Absorption	External Reconstruction
Meaning	Two or more companies are wound up and a new company is formed to take over their business.	In this case, an existing company takes over the business of one or more existing companies.	In this case, a newly formed company takes over the business of an existing company.
Minimum number of Companies involved	At least three companies are involved.	At least two companies are involved.	Only two companies are involved.
Number of new resultant companies	Only one resultant company is formed. Two companies are wound up to form a single resultant company.	No new resultant company is formed.	Only one resultant company is formed. Under this case a newly formed company takes over the business of an existing company.
Objective	Amalgamation is done to cut competition and reap the economies in large scale.	Absorption is done to cut competition and reap the economies in large scale.	External reconstruction is done to reorganise the financial structure of the company.
Example	A Ltd. and B Ltd. amalgamate to form C Ltd.	A Ltd. takes over the business of another existing company B Ltd.	B Ltd. is formed to take over the business of an existing company A Ltd.

Or

(a) Profit and Loss Account for the year ended 2023-24 (not assuming going concern)

Particulars	***Amount***	***Particulars***	***Amount***
	₹		₹
To Opening Stock	1,50,000	By Sales	27,50,000
To Purchases	22,50,000	By Closing Stock	2,50,000
To Expenses*	78,000	By Trade payables	7,500
To Depreciation	35,000		
To Provision for doubtful debts	30,000		
To Deferred cost	50,000		
To Loan penalty	25,000		
To Net Profit (b.f.)	3,89,500		
	30,07,500		30,07,500

(b) According to AS 15 (Revised) "Employee Benefits", actuarial gains and losses should be recognized immediately in the statement of profit and loss as income or expense. Therefore, surplus of ₹ 6 lakhs in the pension scheme on its actuarial valuation is required to be credited to the profit and loss statement of the current year. Hence, Synergy Ltd. cannot spread the actuarial gain of ₹ 6 lakhs over the next 2 years by reducing the annual contributions to ₹ 2 lakhs instead of ₹ 5 lakhs. It has to contribute ₹ 5 lakhs annually for its pension schemes.

(c) Trial Balance of Foreign Branch (converted into Indian Rupees) as on March 31, 2024

Particulars	**\$ (Dr.)**	**\$ (Cr.)**	**Conversion Basis**	**Rate**	**₹ (Dr.)**	**₹ (Cr.)**
Fixed Assets	8,000		Transaction Date Rate	63	5,04,000	
Opening Inventory	800		Opening Rate	65	52,000	
Goods Received from HO	2,800		Actuals		1,85,500	
Sales		24,050	Average Rate	66		15,87,300
Purchases	11,800		Average Rate	66	7,78,800	
Expenses	1,800		Average Rate	66	1,18,800	
Cash	700		Closing Rate	67	46,900	
Remittance to HO	2,450		Actuals		1,62,000	

HO Account		4,300	Actuals			2,84,500
Exchange Rate Difference			Balancing Figure		23,800	
	28,350	28,350			18,71,800	18,71,800
Closing Stock	700		Closing Rate	67	46,900	
Depreciation	800		Fixed Asset Rate	63	50,400	

Mock Test Paper - Series II: August, 2024

Date of Paper: 16th August, 2024

Time of Paper: 2 P.M. to 5 P.M.

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

ANSWERS

1. (a) (i)
(b) (iv)
(c) (iii)
(d) (iii)

2. (a) (ii)
(b) (i)
(c) (iii)
(d) (iv)

3. (a) (iv)
(b) (iii)
(c) (iii)
(d) (ii)

4. (c)

5. (a)

6. (b)

PART II – Descriptive Questions (70 Marks)

1. (a) Investment Account for the year ending on 31st December, 2023

Scrip : 8% Convertible Debentures in C Ltd.

[Interest Payable on 31st March and 30th September]

Date	Particulars	Nominal value ₹	Interest ₹	Cost ₹	Date	Particulars	Nominal Value (₹)	Interest (₹)	Cost (₹)
1.4.23	To Bank A/c	2,00,000	-	2,16,000	30.09.23	By Bank A/c	-	12,000	-
1.7.23	To Bank A/c (W.N.1)	1,00,000	2,000	1,10,000		[₹3,00,000 x 8% x (6/12]			
31.12.23	To P & L A/c	-	14,033	-	1.10.23	By Bank A/c	80,000		84,000
	[Interest]				1.10.23	By P & L A/c (loss) (W.N.3)			2,933

					1.12.23	By Bank A/c (Accrued interest) (₹ 55,000 x .08 x 2/12)		733	
					1.12.23	By Equity shares in C Ltd. (W.N. 3 and 4)	55,000		59,767
					31.12.23	By Balance c/d (W.N.5)	1,65,000	3,300	1,79,300
		3,00,000	16,033	3,26,000			3,00,000	16,033	3,26,000

SCRIP: Equity Shares in C LTD.

Date	Particulars	Cost (₹)	Date	Particulars	Cost (₹)
1.12.23	To 8 % debentures	59,767	31.12.23	By balance c/d	59,767

Working Notes:

(i) Cost of Debenture purchased on 1st July = ₹ 1,12,000 – ₹ 2,000 (Interest) = ₹1,10,000

(ii) Cost of Debentures sold on 1st Oct.

= (₹ 2,16,000 + ₹ 1,10,000) x 80,000/3,00,000 = ₹ 86,933

(iii) Loss on sale of Debentures = ₹ 86,933– ₹84,000 = ₹ 2,933

Nominal value of debentures converted into equity shares

=₹ 55,000

[(₹ 3,00,000 – 80,000) x.25]

Interest received before the conversion of debentures

Interest on 25% of total debentures = 55,000 x 8% x 2/12 = 733

(iv) Cost of Debentures converted = (₹ 2,16,000 + ₹1,10,000) x 55,000/3,00,000 = ₹ 59,767

(v)

Cost of closing balance of Debentures = (₹ 2,16,000 + ₹1,10,000) x 1,65,000 / 3,00,000

= ₹ 1,79,300

(vii) Closing balance of Debentures has been valued at cost.

(viii) 5,000 equity Shares in C Ltd. will be valued at cost of ₹ 59,767 being lower than the market value ₹ 75,000 (₹ 15 x5,000)

Note: It is assumed that interest on debentures, which are converted into cash, has been received at the time of conversion.

(b) As per AS 16 'Borrowing Costs', a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Further, the standard states that what constitutes a substantial period of time primarily depends on the facts and circumstances of each case. However, ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case. In estimating the period, time which an asset takes, technologically and commercially, to get it ready for its intended use or sale is considered.

It may be implied that there is a rebuttable presumption that a 12 months period constitutes substantial period of time.

Under present circumstances where construction period has reduced drastically due to technical innovation, the 12 months period should at best be looked at as a benchmark and not as a conclusive yardstick. It may so happen that an asset under normal circumstances may take more than 12 months to complete. However, an enterprise that completes the asset in 8 months should not be penalized for its efficiency by denying it interest capitalization and vice versa.

The substantial period criteria ensures that enterprises do not spend a lot of time and effort capturing immaterial interest cost for purposes of capitalization.

Therefore, if the factory is constructed in 8 months then it shall be considered as a qualifying asset. The interest on borrowings for the same shall be capitalised although it has taken less than 12 months for the asset to get ready to use.

2. **Balance Sheet of Vishnu Ltd. as at 31st March, 2024**

			Note	₹
I	**EQUITY AND LIABILITIES:**			
(1)	(a)	Share Capital	1	1,60,00,000
	(b)	Reserves and Surplus	2	110,68,000
(2)	**Non-current Liabilities**			
		Long term Borrowings- Terms Loans (Secured)		40,00,000
(3)	**Current Liabilities**			
	(a)	Trade Payables		45,80,000
	(b)	Other current liabilities	3	8,00,000
	(c)	Short-term Provisions (Provision for taxation)		10,20,000
		Total		**3,74,68,000**
II	**ASSETS**			
(1)	**Non-current Assets**			
	(a)	Property, Plant and Equipment	4	214,00,000

	(b) Non-current Investments		9,00,000
(2)	**Current Assets:**		
	(a) Inventories	5	48,00,000
	(b) Trade Receivables	6	48,20,000
	(c) Cash and Cash Equivalents		38,40,000
	(d) Short-term Loans and Advances	7	17,08,000
	Total		**3,74,68,000**

Notes to accounts

			(₹)
1.	**Share Capital**		
	Authorized, issued, subscribed & called up		
	1,20,000, Equity Shares of ₹ 100 each	1,20,00,000	
	40,000 10% Redeemable Preference Shares of 100 each	40,00,000	1,60,00,000
2.	**Reserves and Surplus**		
	Securities Premium Account	19,00,000	
	General reserve	62,00,000	
	Profit & Loss Balance		
	Opening balance -		
	Profit for the period 32,00,000		
	Less: Miscellaneous Expenditure		
	written off (2,32,000)	29,68,000	110,68,000
3.	**Other current liabilities**		
	Loan from other parties		8,00,000
4.	**Property, plant and equipment**		
	Plant and Machinery (WDV)		214,00,000
5.	**Inventories**		
	Finished Goods	30,00,000	
	Stores	16,00,000	
	Loose Tools	2,00,000	48,00,000
6.	**Trade Receivables**		
	Trade receivables	49,00,000	
	Less: Provision for Doubtful Debts	(80,000)	48,20,000
7.	**Short term loans & Advances**		
	Staff Advances*	2,20,000	
	Other Advances*	14,88,000	17,08,000

3. (a) Present value of minimum lease payment is computed below:

Year	**MLP** ₹	**DF (12.6%)**	**PV** ₹
1	50,000	0.890	44,500
2	50,000	0.790	39,500
3	50,000	0.700	35,000
4	50,000	0.622	31,100
5	50,000	0.552	27,600
5	25,000	0.552	13,800
			1,91,500

Present value of minimum lease payment = ₹ 1,91,500

Fair value of leased asset = ₹ 2,00,000

As per AS 19, on the date of inception of Lease, Lessee should show it as an asset and corresponding liability at lower of Fair value of leased asset at the inception of the lease and present value of minimum lease payments from the standpoint of the lessee. The accounting entry at the inception of lease to record the asset taken on finance lease in books of lessee is suggested below:

		₹	₹
Asset A/c	Dr.	1,91,500	
To Lessor (Lease Liability) A/c			1,91,500
(Being recognition of finance lease as asset and liability)			

(b) As per AS 12 'Accounting for Government Grants,' income from Deferred Grant Account is allocated to Profit and Loss account usually over the periods and in the proportions in which depreciation on related assets is charged. Accordingly, in the first two years (₹ 32 lakhs /4 years) = ₹ 8 lakhs x 2 years= ₹ 16 lakhs will be credited to Profit and Loss Account and ₹ 16 lakhs will be the balance of Deferred Grant Account after two years. Therefore, on refund of grant, following entry will be passed:

		₹	₹
Deferred Grant A/c	Dr.	16 lakhs	
Profit & Loss A/c	Dr.	16 lakhs	
To Bank A/c			32 lakhs
(Being Government grant refunded)			

1. Value of Fixed Assets after two years but before refund of grant

Fixed assets initially recorded in the books = ₹ 80 lakhs

Depreciation for each year

= (₹ 80 lakhs – ₹8 lakhs)/4 years = ₹ 18 lakhs per year

Book value of fixed assets after two years

= ₹ 80 lakhs – (₹ 18 lakhs x 2 years) = ₹ 44 lakhs

2. **Value of Fixed Assets after refund of grant**

On refund of grant the balance of deferred grant account will become nil. The fixed assets will continue to be shown in the books at ₹ 44 lakhs.

3. **Amount of depreciation for remaining two years**

Depreciation will continue to be charged at ₹ 18 lakhs per annum for the remaining two years.

4. Books of A Ltd.

Balance Sheet of A Ltd. as at 1st April, 2024 (after merger)

		Particulars	**Notes**	**₹ (in lakhs)**
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	36,000
	B	Reserves and Surplus	2	24,981
2		Non-current liabilities		
	A	Long-term borrowings	3	1,500
3		Current liabilities		
	A	Trade Payables (1,800+694.5-120)		2,374.5
	B	Short-term provisions (2,745+1,053)		3,798
		Total		68,653.5
		Assets		
1		Non-current assets		
	A	Property, Plant & Equipment	4	43,506
2		Current assets		
	A	Inventories (11,793+6,061.5)		17,854.5
	B	Trade receivables (3,180+1,650-120)		4,710
	C	Cash and cash equivalents (1,671+913.5-1.5)		2,583
		Total		68,653.5

Notes to Accounts

		₹
1.	Share Capital	
	Equity share capital	
	Authorized, issued, subscribed and paid-up: 36 crores equity shares of ₹ 10 each (out of these shares, 13.5 crores shares have been issued for consideration other than cash)	36,000
2.	Reserves and Surplus	
	General Reserve	14,550
	Securities Premium	4,500
	Foreign Project Reserve	465
	Profit and Loss Account ₹ (4,305 +1,162.5-1.5)	5,466
	Total	24,981
3.	Long-term borrowings	
	Secured	
	13% Debentures	1,500
4.	PPE	
	Land & Buildings	9,000
	Plant & Machinery	28,500
	Furniture & Fittings	6,006
	Total	43,506

Working Note:

Computation of purchase consideration

Purchase consideration was discharged in the form of three equity shares of A Ltd. for every two equity shares held in B Ltd.

Purchase consideration = ₹ 9,000 lacs × $\frac{3}{2}$ = ₹ 13,500 lacs

5. Consolidated Balance Sheet of Star Ltd. and its Subsidiary Moon Ltd. as at 31st March, 2024

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		12,00,000
(1,20,000 equity shares of ₹ 10 each)		
(b) Reserves and Surplus	1	8,16,200
(2) Minority Interest (W.N.4)		99,300

	(3) Current Liabilities		
	(a) Trade Payables	2	4,10,000
	Total		25,25,500
II.	Assets		
	(1) Non-current assets		
	(i) Property, plant and equipment	3	13,10,500
	(ii) Intangible assets	4	24,000
	(2) Current assets		
	(i) Inventories	5	3,25,000
	(ii) Trade Receivables	6	6,70,000
	(iii) Cash at Bank	7	1,96,000
	Total		25,25,500

Notes to Accounts

				₹
1.	Reserves and Surplus			
	General Reserves		4,35,000	
	Add: 80% share of Moon Ltd.'s post-acquisition reserves (W.N.3)		84,000	5,19,000
	Profit and Loss Account		2,80,000	
	Add: 80% share of Moon Ltd.'s post-acquisition profits (W.N.3)	21,200		
	Less: Unrealised gain	(4,000)	17,200	2,97,200
				8,16,200
2.	Trade Payables			
	Star Ltd.		3,22,000	
	Moon Ltd.		1,23,000	
	Less: Mutual transaction		(35,000)	4,10,000
3.	Property, plant and equipment			
	Machinery			
	Star Ltd.		6,40,000	
	Moon Ltd.	2,00,000		
	Add: Appreciation	1,00,000		
		3,00,000		
	Less: Depreciation	(30,000)	2,70,000	9,10,000
	Furniture			
	Star Ltd.		3,75,000	

	Moon Ltd.	40,000		
	Less: Decrease in value	(10,000)		
		30,000		
	Less: Depreciation	(4,500)	25,500	4,00,500
				13,10,500
4.	Intangible assets			
	Goodwill [WN 5]			24,000
5.	Inventories			
	Star Ltd.		2,68,000	
	Moon Ltd.		62,000	3,30,000
	Less: Inventory reserve			(5,000)
				3,25,000
6.	Trade Receivables			
	Star Ltd.		4,70,000	
	Moon Ltd.		2,35,000	
				7,05,000
	Less: Mutual transaction			(35,000)
				6,70,000
7.	Cash and Bank			
	Star Ltd.		1,64,000	
	Moon Ltd.		32,000	1,96,000

Working Notes:

1. Profit or loss on revaluation of assets in the books of Moon Ltd. and their book values as on 1.4.2023

	₹
Machinery	
Revaluation as on 1.4.2023	3,00,000
Less: Book value as on 1.4.2023	(2,00,000)
Profit on revaluation	1,00,000
Furniture	
Revaluation as on 1.4.2023	30,000
Less: Book value as on 1.4.2023	(40,000)
Loss on revaluation	(10,000)

2. Calculation of short/excess depreciation

	Machinery	***Furniture***
Upward/ (Downward) Revaluation	1,00,000	(10,000)
Rate of depreciation	10% p.a.	15% p.a.
Difference [(short)/excess]	(10,000)	1,500

3. Analysis of reserves and profits of Moon Ltd. as on 31.03.2024

	Pre-acquisition profit upto 1.4.2023	***Post-acquisition profits (1.4.2023–31.3.2024)***	
	(Capital profits)	***General Reserve***	***Profit and loss account***
General reserve as on 31.3.2024	50,000	1,05,000	
Profit and loss account as on 31.3.2024	30,000		35,000
Upward Revaluation of machinery as on 1.4.2023	1,00,000		
Downward Revaluation of Furniture as on 1.4.2023	(10,000)		
Short depreciation on machinery			(10,000)
Excess depreciation on furniture			1,500
Total	1,70,000	1,05,000	26,500

4. Minority Interest

	₹
Paid-up value of (2,00,000 x 20%)	40,000
Add: 20% share of pre-acquisition profits and reserves [(20% of (50,000 + 30,000)]	16,000
20% share of profit on revaluation	18,000
20% share of post-acquisition reserves	21,000
20% share of post-acquisition profit	5,300
	1,00,300
Less: Unrealised Profit on Inventory (55,000 x 10/110) x 20%	(1,000)
	99,300

5. Cost of Control or Goodwill

Cost of Investment		3,20,000
Less: Paid-up value of 80% shares	1,60,000	
80% share of pre-acquisition profits and reserves (₹ 64,000 + ₹72,000)	1,36,000	(2,96,000)
Cost of control or Goodwill		24,000

6. (a) Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. Accounting Standards provide a set of standard accounting policies, valuation norms and disclosure requirements. Accounting standards aim at improving the quality of financial reporting by promoting comparability, consistency and transparency, in the interests of users of financial statements.

The following are the benefits of Accounting Standards:

(i) ***Standardization of alternative accounting treatments:*** Accounting Standards reduce to a reasonable extent confusing variations in the accounting treatment followed for the purpose of preparation of financial statements.

(ii) ***Requirements for additional disclosures:*** There are certain areas where important is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

(iii) ***Comparability of financial statements:*** The application of accounting standards would facilitate comparison of financial statements of different companies situated in India and facilitate comparison, to a limited extent, of financial statements of companies situated in different parts of the world. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in Accounting Standards adopted in different countries.

Or

Amount that can be drawn from reserves for (10% dividend on ₹ 80,00,000 i.e.	₹ 8,00,000)
Profits available	
Current year profit	₹ 1,42,500
Amount which can be utilized from reserves (₹ 8,00,000 – 1,42,500)	₹ 6,57,500

Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 2014:

Condition I

Since 10% is lower than the average rate of dividend (12%), 10% dividend can be declared.

Condition II

Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital plus free reserves ie. ₹ 10,50,000 [10% of (80,00,000 + 25,00,000)]

Condition III

The balance of reserves after drawl ₹ 18,42,500 (₹ 25,00,000 - ₹ 6,57,500) should not fall below 15% of its paid up capital ie. ₹ 12,00,000 (15% of ₹ 80,00,000]

Since all the three conditions are satisfied, the company can withdraw ₹ 6,57,500 from accumulated reserve (as per Declaration and Payment of Dividend Rules, 2014).

(b) Cash Flow Statement for the year ended 31.3.2024

	₹	₹
Cash flow from operating activities		
Cash received on account of trade receivables	3,50,000	
Cash paid on account of trade payables	(90,000)	
Cash paid to employees (salaries and wages)	(25,000)	
Other cash payments (overheads)	(15,000)	
Cash generated from operations	2,20,000	
Income tax paid	(1,55,000)	
Net cash generated from operating activities		65,000
Cash flow from investing activities		
Payment for purchase of machinery	(4,00,000)	
Proceeds from sale of machinery	70,000	
Net cash used in investment activities		(3,30,000)
Cash flow from financing activities		
Proceeds from issue of share capital	5,00,000	
Bank loan repaid	(2,50,000)	
Debentures redeemed	(50,000)	
Net cash used in financing activities		2,00,000
Net decrease in cash and cash equivalents		(65,000)
Cash and cash equivalents at the beginning of the year		80,000
Cash and cash equivalents at the end of the year		15,000

(c) Outlet Stock A/c

Particulars	₹	Particulars	₹
To balance b/d	45,000	By Sales (90,000/20 × 120)	5,40,000
To Goods sent at outlet	4,86,000	By goods lost (balancing figure)	27,000
To Gross Profit	90,000	By balance c/d	54,000
	6,21,000		6,21,000

Outlet Profit and Loss A/c

Particulars	₹	Particulars	₹
To Expenses	30,000	By Gross Profit	90,000
To Goods lost	27,000		
To Net Profit (balancing figure)	33,000		
	90,000		90,000