

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**

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Case Scenario based Multiple Choice Questions (MCQs)
3. Part II comprises questions which require descriptive type answers.

**PART I – Case Scenario based MCQs (30 Marks)**

***Part I is compulsory.***

**Case Scenario**

1. SEAS Ltd., the “Company”, is in the business of tours and travels. It sells holiday packages to the customers. The Company negotiates upfront with the Airlines for specified number of seats in flight. The Company agrees to buy a specific number of tickets and pay for those tickets regardless of whether it is able to resell all of those in package.

The rate paid by the Company for each ticket purchased is negotiated and agreed in advance. The Company also assists the customers in resolving complaints with the service provided by airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

The Company bought a forward contract for three months of US\$ 1,00,000 on 1 March 2024 at 1 US\$ = INR 83.10 when exchange rate was US\$ 1 = INR 83.02. On 31 March 2024, when the Company closed its books, exchange rate was US\$ 1 = INR 83.15. On 1 April 2024, the Company decided for premature settlement of the contract due to some exceptional circumstances.

The Company is evaluating below mentioned schemes:

- i. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.
- ii. Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

SEAS Ltd. has a subsidiary, ADI Ltd., which is in the business of construction having turnover of ₹ 200 crores. SEAS Ltd. and ADI Ltd. hold 9% and 23% respectively in an associate company, ASOC Ltd. Both SEAS Ltd. and ADI Ltd. prepare consolidated financial statements as per Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006.

- i. What would be the basis of revenue recognition for SEAS Ltd. as per the requirements of Accounting Standards?
  - (a) Gross basis.
  - (b) Net basis.
  - (c) Depends on the accounting policy of the Company.

- (d) Indian GAAP allows a choice to the Company to recognize revenue on gross basis or net basis.
- ii. Please suggest accounting treatment of forward contract for the year ended 31 March 2024 as per Accounting Standard 11.
- (a) MTM (marked to market value) of contract will be recorded on 31 March 2024.
- (b) MTM (marked to market value) of contract will be computed as at 31 March 2024 and only if there is loss, it will be recorded during the year ended 31 March 2024.
- (c) No accounting will be done during the year ended 31 March 2024.
- (d) Premium on contract will be amortized over the life of the contract.
- iii. You are requested to advise the Company in respect of the accounting requirements of above schemes related to employee benefits as to which one of those schemes should be considered as a change in accounting policy during the year.
- (a) 1 – Change in accounting policy. 2 – Change in accounting policy.
- (b) 1– Not a change in accounting policy. 2 – Change in accounting policy.
- (c) 1 – Not a change in accounting policy. 2 – Not a change in accounting policy.
- (d) 1– Change in accounting policy. 2 – Not a change in accounting policy.
- iv. Please comment regarding consolidation requirements for SEAS Ltd. and ADI Ltd. using the below mentioned options as to which one should be correct.
- (a) ADI Ltd. would use equity method of accounting for 23% in ASOC Ltd. SEAS Ltd. would consolidate ADI Ltd. and consequently automatically equity account 23% and separately account for the balance 9% as per AS 13.
- (b) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13. SEAS Ltd. would consolidate ADI Ltd. and consequently automatically account 23% and separately account for the balance 9%.
- (c) ADI Ltd. would account for 23% share in ASOC Ltd using equity method of accounting. SEAS Ltd. would consolidate ADI Ltd. and consequently, automatically account for ASOC Ltd 23% share and separately account for 9% share in ASOC Ltd. using equity method of accounting in consolidated financial statements.
- (d) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13. SEAS Ltd. would consolidate ADI Ltd. and use equity method of accounting 23% in ASOC Ltd. and separately account for the balance 9% as per AS 13.

**Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]**

2. On 1<sup>st</sup> April, 2022, Shubham Limited purchased some land for ₹ 30 lakhs for the purpose of constructing a new factory. This cost of 30 lakhs included legal cost of ₹ 2 lakhs incurred for the purpose of acquisition of this land. Construction work could start on 1<sup>st</sup> May, 2022 and Shubham Limited provides you the details of the following costs incurred in relation to its construction:

	₹
Preparation and levelling of the land	80,000
Employment costs of the construction workers (per month)	29,000
Purchase of materials for the construction	21,24,000

Cost of relocating employees to new factory for work	60,000
Costs of inauguration ceremony on 1 <sup>st</sup> January, 2023	80,000
Overhead costs incurred directly on the construction of the factory (per month)	25,000
General overhead costs allocated to construction project by the Manager is ₹ 30,000. However, as per company's normal overhead allocation policy, it should be ₹ 24,000. The auditor of the company has support documentation for the cost of ₹ 15,000 only) and raised objection for the balance amount.	

The construction of the factory was completed on 31<sup>st</sup> December, 2022 and production could begin on 1<sup>st</sup> February, 2023. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it was estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building.

The construction of the factory was partly financed by a loan of ₹ 28 lakhs borrowed on 1st April, 2022. The loan was taken at an annual rate of interest of 9%. During the period when the loan proceeds had been fully utilized to finance the construction, Shubham Limited received investment income of ₹ 25,000 on the temporary investment of the proceeds.

You are required to assume that all of the net finance costs to be allocated to the cost of factory (not land) and interest cost to be capitalized based on nine months' period.

Based on the information given in the above scenario, answer the following multiple choice questions:

- i. Which of the following cost (incurred directly on construction) will be capitalized to the cost of factory building?
  - (a) ₹ 2,00,000 incurred as legal cost
  - (b) ₹ 60,000 – costs of relocating employees
  - (c) ₹ 80,000 costs of inauguration ceremony
  - (d) ₹ 24,000 – allocated general overhead cost
- ii. What amount of employment cost of construction workers will be capitalized to the cost of factory building?
  - (a) ₹ 2,90,000
  - (b) ₹ 3,48,000
  - (c) ₹ 2,32,000
  - (d) ₹ 29,000
- iii. What is the amount of net borrowing cost capitalized to the cost of the factory?
  - (a) ₹ 1,89,000
  - (b) ₹ 1,68,000
  - (c) ₹ 1,44,000
  - (d) ₹ 1,64,000
- iv. What will be the carrying amount (i.e. value after charging depreciation) of the factory in the Balance Sheet of Shubham Limited as at 31<sup>st</sup> March, 2023?
  - (a) ₹ 30,00,000

- (b) ₹ 57,78,125
- (c) ₹ 27,78,125
- (d) ₹ 58,00,000

**Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]**

3. Kesar Ltd., a company engaged in various business activities, has decided to initiate a share buy-back on 1st April, 2023. The company plans to repurchase 25,000 equity shares of ₹ 10 each at a price of ₹ 20 per share. This buy-back initiative is in compliance with the company's articles of association, and the necessary resolution has been duly passed by the company. As part of the financial arrangement for the share buy-back, Kesar Ltd. intends to utilize its current assets, particularly the bank balance, to make the payment for the repurchased shares.

Here is a snapshot of Kesar Ltd.'s Balance Sheet as of 31<sup>st</sup> March, 2023:

- A. Share Capital: Equity share capital (fully paid up shares of ₹ 10 each) - ₹ 12,50,000
- B. Reserves and Surplus: Securities premium ₹ 2,50,000; Profit and loss account ₹ 1,25,000; Revenue reserve ₹ 15,00,000;
- C. Long term borrowings: 14% Debentures- ₹ 28,75,000, Unsecured Loans - ₹ 16,50,000
- D. Land and Building ₹ 19,30,000; Plant and machinery ₹ 18,00,000; Furniture and fitting ₹ 9,20,000 and Other Current Assets - ₹ 30,00,000

Authorized, issued and subscribed capital: Equity share capital (fully paid up shares of 10 each) - 12,50,000.

- i. By using the Shares Outstanding Test the number of shares that can be bought back
  - (a) 1,25,000
  - (b) 31,250
  - (c) 25,000
  - (d) 30,000
- ii. By using the Resources Test determine the number of shares that can be bought back:
  - (a) 25,000
  - (b) 31,250
  - (c) 28,750
  - (d) 39,062
- iii. By using the Debt Equity Ratio Test determine the number of shares that can be bought back:
  - (a) 25,000
  - (b) 31,250
  - (c) 28,750
  - (d) 39,062
- iv. On the basis of all three tests determine Maximum number of shares that can be bought back:
  - (a) 25,000

- (b) 31,250
- (c) 28,750
- (d) 39,062

**Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]**

4. All of the following costs are excluded while computing value of inventories except?
- (a) Selling and Distribution costs
  - (b) Allocated fixed production overheads based on normal capacity.
  - (c) Abnormal wastage
  - (d) Storage costs (which is necessary part of the production process) **(2 Marks)**
5. According to AS-18 Related Party Disclosures, which ONE of the following is not a related party of Skyline Limited?
- (a) A shareholder of Skyline Limited owning 30% of the ordinary share capital
  - (b) An entity providing banking facilities to Skyline Limited in the normal course of business
  - (c) An associate of Skyline Limited
  - (d) Key management personnel of Skyline Limited **(2 Marks)**
6. A process of reconstruction, which is carried out without liquidating the company and forming a new one is called
- (a) Internal reconstruction.
  - (b) External reconstruction.
  - (c) Amalgamation in the nature of merger.
  - (d) Amalgamation in the nature of purchase. **(2 Marks)**

**PART II – Descriptive Questions (70 Marks)**

*Question No.1 is compulsory.*

*Answer any **four** questions from the remaining **five** questions.*

*Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates.*

*Working Notes should form part of the answer.*

1. (a) Innovative Garments Manufacturing Company Limited invested in the shares of another company on 1<sup>st</sup> October, 2022 at a cost of ₹ 2,50,000. It also earlier purchased Gold of ₹ 4,00,000 and Silver of ₹ 2,00,000 on 1<sup>st</sup> March, 2020. Market value as on 31<sup>st</sup> March, 2023 of above investments are as follows:

	₹
Shares	2,25,000
Gold	6,00,000
Silver	3,50,000

How above investments will be shown in the books of accounts of Innovative Garments Manufacturing Company Limited for the year ending 31st March, 2023 as per the provisions of Accounting Standard 13 "Accounting for Investments"? **(5 Marks)**

(b) Lessee Ltd. took a machine on lease from Lessor Ltd., the fair value being ₹ 7,00,000.

The economic life of machine as well as the lease term is 3 years. At the end of each year Lessee Ltd. pays ₹ 3,00,000. The Lessee has guaranteed a residual value of ₹ 22,000 on expiry of the lease to the Lessor. However, Lessor Ltd., estimates that the residual value of the machinery will be only ₹ 15,000. The implicit rate of return is 15% p.a. and present value factors at 15% are 0.869, 0.756 and 0.657 at the end of first, second and third years respectively.

Calculate the value of machinery to be considered by Lessee Ltd. and the finance charges in each year. **(5 Marks)**

(c) X Ltd. purchased a Property, Plant and Equipment four years ago for ₹ 150 lakhs and depreciates it at 10% p.a. on straight line method. At the end of the fourth year, it has revalued the asset at ₹ 75 lakhs and has written off the loss on revaluation to the profit and loss account. However, on the date of revaluation, the market price is ₹ 67.50 lakhs and expected disposal costs are ₹ 3 lakhs. What will be the treatment in respect of impairment loss on the basis that fair value for revaluation purpose is determined by market value and the value in use is estimated at ₹ 60 lakhs?. **(4 Marks)**

2. Following is the trial balance of Delta limited as on 31.3.2023.

(Figures in ₹ '000)

Particulars	Debit	Particulars	Credit
Land at cost	800	Equity share capital (shares of ₹ 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 1.4.22)	75
Trade receivables	120	Securities premium	40
Inventories (31-3-23)	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:

- The authorized share capital of the company is 80,000 shares of ₹ 10 each.
- The company revalued the land at ₹ 9,60,000.
- Equity share capital includes shares of ₹ 50,000 issued for consideration other than cash.

- (iv) Suspense account of ₹ 10,000 represents cash received from the sale of some of the machinery on 1.4.2022. The cost of the machinery was ₹ 24,000 and the accumulated depreciation thereon being ₹ 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 ₹ 5,000 with ABC Bank Ltd., which is not a Scheduled Bank.
- (vii) Make provision for income tax @30%.
- (viii) Trade receivables of ₹ 50,000 are due for more than six months.

You are required to prepare Delta Limited's Balance Sheet as at 31.3.2023 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.2023 as per Schedule III. Ignore previous year's figures & taxation. **(14 Marks)**

3. (a) Y Ltd., used certain resources of X Ltd. In return X Ltd. received ₹ 10 lakhs and 15 lakhs as interest and royalties respective from Y Ltd. during the year 2022-23. You are required to state whether and on what basis these revenues can be recognized by X Ltd. **(4 Marks)**
- (b) Following is the Balance Sheet of ABC Ltd. as at 31<sup>st</sup> March, 2023:

	Particulars	Notes	₹
	<b>Equity and Liabilities</b>		
<b>1</b>	<b>Shareholders' funds</b>		
A	Share capital	1	26,00,000
B	Reserves and Surplus	2	(4,05,000)
<b>2</b>	<b>Non-current liabilities</b>		
A	Long-term borrowings	3	12,00,000
<b>3</b>	<b>Current liabilities</b>		
A	Trade Payables		5,92,000
B	Short term borrowings - Bank overdraft		<u>1,50,000</u>
	Total		<u>41,37,000</u>
	<b>Assets</b>		
<b>1</b>	<b>Non-current assets</b>		
A	Property, plant and equipment	4	11,50,000
B	Intangible assets	5	70,000
C	Non-current investment	6	68,000
<b>2</b>	<b>Current assets</b>		
A	Inventory		14,00,000
B	Trade receivables		14,39,000
C	Cash and cash equivalents		<u>10,000</u>
	Total		<u>41,37,000</u>

**Notes to accounts**

	₹
<b>1 Share Capital</b>	
Equity share capital:	
2,00,000 Equity Shares of ₹ 10 each	20,00,000
6,000, 8% Preference shares of ₹ 100 each	<u>6,00,000</u>
	<u>26,00,000</u>
<b>2 Reserves and Surplus</b>	
Debit balance of Profit and loss A/c	<u>(4,05,000)</u>
	<u>(4,05,000)</u>
<b>3 Long-term borrowings</b>	
9% debentures	<u>12,00,000</u>
	<u>12,00,000</u>
<b>4 Property, Plant and Equipment</b>	
Plant and machinery	9,00,000
Furniture and fixtures	<u>2,50,000</u>
	<u>11,50,000</u>
<b>5 Intangible assets</b>	
Patents and copyrights	<u>70,000</u>
	<u>70,000</u>
<b>6 Non-current investments</b>	
Investments (market value of ₹ 55,000)	<u>68,000</u>
	<u>68,000</u>

The following scheme of reconstruction was finalized:

- (i) Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.
- (ii) Debenture holders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.
- (iii) Inventory equal to ₹ 5,00,000 in book value will be taken over by trade payables in full settlement of their dues.
- (iv) Investment value to be reduced to market price.
- (v) The company would issue 11% Debentures for ₹ 3,00,000 and augment its working capital requirement after settlement of bank overdraft.

Pass necessary Journal Entries in the books of the company. Prepare Capital Reduction account and Balance Sheet extract for Equity & Liabilities of the company after internal reconstruction. **(10 Marks)**



4. The financial position of two companies Hari Ltd. and Vayu Ltd. as at 31<sup>st</sup> March, 2023 was as under:

		Particulars	Notes	Hari Ltd.	Vayu Ltd.
		<b>Equity and Liabilities</b>			
<b>1</b>		<b>Shareholders' funds</b>			
	A	Share capital	1	11,00,000	4,00,000
	B	Reserves and Surplus	2	70,000	70,000
<b>2</b>		<b>Non-current liabilities</b>			
	A	Long term provisions	3	50,000	20,000
<b>3</b>		<b>Current liabilities</b>			
	A	Trade Payables		<u>1,30,000</u>	<u>80,000</u>
		Total		<u>13,50,000</u>	<u>5,70,000</u>
		<b>Assets</b>			
<b>1</b>		<b>Non-current assets</b>			
	A	Property, Plant and Equipment	4	8,00,000	2,50,000
	B	Intangible assets	5	50,000	25,000
<b>2</b>		<b>Current assets</b>			
	A	Inventories		2,50,000	1,75,000
	B	Trade receivables		2,00,000	1,00,000
	C	Cash and Cash equivalents		<u>50,000</u>	<u>20,000</u>
		Total		<u>13,50,000</u>	<u>5,70,000</u>

**Notes to accounts**

		Hari Ltd.	Vayu Ltd.
<b>1</b>	<b>Share Capital</b>		
	Equity shares of ₹ 10 each	10,00,000	3,00,000
	9% Preference Shares of ₹ 100 each	1,00,000	--
	10% Preference Shares of ₹ 100 each	--	<u>1,00,000</u>
		<u>11,00,000</u>	<u>4,00,000</u>
<b>2</b>	<b>Reserves and Surplus</b>		
	General reserve	<u>70,000</u>	<u>70,000</u>
		<u>70,000</u>	<u>70,000</u>
<b>3</b>	<b>Long term Provisions</b>		
	Retirement gratuity fund	<u>50,000</u>	<u>20,000</u>
		<u>50,000</u>	<u>20,000</u>
<b>4</b>	<b>Property, plant and Equipment</b>		
	Land and Building	3,00,000	1,00,000
	Plant and machinery	<u>5,00,000</u>	<u>1,50,000</u>
		<u>8,00,000</u>	<u>2,50,000</u>

5	Intangible assets			
		Goodwill		
			<u>50,000</u>	<u>25,000</u>
			<u>50,000</u>	<u>25,000</u>

Hari Ltd. absorbs Vayu Ltd. on the following terms:

- 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.
- Goodwill of Vayu Ltd. is valued at ₹ 50,000, Buildings are valued at ₹ 1,50,000 and the Machinery at ₹ 1,60,000.
- Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.
- Equity Shareholders of Vayu Ltd. will be issued necessary Equity Shares @ 5% premium.

Prepare necessary the acquisition entries in the books of Hari Ltd. Also draft the Balance Sheet after absorption as at 31<sup>st</sup> March, 2023. **(14 Marks)**

5. From the Balance Sheets and information given below, prepare Consolidated Balance Sheet of Virat Ltd. and Anushka Ltd. as at 31<sup>st</sup> March. Virat Ltd. holds 80% of Equity Shares in Anushka Ltd. since its (Anushka Ltd.'s) incorporation.

**Balance Sheet of Virat Ltd. and Anushka Ltd. as at 31<sup>st</sup> March, 2023**

Particulars	Note No.	Virat Ltd. (₹)	Anushka Ltd. (₹)
<b>I. Equity and Liabilities</b>			
<b>(1) Shareholder's Funds</b>			
(a) Share Capital	1	6,00,000	4,00,000
(b) Reserves and Surplus	2	1,00,000	1,00,000
<b>(2) Non-current Liabilities</b>			
Long Term Borrowings		2,00,000	1,00,000
<b>(3) Current Liabilities</b>			
(a) Trade Payables		1,00,000	1,00,000
Total		10,00,000	7,00,000
<b>II. Assets</b>			
<b>(1) Non-current assets</b>			
(a) Property, Plant and Equipment		4,00,000	3,00,000
(b) Non-current investments	3	3,20,000	-
<b>(2) Current Assets</b>			
(a) Inventories		1,60,000	2,00,000
(b) Trade Receivables		80,000	1,40,000
(c) Cash & Cash Equivalents		40,000	60,000
Total		10,00,000	7,00,000

### Notes to Accounts

	Particulars	(₹)	Virat Ltd. (₹)	Anushka Ltd. (₹)
<b>1.</b>	<b>Share capital</b>			
	60,000 equity shares of ₹ 10 each fully paid up		6,00,000	--
	40,000 equity shares of ₹ 10 each fully paid up		--	<u>4,00,000</u>
	Total		<u>6,00,000</u>	<u>4,00,000</u>
<b>2.</b>	<b>Reserves and Surplus</b>			
	General Reserve		<u>1,00,000</u>	<u>1,00,000</u>
	Total		<u>1,00,000</u>	<u>1,00,000</u>
<b>3.</b>	<b>Non-current investments</b>			
	Shares in Anushka Ltd		<u>3,20,000</u>	--

(14 Marks)

6. (a) What are the qualitative characteristics of the financial statements which improve the usefulness of the information furnished therein? (4 Marks)

Or

What are the issues, with which Accounting Standards deal? (4 Marks)

- (b) From the following information, calculate cash flow from operating activities:

**Summary of Cash Account  
for the year ended March 31, 2023**

Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	By Cash Purchases	1,20,000
To Cash sales	1,40,000	By Trade payables	1,57,000
To Trade receivables	1,75,000	By Office & Selling Expenses	75,000
To Trade Commission	50,000	By Income Tax	30,000
To Sale of Investment	30,000	By Investment	25,000
To Loan from Bank	1,00,000	By Repayment of Loan	75,000
To Interest & Dividend	1,000	By Interest on loan	10,000
		By Balance c/d	1,04,000
	<u>5,96,000</u>		<u>5,96,000</u>

(4 Marks)

- (c) Following is the information of the Jammu branch of Best New Delhi for the year ending 31<sup>st</sup> March, 2023 from the following:

- (1) Goods are invoiced to the branch at cost plus 20%.
- (2) The sale price is cost plus 50%.

(3) Other information:	₹
Stock as on 01.04.2022(invoice price)	2,20,000
Goods sent during the year (invoice price)	11,00,000
Sales during the year	12,00,000
Expenses incurred at the branch	45,000

Ascertain

- (i) the profit earned by the branch during the year.
- (ii) branch stock reserve in respect of unrealized profit.

**(6 Marks)**



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 1<sup>st</sup> March, 2020) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31<sup>st</sup> 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
1 <sup>st</sup> Year beginning	–	–	–	6,99,054
End of 1 <sup>st</sup> year	1,04,858	3,00,000	1,95,142	5,03,912
End of 2 <sup>nd</sup> year	75,587	3,00,000	2,24,413	2,79,499
End of 3 <sup>rd</sup> 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 31<sup>st</sup> March 2023

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

Statement of Profit and Loss for the year ended 31<sup>st</sup> March 2023

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

## Notes to Accounts

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

	Authorised		
	80,000 Shares of ₹ 10/- each		<u>800</u>
	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	<u>(5)</u>	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	<u>382.20</u>	<u>457.20</u>
			<u>807.20</u>
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	<u>160</u>	
	Closing Balance		960
	Plant and Machinery		
	Opening Balance	824	
	Less: Disposed off	<u>(24)</u>	
		800	
	Less: Depreciation ₹ (150 – 20 + 80)	<u>(210)</u>	
	Closing Balance		<u>590</u>
	Total		<u>1,550</u>
6	Trade receivables		
	Debits outstanding for a period exceeding six months	50	
	Other debts	<u>70</u>	120
7	Cash and Cash Equivalents		
	Cash at Bank With scheduled banks	23	
	With others (ABC Bank Limited)	5	
	Cash in hand	<u>2</u>	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	<u>45</u>	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 [Being decrease in investment and profit and loss account (Dr. bal.); and balance of capital reduction account transferred to capital reserve]		1,54,000
--	--	----------

**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	<u>1,54,000</u>	By Trade payables A/c	<u>92,000</u>
	<u>5,72,000</u>		<u>5,72,000</u>

**Balance Sheet Extract of ABC Ltd. (And Reduced)  
As at 31<sup>st</sup> March 2023**

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

**Notes to Accounts**

	₹
<b>1. Share Capital</b> 2,00,000 Equity shares of ₹ 10 each fully paid-up	20,00,000
<b>2. Reserve and Surplus</b> Capital Reserve	1,54,000
<b>3. Long Term Borrowings</b> 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 31<sup>st</sup> March, 2023**

Particulars		Notes	₹
<b>Equity and Liabilities</b>			
<b>1</b>	<b>Shareholders' funds</b>		
A	Share capital	1	16,10,000
B	Reserves and Surplus	2	90,000
<b>2</b>	<b>Non-current liabilities</b>		
A	Long-term provisions	3	70,000
<b>3</b>	<b>Current liabilities</b>		
A	Trade Payables		2,10,000
	Total		19,80,000
<b>Assets</b>			
<b>1</b>	<b>Non-current assets</b>		
A	Property, Plant and Equipment	4	11,10,000
B	Intangible assets	5	1,00,000
<b>2</b>	<b>Current assets</b>		
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**

		₹
<b>1</b>	<b>Share Capital</b>	
	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
<b>2 Reserves and Surplus</b>		
Securities Premium		20,000
General Reserve		70,000
Total		90,000
<b>3 Long-term provisions</b>		
Retirement Gratuity fund		70,000
Total		70,000
<b>4 Property, Plant and Equipment</b>		
Buildings		4,50,000
Machinery		6,60,000
Total		11,10,000
<b>5 Intangible assets</b>		
Goodwill		1,00,000
<b>6 Trade receivables</b>		3,00,000
Less: Provision for Doubtful Debts		7,500
		<u>2,92,500</u>

**Working Notes:**

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

5. Consolidated balance Sheet of Virat Ltd. and its Subsidiary Anushka Ltd. as at 31<sup>st</sup> March, 2023

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

Notes to Accounts

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

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

**Working Notes:**

**1. Basic Information**

Company Status	Dates	Holding Status
Holding Co. = Virat Ltd. Subsidiary = Anushka Ltd.	Acquisition: Anushka's Incorporation Consolidation: 31 <sup>st</sup> 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		<u>1,00,000</u>	3,20,000	80,000
Cost of Investment Goodwill/ capital reserve			<u>(3,20,000)</u>	-
Parent's Balance				1,00,000
Amount for Consolidated Balance Sheet				<u>1,80,000</u>

- 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	₹	₹
<b>Operating Activities:</b>		
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	<u>(3,82,000)</u>
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**

$$= ₹ 3,60,000 \times (20/120) = ₹ 60,000$$

**Working Note:**

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

Leader in CA/CMA/ACCA



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 31<sup>st</sup> 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)		<u>4,200</u>
III	<b>Total Revenue (I +II)</b>		<u>17,14,200</u>
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	<u>3,51,510</u>
	<b>Total Expenses</b>		<u>16,65,150</u>
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
<b>1</b>	<b>Equity and Liabilities</b>		
	(i) Shareholders' funds		
	(a) Share Capital		3,15,000
	(b) Reserves and surplus	1	50,430
<b>2)</b>	<b>Non-current liabilities</b>		
	(a) Long-term borrowings	2	24,300
<b>(3)</b>	<b>Current Liabilities</b>		
	(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	<u>19,620</u>
			<u>8,14,350</u>
<b>II</b>	<b>ASSETS</b>		
<b>(1)</b>	<b>Non current assets</b>		
	(a) Property, Plant & equipment	6	2,04,160
	(b) Non-current investments		7,500
<b>(2)</b>	<b>Current assets</b>		
	(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	<u>300</u>
			<u>8,14,350</u>

### Notes to accounts

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

10.	<b>Cost of material consumed</b>			
	Opening inventory of raw material	30,000		
	Add: Purchases	12,15,000		
	Stores & spare parts consumed	<u>45,000</u>	12,90,000	
	Less: Closing inventory		<u>(25,800)</u>	12,64,200
11.	<b>Changes in inventory of Finished Goods &amp; WIP</b>			
	Closing Inventory of Finished Goods		60,000	
	Less: Opening Inventory of Finished Goods		<u>46,500</u>	13,500
12.	<b>Employee Benefit expenses</b>			
	Salary & Wages (40,200 + 4,500)			44,700
13.	<b>Other Expenses</b>			
	Manufacturing Expenses (2,70,000 + 67,500)		3,37,500	
	General Charges (16,500 – 2,490)		<u>14,010</u>	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 (Out of above 6,840 shares are issued for consideration other cash) (W.N 1)	-     <u>3,16,800</u>
2	Reserves & Surplus Capital Reserve (W.N 2)	  1,10,200
3	Long Term Borrowings Secured 6% Debentures	 4,50,000
a	11% Debentures (70% of 4,80,000 preference shares)	<u>3,36,000</u>
b		<u>7,86,000</u>
4	PPE Freehold property	 6,49,000

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

**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)	<u>27,000</u>	<u>45,500</u>
		<u>1,76,500</u>

**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)		<u>1,50,000</u>
	Total		<u>21,50,000</u>

**Notes to Accounts:**

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

**5. (a) Revalued net assets of Moon Ltd.as on 31<sup>st</sup> 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		<u>30.0</u>
Total Assets after revaluation		557
Less: 15% Debentures	180.0	
Current Liabilities	<u>100.0</u>	<u>(280.0)</u>
Equity / Net Worth		<u>277</u>
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*)		<u>126.00</u>
Capital reserve		<u>67.9</u>

\* 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 $\frac{(2,25,000-2,02,500)}{2,25,000} = 22,500/2,25,000 \times 100$	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 :	<u>6,000</u>	(20%)
TOTAL SHARES :	<u>30,000</u>	

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 To Equity Stock A/c (Being conversion of 4,000 fully paid Equity Shares of ₹ 100 into ₹ 4,00,000 Equity Stock as per resolution in general meeting dated...)	Dr.	4,00,000	4,00,000
2023 June	Equity Stock A/c To Equity Share Capital A/c (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...)	Dr.	4,00,000	4,00,000

**(c)**

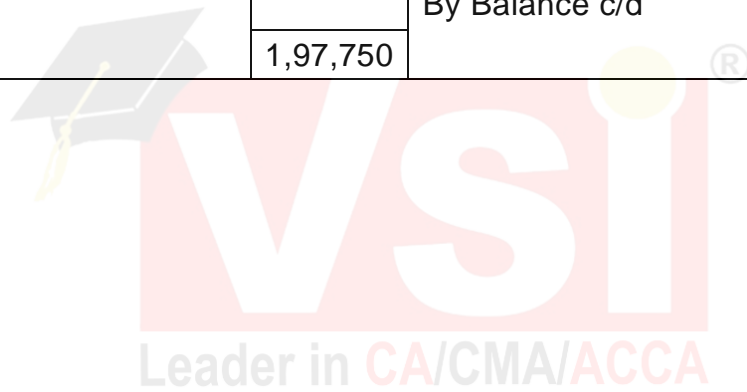
**Books of Harrison  
Branch Stock Account**

	₹		₹
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 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**

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

**PART I – Case Scenario based MCQs (30 Marks)**

***Part I is compulsory.***

**Case Scenario**

1. Mars Ltd. is a manufacturing enterprise which is starting a new manufacturing plant at X Village. It has commenced construction of the plant on April 1, 2023 and has incurred following expenses:
  - It has acquired land for installing Plant for ₹ 50,00,000
  - It incurred ₹ 35,00,000 for material and direct labour cost for developing the Plant.
  - The Company incurred ₹ 10,00,000 for head office expenses at New Delhi which included rent, employee cost and maintenance expenditure.
  - The Company borrowed ₹ 25,00,000 for construction work of Plant @12% per annum on April 1, 2023. Director finance of the Company incurred travel and meeting expenses amounting to ₹ 5,00,000 during the year for arranging this loan.
  - On November 1, 2023, the construction activities of the plant were interrupted as the local people alongwith the activists have raised issues relating to environmental impact of plant being constructed. Due to agitation the construction activities came to standstill for 3 months.
  - With the help of Government and NGOs, the agitation was over by February 28, 2024 and the work resumed. However, to balance the impact on environment, government ordered the company to install certain devices for which the Company had to incur ₹ 6,00,000 in March 2024.
  - The rate of depreciation on Plant is 10%.

Based on the above information, answer the following questions.

- (i) Which of the following expenses cannot be included in the cost of plant:
  - (a) Cost of Land
  - (b) Construction material and labour cost

- (c) Head office expenses  
(d) Borrowing cost
- (ii) How much amount of borrowing cost can be capitalised with the plant:  
(a) ₹ 300,000  
(b) ₹ 2,00,000  
(c) ₹ 7,00,000  
(d) ₹ 6,00,000
- (iii) The total cost of plant as on march 31, 2024 will be:  
(a) ₹ 85,00,000  
(b) ₹ 98,00,000  
(c) ₹ 93,00,000  
(d) ₹ 95,00,000
- (iv) The amount of depreciation to be charged for the year end March 31, 2024  
(a) ₹ 4,30,000  
(b) ₹ 9,30,000  
(c) ₹ 9,80,000  
(d) Nil

**Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]**

2. Beloved Finance Ltd. is a financial enterprise which is in the business of lending loan to small businesses and earn interest on loans.
- During the year the Company has lend 50 crores and earned ₹ 1.5 crore as interest on loans.
  - The Company had surplus funds during the year and invested then in Fixed Deposits with bank and earned interest on fixed deposits of ₹ 20 lacs.
  - The Company also acquired a gold loan unit for ₹ 10 crore during the year and the Company provided interest free loan of ₹ 15 crore to its wholly-owned subsidiary.
  - The Company paid a total income tax of ₹ 75 lacs for the year.

Based on the above information, answer the following questions.

- (i) In the Cash Flow Statement as per AS 3, the interest income of ₹ 1.5 crore earned on earned on loans given by the Company will be disclosed as:
- (a) Cash Flow from Operating Activities  
(b) Cash Flow from Investing Activities  
(c) Cash Flow from Financing Activities

- (d) Non-cash Items
- (ii) In the Cash Flow Statement as per AS 3, the interest income of ₹ 20 Lacs earned fixed deposits with bank will be disclosed as:
- (a) Cash Flow from Operating Activities
  - (b) Cash Flow from Investing Activities
  - (c) Cash Flow from Financing Activities
  - (d) Non-cash Items
- (iii) In the Cash Flow Statement as per AS 3, amount paid for acquiring gold loan unit will be disclosed as:
- (a) Cash Flow from Operating Activities
  - (b) Cash Flow from Investing Activities
  - (c) Cash Flow from Financing Activities
  - (d) Non-cash Items
- (iv) In the Cash Flow Statement as per AS 3, total income tax of ₹ 75 lacs paid for the year will be disclosed as:
- (a) Cash Flow from Operating Activities
  - (b) Cash Flow from Investing Activities
  - (c) Cash Flow from Financing Activities
  - (d) Non-cash Items
- (v) Is any specific disclosures required to made in relation to the interest free loan of ₹ 15 crore provided by the Company to its wholly-owned subsidiary, if yes, as per which Accounting Standard:
- (a) Yes, disclosure is required to be made as per AS 3, Cash Flow Statements.
  - (b) Yes, disclosure is required to be made as per AS 18, Related Party Disclosures
  - (c) Yes, disclosure is required to be made as per AS 13, Accounting for Investments
  - (d) No specific disclosures are required.

**Multiple Choice Questions [5 MCQs of 2 Marks each: Total 10 Marks]**

3. Kumar Ltd., a privately-held company, operates in the manufacturing industry. Founded in 2008, the company has steadily grown its operations and established a strong presence in the market. As of 31st March, 2023, the company's capital structure reflects a blend of equity and debt financing.

Capital Structure Overview:

- Equity Share Capital: The company has a total of ₹ 30,00,000 invested in equity shares, each valued at ₹ 10 and fully paid.

- Reserves & Surplus: Kumar Ltd. has accumulated reserves and surplus totaling ₹49,00,000, comprising contributions from various sources including General Reserve (₹ 32,50,000), Security Premium Account (₹ 6,00,000), Profit & Loss Account (₹ 4,30,000), and Revaluation Reserve (₹ 6,20,000).
- Loan Funds: The company has acquired loan funds amounting to ₹ 42,00,000 to support its operational and growth initiatives.

**Buy-Back Decision:**

Considering its financial position and market conditions, Kumar Ltd. has decided to initiate a share buy-back program. The company intends to repurchase its shares at a price of ₹30 per share.

In accordance with financial regulations and internal policies, Kumar Ltd. aims to assess the maximum number of shares it can repurchase while maintaining a prudent debt-equity ratio. By utilizing the Debt Equity Ratio Test, the company seeks to strike a balance between its equity base and debt obligations.

Based on the above information, answer the following questions.

- What is the minimum equity Kumar Ltd. needs to maintain after buy-back, according to the Debt Equity Ratio Test?
  - ₹ 12,95,000
  - ₹ 21,00,000
  - ₹ 32,50,000
  - ₹ 6,00,000
- What is the maximum permitted buy-back of equity for Kumar Ltd.?
  - ₹ 38,85,000
  - ₹ 42,00,000
  - ₹ 12,95,000
  - ₹ 59,85,000
- How many shares of Kumar Ltd. can be bought back at ₹ 30 per share according to the Debt Equity Ratio Test?
  - 43,000
  - 1,29,500
  - 2,00,000
  - 78,000

**Multiple Choice Questions [3 MCQs of 2 Marks each: Total 6 Marks]**

- Sahil Ltd agreed to sell its factory located in Assam to Kali Ltd on 4.12.2023. It entered into a sale deed (transferring all significant risks and rewards of ownership) on 1.2.2024. But the transaction was registered with the registrar on 30.5.2024 When should the sale and gain be recognized?



- (a) Both sale and gain should be recognized as on the balance sheet date i.e. 31.3.2024.
- (b) Both sale and gain should be recognized on 30.5.2024.
- (c) The sale should be recognized as on balance sheet date but gain should be recognized on 30.5.2024.
- (d) Both sale and gain should be recognized on 4.12.2023. **(2 Marks)**
5. Pratham and Associates is a manufacturer of steel rods. It invests its profits by purchasing shares of listed companies in order to earn dividend income. It had purchased shares of Bharti Airtel Limited in FY 2018-19. However, it sold all the shares of Bharti Airtel Limited during the current year i.e. FY 2023-24. What amount would be disclosed in the profit and loss account for FY 2023-24?
- (a) This transaction would not affect the profit and loss account since the primary business of the company is manufacturing, and not investment.
- (b) The carrying amount net of expenses would be disclosed in the profit and loss account.
- (c) The disposal proceeds net of expenses would be disclosed in the profit and loss account.
- (d) The difference between the carrying amount and the disposal proceeds, net of expenses, would be disclosed in the profit and loss account.
- (2 Marks)**
6. As per Accounting Standards, difference between the Gross Investment and the present value of Minimum Lease Payments under finance lease (from the standpoint of the lessor) and Unguaranteed Residual Value accruing to the lessor is recorded as
- (a) Unearned finance income
- (b) Guaranteed Residual Value
- (c) Profit on lease
- (d) Loss on lease **(2 Marks)**

## PART II – Descriptive Questions (70 Marks)

*Question No.1 is compulsory*

*Answer any **four** questions from the remaining **five** questions.*

*Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates. Working Notes should form part of the answer.*

1. (a) K Ltd. launched a project for producing product X in October, 2023. The Company incurred ₹ 40 lakhs towards Research and Development expenses upto 31<sup>st</sup> March, 2024. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The

Management hence wants to defer the expenditure write off to future years.

Advise the Company as per the applicable Accounting Standard.

**(5 Marks)**

- (b) Wooden Plywood Limited has a normal wastage of 5% in the production process. During the year 2023-24, the Company used 16,000 MT of Raw material costing ₹ 190 per MT. At the end of the year, 950 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books.

You are required to :

- (1) Calculate the amount of abnormal loss.
- (2) Explain the treatment of normal loss and abnormal loss in the context of AS-2. **(5 Marks)**

- (c) On 15<sup>th</sup> June, 2024, Y limited wants to re-classify its investments in accordance with AS 13 (revised). Decide and state the amount of transfer, based on the following information:

- (1) A portion of long term investments purchased on 1<sup>st</sup> March, 2023 are to be re-classified as current investments. The original cost of these investments was ₹ 14 lakhs but had been written down by ₹ 2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15<sup>th</sup> June, 2024 was ₹ 11 lakhs.
- (2) A portion of current investments purchased on 15<sup>th</sup> March, 2024 for ₹ 7 lakhs are to be re-classified as long term investments, as the company has decided to retain them. The market value of these investments on 31<sup>st</sup> March, 2024 was ₹ 6 lakhs and fair value on 15<sup>th</sup> June 2018 was ₹ 8.5 lakhs. **(4 Marks)**

2. The following balance appeared in the books of Oliva Company Ltd. as on 31-03-2024.

Particulars		₹	Particulars		₹
Inventory 01-04-2023			Sales		17,10,000
-Raw Material	30,000		Interest		3,900
-Finished goods	<u>46,500</u>	76,500	Profit and Loss A/c		48,000
Purchases		12,15,000	Share Capital		3,15,000
Manufacturing Expenses		2,70,000	Secure Loans:		
Salaries and wages		40,200	Short-term	4,500	
General Charges		16,500	Long-term	<u>21,000</u>	25,500
			Deposits (unsecured):		
			Short -Term	1,500	

Interim Dividend paid		27,000	Long-term Trade payables	<u>3,300</u>	4,800 3,27,000
Building		1,01,000			
Plant and Machinery		70,400			
Furniture		10,200			
Motor Vehicles		40,800			
Stores and Spare Parts Consumed		45,000			
Investments:					
Current	4,500				
Non Current	<u>7,500</u>	12,000			
Trade receivables		2,38,500			
Cash in Bank		<u>2,71,100</u>			
		<u>24,34,200</u>			<u>24,34,200</u>

From the above balance and the following information, prepare the company's Profit and Loss Account for the year ended 31<sup>st</sup> March, 2024 and Company's Balance Sheet as on that date:

1. Inventory on 31st March, 2024 Raw material ₹ 25,800 & finished goods ₹ 60,000.
  2. Outstanding Expenses: Manufacturing Expenses ₹ 67,500 & Salaries & Wages ₹ 4,500.
  3. Interest accrued on Securities ₹ 300.
  4. General Charges prepaid ₹ 2,490.
  5. Provide depreciation: Building @ 2% p.a., Machinery @ 10% p.a., Furniture @ 10% p.a. & Motor Vehicles @ 20% p.a.
  6. The Taxation provision of 40% on net profit is considered. **(14 Marks)**
3. (a) XYZ Ltd. has not made provision for warranty in respect of certain goods due to the fact that the company can claim the warranty cost from the original supplier. Hence the accountant of the company says that the company is not having any liability for warranties on a particular date as the amount gets reimbursed. You are required to comment on the accounting treatment done by the XYZ Ltd. in line with the provisions of AS 29. **(4 Marks)**
- (b) The Balance Sheet of Radhika Ltd. as at 31-3-2024 is as follows:

	Particulars	Notes	₹
	<u>Equity and Liabilities</u>		
1	Shareholders' funds		
a	Share capital	1	13,80,000

	b	Reserves and Surplus	2	(6,42,000)
2		Non-current liabilities		
	a	Long-term borrowings	3	4,50,000
3		Current liabilities		
	a	Trade Payables		3,60,000
	b	Short term borrowings - Bank Overdraft		2,34,000
	c	Other current liabilities	4	<u>1,47,000</u>
		Total		<u>19,29,000</u>
		<u>Assets</u>		
1		Non-current assets		
	a	Property, plant and equipment	5	5,70,000
	b	Intangible assets	6	2,01,000
	c	Non-current investments	7	66,000
2		Current assets		
	a	Inventories		5,10,000
	b	Trade receivables		5,00,000
	c	Cash and Cash Equivalents		<u>82,000</u>
		Total		<u>19,29,000</u>

#### Notes to accounts

	₹
1	Share Capital
	Equity share capital:
	9,000 Equity Shares of ₹100 each
	9,00,000
	Preference share capital:
	4,800 6% Cumulative Preference Shares of ₹100 each
	<u>4,80,000</u>
	<u>13,80,000</u>
2	Reserves and Surplus
	Debit balance of Profit and loss Account
	(6,42,000)
3	Long-term borrowings
	Secured: 6% Debentures
	4,50,000
4	Other current liabilities
	Loan from directors
	1,20,000
	Interest payable on 6% debentures
	<u>27,000</u>
	<u>1,47,000</u>

5	Property Plant and Equipment	
	Freehold property	5,10,000
	Plant	<u>60,000</u>
		<u>5,70,000</u>
6	Intangible assets	
	Goodwill	1,56,000
	Patents	<u>45,000</u>
		<u>2,01,000</u>
7	Non-current investments	
	Investments at cost	66,000

The Court approved a Scheme of re-organization to take effect on 1-4-2024, whereby:

- (1) Equity Shares to be reduced to ₹ 20 each.
- (2) Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.
- (3) Of the Preference Share dividends which are in arrears for four years, three fourths to be waived and Equity Shares of ₹ 20 each to be allotted for the remaining quarter.
- (4) Interest payable on debentures to be paid in cash.
- (5) Goodwill to be written off.
- (6) Inventory to be written off by ₹65,000.
- (7) Amount of ₹ 68,500 to be provided for bad debts.
- (8) Freehold property to be revalued at ₹6,49,000
- (9) Investments be sold for ₹ 1,40,000.
- (10) Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of ₹ 20 each and as to 5% in cash, and balance 5% being waived.
- (11) There were capital commitments totaling ₹ 2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.
- (12) Ignore taxation and cost of the scheme.
- (13) Eliminate debit balance of Profit and Loss A/c

You are requested to prepare the Balance Sheet of the company after completion of the Scheme. **(10 Marks)**

4. Following is the information of Anu Ltd. and Banu Ltd. as on 31.03.2023 were as under:

	Anu Ltd. (₹)	Banu Ltd. (₹)
Share Capital:		
50,000 Equity Shares of ₹10 each, Fully Paid	5,00,000	
37,500 Equity Shares of ₹10 each, Fully Paid		3,75,000
General Reserve	3,00,000	-
Profit and Loss Account	62,500	62,500
Trade Payables	2,62,500	1,62,500
5% Debentures	-	1,50,000
Freehold Property	3,75,000	3,00,000
Plant and Machinery	75,000	50,000
Motor Vehicle	37,500	25,000
Trade Receivables	2,50,000	1,00,000
Inventory	2,87,500	2,25,000
Cash at Bank	1,00,000	50,000

Anu Ltd. and Banu Ltd. carry on business of similar nature and they agreed to amalgamate.

A new Company, Anban Ltd. is formed to take over the Assets and Liabilities of Anu Ltd. and Banu Ltd. on the following basis:

Assets and Liabilities are to be taken at Book Value, with the following exceptions:

- Goodwill of Anu Ltd. and Banu Ltd. is to be valued at ₹1,75,000 and ₹50,000 respectively.
- Plant and Machinery of Anu Ltd. are to be valued at ₹1,25,000.
- The Debentures of Banu Ltd. are to be discharged by the issue of 6% Debentures of Anan Ltd. at a premium of 5%.

You are required to:

- Compute the basis on which shares in Anban Ltd. will be issued to Shareholders of the existing Companies assuming nominal value of each share of Anban Ltd. is ₹10.
  - Draw up a Balance Sheet of Anban Ltd. as on 1st April, 2023, when Amalgamation is completed. **(14 Marks)**
5. (a) Star Ltd. acquires 70% of equity shares of Moon Ltd. as on 31st March, 2024 at a cost of ₹ 140 lakhs. The following information is available from the balance sheet of Moon Ltd. as on 31st March, 2024:

	₹ in lakhs
Property, plant and equipment	240

Investments	110
Current Assets	140
Loans & Advances	30
15% Debentures	180
Current Liabilities	100

The following revaluations have been agreed upon (not included in the above figures):

Property, plant and equipment      Up by 20%

Investments      Down by 10%

Moon Ltd. declared and paid dividend @ 20% on its equity shares as on 31<sup>st</sup> March, 2024 (Face value - ₹ 10 per share). Star Ltd. purchased the shares of Moon Ltd. @ ₹ 20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Moon Ltd. 31<sup>st</sup> March, 2024.

- (b) Gamma Ltd. acquired 24,000 equity shares of ₹ 10 each, in Beta Ltd. on October 1, 2023 for ₹ 4,60,200. The profit and loss account of Beta Ltd. showed a balance of ₹ 15,000 on April 1, 2023. The plant and machinery of Beta Ltd. which stood in the books at ₹ 2,25,000 on April 1, 2023 was considered worth ₹ 2,70,000 on the date of acquisition.

The information of the two companies as at 31-3-2024 was as follows:

	Gamma Ltd. (₹)	Beta Ltd. (₹)
Shares capital (fully paid equity shares of ₹ 10 each)	7,50,000	3,00,000
General reserve	3,60,000	1,50,000
Profit and loss account	85,800	1,23,000
Current Liabilities	2,54,700	49,500
Land and building	2,70,000	2,85,000
Plant and machinery	3,60,000	2,02,500
Investments	4,60,200	
Current assets	3,60,300	1,35,000

You are required to compute impact of revaluation of Plant and Machinery. **(7+7 = 14 Marks)**

6. (a) "One of the characteristics of financial statements is neutrality" - Do you agree with this statement? **(4 Marks)**

Or

Opening Balance Sheet of Mr. Amit is showing the aggregate value of assets, liabilities and equity ₹ 16 lakh, ₹ 6 lakh and ₹ 10 lakh respectively. During accounting period, Mr. Amit has the following transactions:



- (1) Earned 10% dividend on 4,000 equity shares held of ₹ 100 each
- (2) Paid ₹ 1,00,000 to creditors for settlement of ₹ 1,40,000
- (3) Rent of the premises is outstanding ₹ 20,000
- (4) Mr. A withdrew ₹ 18,000 for his personal use.

You are required to show the effect of above transactions on Balance Sheet in the form of Assets - Liabilities = Equity after each transaction.

**(4 Marks)**

- (b) C Ltd. had ₹ 5,00,000 authorized capital on 31-12-2021 divided into shares of ₹ 100 each out of which 4,000 shares were issued and fully paid up. In June 2022 the Company decided to convert the issued shares into stock. But in June, 2023 the Company re-converted the stock into shares of ₹ 10 each, fully paid up.

Pass entries and show how Share Capital will appear in Notes to Balance Sheet as on 31-12-2022 and 31-12-2023.

**(4 Marks)**

- (c) Alfa of Chennai has a branch at Mumbai to which goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly from H.O. and partly by the branch. The statement of expenses incurred by the branch every month is sent to head office for recording.

Following further details are given for the year ended 31st December, 2023:

		₹
Cost of goods sent to Branch at cost		2,00,000
Goods received by Branch till 31-12-2023 at invoice price		2,20,000
Credit Sales for the year @ invoice price		1,65,000
Cash Sales for the year @ invoice price		59,000
Cash Remitted to head office		2,22,500
Expenses paid by H.O.		12,000
Bad Debts written off		750
Balances as on	1-1-2023	31-12-2023
	₹	₹
Stock	25,000 (Cost)	28,000 (invoice price)
Debtors	32,750	26,000
Cash in Hand	5,000	2,500

You are required to prepare Branch stock account and branch debtor account in the books of the head office for the year ended 31st December, 2023.

**(6 Marks)**



**Mock Test Paper - Series I: July, 2024**

**Date of Paper: 29<sup>th</sup> July, 2024**

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

**INTERMEDIATE COURSE: GROUP - I**  
**PAPER – 1 : ADVANCED ACCOUNTING**

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

**PART I – Case Scenario based MCQs (30 Marks)**

***Part I is compulsory.***

**Case Scenario**

1. Super Ltd., a manufacturing company, has the following summarized Balance Sheet as of March 31, 2024:

Equity Shares of ₹ 10 each fully paid up: ₹ 17,00,000

Reserves & Surplus:

Revenue Reserve: ₹ 23,50,000

Securities Premium: ₹ 2,50,000

Profit & Loss Account: ₹ 2,00,000

Infrastructure Development Reserve: ₹ 1,50,000

Secured Loan:

9% Debentures: ₹ 38,00,000

Unsecured Loan: ₹ 8,50,000

Property, Plant & Equipment: ₹ 58,50,000

Current Assets: ₹ 34,50,000

Super Ltd. plans to buy back 35,000 equity shares of ₹ 10 each fully paid up on April 1, 2024, at ₹ 30 per share. The buyback is authorized by its articles, and necessary resolutions have been passed. The payment for the buyback will be made using the company's bank balance, which is part of its current assets.

Answer the following questions based on the above information:

- (a) As per The Companies Act, 2013 under Section 68 (2) the buy-back of shares in any financial year must not exceed
  - i 20% of its total paid-up capital and free reserves
  - ii 25% of its total paid-up capital and free reserves

- iii 25% of its total paid-up capital
  - iv 20% of its total paid-up capital
- (b) How many shares can Super Ltd. buy back according to the Shares Outstanding Test?
- (i) 35,000 shares
  - (ii) 42,500 shares
  - (iii) 37,500 shares
  - (iv) 54,375 shares
- (c) What is the maximum number of shares that can be bought back according to the Resources Test?
- (i) 35,000 shares
  - (ii) 42,500 shares
  - (iii) 37,500 shares
  - (iv) 54,375 shares
- (d) According to the Debt Equity Ratio Test, what is the maximum number of shares that can be bought back?
- (i) 35,000 shares
  - (ii) 42,500 shares
  - (iii) 37,500 shares
  - (iv) 54,375 shares

**Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]**

2. Venus Limited received a parcel of land at no cost from the government for the purpose of developing a factory in an outlying area. The land is valued at ₹ 75 lakhs, while the nominal value is ₹ 10 lakhs. Additionally, the company received a government grant of ₹ 30 lakhs, which represents 25% of the total investment needed for the factory development. Furthermore, the company received ₹ 15 lakhs with the stipulation that it be used to purchase machinery. There is no expectation from the government for the repayment of these grants.

Answer the following questions based on the above information:

- (a) The land received from Government, free of cost should be presented at:
- (i) ₹ 75 Lakhs
  - (ii) ₹ 30 Lakhs
  - (iii) ₹ 10 Lakhs
  - (iv) ₹ 45 Lakhs
- (b) As per AS 12, how the Government Grant of ₹ 30 Lakhs should be presented:

- (i) It should be recognised in the profit and loss statement as per the related cost.
  - (ii) It will be treated as capital reserve.
  - (iii) It will be treated as deferred income.
  - (iv) It will not be recognised in the financial statements.
- (c) As per AS 12, how the Government Grant of ₹ 15 Lakhs with a condition to purchase machinery may be presented as:
- (i) Capital Reserve
  - (ii) Shareholders Fund
  - (iii) Deferred Income
  - (iv) Income in statement of profit and loss as received.
- (d) Which of the above grants are required to be recognised in the statement of profit and loss on a systematic and rational basis over the useful life of the asset:
- (i) Land received as Grant
  - (ii) Government Grant of ₹ 30 Lakhs
  - (iii) Government Grant of ₹ 15 Lakhs with a condition to purchase machinery
  - (iv) None of the above

**Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]**

3. Axis limited is a manufacturing company. It purchased a machinery costing ₹ 10 Lakhs in April 2023. It paid ₹ 4 lakhs upfront and paid the remaining ₹ 6,00,000 as deferred payment by paying instalment of ₹ 1,05,000 for the next 6 months. During the year, the Company sold a land which was classified as its 'property, plant and equipment' for ₹ 25,00,000 and paid ₹ 1,00,000 as income tax as long term capital gain on such sale. During the year, the Company also received income tax refund along with interest.
- (a) As per the requirements of AS 3, 'Cash Flow Statements', how the amount for purchase of machinery should be presented:
- (i) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 will simply be booked in profit and loss with no presentation in Cash Flow Statement.
  - (ii) ₹ 10.30 lakhs as 'Cash flows from Investing Activities' as entire amount is spent on purchase of machinery.
  - (iii) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 as 'Cash flows from Financing Activities'.
  - (iv) ₹ 10.30 lakhs as 'Cash flows from Financing Activities' as the machinery has been purchased on finance.

- (b) At what amount, the machinery should be recognised in the financial statements:
- (i) ₹ 400,000
  - (ii) ₹ 10,30,000
  - (iii) ₹ 600,000
  - (iv) ₹ 10,00,000
- (c) How should the income tax paid on sale of land should be disclosed in the Cash Flows Statement:
- (i) Cash flows from Operating Activities
  - (ii) Cash flows from Investing Activities
  - (iii) Cash flows from Financing Activities
  - (iv) No disclosure in Cash Flow Statement
- (d) How should the interest on income tax refunds should be disclosed in the Cash Flows Statement:
- (i) Cash flows from Operating Activities
  - (ii) Cash flows from Investing Activities
  - (iii) Cash flows from Financing Activities
  - (iv) No disclosure in Cash Flow Statement

**Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]**

4. Gyan Ltd. borrowed ₹ 10 crore for construction of a plant at the rate of 10% per annum (interest paid annually ₹ 1 crore). The construction was being carried on and out of the borrowings, ₹ 4 crore was temporarily placed in a fixed deposit at the rate of 6% per annum (interest earned ₹ 24 lakh). At the year end, how much cost of borrowing Gyan Limited will capitalise?
- (a) Interest paid on ₹ 10 crore i.e. ₹ 1 crore
  - (b) Interest paid on ₹ 6 crore as only this amount was utilized i.e. ₹ 60 Lakh.
  - (c) Interest paid less income on temporary investment i.e. ₹ 76 lakh
  - (d) Nothing will be capitalised. **(2 Marks)**
5. Cost of current investment acquired was ₹ 1,00,000 but the fair value was ₹ 80,000. The Investment was recorded at ₹ 80,000. Now the fair value of Investment is Rs 1,20,000. At what value should it be recorded and how much gain will be credited to profit and loss account.
- (a) No change is required and it will continue at ₹ 80,000
  - (b) Current investment will be recorded at ₹ 1,00,000 and gain of ₹ 20,000 will be credited to profit and loss account.
  - (c) Current investment will be recorded at ₹ 1,20,000 and gain of ₹ 40,000 will be credited to profit and loss account.

- (d) Current investment will be recorded at ₹ 1,20,000 but no gain will be credited to profit and loss account. **(2 Marks)**
6. In determining the cost of inventories, it is appropriate to exclude certain costs and recognise them as expenses in the period in which they are incurred. Which of the following is not an examples of such costs:
- (a) Abnormal amounts of wasted materials, labour, or other production costs;
- (b) Storage costs, unless the production process requires such storage;
- (c) Raw Material cost
- (d) Selling and distribution costs. **(2 Marks)**

### PART II – Descriptive Questions (70 Marks)

*Question No.1 is compulsory*

*Answer any **four** questions from the remaining **five** questions.*

*Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates. Working Notes should form part of the answer.*

1. (a) On 15<sup>th</sup> June, 2024, Y limited wants to re-classify its investments in accordance with AS 13 (revised). Decide and state the amount of transfer, based on the following information:
- (1) A portion of long term investments purchased on 1<sup>st</sup> March, 2023 are to be re-classified as current investments. The original cost of these investments was ₹ 14 lakhs but had been written down by ₹ 2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15<sup>th</sup> June, 2024 was ₹ 11 lakhs.
- (2) Another portion of long term investments purchased on 15<sup>th</sup> January, 2023 are to be re-classified as current investments. The original cost of these investments was ₹ 7 lakhs but had been written down to ₹ 5 lakhs (to recognize 'other than temporary' decline in value). The fair value of these investments on 15<sup>th</sup> June, 2024 was ₹ 4.5 lakhs.
- (3) A portion of current investments purchased on 15<sup>th</sup> March, 2024 for ₹ 7 lakhs are to be re-classified as long term investments, as the company has decided to retain them. The market value of these investments on 31<sup>st</sup> March, 2024 was ₹ 6 lakhs and fair value on 15th June 2024 was ₹ 8.5 lakhs.
- (4) Another portion of current investments purchased on 7<sup>th</sup> December, 2023 for ₹ 4 lakhs are to be re-classified as long term investments. The market value of these investments was:
- |                     |             |                  |
|---------------------|-------------|------------------|
| on 31st March, 2024 | ₹ 3.5 lakhs |                  |
| on 15th June, 2024  | ₹ 3.8 lakhs | <b>(7 Marks)</b> |

- (b) The financial statements of PQ Ltd. for the year 2023-24 approved by the Board of Directors on 15<sup>th</sup> July, 2024. The following information was provided:
- (i) A suit against the company's advertisement was filed by a party on 20th April, 2024, claiming damages of ₹ 25 lakhs.
  - (ii) The terms and conditions for acquisition of business of another company have been decided by March, 2024. But the financial resources were arranged in April, 2024 and amount invested was ₹ 50 lakhs.
  - (iii) Theft of cash of ₹ 5 lakhs by the cashier on 31st March, 2024 but was detected on 16th July, 2024.
  - (iv) Company sent a proposal to sell an immovable property for ₹ 40 lakhs in March, 2024. The book value of the property was ₹ 30 lakhs on 31<sup>st</sup> March, 2024. However, the deed was registered on 15<sup>th</sup> April, 2024.
  - (v) A major fire has damaged the assets in a factory on 5th April, 2024. However, the assets are fully insured.

With reference to AS-4 "Contingencies and events occurring after the balance sheet date", state whether the above mentioned events will be treated as contingencies, adjusting events or non-adjusting events occurring after the balance sheet date. **(7 Marks)**

2. From the following particulars furnished by the Prashant Ltd., prepare the Balance Sheet as at 31<sup>st</sup> March, 2024 as required by Schedule III of the Companies Act, 2013:

Particulars	Debit (₹)	Credit (₹)
Equity share capital (face value of ₹ 10 each)		15,00,000
Calls-in-arrears	5,000	
Land	5,50,000	
Building	4,85,000	
Plant & machinery	5,60,000	
General reserve		2,70,000
Loan from State Financial Corporation		2,10,000
Inventories	3,15,000	
Provision for taxation		72,000
Trade receivables	2,95,000	
Short-term loans & advances	58,500	
Profit & loss account		1,06,800
Cash in hand	37,300	
Cash at bank	2,85,000	
Unsecured loans		1,65,000

Trade payables		2,67,000
Total	25,90,800	25,90,800

The following additional information is also provided:

- (1) 10,000 equity shares were issued for consideration other than cash.
  - (2) Trade receivables of ₹ 55,000 are due for more than six months.
  - (3) The cost of building and plant & machinery is ₹ 5,50,000 and ₹ 6,25,000 respectively.
  - (4) The loan from State Financial Corporation is secured by hypothecation of plant & machinery. The balance of ₹ 2,10,000 in this account is inclusive of ₹ 10,000 for interest accrued but not due.
  - (5) Balance at Bank included ₹ 15,000 with Aakash Bank Ltd., which is not a scheduled bank. **(14 Marks)**
3. (a) The following information was provided by PQR Ltd. for the year ended 31<sup>st</sup> March, 2024 :
- (1) Gross Profit Ratio was 25% for the year, which amounts to ₹ 3,75,000.
  - (2) Company sold goods for cash only.
  - (3) Opening inventory was lesser than closing inventory by ₹ 25,000.
  - (4) Wages paid during the year ₹ 5,55,000.
  - (5) Office expenses paid during the year ₹ 35,000.
  - (6) Selling expenses paid during the year ₹ 15,000.
  - (7) Dividend paid during the year ₹ 40,000.
  - (8) Bank Loan repaid during the year ₹ 2,05,000 (included interest ₹ 5,000)
  - (9) Trade Payables on 31<sup>st</sup> March, 2023 were ₹ 50,000 and on 31<sup>st</sup> March, 2024 were ₹ 35,000.
  - (10) Amount paid to Trade payables during the year ₹ 6,10,000
  - (11) Income Tax paid during the year amounts to ₹ 55,000  
(Provision for taxation as on 31<sup>st</sup> March, 2024 ₹ 30,000)
  - (12) Investments of ₹ 8,20,000 sold during the year at a profit of ₹ 20,000.
  - (13) Depreciation on furniture amounts to ₹ 40,000.
  - (14) Depreciation on other PPE amounts to ₹ 20,000.
  - (15) Plant and Machinery purchased on 15<sup>th</sup> November, 2023 for ₹ 3,50,000.
  - (16) On 31<sup>st</sup> March, 2024 ₹ 2,00,000, 7% Debentures were issued at face value in an exchange for a plant.

(17) Cash and Cash equivalents on 31<sup>st</sup> March, 2023 ₹ 2,25,000.

- (i) Prepare cash flow statement for the year ended 31<sup>st</sup> March, 2024, using direct method.
- (ii) Calculate cash flow from operating activities, using indirect method.

**(10 Marks)**

(b) Wow Ltd. agreed to takeover Wonder Ltd. on 1<sup>st</sup> April, 2024. The terms and conditions of takeover were as follows:

- (i) Wow Ltd. issued 56,000 equity shares of ₹ 100 each at a premium of ₹ 15 per share to the equity shareholders of Wonder Ltd.
- (ii) Cash payment of ₹ 39,000 was made to equity shareholders of Wonder Ltd.
- (iii) 24,000 fully paid preference shares of ₹ 50 each issued at par to discharge the preference shareholders of Wonder Ltd.
- (iv) The 8% Debentures of Wonder Ltd. (₹ 78,000) converted into equivalent value of 9% debentures in Wow Ltd.
- (v) The actual cost of liquidation of Wonder Ltd. was ₹ 23,000. Liquidation cost is to be reimbursed by Wow Ltd. to the extent of ₹ 15,000.

You are required to:

- (1) Calculate the amount of purchase consideration as per the provisions of AS 14 and
  - (2) Pass Journal Entry relating to discharge of purchase consideration in books of Wow Ltd.
- (4 Marks)**

4. The following are the summarized Balance Sheet of VT Ltd. and MG Ltd. as on 31<sup>st</sup> March, 2024:

Particulars	VT Ltd. (₹)	MG Ltd. (₹)
Equity and Liabilities		
Equity Shares of ₹ 10 each	12,00,000	6,00,000
10% Preference Shares of ₹ 100 each	4,00,000	2,00,000
Reserve and Surplus	6,00,000	4,00,000
12% Debentures	4,00,000	3,00,000
Trade Payables	<u>5,00,000</u>	<u>3,00,000</u>
Total	<u>31,00,000</u>	<u>18,00,000</u>
Assets		
PPE	14,00,000	5,00,000
Investment	1,60,000	1,60,000
Inventory	4,80,000	6,40,000
Trade Receivables	8,40,000	4,20,000
Cash at Bank	<u>2,20,000</u>	<u>80,000</u>



Total	31,00,000	18,00,000
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Details of Trade receivables and trade payables are as under:

	VT Ltd. (₹)	MG Ltd. (₹)
Trade Receivable		
Debtors	7,20,000	3,80,000
Bills Receivable	<u>1,20,000</u>	<u>40,000</u>
	<u>8,40,000</u>	<u>4,20,000</u>
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bills Payable	<u>60,000</u>	<u>50,000</u>
	<u>5,00,000</u>	<u>3,00,000</u>

PPE of both the companies are to be revalued at 15% above book value.

Inventory in Trade and Debtors are taken over at 5% lesser than their book value.

Both the companies are to pay 10% equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, VT Ltd. will absorb MG Ltd. on the following terms:

- (i) VT Ltd. will issue 16 Equity Shares of ₹ 10 each at par against 12 Shares of MG Ltd.
- (ii) 10% Preference Shareholders of MG Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each, at par, in VT Ltd.
- (iii) 12% Debenture holders of MG Ltd. are to be paid at 8% premium, by 12% Debentures in VT Ltd., issued at a discount of 10%.
- (iv) ₹ 60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.
- (v) Sundry Debtors of MG Ltd. includes ₹ 20,000 due from VT Ltd.

You are required to prepare :

- (1) Journal entries in the books of VT Ltd.
- (2) Statement of consideration payable by VT Ltd. **(14 Marks)**

5. From the following information of Kedar Ltd. and its subsidiary Vijay Ltd. at 31<sup>st</sup> March, 2024, prepare a consolidated balance sheet as at that date, having regard to the following:

- (i) Reserves and Profit and Loss Account of Vijay Ltd. stood at ₹ 62,500 and ₹ 37,500 respectively on the date of acquisition of its 80% shares by Kedar Ltd. on 1st April, 2023.
- (ii) Machinery (Book-value ₹ 2,50,000) and Furniture (Book value ₹ 50,000) of Vijay Ltd. were revalued at ₹ 3,75,000 and ₹ 37,500 respectively on 1st April, 2023 for the purpose of fixing the price of its shares. [Rates of

depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

Kedar Ltd. and VIJAY Ltd. give the following information as on 31<sup>st</sup> March, 2024

	<b>Kedar Ltd.</b> (₹)	<b>VIJAY Ltd.</b> (₹)
Equity and Liabilities: Shareholders' funds		
Share Capital: Shares of ₹ 100 each	15,00,000	2,50,000
Reserves	5,00,000	1,87,500
Profit and Loss Account	2,50,000	62,500
Trade Payables	3,75,000	1,42,500
PPE	-	-
Machinery	7,50,000	2,25,000
Furniture	3,75,000	42,500
Other non-current assets	11,00,000	3,75,000
Non-current Investments	-	-
Shares in Vijay Ltd.: 2,000 shares at ₹ 200 each	4,00,000	—

**(14 Marks)**

6. (a) Distinguish between Amalgamation, Absorption and External Reconstruction of Company. **(4 Marks)**

Or

Summarised Balance Sheet of Cloth Trader as on 31.03.2023 is given below:

<b>Liabilities</b>	<b>Amount</b> (₹)	<b>Assets</b>	<b>Amount</b> (₹)
Proprietor's Capital	3,00,000	Fixed Assets	3,60,000
Profit & Loss Account	1,25,000	Closing Stock	1,50,000
10% Loan Account	2,10,000	Sundry Debtors	1,00,000
Sundry Creditors	50,000	Deferred Expenses	50,000
	_____	Cash & Bank	<u>25,000</u>
	6,85,000		6,85,000

Additional Information is as follows :

- (1) The remaining life of fixed assets is 8 years. The pattern of use of the asset is even. The net realisable value of fixed assets on 31.03.2024 was ₹ 3,25,000.
- (2) Purchases and Sales in 2023-24 amounted to ₹ 22,50,000 and ₹ 27,50,000 respectively.
- (3) The cost and net realizable value of stock on 31.03.2024 were ₹ 2,00,000 and ₹ 2,50,000 respectively.
- (4) Expenses for the year amounted to ₹ 78,000.
- (5) Deferred Expenses are amortized equally over 5 years.
- (6) Sundry Debtors on 31.03.2024 are ₹ 1,50,000 of which ₹ 5,000 is doubtful. Collection of another ₹ 25,000 depends on successful re-installation of certain product supplied to the customer;
- (7) Closing Sundry Creditors are ₹ 75,000, likely to be settled at 10% discount.
- (8) Cash balance as on 31.03.2024 is ₹ 4,22,000.
- (9) There is an early repayment penalty for the loan of ₹ 25,000.

You are required to prepare Profit & Loss Account for the year 2023-24 (Not assuming going concern). **(4 Marks)**

- (b) Synergy Ltd., is in engineering industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of ₹ 6 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to ₹ 2 lakhs instead of ₹ 5 lakhs. The average remaining life of the employee is estimated to be 6 years.

You are required to advise the company. **(4 Marks)**

- (c) Karan Enterprises having its Head Office in Mangalore, Karnataka has a branch in Greenville, USA. Following is the trial balance of Branch as at 31-3-2024:

Particulars	Amount (\$)	
	Dr.	Cr.
Fixed assets	8,000	
Opening inventory	800	
Cash	700	
Goods received from Head Office	2,800	
Sales		24,050
Purchases	11,800	
Expenses	1,800	
Remittance to head office	2,450	
Head office account		<u>4,300</u>
	<u>28,350</u>	<u>28,350</u>

- (i) Fixed assets were purchased on 1<sup>st</sup> April, 2020.
- (ii) Depreciation at 10% p.a. is to be charged on fixed assets on straight line method. ·
- (iii) Closing inventory at branch is \$ 700 as on 31-3-2024.
- (iv) Goods received from Head Office (HO) were recorded at ₹ 1,85,500 in HO books.
- (v) Remittances to HO were recorded at ₹ 1,62,000 in HO books.
- (vi) HO account is recorded in HO books at ₹ 2,84,500.
- (vii) Exchange rates of US Dollar at different dates can be taken as :

1-4-2020	₹ 63
1-4-2023	₹ 65 and
31-3-2024	₹ 67

Prepare the trial balance after been converted into Indian rupees in accordance with AS-11. **(6 Marks)**

**Mock Test Paper - Series I: July, 2024**

**Date of Paper: 29<sup>th</sup> 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 value) 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<sup>th</sup> 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 occurring 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<sup>st</sup> 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<sup>th</sup> 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<sup>st</sup> 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 31<sup>st</sup> March, 2024**

Particulars		Notes	₹
<b>Equity and Liabilities</b>			
1	<b>Shareholders' funds</b>		
a	Share capital	1	14,95,000
b	Reserves and Surplus	2	3,76,800
2	<b>Non-current liabilities</b>		
	Long-term borrowings	3	3,65,000
3	<b>Current liabilities</b>		
a	Trade Payables		2,67,000
b	Other current liabilities	4	10,000
c	Short-term provisions	5	72,000
	Total		25,85,800
<b>Assets</b>			
1	<b>Non-current assets</b>		
	Property, Plant and Equipment	6	15,95,000
2	<b>Current assets</b>		
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
	<i>Less: Calls in arrears</i>	<u>(5,000)</u>
		<u>14,95,000</u>
2	Reserves and Surplus	
	General Reserve	2,70,000
	Profit & Loss balance	<u>1,06,800</u>
	Total	<u>3,76,800</u>

3	Long-term borrowings		
	Secured		
	Loan from State Financial Corporation (2,10,000-10,000) (Secured by hypothecation of Plant and Machinery)		2,00,000
	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.)	<u>(65,000)</u>	4,85,000
	Plant & Machinery	6,25,000	
	Less: Depreciation (b.f.)	<u>(65,000)</u>	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		
	<i>Cash and cash equivalents</i>		
	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 31<sup>st</sup> March, 2024  
(Using direct method)**

<i>Particulars</i>	₹	₹
<i>Cash flows from Operating Activities</i>		
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
<i>Cash flows from Investing activities</i>		
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
<i>Cash flows from financing activities</i>		
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
<i>Add: Non-Cash and Non-Operating Expenses:</i>		
Depreciation		60,000
Interest Paid		5,000
<i>Less: Non-Cash and Non-Operating Incomes:</i>		
Profit on Sale of Investments		<u>(20,000)</u>
Net Profit after Adjustment for Non-Cash Items		3,25,000
Less: Decrease in trade payables	15,000	
Increase in inventory	<u>25,000</u>	<u>(40,000)</u>
Cash generated from operations before taxes		<u>2,85,000</u>

**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	<u>5,000</u>	(1,15,000)
		2,60,000
Add: Profit on sale of investments		<u>20,000</u>
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	<u>64,40,000</u>
	<u>76,79,000</u>

(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		8,40,000
[56,000 x ₹ 15 (115-100)]		

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

₹ 2,00,000 x 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 31<sup>st</sup> March, 2024**

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

**Notes to Accounts**

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

**Working Notes:**

<b>1. Pre-acquisition profits and reserves of Vijay Ltd.</b>	₹
Reserves	62,500
Profit and Loss Account	<u>37,500</u>
	<u>1,00,000</u>
Kedar Ltd.'s = $\frac{4}{5} \times 1,00,000$	80,000

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

Intrinsic value of shares on the date of acquisition	<u>3,70,000</u>
Price paid by Kedar Ltd. for 2,000 shares	4,00,000
Less: Intrinsic value of the shares	<u>(3,70,000)</u>
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)

<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
	₹		₹
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

<b>Particulars</b>	<b>\$ (Dr.)</b>	<b>\$ (Cr.)</b>	<b>Conversion Basis</b>	<b>Rate</b>	<b>₹ (Dr.)</b>	<b>₹ (Cr.)</b>
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: 16<sup>th</sup> August, 2024**

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

**INTERMEDIATE COURSE: GROUP - I**

**PAPER – 1 : ADVANCED ACCOUNTING**

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

**PART I – Case Scenario based MCQs (30 Marks)**

***Part I is compulsory.***

**Case Scenario**

1. Anshul manufacturers purchased 20,000 Kg. of raw material at ₹ 170 per Kg. Direct transit cost incurred ₹ 5,00,000 and normal transit loss is 3%. Anshul manufacturers actually received 19,000 kg of raw material. During the year it consumed 17,600 kg of raw material.

Further information:

- (i) The purchase price includes ₹ 15 per kg as GST in respect of which full credit is allowed and will be availed by Anshul manufacturers.
- (ii) Assume that there is no opening stock.

Answer the following questions based on above:

- a. What will be the cost of material:
  - (i) ₹ 36,00,000
  - (ii) ₹ 34,00,000
  - (iii) ₹ 39,00,000
  - (iv) ₹ 31,00,000
- b. what will be the value of the closing stock:
  - (i) ₹ 1,70,000
  - (ii) ₹ 1,85,500
  - (iii) ₹ 2,38,000
  - (iv) ₹ 2,59,700
- c. What will be the cost per Kg of raw material:
  - (i) ₹ 180
  - (ii) ₹ 183.6

- (iii) ₹ 185.5  
 (iv) ₹ 189.4
- d. How much amount as abnormal loss will be debited in P&L:
- (i) ₹ 72,000 approx  
 (ii) ₹ 73,440 approx  
 (iii) ₹ 74,200 approx  
 (iv) ₹ 75,760 approx

**Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]**

2. Aazad Ltd. has the following particulars:

Particulars	₹ (lacs)
10% Preference Share Capital (₹ 10 each)	2,500
Equity Share Capital of ₹ 10 each	8,000
Capital Redemption Reserve	1,000
Securities Premium	800
General Reserve	6,000
Profit & Loss A/c	300
Cash	1,650
Investments (Market Value ₹ 1,500 lacs)	3,000

The company decides to redeem all its preference shares at a premium of 10% and buys back 25% of equity shares @ ₹ 15 per share. Investments amounting to Market Value of ₹ 1,000 lakhs sold at ₹ 3,000 lakhs and raises a bank loan of ₹ 2,000 lakhs.

Answer the following questions based on above:

- (a) The amount of Profit/Loss on Sale of Investment is:
- (i) ₹ 1,500 lakhs Profit  
 (ii) ₹ 1,000 lakhs Profit  
 (iii) ₹ 2,000 lakhs Loss  
 (iv) ₹ 1,000 lakhs Loss
- (b) Securities Premium available for Buyback after redemption of Preference Shares
- (i) ₹ 550 lakhs  
 (ii) ₹ 800 lakhs  
 (iii) Can't utilize securities premium for buyback  
 (iv) ₹ 350 lakhs

(c) Total amount to be transferred to Capital Redemption Reserve:

- (i) ₹ 2,000 lakhs
- (ii) ₹ 4,500 lakhs
- (iii) ₹ 2,500 lakhs
- (iv) ₹ 1,750 lakhs

(d) Cash balance after buyback

- (i) ₹ 1,150 lakhs
- (ii) ₹ 2,200 lakhs
- (iii) ₹ 3,250 lakhs
- (iv) ₹ 900 lakhs

**Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]**

3. On April 1, 2022, Hello Limited approached a software company for implementation of SAP ERP at its organisation. The cost of implementation of SAP ERP is ₹ 25,00,000 and the time required is 15 months. The company was also required to pay ₹ 100,000 annually after implementation for maintenance and normal updation of ERP. The implementation work started in June, 2022 and could not be finished in 15 months. The ERP was implemented on May 2024. Due to delay in implementation the vendor refunded ₹ 2,00,000. The Company recognised the intangible asset 'SAP ERP' on September 2023 (15 months from June 2022). After two years, the Company has got the SAP ERP more upgraded with latest version and additional features and functions which also increased its speed and usage to Hello Limited for ₹ 7,00,000.

(a) On which date the Intangible asset should be recognised:

- (i) April 2022 (When it was decided that SAP ERP is to be implemented)
- (ii) June 2022 (When the implementation work started)
- (iii) September 2023 (When the implementation work should have completed as per agreed terms)
- (iv) May 2024 (When the SAP actually got implemented)

(b) At what amount the SAP ERP should be initially recognised as 'intangible asset:

- (i) ₹ 25,00,000
- (ii) ₹ 26,00,000
- (iii) ₹ 23,00,000
- (iv) ₹ 32,00,000

- (c) How should the annual maintenance and updation expenses should be accounted for:
- (i) Should be capitalised with 'Intangible Asset'
  - (ii) Should be recognised as a separate 'Intangible Asset'
  - (iii) Should be recognised as expense in Profit and Loss annually.
  - (iv) No accounting is required
- (d) During the implementation period, how the expenditure incurred will be accounted for:
- (i) It will be expensed in profit and loss as and when incurred
  - (ii) It will be recognised as an asset 'Intangible asset under development'
  - (iii) It will only be disclosed in notes to accounts and will be recognised when complete
  - (iv) It will be recognised as an item of Property, Plant and Equipment

**Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]**

4. Vijay Ltd. borrowed ₹ 30 lakh at interest rate of 5% per annum and purchased plant and machinery for ₹ 60 lakh (using borrowed funds) and started production. It took 1 year time for Vijay Ltd. to create optimum market for the goods manufactured and generate revenue. How much borrowing cost can be capitalised with cost of plant and machinery:
- (a) ₹ 1.5 lakh
  - (b) ₹ 3 Lakh
  - (c) Nil
  - (d) ₹ 5 Lakh **(2 Marks)**
5. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned using following cost formula
- (a) By specific identification of their individual costs
  - (b) First-in, First-out (FIFO) Method
  - (c) Weighted average cost formula
  - (d) The formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition. **(2 Marks)**
6. Securities held as stock-in-trade held by an entity are:
- (a) Investments
  - (b) Not Investments
  - (c) May or may not be Investments
  - (d) Not an asset for entity **(2 Marks)**

**PART II – Descriptive Questions (70 Marks)***Question No.1 is compulsory.**Answer any **four** questions from the remaining **five** questions.**Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates. Working Notes should form part of the answer.*

1. (a) A Ltd. purchased on 1<sup>st</sup> April, 2023 8% convertible debenture in C Ltd. of face value of ₹ 2,00,000 @ ₹ 108. On 1<sup>st</sup> July, 2023 A Ltd. purchased another ₹ 1,00,000 debentures @ ₹ 112 cum interest. On 1<sup>st</sup> October, 2023 ₹ 80,000 debentures were sold @ ₹ 105. On 1<sup>st</sup> December, 2023, C Ltd. give option for conversion of 8% convertible debentures into equity share of ₹ 10 each. A Ltd. received 5,000 equity shares in C Ltd. in conversion of 25% debentures held on that date. The market price of debenture and equity share in C Ltd. on 31<sup>st</sup> December, 2023 is ₹ 110 and ₹ 15 respectively. Interest on debenture is payable each year on 31<sup>st</sup> March, and 30<sup>th</sup> September. Prepare investment account in the books of A Ltd. on average cost basis for the accounting year ended 31<sup>st</sup> December, 2023. **(10 Marks)**
- (b) A company incorporated in June 2023, has setup a factory within a period of 8 months with borrowed funds. The construction period of the assets had reduced drastically due to usage of technical innovations by the company and the company is able to justify the reasons for the same. Whether interest on borrowings for the period prior to the date of setting up the factory should be capitalized although it has taken less than 12 months for the assets to get ready for use. You are required to comment on the necessary treatment with reference to AS 16. **(4 Marks)**
2. You are required to prepare a Balance Sheet as at 31<sup>st</sup> March 2024, as per Schedule III of the Companies Act, 2013, from the following information of Vishnu Ltd.:

Particulars	Amount (₹)	Particulars	Amount (₹)
Term Loans (Secured)	40,00,000	Investments (Non-current)	9,00,000
Trade payables	45,80,000	Profit for the year	32,00,000
Cash and Bank Balances	38,40,000	Trade receivables	49,00,000
Staff Advances	2,20,000	Miscellaneous Expenses	2,32,000
Other advances (given by Co.)	14,88,000	Loan from other parties	8,00,000
Provision for Taxation	10,20,000	Provision for Doubtful Debts	80,000
Securities Premium	19,00,000	Stores	16,00,000
Loose Tools	2,00,000	Finished Goods	30,00,000
General Reserve	62,00,000	Plant and Machinery (WDV)	2,14,00,000

Additional Information: -

1. Share Capital consists of-
  - (a) 1,20,000 Equity Shares of ₹ 100 each fully paid up.
  - (b) 40,000, 10% Redeemable Preference Shares of ₹ 100 each fully paid up.
2. Write off the amount of Miscellaneous Expenses in full, amounting ₹ 2,32,000.
3. Staff Advances and Other Advances are *Considered to be short term.*  
**(14 Marks)**
3. (a) You are required to give the necessary journal entry at the inception of lease to record the asset taken on finance lease in books of lessee from the following information:
 

Lease period	=	5 years;
Annual lease rents	=	₹ 50,000 at the end of each year.
Guaranteed residual value	=	₹ 25,000
Fair Value at the inception (beginning) of lease	=	₹ 2,00,000

Interest rate implicit on lease is = 12.6% (Discounted rates for year 1 to 5 are .890, .790, .700, .622 and .552 respectively). **(7 Marks)**
- (b) Smile Ltd. purchased machinery for ₹ 80 lakhs (useful life 4 years and residual value ₹ 8 lakhs). Government grant received was ₹ 32 lakhs. The grant had to be refunded at the beginning of third year. Show the Journal Entry to be passed at the time of refund of grant and the value of the fixed assets in the third year and the amount of depreciation for remaining two years, if the grant had been credited to Deferred Grant A/c. **(7 Marks)**
4. A Ltd. and B Ltd. give the following information as at 31.03.2024:

	A Ltd. (₹ in lakhs)	B Ltd. (₹ in lakhs)
Equity Share Capital (Fully paid shares of ₹ 10 each)	22,500	9,000
Securities Premium	4,500	-
Foreign Project Reserve	-	465
General Reserve	14,550	4,800
Profit and Loss Account	4,305	1,162.5
12% Debentures	-	1,500
Trade payables	1,800	694.5
Provisions	2,745	1,053
Land and Buildings	9,000	-

Plant and Machinery	21,000	7,500
Furniture, Fixtures and Fittings	3,456	2,550
Inventory	11,793	6,061.5
Trade receivables	3,180	1,650
Cash at Bank	1,671	913.5

All the bills receivable held by B Ltd. were A Ltd.'s acceptances.

On 1<sup>st</sup> April 2024, A Ltd. took over B Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business, A Ltd. would allot three fully paid equity shares of ₹ 10 each at par for every two shares held in B Ltd. It was also agreed that 12% debentures in B Ltd. would be converted into 13% debentures in A Ltd. of the same amount and denomination.

Details of trade receivables and trade payables are as under:

Particulars	A Ltd.	B Ltd.
	(₹ in lakhs)	
Trade Payables:		
Creditors	1,620	694.5
Bills Payable	<u>180</u>	<u>-</u>
	<u>1,800</u>	<u>694.5</u>
Trade receivables:		
Debtors	3,180	1,530
Bills Receivables	<u>-</u>	<u>120</u>
	<u>3,180</u>	<u>1,650</u>

Expenses of amalgamation amounting to ₹ 1.5 lakhs were borne by A Ltd.

You are required to:

Prepare A Ltd.'s Balance Sheet immediately after the merger. **(14 Marks)**

5. Star Ltd. and its subsidiary Moon Ltd. Give the following information as on 31<sup>st</sup> March, 2024:

	Star Ltd. (₹)	Moon Ltd. (₹)
<b>Share Capital</b>		
Equity Share Capital (fully paid up shares of ₹ 10 each)	12,00,000	2,00,000
<b>Reserves and Surplus</b>		
General Reserve	4,35,000	1,55,000
Cr. Balance in Profit and Loss Account	2,80,000	65,000



<b>Current Liabilities</b>		
Trade Payables	3,22,000	1,23,000
<b>Non-Current Assets</b>		
<u>Property, Plant and Equipment</u>		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
<b>Non-Current Investments</b>		
Shares in Moon Ltd. - 16,000 shares @ ₹ 20 each	3,20,000	-
<b>Current Assets</b>		
Inventories	2,68,000	62,000
Trade Receivables	4,70,000	2,35,000
Cash and Bank	1,64,000	32,000

Star Ltd. acquired the 80% shares of Moon Ltd. on 1<sup>st</sup> April, 2023. On the date of acquisition, General Reserve and Profit Loss Account of Moon Ltd. stood at ₹ 50,000 and ₹ 30,000 respectively.

Machinery (book value ₹ 2,00,000) and Furniture (book value ₹ 40,000) of Moon Ltd. were revalued at ₹ 3,00,000 and ₹ 30,000 respectively on 1<sup>st</sup> April, 2023 for the purpose of fixing the price of its shares (rates of depreciation on W.D.V basis: Machinery 10% and Furniture 15%). Trade Payables of Star Ltd. include ₹ 35,000 due to Moon Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above cost. The inventories of Star Ltd. includes goods costing ₹ 55,000 (cost to Star Ltd.) purchased from Moon Ltd.

You are required to prepare the Consolidated Balance Sheet of Star Ltd. with its subsidiary as at 31<sup>st</sup> March, 2024. **(14 Marks)**

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." Discuss and explain the benefits of Accounting Standards **(4 Marks)**

**Or**

XYZ Ltd. proposes to declare 10% dividend out of General Reserves due to inadequacy of profits in the year ending 31-03-2024.

From the following particulars ascertain the amount that can be utilized from general reserves, according to the Companies Rules, 2014: **(₹)**

8,00,000 Equity Shares of ₹ 10 each fully paid up	80,00,000
General Reserves	25,00,000
Revaluation Reserves	6,50,000
Net profit for the year	1,42,500

Average rate of dividend during the last five years has been 12%.

**(4 Marks)**

- (b) Following is the cash flow abstract of Alpha Ltd. for the year ended 31<sup>st</sup> March, 2024:

**Cash Flow (Abstract)**

<b>Inflows</b>	<b>₹</b>	<b>Outflows</b>	<b>₹</b>
Opening cash and bank balance	80,000	Payment for Account Payables	90,000
Share capital – shares issued	5,00,000	Salaries and wages	25,000
Collection from Trade Receivables	3,50,000	Payment of overheads	15,000
Sale of Machinery	70,000	Machinery acquired	4,00,000
		Debentures redeemed	50,000
		Bank loan repaid	2,50,000
		Tax paid	1,55,000
		Closing cash and bank balance	<u>15,000</u>
	<u>10,00,000</u>		<u>10,00,000</u>

Prepare Cash Flow Statement for the year ended 31<sup>st</sup> March, 2024 in accordance with AS 3.

**(5 Marks)**

- (c) M/s Shrikant operates a number of retail outlets to which goods are invoiced at wholesale price which is cost plus 25%. These outlets sell the goods at the retail price which is wholesale price plus 20%.

Following is the information regarding one of the outlets for the year ended 31.3.2024:

Stock at the outlet 1.4.2023	₹ 45,000
Goods invoiced to the outlet during the year	₹ 4,86,000
Gross profit made by the outlet	₹ 90,000
Goods lost by fire	?
Expenses of the outlet for the year	₹ 30,000
Stock at the outlet 31.3.2024	₹ 54,000

You are required to prepare the following accounts in the books of M/s Shrikant for the year ended 31.3.2024: [a] Outlet Stock Account [b] Outlet Profit & Loss Account

**(5 Marks)**

Mock Test Paper - Series II: August, 2024

Date of Paper: 16<sup>th</sup> 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 31<sup>st</sup> December, 2023

**Scrip : 8% Convertible Debentures in C Ltd.**

**[Interest Payable on 31<sup>st</sup> March and 30<sup>th</sup> 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 [Interest]	-	14,033	-	1.10.23	By Bank A/c	80,000		84,000
					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
		<u>3,00,000</u>	<u>16,033</u>	<u>3,26,000</u>			<u>3,00,000</u>	<u>16,033</u>	<u>3,26,000</u>

**SCRIP: Equity Shares in C LTD.**

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

**Working Notes:**

- (i) Cost of Debenture purchased on 1<sup>st</sup> July = ₹ 1,12,000 – ₹ 2,000 (Interest) = ₹ 1,10,000
- (ii) Cost of Debentures sold on 1<sup>st</sup> 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 = (₹ 2,16,000 + ₹ 1,10,000) x  
Debentures 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 x 5,000)

**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 31<sup>st</sup> March, 2024**

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

	(b) Non-current Investments		9,00,000
<b>(2)</b>	<b>Current Assets:</b>		
	(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	<u>17,08,000</u>
	<b>Total</b>		<b>3,74,68,000</b>

**Notes to accounts**

			(₹)
<b>1.</b>	<b>Share Capital</b>		
	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	<u>40,00,000</u>	<u>1,60,00,000</u>
<b>2.</b>	<b>Reserves and Surplus</b>		
	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	<u>(2,32,000)</u>	
		<u>29,68,000</u>	<u>110,68,000</u>
<b>3.</b>	<b>Other current liabilities</b>		
	Loan from other parties		<u>8,00,000</u>
<b>4.</b>	<b>Property, plant and equipment</b>		
	Plant and Machinery (WDV)		<u>214,00,000</u>
<b>5.</b>	<b>Inventories</b>		
	Finished Goods	30,00,000	
	Stores	16,00,000	
	Loose Tools	<u>2,00,000</u>	<u>48,00,000</u>
<b>6.</b>	<b>Trade Receivables</b>		
	Trade receivables	49,00,000	
	Less: Provision for Doubtful Debts	<u>(80,000)</u>	<u>48,20,000</u>
<b>7.</b>	<b>Short term loans &amp; Advances</b>		
	Staff Advances*	2,20,000	
	Other Advances*	<u>14,88,000</u>	<u>17,08,000</u>

## 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

$$= (\text{₹ } 80 \text{ lakhs} - \text{₹ } 8 \text{ lakhs})/4 \text{ years} = \text{₹ } 18 \text{ lakhs per year}$$

Book value of fixed assets after two years

$$= \text{₹ } 80 \text{ lakhs} - (\text{₹ } 18 \text{ lakhs} \times 2 \text{ years}) = \text{₹ } 44 \text{ lakhs}$$

## 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)	<u>36,000</u>
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)	<u>5,466</u>
Total	<u>24,981</u>
3. Long-term borrowings	
Secured	
13% Debentures	<u>1,500</u>
4. PPE	
Land & Buildings	9,000
Plant & Machinery	28,500
Furniture & Fittings	<u>6,006</u>
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.

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

**5. Consolidated Balance Sheet of Star Ltd. and its Subsidiary Moon Ltd.  
as at 31<sup>st</sup> 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	<u>25,25,500</u>
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	<u>25,25,500</u>

### Notes to Accounts

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

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

**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**

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

**2. Calculation of short/excess depreciation**

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

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

	<i>Pre-acquisition profit upto 1.4.2023</i>	<i>Post-acquisition profits (1.4.2023–31.3.2024)</i>	
	<i>(Capital profits)</i>	<i>General Reserve</i>	<i>Profit and loss account</i>
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			<u>1,500</u>
Total	<u>1,70,000</u>	<u>1,05,000</u>	<u>26,500</u>

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	<u>5,300</u>
	1,00,300
Less: Unrealised Profit on Inventory (55,000 x 10/110) x 20%	<u>(1,000)</u>
	<u>99,300</u>

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)	<u>1,36,000</u>	<u>(2,96,000)</u>
Cost of control or Goodwill		<u>24,000</u>

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)
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Profits available

Current year profit	₹ 1,42,500
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Amount which can be utilized from reserves (₹ 8,00,000 – 1,42,500)	₹ 6,57,500
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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**

	₹	₹
<b>Cash flow from operating activities</b>		
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)	<u>(15,000)</u>	
Cash generated from operations	2,20,000	
Income tax paid	<u>(1,55,000)</u>	
Net cash generated from operating activities		65,000
<b>Cash flow from investing activities</b>		
Payment for purchase of machinery	(4,00,000)	
Proceeds from sale of machinery	<u>70,000</u>	
Net cash used in investment activities		(3,30,000)
<b>Cash flow from financing activities</b>		
Proceeds from issue of share capital	5,00,000	
Bank loan repaid	(2,50,000)	
Debentures redeemed	<u>(50,000)</u>	
Net cash used in financing activities		<u>2,00,000</u>
Net decrease in cash and cash equivalents		(65,000)
Cash and cash equivalents at the beginning of the year		<u>80,000</u>
Cash and cash equivalents at the end of the year		<u>15,000</u>

(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**

<b>Particulars</b>	<b>₹</b>	<b>Particulars</b>	<b>₹</b>
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

**Mock Test Paper - Series I: November, 2024**

**Date of Paper: 18<sup>th</sup> November, 2024**

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

**INTERMEDIATE COURSE: GROUP - I**

**PAPER – 1 : ADVANCED ACCOUNTING**

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

**PART I – Case Scenario based MCQs (30 Marks)**

***Part I is compulsory.***

**Case Scenario**

1. Fly Ltd. made a sale of INR 7,00,000 to Wings International in May 2023 and recognised Trade Receivables which was initially recorded at the prevailing exchange rate on the date of sales, transaction recorded at US\$ 1= ₹ 79.4. The Company also took a loan from U.S Company for ₹ 10,00,000 in December 2023 which was initially recorded at the prevailing exchange rate on the date of transaction, transaction recorded at US\$ 1= ₹ 81.1.

On 31<sup>st</sup> March 2024, exchange rate was US\$ 1 = ₹ 83.3

- a. What will be the closing balance of Trade Receivables on 31<sup>st</sup> March 2024:
  - (i) ₹ 700,000
  - (ii) ₹ 7,14,978 approx
  - (iii) ₹ 7,34,383 approx
  - (iv) ₹ 7,50,000 approx
- b. How much is the reporting difference (gain or loss) in case of Trade Receivable:
  - (i) Gain of ₹ 34,383 approx
  - (ii) Loss of ₹ 34,383 approx
  - (iii) Gain of ₹ 19,395 approx
  - (iv) Loss of ₹ 19,395 approx
- c. What will be the closing balance of Loan as on 31<sup>st</sup> March 2024:
  - (i) ₹ 10,00,000
  - (ii) ₹ 10,27,127 approx
  - (iii) ₹ 9,79,002 approx
  - (iv) ₹ 10,79,002 approx



- d. How much is the reporting difference (gain or loss) in case of Loan:
- (i) Gain of ₹ 48,087 approx
  - (ii) Loss of ₹ 48,087 approx
  - (iii) Gain of ₹ 27,127 approx
  - (iv) Loss of ₹ 27,127 approx

**Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]**

2. X Ltd. purchased 3,000 shares of Amazing Ltd. in December 2023 @ ₹ 100 each and paid brokerage @ 1%. In May 2024, Amazing Ltd. issued bonus shares at one for every three shares held by shareholders.

X Ltd. sold 1000 shares in September 2024 at ₹ 110 each. After issue of bonus, shares were quoted at ₹ 95. In December 2024, the shares were quoted at ₹ 70.

- a. What would be the carrying cost of investments in Amazing Ltd. after sale of shares as per AS 13:
- (i) ₹ 3,03,000
  - (ii) ₹ 2,27,250
  - (iii) ₹ 3,00,000
  - (iv) ₹ 3,30,000
- d. What is the cost of bonus shares:
- (i) ₹ 1,00,000
  - (ii) ₹ 1,10,000
  - (iii) Nil
  - (iv) ₹ 1,01,000
- c. What is the profit on sale of Bonus Shares:
- (i) ₹ 100,000
  - (ii) ₹ 75,750
  - (iii) ₹ 34,250
  - (iv) ₹ 1,01,000
- d. What would be the carrying cost of investments in Amazing Ltd. in quarter ending in December 2024 as per AS 13:
- (i) ₹ 2,10,000
  - (ii) ₹ 2,27,250
  - (iii) ₹ 2,20,000
  - (iv) ₹ 3,00,000

**Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]**

3. Sun Limited has acquired 40% share in Moon Ltd. for ₹ 500,000 on 01.07.2023. Moon Ltd. is holding 40% stake in Star Limited. Now, sun limited can exercise significant influence on Moon Limited. Moon limited declared dividend of ₹ 80,000 for the Financial Year 2022-23 on 15.09.2023. For the year 2023-24, Moon Ltd. earned profit of ₹ 4,00,000 and declared dividend for ₹ 90,000 on 15.09.2024.
- a. With respect to relationship between Companies, it can be said that:
- (i) Star Ltd. is associate of Sun Ltd.
  - (ii) Moon Ltd. and Star Ltd. both are associates of Sun Ltd.
  - (iii) Moon Ltd. is an associate of Sun Ltd.
  - (iv) Sun Ltd. is Parent of both Moon Ltd. and Star Ltd.
- b. What will be the carrying amount of investment in Separate Financial Statements of Sun Limited as on 31.03.2024?
- (i) ₹ 5,00,000
  - (ii) ₹ 5,80,000
  - (iii) ₹ 4,68,000
  - (iv) ₹ 5,32,000
- c. What will be the carrying amount of investment in Consolidated Financial Statements of Sun Limited as on 31.03.2024?
- (i) ₹ 9,00,000
  - (ii) ₹ 5,88,000
  - (iii) ₹ 4,52,000
  - (iv) ₹ 6,20,000
- d. As per AS 23, the existence of significant influence by an investor is usually evidenced in one or more of the following ways:
- (a) participation in policy making processes
  - (b) interchange of managerial personnel
  - (c) right to receive dividend
  - (d) provision of essential technical information
- (i) All the statements are correct
  - (ii) Statements (a), (b) and (c) are correct
  - (iii) Statements (b), (c) and (d) are correct
  - (iv) Statements (a), (b) and (d) are correct

**Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]**

4. Cost of current investment acquired was ₹ 1000 but the fair value was ₹ 800. The Investment was recorded at ₹ 800. Now the fair value of Investment is Rs 1200. At what value should it be recorded and how much gain will be credited to profit and loss account.
- (i) No change is required and it will continue at ₹ 800
  - (ii) Current investment will be recorded at ₹ 1000 and gain of ₹ 200 will be credited to profit and loss account.
  - (iii) Current investment will be recorded at ₹ 1200 and gain of ₹ 400 will be credited to profit and loss account.
  - (iv) Current investment will be recorded at ₹ 1200 but no gain will be credited to profit and loss account. **(2 Marks)**
5. As per AS 20 an enterprise should present/disclose the following:
- (a) the amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to the net profit or loss for the period.
  - (b) the weighted average number of equity shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other.
  - (c) basic and diluted earnings per share, even if the amounts disclosed are negative (a loss per share).
  - (d) the nominal value of shares along with the earnings per share figures.
    - (i) All the statements are correct
    - (ii) Statements (a), (b) and (c) are correct
    - (iii) Statements (b), (c) and (d) are correct
    - (iv) Statements (a), (b) and (c) are correct **(2 Marks)**
6. Accounting Standard 10, Property, Plant and Equipment is applicable to:
- (i) Biological Assets (other than Bearer Plants) related to agricultural activity
  - (ii) Wasting Assets including Mineral rights, Expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non regenerative resources
  - (iii) Inventories
  - (iv) Bearer Plant (except produce on Bearer Plants) **(2 Marks)**

## PART II – Descriptive Questions (70 Marks)

*Question No.1 is compulsory*

*Answer any **four** questions from the remaining **five** questions.*

*Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates. Working Notes should form part of the answer.*

1. (a) A Ltd. provides after sales warranty for two years to its customers. Based on past experience, the company has the following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period.

Less than 1 year: 2% provision

More than 1 year: 3% provision

The company has raised invoices as under :

<b>Invoice Date</b>	<b>Amount (₹)</b>
11 <sup>th</sup> Feb, 2022	60,000
25 <sup>th</sup> Dec, 2022	40,000
04 <sup>th</sup> Oct, 2023	1,35,000

Calculate the provision to be made for warranty under AS-29 as at 31<sup>st</sup> March, 2023 and 31<sup>st</sup> March, 2024. Also compute amount to be debited to P & L account for the year ended 31<sup>st</sup> March, 2024.

- (b) As per provisions of AS-26, how would you deal to the following situations:
- (1) ₹ 23,00,000 paid by a manufacturing company to the legal advisor for defending the patent of a product is treated as a capital expenditure.
  - (2) During the year 2023-24, a company spent ₹ 7,00,000 for publicity and research expenses on one of its new consumer products which was marketed in the same accounting year but proved to be a failure.
  - (3) A company spent ₹ 25,00,000 in the past three years to develop a product, these expenses were charged to profit and loss account since they did not meet AS-26 criteria for capitalization. In the current year approval of the concerned authority has been received. The company wishes to capitalize ₹ 25,00,000 by disclosing it as a prior period item.
  - (4) A company with a turnover of ₹ 200 crores and an annual advertising budget of ₹ 50,00,000 had taken up for the marketing of a new product by a company. It was estimated that the company would have a turnover of ₹ 20 crore from the new product. The company had debited to its Profit & Loss Account the total

expenditure of ₹ 50,00,000 incurred on extensive special initial advertisement campaign for the new product.

(c) Indicate in each case whether revenue can be recognized and when it will be recognized as per AS-9.

- (1) Trade discount and volume rebate received.
- (2) Where goods are sold to distributors or others for resale.
- (3) Where seller concurrently agrees to repurchase the same goods at a later date.
- (4) Insurance agency commission for rendering services.
- (5) On 11-03-2024 cloths worth ₹ 50,000 were sold to X mart, but due to refurbishing of their showroom being underway, on their request, clothes were delivered on 12-04-2024. **(4 + 5 + 5 = 14 Marks)**

2. The following is the Trial Balance of MN Limited as on 31.3.2024:

(Figures in ₹ '000)

	Debit		Credit
Land at cost	220	Equity Capital (Shares of ₹ 10 each)	300
Plant & Machinery at cost	770	10% Debentures	200
Trade Receivables	96	General Reserve	130
Inventories (31.3.24)	86	Profit & Loss A/c	72
Bank	20	Securities Premium	40
Adjusted Purchases	320	Sales	700
Factory Expenses	60	Trade Payables	52
Administration Expenses	30	Provision for Depreciation	172
Selling Expenses	30	Suspense Account	4
Debenture Interest	20		
Interim Dividend Paid	18		
	1670		1670

Additional Information:

- (i) The authorised share capital of the company is 40,000 shares of ₹ 10 each.
- (ii) The company on the advice of independent valuer wish to revalue the land at ₹ 3,60,000.
- (iii) Declared final dividend @ 10% on 2nd April, 2024.
- (iv) Suspense account of ₹ 4,000 represents cash received for the sale of some of the machinery on 1.4.2024. The cost of the machinery was ₹ 10,000 and the accumulated depreciation thereon being ₹ 8,000.

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

You are required to prepare MN Limited's Balance Sheet as on 31.3.2024 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.2024 as per Schedule III. Ignore previous years' figures & taxation.

**(14 marks)**

3. (a) Following information is supplied by K Ltd.:

Number of shares outstanding prior to right issue - 2,50,000 shares.

Right issue - two new share for each 5 outstanding shares (i.e. 1,00,000 new shares)

Right issue price - ₹ 98

Last date of exercising rights - 30-06-2023.

Fair value of one equity share immediately prior to exercise of right on 30-06-2023 is ₹ 102.

Net Profit to equity shareholders:

2022-2023 - ₹ 50,00,000

2023-2024 - ₹ 75,00,000

You are required to calculate the basic earnings per share as per AS-20 Earnings per Share. **(4 Marks)**

(b) Following is the summarized Balance Sheet of Fortunate Ltd. as on 31<sup>st</sup> March, 2024.

Particulars	Amount (₹)
<b>Liabilities</b>	
Authorized and Issued Share Capital	
(a) 15,000 8% Preference shares of ₹ 50 each	7,50,000
(b) 18,750 Equity shares of ₹ 50 each	9,37,500
Profit and Loss Account	(5,63,750)
Loan	7,16,250
Trade Payables	2,58,750
Other Liabilities	<u>43,750</u>
Total	<u>21,42,500</u>
<b>Assets</b>	
Building at cost less depreciation	5,00,000
Plant at cost less depreciation	3,35,000
Trademarks and goodwill at cost	3,97,500
Inventory	5,00,000
Trade Receivables	<u>4,10,000</u>

Total	21,42,500
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(Note: Preference shares dividend is in arrear for last five years).

The Company is running with the shortage of working capital and not earnings profits. A scheme of reconstruction has been approved by both the classes of shareholders. The summarized scheme of reconstruction is as follows:

- (i) The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 5 by cancellation of ₹ 45.00 per share. They have also agreed to subscribe for three new equity shares of ₹ 5.00 each for each equity share held.
- (ii) The preference shareholders have agreed to forego the arrears of dividends and to accept for each ₹ 50 preference share, 4 new 6% preference shares of ₹ 10 each, plus 3 new equity shares of ₹ 5.00 each, all credited as fully paid.
- (iii) Lenders to the company for ₹ 1,87,500 have agreed to convert their loan into shares and for this purpose they will be allotted 15,000 new preference shares of ₹ 10 each and 7,500 new equity shares of ₹ 5.00 each.
- (iv) The directors have agreed to subscribe in cash for 25,000 new equity shares of ₹ 5.00 each in addition to any shares to be subscribed by them under (i) above.
- (v) Of the cash received by the issue of new shares, ₹ 2,50,000 is to be used to reduce the loan due by the company.
- (vi) The equity share capital cancelled is to be applied:
  - (a) To write off the debit balance in the Profit and Loss A/c, and
  - (b) To write off ₹ 43,750 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill. The nominal capital, as reduced, is to be increased to ₹ 8,12,500 for preference share capital and ₹ 9,37,500 for equity share capital.

You are required to pass journal entries to show the effect of above scheme and prepare the Balance Sheet of the Company after reconstruction. **(10 Marks)**

4. The financial details of X Ltd. and Y Ltd. as on 31<sup>st</sup> March, 2024 was as under:

	X Ltd. (₹)	Y Ltd. (₹)
Equity Shares of ₹ 10 each	30,00,000	9,00,000
9% Preference Shares of ₹ 100 each	3,00,000	-
10% Preference Shares of ₹ 100 each	-	3,00,000
General Reserve	2,10,000	2,10,000
Retirement Gratuity Fund (long term)	1,50,000	60,000

Trade Payables	3,90,000	2,40,000
Goodwill	1,50,000	75,000
Land & Buildings	9,00,000	3,00,000
Plant & Machinery	15,00,000	4,50,000
Inventories	7,50,000	5,25,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	1,50,000	60,000

X Ltd. absorbs Y Ltd. on the following terms:

- (i) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.
- (ii) Goodwill of Y Ltd. on absorption is to be computed based on two times of average profits of preceding three financial years (2022-23 : ₹ 90,000; 2021-22 : ₹ 78,000 and 2020-21: ₹ 72,000). The profits of 2020 -21 included credit of an insurance claim of ₹ 25,000 (fire occurred in 2019-20 and loss by fire ₹ 30,000 was booked in Profit and Loss Account of that year). In the year 2021 -22, there was an embezzlement of cash by an employee amounting to ₹ 10,000.
- (iii) Land & Buildings are valued at ₹ 5,00,000 and the Plant & Machinery at ₹ 4,00,000.
- (iv) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.
- (v) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to ₹ 15,000 and such asset was also taken over by X Ltd.
- (vi) The trade payables of Y Ltd. included ₹ 20,000 payable to X Ltd.
- (vii) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to

- (i) Prepare Realisation A/c in the books of Y Ltd.
- (ii) Prepare the Balance Sheet of X Ltd. after absorption as at 31<sup>st</sup> March,2024. **(14 Marks)**

5. Consider the following summarized Balance Sheets of subsidiary MNT Ltd.

Liabilities	2022-23	2023-24
	Amount in ₹	Amount in ₹
<b>Share Capital</b>		
Issued and subscribed 7500 Equity Shares of ₹ 100 each	7,50,000	7,50,000
<b>Reserve and Surplus</b>		
Revenue Reserve	2,14,000	5,05,000
Securities Premium	72,000	2,07,000
<b>Current Liabilities and Provisions</b>		



Trade Payables	2,90,000	2,46,000
Bank Overdraft	-	1,70,000
Provision for Taxation	<u>2,62,000</u>	<u>4,30,000</u>
	<u>15,88,000</u>	<u>23,08,000</u>
<b>Assets</b>		
Fixed Assets (Cost)	9,20,000	9,20,000
Less: Accumulated Depreciation	<u>(1,70,000)</u>	<u>(2,82,500)</u>
	<u>7,50,000</u>	<u>6,37,500</u>
<b>Investment at Cost</b>	-	5,30,000
<b>Current Assets</b>		
Inventory	4,12,300	6,90,000
Trade Receivable	2,95,000	3,43,000
Prepaid expenses	78,000	65,000
Cash at Bank	<u>52,700</u>	<u>42,500</u>
	15,88,000	23,08,000

Other Information:

- (1) MNT Ltd. is a subsidiary of LTC Ltd.
- (2) LTC Ltd. values inventory on FIFO basis, while MNT Ltd. used LIFO basis. To bring MNT Ltd.'s inventories values in line with those of LTC Ltd., its value of inventory is required to be reduced by ₹ 5,000 at the end of 2022-2023 and increased by ₹ 12,000 at the end of 2023-2024. (Inventory of 2022-23 has been sold out during the year 2023-24)
- (3) MNT Ltd. deducts 2% from Trade Receivables as a general provision against doubtful debts.
- (4) Prepaid expenses in MNT Ltd. include Sales Promotion expenditure carried forward of ₹ 25,000 in 2022-23 and ₹ 12,500 in 2023-24 being part of initial Sales Promotion expenditure of ₹ 37,500 in 2022-23, which is being written off over three years. Similar nature of Sales Promotion expenditure of LTC Ltd. has been fully written off in 2022-23.

Restate the balance sheet of MNT Ltd. as on 31<sup>st</sup> March, 2024 after considering the above information for the purpose of consolidation. Such restatement is necessary to make the accounting policies adopted by LTC Ltd. and MNT Ltd. uniform. **(14 Marks)**

6. (a) Briefly explain the elements of financial statements.

Or

In the financial statements of the financial year 2023-2024, Alpha Ltd. has mentioned in the notes to accounts that during financial year, 24,000 equity shares of ₹ 10 each were issued as fully paid bonus shares. However, the source from which these bonus shares were issued has not

been disclosed. Is such non-disclosure a violation of the Schedule III to the Companies Act? Comment. **(4 Marks)**

(b) A Ltd. sold JCB having WDV of ₹ 20 lakhs to B Ltd. for ₹ 24 lakhs and the same JCB was leased back by B Ltd. to A Ltd. The lease is operating lease. In context of Accounting Standard 19 "Leases" explain the accounting treatment of profit or loss in the books of A Ltd. if

(i) Sale price of ₹ 24 lakhs is equal to fair value.

(ii) Fair value is ₹ 20 lakhs and sale price is ₹ 24 lakhs.

(iii) Fair value is ₹ 22 lakhs and sale price is ₹ 25 lakhs.

(v) Fair value is ₹ 25 lakhs and sale price is ₹ 18 lakhs.

(v) Fair value is ₹ 18 lakhs and sale price is ₹ 19 lakhs. **(4 Marks)**

(c) Give Journal Entries in the books of Branch A to rectify or adjust the following:

(i) Head Office expenses ₹ 3,500 allocated to the Branch, but not recorded in the Branch Books.

(ii) Depreciation of branch assets, whose accounts are kept by the Head Office not provided earlier for ₹ 1,500.

(iii) Branch paid ₹ 2,000 as salary to a H.O. Inspector, but the amount paid has been debited by the Branch to Salaries account.

(iv) H.O. collected ₹ 10,000 directly from a customer on behalf of the Branch, but no intimation to this effect has been received by the Branch.

(v) A remittance of ₹ 15,000 sent by the Branch has not yet been received by the Head Office.

(vi) Branch A incurred advertisement expenses of ₹ 3,000 on behalf of Branch B.

**(6 Marks)**

**Mock Test Paper - Series II: November, 2024**

**Date of Paper: 18<sup>th</sup> November, 2024**

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

**INTERMEDIATE COURSE: GROUP – I  
PAPER – 1 : ADVANCED ACCOUNTING  
ANSWERS**

1. (a) (iii)  
(b) (i)  
(c) (ii)  
(d) (iii)
2. (a) (ii)  
(b) (iii)  
(c) (iii)  
(d) (i)
3. (a) (iii)  
(b) (iii)  
(c) (ii)  
(d) (iv)
4. (ii)
5. (i)
6. (iv)

**PART II – Descriptive Questions (70 Marks)**

1. (a) Provision to be made for warranty under AS 29 'Provisions, Contingent Liabilities and Contingent Assets'

As at 31<sup>st</sup> March, 2023 = ₹ 60,000 x .02 + ₹ 40,000 x .03

= ₹ 1,200 + ₹ 1,200 = ₹ 2,400

As at 31<sup>st</sup> March, 2024 = ₹ 40,000 x .02 + ₹ 1,35,000 x .03

= ₹ 800 + ₹ 4,050 = ₹ 4,850

**Amount debited to Profit and Loss Account for year ended 31<sup>st</sup> March, 2024**

	₹
Balance of provision required as on 31.03.2024	4,850
Less: Opening Balance as on 1.4.2023	<u>(2,400)</u>
Amount debited to profit and loss account	<u>2,450</u>

**Note:** No provision will be made on 31<sup>st</sup> March, 2024 in respect of sales amounting ₹ 60,000 made on 11<sup>th</sup> February, 2022 as the warranty period of 2 years has already expired.

- (b) As per AS 26 “Intangible Assets”, subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense when it is incurred unless (a) it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and (b) expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset.
- (i) In the given case, the legal expenses to defend the patent of a product amounting ₹ 23,00,000 should not be capitalized and be charged to Profit and Loss Statement.
  - (ii) The company is required to expense the entire amount of ₹ 7,00,000 in the Profit and Loss account for the year ended 31<sup>st</sup> March, 2024 because no benefit will arise in the future.
  - (iii) As per AS 26, expenditure on an intangible item that was initially recognized as an expense by a reporting enterprise in previous annual financial statements should not be recognized as part of the cost of an intangible asset at a later date. Thus, the company cannot capitalize the amount of ₹ 25,00,000 and it should be recognized as expense
  - (iv) Expenditure of ₹ 50,00,000 on advertising and promotional activities should always be charged to Profit and Loss Statement. Hence, the company has done the correct treatment by debiting the sum of 50 lakhs to Profit and Loss Account.
- (c) (1) Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.
- (2) When goods are sold to distributor or others, revenue from such sales can generally be recognized if significant risks of ownership have passed; however, in some situations the buyer may in substance be an agent and in such cases the sale should be treated as a consignment sale.
- (3) For transactions, where seller concurrently agrees to repurchase the same goods at a later date that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue.
- (4) Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.

- (5) On 11.03.2024, if X mart takes title and accepts billing for the goods then it is implied that the sale is complete and all risk and reward on ownership has been transferred to the buyers.

Revenue should be recognized for year ended 31<sup>st</sup> March, 2024 notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made and items were ready for delivery to the buyer at the time.

2.

**MN Limited**

**Balance Sheet as at 31<sup>st</sup> March, 2024**

Particulars		Note No.	(₹ in 000)
<b>Equity and Liabilities</b>			
<b>1.</b>	<b>Shareholders' funds</b>		
	A Share capital	1	300
	B Reserves and Surplus	2	530
<b>2.</b>	<b>Non-Current liabilities</b>		
	A Long term borrowings	3	200
<b>3.</b>	<b>Current liabilities</b>		
	A Trade Payables		<u>52</u>
	<b>Total</b>		<b><u>1082</u></b>
<b>Assets</b>			
<b>1.</b>	<b>Non-current assets</b>		
	A PPE (Property, Plant & Equipment)	4	880
<b>2.</b>	<b>Current assets</b>		
	A Inventories		86
	B Trade receivables		96
	C Cash and bank balances		<u>20</u>
	<b>Total</b>		<b><u>1082</u></b>

**MN Limited**

**Statement of Profit and Loss for the year ended 31st March, 2024**

	Particulars	Notes	(₹ in 000)
I.	Revenue from operations		700
II.	Other Income	5	<u>2</u>
III.	<b>Total Income</b>		<b><u>702</u></b>
IV.	Expenses:		
	Purchases		320
	Finance costs	6	20

	Depreciation (10% of 760*)		76
	Other expenses	7	<u>120</u>
	<b>Total Expenses</b>		<b><u>536</u></b>
V.	<b>Profit (Loss) for the period</b> (III – IV)		<b>166</b>

#### Notes to accounts

			(₹ in 000)
<b>1.</b>	<b>Share Capital</b>		
	Equity share capital		
	Authorised		
	40,000 shares of ₹ 10 each		<u>400</u>
	Issued & subscribed & called up		
	30,000 shares of ₹ 10 each		300
<b>2.</b>	<b>Reserves and Surplus</b>		
	Securities Premium Account		40
	Revaluation reserve (360 – 220)		140
	General reserve		130
	Profit & loss Balance		
	Opening balance	72	
	Profit for the period	<u>166</u>	238
	Less: Appropriations		
	Interim Dividend	(18)	<u>220</u>
			<u>530</u>
<b>3.</b>	<b>Long term borrowing</b>		
	10% Debentures		200
<b>4.</b>	<b>PPE</b>		
	<b>Land</b>		
	Opening balance	220	
	Add: Revaluation adjustment	<u>140</u>	
	Closing balance		360
	<b>Plant and Machinery</b>		
	Opening balance	770	
	Less: Disposed off	(10)	
		760	
	Less: Depreciation (172-8+76)	(240)	
	Closing balance		520

\* 770 (Plant and machinery at cost) – 10 (Cost of plant and machinery sold)

	<b>Total</b>		880
<b>5. Other Income</b>			
Profit on sale of machinery:			
Sale value of machinery		4	
Less: Book value of machinery (10-8)		(2)	2
<b>6. Finance costs</b>			
Debenture interest			20
<b>7. Other expenses:</b>			
Factory expenses		60	
Selling expenses		30	
Administrative expenses		<u>30</u>	120

**Note:** The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 2024. Such dividends will be disclosed in notes only.

3. (a) 
$$\frac{\text{Fair value of shares immediately prior to exercise of rights} + \text{Total amount received from exercise}}{\text{Number of shares outstanding prior to exercise} + \text{Number of shares issued in the exercise}}$$

$$\frac{102 \times 2,50,000 \text{ Shares} + ₹ 98 \times 1,00,000 \text{ shares}}{3,50,000 \text{ shares}}$$

Theoretical ex-rights fair value per share = ₹ 100.86

Computation of adjustment factor:

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex - rights value per share}} = 102/100.86 = 1.01$$

**Computation of earnings per share:**

EPS for the year 2022-23 as originally reported: ₹ 50,00,000/2,50,000 shares = ₹ 20

EPS for the year 2022-23 restated for rights issue: = ₹ 50,00,000/(2,50,000 shares x 1.01)

$$= ₹ 19.80$$

EPS for the year 2023-24 including effects of rights issue:

$$\text{EPS} = 75,00,000/3,25,625^* = ₹ 23.03$$

$$* [(2,50,000 \times 1.01 \times 3/12) + (3,50,000 \times 9/12)] = 63,125 + 2,62,500 = 3,25,625 \text{ shares}$$

**Note:** Financial year (ended 31st March) is considered as accounting year while giving the above answer.

(b)

In the books of Fortunate Ltd.

Journal Entries

	Particulars		Debit (₹)	Credit (₹)
1.	Equity share capital A/c (₹ 50) Dr. To Equity share capital A/c (₹ 5) To Capital reduction A/c* (Being equity capital reduced to nominal value of ₹ 5 each)		9,37,500	93,750 8,43,750
2.	Bank A/c Dr. To Equity share capital (Being 3 right shares against each share was issued and subscribed)		2,81,250	2,81,250
3.	8% Preference share capital A/c (₹ 50) Dr. Capital reduction A/c Dr. To 6% Preference share capital (₹ 10) To equity share capital (Being 8% preference shares of ₹ 50 each converted to 6% preference shares of ₹ 10 each and also given to them 3 equity shares for every share held)		7,50,000 75,000	6,00,000 2,25,000
4.	Loan A/c Dr. To 6% Preference share capital A/c (15,000 x ₹ 10) To Equity share capital A/c (7,500 x ₹ 5) (Being loan to the extent of ₹ 1,50,000 converted into share capital)		1,87,500	1,50,000 37,500
5.	Bank A/c (25,000 x ₹ 5) Dr. To Equity share application A/c (Being shares subscribed by the directors)		1,25,000	1,25,000
6.	Equity share application A/c Dr. To Equity share capital A/c (Being application money transferred to capital A/c)		1,25,000	1,25,000



7.	Loan A/c To Bank A/c (Being loan repaid)	Dr.	2,50,000	2,50,000
8.	Capital reduction A/c To Profit and loss A/c To Plant A/c To Trademarks and Goodwill A/c (Bal. fig.) (Being losses and assets written off to the extent required)	Dr.	7,68,750	5,63,750 43,750 1,61,250

**Balance sheet of Fortunate Ltd. (and reduced)  
as on 31.3.2024**

		Particulars	Notes	₹
1		Equity and Liabilities		
		Shareholders' funds		
	a	Share capital	1	15,12,500
2		Non-current liabilities		
	a	Long-term borrowings (7,16,250 – 1,87,500 – 2,50,000)		2,78,750
3		Current liabilities		
	a	Trade Payables		2,58,750
	b	Other current liabilities		<u>43,750</u>
		Total		<u>20,93,750</u>
		Assets		
1		Non-current assets		
	a	Property, Plant and Equipment	2	7,91,250
	b	Intangible assets	3	2,36,250
2		Current assets		
	a	Inventories		5,00,000
	b	Trade receivables		4,10,000
	c	Cash and cash equivalents	4	<u>1,56,250</u>
		Total		<u>20,93,750</u>

**Notes to accounts:**

			₹
1	Share Capital		
	Authorized capital:		
	81,250 Preference shares of ₹ 10 each	8,12,500	

	1,87,500 Equity shares of ₹ 5 each Issued, subscribed and paid up:	<u>9,37,500</u>	<u>17,50,000</u>
	1,52,500 equity shares of ₹ 5 each (out of the above 52,500 shares issued for consideration other than cash)	7,62,500	
	75,000, 6% Preference shares of ₹ 10 each	<u>7,50,000</u>	15,12,500
2	Property, Plant and Equipment		
	Building at cost less depreciation	5,00,000	
	Plant at cost less depreciation	<u>2,91,250</u>	7,91,250
3.	Intangible assets		
	Trademarks and goodwill		2,36,250
4	Cash and cash equivalents		
	Bank (2,81,250+1,25,000-2,50,000)		1,56,250

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**In the Books of Y Ltd. Realisation Account**

		₹		₹
To Sundry Assets:			By Retirement Gratuity Fund	60,000
Goodwill	75,000		By Trade payables	2,40,000
Land & Building	3,00,000		By X Ltd. (Purchase Consideration)	15,90,000
Plant & Machinery	4,50,000			
Inventory	5,25,000			
Trade receivables	3,00,000			
Bank	<u>60,000</u>	17,10,000		
To Preference Shareholders (Premium on Redemption)		30,000		
To Equity Shareholders (Profit on Realisation)		<u>1,50,000</u>		
		<u>18,90,000</u>		<u>18,90,000</u>

**Balance Sheet of X Ltd. (after absorption)  
as at 31st March, 2024**

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	48,30,000
B	Reserves and Surplus	2	2,70,000

2	Non-current liabilities		
A	Long-term provisions	3	2,10,000
3	Current liabilities		
A	Trade Payables	4	6,10,000
B	Short term provision	5	7,500
	Total		59,27,500
	Assets		
1	Non-current assets		
A	Fixed assets		
	Tangible assets	6	33,00,000
	Intangible assets	7	3,00,000
2	Current assets		
A	Inventories	8	12,22,500
B	Trade receivables	9	8,80,000
C	Other current Assets	10	15,000
D	Cash and cash equivalents	11	<u>2,10,000</u>
	Total		59,27,500

### Notes to accounts

		₹
1	Share Capital	
	Equity share capital	
	4,20,000 Equity Shares of ₹ 10 each fully paid (Out of above 1,20,000 Equity Shares were issued in consideration other than for cash)	42,00,000
	Preference share capital	
	6,300 9% Preference Shares of ₹ 100 each (Out of above 3,300 Preference Shares were issued in consideration other than for cash)	6,30,000
	Total	48,30,000
2	Reserves and Surplus	
	Securities Premium	60,000
	General Reserve	2,10,000
	Total	2,70,000
3	Long-term provisions	
	Retirement Gratuity fund	2,10,000
4	Trade payables (3,90,000 + 2,40,000 - 20,000*)	
	* <i>Mutual Owings eliminated.</i>	6,10,000

5	Short term Provisions	
	Provision for Doubtful Debts	7,500
6	Tangible assets	
	Land & Buildings	14,00,000
	Plant & Machinery	19,00,000
	Total	33,00,000
7	Intangible assets	
	Goodwill (1,50,000 +1,50,000)	3,00,000
8	Inventories (7,50,000 + 4,72,500)	12,22,500
9	Trade receivables (6,00,000 + 3,00,000 - 20,000)	8,80,000
10	Other current Assets	15,000
11	Cash and cash equivalents (1,50,000 +60,000)	2,10,000

### Working Notes:

1.	Computation of goodwill	₹
	Profit of 2022-23	90,000
	Profit of 2021-22 adjusted ₹ 78,000 + 10,000)	88,000
	Profit of 2020-21 adjusted (₹ 72,000 – 25,000)	<u>47,000</u>
		<u>2,25,000</u>
	Average profit	75,000

Goodwill to be valued at 2 times of average profits = ₹ 75,000 x 2  
= ₹ 1,50,000

2.

Purchase Consideration:		₹
	Goodwill	1,50,000
	Land & Building	5,00,000
	Plant & Machinery	4,00,000
	Inventory	4,72,500
	Trade receivables	3,00,000
	Unrecorded assets	15,000
	Cash at Bank	<u>60,000</u>
		18,97,500
	<b>Less: Liabilities:</b>	
	Retirement Gratuity	60,000
	Trade payables	2,40,000
	Provision for doubtful debts	<u>7,500</u>
		<u>(3,07,500)</u>
	Net Assets/ Purchase Consideration	15,90,000
	To be satisfied as under:	

10% Preference Shareholders of Y Ltd.	3,00,000
Add: 10% Premium	<u>30,000</u>
9% Preference Shares of X Ltd.	3,30,000
Equity Shareholders of Y Ltd. to be satisfied by issue of 1,20,000 equity Shares of X Ltd. at 5% Premium	<u>12,60,000</u>
Total	<u>15,90,000</u>

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**Restated Balance Sheet of MNT Ltd.**  
**as at 31<sup>st</sup> December, 2024**

Particulars	Note No.	(₹)
<b>I. Equity and Liabilities</b>		
(1) Shareholder's Funds		
(a) Share Capital		7,50,000
(b) Reserves and Surplus	1	7,18,500
(2) Current Liabilities		
(a) Short term borrowings	2	1,70,000
(b) Trade Payables		2,46,000
(c) Short-term provision	3	4,30,000
Total		<u>23,14,500</u>
<b>II. Assets</b>		
(1) Non-current assets		
(a) Property, Plant & Equipment	4	6,37,500
(b) Non-current Investment		5,30,000
(2) Current assets		
(a) Inventories (6,90,000 +12,000)	5	7,02,000
(b) Trade Receivables $\left(\frac{3,43,000}{98} \times 100\right)$		3,50,000
(c) Cash & Cash Equivalents		42,500
(d) Other current assets	6	52,500
Total		<u>23,14,500</u>

**Notes to Accounts**

			₹
1.	Reserves and Surplus		
	Revenue Reserve (refer W.N.)	5,11,500	
	Securities Premium	<u>2,07,000</u>	7,18,500
2.	<b>Short term borrowings</b>		

	Bank overdraft		1,70,000
3.	Short-term provision		
	Provision for taxation		4,30,000
4.	Property, Plant and Equipment		
	Cost	9,20,000	
	Less: Depreciation to date	<u>(2,82,500)</u>	6,37,500
5.	<b>Inventories</b>	6,90,000	
	Increase in value as per FIFO	<u>12,000</u>	7,02,000
6.	<b>Other current assets</b>		
	Prepaid expenses (After adjusting sales promotion expenses to be written off each year) (65,000 -12,500)		52,500

**Working Note:**

**Adjusted revenue reserves of MNT Ltd.:**

	₹	₹
Revenue reserves as given		5,05,000
Add: Provision for doubtful debts [3,43,000 X 2/98)	7,000	
Add: Increase in value of inventory	<u>12,000</u>	<u>19,000</u>
		5,24,000
Less: Sales Promotion expenditure to be written off		<u>(12,500)</u>
Adjusted revenue reserve		<u>5,11,500</u>

**6. (a) Elements of Financial Statements**

Asset	Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise
Liability	Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.
Equity	Residual interest in the assets of an enterprise after deducting all its liabilities
Income/gain	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants
Expense/loss	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrance of liabilities that result in decrease in

	equity other than those relating to distributions to equity participants
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**Or**

Schedule III has come into force for the Balance Sheet and Profit and Loss Account prepared for the financial year commencing on or after 1<sup>st</sup> April, 2023. As per Part I of the Schedule III, a company should, inter alia, disclose in notes to accounts for the period of 5 years immediately preceding the balance sheet date (31<sup>st</sup> March, 2024 in the instant case) the aggregate number and class of shares allotted as fully paid-up bonus shares. Schedule III does not require a company to disclose the source from which bonus shares have been issued. Therefore, non-disclosure of source from which bonus shares have been issued does not violate the Schedule III to the Companies Act.

**(b) Following will be the treatment in the given cases:**

- (i) When sale price of ₹ 24 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of ₹ 4 lakhs (i.e. 24 – 20) in its books.
- (ii) When fair value is ₹ 20 lakhs & sale price is ₹ 24 lakhs then profit of ₹ 4 lakhs is to be deferred and amortised over the lease period.
- (iii) When fair value is ₹ 22 lakhs & sale price is ₹ 25 lakhs, profit of ₹ 2 lakhs (22 - 20) to be immediately recognised in its books and balance profit of ₹ 3 lakhs (25-22) is to be amortised/deferred over lease period.
- (iv) When fair value of leased machinery is ₹ 25 lakhs & sale price is ₹ 18 lakhs, then loss of ₹ 2 lakhs (20 – 18) to be immediately recognised by A Ltd. in its books provided loss is not compensated by future lease payment.
- (v) When fair value is ₹ 18 lakhs & sale price is ₹ 19 lakhs, then the loss of ₹ 2 lakhs (20-18) to be immediately recognised by A Ltd. in its books and profit of ₹ 1 lakhs (19-18) should be amortised/deferred over lease period.

**(c) Books of Branch A**

**Journal Entries**

	Particulars		Dr. Amount ₹	Cr. Amount ₹
(i)	Expenses account <span style="float: right;">Dr.</span> To Head office account (Being the allocated expenditure by the head office recorded in branch books)		3,500	3,500
(ii)	Depreciation account <span style="float: right;">Dr.</span> To Head office account		1,500	1,500

| (Being the depreciation provided) | | |



(iii)	Head office account To Salaries account (Being the rectification of salary paid on behalf of H.O.)	Dr.	2,000	2,000
(iv)	Head office account To Debtors account (Being the adjustment of collection from branch debtors)	Dr.	10,000	10,000
(v)	No entry in branch books			
(vi)	Head Office account To Cash account (Being the expenditure on account of Branch B, recorded in books)	Dr.	3,000	3,000

**Note:** Entry (vi) Inter branch transactions are routed through Head Office.