MODEL TEST PAPER 1

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, 2021.

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 using 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 using 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 1st 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 1st 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 1st 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 31st December, 2022 and production could begin on 1st 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 31st 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 31st 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 1st 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 1st March, 2020. Market value as on 31st 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:

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

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

(iii) 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 31st March, 2023:

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

	C	Cash and cash equivalents		10,000
		Total		41,37,000

Notes to accounts

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

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 31st March, 2023 was as under:

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

Notes to accounts

			Hari Ltd.	Vayu Ltd.
1	**Share Capital**			
	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		--	1,00,000
			11,00,000	4,00,000

2	**Reserves and Surplus**			
	General reserve		70,000	70,000
			70,000	70,000
3	**Long term Provisions**			
	Retirement gratuity fund		50,000	20,000
			50,000	20,000
4	**Property, plant and Equipment**			
	Land and Building		3,00,000	1,00,000
	Plant and machinery		5,00,000	1,50,000
			8,00,000	2,50,000
5	**Intangible assets**			
	Goodwill		50,000	25,000
			50,000	25,000

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

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.

(b) Goodwill of Vayu Ltd. is valued at ₹ 50,000, Buildings are valued at ₹ 1,50,000 and the Machinery at ₹ 1,60,000.

(c) Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.

(d) 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 31st 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 31st 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 31st March, 2023

Particulars	Note No.	Virat Ltd. (₹)	Anushka Ltd. (₹)
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital	1	6,00,000	4,00,000
(b) Reserves and Surplus	2	1,00,000	1,00,000
(2) Non-current Liabilities			
Long Term Borrowings		2,00,000	1,00,000

(3) Current Liabilities			
(a) Trade Payables		1,00,000	1,00,000
Total		10,00,000	7,00,000
II. Assets			
(1) Non-current assets			
(a) Property, Plant and Equipment		4,00,000	3,00,000
(b) Non-current investments	3	3,20,000	-
(2) Current Assets		1,60,000	2,00,000
(a) Inventories		80,000	1,40,000
(b) Trade Receivables		40,000	60,000
(c) Cash & Cash Equivalents			
Total		10,00,000	7,00,000

Notes to Accounts

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

(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
	5,96,000		5,96,000

(4 Marks)

(c) Following is the information of the Jammu branch of Best New Delhi for the year ending 31st 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)

MODEL TEST PAPER 2

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.

(i) What is the minimum equity Kumar Ltd. needs to maintain after buy-back, according to the Debt Equity Ratio Test?

(a) ₹ 12,95,000

(b) ₹ 21,00,000

(c) ₹ 32,50,000

(d) ₹ 6,00,000

(ii) What is the maximum permitted buy-back of equity for Kumar Ltd.?

(a) ₹ 38,85,000

(b) ₹ 42,00,000

(c) ₹ 12,95,000

(d) ₹ 59,85,000

(iii) How many shares of Kumar Ltd. can be bought back at ₹ 30 per share according to the Debt Equity Ratio Test?

(a) 43,000

(b) 1,29,500

(c) 2,00,000

(d) 78,000

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

4. 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 31st 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 15th 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 1st 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 15th June, 2024 was ₹ 11 lakhs.

(2) A portion of current investments purchased on 15th 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 31st March, 2024 was ₹ 6 lakhs and fair value on 15th 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	46,500	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:		
			Short–term	4,500	
			Long-term	21,000	25,500
Salaries and wages		40,200	Deposits (unsecured):		
General Charges		16,500	Short -Term	1,500	
Interim Dividend paid		27,000	Long-term	3,300	4,800
			Trade payables		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	7,500	12,000			
Trade receivables		2,38,500			
Cash in Bank		2,71,100			
		24,34,200			24,34,200

From the above balance and the following information, prepare the company's Profit and Loss Account for the year ended 31st 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 warrantee 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 warrantees 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	₹
		Equity and Liabilities		
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	1,47,000
		Total		19,29,000
		Assets		
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		82,000
		Total		19,29,000

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	4,80,000
		13,80,000
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	27,000
		1,47,000

5	Property Plant and Equipment	
	Freehold property	5,10,000
	Plant	60,000
		5,70,000
6	Intangible assets	
	Goodwill	1,56,000
	Patents	45,000
		2,01,000
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:

(a) Goodwill of Anu Ltd. and Banu Ltd. is to be valued at ₹1,75,000 and ₹50,000 respectively.

(b) Plant and Machinery of Anu Ltd. are to be valued at ₹1,25,000.

(c) 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:

1. 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.

2. 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 31st 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. 31st 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)

MODEL TEST PAPER 3

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. MBB 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 it's 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:

(i) The amount of Profit/Loss on Sale of Investment is:

(a) ₹ 1,500 lakhs Profit

(b) ₹ 1,000 lakhs Profit

(c) ₹ 2,000 lakhs Loss

(d) ₹ 1,000 lakhs Loss

(ii) Securities Premium available for Buyback after redemption of Preference Shares

(a) ₹ 550 lakhs

(b) ₹ 800 lakhs

(c) Can't utilize securities premium for buyback

(d) ₹ 350 lakhs

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

(a) ₹ 2,000 lakhs

(b) ₹ 4,500 lakhs

(c) ₹ 2,500 lakhs

(d) ₹ 1,750 lakhs

(iv) Cash balance after buyback

(a) ₹ 1,150 lakhs

(b) ₹ 2,200 lakhs

(c) ₹ 3,250 lakhs

(d) ₹ 900 lakhs

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

2. Suman Ltd. is in the business of manufacturing electronics equipment and selling these at its various outlets. It provides installation services for the equipment sold and also provide free 1 year warranty on all the sold products.

Beach Resorts are leading resorts in the city. It purchased 5 air conditioners (AC) from Suman Ltd. for its resort. Suman Ltd. sold 5 AC to Beach resort for ₹ 45,000 each which includes installation fees of ₹ 1,000 for each AC. The Company also offers 1 year warranty for any repair etc. The Company also offered ₹ 500 per AC as trade discount. Beach resort placed order on March 15, 2024 and made payment on March 20, 2024. The ACs were delivered on March 27, 2024 and the installation was completed on April 5, 2024.

(i) How much revenue should be recognised by the Company as on March 31, 2024:

(a) ₹ 2,25,000

(b) ₹ 2,17,500

(c) ₹ 2,00,000

(d) ₹ 2,30,000

(ii) How much revenue should be recognised by the Company in the financial year 2024-25:

(a) ₹ 5000

(b) ₹ 2,20,000

(c) ₹ 10,000

(d) ₹ 2,40,000

(iii) What will be the accounting for trade discount:

(a) The same will be recognised separately in the profit and loss.

(b) The trade discounts are deducted in determining the revenue.

(c) Trade discount will be recognised after one year, when the warranty will be over.

(d) Trade discount will be recognised after installation is complete.

(iv) Is the Company required to do any accounting for 1 year warranty provided by it:

(a) No accounting treatment is required till some warranty claim is actually received by the Company.

(b) As there exist a present obligation to provide warranty to customers for 1 year, the Company should estimate the amount that it may have to incur considering various factors including past trends and create a provision as per AS 29.

(c) Accounting for claims will be done on cash basis i.e. expense will be recognised when expense is made.

(d) As the Company is not charging separately for the warranty provided, there is no need to create any provision.

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

3. On April 1, 2022, X 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 X Limited for ₹ 7,00,000.

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

(a) April 2022 (When it was decided that SAP ERP is to be implemented)

(b) June 2022 (When the implementation work started)

(c) September 2023 (When the implementation work should have completed as per agreed terms)

(d) May 2024 (When the SAP actually got implemented)

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

(a) ₹ 25,00,000

(b) ₹ 26,00,000

(c) ₹ 23,00,000

(d) ₹ 32,00,000

(iii) How should the annual maintenance and updation expenses should be accounted for:

(a) Should be capitalised with 'Intangible Asset'

(b) Should be recognised as a separate 'Intangible Asset'

(c) Should be recognised as expense in Profit and Loss annually.

(d) No accounting is required

(iv) During the implementation period, how the expenditure incurred will be accounted for:

(a) It will be expensed in profit and loss as and when incurred

(b) It will be recognised as an asset 'Intangible asset under development'

(c) It will only be disclosed in notes to accounts and will be recognised when complete

(d) 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 1st April, 2023 8% convertible debenture in C Ltd. of face value of ₹ 2,00,000 @ ₹ 108. On 1st July, 203 A Ltd. purchased another ₹ 1,00,000 debentures @ ₹ 112 cum interest. On 1st October, 2023 ₹ 80,000 debentures were sold @ ₹ 105. On 1st 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 31st December, 2023 is ₹ 110 and ₹ 15 respectively. Interest on debenture is payable each year on 31st March, and 30th September. Prepare investment account in the books of A Ltd. on average cost basis for the accounting year ended 31st 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 31st March 2024, as per Schedule III of the Companies Act, 2013, from the following information of Mehar 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. **(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) Ram 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. Robert Ltd. and Diamond Ltd. give the following information as at 31.03.2024:

	Robert Ltd. (₹ in lakhs)	**Diamond 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	14,250	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 Diamond Ltd. were Robert Ltd.'s acceptances.

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

Details of trade receivables and trade payables are as under:

Particulars	**Robert Ltd.**	**Diamond Ltd.**
		(₹ in lakhs)
Trade Payables:		
Creditors	1,620	694.5
Bills Payable	180	-
	1,800	694.5
Trade receivables:		
Debtors	3,180	1,530
Bills Receivables	-	120
	3,180	1,650

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

You are required to:

Prepare Robert Ltd.'s Balance Sheet immediately after the merger.

(14 Marks)

5. H Ltd. and its subsidiary S Ltd. Give the following information as on 31st March, 2024:

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

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

H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2023. On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at ₹ 50,000 and ₹ 30,000 respectively.

Machinery (book value ₹ 2,00,000) and Furniture (book value ₹ 40,000) of S Ltd. were revalued at ₹ 3,00,000 and ₹ 30,000 respectively on 1st 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 H Ltd. include ₹ 35,000 due to S Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above cost. The inventories of H Ltd. includes goods costing ₹ 55,000 (cost to H Ltd.) purchased from S Ltd.

You are required to prepare the Consolidated Balance Sheet of H Ltd. With its subsidiary as at 31st March, 2024. **(14 Marks)**

6. "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 31st March, 2024:

Cash Flow (Abstract)

Inflows	**₹**	**Outflows**	**₹**
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		Payment of overheads	15,000
Receivables	3,50,000	Machinery acquired	4,00,000
		Debentures redeemed	50,000
Sale of Machinery	70,000	Bank loan repaid	2,50,000
		Tax paid	1,55,000
		Closing cash and bank balance	15,000
	10,00,000		10,00,000

Prepare Cash Flow Statement for the year ended 31st 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 [c] Stock Reserve Account **(5 Marks)**

MODEL TEST PAPER 4

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) Noe 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 if Cash Flow Statement.

(ii) ₹ 10.30 lakhs as 'Cash flows from Investing Activities' as entire amount is spend 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: Total8 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 15th 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:

i) A portion of long term investments purchased on 1st 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 15th June, 2024 was ₹ 11 lakhs.

ii) Another portion of long term investments purchased on 15th 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 15th June, 2024 was ₹ 4.5 lakhs.

iii) A portion of current investments purchased on 15th 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 31st March, 2024 was ₹ 6 lakhs and fair value on 15th June 2024 was ₹ 8.5 lakhs.

iv) Another portion of current investments purchased on 7th 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

(7 Marks)

(b) The financial statements of PQ Ltd. for the year 2023-24 approved by the Board of Directors on 15th 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 31st March, 2024. However, the deed was registered on 15th 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 31st 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 31st 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 31st March, 2023 were ₹ 50,000 and on 31st 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 31st 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 15th November, 2023 for ₹ 3,50,000.

(16) On 31st March, 2024 ₹ 2,00,000, 7% Debentures were issued at face value in an exchange for a plant.

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

(i) Prepare cash flow statement for the year ended 31st 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 1st 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 31st 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	5,00,000	3,00,000
Total	31,00,000	18,00,000
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	2,20,000	80,000
Total	31,00,000	18,00,000

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	1,20,000	40,000
	8,40,000	4,20,000
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bills Payable	60,000	50,000
	5,00,000	3,00,000

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 31st 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 31st March, 2024

	Kedar Ltd. (₹)	VIJAY Ltd. (₹)
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:

Liabilities	Amount (₹)	Assets	Amount (₹)
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	25,000
	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 ($) Dr.**	**Amount ($) 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		4,300
	28,350	28,350

(i) Fixed assets were purchased on 1st 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)**

MODEL TEST PAPER 5

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

AB Ltd. is engaged in manufacturing a variety of products, including modules, dyes, infrastructure goods, etc. The company caters to a broad customer base across sectors like automobiles, infrastructure, construction, and others, both in India and internationally. Its financial statements are prepared annually as of 31st March.

Additional details for the financial year ending 31st March 2024 are provided below:

Segment Information

AB Ltd. has identified five segments. The details are as follows:

Segment	Sale		Total sale	Profit	Asset
	Export	Domestic			
K	54,00,000	-	54,00,000	4,50,000	9,00,00,000
L	1,12,50,000	36,00,000	1,48,50,000	13,50,000	2,25,00,000
M	2,02,50,000	-	2,02,50,000	22,50,000	3,15,00,000
M	1,21,50,000	27,00,000	148,50,000	13,50,000	4,50,00,000
O	18,00,000	22,50,000	40,50,000	9,00,000	6,75,00,000
			5,94,00,000	63,00,000	25,65,00,000

Additional Information

1. **Machinery Purchase**

   On 1st April 2023, AB Ltd. purchased machinery worth ₹15,00,000 for producing specific items for a particular customer. The cost is deductible over two years for tax purposes: ₹10,00,000 in year 1 and the balance in year 2. The applicable tax rate is 30%.

2. **Trademark and Process Development**:

   AB Ltd. introduced a new manufacturing process and incurred the following costs:

   - Trademark acquisition: ₹70,00,000
   - Product promotion: ₹2,00,000
   - Employee benefits for testing: ₹3,00,000

3. **Government Grant**:

AB Ltd. was engaged in the process of development of a manufacturing unit in one of the specified industrial areas. The development of the manufacturing unit shall be completed within 2 years. To encourage industrial promotion in specified areas, the government provides government grants in the form of subsidies. The cost of the project for the company is ₹ 700 lakhs against which the government provided a grant of ₹ 500 lakhs & this grant was in nature of the promoter's contribution.

Based on the information given in above Case Scenario, answer the following Question

(i) Based on the quantitative threshold which of the above segment K to O would be considered as reportable segment?

(a) Segment M

(b) Segment M, N & L

(c) Segment L, M, N & O

(d) All Segment

(ii) What will be the tax effect on the financial statement for the year 2023-24 in respect of machinery purchased on 1st April 2023?

(a) Create DTA ₹ 75,000

(b) Reverse DTA ₹ 75,000

(c) Create DTL ₹ 75,000

(d) Reverse DTL ₹ 75,000

(iii) What is the total cost that should be capitalized for a trademark related to the new process?

(a) ₹ 75,00,000

(b) ₹ 73,00,000

(c) ₹ 72,00,000

(d) ₹ 70,00,000

(iv) How should subsidy received be accounted in the books of the company?

(a) Credit into capital reserve

(b) Credit it as "Other income" in the statement of profit & Loss A/c in the year of commencement of commercial operation.

(c) Both A & B are permitted

(d) Credit it to General Reserve.

Case Scenario 2

G Ltd. is an automotive supplier and is in the business of manufacturing components & parts to be used by various automotive companies. The company has its registered office in North Delhi and is listed in a stock exchange. Following are some outstanding issues not yet solved towards the finalization of the financial statement for the year ending on 31.3.2024.

G Ltd. installed new machinery in its plant during 2023-2024.

G Ltd. incurred the following costs:

The basic price of machinery	₹ 50,00,000
Initial delivery & handling cost	₹10,00,000
Cost of site preparation	₹5,00,000

The interest charge for deferred credit paid to the supplier ₹1,00,000.

The present value of estimated dismantling costs to be incurred after 15 years is ₹ 5,00,000.

Operating losses after commercial production ₹ 4,00,000. The plant was ready for its intended use on 1st July 2023 but commercial production started on 1st August 2023. The estimated life of the machine is 10 years with no residual value.

To acquire the above machinery G Ltd. is to borrow US $ 62,500 on 1.4.2023 which will be repaid on 1.7.2024. Rate of exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under:

On 1.4.2023 1 US $ = ₹ 80

31.03.2024 1 US$ = ₹ 82.50

G Ltd., acquired a machine on 1st April, 2018 for ₹ 25 lakhs that had an estimated useful life of 8 years. The machine is depreciated on straight line basis and does not carry any residual value. On 31.3.2022 assets was revalued 18 lakhs with revised useful life of 5 years. The surplus arising on revaluation was credited to Revaluation Reserve A/c.

G Ltd., had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation.

As on 31.3.2024 the condition indicating impairment of the asset existed & its recoverable value came down to ₹ 6 lakhs. The company sold the asset as on 1 May 2024 for ₹ 2.8 lakh. G Ltd. acquired 35% shares of Build Ltd. as on 1.7.2023 for ₹ 14,00,000. By such acquisition, it can exercise significant influence over Build Ltd. the following balance of Build Ltd. as on the date of acquisition:

Particular	
Share capital	15,00,000
Reserve & Surplus (includes current year profit for 3 months)	8,50,000

Build ltd. paid a dividend of ₹ 1,50,000 on 15.7.2023 for the year ending 31.3.2023. The profit earned by Build Ltd. during the year ending 31.3.2024 amounts to ₹ 4,80,000 (assume profit to be accure evenly)

Based on the information given in above Case Scenario, answer the following Question

(i) What is the carrying value of machinery on 31.3.2024 installed in the plant?

(a) ₹ 65,33,333

(b) ₹ 64,75,000

(c) ₹ 69,06,667

(d) ₹ 68,45,000

(ii) What is the amount of exchange loss/gain to be recognized and what will be the amount of foreign loan to be shown in the financial statement on 31.3.2024?

(a) ₹ 1,56,250 exchange loss and ₹ 50,00,000 of foreign loan.

(b) ₹ 1,56,250 exchange gain and ₹ 51,56,250 of foreign loan.

(c) ₹ 1,56,250 exchange gain and ₹ 50,00,000 of foreign loan.

(d) ₹ 1,56,250 exchange loss and ₹ 51,56,250 of foreign loan.

(iii) What is the amount of impairment loss on 31.3.2024?

(a) ₹ 5.5 lakh

(b) ₹ 7.2 lakh

(c) ₹ 4.8 lakh

(d) ₹ 3 lakh

(iv) What will be the carrying amount of investment in the separate financial statement of G Ltd. as on 31.3.2024?

(a) ₹ 14,00,000

(b) ₹ 8,22,500

(c) ₹ 13,47,500

(d) ₹ 14,52,500

Case Scenario 3

Perrotte Ltd. (a non-listed company) has the following Capital Structure as on 31.03.2024:

	Particulars		**(₹)**
(1)	Equity Share Capital (Shares of ₹ 10 each fully paid)	-	24,00,000
(2)	Reserves and Surplus		
	General Reserve	20,50,000	-
	Securities Premium Account	7,50,000	-
	Profit & Loss Account	2,00,000	-
	Infrastructure Development Reserve	20,00,000	
	Revaluation reserve	1,70,000	51,70,000
(3)	Loan Funds		52,00,000

The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.2024 a proposal to buy-back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of buy back price per share is ₹ 25.

You are also informed that the Infrastructure Development Reserve is created to satisfy Income-tax Act requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 1,200 crores or ₹ 1,500 crores.

Assuming that the entire buy-back is completed by 09.12.2024.

Based on the information given in above Case Scenario, answer the following Question

(i) What is the maximum number of shares to be bought back as per debt-equity ratio?

  (a) 1,12,000 shares

  (b) 80,000 shares

  (c) 54,000 shares

  (d) 60,000 shares

(ii) What is the maximum permitted equity as per debt- equity ratio test.

  (a) 20,00,000 shares

  (b) 28,00,000 shares

  (c) 15,00,000 shares

  (d) 13,50,000 shares

(iii) What will be the future equity shareholding fund if a company buys back shares as per the result of the debt-equity ratio test?

  (a) 48,000

  (b) 48,60,000

  (c) 42,80,000

  (d) 46,00,000

(iv) What is the maximum number of shares that can be buy back as per resource test?

  (a) 54,000

  (b) 75,700

  (c) 55,700

  (d) 74,000

4. If expenses of liquidation of the vendor company are paid by the purchasing company then, in purchasing company's book, the account debited is

  (a) Goodwill account.

(b) Liquidation expense account.

(c) Vendor company account.

(d) General reserve.

5. Declaration of dividends for current year is made after providing for

   (a) Depreciation of past years only.

   (b) Depreciation on assets for the current year and arrears of depreciation of past years (if any).

   (c) Depreciation on current year only and by forgoing arrears of depreciation of past years.

   (d) Excluding current year depreciation

6. Accounting Standards

   (a) Harmonise accounting policies and eliminate the non-comparability of financial statements.

   (b) Improve the reliability of financial statements.

   (c) Both (a) and (b).

   (d) manipulate the data for the management.

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 1st April, 2023, Green Limited started the construction of an Office Building (qualified asset). The land under the building is regarded as a separate asset and is not a part of qualifying asset.

   For the purpose of construction of building, the company raised a specific loan of ₹ 14 lakhs from a Bank at an interest rate of 12% per annum. An interest income of ₹ 15,000 was earned on this loan while it was held in anticipation of payments.

   The company's other outstanding loans on 1st April, 2023 were as follows:

Amount of Loan	Rate of Interest per annum
₹ 20,00,000	15%
₹ 30,00,000	8%

The construction of building started on 1st April, 2023 and was completed on 31st January, 2024 when it was ready for its intended use. Up to the date of completion of the building, the following payments were made to the contractor:

Payment date	Amount in ₹
1st Apirl,2023	4,00,000
1st August,2023	10,00,000
1st December,2023	25,00,000
31st January,2024	5,00,000

The life of building is estimated to be 20 years and depreciation is calculated on straight line method.

You are required to:

(i) Calculate the amount of borrowing cost to be capitalized.

(ii) Pass initial journal entry to recognise the cost of building.

(iii) Depreciation on building for the year ending 31st March, 2024.

(iv) Carrying value of building as on 31st March, 2024.

(b) Well Wear Limited is a Textile Manufacturing Company and engaged in the production of Polyester (P) and Nylon (N). While manufacturing the main products, a by-product Fiber (F) is also produced. Details of the cost of production are as under:

Purchase of Raw Material for manufacturing process of

30,000 units	₹ 3,50,000
Wages paid	₹ 1,60,000
Fixed overheads	₹ 1,20,000
Variable overheads	₹ 60,000
Output:	
Polyester (P)	12,500 Units
Nylon (N)	10,000 Units
Fiber (F)	3,200 Units
Closing Inventory:	
Polyester (P)	1,600 Units
Nylon(N)	400 Units

Average market price of Polyester and Nylon is ₹ 100 and ₹ 60 per unit respectively, by-product Fiber is sold@₹ 40 per unit. There is a profit of ₹ 8,000 on sale of by-product after incurring separate processing expenses of ₹ 10,000 and packing charges of ₹ 9,000. ₹ 5,000 was realized from sale of scrap.

On the basis of the above information, you are required to compute the value of closing inventory of Polyester and Nylon. **(7 + 7 = 14 Marks)**

2. Following is the summarized Balance Sheets of Z Limited as on 31st March, 2024:

Particulars	**(₹)**
EQUITY AND LIABILITIES:	
Share Capital	
Equity shares of ₹ 100 each	60,00,000
8% Preference shares of ₹ 100 each	21,00,000
10% Debentures of ₹ 100 each	18,00,000
Trade Payables	16,80,000
Total	**1,15,80,000**
ASSETS:	
Goodwill	81,000
Property, Plant and Equipment	72,00,000
Trade Receivables	13,75,000
Inventories	9,80,000
Cash at Bank	1,33,000
Own Debentures (Nominal value of ₹ 6 lakhs)	5,76,000
Profit and Loss A/c	12,35,000
Total	**1,15,80,000**

On 1st April, 2024, court approved the following reconstruction scheme for Z Limited:

(i) Each equity share shall be sub-divided into 10 equity shares of ₹ 10 each fully paid up. After sub-division, equity share capital will be reduced by 40%.

(ii) Preference share dividends are in arrear for last 4 years. Preference shareholders agreed to waive 75% of their dividend claim and accept payment for the balance.

(iii) Own debentures of ₹ 2,40,000 (nominal value) were sold at 98 cum interest and remaining own debentures were cancelled.

(iv) Debenture holders of ₹ 6,00,000 agreed to accept one machinery of book value of ₹ 9,00,000 in full settlement.

(v) Remaining Property, Plant and Equipment were valued at ₹ 60,00,000.

(vi) Trade Payables, Trade Receivables and Inventories were valued at ₹ 15,00,000, ₹ 13,00,000 and ₹ 9,44,000 respectively. Goodwill and Profit and Loss Account (Debit balance) are to be written off.

(vii) Company paid ₹ 60,000 as penalty to avoid capital commitments of ₹ 12 lakhs.

(viii) Interest on 10% Debentures is paid every year on 31st March.

You are required to:

(1) Pass necessary journal entries in the books of Z Limited to implement the above schemes.

(2) Prepare Capital Reduction Account.

(3) Prepare Bank Account **(14 Marks)**

3. (a) Constructions Limited is engaged in the business of constructing Flyovers and Railway over bridges. It obtained a contract from Railway Authorities to construct a railway over bridge for ₹ 400 crores. The construction of the railway over bridge is expected to be completed in 4 years.

At the outset of the contract, it was estimated that the total costs to be incurred will be ₹ 370 crores but by the end of year 1, this estimate stands revised to ₹ 375 crores.

During year 3, the Construction Limited has requested for a variation in the contract which is approved by Railway Authorities and accordingly the total contract value will increase by ₹ 10 crores and costs will increase by ₹ 7 crores.

The Constructions Limited decided to measure the stage of completion on the basis of the proportion of contract costs incurred to the total estimated contract costs. Contract costs incurred at the end of each year is:

Year 1 ₹ 98.8 crores

Year 2 ₹ 202.4 crores

Year 3 ₹ 310 crores (including unused material of 3 crores)

Year 4 ₹ 382 crores

You are required to:

(1) Calculate stage of completion of contract for each year

(2) Profit to be recognised for each year.

(b) The following information is provided for Aarambh Limited:

Particulars	31st March 2023 (₹)	31st March 2024 (₹)
Profit and Loss a/c	5,400 (Dr.)	37,800
Provision for Taxation	2,21,400	1,35,000
General Reserve	54,000	81,000
12% Debentures	1,18,800	2,91,600
Trade Payables	1,29,600	1,18,800
8% Current Investments	54,000	1,08,000
Property, plant and equipment (Gross)	3,99,600	3,99,600
Accumulated Depreciation	1,29,600	1,62,000
Trade Receivables (Gross)	81,000	2,61,360
Provision for Doubtful Debts	27,000	54,000
Inventories	1,35,000	81,000
Cash and Cash Equivalents	54,00	30,240

Additional information:

(i) Income tax provided during the year ₹ 1,62,000.

(ii) New debentures have been issued at the end of current financial year.

(iii) New investments have been acquired at the end of the current financial year.

You are required to calculate net Cash Flow from Operating Activities.

(7 Marks + 7 Marks = 14 Marks)

4. Intelligent Limited and Diligent Limited are carrying their business independently for last two years. Following financial information in respect of both the companies as at 31st March, 2024 has been given to you:

Particulars	Intelligent Limited (₹)	Diligent Limited (₹)
Equity Shares Capital of ₹ 100 each	12,00,000	10,00,000
8% Preference shares of ₹ 100	3,00,000	2,00,000
each	12,00,000	4,00,000
Trade Payables	3,00,000	2,00,000
Retirement Gratuity Fund (Long		
Term)	4,50,000	2,50,000
Profit and Loss Account	2,50,000	1,50,000
Opening balance	10,00,000	8,00,000
Profit for the current year	10,00,000	6,00,000
Land and Buildings	7,00,000	4,00,000
Plant and Machinery	6,00,000	3,00,000
Inventories	4,00,000	1,00,000
Trade Receivables		
Cash and Bank		

On 1st April, 2024, both the companies agreed to amalgamate and form a new company 'Genius Limited, with an authorized capital of ₹ 40,00,000 divided into 30,000 equity shares of ₹ 100 each and 10,000 8% preference shares of ₹ 100 each.

The amalgamation has to be carried out on the basis of following agreement:

(1) Assets of both the companies were to be revalued as follows:

Particulars	Intelligent Limited (₹)	Diligent Limited (₹)
Land and Buildings	11,00,000	8,50,000
Plant and Machinery	9,00,000	4,00,000
Inventories	6,00,000	3,00,000

(2) Trade payables of Intelligent Limited includes ₹ 1,00,000 due to Diligent Ltd. and the Trade receivables of Diligent Limited shows ₹ 1,00,000 receivables from Intelligent Limited.

(3) The purchase consideration is to be discharged in the following manner:

(i) Issue 22,000 Equity Shares of ₹ 100 each fully paid up in the proportion of the sum of their profitability in the preceding two financial years.

(ii) Preference shareholders of both companies are issued equivalent number of 8% Preference Shares of ₹ 100 each of Genius Limited at a price of ₹ 125 per share.

(iii) 12% debentures of ₹ 100 each in Genius Limited at par to provide an income equivalent to 10% return on the basis of net assets in their respective business as on 1st April, 2024 after revaluation of assets.

You are required to:

(a) Compute the amount of Shares & Debentures to be issued to Intelligent Limited and Diligent Limited.

(b) Prepare a Balance Sheet of Genius Limited showing the position immediately after amalgamation. **(14 Marks)**

5. The Balance Sheets of Art Limited and Craft Limited as on 31 March 2024 are as below:

Particulars	Note No	Art Limited (₹)	Craft Limited (₹)
I. Equity and Liabilities			
a. Shareholder's Fund			
i. Share Capital	1	6,50,000	4,00,000
ii. Reserve & Surplus	2	3,12,000	2,48,000
b. Current Liabilities			
i. Trade Payables		1,45,000	92,000
ii. Short term borrowings	3	70,000	-
		11,77,000	7,40,000
II. Assets			
a. Non-current Assets			
i. Property, Plant & Equipment	4	4,21,000	3,60,000
ii. Non-current investment	5	4,32,000	-
b. Current Assets			
i. Inventories		1,66,000	2,05,000
ii. Trade Receivables	6	1,33,500	1,68,300
iii. Cash & Cash equivalent		24,500	6,700
		11,77,000	7,40,000

Notes to Accounts:

		Art Limited (₹)	Craft Limited (₹)
1.	Share capital 6,500 shares of ₹ 100 each fully paid up 4,000 shares of ₹ 100 each fully paid-up	 6,50,000 -	 4,00,000
	Total	6,50,000	4,00,000
2.	Reserves and Surplus General Reserve Profit and Loss account	 1,20,000 1,92,000	 40,000 2,08,000
	Total	3,12,000	2,48,000
3.	Short term borrowings Bank Overdraft	 70,000	-
4.	Property Plant & Equipment Land & Building Plant & Machinery	 1,90,000 2,31,000	 1,35,000 2,25,000
	Total	4,21,000	3,60,000
5.	Non-current investments Investment in Craft Limited (Cost)	 4,32,000	-
6.	Cash & Cash equivalents Cash	 24,500	 6,700

Additional information:

(i) Art Limited acquired 3,200 ordinary shares of Craft Limited on 1st October, 2023. The Reserve & Surplus and Profit & Loss Account of Craft Limited showed a credit balance of ₹ 40,000 and ₹ 58,700 respectively as on 1st April, 2023.

(ii) The Plant & Machinery of Craft Limited which stood at ₹ 2,50,000 as on 1st April, 2023 was considered worth ₹ 2,20,000 on the date of acquisition. The depreciation on Plant & Machinery is calculated @ 10% p.a. on the basis of useful life. The revaluation of Plant & Machinery is to be considered at the time of consolidation.

(iii) Craft Limited deducts 1% from Trade Receivables as a general provision against doubtful debts. This policy is not followed by Art Limited.

(iv) On 31st March 2024, Craft Limited's inventory includes goods which it had purchased from Art Limited for 1,03,500 which made a profit of 15% on cost price.

You are required to prepare a consolidated Balance Sheet as on 31st March 2024. **(14 Marks)**

6. (a) Colour Limited leased a Machine to Red Limited on 1 April, 2021 on the following:

Cost of the machine	₹ 18,00,000
Lease term	3 Years
Fair market value of the machine	₹ 18,00,000
Unguaranteed residual value as on 31.3.2024	₹ 2,00,000
Internal rate of return	12%

Other information:

The expected useful life of the machine is 5 years. The machine will revert to Colour Limited on termination of the lease. The lease payment is to be made at the end of each year in 3 equal parts.

The present value of ₹ 1 due at the end of 3rd year at 12% rate of interest is ₹ 0.7118. The present value of annuity of at ₹ 1 due at the end of 3rd year at 12% IRR is ₹ 2.4018.

You are required to analyze whether lease constitutes finance lease. Also calculate unearned finance income, if any.

OR

(a) On 1 April 2023, ABC Limited has given the following information:

	₹
50,000 equity shares of ₹ 100 each (₹ 80 paid up by all shareholders)	40,00,000
2,00,000 8% Preference shares of ₹ 10 each	20,00,000
10,000, 12% Debentures of ₹ 100 each (Each debenture is convertible into 3 equity shares of ₹ 100 each)	10,00,000

On 1" July 2023, the remaining ₹ 20 was called up and paid by all the shareholders except one shareholder holding 10,000 equity shares. During the year 2023-24 the company had a profit after tax of ₹ 3,44,000.

Tax rate is 30%.

You are required to compute Basic and Diluted EPS. **(4 Marks)**

(b) Following information are available in respect of Z Limited as on 31^{st} March, 2024

1. Equity shares of ₹ 100 each ₹ 500 lakhs
2. General Reserve ₹ 100 lakhs
3. Loss for the year ending 31^{st} March, 2024 ₹ 5 lakhs

Due to absence of profits during the year 2023-24, the management recommends to declare dividend of 10% on equity share capital out of general reserve.

The rates of equity dividend for the last 5 years immediately preceding the year 2023-24 are as follows:

2022-23	2021-22	2020-21	2019-20	2018-19
12%	14%	10%	10%	7%

As an accountant of the company, you are required to suggest whether the recommendation of the management is justified? If, you do not agree, then suggest the rate of dividend. **(4 Marks)**

(c) Smart Limited is an Indian Company and has its Branch at New York. The following balances in respect of Smart Limited's USA Branch office are provided:

(i) Debit Balances (in USD)

Expenditure (excluding Depreciation)	:	1,03,095
Cash & bank balances	:	2,175
Debtors	:	7,365
Fixed Assets (Gross)	:	34,200
(Rate of Depreciation on Fixed Assets: 20%)		
Inventory-Stock 'P'	:	5,520
Inventory- Stock 'Q'	:	*1,035*

(ii) Credit Balances (in USD)

Incomes	:	1,32,000
Creditors	:	15,570
HO Control a/c	:	5,820

The following additional information is provided:

(1) The average exchange rate during the above financial year was 1 USD = ₹ 56.

(2) The fixed assets were purchased when the exchange rate was 1 USD ₹ 55.

(3) The closing exchange rate on reporting date is 1 USD = ₹ 58.

(4) Stock item 'P' is valued at cost of USD 5,520, purchased when the exchange rate was ₹ 56.50. The present net realizable value of this item is ₹ 2,85,000.

(5) Stock item 'Q' is carried at net realizable value of USD 1,035, but its cost in USD is 1,065, It was purchased when exchange rate was 1 USD = ₹ 53.

(6) Branch Control Account as per HO books was ₹ 2,66,265.

You are required to show how it will be reflected in the books of Head Office in the form of Trial Balance, if the USA Branch Office is classified as an Integral Foreign Operation. **(6 Marks)**

MODEL TEST PAPER 6

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 ₹ 10,00000 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 31st March 2024, exchange rate was US$ 1 = ₹ 83.3

   a. What will be the closing balance of Trade Receivables on 31st 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 31st 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 :

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

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

Particulars	Amount (₹)
Liabilities	
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	43,750
Total	21,42,500
Assets	
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	4,10,000
Total	21,42,500

(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 31st 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 31st March,2024. **(14 Marks)**

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

Liabilities	2022-23	2023-24
	Amount in ₹	Amount in ₹
Share Capital		
Issued and subscribed 7500 Equity Shares of ₹ 100 each	7,50,000	7,50,000
Reserve and Surplus		
Revenue Reserve	2,14,000	5,05,000
Securities Premium	72,000	2,07,000
Current Liabilities and Provisions		
Trade Payables	2,90,000	2,46,000
Bank Overdraft	-	1,70,000

Provision for Taxation	2,62,000	4,30,000
	15,88,000	23,08,000
Assets		
Fixed Assets (Cost)	9,20,000	9,20,000
Less: Accumulated Depreciation	(1,70,000)	(2,82,500)
	7,50,000	6,37,500
Investment at Cost	-	5,30,000
Current Assets		
Inventory	4,12,300	6,90,000
Trade Receivable	2,95,000	3,43,000
Prepaid expenses	78,000	65,000
Cash at Bank	52,700	42,500
	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 31st 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)

MODEL TEST PAPER 7

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. Excellence Ltd. is a Real Estate Company which constructs residential and commercial projects for selling. The Company has commenced a new project and the expenses incurred are as follows:

   - The cost of land acquired for Project is ₹ 10 crore
   - Cost of construction incurred is ₹ 25 crores.
   - The Company also incurred cost of ₹ 10 lacs for various administrative meetings in relation to planning of the building.
   - The construction of building completed and at the end of the year 1, the net realisable value of the building was ₹ 40 crore.
   - At the beginning of the next year (year 2), the Company decided to use the building as its corporate office.
   - The Company further incurred ₹ 50 lacs for making necessary changes in the structure for using it as corporate office in accordance with government norms for commercial spaces. Without these changes the office cannot be set up.
   - Ignore the effect of depreciation, if any.

   In view of above information, answer the following issues:

   (i) At the end of Year 1, how the building should be classified:

   (a) Inventory

   (b) Investments

   (c) Property, Plant and Equipment

   (d) Intangible Asset

(ii) At the end of Year 1, at value Project should be recognised:

(a) ₹ 40 Crore

(b) ₹ 35 Crore

(c) ₹ 35.10 Crore

(d) ₹ 25 Crore

(iii) At the end of Year 2, when the intention is to use the building as corporate office, it should be classified as:

(a) Inventory

(b) Investments

(c) Property, Plant and Equipment

(d) Intangible Assets

(iv) At the end of Year 2, the Project should be valued at:

(a) ₹ 40 Crore

(b) ₹ 35.50 Crore

(c) ₹ 35.10 Crore

(d) ₹ 25 Crore

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

2. Supercool ltd. is a manufacturing company, engaged in manufacturing eco-friendly equipment. On April 1, 2023, the Company received a grant of ₹ 20 crore from the Government (which is 25% of the total capital of the Company) for various purposes that the company deems fit and no repayment is required to be made to Government.

The Company also borrowed ₹ 10 crore from financial Institutions and interest paid on the same during the year is ₹ 1 lac.

The Company acquired plant and machinery from the funds for ₹ 10 crore and ₹ 1 crore was spent on its installation and assembly.

₹ 10 lacs were spent on professional fees necessary for installation and operating of the machine. The Company also spent ₹ 50 lacs on revenue expenditure.

The Plant and Machinery was ready for its intended use on September 30, 2023)

The depreciation on plant and machinery is charged @10%.

(i) The grant of ₹ 20 crores received by the Company should be presented as:

(a) Grants related to Revenue

(b) Grants related to Specific Fixed Assets

(c) Capital Reserve

(d) Other Income

(ii) At what value the plant and machinery acquired should be recognised as at 31st March 2024:

(a) ₹ 11.10 Crore

(b) ₹ 11 Crore

(c) ₹ 10.54 Crore

(d) ₹ 11.60 Crore

(iii) The revenue expenditure of ₹ 50 lacs should be recognised as:

(a) Part of Plant and Machinery

(b) Part of Grant

(c) Revenue expenditure in the Profit and Loss

(d) Deducted from loan

(iv) Which of the following statement is true:

(a) Plant and Machinery has been acquired out of Government Grant so the same should be disclosed at Nil value.

(b) Plant and Machinery belongs to Financial Institution

(c) Plant and Machinery belong to the Company and should be recognised as its Property, Plant and Equipment

(d) Plant and Machinery should not be disclosed in the financial statements of the Company at all

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

3. 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:

(i) As per The Companies Act, 2013 under Section 68 (2) the buy-back of shares in any financial year must not exceed

(a) 20% of its total paid-up capital and free reserves

(b) 25% of its total paid-up capital and free reserves

(c) 25% of its total paid-up capital

(d) 20% of its total paid-up capital

(ii) How many shares can Super Ltd. buy back according to the Shares Outstanding Test?

(a) 35,000 shares

(b) 42,500 shares

(c) 37,500 shares

(d) 54,375 shares

(iii) What is the maximum number of shares that can be bought back according to the Resources Test?

(a) 35,000 shares

(b) 42,500 shares

(c) 37,500 shares

(d) 54,375 shares

(iv) According to the Debt Equity Ratio Test, what is the maximum number of shares that can be bought back?

(a) 35,000 shares

(b) 42,500 shares

(c) 37,500 shares

(d) 54,375 shares

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

4. Accounting Standard 19, Lease is applicable on following Leases:

(a) Lease agreements to explore for or use of natural resources, such as oil, gas, timber metals and other mineral rights.

(b) Legal owner of an asset conveys to another party in return for a payment or series of periodic payments, the right to use an asset for an agreed period of time.

(c) licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

(d) lease agreements to use lands **(2 Marks)**

5. How should the dividend paid by the Company should be disclosed in the Cash Flows Statement:

(a) Cash flows from Operating Activities

(b) Cash flows from Investing Activities

(c) Cash flows from Financing Activities

(d) No disclosure in Cash Flow Statement **(2 Marks)**

6. On 31st March 2024, Sri Radhey shyam Enterprise finds that the cost of a partly finished unit on that date is ₹ 530. The unit can be finished in 2024-25 by an additional expenditure of ₹ 310. The finished unit can be sold for ₹ 750 subject to payment of 8% brokerage on the selling price.

Sri Radhey shyam Enterprise seeks your advice regarding the amount at which the unfinished unit should be valued as at 31st March, 2024 for preparation of final accounts. the partly finished unit cannot be sold in semi-finished form and its NRV is zero without processing it further.

(a) ₹ 470

(b) ₹ 380

(c) ₹ 500

(d) ₹ 440 **(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) State with reasons, how the following events would be dealt with in the financial statements of Hari Ltd. for the year ended 31st March, 2024 (accounts were approved on 25th July, 2024):

(1) Negotiations with another company for acquisition of its business was started on 21st January, 2024. Hari Ltd. invested ₹ 40 lakh on 22nd April, 2024.

(2) The company made a provision for bad debts @ 4% of its total debtors (as per trend followed from the previous years). In the second week of March 2024, a debtor for ₹ 2,50,000 had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In May, 2024 the debtor became bankrupt.

(3) During the year 2023-24, Hari Ltd. was sued by a competitor for ₹ 13 lakhs for infringement of a trademark. Based on the advice of the company's legal counsel, Hari Ltd. provided for a sum of ₹ 8 lakhs in its financial statements for the year ended 31st March, 2024. On 26th May, 2024, the Court decided in favour of the party alleging infringement of the trademark and ordered Hari Ltd. to pay the aggrieved party a sum of ₹ 12 lakhs.

(4) Cashier of Hari Ltd. embezzled cash amounting to ₹ 3,00,000 during March, 2024. However the same comes to the notice of Company management during August, 2024.

(5) Cheques dated 31st March, 2024 collected in the month of April, 2024. All cheques are presented to the bank in the month of April, 2024 and are also realized in the same month in the normal course after deposit in the bank.

(b) Honey Ltd. is in the process of developing a new production method. During the financial year ended 31st March, 2023, total expenditure incurred on development of this production method was ₹ 98,00,000. On 1st Jan, 2023, the production method met the criteria as an intangible asset and expenditure incurred till this date was ₹ 68,00,000. Further expenditure incurred on the new method was ₹ 72,00,000 for the year ended 31st March, 2024 and recoverable amount of the know how embodied in the new method for this financial year is ₹ 52,00,000.

You are required to calculate:

(1) The carrying amount of the Intangible asset on 31st March, 2023.

(2) The expenditure to be shown in Statement of Profit and Loss for the year ended 31st March, 2024.

(3) The carrying amount of the Intangible asset on 31st March, 2024.

(7 + 7 = 14 Marks)

2. (a) Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31st March, 2024 at a cost of ₹70 lakhs. The following information is available from the balance sheet of Zed Ltd. as on 31st March, 2024:

Particulars	**₹ in lakhs**
Property, plant and equipment	120
Investments	55
Current Assets	70
Loans & Advances	15
15% Debentures	90
Current Liabilities	50

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

Property, plant and equipment	Up by 20%
Investments	Down by 10%

Zed Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 2024 (Face value – ₹10 per share). Exe Ltd. purchased the shares of Zed Ltd. @ ₹ 20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Zed Ltd.

(b) From the following data, determine Minority Interest on the date of acquisition and on the date of consolidation in each case:

Case	Subsidiary Company	% of Share Owned	Cost	Date of Acquisition		Consolidation date	
				01-01-2024		31-12-2024	
				Share Capital	Profit and Loss A/c	Share Capital	Profit and Loss A/c
				₹	₹	₹	₹
Case-i	X	85%	1,85,000	1,35,000	60,000	1,35,000	70,000
Case-ii	Y	70%	1,60,000	1,25,000	45,000	1,25,000	5,000
Case-iii	Z	65%	83,000	25,000	5,000	25,000	5,000
Case-iv	M	90%	60,000	45,000	20,000	45,000	40,000
Case-v	N	100%	85,000	25,000	25,000	25,000	50,000

(7+7=14 Marks)

3. (a) Given the following information of Rainbow Ltd.

(i) On 15th November, goods worth ₹ 5,00,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods sold upto 31st January and no approval or disapproval received for the remaining goods till 31st March.

(ii) On 31st March, goods worth ₹ 2,40,000 were sold to Bright Ltd. but due to refurnishing of their show-room being underway, on their request, goods were delivered on 10th April.

(iii) Rainbow Ltd. supplied goods worth ₹ 6,00,000 to Shyam Ltd. and concurrently agrees to re-purchase the same goods on 14th April.

(iv) Dew Ltd, used certain assets of Rainbow Ltd. Rainbow Ltd. received ₹ 7.5 lakhs and ₹ 12 as interest and royalties respectively from Dew Ltd. during the year 2023-24.

(v) On 25th December, goods of ₹ 4,00,000 were sent on consignment basis of which 40% of the goods unsold are lying with the consignee at the year-end on 31st March.

In each of the above cases, you are required to advise, with valid reasons, the amount to be recognized as revenue under the provisions of AS-9. **(4 Marks)**

(b) The following information of Rocky Ltd. as at March 31, 2024:

	₹ in lacs
Fully paid equity shares of ₹ 10 each	500
Capital Reserve	6
12% Debentures	400
Debenture Interest Outstanding	48
Trade payables	165
Directors' Remuneration Outstanding	10
Other Outstanding Expenses	11
Provisions	33
Assets	
Goodwill	15
Land and Building	184
Plant and Machinery	286
Furniture and Fixtures	41
Inventory	142
Trade receivables	80
Cash at Bank	27
Discount on Issue of Debentures	8
Profits and Loss Account	390

The following scheme of internal reconstruction was framed, approved by the Tribunal all the concerned parties and implemented:

(i) All the equity shares be converted into the same number of fully-paid equity shares of ₹ 2.50 each.

(ii) Directors agree to forego their outstanding remuneration.

(iii) The debentureholders also agree to forego outstanding interest in return of their 12% debentures being converted into 13% debentures.

(iv) The existing shareholders agree to subscribe for cash, fully paid equity shares of ₹ 2.50 each for ₹ 125 lacs.

(v) Trade payables are given the option of either to accept fully-paid equity shares of ₹ 2.50 each for the amount due to them or to accept 80% of the amount due in cash. Trade payables for ₹ 65 lacs accept equity shares whereas those for ₹ 100 lacs accept ₹ 80 lacs in cash in full settlement.

(vi) The Assets are revalued as under:

	₹ in lacs
Land and building	230
Plant and Machinery	220
Inventory	120
Trade receivables	76

Pass Journal Entries for all the above mentioned transactions immediately after the reconstruction. **(10 Marks)**

4. From the following particulars furnished by Hello Ltd., prepare the Balance Sheet as on 31st March 2024 as required by Part I, Schedule III of the Companies Act, 2013.

Particulars		Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each)			50,00,000
Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Inventory:			
Raw Materials	2,55,000		
Finished Goods	10,00,000	12,55,000	
Provision for Taxation			6,40,000
Trade receivables		10,00,000	
Short term Advances		2,13,500	
Profit & Loss Account			4,33,500
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Unsecured Loan			6,05,000
Trade payables (for Goods and Expenses)			10,00,000

The following additional information is also provided:

(i) 10,000 Equity shares were issued for consideration other than cash.

(ii) Trade receivables of ₹ 2,60,000 are due for more than 6 months.

(iii) The cost of the Assets were:

Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500

(iv) The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes ₹ 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.

(vi) Transfer ₹ 20,000 to general reserve as proposed by Board of directors.

(14 Marks)

5. A Limited and B Limited are carrying on business of same nature. On 31st March, 2024 the information given by both these companies is as follows:

	A Ltd. (₹)	B Ltd. (₹)
Share Capital		
- Equity Shares 10 each (Fully Paid)	12,00,000	7,20,000
- 10% Preference Shares of ₹ 100 each	6,00,000	-
- 8% Preference Shares of ₹ 100 each	-	5,00,000
General Reserve	3,00,000	2,50,000
Investment Allowance Reserve	-	60,000
Security Premium	2,40,000	-
Export Profit Reserve	1,80,000	1,20,000
Profit & Loss Account	2,16,000	1,92,000
9% Debentures (₹ 10 each)	3,00,000	2,00,000
Secured Loan	-	3,60,000
Sundry Creditors	3,12,000	2,04,000
Bills Payable	75,000	1,00,000
Other Current Liabilities	50,000	75,000
Land and Building	10,80,000	8,40,000
Plant and Machinery	6,00,000	5,60,000
Office Equipment	3,45,000	2,10,000
Investments	96,000	3,00,000
Inventory	6,30,000	4,20,000
Sundry Debtors	4,90,000	3,20,000
Bills Receivables	60,000	70,000
Cash at Bank	1,72,000	61,000

A Limited take over B Limited on the above date, both companies agreeing on a scheme of Amalgamation on the following terms:

(a) A Limited will issue 80,000 Equity Shares of ₹ 10 each at par to the Equity Shareholders of B Limited.

(b) A Limited will issue 10% Preference Shares of ₹ 100 each to discharge the Preference Shareholders of B Limited at 15% premium in such a way that the existing dividend quantum of the preference shareholders of B Limited will not get affected.

(c) The Debentures of B Limited will be converted into equivalent number of Debentures of A Limited.

(d) All the Bills Receivable of A Limited were accepted by B Limited.

(e) A contingent liability of B Limited amounting to ₹ 72,000 to be treated as actual liability in trade payables.

(f) Expenses of Amalgamation amounted to ₹ 12,000 were borne by A Limited.

You are required to pass opening Journal Entries in the books of A Limited and prepare the opening Balance Sheet of A Limited as on 1st April, 2024 after amalgamation, assuming that the amalgamation is in the nature of Merger.

(14 Marks)

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

Or

What do you mean by Carve outs/ins in Ind AS? Explain. **(4 Marks)**

(b) "The company has not made provision for warrantee in respect of certain goods considering that the company can claim the warranty cost from the original supplier".

You are required to comment in line with the provisions of AS 29.

(6 Marks)

(c) Why goods are marked on invoice price by the head office while sending goods to the branch? **(4 Marks)**

MODEL TEST PAPER 8

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

Mr. Vikram took a loan of ₹ 6,00,000 carrying interest @ 10% p.a. on 1st August, 2023 to purchase raw material. He purchased 4000 units of raw material @ 125 per unit. Replacement cost of raw material as on 31 March, 2024 is 100 per unit. Labour charges and variable overheads incurred are ₹ 1,00,000 to produce 1000 units of finished goods.

1000 units of Finished goods are produced with raw material (for every unit of finished goods produced, 2 units of raw material are required). Net realizable value of finished good is ₹ 300 per unit. All the finished goods produced are lying in stock as on 31 March, 2024.

There is no opening stock of raw material and finished goods.

Mr. Vikram used 1500 units of raw material to construct an Asset (Qualifying Asset). Labour and other overhead charges incurred on construction of asset are ₹ 90,000. Mr. Vikram also paid ₹15,000 to install the asset at Factory premises. Mr. Vikram used Balance of loan proceeds of ₹ 1,00,000 to invest in Equity Shares of P. Ltd. He purchased 9,000 Equity shares (Face Value ₹ 10 each) for ₹ 1,00,000 on 25th March, 2024.

The P. Ltd declared and paid dividend @ 20% on 30th March for the year 2023-24.

Based on the information given in above Case Scenario, answer the following Question No. 1-4:

(i) What would be the value of closing stock of Raw Material X and Finished Goods as on 31st March 2024?

   (a) Closing Stock of Raw Material X ₹ 50,000 and closing stock of Finished Goods ₹ 3,50,000

   (b) Closing Stock of Raw Material X ₹ 50,000 and closing stock of Finished Goods₹ 3,00,000

   (c) Closing Stock of Raw Material X ₹ 62,500 and closing stock of Finished Goods ₹ 3,50,000

   (d) Closing Stock of Raw Material X ₹ 62,500 and closing stock of Finished Goods ₹ 3,00,000

(ii) Cost of Self Constructed Asset as per AS 10 will be ?

(a) ₹ 2,92,500

(b) ₹ 2,77,500

(c) ₹ 3,05,000

(d) ₹ 2,90,000

(iii) As per AS 16 what will be the amount of interest to be capitalized and amount of interest to be charged to Profit & Loss A/c ?

(a) ₹ 12,500 interest to be capitalised and Profit & Loss A/c. ₹ 27,500 interest to be charged to Profit & Loss A/c

(b) ₹ 12,500 interest to be capitalised and ₹ 20,833 interest to be charged to Profit & Loss A/c.

(c) ₹ 19,167 interest to be capitalised and ₹ 20,833 interest to be charged to Profit & Loss A/c.

(d) Whole of ₹40,000 interest to be charged to Profit & Loss A/c.

(iv) What is the carrying amount of investment as on 31st March, 2024 as per AS 13 and suggest the treatment of dividend received from P. Ltd.?

(a) Carrying amount of Investment as on 31st March, 2024 is ₹ 72,000 and the dividend is deducted from the nominal value of investment.

(b) Carrying amount of Investment as on 31st March, 2024 is ₹90,000 and the dividend is credited to Profit & Loss A/c.

(c) Carrying amount of Investment as on 31st March, 2024 is₹ 1,00,000 and the dividend is credited to Profit & Loss A/c.

(d) Carrying amount of Investment as on 31st March, 2024 is 82,000 and the dividend is deducted from the cost of investment.

Case Scenario 2

Kay Ltd. sold goods of ₹ 22,00,000 to Mr. Ravi Kumar on 1st February, 2024 but at the request of the buyer, these goods were delivered on 10th April 2024.

Kay Ltd. also sold ₹ 2,00,000 goods on approval basis on 1st January, 2024 to Sheetal Enterprises. The period of approvals 3 months after which they were considered sold. Buyer sent disapproval for 25% of goods and approval for 50% of goods till 31 March, 2024.

Mr. Ravi Kumar has commenced legal action against Kay Ltd. for supply of faulty goods to claim damages. The lawyers of Kay Ltd. have advised that it is not remote yet that resources may be required to settle the claim. Legal cost to be incurred irrespective of the outcome of the case is ₹ 45,000. Settlement amount if the claim is required to be paid ₹ 5,00,000,

Sheetal Enterprises, a trade receivable of Kay Ltd. suffered a heavy loss due to an earthquake that occurred on 30th March, 2024. The loss was not covered by any insurance policy. In April, 2024, Sheetal Enterprises became bankrupt. The Balance due from Sheetal Enterprises as on 31 March, 2024 is ₹ 75,000.

Kay Ltd. makes provision for doubtful debts @ 5%.

Based on the information given in above Case Scenario, answer the following Question

(i) What is the amount to be recognized as Revenue as per AS 9 in the books of Kay Ltd. as on 31 March, 2024?

(a) ₹ 23,50,000

(b) ₹ 1,50,000

(c) ₹ 23,00,000

(d) ₹ 1,00,000

(ii) What will be the treatment of legal cost and claim for legal action commenced by Mr. Ravi Kumar in the Books of Kay Ltd. as on 31 March, 2024 as per AS 29?

(a) Create a Provision for ₹ 5,45,000

(b) Create a Provision for ₹ 5,00,000

(c) Create a Provision for₹ 45,000 and make a disclosure of contingent liability of ₹ 5,00,000

(d) Make a disclosure of contingent liability of ₹ 5,45,000

(iii) What is the treatment of insolvency of Sheetal Enterprises in the Books of Kay Ltd. as on 31st March, 2024 as per AS 4?

(a) An Adjusting Event, full provision of ₹ 75,000 should be made in the Final Accounts for the year ended 31 March, 2024.

(b) An Adjusting Event, provision of ₹ 3,750 should be made in the Final Accounts for the year ended 31 March, 2024.

(c) A Non-adjusting event, no provision is required to be made as Sheetal Enterprises became bankrupt in April, 2024.

(d) A Non-adjusting event, only disclosure is required in the Final Accounts for the year ended 31st March, 2024.

3 P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a Listed Company and regularly supplies goods to P Ltd. The Management of R Ltd. has not disclosed its relationship with P Ltd. While preparing Financial Statements of P Ltd., which entities would you disclose as related parties with reference to AS-18?

(a) Q Ltd.

(b) R Ltd.

(c) Q Ltd. and R Ltd.

(d) Neither of Q Ltd. or R Ltd.

4 A Machinery was giver on 3 years lease by a dealer of the machinery for equal annual lease rentals to yield 20% profit margin on cost of the machinery, which is Rs.3,00,000. Economic life of the machinery is 5 years, and estimated output from the machinery in 5 years is as follows:

Year I	50,000 units
Year II	60,000 units
Year III	40,000 units
Year IV	65,000 units
Year V	85,000 units.

Compute Annual Lease Rent.

(a) ₹ 30,000

(b) ₹ 60,000

(c) ₹ 50,000

(d) ₹ 36,000

5 A Ltd. had 1,50,000 shares of common stock outstanding on 1 April, 2023. Additional 50,000 shares were issued on 1 November, 2023 and 32,000 shares were bought back on 1 February, 2024. Calculate the weighted average number of shares outstanding at the year ended on 31 March, 2024 is:

(a) 1,34,500 shares

(b) 1,65,500 shares

(c) 1,76,167 shares

(d) 1,23,833 shares

Case Scenario 3

6. Jay Ltd. submits the following data extracted from the Final Accounts as on 31 March, 2023:

Equity Share Capital Equity shares of ₹ 10 each	50,000
Profit & Loss (Dr. balance)	(50,000)
9% Debentures	2,00,000
Loan from Bank	3,00,000
Advance given to suppliers of goods	45,000
Provision for tax	14,000
Plant & Machinery	4,50,000
Furniture & Fixtures	85,000
Investment in Star Ltd. 10,000 equity shares of 10 each	1,25,000
Sundry Debtors	70,000
Cash & Bank Balance	65,500

Additional information given by Jay Ltd.:

On 31 March, 2023 Jay Ltd. decided to reconstruct the company for which necessary resolution was passed. Accordingly, it was decided that:

(a) 9% Debentures to be settled in full by issuing them 15,000 Equity shares of 10 each.

(b) Equity shareholders will give up 40% of their capital in exchange for allotment of new 11% Debentures of ₹ 1,00,000.

(c) Balance of Profit & Loss to be written off.

(d) Equity shares issued for ₹ 1,00,000.

In addition to above, following information was also presented by Jay Ltd. on 1st April, 2023:

(a) Interest is received on advances given to suppliers of goods ₹ 3,000.

(b) Taxation liability is settled at ₹ 14,000.

(c) A debtor of ₹ 40,000 is insolvent, only 40% of his dues are recovered from his estate.

(d) Dividend is received on Investment in Star Ltd. ₹ 1 per equity share invested.

(e) Part of Plant and Machinery is sold at a loss of₹ 3,000 (book value ₹ 15,000)

Based on the information given in above Case Scenario, answer the following Question :

(i) The amount of Cash Flow from operating activity is:

  (a) ₹ 2,000

  (b) ₹ 5,000

  (c) ₹ 12,000

  (d) ₹ 15,000

(ii) The amount of Cash Flow from investing Activity is

  (a) ₹ 28,000

  (b) ₹ 25,000

  (c) ₹ 15,000

  (d) ₹ 22,000

(iii). What is the amount of closing Cash and Cash equivalents as on 1 April, 2023 ?

  (a) ₹1,92,500

  (b) ₹ 92,500

  (c) ₹ 1,27,000

  (d) ₹ 1,98,500

(iv) The Balance of Equity Share Capital after internal reconstruction is :

(a) ₹ 6,50,000

(b) ₹ 4,50,000

(c) ₹ 5,50,000

(d) ₹ 7,50,000

7. "Fixed Asset held for sale" will be classified in the Balance Sheet as per Schedule III of the Companies Act as:

(a) Deferred Tax Assets

(b) Current Asset

(c) Non-Current Asset

(d) Long term Investments

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) In the following cases, record Journal Entries for amortization in the books of Huge Ltd. for the year ended 31st March, 2024 with reference to AS-26:

(i) The company had acquired Patent Rights for ₹ 340 lakhs on 01.04.2022. The estimated product life is 4 years. Amortization was decided in the ratio of estimated future cash flows which are as under:

1st Year ₹ 140 Lakhs

2nd Year ₹ 350 Lakhs

3rd Year ₹ 280 Lakhs

4th Year ₹ 420 Lakhs

(ii) The company had developed know-how by incurring expenditure of ₹ 80 lakhs. The know-how has been used by the company since 01.04.2018. Its useful life is 8 years from the year of commencement of its use. The company has not amortised the asset until 31.03.2024.

(b) Pendora Ltd. has given the following details in respect of employee benefit pension plan:

Particulars	**Amount ₹**
The fair value of plan assets as on 01-04-2023	5,00,000
The benefits paid out on 30-11-2023	63,000

Inward contributions received on 30-09-2023	1,42,000
The fair value of plan assets as on 31-03-2024	7,50,000

On 01.04.2023, the company made following estimates, based on its market studies and prevailing prices :

Particulars	**%**
Interest and dividend income (after tax) payable by fund	10.50
Realised gains on plan assets (after tax)	2.00
Fund administrative costs	-2.00
Expected rate of annual return (Interest is compounded annually)	10.50

You are required to find the expected and actual returns on plan assets as on 31.03.2024 as per AS 15.

(c) Delta Ltd. is working on different projects those are likely to be completed within 3 years period. It recognizes revenue from these contracts on Percentage of Completion Method for Financial Statements for the years ending 2021, 2022 and 2023 for ₹ 34 Lakhs, ₹ 50 Lakhs and ₹ 65 Lakhs respectively.

However, for Income Tax purpose, it has adopted the Completed Contract Method under which it has recognized revenue of ₹ 30 Lakhs, ₹ 52 Lakhs and ₹ 67 Lakhs for the years ending 2021, 2022 and 2023 respectively.

Income Tax rate is 30%.

Compute the amount of Deferred Tax Asset / Liability and Total Tax Expenses for the years ending 31st March 2021, 2022 and 2023.

(4+5+5=14 Marks)

2. The following is the Trial Balance of Shivam Ltd as on 31st March, 2024 :

Particulars	Dr. (₹ 000)	Particulars	Cr. (₹ 000)
Land at Cost	148	Equity Share of ₹ 10 each	200
Plant & Machinery at Cost	520	10% Debenture of ₹ 100 each	135
Debtors	65	General Reserve	90
Closing Stock	58	Profit & Loss Ale	48
Bank	14	Security Premium	27
Adjusted Purchases	226	Sales	473
Factory Expenses	40	Creditors	35
Administration Expenses	22	Provision for Depreciation	116
Selling Expenses	20	Suspense A/c	3
Debenture Interest	14		
Total	1,127	Total	1,127

Additional Information:

- On 31st March, the Company issued Bonus Shares to the Shareholders on 1 : 2 basis (one equity share issued as bonus for every 2 equity shares held). No entry relating to this has yet been made.
- The Authorized Share Capital of the Company is 35,000 Equity Shares of ₹ 10 each.
- The Company, on the advice of an independent valuer, revalued the Land at ₹ 2,45,000.
- The Directors declared a Dividend of 10% on 5th April, 2024 and also transferred profit @ 10% to General Reserve.
- Suspense Account of ₹ 3,000 represents cash received for the Sale of some Machinery on the 1st day of the financial year 2023-24. Cost of this Machinery was ₹ 10,000 and Accumulated Depreciation thereon being ₹ 8,000.
- Depreciation is to be provided on Plant & Machinery at 10% on Cost.
- Provision for Income tax is required@ 30%.

You are required to prepare Shivam Ltd.'s Profit and Loss A/c for the year ended 31st March, 2024 and Balance Sheet as at that date as per the provisions of the Companies Act, 2013 after considering the above information. Ignore previous year figures. **(14 Marks)**

3. (a) On the basis of the following data, prepare Cash Flow Statement as per AS-3 for the year ended 31st March, 2024:

   - Total Sales for the year were ₹ 380 lakhs out of which Cash Sales amounted to ₹ 262 Lakhs.
   - Receipts from credit customers during the year, total ₹ 134 lakhs.
   - Total Purchases for the year amounted to ₹ 220 lakhs, out of which 80% were credit purchases.
   - Opening balance in creditors ₹ 84 lakhs and Closing balance in creditors ₹ 92 lakhs.
   - Suppliers of other consumables and services were paid ₹ 19 lakhs in cash.
   - Employees of the enterprise were paid ₹ 20 lakhs in cash.
   - Fully-paid preference shares of the face value of ₹ 32 lakhs were redeemed.
   - Issued equity shares of the face value of ₹ 20 lakhs at a premium of 20%.
   - Debenture of ₹ 20 lakhs at premium of 10% were redeemed by issuing equity shares in lieu of their claims.
   - ₹ 26 lakhs were paid by way of Income Tax.
   - A new machinery costing ₹ 20 lakhs was purchased in a part

exchange of an old machinery. The book value of the old machinery was ₹ 13 lakhs, but the vendor agreed to take over the old machinery at a higher value of ₹ 15 lakhs. The balance due to vendor was paid in cash.

- Dividend ₹ 15 lakhs (including dividend distribution tax)* of ₹ 2.7 lakhs was also paid on 30th March, 2024.
- Debenture interest ₹ 3 lakhs was paid.
- During the year ₹ 8 lakhs rent was received from property held as investment.
- ₹ 0.50 lakh interest was earned on the advance payments to suppliers of Goods.
- Cash and cash equivalents on 1st April 2023, ₹ 2 lakhs.

(7 Marks)

(b) Aerodots Ltd. has the following capital structure as on 31.03.2024 :

Particulars	**Amount (₹ in thousands)**
Equity Share Capital (shares of ₹ 10 each)	600
Reserves:	
General Reserve	540
Securities Premium	200
Profit & Loss	100
Revaluation Reserve	30
Investment Allowance Reserve (Statutory Reserve)	75
Infrastructure Development Reserve	25
Loan Funds	2000

On 1st April, 2024 the company wants to buy back 14,000 equity shares of ₹ 10 each at ₹ 30 per Equity share.

You are required to calculate maximum permissible number of equity shares that can be bought back.

Buy Back of shares is duly authorized by its articles and necessary resolution has been passed by the company. **(7 + 7 = 14 Marks)**

4. The following are the summarized Balance Sheets of Well Ltd. and Nice Ltd. as at 31st March, 2024 :

		Particulars	Notes	Nice Ltd. (₹ in '000)	Well Ltd. (₹ in '000)
		Equity and Liabilities			
1.		Shareholder's funds			
	a.	Share capital	1	41,000	14,300

*PS: As per IT Act, 1961 DDT is no more applicable

	b.	Reserves and Surplus	2	19,500	(7,350)
2.		Non-current liabilities			
	a.	Long-term borrowings	3	20,500	5,425
3.		Current Liabilities			
	a.	Trade Payables		15,740	4,850
	b.	Short-term Borrowings		-	1,975
		Total		96,740	19,200
		Assets			
1.		Non-current Assets			
	a.	Property, plant, and equipment	4	62,550	16,380
	b.	Non-current Investments		22,500	-
2.		Current assets			
	a.	Inventories		300	870
	b.	Trade Receivables		6,590	1,950
	c.	Cash and Cash equivalents		4,800	-
		Total		96,740	19,200

Notes to Accounts

		Nice Ltd. (₹ in '000)	Well Ltd. (₹ in '000)
1.	Share Capital		
	Equity Share Capital		
	Issued, subscribed & paid up capital		
	Equity Shares of ₹ 100 each	31,500	12,500
	Preference Share Capital		
	Issued, subscribed & paid up capital		
	9% Preference Shares of ₹ 100 each	9,500	
	10% Preference Shares of ₹ 100 each		1,800
	Total	41,000	14,300
2.	**Reserves and Surplus**		
	Balance of Profit and Loss A/c	19,500	(7,350)
3.	**Long-term borrowings**		
	9% Debentures of ₹ 100 each	11,200	
	10% Debentures of ₹ 100 each		900
	Loan from Banks	9,300	4,525
		20,500	5,425

Details of Trade receivables and Trade payables are as under :

		Nice Ltd. (₹ in '000)	Well Ltd. (₹ in '000)
1.	Trade receivables		
	Debtors	6,200	1,800
	Bills Receivables	390	150
		6,590	1,950
2.	Trade payables		
	Creditors	14,750	4,400
	Bills Payables	990	450
		15,740	4,850

On 31.03.2024, Nice Ltd. absorbs the business of Well Ltd. on the following terms:

- For every five equity shares held by the equity shareholders of Well Ltd., they receive three equity shares of Nice Ltd. issued at a premium of ₹ 20 per share.
- The 10% debenture-holders of Well Ltd. were to be allotted such 9% debentures in Nice Ltd. as would bring the same amount of interest.
- 10% Preference Shareholders of Well Ltd. are to be paid at 10% discount by issue of 9% Preference Shares at par in Nice Ltd.
- Banks agreed to waive off the loan of ₹ 270 thousand of Well Ltd.
- Expenses of Liquidation of Well Ltd. are to be reimbursed by Nice Ltd. ₹ 55 thousand.
- Inventory of Well Ltd. is taken over at 10% more than their book value by Nice Ltd.
- Debtors of Nice Ltd. include ₹ 215 thousand receivables from Well Ltd.
- Property, Plant, and Equipment of Well Ltd. are revalued at 20% abo their book value.
- The remaining Assets and Liabilities of Well Ltd. are taken over at book value by Nice Ltd.

You are required to :

1. Record Journal Entries in the books of Nice Ltd.
2. Prepare Balance Sheet of Nice Ltd. after absorption as at 31 March, 2024. **(14 Marks)**

5. On 1st February, 2024, Best Ltd. acquired 80% Equity shares of Cool Ltd. for ₹ 14,80,000.

   On 31st March, 2024, Best Ltd. also acquired 25% Equity shares of Good Ltd. for ₹ 3,80,000.

The following are the balances extracted from the books of Best Ltd., Cool Ltd., and Good Ltd. as on 31st March, 2024 :

Particulars	Best Ltd. Amount in ₹	Cool Ltd. Amount in ₹	Good Ltd. Amount in ₹
Equity Shares of ₹ 100 each fully paid	30,00,000	20,00,000	10,00,000
Securities Premium	-	2,20,000	-
9% Debentures	6,30,000	-	2,40,000
General Reserve	2,69,000	84,000	1,20,000
Profit & Loss Account (Credit Balance)	3,26,000	2,70,000	50,000
Investments	17,50,000	6,10,000	-
Property, Plant, and Equipment	18,90,000	18,14,000	12,10,000
Current Assets	9,65,000	5,60,000	2,25,000
Trade Payable (Including Bills Payable)	3,80,000	4,10,000	25,000
Sales and other income	56,00,000	38,00,000	27,00,000
Raw material consumed	36,50,000	31,20,000	22,30,000
Wages and Salaries	5,07,000	4,01,000	2,69,000
Production expenses	1,35,000	1,06,000	98,000

Additional information :

- The Profit and Loss account of Cool Ltd. showed a credit balance of ₹ 30,000 on 1st April, 2023.
- The General Reserve balance is brought forward from the previous year.
- On 31st March, 2024, all the bills payable in Cool Ltd.'s balance sheet were acceptances in favour of Best Ltd. However, on the date, Best Ltd. held only ₹ 3,00,000 of these acceptances in hand, the rest having been endorsed in favour of its creditor.
- Best Ltd. purchased goods costing ₹ 5,00,000 from Cool Ltd. on 1st June, 2023 at a price of ₹ 6,50,000. The entire goods remain unsold with Best Ltd. at the end of the financial year.
- Best Ltd. is preparing Consolidated Financial Statements for the year ending 31.03.2024.

You are required to calculate :

(1) Trade Payable (Consolidated)

(2) Current Assets (Consolidated)

(3) Minority Interest

(4) Goodwill/Capital Reserve on the acquisition of Cool Ltd.'s shares

(5) Goodwill/Capital Reserve on the acquisition of Good Ltd.'s shares

(6) Profit & Loss Account (Consolidated)

(7) General Reserve (Consolidated)

(8) Revenue from Operations (Consolidated)

(9) Cost of material purchased/consumed (Consolidated)

(14 Marks)

6. (a) On 01.04.2023, Mr. Day has 25,000 shares of Squares Ltd. at a book value of ₹ 25 per share (nominal value of ₹ 10 each). Further information is as under:

(i) On 31st July 2023, the Directors of Squares Ltd. issued one equity bonus share for every five shares held by the shareholders.

(ii) On 30th September 2023, the Directors of Squares Ltd. announced a right issue which entitled the ·holders to subscribe three shares for every two shares at ₹ 20 per share. Shareholders can transfer their rights in full or in part.

Mr. Day sold 1/4th of entitlement to Dhwani for a consideration of ₹ 5 per share and subscribed the rest on 5th October, 2023.

You are required to prepare Investment A/c in the books of Mr. Day for the year ending 31.03.2024.

OR

(a) "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."

Provide examples of such costs as per AS 2 (Revised) 'Valuation of Inventories.

(b) The following scheme of reconstruction has been approved for Equity shareholders and Debenture holders of TP Ltd.

(i) The Equity shareholders to receive in lieu of their present holding of 1,50,000 shares of ₹ 10 each, the following :

(1) For ₹ 50,000, equivalent cash

(2) For ₹ 9,00,000, 10% debentures issued at premium of 20% (Face value of debenture is ₹ I00 each)

(3) For balance ₹ 5,50,000, Equity shareholders agreed to accept 50,000 equity shares of ₹ 10 each in full settlement.

(ii) 8% Debenture ₹ 5,00,000.

Debenture holders agreed to accept Freehold property (Book value ₹ 3,50,000) at a valuation of ₹ 4,45,000 in full settlement of their claim. Pass necessary Journal Entries in the Books of TP Ltd. for the above reconstruction. Narration for Journal entries is not required to be given.

(c) Following is the information of Kullu Branch of M/s Best Enterprises of Shimla for the year ending 31st March 2023 :

(1) Goods are invoiced to the branch at cost plus 20%

(2) Branch sold goods at invoice price plus 25%.

(3) Other Information is as follows:

(i) Stock (at cost price) as on 1st April, 2022 is ₹ 2,25,000

(ii) Goods sent by Head office to branch during the year (at cost price) are ₹ 14,85,000

(iii) Goods returned by Branch to Head office during the year (at Invoice price) are ₹ 75,000

(iv) Sales by the branch during the year ₹ 19,50,000

(v) Expenses incurred at Branch ₹ 56,000.

You are required to ascertain the following:

(a) Profit earned by the Branch by Preparing Trading and profit and loss account for the year ended 31st March 2023

(b) Also find the stock reserve on Closing stock

(4 + 6 + 6 = 14 Marks)

ANSWERS OF MODEL TEST PAPER 1

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

ANSWER

Division A (30 Marks)

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

(ii) **(d)**

(iii) **(c)**

(iv) **(c)**

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

(ii) **(c)**

(iii) **(d)**

(iv) **(b)**

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

(ii) **(d)**

(iii) **(c)**

(iv) **(c)**

4. **(b)**

5 **(b)**

6 **(a)**

Division B

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

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

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

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

Computation of Value of machinery:

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

(See working note below)

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

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

Working Note - Present value of minimum lease payments:

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

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

= ₹ 6,84,600 + ₹ 14,454 = 6,99,054

Computation of finance charges:

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

(c) Treatment of Impairment Loss

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

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

Working Note:

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

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

2. Delta Limited

Balance Sheet as at 31st March 2023

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

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

Particulars	**Note No.**	**(₹ in '000)**
I. Revenue from Operations		1200.00
II. Other Income	8	6.00

III.	Total Income (I +II)		1,206.00
IV.	Expenses:		
	Purchases (adjusted)		400.00
	Finance Costs	9	30.00
	Depreciation (10% of 800)		80.00
	Other expenses	10	150.00
	Total Expenses		660.00
V.	Profit / (Loss) for the period before tax (III – IV)		546.00
VI.	Tax expenses @30%		163.80
VII	Profit for the period		382.20

Notes to Accounts

	Particulars		(₹ in '000)
1	Share Capital		
	Equity Share Capital		
	Authorised		
	80,000 Shares of ₹ 10/- each		800
	Issued, Subscribed and Called-up		
	50,000 Shares of ₹ 10/- each	500	
	(Out of the above 5,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	(5)	495
2	Reserves and Surplus		
	Securities Premium		40.00
	Revaluation Reserve ₹ (960 – 800)		160.00
	General Reserve		150.00
	Surplus i.e. Profit & Loss Account Balance		
	Opening Balance	75.00	
	Add: Profit for the period	382.20	457.20
			807.20
3	Long-Term Borrowings		
	10% Debentures		300
4.	Short – term provision		
	Provision for tax		163.80
5	Property, plant & equipment		
	Land		
	Opening Balance	800	
	Add: Revaluation adjustment	160	
	Closing Balance		960

	Plant and Machinery		
	Opening Balance	824	
	Less: Disposed off	(24)	
		800	
	Less: Depreciation ₹ (150 – 20 + 80)	(210)	
	Closing Balance		590
	Total		1,550
6	Trade receivables		
	Debits outstanding for a period exceeding six months	50	
	Other debts	70	120
7	Cash and Cash Equivalents		
	Cash at Bank With scheduled banks	23	
	With others (ABC Bank Limited)	5	
	Cash in hand	2	30
8	Other Income		
	Profit on sale of machinery		
	Sale value of machinery	10	
	Less: Book value of machinery (24 – 20)	(4)	6
9	Finance Costs		
	Debenture Interest		30
10	Other Expenses:		
	Factory expenses	80	
	Selling expenses	25	
	Administrative expenses	45	150

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

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

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

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

Journal Entries

Particulars		₹	₹
8% Preference share capital A/c	Dr.	6,00,000	
To 11% Debentures A/c			4,20,000
To Capital reduction A/c			1,80,000
[Being 30% reduction in liability of preference share capital and issue of 11% debentures]			
9% Debentures A/c	Dr.	12,00,000	
To Plant & machinery A/c			9,00,000
To Capital reduction A/c			3,00,000
[Settlement of debenture holders by allotment of plant & machinery]			
Trade payables A/c	Dr.	5,92,000	
To Inventory A/c			5,00,000
To Capital reduction A/c			92,000
[Being settlement of creditors by giving Inventories]			
Bank A/c	Dr.	3,00,000	
To 11% Debentures A/c			3,00,000
[Being fresh issue of debentures]			
Bank overdraft A/c	Dr.	1,50,000	
To Bank A/c			1,50,000
[Being settlement of bank overdraft]			
Capital reduction A/c	Dr.	5,72,000	
To Investment A/c			13,000
To Profit and loss A/c			4,05,000
To Capital reserve A/c			1,54,000
[Being decrease in investment and profit and loss account (Dr. bal.); and balance of capital reduction account transferred to capital reserve]			

Capital Reduction Account

	₹		₹
To Investments A/c	13,000	By Preference share capital A/c	1,80,000
To Profit and loss A/c	4,05,000	By 9% Debenture holders A/c	3,00,000

To Capital reserve A/c	1,54,000	By Trade payables A/c	92,000
	5,72,000		5,72,000

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

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

Notes to Accounts

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

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

Journal Entries

		₹	₹
Business Purchase A/c	Dr.	5,30,000	
To Liquidators of Vayu Ltd. Account			5,30,000
(Being business of Vayu Ltd. taken over)			
Goodwill Account	Dr.	50,000	
Building Account	Dr.	1,50,000	
Machinery Account	Dr.	1,60,000	
Inventory Account	Dr.	1,57,500	
Trade receivables Account	Dr.	1,00,000	
Bank Account	Dr.	20,000	
To Retirement Gratuity Fund Account			20,000

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

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

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

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		

	1,40,000 Equity Shares of ₹ 10 each fully paid (Out of above 40,000 Equity Shares were issued in consideration other than for cash)		14,00,000
	Preference share capital		
	2,100 9% Preference Shares of ₹ 100 each (Out of above 1,100 Preference Shares were issued in consideration other than for cash)		2,10,000
	Total		16,10,000
2	**Reserves and Surplus**		
	Securities Premium		20,000
	General Reserve		70,000
	Total		90,000
3	**Long-term provisions**		
	Retirement Gratuity fund		70,000
	Total		70,000
4	**Property, Plant and Equipment**		
	Buildings		4,50,000
	Machinery		6,60,000
	Total		11,10,000
5	**Intangible assets**		
	Goodwill		1,00,000
6	**Trade receivables**		3,00,000
	Less: Provision for Doubtful Debts		7,500
			2,92,500

Working Notes:

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

1,100 9% Preference Shares of Hari Ltd.	1,10,000
Equity Shareholders of Vayu Ltd. to be satisfied by issue of 40,000 Equity Shares of Hari Ltd. at 5% Premium	4,20,000
Total	5,30,000

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

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

Notes to Accounts

	Particulars	₹	₹
1.	**Share capital**		
	60,000 equity shares of ₹ 10 each fully paid up		6,00,000
2.	**Reserves and Surplus**		
	General Reserve	1,00,000	
	Add: General reserve of Anushka Ltd (80%)	80,000	
	Total		1,80,000
3.	**Minority interest**		
	20% share in Anushka Ltd (WN 3)		1,00,000

4	**Long term borrowings**		
	Long term borrowings of Virat	2,00,000	
	Add: Long term borrowings of Anushka	1,00,000	
	Total		3,00,000
5.	**Trade payables**		
	Trade payables of Virat	1,00,000	
	Add: Trade payables of Anushka	1,00,000	
	Total		2,00,000
6.	**Property, Plant and Equipment (PPE)**		
	PPE of Virat Ltd	4,00,000	
	Add: PPE of Anushka Ltd	3,00,000	
	Total		7,00,000
7.	**Inventories**		
	Inventories of Virat Ltd	1,60,000	
	Add: Inventories of Anushka Ltd	2,00,000	
	Total		3,60,000
8.	**Trade receivables**		
	Trade receivables of Virat Ltd	80,000	
	Add: Trade receivables of Anushka Ltd	1,40,000	
	Total		2,20,000
9	**Cash and cash equivalents**		
	Cash and cash equivalents of Virat Ltd	40,000	
	Add: Cash and cash equivalents of Anushka Ltd	60,000	
	Total		1,00,000

Working Notes:

1. **Basic Information**

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

2. **Analysis of General Reserves of Anushka Ltd**

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

3. **Consolidation of Balances**

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

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

Qualitative Characteristics of Financial Statements

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

Or

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

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

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

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

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

In the books of Jammu Branch

Trading Account and Profit and Loss Account

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

(ii) **Stock reserve in respect of unrealised profit**

= ₹ 3,60,000 x (20/120) = ₹ 60,000

Working Note:

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

ANSWER OF MODEL TEST PAPER 2

INTERMEDIATE COURSE: GROUP – I

PAPER – 1 : ADVANCED ACCOUNTING

1. (i) (c)

(ii) (b)

(iii) (c)

(iv) (d)

2. (i) (a)

(ii) (a)

(iii) (b)

(iv) (a)

(v) (b)

3. (i) (b)

(ii) (a)

(iii) (b)

4. (a)

5. (d)

6. (a)

PART II – Descriptive Questions (70 Marks)

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

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

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

(ii) Material used 16,000 MT @ ₹ 190 = ₹ 30,40,000

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

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

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

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

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

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

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

2. Oliva Company Ltd.

Statement of Profit and loss for the year ended 31.03.2024

	Particulars	Note	Amount (₹)
I	Revenue from operations		17,10,000
II	Other income (3,900 +300)		4,200
III	**Total Revenue (I +II)**		17,14,200
IV	Expenses:		
	Cost of materials consumed	10	12,64,200
	Purchases of inventory-in-trade		--
	Changes in inventories of finished goods, work-in-progress and inventory-in-Trade	11	(13,500)
	Employee benefit expenses	12	44,700
	Finance costs		--
	Depreciation and amortization expenses		18,240
	Other expenses	13	3,51,510
	Total Expenses		16,65,150
V	Profit before exceptional and extraordinary items and tax		49,050

VI	Exceptional items		--
VII	Profit before extraordinary items and tax		49,050
VIII	Extraordinary items		--
IX	Profit before tax		49,050
X	Tax expense (40% of 49,050)		19,620
XI	Profit/Loss for the period from continuing operations		29,430

Oliva Company Ltd.
Balance Sheet for the year ended 31.03.2024

	Particulars	Note	Amount
1	**Equity and Liabilities**		
	(i) Shareholders' funds		
	(a) Share Capital		3,15,000
	(b) Reserves and surplus	1	50,430
2)	**Non-current liabilities**		
	(a) Long-term borrowings	2	24,300
(3)	**Current Liabilities**		
	(a) Short -term borrowings	3	6,000
	(b) Trade payables		3,27,000
	(c) Other current liability	4	72,000
	(d) Short term provision	5	19,620
			8,14,350
II	**ASSETS**		
(1)	**Non current assets**		
	(a) Property, Plant & equipment	6	2,04,160
	(b) Non-current investments		7,500
(2)	**Current assets**		
	(a) Current investments		4,500
	(b) Inventories	7	85,800
	(c) Trade receivables		2,38,500
	(d) Cash and cash equivalents		2,71,100
	(e) Short-term loans and advances	8	2,490
	(f) Other current assets	9	300
			8,14,350

Notes to accounts

No.	Particulars		Amount	Amount
1.	**Reserve & Surplus**			
	Profit & Loss Account: Balance b/f		48,000	
	Net Profit for the year		29,430	
	Less: Interim Dividend		(27,000)	50,430
2.	**Long term borrowings**			
	Secured loans		21,000	
	Fixed Deposits: Unsecured		3,300	24,300
3.	**Short term borrowings**			
	Secured loans		4,500	
	Fixed Deposits -Unsecured		1,500	6,000
4.	**Other current liabilities**			
	Expenses Payable (67,500 + 4,500)			72,000
5.	**Short term provisions**			
	Provision for Income tax			19,620
6.	**PPE**			
	Building	1,01,000		
	Less: Depreciation @ 2%	(2,020)	98,980	
	Plant & Machinery	70,400		
	Less: Depreciation @ 10%	(7,040)	63,360	
	Furniture	10,200		
	Less: Depreciation @ 10%	(1,020)	9,180	
	Motor vehicles	40,800		
	Less: Depreciation @ 20%	(8,160)	32,640	2,04,160
7	**Inventory**			
	Raw Material		25,800	
	Finished goods		60,000	85,800
8.	**Short term Loans & Advances**			
	General Charges prepaid			2,490
9.	**Other Current Assets**			
	Interest accrued			300
10.	**Cost of material consumed**			
	Opening inventory of raw material	30,000		
	Add: Purchases	12,15,000		

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

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

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

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

	Particulars	Notes	₹
I.	Equity & Liabilities		
A	Shareholders' Fund		
a	Share Capital	1	3,16,800
b	Reserves & Surplus	2	1,10,200
B	Non-Current Liabilities		

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

Notes to Accounts

	Particulars	**₹**
1	Share Capital	-
	Authorised, Issued, Subscribed & Paid Up Capital	
	Equity share Capital	
	15,840 Shares of ₹20 Paid up	<u>3,16,800</u>
	(Out of above 6,840 shares are issued for consideration other cash) (W.N 1)	
2	Reserves & Surplus	
	Capital Reserve (W.N 2)	1,10,200
3	Long Term Borrowings Secured	
a	6% Debentures	4,50,000
b	11% Debentures (70% of 4,80,000 preference shares)	<u>3,36,000</u>
		<u>7,86,000</u>
4	PPE	
	Freehold property	6,49,000
	Plant	<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)	27,000	45,500
		1,76,500

4. Calculation of Net Assets

Particulars	**Anu Ltd. (₹)**	**Banu Ltd. (₹)**
Goodwill	1,75,000	50,000
Freehold property	3,75,000	3,00,000
Plant & Machinery	1,25,000	50,000
Motor vehicle	37,500	25,000
Trade receivable	2,50,000	1,00,000
Inventory	2,87,500	2,25,000
Cash at Bank	1,00,000	50,000
Total	13,50,000	8,00,000

Less : Trade payable	(2,62,500)	(1,62,500)
6% debentures	-	(1,57,500)
Net Assets	10,87,500	4,80,000

Calculation of Purchase Consideration

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

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

	Particulars	Note No.	₹
	Equity and Liabilities		
(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)		4,25,000
	Total		21,50,000
	Assets		
(1)	Non-current Assets		
(a)	Property Plant and Equipment	3	9,12,500
(b)	Intangible assets	4	2,25,000
(2)	Current Assets		
(a)	Inventories (2,87,500 + 2,25,000)		5,12,500
(b)	Trade Receivables (2,50,000 + 1,00,000)		3,50,000
(c)	Cash and cash equivalents (1,00,000 + 50,000)		1,50,000
	Total		21,50,000

Notes to Accounts:

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

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

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

* Total Cost of 70 % Equity of Moon Ltd.	₹ 140 lakhs
Purchase Price of each share	₹ 20
Number of shares purchased [140 lakhs /₹ 20]	7 lakhs
Dividend @ 20 % i.e. ₹ 2 per share	₹ 14 lakhs

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

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

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

Working note:

Percentage of holding:

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

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

Or

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

Transactions	**Assets ₹ lakh**	**–**	**Liabilities ₹ lakh**	**=**	**Equity ₹ lakh**
Opening	16.00	–	6.00	=	10.00
(1) Dividend earned	16.40	–	6.00	=	10.40
(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	Equity Share Capital A/c	Dr.	4,00,000	
June	To Equity Stock A/c			4,00,000
	(Being conversion of 4,000 fully paid Equity Shares of ₹ 100 into ₹ 4,00,000 Equity Stock as per resolution in general meeting dated…)			
2023				
June	Equity Stock A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being re-conversion of ₹ 4,00,000 Equity Stock into 40,000 shares of ₹ 10 fully paid Equity Shares as per resolution in General Meeting dated...)			

(c) Books of Head Office

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

ANSWER OF MODEL TEST PAPER 3
INTERMEDIATE COURSE: GROUP – I
PAPER – 1 : ADVANCED ACCOUNTING

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

PART II – Descriptive Questions (70 Marks)

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

Scrip : 8% Convertible Debentures in C Ltd.

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

Date	Particulars	Nominal value ₹	Interest ₹	Cost ₹	Date	Particulars	Nominal Value (₹)	Interest (₹)	Cost (₹)
1.4.23	To Bank A/c	2,00,000	-	2,16,000	30.09.23	By Bank A/c [₹3,00,000 x 8% x (6/12]	-	12,000	-
1.7.23	To Bank A/c (W.N.1)	1,00,000	2,000	1,10,000					
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
		3,00,000	16,033	3,26,000			3,00,000	16,033	3,26,000

SCRIP: Equity Shares in C LTD.

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

Working Notes:

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

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

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

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

Nominal value of debentures converted into equity shares

=₹ 55,000

[(₹ 3,00,000 – 80,000) x.25]

Interest received before the conversion of debentures

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

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

(v)

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

= ₹ 1,79,300

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

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

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

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

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

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

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

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

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

		Note	₹
I	**EQUITY AND LIABILITIES:**		
(1)	(a) Share Capital	1	1,60,00,000
	(b) Reserves and Surplus	2	110,68,000
(2)	**Non-current Liabilities**		
	Long term Borrowings- Terms Loans (Secured)		40,00,000
(3)	**Current Liabilities**		
	(a) Trade Payables		45,80,000
	(b) Other current liabilities	3	8,00,000
	(c) Short-term Provisions (Provision for taxation)		10,20,000
	Total		**3,74,68,000**
II	**ASSETS**		
(1)	**Non-current Assets**		
	(a) Property, Plant and Equipment	4	214,00,000
	(b) Non- current Investments		9,00,000
(2)	**Current Assets:**		
	(a) Inventories	5	48,00,000
	(b) Trade Receivables	6	48,20,000
	(c) Cash and Cash Equivalents		38,40,000

	(d) Short-term Loans and Advances	7	17,08,000
	Total		**3,74,68,000**

Notes to accounts

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

Considered to be short term.

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

Year	MLP ₹	DF (12.6%)	PV ₹
1	50,000	0.890	44,500
2	50,000	0.790	39,500

3	50,000	0.700	35,000
4	50,000	0.622	31,100
5	50,000	0.552	27,600
5	25,000	0.552	13,800
			1,91,500

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

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

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

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

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

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

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

Fixed assets initially recorded in the books = ₹ 80 lakhs

Depreciation for each year

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

Book value of fixed assets after two years

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

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

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

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

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

4. Books of Robert Ltd.

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

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

Notes to Accounts

	₹
1. Share Capital Equity share capital Authorized, issued, subscribed and paid-up: 36 crores equity shares of ₹ 10 each (out of these shares, 13.5 crores shares have been issued for consideration other than cash)	36,000

2. Reserves and Surplus	
General Reserve	14,550
Securities Premium	4,500
Foreign Project Reserve	465
Profit and Loss Account ₹ (4,305 +1,162.5-1.5)	5,466
Total	24,981
3. Long-term borrowings	
Secured	
13% Debentures	1,500
4. PPE	
Land & Buildings	9,000
Plant & Machinery	28,500
Furniture & Fittings	6,006
Total	43,506

Working Note:

Computation of purchase consideration

Purchase consideration was discharged in the form of three equity shares of *Robert* Ltd. for every two equity shares held in *Diamond* Ltd.

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

5. Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.

as at 31st March, 2024

Particulars	***Note No.***	***(₹)***
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital (1,20,000 equity shares of ₹ 10 each)		12,00,000
(b) Reserves and Surplus	1	8,16,200
(2) Minority Interest (W.N.4)		99,300
(3) Current Liabilities		
(a) Trade Payables	2	4,10,000
Total		25,25,500
II. Assets		
(1) Non-current assets		
(i) Property, plant and equipment	3	13,10,500
(ii) Intangible assets	4	24,000
(2) Current assets		
(i) Inventories	5	3,25,000

(ii) Trade Receivables	6	6,70,000
(iii) Cash at Bank	7	1,96,000
Total		25,25,500

Notes to Accounts

				₹
1.	Reserves and Surplus			
	General Reserves		4,35,000	
	Add: 80% share of S Ltd.'s post-acquisition reserves (W.N.3)		84,000	5,19,000
	Profit and Loss Account		2,80,000	
	Add: 80% share of S Ltd.'s post-acquisition profits (W.N.3)	21,200		
	Less: Unrealised gain	(4,000)	17,200	2,97,200
				8,16,200
2.	Trade Payables			
	H Ltd.		3,22,000	
	S Ltd.		1,23,000	
	Less: Mutual transaction		(35,000)	4,10,000
3.	Property, plant and equipment			
	Machinery			
	H Ltd.		6,40,000	
	S Ltd.	2,00,000		
	Add: Appreciation	1,00,000		
		3,00,000		
	Less: Depreciation	(30,000)	2,70,000	9,10,000
	Furniture			
	H. Ltd.		3,75,000	
	S Ltd.	40,000		
	Less: Decrease in value	(10,000)		
		30,000		
	Less: Depreciation	(4,500)	25,500	4,00,500
				13,10,500
4.	Intangible assets			
	Goodwill [WN 5]			24,000
5.	Inventories			
	H Ltd.		2,68,000	
	S Ltd.		62,000	3,30,000
	Less: Inventory reserve			(5,000)
				3,25,000

6.	Trade Receivables			
	H Ltd.		4,70,000	
	S Ltd.		2,35,000	
				7,05,000
	Less: Mutual transaction			(35,000)
				6,70,000
7.	Cash and Bank			
	H Ltd.		1,64,000	
	S Ltd.		32,000	1,96,000

Working Notes:

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

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

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

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

3. **Analysis of reserves and profits of S Ltd. as on 31.03.2024**

	Pre-acquisition profit upto 1.4.2023	***Post-acquisition profits (1.4.2023–31.3.2024)***	
	(Capital profits)	***General Reserve***	***Profit and loss account***
General reserve as on 31.3.2024	50,000	1,05,000	
Profit and loss account as on 31.3.2024	30,000		35,000
Upward Revaluation of machinery	1,00,000		

as on 1.4.2023			
Downward Revaluation of Furniture as on 1.4.2023	(10,000)		
Short depreciation on machinery			(10,000)
Excess depreciation on furniture			1,500
Total	1,70,000	1,05,000	26,500

4. Minority Interest

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

5. Cost of Control or Goodwill

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

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

The following are the benefits of Accounting Standards:

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

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

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

Or

Amount that can be drawn from reserves for (10% dividend on ₹ 80,00,000 i.e. ₹ 8,00,000)

Profits available

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

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

Condition I

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

Condition II

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

Condition III

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

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

(b) Cash Flow Statement for the year ended 31.3.2024

	₹	₹
Cash flow from operating activities		
Cash received on account of trade receivables	3,50,000	
Cash paid on account of trade payables	(90,000)	
Cash paid to employees (salaries and wages)	(25,000)	
Other cash payments (overheads)	(15,000)	
Cash generated from operations	2,20,000	

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

(c) **Outlet Stock A/c**

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

Outlet Profit and Loss A/c

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

Stock Reserve A/c

Particulars	₹	Particulars	₹
To HO P&L A/c	9,000	By bal c/d	9,000
To Bal c/d	10,800	By HO P&L A/c	10,800
	19,800		19,800

ANSWER OF MODEL TEST PAPER 4

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

Case Scenario

1. (a) (ii)

(b) (ii)

(c) (iii)

d) (iv)

2. (a) (iii)

(b) (ii)

(c) (iii)

(d) (iii)

3. (a) (iii)

(b) (iv)

(c) (ii)

(d) (ii)

4. (c)

5. (b)

6. (c)

PART II – Descriptive Questions (70 Marks)

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

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

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

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

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

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

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

(ii) In the given case, terms and conditions for acquisition of business were finalised and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2024. This is clearly an event occuring after the balance sheet date. Hence, necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st 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 16th 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 31st March, 2024.

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

2. **Prashant Ltd.**

Balance Sheet as on 31st March, 2024

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	14,95,000
	b	Reserves and Surplus	2	3,76,800
2		**Non-current liabilities**		
		Long-term borrowings	3	3,65,000

3		**Current liabilities**		
	a	Trade Payables		2,67,000
	b	Other current liabilities	4	10,000
	c	Short-term provisions	5	72,000
		Total		25,85,800
		Assets		
1		**Non-current assets**		
		Property, Plant and Equipment	6	15,95,000
2		**Current assets**		
	a	Inventories		3,15,000
	b	Trade receivables	7	2,95,000
	c	Cash and bank balances	8	3,22,300
	d	Short-term loans and advances		58,500
		Total		25,85,800

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	Issued & subscribed & fully paid up		
	1,50,000 Equity Shares of ₹ 10 each		
	(of the above 10,000 shares have been issued for consideration other than cash)	15,00,000	
	Less: Calls in arrears	(5,000)	14,95,000
2	Reserves and Surplus		
	General Reserve		2,70,000
	Profit & Loss balance		1,06,800
		Total	3,76,800
3	Long-term borrowings		
	Secured		
	Loan from State Financial Corporation (2,10,000-10,000)		2,00,000
	(Secured by hypothecation of Plant and Machinery)		
	Unsecured Loan		1,65,000
	Total		3,65,000
4	Other current liabilities		
	Interest accrued but not due on loans (SFC)		10,000
5	Short-term provisions		
	Provision for taxation		72,000

6	Property, Plant & Equipment		
	Land		5,50,000
	Building	5,50,000	
	Less: Depreciation(b.f.)	(65,000)	4,85,000
	Plant & Machinery	6,25,000	
	Less: Depreciation (b.f.)	(65,000)	5,60,000
	Total		15,95,000
7	Trade receivables		
	Outstanding for a period exceeding six months		55,000
	Other Amounts		2,40,000
	Total		2,95,000
8	Cash and bank balances		
	Cash and cash equivalents		
	Cash at bank		2,85,000
	Cash in hand		37,300
	Other bank balances		Nil
	Total		3,22,300

3. (a) (i) PQR Ltd.

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

(Using direct method)

Particulars	₹	₹
Cash flows from Operating Activities		
Cash sales (₹ 3,75,000/25%)		15,00,000
Less: Cash payments for trade payables	(6,10,000)	
Wages Paid	(5,55,000)	
Office and selling expenses ₹ (35,000 + 15,000)	(50,000)	(12,15,000)
Cash generated from operations before taxes		2,85,000
Income tax paid		(55,000)
Net cash generated from operating activities (A)		2,30,000
Cash flows from Investing activities		
Sale of investments ₹ (8,20,000 + 20,000)	8,40,000	
Payments for purchase of Plant & machinery	(3,50,000)	
Net cash used in investing activities (B)		4,90,000

Cash flows from financing activities		
Bank loan repayment (including interest)	(2,05,000)	
Dividend paid	(40,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,75,000
Cash and cash equivalents at beginning of the period		2,25,000
Cash and cash equivalents at end of the period		7,00,000

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

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

Working Note:

Calculation of net profit earned during the year

	₹	₹
Gross profit		3,75,000
Less: Office expenses, selling expenses	50,000	
Depreciation	60,000	
Interest paid	5,000	(1,15,000)
		2,60,000
Add: Profit on sale of investments		20,000
Net profit before tax		2,80,000

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

(i) Computation of Purchase Consideration

		₹
(a)	Preference Shares: ₹ 50 per share 24,000 Preference shares	12,00,000

(b)	Cash	39,000
(c)	Equity shares: 56,000 equity shares in Wow Ltd. @ ₹ 115	64,40,000
		76,79,000

(ii) Journal entry

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

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

		Dr. ₹	*Cr.* ₹
PPE	Dr.	2,10,000	
To Revaluation Reserve			2,10,000
(Revaluation of PPE at 15% above book value)			
Reserve and Surplus	Dr.	1,20,000	
To Equity Dividend			1,20,000
(Equity dividend @ 10%)			
Equity Dividend	Dr.	1,20,000	
To Bank Account			1,20,000
(Payment of equity dividend)			
Business Purchase Account	Dr.	9,80,000	
To Liquidator of MG Ltd.			9,80,000
(Consideration payable for the business taken over from MG Ltd.)			
PPE (115% of ₹ 5,00,000)	Dr.	5,75,000	
Inventory (95% of ₹ 6,40,000)	Dr.	6,08,000	
Debtors	Dr.	3,80,000	
Bills Receivable	Dr.	40,000	
Investment	Dr.	1,60,000	
Cash at Bank	Dr.	20,000	
(₹ 80,000 –₹ 60,000 dividend paid)			
To Provision for Bad Debts (5% of ₹ 3,60,000)			18,000

To Sundry Creditors			2,50,000
To 12% Debentures in MG Ltd.			3,24,000
To Bills Payable			50,000
To Business Purchase Account			9,80,000
To Capital Reserve (Balancing figure)			1,61,000
(Incorporation of various assets and liabilities taken over from MG Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)			
Liquidator of MG Ltd.	Dr.	9,80,000	
To Equity Share Capital			8,00,000
To 10% Preference Share Capital			1,80,000
(Discharge of consideration for MG Ltd.'s business)			
12% Debentures in MG Ltd. (₹ 3,00,000 × 108%)	Dr.	3,24,000	
Discount on Issue of Debentures (₹ 3,60,000 × 10%)	Dr.	36,000	
To 12% Debentures (₹ 3,24,000/90 × 100)			3,60,000
(Allotment of 12% Debentures to debenture holders of MG Ltd. at a discount of 10%)			
Sundry Creditors	Dr.	20,000	
To Sundry Debtors			20,000
(Cancellation of mutual owing)			
Goodwill	Dr.	60,000	
To Bank			60,000
(Being liquidation expenses reimbursed to MG Ltd.)			
Capital Reserve/P&L A/c	Dr.	60,000	
To Goodwill			60,000
(Being goodwill set off)			

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

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

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

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

₹ 2,00,000x 90/100 ₹ 1,80,000 (ii)

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

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

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

Notes to Accounts

				₹
1.	**Reserves and Surplus**			
	Reserves		5,00,000	
	Add: 4/5th share of Vijay Ltd.'s post-acquisition reserves (W.N.3)		1,00,000	6,00,000
	Profit and Loss Account		2,50,000	
	Add: 4/5th share of Vijay Ltd.'s post-acquisition profits (W.N.4)		11,500	2,61,500
				8,61,500
2.	**Trade Payables**			
	Kedar Ltd.		3,75,000	
	Vijay Ltd.		1,42,500	5,17,500
3.	**Property, plant & Equipment**			
	Machinery			
	Kedar Ltd.		7,50,000	

	Vijay Ltd.	2,50,000		
	Add: Appreciation	1,25,000		
		3,75,000		
	Less: Depreciation	(37,500)	3,37,500	
	Furniture	-		
	Kedar Ltd.	-	3,75,000	
	Vijay Ltd.	50,000		
	Less: Decrease in value	(12,500)		
		37,500		
	Less: Depreciation	(5,625)	31,875	14,94,375
4.	**Intangible assets**			
	Goodwill [WN 6]			30,000
5.	**Other non-current assets**			
	Kedar Ltd.		11,00,000	
	Vijay Ltd.		3,75,000	14,75,000

Working Notes:

		₹
1.	**Pre-acquisition profits and reserves of Vijay Ltd.**	₹
	Reserves	62,500
	Profit and Loss Account	37,500
		1,00,000
	Kedar Ltd.'s = 4/5 × 1,00,000	80,000
	Minority Interest = 1/5 × 1,00,000	20,000
2.	**Profit on revaluation of assets of *Vijay* Ltd.**	-
	Profit on Machinery ₹ (3,75,000 – 2,50,000)	1,25,000
	Less: Loss on Furniture ₹(50,000 – 37,500)	12,500
	Net Profit on revaluation	1,12,500
	Kedar Ltd.'s share 4/5 × 1,12,500	90,000
	Minority Interest 1/5 × 1,12,500	22,500
3.	**Post-acquisition reserves of *Vijay* Ltd.**	-
	Post-acquisition reserves (Total reserves less pre-acquisition reserves = ₹ 1,87,500 – 62,500)	1,25,000
	Kedar Ltd.'s share 4/5 × 1,25,000	1,00,000
	Minority interest 1/5 × 25,000	25,000
4.	**Post -acquisition profits of *Vijay* Ltd.**	-
	Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = ₹ 62,500 – 37,500)	25,000
	Add: Excess depreciation charged on furniture @ 15%	-
	on ₹ 12,500 i.e. (50,000 – 37,500)	1,875
		26,875

Less: Under depreciation on machinery @ 10%	-
on ₹ 1,25,000 i.e. (3,75,000 – 2,50,000)	(12,500)
Adjusted post-acquisition profits	14,375
Kedar Ltd.'s share 4/5 × 14,375	11,500
Minority Interest 1/5 × 14,375	2,875
5. Minority Interest	-
Paid-up value of (2,500 – 2,000) = 500 shares	-
held by outsiders i.e. 500 × ₹ 100	50,000
Add: 1/5th share of pre-acquisition profits and reserves	20,000
1/5th share of profit on revaluation	22,500
1/5th share of post-acquisition reserves	25,000
1/5th share of post-acquisition profit	2,875
	1,20,375
6. Cost of Control or Goodwill	-
Paid-up value of 2,000 shares held by Kedar Ltd. i.e. 2,000 × ₹ 100	2,00,000
Add: 4/5th share of pre-acquisition profits and reserves	80,000
4/5th share of profit on the revaluation	90,000
Intrinsic value of shares on the date of acquisition	3,70,000
Price paid by Kedar Ltd. for 2,000 shares	4,00,000
Less: Intrinsic value of the shares	(3,70,000)
Cost of control or Goodwill	30,000

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

Basis	Amalgamation	Absorption	External Reconstruction
Meaning	Two or more companies are wound up and a new company is formed to take over their business.	In this case, an existing company takes over the business of one or more existing companies.	In this case, a newly formed company takes over the business of an existing company.
Minimum number of Companies involved	At least three companies are involved.	At least two companies are involved.	Only two companies are involved.

Number of new resultant companies	Only one resultant company is formed. Two companies are wound up to form a single resultant company.	No new resultant company is formed.	Only one resultant company is formed. Under this case a newly formed company takes over the business of an existing company.
Objective	Amalgamation is done to cut competition and reap the economies in large scale.	Absorption is done to cut competition and reap the economies in large scale.	External reconstruction is done to reorganise the financial structure of the company.
Example	A Ltd. and B Ltd. amalgamate to form C Ltd.	A Ltd. takes over the business of another existing company B Ltd.	B Ltd. is formed to take over the business of an existing company A Ltd.

Or

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

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

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

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

Particulars	**$ (Dr.)**	**$ (Cr.)**	**Conversion Basis**	**Rate**	**₹ (Dr.)**	**₹ (Cr.)**
Fixed Assets	8,000		Transaction Date Rate	63	5,04,000	
Opening Inventory	800		Opening Rate	65	52,000	
Goods Received from HO	2,800		Actuals		1,85,500	
Sales		24,050	Average Rate	66		15,87,300
Purchases	11,800		Average Rate	66	7,78,800	
Expenses	1,800		Average Rate	66	1,18,800	
Cash	700		Closing Rate	67	46,900	
Remittance to HO	2,450		Actuals		1,62,000	
HO Account		4,300	Actuals			2,84,500
Exchange Rate Difference			Balancing Figure		23,800	
	28,350	28,350			18,71,800	18,71,800
Closing Stock	700		Closing Rate	67	46,900	
Depreciation	800		Fixed Asset Rate	63	50,400	

ANSWERS OF MODEL TEST PAPER 5

INTERMEDIATE COURSE; GROUP I

PAAPER 1 ADVANCED ACCOUNTING

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

Part II- Descriptive questions (70 marks)

1. **(a)** (i) Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses

Date of incurrence of expenditure	**Amount spent**	**Financed through**	**Calculation**	**₹**
1st April 2023	4,00,000	Specific borrowing	4,00,000 x 12% x 10/12	40,000
1st August 2023	10,00,000	Specific borrowing	10,00,000 x 12% x 10/12	1,00,000
1st December 2023	25,00,000	General borrowing	25,00,000 x 10.8% x 2/12	45,000
31st January 2024	5,00,000	General borrowing	5,00,000 x 10.8% x 0/12	Nil
				1,85,000
Less: interest income on borrowing				(15,000)
Total amount borrowing cost to be capitalized				1,70,000

(ii) **Journal Entry**

Date	Particulars	₹	₹
31.1.2024	Building account Dr.	45,70,000	
	To Bank account		44,00,000
	To Interest payable (borrowing cost)		1,70,000
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)		

Note: In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.2024.

(b) As per AS 2 'Valuation of Inventories', most by-products as well as scrap or waste materials by their nature, are immaterial. They are often measured at net realizable value and this value is deducted from the cost of the main product.

Determination of value of closing inventory of Polyester and Nylon

	Polyester	Nylon
Closing inventory in units	1,600 units	400 units
Cost per unit	₹ 31.14	₹ 18.68
Value of closing inventory	₹ 49,824	₹ 7,472

Working Notes

1. Calculation of net realizable value of by-product, Fiber

		₹
Selling price of by-product Fiber	(3,200 units x ₹ 40 per unit)	1,28,000
Less: Separate processing charges of by-product Fiber		(10,000)
Packing charges		(9,000)
Net realizable value of by-product Fiber		1,09,000

2. Calculation of cost of conversion for allocation between joint products Polyester and Nylon

	₹	₹
Raw material		3,50,000
Wages		1,60,000
Fixed overhead		1,20,000

Variable overhead		60,000
		6,90,000
Less: NRV of by-product Fiber (W.N. 1)	(1,09,000)	
Sale value of scrap	(5,000)	(1,14,000)
Joint cost to be allocated between Polyester and Nylon		5,76,000

Determination of "basis for allocation" and allocation of joint cost to Polyester and Nylon

	Polyester	Nylon
Output in units (a)	12,500 units	10,000 units
Sales price per unit (b)	₹ 100	₹ 60
Sales value (a x b)	₹ 12,50,000	₹ 6,00,000
Total value (12,50,000 + 6,00,000) = 18,50,000		
Joint cost of ₹ 5,76,000 allocated in the ratio of 12,50,000 : 6,00,000	₹ 3,89,189	₹ 1,86,811
Cost per unit [c/a]	₹ 31.14	₹ 18.68

2. (1) Journal Entries

In the Books of Z Ltd. as on 1st April 2024

	Particulars		Dr.	Cr.
01.04.2024			Amount (₹)	Amount (₹)
1.	Equity share capital A/c (₹ 100)	Dr.	60,00,000	
	To Equity share capital A/c (₹ 10)			60,00,000
	(Being sub-division of one share of ₹ 100 each into 10 shares of ₹ 10 each)			
2.	Equity share capital A/c (₹ 10)	Dr.	24,00,000	
	To Capital reduction A/c			24,00,000
	(Being reduction of Equity capital by 40%)			
3.	Capital reduction A/c	Dr.	1,68,000	
	To Bank A/c			1,68,000
	(Being payment in cash of 25% of arrear of preference dividend) [21,00,000x8%] x 4 years			
4.	Bank A/c	Dr.	2,35,200	
	To Own debentures A/c (5,76,000/6,00,000) x 2,40,000			2,30,400
	To Capital reduction A/c			4,800
	(Being profit on sale of own debentures of ₹ 2,40,000 transferred to capital reduction A/c)			

5.	10% Debentures A/c (6,00,000 -2,40,000)	Dr.	3,60,000	
	To Own debentures A/c			3,45,600
	To Capital reduction A/c			14,400
	(Being profit on cancellation of own debentures transferred to capital reduction A/c)			
6.	10% Debentures A/c	Dr.	6,00,000	
	Capital reduction A/c	Dr.	3,00,000	
	To Machinery or PPE A/c			9,00,000
	(Being machinery taken up by debenture holders for ₹ 6,00,000)			
7.	Capital reduction A/c (balancing figure)	Dr.	3,00,000	
	To PPE A/c (72,00,000 - 9,00,000 - 60,00,000)			3,00,000
	(Being PPE revalued)			
8.	Trade payables A/c (16,80,000 -15,00,000)	Dr.	1,80,000	
	To Trade receivables A/c (13,75,000-13,00,000)			75,000
	To Inventory A/c (9,80,000-9,44,000)			36,000
	To Capital Reduction A/c			69,000
	(Being assets and liabilities revalued)			
9.	Capital reduction A/c	Dr.	13,16,000	
	To Goodwill A/c			81,000
	To Profit and Loss A/c			12,35,000
	(Being the above assets written off)			
10.	Capital reduction A/c	Dr.	60,000	
	To Bank A/c			60,000
	(Being penalty paid for avoidance of capital commitments)			
11.	Capital reduction A/c	Dr.	3,44,200	
	To Capital reserve A/c			3,44,200
	(Being the credit balance in Capital Reduction A/c transferred to Capital Reserve)			

2. **Capital Reduction Account**

	(₹)		(₹)
To Bank	1,68,000	By Equity Share Capital	24,00,000
To Property, Plant & Equipment	3,00,000	By Trade Payable	1,80,000
To Property, Plant & Equipment	3,00,000	By Bank A/c (Profit on Sale)	4,800
To Trade Receivables	75,000	By 10% debentures A/c (Profit on cancellation)	14,400
To Inventory	36,000		
To Goodwill	81,000		
To Profit and Loss A/c	12,35,000		
To Cash/Bank A/c	60,000		
To Capital Reserve	3,44,200		
	25,99,200		25,99,200

3. **Bank Account**

	₹		₹
To To balance b/d	1,33,000	By Capital Reduction	1,68,000
To Own Debenture (2,30,400 +4,800)	2,35,200	By Capital Reduction A/c	60,000
		By balance c/d	1,40,200
	3,68,200		3,68,200

3. (a) (i) **Stage of completion = Costs incurred to date / Total estimated costs**

Year 1: 98.8 crore / 375 crore = 26.35%

Year 2: 202.4 crore / 375 crore = 53.97%

Year 3: (310 crore – 3 crore) / (375+7) crore = 80.37%

Year 4: 382 crore / 382 crore = 100%

(ii) **Profit to be recognized each year has been calculated as follows:**

	Year 1	Year 2	Year 3	Year 4
Contract Revenue (1)	105.40 crore	110.48 crore	113.64 crore	80.48 crore
	(400 crore x 26.35%)	(400 crore x 53.97% - 105.40 crore)	(410 crore x 80.37% - 105.40 crore - 110.48 crore)	(410 crore x 100% - 105.40 crore - 110.48 crore - 113.64 crore)
Contract Cost (2)	98.8 crore	103.60 crore	104.60 crore	75 crore

		202.40 - 98.80 crore)	(307 crore - 98.8 crore- 103.60 crore)	(382 crore - 98.8 crore- 103.6 crore – 104.6 crore)
Contract Profit (1) – (2)	6.60 crore	6.88 crore	9.04 crore	5.48 crore

(b) Cash Flow from Operating Activities

	₹
Difference between Profit and Loss Account ₹ (37,800 + 5,400)	43,200
Add: Transfer to General Reserve (81,000-54,000)	27,000
Add: Adjustment for Provision for taxation	1,62,000
Profit Before tax	2,32,200
Add: Adjustment for Depreciation (₹ 1,62,000 – ₹ 1,29,600)	32,400
Add: Adjustment for provision for doubtful debt (₹ 54,000 – ₹ 27,000)	27,000
Add: Debenture Interest Paid ₹ (1,18,800 × 12%)	14,256
Less: Income from Investments (54,000 × 8%)	(4,320)
Operating Profit before Working Capital changes	3,01,536
Decrease in Inventories ₹ (1,35,000-81,000)	54,000
Increase in Trade receivables ₹ (2,61,360-81,000)	(1,80,360)
Decrease in Trade payables ₹ (1,29,600-1,18,800)	(10,800)
Cash generated from operations	1,64,376
Income tax paid	(2,48,400)
Net Cash generated from Operating Activities	(84,024)

Working Note:

Provision for taxation account

	₹		₹
To Cash (Paid) (Balancing figure)	2,48,400	By Balance b/d	2,21,400
To Balance c/d	1,35,000	By Profit and Loss A/c	1,62,000
	3,83,400		3,83,400

4. Computation of shares and debentures to be issued

		Intelligent Ltd.	Diligent Ltd.
(i) Equity shares	22,000 x 7/11 = 14,000 (W.N.1)	14,00,000	

	22,000 x 4/11 =8,000 (W.N.1)		8,00,000
(ii) Preference shares	($\frac{3,00,000}{100}$ × 125)	3,75,000	
	($\frac{2,00,000}{100}$ × 125)		2,50,000
(iii) Debentures	Refer (W.N.3)	17,50,000	11,25,000
Total Purchase Consideration (i + ii + iii)		35,25,000	21,75,000

Balance Sheet of Genius Limited
as at 1st April, 2024 (after amalgamation)

		Notes no.	₹
I.	**Equity and Liabilities**		
(1)	Shareholder's fund		
(a)	Share Capital	1	27,00,000
(b)	Reserves & Surplus	2	1,25,000
(2)	Non-current Liabilities		
(a)	Long term borrowings	3	28,75,000
(b)	Other non-current liabilities	4	5,00,000
(3)	Current Liabilities		
(a)	Trade Payables (12,00,000 + 4,00,000 – 1,00,000)		15,00,000
	Total		77,00,000
II.	**Assets**		
(1)	Non-current Assets		
(a)	Property, Plant & Equipment	5	32,50,000
(b)	Intangible Assets	6	22,50,000
(2)	Current Assets		
(a)	Inventories (6,00,000 + 3,00,000)		9,00,000
(b)	Trade Receivables (6,00,000 + 3,00,000 - 1,00,000)		8,00,000
(c)	Cash & Cash Equivalents		5,00,000
	Total		77,00,000

Notes to Accounts:

Sr. No.	Particular	₹
1.	Share Capital	
	Authorized Share Capital	
	a) Equity Share Capital	
	30,000 Equity Shares of ₹ 100 each	30,00,000
	b) Preference Share Capital	

	10% 10,000 Preference Shares ₹ 100 each	10,00,000
		40,00,000
	Issued, Subscribed & Paid-up Capital	
	a) Equity Share Capital	
	22,000 Equity Shares of ₹100 each	22,00,000
	(out of the above all shares are issued for consideration other than cash)	
	b) Preference Share Capital	
	10% 5,000 Preference Shares of ₹ 100 each	5,00,000
	(out of the above all shares are issued for consideration other than cash)	
		27,00,000
2.	Reserves & Surplus	
	Securities Premium	1,25,000
3.	Long term borrowings	
	12% Debentures of ₹ 100 each	28,75,000
4.	Other Non-current Liabilities	
	Gratuity Fund	5,00,000
5.	Property, Plant & Equipment	
	Land & Building (11,00,000 + 8,50,000)	19,50,000
	Plant & Machinery (9, 00,000 + 4,00,000)	13,00,000
		32,50,000
6.	Intangible Assets	
	Goodwill	22,50,000

Working Notes:

1. Calculation of Ratio of Equity Shares

	Intelligent Ltd.	Diligent Ltd
*Opening balance P&L	4,50,000	2,50,000
Profit for the current year	2,50,000	1,50,000
Total	7,00,000	4,00,000

The total profits- ₹ 7,00,000+ ₹ 4,00,000 = ₹ 11,00,000.

No. of shares to be issued = 22,000 equity shares in the proportion of the preceding 2 years' profits. i.e. in 7:4.

*As the company has been in existence for two years, the opening balance of profit and loss account has been assumed to be the profit of the previous year.

2. **Calculation of Net assets as on 31.3.2024**

Particulars	Intelligent Ltd.	Diligent Ltd
Assets (after revaluation)		
Land and Buildings	11,00,000	8,50,000
Plant & Machinery	9,00,000	4,00,000
Inventories	6,00,000	3,00,000
Trade Receivables	6,00,000	3,00,000
Cash & Cash Equivalents	4,00,000	1,00,000
Total (a)	36,00,000	19,50,000
Liabilities		
Trade Payables	12,00,000	4,00,000
Gratuity Fund	3,00,000	2,00,000
Total (b)	15,00,000	6,00,000
Net Assets (a – b)	21,00,000	13,50,000

3. **Calculation of 12% Debentures to be issued to Intelligent Ltd. and Diligent Ltd.**

	Intelligent Ltd.	Diligent Ltd
	₹	₹
Net assets (Refer working note)	21,00,000	13,50,000
10% return on Net assets	2,10,000	1,35,000
12% Debentures to be issued	17,500	
$\left[2,10,000 \times \frac{100}{12}\right]$ = 17,50,000of ₹ 100 each		
$\left[1,35,000 \times \frac{100}{12}\right]$ = 11,25,000 of ₹ 100 each		11,250

4. **Calculation of Goodwill / Capital Reserve**

S. No.	Particulars	Intelligent Ltd.	Diligent Ltd.	
(i)	Purchase Consideration Paid	35,25,000	21,75,000	
(ii)	Less: Net Assets	21,00,000	13,50,000	
(iii)	Goodwill	14,25,000	8,25,000	22,50,000

5. **Consolidated Balance Sheet of Art and Craft Ltd**

As on 31st March, 2024

	Particulars	Note no.	₹
I.	**Equity & Liabilities**		
(1)	Shareholders' fund		

(a)	Share Capital	1	6,50,000
(b)	Reserves & Surplus	2	3,73,460
(2)	Minority Interest	3	1,26,740
(3)	Current Liabilities		
(a)	Short term borrowings	4	70,000
(b)	Trade Payables (1,45,000 + 92,000)		2,37,000
	Total		14,57,200
II.	**Assets**		
(1)	Non-current Assets		
(a)	Property, Plant & Equipment	5	7,65,000
(2)	Current Assets		
(a)	Inventories	6	3,57,500
(b)	Trade Receivables	7	3,03,500
(c)	Cash & Cash Equivalents	8	31,200
	Total		14,57,200

Notes to Accounts

Sr. No.	Particulars		₹
1.	Share Capital		
	Issued, Subscribed & Paid-up Capital		
	a) Equity Share Capital		
	6,500 Equity Shares of ₹ 100 each		6,50,000
2.	Reserves & Surplus		
	Profit & Loss A/c (WN 5)		2,40,100
	General Reserve (WN 5)		1,20,000
	Capital Reserve (W.N. 3)		13,360
			3,73,460
3.	Minority interest in Craft Ltd. (W.N.4)		1,26,740
4.	Short-term borrowings		
	Bank Overdraft		70,000
5.	Property, Plant & Equipment		
	Land & Building		
	Art Ltd.	1,90,000	
	Craft Ltd.	1,35,000	3,25,000
	Plant & Machinery		
	Art Ltd.	2,31,000	
	Craft Ltd. (2,25,000-17,500+1,500)	2,09,000	4,40,000
			7,65,000

6.	Inventories		
	Art Ltd.	1,66,000	
	Craft Ltd.	2,05,000	
	Less: unrealized profit	(13,500)	3,57,500
7.	Trade Receivables		
	Art Ltd.	1,33,500	
	Craft Ltd.	1,70,000	3,03,500
8.	Cash & Cash Equivalents		
	Art Ltd.	24,500	
	Craft Ltd.	6,700	31,200

Working Notes:

1. Shareholding Pattern

Total 4,000 shares	
3,200 shares	800 shares
Art Ltd (80%)	20% Minority Interest

2. Analysis of Profit

	General reserve	**Profit and loss account**
Opening balance	40,000	58,700
Closing balance	40,000	2,08,000
Changes during the year		1,49,300

Analysis of Profit

Particulars	**Pre acquisition profit (6 months) (₹)**	**Post acquisition profit (6 months) (₹)**
Opening Balances (40,000 + 58,700)	98,700	
Profit for 6 months (1,49,300 x 6/12)	74,650	74,650
Provision reversed (1,700) (W.N. 8)	850	850
Revaluation Loss (W.N. 6)	(17,500)	-
Savings in depreciation (W.N. 6)	-	1,500
Total	1,56,700	77,000
Holding (80%)	1,25,360	61,600
Minority Interest (20%)	31,340	15,400

3. **Cost of Control**

Particulars	**₹**	**₹**
Cost of Investment (Given)		4,32,000
Less: Share in Net Assets:		
a) Share Capital (3,200 shares × ₹100)	3,20,000	
b) Capital Profit (W.N. 2)	1,25,360	(4,45,360)
Capital Reserve		13,360

4. **Minority Interest**

Particulars	**₹**
Share Capital (800 shares × 100)	80,000
Capital Profit (W.N. 2)	31,340
Revenue Profit (W.N. 2)	15,400
Total	1,26,740

5. **Consolidated Profit and General Reserve of Art Ltd**

Particulars	**Profit and loss account ₹**	**General reserve ₹**
Balance as per Balance Sheet	1,92,000	1,20,000
Revenue Profit	61,600	-
Unrealized Profit (Downstream)	(13,500)	
Total	2,40,100	1,20,000

6. **Calculation of Revaluation Profit /Loss**

Particulars	**₹**
Balance as on 01.04.2023 (given)	2,50,000
Depreciation for 6 months (2,50,000 × 10% × 6/12)	(12,500)
WDV as on date of acquisition	2,37,500
Revalued amount	2,20,000
Revaluation Loss	17,500

7. **Savings in Depreciation**

= Depreciation Provided for 6 months – Depreciation Should be

= 12,500 – (2,20,000 × 10% × 6/12)

= 1,500

8. **Calculation of provision reversed**

Trade Receivable (Given) =1,68,300 it is after provision i.e 99%

So, 100% will be 1,70,000 therefor provision will be **1,700**

As per para 20 and 21 of AS 21, Consolidated financial statements: Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

6. (a) Colour Limited leased a Machine to Red Limited on 1 April, 2021 on the Computation of Annual Lease Payment

Particulars	Amount
Cost of Equipment	18,00,000
Unguaranteed Residual Value	2,00,000
Present Value of unguaranteed residual value (₹ 200,000 x 0.7118)	1,42,360
Present Value of Lease Payments (₹ 18,00,000 – ₹ 1,42,360)	16,57,640
Present Value of Annuity for three years is 2.4018 Annual Lease Payment (16,57,640 / 2.4018)	6,90,165.71

Classification of Lease:

Parameter 1:

The present value of lease payment i.e. ₹ 16,57,649 which equals 92.09% of the fair market value i.e., ₹ 18,00,000.

The present value of minimum lease payments is substantially covers the fair value of the leased asset

Parameter 2:

The lease term (i.e. 3 years) covers the major part of the life of the asset (i.e. 5 years).

Therefore, it constitutes a finance lease.

Computation of unearned Finance Income:

Particulars	Amount
Total Lease Payments (₹ 6,90,165 x 3)	₹ 20,70,495
Add: Unguaranteed residual value	₹ 2,00,000
	₹ 22,70,495
Less: Present value of lease payments and residual value i.e. Net investment (1,42,360+16,57,640)	₹ 18,00,000
Unearned Finance Income	₹ 4,70,495

OR

(a) Basic Earnings per share (EPS) =

$$\frac{\text{Net profit attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$$

$= \frac{1,84,000}{46,000 \text{ Shares (as per working note)}} = ₹\ 4$ per share

Diluted earnings per share

Net profit for the current year	₹ 3,44,000
No. of equity shares outstanding	50,000
Basic earnings per share	₹ 4
No. of 12% convertible debentures of ₹ 100 each Each debenture is convertible into 3 equity shares	10,000
Interest expense for the current year	₹ 1,20,000
Tax relating to interest expense (30%)	₹ 36,000
Adjusted net profit for the current year	₹ (1,84,000 + 1,20,000 - 36,000) = ₹ 2,68,000
No. of equity shares resulting from conversion of debentures	30,000
No. of equity shares used to compute diluted earnings per share	46,000 + 30,000 = 76,000
Diluted earnings per share	2,68,000 / 76,000 = ₹ 3.53

Working Note:

1. **Net profit attributable to equity share holders = Net profit less preference dividends**

   Total earnings – preference shares dividend

   ₹ 3,44,000 – ₹ (8% x 20,00,000)

   ₹ 3,44,000 - ₹ 1,60,000

   = ₹ 1,84,000

2. **Calculation of weighted average number of equity shares**

   As per AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period. Assuming that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows:

Date	No. of equity shares	Amount paid per share	Weighted average no. of equity shares
	₹	₹	₹
01.04.2023	50,000	80	50,000x 80/100x 3/12 = 10,000

01.07.2023	40,000	100	40,000 x 9/12 = 30,000
01.07.2023	10,000	80	10,000x 80/100x 9/12 = **6,000**
Total weighted average equity shares			**46,000**

(b) In case of declaration of dividend out of free reserves, there are 3 conditions:

(1) Dividend Rate < Average Rate of last 3 years

10% < 12% [(12+14+10)/3]

Condition is Satisfied

(2) Dividend Distributed < 10% of PUSC + Reserve and Surplus

50,00,000 < 59,50,000 [(5,00,00,000 + 1,00,00,000 – 5,00,000) × 10%]

Condition is Satisfied

(3) Reserves after dividend > 15% of PUSC 45,00,000 not > 75,00,000 (5,00,00,000 × 15%)

Condition is Not Satisfied

(4) The closing balance of reserves after payment of dividend and set off of loss = ₹ 75,00,000

Therefore, can be utilized = 20,00,000 (1,00,00,000 – 5,00,000 – 75,00,000)

Thus, rate of dividend = (20,00,000/5,00,00,000) = 4%

Alternatively

To judge the recommendation of management, the satisfaction of all three conditions is to be checked:

(1) Condition I

The proposed dividend of 10% is less than the average rate of dividend being 12%

(i.e.) (12+14+10) /5 =12 %.

Hence, this condition is satisfied.

(2) Condition II

Amount to be withdrawn.

10% dividend on Equity share capital	50,00,000
+ Loss of Current year	5,00,000
Amount to be drawn from General Reserve	55,00,000

Maximum amount that can be withdrawn should not exceed 10% of paid-up share capital + free reserves.

= 10% of [₹ 500 lakhs + ₹ 100 lakhs] = ₹ 60,00,000

As the amount to be withdrawn is within the maximum limit, hence, this condition is also satisfied.

(3) Condition III

Balance of reserves after withdrawal (100-55)	₹ 45,00,000
15% of paid-up capital	₹ 75,00,000

As the balance of reserves should not be less than 15% of its paid-up share capital, but here the balance of reserves after withdrawal is less than 15% of paid-up share capital, hence this condition is not satisfied, hence, 10% dividend cannot be declared.

Maximum withdrawal of Reserve if condition II is satisfied.

Opening balance of Reserves in the beginning of the year	= ₹ 1,00,00,000
- Closing balance of reserves being 15% of paid-up capital	= ₹ 75,00,000
Reserves available =	₹ 25,00,000

Maximum permissible Divisible Profits

Permissible withdrawal as above	= ₹ 25,00,000
Less: Current Year's Loss	= ₹ 5,00,000
Maximum permissible Divisible profit	= ₹ 20,00,000

Actual permissible rate of Dividend =

(₹ 20,00,000 / ₹ 5,00,00,000) x 100 = 4%

Therefore, the recommendation of management is not justified and a dividend only up to a rate of 4% can be declared.

(c) Converted branch trail balance (in the books of head office)

Particular	Dr. $	Cr. $	Rate per $	₹ Dr.	₹ Cr.
Expenditure	1,03,095		56	57,73,320	
Cash & bank balance	2,175		58	1,26,150	
Debtors	7,365		58	4,27,170	
Fixed assets	27,360		55	15,04,800	
Depreciation 20%	6,840		55	3,76,200	
Inventory P	5,520		Direct	2,85,000	
Inventory Q	1,065		53	56,445	
Income		1,32,000	56		73,92,000
Creditors		15,570	58		9,03,060
HO control A/c		5,820			2,66,265
Exchange difference				12,240	
				85,61,325	85,61,325

Working Note:

Inventory P	**$ 5,520**	**Inventory Q**	**$ 1,065**
Purchased Cost rate	56.50	NRV	$ 1,035
NRV	₹ 2,85,000	Closing rate	58
Cost	₹ 3,11,880	Purchased Cost rate	53
Value at cost or NRV whichever is less	₹ 2,85,000	Value at cost or NRV whichever is less	$ 1,035 @ ₹ 58 or $1,065 @ ₹ 53 = 56,445 or 60,030

ANSWER OF MODEL TEST PAPER 6

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 31st March, 2023 = ₹ 60,000 x .02 + ₹ 40,000 x .03

= ₹ 1,200 + ₹ 1,200 = ₹ 2,400

As at 31st 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 31st March, 2024

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

Note: No provision will be made on 31st March, 2024 in respect of sales amounting ₹ 60,000 made on 11th 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 31st 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 31st 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 31st March, 2024

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

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	2
III	**Total Income**		**702**
IV	Expenses:		
	Purchases		320
	Finance costs	6	20

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

Notes to accounts

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

Total		880
5. Other Income		
Profit on sale of machinery:		
Sale value of machinery	4	
Less: Book value of machinery (10-8)	(2)	2
6. Finance costs		
Debenture interest		20
7. Other expenses:		
Factory expenses	60	
Selling expenses	30	
Administrative expenses	30	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) $$\frac{\text{Fair value of shares immediately prior to exercise of rights + Total amount received from exercise}}{\text{Number of shares outstanding prior to exercise + Number of shares issued in the exercise}}$$

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

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:

EPS = 75,00,000/3,25,625* = ₹ 23.03

* [(2,50,000 x 1.01 x 3/12) + (3,50,000 x 9/12)] =63,125 + 2,62,500 = 3,25,625 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.	9,37,500	
	To Equity share capital A/c (₹ 5)			93,750
	To Capital reduction A/c*			8,43,750
	(Being equity capital reduced to nominal value of ₹ 5 each)			
2.	Bank A/c	Dr.	2,81,250	
	To Equity share capital			2,81,250
	(Being 3 right shares against each share was issued and subscribed)			
3.	8% Preference share capital A/c (₹ 50)	Dr.	7,50,000	
	Capital reduction A/c	Dr.	75,000	
	To 6% Preference share capital (₹ 10)			6,00,000
	To equity share capital			2,25,000
	(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)			
4.	Loan A/c	Dr.	1,87,500	
	To 6% Preference share capital A/c (15,000 x ₹ 10)			1,50,000
	To Equity share capital A/c (7,500 x ₹ 5)			37,500
	(Being loan to the extent of ₹ 1,50,000 converted into share capital)			
5.	Bank A/c (25,000 x ₹ 5)	Dr.	1,25,000	
	To Equity share application A/c			1,25,000
	(Being shares subscribed by the directors)			
6.	Equity share application A/c	Dr.	1,25,000	
	To Equity share capital A/c			1,25,000
	(Being application money transferred to capital A/c)			

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

Balance sheet of Fortunate Ltd. (and reduced)

as on 31.3.2024

		Particulars	Notes	₹
		Equity and Liabilities		
1		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		43,750
		Total		20,93,750
		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	1,56,250
		Total		20,93,750

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	9,37,500	17,50,000
	Issued, subscribed and paid up:		
	1,52,500 equity shares of ₹ 5 each	7,62,500	
	(out of the above 52,500 shares issued for consideration other than cash)		
	75,000, 6% Preference shares of ₹ 10 each	7,50,000	15,12,500
2	Property, Plant and Equipment		
	Building at cost less depreciation	5,00,000	
	Plant at cost less depreciation	2,91,250	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

4 **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	60,000	17,10,000				
To	Preference Shareholders (Premium on Redemption)		30,000				
To	Equity Shareholders (Profit on Realisation)		1,50,000				
			18,90,000				18,90,000

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	2,10,000
		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*) * *Mutual Owings eliminated.*	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)	47,000
	2,25,000
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		60,000
		18,97,500
Less: Liabilities:		
Retirement Gratuity	60,000	
Trade payables	2,40,000	
Provision for doubtful debts	7,500	(3,07,500)
Net Assets/ Purchase Consideration		15,90,000
To be satisfied as under:		

10% Preference Shareholders of Y Ltd.	3,00,000
Add: 10% Premium	30,000
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	12,60,000
Total	15,90,000

5 **Restated Balance Sheet of MNT Ltd.**

as at 31st December, 2024

Particulars	**Note No.**	**(₹)**
I. Equity and Liabilities		
(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		23,14,500
II. Assets		
(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		23,14,500

Notes to Accounts

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

	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	(2,82,500)	6,37,500
5.	**Inventories**	6,90,000	
	Increase in value as per FIFO	12,000	7,02,000
6.	**Other current assets**		
	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	12,000	19,000
		5,24,000
Less: Sales Promotion expenditure to be written off		(12,500)
Adjusted revenue reserve		5,11,500

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 incurrence of liabilities that result in decrease in

	equity other than those relating to distributions to equity participants

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 1st 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 (31st 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	Dr.	3,500	
	To Head office account			3,500
	(Being the allocated expenditure by the head office recorded in branch books)			
(ii)	Depreciation account	Dr.	1,500	
	To Head office account			1,500

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

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

ANSWERS OF MODEL TEST PAPER 7

INTERMEDIATE COURSE: GROUP – I

PAPER – 1 : ADVANCED ACCOUNTING

1. **(i)** **(a)**
(ii) **(b)**
(iii) **(c)**
(iv) **(b)**

2. **(i)** **(c)**
(ii) **(c)**
(iii) **(c)**
(iv) **(c)**

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

4. **(ii)**

5. **(iii)**

6. **(b)**

PART II – Descriptive Questions (70 Marks)

1. **(a)** **(i)** As per AS 4‘Contingencies and Events Occurring After the Balance Sheet Date’, disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise, the investment of ₹ 40 lakhs in April, 2024 in the acquisition of another company should be disclosed in the report of the Board of Directors to enable users of financial statements to make proper evaluations and decisions.

(ii) As per AS 4, adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date. A debtor for ₹ 2,50,000 suffered heavy loss due to earthquake in the second week of March, 2024 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in May, 2024 (after the balance sheet date) is only an additional information related to the existing condition on the balance sheet date. Accordingly, full provision for bad debts amounting ₹ 2,50,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2024.

(iii) As per AS 4, adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. In the given case, since Hari Ltd. was sued by a competitor for infringement of a trademark during the year 2023-24 for which the provision was also made by it, the decision of the Court on 26th May, 2024, for payment of the penalty will constitute as an adjusting event because it is an event occurred before approval of the financial statements. Therefore, Hari Ltd. should adjust the provision upward by ₹ 4 lakhs to reflect the award decreed by the Court to be paid by them to its competitor.

(iv) As the embezzlement of cash comes to the notice of company management only after approval of financial statements by board of directors of the company, then the treatment will be done as per the provisions of AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" and the same will not be adjusted in the financial statements for the year ended 31st March, 2024. This being an extra-ordinary item should be disclosed in the statement of profit and loss as a part of loss for the year ending March, 2025, in a manner, that its impact on current profit or loss can be perceived.

(v) Collection of cheques after balance sheet date is not an adjusting event even if the cheques bear the date of 31st March. Recognition of cheques in hand is therefore not consistent with requirements of AS 4. Moreover, the collection of cheques after balance sheet date does not represent any material change or commitments affecting financial position of the enterprise and no disclosure of such collections in the Directors' Report is necessary.

(b) As per AS 26 'Intangible Assets'

(i) Carrying value of intangible asset as on 31.03.2023

At the end of financial year, on 31st March 2023, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of ₹ 30 (98-68) lacs (expenditure incurred since the date the recognition criteria were met, i.e., from 1st January, 2023).

(ii) Expenditure to be charged to Profit and Loss account for the year ended 31.03.2024

	(₹ in lacs)
Carrying Amount as on 31.03.2023	30
Expenditure during 2023–2024	72
Book Value	102
Recoverable Amount	(52)
Impairment loss	50

₹ 50 lakhs to be charged to Profit and loss account for the year ending 31.03.2024.

(iii) Carrying value of intangible asset as on 31.03.2024

	(₹ in lacs)
Book Value	102
Less: Impairment loss	(50)
Carrying amount as on 31.03.2024	52

2. (a) Cost of Control

Sr. No.	Particulars	Computation	₹
A]	Cost of Investments	Given	70,00,000
	Less: Dividend out of Pre Acquisition Dividend	(3.5 Lacs × ₹10 (FV) × 20%) (No of Shares = 70 Lacs/20= 3.5 Lacs)	(7,00,000)
		Subtotal A	63,00,000
B]	Share in Net Assets of Zed Ltd.	(1,38,50,000 × 70%)	96,95,000
C]	Goodwill / (Capital Reserve)	(A – B)	33,95,000

W.N. 1 : Calculation of Net Assets

Sr. No.	Particulars	₹
A]	Assets	
-	Property, Plant & Equipment (120+20%)	1,44,00,000
-	Investment (55 – 10%)	49,50,000
-	Current Assets	70,00,000
-	Loans & Advances	15,00,000
	Subtotal A	2,78,50,000
B]	Liabilities	
-	15% Debentures	90,00,000

-	Current Liabilities	50,00,000
	Subtotal B	1,40,00,000
C]	Net Assets (A – B)	1,38,50,000

W.N. 2 : No of shares acquired

$$= \frac{\text{Cost of investment}}{\text{Purchase price share}}$$

$$= \frac{70,00,000}{₹\ 20\ \text{shares}} = ₹3,50,000\ \text{shares}$$

Revalued net assets of Zed Ltd. as on 31.03.2024

Particulars	₹ in lakhs	₹ in lakhs
Property Plant & Equipment [120 × 120%]		144.0
Investments [55 × 90%]		49.5
Current Assets		70.0
Loans & Advances		15.0
Total Assets after revaluation		278.5
Less: 15% Debentures	90.0	
Current Liabilities	50.0	(140.0)
Equity / Net Worth		138.50
Exe Ltd.'s share of net assets (70% of 138.50)		96.95
Exe Ltd.'s cost of acquisition of shares of Zed Ltd. (₹70 lakhs – 7 lakhs*)		63.00
Capital Reserve		33.95

*Total Cost of 70% Equity of Zed Ltd.	₹70 lakhs
Purchase Price of each share	₹20
Number of shares purchases(70 lakhs/20)	3.50 lakhs
Dividend @ 20% i.e. ₹2/share	₹7 lakhs

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

(b) Minority Interest = Equity attributable to minorities

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case, it should be equal to Share Capital + Profit & Loss A/c

A = Share capital on 1.1.2024

B = Profit & loss account balance on 1.1.2024

C = Share capital on 31.12.2024

D = Profit & loss account balance on 31.12.2024

	Minority % Shares Owned ***[E]***	***Minority interest as at the date of acquisition*** ***[E] x [A + B] ₹***	***Minority interest as at the date of consolidation*** ***[E] X [C + D] ₹***
Case i [100-85]	15%	29,250	30,750
Case ii [100-70]	30%	51,000	39,000
Case iii [100-65]	35%	10,500	10,500
Case iv [100-90]	10%	6,500	8,500
Case v [100-100]	NIL	NIL	NIL

3. **(a)** (i) As per AS 9 "Revenue Recognition", in case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 5,00,000 as the time period for rejecting the goods had expired.

(ii) The sale is complete but delivery has been postponed at buyer's request. The entity should recognize the entire sale of ₹ 2,40,000 for the year ended 31st March.

(iii) Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date, such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue. Hence no revenue to be recognized in the given case.

(iv) Revenue arising from the use by others of enterprise resources yielding interest and royalty should be recognized when no significant uncertainty as to measurability or collectability exists. The interest should be recognized on time proportion basis taking into account the amount outstanding and rate applicable. The royalty should be recognized on accrual basis in accordance with the terms of relevant agreement.

(v) 40% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 2,40,000 (60% of ₹ 4,00,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

(b) **Journal Entries**

		₹ in lacs
	Dr.	*Cr.*

Equity Share Capital (₹ 10 each) A/c	Dr.	500	
To Equity Share Capital (₹ 2.50 each) A/c			125
To Reconstruction A/c			375
(Conversion of all the equity shares into the same number of fully paid equity shares of ₹ 2.50 each as per scheme of reconstruction)			
Director's Remuneration Outstanding A/c	Dr.	10	
To Reconstruction A/c			10
(Outstanding remuneration foregone by the directors as per scheme of reconstruction)			
12% Debentures A/c	Dr.	400	
Debenture Interest Outstanding A/c	Dr.	48	
To 13% Debentures A/c			400
To Reconstruction A/c			48
(Conversion of 12% debentures into 13% debentures, Debenture holders forgoing outstanding debenture interest)			
Bank A/c	Dr.	125	
To Equity Share Application A/c			125
(Application money received for fully paid equity shares of ₹ 2.5 each from existing shareholders)			
Equity Share Application A/c	Dr.	125	
To Equity Share Capital (₹ 2.50 each) A/c			125
(Application money transferred to share capital)			
Trade payables A/c	Dr.	165	
To Equity Share Capital (₹ 2.50 each) A/c			65
To Bank A/c			80
To Reconstruction A/c			20
(Trade payables for ₹ 65 lakhs accepting shares for full amount and those for ₹ 100 lakhs accepting cash equal to 80% of claim in full settlement)			
Capital Reserve A/c	Dr.	6	
To Reconstruction A/c			6
(Being the loss on reconstruction (balance in the Reconstruction A/c) transferred to Capital Reserve)			
Land and Building A/c	Dr.	46	
To Reconstruction A/c			46

(Appreciation made in the value of land and building as per scheme of reconstruction)			
Reconstruction A/c	Dr.	505	
To Goodwill A/c			15
To Plant and Machinery A/c			66
To Inventory A/c			22
To Trade receivables A/c			4
To Discount on issue of Debentures A/c			8
To Profit and Loss A/c			390
(Writing off losses and reduction in the values of assets as per scheme of reconstruction—W.N. 1)			

Note: In a scheme of Reconstruction, Goodwill, Losses etc should be written off against the Reconstruction Account whether or not it is mentioned in the question.

4. (a) Hello Ltd.

Balance Sheet as at 31st March, 2024

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	50,00,000
	b	Reserves and Surplus	2	14,83,500
2		**Non-current liabilities**		
		Long-term borrowings	3	13,55,000
3		**Current liabilities**		
	a	Trade Payables		10,00,000
	b	Short-term provisions	4	6,40,000
		Total		**94,78,500**
		Assets		
1		**Non-current assets**		
		Property, Plant & equipment	5	56,25,000
2		**Current assets**		
	a	Inventories	6	12,55,000
	b	Trade receivables	7	10,00,000
	c	Cash and Cash Equivalents	8	13,85,000
	d	Short-term loans and advances		2,13,500
		Total		**94,78,500**

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of ₹ 100 each		50,00,000
	(of the above 10,000 shares have been issued for consideration other than cash)		
2	**Reserves and Surplus**		
	General Reserve	10,50,000	
	Add: current year transfer	20,000	10,70,000
	Profit & Loss balance		
	Profit for the year	4,33,500	
	Less: Appropriations:		
	Transfer to General reserve	(20,000)	
			4,13,500
			14,83,500
3	**Long-term borrowings**		
	Secured Term Loan		
	State Financial Corporation Loan (Secured by hypothecation of Plant and Machinery)		7,50,000
	Unsecured Loan		6,05,000
	Total		13,55,000
4	**Short-term provisions**		
	Provision for taxation		6,40,000
5	**Property, plant and Equipment**		
	Building	30,00,000	
	Less: Depreciation	(2,50,000) (b.f.)	27,50,000
	Plant & Machinery	35,00,000	
	Less: Depreciation	(8,75,000) (b.f.)	26,25,000
	Furniture & Fittings	3,12,500	
	Less: Depreciation	(62,500) (b.f.)	2,50,000
	Total		56,25,000

6	**Inventories**		
	Raw Materials		2,55,000
	Finished goods		10,00,000
	Total		12,55,000
7	**Trade receivables**		
	Outstanding for a period exceeding six months		2,60,000
	Other Amounts		7,40,000
	Total		10,00,000
8	**Cash and Cash Equivalents**		
	Cash at bank		
	with Scheduled Banks	12,25,000	
	with others (Omega Bank Ltd.)	10,000	12,35,000
	Cash in hand		1,50,000
	Other bank balances		Nil
	Total		13,85,000

5. Journal Entries in the books of A Ltd.

Particulars		Debit ₹	Credit ₹
Business purchase A/c (W.N.1)	Dr.	13,75,000	
To Liquidator of B Ltd.			13,75,000
(Being business of B Ltd. taken over)			
Land & Building A/c	Dr.	8,40,000	
Plant and machinery A/c	Dr.	5,60,000	
Office equipment A/c	Dr.	2,10,000	
Investments A/c	Dr.	3,00,000	
Inventory A/c	Dr.	4,20,000	
Debtors A/c	Dr.	3,20,000	
Bills receivables A/c	Dr.	70,000	
Bank A/c	Dr.	61,000	
To General reserve A/c (W.N.2) (2,50,000-1,55,000)			95,000
To Export profit reserve A/c			1,20,000
To Investment allowance reserve A/c			60,000
To Profit and loss A/c			1,20,000
To Liability for 9% Debentures A/c (₹ 100 each)			2,00,000

To Secured Loan			3,60,000
To Trade creditors A/c			2,76,000
To Bills payables A/c			1,00,000
To Other current liabilities A/c			75,000
To Business purchase A/c			13,75,000
(Being assets and liabilities taken over)			
Liquidator of B Ltd.	Dr.	13,75,000	
To Equity share capital A/c			8,00,000
To 10% Preference share capital A/c			4,00,000
To Securities premium A/c			1,75,000
(Being purchase consideration discharged)			
General Reserve* A/c	Dr.	12,000	
To Cash at bank			12,000
(Being expenses of amalgamation paid)			
Liability for 9% Debentures in B Ltd. A/c	Dr.	2,00,000	
To 9% Debentures A/c			2,00,000
(Being debentures in B ltd. discharged by issuing own 9% debentures)			
Bills payables A/c	Dr.	60,000	
To Bill receivables A/c			60,000
(Cancellation of mutual owing on account of bills of exchange)			

*Alternatively, profit & loss A/c may be debited in place of general reserve A/c.

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

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	30,00,000
b	Reserves and Surplus	2	14,94,000
2	Non-current liabilities		
a	Long-term borrowings	3	8,60,000
3	Current liabilities		
a	Trade Payables	4	7,03,000

	b	Other current liabilities	5	1,25,000
		Total		61,82,000
		Assets		
1		Non-current assets		
	a	PPE	6	36,35,000
	b	Investments	7	3,96,000
2		Current assets		
	a	Inventories	8	10,50,000
	b	Trade receivables	9	8,80,000
	c	Cash and cash equivalents	10	2,21,000
		Total		61,82,000

Notes to accounts

		₹
1 Share Capital		
Equity share capital		
2,00,000 Equity shares of ₹ 10 each (Out of above, 80,000 shares were issued for consideration other than cash)		20,00,000
Preference share capital		
10,000 10% Preference shares of ₹ 100 each (Out of above, 4,000 shares were issued for consideration other than cash)		10,00,000
Total		30,00,000
2 Reserves and Surplus		
General Reserve		
Opening balance	3,00,000	
Add: Adjustment under scheme of amalgamation	95,000	
Less: Amalgamation expense paid	(12,000)	3,83,000
Securities premium (2,40,000 + 1,75,000)		4,15,000
Export profit reserve		
Opening balance	1,80,000	
Add: Adjustment under scheme of amalgamation	1,20,000	3,00,000
Investment allowance reserve		60,000

	Profit and loss account		
	Opening balance	2,16,000	
	Add: Adjustment under scheme of amalgamation	1,20,000	3,36,000
	Total		14,94,000
3	Long-term borrowings		
	Secured		
	9% Debentures	3,00,000	
	Add: Adjustment under scheme of amalgamation	2,00,000	
	Secured loan	3,60,000	8,60,000
4	Trade payables		
	Creditors: Opening balance	3,12,000	
	Add: Adjustment under scheme of amalgamation	2,76,000	5,88,000
	Bills Payables: Opening balance	75,000	
	Add: Adjustment under scheme of amalgamation	1,00,000	
	Less: Cancellation of mutual owning upon amalgamation	(60,000)	1,15,000
			7,03,000
5	Other current liabilities		
	Opening balance	50,000	
	Add: Adjustment under scheme of amalgamation	75,000	1,25,000
6	PPE		
	Land & Building- Opening balance	10,80,000	
	Add: Adjustment under scheme of amalgamation	8,40,000	19,20,000
	Plant and machinery- Opening balance	6,00,000	
	Add: Adjustment under scheme of amalgamation	5,60,000	11,60,000
	Office equipment-Opening balance	3,45,000	
	Add: Adjustment under scheme of amalgamation	2,10,000	5,55,000
	Total		36,35,000
7	Investments		
	Opening balance	96,000	
	Add: Adjustment under scheme of amalgamation	3,00,000	3,96,000

8	Inventories		
	Opening balance	6,30,000	
	Add: Adjustment under scheme of amalgamation	4,20,000	10,50,000
9	Trade receivables		
	Debtors: Opening balance	4,90,000	
	Add: Adjustment under scheme of amalgamation	3,20,000	8,10,000
	Bills Payables: Opening balance	60,000	
	Add: Adjustment under scheme of amalgamation	70,000	
	Less: Cancellation of mutual owning upon amalgamation	(60,000)	70,000
	Total		8,80,000
10	Cash and cash equivalents		
	Opening balance	1,72,000	
	Add: Adjustment under scheme of amalgamation	61,000	
	Less: Amalgamation expense paid	(12,000)	2,21,000

Working Notes:

1. Calculation of purchase consideration

	₹
Equity shareholders of B Ltd. (80,000 x ₹ 10)	8,00,000
Preference shareholders of B Ltd. (5,00,000 x 115%)	5,75,000
Purchase consideration would be	13,75,000

2. Amount to be adjusted from general reserve

The difference between the amount recorded as share capital issued and the amount of share capital of transferor company should be adjusted in General Reserve.

Thus, General reserve will be adjusted as follows:

	₹
Purchase consideration	13,75,000
Less: Share capital issued (₹ 7,20,000 + ₹ 5,00,000)	(12,20,000)
Amount to be adjusted from general reserve	1,55,000

3. **Calculation of balances of Profit & Loss and Sundry Creditors of B Limited to be taken over by A Limited**

	P&L (₹)	Creditors (₹)
Balance as per Balance Sheet of B Limited	1,92,000	2,04,000
Less / Add: Contingent Trade Payable treated as Actual Liability	(72,000)	72,000
Taken by A Limited	1,20,000	2,76,000

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

Or

Certain changes have been made in Ind AS considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS. These differences are due to differences in economic conditions prevailing in India. These differences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as 'Carve-outs'. Additional guidance given in Ind AS over and above what is given in IFRS, is termed as 'Carve in'.

(b) As per provisions of 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 recognized 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 recognized 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 can be said that the accounting treatment adopted by the company with respect to warranty is not correct.

(c) Goods are marked on invoice price to achieve the following objectives:

(i) To keep secret from the branch manager, the cost price of the goods and profit made, so that the branch manager may not start a rival and competitive business with the concern; and

(ii) To have effective control on stock i.e. stock at any time must be equal to opening stock plus goods received from head office minus sales made at branch.

(iii) To dictate pricing policy to its branches, as well as save work at branch because prices have already been decided.

ANSWERS OF MODEL TEST PAPER 8
INTERMEDIATE COURSE; GROUP I
PAAPER 1 ADVANCED ACCOUNTING

MCQ No.		Answers
1.	(i)	(b)
	(ii)	(c)
	(iii)	(a)
	(iv)	(d)
2	(i)	(a)
	(ii)	(c)
	(iii)	(a)
3.		(c)
4.		(b)
5.		(b)
6.	(i)	(b)
	(ii)	(d)
	(iii)	(a)
	(iv)	(c)
7		(b)

1. (a) (i) In the following cases, record Journal Entries for amortization in the books of

Journal Entry for the year ended on 31st March 2024

			₹ in lakhs	₹ in lakhs
31.3.24	Amortization A/c (340 × 350/ 1,190)	Dr.	100	
	To Patent Rights A/c			100
	P&L A/c	Dr.	100	
	To Amortization A/c			100

Working note

Huge Limited amortised ₹ 340 lakhs during next 4 years on the basis of net cash flows arising of the product. The amortisation for second year will be worked out as under:

₹ 340 x 350 /1,190 (140+350+280+420) = ₹ 100 lakhs

(ii)

Particulars		₹ in lakhs	₹ in lakhs
Prior period item	Dr.	50	
Amortization A/c	Dr.	10	
To Know-how A/c			60
[Being amortization of 6 years (out of which amortization of 5 years charged as prior period item i.e. 80 x 6 /8 = 60 lakhs)]			
Profit and Loss A/c	Dr.	60	
To Amortization A/c			10
To Prior Period Item			50
(Being amount transferred to Profit and Loss account)			

(b) Computation of Expected and Actual Returns on Plan Assets

		₹
Return on ₹ 5,00,000 held for 12 months at 10.50%		52,500
Return on ₹ 1,42,000 for 6 months at 10.50%		7,455
Loss of interest on benefits paid for 4 months on ₹ 63,000 for 4 months @ 10.50%		(2,205)
Expected return on plan assets for 2023-2024		57,750
Fair value of plan assets as on 31st March 2024		7,50,000
Less: Fair value of plan assets as on 1 April,2023	5,00,000	
Contributions received on 30.9.2023	1,42,000	(6,42,000)
		1,08,000
Add: Benefits paid on 30th Nov 2023		63,000
Actual return on plan assets		1,71,000

(c) Calculation of Deferred Tax Asset/Liability in Delta Limited

Year	Accounting Income	Taxable Income	Timing Difference	Timing Difference (balance)	Deferred Tax	Deferred Tax Liability (balance)
2021	34,00,000	30,00,000	4,00,000	4,00,000	1,20,000	1,20,000
2022	50,00,000	52,00,000	(2,00,000)	2,00,000	(60,000)	60,000
2023	65,00,000	67,00,000	(2,00,000)	NIL	(60,000)	NIL
	1,49,00,000	1,49,00,000				

Calculation of total tax

Year	Deferred Tax	Current tax expense	Total tax
2021	1,20,000	9,00,000 (30,00,000 x 30%)	10,20,000

2022	(60,000)	15,60,000 (52,00,000 x 30%)	15,00,000
2023	(60,000)	20,10,000 (67,00,000 x 30%)	19,50,000

Note: It is assumed that the revenue and the taxable profit is the same.

2. Shivam Limited

Balance Sheet as at 31st March 2024

Particulars	Note No.	₹ (in 000)
I. Equity and Liabilities		
1. Shareholders' funds		
(a) Share capital	1	300.00
(b) Reserves and Surplus	2	232.70
2. Non-Current liabilities		
(a) Long term borrowings	3	135.00
3. Current liabilities		
(a) Trade Payables		35.00
(b) Short-Term Provisions		30.30
Total		733.00
II. Assets		
1. Non-current assets		
(a) Property, Plant and Equipment and Intangible assets		
(i) Property, Plant and Equipment	4	596.00
2. Current assets		
(a) Inventories		58.00
(b) Trade receivables		65.00
(c) Cash and cash equivalents		14.00
Total		733.00

Shivam Limited

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

	Particulars	Notes	₹ (in '000)
I.	Revenue from operations		473.00
II.	Other Income	5	1.00
III.	Total Income		474.00
IV.	Expenses:		
	Purchases		226.00
	Finance costs		14.00

	Depreciation and Amortisation expenses (10% of 510*)		51.00
	Other expenses	6	82.00
	Total Expenses		373.00
V.	Profit before Tax (III-IV)		101.00
	Tax Expense:		
	Current tax		(30.30)
	Profit for the period (after tax)		70.70

Notes to accounts

				₹ (in 000)
1.	**Share Capital**			
	Equity share capital			
	Authorised			
	35,000 shares of ₹ 10 each			350.00
	Issued, subscribed & paid-up			
	20,000 shares of ₹ 10 each fully paid up		200.00	
	Add: 10,000 Bonus Shares issued during the year		100.00	300.00
2.	**Reserves and Surplus**			
	Securities Premium Account			
	Opening Balance	27.00		
	Less: Utilised for bonus issue	27.00		0.00
	Revaluation reserve (2,45,000 – 1,48,000)			97.00
	General Reserve 90			
	Less: Utilized for bonus issue (73)	17.00		
	Add: Transfer from Profit & loss @ 10%	7.07		24.07
	Profit & loss Balance			
	Opening balance	48.00		
	Profit for the period	70.70		
	Appropriations			
	Transfer to General Reserve @ 10%	(7.07)		111.63
				232.70
3.	**Long term borrowing**			
	10% Debentures			135.00
4	**Property, Plant and Equipment**			
	Land			

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

	Opening balance	148.00	
	Add: Revaluation adjustment	97.00	
	Closing balance		245.00
	Plant and Machinery		
	Opening balance	520.00	
	Less: Disposed off	(10.00)	
		510.00	
	Less: Depreciation (1,16,000-8,000+51,000)	(159.00)	
	Closing balance		351.00
	Total		596.00
5	**Other Income**		
	Profit on sale of machinery:		
	Sale value of machinery	3.00	
	Less: Book value of machinery (10,000-8,000)	(2.00)	1.00
6	**Other expenses:**		
	Factory expenses	40.00	
	Selling expenses	20.00	
	Administrative expenses	22.00	82.00

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.

Working note:

Bonus Shares Issue:

- Bonus shares are issued in a 1:2 ratio, so for every 2 equity shares, 1 bonus share is issued.
- Equity Share Capital = ₹ 2,00,000 / ₹ 10 = 20,000 shares.
- Bonus Shares = 20,000 / 2 = 10,000 shares × ₹ 10 = ₹ 1,00,000.

Alternatively, since, the amount of interest on 10% 1,35,000 Debentures comes to Rs 13,500 while the Debenture Interest in the trial balance is listed as ₹ 14,000, the difference of ₹ 500 (₹13,500 - ₹14,000) may be treated as an advance payment.

3. (a) Cash flow statement

for the year ended 31st March 2024

	(₹ in lakhs)	**(₹ in lakhs)**
Cash flow from operating activities		

Cash sales	262.00	
Cash collected from credit customers	134.00	
Interest received on advance payment to suppliers	0.50	
Less: Cash purchases	(44.00)	
Less: Payment to Creditors (84 + 176 – 92)	(168.00)	
Less: Cash paid to suppliers for consumables & services	(19.00)	
Less: Cash paid to employee	<u>(20.00)</u>	
Cash from operations	145.50	
Less: Income tax paid	<u>(26.00)</u>	
Net cash generated from operating activities		119.50
Cash flow from investing activities		
Payment for purchase of Machine (20-15)	(5.00)	
Proceeds from rent received	<u>8.00</u>	
Net cash used in investing activities		3.00
Cash flow from financing activities		
Redemption of Preference shares	(32.00)	
Proceeds from issue of Equity shares	24.00	
Debenture interest paid	(3.00)	
Dividend Paid	<u>(15.00)</u>	
Net cash used in financing activities		<u>(26.00)</u>
Net increase in cash and cash equivalent		96.50
Add: Cash and cash equivalents as on 1.04.2023		<u>2.00</u>
Cash and cash equivalents as on 31.3.2024		<u>98.50</u>

(b) Statement determining the maximum number of shares to be bought back

(in thousands)

Particulars	**Number of shares**
Shares Outstanding Test (W.N.1)	15
Resources Test (W.N.2)	12
Debt Equity Ratio Test (W.N.3)	11
Maximum number of shares that can be bought back [least of the above]	11

Thus, the lowest being 11,000 shares, the company cannot buy back 14,000 shares.

Working Notes:

1. **Shares Outstanding Test**

Particulars	(Shares in thousands)
Number of shares outstanding	60
25% of the shares outstanding	15

2. **Resources Test**

Particulars	₹ (in thousands)
Paid up capital	600
Free reserves (540 + 200 +100)	840
Shareholders' funds	1,440
25% of Shareholders fund	360
Buy-back price per share	₹ 30
Number of shares that can be bought back	12,000 shares

3. **Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back**

Particulars		₹ in thousands
(a)	Loan funds	2,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	1,000
(c)	Present equity shareholders fund (₹)	1,440
(d)	Future equity shareholders fund (₹) (see W.N.4) (1,440-110)	1,330
(e)	Maximum permitted buy-back of Equity (₹) [(d) – (b)]	330
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	11,000 shares

4. **Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.**

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y' Then

Equation 1: (Present Equity- Transfer to CRR)- Minimum Equity to be maintained = Maximum Permitted Buy-Back

$$= (1,440 - x) - 1,000 = y$$

$$= 440 - x = y \qquad (1)$$

Equation 2: Maximum Permitted Buy-Back X Nominal Value Per Share/Offer Price Per Share

$y/30 \times 10 = x$

or

3x = y (2)

by solving the above two equations we get

x = ₹ 110 thousands

y = ₹ 330 thousands

Alternatively, Maximum number of shares from debt equity ratio test may be worked out as follows:

Buy-back price + Face value of equity shares ₹ 30 + ₹ 10 = ₹ 40

Excess of equity fund over the minimum equity to be maintained 1440-1000 = 440 thousands

Number of Shares that can be bought back = 440/40 thousands = 11 thousands.

4. Journal Entries in the Books of Nice Ltd.

		Dr. ₹ in '000	Cr. ₹ in '000
Business Purchase Account	Dr.	10,620	
To Liquidator of Well Ltd.			10,620
(Consideration payable for the business taken over from Well Ltd.)			
Property, Plant and Equipment (120% of ₹ 16,380)	Dr.	19,656	
Inventory (110% of ₹ 870)	Dr.	957	
Trade receivables	Dr.	1,950	
Goodwill A/c (Balancing figure)	Dr.	137	
To Trade payables			4,850
To Debenture Holders Account			1,000
To Loan from bank (4,525-270)			4,255
To Short term borrowings			1,975
To Business Purchase Account			10,620
(Incorporation of various assets and liabilities taken over from Well Ltd. at agreed values and difference of net assets and purchase consideration debited to Goodwill A/c))			
Liquidator of Well Ltd.	Dr.	10,620	
To Equity Share Capital (75,000x 100)			7,500
To 9% Preference Share Capital			1,620
To Securities premium (7,5000x 20)			1,500
(Discharge of consideration for Well Ltd.'s business)			

Debenture holders A/c	Dr.	1,000	
To 9% Debentures A/c			1,000
(Being 9% debentures issued to 10% debenture holders)			
Sundry Creditors of Well Ltd.	Dr.	215	
To Sundry Debtors of Nice Ltd.			215
(Cancellation of mutual owing)			
Goodwill	Dr.	55	
To Bank			55
(Being liquidation expenses reimbursed to Well Ltd.)			

Working Note:

The purchase consideration will be:

		₹	Form
Preference shareholders:	16,200 × 100	16,20,000	9% Pref. shares
Equity shareholders:	1,25,000 × 3/5×120	90,00,000	Equity shares
		1,06,20,000	
10 % Preference shares			18,00,000
Less: 10% discount			1,80,000
			16,20,000

Debenture calculation

		Interest
10% Debenture	9,00,000	90,000
Therefore 9% debentures	90,000/9% = 10,00,000	

Balance Sheet of Nice Ltd. (After absorption) as at 31st March 2024

		Particulars	Notes	₹ in '000
	I	Equity and Liabilities		
1		Shareholders' funds		
	(a)	Share capital	1	50,120
	(b)	Reserves and Surplus	2	21,000
2		Non-current liabilities		
	(a)	Long-term borrowings	3	25,755
3		Current liabilities		
	(a)	Trade payables	4	20,375
	(b)	Short term borrowing		1,975
		Total		1,19,225

	II	Assets		
1		Non-current assets		
	(a)	Property, Plant and Equipment and Intangibles	5	
		(i) Property, plant and equipment		82,206
		(ii) Intangible assets		192
	(b)	Non-current investments		22,500
2		Current assets		
	(a)	Inventories	6	1,257
	(b)	Trade receivables	7	8,325
	(c)	Cash and Cash equivalents	8	4,745
		Total		1,19,225

Notes to accounts

			₹ in '000
1	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid up		
	3,90,000 Equity shares of ₹ 100 each (out of above 75,000 shares are issued for consideration other than cash)		39,000
	Preference Shares		
	Issued, subscribed and paid up		
	1,11,200 9% Preference Shares of ₹ 100 each (9,500 + 1,620) (out of above 16,200 shares are issued for consideration other than cash)		11,120
			50,120
2	**Reserves and Surplus**		
	Securities premium	1,500	
	Reserves and surplus	19,500	21,000
3	**Long-term borrowings**		
	9 % Debentures (11,200+1,000)	12,200	
	Loan from bank (9,300+4255)	13,555	25,755
4	**Trade Payable**		
	Nice Limited	15,740	
	Well Limited	4,850	
		20,590	
	Less: Inter Company holdings	(215)	20,375

5	**Property, Plant and Equipment and Intangibles**		
	Property, Plant and Equipment	62,550	
	Acquired during the year	19,656	82,206
	Intangibles		
	Goodwill (137+55)		192
6	**Inventories**	300	
	Acquired during the year	957	1,257
7	**Trade receivables**	6,590	
	Acquired during the year (1,585+150)	1,735	8,325
8	**Cash and Cash Equivalents**		
	Nice Limited	4,800	
	Less: Expenses on liquidation	(55)	4,745

5. 1. Trade payable (Consolidated)

Best limited	3,80,000
Add: Cool Ltd	4,10,000
Less: Elimination	(3,00,000)
Total	4,90,000

2. Current assets (Consolidated)

Best limited		9,65,000
Add: Cool Ltd		5,60,000
Less: Elimination of inter company owing	(3,00,000)	
Less: Unrealized stock profit	(1,50,000)	(4,50,000)
Total		10,75,000

3. Minority interest Cool Ltd

Share Capital (20,00,000 x 20%)		4,00,000
Add: Securities premium (2,20,000 x 20%)		44,000
Add: General Reserve (84,000 x 20%)		16,800
Add: Profit and loss balance	2,70,000	
Less: Adjustment of unrealised profit stock	(1,50,000)	
Balance	1,20,000	
20% of above balance		24,000
Total		4,84,800

4. **Goodwill/Capital Reserve on Acquisition of Cool Ltd.:**

Purchase Consideration		14,80,000
Less: Share Capital (20,00,000 x 80%)		16,00,000
Less: Securities premium (2,20,000 x 80%)		1,76,000
Less: General Reserve (84,000 x 80%)		67,200
Less: Profit and loss balance opening (30,000 x 80%)		24,000
Less: Pre acquisition profits (2,70,000-30,000) x 10/12 x 80%	1,60,000	
Less: Unrealised profit stock (1,50,000 x 80%)	1,20,000	40,000
Capital Reserves		4,27,200

5. **Goodwill/Capital Reserve on Acquisition of Good Ltd.**

Purchase Consideration	3,80,000
Less: Share Capital (10,00,000 x 25%)	2,50,000
Less: General Reserve (1,20,000 x 25%)	30,000
Less: Profit and loss balance (50,000 x 25%)	12,500
Goodwill	87,500

6. **Profit and Loss Account (Consolidated)**

Best limited	3,26,000
Add: Post acquisition profit of Cool Ltd {(2,70,000-30,000) x 2/12}80%	32,000
Total	3,58000

7. **General Reserve (Consolidated)**

Best limited	2,69,000

With reference to para no 15 of AS 21

If an enterprise makes two or more investments in another enterprise at different dates and eventually obtains control of the other enterprise, the consolidated financial statements are presented only from the date on which holding-subsidiary relationship comes in existence. If two or more investments are made over a period of time, the equity of the subsidiary at the date of investment, for the purposes of paragraph 13 above, is generally determined on a step-by-step basis; however, if small investments are made over a period of time and then an investment is made that results in control, the date of the latest investment, as a practicable measure, may be considered as the date of investment.

And para no 22 of AS 21 The results of operations of a subsidiary are included in the consolidated financial statements as from the date on which parent-subsidiary relationship came in existence. The results of operations of a subsidiary with which parent- subsidiary relationship ceases to exist are included in the consolidated statement of profit and loss until the date of cessation of the relationship. The difference between the proceeds from the disposal of investment in a subsidiary and the carrying amount of its assets less liabilities as of the date of disposal is recognised in the consolidated statement of profit and loss as the profit or loss on the disposal of the investment in the subsidiary. In order to ensure the comparability of the financial statements from one accounting period to the next, supplementary information is often provided about the effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date and the results for the reporting period and on the corresponding amounts for the preceding period.

8. Revenue (Consolidated) as per para no 15 and 22 of AS 21

Revenue of Best Ltd	56,00,000
Add: Revenue of Cool Ltd. (38,00,000 × 2/ 12)	6,33,333
	62,33,333

9. Cost of materials purchased/consumed (Consolidated) as per para no 15 and 22 of AS 21

Raw material of Best Ltd	36,50,000
Add: Raw material of Cool Ltd (31,20,000x 2/12)	5,20,000
	41,70,000

6. (a) In the books of Mr. Day

Investment Account
(Equity shares in Square Ltd.)

Date	Particulars	No. of shares	Amount (₹)	Date	Particulars	No. of shares	Amount (₹)
1.4.23	To Balance b/d	25,000	6,25,000	31.3.24	By Balance c/d (Bal. fig.)	63,750	13,00,000
31.7.23	To Bonus issue (W.N.1)	5,000	-				
5.10.23	To Bank A/c (right shares) (W.N.4)	33,750	6,75,000				
		63,750	13,00,000			63,750	13,00,000

Working Notes:

(1) Bonus shares = $\frac{25,000}{5}$ = **5,000** shares

(2) Right shares = $\frac{25,000 + 5,000}{2} \times 3$ = **45,000** shares

(3) Sale of rights = 45,000 shares × $\frac{1}{4}$ × ₹ 5

= 11,250 x 5 = **56,250**

₹ 56,250 to be credited to statement of profit and loss

(4) Rights subscribed = 45,000 shares × $\frac{3}{4}$ × ₹ 20 = ₹ **6,75,000**

Or

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. Examples of such costs are:

(a) **Abnormal amounts** of wasted materials, labour, or other production costs;

(b) **Storage costs**, unless the production process requires such storage.

(c) **Administrative overheads** that do not contribute to bringing the inventories to their present location and condition.

(d) **Selling and distribution costs**.

(b) Journal Entries

		₹	₹
Equity Share Capital (old) A/c	Dr.	15,00,000	
To Equity Share Capital (₹ 10) A/c			5,00,000
To Cash A/c			50,000
To 10% Debentures A/c			7,50,000
To Securities premium			1,50,000
To Capital Reduction/ Reconstruction A/c			50,000
(Being new equity shares, 8% Debentures issued, cash of ₹ 50,000 and the balance transferred to Reconstruction account as per the Scheme)			
8% Debentures A/c	Dr.	5,00,000	
To Freehold Property A/c			4,45,000
To Capital Reduction/ Reconstruction A/c			55,000
(Being the debenture holders claim settled partly and foregone partly as per reconstruction scheme)			
Capital Reduction/Reconstruction A/c	Dr.	1,05,000	
To Capital Reserves A/c			1,05,000
(Being balance in capital reduction account transferred to Capital Reserves A/c)			

(c) (i) In the books of Kullu Branch

Trading and Profit and Loss Account

Particulars	Amount ₹	Particulars	Amount ₹
To Opening stock	2,70,000	By Sales	19,50,000
To Goods received by Head office	17,82,000	By Goods returned by Branch	75,000
To Expenses	56,000	By Closing stock (Refer W.N.)	4,17,000

To Net profit (Bal fig)	3,34,000		
	24,42,000		24,42,000

(ii) Calculation of Closing Stock

Cost price	100
Invoice price	120 (100+20)
Sales price	150 (120+25% of 120)
Opening Stock	2,70,000
Goods received	17,82,000
Less: Goods Returned	75,000
	19,77,000
Less: Cost of Goods Sold (Invoice price)	15,60,000
Closing Stock	4,17,000

Stock reserve in respect of unrealised profit

= 4,17,000 x (20/120) = ₹ 69,500