Mock Test Paper - Series II: April, 2024

Date of Paper: 2 April, 2024

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

INTERMEDIATE COURSE: GROUP – I

PAPER – 1 : ADVANCED ACCOUNTING

1. **(i)** **(c)**

(ii) **(b)**

(iii) **(c)**

(iv) **(d)**

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

(ii) **(a)**

(iii) **(b)**

(iv) **(a)**

(v) **(b)**

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

(ii) **(a)**

(iii) **(b)**

4. **(a)**

5. **(d)**

6. **(a)**

PART II – Descriptive Questions (70 Marks)

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

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

(b) **(i)** As per AS 2 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognised as expenses in the

period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

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

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

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

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

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

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

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

2. **Oliva Company Ltd.**

Statement of Profit and loss for the year ended 31.03.2024

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

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

Oliva Company Ltd.
Balance Sheet for the year ended 31.03.2024

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

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

Notes to accounts

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

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

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

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

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

	Particulars	Notes	₹
I.	Equity & Liabilities		
A	Shareholders' Fund		
a	Share Capital	1	3,16,800
b	Reserves & Surplus	2	1,10,200
B	Non-Current Liabilities		
a	Long Term Borrowings	3	7,86,000
C	Current Liabilities		
a	Trade Payables		3,60,000
b	Short Term borrowings: Bank OD		2,34,000
	Total		18,07,000
II.	Assets		
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	3,16,800
	(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	
	6% Debentures	4,50,000
a	11% Debentures (70% of 4,80,000 preference shares)	3,36,000
b		
		7,86,000
4	PPE	
	Freehold property	6,49,000

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

Working notes:

1. **Computation of equity shares:**

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

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

3. Cash balance:

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

4. Calculation of Net Assets

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

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

Calculation of Purchase Consideration

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

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

	Particulars	Note No.	₹
	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	=	10.80
(2) Settlement of Creditors	15.40	-	4.60	=	10.80
(3) Rent Outstanding	15.40	–	4.80	=	10.60
(4) Drawings	15.22	–	4.80	=	10.42

(b) Journal Entries

			₹	₹
2022	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 Harrison

Branch Stock Account

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

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

Branch Debtors Account

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