

Mock Test Paper - Series I: March, 2026

Date of Paper: 16th March, 2026

Time of Paper: 10 A.M. to 1 P.M.

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

Case Scenario

1.	(B)
2.	(A)
3.	(B)
4.	(B)
5.	(B)
6.	(C)
7.	(C)
8.	(A)
9.	(D)
10.	(B)
11.	(B)
12.	(A)
13.	(C)
14.	(D)
15.	(D)

PART II – Descriptive Questions (70 Marks)

1. (a) According to AS 16 “Borrowing Costs”, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

The standard also states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost on Loan of data bank to be capitalized:

$$= ₹ (60,00,000 \times 8\%) \times 10/12 - ₹ 30,000$$

$$= ₹ (4,80,000) \times 10/12 = ₹ 4,00,000$$

$$= ₹ 4,00,000 - ₹ 30,000$$

$$= ₹ 3,70,000$$

Loan	Particulars	Nature of assets	(a) Interest to be Capitalized (₹)	(b) Interest to be charged to Profit & Loss Account (₹)
Data bank	Construction of factory building	Qualifying Asset	3,70,000	(4,80,000 - 4,00,000) 80,000
Satya Bank	Construction of factory building	Qualifying Asset	$(1,92,000 \times 14/20) \times 10/12 = 1,12,000$	$(1,92,000 \times 14/20) \times 2/12 = 22,400$
Satya Bank	Working Capital	Not a Qualifying Asset	NIL	$(1,92,000 \times 6/20) = ₹ 57,600$
	Total		<u>₹ 4,82,000</u>	<u>₹ 1,60,000</u>

Note: Loan from Satya bank is considered to be specific borrowings.

- (b) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", **Foreign currency monetary items should be reported using the closing rate. Non-monetary items** which are carried in terms of historical cost denominated in a foreign currency **should be reported using the exchange rate at the date of the transaction. Exchange differences** arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, **should be recognised as income or as expenses in the period in which they arise.**

- (i) **Items given in the question will appear in the Balance Sheet at the following values:**

Trade Payables $(30,96,000/86 = 36,000 \text{ German Currency}) \times ₹ 90 = ₹ 32,40,000$

Plant and Machinery $18,500 \text{ German Currency} \times ₹ 88 = ₹ 16,28,000$

Trade Receivables $(50,40,000/84 = 60,000 \text{ German Currency}) \times ₹ 90 = ₹ 54,00,000$

- (ii) **Amount of gain / loss on each transaction on account of exchange difference:**

Exchange loss on Transaction of import of goods from Try Ltd.
= ₹ (1,44,000)

$[36,000 \text{ German Currency} \times ₹ 4 \text{ (i.e. } 90-86)]$

Exchange gain on Transaction of export of goods to Cream Ltd
= ₹ 3,60,000

$[60,000 \text{ German Currency} \times ₹ 6 \text{ (i.e. } 90-84)]$

- (c) (i) **Cost of closing inventory is shown below:**

	₹
Sale value of opening stock and purchases (₹ 20,000 + ₹ 1,47,000) $\times 1.10$	1,83,700
Sales	(1,54,000)
Sale value of unsold stock	29,700
Less: Gross Margin $(₹ 29,700 / 1.10) \times 0.10$	(2,700)
Cost of closing inventory	27,000

Alternative presentation

Cost of closing inventory is shown below:

	₹
Opening stock and purchases (₹ 20,000 + ₹ 1,47,000)	1,67,000
Less: cost of goods sold	(1,40,000)
Cost of closing inventory	27,000

Calculation of cost of goods sold	₹
Goods sold	1,54,000
Less: gross margin (1,54,000 X 10/110)	(14,000)
Cost of goods sold	1,40,000

(ii)

Closing stock at cost (250X ₹ 300) (i)	75,000
Net Realizable value of closing stock (₹ 280* × 250) (ii)	70,000
Value of closing stock [lower of (i) and (ii)]	70,000

2. (a)

In the Books of Mr. Happy

10% Government Bonds (Investment) Account

Particulars		Nominal Value	Interest	Principal	Particulars		Nominal Value	Interest	Principal
2025-26		₹	₹	₹	2025-26		₹	₹	₹
April 1	To Balance b/d (W.N.1)	5,00,000	12,500	4,85,000	June. 30	By Bank A/c (W.N.3)		28,000	
June 1	To Bank A/c (W.N.2)	60,000	2,500	56,900	Oct. 1	By Bank A/c (W.N.4)	2,50,000	6,250	2,46,250
					Dec.31	By Bank A/c (W.N.6)		27,500	
Aug. 1	To Bank A/c	2,40,000	2,000	2,34,000	Jan. 1	By Bank A/c (W.N.7)	3,00,000		2,97,000
Oct. 1	To P&L A/c (W.N.5)			3,750	March31	By Balance c/d (W.N. 9 & W.N.10)	2,50,000	6,250	2,43,483
Jan. 1	To P&L A/c (b.f.) (W.N.8)			7,083					
March 31	To P&L A/c (Transfer)		51,000						
		8,00,000	68,000	7,86,733			8,00,000	68,000	7,86,733

Working Notes:

- Interest element in opening balance of bonds = $5,00,000 \times 10\% \times 3/12$
= ₹ 12,500
- Purchase of bonds on 1.6.25
Interest element in purchase of bonds = $600 \times 100 \times 10\% \times 5/12$ = ₹ 2,500

Investment element in purchase of bonds = $(600 \times 99) = ₹ 59,400 - ₹ 2,500 = ₹ 56,900$

3. Interest for half-year ended 30.6.25 = $₹ 5,60,000 \times 10\% \times 6/12 = ₹ 28,000$

4. Sale of bonds on 1.10.2025

Interest element = $2,500 \times 100 \times 10\% \times 3/12 = ₹ 6,250$

Investment element = $2,500 \times 98.50 = ₹ 2,46,250$

5. Profit on sale of bonds on 1.10.25

Cost of bonds = $(4,85,000/5,000 \times 2,500) = ₹ 2,42,500$

Sale proceeds = ₹ 2,46,250

Profit element = ₹ 3,750

6. Interest for half-year ended 31 December 2025

= $5,500 \times 100 \times 10\% \times 6/12 = ₹ 27,500$

7. Sale of bonds on Jan.1 ,26

Interest element = 0 (Nil)

Investment element = $3000 \times ₹ 99 = ₹ 2,97,000$

8. Profit on sale of bonds on Jan 1, 26

Cost of bonds = $[2,42,500 + 56,900 \times 5/6] = ₹ 2,42,500 + ₹ 47,417 = ₹ 2,89,917$

Sale proceeds = ₹ 2,97,000

Profit element = ₹ 7,083

9. Closing value of investment

Calculation of closing balance:	Nominal value	₹
Bonds in hand remained in hand on 1.4.25		---
Purchased on 1st June,25	10,000	9,483
Purchased on 1 st August,25	2,40,000	2,34,000
	2,50,000	2,43,483

10. Interest element in closing balance of bonds = $2,500 \times 100 \times 10\% \times 3/12 = ₹ 6,250$.

(b)

Books of Jolly Industries, Delhi**Jalandhar Branch Stock Account**

Particulars	₹	Particulars	₹
To Balance b/d – Op Stock	1,25,000	By Bank A/c – Cash Sales	1,04,000
To Branch Debtors A/c – Sales Return	11,000	By Branch Debtors A/c - Credit Sales	4,16,000
To Goods sent to Branch A/c (6,00,000 + 12,000)	6,12,000	By Goods sent to Branch (Returns to H.O.)	60,000
		By Branch Stock Adjustment A/c (Normal Loss)	12,000
		By Branch Stock Adjustment A/c (Abnormal Loss) (bal. fig.)	6,000
		By Balance c/d - Closing stock	1,50,000
	7,48,000		7,48,000

Jalandhar Branch Stock Adjustment Account

Particulars	₹	Particulars	₹
To Goods sent to Branch A/c (1/5 of ₹ 60,000) (on returns)	12,000	By Balance b/d (20% of 1,25,000)	25,000
To Branch Stock A/c (abnormal Loss) (6,000 x 1/5)	1,200	By Goods sent to Branch A/c (1/5 of ₹ 6,12,000)	1,22,400
To Branch Stock A/c (Normal Loss)	12,000		
To Balance c/d (1/5 of ₹ 1,50,000)	30,000		
To Branch P & L A/c (Profit on sale) – Bal fig	92,200		
	1,47,400		1,47,400

Goods Sent to Branch Account

Particulars	₹	Particulars	₹
To Jalandhar Branch Stock Adjustment A/c	1,22,400	By Jalandhar Branch Stock A/c	6,12,000
To Jalandhar Branch Stock A/c (Returns)	60,000	By Jalandhar Branch Stock Adj. A/c	12,000
To Purchases A/c	4,41,600		
	6,24,000		6,24,000

Branch Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d	1,10,000	By Bank	3,45,000
To Branch Stock A/c	4,16,000	By Branch P&L A/c - Discount	5,500
		By Branch P&L A/c - Bad Debts	9,500
		By Branch Stock - Sales Returns	11,000
		By Balance c/d	1,55,000
	5,26,000		5,26,000

Branch Expenses Account

Particulars	₹	Particulars	₹
To Bank A/c (Rent & Taxes)	9,000	By Branch Profit & Loss A/c (Transfer)	65,500
To Bank A/c (Salaries & Staff Welfare expenses)	54,000		
To Bank A/c (office exp.)	2,500		
	65,500		65,500

Branch Profit & Loss Account for the year ending 31st March 2026

Particulars	₹	Particulars	₹
To Branch Expenses A/c	65,500	By Branch Stock Adj. A/c	92,200
To Branch Debtors A/c	5,500		
To Branch Debtors A/c	9,500		
To Abnormal Loss (cost)	4,800		
To Net Profit transferred to Profit & Loss A/c	6,900		
	92,200		92,200

3. **Statement of Profit and Loss of Falgun Ltd.**
for the year ended 31st March, 2025

	Particulars	Notes	₹
I.	Revenue from operations		8,46,000
II.	Other income (Rent income)		24,000
III.	Total Income (I + II)		8,70,000
IV.	Expenses:		
	Cost of materials consumed / Cost of purchases	9	2,42,200
	Changes in inventories of finished goods, work-in-progress and Inventory-in-Trade		-
	Employee benefits expense	10	72,000
	Finance costs (Interest on debentures)	11	20,000
	Depreciation and amortization expenses	12	1,80,000
	Other expenses	13	<u>2,54,800</u>
	Total expenses		<u>7,69,000</u>
V.	Profit (Loss) for the period (III - IV)		1,01,000

Balance Sheet of Falgun Ltd. as at 31st March, 2025

Particulars	Note No	₹
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	14,00,000
b Reserves and Surplus	2	6,26,000
2 Non-current liabilities		
a Long-term borrowings	3	8,14,000
3 Current liabilities		
a Short term borrowings	4	1,00,000
b Trade Payables		72,000
c Other current liabilities	5	79,000
d Short term provisions		
Total		<u>30,91,000</u>

ASSETS		
1 Non-current assets		
a Property, plant and equipment	6	22,30,000
2 Current assets		
a Inventories		1,12,000
b Trade receivables	7	3,10,000
c Cash and bank equivalents	8	4,39,000
d Short term loans & advances		
Total		30,91,000

Note: There is a Contingent Liability for bills discounted but not yet matured amounting ₹ 35,000.

Notes to accounts:

		₹
1	Authorised capital:	
	10,000, 10% preference shares of ₹ 100	10,00,000
	20,000 Equity shares of ₹ 100 each	20,00,000
		30,00,000
	Issued and subscribed capital:	
	4,000, 10% preference shares of ₹ 100 each fully paid	4,00,000
	10,000 Equity shares of ₹ 100 each, fully paid	<u>10,00,000</u>
	(of the above 2,500* shares have been issued for consideration other than cash)	14,00,000
2	Reserves and Surplus	
	Securities premium	50,000
	Revaluation reserve	1,50,000
	General Reserve	2,85,000
	Surplus (Profit & Loss balance)	
	Opening balance	40,000
	Profit for the year	<u>1,01,000</u>
	Total	<u>6,26,000</u>

3.	Long-term borrowings		
	<u>Debentures</u>		
	2,000 10% Debentures of ₹ 100 each	2,00,000	
	<u>Secured: Term Loans</u>		
	6% Loan from State Finance Corporation [repayable after 3years (₹ 4,50,000 - ₹ 36,000 for interest accrued but not due)] (secured by hypothecation of Plant and machinery)	4,14,000	
	<u>Others</u>		
	Bank overdraft from Nationalized bank (secured by hypothecation of stocks)	<u>2,00,000</u>	
	Total		8,14,000
4.	Short-term borrowings		
	Loan from Directors		1,00,000
5	Other current liabilities		
	Unclaimed dividend	23,000	
	Interest on Debentures	20,000	
	Interest accrued but not due on loans (SFC)	<u>36,000</u>	79,000
6	Property, plant and equipment		
	Land	7,00,000	
	Add: Revaluation Adjustment	<u>1,50,000</u>	8,50,000
	Plant & Machinery	14,70,000	
	Less: Provision for depreciation	<u>(3,00,000)</u>	11,70,000
	Furniture	4,00,000	
	Less: Provision for depreciation	<u>(1,90,000)</u>	2,10,000
	Total		22,30,000
7	Trade receivables		
	Debts outstanding for a period exceeding six months		46,000
	Other Debts		<u>2,64,000</u>
			<u>3,10,000</u>
8	Cash and cash equivalents		
	Cash at bank with Scheduled Banks (3,05,000 - 55,000)	2,50,000	
	with others	55,000	

	Cash in hand	<u>1,34,000</u>	4,39,000
	*Weightage of this item should be considered equal to two figures (i.e. double)		
9	Cost of materials consumed/Cost of purchases		
	Adjusted purchases	2,25,000	
	Carriage inward	<u>17,200</u>	2,42,200
10	Employee benefit expense		
	Salaries		72,000
11	Finance cost		
	Debenture interest		20,000
12	Depreciation and amortization expenses		
	Plant and Machinery 1,10,000		
	Furniture <u>70,000</u>		1,80,000
13	Other expenses		
	Misc. expenses (10,200-5,000)	5,200	
	Audit fee	5,000	
	Selling & Distribution expenses	46,600	
	Director's fee	40,000	
	Travelling expenses (including foreign tour)	1,30,000	
	Office expenses	28,000	<u>2,54,800</u>

Notes:

- 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, 2025. Such dividends will be disclosed in notes only.
- Since Bonus issue is in proposal state, no adjustment has been made in the given answer.

4.

Journal Entries in the books of Tournia Ltd.

	<i>Dr.</i>	<i>Cr.</i>
	₹	₹
Equity Share Capital (₹ 100) A/c Dr.	16,00,000	

To Share Surrender A/c			6,40,000
To Equity Share Capital (₹ 10) A/c			9,60,000
(Subdivision of 16,000 equity shares of ₹ 100 each into 1,60,000 equity shares of ₹ 10 each and surrender of 64,000 of such subdivided shares as per capital reduction scheme)			
6% Preference Share Capital (₹ 100) A/c	Dr.	8,00,000	
To 12% Debentures A/c	Dr.		5,60,000
To Reconstruction A/c			2,40,000
(12% Debenture issued to Preference Shareholders and 30% of the capital foregone by them)			
Bank A/c	Dr.	4,00,000	
To 12% Debenture (₹ 100) A/c			4,00,000
(Being 12% debentures issued)			
Bank Overdraft A/c	Dr.	1,40,000	
To Bank A/c			1,26,000
To Reconstruction A/c			14,000
(Being bank overdraft amount paid)			
10% Debentures A/c	Dr.	3,20,000	
Interest payable A/c	Dr.	32,000	
To Debenture holders A/c			3,52,000
(Being Interest payable on the 10% debentures credited to debenture holders A/c)			
Debentureholder A/c	Dr.	3,52,000	
To furniture & fixtures A/c			2,80,000
To Reconstruction A/c			72,000
<u>Alternative combined entry:</u>			
10% Debentures A/c	Dr.	3,20,000	
Interest payable A/c	Dr.	32,000	
To furniture & fixtures A/c			2,80,000
To Reconstruction A/c			72,000
(Settlement of debenture holders by allotment of Furniture & Fixtures)			

Trade payables A/c	Dr.	1,15,000	
To Reconstruction A/c			1,15,000
(Transferred claims of the trade payables to reconstruction account, 30% of which is being clear reduction and equity shares are being issued in consideration of the balance)			
Share Surrender A/c		6,40,000	
To Equity Share Capital (₹ 10) A/c			80,500
To Reconstruction A/c			5,59,500
(Issued equity shares to discharge the claims of the trade payables respectively as a per scheme and the balance in share surrender account is being transferred to reconstruction account)			
Provision for Taxation A/c	Dr.	42,000	
Reconstruction A/c	Dr.	8,000	
To Bank A/c			50,000
(Being taxation liability settled)			
<u>Alternative Separate entry:</u>			
Provision for Taxation A/c	Dr.	42,000	
Reconstruction A/c	Dr.	8,000	
To Liability for taxation A/c			50,000
(Being conversion of the provision for taxation into liability for taxation.)			
Liability for taxation A/c		50,000	
To Cash/Bank A/c			50,000
(Being taxation liability settled)			
Reconstruction A/c	Dr.	70,000	
To Investment A/c			70,000
(Being investments' value reduce to market price)			
Inventory A/c	Dr.	32,000	
To Reconstruction A/c	Dr.		10,400
To Provision for doubtful debts (4,32,000 x 5%)			21,600
(Being inventory revalued and provision for doubtful debts created)			

Reconstruction A/c	Dr.	9,32,900	
To Profit and Loss A/c			9,10,000
To Capital Reserve A/c			22,900
(Adjusted debit balance of profit and loss account against the reconstruction account and the balance in the latter is being transferred to capital reserve)			
<u>Alternative combined entry:</u>			
Inventory A/c	Dr.	32,000	
Reconstruction A/c	Dr.	9,92,500	
To Investment A/c			70,000
To Provision for doubtful debts (4,32,000 x 5%)			21,600
To Profit and Loss A/c			9,10,000
To Capital Reserve A/c			22,900
(Being inventory revalued and provision for doubtful debts created, investments' value reduce to market price, Adjusted debit balance of profit and loss account against the reconstruction account and the balance in the latter is being transferred to capital reserve)			

Reconstruction Account

	₹		₹
To Provision for taxation	8,000	By Preference share capital A/c	2,40,000
To Investments A/c	70,000	By Bank Overdraft A/c	14,000
To Provision for doubtful debt	21,600	By 10% Debenture holders A/	72,000
To Profit and loss A/c	9,10,000	By Trade payables A/c	1,15,000
To Capital reserve A/c	22,900	By Share Surrender A/c	5,59,500
		By Inventory	<u>32,000</u>
	<u>10,32,500</u>		<u>10,32,500</u>

Balance Sheet of Tournal Limited (and reduced) as at...

Particulars	Note No.	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	10,40,500
(b) Reserves and Surplus	2	22,900
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	9,60,000
(3) Current Liabilities		
Total		20,23,400
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment	4	5,00,000
(b) Intangible assets	5	1,70,000
(c) Non-current investments	6	1,10,000
(2) Current assets		
(a) Inventories	7	5,44,000
(b) Trade receivables	8	4,10,400
(c) Cash and cash equivalents (W.N)		2,89,000
Total		20,23,400

Notes to Accounts

		₹
1.	Share Capital <u>Equity Share Capital</u> Issued Capital: 1,04,500 Equity Shares of ₹ 10 each (9,60,000+80,500) (Of the above shares all are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares without payment being received in cash)	10,40,500

2.	Reserve and Surplus		
	Capital Reserve		<u>22,900</u>
3.	Long-term borrowings		
	Unsecured Loans		
	12% Debentures (5,60,000 + 4,00,000)		<u>9,60,000</u>
4.	Property, plant and Equipment		
	Plant & Machinery		<u>5,00,000</u>
5.	Intangible assets		
	Patents & copyrights		<u>1,70,000</u>
6.	Non-Current Investments		
	Investments (1,80,000 – 80,000)		1,10,000
7.	Inventory	5,12,000	
	Add: Appreciation under scheme of Reconstruction	<u>32,000</u>	<u>5,44,000</u>
8.	Trade Receivables	4,32,000	
	Less: Provision for doubtful debts	<u>21,600</u>	4,10,400

Cash & Bank A/c

	₹		₹
To Opening balance	65,000	By Bank Overdraft A/c	1,26,000
To 12% Debenture A/c	4,00,000	By Liability for taxation	50,000
		By Closing balance	<u>2,89,000</u>
	<u>4,65,000</u>		4,65,000

5. (a) **Consolidated statement of profit and loss of Birds Ltd. and its subsidiary Rooster Ltd. for the year ended on 31st March, 2025**

Particulars	Note No.	₹
Revenue from operations	1	38,80,000
Other Income	2	<u>8,33,000</u>
Total revenue (I)		<u>47,13,000</u>
Expenses:		
Cost of material purchased/consumed	3	10,90,000
Changes (Increase) in inventories of finished goods	4	(6,20,000)

Employee benefit expense	5	11,53,000
Other expenses	6	<u>6,55,500</u>
Total expenses (II)		<u>22,78,500</u>
Profit before tax (II-III)		<u>24,34,500</u>

Notes to Accounts

			₹	₹
1.	Revenue from operations			
	Sales and other operating revenues			
	Birds Ltd.		28,40,000	
	Rooster Ltd.		<u>10,40,000</u>	38,80,000
2.	Other Income			
	Dividend income:			
	Birds Ltd.	1,35,000		
	Less: Dividend received from Rooster Ltd. (2,50,000 × 12%)	(30,000)		
	Rooster Ltd.	<u>28,000</u>	1,33,000	
	Other Non-operating Income			
	Birds Ltd.	2,38,000		
	Rooster Ltd.	<u>57,000</u>	2,95,000	
	Rent received			
	Birds Ltd.	5,40,000		
	Less: Rent received by Birds Ltd. from Rooster Ltd. (11,250 x 12)	<u>(1,35,000)</u>	<u>4,05,000</u>	8,33,000
3.	Cost of material purchased/consumed			
	Birds Ltd.	9,15,000		
	Rooster Ltd.	<u>1,75,000</u>		10,90,000
4.	Changes (Increase) in inventories of finished goods			
	Birds Ltd. (7,85,000 - 3,35,000)		4,50,000	
	Rooster Ltd. (2,90,000 -1,20,000)		<u>1,70,000</u>	6,20,000
5.	Employee benefits and expenses			

	Salaries:			
	Birds Ltd.		7,75,000	
	Rooster Ltd.		<u>3,78,000</u>	11,53,000
6.	Other expenses			
	General & Administrative expenses:			
	Birds Ltd.	2,81,500		
	Rooster Ltd.	1,98,000		
	Less: Rent paid to Birds Ltd.	<u>(1,35,000)</u>	3,44,500	
	Selling and distribution Expenses:			
	Birds Ltd.	2,21,000		
	Less: paid to Rooster Ltd	(15,000)		
	Rooster Ltd.	90,000		
	Add: Received from Birds Ltd.	<u>15,000</u>	3,11,000	6,55,500

Note:

An amount of ₹ 15,000 was added under Selling and Distribution Expenses of Rooster Ltd. due to a rectification entry, while ₹ 15,000 was deducted from Birds Ltd. under the same head to account for the set-off of inter-company transactions.

(b) Determination of Buy-back of maximum no. of shares as per the Companies Act, 2013

1. Shares Outstanding Test

Particulars	(Shares)
Number of shares outstanding	4,00,000
25% of the shares outstanding	1,00,000

2. Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

Particulars	
Paid up capital (₹)	40,00,000
Free reserves (₹) (48,00,000 + 18,00,000 + 10,00,000)	<u>76,00,000</u>
Shareholders' funds (₹)	<u>1,16,00,000</u>
25% of Shareholders fund (₹)	29,00,000
Buy-back price per share	₹ 25

Number of shares that can be bought back (shares)	1,16,000
Actual Number of shares for buy-back	80,000

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

Debt Equity ratio of the company should not exceed 2:1 after such buy-back. In this case, the debt is ₹ 92,00,000 (60,00,000 + 32,00,000)* and equity after such buy back will be ₹ 96,00,000 (1,16,000 – 20,00,000). Thus, the debt equity ratio is 0.96:1, which is less than 2:1.

Company qualifies all tests for buy-back of shares and came to the conclusion that it can buy 80,000 equity shares @ ₹ 25.

* Total debt may be considered (i.e including current liability).

6. (a) An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event occurs:
- A description of the discontinuing operation(s).
 - The business or geographical segment(s) in which it is reported as per AS 17.
 - The date and nature of the initial disclosure event.
 - The date or period in which the discontinuance is expected to be completed if known or determinable.
 - The carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled.
 - The amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period.
 - The amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense related thereto.
 - The amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.

OR

(a) Purchase consideration

<i>Raman Ltd.</i>	<i>Naman Ltd.</i>	
	₹	₹
Payable to preference shareholders:		
Preference shares at ₹ 115 per share	5,15,200	2,57,600
	$\left(3,360 \times \frac{4}{3}\right)$	$\left(1,680 \times \frac{4}{3}\right)$
Equity Shares at ₹ 12 per share	13,44,000	5,04,000
	$\left(67,200 \times \frac{5}{3}\right)$	$\left(25,200 \times \frac{5}{3}\right)$
Cash [See W.N.]	<u>41,260</u>	<u>94,980</u>
	<u>19,00,460</u>	<u>8,56,580</u>

Working note:

<i>Raman Ltd.</i>	<i>Naman Ltd.</i>	
	₹	₹
Goodwill	1,62,000	
PPE	10,58,100	5,20,100
Trade receivables	2,47,140	1,38,180
Inventory	2,78,620	2,06,780
Cash & Cash Equivalent	<u>2,35,240</u>	<u>1,60,480</u>
	19,81,100	10,25,540
Less: Trade payables	<u>(80,640)</u>	<u>(1,68,960)</u>
	19,00,460	8,56,580
Payable in shares	<u>18,59,200</u>	<u>7,61,600</u>
Payable in cash	<u>41,260</u>	<u>94,980</u>

- (b) (i) In this case, accountant of company created a provision for damages of probability of losing a suit by a charge against profits. Unless the probability of losing the suit is more than probability of not losing it, there should not be any creation of provision for such probable losses. So there is no need to charge such loss against profit and disclosing the same in financial statements.
- (ii) Repairs and maintenance are revenue expenditure and should not be added to the value of assets, as these expenses do not increase the capacity of asset. Hence such expenses should be charged to profit & loss statement.
- Further the chief accountant also disclosed its policy of adding repairs to value of assets by way of notes to accounts. As per AS 1 disclosure is not a method to correct the wrong treatments. So the contention of chief accountant is wrong.
- (iii) Accrual is one of the Fundamental accounting assumptions. If fundamental accounting assumptions are followed properly then no specific disclosure is required. Disclosure is required only when there is deviation and the company is not following fundamental accounting assumptions. So the company need not disclose this in financial statements.
- (iv) As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Accordingly, the notes on accounts should properly disclose the change and its effect.

Note: So far, the company has been providing 2% of sales for meeting after sales expenses during the warranty period. Now the company has improved the quality of its products with better technology and has been observing that actual expenses are very less than the provision, Hence, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is increased by ₹ 1 crore than would have been the case if the old policy were to continue.

- (c) As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

Its segment assets are 10% or more of the total assets of all segments.

If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments. This is not applicable in the given case. In the given case 75% of External Revenue is ₹ 10,500 Lakhs ($₹ 14,000 \times 75\%$) and the total External Revenue from Reportable segments is ₹ 12,300 Lakhs. So, no need to add Reportable segments.

On the basis of turnover criteria segment Fan is reportable segment as its sales are more than 1,850 lakhs (10% of ₹ 18,500 lakhs). Moreover, total external revenue attributable to reportable segment is also more than 75% of the total enterprise revenue.

On the basis of asset criteria, Fan and Light are reportable segments as their assets are more than 4,450 lakhs (10% of ₹ 44,500 lakhs).