Mock Test Paper - Series II: December, 2024

Date of Paper: 9th December, 2024

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

INTERMEDIATE COURSE: GROUP – I

PAPER – 1 : ADVANCED ACCOUNTING

ANSWERS

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.