MOCK TEST PAPER 2

INTERMEDIATE: GROUP – II

PAPER – 5: ADVANCED ACCOUNTING

1. (a) (i) According to AS 18 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Hence, Mr. Arnav a relative of key management personnel should be identified as related party as at the closing date i.e. on 31.3.2023.

(ii) As per AS 18, transactions of company with its associate company for the first quarter ending 30.06.2023 only are required to be disclosed as related party transactions. The transactions for the period in which related party relationship did not exist need not be reported.

(b) (i) As per AS 29, an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not.

Liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

In the given case, there are 75% chances that the penalty may not be levied. Accordingly, Saharsh Ltd. should not make the provision for penalty.

However, a provision should be made for remaining 50% fees of the lawyer in the financial statements of financial year 2022-2023.

(ii) Loss due to accident ₹ 30,00,000

Insurance claim receivable by company = ₹ 30,00,000 x 90% = ₹ 27,00,000

Loss to be recognised in the books for 2022-2023 ₹ 3,00,000

Insurance claim receivable to be recorded in the books ₹ 27,00,000

Compensation claim by dealer against company to be provided for in the books = ₹ 30,00,000 x 15% = ₹ 4,50,000

(c) Statement showing the amount of profit/loss to be taken to Profit and Loss Account and additional provision for the foreseeable loss as per AS 7

	Cost of Construction	**₹**	**₹**
	Material used		71,00,000
	Labour Charges paid	36,00,000	
Add:	Outstanding on 31.03.2023	2,00,000	38,00,000
	Hire Charges of Plant		10,00,000
	Other Contract cost incurred		15,00,000
	Cost incurred upto 31.03.2023		1,34,00,000
Add:	Estimated future cost		33,50,000
	Total Estimated cost of construction		1,67,50,000
	Degree of completion (1,34,00,000/1,67,50,000 x 100)		80%

	Revenue recognized (80% of 1,50,00,000)		1,20,00,000
	Total foreseeable loss (1,67,50,000 - 1,50,00,000)		17,50,000
Less:	Loss for the current year (1,34,00,000 - 1,20,00,000)		14,00,000
	Loss to be provided for		3,50,000

(d) The entity amortised ₹ 48,00,000 per annum for the first two years i.e. ₹ 96,00,000. The remaining carrying cost can be amortized during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows:

Year	Net cash flows ₹	Amortization Ratio	Amortization Amount ₹
I	-	0.20	48,00,000
II	-	0.20	48,00,000
III	36,00,000	0.180	25,92,000
IV	46,00,000	0.230	33,12,000
V	44,00,000	0.220	31,68,000
VI	40,00,000	0.200	28,80,000
VII	34,00,000	0.170	24,48,000
Total	2,00,00,000	1.000	2,40,00,000

It may be seen from above that from third year onwards, the balance of carrying amount i.e., ₹ 1,44,00,000 has been amortized in the ratio of net cash flows arising from the product of Change Ltd.

2. (a) (i) Number of Shares to be issued to Partners

	₹
Assets: Machinery ₹ 1,40,000 + Inventory ₹ 1,37,400 + Trade Receivable ₹ 1,24,000 + Bank ₹ 1,00,000	5,01,400
Less: Liabilities taken over	(1,69,400)
Net Assets taken over (Purchase Consideration)	3,32,000

Classes of Shares to be issued:	M	N	O	Total
10% Preference Shares of ₹ 10 each (to retain rights as to Interest on Capital)	1,36,000	90,000	46,000	2,72,000
Balance in Equity Shares of ₹ 10 each (3,32,000 -2,72,000) (issued in profit sharing ratio)	30,000	18,000	12,000	60,000
	1,66,000	1,08,000	58,000	3,32,000

(ii) Partners' Capital Accounts

Particulars	M	N	O	Particulars	M	N	O
To Drawings	50,000	46,000	34,000	By balance b/d	1,36,000	90,000	46,000
To 10% Preference share capital	1,36,000	90,000	46,000	By Interest on Capital	13,600	9,000	4,600

To Equity Shares	30,000	18,000	12,000	By profit for the year 5:3:2 (W.N. 1)	1,10,700	66,420	44,280
To Bank – Additional Drawings (W.N. 2)	54,300	17,420	6,880	By Machinery* A/c	10,000	6,000	4,000
Total	2,70,300	1,71,420	98,880		2,70,300	1,71,420	98,880

* Gain on Transfer of Machinery = ₹ 1,40,000 – (₹ 2,00,000-₹ 80,000) = ₹ 20,000 in 5:3:2 ratio.

(iii) Balance sheet of MNO Ltd. as on 31st March, 2023 (after Takeover of Firm)

		Note no.	₹
I	**Equity and Liabilities:**		
	(1) Shareholders Funds		
	Share Capital	1	3,32,000
	(2) Current Liabilities		
	Trade Payables		1,69,400
	Total		5,01,400
II	**Assets**		
	(1) Non-Current Assets		
	Property, plant and equipment - Machinery		1,40,000
	(2) Current Assets:		
	(a) Inventories		1,37,400
	(b) Trade Receivables		1,24,000
	(c) Cash and Cash Equivalents		1,00,000
	Total		5,01,400

Notes to Accounts

	Particulars	₹
1.	Share capital	
	Authorized shares capital	20,00,000
	Issued, Subscribed & paid up	
	6,000 Equity Shares of ₹ 10 each	60,000
	27,200 10% Preference Shares capital of ₹ 10 each	2,72,000
	(All above shares issued for consideration other than cash, in takeover of partnership firm)	**3,32,000**

Working Notes:

1. Profit & Loss Appropriation Account for the year ended 31st March, 2023

Particulars	₹	₹	Particulars	₹
To Interest on Capital:			By Net Profit	2,48,600
M [₹ 1,36,000 x 10%]	13,600		(given)	
N [₹ 90,000 x 10%]	9,000			

O [₹ 46,000 x 10%]	4,600	27,200		
To Profits transferred to Capital in profit sharing ratio 5:3:2				
M	1,10,700			
N	66,420			
O	44,280	2,21,400		
		2,48,600		2,48,600

2. **Statement showing Additional Drawings in Cash**

(a) Funds available for Drawings

	Total Drawing of Partners (given)	1,30,000
Add:	Further Funds available for Drawings (1,78,600-1,00,000)	78,600
		2,08,600
Less:	Interest on Capital	(27,200)
	Amount available for Drawings	1,81,400

(b) Ascertainment of Additional Drawings

Particulars	**M**	**N**	**O**
As per above statement ₹ 1,81,400 (in profit sharing ratio)	90,700	54,420	36,280
Add: Interest	13,600	9,000	4,600
	1,04,300	63,420	40,880
Less: Already drawn	(50,000)	(46,000)	(34,000)
Additional Drawings	54,300	17,420	6,880

(b) This would be the case of downstream transaction. In the consolidated profit and loss account for the year ended 31 March 2023, entire transaction of sale and purchase of ₹ 200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales). Further, the unrealized profits of ₹ 20 lacs (i.e. ₹ 200 lacs – ₹ 180 lacs), would be eliminated from the consolidated financial statements for financial year ended 31 March 2023, by reducing the consolidated profits/ increasing the consolidated losses, and reducing the value of closing inventories as of 31 March 2023.

3. (a) (i) In the Books of Beta Ltd.

Realisation Account

	₹		₹
To Sundry Assets	15,96,000	By Retirement Gratuity Fund	56,000
To Preference Shareholders (Premium on Redemption)	28,000	By Trade payables (Purchase Consideration)	2,24,000
To Equity Shareholders (Profit on Realisation)	1,40,000	By Alex Ltd.	14,84,000
	17,64,000		17,64,000

Equity Shareholders Account

	₹		₹
To Equity Shares of Alex Ltd.	11,76,000	By Share Capital	8,40,000
		By General Reserve	1,96,000
		By Realisation Account (Profit on Realisation)	1,40,000
	11,76,000		11,76,000

Preference Shareholders Account

	₹		₹
To 8% Preference Shares of Alex Ltd.	3,08,000	By Preference Share Capital	2,80,000
		By Realisation Account (Premium on Redemption of Preference Shares)	28,000
	3,08,000		3,08,000

Alex Ltd. Account

	₹		₹
To Realisation Account	14,84,000	By 8% Preference Shares	3,08,000
		By Equity Shares	11,76,000
	14,84,000		14,84,000

(ii) **In the Books of Alex Ltd.**

Journal Entries

		Dr.	Cr.
		₹	₹
Business Purchase A/c	Dr.	14,84,000	
To Liquidators of Beta Ltd. Account			14,84,000
(Being business of Beta Ltd. taken over)			
Goodwill Account	Dr.	1,40,000	
Building Account	Dr.	4,20,000	
Machinery Account	Dr.	4,48,000	
Inventory Account	Dr.	4,41,000	
Trade receivables Account	Dr.	2,80,000	
Bank Account	Dr.	56,000	
To Retirement Gratuity Fund Account			56,000
To Trade payables Account			2,24,000
To Provision for Doubtful Debts Account			21,000
To Business Purchase A/c			14,84,000

(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Beta Ltd. A/c	Dr.	14,84,000	
To 8% Preference Share Capital A/c			3,08,000
To Equity Share Capital A/c			11,20,000
To Securities Premium A/c			56,000
(Being Purchase Consideration satisfied as above).			

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

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	45,08,000
	B	Reserves and Surplus	2	2,52,000
2		**Non-current liabilities**		
	A	Long-term provisions		1,96,000
3		**Current liabilities**		
	A	Trade Payables		5,88,000
	B	Short term provision		21,000
		Total		55,65,000
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment (PPE)	3	31,08,000
	B	Intangible assets		2,80,000
2		**Current assets**		
	A	Inventories		11,41,000
	B	Trade receivables		8,40,000
	C	Cash and cash equivalents		1,96,000
		Total		55,65,000

Notes to accounts:

		₹
1	**Share Capital**	
	Equity share capital	
	3,92,000 Equity Shares of ₹ 10 each fully paid (Out of above 1,12,000 Equity Shares were issued in consideration other than for cash)	39,20,000
	Preference share capital	
	5,880 8% Preference Shares of ₹ 100 each (Out of above 3,080 Preference Shares were issued in consideration other than for cash)	5,88,000
	Total	45,08,000

2	**Reserves and Surplus**	
	Securities Premium	56,000
	General Reserve	1,96,000
	Total	2,52,000
3	**PPE**	
	Buildings	12,60,000
	Machinery	18,48,000
	Total	31,08,000

Working Notes:

Purchase Consideration:	₹
Goodwill	1,40,000
Building	4,20,000
Machinery	4,48,000
Inventory	4,41,000
Trade receivables	2,59,000
Cash at Bank	56,000
Less: Liabilities:	
Retirement Gratuity	(56,000)
Trade payables	(2,24,000)
Net Assets/ Purchase Consideration	14,84,000
To be satisfied as under:	
Preference Shareholders of Beta Ltd.	2,80,000
Add: 10% Premium	28,000
Satisfied by issue of 3,080 no. of 8% Preference Shares of Alex Ltd.	3,08,000
Equity Shareholders of Beta Ltd. to be satisfied by issue of 1,12,000 Equity Shares of Alex Ltd. at 5% Premium	11,76,000
Total	14,84,000

(b) Pooling of Interest Method

Under pooling of interests method, the assets, liabilities and reserves of the Transferor Company will be taken over by Transferee Company at existing carrying amounts unless any adjustment is required due to different accounting policies followed by these companies. As a result the difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the amount of share capital of Transferor Company should be adjusted in reserves.

Purchase Method

The assets and liabilities of the transferor company should be incorporated at their existing carrying amounts or the purchase consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation. No reserves, other than statutory reserves, of the transferor company should be incorporated in the financial statements of transferee company.

4. (a) (i) Capital Funds –

Tier I :	*₹ in crore*
Equity Share Capital	600
Statutory Reserve	470
Capital Reserve (arising out of sale of assets)	105
Less: Profit & Loss (Dr. bal.)	(30)
	1,145
Capital Funds - Tier II :	
Capital Reserve (arising out of revaluation of assets)	25
Less: Discount to the extent of 55%	(13.75)
	11.25

(ii) Risk Adjusted Assets

Funded Risk Assets	**₹ in crore**	**Percentage weight**	**Amount ₹ in crore**
Cash Balance with RBI	35.50	0	—
Balances with other Banks	15	20	3
Claims on banks	52.50	20	10.50
Other Investments	70	100	70
Loans and Advances:			
(i) guaranteed by government	22.50	0	—
(ii) guaranteed by PSUs	110	0	—
(iii) Others	9,365	100	9,365
Premises, furniture and fixtures	92.50	100	92.50
Leased Assets	40	100	40
			9,581

(b) Statement showing computation of 'Net Owned Fund'

S. No			*₹ in lakhs*
	Paid up Equity Capital		200
	Free Reserves		600
(i)		A	800
	Investments		
	In shares of subsidiaries		250
	In debentures of group companies		400
(ii)		B	650
(iii)	10% of A		80

(iv)	Excess of Investment over 10% of A (650 – 80)	C	570
(v)	Net Owned Fund [(A) - (C)] (800 – 570)		230

(c) **Journal entries**

In the books of Bhoomi Ltd.

			Dr.	*Cr.*
				₹ in lakhs
1	Bank A/c	Dr.	25,000	
	To Investments A/c			24,000
	To Profit and Loss A/c			1,000
	(Being Investments sold and, profit being credited to Profit and Loss Account)			
2	10% Redeemable Preference Share Capital A/c	Dr.	20,000	
	Premium payable on Redemption of Preference Shares A/c	Dr.	2,000	
	To Preference Shareholders A/c			22,000
	(Being amount payable on redemption of Preference shares, at a Premium of 10%)			
3	Securities Premium A/c	Dr.	2,000	
	To Premium payable on Redemption of Preference Shares A/c			2,000
	(Being Securities Premium utilised to provide Premium on Redemption of Preference Shares)			
4	Equity Share Capital A/c	Dr.	16,000	
	Premium payable on Buyback A/c	Dr.	16,000	
	To Equity Share buy back A/c			32,000
	(Being the amount due on buy-back)			
5	Securities Premium A/c (6,400 – 2,000)	Dr.	4,400	
	General Reserve A/c (balancing figure)	Dr.	11,600	
	To Premium payable on Buyback A/c			16,000
	(Being premium on buyback provided first out of Securities Premium and the balance out of General Reserves.)			
6	Bank A/c	Dr.	16,000	
	To Bank Loan A/c			16,000
	(Being Loan taken from Bank to finance Buyback)			
7	Preference Shareholders A/c	Dr.	22,000	
	Equity Shares buy back A/c	Dr.	32,000	
	To Bank A/c			54,000
	(Being payment made to Preference Shareholders and Equity Shareholders)			
8	General Reserve Account	Dr.	36,000	

	To Capital Redemption Reserve Account (Being amount transferred to Capital Redemption Reserve Account to the extent of face value of preference shares redeemed and equity Shares bought back) (20,000 + 16,000)		36,000

5. (a) **Restated Balance Sheet of MNT Ltd.**

as at 31st March 2023

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 $\left(\frac{3,43,000}{98} x100\right)$		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

(b) Calculation of Profit/Loss on disposal of investment in subsidiary

Particulars	₹
Proceeds from the sale of Investment	30,00,000
Less: A Ltd.'s share in net assets of B Ltd.	(28,00,000)
	2,00,000

Working Note:

A Ltd.'s share in net assets of B Ltd.

	₹
Net Assets of B Ltd. on the date of disposal	35,00,000
Less: Minority Interest (20% of ₹ 35 lakhs)	(7,00,000)
A Ltd.'s share in the net assets of B Ltd.	28,00,000

6. (a) Basic Earnings per share (EPS) =

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

$$= \frac{21{,}96{,}000}{4{,}57{,}500 \text{ Shares (as per working note)}} = ₹\ 4.80 \text{ per share}$$

Working Note:

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*
	₹	₹	₹
1.4.2023	6,00,000	5	6,00,000 x 5/10 x 5/12 = 1,25,000
1.9.2023	5,40,000	10	5,40,000 x 7/12 = 3,15,000
1.9.2023	60,000	5	60,000 x 5/10 x 7/12 = 17,500
Total weighted average equity shares			4,57,500

(b) Events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and by the corresponding approving authority in the case of any other entity.

Assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date or that indicate that the fundamental accounting assumption of going concern is not appropriate.

In the given case, financial statements are approved by the approving authority on 30 June 2023.

On the basis of above principles, following will be the accounting treatment in the financial statements for the year ended at 31 March 2023:

(i) Since on 31 March 2023, Tee Ltd. was expecting a heavy decline in the demand of the stitching machine. Therefore, decline in the value during April, 2023 will be considered as an adjusting event. Hence, Tee Ltd. needs to adjust the amounts recognized in its financial statements w.r.t. net realisable value at the end of the reporting period. Accordingly, inventory should be written down to ₹ 4,000 per machine. Total value of inventory in the books will be 50 machines x ₹ 4,000 = ₹ 2,00,000.

(ii) A fire took place after the balance sheet date i.e. during 2023-2024 financial year. Hence, corresponding financials of 2022-2023 financial year should not be adjusted for loss occurred due to fire. However, in this circumstance, the going concern assumption will be evaluated. In case the going concern assumption is considered to be appropriate even after the occurrence of fire, no disclosure of the same is required in the financial statements. Otherwise, disclosure be given.

(iii) Since the transfer of risk and reward and sale was complete in the month of May, 2023 when conveyance and possession got complete, no revenue should be recognised with respect to it in the financial statements of 2022-2023. However, a disclosure for the same should be given by the entity.

(iv) Since the notice has been received after 31 March but before 30 June 2023 (approval date), the said grant shall be adjusted in the financial statements for financial year 2022-2023 because the violation of the conditions took place in the financial year 2022-2023 and the company must be aware of it.

(c) As per AS 9 'Revenue Recognition', in a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method as the service is performed, whichever relates the revenue to the work accomplished. In the given case, income accrues when the related advertisement appears before public. The advertisement service would be considered as performed on the day the advertisement is published and hence revenue is recognized on that date. In this case, 15.03.2023 is the date of publication of the magazine. Hence, ₹ 3,00,000 (₹ 2,40,000 + ₹ 60,000) is recognized as income in March, 2023. The terms of payment are not relevant for considering the date on which revenue is to be recognized. Since, the revenue of ₹ 3,00,000 will be recognised in the March, 2023, ₹ 60,000 will be treated as amount due from advertisers as on 31.03.2023 and ₹ 2,40,000 will be treated as payment received against the sale. However, if the publication is delayed till 02.04.2023 revenue recognition will also be delayed till the advertisements get published in the magazine. In that case revenue of ₹ 3,00,000 will be recognized in the year ended 31.03.2023 after the magazine is published on 02.04.2023**.** The amount received from sale of advertising space on 10.03.2023 of ₹ 2,40,000 will be considered as an advance from advertisers as on 31.03.2023.

(d) Calculation of Total Remuneration payable to Liquidator

		Amount in ₹
2% on Assets realized	25,00,000 x 2%	50,000
3% on payment made to Preferential creditors	75,000 x 3%	2,250
3% on payment made to Unsecured creditors (Refer W.N)		39,255
Total Remuneration payable to Liquidator		91,505

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors, preferential creditors & liquidator's remuneration

= ₹ 25,00,000 – ₹ 25,000 – ₹ 10,00,000 – ₹ 75,000 – ₹ 50,000 – ₹ 2,250 = ₹ 13,47,750.

Liquidator's remuneration on payment to unsecured creditors = 3/103 x ₹ 13,47,750 = ₹ 39,255

(e) Journal Entries in the books of Suvidhi Ltd.

Date	*Particulars*		*Dr. (₹)*	*Cr. (₹)*
31.3.23	Bank A/c (60,000 shares x ₹ 30)	Dr.	18,00,000	
	Employees stock compensation expense A/c	Dr.	4,80,000	
	To Share Capital A/c (60,000 shares x ₹ 10)			6,00,000
	To Securities Premium (60,000 shares x ₹ 28)			16,80,000
	(Being shares issued under ESOP @ ₹ 30 to 1,200 employees)			

	Profit & Loss A/c Dr.	4,80,000	
	To Employees stock compensation expense A/c		4,80,000
	(Being Employees stock compensation expense transferred to Profit & Loss A/c)		

Working Note:

Fair value of an option = ₹ 38 – ₹ 30 = ₹ 8

Number of shares issued = 1,200 employees x 50 shares = 60,000 shares

Fair value of ESOP which will be recognized as expenses in the year 2022-2023
= 60,000 shares x ₹ 8 = ₹ 4,80,000

Vesting period = 1 year

Expenses recognized in 2022-2023 = ₹ 4,80,000