Test Series: October, 2023

MOCK TEST PAPER -2

INTERMEDIATE GROUP – II

PAPER – 5: ADVANCED ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **four** questions from the remaining **five** questions.*

Wherever necessary suitable assumptions may be made and disclosed by way of a note.

Working Notes should form part of the answer.

Time Allowed: 3 Hours **Maximum Marks: 100**

1. (a) (i) Mr. Arnav a relative of key management personnel received remuneration of ₹ 3,00,000 for his services in the company for the period April 1, 2022 to June 30, 2022. On July 1, 2022 he left the job.

Should Mr. Arnav be identified as Related Party at the closing date i.e. March 31, 2023 for the purposes of AS 18?

(ii) A limited company sold goods to its associate company for the 1st quarter ending June 30, 2023. After that, the related party relationship ceased to exist. However, goods were supplied continuously even after June 30, 2023 as was supplied to another ordinary customer. Does this require disclosure as related party transaction for the entire financial year?

(b) Saharsh Ltd. is engaged in manufacturing of electric home appliances. The company is in the process of finalizing its accounts for the year ended 31.3.2023 and needs your expert advice on the following issues in line with the provisions of AS 29:

(i) A case has been filed against the company in the consumer court and a notice for levy of a penalty of ₹ 20 lakhs has been received. The company has appointed a lawyer to defend the case for a fee of ₹ 2 lakhs. 50% of the fees has been paid and balance 50% will be paid after finalisation of the case. There are 75% chances that the penalty may not be levied.

(ii) The company had committed to supply a consignment worth ₹ 1 crore to one of its dealers by the year-end. As per the contract, if delivery is not made on time, a compensation of 15% is to be paid on the value of delayed/lost consignment. While the consignment was in transit, one of the trucks carrying goods worth ₹ 30 lakhs met with an accident. It was however covered by Insurance. According to the surveyor's report, the policy amount is collectable, subject to 10% deduction. Before closing the books of accounts, the company has received the information that the policy amount has been processed and the dealer has also claimed the compensation for the consignment of goods worth ₹ 30 lakhs which was in transit.

(c) Akar Ltd. signed on 01/04/22, a construction contract for ₹ 1,50,00,000. Following particulars are extracted in respect of contract, for the period ending 31/03/23.

- Materials used ₹ 71,00,000
- Labour charges paid ₹ 36,00,000
- Hire charges of plant ₹ 10,00,000
- Other contract cost incurred ₹ 15,00,000
- Labour charges of ₹ 2,00,000 are still outstanding on 31.3.23.
- It is estimated that by spending further ₹ 33,50,000 the work can be completed in all respect.

You are required to compute profit/loss for the year to be taken to Profit & Loss Account and additional provision for foreseeable loss to be recognized as per AS 7.

(d) Sudesh Ltd. acquired a patent at a cost of ₹ 2,40,00,000 for a period of 5 years and the product life-cycle was also 5 years. The company capitalized the cost and started amortizing the asset at ₹ 48,00,000 per annum. After two years it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years were expected to be ₹ 36,00,000, ₹ 46,00,000, ₹ 44,00,000, ₹ 40,00,000 and ₹ 34,00,000. Find out the amortization cost of the patent for each of the years if the patent was renewable and Sudesh Ltd. got it renewed after expiry of five years. **(4 Parts x 5 Marks = 20 Marks)**

2. (a) M, N and O were Partners sharing Profits and Losses in the ratio of 5:3:2 respectively. The Trial Balance of the Firm as on 31st March, 2023was the following:

Particulars	₹	₹
Machinery at Cost	2,00,000	
Inventory	1,37,400	
Trade receivables	1,24,000	
Trade payables		1,69,400
Capital A/cs:		
M		1,36,000
N		90,000
O		46,000
Drawing A/cs:		
M	50,000	
N	46,000	
O	34,000	
Depreciation on Machinery		80,000
Profit for the year ended 31st March		2,48,600
Cash at Bank	1,78,600	
	7,70,000	7,70,000

Interest on Capital Accounts at 10% p.a. on the amount standing to the credit of Partners' Capital Accounts at the beginning of the year, was not provided before preparing the above Trial Balance. On the above date, they formed MNO Private Limited Company with an Authorized Share Capital of 2,00,000 in shares of ₹ 10 each to be divided in different classes to take over the business of Partnership firm.

You are given terms and conditions as under:

1. Machinery is to be transferred at ₹ 1,40,000.
2. Shares in the Company are to be issued to the partners, at par, in such numbers, and in such classes as will give the partners, by reason of their shareholdings alone, the same rights as regards interest on capital and the sharing of profit and losses as they had in the partnership.
3. Before transferring the business, the partners wish to draw from the partnership profits to such an extent that the bank balance is reduced to ₹ 1,00,000. For this purpose, sufficient profits of the year are to be retained in profit-sharing ratio.
4. Assets and liabilities except Machinery and Bank, are to be transferred at their book value as on the above date.

You are required to prepare:

(i) Statement showing the workings of the Number of Shares of each class to be issued by the company, to each partner.

(ii) Capital Accounts showing all adjustments required to dissolve the Partnership.

(iii) Balance Sheet of the Company immediately after acquiring the business of the Partnership and Issuing of Shares.

(b) A Ltd. holds 80% of the equity capital and voting power in B Ltd. A Ltd sells inventories costing ₹ 180 lacs to B Ltd at a price of ₹ 200 lacs. The entire inventories remain unsold with B Ltd at the financial year end i.e. 31 March 2023. What will be the accounting treatment for this transaction in the consolidated financial statements of A Ltd? **(16+4 = 20 Marks)**

3. (a) Two companies named Alex Ltd. and Beta Ltd. provide you the following summary of ledger balances as on 31st March, 2023:

	Alex Ltd. (₹)	*Beta Ltd. (₹)*
Goodwill	1,40,000	70,000
Building	8,40,000	2,80,000
Machinery	14,00,000	4,20,000
Inventory	7,00,000	4,90,000
Trade receivables	5,60,000	2,80,000
Cash at Bank	1,40,000	56,000
Equity Shares of ₹ 10 each	28,00,000	8,40,000
8% Preference Shares of ₹ 100 each	2,80,000	–
10% Preference Shares of ₹ 100 each	–	2,80,000
General Reserve	1,96,000	1,96,000
Retirement Gratuity fund	1,40,000	56,000
Trade payables	3,64,000	2,24,000

Beta Ltd. is absorbed by Alex Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 8% Preference Shares of Alex Ltd.

(b) Goodwill of Beta Ltd. is valued at ₹ 1,40,000, Buildings are valued at ₹ 4,20,000 and the Machinery at ₹ 4,48,000.

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

(d) Equity Shareholders of Beta Ltd. will be issued Equity Shares of Alex Ltd. @ 5% premium.

You are required to:

(i) Prepare necessary Ledger Accounts to close the books of Beta Ltd.

(ii) Show the acquisition entries in the books of Alex Ltd.

(iii) Also draft the Balance Sheet after absorption as at 31st March, 2023.

(b) Explain the difference between pooling of interest and purchase method of accounting for amalgamations. **(16 + 4 = 20 Marks)**

4. (a) Astha Bank has the following Capital Funds and Assets as at 31st March, 2023:

	₹ in crores
Capital Funds:	
Equity Share Capital	600.00

Statutory Reserve	470.00
Profit and Loss Account (Dr. Balance)	30.00
Capital Reserve [out of which ₹ 25 crores were due to revaluation of assets (on which discount of 55% is to be provided) and balance due to sale of assets]	130.00
Assets:	
Balance with other banks	15.00
Cash balance with RBI	35.50
Claim on Banks	52.50
Other Investments	70.00
Loans and Advances:	
(i) Guaranteed by Government	22.50
(ii) Guaranteed by PSUs of Central Government	110.00
(iii) Other	9,365.00
Premises, furniture and fixtures	92.50
Leased assets	40.00

You are required to: (i) Segregate the capital funds into Tier I and Tier II capitals; and (ii) Find out the risk-adjusted assets.

(b) XYZ Finance Ltd. is a non-banking finance company. It provides the following information:

(₹ in lakhs)

	Amount
Equity and Liabilities	
Paid-up equity capital	200
General Reserve	600
Non-Current Liabilities	
Loans	500
Deposits	600
Assets	
Non-current assets	
Property Plant and Equipment	900
Investments:	
In shares of subsidiaries	250
In debentures of group companies	400
Current Assets	
Cash and bank balances	350

You are required to compute 'Net Owned Fund' of XYZ Finance Ltd. as per Non-Banking Financial Company – Systemically Important Non-Deposit taking company and Deposit taking company (Reserve Bank) Directions, 2016.

(c) The following details are provided by Bhoomi Ltd. as on 31st March, 2023:

	₹ (in lakhs)
Issued Capital:	
Equity Shares of ₹10 each Fully Paid up	64,000

10% Redeemable Preference Shares of 10 each, Fully Paid Up	20,000
Capital Redemption Reserve	8,000
Securities Premium	6,400
General Reserve	48,000
Profit & Loss Account	2,400
9% Debentures	40,000
Trade Payables	26,400
Property, plant and equipment	1,12,000
Investments	24,000
Cash at Bank	13,200
Trade Receivables	66,000

On 1st April,2023 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 25% of its Equity Shares at ₹20 per Share. In order to make cash available, Bhoomi Ltd. sold all the Investments for ₹25,000 Lakhs and raised a Bank Loan amounting to ₹16,000 lakh on the Security of the Company's Plant.

Give the necessary Journal Entries considering that the buy back is authorised by the articles of company and necessary resolution is passed by the company for this. The amount of Securities premium may be utilized to the maximum extent allowed by law. **(8 + 4 + 8 = 20 Marks)**

5. (a) Consider the following information of subsidiary MNT Ltd.-

Liabilities	2021-22 Amount in ₹	2022-23 Amount in ₹
Issued and subscribed: 7,500 Equity Shares of ₹ 100 each	7,50,000	7,50,000
Revenue Reserve	2,14,000	5,05,000
Securities Premium	72,000	2,07,000
Trade Payables	2,90,000	2,46,000
Bank Overdraft	-	1,70,000
Provision for Taxation	2,62,000	4,30,000
Property, plant and equipment (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
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

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 2021-2022 and increased by ₹ 12,000 at the end of 2022-2023. (Inventory of 2021-22 has been sold out during the year 2022-23)

(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 2021-22 and ₹ 12,500 in 2022-23 being part of initial Sales Promotion expenditure of ₹ 37,500 in 2021-22, which is being written off over three years. Similar nature of Sales Promotion expenditure of LTC Ltd. has been fully written off in 2021-22.

Restate the balance sheet of MNT Ltd. as on 31st March, 2023 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.

(b) A Ltd. had acquired 80% shares of B Ltd. for ₹ 15 lakhs at the beginning of year. During the year, A Ltd. sold the investment for ₹ 30 lakhs and net assets of B Ltd. on the date of disposal was ₹ 35 lakhs. Calculate the profit or loss on disposal of this investment to be recognized in the Financial Statements of A Ltd. **(16 + 4 = 20 Marks)**

6. (a) On 1st April, 2022 a company had 6,00,000 equity shares of ₹ 10 each (₹ 5 paid up by all shareholders). On 1st September, 2022 the remaining ₹ 5 was called up and paid by all shareholders except one shareholder having 60,000 equity shares. The net profit for the year ended 31st March, 2023 was ₹ 21,96,000 after considering dividend on preference shares and dividend distribution tax on such dividend totalling to ₹ 3,40,000.

You are required to compute Basic EPS for the year ended 31st March, 2023 as per Accounting Standard 20 "Earnings Per Share".

(b) Tee Ltd. closes its books of accounts every year on 31st March. The financial statements for the year ended 31 March 2023 are to be approved by the approving authority on 30 June 2023. During the first quarter of 2023-2024, the following events / transactions has taken place. The accountant of the company seeks your guidance for the following:

(i) Tee Ltd. has an inventory of 50 stitching machines costing at ₹ 5,500 per machine as on 31 March 2023. On 31 March 2023 the company is expecting a heavy decline in the demand in next year. The inventories are valued at cost or net realisable value, whichever is lower. During the month of April 2023, due to fall in demand, the prices have gone down drastically. The company has sold 5 machines during this month at a price of ₹ 4,000 per machine.

(ii) A fire has broken out in the company's godown on 15 April 2023. The company has estimated a loss of ₹ 25 lakhs of which 75% is recoverable from the Insurance company.

(iii) The company has entered into a sale agreement on 30 March 2023 to sell a property for a consideration of ₹ 7,50,000 which is being carried in the books at ₹ 5,50,000 at the year end. The transfer of risk and reward and sale is complete in the month of May 2023 when conveyance and posfreconsession get completed.

(iv) The company has received, during the year 2021-2022, a government grant of ₹ 15 lakhs for purchase of a machine. The company has received a notice for refund of the said grant on 15 June, 2023 due to violation of some of the conditions of grant during the year 2022-2023.

You are required to state with reasons, how the above transactions will be dealt with in the financial statement for the year ended 31st March 2023.

(c) New Era Publications publishes a monthly magazine on 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2023 issue was made in February 2023. The magazine was published on its scheduled date. It received ₹ 2,40,000 on 10.3.2023 and ₹ 60,000 on 10.4.2023 for the March, 2023 issue.

Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2023. What will be the treatment if the publication is delayed till 2.4.2023?

(d) A Liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹ 25,00,000 against which payment was made as follows:

Liquidation expenses	₹ 25,000
Secured Creditors	₹ 10,00,000
Preferential Creditors	₹ 75,000

The amount due to Unsecured Creditors was ₹ 15,00,000. You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee.

(e) Suvidhi Ltd. offered 50 stock options to each of its 1500 employees on 1st April 2022 for ₹ 30. Option was exercisable within a year it was vested. The shares issued under this plan shall be subject to lock-in on transfer for three years from the grant date. The market price of shares of the company is ₹ 50 per share on grant date. Due to post vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 38 per share. On 31st March, 2023,1200 employees accepted the offer and paid ₹ 30 per share purchased. Nominal value of each share is ₹ 10. Record the issue of shares in the books of the company under the aforesaid plan.

(4 Parts x 5 Marks = 20 Marks)