(GI-10, GI-11, VI-2(A) & AI-2(A), DI-1+2 & Drive)

DATE: 03.03.2024 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

ADVANCE ACCOUNTING

Answer to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium. His/her answer in Hindi will not be valued.
1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive type answers.
In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then all answers shall be valued and best four will be considered.
Wherever necessary, suitable assumptions may be made and disclosed by way of note.

SECTION – A

PART – I – MULTIPLE CHOICE QUESTIONS

TOTAL MARKS: 30 MARKS

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given, All questions are compulsory.

1. Ans. b
2. Ans. c
3. Ans. c
4. Ans. a
5. Ans. d
6. Ans. b
7. Ans. c
8. Ans. d
9. Ans. a
10. Ans. a
11. Ans. a
12. Ans. b
13. Ans. b
14. Ans. a
15. Ans. b
16. Ans. a
17. Ans. b
18. Ans. c
19. Ans. b
20. Ans. c
21. Ans. b
22. Ans. d
23. Ans. c
24. Ans. a
25. Ans. b
26. Ans. a
27. Ans. c
28. Ans. c
29. Ans. a
30. Ans. d

(30 MCQ x 1 M Each = 30 Marks)

SECTION – B

PART – II - DESCRIPTIVE QUESTIONS

QUESTIONS NO. 1 IS COMPULSORY
ATTEMPT ANY FOUR QUESTIONS THE REMAINING FIVE QUESTIONS

TOTAL MARKS: 70 MARKS

Answer 1:

(a) (i) The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made. **{1/2 M}**

In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from Rs. 5 lakhs to Rs. 4 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2020 -21:
"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been lower by Rs. 1 lakh." **{1/2 M}**

(ii) As per AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus company should disclose the change in valuation method of inventory and its effect on financial statements. **The company may disclose the change in accounting policy in the following manner:** **{1/2 M}**

"The company values its inventory at lower of cost and net realizable value. Since net realizable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost. In the present year i.e. 2020-21, the company has changed to weighted average method, which better reflects the consumption pattern of inventory, for ascertaining inventory costs from the earlier practice of using FIFO for the purpose. The change in policy has reduced current profit and value of inventory by Rs. 9,000." **{1/2 M}**

Answer:

(b) (i) As per AS 24, a discontinuing operation is a component of an enterprise:

(a) that the enterprise, pursuant to a single plan, is:
   (i) disposing of substantially in its entirety, such as by selling the component in a single transaction or by demerger or spin-off of ownership of the component to the enterprise's shareholders; or
   (ii) disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually; or
   (iii) terminating through abandonment; and

(b) that represents a separate major line of business or geographical area of operations; and

(c) that can be distinguished operationally and for financial reporting purposes. **{1 M}**

Mere gradual phasing out is not considered as discontinuing operation as defined under AS 24, 'Discontinuing Operations'. Examples of activities that do not necessarily satisfy criterion of the definition, but that might do so in combination with other circumstances, include:

(a) Gradual or evolutionary phasing out of a product line or class of service;

(b) Shifting of some production or marketing activities for a particular line of business from one location to another; and

(c) Closing of a facility to achieve productivity improvements or other cost savings. **{1 M}**

In this case, it cannot be considered as Discontinuing Operation as per AS-24 as the company's strategic plan has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Moreover, the new segment i.e. commercial vehicle production line in a new factory has not started. **{1/2 M}**

(ii) **No,** the resolution is silent about stoppage of the car segment in definite time period. Though, sale of some assets and some transfer proposal were passed through a resolution to the new factory, but the closure road map and new segment starting roadmap are missing.

Hence, AS 24 will not be applicable and it cannot be considered as discontinuing operation. **{1 M}**

(iii) **Yes,** phased and time bound program resolved in the board clearly indicates the closure of the passenger car segment in a definite time frame and will constitute a clear roadmap.

Hence, this action will attract compliance of AS 24 and it will be considered as Discontinuing Operation as per AS-24. **{1/2 M}**

Answer:

(c) **Calculation of total estimated cost of construction**

		Rs. in thousand
Cost of Contract incurred till date		
Work certified	17,500	
Work not certified (3,815 thousand – 140 thousand)	3,675	21,175
Add: Estimated future cost		17,325
Total estimated cost of construction		**38,500**
Contract Price (35,000 thousand x 1.08)		**37,800**

{1/2 M} **{1/2 M}**

Stage of completion

Percentage of completion till date to total estimated cost of construction = [Cost of work completed till date / total estimated cost of the contract] x 100

= [Rs. 21,175 thousand / Rs. 38,500 thousand] x 100= **55%** **{1/2 M}**

Revenue to be recognized for the year ended 31st March, 2022

Proportion of total contract value recognized as revenue = Contract price x percentage of completion = Rs. 37,800 thousand x 55% = **Rs. 20,790** thousand **{1 M}**

Loss to be recognized for the year ended 31st March, 2022

Loss for the year ended 31st March, 2022 = Cost incurred till date – Revenue to be recognized for the year ended 31st March, 2022

= Rs. 21,175 thousand – Rs. 20,790 thousand = **Rs. 385** thousand **{1 M}**

Provision for loss to be made at the end of 31st March, 2022

		Rs. in thousand
Total estimated loss on the contract		
Total estimated cost of the contract	38,500	
Less: Total revised contract price	(37,800)	700

Less: Loss recognized for the year ended 31st March, 2022		(385)
Provision for loss to be made at the end of 31st March, 2022		**315**

}{1/2 M}

Answer:

(d) (a) (i) As per AS 18, parties are considered to be related if any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party. Transactions of ABC Ltd. with its associate company for the first quarter ending 30.06.2022 only are required to be disclosed as related party transactions as the company has the ability to exercise significant influence only till 30.6.2022.
The transactions for the period in which related party relationship did not exist need not be reported. {1 M}

(ii) **In the given case, Arjun Ltd. cannot be said to control the composition of board of directors of Bheem Ltd. as the directors have been appointed in their individual capacity as professionals and not by virtue of their being directors in Arjun Ltd.**
Hence, it cannot be concluded that the companies are related merely because the majority of the directors of one company became the majority of the directors of the second in their individual capacity as professionals. {1/2 M}

(iii) **In the context of AS 18, a single customer, supplier, franchiser, distributor, or general agent with whom an enterprise transacts a significant volume of business cannot be construed as Related Party Relationship merely by virtue of the resulting economic dependence. There is an economic dependence between the companies but no one controls or exercise significant influence on the other.**
In the given case, Asha Ltd. need not report Sasha Company as its related party in its financial statements. {1/2 M}

Answer:

(d) (b) **Computation of Basic earnings per share**

	Earnings Rs.	**Shares**	**Earnings/ Share Rs.**
Net profit for the year 2022	72,00,000		
Weighted average no. of shares during year 2022		30,00,000	
Basic earnings per share (72,00,000/30,00,000)			**2.40**

}{1 M}

Computation of Diluted earnings per share

	Earnings Rs.	**Shares**	**Earnings/Share Rs.**
Net profit for the year 2022	72,00,000		
Weighted average no. of shares during year 2022		30,00,000	
Number of shares under option		6,00,000	
Number of shares that would have been issued at fair value			

(6,00,000 x 20.00)/25.00		(4,80,000)		
Diluted earnings per share	72,00,000	31,20,000	**2.31** (rounded-off)	}{1 M}

Answer 2:

(a) **Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 20X1**

Particulars				**Note No.**	**(Rs. in Lacs)**
I.	**Equity and Liabilities**				
	(1)	**Shareholder's Funds**			
		(a)	Share Capital	1	**12,000**
		(b)	Reserves and Surplus	2	**7,159**
	(2)	**Minority Interest [W.N.6]**			**3,120**
	(3)	**Current Liabilities**			
		(a)	Trade payables	3	**2,802**
		(b)	Short term provisions	4	**1,249**
		(c)	Other current liabilities	5	**1,200**
			Total		**27,530**
II.	**Assets**				
	(1)	**Non-current assets**			
		Property, Plant and Equipment		6	**14,954**
	(2)	**Current assets**			
		(a)	Inventories	7	**5,885**
		(b)	Trade receivables	8	**4,477**
		(c)	Short term loans and advances	9	**520**
		(d)	Cash and cash equivalents	10	**1,694**
			Total		**27,530**

{13 Item x 1/2 M = 6.5 M}

Notes to Accounts

					(Rs. in lacs)	**(Rs. in lacs)**	
1.	**Share Capital**						
	Authorized share capital					15,000	
	Equity shares of Rs. 10 each, fully paid up Issued and Subscribed:						
	Equity shares of Rs. 10 each, fully paid up					12,000	
	Total					**12,000**	}{1/4 M}
2.	**Reserves and surplus**						
	Capital Reserve (Note 5)				1,320		
	General Reserve (2,784 + 108)				2,892		
	Profit and Loss Account:						
	H Ltd.		2,715				
	Less: Dividend wrongly credited	360					
	Unrealized Profit	20	(380)				
			2,335				
	Add: Share in S Ltd.'s Revenue profits	612	2,947				
	Total					**7,159**	}{1/4 M}
3.	**Trade payables**						
	Creditors						
	H Ltd.			1,461			
	S Ltd.			854	2,315		
	Bills Payable						
	H Ltd.			Rs. 372			
	S Ltd.			Rs. 160			

		Rs. 532			
	Less: Mutual owing	Rs. (45)	487	**2,802**	}{1/4 M}
4.	**Short term provisions**				
	Provision for Taxation				
	H Ltd.		855		
	S Ltd.		394		
	Total			**1,249**	}{1/4 M}
5.	**Other current liabilities**				
	Dividend payable				
	H Ltd.			**1,200**	}{1/4 M}
6.	**Property, plant and equipment**				
	Land and Buildings				
	H Ltd.		2,718		
	Plant and Machinery				
	H Ltd.	Rs. 4,905			
	S Ltd.	Rs. 4,900	9,805		
	Furniture and Fittings				
	H Ltd.	Rs. 1,845			
	S Ltd.	Rs. 586	2,431		
	Total			**14,954**	}{1/4 M}
7.	**Inventories**				
	Stock				
	H Ltd.		3,949		
	S Ltd.		1,956		
			5,905		
	Less: Unrealized profit		(20)	**5,885**	}{1/4 M}
8.	**Trade receivables**				
	Debtors				
	H Ltd.	Rs. 2,600			
	S Ltd.	Rs. 1,363	3,963		
	Bills Receivable				
	H Ltd.	Rs. 360			
	S Ltd.	Rs. 199			
		Rs. 559			
	Less: Mutual Owing	Rs. (45)	514	**4,477**	}{1/4 M}
9.	**Short term loans and advances**				
	Sundry Advances			**520**	}{1/4 M}
10.	**Cash and cash equivalents**				
	Cash and Bank Balances			**1,694**	}{1/4 M}

Share holding pattern of S Ltd.

Shares as on 31st March, 20X1 (Includes bonus shares issued on 1st January, 20X1)	480 lakh shares (4,800 lakhs / Rs. 10)	{1/4 M}
H Ltd.'s holding as on 1st April, 20X0	180 lakhs	
Add: Bonus received on 1st January, 20X1	108 lakhs (180 / 5 × 3)	
Total H Ltd.'s holding as on 31st March, 20X1	288 lakhs i.e. **60 %** [288/480×100]	
Minority Shareholding	**40%**	

Working Notes:

1. S Ltd.'s General Reserve Account

Rs. in lakhs		Rs. in lakhs		
To Bonus to equity shareholders (WN-8)	1,800	By Balance b/d	3,000	{1/4 M}
		By Profit and Loss A/c	180	
To Balance c/d	**1,380**	(Balancing figure)		

	3,180		3,180

2. **S Ltd.'s Profit and Loss Account**

	Rs. in lakhs		**Rs. in lakhs**
To General Reserve [WN 1]	180	By Balance b/d	1,200
To Dividend paid (20% on Rs. 3,000 lakhs)	600	By Net Profit for the year* (Balancing figure)	1,200
To Balance c/d	**1,620**		
	2,400		2,400

{1/4 M}

*Out of Rs. 1,200 lakhs profit for the year, Rs. 180 lakhs has been transferred to reserves.

3. **Distribution of Revenue profits**

	Rs. in lakhs
Revenue profits (W. N. 2)	1,200
Less: Share of H Ltd. 60%	(720)
(General Reserve Rs. 108 + Profit and Loss Account Rs. 612)	
Share of Minority Shareholders (40%)	**480**

{1/4 M}

Note: The question can also be solved by taking Rs. 1,020 lakhs as post acquisition Profit and Loss balance and Rs. 180 lakhs as post acquisition General Reserve balance. The final answer will be same.

4. **Calculation of Capital Profits**

	Rs. in lakhs
General Reserve on the date of acquisition less bonus shares (Rs. 3,000 – Rs. 1,800)	1,200
Profit and loss account on the date of acquisition less	600
dividend paid (Rs. 1,200 – Rs. 600)	
	1,800

{1/4 M}

H Ltd.'s share = 60% of Rs. 1,800 lakhs = Rs. 1,080 lakhs
Minority interest = Rs. 1,800 – Rs. 1,080 = Rs. 720 lakhs

5. **Calculation of capital reserve**

	Rs. in lakhs
Paid up value of shares held (60% of Rs. 4,800)	2,880
Add: Share in capital profits [WN 4]	1,080
	3,960
Less: Cost of shares less dividend received (Rs. 3,000 – Rs. 360)	(2,640)
Capital reserve	**1,320**

{3/4 M}

6. **Calculation of Minority Interest**

	II Rs. in lakhs
40% of share capital (40% of Rs. 4,800)	1,920
Add: Share in revenue profits [WN 3]	480
Share in capital profits [WN 4]	720
	3,120

{1/2 M}

7. **Unrealized profit in respect of inventory**

Rs. 100 lakhs $\times \frac{25}{125} =$ **Rs. 20 lakhs**

{1/4 M}

8. Computation of bonus to equity shareholders

	Rs. in lakhs
Shares as on 31 March 20X1 including bonus share issued on 1 January 20X1	4,800
Or we can say these are $1+\frac{3}{5}$ *or* $\frac{8}{5}$	
i.e. Shares before bonus issue should have been $\frac{4,800}{8/5}=$	3,000
Accordingly, bonus issue would be (4,800 - 3,000)	**1,800**

{1/4 M}

Answer:

(b) A government grant is recognised when there is reasonable assurance that:

- the enterprise will comply with the conditions attaching to it; and
- the grant will be received.

{1 M}

Receipt of a grant is not of itself conclusive evidence that the conditions attaching to the grant have been or will be fulfilled. {1 M}

Answer 3:

(a) **Journal Entries in the books of A Ltd.**

Particulars		Debit Rs.	Credit Rs.
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 (Rs. 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

{1/4 M} {1 1/2 M} {1/4 M} {1/4 M}

(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)		

{1/4 M}

*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, 2021

	Particulars	Notes	Rs.
	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**

{12 Item x 1/2 M = 6 M}

Notes to accounts

			Rs.
1	**Share Capital**		
	Equity share capital		
	2,00,000 Equity shares of Rs. 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 Rs. 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

{1/4 M}

	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**	}{1/4 M}
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**	}{1/4 M}
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	}{1/4 M}
5	**Other current liabilities**			
	Opening balance	50,000		
	Add: Adjustment under scheme of amalgamation	75,000	**1,25,000**	}{1/4 M}
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**	}{1/4 M}
7	**Investments**			
	Opening balance	96,000		
	Add: Adjustment under scheme of amalgamation	3,00,000	**3,96,000**	}{1/4 M}
8	**Inventories**			
	Opening balance	6,30,000		
	Add: Adjustment under scheme of amalgamation	4,20,000	**10,50,000**	}{1/4 M}
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**	}{1/4 M}

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**

{1/4 M}

Working Notes:

1. Calculation of purchase consideration

	Rs.
Equity shareholders of B Ltd. (80,000 x Rs. 10)	8,00,000
Preference shareholders of B Ltd. (5,00,000 x 115%)	5,75,000
Purchase consideration would be	**13,75,000**

{1/2 M}

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:

	Rs.
Purchase consideration	13,75,000
Less: Share capital issued (Rs. 7,20,000 + Rs. 5,00,000)	(12,20,000)
Amount to be adjusted from general reserve	**1,55,000**

{1/4 M}

3. Calculation of balances of Profit & Loss and Sundry Creditors of B Limited to be taken over by A Limited

	P&L (Rs.)	Creditors (Rs.)
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

{1/4 M}

Answer:

(b) A venturer should discontinue the use of the proportionate consolidation method from the date that:

a. It ceases to have joint control in the joint venture but retains, either in whole or in part, its investment. {1/2 M}

b. The use of the proportionate consolidation method is no longer appropriate because the joint venture operates under severe long- term restrictions that significantly impair its ability to transfer funds to the venturers. {1/2 M}

From the date of discontinuing the use of the proportionate consolidation method,

a. If interest in entity is more than 50%, investments in such joint ventures should be accounted for in accordance with AS 21, Consolidated Financial Statement. {1/4 M}

b. If interest is 20% or more but up to 50%, investments are to be accounted for in accordance with AS 23, Accounting for Investment in Associates in Consolidated Financial Statement. {1/4 M}

c. For all other cases investment in joint venture is treated as per AS 13, Accounting for Investment. {1/4 M}

d. For this purpose, the carrying amount of the investment at the date on which joint venture relationship ceases to exist should be regarded as cost thereafter. {1/4 M}

Answer 4:

(a) **Cash Flow Statement of Ryan Limited**
For the year ended 31st March, 20X1

	Rs.	Rs.	
Cash flow from operating activities			
Net Profit before taxation (W.N.1)	2,75,000		
Adjustment for			
Depreciation (W.N.3)	1,35,000		
Profit on sale of land	(30,000)		
Profit on sale of plant (W.N.3)	(40,000)		
Profit on sale of investments (W.N.4)	(20,000)		
Interest on debentures (2,00,000 X 9%)	18,000		
Operating profit before working capital changes	3,38,000		
Increase in inventory	(5,000)		
Increase in trade receivables	(25,000)		
Increase in Other current assets (W.N.9)	(35,000)		
Increase in Trade payables	5,000		
Increase in liabilities for expenses	10,000		
Cash generated from operations	2,88,000		
Income taxes paid (W.N.8)	(1,00,000)		
Net cash generated from operating activities		**1,88,000**	{1 1/2 M}
Cash flow from investing activities			
Proceeds from sale of land (W.N.2)	1,50,000		
Proceeds from sale of plant (W.N.3)	90,000		
Proceeds from sale of investments (W.N.4)	70,000		
Purchase of plant (W.N.3)	(3,50,000)		
Purchase of investments (W.N.4)	(25,000)		
Pre-acquisition dividend received (W.N.4)	5,000		
Net cash used in investing activities		**(60,000)**	{1 1/2 M}
Cash flow from financing activities			
Proceeds from issue of equity shares	1,00,000		
(6,00,000 – 5,00,000)			
Proceeds from issue of debentures	1,00,000		
(2,00,000 – 1,00,000)			
Redemption of preference shares	(2,00,000)		
Dividends paid	(1,50,000)		
Interest paid on debentures	(18,000)		
Net cash used in financing activities		**(1,68,000)**	{1 1/2 M}
Net decrease in cash and cash equivalents		(40,000)	
Cash and cash equivalents at the beginning of the year		90,000	
Cash and Cash equivalents at the end of the year		**50,000**	{1/2 M}

Significant Non-cash Items:
Debentures amounting to Rs. 1,00,000 have been issued as part consideration for acquisition of plant of Rs. 4,50,000. {1/2 M}

Working Notes:

1.

	Rs.
Net profit before taxation	
Retained profit	1,00,000
Less: Balance as on 31.3.20X0	(50,000)
	50,000

{1/2 M}

Provision for taxation	1,35,000
Dividend	90,000
	2,75,000

2. Land and Building Account

	Rs.		Rs.
To Balance b/d	2,00,000	By Cash (Sale)	1,50,000
To Profit and Loss A/c (Profit on sale)	30,000	By Balance c/d	1,50,000
To Capital reserve (Revaluation profit)	70,000		
	3,00,000		3,00,000

{1/2 M}

3. Plant and Machinery Account

	Rs.		Rs.
To Balance b/d	5,00,000	By Cash (Sale)	90,000
To Profit and loss account	40,000	By Depreciation	1,35,000
To Debentures	1,00,000	By Balance c/d	7,65,000
To Bank	3,50,000		
	9,90,000		9,90,000

{1/2 M}

4. Investments Account

	Rs.		Rs.
To Balance b/d	80,000	By Cash (Sale)	70,000
To Profit and loss account	20,000	By Dividend (Pre-acquisition)	5,000
To Bank (Balancing figure)	25,000	By Balance c/d	50,000
	1,25,000		1,25,000

{1/2 M}

5. Capital Reserve Account

	Rs.		Rs.
To Balance c/d	70,000	By Profit on revaluation of land	70,000
	70,000		70,000

{1/2 M}

6. General Reserve Account

	Rs.		Rs.
To Capital redemption reserve	1,00,000	By Balance b/d	2,50,000
To Balance c/d	1,50,000		
	2,50,000		2,50,000

{1/2 M}

7. Dividend payable Account

	Rs.		Rs.
To Bank (Balancing figure)	1,50,000	By Balance b/d	60,000
To Balance c/d	-	By Profit and loss account	90,000
	1,50,000		1,50,000

{1/2 M}

8. Provision for Taxation Account

	Rs.		Rs.
To Bank (Balancing figure)	1,00,000	By Balance b/d	60,000
To Balance c/d	95,000	By Profit and loss account	1,35,000
	1,95,000		1,95,000

{1/2 M}

9. Other Current Assets Account

	Rs.		Rs.
To Balance b/d	65,000	By Balance c/d	1,00,000
To Bank (Balancing figure)	35,000		
	1,00,000		1,00,000

{1/2 M}

Answer:

(b)

Investment A/c of Mr. Wise
for the year ending on 31-3-2021
(Scrip: 12% Debentures of Alpha Limited)
(Interest Payable on 30th June and 31st December)

Amount in Rs.

Date	Particulars	Nominal Value	Interest	Cost	Date	Particulars	Nominal Value	Interest	Cost
1.4.2020	To Balance b/d	4,00,000	**12,000**	**3,92,000**	30.6.2020	By Bank (6,00,000 x 6%)	-	**36,000**	-
1.6.2020	To Bank	2,00,000	**10,000**	**2,34,800**	1.9.2020	By Bank	3,00,000	**6,000**	**3,17,400**
1.9.2020	To Profit & Loss A/c			**23,400**	1.12.2020	By Bank	2,00,000	**10,000**	**2,05,800**
31.1.2021	To Bank	3,00,000	**3,000**	**3,06,000**	1.12.2020	By Profit & Loss a/c	-	-	**9,600**
31.3.2021	To Profit & Loss A/c (Bal. fig.)		**45,000**		31.12.20	By Bank (1,00,000 x 6%)	-	**6,000**	-
					31.3.2021	By Profit & Loss A/c	-	-	**3,400**
					31.3.2021	By Balance c/d	4,00,000	**12,000**	**4,20,000**
		9,00,000	**70,000**	**9,56,200**			9,00,000	**70,000**	**9,56,200**

{22 item x 1/8 M= 2.75 M}

Working Notes:

1. Valuation of closing balance as on 31.3.2021

	Rs.	Rs.
Market value of 4,000 Debentures at Rs. 105		4,20,000
Cost price of 1,000 debentures at	1,17,400	
3,000 debentures at	3,06,000	4,23,400
Value at the end = Rs. 4,20,000 i.e. whichever is less		

}{1/4 M}

2. Profit on sale of debentures as on 1.9.2020

	Rs.
Sales price of debentures (3,000 x Rs. 110)	3,30,000
Less: Brokerage @ 2%	(6,600)
	3,23,400
Less: Interest for 2 months	(6,000)
Less: Cost price of Debentures $\left(3{,}92{,}000 \times \frac{3{,}000}{4{,}000}\right)$	(2,94,000)
Profit on sale	**23,400**

}{1/4 M}

3. Loss on sale of debentures as on 1.12.2020

	Rs.
Sales price of debentures (2,000 x Rs. 105)	2,10,000
Less: Brokerage @ 2%	(4,200)
	2,05,800
Less: Cost price of Debentures (98,000 + 1,17,400)	(2,15,400)
Loss on sale	**9,600**

}{1/4 M}

4. Purchase Cost of 2,000 debentures on 1.6.2020

	Rs.
2000 Debentures @Rs. 120 cum interest	2,40,000
Add: Brokerage @ 2%	4,800
	2,44,800
Less: Interest for 5 months	(10,000)
Purchase cost of 2,000 debentures	**2,34,800**

}{1/4 M}

5. Sale value for 3,000 debentures on 1.9.2020

	Rs.
Sales price of debentures cum interest (3,000 x Rs. 110)	3,30,000
Less: Brokerage @ 2%	(6,600)
	3,23,400
Less: Interest for 2 months	(6,000)
Sale value for 3,000 debentures	**3,17,400**

}{1/4 M}

Answer 5:

(a) Journal Entries in the books of Weak Ltd.

(i)	Equity share capital (100) A/c	Dr.	1,00,00,000		{1/4 M}
	To Equity Share Capital (40) A/c			40,00,000	
	To Capital Reduction A/c			60,00,000	
	(Being conversion of equity share capital of 100 each into 40 each as per reconstruction scheme)				
(ii)	12% Cumulative Preference Share capital (100) A/c	Dr.	50,00,000		{1/4 M}
	To 12% Cumulative Preference Share Capital (60) A/c			30,00,000	
	To Capital Reduction A/c			20,00,000	
	(Being conversion of 12% cumulative preference share capital of 100 each into 60 each as per reconstruction scheme)				
(iii)	10% Debentures A/c	Dr.	40,00,000		{1/4 M}
	To 12% Debentures A/c			28,00,000	
	To Capital Reduction A/c			12,00,000	
	(Being 12% debentures issued to 10% debenture-holders for 70% of their claims. The balance transferred to capital reduction account as per reconstruction scheme)				
(iv)	Trade payables A/c	Dr.	20,00,000		{1/4 M}
	To Equity Share Capital A/c			12,00,000	
	To Capital Reduction A/c			8,00,000	
	(Being a creditor of Rs. 20,00,000 agreed to surrender his claim by 40% and was allotted 30,000 equity shares of Rs. 40 each in full settlement of his dues as per reconstruction scheme)				
(v)	Provision for Taxation A/c	Dr.	1,00,000		{1/4 M}
	Capital Reduction A/c	Dr.	50,000		
	To current assets(bank A/c) A/c			1,50,000	
	(Being liability for taxation settled)				

(vi)	Capital Reduction A/c	Dr.	99,00,000	
	To P & L A/c			6,00,000
	To Property, plant and equipment A/c			37,50,000
	To Current Assets A/c			55,00,000
	To Investments A/c			50,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Property, plant and equipment, Current Assets, Investments through capital reduction account)			
(vii)	Capital Reduction A/c	Dr.	50,000	
	To capital Reserve A/c			50,000
	(Being balance in capital reduction account transferred to capital reserve account)			

{1/4 M}

{1/4 M}

Balance Sheet of Weak Ltd. (and reduced) as at 31.3.20X1

	Particulars	Notes	Rs.
	Equity and Liabilities		
1	**Shareholders' funds**		
a	Share capital	1	**82,00,000**
b	Reserves and Surplus	2	**50,000**
2	**Non-current liabilities**		
a	Long-term borrowings	3	**28,00,000**
3	**Current liabilities**		
a	Trade Payables		**30,00,000**
	Total		**1,40,50,000**
	Assets		
1	**Non-current assets**		
a	Property, plant and equipment	4	**87,50,000**
b	Investments	5	**9,50,000**
2	**Current assets**	6	**43,50,000**
	Total		**1,40,50,000**

{9 item x 1/2 M= 4.5 M}

Notes to accounts

1.	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid up		
	1,30,000 equity shares of 40 each		52,00,000
	Preference share capital		
	Issued, subscribed and paid up		
	50,000 12% Cumulative Preference shares of 60 each		30,00,000
	Total		**82,00,000**
2.	**Reserves and Surplus**		
	Capital Reserve		**50,000**
3.	**Long-term borrowings**		
	Secured		
	12% Debentures		**28,00,000**
4.	**Property, plant and Equipment**		
	Total PPE	1,25,00,000	
	Adjustment under scheme of reconstruction	(37,50,000)	**87,50,000**

{6 item x 1/4 M= 1.5 M}

5.	**Investments**	10,00,000	
	Adjustment under scheme of reconstruction	(50,000)	**9,50,000**
6.	**Current assets**	45,00,000	
	Adjustment under scheme of reconstruction	(1,50,000)	**43,50,000**

Working Note:

Capital Reduction Account

To Current Asset	50,000	By Equity share capital	60,00,000
To P & L A/c	6,00,000	By 12% Cumulative	
To Property, plant		preference share capital	20,00,000
and equipment	37,50,000	By 10% Debentures	12,00,000
To Current assets	55,00,000	By Trade payables	8,00,000
To Investment	50,000		
To Capital Reserve (bal. fig.)	**50,000**		
	1,00,00,000		1,00,00,000

{1/4 M}

Answer:

(b) Part I of Schedule III to the Companies Act, 2013 provides that debit balance of Statement of Profit and Loss (after all allocations and appropriations) should be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, should be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative. In this case, the debit balance of profit and loss i.e. Rs. 250 lakhs exceeds the total of all the reserves i.e. Rs. 230 lakhs. Therefore, balance of 'Reserves and Surplus' after adjusting debit balance of profit and loss is negative by Rs. 20 lakhs, which should be disclosed on the face of the balance sheet. Thus, the presentation by the company is incorrect. **{3 M}**

Answer:

(c) As per Para 18 of AS 3 (Revised) on Cash Flow Statements, an enterprise should report cash flows from operating activities using either:

(a) The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or **{1 1/2 M}**

(b) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. **{1 1/2 M}**

Answer 6:

(a) **Surya Ltd.**

Balance Sheet (Extract relating to intangible asset) as on 31st March 2021

	Note No.	Rs.
Assets		
(1) Non-current assets		
Intangible assets	1	**14,00,000**

{1 M}

Notes to Accounts (Extract)

		Rs.	Rs.
1.	Intangible assets		
	Goodwill (Refer to note 1)	5,00,000	
	Patents (Refer to Note 2)	5,25,000	
	Franchise (Refer to Note 3)	3,75,000	**14,00,000**

{1/4 M}

Working Notes:

		Rs.	
(1)	Goodwill on acquisition of business		
	Cash paid for acquiring the business (purchase consideration)	25,00,000	
	Less: Fair value of net assets acquired	(18,75,000)	
	Goodwill	6,25,000	
	Less: Amortization. over 5 years (as per SLM)	(1,25,000)	
	Balance to be shown in the balance sheet	**5,00,000**	**{1/4 M}**
(2)	Patent	6,00,000	
	Less: Amortization (over 8 years as per SLM)	(75,000)	
	Balance to be shown in the balance sheet	**5,25,000**	**{1/4 M}**
(3)	Franchise	4,50,000	
	Less: Amortization (over 6 years)	(75,000)	
	Balance to be shown in the balance sheet	**3,75,000**	**{1/4 M}**

Answer:

(b) (i) A provision should be recognized only when an enterprise has a present obligation arising from a past event or obligation. In the given case, there is no present obligation but a future one, therefore no provision is recognized as per AS 29. The cost of replacement of lining of furnace is not recognized as a provision because it is a future obligation. Even a legal requirement does not require the company to make a provision for the cost of replacement because there is no present obligation. Even the intention to incur the expenditure depends on the company deciding to continue operating the furnace or to replace the lining. **{1 M}**

(ii) 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. **{1/2 M}**

In the given case, there are 70% chances that the penalty may not be levied. Accordingly, Alloy Fabrication Ltd. should not make the provision for penalty. The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.
However, a provision should be made for remaining 40% fees of the lawyer amounting Rs. 2,00,000 in the financial statements of financial year 2021-2022. **{1/2 M}**

Answer:

(c) Journal Entries in the books of Umang Ltd.

			Dr. Rs.	Cr. Rs.	
1.	Bank A/c	Dr.	25,00,000		**{1/2 M}**
	Profit and Loss A/c	Dr.	5,00,000		
	To Investment A/c			30,00,000	
	(Being investment sold for the purpose of buy-back of Equity Shares)				
2.	Bank A/c	Dr.	20,00,000		**{1/2 M}**
	To 12% Pref. Share capital A/c			20,00,000	
	(Being 12% Pref. Shares issued for Rs. 20,00,000)				
3.	Equity share capital A/c	Dr.	50,00,000		**{1/2 M}**
	Premium payable on buy-back	Dr.	25,00,000		
	To Equity shares buy-back A/c/ Equity			75,00,000	

	shareholders A/c				
	(Being the amount due on buy-back of equity shares)				
4.	Equity shares buy-back A/c/ Equity shareholders A/c	Dr.	75,00,000		{1/2 M}
	To Bank A/c			75,00,000	
	(Being payment made for buy-back of equity shares)				
5.	Securities Premium A/c	Dr.	15,00,000		{1 M}
	General Reserve A/c	Dr.	10,00,000		
	To Premium payable on buy-back			25,00,000	
	(Being premium payable on buy-back charged from Securities premium)				
6.	General Reserve A/c	Dr.	30,00,000		{1 M}
	To Capital Redemption Reserve A/c			30,00,000	
	(Being creation of capital redemption reserve to the extent of the equity shares bought back after deducting fresh pref. shares issued)				

Answer:

(d)

Bangalore Branch Stock Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)	
To Balance b/d	**4,50,000**	By Goods sent to branch A/c (Returns)	**90,000**	{8 item x 1/8 M = 1 M}
To Goods sent to branch A/c	**45,00,000**	By Bank A/c (Cash sales)	**15,00,000**	
To Branch debtors A/c (Returns)	**60,000**	By Branch debtors A/c (credit sales)	**27,00,000**	
To Branch adjustment A/c (Surplus over invoice price)*	**1,80,000**	By Balance c/d	**9,00,000**	
	51,90,000		51,90,000	

Bangalore Branch Adjustment Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)	
To Stock reserve - 20% of Rs. 9,00,000 (closing stock)	**1,80,000**	By Stock reserve - 20% of Rs. 4,50,000 (Opening stock)	**90,000**	{5 item x 1/4 M = 1.25 M}
To Branch profit & loss A/c (Gross profit)	**9,72,000**	By Goods sent to branch A/c – 20% of Rs. 44,10,000 (45,00,000 – 90,000)	**8,82,000**	
		By Branch stock A/c	**1,80,000**	
	11,52,000		11,52,000	

Branch Profit & Loss Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)	
To Branch expenses A/c	**6,30,000**	By Branch adjustment A/c	**9,72,000**	{5 item x 1/4 M = 1.25 M}
To Branch debtors A/c (Discount)	**45,000**	(Gross Profit)		
To Branch debtors A/c (Bad	**30,000**			

Debts)			
To Net profit (transferred to Profit & Loss A/c)	**2,67,000**		
	9,72,000		9,72,000

Branch Expenses Account

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Bank A/c (Rent, rates & taxes)	**1,35,000**	By Branch profit and loss A/c (Transfer)	**6,30,000**
To Bank A/c (Salaries, wages & bonus)	**4,50,000**		
To Bank A/c (Office expenses)	**45,000**		
	6,30,000		6,30,000

{4 item x 1/8 M = 0.5 M}

Branch Debtors Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	**5,40,000**	By Bank A/c	**24,00,000**
To Branch stock A/c	**27,00,000**	By Branch profit and loss A/c (Bad debts and discount) (30,000 + 45,000)	**75,000**
		By Branch stock A/c (Sales returns)	**60,000**
		By Balance c/d (bal. fig.)	**7,05,000**
	32,40,000		32,40,000

{6 item x 1/4 M = 1.5 M}

Goods sent to Branch Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Branch stock A/c	**90,000**	By Branch stock A/c	**45,00,000**
To Branch adjustment A/c	**8,82,000**		
To Purchases A/c	**35,28,000**		
	45,00,000		45,00,000

{4 item x 1/8 M = 0.5 M}

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