**(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.**

A Machine having expected useful life of 6 years, is leased for 4 years. Both the Cost and the Fair Value of the Machinery are ₹ 7,00,000. The amount will be paid in 4 equal instalments and at the termination of lease, Lessor will get back the Machinery. The Unguaranteed Residual Value at the end of the 4th year is ₹ 70,000. The IRR of the investment is 10%.

1. MLP for Lessee =
   (a) 2,05,803
   (b) 8,23,212
   (c) 8,93,212
   (d) 7,00,000

2. Unearned Finance Income =
   (a) 2,05,303
   (b) 1,23,212
   (c) 1,93,212
   (d) 7,00,000

Net Profit for the year =₹ 10,00,000
Weighted Average Number of Equity Shares outstanding during the year = 4,00,000
Weighted Average Number of Equity Shares under Option during the year = 2,00,000
Exercise Price (i.e. Issue / Offer Price for conversion of Options) =₹ 20.00
Average Market Price of Equity Shares for the last six months of the year =₹ 25.00

3. Incremental Number of Shares for Options =
   (a) 20,000
   (b) 25,000
   (c) 40,000
   (d) 15,000

An Entity acquires an Asset on the first day of reporting period for ₹ 120 with a useful life of 6 years and no Residual Value. It depreciates the asset on SLM basis. The Tax Rate is 30%. The Tax Depreciation is as under.

| Year | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| Depreciation | 90 | 10 | 7 | 5 | 5 | 3 |

4. At the end of Year 1=
   (a) Rocognise DTL 21
   (b) Recognise DTA 21
   (c) Recognise DTL 18
   (d) Recognise DTA 18

5. Rishaba Ltd reported a PBT of ₹ 4 Lakhs for the quarter ending 30th September after recognizing the following - In this quarter, the Company changed depreciation method from WDV to SLM which resulted in excess depreciation of ₹12 Lakhs. The entire amount has been debited in this quarter though the share of this quarter is only ₹ 3 Lakhs. Adjustment required –
   (a) Add 15 Lakh
   (b) Add 12 Lakh
   (c) Deduct 12 Lakh
   (d) No Adjustment Required

Akshay Pharma Ltd ordered 16,000 kg of certain material at ₹ 160 per unit. The Purchase Price includes GST ₹ 10 per kg in respect of which full Input Tax Credit is admissible. Freight incurred amounted to ₹1,40,160. Normal Transit Loss is 2%. The Company actually received 15,500 kg and consumed 13,600 kg of Material.

6. Abnormal Loss debited in P&L =
   (a) 22,032
   (b) 29,160
   (c) 30,780
   (d) 25,401

7. For Applicability of AS, borrowings (including public deposits) is relevant.
   (a) at the end of immediately preceding accounting year
   (b) at the beginning of immediately preceding accounting year
   (c) at any time during the immediately preceding accounting year
   (d) at any time during the any preceding accounting year

8. On 1.7.2012 H Ltd. acquired 7,500 shares of ₹ 100 each in S Ltd. at a cost of ₹ 160 per share. The total number of shares in S Ltd. is 10,000. In August, 2012 S Ltd. paid a dividend of ₹ 10 per share for the year ending 31.3.2012. In September, 2012 H sold 500 shares in S Ltd. @ ₹ 155. At what figure will be the Investment Account now stands in the books of H Ltd.?
   (a) ₹ 10,47,500
   (b) ₹ 11,00,000
   (c) ₹ 10,00,000
   (d) ₹ 10,50,000

S Ltd holds 35% of total Equity Shares of M Ltd, an Associate Company. The value of Investments in M Ltd on 31st March is ₹ 3 Crores in the Consolidated Financial Statements of S Ltd. S Ltd sold Goods worth ₹3,50,000 to M Ltd. The cost of goods sold is ₹ 3,00,000. Out of these, Goods costing ₹ 1,00,000 were in the Closing Stock of M Ltd. During the year, the Profit and Loss Statement of M Ltd showed a Loss of ₹ 1 Crore. What is the value of Investment in M Ltd as on 31st March in the Consolidated Financial Statements of S Ltd, if Equity Method is adopted for valuing the Investments in Associates.

9. Carrying Value as per Equity Method =
   (a) 2,64,94,167
   (b) 3,00,00,000
   (c) 16,667
   (d) 5,833

10. If Management judges that an Segment identified as a Reportable Segment (due to 10% thresholds) in the immediately preceding period is of continuing significance –
   (a) Information about that segment shall continue to be reported separately even if it no longer meets the 10% thresholds in the current period.
   (b) information about that segment shall continue to be reported separately only if it meets the 10% thresholds in the current period.
   (c) information about that segment shall not to be reported separately unless it meets the 10% thresholds in the current period.
   (d) information about that segment shall not to be reported.

11. An asset of PELF FINSTOCK Ltd. does not meet the requirements of environment laws which have been recently enacted. The asset has to be destroyed as per the law. The asset is carried in the Balance Sheet at the year end at ₹ 6,00,000. The estimated cost of destroying the asset is ₹ 70,000. Impairment Loss to be recognized as an expense immediately in the Statement of Profit and Loss as per AS 28 is
   (a) ₹ 6,00,000
   (b) ₹ 6,70,000
   (c) NIL
   (d) None of these

12. Onerous Contract is a contract in which –
   (a) avoidable costs of meeting the obligation under the Contract exceeds the economic benefits expected to be received under it.
   (b) unavoidable costs of meeting the obligation under the Contract exceeds the economic benefits expected to be received under it.
   (c) total costs of meeting the obligation under the Contract exceeds the economic benefits expected to be received under it.
   (d) economic benefits expected to be received under the Contract exceeds unavoidable costs of meeting the obligation under the Contract.

13. A Ltd. has equity share capital of ₹ 4,95,000 ( ₹10 each fully paid-up). Details of its reserves & loan funds are given below:
   General Reserve - 3,60,000
   Securities Premium Account - 1,35,000
   Profit & Loss Account - 1,35,000
   Export Profit Reserve -2,70,000
   Loan Funds -18,00,000
   Market price is ₹ 25 per share. The company wants to buy back maximum number of shares that are allowed under the companies Act, 2013 at price 20% higher than its market price. Export Profit Reserve is created to satisfy provisions of the Income Tax Act, 1961 requirements.
   No. of shares to be brought back=?
   (a) 12,375 Equity shares
   (b) 5,625 Equity shares
   (c) 28,125 Equity shares
   (d) 8,750 Equity shares

Due to inadequacy of Profits during the year ended 31st March 2022, XYZ Ltd proposes to declare 10% Dividend out of General Reserves. From the following particulars, ascertain the amount that can be utilised from General Reserves, according to the Companies (Declaration of Dividend out of Reserves) Rules.

| Particulars | ₹ |
|---|---|
| 35,000, 9% Preference Shares | 35,00,000 |
| 16,00,000 Equity Shares | 1,60,00,000 |
| General Reserves | 50,00,000 |
| Capital Reserves | 6,00,000 |
| Revaluation Reserves | 7,00,000 |
| Net Profit for the year | 6,00,000 |

Average Rate of Dividend during the last. 3 years 12%

14. Balance Amount of Reserves after withdrawal =
    (a) 36,85,000
    (b) 13,50,000
    (c) 24,50,000
    (d) 22,00,000

15. H Ltd. acquires 70% of the equity shares of S Ltd. on 1.1.2019. On that date, paid-up capital of S Ltd. was 10,000 equity shares of ₹10 each; accumulated reserve balance was ₹ 1,00,000. H Ltd. paid ₹ 1,60,000 to acquire 70% interest in the S Ltd. Assets of S Ltd. were revalued on 1.1.2019 and a revaluation loss of ₹ 20,000 was ascertained. Which of the following is correct in relation to cost of control of group consolidated financial statement
    (a) Capital Reserve - ₹ 34,000
    (b) Goodwill - ₹ 34,000
    (c) Capital Reserve - ₹ 1,26,000
    (d) Goodwill - ₹ 1,26,000

16. Capital Reserve will arise if –
    (a) Net assets is more than Consideration paid
    (b) Net assets is less than Consideration paid
    (c) Gross assets is less than Consideration paid
    (d) Gross assets is more than Consideration paid

17. If the amount eligible for capitalisation in case of inventory as per AS 16 is Rs. 12,000 and cost of inventory is Rs. 40,000 and its net realizable value is Rs. 45,000; What amount can be capitalised as a part of inventory cost.
    (a) Rs. 12,000.
    (b) Rs. 5,000.
    (c) Rs. 7,000.
    (c) Rs. 10,000.

18. In case Goodwill appears in the Balance Sheet of an entity, the following is true:
    (a) Apply Bottom up test if goodwill cannot be allocated to CGU (cash generating unit) under review.
    (b) Apply Top down test if goodwill cannot be allocated to CGU (cash generating unit) under review.
    (c) Apply both Bottom up test and Top down test if goodwill cannot be allocated to CGU (cash generating unit) under review.
    (d) Apply either Bottom up test or Top down test if goodwill cannot be allocated to CGU (cash generating unit) under review.

19. A Ltd. sold machinery having WDV of Rs. 40 lakhs to B Ltd. for Rs. 50 lakhs (Fair value Rs. 50 lakhs) and same machinery was leased back by B Ltd. to A Ltd. The lease back is in nature of operating lease. The treatment will be
 (a) A Ltd. should amortise the profit of Rs. 10 lakhs over lease term.
 (b) A Ltd. should recognise the profit of Rs. 10 lakhs immediately.
 (c) A Ltd. should defer the profit of Rs. 10 lakhs.
 (d) B Ltd. should recognise the profit of Rs. 10 lakhs immediately.

20. A plot of land with carrying amount of Rs. 1,00,000 was revalued to Rs. 1,50,000 at the end of Year 2. Subsequently, due to drop in market values, the land was determined to have a fair value of Rs. 1,30,000 at the end of Year 4. Assuming that the entity adopts Revaluation Model, what would be the accounting treatment of Revaluation?
 (a) Initial upward valuation of Rs. 50,000 credited to Revaluation Reserve. Subsequent downward revaluation of Rs. 20,000 debited to P/L.
 (b) Initial upward valuation of Rs. 50,000 credited to P/L. Subsequent downward revaluation of Rs. 20,000 debited to P/L.
 (c) Initial upward valuation of Rs. 50,000 credited to Revaluation Reserve. Subsequent downward revaluation of Rs. 20,000 debited to Revaluation Reserve.
 (d) Initial upward valuation of Rs. 50,000 debited to P/L. Subsequent downward revaluation of Rs. 20,000 credited to P/L.

21. All non-corporate entities engaged in commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees 250 crores in the immediately preceding accounting year, are classified as
 (a) Level II entities.
 (b) Level I entities.
 (c) Level III entities.
 (d) Level IV entities.

22. While preparing a Cash Flow Statement using the Indirect method as required under AS 3, which of the following will not be deducted from/added to the Net Profit to arrive at the “Cash flow from Operating activities”?
 (a) Interest income
 (b) Gain on sale of a fixed asset.
 (c) Depreciation.
 (d) Gain on sale of inventory

23. The Accounting Club has 100 members who are required to pay an annual membership fee of Rs. 5,000 each. During the current year, all members have paid the fee. However, 5 members have paid an amount of Rs. 10,000 each. Of these, 3 members paid the current year’s fee and also the previous year’s dues. Remaining 2 members have paid next years’ fee of Rs. 5,000 in advance.
 Revenue from membership fee for the current year to be recognised will be:
 (a) Rs. 5,25,000
 (b) Rs. 5,10,000
 (c) Rs. 5,00,000
 (d) Rs. 5,15,000

24. Northern Ltd. took a bank loan of ₹ 125 lakh to finance the purchase of a plant of ₹ 160 lakh at an interest of 15% per annum on 30.09.2012. The plant was ready for use on 31.01.2013; however it was put to use only on 01.04.2013. What amount of finance cost will be added to find out the original cost of the plant?
 (a) ₹ 6.25 lakh
 (b) ₹ 9.375 lakh
 (c) ₹ 18.75 lakh
 (d) ₹ 8.00 lakh

25. X Ltd. purchased goods at the cost of ₹ 40 lakhs in October, 2018. Till March, 2019, 75% of the stocks were sold. The company wants to disclose closing stock at ₹ 10 lakhs. The expected sale value is ₹ 11 lakhs and a commission at 10% on sale is payable to the agent. What is the correct closing stock to be disclosed as at 31.3.2019 as per AS-2?
   (a) 10 Lakhs
   (b) 9.9 Lakhs
   (c) 11 lakhs
   (d) 12 lakhs

26. A company into which the vendor company is merged is called
   (a) Transferee company.
   (b) Transferor company.
   (c) Selling company.
   (d) Old company.

27. Reconstruction is a process by which affairs of a company are reorganized by
   (a) Revaluation of assets and Reassessment of liabilities.
   (b) Writing off the losses already suffered by reducing the paid up value of shares and/or varying the rights attached to different classes of shares.
   (c) Both (a) and (b).
   (d) None of the above.

28. Goods may be invoiced to branch at
   (a) Cost or Selling price.
   (b) Wholesale price.
   (c) Both (a) and (b).
   (d) Either (a) or (b).

29. Which of the following statements is correct?
   (a) The overall test of 75% considers only external revenue to compute the threshold limit.
   (b) The overall test of 75% considers only internal revenue to compute the threshold limit.
   (c) The overall test of 75% considers both internal and external revenue to compute the threshold limit.
   (d) It is management choice whether they want to include both external and internal revenue for computing threshold limit.

30. Value of equity may change due to
   (a) Contribution from or Distribution to equity participants
   (b) Income earned
   (c) expenses incurred
   (d) All the three.

**(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**

**Question 1:**

**(a)** (i) ABC Ltd. was previously making provision for non-moving stocks based on stocks not issued for the last 12 months up to 31.03.2020. Now, the company wants to make provisions based on technical evaluation during the year ending 31.03.2021.
Total value of stock Rs. 133.75 lakhs
Provision required based on technical evaluation Rs. 4.00 lakhs
Provision required based on 12 months not issued Rs. 5.00 lakhs.

(ii) In the Books of Kay Ltd., Closing stock as on 31st March, 2021 amounts to Rs. 1,24,000 (on the basis of FIFO method)
The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory from the year 2020-2021. On the basis of weighted average method, closing stock as on 31st March, 2021 amounts to Rs. 1,15,000. Realisable value of the inventory as on 31st March, 2021 amounts to Rs. 1,54,000.

Discuss Disclosure Requirements of change in accounting policy in above cases as per AS 1.

**(2 Marks)**

**(b)** Rohini Limited is in the business of manufacture of passenger cars and commercial vehicles. The Company is working on a strategic plan to close the production of passenger cars and to produce only commercial vehicles over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its prospective plan it will reduce the production of passenger cars by 20% annually. It also plans to establish another new factory for the manufacture of commercial vehicles and transfer surplus employees in a phased manner. You are required to comment:

(i) If mere gradual phasing out in itself can be considered as a 'discontinuing operation' within the meaning of AS-24.

(ii) If the Company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS-24?

(iii) Would your answer to the above be different if the Company resolves to sell the assets of the passenger car division in a phased but time bound manner?

**(4 Marks)**

**(c)** Grace Ltd., a firm of contractors provided the following information in respect of a contract for the year ended on 31st March,2022:

| Particulars | (Rs. in '000) |
|---|---|
| Fixed Price Contract with an escalation clause | 35,000 |
| Work Certified | 17,500 |
| Work not Certified (includes Rs. 26,25,000 for materials issued, out of which material lying unused at the end of the period is Rs. 1,40,000) | 3,815 |
| Estimated further cost to completion | 17,325 |
| Progress Payment Received | 14,000 |
| Payment to be Received | 4,900 |
| Escalation in cost is by 8% and accordingly the contract price is increased by 8% | |

From the above information, you are required to:

(i) Compute the contract revenue to be recognized.

(ii) Calculate Profit /Loss for the year ended 31st March, 2022 and additional provision for loss to be made, if any, for the year ended 31st March, 2022.

**(4 Marks)**

**(d) (a)** Answer the following with respect to AS-18:

(i) ABC Ltd. sold goods of Rs. 2,00,000 to its associate company for the 1st quarter ending 30.06.2022. After that the related party relationship ceased to exist. However, goods were supplied to any other ordinary customer. Decide whether transactions of the entire year have to be disclosed as related party transaction.

(ii) If the majority of directors of Arjun Ltd. constitute the majority of the Board of another Company Bheem Ltd. in their individual capacity as professionals (and not by virtue of their being Directors in Arjun Ltd.). Are both the companies related?

(iii) Asha Ltd. sells all the manufactured furniture of Rs. 1,00,00,000 to Sasha Ltd, as per agreement. Sasha Ltd. is the only customer to Asha Ltd. In the financial statements, Asha Ltd. wants to present Sasha company as a related party. Comment on the disclosure requirement.

**(2 Marks)**

**(d) (b)** The following information is provided to you:

| | |
|---|---|
| Net profit for the year 2022: | Rs. 72,00,000 |
| Weighted average number of equity shares outstanding during the year 2022: | 30,00,000 shares |
| Average Fair value of one equity share during the year 2022: | Rs. 25.00 |
| Weighted average number of shares under option during the year 2022: | 6,00,000 shares |
| Exercise price for shares under option during the year 2022: | Rs. 20.00 |

You are required to compute Basic and Diluted Earnings Per Share as per AS 20.

**(2 Marks)**

**Question 2:**

**(a)** On 31st March, 20X1, the Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

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

| Particulars | | | | Note No. | H Ltd. (Rs. in Lacs) | S Ltd. (Rs. in Lacs) |
|---|---|---|---|---|---|---|
| **I.** | **Equity and Liabilities** | | | | | |
| | (1) | **Shareholder's Funds** | | | | |
| | | (a) | Share Capital | 1 | 12,000 | 4,800 |
| | | (b) | Reserves and Surplus | 2 | 5,499 | 3,000 |
| | (2) | **Current Liabilities** | | | | |
| | | (a) | Trade payables | 3 | 1,833 | 1,014 |
| | | (b) | Short term provisions | 4 | 855 | 394 |
| | | (c) | Other current liabilities (Dividend payable) | | 1,200 | - |
| | Total | | | | 21,387 | 9,208 |
| **II.** | **Assets** | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | (1) | **Non-current assets** | | | | |
| | | Property, Plant and Equipment | | 5 | 9,468 | 5,486 |
| | | Non-current Investments (Shares in S Ltd.) | | | 3,000 | |
| | (2) | **Current assets** | | | | |
| | | (a) | Inventories | | 3,949 | 1,956 |
| | | (b) | Trade receivables | 6 | 2,960 | 1,562 |
| | | (c) | Cash and cash equivalents | | 1,490 | 204 |
| | | (d) | Short term loans and advances | 7 | 520 | |
| | Total | | | | 21,387 | 9,208 |

**Notes to Accounts**

| | | H Ltd. (Rs. in lacs) | S Ltd. (Rs. in lacs) |
|---|---|---|---|
| **1.** | **Share Capital** | | |
| | Authorized share capital | 15,000 | 6,000 |
| | Equity shares of Rs. 10 each, fully paid up | | |
| | Issued and Subscribed: | | |
| | Equity shares of Rs. 10 each, fully paid up | 12,000 | 4,800 |
| **2.** | **Reserves and surplus** | | |
| | General Reserve | 2,784 | 1,380 |
| | Profit and Loss Account: | 2,715 | 1,620 |
| | Total | 5,499 | 3,000 |
| **3.** | **Trade Payables** | | |
| | Creditors | 1,461 | 854 |
| | Bills Payable | 372 | 160 |
| | | 1,833 | 1,014 |
| **4.** | **Short term provisions** | | |
| | Provision for Taxation | 855 | 394 |
| **5.** | **Property, plant and equipment** | | |
| | Land and Buildings | 2,718 | - |
| | Plant and Machinery | 4,905 | 4,900 |
| | Furniture and Fittings | 1,845 | 586 |
| | Total | 9,468 | 5,486 |
| **6.** | **Trade receivables** | | |
| | Debtors | 2,600 | 1,363 |
| | Bills Receivable | 360 | 199 |
| | Total | 2,960 | 1,562 |
| **7.** | **Short term loans and advances** | | |
| | Sundry Advances | 520 | -- |

The following information is also provided to you:

(a) H Ltd. purchased 180 lakh shares in S Ltd. on 31st March, 20X0 when the balances of General Reserve and Profit and Loss Account of S Ltd. stood at Rs. 3,000 lakh and Rs. 1,200 lakh respectively.

(b) On 1st April, 20X0, S Ltd. declared a dividend @ 20% for the year ended 31st March, 20X0. H Ltd. credited the dividend received by it to its Profit and Loss Account.

(c) On 1st January, 20X1, S Ltd. issued 3 fully paid-up bonus shares for every

5 shares held out of balances of its general reserve as on 31st March, 20X0.

(d) On 31st March, 20X1, all the bills payable in S Ltd.'s balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only Rs. 45 lakh of these acceptances in hand, the rest having been endorsed in favour of its trade payables.

(e) On 31st March, 20X1, S Ltd.'s inventory included goods which it had purchased for Rs. 100 lakh from H Ltd. which made a profit @ 25% on cost.

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

**(12 Marks)**

**(b)** AS 12 deals with recognition and measurement of government grants. Please elaborate the parameters which are required to be met before an entity can recognise government grants in its books?

**(2 Marks)**

**Question 3:**

**(a)** A Limited and B Limited are carrying on business of same nature. On 31st March, 2021 the information given by both these companies is as follows:

| | **A Ltd.(Rs.)** | **B Ltd. (Rs.)** |
|---|---|---|
| Share Capital | | |
| - Equity Shares 10 each (Fully Paid) | 12,00,000 | 7,20,000 |
| - 10% Preference Shares of Rs. 100 each | 6,00,000 | - |
| - 8% Preference Shares of Rs. 100 each | - | 5,00,000 |
| General Reserve | 3,00,000 | 2,50,000 |
| Investment Allowance Reserve | - | 60,000 |
| Security Premium | 2,40,000 | - |
| Export Profit Reserve | 1,80,000 | 1,20,000 |
| Profit & Loss Account | 2,16,000 | 1,92,000 |
| 9% Debentures (Rs. 10 each) | 3,00,000 | 2,00,000 |
| Secured Loan | - | 3,60,000 |
| Sundry Creditors | 3,12,000 | 2,04,000 |
| Bills Payable | 75,000 | 1,00,000 |
| Other Current Liabilities | 50,000 | 75,000 |
| Land and Building | 10,80,000 | 8,40,000 |
| Plant and Machinery | 6,00,000 | 5,60,000 |
| Office Equipment | 3,45,000 | 2,10,000 |
| Investments | 96,000 | 3,00,000 |
| Stock in Trade | 6,30,000 | 4,20,000 |
| Sundry Debtors | 4,90,000 | 3,20,000 |
| Bills Receivables | 60,000 | 70,000 |
| Cash at Bank | 1,72,000 | 61,000 |

A Limited take over B Limited on the above date, both companies agreeing on a scheme of Amalgamation on the following terms:

(a) A Limited will issue 80,000 Equity Shares of Rs. 10 each at par to the Equity Shareholders of B Limited.

(b) A Limited will issue 10% Preference Shares of Rs. 100 each to discharge the Preference Shareholders of B Limited at 15% premium in such a way that the existing dividend quantum of the preference shareholders of B Limited will not get affected. Accordingly, Rs. 5,00,000 pref. shares are discharged at Rs. 5,75,000 (5,00,000 X 115%) by issue of 4,000 preference shares of Rs. 100 each at premium of Rs. 43.75 each.

(c) The Debentures of B Limited will be converted into equivalent number of Debentures of A Limited.
(d) All the Bills Receivable of A Limited were accepted by B Limited.
(e) A contingent liability of B Limited amounting to Rs. 72,000 to be treated as actual liability in trade payables.

(f) Expenses of Amalgamation amounted to Rs. 12,000 were borne by A Limited.

You are required to pass opening Journal Entries in the books of A Limited and prepare the opening Balance Sheet of A Limited as on 1st April, 2021 after amalgamation, assuming that the amalgamation is in the nature of Merger.

**(12 Marks)**

**(b)** When is a venturer required to discontinue the use of the proportionate consolidation method?

**(2 Marks)**

**Question 4:**

**(a)** From the following Balance Sheets and information, prepare Cash Flow Statement of Ryan Ltd. by Indirect method for the year ended 31st March, 20X1:

| **Particulars** | | | **Notes** | **31st March 20X1 Rs.** | **31st March 20X0 Rs.** |
|---|---|---|---|---|---|
| | | **Equity and Liabilities** | | | |
| **1** | | **Shareholders' funds** | | | |
| | A | Share capital | 1 | 6,00,000 | 7,00,000 |
| | B | Reserves and Surplus | 2 | 4,20,000 | 3,00,000 |
| **2** | | **Non-current liabilities** | | | |
| | | Long term borrowings | 3 | 2,00,000 | - |
| **3** | | **Current liabilities** | | | |
| | A | Trade Payables | | 1,15,000 | 1,10,000 |
| | B | Other current liabilities | 4 | 30,000 | 80,000 |
| | C | Short term provision (provision for tax) | | 95,000 | 60,000 |
| | | **Total** | | **14,60,000** | **12,50,000** |
| | | **Assets** | | | |
| **1** | | **Non-current assets** | | | |
| | A | Property, plant and Equipment | 5 | 9,15,000 | 7,00,000 |
| | B | Non-Current Investments | | 50,000 | 80,000 |
| **2** | | **Current assets** | | | |
| | A | Inventories | | 95,000 | 90,000 |
| | B | Trade receivables | | 2,50,000 | 2,25,000 |
| | C | Cash and Cash equivalents | | 50,000 | 90,000 |
| | D | Other Current assets | | 1,00,000 | 65,000 |
| | | **Total** | | **14,60,000** | **12,50,000** |

**Notes to accounts**

| **No.** | | | **31st March, 20X1** | **31st March, 20X0** |
|---|---|---|---|---|
| **1.** | **Share capital** | | | |
| | Equity share capital | | 6,00,000 | 5,00,000 |
| | 10% Redeemable Preference share capital | | -- | 2,00,000 |
| | **Total** | | **6,00,000** | **7,00,000** |

| | | | | |
|---|---|---|---|---|
| **2.** | **Reserves and Surplus** | | | |
| | Capital redemption reserve | | 1,00,000 | - |
| | Capital reserve | | 70,000 | - |
| | General reserve | | 1,50,000 | 2,50,000 |
| | Profit and Loss account | | 1,00,000 | 50,000 |
| | **Total** | | **4,20,000** | **3,00,000** |
| **3.** | **Long term borrowings** | | | |
| | 9% Debentures | | 2,00,000 | -- |
| **4.** | **Other current liabilities** | | | |
| | Dividend payable | | - | 60,000 |
| | Liabilities for expenses | | 30,000 | 20,000 |
| | **Total** | | **30,000** | **80,000** |
| **5.** | **Property, plant and equipment** | | | |
| | Plant and machinery | | 7,65,000 | 5,00,000 |
| | Land and building | | 1,50,000 | 2,00,000 |
| | **Net carrying value** | | **9,15,000** | **7,00,000** |

Additional Information:

(i) A piece of land has been sold out for Rs. 1,50,000 (Cost – Rs. 1,20,000) and the balance land was revalued. Capital Reserve consisted of profit on revaluation of land.

(ii) On 1st April, 20X0 a plant was sold for Rs. 90,000 (Original Cost – Rs. 70,000 and W.D.V. – Rs. 50,000) and Debentures worth Rs.1 lakh were issued at par as part consideration for plant of Rs. 4.5 lakhs acquired.

(iii) Part of the investments (Cost – Rs. 50,000) was sold for Rs. 70,000.

(iv) Pre-acquisition dividend received Rs. 5,000 was adjusted against cost of investment.

(v) Interim dividend was declared and paid @ 15% during the current year.

(vi) Income-tax liability for the current year was estimated at Rs. 1,35,000.

(vii) Depreciation @ 15% has been charged on Plant and Machinery but no depreciation has been charged on Building.

**(10 Marks)**

**(b)** Mr. Wise had 12% Debentures of Face Value Rs. 100 of Alpha Ltd. as current investments. He provides the following details relating to the investments.

| | |
|---|---|
| 1-4-2020 | Opening balance 4,000 debentures costing Rs. 98 each |
| 1-6-2020 | Purchased 2,000 debentures @ Rs. 120 cum interest |
| 1-9-2020 | Sold 3,000 debentures @ Rs. 110 cum interest |
| 1-12-2020 | Sold 2,000 debentures @ Rs. 105 ex interest |
| 31-1-2021 | Purchased 3,000 debentures @ Rs. 100 ex interest |
| 31-3-2021 | Market value of the investments Rs. 105 each |

Interest due dates are 30th June and 31st December.

Mr. Wise closes his books on 31-3-2021. He incurred 2% brokerage for all his transactions.

Show investment account in the books of Mr. Wise assuming FIFO method is followed.

**(4 Marks)**

**Question 5:**

**(a)** The following is the Balance Sheet of Weak Ltd. as at 31.3.20X1:

| | | Particulars | Notes | Rs. |
|---|---|---|---|---|
| | | **Equity and Liabilities** | | |
| **1** | | **Shareholders' funds** | | |
| | A | Share capital | 1 | 1,50,00,000 |
| | B | Reserves and Surplus | 2 | (6,00,000) |
| **2** | | **Non-current liabilities** | | |

| | | | | |
|---|---|---|---|---|
| | A | Long-term borrowings | 3 | 40,00,000 |
| **3** | | **Current liabilities** | | |
| | A | Trade Payables | | 50,00,000 |
| | B | Short term provisions | 4 | 1,00,000 |
| | | Total | | 2,35,00,000 |
| | | **Assets** | | |
| **1** | | **Non-current assets** | | |
| | A | Property, plant and equipment | | 1,25,00,000 |
| | B | Non-current investment | 5 | 10,00,000 |
| **2** | | **Current assets** | | 1,00,00,000 |
| | | Total | | 2,35,00,000 |

**Notes to accounts**

| | | **Rs.** |
|---|---|---|
| **1** | **Share Capital** | |
| | **Equity share capital** | |
| | 1,00,000 Equity Shares of Rs. 100 each | 1,00,00,000 |
| | 50,000, 12% Cumulative Preference shares of Rs. 100 each | 50,00,000 |
| **2** | **Reserves and Surplus** | 1,50,00,000 |
| | Debit balance of Profit and loss Account | (6,00,000) |
| **3** | **Long-term borrowings** | (6,00,000) |
| | 40,000, 10% debentures of Rs.100 each | 40,00,000 |
| **4** | **Short term provisions** | 40,00,000 |
| | Provision for taxation | 1,00,000 |
| **5** | **Non-current investments** | 1,00,000 |
| | Investments (market value of Rs. 9,50,000) | 10,00,000 |
| | | 10,00,000 |

The following scheme of reorganization is sanctioned:

(i) All the existing equity shares are reduced to Rs. 40 each.
(ii) All preference shares are reduced to Rs. 60 each.
(iii) The rate of interest on debentures is increased to 12%. The debenture holders surrender their existing debentures of Rs. 100 each and exchange the same for fresh debentures of Rs. 70 each for every debenture held by them.
(iv) One of the creditors of the company to whom the company owes 20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of Rs. 40 each in full satisfaction of his claim.
(v) Property, plant and equipment are to be written down by 30%.
(vi) Current assets are to be revalued at Rs. 45,00,000.
(vii) The taxation liability of the company is settled at Rs. 1,50,000.
(viii) Investments to be brought to their market value.
(ix) It is decided to write off the debit balance of Profit and Loss account.

Pass Journal entries and show the Balance sheet of the company after giving effect to the above.

**(8 Marks)**

**(b)** Futura Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 20X1:

| | **Amount Rs. in lakhs** |
|---|---|
| Securities Premium Account | 80 |
| Capital Reserve | 60 |
| General Reserve | 90 |

The company had an accumulated loss of Rs. 250 lakhs on the same date, which it has disclosed under the head "Statement of Profit and Loss" as asset in its

Balance Sheet. Comment on accuracy of this treatment in line with Schedule III to the Companies Act, 2013.

**(3 Marks)**

**(c)** Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to AS 3.

**(3 Marks)**

**Question 6:**

**(a)** Surya Ltd. had the following transactions during the year ended 31st March, 2021.

(i) It acquired the business of Gomati Limited on a going concern basis for Rs. 25,00,000 on 1st June,2020. The fair value of the Net Assets of Gomati Limited was Rs. 18,75,000. Surya Ltd. believes that due to popularity of the products of Gomati Limited in the market, its goodwill exists.

(ii) On 20th August, 2020, Surya Ltd. incurred cost of Rs. 6,00,000 to register the patent for its product. Surya Ltd. expects the Patent's economic life to be 8 years.

(iii) On 1st October, 2020, Surya Ltd. has taken a franchise to operate an ice cream parlour from Volga Ltd. for Rs. 4,50,000 and at an Annual Fee of 10 % of Net Revenues (after deducting expenditure). The franchise expires after six years. Net Revenue for the year ended 31st March, 2021 amounted to Rs. 1,50,000.

Surya Ltd. follows an accounting policy to amortize all Intangibles on Straight Line basis (SLM) over the maximum period permitted by the Accounting Standards taking a full year amortization in the year of acquisition. Goodwill on acquisition of business is to be amortized over 5 years (SLM).

Prepare an extract showing the Intangible Assets section in the Balance Sheet of Surya Ltd. as at 31st March, 2021.

**(2 Marks)**

**(b)** Alloy Fabrication Limited is engaged in manufacturing of iron and steel rods. The company is in the process of finalisation of the accounts for the year ended 31st March, 2022 and needs your advice on the following issues in line with the provisions of AS-29:

(i) On 1st April, 2019, the company installed a huge furnace in their plant. The furnace has a lining that needs to be replaced every five years for technical reasons. At the Balance Sheet date 31st March, 2022, the company does not provide any provision for replacement of lining of the furnace.

(ii) A case has been filed against the company in the consumer court and a notice for levy of a penalty of Rs. 50 Lakhs has been received. The company has appointed a lawyer to defend the case for a fee of Rs. 5 Lakhs. 60% of the fees have been paid in advance and rest 40% will be paid after finalization of the case. There are 70% chances that the penalty may not be levied.

**(2 Marks)**

**(c)** The Directors of Umang Ltd. passed a resolution to buyback 5,00,000 of its fully paid equity shares of Rs. 10 each at Rs. 15 per share. This buyback is in compliance with the provisions of the Companies Act, 2013.

For this purpose, the company

(i) Sold its investments of Rs. 30,00,000 for Rs. 25,00,000.

(ii) Issued 20,000, 12% preference shares of Rs. 100 each at par, the entire amount being payable with application.

(iii) Used Rs. 15,00,000 of its Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back.

(iv) The company has necessary cash balance for the payment to shareholders.

You are required to pass necessary Journal Entries (including narration) regarding buy- back of shares in the books of Umang Ltd.

**(4 Marks)**

**(d)** M/s Marena, Delhi has a branch at Bangalore to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch Expenses are paid direct from head office and the Branch has to remit all cash received into the Head Office Bank Account.

From the following details, relating to calendar year 2017, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit.

Branch does not maintain any books of account, but sends weekly returns to the Head Office.

| | **Rs.** |
|---|---:|
| Goods received from Head Office at invoice price | 45,00,000 |
| Returns to Heads Office at invoice price | 90,000 |
| Stock at Bangalore as on 1st January, 2017 | 4,50,000 |
| Sales during the year - Cash | 15,00,000 |
| - Credit | 27,00,000 |
| Sundry Debtors at Bangalore as on 1st January, 2017 | 5,40,000 |
| Cash received from Debtors | 24,00,000 |
| Discount allowed to Debtors | 45,000 |
| Bad Debts in the year | 30,000 |
| Sales returns at Bangalore Branch | 60,000 |
| Rent, Rates and Taxes at Branch | 1,35,000 |
| Salaries, Wages and Bonus at Branch | 4,50,000 |
| Office Expenses | 45,000 |
| Stock at Branch on 31st December, 2017 at invoice price | 9,00,000 |

**(6 Marks)**

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