Intermediate Course: Group – I		(Mock Test Series : 1)
DATE: 17.07.2024	MAXIMUM MARKS: 100	TIMING: 3¼ Hours

PAPER 1 : ADVANCE ACCOUNTING

1. **The question paper comprises two parts, Part I and Part II.**
2. **Part I comprises Case Scenario based Multiple Choice Questions (MCQs).**
3. **Part II comprises questions which require descriptive type answers.**

PART I – CASE SCENARIO BASED MCQs (30 MARKS)
PART - I IS COMPULSORY

Ans. 1 to Ans. 3
CASE SCENARIO

1. Ans. a
2. Ans. d
3. Ans. b **MCQ [3 MCQ of 2 Marks Each : Total 6 Marks]**

Ans. 4 to Ans. 6

4. Ans. c
5. Ans. a
6. Ans. c **MCQ [3 MCQ of 2 Marks Each : Total 6 Marks]**

Ans. 7 to Ans. 9

7. Ans. d
8. Ans. b
9. Ans. b **MCQ [3 MCQ of 2 Marks Each : Total 6 Marks]**

Ans. 10 & Ans. 11

10. Ans. d
11. Ans. c

MCQ [2 MCQ of 2 Marks Each : Total 4 Marks]

12. Ans. a
13. Ans. a
14. Ans. a
15. Ans. a

{2 M Each}

PART II - DESCRIPTIVE QUESTIONS (70 MARKS)
QUESTIONS NO. 1 IS COMPULSORY
ANSWER ANY FOUR QUESTIONS FROM THE REMAINING FIVE QUESTIONS

Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates. Working Notes should form part of the answer.

Answer 1:

(a) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", Foreign currency monetary items should be reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction. Exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or as expenses in the period in which they arise. **{$1^{1/2}$ M}**

(i) **Items given in the question will appear in the Balance Sheet at the following values:**

Trade Payables (30,96,000/86= 36,000 German Currency) x Rs. 90 = **Rs. 32,40,000**

Plant and Machinery 18,500 German Currency X Rs. 88 = **Rs. 16,28,000**

Trade Receivables (50,40,000/84= 60,000 German Currency) x Rs. 90 = **Rs. 54,00,000**

{$1^{1/2}$ M}

(ii) **Amount of gain / loss on each transaction on account of exchange difference:**

Exchange loss on Transaction of import of goods from Try Ltd. = **Rs. (1,44,000)**

[36,000 German Currency X Rs. 4 (i.e. 90-86)]

Exchange gain on Transaction of export of goods to Cream Ltd = **Rs. 3,60,000**

[60,000 German Currency X Rs. 6 (i.e. 90-84)]

{1 M}

Answer:

(b) Panna Limited amortised Rs. 6,40,000 per annum for the first three years i.e. Rs. 19,20,000. The remaining carrying cost can be amortised during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows: **{1/4 M}**

Year	Net cash flows Rs.	Amortisation Ratio	Amortisation Amount Rs.
I	-	0.1111	**6,40,000**
II		0.1111	**6,40,000**
III	-	0.1111	**6,40,000**
IV	23,04,000	0.180	**6,91,200**
V	29,44,000	0.230	**8,83,200**
VI	28,16,000	0.220	**8,44,800**
VII	25,60,000	0.200	**7,68,000**
IX	21,76,000	0.170	**6,52,800**
Total	1,28,00,000	1.000	**57,60,000**

{9 Item x 1/4 M = 2.25 M}

It may be seen from above that from fourth year onwards, the balance of carrying amount i.e., Rs. 38,40,000 has been amortised in the ratio of net cash flows arising from the product of Panna Ltd. **{1/2 M}**

Answer:

(c) Purchase consideration

	Raman Ltd. Rs.	Naman Ltd. Rs.
Payable to preference shareholders:		
Preference shares at Rs. 115 per share	5,15,200 $\left(3,360 \times \frac{4}{3}\right)$	2,57,600 $\left(1,680 \times \frac{4}{3}\right)$
Equity Shares at Rs. 12 per share	13,44,000 $\left(67,200 \times \frac{5}{3}\right)$	5,04,000 $\left(25,200 \times \frac{5}{3}\right)$
Cash [See W.N.]	41,260	94,980
	19,00,460	**8,56,580**

}{2 Item x 1.5 M = 3 M}

Working note:

	Raman Ltd. Rs.	Naman Ltd. Rs.
Goodwill	1,62,000	
PPE	10,58,100	5,20,100

Trade receivables	2,47,140	1,38,180
Inventory	2,78,620	2,06,780
Cash & Cash Equivalent	2,35,240	1,60,480
	19,81,100	10,25,540
Less: Trade payables	(80,640)	(1,68,960)
	19,00,460	8,56,580
Payable in shares	18,59,200	7,61,600
Payable in cash	41,260	94,980

Answer:

(d) Statement Showing the Computation of Value of Closing Inventory

Value of Closing Finished Goods

Particulars	Amount (Rs.)
Cost of Raw Material consumed (20,400 units X Rs. 20 per kg)	4,08,000
Direct Labour	3,06,000
Fixed Overheads (Rs. 3,00,000/30,000 x 20,400)	2,04,000
Cost of Production	9,18,000
Cost of Closing Inventory of Finished Goods per unit (Rs. 9,18,000/20,400)	**45** }{1 M}
Net Realizable Value (NRV) per unit	40

Since net realizable value is less than cost, closing inventory of Finished Goods will be valued at Rs. 40 per unit {1/2 M}

Value of Closing Raw Materials

As NRV of finished goods is less than its cost, the relevant raw material will be valued at its replacement cost, which is the best available measure of its NRV i.e. @ Rs. 19 per kg. {1/2 M}

Therefore, value of closing inventory would be as under:

Finished Goods 2,400 units @ Rs. 40 per unit	**Rs. 96,000**	{3 Item
Raw Materials 1,800 kg @ Rs. 19 per kg	**Rs. 34,200**	x 1/2 M
Total	**Rs. 1,30,200**	= 1.5 M}

Working Note:

Calculation of raw material consumed during the year

Particulars	Unit (Kg)
Opening Inventory	2,200
Purchases	20,000
Less: Closing Inventory	(1,800)
Raw Material Consumed	**20,400** }{1/2 M}

Answer 2:

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

		Dr. Rs. In lakhs	Cr. Rs. In lakhs	
Equity Share Capital (Rs. 100) A/c	Dr.	16.00		
To Share Surrender A/c			6.40	{1/4 M}
To Equity Share Capital (Rs. 10) A/c			9.60	
(Subdivision of 16,000 equity shares of Rs. 100 each into 1,60,000 equity shares of Rs. 10 each and surrender of 64,000 of such subdivided shares as per capital reduction scheme)				
Preference Share Capital (Rs. 100) A/c	Dr.	8.00		
To 12% Debentures A/c	Dr.		5.60	{1/4 M}
To Reconstruction (Rs. 100) A/c			2.40	

(12% Debenture issued to Preference Shareholders and 30% of the capital foregone by them)				
Bank A/c	Dr.	4.00		{1/4 M}
To 12% Debentures (Rs. 100) A/c			4.00	
(Being 12% debentures issued)				
Bank Overdraft A/c	Dr.	1.40		{1/4 M}
To Bank A/c			1.26	
To Reconstruction A/c			0.14	
(Being bank overdraft amount paid)				
10% Debentures A/c	Dr.	3.20		{1/4 M}
Interest payable A/c	Dr.	0.32		
To Debenture holders A/c			3.52	
(Being Interest payable on the 10% debentures credited to debenture holders A/c)				
10% Debentures A/c	Dr.	3.52		{1/4 M}
To Furniture & fixtures A/c			2.80	
To Reconstruction A/c			0.72	
Trade payables A/c	Dr.	1.15		{1/4 M}
To Reconstruction A/c			1.15	
(Transferred claims of the trade payables to reconstruction account, 70% of which is being clear reduction and equity shares are being issued in consideration of the balance)				
Share Surrender A/c		6.40		{1/4 M}
To Equity Share Capital A/c			0.805	
To Reconstruction A/c			5.595	
(Issued equity shares to discharge the claims of the trade payables respectively as per scheme and the balance in share surrender account is being transferred to reconstruction account)				
Provision for Taxation A/c	Dr.	0.42		{1/4 M}
Reconstruction A/c	Dr.	0.08		
To Liability for taxation A/c			0.50	
(Being conversion of the provision for taxation into liability for taxation.)				
Liability for taxation A/c	Dr.	0.50		{1/4 M}
To Cash/Bank A/c			0.50	
(Being taxation liability settled)				
Reconstruction A/c	Dr.	0.70		{1/4 M}
To Investment A/c			0.70	
(Being investments' value reduce to market price)				
Inventory A/c	Dr.	0.32		{1/4 M}
To Reconstruction A/c	Dr.		0.104	
To Provision for doubtful debts (4,32,000 x 5%)			0.216	
(Being inventory revalued and provision for doubtful debts created)				
Reconstruction A/c	Dr.	9.329		{1/4 M}
To Profit and Loss A/c			9.10	
To Capital Reserve A/c			0.229	
(Adjusted debit balance of profit and loss account against the reconstruction account and the balance in the latter is being transferred to capital reserve)				

Balance Sheet of Tourma Limited (and reduced) as at...

Particulars	Note No.	Rs. In lakhs
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	**10.405**
(b) Reserves and Surplus	2	**0.229**
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	**9.60**
(3) Current Liabilities		
Total		**20.234**
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment	4	**5.00**
(b) Intangible assets	5	**1.70**
(c) Non-current investments	6	**1.10**
(2) Current assets		
(a) Inventories	7	**5.44**
(b) Trade receivables	8	**4.104**
(c) Cash and cash equivalents (W.N)		**2.89**
Total		**20.234**

{11 Item x 1/4 M = 2.75 M}

Notes to Accounts

			Rs. In lakhs
1.	Share Capital		
	Equity Share Capital		
	Issued Capital: 10.405 Equity Shares of Rs. 10 each (9.6 + 0.805) (Of the above shares all are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares without payment being received in cash)		**10.405**
2.	Reserve and Surplus		
	Capital Reserve		**0.229**
3.	Long-term borrowings		
	Unsecured Loans		
	12% Debentures (5.60 + 4)		**9.60**
4.	Property, plant and Equipment		
	Plant & Machinery		**5.00**
5	Intangible assets		
	Patents & copyrights		**1.70**
6.	Non-Current Investments		
	Investments		**1.10**
7.	Inventory	5.12	
	Add: Appreciation under scheme of Reconstruction	0.32	**5.44**
8	Trade Receivables	4.32	
	Less: Provision for doubtful debts	0.216	**4.104**

{8 Item x 1/2 M = 4 M}

Answer:

(b) **Consolidated Profit & Loss Account**

Particulars	Note No.	(Rs.)
Revenue from operations	1	**13,05,000**
Total Revenue (A)		**13,05,000**
Less: Expenses		
Purchases	2	**9,00,000**
Other expenses	3	**3,06,000**

{7 Item x 1/8 M = 0.875 M}

Changes in inventories of finished goods	4	**(1,00,000)**
Total Expenses (B)		**11,06,000**
Profit Before Tax (A-B)		**1,99,000**

Consolidated Balance Sheet

		Note No.	(Rs.)
I	**Equity and liabilities**		
	1. Shareholders' funds:		
	Share Capital	5	**4,01,000**
	Reserves and Surplus	6	**1,99,000**
	2. Non-current liabilities		
	Long term borrowings	7	**2,00,000**
	3. Current Liabilities	8	**1,00,000**
			9,00,000
II	**Assets**		
	Non-current Assets		
	Property, Plant and Equipment	9	**6,00,000**
	Current Assets		
	Inventories	10	**1,00,000**
	Other current assets	11	**2,00,000**
			9,00,000

{9 Item x 1/8 M = 1.125 M}

Notes to Accounts

	Particulars		(Rs.)	
1.	**Revenue from operations**			
	Sales:			
	A Ltd.	7,25,000		
	B Ltd.	5,80,000	**13,05,000**	**{1/8 M}**
2.	**Purchases**			
	A Ltd.	5,00,000		
	B Ltd.	4,00,000	**9,00,000**	**{1/8 M}**
3.	**Other expenses**			
	A Ltd.	1,70,000		
	B Ltd.	1,36,000	**3,06,000**	**{1/8 M}**
4.	**Closing Inventory**			
	A Ltd.	50,000		
	B Ltd.	50,000	**1,00,000**	**{1/8 M}**
5.	**Share Capital**			
	A Ltd.	1,96,490		
	B Ltd.	2,04,510	**4,01,000**	**{1/8 M}**
6.	**Reserves and Surplus**			
	Profit & Loss Account:			
	A Ltd.	99,500		
	B Ltd.	99,500	**1,99,000**	**{1/8 M}**
7.	**Long Term Borrowings**			
	Unsecured Loans:			
	A Ltd.	1,00,000		
	B Ltd.	1,00,000	**2,00,000**	**{1/4 M}**
8.	**Current Liabilities**			
	A Ltd.	50,000		
	B Ltd.	50,000	**1,00,000**	**{1/4 M}**
9.	**Property, Plant and Equipment**			
	A Ltd.	3,00,000		
	B Ltd.	3,00,000	**6,00,000**	**{1/4 M}**

10.	**Inventories**		
	A Ltd.	50,000	
	B Ltd.	50,000	**1,00,000**
11.	**Other Current Assets**		
	A Ltd.	1,00,000	
	B Ltd.	1,00,000	**2,00,000**

}{1/4 M}

}{1/4 M}

Answer 3:

(a)

Books of Jolly Industries, Delhi

Jalandhar Branch Stock Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d – Op Stock	**1,25,000**	By Bank A/c – Cash Sales	**1,04,000**
To Branch Debtors A/c – Sales Return	**11,000**	By Branch Debtors A/c - Credit Sales	**4,16,000**
To Goods sent to Branch A/c (6,00,000 +12,000)	**6,12,000**	By Goods sent to Branch (Returns to H.O.)	**60,000**
		By Branch Stock Adjustment A/c (Normal Loss)	**12,000**
		By Branch Stock Adjustment A/c (Abnormal Loss) (bal. fig.)	**6,000**
		By Balance c/d - Closing stock	**1,50,000**
	7,48,000		**7,48,000**

{11 Item x 1/4 M = 2.75 M}

Jalandhar Branch Stock Adjustment Account

Particulars	Rs.	Particulars	Rs.
To Goods sent to Branch A/c (1/5 of Rs.60,000) (on returns)	**12,000**	By Balance b/d (20% of 1,25,000)	**25,000**
To Branch Stock A/c (abnormal Loss) (6,000x1/5)	**1,200**	By Goods sent to Branch A/c (1/5 of Rs. 6,12,000)	**1,22,400**
To Branch Stock A/c (Normal Loss)	**12,000**		
To Balance c/d (1/5 of Rs. 1,50,000)	**30,000**		
To Branch P & L A/c (Profit on sale) – Bal fig	**92,200**		
	1,47,400		1,47,400

{7 Item x 1/4 M = 1.75 M}

Goods Sent to Branch Account

Particulars	Rs.	Particulars	Rs.
To Jalandhar Branch Stock Adjustment A/c	**1,22,400**	By Jalandhar Branch Stock A/c	**6,12,000**
To Jalandhar Branch Stock A/c (Returns)	**60,000**	By Jalandhar Branch Stock Adjustment A/c	**12,000**
To Purchases A/c	**4,41,600**		
	6,24,000		6,24,000

{5 Item x 1/4 M = 1.25 M}

Branch Debtors Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	**1,10,000**	By Bank	**3,45,000**
To Branch Stock A/c	**4,16,000**	By Branch P&L A/c - Discount	**5,500**
		By Branch P&L A/c - Bad Debts	**9,500**
		By Branch Stock - Sales Returns	**11,000**
		By Balance c/d	**1,55,000**
	5,26,000		5,26,000

{7 Item x 1/4 M = 1.75 M}

Branch Expenses Account

Particulars	Rs.	Particulars	Rs.
To Bank A/c (Rent & Taxes)	**9,000**	By Branch Profit & Loss A/c (Transfer)	**65,500**

To Bank A/c (Salaries & Staff Welfare expenses)	**54,000**		
To Bank A/c (office expenses)	**2,500**		
	65,500		65,500

{4 Item x 1/4 M = 1 M}

Branch Profit & Loss Account for the year ending 31st March 2023

Particulars	Rs.	Particulars	Rs.
To Branch Expenses A/c	**65,500**	By Branch Stock Adj. A/c	**92,200**
To Branch Debtors A/c	**5,500**		
To Branch Debtors A/c	**9,500**		
To Abnormal Loss (cost)	**4,800**		
To Net Profit transferred to Profit & Loss A/c	**6,900**		
	92,200		92,200

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

Answer:

(b) Para 3 of AS 24 "Discontinuing Operations" explains the criteria for determination of discontinuing operations. According to Paragraph 9 of AS 24, examples of activities that do not necessarily satisfy criterion (a) of paragraph 3, but that might do so in combination with other circumstances, include: {1/2 M}

(i) Gradual or evolutionary phasing out of a product line or class of service; {1/2 M}

(ii) Discontinuing, even if relatively abruptly, several products within an ongoing line of business; {1 M}

(iii) Shifting of some production or marketing activities for a particular line of business from one location to another; and {1 M}

(iv) Closing of a facility to achieve productivity improvements or other cost savings. {1/2 M}

An example in relation to consolidated financial statements is selling a subsidiary whose activities are similar to those of the parent or other subsidiaries. {1/2 M}

Answer 4:

Consolidated Balance Sheet of A Ltd. and its subsidiary B Ltd.
As on 31st March, 2017

	Particulars	Note No.	(Rs.)
I.	Equity and Liabilities		
	(1) Shareholder's Funds		
	(a) Share Capital		**10,00,000**
	(b) Reserves and surplus (W.N.5)		**5,09,000**
	(2) Minority interest (W.N. 3)		**1,46,000**
	(3) Non-current liabilities		
	(a) Long term borrowings	1	**2,00,000**
	(4) Current Liabilities		
	(a) Trade payables	2	**4,60,000**
	(b) Other current liabilities (Rs. 2,00,000 + Rs. 40,000)		**2,40,000**
	Total		**25,55,000**
II.	**Assets**		
	(1) Non-current asssets		
	(a) Fixed assets		
	(i) Tangible assets	3	**10,55,000**
	(ii) Intangible assets	4	**3,40,000**
	(2) Current assets		
	(a) Inventories	5	**6,05,000**
	(b) Trade receivables	6	**3,55,000**
	(c) Cash & cash equivalents	7	**2,00,000**
	Total		**25,55,000**

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

Notes to Accounts

1.	**Long Term Borrowings**		
	Secured loans		
	13% Debentures (Rs. 100 each)		**2,00,000**
2.	**Trade Payables**		
	A Ltd.	3,80,000	
	B Ltd.(W.N 1)	1,40,000	
		5,20,000	
	Less : Mutual indebtedness	(60,000)	**4,60,000**
3.	**Tangible Assets**		
	A Ltd.	6,50,000	
	B Ltd.	4,05,000	**10,55,000**
4.	**Intangible assets**		
	Goodwill (W.N 2)		**3,40,000**
5.	**Inventories**		
	A Ltd.	2,00,000	
	B Ltd.[WN 1]	4,20,000	
		6,20,000	
	Less : Unrealised profit [90,000 X 20/120]	(15,000)	**6,05,000**
6	**Trade Receivables**		
	A Ltd.	1,50,000	
	B Ltd.	2,65,000	
		4,15,000	
	Less : Mutual indebtedness	(60,000)	**3,55,000**
7	**Cash & Cash equivalents**		
	A Ltd.	80,000	
	B Ltd.[W.N 1]	1,20,000	**2,00,000**

{7 Item x 1/2 M = 3.5 M}

Working Notes:

1. Adjustments to be made in the balance sheet items of B Ltd.:

Assets side	**Rs.**	
Inventories:		
As on 31st December, 2016	3,50,000	
Add : Unsold Inventory out of goods purchased from A Ltd.	90,000	
	4,40,000	
Less: Loss of inventory by fire	(20,000)	
	4,20,000	**{1/2 M}**
Cash & Bank balance:		
As on 31st December, 2016	1,05,000	
Add: Insurance claim received [20,000 × 75 %]	15,000	
	1,20,000	**{1/2 M}**
Liabilities side:		
Trade payables:		
As on 31st December, 2016	80,000	
Add: Owings to A Ltd. on 31st March, 2017	60,000	
	1,40,000	**{1/2 M}**
Reserves and Surplus:		
As on 31st December, 2016	2,05,000	
Less: Abnormal Loss on goods destroyed [20,000 – 15,000]	(5,000)	
	2,00,000	
Add: Profit from sale of goods purchased from A Ltd.	30,000	
	2,30,000	**{1/2 M}**

2.

	Rs.	Rs.
Amount paid for 40,000 shares		8,00,000
Less: Nominal value of proportionate share capital	4,00,000	
Share of pre-acquisition profits (80% of Rs. 75,000)	60,000	(4,60,000)
Goodwill		**3,40,000** }{1/2 M}

3. Minority Interest: 10,000 / 50,000 shares = 20%

	Rs.
Paid up value of 10,000 shares	1,00,000
Add: 20% of Reserves & Surplus B Ltd. (20% of Rs. 2,30,000)	46,000
	1,46,000 }{1/2 M}

4. Profit /Loss on Debentures acquired

	Rs.
Amount paid for 1,000 Debentures	1,50,000
Less: Nominal value of proportionate 13% debentures	(1,00,000)
Loss charged to Profit and Loss Account	**50,000** }{1/2 M}

5. Reserves and Surplus of A Ltd.:

Balance as on 31st March, 2017	4,50,000
Add: Share of revenue reserves of B Ltd.	
([80% of Rs. 1,55,000 (i.e. 2,30,000 – 75,000)]	1,24,000
	5,74,000
Less: Unrealised profit on inventory $Rs.\ 90{,}000 \times \frac{1}{6}$	(15,000)
Loss on elimination of debentures acquired	(50,000)
	5,09,000 }{1/2 M}

Answer 5:

(a) Cash flow statement (using direct method) for the year ended 31st March, 2023

	(Rs. in crores)	(Rs. in crores)
Cash flow from operating activities		
Cash sales	524	
Cash collected from credit customers	268	
Less: Cash paid to suppliers for goods & services and to employees (Refer Working Note)	(502)	
Cash from operations	290	
Less: Income tax paid	(52)	
Net cash from operating activities		**238** }{1$^{1/2}$ M}
Cash flow from investing activities		
Net Payment for purchase of Machine (50 – 30)	(20)	
Proceeds from sale of investments	32	
Net cash from investing activities		**12** }{1$^{1/2}$ M}
Cash flow from financing activities		
Redemption of Preference shares	(64)	
Proceeds from issue of Equity shares	48	
Debenture interest paid	(4)	
Dividend Paid	(30)	
Net cash used in financing activities		**(50)** }{1$^{1/2}$ M}
Net increase in cash and cash equivalents		200
Add: Cash and cash equivalents as on 1.04.2022		4
Cash and cash equivalents as on 31.3.2023		**204** }{1$^{1/2}$ M}

Working Note:

Calculation of cash paid to suppliers of goods and services and to employees

	(Rs. in crores)
Opening Balance in creditors Account	168
Add: Purchases (440x .8)	352
Total	520
Less: Closing balance in Creditors Account	184
Cash paid to suppliers of goods	**336**
Add: Cash purchases (440x .2)	**88**
Total cash paid for purchases to suppliers (a)	424
Add: Cash paid to suppliers of other consumables and services (b)	**38**
Add: Payment to employees (c)	**40**
Total cash paid to suppliers of goods & services and to employees [(a)+ (b) + (c)]	502

{4 Item x 1/2 M = 2 M}

Answer:

(b) Schedule III to the companies Act does not require that the amounts of WIP at the beginning and at the end of the accounting period to be disclosed in the statement of profit and loss. Only changes in inventories of WIP need to be disclosed in the statement of profit and loss. Non-disclosure of such change in the statement of profit and loss by the company may not amount to violation of Schedule III if the differences between opening and closing WIP are not material. **{4 M}**

Answer:

(c) Methods of Internal reconstruction:

- Sub-division or consolidation of shares into smaller or higher Denomination and Conversion of share into stock or vice-versa **{1/2 M}**
- Variation of shareholders' rights **{1/2 M}**
- Reduction of share capital **{1/2 M}**
- Compromise, arrangements etc. **{1/4 M}**
- Surrender of Shares. **{1/4 M}**

Answer 6:

(a) **Present value of future cash flow**

Year ended	**Future Cash Flow**	**Discount @ 10% Rate**	**Discounted cash flow**
31.3.20X2	50	0.909	45.45
31.3.20X3	30	0.826	24.78
31.3.20X4	30	0.751	22.53
31.3.20X5	20	0.683	13.66
31.3.20X6	20	0.620	12.40
			118.82
Present value of residual price on 31.3.20X6 = 5 × 0.620			3.10
Present value of estimated cash flow by use of an asset and residual value, which is called "value in use".			**121.92**

{1 M}

If net selling price of plant on 31.3.20X1 is Rs. 60 lakhs, the recoverable amount will be higher of Rs. 121.92 lakhs (value in use) and Rs. 60 lakhs (net selling price), hence recoverable amount is Rs. 121.92 lakhs. **{1 M}**

Answer:

(b) According to AS 15 (Revised 2005) 'Employee Benefits', actuarial gains and losses should be recognized immediately in the statement of profit and loss as income or expense. Therefore, a surplus amount of Rs. 12 lakhs is required to be credited to the profit and loss statement of the current year. {2 M}

Answer:

(c) 1. Cost at Initial Recognition:

Particulars	Rs.
Cost of the Plant (as per Invoice)	30,00,000
Initial Delivery and Handling Costs	1,00,000
Cost of Site Preparation	2,00,000
Consultants' Fees	50,000
Estimated Dismantling and Site Restoration Costs	30,000
Total Cost of Plant including Motors	33,80,000
Less: Cost of Motors identified as a separate component (1/6)*	5,63,333
Cost of the Plant (excluding Motors – balance 5/6)	**28,16,667**

* Purchase price of Motors = Rs. 5,00,000 out of Rs. 30,00,000 i.e., 1/6 of value of Plant {1 M}

Note: Since the asset is not a qualifying asset, payment of interest to the supplier is not capitalized. Further, operating losses of Rs. 40,000 incurred before commercial production is not a directly attributable cost, and hence excluded from cost of asset. These costs are expensed to the P/L as and when they are incurred.

2. Recognition of Motors Replacement

Particulars	**Rs.**
Cost of Motors determined above	5,63,333
Less: Depreciation for 4 years (as per SLM)	3,75,555
5,63,333 ÷ 6 years x 4 years	
Carrying Amount of Motors at the end of Year 4	1,87,778

Accounting: The company should derecognize the existing Carrying Amount of Motors replaced of Rs. 1,87,778. Further, the acquisition cost of new motors of Rs. 6,00,000 would be capitalized as a separate component. This amount will be depreciated over the next 5 years at Rs. 6,00,000 ÷ 5 years = Rs. 1,20,000 p.a. {1 M}

3. Revaluation

Particulars	**Rs.**
Cost of the Plant at initial recognition [from (1) above]	28,16,667
Less: SLM Depreciation for 4 years: Rs. 28,16,667 ÷ 10 years x 4 years	11,26,667
Carrying Amount of Plant at the end of Year 4	16,90,000
Revalued Amount of Plant (Excluding Motors, since the same is treated as a separate component: Rs. 25,00,000 – Rs. 6,00,000)	19,00,000
Therefore, Gain on Revaluation credited to Revaluation Reserve	**2,10,000**
Revised Depreciation Charge p.a.: 19,00,000 ÷ 6 years	**3,16,667**

{1 M}

4. Derecognition

Particulars	**Motors**	**Plant (excluding Motors)**
Cost / Revalued Amount at end of Year 4	6,00,000	19,00,000
Less: Depreciation for Years 5-8	1,20,000 x 4	3,16,667 x 4

{1 M}

	= 4,80,000	=12,66,668
Carrying Amount before Disposal / De-recognition	1,20,000	6,33,332
Less: Disposal Proceeds Rs. 6,00,000 allocated in ratio of carrying amount	95,575	5,04,425
Loss to be written off to P/L	**24,425**	**1,28,907**

Notes:

(a) The Revaluation Surplus of Rs. 2,10,000 would be transferred directly to Retained Earnings.

(b) The allocation of disposal proceeds of Rs. 6,00,000 for the plant as whole is apportioned based on carrying amount of motors and plant (excluding motors)

Alternatively, it may be apportioned as 1/6 towards motors and 5/6 plant (excluding motors) based on the reasoning that the initially, motors amounted to 1/6 of the entire plant. This approach may not be preferable because there has been a revaluation of the plant (excluding motors) and a disposal and subsequent acquisition of the Motor, which is not in the initial proportion of 5/6 and 1/6 respectively.

Answer:

(d) (i) False; As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. **{1 M}**

(ii) False; As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed. **{1 M}**

(iii) True; To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place. **{1 M}**

(iv) False; Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. **{1 M}**

Answer:

(e) Accounting Standards are the written policy documents issued by Government relating to various aspects of measurement, treatment, presentation and disclosure of accounting transactions and events.

Following are the objectives of Accounting Standards:

a. Accounting Standards harmonize the diverse accounting policies and practices followed by different companies in India.

b. Accounting Standards facilitates the preparation of financial statements and make them comparable.

c. Accounting Standards give a sense of faith and reliability to the users.

The main advantage of setting accounting standards are as follows:

a. Accounting Standards makes the financial statements of different companies comparable which helps investors in decision making.

b. Accounting Standards prevent any misleading accounting treatment.

c. Accounting Standards prevent manipulation of data by the management. **{2 M}**

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