Intermediate Course: Group - I		(Mock Test Paper - Series : 1)
DATE: 01.08.2024	MAXIMUM MARKS: 100	TIMING: 3¼ Hours

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. 4:
CASE SCENARIO

1. Ans. a
2. Ans. d
3. Ans. c
4. Ans. c

MCQ [4 MCQ of 2 Marks Each : Total 8 Marks]

Ans. 5 to Ans. 6:
CASE SCENARIO

5. Ans. a
6. Ans. c

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

Ans. 7 to Ans. 9:
CASE SCENARIO

7. Ans. a
8. Ans. d
9. Ans. b

MCQ [3 MCQ of 2 Marks Each : Total 6 Marks]

Ans. 10 & Ans. 11
CASE SCENARIO

10. Ans. d
11. Ans. c

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

12. Ans. a
13. Ans. c
14. Ans. b
15. Ans. b

{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) Provided that the transaction has commercial substance, the entity should recognize the private jet at a cost of ₹ 18 million (being ₹ 15 million plus 3 million cash) and should recognize a profit on disposal of the land and building of ₹ 5 million, calculated as follow: {1 M}

	(₹ 000)
Recognition of fair value of asset acquired (15,000 + 3,000)	18,000
Less: Carrying amount of land and building disposed	(10,000)
Cash Paid	(3,000)
Profit on exchange of assets	5,000

{1 M}

The required journal entry is therefore as follow:

Property, Plant and Equipment (Private Jet)	Dr.	18,000	
To Property, Plant and Equipment (Land and Building)			10,000
To Cash			3,000
To Profit on exchange of assets			5,000

{2 M}

Answer:

(b) Balances of Deferred tax assets and Deferred tax liability as on 31st March, 2023

	Rs. (in lakhs)
Deferred tax liability (Cr.) (2.5 +.75)	3.25
Deferred tax asset (Dr.) (1.35 - .158*)	1.192

{2 Item x 1 M = 2 M}

Working Note:

Impact of various items in terms of deferred tax liability / deferred tax asset

S. No.	Transactions	Nature of difference	Effect	Amount (Rs.)	
(i), (ii)	Difference in depreciation	Responding timing difference	Creation of DTL	(20 - 15) x 15% = .75	{1 M}
(iii)	Interest to financial institutions	No timing difference	Not applicable	Not applicable	{1/2 M}
(iv)	Disallowances, as per IT Act, of earlier years	Timing difference	Reversal of DTA	Rs. 1.05 lakh Rs. 15% = Rs. .158* lakh	{1 M}
(v)	Donation to private trusts	Permanent difference	Not applicable	Not applicable	{1/2 M}

*Alternatively, may be rounded off as Rs. .157 lakh or 0.1575.

Answer:

(c) According to AS 16 "Borrowing Costs", borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

The standard also states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost on Loan of data bank to be capitalized:

= Rs. (60,00,000 x 8%) x 10/12 - Rs. 30,000

= Rs. 4,00,000 - Rs. 30,000

= Rs. 3,70,000

{2 M}

Loan	Particulars	Natureof assets	(a) Interest to be Capitalized (Rs.)	(b) Interest to be charged to Profit & Loss Account (Rs.)	
Data bank	Construction of factory building	Qualifying Asset	**3,70,000**	**(4,80,000 - 4,00,000) 80,000**	{1 M}
Satya Bank	Construction of factory building	Qualifying Asset	**(1,92,000x14/20) x 10/12 = 1,12,000**	**(1,92,000 x 14/20) x 2/12 = 22,400**	{1 M}
Satya Bank	Working Capital	Not a Qualifying Asset	**NIL**	**(1,92,000x6/20) = Rs.57,600**	{1 M}
	Total		Rs. 4,82,000	Rs. 1,60,000	

Note: Loan from Satya bank is considered to be specific borrowings.

Answer 2:

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** {1/2 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** {1/2 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** {1/2 M}
4.	**Short term provisions**				
	Provision for Taxation				
	H Ltd.			855	

	S Ltd.		394		
	Total			**1,249**	}{1/2 M}
5.	**Other current liabilities**				
	Dividend payable				
	H Ltd.			**1,200**	}{1/2 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**	}{1/2 M}
7.	**Inventories**				
	Stock				
	H Ltd.		3,949		
	S Ltd.		1,956		
			5,905		
	Less: Unrealized profit		(20)	**5,885**	}{1/2 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**	}{1/2 M}
9.	**Short term loans and advances**				
	Sundry Advances			**520**	}{1/2 M}
10.	**Cash and cash equivalents**				
	Cash and Bank Balances			**1,694**	}{1/2 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)	
H Ltd.'s holding as on 1st April, 20X0	180 lakhs	
Add: Bonus received on 1st January, 20X1	108 lakhs (180 / 5 × 3)	{1/4 M}
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	
To Balance c/d	**1,380**	By Profit and Loss A/c (Balancing figure)	180	{1/4 M}
	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

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.

{1/4 M}

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 dividend paid (Rs. 1,200 – Rs. 600)	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**

{1/4 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

{1/4 M}

7. Unrealized profit in respect of inventory

Rs. 100 lakhs x $\frac{25}{125}$ = **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 issued would be (4,800-3,000)	**1,800**

{1/2 M}

Answer 3:

(a) **Consolidated Balance Sheet**

		Note	(Rs.)
I	**Equity and liabilities**		
	Shareholders' funds:		
	Share Capital	1	71,40,000
			71,40,000 {3/4 M}
II	**Assets**		
	Non-current Assets		
	Property, Plant and Equipment:	2	71,40,000
			71,40,000 {3/4 M}

Notes to Accounts

			(Rs.)
1.	**Share capital**		
	A Ltd.	23,80,000	
	B Ltd.	23,80,000	
	C Ltd.	23,80,000	**71,40,000** {1/2 M}
2.	**Property, Plant and Equipment**		
	Land & Building:		
	A Ltd.	3,80,000	
	B Ltd.	3,80,000	
	C Ltd.	3,80,000	**11,40,000** {1/2 M}
	Plant & Machinery:		
	A Ltd.	17,00,000	
	B Ltd.	17,00,000	
	C Ltd.	17,00,000	**51,00,000** {1/2 M}
	Computers:		
	A Ltd.	60,000	
	B Ltd.	60,000	
	C Ltd.	60,000	**1,80,000** {1/2 M}
	Vehicles:		
	A Ltd.	2,40,000	
	B Ltd.	2,40,000	
	C Ltd.	2,40,000	**7,20,000** {1/2 M}

In the Books of A Ltd.
Extract of statement of Profit & Loss

Particulars	Note No.	Rs.
Depreciation and amortisation expense	1	4,20,000
Other operating Expenses (Pipeline Expenses)		**200,000**

{1/2 M}

Extract of Balance Sheet

	Note No.	Rs.	
Assets			
Non-current assets			
Property, Plant and Equipment	2	**23,80,000**	{1/2 M}

Notes to Accounts

		Rs.	Rs.	
1.	Depreciation and amortisation expense			
	Land & Building	20,000		
	Plant & Machinery	3,00,000		
	Computers	40,000		
	Vehicles	60,000	**4,20,000**	{1/2 M}
2.	Land & Building	4,00,000		
	Less: Depreciation	(20,000)	3,80,000	
	Plant & Machinery	20,00,000		
	Less: Depreciation	(3,00,000)	17,00,000	
	Computers	1,00,000		
	Less: Depreciation	(40,000)	60,000	
	Vehicles	3,00,000		
	Less: Depreciation	(60,000)	2,40,000	
			23,80,000	{1/2 M}

In the Books of B Ltd.
Extract of draft Profit & Loss Account

Particulars	Note No.	Rs.	
Depreciation and amortisation expense	1	4,20,000	{1/2 M}
Other operating Expenses (Pipeline Expenses)		**200,000**	

Extract of Balance Sheet

	Note No.	Rs.	
Assets			
Non-current assets			
Property, Plant and Equipment	2	**23,80,000**	{1/2 M}

Notes to Accounts

		Rs.	Rs.	
1.	Depreciation and amortisation expense			
	Land & Building	20,000		
	Plant & Machinery	3,00,000		
	Computers	40,000		
	Vehicles	60,000	**4,20,000**	{1/2 M}
2.	Land & Building	4,00,000		
	Less: Depreciation	(20,000)	3,80,000	
	Plant & Machinery	20,00,000		
	Less: Depreciation	(3,00,000)	17,00,000	
	Computers	1,00,000		
	Less: Depreciation	(40,000)	60,000	
	Vehicles	3,00,000		
	Less: Depreciation	(60,000)	2,40,000	
			23,80,000	{1/2 M}

In the Books of C Ltd.

Extract of Draft Profit & Loss Account	Note No.	Rs.	
Depreciation and amortisation expense	1	4,20,000	{1/2 M}
Other operating Expenses (Pipeline Expenses)		**200,000**	

Extract of Balance Sheet

	Note No.	Rs.
Assets		
Non-current assets		
Property, Plant and Equipment	2	**23,80,000** }{1/2 M}

Notes to Accounts

		Rs.	Rs.
1.	Depreciation and amortisation expense		
	Land & Building	20,000	
	Plant & Machinery	3,00,000	
	Computers	40,000	
	Vehicles	60,000	**4,20,000** }{1/2 M}
2.	Land & Building	4,00,000	
	Less: Depreciation	(20,000)	3,80,000
	Plant & Machinery	20,00,000	
	Less: Depreciation	(3,00,000)	17,00,000
	Computers	1,00,000	
	Less: Depreciation	(40,000)	60,000
	Vehicles	3,00,000	
	Less: Depreciation	(60,000)	2,40,000
			23,80,000 }{1/2 M}

Answer:

(b) **Profit and Loss Account of Anurag Trading Co.**
for the year ended 31st March, 20X2
(Assuming business is not a going concern)

	Rs.		Rs.
To Opening Stock	36,000	By Sales	5,00,000
To Purchases	4,50,000	By Trade payables	500
To General expenses	16,500	By Closing Stock	38,000
To Depreciation (69,000-64,000)	5,000		
To Provision for doubtful debts	4,000		
To Deferred expenditure	15,000		
To Loan penalty	2,000		
To Net Profit (b.f.)	**10,000**		
	5,38,500		5,38,500

{4 M}

Answer 4:

(a) **Statement determining the maximum number of shares to be bought back**

Number of shares

Particulars	When loan fund is		
	Rs. 2,520 crores	**Rs. 1,680 crores**	**Rs. 2,100 crores**
Shares Outstanding Test (W.N.1)	11.55	11.55	11.55
Resources Test (W.N.2)	8.75	8.75	8.75
Debt Equity Ratio Test (W.N.3)	Nil	5.25	Nil
Maximum number of shares that can be bought back [least of the above]	**Nil**	**5.25**	**Nil**

{3 M}

Journal Entries for the Buy-Back
(applicable only when loan fund is Rs. 1,680 crores)

Rs. in crores

	Particulars		Debit	Credit
(a)	Equity share buy-back account	Dr.	157.5	
	To Bank account			157.5
(b)	Equity share capital account (5.25 x Rs. 10)	Dr.	52.5	
	Securities premium account (5.25 x Rs. 20)	Dr.	105	
	To Equity share buy-back account			157.5
(c)	General reserve account	Dr.	52.5	
	To Capital redemption reserve account			52.5

{3 Item x 1/2 M = $1^{1/2}$ M}

Working Notes:

1. Shares Outstanding Test

Particulars	(Shares in crores)
Number of shares outstanding	46.2
25% of the shares outstanding	**11.55**

{1/2 M}

2. Resources Test

Particulars	
Paid up capital (Rs. in crores) Free reserves (Rs. in crores) (336+126+126)	462 588
Shareholders' funds (Rs. in crores)	1,050
25% of Shareholders fund (Rs. in crores)	Rs. 262.5 crores
Buy-back price per share	Rs. 30
Number of shares that can be bought back (shares in crores)	**8.75 crores shares**

{1/2 M}

3. Debt Equity Ratio Test

	Particulars	When loan fund is		
		Rs. 2,520 crores	**Rs. 1,680 crores**	**Rs. 2,100 crores**
(a)	Loan funds (Rs. in crores)	2,520	1,680	2,100
(b)	Minimum equity to be maintained after buy- back in the ratio of 2:1 (Rs. in crores)	1,260	840	1,050
(c)	Present equity shareholders fund (Rs. in crores)	1,050	1,050	1,050
(d)	Future equity shareholder fund (Rs. in crores) (See Note 2)	N.A.	997.5 (1,050-52.5)	N.A.
(e)	Maximum permitted buy-back of Equity (Rs. in crores) [(d) – (b)] (See Note 2)	Nil	157.5 (by simultaneous equation)	Nil
(f)	Maximum number of shares that can be bought back @ Rs.30 per share (shares in crores) (See Note 2)	**Nil**	**5.25 (by simultaneous equation)**	**Nil**

{3 M}

Note:

1. Under Situations 1 & 3 the company does not qualify for buy-back of shares as per the provisions of the Companies Act, 2013.

2. As per section 68 of the Companies Act, 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserve after such buy-back.
Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.
Suppose amount equivalent to nominal value of bought back shares transferred to
CRR account is 'x' and maximum permitted buy-back of equity is 'y'.
Then

Equation 1: (Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained= Maximum permissible buy-back of equity

(1,050 –x) - 840 = y {1/2 M}

Since 210 - x = y

Equation 2: $\frac{\text{Maximum buy} - \text{back}}{\text{Offer price for buy} - \text{back}} \times \text{Nominal value}$

= Nominal value of the shares bought –back to be transferred to CRR {1/2 M}

= $\left(\frac{y}{30} \times 10\right) = x$

Or 3x = y (2)

by solving the above two equations we get

x = Rs. 52.5 crores

y = Rs. 157.5 crores {1/4 M}

3. Statutory reserves, capital redemption reserve and plant revaluation reserves are not free reserves. {1/8 M}

4. For calculation of debt -equity ratio both secured and unsecured loans have been considered. {1/8 M}

Answer:

(b) (i) Calculation of Basic Earnings per share for the year ended 31st March, 2022 including the comparative figure:

(a) Earnings for the year ended 31st March, 2021 = EPS x Number of shares outstanding during 2020-2021
= Rs. 62.30 x 10,00,000 equity shares
= **Rs. 6,23,00,000** {1/2 M}

(b) Adjusted Earnings per share after taking into consideration bonus issue
Adjusted Basic EPS = Earnings for the year 2020-2021 / Total outstanding shares + Bonus issue
= Rs. 6,23,00,000 / (10,00,000+ 5,00,000)
= Rs. 6,23,00,000 / 15,00,000
= **Rs. 41.53 per share** {1/2 M}

(c) Basic EPS for the year 2021-2022
Basic EPS = Total Earnings – Preference Shares Dividend) / (Total shares outstanding at the beginning + Bonus issue + weighted average of the shares issued in January, 2022)
= (Rs.90,00,000 – Rs. (1,00,00,000 x 8%) / (10,00,000 + 5,00,000 + (2,00,000 x 3/12))
= Rs. 82,00,000 / 15,50,000 shares
= **Rs. 5.29 per share** {1 M}

(ii) In case of a bonus issue, equity shares are issued to existing shareholders for no additional consideration. Therefore, the number of equity shares outstanding is increased without an increase in resources. Since the bonus issue is an issue without consideration, the issue is treated as if it had occurred prior to the beginning of the year 2021, the earliest period reported.
However, the share issued at full market price does not carry any bonus element and usually results in a proportionate change in the resources available to the enterprise. Therefore, it is taken into consideration from the time it has been issued i.e. the time- weighting factor is considered based on the specific shares outstanding as a proportion of the total number of days in the period. {2 M}

Answer 5:

(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**

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

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

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

		By Branch Stock - Sales Returns	**11,000**
		By Balance c/d	**1,55,000**
	5,26,000		**5,26,000**

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

{1/2 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

{1/2 M}

Answer:

(b) Computation of Cash and Cash Equivalents as on 31st March, 20X2

	Rs.
Cash balance with bank (Rs. 25,000 less Rs. 15,000)	**10,000**
Short term investment in highly liquid sovereign debt	**1,00,000**
mutual fund on 1.3.20X2	
Bank balance in foreign currency account ($1,000 x Rs. 70)	**70,000**
	1,80,000

{4 Item x 0.75 M = 3 M}

Note: Short term investment in liquid equity shares and fixed deposit will not be considered as cash and cash equivalents. **{1 M}**

OR

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. **{4 M}**

Answer 6:

Journal Entries In the books of Purple Ltd.

	Particulars		Debit (Rs.)	Credit (Rs.)
1.	6% Preference share capital A/c	Dr.	6,00,000	
	To 8% Preference share capital A/c			4,50,000
	To Capital reduction A/c			1,50,000

{1/2 M}

	(Being 6% preference shares converted to 8% preference shares so that return to pref. shareholders remains unaffected)		
2.	Equity share capital A/c (Rs. 10) Dr.	9,00,000	
	To Equity share capital A/c (Rs. 8)		7,20,000
	To Capital reduction A/c		1,80,000
	(Being equity capital reduced to nominal value of Rs. 8 each)		
3.	Capital Reduction A/c Dr.	3,30,000	
	To Goodwill A/c		84,600
	To Land and Building A/c		81,000
	To Plant and Machinery A/c		96,000
	To Trade Receivables A/c (Book debts)		14,400
	To Patents A/c (Bal. fig.)		24,000
	To Profit and loss A/c		30,000
	(Being losses and assets written off to the extent required)		
4.	Bank A/c Dr.	4,80,000	
	To Bank Loan A/c		4,80,000
	(Being Loan taken)		
5.	Bank overdraft A/c Dr.	2,00,000	
	To Bank A/c		2,00,000
	(Being Bank overdraft repaid)		

{1/2 M} (Entry 2) {1/2 M} (Entry 3) {1/2 M} (Entry 4) {1/2 M} (Entry 5)

Capital Reduction Account

Particulars	Rs.	Particulars	Rs.
To Goodwill A/c	84,600	By Equity Share Capital A/c	1,80,000
To Land & Building A/c	81,000	By 6% Preference Share Capital A/c	1,50,000
To Plant and Machinery A/c	96,000		
To Trade receivables (Book Debts) A/c	14,400		
To Profit & Loss A/c	30,000		
To Patents A/c (Bal. fig.)	24,000		
	3,30,000		3,30,000

{2 M}

Balance Sheet of Purple Ltd. (and reduced)
as at 31.3.2022

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	**11,70,000**
	b	Reserves and surplus	2	**(2,70,000)**
2		**Current liabilities**		
	a	Short term borrowings (Secured Bank Loan)		**4,80,000**
	b	Trade Payables		**2,20,000**
		Total		**16,00,000**
		Assets		
1		**Non-current assets**		
	a	Property, plant and equipment	3	**8,43,000**
	b	Intangible assets	4	**12,000**
2		**Current Assets**		
	a	Inventory		**1,70,000**
	b	Trade receivables	5	**2,87,400**
	c	Cash and cash equivalents (7,600+4,80,000-2,00,000)		**2,87,600**
		Total		**16,00,000**

{11 Item x 1/2 M = 5.5 M}

Notes to Accounts:

			Rs.
1.	**Share Capital**		
	Authorized		
	Issued, subscribed and paid up:		
	90,000 equity shares of Rs. 8 each fully paid	7,20,000	
	8% Preference share capital*	4,50,000	**11,70,000** }{1/2 M}
2.	**Reserves and Surplus**		
	Profit and Loss Account (Dr. balance)		**(2,70,000)** }{1/2 M}
3.	**Property plant and equipment**		
	Land and Building	4,59,000	
	Plant and Machinery	3,84,000	**8,43,000** }{1/2 M}
4.	**Intangible assets**		
	Patent Rs. (36,000 - 24,000)		**12,000** }{1/2 M}
5.	**Trade Receivables**		
	Sundry Debtors	3,01,800	
	Less: Bad debts	(14,400)	**2,87,400** }{1/2 M}

Note: *Face value of preference share is not given in the question (pre and post reconstruction) and hence any suitable value of preference share may be assumed.

Working Notes:

1. **Calculation of new Preference Shares**

Rate of return : 6% on Preference Shares
Dividend : (6/100) x Rs. 6,00,000 = Rs. 36,000
Rate of return : 8% on Preference Shares
Dividend : (8/100) x X = Rs. 36,000

X = (36,000/8) x 100 = Rs. 4,50,000
New Preference Share Capital = Rs. 4,50,000
Old Preference Share Capital = Rs. 6,00,000
(6,00,000 – 4,50,000) = **Rs. 1,50,000 Amount taken to Capital Reduction A/c.**

{1/2 M}

2. Since the company expects to earn a profit of Rs. 90,000 p.a. consecutively for three years and it shall be used to write-off debit balance of P & L account, hence Rs. 2,70,000 being loss shall be shown in the Balance Sheet under Reserve & Surplus head and Rs. 30,000 shall be written-off from Capital Reduction A/c. {1/2 M}

3. **Calculation of Amount written off on Land & Building and Plant & Machinery**

Land & Building = (85/100) x 5,40,000 = Rs. 4,59,000
Plant & Machinery = (80/100) x 4,80,000 = Rs.3,84,000
Reduced by:
Land & Building = (5,40,000 - 4,59,000) = Rs. 81,000
Plant & Machinery = (4,80,000 - 3,84,000) = Rs. 96,000

{1/2 M}

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