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

Q.1 to Q. 4:
CASE SCENARIO

SEAS Ltd., the "Company", is in the business of tours and travels. It sells holiday packages to the customers. The Company negotiates upfront with the Airlines for specified number of seats in flight. The Company agrees to buy a specific number of tickets and pay for those tickets regardless of whether it is able to resell all of those in package.

The rate paid by the Company for each ticket purchased is negotiated and agreed in advance. The Company also assists the customers in resolving complaints with the service provided by airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

The Company bought a forward contract for three months of US$ 1,00,000 on 1 March 2024 at 1 US$ = INR 83.10 when exchange rate was US$ 1 = INR 83.02. On 31 March 2024, when the Company closed its books, exchange rate was US$ 1 = INR 83.15. On 1 April 2024, the Company decided for premature settlement of the contract due to some exceptional circumstances.

The Company is evaluating below mentioned schemes:

i. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex - gratia payments to employees on retirement.

ii. Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of Rs.20,000 per month. Earlier there was no such scheme of pension in the organization.

SEAS Ltd. has a subsidiary, ADI Ltd., which is in the business of construction having turnover of Rs. 200 crores. SEAS Ltd. and ADI Ltd. hold 9% and 23% respectively in an associate company, ASOC Ltd. Both SEAS Ltd. and ADI Ltd. prepare consolidated financial statements as per Accounting Standards notified under the Companies (Accounting Standards) Rules, 2021.

1. What would be the basis of revenue recognition for SEAS Ltd. as per the requirements of Accounting Standards?
   (a) Gross basis.
   (b) Net basis.
   (c) Depends on the accounting policy of the Company.
   (d) Indian GAAP allows a choice to the Company to recognize revenue on gross basis or net basis.

2. Please suggest accounting treatment of forward contract for the year ended 31 March 2024 as per Accounting Standard 11.
   (a) MTM (marked to market value) of contract will be recorded on 31 March 2024.
   (b) MTM (marked to market value) of contract will be computed as at 31 March 2024 and only if there is loss, it will be recorded during the year ended 31 March 2024.
   (c) No accounting will be done during the year ended 31 March 2024.
   (d) Premium on contract will be amortized over the life of the contract.

3. You are requested to advise the Company in respect of the accounting requirements of above schemes related to employee benefits as to which one of those schemes should be considered as a change in accounting policy during the year.
   - (a) 1 – Change in accounting policy. 2 – Change in accounting policy.
   - (b) 1– Not a change in accounting policy. 2 – Change in accounting policy.
   - (c) 1 – Not a change in accounting policy. 2 – Not a change in accounting policy.
   - (d) 1– Change in accounting policy. 2 – Not a change in accounting policy.

4. Please comment regarding consolidation requirements for SEAS Ltd. and ADI Ltd. using the below mentioned options as to which one should be correct.
   - (a) ADI Ltd. would using equity method of accounting for 23% in ASOC Ltd. SEAS Ltd. would consolidate ADI Ltd. and consequently automatically equity account 23% and separately account for the balance 9% as per AS 13.
   - (b) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13. SEAS Ltd. would consolidate ADI Ltd. and consequently automatically account 23% and separately account for the balance 9%.
   - (c) ADI Ltd. would account for 23% share in ASOC Ltd using equity method of accounting. SEAS Ltd. would consolidate ADI Ltd. and consequently, automatically account for ASOC Ltd 23% share and separately account for 9% share in ASOC Ltd. using equity method of accounting in consolidated financial statements.
   - (d) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13. SEAS Ltd. would consolidate ADI Ltd. and using equity method of accounting 23% in ASOC Ltd. and separately account for the balance 9% as per AS 13.

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

Q.5 to Q. 6:
CASE SCENARIO

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%.

5. Annual Lease Payments=
   - (a) 2,05,803
   - (b) 8,23,212
   - (c) 8,93,212
   - (d) 7,00,000

6. Gross Investment in the Lease =
   - (a) 2,05,803
   - (b) 8,23,212
   - (c) 8,93,212
   - (d) 7,00,000

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

Q. 7 to Q. 9:
CASE SCENARIO

An Entity has acquired a heavy machinery at a cost of ₹ 100 Lakhs (with no breakdown of the component parts). The estimated useful life is 10 years. At the end of the 6th year, one of the major components, the Turbine, requires replacement, as further maintenance is uneconomical. The remainder of the Machine is perfect and is expected to last for the next 4 years. The cost of a New Turbine is ₹45 Lakhs. Assume SLM Depreciation and appropriate Discount Rate is 5%.

7. Current Carrying Amount of Turbine to be derecognized =
   (a) 13.43 Lakhs
   (b) 33.58 Lakhs
   (c) 20.15 Lakhs
   (d) Cannot be estimated

8. New Carrying Amount of PPE after Replacement =
   (a) 13.43 Lakhs
   (b) 33.58 Lakhs
   (c) 20.15 Lakhs
   (d) 71.57 Lakhs

9. Carrying Amount of PPE before Replacement at the end of Year 6=
   (a) 10 Lakhs
   (b) 40 Lakhs
   (c) 20 Lakhs
   (d) 57 Lakhs

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

Q. 10 & Q. 11:
CASE SCENARIO

X Ltd purchased a Property, Plant and Equipment 4 years ago for ₹ 150 Lakhs and depreciates it at 10% p.a. on Straight Line Method. At the end of the fourth year, it has revalued the Asset at ₹ 75 Lakhs and has written off the Loss on Revaluation to the Profit and Loss Account. However, on the date of Revaluation, the Market Price is ₹ 67.50 Lakhs and expected Disposal Costs are ₹ 3 Lakhs. Value in use is estimated at ₹ 60 Lakhs.

10. Recoverable Amount =
   (a) 90 Lakhs
   (b) 60 Lakhs
   (c) 75 Lakhs
   (d) 64.50 Lakhs

11. Impairment Loss =
   (a) 90 Lakhs
   (b) 60 Lakhs
   (c) 10.50 Lakhs
   (d) 64.50 Lakhs

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

12. From the given information, you are required to compute the Deferred Tax Assets(DTA) and Deferred Tax Liability (DTL) for CBDT Ltd as on 31st March 2021. The tax rate applicable is 35%.
   The Company has charged Depreciation of Rs. 7,42,900 in its Books of Accounts while as per Income Tax computation, the Depreciation available to the Company is Rs. 8,65,400.
   The Company has made Provision for Doubtful Debts for Rs. 54,300 during the year. The Company has debited Share Issue Expenses of Rs. 6,23,500 which will be available for deduction under the Income Tax Act from the next year. The expenses of Rs. 7,84,500 has been charged to Profit and Loss Account which are disallowed under the Income Tax Act.
   The Company has made Donation of Rs. 2,00,000 which has been debited to Profit and Loss Account and only 50% thereof will be allowed as deduction as per Income Tax Law.
   (a) DTA Rs. 2,18,225, DTL. Rs. 42,875
   (b) DTA Rs. 2,18,225, DTL Rs. 42,857
   (c) DTA Rs. 2,18,252 DTL. Rs. 42,875
   (d) None of these **(2 Marks)**

13. X Co-operative society Ltd has borrowed a sum of US $12.50 million at the commencement of the financial year 2020-2021 for its solar energy project at LIBOR (London Interbank offered rate of 1%) + 4%. The interest is payable at the end of the respective financial year. The loan was availed at the then rate of Rs. 45 to US dollar while the rate as on 31st March, 2021 is Rs. 48 to the US dollar. Had X Co-operative Society Ltd. Borrowed the Rupee equivalent in India, the interest would have been 11%. 'Borrowing Cost and exchange difference will be:
(a) Rs. 61,87,500, Rs. 5,62,500
(b) Rs. 37,50,000, Rs. 5,62,500
(c) Rs. 67,50,000, Rs. 5,62,500
(d) None of these

(2 Marks)

14. Accounting profit Rs. 15,00,000, Book profit as per MAT Rs. 8,75,000, Profit as per Income-tax Act Rs. 1,50,000 Tax rate 30%, MAT rate 7.50%. The deferred tax asset / liability as per AS 22 and amount of tax to be debited to Profit and Loss Account for the year ended 31.3.2021 are
(a) Rs. 4,05,000, is 5,15,625
(b) Rs. 4,05,000, is 4,70,625
(c) Rs. 4,95,000, is 5,15,625
(d) None of these

(2 Marks)

15. 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

(2 Marks)

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.

Question 1:

(a) Pluto Ltd owns land and building which are carried in its balance sheet at an aggregate carrying amount of ₹ 10 million. The fair value of such asset is ₹ 15 million. It exchanges the land and building for a private jet, which has a fair value of ₹ 20 million, and pays additional ₹ 3 million in cash.
Apply necessary provisions of AS 10 for the above transactions and pass journal entry for the same.

(4 Marks)

(b) The following particulars are stated in the Balance Sheet of Siddhi Limited as on 31st March,2022:

Particulars	(Rs. In lakhs)
Deferred Tax Liabilities (Cr.)	2.50
Deferred Tax Assets (Dr.)	1.35

The following transactions were reported during the year 2022 -23:

		Rs. in lakhs
(i)	Depreciation as per accounting records	15.00
(ii)	Depreciation as per income tax records	20.00
(iii)	Interest paid to NBFC accounted in books on accrual basis but paid on 30.06.2023	6.00
(iv)	Items disallowed for tax purposes in 2021-22 but allowed in 2022- 23	1.05
(v)	Donation to Private Trust	40.00
(vi)	Tax rate	15%
(vii)	There were no additions to fixed assets during the year.	

You are required to calculate the Deferred Tax Asset and Deferred Tax Liability as on 31-03-2023 as per AS-22.

(5 Marks)

(c) Glen Ltd. began construction of a new building on 1st January, 2022. On 1st April, 2022, following two loans were obtained to fund the construction cost:

(i) Loan of Rs. 60,00,000 from Data Bank Ltd. was taken at interest rate of 8% per annum. This loan was fully utilized for construction of the new building.

(ii) Loan of Rs. 20,00,000 from Satya Bank Ltd. Out of this, loan amount of Rs. 6,00,000 was utilized for working capital purpose. Total interest of Rs. 1,92,000 were paid to Satya Bank Ltd. for the financial year 2022-23.

Construction of the new building was completed on 31st January, 2023 and was ready for its intended use on the same date.

None of the loan was repaid during the year. The building is a qualifying asset for the purpose of AS-16.

Out of loan from Data Bank Ltd., surplus funds were temporarily invested for the short period of time. This temporary investment earned interest of Rs. 30,000.

You are required to calculate the amount of interest (a) to be capitalized, (b) to be charged to profit and loss account from the total interest incurred as borrowing cost during the year 2022-23 (as per AS-16).

(5 Marks)

Question 2:

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.

(14 Marks)

Question 3:

(a) A Ltd., B Ltd. and C Ltd. decided to jointly construct a pipeline to transport the gas from one place to another that was manufactured by them. For the purpose following expenditure was incurred by them: Buildings Rs. 12,00,000 to be depreciated @ 5% p.a., Pipeline for Rs. 60,00,000 to be depreciated @ 15% p.a., computers and other electronics for Rs. 3,00,000 to be depreciated @ 40% p.a. and various vehicles of Rs. 9,00,000 to be depreciated @ 20% p.a.
They also decided to equally bear the total expenditure incurred on the maintenance of the pipeline that comes to Rs. 6,00,000 each year.
You are required to show the consolidated balance sheet and the extract of Statement of Profit & Loss and Balance Sheet for each venturer.

(10 Marks)

(b) Balance Sheet of Anurag Trading Co. on 31st March, 20X1 is given below:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital	50,000	Property, Plant and Equipment	69,000
Profit and Loss A/c	22,000	Stock in Trade	36,000
10% Loan	43,000	Trade Receivables	10,000
Trade Payables	18,000	Deferred Expenditure	15,000
		Bank	3,000
	1,33,000		1,33,000

Additional Information:

(i) Remaining life of Property, Plant and Equipment is 5 years with even use. The net realisable value of Property, Plant and Equipment as on 31st March, 20X2 was Rs. 64,000.

(ii) Firm's sales and purchases for the year 20X1-X2 amounted to Rs. 5 lacs and Rs. 4.50 lacs respectively.

(iii) The cost and net realisable value of the stock were Rs. 34,000 and Rs. 38,000 respectively.

(iv) General Expenses for the year 20X1-X2 were Rs. 16,500.

(v) Deferred Expenditure is normally amortised equally over 4 years starting from F.Y. 20X0-X1 i.e. Rs. 5,000 per year.

(vi) Out of trade receivables worth Rs.10,000, collection of Rs.4,000 depends on successful re-design of certain product already supplied to the customer.

(vii) Closing trade payable is Rs.10,000, which is likely to be settled at 95%.

(viii) There is pre-payment penalty of Rs.2,000 for Bank loan outstanding.

Prepare Profit & loss Account for the year ended 31st March, 20X2 by assuming it is not a Going Concern.

(4 Marks)

Question 4:

(a) Quick Ltd. has the following capital structure as on 31st March, 2021:

		Rs. in Crores	
(1)	**Share Capital:**		462
	(Equity Shares of Rs. 10 each, fully paid)		
(2)	**Reserves and Surplus:**		
	General Reserve	336	
	Securities Premium Account	126	

	Profit and Loss Account	126	
	Statutory Reserve	180	
	Capital Redemption Reserve	87	
	Plant Revaluation Reserve	33	888
(3)	**Loan Funds:**		
	Secured	2,200	
	Unsecured	320	2,520

On the recommendations of the Board of Directors, on 16th September, 2021, the shareholders of the company have approved a proposal to buy-back of equity shares. The prevailing market value of the company's share is Rs. 20 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of 50% over market value. The company had sufficient balance in its bank account for the buy-back of shares.
You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either Rs. 1,680 Crores or Rs. 2,100 Crores.
Assuming that the entire buy-back is completed by 31st December, 2021, Pass the necessary accounting entries (narrations not required) in the books of the company in each situation.

(10 Marks)

(b) NAT, a listed entity, as on 1st April, 2021 had the following capital structure:

	Rs.
10,00,000 Equity Shares having face value of Rs.1 each	10,00,000
10,00,000 8% Preference Shares having face value of Rs. 10 each	1,00,00,000

During the year 2021-2022, the company had profit after tax of Rs. 90,00,000
On 1st January, 2022, NAT made a bonus issue of one equity share for every 2 equity shares outstanding as at 31st December, 2021.
On 1st January, 2022, NAT issued 2,00,000 equity shares of Rs.1 each at their full market price of Rs. 7.60 per share.
NAT's shares were trading at Rs. 8.05 per share on 31st March, 2022.
Further it has been provided that the basic earnings per share for the year ended 31st March, 2021 was previously reported at Rs. 62.30.
You are required to:

(i) Calculate the basic earnings per share to be reported in the financial statements of NAT for the year ended 31st March, 2022 including the comparative figure, in accordance with AS-20 Earnings Per Share.

(ii) Explain why the bonus issue of shares and the shares issue at full market price are treated differently in the calculation of the basic earnings per share?

(4 Marks)

Question 5:

(a) Jolly Industries of Delhi is a trader in spices. It has a branch at Jalandhar to which Head office invoice goods at 20% on sales. The Jalandhar branch sells spices both on cash and credit. Branch remit all the cash received to Head Office Bank account, thus all expenses of branch are also directly paid from head office.
From the following information given, Prepare Branch Accounts in the Head office ledger using Stock and Debtors Method.
Branch does not maintain any books of account, but send fortnightly returns to Head office.

	Rs.
Stock at Jalandhar Branch as on 1st April, 2022 (Cost Price)	1,00,000

Sundry Debtors at Jalandhar as on 1st April, 2022	1,10,000
Cash received from Debtors	3,45,000
Bad debts during the year	9,500
Discount allowed to Debtors	5,500
Goods received from Head Office at Invoice Price	6,00,000
Returns to Head office at Invoice Price	60,000
Normal loss of goods during transport (Out of Goods sent by H.O. to Branch)	12,000
Sales returns at Jalandhar Branch	11,000
Salaries and staff welfare expenses at Branch	54,000
Rent and taxes at Branch	9,000
Other Office Expenses	2,500
Sundry Debtors at Branch as at 31st March 2023	1,55,000
Stock at Jalandhar as on 31st March, 2023 (Cost Price)	1,20,000

Credit sales at Branch are four times of the cash Sales at Branch.

(10 Marks)

(b) From the following information of XYZ Limited, calculate cash and cash equivalent as on 31-03-20X2 as per AS 3.

Particulars	Amount (Rs.)
Balance as per the Bank Statement	25,000
Cheque issued but not presented in the Bank	15,000
Short Term Investment in liquid equity shares of ABC Limited	50,000
Fixed Deposit created on 01-11-20X1 and maturing on 15-04-20X2	75,000
Short Term Investment in highly liquid Sovereign Debt Mutual fund on 01-03-20X2 (having maturity period of less than 3 months)	1,00,000
Bank Balance in a Foreign Currency Account in India	$ 1,000
(Conversion Rate: On the day of deposit Rs. 69/USD as on 31-03-20X2 Rs. 70/USD)	

(4 Marks)

OR

(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.

(4 Marks)

Question 6:

The following is the Balance Sheet of Purple Limited as at 31st March, 2022:

Particulars	Notes	Amount in Rs.
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	15,00,000
(b) Reserves & Surplus	2	(3,00,000)
(2) Current Liabilities		
(a) Trade Payables		2,20,000

(b) Short Term Borrowings – Bank Overdraft		2,00,000
Total		16,20,000
II. Assets		
(1) Non-Current Assets		
(a) Property, Plant and Equipment	3	10,20,000
(b) Intangible Assets	4	1,20,600
(2) Current Assets		
(a) Inventories		1,70,000
(b) Trade Receivables		3,01,800
(c) Cash and cash equivalents		7,600
Total		16,20,000

Notes to Accounts

	Rs.	Rs.
(1) Share Capital		
90,000 Equity Shares of Rs. 10 each fully paid	9,00,000	
6% Preference Share Capital	6,00,000	15,00,000
(2) Reserves & Surplus		
Profit & Loss account		(3,00,000)
(3) Property, Plant and Equipment		
Land and Building	5,40,000	
Plant and Machinery	4,80,000	10,20,000
(4) Intangible Assets		
Goodwill	84,600	
Patents	36,000	1,20,600

Dividends on preference shares are in arrears for 3 years.
On the above date, the company adopted the following scheme of reconstruction:

(i) The preference shares are converted from 6% to 8% but revalued in a manner in which the total return on them remains unaffected.
(ii) The value of equity shares is brought down to Rs. 8 per share.
(iii) The arrears of dividend on preference shares are cancelled.
(iv) The debit balance of Goodwill account is written off entirely.
(v) Land and Building and Plant and Machinery are revalued at 85% and 80% of their respective book values.
(vi) Book debts amounting to Rs. 14,400 are to be treated as bad and hence to be written off.
(vii) The company expects to earn a profit at the rate of Rs. 90,000 per annum from the current year which would be utilized entirely for reducing the debit balance of Profit and loss accounts for 3 years. The remaining balance of the said account would be written off at the time of capital reduction process.
(viii) The balance of total capital reduction is to be utilized in writing down Patents.
(ix) A secured loan of Rs. 4,80,000 bearing interest at 12% per annum is to be obtained by mortgaging tangible fixed assets for repayment of bank overdraft and for providing additional funds for working capital.

You are required to give journal entries incorporating the above scheme of reconstruction, capital reduction account and prepare the reconstructed Balance Sheet.

(14 Marks)

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