

MOCK TEST PAPER 1
INTERMEDIATE : GROUP – II
PAPER – 5: ADVANCED ACCOUNTING

ANSWERS

1. (a) (i) X Ltd., Y Ltd. & W Ltd. are related to each other. Z Ltd. & W Ltd. are related to each other by virtue of associate relationship. However, neither X Ltd. nor Y Ltd. is related to Z Ltd. and vice versa since neither control nor significant influence exists between them.
- (ii) Himalaya Ltd. and Aravalli Ltd are related parties since key management personnel of Himalaya Ltd. ie. its managing director holds 80% in Aravalli Ltd. and hence disclosure of transaction between them is required irrespective of whether the transaction was done at normal selling price. Hence the contention of Chief Accountant of Himalaya Ltd that these sales require no disclosure under related party Transactions, is wrong.
- (b) (i) **Shoes sent to Mohan Shoes (consignee) for consignment sale**
- In case goods are sent for consignment sale, revenue is recognized when significant risks of ownership have passed from seller to the buyer.
- In the given case, Mohan Shoes is the consignee i.e. an agent of Tonk Tanners and not the buyer. Therefore, the risk and reward is considered to vest with Tonk Tanners only till the time the sale is made to the third party by Mohan Shoes; although the goods are held by Mohan Shoes. Hence, in the year 2021-2022, the sale will be recognized for the amount of goods sold by Mohan Shoes to the third party i.e. for ₹ 3,20,000 x 75% = ₹ 2,40,000.
- (ii) **Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date**
- For such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue and should not be recognised as revenue in the year 2021-2022. Hence, sale of ₹ 4,50,000 to Shani Shoes should not be recognized as revenue.
- (iii) **Delivery is delayed at buyer's request**
- On 21st March, 2022, if Shoe Shine takes title and accepts billing for the goods then it is implied that the sale is complete and all the risk and rewards of ownership has been transferred to the buyer. In case no significant uncertainty exists regarding the amount of consideration for sale, revenue shall be recognized in the year 2021-2022 irrespective of the fact that the delivery is delayed on the request of Shoe Shine.
- (c) As per para 27 of AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:
- (i) Its **revenue** from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or
- (ii) Its segment **result** whether profit or loss is 10% or more of:
- (1) The combined result of all segments in profit; or
- (2) The combined result of all segments in loss, whichever is greater in absolute amount; or
- (iii) Its segment **assets** are 10% or more of the total assets of all segments.
- Further, if the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even

if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments.

Accordingly,

- (a) On the basis of **revenue from sales** criteria, segment A is a reportable segment.
- (b) On the basis of the **result** criteria, segments A & E are reportable segments (since their results in absolute amount is 10% or more of ₹ 100 crore).
- (c) On the basis of **asset** criteria, all segments except E are reportable segments.

Since all the segments are covered in at least one of the above criteria, all segments have to be reported upon in accordance with AS 17.

Hence, the opinion of chief accountant that only segment 'A' is reportable is wrong.

- (d) As per AS 14, 'Accounting for Amalgamations' consideration for the amalgamation means the aggregate of shares and other securities issued and payment made in form of cash or other assets by the transferee company to the shareholders of the transferor company.

Computation of Purchase Consideration:

		₹
(a) Preference Shares:		
20,000 Preference shares in Som Ltd. @ ₹ 70 per share	14,00,000	
(b) Cash		1,00,000
(c) Equity shares: 56,000 equity shares in Som Ltd. @ ₹ 110 per share		<u>61,60,000</u>
		<u>76,60,000</u>

2.

Realisation Account

		₹			₹
To Plant and machinery	30,000	By Provision for doubtful debts		400	
To Fixtures and fittings	2,000	By Loan on hypothecation of stock (W.N.3)		3,000	
To Stock	10,400	By Creditors (W.N.2)		500	
To Debtors	18,400	By Joint Life Policy A/c (W.N.4)		12,900	
To Patents and Trademarks (W.N.5)	5,500	By Bank			
To Bank	2,300	Plant and machinery	17,000		
		Fixtures and fittings	1,000		
		Stock	9,000		
		Debtors	16,500		
		Patents and Trademarks	<u>2,000</u>	45,500	
		By Partners' Capital Accounts			
		Read	2,800		
		Write	1,400		
		Add	<u>2,100</u>	<u>6,300</u>	
	<u>68,600</u>			<u>68,600</u>	

Bank Account

	₹		₹
To Balance b/d	8,000	By Add's Capital A/c- drawings	5,300
To Joint Life Policy	15,500	By Loan on hypothecation of stock	3,200
To Realisation A/c	45,500		
To Add's Capital A/c	5,400	By Creditors	12,800
		By Realisation A/c (expenses)	2,300
		By Read's Loan A/c	15,000
		By Read's Capital A/c	27,200
		By Write's Capital A/c	8,600
	74,400		74,400

Partners' Capital Accounts

	Read	Write	Add		Read	Write	Add
	₹	₹	₹		₹	₹	₹
To Bank			5,300	By Balance b/d	30,000	10,000	2,000
To Realisation A/c	2,800	1,400	2,100				
To Bank (Bal. Fig.)				By Bank A/c (bal.fig.)			5,400
	27,200	8,600					
	30,000	10,000	7,400		30,000	10,000	7,400

Working Notes:

1. Read's Loan Account

	₹		₹
To Bank A/c	15,000	By Balance b/d	15,000
	15,000		15,000

2. Sundry Creditors Account

	₹		₹
To Patents and Trademarks A/c	4,500	By Balance b/d	17,800
To Realisation A/c	500		
To Bank A/c	12,800		
	17,800		17,800

3. Loan on Hypothecation of Stock Account

	₹		₹
To Realisation A/c	3,000	By Balance b/d	6,200
To Bank A/c	<u>3,200</u>		<u> </u>
	<u>6,200</u>		<u>6,200</u>

4. Joint Life Policy Account

	₹		₹
To Balance b/d	15,000	By Joint Life Policy Reserve A/c	12,400

To Realisation A/c	12,900	By Bank A/c (10,200 + 5,300)	15,500
	<u>27,900</u>		<u>27,900</u>

5. **Patents and Trademarks Account**

	₹		₹
To Balance b/d	10,000	By Creditors A/c	4,500
		By Realization A/c	1,500
		By Realization A/c (bal.fig.)	<u>4,000</u>
	<u>10,000</u>		<u>10,000</u>

3. (a) **Books of A Limited
Realization Account**

	₹		₹
To Building	3,40,000	By Trade payables	3,20,000
To Machinery	6,40,000	By B Ltd.	12,10,000
To Inventory	2,20,000	By Equity Shareholders (Loss)	76,000
To Trade receivables	2,60,000		
To Patent	1,30,000		
To Bank (Exp.)	<u>16,000</u>		
	<u>16,06,000</u>		<u>16,06,000</u>

Bank Account

To Balance b/d	1,36,000	By Realization (Exp.)	16,000
To B Ltd.	6,00,000	By 10% Debentures	4,00,000
		By Loans	1,60,000
		By Equity shareholders	<u>1,60,000</u>
	<u>7,36,000</u>		<u>7,36,000</u>

B Ltd. Account

To Realisation A/c	12,10,000	By Bank	6,00,000
		By Equity share in B Ltd. (4,880 shares at ₹ 125 each)	<u>6,10,000</u>
	<u>12,10,000</u>		<u>12,10,000</u>

Equity Share Holders Account

To Realization Account	76,000	By Equity share capital	8,00,000
To Profit & Loss A/c (Dr.)	34,000	By General reserve	80,000
To Equity shares in B Ltd.	6,10,000		
To Bank	<u>1,60,000</u>		
	<u>8,80,000</u>		<u>8,80,000</u>

Balance Sheet of B Ltd. as at 1st April, 2021 (An extract)¹

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	4,88,000
b	Reserves and Surplus	2	1,07,000
2	Current liabilities		
a	Trade Payables	3	2,80,000
b	Short term Borrowings (Bank overdraft)		6,00,000
	Total		<u>14,75,000</u>
	Assets		
1	Non-current assets		
	Property, Plant and Equipment	4	8,82,000
	Intangible assets	5	2,16,000
2	Current assets		
a	Inventories	6	1,83,000
b	Trade receivables	7	1,94,000
	Total		<u>14,75,000</u>

Notes to Accounts

			₹
1	Share Capital		
	Equity share capital		
	4,880 Equity shares of ₹ 100 each (Shares have been issued for consideration other than cash)		<u>4,88,000</u>
	Total		<u>4,88,000</u>
2	Reserves and Surplus (an extract)		
	Securities Premium		1,22,000
	Profit and loss account	
	Less: Unrealized profit	<u>(15,000)</u>	<u>(15,000)</u>
	Total		<u>1,07,000</u>
3	Trade payables		
	Opening balance	3,20,000	
	Less: Inter-company transaction cancelled upon amalgamation	<u>(40,000)</u>	<u>2,80,000</u>
4	Property, Plant and Equipment		
	Buildings		3,06,000
	Machinery		5,76,000
	Total		<u>8,82,000</u>
5	Intangible assets		
	Goodwill		2,16,000

¹ In the absence of the particulars of assets and liabilities (other than those of A Ltd.), the complete Balance Sheet of B Ltd. after takeover cannot be prepared.

6 Inventories		
Opening balance	1,98,000	
Less: Cancellation of profit upon amalgamation	(15,000)	1,83,000
7 Trade receivables		
Opening balance	2,34,000	
Less: Intercompany transaction cancelled upon amalgamation	<u>(40,000)</u>	1,94,000

Working Notes:

1. Valuation of Goodwill	₹
Average profit	1,24,400
Less: 8% of ₹ 8,80,000	<u>(70,400)</u>
Super profit	<u>54,000</u>
Value of Goodwill = 54,000 x 4	<u>2,16,000</u>
2. Net Assets for purchase consideration	
Goodwill as valued in W.N.1	2,16,000
Building	3,06,000
Machinery	5,76,000
Inventory	1,98,000
Trade receivables	<u>2,34,000</u>
Total Assets	15,30,000
Less: Trade payables	<u>(3,20,000)</u>
Net Assets	<u>12,10,000</u>

Out of this ₹ 6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) ₹ 6,10,000 in shares of ₹ 125. Thus, the number of shares to be allotted $6,10,000/125 = 4,880$ shares.

3. Unrealized Profit on Inventory	₹
The Inventory of A Ltd. includes goods worth ₹ 1,00,000 which was sold by B Ltd. on profit. Unrealized profit on this Inventory will be $\frac{40,000}{1,60,000} \times 1,00,000$	25,000
As B Ltd. purchased assets of A Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of ₹ 1,00,000.	<u>(10,000)</u>
Amount of unrealized profit	<u>15,000</u>

(b) Calculation of Total Remuneration payable to Liquidator

		Amount in ₹
2% on Assets realized	25,00,000 x 2%	50,000
3% on payment made to Preferential creditors	75,000 x 3%	2,250
3% on payment made to Unsecured creditors (Refer W.N)		<u>39,255</u>
Total Remuneration payable to Liquidator		<u>91,505</u>

Working Note:

Liquidator's remuneration on payment to unsecured creditors = Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors, preferential creditors & liquidator's remuneration

$$= ₹ 25,00,000 - ₹ 25,000 - ₹ 10,00,000 - ₹ 75,000 - ₹ 50,000 - ₹ 2,250 = ₹ 13,47,750.$$

Liquidator's remuneration on payment to unsecured creditors = $\frac{3}{103} \times ₹ 13,47,750 = ₹ 39,255$

4. (a) Debt Equity Ratio Test

	Particulars	₹
(a)	Loan funds	42,00,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (₹ in crores)	21,00,000
(c)	Present equity shareholders fund (₹ in crores)	72,80,000
(d)	Future equity shareholder fund (₹ in crores) (See Note 2)	59,85,000
		(72,80,000-12,95,000)
(e)	Maximum permitted buy back of Equity (₹ in crores) [(d) – (b)] (See Note 2)	38,85,000 (by simultaneous equation)
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	1,29,500 (by simultaneous equation)

Working Note:

1. Shareholders' funds

Particulars	₹
Paid up capital	30,00,000
Free reserves (32,50,000 +6,00,000+4,30,000)	<u>42,80,000</u>
	<u>72,80,000</u>

2. As per section 68 of the Companies Act, 2013, 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'.

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

$$(72,80,000 - x) - 21,00,000 = y \quad (1)$$

$$\text{Since } 51,80,000 - x = y$$

$$\text{Equation 2: } \left(\frac{\text{Maximum buy - back}}{\text{Offer price for buy - back}} \times \text{Nominal Value} \right)$$

= Nominal value of the shares bought –back to be transferred to CRR

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

$$3x = y \quad (2)$$

$$x = ₹ 12,95,000 \text{ crores and } y = ₹ 38,85,000 \text{ crores}$$

(b) Calculation of provision required on advances as on 31st March, 2022:

	Amount ₹ in lakhs	Percentage of provision	Provision ₹ in lakhs
Standard assets	13,400	.40	53.60
Sub-standard assets	670	10	670
Secured portions of doubtful debts			
–up to one year	160	20	32
–one year to three years	45	30	13.5
–more than three years	20	50	10
Unsecured portions of doubtful debts	48	100	48
Loss assets	24	100	24
			<u>851.10</u>

5. Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2022

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	13,40,000
(b) Reserves and Surplus	2	8,27,040
(2) Minority Interest		1,15,560
(3) Non-Current Liabilities		
(a) 12% Debentures		1,00,000
(4) Current Liabilities		
(a) Trade Payables	3	3,84,800
(b) Short term Borrowings (Bank overdraft)		1,00,000
Total		28,67,400
II. Assets		
(1) Non-current assets		
(a)		
(i) Property, Plant and Equipment	4	14,34,600
(ii) Intangible assets	5	28,800
(2) Current assets		
(a) Inventory (6,00,000+2,00,000)		8,00,000
(b) Trade Receivables	6	5,08,000
(c) Cash and Cash equivalents		96,000
Total		28,67,400

Notes to Accounts

		₹	
1.	Share Capital		
	Equity share capital		13,40,000
	1,34,000 shares of ₹ 10 each fully paid up		
2.	Reserves and Surplus		
	Reserves	4,80,000	
	Add: 4/5th share of S Ltd.'s post-acquisition reserves (W.N.3)	<u>96,000</u>	5,76,000
	Profit and Loss Account	2,40,000	
	Add: 4/5th share of S Ltd.'s post-acquisition profits (W.N.4)	<u>11,040</u>	<u>2,51,040</u>
			<u>8,27,040</u>
3.	Trade Payables		
	Creditors		
	H Ltd.	2,00,000	
	S Ltd.	<u>1,22,000</u>	3,22,000
	Bills Payables		
	H Ltd.	60,000	
	S Ltd.	<u>14,800</u>	<u>74,800</u>
			3,96,800
	Less: Mutual Owings	<u>(12,000)</u>	3,84,800
4.	Property Plant and Equipment		
	Machinery		
	H. Ltd.		7,20,000
	S Ltd.	2,40,000	
	Add: Appreciation	<u>1,20,000</u>	
		3,60,000	
	Less: Depreciation (3,60,000 X 10%)	<u>(36,000)</u>	3,24,000
	Furniture		
	H. Ltd.		3,60,000
	S Ltd.	48,000	
	Less: Decrease in value	<u>(12,000)</u>	
		36,000	
	Less: Depreciation (36,000 X 15%)	<u>5,400</u>	<u>30,600</u>
			14,34,600
5.	Intangible assets		
	Goodwill [WN 6]		28,800
6.	Trade receivables		
	Debtors		
	H Ltd.	3,00,000	
	S Ltd.	<u>90,000</u>	3,90,000
	Bills Receivables		
	H Ltd.	1,00,000	

S Ltd.	<u>30,000</u>	<u>1,30,000</u>	
Less: Mutual Owings		<u>5,20,000</u>	<u>5,08,000</u>

Working Notes:

1. Pre-acquisition profits and reserves of S Ltd.	₹
Reserves	60,000
Profit and Loss Account	<u>36,000</u>
	<u>96,000</u>
H Ltd.'s = 4/5 (or 80%) × 96,000	76,800
Minority Interest = 1/5 (or 20%) × 96,000	19,200
2. Profit on revaluation of assets of S Ltd.	
Profit on Machinery ₹ (3,60,000 – 2,40,000)	1,20,000
Less: Loss on Furniture ₹(48,000 – 36,000)	<u>(12,000)</u>
Net Profit on revaluation	<u>1,08,000</u>
H Ltd.'s share 4/5 × 1,08,000	86,400
Minority Interest 1/5 × 1,08,000	21,600
3. Post-acquisition reserves of S Ltd.	
Total reserves	1,80,000
Less: Pre- acquisition reserves	<u>(60,000)</u>
Post-acquisition reserves	<u>1,20,000</u>
H Ltd.'s share 4/5 × 1,20,000	96,000
Minority interest 1/5 × 1,20,000	24,000
4. Post -acquisition profits of S Ltd.	
Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = ₹ 60,000 – 36,000)	24,000
Add: Excess depreciation charged on furniture @ 15% on ₹ 12,000 i.e. (48,000 – 36,000)	<u>1,800</u>
	25,800
Less: Under depreciation on machinery @ 10% on ₹ 1,20,000 i.e. (3,60,000 – 2,40,000)	<u>(12,000)</u>
Adjusted post-acquisition profits	<u>13,800</u>
H Ltd.'s share 4/5 × 13,800	11,040
Minority Interest 1/5 × 13,800	2,760
5. Minority Interest	
Paid-up value of (24,000 – 19,200) = 4,800 shares held by outsiders i.e. 2,40,000 X 20%	48,000
Add: 1/5th share of pre-acquisition profits and reserves	19,200
1/5th share of profit on revaluation	21,600
1/5th share of post-acquisition reserves	24,000
1/5th share of post-acquisition profit	<u>2,760</u>
	<u>1,15,560</u>

6. Cost of Control or Goodwill		
Price paid by H Ltd. for 19,200 shares (A)		3,84,000
Less: Intrinsic value of the shares		
Paid-up value of shares held by H Ltd. i.e. 2,40,000 X 80%		1,92,000
Add: 4/5th share of pre-acquisition profits and reserves		76,800
4/5th share of profit on the revaluation		<u>86,400</u>
Intrinsic value of shares on the date of acquisition (B)		<u>3,55,200</u>
Cost of control or Goodwill (A – B)		28,800

6. (a) (i) As per AS 29, an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not.

Liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

In the given case, there are 75% chances that the penalty may not be levied. Accordingly, Saharsh Ltd. should not make the provision for penalty.

However, a provision should be made for remaining 50% fees of the lawyer in the financial statements of financial year 2021-22.

- (ii) Loss due to accident ₹ 30,00,000
Insurance claim receivable by company = ₹ 30,00,000 x 90% = ₹ 27,00,000
Loss to be recognised in the books for 2021-22 ₹ 3,00,000
Insurance claim receivable to be recorded in the books ₹ 27,00,000
Compensation claim by dealer against company to be provided for in the books
= ₹ 30,00,000 x 15% = ₹ 4,50,000

- (b) Basic Earnings per share (EPS) =

$$\frac{\text{Net profit attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$$

$$= \frac{21,96,000}{4,57,500 \text{ Shares (as per working note)}} = ₹ 4.80 \text{ per share}$$

Working Note:

Calculation of weighted average number of equity shares

As per AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period. Assuming that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows:

Date	No. of equity shares	Amount paid per share	Weighted average no. of equity shares
	₹	₹	₹
1.4.2021	6,00,000	5	6,00,000 x 5/10 x 5/12 = 1,25,000
1.9.2021	5,40,000	10	5,40,000 x 7/12 = 3,15,000
1.9.2021	60,000	5	60,000 x 5/10 x 7/12 = <u>17,500</u>
Total weighted average equity shares			<u>4,57,500</u>

OR

As per para 59 of AS 26, subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense. However, if the subsequent expenditure enables the asset to generate future economic benefits in excess of its originally assessed standard of performance or can be measured and attributed to the asset reliably, then such subsequent expenditure should be added to the cost of the intangible asset.

The legal costs incurred for both the trademarks do not enable them to generate future economic benefits in excess of its originally assessed standard of performance. They only ensure to maintain them if the case is decided in favour of the company. Therefore, such legal costs must be recognised as an expense.

(c)

	Case 1	Case 2
	₹	₹
Sanctioned limit	60,00,000	45,00,000
Drawing power	56,00,000	42,00,000
Amount outstanding continuously from 1.01.2022 to 31.03.2022	48,00,000	30,00,000
Total interest debited	3,84,000	2,40,000
Total credits	-	320,000
Is credit in the account is sufficient to cover the interest debited during the period or amount is not 'overdue' for a continuous period of 90 days.	No	Yes
	NPA	NOT NPA

(d)

Journal Entries in the books of Raja Ltd.

			₹	₹
1.10.21 to 31.3.22	Bank A/c	Dr.	1,20,000	
	Employee compensation expense A/c	Dr.	2,16,000	
	To Equity share capital A/c			24,000
	To Securities premium A/c			3,12,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.22	Profit and Loss A/c	Dr.	2,16,000	
	To Employee compensation expense A/c			2,16,000
	(Being transfer of employee compensation expenses to Profit and Loss Account)			

No entry is passed when stock options are granted to employees. Hence, no entry will be passed on 1st August, 2021.

Working Note:

Market Price = ₹ 140 per share and stock option price = 50, Hence, the difference $140 - 50 = ₹ 90$ per share is equivalent to employee cost or employee compensation expense and will be charged to P&L Account as such for the number of options exercised i.e. 2,400 shares. Hence, Employee compensation expenses will be $2,400 \text{ shares} \times ₹ 90 = ₹ 2,16,000$