

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

*Question No. 1 is compulsory.*

*Answer any **four** questions from the remaining **five** questions.*

*Wherever necessary, suitable assumptions may be made and disclosed by way of a note.*

*Working Notes should form part of the answer.*

**Time Allowed: 3 Hours**

**Maximum Marks: 100**

1. (a) Sun Limited leased a machine to Moon Limited on the following terms:

	(Amount in ₹)
Fair value at inception of lease	50,00,000
Lease Term	4 Years
Lease Rental per annum	16,00,000
Guaranteed residual value	3,00,000
Expected residual value	4,50,000
Implicit Interest rate	15%

Discounted rates for 1<sup>st</sup> year, 2<sup>nd</sup> year, 3<sup>rd</sup> year and 4<sup>th</sup> year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively.

Calculate the value of Lease Liability and ascertain Unearned Finance Income as per AS-19.

- (b)
- |   |                  |
|---|------------------|
| Net Profit for FY 2020-21                       | 30,00,000        |
| Net Profit for FY 2021-22                       | 50,00,000        |
| No. of shares outstanding prior to rights issue | 20,00,000 shares |
| Rights Issue Price                              | ₹ 20             |
| Last day to exercise rights                     | 1st June, 2021   |

Right issue is one new share for each five equity shares outstanding (i.e. 4,00,000 new shares)

Fair value of one equity share immediately prior to exercise of rights on 1st June, 2021 was ₹ 26.00.

Compute Basic Earnings Per Share for FY 2020-21, FY 2021-2022 and restated EPS for FY 2020-21.

- (c) State with reasons, how the following events would be dealt with in the financial statements of Hari Ltd. for the year ended 31<sup>st</sup> March, 2022 (accounts were approved on 25<sup>th</sup> July, 2022):
- (1) Negotiations with another company for acquisition of its business was started on 21<sup>st</sup> January, 2022. Hari Ltd. invested ₹ 40 lakh on 22<sup>nd</sup> April, 2022.
  - (2) The company made a provision for bad debts @ 4% of its total debtors (as per trend followed from the previous years). In the second week of March 2022, a debtor for ₹ 2,50,000 had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In May, 2022 the debtor became bankrupt.
  - (3) During the year 2021-22, Hari Ltd. was sued by a competitor for ₹ 13 lakhs for infringement of a trademark. Based on the advice of the company's legal counsel, Hari Ltd. provided for a

sum of ₹ 8 lakhs in its financial statements for the year ended 31<sup>st</sup> March, 2022. On 26<sup>th</sup> May, 2022, the Court decided in favour of the party alleging infringement of the trademark and ordered Hari Ltd. to pay the aggrieved party a sum of ₹ 12 lakhs.

- (4) Cashier of Hari Ltd. embezzled cash amounting to ₹ 3,00,000 during March, 2022. However the same comes to the notice of Company management during August, 2022.
  - (5) Cheques dated 31<sup>st</sup> March, 2022 collected in the month of April, 2022. All cheques are presented to the bank in the month of April, 2022 and are also realized in the same month in the normal course after deposit in the bank.
- (d) Honey Ltd. is in the process of developing a new production method. During the financial year ended 31<sup>st</sup> March, 2021, total expenditure incurred on development of this production method was ₹ 98,00,000. On 1<sup>st</sup> Jan, 2021, the production method met the criteria as an intangible asset and expenditure incurred till this date was ₹ 68,00,000. Further expenditure incurred on the new method was ₹ 72,00,000 for the year ended 31<sup>st</sup> March, 2022 and recoverable amount of the know how embodied in the new method for this financial year is ₹ 52,00,000.

You are required to calculate:

- (1) The carrying amount of the Intangible asset on 31<sup>st</sup> March, 2021.
- (2) The expenditure to be shown in Statement of Profit and Loss for the year ended 31<sup>st</sup> March, 2022.
- (3) The carrying amount of the Intangible asset on 31<sup>st</sup> March, 2022.

**(4 Parts x 5 Marks = 20 Marks)**

2. (a) Black Limited and White Limited have been carrying their business independently from 01/04/2022. Because of synergy in business, they amalgamated on and from 1<sup>st</sup> April, 2022 and formed a new company Grey Limited to take over the business of Black Limited and White Limited. The information of Black Limited and White Limited as on 31<sup>st</sup> March, 2022 are as follows:

	Black Ltd. (₹)	White Ltd. (₹)
Share Capital:		
Equity share of ₹ 10 each	15,00,000	14,50,000
10% Preference shares of ₹ 100 each	2,00,000	1,40,000
Revaluation Reserve	1,00,000	2,00,000
General Reserve	1,65,000	85,000
Profit & Loss Account:		
Opening balance (Credit balance)	1,50,000	1,20,000
Profit for the Year	2,00,000	1,30,000
15% Debentures of ₹ 100 each (Secured)	4,00,000	5,00,000
Trade payables	3,10,000	1,20,000
Land and Buildings	3,20,000	7,40,000
Plant and Machinery	18,00,000	14,00,000
Investments	1,00,000	60,000
Inventory	2,20,000	1,50,000
Trade Receivables	4,25,000	2,65,000
Cash at Bank	1,60,000	1,30,000

Additional Information:

- (i) The authorized capital of the new company will be ₹ 54,00,000 divided into 2,00,000 equity shares of ₹ 25 each, and 4,000 preference shares of ₹ 100 each.
- (ii) Trade payables of Black Limited includes ₹ 15,000 due to White Limited and trade receivables of White Limited shows ₹ 15,000 receivable from Black Limited.
- (iii) Land & Buildings and inventory of Black Limited and White Limited are to be revalued as under:

	Black Ltd. (₹)	White Ltd. (₹)
Land and Buildings	5,20,000	10,40,000
Inventory	1,80,000	1,25,000

- (iv) The purchase consideration is to be discharged as under:
  - (a) Issue 1,80,000 equity shares of ₹ 25 each fully paid up in proportion of their profitability in the preceding two financial years.
  - (b) Preference shareholders of two companies are issued equivalent number of 12% preference shares of Grey Limited at a price of ₹ 120 per share (face value ₹ 100).
  - (c) 15% Debenture holders of Black Limited and White Limited are discharged by Grey Limited issuing such number of its 18% Debentures of ₹ 100 each so as to maintain the same amount of interest.

You are required to prepare the Balance Sheet of Grey Limited after amalgamation. The amalgamation took place in the nature of purchase.

- (b) The following scheme of reconstruction has been approved for Shine Limited:
  - (i) The shareholders to receive in lieu of their present holding at 2,00,000 shares of ₹ 10 each, the following:
    - (a) New fully paid ₹ 10 Equity shares equal to  $\frac{3}{5}$ th of their holding.
    - (b) 10% Preference shares fully paid to the extent of  $\frac{1}{5}$ th of the above new equity shares.
    - (c) ₹ 80,000, 8% Debentures.
  - (ii) An issue of ₹ 2 lakh 10% first debentures was made and allotted, payment for the same being received in cash forthwith.
  - (iii) Goodwill which stood at ₹ 2,80,000 was completely written off.
  - (iv) Plant and machinery which stood at ₹ 4,00,000 was written down to ₹ 3,00,000.
  - (v) Freehold property which stood at ₹ 3,00,000 was written down by ₹ 1,00,000.

You are required to draw up the necessary Journal entries in the Books of Shine Limited for the above reconstruction. Suitable narrations to Journal entries should form part of your answer.

**(15 + 5 = 20 Marks)**

- 3. (a) A & B are partners in AB & Co. sharing Profit/Loss in the ratio of 3:2 and B & C are partners in BC & Co. sharing Profit/Loss in the ratio of 2: 1 carrying on same type of business. On 1<sup>st</sup> April, 2022, A, B & C decide to form a new Partnership Firm ABC & Co. by amalgamating AB & Co. and BC & Co. A, B & C will share Profit/Loss in the ratio of 3:2:1 in ABC & Co.

Their Balance Sheets on 1<sup>st</sup> April, 2022 were as under:

Liabilities	AB & Co. (₹)	BC & Co. (₹)	Assets	AB & Co. (₹)	BC & Co. (₹)
Capital			Building	20,000	10,000
A	66,000	-	Plant & Machinery	21,000	29,000
B	67,000	50,000	Vehicles	15,000	5,000
C	-	48,000	Furniture	4,000	7,500
Reserves	10,000	5,000	Stock	50,500	19,500
Sundry Creditors			Sundry Debtors		
- Others	41,000	38,000	- Others	43,500	37,000
- BC & Co.	15,000	-	- AB & Co.	-	15,000
- XYZ & Co.	-	9,000	- XYZ & Co.	25,000	-
			Cash at Bank	15,000	18,000
			Cash in Hand	5,000	9,000
	<u>1,99,000</u>	<u>1,50,000</u>		<u>1,99,000</u>	<u>1,50,000</u>

Following are the terms for the amalgamation:

- Goodwill will be valued at ₹ 25,000 for AB & Co. and ₹ 18,000 for BC & Co. But same will not appear in the books of the new firm.
- Building was taken over as follows:
  - Building of AB & Co. was valued with upward revision of ₹ 10,000
  - Building of BC & Co. valued at ₹ 16,000.
- Plant & Machinery to be taken over with downward valuation by ₹ 2,000 of AB & Co. and with new value of ₹ 32,000 of BC & Co.
- Value of vehicles to be taken over was reduced by ₹ 5,000 of AB & Co. and reduced to ₹ 2,000 of BC & Co.
- Excess/Deficit Capitals for partners taking A's Capital as base with reference to share in profits are to be transferred to Current Accounts.

You are required to prepare Balance Sheet of the new firm and Capital Accounts of the partners in the books of old firm.

- While closing its books of account on 31<sup>st</sup> March, 2022 a Non-Banking Finance Company has its advances classified as follows:

	₹ in lakhs
Standard assets	53,600
Sub-standard assets	2,680
Secured portions of doubtful debts:	
– Up to one year	640
– one year to three years	180
– more than three years	60
Unsecured portions of doubtful debts	194
Loss assets	96

Calculate the amount of provision, which must be made against the Advances as per the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016. (16 + 4 = 20 Marks)

4. (a) Consider the following information of subsidiary MNT Ltd.

	2020-21	2021-22
	Amount in ₹	Amount in ₹
<b>Share Capital</b>		
Issued and subscribed 7500 Equity Shares of ₹ 100 each	7,50,000	7,50,000
<b>Reserve and Surplus</b>		
Revenue Reserve	2,14,000	5,05,000
Securities Premium	72,000	2,07,000
<b>Current Liabilities and Provisions</b>		
Trade Payables	2,90,000	2,46,000
Bank Overdraft	-	1,70,000
Provision for Taxation	2,62,000	4,30,000
<b>Non-current assets</b>		
Property, Plant and equipment (Cost)	9,20,000	9,20,000
Less: Accumulated Depreciation	<u>(1,70,000)</u>	<u>(2,82,500)</u>
	<u>7,50,000</u>	<u>6,37,500</u>
<b>Investment at Cost</b>	-	5,30,000
<b>Current Assets</b>		
Inventory	4,12,300	6,90,000
Trade Receivable	2,95,000	3,43,000
Prepaid expenses	78,000	65,000
Cash at Bank	52,700	42,500

Other Information:

- (1) MNT Ltd. is a subsidiary of LTC Ltd.
- (2) LTC Ltd. values inventory on FIFO basis, while MNT Ltd. used LIFO basis. To bring MNT Ltd.'s inventories values in line with those of LTC Ltd., its value of inventory is required to be reduced by ₹ 5,000 at the end of 2020-21 and increased by ₹ 12,000 at the end of 2021-22. (Inventory of 2020-21 has been sold out during the year 2021-22)
- (3) MNT Ltd. deducts 2% from Trade Receivables as a general provision against doubtful debts.
- (4) Prepaid expenses in MNT Ltd. include Sales Promotion expenditure carried forward of ₹ 25,000 in 2020-21 and ₹ 12,500 in 2021-22 being part of initial Sales Promotion expenditure of ₹ 37,500 in 2020-21, which is being written off over three years. Similar nature of Sales Promotion expenditure of LTC Ltd. has been fully written off in 2020-21.

Restate the balance sheet of MNT Ltd. as on 31<sup>st</sup> March, 2022 after considering the above information for the purpose of consolidation. Such restatement is necessary to make the accounting policies adopted by LTC Ltd. and MNT Ltd. uniform.

- (b) From the following data, determine Minority Interest on the date of acquisition and on the date of consolidation in each case:

Case	Subsidiary Company	% of Share Owned	Cost	Date of Acquisition		Consolidation date	
				Share Capital	Profit and Loss A/c	Share Capital	Profit and Loss A/c
				01-01-2021		31-12-2021	
				₹	₹	₹	₹
Case-i	X	85%	1,85,000	1,35,000	60,000	1,35,000	70,000
Case-ii	Y	70%	1,60,000	1,25,000	45,000	1,25,000	5,000
Case-iii	Z	65%	83,000	25,000	5,000	25,000	5,000
Case-iv	M	90%	60,000	45,000	20,000	45,000	40,000
Case-v	N	100%	85,000	25,000	25,000	25,000	50,000

- (c) Under what circumstances, an LLP can be wound up by the Tribunal. **(10+5 + 5 =20 Marks)**
5. (a) BT Ltd. went into Voluntary Liquidation on 31<sup>st</sup> March, 2022. It gives the following information as on 31<sup>st</sup> March, 2022:

	₹
Issued & Subscribed Capital:	
10,000 12% cumulative preference shares of ₹ 100 each, fully paid	10,00,000
10,000 Equity Shares of ₹ 100 each 75 per share paid up	7,50,000
20,000 Equity Shares of ₹ 100 each 60 per share paid up	12,00,000
Profit & Loss Account (Dr. balance)	5,25,000
12% Debentures (Secured by a floating charge)	10,00,000
Interest outstanding on Debentures	1,20,000
Creditors	8,50,000
Land & Building	17,60,000
Plant & Machinery	12,50,000
Furniture	4,75,000
Patents	1,45,000
Stock	1,80,000
Trade Receivables	5,09,300
Cash at Bank	75,700

Preference dividends were in arrear for 1 year. Creditors include preferential creditors of ₹ 75,000. Balance creditors are discharged subject to 5% discount.

Assets are realised as under:

	₹
Land & Building	24,50,000
Plant & Machinery	9,00,000

Furniture	2,85,000
Patents	90,000
Stock	2,80,000
Trade Receivables	3,15,000

Expenses of liquidation amounted to ₹ 45,000. The liquidator is entitled to a remuneration of 3% on all assets realised (except cash at bank). All payments were made on 30<sup>th</sup> June, 2022.

You are required to prepare the Liquidator's Final Statement of Account as on 30<sup>th</sup> June, 2022. Working Notes should form part of the answer.

(b) Astha Bank has the following Capital Funds and Assets as at 31<sup>st</sup> March, 2022:

	₹ in crores
<b>Capital Funds:</b>	
Equity Share Capital	600.00
Statutory Reserve	470.00
Profit and Loss Account (Dr. Balance)	30.00
Capital Reserve (out of which ₹ 25 crores were due to revaluation of assets and balance due to sale of assets)	130.00
<b>Assets:</b>	
Balance with other banks	15.00
Cash balance with RBI	35.50
Claim on Banks	52.50
Other Investments	70.00
<b>Loans and Advances:</b>	
(i) Guaranteed by government	22.50
(ii) Guaranteed by DICGC/ECGC	110.00
(iii) Other	9,365.00
Premises, furniture and fixtures	92.50
Leased assets	40.00
<b>Off-Balance Sheet items:</b>	
(i) Acceptances, endorsements and letters of credit	1,100.00
(ii) Guarantees and other obligations	6,200.00

You are required to:

- Segregate the capital funds into Tier I and Tier II capitals.
- Find out the risk-adjusted assets and risk weighted assets ratio. **(10 + 10 = 20 Marks)**

6. Answer any **four** of the following:

- "The company has not made provision for warrantee in respect of certain goods considering that the company can claim the warranty cost from the original supplier".

You are required to comment in line with the provisions of AS 29.

- (b) From the following information of Royal Bank, compute the amount of provisions to be made in the Profit and Loss account.

Assets	₹ (In Lakhs)
Standard Assets	25,000
Sub-Standard Assets (including Unsecured ₹ 8,000 lakhs)	15,000
Doubtful Assets	
a. Upto 1 year [Realisable value of Security ₹ 2,200]	4,500
b. 1 to 3 years [Realisable value of Security ₹ 1,200]	3,200
c. More than 3 years (no Security)	1,300
Loss Assets	530

- (c) On 1<sup>st</sup> December, 2019, Mahindra Construction Co. Ltd. undertook a contract to construct a building for ₹ 170 lakhs. On 31<sup>st</sup> March, 2020, the company found that it had already spent ₹ 1,29,98,000 on the construction. Prudent estimate of additional cost for completion was ₹ 64,02,000. Calculate total estimated loss on contract and what should be shown in statement of profit and loss account as contract revenue and contract cost in the final accounts for the year ended 31<sup>st</sup> March, 2020, as per provision of Accounting Standard 7 (Revised).

- (d) At the beginning of year 1, an enterprise grants 10,000 stock options to a senior executive, conditional upon the executive remaining in the employment of the enterprise until the end of year 3. The exercise price is ₹ 40. However, the exercise price drops to ₹ 30 if the earnings of the enterprise increase by at-least an average of 10 per cent per year over the three-year period.

On the grant date, the enterprise estimates that the fair value of the stock options, with an exercise price of ₹ 30, is ₹ 16 per option. If the exercise price is ₹ 40, the enterprise estimates that the stock options have a fair value of ₹ 12 per option.

During year 1, the earnings of the enterprise increased by 12 per cent, and the enterprise expects that earnings will continue to increase at this rate over the next two years. The enterprise, therefore, expects that the earnings target will be achieved, and hence the stock options will have an exercise price of ₹ 30.

During year 2, the earnings of the enterprise increased by 13 per cent, and the enterprise continues to expect that the earnings target will be achieved.

During year 3, the earnings of the enterprise increased by only 3 per cent, and therefore the earnings target was not achieved. The executive completes three years' service, and therefore satisfies the service condition. Because the earnings target was not achieved, the 10,000 vested stock options have an exercise price of ₹ 40.

You are required to calculate the amount to be charged to Profit and Loss Account every year on account of compensation expenses.

- (e) Identify the related parties in the following cases as per AS-18:

Maya Ltd. holds 61% shares of Sheetal Ltd.

Sheetal Ltd. holds 51% shares of Fair Ltd.

Care Ltd. holds 49% shares of Fair Ltd.

Give your answer - Reporting Entity wise for Maya Ltd., Sheetal Ltd., Care Ltd. and Fair Ltd.

**(4 Parts x 5 Marks = 20 Marks)**