

MOCK TEST PAPER - 1
INTERMEDIATE (NEW): GROUP – II
PAPER – 5: ADVANCED ACCOUNTING
SUGGESTED ANSWERS/HINTS

1. (a) (i) Annual lease rent

Total lease rent

$$= 130\% \text{ of Rs. } 1,50,000 \times \frac{\text{Output during lease period}}{\text{Total output}}$$

$$= 130\% \text{ of Rs. } 1,50,000 \times (40,000 + 50,000 + 60,000) / (40,000 + 50,000 + 60,000 + 80,000 + 70,000)$$

$$= 1,95,000 \times 1,50,000 \text{ units} / 3,00,000 \text{ units} = \text{Rs. } 97,500$$

$$\text{Annual lease rent} = \text{Rs. } 97,500 / 3 = \text{Rs. } 32,500$$

(ii) Lease rent Income to be recognized in each operating year

Total lease rent should be recognized as income in proportion of output during lease period, i.e. in the proportion of 40 : 50 : 60.

Hence income recognized in years 1, 2 and 3 will be as:

Year 1 Rs. 26,000,

Year 2 Rs. 32,500 and

Year 3 Rs. 39,000.

- (b)** As per AS 26, costs incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility/asset recognition criteria has been established for the product. Technological feasibility/asset recognition criteria have been established upon completion of detailed program design or working model.

In this case, Rs. 90,000 would be recorded as an expense (Rs. 50,000 for completion of detailed program design and Rs. 40,000 for coding and testing to establish technological feasibility/asset recognition criteria).

Cost incurred from the point of technological feasibility/asset recognition criteria until the time when products costs are incurred are capitalized as software cost (63,000 + 18,000 + 19,500) = Rs. 1,00,500. Packing cost Rs. 16,500 should be recognized as expenses and charged to Profit & Loss A/c.

- (c)** According to AS 4 on 'Contingencies and Events Occurring after the Balance Sheet Date', adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. However, adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. "Contingencies" used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur.
- (i) Fire has occurred after the balance sheet date and also the loss is not insured. Therefore, the event becomes material and the event is adjusting in nature.
- (ii) The contingency is restricted to conditions existing at the balance sheet date. However, in the given case, suit was filed against the company's advertisement by a party on 10th April for

amount of Rs. 20 lakhs. Therefore, it does not fit into the definition of a contingency and hence is a **non-adjusting event**.

(d) Computation of Basic Earnings Per Share (as per AS 20 Earnings Per Share)

	Year 2018-19 Rs.	Year 2019-20 Rs.
EPS for the year 2018-19 as originally reported		
= $\frac{\text{Net Profit of the year attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$		
= (Rs. 30,00,000 / 20,00,000 shares)	1.5	
EPS for the year 2018-19 restated for rights issue		
= [Rs. 30,00,000 / (20,00,000 shares × 1.04 (W.N. 2))]	1.44 (approx.)	
EPS for the year 2019-20 including effects of rights issue		
$\frac{\text{Rs. 50,00,000}}{(20,00,000 \text{ shares} \times 1.04 \times 2/12) + (24,00,000 \text{ shares} \times 10/12)}$		
Rs. 50,00,000/ 23,46,667 shares		2.13 (approx.)

Working Notes:

1. Computation of theoretical ex-rights fair value per share

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights} + \text{Total amount received from exercise}}{\text{Number of shares outstanding prior to exercise} + \text{Number of shares issued in the exercise}}$$

$$= \frac{(\text{Rs. } 26 \times 20,00,000 \text{ shares}) + (\text{Rs. } 20 \times 4,00,000 \text{ shares})}{20,00,000 \text{ shares} + 4,00,000 \text{ shares}}$$

$$= \frac{\text{Rs. } 6,00,00,000}{24,00,000 \text{ shares}} = \text{Rs. } 25$$

2. Computation of adjustment factor

$$= \frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex - rights value per share}} = \frac{\text{Rs. } 26}{\text{Rs. } 25 \text{ (Refer Working Note 1)}} = 1.04 \text{ (approx.)}$$

2.

Books of Robert Ltd.

Journal Entries

		(Rs. in Lacs)	(Rs. in Lacs)
Business Purchase A/c	Dr.	13,500	
To Liquidator of Diamond Ltd.			13,500
(Being business of Diamond Ltd. taken over for consideration settled as per agreement)			
Plant and Machinery	Dr.	7,500	
Furniture & Fittings	Dr.	2,550	
Inventory	Dr.	6,061.5	
Debtors	Dr.	1,530	

Cash at Bank	Dr.	913.5	
Bills Receivable	Dr.	120	
To Foreign Project Reserve			465
To General Reserve Rs. (4,800 - 4,500)			300
To Profit and Loss A/c Rs. (1,237.5 – 75*)			1,162.5
To Liability for 12% Debentures			1,500
To Creditors			694.5
To Provisions			1,053
To Business Purchase A/c			13,500
(Being assets & liabilities taken over from Diamond Ltd.)			
Liquidator of Diamond Ltd. A/c	Dr.	13,500	
To Equity Share Capital A/c			13,500
(Purchase consideration discharged in the form of equity shares)			
Profit & Loss A/c	Dr.	1.5	
To Bank A/c			1.5
(Liquidation expenses paid and charged to P & L A/c)			
Liability for 12% Debentures A/c	Dr.	1,500	
To 13% Debentures A/c			1500
(12% debentures discharged by issue of 13% debentures)			
Bills Payable A/c	Dr.	120	
To Bills Receivable A/c			120
(Cancellation of mutual owing on account of bills)			

Balance Sheet of Robert Ltd. as at 1st April, 2020 (after merger)

Particulars		Notes	Rs. (in lakhs)
Equity and Liabilities			
1	Shareholders' funds		
A	Share capital	1	36,000
B	Reserves and Surplus	2	24,981
2	Non-current liabilities		
A	Long-term borrowings	3	1,500
3	Current liabilities		
A	Trade Payables (1,800+694.5-120)		2,374.5
B	Short-term provisions (2,745+1,053)		3,798
	Total		68,653.5
Assets			
1	Non-current assets		
A	Property, Plant & Equipment	4	43,506
2	Current assets		

*Cost of issue of debentures adjusted against P & L A/c of Diamond Ltd.

A	Inventories (11,793+6,061.5)		17,854.5
B	Trade receivables (3,180+1,650-120)		4,710
C	Cash and cash equivalents (1,671+913.5-1.5)		2,583
	Total		68,653.5

Notes to Accounts

	Rs.
1. Share Capital	
Equity share capital	
Authorized, issued, subscribed and paid-up: 36 crores equity shares of Rs. 10 each (out of these shares, 13.5 crores shares have been issued for consideration other than cash)	<u>36,000</u>
2. Reserves and Surplus	
General Reserve	14,550
Securities Premium	4,500
Foreign Project Reserve	465
Profit and Loss Account Rs. (4,305 + 1,162.5-1.5)	<u>5,466</u>
Total	<u>24,981</u>
3. Long-term borrowings	
Secured	
13% Debentures	<u>1,500</u>
4. PPE	
Land & Buildings	9,000
Plant & Machinery	28,500
Furniture & Fittings	<u>6,006</u>
Total	43,506

Working Note:

Computation of purchase consideration

Purchase consideration was discharged in the form of three equity shares of *Robert Ltd.* for every two equity shares held in *Diamond Ltd.*

$$\text{Purchase consideration} = \text{Rs. } 9,000 \text{ lacs} \times \frac{3}{2} = \text{Rs. } 13,500 \text{ lacs}$$

3. (a)

Realization Account

	Rs.		Rs.
To Land and Building	90,000	By Provision for bad debts	4,000
To Plant and Machinery	30,000	By Loan from D	80,000
To Furniture	17,000	By Trade creditors	20,000
To Investments	10,000	By Bills payable	8,000
To Book debts	40,000	By Outstanding salary	5,000
To Stock	24,000	By R - Furniture taken over (9,000 x .9)	8,100

To	Bank (Realization expenses)	10,000	By	Bank A/c		
				Stock Realized	28,800	
To	P – Realization expenses	2,000		Land & Building	1,10,000	
				Debtors	<u>32,000</u>	1,70,800
To	Bank A/c -		By	P (Investment taken over)		8,500
	Bill payable	7,960				
	D's Loan	5,000				
	D's Loan	36,000				
	Creditors	12,000				
	Salary	5,000				
To	Profit trs/f to partners' capital Accounts					
	P 6,176					
	Q 6,176					
	R <u>3,088</u>					
		<u>15,440</u>				
		<u>3,04,400</u>				<u>3,04,400</u>

Bank Account

		Rs.			Rs.
To	Balance b/d	9,000	By	Realization A/c (payment of liabilities: 7,960+ 5,000 + 36,000 + 10,000 + 12,000 + 5,000)	75,960
To	Realization A/c (assets realized)	1,70,800	By	P	52,876
To	R	<u>8,412</u>	By	Q	<u>59,376</u>
		<u>1,88,212</u>			<u>1,88,212</u>

Partners' Capital Accounts

		P	Q	R		P	Q	R
		Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To	Balance b/d.			20,000	By	Balance b/d	40,000	40,000
To	Realization A/c	8,500			By	R's Loan		10,000
	(Investment taken over)				By	General Reserve	13,200	13,200
To	Realization A/c (Furniture taken over)			8,100	By	Realization A/c (expense)	2,000	
To	Bank A/c	52,876	59,376		By	Realization A/c (profit)	6,176	3,088
					By	Bank		<u>8,412</u>
		<u>61,376</u>	<u>59,376</u>	<u>28,100</u>		<u>61,376</u>	<u>59,376</u>	<u>28,100</u>

Working Notes:**1. Payment for Bills Payable**

Particulars	Amount (Rs.)
Bills Payable as per Balance Sheet	8,000.00
Less: Discount for early payment $\{8,000 \times 6\% \times (1/12)\}$	<u>40.00</u>
Amount Paid in Cash	<u>7,960.00</u>

2. Payment for D's Loan

Particulars	Amount (Rs.)
D's Loan as per Balance Sheet	<u>80,000.00</u>
50% of Loan adjusted as below:	
Plant & Machinery accepted at Book Value (Rs. 30,000) and Rs. 5,000 in cash.	5,000.00
Balance 50% of Loan adjusted as below:	
In cash after allowing discount of 10% i.e. Rs. 40,000 – Rs. 4,000 = Rs. 36,000.	36,000.00

3. Payment to Trade Creditors

Particulars	Amount (Rs.)
Trade Creditors as per Balance Sheet	20,000.00
Less: Furniture of Book Value Rs. 8,000 accepted at value Rs. 7,200	<u>7,200.00</u>
	12,800.00
Less: Discount @ 6.25%	<u>800.00</u>
Amount paid in Cash	<u>12,000.00</u>

4. Furniture taken over by R

Particulars	Amount (Rs.)
Furniture as per Balance Sheet	17,000.00
Less: Furniture of Book Value Rs. 8000 accepted by trade creditors	<u>8,000.00</u>
	9,000.00
Less: 10% of Book Value	<u>900.00</u>
Value of Furniture taken over by R	8,100.00

- (b) On the basis of the information, in respect of hire purchase and leased assets, additional provision shall be made as under:

(Rs. in crore)		
(a) Where hire charges are overdue upto 12 months	Nil	-
(b) Where hire charges are overdue for more than 12 months but upto 24 months	10% of the net book value 10% x 2,000	200

(c) Where hire charges are overdue for more than 24 months but upto 36 months	40 percent of the net book value 40% x 1,250	500
(d) Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70 percent of the net book value 70% x 600	420
(e) Where hire charges or lease rentals are overdue for more than 48 months	100% of net book value (100% x 100)	100
	Total	1,220

**4. (a) Consolidated Profit & Loss Account of A Ltd. and its subsidiary B Ltd.
for the year ended on 31st March, 2020**

Particulars	Note No.	Rs. in Lacs
I. Revenue from operations	1	<u>8,797</u>
II. Total revenue		<u>8,797</u>
III. Expenses		
Cost of Material purchased/consumed	3	1,770
Changes of Inventories of finished goods	2	(1,794)
Employee benefit expense	4	1,425
Finance cost	6	225
Depreciation and amortization expense	7	225
Other expenses	5	<u>802</u>
Total expenses		<u>2,653</u>
IV. Profit before Tax(II-III)		6,144
V. Tax Expenses	8	<u>2,100</u>
VI. Profit After Tax		<u>4,044</u>

Notes to Accounts

		Rs. in Lacs	Rs. in Lacs
1.	Revenue from Operations		
	Sales and other income		
	A Ltd.	7,500	
	B Ltd.	<u>1,500</u>	
		9,000	
	Less: Inter-company Sales	(180)	
	Consultancy fees received by A Ltd. from B Ltd.	(8)	
	Commission received by B Ltd. from A Ltd.	<u>(15)</u>	8,797
2.	Increase in Inventory		
	A Ltd.	1,500	
	B Ltd.	<u>300</u>	
		1,800	
	Less: Unrealized profits Rs. 180×1/6 x 25/125	<u>(6)</u>	<u>1,794</u>
3.	Cost of Material purchased/consumed		

	A Ltd.	1,200	
	B Ltd.	<u>300</u>	
		1,500	
	Less: Purchases by B Ltd. from A Ltd.	<u>(180)</u>	1,320
	Direct Expenses		
	A Ltd.	300	
	B Ltd.	<u>150</u>	<u>450</u>
			<u>1,770</u>
4.	Employee benefits and expenses		
	Wages and Salaries:		
	A Ltd.	1,200	
	B Ltd.	<u>225</u>	<u>1,425</u>
5.	Other Expenses		
	Administrative Expenses		
	A Ltd.	300	
	B Ltd.	<u>150</u>	
		450	
	Less: Consultancy fees received by A Ltd. from B Ltd.	<u>(8)</u>	442
	Selling and Distribution Expenses:		
	A Ltd.	300	
	B Ltd.	<u>75</u>	
		375	
	Less: Commission received from B Ltd. from A Ltd.	<u>(15)</u>	<u>360</u>
			<u>802</u>
6.	Finance Cost		
	Interest:		
	A Ltd.	150	
	B Ltd.	<u>75</u>	<u>225</u>
7.	Depreciation and Amortization		
	Depreciation:		
	A Ltd.	150	
	B Ltd.	<u>75</u>	<u>225</u>
8.	Provision for tax		
	A Ltd.	1800	
	B Ltd.	<u>300</u>	<u>2100</u>

(b) Under section 64 of the LLP Act, 2008, an LLP may be wound up by the Tribunal:

- If the LLP decides that it should be wound up by the Tribunal;
- If for a period of more than six months, the number of partners of the LLP is reduced below two;

- If the LLP is unable to pay its debts;
- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
- If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

5. (a)

BT Limited

Liquidator's Statement of Account

Receipts		Rs.	Payments		Rs.
To Assets realized:			By Liquidation expenses		45,000
Bank		75,700	By Preferential creditors		75,000
Other assets:			By Liquidator's Remuneration (W.N.1)		1,29,600
Land & building	24,50,000		By Debenture holders:		
Plant & Machinery	9,00,000		Debentures	10,00,000	
Furniture	2,85,000		Interest accrued	1,20,000	
Patents	90,000		Interest 1-4-19 to 30-6-19	<u>30,000</u>	11,50,000
Stock	2,80,000		By Unsecured creditors		7,36,250
Trade receivables	<u>3,15,000</u>	43,20,000	By Preferential shareholders		
			Preference capital	10,00,000	
			Arrear of Dividend	<u>1,20,000</u>	<u>11,20,000</u>
					32,55,850
			By Equity shareholders -		
			Rs. 32.995 on 20,000 shares		6,59,900
			Rs. 47.995 on 10,000 shares		<u>4,79,950</u>
		<u>43,95,700</u>			<u>43,95,700</u>

Working Notes:

- (1) Liquidator's remuneration $43,20,000 \times 3/100 = \text{Rs. } 1,29,600$
- (2) As the company is solvent, interest on the debentures will have to be paid for the period 1-4-2019 to 30-6-2019
 $10,00,000 \times 12\% \times 3/12 = \text{Rs. } 30,000$
- (3) Total equity capital - paid up (7,50,000 + 12,00,000) Rs. 19,50,000
Less: Balance available (43,95,700 — 32,55,850) Rs. (11,39,850)
Rs. 8,10,150
- Loss to be borne by 30,000 equity shares
- Loss per share Rs. 27.005
- Hence, Refund for share on Rs. 60 paid share (60 - 27.005) Rs. 32.995
- Refund for share on Rs. 75 paid (75 - 27.005) Rs. 47.995

(b)

Indus Bank Limited**Profit & Loss Account for the year ended 31st March, 2020**

	<i>Schedule</i>	<i>Rs. '000s</i>
I. Income		
Interest earned	13	8,971
Other income	14	2,419
Total		11,390
II. Expenditure		
Interest expended	15	4,120
Operating expenses	16	3,703
Provisions (Refer W.N.)		1,013.8
Total		8,836.8
III. Profit/Loss		2,553.20

Schedule 13 – Interest Earned

	<i>Rs. '000s</i>
Interest / discount on advances bills	
Interest on term loans [2,550- (731-238)]	2,057
Interest on cash credits and overdrafts (5,663-923)	4,740
Income on investments	2,174
	8,971
Note: Interest on non-performing assets is recognized on receipt basis.	

Schedule 14 – Other Income

	<i>Rs. '000s</i>
Commission, exchange and brokerage	201
Profit on sale of investments	1,876
Profit on revaluation of investments	342
	2,419

Schedule 15 – Interest Expended

	<i>Rs. '000s</i>
Interest on deposits	4120

Schedule 16 – Operating Expenses

	<i>Rs. '000s</i>
Payments to and provision for employees - salaries, bonus and allowances	2,745
Rent, taxes and lighting	385
Printing & stationery	62
Director's fee, allowances and expenses	313
Depreciation Charges	99
Repairs & maintenance	56
Insurance	43

Working Note:

Provisions		Rs. '000s
Provision for standard and non-performing assets		
Standard (4,700 x .4%)		18.8
Sub-standard (1900 x 15%)		285
Doubtful (400 x 100%)		400
Doubtful (40 x 25%)		10
Loss assets (300 x 100%)		300
		<u>1,013.8</u>

6. (a) (i) (a) Reporting entity- M Ltd.
- S Ltd. (subsidiary) is a related party
 - F Ltd.(subsidiary) is a related party
- (b) Reporting entity- S Ltd.
- M Ltd. (holding company) is a related party
 - F Ltd. (subsidiary) is a related party
- (c) Reporting entity- F Ltd.
- M Ltd. (holding company) is a related party
 - S Ltd. (holding company) is a related party
 - C Ltd. (investor/ investing party) is a related party
- (d) Reporting entity- C Ltd.
- F Ltd. (associate) is a related party

(b) Journal Entries in the books of S Ltd.

2020		Dr. Rs.	Cr. Rs.
April 1	Equity Share Capital A/c (Rs. 10) Dr.	5,00,000	
	To Equity Share Capital A/c		3,00,000
	To 8% Preference Equity Share Capital A/c		60,000
	To 10% Second Debentures A/c		40,000
	To Capital Reduction /Reconstruction A/c		1,00,000
	(Being reduction of equity shares to 3/5 shares, issue of preference shares and debentures as per Reconstruction Scheme dated...)		
	Capital Reduction / Reconstruction A/c Dr.	1,00,000	
	To Building A/c		50,000
	To Plant and Machinery A/c		20,000
	To Goodwill A/c		30,000
	(Being value of building and plant and machinery reduced and goodwill written off completely.)		

Bank A/c	Dr.	1,00,000	
To 8% First Debentures A/c			1,00,000
(Being Rs. 1,00,000 debentures issued)			

- (c) (i) In the given case, company has created 2% provision for doubtful debts till 31st March, 2019. Subsequently in 2019-20, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.
- (ii) As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous policy, will not be treated as change in an accounting policy.
- (iii) Change in useful life of furniture from 5 years to 3 years is a change in estimate and is not a change in accounting policy.
- (iv) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.
- (v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

(d) **Journal Entries in the books of Ganga Ltd.**

			Rs.	Rs.
1.3.20	Bank A/c (1,02,500 x Rs. 60)	Dr.	61,50,000	
to	Employee compensation expense A/c	Dr.	92,25,000	
31.3.20	(1,02,500 x Rs.90)			
	To Equity share capital A/c (1,02,500 x Rs.10)			10,25,000
	To Securities premium A/c (1,02,500 x Rs.140)			1,43,50,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.20	Profit and Loss A/c	Dr.	92,25,000	
	To Employee compensation expense A/c			92,25,000
	(Being transfer of employee compensation expenses to Profit and Loss Account)			

OR

L, M, N and O hold Equity capital is held by in the proportion of 30:40:20:10 and A, B, C and D hold preference share capital in the proportion of 40:30:10:20. As the paid up equity share capital of the company is Rs.60 Lakhs and Preference share capital is Rs.30 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3.

The respective voting right of various shareholders will be:

$$L = \frac{2}{3} \times \frac{30}{100} = \frac{3}{15} = 20\%$$

$$M = \frac{2}{3} \times \frac{40}{100} = \frac{4}{15} = 26.67\%$$

$$\begin{aligned}
 N &= 2/3 \times 20/100 = 2/15 = 13.33\% \\
 O &= 2/3 \times 10/100 = 1/15 = 6.67\% \\
 A &= 1/3 \times 40/100 = 4/30 = 13.33\% \\
 B &= 1/3 \times 30/100 = 3/30 = 10\% \\
 C &= 1/3 \times 10/100 = 1/30 = 3.33\% \\
 D &= 1/3 \times 20/100 = 2/30 = 6.67\%
 \end{aligned}$$