

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

1. (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 2019-2020.

- (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 2019-2020 ₹ 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) **Definition:** As per AS 9 'Revenue Recognition', in a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished.

Analysis of given case: In the given case, income accrues when the related advertisement appears before public. The advertisement service would be considered as performed on the day the advertisement is appeared for public and hence revenue is recognized on that date. In this case, it is 15.03.2020, the date of publication of the magazine.

Accounting treatment for given situation: Hence, ₹ 3,00,000 (₹ 2,70,000 + ₹ 30,000) is recognized as income in March, 2020. The terms of payment are not relevant for considering the date on which revenue is to be recognized. ₹ 30,000 is treated as amount due from advertisers as on 31.03.2020 and ₹ 2,70,000 will be treated as payment received against the sale.

- (c)

(i) Calculation of profit/ loss for the year ended 31 st March, 2021	(₹ in crores)
Total estimated cost of construction (1,250 + 250 + 1,750)	3,250
Less: Total contract price	<u>(2,400)</u>
Total foreseeable loss to be recognized as expense	<u>850</u>

According to AS 7 (Revised 2002) "Construction Contracts", when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

(ii) Contract work-in-progress i.e. cost incurred to date	(₹ in crores)
Work certified	1,250
Work not certified	<u>250</u>
	<u>1,500</u>

(iii) Proportion of total contract value recognised as revenue

Percentage of completion of contract to total estimated cost of construction

$$= (1,500 / 3,250) \times 100 = 46.15\%$$

Revenue to be recognized till date = 46.15% of ₹ 2,400 crores = ₹ 1,107.60 crores.

(iv) Amount due from / to customers = Contract costs + Recognised profits – Recognised losses – (Progress payments received + Progress payments to be received)

$$= ₹ [1,500 + Nil - 850 - (1100 + 300)] \text{ crores}$$
$$= ₹ [1,500 - 850 - 1,400] \text{ crores}$$

Amount due to customers (shown as liability) = ₹ 750 crores.

- (d)** 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, ₹ 90,000 would be recorded as an expense (₹ 50,000 for completion of detailed program design and ₹ 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) = ₹ 1,00,500. Packing cost ₹ 16,500 should be recognized as expenses and charged to P & L A/c.

2. (a) (i) Number of Shares to be issued to Partners

₹	
Assets: Machinery ₹ 1,40,000 + Inventory ₹ 1,37,400 + Trade Receivable ₹ 1,24,000 + Bank ₹ 1,00,000	5,01,400
Less: Liabilities taken over	(1,69,400)
Net Assets taken over (Purchase Consideration)	3,32,000

Classes of Shares to be issued:	M	N	O	Total
10% Preference Shares of ₹ 10 each (to retain rights as to Interest on Capital)	1,36,000	90,000	46,000	2,72,000
Balance in Equity Shares of ₹ 10 each (3,32,000 - 2,72,000) (issued in profit sharing ratio)	30,000	18,000	12,000	60,000
	<u>1,66,000</u>	<u>1,08,000</u>	<u>58,000</u>	<u>3,32,000</u>

(ii) Partners' Capital Accounts

Particulars	M	N	O	Particulars	M	N	O
To Drawings	50,000	46,000	34,000	By balance b/d	1,36,000	90,000	46,000
To 10% Preference share capital	1,36,000	90,000	46,000	By Interest on Capital	13,600	9,000	4,600
To Equity Shares	30,000	18,000	12,000	By profit for the year 5:3:2 (W.N. 1)	1,10,700	66,420	44,280

To Bank – Additional Drawings (W.N. 2)	54,300	17,420	6,880	By Machinery* A/c	10,000	6,000	4,000
Total	2,70,300	1,71,420	98,880		2,70,300	1,71,420	98,880

* Gain on Transfer of Machinery = ₹ 1,40,000 – (₹ 2,00,000-₹ 80,000) = ₹ 20,000 in 5:3:2 ratio.

(iii) **Balance sheet of MNO Ltd. as at 31st March, 2020 (after Takeover of Firm)**

		Note no.	₹
I	Equity and Liabilities:		
	(1) Shareholders Funds		
	Share Capital	1	3,32,000
	(2) Current Liabilities		
	Trade Payables		1,69,400
	Total		<u>5,01,400</u>
II	Assets		
	(1) Non-Current Assets		
	Property, plant and equipment - Machinery		1,40,000
	(2) Current Assets:		
	(a) Inventories		1,37,400
	(b) Trade Receivables		1,24,000
	(c) Cash and Cash Equivalents		<u>1,00,000</u>
	Total		<u>5,01,400</u>

Notes to Accounts

	Particulars	₹
1.	Share capital	
	Authorized shares capital	
	2,00,000 Equity Shares of ₹ 10 each	20,00,000
	Issued, Subscribed & paid up	
	6,000 Equity Shares of ₹ 10 each	60,000
	27,200 10% Preference Shares capital of ₹ 10 each	<u>2,72,000</u>
	(All above shares issued for consideration other than cash, in takeover of partnership firm)	3,32,000

Working Notes:

1. Profit & Loss Appropriation Account for the year ended 31st March, 2020

Particulars	₹	₹	Particulars	₹
To Interest on Capital:			By Net Profit	2,48,600
M [₹ 1,36,000 x 10%]	13,600		(given)	
N [₹ 90,000 x 10%]	9,000			
O [₹ 46,000 x 10%]	<u>4,600</u>	27,200		
To Profits transferred to Capital in profit sharing ratio 5:3:2				

M	1,10,700		
N	66,420		
O	<u>44,280</u>	<u>2,21,400</u>	
		2,48,600	<u>2,48,600</u>

2. **Statement showing Additional Drawings in Cash**

(a) **Funds available for Drawings**

Add:	Total Drawing of Partners (given)	1,30,000
	Further Funds available for Drawings (1,78,600-1,00,000)	<u>78,600</u>
		2,08,600
Less:	Interest on Capital	<u>(27,200)</u>
	Amount available for Drawings	1,81,400

(b) **Ascertainment of Additional Drawings**

Particulars	M	N	O
As per above statement ₹ 1,81,400 (in profit sharing ratio)	90,700	54,420	36,280
Add: Interest	<u>13,600</u>	<u>9,000</u>	<u>4,600</u>
	1,04,300	63,420	40,880
Less: Already drawn	<u>(50,000)</u>	<u>(46,000)</u>	<u>(34,000)</u>
Additional Drawings	<u>54,300</u>	<u>17,420</u>	<u>6,880</u>

- (b) Interest on performing assets should be recognised on accrual basis, but interest on NPA should be recognised on cash basis.

		<i>₹ in lakhs</i>
Interest on cash credits and overdraft :	(1800+70)	= 1,870
Interest on Term Loan	(480+40)	= 520
Income from bills purchased and discounted :	(700+36)	= <u>736</u>
		<u>3,126</u>

3. (a) (1) **Computation of Amount of Debentures and Shares to be issued:**

	Sun ₹	Neptune ₹
(i) Average Net Profit		
₹ (4,49,576-2,500+3,77,924)/3	= 2,75,000	
₹ (2,73,900+,3,42,100+3,59,000)/3		= 3,25,000

(ii) **Equity Shares Issued**

(a) **Ratio of distribution**

Sun	:	Neptune
275	:	325

(b) **Number**

Sun	:	27,500
Neptune	:	<u>32,500</u>
		<u>60,000</u>

(c) Amount

	Sun ₹	Neptune ₹
27,500 shares of ₹ 5 each	1,37,500	
32,500 shares of ₹ 5 each		1,62,500

(iii) Capital Employed (after revaluation of assets)	₹	₹
Fixed Assets	7,10,000	3,90,000
Current Assets	<u>2,99,500</u>	<u>1,57,750</u>
	10,09,500	5,47,750
Less: Current Liabilities	<u>-5,97,000</u>	<u>-1,80,250</u>
	4,12,500	3,67,500
(iv) Debentures Issued		
8% Return on capital employed	33,000	29,400
15% Debentures to be issued to provide equivalent income:		
Sun: $33,000 \times 100/15$	2,20,000	
Neptune: $29,400 \times 100/15$		1,96,000

(2)

Balance Sheet of Jupiter Ltd.

As at 31st March 2021 (after amalgamation)

Particulars	Note No	₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	3,00,000
(b) Reserves and Surplus	2	64,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	4,16,000
(3) Current Liabilities		
(a) Other current liabilities		7,33,900
Total		15,13,900
II. Assets		
(1) Non-current assets		
(a) Fixed assets		11,00,000
(2) Current assets		
(a) Other current assets		4,13,900
Total		15,13,900

Notes to Accounts

		₹
1	Share Capital Authorized 80,000 Equity Shares of ₹ 5 each	4,00,000

	Issued and Subscribed 60,000 Equity Shares of ₹ 5 each (all the above shares are allotted as fully paid-up pursuant to a contract without payment being received in cash)	3,00,000
2	Reserve and Surplus Capital Reserve	64,000
3	Long-term borrowings Secured Loans 15% Debentures	4,16,000

Working Notes:

	<i>Sun</i> ₹	<i>Neptune</i> ₹	<i>Total</i> ₹
(1) <i>Purchase Consideration</i>			
Equity Shares Issued	1,37,500	1,62,500	3,00,000
15% Debentures Issued	2,20,000	1,96,000	4,16,000
	<u>3,57,500</u>	<u>3,58,500</u>	<u>7,16,000</u>
(2) <i>Capital Reserve</i>			
(a) Net Assets taken over			
Fixed Assets	7,10,000	3,90,000	11,00,000
Current Assets	2,99,500	1,14,400*	4,13,900
	<u>10,09,500</u>	<u>5,04,400</u>	<u>15,13,900</u>
Less: Current Liabilities	(5,53,650**)	(1,80,250)	(7,33,900)
	<u>4,55,850</u>	<u>3,24,150</u>	<u>7,80,000</u>
(b) Purchase Consideration	3,57,500	3,58,500	7,16,000
(c) Capital Reserve [(a) - (b)]	<u>98,350</u>		
(d) Goodwill [(b) - (a)]		<u>34,350</u>	
(e) Capital Reserve [Final Figure(c) -(d)]			64,000

* 1,57,750-43,350= 1,14,400

** 5,97,000-43,350= 5,53,650

(b) Pooling of Interest Method

Under pooling of interests method, the assets, liabilities and reserves of the Transferor Company will be taken over by Transferee Company at existing carrying amounts unless any adjustment is required due to different accounting policies followed by these companies. As a result the difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the amount of share capital of Transferor Company should be adjusted in reserves.

Purchase Method

The assets and liabilities of the transferor company should be incorporated at their existing carrying amounts or the purchase consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation. No reserves, other than statutory reserves, of the transferor company should be incorporated in the financial statements of transferee company.

4. (a) (i) **Capital Funds –**

Tier I :	<i>₹ in crore</i>
Equity Share Capital	600
Statutory Reserve	470
Capital Reserve (arising out of sale of assets)	105
Less: Profit & Loss (Dr. bal.)	<u>(30)</u>
	<u>1,145</u>
Capital Funds - Tier II :	
Capital Reserve (arising out of revaluation of assets)	25
Less: Discount to the extent of 55%	<u>(13.75)</u>
	<u>11.25</u>

(ii) **Risk Adjusted Assets**

Funded Risk Assets	₹ in crore	Percentage weight	Amount ₹ in crore
Cash Balance with RBI	35.50	0	—
Balances with other Banks	15	20	3
Claims on banks	52.50	20	10.50
Other Investments	70	100	70
Loans and Advances:			
(i) guaranteed by government	22.50	0	—
(ii) guaranteed by PSUs	110	0	—
(iii) Others	9,365	100	9,365
Premises, furniture and fixtures	92.50	100	92.50
Leased Assets	40	100	<u>40</u>
			<u>9,581</u>

(b) **Statement showing computation of 'Net Owned Fund'**

S. No			<i>₹ in lakhs</i>
(i)	Paid up Equity Capital		200
	Free Reserves		<u>600</u>
	Investments	A	<u>800</u>
	In shares of subsidiaries		250
	In debentures of group companies		<u>400</u>
(ii)		B	<u>650</u>
(iii)	10% of A		80
(iv)	Excess of Investment over 10% of A (650 – 80)	C	570
(v)	Net Owned Fund [(A) - (C)] (800 – 570)		230

(c)

Journal entries
In the books of Bhoomi Ltd.

			Dr.	Cr.
			₹ in lakhs	
1	Bank A/c To Investments A/c To Profit and Loss A/c (Being Investments sold and, profit being credited to Profit and Loss Account)	Dr.	25,000	24,000 1,000
2	10% Redeemable Preference Share Capital A/c Premium payable on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being amount payable on redemption of Preference shares, at a Premium of 10%)	Dr. Dr.	20,000 2,000	22,000
3	Securities Premium A/c To Premium payable on Redemption of Preference Shares A/c (Being Securities Premium utilised to provide Premium on Redemption of Preference Shares)	Dr.	2,000	2,000
4	Equity Share Capital A/c Premium payable on Buyback A/c To Equity Share buy back A/c (Being the amount due on buy-back)	Dr. Dr.	16,000 16,000	32,000
5	Securities Premium A/c (6,400 – 2,000) General Reserve A/c (balancing figure) To Premium payable on Buyback A/c (Being premium on buyback provided first out of Securities Premium and the balance out of General Reserves.)	Dr. Dr.	4,400 11,600	16,000
6	Bank A/c To Bank Loan A/c (Being Loan taken from Bank to finance Buyback)	Dr.	16,000	16,000
7	Preference Shareholders A/c Equity Shares buy back A/c To Bank A/c (Being payment made to Preference Shareholders and Equity Shareholders)	Dr. Dr.	22,000 32,000	54,000
8	General Reserve Account To Capital Redemption Reserve Account (Being amount transferred to Capital Redemption Reserve Account to the extent of face value of preference shares redeemed and equity Shares bought back) (20,000 + 16,000)	Dr.	36,000	36,000

5. (a)

Restated Balance Sheet of MNT Ltd.**as at 31st March 2021**

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		7,50,000
(b) Reserves and Surplus	1	7,18,500
(2) Current Liabilities		
(a) Short term borrowings	2	1,70,000
(b) Trade Payables		2,46,000
(c) Short-term provision	3	4,30,000
Total		23,14,500
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment	4	6,37,500
(b) Non-current Investment		5,30,000
(2) Current assets		
(a) Inventories (6,90,000 +12,000)	5	7,02,000
(b) Trade Receivables		3,50,000
$\left(\frac{3,43,000}{98} \times 100 \right)$		
(c) Cash & Cash Equivalents		42,500
(d) Other current assets	6	52,500
Total		23,14,500

Notes to Accounts

			₹
1.	Reserves and Surplus		
	Revenue Reserve (refer W.N.)	5,11,500	
	Securities Premium	<u>2,07,000</u>	7,18,500
2.	Short term borrowings		
	Bank overdraft		1,70,000
3.	Short-term provision		
	Provision for taxation		4,30,000
4.	Property, Plant and Equipment		
	Cost	9,20,000	
	Less: Depreciation to date	<u>(2,82,500)</u>	6,37,500
5.	Inventories	6,90,000	
	Increase in value as per FIFO	<u>12,000</u>	7,02,000
6.	Other current assets		
	Prepaid expenses (After adjusting sales promotion expenses to be written off each year) (65,000 -12,500)		52,500

Working Note:**Adjusted revenue reserves of MNT Ltd.:**

	₹	₹
Revenue reserves as given		5,05,000
Add: Provision for doubtful debts [3,43,000 X 2/98]	7,000	
Add: Increase in value of inventory	<u>12,000</u>	<u>19,000</u>
		5,24,000
Less: Sales Promotion expenditure to be written off		<u>(12,500)</u>
Adjusted revenue reserve		<u>5,11,500</u>

(b) Calculation of Profit/Loss on disposal of investment in subsidiary

Particulars	₹
Proceeds from the sale of Investment	30,00,000
Less: A Ltd.'s share in net assets of B Ltd.	(28,00,000)
	<u>2,00,000</u>

Working Note:**A Ltd.'s share in net assets of B Ltd.**

	₹
Net Assets of B Ltd. on the date of disposal	35,00,000
Less: Minority Interest (20% of ₹ 35 lakhs)	(7,00,000)
A Ltd.'s share in the net assets of B Ltd.	<u>28,00,000</u>

6. (a) 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
	₹	₹	₹
1.4.2020	6,00,000	5	6,00,000 x 5/10 x 5/12 = 1,25,000
1.9.2020	5,40,000	10	5,40,000 x 7/12 = 3,15,000
1.9.2020	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>

- (b) Events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and by the corresponding approving authority in the case of any other entity.

Assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date or that indicate that the fundamental accounting assumption of going concern is not appropriate.

In the given case, financial statements are approved by the approving authority on 30 June 2020.

On the basis of above principles, following will be the accounting treatment in the financial statements for the year ended at 31 March 2020:

- (i) Since on 31 March 2020, Tee Ltd. was expecting a heavy decline in the demand of the stitching machine. Therefore, decline in the value during April, 2020 will be considered as an adjusting event. Hence, Tee Ltd. needs to adjust the amounts recognized in its financial statements w.r.t. net realisable value at the end of the reporting period. Accordingly, inventory should be written down to ₹ 4,000 per machine. Total value of inventory in the books will be $50 \text{ machines} \times ₹ 4,000 = ₹ 2,00,000$.
- (ii) A fire took place after the balance sheet date i.e. during 2020-2021 financial year. Hence, corresponding financials of 2019-2020 financial year should not be adjusted for loss occurred due to fire. However, in this circumstance, the going concern assumption will be evaluated. In case the going concern assumption is considered to be appropriate even after the occurrence of fire, no disclosure of the same is required in the financial statements. Otherwise, disclosure be given.
- (iii) Since the transfer of risk and reward and sale was complete in the month of May, 2020 when conveyance and possession got complete, no revenue should be recognised with respect to it in the financial statements of 2019-2020. However, a disclosure for the same should be given by the entity.
- (iv) Since the notice has been received after 31 March but before 30 June 2020 (approval date), the said grant shall be adjusted in the financial statements for financial year 2019-2020 because the violation of the conditions took place in the financial year 2019-2020 and the company must be aware of it.

OR

Following will be the treatment in the given cases:

- (i) When sales price of ₹ 500 lakhs is equal to fair value, Monu Ltd. should immediately recognise the profit of ₹ 100 lakhs (i.e. $500 - 400$) in its books.
- (ii) When fair value of leased machinery is ₹ 450 lakhs & sales price is ₹ 380 lakhs, then loss of ₹ 20 lakhs ($400 - 380$) to be immediately recognised by Monu Ltd. in its books provided loss is not compensated by future lease payment.
- (iii) When fair value is ₹ 400 lakhs & sales price is ₹ 500 lakhs then, profit of ₹ 100 lakhs is to be deferred and amortised over the lease period.
- (iv) When fair value is ₹ 460 lakhs & sales price is ₹ 500 lakhs, profit of ₹ 60 lakhs ($460-400$) to be immediately recognised in its books and balance profit of ₹ 40 lakhs ($500-460$) is to be amortised/deferred over lease period.

(c) 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 = $\frac{3}{103} \times ₹ 13,47,750 = ₹ 39,255$

(d) Journal Entries in the books of A Ltd.

Date	Particulars	Dr. (₹)	Cr. (₹)
01.12.2020 to 31.03.2021	Bank A/c (18,000 x ₹ 70) Dr. Employee compensation expenses account [18,000 x (₹ 130- ₹ 70)] Dr. To Equity share capital account (18,000 x ₹ 10) To Securities premium account (18,000 x ₹120) (Being 18,000 employees stock option exercised at an exercise price of ₹ 70 each)	12,60,000 10,80,000	1,80,000 21,60,000
31.3.2021	Profit and Loss account Dr. To Employee compensation expenses account (Being transfer of employee compensation expenses account to profit and loss account)	10,80,000	10,80,000

Working Note:

Fair value of an option = Market price of a share – Exercise price of a share

= ₹ 130 – ₹ 70 = ₹ 60 per share