MOCK TEST PAPER 2

INTERMEDIATE: GROUP – II

PAPER – 5: ADVANCED ACCOUNTING

1. (a)

(i)	**Calculation of profit/ loss for the year ended 31st March, 2023**	*(₹ in crores)*
	Total estimated cost of construction (1,250 + 250 + 1,750)	3,250
	Less: Total contract price	(2,400)
	Total foreseeable loss to be recognized as expense	850

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	250
		1,500

(iii) Proportion of total contract value recognised as revenue

Percentage of completion of contract to total estimated cost of construction

= (1,500 / 3,250)×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)] crores

= ₹ [1,500 – 850 – 1,400] crores

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

(b) According to AS 19 "Leases", the lessee should recognise the lease as an asset and a liability at an amount equal to the lower of the fair value of the leased asset at the inception of the finance lease and the present value of the minimum lease payments from the standpoint of the lessee.

In calculating the present value of the minimum lease payments the discount rate is the interest rate implicit in the lease. Present value of minimum lease payments will be calculated as follows:

Year	Minimum Lease Payment ₹	Implicit interest rate (Discount rate @15%)	Present value ₹
1	6,25,000	0.8696	5,43,500
2	6,25,000	0.7561	4,72,563
3	6,25,000	0.6575	4,10,937
4	7,50,000*	0.5718	4,28,850
Total	26,25,000		18,55,850

* *Minimum Lease Payment of 4th year includes guaranteed residual value amounting ₹ 1,25,000.*

Present value of minimum lease payments ₹ 18,55,850 is less than fair value at the inception of lease i.e. ₹ 20,00,000, therefore, the asset and corresponding lease liability should be recognised at ₹ 18,55,850 as per AS 19.

(c) **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 15.03.2023, 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, 2023. 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 31.03.2023 and ₹ 2,70,000 will be treated as payment received against the sale.

(d) A provision should be recognized only when an enterprise has a present obligation arising from a past event or obligation. In the given case, there is no present obligation but a future one, therefore no provision is recognized as per AS 29.

The cost of overhauling aircraft is not recognized as a provision because it is a future obligation and the incurring of the expenditure depends on the company's decision to continue operating the aircrafts. Even a legal requirement to overhaul does not require the company to make a provision for the cost of overhaul because there is no present obligation to overhaul the aircrafts. Further, the enterprise can avoid the future expenditure by its future action, for example by selling the aircraft. However, an obligation might arise to pay fines or penalties under the legislation after completion of five years. Assessment of probability of incurring fines and penalties depends upon the provisions of the legislation and the stringency of the enforcement regime. A provision should be recognized for the best estimate of any fines and penalties if airline continues to operate aircrafts for more than five years.

2. (a) **Realization Account**

Particulars	₹	*Particulars*		₹
To Building	1,90,000	By Trade creditors		80,000
To Stock	1,30,000	By Bills payable		30,000
To Investment	50,000	By Cash		
To Debtors	70,000	Building	2,09,000	
To Cash-creditors paid (W.N.1)	63,650	Stock	1,20,000	
To Cash-expenses	8,000	Investments (W.N.2)	40,000	
To Cash-bills payable (30,000-500)	29,500	Debtors (W.N. 3)	56,700	4,25,700
To Partners' Capital A/cs		By R – (Receipt from Debtors unrecorded)		7,000
P 4,183		By R - Receipt from Investments unrecorded		11,000
Q 4,183				
R 2,789				

S 1,395	12,550		
	5,53,700		5,53,700

Cash Account

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	30,000	By Realization-creditors paid	63,650
To Realization – assets realized		By Realization-bills payable	29,500
Building 2,09,000		By Realization-expenses	8,000
Stock 1,20,000		By Capital accounts:	
Investments 40,000		P	1,51,132
Debtors 56,700	4,25,700	Q	1,51,132
To R's capital A/c	7,000	S	59,286
	4,62,700		4,62,700

Partners' Capital Accounts

Particulars	P	Q	R	S	Particulars	P	Q	R	S
	₹	₹	₹	₹		₹	₹	₹	₹
To Balance b/d			40,000		By Balance b/d	1,50,000	1,50,000	-	60,000
To Realization A/c-Debtors misappropriation			7,000		By General reserve	13,333	13,333	8,889	4,445
To Realization A/c-Investment-misappropriation			11,000		By Realization profit	4,183	4,183	2,789	1,395
To R's capital A/c (W.N. 4)	16,384	16,384		6,554	By Cash A/c			7,000	
To Cash A/c	1,51,132	1,51,132		59,286	By P's capital A/c			16,384	
					By Q's capital A/c			16,384	
					By S's capital A/c			6,554	
	1,67,516	1,67,516	58,000	65,840		1,67,516	1,67,516	58,000	65,840

Working Notes:

1. Amount paid to creditors in cash

	₹
Book value	80,000
Less: Creditors taking over investments	(13,000)
	67,000
Less: Discount @ 5%	(3,350)
	63,650

2. Amount received from sale of investments

	₹
Book value	50,000
Less: Misappropriated by R	(8,000)
	42,000
Less: Taken over by a creditor	(9,000)
	33,000
Add: Profit on sale of investments	7,000
Cash received from sale of remaining investment	40,000

3. Amount received from debtors

	₹
Book value	70,000
Less: Unrecorded receipt	(7,000)
	63,000
Less: Discount @ 10%	(6,300)
	56,700

4. Deficiency of R

	₹
Balance of capital as on 31st March, 2023	40,000
Debtors-misappropriation	7,000
Investment-misappropriation	11,000
	58,000
Less: Realization Profit	(2,789)
General reserve	(8,889)
Contribution from private assets	(7,000)
Net deficiency of capital	39,322

This deficiency of ₹ 39,322 in R's capital account will be shared by other partners P, Q and S in their capital ratio of 15 : 15 : 6.

Accordingly,

P's share of deficiency = [39,322 x (15/36)] = ₹ 16,384

Q's share of deficiency = [39,322 x (15/36)] = ₹ 16,384

S's share of deficiency = [39,322 x (6/36)] = ₹ 6,554

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

		₹ in lakhs
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)	= 736
		3,126

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	:	32,500
		60,000

(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	2,99,500	1,57,750
		10,09,500	5,47,750
	Less: Current Liabilities	-5,97,000	-1,80,250
		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 × 100/15	2,20,000	
	Neptune: 29,400 × 100/15		1,96,000

(2) Balance Sheet of Jupiter Ltd.

As at 31st March 2023 (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) Property, Plant & Equipment (PPE)		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	3,00,000
	(all the above shares are allotted as fully paid-up pursuant to a contract without payment being received in cash)	
2	Reserve and Surplus	
	Capital Reserve	64,000
3	Long-term borrowings	
	Secured Loans	
	15% Debentures	4,16,000

Working Notes:

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

(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) **B List Contributories** are shareholders who had transferred Partly Paid Shares (otherwise than by operation of law or by death) within one year, prior to the date of winding up may be called upon to pay an amount to pay off such Creditors as existed on the date of transfer of shares. These Transferors are called as B List Contributories. Their liability is restricted to the amount not called up when the shares were transferred. They cannot be called upon to pay more than the entire face value of the share. For example, if Shares having Face Value ₹ 100 were paid up ₹ 60, the B List Contributory can be called up to pay a maximum of ₹ 40 only. Liability of B List Contributories will crystallize only (a) when the existing assets available with the liquidator are not sufficient to cover the liabilities; (b) when the existing shareholders fail to pay the amount due on the shares to the Liquidator.

4. (a) The amount of rebate on bills discounted as on 31st March, 2022 the period which has not been expired upto that day will be calculated as follows:

Discount on ₹5,60,000 for 62 days @ 10%	9,512
Discount on ₹17,44,000 for 69 days @ 10%	32,969
Discount on ₹11,28,000 for 82 days @ 10%	25,341
Discount on ₹16,24,000 for 92 days @ 10%	40,934
Discount on ₹12,00,000 for 96 days @ 10%	31,562
Total	1,40,318

Note: The due date of the bills discounted is included in the number of days above.

The amount of discount to be credited to the profit and loss account will be:

	₹
Transfer from rebate on bills discounted as on 1.4. 2021	1,36,518
Add: Discount received during the year	3,40,312
	4,76,830
Less: Rebate on bills discounted as on 31.03. 2022 (as above)	(1,40,318)
	3,36,512

Journal Entries

		₹	₹
Rebate on bills discounted A/c	Dr.	1,36,518	
To Discount on bills A/c			1,36,518
(Transfer of opening unexpired discount on 1.4. 2021)			
Discount on bills A/c	Dr.	1,40,318	
To Rebate on bills discounted A/c			1,40,318
(Unexpired discount on 31.03. 2022 taken into account)			
Discount on Bills A/c	Dr.	3,36,512	
To P & L A/c			3,36,512
(Discount earned in the year, transferred to P&L A/c)			

(b) Calculation of provision required on advances as on 31st March, 2023:

	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
			851.10

(c) In the books of SM Limited

Journal Entries

	Particulars	Dr. ₹	Cr. ₹
1.	Equity share capital A/c (15,000 x ₹10) Dr.	1,50,000	
	Premium on buyback A/c (15,000 x ₹5) Dr.	75,000	
	To Equity shares buy back or Equity shareholders A/c (15,000 x ₹15)		2,25,000
	(Being the amount due to equity shareholders on buy back)		
2.	Equity shares buy back/Equity shareholders A/c Dr.	2,25,000	
	To Bank A/c		2,25,000
	(Being the payment made on account of buy back of 15,000 Equity Shares as per the Companies Act)		
3.	Bank A/c Dr.	66,000	
	To 10 % Debentures A/c		60,000
	To Securities Premium A/c		6,000
	(Being 14 % debentures issued to finance buy back)		
4.	Buyback Expenses A/c Dr.	2,000	
	To Bank A/c		2,000
	(Buyback expenses paid)		
5.	Bank A/c Dr.	80,000	
	Profit and Loss A/c (Loss on sale of investment) Dr.	20,000	
	To Investment A/c		1,00,000
	(Being investment sold at loss)		
6.	General reserve Dr.	43,000	
	Profit and Loss A/c Dr.	1,07,000	
	To Capital redemption reserve A/c		1,50,000
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)		

7.	Securities Premium	Dr.	75,000	
	Profit and Loss A/c	Dr.	2,000	
	To Premium on buyback			75,000
	To Buyback Expenses A/c			2,000
	(Being premium on buyback and buyback expenses charged to securities premium and profit and loss account)			

Bank Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	83,000	By Equity Shareholders A/c	2,25,000
To Investment A/c	80,000	By Expenses on buy back of shares	2,000
To 10% Debentures and Securities premium	66,000	By Balance c/d	2,000
Total	2,29,000	Total	2,29,000

<u>Note</u>: It may be noted that as per the provisions of the Companies Act, no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities. Issue of debentures has been excluded for the purpose of "specified securities" and the entire amount of ₹ 1,50,000 has been credited to CRR while solving the question.

5. **Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2023**

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)		96,000	5,76,000
	Profit and Loss Account		2,40,000	
	Add: 4/5th share of S Ltd.'s post-acquisition profits (W.N.4)		11,040	2,51,040
				8,27,040
3.	Trade Payables			
	Creditors			
	H Ltd.	2,00,000		
	S Ltd.	1,22,000	3,22,000	
	Bills Payables			
	H Ltd.	60,000		
	S Ltd.	14,800	74,800	
			3,96,800	
	Less: Mutual Owings		(12,000)	3,84,800
4.	Property Plant and Equipment			
	Machinery			
	H. Ltd.		7,20,000	
	S Ltd.	2,40,000		
	Add: Appreciation	1,20,000		
		3,60,000		
	Less: Depreciation (3,60,000 X 10%)	(36,000)	3,24,000	
	Furniture			
	H. Ltd.		3,60,000	
	S Ltd.	48,000		
	Less: Decrease in value	(12,000)		
		36,000		
	Less: Depreciation (36,000 X 15%)	5,400	30,600	14,34,600
5.	Intangible assets			
	Goodwill [WN 6]			28,800
6.	Trade receivables			
	H Ltd.	3,00,000		
	S Ltd.	90,000	3,90,000	
	Bills Receivables			
	H Ltd.	1,00,000		
	S Ltd.	30,000	1,30,000	
			5,20,000	
	Less: Mutual Owings		(12,000)	5,08,000

Working Notes:

1.	Pre-acquisition profits and reserves of S Ltd.	₹
	Reserves	60,000
	Profit and Loss Account	36,000
		96,000
	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)	(12,000)
	Net Profit on revaluation	1,08,000
	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	(60,000)
	Post-acquisition reserves	1,20,000
	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)	1,800
		25,800
	Less: Under depreciation on machinery @ 10%	
	on ₹ 1,20,000 i.e. (3,60,000 – 2,40,000)	(12,000)
	Adjusted post-acquisition profits	13,800
	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	2,760
		1,15,560
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		86,400
Intrinsic value of shares on the date of acquisition	(B)	3,55,200
Cost of control or Goodwill	(A – B)	28,800

6. **(a)** 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.

(b) AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", states that 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. The destruction of warehouse due to earthquake did not exist on the balance sheet date i.e. 31.3.2021. Therefore, loss occurred due to earthquake is not to be recognized in the financial year 2020-2021.

However, according to the standard, unusual changes affecting the existence or substratum of the enterprise after the balance sheet date may indicate a need to consider the use of fundamental accounting assumption of going concern in the preparation of the financial statements. As per the information given in the question, the earthquake has caused major destruction; therefore, fundamental accounting assumption of going concern is called upon.

Hence, the fact of earthquake together with an estimated loss of ₹ 25 lakhs should be disclosed in the Report of the Directors for the financial year 2020-2021.

OR

AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing inter-segment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if followed consistently.

(c) W, X, Y and Z hold Equity capital in the proportion of 40:30:10:20 and A, B, C and D hold preference share capital in the proportion of 30:40:20:10. As the paid up equity share capital of the company is ₹ 40 Lakhs and Preference share capital is ₹ 20 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 -

W = 2/3X40/100 = 4/15

X	=	2/3X30/100	=	3/15
Y	=	2/3X10/100	=	1/15
Z	=	2/3X20/100	=	2/15
A	=	1/3X30/100	=	1/10
B	=	1/3X40/100	=	2/15
C	=	1/3X20/100	=	1/15
D	=	1/3X10/100	=	1/30

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

Date	Particulars		*Dr. (₹)*	*Cr. (₹)*
01.12.2022 to	Bank A/c (18,000 x ₹ 70)	Dr.	12,60,000	
31.03.2023	Employee compensation expenses account [18,000 x (₹ 130- ₹ 70)]	Dr.	10,80,000	
	To Equity share capital account (18,000 x ₹ 10)			1,80,000
	To Securities premium account (18,000 x ₹120)			21,60,000
	(Being 18,000 employees stock option exercised at an exercise price of ₹ 70 each)			
31.3.2023	Profit and Loss account	Dr.	10,80,000	
	To Employee compensation expenses account			10,80,000
	(Being transfer of employee compensation expenses account to profit and loss account)			

Working Note:

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

= ₹ 130 – ₹ 70 = ₹ 60 per share