

Mock Test Paper - Series II: April, 2024

Date of Paper: 2 April, 2024

Time of Paper: 2 P.M. to 5 P.M.

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

Time Allowed – 3 Hours

Maximum Marks – 100

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario

1. Mars Ltd. is a manufacturing enterprise which is starting a new manufacturing plant at X Village. It has commenced construction of the plant on April 1, 2023 and has incurred following expenses:
 - It has acquired land for installing Plant for ₹ 50,00,000
 - It incurred ₹ 35,00,000 for material and direct labour cost for developing the Plant.
 - The Company incurred ₹ 10,00,000 for head office expenses at New Delhi which included rent, employee cost and maintenance expenditure.
 - The Company borrowed ₹ 25,00,000 for construction work of Plant @12% per annum on April 1, 2023. Director finance of the Company incurred travel and meeting expenses amounting to ₹ 5,00,000 during the year for arranging this loan.
 - On November 1, 2023, the construction activities of the plant were interrupted as the local people alongwith the activists have raised issues relating to environmental impact of plant being constructed. Due to agitation the construction activities came to standstill for 3 months.
 - With the help of Government and NGOs, the agitation was over by February 28, 2024 and the work resumed. However, to balance the impact on environment, government ordered the company to install certain devices for which the Company had to incur ₹ 6,00,000 in March 2024.
 - The rate of depreciation on Plant is 10%.

Based on the above information, answer the following questions.

- (i) Which of the following expenses cannot be included in the cost of plant:
 - (a) Cost of Land
 - (b) Construction material and labour cost

- (c) Head office expenses
- (d) Borrowing cost
- (ii) How much amount of borrowing cost can be capitalised with the plant:
 - (a) ₹ 300,000
 - (b) ₹ 2,00,000
 - (c) ₹ 7,00,000
 - (d) ₹ 6,00,000
- (iii) The total cost of plant as on march 31, 2024 will be:
 - (a) ₹ 85,00,000
 - (b) ₹ 98,00,000
 - (c) ₹ 93,00,000
 - (d) ₹ 95,00,000
- (iv) The amount of depreciation to be charged for the year end March 31, 2024
 - (a) ₹ 4,30,000
 - (b) ₹ 9,30,000
 - (c) ₹ 9,80,000
 - (d) Nil

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

2. Beloved Finance Ltd. is a financial enterprise which is in the business of lending loan to small businesses and earn interest on loans.
- During the year the Company has lend 50 crores and earned ₹ 1.5 crore as interest on loans.
 - The Company had surplus funds during the year and invested then in Fixed Deposits with bank and earned interest on fixed deposits of ₹ 20 lacs.
 - The Company also acquired a gold loan unit for ₹ 10 crore during the year and the Company provided interest free loan of ₹ 15 crore to its wholly-owned subsidiary.
 - The Company paid a total income tax of ₹ 75 lacs for the year.

Based on the above information, answer the following questions.

- (i) In the Cash Flow Statement as per AS 3, the interest income of ₹ 1.5 crore earned on earned on loans given by the Company will be disclosed as:
 - (a) Cash Flow from Operating Activities
 - (b) Cash Flow from Investing Activities
 - (c) Cash Flow from Financing Activities

- (d) Non-cash Items
- (ii) In the Cash Flow Statement as per AS 3, the interest income of ₹ 20 Lacs earned fixed deposits with bank will be disclosed as:
- (a) Cash Flow from Operating Activities
- (b) Cash Flow from Investing Activities
- (c) Cash Flow from Financing Activities
- (d) Non-cash Items
- (iii) In the Cash Flow Statement as per AS 3, amount paid for acquiring gold loan unit will be disclosed as:
- (a) Cash Flow from Operating Activities
- (b) Cash Flow from Investing Activities
- (c) Cash Flow from Financing Activities
- (d) Non-cash Items
- (iv) In the Cash Flow Statement as per AS 3, total income tax of ₹ 75 lacs paid for the year will be disclosed as:
- (a) Cash Flow from Operating Activities
- (b) Cash Flow from Investing Activities
- (c) Cash Flow from Financing Activities
- (d) Non-cash Items
- (v) Is any specific disclosures required to made in relation to the interest free loan of ₹ 15 crore provided by the Company to its wholly-owned subsidiary, if yes, as per which Accounting Standard:
- (a) Yes, disclosure is required to be made as per AS 3, Cash Flow Statements.
- (b) Yes, disclosure is required to be made as per AS 18, Related Party Disclosures
- (c) Yes, disclosure is required to be made as per AS 13, Accounting for Investments
- (d) No specific disclosures are required.

Multiple Choice Questions [5 MCQs of 2 Marks each: Total 10 Marks]

3. Kumar Ltd., a privately-held company, operates in the manufacturing industry. Founded in 2008, the company has steadily grown its operations and established a strong presence in the market. As of 31st March, 2023, the company's capital structure reflects a blend of equity and debt financing.

Capital Structure Overview:

- Equity Share Capital: The company has a total of ₹ 30,00,000 invested in equity shares, each valued at ₹ 10 and fully paid.

- Reserves & Surplus: Kumar Ltd. has accumulated reserves and surplus totaling ₹49,00,000, comprising contributions from various sources including General Reserve (₹ 32,50,000), Security Premium Account (₹ 6,00,000), Profit & Loss Account (₹ 4,30,000), and Revaluation Reserve (₹ 6,20,000).
- Loan Funds: The company has acquired loan funds amounting to ₹ 42,00,000 to support its operational and growth initiatives.

Buy-Back Decision:

Considering its financial position and market conditions, Kumar Ltd. has decided to initiate a share buy-back program. The company intends to repurchase its shares at a price of ₹30 per share.

In accordance with financial regulations and internal policies, Kumar Ltd. aims to assess the maximum number of shares it can repurchase while maintaining a prudent debt-equity ratio. By utilizing the Debt Equity Ratio Test, the company seeks to strike a balance between its equity base and debt obligations.

Based on the above information, answer the following questions.

- What is the minimum equity Kumar Ltd. needs to maintain after buy-back, according to the Debt Equity Ratio Test?
 - ₹ 12,95,000
 - ₹ 21,00,000
 - ₹ 32,50,000
 - ₹ 6,00,000
- What is the maximum permitted buy-back of equity for Kumar Ltd.?
 - ₹ 38,85,000
 - ₹ 42,00,000
 - ₹ 12,95,000
 - ₹ 59,85,000
- How many shares of Kumar Ltd. can be bought back at ₹ 30 per share according to the Debt Equity Ratio Test?
 - 43,000
 - 1,29,500
 - 2,00,000
 - 78,000

Multiple Choice Questions [3 MCQs of 2 Marks each: Total 6 Marks]

- Sahil Ltd agreed to sell its factory located in Assam to Kali Ltd on 4.12.2023. It entered into a sale deed (transferring all significant risks and rewards of ownership) on 1.2.2024. But the transaction was registered with the registrar on 30.5.2024 When should the sale and gain be recognized?

- (a) Both sale and gain should be recognized as on the balance sheet date i.e. 31.3.2024.
- (b) Both sale and gain should be recognized on 30.5.2024.
- (c) The sale should be recognized as on balance sheet date but gain should be recognized on 30.5.2024.
- (d) Both sale and gain should be recognized on 4.12.2023. **(2 Marks)**
5. Pratham and Associates is a manufacturer of steel rods. It invests its profits by purchasing shares of listed companies in order to earn dividend income. It had purchased shares of Bharti Airtel Limited in FY 2018-19. However, it sold all the shares of Bharti Airtel Limited during the current year i.e. FY 2023-24. What amount would be disclosed in the profit and loss account for FY 2023-24?
- (a) This transaction would not affect the profit and loss account since the primary business of the company is manufacturing, and not investment.
- (b) The carrying amount net of expenses would be disclosed in the profit and loss account.
- (c) The disposal proceeds net of expenses would be disclosed in the profit and loss account.
- (d) The difference between the carrying amount and the disposal proceeds, net of expenses, would be disclosed in the profit and loss account.
- (2 Marks)**
6. As per Accounting Standards, difference between the Gross Investment and the present value of Minimum Lease Payments under finance lease (from the standpoint of the lessor) and Unguaranteed Residual Value accruing to the lessor is recorded as
- (a) Unearned finance income
- (b) Guaranteed Residual Value
- (c) Profit on lease
- (d) Loss on lease **(2 Marks)**

PART II – Descriptive Questions (70 Marks)

Question No.1 is compulsory

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

Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates. Working Notes should form part of the answer.

1. (a) K Ltd. launched a project for producing product X in October, 2023. The Company incurred ₹ 40 lakhs towards Research and Development expenses upto 31st March, 2024. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The

Management hence wants to defer the expenditure write off to future years.

Advise the Company as per the applicable Accounting Standard.

(5 Marks)

- (b) Wooden Plywood Limited has a normal wastage of 5% in the production process. During the year 2023-24, the Company used 16,000 MT of Raw material costing ₹ 190 per MT. At the end of the year, 950 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books.

You are required to :

- (1) Calculate the amount of abnormal loss.
 (2) Explain the treatment of normal loss and abnormal loss in the context of AS-2. **(5 Marks)**

- (c) On 15th June, 2024, Y limited wants to re-classify its investments in accordance with AS 13 (revised). Decide and state the amount of transfer, based on the following information:

- (1) A portion of long term investments purchased on 1st March, 2023 are to be re-classified as current investments. The original cost of these investments was ₹ 14 lakhs but had been written down by ₹ 2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15th June, 2024 was ₹ 11 lakhs.
 (2) A portion of current investments purchased on 15th March, 2024 for ₹ 7 lakhs are to be re-classified as long term investments, as the company has decided to retain them. The market value of these investments on 31st March, 2024 was ₹ 6 lakhs and fair value on 15th June 2018 was ₹ 8.5 lakhs. **(4 Marks)**

2. The following balance appeared in the books of Oliva Company Ltd. as on 31-03-2024.

Particulars		₹	Particulars		₹
Inventory 01-04-2023			Sales		17,10,000
-Raw Material	30,000		Interest		3,900
-Finished goods	<u>46,500</u>	76,500	Profit and Loss A/c		48,000
Purchases		12,15,000	Share Capital		3,15,000
Manufacturing Expenses		2,70,000	Secure Loans: Short-term	4,500	
Salaries and wages		40,200	Long-term	<u>21,000</u>	25,500
General Charges		16,500	Deposits (unsecured): Short -Term	1,500	

Interim Dividend paid		27,000	Long-term Trade payables	<u>3,300</u>	4,800
Building		1,01,000			3,27,000
Plant and Machinery		70,400			
Furniture		10,200			
Motor Vehicles		40,800			
Stores and Spare Parts Consumed		45,000			
Investments:					
Current	4,500				
Non Current	<u>7,500</u>	12,000			
Trade receivables		2,38,500			
Cash in Bank		<u>2,71,100</u>			
		<u>24,34,200</u>			<u>24,34,200</u>

From the above balance and the following information, prepare the company's Profit and Loss Account for the year ended 31st March, 2024 and Company's Balance Sheet as on that date:

1. Inventory on 31st March, 2024 Raw material ₹ 25,800 & finished goods ₹ 60,000.
 2. Outstanding Expenses: Manufacturing Expenses ₹ 67,500 & Salaries & Wages ₹ 4,500.
 3. Interest accrued on Securities ₹ 300.
 4. General Charges prepaid ₹ 2,490.
 5. Provide depreciation: Building @ 2% p.a., Machinery @ 10% p.a., Furniture @ 10% p.a. & Motor Vehicles @ 20% p.a.
 6. The Taxation provision of 40% on net profit is considered. **(14 Marks)**
3. (a) XYZ Ltd. has not made provision for warranty in respect of certain goods due to the fact that the company can claim the warranty cost from the original supplier. Hence the accountant of the company says that the company is not having any liability for warranties on a particular date as the amount gets reimbursed. You are required to comment on the accounting treatment done by the XYZ Ltd. in line with the provisions of AS 29. **(4 Marks)**
- (b) The Balance Sheet of Radhika Ltd. as at 31-3-2024 is as follows:

	Particulars	Notes	₹
	<u>Equity and Liabilities</u>		
1	Shareholders' funds		
a	Share capital	1	13,80,000

	b	Reserves and Surplus	2	(6,42,000)
2		Non-current liabilities		
	a	Long-term borrowings	3	4,50,000
3		Current liabilities		
	a	Trade Payables		3,60,000
	b	Short term borrowings - Bank Overdraft		2,34,000
	c	Other current liabilities	4	<u>1,47,000</u>
		Total		<u>19,29,000</u>
		<u>Assets</u>		
1		Non-current assets		
	a	Property, plant and equipment	5	5,70,000
	b	Intangible assets	6	2,01,000
	c	Non-current investments	7	66,000
2		Current assets		
	a	Inventories		5,10,000
	b	Trade receivables		5,00,000
	c	Cash and Cash Equivalents		<u>82,000</u>
		Total		<u>19,29,000</u>

Notes to accounts

	₹
1	Share Capital
	Equity share capital:
	9,000 Equity Shares of ₹100 each
	9,00,000
	Preference share capital:
	4,800 6% Cumulative Preference Shares of ₹100 each
	<u>4,80,000</u>
	<u>13,80,000</u>
2	Reserves and Surplus
	Debit balance of Profit and loss Account
	(6,42,000)
3	Long-term borrowings
	Secured: 6% Debentures
	4,50,000
4	Other current liabilities
	Loan from directors
	1,20,000
	Interest payable on 6% debentures
	<u>27,000</u>
	<u>1,47,000</u>

5	Property Plant and Equipment	
	Freehold property	5,10,000
	Plant	<u>60,000</u>
		<u>5,70,000</u>
6	Intangible assets	
	Goodwill	1,56,000
	Patents	<u>45,000</u>
		<u>2,01,000</u>
7	Non-current investments	
	Investments at cost	66,000

The Court approved a Scheme of re-organization to take effect on 1-4-2024, whereby:

- (1) Equity Shares to be reduced to ₹ 20 each.
- (2) Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.
- (3) Of the Preference Share dividends which are in arrears for four years, three fourths to be waived and Equity Shares of ₹ 20 each to be allotted for the remaining quarter.
- (4) Interest payable on debentures to be paid in cash.
- (5) Goodwill to be written off.
- (6) Inventory to be written off by ₹65,000.
- (7) Amount of ₹ 68,500 to be provided for bad debts.
- (8) Freehold property to be revalued at ₹6,49,000
- (9) Investments be sold for ₹ 1,40,000.
- (10) Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of ₹ 20 each and as to 5% in cash, and balance 5% being waived.
- (11) There were capital commitments totaling ₹ 2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.
- (12) Ignore taxation and cost of the scheme.
- (13) Eliminate debit balance of Profit and Loss A/c

You are requested to prepare the Balance Sheet of the company after completion of the Scheme. **(10 Marks)**

4. Following is the information of Anu Ltd. and Banu Ltd. as on 31.03.2023 were as under:

	Anu Ltd. (₹)	Banu Ltd. (₹)
Share Capital:		
50,000 Equity Shares of ₹10 each, Fully Paid	5,00,000	
37,500 Equity Shares of ₹10 each, Fully Paid		3,75,000
General Reserve	3,00,000	-
Profit and Loss Account	62,500	62,500
Trade Payables	2,62,500	1,62,500
5% Debentures	-	1,50,000
Freehold Property	3,75,000	3,00,000
Plant and Machinery	75,000	50,000
Motor Vehicle	37,500	25,000
Trade Receivables	2,50,000	1,00,000
Inventory	2,87,500	2,25,000
Cash at Bank	1,00,000	50,000

Anu Ltd. and Banu Ltd. carry on business of similar nature and they agreed to amalgamate.

A new Company, Anban Ltd. is formed to take over the Assets and Liabilities of Anu Ltd. and Banu Ltd. on the following basis:

Assets and Liabilities are to be taken at Book Value, with the following exceptions:

- Goodwill of Anu Ltd. and Banu Ltd. is to be valued at ₹1,75,000 and ₹50,000 respectively.
- Plant and Machinery of Anu Ltd. are to be valued at ₹1,25,000.
- The Debentures of Banu Ltd. are to be discharged by the issue of 6% Debentures of Anan Ltd. at a premium of 5%.

You are required to:

- Compute the basis on which shares in Anban Ltd. will be issued to Shareholders of the existing Companies assuming nominal value of each share of Anban Ltd. is ₹10.
 - Draw up a Balance Sheet of Anban Ltd. as on 1st April, 2023, when Amalgamation is completed. **(14 Marks)**
5. (a) Star Ltd. acquires 70% of equity shares of Moon Ltd. as on 31st March, 2024 at a cost of ₹ 140 lakhs. The following information is available from the balance sheet of Moon Ltd. as on 31st March, 2024:

	₹ in lakhs
Property, plant and equipment	240

Investments	110
Current Assets	140
Loans & Advances	30
15% Debentures	180
Current Liabilities	100

The following revaluations have been agreed upon (not included in the above figures):

Property, plant and equipment Up by 20%

Investments Down by 10%

Moon Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 2024 (Face value - ₹ 10 per share). Star Ltd. purchased the shares of Moon Ltd. @ ₹ 20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Moon Ltd. 31st March, 2024.

- (b) Gamma Ltd. acquired 24,000 equity shares of ₹ 10 each, in Beta Ltd. on October 1, 2023 for ₹ 4,60,200. The profit and loss account of Beta Ltd. showed a balance of ₹ 15,000 on April 1, 2023. The plant and machinery of Beta Ltd. which stood in the books at ₹ 2,25,000 on April 1, 2023 was considered worth ₹ 2,70,000 on the date of acquisition.

The information of the two companies as at 31-3-2024 was as follows:

	Gamma Ltd. (₹)	Beta Ltd. (₹)
Shares capital (fully paid equity shares of ₹ 10 each)	7,50,000	3,00,000
General reserve	3,60,000	1,50,000
Profit and loss account	85,800	1,23,000
Current Liabilities	2,54,700	49,500
Land and building	2,70,000	2,85,000
Plant and machinery	3,60,000	2,02,500
Investments	4,60,200	
Current assets	3,60,300	1,35,000

You are required to compute impact of revaluation of Plant and Machinery. **(7+7 = 14 Marks)**

6. (a) “One of the characteristics of financial statements is neutrality” - Do you agree with this statement? **(4 Marks)**

Or

Opening Balance Sheet of Mr. Amit is showing the aggregate value of assets, liabilities and equity ₹ 16 lakh, ₹ 6 lakh and ₹ 10 lakh respectively. During accounting period, Mr. Amit has the following transactions:

- (1) Earned 10% dividend on 4,000 equity shares held of ₹ 100 each
- (2) Paid ₹ 1,00,000 to creditors for settlement of ₹ 1,40,000
- (3) Rent of the premises is outstanding ₹ 20,000
- (4) Mr. A withdrew ₹ 18,000 for his personal use.

You are required to show the effect of above transactions on Balance Sheet in the form of Assets - Liabilities = Equity after each transaction.

(4 Marks)

- (b) C Ltd. had ₹ 5,00,000 authorized capital on 31-12-2021 divided into shares of ₹ 100 each out of which 4,000 shares were issued and fully paid up. In June 2022 the Company decided to convert the issued shares into stock. But in June, 2023 the Company re-converted the stock into shares of ₹ 10 each, fully paid up.

Pass entries and show how Share Capital will appear in Notes to Balance Sheet as on 31-12-2022 and 31-12-2023.

(4 Marks)

- (c) Alfa of Chennai has a branch at Mumbai to which goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly from H.O. and partly by the branch. The statement of expenses incurred by the branch every month is sent to head office for recording.

Following further details are given for the year ended 31st December, 2023:

		₹
Cost of goods sent to Branch at cost		2,00,000
Goods received by Branch till 31-12-2023 at invoice price		2,20,000
Credit Sales for the year @ invoice price		1,65,000
Cash Sales for the year @ invoice price		59,000
Cash Remitted to head office		2,22,500
Expenses paid by H.O.		12,000
Bad Debts written off		750
Balances as on		
	1-1-2023	31-12-2023
	₹	₹
Stock	25,000 (Cost)	28,000 (invoice price)
Debtors	32,750	26,000
Cash in Hand	5,000	2,500

You are required to prepare Branch stock account and branch debtor account in the books of the head office for the year ended 31st December, 2023.

(6 Marks)