Mock Test Paper - Series I: November, 2024

Date of Paper: 18th November, 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. Fly Ltd. made a sale of INR 7,00,000 to Wings International in May 2023 and recognised Trade Receivables which was initially recorded at the prevailing exchange rate on the date of sales, transaction recorded at US$ 1= ₹ 79.4. The Company also took a loan from U.S Company for ₹ 10,00000 in December 2023 which was initially recorded at the prevailing exchange rate on the date of transaction, transaction recorded at US$ 1= ₹ 81.1.

   On 31st March 2024, exchange rate was US$ 1 = ₹ 83.3

   a. What will be the closing balance of Trade Receivables on 31st March 2024:

      (i) ₹ 700,000

      (ii) ₹ 7,14,978 approx

      (iii) ₹ 7,34,383 approx

      (iv) ₹ 7,50,000 approx

   b. How much is the reporting difference (gain or loss) in case of Trade Receivable:

      (i) Gain of ₹ 34,383 approx

      (ii) Loss of ₹ 34,383 approx

      (iii) Gain of ₹ 19,395 approx

      (iv) Loss of ₹ 19,395 approx

   c. What will be the closing balance of Loan as on 31st March 2024:

      (i) ₹ 10,00,000

      (ii) ₹ 10,27,127 approx

      (iii) ₹ 9,79,002 approx

      (iv) ₹ 10,79,002 approx

d. How much is the reporting difference (gain or loss) in case of Loan:

(i) Gain of ₹ 48,087 approx

(ii) Loss of ₹ 48,087 approx

(iii) Gain of ₹ 27,127 approx

(iv) Loss of ₹ 27,127 approx

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

2. X Ltd. purchased 3,000 shares of Amazing Ltd. in December 2023 @ ₹ 100 each and paid brokerage @ 1%. In May 2024, Amazing Ltd. issued bonus shares at one for every three shares held by shareholders.

X Ltd. sold 1000 shares in September 2024 at ₹ 110 each. After issue of bonus, shares were quoted at ₹ 95. In December 2024, the shares were quoted at ₹ 70.

a. What would be the carrying cost of investments in Amazing Ltd. after sale of shares as per AS 13:

(i) ₹ 3,03,000

(ii) ₹ 2,27,250

(iii) ₹ 3,00,000

(iv) ₹ 3,30,000

d. What is the cost of bonus shares:

(i) ₹ 1,00,000

(ii) ₹ 1,10,000

(iii) Nil

(iv) ₹ 1,01,000

c. What is the profit on sale of Bonus Shares:

(i) ₹ 100,000

(ii) ₹ 75,750

(iii) ₹ 34,250

(iv) ₹ 1,01,000

d. What would be the carrying cost of investments in Amazing Ltd. in quarter ending in December 2024 as per AS 13:

(i) ₹ 2,10,000

(ii) ₹ 2,27,250

(iii) ₹ 2,20,000

(iv) ₹ 3,00,000

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

3. Sun Limited has acquired 40% share in Moon Ltd. for ₹ 500,000 on 01.07.2023. Moon Ltd. is holding 40% stake in Star Limited. Now, sun limited can exercise significant influence on Moon Limited. Moon limited declared dividend of ₹ 80,000 for the Financial Year 2022-23 on 15.09.2023. For the year 2023-24, Moon Ltd. earned profit of ₹ 4,00,000 and declared dividend for ₹ 90,000 on 15.09.2024.

a. With respect to relationship between Companies, it can be said that:

(i) Star Ltd. is associate of Sun Ltd.

(ii) Moon Ltd. and Star Ltd. both are associates of Sun Ltd.

(iii) Moon Ltd. is an associate of Sun Ltd.

(iv) Sun Ltd. is Parent of both Moon Ltd. and Star Ltd.

b. What will be the carrying amount of investment in Separate Financial Statements of Sun Limited as on 31.03.2024?

(i) ₹ 5,00,000

(ii) ₹ 5,80,000

(iii) ₹ 4,68,000

(iv) ₹ 5,32,000

c. What will be the carrying amount of investment in Consolidated Financial Statements of Sun Limited as on 31.03.2024?

(i) ₹ 9,00,000

(ii) ₹ 5,88,000

(iii) ₹ 4,52,000

(iv) ₹ 6,20,000

d. As per AS 23, the existence of significant influence by an investor is usually evidenced in one or more of the following ways:

(a) participation in policy making processes

(b) interchange of managerial personnel

(c) right to receive dividend

(d) provision of essential technical information

(i) All the statements are correct

(ii) Statements (a), (b) and (c) are correct

(iii) Statements (b), (c) and (d) are correct

(iv) Statements (a), (b) and (d) are correct

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

4. Cost of current investment acquired was ₹ 1000 but the fair value was ₹ 800. The Investment was recorded at ₹ 800. Now the fair value of Investment is Rs 1200. At what value should it be recorded and how much gain will be credited to profit and loss account.

(i) No change is required and it will continue at ₹ 800

(ii) Current investment will be recorded at ₹ 1000 and gain of ₹ 200 will be credited to profit and loss account.

(iii) Current investment will be recorded at ₹ 1200 and gain of ₹ 400 will be credited to profit and loss account.

(iv) Current investment will be recorded at ₹ 1200 but no gain will be credited to profit and loss account. **(2 Marks)**

5. As per AS 20 an enterprise should present/disclose the following:

(a) the amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to the net profit or loss for the period.

(b) the weighted average number of equity shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other.

(c) basic and diluted earnings per share, even if the amounts disclosed are negative (a loss per share).

(d) the nominal value of shares along with the earnings per share figures.

(i) All the statements are correct

(ii Statements (a), (b) and (c) are correct

(iii) Statements (b), (c and (d) are correct

(iv) Statements (a), (b and (c) are correct **(2 Marks)**

6. Accounting Standard 10, Property, Plant and Equipment is applicable to:

(i) Biological Assets (other than Bearer Plants) related to agricultural activity

(ii) Wasting Assets including Mineral rights, Expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non regenerative resources

(iii) Inventories

(iv) Bearer Plant (except produce on Bearer Plants) **(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) A Ltd. provides after sales warranty for two years to its customers. Based on past experience, the company has the following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period.

Less than 1 year: 2% provision

More than 1 year: 3% provision

The company has raised invoices as under :

Invoice Date	**Amount (₹)**
11th Feb, 2022	60,000
25th Dec, 2022	40,000
04th Oct, 2023	1,35,000

Calculate the provision to be made for warranty under AS-29 as at 31st March, 2023 and 31st March, 2024. Also compute amount to be debited to P & L account for the year ended 31st March, 2024.

(b) As per provisions of AS-26, how would you deal to the following situations:

(1) ₹ 23,00,000 paid by a manufacturing company to the legal advisor for defending the patent of a product is treated as a capital expenditure.

(2) During the year 2023-24, a company spent ₹ 7,00,000 for publicity and research expenses on one of its new consumer products which was marketed in the same accounting year but proved to be a failure.

(3) A company spent ₹ 25,00,000 in the past three years to develop a product, these expenses were charged to profit and loss account since they did not meet AS-26 criteria for capitalization. In the current year approval of the concerned authority has been received. The company wishes to capitalize ₹ 25,00,000 by disclosing it as a prior period item.

(4) A company with a turnover of ₹ 200 crores and an annual advertising budget of ₹ 50,00,000 had taken up for the marketing of a new product by a company. It was estimated that the company would have a turnover of ₹ 20 crore from the new product. The company had debited to its Profit & Loss Account the total

expenditure of ₹ 50,00,000 incurred on extensive special initial advertisement campaign for the new product.

(c) Indicate in each case whether revenue can be recognized and when it will be recognized as per AS-9.

(1) Trade discount and volume rebate received.

(2) Where goods are sold to distributors or others for resale.

(3) Where seller concurrently agrees to repurchase the same goods at a later date.

(4) Insurance agency commission for rendering services.

(5) On 11-03-2024 cloths worth ₹ 50,000 were sold to X mart, but due to refurbishing of their showroom being underway, on their request, clothes were delivered on 12-04-2024. **(4 + 5 + 5 = 14 Marks)**

2. The following is the Trial Balance of MN Limited as on 31.3.2024:

(Figures in ₹ '000)

	Debit		Credit
Land at cost	220	Equity Capital (Shares of ₹ 10 each)	300
Plant & Machinery at cost	770	10% Debentures	200
Trade Receivables	96	General Reserve	130
Inventories (31.3.24)	86	Profit & Loss A/c	72
Bank	20	Securities Premium	40
Adjusted Purchases	320	Sales	700
Factory Expenses	60	Trade Payables	52
Administration Expenses	30	Provision for Depreciation	172
Selling Expenses	30	Suspense Account	4
Debenture Interest	20		
Interim Dividend Paid	18		
	1670		1670

Additional Information:

(i) The authorised share capital of the company is 40,000 shares of ₹ 10 each.

(ii) The company on the advice of independent valuer wish to revalue the land at ₹ 3,60,000.

(iii) Declared final dividend @ 10% on 2nd April, 2024.

(iv) Suspense account of ₹ 4,000 represents cash received for the sale of some of the machinery on 1.4.2024. The cost of the machinery was ₹ 10,000 and the accumulated depreciation thereon being ₹ 8,000.

(v) Depreciation is to be provided on plant and machinery at 10% on cost.

You are required to prepare MN Limited's Balance Sheet as on 31.3.2024 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.2024 as per Schedule III. Ignore previous years' figures & taxation.

(14 marks)

3. (a) Following information is supplied by K Ltd.:

Number of shares outstanding prior to right issue - 2,50,000 shares.

Right issue - two new share for each 5 outstanding shares (i.e. 1,00,000 new shares)

Right issue price - ₹ 98

Last date of exercising rights - 30-06-2023.

Fair value of one equity share immediately prior to exercise of right on 30-06-2023 is ₹ 102.

Net Profit to equity shareholders:

2022-2023 - ₹ 50,00,000

2023-2024 -₹ 75,00,000

You are required to calculate the basic earnings per share as per AS-20 Earnings per Share. **(4 Marks)**

(b) Following is the summarized Balance Sheet of Fortunate Ltd. as on 31st March, 2024.

Particulars	Amount (₹)
Liabilities	
Authorized and Issued Share Capital	
(a) 15,000 8% Preference shares of ₹ 50 each	7,50,000
(b) 18,750 Equity shares of ₹ 50 each	9,37,500
Profit and Loss Account	(5,63,750)
Loan	7,16,250
Trade Payables	2,58,750
Other Liabilities	43,750
Total	21,42,500
Assets	
Building at cost less depreciation	5,00,000
Plant at cost less depreciation	3,35,000
Trademarks and goodwill at cost	3,97,500
Inventory	5,00,000
Trade Receivables	4,10,000

Total	21,42,500

(Note: Preference shares dividend is in arrear for last five years).

The Company is running with the shortage of working capital and not earnings profits. A scheme of reconstruction has been approved by both the classes of shareholders. The summarized scheme of reconstruction is as follows:

(i) The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 5 by cancellation of ₹ 45.00 per share. They have also agreed to subscribe for three new equity shares of ₹ 5.00 each for each equity share held.

(ii) The preference shareholders have agreed to forego the arrears of dividends and to accept for each ₹ 50 preference share, 4 new 6% preference shares of ₹ 10 each, plus 3 new equity shares of ₹ 5.00 each, all credited as fully paid.

(iii) Lenders to the company for ₹ 1,87,500 have agreed to convert their loan into shares and for this purpose they will be allotted 15,000 new preference shares of ₹ 10 each and 7,500 new equity shares of ₹ 5.00 each.

(iv) The directors have agreed to subscribe in cash for 25,000 new equity shares of ₹ 5.00 each in addition to any shares to be subscribed by them under (i) above.

(v) Of the cash received by the issue of new shares, ₹ 2,50,000 is to be used to reduce the loan due by the company.

(vi) The equity share capital cancelled is to be applied:

(a) To write off the debit balance in the Profit and Loss A/c, and

(b) To write off ₹ 43,750 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill. The nominal capital, as reduced, is to be increased to ₹ 8,12,500 for preference share capital and ₹ 9,37,500 for equity share capital.

You are required to pass journal entries to show the effect of above scheme and prepare the Balance Sheet of the Company after reconstruction. **(10 Marks)**

4. The financial details of X Ltd. and Y Ltd. as on 31st March, 2024 was as under:

	X Ltd. (₹)	**Y Ltd. (₹)**
Equity Shares of ₹ 10 each	30,00,000	9,00,000
9% Preference Shares of ₹ 100 each	3,00,000	-
10% Preference Shares of ₹ 100 each	-	3,00,000
General Reserve	2,10,000	2,10,000
Retirement Gratuity Fund (long term)	1,50,000	60,000

Trade Payables	3,90,000	2,40,000
Goodwill	1,50,000	75,000
Land & Buildings	9,00,000	3,00,000
Plant & Machinery	15,00,000	4,50,000
Inventories	7,50,000	5,25,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	1,50,000	60,000

X Ltd. absorbs Y Ltd. on the following terms:

(i) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.

(ii) Goodwill of Y Ltd. on absorption is to be computed based on two times of average profits of preceding three financial years (2022-23 : ₹ 90,000; 2021-22 : ₹ 78,000 and 2020-21: ₹ 72,000). The profits of 2020 -21 included credit of an insurance claim of ₹ 25,000 (fire occurred in 2019-20 and loss by fire ₹ 30,000 was booked in Profit and Loss Account of that year). In the year 2021 -22, there was an embezzlement of cash by an employee amounting to ₹ 10,000.

(iii) Land & Buildings are valued at ₹ 5,00,000 and the Plant & Machinery at ₹ 4,00,000.

(iv) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.

(v) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to ₹ 15,000 and such asset was also taken over by X Ltd.

(vi) The trade payables of Y Ltd. included ₹ 20,000 payable to X Ltd.

(vii) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to

(i) Prepare Realisation A/c in the books of Y Ltd.

(ii) Prepare the Balance Sheet of X Ltd. after absorption as at 31st March,2024. **(14 Marks)**

5. Consider the following summarized Balance Sheets of subsidiary MNT Ltd.

Liabilities	2022-23	2023-24
	Amount in ₹	Amount in ₹
Share Capital		
Issued and subscribed 7500 Equity Shares of ₹ 100 each	7,50,000	7,50,000
Reserve and Surplus		
Revenue Reserve	2,14,000	5,05,000
Securities Premium	72,000	2,07,000
Current Liabilities and Provisions		

Trade Payables	2,90,000	2,46,000
Bank Overdraft	-	1,70,000
Provision for Taxation	2,62,000	4,30,000
	15,88,000	23,08,000
Assets		
Fixed Assets (Cost)	9,20,000	9,20,000
Less: Accumulated Depreciation	(1,70,000)	(2,82,500)
	7,50,000	6,37,500
Investment at Cost	-	5,30,000
Current Assets		
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
	15,88,000	23,08,000

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 2022-2023 and increased by ₹ 12,000 at the end of 2023-2024. (Inventory of 2022-23 has been sold out during the year 2023-24)

(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 2022-23 and ₹ 12,500 in 2023-24 being part of initial Sales Promotion expenditure of ₹ 37,500 in 2022-23, which is being written off over three years. Similar nature of Sales Promotion expenditure of LTC Ltd. has been fully written off in 2022-23.

Restate the balance sheet of MNT Ltd. as on 31st March, 2024 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. **(14 Marks)**

6. (a) Briefly explain the elements of financial statements.

Or

In the financial statements of the financial year 2023-2024, Alpha Ltd. has mentioned in the notes to accounts that during financial year, 24,000 equity shares of ₹ 10 each were issued as fully paid bonus shares. However, the source from which these bonus shares were issued has not been disclosed. Is such non-disclosure a violation of the Schedule III to the Companies Act? Comment. **(4 Marks)**

(b) A Ltd. sold JCB having WDV of ₹ 20 lakhs to B Ltd. for ₹ 24 lakhs and the same JCB was leased back by B Ltd. to A Ltd. The lease is operating lease. In context of Accounting Standard 19 "Leases" explain the accounting treatment of profit or loss in the books of A Ltd. if

(i) Sale price of ₹ 24 lakhs is equal to fair value.

(ii) Fair value is ₹ 20 lakhs and sale price is ₹ 24 lakhs.

(iii) Fair value is ₹ 22 lakhs and sale price is ₹ 25 lakhs.

(v) Fair value is ₹ 25 lakhs and sale price is ₹ 18 lakhs.

(v) Fair value is ₹ 18 lakhs and sale price is ₹ 19 lakhs. **(4 Marks)**

(c) Give Journal Entries in the books of Branch A to rectify or adjust the following:

(i) Head Office expenses ₹ 3,500 allocated to the Branch, but not recorded in the Branch Books.

(ii) Depreciation of branch assets, whose accounts are kept by the Head Office not provided earlier for ₹ 1,500.

(iii) Branch paid ₹ 2,000 as salary to a H.O. Inspector, but the amount paid has been debited by the Branch to Salaries account.

(iv) H.O. collected ₹ 10,000 directly from a customer on behalf of the Branch, but no intimation to this effect has been received by the Branch.

(v) A remittance of ₹ 15,000 sent by the Branch has not yet been received by the Head Office.

(vi) Branch A incurred advertisement expenses of ₹ 3,000 on behalf of Branch B.

(6 Marks)