

**ANSWERS OF MODEL TEST PAPER 1**  
**INTERMEDIATE COURSE: GROUP - I**  
**PAPER – 1 : ADVANCED ACCOUNTING**  
**ANSWER**

**Division A (30 Marks)**

1. (i) (a)  
(ii) (d)  
(iii) (c)  
(iv) (c)
2. (i) (a)  
(ii) (c)  
(iii) (d)  
(iv) (b)
- 3 (i) (b)  
(ii) (d)  
(iii) (c)  
(iv) (c)
4. (b)
- 5 (b)
- 6 (a)

**Division B**

1. (a) As per AS 13 (Revised) 'Accounting for Investments', for investment in shares if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value, i.e., in case of shares, at lower of cost (₹ 2,50,000) and market value (₹ 2,25,000) as on 31 March 2023, i.e., ₹ 2,25,000.

If equity shares are acquired with an intention to hold for long term period (more than one year), then should be considered as long-term investment to be shown at cost in the Balance Sheet of the company. However, provision for diminution should be made to recognise a decline, if other than temporary, in the value of the investments.

Gold and silver are generally purchased with an intention to hold it for long term period (more than one year) until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 1<sup>st</sup> March, 2020) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31<sup>st</sup> March, 2023, i.e., ₹ 4,00,000 and ₹ 2,00,000 respectively, though their market values have been increased.

- (b) As per AS 19 "Leases", the lessee should recognize the lease as an asset and a liability at the inception of a finance lease. Such recognition should be at an amount equal to the fair value of the leased asset at the

inception of lease. However, if the fair value of the leased asset exceeds the present value of minimum lease payment from the standpoint of the lessee, the amount recorded as an asset and liability should be the present value of minimum lease payments from the standpoint of the lessee.

**Computation of Value of machinery:**

Present value of minimum lease payment = ₹ 6,99,054

(See working note below)

Fair value of leased asset = ₹ 7,00,000

Therefore, the recognition will be at the lower of the two i.e. 6,99,054

**Working Note - Present value of minimum lease payments:**

Annual lease rental × PVIF + Present value of guaranteed residual value

= ₹ 3,00,000 × (0.869 + 0.756 + 0.657) + ₹ 22,000 × 0.657

= ₹ 6,84,600 + ₹ 14,454 = 6,99,054

**Computation of finance charges:**

Year	Finance charge	Payment	Reduction in outstanding liability	Outstanding liability
1 <sup>st</sup> Year beginning	—	—	—	6,99,054
End of 1 <sup>st</sup> year	1,04,858	3,00,000	1,95,142	5,03,912
End of 2 <sup>nd</sup> year	75,587	3,00,000	2,24,413	2,79,499
End of 3 <sup>rd</sup> year	41,925	3,00,000	2,58,075	21,424

**(c) Treatment of Impairment Loss**

As per AS 28 “Impairment of assets”, if the recoverable amount (higher of net selling price and its value in use) of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount. In the given case, net selling price is ₹ 64.50 lakhs (₹ 67.50 lakhs – ₹ 3 lakhs) and value in use is ₹ 60 lakhs. Therefore, recoverable amount will be ₹ 64.50 lakhs. Impairment loss will be calculated as ₹ 10.50 lakhs [₹ 75 lakhs (Carrying Amount after revaluation - Refer Working Note) less ₹ 64.50 lakhs (Recoverable Amount)].

Thus impairment loss of ₹ 10.50 lakhs should be recognised as an expense in the Statement of Profit and Loss immediately since there was downward revaluation of asset which was already charged to Statement of Profit and Loss.

**Working Note:****Calculation of carrying amount of the Property, Plant and Equipment at the end of the fourth year on revaluation**

(₹ in lakhs)	
Purchase price of a Property, Plant and Equipment	150.00
Less: Depreciation for four years [(150 lakhs / 10 years) x 4 years]	(60.00)
Carrying value at the end of fourth year	90.00
Less: Downward revaluation charged to profit and loss account	(15.00)
Revalued carrying amount	75.00

2.

**Delta Limited****Balance Sheet as at 31<sup>st</sup> March 2023**

Particulars	Note No.	(₹ in '000)
<b>A. Equity and Liabilities</b>		
<b>1. Shareholders' funds</b>		
(a) Share Capital	1	495.00
(b) Reserves and Surplus	2	807.20
<b>2. Non-Current Liabilities</b>		
(a) Long Term Borrowings	3	300.00
<b>3. Current Liabilities</b>		
(a) Trade Payables		30.00
(b) Short- term provision	4	<u>163.80</u>
Total		<u>1,796.00</u>
<b>B. Assets</b>		
<b>1. Non-Current Assets</b>		
(a) Property, Plant and Equipment	5	1,550.00
<b>2. Current Assets</b>		
(a) Inventories		96.00
(b) Trade Receivables	6	120.00
(c) Cash and Cash equivalents	7	<u>30.00</u>
Total		<u>1,796.00</u>

**Statement of Profit and Loss for the year ended 31<sup>st</sup> March 2023**

Particulars	Note No.	(₹ in '000)
I. Revenue from Operations		1200.00
II. Other Income	8	<u>6.00</u>

III.	Total Income (I +II)		<u>1,206.00</u>
IV.	Expenses:		
	Purchases (adjusted)		400.00
	Finance Costs	9	30.00
	Depreciation (10% of 800)		80.00
	Other expenses	10	<u>150.00</u>
	Total Expenses		<u>660.00</u>
V.	Profit / (Loss) for the period before tax (III – IV)		546.00
VI.	Tax expenses @30%		<u>163.80</u>
VII	Profit for the period		<u>382.20</u>

### Notes to Accounts

	Particulars		(₹ in '000)
1	Share Capital		
	Equity Share Capital		
	Authorised		
	80,000 Shares of ₹ 10/- each		<u>800</u>
	Issued, Subscribed and Called-up		
	50,000 Shares of ₹ 10/- each	500	
	(Out of the above 5,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	<u>(5)</u>	495
2	Reserves and Surplus		
	Securities Premium		40.00
	Revaluation Reserve ₹ (960 – 800)		160.00
	General Reserve		150.00
	Surplus i.e. Profit & Loss Account Balance		
	Opening Balance	75.00	
	Add: Profit for the period	<u>382.20</u>	<u>457.20</u>
			<u>807.20</u>
3	Long-Term Borrowings		
	10% Debentures		300
4.	Short – term provision		
	Provision for tax		163.80
5	Property, plant & equipment		
	Land		
	Opening Balance	800	
	Add: Revaluation adjustment	<u>160</u>	
	Closing Balance		960

	Plant and Machinery		
	Opening Balance	824	
	Less: Disposed off	<u>(24)</u>	
		800	
	Less: Depreciation ₹ (150 – 20 + 80)	<u>(210)</u>	
	Closing Balance		<u>590</u>
	Total		<u>1,550</u>
6	Trade receivables		
	Debits outstanding for a period exceeding six months	50	
	Other debts	<u>70</u>	120
7	Cash and Cash Equivalents		
	Cash at Bank With scheduled banks	23	
	With others (ABC Bank Limited)	5	
	Cash in hand	<u>2</u>	30
8	Other Income		
	Profit on sale of machinery		
	Sale value of machinery	10	
	Less: Book value of machinery (24 – 20)	<u>(4)</u>	6
9	Finance Costs		
	Debenture Interest		30
10	Other Expenses:		
	Factory expenses	80	
	Selling expenses	25	
	Administrative expenses	<u>45</u>	150

3. (a) As per AS 9 on Revenue Recognition, revenue arising from the use by others of enterprise resources yielding interest and royalties should only be recognized when no significant uncertainty as to measurability or collectability exists. These revenues are recognized on the following bases:
- Interest: on a time proportion basis taking into account the amount outstanding and the rate applicable. Therefore X Ltd. should recognize interest revenue of ₹ 10 Lakhs.
  - Royalties: on an accrual basis in accordance with the terms of the relevant agreement. X Ltd. therefore should recognize royalty revenue of ₹ 15 Lakhs.

(b)

**In the Books of ABC Ltd.**  
**Journal Entries**

Particulars		₹	₹
8% Preference share capital A/c Dr.		6,00,000	
To 11% Debentures A/c			4,20,000
To Capital reduction A/c			1,80,000
[Being 30% reduction in liability of preference share capital and issue of 11% debentures]			
9% Debentures A/c Dr.		12,00,000	
To Plant & machinery A/c			9,00,000
To Capital reduction A/c			3,00,000
[Settlement of debenture holders by allotment of plant & machinery]			
Trade payables A/c Dr.		5,92,000	
To Inventory A/c			5,00,000
To Capital reduction A/c			92,000
[Being settlement of creditors by giving Inventories]			
Bank A/c Dr.		3,00,000	
To 11% Debentures A/c			3,00,000
[Being fresh issue of debentures]			
Bank overdraft A/c Dr.		1,50,000	
To Bank A/c			1,50,000
[Being settlement of bank overdraft]			
Capital reduction A/c Dr.		5,72,000	
To Investment A/c			13,000
To Profit and loss A/c			4,05,000
To Capital reserve A/c			1,54,000
[Being decrease in investment and profit and loss account (Dr. bal.); and balance of capital reduction account transferred to capital reserve]			

**Capital Reduction Account**

	₹		₹
To Investments A/c	13,000	By Preference share capital A/c	1,80,000
To Profit and loss A/c	4,05,000	By 9% Debenture holders A/c	3,00,000

To Capital reserve A/c	<u>1,54,000</u>	By Trade payables A/c	<u>92,000</u>
	<u>5,72,000</u>		<u>5,72,000</u>

**Balance Sheet Extract of ABC Ltd. (And Reduced)  
As at 31<sup>st</sup> March 2023**

Particulars	Note No	₹
<b>I. Equity and Liabilities</b>		
<b>(1) Shareholder's Funds</b>		
(a) Share Capital	1	20,00,000
(b) Reserves and Surplus	2	1,54,000
<b>(2) Non-Current Liabilities</b>		
(a) Long-term borrowings	3	7,20,000
Total		28,74,000

**Notes to Accounts**

		₹
<b>1.</b>	<b>Share Capital</b>	
	2,00,000 Equity shares of ₹ 10 each fully paid-up	20,00,000
<b>2.</b>	<b>Reserve and Surplus</b>	
	Capital Reserve	1,54,000
<b>3.</b>	<b>Long Term Borrowings</b>	
	11% Debentures (₹ 4,20,000 + ₹ 3,00,000)	7,20,000

4.

**In the Books of Hari Ltd.**

**Journal Entries**

		₹	₹
Business Purchase A/c	Dr.	5,30,000	
To Liquidators of Vayu Ltd. Account			5,30,000
(Being business of Vayu Ltd. taken over)			
Goodwill Account	Dr.	50,000	
Building Account	Dr.	1,50,000	
Machinery Account	Dr.	1,60,000	
Inventory Account	Dr.	1,57,500	
Trade receivables Account	Dr.	1,00,000	
Bank Account	Dr.	20,000	
To Retirement Gratuity Fund Account			20,000

To Trade payables Account		80,000
To Provision for Doubtful Debts Account		7,500
To Business Purchase A/c (Being Assets and Liabilities taken over as per agreed valuation).		5,30,000
Liquidators of Vayu Ltd. A/c	Dr.	5,30,000
To 9% Preference Share Capital A/c		1,10,000
To Equity Share Capital A/c		4,00,000
To Securities Premium A/c (Being Purchase Consideration satisfied as above).		20,000

**Balance Sheet of Hari Ltd. (after absorption)  
as at 31<sup>st</sup> March, 2023**

Particulars	Notes	₹
<b>Equity and Liabilities</b>		
<b>1 Shareholders' funds</b>		
A Share capital	1	16,10,000
B Reserves and Surplus	2	90,000
<b>2 Non-current liabilities</b>		
A Long-term provisions	3	70,000
<b>3 Current liabilities</b>		
A Trade Payables		2,10,000
Total		19,80,000
<b>Assets</b>		
<b>1 Non-current assets</b>		
A Property, Plant and Equipment	4	11,10,000
B Intangible assets	5	1,00,000
<b>2 Current assets</b>		
A Inventories		4,07,500
B Trade receivables	6	2,92,500
C Cash and cash equivalents		<u>70,000</u>
Total		<u>19,80,000</u>

**Notes to accounts**

		₹
<b>1 Share Capital</b>		
Equity share capital		



1,40,000 Equity Shares of ₹ 10 each fully paid (Out of above 40,000 Equity Shares were issued in consideration other than for cash)	14,00,000
Preference share capital	
2,100 9% Preference Shares of ₹ 100 each (Out of above 1,100 Preference Shares were issued in consideration other than for cash)	2,10,000
Total	16,10,000
<b>2 Reserves and Surplus</b>	
Securities Premium	20,000
General Reserve	70,000
Total	90,000
<b>3 Long-term provisions</b>	
Retirement Gratuity fund	70,000
Total	70,000
<b>4 Property, Plant and Equipment</b>	
Buildings	4,50,000
Machinery	6,60,000
Total	11,10,000
<b>5 Intangible assets</b>	
Goodwill	1,00,000
<b>6 Trade receivables</b>	3,00,000
<b>Less:</b> Provision for Doubtful Debts	7,500
	2,92,500

#### Working Notes:

<b>Purchase Consideration:</b>	<b>₹</b>
Goodwill	50,000
Building	1,50,000
Machinery	1,60,000
Inventory	1,57,500
Trade receivables	92,500
Cash at Bank	<u>20,000</u>
	6,30,000
Less: Liabilities:	
Retirement Gratuity Fund	(20,000)
Trade payables	<u>(80,000)</u>
Net Assets/ Purchase Consideration	<u>5,30,000</u>
To be satisfied as under:	
10% Preference Shareholders of Vayu Ltd.	1,00,000
Add: 10% Premium	<u>10,000</u>

1,100 9% Preference Shares of Hari Ltd.	1,10,000
Equity Shareholders of Vayu Ltd. to be satisfied by issue of 40,000 Equity Shares of Hari Ltd. at 5% Premium	<u>4,20,000</u>
Total	<u>5,30,000</u>

**5. Consolidated balance Sheet of Virat Ltd. and its Subsidiary Anushka Ltd. as at 31<sup>st</sup> March, 2023**

Particulars		Note	Amount (₹)
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>		
	<b>Shareholders' Funds:</b>		
(1)	(a) Share Capital	1	6,00,000
	(b) Reserve and Surplus	2	1,80,000
	<b>Minority Interest</b>	3	1,00,000
	<b>Non-Current Liabilities:</b>		
(2)	Long Term Borrowings	4	3,00,000
(3)			
(4)	<b>Current Liabilities:</b>		
	Trade Payables	5	2,00,000
	<b>Total</b>		<b>13,80,000</b>
<b>II</b>	<b>ASSETS:</b>		
(1)	<b>Non-Current Assets</b>		
	Property, Plant & Equipment	6	7,00,000
(2)	<b>Current Assets:</b>		
	(a) Inventories	7	3,60,000
	(b) Trade receivables	8	2,20,000
	(c) Cash and Cash Equivalents	9	1,00,000
	<b>Total</b>		<b>13,80,000</b>

**Notes to Accounts**

	Particulars	₹	₹
<b>1. Share capital</b>	60,000 equity shares of ₹ 10 each fully paid up		<u>6,00,000</u>
<b>2. Reserves and Surplus</b>	General Reserve	1,00,000	
	Add: General reserve of Anushka Ltd (80%)	<u>80,000</u>	
	Total		<u>1,80,000</u>
<b>3. Minority interest</b>	20% share in Anushka Ltd (WN 3)		<u>1,00,000</u>

<b>4</b>	<b>Long term borrowings</b>		
	Long term borrowings of Virat	2,00,000	
	Add: Long term borrowings of Anushka	<u>1,00,000</u>	
	Total		<u>3,00,000</u>
<b>5.</b>	<b>Trade payables</b>		
	Trade payables of Virat	1,00,000	
	Add: Trade payables of Anushka	<u>1,00,000</u>	
	Total		<u>2,00,000</u>
<b>6.</b>	<b>Property, Plant and Equipment (PPE)</b>		
	PPE of Virat Ltd	4,00,000	
	Add: PPE of Anushka Ltd	<u>3,00,000</u>	
	Total		<u>7,00,000</u>
<b>7.</b>	<b>Inventories</b>		
	Inventories of Virat Ltd	1,60,000	
	Add: Inventories of Anushka Ltd	<u>2,00,000</u>	
	Total		<u>3,60,000</u>
<b>8.</b>	<b>Trade receivables</b>		
	Trade receivables of Virat Ltd	80,000	
	Add: Trade receivables of Anushka Ltd	<u>1,40,000</u>	
	Total		<u>2,20,000</u>
<b>9</b>	<b>Cash and cash equivalents</b>		
	Cash and cash equivalents of Virat Ltd	40,000	
	Add: Cash and cash equivalents of Anushka Ltd	<u>60,000</u>	
	Total		<u>1,00,000</u>

### Working Notes:

#### 1. Basic Information

Company Status	Dates	Holding Status
Holding Co. = Virat Ltd.	Acquisition: Anushka's Incorporation	Holding Company
Subsidiary = Anushka Ltd.	Consolidation: 31 <sup>st</sup> March, 2023	= 80% Minority Interest = 20%

#### 2. Analysis of General Reserves of Anushka Ltd

Since Virat holds shares in Anushka since its incorporation, the entire Reserve balance of ₹1,00,000 will be Revenue.

### 3. Consolidation of Balances

Holding- 80%, Minority - 20%	Total	Minority Interest	Holding Company	
Equity Capital	4,00,000	80,000	3,20,000	-
General Reserves	1,00,000	20,000	Nil (pre-acq)	80,000 (post-acq)
Total		<u>1,00,000</u>	3,20,000	80,000
Cost of Investment			<u>(3,20,000)</u>	-
Goodwill/ capital reserve			<u>NIL</u>	
Parent's Balance				1,00,000
Amount for Consolidated Balance Sheet				1,80,000

6. (a) The qualitative characteristics are attributes that improve the usefulness of information provided in financial statements. Understandability; Relevance; Reliability; Comparability are the qualitative characteristics of financial statements.

#### Qualitative Characteristics of Financial Statements

<ul style="list-style-type: none"> <li>Understandability</li> </ul>	<ul style="list-style-type: none"> <li>Information presented in financial statements should be readily understandable by the users with reasonable knowledge of business and economic activities.</li> </ul>
<ul style="list-style-type: none"> <li>Relevance</li> </ul>	<ul style="list-style-type: none"> <li>Financial statements should contain relevant information only. Information, which is likely to influence the economic decisions of the users is called relevant.</li> </ul>
<ul style="list-style-type: none"> <li>Reliability</li> </ul>	<ul style="list-style-type: none"> <li>Information must be reliable; that is to say, they must be free from material error and bias.</li> </ul>
<ul style="list-style-type: none"> <li>Comparability</li> </ul>	<ul style="list-style-type: none"> <li>Financial statements should provide both inter-firm and intra-firm comparison.</li> </ul>

Or

- (a) Accounting Standards deal with the issues of (i) Recognition of events and transactions in the financial statements, (ii) Measurement of these transactions and events, (iii) Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and (iv) Disclosure requirements.

(b) **Cash Flow Statement of .....**  
**for the year ended March 31, 2023(Direct Method)**

Particulars	₹	₹
<b>Operating Activities:</b>		
Cash received from sale of goods	1,40,000	
Cash received from Trade receivables	1,75,000	
Trade Commission received	50,000	3,65,000
Less: Payment for Cash Purchases	1,20,000	
Payment to Trade payables	1,57,000	
Office and Selling Expenses	75,000	
Payment for Income Tax	30,000	<u>(3,82,000)</u>
Net Cash Flow used in Operating Activities		(17,000)

(c) (i) **Calculation of profit earned by the branch**

**In the books of Jammu Branch**  
**Trading Account and Profit and Loss Account**

Particulars	Amount	Particulars	Amount
	₹		₹
To Opening stock	2,20,000	By Sales	12,00,000
To Goods received by Head office	11,00,000	By Closing stock (Refer W.N.)	3,60,000
To Expenses	45,000		
To Net profit (Bal fig)	1,95,000		
	15,60,000		15,60,000

(ii) **Stock reserve in respect of unrealised profit**

$$= ₹ 3,60,000 \times (20/120) = ₹ 60,000$$

**Working Note:**

	₹	
Cost Price	100	
Invoice Price	120	
Sale Price	150	
<b>Calculation of closing stock at invoice price</b>	₹	
Opening stock at invoice price	2,20,000	
Goods received during the year at invoice price	<u>11,00,000</u>	
	13,20,000	
Less: Cost of goods sold at invoice price	<u>(9,60,000)</u>	[12,00,000 x (120/150)]
Closing stock	3,60,000	