

ANSWER OF MODEL TEST PAPER 3
INTERMEDIATE COURSE: GROUP – I
PAPER – 1 : ADVANCED ACCOUNTING

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

PART II – Descriptive Questions (70 Marks)

1. (a) Investment Account for the year ending on 31st December, 2023

Scrip : 8% Convertible Debentures in C Ltd.

[Interest Payable on 31st March and 30th September]

Date	Particulars	Nominal value ₹	Interest ₹	Cost ₹	Date	Particulars	Nominal Value (₹)	Interest (₹)	Cost (₹)
1.4.23	To Bank A/c	2,00,000	-	2,16,000	30.09.23	By Bank A/c	-	12,000	-
1.7.23	To Bank A/c (W.N.1)	1,00,000	2,000	1,10,000		[₹3,00,000 x 8% x (6/12)]			
31.12.23	To P & L A/c [Interest]	-	14,033	-	1.10.23	By Bank A/c	80,000		84,000
					1.10.23	By P & L A/c (loss) (W.N.3)			2,933
					1.12.23	By Bank A/c (Accrued interest) (₹ 55,000 x .08 x 2/12)		733	

				1.12.23	By Equity shares in C Ltd. (W.N. 3 and 4)	55,000		59,767
				31.12.23	By Balance c/d (W.N.5)	1,65,000	3,300	1,79,300
		<u>3,00,000</u>	<u>16,033</u>			<u>3,00,000</u>	<u>16,033</u>	<u>3,26,000</u>

SCRIP: Equity Shares in C LTD.

Date	Particulars	Cost (₹)	Date	Particulars	Cost (₹)
1.12.23	To 8 % debentures	<u>59,767</u>	31.12.23	By balance c/d	<u>59,767</u>

Working Notes:

(i) Cost of Debenture purchased on 1st July = ₹ 1,12,000 – ₹ 2,000 (Interest) = ₹ 1,10,000

(ii) Cost of Debentures sold on 1st Oct.

$$= (\text{₹ } 2,16,000 + \text{₹ } 1,10,000) \times 80,000/3,00,000 = \text{₹ } 86,933$$

(iii) Loss on sale of Debentures = ₹ 86,933 – ₹ 84,000 = ₹ 2,933

Nominal value of debentures converted into equity shares

$$= \text{₹ } 55,000$$

$$[(\text{₹ } 3,00,000 - 80,000) \times .25]$$

Interest received before the conversion of debentures

$$\text{Interest on 25\% of total debentures} = 55,000 \times 8\% \times 2/12 = 733$$

(iv) Cost of Debentures converted = $(\text{₹ } 2,16,000 + \text{₹ } 1,10,000) \times 55,000/3,00,000 = \text{₹ } 59,767$

(v)

$$\begin{aligned} \text{Cost of closing balance of Debentures} &= (\text{₹ } 2,16,000 + \text{₹ } 1,10,000) \times 1,65,000 / 3,00,000 \\ &= \text{₹ } 1,79,300 \end{aligned}$$

(vii) Closing balance of Debentures has been valued at cost.

(viii) 5,000 equity Shares in C Ltd. will be valued at cost of ₹ 59,767 being lower than the market value ₹ 75,000 (₹ 15 x 5,000)

Note: It is assumed that interest on debentures, which are converted into cash, has been received at the time of conversion.

(b) As per AS 16 'Borrowing Costs', a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Further, the standard states that what constitutes a substantial period of time primarily depends on the facts and circumstances of each case. However, ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of

the case. In estimating the period, time which an asset takes, technologically and commercially, to get it ready for its intended use or sale is considered.

It may be implied that there is a rebuttable presumption that a 12 months period constitutes substantial period of time.

Under present circumstances where construction period has reduced drastically due to technical innovation, the 12 months period should at best be looked at as a benchmark and not as a conclusive yardstick. It may so happen that an asset under normal circumstances may take more than 12 months to complete. However, an enterprise that completes the asset in 8 months should not be penalized for its efficiency by denying it interest capitalization and vice versa.

The substantial period criteria ensures that enterprises do not spend a lot of time and effort capturing immaterial interest cost for purposes of capitalization.

Therefore, if the factory is constructed in 8 months then it shall be considered as a qualifying asset. The interest on borrowings for the same shall be capitalised although it has taken less than 12 months for the asset to get ready to use.

2. **Balance Sheet of Mehar Ltd. as at 31st March, 2024**

		Note	₹
I	EQUITY AND LIABILITIES:		
(1)	(a) Share Capital	1	1,60,00,000
	(b) Reserves and Surplus	2	110,68,000
(2)	Non-current Liabilities		
	Long term Borrowings-Terms Loans (Secured)		40,00,000
(3)	Current Liabilities		
	(a) Trade Payables		45,80,000
	(b) Other current liabilities	3	8,00,000
	(c) Short-term Provisions (Provision for taxation)		10,20,000
	Total		<u>3,74,68,000</u>
II	ASSETS		
(1)	Non-current Assets		
	(a) Property, Plant and Equipment	4	214,00,000
	(b) Non-current Investments		9,00,000
(2)	Current Assets:		
	(a) Inventories	5	48,00,000
	(b) Trade Receivables	6	48,20,000
	(c) Cash and Cash Equivalents		38,40,000

(d) Short-term Loans and Advances	7	<u>17,08,000</u>
Total		3,74,68,000

Notes to accounts

			(₹)
1. Share Capital			
Authorized, issued, subscribed & called up			
1,20,000, Equity Shares of ₹ 100 each	1,20,00,000		
40,000 10% Redeemable Preference Shares of 100 each	<u>40,00,000</u>	<u>1,60,00,000</u>	
2. Reserves and Surplus			
Securities Premium Account	19,00,000		
General reserve	62,00,000		
Profit & Loss Balance			
Opening balance	-		
Profit for the period	32,00,000		
Less: Miscellaneous Expenditure written off	<u>(2,32,000)</u>	<u>29,68,000</u>	<u>110,68,000</u>
3. Other current liabilities			
Loan from other parties			8,00,000
4. Property, plant and equipment			
Plant and Machinery (WDV)			214,00,000
5. Inventories			
Finished Goods	30,00,000		
Stores	16,00,000		
Loose Tools	<u>2,00,000</u>	<u>48,00,000</u>	
6. Trade Receivables			
Trade receivables	49,00,000		
Less: Provision for Doubtful Debts	<u>(80,000)</u>	<u>48,20,000</u>	
7. Short term loans & Advances			
Staff Advances*	2,20,000		
Other Advances*	<u>14,88,000</u>	<u>17,08,000</u>	

*Considered to be short term.

3. (a) Present value of minimum lease payment is computed below:

Year	MLP ₹	DF (12.6%)	PV ₹
1	50,000	0.890	44,500
2	50,000	0.790	39,500

3	50,000	0.700	35,000
4	50,000	0.622	31,100
5	50,000	0.552	27,600
5	25,000	0.552	13,800
			1,91,500

Present value of minimum lease payment = ₹ 1,91,500

Fair value of leased asset = ₹ 2,00,000

As per AS 19, on the date of inception of Lease, Lessee should show it as an asset and corresponding liability at lower of Fair value of leased asset at the inception of the lease and present value of minimum lease payments from the standpoint of the lessee. The accounting entry at the inception of lease to record the asset taken on finance lease in books of lessee is suggested below:

	₹	₹
Asset A/c Dr. To Lessor (Lease Liability) A/c (Being recognition of finance lease as asset and liability)	1,91,500	1,91,500

- (b) As per AS 12 'Accounting for Government Grants,' income from Deferred Grant Account is allocated to Profit and Loss account usually over the periods and in the proportions in which depreciation on related assets is charged. Accordingly, in the first two years ($\text{₹ } 32 \text{ lakhs} / 4 \text{ years}$) = ₹ 8 lakhs x 2 years = ₹ 16 lakhs will be credited to Profit and Loss Account and ₹ 16 lakhs will be the balance of Deferred Grant Account after two years. Therefore, on refund of grant, following entry will be passed:

	₹	₹
Deferred Grant A/c Dr. Profit & Loss A/c Dr. To Bank A/c (Being Government grant refunded)	16 lakhs 16 lakhs	32 lakhs

1. Value of Fixed Assets after two years but before refund of grant

Fixed assets initially recorded in the books = ₹ 80 lakhs

Depreciation for each year

= $(\text{₹ } 80 \text{ lakhs} - \text{₹ } 8 \text{ lakhs}) / 4 \text{ years} = \text{₹ } 18 \text{ lakhs per year}$

Book value of fixed assets after two years

= ₹ 80 lakhs – (₹ 18 lakhs x 2 years) = ₹ 44 lakhs

2. Value of Fixed Assets after refund of grant

On refund of grant the balance of deferred grant account will become nil. The fixed assets will continue to be shown in the books at ₹ 44 lakhs.

3. Amount of depreciation for remaining two years

Depreciation will continue to be charged at ₹ 18 lakhs per annum for the remaining two years.

4. Books of Robert Ltd.

Balance Sheet of Robert Ltd. as at 1st April, 2024 (after merger)

Particulars	Notes	₹ (in lakhs)
Equity and Liabilities		
1 Shareholders' funds		
A Share capital	1	36,000
B Reserves and Surplus	2	24,981
2 Non-current liabilities		
A Long-term borrowings	3	1,500
3 Current liabilities		
A Trade Payables (1,800+694.5-120)		2,374.5
B Short-term provisions (2,745+1,053)		3,798
Total		68,653.5
Assets		
1 Non-current assets		
A Property, Plant & Equipment	4	43,506
2 Current assets		
A Inventories (11,793+6,061.5)		17,854.5
B Trade receivables (3,180+1,650-120)		4,710
C Cash and cash equivalents (1,671+913.5-1.5)		2,583
Total		68,653.5

Notes to Accounts

	₹
1. Share Capital	
Equity share capital	
Authorized, issued, subscribed and paid-up: 36 crores equity shares of ₹ 10 each (out of these shares, 13.5 crores shares have been issued for consideration other than cash)	<u>36,000</u>

2. Reserves and Surplus	
General Reserve	14,550
Securities Premium	4,500
Foreign Project Reserve	465
Profit and Loss Account ₹ (4,305 +1,162.5-1.5)	<u>5,466</u>
Total	<u>24,981</u>
3. Long-term borrowings	
Secured	
13% Debentures	<u>1,500</u>
4. PPE	
Land & Buildings	9,000
Plant & Machinery	28,500
Furniture & Fittings	<u>6,006</u>
Total	43,506

Working Note:

Computation of purchase consideration

Purchase consideration was discharged in the form of three equity shares of *Robert Ltd.* for every two equity shares held in *Diamond Ltd.*

Purchase consideration = ₹ 9,000 lacs × $\frac{3}{2}$ = ₹ 13,500 lacs

**5. Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.
as at 31st March, 2024**

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		12,00,000
(1,20,000 equity shares of ₹ 10 each)		
(b) Reserves and Surplus	1	8,16,200
(2) Minority Interest (W.N.4)		99,300
(3) Current Liabilities		
(a) Trade Payables	2	4,10,000
Total		<u>25,25,500</u>
II. Assets		
(1) Non-current assets		
(i) Property, plant and equipment	3	13,10,500
(ii) Intangible assets	4	24,000
(2) Current assets		
(i) Inventories	5	3,25,000

(ii) Trade Receivables	6	6,70,000
(iii) Cash at Bank	7	1,96,000
Total		25,25,500

Notes to Accounts

			₹
1.	Reserves and Surplus		
	General Reserves	4,35,000	
	Add: 80% share of S Ltd.'s post-acquisition reserves (W.N.3)	<u>84,000</u>	5,19,000
	Profit and Loss Account	2,80,000	
	Add: 80% share of S Ltd.'s post-acquisition profits (W.N.3)	21,200	
	Less: Unrealised gain	<u>(4,000)</u>	<u>17,200</u>
			<u>8,16,200</u>
2.	Trade Payables		
	H Ltd.	3,22,000	
	S Ltd.	1,23,000	
	Less: Mutual transaction	<u>(35,000)</u>	4,10,000
3.	Property, plant and equipment		
	Machinery		
	H Ltd.	6,40,000	
	S Ltd.	2,00,000	
	Add: Appreciation	<u>1,00,000</u>	
		3,00,000	
	Less: Depreciation	<u>(30,000)</u>	<u>2,70,000</u>
	Furniture		
	H. Ltd.	3,75,000	
	S Ltd.	40,000	
	Less: Decrease in value	<u>(10,000)</u>	
		30,000	
	Less: Depreciation	<u>(4,500)</u>	<u>25,500</u>
			<u>13,10,500</u>
4.	Intangible assets		
	Goodwill [WN 5]		24,000
5.	Inventories		
	H Ltd.	2,68,000	
	S Ltd.	<u>62,000</u>	3,30,000
	Less: Inventory reserve		<u>(5,000)</u>
			<u>3,25,000</u>

6.	Trade Receivables			
	H Ltd.		4,70,000	
	S Ltd.		<u>2,35,000</u>	
				7,05,000
	Less: Mutual transaction			<u>(35,000)</u>
				<u>6,70,000</u>
7.	Cash and Bank			
	H Ltd.		1,64,000	
	S Ltd.		<u>32,000</u>	<u>1,96,000</u>

Working Notes:

1. Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 1.4.2023

	₹
Machinery	
Revaluation as on 1.4.2023	3,00,000
Less: Book value as on 1.4.2023	<u>(2,00,000)</u>
Profit on revaluation	<u>1,00,000</u>
Furniture	
Revaluation as on 1.4.2023	30,000
Less: Book value as on 1.4.2023	<u>(40,000)</u>
Loss on revaluation	<u>(10,000)</u>

2. Calculation of short/excess depreciation

	Machinery	Furniture
Upward/ (Downward) Revaluation	1,00,000	(10,000)
Rate of depreciation	10% p.a.	15% p.a.
Difference [(short)/excess]	<u>(10,000)</u>	<u>1,500</u>

3. Analysis of reserves and profits of S Ltd. as on 31.03.2024

	Pre-acquisition profit upto 1.4.2023	Post-acquisition profits (1.4.2023–31.3.2024)	
	(Capital profits)	General Reserve	Profit and loss account
General reserve as on 31.3.2024	50,000	1,05,000	
Profit and loss account as on 31.3.2024	30,000		35,000
Upward Revaluation of machinery	1,00,000		

as on 1.4.2023			
Downward Revaluation of Furniture as on 1.4.2023	(10,000)		
Short depreciation on machinery			(10,000)
Excess depreciation on furniture			<u>1,500</u>
Total	<u>1,70,000</u>	<u>1,05,000</u>	<u>26,500</u>

4. Minority Interest

	₹
Paid-up value of (2,00,000 x 20%)	40,000
Add: 20% share of pre-acquisition profits and reserves [(20% of (50,000 + 30,000))]	16,000
20% share of profit on revaluation	18,000
20% share of post-acquisition reserves	21,000
20% share of post-acquisition profit	<u>5,300</u>
	1,00,300
Less: Unrealised Profit on Inventory (55,000 x 10/110) x 20%	<u>(1,000)</u>
	<u>99,300</u>

5. Cost of Control or Goodwill

Cost of Investment		3,20,000
Less: Paid-up value of 80% shares	1,60,000	
80% share of pre-acquisition profits and reserves (₹ 64,000 + ₹72,000)	<u>1,36,000</u>	<u>(2,96,000)</u>
Cost of control or Goodwill		<u>24,000</u>

6. (a) Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. Accounting Standards provide a set of standard accounting policies, valuation norms and disclosure requirements. Accounting standards aim at improving the quality of financial reporting by promoting comparability, consistency and transparency, in the interests of users of financial statements.

The following are the benefits of Accounting Standards:

- Standardization of alternative accounting treatments:** Accounting Standards reduce to a reasonable extent confusing variations in the accounting treatment followed for the purpose of preparation of financial statements.
- Requirements for additional disclosures:** There are certain areas where important is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

- (iii) **Comparability of financial statements:** The application of accounting standards would facilitate comparison of financial statements of different companies situated in India and facilitate comparison, to a limited extent, of financial statements of companies situated in different parts of the world. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in Accounting Standards adopted in different countries.

Or

Amount that can be drawn from reserves for (10% dividend on ₹ 80,00,000 i.e. ₹ 8,00,000)

Profits available

Current year profit ₹ 1,42,500

Amount which can be utilized from reserves (₹ 8,00,000 – 1,42,500) ₹ 6,57,500

Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 2014:

Condition I

Since 10% is lower than the average rate of dividend (12%), 10% dividend can be declared.

Condition II

Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital plus free reserves i.e. ₹ 10,50,000 [10% of (80,00,000 + 25,00,000)]

Condition III

The balance of reserves after drawl ₹ 18,42,500 (₹ 25,00,000 - ₹ 6,57,500) should not fall below 15% of its paid up capital i.e. ₹ 12,00,000 (15% of ₹ 80,00,000)

Since all the three conditions are satisfied, the company can withdraw ₹ 6,57,500 from accumulated reserve (as per Declaration and Payment of Dividend Rules, 2014).

(b) Cash Flow Statement for the year ended 31.3.2024

	₹	₹
Cash flow from operating activities		
Cash received on account of trade receivables	3,50,000	
Cash paid on account of trade payables	(90,000)	
Cash paid to employees (salaries and wages)	(25,000)	
Other cash payments (overheads)	<u>(15,000)</u>	
Cash generated from operations	2,20,000	

Income tax paid	<u>(1,55,000)</u>	
Net cash generated from operating activities		65,000
Cash flow from investing activities		
Payment for purchase of machinery	(4,00,000)	
Proceeds from sale of machinery	<u>70,000</u>	
Net cash used in investment activities		(3,30,000)
Cash flow from financing activities		
Proceeds from issue of share capital	5,00,000	
Bank loan repaid	(2,50,000)	
Debentures redeemed	<u>(50,000)</u>	
Net cash used in financing activities		<u>2,00,000</u>
Net decrease in cash and cash equivalents		(65,000)
Cash and cash equivalents at the beginning of the year		<u>80,000</u>
Cash and cash equivalents at the end of the year		<u>15,000</u>

(c)

Outlet Stock A/c

Particulars	₹	Particulars	₹
To bal b/d	45,000	By Sales $(90,000/20 \times 120)$	5,40,000
To Goods sent at outlet	4,86,000	By goods lost by fire (balancing figure)	27,000
To Gross Profit	90,000	By bal c/d	54,000
	6,21,000		6,21,000

Outlet Profit and Loss A/c

Particulars	₹	Particulars	₹
To Expenses	30,000	By Gross Profit	90,000
To Goods lost by fire	27,000		
To Net Profit (balancing figure)	33,000		
	90,000		90,000

Stock Reserve A/c

Particulars	₹	Particulars	₹
To HO P&L A/c	9,000	By bal c/d	9,000
To Bal c/d	10,800	By HO P&L A/c	10,800
	19,800		19,800