ANSWERS OF MODEL TEST PAPER 8

INTERMEDIATE COURSE; GROUP I

PAAPER 1 ADVANCED ACCOUNTING

MCQ No.		Answers
1.	(i)	(b)
	(ii)	(c)
	(iii)	(a)
	(iv)	(d)
2	(i)	(a)
	(ii)	(c)
	(iii)	(a)
3.		(c)
4.		(b)
5.		(b)
6.	(i)	(b)
	(ii)	(d)
	(iii)	(a)
	(iv)	(c)
7		(b)

1. (a) (i) In the following cases, record Journal Entries for amortization in the books of

Journal Entry for the year ended on 31st March 2024

			₹ in lakhs	₹ in lakhs
31.3.24	Amortization A/c (340 × 350/ 1,190)	Dr.	100	
	To Patent Rights A/c			100
	P&L A/c	Dr.	100	
	To Amortization A/c			100

Working note

Huge Limited amortised ₹ 340 lakhs during next 4 years on the basis of net cash flows arising of the product. The amortisation for second year will be worked out as under:

₹ 340 x 350 /1,190 (140+350+280+420) = ₹ 100 lakhs

(ii)

Particulars		₹ in lakhs	₹ in lakhs
Prior period item	Dr.	50	
Amortization A/c	Dr.	10	
To Know-how A/c			60
[Being amortization of 6 years (out of which amortization of 5 years charged as prior period item i.e. 80 x 6 /8 = 60 lakhs)]			
Profit and Loss A/c	Dr.	60	
To Amortization A/c			10
To Prior Period Item			50
(Being amount transferred to Profit and Loss account)			

(b) Computation of Expected and Actual Returns on Plan Assets

		₹
Return on ₹ 5,00,000 held for 12 months at 10.50%		52,500
Return on ₹ 1,42,000 for 6 months at 10.50%		7,455
Loss of interest on benefits paid for 4 months on ₹ 63,000 for 4 months @ 10.50%		(2,205)
Expected return on plan assets for 2023-2024		57,750
Fair value of plan assets as on 31st March 2024		7,50,000
Less: Fair value of plan assets as on 1 April,2023	5,00,000	
Contributions received on 30.9.2023	1,42,000	(6,42,000)
		1,08,000
Add: Benefits paid on 30th Nov 2023		63,000
Actual return on plan assets		1,71,000

(c) Calculation of Deferred Tax Asset/Liability in Delta Limited

Year	Accounting Income	Taxable Income	Timing Difference	Timing Difference (balance)	Deferred Tax	Deferred Tax Liability (balance)
2021	34,00,000	30,00,000	4,00,000	4,00,000	1,20,000	1,20,000
2022	50,00,000	52,00,000	(2,00,000)	2,00,000	(60,000)	60,000
2023	65,00,000	67,00,000	(2,00,000)	NIL	(60,000)	NIL
	1,49,00,000	1,49,00,000				

Calculation of total tax

Year	Deferred Tax	Current tax expense	Total tax
2021	1,20,000	9,00,000 (30,00,000 x 30%)	10,20,000

2022	(60,000)	15,60,000 (52,00,000 x 30%)	15,00,000
2023	(60,000)	20,10,000 (67,00,000 x 30%)	19,50,000

Note: It is assumed that the revenue and the taxable profit is the same.

2. Shivam Limited

Balance Sheet as at 31st March 2024

Particulars	Note No.	₹ (in 000)
I. Equity and Liabilities		
1. Shareholders' funds		
(a) Share capital	1	300.00
(b) Reserves and Surplus	2	232.70
2. Non-Current liabilities		
(a) Long term borrowings	3	135.00
3. Current liabilities		
(a) Trade Payables		35.00
(b) Short-Term Provisions		30.30
Total		733.00
II. Assets		
1. Non-current assets		
(a) Property, Plant and Equipment and Intangible assets		
(i) Property, Plant and Equipment	4	596.00
2. Current assets		
(a) Inventories		58.00
(b) Trade receivables		65.00
(c) Cash and cash equivalents		14.00
Total		733.00

Shivam Limited

Statement of Profit and Loss for the year ended 31st March 2024

	Particulars	Notes	₹ (in '000)
I.	Revenue from operations		473.00
II.	Other Income	5	1.00
III.	Total Income		474.00
IV.	Expenses:		
	Purchases		226.00
	Finance costs		14.00

	Depreciation and Amortisation expenses (10% of 510*)		51.00
	Other expenses	6	82.00
	Total Expenses		373.00
V.	Profit before Tax (III-IV)		101.00
	Tax Expense:		
	Current tax		(30.30)
	Profit for the period (after tax)		70.70

Notes to accounts

				₹ (in 000)
1.	**Share Capital**			
	Equity share capital			
	Authorised			
	35,000 shares of ₹ 10 each			350.00
	Issued, subscribed & paid-up			
	20,000 shares of ₹ 10 each fully paid up		200.00	
	Add: 10,000 Bonus Shares issued during the year		100.00	300.00
2.	**Reserves and Surplus**			
	Securities Premium Account			
	Opening Balance	27.00		
	Less: Utilised for bonus issue	27.00		0.00
	Revaluation reserve (2,45,000 – 1,48,000)			97.00
	General Reserve 90			
	Less: Utilized for bonus issue (73)	17.00		
	Add: Transfer from Profit & loss @ 10%	7.07		24.07
	Profit & loss Balance			
	Opening balance	48.00		
	Profit for the period	70.70		
	Appropriations			
	Transfer to General Reserve @ 10%	(7.07)		111.63
				232.70
3.	**Long term borrowing**			
	10% Debentures			135.00
4	**Property, Plant and Equipment**			
	Land			

* 520 (Plant and machinery at cost) – 10 (Cost of plant and machinery sold)

	Opening balance	148.00	
	Add: Revaluation adjustment	97.00	
	Closing balance		245.00
	Plant and Machinery		
	Opening balance	520.00	
	Less: Disposed off	(10.00)	
		510.00	
	Less: Depreciation (1,16,000-8,000+51,000)	(159.00)	
	Closing balance		351.00
	Total		596.00
5	**Other Income**		
	Profit on sale of machinery:		
	Sale value of machinery	3.00	
	Less: Book value of machinery (10,000-8,000)	(2.00)	1.00
6	**Other expenses:**		
	Factory expenses	40.00	
	Selling expenses	20.00	
	Administrative expenses	22.00	82.00

The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March 2024. Such dividends will be disclosed in notes only.

Working note:

Bonus Shares Issue:

- Bonus shares are issued in a 1:2 ratio, so for every 2 equity shares, 1 bonus share is issued.
- Equity Share Capital = ₹ 2,00,000 / ₹ 10 = 20,000 shares.
- Bonus Shares = 20,000 / 2 = 10,000 shares × ₹ 10 = ₹ 1,00,000.

Alternatively, since, the amount of interest on 10% 1,35,000 Debentures comes to Rs 13,500 while the Debenture Interest in the trial balance is listed as ₹ 14,000, the difference of ₹ 500 (₹13,500 - ₹14,000) may be treated as an advance payment.

3. (a) Cash flow statement

for the year ended 31st March 2024

	(₹ in lakhs)	**(₹ in lakhs)**
Cash flow from operating activities		

Cash sales	262.00	
Cash collected from credit customers	134.00	
Interest received on advance payment to suppliers	0.50	
Less: Cash purchases	(44.00)	
Less: Payment to Creditors (84 + 176 – 92)	(168.00)	
Less: Cash paid to suppliers for consumables & services	(19.00)	
Less: Cash paid to employee	(20.00)	
Cash from operations	145.50	
Less: Income tax paid	(26.00)	
Net cash generated from operating activities		119.50
Cash flow from investing activities		
Payment for purchase of Machine (20-15)	(5.00)	
Proceeds from rent received	8.00	
Net cash used in investing activities		3.00
Cash flow from financing activities		
Redemption of Preference shares	(32.00)	
Proceeds from issue of Equity shares	24.00	
Debenture interest paid	(3.00)	
Dividend Paid	(15.00)	
Net cash used in financing activities		(26.00)
Net increase in cash and cash equivalent		96.50
Add: Cash and cash equivalents as on 1.04.2023		2.00
Cash and cash equivalents as on 31.3.2024		98.50

(b) Statement determining the maximum number of shares to be bought back

(in thousands)

Particulars	Number of shares
Shares Outstanding Test (W.N.1)	15
Resources Test (W.N.2)	12
Debt Equity Ratio Test (W.N.3)	11
Maximum number of shares that can be bought back [least of the above]	11

Thus, the lowest being 11,000 shares, the company cannot buy back 14,000 shares.

Working Notes:

1. Shares Outstanding Test

Particulars	(Shares in thousands)
Number of shares outstanding	60
25% of the shares outstanding	15

2. Resources Test

Particulars	₹ (in thousands)
Paid up capital	600
Free reserves (540 + 200 +100)	840
Shareholders' funds	1,440
25% of Shareholders fund	360
Buy-back price per share	₹ 30
Number of shares that can be bought back	12,000 shares

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

Particulars		₹ in thousands
(a)	Loan funds	2,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	1,000
(c)	Present equity shareholders fund (₹)	1,440
(d)	Future equity shareholders fund (₹) (see W.N.4) (1,440-110)	1,330
(e)	Maximum permitted buy-back of Equity (₹) [(d) – (b)]	330
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	11,000 shares

4. Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y' Then

Equation 1: (Present Equity- Transfer to CRR)- Minimum Equity to be maintained = Maximum Permitted Buy-Back

$$= (1,440 - x) - 1,000 = y$$

$$= 440 - x = y \qquad (1)$$

Equation 2: Maximum Permitted Buy-Back X Nominal Value Per Share/Offer Price Per Share

$y/30 \times 10 = x$

or

3x = y (2)

by solving the above two equations we get

x = ₹ 110 thousands

y = ₹ 330 thousands

Alternatively, Maximum number of shares from debt equity ratio test may be worked out as follows:

Buy-back price + Face value of equity shares ₹ 30 + ₹ 10 = ₹ 40

Excess of equity fund over the minimum equity to be maintained 1440-1000 = 440 thousands

Number of Shares that can be bought back = 440/40 thousands = 11 thousands.

4. Journal Entries in the Books of Nice Ltd.

		Dr. ₹ in '000	Cr. ₹ in '000
Business Purchase Account	Dr.	10,620	
To Liquidator of Well Ltd.			10,620
(Consideration payable for the business taken over from Well Ltd.)			
Property, Plant and Equipment (120% of ₹ 16,380)	Dr.	19,656	
Inventory (110% of ₹ 870)	Dr.	957	
Trade receivables	Dr.	1,950	
Goodwill A/c (Balancing figure)	Dr.	137	
To Trade payables			4,850
To Debenture Holders Account			1,000
To Loan from bank (4,525-270)			4,255
To Short term borrowings			1,975
To Business Purchase Account			10,620
(Incorporation of various assets and liabilities taken over from Well Ltd. at agreed values and difference of net assets and purchase consideration debited to Goodwill A/c))			
Liquidator of Well Ltd.	Dr.	10,620	
To Equity Share Capital (75,000x 100)			7,500
To 9% Preference Share Capital			1,620
To Securities premium (7,5000x 20)			1,500
(Discharge of consideration for Well Ltd.'s business)			

Debenture holders A/c	Dr.	1,000	
To 9% Debentures A/c			1,000
(Being 9% debentures issued to 10% debenture holders)			
Sundry Creditors of Well Ltd.	Dr.	215	
To Sundry Debtors of Nice Ltd.			215
(Cancellation of mutual owing)			
Goodwill	Dr.	55	
To Bank			55
(Being liquidation expenses reimbursed to Well Ltd.)			

Working Note:

The purchase consideration will be:

		₹	Form
Preference shareholders:	16,200 × 100	16,20,000	9% Pref. shares
Equity shareholders:	1,25,000 × 3/5×120	90,00,000	Equity shares
		1,06,20,000	

10 % Preference shares	18,00,000
Less: 10% discount	1,80,000
	16,20,000

Debenture calculation

		Interest
10% Debenture	9,00,000	90,000
Therefore 9% debentures	90,000/9% = 10,00,000	

Balance Sheet of Nice Ltd. (After absorption) as at 31st March 2024

		Particulars	Notes	₹ in '000
	I	Equity and Liabilities		
1		Shareholders' funds		
	(a)	Share capital	1	50,120
	(b)	Reserves and Surplus	2	21,000
2		Non-current liabilities		
	(a)	Long-term borrowings	3	25,755
3		Current liabilities		
	(a)	Trade payables	4	20,375
	(b)	Short term borrowing		1,975
		Total		1,19,225

	II	Assets		
1		Non-current assets		
	(a)	Property, Plant and Equipment and Intangibles	5	
		(i) Property, plant and equipment		82,206
		(ii) Intangible assets		192
	(b)	Non-current investments		22,500
2		Current assets		
	(a)	Inventories	6	1,257
	(b)	Trade receivables	7	8,325
	(c)	Cash and Cash equivalents	8	4,745
		Total		1,19,225

Notes to accounts

			₹ in '000
1	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid up		
	3,90,000 Equity shares of ₹ 100 each (out of above 75,000 shares are issued for consideration other than cash)		39,000
	Preference Shares		
	Issued, subscribed and paid up		
	1,11,200 9% Preference Shares of ₹ 100 each (9,500 + 1,620) (out of above 16,200 shares are issued for consideration other than cash)		11,120
			50,120
2	**Reserves and Surplus**		
	Securities premium	1,500	
	Reserves and surplus	19,500	21,000
3	**Long-term borrowings**		
	9 % Debentures (11,200+1,000)	12,200	
	Loan from bank (9,300+4255)	13,555	25,755
4	**Trade Payable**		
	Nice Limited	15,740	
	Well Limited	4,850	
		20,590	
	Less: Inter Company holdings	(215)	20,375

5	**Property, Plant and Equipment and Intangibles**		
	Property, Plant and Equipment	62,550	
	Acquired during the year	19,656	82,206
	Intangibles		
	Goodwill (137+55)		192
6	**Inventories**	300	
	Acquired during the year	957	1,257
7	**Trade receivables**	6,590	
	Acquired during the year (1,585+150)	1,735	8,325
8	**Cash and Cash Equivalents**		
	Nice Limited	4,800	
	Less: Expenses on liquidation	(55)	4,745

5. 1. Trade payable (Consolidated)

Best limited	3,80,000
Add: Cool Ltd	4,10,000
Less: Elimination	(3,00,000)
Total	4,90,000

2. Current assets (Consolidated)

Best limited		9,65,000
Add: Cool Ltd		5,60,000
Less: Elimination of inter company owing	(3,00,000)	
Less: Unrealized stock profit	(1,50,000)	(4,50,000)
Total		10,75,000

3. Minority interest Cool Ltd

Share Capital (20,00,000 x 20%)		4,00,000
Add: Securities premium (2,20,000 x 20%)		44,000
Add: General Reserve (84,000 x 20%)		16,800
Add: Profit and loss balance	2,70,000	
Less: Adjustment of unrealised profit stock	(1,50,000)	
Balance	1,20,000	
20% of above balance		24,000
Total		4,84,800

4. Goodwill/Capital Reserve on Acquisition of Cool Ltd.:

Purchase Consideration		14,80,000
Less: Share Capital (20,00,000 x 80%)		16,00,000
Less: Securities premium (2,20,000 x 80%)		1,76,000
Less: General Reserve (84,000 x 80%)		67,200
Less: Profit and loss balance opening (30,000 x 80%)		24,000
Less: Pre acquisition profits (2,70,000-30,000) x 10/12 x 80%	1,60,000	
Less: Unrealised profit stock (1,50,000 x 80%)	1,20,000	40,000
Capital Reserves		4,27,200

5. Goodwill/Capital Reserve on Acquisition of Good Ltd.

Purchase Consideration	3,80,000
Less: Share Capital (10,00,000 x 25%)	2,50,000
Less: General Reserve (1,20,000 x 25%)	30,000
Less: Profit and loss balance (50,000 x 25%)	12,500
Goodwill	87,500

6. Profit and Loss Account (Consolidated)

Best limited	3,26,000
Add: Post acquisition profit of Cool Ltd {(2,70,000-30,000) x 2/12}80%	32,000
Total	3,58000

7. General Reserve (Consolidated)

Best limited	2,69,000

With reference to para no 15 of AS 21

If an enterprise makes two or more investments in another enterprise at different dates and eventually obtains control of the other enterprise, the consolidated financial statements are presented only from the date on which holding-subsidiary relationship comes in existence. If two or more investments are made over a period of time, the equity of the subsidiary at the date of investment, for the purposes of paragraph 13 above, is generally determined on a step-by-step basis; however, if small investments are made over a period of time and then an investment is made that results in control, the date of the latest investment, as a practicable measure, may be considered as the date of investment.

And para no 22 of AS 21 The results of operations of a subsidiary are included in the consolidated financial statements as from the date on which parent-subsidiary relationship came in existence. The results of operations of a subsidiary with which parent- subsidiary relationship ceases to exist are included in the consolidated statement of profit and loss until the date of cessation of the relationship. The difference between the proceeds from the disposal of investment in a subsidiary and the carrying amount of its assets less liabilities as of the date of disposal is recognised in the consolidated statement of profit and loss as the profit or loss on the disposal of the investment in the subsidiary. In order to ensure the comparability of the financial statements from one accounting period to the next, supplementary information is often provided about the effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date and the results for the reporting period and on the corresponding amounts for the preceding period.

8. Revenue (Consolidated) as per para no 15 and 22 of AS 21

Revenue of Best Ltd	56,00,000
Add: Revenue of Cool Ltd. (38,00,000 × 2/ 12)	6,33,333
	62,33,333

9. Cost of materials purchased/consumed (Consolidated) as per para no 15 and 22 of AS 21

Raw material of Best Ltd	36,50,000
Add: Raw material of Cool Ltd (31,20,000x 2/12)	5,20,000
	41,70,000

6. (a) In the books of Mr. Day

Investment Account
(Equity shares in Square Ltd.)

Date	Particulars	No. of shares	Amount (₹)	Date	Particulars	No. of shares	Amount (₹)
1.4.23	To Balance b/d	25,000	6,25,000	31.3.24	By Balance c/d (Bal. fig.)	63,750	13,00,000
31.7.23	To Bonus issue (W.N.1)	5,000	-				
5.10.23	To Bank A/c (right shares) (W.N.4)	33,750	6,75,000				
		63,750	13,00,000			63,750	13,00,000

Working Notes:

(1) Bonus shares = $\frac{25{,}000}{5}$ = **5,000** shares

(2) Right shares = $\frac{25{,}000 + 5{,}000}{2} \times 3$ = **45,000** shares

(3) Sale of rights = 45,000 shares × $\frac{1}{4}$ × ₹ 5

= 11,250 x 5 = **56,250**

₹ 56,250 to be credited to statement of profit and loss

(4) Rights subscribed = 45,000 shares × $\frac{3}{4}$ × ₹ 20 = ₹ **6,75,000**

Or

In determining the cost of inventories, it is appropriate to exclude certain costs and recognise them as expenses in the period in which they are incurred. Examples of such costs are:

(a) **Abnormal amounts** of wasted materials, labour, or other production costs;

(b) **Storage costs**, unless the production process requires such storage.

(c) **Administrative overheads** that do not contribute to bringing the inventories to their present location and condition.

(d) **Selling and distribution costs**.

(b) Journal Entries

		₹	₹
Equity Share Capital (old) A/c	Dr.	15,00,000	
To Equity Share Capital (₹ 10) A/c			5,00,000
To Cash A/c			50,000
To 10% Debentures A/c			7,50,000
To Securities premium			1,50,000
To Capital Reduction/ Reconstruction A/c			50,000
(Being new equity shares, 8% Debentures issued, cash of ₹ 50,000 and the balance transferred to Reconstruction account as per the Scheme)			
8% Debentures A/c	Dr.	5,00,000	
To Freehold Property A/c			4,45,000
To Capital Reduction/ Reconstruction A/c			55,000
(Being the debenture holders claim settled partly and foregone partly as per reconstruction scheme)			
Capital Reduction/Reconstruction A/c	Dr.	1,05,000	
To Capital Reserves A/c			1,05,000
(Being balance in capital reduction account transferred to Capital Reserves A/c)			

(c) (i) In the books of Kullu Branch

Trading and Profit and Loss Account

Particulars	Amount ₹	Particulars	Amount ₹
To Opening stock	2,70,000	By Sales	19,50,000
To Goods received by Head office	17,82,000	By Goods returned by Branch	75,000
To Expenses	56,000	By Closing stock (Refer W.N.)	4,17,000

To Net profit (Bal fig)	3,34,000		
	24,42,000		24,42,000

(ii) Calculation of Closing Stock

Cost price	100
Invoice price	120 (100+20)
Sales price	150 (120+25% of 120)
Opening Stock	2,70,000
Goods received	17,82,000
Less: Goods Returned	75,000
	19,77,000
Less: Cost of Goods Sold (Invoice price)	15,60,000
Closing Stock	4,17,000

Stock reserve in respect of unrealised profit

= 4,17,000 x (20/120) = ₹ 69,500