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 (₹)**
11^{th} Feb, 2022	60,000
25th Dec, 2022	40,000
04^{th} Oct, 2023	1,35,000

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

Mock Test Paper - Series II: 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

ANSWERS

1. (a) (iii)

(b) (i)

(c) (ii)

(d) (iii)

2. (a) (ii)

(b) (iii)

(c) (iii)

(d) (i)

3. (a) (iii)

(b) (iii)

(c) (ii)

(d) (iv)

4. (ii)

5. (i)

6. (iv)

PART II – Descriptive Questions (70 Marks)

1. (a) Provision to be made for warranty under AS 29 'Provisions, Contingent Liabilities and Contingent Assets'

As at 31st March, 2023 = ₹ 60,000 x .02 + ₹ 40,000 x .03
= ₹ 1,200 + ₹ 1,200 = ₹ 2,400

As at 31st March, 2024 = ₹ 40,000 x .02 + ₹ 1,35,000 x .03
= ₹ 800 + ₹ 4,050 = ₹ 4,850

Amount debited to Profit and Loss Account for year ended 31st March, 2024

	₹
Balance of provision required as on 31.03.2024	4,850
Less: Opening Balance as on 1.4.2023	(2,400)
Amount debited to profit and loss account	2,450

Note: No provision will be made on 31st March, 2024 in respect of sales amounting ₹ 60,000 made on 11th February, 2022 as the warranty period of 2 years has already expired.

(b) As per AS 26 "Intangible Assets", subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense when it is incurred unless (a) it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and (b) expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset.

(i) In the given case, the legal expenses to defend the patent of a product amounting ₹ 23,00,000 should not be capitalized and be charged to Profit and Loss Statement.

(ii) The company is required to expense the entire amount of ₹ 7,00,000 in the Profit and Loss account for the year ended 31st March, 2024 because no benefit will arise in the future.

(iii) As per AS 26, expenditure on an intangible item that was initially recognized as an expense by a reporting enterprise in previous annual financial statements should not be recognized as part of the cost of an intangible asset at a later date. Thus, the company cannot capitalize the amount of ₹ 25,00,000 and it should be recognized as expense

(iv) Expenditure of ₹ 50,00,000 on advertising and promotional activities should always be charged to Profit and Loss Statement. Hence, the company has done the correct treatment by debiting the sum of 50 lakhs to Profit and Loss Account.

(c) (1) Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.

(2) When goods are sold to distributor or others, revenue from such sales can generally be recognized if significant risks of ownership have passed; however, in some situations the buyer may in substance be an agent and in such cases the sale should be treated as a consignment sale.

(3) For transactions, where seller concurrently agrees to repurchase the same goods at a later date that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue.

(4) Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.

(5) On 11.03.2024, if X mart takes title and accepts billing for the goods then it is implied that the sale is complete and all risk and reward on ownership has been transferred to the buyers.

Revenue should be recognized for year ended 31st March, 2024 notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made and items were ready for delivery to the buyer at the time.

2. **MN Limited**

Balance Sheet as at 31st March, 2024

		Particulars	Note No.	(₹ in 000)
Equity and Liabilities				
1.	**Shareholders' funds**			
	A	Share capital	1	300
	B	Reserves and Surplus	2	530
2.	**Non-Current liabilities**			
	A	Long term borrowings	3	200
3.	**Current liabilities**			
	A	Trade Payables		52
		Total		**1082**
Assets				
1.	**Non-current assets**			
	A	PPE (Property, Plant & Equipment)	4	880
2	**Current assets**			
	A	Inventories		86
	B	Trade receivables		96
	C	Cash and bank balances		20
		Total		**1082**

MN Limited

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

	Particulars	Notes	(₹ in 000)
I.	Revenue from operations		700
II.	Other Income	5	2
III	**Total Income**		**702**
IV	Expenses:		
	Purchases		320
	Finance costs	6	20

	Depreciation (10% of 760*)		76
	Other expenses	7	120
	Total Expenses		**536**
V.	**Profit (Loss) for the period** (III – IV)		**166**

Notes to accounts

				(₹ in 000)
1.	**Share Capital**			
	Equity share capital			
	Authorised			
	40,000 shares of ₹ 10 each			400
	Issued & subscribed & called up			
	30,000 shares of ₹ 10 each			300
2.	**Reserves and Surplus**			
	Securities Premium Account			40
	Revaluation reserve (360 – 220)			140
	General reserve			130
	Profit & loss Balance			
	Opening balance	72		
	Profit for the period	166	238	
	Less: Appropriations			
	Interim Dividend		(18)	220
				530
3.	**Long term borrowing**			
	10% Debentures			200
4.	**PPE**			
	Land			
	Opening balance		220	
	Add: Revaluation adjustment		140	
	Closing balance			360
	Plant and Machinery			
	Opening balance		770	
	Less: Disposed off		(10)	
			760	
	Less: Depreciation (172-8+76)		(240)	
	Closing balance			520

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

Total		880
5. Other Income		
Profit on sale of machinery:		
Sale value of machinery	4	
Less: Book value of machinery (10-8)	(2)	2
6. Finance costs		
Debenture interest		20
7. Other expenses:		
Factory expenses	60	
Selling expenses	30	
Administrative expenses	30	120

Note: 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.

3. (a) $$\frac{\text{Fair value of shares immediately prior to exercise of rights + Total amount received from exercise}}{\text{Number of shares outstanding prior to exercise + Number of shares issued in the exercise}}$$

$$\frac{102 \times 2{,}50{,}000 \text{ Shares} + ₹\ 98 \times 1{,}00{,}000 \text{ shares}}{3{,}50{,}000 \text{ shares}}$$

Theoretical ex-rights fair value per share = ₹ 100.86

Computation of adjustment factor:

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}} = 102/100.86 = 1.01$$

Computation of earnings per share:

EPS for the year 2022-23 as originally reported: ₹ 50,00,000/2,50,000 shares = ₹ 20

EPS for the year 2022-23 restated for rights issue: = ₹ 50,00,000/ (2,50,000 shares x 1.01)

= ₹ 19.80

EPS for the year 2023-24 including effects of rights issue:

EPS = 75,00,000/3,25,625* = ₹ 23.03

* [(2,50,000 x 1.01 x 3/12) + (3,50,000 x 9/12)] =63,125 + 2,62,500 = 3,25,625 shares

Note: Financial year (ended 31st March) is considered as accounting year while giving the above answer.

(b) **In the books of Fortunate Ltd.**

Journal Entries

	Particulars		Debit (₹)	Credit (₹)
1.	Equity share capital A/c (₹ 50)	Dr.	9,37,500	
	To Equity share capital A/c (₹ 5)			93,750
	To Capital reduction A/c*			8,43,750
	(Being equity capital reduced to nominal value of ₹ 5 each)			
2.	Bank A/c	Dr.	2,81,250	
	To Equity share capital			2,81,250
	(Being 3 right shares against each share was issued and subscribed)			
3.	8% Preference share capital A/c (₹ 50)	Dr.	7,50,000	
	Capital reduction A/c	Dr.	75,000	
	To 6% Preference share capital (₹ 10)			6,00,000
	To equity share capital			2,25,000
	(Being 8% preference shares of ₹ 50 each converted to 6% preference shares of ₹ 10 each and also given to them 3 equity shares for every share held)			
4.	Loan A/c	Dr.	1,87,500	
	To 6% Preference share capital A/c (15,000 x ₹ 10)			1,50,000
	To Equity share capital A/c (7,500 x ₹ 5)			37,500
	(Being loan to the extent of ₹ 1,50,000 converted into share capital)			
5.	Bank A/c (25,000 x ₹ 5)	Dr.	1,25,000	
	To Equity share application A/c			1,25,000
	(Being shares subscribed by the directors)			
6.	Equity share application A/c	Dr.	1,25,000	
	To Equity share capital A/c			1,25,000
	(Being application money transferred to capital A/c)			

7.	Loan A/c	Dr.	2,50,000	
	To Bank A/c			2,50,000
	(Being loan repaid)			
8.	Capital reduction A/c	Dr.	7,68,750	
	To Profit and loss A/c			5,63,750
	To Plant A/c			43,750
	To Trademarks and Goodwill A/c (Bal. fig.)			1,61,250
	(Being losses and assets written off to the extent required)			

Balance sheet of Fortunate Ltd. (and reduced)

as on 31.3.2024

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	15,12,500
2		Non-current liabilities		
	a	Long-term borrowings (7,16,250 – 1,87,500 – 2,50,000)		2,78,750
3		Current liabilities		
	a	Trade Payables		2,58,750
	b	Other current liabilities		43,750
		Total		20,93,750
		Assets		
1		Non-current assets		
	a	Property, Plant and Equipment	2	7,91,250
	b	Intangible assets	3	2,36,250
2		Current assets		
	a	Inventories		5,00,000
	b	Trade receivables		4,10,000
	c	Cash and cash equivalents	4	1,56,250
		Total		20,93,750

Notes to accounts:

			₹
1	Share Capital		
	Authorized capital:		
	81,250 Preference shares of ₹ 10 each	8,12,500	

	1,87,500 Equity shares of ₹ 5 each	9,37,500	17,50,000
	Issued, subscribed and paid up:		
	1,52,500 equity shares of ₹ 5 each	7,62,500	
	(out of the above 52,500 shares issued for consideration other than cash)		
	75,000, 6% Preference shares of ₹ 10 each	7,50,000	15,12,500
2	Property, Plant and Equipment		
	Building at cost less depreciation	5,00,000	
	Plant at cost less depreciation	2,91,250	7,91,250
3.	Intangible assets		
	Trademarks and goodwill		2,36,250
4	Cash and cash equivalents		
	Bank (2,81,250+1,25,000-2,50,000)		1,56,250

4 In the Books of Y Ltd. Realisation Account

			₹			₹
To	Sundry Assets:			By	Retirement Gratuity Fund	60,000
	Goodwill	75,000		By	Trade payables	2,40,000
	Land & Building	3,00,000		By	X Ltd. (Purchase Consideration)	15,90,000
	Plant & Machinery	4,50,000				
	Inventory	5,25,000				
	Trade receivables	3,00,000				
	Bank	60,000	17,10,000			
To	Preference Shareholders (Premium on Redemption)		30,000			
To	Equity Shareholders (Profit on Realisation)		1,50,000			
			18,90,000			18,90,000

Balance Sheet of X Ltd. (after absorption)
as at 31st March, 2024

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	48,30,000
	B	Reserves and Surplus	2	2,70,000

2	Non-current liabilities		
	A Long-term provisions	3	2,10,000
3	Current liabilities		
	A Trade Payables	4	6,10,000
	B Short term provision	5	7,500
	Total		59,27,500
	Assets		
1	Non-current assets		
	A Fixed assets		
	Tangible assets	6	33,00,000
	Intangible assets	7	3,00,000
2	Current assets		
	A Inventories	8	12,22,500
	B Trade receivables	9	8,80,000
	C Other current Assets	10	15,000
	D Cash and cash equivalents	11	2,10,000
	Total		59,27,500

Notes to accounts

		₹
1	Share Capital	
	Equity share capital	
	4,20,000 Equity Shares of ₹ 10 each fully paid (Out of above 1,20,000 Equity Shares were issued in consideration other than for cash)	42,00,000
	Preference share capital	
	6,300 9% Preference Shares of ₹ 100 each (Out of above 3,300 Preference Shares were issued in consideration other than for cash)	6,30,000
	Total	48,30,000
2	Reserves and Surplus	
	Securities Premium	60,000
	General Reserve	2,10,000
	Total	2,70,000
3	Long-term provisions	
	Retirement Gratuity fund	2,10,000
4	Trade payables (3,90,000 + 2,40,000 - 20,000*) * *Mutual Owings eliminated.*	6,10,000

5	Short term Provisions	
	Provision for Doubtful Debts	7,500
6	Tangible assets	
	Land & Buildings	14,00,000
	Plant & Machinery	19,00,000
	Total	33,00,000
7	Intangible assets	
	Goodwill (1,50,000 +1,50,000)	3,00,000
8	Inventories (7,50,000 + 4,72,500)	12,22,500
9	Trade receivables (6,00,000 + 3,00,000 - 20,000)	8,80,000
10	Other current Assets	15,000
11	Cash and cash equivalents (1,50,000 +60,000)	2,10,000

Working Notes:

1. Computation of goodwill ₹

Profit of 2022-23	90,000
Profit of 2021-22 adjusted ₹ 78,000 + 10,000)	88,000
Profit of 2020-21 adjusted (₹ 72,000 – 25,000)	47,000
	2,25,000
Average profit	75,000

Goodwill to be valued at 2 times of average profits = ₹ 75,000 x 2 = ₹ 1,50,000

2.

Purchase Consideration:		₹
Goodwill		1,50,000
Land & Building		5,00,000
Plant & Machinery		4,00,000
Inventory		4,72,500
Trade receivables		3,00,000
Unrecorded assets		15,000
Cash at Bank		60,000
		18,97,500
Less: Liabilities:		
Retirement Gratuity	60,000	
Trade payables	2,40,000	
Provision for doubtful debts	7,500	(3,07,500)
Net Assets/ Purchase Consideration		15,90,000
To be satisfied as under:		

10% Preference Shareholders of Y Ltd.	3,00,000
Add: 10% Premium	30,000
9% Preference Shares of X Ltd.	3,30,000
Equity Shareholders of Y Ltd. to be satisfied by issue of 1,20,000	
equity Shares of X Ltd. at 5% Premium	12,60,000
Total	15,90,000

5 **Restated Balance Sheet of MNT Ltd.**

as at 31st December, 2024

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		7,50,000
(b) Reserves and Surplus	1	7,18,500
(2) Current Liabilities		
(a) Short term borrowings	2	1,70,000
(b) Trade Payables		2,46,000
(c) Short-term provision	3	4,30,000
Total		23,14,500
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment	4	6,37,500
(b) Non-current Investment		5,30,000
(2) Current assets		
(a) Inventories (6,90,000 +12,000)	5	7,02,000
(b) Trade Receivables $\left(\frac{3,43,000}{98} \times 100\right)$		3,50,000
(c) Cash & Cash Equivalents		42,500
(d) Other current assets	6	52,500
Total		23,14,500

Notes to Accounts

			₹
1.	Reserves and Surplus		
	Revenue Reserve (refer W.N.)	5,11,500	
	Securities Premium	2,07,000	7,18,500
2.	**Short term borrowings**		

	Bank overdraft		1,70,000
3.	Short-term provision		
	Provision for taxation		4,30,000
4.	Property, Plant and Equipment		
	Cost	9,20,000	
	Less: Depreciation to date	(2,82,500)	6,37,500
5.	**Inventories**	6,90,000	
	Increase in value as per FIFO	12,000	7,02,000
6.	**Other current assets**		
	Prepaid expenses (After adjusting sales promotion expenses to be written off each year) (65,000 -12,500)		52,500

Working Note:

Adjusted revenue reserves of MNT Ltd.:

	₹	₹
Revenue reserves as given		5,05,000
Add: Provision for doubtful debts [3,43,000 X 2/98)	7,000	
Add: Increase in value of inventory	12,000	19,000
		5,24,000
Less: Sales Promotion expenditure to be written off		(12,500)
Adjusted revenue reserve		5,11,500

6. (a) **Elements of Financial Statements**

Asset	Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise
Liability	Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.
Equity	Residual interest in the assets of an enterprise after deducting all its liabilities
Income/gain	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants
Expense/loss	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in

	equity other than those relating to distributions to equity participants

Or

Schedule III has come into force for the Balance Sheet and Profit and Loss Account prepared for the financial year commencing on or after 1st April, 2023. As per Part I of the Schedule III, a company should, inter alia, disclose in notes to accounts for the period of 5 years immediately preceding the balance sheet date (31st March, 2024 in the instant case) the aggregate number and class of shares allotted as fully paid-up bonus shares. Schedule III does not require a company to disclose the source from which bonus shares have been issued. Therefore, non-disclosure of source from which bonus shares have been issued does not violate the Schedule III to the Companies Act.

(b) Following will be the treatment in the given cases:

(i) When sale price of ₹ 24 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of ₹ 4 lakhs (i.e. 24 – 20) in its books.

(ii) When fair value is ₹ 20 lakhs & sale price is ₹ 24 lakhs then profit of ₹ 4 lakhs is to be deferred and amortised over the lease period.

(iii) When fair value is ₹ 22 lakhs & sale price is ₹ 25 lakhs, profit of ₹ 2 lakhs (22 - 20) to be immediately recognised in its books and balance profit of ₹ 3 lakhs (25-22) is to be amortised/deferred over lease period.

(iv) When fair value of leased machinery is ₹ 25 lakhs & sale price is ₹ 18 lakhs, then loss of ₹ 2 lakhs (20 – 18) to be immediately recognised by A Ltd. in its books provided loss is not compensated by future lease payment.

(v) When fair value is ₹ 18 lakhs & sale price is ₹ 19 lakhs, then the loss of ₹ 2 lakhs (20-18) to be immediately recognised by A Ltd. in its books and profit of ₹ 1 lakhs (19-18) should be amortised/deferred over lease period.

(c) Books of Branch A

Journal Entries

	Particulars		Dr. Amount ₹	Cr. Amount ₹
(i)	Expenses account	Dr.	3,500	
	To Head office account			3,500
	(Being the allocated expenditure by the head office recorded in branch books)			
(ii)	Depreciation account	Dr.	1,500	
	To Head office account			1,500

	(Being the depreciation provided)		

(iii)	Head office account	Dr.	2,000	
	To Salaries account			2,000
	(Being the rectification of salary paid on behalf of H.O.)			
(iv)	Head office account	Dr.	10,000	
	To Debtors account			10,000
	(Being the adjustment of collection from branch debtors)			
(v)	No entry in branch books			
(vi)	Head Office account	Dr.	3,000	
	To Cash account			3,000
	(Being the expenditure on account of Branch B, recorded in books)			

Note: Entry (vi) Inter branch transactions are routed through Head Office.