Mock Test Paper - Series II: April, 2024

Date of Paper: 2 April, 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. Mars Ltd. is a manufacturing enterprise which is starting a new manufacturing plant at X Village. It has commenced construction of the plant on April 1, 2023 and has incurred following expenses:

   - It has acquired land for installing Plant for ₹ 50,00,000
   - It incurred ₹ 35,00,000 for material and direct labour cost for developing the Plant.
   - The Company incurred ₹ 10,00,000 for head office expenses at New Delhi which included rent, employee cost and maintenance expenditure.
   - The Company borrowed ₹ 25,00,000 for construction work of Plant @12% per annum on April 1, 2023. Director finance of the Company incurred travel and meeting expenses amounting to ₹ 5,00,000 during the year for arranging this loan.
   - On November 1, 2023, the construction activities of the plant were interrupted as the local people alongwith the activists have raised issues relating to environmental impact of plant being constructed. Due to agitation the construction activities came to standstill for 3 months.
   - With the help of Government and NGOs, the agitation was over by February 28, 2024 and the work resumed. However, to balance the impact on environment, government ordered the company to install certain devices for which the Company had to incur ₹ 6,00,000 in March 2024.
   - The rate of depreciation on Plant is 10%.

   Based on the above information, answer the following questions.

   (i) Which of the following expenses cannot be included in the cost of plant:

   (a) Cost of Land

   (b) Construction material and labour cost

(c) Head office expenses

(d) Borrowing cost

(ii) How much amount of borrowing cost can be capitalised with the plant:

(a) ₹ 300,000

(b) ₹ 2,00,000

(c) ₹ 7,00,000

(d) ₹ 6,00,000

(iii) The total cost of plant as on march 31, 2024 will be:

(a) ₹ 85,00,000

(b) ₹ 98,00,000

(c) ₹ 93,00,000

(d) ₹ 95,00,000

(iv) The amount of depreciation to be charged for the year end March 31, 2024

(a) ₹ 4,30,000

(b) ₹ 9,30,000

(c) ₹ 9,80,000

(d) Nil

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

2. Beloved Finance Ltd. is a financial enterprise which is in the business of lending loan to small businesses and earn interest on loans.

- During the year the Company has lend 50 crores and earned ₹ 1.5 crore as interest on loans.
- The Company had surplus funds during the year and invested then in Fixed Deposits with bank and earned interest on fixed deposits of ₹ 20 lacs.
- The Company also acquired a gold loan unit for ₹ 10 crore during the year and the Company provided interest free loan of ₹ 15 crore to its wholly-owned subsidiary.
- The Company paid a total income tax of ₹ 75 lacs for the year.

Based on the above information, answer the following questions.

(i) In the Cash Flow Statement as per AS 3, the interest income of ₹ 1.5 crore earned on earned on loans given by the Company will be disclosed as:

(a) Cash Flow from Operating Activities

(b) Cash Flow from Investing Activities

(c) Cash Flow from Financing Activities

(d) Non-cash Items

(ii) In the Cash Flow Statement as per AS 3, the interest income of ₹ 20 Lacs earned fixed deposits with bank will be disclosed as:

(a) Cash Flow from Operating Activities

(b) Cash Flow from Investing Activities

(c) Cash Flow from Financing Activities

(d) Non-cash Items

(iii) In the Cash Flow Statement as per AS 3, amount paid for acquiring gold loan unit will be disclosed as:

(a) Cash Flow from Operating Activities

(b) Cash Flow from Investing Activities

(c) Cash Flow from Financing Activities

(d) Non-cash Items

(iv) In the Cash Flow Statement as per AS 3, total income tax of ₹ 75 lacs paid for the year will be disclosed as:

(a) Cash Flow from Operating Activities

(b) Cash Flow from Investing Activities

(c) Cash Flow from Financing Activities

(d) Non-cash Items

(v) Is any specific disclosures required to made in relation to the interest free loan of ₹ 15 crore provided by the Company to its wholly-owned subsidiary, if yes, as per which Accounting Standard:

(a) Yes, disclosure is required to be made as per AS 3, Cash Flow Statements.

(b) Yes, disclosure is required to be made as per AS 18, Related Party Disclosures

(c) Yes, disclosure is required to be made as per AS 13, Accounting for Investments

(d) No specific disclosures are required.

Multiple Choice Questions [5 MCQs of 2 Marks each: Total 10 Marks]

3. Kumar Ltd., a privately-held company, operates in the manufacturing industry. Founded in 2008, the company has steadily grown its operations and established a strong presence in the market. As of 31st March, 2023, the company's capital structure reflects a blend of equity and debt financing.

Capital Structure Overview:

- Equity Share Capital: The company has a total of ₹ 30,00,000 invested in equity shares, each valued at ₹ 10 and fully paid.

- Reserves & Surplus: Kumar Ltd. has accumulated reserves and surplus totaling ₹49,00,000, comprising contributions from various sources including General Reserve (₹ 32,50,000), Security Premium Account (₹ 6,00,000), Profit & Loss Account (₹ 4,30,000), and Revaluation Reserve (₹ 6,20,000).
- Loan Funds: The company has acquired loan funds amounting to ₹ 42,00,000 to support its operational and growth initiatives.

Buy-Back Decision:

Considering its financial position and market conditions, Kumar Ltd. has decided to initiate a share buy-back program. The company intends to repurchase its shares at a price of ₹30 per share.

In accordance with financial regulations and internal policies, Kumar Ltd. aims to assess the maximum number of shares it can repurchase while maintaining a prudent debt-equity ratio. By utilizing the Debt Equity Ratio Test, the company seeks to strike a balance between its equity base and debt obligations.

Based on the above information, answer the following questions.

(i) What is the minimum equity Kumar Ltd. needs to maintain after buy-back, according to the Debt Equity Ratio Test?

(a) ₹ 12,95,000

(b) ₹ 21,00,000

(c) ₹ 32,50,000

(d) ₹ 6,00,000

(ii) What is the maximum permitted buy-back of equity for Kumar Ltd.?

(a) ₹ 38,85,000

(b) ₹ 42,00,000

(c) ₹ 12,95,000

(d) ₹ 59,85,000

(iii) How many shares of Kumar Ltd. can be bought back at ₹ 30 per share according to the Debt Equity Ratio Test?

(a) 43,000

(b) 1,29,500

(c) 2,00,000

(d) 78,000

Multiple Choice Questions [3 MCQs of 2 Marks each: Total 6 Marks]

4. Sahil Ltd agreed to sell its factory located in Assam to Kali Ltd on 4.12.2023. It entered into a sale deed (transferring all significant risks and rewards of ownership) on 1.2.2024. But the transaction was registered with the registrar on 30.5.2024 When should the sale and gain be recognized?

(a) Both sale and gain should be recognized as on the balance sheet date i.e. 31.3.2024.

(b) Both sale and gain should be recognized on 30.5.2024.

(c) The sale should be recognized as on balance sheet date but gain should be recognized on 30.5.2024.

(d) Both sale and gain should be recognized on 4.12.2023. **(2 Marks)**

5. Pratham and Associates is a manufacturer of steel rods. It invests its profits by purchasing shares of listed companies in order to earn dividend income. It had purchased shares of Bharti Airtel Limited in FY 2018-19. However, it sold all the shares of Bharti Airtel Limited during the current year i.e. FY 2023-24. What amount would be disclosed in the profit and loss account for FY 2023-24?

(a) This transaction would not affect the profit and loss account since the primary business of the company is manufacturing, and not investment.

(b) The carrying amount net of expenses would be disclosed in the profit and loss account.

(c) The disposal proceeds net of expenses would be disclosed in the profit and loss account.

(d) The difference between the carrying amount and the disposal proceeds, net of expenses, would be disclosed in the profit and loss account.

(2 Marks)

6. As per Accounting Standards, difference between the Gross Investment and the present value of Minimum Lease Payments under finance lease (from the standpoint of the lessor) and Unguaranteed Residual Value accruing to the lessor is recorded as

(a) Unearned finance income

(b) Guaranteed Residual Value

(c) Profit on lease

(d) Loss on lease **(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) K Ltd. launched a project for producing product X in October, 2023. The Company incurred ₹ 40 lakhs towards Research and Development expenses upto 31st March, 2024. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The

Management hence wants to defer the expenditure write off to future years.

Advise the Company as per the applicable Accounting Standard.

(5 Marks)

(b) Wooden Plywood Limited has a normal wastage of 5% in the production process. During the year 2023-24, the Company used 16,000 MT of Raw material costing ₹ 190 per MT. At the end of the year, 950 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books.

You are required to :

(1) Calculate the amount of abnormal loss.

(2) Explain the treatment of normal loss and abnormal loss in the context of AS-2. **(5 Marks)**

(c) On 15th June, 2024, Y limited wants to re-classify its investments in accordance with AS 13 (revised). Decide and state the amount of transfer, based on the following information:

(1) A portion of long term investments purchased on 1st March, 2023 are to be re-classified as current investments. The original cost of these investments was ₹ 14 lakhs but had been written down by ₹ 2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15th June, 2024 was ₹ 11 lakhs.

(2) A portion of current investments purchased on 15th March, 2024 for ₹ 7 lakhs are to be re-classified as long term investments, as the company has decided to retain them. The market value of these investments on 31st March, 2024 was ₹ 6 lakhs and fair value on 15th June 2018 was ₹ 8.5 lakhs. **(4 Marks)**

2. The following balance appeared in the books of Oliva Company Ltd. as on 31-03-2024.

Particulars		**₹**	**Particulars**		**₹**
Inventory 01-04-2023			Sales		17,10,000
-Raw Material	30,000		Interest		3,900
-Finished goods	46,500	76,500	Profit and Loss A/c		48,000
Purchases		12,15,000	Share Capital		3,15,000
Manufacturing Expenses		2,70,000	Secure Loans:		
			Short–term	4,500	
			Long-term	21,000	25,500
Salaries and wages		40,200	Deposits (unsecured):		
General Charges		16,500	Short -Term	1,500	

Interim Dividend paid		27,000	Long-term	3,300	4,800
			Trade payables		3,27,000
Building		1,01,000			
Plant and Machinery		70,400			
Furniture		10,200			
Motor Vehicles		40,800			
Stores and Spare Parts Consumed		45,000			
Investments:					
Current	4,500				
Non Current	7,500	12,000			
Trade receivables		2,38,500			
Cash in Bank		2,71,100			
		24,34,200			24,34,200

From the above balance and the following information, prepare the company's Profit and Loss Account for the year ended 31st March, 2024 and Company's Balance Sheet as on that date:

1. Inventory on 31st March,2024 Raw material ₹ 25,800 & finished goods ₹ 60,000.
2. Outstanding Expenses: Manufacturing Expenses ₹ 67,500 & Salaries & Wages ₹ 4,500.
3. Interest accrued on Securities ₹ 300.
4. General Charges prepaid ₹ 2,490.
5. Provide depreciation: Building @ 2% p.a., Machinery @ 10% p.a., Furniture @ 10% p.a. & Motor Vehicles @ 20% p.a.
6. The Taxation provision of 40% on net profit is considered. **(14 Marks)**

3. (a) XYZ Ltd. has not made provision for warrantee in respect of certain goods due to the fact that the company can claim the warranty cost from the original supplier. Hence the accountant of the company says that the company is not having any liability for warrantees on a particular date as the amount gets reimbursed. You are required to comment on the accounting treatment done by the XYZ Ltd. in line with the provisions of AS 29. **(4 Marks)**

(b) The Balance Sheet of Radhika Ltd. as at 31-3-2024 is as follows:

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	13,80,000

	b	Reserves and Surplus	2	(6,42,000)
2		Non-current liabilities		
	a	Long-term borrowings	3	4,50,000
3		Current liabilities		
	a	Trade Payables		3,60,000
	b	Short term borrowings - Bank Overdraft		2,34,000
	c	Other current liabilities	4	1,47,000
		Total		19,29,000
		Assets		
1		Non-current assets		
	a	Property, plant and equipment	5	5,70,000
	b	Intangible assets	6	2,01,000
	c	Non-current investments	7	66,000
2		Current assets		
	a	Inventories		5,10,000
	b	Trade receivables		5,00,000
	c	Cash and Cash Equivalents		82,000
		Total		19,29,000

Notes to accounts

		₹
1	Share Capital	
	Equity share capital:	
	9,000 Equity Shares of ₹100 each	9,00,000
	Preference share capital:	
	4,800 6% Cumulative Preference Shares of ₹100 each	4,80,000
		13,80,000
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	(6,42,000)
3	Long-term borrowings	
	Secured: 6% Debentures	4,50,000
4	Other current liabilities	
	Loan from directors	1,20,000
	Interest payable on 6% debentures	27,000
		1,47,000

5	Property Plant and Equipment	
	Freehold property	5,10,000
	Plant	60,000
		5,70,000
6	Intangible assets	
	Goodwill	1,56,000
	Patents	45,000
		2,01,000
7	Non-current investments	
	Investments at cost	66,000

The Court approved a Scheme of re-organization to take effect on 1-4-2024, whereby:

(1) Equity Shares to be reduced to ₹ 20 each.

(2) Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.

(3) Of the Preference Share dividends which are in arrears for four years, three fourths to be waived and Equity Shares of ₹ 20 each to be allotted for the remaining quarter.

(4) Interest payable on debentures to be paid in cash.

(5) Goodwill to be written off.

(6) Inventory to be written off by ₹65,000.

(7) Amount of ₹ 68,500 to be provided for bad debts.

(8) Freehold property to be revalued at ₹6,49,000

(9) Investments be sold for ₹ 1,40,000.

(10) Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of ₹ 20 each and as to 5% in cash, and balance 5% being waived.

(11) There were capital commitments totaling ₹ 2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.

(12) Ignore taxation and cost of the scheme.

(13) Eliminate debit balance of Profit and Loss A/c

You are requested to prepare the Balance Sheet of the company after completion of the Scheme. **(10 Marks)**

4. Following is the information of Anu Ltd. and Banu Ltd. as on 31.03.2023 were as under:

	Anu Ltd. (₹)	**Banu Ltd. (₹)**
Share Capital:		
50,000 Equity Shares of ₹10 each, Fully Paid	5,00,000	
37,500 Equity Shares of ₹10 each, Fully Paid		3,75,000
General Reserve	3,00,000	-
Profit and Loss Account	62,500	62,500
Trade Payables	2,62,500	1,62,500
5% Debentures	-	1,50,000
Freehold Property	3,75,000	3,00,000
Plant and Machinery	75,000	50,000
Motor Vehicle	37,500	25,000
Trade Receivables	2,50,000	1,00,000
Inventory	2,87,500	2,25,000
Cash at Bank	1,00,000	50,000

Anu Ltd. and Banu Ltd. carry on business of similar nature and they agreed to amalgamate.

A new Company, Anban Ltd. is formed to take over the Assets and Liabilities of Anu Ltd. and Banu Ltd. on the following basis:

Assets and Liabilities are to be taken at Book Value, with the following exceptions:

(a) Goodwill of Anu Ltd. and Banu Ltd. is to be valued at ₹1,75,000 and ₹50,000 respectively.

(b) Plant and Machinery of Anu Ltd. are to be valued at ₹1,25,000.

(c) The Debentures of Banu Ltd. are to be discharged by the issue of 6% Debentures of Anan Ltd. at a premium of 5%.

You are required to:

1. Compute the basis on which shares in Anban Ltd. will be issued to Shareholders of the existing Companies assuming nominal value of each share of Anban Ltd. is ₹10.

2. Draw up a Balance Sheet of Anban Ltd. as on 1st April, 2023, when Amalgamation is completed. **(14 Marks)**

5. (a) Star Ltd.acquires 70% of equity shares of Moon Ltd.as on 31st March, 2024 at a cost of ₹ 140 lakhs. The following information is available from the balance sheet of Moon Ltd.as *on* 31st March, 2024:

	₹ in lakhs
Property, plant and equipment	240

Investments	110
Current Assets	140
Loans & Advances	30
15% Debentures	180
Current Liabilities	100

The following revaluations have been agreed upon (not included in the above figures):

Property, plant and equipment Up by 20%

Investments Down by 10%

Moon Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 2024 (Face value - ₹ 10 per share). Star Ltd. purchased the shares of Moon Ltd.@ ₹ 20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Moon Ltd. 31st March, 2024.

(b) Gamma Ltd. acquired 24,000 equity shares of ₹ 10 each, in Beta Ltd. on October 1, 2023 for₹ 4,60,200. The profit and loss account of Beta Ltd. showed a balance of ₹ 15,000 on April 1,2023. The plant and machinery of Beta Ltd. which stood in the books at ₹ 2,25,000 on April 1,2023 was considered worth ₹ 2,70,000 on the date of acquisition.

The information of the two companies as at 31-3-2024 was as follows:

	Gamma Ltd. (₹)	Beta Ltd. (₹)
Shares capital (fully paid equity shares of ₹ 10 each)	7,50,000	3,00,000
General reserve	3,60,000	1,50,000
Profit and loss account	85,800	1,23,000
Current Liabilities	2,54,700	49,500
Land and building	2,70,000	2,85,000
Plant and machinery	3,60,000	2,02,500
Investments	4,60,200	
Current assets	3,60,300	1,35,000

You are required to compute impact of revaluation of Plant and Machinery. **(7+7 = 14 Marks)**

6. (a) "One of the characteristics of financial statements is neutrality"- Do you agree with this statement? **(4 Marks)**

Or

Opening Balance Sheet of Mr. Amit is showing the aggregate value of assets, liabilities and equity ₹ 16 lakh, ₹ 6 lakh and ₹ 10 lakh respectively. During accounting period, Mr. Amit has the following transactions:

(1) Earned 10% dividend on 4,000 equity shares held of ₹ 100 each

(2) Paid ₹ 1,00,000 to creditors for settlement of ₹ 1,40,000

(3) Rent of the premises is outstanding ₹ 20,000

(4) Mr. A withdrew ₹ 18,000 for his personal use.

You are required to show the effect of above transactions on Balance Sheet in the form of Assets - Liabilities = Equity after each transaction.

(4 Marks)

(b) C Ltd. had ₹ 5,00,000 authorized capital on 31-12-2021 divided into shares of ₹ 100 each out of which 4,000 shares were issued and fully paid up. In June 2022 the Company decided to convert the issued shares into stock. But in June, 2023 the Company re-converted the stock into shares of ₹ 10 each, fully paid up.

Pass entries and show how Share Capital will appear in Notes to Balance Sheet as on 31-12-2022 and 31-12-2023. **(4 Marks)**

(c) Alfa of Chennai has a branch at Mumbai to which goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly from H.O. and partly by the branch. The statement of expenses incurred by the branch every month is sent to head office for recording.

Following further details are given for the year ended 31st December, 2023:

		₹
Cost of goods sent to Branch at cost		2,00,000
Goods received by Branch till 31-12-2023 at invoice price		2,20,000
Credit Sales for the year @ invoice price		1,65,000
Cash Sales for the year @ invoice price		59,000
Cash Remitted to head office		2,22,500
Expenses paid by H.O.		12,000
Bad Debts written off		750
Balances as on	1-1-2023	31-12-2023
	₹	₹
Stock	25,000 (Cost)	28,000 (invoice price)
Debtors	32,750	26,000
Cash in Hand	5,000	2,500

You are required to prepare Branch stock account and branch debtor account in the books of the head office for the year ended 31st December, 2023.

(6 Marks)

Mock Test Paper - Series II: April, 2024

Date of Paper: 2 April, 2024

Time of Paper: 2 P.M. to 5 P.M.

INTERMEDIATE COURSE: GROUP – I

PAPER – 1 : ADVANCED ACCOUNTING

1. **(i)** **(c)**

(ii) **(b)**

(iii) **(c)**

(iv) **(d)**

2. **(i)** **(a)**

(ii) **(a)**

(iii) **(b)**

(iv) **(a)**

(v) **(b)**

3. **(i)** **(b)**

(ii) **(a)**

(iii) **(b)**

4. **(a)**

5. **(d)**

6. **(a)**

PART II – Descriptive Questions (70 Marks)

1. **(a)** As per AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognised when no future economic benefits are expected from its use according to para 87 of the standard. Thus, the manager cannot defer the expenditure write off to future years in the given case.

Hence, the expenses amounting ₹ 40 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2024.

(b) **(i)** As per AS 2 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognised as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

(ii)	Material used	16,000 MT @ ₹ 190 = ₹ 30,40,000
	Normal Loss	(5% of 16,000 MT) 800 MT (included in calculation of cost of inventories)
	Net quantity of material	15,200 MT
(iii)	Abnormal Loss in quantity	(950 - 800) 150 MT
	Abnormal Loss	₹ 30,000

[150 units @ ₹ 200 (₹ 30,40,000/15,200)]

Amount of ₹ 30,000 (Abnormal loss) will be charged to the Profit and Loss statement.

(c) As per AS 13 (Revised) 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are **made at the lower of cost and carrying amount** at the date of transfer; and where investments are reclassified from current to long term, transfers are made **at lower of cost and fair value** on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 12 lakhs in the books.

(ii) In this case, reclassification of current investment into long-term investments will be made at ₹ 7 lakhs as cost is less than its fair value of ₹ 8.5 lakhs on the date of transfer.

2. Oliva Company Ltd.

Statement of Profit and loss for the year ended 31.03.2024

	Particulars	**Note**	**Amount (₹)**
I	Revenue from operations		17,10,000
II	Other income (3,900 +300)		4,200
III	**Total Revenue (I +II)**		17,14,200
IV	Expenses:		
	Cost of materials consumed	10	12,64,200
	Purchases of inventory-in-trade		--
	Changes in inventories of finished goods, work-in-progress and inventory-in-Trade	11	(13,500)
	Employee benefit expenses	12	44,700
	Finance costs		--
	Depreciation and amortization expenses		18,240

	Other expenses	13	3,51,510
	Total Expenses		16,65,150
V	Profit before exceptional and extraordinary items and tax		49,050
VI	Exceptional items		--
VII	Profit before extraordinary items and tax		49,050
VIII	Extraordinary items		--
IX	Profit before tax		49,050
X	Tax expense (40% of 49,050)		19,620
XI	Profit/Loss for the period from continuing operations		29,430

Oliva Company Ltd.
Balance Sheet for the year ended 31.03.2024

	Particulars	Note	Amount
1	**Equity and Liabilities**		
	(i) Shareholders' funds		
	(a) Share Capital		3,15,000
	(b) Reserves and surplus	1	50,430
2)	**Non-current liabilities**		
	(a) Long-term borrowings	2	24,300
(3)	**Current Liabilities**		
	(a) Short -term borrowings	3	6,000
	(b) Trade payables		3,27,000
	(c) Other current liability	4	72,000
	(d) Short term provision	5	19,620
			8,14,350
II	**ASSETS**		
(1)	**Non current assets**		
	(a) Property, Plant & equipment	6	2,04,160
	(b) Non-current investments		7,500
(2)	**Current assets**		
	(a) Current investments		4,500
	(b) Inventories	7	85,800
	(c) Trade receivables		2,38,500
	(d) Cash and cash equivalents		2,71,100

	(e)	Short-term loans and advances	8	2,490
	(f)	Other current assets	9	300
				8,14,350

Notes to accounts

No.	Particulars		Amount	Amount
1.	**Reserve & Surplus**			
	Profit & Loss Account: Balance b/f		48,000	
	Net Profit for the year		29,430	
	Less: Interim Dividend		(27,000)	50,430
2.	**Long term borrowings**			
	Secured loans		21,000	
	Fixed Deposits: Unsecured		3,300	24,300
3.	**Short term borrowings**			
	Secured loans		4,500	
	Fixed Deposits -Unsecured		1,500	6,000
4.	**Other current liabilities**			
	Expenses Payable (67,500 + 4,500)			72,000
5.	**Short term provisions**			
	Provision for Income tax			19,620
6.	**PPE**			
	Building	1,01,000		
	Less: Depreciation @ 2%	(2,020)	98,980	
	Plant & Machinery	70,400		
	Less: Depreciation @ 10%	(7,040)	63,360	
	Furniture	10,200		
	Less: Depreciation @ 10%	(1,020)	9,180	
	Motor vehicles	40,800		
	Less: Depreciation @ 20%	(8,160)	32,640	2,04,160
7	**Inventory**			
	Raw Material		25,800	
	Finished goods		60,000	85,800
8.	**Short term Loans & Advances**			
	General Charges prepaid			2,490
9.	**Other Current Assets**			
	Interest accrued			300

10.	**Cost of material consumed**			
	Opening inventory of raw material	30,000		
	Add: Purchases	12,15,000		
	Stores & spare parts consumed	45,000	12,90,000	
	Less: Closing inventory		(25,800)	12,64,200
11.	**Changes in inventory of Finished Goods & WIP**			
	Closing Inventory of Finished Goods		60,000	
	Less: Opening Inventory of Finished Goods		46,500	13,500
12.	**Employee Benefit expenses**			
	Salary & Wages (40,200 + 4,500)			44,700
13.	**Other Expenses**			
	Manufacturing Expenses (2,70,000 + 67,500)		3,37,500	
	General Charges (16,500 – 2,490)		14,010	3,51,510

3. (a) As per AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision.

It is apparent from the question that the company had not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier. However, the provision for warranty should have been made as per AS 29 and the amount claimable as reimbursement should be treated as a separate asset in the financial statements of the company rather than omitting the disclosure of such liability. Accordingly, it is viewed that the accounting treatment adopted by the company with respect to warranty is not correct.

(b) Balance Sheet of Radhika Ltd. (and Reduced) as on 1.4.2024

	Particulars	Notes	₹
I.	Equity & Liabilities		
A	Shareholders' Fund		
a	Share Capital	1	3,16,800
b	Reserves & Surplus	2	1,10,200
B	Non-Current Liabilities		
a	Long Term Borrowings	3	7,86,000
C	Current Liabilities		
a	Trade Payables		3,60,000
b	Short Term borrowings: Bank OD		2,34,000
	Total		18,07,000
II.	<u>Assets</u>		
A	Non-Current Assets		
a	Property, Plant & Equipment	4	7,09,000
b	Intangible assets: Patents		45,000
B	Current Assets		
a	Inventory (5,10,000-65,000)		4,45,000
b	Trade Receivable	5	4,31,500
c	Cash & Cash Equivalent		1,76,500
	Total		18,07,000

Notes to Accounts

	Particulars	₹
1	Share Capital	-
	Authorised, Issued, Subscribed & Paid Up Capital	
	Equity share Capital	
	15,840 Shares of ₹20 Paid up	<u>3,16,800</u>
	(Out of above 6,840 shares are issued for consideration other cash) (W.N 1)	
2	Reserves & Surplus	
	Capital Reserve (W.N 2)	1,10,200
3	Long Term Borrowings Secured	
a	6% Debentures	4,50,000
b	11% Debentures (70% of 4,80,000 preference shares)	<u>3,36,000</u>
		<u>7,86,000</u>
4	PPE	
	Freehold property	6,49,000

	Plant	60,000
		7,09,000
5	Trade receivable	5,00,000
	Less: Provision for Doubtful Debts	(68,500)
		4,31,500

Working notes:

1. **Computation of equity shares:**

			Equity share capital	No. of shares at ₹ 20 each
1	After the reduction to ₹ 20 each	90,000 x 20	1,80,000	9,000
2.	Equity shares allotted to preference shareholders for their ¼ arrears.	6% of 4,80,000	28,800	1,440
3.	Equity shares allotted to Directors in settlement of their loan	90% of 1,20,000	1,08,000	5,400
	Total equity shares		3,16,800	15,840

2. Calculation of capital reserve: Equity Share 7,20,000 + Preference share 1,44,000 + Freehold property 1,39,000 +Investment 74,000 + Director Loan 6,000 – Preference share dividend 28,800 - Goodwill 1,56,000 – Inventory 65,000 – Bad debts 68,500 – Profit & Loss A/c 6,42,000 = Capital Reserve 1,22,700

3. Cash balance:

		₹
Cash & cash equivalent		82,000
Add: Investment sold		1,40,000
Less: Directors Loan (1,20,000 x 5%)	6,000	
Penalty (2,50,000x 5%)	12,500	
Interest on debentures (6% on 4,50,000)	27,000	45,500
		1,76,500

4. Calculation of Net Assets

Particulars	Anu Ltd. (₹)	Banu Ltd. (₹)
Goodwill	1,75,000	50,000
Freehold property	3,75,000	3,00,000

Plant & Machinery	1,25,000	50,000
Motor vehicle	37,500	25,000
Trade receivable	2,50,000	1,00,000
Inventory	2,87,500	2,25,000
Cash at Bank	1,00,000	50,000
Total	13,50,000	8,00,000
Less : Trade payable	(2,62,500)	(1,62,500)
6% debentures	-	(1,57,500)
Net Assets	10,87,500	4,80,000

Calculation of Purchase Consideration

Sr. No.	Particulars	Computation	Anu Ltd	Banu Ltd
1	Amount payable to Equity Share Holder in the form of			
	1,08,750 Equity shares of ₹10 each	(1,08,750 × 10)	10,87,500	
	48,000 Equity shares of ₹10 each	(48,000 × 10)		4,80,000
	Purchase Consideration		10,87,500	4,80,000

Balance Sheet of Anban Ltd.
as on 1st April, 2023

	Particulars	Note No.	₹
	Equity and Liabilities		
(1)	Shareholders' Funds		
(a)	Share Capital	1	15,67,500
(2)	Non-current Liabilities		
(a)	Long term borrowings	2	1,57,500
(3)	Current Liabilities		
(a)	Trade Payables (2,62,500 + 1,62,500)		4,25,000
	Total		21,50,000
	Assets		
(1)	Non-current Assets		
(a)	Property Plant and Equipment	3	9,12,500
(b)	Intangible assets	4	2,25,000
(2)	Current Assets		
(a)	Inventories (2,87,500 + 2,25,000)		5,12,500

(b)	Trade Receivables (2,50,000 + 1,00,000)		3,50,000
(c)	Cash and cash equivalents (1,00,000 + 50,000)		1,50,000
	Total		21,50,000

Notes to Accounts:

Note No.	Particulars	₹
1	Share Capital	
	Equity share capital	
	1,56,750 equity shares of ₹10 each	15,67,500
	(out of above shares are issued for consideration other than cash)	
2	Long term borrowings	
	6% Debentures	1,57,500
3	Property, Plant & Equipment's	
	Freehold property (3,75,000 + 3,00,000)	6,75,000
	Plant & Machinery (1,25,000 + 50,000)	1,75,000
	Motor Vehicle (37,500+25,000)	62,500
		9,12,500
4	Intangible assets	
	Goodwill (1,75,000 + 50,000)	2,25,000

5. (a) Revalued net assets of Moon Ltd.as on 31st March, 2024

	₹ in lakhs	₹ in lakhs
Property, plant and equipment [240 x 120%]		288.0
Investments [110 X 90%]		99
Current Assets		140.0
Loans and Advances		30.0
Total Assets after revaluation		557
Less: 15% Debentures	180.0	
Current Liabilities	100.0	(280.0)
Equity / Net Worth		277
Star Ltd.'s share of net assets (70% of 277)		193.9
Star Ltd.'s cost of acquisition of shares of Moon Ltd.		
(₹ 140 lakhs – ₹ 14 lakhs*)		126.00
Capital reserve		67.9

* Total Cost of 70 % Equity of Moon Ltd. ₹ 140 lakhs

Purchase Price of each share	₹ 20
Number of shares purchased [140 lakhs /₹ 20]	7 lakhs
Dividend @ 20 % i.e. ₹ 2 per share	₹ 14 lakhs

Since dividend received is for pre-acquisition period, it has been reduced from the cost of investment in the subsidiary company.

(b) Impact of Revaluation of Plant and Machinery will be as -

	₹
Book value of Plant and Machinery as on 01-04-2023	2,25,000
Depreciation Rate $\frac{(2{,}25{,}000-2{,}02{,}500)}{2{,}25{,}000}$ = 22,500/2,25000 x100	10%
Book value of Plant and Machinery as on 01-10-2023 after six months depreciation @10% (2,25,000-11,250)	2,13,750
Revalued at	2,70,000
Revaluation profit (2,70,000-2,13,750)	56,250
Share of Gamma Limited in Revaluation Profit (80%)	45,000
Share of Minority in Revaluation profit (20%)	11,250
Additional Depreciation on appreciated value to be charged from post-acquisition profits	
(10% of ₹ 22,5,000 for 6 months) + (10% of ₹ 2,70,000 for 6 months) less ₹ 22500 (as already charged)	2,250
Share of Gamma Limited in additional depreciation that will reduce its share (80%) in post-acquisition profit by	1,800
Share of Minority Interest in additional depreciation	450

Working note:

Percentage of holding:

		No. of Shares	Percentage
Holding Co.	:	24,000	(80%)
Minority shareholders	:	6,000	(20%)
TOTAL SHARES	:	30,000	

6. (a) Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias. Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion on the business results.

Or

Effects of each transaction on Balance sheet of the trader is shown below:

Transactions	**Assets ₹ lakh**	**–**	**Liabilities ₹ lakh**	**=**	**Equity ₹ lakh**
Opening	16.00	–	6.00	=	10.00
(1) Dividend earned	16.40	–	6.00	=	10.80
(2) Settlement of Creditors	15.40	-	4.60	=	10.80
(3) Rent Outstanding	15.40	–	4.80	=	10.60
(4) Drawings	15.22	–	4.80	=	10.42

(b) Journal Entries

			₹	₹
2022 June	Equity Share Capital A/c	Dr.	4,00,000	
	To Equity Stock A/c			4,00,000
	(Being conversion of 4,000 fully paid Equity Shares of ₹ 100 into ₹ 4,00,000 Equity Stock as per resolution in general meeting dated…)			
2023 June	Equity Stock A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being re-conversion of ₹ 4,00,000 Equity Stock into 40,000 shares of ₹ 10 fully paid Equity Shares as per resolution in General Meeting dated...)			

(c) Books of Harrison

Branch Stock Account

	₹		₹
To Balance b/d – Op Stock	30,000	By Branch Debtors (Sales)	1,65,000
To Goods Sent to Branch A/c	2,40,000	By Branch Cash	59,000
To Branch Adjustment A/c	2,000	By Balance c/d	

(Balancing Figure – Excess of Sale over Invoice Price)		Goods in Transit (₹ 2,40,000 – ₹ 2,20,000)	20,000
		Closing Stock at Branch	28,000
	2,72,000		2,72,000

Branch Debtors Account

	₹		₹
To Balance b/d	32,750	By Bad debts written off	750
To Branch Stock A/c (Sales)	1,65,000	By Branch Cash (bal. fig.)	1,71,000
		By Balance c/d	26,000
	1,97,750		1,97,750