Mock Test Paper - Series I: July, 2024

Date of Paper: 29th July, 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. Super Ltd., a manufacturing company, has the following summarized Balance Sheet as of March 31, 2024:

Equity Shares of ₹ 10 each fully paid up: ₹ 17,00,000

Reserves & Surplus:

Revenue Reserve: ₹ 23,50,000

Securities Premium: ₹ 2,50,000

Profit & Loss Account: ₹ 2,00,000

Infrastructure Development Reserve: ₹ 1,50,000

Secured Loan:

9% Debentures: ₹ 38,00,000

Unsecured Loan: ₹ 8,50,000

Property, Plant & Equipment: ₹ 58,50,000

Current Assets: ₹ 34,50,000

Super Ltd. plans to buy back 35,000 equity shares of ₹ 10 each fully paid up on April 1, 2024, at ₹ 30 per share. The buyback is authorized by its articles, and necessary resolutions have been passed. The payment for the buyback will be made using the company's bank balance, which is part of its current assets.

Answer the following questions based on the above information:

(a) As per The Companies Act, 2013 under Section 68 (2) the buy-back of shares in any financial year must not exceed

i 20% of its total paid-up capital and free reserves

ii 25% of its total paid-up capital and free reserves iii 25% of its total paid-up capital

iv 20% of its total paid-up capital

(b) How many shares can Super Ltd. buy back according to the Shares Outstanding Test?

(i) 35,000 shares

(ii) 42,500 shares

(iii) 37,500 shares

(iv) 54,375 shares

(c) What is the maximum number of shares that can be bought back according to the Resources Test?

(i) 35,000 shares

(ii) 42,500 shares

(iii) 37,500 shares

(iv) 54,375 shares

(d) According to the Debt Equity Ratio Test, what is the maximum number of shares that can be bought back?

(i) 35,000 shares

(ii) 42,500 shares

(iii) 37,500 shares

(iv) 54,375 shares

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

2. Venus Limited received a parcel of land at no cost from the government for the purpose of developing a factory in an outlying area. The land is valued at ₹ 75 lakhs, while the nominal value is ₹ 10 lakhs. Additionally, the company received a government grant of ₹ 30 lakhs, which represents 25% of the total investment needed for the factory development. Furthermore, the company received ₹ 15 lakhs with the stipulation that it be used to purchase machinery. There is no expectation from the government for the repayment of these grants.

Answer the following questions based on the above information:

(a) The land received from Government, free of cost should be presented at:

(i) ₹ 75 Lakhs

(ii) ₹ 30 Lakhs

(iii) ₹ 10 Lakhs

(iv) ₹ 45 Lakhs

(b) As per AS 12, how the Government Grant of ₹ 30 Lakhs should be presented:

(i) It should be recognised in the profit and loss statement as per the related cost.

(ii) It will be treated as capital reserve.

(iii) It will be treated as deferred income.

(iv) It will not be recognised in the financial statements.

(c) As per AS 12, how the Government Grant of ₹ 15 Lakhs with a condition to purchase machinery may be presented as:

(i) Capital Reserve

(ii) Shareholders Fund

(iii) Deferred Income

(iv) Income in statement of profit and loss as received.

(d) Which of the above grants are required to be recognised in the statement of profit and loss on a systematic and rational basis over the useful life of the asset:

(i) Land received as Grant

(ii) Government Grant of ₹ 30 Lakhs

(iii) Government Grant of ₹ 15 Lakhs with a condition to purchase machinery

(iv) Noe of the above

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

3. Axis limited is a manufacturing company. It purchased a machinery costing ₹ 10 Lakhs in April 2023. It paid ₹ 4 lakhs upfront and paid the remaining ₹ 6,00,000 as deferred payment by paying instalment of ₹ 1,05,000 for the next 6 months. During the year, the Company sold a land which was classified as its 'property, plant and equipment' for ₹ 25,00,000 and paid ₹ 1,00,000 as income tax as long term capital gain on such sale. During the year, the Company also received income tax refund along with interest.

(a) As per the requirements of AS 3, 'Cash Flow Statements', how the amount for purchase of machinery should be presented:

(i) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 will simply be booked in profit and loss with no presentation if Cash Flow Statement.

(ii) ₹ 10.30 lakhs as 'Cash flows from Investing Activities' as entire amount is spend on purchase of machinery.

(iii) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 as 'Cash flows from Financing Activities'.

(iv) ₹ 10.30 lakhs as 'Cash flows from Financing Activities' as the machinery has been purchased on finance.

(b) At what amount, the machinery should be recognised in the financial statements:

(i) ₹ 400,000

(ii) ₹ 10,30,000

(iii) ₹ 600,000

(iv) ₹ 10,00,000

(c) How should the income tax paid on sale of land should be disclosed in the Cash Flows Statement:

(i) Cash flows from Operating Activities

(ii) Cash flows from Investing Activities

(iii) Cash flows from Financing Activities

(iv) No disclosure in Cash Flow Statement

(d) How should the interest on income tax refunds should be disclosed in the Cash Flows Statement:

(i) Cash flows from Operating Activities

(ii) Cash flows from Investing Activities

(iii) Cash flows from Financing Activities

(iv) No disclosure in Cash Flow Statement

Multiple Choice Questions [4 MCQs of 2 Marks each: Total8 Marks]

4. Gyan Ltd. borrowed ₹ 10 crore for construction of a plant at the rate of 10% per annum (interest paid annually ₹ 1 crore). The construction was being carried on and out of the borrowings, ₹ 4 crore was temporarily placed in a fixed deposit at the rate of 6% per annum (interest earned ₹ 24 lakh). At the year end, how much cost of borrowing Gyan Limited will capitalise?

(a) Interest paid on ₹ 10 crore i.e. ₹ 1 crore

(b) Interest paid on ₹ 6 crore as only this amount was utilized i.e. ₹ 60 Lakh.

(c) Interest paid less income on temporary investment i.e. ₹ 76 lakh

(d) Nothing will be capitalised. **(2 Marks)**

5. Cost of current investment acquired was ₹ 1,00,000 but the fair value was ₹ 80,000. The Investment was recorded at ₹ 80,000. Now the fair value of Investment is Rs 1,20,000. At what value should it be recorded and how much gain will be credited to profit and loss account.

(a) No change is required and it will continue at ₹ 80,000

(b) Current investment will be recorded at ₹ 1,00,000 and gain of ₹ 20,000 will be credited to profit and loss account.

(c) Current investment will be recorded at ₹ 1,20,000 and gain of ₹ 40,000 will be credited to profit and loss account.

(d) Current investment will be recorded at ₹ 1,20,000 but no gain will be credited to profit and loss account. **(2 Marks)**

6. 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. Which of the following is not an examples of such costs:

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

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

(c) Raw Material cost

(d) Selling and distribution costs. **(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) 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) Another portion of long term investments purchased on 15th January, 2023 are to be re-classified as current investments. The original cost of these investments was ₹ 7 lakhs but had been written down to ₹ 5 lakhs (to recognize 'other than temporary' decline in value). The fair value of these investments on 15th June, 2024 was ₹ 4.5 lakhs.

(3) 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 2024 was ₹ 8.5 lakhs.

(4) Another portion of current investments purchased on 7th December, 2023 for ₹ 4 lakhs are to be re-classified as long term investments. The market value of these investments was:

on 31st March, 2024	₹ 3.5 lakhs
on 15th June, 2024	₹ 3.8 lakhs

(7 Marks)

(b) The financial statements of PQ Ltd. for the year 2023-24 approved by the Board of Directors on 15th July, 2024. The following information was provided:

(i) A suit against the company's advertisement was filed by a party on 20th April, 2024, claiming damages of ₹ 25 lakhs.

(ii) The terms and conditions for acquisition of business of another company have been decided by March, 2024. But the financial resources were arranged in April, 2024 and amount invested was ₹ 50 lakhs.

(iii) Theft of cash of ₹ 5 lakhs by the cashier on 31st March, 2024 but was detected on 16th July, 2024.

(iv) Company sent a proposal to sell an immovable property for ₹ 40 lakhs in March, 2024. The book value of the property was ₹ 30 lakhs on 31st March, 2024. However, the deed was registered on 15th April, 2024.

(v) A, major fire has damaged the assets in a factory on 5th April, 2024. However, the assets are fully insured.

With reference to AS-4 "Contingencies and events occurring after the balance sheet date", state whether the above mentioned events will be treated as contingencies, adjusting events or non-adjusting events occurring after the balance sheet date. **(7 Marks)**

2. From the following particulars furnished by the Prashant Ltd., prepare the Balance Sheet as at 31st March, 2024 as required by Schedule III of the Companies Act, 2013:

Particulars	Debit (₹)	Credit (₹)
Equity share capital (face value of ₹ 10 each)		15,00,000
Calls-in-arrears	5,000	
Land	5,50,000	
Building	4,85,000	
Plant & machinery	5,60,000	
General reserve		2,70,000
Loan from State Financial Corporation		2,10,000
Inventories	3,15,000	
Provision for taxation		72,000
Trade receivables	2,95,000	
Short-term loans & advances	58,500	
Profit & loss account		1,06,800
Cash in hand	37,300	
Cash at bank	2,85,000	
Unsecured loans		1,65,000

Trade payables		2,67,000
Total	25,90,800	25,90,800

The following additional information is also provided:

(1) 10,000 equity shares were issued for consideration other than cash.

(2) Trade receivables of ₹ 55,000 are due for more than six months.

(3) The cost of building and plant & machinery is ₹ 5,50,000 and ₹ 6,25,000 respectively.

(4) The loan from State Financial Corporation is secured by hypothecation of plant & machinery. The balance of ₹ 2,10,000 in this account is inclusive of ₹ 10,000 for interest accrued but not due.

(5) Balance at Bank included ₹ 15,000 with Aakash Bank Ltd., which is not a scheduled bank. **(14 Marks)**

3. (a) The following information was provided by PQR Ltd. for the year ended 31st March, 2024 :

(1) Gross Profit Ratio was 25% for the year, which amounts to ₹ 3,75,000.

(2) Company sold goods for cash only.

(3) Opening inventory was lesser than closing inventory by ₹ 25,000.

(4) Wages paid during the year ₹ 5,55,000.

(5) Office expenses paid during the year ₹ 35,000.

(6) Selling expenses paid during the year ₹ 15,000.

(7) Dividend paid during the year ₹ 40,000.

(8) Bank Loan repaid during the year ₹ 2,05,000 (included interest ₹ 5,000)

(9) Trade Payables on 31st March, 2023 were ₹ 50,000 and on 31st March, 2024 were ₹ 35,000.

(10) Amount paid to Trade payables during the year ₹ 6,10,000

(11) Income Tax paid during the year amounts to ₹ 55,000

(Provision for taxation as on 31st March, 2024 ₹ 30,000)·

(12) Investments of ₹ 8,20,000 sold during the year at a profit of ₹ 20,000.

(13) Depreciation on furniture amounts to ₹ 40,000.

(14) Depreciation on other PPE amounts to ₹ 20,000.

(15) Plant and Machinery purchased on 15th November, 2023 for ₹ 3,50,000.

(16) On 31st March, 2024 ₹ 2,00,000, 7% Debentures were issued at face value in an exchange for a plant.

(17) Cash and Cash equivalents on 31st March, 2023 ₹ 2,25,000.

(i) Prepare cash flow statement for the year ended 31st March, 2024, using direct method.

(ii) Calculate cash flow from operating activities, using indirect method.

(10 Marks)

(b) Wow Ltd. agreed to takeover Wonder Ltd. on 1st April, 2024. The terms and conditions of takeover were as follows:

(i) Wow Ltd. issued 56,000 equity shares of ₹ 100 each at a premium of ₹ 15 per share to the equity shareholders of Wonder Ltd.

(ii) Cash payment of ₹ 39,000 was made to equity shareholders of Wonder Ltd.

(iii) 24,000 fully paid preference shares of ₹ 50 each issued at par to discharge the preference shareholders of Wonder Ltd.

(iv) The 8% Debentures of Wonder Ltd. (₹ 78,000) converted into equivalent value of 9% debentures in Wow Ltd.

(v) The actual cost of liquidation of Wonder Ltd. was ₹ 23,000. Liquidation cost is to be reimbursed by Wow Ltd. to the extent of ₹ 15,000.

You are required to:

(1) Calculate the amount of purchase consideration as per the provisions of AS 14 and

(2) Pass Journal Entry relating to discharge of purchase consideration in books of Wow Ltd. **(4 Marks)**

4. The following are the summarized Balance Sheet of VT Ltd. and MG Ltd. as on 31st March, 2024:

Particulars	VT Ltd. (₹)	MG Ltd. (₹)
Equity and Liabilities		
Equity Shares of ₹ 10 each	12,00,000	6,00,000
10% Preference Shares of ₹ 100 each	4,00,000	2,00,000
Reserve and Surplus	6,00,000	4,00,000
12% Debentures	4,00,000	3,00,000
Trade Payables	5,00,000	3,00,000
Total	31,00,000	18,00,000
Assets		
PPE	14,00,000	5,00,000
Investment	1,60,000	1,60,000
Inventory	4,80,000	6,40,000
Trade Receivables	8,40,000	4,20,000
Cash at Bank	2,20,000	80,000

Total	31,00,000	18,00,000

Details of Trade receivables and trade payables are as under:

	VT Ltd. (₹)	MG Ltd. (₹)
Trade Receivable		
Debtors	7,20,000	3,80,000
Bills Receivable	1,20,000	40,000
	8,40,000	4,20,000
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bills Payable	60,000	50,000
	5,00,000	3,00,000

PPE of both the companies are to be revalued at 15% above book value.

Inventory in Trade and Debtors are taken over at 5% lesser than their book value.

Both the companies are to pay 10% equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, VT Ltd. will absorb MG Ltd. on the following terms:

(i) VT Ltd. will issue 16 Equity Shares of ₹ 10 each at par against 12 Shares of MG Ltd.

(ii) 10% Preference Shareholders of MG Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each, at par, in VT. Ltd.

(iii) 12% Debenture holders of MG Ltd. are to be paid at 8% premium, by 12% Debentures in VT Ltd., issued at a discount of 10%.

(iv) ₹ 60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.

(v) Sundry Debtors of MG Ltd. includes ₹ 20,000 due from VT Ltd.

You are required to prepare :

(1) Journal entries in the books of VT Ltd.

(2) Statement of consideration payable by VT Ltd. **(14 Marks)**

5. From the following information of Kedar Ltd. and its subsidiary Vijay Ltd. at 31st March, 2024, prepare a consolidated balance sheet as at that date, having regard to the following:

(i) Reserves and Profit and Loss Account of Vijay Ltd. stood at ₹ 62,500 and ₹ 37,500 respectively on the date of acquisition of its 80% shares by Kedar Ltd. on 1st April, 2023.

(ii) Machinery (Book-value ₹ 2,50,000) and Furniture (Book value ₹ 50,000) of Vijay Ltd. were revalued at ₹ 3,75,000 and ₹ 37,500 respectively on 1st April, 2023 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

Kedar Ltd. and VIJAY Ltd. give the following information as on 31st March, 2024

	Kedar Ltd. (₹)	VIJAY Ltd. (₹)
Equity and Liabilities: Shareholders' funds		
Share Capital: Shares of ₹ 100 each	15,00,000	2,50,000
Reserves	5,00,000	1,87,500
Profit and Loss Account	2,50,000	62,500
Trade Payables	3,75,000	1,42,500
PPE	-	
Machinery	7,50,000	2,25,000
Furniture	3,75,000	42,500
Other non-current assets	11,00,000	3,75,000
Non-current Investments	-	-
Shares in Vijay Ltd.:2,000 shares at ₹ 200 each	4,00,000	—

(14 Marks)

6. (a) Distinguish between Amalgamation, Absorption and External Reconstruction of Company. **(4 Marks)**

Or

Summarised Balance Sheet of Cloth Trader as on 31.03.2023 is given below:

Liabilities	Amount (₹)	Assets	Amount (₹)
Proprietor's Capital	3,00,000	Fixed Assets	3,60,000
Profit & Loss Account	1,25,000	Closing Stock	1,50,000
10% Loan Account	2,10,000	Sundry Debtors	1,00,000
Sundry Creditors	50,000	Deferred Expenses	50,000
		Cash & Bank	25,000
	6,85,000		6,85,000

Additional Information is as follows :

(1) The remaining life of fixed assets is 8 years. The pattern of use of the asset is even. The net realisable value of fixed assets on 31.03.2024 was ₹ 3,25,000.

(2) Purchases and Sales in 2023-24 amounted to ₹ 22,50,000 and ₹ 27,50,000 respectively.

(3) The cost and net realizable value of stock on 31.03.2024 were ₹ 2,00,000 and ₹ 2,50,000 respectively.

(4) Expenses for the year amounted to ₹ 78,000.

(5) Deferred Expenses are amortized equally over 5 years.

(6) Sundry Debtors on 31.03.2024 are ₹ 1,50,000 of which ₹ 5,000 is doubtful. Collection of another ₹ 25,000 depends on successful re-installation of certain product supplied to the customer;

(7) Closing Sundry Creditors are ₹ 75,000, likely to be settled at 10% discount.

(8) Cash balance as on 31.03.2024 is ₹ 4,22,000.

(9) There is an early repayment penalty for the loan of ₹ 25,000.

You are required to prepare Profit & Loss Account for the year 2023-24 (Not assuming going concern). **(4 Marks)**

(b) Synergy Ltd., is in engineering industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of ₹ 6 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to ₹ 2 lakhs instead of ₹ 5 lakhs. The average remaining life of the employee is estimated to be 6 years.

You are required to advise the company. **(4 Marks)**

(c) Karan Enterprises having its Head Office in Mangalore, Karnataka has a branch in Greenville, USA. Following is the trial balance of Branch as at 31-3-2024:

Particulars	**Amount ($) Dr.**	**Amount ($) Cr.**
Fixed assets	8,000	
Opening inventory	800	
Cash	700	
Goods received from Head Office	2,800	
Sales		24,050
Purchases	11,800	
Expenses	1,800	
Remittance to head office	2,450	
Head office account		4,300
	28,350	28,350

(i) Fixed assets were purchased on 1st April, 2020.

(ii) Depreciation at 10% p.a. is to be charged on fixed assets on straight line method. ·

(iii) Closing inventory at branch is $ 700 as on 31-3-2024.

(iv) Goods received from Head Office (HO) were recorded at ₹ 1,85,500 in HO books.

(v) Remittances to HO were recorded at ₹ 1,62,000 in HO books.

(vi) HO account is recorded in HO books at ₹ 2,84,500.

(vii) Exchange rates of US Dollar at different dates can be taken as :

1-4-2020	₹ 63
1-4-2023	₹ 65 and
31-3-2024	₹ 67

Prepare the trial balance after been converted into Indian rupees in accordance with AS-11. **(6 Marks)**

Mock Test Paper - Series I: July, 2024

Date of Paper: 29th July, 2024

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

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

ANSWERS

Case Scenario

1. **(a)** **(ii)**

(b) **(ii)**

(c) **(iii)**

d) **(iv)**

2. **(a)** **(iii)**

(b) **(ii)**

(c) **(iii)**

(d) **(iii)**

3. **(a)** **(iii)**

(b) **(iv)**

(c) **(ii)**

(d) **(ii)**

4. **(c)**

5. **(b)**

6. **(c)**

PART II – Descriptive Questions (70 Marks)

1. **(a)** As per AS 13 '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 also, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 5 lakhs in the books.

(iii) 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.

(iv) In this case, market value (considered as fair vale) is ₹ 3.8 lakhs on the date of transfer which is lower than the cost of ₹ 4 lakhs. The reclassification of current investment into long-term investments will be made at ₹ 3.8 lakhs.

(b) **(i)** Suit filed against the company is a contingent liability but it was not existing as on balance sheet date as the suit was filed on 20th April after the balance Sheet date. As per AS 4, 'Contingencies' used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. Hence, it will have no effect on financial statements and will be a non-adjusting event.

(ii) In the given case, terms and conditions for acquisition of business were finalised and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2024. This is clearly an event occuring after the balance sheet date. Hence, necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st March 2024.

(iii) Only those significant events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustment to assets and liabilities existing on the balance sheet date or may require disclosure. In the given case, theft of cash was detected on 16th July, 2024 after approval of financial statements by the Board of Directors, hence no treatment is required.

(iv) Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. In the given case, sale of immovable property was under proposal stage (negotiations also not started) on the balance sheet date. Therefore, no adjustment to assets for sale of immovable property is required in the financial statements for the year ended 31st March, 2024.

(v) The condition of fire occurrence was not existing on the balance sheet date. Only the disclosure regarding event of fire and loss being completely insured may be given in the report of approving authority.

2. **Prashant Ltd.**

Balance Sheet as on 31st March, 2024

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	14,95,000
	b	Reserves and Surplus	2	3,76,800
2		**Non-current liabilities**		
		Long-term borrowings	3	3,65,000
3		**Current liabilities**		
	a	Trade Payables		2,67,000
	b	Other current liabilities	4	10,000
	c	Short-term provisions	5	72,000
		Total		25,85,800
		Assets		
1		**Non-current assets**		
		Property, Plant and Equipment	6	15,95,000
2		**Current assets**		
	a	Inventories		3,15,000
	b	Trade receivables	7	2,95,000
	c	Cash and bank balances	8	3,22,300
	d	Short-term loans and advances		58,500
		Total		25,85,800

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	Issued & subscribed & fully paid up		
	1,50,000 Equity Shares of ₹ 10 each (of the above 10,000 shares have been issued for consideration other than cash)	15,00,000	
	Less: Calls in arrears	(5,000)	14,95,000
2	Reserves and Surplus		
	General Reserve		2,70,000
	Profit & Loss balance		1,06,800
		Total	3,76,800

3	Long-term borrowings		
	Secured		
	Loan from State Financial Corporation (2,10,000-10,000)		2,00,000
	(Secured by hypothecation of Plant and Machinery)		
	Unsecured Loan		1,65,000
	Total		3,65,000
4	Other current liabilities		
	Interest accrued but not due on loans (SFC)		10,000
5	Short-term provisions		
	Provision for taxation		72,000
6	Property, Plant & Equipment		
	Land		5,50,000
	Building	5,50,000	
	Less: Depreciation(b.f.)	(65,000)	4,85,000
	Plant & Machinery	6,25,000	
	Less: Depreciation (b.f.)	(65,000)	5,60,000
	Total		15,95,000
7	Trade receivables		
	Outstanding for a period exceeding six months		55,000
	Other Amounts		2,40,000
	Total		2,95,000
8	Cash and bank balances		
	Cash and cash equivalents		
	Cash at bank		2,85,000
	Cash in hand		37,300
	Other bank balances		Nil
	Total		3,22,300

3. (a) (i) PQR Ltd.

Cash Flow Statement for the year ended 31st March, 2024

(Using direct method)

Particulars	₹	₹
Cash flows from Operating Activities		
Cash sales (₹ 3,75,000/25%)		15,00,000
Less: Cash payments for trade payables	(6,10,000)	
Wages Paid	(5,55,000)	

Office and selling expenses ₹ (35,000 + 15,000)	(50,000)	(12,15,000)
Cash generated from operations before taxes		2,85,000
Income tax paid		(55,000)
Net cash generated from operating activities (A)		2,30,000
Cash flows from Investing activities		
Sale of investments ₹ (8,20,000 + 20,000)	8,40,000	
Payments for purchase of Plant & machinery	(3,50,000)	
Net cash used in investing activities (B)		4,90,000
Cash flows from financing activities		
Bank loan repayment (including interest)	(2,05,000)	
Dividend paid	(40,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,75,000
Cash and cash equivalents at beginning of the period		2,25,000
Cash and cash equivalents at end of the period		7,00,000

(ii) 'Cash Flow from Operating Activities' by indirect method

		₹
Net Profit for the year before tax and extraordinary items		2,80,000
Add: Non-Cash and Non-Operating Expenses:		
Depreciation		60,000
Interest Paid		5,000
Less: Non-Cash and Non-Operating Incomes:		
Profit on Sale of Investments		(20,000)
Net Profit after Adjustment for Non-Cash Items		3,25,000
Less: Decrease in trade payables	15,000	
Increase in inventory	25,000	(40,000)
Cash generated from operations before taxes		2,85,000

Working Note:

Calculation of net profit earned during the year

	₹	₹
Gross profit		3,75,000
Less: Office expenses, selling expenses	50,000	

Depreciation	60,000	
Interest paid	5,000	(1,15,000)
		2,60,000
Add: Profit on sale of investments		20,000
Net profit before tax		2,80,000

(b) As per AS 14, 'Accounting for Amalgamations' consideration for the amalgamation means the aggregate of shares and other securities issued and payment made in form of cash or other assets by the transferee company to the shareholders of the transferor company.

(i) Computation of Purchase Consideration

		₹
(a)	Preference Shares: ₹ 50 per share 24,000 Preference shares	12,00,000
(b)	Cash	39,000
(c)	Equity shares: 56,000 equity shares in Wow Ltd. @ ₹ 115	64,40,000
		76,79,000

(ii) Journal entry

		₹	₹
Liquidator of Wonder Ltd.	Dr.	76,79,000	
To Cash			39,000
To Preference Share Capital A/c			12,00,000
To Equity Share Capital A/c			56,00,000
To Securities Premium A/c [56,000 x ₹ 15 (115-100)]			8,40,000

4. (i) Journal Entries in the Books of VT Ltd.

		Dr. ₹	Cr. ₹
PPE	Dr.	2,10,000	
To Revaluation Reserve			2,10,000
(Revaluation of PPE at 15% above book value)			
Reserve and Surplus	Dr.	1,20,000	
To Equity Dividend			1,20,000
(Equity dividend @ 10%)			
Equity Dividend	Dr.	1,20,000	
To Bank Account			1,20,000

(Payment of equity dividend)			
Business Purchase Account	Dr.	9,80,000	
To Liquidator of MG Ltd.			9,80,000
(Consideration payable for the business taken over from MG Ltd.)			
PPE (115% of ₹ 5,00,000)	Dr.	5,75,000	
Inventory (95% of ₹ 6,40,000)	Dr.	6,08,000	
Debtors	Dr.	3,80,000	
Bills Receivable	Dr.	40,000	
Investment	Dr.	1,60,000	
Cash at Bank	Dr.	20,000	
(₹ 80,000 –₹ 60,000 dividend paid)			
To Provision for Bad Debts (5% of ₹ 3,60,000)			18,000
To Sundry Creditors			2,50,000
To 12% Debentures in MG Ltd.			3,24,000
To Bills Payable			50,000
To Business Purchase Account			9,80,000
To Capital Reserve (Balancing figure)			1,61,000
(Incorporation of various assets and liabilities taken over from MG Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)			
Liquidator of MG Ltd.	Dr.	9,80,000	
To Equity Share Capital			8,00,000
To 10% Preference Share Capital			1,80,000
(Discharge of consideration for MG Ltd.'s business)			
12% Debentures in MG Ltd. (₹ 3,00,000 × 108%)	Dr.	3,24,000	
Discount on Issue of Debentures (₹ 3,60,000 × 10%)	Dr.	36,000	
To 12% Debentures (₹ 3,24,000/90 × 100)			3,60,000
(Allotment of 12% Debentures to debenture holders of MG Ltd. at a discount of 10%)			
Sundry Creditors	Dr.	20,000	
To Sundry Debtors			20,000

(Cancellation of mutual owing)			
Goodwill	Dr.	60,000	
To Bank			60,000
(Being liquidation expenses reimbursed to MG Ltd.)			
Capital Reserve/P&L A/c	Dr.	60,000	
To Goodwill			60,000
(Being goodwill set off)			

(ii) Statement of Consideration payable by VT Ltd. for 60,000 shares (payment method)

Shares to be allotted 60,000/12 × 16 = 80,000 shares of VT Ltd.

Issued 80,000 shares of ₹ 10 each i.e. ₹ 8,00,000 (i)

For 10% preference shares, to be paid at 10% discount

₹ 2,00,000x 90/100 ₹ 1,80,000 (ii)

Consideration amount [(i) + (ii)] ₹ 9,80,000

5. Consolidated Balance Sheet of Kedar Ltd. and its Subsidiary Vijay Ltd. as at 31st March, 2024

Particulars	**Note No.**	**(₹)**
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		15,00,000
(b) Reserves and Surplus	1	8,61,500
(2) Minority Interest (W.N.5)		1,20,375
(3) Current Liabilities		
(a) Trade Payables	2	5,17,500
Total		29,99,375
II. Assets		
(1) Non-current assets		
(i) Property, plant & Equipment	3	14,94,375
(ii) Intangible assets	4	30,000
(b) Other non- current assets	5	14,75,000
Total		29,99,375

Notes to Accounts

				₹
1.	**Reserves and Surplus**			
	Reserves		5,00,000	
	Add: 4/5th share of Vijay Ltd.'s post-acquisition reserves (W.N.3)		1,00,000	6,00,000
	Profit and Loss Account		2,50,000	
	Add: 4/5th share of Vijay Ltd.'s post-acquisition profits (W.N.4)		11,500	2,61,500
				8,61,500
2.	**Trade Payables**			
	Kedar Ltd.		3,75,000	
	Vijay Ltd.		1,42,500	5,17,500
3.	**Property, plant & Equipment**			
	Machinery			
	Kedar Ltd.		7,50,000	
	Vijay Ltd.	2,50,000		
	Add: Appreciation	1,25,000		
		3,75,000		
	Less: Depreciation	(37,500)	3,37,500	
	Furniture	-		
	Kedar Ltd.	-	3,75,000	
	Vijay Ltd.	50,000		
	Less: Decrease in value	(12,500)		
		37,500		
	Less: Depreciation	(5,625)	31,875	14,94,375
4.	**Intangible assets**			
	Goodwill [WN 6]			30,000
5.	**Other non-current assets**			
	Kedar Ltd.		11,00,000	
	Vijay Ltd.		3,75,000	14,75,000

Working Notes:

1.	**Pre-acquisition profits and reserves of Vijay Ltd.**	₹
	Reserves	62,500
	Profit and Loss Account	37,500
		1,00,000
	Kedar Ltd.'s = 4/5 × 1,00,000	80,000

	Minority Interest = 1/5 × 1,00,000	20,000
2.	**Profit on revaluation of assets of *Vijay* Ltd.**	-
	Profit on Machinery ₹ (3,75,000 – 2,50,000)	1,25,000
	Less: Loss on Furniture ₹(50,000 – 37,500)	12,500
	Net Profit on revaluation	1,12,500
	Kedar Ltd.'s share 4/5 × 1,12,500	90,000
	Minority Interest 1/5 × 1,12,500	22,500
3.	**Post-acquisition reserves of *Vijay* Ltd.**	-
	Post-acquisition reserves (Total reserves less pre-acquisition reserves = ₹ 1,87,500 – 62,500)	1,25,000
	Kedar Ltd.'s share 4/5 × 1,25,000	1,00,000
	Minority interest 1/5 × ,25,000	25,000
4.	**Post -acquisition profits of *Vijay* Ltd.**	-
	Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = ₹ 62,500 – 37,500)	25,000
	Add: Excess depreciation charged on furniture @ 15%	-
	on ₹ 12,500 i.e. (50,000 – 37,500)	1,875
		26,875
	Less: Under depreciation on machinery @ 10%	-
	on ₹ 1,25,000 i.e. (3,75,000 – 2,50,000)	(12,500)
	Adjusted post-acquisition profits	14,375
	Kedar Ltd.'s share 4/5 × 14,375	11,500
	Minority Interest 1/5 × 14,375	2,875
5.	**Minority Interest**	-
	Paid-up value of (2,500 – 2,000) = 500 shares	-
	held by outsiders i.e. 500 × ₹ 100	50,000
	Add: 1/5th share of pre-acquisition profits and reserves	20,000
	1/5th share of profit on revaluation	22,500
	1/5th share of post-acquisition reserves	25,000
	1/5th share of post-acquisition profit	2,875
		1,20,375
6.	**Cost of Control or Goodwill**	-
	Paid-up value of 2,000 shares held by Kedar Ltd. i.e. 2,000 × ₹ 100	2,00,000
	Add: 4/5th share of pre-acquisition profits and reserves	80,000
	4/5th share of profit on the revaluation	90,000

Intrinsic value of shares on the date of acquisition	3,70,000
Price paid by Kedar Ltd. for 2,000 shares	4,00,000
Less: Intrinsic value of the shares	(3,70,000)
Cost of control or Goodwill	30,000

6. (a) Difference between Amalgamation, Absorption and External Reconstruction

Basis	Amalgamation	Absorption	External Reconstruction
Meaning	Two or more companies are wound up and a new company is formed to take over their business.	In this case, an existing company takes over the business of one or more existing companies.	In this case, a newly formed company takes over the business of an existing company.
Minimum number of Companies involved	At least three companies are involved.	At least two companies are involved.	Only two companies are involved.
Number of new resultant companies	Only one resultant company is formed. Two companies are wound up to form a single resultant company.	No new resultant company is formed.	Only one resultant company is formed. Under this case a newly formed company takes over the business of an existing company.
Objective	Amalgamation is done to cut competition and reap the economies in large scale.	Absorption is done to cut competition and reap the economies in large scale.	External reconstruction is done to reorganise the financial structure of the company.
Example	A Ltd. and B Ltd. amalgamate to form C Ltd.	A Ltd. takes over the business of another existing company B Ltd.	B Ltd. is formed to take over the business of an existing company A Ltd.

Or

(a) Profit and Loss Account for the year ended 2023-24 (not assuming going concern)

Particulars	*Amount*	*Particulars*	*Amount*
	₹		₹
To Opening Stock	1,50,000	By Sales	27,50,000
To Purchases	22,50,000	By Closing Stock	2,50,000
To Expenses*	78,000	By Trade payables	7,500
To Depreciation	35,000		
To Provision for doubtful debts	30,000		
To Deferred cost	50,000		
To Loan penalty	25,000		
To Net Profit (b.f.)	3,89,500		
	30,07,500		30,07,500

(b) According to AS 15 (Revised) "Employee Benefits", actuarial gains and losses should be recognized immediately in the statement of profit and loss as income or expense. Therefore, surplus of ₹ 6 lakhs in the pension scheme on its actuarial valuation is required to be credited to the profit and loss statement of the current year. Hence, Synergy Ltd. cannot spread the actuarial gain of ₹ 6 lakhs over the next 2 years by reducing the annual contributions to ₹ 2 lakhs instead of ₹ 5 lakhs. It has to contribute ₹ 5 lakhs annually for its pension schemes.

(c) Trial Balance of Foreign Branch (converted into Indian Rupees) as on March 31, 2024

Particulars	**$ (Dr.)**	**$ (Cr.)**	**Conversion Basis**	**Rate**	**₹ (Dr.)**	**₹ (Cr.)**
Fixed Assets	8,000		Transaction Date Rate	63	5,04,000	
Opening Inventory	800		Opening Rate	65	52,000	
Goods Received from HO	2,800		Actuals		1,85,500	
Sales		24,050	Average Rate	66		15,87,300
Purchases	11,800		Average Rate	66	7,78,800	
Expenses	1,800		Average Rate	66	1,18,800	
Cash	700		Closing Rate	67	46,900	
Remittance to HO	2,450		Actuals		1,62,000	

HO Account		4,300	Actuals			2,84,500
Exchange Rate Difference			Balancing Figure		23,800	
	28,350	28,350			18,71,800	18,71,800
Closing Stock	700		Closing Rate	67	46,900	
Depreciation	800		Fixed Asset Rate	63	50,400	