

ADV-1

CA Inter: Advanced Accounts

GENERAL INSTRUCTIONS TO CANDIDATES

QUESTION PAPER COMRISES OF MCQ AND DESCRIPTIVE QUESTIONS
MCQ WEIGHED 30 MARKS AND REMAINING DESCRIPTIVE WEIGHTED 70 MARKS

Question No. 1 is compulsory

Candidates are also required to answer any **Four** questions from the remaining **Five** questions
Working Note should form part of the respective answers.

Question 1:

Answer the following question:

(a) Given the following information of Rainbow Ltd.

- (a) On 15th November, goods worth ₹ 5,00,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods sold upto 31st January and no approval or disapproval received for the remaining goods till 31st March.
- (b) On 31st March, goods worth ₹ 2,40,000 were sold to Bright Ltd. but due to refurnishing of their show-room being underway, on their request, goods were delivered on 10th April.
- (c) Rainbow Ltd. supplied goods worth ₹ 6,00,000 to Shyam Ltd. and concurrently agrees to re-purchase the same goods on 14th April.
- (d) Dew Ltd, used certain assets of Rainbow Ltd. Rainbow Ltd. received ₹ 7.5 lakhs and ₹ 12 as interest and royalties respectively from Dew Ltd. during the year 2022-23.
- (e) On 25th December, goods of ₹ 4,00,000 were sent on consignment basis of which 40% of the goods unsold are lying with the consignee at the year-end on 31st March.

In each of the above cases, you are required to advise, with valid reasons, the amount to be recognized as revenue under the provisions of AS-9.

(5 Marks) (MTP September, 2023) (Advance Accounts)

(b) Akar Ltd. signed on 01/04/22, a construction contract for ₹ 1,50,00,000. Following particulars are extracted in respect of contract, for the period ending 31/03/23.

- Materials used ₹ 71,00,000
- Labour charges paid ₹ 36,00,000
- Hire charges of plant ₹ 10,00,000
- Other contract cost incurred ₹ 15,00,000
- Labour charges of ₹ 2,00,000 are still outstanding on 31.3.23.
- It is estimated that by spending further ₹ 33,50,000 the work can be completed in all respect.

You are required to compute profit/loss for the year to be taken to Profit & Loss Account and additional provision for foreseeable loss to be recognized as per AS 7.

(5 Marks) (MTP October, 2023) (Advance Accounts)

(c) Explain "monetary item" as per Accounting Standard 11.

How are foreign currency monetary items to be recognized at each Balance Sheet date?

Classify the following as monetary or non-monetary item:

Share Capital.

Trade Receivables.

Investments.

Fixed Assets.

(4 Marks) (RTP November, 2023) (Accounts)

Question 2:

Following information from Balance Sheet of Ruby Limited as on 31st March, 2023.

	Amount ₹
Authorised and Issued equity share capital:	
60,000 shares of ₹ 100 each fully paid	60,00,000
40,000 7% cumulative preference shares of ₹ 100 each fully paid	40,00,000
General Reserve	12,00,000
Loan from Director	8,80,000
Trade Payables	49,20,000
Outstanding expenses	6,40,000
Bank loan	6,00,000
Patent	8,00,000
Plant & machinery	60,00,000
Building	11,00,000
Trade receivables	47,00,000
Inventory	32,60,000
Cash	2,40,000
Bank Balance	4,60,000
Profit and Loss account	16,80,000

Note: The arrears of preference dividend amount to ₹ 5,60,000.

The company had suffered losses since last 3 years due to bad market conditions and hope for a better position in the future.

The following scheme of reconstruction has been agreed upon and duly approved by all concerned:

- (1) Equity shares to be converted into 6,00,000 shares of ₹ 10 each.
- (2) Equity shareholders to surrender to the company 80 percent of their holdings.
- (3) Preference shareholders agree to forgo their right on arrears of dividends in consideration of which 7% preference shares are to be converted into 8% preference shares.
- (4) Trade payables agree to reduce their claim by one fourth in consideration of their getting shares of ₹ 10,00,000 out of the surrendered equity shares.
- (5) Directors agree to forego the amounts due on account of loan.
- (6) Surrendered shares not otherwise utilized to be cancelled.
- (7) Assets to be reduced as under:

	₹
Patent to	Nil
Plant & Machinery by	8,00,000
Inventory by	6,80,000

(8) Trade receivables to the extent of ₹ 34,00,000 are considered good.

(9) Revalued figures for building is accepted at ₹ 14,00,000.

(10) Bank loan is paid.

(11) Any surplus after meeting the losses should be utilized in writing down the value of the plant further.

(12) Expenses of reconstruction amounted to ₹ 1,20,000.

(13) Further 80,000 equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid up.

You are required to pass the Journal Entries for giving effect to the above arrangement and also to draw up the resultant Balance Sheet of the Company.

(14 Marks) (RTP November, 2023) (Advance Accounts)

Question 3:

Answer the following Questions:

(a) Jolly Industries of Delhi is a trader in spices. It has a branch at Jalandhar to which Head office invoice goods at 20% on sales. The Jalandhar branch sells spices both on cash and credit. Branch remit all the cash received to Head Office Bank account, thus all expenses of branch are also directly paid from head office.

From the following information given, Prepare Branch Accounts in the Head office ledger using Stock and Debtors Method.

Branch does not maintain any books of account, but send fortnightly returns to Head office.

	₹
Stock at Jalandhar as on 1st April 2022 (Cost Price)	1,00,000
Sundry Debtors at Jalandhar as on 1st April 2022	1,10,000
Cash received from Debtors	3,45,000
Bad debts during the year	9,500
Discount allowed to Debtors	5,500
Goods received from Head Office at Invoice Price	6,00,000
Returns to Head office at Invoice Price	60,000
Normal loss of goods during transport (Out of Goods sent by H.O. to Branch)	12,000
Sale's returns at Jalandhar Branch	11,000
Salaries and staff welfare expenses at Branch	54,000
Rent and taxes at Branch	9,000
Other Office Expenses	2,500
Sundry Debtors at Branch as at 31st March 2023	1,55,000
Stock at Jalandhar as on 31st March, 2023 (Cost Price)	1,20,000

Credit sales at Branch are four times of the cash Sales at Branch.

(10 Marks) (November, 2023 Accounting)

(b) Explain the difference between pooling of interest and purchase method of accounting for amalgamations.

(4 Marks) (MTP October, 2023) (Advance Accounts)

Question 4:

Answer the following Questions:

(a) The following is the extract of Balance Sheet of Yellow Limited as on 31.03.2023:

	₹
4,00,000 Equity shares of ₹ 10 each	40,00,000
General Reserve	48,00,000
Profit and Loss A/c	10,00,000
Security Premium	18,00,000
Secured Loans	60,00,000
Unsecured Loans	32,00,000
Current Liabilities	28,00,000
	2,36,00,000
Property, Plant and Equipment	90,00,000
Investments	18,00,000
Current Assets	1,28,00,000
	2,36,00,000

The Company intends to buy back 80,000 equity shares of ₹ 10 each at a premium of 150%.

You are required to state whether the company can buy back equity shares.

(5 Marks) (Exam. November, 2023) (Advance Accounts)

(b) A Limited sells goods with unlimited right of return from its customers. The following pattern has been observed in the Return of Sales:

Time frame of Return from date of purchase	% of Cumulative Sales
Between 0-1 month	6%
Between 1-2 months	7%
Between 2-3 months	8%

The Company has made Sales of ₹ 36 Lakhs in the month of January, ₹ 48 Lakhs in the month of February and of ₹ 60 Lakhs in the month of March. The Total Sales for the Financial Year have been ₹ 400 Lakhs and the Cost of Sales was ₹ 320 Lakhs. You are required to determine the amount of Provision to be made and Revenue to be recognized for the year ended 31st March.

(5 Marks) (MTP September, 2023) (Advance Accounts)

(c) The accountant of Parag Limited has furnished you with the following data related to its Business Divisions:

(₹ in Lakhs)

Segment Revenue	100	300	200	400	1,000
Segment Result	45	(70)	80	(10)	45
Segment Assets	39	51	48	12	150

You are requested to identify the reportable segments in accordance with the criteria laid down in AS 17.

(4 Marks) (MTP September, 2023) (Advance Accounts)

Question 5:

GB Limited acquired 80% of equity shares of TB Limited on 1 April, 2016 at a cost of ₹ 58,00,000 when TB Limited had an Equity share capital of ₹ 50,00,000 and Reserves and Surplus of ₹ 4,64,000. The following information is provided

Year	Profit/(Loss) of TB Limited (₹)
2016-17	(14,50,000)
2017-18	(23,20,000)
2018-19	(29,00,000)
2019-20	(6,96,000)
2020-21	1,90,000
2021-22	6,80,000
2022-23	12,70,000

You are required to calculate the minority interests and cost of control at the end of each year for the purpose of consolidation.

(14 Marks) (Exam. November, 2023) (Advance Accounts)

Question 6:

(a) Glen Ltd. began construction of a new building on 1st January, 2022. On 1st April, 2022, following two loans were obtained to fund the construction cost:

- Loan of Rs. 60,00,000 from Data Bank Ltd. was taken at interest rate of 8% per annum. This loan was fully utilized for construction of the new building.
- Loan of Rs. 20,00,000 from Satya Bank Ltd. Out of this, loan amount of Rs. 6,00,000 was utilized for working capital purpose. Total interest of Rs. 1,92,000 were paid to Satya Bank Ltd. for the financial w of interest (a) to be capitalized, (b) to be charged to profit and loss account from the total interest incurred as borrowing cost during the year 2022-23. (as per AS-16).

(5 Marks) (November, 2023) (Accounts)

(b) On 1st April, 2022, Alpha has 1,00,000 equity shares of Beta Ltd. at a book value of ₹ 15 per share (nominal value ₹ 10 each). He provides you the further information:

- On 20th June, 2022 he purchased another 20,000 shares of Beta Ltd. at ₹ 16 per share.
- On 1st August, 2022, Beta Ltd. issued one equity bonus share for every six shares held by the shareholders.
- On 31st October, 2022, the directors of Beta Ltd. announced a right issue which entitles the holders to subscribe three shares for every seven shares at ₹ 15 per share. Shareholders can transfer their rights in full or in part.

Alpha sold 1/3rd of entitlement to Umang for a consideration of ₹ 2 per share and subscribed the rest on 5th November, 2022.

You are required to prepare Investment A/c in the books of Alpha for the year ending 31st March, 2023.

(5 Marks) (RTP November, 2023) (Accounts)

(c) Discuss Disclosure requirements in following cases as per AS 1.

- Accountant of A Ltd. charges a probable loss of losing a suit in books of accounts and also disclosed the same fact in financial statements. The probability of losing the suit is 25%.
- Accountant of A Ltd. capitalized all the revenue expenses of repair and maintenance during the year to Plant & Machinery and is also disclosing the same as company policy in financial statements.
- A Ltd. has followed accrual basis 'of accounting since incorporation. The chief accountant also disclosed this fact in financial statements.
- A Ltd. was providing for after sales expenses @ 2% of sales for covering expenses during the warranty period. Now A Ltd. observes that actual after sales expenses were much less as compared to provision because of better technology used in manufacturing of the products. Now, the Board of A Ltd. decides to account for these expenses as and when they occur. Sales during the period are ₹ 50 crores.

(4 Marks) (November, 2023) (Accounts)

Inter Paper 1: MCQ

Question 1:

Which of the following are underlying assumptions of financial statements?

1. *Relevance and reliability.*
2. *Financial capital maintenance and physical capital maintenance.*
3. *Accrual basis and going concern.*
4. *Prudence and conservatism*

Question 2:

An item that meets the definition of an element of financial statements should be recognised in the financial statements if:

1. *It is probable that any future economic benefit associated with the item will flow to the enterprise*
2. *Item has a cost or value that can be measured with reliability*
3. *Both 1 and 2*
4. *It is probable that no future economic benefit associated with the item will flow to the enterprise*

Question 3:

All non-corporate entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of rupees two crores but does not exceed rupees ten crores at any time during the immediately preceding accounting year.

1. *Level II entities.*
2. *Level IV entities.*
3. *Level III entities.*
4. *Level I entities.*

Question 4:

Non-corporate entities which are not Level I entities whose turnover (excluding other income) exceeds rupees but does not exceed rupees two-fifty crores in the immediately preceding accounting year are classified as Level II entities.

1. *five crores.*
2. *two crores.*
3. *fifty crores.*
4. *ten crores*

Question 5:

As per AS 3, which one of the following is not a financing activity?

1. *Cash proceeds from issuing equity instruments*
2. *Acquisition of an entity by means of an equity issue*
3. *Cash payments to owners to acquire own entity's shares;*
4. *Cash proceeds from issuing bonds.*

Question 6:

Which of the following best describes a provision?

1. *A provision is a liability of uncertain timing or amount.*
2. *A provision is a possible obligation of uncertain timing.*
3. *A provision is a credit balance set up to offset a contingent asset so that the effect on the statement of financial position is nil.*
4. *A provision is a possible obligation of uncertain amount.*

Question 7:

What will be the treatment of the balance in the foreign currency translation reserve on disposal of the foreign operation?

1. *Transfer the balance in foreign currency translation reserve to reserves without impacting P/L*
2. *Record the balance in foreign currency translation reserve as income or expense in P/L*
3. *Foreign currency translation reserve will continue; no change will be made to the balance and it will continue to appear as such even after disposal of the foreign operation*
4. *Any method from the above can be adopted*

Question 8:

Which of the following transactions qualify as revenue for M/s AB Enterprises?

1. *Sales of ₹ 20 lakhs made under consignment sales.*
2. *Sale of an old machine amounting ₹ 5 lakhs*
3. *Services provided to the customer in the normal course of business. Sales recorded is ₹ 50,000.*
4. *Sales of ₹ 25 lakhs made under consignment sales*

Question 9:

What is accounting treatment of government grant refundable which was in the nature of promoters' contribution?

1. *Debited to profit & loss account*
2. *Added in the Cost of Fixed asset*
3. *Reduced from Deferred Government Grant account*
4. *Reduced from Capital Reserve*

Question 10:

Dividend paid by subsidiary to its parent, out of capital profits, should be credited by the parent company in its

1. *Profit and loss account.*
2. *Dividend account.*
3. *Shares invested in subsidiary account.*
4. *Capital reserve.*

Question 11:

Provision for Tax made by the subsidiary company will appear in the consolidated balance sheet as an item of

1. *Current liability.*
2. *Revenue profit.*
3. *Capital profit.*
4. *Current assets.*

Question 12:

Which item will form part of Share capital as per Schedule III to the Companies Act, 2013?

1. *Share options outstanding account*
2. *Forfeited Shares*
3. *Share application money pending allotment*
4. *Capital work-in-progress.*

Question 13:

While preparing cash flow statement, conversion of debt to equity

1. *Should be shown as a financing activity.*
2. *Should be shown as an investing activity.*
3. *Should not be shown as it is a non-cash transaction.*
4. *Should not be shown as operating activity*

Question 14:

Advantages of Buy-back of shares include to

1. *Encourage others to make hostile bid to take over the company.*
2. *Decrease promoters holding as the shares which are bought back are cancelled.*
3. *Discourage others to make hostile bid to take over the company as the buy-back will increase the promoters holding.*
4. *All of the above.*

Question 15:

State which of the following statements is true?

1. *Buy-back is for more than twenty-five per cent of the total paid-up capital and free reserves of the company.*
2. *Partly paid shares cannot be bought back by a company.*
3. *Buy-back of equity shares in any financial year shall exceed twenty-five per cent of its total paid-up equity capital in that financial year.*
4. *Partly paid shares can be bought back by a company*

Question 16:

If the purchase consideration is more than net assets (at agreed values) of the transferor company, difference shall be recorded as _____ in the books of the transferee company.

1. *Goodwill.*
2. *Capital Reserve.*
3. *Profit.*
4. *Loss*

Question 17:

Amalgamation Adjustment Reserve is presented in the financial statements of the transferee company as

1. *Other current asset.*
2. *Separate line item with a negative sign under the head 'Reserves and Surplus'.*
3. *Other non-current assets.*
4. *Investment of the company*

Question 18:

When the object of reconstruction is usually to re-organise capital or to compound with creditors or to effect economies then such type of reconstruction is called

1. *Internal reconstruction with liquidation*
2. *Internal reconstruction without liquidation of the company*
3. *External reconstruction*
4. *None of the above*

Question 19:

A process of reconstruction, which is carried out without liquidating the company and forming a new one is called

1. *Internal reconstruction.*
2. *External reconstruction.*
3. *Amalgamation in the nature of merger.*
4. *Amalgamation in the nature of purchase.*

Question 20:

Cost of goods returned by branch will have the following effect

1. *Goods sent to branch account will be debited.*
2. *Branch stock account will be credited.*

3. Both (a) and (b).
4. Either (a) or (b).

Question 21:

ABC Limited has reported ₹85,000 as per tax profit in first quarter and expects a loss of ₹25,000 each in subsequent quarters. It has corporate tax rate slab of 20% on the first ₹20,000 earnings and 40% on all additional earnings. Calculate tax expenses that should report in first quarter interim financial report.

1. ₹17,000
2. ₹30,000
3. ₹2,000
4. AS 25 does not mandate to report tax expenses

Question 22:

A plot of land with carrying amount of ₹1,00,000 was revalued to ₹90,000 at the end of Year 2. Subsequently, due to increase in market values, the land was determined to have a fair value of ₹1,05,000 at the end of Year 4. Assuming that the entity adopts Revaluation Model, what would be the accounting treatment of Revaluation?

1. Initial downward valuation of ₹10,000 debited to Revaluation Reserve. Subsequent upward revaluation of ₹15,000 credited to P/L.
2. Initial downward valuation of ₹10,000 debited to P/L. Subsequent upward revaluation of ₹15,000 credited to P/L.
3. Initial downward valuation of ₹10,000 debited to P/L. Subsequent upward revaluation of ₹10,000 credited to P/L and ₹5,000 credited to Revaluation Reserve.
4. Initial downward valuation of ₹10,000 credited to P/L. Subsequent upward revaluation of ₹10,000 debited to P/L and ₹5,000 debited to Revaluation Reserve.

Question 23:

A company had made a provision for rent liability of ₹ 10 Cr & interest provision of ₹ 1 Cr. However, Court made order to the company to pay ₹ 8 Cr Rent & ₹ 1.5 Cr interest. What should be the correct accounting treatment?

1. Provision for Rent of ₹ 2 Cr shall be written back and provision for interest shall be increased by ₹ 0.5 Cr.
2. Provision for Rent of ₹ 1.5 Cr shall be written back and remaining rent provision shall be adjusted with additional interest by ₹ 0.5 Cr.
3. Total provision of ₹ 11 Cr shall be written back and fresh rent & interest expense shall be booked by ₹ 8 Cr & ₹ 1.5 Cr respectively.
4. Provision for Rent of ₹ 10 Cr shall be written back and provision for interest shall be increased by ₹ 0.5 Cr

Question 24:

The Accounting Club has 100 members who are required to pay an annual membership fee of ₹ 5,000 each. During the current year, all members have paid the fee. However, 5 members have paid an amount of ₹ 10,000 each. Of these, 3 members paid the current year's fee and also the previous year's dues. Remaining 2 members have paid next years' fee of ₹ 5,000 in advance. Revenue from membership fee for the current year to be recognised will be:

1. ₹ 5,25,000
2. ₹ 5,10,000
3. ₹ 5,00,000
4. ₹ 5,15,000

Question 25:

Entity X purchased a fixed asset of ₹ 160 Cr having useful life of 10 years. Government provided grant of ₹ 60 Cr. After 4 years, entity had to refund the grant of ₹ 20 Cr due to non-fulfilment of a condition. Kindly provide the amount of depreciation to be charged in year 5. Assume - Company follows SLM method of depreciation & grant amount is maintained separately under Deferred Grant account. Answer:

1. ₹ 16 Cr
2. ₹ 12 Cr
3. ₹ 13.33 Cr
4. ₹ 15 Cr