

MODEL TEST PAPER 4
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) None 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 in Cash Flow Statement.
 - (ii) ₹ 10.30 lakhs as 'Cash flows from Investing Activities' as entire amount is spent 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: Total 8 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:
 - i) 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.
 - ii) 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.
 - iii) 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.
 - iv) 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	<u>5,00,000</u>	<u>3,00,000</u>
Total	<u>31,00,000</u>	<u>18,00,000</u>
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	<u>2,20,000</u>	<u>80,000</u>
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	<u>1,20,000</u>	<u>40,000</u>
	<u>8,40,000</u>	<u>4,20,000</u>
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bills Payable	<u>60,000</u>	<u>50,000</u>
	<u>5,00,000</u>	<u>3,00,000</u>

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	<u>25,000</u>
	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 (\$)	Amount (\$)
	Dr.	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		<u>4,300</u>
	<u>28,350</u>	<u>28,350</u>

- (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)**