

ANSWER OF MODEL TEST PAPER 4
INTERMEDIATE COURSE: GROUP - I
PAPER – 1 : ADVANCED ACCOUNTING

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 value) 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 occurring 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		<u>25,85,800</u>
	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		<u>25,85,800</u>

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
	<i>Less: Calls in arrears</i>	<u>(5,000)</u>
		<u>14,95,000</u>
2	Reserves and Surplus	
	General Reserve	2,70,000
	Profit & Loss balance	<u>1,06,800</u>
	Total	<u>3,76,800</u>
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	<u>3,65,000</u>
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.)	<u>(65,000)</u>	4,85,000
	Plant & Machinery	6,25,000	
	Less: Depreciation (b.f.)	<u>(65,000)</u>	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		
	<i>Cash and cash equivalents</i>		
	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)

<i>Particulars</i>	₹	₹
<i>Cash flows from Operating Activities</i>		
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
<i>Cash flows from Investing activities</i>		
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

<i>Cash flows from financing activities</i>		
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
<i>Add: Non-Cash and Non-Operating Expenses:</i>		
Depreciation		60,000
Interest Paid		5,000
<i>Less: Non-Cash and Non-Operating Incomes:</i>		
Profit on Sale of Investments		<u>(20,000)</u>
Net Profit after Adjustment for Non-Cash Items		3,25,000
Less: Decrease in trade payables	15,000	
Increase in inventory	<u>25,000</u>	<u>(40,000)</u>
Cash generated from operations before taxes		<u>2,85,000</u>

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	<u>5,000</u>	<u>(1,15,000)</u>
		2,60,000
Add: Profit on sale of investments		<u>20,000</u>
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	<u>64,40,000</u>
	<u>76,79,000</u>

(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		8,40,000
[56,000 x ₹ 15 (115-100)]		

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

	Dr. ₹	Cr. ₹
PPE Dr.	2,10,000	
To Revaluation Reserve (Revaluation of PPE at 15% above book value)		2,10,000
Reserve and Surplus Dr.	1,20,000	
To Equity Dividend (Equity dividend @ 10%)		1,20,000
Equity Dividend Dr.	1,20,000	
To Bank Account (Payment of equity dividend)		1,20,000
Business Purchase Account Dr.	9,80,000	
To Liquidator of MG Ltd. (Consideration payable for the business taken over from MG Ltd.)		9,80,000
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 $60,000/12 \times 16 = 80,000$ 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	<u>5,17,500</u>
Total		<u>29,99,375</u>
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	<u>14,75,000</u>
Total		<u>29,99,375</u>

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)		<u>1,00,000</u>	6,00,000
Profit and Loss Account		2,50,000	
Add: 4/5th share of Vijay Ltd.'s post-acquisition profits (W.N.4)		<u>11,500</u>	<u>2,61,500</u>
			<u>8,61,500</u>
2. Trade Payables			
Kedar Ltd.		3,75,000	
Vijay Ltd.		<u>1,42,500</u>	5,17,500
3. Property, plant & Equipment			
Machinery			
Kedar Ltd.		7,50,000	

	Vijay Ltd.	2,50,000		
	Add: Appreciation	<u>1,25,000</u>		
		3,75,000		
	Less: Depreciation	<u>(37,500)</u>	3,37,500	
	Furniture	-		
	Kedar Ltd.	-	3,75,000	
	Vijay Ltd.	50,000		
	Less: Decrease in value	<u>(12,500)</u>		
		37,500		
	Less: Depreciation	<u>(5,625)</u>	<u>31,875</u>	14,94,375
4.	Intangible assets			
	Goodwill [WN 6]			30,000
5.	Other non-current assets			
	Kedar Ltd.		11,00,000	
	Vijay Ltd.		<u>3,75,000</u>	14,75,000

Working Notes:

1. Pre-acquisition profits and reserves of Vijay Ltd.	₹
Reserves	62,500
Profit and Loss Account	<u>37,500</u>
	<u>1,00,000</u>
Kedar Ltd.'s = $\frac{4}{5} \times 1,00,000$	80,000
Minority Interest = $\frac{1}{5} \times 1,00,000$	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)	<u>12,500</u>
Net Profit on revaluation	<u>1,12,500</u>
Kedar Ltd.'s share $\frac{4}{5} \times 1,12,500$	90,000
Minority Interest $\frac{1}{5} \times 1,12,500$	22,500
3. Post-acquisition reserves of Vijay Ltd.	-
Post-acquisition reserves (Total reserves less pre-acquisition reserves = ₹ 1,87,500 – 62,500)	<u>1,25,000</u>
Kedar Ltd.'s share $\frac{4}{5} \times 1,25,000$	1,00,000
Minority interest $\frac{1}{5} \times 25,000$	<u>25,000</u>
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)	- <u>1,875</u>
	26,875

Less: Under depreciation on machinery @ 10% on ₹ 1,25,000 i.e. (3,75,000 – 2,50,000)	- <u>(12,500)</u>
Adjusted post-acquisition profits	<u>14,375</u>
Kedar Ltd.'s share $4/5 \times 14,375$	11,500
Minority Interest $1/5 \times 14,375$	<u>2,875</u>
5. Minority Interest	-
Paid-up value of (2,500 – 2,000) = 500 shares held by outsiders i.e. $500 \times ₹ 100$	- 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	<u>2,875</u>
	<u>1,20,375</u>
6. Cost of Control or Goodwill	-
Paid-up value of 2,000 shares held by Kedar Ltd. i.e. $2,000 \times ₹ 100$	2,00,000
Add: 4/5th share of pre-acquisition profits and reserves	80,000
4/5th share of profit on the revaluation	<u>90,000</u>

Intrinsic value of shares on the date of acquisition	<u>3,70,000</u>
Price paid by Kedar Ltd. for 2,000 shares	4,00,000
Less: Intrinsic value of the shares	<u>(3,70,000)</u>
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)

<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
	₹		₹
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	