

MOCK TEST PAPER - 1
INTERMEDIATE (NEW): GROUP – II
PAPER – 5: ADVANCED ACCOUNTING
SUGGESTED ANSWERS/HINTS

1. (a) As per AS 26 'Intangible Assets', the depreciable amount of an intangible asset should be allocated on systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. The Company has been following the policy of amortization of the intangible asset over a period of 15 years on straight line basis. The period of 15 years is more than the maximum period of 10 years specified as per AS 26.

Accordingly, the company would be required to restate the carrying amount of intangible asset as on 31.3.2020 at Rs. 48 lakhs i.e. Rs. 120 lakhs less Rs. 72 lakhs (Rs. 120 Lakhs / 10 years x 6 years = 72 Lakhs). The difference of Rs. 24 Lakhs (Rs. 72 lakhs – Rs. 48 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of Rs. 48 lakhs will be amortized over remaining 4 years by amortizing Rs. 12 lakhs per year.

The necessary journal entry (for rectification) will be

Revenue Reserves	Dr. Rs. 24 Lakhs
To Intangible Assets	Rs. 24 Lakhs

(Adjustment to reserves due to restatement of the carrying amount of intangible asset)

- (b) (i) **Annual lease rent**

Total lease rent

$$= 130\% \text{ of Rs. } 1,50,000 \times \frac{\text{Output during lease period}}{\text{Total output}}$$

$$= 130\% \text{ of Rs. } 1,50,000 \times (40,000 + 50,000 + 60,000) / (40,000 + 50,000 + 60,000 + 80,000 + 70,000)$$

$$= 1,95,000 \times 1,50,000 \text{ units} / 3,00,000 \text{ units} = \text{Rs. } 97,500$$

$$\text{Annual lease rent} = \text{Rs. } 97,500 / 3 = \text{Rs. } 32,500$$

- (ii) **Lease rent Income to be recognized in each operating year**

Total lease rent should be recognized as income in proportion of output during lease period, i.e. in the proportion of 40 : 50 : 60.

Hence income recognized in years 1, 2 and 3 will be as:

Year 1 Rs. 26,000,

Year 2 Rs. 32,500 and

Year 3 Rs. 39,000.

- (c) As per AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", the change in amount of staff welfare provision amounting Rs. 2,50,000 is neither a prior period item nor an extraordinary item. It is a change in estimate, which has been occurred in the year 2020-21.

As per the provisions of the standard, normally, all items of income and expense which are recognized in a period are included in the determination of the net profit or loss for the period. This includes extraordinary items and the effects of changes in accounting estimates. However, the effect of such change in accounting estimate should be classified using the same classification in the statement of profit and loss, as was used previously, for the estimate.

- (d) The construction of the oil rig creates an obligation under the terms of the license to remove the rig and restore the seabed and is thus an obligating event. At the balance sheet date, however, there is no obligation to rectify the damage that will be caused by extraction of the oil. An outflow of resources embodying economic benefits in settlement is probable. Thus, a provision is recognized for the best estimate of ninety per cent of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by building it. These costs are included as part of the cost of the oil rig. However, there is no obligation to rectify the damage that will be caused by extraction of oil, as no oil has been extracted at the balance sheet date. So, no provision is required for the cost of extraction of oil at balance sheet date. Ten per cent of costs that arise through the extraction of oil are recognized as a liability when the oil is extracted.

2.

Books of Robert Ltd.

Journal Entries

		(Rs. in Lacs)	(Rs. in Lacs)
Business Purchase A/c	Dr.	13,500	
To Liquidator of Diamond Ltd.			13,500
(Being business of Diamond Ltd. taken over for consideration settled as per agreement)			
Plant and Machinery	Dr.	7,500	
Furniture & Fittings	Dr.	2,550	
Inventory	Dr.	6,061.5	
Debtors	Dr.	1,530	
Cash at Bank	Dr.	913.5	
Bills Receivable	Dr.	120	
To Foreign Project Reserve			465
To General Reserve Rs. (4,800 - 4,500)			300
To Profit and Loss A/c			1,162.5
To Liability for 12% Debentures			1,500
To Creditors			694.5
To Provisions			1,053
To Business Purchase A/c			13,500
(Being assets & liabilities taken over from Diamond Ltd.)			
Liquidator of Diamond Ltd. A/c	Dr.	13,500	
To Equity Share Capital A/c			13,500
(Purchase consideration discharged in the form of equity shares)			
Profit & Loss A/c	Dr.	1.5	
To Bank A/c			1.5
(Liquidation expenses paid and charged to P&L A/c)			

Liability for 12% Debentures A/c	Dr.	1,500	
To 13% Debentures A/c			1500
(12% debentures discharged by issue of 13% debentures)			
Bills Payable A/c	Dr.	120	
To Bills Receivable A/c			120
(Cancellation of mutual owing on account of bills)			

Balance Sheet of Robert Ltd. as at 1st April, 2020 (after merger)

Particulars	Notes	Rs. (in lakhs)
Equity and Liabilities		
1 Shareholders' funds		
A Share capital	1	36,000
B Reserves and Surplus	2	24,981
2 Non-current liabilities		
A Long-term borrowings	3	1,500
3 Current liabilities		
A Trade Payables (1,800+694.5-120)		2,374.5
B Short-term provisions (2,745+1,053)		3,798
Total		68,653.5
Assets		
1 Non-current assets		
A Property, Plant & Equipment	4	43,506
2 Current assets		
A Inventories (11,793+6,061.5)		17,854.5
B Trade receivables (3,180+1,650-120)		4,710
C Cash and cash equivalents (1,671+913.5-1.5)		2,583
Total		68,653.5

Notes to Accounts

	Rs.
1. Share Capital	
Equity share capital	
Authorized, issued, subscribed and paid-up: 36 crores equity shares of Rs. 10 each (out of these shares, 13.5 crores shares have been issued for consideration other than cash)	<u>36,000</u>
2. Reserves and Surplus	
General Reserve	14,550
Securities Premium	4,500
Foreign Project Reserve	465
Profit and Loss Account Rs. (4,305 +1,162.5-1.5)	<u>5,466</u>
Total	<u>24,981</u>
3. Long-term borrowings	

Secured	
13% Debentures	<u>1,500</u>
4. PPE	
Land & Buildings	9,000
Plant & Machinery	28,500
Furniture & Fittings	<u>6,006</u>
Total	<u>43,506</u>

Working Note:

Computation of purchase consideration

Purchase consideration was discharged in the form of three equity shares of *Robert Ltd.* for every two equity shares held in *Diamond Ltd.*

$$\text{Purchase consideration} = \text{Rs. } 9,000 \text{ lacs} \times \frac{3}{2} = \text{Rs. } 13,500 \text{ lacs}$$

3. (a)

M/s Red, Black and White

Statement of Profit & Loss for the year ended on 31st March, 2019

	Rs.		Rs.
To Dep. Building (1,20,000x5%)	6,000	By Trading Profit	80,000
To Interest on Red's loan (20,000 x 6%)	1,200	By Interest on Debentures	2,400
To Net Profit to :			
Red's Capital A/c	45,120		
Black's Capital A/c	15,040		
White's Capital A/c	<u>15,040</u>		
	<u>82,400</u>		<u>82,400</u>

Balance Sheet of the RBW Pvt. Ltd. as at 1-4-2019

		Notes No.	Rs.
I	Equity and Liabilities		
	Shareholders funds		2,39,040
	Non-current liabilities		
	Long term borrowings	1	<u>21,200</u>
	Total		<u>2,60,240</u>
	Assets		
	Non-current assets		
	PPE	2	1,14,000
	Non-current investments		40,000
	Current assets		
	Inventories		80,000
	Cash and cash equivalents		<u>26,240</u>
	Total		<u>2,60,240</u>

Notes to Accounts

		Rs.
1.	Borrowings Loan from Red	21,200
2.	PPE Land and Building (1,20,000 – 6,000)	1,14,000

Working Notes:

1. Calculation of goodwill:

Year ended March, 31

	2014 Rs.	2015 Rs.	2016 Rs.	2017 Rs.	2018 Rs.
Book Profits	40,000	(20,000)	40,000	50,000	60,000
Adjustment for extraneous profit 2014 and abnormal loss 2015	<u>(60,000)</u>	<u>40,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
	(20,000)	20,000	40,000	50,000	60,000
Add Back: Remuneration of Red	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>
	(8,000)	32,000	52,000	62,000	72,000
Less : Debenture Interest being non-operating income	<u>(2,400)</u>	<u>(2,400)</u>	<u>(2,400)</u>	<u>(2,400)</u>	<u>(2,400)</u>
	<u>(10,400)</u>	<u>29,600</u>	<u>49,600</u>	<u>59,600</u>	<u>69,600</u>
Total Profit from 2015 to 2018					2,08,400
Less : Loss for 2014					<u>(10,400)</u>
Accumulated Profit					1,98,000
Average Profit					39,600
Goodwill equal to 2 years' purchase					79,200
Contribution from White, equal to 1/5					15,840

2. Partners' Capital accounts

	Red	Black	White		Red	Black	White
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Drawings	24,000	24,000	24,000	By Balance b/d	80,000	1,00,000	—
To Black			15,840				
To Balance c/d	1,13,120	1,14,880	11,040	By General	12,000	8,000	—
				Reserve			
				By White		15,840	—
				By Bank	—	—	35,840
				By Profit &	45,120	15,040	15,040
				Loss A/c			
	1,37,120	1,38,880	50,880		1,37,120	1,38,880	50,880

3. **Balance Sheet as on 31st March, 2019**

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>	<i>Rs.</i>
Red's Capital		1,13,120	Land & Building	1,20,000	
Black's Capital		1,14,880	Less : Dep.	<u>(6,000)</u>	1,14,000
White's Capital		11,040	Investments		40,000
Red's Loan	20,000		Stock-in-trade		80,000
Add : Int. due	<u>1,200</u>	21,200	Cash (Balancing figure)		<u>26,240*</u>
		2,60,240			2,60,240

4. **Conversion into Company**

		<i>Rs.</i>
Capital :	Red	1,13,120
	Black	1,14,880
	White	<u>11,040</u>
Share Capital		2,39,040
Distribution of share:	Red (3/5)	1,43,424
	Black (1/5)	47,808
	White (1/5)	47,808

Red should subscribe shares of Rs. 30,304 (Rs. 1,43,424 – Rs. 1,13,120) and White should subscribe shares of Rs. 36,768 (Rs. 47,808 less 11,040). Black withdraws Rs. 67,072 (Rs. 47,808 – Rs.1,14,880).

5 **Adjustment for Goodwill amounting Rs. 79,200**

	To be raised in old Ratio	To be written off in new ratio	Difference
Red	47,520	47,520	Nil
Black	31,680	15,840	15,840 Cr.
White		15,840	15,840 Dr.

* Also the closing cash balance can be derived as shown below:

	<i>Rs.</i>	<i>Rs.</i>
Trading profit (assume realised)		80,000
Add: Debenture Interest		2,400
Add: Decrease in Debtors Balance		<u>40,000</u>
		1,22,400
Less: Increase in stock	20,000	
Less: Decrease in creditors	<u>40,000</u>	<u>(60,000)</u>
Cash Profit		62,400
Add: Opening cash balance		20,000
Add: Cash brought in by White		<u>35,840</u>
		1,18,240
Less: Drawings	72,000	
Less: Additions to Building	20,000	<u>(92,000)</u>
		26,240

- (b) On the basis of the information, in respect of hire purchase and leased assets, additional provision shall be made as under:

(Rs. in crore)		
(a) Where hire charges are overdue upto 12 months	Nil	-
(b) Where hire charges are overdue for more than 12 months but upto 24 months	10% of the net book value 10% x 2,000	200
(c) Where hire charges are overdue for more than 24 months but upto 36 months	40 percent of the net book value 40% x 1,250	500
(d) Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70 percent of the net book value 70% x 600	420
(e) Where hire charges or lease rentals are overdue for more than 48 months	100% of net book value (100% x 100)	100
	Total	1,220

4. (a) **Consolidated Profit & Loss Account of A Ltd. and its subsidiary B Ltd.**
for the year ended on 31st March, 2020

Particulars	Note No.	Rs. in Lacs
I. Revenue from operations	1	<u>8,797</u>
II. Total revenue		<u>8,797</u>
III. Expenses		
Cost of Material purchased/consumed	3	1,770
Changes of Inventories of finished goods	2	(1,794)
Employee benefit expense	4	1,425
Finance cost	6	225
Depreciation and amortization expense	7	225
Other expenses	5	<u>802</u>
Total expenses		<u>2,653</u>
IV. Profit before Tax(II-III)		6,144

Notes to Accounts

	Rs. in Lacs	Rs. in Lacs
1. Revenue from Operations		
Sales and other income		
A Ltd.	7,500	
B Ltd.	<u>1,500</u>	
	9,000	
Less: Inter-company Sales	(180)	
Consultancy fees received by A Ltd. from B Ltd.	(8)	
Commission received by B Ltd. from A Ltd.	<u>(15)</u>	
		8,797

2.	Increase in Inventory		
	A Ltd.	1,500	
	B Ltd.	<u>300</u>	
		1,800	
	Less: Unrealized profits Rs. $180 \times \frac{1}{6} \times \frac{25}{125}$	<u>(6)</u>	<u>1,794</u>
3.	Cost of Material purchased/consumed		
	A Ltd.	1,200	
	B Ltd.	<u>300</u>	
		1,500	
	Less: Purchases by B Ltd. from A Ltd.	<u>(180)</u>	1,320
	Direct Expenses		
	A Ltd.	300	
	B Ltd.	<u>150</u>	<u>450</u>
			<u>1,770</u>
4.	Employee benefits and expenses		
	Wages and Salaries:		
	A Ltd.	1,200	
	B Ltd.	<u>225</u>	<u>1,425</u>
5.	Other Expenses		
	Administrative Expenses		
	A Ltd.	300	
	B Ltd.	<u>150</u>	
		450	
	Less: Consultancy fees received by A Ltd. from B Ltd.	<u>(8)</u>	442
	Selling and Distribution Expenses:		
	A Ltd.	300	
	B Ltd.	<u>75</u>	
		375	
	Less: Commission received from B Ltd. from A Ltd.	<u>(15)</u>	<u>360</u>
			<u>802</u>
6.	Finance Cost		
	Interest:		
	A Ltd.	150	
	B Ltd.	<u>75</u>	<u>225</u>
7.	Depreciation and Amortization		
	Depreciation:		
	A Ltd.	150	
	B Ltd.	<u>75</u>	<u>225</u>

(b) Under section 64 of the LLP Act, 2008, an LLP may be wound up by the Tribunal:

- If the LLP decides that it should be wound up by the Tribunal;

- If for a period of more than six months, the number of partners of the LLP is reduced below two;
- If the LLP is unable to pay its debts;
- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
- If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

5. (a)

BT Limited

Liquidator's Statement of Account

<i>Receipts</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Payments</i>	<i>Rs.</i>	<i>Rs.</i>
To Assets realized:			By Liquidation expenses		45,000
Bank		75,700	By Preferential creditors		75,000
Other assets:			By Liquidator's Remuneration (W.N.1)		1,29,600
Land & building	24,50,000		By Debenture holders:		
Plant & Machinery	9,00,000		Debentures	10,00,000	
Furniture	2,85,000		Interest accrued	1,20,000	
Patents	90,000		Interest 1-4-19 to 30-6-19	<u>30,000</u>	11,50,000
Stock	2,80,000		By Unsecured creditors		7,36,250
Trade receivables	<u>3,15,000</u>	43,20,000	By Preferential shareholders		
			Preference capital	10,00,000	
			Arrear of Dividend	<u>1,20,000</u>	<u>11,20,000</u>
					32,55,850
			By Equity shareholders -		
			Rs. 32.995 on 20,000 shares		6,59,900
			Rs. 47.995 on 10,000 shares		<u>4,79,950</u>
		<u>43,95,700</u>			<u>43,95,700</u>

Working Notes:

- (1) Liquidator's remuneration $43,20,000 \times 3/100 = \text{Rs. } 1,29,600$
- (2) As the company is solvent, interest on the debentures will have to be paid for the period 1-4-2019 to 30-6-2019 = $10,00,000 \times 12\% \times 3/12 = \text{Rs. } 30,000$
- (3) Total equity capital - paid up (7,50,000 + 12,00,000) Rs. 19,50,000
Less: Balance available (43,95,700 — 32,55,850) Rs. (11,39,850)
Rs. 8,10,150

Loss to be borne by 30,000 equity shares
Loss per share Rs. 27.005
Hence, Refund for share on Rs. 60 paid share (60 - 27.005) Rs. 32.995
Refund for share on Rs. 75 paid (75 - 27.005) Rs. 47.995

(b)

Indus Bank Limited**Profit & Loss Account for the year ended 31st March, 2020**

	<i>Schedule</i>	<i>Rs. '000s</i>
I. Income		
Interest earned	13	8,971
Other income	14	2,419
Total		11,390
II. Expenditure		
Interest expended	15	4,120
Operating expenses	16	3,703
Provisions (Refer W.N.)		1,013.8
Total		8,836.8
III. Profit/Loss		2,553.20

Schedule 13 – Interest Earned

	<i>Rs. '000s</i>
Interest / discount on advances bills	
Interest on term loans [2,550- (731-238)]	2,057
Interest on cash credits and overdrafts (5,663-923)	4,740
Income on investments	2,174
	8,971
Note: Interest on non-performing assets is recognized on receipt basis.	

Schedule 14 – Other Income

	<i>Rs. '000s</i>
Commission, exchange and brokerage	201
Profit on sale of investments	1,876
Profit on revaluation of investments	342
	2,419

Schedule 15 – Interest Expended

	<i>Rs. '000s</i>
Interest on deposits	4120

Schedule 16 – Operating Expenses

	<i>Rs. '000s</i>
Payments to and provision for employees - salaries, bonus and allowances	2,745
Rent, taxes and lighting	385
Printing & stationery	62
Director's fee, allowances and expenses	313
Depreciation Charges	99
Repairs & maintenance	56
Insurance	43
	3,703

Working Note:

Provisions		Rs. '000s
Provision for standard and non-performing assets		
Standard (4,700 x .4%)		18.8
Sub-standard (1900 x 15%)		285
Doubtful (400 x 100%)		400
Doubtful (40 x 25%)		10
Loss assets (300 x 100%)		300
		<u>1,013.8</u>

6. (a) (i) According to AS 18 on 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Hence, Mr. Raj, a relative of key management personnel should be identified as related party for disclosure in the financial statements for the year ended 31.3.2021.
- (ii) As per AS 18, transactions of X Ltd. with its associate company for the first quarter ending 30.06.2020 only are required to be disclosed as related party transactions. The transactions for the period in which related party relationship did not exist need not be reported.

(b) Journal Entries in the books of S Ltd.

2020		Dr. Rs.	Cr. Rs.
April 1	Equity Share Capital A/c (Rs. 10) Dr.	5,00,000	
	To Equity Share Capital A/c		3,00,000
	To 8% Preference Equity Share Capital A/c		60,000
	To 10% Second Debentures A/c		40,000
	To Capital Reduction /Reconstruction A/c		1,00,000
	(Being reduction of equity shares to 3/5 shares, issue of preference shares and debentures as per Reconstruction Scheme dated...)		
	Capital Reduction / Reconstruction A/c Dr.	1,00,000	
	To Building A/c		50,000
	To Plant and Machinery A/c		20,000
	To Goodwill A/c		30,000
	(Being value of building and plant and machinery reduced and goodwill written off completely.)		
	Bank A/c Dr.	1,00,000	
	To 8% First Debentures A/c		1,00,000
	(Being Rs. 1,00,000 debentures issued)		

- (c) Statement showing the amount of profit/loss to be taken to Profit and Loss Account and additional provision for the foreseeable loss as per AS 7

Cost of Construction	Rs.	Rs.
Material Issued	75,00,000	
Less: Unused Material at the end of period	<u>4,00,000</u>	71,00,000

	Labour Charges paid	36,00,000	
Add:	Outstanding on 31.03.2020	<u>2,00,000</u>	38,00,000
	Hire Charges of Plant		10,00,000
	Other Contract cost incurred		<u>15,00,000</u>
	Cost incurred upto 31.03.2020		1,34,00,000
Add:	Estimated future cost		<u>33,50,000</u>
	Total Estimated cost of construction		<u>1,67,50,000</u>
	Degree of completion (1,34,00,000/1,67,50,000 x 100)		80%
	Revenue recognized (80% of 1,50,00,000)		1,20,00,000
	Total foreseeable loss (1,67,50,000 - 1,50,00,000)		17,50,000
Less:	Loss for the current year (1,34,00,000 - 1,20,00,000)		<u>14,00,000</u>
	Loss to be provided for		3,50,000

(d) **Journal Entries in the books of Ganga Ltd.**

			Rs.	Rs.
1.3.20	Bank A/c (1,02,500 x Rs. 60)	Dr.	61,50,000	
to	Employee compensation expense A/c	Dr.	92,25,000	
31.3.20	(1,02,500 x Rs.90)			
	To Equity share capital A/c (1,02,500 x Rs.10)			10,25,000
	To Securities premium A/c (1,02,500 x Rs.140)			1,43,50,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.20	Profit and Loss A/c	Dr.	92,25,000	
	To Employee compensation expense A/c			92,25,000
	(Being transfer of employee compensation expenses to Profit and Loss Account)			

OR

L, M, N and O hold Equity capital is held by in the proportion of 30:40:20:10 and A, B, C and D hold preference share capital in the proportion of 40:30:10:20. As the paid up equity share capital of the company is Rs.60 Lakhs and Preference share capital is Rs.30 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3.

The respective voting right of various shareholders will be:

L	=	2/3X30/100	=	3/15	=	20%
M	=	2/3X40/100	=	4/15	=	26.67%
N	=	2/3X20/100	=	2/15	=	13.33%
O	=	2/3X10/100	=	1/15	=	6.67%
A	=	1/3X40/100	=	4/30	=	13.33%
B	=	1/3X30/100	=	3/30	=	10%
C	=	1/3X10/100	=	1/30	=	3.33%
D	=	1/3X20/100	=	2/30	=	6.67%