

**MOCK TEST PAPER – 2**  
**INTERMEDIATE: GROUP – II**  
**PAPER – 5: ADVANCED ACCOUNTING**

**ANSWERS**

1. (a) Present value of minimum lease payment is computed below:

Year	MLP ₹	DF (12.6%)	PV ₹
1	50,000	0.890	44,500
2	50,000	0.790	39,500
3	50,000	0.700	35,000
4	50,000	0.622	31,100
5	50,000	0.552	27,600
5	25,000	0.552	13,800
			1,91,500

Present value of minimum lease payment = ₹ 1,91,500

Fair value of leased asset = ₹ 2,00,000

As per AS 19, on the date of inception of Lease, Lessee should show it as an asset and corresponding liability at lower of Fair value of leased asset at the inception of the lease and present value of minimum lease payments from the standpoint of the lessee. The accounting entry at the inception of lease to record the asset taken on finance lease in books of lessee is suggested below:

	₹	₹
Asset A/c Dr. To Lessor (Lease Liability) A/c (Being recognition of finance lease as asset and liability)	1,91,500	1,91,500

- (b) 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 31.3.2022 at ₹ 48 lakhs i.e. ₹ 120 lakhs less ₹ 72 lakhs (₹ 120 Lakhs / 10 years x 6 years = 72 Lakhs). The difference of ₹ 24 Lakhs (₹ 72 lakhs – ₹ 48 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of ₹ 48 lakhs will be amortized over remaining 4 years by amortizing ₹ 12 lakhs per year.

The necessary journal entry (for rectification) will be (Adjustment to reserves due to restatement of the carrying amount of intangible asset)

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

- (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 ₹ 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 2021-22.

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) (i) As per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', a provision should be recognized when
- an enterprise has a present obligation as a result of a past event;
  - it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
  - a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognized.

In the given situation, since, the directors of the company are of the opinion that the claim can be successfully resisted by the company, therefore there will be no outflow of the resources. Hence, no provision is required. The company will disclose the same as contingent liability by way of the following note:

"Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed copyrights and is seeking damages of ₹ 200 lakhs. However, the directors are of the opinion that the claim can be successfully resisted by the company."

- (ii) As per AS 29, a restructuring provision should include only the direct expenditures arising from the restructuring, which are those that are both: (a) necessarily entailed by the restructuring; and (b) Not associated with the ongoing activities of the enterprise. A restructuring provision does not include such costs as: (a) Retraining or relocating continuing staff; (b) Marketing; or (c) Investment in new systems and distribution networks.

2. (a)

### Books of Sulpher Ltd.

#### Journal Entries

		(₹ in Lacs)	(₹ 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 ₹ (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 Sulpher Ltd. as at 1<sup>st</sup> April, 2022 (after merger)**

Particulars		Notes	₹ (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+4,061.5) less amount to reserves due to restatement of the carrying amount of intangible asset		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

	₹
1. Share Capital	
Equity share capital	
Authorized, issued, subscribed and paid-up: 36 crores equity shares of ₹ 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 ₹ (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	43,506

### Working Note:

Computation of purchase consideration

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

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

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

(₹ 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

3. (a)

**M/s Red, Black and White**

**Statement of Profit & Loss for the year ended on 31st March, 2022**

	₹		₹
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 1-4-2022**

		Notes No.	₹
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**

		₹
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**

	2017 ₹	2018 ₹	2019 ₹	2020 ₹	2021 ₹
Book Profits (Adjustment to reserves due to restate of the carrying amount of intangible asset)	40,000	(20,000)	40,000	50,000	60,000
Adjustment for extraneous profit 2017 and abnormal loss 2018	<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 2018 to 2021					2,08,400
Less: Loss for 2017					<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
	₹	₹	₹		₹	₹	₹
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 Reserve	12,000	8,000	—
				By White		15,840	—
				By Bank	—	—	35,840
				By Profit & Loss A/c	45,120	15,040	15,040
	1,37,120	1,38,880	50,880		1,37,120	1,38,880	50,880

3. **Balance Sheet as on 31st March, 2022**

Liabilities	₹	₹	Assets	₹	₹
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**

		₹
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

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

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

**5 Adjustment for Goodwill amounting ₹ 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:

	₹	₹
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

**4. (a) Consolidated Statement of Profit & Loss of A Ltd. and its subsidiary B Ltd.  
for the year ended on 31<sup>st</sup> March, 2022**

Particulars	Note No.	₹ 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** (Adjustment to reserves due to restatement of the carrying amount of intangible asset)

		₹ in Lacs	₹ 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 ₹ 180×1/6 x 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) Statement showing rebate on bills discounted**

Value	Due Date	Days after 31.3.2021	Rate of discount	Discount Amount
1,46,200	4.5.22	(30+ 4) = 34	15%	2,043
2,30,400	12.5.22	(30+12) = 42	15%	3,977
4,35,900	28.5.22	(30+28) = 58	15%	10,390
4,36,200	18.6.22	(30+ 31+ 18) = 79	16%	15,106
2,68,100	4.7.22	(30+ 31+30+4) = 95	16%	11,165
15,16,800	Rebate on bills discounted on 31.3.2022			42,681

Note: 365 days have been considered in a year.

**In the books of SM Bank Ltd. - Journal Entries**

(i)	Rebate on bills discounted Account	Dr.	26,592	
	To Discount on bills Account			26,592
	[Being opening balance of rebate on bills discounted account transferred to discount on bills account]			
(ii)	Bills purchased & discounted Account	Dr.	15,16,800	
	To Discount on bills Account			1,26,859
	To Clients Account			13,89,941
	(Being bills purchased and discounted during the year)			
(iii)	Discount on bills Account	Dr.	42,681	
	To Rebate on bills discounted Account			42,681
	[Being provision made on 31 <sup>st</sup> March, 2022]			
(iv)	Discount on bills Account	Dr.	1,10,770	
	To Profit and loss Account*			1,10,770
	[Being transfer of discount on bills, of the year, to profit and loss account]			

\*Credit to Profit and Loss A/c will be as follows:

₹ (1,26,859 + 26,592 – 42,681) = ₹ 1,10,770

**5. (a) Liquidator's Final Statement of Receipts and Payments**

	₹	₹		₹
To Cash in hand		40,000	By Liquidator's remuneration and expenses	5,000
To Assets realised:				
PPE	1,68,000		By Trade Payables	3,50,000
Inventory			By Preference shareholders	1,00,000

(1,10,000 – 1,00,000) Book debts	10,000 <u>2,30,000</u>	4,08,000	By Equity shareholders @ ₹ 10 on 2,000 shares	20,000
To Cash - proceeds of call on 1,800 equity shares @ ₹ 15*		<u>27,000</u>		
		<u>4,75,000</u>		<u>4,75,000</u>

**Working Note:**

**Return per equity share**

	₹
Cash available before paying preference shareholders (₹ 4,48,000 – ₹ 3,55,000)	93,000
Add: Notional calls 1,800 shares (2,000-200) × ₹ 25	<u>45,000</u>
	1,38,000
Less: Preference share capital	<u>(1,00,000)</u>
Available for equity shareholders	<u>38,000</u>
Return per share = $\frac{₹ 38,000}{3,800 (4,000 - 200)} = ₹ 10$	
and Loss per Equity Share ₹ (100-10) = ₹ 90	

\*Calls to be made @ ₹ 15 per share (₹ 90-75) on 1,800 shares.

(b)

**PNG Bank Limited**

**Profit & Loss Account for the year ended 31<sup>st</sup> March, 2022**

	Schedule	₹ '000s
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**

	₹ '000s
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
	<u>8,971</u>

**Note:** Interest on non-performing assets is recognized on receipt basis.

#### Schedule 14 – Other Income

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

#### Schedule 15 – Interest Expended

	₹ '000s
Interest on deposits	4120

#### Schedule 16 – Operating Expenses

	₹ '000s
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
	<u>3,703</u>

#### Working Note:

Provisions		₹ '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) 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	₹	₹
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 31.03.2022	<u>2,00,000</u>	38,00,000
Adjustment to reserves due to restatement of carrying amount of intangible asset		
Hire Charges of Plant		10,00,000
Other Contract cost incurred		<u>15,00,000</u>
Cost incurred upto 31.03.2022		<u>1,34,00,000</u>

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

- (b) As per AS 20, "Earnings Per Share", the weighted average number of equity shares outstanding during the period reflects the fact that the amount of shareholders' capital may have varied during the period as a result of a larger or less number of shares outstanding at any time. For the purpose of calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period.

Weighted average number of equity shares:

7,20,000 X 5/12	= 3,00,000 shares
9,60,000 X 5/12	= 4,00,000 shares
8,40,000 X 2/12	= <u>1,40,000 shares</u>
	<u>8,40,000 shares</u>

- (c) **Journal Entries in the books of S Ltd.**

2022		Dr. ₹	Cr. ₹
April 1	Equity Share Capital A/c (₹ 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 ₹ 1,00,000 debentures issued)		

(d)

**Journal Entries in the books of Shiv Ltd.**

			₹	₹
1.3.22	Bank A/c (1,02,500 x ₹ 60)	Dr.	61,50,000	
to 31.3.22	Employee compensation expense A/c (1,02,500 x ₹ 90)	Dr.	92,25,000	
	To Equity share capital A/c (1,02,500x ₹10)			10,25,000
	To Securities premium A/c (1,02,500 x ₹140)			1,43,50,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.22	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)			

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