

**Mock Test Paper - Series II: December, 2024**

**Date of Paper: 9<sup>th</sup> December, 2024**

**Time of Paper: 2 P.M. to 5 P.M.**

**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. Excellence Ltd. is a Real Estate Company which constructs residential and commercial projects for selling. The Company has commenced a new project and the expenses incurred are as follows:
  - The cost of land acquired for Project is ₹ 10 crore
  - Cost of construction incurred is ₹ 25 crores.
  - The Company also incurred cost of ₹ 10 lacs for various administrative meetings in relation to planning of the building.
  - The construction of building completed and at the end of the year 1, the net realisable value of the building was ₹ 40 crore.
  - At the beginning of the next year (year 2), the Company decided to use the building as its corporate office.
  - The Company further incurred ₹ 50 lacs for making necessary changes in the structure for using it as corporate office in accordance with government norms for commercial spaces. Without these changes the office cannot be set up.
  - Ignore the effect of depreciation, if any.

In view of above information, answer the following issues:

- (i) At the end of Year 1, how the building should be classified:
  - (a) Inventory
  - (b) Investments
  - (c) Property, Plant and Equipment
  - (d) Intangible Asset

- (ii) At the end of Year 1, at value Project should be recognised:
  - (a) ₹ 40 Crore
  - (b) ₹ 35 Crore
  - (c) ₹ 35.10 Crore
  - (d) ₹ 25 Crore
- (iii) At the end of Year 2, when the intention is to use the building as corporate office, it should be classified as:
  - (a) Inventory
  - (b) Investments
  - (c) Property, Plant and Equipment
  - (d) Intangible Assets
- (iv) At the end of Year 2, the Project should be valued at:
  - (a) ₹ 40 Crore
  - (b) ₹ 35.50 Crore
  - (c) ₹ 35.10 Crore
  - (d) ₹ 25 Crore

**Multiple Choice Questions [4 MCQs of 2 Marks each:  
Total 8 Marks]**

2. Supercool Ltd. is a manufacturing company, engaged in manufacturing eco-friendly equipment. On April 1, 2023, the Company received a grant of ₹ 20 crore from the Government (which is 25% of the total capital of the Company) for various purposes that the company deems fit and no repayment is required to be made to Government.

The Company also borrowed ₹ 10 crore from financial Institutions and interest paid on the same during the year is ₹ 1 lac.

The Company acquired plant and machinery from the funds for ₹ 10 crore and ₹ 1 crore was spent on its installation and assembly.

₹ 10 lacs were spent on professional fees necessary for installation and operating of the machine. The Company also spent ₹ 50 lacs on revenue expenditure.

The Plant and Machinery was ready for its intended use on September 30, 2023)

The depreciation on plant and machinery is charged @10%.

- (i) The grant of ₹ 20 crores received by the Company should be presented as:
  - (a) Grants related to Revenue
  - (b) Grants related to Specific Fixed Assets
  - (c) Capital Reserve

- (d) Other Income
- (ii) At what value the plant and machinery acquired should be recognised as at 31<sup>st</sup> March 2024:
  - (a) ₹ 11.10 Crore
  - (b) ₹ 11 Crore
  - (c) ₹ 10.54 Crore
  - (d) ₹ 11.60 Crore
- (iii) The revenue expenditure of ₹ 50 lacs should be recognised as:
  - (a) Part of Plant and Machinery
  - (b) Part of Grant
  - (c) Revenue expenditure in the Profit and Loss
  - (d) Deducted from loan
- (iv) Which of the following statement is true:
  - (a) Plant and Machinery has been acquired out of Government Grant so the same should be disclosed at Nil value.
  - (b) Plant and Machinery belongs to Financial Institution
  - (c) Plant and Machinery belong to the Company and should be recognised as its Property, Plant and Equipment
  - (d) Plant and Machinery should not be disclosed in the financial statements of the Company at all

**Multiple Choice Questions [4 MCQs of 2 Marks each:  
Total 8 Marks]**

3. 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:

- (i) As per The Companies Act, 2013 under Section 68 (2) the buy-back of shares in any financial year must not exceed
  - (a) 20% of its total paid-up capital and free reserves
  - (b) 25% of its total paid-up capital and free reserves
  - (c) 25% of its total paid-up capital
  - (d) 20% of its total paid-up capital
- (ii) How many shares can Super Ltd. buy back according to the Shares Outstanding Test?
  - (a) 35,000 shares
  - (b) 42,500 shares
  - (c) 37,500 shares
  - (d) 54,375 shares
- (iii) What is the maximum number of shares that can be bought back according to the Resources Test?
  - (a) 35,000 shares
  - (b) 42,500 shares
  - (c) 37,500 shares
  - (d) 54,375 shares
- (iv) According to the Debt Equity Ratio Test, what is the maximum number of shares that can be bought back?
  - (a) 35,000 shares
  - (b) 42,500 shares
  - (c) 37,500 shares
  - (d) 54,375 shares

**Multiple Choice Questions [4 MCQs of 2 Marks each:  
Total 8 Marks]**

4. Accounting Standard 19, Lease is applicable on following Leases:
- (a) Lease agreements to explore for or use of natural resources, such as oil, gas, timber metals and other mineral rights.
  - (b) Legal owner of an asset conveys to another party in return for a payment or series of periodic payments, the right to use an asset for an agreed period of time.

- (c) licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights.
- (d) lease agreements to use lands **(2 Marks)**
5. How should the dividend paid by the Company should be disclosed in the Cash Flows Statement:
- (a) Cash flows from Operating Activities
- (b) Cash flows from Investing Activities
- (c) Cash flows from Financing Activities
- (d) No disclosure in Cash Flow Statement **(2 Marks)**
6. On 31st March 2024, Sri Radhey shyam Enterprise finds that the cost of a partly finished unit on that date is ₹ 530. The unit can be finished in 2024-25 by an additional expenditure of ₹ 310. The finished unit can be sold for ₹ 750 subject to payment of 8% brokerage on the selling price.
- Sri Radhey shyam Enterprise seeks your advice regarding the amount at which the unfinished unit should be valued as at 31st March, 2024 for preparation of final accounts. the partly finished unit cannot be sold in semi-finished form and its NRV is zero without processing it further.
- (a) ₹ 470
- (b) ₹ 380
- (c) ₹ 500
- (d) ₹ 440 **(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) State with reasons, how the following events would be dealt with in the financial statements of Hari Ltd. for the year ended 31<sup>st</sup> March, 2024 (accounts were approved on 25<sup>th</sup> July, 2024):
- (1) Negotiations with another company for acquisition of its business was started on 21st January, 2024. Hari Ltd. invested ₹ 40 lakh on 22nd April, 2024.
- (2) The company made a provision for bad debts @ 4% of its total debtors (as per trend followed from the previous years). In the second week of March 2024, a debtor for ₹ 2,50,000 had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In May, 2024 the debtor became bankrupt.

- (3) During the year 2023-24, Hari Ltd. was sued by a competitor for ₹ 13 lakhs for infringement of a trademark. Based on the advice of the company's legal counsel, Hari Ltd. provided for a sum of ₹ 8 lakhs in its financial statements for the year ended 31<sup>st</sup> March, 2024. On 26<sup>th</sup> May, 2024, the Court decided in favour of the party alleging infringement of the trademark and ordered Hari Ltd. to pay the aggrieved party a sum of ₹ 12 lakhs.
- (4) Cashier of Hari Ltd. embezzled cash amounting to ₹ 3,00,000 during March, 2024. However the same comes to the notice of Company management during August, 2024.
- (5) Cheques dated 31<sup>st</sup> March, 2024 collected in the month of April, 2024. All cheques are presented to the bank in the month of April, 2024 and are also realized in the same month in the normal course after deposit in the bank.
- (b) Honey Ltd. is in the process of developing a new production method. During the financial year ended 31<sup>st</sup> March, 2023, total expenditure incurred on development of this production method was ₹ 98,00,000. On 1<sup>st</sup> Jan, 2023, the production method met the criteria as an intangible asset and expenditure incurred till this date was ₹ 68,00,000. Further expenditure incurred on the new method was ₹ 72,00,000 for the year ended 31<sup>st</sup> March, 2024 and recoverable amount of the know how embodied in the new method for this financial year is ₹ 52,00,000.

You are required to calculate:

- (1) The carrying amount of the Intangible asset on 31<sup>st</sup> March, 2023.
- (2) The expenditure to be shown in Statement of Profit and Loss for the year ended 31<sup>st</sup> March, 2024.
- (3) The carrying amount of the Intangible asset on 31<sup>st</sup> March, 2024.

**(7 + 7 = 14 Marks)**

2. (a) Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31<sup>st</sup> March, 2024 at a cost of ₹70 lakhs. The following information is available from the balance sheet of Zed Ltd. as on 31<sup>st</sup> March, 2024:

| Particulars                   | ₹ in lakhs |
|-------------------------------|------------|
| Property, plant and equipment | 120        |
| Investments                   | 55         |
| Current Assets                | 70         |
| Loans & Advances              | 15         |
| 15% Debentures                | 90         |
| Current Liabilities           | 50         |

The following revaluations have been agreed upon (not included in the above figures):

Property, plant and equipment Up by 20%

Investments Down by 10%

Zed Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 2024 (Face value – ₹10 per share). Exe Ltd. purchased the shares of Zed Ltd. @ ₹ 20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Zed Ltd.

- (b) From the following data, determine Minority Interest on the date of acquisition and on the date of consolidation in each case:

| Case     | Subsidiary Company | % of Share Owned | Cost     | Date of Acquisition |                     | Consolidation date |                     |
|----------|--------------------|------------------|----------|---------------------|---------------------|--------------------|---------------------|
|          |                    |                  |          | 01-01-2024          |                     | 31-12-2024         |                     |
|          |                    |                  |          | Share Capital       | Profit and Loss A/c | Share Capital      | Profit and Loss A/c |
|          |                    |                  |          | ₹                   | ₹                   | ₹                  | ₹                   |
| Case-i   | X                  | 85%              | 1,85,000 | 1,35,000            | 60,000              | 1,35,000           | 70,000              |
| Case-ii  | Y                  | 70%              | 1,60,000 | 1,25,000            | 45,000              | 1,25,000           | 5,000               |
| Case-iii | Z                  | 65%              | 83,000   | 25,000              | 5,000               | 25,000             | 5,000               |
| Case-iv  | M                  | 90%              | 60,000   | 45,000              | 20,000              | 45,000             | 40,000              |
| Case-v   | N                  | 100%             | 85,000   | 25,000              | 25,000              | 25,000             | 50,000              |

**(7+7=14 Marks)**

3. (a) Given the following information of Rainbow Ltd.
- On 15<sup>th</sup> 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 31<sup>st</sup> January and no approval or disapproval received for the remaining goods till 31<sup>st</sup> March.
  - On 31<sup>st</sup> 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 10<sup>th</sup> April.
  - Rainbow Ltd. supplied goods worth ₹ 6,00,000 to Shyam Ltd. and concurrently agrees to re-purchase the same goods on 14<sup>th</sup> April.

- (iv) 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 2023-24.
- (v) On 25<sup>th</sup> 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 31<sup>st</sup> 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. **(4 Marks)**

- (b) The following information of Rocky Ltd. as at March 31, 2024:

|                                       | ₹ in lacs  |
|---------------------------------------|------------|
| Fully paid equity shares of ₹ 10 each | 500        |
| Capital Reserve                       | 6          |
| 12% Debentures                        | 400        |
| Debenture Interest Outstanding        | 48         |
| Trade payables                        | 165        |
| Directors' Remuneration Outstanding   | 10         |
| Other Outstanding Expenses            | 11         |
| Provisions                            | 33         |
| Assets                                |            |
| Goodwill                              | 15         |
| Land and Building                     | 184        |
| Plant and Machinery                   | 286        |
| Furniture and Fixtures                | 41         |
| Inventory                             | 142        |
| Trade receivables                     | 80         |
| Cash at Bank                          | 27         |
| Discount on Issue of Debentures       | 8          |
| Profits and Loss Account              | <u>390</u> |

The following scheme of internal reconstruction was framed, approved by the Tribunal all the concerned parties and implemented:

- (i) All the equity shares be converted into the same number of fully-paid equity shares of ₹ 2.50 each.
- (ii) Directors agree to forego their outstanding remuneration.
- (iii) The debentureholders also agree to forego outstanding interest in return of their 12% debentures being converted into 13% debentures.
- (iv) The existing shareholders agree to subscribe for cash, fully paid equity shares of ₹ 2.50 each for ₹ 125 lacs.

- (v) Trade payables are given the option of either to accept fully-paid equity shares of ₹ 2.50 each for the amount due to them or to accept 80% of the amount due in cash. Trade payables for ₹ 65 lacs accept equity shares whereas those for ₹ 100 lacs accept ₹ 80 lacs in cash in full settlement.

- (vi) The Assets are revalued as under:

|                     | ₹ in lacs |
|---------------------|-----------|
| Land and building   | 230       |
| Plant and Machinery | 220       |
| Inventory           | 120       |
| Trade receivables   | 76        |

Pass Journal Entries for all the above mentioned transactions immediately after the reconstruction. **(10 Marks)**

4. From the following particulars furnished by Hello Ltd., prepare the Balance Sheet as on 31<sup>st</sup> March 2024 as required by Part I, Schedule III of the Companies Act, 2013.

| Particulars                                     |                  | Debit ₹   | Credit ₹  |
|-------------------------------------------------|------------------|-----------|-----------|
| Equity Share Capital (Face value of ₹ 100 each) |                  |           | 50,00,000 |
| Building                                        |                  | 27,50,000 |           |
| Plant & Machinery                               |                  | 26,25,000 |           |
| Furniture                                       |                  | 2,50,000  |           |
| General Reserve                                 |                  |           | 10,50,000 |
| Loan from State Financial Corporation           |                  |           | 7,50,000  |
| Inventory:                                      |                  |           |           |
| Raw Materials                                   | 2,55,000         |           |           |
| Finished Goods                                  | <u>10,00,000</u> | 12,55,000 |           |
| Provision for Taxation                          |                  |           | 6,40,000  |
| Trade receivables                               |                  | 10,00,000 |           |
| Short term Advances                             |                  | 2,13,500  |           |
| Profit & Loss Account                           |                  |           | 4,33,500  |
| Cash in Hand                                    |                  | 1,50,000  |           |
| Cash at Bank                                    |                  | 12,35,000 |           |
| Unsecured Loan                                  |                  |           | 6,05,000  |
| Trade payables (for Goods and Expenses)         |                  |           | 10,00,000 |

The following additional information is also provided:

- (i) 10,000 Equity shares were issued for consideration other than cash.  
(ii) Trade receivables of ₹ 2,60,000 are due for more than 6 months.

(iii) The cost of the Assets were:

Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500

(iv) The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes ₹ 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.

(vi) Transfer ₹ 20,000 to general reserve as proposed by Board of directors.

**(14 Marks)**

5. A Limited and B Limited are carrying on business of same nature. On 31<sup>st</sup> March, 2024 the information given by both these companies is as follows:

|                                       | A Ltd. (₹) | B Ltd. (₹) |
|---------------------------------------|------------|------------|
| Share Capital                         |            |            |
| - Equity Shares 10 each (Fully Paid)  | 12,00,000  | 7,20,000   |
| - 10% Preference Shares of ₹ 100 each | 6,00,000   | -          |
| - 8% Preference Shares of ₹ 100 each  | -          | 5,00,000   |
| General Reserve                       | 3,00,000   | 2,50,000   |
| Investment Allowance Reserve          | -          | 60,000     |
| Security Premium                      | 2,40,000   | -          |
| Export Profit Reserve                 | 1,80,000   | 1,20,000   |
| Profit & Loss Account                 | 2,16,000   | 1,92,000   |
| 9% Debentures (₹ 10 each)             | 3,00,000   | 2,00,000   |
| Secured Loan                          | -          | 3,60,000   |
| Sundry Creditors                      | 3,12,000   | 2,04,000   |
| Bills Payable                         | 75,000     | 1,00,000   |
| Other Current Liabilities             | 50,000     | 75,000     |
| Land and Building                     | 10,80,000  | 8,40,000   |
| Plant and Machinery                   | 6,00,000   | 5,60,000   |
| Office Equipment                      | 3,45,000   | 2,10,000   |
| Investments                           | 96,000     | 3,00,000   |
| Inventory                             | 6,30,000   | 4,20,000   |
| Sundry Debtors                        | 4,90,000   | 3,20,000   |
| Bills Receivables                     | 60,000     | 70,000     |
| Cash at Bank                          | 1,72,000   | 61,000     |

A Limited take over B Limited on the above date, both companies agreeing on a scheme of Amalgamation on the following terms:

(a) A Limited will issue 80,000 Equity Shares of ₹ 10 each at par to the Equity Shareholders of B Limited.

- (b) A Limited will issue 10% Preference Shares of ₹ 100 each to discharge the Preference Shareholders of B Limited at 15% premium in such a way that the existing dividend quantum of the preference shareholders of B Limited will not get affected.
- (c) The Debentures of B Limited will be converted into equivalent number of Debentures of A Limited.
- (d) All the Bills Receivable of A Limited were accepted by B Limited.
- (e) A contingent liability of B Limited amounting to ₹ 72,000 to be treated as actual liability in trade payables.
- (f) Expenses of Amalgamation amounted to ₹ 12,000 were borne by A Limited.

You are required to pass opening Journal Entries in the books of A Limited and prepare the opening Balance Sheet of A Limited as on 1<sup>st</sup> April, 2024 after amalgamation, assuming that the amalgamation is in the nature of Merger.

**(14 Marks)**

6. (a) "One of the characteristics of financial statements is neutrality" - Do you agree with this statement?

Or

What do you mean by Carve outs/ins in Ind AS? Explain. **(4 Marks)**

- (b) "The company has not made provision for warrantee in respect of certain goods considering that the company can claim the warranty cost from the original supplier".

You are required to comment in line with the provisions of AS 29.

**(6 Marks)**

- (c) Why goods are marked on invoice price by the head office while sending goods to the branch? **(4 Marks)**

**Mock Test Paper - Series II: December, 2024**

**Date of Paper: 9<sup>th</sup> December, 2024**

**Time of Paper: 2 P.M. to 5 P.M.**

**INTERMEDIATE COURSE: GROUP – I**  
**PAPER – 1 : ADVANCED ACCOUNTING**  
**ANSWERS**

1. (i) (a)  
(ii) (b)  
(iii) (c)  
(iv) (b)
2. (i) (c)  
(ii) (c)  
(iii) (c)  
(iv) (c)
3. (a) (ii)  
(b) (ii)  
(c) (iii)  
(d) (iv)
4. (ii)
5. (iii)
6. (b)

**PART II – Descriptive Questions (70 Marks)**

1. (a) (i) As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise, the investment of ₹ 40 lakhs in April, 2024 in the acquisition of another company should be disclosed in the report of the Board of Directors to enable users of financial statements to make proper evaluations and decisions.  
(ii) As per AS 4, adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date. A debtor for ₹ 2,50,000 suffered heavy loss due to earthquake in

the second week of March, 2024 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in May, 2024 (after the balance sheet date) is only an additional information related to the existing condition on the balance sheet date. Accordingly, full provision for bad debts amounting ₹ 2,50,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31<sup>st</sup> March 2024.

- (iii) As per AS 4, adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. In the given case, since Hari Ltd. was sued by a competitor for infringement of a trademark during the year 2023-24 for which the provision was also made by it, the decision of the Court on 26<sup>th</sup> May, 2024, for payment of the penalty will constitute as an adjusting event because it is an event occurred before approval of the financial statements. Therefore, Hari Ltd. should adjust the provision upward by ₹ 4 lakhs to reflect the award decreed by the Court to be paid by them to its competitor.
- (iv) As the embezzlement of cash comes to the notice of company management only after approval of financial statements by board of directors of the company, then the treatment will be done as per the provisions of AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" and the same will not be adjusted in the financial statements for the year ended 31<sup>st</sup> March, 2024. This being an extra-ordinary item should be disclosed in the statement of profit and loss as a part of loss for the year ending March, 2025, in a manner, that its impact on current profit or loss can be perceived.
- (v) Collection of cheques after balance sheet date is not an adjusting event even if the cheques bear the date of 31<sup>st</sup> March. Recognition of cheques in hand is therefore not consistent with requirements of AS 4. Moreover, the collection of cheques after balance sheet date does not represent any material change or commitments affecting financial position of the enterprise and no disclosure of such collections in the Directors' Report is necessary.

**(b) As per AS 26 'Intangible Assets'**

**(i) Carrying value of intangible asset as on 31.03.2023**

At the end of financial year, on 31<sup>st</sup> March 2023, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of ₹ 30 (98-68) lacs (expenditure incurred since the date the recognition criteria were met, i.e., from 1<sup>st</sup> January, 2023).

(ii) **Expenditure to be charged to Profit and Loss account for the year ended 31.03.2024**

|                                  | (₹ in lacs) |
|----------------------------------|-------------|
| Carrying Amount as on 31.03.2023 | 30          |
| Expenditure during 2023–2024     | <u>72</u>   |
| Book Value                       | 102         |
| Recoverable Amount               | <u>(52)</u> |
| Impairment loss                  | <u>50</u>   |

₹ 50 lakhs to be charged to Profit and loss account for the year ending 31.03.2024.

(iii) **Carrying value of intangible asset as on 31.03.2024**

|                                  | (₹ in lacs) |
|----------------------------------|-------------|
| Book Value                       | 102         |
| Less: Impairment loss            | <u>(50)</u> |
| Carrying amount as on 31.03.2024 | <u>52</u>   |

2. (a) **Cost of Control**

| Sr. No. | Particulars                                    | Computation                                                          | ₹          |
|---------|------------------------------------------------|----------------------------------------------------------------------|------------|
| A]      | Cost of Investments                            | Given                                                                | 70,00,000  |
|         | Less: Dividend out of Pre Acquisition Dividend | (3.5 Lacs × ₹10 (FV) × 20%)<br>(No of Shares = 70 Lacs/20= 3.5 Lacs) | (7,00,000) |
|         |                                                | Subtotal A                                                           | 63,00,000  |
| B]      | Share in Net Assets of Zed Ltd.                | (1,38,50,000 × 70%)                                                  | 96,95,000  |
| C]      | Goodwill / (Capital Reserve)                   | (A – B)                                                              | 33,95,000  |

**W.N. 1 : Calculation of Net Assets**

| Sr. No. | Particulars                           | ₹           |
|---------|---------------------------------------|-------------|
| A]      | <u>Assets</u>                         |             |
| -       | Property, Plant & Equipment (120+20%) | 1,44,00,000 |
| -       | Investment (55 – 10%)                 | 49,50,000   |
| -       | Current Assets                        | 70,00,000   |
| -       | Loans & Advances                      | 15,00,000   |
|         | Subtotal A                            | 2,78,50,000 |
| B]      | <u>Liabilities</u>                    |             |
| -       | 15% Debentures                        | 90,00,000   |

|    |                     |             |
|----|---------------------|-------------|
| -  | Current Liabilities | 50,00,000   |
|    | Subtotal B          | 1,40,00,000 |
| C] | Net Assets (A – B)  | 1,38,50,000 |

**W.N. 2 : No of shares acquired**

$$= \frac{\text{Cost of investment}}{\text{Purchase price share}}$$

$$= \frac{70,00,000}{\text{₹ 20 shares}} = \text{₹3,50,000 shares}$$

Revalued net assets of Zed Ltd. as on 31.03.2024

| Particulars                                                                    | ₹ in lakhs | ₹ in lakhs |
|--------------------------------------------------------------------------------|------------|------------|
| Property Plant & Equipment [120 × 120%]                                        |            | 144.0      |
| Investments [55 × 90%]                                                         |            | 49.5       |
| Current Assets                                                                 |            | 70.0       |
| Loans & Advances                                                               |            | 15.0       |
| Total Assets after revaluation                                                 |            | 278.5      |
| Less: 15% Debentures                                                           | 90.0       |            |
| Current Liabilities                                                            | 50.0       | (140.0)    |
| Equity / Net Worth                                                             |            | 138.50     |
| Exe Ltd.'s share of net assets (70% of 138.50)                                 |            | 96.95      |
| Exe Ltd.'s cost of acquisition of shares of Zed Ltd.<br>(₹70 lakhs – 7 lakhs*) |            | 63.00      |
| Capital Reserve                                                                |            | 33.95      |

\*Total Cost of 70% Equity of Zed Ltd. ₹70 lakhs

Purchase Price of each share ₹20

Number of shares purchases(70 lakhs/20) 3.50 lakhs

Dividend @ 20% i.e. ₹2/share ₹7 lakhs

Since, dividend received is for pre-acquisition period, it has been reduced from the cost of investment in the subsidiary company.

**(b) Minority Interest = Equity attributable to minorities**

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case, it should be equal to Share Capital + Profit & Loss A/c

A = Share capital on 1.1.2024

B = Profit & loss account balance on 1.1.2024

C = Share capital on 31.12.2024

D = Profit & loss account balance on 31.12.2024

|                   | <b>Minority %<br/>Shares<br/>Owned</b><br><br><i>[E]</i> | <b>Minority<br/>interest as at<br/>the date of<br/>acquisition</b><br><br><i>[E] x [A + B] ₹</i> | <b>Minority<br/>interest as at<br/>the date of<br/>consolidation</b><br><br><i>[E] X [C + D] ₹</i> |
|-------------------|----------------------------------------------------------|--------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| Case i [100-85]   | 15%                                                      | 29,250                                                                                           | 30,750                                                                                             |
| Case ii [100-70]  | 30%                                                      | 51,000                                                                                           | 39,000                                                                                             |
| Case iii [100-65] | 35%                                                      | 10,500                                                                                           | 10,500                                                                                             |
| Case iv [100-90]  | 10%                                                      | 6,500                                                                                            | 8,500                                                                                              |
| Case v [100-100]  | NIL                                                      | NIL                                                                                              | NIL                                                                                                |

3. (a) (i) As per AS 9 "Revenue Recognition", in case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 5,00,000 as the time period for rejecting the goods had expired.
- (ii) The sale is complete but delivery has been postponed at buyer's request. The entity should recognize the entire sale of ₹ 2,40,000 for the year ended 31<sup>st</sup> March.
- (iii) Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date, such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue. Hence no revenue to be recognized in the given case.
- (iv) Revenue arising from the use by others of enterprise resources yielding interest and royalty should be recognized when no significant uncertainty as to measurability or collectability exists. The interest should be recognized on time proportion basis taking into account the amount outstanding and rate applicable. The royalty should be recognized on accrual basis in accordance with the terms of relevant agreement.
- (v) 40% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 2,40,000 (60% of ₹ 4,00,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

(b) **Journal Entries**

|  |     | ₹ in<br>lacs |
|--|-----|--------------|
|  | Dr. | Cr.          |

|                                                                                                                                                    |     |     |     |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-----|-----|-----|
| Equity Share Capital (₹ 10 each) A/c                                                                                                               | Dr. | 500 |     |
| To Equity Share Capital (₹ 2.50 each) A/c                                                                                                          |     |     | 125 |
| To Reconstruction A/c                                                                                                                              |     |     | 375 |
| (Conversion of all the equity shares into the same number of fully paid equity shares of ₹ 2.50 each as per scheme of reconstruction)              |     |     |     |
| Director's Remuneration Outstanding A/c                                                                                                            | Dr. | 10  |     |
| To Reconstruction A/c                                                                                                                              |     |     | 10  |
| (Outstanding remuneration foregone by the directors as per scheme of reconstruction)                                                               |     |     |     |
| 12% Debentures A/c                                                                                                                                 | Dr. | 400 |     |
| Debenture Interest Outstanding A/c                                                                                                                 | Dr. | 48  |     |
| To 13% Debentures A/c                                                                                                                              |     |     | 400 |
| To Reconstruction A/c                                                                                                                              |     |     | 48  |
| (Conversion of 12% debentures into 13% debentures, Debenture holders forgoing outstanding debenture interest)                                      |     |     |     |
| Bank A/c                                                                                                                                           | Dr. | 125 |     |
| To Equity Share Application A/c                                                                                                                    |     |     | 125 |
| (Application money received for fully paid equity shares of ₹ 2.5 each from existing shareholders)                                                 |     |     |     |
| Equity Share Application A/c                                                                                                                       | Dr. | 125 |     |
| To Equity Share Capital (₹ 2.50 each) A/c                                                                                                          |     |     | 125 |
| (Application money transferred to share capital)                                                                                                   |     |     |     |
| Trade payables A/c                                                                                                                                 | Dr. | 165 |     |
| To Equity Share Capital (₹ 2.50 each) A/c                                                                                                          |     |     | 65  |
| To Bank A/c                                                                                                                                        |     |     | 80  |
| To Reconstruction A/c                                                                                                                              |     |     | 20  |
| (Trade payables for ₹ 65 lakhs accepting shares for full amount and those for ₹ 100 lakhs accepting cash equal to 80% of claim in full settlement) |     |     |     |
| Capital Reserve A/c                                                                                                                                | Dr. | 6   |     |
| To Reconstruction A/c                                                                                                                              |     |     | 6   |
| (Being the loss on reconstruction (balance in the Reconstruction A/c) transferred to Capital Reserve)                                              |     |     |     |
| Land and Building A/c                                                                                                                              | Dr. | 46  |     |
| To Reconstruction A/c                                                                                                                              |     |     | 46  |

|                                                                                                   |     |     |     |
|---------------------------------------------------------------------------------------------------|-----|-----|-----|
| (Appreciation made in the value of land and building as per scheme of reconstruction)             |     |     |     |
| Reconstruction A/c                                                                                | Dr. | 505 |     |
| To Goodwill A/c                                                                                   |     |     | 15  |
| To Plant and Machinery A/c                                                                        |     |     | 66  |
| To Inventory A/c                                                                                  |     |     | 22  |
| To Trade receivables A/c                                                                          |     |     | 4   |
| To Discount on issue of Debentures A/c                                                            |     |     | 8   |
| To Profit and Loss A/c                                                                            |     |     | 390 |
| (Writing off losses and reduction in the values of assets as per scheme of reconstruction—W.N. 1) |     |     |     |

**Note:** In a scheme of Reconstruction, Goodwill, Losses etc should be written off against the Reconstruction Account whether or not it is mentioned in the question.

4. (a) **Hello Ltd.**

**Balance Sheet as at 31st March, 2024**

| <i>Particulars</i>               | <i>Notes</i> | <i>₹</i>         |
|----------------------------------|--------------|------------------|
| <b>Equity and Liabilities</b>    |              |                  |
| <b>1 Shareholders' funds</b>     |              |                  |
| a Share capital                  | 1            | 50,00,000        |
| b Reserves and Surplus           | 2            | 14,83,500        |
| <b>2 Non-current liabilities</b> |              |                  |
| Long-term borrowings             | 3            | 13,55,000        |
| <b>3 Current liabilities</b>     |              |                  |
| a Trade Payables                 |              | 10,00,000        |
| b Short-term provisions          | 4            | 6,40,000         |
| <b>Total</b>                     |              | <b>94,78,500</b> |
| <b>Assets</b>                    |              |                  |
| <b>1 Non-current assets</b>      |              |                  |
| Property, Plant & equipment      | 5            | 56,25,000        |
| <b>2 Current assets</b>          |              |                  |
| a Inventories                    | 6            | 12,55,000        |
| b Trade receivables              | 7            | 10,00,000        |
| c Cash and Cash Equivalents      | 8            | 13,85,000        |
| d Short-term loans and advances  |              | 2,13,500         |
| <b>Total</b>                     |              | <b>94,78,500</b> |

## Notes to accounts

|                                                                                 |                        | ₹                |
|---------------------------------------------------------------------------------|------------------------|------------------|
| <b>1 Share Capital</b>                                                          |                        |                  |
| Equity share capital                                                            |                        |                  |
| Issued & subscribed & called up                                                 |                        |                  |
| 50,000 Equity Shares of ₹ 100 each                                              |                        | 50,00,000        |
| (of the above 10,000 shares have been issued for consideration other than cash) |                        |                  |
| <b>2 Reserves and Surplus</b>                                                   |                        |                  |
| General Reserve                                                                 | 10,50,000              |                  |
| Add: current year transfer                                                      | <u>20,000</u>          | 10,70,000        |
| Profit & Loss balance                                                           |                        |                  |
| Profit for the year                                                             | 4,33,500               |                  |
| Less: Appropriations:                                                           |                        |                  |
| Transfer to General reserve                                                     | <u>(20,000)</u>        |                  |
|                                                                                 |                        | <u>4,13,500</u>  |
|                                                                                 |                        | <u>14,83,500</u> |
| <b>3 Long-term borrowings</b>                                                   |                        |                  |
| Secured Term Loan                                                               |                        |                  |
| State Financial Corporation Loan                                                |                        |                  |
| (Secured by hypothecation of Plant and Machinery)                               |                        | 7,50,000         |
| Unsecured Loan                                                                  |                        | 6,05,000         |
| Total                                                                           |                        | 13,55,000        |
| <b>4 Short-term provisions</b>                                                  |                        |                  |
| Provision for taxation                                                          |                        | <u>6,40,000</u>  |
| <b>5 Property, plant and Equipment</b>                                          |                        |                  |
| Building                                                                        | 30,00,000              |                  |
| Less: Depreciation                                                              | <u>(2,50,000)</u>      | 27,50,000        |
|                                                                                 | (b.f.)                 |                  |
| Plant & Machinery                                                               | 35,00,000              |                  |
| Less: Depreciation                                                              | <u>(8,75,000)</u>      | 26,25,000        |
|                                                                                 | (b.f.)                 |                  |
| Furniture & Fittings                                                            | 3,12,500               |                  |
| Less: Depreciation                                                              | <u>(62,500) (b.f.)</u> | <u>2,50,000</u>  |
| Total                                                                           |                        | <u>56,25,000</u> |

|                                               |               |                  |
|-----------------------------------------------|---------------|------------------|
| <b>6 Inventories</b>                          |               |                  |
| Raw Materials                                 |               | 2,55,000         |
| Finished goods                                |               | <u>10,00,000</u> |
| Total                                         |               | <u>12,55,000</u> |
| <b>7 Trade receivables</b>                    |               |                  |
| Outstanding for a period exceeding six months |               | 2,60,000         |
| Other Amounts                                 |               | <u>7,40,000</u>  |
| Total                                         |               | <u>10,00,000</u> |
| <b>8 Cash and Cash Equivalents</b>            |               |                  |
| Cash at bank                                  |               |                  |
| with Scheduled Banks                          | 12,25,000     |                  |
| with others (Omega Bank Ltd.)                 | <u>10,000</u> | 12,35,000        |
| Cash in hand                                  |               | 1,50,000         |
| Other bank balances                           |               | <u>Nil</u>       |
| Total                                         |               | <u>13,85,000</u> |

5.

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

| Particulars                                     |  | Debit<br>₹ | Credit<br>₹ |
|-------------------------------------------------|--|------------|-------------|
| Business purchase A/c (W.N.1) Dr.               |  | 13,75,000  |             |
| To Liquidator of B Ltd.                         |  |            | 13,75,000   |
| (Being business of B Ltd. taken over)           |  |            |             |
| Land & Building A/c Dr.                         |  | 8,40,000   |             |
| Plant and machinery A/c Dr.                     |  | 5,60,000   |             |
| Office equipment A/c Dr.                        |  | 2,10,000   |             |
| Investments A/c Dr.                             |  | 3,00,000   |             |
| Inventory A/c Dr.                               |  | 4,20,000   |             |
| Debtors A/c Dr.                                 |  | 3,20,000   |             |
| Bills receivables A/c Dr.                       |  | 70,000     |             |
| Bank A/c Dr.                                    |  | 61,000     |             |
| To General reserve A/c (W.N.2)                  |  |            | 95,000      |
| (2,50,000-1,55,000)                             |  |            |             |
| To Export profit reserve A/c                    |  |            | 1,20,000    |
| To Investment allowance reserve A/c             |  |            | 60,000      |
| To Profit and loss A/c                          |  |            | 1,20,000    |
| To Liability for 9% Debentures A/c (₹ 100 each) |  |            | 2,00,000    |

|                                                                      |     |           |           |
|----------------------------------------------------------------------|-----|-----------|-----------|
| To Secured Loan                                                      |     |           | 3,60,000  |
| To Trade creditors A/c                                               |     |           | 2,76,000  |
| To Bills payables A/c                                                |     |           | 1,00,000  |
| To Other current liabilities A/c                                     |     |           | 75,000    |
| To Business purchase A/c                                             |     |           | 13,75,000 |
| (Being assets and liabilities taken over)                            |     |           |           |
| Liquidator of B Ltd.                                                 | Dr. | 13,75,000 |           |
| To Equity share capital A/c                                          |     |           | 8,00,000  |
| To 10% Preference share capital A/c                                  |     |           | 4,00,000  |
| To Securities premium A/c                                            |     |           | 1,75,000  |
| (Being purchase consideration discharged)                            |     |           |           |
| General Reserve* A/c                                                 | Dr. | 12,000    |           |
| To Cash at bank                                                      |     |           | 12,000    |
| (Being expenses of amalgamation paid)                                |     |           |           |
| Liability for 9% Debentures in B Ltd. A/c                            | Dr. | 2,00,000  |           |
| To 9% Debentures A/c                                                 |     |           | 2,00,000  |
| (Being debentures in B Ltd. discharged by issuing own 9% debentures) |     |           |           |
| Bills payables A/c                                                   | Dr. | 60,000    |           |
| To Bill receivables A/c                                              |     |           | 60,000    |
| (Cancellation of mutual owing on account of bills of exchange)       |     |           |           |

\*Alternatively, profit & loss A/c may be debited in place of general reserve A/c.

**Opening Balance Sheet of A Ltd. (after absorption)  
as at 1<sup>st</sup> April, 2024**

|   | Particulars             | Notes | ₹         |
|---|-------------------------|-------|-----------|
|   | Equity and Liabilities  |       |           |
| 1 | Shareholders' funds     |       |           |
| a | Share capital           | 1     | 30,00,000 |
| b | Reserves and Surplus    | 2     | 14,94,000 |
| 2 | Non-current liabilities |       |           |
| a | Long-term borrowings    | 3     | 8,60,000  |
| 3 | Current liabilities     |       |           |
| a | Trade Payables          | 4     | 7,03,000  |

|   |                           |    |           |
|---|---------------------------|----|-----------|
| b | Other current liabilities | 5  | 1,25,000  |
|   | Total                     |    | 61,82,000 |
|   | Assets                    |    |           |
| 1 | Non-current assets        |    |           |
| a | PPE                       | 6  | 36,35,000 |
| b | Investments               | 7  | 3,96,000  |
| 2 | Current assets            |    |           |
| a | Inventories               | 8  | 10,50,000 |
| b | Trade receivables         | 9  | 8,80,000  |
| c | Cash and cash equivalents | 10 | 2,21,000  |
|   | Total                     |    | 61,82,000 |

### Notes to accounts

|   |                                                                                                                          | ₹         |
|---|--------------------------------------------------------------------------------------------------------------------------|-----------|
| 1 | Share Capital                                                                                                            |           |
|   | Equity share capital                                                                                                     |           |
|   | 2,00,000 Equity shares of ₹ 10 each<br>(Out of above, 80,000 shares were issued for consideration other than cash)       | 20,00,000 |
|   | Preference share capital                                                                                                 |           |
|   | 10,000 10% Preference shares of ₹ 100 each<br>(Out of above, 4,000 shares were issued for consideration other than cash) | 10,00,000 |
|   | Total                                                                                                                    | 30,00,000 |
| 2 | Reserves and Surplus                                                                                                     |           |
|   | General Reserve                                                                                                          |           |
|   | Opening balance                                                                                                          | 3,00,000  |
|   | Add: Adjustment under scheme of amalgamation                                                                             | 95,000    |
|   | Less: Amalgamation expense paid                                                                                          | (12,000)  |
|   | Securities premium<br>(2,40,000 + 1,75,000)                                                                              | 4,15,000  |
|   | Export profit reserve                                                                                                    |           |
|   | Opening balance                                                                                                          | 1,80,000  |
|   | Add: Adjustment under scheme of amalgamation                                                                             | 1,20,000  |
|   | Investment allowance reserve                                                                                             | 60,000    |

|   |                                                      |                 |           |
|---|------------------------------------------------------|-----------------|-----------|
|   | Profit and loss account                              |                 |           |
|   | Opening balance                                      | 2,16,000        |           |
|   | Add: Adjustment under scheme of amalgamation         | 1,20,000        | 3,36,000  |
|   | Total                                                |                 | 14,94,000 |
| 3 | Long-term borrowings                                 |                 |           |
|   | Secured                                              |                 |           |
|   | 9% Debentures                                        | 3,00,000        |           |
|   | Add: Adjustment under scheme of amalgamation         | 2,00,000        |           |
|   | Secured loan                                         | 3,60,000        | 8,60,000  |
| 4 | Trade payables                                       |                 |           |
|   | Creditors: Opening balance                           | 3,12,000        |           |
|   | Add: Adjustment under scheme of amalgamation         | <u>2,76,000</u> | 5,88,000  |
|   | Bills Payables: Opening balance                      | 75,000          |           |
|   | Add: Adjustment under scheme of amalgamation         | 1,00,000        |           |
|   | Less: Cancellation of mutual owing upon amalgamation | (60,000)        | 1,15,000  |
|   |                                                      |                 | 7,03,000  |
| 5 | Other current liabilities                            |                 |           |
|   | Opening balance                                      | 50,000          |           |
|   | Add: Adjustment under scheme of amalgamation         | 75,000          | 1,25,000  |
| 6 | PPE                                                  |                 |           |
|   | Land & Building- Opening balance                     | 10,80,000       |           |
|   | Add: Adjustment under scheme of amalgamation         | 8,40,000        | 19,20,000 |
|   | Plant and machinery- Opening balance                 | 6,00,000        |           |
|   | Add: Adjustment under scheme of amalgamation         | 5,60,000        | 11,60,000 |
|   | Office equipment-Opening balance                     | 3,45,000        |           |
|   | Add: Adjustment under scheme of amalgamation         | 2,10,000        | 5,55,000  |
|   | Total                                                |                 | 36,35,000 |
| 7 | Investments                                          |                 |           |
|   | Opening balance                                      | 96,000          |           |
|   | Add: Adjustment under scheme of amalgamation         | 3,00,000        | 3,96,000  |

|    |                                                      |          |           |
|----|------------------------------------------------------|----------|-----------|
| 8  | Inventories                                          |          |           |
|    | Opening balance                                      | 6,30,000 |           |
|    | Add: Adjustment under scheme of amalgamation         | 4,20,000 | 10,50,000 |
| 9  | Trade receivables                                    |          |           |
|    | Debtors: Opening balance                             | 4,90,000 |           |
|    | Add: Adjustment under scheme of amalgamation         | 3,20,000 | 8,10,000  |
|    | Bills Payables: Opening balance                      | 60,000   |           |
|    | Add: Adjustment under scheme of amalgamation         | 70,000   |           |
|    | Less: Cancellation of mutual owing upon amalgamation | (60,000) | 70,000    |
|    | Total                                                |          | 8,80,000  |
| 10 | Cash and cash equivalents                            |          |           |
|    | Opening balance                                      | 1,72,000 |           |
|    | Add: Adjustment under scheme of amalgamation         | 61,000   |           |
|    | Less: Amalgamation expense paid                      | (12,000) | 2,21,000  |

### Working Notes:

#### 1. Calculation of purchase consideration

|                                                     | ₹                |
|-----------------------------------------------------|------------------|
| Equity shareholders of B Ltd. (80,000 x ₹ 10)       | 8,00,000         |
| Preference shareholders of B Ltd. (5,00,000 x 115%) | <u>5,75,000</u>  |
| Purchase consideration would be                     | <u>13,75,000</u> |

#### 2. Amount to be adjusted from general reserve

The difference between the amount recorded as share capital issued and the amount of share capital of transferor company should be adjusted in General Reserve.

Thus, General reserve will be adjusted as follows:

|                                                      | ₹                  |
|------------------------------------------------------|--------------------|
| Purchase consideration                               | 13,75,000          |
| Less: Share capital issued (₹ 7,20,000 + ₹ 5,00,000) | <u>(12,20,000)</u> |
| Amount to be adjusted from general reserve           | <u>1,55,000</u>    |

**3. Calculation of balances of Profit & Loss and Sundry Creditors of B Limited to be taken over by A Limited**

|                                                                  | <b>P&amp;L<br/>(₹)</b> | <b>Creditors<br/>(₹)</b> |
|------------------------------------------------------------------|------------------------|--------------------------|
| Balance as per Balance Sheet of B Limited                        | 1,92,000               | 2,04,000                 |
| Less / Add: Contingent Trade Payable treated as Actual Liability | <u>(72,000)</u>        | <u>72,000</u>            |
| Taken by A Limited                                               | <u>1,20,000</u>        | <u>2,76,000</u>          |

6. (a) Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias. Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion on the business results.

**Or**

Certain changes have been made in Ind AS considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS. These differences are due to differences in economic conditions prevailing in India. These differences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as 'Carve-outs'. Additional guidance given in Ind AS over and above what is given in IFRS, is termed as 'Carve in'.

- (b) As per provisions of AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognized when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognized for the reimbursement should not exceed the amount of the provision.

It is apparent from the question that the company had not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier. However, the provision for warranty should have been made as per AS 29 and the amount claimable as reimbursement should be treated as a separate asset in the financial statements of the company rather than omitting the disclosure of such liability. Accordingly, it can be said that the accounting treatment adopted by the company with respect to warranty is not correct.

- (c) Goods are marked on invoice price to achieve the following objectives:
- (i) To keep secret from the branch manager, the cost price of the goods and profit made, so that the branch manager may not start a rival and competitive business with the concern; and
  - (ii) To have effective control on stock i.e. stock at any time must be equal to opening stock plus goods received from head office minus sales made at branch.
  - (iii) To dictate pricing policy to its branches, as well as save work at branch because prices have already been decided.