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.

(a) CASE SCENARIO – I:

Mars Ltd. is a manufacturing enterprise which is starting a new manufacturing plant at X Village. It has commenced construction of the plant on April 1, 2023 and has incurred following expenses:

• It has acquired land for installing Plant for ₹ 50,00,000
• It incurred ₹ 35,00,000 for material and direct labour cost for developing the Plant.
• The Company incurred ₹ 10,00,000 for head office expenses at New Delhi which included rent, employee cost and maintenance expenditure.
• The Company borrowed ₹ 25,00,000 for construction work of Plant @12% per annum on April 1, 2023. Director finance of the Company incurred travel and meeting expenses amounting to ₹ 5,00,000 during the year for arranging this loan.
• On November 1, 2023, the construction activities of the plant were interrupted as the local people along with the activists have raised issues relating to environmental impact of plant being constructed. Due to agitation the construction activities came to standstill for 3 months.
• With the help of Government and NGOs, the agitation was over by February 28, 2024 and the work resumed. However, to balance the impact on environment, government ordered the company to install certain devices for which the Company had to incur ₹ 6,00,000 in March 2024.
• The rate of depreciation on Plant is 10%.

Based on the above information, answer the following questions.

(i) Which of the following expenses cannot be included in the cost of plant:
(a) Cost of Land
(b) Construction material and labour cost
(c) Head office expenses
(d) Borrowing cost

(ii) How much amount of borrowing cost can be capitalised with the plant:
(a) ₹ 3,00,000
(b) ₹ 2,00,000
(c) ₹ 7,00,000
(d) ₹ 6,00,000

(iii) The total cost of plant as on March 31, 2024 will be:
(a) ₹ 85,00,000
(b) ₹ 98,00,000
(c) ₹ 93,00,000
(d) ₹ 95,00,000

(iv) The amount of depreciation to be charged for the year end March 31, 2024
(a) ₹ 4,30,000
(b) ₹ 9,30,000
(c) ₹ 9,80,000
(d) Nil

[4×2 MARKS=8]

(b) CASE SCENARIO – II:

Venus Limited received a parcel of land at no cost from the government for the purpose of developing a factory in an outlying area. The land is valued at ₹ 75 lakhs, while the nominal value is ₹ 10 lakhs. Additionally, the company received a government grant of ₹ 30 lakhs, which represents 25% of the total investment needed for the factory development. Furthermore, the company received ₹ 15 lakhs with the stipulation that it be used to purchase machinery. There is no expectation from the government for the repayment of these grants.

Answer the following questions based on the above information:

(a) The land received from Government, free of cost should be presented at:
(i) ₹ 75 Lakhs
(ii) ₹ 30 Lakhs
(iii) ₹ 10 Lakhs
(iv) ₹ 45 Lakhs

(b) As per AS 12, how the Government Grant of ₹ 30 Lakhs should be presented:
(i) It should be recognised in the profit and loss statement as per the related cost.
(ii) It will be treated as capital reserve.
(iii) It will be treated as deferred income.
(iv) It will not be recognised in the financial statements.

(c) As per AS 12, how the Government Grant of ₹ 15 Lakhs with a condition to purchase machinery may be presented as:
(i) Capital Reserve
(ii) Shareholders Fund
(iii) Deferred Income
(iv) Income in statement of profit and loss as received.

(d) Which of the above grants are required to be recognised in the statement of profit and loss on a systematic and rational basis over the useful life of the asset:
(i) Land received as Grant
(ii) Government Grant of ₹ 30 Lakhs
(iii) Government Grant of ₹ 15 Lakhs with a condition to purchase machinery
(iv) None of the above

[4×2 MARKS=8]

(c) CASE SCENARIO – III:

Mr. Vikram took a loan of ₹ 6,00,000 carrying interest @ 10% p.a. on 1st August, 2023 to purchase raw material. He purchased 400 units of raw material @ 125 per unit. Replacement cost of raw material as on 31 March, 2024 is 100 per unit. Labour charges and variable overheads incurred are ₹ 1,00,000 to produce 1000 units of finished goods.
1000 units of Finished goods are produced with raw material (for every unit of finished goods produced, 2 units of raw material are required). Net realizable value of finished good is ₹ 300 per unit. All the finished goods produced are lying in stock as on 31 March, 2024.
There is no opening stock of raw material and finished goods.
Mr. Vikram used 1500 units of raw material to construct an Asset (Qualifying Asset). Labour and other overhead charges incurred on construction of asset are ₹ 90,000. Mr. Vikram also paid ₹ 15,000 to install the asset at factory premises. Mr. Vikram used Balance of loan proceeds of ₹ 1,00,000 to invest in Equity Shares of P. Ltd. He purchased 9,000 Equity shares (Face Value ₹ 10 each) for ₹ 1,00,000 on 25th March, 2024.

The P. Ltd declared and paid dividend @ 20% on 30th March for the year 2023-24.

Based on the information given in above Case Scenario, answer the following Question No. 1-4:
(i) What would be the value of closing stock of Raw Material X and Finished Goods as on 31st March 2024?
(a) Closing Stock of Raw Material X ₹ 50,000 and closing stock of Finished Goods ₹ 3,50,000
(b) Closing Stock of Raw Material X ₹ 50,000 and closing stock of Finished Goods ₹ 3,00,000
(c) Closing Stock of Raw Material X ₹ 62,500 and closing stock of Finished Goods ₹ 3,50,000
(d) Closing Stock of Raw Material X ₹ 62,500 and closing stock of Finished Goods ₹ 3,00,000
(ii) Cost of Self Constructed Asset as per AS 10 will be?
(a) ₹ 2,92,500
(b) ₹ 2,77,500
(c) ₹ 3,05,000
(d) ₹ 2,90,000
(iii) As per AS 16 what will be the amount of interest to be capitalized and amount of interest to be charged to Profit & Loss A/c?
(a) ₹ 12,500 interest to be capitalised and Profit & Loss A/c ₹ 27,500 interest to be charged to Profit & Loss A/c
(b) ₹ 12,500 interest to be capitalised and ₹ 20,833 interest to be charged to Profit & Loss A/c.
(c) ₹ 19,167 interest to be capitalised and ₹ 20,833 interest to be charged to Profit & Loss A/c.
(d) Whole of ₹40,000 interest to be charged to Profit & Loss A/c.
(iv) What is the carrying amount of investment on 31st March, 2024 as per AS 13 and suggest the treatment of dividend received from P. Ltd.?
(a) Carrying amount of Investment as on 31st March, 2024 is ₹ 72,000 and the dividend is deducted from the nominal value of investment.
(b) Carrying amount of Investment as on 31st March, 2024 is ₹ 90,000 and the dividend is credited to Profit & Loss A/c.
(c) Carrying amount of Investment as on 31st March, 2024 is ₹ 1,00,000 and the dividend is credited to Profit & Loss A/c.
(d) Carrying amount of Investment as on 31st March, 2024 is ₹ 82,000 and the dividend is deducted from the cost of investment.

[4×2 MARKS=8]

(d) CASE SCENARIO – IV:

Apex Technologies Ltd. reported a Profit after Tax (PAT) of ₹18,00,00,000 for the year ended 31st March, 2025. The following additional information is available:
Equity shares outstanding as on 1st April, 2024 were 1,20,00,000 shares.
On 1st July, 2024, the company issued 24,00,000 equity shares for cash at market price.
On 1st January, 2025, the company made a rights issue of one equity share for every six shares held at ₹90 per share. The fair value of each share immediately before the rights issue was ₹126.
On 1st February, 2025, the company declared a bonus issue of one equity share for every seven shares held.
The company had ₹6 crore, 10% Convertible Debentures outstanding throughout the year. Interest is tax deductible. The applicable tax rate is 30%. Each ₹100 debenture is convertible into 5 equity shares.
Employee Stock Options for 12,00,000 shares were outstanding throughout the year at an exercise price of ₹150 per share. The average market price during the year was ₹180 per share.
The finance director observed that after considering Employee Stock Options and Convertible Debentures, the inclusion of Convertible Preference Shares (convertible into 10,00,000 equity shares) would increase the Diluted EPS.
Based on the above information, answer the following questions.

(i) The weighted average number of equity shares for computing Basic EPS (after considering the rights issue adjustment factor and bonus issue) is closest to:
(a) 1,69,00,000 shares
(b) 1,74,00,000 shares
(c) 1,79,00,000 shares

(d) 1,84,00,000 shares

(ii) While computing Diluted EPS, the adjustment to the numerator on account of Convertible Debentures should be:
(a) ₹42,00,000
(b) ₹60,00,000
(c) ₹70,00,000
(d) ₹84,00,000

(iii) Assuming only Employee Stock Options and Convertible Debentures are dilutive, the denominator for Diluted EPS should additionally include:
(a) Only the equity shares issuable on conversion of debentures.
(b) Only the incremental shares determined under the Treasury Stock Method.
(c) Both the equity shares issuable on conversion of debentures and the incremental shares arising under the Treasury Stock Method.
(d) Entire option shares together with equity shares issuable on conversion of debentures.

[3×2 MARKS=6]

PART II – Descriptive Questions (70 Marks)

*Question **No.1 is compulsory**. Answer **any four** questions from the remaining **five** questions.*

1. (a) Honey Ltd. is in the process of developing a new production method. During the financial year ended 31st March, 2023, total expenditure incurred on development of this production method was ₹ 98,00,000. On 1st 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 31st 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 31st March, 2023.

(2) The expenditure to be shown in Statement of Profit and Loss for the year ended 31st March, 2024.

(3) The carrying amount of the Intangible asset on 31st March, 2024.

[5 MARKS]

(b) What is the difference between Defined Contribution Plan and Defined Benefit Plan? From the following information calculate the amount of defined benefit liability/asset:

Particulars	**₹ in lakhs**
Present Value of Defined Benefit Obligation as on 31-3-2024	36.0
Fair Value of Plan asset	38.5
Past service cost not yet recognized	7.5
Present value of available future refund from the plan	6.0

[4 MARKS]

(c) Delta Ltd. is working on different projects those are likely to be completed within 3 years period. It recognizes revenue from these contracts on Percentage of Completion Method for Financial Statements for the years ending 2021, 2022 and 2023 for ₹ 34 Lakhs, ₹ 50 Lakhs and ₹ 65 Lakhs respectively.

However, for Income Tax purpose, it has adopted the Completed Contract Method under which it has recognized revenue of ₹ 30 Lakhs, ₹ 52 Lakhs and ₹ 67 Lakhs for the years ending 2021, 2022 and 2023 respectively.

Income Tax rate is 30%.

Compute the amount of Deferred Tax Asset / Liability and Total Tax Expenses for the years ending 31st March 2021, 2022 and 2023.

[5 MARKS]

2. Following particulars are furnished by Bela Ltd for the year ended 31st March 2025:-

Particulars	Debit ₹	Credit ₹
Equity Share Capital (Face Value 100)		6,00,000
8% Preference Share Capital (Face Value 100)		3,00,000
Factory Building	6,20,000	
Plant & Machinery	4,98,000	
Furniture & Fittings	1,52,000	
General Reserve		88,000
Term Loan from Public Financial Corp.		3,40,000
Inventory		
Raw Material	1,35,000	
Finished Goods	66,000	
Provision for taxation		12,000
Dividend Payable		10,000
Preliminary Expenses	21,000	
Profit & Loss A/c		99,000
Cash in hand	16,000	
Cash at Bank	39,000	
Trade Receivables	2,38,000	
Unsecured Loan		85,000
Trade Payables		2,45,000
Outstanding Expenses		6,000
Total	**17,85,000**	**17,85,000**

Other Information:

(1) The cost of assets was:

Factory Building ₹ 6,94,000
Plant & Machinery ₹ 5,35,000
Furniture & Fittings ₹ 1,76,000

(2) The Equity Capital on 01/04/2024 stood at 5,000 shares fully paid up and 1,000 shares ₹ 70 paid up. The directors made final call of ₹ 30 per share on 01/10/2024.

A shareholder could not pay the call on 75 shares and his shares were forfeited. They were reissued @ ₹ 70 per share as fully paid.

(3) Profit on reissue of forfeited equity shares was included in profit and loss account.

(4) Bills discounted but not yet matured ₹ 15,000.

(5) The balance of Term Loan from Public Finance Corporation includes ₹ 8,000 for interest accrued but not due. The loan is secured against hypothecation of Plant and Machinery.

(6) The directors declared a dividend of 5% on Equity shares on 10/04/2025.

You are required to prepare the Balance Sheet as at 31st March, 2025 as required under Part-I of Schedule III of the Companies Act.

Workings should form part of the answer.

[14 MARKS]

3. (a) The following information was provided by PQR Ltd. for the year ended 31st March, 2024:

(1) Gross Profit Ratio was 25% for the year, which amounts to ₹ 3,75,000.

(2) Company sold goods for cash only.

(3) Opening inventory was lesser than closing inventory by ₹ 25,000.

(4) Wages paid during the year ₹ 5,55,000.

(5) Office expenses paid during the year ₹ 35,000.

(6) Selling expenses paid during the year ₹ 15,000.

(7) Dividend paid during the year ₹ 40,000.

(8) Bank Loan repaid during the year ₹ 2,05,000 (included interest ₹ 5,000).

(9) Trade Payables on 31st March, 2023 were ₹ 50,000 and on 31st March, 2024 were ₹ 35,000.

(10) Amount paid to Trade payables during the year ₹ 6,10,000.

(11) Income Tax paid during the year amounts to ₹ 55,000 (Provision for taxation as on 31st March, 2024 ₹ 30,000).

(12) Investments of ₹ 8,20,000 sold during the year at a profit of ₹ 20,000.

(13) Depreciation on furniture amounts to ₹ 40,000.

(14) Depreciation on other PPE amounts to ₹ 20,000.

(15) Plant and Machinery purchased on 15th November, 2023 for ₹ 3,50,000.

(16) On 31st March, 2024 ₹ 2,00,000, 7% Debentures were issued at face value in an exchange for a plant.

(17) Cash and Cash equivalents on 31st March, 2023 ₹ 2,25,000.

(i) Calculate cash flow from operating activities, using indirect method.

[7 MARKS]

(b) Perrotte Ltd. (a non-listed company) has the following Capital Structure as on 31.03.2021:

Particulars	**(₹ in crores)**
(1) Equity Share Capital (Shares of ₹ 10 each fully paid)	330
(2) Reserves and Surplus	600
General Reserve	240
Securities Premium Account	90
Profit & Loss Account	90
Infrastructure Development Reserve	180
(3) Loan Funds	1,800

The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.2021 a proposal to buy-back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's shares is ₹ 25 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of 20% over market.

You are also informed that the Infrastructure Development Reserve is created to satisfy Income-tax Act requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 1,200 crores or ₹ 1,500 crores.

Assuming that the entire buy-back is completed by 09.12.2021, show the accounting entries in the company's books in each situation.

[7 MARKS]

4. The following were the Balance Sheets of P Ltd. and V Ltd. as at 31st March, 2021:

P Ltd. and V Ltd. Balance Sheets (₹ in lakhs)

Particulars	**Notes**	**P Ltd.**	**V Ltd.**
Equity and Liabilities			
1. Shareholders' funds			
A. Share capital	1	15,000	6,000
B. Reserves and Surplus	2	15,370	4,335
2. Non-current liabilities			
Long term borrowings	3	–	1,000
3. Current liabilities			
A. Trade Payables		1,200	463
B. Short term provisions		1,830	702
Total		**33,400**	**12,500**
Assets			
1. Non-current assets			
A. Property, Plant and Equipment	4	22,304	6,750
2. Current assets			
A. Inventories		7,862	4,041
B. Trade Receivables		2,120	1,100
C. Cash and Cash equivalents		1,114	609
Total		**33,400**	**12,500**

Notes to Accounts

1. Share Capital

Particulars	**P Ltd. (₹ in lakhs)**	**V Ltd. (₹ in lakhs)**
Share Capital	15,000	6,000

2. Reserves and Surplus

Particulars	**P Ltd. (₹ in lakhs)**	**V Ltd. (₹ in lakhs)**
Securities Premium	3,000	–
Foreign Project Reserve	–	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825
Total	**15,370**	**4,335**

3. Long-term Borrowings

Particulars	**P Ltd. (₹ in lakhs)**	**V Ltd. (₹ in lakhs)**
12% Debentures	–	1,000

4. Property, Plant and Equipment

Particulars	**P Ltd. (₹ in lakhs)**	**V Ltd. (₹ in lakhs)**
Land and Building	6,000	–
Plant and Machinery	14,000	5,000
Furniture and Fixtures	2,304	1,750
Total	**22,304**	**6,750**

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 2021, P Ltd. took over V Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of ₹ 10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

Details of trade receivables and trade payables are as under:

Particulars	**P Ltd. (₹ in lakhs)**	**V Ltd. (₹ in lakhs)**
Trade Payables		
Bills Payable	120	–
Trade Creditors	1,080	463
Total	**1,200**	**463**
Trade Receivables		
Trade Debtors	2,120	1,020
Bills Receivable	–	80

Total	2,120	1,100

Expenses of amalgamation amounting to ₹ 1 lakh were borne by P Ltd.

You are required to:
(i) Pass journal entries in the books of P Ltd. and
(ii) Prepare P Ltd.'s Balance Sheet immediately after the merger.

[14 MARKS]

5. Chand Ltd. and its subsidiary Sitara Ltd. provided the following information for the year ended 31st March, 2024:

Particulars	**Chand Ltd. (₹)**	**Sitara Ltd. (₹)**
Equity Share Capital	20,00,000	6,00,000
Finished Goods Inventory as on 01.04.2022	4,20,000	3,01,000
Finished Goods Inventory as on 31.03.2023	8,57,500	3,76,250
Dividend Income	1,68,000	43,750
Other non-operating Income	35,000	10,500
Raw material consumed	13,93,000	4,72,500
Selling and Distribution Expenses	3,32,500	1,57,500
Production Expenses	3,15,000	1,40,000
Loss on sale of investments	26,250	Nil
Sales and other operating income	33,25,000	19,07,500
Wages and Salaries	13,30,000	2,45,000
General and Administrative Expenses	2,80,000	1,22,500
Royalty paid	Nil	5,000
Depreciation	31,500	14,000
Interest expense	17,500	5,250

Other information:

♦ On 1st September 2021 Chand Ltd., acquired 5,000 equity shares of ₹100 each fully paid up in Sitara Ltd.

♦ Sitara Ltd. paid a dividend of 10% for the year ended 31st March 2023. The dividend was correctly accounted for by Chand Ltd.

♦ Chand Ltd. sold goods of ₹1,75,000 to Sitara Ltd. at a profit of 20% on selling price. Inventory of Sitara Ltd. includes goods of ₹70,000 received from Chand Ltd.

♦ Selling and Distribution expenses of Sitara Ltd. include ₹21,250 paid to Chand Ltd. as brokerage fees.

♦ General and Administrative expenses of Chand Ltd. include ₹28,000 paid to Sitara Ltd. as consultancy fees.

♦ Sitara Ltd. used some resources of Chand Ltd., and Sitara Ltd. paid ₹5,000 to Chand Ltd. as royalty.

Consultancy fees, Royalty and brokerage received is to be considered as operating revenues.

Prepare Consolidated Statement of Profit and Loss of Chand Ltd. and its subsidiary Sitara Ltd. for the year ended 31st March, 2024 as per Schedule III to the Companies Act, 2013.

[14 MARKS]

6. **(a)** On 15th June, 2024, Y Limited wants to re-classify its investments in accordance with AS 13 (Revised). Decide and state the amount of transfer, based on the following information:

(1) A portion of long term investments purchased on 1st March, 2023 are to be re-classified as current investments. The original cost of these investments was ₹ 14 lakhs but had been written down by ₹ 2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15th June, 2024 was ₹ 11 lakhs.

(2) A portion of current investments purchased on 15th March, 2024 for ₹ 7 lakhs are to be re-classified as long term investments, as the company has decided to retain them. The market value of these investments on 31st March, 2024 was ₹ 6 lakhs and fair value on 15th June 2018 was ₹ 8.5 lakhs.

[4 MARKS]

OR

(a) Wooden Plywood Limited has a normal wastage of 5% in the production process. During the year 2023-24, the Company used 16,000 MT of Raw material costing ₹ 190 per MT. At the end of the year, 950 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books.

You are required to:

(1) Calculate the amount of abnormal loss.

(2) Explain the treatment of normal loss and abnormal loss in the context of AS-2.

[4 MARKS]

(b) The following scheme of reconstruction has been approved for Megha Limited on 1st April 2025:

(i) Debenture holders of 9% Debentures of ₹ 5,00,000 accepted to receive 25% of their total in cash and take over the Plant and Machinery of ₹ 2,85,000 in full settlement of their dues.

(ii) Furniture and Fixtures which stood at the books of ₹ 5,50,000 to be written down to ₹ 4,45,000.

(iii) The Freehold Premises of book value of ₹ 9,25,000 showed an appreciation of ₹ 75,000.

(iv) There were capital commitments amounting to ₹ 4,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.

(v) Write off the profit and loss account debit balance of ₹ 1,15,000 which had been accumulated over the years.

(vi) In case of shortfall, the balance of the General reserve of ₹ 90,000 can be utilized to write off the losses under reconstruction scheme.

You are required to pass necessary journal entries as a part of the reconstruction process as on 1st April 2025.

[4 MARKS]

(c) M/s Marena, having head office at Chennai has a branch at Hyderabad.

The head office does wholesale trade only at cost plus 60%. The goods are sent to branch at the wholesale price i.e. cost plus 60%. The branch at Hyderabad is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 80%.

Following details are furnished for the year ended 31st March, 2025:

Particulars	**Chennai Office (₹)**	**Hyderabad Office (₹)**
Opening Stock	75,000	–
Purchases	9,25,000	–
Goods sent to branch (Cost plus 60%)	3,60,000	–

Sales	10,25,000	2,70,000
Office expenses	9,000	3,000
Staff Salary	13,700	2,500

Prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31st March, 2025.

[6 MARKS]