CA INTER: ADVANCED ACCOUNTING

MKG/ADVACC/JAN2025/004

AS 2, 10, 13, 16, 26

Maximum Marks: 50

Time Allowed– 1 ½ hrs

Ques 1.

Akshay Pharma Ltd ordered 16,000 kg of certain material at ₹ 160 per unit. The Purchase Price includes GST ₹ 10 per kg in respect of which full Input Tax Credit is admissible. Freight incurred amounted to ₹ 1,40,160. Normal transit loss is 2%. The Company actually received 15,500 kg and consumed 13,600 kg of material. Compute the Cost of Inventory under AS-2 and the amount of Abnormal Loss. ***(5 marks)***

Ques 2.

A Ltd. purchased on 1st April, 2024 8% convertible debenture in C Ltd. of face value of ₹ 2,00,000 @ ₹108. On 1st July, 2024 A Ltd. purchased another ₹ 1,00,000 debenture @ ₹112 cum interest.

On 1st October, 2024 ₹ 80,000 debenture was sold @ ₹ 105. On 1st December, 2024, C Ltd. gave option for conversion of 8% convertible debentures into equity share of ₹10 each. A Ltd. received 5,000 equity shares in C Ltd. in conversion of 25% debenture held on that date. The market price of debenture and equity share in C Ltd. at the end of year 2024 is ₹110 and ₹15 respectively.

Interest on debenture is payable each year on 31st March, and 30th September. The accounting year of A Ltd. is calendar year.

Prepare investment account in the books of A Ltd. on average cost basis. ***(7 Marks)***

Ques 3.

An Entity has acquired a heavy machinery at a cost of ₹100 Lakhs (with no breakdown of the component parts). The estimated useful life is 10 years. At the end of the 6th year, one of the major components, the Turbine, requires replacement, as further maintenance is uneconomical. The remainder of the Machine is perfect and is expected to last for the next 4 years. The cost of a New Turbine is ₹45 Lakhs. Assume SLM Depreciation and appropriate Discount Rate is 5%.

3.1 Cost of Turbine at the time of initial recognition =

(a) 45 Lakhs (b) 33.58 Lakhs (c) 30 Lakhs (d) Cannot be estimated

3.2 Depreciation provided for Turbine for 6 Years =

(a) 13.43 Lakhs (b) 33.58 Lakhs (c) 20.15 Lakhs (d) Cannot be estimated

3.3 Carrying Amount of PPE before Replacement at the end of Year 6 =

(a) 10 Lakhs (b) 40 Lakhs (c) 20 Lakhs (d) 57 Lakhs .

3.4 Current Carrying Amount of Turbine to be derecognised =

(a) 13.43 Lakhs (b) 33.58 Lakhs (c) 20.15 Lakhs (d) Cannot be estimated

3.5 New Carrying Amount of PPE after Replacement =

(a) 13.43 Lakhs (b) 33.58 Lakhs (c) 20.15 Lakhs (d) 71.57 Lakhs

(1 marks x 5 parts = 5 Marks)

Ques 4.

Himalaya Ltd. in the past three years spent ₹ 75,00,000 to develop a drug to treat cancer, which was charged to Profit and Loss Account since they did not meet AS 26 criteria for capitalization. In the current year, approval of the concerned Government authority has been received. The Company wishes to capitalize ₹ 75,00,000 and disclose it as a prior period item. Is it correct? Give reason for your views. ***(5 Marks)***

Ques 5.

Particulars		Kg.	₹
Opening Inventory:	Finished Goods	1,000	25,000
	Raw Materials	1,100	11,000
Purchases		10,000	1,00,000
Labour			76,500
Overheads (Fixed)			75,000
Sales		10,000	2,80,000
Closing Inventory:	Raw Materials	900	
	Finished Goods	1200	

The expected production for the year was 15,000 kg of the finished product. Due to fall in market demand the sales price for the finished goods was ₹ 20 per kg and the replacement cost for the raw material was ₹ 9.50 per kg on the closing day. You are required to calculate the closing inventory as on that date.

(5 Marks)

Ques 6.

Mr. Ekadanta gives the following Information relating to items forming part of Inventory as on 31st March. His Factory produces Product X using Raw Material A.

(a) 600 units of Raw Material A (purchased at ₹ 120). Replacement Cost of Raw Material A as on 31st March is ₹ 90 per unit.

(b) 500 units of Partly Finished Goods in the process of producing X and Cost incurred till date ₹ 260 per unit. These units can be finished next year by incurring additional cost of ₹60 p.u.

(c) 1,500 units of Finished Product X and Total Cost incurred ₹ 320 per unit. Expected Selling Price of Product X is ₹ 300 per unit.

Based on the above information, answer the following MCQs:

6.1 NRV of Finished Goods & Raw Materials =

a) 330, 120 b) 300, 90 c) 300, 120 d) 330, 90

6.2 NRV of WIP =

a) 260 b) 200 c) 240 d) 330

6.3 Value of Raw Materials =

a) 54,000 b) 1,20,000 c) 4,50,000 d) 3,30,000

6.4 Value of WIP =

a) 54,000 b) 1,20,000 c) 4,50,000 d) 3,30,000

6.5 Value of Finished Goods =

a) 54,000 b) 1,20,000 c) 4,50,000 d) 3,30,000

(1 mark x 5 = 5 marks)

Ques 7.

Glen Ltd. began construction of a new building on 1st January, 2022. On 1st April, 2022, following two loans were obtained to fund the construction cost:

(i) Loan of ₹ 60,00,000 from Data Bank Ltd. was taken at interest rate of 8% per annum.This loan was fully utilized for construction of the new building.

(ii) Loan of ₹ 20,00,000 from Satya Bank Ltd. Out of this, loan amount of ₹ 6,00,000 wasutilized for working capital purpose. Total interest of ₹ 1,92,000 were paid to SatyaBank Ltd. for the financial year 2022-23.

Construction of the new building was completed on 31st January, 2023 and was ready for its intended use on the same date.

None of the loan was repaid during the year. The building is a qualifying asset for the purpose of AS-16.

Out of loan from Data Bank Ltd., surplus funds were temporarily invested for the short period of time. This temporary investment earned interest of ₹ 30,000.

You are required to calculate the amount of interest (a) to be capitalized, (b) to be charged to profit and loss account from the total interest incurred as borrowing cost during the year 2022-23 (as per AS-16). ***(5 Marks)***

Ques 8.

On 1st April, 2022, Shubham Limited purchased some land for ₹ 30 lakhs for the purpose of constructing a new factory. This cost of 30 lakhs included legal cost of ₹ 2 lakhs incurred for the purpose of acquisition of this land. Construction work could start on 1st May, 2022 and Shubham Limited provides you the details of the following costs incurred in relation to its construction:

	₹
Preparation and levelling of the land	80,000
Employment costs of the construction workers (per month)	29,000
Purchase of materials for the construction	21,24,000
Cost of relocating employees to new factory for work	60,000
Costs of inauguration ceremony on 1st January, 2023	80,000
Overhead costs incurred directly on the construction of the factory (per month)	25,000
General overhead costs allocated to construction project by the Manager is ₹ 30,000. However, as per company's normal overhead allocation policy, it should be ₹ 24,000. The auditor of the company has support documentation for the cost of ₹ 15,000 only) and raised objection for the balance amount.	

The construction of the factory was completed on 31st December, 2022 and production could begin on 1st February, 2023. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it was estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building.

The construction of the factory was partly financed by a loan of ₹ 28 lakhs borrowed on 1st April, 2022. The loan was taken at an annual rate of interest of 9%. During the period when the loan proceeds had been fully utilized to finance the construction, Shubham Limited received investment income of ₹ 25,000 on the temporary investment of the proceeds.

You are required to assume that all of the net finance costs to be allocated to the cost of factory (not land) and interest cost to be capitalized based on nine months' period.

Based on the information given in the above scenario, answer the following multiple choice questions:

i. Which of the following cost (incurred directly on construction) will be capitalized to the cost of factory building?

(a) ₹ 2,00,000 incurred as legal cost

(b) ₹ 60,000 – costs of relocating employees

(c) ₹ 80,000 costs of inauguration ceremony

(d) ₹ 24,000 – allocated general overhead cost

ii. What amount of employment cost of construction workers will be capitalized to the cost of factory building?

(a) ₹ 2,90,000

(b) ₹ 3,48,000

(c) ₹ 2,32,000

(d) ₹ 29,000

iii. What is the amount of net borrowing cost capitalized to the cost of the factory?

(a) ₹ 1,89,000

(b) ₹ 1,68,000

(c) ₹ 1,44,000

(d) ₹ 1,64,000

iv. What will be the carrying amount (i.e. value after charging depreciation) of the factory in the Balance Sheet of Shubham Limited as at 31st March, 2023?

(a) ₹ 30,00,000

(b) ₹ 57,78,125

(c) ₹ 27,78,125

(d) ₹ 58,00,000

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

Ques 9.

ABC Limited wants to reclassify its investments in accordance with AS-13. Decide and state on the amount of transfer, based on the following information:

(a) A portion of current investments purchased for ₹ 20 lakhs, to be reclassified as long term investment, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 25 lakhs.

(b) Another portion of current investments purchased for ₹ 15 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of Balance Sheet was ₹ 6.50 lakhs.

(c) Certain long-term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹ 18 lakhs but had been written down to ₹ 12 lakhs to recognize permanent decline as per AS-13. ***(5 Marks)***