Test Series: August, 2018

MOCK TEST PAPER – 1

INTERMEDIATE (NEW) : GROUP – I

PAPER – 1: ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **four** questions from the remaining **Five** questions.*

Wherever necessary suitable assumptions may be made and disclosed by way of a note.

Working Notes should form part of the answer.

(Time allowed: three hours) **(Maximum Marks: 100)**

1. (a) The Board of Directors of New Graphics Ltd. in its Board Meeting held on 18th April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31st March, 2017 and recommended a dividend of Rs. 2 per equity share (on 2 crore fully paid up equity shares of Rs. 10 each) for the year ended 31st March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the company on 18th June, 2017, the same will be paid to all the eligible shareholders.

   Discuss on the accounting treatment and presentation of the said proposed dividend in the annual accounts of the company for the year ended 31st March, 2017 as per the applicable Accounting Standard and other Statutory Requirements.

   (b) ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom-made machine amounting to Rs. 4,00,000. As on 31st March, 2018 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is 'NIL'.

   Explain the treatment of machine in the books of ABC Ltd.

   (c) How you will deal with following in the financial statements of the Paridhi Electronics Ltd. as on 31.3.18 with reference to AS-13?

   (i) Paridhi Electronics Ltd. invested in the shares of another unlised company on 1st May 2014 at a cost of Rs. 3,00,000 with the intention of holding more than a year. The published accounts of unlisted company received in January, 2018 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics Ltd. may not fetch more than Rs. 45,000.

   (ii) Also Paridhi Electronics Ltd. has current investment (X Ltd.'s shares) purchased for Rs. 5 lakhs, which the company want to reclassify as long term investment. The market value of these investments as on date of Balance Sheet was Rs. 2.5 lakhs.

   (d) Suhana Ltd. issued 12% secured debentures of Rs. 100 Lakhs on 01.05.2016, to be utilized as under:

Particulars	Amount (Rs. in lakhs)
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

   In March 2017, construction of the factory building was completed and machinery was installed and ready for it's intended use. Total interest on debentures for the financial year ended 31.03.2017 was Rs. 11,00,000. During the year 2016-17, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of Rs. 2,00,000.

Explain the treatment of interest under Accounting Standard 16 and also explain nature of assets.

(4 Parts x 5 Marks = 20 Marks)

2. (a) Smart Investments made the following investments in the year 2017-18:

12% State Government Bonds having face value Rs. 100

Date	Particulars
01.04.2017	Opening Balance (1200 bonds) book value of Rs. 1,26,000
02.05.2017	Purchased 2,000 bonds @ Rs. 100 cum interest
30.09.2017	Sold 1,500 bonds at Rs. 105 ex interest

Interest on the bonds is received on 30th June and 31st Dec. each year.

Equity Shares of X Ltd.	
15.04.2017	Purchased 5,000 equity shares @ Rs. 200 on cum right basis Brokerage of 1% was paid in addition (Face Value of shares Rs. 10)
03.06.2017	The company announced a bonus issue of 2 shares for every 5 shares held.
16.08.2017	The company made a rights issue of 1 share for every 7 shares held at Rs. 250 per share. The entire money was payable by 31.08.2017.
22.8.2017	Rights to the extent of 20% was sold @ Rs. 60. The remaining rights were subscribed.
02.09.2017	Dividend @ 15% for the year ended 31.03.2017 was received on 16.09.2017
15.12.2017	Sold 3,000 shares @ Rs. 300. Brokerage of 1% was incurred extra.
15.01.2018	Received interim dividend @ 10% for the year 2017-18
31.03.2018	The shares were quoted in the stock exchange @ Rs. 220

Prepare Investment Accounts in the books of Smart Investments. Assume that the average cost method is followed.

(b) On 2.6.2018 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the records saved:

	Rs.
Stock at cost on 1.4.2017	1,35,000
Stock at 90% of cost on 31.3.2018	1,62,000
Purchases for the year ended 31.3.2018	6,45,000
Sales for the year ended 31.3.2018	9,00,000
Purchases from 1.4.2018 to 2.6.2018	2,25,000
Sales from 1.4.2018 to 2.6.2018	4,80,000

Sales upto 2.6.2018 includes Rs. 75,000 being the goods not dispatched to the customers. The sales invoice price is Rs. 75,000.

Purchases upto 2.6.2018 includes a machinery acquired for Rs. 15,000.

Purchases upto 2.6.2018 does not include goods worth Rs. 30,000 received from suppliers, as invoice not received upto the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for Rs. 1,20,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock. **(12 + 8 = 20 Marks)**

3. (a) M/s Heera & Co. has head office at U.S.A. and branch in Patna(India). Patna branch is an integral foreign operation of Heera & Co.

Patna branch furnishes you with its trial balance as on 31st March, 2018 and the additional information given thereafter:

	Dr.	Cr.
	(Rupees in thousands)	
Stock on 1st April, 2017	300	
Purchases and Sales	800	1,200
Sundry Debtors & Creditors	400	300
Bills of Exchange	120	240
Wages & Salaries	560	-
Rent, Rates & Taxes	360	-
Sundry Charges	160	-
Plant	240	-
Bank Balance	420	-
New York Office A/c	-	1,620
	3,360	3,360

Information:

(a) Plant was acquired from a remittance of US $ 6,000 received from USA head office and paid to the suppliers. Depreciate Plant at 60% for the year.

(b) Unsold stock of Patna branch was worth Rs. 4,20,000 on 31st March, 2018.

(c) The rates of exchange may be taken as follows:

- On 01.04.2017 @ Rs. 55 per US $
- On 31.03.2018 @ Rs. 60 per US $
- Average exchange rate for the year @ Rs.58 per US $
- Conversion in $ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2018 and the balance sheet as on that date of Patna branch as would appear in the books of USA head office of Heera & Co. You are informed that Patna branch account showed a debit balance of US $ 29845.35 on 31.3.2018 in USA books and there were no items pending reconciliation.

(b) The following balances were extracted from the books of M/s Division. You are required to prepare Departmental Trading Account and Profit and Loss account for the year ended 31st December, 2017 after adjusting the unrealized department profits if any.

	Deptt. A Rs.	Deptt. B Rs.
Opening Stock	50,000	40,000
Purchases	6,50,000	9,10,000
Sales	10,00,000	15,00,000

General expenses incurred for both the departments were Rs. 1,25,000 and you are also supplied with the following information: (a) Closing stock of Department A Rs. 1,00,000 including goods from Department B for Rs. 20,000 at cost of Department A. (b) Closing stock of Department B Rs. 2,00,000 including goods from Department A for Rs. 30,000 at cost to Department B. (c) Opening stock of Department A and Department B include goods of the value of Rs. 10,000 and Rs. 15,000 taken from Department B and Department A respectively at cost to transferee departments. (d) The rate of gross profit is uniform from year to year.

(12 + 8 = 20 Marks)

4. (a) A and B are partners of AB & Co. sharing profits and losses in the ratio of 2:1 and C and D are partners of CD & Co. sharing profits and losses in the ratio of 3:2. On 1st April 2017, they decided to amalgamate and form a new firm M/s. AD & Co. wherein all the partners of both the firm would be partners sharing profits and losses in the ratio of 2:1:3:2 respectively to A,B,C and D.

Their balance sheets on that date were as under:

Liabilities	AB & Co. (Rs.)	CD & Co. (Rs.)	Assets	AB & Co. (Rs.)	CD & Co. (Rs.)
Capitals					
A	1,50,000	-	Building	75,000	90,000
B	1,00,000	-	Machinery	1,20,000	1,00,000
C	-	1,20,000	Furniture	15,000	12,000
D	-	80,000	Inventory	24,000	36,000
Reserve	66,000	54,000	Debtors	65,000	78,000
Creditors	52,000	35,000	Due from CD		
Due to AB	-	47,000	& Co.	47,000	-
& Co.			Cash at Bank	18,000	15,000
			Cash in hand	4,000	5,000
	3,68,000	3,36,000		3,68,000	3,36,000

The amalgamated firm took over the business on the following terms:

(a) Building was taken over at Rs. 1,00,000 and Rs. 1,25,000 of AB & Co. and CD & Co. respectively and Machinery was taken over at Rs. 1,25,000 and Rs. 1,10,000 of AB & Co. and CD & Co. respectively.

(b) Goodwill of AB & Co. was worth Rs. 75,000 and that of CD & Co. was worth Rs. 50,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded through capital accounts of the partners.

(c) Provision for doubtful debts has to be carried forward at Rs. 5,000 in respect of debtors of AB & Co. and Rs. 8,000 in respect of CD & Co.

You are required to:

(i) Compute the adjustments necessary for goodwill.

(ii) Pass the Journal Entries in the books of AD & Co. assuming that excess/deficit capital (taking D's capital as base) with reference to share in profits are to be transferred to current accounts.

(b) Under what circumstances, a partner may be called upon to pay the liabilities of LLP. Explain in brief. **(15 + 5 = Marks)**

5. (a) From the following particulars furnished by Megha Ltd., prepare the Balance Sheet as on 31st March 20X1 as required by Part I, Schedule III of the Companies Act, 2013.

Particulars		Debit Rs.	Credit Rs.
Equity Share Capital (Face value of Rs. 100 each)			50,00,000
Call in Arrears		5,000	
Land & 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	2,50,000		
Finished Goods	10,00,000	12,50,000	
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)			8,00,000
Loans & advances from related parties			2,00,000

The following additional information is also provided:

(i) 10,000 Equity shares were issued for consideration other than cash.

(ii) Trade receivables of Rs. 2,60,000 are due for more than 6 months.

(iii) The cost of the Assets were:

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

(iv) The balance of Rs. 7,50,000 in the Loan Account with State Finance Corporation is inclusive of Rs. 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

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

(vi) Transfer of Rs. 20,000 to general reserve is proposed by the Board of directors.

(b) Omega company offers new shares of Rs. 100 each at 25% premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is Rs. 200.

You are required to calculate the (i) Ex-right value of a share; (ii) Value of a right share?

(16 + 4 = 20 Marks)

6. Answer any **four** of the following:

(a) The following is the Draft Profit & Loss A/c of Mudra Ltd., the year ended 31st March, 20X1:

		Rs.		Rs.
To	Administrative, Selling and distribution expenses	8,22,542	By Balance b/d	5,72,350
			By Balance from Trading A/c	40,25,365
			By Subsidies received from Govt.	2,73,925
To	Directors fees	1,34,780		
To	Interest on debentures	31,240		
To	Managerial remuneration	2,85,350		
To	Depreciation on fixed assets	5,22,543		
To	Provision for Taxation	12,42,500		
To	General Reserve	4,00,000		
To	Investment Revaluation Reserve	12,500		
To	Balance c/d	14,20,185		
		48,71,640		48,71,640

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was Rs.5,75,345. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.

(b) Following is the extract of the Balance Sheet of Manoj Ltd. as at 31st March, 20X1

Authorised capital:	Rs.
30,000 12% Preference shares of Rs. 10 each	3,00,000
3,00,000 Equity shares of Rs. 10 each	30,00,000
	33,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of Rs. 10 each fully paid	2,40,000
2,70,000 Equity shares of Rs. 10 each, Rs. 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 20X1, the Company has made final call @ Rs. 2 each on 2,70,000 equity shares. The call money was received by 20th April, 20X1. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Prepare necessary journal entries in the books of the company.

(c) Kumar Ltd. had made a rights issue of shares in 2017. In the offer document to its members, it had projected a surplus of Rs. 40 crores during the accounting year to end on 31st March, 2017. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of Rs. 10 crores. The board in consultation with the managing director, decided not to provide for "after sales expenses" during the warranty period. Till the last year, provision at 2% of sales used to be made under the concept of "matching of costs against revenue" and actual expenses used to be charged against the provision. The board now decided to account for expenses as and when actually incurred. Sales during the year total to Rs. 600 crores.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2016-2017.

(d) A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2017.

	Rs. Per unit
Raw Material X	
Cost price	380
Unloading Charges	20
Freight Inward	40
Replacement cost	300
Chemical Y	
Material consumed	440
Direct Labour	120
Variable Overheads	80

Additional Information:

(i) Total fixed overhead for the year was Rs. 4,00,000 on normal capacity of 20,000 units.

(ii) Closing balance of Raw Material X was 1,000 units and Chemical Y was Rs. 2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when Net realizable value of Chemical Y is Rs. 800 per unit.

Or

(d) ABC Ltd. is installing a new plant at its production facility. It has incurred these costs:

Cost of the plant (cost per supplier's invoice plus taxes)	Rs. 25,00,000
Initial delivery and handling costs	Rs. 2,00,000
Cost of site preparation	Rs. 6,00,000
Consultants used for advice on the acquisition of the plant	Rs. 7,00,000
Interest charges paid to supplier of plant for deferred credit	Rs. 2,00,000
Estimated dismantling costs to be incurred after 7 years	Rs. 3,00,000
Operating losses before commercial production	Rs. 4,00,000

Please advise ABC Ltd. on the costs that can be capitalised in accordance with AS 10 (Revised).

(e) The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 20X1.

Share capital: 40,000 Equity shares of Rs.10 each fully paid – Rs.4,00,000; 1,000 10% Redeemable preference shares of Rs.100 each fully paid – Rs.1,00,000.

Reserve & Surplus: Capital reserve – Rs.50,000; Securities premium – Rs.50,000; General reserve –Rs.75,000; Profit and Loss Account – Rs.35,000

On 1st January 20X2, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve.

You are required to pass necessary Journal Entries including cash transactions in the books of the company. **(4 Parts x 5 Marks = 20 Marks)**