Test Series: October, 2018

MOCK TEST PAPER – 2

INTERMEDIATE (IPC) : GROUP – I

PAPER – 1: ACCOUNTING

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

*Answer any **five** questions from the remaining **six** 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) M/s X& Co. (a partnership firm), had a turnover of Rs. 1.25 crores (excluding other income) and borrowings of Rs. 0.95 crores in the previous year. It wants to avail the exemptions available in application of Accounting Standards to non-corporate entities for the year ended 31.3.2018. Advise the management of M/s X & Co in respect of the exemptions of provisions of ASs, as per the directive issued by the ICAI.

   (b) Mohan Ltd. has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site.

   The following incremental costs will be incurred:

   Setup costs of Rs. 5,00,000 to install machinery in the new location.

   Rent of Rs. 15,00,000.

   Removal costs of Rs. 3,00,000 to transport the machinery from the old location to the temporary location.

   Mohan Ltd. wants to seek your guidance as whether these costs can be capitalized into the cost of the new building. You are required to advise in line with AS 10 "Property, Plant and Equipment".

   (c) Omega Ltd., has a normal wastage of 4% in the production process. During the year 2016-17, the Company used 12,000 MT of raw material costing Rs. 150 per MT. At the end of the year 630 MT of wastage was ascertained in stock. The accountant wants to know how this wastage is to be treated in the books.

   You are required to compute the amount of normal and abnormal loss and treatment thereof in line with AS 2 "Valuation of inventories".

   (d) M/s Highway Constructions undertook the construction of a highway on 01.04.2016. The contract was to be completed in 2 years. The contract price was estimated at Rs. 150 crores. Up to 31.03.2017 the company incurred Rs. 120 crores on the construction. The engineers involved in the project estimated that a further Rs. 45 crores would be incurred for completing the work.

   What amount should be charged to profit and loss statement for the year 2016-17 as per the provisions of Accounting Standard 7 "Construction Contracts"? ***(4 Parts x 5 Marks = 20 Marks)***

2. (a) Meera carried out the following transactions in the shares of Kumar Ltd.:

   (1) On 1st April, 2017 she purchased 40,000 equity shares of Re. 1 each fully paid up for Rs. 60,000.

   (2) On 15th May 2017, Meera sold 8,000 shares for Rs. 15,200.

© The Institute of Chartered Accountants of India

(3) At a meeting on 15th June 2017, the company decided:

(i) To make a bonus issue of one fully paid up share for every four shares held on 1st June 2017, and

(ii) To give its members the right to apply for one share for every five shares held on 1st June 2017 at a price of Rs. 1.50 per share of which 75 paise is payable on or before 15th July 2017 and the balance, 75 paise per share, on or before 15th September, 2017.

The shares issued under (i) and (ii) were not to rank for dividend for the year ending 31st December 2017.

(a) Meera received her bonus shares and took up 4,000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30th September 2017.

(b) On 15th March 2018, she received a dividend from Kumar Ltd. of 15 per cent in respect of the year ended 31st Dec 2017.

(c) On 30th March, 2018 she received Rs. 28,000 from the sale of 20,000 shares.

You are required to record these transactions in the Investment Account in Meera's books for the year ended 31st March 2018 transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis.

Expenses and tax to be ignored.

(b) Krishan bought 2 cars from 'Fair Value Motors Pvt. Ltd. on 1.4.2015 on the following terms (for both cars):

	Rs.
Down payment	6,00,000
1st Installment at the end of first year	4,20,000
2nd Installment at the end of 2nd year	4,90,000
3rd Installment at the end of 3rd year	5,50,000

Interest is charged at 10% p.a.

Krishan provides depreciation @ 25% on the diminishing balances.

On 31.3.2018 Krishan failed to pay the 3rd installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Krishan agreed to leave one car with Fair Value Motors Pvt. Ltd. and adjusted the value of the car against the amount due. The car taken over was valued on the basis of 40% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Krishan after 3 months with interest @ 20% p.a.

You are required to:

(i) Calculate the cash price of the cars and the interest paid with each installment.

(ii) Prepare Car Account in the books of Krishan assuming books are closed on March 31, every year. Figures may be rounded off to the nearest rupee. ***(8 + 8 = 16 Marks)***

3. L and M who carry on partnership business in the name of M/s. LM Ltd., closes their firm's account as on 31st March each year.

Their partnership agreement provides:

(i) Profit Loss sharing, L : 2/3 and M : 1/3 and

(ii) On retirement or admission of Partner:

© The Institute of Chartered Accountants of India

(a) If the change takes place during any accounting year, such partner's share of profits or losses for the period up to retirement or from admission, is to be arrived at by apportionment on a time basis except otherwise stated for specific item(s).

(b) No account for Goodwill is to be maintained in the firm's books.

(c) Any balance due to an outgoing partner is to carry interest @ 9% p.a. from the date of his retirement to the date of payment.

The Trial Balance of the firm as on March 31st, 2017 was as follows:

Particulars	Amount in (Rs.)	Amount in (Rs.)
Capital Account		
L	-	24,000
M	-	12,000
N – Cash brought in on 30-09-2016	-	9,000
Plant and machinery at cost	22,000	-
Depreciation provision up to 31-03-2016	-	4,400
Motor car at cost	30,000	-
Depreciation provision up to 31-03-2016	-	6,000
Purchases	84,000	-
Stock as on 31st March 2016	15,500	-
Salaries	18,000	-
Debtors	5,400	-
Sales	-	1,20,000
Travelling expenses	800	
Office Maintenance	1,200	
Conveyance	500	
Trade Expenses	1,000	
Creditors	-	10,100
Rent and Rates	3,000	-
Bad Debts	900	-
Cash in hand and at Bank	3,200	-
	1,85,500	1,85,500

'L' retired from the firm on 30th September, 2016 and on the same day 'N' an employee of the firm was admitted as partner. Further Profits or Losses shall be shared - M : 3/5 and N : 2/5. Necessary Accounting Entries adjustments were pending up to 31-03-2017. You are given the following further information:

(i) The value of firm's goodwill as on 30th September, 2016 was agreed to Rs. 15,000.

(ii) The stock as on 31st March, 2017 was valued at Rs. 18,550.

(iii) Partners' drawings which are included in Salaries: L - Rs. 2,000, M - Rs. 3,000 and N - Rs. 1,000.

(iv) Salaries also includes Rs. 1,500 paid to N prior to his being admitted as a partner.

(v) Bad-debts of Rs. 500 related to the period upto 30th September, 2016.

(vi) As on 31st March, 2017 rent paid in advance amounted to Rs. 600 and trade expenses accrued amounted to Rs. 250.

© The Institute of Chartered Accountants of India

(vii) Provision is to be made for depreciation on Plant and Machinery and on Motor car at the rate of 10% p.a. on cost.

(viii) A bad-debts provision, specifically attributable to the second half of the year, is to be made @ 5% on debtors as on March 31st 2017.

(ix) Amount payable to L on retirement remained unpaid till March 31st 2017.

You are required to prepare:

(a) The Trading and Profit & Loss Account for the year ended March 31st 2017.

(b) Partners' Capital Accounts for the year ended March 31st 2017.

(c) The Balance Sheet as on that date. ***(16 Marks)***

4. (a) J Ltd. presents you the following information for the year ended 31st March, 2017:

		(Rs. in lacs)
(i)	Net profit before tax provision	36,000
(ii)	Dividend paid	10,202
(iii)	Income-tax paid	5,100
(iv)	Book value of assets sold	222
	Loss on sale of asset	48
(v)	Depreciation debited to P & L account	24,000
(vi)	Capital grant received - amortized to P & L A/c	10
(vii)	Book value of investment sold	33,318
	Profit on sale of investment	120
(viii)	Interest income from investment credited to P & L A/c	3,000
(ix)	Interest expenditure debited to P & L A/c	12,000
(x)	Interest actually paid (Financing activity)	13,042
(xi)	Increase in working capital [Excluding cash and bank balance]	67,290
(xii)	Purchase of fixed assets	22,092
(xiii)	Expenditure on construction work	41,688
(xiv)	Grant received for capital projects	18
(xv)	Long term borrowings from banks	55,866
(xvi)	Provision for Income-tax debited to P & L A/c	6,000
	Cash and bank balance on 1.4.2016	6,000
	Cash and bank balance on 31.3.2017	8,000

You are required to prepare a cash flow statement as per AS-3 (Revised).

(b) Futura Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 2017:

	Amount Rs. in lakhs
Securities Premium Account	80
Capital Reserve	60
General Reserve	90

© The Institute of Chartered Accountants of India

The company had an accumulated loss of Rs. 250 lakhs on the same date, which it has disclosed under the head "Statement of Profit and Loss" as asset in its Balance Sheet. Comment on accuracy of this treatment in line with Schedule III to the Companies Act, 2013.

(12 + 4 = 16 Marks)

5. Following is the summarized Balance Sheet of M Ltd. as at 31st March, 2017:

Liabilities	Rs.	Assets	Rs.
15,000, 10% Preference shares of Rs. 100 each	15,00,000	Land & Buildings Plant & Machinery	15,00,000 10,00,000
35,000 Equity shares of Rs. 100 each	35,00,000	Inventory	6,00,000
Securities Premium account	1,00,000	Trade receivables	15,00,000
7% Debentures of Rs. 100 each	5,00,000	Cash at bank	1,00,000
Trade payables	12,50,000	Profit & Loss A/c	23,00,000
Loan from Director	1,50,000		
	70,00,000		70,00,000

No dividend on Preference shares has been paid for the last 5 years.

The following scheme of reorganization was duly approved by the Tribunal:

(i) Each Equity share to be reduced to Rs. 25.

(ii) Each existing Preference share to be reduced to Rs. 75 and then exchanged for 1 new 13% Preference share of Rs. 50 each and 1 Equity share of Rs. 25 each.

(iii) Preference shareholders have forgone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in fully paid equity shares of Rs. 25.

(iv) The Debentureholders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference shares of Rs. 50 each issued at par. One half (in value) of the debentureholders accepted Preference shares for their claims. The rest were paid cash.

(v) Contingent liability of Rs. 1,50,000 is payable, which has been created by wrong action of one Director. He has agreed to compensate this loss out of the loan given by the Director to the company.

(vi) 40,000 new Equity shares of Rs. 25 each are to be issued at par, payable in full on application. Shares were fully taken up.

(vii) Decrease the value of Plant and Machinery, Inventory and Trade receivables by Rs. 4,00,000, Rs. 1,00,000 and Rs. 1,50,000 respectively. Increase the value of Land and Buildings to Rs. 18,00,000.

(viii) The total expenses incurred by the company in connection with the scheme excluding underwriting commission amounted to Rs. 15,000.

Pass necessary Journal Entries to record the above transactions. ***(16 Marks)***

6. (a) Prepare an Income and Expenditure Account for the year ended 31st December, 2018, and Balance Sheet as on that date of Mahaveer Hospital (not registered under the Companies Act, 2013) from the following Receipts and Payments Account and the information:

© The Institute of Chartered Accountants of India

Receipts and Payments Account for the

year ended 31 December, 2016

Receipts	*Rs.*		*Payments*		*Rs.*
To Balance b/d			By Salaries :		
Cash	800		(Rs. 7,200 for 2015)		31,200
Bank	5,200	6,000	By Hospital Equipment		17,000
To Subscriptions :			By Furniture purchased		6,000
For 2015		5,100	By Additions to Building		50,000
For 2016		24,500	By Printing and Stationery		2,400
For 2017		2,400			
To Government Grant :			By Diet expenses		15,600
For building		80,000	By Rent and rates		
For maintenance		20,000	(Rs. 300 for 2017)		2,000
Fees from sundry			By Electricity and water		
patients		4,800	charges		2,400
To Donations (not to be		8,000	By office expenses		2,000
capitalised)			By Investments		20,000
To Net collections from			By Balances :		
benefit shows		6,000	Cash	1,400	
			Bank	6,800	8,200
		1,56,800			1,56,800

Additional information :	Rs.
Value of building under construction as on 31.12.2016	1,40,000
Value of hospital equipment on 31.12.2016	51,000
Building Fund as on 1.1. 2016	80,000
Subscriptions in arrears as on 31.12.2015	6,500
Investments in 8% Govt. securities were made on 1st July, 2016.	

(b) Following items appear in the Trial Balance of Beta Ltd. as on 31st March, 2017:

Particulars	Amount
3,000 Equity Shares of Rs. 100 each	3,00,000
Securities Premium (collected in cash)	40,000
Capital Redemption Reserve	30,000
General Reserve	1,00,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books of Beta Ltd. ***(12 + 4 = 16 Marks)***

© The Institute of Chartered Accountants of India

7 Answer any **four** of the following:

(a) A large size business entity decided to outsource the accounting functions. It invited proposals from vendors through open tender and received three proposals. How will you select the vendor?

(b) Mehnaaz accepted the following bills drawn by Shehnaaz:

On 8th March, 2017, Rs. 4,000 for 4 months.

On 16th March, 2017, Rs. 5,000 for 3 months.

On 7th April, 2017, Rs. 6,000 for 5 months.

On 17th May, 2017, Rs. 5,000 for 3 months.

He wants to pay all the bills on a single day. Find out the average due date.

(c) In the books of M/s Prashant Ltd., closing inventory as on 31.03.2018 amounts to Rs. 1,63,000 (on the basis of FIFO method).

The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory from the year 2017-18. On the basis of weighted average method, closing inventory as on 31.03.2018 amounts to Rs. 1,47,000. Realisable value of the inventory as on 31.03.2018 amounts to Rs. 1,95,000.

Discuss disclosure requirement of change in accounting policy as per AS-1.

(d) Mr. Aman is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Aman for the financial year 2016-17, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information :

On 31st March, 2016	
Sundry Assets	Rs. 16,65,000
Liabilities	Rs. 4,13,000
On 31st March, 2017	
Sundry Assets	Rs. 28,40,000
Liabilities	Rs. 5,80,000
Mr. Aman's drawings for the year 2016-17	Rs. 32,000 per month
Income declared to the Income Tax Officer	Rs. 9,12,000

During the year 2016-17, one life insurance policy of Mr. Aman was matured and amount received Rs. 50,000 was retained in the business.

State whether the Income Tax Officer's contention is correct. Explain by giving your working.

(e) Ruby Ltd. sold goods through its agent. As per terms of sales, consideration is payable within one month. In the event of delay in payment, interest is chargeable @ 10% p.a. from the agent. The company has not realized interest from the agent in the past. For the year ended 31st March, 2017 interest due from agent (because of delay in payment) amounts to Rs. 5 lakhs. The accountant of Ruby Ltd. booked Rs. 5 lakhs as interest income in the year ended 31st March, 2017. Discuss the contention of the accountant with reference to AS 9 "Revenue Recognition". ***(4 Parts x 4 Marks = 16 Marks)***

© The Institute of Chartered Accountants of India