Test Series: September, 2022

MOCK TEST PAPER 1

INTERMEDIATE: GROUP – I

PAPER – 1: ACCOUNTING

ANSWERS

1. (a) As per AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value.

In this case, the cost of inventory is ₹ 5 lakhs. The net realizable value is ₹ 4.95 lakhs (₹ 5.5 lakhs less cost to make the sale @ 10% of ₹ 5.5 lakhs). So, the closing stock should be valued at ₹ 4.95 lakhs.

(b) As per AS-12, 'Accounting for Government Grants', "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

In this case the grant refunded is ₹ 30 lakhs and balance in deferred income is ₹ 21 lakhs, ₹ 9 lakhs shall be charged to the profit and loss account for the year 2021-22. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years.

(c) As per provisions of AS 10, any cost directly attributable to bring the assets to the location and conditions necessary for it to be capable of operating in the manner indicated by the management are called directly attributable costs and would be included in the costs of an item of property, plant and equipment (PPE).

Management of Neon Enterprise should capitalize the costs of construction and remodelling the restaurant, because they are necessary to bring the restaurant to the condition necessary for it to be capable of operating in the manner intended by management. The restaurant cannot be opened without incurring the construction and remodelling expenditure amounting ₹ 30,00,000 and thus the expenditure should be considered part of the asset.

However, the cost of salaries of staff engaged in preparation of restaurant ₹ 7,50,000 before its opening are in the nature of operating expenditure that would be incurred if the restaurant was open and these costs are not necessary to bring the restaurant to the conditions necessary for it to be capable of operating in the manner intended by management. Hence, ₹ 7,50,000 should be expensed.

(d) **Journal Entries in the Books of ABC Ltd.**

Date	Particulars		₹ (Dr.)	₹ (Cr.)
Jan. 01, 2021	Bank Account (5,00,000 x 68.50)	Dr.	342,50,000	
	To Foreign Loan Account			342,50,000
March 31, 2021	Foreign Exchange Difference Account	Dr.	5,00,000	
	To Foreign Loan Account [5,00,000 x (69.50-68.50)]			5,00,000
Jul. 31, 2021	Foreign Exchange Difference Account [5,00,000 x (70-69.5)]	Dr.	2,50,000	
	Foreign Loan Account	Dr.	347,50,000	
	To Bank Account			350,00,000

2. (a) Journal Entries in the books of Preet Ltd.

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	25,000	
	To Equity Share Capital A/c			25,000
	(Being the issue of 2,500 Equity Shares of ₹ 10 each at par, as per Board's Resolution No…..dated…….)			
	8% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	10,000	
	To Preference Shareholders A/c			1,10,000
	(Being the amount paid on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,10,000	
	To Bank A/c			1,10,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	10,000	
	To Premium on Redemption of Preference Shares A/c			10,000
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)			
	General Reserve A/c	Dr.	60,000	
	Profit & Loss A/c	Dr.	10,000	
	Investment Allowance Reserve A/c	Dr.	5,000	
	To Capital Redemption Reserve A/c			75,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Balance Sheet as at ………[Extracts]

		Particulars	Notes No.	₹
		EQUITY AND LIABILITIES		
1.	**Shareholders' funds**			
	a	Share capital	1	2,25,000
	b	Reserves and Surplus	2	1,20,000
	ASSETS			
2.	**Current Assets**			
		Cash and cash equivalents (98,000 + 25,000 – 1,10,000)		13,000

Notes to accounts

1. Share Capital

22,500 Equity shares (20,000 + 2,500) of ₹10 each fully paid up — 2,25,000

2. Reserves and Surplus

General Reserve — 30,000

Capital Redemption Reserve	75,000
Investment Allowance Reserve	15,000
	1,20,000

Working Note:

No. of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed		₹1,00,000
Less: Profit available:		
General Reserve : ₹(90,000-30,000)	₹60,000	
Profit and Loss (20,000 – 10,000 set aside for adjusting premium payable on redemption of preference shares)	₹10,000	
Investment Allowance Reserve: (₹ 20,000-15,000)	₹ 5,000	(₹ 75,000)
		₹ 25,000

Therefore, No. of shares to be issued = 25,000/₹10 = 2,500 shares.

(b) Computation of claim for loss of stock

	₹
Stock on the date of fire i.e. on 30th March, 2022 (W.N.1)	1,25,200
Less: Value of salvaged stock	(24,600)
Loss of stock	1,00,600
Amount of claim = $\frac{\text{Insured value}}{\text{Total cost of stock on the date of fire}}$ x Loss of stock	96,422 (approx.)
= $\left(\frac{1,20,000}{1,25,200} \times 1,00,600 = 96,422(\text{approx})\right)$	

A claim of ₹ 96,422 (approx.) should be lodged by M/s Alok & Co. to the insurance company.

Working Notes:

1. Calculation of closing stock as on 30th March, 2022

Memorandum Trading Account for

(from 1st January, 2022 to 30th March, 2022)

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To Opening stock	1,91,200	By Sales (W.N.3)	4,84,000
To Purchases (3,40,000-60,000)	2,80,000	By Goods with customers (for approval) (W.N.2)	52,800*
To Wages (1,00,000 – 6,000)	94,000	By Closing stock (Bal. fig.)	1,25,200
To Gross profit (20% on sales)	96,800		
	6,62,000		6,62,000

* For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock

since the goods were physically not with the concern and, hence, there was no loss of such stock.

2. **Calculation of goods with customers**

   Since no approval for sale has been received for the goods of ₹ 66,000 (i.e. 2/3 of ₹ 99,000) hence, these should be valued at cost i.e. ₹ 66,000 – 20% of ₹ 66,000 = ₹ 52,800.

3. **Calculation of actual sales**

   Total sales – Sale of goods on approval (2/3rd) = ₹ 5,50,000 – ₹ 66,000 = ₹ 4,84,000.

3. (a) In the books of Moon Star

Trial Balance (in Rupees) of Virginia (USA) Branch as on 31st March, 2022

	Dr.	*Cr.*	*Conversion*	*Dr.*	*Cr.*
	US $	*US $*	*rate*	₹	₹
Office Equipment	43,200		50	21,60,000	
Depreciation on Office Equipment	4,800		50	2,40,000	
Furniture and fixtures	2,880		50	1,44,000	
Depreciation on furniture and fixtures	320		50	16,000	
Stock (1st April, 2021)	22,400		47	10,52,800	
Purchases	96,000		45	43,20,000	
Sales		1,66,400	45		74,88,000
Goods sent from H.O.	32,000			15,80,000	
Carriage inward	400		45	18,000	
Salaries (3,200+400)	3,600		45	1,62,000	
Outstanding salaries		400	50		20,000
Rent, rates and taxes	800		45	36,000	
Insurance	400		45	18,000	
Trade expenses	400		45	18,000	
Head Office A/c		45,600			20,50,000
Trade debtors	9,600		50	4,80,000	
Trade creditors		6,800	50		3,40,000
Cash at bank	2,000		50	1,00,000	
Cash in hand	400		50	20,000	
Exchange difference (bal. fig.) transferred to foreign currency translation reserve account					4,66,800
	2,19,200	2,19,200		1,03,64,800	1,03,64,800

Trading and Profit and Loss Account of Virginia Branch for the year ended 31st March, 2022

	₹		₹
To Opening stock	10,52,800	By Sales	74,88,000
To Purchases	43,20,000	By Closing stock	10,75,000

To Goods from Head Office	15,80,000	(21,500 US $ × 50)	
To Carriage inward	18,000		
To Gross profit c/d	15,92,200		
	85,63,000		85,63,000
To Salaries	1,62,000	By Gross profit b/d	15,92,200
To Rent, rates and taxes	36,000		
To Insurance	18,000		
To Trade expenses	18,000		
To Depreciation on office equipment	2,40,000		
To Depreciation on furniture and fixtures	16,000		
To Net Profit c/d	11,02,200		
	15,92,200		15,92,200

(b) Departmental Trading and Profit and Loss Account

Particulars	Department X	Department Y	Particulars	Department X	Department Y
To Opening stock	3,00,000	50,000	By Sales	24,00,000	4,00,000
To Purchase	20,00,000	15,000	By Transfer to Department Y	3,00,000	
To Wages	60,000	20,000			
To Transfer from Department X	-	3,00,000	By Closing stock	2,00,000	60,000
To Gross profit	5,40,000	75,000			
	29,00,000	4,60,000		29,00,000	4,60,000
To Selling expenses	20,000	6,000	By Gross profit	5,40,000	75,000
To Net Profit	5,20,000	69,000			
	5,40,000	75,000		5,40,000	75,000

General Profit & Loss Account

Particulars	**Amount**	**Particulars**	**Amount**
To General Expenses	1,10,000	By Net Profit from	
To Stock reserve (WN-2)	9,000	Department X	5,20,000
To Net Profit	4,75,625	Department Y	69,000
		By stock reserve (opening WN-1)	5,625
	5,94,625		5,94,625

Working Notes

1. **Calculation of Stock Reserve (opening)**

   50,000 x 75% Department Y x 15% = ₹ 5625

2. **Calculation of closing stock reserve**

   Gross profit Rate of Department X of 2021

   5,40,000 / (24,00,000 + 3,00,000) x 100 = 20%

   60,000x 75% x 20% = ₹ 9,000

4. (a) **In the Books of Jyotishikha Traders**

Trading Account for the year ended 31.03.2022

	Particulars	₹		*Particulars*	₹
To	Opening Inventory A/c (Bal. fig.)	1,65,000	By	Sales (W.N.1)	12,50,000
To	Purchases (W.N.2)	9,00,000	By	Closing Inventory	65,000
To	Gross profit (12,50,000x25/125)	2,50,000			
		13,15,000			13,15,000

Profit and Loss Account for the year ended 31.03.2022

	Particulars		₹		*Particulars*	₹
To	Discount		5,500	By	Gross profit	2,50,000
To	Salaries Expenses	32,000		By	Discount	4,500
To	Office expenses (W.N.3)	37,000				
To	Selling expenses	15,000	84,000			
To	Interest on loan (12% on ₹ 1,60,000)		19,200			
To	Bad debts (2% of ₹ 2,25,000)		4,500			
To	Loss on sale of Machinery		15,000			
To	Depreciation:					
	Land & Building	25,000				
	Plant &Machinery (W.N 4)	23,750				
	Office Equipment (W.N. 5)	12,750	61,500			
To	Net profit after tax		64,800			
			2,54,500			2,54,500

Balance sheet as on 31.3.2022

Liabilities	₹	₹	*Assets*	₹
Capital (W.N. 6)	8,95,500		Land and Building (5,00,000-25,000)	4,75,000
Add: Net Profit	64,800	9,60,300	Plant and Machinery (W.N.4a) (3,30,000-21,750)	3,08,250
Trade payables (W.N. 8)		1,05,500	Office Equipment (85,000-12,750)	72,250
Outstanding expenses		15,000	Trade receivables less Bad debts (W.N. 7)	2,20,500
Loan from SBI		1,00,000	Inventory	65,000
			Bank Balance (W.N. 9)	39,800
		11,80,800		11,80,800

Working Notes:

1. Calculation of Total Sales

	₹
Cash Sales	2,50,000
Credit Sales (80% of total sales)	
Cash Sales (20% of total sales)	
Thus total Sales (250000 x 100/20)	12,50,000
Credit Sales (1250000 x 80/100)	10,00,000

2. Calculation of Total Purchases

	₹
Credit Purchases	5,40,000
Cash Purchases (40% of total purchases)	
Credit Purchases (60% of total purchases)	
Thus total Purchases (5,40,000 x 100/60)	9,00,000
Cash Purchases 9,00,000 x 40/100)	3,60,000

3. Office Expenses Account

	₹		₹
To Bank A/c	42,000	By Balance b/d	20,000
To Balance c/d	15,000	By Profit & loss A/c	37,000
	57,000		57,000

4. (i) Plant and Machinery Account

	₹		₹
To Opening balance	2,20,000	By Sale	40,000
To Purchases	1,50,000	By Closing Balance	3,30,000
	3,70,000		3,70,000

(ii) Depreciation calculations on Plant & Machinery

		₹
Depreciation on	1,80,000 x 10% (for full year)	18,000
	1,50,000 x 10% x 3/12 (for 3 months)	3,750
	40,000 x 10% x 6/12 (for 6 months)	2,000
		23,750

Sale of Machinery Account

	Amount (₹)		*Amount (₹)*
To Plant & Machinery	40,000	By Depreciation	2,000
		By Profit and Loss A/c	15,000
		By Bank	23,000
	40,000		40,000

5. **Depreciation calculations on Office Equipments**

	₹
Opening Balance	1,05,000
Less: Closing Balance	85,000
Sale of Office Equipment	20,000
Balance of Office Equipment after sale	85,000
Depreciation @15%	12,750

6. **Opening Balance Sheet as on 31.03.2021**

	₹		₹
Trade payables	95,000	Land & Building	5,00,000
Payables for Exp.	20,000	Plant & Machinery	2,20,000
Loan	1,60,000	Office Equipment	1,05,000
Capital (Bal. fig.)	8,95,500	Trade receivables	1,55,500
		Inventory	1,65,000
		Bank	25,000
	11,70,500		11,70,500

7. **Trade receivables A/c**

	₹		₹
To Balance b/d	1,55,500	By Bank	9,25,000
To Sales	10,00,000	By Discount	5,500
		By Bad debts	4,500
		By Bal. c/d	2,20,500
	11,55,500		11,55,500

8. **Trade payables A/c**

	₹		₹
To Bank	5,25,000	By Balance b/d	95,000
To Discount	4,500	By Purchases	5,40,000
To Balance c/d	1,05,500		
	6,35,000		6,35,000

9. **Bank Account**

	₹		₹
To Balance b/d	25,000	By Trade payables	5,25,000
To Trade receivables	9,25,000	By Office Expenses	42,000
To Cash Sales	2,50,000	By Salary Expense	32,000
To Sale of Machinery (W.N. 4c)	23,000	By Selling Expenses	15,000
To Sale of equipment	20,000	By Purchases (cash)	3,60,000
		By Purchase of Machinery	1,50,000
		By Bank Loan & Interest	79,200
		By Balance c/d	39,800
	12,43,000		12,43,000

(b) **In the books of Rajat**

Investment Account

(Equity shares in P Ltd.)

Date	*Particulars*	*No. of shares*	*Amount (₹)*	*Date*	*Particulars*	*No. of shares*	*Amount (₹)*
1.4.21	To Balance b/d	50,000	7,50,000	31.3.22	By Balance c/d (Bal. fig.)	90,000	12,10,000
20.6.21	To Bank A/c	10,000	1,60,000				
1.8.21	To Bonus issue (W.N.1)	10,000	-				
5.11.21	To Bank A/c (right shares) (W.N.4)	20,000	3,00,000				
		90,000	12,10,000			90,000	12,10,000

Working Notes:

(1) Bonus shares $= \dfrac{50,000 + 10,000}{6} = 10,000$ shares

(2) Right shares $= \dfrac{50,000 + 10,000 + 10,000}{7} \times 3 = 30,000$ shares

(3) Sale of rights = $30,000 \text{ shares} \times \dfrac{1}{3} \times$ ₹ 2= ₹ 20,000 to be credited to P & L A/c as per AS 13.

(4) Rights subscribed = $30,000 \text{ shares} \times \dfrac{2}{3} \times$ ₹ 15 = ₹ 3,00,000

5. **(a)** **Hello Ltd.**

Balance Sheet as at 31st March, 2022

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	50,00,000
	b	Reserves and Surplus	2	14,83,500
2		**Non-current liabilities**		
		Long-term borrowings	3	13,55,000
3		**Current liabilities**		
	a	Trade Payables		10,00,000
	b	Short-term provisions	4	6,40,000
		Total		**94,78,500**
		Assets		
1		**Non-current assets**		
		Property, Plant & equipment	5	56,25,000
2		**Current assets**		
	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
	Total		**94,78,500**

Notes to accounts

			₹
1	**Share Capital**		
	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)		
2	**Reserves and Surplus**		
	General Reserve	10,50,000	
	Add: current year transfer	20,000	10,70,000
	Profit & Loss balance		
	Profit for the year	4,33,500	
	Less: Appropriations:		
	Transfer to General reserve	(20,000)	
			4,13,500
			14,83,500
3	**Long-term borrowings**		
	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
4	**Short-term provisions**		
	Provision for taxation		6,40,000
5	**Property, plant and Equipment**		
	Building	30,00,000	
	Less: Depreciation	(2,50,000) (b.f.)	27,50,000
	Plant & Machinery	35,00,000	
	Less: Depreciation	(8,75,000) (b.f.)	26,25,000
	Furniture & Fittings	3,12,500	
	Less: Depreciation	(62,500) (b.f.)	2,50,000
	Total		56,25,000
6	**Inventories**		
	Raw Materials		2,55,000
	Finished goods		10,00,000
	Total		12,55,000

7	**Trade receivables**		
	Outstanding for a period exceeding six months		2,60,000
	Other Amounts		7,40,000
	Total		10,00,000
8	**Cash and Cash Equivalents**		
	Cash at bank		
	with Scheduled Banks	12,25,000	
	with others (Omega Bank Ltd.)	10,000	12,35,000
	Cash in hand		1,50,000
	Other bank balances		Nil
	Total		13,85,000

(b) Calculation of number of shares issued

	Number of debentures
Debenture holders opted for conversion (40,000 /100)	400
Option for conversion	20%
Number of debentures to be converted (20% of 400)	80
Redemption value of 80 debentures at a premium of 5% [80 x (100+5)]	₹ 8,400
Equity shares of ₹ 10 each issued on conversion [₹ 8,400/ ₹ 20]	420 shares

Calculation of cash to be paid :

Number of debentures	400	
Less: number of debentures to be converted into equity shares	(80)	
	320	
Redemption value of 320 debentures (320 × ₹ 105)		₹ 33,600

Journal Entry

Debentures A/c	Dr.	40,000	
Premium on redemption A/c	Dr.	2,000	
To Debenture holders A/c			42,000
(Being amount due to debenture holders at redemption)			
Debenture holders A/c	Dr.	42,000	
To Equity Share capital A/c			4,200
To Securities premium A/c	Dr.		4,200
To Cash A/c			33,600
(Discharge of amount due to Debenture holders)			

6. (a) (i) Interest for the period 2021-22

= US $ 10 lakhs x 4% × ₹ 62 per US$ = ₹ 24.80 lakhs

(ii) Increase in the liability towards the principal amount

= US $ 10 lakhs × ₹ (62 - 56) = ₹ 60 lakhs

(iii) Interest that would have resulted if the loan was taken in Indian currency

= US $ 10 lakhs × ₹ 56 x 10.5% = ₹ 58.80 lakhs

(iv) Difference between interest on local currency borrowing and foreign currency borrowing = ₹ 58.80 lakhs - ₹ 24.80 lakhs = ₹ 34 lakhs.

Therefore, out of ₹ 60 lakhs increase in the liability towards principal amount, only ₹ 34 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be ₹ 58.80 lakhs being the aggregate of interest of ₹ 24.80 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of ₹ 34 lakhs.

Hence, ₹ 58.80 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 and the remaining ₹ 26 lakhs (60 - 34) would be considered as the exchange difference to be accounted for as per AS 11.

(b) Computation of Effective capital

			₹
Paid-up share capital-			
20,000, 14% Preference shares			20,00,000
1,20,000 Equity shares			96,00,000
Capital reserves (excluding revaluation reserve)			45,000
Securities premium			50,000
15% Debentures			65,00,000
Public Deposits			3,70,000
		(A)	1,85,65,000
Investments			75,00,000
Profit and Loss account (Dr. balance)			15,00,000
		(B)	90,00,000
Effective capital	(A–B)		95,65,000

(c) Capital Redemption Reserve A/c	Dr.	1,40,000	
Securities Premium A/c (considered to be realized in cash)	Dr.	80,000	
General Reserve A/c (balancing figure)	Dr.	80,000	
To Bonus to Shareholders			3,00,000
(Being issue of bonus shares by utilization of various Reserves, as per resolution dated …….)			
Bonus to Shareholders A/c	Dr.	3,00,000	
To Equity Share Capital			3,00,000
(Being capitalization of Profit)			

(d) (a) Operating Activities: Items 1 and 5.

(b) Investing Activities: Items 3,7 and 9

(c) Financing Activities: Items 4,6,8 and 10

(d) Cash Equivalent: 2

(e) Calculation of Interest and Cash Price

Ratio of interest and amount due = 8 / (100 + rate of interest) i.e. 8/108

To ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

No. of instalments	Amount due at the time of instalment	Interest	Cumulative Cash price
[1]	[2]	[3]	(2-3) = [4]
3rd	12,000	8/108 of ₹12,000 =₹ 889	11,111
2nd	23,111 [W.N.1]	8/108 of ₹ 23,111 = ₹1,712	21,399
1st	33,399 [W.N.2]	8/108 of ₹33,399 = ₹2,474	30,925
		5,075	

Total cash price = ₹ 30,925 + ₹ 12,000 (down payment) =₹42,925

Working Notes:

1. ₹ 11,111+ 2nd instalment of ₹ 12,000= ₹ 23,111
2. ₹ 21,399 + 1st instalment of ₹ 12,000= ₹ 33,399