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| (CA INTERMEDIATE MOCK TEST MAY 2021) | | |
| DATE: 17.02.2021 | MAXIMUM MARKS: 100 | TIMING: 3¼ Hours |

ACCOUNTS

Q. No. 1 is compulsory.

Candidates are required to answer any four questions from the remaining five questions. Wherever necessary suitable assumptions should be made by the candidates.

Working notes should form part of the answer.

Question 1:

(a) X Limited started construction on a Building for its own use on 1st April. The following costs are incurred:

| | |
|------------------------|---------------|
| Purchase Price of Land | Rs. 30,00,000 |
| Stamp Duty & Legal Fee | Rs. 2,00,000 |
| Architect Fee | Rs. 2,00,000 |
| Site Preparation | Rs. 50,000 |
| Materials | Rs. 10,00,000 |
| Direct Labour Cost | Rs. 4,00,000 |
| General Overheads | Rs. 1,00,000 |

Other relevant information: Material costing Rs. 1,00,000 had been spoiled and therefore wasted and a further Rs. 1,50,000 was spent on account of faulty design work. As a result of these problems, work on the building was stopped for two weeks and it is estimated that Rs. 22,000 of the Labour Cost relate to that period. The Building was completed 9 months from the date of construction start, and brought in use on 1st April next year (i.e. 1 year from start date). The Company had taken a Loan of Rs. 40,00,000 on at the start date, from construction of the building (which is a Qualifying Asset as per AS-16). The Loan carried an interest Rate of 8% per annum and is repayable 2 years later. Calculate the cost of the PPE.

(5 Marks)

(b) Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were Rs. 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of Rs. 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at Rs. 49,500 per month after adding 10% profit margin.

The machine was purchased at Rs. 1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. Rs. 55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of Rs. 30,000 to supervise machinery installation at the factory site.

Also, payment under the invoice was due in 5 months. However, the Company made the payment in 3rd month. The company operates on Bank Overdraft @ 14% p.a. Ascertain the amount at which the Machinery should be capitalized under AS 10.

(5 Marks)

(c) Classify the following activities as per AS 3 Cash Flow Statement:

- (a) Interest paid by financial enterprise
- (b) Tax deducted at source on interest received from subsidiary company
- (c) Deposit with Bank for a term of two years
- (d) Insurance claim received towards loss of machinery by fire
- (e) Bad debts written off

(5 Marks)

- (d)** A specific government grant of Rs. 15 lakhs was received by USB Ltd. for acquiring the Hi-Tech Dairy plant of Rs. 95 lakhs during the year 2014-15. Plant has useful life of 10 years. The grant received was credited to deferred income in the balance sheet. During 2017-18, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was Rs. 10.50 lakhs and written down value of plant was Rs. 66.50 lakhs.
- (i) What should be the treatment of the refund of the grant and the effect on cost of plant and the amount of depreciation to be charged during the year 2017 - 18 in profit and loss account?
 - (ii) What should be the treatment of the refund, if grant was deducted from the cost of the plant during 2014-15 assuming plant account showed the balance of Rs. 56 lakhs as on 1.4.2017?

You are required to explain in the line with provisions of AS 12.

(5 Marks)

Question 2:

- (a)** The following particulars relate to hire purchase transactions:
- (a) X purchased three cars from Y on hire purchase basis, the cash price of each car being Rs. 2,00,000.
 - (b) The hire purchaser charged depreciation @ 20% on diminishing balance method.
 - (c) Two cars were seized by on hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.
 - (d) The hire vendor spent Rs. 10,000 on repairs of the cars and then sold them for a total amount of Rs. 1,70,000.

You are required to compute:

- (i) Agreed value of two cars taken back by the hire vendor.
- (ii) Book value of car left with the hire purchaser.
- (iii) Profit or loss to hire purchaser on two cars taken back by their hire vendor.
- (iv) Profit or loss of cars repossessed, when sold by the hire vendor.

(10 Mark)

- (b)** Akash Ltd. had 4,000 equity share of X Limited, at a book value of Rs. 15 per share (face value of Rs. 10 each) on 1st April 2017. On 1st September 2017, Akash Ltd. acquired 1,000 equity shares of X Limited at a premium of Rs. 4 per share. X Limited announced a bonus and right issue for existing shareholders.

The terms of bonus and right issue were -

- (1) Bonus was declared, at the rate of two equity shares for every five equity shares held on 30th September, 2017.
- (2) Right shares are to be issued to the existing shareholders on 1st December, 2017. The company issued two right shares for every seven shares held at 25% premium. No dividend was payable on these shares. The whole sum being payable by 31st December, 2017.
- (3) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.
- (4) Akash Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for Rs. 8 per share.
- (5) Dividend for the year ended 31st March 2017, at the rate of 20% was declared by the company and received by Akash Ltd., on 20th January 2018.
- (6) On 1st February 2018, Akash Ltd., sold half of its shareholdings at a premium of Rs. 4 per share.

(7) The market price of share on 31.03.2018 was Rs. 13 per share. You are required to prepare the Investment Account of Akash Ltd. for the year ended 31st March, 2018 and determine the value of share held on that date assuming the investment as current investment. Consider average cost basis for ascertainment of cost for equity share sold.

(10 Marks)

Question 3:

(a) The following is the Balance Sheet of Manish and Suresh as on 1st April, 2016:

| Liabilities | Rs. | Assets | Rs. |
|------------------------|----------|-----------|----------|
| Capital Accounts: | | Building | 1,00,000 |
| Manish | 1,50,000 | Machinery | 65,000 |
| Suresh | 75,000 | Stock | 40,000 |
| Creditors for goods | 30,000 | Debtors | 50,000 |
| Creditors for expenses | 25,000 | Bank | 25,000 |
| | 2,80,000 | | 2,80,000 |

They give you the following additional information:

- (i) Creditors' Velocity 1.5 month & Debtors' Velocity 2 months.
- (ii) Stock level is maintained uniformly in value throughout all over the year.
- (iii) Depreciation on machinery is charged @ 10%, Depreciation on building @ 5% in the current year.
- (iv) Cost price will go up 15% as compared to last year and also sales in the current year will increase by 25% in volume.
- (v) Rate of gross profit remains the same.
- (vi) Business Expenditures are Rs. 50,000 for the year. All expenditures are paid off in cash.
- (vii) Closing stock is to be valued on LIFO Basis.
- (viii) All sales and purchases are on credit basis and there are no cash purchases and sales.

You are required to prepare Trading, Profit and Loss Account, Trade Debtors Account and Trade Creditors Account for the year ending 31.03.2017.

(15 Marks)

(b) Asha purchased a truck on hire purchase system. As per terms she is required to pay Rs. 70,000 down, Rs. 53,000 at the end of first year, Rs. 49,000 at the end of second year and Rs. 55,000 at the end of third year. Interest is charged @ 10% p.a. You are required to calculate the total cash price of the truck and the interest paid with each instalment.

(5 Marks)

Question 4:

(a) Preet Ltd. presents you the following information for the year ended 31st March, 2019:

| | | (Rs. in lacs) |
|-------|---|----------------------|
| (i) | Net profit before tax provision | 72,000 |
| (ii) | Dividend paid | 20,404 |
| (iii) | Income-tax paid | 10,200 |
| (iv) | Book value of assets sold | 444 |
| | Loss on sale of asset | 96 |
| (v) | Depreciation debited to P & L account | 48,000 |
| (vi) | Capital grant received - amortized to P & L A/c | 20 |
| (vii) | Book value of investment sold | 66,636 |

| | | |
|--------|--|----------|
| | Profit on sale of investment | 240 |
| (viii) | Interest income from investment credited to P & L A/c | 6,000 |
| (ix) | Interest expenditure debited to P & L A/c | 24,000 |
| (x) | Interest actually paid (Financing activity) | 26,084 |
| (xi) | Increase in working capital [Excluding cash and bank balance] | 1,34,580 |
| (xii) | Purchase of fixed assets | 44,184 |
| (xiii) | Expenditure on construction work | 83,376 |
| (xiv) | Grant received for capital projects | 36 |
| (xv) | Long term borrowings from banks | 1,11,732 |
| (xvi) | Provision for Income-tax debited to P & L A/c | 12,000 |
| | Cash and bank balance on 1.4.2018 | 12,000 |
| | Cash and bank balance on 31.3.2019 | 16,000 |

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

(10 Marks)

- (b) Red and White of Mumbai started a branch at Bangalore on 1.4.2012 to which goods were sent at 20% above cost. The branch makes both cash sales and credit sales. Branch expenses are met from branch cash and balance money remitted to H.O. The branch does not maintain double entry books of account and necessary accounts relating to branch are maintained in H.O. Following further details are given for the year ending on 31.3.2013:

| | Rs. |
|--|------------|
| Cost of goods sent to branch | 1,00,000 |
| Goods received by branch till 31.3.2013 at Invoice price | 1,08,000 |
| Credit sales for the year | 1,16,000 |
| Closing debtors on 31.3.2013 | 41,600 |
| Bad debts written off during the year | 400 |
| Cash remitted to H.O. | 86,000 |
| Closing cash on hand at branch on 31.3.2013 | 4,000 |
| Cash remitted by H.O. to branch during the year | 6,000 |
| Closing stock in hand at branch at invoice price | 12,000 |
| Expenses incurred at branch | 24,000 |

Draw up the necessary Ledger Accounts like Branch Debtors Account, Branch Stock Account, Goods sent to Branch Account, Branch Cash Account, Branch Expenses Account and Branch Adjustment A/c for ascertaining gross profit and Branch Profit and Loss A/c for ascertaining Branch profit.

(10 Marks)

Question 5:

- (a) ABC Ltd. took over a running business with effect from 1st April, 20X1. The company was incorporated on 1st August, 20X1. The following summarised Profit and Loss Account has been prepared for the year ended 31.3.20X2:

| | Rs. | | Rs. |
|---------------------------------|--------|-----------------|----------|
| To Salaries | 48,000 | By Gross profit | 3,20,000 |
| To Stationery | 4,800 | | |
| To Travelling expenses | 16,800 | | |
| To Advertisement | 16,000 | | |
| To Miscellaneous trade expenses | 37,800 | | |
| To Rent (office buildings) | 26,400 | | |
| To Electricity charges | 4,200 | | |

| | | | |
|---------------------------------|----------|--|----------|
| To Director's fee | 11,200 | | |
| To Bad debts | 3,200 | | |
| To Commission to selling agents | 16,000 | | |
| To Tax Audit fee | 6,000 | | |
| To Debenture interest | 3,000 | | |
| To Interest paid to vendor | 4,200 | | |
| To Selling expenses | 25,200 | | |
| To Depreciation on fixed assets | 9,600 | | |
| To Net profit | 87,600 | | |
| | 3,20,000 | | 3,20,000 |

Additional information:

- (a) Total sales for the year, which amounted to Rs. 19,20,000 arose evenly up to the date of 30.9.20X1. Thereafter they recorded an increase of two-third during the rest of the year.
 - (b) Rent of office building was paid @ Rs. 2,000 per month up to September, 20X1 and thereafter it was increased by Rs. 400 per month.
 - (c) Travelling expenses include Rs. 4,800 towards sales promotion.
 - (d) Depreciation include Rs. 600 for assets acquired in the post incorporation period.
 - (e) Purchase consideration was discharged by the company on 30th September, 20X1 by issuing equity shares of Rs. 10 each.
- Prepare Statement showing calculation of profits and allocation of expenses between pre and post incorporation periods.

(15 Marks)

- (b) C Limited had 3,000, 12% Redeemable Preference Shares of Rs. 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

- (i) 25,000 Equity Shares of Rs. 10 each at par,
- (ii) 1,000 14% Debentures of Rs. 100 each.

The issue was fully subscribed and all amounts were received in full .The payment was duly made. The company had sufficient profits. Show Journal Entries in the books of the company.

(5 Marks)

QUESTION 6: (ANSWER ANY FOUR QUESTIONS)

- (a) Brahma Limited has three departments and submits the following information for the year ending on 31st March, 2011.

| | A | B | C | Total (Rs.) |
|-------------------------------|----------|----------|----------|--------------------|
| Purchase (Units) | 5,000 | 10,000 | 15,000 | |
| Purchase (Amount) | | | | 8,40,000 |
| Sales (units) | 5,200 | 9,800 | 15,300 | |
| Selling Price (Rs. Per unit) | 40 | 45 | 50 | |
| Closing Stock (Units) | 400 | 600 | 700 | |

You are required to prepare departmental trading account of Brahma Limited assuming that the rate of profit on sales is uniform in each case.

(5 Marks)

- (b) Write short note on Accounting for investment by a holding company in subsidiaries.

(5 Marks)

- (c) Distinguish between Integral foreign operation and Non-integral foreign operation. **(5 Marks)**
- (d) A company had 5,000 units of stock "A", costing @ Rs. 50 each on 31.3.2014. Out of this stock, 3,000 units are to be supplied under a firm contract at Rs. 45 each. Show how the valuation will be done of such stock when
- (i) the general selling price is Rs. 49 each.
 - (ii) the general selling price is Rs. 52 each.
- (5 Marks)**
- (e) (a) With regard to financial statements name any four.
- (1) Users
 - (2) Qualitative characteristics
 - (3) Elements
- (b) What are fundamental accounting assumptions?
- (5 Marks)**

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Mittal Commerce Classes