

MOCK TEST PAPER 2
INTERMEDIATE: 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) 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 details of the incremental costs which will be incurred are: Setup costs of ₹ 5,00,000 to install machinery in the new location; Rent of ₹ 15,00,000; Removal costs of ₹ 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".

- (b) Ram Ltd. purchased machinery for ₹ 80 lakhs (useful life 4 years and residual value ₹ 8 lakhs). Government grant received was ₹ 32 lakhs. The grant had to be refunded at the beginning of third year. Show the Journal Entry to be passed at the time of refund of grant and the value of the fixed assets in the third year and the amount of depreciation for remaining two years, if the grant had been credited to Deferred Grant A/c.
- (c) In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting in wastage of 300 MT. Cost per MT of input is ₹ 1,000. The entire quantity of waste and finished output is in stock at the year end. State with reference to Accounting Standard, how will you value the inventories in this case? What will be treatment for normal and abnormal waste?
- (d) HIL Ltd. was making provision for non-moving stocks based on no issues having occurred for the last 12 months upto 31.03.2019. The company now wants to change it and make provision based on technical evaluation during the year ending 31.03.2020. Total value of stock on 31.3.20 is ₹ 120 lakhs. Provision required based on technical evaluation amounts ₹ 3.00 lakhs. However, provision required based on 12 months (no issues) is ₹ 4.00 lakhs. You are required to discuss the following points in the light of Accounting Standard (AS)-1:
- (i) Does this amount to change in accounting policy?
 - (ii) Can the company change the method of accounting?
 - (iii) Explain how it will be disclosed in the annual accounts of HIL Ltd. for the year 2019-20.

(4 parts x 5 Marks = 20 Marks)

2. (a) A Ltd. purchased on 1st April, 2020 8% convertible debenture in C Ltd. of face value of ₹ 2,00,000 @ ₹ 108. On 1st July, 2020 A Ltd. purchased another ₹ 1,00,000 debentures @ ₹ 112 cum interest. On 1st October, 2020 ₹ 80,000 debentures were sold @ ₹ 105. On 1st December, 2020, C Ltd. give 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% debentures held on that date. The market price of debenture and equity share in C Ltd. on 31st December, 2020 is ₹ 110 and ₹ 15 respectively. Interest on debenture is payable each year on 31st March, and 30th September. Prepare investment account in the books of A Ltd. on average cost basis for the accounting year ended 31st December, 2020.

- (b) A fire engulfed the premises of a business of M/s Kite in the morning, of 1st October, 2021. The entire stock was destroyed except, stock salvaged of ₹ 50,000. Insurance Policy was for ₹ 5,00,000 with average clause.

Stock in hand on 31st March, 2021 ₹ 3,50,000

The following information was obtained from the records saved for the period from 1st April to 30th September, 2021:

	₹
Sales	27,75,000
Purchases	18,75,000
Carriage inward	35,000
Carriage outward	20,000
Wages	40,000
Salaries	50,000

Additional Information:

- (1) Sales upto 30th September, 2021, includes ₹ 75,000 for which goods had not been dispatched.
- (2) On 1st June, 2021, goods worth ₹ 1,98,000 sold to Hari on approval basis which was included in sales but no approval has been received in respect of 2/3rd of the goods sold to him till 30th September, 2021.
- (3) Purchases upto 30th September, 2021 did not include ₹ 1,00,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown.
- (4) Past records show the gross profit rate of 25% on sales.

You are required to prepare the statement of claim for loss of stock for submission to the Insurance Company.

- (c) Identify four differences between Hire Purchase and Installment Payment agreement.

(8 + 8 + 4 = 20 Marks)

3. (a) DM Delhi has a branch in London which is an integral foreign operation of DM. At the end of the year 31st March, 2021, the branch furnishes the following trial balance in U.K. Pound:

Particulars	£	
	Dr.	Cr.
Fixed assets (Acquired on 1 st April, 2017)	24,000	
Stock as on 1 st April, 2020	11,200	
Goods from head Office	64,000	
Expenses	4,800	
Debtors	4,800	
Creditors		3,200
Cash at bank	1,200	
Head Office Account		22,800
Purchases	12,000	
Sales		<u>96,000</u>
	<u>1,22,000</u>	<u>1,22,000</u>

In head office books, the branch account stood as shown below:

London Branch A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	20,10,000	By Bank A/c	52,16,000
To Goods sent to branch	<u>49,26,000</u>	By Balance c/d	<u>17,20,000</u>
	<u>69,36,000</u>		<u>69,36,000</u>

The following further information is given:

(a) Fixed assets are to be depreciated @ 10% p.a. on WDV.

(b) On 31st March, 2021:

Expenses outstanding	-	£ 400
Prepaid expenses	-	£ 200
Closing stock	-	£ 8,000

(c) Rate of Exchange:

1 st April, 2017	-	₹ 70 to £ 1
1 st April, 2020	-	₹ 76 to £ 1
31 st March, 2021	-	₹ 77 to £ 1
Average	-	₹ 75 to £ 1

You are required to prepare: (1) Trial balance, incorporating adjustments of outstanding and prepaid expenses, converting U.K. pound into Indian rupees; and (2) Trading and profit and loss account for the year ended 31st March, 2021 of London branch as would appear in the books of Delhi head office of DM.

(b) Archana Enterprises maintain their books of accounts under single entry system. The Balance-Sheet as on 31st March, 2020 was as follows :

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c	6,75,000	Furniture & fixtures	1,50,000
Trade creditors	7,57,500	Stock	9,15,000
Outstanding expenses	67,500	Trade debtors	3,12,000
		Prepaid insurance	3,000
		Cash in hand & at bank	1,20,000
	<u>15,00,000</u>		<u>15,00,000</u>

The following was the summary of cash and bank book for the year ended 31st March, 2021:

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand & at Bank on 1 st April, 2020	1,20,000	Payment to trade creditors	1,24,83,000
Cash sales	1,10,70,000	Sundry expenses paid	9,31,050
Receipts from trade debtors	27,75,000	Drawings	3,60,000
		Cash in hand & at Bank on 31 st March, 2021	<u>1,90,950</u>
	<u>1,39,65,000</u>		<u>1,39,65,000</u>

Additional Information:

- (i) Discount allowed to trade debtors and received from trade creditors amounted to ₹ 54,000 and ₹ 42,500 respectively (for the year ended 31st March, 2021).
- (ii) Annual fire insurance premium of ₹ 9,000 was paid every year on 1st August for the renewal of the policy.
- (iii) Furniture & fixtures were subject to depreciation @ 15% p.a. on diminishing balance method.
- (iv) The following are the balances as on 31st March, 2021:

Stock	₹ 9,75,000
Trade debtors	₹ 3,43,000
Outstanding expenses	₹ 55,200
- (v) Gross profit ratio of 10% on sales is maintained throughout the year.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2021, and Balance Sheet as on that date. **(8 + 12 = 20 Marks)**

4. (a) X Ltd has three departments A, B and C. From the particulars given below compute: (i) the values of stock as on 31st Dec. 2020 and (ii) the departmental results showing actual amount of gross profit.

	A	B	C
	₹	₹	₹
Stock (on 1.1. 2020)	24,000	36,000	12,000
Purchases	1,46,000	1,24,000	48,000
Actual sales	1,72,500	1,59,400	74,600
Gross Profit on normal selling price	20%	25%	33 1/3%

During the year ended 31st Dec. 2020, certain items were sold at discount and these discounts were reflected in the value of sales shown above. The items sold at discount were:

	A	B	C
	₹	₹	₹
Sales at normal price	10,000	3,000	1,000
Sales at actual price	7,500	2,400	600

- (b) Surya Limited (a listed company) recently made a public issue in respect of which the following information is available:
- (a) No. of partly convertible debentures issued- 2,00,000; face value and issue price- ₹ 100 per debenture.
 - (b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.
 - (c) Date of closure of subscription lists- 1.5.2020, date of allotment- 1.6.2020, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- ₹ 60 (Face Value ₹ 10).
 - (d) Underwriting Commission- 2%.
 - (e) No. of debentures applied for- 1,50,000.
 - (f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2021 (including cash and bank entries).

(c) Manu Ltd. gives the following information as at 31st March, 2021:

	₹
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 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, 2021, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2021. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. You are required to prepare necessary journal entries in the books of the company on 30th April, 2021 for these transactions.

(6 + 10 + 4 = 20 Marks)

5. (a) You are required to prepare a Balance Sheet as at 31st March 2020, as per Schedule III of the Companies Act, 2013, from the following information of Mehar Ltd.:

Particulars	Amount (₹)	Particulars	Amount (₹)
Term Loans (Secured)	40,00,000	Investments (Non-current)	9,00,000
Trade payables	45,80,000	Profit for the year	32,00,000
Cash and Bank Balances	38,40,000	Trade receivables	49,00,000
Staff Advances	2,20,000	Miscellaneous Expenses	2,32,000
Other advances (given by Co.)	14,88,000	Loan from other parties	8,00,000
Provision for Taxation	10,20,000	Provision for Doubtful Debts	80,000
Securities Premium	19,00,000	Stores	16,00,000
Loose Tools	2,00,000	Finished Goods	30,00,000
General Reserve	62,00,000	Plant and Machinery (WDV)	2,14,00,000

Additional Information: -

1. Share Capital consists of-

(a) 1,20,000 Equity Shares of ₹ 100 each fully paid up.

(b) 40,000, 10% Redeemable Preference Shares of ₹ 100 each fully paid up.

2. Write off the amount of Miscellaneous Expenses in full, amounting ₹ 2,32,000.

(b) Sneha Ltd. was incorporated on 1st July, 2019 to acquire a running business of Atul Sons with effect from 1st April, 2019.

During the year 2019-20, the total sales were ₹ 24,00,000 of which ₹ 4,80,000 were for the first six months. The Gross profit of the company for the year was ₹ 3,90,800. The expenses charged to the Statement of Profit & Loss Account included the following:

(i) Director's fees ₹ 30,000

- (ii) Bad debts ₹ 7,200
- (iii) Advertising ₹ 24,000 (under a contract amounting to ₹ 2,000 per month)
- (iv) Salaries and General Expenses ₹ 1,28,000
- (v) Preliminary Expenses written off ₹ 10,000
- (vi) Donation to a political party given by the company ₹ 10,000.

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2020. **(14 + 6 = 20 Marks)**

6. (a) A company incorporated in June 2020, has setup a factory within a period of 8 months with borrowed funds. The construction period of the assets had reduced drastically due to usage of technical innovations by the company and the company is able to justify the reasons for the same. Whether interest on borrowings for the period prior to the date of setting up the factory should be capitalized although it has taken less than 12 months for the assets to get ready for use. You are required to comment on the necessary treatment with reference to AS 16.
- (b) XYZ Ltd. proposes to declare 10% dividend out of General Reserves due to inadequacy of profits in the year ending 31-03-2020.

From the following particulars ascertain the amount that can be utilized from general reserves, according to the Companies Rules, 2014: (₹)

8,00,000 Equity Shares of ₹ 10 each fully paid up	80,00,000
General Reserves	25,00,000
Revaluation Reserves	6,50,000
Net profit for the year	1,42,500

Average rate of dividend during the last five years has been 12%.

OR

The following extract of Balance Sheet of X Ltd. (a non-investment company) was obtained:

Balance Sheet (Extract) as on 31st March, 2020

<i>Liabilities</i>	₹
<u>Issued and subscribed capital:</u>	
20,000, 14% preference shares of ₹ 100 each fully paid	20,00,000
1,20,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	96,00,000
Capital reserves (₹ 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Unsecured loans: Public deposits repayable after one year	3,70,000
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,00,000

You are required to compute Effective Capital as per the provisions of Schedule V to Companies Act, 2013.

- (c) Prepare cash flow from investing activities as per AS 3 of Subham Creative Limited for year ended 31.3.2021.

Particulars	Amount (₹)
Machinery acquired by issue of shares at face value	2,00,000
Claim received for loss of machinery in earthquake	55,000
Unsecured loans given to associates	5,00,000
Interest on loan received from associate company	70,000
Pre-acquisition dividend received on investment made	52,600
Debenture interest paid	1,45,200
Term loan repaid	4,50,000
Interest received on investment (TDS of ₹ 8,200 was deducted on the above interest)	73,800
Book value of plant & machinery sold (loss incurred ₹ 9,600)	90,000

- (d) Opening Balance Sheet of Mr. A is showing the aggregate value of assets, liabilities and equity ₹ 8 lakh, ₹ 3 lakh and ₹ 5 lakh respectively. During accounting period, Mr. A has the following transactions:

- (1) Earned 10% dividend on 2,000 equity shares held of ₹ 100 each
- (2) Paid ₹ 50,000 to creditors for settlement of ₹ 70,000
- (3) Rent of the premises is outstanding ₹ 10,000
- (4) Mr. A withdrew ₹ 9,000 for his personal use.

You are required to show the effect of above transactions on Balance Sheet in the form of Assets-Liabilities = Equity after each transaction. **(4 Parts x 5 Marks = 20 Marks)**