

MOCK TEST PAPER 1
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) Hello Ltd. purchased goods at the cost of ₹ 20 lakhs in October. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at ₹ 5 lakhs. The expected sale value is ₹ 5.5 lakhs and a commission at 10% on sale is payable to the agent. You are required to ascertain the value of closing stock?
- (b) Viva Ltd. received a specific grant of ₹ 30 lakhs for acquiring the plant of ₹ 150 lakhs during 2018-19 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet and was not deducted from the cost of plant. During 2021-22, 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 ₹ 21 lakhs and written down value of plant was ₹ 105 lakhs. What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2021-22 in profit and loss account?
- (c) Neon Enterprise operates a major chain of restaurants located in different cities. The company has acquired a new restaurant located at Chandigarh. The new-restaurant requires significant renovation expenditure. Management expects that the renovations will last for 3 months during which the restaurant will be closed.

Management has prepared the following budget for this period –

Salaries of the staff engaged in preparation of restaurant before its opening	₹ 7,50,000
Construction and remodelling cost of restaurant	₹ 30,00,000

Explain the treatment of these expenditures as per the provisions of AS 10 "Property, Plant and Equipment".

- (d) ABC Ltd. borrowed US \$ 5,00,000 on 01/01/2021, which was repaid as on 31/07/2021. ABC Ltd. prepares financial statement ending on 31/03/2021. Rate of Exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under:

01/01/2021	1 US\$ =	₹ 68.50
31/03/2021	1 US \$ =	₹ 69.50
31/07/2021	1 US \$ =	₹ 70.00

You are required to pass necessary journal entries in the books of ABC Ltd. as per AS 11. **(4 parts x 5 Marks = 20 Marks)**

2. (a) The capital structure of Preet Ltd. consists of 20,000 Equity Shares of ₹10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹100 each fully paid up.

Undistributed reserve and surplus stood as: General Reserve ₹ 90,000; Profit and Loss Account ₹ 20,000; Investment Allowance Reserve is ₹ 20,000 out of which ₹ 15,000 is not ascertained as free reserve; Cash at bank amounted to ₹ 98,000.

Preference shares are to be redeemed at a premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserves and surplus, subject to the condition that a sum of ₹ 30,000 shall be retained in general reserve which should not be utilized.

You are required to pass Journal Entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet of the company after the redemption is carried out.

- (b) On 30th March, 2022 fire occurred in the premises of M/s Alok & Co. The concern had taken an insurance policy of ₹ 1,20,000 which was subject to the average clause. From the books of accounts the following particulars are available relating to the period 1st January to 30th March, 2022:

(i)	Stock as per Balance Sheet at 31st December, 2021	₹ 1,91,200
(ii)	Purchases (including purchase of machinery costing ₹ 60,000)	₹ 3,40,000
(iii)	Wages (including wages ₹ 6,000 for installation of machinery)	₹ 1,00,000
(iv)	Sales (including goods sold on approval basis amounting to ₹ 99,000)	₹ 5,50,000

No approval has been received in respect of 2/3rd of the goods sold on approval.

- (v) The average rate of gross profit is 20% of sales.
 (vi) The value of the salvaged goods was ₹ 24,600

You are required to compute the amount of the claim to be lodged to the Insurance Company.

(10 + 10 = 20 Marks)

3. (a) Moon Star has a branch at Virginia (USA). The Branch is a non-integral foreign operation of the Moon Star. The trial balance of the Branch as at 31st March, 2022 is as follows:

Particulars	US \$	
	Dr.	Cr.
Office equipments	48,000	
Furniture and Fixtures	3,200	
Stock (April 1, 2021)	22,400	
Purchases	96,000	
Sales	---	1,66,400
Goods sent from H.O	32,000	
Salaries	3,200	
Carriage inward	400	
Rent, Rates & Taxes	800	
Insurance	400	
Trade Expenses	400	
Head Office Account	---	45,600
Sundry Debtors	9,600	
Sundry Creditors	---	6,800
Cash at Bank	2,000	
Cash in Hand	400	
	<u>2,18,800</u>	<u>2,18,800</u>

The following further information is given:

- (1) Salaries outstanding \$ 400.
- (2) Depreciate office equipment and furniture & fixtures @10% p.a. at written down value.
- (3) The Head Office sent goods to Branch for ₹15,80,000.
- (4) The Head Office shows an amount of ₹ 20,50,000 due from Branch.
- (5) Stock on 31st March, 2022 -\$21,500.
- (6) There were no transit items either at the start or at the end of the year.
- (7) On April 1, 2020 when the fixed assets were purchased the rate of exchange was ₹ 43 to one \$. On April 1, 2021, the rate was 47 per \$. On March 31, 2022 the rate was ₹ 50 per \$. Average rate during the year was ₹ 45 to one \$.

Prepare Trial balance incorporating adjustments given converting dollars into rupees and Trading, Profit and Loss Account for the year ended 31st March, 2022 of the Branch as would appear in the books of Moon Star for the purpose of incorporating in the main Balance Sheet.

- (b) Alpha firm has two departments--X and Y. The product of Department Y is made with material supplied by the Department X at its usual selling price. From the following figures prepare Departmental Trading and Profit and Loss Account for the year 2021:

	Department X ₹	Department Y ₹
Opening Stock on 1st January, 2021	3,00,000	50,000
Sales	24,00,000	4,00,000
Purchases	20,00,000	15,000
Supply to Department Y	3,00,000	--
Selling expenses	20,000	6,000
Wages	60,000	20,000
Closing Stock on 31st December, 2021	2,00,000	60,000

The value of stocks in the Department Y consist of 75% material and 25% other expenses. The Department X earned Gross Profit at 15% on sales in 2020. General expenses of the business as a whole came to ₹ 1,10,000. The firm adopts FIFO method for assigning costs to inventories.

(12+ 8 = 20 Marks)

4. (a) Following is the incomplete information of Jyotishikha Traders:

The following balances are available as on 31.03.2021 and 31.03.2022.

Balances	31.03.2021	31.03.2022
Land and Building	5,00,000	5,00,000
Plant and Machinery	2,20,000	3,30,000
Office equipment	1,05,000	85,000
Trade receivables (before charging for Bad debts)	?	2,25,000
Trade payables	95,000	?
Payables for office expenses	20,000	15,000
Inventory	?	65,000
Long term loan from SBI @ 12%.	1,60,000	100,000
Bank	25,000	?

Other Information	In ₹
Collection from Trade receivables	9,25,000
Payment to Trade payables	5,25,000
Payment of office expenses (excluding interest on loan)	42,000
Salary paid	32,000
Selling expenses	15,000
Cash sales	2,50,000
Credit sales (80% of total sales)	
Credit purchases	5,40,000
Cash purchases (40% of total purchases)	
GP Margin at cost plus 25%	
Discount Allowed	5,500
Discount Received	4,500
Bad debts (2% of closing Trade receivables)	
Depreciation to be provided as follows:	
Land and Building	5%
Plant and Machinery	10%
Office Equipment	15%

Other adjustments:

- (i) On 01.10.21 they sold machine having Book Value ₹ 40,000 (as on 31.03.2021) at a loss of ₹ 15,000. New machine was purchased on 01.01.2022.
- (ii) Office equipment was sold at its book value on 01.04.2021.
- (iii) Loan was partly repaid on 31.03.22 together with interest for the year.

You are required to prepare Trading, Profit & Loss Account and Balance Sheet as on 31.03.2022.

- (b) On 1st April, 2021, Rajat has 50,000 equity shares of P Ltd. at a book value of ₹ 15 per share (face value ₹ 10 each). He provides you the further information:
 - (1) On 20th June, 2021 he purchased another 10,000 shares of P Ltd. at ₹ 16 per share.
 - (2) On 1st August, 2021, P Ltd. issued one equity bonus share for every six shares held by the shareholders.
 - (3) On 31st October, 2021, the directors of P Ltd. announced a right issue which entitles the holders to subscribe three shares for every seven shares at ₹ 15 per share. Shareholders can transfer their rights in full or in part.

Rajat sold 1/3rd of entitlement to Umang for a consideration of ₹ 2 per share and subscribed the rest on 5th November, 2021.

You are required to prepare Investment A/c in the books of Rajat for the year ending 31st March, 2022. **(14+6 = 20 Marks)**

5. (a) From the following particulars furnished by Hello Ltd., prepare the Balance Sheet as on 31st March 2022 as required by Part I, Schedule III of the Companies Act, 2013.

Particulars		Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each)			50,00,000
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	2,55,000		
Finished Goods	<u>10,00,000</u>	12,55,000	
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)			10,00,000

The following additional information is also provided:

- (i) 10,000 Equity shares were issued for consideration other than cash.
 - (ii) Trade receivables of ₹ 2,60,000 are due for more than 6 months.
 - (iii) The cost of the Assets were:
Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500
 - (iv) The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is secured by hypothecation of Plant & Machinery.
 - (v) Balance at Bank includes ₹ 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.
 - (vi) Transfer ₹ 20,000 to general reserve as proposed by Board of directors.
- (b) Aman Ltd. has issued 2,000, 12% convertible debentures of ₹ 100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of ₹ 10 each at a price of ₹ 20 per share and balance in cash. Debenture holders amounting ₹ 40,000 opted to get their debentures converted into equity shares as per terms of the issue.

You are required to calculate the number of shares issued and cash paid for redemption of ₹ 40,000 debenture holders and also pass journal entry for conversion and redemption of debentures. **(15 + 5 = 20 Marks)**

6. Answer any four of the following:

- (a) Omega Limited has borrowed a sum of US \$ 10,00,000 at the beginning of Financial Year 2021-22 for its residential project at 4%. The interest is payable at the end of the Financial Year. At the time of availment of loan exchange rate was ₹ 56 per US \$ and the rate as on 31st March, 2022 was ₹ 62 per US \$. If Omega Limited had borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%.

You are required to compute Borrowing Cost and exchange difference for the year ending 31st March, 2022 as per applicable Accounting Standards.

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

Balance Sheet (Extract) as on 31st March, 2022

<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) Following items appear in the Trial Balance of Mehta Ltd. as on 31st March, 2022:

<i>Particulars</i>	<i>Amount</i>
9,000 Equity Shares of ₹100 each	9,00,000
Securities Premium (realized in cash)	80,000
Capital Redemption Reserve	1,40,000
General Reserve	2,10,000
Profit and Loss Account (Cr. Balance)	90,000

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. You are required to give the necessary Journal Entries in the books of Mehta Ltd.

- (d) Classify the following activities as
- (i) Operating Activities, (ii) Investing activities, (iii) Financial activities and (iv) Cash Equivalents.
- (1) Cash receipts from Trade Receivables
 - (2) Highly liquid Marketable Securities without risk of change in value
 - (3) Purchase of investment
 - (4) Proceeds from long term borrowings
 - (5) Wages and Salaries paid
 - (6) Bank overdraft
 - (7) Purchase of Goodwill
 - (8) Interim dividend paid on equity shares
 - (9) Short term Deposits
 - (10) Underwriting commission paid

- (e) Hari Enterprises purchased a generator on hire purchase from Sanctum Ltd. on 1stApril, 2022. The hire purchase price was ₹ 48,000. Down payment was ₹ 12,000 and the balance is payable in 3 annual instalments of ₹ 12,000 each payable at the end of each financial year. Interest is payable @ 8% p.a. and is included in the annual payment of ₹12,000.

Depreciation at 10% p.a. is to be written off using the straight line method.

You are required to calculate the cash price of the generator and the interest paid on each instalment.

(4 Parts x 5 Marks = 20 Marks)