

**MOCK TEST PAPER 1**  
**INTERMEDIATE:-GROUP – I**

1. (a) **Cash Flow Statement of Gagan Ltd. for the year ended March 31, 2022**

<b>A</b>	<b>Cash Flow from Operating Activities</b>	
	Net Profit as per Profit & Loss A/c	-----
	Add: Premium on Redemption of Debentures	1,650
	Add: Interest on 10% Debentures	11,000
	Less: Interest on 10% Investments	(35,000)
<b>B</b>	<b>Cash Flow from Investing Activities</b>	
	Interest on Investments [35,000-10,500]	24,500
<b>C</b>	<b>Cash Flow from Financing Activities</b>	
	Interest on Debentures paid [11,000 - (1,175 - 275)]	(10,100)
	Redemption of Debentures [(1,10,000 - 77,000) at 5% premium]	(34,650)

Note: Debtors written off against provision for doubtful debts does not require any further adjustment in Cash Flow Statement.

- (b) From the above account, it is inferred that the Company has deducted grant from the book value of asset for accounting of Government Grants. Accordingly, out of the ₹ 16,00,000 that has been received, ₹ 8,00,000 (being the balance in Machinery A/c) should be credited to the machinery A/c.

The balance ₹ 8,00,000 may be credited to P&L A/c, since already the cost of the asset to the tune of ₹ 12,00,000 had been debited to P&L A/c in the earlier years by way of depreciation charge, and ₹ 8,00,000 transferred to P&L A/c now would be partial recovery of that cost.

There is no need to provide depreciation for 2020-21 or 2021-22 as the depreciable amount is now Nil.

- (c) Calculation of cost for closing inventory

<i>Particulars</i>	₹
Cost of Purchase (10,200 x 10)	1,02,000
Direct Labour	76,500
Fixed Overhead $\frac{75,000 \times 10,200}{15,000}$	<u>51,000</u>
Cost of Production	<u>2,29,500</u>
Cost of closing inventory per unit (2,29,500/10,200)	₹ 22.50
Net Realisable Value per unit	₹ 20.00

Since net realisable value is less than cost, closing inventory will be valued at ₹ 20.

As NRV of the finished goods is less than its cost, relevant raw materials will be valued at replacement cost i.e. ₹ 9.50.

Therefore, value of closing inventory: Finished Goods (1,200 x 20)	₹ 24,000
Raw Materials (900 x 9.50)	<u>₹ 8,550</u>
	₹ 32,550

- (d) The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made. In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from ₹ 3.5 lakhs to ₹ 2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2021-22:

“The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been lower by ₹ 1 lakh.”

2. (a)

**Books of Sanket**  
**Investment Account**  
**(Scrip: Equity Shares in XYZ Ltd.)**

		No.	Amount ₹			No.	Amount ₹
1.1.2022	To Bal b/d	50,000	12,50,000	31.10.2022	By Bank (dividend	—	20,000
1.6.2022	To Bank	10,000	2,00,000		on shares		
16.8.2022	To Bonus (W.N.1)	10,000	—		acquired on		
30.9.2022	To Bank (Rights Shares) (W.N.3)	20,000	3,00,000		1.6.2022) (W.N.4)		
15.11.2022	To Profit (on sale of shares)		69,444	15.11.2022	By Bank (Sale of shares)	25,000	5,50,000
				31.12.2022	By Bal. c/d (W.N.6)	65,000	12,49,444
		90,000	18,19,444			90,000	18,19,444

**Profit and Loss Account (An extract for investment)**

31.12.2022	To Balance c/d (profit)	2,09,444	31.8.22	By Sale of rights (W.N.3)	40,000
			31.10.22	By Dividend (W.N.4)	1,00,000
			15.11.22	By Profit transferred	<u>69,444</u>
		<u>2,09,444</u>			2,09,444

**Working Notes:**

- (1) **Bonus Shares** =  $\frac{(50,000+10,000)}{6}$  = 10,000 shares
- (2) **Right Shares** =  $\frac{(50,000+10,000+10,000)}{7} \times 3$  = 30,000 shares  $\times \frac{2}{3}$  = 20,000 shares
- (3) **Right shares renounced** = 30,000  $\times \frac{1}{3}$  = 10,000 shares
- Sale of right shares = 10,000  $\times 4$  = ₹ 40,000
- Right shares subscribed = 20,000 shares
- Amount paid for subscription of right shares = 20,000  $\times 15$  = ₹ 3,00,000

- (4) Dividend received = 50,000 (shares as on 1st April 2022) × 10 × 20% = ₹ 1,00,000  
**Dividend on shares purchased on 1.6.2022** = 10,000 × 10 × 20% = ₹ 20,000 is adjusted to Investment A/c
- (5) Profit on sale of 25,000 shares  
 = Sales proceeds – Average cost  
 Sales proceeds = ₹ 5,50,000  
 Average cost =  $\frac{(12,50,000 + 2,00,000 + 3,00,000 - 20,000)}{90,000} \times 25,000 = ₹ 4,80,556$   
 Profit = ₹ 5,50,000 – ₹ 4,80,556 = ₹ 69,444.
- (6) **Cost of shares on 31.12.2022**  $\frac{(17,30,000)}{90,000} \times 65,000 = ₹ 12,49,444$   
 Market value of share = 65,000 shares × ₹ 20 = 13,00,000  
 Shares will be valued at ₹ 12,49,444 as market value is more than cost.

(b)

**M/s Raxby & Co.**

**Trading Account for 2021-22**

(to determine the rate of gross profit)

	₹		₹	₹
To Opening Stock	1,20,000	By Sales A/c		6,00,000
To Purchases	5,25,000	By Closing Stock :		
To Gross Profit	90,000	As valued	1,30,000	
		Add: Amount written off to restore stock to full cost	5,000	<u>1,35,000</u>
	<u>7,35,000</u>			<u>7,35,000</u>

The normal rate of gross profit to sales is =  $\frac{90,000}{6,00,000} \times 100 = 15\%$

**Memorandum Trading Account up to June 30, 2022**

	Normal items	Abnormal items	Total		Normal items	Abnormal items	Total
	₹	₹	₹		₹	₹	₹
To Opening Stock	1,27,000	8,000*	1,35,000	By Sales	1,60,000	6,000	1,66,000
To Purchases (97,000+35,000)	1,32,000	—	1,32,000	By Loss	—	1,000	1,000
To Gross Profit (15% on ₹ 1,60,000)	<u>24,000</u>	—	<u>24,000</u>	By Closing Stock (bal. fig.)	<u>1,23,000</u>	<u>1,000</u>	<u>1,24,000</u>
	<u>2,83,000</u>	<u>8,000</u>	<u>2,91,000</u>		<u>2,83,000</u>	<u>8,000</u>	<u>2,91,000</u>

\* at cost.

**Calculation of Insurance Claim**

	₹
Value of stock on June 30, 2022	1,24,000
Less: Salvage	<u>(10,000)</u>
Loss of stock	<u>1,14,000</u>

Claim subject to average clause:

$$\frac{\text{Amount of Policy}}{\text{Value of stock}} \times \text{Actual Loss of Stock} = 1,00,000 / 1,24,000 \times 1,14,000$$

= ₹ 91,935 (approx.)

Therefore, insurance claim will be limited to ₹ 91,935 (approx.)

3. (a) (i)

**Books of Branch**

**Journal Entries**

		(₹ in lacs)	
		Dr.	Cr.
Goods in Transit A/c	Dr.	10	
To Head Office A/c			10
(Goods dispatched by head office but not received by branch before 1st April, 2022)			
Expenses A/c	Dr.	1	
To Head Office A/c			1
(Amount charged by head office for centralised services)			

(ii)

**Trading and Profit & Loss Account of the Branch**

**for the year ended 31st March, 2022**

	₹ in lacs		₹ in lacs
To Opening Stock	60	By Sales	360
To Goods received from		By Closing Stock	62
Head Office	288		
Less : Returns	(5)		
	283		
To Carriage Inwards	7		
To Gross Profit c/d	<u>72</u>		—
	<u>422</u>		<u>422</u>
To Salaries	25	By Gross Profit b/d	72
To Depreciation on Furniture	2		
To Rent	10		
To Advertising	6		
To Telephone, Postage & Stationery	3		
To Sundry Office Expenses	1		
To Head Office Expenses	1		
To Net Profit Transferred to			
Head Office A/c	<u>24</u>		—
	<u>72</u>		<u>72</u>

**Balance Sheet as on 31st March, 2022**

<i>Liabilities</i>	<i>₹ in lacs</i>		<i>Assets</i>	<i>₹ in lacs</i>	
Head Office	80		Furniture & Equipment	20	
Add : Goods in transit	10		Less : Depreciation	<u>(2)</u>	18
Head Office Expenses	1		Stock in hand		62
Net Profit	<u>24</u>		Goods in Transit		10
		115	Debtors		20
Outstanding Expenses		3	Cash at bank and in hand		<u>8</u>
		<u>118</u>			<u>118</u>

(b) **Departmental Trading Account in the books of M/s P  
for the year ended 31<sup>st</sup> March 2022**

<i>Particulars</i>	<i>Department X</i>	<i>Department Y</i>	<i>Particulars</i>	<i>Department X</i>	<i>Department Y</i>
	₹	₹		₹	₹
To Opening stock	2,45,000	2,43,000	By Sales	20,02,000	20,70,000
To Purchases	13,72,000	13,41,000	By Transfers:		
To Carriage inward	21,000	40,500	Purchased goods	1,26,000	2,25,000
To Wages	1,89,000	1,62,000	Finished goods (net of returns)	4,55,000*	5,31,000*
To Transfers			By Closing stock:		
Purchased goods	2,25,000	1,26,000	Purchased goods	84,000	1,35,000
Finished goods (net of returns)	5,31,000	4,55,000	Finished goods	<u>3,57,000</u>	<u>2,79,000</u>
To Gross profit c/d	<u>4,41,000</u>	<u>8,72,500</u>			
	<u>30,24,000</u>	<u>32,40,000</u>		<u>30,24,000</u>	<u>32,40,000</u>

**General Profit and Loss A/c  
for the year ended 31<sup>st</sup> March, 2022**

<i>Particulars</i>	<i>₹</i>	<i>Particulars</i>	<i>₹</i>
To Provision for unrealized profit included in closing stock		By Gross profit b/d	
Department X (W.N. 3)	35,921	Department X	4,41,000

\* Net transfers of finished goods by  
 Department X to Y = ₹ 6,12,500 – ₹ 1,57,500 = ₹ 4,55,000  
 Department Y to X = ₹ 6,75,000 – ₹ 1,44,000 = ₹ 5,31,000

Department Y (W.N. 3)	15,024	Department Y	8,72,500
To Net profit	12,62,555		
	13,13,500		13,13,500

**Working Notes:**

**1. Calculation of rates of gross profit margin on sales**

	Department X	Department Y
	₹	₹
Sales	20,02,000	20,70,000
Add: Transfer of finished goods	<u>6,12,500</u>	<u>6,75,000</u>
	26,14,500	27,45,000
Less: Return of finished goods	<u>(1,57,500)</u>	<u>(1,44,000)</u>
	<u>24,57,000</u>	<u>26,01,000</u>
Gross Profit	4,41,000	8,72,500
Gross profit margin =	$(4,41,000/24,57,000) \times 100$ = 17.95%	$(8,72,500/26,01,000) \times 100$ = 33.54%

**2. Finished goods from other department included in the closing stock**

	Department X	Department Y
	₹	₹
Stock of finished goods	3,57,000	2,79,000
Stock related to other department (30% of finished goods)	1,07,100	83,700

**3. Unrealized profit included in the closing stock**

Department X = 33.54% of ₹ 1,07,100 = ₹ 35,921

Department Y = 17.95% of ₹ 83,700 = ₹ 15,024

**4. (a) Trading and Profit and Loss Account  
for the year ended 31st March, 2022**

	Amount		Amount
	₹		₹
To Opening Inventory	50,000	By Sales (₹ 2,60,000 × 125/100)	3,25,000
To Purchases (balancing figure)	2,72,500	By Closing Inventory	62,500
To Gross profit c/d (₹ 2,60,000 × 25/100)	<u>65,000</u>		
	<u>3,87,500</u>		<u>3,87,500</u>
To Expenses	49,250	By Gross profit b/d	65,000
To Loss on sale of fixed assets	750		
To Depreciation on fixed assets (W.N.1)	1,000		
To Net profit	<u>14,000</u>		
	<u>65,000</u>		<u>65,000</u>

**Balance Sheet as on 31st March, 2022**

		Amount		Amount
Liabilities		₹	Assets	₹
Capital (W.N. 5)	1,69,000		Fixed assets	9,000
Add: Additional capital	5,000		Debtors (W.N. 3)	87,500
Net profit	<u>14,000</u>		Inventory	62,500
	1,88,000		Bank balance	50,000
Less: Drawings	<u>(25,000)</u>	1,63,000		
Creditors		<u>46,000</u>		
		<u>2,09,000</u>		<u>2,09,000</u>

**Working Notes:**

**1. Fixed assets account**

	₹		₹
To Balance b/d	7,500	By Bank (sale)	1,750
To Bank	5,000	By Loss on sale of fixed asset(2,500-1,750)	750
		By Depreciation (balancing figure)	1,000
		By Balance c/d	<u>9,000</u>
	<u>12,500</u>		<u>12,500</u>

**2. Bank account**

	₹		₹
To Balance b/d (balancing figure)	62,500	By Creditors	2,80,000
To Debtors	3,40,000	By Expenses	49,250
To Capital	5,000	By Drawings	25,000
To Sale of fixed assets	1,750	By Fixed assets	5,000
		By Balance c/d	<u>50,000</u>
	<u>4,09,250</u>		<u>4,09,250</u>

**3. Debtors account**

	₹		₹
To Balance b/d	1,02,500	By Bank	3,40,000
To Sales	3,25,000	By Balance c/d (balancing figure)	87,500
(₹ 2,60,000 × $\frac{125}{100}$ )			
	<u>4,27,500</u>		<u>4,27,500</u>

**4. Creditors account**

	₹		₹
To Bank	2,80,000	By Balance b/d (balancing figure)	53,500
To Balance c/d	<u>46,000</u>	By Purchases (from trading account)	<u>2,72,500</u>
	<u>3,26,000</u>		<u>3,26,000</u>

5. **Balance Sheet as on 1st April, 2021**

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Creditors (W.N. 4)	53,500	Fixed assets	7,500
Capital (balancing figure)	1,69,000	Debtors	1,02,500
		Stock	50,000
		Bank balance (W.N. 2)	<u>62,500</u>
	<u>2,22,500</u>		<u>2,22,500</u>

4 (b)

**In the books of Alfa Limited**

**Journal Entries**

Date	Particulars		Dr. (₹)	Cr. (₹)
2022				
April 1	10% Redeemable Preference Share Capital A/c	Dr.	3,37,500	
	Premium on Redemption of Preference Shares	Dr.	33,750	
	To Preference Shareholders A/c			3,71,750
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	3,71,750	
	To Bank A/c			3,71,750
	(Being the amount paid on redemption of preference shares)			
	General Reserve A/c	Dr.	2,25,000	
	Profit & Loss A/c	Dr.	1,12,500	
	To Capital Redemption Reserve A/c			3,37,500
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			
	Profit & Loss A/c	Dr.	33,750	
	To Premium on Redemption of Preference Shares A/c			33,750
	(Being premium on redemption charged to Profit and Loss A/c)			

**Note:** Capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

5 (a)

**Harry Ltd.**

**Cash Flow Statement  
for the year ended 31st March, 2022**

	(₹)	(₹)
Cash flows from operating activities		
Net Profit before taxation	8,000	
Adjustments for:		
Depreciation ₹ (1,000 + 2,000 + 5,000)	8,000	
Profit on sale of Investment	(8,000)	



Profit on sale of car	(1,400)	
Operating profit before working capital changes	6,600	
Increase in Trade receivables	(2,000)	
Increase in inventories	(6,000)	
Increase in Trade payables	<u>3,000</u>	
Cash generated from operations	1,600	
Income taxes paid	<u>(2,000)</u>	
<i>Net cash generated from operating activities (A)</i>		(400)
Cash flows from investing activities		
Sale of car	3,400	
Purchase of car	(16,000)	
Sale of Investment	10,000	
Purchase of Investment	(6,000)	
Purchase of Furniture & fixtures	<u>(14,000)</u>	
<i>Net cash used in investing activities (B)</i>		(22,600)
Cash flows from financing activities		
Issue of shares for cash	20,000	
Dividends paid	<u>(2,000)</u>	
<i>Net cash from financing activities(C)</i>		<u>18,000</u>
Net decrease in cash and cash equivalents (A + B +C)		(5,000)
Cash and cash equivalents at beginning of period		<u>17,000</u>
Cash and cash equivalents at end of period		12,000

**Working Notes:**

1. Calculation of Income taxes paid

	₹
Income tax expense for the year	3,000
<i>Add:</i> Income tax liability at the beginning of the year	<u>2,000</u>
	5,000
<i>Less:</i> Income tax liability at the end of the year	<u>(3,000)</u>
	<u>2,000</u>

2. Calculation of Fixed assets acquisitions

	Furniture & Fixtures (₹)	Car (₹)
W.D.V. at 31.3.2022	34,000	25,000
<i>Add back:</i> Depreciation for the year	2,000	5,000
Disposals	<u>—</u>	<u>2,000</u>
	36,000	32,000
<i>Less:</i> W.D.V. at 31. 3. 2021	<u>(22,000)</u>	<u>(16,000)</u>
Acquisitions during 2021-22	<u>14,000</u>	<u>16,000</u>

(b)

**Omega Limited**  
**Debenture Account**

2022		₹	2022		₹
Mar 1	To Own Debentures	74,175	Jan 1	By Balance b/d	4,50,000
Mar 1	To Profit on cancellation (25,000-24,725)	825			
Sep 1	To Own Debentures (Note 3)	59,124			
Sep 1	To Profit on cancellation (20,000-19,708)	876			
Dec 31	Balance c/d	3,15,000			
		4,50,000			4,50,000

**Own Debenture (Investment) Account**

		Nominal Cost ₹	Interest ₹	Cost ₹			Nominal Cost ₹	Interest ₹	Cost ₹
<b>2022</b>					<b>2022</b>				
Mar 1	To Bank (W.N. 1)	75,000	1,563	74,175	Mar 1	By Debentures A/c	75,000	-	74,175
Sep 1	To Bank (W.N. 2 & 3)	60,000	1,251	59,124	Sep 1	By Debentures A/c	60,000	-	59,124
				-	Dec. 31	By P&L A/c	-	2,814	-
		1,35,000	2,814	1,33,299			1,35,000	2,814	1,33,299

**Working notes:**

1.  $75,000 \times 5\% \times 5/12 = 1,563$
2.  $60,000 \times 5\% \times 5/12 = 1,251$
3.  $60,375 - 1,251 = 59,124$

**6 (a) According to AS 10 (Revised), these costs can be capitalised:**

1.	Cost of the plant	₹ 10,00,000
2.	Initial delivery and handling costs	₹ 80,000
3.	Cost of site preparation	₹ 2,40,000
4.	Consultants' fees	₹ 2,80,000
5.	Estimated dismantling costs to be incurred after 7 years	<u>₹ 1,20,000</u>
		₹ 17,20,000

**Note:** Operating losses before commercial production amounting to ₹ 1,60,000 are not regarded as directly attributable costs and thus cannot be capitalized. They should be written off to the Statement of Profit and Loss in the period they are incurred.

(b) Calculation of effective capital and maximum amount of monthly remuneration

	(₹ in lakhs)
Paid up equity share capital	270
Paid up Preference share capital	45
Reserve excluding Revaluation reserve (337.5- 22.5)	315
Securities premium	90
Long term loans	90
Deposits repayable after one year	<u>45</u>
	855
Less: Accumulated losses not written off	(45)
Investments	<u>(405)</u>
Effective capital for the purpose of managerial remuneration	405

Since Kartik Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration. Effective capital of the company is less than 5 crores, maximum remuneration payable to the Managing Director should be @ ₹ 60,00,000 per annum.

**Note:** Revaluation reserve and application money pending allotment are not included while computing effective capital of Kartik Ltd.

OR

Bonus

Journal Entries in the books of Madhu Ltd.

			₹	₹
1-4-2022	Equity share final call A/c To Equity share capital A/c (For final calls of ₹ 2 per share on 4,05,000 equity shares due as per Board's Resolution dated....)	Dr.	8,10,000	8,10,000
20-4-2022	Bank A/c To Equity share final call A/c (For final call money on 4,05,000 equity shares received)	Dr.	8,10,000	8,10,000
	Securities Premium A/c	Dr.	1,12,500	
	Capital redemption reserve A/c	Dr.	1,80,000	
	General Reserve A/c	Dr.	5,40,000	
	Profit and Loss A/c (b.f.) To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held)	Dr.	1,80,000	10,12,500
	Bonus to shareholders A/c To Equity share capital A/c (For issue of bonus shares)	Dr.	10,12,500	10,12,500

Extract of Balance Sheet as at 30<sup>th</sup> April, 2022 (after bonus issue)

	₹
<b>Authorized Capital</b>	
45,000 12% Preference shares of ₹ 10 each	4,50,000
6,00,000 Equity shares of ₹ 10 each	<u>60,00,000</u>

Issued and subscribed capital	
36,000 12% Preference shares of ₹10 each, fully paid	3,60,000
5,06,250 Equity shares of ₹ 10 each, fully paid	50,62,500
(Out of the above, 1,01,250 equity shares @ ₹ 10 each were issued by way of bonus shares)	
<b>Reserves and surplus</b>	
Profit and Loss Account	7,20,000

- (c) Para 10 of AS 16 'Borrowing Costs' states that to the extent the funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings. The capitalization rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Hence, in the above case, treatment of accountant of Vital Ltd. is incorrect. The amount of borrowing costs capitalized for the financial year 2021-22 should be calculated as follows:

Actual interest for 2021-22 (10% of ₹ 150 crores)	₹ 15.00 crores
Less: Income on temporary investment from specific borrowings	(₹ 1.50 crores)
Borrowing costs to be capitalized during year 2021-22	₹ 13.50 crores

- (d) (i) (1) Users of financial statements: Investors, Employees, Lenders, Supplies/Creditors, Customers, Government & Public
- (2) Qualitative Characteristics of Financial Statements:  
Understandability, Relevance, Comparability, Reliability & Faithful Representation
- (3) Elements of Financial Statements:  
Asset, Liability, Equity, Income/Gain and Expense/Loss
- (ii) Fundamental Accounting Assumptions:  
Accrual, Going Concern and Consistency