

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) State whether the following statements are 'True' or 'False' in line with the provisions of AS-1 Also give reason for your answer.
- (i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
 - (ii) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
 - (iii) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
 - (iv) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.
 - (v) There is no single list of accounting policies which are applicable to all circumstances.
- (b) (i) Entity A carried plant and machinery in its books at ₹ 2,00,000 which were destroyed in a fire. These machines were insured 'New for old' and were replaced by the insurance company with new machines of fair value ₹ 20,00,000. The old destroyed machines were acquired by the insurance company and the company did not receive any cash compensation. State, how Entity A should account for the same?
- (ii) Omega Ltd, a supermarket chain, is renovating one of its major stores. The store will have more available space for store promotion outlets after the renovation and will include a restaurant. Management is preparing the budgets for the year after the store reopens, which include the cost of remodelling and the expectation of a 15% increase in sales resulting from the store renovations, which will attract new customers.
- Decide whether Omega Ltd. can capitalize the remodelling cost or not as per provisions of AS 10 "Property Plant & Equipment".
- (c) Following is the cash flow abstract of Alpha Ltd. for the year ended 31st March, 2021:

Cash Flow (Abstract)

Inflows	₹	Outflows	₹
Opening cash and bank balance	80,000	Payment for Account Payables	90,000
Share capital – shares issued	5,00,000	Salaries and wages	25,000
Collection from Trade		Payment of overheads	15,000
Receivables	3,50,000	Machinery acquired	4,00,000
		Debentures redeemed	50,000

Sale of Machinery	70,000	Bank loan repaid	2,50,000
		Tax paid	1,55,000
		Closing cash and bank balance	<u>15,000</u>
	<u>10,00,000</u>		<u>10,00,000</u>

Prepare Cash Flow Statement for the year ended 31st March, 2021 in accordance with AS 3.

- (d) On 01.04.2018, XYZ Ltd. received Government grant of ₹ 100 Lakhs for an acquisition of new machinery costing ₹ 500 lakhs. The grant was received and credited to the cost of the assets. The life span of the machinery is 5 years. The machinery is depreciated at 20% on WDV method. The company had to refund the entire grant in 2nd April, 2021 due to non-fulfilment of certain conditions which was imposed by the government at the time of approval of grant. How do you deal with the refund of grant to the Government in the books of XYZ Ltd. as per AS 12?

(4 Parts x 5 Marks = 20 Marks)

2. (a) Shree Ltd. has authorized capital of ₹ 50 lakhs divided into 5,00,000 equity shares of ₹ 10 each. Their books show the following balances as on 31st March, 2021:

	₹		₹
Inventory 1.4.2020	6,65,000	Bank balance in Current Account	20,000
Discounts & Rebates allowed	30,000	Cash in hand	8,000
Carriage Inwards	57,500	Interest (bank overdraft)	1,11,000
Patterns	3,75,000	Calls in Arrear @ ₹2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity share capital	20,00,000
Furniture & Fixtures	1,50,000	(2,00,000 shares of ₹ 10 each)	
Purchases	12,32,500	Bank Overdraft	12,67,000
Wages	13,68,000		
Freehold Land	16,25,000	Trade Payables (for goods)	2,40,500
Plant & Machinery	7,50,000	Sales	36,17,000
Engineering Tools	1,50,000	Rent (Cr.)	30,000
Trade Receivables	4,00,500	Transfer fees received	6,500
Advertisement	15,000	Profit & Loss A/c (Cr.)	67,000
Commission & Brokerage (Dr.)	67,500	Repairs to Building	56,500
Business Expenses	56,000	Bad debts	25,500

You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2021 and Balance Sheet as on that date in line with Schedule III to the Companies Act, 2013 after considering the following:

The inventory (valued at cost or market value, which is lower) as on 31st March, 2021 was ₹ 7,08,000. Outstanding liabilities for wages ₹ 25,000 and business expenses ₹ 36,000.

Charge depreciation on closing written down value of Plant & Machinery @ 5%, Engineering Tools @ 20%; Patterns @ 10%; and Furniture & Fixtures @10%. Provide 25,000 as doubtful debts after writing off ₹16,000 as additional bad debts. Provide for income tax @ 30%.

- (b) State under which head these accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:
- Share option outstanding account.
 - Unpaid matured debenture and interest accrued thereon.

(iii) Uncalled liability on shares and other partly paid investments.

(iv) Money received against share warrant.

(16 + 4 = 20 Marks)

3. (a) (i) Mr. Vijay entered into the following transactions of purchase and sale of equity shares of JP Power Ltd. The shares have paid up value of ₹ 10 per share.

Date	No. of Shares	Terms
01.01.2019	600	Buy @ ₹ 20 per share
15.03.2019	900	Buy @ ₹ 25 per share
20.05.2019	1000	Buy @ ₹ 23 per share
25.07.2019	2500	Bonus Shares received
20.12.2019	1500	Sale @ ₹ 22 per share
01.02.2020	1000	Sale @ ₹ 24 per share

Addition information:

- (1) On 15.09.2019 dividend @ ₹ 3 per share was received for the year ended 31.03.2019.
- (2) On 12.11.2019 company made a right issue of equity shares in the ratio of one share for five shares held on payment of ₹ 20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of ₹ 3 per share.
- (3) Shares are to be valued on weighted average cost basis.

You are required to prepare Investment Account for the year ended 31.03.2019 and 31.03.2020.

- (ii) Whether the accounting treatment 'at cost' under the head 'Long Term Investments' without providing for any diminution in value is correct and in accordance with the provisions of AS 13. If not, what should have been the accounting treatment in such a situation? What methodology should be adopted for ascertaining the provision for diminution in the value of investment, if any. Explain in brief.

(8 + 4 =12 Marks)

- (b) A fire engulfed the premises of a business of M/s Preet on the morning of 1st July 2021. The building, equipment and stock were destroyed and the salvage recorded the following:

Building – ₹ 4,000; Equipment – ₹ 2,500; Stock – ₹ 20,000. The following other information was obtained from the records saved for the period from 1st January to 30th June 2021:

	₹
Sales	11,50,000
Sales Returns	40,000
Purchases	9,50,000
Purchases Returns	12,500
Cartage inward	17,500
Wages	7,500
Stock in hand on 31 st December, 2020	1,50,000
Building (value on 31 st December, 2020)	3,75,000
Equipment (value on 31 st December, 2020)	75,000
Depreciation provided till 31 st December, 2020 on:	
Building	1,25,000
Equipment	22,500

No depreciation has been provided after December 31st 2020. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method.

Normally business makes a profit of 25% on net sales. You are required to prepare the statement of claim for submission to the Insurance Company. **(8 Marks)**

4. (a) The following is the Balance Sheet of Chirag as on 31st March, 2020:

Liabilities	₹	Assets	₹
Capital Account	48,000	Building	32,500
Loan	15,000	Furniture	5,000
Creditor	31,000	Motor car	9,000
		Stock	20,000
		Debtors	17,000
		Cash in hand	2,000
		Cash at bank	8,500
	<u>94,000</u>		<u>94,000</u>

A riot occurred on the night of 31st March, 2021 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

- His sales for the year ended 31st March, 2021 were 20% higher than the previous year's sales. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2021 were for cash. There were no cash purchases.
- On 1st April, 2020 the stock level was raised to ₹ 30,000 and stock was maintained at this new level all throughout the year.
- Collection from debtors amounted to ₹ 1,40,000 of which ₹ 35,000 was received in cash, Business expenses amounted to ₹ 20,000 of which ₹ 5,000 was outstanding on 31st March, 2021 and ₹ 6,000 was paid by cheques.
- Analysis of the Pass Book revealed the Payment to Creditors ₹ 1,37,500, Personal Drawing ₹ 7,500, Cash deposited in Bank ₹ 71,500, and Cash withdrawn from Bank ₹ 12,000.
- Gross profit as per last year's audited accounts was ₹ 30,000.
- Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.
- The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2021 and Balance Sheet as on that date.

- (b) The following balances were extracted from the books of Beta. You are required to prepare Departmental Trading Account and general Profit & Loss Account for the year ended 31st March, 2021:

Particulars	Deptt. A ₹	Deptt. B ₹
Opening Stock	3,00,000	2,40,000
Purchases	39,00,000	54,60,000
Sales	60,00,000	90,00,000

General expenses incurred for both the Departments were ₹ 7,50,000 and you are also supplied with the following information:

- (i) Closing stock of Department A ₹ 6,00,000 including goods from Department B for ₹ 1,20,000 at cost to Department A.
- (ii) Closing stock of Department B ₹ 12,00,000 including goods from Department A for ₹ 1,80,000 at cost to Department B.
- (iii) Opening stock of Department A and Department B include goods of the value of ₹ 60,000 and ₹ 90,000 taken from Department B and Department A respectively at cost to transferee departments.
- (iv) The gross profit is uniform from year to year. **(12 +8 = 20 Marks)**

5. (a) The partners of Ojasvi Enterprises decided to convert the partnership firm into a Private Limited Company Tejasvi (P) Ltd. with effect from 1st January, 2019. However, company could be incorporated only on 1st June, 2019. The business was continued on behalf of the company and the consideration of ₹ 6,00,000 was settled on that day along with interest @ 12% per annum. The company availed loan of ₹ 9,00,000 @ 10% per annum on 1st June, 2019 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2020 and presents you the following information:

	₹	₹
Sales		19,80,000
Cost of goods sold	11,88,000	
Discount to dealers	46,200	
Directors' remuneration	60,000	
Salaries	90,000	
Rent	1,35,000	
Interest	1,05,000	
Depreciation	30,000	
Office expenses	1,05,000	
Preliminary expenses (to be written off in first year itself)	<u>15,000</u>	
		<u>17,74,200</u>
Profit		<u>2,05,800</u>

Sales from June, 2019 to December, 2019 were 2½ times of the average sales, which further increased to 3½ times in January to March quarter, 2019. The company recruited additional work force to expand the business. The salaries from July, 2019 doubled. The company also acquired additional showroom at monthly rent of ₹ 10,000 from July, 2019.

You are required to prepare a statement showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods.

- (b) L Ltd. has its head office at Mumbai and two branches at Pune and Goa. The branches purchase goods independently. Pune branch makes a profit of one third on cost and Goa branch makes a profit of 20% on sales. Goods are also supplied by one branch to another at the respective sales price. From the following particulars, prepare the Trading and Profit and Loss Account of Pune branch and find out the profit or loss made by it considering the reserve for unrealised profits:

Particulars	Pune Branch ₹	Goa Branch ₹
Opening Stock	40,000	30,000
Purchases (Including Inter Branch transfers)	2,00,000	2,50,000
Sales	2,80,000	2,95,625

Chargeable Expenses	15,000	27,500
Closing Stock	30,000	43,500
Office and Administration Expenses	13,250	7,000
Selling and Distribution Expenses	15,000	10,000

Information:

- (i) Opening stock at Pune Branch includes goods of ₹ 10,000 (invoice price) taken from Goa Branch.
 - (ii) Opening stock at Goa Branch includes goods of invoice price ₹ 17,000 taken from Pune Branch.
 - (iii) The Pune Branch sales includes transfer of goods to Goa Branch at selling price ₹ 20,000
 - (iv) The sales of Goa Branch include transfer of goods to Pune Branch at selling price ₹ 15,000.
 - (v) Closing stock at Pune Branch includes goods received from Goa Branch (invoice price ₹ 5,000).
 - (vi) Closing stock at Goa Branch includes goods of ₹ 4,000 (invoice price).
- (c) Ganesh Ltd. has head office at Delhi (India) and branch at New York. New York branch is an integral foreign operation of Ganesh Ltd. New York branch furnishes you with its trial balance as on 31st March, 2020 and the additional information given thereafter:

	Dr. (\$)	Cr. (\$)
Stock on 1st April, 2019	300	—
Purchases and sales	800	1,500
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Sundry expenses	1,080	—
Bank balance	420	—
Delhi office A/c	—	1,080
	3,120	3,120

The rates of exchange may be taken as follows:

- on 1.4.2019 @ ₹ 40 per US \$
- on 31.3.2020 @ ₹ 42 per US \$
- average exchange rate for the year @ ₹ 41 per US \$.

New York branch account showed a debit balance of ₹ 44,380 on 31.3.2020 in Delhi books and there were no items pending reconciliation.

You are asked to prepare trial balance of New York in ₹ in the books of Ganesh Ltd.

(10 + 6 + 4 = 20 Marks)

6. (a) The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st March, 2021.

Share capital: 40,000 Equity shares of ₹ 10 each fully paid – ₹ 4,00,000; 1,000 10% Redeemable preference shares of ₹ 100 each fully paid – ₹ 1,00,000.

Reserve & Surplus: Capital reserve – ₹ 50,000; Securities premium – ₹ 50,000; General reserve – ₹ 75,000; Profit and Loss Account – ₹ 35,000

On 1st April 2020, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

- (b) X Ltd. (a non-investment company) provides the following information as on 31st March, 2021 was obtained:

	₹
<u>Issued and subscribed capital:</u>	
15,000, 14% Preference shares of ₹ 100 each fully paid	15,00,000
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
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,25,000

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

- (c) Mr. Aman is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Aman for the financial year 2020-21, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information:

On 31 st March, 2020	
Sundry Assets	₹ 16,65,000
Liabilities	₹ 4,13,000
On 31 st March, 2021	
Sundry Assets	₹ 28,40,000
Liabilities	₹ 5,80,000
Mr. Aman's drawings for the year 2020-21	₹ 32,000 per month
Income declared to the Income Tax Officer	₹ 9,12,000

During the year 2020-21, one life insurance policy of Mr. Aman was matured and amount received ₹ 50,000 was retained in the business.

State whether the Income Tax Officer's contention is correct. Explain by giving your working.

OR

A acquired on 1st January, 2021 a machine under a Hire-Purchase agreement which provides for 5 half-yearly instalments of ₹ 6,000 each, the first instalment being due on 1st July, 2021. Assuming that the applicable rate of interest is 10 per cent per annum, calculate the cash value of the machine. All working should form part of the answer.

- (d) ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom-made machine amounting to ₹ 4,00,000. As on 31st March, 2021 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is 'NIL'. Show the treatment of machine in the books of ABC Ltd.

(4 Parts x 5 Marks = 20 Marks)