

MOCK TEST PAPER
INTERMEDIATE (IPC) : GROUP – I
PAPER – 1: ACCOUNTING

Question No. 1 is compulsory.

*Answer any **five** questions from the remaining **six** 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) Om Ltd. decides to absorb Shanti Ltd. on 1st September, 2020. The relevant information of Shanti Ltd. on the date of absorption is as follows:

	₹
Share Capital:	
5,000 9% Preference shares of ₹ 100 each (Fully paid up)	5,00,000
12,500 Equity shares of ₹100 each (Fully paid up)	12,50,000
Reserves	7,50,000
6% Debentures	5,00,000
Trade payables	2,50,000
Sundry Assets	32,50,000

Om Ltd. has agreed:

- (i) To pay ₹ 20 per share in cash to equity shareholders of Shanti Ltd. and will issue six equity shares of ₹ 100 each in lieu of every five equity shares held in Shanti Ltd.
- (ii) To issue 9% Preference shares of ₹ 100 each, in the ratio of 3 shares of Om Ltd. for 4 Preference shares in Shanti Ltd.
- (iii) To issue 8% debentures at ₹ 96 in lieu of 6% debentures in Shanti Ltd. which are to be redeemed at a premium of 20%.

You are required to calculate the purchase consideration.

- (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) What do you mean by the term “cash and cash equivalent” as per AS 3? From the following information of XYZ Limited, calculate cash and cash equivalent as on 31-03-2019:

Particulars	Amount (₹)
Cash balance with Bank	10,000
Fixed Deposit created on 01-11-2018 and maturing on 15-07-2019	75,000
Short Term Investment in highly liquid Sovereign Debt Mutual fund made on 01-03-2019 (having maturity period of less than 3 months)	1,00,000
Bank Balance in a Foreign Currency Account in India (Conversion Rate: on the day of deposit ₹ 69/USD; ₹ 70/USD as on 31-03-2019)	\$ 1,000
Debentures purchased of ₹ 10 lacs of A Ltd., which are redeemable on 31 st October, 2019	90,000
Shares of Alpha Ltd. purchased on 1 st January, 2019	60,000

- (d) Akar Ltd. Signed on 01/04/19, a construction contract for ₹ 1,50,00,000. Following particulars are extracted in respect of contract, for the period ending 31/03/20.

- Materials used ₹ 71,00,000
 - Labour charges paid ₹ 36,00,000
 - Hire charges of plant ₹ 10,00,000
 - Other contract cost incurred ₹ 15,00,000
 - Labour charges of ₹ 2,00,000 are still outstanding on 31.3.20.
 - It is estimated that by spending further ₹ 33,50,000 the work can be completed in all respect.
- You are required to compute profit/loss for the year to be taken to Profit & Loss Account and additional provision for foreseeable loss to be recognized as per AS 7.

(4 Parts x 5 Marks = 20 Marks)

2. 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, 2020:

	₹		₹
Inventory 1.4.2019	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 (2,00,000 shares of ₹ 10 each)	20,00,000
Furniture & Fixtures	1,50,000	Bank Overdraft	12,67,000
Purchases	12,32,500		
Wages	13,68,000	Trade Payables (for goods)	2,40,500
Freehold Land	16,25,000	Sales	36,17,000
Plant & Machinery	7,50,000	Rent (Cr.)	30,000
Engineering Tools	1,50,000	Transfer fees received	6,500
Trade Receivables	4,00,500	Profit & Loss A/c (Cr.)	67,000
Advertisement	15,000		

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, 2020 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, 2020 was ₹ 7,08,000. Outstanding liabilities for wages ₹ 25,000 and business expenses ₹ 36,000.

Charge depreciation on closing written down amount 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%. **(16 Marks)**

3. (a) Parth Ltd, had laid down the following terms upon the sanction of the reconstruction plan by the court-
1. Furniture and Fixtures which stood at the books at ₹ 1,50,000 to be written down to ₹ 95,000. The freehold premises which was valued at ₹ 7,00,000 showed an appreciation of ₹ 55,000.
 2. Plant and machinery showed fall in value of ₹ 89,000, to be recorded in the books. Investment at ₹ 2,00,000 was brought down to the existing market value at ₹ 1,05,000.
 3. Debenture holders have accepted to receive the following in lieu of their present 9% debentures of ₹ 2,50,000-
 - a. 1/5th of the total to be paid in cash to them.
 - b. To take over the land and buildings of value ₹ 72,000.
 - c. To forgo the remaining unpaid portion as a policy of reconstruction.

Write off the profit and loss A/c debit balance at ₹ 70,000 which has been accumulated over the years. In case of any shortfall, the balance of the General reserve of ₹ 1,50,000 can be utilized to write off the losses under reconstruction scheme.

Show the necessary journal entries as part of the reconstruction process considering that balance in general reserve utilized to write off the losses as per reconstruction scheme.

- (b) Prepare the General Ledger Adjustment Account as will appear in the Creditors' Ledger from the information given below:

	Dr. ₹	Cr. ₹
Balances on 1.4.2019		
Debtors' Ledger	47,200	240
Creditors' Ledger	280	26,300
Transactions for the year ended 31.3.2020:		
Total sales	1,20,000	
Cash sales	8,000	
Total purchases	89,500	
Credit purchases	67,000	
Creditors paid off (in full settlement of ₹ 40,000)	39,500	
Received from debtors (in full settlement of ₹ 59,000)	58,200	
Returns from debtors	2,600	
Returns to creditors	1,800	
Bills accepted for creditors	5,500	

Bills payable matured	8,000	
Bills accepted by debtors	20,100	
Bills receivables dishonoured	1,500	
Bills receivable discounted	5,000	
Bills receivable endorsed to creditors	4,000	
Endorsed bills dishonoured	1,000	
Bad debts written off (after deducting bad debts recovered ₹ 300)	2,200	
Provision for doubtful debts	550	
Transfer from debtors' ledger to creditors' ledger	3,000	
Balances on 31.3.2020		
Debtors' ledger (Cr.)	380	
Creditors' ledger (Dr.)	420	

(8 + 8 = 16 Marks)

4. Following is the summary of Receipts and Payments of Curefit Clinic for the year ended 31st March, 2020:

	₹
Opening Cash Balance	56,000
Donation Received (including ₹ 50,000 for Building Fund.)	1,55,000
Payment to creditors for Medicines Supply	2,10,000
Salaries	70,000
Purchase of Medical Equipments	1,05,000
Medical Camp Collections	87,500
Subscription Received	3,50,000
Interest on Investments @9% p.a.	63,000
Honorarium to Doctors	1,90,000
Telephone Expenses	6,000
Medical camp expenses	10,500
Miscellaneous expenses	7,000

Addition information:

	01.04.2019 ₹	31.03.2020 ₹
Subscription Due	10,500	15,400
Subscription Received in Advance	8,400	4,900
Stock of Medicine	70,000	1,05,000
Medical Equipments	1,47,000	2,14,200
Building	3,50,000	3,15,000
Creditor for Medicine Supply	63,000	91,000
Investments	7,00,000	7,00,000

You are required to prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March, 2020 and the Balance Sheet as on 31st March, 2020. **(16 Marks)**

5. (a) 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.

- (b) A fire occurred in the premises of M/s. Fireproof on 31st August, 2020. From the following particulars relating to the period from 1st April, 2020 to 31st August, 2020, you are requested to ascertain the amount of claim to be filed with the insurance company for the loss of stock. The concern had taken an insurance policy for ₹ 60,000 which is subject to an average clause.

		₹
(i)	Stock as per Balance Sheet at 31-03-2020	99,000
(ii)	Purchases	1,70,000
(iii)	Wages (including wages for the installation of a machine ₹ 3,000)	50,000
(iv)	Sales	2,42,000
(v)	Sale value of goods drawn by partners	15,000
(vi)	Cost of goods sent to consignee on 16 th August, 2020, lying unsold with them	16,500
(vii)	Cost of goods distributed as free samples	1,500

While valuing the stock at 31st March, 2020, ₹ 1,000 were written off in respect of a slow moving item. The cost of which was ₹ 5,000. A portion of these goods were sold at a loss of ₹ 500 on the original cost of ₹ 2,500. The remainder of the stock is now estimated to be worth the original cost. The value of goods salvaged was estimated at ₹ 20,000. The average rate of gross profit was 20% (on sales) throughout.

(8 + 8 = 16 Marks)

6. Ram, Shyam and Laxman are in partnership sharing Profit & Loss equally. Interest on partner's capital and remuneration to partners not to be provided as agreed among partners.

On 31st March, 2019 their Balance Sheet stood as follows:

Liability	Amount ₹	Assets	Amount ₹
Capital A/c - Ram	2,70,000	Building	4,50,000
Capital A/c - Shyam	2,40,000	Plant & Machinery	90,000
Capital A/c - Laxman	2,40,000	Furniture & Fittings	69,000
Current A/c - Ram	4,200	Closing Stock	27,000

Current A/c- Shyam	6,000	Sundry Debtors	60,600
Sundry Creditors	24,600	Cash at Bank	85,200
		Current A/c - Laxman	<u>3,000</u>
Total	<u>7,84,800</u>	Total	<u>7,84,800</u>

On 31st July, 2019 Ram died. According to the partnership deed, on the death of partner, the sum to be paid to his estate will be:

- the amount of his capital and current account balance at the end of last financial year.
- his share of profit for the relevant part of the year of death.
- his share of goodwill.

Goodwill is to be valued at two years purchase of the average profit of immediately preceding three accounting years.

The profit as per Books of Accounts were as follows:

For accounting year ended 31st March, 2016 ₹ 86,700

For accounting year ended 31st March, 2017 ₹ 143,200

For accounting year ended 31st March, 2018 ₹ 1,07,600

No goodwill account is to remain in the books after any change in the partnership's constitution. The stock value at 31st July has been calculated and all other accounts balanced off, including provision for depreciation, accrued expenses and prepaid expenses.

This results in the following position of assets and liabilities at 31st July 2019:

	₹		₹
Building	4,50,000	Stock	33,000
Plants & Machinery (including addition of ₹ 12,000)	97,700	Sundry Debtors	66,900
Furniture & Fittings	66,700	Cash at Bank	1,01,100
		Sundry Creditors	29,400

There were no additions to, or reduction in the capital accounts during the four months, but the following drawings have been made by the partners:

Ram ₹ 60,000 Shyam ₹ 48,000 Laxman ₹ 54,000

It has also been agreed that the share of deceased partner should be repaid in three equal installments, the first payment being made on the day after the day of death.

On 1st August 2019, Ram's son Shankar was admitted in to partnership as a new partner and agreed that he would bring in to the business ₹ 1,20,000 as his capital together with a premium for his share of goodwill using the existing valuation.

The new profit sharing ratio Shyam: 2/5th, Laxman: 2/5th and Shankar: 1/5th.

You are required to prepare the partnership firm's Balance Sheet as at 1st August 2019, on the assumption that the above transactions have been completed by that date. **(16 Marks)**

7. Answer any **four** out of the following:

- Following items appear in the Trial Balance of Hello Ltd. as on 31st March, 2020:

Particulars	Amount
9,000 Equity Shares of ₹100 each	9,00,000

Securities Premium	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. Pass necessary Journal Entries in the books of Hello Ltd.

- (b) On 1st April, 2017, X Ltd. sells a Trucks on hire purchase basis to Transporters & Co. for a total purchase price of ₹ 18,00,000 payable as to ₹ 4,80,000 as down payment and the balance in three equal annual instalments of ₹ 4,40,000 each payable on 31st March 2018, 2019 and 2020.

The hire vendor charges interest @ 10% per annum.

You are required to ascertain the cash price of the truck for Transporters & Co. Calculations may be made to the nearest rupee.

- (c) Accounting software is an invaluable source for modern business. Explain the criteria for selection of such Accounting software.
- (d) X, Y, Z were partners in a firm sharing Profit & Loss in ratio of 2 : 1 : 1. The firm took a joint life policy on the lives of all the partners of assured value of ₹ 2,00,000. The firm also took separate life policies of partners as follows:

	Assured values
X	1,50,000
Y	2,00,000
Z	3,00,000

The premium paid for separate life policies was debited to Profit & Loss A/c. Surrender value of all policies is 50%.

You are required to calculate the share of life policies which X's executors will get in event of X's death presuming that JLP did not appear in the balance sheet of the firm.

- (e) 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 2018-19, 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, 2018	
Sundry Assets	₹16,65,000
Liabilities	₹4,13,000
On 31 st March, 2019	
Sundry Assets	₹28,40,000
Liabilities	₹5,80,000
Mr. Aman's drawings for the year 2018-19	₹32,000 per month
Income declared to the Income Tax Officer	₹9,12,000

During the year 2018-19, 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.

(4 x 4 Marks = 16 Marks)