

MOCK TEST PAPER – 2
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) Arush Ltd. is installing a new plant in its factory. It provides you the following information:

Cost of the plant (cost as per supplier's invoice)	₹ 31,25,000
Estimated dismantling costs to be incurred after 5 years	₹ 2,50,000
Initial delivery and handling costs	₹ 1,85,000
Cost of site preparation	₹ 4,50,000
Consultants used for advice on the acquisition of the plant	₹ 6,50,000

Please advise Arush Ltd. on the costs that can be capitalised for plant in accordance with AS 10 'Property, Plant and Equipment'.

- (b) In the books of Rani Ltd., closing inventory as on 31.03.2020 amounts to ₹ 1,75,000 (valued on the basis of FIFO method). The Company decides to change from FIFO method to weighted average method for ascertaining the costs of inventory from the year 2019-20. On the basis of weighted average method, closing inventory as on 31.03.2020 amounts to ₹ 1,59,000. Realizable value of the inventory as on 31.03.2020 amounts to ₹ 2,07,000. Discuss disclosure requirements of change in accounting policy as per AS 1.
- (c) A contractor firm obtained a contract for construction of bridge. The following details are available in the records kept for the year ended March 31, 2021:

(₹ in Crore)

Total Contract Price	500
Work Certified	250
Work not Certified	80
Estimated further Cost to Completion	220
Progress Payment Received	200
To be Received	70

You are required to calculate :

- (i) The amount of revenue to be recognized.
- (ii) The amount of profit or loss to be recognized.
- (iii) The amount due from/ to customers.

Also present relevant disclosures as per AS-7 (Revised).

- (d) You are required to value the inventory per kg of finished goods consisting of:

	₹ per kg.
Material cost	200
Direct labour	40
Direct variable overhead	20

Fixed production charges for the year on normal working capacity of 2 lakh kgs is ₹ 20 lakhs. 4,000 kgs of finished goods are in stock at the year end.

(4 Parts x 5 Marks= 20 Marks)

2. (a) The following figures have been extracted from the books of Manan Limited for the year ended on 31.3.2020. You are required to prepare the Cash Flow statement as per AS 3 using indirect method.

- (i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 30 lakhs :
 - (a) Depreciation on Property, Plant & Equipment ₹ 7.50 lakhs.
 - (b) Discount on issue of Debentures written off ₹ 45,000.
 - (c) Interest on Debentures paid ₹ 5,25,000.
 - (d) Book value of investments ₹ 4.50 lakhs (Sale of Investments for ₹ 4,80,000).
 - (e) Interest received on investments ₹ 90,000.
- (ii) Compensation received ₹ 1,35,000 by the company in a suit filed.
- (iii) Income tax paid during the year ₹ 15,75,000.
- (iv) 22,500, 10% preference shares of ₹ 100 each were redeemed on 02-04-2019 at a premium of 5%.
- (v) Further the company issued 75,000 equity shares of ₹ 10 each at a premium of 20% on 30.3.2020 (Out of 75,000 equity shares, 25,000 equity shares were issued to a supplier of machinery)
- (vi) Dividend for FY 2018-19 on preference shares were paid at the time of redemption.
- (vii) Dividend on Equity shares paid on 31.01.2020 for the year 2018-2019 ₹ 7.50 lakhs and interim dividend paid ₹ 2.50 lakhs for the year 2019-2020.
- (viii) Land was purchased on 02.4.2019 for ₹ 3,00,000 for which the company issued 22,000 equity shares of ₹ 10 each at a premium of 20% to the land owner and balance in cash as consideration.
- (ix) Current assets and current liabilities in the beginning and at the end of the years were as detailed below :

	As on 01.04.2019	As on 31.3.2020
	₹	₹
Inventory	18,00,000	19,77,000
Trade receivables	3,87,000	3,79,650
Cash in hand	3,94,450	16,950
Trade payables	3,16,500	3,16,950
Outstanding expenses	1,12,500	1,22,700

- (b) From the following particulars, prepare Total Debtors Account in the general ledger:

Balance of Sundry Debtors as on 1-4-2021	Dr. (₹) 1,000
Transactions during April, 2021:	
Sales (including cash ₹ 6,000)	22,000
Cash received from customers (in full settlement of claims of ₹ 13,000)	12,000
Bills receivable received	3,580
Bills receivable endorsed	800
Endorsed B/R dishonoured	300
B/R discounted	1,400
Bills receivable dishonoured	400
Interest charged on dishonoured B/R	30
Transfer from Debtors Ledger to Creditors Ledger	600

(10+6= 16 marks)

3. The following is the Balance Sheet of Manish and Suresh as on 1st April, 2020:

Equity and Liabilities		Assets	
Capital Accounts:		Building	1,00,000
Manish	1,50,000	Machinery	65,000
Suresh	75,000	Stock	40,000
Creditors for goods	30,000	Debtors	50,000
Creditors for expenses	25,000	Bank	25,000
	<u>2,80,000</u>		<u>2,80,000</u>

They give you the following additional information:

- Creditors' Velocity 1.5 month & Debtors' Velocity 2 months. Here velocity indicates the no. of times the creditors and debtors are turned over a year.
- Stock level is maintained uniformly in value throughout all over the year.
- Depreciation on machinery is charged @ 10%, Depreciation on building @ 5% in the current year.
- Cost price will go up 15% as compared to last year and also sales in the current year will increase by 25% in volume.
- Rate of gross profit remains the same.
- Business Expenditures are ₹ 50,000 for the year. All expenditures are paid off in cash.
- Closing stock is to be valued on LIFO Basis.
- All sales and purchases are on credit basis and there are no cash purchases and sales.

You are required to prepare Trading, Profit and Loss Account, Trade Debtors Account and Trade Creditors Account for the year ending 31.03.2021.

(16 Marks)

4. Ajay, Vijay and Sanjay are partners sharing Profit & Loss in the ratio of 2:3:1. The Balance Sheet of the firm as on 31.03.2021 is as follows:

Equity and Liabilities	₹	Assets	₹
Capital A/c:		Furniture & Fixture	30,000
Vijay's Capital	85,000	Office equipment	20,000
Sanjay's Capital	68,000	Motor Car	60,000
General Reserve A/c	30,000	Stock	40,000
Sundry Creditors	25,000	Sundry Debtors	20,000
		Cash at Bank	18,000
		Ajay's Capital	20,000
	2,08,000		2,08,000

Kamal is admitted as a new partner with effect from 1st April, 2021 by receiving 1/4 share in the profit & loss of the firm. The profit or loss sharing ratios between other partners remain same as before. It was agreed that Kamal would bring some private furniture worth ₹ 3,000 and private stock worth ₹ 5,000 and balance in cash towards his capital.

The following adjustments are to be made prior to Kamal admission:

1. Goodwill of the firm is to be valued at 2 years purchase of the average profit of last 3 years. The profits for the last 3 years were ₹ 35,900, ₹ 38,200 and ₹ 31,500. However on checking of the past records it was noticed that on 01.04.17 a new furniture costing, ₹ 8,000 was purchased but wrongly debited to revenue and also in year 2018-19, a purchase invoice for ₹ 4,000 has been omitted in the book. The firm charged depreciation on furniture @ 10% on original cost. Your calculation of goodwill is to be made on the basis of correct profits. It is agreed among existing partners that Sanjay's interest in the goodwill of the firm is only up to value of ₹ 42,000.
2. Motor Car is taken over by Vijay at ₹ 70,000.
3. Office equipment is revalued at ₹ 25,000.
4. Expenses incurred but not paid of ₹ 6,500 are provided for.
5. Value of the stock is to be reduced by 5%.
6. Kamal is to bring proportionate capital. Capital of Vijay, Ajay and Sanjay are also to be adjusted in profit sharing ratio.

Assuming the above mentioned adjustments are duly carried out, show the revaluation account, partner's capital accounts and the Balance Sheet of the firm after Kamal's admission.

(16 Marks)

5. (a) A Fire occurred in the premises of M/s B & Co. on 30th September, 2019. The firm had taken an insurance policy for ₹ 1,20,000 which was subject to an average clause. Following particulars were ascertained from the available records for the period from 1st April, 2018 to 30th September, 2019:

	Amount (₹)
Stock at cost on 1-04-2018	2,11,000
Stock at cost on 31-03-2019 (after adjustment of written off amount in respect of slow-moving item)	2,52,000
Purchases during 2018-19	6,55,000
Wages during 2018-19	82,000
Sales during 2018-19	8,60,000
Purchases from 01-04-2019 to 30-09-2019 (including purchase of machinery costing ₹ 58,000)	4,48,000
Wages from 01-04-2019 to 30-09-2019 (including wages for installation of machinery costing ₹ 7,000)	85,000
Sales from 01-04-2019 to 30-09-2019	6,02,000
Sale value of goods drawn by partners (1-4-19 to 30-9-19)	52,000
Cost of Goods sent to consignee on 18 th September, 2019 lying unsold with them	44,800
Cost of Goods distributed as free samples(1-4-19 to 30-9-19)	8,500

While valuing the Stock at 31st March, 2019, ₹ 8,000 were written off in respect of a slow moving item, cost of which was ₹ 12,000. A portion of these goods was sold at a loss of ₹ 4,000 on the original cost of ₹ 9,000. The remainder of the stock is estimated to be worth the original cost. The value of Goods salvaged was estimated at ₹ 35,000.

You are required to ascertain the amount of claim to be lodged with the Insurance Company for the loss of stock.

- (b) Mr. PK purchased 1000 equity shares of ₹ 100 each in Savera Co. Ltd. for ₹ 1,25,000. Some years later the company resolved to capitalize its profit and to issue to the holders of equity shares, one equity bonus share for every share held by them. Prior to capitalization, the shares of Savera Co. Ltd. were quoted at ₹ 175 per share. After the capitalization, the shares were quoted at ₹ 92.50 per share. Mr. PK sold the bonus shares and received ₹ 90 per share.

Prepare the Investment Account in PK's books on average cost basis. **(12+4 = 16 marks)**

6. (a) S. Ltd. is absorbed by P. Ltd. S Ltd. gives the following information on the date of absorption:

Sundry Assets	13,00,000
Share capital:	
2,000 7% Preference shares of ` 100 each (fully paid-up)	2,00,000
5,000 Equity shares of ` 100 each (fully paid-up)	5,00,000
Reserves	3,00,000
6% Debentures	2,00,000
Trade payables	1,00,000

Additional information:

P. Ltd. has agreed:

- (i) to issue 9% Preference shares of ` 100 each, in the ratio of 3 shares of P. Ltd. for 4 preference shares in S. Ltd.
- (ii) to issue to the debenture-holders in S Ltd. 8% Mortgage Debentures at ` 96 in lieu of 6% Debentures in S. Ltd. which are to be redeemed at a premium of 20%;
- (iii) to pay ` 20 per share in cash and to issue six equity shares of ` 100 each issued at the market value ` 125 in lieu of every five shares held in S. Ltd.; and
- (iv) to assume the liability to trade payables.

You are required to calculate the purchase consideration.

- (b) What is meant by reconstruction of company? What are the methods of internal reconstruction generally followed by companies?
- (c) 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 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 had 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. (5 + 5 + 6 = 16 Marks)

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

- (a) Z Bank has classified its total investment on 31-3-2018 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI Guidelines. 'Held to maturity' investments are carried at acquisition cost less amortized amount. 'Available for sale' investments are carried at marked to market. 'Held for trading' investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored. You are required to comment whether the policy of the bank is in accordance with AS 13?
- (b) "Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements." Discuss and explain the benefits of Accounting Standards.
- (c) The following information of Gaurav Ltd. was obtained as on 31st March, 2021:

Authorized capital:	
90,000, 14% preference shares of ` 100	90,00,000
9,00,000 Equity shares of Rupee100 each	<u>9,00,00,000</u>
	<u>9,90,00,000</u>
Issued and subscribed capital:	
67,500, 14% preference shares of ` 100 each fully paid	67,50,000
5,40,000 Equity shares of ` 100 each, ` 80 paid-up	4,32,00,000
Share suspense account	90,00,000
Reserves and surplus:	
Capital reserves (` 6,75,000 is revaluation reserve)	8,77,500
Securities premium	2,25,000
Secured loans:	
15% Debentures	2,92,50,000
Unsecured loans:	
Public deposits	16,65,000
Cash credit loan from SBI (short term)	5,92,500
Current Liabilities:	
Trade Payables	15,52,500
Assets:	
Investment in shares, debentures, etc.	3,37,50,000
Profit and Loss account (Dr. balance)	68,62,500

Share suspense account represents application money received on shares, the allotment of which is not yet made. You are required to compute effective capital as per the provisions of Schedule V if Gaurav Ltd. is a non-investment company?

- (d) The following particulars relate to hire purchase transactions:
- (a) X purchased three cars from Y on hire purchase basis, the cash price of each car being ` 2,00,000.
- (b) The hire purchaser charged depreciation @ 20% on diminishing balance method.
- (c) Two cars were seized by on hire vendor when second instalment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.

(d) The hire vendor spent ₹ 10,000 on repairs of the cars and then sold them for a total amount of ₹ 1,70,000.

You are required to compute:

- (i) Agreed value of two cars taken back by the hire vendor.
 - (ii) Book value of car left with the hire purchaser.
 - (iii) Profit or loss to hire purchaser on two cars taken back by their hire vendor.
 - (iv) Profit or loss of cars repossessed, when sold by the hire vendor.
- (e) The Business carried on by Kamal under the name "K" was taken over as a running business with effect from 1st April, 2020 by Sanjana Ltd., which was incorporated on 1st July, 2020. The same set of books was continued since there was no change in the type of business and the following particulars of profits for the year ended 31st March, 2021 were available.

	₹	₹
Sales: Company period	40,000	
Prior period	<u>10,000</u>	50,000
Selling Expenses	3,500	
Preliminary Expenses written off	1,200	
Salaries	3,600	
Directors' Fees	1,200	
Interest on Capital (Up to 30.6.2020)	700	
Depreciation	2,800	
Rent	4,800	
Purchases	25,000	
Carriage Inwards	<u>1,019</u>	<u>43,819</u>
Net Profit		<u>6,181</u>

The purchase price (including carriage inwards) for the post-incorporation period had increased by 10 percent as compared to pre-incorporation period. No stocks were carried either at the beginning or at the end.

You are required to prepare a statement showing the amount of pre and post incorporation period profits stating the basis of allocation of expenses.

(4 parts x 4 Marks = 16 Marks)