

MOCK TEST PAPER – 2
INTERMEDIATE (IPC) : GROUP – I
PAPER – 1: ACCOUNTING

ANSWERS

1. (a) (i) As per AS 2 'Valuation of Inventories', certain costs are excluded from the cost of the inventories and are recognised as expenses in the period in which incurred. Examples of such costs are:
- (a) abnormal amount of wasted materials, labour, or other production costs;
 - (b) storage costs, unless those costs are necessary in the production process prior to a further production stage;
 - (c) administrative overheads that do not contribute to bringing the inventories to their present location and condition; and
 - (d) selling and distribution costs.
- (ii) As per AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value. In this case, the cost of inventory is Rs. 10 lakhs. The net realizable value is $11,00,000 \times 90\% = \text{Rs. } 9,90,000$. So, the stock should be valued at Rs. 9,90,000.
- (b) As per AS 9 "Revenue Recognition", "where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty involved. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made". In this case, the company never realized interest for the delayed payments made by the agent. Hence, based on the past experience, the realization of interest for the delayed payments by the agent is very much uncertain. The interest should be recognized only if the ultimate collection is certain. Therefore, the interest income of Rs. 5 lakhs should not be recognized in the books for the year ended 31st March, 2021. Thus the contention of accountant is incorrect. However, if the agents have agreed to pay the amount of interest and there is an element of certainty associated with these receipts, the accountant is correct regarding booking of Rs. 5 lakhs as interest amount.
- (c) Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired. These costs are not be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The costs to be incurred by the company are in the nature of costs of reducing or reorganizing the operations of the accompany. These costs do not meet that requirement of AS 10 "Property, Plant and Equipment" and cannot, therefore, be capitalized.
- (d) (i) **False;** As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.
- (ii) **False;** As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
- (iii) **True;** To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed at one place.

- (iv) **False;** Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- (v) **True;** As per AS 1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.

2.

Journal Entries in the books of Weak Ltd.

		Rs.	Rs.
(i)	Equity share capital (Rs. 100) A/c Dr. To Equity Share Capital (Rs. 40) A/c To Capital Reduction A/c (Being conversion of equity share capital of Rs. 100 each into Rs. 40 each as per reconstruction scheme)	1,00,00,000	40,00,000 60,00,000
(ii)	12% Cumulative Preference Share capital (Rs. 100) A/c Dr. To 12% Cumulative Preference Share Capital (Rs. 60) A/c To Capital Reduction A/c (Being conversion of 12% cumulative preference share capital of Rs. 100 each into Rs. 60 each as per reconstruction scheme)	50,00,000	30,00,000 20,00,000
(iii)	10% Debentures A/c Dr. To 12% Debentures A/c To Capital Reduction A/c (Being 12% debentures issued to 10% debenture-holders for 70% of their claims. The balance transferred to capital reduction account as per reconstruction scheme)	40,00,000	28,00,000 12,00,000
(iv)	Trade payables A/c Dr. To Equity Share Capital A/c To Capital Reduction A/c (Being a creditor of Rs. 20,00,000 agreed to surrender his claim by 40% and was allotted 30,000 equity shares of Rs. 40 each in full settlement of his dues as per reconstruction scheme)	20,00,000	12,00,000 8,00,000
(v)	Provision for Taxation A/c Dr. Capital Reduction A/c Dr. To current assets (bank A/c) A/c (Being liability for taxation settled)	1,00,000 50,000	1,50,000
(vi)	Capital Reduction A/c Dr. To P & L A/c To Property, plant and equipment A/c To Current Assets A/c To Investments A/c	99,00,000	6,00,000 37,50,000 55,00,000 50,000

	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Property, plant and equipment, Current Assets, Investments through capital reduction account)		
(vii)	Capital Reduction A/c Dr To Capital Reserve A/c (Being balance in capital reduction account transferred to capital reserve account)	50,000	50,000

Balance Sheet of Weak Ltd. (and reduced) as on 31.3.2021

Particulars		Notes	Rs.
Equity and Liabilities			
1 Shareholders' funds			
a Share capital		1	82,00,000
b Reserves and Surplus		2	50,000
2 Non-current liabilities			
a Long-term borrowings		3	28,00,000
3 Current liabilities			
a Trade Payables			30,00,000
Total			1,40,50,000
Assets			
1 Non-current assets			
a Property, plant and equipment		4	87,50,000
b Investments		5	9,50,000
2 Current assets		6	43,50,000
Total			1,40,50,000

Notes to accounts

	Rs.
1. Share Capital	
Equity share capital	
Issued, subscribed and paid up	
1,30,000 equity shares of Rs. 40 each	52,00,000
Preference share capital	
Issued, subscribed and paid up	
50,000 12% Cumulative Preference shares of Rs. 60 each	30,00,000
Total	82,00,000
2. Reserves and Surplus	
Capital Reserve	50,000
3. Long-term borrowings	
Secured	

12% Debentures		28,00,000
4. Property, plant and equipment	1,25,00,000	
Adjustment under scheme of reconstruction	(37,50,000)	87,50,000
5. Investments	10,00,000	
Adjustment under scheme of reconstruction	(50,000)	9,50,000
6. Current assets	45,00,000	
Adjustment under scheme of reconstruction	(1,50,000)	43,50,000

Working Note:

Capital Reduction Account

	Rs.		Rs.
To Current Asset	50,000	By Equity share capital	60,00,000
To P & L A/c	6,00,000	By 12% Cumulative preference share capital	20,00,000
To PPE	37,50,000	By 10% Debentures	12,00,000
To Current assets	55,00,000	By Trade payables	8,00,000
To Investment	50,000		
To Capital Reserve (bal. fig.)	50,000		
	<u>1,00,00,000</u>		<u>1,00,00,000</u>

3. (a) Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods for the year ended 31st March, 2020

Particulars	Total	Allocation basis	Pre-incorporation Rs.	Post-incorporation Rs.
Gross Profit	3,90,800	Sales	39,080	3,51,720
Less: Directors' fee	30,000	Post		30,000
Bad debts	7,200	Sales	720	6,480
Advertising	24,000	Time	6,000	18,000
Salaries & general expenses	1,28,000	Time	32,000	96,000
Preliminary expenses	10,000	Post		10,000
Donation to Political Party	10,000	Post		10,000
Net Profit	1,81,600			1,81,240
Pre-incorporation profit transferred to Capital Reserve			360	

Working Notes:

1. Sales ratio

Particulars	Rs.
Sales for period up to 30.06.2019 (4,80,000 X 3/6)	2,40,000
Sales for period from 01.07.2019 to 31.03.2020 (24,00,000 – 2,40,000)	21,60,000

Thus, Sales Ratio = 1 : 9

2. Time ratio

1st April, 2019 to 30 June, 2019: 1st July, 2019 to 31st March, 2020

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

- (b) (i) Current Liabilities/ Other Current Liabilities
(ii) Shareholders' Fund / Reserve & Surplus
(iii) Current liabilities/Other Current Liabilities
(iv) Contingent Liabilities and Commitments
(v) Shareholders' Fund / Share Capital
(vi) Non-Current Assets/ Property, Plant and Equipment
(vii) Shareholders' Fund / Money received against share warrants
(viii) Current Assets

(c) **Debtors Ledger Adjustment Account In General Ledger**

Dr. 2021		Rs.	2021		Cr. Rs.
Jan. 1	To Balance b/d	50,000	March 31	By General ledger	
March 31	To General ledger adjustment account:			adjustment account:	
	Sales [(100/120) x (1,80,000 - 4,800)]	1,46,000		Collection-cash and bank (70 % of the Rs. 1,96,000)	1,37,200
	Creditors-bill receivable dishonoured	6,000		Discount	20,000
	Bank-cheques dishonoured	8,000		Bills receivable	30,000
				Bad debts (6,000+2,000)	8,000
				By Balance c/d	<u>14,800</u>
		<u>2,10,000</u>			<u>2,10,000</u>

4. **Receipts and Payments Account of Tiger Club
for the year ended 31st March, 2020**

Receipts	Rs.	Payments	Rs.
To Opening balance:		By Premises	60,000
Cash on hand	900	By Rent	4,800
Bank balance	48,840	By Rates and taxes	7,560
To Subscriptions	1,24,260	By Printing and stationary	2,820
To Fair receipts	14,400	By Sundry expenses	10,700
To Variety show receipts (net)	25,620	By Wages	5,040
To Interest	1,380	By Fair expenses	14,340
To Bar collections	44,700	By Honorarium to secretary	22,000
To Sale proceeds of old car	18,000	By Bar purchases (payments)	34,620
		By Repairs	1,920

		By New Car	93,600
		By Closing balance:	
		Cash in hand	Nil
		Bank balance	<u>20,700</u>
	<u>2,78,100</u>		<u>2,78,100</u>

Income and Expenditure Account for the year ended 31st March, 2020

<i>Expenditure</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Income</i>	<i>Rs.</i>	<i>Rs.</i>
To Rent		4,800	By Subscriptions	1,24,260	
To Rates and taxes		7,560	Add: Due as on 31.3.20	<u>5,880</u>	
To Printing and stationary		2,820		1,30,140	
To Wages		5,040	Less: Due as on 31.3.19	<u>(7,200)</u>	1,22,940
To Honorarium to secretary		24,000	By Surplus from fair:		
To Sundry expenses		10,700	Fair receipts	14,400	
To Repairs		1,920	Less: Fair expenses	<u>14,340</u>	60
To Depreciation on			By Surplus from variety show		25,620
Premises @ 5% *	6,060		By Interest		1,380
Car @20% of 93,600	<u>18,720</u>	24,780	By Profit from bar (W.N.2)		12,000
To Excess of income over expenditure		<u>86,980</u>	By Profit from sale of car (W.N. 3)		<u>6,600</u>
		<u>1,68,600</u>			<u>1,68,600</u>

Working Notes:

1. Calculation of bar purchases

Bar Creditors Account

<i>Dr.</i>			<i>Cr.</i>
	<i>Rs.</i>		<i>Rs.</i>
To Bank A/c	34,620	By Balance b/d	3,540
To Balance c/d	<u>2,580</u>	By Bar purchases	<u>33,660</u>
	<u>37,200</u>		<u>37,200</u>

2.

Profit from bar

	<i>Rs.</i>	<i>Rs.</i>
Bar collections		44,700
Less: Bar inventory consumed-		
Opening inventory	4,260	
Add: Purchases	<u>33,660</u>	
	37,920	
Less: Closing inventory	<u>5,220</u>	<u>32,700</u>
		<u>12,000</u>

* $[(1,74,000 - 1,12,800) \times 0.05 + 60,000 \times 0.05]$

3. **Profit on sale of car**

	Rs.
Sale proceeds of old car	18,000
Less: W.D.V. of old car (Rs. 73,140-Rs. 61,740)	<u>11,400</u>
	<u>6,600</u>

5. (a) **Investment Account for the year ending on 31st December, 2020**

Scrip : 8% Convertible Debentures in C Ltd.

[Interest Payable on 31st March and 30th September]

Date	Particulars	Nominal value Rs.	Interest Rs.	Cost Rs.	Date	Particulars	Nominal Value (Rs.)	Interest (Rs.)	Cost (Rs.)
1.4.20	To Bank A/c	2,00,000	-	2,16,000	30.09.20	By Bank A/c	-	12,000	-
1.7.20	To Bank A/c (W.N.1)	1,00,000	2,000	1,10,000		[Rs.3,00,000 x 8% x (6/12)]			
31.12.20	To P & L A/c [Interest]	-	14,033	-	1.10.20	By Bank A/c	80,000		84,000
					1.10.20	By P & L A/c (loss) (W.N.3)			2,933
					1.12.20	By Bank A/c (Accrued interest) (Rs. 55,000 x .08 x 2/12)		733	
					1.12.20	By Equity shares in C Ltd. (W.N. 3 and 4)	55,000		59,767
					31.12.20	By Balance c/d (W.N.5)	<u>1,65,000</u>	<u>3,300</u>	<u>1,79,300</u>
		<u>3,00,000</u>	<u>16,033</u>	<u>3,26,000</u>			<u>3,00,000</u>	<u>16,033</u>	<u>3,26,000</u>

SCRIP: Equity Shares in C LTD.

Date	Particulars	Cost (Rs.)	Date	Particulars	Cost (Rs.)
1.12.20	To 8 % debentures	<u>59,767</u>	31.12.20	By balance c/d	<u>59,767</u>

Working Notes:

(i) Cost of Debenture purchased on 1st July = Rs.1,12,000 – Rs.2,000 (Interest) = Rs.1,10,000

(ii) Cost of Debentures sold on 1st Oct.

$$= (\text{Rs.}2,16,000 + \text{Rs.}1,10,000) \times 80,000/3,00,000 = \text{Rs.} 86,933$$

(iii) Loss on sale of Debentures = Rs. 86,933– Rs.84,000 = Rs.2,933

Nominal value of debentures converted into equity shares =Rs. 55,000

$$[(\text{Rs.} 3,00,000 - 80,000) \times .25]$$

Interest received before the conversion of debentures

$$\text{Interest on 25\% of total debentures} = 55,000 \times 8\% \times 2/12 = 733$$

(iv) Cost of Debentures converted = (Rs. 2,16,000 + Rs.1,10,000) x 55,000/3,00,000 = Rs. 59,767

(v) Cost of closing balance of Debentures = (Rs. 2,16,000 + Rs.1,10,000) x 1,65,000 / 3,00,000 = Rs. 1,79,300

(vii) Closing balance of Debentures has been valued at cost.

(viii) 5,000 equity Shares in C Ltd. will be valued at cost of Rs. 59,767 being lower than the market value Rs. 75,000 (Rs. 15 x 5,000)

Note: It is assumed that interest on debentures, which are converted into cash, has been received at the time of conversion.

(b) Memorandum Trading Account for the Period from 1.1.2020 to 30.6.2020

	Rs.		Rs.
To Opening Stock (1.1.2020)	1,50,000	By Sales	11,50,000
To Purchases	9,50,000	Less: Sales	
Less: Returns	(12,500)	Returns	(40,000)
To Cartage Inwards	17,500	By Closing Stock	2,80,000
To Wages	7,500	(Bal. Fig.)	
To Gross Profit	2,77,500		
(25% of Rs. 11,10,000)			
	13,90,000		13,90,000

Stock Destroyed Account

	Rs.		Rs.
To Trading Account	2,80,000	By Stock Salvaged Account	20,000
		By Balance c/d (For Claim)	2,60,000
	2,80,000		2,80,000

Statement of Claim

Items	Cost (Rs.)	Depreciation (Rs.)	Salvage (Rs.)	Claim (Rs.)
A	B	C	D	(E=B-C-D)
Stock	2,80,000		20,000	2,60,000
Buildings	3,75,000	1,25,000 + 9,375	4,000	2,36,625
Equipment	75,000	22,500 + 5,625	2,500	44,375
				5,41,000

6. Partners' Capital Accounts as on 1.4.2021

	Anuj	Ayush	Piyush		Anuj	Ayush	Piyush
To Anuj		22,950	68,850	By Balance b/d	3,75,000	2,80,000	2,25,000
To Revaluation Loss	37,400	37,400	18,700	By General Reserves	75,200	75,200	37,600
To Bank FD	2,34,000			By Ayush and Piyush	91,800		
To 8% Loan	2,70,600			By Cash (Bal. fig.)	-	8,600	1,28,400
To Balance c/d*		3,03,450	3,03,450		5,42,000	3,63,800	3,91,000
	5,42,000	3,63,800	3,91,000				

Balance Sheet as on 1.4.2021 after Anuj's retirement

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Anuj's Loan	2,70,600	Plant (90% of Rs. 7,87,000)	7,08,300

Creditors (2,16,000+10,000)	2,26,000	Stock (Rs. 1,03,000 less Rs. 6,000)	97,000
Capital Accounts*:		Debtors (95% of Rs. 1,56,000)	1,48,200
Ayush	3,03,450	Bank Balance	1,50,000
Piyush	<u>3,03,450</u>		
	<u>11,03,500</u>		<u>11,03,500</u>

*Total of capital balances should be Rs. 6,06,900 which is proportioned to individual partners in their profit sharing ratio.

Working Notes:

1. Profit / Loss on revaluation

Revaluation Account

	Amount (Rs.)		Amount (Rs.)
To Plant	78,700	By Interest on FD	9,000
To Creditors	10,000	By Loss on revaluation	93,500
To Inventory	6,000		
To Provision for doubtful debts	<u>7,800</u>		
	<u>1,02,500</u>		<u>1,02,500</u>

2. Calculation of Goodwill

Goodwill Valuation

Profit of year ended	Rs.
31.3.2021 (Rs. 3,30,000 less Rs. 93,500)	2,36,500
31.3.2020	2,32,000
31.3.	<u>2,20,000</u>
Total Profits	<u>6,88,500</u>

Average Profit = $6,88,500/3 = 2,29,500$

Goodwill valued at 1 year purchase amounting Rs. 2,29,500.

3. Adjustment for goodwill among partners

Anuj's share of goodwill (2,29,500 x 2/5) = 91,800

Gaining ratio of Ayush and Piyush

Ayush	Piyush
$\frac{1}{2} - \frac{2}{5}$	$\frac{1}{2} - \frac{1}{5}$
$\frac{5-4}{10} = \frac{1}{10}$	$\frac{5-2}{10} = \frac{3}{10}$

Gaining Ratio = 1: 3

Entry for adjustment of goodwill

		Rs.	Rs.
Ayush's capital A/c	Dr.	22,950	

Piyush's capital A/c	Dr.	68,850	
To Anuj's capital A/c			91,800
(Being Anuj's share of goodwill debited to remaining partners in their gaining ratio)			

7. (a) There are many accounting softwares available in the market. To choose the accounting software appropriate to the need of the organization is a difficult task, some of the criteria for selection could be the following:

1. Fulfillment of business requirements: Some packages have few functionalities more than the others. The purchaser may try to match his requirement with the available solutions.
2. Completeness of reports: Some packages might provide extra reports or the reports match the requirements more than the others.
3. Ease of Use: Some packages could be very detailed and cumbersome compare to the others.
4. Cost: The budgetary constraints could be an important deciding factor. A package having more features cannot be opted because of the prohibitive costs.
5. Reputation of vendor: Vendor support is essential for any software. A stable vendor with good reputation and track records will always be preferred.
6. Regular updates: Law is changing frequently. A vendor who is prepared to give updates will be preferred to a vendor unwilling to give updates.

- (b) Statement showing cash value of the machine acquired on hire-purchase basis

	<i>Instalment Amount</i>	<i>Interest @ 5% half yearly (10% p.a.) = $\frac{5}{105} = \frac{1}{21}$ (in each instalment)</i>	<i>Principal Amount (in each instalment)</i>
	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
5th Instalment	6,000	286	5,714
Less: Interest	(286)		
	5,714		
Add: 4th Instalment	6,000		
	11,714	558	5,442
Less: Interest	(558)		(11,156–5,714)
	11,156		
Add: 3rd instalment	6,000		
	17,156	817	5,183
Less: Interest	(817)		(16,339–11,156)
	16,339		
Add: 2nd instalment	6,000		
	22,339	1,063	4,937
Less: Interest	(1,063)		(21,276–16,339)
	21,276		
Add: 1st instalment	6,000		
	27,276	1,299	4,701

Less: Interest	(1,299)		(25,977-21,276)
	<u>25,977</u>	<u>4,023</u>	<u>25,977</u>

The cash purchase price of machinery is Rs. 25,977.

(c) **Journal Entries**

			Rs.	Rs.
1-4-2021	Equity share final call A/c To Equity share capital A/c (For final calls of Rs. 2 per share on 2,70,000 equity shares due as per Board's Resolution dated....)	Dr.	5,40,000	5,40,000
20-4-2021	Bank A/c To Equity share final call A/c (For final call money on 2,70,000 equity shares received)	Dr.	5,40,000	5,40,000
	Securities Premium A/c	Dr.	75,000	
	Capital redemption reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held)			6,75,000
	Bonus to shareholders A/c To Equity share capital A/c (For issue of bonus shares)	Dr.	6,75,000	6,75,000

(d) **Calculation of the average due date (Taking 4th July as the base date)**

Sl. No.	Date of bill	Due Date of Maturity	Amount Rs.	No. of days from starting date (4 th July)	Product
1	1 st May 2020	4 th July	500	0	0
2	10 th May 2020	13 th August	300	40	12,000
3	5 th June 2020	8 th August	400	35	14,000
4	25 th June 2020	28 th July	375	24	9,000
5	10 th July 2020	13 th September	<u>500</u>	71	<u>35,500</u>
Total			<u>2,075</u>		<u>70,500</u>

Average Due Date is $70,500/2,075 = 34$ days after the assumed due date, 4th July, 2020. The new bill should be for Rs. 2,075 payable on 7th August, 2020.

- (e) Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. Accounting Standards provide a set of standard accounting policies, valuation norms and disclosure requirements. Accounting standards aim at improving the quality of financial reporting by promoting comparability, consistency and transparency, in the interests of users of financial statements.

The following are the benefits of Accounting Standards:

- (i) **Standardization of alternative accounting treatments:** Accounting Standards reduce to a reasonable extent confusing variations in the accounting treatment followed for the purpose of preparation of financial statements.

- (ii) **Requirements for additional disclosures:** There are certain areas where important is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.
- (iii) **Comparability of financial statements:** The application of accounting standards would facilitate comparison of financial statements of different companies situated in India and facilitate comparison, to a limited extent, of financial statements of companies situated in different parts of the world. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in Accounting Standards adopted in different countries.