

MOCK TEST PAPER – 1
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) From the following information provided by XYZ Limited you are required to compute the closing inventory:

Raw Material P

Closing balance	600 units
	₹ per unit

Cost price including GST	250
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Input tax credit available	20
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Freight inward	30
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Handling charges	15
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Replacement cost	180
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Finished good Q

Closing balance	1500 units
	₹ per unit

Material consumed	250
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Direct labour	70
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Direct overhead	30
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Total fixed overhead for the year was ₹ 3,00,000 on a normal capacity of 30,000 units while actual production has been of 25,000 units.

Calculate the value of closing stock, when

- (i) Net realizable value of the finished good Q is ₹ 450 per unit.
 - (ii) Net Realizable value of the Finished Good Q is ₹ 340 per unit.
- (b) Uday Constructions undertake to construct a bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2021 and is likely to be completed by the next financial year. The contract is for a fixed price of ₹ 12 crores with an escalation clause. The costs to complete the whole contract are estimated at ₹ 9.50 crores of rupees. You are given the following information for the year ended 31.03.2021:

Cost incurred upto 31.03.2021 ₹ 4 crores

Cost estimated to complete the contract ₹ 6 crores

Escalation in cost by 5% and accordingly the contract price is increased by 5%.

You are required to ascertain the state of completion and state the revenue and profit to be recognized for the year ended 31.03.2021 as per AS 7.

- (c) Nidhi Ltd. invested in the shares of another company on 1st May 2019 at a cost of ₹ 3,00,000 with the intention of holding for more than a year. The published accounts of Nidhi Ltd. received in March, 2021 reveals that the company has incurred cash losses with decline in market share and investment of Nidhi Ltd. may not fetch more than ₹ 45,000. How you will deal with the above in the financial statements of Nidhi Ltd. as on 31.3.21 with reference to AS-13?
- (d) From the following information, prepare the Cash Flow from Financing activities as per AS 3 'Cash Flow Statements' as the accountant of XYZ Limited is not able to decide and seeks your advice:
- (i) Received ₹ 4,00,000 as redemption of short-term deposit
 - (ii) Proceeds of ₹ 20,00,000 from issuance of equity share capital
 - (iii) Received interest of ₹ 70,000 on Govt. bonds.
 - (iv) An amount of ₹ 13,00,000 incurred for purchase of goodwill
 - (v) Proceeds of ₹ 5,00,000 from sale of patent.
 - (vi) Proceeds of ₹ 12,00,000 from long term borrowing.
 - (vii) Amount paid for redemption of debentures of ₹ 22,00,000
 - (viii) Underwriting commission of ₹ 40,000 paid on issue of equity share capital
 - (ix) Interest of ₹ 1,44,000 paid on long-term borrowing.
- (4 Parts x 5 marks= 20 Marks)**

2. On 31st March, 2021, Morya Ltd. provides the following ledger balances:

Particulars	Amount (₹)	
	Debit	Credit
Equity Share Capital, fully paid shares of ₹ 50 each		80,00,000
Calls in arrear	15,000	
Land	25,00,000	
Buildings	30,00,000	
Plant & Machinery	24,00,000	
Furniture & Fixture	13,00,000	
Securities Premium		15,00,000
General Reserve		9,41,000
Profit & Loss Account		5,80,000
Loan from Public Finance Corporation (Secured by Hypothecation of Land)		26,30,000
Other Long Term Loans		22,50,000
Short Term Borrowings		4,60,000
Inventories: Finished goods	45,00,000	
Raw materials	13,00,000	
Trade Receivables	17,50,000	
Advances: Short Term	3,75,000	
Trade Payables		8,13,000
Provision for Taxation		3,80,000

Cash in Hand	70,000	
Balances with Banks	3,44,000	
Total	1,75,54,000	1,75,54,000

The following additional information was also provided in respect of the above balances:

(1) 50,000 fully paid equity shares were allotted as consideration for land.

(2) The cost of assets were:

Building	₹ 32,00,000
Plant and Machinery	₹ 30,00,000
Furniture and Fixture	₹ 16,50,000

(3) Trade Receivables for ₹ 4,86,000 due for more than 6 months.

(4) Balances with banks include ₹ 56,000, the Naya bank, which is not a scheduled bank.

(5) Loan from Public Finance Corporation repayable after 3 years.

(6) The balance of ₹ 26,30,000 in the loan account with Public Finance Corporation is inclusive of ₹ 1,34,000 for interest accrued but not due. The loan is secured by hypothecation of land.

(7) Other long-term loans (unsecured) include:

Loan taken from Nixes Bank	₹ 13,80,000
(Amount repayable within one year	₹ 4,80,000)
Loan taken from Directors	₹ 8,50,000

(8) Bills Receivable for ₹ 1,60,000 maturing on 15th June, 2021 has been discounted.

(9) Short term borrowings include:

Loan from Naya bank	₹ 1,16,000 (Secured)
Loan from directors	₹ 48,000

(10) Transfer of ₹ 35,000 to general reserve has been proposed by the Board of directors out of the profits for the year.

(11) Inventory of finished goods includes loose tools costing ₹ 5 lakhs (which do not meet definition of property, plant & equipment as per AS 10)

You are required to prepare the Balance Sheet of the Company as at March 31st 2021 as required under Schedule III of the Companies Act, 2013. Ignore previous year figures. **(16 Marks)**

3. M/s Shyam, a proprietorship firm runs a business of stationary items. It provides you the following information relating to assets and liabilities:

Assets & Liabilities	As on 01.04.2019	As on 31.03.2020
Creditors	20,000	15,000
Outstanding Expenses	600	800
Fixed Assets	12,000	13,000
Stock	10,000	12,000
Cash in hand	7,500	2,000
Cash at Bank	2,500	10,000
Debtors	?	18,000

Details of the year's transactions are as follows:

(1)	Discounts allowed to Debtor	4,000
(2)	Returns from debtors	1,450
(3)	Bad debts	500
(4)	Total sales (Cash and Credit)	72,000
(5)	Discount allowed by creditors	700
(6)	Returns to creditors	400
(7)	Receipts from debtors paid into Bank	76,000
(8)	Cash purchases	1,000
(9)	Expenses paid by cash	9,000
(10)	Drawings by cheque	500
(11)	Purchase of Fixed Assets by cheque	4,000
(12)	Cash deposited into bank	5,000
(13)	Cash withdrawn from bank	9,000
(14)	Payments to creditors by cheque	60,000

No fixed assets were sold during the year. Any difference in cash account to be considered as cash sales.

You are required to prepare Trading and Profit & Loss Account for the year ended 31.03.2020 and the Balance Sheet as at 31.03.2020 from the given information. **(16 Marks)**

4. (a) On 27th July, 2021, a fire occurred in the godown of M/s. Vijay Exports and most of the stocks were destroyed. However goods costing ₹ 5,000 could be salvaged. Their fire fighting expenses were amounting to ₹ 1,300.

From the salvaged accounting records, the following information is available relating to the period from 1.4.2021 to 27.7.2021:

1.	Stock as per balance sheet as on 31.3.2021	₹ 63,000
2.	Purchases (including purchase of machinery costing ₹ 10,000	₹ 2,92,000
3.	Wages (including wages paid for installation of machinery ₹ 3,000)	₹ 53,000
4.	Sales (including goods sold on approval basis amounting to ₹ 40,000. No approval has been received in respect of 1/4 th of the goods sold on approval)	₹ 4,12,300
5.	Cost of goods distributed as free sample	₹ 2,000

Other Information:

- While valuing the stock on 31.3.2021, ₹ 1,000 had been written off in respect of certain slow moving items costing ₹ 4,000. A portion of these goods were sold in June, 2021 at a loss of ₹ 700 on original cost of ₹ 3,000. The remainder of these stocks is now estimated to be worth its original cost.
- Past record shows the normal gross profit rate is 20%.
- The insurance company also admitted fire fighting expenses as part of insurance policy. The Company had taken the fire insurance policy of ₹ 55,000 with the average clause.

Compute the amount of claim of stock destroyed by fire, to be lodged to the Insurance Company. Also prepare Memorandum Trading Account for the period 1.4.2021 to 27.7.2021 for normal and abnormal items.

- (b) On 1st April, 2019, Mr. Vijay had 30,000 Equity shares in X Ltd. (the company) at a book value of ₹ 4,50,000 (Face Value ₹ 10 per share). On 22nd June, 2019, he purchased another 5000 shares of the same company for ₹ 80,000. The Directors of X Ltd. announced a bonus of equity shares in the ratio of one share for seven shares held on 10th August, 2019.

On 31st August, 2019 the Company made a right issue in the ratio of three shares for every eight shares held, on payment of ₹ 15 per share. Due date for the payment was 30th September, 2019, Mr. Vijay subscribed to 2/3rd of the right shares and sold the remaining of his entitlement to Viru for a consideration of ₹ 2 per share.

On 31st October, 2019, Vijay received dividends from X Ltd. @ 20% for the year ended 31st March, 2019. Dividend for the shares acquired by him on 22nd June, 2019 to be adjusted against the cost of purchase.

On 15th November, 2019 Vijay sold 20,000 Equity shares at a premium of ₹ 5 per share.

You are required to prepare Investment Account in the books of Mr. Vijay for the year ended 31st March, 2020 assuming the shares are being valued at average cost. **(8+8= 16 Marks)**

5. (a) X Ltd. gives the following information as on 31st March, 2021:

	₹
12,000, 10% Preference shares of ₹ 100 each	12,00,000
24,000, Equity shares of ₹ 100 each	24,00,000
10% Debentures	6,00,000
Bank overdraft	6,00,000
Trade payables	3,00,000
Goodwill	90,000
Land & building	12,00,000
Plant & machinery	18,00,000
Inventories	2,60,000
Trade receivables	2,80,000
Cash	30,000
Profit & Loss Account (Dr. balance)	14,40,000

On the above date, the company adopted the following scheme of reconstruction:

- The equity shares are to be reduced to shares of ₹ 40 each fully paid and the preference shares to be reduced to fully paid shares of ₹ 75 each.
- The debenture holders took over Inventories and Trade receivables in full satisfaction of their claims.
- The Land and Building to be appreciated by 30% and Plant and machinery to be depreciated by 30%.
- The debit balance of profit and loss account and intangible assets are to be eliminated.
- Expenses of reconstruction amounted to ₹ 5,000.

Give journal entries incorporating the above scheme of reconstruction.

- (b) A business concern maintains self-balancing ledgers. On the basis of the following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of April, 2021:

Particulars	All amounts in (₹)
Debit balances in Debtors Ledger on 01.04.2021	2,52,300
Credit balances in Debtors Ledger on 01.04.2021	6,500
Transactions during the month of April, 2021 are:	
Total sales (including cash sales ₹ 85,000)	12,10,200
Return inwards	18,680
Cash received from Debtors	9,57,640
Discount allowed to Debtors for prompt payment	14,740
Bills Receivable received from Debtors	62,400
Bills Receivable dishonored	5,260
Noting charges on Bills Receivable dishonored	600
Interest debited for delay in payment	2,500
Cash paid to Debtors for returns	4,200
Bad Debts recovered (written off in 2015-16)	4,800
Transfers to Creditors Ledger	12,000
Credit balance in Debtors Ledger on 30.04.2021	5,500

(8 + 8 = 16 Marks)

6. A, B and C were partners sharing Profits and Losses in the ratio of 2 : 2 : 1. Their Balance Sheet as on 1.4.2020 stood as follows:

Equity & Liabilities	₹	Assets	₹
Capital Accounts:		Fixed Assets	10,00,000
A 5,00,000		Inventory	2,50,000
B 4,00,000		Trade Receivable	3,50,000
C <u>3,00,000</u>	12,00,000	Cash and Bank	1,00,000
Reserves	1,00,000		
Trade Payables	<u>4,00,000</u>		
	17,00,000		17,00,000

On 1st October, 2020, C died. His representatives agreed that:

- Goodwill of the firm be valued at ₹ 5,00,000. Goodwill not to be shown in books of accounts.
- Fixed assets be written down by ₹ 1,00,000 and
- In lieu of profits, C should be paid at the rate of 25% p.a. on his capital as on 1.4.2020.

Current year's (2020-2021) profits after charging depreciation of ₹ 95,000 (₹ 50,000 related to the 1st half) was ₹ 4,05,000. Profit was evenly spread throughout the year.

As on 31.3.2021, the following were the balances:

Inventory	₹ 2,30,000
Trade Receivable	₹ 1,90,000

Trade Payable ₹ 3,50,000

Cash and Bank Balance ₹ 43,770

The particulars regarding their drawings are given below:

	Upto 1-10-2020	After 1-10-2020
A	41,250	50,000
B	41,250	50,000
C	17,500	-

You are required to:

- Prepare the Balance Sheet of the firm as on 31.3.2021, assuming that final settlement to C's executors was made on 31.3.2021.
- Prepare the Capital accounts of the partners as on 1.10.2020 & 31.3.2021. **(16 Marks)**

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

- Jai Ltd purchased a machine on hire purchase basis from KM Ltd. on the following terms:
 - Cash price ₹ 1,20,000.
 - Down payment at the time of signing the agreement on 1-1-2016, ₹ 32,433.
 - 5 annual instalments of ₹23,100, the first to commence at the end of twelve months from the date of down payment.
 - Rate of interest is 10% p.a.

You are required to calculate the total interest and interest included in each instalment.

- A Ltd. gives the following information the year ended 31st March, 2021:

	₹
Gross profit	42,00,000
Administrative, Selling and distribution expenses	8,22,540
Directors' fees	1,34,780
Interest on debentures	31,240
Managerial remuneration	2,85,350
Depreciation on Property, plant and equipment (PPE)	5,22,540

Depreciation on PPE as per Schedule II of the Companies Act, 2013 was ₹ 5,75,345. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.

- Lotus Ltd. was incorporated on 1st July, 2019 to acquire a running business of Feel goods with effect from 1st April, 2019. During the year 2019-20, the total sales were ₹ 48,00,000 of which ₹ 9,60,000 were for the first six months. The Gross profit of the company ₹ 7,81,600. The expenses debited to the Profit & Loss statement included:
 - Director's fees ₹ 60,000
 - Bad debts ₹ 14,400
 - Advertising ₹ 48,000 (under a contract amounting to ₹ 4,000 per month)
 - Salaries and General Expenses ₹ 2,56,000

(v) Preliminary Expenses written off ₹ 20,000

(vi) Donation to a political party given by the company ₹ 20,000.

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2020.

(d) AT accepted the following bills drawn by BT:

On 8th March, 2021, ₹ 4,000 for 4 months.

On 16th March, 2021, ₹ 5,000 for 3 months.

On 7th April, 2021, ₹ 6,000 for 5 months.

On 17th May, 2021, ₹ 5,000 for 3 months.

He wants to pay all the bills on a single day. Find out the average due date.

(e) Recently a growing trend has developed for outsourcing the accounting function to a third party. What are the criteria based on which choice of such third party made?

(4 Parts x 4 Marks = 16 Marks)