

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) Neon Enterprise operates a major chain of restaurants located in different cities. The company has acquired a new restaurant located at Chandigarh. The new restaurant requires significant renovation expenditure. Management expects that the renovations will last for 3 months during which the restaurant will be closed.

Management has prepared the following budget for this period –

Salaries of the staff engaged in preparation of restaurant before its opening	Rs. 7,50,000
Construction and remodelling cost of restaurant	Rs. 30,00,000

Explain the treatment of these expenditures as per the provisions of AS 10 "Property, Plant and Equipment".

- (b) Explain the meaning of the terms 'cash' and 'cash equivalent' for the purpose of Cash Flow Statement as per AS-3.

Ruby Exports had a bank balance of USD 25,000, stated in books at Rs. 16,76,250 using the rate of exchange Rs. 67.05 per USD prevailing on the date of receipt of dollars. However, on the balance sheet date, the closing rate of exchange was Rs. 67.80 and the bank balance had to be restated at Rs. 16,95,000. Comment on the effect of change in bank balance due to exchange rate fluctuation and also discuss how it will be disclosed in Cash Flow Statement of Ruby Exports with reference to AS3.

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

- Materials issued Rs. 75,00,000
- Labour charges paid Rs. 36,00,000
- Hire charges of plant Rs. 10,00,000
- Other contract cost incurred Rs. 15,00,000
- Out of material issued, material lying unused at the end of period is Rs. 4,00,000
- Labour charges of Rs. 2,00,000 are still outstanding on 31.3.20.
- It is estimated that by spending further Rs. 33,50,000 the work can be completed in all respect.

You are required to compute profit/loss to be taken to Profit & Loss Account and additional provision for foreseeable loss as per AS 7.

- (d) Enumerate type of alternatives available to a business entity for accounting in computerized environment. Also, describe the criteria for selection among the available alternatives.

(4 Parts x 5 Marks = 20 Marks)

2. The Summarised Balance Sheet of NTC Limited as on 31st March, 2020 is given below:

Liabilities	Amount (Rs.)	Amount (Rs.)
<u>Share Capital</u>		
15000 equity shares of Rs. 100 each	15,00,000	
10000, 7% cumulative preference shares of Rs. 100 each	<u>10,00,000</u>	25,00,000
<u>Reserves & Surplus</u>		
General Reserve	3,00,000	
Profit & Loss A/c	<u>(4,20,000)</u>	(1,20,000)
<u>Non-current Liabilities</u>		
Loan from Directors		2,20,000
<u>Current Liabilities</u>		
Trade Payables	11,30,000	
Dividend payable	1,10,000	
Expenses Payable	<u>1,60,000</u>	<u>14,00,000</u>
Total		<u>40,00,000</u>
<u>Assets</u>		
<u>Non-Current Assets</u>		
<u>Tangible Assets</u>		
Plant & Machinery	15,00,000	
Building	<u>2,75,000</u>	17,75,000
<u>Intangible Assets</u>		
Patents		2,00,000
<u>Current Assets</u>		
Stock	7,15,000	
Trade Receivable	11,35,000	
Bank	<u>1,75,000</u>	<u>20,25,000</u>
Total		<u>40,00,000</u>

Due to disturbed market conditions, the company suffered losses since last 3 years and hope for a better position in the future. The following scheme of reconstruction has been agreed upon and duly approved by all concerned:

- (1) Equity shares to be converted into 1,50,000 shares of Rs. 10 each.
- (2) Equity shareholders to surrender to the company 80 percent of their holdings.
- (3) Preference shareholders forego their right on arrears of dividends in consideration of which 7% preference shares are to be converted into 9% preference shares.
- (4) Trade payables agree to reduce their claim by 40% in consideration of their getting shares of Rs. 2,50,000 out of the surrendered equity shares.
- (5) Directors agree to forego the amounts due on account of loan.
- (6) Surrendered shares not otherwise utilized to be cancelled.

(7) Assets to be reduced as under:

	Rs.
Patent by	2,00,000
Plant & Machinery by	2,00,000
Inventory by	1,70,000

(8) Trade receivables to the extent of Rs. 8,50,000 are considered good.

(9) Revalued figures for building is accepted at Rs. 3,50,000.

(10) Dividend payable is paid to the equity shareholders.

(11) Any surplus after meeting the losses should be utilized in writing down the value of the plant further.

(12) Expenses of reconstruction amounted to Rs. 30,000

(13) Further 20,000 equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid up.

You are required to pass the Journal Entries for giving effect to the above arrangement and also to draw up the resultant Balance Sheet of the company. **(16 Marks)**

3. (a) Sun Limited took over the running business of a partnership firm M/s A & N Brothers with effect from 1st April, 2019. The company was incorporated on 1st September, 2019. The following profit and loss account has been prepared for the year ended 31st March, 2020.

Particulars	Rs.	Particulars	Rs.
To salaries	1,33,000	By Gross Profit b/d	7,50,000
To rent	96,000		
To carriage outward	75,000		
To audit fees	12,000		
To travelling expenses	66,000		
To commission on sales	48,000		
To printing and stationery	24,000		
To electricity charges	30,000		
To depreciation	80,000		
To advertising expenses	24,000		
To preliminary expenses	9,000		
To Managing Director's remuneration	8,000		
To Net Profit c/d	<u>1,45,000</u>		
	<u>7,50,000</u>		<u>7,50,000</u>

Additional Information :

1. Trend of sales during April, 2019 to March, 2020 was as under:

April, May	Rs. 85,000 per month
June, July	Rs. 1,05,000 per month
August, September	Rs. 1,20,000 per month
October, November	Rs. 1,40,000 per month
December onwards	Rs. 1,50,000 per month

2. Sun Limited took over a machine worth Rs. 7,20,000 from A&N Brothers and purchased a new machine on 1st February, 2020 for Rs. 4,80,000. The company decides to provide depreciation @ 10% p.a.
3. The company occupied additional space from 1st October, 2019 @ rent of Rs. 6,000 per month.
4. Out of travelling expenses, Rs. 30,000 were incurred by office staff while remaining expenses were incurred by salesmen.
5. Audit fees pertains to the company.
6. Salaries were doubled from the date of incorporation.

You are required to prepare a statement apportioning the expenses between pre and post incorporation periods and calculate the profit/(loss) for such periods.

- (b) M/s Martin maintains self-balancing ledgers. On the basis of the following information prepare General Ledger Adjustment Account in Debtors Ledger for the month of March, 2020:

	Rs.
Debit balance in Debtors Ledger on 01.03.2020	4,36,200
Credit balance in Debtors ledger on 01.03.2020	12,600
Transactions during the month of March, 2020 are:	
Total sales (Including cash sales of Rs. 2,50,000)	18,00,000
Bad debts recovered (written off in the year 2018-19)	1,000
Interest debited for delay in payment	3,500
Sales Returns	40,000
Cash received from Debtors	16,55,000
Bills Receivables received from Debtors	98,000
Bills Receivables dishonoured	6,000
Discount allowed to debtors for prompt payment	1,500
Noting charges on bills dishonoured	300
Bills Receivables endorsed to suppliers	7,000
Credit balance in Debtors Ledger on 31.03.2020	15,400

(10 + 6 =16 Marks)

4. Aman, a readymade garment trader, keeps his books of account under single entry system. On the closing date, i.e. on 31st March, 2019 his statement of affairs stood as follows:

Liabilities	Amount Rs.	Assets	Amount Rs.
Aman's capital	4,80,000	Building	3,25,000
Loan	1,50,000	Furniture	50,000
Creditors	3,10,000	Motor car	90,000
		Stock	2,00,000
		Debtors	1,70,000
		Cash in hand	20,000
		Cash at bank	<u>85,000</u>
	<u>9,40,000</u>		<u>9,40,000</u>

Riots occurred and a fire broke out on the evening of 31st March, 2020, destroying the books of accounts. On that day, the cashier had absconded with the available cash. You are furnished with the following information:

1. Sales for the year ended 31st March, 2020 were 20% higher than the previous year's sales, out of which, 20% sales were for cash. He always sells his goods at cost plus 25%. There were no cash purchases.
2. Collection from debtors amounted to Rs. 14,00,000, out of which Rs. 3,50,000 was received in cash. Balance of Creditors as on 31st March, 2020 was Rs. 4,75,000.
3. Business expenses amounted to Rs. 2,00,000, of which Rs. 50,000 were outstanding on 31st March, 2020 and Rs. 60,000 paid by cheques.
4. Gross profit as per last year's audited accounts was Rs. 3,00,000.
5. Provide depreciation on building and furniture at 5% each and motor car at 20%.
6. His private records and the Bank Pass Book disclosed the following transactions for the year 2019-20:

	Rs.
Payment to creditors (paid by cheques)	13,75,000
Personal drawings (paid by cheques)	75,000
Repairs (paid by cash)	10,000
Travelling expenses (paid by cash)	15,000
Cash deposited in bank	7,15,000
Cash withdrawn from bank	1,20,000

7. Stock level was maintained at Rs. 3,00,000 all throughout the year.
8. The amount defalcated by the cashier is to be written off to the Profit and Loss Account.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2020 and Balance Sheet as on that date of Aman. All the workings should form part of the answer. **(16 Marks)**

5. (a) Following transactions of Nisha took place during the financial year 2019-20:

1st April, 2019	Purchased 9,000 8% bonds of Rs. 100 each at Rs. 80.50 cum-interest. Interest is payable on 1st November and 1st May.
1st May, 2019	Received half year's interest on 8% bonds.
10 July, 2019	Purchased 12,000 equity shares of Rs. 10 each in Moon Limited for Rs. 44 each through a broker, who charged brokerage @ 2%.
1st October 2019	Sold 2,250 8% bonds at Rs. 81 Ex-interest.
1st November, 2019	Received half year's interest on 8% bonds.
15th January, 2020	Moon Limited made a rights issue of one equity share for every four Equity shares held at Rs. 5 per share. Nisha exercised the option for 40% of her entitlements and sold the balance rights in the market at Rs. 2.25 per share.
15th March, 2020	Received 18% interim dividend on equity shares of Moon Limited.

Prepare separate investment account for 8% bonds and equity shares of Moon Limited in the books of Nisha for the year ended on 31st March, 2020. Assume that the average cost method is followed.

- (b) A fire engulfed the premises of a business of M/S Kite in the morning, of 1st October, 2019. The entire stock was destroyed except, stock salvaged of Rs. 50,000. Insurance Policy was for Rs. 5,00,000 with average clause.

The following information was obtained from the records saved for the period from 1st April to 30th September, 2019:

	Rs.
Sales	27,75,000
Purchases	18,75,000
Carriage inward	35,000
Carriage outward	20,000
Wages	40,000
Salaries	50,000
Stock in hand on 31 st March, 2019	3,50,000

Additional Information:

- (1) Sales upto 30th September, 2019, includes Rs. 75,000 for which goods had not been dispatched.
- (2) On 1st June, 2019, goods worth Rs. 1,98,000 sold to Hari on approval basis which was included in sales but no approval has been received in respect of 2/3rd of the goods sold to him till 30th September, 2019.
- (3) Purchases upto 30th September, 2019 did not include Rs. 1,00,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown.
- (4) Past records show the gross profit rate of 25% on sales.

You are required to prepare the statement of claim for loss of stock for submission to the Insurance Company. **(10 + 6 = 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 Rs.	Assets	Amount Rs.
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	3,000
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:

- (i) the amount of his capital and current account balance at the end of last financial year.
- (ii) his share of profit for the relevant part of the year of death.
- (iii) 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 31 st March, 2016	Rs. 86,700
For accounting year ended 31 st March, 2017	Rs. 143,200
For accounting year ended 31 st March, 2018	Rs. 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:

	Rs.		Rs.
Building	4,50,000	Stock	33,000
Plants & Machinery (including addition of Rs. 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	Rs. 60,000	Shyam	Rs. 48,000	Laxman	Rs. 54,000
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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 Rs. 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:

(a) A manufacturing company has the following stages of production and sale in manufacturing Fine paper rolls:

Date	Activity	Cost to Date (Rs.)	Net Realizable Value (Rs.)
15.1.19	Raw Material	1,00,000	80,000
20.1.19	Pulp (WIP 1)	1,20,000	1,20,000
27.1.19	Rough & thick paper (WIP 2)	1,50,000	1,80,000
15.2.19	Fine Paper Rolls	1,80,000	3,50,000
20.2.19	Ready for sale	1,80,000	3,50,000
15.3.19	Sale agreed and invoice raised	2,00,000	3,50,000
02.4.19	Delivered and paid for	2,00,000	3,50,000

Explain the stage on which you think revenue will be generated and state how much would be net profit for year ending 31.3.19 on this product according to AS-9.

- (b) M/s. Kodam Enterprises purchased a generator on hire purchase from M/s. Sanctum Ltd. on 1st April, 2019. The hire purchase price was Rs. 48,000. Down payment was Rs. 12,000 and the balance is payable in 3 annual instalments of Rs. 12,000 each payable at the end of each financial year. Interest is payable @ 8% p.a. and is included in the annual payment of Rs. 12,000. Depreciation at 10% p.a. is to be written off using the straight- line method. You are required to calculate the cash price of the generator and the interest paid on each instalment.
- (c) A Limited company with subscribed capital of Rs. 5,00,000 consisting of 50,000 Equity shares of Rs. 10 each; called up capital Rs. 7.50 per share. A bonus of Rs. 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up. You are required to pass necessary Journal Entries (with narration) for this issue of bonus shares.
- (d) A and B are in partnership sharing profits and losses in the ratio of 3:2. The capitals of A and B are Rs. 80,000 and Rs. 60,000 respectively. They admit C as a partner who contributes Rs. 35,000 as capital for $\frac{1}{5}$ th share of profits to be acquired equally from both A & B. The capital accounts of old partners are to be adjusted on the basis of the proportion of C's capital to his share in the business. Calculate the amount of actual cash to be paid off or brought in by the old partners for this purpose.
- (e) Mr. Praveen buys goods on Credit on following dates. 10 days credit is allowed to him after which interest @ 8% p.a. is charged by supplier.

(1) 27 th July	Rs. 18,000
(2) 30 th July	Rs. 12,000
(3) 12 th August	Rs. 25,000
(4) 10 th September	Rs. 7,000
(5) 12 th September	Rs. 21,000

It was agreed to be settled on 30th September. Compute interest payable by him using average due date method. Due Date of earliest purchase shall be taken as base date. (one year = 365 days). Any fraction of a day arising from the calculation to be considered as full day.

(4 Parts x 4 Marks = 16 Marks)