MOCK TEST PAPER – 2

INTERMEDIATE (IPC) : GROUP – I

PAPER – 1: ACCOUNTING

1. (a) According to AS 10 'Property, Plant and Equipment', following costs will be capitalized by Arush Ltd.:

	₹
Cost of the plant	31,25,000
Initial delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants' fee	6,50,000
Estimated dismantling costs to be incurred after 5 years	2,50,000
Total cost of Plant	46,60,000

(b) As per AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus Rani Ltd. should disclose the change in valuation method of inventory and its effect on financial statements. The company may disclose the change in accounting policy in the following manner:

The company values its inventory at lower of cost and net realizable value. Since net realizable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost. In the present year i.e. 2019-20, the company has changed to weighted average method, which better reflects the consumption pattern of inventory, for ascertaining inventory costs from the earlier practice of using FIFO for the purpose. The change in policy has reduced current profit and value of inventory by ₹ 16,000 (1,75,000 – 1,59,000)."

(c) (i) Proportion of total contract value recognized as revenue

Percentage of completion of contract to total estimated cost of construction

$= [(250 + 80) / (250 + 80 + 220)] \times 100 = 60\%$

Revenue to be recognized till date = 60% of ₹ 500 crore = ₹ 300 crore.

(ii)	Calculation of profit/ loss for the year ended 31st March, 2019		(₹ in crore)
	Total estimated cost of construction		
	Work certified	250	
	Work not certified	80	
	Estimated further cost to completion	220	550
	Less: Total contract price		(500)
	Total foreseeable loss to be recognized as expense		50

According to AS 7 "Construction Contracts", when it is probable that total contract costs will exceed total contract revenue, theexpected loss should be recognized as an expense immediately.

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(iii) **Amount due from / to customers** = Contract costs incurred till date + Recognised profits – Recognised losses – (Progress payments received + Progress payments to be received) = ₹ [(250 + 80) + Nil – 50 – (200 + 70)] crore = ₹ [330 – 50 – 270] crore

Amount due from customers (shown as an asset) = ₹ 10 crore.

(iv) The relevant disclosures under AS 7 (Revised) are given below:

	₹ in crores
Contract revenue till 31st March, 2019	300
Contract expenses till 31st March, 2019	330
Recognized losses for the year 31st March, 2019	50
Progress billings ₹ (200+ 70)	270
Progress (billed but not received from contractee)	70
Gross amount due from customers	10

(d) In accordance with provisions of AS 2, the cost of conversion include a systematic allocation of fixed and variable overheads that are incurred in converting materials into finished goods. The allocation of fixed overheads for the purpose of their inclusion in the cost of conversion is based on normal capacity of the production facilities.

Cost per kg. of finished goods:

		₹
Material Cost		200
Direct Labour	40	
Direct Variable Production Overhead	20	
Fixed Production Overhead $\left(\frac{20,00,000}{2,00,000}\right)$	10	70
		270

Hence the value of 4,000 kgs. of finished goods = 4,000 kgs x ₹ 270 = ₹ 10,80,000

2. (a)

Manan Ltd.

Cash Flow Statement

for the year ended 31st March, 2020

	₹	₹
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		30,00,000
Adjustments for:		
Depreciation on Property, plant and equipment	7,50,000	
Discount on issue of debentures	45,000	
Interest on debentures paid	5,25,000	
Interest on investments received	(90,000)	
Profit on sale of investments	(30,000)	12,00,000
Operating profit before working capital changes		42,00,000
Adjustments for:		
Increase in inventory	(1,77,000)	

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Decrease in trade receivable	7,350	
Increase in trade payables	450	
Increase in outstanding expenses	10,200	(1,59,000)
Cash generated from operations		40,41,000
Income tax paid		(15,75,000)
Cash flow from ordinary items		24,66,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		1,35,000
Net cash flow from operating activities		26,01,000
Cash flow from Investing Activities;		
Sale proceeds of investments	4,80,000	
Interest received on investments	90,000	
Purchase of land (3,00,000 less 2,64,000)	(36,000)	
Net cash flow from investing activities		5,34,000
Cash flow from Financing Activities		
Proceeds of issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(23,62,500)	
Preference dividend paid	(2,25,000)	
Interest on debentures paid	(5,25,000)	
Dividend paid (7,50,000 + 2,50,000)	(10,00,000)	
Net cash used in financing activities		(35,12,500)
Net decrease in cash and cash equivalents during the year		(3,77,500)
Add: Cash and cash equivalents as on 31.3.2019		3,94,450
Cash and cash equivalents as on 31.3.2020		16,950

(b) Total Debtors Account in General Ledger

2021	*Particulars*	₹	*2021*	*Particulars*	₹
April 1	To Balance b/d	1,000			
April 30	To Sales (Credit)	16,000	April 30	By Cash	12,000
	To Total creditors (endorsed B/R dishonoured)	300		By Discount	1,000
				By Bills receivable	3,580
	To B/R (Dishonoured)	400		By Total creditors (Transfer)	600
	To Interest	30		By Balance c/d	550
		17,730			17,730

Notes:

1. B/R discounted and Cash sales will not be shown in the Total Debtors
2. Endorsed B/R dishonoured and transfers will be shown in the Total Debtors.

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3. **Trading and Profit and Loss account for the year ending 31st March, 2021**

Particulars	₹	*Particulars*	₹
To Opening Stock	40,000	By Sales	4,31,250
To Purchases (Working Note)	3,45,000	By Closing Stock	40,000
To Gross Profit c/d (20% on sales)	86,250		
	4,71,250		4,71,250
To Business Expenses	50,000	By Gross Profit b/d	86,250
To Depreciation on:			
Machinery 6,500			
Building 5,000	11,500		
To Net profit	24,750		
	86,250		86,250

Trade Debtors Account

Particulars	₹	*Particulars*	₹
To Balance b/d	50,000	By Bank (bal.fig.)	4,09,375
To Sales	4,31,250	By Balance c/d (1/6 of 4,31,250)	71,875
	4,81,250		4,81,250

Trade Creditors Account

Particulars	₹	*Particulars*	₹
To Bank (Balancing figure)	3,31,875	By Balancing b/d	30,000
To Balance c/d/ (1/8 of ` 3,45,000)	43,125	By Purchases	3,45,000
	3,75,000		3,75,000

Working Note:

		₹
(i)	*Calculation of Rate of Gross Profit earned during previous year*	
A	Sales during previous year (₹ 50,000 x 12/2)	3,00,000
B	Purchases (₹ 30,000 x 12/1.5)	2,40,000
C	Cost of Goods Sold (₹ 40,000 + ₹ 2,40,000 – ₹ 40,000)	2,40,000
D	Gross Profit (A-C)	60,000
E	Rate of Gross Profit $\frac{₹\ 60,000}{₹\ 3,00,000} \times 100$	20%
(ii)	*Calculation of sales and Purchases during current year*	₹
A	Cost of goods sold during previous year	2,40,000
B	*Add:* Increases in volume @ 25 %	60,000
		3,00,000
C	*Add:* Increase in cost @ 15%	45,000
D	Cost of Goods Sold during Current Year	3,45,000
E	*Add:* Gross profit @ 25% on cost (20% on sales)	86,250
F	Sales for current year [D+E]	4,31,250

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4. **Revaluation Account**

		₹		₹
To Stock		2,000	By Motor car	10,000
To Expenses		6,500	By Office equipment	5,000
To Purchases Omitted		4,000		
To Capital A/c				
Ajay	833			
Vijay	1,250			
Sanjay	417	2,500		
		15,000		15,000

Partners' Capital Accounts

Particulars	*Ajay*	*Vijay*	*Sanjay*	*Kamal*	*Particulars*	*Ajay*	*Vijay*	*Sanjay*	*Kamal*
Before admission									
To Balance b/d	20,000	-	-	-	By bal b/d	-	85,000	68,000	-
To Motor Car	-	70,000	-	-	By Reserve	10,000	15,000	5,000	
To Balance c/d	16,087	69,130	81,127	-	By Furniture	1,600	2,400	800	
					By Revaluation A/c	833	1,250	417	-
					By Goodwill	23,654	35,480	7,000	-
Total	36,087	1,39,130	81,217			36,087	1,39,130	81,217	
At the time of admission									
To Goodwill	17,395	26,094	5,250	17,395	By Balance b/d	16,087	69,130	81,127	-
To Balance c/d	-	43,036	75,967	-	By assets	-	-	-	8,000
					By bal c/d	1,308	-	-	9,395
Total	17,395	69,130	81,217	17,395		17,395	69,130	81,217	17,395
Adjustments to make Capital proportionate									
To balance b/d	1,308	-	-	9,395	By bal b/d	-	43,036	75,967	-
To Bank (bal. fig.)	-	-	56,351	-					
To balance c/d (WN 4)	39,232	58,847	19,616	39,232	By Bank (bal. fig.)	40,540	15,811	-	48,627
Total	40,540	58,847	75,967	48,627		40,540	58,847	75,967	48,627

Balance Sheet of the Firm (after Kamal's admission)

Equity & Liabilities	₹	*Assets*	₹
Capital Account:		Furniture& fixture	37,800
Ajay	39,232	(30,000 +3,000+4,800)	
Vijay	58,847	Office equipment	25,000
Sanjay	19,616	Stock (38,000 +5,000)	43,000

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Kamal	39,232	Debtors	20,000
Creditors (25,000 +4,000)	29,000	Cash at Bank (W. N. 5)	66,627
Outstanding Expenses	6,500		
	1,92,427		1,92,427

Working Notes:

1. Computation of New Profit sharing ratio

Since Kamal's Share= 1/4th, Balance 3/4th to be shared by Ajay, Vijay and Sanjay in the ratio 2:3:1

	Ajay	*Vijay*	*Sanjay*	*Kamal Total*	
New ratio	$\frac{2}{6}\times\frac{3}{4}=\frac{2}{8}$	$\frac{3}{6}\times\frac{3}{4}=\frac{3}{8}$	$\frac{1}{6}\times\frac{3}{4}=\frac{1}{8}$	$\frac{1}{4}=\frac{2}{8}$	2:3:1:2

2. Computation of Goodwill

Year	***1***	***2***	***3***	*Total*
Profit	35,900	38,200	31,500	
Less: Depreciation	(800)	(800)	(800)	
Purchase invoice omitted	(4,000)			
	31,100	37,400	30,700	99,200
Average Profit		99,200/3		₹ 33,067
Goodwill at 2 years purchase		₹ 33,067×2		₹ 66,134

3. (i) Goodwill to be credited to Ajay, Vijay and Sanjay

Particulars	*Ajay*	*Vijay*	*Sanjay*	*Total*
First – ₹ 42,000 to be distributed among all the Partners in the ratio of 2:3:1	14,000	21,000	7,000	42,000
Balance - ₹ 24,134 to be distributed between Ajay and Vijay in the ratio 2:3	9,654	14,480	-	24,134
Total	23,654	35,480	7,000	66,134

(ii) Writing off Goodwill

Particulars	*Ajay*	*Vijay*	*Sanjay*	*Kamal*	*Total*
First – ₹ 42,000 to be debited among all the Partners in the ratio of 2:3:1:2	10,500	15,750	5,250	10,500	42,000
Balance- ₹ 24,134 to be distributed between Ajay,Vijay and Kamal in the ratio 2:3:2	6,895	10,344	-	6,895	24,134
Total	17,395	26,094	5,250	17,395	66,134

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4. Computation of proportionate Capital of Partners

	₹
Combined Capital of Ajay, Vijay, Sanjay (Existing partners) – as per balance derived in partners' Capital Account = ₹ 43,036+ ₹ 75,967 - 1,308= 1,17,695	1,17,695
Share of Ajay, Vijay and Sanjay in the new firm after deducting Kamal's 1/4th share	3/4th
Total Capital of the Firm after Kamal's admission = ₹ 1,17,695÷ 3/4th	1,56,927

Apportionment of Capital in New Profit Sharing Ratio (Proportionate Capital of partners)

Partners	*Ajay*	*Vijay*	*Sanjay*	*Kamal*
Ratio	2	3	1	2
Proportionate Capital of partners (1,56,927)	39,232	58,847	19,616	39,232

5. Cash at Bank = Given ` 18,000 +40,540+ 15,811+ 48,627– 56,351 = ₹ 66,627

Note:

1. In the above solution, adjustment of furniture for ₹ 4,800 has been routed through Partners' capital accounts. Alternatively, it may also be routed through Revaluation A/c.
2. As per the requirement given in the question, it is agreed among existing partners that Sanjay's interest in the goodwill of the firm is only upto the value of ` 42,000. It has been assumed in the above solution that Sanjay is credited at the time of raising of goodwill as well as debited only to the extent of ` 42,000 at the time of writing off of goodwill.

5. (a) Memorandum Trading Account

for the period 1st April, 2019 to 30th September, 2019

	Normal Items ₹	Abnormal Items ₹	Total ₹		Normal Items ₹	Abnormal Items ₹	Total ₹
To Opening stock	2,48,000	12,000	2,60,000	By Sales	5,97,000	5,000	6,02,000
To Purchases (W.N. 2)	3,39,900	-	3,39,900	By Goods sent to consignee	44,800	-	44,800
To Wages (85,000 – 7,000)	78,000	-	78,000	By Loss	-	4,000	4,000
To Gross profit @20%	1,19,400	-	1,19,400	By Closing stock (Bal. fig.)	1,43,500	3,000	1,46,500
	7,85,300	12,000	7,97,300		7,85,300	12,000	7,97,300

Statement of Claim for Loss of Stock

	₹
Book value of stock as on 30.9.2019	1,46,500

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Less: Stock salvaged	(35,000)
Loss of stock	1,11,500

Amount of claim to be lodged with insurance company

$$= \text{Loss of stock} \times \frac{\text{Policy value}}{\text{Value of stock on the date of fire}}$$

= ₹ 1,11,500 x 1,20,000/1,46,500 = ₹91,331 (approx.)

Working Notes:

1. Rate of gross profit for the year ended 31st March, 2019

Trading Account for the year ended 31st March, 2019

	₹		₹
To Opening Stock	2,11,000	By Sales	8,60,000
To Purchases	6,55,000	By Closing stock 2,52,000	
		Add: written off 8,000	
To Wages	82,000		2,60,000
To Gross Profit (b.f.)	1,72,000		
	11,20,000		11,20,000

Rate of Gross Profit in 2018-19

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

= 1,72,000 X 100 / 8,60,000 = 20%

2. Calculation of Adjusted Purchases

	₹
Purchases (4,48,000 – 58,000)	3,90,000
Less: Drawings [52,000 – (20 % of 52,000)]	(41,600)
Free samples	(8,500)
Adjusted purchases	3,39,900

5. (b) Investment Account in the books of Mr. PK

[Scrip: Equity shares in Savera Co. Ltd.]

	Nominal Value	*Cost*		*Nominal Value*	*Cost*
	₹	₹		₹	₹
To Cash/Bank	1,00,000	1,25,000	By Cash/Bank (Sale)	1,00,000	90,000
To Bonus shares	1,00,000	-	By Balance c/d (W.N. 3)	1,00,000	62,500
To P & L A/c (W.N. 2)	-	27,500			
	2,00,000	1,52,500		2,00,000	1,52,500
To Balance b/d	1,00,000	62,500			

Working Notes:

1. Bonus shares do not have any cost.
2. Profit on sale of bonus shares

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Profit = Sale proceeds – Average cost

Sale proceeds = ₹ 90,000

Average cost = $1,25,000 \times \frac{1,000}{2,000}$ = ₹ 62,500

Profit = ₹ 90,000 – ₹62,500 = ₹ 27,500.

3. The total cost of 2,000 share including bonus is ₹1,25,000

Therefore, cost of 1,000 shares (carried forward) is $1,25,000 \times \frac{1,000}{2,000}$ = ₹ 62,500

Market price of 1,000 shares = 92.50 x 1,000 = ₹ 92,500

Cost being lower than the market price, therefore shares are carried forward at cost.

6. (a) The purchase consideration will be

		₹	Form
Preference shareholders:	2,000 × 3/4 × 100	1,50,000	9% Pref. shares
Equity shareholders:	5,000 × 20	1,00,000	Cash
	5,000 × 6/5 × 125	7,50,000	Equity shares
		10,00,000	

Note- 1. According to AS 14, 'consideration' excludes the any amount payable to debenture-holders. The liability in respect of debentures of S Ltd. will be taken by P Ltd., which will then be settled by issuing new 8% debentures.

2. The issue of the equity shares is done at ₹ 125 (market value) as it has been mentioned in the question. The face value shall not be considered for this purpose.

(b) Reconstruction is a process by which affairs of a company are reorganized by revaluation of assets, reassessment of liabilities and by writing off the losses already suffered, by reducing the paid up value of shares and/or varying the rights attached to different classes of shares. The object of reconstruction is usually to reorganize capital or to compound with creditors so that company can be bailed out from present situation without winding up the existing company.

Methods of Internal reconstruction: Sub-division or consolidation of shares into smaller or higher Denomination and Conversion of share into stock or vice-versa; Variation of shareholders' rights ; Reduction of share capital; Compromise, arrangements and Surrender of Shares etc.

(c) Journal entries in the books of Parth Ltd.

		Dr.	Cr.
		₹	₹
Reconstruction A/c	Dr.	2,39,000	
To Furniture and Fixtures A/c			55,000
To Plant and machinery A/c			89,000
To Investment A/c			95,000
(Writing off overvalued assets as per Reconstruction Scheme dated…..)			
Freehold premises A/c	Dr.	55,000	
To Reconstruction A/c			55,000
(Being the increase in the premises credited to reconstruction account as per reconstruction scheme)			
9% Debentures A/c	Dr.	2,50,000	

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To Bank A/c			50,000
To Land and building A/c			72,000
To Reconstruction A/c			1,28,000
(Being the debenture holders claim settled partly and foregone partly as per reconstruction scheme)			
Reconstruction A/c	Dr.	70,000	
To Profit and loss A/c			70,000
(Being the loss written off as per reconstruction scheme)			
General reserve A/c	Dr.	1,26,000	
To Reconstruction A/c			1,26,000
(Being the balance in general reserve utilized to write off the losses as per reconstruction scheme)			

7. **(a)** As per AS 13 'Accounting for Investments', the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds. In this case Z Bank is a bank, therefore, AS 13 does not apply to it. For banks, the RBI has issued separate guidelines for classification and valuation of its investment and Z Bank should comply with those RBI Guidelines/Norms. Therefore, though Z Bank has not followed the provisions of AS 13, yet it would not be said as non-compliance since, it is complying with the norms stipulated by the RBI.

(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. 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.

(c) Computation of effective capital:

	Where Gaurav Ltd.is a non-investment company
Paid-up share capital —	
67,500, 14% Preference shares	67,50,000
5,40,000 Equity shares	4,32,00,000
Capital reserves	2,02,500

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Securities premium	2,25,000
15% Debentures	2,92,50,000
Public Deposits	16,65,000
(A)	8,12,92,500
Investments	3,37,50,000
Profit and Loss account (Dr. balance)	68,62,500
(B)	4,06,12,500
Effective capital (A–B)	4,06,80,000

(d)

		₹
(i)	Price of two cars = ₹ 2,00,000 x 2	4,00,000
	Less: Depreciation for the first year @ 30%	1,20,000
		2,80,000
	Less: Depreciation for the second year = ₹ 2, 80,000 x $\frac{30}{100}$	84,000
	Agreed value of two cars taken back by the hire vendor	1,96,000
(ii)	Cash purchase price of one car	2,00,000
	Less: Depreciation on ₹ 2,00,000 @20% for the first year	40,000
	Written drown value at the end of first year	1,60,000
	Less: Depreciation on ₹ 1,60,000 @ 20% for the second year	32,000
	Book value of car left with the hire purchaser	1,28,000
(iii)	Book value of one car as calculated in working note (ii) above	1,28,000
	Book value of Two cars = ₹ 1,28,000 x 2	2,56,000
	Value at which the two cars were taken back, calculated in working note (i) above	1,96,000
	Hence, loss on cars taken back = ₹ 2,56,000 – ₹ 1,96,000 =	` 60,000
(iv)	Sale proceeds of cars repossessed	1,70,000
	Less: Value at which cars were taken back ₹ 1,96,000	
	Repair ₹ 10,000	2,06,000
	Loss on resale	36,000

(e) Statement showing the calculation of profits/losses for pre incorporation and Post incorporation period profits of Sanjana Ltd. for year ended 31.3.2021

Particulars	Basis	Pre	Post
		₹	₹
Sales (given)		10,000	40,000
Less: Purchases	1:3.3	5,814	19,186
Carriage Inwards	1:3.3	237	782
Gross Profit (i)		3,949	20,032
Less: Selling Expenses	1:4	700	2,800
Preliminary Expenses			1,200
Salaries	1:3	900	2,700
Director Fees			1,200
Interest on capital		700	

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Depreciation	1:3	700	2,100
Rent	1:3	1,200	3,600
Total of Expenses(ii)		4,200	13,600
Capital Loss/Net Profit (i-ii)		(251)	6,432

Working Notes:

1: Sales Ratio = 10,000 : 40,000 = 1 :4

2: Time Ratio = 3:9 = 1:3

3: Purchase Price Ratio ∴ Ratio is 3 : 9

But purchase price was 10% higher in the company period

∴ Ratio is 3 : 9 + 10% = 3:9.9 = 1:3.3.

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