

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) (i) "In determining the cost of inventories, it is appropriate to exclude certain costs and recognize them as expenses in the period in which they are incurred". Provide examples of such costs as per AS 2 'Valuation of Inventories'.
- (ii) X Limited purchased goods at the cost of Rs. 40 lakhs in October, 2020. Till March, 2021, 75% of the stocks were sold. The company wants to disclose closing stock at Rs. 10 lakhs. The expected sale value is Rs. 11 lakhs and a commission at 10% on sale is payable to the agent. Advise, what is the correct value of closing stock to be disclosed as at 31.3.2021.
- (b) Ruby Ltd. sold goods through its agent. As per terms of sales, consideration is payable within one month. In the event of delay in payment, interest is chargeable @ 10% p.a. from the agent. The company has not realized interest from the agent in the past. For the year ended 31st March, 2021 interest due from agent (because of delay in payment) amounts to Rs. 5 lakhs. The accountant of Ruby Ltd. booked Rs. 5 lakhs as interest income in the year ended 31st March, 2021. Discuss the contention of the accountant with reference to AS 9 "Revenue Recognition".
- (c) Mohan Ltd. has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site.
- The details of the incremental costs which will be incurred are: Setup costs of Rs. 5,00,000 to install machinery in the new location; Rent of Rs. 15,00,000; Removal costs of Rs. 3,00,000 to transport the machinery from the old location to the temporary location.
- Mohan Ltd. wants to seek your guidance as whether these costs can be capitalized into the cost of the new building. You are required to advise in line with AS 10 "Property, Plant and Equipment".
- (d) State whether the following statements are 'True' or 'False' in line with the provisions of AS 1. Also give reason for your answer.
- (i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
- (ii) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
- (iii) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
- (iv) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.
- (v) There is no single list of accounting policies which are applicable to all circumstances.

(4 Parts x 5 Marks = 20 Marks)

2. Weak Ltd. provides the following information as on 31.3.2021:

	Rs.
Equity shares of Rs. 100 each	1,00,00,000
12% cumulative preference shares of Rs. 100 each	50,00,000
10% debentures of Rs. 100 each	40,00,000
Trade payables	50,00,000
Provision for taxation	1,00,000
Property, Plant and Equipment	1,25,00,000
Investments (Market value Rs. 9,50,000)	10,00,000
Current assets	1,00,00,000
P&L Account (Dr. Balance)	6,00,000

The following scheme of reorganization is sanctioned:

- (i) All the existing equity shares are reduced to Rs. 40 each.
- (ii) All preference shares are reduced to Rs. 60 each.
- (iii) The rate of interest on debentures is increased to 12%. The debenture holders surrender their existing debentures of Rs. 100 each and exchange the same for fresh debentures of Rs. 70 each for every debenture held by them.
- (iv) One of the creditors of the company to whom the company owes Rs. 20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of Rs. 40 each in full satisfaction of his claim.
- (v) Property, Plant and Equipment to be written down by 30%.
- (vi) Current assets are to be revalued at Rs. 45,00,000.
- (vii) The taxation liability of the company is settled at Rs. 1,50,000.
- (viii) Investments to be brought to their market value.
- (ix) It is decided to write off the debit balance of Profit and Loss account.

Pass Journal entries and show the Balance sheet of the company after giving effect to the above.

(16 Marks)

3. (a) Sneha Ltd. was incorporated on 1st July, 2019 to acquire a running business of Atul Sons with effect from 1st April, 2019. During the year 2019-20, the total sales were Rs. 24,00,000 of which Rs. 4,80,000 were for the first six months. The Gross profit of the company for the year was Rs. 3,90,800. The expenses charged to the Statement of Profit & Loss Account included the following:
- (i) Director's fees Rs. 30,000
 - (ii) Bad debts Rs. 7,200
 - (iii) Advertising Rs. 24,000 (under a contract amounting to Rs. 2,000 per month)
 - (iv) Salaries and General Expenses Rs. 1,28,000
 - (v) Preliminary Expenses written off Rs. 10,000
 - (vi) Donation to a political party given by the company Rs. 10,000.

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

- (b) State under which head the following accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:
- Share application money received in excess of issued share capital.
 - Share option outstanding account.
 - Unpaid matured debenture and interest accrued thereon.
 - Uncalled liability on shares and other partly paid investments.
 - Calls unpaid.
 - Plant and Machinery.
 - Money received against share warrant.
 - Cash equivalents.
- (c) From the following information available from the books of a trader from 1.1.2021 to 31.3.2021, you are required to draw up the Debtors Ledger Adjustment Account in the General Ledger:
- Total sales amounted to Rs. 1,80,000 including the sale of old zerox machine for Rs. 4,800 (book value Rs. 8,000). The total cash sales were 80% less than the total credit sales.
 - Cash collections from debtors amounted to 70% of the aggregate of the opening debtors and credit sales for the period. Debtors were allowed a cash discount of Rs. 20,000.
 - Bills receivable drawn during the three months totalled Rs. 30,000 of which bills amounting to Rs. 10,000 were endorsed in favour of suppliers. Out of the endorsed bills, one bill for Rs. 6,000 was dishonoured for non-payment as the party became insolvent, his estate realized nothing.
 - Cheque received from debtors Rs. 8,000 were dishonoured, a sum of Rs. 2,000 was irrecoverable; Bad debts written off in the earlier years realised Rs. 11,000.
 - Sundry debtors as on 1.1.2021 stood at Rs. 50,000. **(6 + 4+ 6 =16 Marks)**
4. The accountant of Tiger Club gave the following information about the receipts and payments of the club for the year ended 31st March, 2020:

Receipts:	Rs.
Subscriptions	1,24,260
Fair receipts	14,400
Variety show receipts (net)	25,620
Interest	1,380
Bar collections	44,700
Payments:	
Premises	60,000
Rent	4,800
Rates and taxes	7,560
Printing and stationary	2,820
Sundry expenses	10,700
Wages	5,040
Fair expenses	14,340
Honorarium to secretary	22,000
Bar purchases (payments)	34,620

Repairs	1,920
New car (less proceeds of old car Rs. 18,000)	75,600

The following additional information could be obtained:-

	1.4.2019	31.3.2020
	Rs.	Rs.
Cash in hand	900	Nil
Bank balance	48,840	20,700
Subscriptions due	7,200	5,880
Premises (at cost)	1,74,000	2,34,000
Provision for depreciation on premises	1,12,800	-
Car (at cost)	73,140	93,600
Accumulated depreciation on car	61,740	-
Bar inventory	4,260	5,220
Creditors for bar purchases	3,540	2,580

Annual honorarium of secretary is Rs. 24,000. Depreciation on premises is to be provided at 5% on written down value. Depreciation on new car is to be provided at 20%.

You are required to prepare the Receipts and Payments Account and Income and Expenditure Account of Tiger Club for the year ended 31.3.2020. **(16 Marks)**

5. (a) A Ltd. purchased on 1st April, 2020 8% convertible debenture in C Ltd. of face value of Rs. 2,00,000 @ Rs. 108. On 1st July, 2020 A Ltd. purchased another Rs. 1,00,000 debentures @ Rs. 112 cum interest. On 1st October, 2020 Rs. 80,000 debentures were sold @ Rs. 105. On 1st December, 2020, C Ltd. give option for conversion of 8% convertible debentures into equity share of Rs. 10 each. A Ltd. received 5,000 equity shares in C Ltd. in conversion of 25% debentures held on that date. The market price of debenture and equity share in C Ltd. on 31st December, 2020 is Rs. 110 and Rs. 15 respectively. Interest on debenture is payable each year on 31st March, and 30th September. Prepare investment account in the books of A Ltd. on average cost basis for the accounting year ended 31st December, 2020.
- (b) A fire engulfed the premises of a business of M/s Preet on the morning of 1st July 2020. The building, equipment and stock were destroyed and the salvage recorded the following:
Building – Rs. 4,000; Equipment – Rs. 2,500; Stock – Rs. 20,000. The following other information was obtained from the records saved for the period from 1st January to 30th June 2020:

	Rs.
Sales	11,50,000
Sales Returns	40,000
Purchases	9,50,000
Purchases Returns	12,500
Cartage inward	17,500
Wages	7,500
Stock in hand on 31 st December, 2019	1,50,000
Building (value on 31 st December, 2019)	3,75,000
Equipment (value on 31 st December, 2019)	75,000
Depreciation provided till 31 st December, 2019 on:	
Building	1,25,000
Equipment	22,500

No depreciation has been provided after December 31st 2019. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method.

Normally business makes a profit of 25% on net sales. You are required to prepare the statement of claim for submission to the Insurance Company. **(8 + 8 = 16 Marks)**

6. Anuj, Ayush and Piyush are in partnership sharing profits and losses in the ratio 2 : 2 : 1. Their Balance Sheet as on 31.3.2021 is as follows:

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Capital accounts:			Fixed assets:	
Anuj	3,75,000		Plant	7,87,000
Ayush	2,80,000		Current assets:	
Piyush	<u>2,25,000</u>	8,80,000	Stock	1,03,000
General Reserve		1,88,000	Debtors	1,56,000
Creditors		2,16,000	Bank FD	2,25,000
		<u> </u>	Bank balance	<u>13,000</u>
		<u>12,84,000</u>		<u>12,84,000</u>

Anuj decided to retire with effect from 1.4.2021.

The remaining partners agreed to share profits and losses equally in future.

The following adjustments were agreed to be made upon retirement of Anuj.

- (i) Goodwill was to be valued at 1 year purchase of the average profits of the preceding 3 years on the date of retirement.

The average profits of the past 3 years were as follows:

<i>Year ended</i>	<i>Rs.</i>
31.3.2021	3,30,000 (as per draft accounts)
31.3.2020	2,32,000
31.3.2019	2,20,000

The partners decided not to raise goodwill account in the books.

- (ii) The assets were revalued as follows:

Plant to be depreciated by 10%;

Creditors amounting Rs. 10,000 were omitted to be recorded;

Rs. 6,000 is to be written off from stock;

Provision for doubtful debts to be created @ 5% of the debtors;

Interest accrued on FD amounting to Rs. 9,000 was omitted to be recorded.

The above adjustments were to be made from the profit for the year ended 31.3.2021 before calculation of goodwill.

- (iii) Anuj agreed to take over the bank FD including interest accrued thereon in part payment of his dues and the balance would remain as a loan, carrying interest of 8% p.a.
- (iv) Ayush and Piyush agreed to bring in sufficient cash to make their capital proportionate and maintain a bank balance of Rs. 1,50,000.

You are required to prepare: (i) Capital accounts of partners as on 1.4.2021 giving effect to the above adjustments; (ii) Balance Sheet as on 1.4.2021 after Anuj's retirement. **(16 Marks)**

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

- Explain the factors to be considered before selecting the pre-packaged accounting software.
- A acquired on 1st January, 2020 a machine under a Hire-Purchase agreement which provides for 5 half-yearly instalments of Rs. 6,000 each, the first instalment being due on 1st July, 2020. Assuming that the applicable rate of interest is 10 per cent per annum, calculate the cash value of the machine. All working should form part of the answer.
- Manu Ltd. gives the following information as at 31st March, 2021:

	Rs.
Issued and Subscribed capital:	
24,000 12% Preference shares of Rs. 10 each fully paid	2,40,000
2,70,000 Equity shares of Rs. 10 each, Rs. 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2021, the Company has made final call @ Rs. 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2021. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. You are required to prepare necessary journal entries in the books of the company on 30th April, 2021 for these transactions.

- A merchant trader having accepted the following several bills falling due on different dates, now desires to have these bills cancelled and to accept a new bill for the whole amount payable on the average due date:

Sl. No.	Date of Bills	Amount (Rs.)	Usance of the bill
1	1 st May, 2020	500	2 months
2	10 th May, 2020	300	3 months
3	5 th June, 2020	400	2 months
4	25 th June, 2020	375	1 month
5	10 th July, 2020	500	2 months

You are required to find the average due date. Any fraction of a day arising from the calculation to be considered as full day.

- "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. **(4 Parts x 4 Marks = 16 Marks)**