MOCK TEST PAPER 1

INTERMEDIATE:-GROUP – I

1. (a) Cash Flow Statement of Gagan Ltd. for the year ended March 31, 2022

A	**Cash Flow from Operating Activities**	
	Net Profit as per Profit & Loss A/c	--------
	Add: Premium on Redemption of Debentures	1,650
	Add: Interest on 10% Debentures	11,000
	Less: Interest on 10% Investments	(35,000)
B	**Cash Flow from Investing Activities**	
	Interest on Investments [35,000-10,500]	24,500
C	**Cash Flow from Financing Activities**	
	Interest on Debentures paid [11,000 - (1,175 - 275)]	(10,100)
	Redemption of Debentures [(1,10,000 - 77,000) at 5% premium]	(34,650)

Note: Debtors written off against provision for doubtful debts does not require any further adjustment in Cash Flow Statement.

(b) From the above account, it is inferred that the Company has deducted grant from the book value of asset for accounting of Government Grants. Accordingly, out of the ₹ 16,00,000 that has been received, ₹ 8,00,000 (being the balance in Machinery A/c) should be credited to the machinery A/c.

The balance ₹ 8,00,000 may be credited to P&L A/c, since already the cost of the asset to the tune of ₹ 12,00,000 had been debited to P&L A/c in the earlier years by way of depreciation charge, and ₹ 8,00,000 transferred to P&L A/c now would be partial recovery of that cost.

There is no need to provide depreciation for 2020-21 or 2021-22 as the depreciable amount is now Nil.

(c) Calculation of cost for closing inventory

Particulars	₹
Cost of Purchase (10,200 x 10)	1,02,000
Direct Labour	76,500
Fixed Overhead $\frac{75,000 \times 10,200}{15,000}$	51,000
Cost of Production	2,29,500
Cost of closing inventory per unit (2,29,500/10,200)	₹ 22.50
Net Realisable Value per unit	₹ 20.00

Since net realisable value is less than cost, closing inventory will be valued at ₹ 20.

As NRV of the finished goods is less than its cost, relevant raw materials will be valued at replacement cost i.e. ₹ 9.50.

Therefore, value of closing inventory: Finished Goods (1,200 x 20)	₹ 24,000
Raw Materials (900 x 9.50)	₹ 8,550
	₹ 32,550

(d) The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made. In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from ₹ 3.5 lakhs to ₹ 2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2021-22:

"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been lower by ₹ 1 lakh.".

2. (a) **Books of Sanket**

Investment Account

(Scrip: Equity Shares in XYZ Ltd.)

		No.	*Amount* ₹			*No.*	*Amount* ₹
1.1.2022	To Bal b/d	50,000	12,50,000	31.10.2022	By Bank (dividend on shares acquired on 1.6.2022) (W.N.4)	—	20,000
1.6.2022	To Bank	10,000	2,00,000				
16.8.2022	To Bonus (W.N.1)	10,000	—				
30.9.2022	To Bank (Rights Shares) (W.N.3)	20,000	3,00,000				
15.11.2022	To Profit (on sale of shares)		69,444	15.11.2022	By Bank (Sale of shares)	25,000	5,50,000
				31.12.2022	By Bal. c/d (W.N.6)	65,000	12,49,444
		90,000	18,19,444			90,000	18,19,444

Profit and Loss Account (An extract for investment)

31.12.2022 To Balance c/d (profit)	2,09,444	31.8.22 By Sale of rights (W.N.3)	40,000
		31.10.22 By Dividend (W.N.4)	1,00,000
		15.11.22 By Profit transferred	69,444
	2,09,444		2,09,444

Working Notes:

(1) **Bonus Shares** = $\frac{(50,000+10,000)}{6}$ = 10,000 shares

(2) **Right Shares** = $\frac{(50,000+10,000+10,000)}{7} \times 3$ = 30,000 shares × 2/3 = 20,000 shares

(3) **Right shares renounced** = 30,000×1/3 = 10,000 shares

Sale of right shares = 10,000 x 4 = ₹ 40,000

Right shares subscribed = 20,000 shares

Amount paid for subscription of right shares = 20,000 x 15 = ₹ 3,00,000

(4) Dividend received = 50,000 (shares as on 1st April 2022) × 10 × 20% = ₹ 1,00,000

Dividend on shares purchased on 1.6.2022 = 10,000×10×20% = ₹ 20,000 is adjusted to Investment A/c

(5) Profit on sale of 25,000 shares

= Sales proceeds – Average cost

Sales proceeds = ₹ 5,50,000

Average cost $= \frac{(12,50,000+2,00,000+3,00,000-20,000)}{90,000} \times 25,000$ = ₹ 4,80,556

Profit = ₹ 5,50,000 – ₹ 4,80,556 = ₹ 69,444.

(6) **Cost of shares on 31.12.2022** $\frac{(17,30,000)}{90,000} \times 65,000$= ₹ 12,49,444

Market value of share = 65,000 shares × ₹ 20 = 13,00,000

Shares will be valued at ₹ 12,49,444 as market value is more than cost.

(b) **M/s Raxby & Co.**

Trading Account for 2021-22

(to determine the rate of gross profit)

	₹		₹	₹
To Opening Stock	1,20,000	By Sales A/c		6,00,000
To Purchases	5,25,000	By Closing Stock :		
To Gross Profit	90,000	As valued	1,30,000	
		Add: Amount written off to restore stock to full cost	5,000	1,35,000
	7,35,000			7,35,000

The normal rate of gross profit to sales is = $\frac{90,000}{6,00,000} \times 100$ = 15%

Memorandum Trading Account up to June 30, 2022

	Normal items	*Abnormal items*	*Total*		*Normal items*	*Abnormal items*	*Total*
	₹	₹	₹		₹	₹	₹
To Opening Stock	1,27,000	8,000*	1,35,000	By Sales	1,60,000	6,000	1,66,000
To Purchases (97,000+35,000)	1,32,000	—	1,32,000	By Loss	—	1,000	1,000
To Gross Profit (15% on ₹ 1,60,000)	24,000	—	24,000	By Closing Stock (bal. fig.)	1,23,000	1,000	1,24,000
	2,83,000	8,000	2,91,000		2,83,000	8,000	2,91,000

* at cost.

Calculation of Insurance Claim

		₹
Value of stock on June 30, 2022	1,24,000	
Less: Salvage		(10,000)
Loss of stock		1,14,000

Claim subject to average clause:

$$\frac{\text{Amount of Policy}}{\text{Value of stock}} \times \text{Actual Loss of Stock} = 1,00,000 / 1,24,000 \text{ X } 1,14,000$$

= ₹ 91,935 (approx.)

Therefore, insurance claim will be limited to ₹ 91,935 (approx.)

3. (a) (i) Books of Branch

Journal Entries

		(₹ *in lacs)*
	Dr.	*Cr.*
Goods in Transit A/c Dr.	10	
To Head Office A/c		10
(Goods dispatched by head office but not received by branch before 1st April, 2022)		
Expenses A/c Dr.	1	
To Head Office A/c		1
(Amount charged by head office for centralised services)		

(ii) Trading and Profit & Loss Account of the Branch

for the year ended 31st March, 2022

	₹ *in lacs*		₹ *in lacs*
To Opening Stock	60	By Sales	360
To Goods received from		By Closing Stock	62
Head Office 288			
Less : Returns (5)	283		
To Carriage Inwards	7		
To Gross Profit c/d	72		
	422		422
To Salaries	25	By Gross Profit b/d	72
To Depreciation on Furniture	2		
To Rent	10		
To Advertising	6		
To Telephone, Postage & Stationery	3		
To Sundry Office Expenses	1		
To Head Office Expenses	1		
To Net Profit Transferred to			
Head Office A/c	24		
	72		72

Balance Sheet as on 31st March, 2022

Liabilities	*₹ in lacs*		*Assets*	*₹ in lacs*	
Head Office	80		Furniture & Equipment	20	
Add : Goods in transit	10		*Less :* Depreciation	(2)	18
Head Office Expenses	1		Stock in hand		62
Net Profit	24		Goods in Transit		10
		115	Debtors		20
Outstanding Expenses		3	Cash at bank and in hand		8
		118			118

(b) Departmental Trading Account in the books of M/s P for the year ended 31st March 2022

Particulars	*Department X* ₹	*Department Y* ₹	*Particulars*	*Department X* ₹	*Department Y* ₹
To Opening stock	2,45,000	2,43,000	By Sales	20,02,000	20,70,000
To Purchases	13,72,000	13,41,000	By Transfers:		
To Carriage inward	21,000	40,500	Purchased goods	1,26,000	2,25,000
To Wages	1,89,000	1,62,000	Finished goods (net of returns)	4,55,000*	5,31,000*
To Transfers					
Purchased goods	2,25,000	1,26,000	By Closing stock:		
Finished goods (net of returns)	5,31,000	4,55,000	Purchased goods	84,000	1,35,000
To Gross profit c/d	4,41,000	8,72,500	Finished goods	3,57,000	2,79,000
	30,24,000	32,40,000		30,24,000	32,40,000

General Profit and Loss A/c for the year ended 31st March, 2022

Particulars	₹	*Particulars*	₹
To Provision for unrealized profit included in closing stock		By Gross profit b/d	
Department X (W.N. 3)	35,921	Department X	4,41,000

* Net transfers of finished goods by
Department X to Y = ₹ 6,12,500 – ₹ 1,57,500 = ₹ 4,55,000
Department Y to X = ₹ 6,75,000 – ₹ 1,44,000= ₹ 5,31,000

Department Y (W.N. 3)	15,024	Department Y	8,72,500
To Net profit	12,62,555		
	13,13,500		13,13,500

Working Notes:

1. Calculation of rates of gross profit margin on sales

	Department X	*Department Y*
	₹	₹
Sales	20,02,000	20,70,000
Add: Transfer of finished goods	6,12,500	6,75,000
	26,14,500	27,45,000
Less: Return of finished goods	(1,57,500)	(1,44,000)
	24,57,000	26,01,000
Gross Profit	4,41,000	8,72,500
Gross profit margin =	(4,41,000/24,57,000) x 100 = 17.95%	(8,72,500/26,01,000) x 100 = 33.54%

2. Finished goods from other department included in the closing stock

	Department X	*Department Y*
	₹	₹
Stock of finished goods	3,57,000	2,79,000
Stock related to other department (30% of finished goods)	1,07,100	83,700

3. Unrealized profit included in the closing stock

Department X = 33.54% of ₹ 1,07,100 = ₹ 35,921

Department Y = 17.95% of ₹ 83,700 = ₹ 15,024

4. (a) Trading and Profit and Loss Account

for the year ended 31st March, 2022

		Amount			*Amount*
		₹			₹
To	Opening Inventory	50,000	By	Sales (₹ 2,60,000 × 125/100)	3,25,000
To	Purchases (balancing figure)	2,72,500	By	Closing Inventory	62,500
To	Gross profit c/d (₹ 2,60,000 × 25/100)	65,000			
		3,87,500			3,87,500
To	Expenses	49,250	By	Gross profit b/d	65,000
To	Loss on sale of fixed assets	750			
To	Depreciation on fixed assets (W.N.1)	1,000			
To	Net profit	14,000			
		65,000			65,000

Balance Sheet as on 31st March, 2022

		Amount		Amount
Liabilities		₹	*Assets*	₹
Capital (W.N. 5)	1,69,000		Fixed assets	9,000
Add: Additional capital	5,000		Debtors (W.N. 3)	87,500
Net profit	14,000		Inventory	62,500
	1,88,000		Bank balance	50,000
Less: Drawings	(25,000)	1,63,000		
Creditors		46,000		
		2,09,000		2,09,000

Working Notes:

1. Fixed assets account

		₹			₹
To	Balance b/d	7,500	By	Bank (sale)	1,750
To	Bank	5,000	By	Loss on sale of fixed asset(2,500-1,750)	750
			By	Depreciation (balancing figure)	1,000
			By	Balance c/d	9,000
		12,500			12,500

2. Bank account

		₹			₹
To	Balance b/d (balancing figure)	62,500	By	Creditors	2,80,000
To	Debtors	3,40,000	By	Expenses	49,250
To	Capital	5,000	By	Drawings	25,000
To	Sale of fixed assets	1,750	By	Fixed assets	5,000
			By	Balance c/d	50,000
		4,09,250			4,09,250

3. Debtors account

		₹			₹
To	Balance b/d	1,02,500	By	Bank	3,40,000
To	Sales (₹ $2,60,000 \times \frac{125}{100}$)	3,25,000	By	Balance c/d (balancing figure)	87,500
		4,27,500			4,27,500

4. Creditors account

		₹			₹
To	Bank	2,80,000	By	Balance b/d (balancing figure)	53,500
To	Balance c/d	46,000	By	Purchases (from trading account)	2,72,500
		3,26,000			3,26,000

5. Balance Sheet as on 1st April, 2021

Liabilities	₹	*Assets*	₹
Creditors (W.N. 4)	53,500	Fixed assets	7,500
Capital (balancing figure)	1,69,000	Debtors	1,02,500
		Stock	50,000
		Bank balance (W.N. 2)	62,500
	2,22,500		2,22,500

4 (b) In the books of Alfa Limited

Journal Entries

Date 2022	**Particulars**		**Dr. (₹)**	**Cr. (₹)**
April 1	10% Redeemable Preference Share Capital A/c	Dr.	3,37,500	
	Premium on Redemption of Preference Shares	Dr.	33,750	
	To Preference Shareholders A/c			3,71,750
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	3,71,750	
	To Bank A/c			3,71,750
	(Being the amount paid on redemption of preference shares)			
	General Reserve A/c	Dr.	2,25,000	
	Profit & Loss A/c	Dr.	1,12,500	
	To Capital Redemption Reserve A/c			3,37,500
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			
	Profit & Loss A/c	Dr.	33,750	
	To Premium on Redemption of Preference Shares A/c			33,750
	(Being premium on redemption charged to Profit and Loss A/c)			

Note: Capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

5 (a) Harry Ltd.

Cash Flow Statement
for the year ended 31st March, 2022

	(₹)	*(₹)*
Cash flows from operating activities		
Net Profit before taxation	8,000	
Adjustments for:		
Depreciation ₹ (1,000 + 2,000 +5,000)	8,000	
Profit on sale of Investment	(8,000)	

Profit on sale of car	(1,400)	
Operating profit before working capital changes	6,600	
Increase in Trade receivables	(2,000)	
Increase in inventories	(6,000)	
Increase in Trade payables	3,000	
Cash generated from operations	1,600	
Income taxes paid	(2,000)	
Net cash generated from operating activities (A)		(400)
Cash flows from investing activities		
Sale of car	3,400	
Purchase of car	(16,000)	
Sale of Investment	10,000	
Purchase of Investment	(6,000)	
Purchase of Furniture & fixtures	(14,000)	
Net cash used in investing activities (B)		(22,600)
Cash flows from financing activities		
Issue of shares for cash	20,000	
Dividends paid	(2,000)	
Net cash from financing activities(C)		18,000
Net decrease in cash and cash equivalents (A + B +C)		(5,000)
Cash and cash equivalents at beginning of period		17,000
Cash and cash equivalents at end of period		12,000

Working Notes:

1. Calculation of Income taxes paid

	₹
Income tax expense for the year	3,000
Add: Income tax liability at the beginning of the year	2,000
	5,000
Less: Income tax liability at the end of the year	(3,000)
	2,000

2. Calculation of Fixed assets acquisitions

		Furniture & Fixtures (₹)	Car (₹)
W.D.V. at 31.3.2022		34,000	25,000
Add back:	Depreciation for the year	2,000	5,000
	Disposals	—	2,000
		36,000	32,000
Less: W.D.V. at 31. 3. 2021		(22,000)	(16,000)
Acquisitions during 2021-22		14,000	16,000

(b) **Omega Limited**

Debenture Account

2022		₹	2022		₹
Mar 1	To Own Debentures	74,175	Jan 1	By Balance b/d	4,50,000
Mar 1	To Profit on cancellation (25,000-24,725)	825			
Sep 1	To Own Debentures (Note 3)	59,124			
Sep 1	To Profit on cancellation (20,000-19,708)	876			
Dec 31	Balance c/d	3,15,000			
		4,50,000			4,50,000

Own Debenture (Investment) Account

		Nominal Cost ₹	*Interest* ₹	*Cost* ₹			*Nominal Cost* ₹	*Interest* ₹	*Cost* ₹
2022					*2022*				
Mar 1	To Bank (W.N. 1)	75000	1563	74,175	Mar 1	By Debentures A/c	75,000	-	74,175
Sep 1	To Bank (W.N. 2 & 3)	60,000	1,251	59,124	Sep 1	By Debentures A/c	60,000	-	59,124
				-	Dec. 31	By P&L A/c	-	2,814	-
		1,35,000	2,814	1,33,299			1,35,000	2,814	1,33,299

Working notes:

1. 75,000 x 5% x 5/12 = 1,563
2. 60,000 x 5% x 5/12 = 1,251
3. 60,375 – 1,251= 59,124

6 (a) According to AS 10 (Revised), these costs can be capitalised:

1.	Cost of the plant	₹ 10,00,000
2.	Initial delivery and handling costs	₹ 80,000
3.	Cost of site preparation	₹ 2,40,000
4.	Consultants' fees	₹2,80,000
5.	Estimated dismantling costs to be incurred after 7 years	₹ 1,20,000
		₹ 17,20,000

Note: Operating losses before commercial production amounting to ₹ 1,60,000 are not regarded as directly attributable costs and thus cannot be capitalized. They should be written off to the Statement of Profit and Loss in the period they are incurred.

(b) Calculation of effective capital and maximum amount of monthly remuneration

	(₹ in lakhs)
Paid up equity share capital	270
Paid up Preference share capital	45
Reserve excluding Revaluation reserve (337.5- 22.5)	315
Securities premium	90
Long term loans	90
Deposits repayable after one year	45
	855
Less: Accumulated losses not written off	(45)
Investments	(405)
Effective capital for the purpose of managerial remuneration	405

Since Kartik Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration. Effective capital of the company is less than 5 crores, maximum remuneration payable to the Managing Director should be @ ₹ 60,00,000 per annum.

Note: Revaluation reserve and application money pending allotment are not included while computing effective capital of Kartik Ltd.

OR

Bonus

Journal Entries in the books of Madhu Ltd.

			₹	₹
1-4-2022	Equity share final call A/c To Equity share capital A/c (For final calls of ₹ 2 per share on 4,05,000 equity shares due as per Board's Resolution dated….)	Dr.	8,10,000	 8,10,000
20-4-2022	Bank A/c To Equity share final call A/c (For final call money on 4,05,000 equity shares received)	Dr.	8,10,000	 8,10,000
	Securities Premium A/c Capital redemption reserve A/c General Reserve A/c Profit and Loss A/c (b.f.) To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held)	Dr. Dr. Dr. Dr.	1,12,500 1,80,000 5,40,000 1,80,000	 10,12,500
	Bonus to shareholders A/c To Equity share capital A/c (For issue of bonus shares)	Dr.	10,12,500	 10,12,500

Extract of Balance Sheet as at 30th April, 2022 (after bonus issue)

	₹
Authorized Capital	
45,000 12% Preference shares of ₹ 10 each	4,50,000
6,00,000 Equity shares of ₹ 10 each	60,00,000

Issued and subscribed capital	
36,000 12% Preference shares of ₹10 each, fully paid	3,60,000
5,06,250 Equity shares of ₹ 10 each, fully paid	50,62,500
(Out of the above, 1,01,250 equity shares @ ₹ 10 each were issued by way of bonus shares)	
Reserves and surplus	
Profit and Loss Account	7,20,000

(c) Para 10 of AS 16 'Borrowing Costs' states that to the extent the funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings. The capitalization rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Hence, in the above case, treatment of accountant of Vital Ltd. is incorrect. The amount of borrowing costs capitalized for the financial year 2021-22 should be calculated as follows:

Actual interest for 2021-22 (10% of ₹ 150 crores)	₹ 15.00 crores
Less: Income on temporary investment from specific borrowings	(₹ 1.50 crores)
Borrowing costs to be capitalized during year 2021-22	₹ 13.50 crores

(d) **(i)** (1) Users of financial statements: Investors, Employees, Lenders, Supplies/Creditors, Customers, Government & Public

(2) Qualitative Characteristics of Financial Statements:

Understandability, Relevance, Comparability, Reliability & Faithful Representation

(3) Elements of Financial Statements:

Asset, Liability, Equity, Income/Gain and Expense/Loss

(ii) Fundamental Accounting Assumptions:

Accrual, Going Concern and Consistency