MOCK TEST PAPER – 2

INTERMEDIATE: GROUP – I

PAPER – 1: ACCOUNTING

1. (a) Calculation of capitalization rate on borrowings other than specific borrowings

Nature of general borrowings	*Period of outstanding balance*	*Amount of loan (₹)*	*Rate of interest p.a.*	*Weighted average amount of interest (₹)*
	a	*b*	*c*	*d = [(b x c) x (a/12)]*
9% Debentures	12 months	20,00,000	9%	1,80,000
Bank overdraft	9 months	4,00,000	10%	30,000
	2 months	4,00,000	12%	8,000
	1 month	8,00,000	12%	8,000
		36,00,000		2,26,000

Weighted average cost of borrowings

= {20,00,000 x(12/12)} + {4,00,000 x (11/12)} + {8,00,000 x (1/12)} = 24,33,334

Capitalisation rate = [(Weighted average amount of interest / Weighted average of general borrowings) x 100] = [(2,26,000 / 24,33,334) x 100] = 9.29% p.a.

(b) 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 but the basis for making provision will not constitute accounting policy. 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 ₹ 4 lakhs to ₹ 3 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 HIL Ltd. for the year 2021-22 in the following manner:

"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 value of net assets at the end of the year would have been lower by ₹ 1 lakh."

(c) As per AS 12, the amount refundable in respect of grant related to specific fixed assets should be recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

Where grant was deducted from the cost of the asset, initial value of the plant after deduction of grant amount of ₹ 6 crore would have been = ₹ 30 crore – ₹ 6 crore = ₹ 24 crore.

Carrying value of the plant after 5 years on 1.4.2021 = [(₹ 24 crore / 10 years) x 5 years] = ₹ 12 crore.

Annual depreciation charge would be ₹ 2.4 crore.

On refund of grant to the Government, the book value of the plant shall be increased by ₹ 6 crore i.e. ₹ 12 crore + ₹ 6 crore = ₹ 18 crore. The increased cost of ₹ 18 crore of the plant should be amortised prospectively over remaining 5 years of useful residual life. Depreciation charge in the year 2021-2022 would be ₹ 18 crore / 5 years = ₹ 3.6 crore instead of earlier ₹ 2.4 crore.

(d) As per para 13 of AS 2 (Revised), abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred.

In this case, normal waste is 250 MT and abnormal waste is 50 MT. The cost of 250 MT will be included in determining the cost of inventories (finished goods) at the year end. The cost of abnormal waste (50 MT x 1,052.6315 = ₹ 52,632) will be charged to the profit and loss statement.

Cost per MT (Normal Quantity of 4,750 MT) = 50,00,000 / 4,750 = ₹ 1,052.6315

Total value of inventory = 4,700 MT x ₹ 1,052.6315 = ₹ 49,47,368.

2. (a) **Manan Ltd.**

Cash Flow Statement

for the year ended 31st March, 2022

	₹	₹
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)	
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 31.3.2021		3,94,450
Cash and cash equivalents as on 31.3.2022		16,950

(b) **Extract of Balance Sheet of A Ltd.**

Particulars	Note No	Amount
Non - Current Liabilities		
Long term borrowings	1	16,03,000
Current Liabilities		
Short term borrowings	2	4,34,000

Notes to Accounts

1.	**Long-Term Borrowings**	
	Term loans – Secured	
	- From banks	8,95,000
	- From other parties	9,17,000
		18,12,000
	Less: Current maturities of long-term debt (Refer Note 3)	(2,09,000)
		16,03,000
2.	**Short-Term Borrowings**	
	(Unsecured loan)	
	- from bank	2,25,000
	Current maturities of long-term debt	
	- From banks	1,24,000
	- From others	85,000
		4,34,000

(c) Calculation of net profit u/s 198 of the Companies Act, 2013

	₹	₹
Gross profit		42,00,000
Less: Administrative, selling and distribution expenses	8,22,540	
Director's fees	1,34,780	
Interest on debentures	31,240	
Depreciation on PPE as per Schedule II	5,75,345	(15,63,905)
Profit u/s 198		26,36,095

Maximum Managerial remuneration under Companies Act, 2013= 11% of ₹ 26,36,095= ₹ 2,89,970

3. (a) Trading and Profit and Loss account for the year ending 31st March, 2022

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 Balance 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

(b) Journal Entries in Books of Branch

			Amount in ₹	
			Dr.	*Cr.*
(i)	Head Office Account	Dr.	4,000	
	To Cash Account			4,000
	(Being expenditure incurred on account of other branch, now recorded in books)			
(ii)	Goods –in- transit Account	Dr.	8,000	
	To Head Office Account			8,000
	(Being goods sent by Head Office still in-transit)			
(iii	Provision for Doubtful Debts A/c	Dr.	2,000	
	To Head Office Account			2,000
	(Being the provision for doubtful debts not provided earlier, now provided for)			
(iv	Head Office Account	Dr.	2,000	
	To Salaries Account			2,000
	(Being rectification of salary paid on behalf of Head Office)			

4. (a) Department Trading and Profit and Loss Account

for the year ended on 31st Match, 2022

Particulars	*A (₹)*	*B (₹)*	*C (₹)*	*Particulars*	*A (₹)*	*B (₹)*	*C (₹)*
To Opening Stock	8,500	5,700	1,200	By Sales less Sales returns	50,000	30,000	20,000
To Purchases	22,000	17,000	8,000	By Closing Stock	3,500	2,000	1,500
To Freight & carriage	1,400	800	200				
To Wages	800	700	200				
To Gross profit	20,800	7,800	11,900				
	53,500	32,000	21,500		53,500	32,000	21,500

To Salaries	2,250	1,350	900	By Gross Profit	20,800	7,800	11,900
To Power & Water	600	360	240	By Net Loss	-	465	-
To Telephone Charges	1,050	630	420				
To Bad Debts	375	225	150				
To Rent & Taxes	3,000	1,800	1,200				
To Insurance	750	450	300				
To Printing & Stationery	1,000	600	400				
To Advertising	1,750	1,050	700				
To Depreciation (2,000 +4,000)	3,000	1,800	1,200				
To Net Profit	7,025		6,390				
	20,800	8,265	11,900		20,800	8,265	11,900

Balance Sheet as at 31.03.2022

Liabilities	₹		*Assets*	₹	
Capital A/c	40,000		Furniture & Fixtures		4,600
Add: Net Profit (₹ 7,025 + ₹ 6,390)	13,415		Plant & Machinery	20,000	
	53,415		*Less:* Depreciation	2,000	18,000
Less: Net loss in Dept B	465		Motor Vehicles	40,000	
	52,950		*Less:* Depreciation	4,000	36,000
Less: Drawings	1,500	51,450	Sundry Debtors		12,200
Sundry Creditors		15,000	Cash in hand		850
Bank Overdraft		12,000	Closing Stock		7,000
Wages Outstanding		200			
		78,650			78,650

(b) **Journal Entries**

Particulars		Dr. (₹)	Cr. (₹)
Bank A/c	Dr.	84,500	
To Equity Share Capital A/c			84,500
(Being the issue of 8,450 Equity Shares of ₹ 10 each as per Board's Resolution No.....dated.......)			
9% Redeemable Preference Share Capital A/c	Dr.	2,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	20,000	
To Preference Shareholders A/c			2,20,000
(Being the amount paid on redemption transferred to Preference Shareholders Account)			
Bank A/c	Dr.	40,500	
Profit and Loss A/c (loss on sale) A/c	Dr.	4,500	

To Investment A/c			45,000
(Being investment sold at loss of ₹ 4,500)			
Preference Shareholders A/c	Dr.	2,20,000	
To Bank A/c			2,20,000
(Being the amount paid on redemption of preference shares)			
Profit & Loss A/c	Dr.	20,000	
To Premium on Redemption of Preference Shares A/c			20,000
(Being the premium payable on redemption is adjusted against Profit & Loss Account)			
General Reserve A/c	Dr.	80,000	
Profit & Loss A/c	Dr.	35,500	
To Capital Redemption Reserve A/c			1,15,500
(Being the amount transferred to Capital Redemption Reserve Account)			

Working Note:

Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed		₹2,00,000
Less: Profit available for distribution as dividend:		
General Reserve: ₹ (1,20,000-40,000)	₹80,000	
Profit and Loss (60,000 less 20,000 set aside for adjusting premium payable on redemption of Pref. shares less 4,500 loss on sale of investments)	₹35,500	(1,15,500)
		₹ 84,500

Therefore, No. of shares to be issued = 84,500/₹10 = 8,450 shares.

5. (a) **Memorandum Trading Account**

for the period 1st April, 2022 to 30th September, 2022

	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 30.9.2022	1,46,500
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, 2022**

Trading Account for the year ended 31st March, 2022

	₹			₹
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 2021-2022

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

= 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

(b) Investment Account for the year ending on 31st December, 2022

Scrip : 8% Convertible Debentures in C Ltd.

[Interest Payable on 31st March and 30th September]

Date	Particulars	Nominal value ₹	Interest ₹	Cost ₹	Date	Particulars	Nominal Value (₹)	Interest (₹	Cost (₹)
1.4.22	To Bank A/c	2,00,000	-	2,16,000	30.09.2022	By Bank A/c [₹ 3,00,000 x 8% x (6/12]	-	12,000	-
1.7.22	To Bank A/c (W.N.1)	1,00,000	2,000	1,10,000					
31.12.22	To P & L A/c	-	14,033	-	1.10.2022	By Bank A/c	80,000		84,000

	[Interest]				1.10.2022	By P & L A/c (loss) (W.N.3)			2,933
					1.12.2022	By Bank A/c (Accrued interest) (₹ 55,000 x 08 x 2/12)		733	
					1.12.2022	By Equity shares in C Ltd. (W.N. 3 and 4)	55,000		59,767
					31.12.2022	By Balance c/d (W.N.5)	1,65,000	3,300	1,79,300
		3,00,000	16,033	3,26,000			3,00,000	16,033	3,26,000

SCRIP: Equity Shares in C LTD.

Date	Particulars	Cost (₹)	Date	Particulars	Cost (₹)
1.12.2022	To 8 % debentures	59,767	31.12.2022	By balance c/d	59,767

Working Notes:

(i) Cost of Debenture purchased on 1st July = ₹ 1,12,000 – ₹ 2,000 (Interest) = ₹ 1,10,000

(ii) Cost of Debentures sold on 1st Oct.

= (₹ 2,16,000 + ₹ 1,10,000) x 80,000/3,00,000 = ₹ 86,933

(iii) Loss on sale of Debentures = ₹ 86,933– ₹ 84,000 = ₹ 2,933

Nominal value of debentures converted into equity shares = ₹ 55,000

[(₹ 3,00,000 – 80,000) x.25]

Interest received before the conversion of debentures

Interest on 25% of total debentures = 55,000 x 8% x 2/12 = 733

(iv) Cost of Debentures converted = (₹ 2,16,000 + ₹ 1,10,000) x 55,000/3,00,000 = ₹ 59,767

(v) Cost of closing balance of Debentures = (₹ 2,16,000 + ₹ 1,10,000) x 1,65,000 / 3,00,000 = ₹ 1,79,300

(vii) Closing balance of Debentures has been valued at cost.

(viii) 5,000 equity Shares in C Ltd. will be valued at cost of ₹ 59,767 being lower than the market value ₹ 75,000 (₹ 15 x5,000)

Note: It is assumed that interest on debentures, which are converted into cash, has been received at the time of conversion.

6. (a) 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.

OR

As per AS 11 'The Effects of Changes in Foreign Exchange Rates', Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money. Foreign currency monetary items should be reported using the closing rate at each balance sheet date. However, in certain circumstances, the closing rate may not reflect with reasonable accuracy the amount in reporting currency that is likely to be realised from, or required to disburse, a foreign currency monetary item at the balance sheet date. In such circumstances, the relevant monetary item should be reported in the reporting currency at the amount which is likely to be realised from or required to disburse, such item at the balance sheet date.

Share capital	Non-monetary
Trade receivables	Monetary
Investments	Non-monetary
Fixed assets	Non-monetary

(b) Statement showing cash value of the machine acquired on hire-purchase basis

	Instalment Amount	*Interest @ 5% half yearly (10% p.a.) = 5/105 = 1/21 (in each instalment)*	*Principal Amount (in each instalment)*
	₹	₹	₹
5th Instalment	6,000	286	5,714
Less: Interest	(286)		
	5,714		
Add: 4th Instalment	6,000		
	11,714	558	5,442
Less: Interest	(558)		(11,156–5,714)
	11,156		
Add: 3rd instalment	6,000		
	17,156	817	5,183
Less: Interest	(817)		(16,339–11,156)
	16,339		
Add: 2nd instalment	6,000		
	22,339	1,063	4,937

Less: Interest	(1,063)		(21,276–16,339)
	21,276		
Add: 1st instalment	6,000		
	27,276	1,299	4,701
Less: Interest	(1,299)		(25,977–21,276)
	25,977	4,023	25,977

The cash purchase price of machinery is ₹ 25,977.

(c) 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	
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.

(d) Trade Receivables

	Foreign Currency Rate	₹
Initial recognition US $ 27,250 (20,00,150/ 73.40)	1 US $ = ₹ 73.40	20,00,150
Rate on Balance sheet date	1 US $ = ₹ 73.60	
Exchange Difference Gain [US $ 27,250 X (73.60-73.40)]		5,450

As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences on trade receivables amounting ₹ 5,450 is required to be transferred to Profit and Loss A/c.

Treatment needed in this case: Credit Profit and loss account by ₹ 5,450.