MOCK TEST PAPER – 2

INTERMEDIATE: GROUP – I

PAPER – 1: ACCOUNTING

Question No. **1** is compulsory.

Answer any **four** questions from the remaining **five** 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) ABC Limited has started construction of an asset on 1st December, 2021, which continues till 31st March, 2022 (and is expected to go beyond a year). The entity has not taken any specific borrowings to finance the construction of the asset but has incurred finance costs on its general borrowings during the construction period. The directly attributable expenditure at the beginning of the month on this asset was ₹ 10 lakh in December 2021 and ₹ 4 lakh in each of the months of January to March 2022. At the beginning of the year, the entity had taken Inter Corporate Deposits of ₹ 20 lakh at 9% rate of interest and had an overdraft of ₹ 4 lakh, which increased to ₹ 8 lakh on 1st March, 2022. Interest was paid on the overdraft at 10% until 1st January, 2022 and then the rate was increased to 12%. You are required to calculate the annual capitalization rate for computation of borrowing cost in accordance with AS 16 'Borrowing Costs'.

(b) HIL Ltd. was making provision for non-moving stocks based on no issues having occurred for the last 12 months upto 31.03.2021. The company now wants to change it and make provision based on technical evaluation during the year ending 31.03.2022. Total value of stock on 31.3.2022 is ₹ 120 lakhs. Provision required based on technical evaluation amounts ₹ 3.00 lakhs. However, provision required based on 12 months (no issues) is ₹ 4.00 lakhs. You are required to discuss the following points in the light of Accounting Standard (AS)-1:

(i) Does this amount to change in accounting policy?

(ii) Can the company change the method of accounting?

(iii) Explain how it will be disclosed in the annual accounts of HIL Ltd. for the year 2021-2022.

(c) Caseworker Limited received a specific grant of ₹ 6 crore for acquiring the plant of ₹ 30 crore on 1.4.2016 having useful life of 10 years. At the beginning of the financial year 2021-2022, due to non-compliance of conditions laid down for the grant of ₹ 6 crore, the company had to refund the grant to the Government. What should be the treatment of the refund if grant was deducted from the cost of the plant during financial year 2016-2017? Assume depreciation is charged on fixed assets as per Straight Line Method.

(d) In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting in wastage of 300 MT. Cost per MT of input is ₹ 1,000. The entire quantity of waste and finished output is in stock at the year end. State with reference to Accounting Standard, how will you value the inventories in this case? What will be treatment for normal and abnormal waste?

(4 Parts x 5 Marks= 20 Marks)

2. (a) The following figures have been extracted from the books of Manan Limited for the year ended on 31.3.2022. You are required to prepare the Cash Flow statement as per AS 3 using indirect method.

(i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 30 lakhs:

(a) Depreciation on Property, Plant & Equipment ₹ 7.50 lakhs.

(b) Discount on issue of Debentures written off ₹ 45,000.

(c) Interest on Debentures paid ₹ 5,25,000.

(d) Book value of investments ₹ 4.50 lakhs (Sale of Investments for ₹ 4,80,000).

(e) Interest received on investments ₹ 90,000.

(ii) Compensation received ₹ 1,35,000 by the company in a suit filed.

(iii) Income tax paid during the year ₹ 15,75,000.

(iv) 22,500, 10% preference shares of ₹ 100 each were redeemed on 02-04-2021 at a premium of 5%.

(v) Further the company issued 75,000 equity shares of ₹ 10 each at a premium of 20% on 30.3.2022 (Out of 75,000 equity shares, 25,000 equity shares were issued to a supplier of machinery)

(vi) Dividend for FY 2020-21 on preference shares were paid at the time of redemption.

(vii) Dividend on Equity shares paid on 31.01.2022 for the year 2020-2021 ₹ 7.50 lakhs and interim dividend paid ₹ 2.50 lakhs for the year 2021-2022.

(viii) Land was purchased on 02.4.2021 for ₹ 3,00,000 for which the company issued 22,000 equity shares of ₹ 10 each at a premium of 20% to the land owner and balance in cash as consideration.

(ix) Current assets and current liabilities in the beginning and at the end of the years were as detailed below:

	As on 01.04.2021	As on 31.3.2022
	₹	₹
Inventory	18,00,000	19,77,000
Trade receivables	3,87,000	3,79,650
Cash in hand	3,94,450	16,950
Trade payables	3,16,500	3,16,950
Outstanding expenses	1,12,500	1,22,700

(b) From the following information, prepare extract of Balance Sheet of A Limited along with notes making necessary compliance of Schedule III to the Companies Act, 2013:

		Amount (₹)
Loan Funds		
(a) Secured Loans		18,12,000
(b) Unsecured Loan - Short term from bank		2,25,000
Other information is as under:		

Secured Loans		
Term Loans from:		
Banks		8,95,000
Others		9,17,000
		18,12,000
Current Maturities of long-term loan from Bank		1,24,000
Current Maturities of long- term loan from Others		85,000

There was no interest accrued / due as at the end of the year. Current maturities of long-term loans amounting ₹ 2,09,000 is included in the value of secured loans of ₹ 18,12,000.

(c) A Ltd. gives the following information the year ended 31st March, 2022:

	₹
Gross profit	42,00,000
Administrative, Selling and distribution expenses	8,22,540
Directors' fees	1,34,780
Interest on debentures	31,240
Managerial remuneration	2,85,350
Depreciation on Property, plant and equipment (PPE)	5,22,540

Depreciation on PPE as per Schedule II of the Companies Act, 2013 was ₹ 5,75,345. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013. **(10+5+5 = 20 Marks)**

3. (a) The following is the Balance Sheet of Manish and Suresh as on 1st April, 2021:

Equity and Liabilities	₹	Assets	₹
Capital Accounts:		Building	1,00,000
Manish	1,50,000	Machinery	65,000
Suresh	75,000	Stock	40,000
Creditors for goods	30,000	Debtors	50,000
Creditors for expenses	25,000	Bank	25,000
	2,80,000		2,80,000

They give you the following additional information:

(i) Creditors' Velocity 1.5 month & Debtors' Velocity 2 months. Here velocity indicates the no. of times the creditors and debtors are turned over a year.

(ii) Stock level is maintained uniformly in value throughout all over the year.

(iii) Depreciation on machinery is charged @ 10%, Depreciation on building @ 5% in the current year.

(iv) Cost price will go up 15% as compared to last year and also sales in the current year will increase by 25% in volume.

(v) Rate of gross profit remains the same.

(vi) Business Expenditures are ₹ 50,000 for the year. All expenditures are paid off in cash.

(vii) Closing stock is to be valued on LIFO Basis.

(viii) All sales and purchases are on credit basis and there are no cash purchases and sales.

You are required to prepare Trading, Profit and Loss Account, Trade Debtors Account and Trade Creditors Account for the year ending 31.03.2022.

(b) Pass necessary Journal entries in the books of an independent Branch of a Company, wherever required, to rectify or adjust the following:

(i) Branch incurred travelling expenses of ₹ 4,000 on behalf of other Branches, but not recorded in the books of Branch.

(ii) Goods dispatched by the Head office amounting to ₹ 8,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.

(iii) Provision for doubtful debts, whose accounts are kept by the Head Office, not provided earlier for ₹ 2,000.

(iv) Branch paid ₹ 2,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account. **(16+4 = 20 Marks)**

4. (a) Following is the Trial Balance of Mr. Mohan as on 31.03.2022:

	Particulars	*Debit (₹)*	*Credit (₹)*
Capital Account			40,000
Drawing Account		1,500	
Opening Stock	Department A	8,500	
	Department B	5,700	
	Department C	1,200	
Purchases	Department A	22,000	
	Department B	17,000	
	Department C	8,000	
Sales	Department A		54,000
	Department B		33,000
	Department C		21,000
Sales Returns	Department A	4,000	
	Department B	3,000	
	Department C	1,000	
Freight and Carriage	Department A	1,400	
	Department B	800	
	Department C	200	
Furniture and fixtures		4,600	
Plant and Machinery		20,000	
Motor Vehicles		40,000	
Sundry Debtors		12,200	

Sundry Creditors			15,000
Salaries		4,500	
Power and water		1,200	
Telephone charges		2,100	
Bad Debts		750	
Rent and taxes		6,000	
Insurance		1,500	
Wages	Department A	800	
	Department B	550	
	Department C	150	
Printing and Stationeries		2,000	
Advertising		3,500	
Bank Overdraft			12,000
Cash in hand		850	
		1,75,000	1,75,000

You are required to prepare Department Trading, Profit and Loss Account and the Balance Sheet taking into account the following adjustments:

(a) Outstanding Wages: Department B- ₹ 150, Department C – ₹ 50.

(b) Depreciate Plant and Machinery and Motor Vehicles at the rate of 10%.

(c) Each Department shall share all expenses in proportion to their sales.

(d) Closing Stock: Department A - ₹ 3,500, Department B - ₹ 2,000, Department C - ₹ 1,500.

(b) The Capital structure of a company BK Ltd. consists of 30,000 Equity Shares of ₹ 10 each fully paid up and 2,000 9% Redeemable Preference Shares of ₹ 100 each fully paid up as on 31.03.2022. the other particulars as at 31.03.2022 are as follows:

	Amount (₹)
General Reserve	1,20,000
Profit &Loss Account	60,000
Investment Allowance Reserve (not free for distribution as dividend)	15,000
Cash at bank	1,95,000

Preference Shares are to be redeemed at a premium of 10%. For the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve & surplus, subject to the conditions that a sum of ₹ 40,000 shall be retained in General Reserve and which should not be utilized. Company also sold investment of 4500 Equity Shares in G Ltd., costing ₹ 45,000 at ₹ 9 per share.

You are required to pass Journal entries to give effect to the above arrangements.

(12 + 8 =20 Marks)

5. (a) A Fire occurred in the premises of M/s B & Co. on 30th September, 2022. The firm had taken an insurance policy for ₹ 1,20,000 which was subject to an average clause. Following particulars were ascertained from the available records for the period from 1st April, 2021 to 30th September, 2022:

	Amount (₹)
Stock at cost on 1-04-2021	2,11,000
Stock at cost on 31-03-2022 (after adjustment of written off amount in respect of slow-moving item)	2,52,000
Purchases during 2021-2022	6,55,000
Wages during 2021-2022	82,000
Sales during 2021-2022	8,60,000
Purchases from 01-04-2022 to 30-09-2022 (including purchase of machinery costing ₹ 58,000)	4,48,000
Wages from 01-04-2022 to 30-09-2022 (including wages for installation of machinery costing ₹ 7,000)	85,000
Sales from 01-04-2022 to 30-09-2022	6,02,000
Sale value of goods drawn by partners (1-4-2022 to 30-9-2022)	52,000
Cost of Goods sent to consignee on 18th September, 2022 lying unsold with them	44,800
Cost of Goods distributed as free samples (1-4-2022 to 30-9-2022)	8,500

While valuing the Stock at 31st March, 2022, ₹ 8,000 were written off in respect of a slow moving item, cost of which was ₹ 12,000. A portion of these goods was sold at a loss of ₹ 4,000 on the original cost of ₹ 9,000. The remainder of the stock is estimated to be worth the original cost. The value of Goods salvaged was estimated at ₹ 35,000.

You are required to ascertain the amount of claim to be lodged with the Insurance Company for the loss of stock.

(b) A Ltd. purchased on 1st April, 2022 8% convertible debenture in C Ltd. of face value of ₹ 2,00,000 @ ₹ 108. On 1st July, 2022 A Ltd. purchased another ₹ 1,00,000 debentures @ ₹ 112 cum interest. On 1st October, 2022 ₹ 80,000 debentures were sold @ ₹ 105. On 1st December, 2022, C Ltd. give option for conversion of 8% convertible debentures into equity share of ₹ 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, 2022 is ₹ 110 and ₹ 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, 2022. **(12 + 8 = 20 Marks)**

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." Discuss and explain the benefits of Accounting Standards.

OR

"Explain "monetary item" as per Accounting Standard 11. How are foreign currency monetary items to be recognized at each Balance Sheet date? Classify the following as monetary or non-monetary item:

(i) Share Capital

(ii) Trade Receivables

(iii) Investments

(iv) Fixed Assets.

(b) A acquired on 1st January, 2022 a machine under a Hire-Purchase agreement which provides for 5 half-yearly instalments of ₹ 6,000 each, the first instalment being due on 1st July, 2022. 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.

(c) The Business carried on by Kamal under the name "K" was taken over as a running business with effect from 1st April, 2020 by Sanjana Ltd., which was incorporated on 1st July, 2020. The same set of books was continued since there was no change in the type of business and the following particulars of profits for the year ended 31st March, 2021 were available.

	₹	₹
Sales: Company period	40,000	
Prior period	10,000	50,000
Selling Expenses	3,500	
Preliminary Expenses written off	1,200	
Salaries	3,600	
Directors' Fees	1,200	
Interest on Capital (Up to 30.6.2020)	700	
Depreciation	2,800	
Rent	4,800	
Purchases	25,000	
Carriage Inwards	1,019	43,819
Net Profit		6,181

The purchase price (including carriage inwards) for the post-incorporation period had increased by 10 percent as compared to pre-incorporation period. No stocks were carried either at the beginning or at the end.

You are required to prepare a statement showing the amount of pre and post incorporation period profits stating the basis of allocation of expenses.

(d) Trade receivables of PP Ltd. include amount receivable from Preksha Ltd., ₹ 20,00,150 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US \$1 = ₹ 73.40. The exchange rate on balance sheet date (31.03.2023) is US \$1 = ₹ 73.60. Exchange rate on 1st April, 2022 is US \$1 = ₹ 74.00.

You are required to calculate the amount of exchange difference and also explain the accounting treatment needed in the above two cases as per AS 11 in the books of PP Ltd.

(4 Parts X 5 Marks = 20 Marks)