Test Series: November, 2021

MOCK TEST PAPER – 2

INTERMEDIATE (NEW) : 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) 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) 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 1.4.2020 = [(₹ 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 2020-2021 would be ₹ 18 crore / 5 years = ₹ 3.6 crore instead of earlier ₹ 2.4 crore.

(d) 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

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)	
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) **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	2,25,000
Other current liabilities	3	2,09,000

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
3.	**Other Current Liabilities**	
	Current maturities of long-term debt	

	- From banks	1,24,000
	- From others	85,000
		2,09,000

(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
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

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

(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)

Trading and Profit and Loss Account

for the year ended on 31st Match, 2021

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 31.03.2021

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**

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

Amount of claim to be lodged with insurance company

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

= ₹ 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

(b) Investment in 13.5% Debentures in Pergot Ltd. Account

(Interest payable on 31st March & 30th September)

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
2020		₹	₹	₹	2020		₹	₹	₹
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank (6 months Int)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000	Oct.1	By Bank	2,00,000		2,06,000
Oct.1	To P&L A/c			2,167					
Dec.31	To P&L A/c		52,313						
					Dec.31	By Balance c/d	5,50,000	18,563	5,60,542
		7,50,000	69,188	7,66,542			7,50,000	69,188	7,66,542

Note: Cost being lower than Market Value the debentures are carried forward at Cost.

Working Notes:

1. Interest paid on ₹ 5,00,000 purchased on May 1st, 2020 for the month of April 2020, as part of purchase price: 5,00,000 x 13.5% x 1/12 = ₹ 5,625

2. Interest received on 30th Sept. 2020

   On ₹ 5,00,000 = 5,00,000 x 13.5% x ½ = 33,750

   On ₹ 2,50,000 = 2,50,000 x 13.5% x ½ = 16,875

   Total ₹ 50,625

3. Interest paid on ₹ 2,50,000 purchased on Aug. 1st 2020 for April 2020 to July 2020 as part of purchase price:

   ₹ 2,50,000 x 13.5% x 4/12 = ₹ 11,250

4. Loss on Sale of Debentures

   Cost of acquisition

   (₹ 5,19,375 + ₹ 2,45,000) x ₹ 2,00,000/₹ 7,50,000 = 2,03,833

   Less: Sale Price (2,000 x ₹103) = 2,06,000

   Profit on sale = ₹ 2,167

5. Cost of Balance Debentures

(₹ 5,19,375 + ₹ 2,45,000) x ₹ 5,50,000/₹ 7,50,000 = ₹ 5,60,542

6. Interest on Closing Debentures for period Oct.-Dec. 2020 carried forward (accrued interest)

₹ 5,50,000 x 13.5% x 3/12 = ₹ 18,563 (rounded off)

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)

		₹
(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 down 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

(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) 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.