MOCK TEST PAPER – 2

INTERMEDIATE (NEW) : 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, 2020, which continues till 31st March, 2021 (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 2020 and ₹ 4 lakh in each of the months of January to March 2021. 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, 2021. Interest was paid on the overdraft at 10% until 1st January, 2021 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) In the books of Rani Ltd., closing inventory as on 31.03.2020 amounts to ₹ 1,75,000 (valued on the basis of FIFO method). The Company decides to change from FIFO method to weighted average method for ascertaining the costs of inventory from the year 2019-20. On the basis of weighted average method, closing inventory as on 31.03.2020 amounts to ₹ 1,59,000. Realizable value of the inventory as on 31.03.2020 amounts to ₹ 2,07 ,000. Discuss disclosure requirements of change in accounting policy as per AS 1.

(c) Caseworker Limited received a specific grant of ₹ 6 crore for acquiring the plant of ₹ 30 crore during financial year 2015-2016 having useful life of 10 years. During the financial year 2020-2021, 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 2015-2016? Assume depreciation is charged on fixed assets as per Straight Line Method.

(d) Arush Ltd. is installing a new plant in its factory. It provides you the following information:

Cost of the plant (cost as per supplier's invoice)	₹ 31,25,000
Estimated dismantling costs to be incurred after 5 years	₹ 2,50,000
Initial delivery and handling costs	₹ 1,85,000
Cost of site preparation	₹ 4,50,000
Consultants used for advice on the acquisition of the plant	₹ 6,50,000

You are required to advise Arush Ltd. on the costs that can be capitalised for plant in accordance with AS 10 'Property, Plant and Equipment'. **(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 31.3.2020. 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 02-04-2019 at a premium of 5%.

(v) Further the company issued 75,000 equity shares of ₹10 each at a premium of 20% on 30.3.2020 (Out of 75,000 equity shares, 25,000 equity shares were issued to a supplier of machinery)

(vi) Dividend for FY 2018-19 on preference shares were paid at the time of redemption.

(vii) Dividend on Equity shares paid on 31.01.2020 for the year 2018-2019 ₹ 7.50 lakhs and interim dividend paid ₹ 2.50 lakhs for the year 2019-2020.

(viii) Land was purchased on 02.4.2019 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 01.04.2019	As on 31.3.2020
	₹	₹
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) The following information of Gaurav Ltd. was obtained on 31st March, 2021:

	₹
Authorized capital:	
90,000, 14% preference shares of ₹ 100	90,00,000
9,00,000 Equity shares of ₹100 each	9,00,00,000
	9,90,00,000
Issued and subscribed capital:	
67,500, 14% preference shares of ₹ 100 each fully paid	67,50,000
5,40,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	4,32,00,000
Share suspense account	90,00,000
Reserves and surplus:	
Capital reserves (₹ 6,75,000 is revaluation reserve)	8,77,500
Securities premium	2,25,000
Secured loans:	
15% Debentures	2,92,50,000
Unsecured loans:	
Public deposits	16,65,000
Cash credit loan from SBI (short term)	5,92,500
Current Liabilities:	
Trade Payables	15,52,500
Assets:	
Investment in shares, debentures, etc.	3,37,50,000
Profit and Loss account (Dr. balance)	68,62,500

Share suspense account represents application money received on shares, the allotment of which is not yet made. You are required to compute effective capital as per the provisions of Schedule V if Gaurav Ltd.is a non-investment company? **(10+5+5 = 20 Marks)**

3. (a) The following is the Balance Sheet of Manish and Suresh as on 1st April, 2020:

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 31.03.2021.

(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 31.03.2021:

	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 31.03.2020. the other particulars as at 31.03.2020 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, 2019. 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, 2018 to 30th September, 2019:

	Amount (₹)
Stock at cost on 1-04-2018	2,11,000
Stock at cost on 31-03-2019 (after adjustment of written off amount in respect of slow-moving item)	2,52,000
Purchases during 2018-19	6,55,000
Wages during 2018-19	82,000
Sales during 2018-19	8,60,000
Purchases from 01-04-2019 to 30-09-2019 (including purchase of machinery costing ₹ 58,000)	4,48,000
Wages from 01-04-2019 to 30-09-2019 (including wages for installation of machinery costing ₹ 7,000)	85,000
Sales from 01-04-2019 to 30-09-2019	6,02,000
Sale value of goods drawn by partners (1-4-19 to 30-9-19)	52,000
Cost of Goods sent to consignee on 18th September, 2019 lying unsold with them	44,800
Cost of Goods distributed as free samples(1-4-19 to 30-9-19)	8,500

While valuing the Stock at 31st March, 2019, ₹ 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) Alpha Ltd. purchased 5,000, 13.5% Debentures of Face Value of ₹ 100 each of Pergot Ltd. on 1st May 2020 @ ₹ 105 on cum interest basis. The interest on these instruments is payable on 31st & 30th of March & September respectively. On August 1st 2020 the company again purchased 2,500 of such debentures @ ₹ 102.50 each on cum interest basis. On October 1st, 2020 the company sold 2,000 Debentures @ ₹ 103 each on ex- interest basis. The market value of the debentures as at the close of the year was ₹ 106. You are required to prepare the Investment in Debentures Account in the books of Alpha Ltd. for the year ended 31st Dec. 2020 on Average Cost Basis. **(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) The following particulars relate to hire purchase transactions:

(a) X purchased three cars from Y on hire purchase basis, the cash price of each car being ₹ 2,00,000.

(b) The hire purchaser charged depreciation @ 20% on diminishing balance method.

(c) Two cars were seized by on hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.

(d) The hire vendor spent ₹ 10,000 on repairs of the cars and then sold them for a total amount of ₹ 1,70,000.

You are required to compute:

(i) Agreed value of two cars taken back by the hire vendor.

(ii) Book value of car left with the hire purchaser.

(iii) Profit or loss to hire purchaser on two cars taken back by their hire vendor.

(iv) Profit or loss of cars repossessed, when sold by the hire vendor.

(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) Z Bank has classified its total investment on 31-3-2021 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI Guidelines. 'Held to maturity' investments are carried at acquisition cost less amortized amount. 'Available for sale' investments are carried at marked to market. 'Held for trading' investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored. You are required to comment whether the policy of the bank is in accordance with AS 13?

. **(4 Parts X 5 Marks = 20 Marks)**