

MOCK TEST PAPER – 1
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) (i) In the year 2018-19, an entity has acquired a new freehold building with a useful life of 50 years for Rs. 75,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

Component	Useful life (Years)	Cost
Land	Infinite	Rs. 10,00,000
Roof	25	Rs. 15,00,000
Lifts	20	Rs. 7,50,000
Fixtures	10	Rs. 2,50,000
Remainder of building	50	<u>Rs. 40,00,000</u>
		<u>Rs. 75,00,000</u>

Calculate depreciation for the year 2018-19 as per componentization method. Also state the treatment, in case Roof requires replacement at the end of its useful life.

- (ii) Entity A, a supermarket chain, is renovating one of its major stores. The store will have more available space for store promotion outlets after the renovation and will include a restaurant. Management is preparing the budgets for the year after the store reopens, which include the cost of remodeling and the expectation of a 15% increase in sales resulting from the store renovations, which will attract new customers.

Decide whether the remodeling cost will be capitalized or not as per provision of AS 10 "Property plant & Equipment".

- (b) The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2019. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard;
- (i) Provision for doubtful debts was created @ 2% till 31st March, 2018. From the Financial year 2018-2019, the rate of provision has been changed to 3%.
- (ii) During the year ended 31st March, 2019, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.
- (iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.

- (iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organization.
 - (v) During the year ended 31st March, 2019, there was change in cost formula in measuring the cost of inventories.
- (c) Mr. Mehul gives the following information relating to items forming part of inventory as on 31-3-2019. His factory produces Product X using Raw material A.
- (i) 600 units of Raw material A (purchased @ Rs. 120). Replacement cost of raw material A as on 31-3-2019 is Rs. 90 per unit.
 - (ii) 500 units of partly finished goods in the process of producing X and cost incurred till date Rs. 260 per unit. These units can be finished next year by incurring additional cost of Rs. 60 per unit.
 - (iii) 1500 units of finished Product X and total cost incurred Rs. 320 per unit.

Expected selling price of Product X is Rs. 300 per unit.

Determine how each item of inventory will be valued as on 31-3-2019. Also calculate the value of total inventory as on 31-3-2019.

- (d) State whether the following statements are 'True' or 'False'. Also give reason for your answer.
- (i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
 - (ii) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
 - (iii) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
 - (iv) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.
 - (v) There is no single list of accounting policies which are applicable to all circumstances.

(4 Parts x 5 Marks = 20 Marks)

2. (a) M & S Co. of Lucknow has a branch in Canberra, Australia (as an integral foreign operation of M & S Co.). At the end of 31st March 2019, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.

	Lucknow office (Rs. In thousand)		Canberra Branch (Aust. Dollars in thousand)	
	Dr.	Cr.	Dr.	Cr.
Capital		2,000		
Reserves & Surplus		1,000		
Land	500			
Buildings (Cost)	1,000			
Buildings Dep. Reserves		200		

Plant and Machinery (Cost)	2,500		200	
Plant and Machinery Dep.				
Reserves		600		130
Debtors/Creditors	280	200	60	30
Stock as on 1- 4-2018	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salary	75		45	
Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	4,880	4,880	390	390

The following information is also available:

- (i) Stock as at 31st March, 2019
Lucknow Rs. 1,50,000
Canberra A\$ 3125 (all stock are out of purchases made at Abroad)
- (ii) Head Office always sent goods to the Branch at cost plus 25%
- (iii) Provision is to be made for doubtful debts at 5%
- (iv) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down value.

You are required to:

- (1) Convert the Branch Trial Balance into rupees by using the following exchange rates:

<i>Opening rate</i>	<i>1 A \$ = Rs. 50</i>
<i>Closing rate</i>	<i>1 A \$ = Rs. 53</i>
<i>Average rate</i>	<i>1 A \$ = Rs. 51.00</i>
<i>For Fixed Assets</i>	<i>1 A \$ = Rs. 46.00</i>

- (2) Prepare Trading and Profit and Loss Account for the year ended 31st March 2019 showing to the extent possible H.O. results and Branch results separately.
- (b) The following balances were extracted from the books of Beta. You are required to prepare Departmental Trading Account and general Profit & Loss Account for the year ended 31st December, 2018:

Particulars	Deptt. A Rs.	Deptt. B Rs.
Opening Stock	3,00,000	2,40,000

Purchases	39,00,000	54,60,000
Sales	60,00,000	90,00,000

General expenses incurred for both the Departments were Rs. 7,50,000 and you are also supplied with the following information:

- (i) Closing stock of Department A Rs. 6,00,000 including goods from Department B for Rs. 1,20,000 at cost to Department A.
- (ii) Closing stock of Department B Rs. 12,00,000 including goods from Department A for Rs. 1,80,000 at cost to Department B.
- (iii) Opening stock of Department A and Department B include goods of the value of Rs. 60,000 and Rs. 90,000 taken from Department B and Department A respectively at cost to transferee departments.
- (iv) The gross profit is uniform from year to year. **(12+8=20 Marks)**

3. (a) Ali and Beta were carrying on business, sharing profits and losses equally. The firm's balance sheet as at 31-12-2018 was:

Liabilities		Rs.	Assets		Rs.
Sundry Creditors		1,44,000	Stock		1,44,000
Bank Overdraft		84,000	Machinery		3,60,000
Capital A/c:			Debtors		1,68,000
Ali	3,36,000		Joint Life Policy		21,600
Beta	<u>3,12,000</u>	6,48,000	Leasehold Premises		81,600
			Profit & Loss A/c		62,400
			Drawing A/c:		
			Ali	24,000	
			Beta	<u>14,400</u>	<u>38,400</u>
		<u>8,76,000</u>			<u>8,76,000</u>

The business was carried on till 30-06-2019. The partners withdrew the amounts equal to half the amount of profit made during the period of six months ended on 30-06-2019, in equal proportion. The profit was calculated after charging depreciation at 10% p.a. on machinery and after writing off 5% on leasehold premises. In the half year, sundry creditors were reduced by Rs. 24,000 and bank overdraft by Rs. 36,000.

On 30-06-2019, stock was valued at Rs. 1,80,000 and debtors at Rs. 1,44,000; the Joint Life Policy had been surrendered for Rs. 21,600 before 30-06-2019 and other items remained the same as at 31-12-2018.

On 30-06-2019, the firm sold the business to a limited company. The value of goodwill was fixed at Rs. 2,40,000 and the rest of the assets were valued on the basis of the balance sheet as at 30-06-2019. The company paid the purchase consideration in equity shares of Rs. 10 each.

You are required to prepare:

- (i) Balance Sheet of the firm as at 30-06-2019;
- (ii) Realisation Account; and
- (iii) Partners' Capital Accounts showing the final settlement between them.

- (b) Explain the nature of Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership? **(16+4 = 20 Marks)**

4. (a) The premises of Anmol Ltd. caught fire on 22nd January 2017, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2016 the stock at cost was Rs. 6,63,600 as against Rs. 4,81,100 on 31st March, 2015.

Purchases from 1st April, 2016 to the date of fire were Rs. 17,41,350 as against Rs. 22,62,500 for the full year 2015-16 and the corresponding sales figures were Rs. 24,58,500 and Rs. 26,00,000 respectively. You are given the following further information:

- (i) In July, 2016, goods costing Rs. 50,000 were given away for advertising purposes, no entries being made in the books.
- (ii) During 2016-17, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged Rs. 1,000 per week from 1st April, 2016 until the clerk was dismissed on 18th August, 2016.
- (iii) The rate of gross profit is constant.

You are required to calculate the value of stock in hand on the date of fire with the help of above information.

- (b) Akash Ltd. had 4,000 equity share of X Limited, at a book value of Rs. 15 per share (face value of Rs. 10 each) on 1st April 2018. On 1st September 2018, Akash Ltd. acquired 1,000 equity shares of X Limited at a premium of Rs. 4 per share. X Limited announced a bonus and right issue for existing share holders.

The terms of bonus and right issue were -

- (1) Bonus was declared, at the rate of two equity shares for every five equity shares held on 30th September, 2018.
- (2) Right shares are to be issued to the existing shareholders on 1st December, 2018. The company issued two right shares for every seven shares held at 25% premium. No dividend, was payable on these shares. The whole sum being payable by 31st December, 2018.
- (3) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.
- (4) Akash Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for Rs. 8 per share.
- (5) Dividend for the year ended 31st March 2018, at the rate of 20% was declared by the company and received by Akash Ltd., on 20th January 2019.
- (6) On 1st February 2019, Akash Ltd., sold half of its share holdings at a premium of Rs. 4 per share.
- (7) The market price of share on 31.03.2019 was Rs. 13 per share.

You are required to prepare the Investment Account of Akash Ltd. for the year ended 31st March, 2019 and determine the value of shares held on that date assuming the investment as current investment.

- (c) Mr. Aman is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Aman for the financial year 2018-19, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information:

On 31 st March, 2018	
Sundry Assets	Rs. 16,65,000
Liabilities	Rs. 4,13,000
On 31 st March, 2019	
Sundry Assets	Rs. 28,40,000
Liabilities	Rs. 5,80,000
Mr. Aman's drawings for the year 2018-19	Rs. 32,000 per month
Income declared to the Income Tax Officer	Rs. 9,12,000

During the year 2018-19, one life insurance policy of Mr. Aman was matured and amount received Rs. 50,000 was retained in the business.

State whether the Income Tax Officer's contention is correct. Explain by giving your working.

(6 + 10 + 4 = 20 Marks)

5. (a) J Ltd. presents you the following information for the year ended 31st March, 2019:

		(Rs. in lacs)
(i)	Net profit before tax provision	36,000
(ii)	Dividend paid	10,202
(iii)	Income-tax paid	5,100
(iv)	Book value of assets sold	222
	Loss on sale of asset	48
(v)	Depreciation debited to P & L account	24,000
(vi)	Capital grant received - amortized to P & L A/c	10
(vii)	Book value of investment sold	33,318
	Profit on sale of investment	120
(viii)	Interest income from investment credited to P & L A/c	3,000
(ix)	Interest expenditure debited to P & L A/c	12,000
(x)	Interest actually paid (Financing activity)	13,042
(xi)	Increase in working capital [Excluding cash and bank balance]	67,290
(xii)	Purchase of fixed assets	22,092
(xiii)	Expenditure on construction work	41,688
(xiv)	Grant received for capital projects	18
(xv)	Long term borrowings from banks	55,866
(xvi)	Provision for Income-tax debited to P & L A/c	6,000
	Cash and bank balance on 1.4.2018	6,000
	Cash and bank balance on 31.3.2019	8,000

You are required to prepare a cash flow statement as per AS-3 (Revised).

- (b) Futura Ltd. had the following items under the head “Reserves and Surplus” in the Balance Sheet as on 31st March, 2019:

Amount Rs. in lakhs	
Securities Premium Account	80
Capital Reserve	60
General Reserve	90

The company had an accumulated loss of Rs. 250 lakhs on the same date, which it has disclosed under the head “Statement of Profit and Loss” as asset in its Balance Sheet. Comment on accuracy of this treatment in line with Schedule III to the Companies Act, 2013.

- (c) PQ Ltd., a non-investment company has been incurring losses for the past few years. The company provides the following information for the current year:

	(Rs. in lakhs)
Paid up equity share capital	180
Paid up Preference share capital	30
Reserves (including Revaluation reserve Rs. 15 lakhs)	225
Securities premium	60
Long term loans	60
Deposits repayable after one year	30
Application money pending allotment	1080
Accumulated losses not written off	30
Investments	270

PQ Ltd. has only one whole-time director, Mr. Hello. You are required to calculate the amount of maximum remuneration that can be paid to him as per provisions of Part II of Schedule XIII, if no special resolution is passed at the general meeting of the company in respect of payment of remuneration for a period not exceeding three years. **(12+4+4=20 Marks)**

6. Answer the following:

- (a) Following items appear in the Trial Balance of Beta Ltd. as on 31st March, 2017:

Particulars	Amount
3,000 Equity Shares of Rs. 100 each	3,00,000
Securities Premium (collected in cash)	40,000
Capital Redemption Reserve	30,000
General Reserve	1,00,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books of Beta Ltd.

- (b) ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom-made machine amounting to Rs. 4,00,000. As on 31st March, 2018 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is ‘NIL’.

Show the treatment of machine in the books of ABC Ltd.

- (c) Suhana Ltd. issued 12% secured debentures of Rs. 100 Lakhs on 01.05.2018, to be utilized as under:

<i>Particulars</i>	<i>Amount (Rs. in lakhs)</i>
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2019, construction of the factory building was completed and machinery was installed and ready for its intended use. Total interest on debentures for the financial year ended 31.03.2019 was Rs. 11,00,000. During the year 2018-19, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of Rs. 2,00,000.

Show the treatment of interest under Accounting Standard 16 and also explain nature of assets.

OR

Beta Ltd. is a full tax free enterprise for the first ten years of its existence and is in the second year of its operation. Depreciation timing difference resulting in a tax liability in year 1 and 2 is Rs. 1,000 lakhs and Rs. 2,000 lakhs respectively. From the third year it is expected that the timing difference would reverse each year by Rs. 50 lakhs. Assuming tax rate of 40%, find out the deferred tax liability at the end of the second year and any charge to the Profit and Loss account.

- (d) The Board of Directors of a Company decide to issue minimum number of equity shares of Rs. 9 to redeem Rs. 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is Rs. 3,00,000.

Calculate the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of Rs. 50 only.

(4 Parts x 5 Marks = 20 Marks)