MOCK TEST PAPER – 1

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) Kunal Securities Ltd. wants to reclassify its investments in accordance with AS-13 (Revised). State the values, at which the investments have to be reclassified in the following cases:

(i) Long term investment in Company A, costing ₹ 10.5 lakhs is to be re-classified as current investment. The company had reduced the value of these investments to ₹ 9 lakhs to recognize a permanent decline in value. The fair value on the date of reclassification is ₹ 9.3 lakhs.

(ii) Long term investment in Company B, costing ₹ 14 lakhs is to be re-classified as current investment The fair value on the date of reclassification is ₹ 16 lakhs and book value is ₹ 14 lakhs.

(iii) Current investment in Company C, costing ₹12 lakhs is to be re-classified as long term investment as the company wants to retain them. The market value on the date of reclassification is ₹ 13.5 lakhs.

(iv) Current investment in Company D, costing ₹ 18 lakhs is to be re-classified as long term investment. The market value on the date of reclassification is ₹ 16.5 lakhs.

(b) Mr. Jatin gives the following information relating to the items forming part of the inventory as on 31.03.2023. His enterprise produces product P using Raw Material X.

(i) 900 units of Raw Material X (purchased @ ₹ 100 per unit). Replacement cost of Raw Material X as on 31.03.2023 is ₹ 80 per unit.

(ii) 400 units of partly finished goods in the process of producing P. Cost incurred till date is ₹ 245 per unit. These units can be finished next year by incurring additional cost of ₹ 50 per unit.

(iii) 800 units of Finished goods P and total cost incurred is ₹ 295 per unit.

Expected selling price of product P is ₹280 per unit, subject to a payment of 5% brokerage on selling price.

Determine how each item of inventory will be valued as on 31.03.2023.

Also calculate the value of total Inventory as on 31.03.2023.

(c) On 15th April, 2022 RBM Ltd. obtained a Term Loan from the Bank for ₹ 320 lakhs to be utilized as under:

	₹ (in lakhs)
Construction for factory shed	240
Purchase of Machinery	30
Working capital	24
Purchase of Vehicles	12

Advance for tools/cranes etc.	8
Purchase of technical know how	6

In March, 2023 construction of shed was completed and machinery was installed. Total interest charged by the bank for the year ending 31st March, 2023 was ₹ 40 lakhs.

In the context of provisions of AS 16 'Borrowing Costs', show the treatment of interest and also explain the nature of Assets.

(d) A Ltd. had following assets. Calculate depreciation for the year ended 31st March, 2023 for each asset as per AS 10 (Revised):

(i) Machinery purchased for ₹ 10 lakhs on 1st April, 2018 and residual value after useful life of 5 years, based on 2018 prices is ₹ 10 lakhs.

(ii) Land for ₹ 50 lakhs.

(iii) A Machinery is constructed for ₹ 5,00,000 for its own use (useful life is 10 years). Construction is completed on 1st April, 2022, but the company does not begin using the machine until 31st March, 2023.

(iv) Machinery purchased on 1st April, 2020 for ₹ 50,000 with useful life of 5 years and residual value is NIL. On 1st April, 2022, management decided to use this asset for further 2 years only. **(4 Parts x 5 Marks = 20 Marks)**

2. (a) Manohar of Mohali has a branch at Noida to which the goods are supplied from Mohali but the cost thereof is not recorded in the Head Office books. On 31st March, 2023 the Branch Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Creditors Balance	62,000	Debtors Balance	2,24,000
Head Office	1,88,000	Building Extension A/c	
		Closed by transfer to H.O. A/c	-
		Cash at Bank	26,000
	2,50,000		2,50,000

During the six months ending on 30-09-2023, the following transactions took place at Noida:

	₹		₹
Sales	2,78,000	Manager's salary	16,400
Purchases	64,500	Collections from debtors	2,57,000
Wages Paid	24,000	Discounts allowed	16,000
Salaries (inclusive of advance of ₹ 5,000)	15,600	Discount earned	4,600
General Expenses	7,800	Cash paid to creditors	88,500
Fire Insurance (Paid for one year)	11,200	Building Account (further payment)	14,000
Remittance to H.O.	52,900	Cash in Hand	5,600
		Cash at Bank	47,000

Set out the Head Office Account in Noida Books and the Branch Balance Sheet as on 30.09.2023. Also give journal entries in the Noida books. **(10 Marks)**

(b) M/s Rohan & Sons runs a business of Electrical goods on wholesale basis. The books of accounts are closed on 31st March every year. The Balance Sheet as on 31st March, 2022 is as follows :

Liabilities	₹	Assets	₹
Capital	12,50,000	Fixed Assets	6 50,000
		Closing stock	3,75,000
		Trade Debtors	3,65,000
Trade Creditors	1,90,000	Cash & Bank	1,95,000
Profit & Loss A/c	1,45,000		
	15,85,000		15,85,000

The management estimates the purchase & sales for the year ended 31st March,2023 as under:

Particulars	Upto 31.01.2023 (₹)	February 2023 (₹)	March 2023 (₹)
Purchases	16,20,000	1,40,000	1,25,000
Sales	20,75,000	2,10,000	1,75,000

All Sales and Purchases are on credit basis. It was decided to invest ₹ 1,50,000 in purchase of Fixed assets, which are depreciated @ 10% on book value. A Fixed Asset of book value as on 01.04.2022, ₹ 60,000 was sold for ₹ 56,000 on 31st March, 2023.

The time lag for payment to Trade Creditors for purchases is one month and receipt from Trade debtors for sales, is two months. The business earns a gross profit of 25% on turnover. The expenses against gross profit amounts to 15% of the turnover. The amount of depreciation is not included in these expenses.

Prepare Trading & profit & Loss Account for the year ending 31st March, 2023 and draft a Balance Sheet as at 31st March, 2023 assuming that creditors are all Trade creditors for purchases and debtors are all Trade debtors for sales and there is no other current asset and liability apart from stock and cash and bank balances.

Also, prepare Cash & Bank account and Fixed Assets account for the year ending 31st March, 2023. **(10 + 10 = 20 Marks)**

3. (a) The following figures have been extracted from the books of Manan Jo Limited for the year ended on 31.3.2023. 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 02-04-2022 at a premium of 5%.

(v) Further the company issued 75,000 equity shares of ₹10 each at a premium of 20% on 30.3.2023 (Out of 75,000 equity shares, 25,000 equity shares were issued to a supplier of machinery)

(vi) Dividend for FY 2021-22 on preference shares were paid at the time of redemption.

(vii) Dividend on Equity shares paid on 31.01.2023 for the year 2021-2022 ₹ 7.50 lakhs and interim dividend paid ₹ 2.50 lakhs for the year 2022-2023.

(viii) Land was purchased on 02.4.2022 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 01.04.2022	As on 31.3.2023
	₹	₹
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) A Fire occurred in the premises of M/S MJ & Co., on 31st December, 2022. From the following particulars related to the period from 1st April 2022 to 31st December 2022, you are required to ascertain the amount of claim to be filed with the insurance policy for ₹ 1,00,000 which is subject to average clause. The value of goods salvaged was estimated at ₹ 31,000. The average rate of gross profit was 20% throughout the period:

	Particulars	**Amount (₹)**
(i)	Opening stock as on 1st April,2022	1,50,000
(ii)	Purchases during the year	4,20,000
(iii)	Goods withdrawn by the proprietor for his self-use at Sales Value	10,000
(iv)	Goods distributed as charity at cost	4,000
(v)	Purchases include ₹ 5,000 of Tools purchased, these tools should have been capitalized.	
(vi)	Wages (include wages paid for the installation of machinery ₹ 6,000)	90,000
(vii)	Sales during the year	6,10,000
(viii)	Cost of goods sent to consignee on 1st November,2022, lying unsold with the consignee.	25,000
(ix)	Sales Return	10,000

(12 + 8 = 20 Marks)

4. (a) 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 31.03.2023. the other particulars as at 31.03.2023 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 per 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 4,500 Equity Shares in G Ltd., costing ₹ 45,000 at ₹ 9 per share.

Pass Journal entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet as at 31.03.2023 of BK Ltd., after the redemption is carried out.

(b) Jai Ltd purchased a machine on hire purchase basis from KM Ltd. on the following terms:

(a) Cash price ₹ 1,20,000.

(b) Down payment at the time of signing the agreement on 1-1-2018, ₹ 32,433.

(c) 5 annual instalments of ₹ 23,100, the first to commence at the end of twelve months from the date of down payment.

(d) Rate of interest is 10% p.a.

You are required to calculate the total interest and interest included in each instalment.

Also prepare the Ledger Account of KM Ltd. in the books of Jai Ltd. **(12 + 8 = 20 Marks)**

5. (a) Mr. Z has made following transactions during the financial year 2022-23:

Investment 1: 8% Corporate Bonds having face value ₹ 100.

Date	Particulars
01-06-2022	Purchased 36,000 Bonds at ₹ 86 cum-interest. Interest is payable on 30th September and 31st March every year
15-02-2023	Sold 24,000 Bonds at ₹ 92 ex-interest

Interest on the bonds is received on 30th September and 31st March.

Investment 2 : Equity Shares of G Ltd having face value ₹ 10

Date	Particulars
01-04-2022	Opening balance 8,000 equity shares at a book value of ₹ 190 per share
01-05-2022	Purchased 7,000 equity shares@ ₹ 230 on cum right basis; Brokerage of 1% was paid in addition.
15-06-2022	The company announced a bonus issue of 2 shares for every 5 shares held
01-08-2022	The company made a rights issue of 1 share for every 7 shares held at ₹ 230 per share. The entire money was payable by 31.08.2022
25-08-2022	Rights to the extent of 30% of his entitlements was sold @ ₹ 75 per share. The remaining rights were subscribed.
16-09-2022	Dividend @ ₹ 6 per share for the year ended 31.03.2022 was received on 16.09.2022. No dividend payable on Right issue and Bonus issue.
01-12-2022	Sold 7,000 shares @ 260 per share. Brokerage of 1% was incurred extra.
25-01-2023	Received interim dividend @ ₹ 3 per share for the year 2022-23.
31-03-2023	The shares were quoted in the stock exchange @ ₹ 260.

Both investments have been classified as Current investment in the books of Mr. Z. On 15th May 2023, Mr. Z decides to reclassify investment in equity shares of G Ltd. as Long term Investment. On 15th May 2023, the shares were quoted in the stock exchange @ ₹ 180.

You are required to:

(i) Prepare Investment Accounts in the books of Mr. Z for the year 2022-23, assuming that the average cost method is followed.

(ii) Profit and loss Account for the year 2022-23, based on the above information.

(b) A company had issued 20,000, 13% debentures of ₹ 100 each on 1st April, 2022. The debentures are due for redemption on 1st July, 2023. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value ₹ 10) at a price of ₹ 15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders exercising the option to the maximum.

(15 + 5 = 20 Marks)

6. Answer any **four** of the following:

(a) Department A sells goods to Department B at a profit of 20% on cost and to Department C at 50% on cost. Department B sells goods to Department A and Department C at a profit of 15% and 10% on sales respectively. Department C sells goods to Department A and Department B at a profit of 10% and 5% on cost respectively.

Stock lying at different departments at the end of the year are as follows:

	Department A (₹)	Department B (₹)	Department C (₹)
Transfer from Department A		1,14,000	60,000
Transfer from Department B	55,000		15,200
Transfer from Department C	52,800	1,11,300	

Calculate Department wise unrealized profit on Stock.

(b) Moon Ltd. was incorporated on 1st August, 2023 to take over the running business of a partnership firm w.e.f. 1st April, 2023. The following information is being furnished to you for year ended 31st March, 2023:

		Amount (₹)
Gross Profit		6,30,000
Less: Salaries	1,56,000	
Rent, Rates & Taxes	72,000	
Commission on sales	40,600	
Depreciation	60,000	
Interest on Debentures	36,000	
Director's fees	24,000	
Advertisement	48,000	4,36,600
Net Profit for the year		1,93,400

Moon Ltd. initiated an advertising campaign which resulted in increase of monthly sales by 25% post incorporation.

You are required to prepare a statement showing the profit for the year between pre - incorporation and post-incorporation. Also, explain how these profits are to be treated in the accounts?

(c) A trader commenced business on April 1, 2022 with ₹ 1,20,000 represented by 6,000 units of a certain product at ₹ 20 per unit. During the year 2022-23 he sold these units at ₹ 30/- per unit and had withdrawn ₹ 60,000. The price of the product at the end of financial year was ₹ 25/- per unit. Compute retained profit of the trader under the concept of physical capital maintenance at current cost. Also state, whether answer would be different if the trader had not withdrawn any amount.

(d) Following items appear in the Trail Balance of Star Ltd. as on 31st March, 2023:

Particulars	**₹**
80,000 Equity shares of ₹10 each, ₹ 8 paid-up	6,40,000
Capital Reserve (including ₹45,000 being profit on sale of Machinery)	1,10,000
Revaluation Reserve	80,000
Capital Redemption Reserve	75,000
Securities Premium	60,000
General Reserve	2,10,000
Profit & Loss Account (Cr. Balance)	1,00,000

On 1st April,2023, the Company has made final call on Equity shares @₹ 2 per share. The entire money was received in the month of April, 2023.

On 1st June, 2023, the Company decided to issue to Equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it was decided that there should be minimum reduction in free reserves. Pass necessary journal entries in the Books of Star Ltd.

(e) Following is the draft Profit & Loss Account of X Ltd. for the year ended 31st March, 2023:

	Amount (₹)		Amount (₹)
To Administrative Expenses	5,96,400	By Balance b/d	7,25,300
To Advertisement Expenses	1,10,500	By Balance from Trading A/c	42,53,650
To Sales Commission	1,05,550	By Subsidies received from Government	3,50,000
To Director's fees	1,48,900		
To Interest on Debentures	56,000		
To Managerial Remuneration	3,05,580		
To Depreciation on Fixed Assets	5,78,530		
To Provision for taxation	12,50,600		
To General Reserve	5,50,000		
To Investment Revaluation Reserve	25,800		
To Balance c/d	16,01,090		
	53,28,950		53,28,950

Depreciation on Fixed Assets as per Schedule II of the Companies Act, 2013 was ₹ 6,51,750. You are required to calculate the maximum limits of the managerial remuneration as per the Companies Act, 2013. **(4 Parts x 5 Marks = 20 Marks)**