

**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) (i) "In determining the cost of inventories, it is appropriate to exclude certain costs and recognize them as expenses in the period in which they are incurred". Provide examples of such costs as per AS 2 'Valuation of Inventories'.
- (ii) X Limited purchased goods at the cost of ₹ 40 lakhs in October, 2022. Till March, 2023, 75% of the stocks were sold. The company wants to disclose closing stock at ₹ 10 lakhs. The expected sale value is ₹ 11 lakhs and a commission at 10% on sale is payable to the agent. Advise, what is the correct value of closing stock to be disclosed as at 31.3.2023.
- (b) Ram Ltd. purchased machinery for ₹ 80 lakhs (useful life 4 years and residual value ₹ 8 lakhs). Government grant received was ₹ 32 lakhs. The grant had to be refunded at the beginning of third year. Show the Journal Entry to be passed at the time of refund of grant and the value of the fixed assets in the third year and the amount of depreciation for remaining two years, if the grant had been credited to Deferred Grant A/c.
- (c) Neon Enterprise operates a major chain of restaurants located in different cities. The company has acquired a new restaurant located at Chandigarh. The new-restaurant requires significant renovation expenditure. Management expects that the renovations will last for 3 months during which the restaurant will be closed.
- Management has prepared the following budget for this period –
- |   |             |
|---|-------------|
| Salaries of the staff engaged in preparation of restaurant before its opening | ₹ 7,50,000  |
| Construction and remodelling cost of restaurant                               | ₹ 30,00,000 |
- Explain the treatment of these expenditures as per the provisions of AS 10 "Property, Plant and Equipment".
- (d) State whether the following statements are 'True' or 'False' in line with the provisions of AS 1. 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) A Ltd. purchased on 1<sup>st</sup> April, 2022 8% convertible debenture in C Ltd. of face value of ₹ 2,00,000 @ ₹ 108. On 1<sup>st</sup> July, 2022 A Ltd. purchased another ₹ 1,00,000 debentures @ ₹ 112 cum interest. On 1<sup>st</sup> October, 2022 ₹ 80,000 debentures were sold @ ₹ 105. On 1<sup>st</sup> 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 31<sup>st</sup> December, 2022 is ₹ 110 and ₹ 15 respectively. Interest on debenture is payable each year on 31<sup>st</sup> March, and 30<sup>th</sup> September. Prepare investment account in the books of A Ltd. on average cost basis for the accounting year ended 31<sup>st</sup> December, 2022.

- (b) A fire engulfed the premises of a business of M/s Preet on the morning of 1<sup>st</sup> July 2023. The building, equipment and stock were destroyed and the salvage recorded the following:

Building – ₹ 4,000; Equipment – ₹ 2,500; Stock – ₹ 20,000. The following other information was obtained from the records saved for the period from 1<sup>st</sup> January to 30<sup>th</sup> June 2023:

	₹
Sales	11,50,000
Sales Returns	40,000
Purchases	9,50,000
Purchases Returns	12,500
Cartage inward	17,500
Wages	7,500
Stock in hand on 31 <sup>st</sup> December, 2022	1,50,000
Building (value on 31 <sup>st</sup> December, 2022)	3,75,000
Equipment (value on 31 <sup>st</sup> December, 2022)	75,000
Depreciation provided till 31 <sup>st</sup> December, 2022 on:	
Building	1,25,000
Equipment	22,500

No depreciation has been provided after December 31<sup>st</sup> 2022. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method.

Normally business makes a profit of 25% on net sales. You are required to prepare the statement of claim for submission to the Insurance Company.

- (c) A acquired on 1<sup>st</sup> January, 2023 a machine under a Hire-Purchase agreement which provides for 5 half-yearly instalments of ₹ 6,000 each, the first instalment being due on 1<sup>st</sup> July, 2023. 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. **(8 + 8 + 4 = 20 Marks)**

3. (a) Moon Star has a branch at Virginia (USA). The Branch is a non-integral foreign operation of the Moon Star. The trial balance of the Branch as at 31st March, 2023 is as follows:

Particulars	US \$	
	Dr.	Cr.
Office equipments	48,000	
Furniture and Fixtures	3,200	
Stock (April 1, 2022)	22,400	
Purchases	96,000	
Sales	---	1,66,400
Goods sent from H.O	32,000	
Salaries	3,200	
Carriage inward	400	
Rent, Rates & Taxes	800	
Insurance	400	
Trade Expenses	400	
Head Office Account	---	45,600
Sundry Debtors	9,600	
Sundry Creditors	---	6,800
Cash at Bank	2,000	
Cash in Hand	400	
	<u>2,18,800</u>	<u>2,18,800</u>

The following further information is given:

- (1) Salaries outstanding \$ 400.
- (2) Depreciate office equipment and furniture & fixtures @10% p.a. at written down value.
- (3) The Head Office sent goods to Branch for ₹15,80,000.
- (4) The Head Office shows an amount of ₹ 20,50,000 due from Branch.
- (5) Stock on 31st March, 2023 -\$21,500.
- (6) There were no transit items either at the start or at the end of the year.
- (7) On April 1, 2021 when the fixed assets were purchased the rate of exchange was ₹ 43 to one \$. On April 1, 2022, the rate was 47 per \$. On March 31, 2023 the rate was ₹ 50 per \$. Average rate during the year was ₹ 45 to one \$.

Prepare Trial balance incorporating adjustments given converting dollars into rupees and Trading, Profit and Loss Account for the year ended 31<sup>st</sup> March, 2023 of the Branch as would appear in the books of Moon Star for the purpose of incorporating in the main Balance Sheet.

- (b) Archana Enterprises maintain their books of accounts under single entry system. The Balance-Sheet as on 31st March, 2022 was as follows :

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c	6,75,000	Furniture & fixtures	1,50,000
Trade creditors	7,57,500	Stock	9,15,000
Outstanding expenses	67,500	Trade debtors	3,12,000

		Prepaid insurance	3,000
		Cash in hand & at bank	1,20,000
	15,00,000		15,00,000

The following was the summary of cash and bank book for the year ended 31<sup>st</sup> March, 2023:

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand & at Bank on 1 <sup>st</sup> April, 2022	1,20,000	Payment to trade creditors	1,24,83,000
Cash sales	1,10,70,000	Sundry expenses paid	9,31,050
Receipts from trade debtors	27,75,000	Drawings	3,60,000
		Cash in hand & at Bank on 31 <sup>st</sup> March, 2023	<u>1,90,950</u>
	<u>1,39,65,000</u>		1,39,65,000

Additional Information:

- Discount allowed to trade debtors and received from trade creditors amounted to ₹ 54,000 and ₹ 42,500 respectively (for the year ended 31<sup>st</sup> March, 2023).
- Annual fire insurance premium of ₹ 9,000 was paid every year on 1<sup>st</sup> August for the renewal of the policy.
- Furniture & fixtures were subject to depreciation @ 15% p.a. on diminishing balance method.
- The following are the balances as on 31<sup>st</sup> March, 2023:
 

Stock	₹ 9,75,000
Trade debtors	₹ 3,43,000
Outstanding expenses	₹ 55,200
- Gross profit ratio of 10% on sales is maintained throughout the year.

You are required to prepare Trading and Profit & Loss account for the year ended 31<sup>st</sup> March, 2023, and Balance Sheet as on that date. **(8 + 12 = 20 Marks)**

4. (a) X Ltd has three departments A, B and C. From the particulars given below compute: (i) the values of stock as on 31<sup>st</sup> Dec. 2022 and (ii) the departmental results showing actual amount of gross profit.

	A ₹	B ₹	C ₹
Stock (on 1.1. 2022)	24,000	36,000	12,000
Purchases	1,46,000	1,24,000	48,000
Actual sales	1,72,500	1,59,400	74,600
Gross Profit on normal selling price	20%	25%	33 1/3%

During the year ended 31<sup>st</sup> Dec. 2022, certain items were sold at discount and these discounts were reflected in the value of sales shown above. The items sold at discount were:

	A ₹	B ₹	C ₹
Sales at normal price	10,000	3,000	1,000
Sales at actual price	7,500	2,400	600

- (b) Surya Limited (a listed company) recently made a public issue in respect of which the following information is available:
- No. of partly convertible debentures issued- 2,00,000; face value and issue price- ₹ 100 per debenture.
  - Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.
  - Date of closure of subscription lists- 1.5.2022, date of allotment- 1.6.2022, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- ₹ 60 (Face Value ₹ 10).
  - Underwriting Commission- 2%.
  - No. of debentures applied for- 1,50,000.
  - Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31<sup>st</sup> March, 2023 (including cash and bank entries).

- (c) Manu Ltd. gives the following information as at 31<sup>st</sup> March, 2023:

	₹
<b>Issued and Subscribed capital:</b>	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
<b>Reserves and surplus:</b>	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1<sup>st</sup> April, 2023, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20<sup>th</sup> April, 2023. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. You are required to prepare necessary journal entries in the books of the company on 30<sup>th</sup> April, 2023 for these transactions.

**(6 + 10 + 4 = 20 Marks)**

5. (a) You are required to prepare a Balance Sheet as at 31<sup>st</sup> March 2023, as per Schedule III of the Companies Act, 2013, from the following information of Mehar Ltd.:

Particulars	Amount (₹)	Particulars	Amount (₹)
Term Loans (Secured)	40,00,000	Investments (Non-current)	9,00,000
Trade payables	45,80,000	Profit for the year	32,00,000
Cash and Bank Balances	38,40,000	Trade receivables	49,00,000
Staff Advances	2,20,000	Miscellaneous Expenses	2,32,000
Other advances (given by Co.)	14,88,000	Loan from other parties	8,00,000
Provision for Taxation	10,20,000	Provision for Doubtful Debts	80,000
Securities Premium	19,00,000	Stores	16,00,000
Loose Tools	2,00,000	Finished Goods	30,00,000
General Reserve	62,00,000	Plant and Machinery (WDV)	2,14,00,000

Additional Information: -

1. Share Capital consists of-
    - (a) 1,20,000 Equity Shares of ₹ 100 each fully paid up.
    - (b) 40,000, 10% Redeemable Preference Shares of ₹ 100 each fully paid up.
  2. Write off the amount of Miscellaneous Expenses in full, amounting ₹ 2,32,000.
- (b) Sneha Ltd. was incorporated on 1<sup>st</sup> July, 2022 to acquire a running business of Atul Sons with effect from 1<sup>st</sup> April, 2022.

During the year 2022-23, the total sales were ₹ 24,00,000 of which ₹ 4,80,000 were for the first six months. The Gross profit of the company for the year was ₹ 3,90,800. The expenses charged to the Statement of Profit & Loss Account included the following:

- (i) Director's fees ₹ 30,000
- (ii) Bad debts ₹ 7,200
- (iii) Advertising ₹ 24,000 (under a contract amounting to ₹ 2,000 per month)
- (iv) Salaries and General Expenses ₹ 1,28,000
- (v) Preliminary Expenses written off ₹ 10,000
- (vi) Donation to a political party given by the company ₹ 10,000.

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31<sup>st</sup> March, 2023. **(14 + 6 = 20 Marks)**

6. (a) Omega Limited has borrowed a sum of US \$ 10,00,000 at the beginning of Financial Year 2022-23 for its residential project at 4 %. The interest is payable at the end of the Financial Year. At the time of availment of loan exchange rate was ₹ 56 per US \$ and the rate as on 31<sup>st</sup> March, 2023 was ₹ 62 per US \$. If Omega Limited had borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%.

You are required to compute Borrowing Cost and exchange difference for the year ending 31<sup>st</sup> March, 2023 as per applicable Accounting Standards.

- (b) The following extract of Balance Sheet of X Ltd. (a non-investment company) was obtained:

**Balance Sheet (Extract) as on 31st March, 2023**

<i>Liabilities</i>	₹
<u>Issued and subscribed capital:</u>	
20,000, 14% preference shares of ₹ 100 each fully paid	20,00,000
1,20,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	96,00,000
Capital reserves (₹ 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Unsecured loans: Public deposits repayable after one year	3,70,000
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,00,000

You are required to compute Effective Capital as per the provisions of Schedule V to Companies Act, 2013.

OR

Following items appear in the Trial Balance of Hello Ltd. as on 31st March, 2023:

Particulars	Amount
9,000 Equity Shares of ₹100 each	9,00,000
Securities Premium	80,000
Capital Redemption Reserve	1,40,000
General Reserve	2,10,000
Profit and Loss Account (Cr. Balance)	90,000

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. You are required to give the necessary Journal Entries in the books Hello Ltd.

- (c) Prepare cash flow from investing activities as per AS 3 of M/s Subham Creative Limited for year ended 31.3.2023.

Particulars	Amount (₹)
Machinery acquired by issue of shares at face value	2,00,000
Claim received for loss of machinery in earthquake	55,000
Unsecured loans given to associates	5,00,000
Interest on loan received from associate company	70,000
Pre-acquisition dividend received on investment made	52,600
Debenture interest paid	1,45,200
Term loan repaid	4,50,000
Interest received on investment (TDS of ₹ 8,200 was deducted on the above interest)	73,800
Book value of plant & machinery sold (loss incurred ₹ 9,600)	90,000

- (d) Explain in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the Balance Sheet or Statement of Profit and Loss.
- (e) M/s. Kodam Enterprises purchased a generator on hire purchase from M/s. Sanctum Ltd. on 1<sup>st</sup> April, 2023. The hire purchase price was ₹48,000. Down payment was ₹12,000 and the balance is payable in 3 annual instalments of ₹12,000 each payable at the end of each financial year. Interest is payable @ 8% p.a. and is included in the annual payment of ₹12,000.

Depreciation at 10% p.a. is to be written off using the straight line method.

You are required to calculate the cash price of the generator and the interest paid on each instalment.

**(5 Parts x 4 Marks = 20 Marks)**