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) Om Ltd. purchased an item of property, plant and equipment for US $ 50 lakh on 01.04.2020 and the same was fully financed by the foreign currency loan [US $] repayable in five equal instalments annually. (Exchange rate at the time of purchase was 1 US $ = ₹ 60]. As on 31.03.2021 the first instalment was paid when 1 US $ fetched ₹ 62.00. The entire loss on exchange was included in cost of goods sold by the accountant. Om Ltd. provides depreciation on an item of property, plant and equipment at 20% on WDV basis and wants to exercise the option to adjust the cost of asset for exchange difference arising out of loan restatement and payment.

You are required to calculate the amount of exchange loss, its treatment and depreciation on this item of property, plant and equipment.

(b) From the following information provided by XYZ Limited you are required to compute the closing inventory:

Raw Material P

Closing balance	600 units
	₹ per unit
Cost price including GST	250
Input tax credit available	20
Freight inward	30
Handling charges	15
Replacement cost	180

Finished goods Q

Closing balance	1500 units
	₹ per unit
Material consumed	250
Direct labour	70
Direct overhead	30

Total fixed overhead for the year was ₹ 3,00,000 on a normal capacity of 30,000 units while actual production has been of 25,000 units.

Calculate the value of closing stock, when

(i) Net realizable value of the finished good Q is ₹ 450 per unit.

(ii) Net Realizable value of the Finished Good Q is ₹ 340 per unit.

(c) U Limited has obtained a term loan of ₹ 620 lacs for a complete renovation and modernization of its Factory on 1st April, 2020. Plant and Machinery was acquired under the modernization scheme and installation was completed on 30th April, 2021. An expenditure of ₹ 564 lacs was incurred on this Plant and Machinery and the balance loan of ₹ 56 lacs has been used for working capital purposes. The company has paid total interest of ₹ 68.20 lacs during financial year 2020-2021 on the above loan. The accountant seeks your advice how to account for the interest paid in the books of accounts. Will your answer be different, if the whole process of renovation and modernization gets completed by 28th February, 2021?

(d) From the following information, prepare the Cash Flow from Financing activities as per AS 3 'Cash Flow Statements' as the accountant of XYZ Limited is not able to decide and seeks your advice:

(i) Received ₹ 4,00,000 as redemption of short-term deposit

(ii) Proceeds of ₹ 20,00,000 from issuance of equity share capital

(iii) Received interest of ₹ 70,000 on Govt. bonds.

(iv) An amount of ₹ 13,00,000 incurred for purchase of goodwill

(v) Proceeds of ₹ 5,00,000 from sale of patent.

(vi) Proceeds of ₹ 12,00,000 from long term borrowing.

(vii) Amount paid for redemption of debentures of ₹ 22,00,000

(viii) Underwriting commission of ₹ 40,000 paid on issue of equity share capital

(ix) Interest of ₹ 1,44,000 paid on long-term borrowing.

(4 Parts x 5 Marks= 20 Marks)

2. (a) On 31st March, 2021, Morya Ltd. provides the following ledger balances:

Particulars	**Amount (₹)**	
	Debit	**Credit**
Equity Share Capital, fully paid shares of ₹ 50 each		80,00,000
Calls in arrear	15,000	
Land	25,00,000	
Buildings	30,00,000	
Plant & Machinery	24,00,000	
Furniture &Fixture	13,00,000	
Securities Premium		15,00,000
General Reserve		9,41,000
Profit & Loss Account		5,80,000
Loan from Public Finance Corporation (Secured by Hypothecation of Land)		26,30,000
Other Long Term Loans		22,50,000

Short Term Borrowings		4,60,000
Inventories: Finished goods	45,00,000	
Raw materials	13,00,000	
Trade Receivables	17,50,000	
Advances: Short Term	3,75,000	
Trade Payables		8,13,000
Provision for Taxation		3,80,000
Cash in Hand	70,000	
Balances with Banks	3,44,000	
Total	1,75,54,000	1,75,54,000

The following additional information was also provided in respect of the above balances:

(1) 50,000 fully paid equity shares were allotted as consideration for land.

(2) The cost of assets were:

Building	₹ 32,00,000
Plant and Machinery	₹ 30,00,000
Furniture and Fixture	₹ 16,50,000

(3) Trade Receivables for ₹ 4,86,000 due for more than 6 months.

(4) Balances with banks include ₹ 56,000, the Naya bank, which is not a scheduled bank.

(5) Loan from Public Finance Corporation repayable after 3 years.

(6) The balance of ₹ 26,30,000 in the loan account with Public Finance Corporation is inclusive of ₹ 1,34,000 for interest accrued but not due. The loan is secured by hypothecation of land.

(7) Other long-term loans (unsecured) include:

Loan taken from Nixes Bank	₹ 13,80,000
(Amount repayable within one year	₹ 4,80,000)
Loan taken from Directors	₹ 8,50,000

(8) Bills Receivable for ₹ 1,60,000 maturing on 15th June, 2021 has been discounted.

(9) Short term borrowings include:

Loan from Naya bank	₹ 1,16,000 (Secured)
Loan from directors	₹ 48,000

(10) Transfer of ₹ 35,000 to general reserve has been proposed by the Board of directors out of the profits for the year.

(11) Inventory of finished goods includes loose tools costing ₹ 5 lakhs (which do not meet definition of property, plant & equipment as per AS 10)

You are required to prepare the Balance Sheet of the Company as at March 31st 2021 as required under Schedule III of the Companies Act, 2013. Ignore previous year figures.

(b) A Ltd. gives the following information the year ended 31st March, 2021:

	₹
Gross profit	42,00,000
Administrative, Selling and distribution expenses	8,22,540
Directors' fees	1,34,780
Interest on debentures	31,240
Managerial remuneration	2,85,350
Depreciation on Property, plant and equipment (PPE)	5,22,540

Depreciation on PPE as per Schedule II of the Companies Act, 2013 was ₹ 5,75,345. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013. **(16 + 4 = 20 Marks)**

3. (a) M/s Shyam, a proprietorship firm runs a business of stationary items. It provides you the following information relating to assets and liabilities:

Assets & Liabilities	As on 01.04.2019	As on 31.03.2020
Creditors	20,000	15,000
Outstanding Expenses	600	800
Fixed Assets	12,000	13,000
Stock	10,000	12,000
Cash in hand	7,500	2,000
Cash at Bank	2,500	10,000
Debtors	?	18,000

Details of the year's transactions are as follows:

(1)	Discounts allowed to Debtor	4,000
(2)	Returns from debtors	1,450
(3)	Bad debts	500
(4)	Total sales (Cash and Credit)	72,000
(5)	Discount allowed by creditors	700
(6)	Returns to creditors	400
(7)	Receipts from debtors paid into Bank	76,000
(8)	Cash purchases	1,000
(9)	Expenses paid by cash	9,000
(10)	Drawings by cheque	500
(11)	Purchase of Fixed Assets by cheque	4,000
(12)	Cash deposited into bank	5,000
(13)	Cash withdrawn from bank	9,000
(14)	Payments to creditors by cheque	60,000

No fixed assets were sold during the year. Any difference in cash account to be considered as cash sales.

You are required to prepare Trading and Profit & Loss Account for the year ended 31.03.2020 and the Balance Sheet as at 31.03.2020 from the given information.

(b) From the following details of Western Branch Office of M/s. Alpha for the year ending 31st March, 2020, ascertain branch stock reserve in respect of unrealized profit in opening stock and closing stock:

(i) Goods are sent to the branch at invoice price and branch also maintains stock at the same price.

(ii) Sale price is cost plus 40%.

(iii) Invoice price is cost plus 15%.

(iv) Other information from accounts of branch:

Opening Stock as on 01-04-2019	3,45,000
Goods sent during the year by Head Office to Branch	16,10,000
Sales during the year	21,00,000
Expenses incurred at the branch	45,000

(16+4 = 20 Marks)

4. (a) Ram, Sham and Mahaan sons of Prabhu Dyal are running Punya Hotel in Chennai. Ram is heading Room division (A), Sham is heading banquet division (B) and Mahaan is heading Restaurant division (C). Each of the three brothers would receive 60% of the profits, if any, of the department of which he was incharge and remaining combined profits would be shared in 2:2:1 ratio. The following is the Trading and Profit and Loss Account of the firm for the year ended March 31,2021:

	(₹)	(₹)		(₹)	(₹)
To Opening Stock:			By Sales:		
Room (A)	25,650		Room (A)	2,70,000	
Banquet (B)	18,000		Banquet (B)	1,65,000	
Restaurant (C)	19,500	63,150	Restaurant (C)	86,700	5,21,700
To Purchases: Room (A)	2,35,000		By Discount received		1,650
Banquet (B)	1,56,000		By Closing Stock:		
Restaurant (C)	84,200	4,75,200	Room (A)	55,300	
To Salaries	34,400		Banquet (B)	31,800	
To Royalties	8,000		Restaurant (C)	42,500	1,29,600
To Parking fee & car washing charges	9,600				
To Discount allowed	2,500				
To Misc. Exp.	7,000				
To Depreciation	1,160	62,660			
To Net Profit		51,940			
Total		6,52,950	Total		6,52,950

Prepare: (I) Departmental Trading and Profit and Loss Account alongwith combined Profit & Loss account and (II) Profit and Loss Appropriation Account after incorporating the following information:

(i) Closing stock of Dept. B includes goods amounting ₹ 3,500 being transferred from Dept. A

(ii) Stock value ₹ 9,300 and other goods of the value of ₹ 1,500 were transferred at selling price by Departments A and C respectively to Department B.

(iii) The details of salaries were as follows:

(1) Admin Office 60%, Pantry 40%

(2) Allocate Admin Office in the proportion of 3: 2:1 among the Departments A, B, C

(3) Distribute Pantry expenses equally among the Department A and B.

(iv) The parking fee is ₹ 500 per month which is to be divided equally between Departments A, B & C.

(v) All other expenses are to be allocated in ratio of 2:2:1.

(vi) Discounts received are to be credited to the three Departments as follows:

A : ₹ 650; B : ₹ 600; C : ₹ 400.

(vii) The opening stock of Department B does not include any goods transferred from other departments and closing stock of Department B does not include any stock transferred from Department C.

(b) The capital structure of Beta Ltd. consists of 20,000 Equity Shares of ₹10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹100 each fully paid up (issued on 1.4.2019).

Undistributed reserve and surplus stood on 31.3.21 as: General Reserve ₹ 80,000; Profit and Loss Account ₹ 20,000; Investment Allowance Reserve is ₹ 10,000 out of which ₹ 5,000 is not ascertained as free reserve; Cash at bank amounted to ₹ 98,000.

Preference shares are redeemed at a Premium of 10% on 31.3.21 and for the purpose of redemption, the directors make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of ₹ 20,000 shall be retained in general reserve and which should not be utilised.

You are required to give Journal Entries to give effect to the above arrangements and show how the relevant items will appear in the Balance Sheet of the company after the redemption is carried out. **(12 + 8 =20 Marks)**

5. (a) On 27th July, 2021, a fire occurred in the godown of M/s. Vijay Exports and most of the stocks were destroyed. However goods costing ₹ 5,000 could be salvaged. Their fire fighting expenses were amounting to ₹ 1,300.

From the salvaged accounting records, the following information is available relating to the period from 1.4.2021 to 27.7.2021:

1.	Stock as per balance sheet as on 31.3.2021	₹ 63,000
2.	Purchases (including purchase of machinery costing ₹ 10,000	₹ 2,92,000
3.	Wages (including wages paid for installation of machinery ₹ 3,000)	₹ 53,000
4.	Sales (including goods sold on approval basis amounting to ₹ 40,000. No approval has been received in respect of 1/4th of the goods sold on approval)	₹ 4,12,300
5.	Cost of goods distributed as free sample	₹ 2,000

Other Information:

(i) While valuing the stock on 31.3.2021, ₹ 1,000 had been written off in respect of certain slow moving items costing ₹ 4,000. A portion of these goods were sold in June, 2021 at a loss of ₹ 700 on original cost of ₹ 3,000. The remainder of these stocks is now estimated to be worth its original cost.

(ii) Past record shows the normal gross profit rate is 20%.

(iii) The insurance company also admitted fire fighting expenses as part of insurance policy. The Company had taken the fire insurance policy of ₹ 55,000 with the average clause.

Compute the amount of claim of stock destroyed by fire, to be lodged to the Insurance Company. Also prepare Memorandum Trading Account for the period 1.4.2021 to 27.7.2021 for normal and abnormal items.

(b) On 1st April, 2019, Mr. Vijay had 30,000 Equity shares in X Ltd. (the company) at a book value of ₹ 4,50,000 (Face Value ₹ 10 per share). On 22nd June, 2019, he purchased another 5000 shares of the same company for ₹ 80,000. The Directors of X Ltd. announced a bonus of equity shares in the ratio of one share for seven shares held on 10th August, 2019.

On 31st August, 2019 the Company made a right issue in the ratio of three shares for every eight shares held, on payment of ₹ 15 per share. Due date for the payment was 30th September, 2019, Mr. Vijay subscribed to 2/3rd of the right shares and sold the remaining of his entitlement to Viru for a consideration of ₹ 2 per share.

On 31stOctober,2019, Vijay received dividends from X Ltd. @ 20% for the year ended 31st March, 2019. Dividend for the shares acquired by him on 22ndJune,2019 to be adjusted against the cost of purchase.

On 15th November, 2019 Vijay sold 20,000 Equity shares at a premium of ₹ 5 per share.

You are required to prepare Investment Account in the books of Mr. Vijay for the year ended 31st March, 2020 assuming the shares are being valued at average cost.

(c) Nidhi Ltd. invested in the shares of another company on 1st May 2019 at a cost of ₹ 3,00,000 with the intention of holding for more than a year. The published accounts of Nidhi Ltd. received in March, 2021 reveals that the company has incurred cash losses with decline in market share and investment of Nidhi Ltd. may not fetch more than ₹ 45,000. How you will deal with the above in the financial statements of the Paridhi Electronics Ltd. as on 31.3.21 with reference to AS-13? **(8 + 8 + 4 = 20 Marks)**

6. (a) 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 1-1-2016, ₹ 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.

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

(b) Aman Ltd. has issued 2,000, 12% convertible debentures of ₹ 100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of ₹ 10 each at a price of ₹ 20 per share and balance in cash. Debenture holders amounting ₹ 40,000 opted to get their debentures converted into equity shares as per terms of the issue.

You are required to calculate the number of shares issued and cash paid for redemption of ₹ 40,000 debenture holders and also pass journal entry for conversion and redemption of debentures.

OR

Following is the extract of the Balance Sheet of ABC Ltd. as at 31st March, 2021:

	₹
Authorised capital:	
45,000 12% Preference shares of ₹ 10 each	4,50,000
6,00,000 Equity shares of ₹ 10 each	60,00,000
	64,50,000
Issued and Subscribed capital:	
36,000 12% Preference shares of ₹ 10 each fully paid	3,60,000
4,05,000 Equity shares of ₹ 10 each, ₹ 8 paid up	32,40,000
Reserves and surplus:	
General Reserve	5,40,000
Capital Redemption Reserve	1,80,000
Securities premium (collected in cash)	1,12,500
Profit and Loss Account	9,00,000

On 1st April, 2021, the Company has made final call @ ₹ 2 each on 4,05,000 equity shares. The call money was received by 20th April, 2021. 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 give necessary journal entries in the books of the ABC Ltd. and prepare the relevant extract of the balance sheet as on 30th April, 2021 after bonus issue.

(c) Darshan Ltd. purchased a Machinery on 1st April, 2016 for ₹ 130 lakhs (Useful life is 4 years). Government grant received is ₹ 40 lakhs for the purchase of above Machinery.

Salvage value at the end of useful life is estimated at ₹ 60 lakhs.

Darshan Ltd. decides to treat the grant as deferred income.

Your are required to calculate the amount of depreciation and grant to be recognized in profit & loss account for the year ending 31st March, 2017,31st March, 2018, 31st March, 2019 & 31st March, 2020.

Darshan Ltd. follows straight line method for charging depreciation.

(d) Lotus Ltd. was incorporated on 1st July, 2019 to acquire a running business of Feel goods with effect from 1st April, 2019. During the year 2019-20, the total sales were ₹ 48,00,000 of which ₹ 9,60,000 were for the first six months. The Gross profit of the company ₹ 7,81,600. The expenses debited to the Profit & Loss statement included:

(i) Director's fees ₹ 60,000

(ii) Bad debts ₹ 14,400

(iii) Advertising ₹ 48,000 (under a contract amounting to ₹ 4,000 per month)

(iv) Salaries and General Expenses ₹ 2,56,000

(v) Preliminary Expenses written off ₹ 20,000

(vi) Donation to a political party given by the company ₹ 20,000.

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2020. **(4 Parts X 5 Marks = 20 Marks)**