MOCK TEST PAPER 1
INTERMEDIATE: GROUP – I
PAPER – 1: ACCOUNTING
ANSWERS

1. **(a)** (i) False; As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

(ii) False; As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

(iii) True; To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed at one place.

(iv) False; Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

(v) True; As per AS 1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.

(b) **(i)** Entity A should account for a loss in the Statement of Profit and Loss on de-recognition of the carrying value of plant and machinery in accordance with AS 10 on Property, Plant and Equipment. Entity A should separately recognize a receivable and a gain in the income statement resulting from the insurance proceeds once receipt is virtually certain. The receivable should be measured at the fair value of assets provided by the insurer.

(ii) The expenditure in remodelling the store will create future economic benefits (in the form of 15% of increase in sales). Moreover, the cost of remodelling can be measured reliably, therefore, it should be capitalized in line with AS 10.

(c) **Cash Flow Statement for the year ended 31.3.2021**

	₹	₹
Cash flow from operating activities		
Cash received on account of trade receivables	3,50,000	
Cash paid on account of trade payables	(90,000)	
Cash paid to employees (salaries and wages)	(25,000)	
Other cash payments (overheads)	(15,000)	
Cash generated from operations	2,20,000	
Income tax paid	(1,55,000)	
Net cash generated from operating activities		65,000
Cash flow from investing activities		
Payment for purchase of machinery	(4,00,000)	
Proceeds from sale of machinery	70,000	

Net cash used in investment activities		(3,30,000)
Cash flow from financing activities		
Proceeds from issue of share capital	5,00,000	
Bank loan repaid	(2,50,000)	
Debentures redeemed	(50,000)	
Net cash used in financing activities		2,00,000
Net decrease in cash and cash equivalents		(65,000)
Cash and cash equivalents at the beginning of the year		80,000
Cash and cash equivalents at the end of the year		15,000

(d) According to AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset (if the grant had been credited to the cost of fixed asset at the time of receipt of grant) should be recorded by increasing the book value of the asset, by the amount refundable. Where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

		(₹ in lakhs)
1st April, 2018	Acquisition cost of machinery (₹ 500 – ₹ 100)	400.00
31st March, 2019	*Less*: Depreciation @ 20%	(80)
1st April, 2019	Book value	320.00
31st March, 2020	*Less*: Depreciation @ 20%	(64)
1st April, 2020	Book value	256.00
31st March, 2021	*Less*: Depreciation @ 20%	(51.20)
1st April, 2021	Book value	204.80
2nd April, 2021	*Add*: Refund of grant	100.00
	Revised book value	304.80

Depreciation @ 20% on the revised book value amounting ₹ 304.80 lakhs is to be provided prospectively over the residual useful life of the asset.

2. (a)

Balance Sheet of Shree Ltd.
as at 31st March, 2021

		Particulars	Note No.	(₹)
I	**Equity and Liabilities**			
	(1)	**Shareholders' Funds**		
		(a) Share Capital	1	19,90,000
		(b) Reserves and Surplus	2	3,47,000
	(2)	**Current Liabilities**		
		(a) Trade Payables		2,40,500
		(b) Other Current Liabilities	3	13,28,000
		(c) Short-Term Provisions	4	1,20,000
		Total		40,25,500
II	**ASSETS**			
	(1)	**Non-Current Assets**		
		(i) Property, Plant and Equipment (PPE)	5	29,30,000

	(2)	**Current Assets**		
		(a) Inventories		7,08,000
		(b) Trade Receivables	6	3,59,500
		(c) Cash and Cash Equivalents	7	28,000
		Total		40,25,500

Shree Ltd.

Statement of Profit and Loss for the year ended 31st March, 2021

	Particulars	**Note No.**	**(₹)**
I	Revenue from Operations		36,17,000
II	Other Income	8	36,500
III	**Total Income [I + II]**		**36,53,500**
IV	Expenses:		
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,08,000]		(43,000)
	Employee Benefits Expenses	9	13,93,000
	Finance Costs	10	1,11,000
	Depreciation and Amortization Expenses		1,20,000
	Other Expenses	11	4,40,000
	Total Expenses		**32,53,500**
V	**Profit before Tax (III-IV)**		4,00,000
VI	**Tax Expenses @ 30%**		(1,20,000)
VII	**Profit for the period**		2,80,000

Notes to Accounts:

1. Share Capital

Authorised Capital	
5,00,000 Equity Shares of ₹ 10 each	50,00,000
Issued Capital	
2,00,000 Equity Shares of ₹ 10 each	20,00,000
Subscribed Capital and fully paid	
1,95,000 Equity Shares of ₹10 each	19,50,000
Subscribed Capital but not fully paid	
5,000 Equity Shares of ₹10 each ₹ 8 paid	40,000
(Call unpaid ₹10,000)	19,90,000

2. Reserves and Surplus

Surplus i.e. Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	2,80,000	3,47,000

3. Other Current Liabilities

Bank Overdraft	12,67,000
Outstanding Expenses [25,000+36,000]	61,000
	13,28,000

4. Short-term Provisions

Provision for Tax	1,20,000

5. PPE

Particulars	Value given (₹)	Depreciation rate	Depreciation Charged (₹)	Written down value at the end (₹)
Land	16,25,000		-	16,25,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Patterns	3,75,000	10%	37,500	3,37,500
Engineering Tools	1,50,000	20%	30,000	1,20,000
	30,50,000		1,20,000	29,30,000

6. Trade Receivables

Trade receivables (4,00,500-16,000)	3,84,500
Less: Provision for doubtful debts	(25,000)
	3,59,500

7. Cash & Cash Equivalent

Cash Balance	8,000
Bank Balance in current A/c	20,000
	28,000

8. Other Income

Miscellaneous Income (Transfer fees)	6,500
Rental Income	30,000
	36,500

9. Employee benefits expenses

Wages	13,68,000
Add: Outstanding wages	25,000
	13,93,000

10. Finance Cost

Interest on Bank overdraft	1,11,000

11. Other Expenses

Carriage Inward	57,500
Discount & Rebates	30,000
Advertisement	15,000

Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,000] (Business Expenses)	92,000
Bad Debts [25,500+16,000]	41,500
Provision for Doubtful Debts	25,000
	4,40,000

(b) (i) Shareholders' Fund / Reserve & Surplus

(ii) Current liabilities/Other Current Liabilities

(iii) Contingent Liabilities and Commitments

(iv) Shareholders' Fund / Money received against share warrants

3. (a) (i) Investment in Equity shares of JP Power Ltd.

Date	*Particulars*	*No.*	*Dividend ₹*	*Amount ₹*	*Date*	*Particulars*	*No.*	*Dividend ₹*	*Amount ₹*
1.1.19	To Bank A/c	600		12,000	31.3.19	By Balance c/d	1,500		34,500
15.3.19	To Bank A/c	900		22,500					
		1,500		34,500			1,500		34,500
1.4.19	To Balance b/d	1,500		34,500	15.9.19	By Bank - dividend		4,500	3,000
20.5.19	To Bank A/c	1,000		23,000	20.12.19	By Bank	1,500		33,000
25.7.19	To Bonus shares	2,500		_	1.2.20	By Bank	1,000		24,000
12.11.19	To Bank A/c	600		12,000	31.3.20	By Balance c/d	3,100		36,812.50
20.12.19	To P& L A/c (profit on sale)			15,187.50					
1.2.20	To P& L A/c (profit on sale)			12,125					
31.3.20	To P & L A/c (dividend)		4,500						
		5,600	4,500	96,812.50			5,600	4,500	96,812.50

Working Notes:

1. **Calculation of Weighted average cost of equity shares**

   600 shares purchased at ₹ 12,000

   900 shares purchased at ₹ 22,500

   1,000 shares purchased at ₹ 23,000

   2,500 shares at nil cost

   600 right shares purchased at ₹ 12,000

   Total cost of 5,600 shares is ₹ 66,500 [₹ 69,500 less ₹ 3,000 (pre-acquisition dividend received on 1,000 shares purchased on 20.5.19].

   Hence, weighted average cost per share will be considered as ₹ 11.875 per share (66,500/5,600).

2. It has been considered that no dividend was received on bonus shares as the dividend pertains to the year ended 31st March, 2019.

3. **Calculation of right shares subscribed by Vijay**

Right Shares (considering that right shares have been granted on Bonus shares also) = 5,000/5 x 1= 1,000 shares

Shares subscribed = 1,000 x 60%= 600 shares

Value of right shares subscribed = 600 shares @ ₹ 20 per share = ₹ 12,000

Calculation of sale of right renouncement

No. of right shares sold = 1,000 x 40% = 400 shares

Sale value of right = 400 shares x ₹ 3 per share = ₹ 1,200

Note: As per para 13 of AS 13, sale proceeds of rights is to be credited to P & L A/c.

4. **Profit on sale of equity shares**

As on 20.12.19	
Sales price (1,500 shares at ₹ 22)	33,000.00
Less: Cost of shares sold (1,500 x ₹ 11.875)	(17,812.50)
Profit on sale	15,187.50
As on 1. 2.20	
Sales price (1,000 shares at ₹ 24)	24,000
Less: Cost of shares sold (1,000 x ₹ 11.875)	(11,875)
Profit on sale	12,125

Balance of 3,100 shares as on 31.3.20 will be valued at ₹ 36,812.50 (at rate of ₹ 11.875 per share)

(ii) The accounting treatment 'at cost' under the head 'Long Term Investment' in the financial statements of the company without providing for any diminution in value is correct and is in accordance with the provisions of AS 13 provided that there is no decline, other than temporary, in the value of investment. If the decline in the value of investment is, other than temporary, compared to the time when the shares were purchased, provision is required to be made. The reduction in market value should not be considered, in isolation to determine the decline, other than temporary. The amount of the provision for diminution in the value of investment may be ascertained considering the factors indicated in AS 13.

(b) Memorandum Trading Account for the Period from 1.1.2021 to 30.6.2021

		₹			₹
To Opening Stock (1.1.2021)		1,50,000	By Sales	11,50,000	
To Purchases	9,50,000		*Less:* Sales Returns	(40,000)	11,10,000
Less: Returns	(12,500)	9,37,500			
To Cartage Inwards		17,500	By Closing Stock		2,80,000
To Wages		7,500	(Bal. Fig.)		
To Gross Profit (25% of ₹ 11,10,000)		2,77,500			
		13,90,000			13,90,000

Stock Destroyed Account

	₹		₹
To Trading Account	2,80,000	By Stock Salvaged Account	20,000
		By Balance c/d (For Claim)	2,60,000
	2,80,000		2,80,000

Statement of Claim

Items	*Cost (₹)*	*Depreciation (₹)*	*Salvage (₹)*	*Claim (₹)*
A	*B*	*C*	*D*	*(E=B-C-D)*
Stock	2,80,000		20,000	2,60,000
Buildings	3,75,000	1,25,000 + 9,375	4,000	2,36,625
Equipment	75,000	22,500 + 5,625	2,500	44,375
				5,41,000

4. (a) Trading and Profit and Loss Account for the year ending on 31st March, 2021

Particulars		**₹**	**Particulars**	**₹**
To Opening Stock		20,000	By Sales	1,80,000
To Purchases (bal.fig.)		1,54,000	By Closing Stock	30,000
To Gross Profit c/d (@20% on sales)		36,000		2,10,000
		2,10,000		
To Sundry Business Expenses		20,000	By Gross Profit b/d	36,000
To Depreciation:				
Building	1,625			
Furniture	250			
Motor	1,800	3,675		
To Net profit transferred to Capital A/c		12,325		
		36,000		36,000

Balance Sheet as at 31st March, 2021

Liabilities		**₹**	**Assets**		**₹**
Capital Account:			Building	32,500	
Opening Balance	48,000		*Less:* Depreciation	(1,625)	30,875
Add: Net profit	12,325		Furniture	5,000	
	60,325		*Less:* Depreciation	(250)	4,750
Less: Drawings	(7,500)	52,825	Motor Car	9,000	
Loan		15,000	*Less:* Depreciation	(1,800)	7,200
Sundry Creditors		47,500	Stock in trade		30,000
Outstanding Expenses		5,000	Sundry Debtors		21,000
			Cash at Bank		22,000
			Sundry Advances (Amount recoverable from Cashier)		4,500
		1,20,325			1,20,325

Working Notes:

(i) **Total Debtors Account**

Particulars	₹	Particulars	₹
To Balance b/d	17,000	By Bank (₹ 1,40,000 – ₹ 35,000)	1,05,000
To Sales (80% of ₹ 1,80,000)	1,44,000	By Cash A/c	35,000
		By Balance c/d	21,000
	1,61,000		1,61,000

(ii) **Total Creditors Account**

Particulars	₹	Particulars	₹
To Bank	1,37,500	By Balance b/d	31,000
To Balance c/d	47,500	By Purchases	1,54,000
	1,85,000		1,85,000

(iii) **Cash Book**

Particulars	Cash ₹	Bank ₹	Particulars	Cash ₹	Bank ₹
To Balance b/d	2,000	8,500	By Business Expenses	9,000	6,000
To Sales	36,000	-	By Drawings	-	7,500
To Sundry Debtors	35,000	1,05,000	By Sundry Creditors	-	1,37,500
To Cash (Contra)	-	71,500	By Bank (Contra)	71,500	-
To Bank (Contra)	12,000		By Cash (Contra)	-	12,000
			By Defalcation (Bal fig.)	4,500	-
			By Balance c/d (Bal fig.)		22,000
	85,000	1,85,000		85,000	1,85,000

(iv) Last year's Total Sales = Gross Profit x 100/20 = ₹ 30,000 x 100/20 = ₹ 1,50,000

(v) Current year's Total Sales = ₹ 1,50,000+ 20% of ₹ 1,50,000= ₹ 1,80,000

(vi) Current year's Credit Sales = ₹ 1,80,000 x 80%= ₹ 1,44,000

(vii) Cost of Goods Sold = Sales – G.P. = ₹1,80,000 – ₹ 36,000 = ₹ 1,44,000

(viii) Purchases = Cost of Goods Sold + Closing Stock – Opening Stock

= ₹ 1,44,000 + ₹ 30,000 – ₹ 20,000 = ₹ 1,54,000

(b) Departmental Trading Account for the year ended on 31st March, 2021

Particulars	*A*	*B*	*Particulars*	*A*	*B*
	₹	₹		₹	₹
To Opening Stock	3,00,000	2,40,000	By Sales	60,00,000	90,00,000
To Purchases	39,00,000	54,60,000	By Closing Stock	6,00,000	12,00,000
To Gross Profit	24,00,000	45,00,000			
	66,00,000	1,02,00,000		66,00,000	1,02,00,000

General profit and loss account of Beta for the year ended on 31st March, 2021

Particulars	*Amount*	*Particulars*	*Amount*
	₹		₹
To General expenses	7,50,000	By Stock reserve (opening stock)	

To Stock reserve (Closing Stock)		Dept. A	30,000
Dept. A	60,000	Dept. B	36,000
Dept. B	72,000	By Gross Profit	
To Net Profit	60,84,000	Dept. A	24,00,000
		Dept. B	45,00,000
	69,66,000		69,66,000

Working Notes:

	Dept. A	Dept. B
Percentage of Profit	24,00,000/60,00,000 x 100 = 40%	45,00,000/90,00,000 x 100 = 50%
Opening Stock reserve	60,000 x 50% = 30,000	90,000 X 40% = 36,000
Closing Stock reserve	1,20,000 x 50%=60,000	1,80,000 x 40% = 72,000

5. (a) Tejasvi (P) Limited

Statement showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods

	Pre. inc. (5 months) (₹)	***Post inc. (10 months) (₹)***
Sales (W.N.1)	3,00,000	16,80,000
Less: Cost of sales	1,80,000	10,08,000
Discount to dealers	7,000	39,200
Directors' remuneration	-	60,000
Salaries (W.N.2)	18,750	71,250
Rent (W.N.3)	15,000	1,20,000
Interest (W.N.4)	30,000	75,000
Depreciation	10,000	20,000
Office expenses	35,000	70,000
Preliminary expenses		15,000
Net profit	4,250	2,01,550

Working Notes:

1. **Calculation of sales ratio**

Let the average sales per month in pre-incorporation period be x

Average Sales (Pre-incorporation) = x X 5 = 5x

Sales (Post incorporation) from June to December, 2019 = 2½x X 7 = 17.5x

From January to March, 2020 = 3½x X 3 = 10.5x

Total Sales 28.0x

Sales ratio of pre-incorporation & post incorporation is 5x : 28x

2. **Calculation of ratio for salaries**

Let the average salary be x

Pre-incorporation salary	=	x X 5	=	5x
Post incorporation salary				
June, 2019	=			x
July,2019 to March, 2020	=	x X 9 X 2	=	18x
				19x

Ratio is 5 : 19

3. **Calculation of Rent**

		₹
Total rent		1,35,000
Less: Additional rent for 9 months @ ₹ 10,000 p.m.		90,000
Rent of old premises apportioned in time ratio		45,000
Apportionment	Pre Inc.	Post Inc.
Old premises rent	15,000	30,000
Additional Rent		90,000
	15,000	1,20,000

4. **Calculation of interest**

Pre-incorporation period from January, 2019 to May, 2019

$$\left(\frac{6,00,000\times12\times5}{100\times12}\right) = \text{₹ } 30,000$$

Post incorporation period from June, 2019 to March, 2020

$$\left(\frac{9,00,000\times10\times10}{100\times12}\right) = \text{₹ } 75,000$$

₹ 1,05,000

(b) Pune Branch Trading and Profit and Loss Account

	Particulars	₹		*Particulars*	₹
To	Opening Stock (including ₹10,000 from Goa Branch)	40,000	By	Sales (including ₹20,000 to Goa Branch)	2,80,000
To	Purchases	2,00,000	By	Closing Stock (including ₹5,000 from Goa Branch)	30,000
To	Chargeable Expenses	15,000			
To	Gross Profit c/d (before making adjustment for unrealised profit)	55,000			
		3,10,000			3,10,000
To	Stock Reserve (for unrealised profit in Closing Stock lying at Goa Branch) (₹4,000 x 25/100)	1,000	By	Gross Profit b/d	55,000

To	Office & Adm. Expenses	13,250	By	Stock Reserve (for unrealised profit in Opening Stock lying at Goa Branch) (₹ 17,000 x 25/100)	4,250
To	Selling & Distribution Expenses	15,000			
	To Net Profit	30,000			
		59,250			59,250

(c) **In the books of Ganesh Ltd.**

New York Branch Trial Balance in (₹)
as on 31st March, 2020

	Conversion rate per US $ (₹)	*Dr. ₹*	*Cr. ₹*
Stock on 1.4.19	40	12,000	
Purchases and sales	41	32,800	61,500
Sundry debtors and creditors	42	16,800	12,600
Bills of exchange	42	5,040	10,080
Sundry expenses	41	44,280	
Bank balance	42	17,640	
Delhi office A/c	–		44,380
		1,28,560	1,28,560

6. (a) **In the books of ABC Limited**

Journal Entries

Date	**Particulars**		**Dr. (₹)**	**Cr. (₹)**
2021				
April 1	10% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
	To Preference Shareholders A/c			1,00,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,00,000	
	To Bank A/c			1,00,000
	(Being the amount paid on redemption of preference shares)			
	General Reserve A/c	Dr.	75,000	
	Profit & Loss A/c	Dr.	25,000	
	To Capital Redemption Reserve A/c			1,00,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Note: Securities premium and capital reserve cannot be utilised for transfer to Capital Redemption Reserve.

(b) Computation of Effective Capital

		₹
Paid-up share capital-		
15,000, 14% Preference shares		15,00,000
1,20,000 Equity shares		96,00,000
Capital reserves (excluding revaluation reserve)		45,000
Securities premium		50,000
15% Debentures		65,00,000
	(A)	1,76,95,000
Investments		75,00,000
Profit and Loss account (Dr. balance)		15,25,000
	(B)	90,25,000
Effective capital	(A–B)	86,70,000

(c) Determination of Capital balances of Mr. Aman on 31.3.2020 and 31.3.2021

	31.3.2020	*31.3.2021*
	₹	₹
Assets	16,65,000	28,40,000
Less: Liabilities	(4,13,000)	(5,80,000)
Capital	12,52,000	22,60,000

Determination of Profit by applying the method of the capital comparison

	₹
Capital Balance as on 31-3-2021	22,60,000
Less: Fresh capital introduced (matured life insurance policy amount)	(50,000)
	22,10,000
Add: Drawings (₹32,000 × 12)	3,84,000
	25,94,000
Less: Capital Balance as on 1.4.2020	(12,52,000)
Profit	13,42,000
Income declared	9,12,000
Suppressed Income	4,30,000

The Income-tax officer's contention that Mr. Aman has not declared his true income is correct. Mr. Aman's true income is in excess of the disclosed income by ₹4,30,000.

OR

Statement showing cash value of the machine acquired on hire-purchase basis

	Instalment Amount	*Interest @ 5% half yearly (10% p.a.) = 5/105 = 1/21) (in each instalment)*	*Principal Amount (in each instalment)*
	₹	₹	₹
5th Instalment	6,000	286	5,714
Less: Interest	(286)		
	5,714		
Add: 4th Instalment	6,000		
	11,714	558	5,442
Less: Interest	(558)		(11,156–5,714)

	11,156		
Add: 3rd instalment	6,000		
	17,156	817	5,183
Less: Interest	(817)		(16,339–11,156)
	16,339		
Add: 2nd instalment	6,000		
	22,339	1,063	4,937
Less: Interest	(1,063)		(21,276–16,339)
	21,276		
Add: 1st instalment	6,000		
	27,276	1,299	4,701
Less: Interest	(1,299)		(25,977–21,276)
	25,977	4,023	25,977

The cash purchase price of machinery is ₹ 25,977.

(d) A liability is recognized when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured. In the given case, ABC Ltd. should recognize a liability of ₹ 4,00,000 payable to XYZ Ltd. When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognized as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognized as an expense. Hence ABC Ltd. should charge the amount of ₹ 4,00,000 (being loss due to change in production method) to Profit and loss statement and record the corresponding liability (amount payable to XYZ Ltd.) for the same amount in the books for the year ended 31st March, 2021.