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) Mohan Ltd. has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site.

The following incremental costs will be incurred:

Setup costs of ₹ 5,00,000 to install machinery in the new location.

Rent of ₹ 15,00,000.

Removal costs of ₹ 3,00,000 to transport the machinery from the old location to the temporary location.

Mohan Ltd. wants to seek your guidance as whether these costs can be capitalized into the cost of the new building. You are required to advise in line with AS 10 "Property, Plant and Equipment".

(b) U.S.A Ltd. purchased raw material @ ₹ 400 per kg. Company does not sell raw material but uses in production of finished goods. The finished goods in which raw material is used are expected to be sold at below cost. At the end of the accounting year, company is having 10,000 kg of raw material in inventory. As the company never sells the raw material, it does not know the selling price of raw material and hence cannot calculate the realizable value of the raw material for valuation of inventories at the end of the year. However replacement cost of raw material is ₹ 300 per kg. How will you value the inventory of raw material?

(c) How you will deal with following in the financial statements of the Paridhi Electronics Ltd. as on 31.3.22 with reference to AS-13?

(i) Paridhi Electronics Ltd. invested in the shares of another unlised company on 1st May 2018 at a cost of ₹ 3,00,000 with the intention of holding more than a year. The published accounts of unlisted company received in January, 2022 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics Ltd. may not fetch more than ₹ 45,000.

(ii) Also Paridhi Electronics Ltd. has current investment (X Ltd.'s shares) purchased for ₹ 5 lakhs, which the company want to reclassify as long term investment. The market value of these investments as on date of Balance Sheet was ₹ 2.5 lakhs.

(d) Suhana Ltd. issued 12% secured debentures of ₹ 100 Lakhs on 01.05.2021, to be utilized as under:

Particulars	Amount (₹ in lakhs)
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2022, construction of the factory building was completed and machinery was installed and ready for it intended use. Total interest on debentures for the financial year ended 31.03.2022 was ₹ 11,00,000. During the year 2021-22, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of ₹ 2,00,000.

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

(4 Parts x 5 Marks = 20 Marks)

2. (a) Gopal holds 2,000, 15% Debentures of ₹ 100 each in Ritu Industries Ltd. as on April 1, 2021 at a cost of ₹ 2,10,000. Interest is payable on June, 30th and December, 31st each year. On May 1, 2021, 1,000 debentures are purchased cum-interest at ₹ 1,07,000. On November 1, 2021, 1,200 debentures are sold ex-interest at ₹ 1,14,600. On November 30, 2021, 800 debentures are purchased ex-interest at ₹ 76,800. On December 31, 2021, 800 debentures are sold cum-interest for ₹ 1,10,000.

You are required to prepare the Investment Account showing value of holdings on March 31, 2022 at cost, using FIFO Method.

(b) The premises of Vani Ltd. caught fire on 22nd January 2022, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2021 the stock at cost was ₹ 13,27,200 as against ₹ 9,62,200 on 31st March, 2020.

Purchases from 1st April, 2021 to the date of fire were ₹ 34,82,700 as against ₹ 45,25,000 for the full year 2020-21 and the corresponding sales figures were ₹ 49,17,000 and ₹ 52,00,000 respectively. You are given the following further information:

(i) In July, 2021, goods costing ₹ 1,00,000 were given away for advertising purposes, no entries being made in the books.

(ii) During 2021-22, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged ₹ 2,000 per week from 1st April, 2021 until the clerk was dismissed on 18th August, 2021.

(iii) The rate of gross profit is constant.

From the above information calculate the stock in hand on the date of fire. **(10 +10 = 20 Marks)**

3. (a) M/s Heera & Co. has head office at U.S.A. and branch in Patna(India). Patna branch is an integral foreign operation of Heera & Co.

Patna branch furnishes you with its trial balance as on 31st March, 2022 and the additional information given thereafter:

	Dr.	Cr.
	(Rupees in thousands)	
Stock on 1st April, 2021	300	
Purchases and Sales	800	1,200
Sundry Debtors & Creditors	400	300
Bills of Exchange	120	240
Wages & Salaries	560	-
Rent, Rates & Taxes	360	-
Sundry Charges	160	-
Plant	240	-
Bank Balance	420	-
U.S.A. Office A/c	-	1,620
	3,360	3,360

Information:

(a) Plant was acquired from a remittance of US $ 6,000 received from USA head office and paid to the suppliers. Depreciate Plant at 60% for the year.

(b) Unsold stock of Patna branch was worth ₹ 4,20,000 on 31st March, 2022.

(c) The rates of exchange may be taken as follows:

- On 01.04.2021 @ ₹ 55 per US $
- On 31.03.2022 @ ₹ 60 per US $
- Average exchange rate for the year @ ₹ 58 per US $
- Conversion in $ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2022 and the balance sheet as on that date of Patna branch as would appear in the books of USA head office of Heera & Co. You are informed that Patna branch account showed a debit balance of US $ 29845.35 on 31.3.2022 in USA books and there were no items pending reconciliation.

(b) The following balances were extracted from the books of M/s Division. You are required to prepare Departmental Trading Account and Profit and Loss account for the year ended 31st December, 2021 after adjusting the unrealized department profits if any.

	Deptt. A ₹	Deptt. B ₹
Opening Stock	50,000	40,000
Purchases	6,50,000	9,10,000
Sales	10,00,000	15,00,000

General expenses incurred for both the departments were ₹ 1,25,000 and you are also supplied with the following information: (a) Closing stock of Department A ₹ 1,00,000 including goods from Department B for ₹ 20,000 at cost of Department A. (b) Closing stock of Department B ₹ 2,00,000 including goods from Department A for ₹ 30,000 at cost to Department B. (c) Opening stock of Department A and Department B include goods of the value of ₹ 10,000 and ₹ 15,000 taken from Department B and Department A respectively at cost to transferee departments. (d) The rate of gross profit is uniform from year to year. **(12 + 8 = 20 Marks)**

4. (a) From the following information in respect of Mr. Preet, prepare Trading and Profit and Loss Account for the year ended 31st March, 2022 and a Balance Sheet as at that date:

		31-03-2021	31-03-2022
(1)	Liabilities and Assets	₹	₹
	Stock in trade	1,60,000	1,40,000
	Debtors for sales	3,20,000	?
	Bills receivable	-	?
	Creditors for purchases	2,20,000	3,00,000
	Furniture at written down value	1,20,000	1,27,000
	Expenses outstanding	40,000	36,000
	Prepaid expenses	12,000	14,000
	Cash on hand	4,000	3,000
	Bank Balance	20,000	1,500

(2)	Receipts and Payments during 2021-22:		
	Collections from Debtors		
	(after allowing 2-1/2% discount)		11,70,000
	Payments to Creditors		
	(after receiving 2% discount)		7,84,000
	Proceeds of Bills receivable discounted at 2%)		1,22,500
	Proprietor's drawings		1,40,000
	Purchase of furniture on 30.09.2021		20,000
	12% Government securities purchased on 1-10-2021		2,00,000
	Expenses		3,50,000
	Miscellaneous Income		10,000
(3)	Sales are effected so as to realize a gross profit of 50% on the cost.		
(4)	Capital introduced during the year by the proprietor by cheques was omitted to be recorded in the Cash Book, though the bank balance on 31st March, 2022 (as shown above), is after taking the same into account.		
(5)	Purchases and Sales are made only on credit.		
(6)	During the year, Bills Receivable of ₹ 2,00,000 were drawn on debtors. Out of these, Bills amount to ₹ 40,000 were endorsed in favour of creditors. Out of this latter amount, a Bill for ₹ 8,000 was dishonoured by the debtor.		

(b) Moon Ltd. was incorporated on 1st August, 2021 to take over the running business of a partnership firm w.e.f. 1st April, 2021. The information for the year ended 31st March, 2022 is as under:

		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? **(15 + 5 = Marks)**

5. (a) J Ltd. presents you the following information for the year ended 31st March, 2022:

	(₹ in lacs)
Net profit before tax provision	36,000
Dividend paid	10,202

Income-tax paid	5,100
Book value of assets sold	222
Loss on sale of asset	48
Depreciation debited to P & L account	24,000
Book value of investment sold	33,318
Profit on sale of investment	120
Interest income from investment credited to P & L A/c	3,000
Interest expenditure debited to P & L A/c	11,990
Interest actually paid (Financing activity)	13,042
Increase in working capital [Excluding cash and bank balance]	67,290
Purchase of fixed assets	22,092
Expenditure on construction work	41,688
Long term borrowings from banks	55,884
Provision for Income-tax debited to P & L A/c	6,000
Cash and bank balance on 1.4.2021	6,000
Cash and bank balance on 31.3.2022	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, 2022:

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

The company had an accumulated loss of ₹ 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) The following is the information of Mudra Ltd., the year ended 31st March, 2022:

Gross profit	40,25,365
Subsidies received from Govt.	2,73,925
Administrative, Selling and distribution expenses	8,22,542
Directors fees	1,34,780
Interest on debentures	31,240
Managerial remuneration	2,85,350
Depreciation on fixed assets	5,22,543
Provision for Taxation	12,42,500
Transfer to General Reserve	4,00,000

Depreciation on fixed assets 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. **(12 + 4 + 4 = 20 Marks)**

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

(a) How would you treat the following in the accounts in accordance with AS 12 'Government Grants'?

(i) ₹ 35 Lakhs received from the Local Authority for providing Medical facilities to the employees.

(ii) ₹ 100 Lakhs received as Subsidy from the Central Government for setting up a unit in a notified backward area.

(iii) ₹ 10 Lakhs Grant received from the Central Government on installation of anti-pollution equipment.

(b) Following is the extract of the Balance Sheet of Manoj Ltd. as at 31st March, 2022

Authorised capital:	₹
30,000 12% Preference shares of ₹ 10 each	3,00,000
3,00,000 Equity shares of ₹ 10 each	30,00,000
	33,00,000
Issued and Subscribed capital:	
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
Reserves and surplus:	
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 1st April, 2022, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2022. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Prepare necessary journal entries in the books of the company.

(c) Kumar Ltd. had made a rights issue of shares in 2022. In the offer document to its members, it had projected a surplus of ₹ 40 crores during the accounting year to end on 31st March, 2022. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of ₹ 10 crores. The board in consultation with the managing director, decided not to provide for "after sales expenses" during the warranty period. Till the last year, provision at 2% of sales used to be made under the concept of "matching of costs against revenue" and actual expenses used to be charged against the provision. The board now decided to account for expenses as and when actually incurred. Sales during the year total to ₹ 600 crores.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2021-22.

(d) Assets and liabilities and income and expenditure items in respect of integral foreign operations are translated into Indian rupees at the prevailing rate of exchange at the end of the year. The resultant exchange differences in the case of profit, is carried to other Liabilities Account and the Loss, if any, is charged to revenue. You are required to comment in line with AS 11.

(e) M/s X & Co. (a partnership firm) had a turnover of ₹ 5 crores (excluding other income) and borrowings of ₹ 1.5 crores in the previous year. It wants to avail the exemptions available in application of Accounting Standards to non-corporate entities for the year ended 31.3.2022. Advise the management of M/s X & Co in respect of the exemptions of provisions of ASs, as per the directive issued by the ICAI. **(4 Parts x 5 Marks = 20 Marks)**