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MOCK TEST -7

CA INTER

(19-03-2023)

PAPER 1 – ACCOUNTING FULL SYLLABUS

Roll No ...784624.....

Total No. of Question: 6

Time allowed: 3 hours

Total No. of Printed Pages: 10

Maximum Marks: 100

Question No. 1 is compulsory.

Candidates are required to **answer any four questions from the remaining five questions.**

Working notes should from part of the answer.

Whenever necessary, suitable assumptions may be made and indicated in the answer by the candidates.

Question 1 (a)**(5 Marks)**

X Ltd. began construction of a new building on 1st January, 2019. It obtained ₹1 lakh special loan to finance the construction of the building on 1st January, 2019 at an interest rate of 10%. The company's other outstanding two non-specific loans were:

| Amount | Rate of Interest |
|------------|------------------|
| ₹ 5,00,000 | 11% |
| ₹ 9,00,000 | 13% |

The expenditures that were made on the building project were as follows:

| | | ₹ |
|----------|------|----------|
| January | 2019 | 2,00,000 |
| April | 2019 | 2,50,000 |
| July | 2019 | 4,50,000 |
| December | 2019 | 1,20,000 |

Building was completed by 31st December, 2019. Following the principles prescribed in AS 16 'Borrowing Cost,' calculate the amount of interest to be capitalised and pass one Journal Entry for capitalising the cost and borrowing cost in respect of the building.

Question 1 (b)**(5 Marks)**

In the year 2017-18, an entity has acquired a new freehold building with a useful life of 25 years for ₹45,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

| Component | Useful life (Years) | Cost (₹) |
|-----------------------|---------------------|-----------|
| Land | Infinite | 10,00,000 |
| Roof | 25 | 5,00,000 |
| Lifts | 10 | 2,50,000 |
| Fixtures | 5 | 2,50,000 |
| Remainder of building | 25 | 25,00,000 |
| | | 45,00,000 |

- Calculate depreciation for the year 2017-18 as per componentization method.
- Also state the treatment, in case Roof requires replacement at the end of its useful life.

Question 1 (c)**(5 Marks)**

A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2017.

| | ₹ Per unit |
|------------------------------|------------|
| <u>Raw Material X</u> | |
| Cost price | 380 |
| Unloading Charges | 20 |
| Freight Inward | 40 |
| Replacement cost | 300 |
| <u>Chemical Y</u> | |
| Material consumed | 440 |
| Direct Labour | 120 |
| Variable Overheads | 80 |

Additional Information:

- (i) Total fixed overhead for the year was ₹ 4,00,000 on normal capacity of 20,000 units.
(ii) Closing balance of Raw Material X was 1,000 units and Chemical Y was ₹ 2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when

- (a) Net realizable value of Chemical Y is ₹ 800 per unit
(b) Net realizable value of Chemical Y is ₹ 600 per unit

Question 1(d)**(5 Marks)**

On 01.04.2014, XYZ Ltd. received Government grant of ₹100 Lakhs for an acquisition of new machinery costing ₹500 Lakhs. The grant was received and credited to the cost of the assets. The life span of the machinery is 5 years. The machinery is depreciated at 20% on WDV method.

The company had to refund the entire grant on 2nd April, 2017 due to non-fulfilment of certain conditions which was imposed by the government at the time of approval of grant.

How do you deal with the refund of grant to the Government in the books of XYZ Ltd., as per AS 12?

Question 2**(20 Marks)**

You are required to prepare a Statement of Profit and Loss and Balance Sheet from the following Trial Balance extracted from the books of the International Hotels Ltd., on 31st March, 2020:

| | | Dr. ₹ | Cr. ₹ |
|---|--------|-----------|-----------|
| Authorised Capital-divided into 5,000 6% Preference Shares of ₹100 each and 10,000 equity Shares of ₹100 each | | | 15,00,000 |
| Subscribed Capital - | | | |
| 5,000 6% Preference Shares of ₹100 each | | | 5,00,000 |
| Equity Capital | | | 8,05,000 |
| Purchases - Wines, Cigarettes, Cigars, etc. | | 45,800 | |
| - Foodstuffs | | 36,200 | |
| Wages and Salaries | | 28,300 | |
| Rent, Rates and Taxes | | 8,900 | |
| Laundry | | 750 | |
| Sales - Wines, Cigarettes, Cigars, etc. | | | 68,400 |
| - Food | | | 57,600 |
| Coal and Firewood | | 3,290 | |
| Carriage and Cooliage | | 810 | |
| Sundry Expenses | | 5,840 | |
| Advertising | | 8,360 | |
| Repairs | | 4,250 | |
| Rent of Rooms | | | 48,000 |
| Billiard | | | 5,700 |
| Miscellaneous Receipts | | | 2,800 |
| Discount received | | | 3,300 |
| Transfer fees | | | 700 |
| Freehold Land and Building | | 8,50,000 | |
| Furniture and Fittings | | 86,300 | |
| Inventory on hand, 1st April, 2019 | | | |
| Wines, Cigarettes. Cigars, etc. | | 12,800 | |
| Foodstuffs | | 5,260 | |
| Cash in hand | | 2,200 | |
| Cash with Bankers | | 76,380 | |
| Preliminary and formation expenses | | 8,000 | |
| 2,000 Debentures of ₹ 100 each (6%) | | | 2,00,000 |
| Profit and Loss Account | | | 41,500 |
| Trade payables | | | 42,000 |
| Trade receivables | | 19,260 | |
| Investments | | 2,72,300 | |
| Goodwill at cost | | 5,00,000 | |
| General Reserve | | | 2,00,000 |
| | | 19,75,000 | 19,75,000 |
| Wages and Salaries Outstanding | 1,280 | | |
| Inventory on 31st March, 2020 | | | |
| Wines, Cigarettes and Cigars, etc. | 22,500 | | |
| Foodstuffs | 16,400 | | |

Depreciation: Furniture and Fittings @ 5% p.a. : Land and Building @ 2% p.a.

The Equity capital on 1st April, 2019 stood at ₹7,20,000, that is 6,000 shares fully paid and 2,000 shares ₹60 paid. The directors made a call of ₹40 per share on 1st October 2019. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ ₹90 per share as fully paid. The Directors declare a dividend of 8% on equity shares, transferring any amount that may be required from General Reserve. Ignore Taxation.

Question 3

(20 Marks)

M/s Omega is a departmental store having three departments X, Y and Z. The information regarding three departments for the year ended 31st March, 2020 are given below:

| | X | Y | Z |
|--|----------|----------|--------|
| | ₹ | ₹ | ₹ |
| Opening stock | 36,000 | 24,000 | 20,000 |
| Purchases | 1,32,000 | 88,000 | 44,000 |
| Debtors at end | 15,000 | 10,000 | 10,000 |
| Sales | 1,80,000 | 1,35,000 | 90,000 |
| Closing stock | 45,000 | 17,500 | 21,000 |
| Value of furniture in each department | 20,000 | 20,000 | 10,000 |
| Floor space occupied by each department (in sq. ft.) | 3,000 | 2,500 | 2,000 |
| Number of employees in each Department | 25 | 20 | 15 |
| Electricity consumed by each department (in units) | 300 | 200 | 100 |

The balances of other revenue items in the books for the year are given below:

| | Amount (₹) |
|---------------------------|------------|
| Carriage inwards | 3,000 |
| Carriage outwards | 2,700 |
| Salaries | 48,000 |
| Advertisement | 2,700 |
| Discount allowed | 2,250 |
| Discount received | 1,800 |
| Rent, Rates and Taxes | 7,500 |
| Depreciation on furniture | 1,000 |
| Electricity expenses | 3,000 |
| Labour welfare expenses | 2,400 |

You are required to prepare Departmental Trading and Profit and Loss Account for the year ended 31st March, 2020 after providing provision for Bad Debts at 5%.

Question 4 (a)**(10 Marks)**

A business having the Head Office in Kolkata has a branch in UK. The following is the trial balance of Head Office and Branch as at 31.03.2016:

| Account Name | Amount in £ | |
|---|-------------|--------|
| | Dr. | Cr. |
| Fixed Assets (Purchased on 01.04.2013) | 5,000 | |
| Debtors | 1,600 | |
| Opening Stock | 400 | |
| Goods received from Head Office Account (Recorded in HO books as Rs. 4,02,000) | 6,100 | |
| Sales | | 20,000 |
| Purchases | 10,000 | |
| Wages | 1,000 | |
| Salaries | 1,200 | |
| Cash | 3,200 | |
| Remittances to Head Office (Recorded in HO books as Rs. 1,91,000) | 2,900 | |
| Head Office Account (Recorded in HO books as Rs. 4,90,000) | | 7,400 |
| Creditors | | 4,000 |

Additional information:

- (i) Closing stock at branch is £ 700 on 31.03.2016.
- (ii) Depreciation @ 10% p.a. is to be charged on fixed assets.

Prepare the trial balance in Indian Rupees. Exchange rates of Pounds on different dates are as follows:

- 01.04.2013– Rs. 61;
- 01.04.2015– Rs. 63 &
- 31.03.2016 – Rs. 67

Question 4(b)**(10 Marks)**

The capital structure of a company 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 as: General Reserve ₹80,000; Profit and Loss Account ₹20,000; Investment Allowance Reserve out of which ₹5,000, (not free for distribution as dividend) ₹10,000; Securities Premium ₹2,000, Cash at bank amounted to ₹98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to 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.

Pass Journal Entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out.

Question 5**(20 Marks)**

Preet Ltd. presents you the following information for the year ended 31st March, 2020:

| | | (₹ in lacs) |
|--------|--|-------------|
| (i) | Net profit before tax provision | 72,000 |
| (ii) | Dividend paid | 20,404 |
| (iii) | Income-tax paid | 10,200 |
| (iv) | Book value of assets sold | 444 |
| | Loss on sale of asset | 96 |
| (v) | Depreciation debited to P & L account | 48,000 |
| (vi) | Capital grant received - amortized to P & L A/c | 20 |
| (vii) | Book value of investment sold | 66,636 |
| | Profit on sale of investment | 240 |
| (viii) | Interest income from investment credited to P & L A/c | 6,000 |
| (ix) | Interest expenditure debited to P & L A/c | 24,000 |
| (x) | Interest actually paid (Financing activity) | 26,084 |
| (xi) | Increase in working capital [Excluding cash and bank balance] | 1,34,580 |
| (xii) | Purchase of fixed assets | 44,184 |
| (xiii) | Expenditure on construction work | 83,376 |
| (xiv) | Grant received for capital projects | 36 |
| (xv) | Long term borrowings from banks | 1,11,732 |
| (xvi) | Provision for Income-tax debited to P & L A/c | 12,000 |
| | Cash and bank balance on 01.04.2019 | 12,000 |
| | Cash and bank balance on 31.03.2020 | 16,000 |

You are required to prepare a cash flow statement as per AS-3.

Question 6(a)**(5 Marks)**

Following is the extract of Balance Sheet of Prem Ltd. as at 31st March, 2019:

| Authorized capital | ₹ |
|--|------------------|
| 3,00,000 equity shares of ₹ 10 each | 30,00,000 |
| 25,000, 10% preference shares of ₹ 10 each | 2,50,000 |
| | 32,50,000 |
| Issued and subscribed capital: | |
| 2,70,000 equity shares of ₹ 10 each fully paid up | 27,00,000 |
| 24,000, 10% preference shares of ₹ 10 each fully paid up | 2,40,000 |
| | 29,40,000 |
| Reserve and surplus: | |
| General reserve | 3,60,000 |
| Capital redemption reserve | 1,20,000 |
| Securities premium (in cash) | 75,000 |
| Profit and loss account | 6,00,000 |
| | 11,55,000 |

On 1st April, 2019, the company decided to capitalize its reserve by way of bonus at the rate of two shares for every five shares held. Show necessary journal entries in the book of the company and prepare the extract of the balance sheet after bonus issue.

Question 6 (b)**(5 Marks)**

Kumar Ltd., a non-investment company has been incurring losses for the past few years. The company provides the following information for the current year:

| | (₹ in lakhs) |
|--|---------------------|
| Paid up equity share capital | 120 |
| Paid up Preference share capital | 20 |
| Reserves (including Revaluation reserve ₹10 lakhs) | 150 |
| Securities premium | 40 |
| Long term loans | 40 |
| Deposits repayable after one year | 20 |
| Application money pending allotment | 720 |
| Accumulated losses not written off | 20 |
| Investments | 180 |

Kumar Ltd. has only one whole-time director, Mr. X. You are required to calculate the amount of maximum remuneration that can be paid to him if no special resolution is passed at the general meeting of the company in respect of payment of remuneration for a period not exceeding three years.

Question 6 (c)**(5 Marks)**

XYZ Ltd. proposes to declare 10% dividend out of General Reserves due to inadequacy of profits in the year ending 31-03-2020. From the following particulars ascertain the amount that can be utilize from general reserves, according to the Companies Rules, 2014:

| | |
|---|-----------|
| 8,00,000 Equity Shares of ₹ 10 each fully paid up | 80,00,000 |
| General Reserves | 25,00,000 |
| Revaluation Reserves | 6,50,000 |
| Net profit for the year | 1,42,500 |

Average rate of dividend during the last five years has been 12%.

Question 6 (d)**(5 Marks)**

What are the advantages and disadvantages of a rights issue?

SPACE FOR ROUGH WORK