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MOCK TEST -8

CA INTER

(16-04-2023)

PAPER 1 – ACCOUNTING

FULL SYLLABUS

Roll No …864213……………

Total No. of Question: 6 | **Total No. of Printed Pages: 11**

Time allowed: 3 hours | **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)**

In the year 2018-19, an entity has acquired a new freehold building with a useful life of 50 years for Rs. 75,00,000. 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	Rs. 10,00,000
Roof	25	Rs. 15,00,000
Lifts	20	Rs. 7,50,000
Fixtures	10	Rs. 2,50,000
Remainder of building	50	Rs. 40,00,000
		Rs. 75,00,000

Calculate depreciation for the year 2018-19 as per componentization method. Also state the treatment, in case Roof requires replacement at the end of its useful life.

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

Entity A, a supermarket chain, is renovating one of its major stores. The store will have more available space for store promotion outlets after the renovation and will include a restaurant. Management is preparing the budgets for the year after the store reopens, which include the cost of remodeling and the expectation of a 15% increase in sales resulting from the store renovations, which will attract new customers.

Decide whether the remodeling cost will be capitalized or not as per provision of AS 10 "Property plant & Equipment".

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

The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2019. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard;

(i) Provision for doubtful debts was created @ 2% till 31st March, 2018. From the Financial year 2018-2019, the rate of provision has been changed to 3%.

(ii) During the year ended 31st March, 2019, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.

(iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.

(iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organization.

(v) During the year ended 31st March, 2019, there was change in cost formula in measuring the cost of inventories.

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

Mr. Mehul gives the following information relating to items forming part of inventory as on 31-3-2019. His factory produces Product X using Raw material A.

(a) 600 units of raw material A (purchased @ Rs. 120). Replacement cost of raw material A as on 31-3-2019 is Rs. 90 per unit.

(b) 500 units of partly finished goods in the process of producing X and cost incurred till date Rs. 260 per unit. These units can be finished next year by incurring additional cost of Rs. 60 per unit.

(c) 1500 units of finished Product X and total cost incurred Rs. 320 per unit. Expected selling price of Product X is Rs. 300 per unit.

Determine how each item of inventory will be valued as on 31-3-2019. Also calculate the value of total inventory as on 31-3-2019.

Question 2 **(20 Marks)**

M & S Co. of Lucknow has a branch in Canberra, Australia (as an integral foreign operation of M & S Co.). At the end of 31st March 2020, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.

	Lucknow office (₹ In thousand)		**Canberra Branch (Aust. Dollars in thousand)**	
	Dr.	**Cr.**	**Dr.**	**Cr.**
Capital		2,000		
Reserves & Surplus		1,000		
Land	500			
Buildings (Cost)	1,000			
Buildings Dep. Reserves		200		
Plant and Machinery (Cost)	2,500		200	
Plant and Machinery Dep. Reserves		600		130
Debtors/Creditors	280	200	60	30
Stock as on 01-04-2019	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salary	75		45	
Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	4,880	4,880	390	390

The following information is also available:

(i) Stock as at 31st March, 2020
   Lucknow ₹1,50,000
   Canberra A$ 3125 (all stock are out of purchases made at Abroad)

(ii) Head Office always sent goods to the Branch at cost plus 25%

(iii) Provision is to be made for doubtful debts at 5%

(iv) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down value. You are required to:

(1) Convert the Branch Trial Balance into rupees by using the following exchange rates:

Opening rate	1 A $ = ₹ 50
Closing rate	1 A $ = ₹ 53
Average rate	1 A $ = ₹ 51.00
For Fixed Assets	1 A $ = ₹ 46.00

Prepare Trading and Profit and Loss Account for the year ended 31st March 2020 showing to the extent possible H.O. results and Branch results separately.

Question 3 (a) **(10 Marks)**

M/s New Venture, who was carrying on business from 1st June, 2017 gets itself incorporated as a company on 1st October, 2017. The first accounts are drawn up to 31st March 2018. The gross profit for the period is ₹ 1, 20,000.

Following information is given:

(a) General Expenses are ₹ 24,000.

(b) Director's Fees are ₹ 24,000 p.a.

(c) Incorporation Expenses ₹ 4,000.

(d) Rent up to 31st December, 2017 was ₹ 6,000 p.a., after which it was increased to

(e) ₹ 8,000 p.a.

(f) Salary of the Manager, who upon incorporation of the company was made a director, is ₹ 12,000 p.a. His remuneration as director is included in the above figure of fees to the directors.

(g) Advertisement Expenses of ₹ 5,000 pertains to the incorporated company.

(h) Bad debts₹ 4,000.

Give statement showing pre and post incorporation profit.

The net sales are ₹ 20,00,000, the monthly average of which, for the first four months is one-half of that of the remaining period. The company earned a uniform profit.

Interest and tax may be ignored.

Question 3 (b) **(10 Marks)**

The Summarized Balance Sheet of ABC Ltd. as on 31st March, 2020 is as follows:

	Particulars	(₹)
	EQUITY AND LIABILITIES	
1.	Shareholder's funds:	
	(a) Share capital	5,80,000
	(b) Reserves and Surplus	96,000
2.	Current Liabilities:	
	Trade Payable	1,13,000
	Total	7,89,000
	ASSETS:	
1.	Non-Current Assets	
	(a) Property, Plant and Equipment	
	Tangible Assets	6,90,000
	(b) Non-current investments	37,000
2.	Current-Assets	
	Cash and cash equivalents (Bank)	62,000
	Total	7,89,000

The Share Capital of the company consists of ₹ 50 each Equity shares of ₹ 4,50,000 and ₹ 100 each 8% Redeemable Preference Shares of ₹ 1,30,000 (issued on 1.4.2019).

Reserves and Surplus comprises statement of profit and loss only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

(a) to sell all the investments for ₹ 30,000.

(b) to finance part of redemption from company funds, subject to, leaving a Bank balance of ₹ 24,000.

(c) to issue minimum equity share of ₹ 50 each at a premium of ₹ 10 per share to raise the balance of funds required.

You are required to:

(1) Pass Journal Entries to record the above transactions.

(2) Prepare Balance Sheet after completion of the above transactions.

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

The following balances were extracted from the books of Beta. You are required to prepare Departmental Trading Account and general Profit & Loss Account for the year ended 31st December, 2019:

Particulars	Deptt. A ₹	Deptt. B ₹
Opening Stock	3,00,000	2,40,000
Purchases	39,00,000	54,60,000
Sales	60,00,000	90,00,000

General expenses incurred for both the Departments were `7,50,000 and you are also supplied with the following information:

(i) Closing stock of Department A ₹6,00,000 including goods from Department B for ₹1,20,000 at cost to Department A.

(ii) Closing stock of Department B ₹12,00,000 including goods from Department A for ₹1,80,000 at cost to Department B.

(iii) Opening stock of Department A and Department B include goods of the value of ₹60,000 and ₹90,000 taken from Department B and Department A respectively at cost to transferee departments.

(iv) The gross profit is uniform from year to year.

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

The premises of Anmol Ltd. caught fire on 22.01.2019, and the stock was damaged. The firm makes account on 31st March each year. On 31.03.2018 the stock at cost was ₹ 6,63,600 as against ₹4,81,100 on 31.03.2017. Purchases from 01.04.2018 to the date of fire were ₹17,41,350 as against ₹22,62,500 for the full year 2017-18 and the corresponding sales figures were ₹24,58,500 and ₹26,00,000 respectively. You are given the following further information:

(i) In July, 2018, goods costing ₹ 50,000 were given away for advertising purposes, no entries being made in the books.

(ii) During 2018-19, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged ₹ 1,000 per week from 1st April, 2018 until the clerk was dismissed on 18th August, 2018.

(iii) The rate of gross profit is constant.

From the above information calculate the stock in hand on the date of fire.

Question 5 (a) **(7 Marks)**

Suhana Ltd. issued 12% secured debentures of ₹100 Lakhs on 01.05.2019, to be utilized as under:

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

In March 2020, construction of the factory building was completed and machinery was installed and ready for it's intended use. Total interest on debentures for the financial year ended 31.03.2020 was ₹ 11,00,000. During the year 2019-20, 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.

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

Question 5 (b) **(7 Marks)**

The Board of Directors of a Company decide to issue minimum number of equity shares of Rs. 9 to redeem Rs. 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is Rs.3,00,000.

Calculate the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of Rs.50 only

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

ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom-made machine amounting to Rs. 4,00,000. As on 31st March, 2018 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is ‘NIL’.

Show the treatment of machine in the books of ABC Ltd

Question 6 (a) **(10 Marks)**

Akash Ltd. had 4,000 equity share of X Limited, at a book value of ₹ 15 per share (face value of ₹ 10 each) on 1st April 2017. On 1st September 2017, Akash Ltd. acquired 1,000 equity shares of X Limited at a premium of ₹ 4 per share. X Limited announced a bonus and right issue for existing shareholders.

The terms of bonus and right issue were -

(1) Bonus was declared, at the rate of two equity shares for every five equity shares held on 30th September, 2017.

(2) Right shares are to be issued to the existing shareholders on 1st December, 2017. The company issued two right shares for every seven shares held at 25% premium. No dividend was payable on these shares. The whole sum being payable by 31st December, 2017.

(3) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.

(4) Akash Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for ₹ 8 per share.

(5) Dividend for the year ended 31st March 2017, at the rate of 20% was declared by the company and received by Akash Ltd., on 20th January 2018.

(6) On 1st February 2018, Akash Ltd., sold half of its shareholdings at a premium of ₹ 4 per share.

(7) The market price of share on 31.03.2018 was ₹ 13 per share.

You are required to prepare the Investment Account of Akash Ltd. for the year ended 31st March, 2018 and determine the value of share held on that date assuming the investment as current investment. Consider average cost basis for ascertainment of cost for equity share sold.

Question 6 (b) **(10 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	1,34,580
	[Excluding cash and bank balance]	
(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.

SPACE FOR ROUGH WORK