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MOCK TEST -4

CA INTER

(10-04-2022)

PAPER 1 – ACCOUNTING

TOPICS COVERED

FULL SYLLABUS EXCEPT THE FOLLOWING TOPICS:

1. **AS-10**
2. **AS-11**
3. **AS-16**
4. **ACCOUNTING FOR BRANCHES**

Roll No ………………

Total No. of Question: 6 | **Total No. of Printed Pages: 9**

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)**

HIL Ltd. was making provision for non-moving stocks based on no issues having occurred for the last 12 months upto 31.03.2019. The company now wants to make provision based on technical evaluation during the year ending 31.03.2020.

Total value of stock ₹ 120 lakhs

Provision required based on technical evaluation ₹ 3.00 lakhs.

Provision required based on 12 months no issues ₹ 4.00 lakhs.

You are requested to discuss the following points in the light of Accounting Standard (AS)-1:

(i) Does this amount to change in accounting policy?

(ii) Can the company change the method of accounting?

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

Explain the objective of "Accounting Standards" in brief. State the advantages of setting Accounting Standards.

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
Raw Material X	
Cost price	380
Unloading Charges	20
Freight Inward	40
Replacement cost	300
Chemical Y	
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)**

The Summarized Balance Sheet of BEE Co. Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 31st March, 2021 is as under:

Particulars	Note No	₹
I. Equity and liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	2,00,000
(b) Reserves and Surplus	2	1,20,000
(2) Non-current liabilities		
(a) Long term borrowings	3	1,20,000
(3) Current Liabilities		
(a) Trade payables		1,15,000
Total		5,55,000
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	4	1,15,000
(2) Current assets		
(a) Inventories		1,35,000
(b) Trade receivables		75,000
(c) Cash and bank balances	5	2,30,000
Total		5,55,000

Notes to Accounts

			₹
1.	**Share Capital**		
	Authorised share capital		
	30,000 shares of ₹ 10 each fully paid		3,00,000
	Issued and subscribed share capital		
	20,000 shares of ₹ 10 each fully paid		2,00,000
2.	**Reserve and Surplus**		
	Profit & Loss Account		1,20,000
3.	**Long term borrowings**		
	12% Debentures		1,20,000
4.	**Property, Plant and Equipment**		
	Freehold property		1,15,000
5.	**Cash and bank balances**		
	Cash at bank	2,00,000	
	Cash in hand	30,000	2,30,000

At the Annual General Meeting, it was resolved:

(a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution), this option being taken up by all shareholders.

(b) To issue one bonus share for every five shares held.

(c) To repay the debentures at a premium of 3%.

Give the necessary journal entries and the company's Balance Sheet after these transactions are completed.

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

The partners of C&G decided to convert their existing partnership business into a private limited called CG trading Pvt. Ltd. with effect from 1.7.2018.

The same books of accounts were continued by the company which closed its accounts for the first term on 31.3.2019. The summarized profit & loss account for the year ended 31.3.2019 is below:

Particulars	**₹ in lakhs**	**₹ in lakhs**
Turnover	245.00	
Interest on investments	6.00	251.00
Less: Cost of goods sold	124.32	
Advertisement	3.50	
Sales commission	7.00	
Salaries	18.00	
Managing Director's Remuneration	6.00	
Interest on Debenture	2.00	
Rent	5.50	

Bad debt	1.15	
Underwriting commission	1.00	
Audit fees	3.00	
Loss on sale of Investments	1.00	
Depreciation	4.00	176.47
		74.53

The following additional information was provided:

(i) The average monthly sales doubled from 1.7.2018, GP ration was constant.

(ii) All investment were sold on 31.5.2018

(iii) Average monthly salaries doubled from 1.10.2018.

(iv) The company occupied additional space from 1.7.2018 for which rent of ₹ 20,000 per month was incurred.

(v) Bad debts recovered amounting to ₹ 60,000 for a sale made in 2016-17 has been deducted from bad debts mentioned above.

(vi) Audit fees pertains to the company.

Prepare a statement apportioning the expenses between pre and post incorporation periods and calculate the profit / loss for such periods.

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	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.

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