

MOCK TEST -2

(FULL SYLLABUS)

CA- INTER

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 indicated in answer by the candidates.

Working Notes should form part of the answer.

(Time allowed: 3 Hours)

(100 Marks)

Question 1

Answer the following:

- (a) A Ltd. had following assets. Calculate depreciation for the year ended 31st March, 2020 for each asset as per AS 10 (Revised):
- (i) Machinery purchased for ₹ 10 lakhs on 1st April, 2015 and residual value after useful life of 5 years, based on 2015 prices is ₹ 10 lakhs.
 - (ii) Land for ₹ 50 lakhs.
 - (iii) A Machinery is constructed for ₹ 5,00,000 for its own use (useful life is 10 years). Construction is completed on 1st April, 2019, but the company does not begin using the machine until 31st March, 2020.
 - (iv) Machinery purchased on 1st April, 2017 for ₹ 50,000 with useful life of 5 years and residual value is NIL. On 1st April, 2019, management decided to use this asset for further 2 years only.
- (b) On 1st April, 2016, Mac Ltd. received a Government Grant of ₹ 60 lakhs for acquisition of machinery costing ₹ 300 lakhs. The grant was credited to the cost of the asset. The estimated useful life of the machinery is 10 years. The machinery is depreciated @ 10% on WDV basis. The company had to refund the grant in June 2019 due to non - compliance of certain conditions.

How the refund of the grant is dealt with in the books of Mac Ltd. assuming that the company did not charge any depreciation for the year 2019-20.

Pass necessary Journal Entries for the year 2019-20.

- (c) A Limited invested in the shares of XYZ Ltd. On 1st December, 2019 at a cost of ₹ 50,000. Out of these shares, ₹ 25,000 shares were purchased with an intention to hold for 6 months and ₹ 25,000 shares were purchased with an intention to hold as long-term Investment.

A Limited also earlier purchased Gold of ₹ 1,00,000 and Silver of ₹ 30,00,000 on 1st April, 2019. Market value as on 31st March, 2020 of above investments are as follows:

Shares	₹ 47,500 (Decline in the value of shares is temporary.)
Gold	₹ 1,80,000
Silver	₹ 30,55,000

How above investments will be shown in the books of accounts of M/s A Limited for the year ended 31st March, 2020 as per the provisions of AS 13 (Revised)?

- (d) On 15th April, 2019 RBM Ltd. obtained a Term Loan from the Bank for ₹ 320 lakhs to be utilized as under:

	₹ (in lakhs)
Construction for factory shed	240
Purchase of Machinery	30
Working capital	24
Purchase of Vehicles	12
Advance for tools/cranes etc.	8
Purchase of technical know how	6

In March, 2020 construction of shed was completed and machinery was installed. Total interest charged by the bank for the year ending 31st March, 2020 was ₹ 40 lakhs.

In the context of provisions of AS 16 'Borrowing Costs', show the treatment of interest and also explain the nature of Assets. (4 Parts × 5 Marks = 20)

Question 2

- (a) Vijay & Co. of Jaipur has a branch in Patna to which goods are sent @ 20% above cost. The branch makes both cash & credit sales. Branch expenses are paid direct from Head office and the branch has to remit all cash received into the bank account of Head office. Branch doesn't maintain any books of accounts, but sends monthly returns to the head office.

Following further details are given for the year ended 31st March, 2020:

	Amount (₹)
Goods received from Head office at Invoice Price	8,40,000
Goods returned to Head office at Invoice Price	60,000
Cash sales for the year 2019-20	1,85,000
Credit Sales for the year 2019-20	6,25,000
Stock at Branch as on 01-04-2019 at Invoice price	72,000
Sundry Debtors at Patna branch as on 01-04-2019	96,000
Cash received from Debtors	4,38,000
Discount allowed to Debtors	7,500
Goods returned by customer at Patna Branch	14,000
Bad debts written off	5,500
Amount recovered from Bad debts previously written off as Bad	1,000
Rent, Rates & taxes at Branch	24,000
Salaries & wages at Branch	72,000
Office Expenses (at Branch)	9,200
Stock at Branch as on 31-03-2020 at cost price	1,25,000

Prepare necessary ledger accounts in the books of Head office by following Stock and Debtors method and ascertain Branch profit.

- (b) M/s Rohan & Sons runs a business of Electrical goods on wholesale basis. The books of accounts are closed on 31st March every year. The Balance Sheet as on 31st March, 2019 is as follows:

Liabilities	₹	Assets	₹
Capital	12,50,000	Fixed Assets	6,50,000
		Closing stock	3,75,000
		Trade Debtors	3,65,000
Trade Creditors	1,90,000	Cash & Bank	1,95,000
Profit & Loss A/c	1,45,000		
	15,85,000		15,85,000

The management estimates the purchase & sales for the year ended 31st March, 2020 as under:

Particulars	Upto 31.01.2020(₹)	February 2020(₹)	March 2020 (₹)
Purchases	16,20,000	1,40,000	1,25,000
Sales	20,75,000	2,10,000	1,75,000

All Sales and Purchases are on credit basis. It was decided to invest ₹ 1,50,000 in purchase of Fixed assets, which are depreciated @ 10% on book value. A Fixed Asset of book value as on 01.04.2019, ₹ 60,000 was sold for ₹ 56,000 on 31st March, 2020.

The time lag for payment to Trade Creditors for purchases is one month and receipt from Trade debtors for sales, is two months. The business earns a gross profit of 25% on turnover. The expenses against gross profit amounts to 15% of the turnover. The amount of depreciation is not included in these expenses.

Prepare Trading & profit & Loss Account for the year ending 31st March, 2020 and draft a Balance Sheet as at 31st March, 2020 assuming that creditors are all Trade creditors for purchases and debtors are all Trade debtors for sales and there is no other current asset and liability apart from stock and cash and bank balances.

Also, prepare Cash & Bank account and Fixed Assets account for the year ending 31st March 2020.

(10+10 = 20 Marks)

Question 3

- (a) On 1st April, 2019 Mr. H had 30,000 equity shares of ABC Ltd. at book value of ₹ 18 per share (Nominal value 10 per share). On 10th June, 2019, H purchased another 10,000 equity shares of the ABC Ltd. at ₹ 16 per share through a broker who charged 1.5% brokerage.

The directors of ABC Ltd. announced a bonus and a right issue. The terms of the issues were as follows:

- (i) Bonus shares were declared at the rate of one equity share for every four shares held on 15th July, 2019.
- (ii) Right shares were to be issued to the existing equity shareholders on 31st August, 2019. The company decides to issue one right share for every five equity shares held at 20% premium and the due date for payment will be 30th September, 2019. Shareholders were entitled to transfer their rights in full or in part.
- (iii) No dividend was payable on these issues.

Mr. H subscribed 60% of the rights entitlements and sold the remaining rights for consideration of ₹ 5 per share.

Dividends for the year ending 31st March, 2019 was declared by ABC Ltd. at the rate of 20% and received by Mr. H on 31st October, 2019.

On 15th January, 2020 Mr. H sold half of his shareholdings at ₹ 17.50 per share and brokerage was charged @ 1 %.

You are required to prepare Investment account in the books of Mr. H for the year ending 31st March, 2020, assuming the shares are valued at average cost.

- (b) A Fire occurred in the premises of M/s B & Co. on 30th September, 2019. The firm had taken an insurance policy for ₹ 1,20,000 which was subject to an average clause. Following particulars were ascertained from the available records for the period from 1st April, 2018 to 30th September, 2019:

	Amount (₹)
Stock at cost on 1-04-2018	2,11,000
Stock at cost on 31-03-2019	2,52,000
Purchases during 2018-19	6,55,000
Wages during 2018-19	82,000
Sales during 2018-19	8,60,000
Purchases from 01-04-2019 to 30-09-2019 (including purchase of machinery costing ₹ 58,000)	4,48,000
Wages from 01-04-2019 to 30-09-2019 (including wages for installation of machinery costing ₹ 7,000)	85,000
Sales from 01-04-2019 to 30-09-2019	6,02,000
Sale value of goods drawn by partners (1-4-19 to 30-9-19)	52,000
Cost of Goods sent to consignee on 18th September, 2019 lying unsold with them	44,800
Cost of Goods distributed as free samples (1-4-19 to 30-9-19)	8,500

While valuing the Stock at 31st March, 2019, ₹ 8,000 were written off in respect of a slow-moving item, cost of which was ₹ 12,000. A portion of these goods was sold at a loss of ₹ 4,000 on the original cost of ₹9,000. The remainder of the stock is estimated to be worth the original cost. The value of Goods salvaged was estimated at ₹ 35,000.

You are required to ascertain the amount of claim to be lodged with the Insurance Company for the loss of stock. **(10+10=20 Marks)**

Question 4

- (a) The following figures have been extracted from the books of Manan Jo Limited for the year ended on 31.3.2020. You are required to prepare the Cash Flow statement as per AS 3 using indirect method.
- (i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 30 lakhs:
- Depreciation on Property, Plant & Equipment ₹ 7.50 lakhs.
 - Discount on issue of Debentures written off ₹ 45,000.
 - Interest on Debentures paid ₹ 5,25,000.
 - Book value of investments ₹ 4.50 lakhs (Sale of Investments for ₹ 4,80,000).
 - Interest received on investments ₹ 90,000.

- (ii) Compensation received ₹1,35,000 by the company in a suit filed.
- (iii) Income tax paid during the year ₹ 15,75,000.
- (iv) 22,500, 10% preference shares of ₹ 100 each were redeemed on 02-04-2019 at a premium of 5%.
- (v) Further the company issued 75,000 equity shares of ₹10 each at a premium of 20% on 30.3.2020 (Out of 75,000 equity shares, 25,000 equity shares were issued to a supplier of machinery)
- (vi) Dividend for FY 2018-19 on preference shares were paid at the time of redemption.
- (vii) Dividend on Equity shares paid on 31.01.2020 for the year 2018-2019 ₹ 7.50 lakhs (including dividend distribution tax) and interim dividend paid ₹ 2.50 lakhs for the year 2019-2020.
- (viii) Land was purchased on 02.4.2019 for ₹3,00,000 for which the company issued 22,000 equity shares of ₹ 10 each at a premium of 20% to the land owner and balance in cash as consideration.
- (ix) Current assets and current liabilities in the beginning and at the end of the years were as detailed below:

	As on 01.04.2019 ₹	As on 31.3.2020 ₹
Inventory	18,00,000	19,77,000
Trade receivable	3,87,000	3,79,650
Cash in hand	3,94,450	16,950
Trade Payable	3,16,500	3,16,950
Outstanding expenses	1,12,500	1,22,700

- (b) Sumit Ltd. (an unlisted company other than AIFI, Banking company, NBFC and HFC) had 8,000, 9% debentures of ₹ 100 each outstanding as on 1st April, 2019, redeemable on 31st March, 2020.

On 1st April, 2019, the following balances appeared in the books of accounts:

- Investment in 1,000, 7% secured Govt. bonds of ₹ 100 each, ₹ 1,00,000.
- Debenture Redemption Reserve is ₹ 50,000.

Interest on investments is received yearly at the end of financial year.

1,000 own debentures were purchased on 30th March, 2020 at an average price of ₹ 96.50 and cancelled on the same date.

On 31st March, 2020, the investments were realized at par and the debentures were redeemed. You are required to write up the following accounts for the year ended 31st March, 2020.

- (1) 9% Debentures Account.
- (2) Debenture Redemption Reserve Account.
- (3) DRR Investment Account.
- (4) Own Debentures Account.

(10+10=20 Marks)

Question 5

- (a) On 1st April, 2017, Mr. Nilesh acquired a Tractor on Hire purchase from Raj Ltd. The terms of contract were as follows:

- (i) The Cash price of the Tractor was ₹ 11,50,000.
- (ii) ₹ 2,50,000 were to be paid as down payment on the date of purchase.
- (iii) The Balance was to be paid in annual instalments of ₹ 3,00,000 plus interest at the end of the year.
- (iv) Interest chargeable on the outstanding balance was 8% p.a.
- (v) Depreciation @ 10% p.a. is to be charged using straight line method.

Mr. Nilesh adopted the Interest Suspense method for recording his Hire purchase transactions.

You are required to:

Prepare the Tractor account, Interest Suspense account and Raj Ltd.'s account in the books of Mr. Nilesh for the period of hire purchase.

(b) The Books of Arpit Ltd. shows the following Balances as on 31st December, 2019:

	Amount (₹)
6,00,000 Equity shares of ₹ 10 each fully paid up	60,00,000
30,000, 10% Preference shares of ₹ 100 each, ₹ 80 paid up	24,00,000
Securities Premium	6,00,000
Capital Redemption Reserve	18,00,000
General Reserve	35,00,000

Under the terms of issue, the Preference Shares are redeemable on 31st March, 2020 at a premium of 10%. In order to finance the redemption, the Board of Directors decided to make a fresh issue of 1,50,000 Equity shares of ₹10 each at a premium of 20%, ₹ 2 being payable on application, ₹ 7 (including premium) on allotment and the balance on 1st January, 2021. The issue was fully subscribed and allotment made on 1st March, 2020. The money due on allotment was received by 20th March, 2020.

The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are required to pass the necessary Journal Entries and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out on 31st March, 2020

(8+12 = 20 Marks)

Question 6

Answer any **four** of the following:

(a) Department A sells goods to Department B at a profit of 20% on cost and to Department C at 50% on cost. Department B sells goods to Department A and Department C at a profit of 15% and 10% on sales respectively. Department C sells goods to Department A and Department B at a profit of 10% and 5% on cost respectively.

Stock lying at different departments at the end of the year are as follows:

	Department A (₹)	Department B (₹)	Department C (₹)
Transfer from Department A		1,14,000	60,000
Transfer from Department B	55,000		15,200
Transfer from Department C	52,800	1,11,300	

Calculate Department wise unrealized profit on Stock.

(b) What are the qualitative characteristic of the Financial Statements which improve the usefulness of the information furnished therein?

(c) Following is the draft Profit & Loss Account of X Ltd. For the year ended 31st March, 2020:

	Amount (₹)		Amount (₹)
To Administrative Expenses	5,96,400	By Balance b/d	7,25,300
To Advertisement Expenses	1,10,500	By Balance from Trading A/c	42,53,650

To Sales Commission	1,05,550	By Subsidies received from Government	3,50,000
To Director's fees	1,48,900		
To Interest on Debentures	56,000		
To Managerial Remuneration	3,05,580		
To Depreciation on Fixed Assets	5,78,530		
To Provision for taxation	12,50,600		
To General Reserve	5,50,000		
To Investment Revaluation Reserve	25,800		
To Balance c/d	16,01,090		
	<u>53,28,950</u>		<u>53,28,950</u>

Depreciation on Fixed Assets as per Schedule II of the Companies Act, 2013 was ₹ 6,51,750. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.

(d) Following is the Balance Sheet of M/s. S Traders as on 31st March, 2019:

Liabilities	(₹)	Assets	(₹)
Capital	1,50,000	Fixed Assets	1,05,000
11% Bank Loan	80,000	Closing stock	76,000
Trade payables	52,000	Debtors	68,000
Profit & Loss A/c	56,000	Deferred Expenditure	24,000
		Cash & Bank	65,000
	<u>3,38,000</u>		<u>3,38,000</u>

Additional Information:

- Remaining life of Fixed Assets is 6 years with even use. The net realizable value of Fixed Assets as on 31st March, 2020 is ₹ 90,000.
- Firm's Sales & Purchases for the year ending 31st March, 2020 amounted to ₹ 7,80,000 and ₹ 6,25,000 respectively.
- The cost & net realizable value of the stock as on 31st March, 2020 was, ₹ 60,000 and ₹ 66,000 respectively.
- General expenses (including interest on Loan) for the year 2019-20 were ₹ 53,800.
- Deferred expenditure is normally amortised equally over 5 years starting from the Financial year 2018-19 i.e. ₹ 6,000 per year.
- Debtors on 31st March, 2020 is ₹ 65,000 of which ₹ 5,000 is doubtful. Collection of another ₹ 10,000 debtors depends on successful re-installation of certain products supplied to the customer.
- Closing Trade payable ₹ 48,000, which is likely to be settled at 5% discount.
- There is a prepayment penalty of ₹ 4,000 for Bank loan outstanding.
- Cash & Bank balances as on 31st March, 2020 is ₹ 1,65,200.

Prepare Profit & Loss Account for the year ended 31st March, 2020 and Balance Sheet as on 31st March, 2020 assuming the firm is not a going concern.

(e) Moon Ltd. was incorporated on 1st August, 2019 to take over the running business of a partnership firm w.e.f. 1st April, 2019. The summarized Profit & Loss Account for the year ended 31st March, 2020 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?

(4 Parts × 5 Marks = 20 Marks)