MOCK TEST -4

(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)**

1. (a) (i) "In determining the cost of inventories, it is appropriate to exclude certain costs and recognize them as expenses in the period in which they are incurred". Provide examples of such costs as per AS 2 'Valuation of Inventories'.

(ii) X Limited purchased goods at the cost of Rs. 40 lakhs in October, 2020. Till March, 2021, 75% of the stocks were sold. The company wants to disclose closing stock at Rs. 10 lakhs. The expected sale value is Rs. 11 lakhs and a commission at 10% on sale is payable to the agent. Advise, what is the correct value of closing stock to be disclosed as at 31.3.2021.

(b) Ram Ltd. purchased machinery for Rs. 80 lakhs (useful life 4 years and residual value Rs. 8 lakhs). Government grant received was Rs. 32 lakhs. The grant had to be refunded at the beginning of third year. Show the Journal Entry to be passed at the time of refund of grant and the value of the fixed assets in the third year and the amount of depreciation for remaining two years, if the grant had been credited to Deferred Grant A/c.

(c) 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 details of the incremental costs which will be incurred are: Setup costs of Rs. 5,00,000 to install machinery in the new location; Rent of Rs. 15,00,000; Removal costs of Rs. 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".

(d) State whether the following statements are 'True' or 'False' in line with the provisions of AS 1. Also give reason for your answer.

(i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
(ii) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
(iii) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
(iv) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.
(v) There is no single list of accounting policies which are applicable to all circumstances.

(4 parts x 5 Marks = 20 Marks)

2. (a) A Ltd. purchased on 1st April, 2020 8% convertible debenture in C Ltd. of face value of Rs. 2,00,000 @ Rs. 108. On 1st July, 2020 A Ltd. purchased another Rs. 1,00,000 debentures @ Rs. 112 cum interest. On 1st October, 2020 Rs. 80,000 debentures were sold @ Rs. 105. On 1st December, 2020, C Ltd. give option for conversion of 8% convertible debentures into equity share of Rs. 10 each. A Ltd. received 5,000 equity shares in C Ltd. in conversion of 25% debentures held on that date. The market price of debenture and equity share in C Ltd. on 31st December, 2020 is Rs. 110 and Rs. 15 respectively. Interest on debenture is payable each year on 31st March, and 30th September. Prepare investment account in the books of A Ltd. On average cost basis for the accounting year ended 31st December, 2020.

(b) A fire engulfed the premises of a business of M/s Preet on the morning of 1st July 2020. The building, equipment and stock were destroyed and the salvage recorded the following:

Building – Rs. 4,000; Equipment – Rs. 2,500; Stock – Rs. 20,000. The following other information was obtained from the records saved for the period from 1st January to 30th June 2020:

	Rs.
Sales	11,50,000
Sales Returns	40,000
Purchases	9,50,000
Purchases Returns	12,500
Cartage inward	17,500
Wages	7,500
Stock in hand on 31st December, 2019	1,50,000
Building (value on 31st December, 2019)	3,75,000
Equipment (value on 31st December, 2019)	75,000
Depreciation provided till 31st December, 2019 on:	
Building	1,25,000
Equipment	22,500

No depreciation has been provided after December 31st 2019. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method.

Normally business makes a profit of 25% on net sales. You are required to prepare the statement of claim for submission to the Insurance Company.

(c) A acquired on 1st January, 2020 a machine under a Hire-Purchase agreement which provides for 5 half-yearly instalments of Rs. 6,000 each, the first instalment being due on 1st July, 2020. Assuming that the applicable rate of interest is 10 per cent per annum, calculate the cash value of the machine. All working should form part of the answer.

(8 + 8 + 4 = 20 Marks)

3. (a) DM Delhi has a branch in London which is an integral foreign operation of DM. At the end of the year 31st March, 2021, the branch furnishes the following trial balance in U.K. Pound:

Particulars	**£**	**£**
	Dr.	Cr.
Fixed assets (Acquired on 1st April, 2017)	24,000	
Stock as on 1st April, 2020	11,200	
Goods from head Office	64,000	
Expenses	4,800	
Debtors	4,800	
Creditors		3,200
Cash at bank	1,200	
Head Office Account		22,800
Purchases	12,000	
Sales		96,000
	1,22,000	1,22,000

In head office books, the branch account stood as shown below:

London Branch A/c

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
To Balance b/d	20,10,000	By Bank A/c	52,16,000
To Goods sent to branch	49,26,000	By Balance c/d	17,20,000
	69,36,000		69,36,000

The following further information is given:

(a) Fixed assets are to be depreciated @ 10% p.a. on WDV.

(b) On 31st March, 2021:

Expenses outstanding	-	£ 400
Prepaid expenses	-	£ 200
Closing stock	-	£ 8,000

(c) Rate of Exchange:

1st April, 2017	-	Rs. 70 to £ 1
1st April, 2020	-	Rs. 76 to £ 1
31st March, 2021	-	Rs. 77 to £ 1
Average	-	Rs. 75 to £ 1

You are required to prepare: (1) Trial balance, incorporating adjustments of outstanding and prepaid expenses, converting U.K. pound into Indian rupees; and (2) Trading and profit and loss account for the year ended 31st March, 2021 of London branch as would appear in the books of Delhi head office of DM.

(b) The following is the Balance Sheet of Chirag as on 31st March, 2020:

Liabilities	Rs.	Assets	Rs.
Capital Account	48,000	Building	32,500
Loan	15,000	Furniture	5,000
Creditor	31,000	Motor Car	9,000
		Stock	20,000
		Debtor	17,000
		Cash in hand	2,000
		Cash at bank	8,500
	94,000		94,000

A riot occurred on the night of 31st March, 2021 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

(a) His sales for the year ended 31st March, 2021 were 20% higher than the previous year's sales. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2021 were for cash. There were no cash purchases.
(b) On 1st April, 2020 the stock level was raised to Rs. 30,000 and stock was maintained at this new level all throughout the year.
(c) Collection from debtors amounted to Rs. 1,40,000 of which Rs. 35,000 was received in cash, Business expenses amounted to Rs. 20,000 of which Rs. 5,000 was outstanding on 31st March, 2021 and Rs. 6,000 was paid by cheques.
(d) Analysis of the Pass Book revealed the Payment to Creditors Rs. 1,37,500, Personal Drawing Rs. 7,500, Cash deposited in Bank Rs. 71,500, and Cash withdrawn from Bank Rs. 12,000.
(e) Gross profit as per last year's audited accounts was Rs. 30,000.
(f) Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.
(g) The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2021 and Balance Sheet as on that date. **(8 + 12 = 20 Marks)**

4. (a) X Ltd has three departments A, B and C. From the particulars given below compute: (i) the values of stock as on 31st Dec. 2020 and (ii) the departmental results showing actual amount of gross profit.

	A Rs.	**B Rs.**	**C Rs.**
Stock (on 1.1. 2020)	24,000	36,000	12,000
Purchases	1,46,000	1,24,000	48,000
Actual sales	1,72,000	1,59,400	74,000
Gross Profit on normal selling price	20%	25%	33 1/3%

During the year ended 31st Dec. 2020, certain items were sold at discount and these discounts were reflected in the value of sales shown above. The items sold at discount were:

	A Rs.	**B Rs.**	**C Rs.**
Sales at normal price	10,000	3,000	1,000
Sales at actual price	7,500	2,400	600

(b) Surya Limited (a listed company) recently made a public issue in respect of which the following information is available:

(a) No. of partly convertible debentures issued- 2,00,000; face value and issue price- Rs. 100 per debenture.
(b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.
(c) Date of closure of subscription lists- 1.5.2020, date of allotment- 1.6.2020, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- Rs. 60 (Face Value Rs. 10).
(d) Underwriting Commission- 2%.
(e) No. of debentures applied for- 1,50,000.
(f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2021 (including cash and bank entries).

(c) Manu Ltd. gives the following information as at 31st March, 2021:

	Rs.
Issued and Subscribed capital:	
24,000 12% Preference shares of Rs. 10 each fully paid	2,40,000
2,70,000 Equity shares of Rs. 10 each, Rs. 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, 2021, the Company has made final call @ Rs. 2 each on 2,70,000 equity shares.

The call money was received by 20th April, 2021. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. You are required to prepare necessary journal entries in the books of the company on 30th April, 2021 for these transactions.

(6 + 10 +4 = 20 Marks)

5. (a) You are required to prepare a Balance Sheet as at 31st March 2020, as per Schedule III of the Companies Act, 2013, from the following information of Mehar Ltd.:

Particulars	**Amount (Rs.)**	**Particulars**	**Amount (Rs.)**
Term Loans (Secured)	40,00,000	Investments (Non-current)	9,00,000
Trade payables	45,80,000	Profit for the year	32,00,000
Cash and Bank Balances	38,40,000	Trade receivables	49,00,000
Staff Advances	2,20,000	Miscellaneous Expenses	2,32,000
Other advances (given by Co.)	14,88,000	Loan from other parties	8,00,000
Provision for Taxation	10,20,000	Provision for Doubtful Debts	80,000
Securities Premium	19,00,000	Stores	16,00,000
Loose Tools	2,00,000	Finished Goods	30,00,000
General Reserve	62,00,000	Plant and Machinery (WDV)	2,14,00,000

Additional Information: -

1. Share Capital consists of-

(a) 1,20,000 Equity Shares of Rs. 100 each fully paid up.

(b) 40,000, 10% Redeemable Preference Shares of Rs. 100 each fully paid up.

2. Write off the amount of Miscellaneous Expenses in full, amounting Rs. 2,32,000.

(b) Sneha Ltd. was incorporated on 1st July, 2019 to acquire a running business of Atul Sons with effect from 1st April, 2019.

During the year 2019-20, the total sales were Rs. 24,00,000 of which Rs. 4,80,000 were for the first six months. The Gross profit of the company for the year was Rs. 3,90,800. The expenses charged to the Statement of Profit & Loss Account included the following:

(i) Director's fees Rs. 30,000

(ii) Bad debts Rs. 7,200

(iii) Advertising Rs. 24,000 (under a contract amounting to Rs. 2,000 per month)

(iv) Salaries and General Expenses Rs. 1,28,000

(v) Preliminary Expenses written off Rs. 10,000

(vi) Donation to a political party given by the company Rs. 10,000.

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2020. **(14+6=20 Marks)**

6. (a) A company incorporated in June 2020, has setup a factory within a period of 8 months with borrowed funds. The construction period of the assets had reduced drastically due to usage of technical innovations by the company and the company is able to justify the reasons for the same. Whether interest on borrowings for the period prior to the date of setting up the factory should be capitalized although it has taken less than 12 months for the assets to get ready for use. You are required to comment on the necessary treatment with reference to AS 16.

(b) 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 utilized from general reserves, according to the Companies Rules, 2014:

	(Rs.)
8,00,000 Equity Shares of Rs. 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%.

OR

X Ltd. (a non-investment company) provides the following information as on 31st March, 2020 was obtained:

	Rs.
Issued and subscribed capital:	
15,000, 14% preference shares of Rs. 100 each fully paid	15,00,000
1,20,000 Equity shares of Rs. 100 each, Rs. 80 paid-up	96,00,000
Capital reserves (Rs. 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,25,000

You are required to compute Effective Capital as per the provisions of Schedule V to the Companies Act, 2013.

(c) Following is the cash flow abstract of Alpha Ltd. for the year ended 31st March, 2021:

Cash Flow (Abstract)

Inflows	Rs.	Outflows	Rs.
Opening cash and bank balance	80,000	Payment for Account Payables	90,000
Share capital – shares issued	5,00,000	Salaries and wages	25,000
Collection from Trade		Payment of overheads	15,000
Receivables	3,50,000	Machinery acquired	4,00,000
Sale of Machinery	70,000	Debentures redeemed	50,000
		Bank loan repaid	2,50,000
		Tax paid	1,55,000
		Closing cash and bank balance	15,000
	10,00,000		10,00,000

Prepare Cash Flow Statement for the year ended 31st March, 2021 in accordance with AS 3.

(d) Opening Balance Sheet of Mr. A is showing the aggregate value of assets, liabilities and equity Rs. 8 lakh, Rs. 3 lakh and Rs. 5 lakh respectively. During accounting period, Mr. A has the following transactions:

(1) Earned 10% dividend on 2,000 equity shares held of Rs. 100 each

(2) Paid Rs. 50,000 to creditors for settlement of Rs. 70,000

(3) Rent of the premises is outstanding Rs. 10,000

(4) Mr. A withdrew Rs. 9,000 for his personal use.

You are required to show the effect of above transactions on Balance Sheet in the form of Assets - Liabilities = Equity after each transaction. **(4 Parts x 5 Marks = 20 Marks)**