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MOCK TEST - 7

CA INTER

(17-09-2023)

PAPER 1 – ACCOUNTING FULL SYLLABUS

Roll No ...748124.....

Total No. of Question: 6

Time allowed: 3 hours

Total No. of Printed Pages: 12

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)**

Darshan Ltd. purchased a Machinery on 1st April, 2016 for ₹ 130 lakhs (Useful life is 4 Years). Government grant received is ₹ 40 lakhs for the purchase of above Machinery.

Salvage value at the end of useful life is estimated at ₹ 60 lakhs.

Darshan Ltd. decides to treat the grant as deferred income.

You are required to calculate the amount of depreciation and grant to be recognized in profit & loss account for the year ending 31st March, 2017, 31st March, 2018, 31st March, 2019 & 31st March, 2020.

Darshan Ltd. follows straight line method for charging depreciation.

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)**The following is the Trial Balance of H Ltd., as on 31st March, 2021.

	Dr.	Cr.
Equity Capital (Shares of 100 each)		8,05,000
5,000, 6% preference shares of ₹ 100 each		5,00,000
9% Debentures		4,00,000
General Reserve		40,00,000
Profit & Loss A/c. (of previous year)		72,000
Sales		60,00,000
Trade payables		10,40,000
Provision for Depreciation on Plant & Machinery		1,72,000
Suspense Account		4,000
Land at cost	24,00,000	
Plant & Machinery at cost	7,70,000	
Trade Receivables	19,60,000	
Inventories (31-03-2020)	9,50,000	
Bank	2,30,900	
Adjusted Purchases	22,32,100	
Factory Expenses	15,00,000	
Administration Expenses	3,00,000	
Selling Expenses	14,00,000	
Debenture Interest	36,000	
Goodwill	12,50,000	
	1,30,29,000	1,30,29,000

Additional Information:

(i) The authorised share capital of the company is:

5000, 6% Preference shares of ₹ 100 each	5,00,000
10000, equity shares of ₹ 100 each	10,00,000

Issued equity capital as on 1st April 2020 stood at ₹ 720,000, that is 6,000 shares fully paid and 2,000 shares ₹ 60 paid. The director made a call of ₹ 40 per share on 1st October 2020. A shareholder could not pay the call on 100 shares and his share were then forfeited and reissued @ ₹ 90 per share as fully paid.

- (ii) On 31st March 2021, the Directors declared a dividend of 5% on equity shares, transferring any amount that may be required from General Reserve. Ignore Taxation.
- (iii) The company on the advice of independent valuer wishes to revalue the land at ₹ 36,00,000.
- (iv) Suspense account of ₹ 40,000 represents amount received for the sale of some of the machinery on 1.04.2020. The cost of the machinery was ₹ 1,00,000 and the accumulated depreciation thereon being ₹30,000.
- (v) Depreciation is to be provided on plant and machinery at 10% on cost.
- (vi) Amortize 1/5th of Goodwill.

You are required to prepare H Limited's Balance Sheet as on 31-3-2021 and Statement of Profit and Loss with notes to accounts for the year ended 31-3-2021 as per Schedule III of the Companies Act, 2013. Ignore previous years' figures & taxation.

Question 3 (a)

(10 Marks)

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

- (i) No. of partly convertible 8% debentures issued 3,00,000; face value and issue price ₹ 100 per debenture.
- (ii) Convertible portion per debenture- 60%, date of conversion- on expiry of 7 months from the date of closing of issue.
- (iii) Date of closure of subscription list 1-5-2020, date of allotment 1-6-2020, rate of interest on debenture 8% payable from the date of allotment, market value of equity shares as on date of conversion ₹ 60 (Face Value ₹ 10).
- (iv) Underwriting Commission 1%
- (v) No. of debentures applied for 2,50,000.
- (vi) Interest payable on debenture 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)

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

Karan Enterprises having its Head Office in Mangalore, Karnataka has a branch in Greenville, USA.

Following is the trial balance of Branch as at 31-3-2019:

Particulars	Amount (\$)	
	Dr.	Cr.
Fixed assets	8,000	
Opening inventory	800	
Cash	700	
Goods received from Head Office	2,800	
Sales		24,050
Purchases	11,800	
Expenses	1,800	
Remittance to head office	2,450	
Head office account		4,300
	28,350	28,350

- (i) Fixed assets were purchased on 1st April, 2015.
- (ii) Depreciation at 10% p.a. is to be charged on fixed assets on straight line method.
- (iii) Closing inventory at branch is \$ 700 as on 31-3-2019
- (iv) Goods received from Head Office (HO) were recorded at ₹ 1,85,500 in HO books.
- (v) Remittance to HO were recorded at ₹1,62,000 in HO books.
- (vi) HO account is recorded in HO books at ₹ 2,84,500.
- (vii) Exchange rates of US Dollar at different dates can be taken as :
- 1-4-2015 ₹63;
1-4-2018 ₹65 and
31-3-2019 ₹67.

Prepare the trial balance after been converted into Indian rupees in accordance with AS-11.

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

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.

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

The Capital structure of a company BK Ltd., consists of 30,000 Equity Shares of ₹ 10 each fully paid up and 2,000 9% Redeemable Preference Shares of ₹ 100 each fully paid up as on 31.03.2020. the other particulars as at 31.03.2020 are as follows:

	Amount (₹)
General Reserve	1,20,000
Profit & Loss Account	60,000
Investment Allowance Reserve (not free for distribution as dividends)	15,000
Cash at bank	1,95,000

Preference Shares are to be redeemed at a premium of 10%. For the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at per after utilizing the undistributed reserve & surplus, subject to the conditions that a sum of ₹ 40,000 shall be retained in General Reserve and which should not be utilized.

Company also sold investment of 4500 Equity Shares in G Ltd., costing ₹ 45,000 at ₹ 9 per share.

Pass Journal entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet as at 31.03.2020 of BK Ltd., after the redemption is 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)**

X 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	90
Paid up preference share capital	10
Reserves (including revaluation reserve ₹ 5 lakhs)	75
Securities premium	30
Long term loans	20
Deposit repayable after one year	10
Application money pending allotment	360
Accumulated losses not written off	40
Investment	90

X Ltd. has only one whole time director, Mr. Y. 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)**

(i) ABC Ltd. was previously making provision for non-moving stocks based on stocks not issued for the last 12 months up to 31.03.2020. Now, the company wants to make provisions based on technical evaluation during the year ending 31.03.2021.

Total value of stock ₹ 133.75 lakhs

Provision required based on technical evaluation ₹ 4.00 lakhs.

Provision required based on 12 months not issued ₹ 5.00 lakhs.

(ii) In the Books of M/s Kay Ltd., Closing stock as on 31st March, 2021 amounts to ₹ 1,24,000 (on the basis of FIFO method)

The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory from the year 2020-2021. On the basis of weighted average method, closing stock as on 31st March, 2021 amounts to ₹ 1,15,000. Realisable value of the inventory as on 31st March, 2021 amounts to ₹1,54,000.

Discuss Disclosure Requirements of change in accounting policy in above cases as per AS 1.

SPACE FOR ROUGH WORK