

MOCK TEST PAPER
INTERMEDIATE (NEW) : GROUP – I
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 disclosed by way of a note.

Working Notes should form part of the answer.

(Time allowed: Three hours)

(Maximum Marks: 100)

1. (a) Om Ltd. purchased an item of property, plant and equipment for US \$ 50 lakh on 01.04.2019 and the same was fully financed by the foreign currency loan [US \$] repayable in five equal instalments annually. (Exchange rate at the time of purchase was 1 US \$ = ₹ 60). As on 31.03.2020 the first instalment was paid when 1 US \$ fetched ₹ 62.00. The entire loss on exchange was included in cost of goods sold. Om Ltd. normally provides depreciation on an item of property, plant and equipment at 20% on WDV basis and exercised the option to adjust the cost of asset for exchange difference arising out of loan restatement and payment. Calculate the amount of exchange loss, its treatment and depreciation on this item of property, plant and equipment.
- (b) On 01.04.2017, 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 in 2nd April, 2020 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?
- (c) (i) Entity A carried plant and machinery in its books at ₹ 2,00,000 which were destroyed in a fire. These machines were insured 'New for old' and were replaced by the insurance company with new machines of fair value ₹ 20,00,000. The old destroyed machines were acquired by the insurance company and the company did not receive any cash compensation. State, how Entity A should account for the same?
- (ii) Omega Ltd, 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 remodelling and the expectation of a 15% increase in sales resulting from the store renovations, which will attract new customers.
Decide whether Omega Ltd. can capitalize the remodelling cost or not as per provisions of AS 10 "Property plant & Equipment".
- (d) What do you mean by the term "cash and cash equivalent" as per AS 3? From the following information of XYZ Limited, calculate cash and cash equivalent as on 31-03-2019.

Particulars	Amount (₹)
Cash balance with Bank	10,000
Fixed Deposit created on 01-11-2018 and maturing on 15-07-2019	75,000
Short Term Investment in highly liquid Sovereign Debt Mutual fund made on 01-03-2019 (having maturity period of less than 3 months)	1,00,000
Bank Balance in a Foreign Currency Account in India	\$ 1,000

(Conversion Rate: on the day of deposit ₹ 69/USD; ₹ 70/USD as on 31-03-2019)	
Debentures purchased of ₹ 10 lacs of A Ltd., which are redeemable on 31 st October, 2019	90,000
Shares of Alpha Ltd. purchased on 1 st January, 2019	60,000

(4 Parts x 5 Marks = 20 Marks)

2. (a) Shree Ltd. has authorized capital of ₹ 50 lakhs divided into 5,00,000 equity shares of ₹ 10 each. Their books show the following balances as on 31st March, 2020:

	₹		₹
Inventory 1.4.2019	6,65,000	Bank balance in Current Account	20,000
Discounts & Rebates allowed	30,000	Cash in hand	8,000
Carriage Inwards	57,500	Interest (bank overdraft)	1,11,000
Patterns	3,75,000	Calls in Arrear @ ₹2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity share capital	20,00,000
Furniture & Fixtures	1,50,000	(2,00,000 shares of ₹ 10 each)	
Purchases	12,32,500	Bank Overdraft	12,67,000
Wages	13,68,000		
Freehold Land	16,25,000	Trade Payables (for goods)	2,40,500
Plant & Machinery	7,50,000	Sales	36,17,000
Engineering Tools	1,50,000	Rent (Cr.)	30,000
Trade Receivables	4,00,500	Transfer fees received	6,500
Advertisement	15,000	Profit & Loss A/c (Cr.)	67,000
Commission & Brokerage (Dr.)	67,500	Repairs to Building	56,500
Business Expenses	56,000	Bad debts	25,500

You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2020 and Balance Sheet as on that date in line with Schedule III to the Companies Act, 2013 after considering the following:

The inventory (valued at cost or market value, which is lower) as on 31st March, 2020 was ₹ 7,08,000. Outstanding liabilities for wages ₹ 25,000 and business expenses ₹ 36,000.

Charge depreciation on closing written down value of Plant & Machinery @ 5%, Engineering Tools @ 20%; Patterns @ 10%; and Furniture & Fixtures @ 10%. Provide 25,000 as doubtful debts after writing off ₹ 16,000 as additional bad debts. Provide for income tax @ 30%.

- (b) Medha Ltd. took a loan from bank for ₹ 10,00,000 to be settled within 5 years in 10 equal half yearly instalments with interest. First instalment is due on 30.09.2020 of ₹ 1,00,000. Determine how the loan will be classified in preparation of Financial Statements of Medha Ltd. for the year ended 31st March, 2020 according to Schedule III. (16 + 4 = 20 Marks)
3. (a) (i) Mr. Vijay entered into the following transactions of purchase and sale of equity shares of JP Power Ltd. The shares have paid up value of ₹ 10 per share.

Date	No. of Shares	Terms
01.01.2019	600	Buy @ ₹ 20 per share
15.03.2019	900	Buy @ ₹ 25 per share
20.05.2019	1000	Buy @ ₹ 23 per share

25.07.2019	2500	Bonus Shares received
20.12.2019	1500	Sale @ ₹ 22 per share
01.02.2020	1000	Sale @ ₹ 24 per share

Addition information:

- (1) On 15.09.2019 dividend @ ₹ 3 per share was received for the year ended 31.03.2019.
- (2) On 12.11.2019 company made a right issue of equity shares in the ratio of one share for five shares held on payment of ₹ 20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of ₹ 3 per share.
- (3) Shares are to be valued on weighted average cost basis.

You are required to prepare Investment Account for the year ended 31.03.2019 and 31.03.2020.

- (ii) Whether the accounting treatment 'at cost' under the head 'Long Term Investments' without providing for any diminution in value is correct and in accordance with the provisions of AS 13. If not, what should have been the accounting treatment in such a situation? What methodology should be adopted for ascertaining the provision for diminution in the value of investment, if any. Explain in brief. **(8 + 4 =12 Marks)**
- (b) A fire occurred in the premises of M/s. Fireproof on 31st August, 2020. From the following particulars relating to the period from 1st April, 2020 to 31st August, 2020, you are requested to ascertain the amount of claim to be filed with the insurance company for the loss of stock. The concern had taken an insurance policy for ₹ 60,000 which is subject to an average clause.

		₹
(i)	Stock as per Balance Sheet at 31-03-2020	99,000
(ii)	Purchases	1,70,000
(iii)	Wages (including wages for the installation of a machine ₹ 3,000)	50,000
(iv)	Sales	2,42,000
(v)	Sale value of goods drawn by partners	15,000
(vi)	Cost of goods sent to consignee on 16 th August, 2020, lying unsold with them	16,500
(vii)	Cost of goods distributed as free samples	1,500

While valuing the stock at 31st March, 2020, ₹ 1,000 were written off in respect of a slow moving item. The cost of which was ₹ 5,000. A portion of these goods were sold at a loss of ₹ 500 on the original cost of ₹ 2,500. The remainder of the stock is now estimated to be worth the original cost. The value of goods salvaged was estimated at ₹ 20,000. The average rate of gross profit was 20% (on sales) throughout. **(8 Marks)**

4. (a) 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 March, 2020:

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.
- (b) Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹ 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	As on 1.4.2019	As on 31.3.2020
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?
Ram's capital	3,00,000	

Analysis of his bank pass book reveals the following information:

- (a) Payment to creditors ₹ 7,00,000
- (b) Payment for business expenses ₹ 1,20,000
- (c) Receipts from debtors ₹ 7,50,000
- (d) Loan from Laxman ₹ 1,00,000 taken on 1.10.2019 at 10% per annum
- (e) Cash deposited in the bank ₹ 1,00,000

He informs you that he paid creditors for goods ₹ 20,000 in cash and salaries ₹ 40,000 in cash. He has drawn ₹ 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales.

You are required to prepare: (i) Trading and Profit and Loss Account for the year ended 31.3.2020.
(ii) Balance Sheet as at 31st March, 2020. **(8 + 12 = 20 Marks)**

5. (a) The partners of Ojasvi Enterprises decided to convert the partnership firm into a Private Limited Company Tejasvi (P) Ltd. with effect from 1st January, 2019. However, company could be incorporated only on 1st June, 2019. The business was continued on behalf of the company and the consideration of ₹ 6,00,000 was settled on that day along with interest @ 12% per annum. The company availed loan of ₹ 9,00,000 @ 10% per annum on 1st June, 2019 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2020 and presents you the following summarized profit and loss account:

	₹	₹
Sales		19,80,000
Cost of goods sold	11,88,000	
Discount to dealers	46,200	

Directors' remuneration	60,000	
Salaries	90,000	
Rent	1,35,000	
Interest	1,05,000	
Depreciation	30,000	
Office expenses	1,05,000	
Preliminary expenses (to be written off in first year itself)	<u>15,000</u>	
		<u>17,74,200</u>
Profit		<u>2,05,800</u>

Sales from June, 2019 to December, 2019 were 2½ times of the average sales, which further increased to 3½ times in January to March quarter, 2019. The company recruited additional work force to expand the business. The salaries from July, 2019 doubled. The company also acquired additional showroom at monthly rent of ₹ 10,000 from July, 2019.

You are required to prepare a statement showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods.

- (b) L Ltd. has its head office at Mumbai and two branches at Pune and Goa. The branches purchase goods independently. Pune branch makes a profit of one third on cost and Goa branch makes a profit of 20% on sales. Goods are also supplied by one branch to another at the respective sales price. From the following particulars, prepare the Trading and Profit and Loss Account of Pune branch and find out the profit or loss made by it considering the reserve for unrealised profits:

Particulars	Pune Branch ₹	Goa Branch ₹
Opening Stock	40,000	30,000
Purchases (Including Inter Branch transfers)	2,00,000	2,50,000
Sales	2,80,000	2,95,625
Chargeable Expenses	15,000	27,500
Closing Stock	30,000	43,500
Office and Administration Expenses	13,250	7,000
Selling and Distribution Expenses	15,000	10,000

Information:

- Opening stock at Pune Branch includes goods of ₹ 10,000 (invoice price) taken from Goa Branch,
 - Opening stock at Goa Branch includes goods of invoice price ₹ 17,000 taken from Pune Branch,
 - The Pune Branch sales includes transfer of goods to Goa Branch at selling price ₹ 20,000
 - The sales of Goa Branch include transfer of goods to Pune Branch at selling price ₹ 15,000.
 - Closing stock at Pune Branch includes goods received from Goa Branch (invoice price ₹ 5,000).
 - Closing stock at Goa Branch includes goods of ₹ 4,000 (invoice price).
- (c) Ganesh Ltd. has head office at Delhi (India) and branch at New York. New York branch is an integral foreign operation of Ganesh Ltd. New York branch furnishes you with its trial balance as on 31st March, 2020 and the additional information given thereafter:

	Dr. (\$)	Cr. (\$)
Stock on 1st April, 2019	300	-

Purchases and sales	800	1,500
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Sundry expenses	1,080	–
Bank balance	420	–
Delhi office A/c	–	1,080
	3,120	3,120

The rates of exchange may be taken as follows:

- on 1.4.2019 @ ₹40 per US \$
- on 31.3.2020 @ ₹42 per US \$
- average exchange rate for the year @ ₹ 41 per US \$.

New York branch account showed a debit balance of ₹ 44,380 on 31.3.2020 in Delhi books and there were no items pending reconciliation.

You are asked to prepare trial balance of New York in ₹ in the books of Ganesh Ltd.

(10 + 6 + 4 = 20 Marks)

6. (a) The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st March, 2020.

Share capital: 40,000 Equity shares of ₹ 10 each fully paid – ₹ 4,00,000; 1,000 10% Redeemable preference shares of ₹ 100 each fully paid – ₹ 1,00,000.

Reserve & Surplus: Capital reserve – ₹ 50,000; Securities premium – ₹ 50,000; General reserve – ₹ 75,000; Profit and Loss Account – ₹ 35,000

On 1st April 2020, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

- (b) The following extract of Balance Sheet of X Ltd. as on 31.3.2020 (a non-investment company) was obtained:

<i>Liabilities</i>	₹
<u>Issued and subscribed capital:</u>	
20,000, 14% preference shares of ₹ 100 each fully paid	20,00,000
1,20,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	96,00,000
Capital reserves (₹ 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Unsecured loans: Public deposits repayable after one year	3,70,000
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,00,000

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

- (c) Mr. Aman is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Aman for the financial year 2018-19, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information:

On 31 st March, 2018	
Sundry Assets	₹16,65,000
Liabilities	₹4,13,000
On 31 st March, 2019	
Sundry Assets	₹28,40,000
Liabilities	₹5,80,000
Mr. Aman's drawings for the year 2018-19	₹32,000 per month
Income declared to the Income Tax Officer	₹9,12,000

During the year 2018-19, one life insurance policy of Mr. Aman was matured and amount received ₹ 50,000 was retained in the business.

State whether the Income Tax Officer's contention is correct. Explain by giving your working.

OR

On 1st April, 2017, X Ltd. sells a Trucks on hire purchase basis to Transporters & Co. for a total purchase price of ₹ 18,00,000 payable as to ₹ 4,80,000 as down payment and the balance in three equal annual instalments of ₹ 4,40,000 each payable on 31st March 2018, 2019 and 2020.

The hire vendor charges interest @ 10% per annum.

You are required to ascertain the cash price of the truck for Transporters & Co. Calculations may be made to the nearest rupee.

- (d) 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, 2020 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. **(4 Parts x 5 Marks = 20 Marks)**