

MOCK TEST PAPER - 1
INTERMEDIATE (New): GROUP – I
PAPER – 1: ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) (i) **True;** As per AS 1 “Disclosure of Accounting Policies”, certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.
- (ii) **False;** As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
- (iii) **False;** To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.
- (iv) **True;** Any change in the accounting policies which has a material effect in the current period, or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- (v) **False;** As per AS 1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.
- (b) As per AS 13 “Accounting for Investments”, Valuation of current investments on overall (or global) basis is not considered appropriate. Sometimes, the concern of an enterprise may be with the value of a category of related current investments and not with each individual investment, and accordingly the investments may be carried at the lower of cost and fair value computed category-wise (i.e. equity shares, preference shares, convertible debentures, etc.). However, the more prudent and appropriate method is to carry investments individually at the lower of cost and fair value.
- (i) Hence the company has to value the current investment at Rs. 27 Lacs (A Ltd. shares at Rs. 5 lacs; B Ltd. shares at Rs. 10 lacs and C Ltd. shares at Rs. 12 lacs). The company’s decision to value the portfolio at Rs. 30 lacs is not appropriate.
- (ii) Moreover, where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.
- Hence, the company has to make transfer of 1,000 equity shares of C Ltd. at Rs. 12 lacs (fair value) and not Rs. 15 lacs (cost) as the fair value is less than cost.
- (c) As per AS-12, ‘Accounting for Government Grants’, “the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

In this case the grant refunded is Rs. 30 lakhs and balance in deferred income is Rs. 21 lakhs, Rs. 9 lakhs shall be charged to the profit and loss account for the year 2019-20. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as

charged in the earlier years.

- (d) Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired. These costs are not be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The costs to be incurred by the company are in the nature of costs of reducing or reorganizing the operations of the accompany. These costs do not meet that requirement of AS 10 "Property, Plant and Equipment" and cannot, therefore, be capitalized.

2.

SR Ltd.

Balance Sheet as on 31st March, 2020

Particulars	Notes	Figures at the end of current reporting period (Rs.)
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	79,85,000
b Reserves and Surplus	2	30,21,000
2 Non-current liabilities		
a Long-term borrowings	3	42,66,000
3 Current liabilities		
a Short-term borrowings	4	4,60,000
b Trade Payables		8,13,000
c Other current liabilities	5	6,84,000
d Short-term provisions	6	3,80,000
Total		1,76,09,000
Assets		
1 Non-current assets		
A PPE	7	92,00,000
2 Current assets		
A Inventories	8	58,00,000
B Trade receivables	9	17,50,000
C Cash and cash equivalents	10	4,84,000
D Short-term loans and advances		3,75,000
Total		1,76,09,000

Notes to accounts

	Rs.
1. Share Capital	
Equity share capital	
Issued, subscribed and called up	
1,60,000 Equity Shares of Rs. 50 each (Out of the above 50,000 shares have been issued for consideration other than cash)	80,00,000
Less: Calls in arrears	<u>(15,000)</u>
	79,85,000

2. Reserves and Surplus			
General Reserve		9,41,000	
Add: Transferred from Profit and loss account		<u>35,000</u>	9,76,000
Securities premium			15,00,000
Surplus (Profit & Loss A/c)		5,80,000	
Less: Appropriation to General Reserve (proposed)		<u>(35,000)</u>	<u>5,45,000</u>
			<u>30,21,000</u>
3. Long-term borrowings			
Secured: Term Loans			
Loan from Public Finance Corporation [repayable after 3 years (Rs. 26,30,000 - Rs. 1,34,000 for interest accrued but not due)]			24,96,000
Secured by hypothecation of land			
Unsecured			
Bank Loan (Nixes bank) (Rs. 13,80,000 - Rs. 4,80,000 repayable within 1 year)	9,00,000		
Loan from Directors	8,50,000		
Others	<u>20,000</u>		<u>17,70,000</u>
		Total	<u>42,66,000</u>
4. Short-term borrowings			
Loan from Naya bank (Secured)		1,16,000	
Loan from Directors		48,000	
Others		<u>2,96,000</u>	4,60,000
5. Other current liabilities			
Loan from Nixes bank repayable within one year		4,80,000	
Dividend payable		70,000	
Interest accrued but not due on borrowings		<u>1,34,000</u>	6,84,000
6. Short-term provisions			
Provision for taxation			3,80,000
7. PPE			
Land			25,00,000
Buildings		32,00,000	
Less: Depreciation		<u>(2,00,000)</u>	30,00,000
Plant & Machinery		30,00,000	
Less: Depreciation		<u>(6,00,000)</u>	24,00,000
Furniture & Fittings		16,50,000	
Less: Depreciation		<u>(3,50,000)</u>	<u>13,00,000</u>
		Total	<u>92,00,000</u>
8. Inventories			
Raw Material		13,00,000	

	Finished goods	40,00,000	
	Loose tools	<u>5,00,000</u>	58,00,000
9.	Trade receivables		
	Outstanding for a period exceeding six months		4,86,000
	Others		<u>12,64,000</u>
	Total		<u>17,50,000</u>
10.	Cash and cash equivalents		
	Balances with banks		
	with Scheduled Banks	3,58,000	
	with others banks	<u>56,000</u>	4,14,000
	Cash in hand		<u>70,000</u>
	Total		<u>4,84,000</u>

Note: There is a Contingent Liability amounting Rs. 1,60,000

3. (a) In the books of M/s Prasad & Co.
Trading and Profit and Loss Account
for the year ended 31st March, 2020

	Rs.	Rs.		Rs.	Rs.
To Opening stock		10,000	By Sales:		
To Purchases:			Cash	500	
Cash	1,000		Credit	71,500	
Credit (W.N. 3)	<u>56,100</u>		Less: Returns	<u>(1,450)</u>	70,550
	57,100		By Closing stock		12,000
Less: Returns	<u>(400)</u>	56,700			
To Gross Profit c/d		15,850			
		<u>82,550</u>			<u>82,550</u>
To Discount allowed		4,000	By Gross profit b/d		15,850
To Bad debts		500	By Discount received		700
To General expenses (W.N. 5)		9,200	By Net Loss (balancing fig.)		150
To Depreciation (W.N. 4)		<u>3,000</u>			
		<u>16,700</u>			<u>16,700</u>

Balance Sheet as at 31st March, 2020

Liabilities		Rs.	Assets		Rs.
Capital (W.N. 1)	39,850		Fixed Assets	12,000	
Less: Net loss	<u>150</u>		Add: New asset	<u>4,000</u>	
	39,700			16,000	
Less: Drawings	<u>(500)</u>	39,200	Less: Depreciation	<u>(3,000)</u>	13,000
Sundry creditors		15,000	Stock in trade		12,000

Expenses outstanding		800	Sundry debtors (W.N. 2)	18,000
			Cash in hand	2,000
			Cash in Bank	<u>10,000</u>
		<u>55,000</u>		<u>55,000</u>

Working Notes:

(1) Ascertainment of Opening Capital - Statement of Affairs as at 1.4.19

Liabilities	Rs.	Assets	Rs.
Sundry creditors	20,000	Fixed Assets	12,000
Outstanding expenses	600	Stock	10,000
Prasad's Capital		Debtors	28,450
(Balancing figure)	39,850	Cash in hand	7,500
		Cash at Bank	<u>2,500</u>
	<u>60,450</u>		<u>60,450</u>

(2) Sundry Debtors Account

	Rs.		Rs.
To Balance b/d (bal. fig)	28,450	By Cash	76,000
To Sales (72,000 – 500)	71,500	By Discount	4,000
		By Returns (sales)	1,450
		By Bad debts	500
		By Balance c/d (given)	<u>18,000</u>
	<u>99,950</u>		<u>99,950</u>

(3) Sundry Creditors Account

	Rs.		Rs.
To Bank – Payments	60,000	By Balance b/d	20,000
To Discount	700	By Purchases - credit	56,100
To Returns	400	(Balancing figure)	
To Balance c/d (closing balance)	<u>15,000</u>		
	<u>76,100</u>		<u>76,100</u>

(4) Depreciation on Fixed Assets

	Rs.
Opening balance of fixed assets	12,000
Add: Additions	<u>4,000</u>
	16,000
Less: Closing balance of fixed assets	<u>(13,000)</u>
Depreciation	<u>3,000</u>

(5) Expenses to be shown in profit and loss account

Expenses (in cash)	9,000
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Add: Outstanding of 2020	<u>800</u>
	9,800
Less: Outstanding of 2019	<u>600</u>
	<u>9,200</u>

(6) **Cash and Bank Account**

	Cash	Bank		Cash	Bank
	Rs.	Rs.		Rs.	Rs.
To Balance b/d	7,500	2,500	By Purchases	1,000	—
To Debtors	-	76,000	By Expenses	9,000	
To Bank (C)	9,000	-	By Fixed Asset		4,000
To Cash (C)	-	5,000	By Drawings		500
To Sales (balancing figure considered as cash sales)	500	-	By Creditors		60,000
			By Cash (C)		9,000
			By Bank (C)	5,000	
			By Balance c/d		<u>10,000</u>
	17,000	83,500		<u>2,000</u>	<u>10,000</u>
				<u>17,000</u>	<u>83,500</u>

(b) **Branch Stock Reserve in respect of unrealized profit**

on opening stock = Rs. 3,45,000 x (15/115) = Rs. 45,000

on closing stock = Rs. 2,30,000 x (15/115) = Rs. 30,000

Working Note:

	Rs.
Cost Price	100
Invoice Price	115
Sale Price	140
Calculation of closing stock at invoice price	Rs.
Opening stock at invoice price	3,45,000
Goods received during the year at invoice price	<u>16,10,000</u>
	19,55,000
Less: Cost of goods sold at invoice price [21,00,000 X (115/140)]	<u>(17,25,000)</u>
Closing stock	2,30,000

4. (a)

Books of Vijay

Investment Account

(Scrip: Equity Shares in X Ltd.)

		No.	Amount			No.	Amount
			Rs.				Rs.
1.4.2019	To Bal b/d	30,000	4,50,000	31.10.2019	By Bank	—	10,000
22.6.2019	To Bank	5,000	80,000		(dividend		
10.8.2019	To Bonus	5,000	-		on shares		
30.9.2019	To Bank	10,000	1,50,000		acquired on		
	(Rights Shares)				22/6/2019)		

15.11.2019	To Profit (on sale of shares)		32,000	15.11.2019	By Bank (Sale of shares)	20,000	3,00,000
				31.3.2020	By Bal. c/d	<u>30,000</u>	<u>4,02,000</u>
		<u>50,000</u>	<u>7,12,000</u>			<u>50,000</u>	<u>7,12,000</u>

Working Notes:

- (1) Bonus Shares = $(30,000 + 5,000) / 7 = 5,000$ shares
- (2) Right Shares = $\frac{(30,000 + 5,000 + 5,000)}{8} \times 3 = 15,000$ shares
- (3) Rights shares sold = $15,000 \times 1/3 = 5,000$ shares
- (4) Dividend received = $30,000 \times 10 \times 20\% = \text{Rs. } 60,000$ will be taken to P&L statement
- (5) Dividend on shares purchased on 22.6.2019 = $5,000 \times 10 \times 20\% = \text{Rs. } 10,000$ is adjusted to Investment A/c
- (6) Profit on sale of 20,000 shares
= Sales proceeds – Average cost
Sales proceeds = Rs. 3,00,000
Average cost = $\frac{(4,50,000 + 80,000 + 1,50,000 - 10,000)}{50,000} \times 20,000 = \text{Rs. } 2,68,000$
Profit = Rs. 3,00,000 – Rs. 2,68,000 = Rs. 32,000.
- (7) Cost of shares on 31.3.2018
 $\frac{(4,50,000 + 80,000 + 1,50,000 - 10,000)}{50,000} \times 30,000 = \text{Rs. } 4,02,000$
- (8) Sale of rights amounting Rs. 10,000 (Rs. 2 x 5,000 shares) will not be shown in investment A/c but will directly be taken to P & L statement.

(b)

In the books of Mr. White

Trading Account for the year ended 31.3.2019

	Rs.		Rs.
To Opening Stock	10,80,000	By Sales	72,00,000
To Purchases	51,60,000	By Closing Stock at cost	14,40,000
To Gross Profit	24,00,000	(12,96,000 x 100/90)	
	<u>86,40,000</u>		<u>86,40,000</u>

**Memorandum Trading A/c
for the period from 1.4.2019 to 02.06.2019**

	Rs.		Rs.
Opening Stock (at cost)	14,40,000	By Sales	38,40,000
Purchases 18,00,000		Less: Goods not dispatched <u>6,00,000</u>	32,40,000
Add: Goods received but invoice not received <u>2,40,000</u>		By Closing stock (Balancing figure)	12,00,000

	20,40,000		
Less: Machinery	<u>1,20,000</u>	19,20,000	
Gross Profit (Refer W.N.)		<u>10,80,000</u>	
		<u>44,40,000</u>	<u>44,40,000</u>

Calculation of Insurance Claim

$$\text{Claim subject to average clause} = \left(\frac{\text{Actual loss of stock}}{\text{Value of stock on the date of fire}} \times \text{Amount of policy} \right)$$

$$= 9,60,000 \times 12,00,000 / 12,00,000 = \text{Rs. } 9,60,000$$

Working Note:

$$\text{G.P. ratio} = 24,00,000 / 72,00,000 = 33 \frac{1}{3} \%$$

$$\text{Amount of Gross Profit} = \text{Rs. } 32,40,000 \times 33 \frac{1}{3} \% = \text{Rs. } 10,80,000$$

**5. (a) Cash Flow Statement of Tom & Jerry Ltd.
for the year ended 31st March, 2020**

		(Rs. '000)
Cash flows from operating activities		
Cash receipts from customers	16,596	
Cash payments to suppliers	(12,204)	
Cash paid to employees	(414)	
Other cash payments (for Selling & Administrative expenses)	<u>(690)</u>	
Cash generated from operations	3,288	
Income taxes paid	<u>(1,458)</u>	
Net cash from operating activities		1,830
Cash flows from investing activities		
Payments for purchase of fixed asset	(1,380)	
Proceeds from sale of fixed assets	768	
Purchase of investments	(78)	
Sale of investments	<u>102</u>	
Net cash used in investing activities		(588)
Cash flows from financing activities		
Proceeds from issue of share capital	1,800	
Bank loan repaid	(1,500)	
Interest paid on bank loan	(300)	
Dividend paid	<u>(480)</u>	
Net cash used in financing activities		<u>(480)</u>
Net increase in cash and cash equivalents		762
Cash and cash equivalents at beginning of period		<u>210</u>

(b)

In the books of AP Ltd.

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	Dr.	25,000	
	To Equity Share Capital A/c			25,000
	(Being the issue of 2,500 Equity Shares of Rs. 10 each at par, as per Board's Resolution No.....dated.....)			
	8% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	10,000	
	To Preference Shareholders A/c			1,10,000
	(Being the amount paid on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,10,000	
	To Bank A/c			1,10,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	10,000	
	To Premium on Redemption of Preference Shares A/c			10,000
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)			
	General Reserve A/c	Dr.	60,000	
	Profit & Loss A/c	Dr.	10,000	
	Investment Allowance Reserve A/c	Dr.	5,000	
	To Capital Redemption Reserve A/c			75,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Balance Sheet as on[Extracts]

	Particulars	Notes No.	Rs.
	EQUITY AND LIABILITIES		
1.	Shareholders' funds		
	a Share capital	1	2,25,000
	b Reserves and Surplus	2	1,00,000
	Total		?
	ASSETS		
2.	Current Assets		
	Cash and cash equivalents (98,000 + 25,000 – 1,10,000)		13,000
	Total		?

Notes to accounts

1. Share Capital

22,500 Equity shares (20,000 + 2,500) of Rs.10 each fully paid up	2,25,000
2. Reserves and Surplus	
General Reserve	20,000
Capital Redemption Reserve	75,000
Investment Allowance Reserve	5,000
	<u>1,00,000</u>

Working Note:

No of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed Rs.1,00,000

Less: Profit available for distribution as dividend:

 General Reserve : Rs.(80,000-20,000) Rs.60,000

 Profit and Loss (20,000 – 10,000 set aside for
adjusting premium payable on redemption of
preference shares) Rs.10,000

 Investment Allowance Reserve: (Rs. 10,000-5,000) Rs. 5,000 (Rs. 75,000)

Rs. 25,000

Therefore, No. of shares to be issued = 25,000/Rs.10 = 2,500 shares.

6. (a) Forward Rate	Rs. 49.15
Less: Spot Rate	(Rs. 48.85)
Premium on Contract	<u>Rs. 0.30</u>
Contract Amount	US\$ 1,00,000
Total Loss (1,00,000 x 0.30)	Rs. 30,000

Contract period 3 months

Two months falling in the year ended 31st March, 2020; therefore loss to be recognized (30,000/3) x 2 = Rs. 20,000.

Balance amount of Rs. 10,000 will be recognized in the following financial year.

OR

As per para AS 2 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

Amount of Normal Loss and Abnormal Loss:

Material used	12,000 MT @ Rs. 150 = Rs. 18,00,000
Normal Loss (4% of 12,000 MT)	480 MT
Net quantity of material	11,520MT
Abnormal Loss in quantity	150 MT (630 MT less 480 MT)
Abnormal Loss	Rs. 23,437.50 [150 units @ Rs. 156.25 (Rs.18,00,000/11,520)]

Amount of Rs. 23,437.50 will be charged to the Profit and Loss statement.

(b) Calculation of Interest and Cash Price

Ratio of interest and amount due = $8 / (100 + \text{rate of interest})$ i.e. $8/108$

To ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

No. of instalments	Amount due at the time of instalment	Interest	Cumulative Cash price
[1]	[2]	[3]	(2-3) = [4]
3 rd	12,000	$8/108$ of Rs.12,000 =Rs. 889	11,111
2 nd	23,111 [W.N.1]	$8/108$ of Rs. 23,111 = Rs.1,712	21,399
1 st	33,399 [W.N.2]	$8/108$ of Rs.33,399 = Rs. <u>2,474</u>	30,925
		<u>5,075</u>	

Total cash price = Rs. 30,925 + Rs. 12,000 (down payment) =Rs.42,925

Working Notes:

- Rs. 11,111+ 2nd instalment of Rs. 12,000= Rs. 23,111
- Rs. 21,399+ 1st instalment of Rs. 12,000= Rs. 33,399

(c) Journal Entries

		Rs.	Rs.
General Reserve A/c	Dr.	1,25,000	
To Bonus to shareholders A/c			1,25,000
(For making provision of bonus issue)			
Share Final Call A/c		1,25,000	
To Equity share capital A/c			1,25,000
(For final calls of Rs. 2.5 per share on 50,000 equity shares due as per Board's Resolution dated....)			
Bonus to shareholders A/c	Dr.	1,25,000	
To Share Final Call A/c			1,25,000
(For adjusting Final Call A/c against bonus issue)			

(d)

	Number of debentures
Debenture holders opted for conversion (20,000 /100)	<u>200</u>
Option for conversion	20%
Number of debentures to be converted (20% of 200)	40

Redemption value of 40 debentures at a premium of 5% $[40 \times (100+5)]$ Rs. 4,200

Equity shares of Rs. 10 each issued on conversion

$[Rs. 4,200/ Rs. 20]$ 210 shares

Calculation of cash to be paid :	Rs.
Number of debentures	200
Less: number of debentures to be converted into equity shares	<u>(40)</u>
	<u>160</u>
Redemption value of 160 debentures (160 × Rs. 105)	<u>Rs. 16,800</u>

Journal Entry

Debentures A/c	Dr.	20,000	
Premium on redemption A/c	Dr.	1,000	
To Debenture holders A/c			21,000
(Being amount due to debenture holders at redemption)			
Debenture holders A/c	Dr.	21,000	
To Equity Share capital A/c			2,100
To Securities premium A/c	Dr.	2,100	
To Cash A/c			16,800
(Discharge of amount due to Debenture holders)			