MOCK TEST PAPER – 1

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) State whether the following statements are 'True' or 'False'. Also give reason for your answer.

(i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are 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 not 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 to be indicated.

(v) There is a single list of accounting policies which are applicable to all circumstances.

(b) The Investment portfolio of XYZ Ltd. as on 31.03.2020 consisted of the following:

			(Rs. in lacs)
	Current Investments	Cost	Fair Value as on 31.03.2020
(1)	1000 Equity Shares of A Ltd.	5	7
(2)	500 Equity Shares of B Ltd.	10	15
(3)	1000 Equity Shares of C Ltd.	15	12
	Total	30	34

Give your comments on the following:

(i) The company wants to value the above portfolio at Rs. 30 lakhs being lower of cost or fair market value.

(ii) Company wants to transfer 1000 Equity Shares of C Ltd. from current investments to long term investments on 31.03.2020 at cost of Rs. 15 lakhs.

(c) Viva Ltd. received a specific grant of Rs. 30 lakhs for acquiring the plant of Rs. 150 lakhs during 2016- 17 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet and was not deducted from the cost of plant. During 2019-20, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was Rs. 21 lakhs and written down value of plant was Rs. 105 lakhs. What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2019-20 in profit and loss account?

(d) 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 following incremental costs will be incurred:

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".

(4 Parts x 5 Marks = 20 Marks)

2. On 31st March, 2020, SR Ltd. provides the following ledger balances after preparing its Profit &Loss Account for the year ended 31st March, 2020.

Particulars	Amount (Rs.)	
	Debit	Credit
Equity Share Capital, fully paid shares of Rs. 50 each		80,00,000
Calls in arrear	15,000	
Land	25,00,000	
Buildings	30,00,000	
Plant & Machinery	24,00,000	
Furniture &Fixture	13,00,000	
Securities Premium		15,00,000
General Reserve		9,41,000
Profit & Loss Account		5,80,000
Loan from Public Finance Corporation (Secured by Hypothecation of Land)		26,30,000
Other Long Term Loans		22,50,000
Short Term Borrowings		4,60,000
Inventories: Finished goods	45,00,000	
Raw materials	13,00,000	
Trade Receivables	17,50,000	
Advances: Short Term	3,75,000	
Trade Payables		8,13,000
Provision for Taxation		3,80,000
Dividend payable		70,000
Cash in Hand	70,000	
Balances with Banks	4,14,000	
Total	**1,76,24,000**	**1,76,24,000**

The following additional information was also provided in respect of the above balances:

(1) 50,000 fully paid equity shares were allotted as consideration for land.

(2) The cost of assets were:

Building	Rs. 32,00,000
Plant and Machinery	Rs. 30,00,000
Furniture and Fixture	Rs. 16,50,000

(3) Trade Receivables for Rs. 4,86,000 due for more than 6 months.

(4) Balances with banks include Rs. 56,000, the Naya bank, which is not a scheduled bank.

(5) Loan from Public Finance Corporation repayable after 3 years.

(6) The balance of Rs. 26,30,000 in the loan account with Public Finance Corporation is inclusive of Rs. 1,34,000 for interest accrued but not due. The loan is secured by hypothecation of land.

(7) Other long-term loans (unsecured) include:

Loan taken from Nixes Bank	Rs. 13,80,000
(Amount repayable within one year	Rs. 4,80,000)
Loan taken from Directors	Rs. 8,50,000

(8) Bills Receivable for Rs. 1,60,000 maturing on 15th June, 2020 has been discounted.

(9) Short term borrowings include:

Loan from Naya bank	Rs. 1,16,000 (Secured)
Loan from directors	Rs. 48,000

(10) Transfer of Rs. 35,000 to general reserve has been proposed by the Board of directors out of the profits for the year.

(11) Inventory of finished goods includes loose tools costing Rs. 5 lakhs (which do not meet definition of property, plant & equipment as per AS 10)

You are required to prepare the Balance Sheet of the Company as on March 31st 2020 as required under Part – I of Schedule III of the Companies Act, 2013. Ignore previous year figures. **(20 Marks)**

3. (a) From the following information, prepare Trading and Profit & Loss Account for the year ended 31.03.2020 and the Balance Sheet as at 31.03.2020 of M/s Prasad & Co., a proprietorship firm.

Assets & Liabilities	As on 01.04.2019	As on 31.03.2020
Creditors	20,000	15,000
Outstanding Expenses	600	800
Fixed Assets	12,000	13,000
Stock	10,000	12,000
Cash in hand	7,500	2,000
Cash at Bank	2,500	10,000
Debtors	?	18,000

Details of the year's transactions are as follows:

(1)	Discounts allowed to Debtor	4,000
(2)	Returns from debtors	1,450
(3)	Bad debts	500
(4)	Total sales (Cash and Credit)	72,000
(5)	Discount allowed by creditors	700
(6)	Returns to creditors	400
(7)	Receipts from debtors paid into Bank	76,000
(8)	Cash purchases	1,000
(9)	Expenses paid by cash	9,000
(10)	Drawings by cheque	500
(11)	Purchase of Fixed Assets by cheque	4,000
(12)	Cash deposited into bank	5,000
(13)	Cash withdrawn from bank	9,000
(14)	Cash in hand at 31.03.2020	2,000
(15)	Payments to creditors by cheque	60,000

No assets were sold during the year. Any difference in cash account to be considered as cash sales.

(b) From the following details of Western Branch Office of M/s. XYZ Corp. for the year ending 31st March, 2020, ascertain branch stock reserve in respect of unrealized profit in opening stock and closing stock:

(i) Goods are sent to the branch at invoice price and branch also maintains stock at the same price.

(ii) Sale price is cost plus 40%.

(iii) Invoice price is cost plus 15%.

(iv) Other information from accounts of branch:

Opening Stock as on 01-04-2019	3,45,000
Goods sent during the year by Head Office to Branch	16,10,000
Sales during the year	21,00,000
Expenses incurred at the branch	45,000

(16 + 4 = 20 Marks)

4. (a) On 1st April, 2019, Mr. Vijay had 30,000 Equity shares in X Ltd. (the company) at a book value of Rs. 4,50,000 (Face Value Rs. 10 per share). On 22nd June, 2019, he purchased another 5000 shares of the same company for Rs. 80,000.

The Directors of X Ltd. announced a bonus of equity shares in the ratio of one share for seven shares held on 10th August, 2019.

On 31st August, 2019 the Company made a right issue in the ratio of three shares for every eight shares held, on payment of Rs. 15 per share. Due date for the payment was 30th September, 2019, Mr. Vijay subscribed to 2/3rd of the right shares and sold the remaining of his entitlement to Viru for a consideration of Rs. 2 per share.

On 31stOctober,2019, Vijay received dividends from X Ltd. @ 20% for the year ended 31st March, 2019. Dividend for the shares acquired by him on 22ndJune,2019 to be adjusted against the cost of purchase.

On 15th November, 2019 Vijay sold 20,000 Equity shares at a premium of Rs. 5 per share.

You are required to prepare Investment Account in the books of Mr. Vijay for the year ended 31st March, 2020 assuming the shares are being valued at average cost.

(b) On 2.6.2019, there occurred a fire in the warehouse of Mr. White and his total stock was destroyed by fire. However, following information could be obtained from the records saved:

	Rs.
Stock at cost on 1.4.2018	10,80,000
Stock at 90% of cost on 31.3.2019	12,96,000
Purchases for the year ended 31.3.2019	51,60,000
Sales for the year ended 31.3.2019	72,00,000
Purchases from 1.4.2019 to 2.6.2019	18,00,000
Sales from 1.4.2019 to 2.6.2019	38,40,000

Sales up to 2.6.2019 includes *Rs.*6,00,000 (invoice price) being the goods not dispatched to the customers. Purchases up to 2.6.2019 includes a machinery acquired for *Rs.*1,20,000. However, it does not include goods worth *Rs.* 2,40,000 received from suppliers, as invoice not received up to the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for *Rs.* 9,60,000 and it is subject to average clause.

You are required to ascertain the amount of claim for loss of stock applying average clause.

(10 + 10 = 20 Marks)

5. (a) Prepare Cash Flow Statement of Tom & Jerry Ltd. for the year ended 31stMarch, 2020, in accordance with AS-3 (Revised) from the following Summary Cash Account:

Summary Cash Account

	Rs. in '000	Rs. in'000
Balance as on 01.04.2019		210
Receipts from Customers		16,596
Sale of Investments (Cost Rs. 90,000)		102
Issue of Shares		1,800
Sale of Fixed Assets		768
		19,476
Payment to Suppliers	12,204	

Purchase of Investments	78	
Purchase of Fixed Assets	1,380	,
Wages & Salaries	414	
Selling & Administration Expenses	690	
Payment of Income Tax	1,458	
Payment of Dividends	480	
Repayment of Bank Loan	1,500	
Interest paid on Bank Loan	300	(18,504)
Balance as on 31.03.2020		972

(b) The capital structure of a AP Ltd. consists of 20,000 Equity Shares of Rs.10 each fully paid up and 1,000 8% Redeemable Preference Shares of Rs.100 each fully paid up (issued on 1.4.20X1).

Undistributed reserve and surplus stood as: General Reserve Rs. 80,000; Profit and Loss Account Rs. 20,000; Investment Allowance Reserve is Rs. 10,000 out of which Rs. 5,000 is not ascertained as free reserve; Cash at bank amounted to Rs. 98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of Rs. 20,000 shall be retained in general reserve and which should not be utilised.

Pass Journal Entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out.

(8+12 = 20 Marks)

6. (a) Rau Ltd. purchased a plant for US$ 1,00,000 on 01st February 2020, payable after three months. Company entered into a forward contract for three months @ Rs. 49.15 per dollar. Exchange rate per dollar on 01st Feb. was Rs. 48.85. How will you recognize the profit or loss on forward contract in the books of Rau Ltd.?

OR

Omega Ltd., has a normal wastage of 4% in the production process. During the year 2019-20, the Company used 12,000 MT of raw material costing Rs. 150 per MT. At the end of the year 630 MT of wastage was ascertained in stock. The accountant wants to know how this wastage is to be treated in the books.

You are required to compute the amount of normal and abnormal loss and treatment thereof in line with AS 2 "Valuation of inventories".

(b) M/s. Kodam Enterprises purchased a generator on hire purchase from M/s. Sanctum Ltd. on 1stApril, 2019. The hire purchase price was Rs.48,000. Down payment was Rs.12,000 and the balance is payable in 3 annual instalments of Rs.12,000 each payable at the end of each financial year. Interest is payable @ 8% p.a. and is included in the annual payment of Rs.12,000.

Depreciation at 10% p.a. is to be written off using the straight line method.

You are required to calculate the cash price of the generator and the interest paid on each instalment.

(c) A Limited company with subscribed capital of Rs. 5,00,000 consisting of 50,000 Equity shares of Rs. 10 each; called up capital Rs. 7.50 per share. A bonus of Rs. 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up. You are required to pass necessary Journal Entries (with narration) for this issue of bonus shares.

(d) XYZ Ltd. has issued 1,000, 12% convertible debentures of Rs. 100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of Rs. 10 each at a price of Rs. 20 per share and balance in cash. Debenture holders amounting Rs. 20,000 opted to get their debentures converted into equity shares as per terms of the issue.

You are required to calculate the number of shares issued and cash paid for redemption of Rs. 20,000 debenture holders and also pass journal entry for conversion and redemption of debentures. **(4 Parts x 5 Marks = 20 Marks)**