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) 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 change it and make provision based on technical evaluation during the year ending 31.03.2020. Total value of stock on 31.3.20 is Rs. 120 lakhs. Provision required based on technical evaluation amounts Rs. 3.00 lakhs. However, provision required based on 12 months (no issues) is Rs. 4.00 lakhs. You are required 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?

   (iii) Explain how it will be disclosed in the annual accounts of HIL Ltd. for the year 2019-20.

   (b) 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?

   (c) Neon Enterprise operates a major chain of restaurants located in different cities. The company has acquired a new restaurant located at Chandigarh. The new-restaurant requires significant renovation expenditure. Management expects that the renovations will last for 3 months during which the restaurant will be closed.

   Management has prepared the following budget for this period –

Salaries of the staff engaged in preparation of restaurant before its opening	Rs. 7,50,000
Construction and remodelling cost of restaurant	Rs. 30,00,000

   Explain the treatment of these expenditures as per the provisions of AS 10 "Property, Plant and Equipment".

   (d) In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting in wastage of 300 MT. Cost per MT of input is Rs. 1,000. The entire quantity of waste and finished output is in stock at the year end. State with reference to Accounting Standard, how will you value the inventories in this case? What will be treatment for normal and abnormal waste? **(4 parts x 5 Marks = 20 Marks)**

2. (a) On 1st April, 2019, Rajat has 50,000 equity shares of P Ltd. at a book value of Rs. 15 per share (face value Rs. 10 each). He provides you the further information:

   (1) On 20^{th} June, 2019 he purchased another 10,000 shares of P Ltd. at Rs. 16 per share.

(2) On 1st August, 2019, P Ltd. issued one equity bonus share for every six shares held by the shareholders.

(3) On 31st October, 2019, the directors of P Ltd. announced a right issue which entitles the holders to subscribe three shares for every seven shares at Rs. 15 per share. Shareholders can transfer their rights in full or in part.

Rajat sold 1/3rd of entitlement to Umang for a consideration of Rs. 2 per share and subscribed the rest on 5th November, 2019.

You are required to prepare Investment A/c in the books of Rajat for the year ending 31st March, 2020.

(b) A fire engulfed the premises of a business of M/s Kite in the morning, of 1st October, 2019. The entire stock was destroyed except, stock salvaged of Rs. 50,000. Insurance Policy was for Rs. 5,00,000 with average clause.

Stock in hand on 31st March, 2019 Rs. 3,50,000

The following information was obtained from the records saved for the period from 1st April to 30th September, 2019:

	Rs.
Sales	27,75,000
Purchases	18,75,000
Carriage inward	35,000
Carriage outward	20,000
Wages	40,000
Salaries	50,000

Additional Information:

(1) Sales upto 30th September, 2019, includes Rs. 75,000 for which goods had not been dispatched.

(2) On 1stJune, 2019, goods worth Rs. 1,98,000 sold to Hari on approval basis which was included in sales but no approval has been received in respect of 2/3rd of the goods sold to him till 30th September, 2019.

(3) Purchases upto 30th September, 2019 did not include Rs. 1,00,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown.

(4) Past records show the gross profit rate of 25% on sales.

You are required to prepare the statement of claim for loss of stock for submission to the Insurance Company. .

(c) Identify four differences between Hire Purchase and Installment Payment agreement.

(8 + 8 + 4 = 20 Marks)

3. (a) Moon Star has a branch at Virginia (USA). The Branch is a non-integral foreign operation of the Moon Star. The trial balance of the Branch as at 31st March, 2020 is as follows:

Particulars	US $	
	Dr.	Cr.
Office equipments	48,000	
Furniture and Fixtures	3,200	

Stock (April 1, 2019)	22,400	
Purchases	96,000	
Sales	---	1,66,400
Goods sent from H.O	32,000	
Salaries	3,200	
Carriage inward	400	
Rent, Rates & Taxes	800	
Insurance	400	
Trade Expenses	400	
Head Office Account	---	45,600
Sundry Debtors	9,600	
Sundry Creditors	---	6,800
Cash at Bank	2,000	
Cash in Hand	400	
	2,18,800	2,18,800

The following further information is given:

(1) Salaries outstanding $ 400.

(2) Depreciate office equipment and furniture & fixtures @10% p.a. at written down value.

(3) The Head Office sent goods to Branch for Rs.15,80,000.

(4) The Head Office shows an amount of Rs. 20,50,000 due from Branch.

(5) Stock on 31st March, 2020 -$21,500.

(6) There were no transit items either at the start or at the end of the year.

(7) On April 1, 2018 when the fixed assets were purchased the rate of exchange was Rs. 43 to one $. On April 1, 2019, the rate was 47 per $. On March 31, 2020 the rate was Rs. 50 per $. Average rate during the year was Rs. 45 to one $.

Prepare Trial balance incorporating adjustments given converting dollars into rupees and Trading, Profit and Loss Account for the year ended 31st March, 2020 of the Branch as would appear in the books of Moon Star for the purpose of incorporating in the main Balance Sheet.

(b) Archana Enterprises maintain their books of accounts under single entry system. The Balance-Sheet as on 31st March, 2018 was as follows :

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital A/c	6,75,000	Furniture & fixtures	1,50,000
Trade creditors	7,57,500	Stock	9,15,000
Outstanding expenses	67,500	Trade debtors	3,12,000
		Prepaid insurance	3,000
		Cash in hand & at bank	1,20,000
	15,00,000		15,00,000

The following was the summary of cash and bank book for the year ended 31st March, 2019:

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Cash in hand & at Bank on 1st April, 2018	1,20,000	Payment to trade creditors	1,24,83,000
Cash sales	1,10,70,000	Sundry expenses paid	9,31,050
Receipts from trade debtors	27,75,000	Drawings	3,60,000
		Cash in hand & at Bank on 31st March, 2019	1,90,950
	1,39,65,000		1,39,65,000

Additional Information:

(i) Discount allowed to trade debtors and received from trade creditors amounted to Rs. 54,000 and Rs. 42,500 respectively (for the year ended 31st March, 2019).

(ii) Annual fire insurance premium of Rs. 9,000 was paid every year on 1st August for the renewal of the policy.

(iii) Furniture & fixtures were subject to depreciation @ 15% p.a. on diminishing balance method.

(iv) The following are the balances as on 31st March, 2019:

Stock	Rs. 9,75,000
Trade debtors	Rs. 3,43,000
Outstanding expenses	Rs. 55,200

(v) Gross profit ratio of 10% on sales is maintained throughout the year.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2019, and Balance Sheet as on that date. **(8 + 12 = 20 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 December, 2020:

Particulars	Deptt. A Rs.	Deptt. B Rs.
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 Rs. 7,50,000 and you are also supplied with the following information:

(i) Closing stock of Department A Rs. 6,00,000 including goods from Department B for Rs. 1,20,000 at cost to Department A.

(ii) Closing stock of Department B Rs. 12,00,000 including goods from Department A for Rs. 1,80,000 at cost to Department B.

(iii) Opening stock of Department A and Department B include goods of the value of Rs. 60,000 and Rs. 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) The capital structure of 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.

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 utilizing the undistributed reserves and surplus, subject to the condition that a sum of Rs. 20,000 shall be retained in general reserve which should not be utilized.

You are required to 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 is carried out. **(8 + 12 = 20 Marks)**

5. (a) From the following particulars furnished by Alpha Ltd., prepare the Balance Sheet as on 31st March 2020 as required by Part I, Schedule III of the Companies Act, 2013.

Particulars		*Debit Rs.*	*Credit Rs.*
Equity Share Capital (Face value of Rs. 100 each)			50,00,000
Call in Arrears		5,000	
Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Inventory:			
Raw Materials	2,50,000		
Finished Goods	10,00,000	12,50,000	
Provision for Taxation			6,40,000
Trade receivables		10,00,000	
Short term Advances		2,13,500	
Profit & Loss Account			4,33,500
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Unsecured Loan			6,05,000
Trade payables (for Goods and Expenses)			8,00,000
Loans & advances from related parties			2,00,000

The following additional information is also provided:

(i) 10,000 Equity shares were issued for consideration other than cash.

(ii) Trade receivables of Rs. 2,60,000 are due for more than 6 months.

(iii) The cost of the Assets were:

Building Rs. 30,00,000, Plant & Machinery Rs. 35,00,000 and Furniture Rs. 3,12,500

(iv) The balance of Rs. 7,50,000 in the Loan Account with State Finance Corporation is inclusive of Rs. 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes Rs. 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.

(vi) Transfer Rs. 20,000 to general reserve as proposed by Board of directors.

(b) 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. **(15+5=20 Marks)**

6. (a) Omega Limited has borrowed a sum of US $ 10,00,000 at the beginning of Financial Year 2019-20 for its residential project at 4 %. The interest is payable at the end of the Financial Year. At the time of availment of loan exchange rate was Rs. 56 per US $ and the rate as on 31st March, 2020 was Rs. 62 per US $. If Omega Limited had borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%.

You are required to compute Borrowing Cost and exchange difference for the year ending 31st March, 2020 as per applicable Accounting Standards.

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

Balance Sheet (Extract) as on 31st March, 2020

Liabilities	*Rs.*
Issued and subscribed capital:	
20,000, 14% preference shares of Rs. 100 each fully paid	20,00,000
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
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.

OR

Following items appear in the Trial Balance of Hello Ltd. as on 31st March, 2020:

Particulars	*Amount*
9,000 Equity Shares of Rs.100 each	9,00,000
Securities Premium	80,000
Capital Redemption Reserve	1,40,000
General Reserve	2,10,000
Profit and Loss Account (Cr. Balance)	90,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. You are required to give the necessary Journal Entries in the books Hello Ltd.

(c) Prepare cash flow from investing activities as per AS 3 of M/s Subham Creative Limited for year ended 31.3.2019.

Particulars	Amount (Rs.)
Machinery acquired by issue of shares at face value	2,00,000
Claim received for loss of machinery in earthquake	55,000
Unsecured loans given to associates	5,00,000
Interest on loan received from associate company	70,000
Pre-acquisition dividend received on investment made	52,600
Debenture interest paid	1,45,200
Term loan repaid	4,50,000
Interest received on investment (TDS of Rs. 8,200 was deducted on the above interest)	73,800
Book value of plant & machinery sold (loss incurred Rs. 9,600)	90,000

(d) Explain in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the Balance Sheet or Statement of Profit and Loss.

(e) M/s. Kodam Enterprises purchased a generator on hire purchase from M/s. Sanctum Ltd. on 1st April, 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. **(4 Parts x 5 Marks = 20 Marks)**