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.

1. (a) Gamma Limited is working on different projects which are likely to be completed within 3 years period. It recognizes revenue from these contracts on percentage of completion method for financial statements during 2014-2015, 2015-2016 and 2016-2017 for Rs. 11,00,000, Rs. 16,00,000 and Rs. 21,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognized revenue of Rs. 7,00,000, Rs. 18,00,000 and Rs. 23,00,000 for the years 2014-2015, 2015-2016 and 2016-2017 respectively. Income-tax rate is 35%.

You are required to compute the amount of deferred tax asset/liability for the years 2014-2015, 2015-2016 and 2016-2017. Also describe how this amount of deferred tax asset/liability will be disclosed in the balance sheet of Omega Limited as per provisions of AS 22.

(b) While preparing its final accounts for the year ended 31st March, 2016, a company made provision for bad debts @ 5% of its total debtors. In the last week of February, 2016 a debtor for Rs. 20 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2016 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2016?

Comment with reference to relevant Accounting Standard.

(c) Examine whether the following will constitute a change in accounting policy or not as per AS 5.

(i) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.

(ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organisation. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organisation.

(d) On the basis of information given below, find the value of inventory (by periodic inventory method) as per AS 2, to be considered while preparing the Balance Sheet as on 31st March, 2017 on weighted Average Basis.

<u>Details of Purchases:</u>

Date of purchase	**Unit (Nos.)**	**Purchase cost per unit (Rs.)**
01-03-2017	20	108
08-03-2017	15	107
17-03-2017	30	109
25-03-2017	15	107

Details of issue of Inventory:

Date of Issue	Unit (Nos.)
03-03-2017	10
12-03-2017	20
18-03-2017	10
24-03-2017	20

Net realizable value of inventory as on 31st March, 2017 is Rs. 107.75 per unit.

You are required to compute the value of Inventory as per AS 2. ***(4 parts x 5 Marks = 20 Marks)***

2. (a) In 2015, Royal Ltd. issued 12% fully paid debentures of Rs. 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year.

On 1st December, 2016, M/s. Kumar purchased 10,000 of these debentures at Rs.101 cum-interest price, also paying brokerage @ 1% of cum-interest amount of the purchase. On 1st March, 2017 the firm sold all of these debentures at Rs.106 cum-interest price, again paying brokerage @ 1 % of cum-interest amount. Prepare Investment Account in the books of M/s. Kumar for the period 1st December, 2016 to 1st March, 2017.

(b) A trader's godown caught fire on 29th August, 2017, and a large part of the stock of goods was destroyed. However, goods costing Rs. 54,000 could be salvaged incurring fire fighting expenses amounting to Rs. 2,350.

The trader provides you the following additional information:

	Rs.
Cost of stock on 1st April, 2016	3,55,250
Cost of stock on 31st March, 2017	3,95,050
Purchases during the year ended 31st March, 2017	28,39,800
Purchases from 1st April, 2017 to the date of fire	16,55,350
Cost of goods distributed as samples for advertising from 1st April, 2017 to the date of fire	20,500
Cost of goods withdrawn by trader for personal use from 1st April, 2017 to the date of fire	1,000
Sales for the year ended 31st March, 2017	40,00,000
Sales from 1st April, 2017 to the date of fire	22,68,000

The insurance company also admitted firefighting expenses. The trader had taken the fire insurance policy for Rs. 4,50,000 with an average clause.

You are required to calculate the amount of the claim that will be admitted by the insurance company.

(c) Krishan bought 2 cars from 'Fair Value Motors Pvt. Ltd. on 1.4.2015 on the following terms (for both cars):

	Rs.
Down payment	6,00,000
1st Installment at the end of first year	4,20,000
2nd Installment at the end of 2nd year	4,90,000
3rd Installment at the end of 3rd year	5,50,000

Interest is charged at 10% p.a.

Krishan provides depreciation @ 25% on the diminishing balances.

On 31.3.2018 Krishan failed to pay the 3rd installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Krishan agreed to leave one car with Fair Value Motors Pvt. Ltd. and adjusted the value of the car against the amount due. The car taken over was valued on the basis of 40% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Krishan after 3 months with interest @ 20% p.a.

You are required to: Calculate the cash price of the cars and the interest paid with each installment. and prepare Car Account in the books of Krishan for the year 2017-18 assuming books are closed on March 31, every year. Figures may be rounded off to the nearest rupee.

(6+ 8+ 6 = 20 Marks)

3. (a) XYZ is having its Branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses which are met by the Branch Manager. From the following particulars, you are required to prepare branch account in the books of Head Office.

	(Rs.)		(Rs.)
Stock on 1st April 2017	30,000	Discount allowed to	
(invoice price)		debtors	160
Sundry Debtors on 1st April, 2017	18,000	Expenses paid by head office:	
Cash in hand as on 1st April, 2017	-	Rent	1,800
Office furniture on 1st April, 2017	3,000	Salary	3,200
Goods invoiced from the head office (invoice price)	1,60,000	Stationery & Printing	800
Goods returned to Head Office (invoice price)	2,000	Petty expenses paid by the branch	600
Goods returned by debtors	960	Depreciation to be provided on branch	
Cash received from debtors	60,000	furniture at 10% p.a.	
Cash Sales	1,00,000	Stock on 31st March, 2018	
Credit sales	60,000	(at invoice price)	28,000

(b) Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained Rs. 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 1.4.2016	As on 31.3.2017
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 Rs. 7,00,000

(b) Payment for business expenses Rs. 1,20,000

(c) Receipts from debtors Rs. 7,50,000

(d) Loan from Laxman Rs. 1,00,000 taken on 1.10.2016 at 10% per annum

(e) Cash deposited in the bank Rs. 1,00,000

He informs you that he paid creditors for goods Rs. 20,000 in cash and salaries Rs. 40,000 in cash. He has drawn Rs. 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 31.3.2017.

(ii) Balance Sheet as at 31st March, 2017. ***(8 + 12 = 20 Marks)***

4. (a) The partners P, Q & R have called you to assist them in winding up the affairs of their partnership on 31.12.2016. Their balance sheet as on that date is given below:

Liabilities	*Amount Rs.*	*Assets*	*Amount Rs.*
Capital Accounts:		Land & Building	50,000
P	65,000	Plant & Machinery	46,000
Q	50,500	Furniture & Fixture	10,000
R	32,000	Stock	14,500
Creditors	16,000	Debtors	14,000
		Cash at Bank	9,000
		Loan P	13,000
		Loan Q	7,000
Total	1,63,500	Total	1,63,500

(a) The partners share profit and losses in the ratio of 4:3:2.

(b) Cash is distributed to the partners at the end of each month.

(c) A summary of liquidation transactions are as follows:

January 2017

- Rs. 9,000 - collected from debtors; balance is uncollectable.
- Rs. 8,000 - received from the sale of entire furniture
- Rs. 1,000 - Liquidation expenses paid.
- Rs. 6,000 - Cash retained in the business at the end of month

February 2017

- Rs. 1,000 - Liquidation expenses paid.
- As part payment of his capital, R accepted a machinery for Rs. 9,000 (book value Rs. 3,500)
- Rs. 2,000 - Cash retained in the business at the end of month

March 2017

- Rs. 38,000 - received on the sale of remaining plant and machinery.
- Rs. 10,000 - received from the sale of entire stock.
- Rs. 1,700 - Liquidation expenses paid.

- Rs. 41,000 - Received on sale of land & building.
- No Cash is retained in the business.

You are required to prepare a schedule of cash payments amongst the partners by "Higher Relative Capital Method".

(b) Explain the nature of Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership? ***(15 + 5 = 20 Marks)***

5. From the following particulars furnished by Alpha Ltd., prepare the Balance Sheet as on 31st March 20X1 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	
Land & 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 is proposed by Board of directors

(vii) Board of directors has declared dividend of 5% on the paid up capital. The dividend distribution tax liability is Corporate Dividend Tax Rate @ 17.304 (wherein Base Rate is 15%). ***(20 Marks)***

6. (a) Omega Limited has borrowed a sum of US \$ 10,00,000 at the beginning of Financial Year 2016-17 for its residential project at 4 %. The interest is payable at the end of the Financial Year. At the time of availment exchange rate was Rs. 56 per US \$ and the rate as on31st March, 2017 was Rs. 62 per US \$. If Omega Limited 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, 2017 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, 2017

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.

(c) The Board of Directors of a Company decide to issue minimum number of equity shares of Rs. 9 to redeem Rs. 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is Rs. 3,00,000.

You are required to compute the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of Rs. 50 only.

OR

Following items appear in the Trial Balance of Hello Ltd. as on 31st March, 2017:

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.

(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.

(4 Parts x 5 Marks = 20 Marks)