MOCK TEST PAPER

INTERMEDIATE (NEW) : GROUP – I

PAPER – 1: ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) Gamma Limited

Calculation of Deferred Tax Asset/Liability

Year	*Accounting Income*	*Taxable Income*	*Timing Difference (balance)*	*Deferred Tax Liability (balance)*
2014-2015	11,00,000	7,00,000	4,00,000	1,40,000
2015-2016	16,00,000	18,00,000	2,00,000	70,000
2016-2017	21,00,000	23,00,000	NIL	NIL
	48,00,000	48,00,000		

As per AS 22, deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period. Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities. The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in the notes to accounts.

(b) As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date.

A debtor for Rs. 20,00,000 suffered heavy loss due to earthquake in the last week of February, 2016 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in April, 2016 (after the balance sheet date) is only an additional information related to the condition existing on the balance sheet date.

Accordingly, full provision for bad debts amounting Rs. 20,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2016. Since the company has already made 5% provision of its total debtors, additional provision amounting Rs. 19,00,000 shall be made (20,00,000 x 95%).

(c) As per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy.

(i) Accordingly, introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.

(ii) Similarly, the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial will not be treated as a change in an accounting policy.

(d) Net Realisable Value of Inventory as on 31st March, 2017

= Rs. 107.75 x 20 units = Rs. 2,155

Value of inventory as per Weighted Average basis

Total units purchased and total cost:

01.03.2017 Rs. 108 x 20 units = Rs. 2160

08.3.2017 Rs. 107 x 15 units = Rs. 1605

17.03.2017 Rs. 109 x 30 units = Rs. 3270

25.03.2017 Rs. 107 x 15 units = Rs. 1605

Total 80 units = Rs. 8640

Weighted Average Cost = Rs. 8640/80 units = Rs.108

Total cost = Rs. 108 x 20 units = Rs. 2,160

Value of inventory to be considered while preparing Balance Sheet as on 31st March, 2017 is, Cost or Net Realisable value whichever is lower i.e. Rs. 2,155.

2. (a) In the books of M/s Kumar

Investment Account

for the period from 1st December 2016 to 1st March, 2017

(Scrip: 12% Debentures of Royal Ltd.)

Date	*Particulars*	*Nominal Value (Rs.)*	*Interest*	*Cost (Rs.)*	*Date*	*Particulars*	*Nominal Value (Rs.)*	*Interest*	*Cost (Rs.)*
1.12.2016	To Bank A/c (W.N.1)	10,00,000	20,000	10,00,100	1.03.2017	By Bank A/c (W.N.2)	10,00,000	50,000	9,99,400
1.3.2017	To Profit & loss A/c	-	30,000		1.3.2017	By Profit & loss A/c			700
		10,00,000	50,000	10,00,100			10,00,000	50,000	10,00,100

Working Notes:

(i) Cost of 12% debentures purchased on 1.12.2016 Rs.

Cost Value (10,000 ×Rs.101)	=	10,10,000
Add: Brokerage (1% of Rs.10,10,000)	=	10,100
Less: Cum Interest (10,000 x 100 x12% x 2/12)	=	(20,000)
Total	=	10,00,100

(ii) Sale proceeds of 12% debentures sold on 1st March, 2017 Rs.

Sales Price (10,000 ×Rs.106)	=	10,60,000
Less: Brokerage (1% of Rs.10,60,000)	=	(10,600)
Less: Cum Interest (10,000 x 100 x12% x 5/12)	=	(50,000)
Total	=	9,99,400

(b) Memorandum Trading Account for the period 1st April, 2017 to 29th August 2017

		Rs.		*Rs.*
To Opening Stock		3,95,050	By Sales	22,68,000
To Purchases	16,55,350		By Closing stock (Bal. fig.)	4,41,300
Less: Advertisement	(20,500)			

Drawings	(1,000)	16,33,850		
To Gross Profit [30% of Sales] [W N]		6,80,400		
		27,09,300		27,09,300

Statement of Insurance Claim

	Rs.
Value of stock destroyed by fire	4,41,300
Less: Salvaged Stock	(54,000)
Add: Fire Fighting Expenses	2,350
Insurance Claim	3,89,650

Note: Since policy amount is more than claim amount, average clause will not apply. Therefore, claim amount of Rs. 3,89,650 will be admitted by the Insurance Company.

Working Note:

Trading Account for the year ended 31st March, 2017

	Rs.		*Rs.*
To Opening Stock	3,55,250	By Sales	40,00,000
To Purchases	28,39,800	By Closing stock	3,95,050
To Gross Profit	12,00,000		
	43,95,050		43,95,050

Rate of Gross Profit in 2016-17

$$\frac{\text{Gross Profit}}{\text{Sales}}\times 100 = 12,00,000/40,00,000 \text{ x } 100 = 30\%$$

(c) Calculation of Interest and Cash Price

No. of installments	*Outstanding balance at the end after the payment of installment*	*Amount due at the time of installment*	*Outstanding balance at the end before the payment of installment*	*Interest*	*Outstanding balance at the beginning*
[1]	*[2]*	*[3]*	*[4] = 2 +3*	*[5] = 4 x 10/110*	*[6] = 4-5*
3rd	-	5,50,000	5,50,000	50,000	5,00,000
2nd	5,00,000	4,90,000	9,90,000	90,000	9,00,000
1st	9,00,000	4,20,000	13,20,000	1,20,000	12,00,000

Total cash price = Rs. 12,00,000+ 6,00,000 (down payment) = Rs. 18,00,000.

Cars Account in the books of Krishan for the year ended 31st March, 18

1.4.2017	To Balance b/d	10,12,500 [18,00,000 less depreciation (4,50,000 + 3,37,500)]	31.3.2018	By Depreciation A/c	2,53,125
				By Fair Value Motors A/c (Value of 1 Car taken over after depreciation for 3 years @ 40% p.a.) [9,00,000 - (3,60,000 + 2,16,000 +1,29,600)]	1,94,400

				By Loss transferred to Profit and Loss A/c on surrender (Bal. fig.)	1,85,288
				By Balance c/d ½ (10,12,500-2,53,125)	3,79,687
		10,12,500			10,12,500

3. (a) In the books of Head Office – XYZ

Kolkata Branch Account (at invoice)

	Rs.		Rs.
To Balance b/d		By Stock reserve (opening)	6,000
Stock	30,000	By Remittances:	
Debtors	18,000	Cash Sales 1,00,000	
Furniture	3,000	Cash from Debtors 60,000	
To Goods sent to		*Less:* Petty expenses (600)	1,59,400
branch	1,60,000	By Goods sent to branch (loading)	32,000
To Goods returned by	400	By Goods returned by	
branch (loading)		branch (Return to H.O.)	2,000
To Bank (expenses		By Balance c/d	
paid by H.O.)		Stock	28,000
Rent 1,800		Debtors	16,880
Salary 3,200		Furniture (3,000-300)	2,700
Stationary &			
printing 800	5,800		
To Stock reserve (closing)	5,600		
To Profit transferred to			
General Profit & Loss A/c	24,180		
	2,46,980		2,46,980

Working Note:

Debtors Account

	Rs.		Rs.
To Balance b/d	18,000	By Cash account	60,000
To Sales account (credit)	60,000	By Sales return account	960
		By Discount allowed account	160
		By Balance c/d	16,880
	78,000		78,000

Note: In the absence of opening cash balance, remittance to Head Office has been made after payment of petty expenses.

(b) Trading and Profit and Loss Account

for the year ended 31st March, 2017

	Rs.		*Rs.*
To Opening stock	2,80,000	By Sales	
To Purchases	7,70,000	Cash 2,40,000	

To	Gross Profit @ 25%	3,10,000		Credit 10,00,000	12,40,000
			By	Closing Stock (bal.fig.)	1,20,000
		13,60,000			13,60,000
To	Salaries	40,000	By	Gross Profit	3,10,000
To	Business expenses	1,20,000			
To	Interest on loan (10% of 1,00,000*6/12)	5,000			
To	Net Profit	1,45,000			
		3,10,000			3,10,000

Balance Sheet as at 31st March, 2017

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	1,45,000		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000
Less: Drawings	(80,000)	3,65,000		
Loan from Laxman (including interest due)		1,05,000		
Sundry Creditors		90,000		
		5,60,000		5,60,000

Working Notes:

1. Sundry Debtors Account

		Rs.			*Rs.*
To	Balance b/d	1,00,000	By	Bank A/c	7,50,000
To	Credit sales (Bal. fig)	10,00,000	By	Balance c/d	3,50,000
		11,00,000			11,00,000

2. Sundry Creditors Account

		Rs.			*Rs.*
To	Bank A/c	7,00,000	By	Balance b/d	40,000
To	Cash A/c	20,000	By	Purchases (Bal. fig.)	7,70,000
To	Balance c/d	90,000			
		8,10,000			8,10,000

3. Cash and Bank Account

		Cash	*Bank*			*Cash*	*Bank*
		Rs.	*Rs.*			*Rs.*	*Rs.*
To	Balance b/d	10,000		By	Balance b/d		50,000
To	Sales (bal. fig)	2,40,000		By	Bank A/c (C)	1,00,000	
To	Cash (C)		1,00,000	By	Salaries	40,000	
To	Debtors		7,50,000	By	Creditors	20,000	7,00,000
To	Laxman's loan		1,00,000	By	Drawings	80,000	
				By	Business		

				expenses		1,20,000
			By	Balance c/d	10,000	80,000
	2,50,000	9,50,000			2,50,000	9,50,000

4. (a)

Particulars	*Cash*	*Creditors*	*Capitals*		
	Rs.	*Rs.*	*P (Rs.)*	*Q (Rs.)*	*R (Rs.)*
Balance due after loan		16,000	52,000	43,500	32,000
January					
Balance available	9,000				
Realization less expenses and cash retained	10,000				
Amount available and paid	19,000	(16,000)	-	-	(3,000)
Balance due	-	-	52,000	43,500	29,000
February					
Opening Balance	6,000				
Expenses paid and cash carried forward	3,000				
Available for distribution	3,000				
Cash paid to Q and Machinery given to R			-	3,000	9,000
Balance due	-		52,000	40,500	20,000
March					
Opening Balance	2,000				
Amount realized less expenses	87,300				
Amount paid to partners	89,300		41,689	32,767	14,844
Loss			10,311	7,733	5,156

Working Note:

(i) **Highest Relative Capital Basis**

	P (Rs.)	*Q (Rs.)*	*R (Rs.)*
Scheme of payment for January 2017			
Balance of Capital Accounts	65,000	50,500	32,000
Less: Loans	(13,000)	(7,000)	-
(A)	52,000	43,500	32,000
Profit Sharing Ratio	4	3	2
Capital / Profit sharing Ratio	13,000	14,500	16,000
Capital in profit sharing ratio, taking P's capital as base (B)	52,000	39,000	26,000
Excess of R's capital and Q's Capital (A – B) (i)		4,500	6,000
Profit Sharing Ratio		3	2
Capital / Profit sharing Ratio		1,500	3,000
Capital in profit sharing ratio, taking Q's capital as base (ii)		4,500	3,000
Excess of R's Capital over Q's capital (i – ii)			3,000

(ii) **Scheme of distribution of available cash for March:**

	P (Rs.)	*Q (Rs.)*	*R (Rs.)*
Balance of Capital Accounts at end of February (A)	52,000	40,500	20,000
Profit Sharing Ratio	4	3	2
Capital / Profit sharing Ratio	13,000	13,500	10,000
Capital in profit sharing ratio, taking R's capital as base (B) (i)	40,000	30,000	20,000
Excess of P's Capital and Q's Capital (A – B) (i)	12,000	10,500	
Profit Sharing Ratio	4	3	
Capital / Profit sharing Ratio	3,000	3,500	
Capital in profit sharing ratio taking P's capital as base (ii)	12,000	9,000	
Excess of Q's Capital over P's Capital (i – ii)	-	1,500	
Payment Rs. 1500 (C)		(1,500)	
Balance of Excess Capital (i –C)	12,000	9,000	
Payment Rs. 21000 (D)	(12,000)	(9,000)	
Balance due (A – C – D)	40,000	30,000	20,000
Balance cash Payment (Rs. 89,300 – Rs. 22,500) = Rs. 66,800 (E)	(29,689)	(22,267)	(14,844)
Total Payment (Rs. 89,000) (C + D +E) (iii)	41,689	32,767	14,844
Loss (A – iii)	10,311	7,733	5,156

(b) **Nature of Limited Liability Partnership:** A limited liability partnership is a body corporate formed and incorporated under the LLP Act, 2008 and is a legal entity separate from that of its partners. A limited liability partnership shall have perpetual succession and any change in the partners of a limited liability partnership shall not affect the existence, rights or liabilities of the limited liability partnership.

Designated partners: Every limited liability partnership shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.

In case of a limited liability partnership in which all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such limited liability partnership or nominees of such bodies corporate shall act as designated partners

5. **Alpha Ltd.**

Balance Sheet as on 31st March, 20X1

		Particulars	*Notes*	*Rs.*
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	49,95,000
	b	Reserves and Surplus	2	11,82,907
2		**Non-current liabilities**		
		Long-term borrowings	3	13,17,500
3		**Current liabilities**		
	a	Trade Payables		8,00,000
	b	Other current liabilities	4	3,38,093

	c	Short-term provisions	5	6,40,000
	d	Short-term borrowings		2,00,000
		Total		**94,73,500**
		Assets		
1		**Non-current assets**		
		Property, Plant & equipment		
		Tangible assets	6	56,25,000
2		**Current assets**		
	a	Inventories	7	12,50,000
	b	Trade receivables	8	10,00,000
	c	Cash and bank balances	9	13,85,000
	d	Short-term loans and advances		2,13,500
		Total		**94,73,500**

Notes to accounts

			Rs.
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of Rs. 100 each (of the above 10,000 shares have been issued for consideration other than cash)	50,00,000	
	Less: Calls in arrears	(5,000)	49,95,000
	Total		**49,95,000**
2	**Reserves and Surplus**		
	General Reserve	10,50,000	
	Add: current year transfer	20,000	10,70,000
	Profit & Loss balance		
	Profit for the year	4,33,500	
	Less: Appropriations:		
	Transfer to General reserve	(20,000)	
	Dividend Payable (Refer W N)	(2,49,750)	
	DDT on dividend (Refer W N)	(50,843)	1,12,907
	Total		**11,82,907**
3	**Long-term borrowings**		
	Secured Term Loan		
	State Financial Corporation Loan (7,50,000-37,500) (Secured by hypothecation of Plant and Machinery)		7,12,500
	Unsecured Loan		6,05,000
	Total		**13,17,500**

4	**Other current liabilities**		
	Interest accrued but not due on loans (SFC)		37,500
	Dividend (Refer W N)	2,49,750	
	DDT on dividend (Refer W N)	50,843	3,00,593
			3,38,093
5	**Short-term provisions**		
	Provision for taxation		6,40,000
6	**Tangible assets**		
	Land and Building	30,00,000	
	Less: Depreciation	(2,50,000) (b.f.)	27,50,000
	Plant & Machinery	35,00,000	
	Less: Depreciation	(8,75,000) (b.f.)	26,25,000
	Furniture & Fittings	3,12,500	
	Less: Depreciation	(62,500) (b.f.)	2,50,000
	Total		**56,25,000**
7	**Inventories**		
	Raw Materials		2,50,000
	Finished goods		10,00,000
	Total		**12,50,000**
8	**Trade receivables**		
	Outstanding for a period exceeding six months		2,60,000
	Other Amounts		7,40,000
	Total		**10,00,000**
9	**Cash and bank balances**		
	Cash and cash equivalents		
	Cash at bank		
	with Scheduled Banks	12,25,000	
	with others (Omega Bank Ltd.)	10,000	12,35,000
	Cash in hand		1,50,000
	Other bank balances		Nil
	Total		**13,85,000**

Working Note:

Calculation of grossing-up of dividend

Particulars	*Rs.*
Dividend distributed by Alpha Ltd. (5% of 49,95,000)	2,49,750
Add: Increase for the purpose of grossing up of dividend $\left[\frac{15}{100-15} \times 2,49,750\right]$	44,074
Gross dividend	2,93,824

6. (a) (i) Interest for the period 2016-17

= US $ 10 lakhs x 4% × Rs. 62 per US$ = Rs. 24.80 lakhs

(ii) Increase in the liability towards the principal amount

= US $ 10 lakhs × Rs. (62 - 56) = Rs. 60 lakhs

(iii) Interest that would have resulted if the loan was taken in Indian currency

= US $ 10 lakhs × Rs. 56 x 10.5% = Rs. 58.80 lakhs

(iv) Difference between interest on local currency borrowing and foreign currency borrowing = Rs. 58.80 lakhs - Rs. 24.80 lakhs = Rs. 34 lakhs.

Therefore, out of Rs. 60 lakhs increase in the liability towards principal amount, only Rs. 34 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be Rs. 58.80 lakhs being the aggregate of interest of Rs. 24.80 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of Rs. 34 lakhs.

Hence, Rs. 58.80 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 and the remaining Rs. 26 lakhs (60 - 34) would be considered as the exchange difference to be accounted for as per AS 11.

(b) Computation of effective capital:

		Rs.
Paid-up share capital-		
20,000, 14% Preference shares		20,00,000
1,20,000 Equity shares		96,00,000
Capital reserves (excluding revaluation reserve)		45,000
Securities premium		50,000
15% Debentures		65,00,000
Public Deposits		3,70,000
	(A)	1,85,65,000
Investments		75,00,000
Profit and Loss account (Dr. balance)		15,00,000
	(B)	90,00,000
Effective capital	(A–B)	95,65,000

(c)

Nominal value of preference shares	Rs. 5,00,000
Maximum possible redemption out of profits	Rs. 3,00,000
Minimum proceeds of fresh issue	Rs. 5,00,000 - 3,00,000 = Rs. 2,00,000
Proceed of one share	= Rs. 9
Minimum number of shares	$= \frac{2,00,000}{9}$ =22,222.22 shares

As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shares.

If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 22,250. Hence, minimum number of shares to be issued in such a case is 22,250 shares.

OR

Journal Entries in the books of Hello Ltd.

Capital Redemption Reserve A/c	Dr.	1,40,000	
Securities Premium A/c	Dr.	80,000	
General Reserve A/c (balancing figure)	Dr.	80,000	
To Bonus to Shareholders			3,00,000
(Being issue of bonus shares by utilization of various Reserves, as per resolution dated …….)			
Bonus to Shareholders A/c	Dr.	3,00,000	
To Equity Share Capital			3,00,000
(Being capitalization of Profit)			

(d) The Framework for Recognition and Presentation of Financial statements recognises four alternative measurement bases for the purpose of determining the value at which an element can be recognized in the balance sheet or statement of profit and loss. These bases are: (i)Historical Cost; (ii)Current cost (iii) Realisable (Settlement) Value and (iv) Present Value.

A brief explanation of each measurement basis is as follows:

1. **Historical Cost**: Historical cost means acquisition price. According to this, assets are recorded at an amount of cash or cash equivalent paid or the fair value of the asset at the time of acquisition. Liabilities are generally recorded at the amount of proceeds received in exchange for the obligation.
2. **Current Cost:** Current cost gives an alternative measurement basis. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
3. **Realisable (Settlement) Value:** As per realisable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in *an orderly disposal*. Liabilities are carried at their settlement values; i.e. the undiscounted amount of cash or cash equivalents paid to satisfy the liabilities in the normal course of business.
4. **Present Value**: Under present value convention, assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities under this convention are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.