MOCK TEST PAPER - 1

INTERMEDIATE (IPC) : GROUP – I

PAPER – 1: ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **five** questions from the remaining **six** 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) X Ltd. negotiates with Bharat Petroleum Corporation Ltd (BPCL), for construction of "Franchise Retail Petrol Outlet Stations". Based on proposals submitted to different "Zonal offices of BPCL, the final approval for one outlet each in Zone A, Zone B, Zone C, Zone D, is awarded to X Ltd. Agreement (in single document) is entered into with BPCL for Rs. 490 lakhs. The agreement lays down values for each of the four outlets (Rs. 88 + 132 + 160 + 110 lakhs) in addition to individual completion time. Comment whether X Ltd., will treat it as a single contract or four separate contracts.

(b) 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.

Details of Purchases:

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. What will be the value of Inventory as per AS 2.

(c) 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.

(d) Harish has the following bills due on different dates:

(i) Rs. 5,000 due on 5.3.2017

(ii) Rs. 7,500 due on 7.4.2017

(iii) Rs. 6,000 due on 17.7.2017

(iv) Rs. 8,000 due on 14.9.2017

It was agreed to settle the total amount due by a single cheque payment. Find the date on which the payment can be settled by single cheque. ***(4 x 5 Marks = 20 Marks)***

2. The following is the summarized Balance Sheet of Weak Ltd. as on 31.3.2017:

Liabilities	Rs.	Assets	Rs.
Equity shares of Rs. 100 each	1,00,00,000	Fixed assets	1,25,00,000
12% cumulative preference shares of Rs. 100 each	50,00,000	Investments (Market value Rs. 9,50,000)	10,00,000
10% debentures of Rs. 100 each	40,00,000	Current assets	1,00,00,000
Trade payables	50,00,000	P & L A/c	6,00,000
Provision for taxation	1,00,000		
	2,41,00,000		2,41,00,000

The following scheme of reorganization is sanctioned:

(i) All the existing equity shares are reduced to Rs. 40 each.

(ii) All preference shares are reduced to Rs. 60 each.

(iii) The rate of interest on debentures is increased to 12%. The debenture holders surrender their existing debentures of Rs. 100 each and exchange the same for fresh debentures of Rs. 70 each for every debenture held by them.

(iv) One of the creditors of the company to whom the company owes Rs. 20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of Rs. 40 each in full satisfaction of his claim.

(v) Fixed assets are to be written down by 30%.

(vi) Current assets are to be revalued at Rs. 45,00,000.

(vii) The taxation liability of the company is settled at Rs. 1,50,000.

(viii) Investments to be brought to their market value.

(ix) It is decided to write off the debit balance of Profit and Loss account.

You are required to pass Journal entries and show the Balance sheet of the company after giving effect to the above. ***(16 Marks)***

3. On 31st December 2018, the Balance Sheet of A, B, and C who were sharing profits and losses in proportion to their capital stood as follows:

Liabilities	Rs.	Assets	Rs.	Rs.
Creditors	20,000	Cash at bank		16,000
Employees' provident fund	1,600	Debtors	20,000	
A's capital A/c	72,000	*Less*: Provision	400	19,600
B's capital A/c	48,000	Inventory		18,000
C's capital A/c	24,000	Machinery		48,000
Contingency reserve	30,000	Land & building		1,00,000
Workmen compensation reserve	6,000			
	2,01,600			2,01,600

B retires and the following adjustments of the assets and liabilities have been agreed upon before the ascertainment of the amount payable to B:

(a) Out of the amount of insurance which was debited entirely to Profit and Loss Account, Rs. 2,000 to be carried forward as an unexpired insurance.

(b) Land and building to be appreciated by 10%.

(c) Provision for doubtful debts to be brought up to 5% on debtors.

(d) Machinery to be depreciated by 5%.

(e) Provision of Rs.3,000 to be made in respect of an outstanding bill of repairs.

(f) Goodwill of the entire firm be fixed at Rs.36,000 and B's share of the same be adjusted into the accounts of A and C who are going to share future profits in the proportion of 3/4 and 1/4 respectively. (No Goodwill account being raised).

(g) The entire capital of the firm as newly constituted be fixed at Rs.1,20,000 between A and C in the proportion of 3/4 and 1/4 after passing entries in their accounts for adjustments i.e. actual cash to be paid off or to be brought in by the continuing partners as the case may be.

(h) B to be paid Rs. 6,000 in cash and the balance to be transferred to his loan account.

Prepare Revaluation Account, Capital Accounts of the partners and the Balance Sheet of the firm of A and C after retirement. ***(16 Marks)***

4. (a) ABC Ltd. took over a running business with effect from 1st April, 2016. The company was incorporated on 1st August, 2016. The following summarized Profit and Loss Account has been prepared for the year ended 31.3.2017:

	Rs.		Rs.
To Salaries	48,000	By Gross profit	3,20,000
To Stationery	4,800		
To Travelling expenses	16,800		
To Advertisement	16,000		
To Miscellaneous trade expenses	37,800		
To Rent (office buildings)	26,400		
To Electricity charges	4,200		
To Director's fee	11,200		
To Bad debts	3,200		

To Commission to selling agents	16,000		
To Tax Audit fee	6,000		
To Debenture interest	3,000		
To Interest paid to vendor	4,200		
To Selling expenses	25,200		
To Depreciation on fixed assets	9,600		
To Net profit	87,600		
	3,20,000		3,20,000

Additional information:

(a) Total sales for the year, which amounted to Rs.19,20,000 arose evenly upto the date of 30.9.2016. Thereafter they spurted to record an increase of two-third during the rest of the year.

(b) Rent of office building was paid @ Rs. 2,000 per month upto September, 2016 and thereafter it was increased by Rs.400 per month.

(c) Travelling expenses include Rs. 4,800 towards sales promotion.

(d) Depreciation include Rs.600 for assets acquired in the post incorporation period.

(e) Purchase consideration was discharged by the company on 30th September, 2016 by issuing equity shares of Rs.10 each.

Prepare Statement showing calculation of profits and allocation of expenses between pre and post incorporation periods.

(b) 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. ***(10 + 6 = 16 Marks)***

5. The accountant of Tiger Club gave the following information about the receipts and payments of the club for the year ended 31st March, 2017:

Receipts:	*Rs.*
Subscriptions	1,24,260
Fair receipts	14,400
Variety show receipts (net)	25,620
Interest	1,380
Bar collections	44,700
Payments:	
Premises	60,000
Rent	4,800
Rates and taxes	7,560
Printing and stationary	2,820
Sundry expenses	10,700
Wages	5,040
Fair expenses	14,340
Honorarium to secretary	22,000

Bar purchases (payments)	34,620
Repairs	1,920
New car (less proceeds of old car Rs. 18,000)	75,600

The following additional information could be obtained:-

	1.4.2016	31.3.2017
	Rs.	Rs.
Cash in hand	900	Nil
Bank balance as per cash-book	48,840	20,700
Cheque issued for sundry expenses not presented to the bank (entry has been duly made in the cash book)	540	180
Subscriptions due	7,200	5,880
Premises (at cost)	1,74,000	2,34,000
Provision for depreciation on premises	1,12,800	-
Car (at cost)	73,140	93,600
Accumulated depreciation on car	61,740	-
Bar inventory	4,260	5,220
Creditors for bar purchases	3,540	2,580

Annual honorarium of secretary is Rs. 24,000. Depreciation on premises is to be provided at 5% on written down value. Depreciation on new car is to be provided at 20%.

You are required to prepare the Receipts and Payments Account and Income and Expenditure Account of Tiger Club for the year ended 31.3.2017. ***(16 Marks)***

6. (a) The following information is extracted from a set of books of Mr. Laxminarayan for the year ended 31st December, 2016

	Rs.
Sales	11,26,000
Purchases	6,44,000
Returns outward	15,200
Cash received from debtors	3,68,400
Bills payable accepted	2,40,000
Returns inward	33,600
Cash paid to creditors	3,60,000
Bills receivable received	3,20,000
Discounts received	8,400
Bad debts written off	24,000
Discount allowed	21,600

The total of the sales ledger balances on 1st Jan, 2016 was Rs. 6,41,600 and that of the purchases ledger balances on the same date was Rs. 3,72,800.

Prepare Sales Ledger and Purchases Ledger Adjustment Accounts in the General Ledger from the above information.

(b) The premises of Anmol Ltd. caught fire on 22nd January 2017, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2016 the stock at cost was Rs. 6,63,600 as against Rs. 4,81,100 on 31st March, 2015.

Purchases from 1st April, 2016 to the date of fire were Rs. 17,41,350 as against Rs. 22,62,500 for the full year 2015-16 and the corresponding sales figures were Rs. 24,58,500 and Rs. 26,00,000 respectively. You are given the following further information:

(i) In July, 2016, goods costing Rs. 50,000 were given away for advertising purposes, no entries being made in the books.

(ii) During 2016-17, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged Rs. 1,000 per week from 1st April, 2016 until the clerk was dismissed on 18th August, 2016.

(iii) The rate of gross profit is constant.

From the above information calculate the stock in hand on the date of fire. ***(8 + 8 = 16 Marks)***

7. Answer any **four** of the following:

(a) 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”.

(b) The Board of Directors of X Ltd. decided on 31.3.2017 to increase sale price of certain items of goods sold retrospectively from 1st January, 2017. As a result of this decision the company has to receive Rs. 5 lakhs from its customers in respect of sales made from 1.1.2017 to 31.3.2017. But the Company's Accountant was reluctant to make-up his mind.

You are asked to offer your suggestion in line with AS 9.

(c) What are the advantages of outsourcing the accounting functions? Explain in brief.

(d) What are the issues, with which Accounting Standards deal?

(e) Prepare Cash Flow from Investing Activities of M/s. Creative Furnishings Limited for the year ended 31-3-2018.

Particulars	Rs.
Plant acquired by the issue of 8% Debentures	1,56,000
Claim received for loss of plant in fire	49,600
Unsecured loans given to subsidiaries	4,85,000
Interest on loan received from subsidiary companies	82,500
Pre-acquisition dividend received on investment made	62,400
Debenture interest paid	1,16,000
Term loan repaid	4,25,000
Interest received on investment	68,000
(TDS of Rs. 8,200 was deducted on the above interest)	
Book value of plant sold (loss incurred Rs. 9,600)	84,000

(4 x 4 Marks =16 Marks)