Test Series: April, 2019

MOCK TEST PAPER – 2

INTERMEDIATE (IPC) (OLD) : 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) Kumar Ltd. had made a rights issue of shares in 2017. In the offer document to its members, it had projected a surplus of Rs. 40 crores during the accounting year to end on 31st March, 2017. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of Rs. 10 crores. The board in consultation with the managing director, decided not to provide for "after sales expenses" during the warranty period. Till the last year, provision at 2% of sales used to be made under the concept of "matching of costs against revenue" and actual expenses used to be charged against the provision. The board now decided to account for expenses as and when actually incurred. Sales during the year total to Rs. 600 crores.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2016-2017.

(b) Fashion Limited is engaged in manufacturing of readymade garments. They provide you the following information on 31st March, 2017:

(i) On 15th January, 2017 garments worth Rs. 4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31st March, 2017.

(ii) Garments worth Rs. 1,95,000 were sold to Shine boutique on 25th March, 2017 but at the request of Shine Boutique, these were delivered on 15th April, 2017.

(iii) On 1st November, 2016 garments worth Rs. 2,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods up to 31st December, 2016 and no approval or disapproval received for the remaining goods till 31st March, 2017.

You are required to advise the accountant of Fashion Limited, the amount to be recognised as revenue in above cases in the context of AS 9.

(c) Omega Ltd., has a normal wastage of 4% in the production process. During the year 2016-17, 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".

(d) A business concern maintains self-balancing ledgers. On the basis of following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of April, 2017:

	(Rs.)
Debit balances in Debtors Ledger on 01-04-2017	1,79,100
Credit balances in Debtors Ledger on 01-04-2017	4,700
Transactions during the month of April, 2017 are:	
Total Sales (including Cash Sales, Rs. 50,000)	10,47,700
Sales Returns	16,550
Cash received from debtors	8,62,850
Bills Receivable received from debtors	47,500
Bills Receivable dishonoured	3,750
Cash paid to debtors for returns	3,000
Transfers to Creditors Ledger	8,000
Credit balances in Debtors Ledger on 30-04-2017	4,900

(4 x 5 Marks = 20 Marks)

2. Anuj, Ayush and Piyush are in partnership sharing profits and losses in the ratio 2 : 2 : 1. Their Balance Sheet as on 31.3 .2017 is as follows:

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*
Capital accounts:			Fixed assets:	
Anuj	3,75,000		Plant	7,87,000
Ayush	2,80,000		Current assets:	
Piyush	2,25,000	8,80,000	Stock	1,03,000
General Reserve		1,88,000	Debtors	1,56,000
Creditors		2,16,000	Bank FD	2,25,000
			Bank balance	13,000
		12,84,000		12,84,000

Anuj decided to retire with effect from 1.4.2017.

The remaining partners agreed to share profits and losses equally in future.

The following adjustments were agreed to be made upon retirement of Anuj.

(i) Goodwill was to be valued at 1 year purchase of the average profits of the preceding 3 years on the date of retirement.

The average profits of the past 3 years were as follows:

Year ended	*Rs.*	
31.3.2017	3,30,000	(as per draft accounts)
31.3.2016	2,32,000	
31.3.2015	2,20,000	

The partners decided not to raise goodwill account in the books.

(ii) The assets were revalued as follows:

Plant to be depreciated by 10%

Creditors amounting to Rs. 10,000 were omitted to be recorded;

Rs. 6,000 is to be written off from stock;

Provision for doubtful debts to be created @ 5% of the debtors;

Interest accrued on FD amounting to Rs. 9,000 was omitted to be recorded.

The above adjustments were to be made from the profit for the year ended 31.3.2017 before calculation of goodwill.

(iii) Anuj agreed to take over the bank FD including interest accrued thereon in part payment of his dues and the balance would remain as a loan, carrying interest of 8% p.a.

(iv) Ayush and Piyush agreed to bring in sufficient cash to make their capital proportionate and maintain a bank balance of Rs. 1,50,000.

You are required to prepare

(I) Capital accounts of partners as on 1.4.2017 giving effect to the above adjustments.

(II) Balance Sheet as on 1.4.2017 after Anuj's retirement. ***(16 Marks)***

3. (a) Gopal holds 2,000, 15% Debentures of Rs. 100 each in Ritu Industries Ltd. as on April 1, 2018 at a cost of Rs. 2,10,000. Interest is payable on June, 30 and December, 31 each year. On May 1, 2018, 1,000 debentures are purchased cum-interest at Rs. 1,07,000. On November 1, 2018, 1,200 debentures are sold ex-interest at Rs. 1,14,600. On November 30, 2018, 800 debentures are purchased ex-interest at Rs. 76,800. On December 31, 2018, 800 debentures are sold cum-interest for Rs. 1,10,000. You are required to prepare the Investment Account showing value of holdings on March 31, 2019 at cost, using FIFO Method.

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

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:

(i) Calculate the cash price of the cars and the interest paid with each installment.

(ii) Prepare Car Account in the books of Krishan assuming books are closed on March 31, every year. Figures may be rounded off to the nearest rupee. ***(8+ 8 = 16 Marks)***

4. M/s Planet Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the balance sheet of the company as on 31st March, 2019 before reconstruction:

Particulars	Note No.	Amount (Rs. In lakh)
Equity & Liabilities		
Shareholders' Funds		
Share Capital	1	2,100
Reserves & Surplus	2	(783)
Non-Current Liabilities		
Long term Borrowings	3	1,050
Current Liabilities		
Trade Payables	4	153
Other Liabilities	5	36
Total		2,556
Assets		
Non-Current Assets:		
Property, Plant and Equipment		
Tangible Assets	6	1,125
Current Investments	7	300
Inventories	8	450
Trade Receivables	9	675
Cash & Cash Equivalents	10	6
Total		2,556

Notes to Accounts:

		Rs. In lakh
(1)	Share capital	
	Authorised:	
	300 lakh shares of Rs. 10 each	3,000
	12 lakh, 8% preference Shares of Rs. 100 each	1,200
		4,200
	Issued, Subscribed and Paid up:	
	150 Lakh Equity Shares of Rs. 10 each, fully paid up	1,500
	6 lakh 8% Preference Shares of Rs. 100 each, fully paid up	600
		2,100
(2)	Reserves and Surplus	
	Debit balance of Profit & Loss A/c	(783)
(3)	Long term borrowings	
	6% Debentures (Secured by freehold property)	600
	Director's Loan	450
		1,050
(4)	Trade payables	
	Trade payables for Goods	153

(5)	Other Liabilities	
	Interest Accrued and Due on 6% Debentures	36
(6)	Tangible Assets	
	Freehold Property	825
	Plant & machinery	300
		1,125
(7)	Current Investment	
	Investment in Equity Instruments	300
(8)	Inventories	
	Finished Goods	450
(9)	Trade Receivables	
	Trade receivables for Goods	675
(10)	Cash and Cash equivalents	
	Balance with bank	6

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to Rs. 75 each and Equity Shares to Rs. 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of Rs. 2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of Rs. 450 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at Rs. 550 lakh.

(6) All investments sold out for Rs. 425 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of Rs. 2 each to be alloted.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to Rs. 900 lakh have been settled by paying 8% penalty of contract value.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Capital Reduction Account, Bank Account; and

(c) Prepare Notes to Accounts on Share Capital and Tangible Assets, immediately after the implementation of internal reconstruction. ***(16 Marks)***

5. (a) You are required to prepare Cash flow Statement from the following details relating to the accounts of Surbhi Ltd.

	31.03.20X1 (Rs.)	*31.03.20X0 (Rs.)*
Equity and Liabilities		
Share Capital	10,00,000	8,00,000
Reserve	2,00,000	1,50,000
Profit and Loss Account	1,00,000	60,000
Debentures	2,00,000	–

Provision for taxation	1,00,000	70,000
Dividend payable	2,00,000	1,00,000
Trade payables	7,00,000	8,20,000
	25,00,000	20,00,000
Assets		
Plant and Machinery	7,00,000	5,00,000
Land and Building	6,00,000	4,00,000
Investments	1,00,000	–
Trade receivables	5,00,000	7,00,000
Inventories	4,00,000	2,00,000
Cash on hand/Bank	2,00,000	2,00,000
	25,00,000	20,00,000

(i) Depreciation @ 25% was charged on the opening value of Plant and Machinery.

(ii) At the year end, one old machine costing 50,000 (WDV 20,000) was sold for Rs. 35,000. Purchase was also made at the year end.

(iii) Rs. 50,000 was paid towards Income tax during the year.

(iv) Building is not subject to any depreciation.

(b) Shyam's godown caught fire on 29th August, 2016, 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, 2015	3,55,250
Cost of stock on 31st March, 2016	3,95,050
Purchases during the year ended 31st March, 2016	28,39,800
Purchases from 1st April, 2016 to the date of fire	16,55,350
Cost of goods distributed as samples for advertising from 1st April, 2016 to the date of fire	20,500
Cost of goods withdrawn by trader for personal use from 1st April, 2016 to the date of fire	1,000
Sales for the year ended 31st March, 2016	40,00,000
Sales from 1st April, 2016 to the date of fire	22,68,000

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

Calculate the amount of the claim that will be admitted by the insurance company.

(10 + 6=16 Marks)

6. (a) Prepare an Income and Expenditure Account for the year ended 31st December, 2016, and Balance Sheet as on that date of Mahaveer Hospital from the following Receipts and Payments Account and the information:

Receipts and Payments Account for the year ended 31 December, 2016

Receipts	Rs.		Payments		Rs.
To Balance b/d			By Salaries :		
Cash	800		(Rs. 7,200 for 2015)		31,200
Bank	5,200	6,000	By Hospital Equipment		17,000
To Subscriptions :			By Furniture purchased		6,000
For 2015		5,100	By Additions to Building		50,000
For 2016		24,500	By Printing and Stationery		2,400
For 2017		2,400			
To Government Grant :			By Diet expenses		15,600
For building		80,000	By Rent and rates		
For maintenance		20,000	(Rs. 300 for 2017)		2,000
Fees from sundry			By Electricity and water		
patients		4,800	charges		2,400
To Donations (not to be		8,000	By office expenses		2,000
capitalised)			By Investments		20,000
To Net collections from			By Balances :		
benefit shows		6,000	Cash	1,400	
			Bank	6,800	8,200
		1,56,800			1,56,800

Additional information :	Rs.
Value of building under construction as on 31.12.2016	1,40,000
Value of hospital equipment on 31.12.2016	51,000
Building Fund as on 1.1. 2016	80,000
Subscriptions in arrears as on 31.12.2015	6,500
Investments in 8% Govt. securities were made on 1st July, 2016.	

(b) Following items appear in the Trial Balance of Beta Ltd. as on 31st March, 2017:

Particulars	Amount
3,000 Equity Shares of Rs. 100 each	3,00,000
Securities Premium	40,000
Capital Redemption Reserve	30,000
General Reserve	1,00,000
Profit and Loss Account (Cr. Balance)	50,000

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. Pass necessary Journal Entries in the books of Beta Ltd. ***(12+ 4 = 16 Marks)***

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

(a) State under which head the following accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:

(i) Share application money received in excess of issued share capital.

(ii) Share option outstanding account.

(iii) Unpaid matured debenture and interest accrued thereon.

(iv) Uncalled liability on shares and other partly paid investments.

(v) Calls unpaid.

(vi) Intangible Assets under development.

(vii) Money received against share warrant.

(viii) Cash equivalents.

(b) Mohan Ltd. purchased an asset on 1st January 2013 for Rs. 5,00,000 and the asset had an estimated useful life of 5 years and a residual value of nil. On 1st January 2017, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years.

You are required to compute the amount of depreciation for each year, if company charges depreciation on Straight Line basis.

(c) Classify the following activities as (i) Operating Activities, (ii) Investing Activities, (iii) Financing Activities:

a. Purchase of Machinery.

b. Proceeds from issuance of equity share capital

c. Cash Sales.

d. Proceeds from long-term borrowings.

e. Proceeds from Trade receivables.

f. Cash receipts from Trade receivables.

g. Trading Commission received.

h. Purchase of investment.

i. Redemption of Preference Shares.

j. Cash Purchases.

k. Proceeds from sale of investment

l. Purchase of fixed asset.

m. Cash paid to suppliers.

n. Interim Dividend paid on equity shares.

o. Wages and salaries paid.

p. Proceed from sale of patents.

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

(e) "In business today, the accounts which were earlier maintained in a manual form, are replaced with computerized accounts". Explain the significance of computerized accounting system in modern time. ***(4 x 4 Marks =16 Marks)***