MOCK TEST PAPER - 2

INTERMEDIATE (IPC): GROUP – I

PAPER – 1: ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) (i) As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts: So far, the company has been providing 2% of sales for meeting "after sales expenses during the warranty period. With the improved method of production, the probability of defects occurring in the products has reduced considerably. Hence, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is increased by Rs. 12 crores than would have been the case if the old policy were to continue.

(b) As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i): 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 3,00,000 (75% of Rs. 4,00,000) for the year ended on 31.3.17. In case of consignment sale, revenue should not be recognized until the goods are sold to a third party.

Case (ii): The sale is complete but delivery has been postponed at buyer's request. Fashion Ltd. should recognize the entire sale of Rs.1,95,000 for the year ended 31st March, 2017.

Case (iii): In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act accepting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting Rs. 2,50,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting Rs. 7,45,000 (3,00,000+1,95,000+2,50,000) will be recognized for the year ended 31st March, 2017 in the books of Fashion Ltd.

(c) As per para AS 2 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

Amount of Normal Loss and Abnormal Loss:

Material used	12,000 MT @ Rs. 150 = Rs. 18,00,000
Normal Loss (4% of 12,000 MT)	480 MT
Net quantity of material	11,520 MT
Abnormal Loss in quantity	150 MT (630 MT less 480 MT)
Abnormal Loss	Rs. 23,437.50 [150 units @ Rs. 156.25 (Rs.18,00,000/11,520)]

Amount of Rs. 23,437.50 will be charged to the Profit and Loss statement.

(d) General Ledger Adjustment Account in Debtors Ledger

Date	*Particulars*	*Rs.*	*Date*	*Particulars*	*Rs.*
01.04.2017	To Balance b/d	4,700	1.4.2017	By Balance b/d	1,79,100
01.04.2017 to 30.4.2017	To Debtors ledger adjustment A/c:		01.04.2017 to 30.4.2017	By Debtors ledger adjustment A/c:	
	Cash received	8,62,850		Credit sales	9,97,700
	Sales Returns	16,550		Cash paid for returns	3,000
	Bills receivable received	47,500		BR dishonoured	3,750
	Transfer to creditors ledger	8,000	30.04.2017	By Balance c/d	4,900
30.04.2017	To Balance c/d (bal.fig)	2,48,850			
		11,88,450			11,88,450

2. Partners' Capital Accounts as on 1.4.2017

	Anuj	*Ayush*	*Piyush*		*Anuj*	*Ayush*	*Piyush*
To Anuj		22,950	68,850	By Balance b/d	3,75,000	2,80,000	2,25,000
To Revaluation Loss	37,400	37,400	18,700	By General Reserves	75,200	75,200	37,600
To Bank FD	2,34,000			By Ayush and Piyush	91,800		
To 8% Loan	2,70,600						
To Balance c/d*		3,03,450	3,03,450	By Cash (Bal. fig.)	-	8,600	1,28,400
	5,42,000	3,63,800	3,91,000		5,42,000	3,63,800	3,91,000

Balance Sheet as on 1.4.2017 after Anuj's retirement

Liabilities	*Amount (Rs.)*	*Assets*	*Amount (Rs.)*
Anuj's Loan	2,70,600	Plant (90% of Rs. 7,87,000)	7,08,300
Creditors (2,16,000+10,000)	2,26,000	Stock (Rs. 1,03,000 less Rs. 6,000)	97,000

Capital Accounts*:		Debtors (95% of Rs. 1,56,000)	1,48,200
Ayush	3,03,450	Bank Balance	1,50,000
Piyush	3,03,450		
	11,03,500		11,03,500

**Total of capital balances should be Rs. 6,06,900 which is proportioned to individual partners in their profit sharing ratio.*

Working Notes:

1. **Profit / Loss on revaluation**

Revaluation Account

	Amount (Rs.)		*Amount (Rs.)*
To Plant	78,700	By Interest on FD	9,000
To Creditors	10,000	By Loss on revaluation	93,500
To Inventory	6,000		
To Provision for doubtful debts	7,800		
	1,02,500		1,02,500

2. **Calculation of Goodwill**

Goodwill Valuation

Profit of year ended	Rs.
31.3.2017 (Rs. 3,30,000 less Rs. 93,500)	2,36,500
31.3.2016	2,32,000
31.3.2015	2,20,000
Total Profits	6,88,500

Average Profit = 6,88,500/3 = 2,29,500

Goodwill valued at 1 year purchase amounting Rs. 2,29,500.

3. **Adjustment for goodwill among partners**

Anuj's share of goodwill (2,29,500 x 2/5) = 91,800

Gaining ratio of Ayush and Piyush

Ayush

$\frac{1}{2}-\frac{2}{5}$

$\frac{5-4}{10}=\frac{1}{10}$

Piyush

$\frac{1}{2}-\frac{1}{5}$

$\frac{5-2}{10}=\frac{3}{10}$

Gaining Ratio = 1: 3

Entry for adjustment of goodwill

		Rs.	Rs.
Ayush's capital A/c	Dr.	22,950	
Piyush's capital A/c	Dr.	68,850	
To Anuj's capital A/c			91,800
(Being Anuj's share of goodwill debited to remaining partners in their gaining ratio)			

3. (a) Investment Account of Gopal

For the year ended 31.3.2019

(Script: 15% Debentures in Ritu Industries Ltd.)

(Interest payable on 30th June and 31st December)

Date	Particulars	Nominal Value Rs.	Interest Rs.	Cost Rs.	Date	Particulars	Nominal Value Rs.	Interest Rs.	Cost Rs.
1.04.18	To Balance A/c	2,00,000	7,500	2,10,000	30.06.18	By Bank A/c	-	22,500	
1.05.18	To Bank A/c	1,00,000	5,000	1,02,000	1.11.18	By Bank A/c	1,20,000	6,000	1,14,600
30.11.18	To Bank A/c	80,000	5,000	76,800	1.11.18	By Profit & Loss A/c	-	-	11,400
31.12.18	To Profit & Loss A/c			20,000	31.12.18	By Bank A/c	80,000	6,000	1,04,000
31.03.19	To Profit & Loss A/c		37,250		31.12.18	By Bank A/c	-	13,500	-
	(Bal. fig.)				31.12.18	By Bank A/c	-	6,750	-
					31.3.19	By Bal. c/d	1,80,000	-	1,78,800
		3,80,000	54,750	4,08,800			3,80,000	54,750	4,08,800

Working Notes:

(i) Accrued Interest as on 1st April, 2018 = Rs. 2,00,000 x $\frac{15}{100} \times \frac{3}{12} =$ ₹ 7,500

(ii) Accrued Interest as on 1.5.2018 = Rs. 1,00,000 x $\frac{15}{100} \times \frac{4}{12} =$ ₹ 5,000

(iii) Cost of Investment for purchase on 1st May = Rs. 1,07,000 – Rs. 5,000 = Rs. 1,02,000

(iv) Interest received as on 30.6.2018 = Rs. 3,00,000 x $\frac{15}{100} \times \frac{6}{12} =$ ₹ 22,500

(v) Accrued Interest on debentures sold on 1.11.2018

= Rs. 1,20,000 x $\frac{15}{100} \times \frac{4}{12} =$ ₹ 6,000

(vi) Accrued Interest = Rs. 80,000 x $\frac{15}{100} \times \frac{5}{12} =$ ₹ 5,000

(vii) Accrued Interest on sold debentures 31.12.2018 = Rs. 80,000 x $\frac{15}{100}$ x $\frac{6}{12}$ = ₹ 6,000

(viii) Sale Price of Investment on 31st Dec. = Rs. 1,10,000-Rs. 6,000 = Rs. 1,04,000

(ix) Loss on Sale of Debenture on 1.1.2018

Sale Price of debenture	1,14,600
Less: Cost Price of debenture	
$\frac{2,10,000}{2,00,000}$ x ₹ 1,20,000	1,26,000
Loss on sale	11,400

(x) Accrued interest as on 31.12.2018 = Rs. 1,80,000 x $\frac{15}{100}$ x $\frac{6}{12}$ = ₹ 13,500

(xi) Accrued Interest = Rs. 1,80,000 x $\frac{15}{100}$ x $\frac{3}{12}$ = ₹ 6,750

(xii) Cost of investment as on 31st March = Rs. 1,02,000 + Rs. 76,800 = Rs. 1,78,800

(xiii) Profit on debentures sold on 31st December

= Rs. 1,04,000 –(Rs. 2,10,000x800/2,000) =Rs. 20,000

(b) 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

Date	*Particulars*	*Rs.*	*Date*	*Particulars*	*Rs.*
1.4.2015	To Fair Value Motors A/c	18,00,000	31.3.2016	By Depreciation A/c	4,50,000
				By Balance c/d	13,50,000
		18,00,000			18,00,000
1.4.2016	To Balance b/d	13,50,000	31.3.2017	By Depreciation A/c	3,37,500
				By Balance c/d	10,12,500
		13,50,000			13,50,000
1.4.2017	To Balance b/d	10,12,500	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

4. (a) Journal Entries related to internal reconstruction in the books of Planet Ltd. **(Rs. in lakh)**

	Particulars		Debit Rs.	Credit Rs.
i	8% Preference share capital A/c (Rs. 100 each)	Dr.	600	
	To 8% Preference share capital A/c (Rs. 75 each)			450
	To Capital reduction A/c			150
	(Being the Preference shares of Rs. 100 each reduced to Rs. 75 each as per the approved scheme)			
ii	Equity share capital A/c (Rs. 10 each)	Dr.	1,500	
	To Equity share capital A/c (Rs. 2 each)			300
	To Capital reduction A/c			1,200
	(Being the equity shares of Rs. 10 each reduced to Rs. 2 each)			
iii	Capital reduction A/c	Dr.	48	
	To Equity share capital A/c (Rs. 2 each)			48
	(Being 1/3rd of arrears of preference share dividend of three years to be satisfied by issue of 24 lakh equity shares of Rs. 2 each)			
iv	6% Debentures A/c	Dr.	450	
	To Freehold property A/c			450
	(Being claim settled in part by transfer of freehold property)			
v	Accrued debenture interest A/c	Dr.	36	
	To Bank A/c			36
	(Being accrued debenture interest paid)			
vi	Freehold property A/c	Dr.	175	
	To Capital reduction A/c			175
	(Being appreciation Rs. (550-375) in the value of freehold property)			

vii	Bank A/c	Dr.	425	
	To Investment A/c			300
	To Capital reduction A/c			125
	(Being investment sold on profit)			
viii	Director's loan A/c	Dr.	450	
	To Equity share capital A/c (Rs. 2 each)			135
	To Capital reduction A/c			315
	(Being director's loan waived by 70% and balance being discharged by issue of 67.5 lakh equity shares of Rs. 2 each)			
ix	Capital reduction A/c	Dr.	1,485	
	To Profit and loss A/c			783
	To Trade receivables A/c (Rs. 675 x 40%)			270
	To Inventories-in-trade A/c (450 x 80%)			360
	To Bank A/c			72
	(Being various assets, penalty on cancellation of contract, profit and loss account debit balance written off through capital reduction account)			
x	Capital reduction A/c	Dr.	432	
	To Capital reserve A/c			432
	(Being balance transferred to capital reserve account as per the scheme)			

(b) **Capital Reduction Account** **(Rs. in lakh)**

To Equity Share Capital	48	By 8% Pref. Share Capital	150
To P & L A/c	783	By Equity Share Capital	1,200
To Trade Receivables	270	By Freehold property	175
To Inventories	360	By Bank (profit on sale of investment)	125
To Bank	72	By Director's loan	315
To Capital Reserve	432		
	1,965		1,965

Bank Account (Rs. in lakh)

To Balance b/d	6	By Accrued debenture interest	36
To Investments	300	By Capital Reduction Account (Penalty on cancellation of contract)	72
To Capital reduction	125	By Balance c/d	323
	431		431

(c) Note to Accounts on Share Capital and Tangible Assets after implementation of internal reconstruction

Share Capital			*(Rs. in lakh)*
Authorised:			
300 lakh shares of Rs. 2 each			600
12 lakh, 8% Preference shares of Rs. 75 each			900
			1,500
Issued, subscribed and paid up:			
241.5 lakh Equity shares of Rs. 2 each			483
(out of which 91.5 lakh shares have been issued for consideration other than cash)			
6 lakh, 8% Preference shares of Rs. 75 each fully paid up			450
		Total	933
Tangible assets			
Freehold property	825		
Less: Utilized to pay Debenture holders	(450)		
Add: Appreciation	175		550
Plant and machinery			300
		Total	850

Working Note:

Calculation of number of equity shares issued:

Equity shareholders	150 Lakh
Preference shareholders (in lieu of arrear of preference dividend)	24 Lakh
Directors	67.5 Lakh

5. (a) Surbhi Ltd. Cash Flow Statement for the year ended 31st March, 20X1

Cash Flow from Operating Activities

	Rs.	*Rs.*
Increase in balance of Profit and Loss Account (1,00,000 – 60,000)	40,000	
Dividend payable	2,00,000	
Provision for taxation (W.N.1)	80,000	
Transfer to General Reserve (2,00,000 – 1,50,000)	50,000	
Depreciation (W.N.2)	1,25,000	
Profit on sale of Plant and Machinery	(15,000)	
Operating Profit before Working Capital changes	4,80,000	
Increase in Inventories	(2,00,000)	
Decrease in Trade receivables	2,00,000	

Decrease in Trade payables	(1,20,000)	
Cash generated from operations	3,60,000	
Income tax paid	(50,000)	
Net Cash from operating activities		3,10,000
Cash Flow from Investing Activities		
Purchase of fixed assets	(3,45,000)	
Expenses on building (6,00,000 – 4,00,000)	(2,00,000)	
Increase in investments	(1,00,000)	
Sale of old machine	35,000	
Net Cash used in investing activities		(6,10,000)
Cash Flow from Financing activities		
Proceeds from issue of shares (10,00,000 – 8,00,000)	2,00,000	
Proceeds from issue of debentures	2,00,000	
Dividend paid	(1,00,000)	
Net cash used in financing activities		3,00,000
Net increase in cash or cash equivalents		NIL
Cash and Cash equivalents at the beginning of the year		2,00,000
Cash and Cash equivalents at the end of the year		2,00,000

Working Notes:

1. **Provision for taxation account**

	Rs.		*Rs.*
To Cash (Paid)	50,000	By Balance b/d	70,000
To Balance c/d	1,00,000	By Profit and Loss A/c (Balancing figure)	80,000
	1,50,000		1,50,000

2. **Plant and Machinery account**

	Rs.		*Rs.*
To Balance b/d	5,00,000	By Depreciation	1,25,000
To Profit and Loss A/c (profit on sale of machine)	15,000		
To Cash (Balancing figure)	3,45,000	By Cash (sale of machine)	35,000
		By Balance c/d	7,00,000
	8,60,000		8,60,000

(b) Memorandum Trading Account for the period 1st April, 2016 to 29th August 2016

			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, 2016

	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 2015-16

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

6. (a) Mahaveer hospital

Income & Expenditure Account

for the year ended 31 December, 2016

Expenditure		*Rs.*	*Income*		*Rs.*
To	Salaries	24,000	By	Subscriptions	24,500
To	Diet expenses	15,600	By	Govt. Grants (Maintenance)	20,000
To	Rent & Rates	1,700	By	Fees, Sundry Patients	4,800
To	Printing & Stationery	2,400	By	Donations	8,000

To	Electricity & Water-charges	2,400	By	Benefit shows (net collections)	6,000
To	Office expenses	2,000	By	Interest on Investments	800
To	Excess of Income over expenditure transferred to Capital Fund	16,000			
		64,100			64,100

Balance Sheet as at 31st Dec., 2016

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*	*Rs.*
Capital Fund :			Building :		
Opening balance	49,300		Opening balance	90,000	
Excess of Income			Addition	50,000	1,40,000
Over Expenditure	16,000	65,300	Hospital Equipment :		
Building Fund :			Opening balance	34,000	
Opening balance	80,000		Addition	17,000	51,000
Add : Govt. Grant	80,000	1,60,000	Furniture		6,000
Subscriptions			Investments-		
received in advance		2,400	8% Govt. Securities		20,000
			Subscriptions receivable		1,400
			Accrued interest		800
			Prepaid expenses (Rent)		300
			Cash at Bank		6,800
			Cash in hand		1,400
		2,27,700			2,27,700

Working Notes:

(1) Balance sheet as at 31st Dec., 2015

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital Fund		Building	90,000
(Balancing Figure)	49,300	Equipment	34,000
Building Fund	80,000	Subscription Receivable	6,500
Creditors for Expenses:		Cash at Bank	5,200
Salaries payable	7,200	Cash in hand	800
	1,36,500		1,36,500

(2) Building

	Rs.
Balance on 31st Dec. 2016	1,40,000
Paid during the year	(50,000)
Balance on 31st Dec. 2015	90,000

(3) Equipment

Balance on 31st Dec. 2016	51,000
Paid during the year	(17,000)
Balance on 31st Dec. 2015	34,000

(4) Subscription due for 2015

Receivable on 31st Dec. 2015	6,500
Received in 2016	(5,100)
Still Receivable for 2015	1,400

(b)

Capital Redemption Reserve A/c	Dr.	30,000	
Securities Premium A/c	Dr.	40,000	
General Reserve A/c	Dr.	30,000	
To Bonus to Shareholders			1,00,000
(Being issue of bonus shares by utilization of various Reserves, as per resolution dated …….)			
Bonus to Shareholders A/c	Dr.	1,00,000	
To Equity Share Capital			1,00,000
(Being capitalization of Profit)			

7. (a) (i) Current Liabilities/ Other Current Liabilities

(ii) Shareholders' Fund / Reserve & Surplus

(iii) Current liabilities/Other Current Liabilities

(iv) Contingent Liabilities and Commitments

(v) Shareholders' Fund / Share Capital

(vi) Fixed Assets

(vii) Shareholders' Fund / Money received against share warrants

(viii) Current Assets

(b) The entity has charged depreciation using the straight-line method at Rs. 1,00,000 per annum i.e (5,00,000/5 years). On 1st January 2017, the asset's net book value is [5,00,000 – (1,00,000 x 4)] Rs. 1,00,000. The remaining useful life is 4 years. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of four years. Consequently, it should charge depreciation for the next 4 years at Rs. 25,000 per annum i.e. (1,00,000 / 4 years).

(c) (i) Operating Activities: c, e, f, g, j, m, o.

(ii) Investing Activities: a, h, k, l, p.

(iii) Financing Activities: b, d, i, n.

(d) **Accounting Standards (ASs)** are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements. Accounting Standards reduce the accounting alternatives in the preparation of financial statements and ensure standardization of alternative accounting treatments and comparability of financial statements of different enterprises.

Accounting Standards deal with the issues of

(i) **Recognition of events and transactions** in the financial statements,

(ii) **Measurement** of these transactions and events,

(iii) **Presentation** of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and

(iv) **Disclosure requirements** which should be there to enable the public at large and the stakeholders and the potential investors, in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

(e) In modern time, computerized accounting systems are used in various areas. The significance of the computerized accounting system is as follows:

(1) *Increase speed, accuracy and security* - In computerized accounting system, the speed with which accounts can be maintained is several fold higher. Besides speed, level of accuracy is also high in computerized accounting system.

(2) *Reduce errors* - In computerized accounting, the possibilities of errors are also very less unless some mistake is made while recording the data.

(3) *Immediate information* - In this system, with an entry of a transaction, corresponding ledger posting is done automatically. Hence, trial balance will also be automatically tallied and the user will get the information immediately.

(4) *Avoid duplication of work* - Computerized accounting systems also remove the duplication of the work.