

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) (i) In the year 2018-19, an entity has acquired a new freehold building with a useful life of 50 years for Rs. 75,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

Component	Useful life (Years)	Cost
Land	Infinite	Rs. 10,00,000
Roof	25	Rs. 15,00,000
Lifts	20	Rs. 7,50,000
Fixtures	10	Rs. 2,50,000
Remainder of building	50	<u>Rs. 40,00,000</u>
		<u>Rs. 75,00,000</u>

Calculate depreciation for the year 2018-19 as per componentization method. Also state the treatment, in case Roof requires replacement at the end of its useful life.

- (ii) Entity A, a supermarket chain, is renovating one of its major stores. The store will have more available space for store promotion outlets after the renovation and will include a restaurant. Management is preparing the budgets for the year after the store reopens, which include the cost of remodeling and the expectation of a 15% increase in sales resulting from the store renovations, which will attract new customers.

Decide whether the remodeling cost will be capitalized or not as per provision of AS 10 "Property plant & Equipment".

- (b) Uday Constructions undertake to construct a bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2019 and is likely to be completed by the next financial year. The contract is for a fixed price of Rs. 12 crores with an escalation clause. The costs to complete the whole contract are estimated at Rs. 9.50 crores of rupees. You are given the following information for the year ended 31.03.2019:

Cost incurred upto 31.03.2019 Rs. 4 crores

Cost estimated to complete the contract is Rs. 6 crores

Escalation in cost by 5% and accordingly the contract price is increased by 5%.

You are required to ascertain the state of completion and state the revenue and profit to be recognized for the year as per AS 7.

- (c) Mr. Mehl gives the following information relating to items forming part of inventory as on 31-3-2019. His factory produces Product X using Raw material A.
- 600 units of Raw material A (purchased @ Rs. 120). Replacement cost of raw material A as on 31-3-2019 is Rs. 90 per unit.
 - 500 units of partly finished goods in the process of producing X and cost incurred till date Rs. 260 per unit. These units can be finished next year by incurring additional cost of Rs. 60 per unit.
 - 1500 units of finished Product X and total cost incurred Rs. 320 per unit.
- Expected selling price of Product X is Rs. 300 per unit.
- Determine how each item of inventory will be valued as on 31-3-2019. Also calculate the value of total inventory as on 31-3-2019.
- (d) State whether the following statements are 'True' or 'False'. Also give reason for your answer.
- Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
 - If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
 - All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
 - Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.
 - There is no single list of accounting policies which are applicable to all circumstances.

(4 Parts x 5 Marks = 20 Marks)

2. The shareholders of Lili Ltd. decided on a corporate restructuring exercise necessitated because of economic recession. From the given summarised balance sheet as on 31-3-2017 and the information supplied, you are required to prepare (i) Journal entries reflecting the scheme of reconstruction, (ii) Capital reduction account, (iii) Cash account in the books of Lili Ltd.

Summarised Balance Sheet of Lili Ltd. as on 31.3.2017

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
<u>Share Capital</u>		<u>Fixed Assets</u>	
30,000 Equity shares of Rs.10 each	3,00,000	Trademarks and Patents	1,10,000
40,000 8% Cumulative Preference shares Rs.10 each	4,00,000	Goodwill at cost	36,100
		Freehold Land	1,20,000
<u>Reserves and Surplus</u>		Freehold Premises	2,44,000
Securities Premium Account	10,000	Plant and Equipment	3,20,000
Profit and Loss Account	(1,38,400)	<u>Investment</u> (marked to market)	64,000
<u>Secured Borrowings</u>			
9% Debentures (Rs.100) 1,20,000		<u>Current Assets</u>	
Accrued Interest <u>5,400</u>	1,25,400	Inventories:	

<u>Current liabilities</u>		Raw materials and packing materials	
Trade payables	1,20,000	60,000	
Tax payable	50,000	Finished goods	16,000
Temporary bank overdraft	<u>2,23,100</u>	Trade receivables	<u>1,20,000</u>
	<u>10,90,100</u>		<u>10,90,100</u>

Note: Preference dividends are in arrears for 4 years.

The scheme of reconstruction that received the permission of the Court was on the following lines:

- (1) The authorized capital of the Company to be re-fixed at Rs.10 lakhs (preference capital of Rs.3 lakhs and equity capital of Rs.7 lakhs). Both classes of shares are of Rs.10 each.
- (2) The preference shares are to be reduced to Rs.5 each and equity shares reduced by Rs.3 per share. Post reduction, both classes of shares to be re-consolidated into Rs.10 shares.
- (3) Trade Investments are to be liquidated in open market.
- (4) One fresh equity shares of Rs.10 to be issued for every Rs.40 of preference dividends in arrears (ignore taxation).
- (5) Expenses for the scheme were Rs.10,000.
- (6) The debenture holders took over freehold land at Rs.2,10,000 and settled the balance after adjusting their dues.
- (7) Unprovided contingent liabilities were settled at Rs. 54,000 and a pending insurance claim receivable settled at Rs.12,500.
- (8) The intangible assets were all to be written off along with Rs.10,000 worth obsolete packing material and 10% of the receivables.
- (9) Remaining cash available as a result of the above transactions is to be utilized to pay off the bank overdraft to that extent.
- (10) The Equity shareholders agree that they will bring in necessary cash to liquidate the balance outstanding on the overdraft account by subscribing the fresh shares. The equity shares will be issued at par for this purpose. **(16 Marks)**

3. The Income and Expenditure Account of Happy Sports Club for the year ended 31st March, 2017 was as follows:

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Salaries	1,20,000	By Subscriptions	1,60,000
To Printing and Stationery	6,000	By Entrance Fees	10,000
To Rent	12,000	By Contribution for Annual dinner	20,000
To Repairs	10,000	By Profit on Annual Sports meet	20,000
To Sundry Expenses	8,000		
To Annual Dinner Expenses	30,000		
To Interest to Bank	6,000		
To Depreciation on Sports equipment	6,000		
To Excess of Income over Expenditure	<u>12,000</u>		
	<u>2,10,000</u>		<u>2,10,000</u>

The above account had been prepared after the following adjustments:

	Rs.
Subscriptions outstanding on 31.03.2016	12,000
Subscriptions received in advance on 31.03.2016	9,000
Subscriptions received in advance on 31.03.2017	5,400
Subscriptions outstanding on 31.03.2017	15,000

Salaries outstanding at the beginning and at the end of the financial year were Rs. 8,000 and Rs. 10,000 respectively. Sundry expenses included prepaid insurance expenses of Rs. 1,200.

The Club owned a freehold ground valued Rs. 2,00,000. The Club has sports equipment on 01.04.2016 valued at Rs. 52,000. At the end of the year, after depreciation, the sports equipment amounted to Rs. 54,000. The Club raised a loan of Rs. 40,000 from a bank on 01.01.2016, which was unpaid till 31.03.2017. On 31.03.2017, cash in hand was Rs. 32,000.

Prepare Receipts and Payments account of the Club for the year ended 31st March, 2017 and Balance Sheet as on that date. **(16 Marks)**

4. (a) 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.

You are required to calculate the value of stock in hand on the date of fire with the help of above information.

- (b) Akash Ltd. had 4,000 equity share of X Limited, at a book value of Rs. 15 per share (face value of Rs. 10 each) on 1st April 2018. On 1st September 2018, Akash Ltd. acquired 1,000 equity shares of X Limited at a premium of Rs. 4 per share. X Limited announced a bonus and right issue for existing share holders.

The terms of bonus and right issue were -

- (1) Bonus was declared, at the rate of two equity shares for every five equity shares held on 30th September, 2018.
- (2) Right shares are to be issued to the existing shareholders on 1st December, 2018. The company issued two right shares for every seven shares held at 25% premium. No dividend, was payable on these shares. The whole sum being payable by 31st December, 2018.
- (3) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.
- (4) Akash Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for Rs. 8 per share.

- (5) Dividend for the year ended 31st March 2018, at the rate of 20% was declared by the company and received by Akash Ltd., on 20th January 2019.
- (6) On 1st February 2019, Akash Ltd., sold half of its share holdings at a premium of Rs. 4 per share.
- (7) The market price of share on 31.03.2019 was Rs. 13 per share.

You are required to prepare the Investment Account of Akash Ltd. for the year ended 31st March, 2019 and determine the value of shares held on that date assuming the investment as current investment. **(6+10 = 16 Marks)**

5. (a) J Ltd. presents you the following information for the year ended 31st March, 2019:

		(Rs. in lacs)
(i)	Net profit before tax provision	36,000
(ii)	Dividend paid	10,202
(iii)	Income-tax paid	5,100
(iv)	Book value of assets sold	222
	Loss on sale of asset	48
(v)	Depreciation debited to P & L account	24,000
(vi)	Capital grant received - amortized to P & L A/c	10
(vii)	Book value of investment sold	33,318
	Profit on sale of investment	120
(viii)	Interest income from investment credited to P & L A/c	3,000
(ix)	Interest expenditure debited to P & L A/c	12,000
(x)	Interest actually paid (Financing activity)	13,042
(xi)	Increase in working capital [Excluding cash and bank balance]	67,290
(xii)	Purchase of fixed assets	22,092
(xiii)	Expenditure on construction work	41,688
(xiv)	Grant received for capital projects	18
(xv)	Long term borrowings from banks	55,866
(xvi)	Provision for Income-tax debited to P & L A/c	6,000
	Cash and bank balance on 1.4.2018	6,000
	Cash and bank balance on 31.3.2019	8,000

You are required to prepare a cash flow statement as per AS-3 (Revised).

- (b) You are required to show the following transactions under General Ledger Adjustment Account in Debtors Ledger and General Ledger Adjustment Account in Creditors Ledger:

	Rs.
Transfer from Debtors' Ledger-to Creditors' Ledger	2,200
Bill receivable endorsed to Creditors	8,000
Endorsed Bills dishonoured	2,000
Bad Debts written off (after deducting bad debts recovered Rs. 600)	4,400

Provision for Doubtful Debts	1,100
Provision for Discount on Debtors	2,000
Reserve for Discount on Creditors	4,000
Cash Sales	6,000
Cash Purchases	8,000
Bill Receivable Collected on maturity	10,000
Bills Receivable discounted	12,000
Bills Payable matured	14,000
Discount allowed	3,000
Discount received	1,200
Allowances from Creditors	6,400

(8+8 = 16 Marks)

6. L and M who carry on partnership business in the name of M/s. LM Ltd., closes their firm's account as on 31st March each year.

Their partnership agreement provides:

- (i) Profit Loss sharing, L : 2/3 and M : 1/3 and
- (ii) On retirement or admission of Partner:
 - (a) If the change takes place during any accounting year, such partner's share of profits or losses for the period up to retirement or from admission, is to be arrived at by apportionment on a time basis except otherwise stated for specific item(s).
 - (b) No account for Goodwill is to be maintained in the firm's books.
 - (c) Any balance due to an outgoing partner is to carry interest @ 9% p.a. from the date of his retirement to the date of payment.

The Trial Balance of the firm as on March 31st, 2017 was as follows:

Particulars	Amount in (Rs.)	Amount in (Rs.)
Capital Account		
L	-	24,000
M	-	12,000
N – Cash brought in on 30-09-2016	-	9,000
Plant and machinery at cost	22,000	-
Depreciation provision up to 31-03-2016	-	4,400
Motor car at cost	30,000	-
Depreciation provision up to 31-03-2016	-	6,000
Purchases	84,000	-
Stock as on 31 st March 2016	15,500	-
Salaries	18,000	-
Debtors	5,400	-
Sales	-	1,20,000
Travelling expenses	800	-

Office Maintenance	1,200	
Conveyance	500	
Trade Expenses	1,000	
Creditors	-	10,100
Rent and Rates	3,000	-
Bad Debts	900	-
Cash in hand and at Bank	3,200	-
	1,85,500	1,85,500

'L' retired from the firm on 30th September, 2016 and on the same day 'N' an employee of the firm was admitted as partner. Further Profits or Losses shall be shared - M : 3/5 and N : 2/5. Necessary Accounting Entries for adjustments were pending up to 31-03-2017. You are given the following further information:

- (i) The value of firm's goodwill as on 30th September, 2016 was agreed to Rs. 15,000.
- (ii) The stock as on 31st March, 2017 was valued at Rs. 18,550.
- (iii) Partners' drawings which are included in Salaries: L - Rs. 2,000, M - Rs. 3,000 and N - Rs. 1,000.
- (iv) Salaries also includes Rs. 1,500 paid to N prior to his being admitted as a partner.
- (v) Bad-debts of Rs. 500 related to the period upto 30th September, 2016.
- (vi) As on 31st March, 2017 rent paid in advance amounted to Rs. 600 and trade expenses accrued amounted to Rs. 250.
- (vii) Provision is to be made for depreciation on Plant and Machinery and on Motor car at the rate of 10% p.a. on cost.
- (viii) A bad-debts provision, specifically attributable to the second half of the year, is to be made @ 5% on debtors as on March 31st 2017.
- (ix) Amount payable to L on retirement remained unpaid till March 31st 2017.

You are required to prepare:

- (a) The Trading and Profit & Loss Account for the year ended March 31st 2017.
- (b) Partners' Capital Accounts for the year ended March 31st 2017.
- (c) The Balance Sheet as on that date.

(16 Marks)

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

- (a) A large size business entity decided to outsource the accounting functions. It invited proposals from vendors through open tender and received three proposals. How will you select the vendor?
- (b) Mehnaaz accepted the following bills drawn by Shehnaaz:
 - On 8th March, 2017, Rs. 4,000 for 4 months.
 - On 16th March, 2017, Rs. 5,000 for 3 months.
 - On 7th April, 2017, Rs. 6,000 for 5 months.
 - On 17th May, 2017, Rs. 5,000 for 3 months.
 He wants to pay all the bills on a single day. Find out the average due date.

- (c) Futura Ltd. had the following items under the head “Reserves and Surplus” in the Balance Sheet as on 31st March, 2019:

	Amount Rs. in lakhs
Securities Premium Account	80
Capital Reserve	60
General Reserve	90

The company had an accumulated loss of Rs. 250 lakhs on the same date, which it has disclosed under the head “Statement of Profit and Loss” as asset in its Balance Sheet. Comment on accuracy of this treatment in line with Schedule III to the Companies Act, 2013.

- (d) Mr. Aman is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Aman for the financial year 2018-19, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information :

On 31 st March, 2018	
Sundry Assets	Rs. 16,65,000
Liabilities	Rs. 4,13,000
On 31 st March, 2019	
Sundry Assets	Rs. 28,40,000
Liabilities	Rs. 5,80,000
Mr. Aman’s drawings for the year 2018-19	Rs. 32,000 per month
Income declared to the Income Tax Officer	Rs. 9,12,000

During the year 2018-19, one life insurance policy of Mr. Aman was matured and amount received Rs. 50,000 was retained in the business.

State whether the Income Tax Officer's contention is correct. Explain by giving your working.

- (e) Ruby Ltd. sold goods through its agent. As per terms of sales, consideration is payable within one month. In the event of delay in payment, interest is chargeable @ 10% p.a. from the agent. The company has not realized interest from the agent in the past. For the year ended 31st March, 2019 interest due from agent (because of delay in payment) amounts to Rs. 5 lakhs. The accountant of Ruby Ltd. booked Rs. 5 lakhs as interest income in the year ended 31st March, 2019. Discuss the contention of the accountant with reference to AS 9 “Revenue Recognition”.

(4 Parts x 4 Marks = 16 Marks)