Test Series: August, 2016

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) ABC Ltd. Purchased machine on 1-4-2011 for Rs. 2,00,000. The company charged depreciation at 10% on reducing balance method upto 2013-14. From 2014-15, the company decided to change depreciation method on straight line basis with estimated working life of 10 years and scrap value of Rs. 50,000. Compute the amount of depreciation to be charged to Profit and Loss Account for the year 2014-15.

(b) A contractor entered into a contract for building roads for Rs. 2 crores. After completing 60% of the contract he came to know that the cost of completing the contract would be Rs. 2.40 crores. The accountant transferred Rs. 0.24 crores i.e., 60% of total loss of Rs. 0.40 crores to Profit and Loss account in the current year. You are required to give your opinion in line with AS 7.

(c) Calculate the value of raw materials and closing stock based on the following information:

Raw material X	
Closing balance	500 units
	Rs. per unit
Cost price including excise duty	200
Excise duty (Cenvat credit is receivable on the excise duty paid)	10
Freight inward	20
Unloading charges	10
Replacement cost	150
Finished goods Y	

Closing Balance	1200 units
	Rs. per unit
Material consumed	220
Direct labour	60
Direct overhead	40

Total Fixed overhead for the year was Rs. 2,00,000 on normal capacity of 20,000 units.

Calculate the value of the closing stock, when Net Realizable Value of the Finished Goods Y is Rs. 400.

(d) The Board of Directors decided on 31.3.2014 to increase the sale price of certain items retrospectively from 1st January, 2014. In view of this price revision with effect from 1st January 2014, the company has to receive Rs. 15 lakhs from its customers in respect of sales made from 1st January, 2014 to 31st March, 2014. Accountant cannot make up his mind whether to include Rs. 15 lakhs in the sales for 2013-2014. Advise. *(4 x 5 = 20 Marks)*

2. (a) J Ltd. presents you the following information for the year ended 31st March, 2015:

		(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 1.4.2014	6,000
	Cash and bank balance on 31.3.2015	8,000

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

(b) Futura Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 2015:

	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. *(12 + 4 = 16 Marks)*

3. (a) State under which head these 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.

(b) The following extract of Balance Sheet of X Ltd. (a non-investment company) was obtained:

Balance Sheet (Extract) as on 31st March, 2015

Liabilities	Rs.
Authorised capital:	
15,000, 14% preference shares of Rs. 100	15,00,000
1,50,000 Equity shares of Rs. 100 each	1,50,00,000
	1,65,00,000
Issued and subscribed capital:	
15,000, 14% preference shares of Rs. 100 each fully paid	15,00,000

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)	15,25,000

You are required to compute Effective Capital as per the provisions of Schedule V to Companies Act, 2013.

(c) Sneha Ltd. was incorporated on 1st July, 2013 to acquire a running business of Atul Sons with effect from 1st April, 2013. During the year 2013-14, the total sales were Rs. 24,00,000 of which Rs. 4,80,000 were for the first six months. The Gross profit of the company Rs. 3,90,800. The expenses debited to the Profit & Loss Account included:

(i) Director's fees Rs. 30,000

(ii) Bad debts Rs. 7,200

(iii) Advertising Rs. 24,000

(iv) Salaries and General Expenses Rs. 1,28,000

(v) Preliminary Expenses written off Rs. 10,000

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2014. *(6 + 5 + 5 = 16 Marks)*

4. Following is the summarized Balance Sheet of M Ltd. as at 31st March, 2015:

Liabilities	Rs.	Assets	Rs.
15,000, 10% Preference shares of Rs. 100 each	15,00,000	Land & Buildings Plant & Machinery	15,00,000 10,00,000
35,000 Equity shares of Rs. 100 each	35,00,000	Inventory	6,00,000
Securities Premium account	1,00,000	Trade receivables	15,00,000
7% Debentures of Rs. 100 each	5,00,000	Cash at bank	1,00,000
Trade payables	12,50,000	Profit & Loss A/c	23,00,000
Loan from Director	1,50,000		
	70,00,000		70,00,000

No dividend on Preference shares has been paid for the last 5 years.

The following scheme of reorganization was duly approved by the Tribunal:

(i) Each Equity share to be reduced to Rs. 25.

(ii) Each existing Preference share to be reduced to Rs. 75 and then exchanged for 1 new 13% Preference share of Rs. 50 each and 1 Equity share of Rs. 25 each.

(iii) Preference shareholders have forgone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in fully paid equity shares of Rs. 25.

(iv) The Debentureholders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference shares of Rs. 50 each issued at par. One half (in value) of the debentureholders accepted Preference shares for their claims. The rest were paid cash.

(v) Contingent liability of Rs. 1,50,000 is payable, which has been created by wrong action of one Director. He has agreed to compensate this loss out of the loan given by the Director to the company.

(vi) 40,000 new Equity shares of Rs. 25 each are to be issued at par, payable in full on application. Shares were fully taken up.

(vii) Decrease the value of Plant and Machinery, Inventory and Trade receivables by Rs. 4,00,000, Rs. 1,00,000 and Rs. 1,50,000 respectively. Increase the value of Land and Buildings to Rs. 18,00,000.

(viii) The total expenses incurred by the company in connection with the scheme excluding underwriting commission amounted to Rs. 15,000.

Pass necessary Journal Entries to record the above transactions. *(16 Marks)*

5. (a) The following is the Income and Expenditure Account of Gama Club for the year ended 31st March, 2015:

Income and Expenditure Account for the year ended 31st March, 2015

	Rs.		*Rs.*
To Salaries	19,500	By Subscription	68,000
To Rent	4,500	By Donation	5,000
To Printing	750		
To Insurance	500		
To Audit Fees	750		
To Games & Sports	3,500		
To Subscriptions written off	350		
To Miscellaneous Expenses	14,500		
To Loss on sale of furniture	2,500		
To Depreciation:			

Sports Equipment	6,000		
Furniture	3,100		
To Excess of income over expenditure	17,050		
	73,000		73,000

Additional information:

	31-3-2014	31-3-2015
	Rs.	Rs.
Subscriptions in arrears	2,600	3,700
Advance Subscriptions	1,000	1,500
Outstanding expenses:		
Rent	500	800
Salaries	1,200	350
Audit Fee	500	750
Sports Equipment less depreciation	25,000	24,000
Furniture less depreciation	30,000	27,900
Prepaid Insurance	-	150

Book value of furniture sold is Rs. 7,000. Entrance fees capitalized Rs. 4,000. On 1st April, 2014 there was no cash in hand but Bank Overdraft was for Rs. 15,000. On 31st March, 2015. Cash in hand amounted to Rs. 850 and the rest was Bank balance.

Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2015.

(b) 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? *(12 + 4 = 16 Marks)*

6. Laurel and Hardy are partners of the firm LH & Co., from 1.4.2011. Initially both of them contributed Rs. 1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2015 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2011.

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31st March	2012	2013	2014	2015
	Rs.	Rs.	Rs.	Rs.
Profit as per accounts prepared and finalized	1,40,000	2,60,000	3,20,000	3,60,000
Expenses not provided for (as at 31st March)	30,000	20,000	36,000	24,000
Incomes not taken into account (as at 31st March)	18,000	15,000	12,000	21,000

The partners decided to admit Chaplin as a partner with effect from 1.4.2015. It was decided that Chaplin would be allotted 20% share in the firm and he must bring 20% of the combined capital of Laurel and Hardy.

Following is the Balance sheet of the firm as on 31.3.2015 before admission of Chaplin and before adjustment of revised profits between Laurel and Hardy.

Balance Sheet of LH & Co. as at 31.3.2015

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital Accounts:		Plant and machinery	60,000
Laurel	2,11,500	Cash on hand	10,000
Hardy	1,51,500	Cash at bank	5,000
Trade Payables	2,27,000	Stock in trade	3,10,000
		Trade Receivables	2,05,000
	5,90,000		5,90,000

You are required to prepare:

(i) Profit and Loss Adjustment account;

(ii) Capital accounts of the partners; and

(iii) Balance Sheet of the firm after the admission of Chaplin. *(16 Marks)*

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

(a) A company was classified as Non-SMC in 2013-14. In 2014-15 it has been classified as SMC. The management desires to avail the exemption or relaxations available for SMCs in 2014-15. However, the accountant of the company does not agree with the same. Comment.

(b) X Limited sold goods worth Rs. 13 Lakhs to Mr. Y. Mr. Y asked for a Trade Discount amounting to Rs. 1,06,000 and the same was agreed to by X Limited. Such discount was allowed in the ordinary course of business. The sale was effected and goods were dispatched. On receipt of goods, Mr. Y has found that goods worth Rs. 1,34,000 are defective. Mr. Y returned defective goods to X Limited and made payment amount to Rs. 10,60,000. The Accountant of X Limited booked the sale for Rs. 10,60,000.

Discuss the contention of the Accountant with reference to relevant Accounting Standard.

(c) XYZ Ltd. constructed a fixed asset and incurred the following expenses on its construction:

	Rs.
Materials	10,00,000
Direct Labour	3,00,000
(1/6th of the total labour time was chargeable to the construction)	
Direct Expenses	2,00,000
Office & Administrative Expenses	7,50,000
(5% is specifically attributable to construction)	
Depreciation on assets used for the construction of this asset	10,000

Calculate the cost of the fixed asset.

(d) Following items appear in the Trial Balance of Saral Ltd. (a listed Company) as on 31st March, 2015:

Particulars	Amount
4,500 Equity Shares of Rs.100 each	4,50,000
Capital Reserve (including Rs.40,000 being profit on sale of Plant)	90,000
Securities Premium	40,000
Capital Redemption Reserve	30,000
General Reserve	1,05,000
Profit and Loss Account (Cr. Balance)	65,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 2 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books of Saral Ltd.

(e) Mehnaaz accepted the following bills drawn by Shehnaaz:

On 8th March, 2014, Rs. 4,000 for 4 months.

On 16th March, 2014, Rs. 5,000 for 3 months.

On 7th April, 2014, Rs. 6,000 for 5 months.

On 17th May, 2014, Rs. 5,000 for 3 months.

He wants to pay all the bills on a single day. Find out the average due date.

(4 x 4 = 16 Marks)