

MOCK TEST PAPER – 2

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) Sudha Ltd. has purchased Plant & Machinery in the year 2008-2009 for ₹ 45 lakhs. A balance of ₹ 5 lakhs is still payable to the suppliers for the same. The supplier waived off the balance amount during the financial year 2011-12. Sudha Ltd. treated it as income and credited to profit and loss account during 2011-12. Whether, accounting treatment of Sudha Ltd. is correct?
- (b) X Ltd. paid an interim dividend of ₹ 1,00,000 during the financial year 2011-12. Along with, it also paid ₹ 17,000 as corporate dividend tax. While preparing cash flow statement for year 2011-12, X Ltd. classified dividend paid under financing activities and corporate dividend tax paid as cash flow from operating activities. Do you agree with such treatment? Comment in line with AS 3 'Cash Flow Statements'.
- (c) Mr. Shyam, a construction contractor undertakes the construction of an industrial complex. He has separate proposals raised for each unit to be constructed in the industrial complex. Since each unit is subject to separate negotiation, he is able to identify the costs and revenues attributable to each unit. Should Mr. Shyam treat construction of each unit as a separate construction contract according to AS 7?
- (d) How will you disclose the following in the Financial Statements of a Non-Profit Organisation?

Salaries paid during 2012 were ₹ 42,00,000. The following further information is available.

	₹	
Salaries unpaid on 31st Dec. 2011	1,70,000	
Salaries prepaid on 31st Dec. 2011	65,000	
Salaries unpaid on 31st Dec. 2012	2,30,000	
Salaries prepaid on 31st Dec. 2012	95,000	(4 x 5 = 20 Marks)

2. (a) Neel Ltd. and Gagan Ltd. amalgamated to form a new company on 1.04.2012. Following is the Draft Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3.2012:

Liabilities	Neel	Gagan	Assets	Neel	Gagan
	₹	₹		₹	₹
Capital	7,75,000	8,55,000	Plant & Machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
			Current assets	<u>1,63,500</u>	<u>1,58,600</u>
	<u>13,98,500</u>	<u>14,12,600</u>		<u>13,98,500</u>	<u>14,12,600</u>

Following are the additional information:

- The authorised capital of the new company will be ₹ 25,00,000 divided into 1,00,000 equity shares of ₹ 25 each.
- Liabilities of Neel Ltd. includes ₹ 50,000 due to Gagan Ltd. for the purchases made. Gagan Ltd. made a profit of 20% on sale to Neel Ltd.
- Neel Ltd. had purchased goods costing ₹ 10,000 from Gagan Ltd. All these goods are included in the current asset of Neel Ltd. as at 31st March, 2012.
- The assets of Neel Ltd. and Gagan Ltd. are to be revalued as under:

	Neel	Gagan
	₹	₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

- The purchase consideration is to be discharged as under:
 - Issue 24,000 equity shares of ₹ 25 each fully paid up in the proportion of their profitability in the preceding 2 years.
 - Profits for the preceding 2 years are given below:

	Neel	Gagan
	₹	₹
1 st year	2,62,800	2,75,125
II nd year	<u>2,12,200</u>	<u>2,49,875</u>
Total	<u>4,75,000</u>	<u>5,25,000</u>

- Issue 12% preference shares of ₹ 10 each fully paid up at par to provide income equivalent to 8% return on net assets in the business as on

31.3.2012 after revaluation of assets of Neel Ltd. and Gagan Ltd. respectively.

You are required to compute the

- (i) equity and preference shares issued to Neel Ltd. and Gagan Ltd.,
 - (ii) Purchase consideration.
- (b) Due to inadequacy of profits during the year ended 31st March, 2013, XYZ Ltd. proposes to declare 10% dividend out of general reserves. From the following particulars, ascertain the amount that can be utilized from general reserves, according to the Companies (Declaration of dividend out of Reserves) Rules, 1975:

	₹
17,500 9% Preference shares of ₹100 each, fully paid up	17,50,000
8,00,000 Equity shares of ₹10 each, fully paid up	80,00,000
General Reserves as on 1.4.2012	25,00,000
Capital Reserves as on 1.4.2012	3,00,000
Revaluation Reserves as on 1.4.2012	3,50,000
Net profit for the year ended 31 st March, 2013	3,00,000
Average rate of dividend during the last five year has been 12%.	

(10 + 6 =16 Marks)

- 3 (a) Manoj had the following bills receivables and bills payable against Sohan. Calculate the average due date, when the payment can be received or made without any loss of interest.

Date	Bills Receivable	Tenure	Date	Bills Payable	Tenure
	₹			₹	
01/06/2012	3,000	3 month	29/05/2012	2,000	2 month
05/06/2012	2,500	3 month	03/06/2012	3,000	3 month
09/06/2012	6,000	1 month	9/06/2012	6,000	1 month
12/06/2012	1,000	2 month			
20/06/2012	1,5 00	3 month			

15 August, 2012 was a Public holiday. However, 6 September, 2012 was also declared as sudden holiday.

(b) Following is the Draft Balance Sheet of ABC Ltd. Co. as at 31st March, 2012:

Liabilities	₹	Assets	₹
Share capital:		Plant and machinery	9,00,000
2,00,000 Equity shares of ₹ 10 each fully paid up	20,00,000	Furniture and fixtures	2,50,000
6,000 8% Preference shares of ₹ 100 each	6,00,000	Patents and copyrights	70,000
9% Debentures	12,00,000	Investments (at cost)	68,000
Bank overdraft	1,50,000	(Market value ₹ 55,000)	
Trade payables	5,92,000	Inventory	14,00,000
		Trade receivables	14,39,000
		Cash and bank balance	10,000
		Profit and Loss Account	<u>4,05,000</u>
	<u>45,42,000</u>		<u>45,42,000</u>

The following scheme of reconstruction was finalized:

- Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.
- Debentureholders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.
- Stock equal to ₹ 5,00,000 in book value will be taken over by trade payables in full settlement of their dues.
- Investment value to be reduced to market price.
- The company would issue 11% Debentures for ₹ 3,00,000 to augment its working capital requirement after settlement of bank overdraft.

Give necessary journal entries reflecting the above scheme of reconstruction in the books of the ABC Ltd. Co. (8 + 8 = 16 Marks)

4. A, B and C are partners in a Firm of Accountants sharing Profits and Losses in the ratio of 2 : 3 : 1. Their Balance Sheet as on 31st March, 2012 on which date K is admitted as a Partner is as follows -

Liabilities	₹	Assets	₹
Capital Accounts:		Non-Current Assets:	
B	80,000	Furniture	30,000
C	64,000	Motor Car	50,000
A (Dr. Balance)	(40,000)	Current Assets:	
		Cash at Bank	19,000
		Cash in Hand	<u>5,000</u>
	<u>1,04,000</u>		<u>1,04,000</u>

K is given 1/4th share in the profits and losses of the firm, and the profit and loss sharing ratio as between the other partners remains as before. The following adjustments were to be made at the time of K's admission-

1. A, B and C have a Joint Life Policy of ₹ 1,00,000, the premium for which has been charged to Profit and Loss Account. The Surrender Value of the policy as on 31st March, 2012 (date of admission) was ₹ 36,000. It is agreed to raise a Joint Life Policy Account in the Books of the Firm at its surrender value.
2. Goodwill of the Firm is to be valued at 2 years' purchase of weighted average profit of last 3 years (Profits for the last three financial years were: ₹ 54,000, ₹ 60,000 and ₹ 66,000). It is agreed among existing partners, that C is interested in the Goodwill of the Firm only upto a value of ₹ 84,000.
3. Motor car is taken over by B at ₹ 56,000.
4. Furniture is revalued at ₹ 36,000.
5. Fees billed but not realised ₹ 30,000 are to be brought into account.
6. Expenses incurred but not paid ₹ 9,000 are provided for.
7. K is to bring Proportionate capital. Capital of A, B and C as among themselves are also to be adjusted in Profit Sharing Ratio. K is also to be credited with ₹ 20,000 for having agreed to amalgamate her separate practice as Chartered Accountant with this Firm.

Pass necessary Journal Entries and prepare the Balance Sheet of the Firm after K's admission. (16 Marks)

5. (a) A company took over a business on 1st January, 2012 but it was incorporated as A Co. Ltd. on 1st May, 2012. The accounts were made up to 31st December, 2012 and Draft Trading and Profit and Loss Account were as follows:

Particulars	₹	Particulars	₹
To Opening Stock	1,40,000	By Sales	12,00,000
To Purchases	9,10,000	By Closing Stock	1,50,000
To Gross Profit c/d	<u>3,00,000</u>		<u> </u>
	<u>13,50,000</u>		<u>13,50,000</u>
To Rent, Rates and Insurance	18,000	By Gross Profit b/d	3,00,000
To Director's Fees	20,000		
To Salaries	51,000		
To Office Expenses	48,000		
To Travelers' Commission	12,000		
To Discounts	15,000		

To Bad Debts	3,000		
To Depreciation	15,000		
To Debenture Interest	4,500		
To Net Profit	<u>1,13,500</u>		<u> </u>
	<u>3,00,000</u>		<u>3,00,000</u>

It is ascertained that the sales of November and December are one and half times the average of those for the year while sales for February and April are only half the average.

You are required to show the apportionment of year's profit between the pre-incorporation and the post-incorporation periods.

- (b) Mr. 'Zoom' prepares accounts on 30th September each year, but on 31st December 2012 fire destroyed the greater part of his stock. Following information was collected from his books:

Particulars	₹
Stock as on 1.10.2012	59,400
Purchases from 1.10.2012 to 31.12.2012	1,50,000
Wages from 1.10.2012 to 31.12.2012	66,000
Sales from 1.10.2012 to 31.12.2012	2,80,000

The rate of Gross profit is 331/3% on sale value. There was salvaged stock of ₹ 6,000. Insurance policy was for ₹ 50,000 and claim was subject to average clause.

Additional Information:

- (i) Stock in the beginning was calculated at 10% less than cost
- (ii) A plant was installed by firm's own worker. He was paid ₹ 1,000 which was included in wages.
- (iii) Purchases include the purchase of plant for ₹ 10,000.

You are required to calculate the claim for loss of stock. (10 +6 =16 Marks)

6. (a) Mr. Rajeev furnishes you with the following information relating to his business :

(a) Assets and liabilities as on	1.1.2012	31.12.2012
	₹	₹
Furniture (w.d.v)	6,000	6,350
Stock at cost	8,000	7,000
Sundry Debtors	16,000	?
Sundry Creditors	11,000	15,000

Prepaid expenses	600	700
Unpaid expenses	2,000	1,800
Cash in hand and at bank	1,200	625

(b) Receipts and payments during 2012:

Collections from debtors, after allowing discount of ₹ 1,500 amounted to ₹ 58,500. Collections on discounting of bills of exchange, after deduction of discount of ₹ 125 by the bank, totalled to ₹ 6,125. Creditors of ₹ 40,000 were paid ₹ 39,200 in full settlement of their dues. Payment for freight inwards ₹ 3,000. Amount withdrawn for personal use ₹ 7,000. Payment for office furniture ₹ 1,000. Expenses including salaries paid ₹ 14,500. Miscellaneous receipts ₹ 500.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 10,000. Of these, bills of exchange of ₹ 2,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 400 was dishonoured.

(d) Difference in cash book, if any, is to be treated as further drawing or introduction by Mr. Rajeev.

(e) Goods are invariably sold to show a gross profit of $33\frac{1}{3}\%$ on sales.

Mr. Rajeev asks you to prepare Trading and Profit and Loss A/c for the year ended 31st December, 2012 and the balance sheet as on that date. (16 Marks)

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

(a) In the financial statements of the financial year 2011-12, Alpha Ltd. has mentioned in the notes to accounts that during financial year, 24,000 equity shares of ₹ 10 each were issued as fully paid bonus shares. However, the source from which these bonus shares were issued has not been disclosed. Is such non-disclosure a violation of the Revised Schedule VI to the Companies Act? Comment.

(b) Following items appear in the trial balance of Bharat Ltd. as on 31st March, 2012:

	₹
40,000 Equity shares of ₹ 10	4,00,000
Capital Reserve (including 30,000 being profit on sale of machinery)	75,000
Capital Redemption Reserve	25,000
Securities Premium	30,000
General Reserve	1,05,000
Surplus i.e. credit balance of Profit and Loss Account	50,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 4 shares held and for this purpose, it decided that there should be the minimum reduction in free reserves. Pass necessary journal entries.

- (c) In a production process of Beta Ltd., normal waste is 5% of input. 7,500 Kg of input were put in the process resulting in wastage of 450 Kg. Cost per Kg of input was ₹ 1,000. The entire quantity of waste was in stock at the year end. If waste has nil realizable value, then what will be the cost per unit of finished product as per AS 2?
- (d) An Educational Institution has decided to outsource the accounting functions. For this purpose, it invited proposals from vendors received proposals. How will you select the vendor?
- (e) The stages of production and sale of a producer are as follow:

Date	Activity	Costs to date ₹	Net Realisable Value ₹
20.1.12	Raw Materials	10,000	8,000
25.1.12	WIP 1	12,000	13,000
27.1.12	WIP 2	15,000	19,000
25.2.12	Finished Product	17,000	30,000
12.3.12	Ready for Sale	17,000	30,000
27.3.12	Sale Agreed and invoice raised	19,000	30,000
02.4.12	Delivered and paid for	19,000	30,000

Explain the stage on which you think revenue will be recognized and state how much would be net profit on a unit of this product according to AS 9? (4 x 4 = 16)