

Test Series: February, 2012

**MOCK TEST PAPER - 1**

**IPCC: GROUP – I**

**PAPER – 1: ACCOUNTING**

*Question No. 1 is compulsory.*

*Answer any **five** questions from the remaining **six** questions.*

*Working notes should form part of the answer.*

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

1. (a) An Om limited company manufacturing fancy bedsheets had valued its closing stock of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.

Comment on the valuation of stocks by the company.

- (b) An unquoted long term investment is carried in the books at a cost of ₹ 2 lakhs. The published accounts of the unlisted company received in May, 2011 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than ₹ 20,000. How will you deal with this in preparing the financial statements of R Ltd. for the year ended 31st March, 2011?
- (c) During the year 2010-11, A Limited incurred the following expenses on machinery:  
₹ 2.50 lacs as routine repairs and ₹ 75,000 on partial replacement of a part.  
₹ 7 lacs on replacement of part of machinery which will improve the efficiency of the machine. Which amount should be capitalized as per AS 10?
- (d) Amar Co. Ltd. charged depreciation on its asset on SLM basis. For the year ended 31.3.2011 it changed to WDV basis. The impact of the change, when computed from the date of the asset coming to use, amounts to ₹ 20 lakhs being additional charge.

Decide how it must be disclosed in profit and loss account. Also, discuss when such changes in method of depreciation can be adopted by an enterprise as per AS 6.  
(4 x 5 = 20 Marks)

2. The Balance Sheet of Sumit Ltd. as on 31<sup>st</sup> March, 2011 is as under:

| Liabilities                         | ₹ | Assets   | ₹        |
|-------------------------------------|---|----------|----------|
| Authorised and issued share capital |   | Goodwill | 3,00,000 |

|                                             |                  |                         |                  |
|---------------------------------------------|------------------|-------------------------|------------------|
| 20,000 equity shares of ₹ 100 each          | 20,00,000        | Plant and machinery     | 18,00,000        |
| 10,000 preference shares (7%) of ₹ 100 each | 10,00,000        | Stock                   | 3,00,000         |
| Sundry creditors                            | 7,00,000         | Debtors                 | 7,50,000         |
| Bank overdraft                              | 3,00,000         | Cash                    | 1,50,000         |
|                                             |                  | Profit and loss account | <u>7,00,000</u>  |
|                                             | <u>40,00,000</u> |                         | <u>40,00,000</u> |

Two years' preference dividends are in arrears. The company had bad time during the last two years and hopes for better business in future, earning profit and dividend distribution, provided the capital base is reduced.

An internal reconstruction scheme as follows was agreed by all concerned:

- (i) Creditors agreed to forego 50% of the claim.
- (ii) Preference shareholders withdrew arrear dividend claim. They also agreed to lower their capital claim by 20% by reducing nominal value in consideration of 9% dividend effective after reorganization in case equity shareholders' loss exceed 50% on the application of the scheme.
- (iii) Bank agreed to convert overdraft into term loan to the extent required for making current ratio equal to 2 : 1.
- (iv) Revalued figure for plant and machinery was accepted as ₹ 15,00,000.
- (v) Debtors to the extent of ₹ 4,00,000 were considered good.
- (vi) Equity shares shall be exchanged for the same number of equity shares at a revised denomination as required after the reorganization.

Show:

- (a) Total loss to be borne by the equity and preference shareholders for the reorganization;
- (b) Share of loss to the individual classes of shareholders;
- (c) New structure of share capital after reorganization;
- (d) Working capital of the reorganized Company; and
- (e) A proforma balance sheet after reorganization

(16 Marks)

3. (a) The following transactions by Mr. Mohan took place during the year ended 31<sup>st</sup> March, 2011:

|                          |                                                                                                                              |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------|
| 1 <sup>st</sup> April    | Purchased ₹12,00,000 8% bonds @ ₹80.5 cum-interest. Interest is payable on 1 <sup>st</sup> November and 1 <sup>st</sup> May. |
| 12 <sup>th</sup> April   | Purchased 1,00,000 equity shares of ₹10 each in X Ltd. for ₹40,00,000.                                                       |
| 1 <sup>st</sup> May      | Received half year's interest on 8% bonds.                                                                                   |
| 15 <sup>th</sup> May     | X Ltd. made a bonus issue of three equity shares for every two held. Mr. Malamaal sold 1,25,000 bonus shares @ ₹20 each.     |
| 1 <sup>st</sup> October  | Sold ₹3,00,000 8% bonds @ ₹81 ex-interest.                                                                                   |
| 1 <sup>st</sup> November | Received half year's bond interest.                                                                                          |
| 1 <sup>st</sup> December | Received 18% dividend on equity shares in X Ltd.                                                                             |

Prepare the relevant investment accounts in the books of Mr. Mohan for the year ended 31<sup>st</sup> March, 2011.

- (b) Arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of AS-3:

|       |                                  | ₹ (in lacs) | ₹(in lacs)      |
|-------|----------------------------------|-------------|-----------------|
|       | Net Profit                       |             | 60,000          |
| Add:  | Sale of Investments              |             | 70,000          |
|       | Depreciation on Assets           |             | 11,000          |
|       | Issue of Preference Shares       |             | 9,000           |
|       | Loan raised                      |             | 4,500           |
|       | Decrease in Stock                |             | <u>12,000</u>   |
|       |                                  |             | 1,66,500        |
| Less: | Purchase of Fixed Assets         | 65,000      |                 |
|       | Decrease on Creditors            | 6,000       |                 |
|       | Increase in Debtors              | 8,000       |                 |
|       | Exchange gain                    | 8,000       |                 |
|       | Profit on sale of investments    | 12,000      |                 |
|       | Redemption of Debenture          | 5,700       |                 |
|       | Dividend paid                    | 1,400       |                 |
|       | Interest paid                    | <u>945</u>  | <u>1,07,045</u> |
|       |                                  |             | 59,455          |
| Add:  | Opening cash and cash equivalent |             | <u>12,341</u>   |
|       | Closing cash and cash equivalent |             | 71,796          |

(8 + 8 = 16 Marks)

4. M, N and O are partners of the firm MNO & Co., sharing profits and losses in the ratio of 5:3:2. Following is the Balance Sheet of the firm as at 31.3.2011:

Balance Sheet as at 31.3.2011

| Liabilities                    | ₹                | Assets                             | ₹                |
|--------------------------------|------------------|------------------------------------|------------------|
| Partners' capital accounts:    |                  | Goodwill                           | 1,00,000         |
| M                              | 4,50,000         | Building                           | 10,50,000        |
| N                              | 1,30,000         | Machinery                          | 6,50,000         |
| O                              | 1,70,000         | Furniture                          | 2,15,000         |
| Investment fluctuation reserve | 1,00,000         | Investments (market value ₹75,000) | 60,000           |
| Contingency reserve            | 75,000           | Stock                              | 6,50,000         |
| Long-term loan                 | 15,00,000        | Sundry debtors                     | 6,95,000         |
| Bank overdraft                 | 2,20,000         | Advertisement suspense             | 25,000           |
| Sundry creditors               | <u>8,00,000</u>  |                                    |                  |
|                                | <u>34,45,000</u> |                                    | <u>34,45,000</u> |

It was decided that N would retire from the partnership on 1.4.2011 and P would be admitted as a partner on the same date. Following adjustments are agreed amongst the partners for the retirement/admission:

- Goodwill is to be valued at ₹5,00,000, but the same will not appear as an asset in the books of the firm.
- Building and machinery are to be revalued at ₹10,00,000 and ₹5,20,000 respectively.
- Investments are to be taken over by N at the market value.
- Provision for doubtful debts to be maintained at 20% on sundry debtors.
- The capital of the reconstituted firm will be ₹10,00,000 to be contributed by the partners M, N and P in their new profit sharing ratio of 2 : 2 : 1.
- Surplus funds if any will be used to pay the bank overdraft.
- Amount due to retiring partner N will be transferred to his loan account.

Prepare:

- Revaluation Account;
- Capital Accounts of the partners; and
- Balance Sheet of the firm after reconstitution.

(16 Marks)

5. Following is the Receipts and Payments Account of Aman Club for the year ended 31<sup>st</sup> March, 2011:

| Receipts                | Amount (₹)       | Payments                | Amount (₹)       |
|-------------------------|------------------|-------------------------|------------------|
| Opening balance:        |                  | Salaries                | 1,20,000         |
| Cash                    | 10,000           | Creditors               | 15,20,000        |
| Bank                    | 3,850            | Printing and stationery | 70,000           |
| Subscription received   | 2,02,750         | Postage                 | 40,000           |
| Entrance donation       | 1,00,000         | Telephone and fax       | 52,000           |
| Interest received       | 58,000           | Repairs and maintenance | 48,000           |
| Sale of fixed assets    | 8,000            | Glass and table linen   | 12,000           |
| Miscellaneous income    | 9,000            | Crockery and cutlery    | 14,000           |
| Receipts at coffee room | 10,70,000        | Garden upkeep           | 8,000            |
| Wines and spirits       | 5,10,000         | Membership fee          | 4,000            |
| Swimming pool           | 80,000           | Insurance               | 5,000            |
| Tennis court            | 1,02,000         | Electricity             | 28,000           |
|                         |                  | Closing balance:        |                  |
|                         |                  | Cash                    | 8,000            |
|                         |                  | Bank                    | <u>2,24,600</u>  |
|                         | <u>21,53,600</u> |                         | <u>21,53,600</u> |

Following additional information is provided to you:

- (i) Assets and liabilities as on 31.3.2011 were as follows:

|                                               | ₹        |
|-----------------------------------------------|----------|
| Fixed assets                                  | 5,00,000 |
| Stock                                         | 3,80,000 |
| Investment in 12% Government securities       | 5,00,000 |
| Outstanding subscription                      | 12,000   |
| Gratuity fund                                 | 1,50,000 |
| Prepaid insurance                             | 1,000    |
| Sundry creditors                              | 1,12,000 |
| Subscription received in advance              | 15,000   |
| Entrance donation received pending membership | 1,00,000 |

- (ii) Subscription received in advance as on 31.3.2011 was ₹18,000.
- (iii) Outstanding subscription as on 31.3.2011 was ₹7,000.
- (iv) Outstanding expenses as on 31.3.2011 are:
  - Salaries : ₹8,000
  - Electricity : ₹15,000
- (v) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31.3.2011.
- (vi) The cost of assets sold as on 1.4.2010 was ₹10,000.
- (vii) Depreciation was provided @ 10% p.a. on fixed assets on written down value basis.
- (viii) A sum of ₹20,000 received in October, 2010 as entrance donation from an applicant was to be refunded, as he has not fulfilled the requisite membership qualification. The refund was made on 3.6.2011.
- (ix) Purchases made during the year 2010-11 amounted to ₹15,00,000.
- (x) The value of closing stock as on 31.3.2011 was ₹2,10,000.
- (xi) The Club as a matter of policy charges off to Income and Expenditure account, all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare:

- (i) Income and Expenditure account for the year ended 31<sup>st</sup> March, 2011.
  - (ii) Balance Sheet as on 31<sup>st</sup> March, 2011. (16 Marks)
6. (a) Rajat Ltd. has a Hire-purchase department. Goods are sold on hire-purchase at cost plus 60%.

From the following particulars draft Hire-purchase trading account and compute profit or loss for the year ended 31<sup>st</sup> March, 2011:

|                                                                                | ₹         |
|--------------------------------------------------------------------------------|-----------|
| Goods with customers on 1.4.2010 (instalments not due)                         | 3,20,000  |
| Instalments due on 1.4.2010                                                    | 20,000    |
| Goods sold on hire-purchase during the year (i.e., from 1.4.2010 to 31.3.2011) | 16,00,000 |
| Cash received from customers                                                   | 11,20,000 |
| Goods re-possessed from customers valued at 40%                                | 16,000    |
| Unpaid instalments in respect of re-possessed goods                            | 40,000    |
| Goods with customers as on 31.3.2011 (at hire-purchase price)                  | 7,20,000  |

- (b) On 2.6.2011 the stock of Mr. White was destroyed by fire. However, following particulars were furnished from the records saved:

|                                        | ₹        |
|----------------------------------------|----------|
| Stock at cost on 1.4.2010              | 1,35,000 |
| Stock at 90% of cost on 31.3.2011      | 1,62,000 |
| Purchases for the year ended 31.3.2011 | 6,45,000 |
| Sales for the year ended 31.3.2011     | 9,00,000 |
| Purchases from 1.4.2011 to 2.6.2011    | 2,25,000 |
| Sales from 1.4.2011 to 2.6.2011        | 4,80,000 |

Sales upto 2.6.2011 includes ₹75,000 being the goods not dispatched to the customers. The sales invoice price is ₹75,000.

Purchases upto 2.6.2011 includes a machinery acquired for ₹15,000.

Purchases upto 2.6.2011 does not include goods worth ₹30,000 received from suppliers, as invoice not received upto the date of fire. These goods have remained in the godown at the time of fire.

Value of stock salvaged from fire ₹22,500 and this has been handed over to the insurance company.

The insurance policy is for ₹1,20,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock. (8+8 = 16 Marks)

7. Answer any **four** out of five

- (a) A had the following bills receivable and bills payable against T. Calculate average due date when the payment can be made or received without any loss or gain of interest to either party.

| Bills Receivable |            |                  | Bills Payable |            |                  |
|------------------|------------|------------------|---------------|------------|------------------|
| Date of the Bill | Amount (₹) | Tenure in months | Date of bill  | Amount (₹) | Tenure in months |
| 1.6.11           | 9,000      | 3                | 29.5.11       | 6,000      | 2                |
| 5.6.11           | 7,500      | 3                | 3.6.11        | 9,000      | 3                |
| 9.6.11           | 10,000     | 1                | 10.6.11       | 10,000     | 2                |
| 12.6.11          | 8,000      | 2                | 13.6.11       | 7,000      | 2                |
| 20.6.11          | 12,000     | 3                | 27.6.11       | 11,000     | 1                |

Holiday intervening in the period 15<sup>th</sup> August, 2011, 16<sup>th</sup> August, 2011, and 6<sup>th</sup> September, 2011.

- (b) On 25<sup>th</sup> September, 2011, Planet Advertising Limited obtained advertisement rights for World Cup Hockey Tournament to be held in November/December, 2011 for ₹ 520 lakhs.

They furnish the following information:

- (1) The company obtained the advertisements for 70% of available time for ₹ 700 lakhs by 30<sup>th</sup> September, 2011.
- (2) For the balance time they got bookings in October, 2011 for ₹ 240 lakhs.
- (3) All the advertisers paid the full amount at the time of booking the advertisements.
- (4) 40% of the advertisements appeared before the public in November, 2011 and balance 60% appeared in the month of December, 2011.

You are required to calculate the amount of profit/loss to be recognized for the month November and December, 2011 as per Accounting Standard-9.

- (c) A large size multi department's hospital decided to outsource the accounting functions. Hospital invited proposals from vendors through open tender and received three proposals. How will you select the vendor?
- (d) Is any specific disclosure under AS 1 required for a company in liquidation?
- (e) A firm of contractors obtained a contract for construction of bridges across river Revathi. The following details are available in the records kept for the year ended 31st March, 2011.

|                                      | (₹ in lakhs) |
|--------------------------------------|--------------|
| Total Contract Price                 | 1,000        |
| Work Certified                       | 500          |
| Work not Certified                   | 105          |
| Estimated further Cost to Completion | 495          |
| Progress Payment Received            | 400          |
| To be Received                       | 140          |

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS 7 (Revised) issued by ICAI. (4 × 4 = 16 Marks)