

Test Series: August, 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) Suraj Ltd. sold farm equipments through its dealers. One of the conditions at the time of sale is payment of consideration in 14 days and in the event of delay, interest is chargeable @ 15% per annum. The Company has not realized interest from the dealers in the past. However, for the year ended 31.3.2012, it wants to recognise interest due on the balances due from dealers. The amount is ascertained at ₹ 8 lakhs. Decide whether the income by way of interest from dealers is eligible for recognition as per AS 9.

- (b) A private limited company manufacturing fancy terry towels 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 the stocks by the company.

- (c) Mr. 'Arjun' a contractor has just entered into a contract with a local municipal body for building a flyover. As per the contract terms, 'Arjun' will receive an additional ₹ 4 crore if the construction of the flyover were to be finished within a period of two years of the commencement of the contract. Mr. Arjun wants to recognize this revenue since in the past he has been able to meet similar targets very easily.

Is Arjun correct in his proposal? Discuss.

- (d) Calculate the average due date and interest at 10% p.a. on the basis of the following details:

₹ 30,000 was given on 1 January 2011 is to be repaid as under:

₹			
2,750	on	1 January	2012
4,750	on	1 January	2014
10,000	on	1 January	2015

3,500	on	1 January	2017
9,000	on	1 January	2019

(5 Marks each)

2. From the following Receipts and Payments Account of Dhoom Club for the year ended 31.3.2012 and additional information given, prepare an Income and Expenditure Account for the year ended 31.3.2012 and Balance Sheet as on 31.3.2012:

Receipts	₹	Payments	₹
Opening Balance:		Secretary's salary	24,000
Cash in Hand and at Bank	6,360	Salaries to staff	50,000
Subscription	36,000	Charities	2,000
Sale of old newspapers	5,000	Printing and stationary	1,200
Legacies	8,000	Postage expenses	240
Interest on investments	4,000	Rates and taxes	3,000
Endowment fund receipts	40,000	Upkeep of the land	4,000
Proceeds of sport and concerts	8,040	Purchase of sports materials	20,000
Advertisement in the year book	10,000	Telephone expenses	6,960
		Closing balance:	
		Cash in hand and at bank	<u>6,000</u>
	<u>1,17,400</u>		<u>1,17,400</u>

Assets and liabilities as on 31.3.2011 and 31.3.2012 were as follows:-

	31.3.2011 ₹	31.3.2012 ₹
Subscription in arrears	4,000	2,000
Subscription received in advance	1,000	800
Furniture	4,000	3,600
Land	20,000	20,000

Depreciation shall be charged at 10% p.a. under the diminishing value method. Legacies received shall be capitalized. Investments were made in securities, the rate of interest being 12% p.a., the date of investment was 1.6.2010 and the amount of investments was ₹ 40,000. Due date of interest is 31st March of every year. Stock of sports materials on 31.3.2012 was useless and valued at 'nil' price. (16 Marks)

3. (a) On 1st April, 2011, Mr. Vikas purchased 2,500 equity shares of ₹100 each in Sun Ltd. @ ₹120 each from a Broker, who charged 2% brokerage. He incurred ½% as cost of shares transfer stamps. On 31st January, 2012, 1 bonus share was declared

for every two shares held. Before and after the record date of bonus shares, the shares were quoted at ₹175 per share and ₹90 per share respectively. On 31st March, 2012, Mr. Vikas sold bonus shares to a broker, who charged 2% brokerage.

Show the Investment Account in the books of Mr. Vikas, who held the shares as current assets and closing value of investments shall be made at cost or market value, whichever is lower. (8 Marks)

- (b) From the following Balance Sheets of Mr. L, prepare a Cash Flow Statement as per AS 3 for the year ended 31.3.2012:

Balance Sheets of Mr. L

	As on 1.4.2011	As on 31.3.2012
	₹	₹
Liabilities:		
L's capital account	2,50,000	3,06,000
Sundry creditors	80,000	88,000
Mrs. L's loan	50,000	--
Long term loan from bank	80,000	1,00,000
	4,60,000	4,94,000
Assets:		
Land	1,50,000	2,20,000
Plant and Machinery	1,60,000	1,10,000
Stock	70,000	50,000
Debtors	60,000	1,00,000
Cash	20,000	14,000
	4,60,000	4,94,000

Additional information:

A machine costing ₹ 20,000 (accumulated depreciation there on ₹ 6,000) was sold for ₹ 10,000. The provision for depreciation on 1.4.2011 was ₹ 50,000 and on 31.3.2012 was ₹ 80,000. The net profit for the year ended on 31.3.2012 was ₹ 90,000. (8 Marks)

4. Jai and Vijay are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of Jai and Vijay as on 1.1.2012 was as follow:

Liabilities	Amount ₹	Assets	Amount ₹
Sundry Creditors	25,800	Building	52,000
Bills Payable	8,200	Furniture	11,600

Bank Overdraft	18,000	Stock-in-Trade		42,800
Capital Account:		Debtors	70,000	
Jai 88,000		Less: Provision	<u>400</u>	69,600
Vijay <u>72,000</u>	1,60,000	Investment		5,000
		Cash		<u>31,000</u>
	<u>2,12,000</u>			<u>2,12,000</u>

'Ketan' was admitted to the firm on the above date on the following terms:

- He is admitted for 1/6th share in future profits and to introduce a capital of ₹ 50,000.
- The new profit sharing ratio of Jai, Vijay and Ketan will be 3 : 2 : 1 respectively.
- 'Ketan' is unable to bring in cash for his share of goodwill, partners therefore, decide to adjust the value of goodwill through capital accounts. They further decided to calculate goodwill on the basis of Ketan's share in the profits and the capital contribution made by him to the firm.
- Furniture is to be written down by ₹ 1,740 and Stock to be depreciated by 5%. A provision is required for debtors @ 5% for bad debts. A provision would also be made for outstanding wages for ₹ 3,120. The value of Building has been appreciated and brought upto ₹ 58,400. The value of investment is increased by ₹ 900.
- It is found that the creditors include a sum of ₹ 2,800, which is not to be paid off.

Prepare the following:

- Revaluation Account.
- Partners' Capital Accounts.
- Balance Sheet of partnership firm after admission of 'Ketan'. (16 Marks)

5. Following is the summarised Balance Sheet as at March 31, 2012:

(₹ '000)					
Liabilities	Lotus Ltd.	Kamal Ltd.	Assets	Lotus Ltd.	Kamal Ltd.
Share capital:			Goodwill	40	—
Equity shares of ₹ 100 each	3,000	2,000	Fixed assets	3,000	1,520
9% Preference shares of ₹ 100 each	1,000	800	Debtors	1,302	880
General reserve	360	340	Stock	786	1,360
			Cash at bank	52	260

Profit and loss account	—	30	Own debentures (Nominal value ₹ 4,00,000)	384	
12% Debentures of ₹ 100 each	1,200	400			
Sundry creditors	830	450	Discount on issue of debentures	4	
			Profit and loss account	822	
	<u>6,390</u>	<u>4,020</u>		<u>6,390</u>	<u>4,020</u>

On 1.4.2012, Lotus Ltd. adopted the following scheme of reconstruction:

- Each equity share shall be sub-divided into 10 equity shares of ₹ 10 each fully paid up. 50% of the equity share capital would be surrendered to the Company.
- Preference dividends are in arrear for 3 years. Preference shareholders agreed to waive 90% of the dividend claim and accept payment for the balance.
- Own debentures of ₹ 1,60,000 were sold at ₹ 98 cum-interest and remaining own debentures were cancelled.
- Debenture holders of ₹ 5,60,000 agreed to accept one machinery of book value of ₹ 6,00,000 in full settlement.
- Creditors, debtors and stocks were valued at ₹ 7,00,000, ₹ 11,80,000 and ₹ 7,20,000 respectively. The goodwill, discount on issue of debentures and Profit and Loss (Dr.) are to be written off.
- The Company paid ₹ 30,000 as penalty to avoid capital commitments of ₹ 6,00,000.

On 2.4.2012 a scheme of absorption was adopted. Lotus Ltd. took over Kamal Ltd. The purchase consideration was fixed as below:

- Equity shareholders of Kamal Ltd. will be given 50 equity shares of ₹ 10 each fully paid up, in exchange for every 5 shares held in Kamal Ltd.
- Issue of 9% preference shares of ₹ 100 each in the ratio of 4 preference shares of Lotus Ltd. for every 5 preference shares held in Kamal Ltd.
- Issue of one 12% debenture of ₹ 100 each of Lotus Ltd. for every 12% debentures in Kamal Ltd.

You are required to give Journal entries in the books of Lotus Ltd. and draw the resultant Balance Sheet as at 2nd April, 2012. (16 Marks)

- From the following prepare General Ledger Adjustment account in Debtors Ledger and Debtors Ledger Adjustment account in General Ledger:

	₹
<i>Balance as on 1.4.2012</i>	
<i>Debit balances in Debtors ledger</i>	1,23,100
<i>Credit balances in Debtors ledger</i>	1,700
<i>Transactions during the month of April, 2012</i>	
<i>Credit sales</i>	4,87,450
<i>Sales return</i>	10,850
<i>Cash received from debtors</i>	4,31,050
<i>Discount allowed to debtors</i>	19,600
<i>Bills receivable received from debtors</i>	25,600
<i>Bills receivable dishonoured</i>	1,750
<i>Bills payable given to suppliers</i>	13,500
<i>Credit balance in Debtors ledger on 30.4.2012</i>	2,600

(8 Marks)

- (b) X, who keeps books by single entry, had submitted his income-tax returns to income-tax authorities showing his incomes to be as follows:

	₹
Year ending March 31, 2007	6,615
Year ending March 31, 2008	6,660
Year ending March 31, 2009	7,083
Year ending March 31, 2010	12,375
Year ending March 31, 2011	10,926
Year ending March 31, 2012	8,334

The Income-tax officer is not satisfied as to the accuracy of the incomes returned. You are appointed as a consultant to assist in establishing correctness of the incomes returned and for that purpose you are given the following information:

- (a) Business liabilities and assets at March 31, 2006 were:
 Creditors: ₹ 6,588, Furniture & Fittings: ₹ 4,500 Stock: ₹ 4,878 (at selling price which is 25% above cost), Debtors: ₹ 2,205 Cash at Bank and in hand ₹3,123.
- (b) X owed his brother ₹ 3,600 on March 31, 2006. On February 15, 2009 he repaid this amount and on April 1, 2011, he lent his brother ₹ 2,700.
- (c) X owns a house which he purchased in 2001 for ₹ 18,000 and a car which he purchased in October, 2007 for ₹ 6,750. In January, 2011, he bought

debentures in Shiv Ltd. having face value of ₹ 8,000 for ₹ 6,750.

- (d) In May, 2011 a sum of ₹ 2,700 was stolen from his house.
- (e) X estimates that his living expenses have been 2006-07 – ₹ 2,700; 2007-08 – ₹ 3,600; 2008-09 – ₹ 5,400; 2009-10, 2010-11 and 2011-12 – ₹ 6,300 p.a. exclusive of the amount stolen.
- (f) On March 31, 2012 business liabilities and assets were: Creditors ₹ 7,560, Furniture, Fixtures and Fittings ₹ 8,100, Stock ₹ 10,866 (at selling price with a gross profit of 25%), Debtors ₹ 5,328, Cash-in-Hand and at Bank ₹ 5,805.

From the information submitted, prepare statements showing whether or not the incomes declared by X are correct. (8 Marks)

7. (a) Mr. Hari purchased a machine on hire-purchase system, ₹ 90,000 being paid on delivery and the balance in five instalments of ₹ 1,80,000 each, payable annually on 31st December. The cash price of the machine was ₹ 9,00,000. Compute the amount of interest for each year.
- (b) Puri Ltd. had made rights issue of shares in 2009. In the offer document to its members, it had projected a surplus of ₹ 18 crores during the accounting year to end on 31st March, 2012. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of ₹ 10 crores. The board in consultation with the managing director, decided on the following:
- (i) Value year-end inventory at works cost (₹ 50 crores) instead of the hitherto method of valuation of inventory at prime cost (₹ 30 crores).
 - (ii) Provide depreciation for the year on straight line basis on account of substantial additions in gross block during the year, instead of on the reducing balance method, which was hitherto adopted. As a consequence, the charge for depreciation at ₹ 27 crores is lower than the amount of ₹ 45 crores which would have been provided had the old method been followed, by ₹ 18 crores.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2010-2011.

- (c) Kumar Co. (P) Ltd. furnishes you the following information for the year ended 31.3.2012:

Depreciation for the year ended 31.3.2012 (under straight line method)	₹ 150 lakhs
Depreciation for the year ended 31.3.2012 (under written down value method)	₹ 300 lakhs
Excess of depreciation for the earlier years calculated under written down value method over straight line method	₹ 750 lakhs

The Company wants to change its method of claiming depreciation from straight line method to written down value method.

Decide, how the depreciation should be disclosed in the Financial Statement for the year ended 31.3.2012.

- (d) A company sold 25% of the goods on cash basis and the balance on credit basis. Debtors are allowed 2 months credit and their balance as on 31.3.2012 is ₹ 1,40,000. Assume that the sale is uniform through out the year. Calculate the total sales of the company for the year ended 31.3.2012.
- (e) A company lodged a claim to insurance company for ₹ 1,00,000 in September, 2011. The claim was settled in February, 2012 for ₹ 70,000. How will you record the short fall in claim settlement in the books of the company. *(4 Marks each)*