

MOCK TEST PAPER - 1
INTERMEDIATE (IPC): GROUP – I
PAPER – 1: ACCOUNTING
SUGGESTED ANSWERS/HINTS

1. (a) Average sales per month = $\frac{7,20,000}{12 \text{ months}} = ₹ 60,000$

Sales for the month of

		₹
January, 2012	(2 x ₹ 60,000)	1,20,000
February, 2012	(1 x ₹ 60,000)	60,000
May, 2012	($\frac{1}{4}$ x ₹ 60,000)	15,000
June, 2012	($\frac{1}{4}$ x ₹ 60,000)	15,000
July, 2012	($\frac{1}{4}$ x ₹ 60,000)	15,000
August, 2012	($\frac{1}{4}$ x ₹ 60,000)	15,000
October, 2012	(3 x ₹ 60,000)	1,80,000
November, 2012	(3 x ₹ 60,000)	1,80,000
Total sales for 8 months		6,00,000

Sales for the remaining 4 months = ₹ 7,20,000 – ₹ 6,00,000
= ₹ 1,20,000

Average sales for the remaining 4 months = $\frac{1,20,000}{4} = ₹ 30,000$.

Sales for pre-incorporation period:

January, 2012	₹1,20,000
February, 2012	₹ 60,000
March, 2012	₹30,000
	₹ 2,10,000

Sales for post-incorporation period = ₹ 7,20,000 – ₹ 2,10,000 = ₹ 5,10,000

Sales ratio of pre-incorporation to post-incorporation period = 7: 17

- (b) As per AS 13 'Accounting for Investments', for investment in shares - if the investment is purchased with an intention to hold for short-term period then it will be shown at the realizable value of ₹ 4,50,000 as on 31st March, 2013.

If equity shares are acquired with an intention to hold for long term period then it will continue to be shown at cost in the Balance Sheet of the company. However, provision for diminution shall be made to recognize a permanent decline, in the value of the investments for ₹ 50,000.

As per the standard, investment acquired for long term period shall be shown at cost. Gold and silver are generally purchased with an intention to hold it for long term period until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 1st March, 2010) shall continue to be shown at cost as on 31st March, 2013 i.e., ₹ 8,00,000 and ₹ 4,00,000 respectively, though their realizable values have been increased. Disclosure should be made for the policies adopted for valuation of investment.

- (c) "Small and Medium Sized Company" (SMC) means, a company-
- (i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
 - (ii) which is not a bank, financial institution or an insurance company;
 - (iii) whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;
 - (iv) which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and
 - (v) which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Explanation: For the purposes of Clause 2(f) of the Companies (Accounting Standards) Rules, 2006 a company shall qualify as a Small and Medium Sized Company, if the conditions mentioned above are satisfied as at the end of the relevant accounting period.

- (d) X Ltd.

Cash Flow Statement for the year ended 31st March, 2013

(Using the direct method)

	₹ 000s	₹ 000s
<u>Cash flows from operating activities</u>		
Cash receipts from customers	2,450	
Cash payment to suppliers & employees	<u>(2,300)</u>	

(2,000 + 300)		
Cash generated from operations	150	
Income tax paid	<u>(150)</u>	
Net cash from operating activities		-
<u>Cash flows from investing activities</u>		
Payment for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	<u>100</u>	
Net cash used in investing activities		(100)
<u>Cash flows from financing activities</u>		
Proceeds from issuance of equity shares	300	
Dividend paid	<u>(100)</u>	
Net cash used in financing activities		<u>200</u>
Net increase in cash		100
Cash at the beginning of the period		<u>50</u>
Cash at the end of the period		<u>150</u>

2. (a) Statement of Affairs as on 1st April, 2012

	₹		₹
Creditors	45,000	Cash in Hand	1,750
Bills Payable	5,000	Cash at Bank	20,000
Capital (bal.fig.)	2,05,250	Bills Receivable	15,000
		Stock	93,500
		Debtors	60,000
		Furniture and Fittings	<u>65,000</u>
	<u>2,55,250</u>		<u>2,55,250</u>

Statement of Affairs as on 31st March, 2013

Liabilities	₹	Assets	₹	₹
Creditors	31,000	Cash in Hand		1,400
Bank Overdraft	1,800	Bills Receivable		25,000
Capital (bal.fig.)	2,17,300	Stock		98,700
		Debtors	70,000	
		Less: Provision for doubtful debts	<u>(3,500)</u>	66,500
		Furniture and fittings	65,000	

	<u>2,50,100</u>	Less: Depreciation	<u>(6,500)</u>	<u>58,500</u>
				<u>2,50,100</u>

Statement of Profit

	₹
Capital as on 31 st March, 2013	2,17,300
Add: Drawings (₹ 5,000 x 12)	<u>60,000</u>
	2,77,300
Less: Additional capital	<u>(10,000)</u>
	2,67,300
Less: Capital as on 1 st April, 2012	<u>(2,05,250)</u>
Profits during the year	<u>62,050</u>

(b) Calculation of number of days from base date

Transaction date	Due date	Amount ₹	No. of days from Base date (Base date 19.6.2013)	Product
8.3.2013	11.7.2013	4,000	22	88,000
16.3.2013	19.6.2013	5,000	0	0
7.4.2013	10.9.2013	6,000	83	4,98,000
17.5.2013	20.8.2013	<u>5,000</u>	62	<u>3,10,000</u>
		<u>20,000</u>		<u>8,96,000</u>

$$\begin{aligned}
 \text{Average due date} &= \text{Base date} + \frac{\text{Total of Product}}{\text{Total of Amount}} \\
 &= 19.6.2013 + ₹ 8,96,000 / ₹ 20,000 \\
 &= 19.6.2013 + 44.8 \text{ days (or 45 days approximately)} \\
 &= 3.8.2013
 \end{aligned}$$

M wants to earn interest of ₹ 150.

The yearly interest is ₹ 20,000 × 18% = ₹ 3,600.

Assume that days corresponding to interest of ₹ 150 are Y.

Then, 3,600 × Y/365 = ₹ 150

or Y = 150 × 365/3,600 = 15.2 days or 15 days (Approx.)

Hence, if M wants to save ₹ 150 by way of interest, he should prepone the payment of amount involved by 15 days from the Average Due Date. Hence, he should make the payment on 19.7.2013 (i.e. 03.08.2013 less 15 days).

3.

Revaluation Account

Particulars	₹	Particulars	₹
To Stock	9,000	By Provision for doubtful debts	225
To Furniture & fixtures	1,650	By Land & buildings	22,500
To Provision for doubtful B/R (33,000 x 5%)	1,650	By Mr. X (Debtor)	975
To Unaccrued incomes	1,275		
To Workmen compensation claim	225		
To Profit on revaluation t/f to:			
P's capital A/c	7,425		
T's capital A/c	<u>2,475</u>		
	<u>23,700</u>		<u>23,700</u>

Capital Accounts of Partners

Particulars	P ₹	T ₹	O ₹	Particulars	P ₹	T ₹	O ₹
To P's Capital A/c	-	-	22,500	By Balance b/d	1,10,700	96,900	-
To T's Capital A/c	-	-	7,500	By Revaluation A/c	7,425	2,475	-
To Balance c/d	1,46,250	1,08,750	30,000	By P & L A/c	3,375	1,125	-
				By General Reserve	1,125	375	-
				By Contingency reserve	1,125	375	-
				By Bank A/c	-	-	60,000
				By O's Capital A/c	<u>22,500</u>	<u>7,500</u>	
	<u>1,46,250</u>	<u>1,08,750</u>	<u>60,000</u>		<u>1,46,250</u>	<u>1,08,750</u>	<u>60,000</u>
To T's Current A/c		48,750		By Balance b/d	1,46,250	1,08,750	30,000
To Balance c/d	1,80,000	60,000	60,000	By P's Current A/c	33,750	-	30,000
	<u>1,80,000</u>	<u>1,08,750</u>	<u>60,000</u>		<u>1,80,000</u>	<u>1,08,750</u>	<u>60,000</u>

Balance Sheet of New Firm as on 31st March, 2013

Liabilities	₹	Assets	₹	₹
Sundry creditors	60,000	Cash at bank		65,250

Employees' provident fund	6,150	(5,250+60,000)		
Unaccrued incomes	1,275	Bills receivable	33,000	
Workmen compensation claim	225	Less: Provision	<u>(1,650)</u>	31,350
P's capital	1,80,000	Debtors	25,500	
T's capital	60,000	Less: Provision	<u>(1,275)</u>	24,225
O's capital	60,000	Mr. X		975
		Stock		81,000
		(₹ 90,000 – ₹ 9,000)		
T's current A/c	48,750	Furniture & fixtures		14,850
		(₹ 16,500 – ₹ 1,650)		
		Land & buildings		1,35,000
		(₹ 1,12,500+ ₹ 22,500)		
		P's current A/c		33,750
		O's current A/c		<u>30,000</u>
	<u>4,16,400</u>			<u>4,16,400</u>

Working Notes:

1. Calculation of sacrificing ratio

$$P = \frac{3}{4} - \frac{3}{5} = \frac{15-12}{20} = \frac{3}{20}$$

$$T = \frac{1}{4} - \frac{1}{5} = \frac{5-4}{20} = \frac{1}{20}$$

Therefore sacrificing ratio of P & T = 3:1

2. Calculation of goodwill

Total profits of last three completed years = ₹ 45,000 + ₹ 60,000 + ₹ 75,000
= ₹ 1,80,000

Average profits of last three completed years = ₹ 1,80,000/3 = ₹ 60,000

Goodwill of the firm = ₹ 60,000 × 2½ = ₹ 1,50,000

Incoming partner's share of Goodwill = ₹ 1,50,000 × 1/5 = ₹ 30,000

Shared by P & T in 3:1 = ₹ 22,500 : ₹ 7,500

3. Total capital of the firm by taking capital of 'O' as base = ₹ 60,000 × 5 = 3,00,000

P's new capital = ₹ 3,00,000 × 3/5 = ₹ 1,80,000

T's new capital = ₹ 3,00,000 × 1/5 = ₹ 60,000

4. (a)

In the books of Ms. Priya
Investment Account
for the year ended 31st March, 2013
(Scrip: Equity Shares of TELCO Ltd.)

Date	Particulars	Nominal Value (₹)	Cost (₹)	Date	Particulars	Nominal Value (₹)	Cost (₹)
1.4.2012	To Bank A/c	2,00,000	2,46,000	31.3.2013	By Bank A/c	1,00,000	88,200
31.1.2013	To Bonus shares	1,00,000	—	31.3.2013	By Balance c/d	2,00,000	1,64,000
31.3.2013	To Profit & loss A/c (W.N.(iii))	—	6,200				
		<u>3,00,000</u>	<u>2,52,200</u>			<u>3,00,000</u>	<u>2,52,200</u>

Working Notes:

- (i) Cost of equity shares purchased on 1.4.2012 = $2,000 \times ₹ 120 + 2\%$ of ₹ 2,40,000 + $\frac{1}{2}\%$ of ₹ 2,40,000 = ₹ 2,46,000
- (ii) Sale proceeds of equity shares(bonus) sold on 31st March, 2013 = $1,000 \times ₹ 90 - 2\%$ of ₹ 90,000 = ₹ 88,200.
- (iii) Profit on sale of bonus shares on 31st March, 2013
- = Sales proceeds – Average cost
- Sales proceeds = ₹ 88,200
- Average cost = ₹ $(2,46,000 \times 1,00,000)/3,00,000$
- = ₹ 82,000
- Profit = ₹ 88,200 – ₹ 82,000 = ₹ 6,200.
- (iv) Valuation of equity shares on 31st March, 2013
- Cost = $(₹ 2,46,000 \times 2,00,000)/3,00,000 = ₹ 1,64,000$
- Market Value = 2,000 shares $\times ₹ 90 = ₹ 1,80,000$
- Closing balance has been valued at ₹ 1,64,000 being lower than the market value.
- (b) Difference between any two successive instalments represents the least amount of interest charged in the last year i.e. ₹ 4,43,800 – ₹ 4,12,100 = ₹ 31,700.
- Thus, interest for the 3rd year = Least amount of interest $\times 2$
- i.e. ₹ 31,700 $\times 2 = ₹ 63,400$.
- Thus, interest for the 2nd year = ₹ 31,700 $\times 3 = ₹ 95,100$
- Thus, interest for the 1st year = ₹ 31,700 $\times 4 = ₹ 1,26,800$

Thus, allocation of instalment between cash price and interest is as follows:

Year	Instalment (₹)	Interest (₹)	Cash Price (₹)
1	4,43,800	1,26,800	3,17,000
2	4,12,100	95,100	3,17,000
3	3,80,400	63,400	3,17,000
4	3,48,700	31,700	3,17,000
Total	15,85,000	3,17,000	12,68,000

Total cash price = ₹ 12,68,000+ ₹ 3,17,000= ₹ 15,85,000.

5.

Balance Sheet of Vasudha Ltd. as on 31st March, 2012

(After absorption)

		Particulars	Note No.	Amount
				₹
1		EQUITY AND LIABILITIES		
		Shareholders' funds		
	(a)	Share capital	1	9,43,300
	(b)	Reserves and Surplus	2	2,72,990
2		Current liabilities		
	(a)	Trade payables (44,400+58,200)		<u>1,02,600</u>
		Total		<u>13,18,890</u>
		ASSETS		
1		Non-current assets		
	(a)	Fixed assets		
	i	Tangible assets	3	3,85,000
	ii	Intangible assets	4	1,00,000
2		Current assets		
	(a)	Inventories(91,500 + 75,000)		1,66,500
	(b)	Trade receivables(2,86,900 + 1,72,900)		4,59,800
	(c)	Cash and cash equivalents(98,000 + 1,09,590)		<u>2,07,590</u>
		Total		<u>13,18,890</u>

Notes to accounts

		₹	₹
1.	Share Capital		
	Equity share capital (54,000 + 40,330) Equity shares of ₹10 each		9,43,300
2.	Reserves and Surplus		
	Profit and Loss A/c	66,000	
	General reserves	86,000	
	Securities Premium A/c (Refer W.N.)	<u>1,20,990</u>	<u>2,72,990</u>
3	Tangible assets		
	Factory building (2,10,000 + 1,75,000)		3,85,000
4.	Intangible assets		
	Goodwill (50,000+50,000)		1,00,000

Working Note:

Computation of shares issued on the basis of intrinsic values

	Vasudha Ltd.	Vaishali Ltd.
	₹	₹
Goodwill	75,000	50,000
Factory building	1,95,000	1,75,000
Trade receivables	2,86,900	1,72,900
Inventory	91,500	(82,500/110%)= 75,000
Cash at Bank	<u>98,000</u>	<u>1,09,590</u>
	7,46,400	5,82,490
Less: Trade payables	<u>(44,400)</u>	<u>(58,200)</u>
Net assets	<u>7,02,000</u>	<u>5,24,290</u>
Number of shares	54,000	40,330
Intrinsic value	₹13	₹13

Hence, Vasudha Ltd. will give its 40,330 shares of ₹10 each @ ₹13 each to Vaishali Ltd.

Discharge of Purchase consideration.

	Share Capital ₹	Securities Premium ₹
40,330 Shares @ ₹ 10 each	4,03,300	
40,330 shares @ ₹ 3 each		1,20,990

6. (a) **Journal Entries**

	₹	₹
Insurance Company Account Dr.	10,82,000	
To Stock Destroyed Account		5,20,000
To Buildings Account		4,73,250
To Equipment Account		88,750
(Amount of claim submitted)		
Bank Account Dr.	10,50,000	
Profit and Loss Account Dr.	32,000	
To Insurance Company Account		10,82,000
(Amount of claim admitted to the extent of ₹ 10,50,000; the balance transferred to profit and loss account)		

Working Notes:

1. **Memorandum Trading Account for the Period from 1.1.2013 to 30.6.2013**

	₹		₹
To Opening Stock (1.1.2013)	3,00,000	By Sales	23,00,000
To Purchases 19,00,000		Less: Sales Returns (80,000)	22,20,000
Less: Returns (25,000)	18,75,000		
To Cartage Inwards	35,000	By Closing Stock (Bal. Fig.)	5,60,000
To Wages	15,000		
To Gross Profit (25% of ₹ 22,20,000)	5,55,000		
	27,80,000		27,80,000

2. **Stock Destroyed Account**

	₹		₹
To Trading Account	5,60,000	By Stock Salvaged Account	40,000
		By Balance c/d (For Claim)	5,20,000
	5,60,000		5,60,000

3. Statement of Claim

Items	Cost (₹)	Depreciation (₹)	Salvage (₹)	Claim (₹)
A	B	C	D	(E=B-C-D)
Stock	5,60,000		40,000	5,20,000
Buildings	7,50,000	2,50,000 + 18,750	8,000	4,73,250
Equipment	1,50,000	45,000 + 11,250	5,000	88,750
				10,82,000

(b)

Sales Ledger

General Ledger Adjustment Account

2013		₹	2013		₹
April 1	To Balance b/d	400	April 1	By Balance b/d	3,500
April 2	To Sales Ledger Adjustment A/c	300	April 3	By Sales Ledger Adjustment A/c (Sales)	700
April 30	To " " (P, X & Y)	3,250	April 30	By Sales Ledger Adjustment A/c	4,500
	To " " (A, B, C)	3,750	April 30	By Balance c/d	2,000
	To " " R	2,000			
April 30	To Balance c/d (A, B & P)	<u>1,000</u>			
		<u>10,700</u>			<u>10,700</u>
May 1	To Balance b/d	2,000	May 1	By Balance b/d	1,000

Working Notes :

(i) Opening balance includes the following debts :

	₹
X	500
Y	2,000
P	<u>1,000</u>
	<u>3,500</u>

(ii) Opening debit balance ₹ 400, is advance from T.

(iii) Closing debit balance represents advance from R ₹ 2,000.

(iv) Closing balance of ₹ 1,000 includes the following debts :

	₹
A	250
B	500
P	250
	<u>1,000</u>

7. (a) Revenue recognition is mainly concerned with the timing of recognition of revenue in the profit and loss account. Where there is no uncertainty as to ultimate collection, revenue is recognised at the time of sale or rendering of services, as the case may be even though payments are made by installments. The amount of revenue is usually determined by agreement between the parties to the transaction.

It may be appropriate to recognize revenue only when it is reasonably certain that the ultimate collection will be made.

In the given case, Omega company wants to suddenly recognize Insurance claim because it has increased over the previous year. But, there are uncertainties involved in the settlement of the claim. Also, the claim does not seem to be in the course of ordinary activity of the company.

Hence, Omega company is not advised to recognize the Insurance claim as revenue as per AS 9.

- (b) Limitations of setting of accounting standards:

- (i) *Difficulties in making choice between different treatments:* Alternative solutions to certain accounting problems may each have arguments to recommend them. Therefore, the choice between different alternative accounting treatments may become difficult.
- (ii) *Lack of flexibilities:* There may be a trend towards rigidity and away from flexibility in applying the accounting standards.
- (iii) *Restricted scope:* Accounting standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.

- (c) **Income and Expenditure Account**

for the year ended 31st March, 2011 (An Extract)

		<i>Income</i>	₹
		Subscriptions (₹ 3,600 x 200 members)	7,20,000

Balance Sheet as on 31st March, 2011 (An Extract)

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Subscription received in advance	7,200	Subscription in arrear:	
		For 2009-10 3,600	
		For 2010-11 <u>21,600</u>	25,200

Working Note:

Subscription due for 2010-11 (₹ 3,600 x 200) ₹ 7,20,000

Subscription received for 2010-11	₹ 6,98,400
Subscription in arrear for 2010-11	21,600

- (d) Choice of ERP software depends upon the following factors:
1. **Functional requirement of the organisation:** The ERP that matches most of the requirements of an organisation is preferred over the others.
 2. **Reports available in the ERP:** The organisation visualises the reporting requirements and chooses a vendor which fulfils its reporting requirements.
 3. **Background of the vendors:** The service and deliverable record of a vendor is extremely important in choosing the vendor.
 4. **Cost comparisons:** The budget constraints and fund position of an enterprise often becomes the deciding factor for choosing a particular package.
- (e) According to AS 6, 'Depreciation Accounting', depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable assets arising from use, effluxion of time or obsolescence through technology and market changes. Accordingly, depreciation may arise even the asset is not used in the current year but was ready for use in that year.

The need for using the stand by bus may not have arisen during the year but that does not imply that the useful life of the bus has not been affected. Therefore, non-provision of depreciation on the ground that the bus was not used during the year is not tenable.