Test Series: March, 2018

MOCK TEST PAPER

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) Mohan Ltd. has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site.

The following incremental costs will be incurred:

Setup costs of ₹ 5,00,000 to install machinery in the new location.

Rent of ₹ 15,00,000

Removal costs of ₹ 3,00,000 to transport the machinery from the old location to the temporary location.

Mohan Ltd. wants to seek your guidance as whether these costs can be capitalized into the cost of the new building. You are required to advise in line with AS 10 "Property, Plant and Equipment".

(b) X Ltd. negotiates with Bharat Petroleum Corporation Ltd (BPCL), for construction of "Franchise Retail Petrol Outlet Stations". Based on proposals submitted to different "Zonal offices of BPCL, the final approval for one outlet each in Zone A, Zone B, Zone C, Zone D, is awarded to X Ltd. Agreement (in single document) is entered into with BPCL for ₹ 490 lakhs. The agreement lays down values for each of the four outlets (₹ 88 + 132 + 160 + 110 lakhs) in addition to individual completion time. Comment whether X Ltd., will treat it as a single contract or four separate contracts.

(c) On the basis of information given below, find the value of inventory (by periodic inventory method) as per AS 2, to be considered while preparing the Balance Sheet as on 31st March, 2017 on weighted Average Basis.

Details of Purchases:

Date of purchase	Unit (Nos.)	Purchase cost per unit (₹)
01-03-2017	20	108
08-03-2017	15	107
17-03-2017	30	109
25-03-2017	15	107

Details of issue of Inventory:

Date of Issue	Unit (Nos.)
03-03-2017	10
12-03-2017	20
18-03-2017	10
24-03-2017	20

Net realizable value of inventory as on 31st March, 2017 is ₹ 107.75 per unit. What will be the value of Inventory as per AS 2?

(d) M/s X& Co. (a partnership firm), had a turnover of ₹ 1.25 crores (excluding other income) and borrowings of ₹ 0.95 crores in the previous year. It wants to avail the exemptions available in application of Accounting Standards to non-corporate entities for the year ended 31.3.2016. Advise the management of M/s X & Co in respect of the exemptions of provisions of ASs, as per the directive issued by the ICAI. ***(4 x 5 Marks = 20 Marks)***

2. (a) Meera carried out the following transactions in the shares of Kumar Ltd.:

(1) On 1st April, 2017 she purchased 40,000 equity shares of ₹ 1 each fully paid up for ₹ 60,000.

(2) On 15th May 2017, Meera sold 8,000 shares for ₹ 15,200.

(3) At a meeting on 15th June 2017, the company decided:

(i) To make a bonus issue of one fully paid up share for every four shares held on 1st June 2017, and

(ii) To give its members the right to apply for one share for every five shares held on 1st June 2017 at a price of ₹ 1.50 per share of which 75 paise is payable on or before 15th July 2017 and the balance, 75 paise per share, on or before 15th September, 2017.

The shares issued under (i) and (ii) were not to rank for dividend for the year ending 31st December 2017.

(a) Meera received her bonus shares and took up 4000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30th September 2017.

(b) On 15th March 2018, she received a dividend from Kumar Ltd. of 15 per cent in respect of the year ended 31st Dec 2017.

(c) On 30th March she received ₹ 28,000 from the sale of 20,000 shares.

You are required to record these transactions in the Investment Account in Meera's books for the year ended 31st March 2018 transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis.

Expenses and tax to be ignored.

(b) Krishan bought 2 cars from 'Fair Value Motors Pvt. Ltd. on 1.4.2015 on the following terms(for both cars):

Down payment	6,00,000
1st Installment at the end of first year	4,20,000
2nd Installment at the end of 2nd year	4,90,000
3rd Installment at the end of 3rd year	5,50,000

Interest is charged at 10% p.a.

Krishan provides depreciation @ 25% on the diminishing balances.

On 31.3.2018 Krishan failed to pay the 3rd installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Krishan agreed to leave one car with Fair Value Motors Pvt. Ltd. and adjusted the value of the car against the amount due. The car taken over was valued on the basis of 40% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Krishan after 3 months with interest @ 20% p.a.

You are required to:

(i) Calculate the cash price of the cars and the interest paid with each installment.

(ii) Prepare Car Account in the books of Krishan assuming books are closed on March 31, every year. Figures may be rounded off to the nearest rupee. ***(8+ 8 = 16 Marks)***

3. The accountant of Tiger Club gave the following information about the receipts and payments of the club for the year ended 31st March, 2017:

Receipts:	₹
Subscriptions	1,24,260
Fair receipts	14,400
Variety show receipts (net)	25,620
Interest	1,380
Bar collections	44,700
Payments:	
Premises	60,000
Rent	4,800
Rates and taxes	7,560
Printing and stationary	2,820
Sundry expenses	10,700
Wages	5,040
Fair expenses	14,340
Honorarium to secretary	22,000
Bar purchases (payments)	34,620
Repairs	1,920
New car (less proceeds of old car ₹ 18,000)	75,600

The following additional information could be obtained:-

	1.4.2016	31.3.2017
	₹	₹
Cash in hand	900	Nil
Bank balance as per cash-book	48,840	20,700
Cheque issued for sundry expenses not presented to the bank (entry has been duly made in the cash book)	540	180
Subscriptions due	7,200	5,880
Premises (at cost)	1,74,000	2,34,000
Provision for depreciation on premises	1,12,800	-
Car (at cost)	73,140	93,600
Accumulated depreciation on car	61,740	-
Bar inventory	4,260	5,220
Creditors for bar purchases	3,540	2,580

Annual honorarium of secretary is ₹ 24,000. Depreciation on premises is to be provided at 5% on written down value. Depreciation on new car is to be provided at 20%.

You are required to prepare the Receipts and Payments Account and Income and Expenditure Account of Tiger Club for the year ended 31.3.2017. ***(16 Marks)***

4. The following is the summarized Balance Sheet of Weak Ltd. as on 31.3.2017:

Liabilities	₹	Assets	₹
Equity shares of ₹ 100 each	1,00,00,000	Fixed assets	1,25,00,000
12% cumulative preference shares of ₹ 100 each	50,00,000	Investments (Market value ₹ 9,50,000)	10,00,000
10% debentures of ₹ 100 each	40,00,000	Current assets	1,00,00,000
Trade payables	50,00,000	P & L A/c	6,00,000
Provision for taxation	1,00,000		
	2,41,00,000		2,41,00,000

The following scheme of reorganization is sanctioned:

(i) All the existing equity shares are reduced to ₹ 40 each.

(ii) All preference shares are reduced to ₹ 60 each.

(iii) The rate of interest on debentures is increased to 12%. The debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.

(iv) One of the creditors of the company to whom the company owes ₹ 20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of ₹ 40 each in full satisfaction of his claim.

(v) Fixed assets are to be written down by 30%.

(vi) Current assets are to be revalued at ₹ 45,00,000.

(vii) The taxation liability of the company is settled at ₹ 1,50,000.

(viii) Investments to be brought to their market value.

(ix) It is decided to write off the debit balance of Profit and Loss account.

You are required to pass Journal entries and show the Balance sheet of the company after giving effect to the above. ***(16 Marks)***

5 (a) A trader's godown caught fire on 29th August, 2017, and a large part of the stock of goods was destroyed. However, goods costing ₹ 54,000 could be salvaged incurring fire fighting expenses amounting to ₹ 2,350.

The trader provides you the following additional information:

	₹
Cost of stock on 1st April, 2016	3,55,250
Cost of stock on 31st March, 2017	3,95,050
Purchases during the year ended 31st March, 2017	28,39,800
Purchases from 1st April, 2017 to the date of fire	16,55,350
Cost of goods distributed as samples for advertising from 1st April, 2017 to the date of fire	20,500
Cost of goods withdrawn by trader for personal use from 1st April, 2017 to the date of fire	1,000
Sales for the year ended 31st March, 2017	40,00,000
Sales from 1st April, 2017 to the date of fire	22,68,000

The insurance company also admitted firefighting expenses. The trader had taken the fire insurance policy for ₹ 4,50,000 with an average clause.

Calculate the amount of the claim that will be admitted by the insurance company.

(b) A business concern maintains self-balancing ledgers. On the basis of following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of April, 2017:

	(₹)
Debit balances in Debtors Ledger on 01-04-2017	1,79,100
Credit balances in Debtors Ledger on 01-04-2017	4,700
Transactions during the month of April, 2017 are:	
Total Sales (including Cash Sales, ₹ 50,000)	10,47,700
Sales Returns	16,550
Cash received from debtors	8,62,850
Bills Receivable received from debtors	47,500
Bills Receivable dishonoured	3,750
Cash paid to debtors for returns	3,000
Transfers to Creditors Ledger	8,000
Credit balances in Debtors Ledger on 30-04-2017	4,900

(10+6 = 16 marks)

6. Anuj, Ayush and Piyush are in partnership sharing profits and losses in the ratio 2 : 2 : 1. Their Balance Sheet as on 31.3 .2017 is as follows:

Liabilities	₹	₹	*Assets*	₹
Capital accounts:			Fixed assets:	
Anuj	3,75,000		Plant	7,87,000
Ayush	2,80,000		Current assets:	
Piyush	2,25,000	8,80,000	Stock	1,03,000
General Reserve		1,88,000	Debtors	1,56,000
Creditors		2,16,000	Bank FD	2,25,000
			Bank balance	13,000
		12,84,000		12,84,000

Anuj decided to retire with effect from 1.4.2017.

The remaining partners agreed to share profits and losses equally in future.

The following adjustments were agreed to be made upon retirement of Anuj.

(i) Goodwill was to be valued at 1 year purchase of the average profits of the preceding 3 years on the date of retirement.

The average profits of the past 3 years were as follows:

Year ended	₹	
31.3.2017	3,30,000	(as per draft accounts)
31.3.2016	2,32,000	
31.3.2015	2,20,000	

The partners decided not to raise goodwill account in the books.

(ii) The assets were revalued as follows:

Plant to be depreciated by 10%

Creditors amounting to ₹ 10,000 were omitted to be recorded;

₹ 6,000 is to be written off from stock;

Provision for doubtful debts to be created @ 5% of the debtors;

Interest accrued on FD amounting to ₹ 9,000 was omitted to be recorded.

The above adjustments were to be made from the profit for the year ended 31.3.2017 before calculation of goodwill.

(iii) Anuj agreed to take over the bank FD including interest accrued thereon in part payment of his dues and the balance would remain as a loan, carrying interest of 8% p.a.

(iv) Ayush and Piyush agreed to bring in sufficient cash to make their capital proportionate and maintain a bank balance of ₹ 1,50,000.

You are required to prepare

(I) Capital accounts of partners as on 1.4.2017 giving effect to the above adjustments.

(2) Balance Sheet as on 1.4.2017 after Anuj's retirement. ***(16 Marks)***

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

(a) State under which head the following 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.

(viii) Cash equivalents.

(b) The Board of Directors of X Ltd. decided on 31.3.2017 to increase sale price of certain items of goods sold retrospectively from 1st January, 2017. As a result of this decision the company has to receive ₹ 5 lakhs from its customers in respect of sales made from 1.1.2017 to 31.3.2017. But the Company's Accountant was reluctant to make-up his mind.

You are asked to offer your suggestion in line with AS 9.

(c) Classify the following activities as (i) Operating Activities, (ii) Investing Activities, (iii) Financing Activities:

a. Purchase of Machinery.

b. Proceeds from issuance of equity share capital

c. Cash Sales.

d. Proceeds from long-term borrowings.

e. Proceeds from Trade receivables.

f. Cash receipts from Trade receivables.

g. Trading Commission received.

h. Purchase of investment.

i. Redemption of Preference Shares.

j. Cash Purchases.

k. Proceeds from sale of investment

l. Purchase of fixed asset.

m. Cash paid to suppliers.

n. Interim Dividend paid on equity shares.

o. Wages and salaries paid.

p. Proceed from sale of patents.

(d) Harish has the following bills due on different dates:

(i) ₹ 5,000 due on 5.3.2017

(ii) ₹ 7,500 due on 7.4.2017

(iii) ₹ 6,000 due on 17.7.2017

(iv) ₹ 8,000 due on 14.9.2017

It was agreed to settle the total amount due by a single cheque payment. Find the date on which the payment can be settled by single cheque.

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

Balance Sheet (Extract) as on 31st March, 2017

Liabilities	*₹*
Issued and subscribed capital:	
20,000, 14% preference shares of ₹ 100 each fully paid	20,00,000
1,20,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	96,00,000
Capital reserves (₹ 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)	15,00,000

You are required to compute Effective Capital as per the provisions of Schedule V to Companies Act, 2013. ***(4 x 4 Marks =16 Marks)***