Test Series: February, 2014

MOCK TEST PAPER – 1

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) Classify the following activities as (1) Operating Activities, (2) Investing Activities, (3) Financing Activities as per AS 3:

   a. Purchase of Machinery.

   b. Proceeds from issuance of equity share capital.

   c. Cash Sales.

   d. Proceeds from long-term borrowings.

   e. Proceeds from Debtors.

   f. Brokerage paid on purchase of investments.

   (b) On 1st December, 2011, BC Co. Ltd. undertook a contract to construct a building of ₹ 21.25 lakhs. On 31st March, 2012, the company found that it had already spent ₹ 16,24,750 on the construction. Prudent estimate of additional cost for completion was ₹ 8,00,250. What amount should be charged to revenue in the final accounts for the year ended 31st, March, 2012?

   (c) Shyam Restaurant purchased from Rang Ltd. a colour T.V set on 1st October, 2011 on the hire purchase system. The cash price of the set was ₹ 15,000. Term of payment were ₹ 1,150 down and ₹ 4,000 half yearly over two years, the first instalment was to be paid on 31st March, 2012. Rate of interest was 12% p.a. Shyam Restaurant wrote off 15% depreciation p.a. on reducing instalment basis and closed its books every year on 31st March. It could not pay the second instalment due on 30th September, 2012 and as a consequence, Rang Ltd. repossessed the T.V set. Prepare Shyam Restaurant Account in Rang Ltd.'s books of account. Assume that the estimated value of the T.V set at the time of repossession was ₹ 12,000. Also assume Rang Ltd. closes its books of accounts every year on 31st March.

(d) U.S.A Ltd. purchased raw material @ ₹ 400 per kg. Company does not sell raw material but uses in production of finished goods. The finished goods in which raw material is used are expected to be sold at below cost. At the end of the accounting year, company is having 10,000 kg of raw material in stock. As the company never sells the raw material, it does not know the selling price of raw material and hence cannot calculate the realizable value of the raw material for valuation of inventories at the end of the year. However replacement cost of raw material is ₹ 300 per kg. How will you value the inventory of raw material? *(4 x 5 = 20 Marks)*

2. (a) Following is the summarized Balance Sheet of Max Ltd. as at March 31, 2013:

Liabilities	₹	Assets	₹
Share capital:		Goodwill	20,000
Equity shares of ₹ 100 each	15,00,000	Other fixed assets	15,00,000
9% Preference shares of ₹ 100 each	5,00,000	Trade Receivables	6,51,000
General reserve	1,80,000	Inventory	3,93,000
Profit and loss account	-	Cash at bank	26,000
12% Debentures of ₹ 100 each	6,00,000	Own debenture	1,92,000
Trade Payables	4,15,000	(Nominal value 2,00,000)	
		Discount on issue of debentures	2,000
		Profit and loss account	4,11,000
	31,95,000		31,95,000

On 1.4.2013, Max Ltd. adopted the following scheme of reconstruction:

(i) 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.

(ii) Preference dividends are in arrear for 3 years. Preference shareholders agreed to waive 90% of the dividend claim and accept payment for the balance.

(iii) Own debentures of ₹ 80,000 were sold at ₹ 98 cum-interest and remaining own debentures were cancelled.

(iv) Debentureholders of ₹ 2,80,000 agreed to accept one machinery of book value of ₹ 3,00,000 in full settlement.

(v) Trade payables, Trade receivables and Inventories were valued at ₹ 3,50,000, ₹ 5,90,000 and ₹ 3,60,000 respectively. The goodwill, discount on issue of debentures and Profit and Loss (Dr.) are to be written off.

(vi) The Company paid ₹ 15,000 as penalty to avoid capital commitments of ₹ 3,00,000.

You are required to give Journal entries in the books of Max Ltd.

(b) Sumedha Ltd. took a loan from bank for ₹ 10,00,000 to be settled within 5 years in 10 equal half yearly instalments with interest. Normal First instalment is due on 1.6.2013 of ₹ 1,00,000. Determine how the loan will be classified for the purpose of the Financial Statements of Sumedha Ltd. for the year ended 31.3.2013 according to Revised Schedule VI. *(12 + 4 =16 Marks)*

3. (a) Ketan had accepted bills payable to Mitesh as follows:

10th April 2012	₹ 4,000	for 4 months
18th April 2012	₹ 5,000	for 3 months
25th May 2012	₹ 3,000	for 6 months
5th June 2012	₹ 6,000	for 3 months

On 1st July, it was agreed that these bills should be withdrawn and that Ketan should accept on that day two bills, one for ₹ 10,000 due in 4 months and the other for the balance with interest, due in 6 months. Calculate the average due date.

(b) As at 31 March, 2013, the balance on the sales ledger control account of W Ltd. was ₹ 1,56,300, whilst the total of the list of balances on the sales ledger was ₹ 1,51,835. At the same time, the balance on the purchase ledger control account was ₹ 1,70,690. The total of the list of balances on the purchase ledger as at that date was ₹ 1,37,645 - this is after deducting debit balances of ₹ 900 (T Ltd.) and ₹ 16,200 (R Ltd.).

You are also given the following information:

(1) The debit balance on the account of T Ltd. arose as a result of posting a payment of ₹ 4,500 as ₹ 5,400.

(2) The debit balance on the account of R Ltd. represent a payment in advance for goods to be delivered and invoiced in April 2013.

(3) The purchase day book for 29 March 2013 had been incorrectly cast, overcastting the total by ₹ 1,260.

(4) A purchase of ₹ 7,050 from Q had not been posted to Q's account in the purchase ledger.

(5) An invoice received from M Ltd. for ₹ 15,000 had been entered in the purchase day book as ₹ 1,500.

(6) A bad debt of ₹ 3,695 written-off the S Ltd. in the sales ledger had been posted to the purchase ledger control account.

(7) Discount received amounting to ₹ 19,370 had been posted to the relevant accounts in the purchase ledger - but no posting had been made to either the purchase ledger control account or the discount received account.

(8) A contra entry of ₹ 770 between the accounts of Tisco Ltd. in the sales and purchase ledger had not been posted to either the sales ledger control account or the purchase ledger control account.

You are required to :

(a) Prepare a Sales Ledger Control Account Reconciliation and a Purchase Ledger Control Account Reconciliation as at 31 March 2013.

(b) Prepare journal entries required to reflect the information contained in (1) to (8) above. *(6 + 10= 16 Marks)*

4. (a) The premises of X Ltd. caught fire on 22nd January, 2013 and the stock was damaged. The firm made up accounts to 31st March each year and on 31st March, 2012 the stock at cost was ₹ 13,27,200 as against ₹ 9,62,200 on 31st March 2011.

Purchases from 1st April, 2012 to the date of fire were ₹ 34,82,700 as against ₹ 45,25,000 for the full year 2011-2012 and the corresponding sales figure were ₹ 49,17,000 and ₹ 52,00,000 respectively.

You are given the following further information:

(i) In July, 2012, goods costing ₹ 1,00,000 were given away for advertising purposes, no entries being made in the books.

(ii) During 2012-2013 a clerk misappropriated unrecorded cash sales. It is estimated that the defalcation averaged ₹ 2,000 per week from 1st April, 2012 until the clerk was dismissed on 18th August, 2012.

(iii) The rate of gross profit is constant.

From the above information, make an estimate of the stock in hand on the date of fire.

(b) Agra Company, incorporated on 1st April, 2013, took over running business from 1st January, 2013. The company prepares its first final accounts on 31st December, 2013. From the following information, you are required to calculate the sales ratio of pre-incorporation and post-incorporation periods:

1. Sales for January, 2013 to December, 2013 is ₹ 7,20,000,

2. The sales for the month of January is twice of the average sales; for the month of February it is equal to average sales, sales for four months from May to August is 1/4 of the average of each month; and sales for October and November is three times the average sales. *(8+8=16 Marks)*

5. The Balance Sheet of P and T who share profits & losses in the ratio of 3 : 1 as at 31st March, 2013 was as follows:

Liabilities	₹	Assets	₹	₹
Sundry creditors	60,000	Cash at bank		5,250
Employee's provident fund	6,150	Bills receivable		33,000
Profit and loss account	4,500	Debtors	25,500	
Contingency reserve	1,500	Less: Provision	1,500	24,000
General reserve	1,500	Stock		90,000
P's capital	1,10,700	Furniture and fixtures		16,500
T's capital	96,900	Land & building		1,12,500
	2,81,250			2,81,250

On 31st March, 2013, O was admitted into partnership on the following terms:

(a) The new profit sharing ratio of P, T and O will be 3 : 1 : 1.

(b) Goodwill of the firm was to be valued at two and half years' purchase of the average profits of the last three completed years. The profits were 2008-09 - ₹ 30,000, 2009-10 - ₹ 45,000, 2010-11 - ₹ 60,000, 2011-12 - ₹ 75,000, 2012-13 - ₹ 90,000.

(c) The stock was found overvalued by ₹ 9,000. Fixtures are to be brought down to ₹ 14,850. Provision for doubtful debts is to be made up to 5% on the debtors and bills receivable. Land & building was found undervalued by ₹ 22,500.

(d) The unaccrued income is ₹ 1,275.

(e) A claim on account of workmen's compensation for ₹ 225 to be provided for.

(f) Mr. X, an old customer whose account for ₹ 1,500 was written off as bad has promised in writing to pay 65% in settlement of his full debt.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of a new firm when O pays ₹ 60,000 as his capital but is unable to bring in any cash for his share of goodwill. No account for goodwill should remain in the books of new firm. The capitals of all partners will be in the same ratio as profit sharing ratio taking original capital of "O" as basis. The necessary adjustment should be made through current accounts. *(16 Marks)*

6. Mr. Hemant had ₹ 1,65,000 in the bank account on 1.1.2012 when he started his business. He closed his accounts on 31st March, 2013. His single entry books (in which he did not maintain any account for the bank) showed his position as follows:

	31.3.2012 ₹	*31.3.2013* ₹
Cash in hand	1,100	1,650
Stock in trade	10,450	15,950
Debtors	550	1,100
Creditors	2,750	1,650

On and from 1.2.2012, he began drawings ₹ 385 per month for his personal expenses from the cash box of the business. His account with the bank had the following entries:

	Deposits ₹	*Withdrawals* ₹
1.1.2012	1,65,000	-
1.1.2012 to 31.3.2012		1,22,650
1.4.2012 to 31.3.2013	1,26,500	1,48,500

The above withdrawals included payment by cheque of ₹ 1,10,000 and ₹ 33,000 respectively during the period from 1.1.2012 to 31.3.2012 and from 1.4.2012 to 31.3.2013 respectively for the purchase of machineries for the business. The deposits after 1.1.2012 consisted wholly of sale price received from the customers by cheques.

Draw up Mr. Hemant's statement of affairs as at 31.3.2012 and 31.3.2013 respectively and work out his profit or loss for the year ended 31.3.2013. *(16 marks)*

7. Answer any four of the following:

(a) An item of machinery was purchased on 1-4-2011 for ₹ 2,00,000. The WDV depreciation rate applicable to the machinery was 15%. The written down value of the machinery as on 31-3-2013 was ₹ 1,44,500. On 1-4-2013, the enterprise decided to change the method from written down value (WDV) to straight line method (SLM). The enterprise decided to write off the book value of ₹ 1,44,500, over the remaining useful life of machinery i.e. 5 years. Out of the total useful life of 7 years, 2 years have already elapsed.

Comment, whether the accounting treatment is correct. If not, give the correct accounting treatment with reasons.

(b) "Recently a growing trend has developed for outsourcing the accounting functions to a third party". Analyse.

(c) X Ltd. sold its building to Mini Ltd. for ₹ 60 lakhs on 30.09.2012 and gave possession of the property to Mini Ltd. However, documentation and legal formalities are pending. Due to this, the company has not recorded the sale and has shown the amount received as an advance. The book value of the building is ₹ 25 lakhs as on 31st March, 2013. Do you agree with this treatment? If you do not agree, explain the reasons with reference to the accounting standard.

(d) Rajkumar Ltd. purchased a machine on 1st January 2006 for ₹ 300 lakhs. The machine was depreciated on straight line basis using a depreciation rate of 10% per annum. On 1-1-2010 the machine was revalued at ₹ 270 lakhs and the same was adopted. What will be the carrying cost of the machinery asset as on 31-12-2011? There is no change in the economic life of the asset.

(e) The details of receipts and payments for the Swaraj Club for the year ended December 31, 2012 were: Entrance fees ₹ 300; Membership Fees ₹ 3,000; Donation for Club Pavilion ₹ 10,000, Foodstuff sales ₹ 1,200; Salaries and Wages ₹ 1,200 Purchase of Foodstuff ₹ 800; Construction of Club Pavilion ₹ 11,000; General Expenses ₹ 600; Rent and Taxes ₹ 400; Bank Charges ₹ 160.

Cash in hand–Jan. 1st ₹ 200, Dec. 31st ₹ 350

Cash in Bank–Jan. 1st ₹ 400; Dec. 31st ₹ 5.

You are require to prepare Receipts and Payment Account for the period.

(4 x 4 =16 Marks)