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Mock Test Paper - Series II: August, 2024

Date of Paper: 16th August, 2024

Time of Paper: 2 P.M. to 5 P.M.

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario

1. Anshul manufacturers purchased 20,000 Kg. of raw material at ₹ 170 per Kg. Direct transit cost incurred ₹ 5,00,000 and normal transit loss is 3%. Anshul manufacturers actually received 19,000 kg of raw material. During the year it consumed 17,600 kg of raw material.

   Further information:

   (i) The purchase price includes ₹ 15 per kg as GST in respect of which full credit is allowed and will be availed by Anshul manufacturers.

   (ii) Assume that there is no opening stock.

   Answer the following questions based on above:

   a. What will be the cost of material:

      (i) ₹ 36,00,000

      (ii) ₹ 34,00,000

      (iii) ₹ 39,00,000

      (iv) ₹ 31,00,000

   b. what will be the value of the closing stock:

      (i) ₹ 1,70,000

      (ii) ₹ 1,85,500

      (iii) ₹ 2,38,000

      (iv) ₹ 2,59,700

   c. What will be the cost per Kg of raw material:

      (i) ₹ 180

      (ii) ₹ 183.6

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(iii) ₹ 185.5

(iv) ₹ 189.4

d. How much amount as abnormal loss will be debited in P&L:

(i) ₹ 72,000 approx

(ii) ₹ 73,440 approx

(iii) ₹ 74,200 appox

(iv) ₹ 75,760 approx

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

2. Aazad Ltd. has the following particulars:

Particulars	**₹ (lacs)**
10% Preference Share Capital (₹ 10 each)	2,500
Equity Share Capital of ₹ 10 each	8,000
Capital Redemption Reserve	1,000
Securities Premium	800
General Reserve	6,000
Profit & Loss A/c	300
Cash	1,650
Investments (Market Value ₹ 1,500 lacs)	3,000

The company decides to redeem all it's preference shares at a premium of 10% and buys back 25% of equity shares @ ₹ 15 per share. Investments amounting to Market Value of ₹ 1,000 lakhs sold at ₹ 3,000 lakhs and raises a bank loan of ₹ 2,000 lakhs.

Answer the following questions based on above:

(a) The amount of Profit/Loss on Sale of Investment is:

(i) ₹ 1,500 lakhs Profit

(ii) ₹ 1,000 lakhs Profit

(iii) ₹ 2,000 lakhs Loss

(iv) ₹ 1,000 lakhs Loss

(b) Securities Premium available for Buyback after redemption of Preference Shares

(i) ₹ 550 lakhs

(ii) ₹ 800 lakhs

(iii) Can't utilize securities premium for buyback

(iv) ₹ 350 lakhs

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(c) Total amount to be transferred to Capital Redemption Reserve:

(i) ₹ 2,000 lakhs

(ii) ₹ 4,500 lakhs

(iii) ₹ 2,500 lakhs

(iv) ₹ 1,750 lakhs

(d) Cash balance after buyback

(i) ₹ 1,150 lakhs

(ii) ₹ 2,200 lakhs

(iii) ₹ 3,250 lakhs

(iv) ₹ 900 lakhs

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

3. On April 1, 2022, Hello Limited approached a software company for implementation of SAP ERP at its organisation. The cost of implementation of SAP ERP is ₹ 25,00,000 and the time required is 15 months. The company was also required to pay ₹ 100,000 annually after implementation for maintenance and normal updation of ERP. The implementation work started in June, 2022 and could not be finished in 15 months. The ERP was implemented on May 2024. Due to delay in implementation the vendor refunded ₹ 2,00,000. The Company recognised the intangible asset 'SAP ERP' on September 2023 (15 months from June 2022). After two years, the Company has got the SAP ERP more upgraded with latest version and additional features and functions which also increased its speed and usage to Hello Limited for ₹ 7,00,000.

(a) On which date the Intangible asset should be recognised:

(i) April 2022 (When it was decided that SAP ERP is to be implemented)

(ii) June 2022 (When the implementation work started)

(iii) September 2023 (When the implementation work should have completed as per agreed terms)

(iv) May 2024 (When the SAP actually got implemented)

(b) At what amount the SAP ERP should be initially recognised as 'intangible asset:

(i) ₹ 25,00,000

(ii) ₹ 26,00,000

(iii) ₹ 23,00,000

(iv) ₹ 32,00,000

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(c) How should the annual maintenance and updation expenses should be accounted for:

(i) Should be capitalised with 'Intangible Asset'

(ii) Should be recognised as a separate 'Intangible Asset'

(iii) Should be recognised as expense in Profit and Loss annually.

(iv) No accounting is required

(d) During the implementation period, how the expenditure incurred will be accounted for:

(i) It will be expensed in profit and loss as and when incurred

(ii) It will be recognised as an asset 'Intangible asset under development'

(iii) It will only be disclosed in notes to accounts and will be recognised when complete

(iv) It will be recognised as an item of Property, Plant and Equipment

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

4. Vijay Ltd. borrowed ₹ 30 lakh at interest rate of 5% per annum and purchased plant and machinery for ₹ 60 lakh (using borrowed funds) and started production. It took 1 year time for Vijay Ltd. to create optimum market for the goods manufactured and generate revenue. How much borrowing cost can be capitalised with cost of plant and machinery:

(a) ₹ 1.5 lakh

(b) ₹ 3 Lakh

(c) Nil

(d) ₹ 5 Lakh **(2 Marks)**

5. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned using following cost formula

(a) By specific identification of their individual costs

(b) First-in, First-out (FIFO) Method

(c) Weighted average cost formula

(d) The formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition. **(2 Marks)**

6. Securities held as stock-in-trade held by an entity are:

(a) Investments

(b) Not Investments

(c) May or may not be Investments

(d) Not an asset for entity **(2 Marks)**

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PART II – Descriptive Questions (70 Marks)

*Question No.**1** is compulsory.*

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

Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates. Working Notes should form part of the answer.

1. (a) A Ltd. purchased on 1st April, 2023 8% convertible debenture in C Ltd. of face value of ₹ 2,00,000 @ ₹ 108. On 1st July, 2023 A Ltd. purchased another ₹ 1,00,000 debentures @ ₹ 112 cum interest. On 1st October, 2023 ₹ 80,000 debentures were sold @ ₹ 105. On 1st December, 2023, C Ltd. give option for conversion of 8% convertible debentures into equity share of ₹ 10 each. A Ltd. received 5,000 equity shares in C Ltd. in conversion of 25% debentures held on that date. The market price of debenture and equity share in C Ltd. on 31st December, 2023 is ₹ 110 and ₹ 15 respectively. Interest on debenture is payable each year on 31st March, and 30th September. Prepare investment account in the books of A Ltd. on average cost basis for the accounting year ended 31st December, 2023. **(10 Marks)**

(b) A company incorporated in June 2023, has setup a factory within a period of 8 months with borrowed funds. The construction period of the assets had reduced drastically due to usage of technical innovations by the company and the company is able to justify the reasons for the same. Whether interest on borrowings for the period prior to the date of setting up the factory should be capitalized although it has taken less than 12 months for the assets to get ready for use. You are required to comment on the necessary treatment with reference to AS 16. **(4 Marks)**

2. You are required to prepare a Balance Sheet as at 31st March 2024, as per Schedule III of the Companies Act, 2013, from the following information of Vishnu Ltd.:

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
Term Loans (Secured)	40,00,000	Investments (Non-current)	9,00,000
Trade payables	45,80,000	Profit for the year	32,00,000
Cash and Bank Balances	38,40,000	Trade receivables	49,00,000
Staff Advances	2,20,000	Miscellaneous Expenses	2,32,000
Other advances (given by Co.)	14,88,000	Loan from other parties	8,00,000
Provision for Taxation	10,20,000	Provision for Doubtful Debts	80,000
Securities Premium	19,00,000	Stores	16,00,000
Loose Tools	2,00,000	Finished Goods	30,00,000
General Reserve	62,00,000	Plant and Machinery (WDV)	2,14,00,000

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Additional Information: -

1. Share Capital consists of-
   (a) 1,20,000 Equity Shares of ₹ 100 each fully paid up.
   (b) 40,000, 10% Redeemable Preference Shares of ₹ 100 each fully paid up.
2. Write off the amount of Miscellaneous Expenses in full, amounting ₹ 2,32,000.
3. Staff Advances and Other Advances are *Considered to be short term.*

(14 Marks)

3. (a) You are required to give the necessary journal entry at the inception of lease to record the asset taken on finance lease in books of lessee from the following information:

Lease period	=	5 years;
Annual lease rents	=	₹ 50,000 at the end of each year.
Guaranteed residual value	=	₹ 25,000
Fair Value at the inception (beginning) of lease	=	₹ 2,00,000

Interest rate implicit on lease is = 12.6% (Discounted rates for year 1 to 5 are .890, .790, .700, .622 and .552 respectively). **(7 Marks)**

(b) Smile Ltd. purchased machinery for ₹ 80 lakhs (useful life 4 years and residual value ₹ 8 lakhs). Government grant received was ₹ 32 lakhs. The grant had to be refunded at the beginning of third year. Show the Journal Entry to be passed at the time of refund of grant and the value of the fixed assets in the third year and the amount of depreciation for remaining two years, if the grant had been credited to Deferred Grant A/c. **(7 Marks)**

4. A Ltd. and B Ltd. give the following information as at 31.03.2024:

	A Ltd. (₹ in lakhs)	**B Ltd. (₹ in lakhs)**
Equity Share Capital (Fully paid shares of ₹ 10 each)	22,500	9,000
Securities Premium	4,500	-
Foreign Project Reserve	-	465
General Reserve	14,550	4,800
Profit and Loss Account	4,305	1,162.5
12% Debentures	-	1,500
Trade payables	1,800	694.5
Provisions	2,745	1,053
Land and Buildings	9,000	-

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Plant and Machinery	21,000	7,500
Furniture, Fixtures and Fittings	3,456	2,550
Inventory	11,793	6,061.5
Trade receivables	3,180	1,650
Cash at Bank	1,671	913.5

All the bills receivable held by B Ltd. were A Ltd.'s acceptances.

On 1st April 2024, A Ltd. took over B Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business, A Ltd. would allot three fully paid equity shares of ₹ 10 each at par for every two shares held in B Ltd. It was also agreed that 12% debentures in B Ltd. would be converted into 13% debentures in A Ltd. of the same amount and denomination.

Details of trade receivables and trade payables are as under:

Particulars	**A Ltd.**	**B Ltd.**
		(₹ in lakhs)
Trade Payables:		
Creditors	1,620	694.5
Bills Payable	180	-
	1,800	694.5
Trade receivables:		
Debtors	3,180	1,530
Bills Receivables	-	120
	3,180	1,650

Expenses of amalgamation amounting to ₹ 1.5 lakhs were borne by A Ltd.

You are required to:

Prepare A Ltd.'s Balance Sheet immediately after the merger. **(14 Marks)**

5. Star Ltd. and its subsidiary Moon Ltd. Give the following information as on 31st March, 2024:

	Star Ltd. (₹)	**Moon Ltd. (₹)**
Share Capital		
Equity Share Capital (fully paid up shares of ₹ 10 each)	12,00,000	2,00,000
Reserves and Surplus		
General Reserve	4,35,000	1,55,000
Cr. Balance in Profit and Loss Account	2,80,000	65,000

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Current Liabilities		
Trade Payables	3,22,000	1,23,000
Non-Current Assets		
Property, Plant and Equipment		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
Non-Current Investments		
Shares in Moon Ltd. - 16,000 shares @ ₹ 20 each	3,20,000	-
Current Assets		
Inventories	2,68,000	62,000
Trade Receivables	4,70,000	2,35,000
Cash and Bank	1,64,000	32,000

Star Ltd. acquired the 80% shares of Moon Ltd. on 1st April, 2023. On the date of acquisition, General Reserve and Profit Loss Account of Moon Ltd. stood at ₹ 50,000 and ₹ 30,000 respectively.

Machinery (book value ₹ 2,00,000) and Furniture (book value ₹ 40,000) of Moon Ltd. were revalued at ₹ 3,00,000 and ₹ 30,000 respectively on 1st April,2023 for the purpose of fixing the price of its shares (rates of depreciation on W.D.V basis: Machinery 10% and Furniture 15%). Trade Payables of Star Ltd. include ₹ 35,000 due to Moon Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above cost. The inventories of Star Ltd. includes goods costing ₹ 55,000 (cost to Star Ltd.) purchased from Moon Ltd.

You are required to prepare the Consolidated Balance Sheet of Star Ltd. with its subsidiary as at 31st March, 2024. **(14 Marks)**

6. (a) "Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements." Discuss and explain the benefits of Accounting Standards **(4 Marks)**

Or

XYZ Ltd. proposes to declare 10% dividend out of General Reserves due to inadequacy of profits in the year ending 31-03-2024.

From the following particulars ascertain the amount that can be utilized from general reserves, according to the Companies Rules, 2014: **(₹)**

8,00,000 Equity Shares of ₹ 10 each fully paid up	80,00,000
General Reserves	25,00,000
Revaluation Reserves	6,50,000
Net profit for the year	1,42,500

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Average rate of dividend during the last five years has been 12%.

(4 Marks)

(b) Following is the cash flow abstract of Alpha Ltd. for the year ended 31st March, 2024:

Cash Flow (Abstract)

Inflows	₹	Outflows	₹
Opening cash and bank balance	80,000	Payment for Account Payables	90,000
Share capital – shares issued	5,00,000	Salaries and wages	25,000
Collection from Trade		Payment of overheads	15,000
Receivables	3,50,000	Machinery acquired	4,00,000
		Debentures redeemed	50,000
Sale of Machinery	70,000	Bank loan repaid	2,50,000
		Tax paid	1,55,000
		Closing cash and bank balance	15,000
	10,00,000		10,00,000

Prepare Cash Flow Statement for the year ended 31st March, 2024 in accordance with AS 3. **(5 Marks)**

(c) M/s Shrikant operates a number of retail outlets to which goods are invoiced at wholesale price which is cost plus 25%. These outlets sell the goods at the retail price which is wholesale price plus 20%.

Following is the information regarding one of the outlets for the year ended 31.3.2024:

Stock at the outlet 1.4.2023	₹ 45,000
Goods invoiced to the outlet during the year	₹ 4,86,000
Gross profit made by the outlet	₹ 90,000
Goods lost by fire	?
Expenses of the outlet for the year	₹ 30,000
Stock at the outlet 31.3.2024	₹ 54,000

You are required to prepare the following accounts in the books of M/s Shrikant for the year ended 31.3.2024: [a] Outlet Stock Account [b] Outlet Profit & Loss Account **(5 Marks)**