

CA IPCC May 2014
Set of Mock Test Papers
Issued by ICAI



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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	<u>4,11,000</u>
	<u>31,95,000</u>		<u>31,95,000</u>

On 1.4.2013, Max 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 ₹ 80,000 were sold at ₹ 98 cum-interest and remaining own debentures were cancelled.
- Debentureholders of ₹ 2,80,000 agreed to accept one machinery of book value of ₹ 3,00,000 in full settlement.
- 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, overcasting 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	<u>1,500</u>	24,000
General reserve	1,500	Stock		90,000
P's capital	1,10,700	Furniture and fixtures		16,500
T's capital	<u>96,900</u>	Land & building		<u>1,12,500</u>
	<u>2,81,250</u>			<u>2,81,250</u>

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

- The new profit sharing ratio of P, T and O will be 3 : 1 : 1.
- 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.
- 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.
- The unaccrued income is ₹ 1,275.
- A claim on account of workmen's compensation for ₹ 225 to be provided for.
- 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)

Test Series: February, 2014

MOCK TEST PAPER – 1
INTERMEDIATE (IPC): GROUP – I
PAPER – 2: BUSINESS LAWS, ETHICS AND COMMUNICATION

Question No.1 is compulsory.

Attempt any five questions from the remaining six questions.

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) State the nature of the contract in the following cases with reasons:
 - (i) 'B' agrees to purchase the car from 'A' as per his proposal, subject to availability of valid Registration Certificate for the car.
 - (ii) A threatened B to shoot if he does not lend him ₹ 2000 and B agreed to it.

(2 ½ + 2 ½ = 5 Marks)
- (b) When can a Public Company offer the new shares (further issue of shares) to persons other than the existing shareholders of the Company? Can these shares be offered to the Preference Shareholders?

(5 Marks)
- (c) Explain the statement "Ethical behaviour creates a positive reputation that expands the opportunities for profit".

(5 Marks)
- (d) Explain the statement 'Interpersonal communication is contextual'.

(5 Marks)
2. (a) (i) A builder employed a labour on the daily wages for 2 months for the construction of the site on the payment of ₹ 300. Throw a light with respect to the Payment of Bonus Act, 1965 whether a labour is entitled for the bonus in the given instance.

(4 Marks)
- (ii) Mr. X was an employee in a company for past 10 years and was assisting the director of a company in an assignment. In the mean time, he received a better opportunity from an abroad company. He put the resignation from service with prior notice and applied for the claim of gratuity. Company not accepted the resignation on the reason that assignment is incomplete and due to non acceptance of the resignation, the company also refused to pay the gratuity. Examine whether the contention of company is valid as per the Payment of Gratuity Act, 1972.

(4 Marks)
- (b) In what manner the behavior of business persons towards the others in their workplace may generate ethical concerns?

(4 Marks)
- (c) Explain how ethical communicators have a "well developed sense of social responsibility".

(4 Marks)

3. (a) (i) P, a promoter of the company borrowed a loan on behalf of company and issued a cheque from the companies account to discharge its legal liability. P is neither a director nor a person-in-charge of the company. Subsequently the cheque was dishonoured and the complaint was lodged. State whether P is liable for an offence under section 138 of the Negotiable Instruments Act, 1881? (5 Marks)
- (ii) Pick the correct answer:
- (I) A negotiable instrument recognized by the usage or custom of trade:
- (1) A promissory note
 - (2) A bill of exchange
 - (3) Hundi
 - (4) A cheque
- (II) When the nature of the instrument is not clear, it is termed as:
- (1) Inchoate
 - (2) Fictitious
 - (3) Ambiguous
 - (4) Escrow
- (III) Endorsement which restricts the right of further negotiation of the instrument is-
- (1) Special endorsement
 - (2) General endorsement
 - (3) Facultative endorsement
 - (4) Restrictive endorsement (1 x 3 = 3 Marks)
- (b) State the nature of rights that are protected by the Central Consumer Protection Council. (4 Marks)
- (c) What is meant by 'Environmental ethics'? How does its non-adoption lead to 3 Ps Viz., Polluter, Pays and Principles? Explain. (4 Marks)
4. (a) What are the requirements as to the issue of the Prospectus? Under what conditions the issuing of prospectus is not necessary under the Companies Act, 1956. (8 Marks)
- (b) State the various ethical issues that are common at the work place in an industrial organisation. (4 Marks)
- (c) State the relevance of active listening in the business communication skill. (4 Marks)
5. (a) State the provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 regulating the quantum of contribution to be made by the employer and employee to the provident fund. Is it possible for an employee to

- increase the amount of his contribution to the provident fund more than the minimum contribution as statutorily prescribed? (8 Marks)
- (b) State the manner in which a person may acquire membership of a public company. (4 Marks)
- (c) Mr. P purchased the goods on the credit from Mr. S(supplier). 2 months passed and still the payment is pending. Draft a letter requesting for the payment of overdue amount. (4 Marks)
6. (a) (I) State whether the following statement is correct/incorrect with reasons:
- (i) The Statutory meeting is required to be hold by all companies.
 - (ii) A promissory note given out of a waging contract is enforceable.
 - (iii) Hundis are governed by the Negotiable Instruments Act, 1881.
 - (iv) Employees of a registered company converted from a partnership, is entitled to gratuity. (4 x 1 = 4 Marks)
- (II) A company was incorporated on 1.4.2013. No General Meeting of the company has been held so far. Explain the provisions of the Companies Act, 1956 regarding the time limit for holding the first annual general meeting of the Company and the power of the Registrar to grant extension of time for the First Annual General Meeting (4 Marks)
- (b) "Conservation looks primarily to the future". Explain. (4 Marks)
- (c) Draft the Performa of a bond for a loan repayable in instalments. (4 Marks)
7. Answer any **FOUR** of the following:
- (a) Differentiate between the following:
- (i) Cheque and Bill of exchange,
 - (ii) General Lien and Particular Lien (2 x 2 = 4 Marks)
- (b) Who are entitled to get notice for the general meeting called by a Public Limited Company registered under the Companies Act, 1956? Does the non-receipt of a notice of the meeting by any one entitled to such notice invalidate the meeting and the resolution passed thereat? What would be your answer in case the omission to give notice to a member is only accidental omission? (4 Marks)
- (c) State the procedure for inspection of Minutes Book of General Meetings of a company, by the members. (4 Marks)
- (d) What safeguards may be created by a business enterprise in the work environment? (4 Marks)
- (e) Draft a circular for employees insisting on punctuality. (4 Marks)

Test Series: February, 2014

MOCK TEST PAPER – 1
INTERMEDIATE (IPC): GROUP – I
PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT
PART – I : COST ACCOUNTING

Question No. 1 is compulsory.

Attempt any five questions from the remaining six questions.

Working notes should form part of the answer.

Time Allowed – 1 ½ Hours

Maximum Marks – 50

1. Answer the followings:

- (a) Aditya Ltd has calculated a predetermined overhead rate of ₹ 22 per machine hour for its Quality Check (QC) department. This rate has been calculated for the budgeted level of activity and is considered as appropriate for absorbing overheads. The following overhead expenditures at various activity levels had been estimated.

Total overheads	Number of machine hours
₹ 3,38,875	14,500
₹ 3,47,625	15,500
₹ 3,56,375	16,500

You are required to:

- (i) Calculate the variable overhead absorption rate per machine hour.
 - (ii) Calculate the estimated total fixed overheads.
 - (iii) Calculate the budgeted level of activity in machine hours.
 - (iv) Calculate the amount of under/over absorption of overheads if the actual machine hours were 14,970 and actual overheads were ₹ 3,22,000.
 - (v) State the arguments for and against using departmental absorption rates as opposed to a single or blanket factory wide rate.
- (b) An automobile company manufactures commercial vehicles which require engine filter E-12 DX. The following particulars are collected for the year 2013-14:
- (i) Annual demand of E-12 DX 12,000 units
 - (ii) Cost of placing an order ₹1,200 per order
 - (iii) Cost per unit of E-12 DX is ₹1,740/-

(iv) Carrying cost p.a. 12%

The company has been offered a quantity discount of 5 % on the purchase of E-12 DX, provided the order size is 6,000 units at a time.

Required to:

(i) Compute the economic order quantity (EOQ)

(ii) Advise whether the quantity discount offer can be accepted. (2 x 5 = 10 Marks)

2. Rounak Infratech Ltd. prepares its account on 31st December each year. It commenced a contract on 1st April, 2013. The costing records concerning the said contract reveal the following information on 31st December, 2013.

	(₹)
Material charged to site	2,58,100
Labour engaged	5,60,500
Foremen's salary	79,300

Plant costing ₹2,60,000 had been on site for 146 days. Working, life of the plant is estimated at 7 years and its final scrap value at ₹15,000. A supervisor, who is paid ₹4,000 per month, has devoted approximately three-fourths of his time to this contract. The administrative and other expenses amount to ₹1,40,000. Materials at site on 31st December, 2013 cost ₹25,400. Some of the materials costing ₹4,500 was found unsuitable and was sold for ₹4,000 and a part of the plant (whose written down value on 31.12.2013 was ₹5,500) was sold at a profit of ₹ 1,000 as it was unsuited to the contract.

The contract price was ₹22,00,000 but it was accepted by the contractor for ₹20,00,000. On 31st December, 2013 two-thirds of the contract was completed. Architect's certificate had been issued covering 50% of the contract price and ₹7,50,000 had so far been paid on account.

You are required to prepare Contract Account and state how much profit or loss should be taken into account for the year ended 31st December, 2013. Depreciation is charged on time basis. Also prepare the Contractee account and show how these accounts would appear in the balance sheet as on 31st December, 2013. (8 Marks)

3. Navya is working by employing 10 skilled workers. It is considering the introduction of some incentive scheme – either Halsey scheme (with 50% bonus) or Rowan scheme of wage payment for increasing the labour productivity to cope with the increased demand for the product by 25%. She feels that, if the proposed incentive scheme could bring about an average 20% increase over the present earnings of the workers, it would act as sufficient incentive for them to produce more and she has accordingly given this assurance to the workers.

As a result of this assurance, the increase in productivity has been observed as revealed by the following figures for the current month:

Hourly rate of wages (guaranteed)	₹ 2.00
Average time for producing 1 piece by one worker at the previous performance (this may be taken as time allowed)	2 hours
Number of working days in the month	25
Number of working hours per day for each worker	8
Actual production during the month	1,250 units

Required:

- (1) Calculate effective rate of earnings per hour under Halsey scheme and Rowan scheme.
 - (2) Calculate the savings of Navya in terms of direct labour cost per piece under the above schemes.
 - (3) Advise Navya about the selection of the scheme to fulfill her assurance. (8 Marks)
4. From the particulars given below, compute: Material Price Variance, Material Usage Variance, Labour Rate Variance, Idle time Variance and Labour Efficiency Variance with full working details:
- 1 ton of material input yields a standard output of 1,00,000 units.
The standard price of material is ₹ 20 per kg.
Number of employees engaged are 200.
The standard wage rate per employee per day is ₹ 6.
The standard daily output per employee is 100 units.
The actual quantity of material used is 10 tons and the actual price paid is ₹ 21 per kg.
Actual output obtained is 9,00,000 units.
Actual number of days worked is 50 and actual rate of wages paid is ₹ 6.50 per day.
Idle time paid for and included in above time is ½ day. (8 Marks)
5. Distinguish between:
- (a) Cost Allocation and Cost Absorption.
 - (b) Fixed Budget and Flexible Budget (4 x 2 = 8 Marks)
6. Solitaire Ltd. purchased 10,000 kgs. of raw material @ ₹ 17 per kg and issued it for further processing in purifying department. In purifying department wages paid amounted to ₹ 11,000 and overhead was applied @ 150% of the labour cost. Indirect materials

costing ₹ 2,600 were introduced into the process. The normal yield from the process is 90%. 9,100 kgs of output was obtained from this purifying process. Any difference in weight between the input of raw material and output of purified material can be sold @ ₹ 2.10 per kg.

The process is operated under a licence for which royalty @ ₹ 0.35 per kg. of purified material produced is paid.

You are required to prepare:

- (i) Purifying process Account
- (ii) Normal loss Account
- (iii) Abnormal loss/ gain Account
- (iv) Royalty Payable Account. (8 Marks)

7. (a) Distinguish between Spoilage and Defectives in a manufacturing company.
- (b) State the advantages of Integrated Accounting System. (4 x 2 =8 Marks)

Test Series: February, 2014

MOCK TEST PAPER – 1
INTERMEDIATE (IPC): GROUP – I
PAPER – 3B: FINANCIAL MANAGEMENT

All questions are compulsory.

Working notes should form part of the answer.

Time Allowed – 1 ½ Hours

Maximum Marks – 50

1. Answer the question, supporting the same with reasoning:
“Determining the appropriate level of working capital for a firm requires”:
- (i) Evaluating the risks associated with various levels of fixed assets and the types of debt used to finance these assets.
 - (ii) Changing the capital structure and dividend policy of the firm.
 - (iii) Maintaining short-term debt at the lowest possible level because it is generally more expensive than long-term debt.
 - (iv) Offsetting the benefit of current assets and current liabilities against the probability of technical insolvency. (4 × 1 = 4 Marks)
2. (a) A machine purchased six years back for ₹ 1,50,000 has been depreciated to a book value of ₹ 90,000. It originally had a projected life of fifteen years and zero salvage value. A new machine will cost ₹ 2,50,000 and result in a reduced operating cost of ₹ 30,000 per year for the next nine years. The older machine could be sold for ₹ 50,000. The new machine shall also be depreciated on a straight-line method on nine-year life with salvage value of ₹ 25,000. The company's tax rate is 50% and cost of capital is 10%.
- Determine whether the old machine should be replaced.
- Given: Present Value of Re. 1 at 10% on 9th year = 0.424; and Present Value of an annuity of Re. 1 at 10% for 8 years = 5.335.
- (b) Gamma Limited provides the following information for your consideration:

	₹
Cost (per unit):	
Raw materials	52.0
Direct labour	19.5
Overheads	39.0

Total cost (per unit)	110.5
Profit	19.5
Selling price	130.0

Average raw material in stock is one month; average material in process is half a month. Credit allowed by suppliers is one month; credit allowed to debtors is two months. Time lag in payment of wages is one and a half weeks and Overheads is one month. One-fourth of sales are on cash basis. Cash balance is expected to be Rs 1,20,000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 70,000 units of output. You may assume that production is carried on evenly, throughout the year and wages and overheads accrue similarly. *(8 + 8= 16 Marks)*

3. (a) The following current data are available concerning Alpha Limited:

Share issued	10,000
Market price per share	₹ 20
Interest rate	12%
Tax Rate	46%
Expected EBIT	₹ 15,000

The company requires an additional ₹ 50,000 for the coming year.

You are required to determine:

- Which financing option (debt or equity issue) will give higher EPS for the expected EBIT?
- What is indifference level of EBIT for the two alternatives?
- What is EPS for that EBIT?

- (b) The following data relates to Beta Limited:

	₹
Sales	2,00,000
Less: Variable Expenses (30%)	<u>60,000</u>
Contribution	1,40,000
Fixed operating expenses	<u>1,00,000</u>
EBIT	40,000
Less: Interest	<u>5,000</u>
EBT	<u>35,000</u>

- (i) Using the concept of combined leverage, by what percentage will EBT increase if sales increases by 6 percent.
- (ii) Using the concept of operating leverage by what percentage will EBIT increase if there is 10 per cent increase in sales?
- (iii) Using the concept of financial leverage by what percentage EBT increase if EBIT increases by 6 per cent? *(9 + 9 = 18 Marks)*

4. Answer the following:

- (a) Zeta Limited is now extending 1 month's credit to its selected customers. It sells its products at ₹ 100 each, and has an annual sales volume of 60,000 units. At current level of production, which matches with sales, the product has a total cost of ₹ 90 per unit and a variable cost of ₹ 80 per unit. The company is considering a plan to grant more liberal terms by extending the duration of credit from 1 month to 2 months and expects the sales to the customer group to go up by 25 per cent. In the background of a normal expectation of a 20 per cent return on investment, will this relaxation in credit standard justify itself?
- (b) Critically discuss the role of IRR as an investment appraisal technique.

(8+4 = 12 Marks)

Test Series: February, 2014

MOCK TEST PAPER – 1
INTERMEIDATE (IPC): GROUP – I
PAPER – 4: TAXATION

Question 1 is compulsory.

Answer any five questions from the remaining six questions.

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) From the following details, compute the total income of Subhash of Bangalore and tax payable for the A.Y.2014-15:

Particulars	₹
Salary including dearness allowance	4,15,000
Bonus	15,000
Salary of servant provided by the employer	18,000
Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	13,000

Subhash purchased a flat in a co-operative housing society in Bangalore for ₹ 6,20,000 in September, 2008, which was financed by a loan from Life Insurance Corporation of India for ₹ 2,00,000 @ 15% interest, his own savings of ₹ 1,20,000 and a deposit from a nationalized bank for ₹ 3,00,000 to whom this flat was given on lease for ten years. The entire loan of ₹ 2,00,000 obtained from LIC, is outstanding as on 31.3.2014.

The rent payable by the bank was ₹ 5,000 per month. The following particulars are relevant:

- (i) Municipal taxes paid by Mr. Subhash ₹ 3,900 (per annum)
- (ii) Life Insurance for self ₹ 21,700 (per annum) [sum assured ₹ 25,00,000]
- (iii) He earned ₹ 3,200 in share speculation business and lost ₹ 4,900 in cotton speculation business.
- (iv) In the year 2008-09, he had gifted ₹ 50,000 to his wife and ₹ 25,000 to his son who was aged 13. The gifted amounts were advanced to Mr. Bobby, who was paying interest @ 20% per annum.
- (v) Subhash received a gift of ₹ 15,000 each from four friends.
- (vi) He contributed ₹ 30,000 to Public Provident Fund. (10 Marks)

- (b) Balwantpur Post Office provided the following services to persons other than Government during the quarter ended 30.06.2013:-

Services rendered	Amount (₹)
Postal services	2,25,000
Transfer of money through money orders	4,75,000
Operation of saving accounts	1,30,000
Postal life insurance services	1,50,000
Distribution of passport applications	4,50,000
Issuance of postal orders	4,40,000
Collection of telephone and electricity bills	2,00,000
Pension payment services	69,000
Speed post services	6,00,000
Express parcel post services	3,00,000

Compute the service tax liability of Balwantpur Post Office for the quarter ended 30.06.2013.

Notes:

- Point of taxation for all the aforesaid cases fall during the quarter ended 30.06.2013.
 - All the service charges stated above are exclusive of service tax.
 - Small service providers' exemption need not be taken into account while solving the aforesaid question. (5 Marks)
- (c) Pulak Ltd. of Hyderabad made a total purchases of input and capital goods of ₹ 60,00,000 during the month of November, 2013 including the following purchases:-
- Goods worth ₹ 8,00,000 were purchased from Mysore on which C.S.T. @ 2% was paid.
 - Goods purchased for personal use amounted to ₹ 12,00,000 and goods purchased from unregistered dealers amounted to ₹ 18,00,000.
 - It purchased capital goods (not eligible for input credit) worth ₹ 9,50,000 and those eligible for input credit for ₹ 9,00,000. The input VAT credit on eligible capital goods is available in 36 equal monthly installments.

(Note: All purchases given are exclusive of tax and VAT @ 4% is paid on them)

Pulak Ltd. sold goods in Hyderabad during the month of November, 2013 worth ₹ 12,00,000 on which VAT @ 12.5% is payable.

Calculate

- (i) the amount of input tax credit available for the month of November, 2013
- (ii) VAT payable for the month of November, 2013 and
- (iii) input tax credit carried forward, if any. (5 Marks)

2. (a) Mr. Murad furnishes the following data for the previous year ending 31.3.2014:
- (i) Unlisted Equity Shares of Batliboi Ltd., 8,000 in number were sold on 28.7.2013, at ₹ 600 for each share.
 - (ii) The above 8,000 shares were acquired by Murad in the following manner:
 - (a) Received as gift from his father on 5.10.1980 (4,000 shares) the fair market value on 1.4.1981 ₹ 40 per share.
 - (b) Bonus shares received from Batliboi Ltd. on 31.8.1985 (2,000 shares).
 - (c) Purchased 2,000 shares on 18.5.1995 at the price of ₹ 150 per share.
 - (iii) Purchased one residential house at ₹ 30 lakhs, on 1.5.2014 from the sale proceeds of shares.
 - (iv) Murad already owns a residential house, even before the purchase of above house.

You are required to compute the taxable capital gain. He has no other source of income chargeable to tax.

(Cost Inflation Index – Financial year 1995-96: 281; Financial year 2013-14: 939)

(4 Marks)

- (b) M/s. Anna Ltd., a manufacturing concern, furnishes the following particulars:

		₹
(i)	Opening writing down value of plant and machinery (15% block)	50,00,000
(ii)	Purchase of plant and machinery (put to use before 10-09-2013)	1,06,00,000
(iii)	Sale proceeds of plant and machinery which became obsolete- the plant and machinery was purchased on 01-04-2011 for ₹ 5,00,000.	50,000

Further, out of plant and machinery purchased:

- (i) Plant and machinery of ₹ 50,000 has been installed in office.
- (ii) Plant and machinery of ₹ 20,000 was used previously for the purpose of business by the seller.

Compute the depreciation, additional depreciation and amount of deduction under section 32AC as per Income-tax Act, 1961 for the Assessment Year 2014-15. (4 Marks)

- (c) State whether the following statements are true or false giving reasons to substantiate your answer:
- (i) The rate of service tax shall be rate in force on the date of receipt of payment for the taxable services.
 - (ii) Services provided to RBI are not chargeable to service tax.
 - (iii) Provision of service by an employee to the employer in the course of employment is outside the ambit of service tax.
 - (iv) Auxiliary services used for gambling events are not liable to service tax.

(4 × 1 = 4 Marks)

- (d) "It is said that VAT is a logical beauty. Further, the greatest advantage of the system is that it does not interfere in the choice of decision for purchases." Discuss the validity of the statement (4 Marks)

3. (a) State with reasons of the deductibility of the items given above under the Income-tax Act, 1961 for the Assessment Year 2014-15:

- (i) Radha Ltd., engaged in manufacture of medicines (pharmaceuticals) incurred Capital expenditure on scientific research ₹ 12,00,000 which includes cost of land and building ₹ 2,20,000.
- (ii) Sonu & Co. has set up a warehousing facility for storage of food grains. It commenced operations on 01.04.2013. For this purpose, Sonu & Co. incurred capital expenditure of ₹ 65 lakhs on purchase of building in February 2013.

(4 Marks)

- (b) Mrs. Sharma transferred her immovable property to Arihant Co. Ltd. subject to a condition that out of the rental income, a sum of ₹ 72,000 per annum shall be utilized for the benefit of her son's wife.

Mrs. Sharma claims that the amount of ₹ 72,000 (utilized for the benefit of her son's wife) should not be included in her total income as she no longer owned the property.

State with reasons whether the contention of Mrs. Sharma is valid in law. (4 Marks)

- (c) Mahaj Industries Ltd. (MIL) is an Indian Company. It has received taxable services from a UK based company-Bodycote Ltd. on 06.05.2013. Bodycote Ltd. raised on MIL an invoice of £ 35,000 on 23.05.2013. MIL debited its books of accounts on 06.06.2013 and made the payment on 24.07.2013.

Bodycote Ltd. and MIL are associated enterprises. Determine the point of taxation using aforesaid details. (4 Marks)

- (d) Mr. Aaditya Singla is a trader selling raw materials to a manufacturer of finished products. He imports his stock in trade as well as purchases the same from the local markets. He sold some goods to Bharat during the month of January, 2014.

Using the following information, calculate the VAT and invoice value charged by him to Bharat, assuming the rate of input and output VAT @ 12.50%:

		₹
(1)	Cost of imported materials including import duty of ₹ 50,000	2,50,000
(2)	Cost of local materials including VAT	2,25,000
(3)	Other expenditure including storage, transport, interest and loading and unloading and profit earned by him	1,10,000

(4 Marks)

4. (a) Graham Gooch, an England cricketer visits India for 100 days in every financial year. This has been his practice for the past 10 financial years. Find out his residential status for the assessment year 2014-15. (4 Marks)

- (b) Mr. Verma is a resident Indian. During the F.Y. 2013-14, interest of ₹ 2,02,000 was credited to his Non-resident (External) Account with the SBI. ₹ 18,000 being interest on fixed deposit with SBI was credited to his savings bank account during this period. He also earned ₹ 8,000 as interest on this savings account. Is Mr. Verma required to file return of income?

What will be your answer, if he owns a house in London? (4 Marks)

- (c) Examine the applicability of service tax in case of following educational services during the month of August, 2013:

- (i) "High Tech", an Institute provides coaching to CA students for the preparation of CA Final Examination.
(ii) 'Success Point' an industrial training centre (ITC) affiliated to the State Council Vocational Training, Delhi imparts industrial training. (2 x 2 = 4 Marks)

- (d) Shri Laxmi & Co. purchased raw material 'A' for ₹ 60,00,000 plus VAT at 12.5%. Out of such raw material 70% was used for manufacture of taxable goods and the balance for the manufacture of exempted goods.

Another raw material 'B' was purchased for ₹ 40,00,000 on which VAT was paid @1%. Out of the raw material 'Y', 60% was used for manufacture of taxable goods and the balance for the manufacture of exempted goods.

The entire taxable goods were sold for ₹ 75,00,000 plus VAT at 12.5%. There was no opening or closing inventory of taxable goods or raw materials.

Compute the VAT liability of Shri Laxmi & Co. (4 Marks)

5. (a) State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2013-14:
- (i) Winning by way of jackpot in a horse race ₹ 1,20,000.
 - (ii) Payment made by a firm to sub-contractor (an individual) ₹ 2,50,000 on 29.03.2014. Further, there is an outstanding balance of ₹ 1,70,000 shown in the books as on 31-03-2014.
 - (iii) Rent paid for plant and machinery ₹ 1,75,000 by a partnership firm having sales turnover of ₹ 25,00,000 and net loss of ₹ 25,000.
 - (iv) Payment made to Brett Lee, an Australian cricketer, by a publishing house for contribution of articles in the Newspaper ₹ 55,000. (4 Marks)
- (b) Examine the following, with reference to the provisions of the Income-tax Act, 1961:
- (i) A charitable trust, registered under section 12AA, whose main object is "advancement of any other object of general public utility" receives ₹ 30 lakhs in aggregate during the P.Y. 2013-14 from commercial activities. The trust wants to claim benefit of exemption in respect of its income for the P.Y.2013-14 on the basis of its registration as a charitable trust under section 12AA. Can it do so?
 - (ii) Mr. Gurmeet held 100 unlisted shares of Alpha Ltd., a domestic company. On 10.09.2013, he received ₹ 55,000 from Alpha Ltd. for buy back of the unlisted shares held by him. Is the amount chargeable to tax in the hands of Mr. Gurmeet? (2 x 2 = 4 Marks)
- (c) (i) Vasu Electronics Ltd. exported some air conditioners to Integrated Inc. of USA. It received US \$ 10,000 as consideration for the same and sold it @ ₹60 per US dollar. Compute the value of taxable service under rule 2B of the Service Tax (Determination of Value) Rules, 2006 in the following cases:-
- (a) RBI reference rate for US dollar at that time is ₹ 62 per US dollar.
 - (b) RBI reference rate for US dollars is not available.
- (ii) What would be the value of taxable service if US \$ 10,000 are converted into UK £ 5,000. RBI reference rate at that time for US \$ is ₹ 61 per US dollar and for UK £ is ₹ 100 per UK Pound. (4 Marks)
- (d) Compute the VAT payable at each stage using 'invoice method' from the particulars given below:-

Stage	Particulars	Profit (as % of cost price)
I	Lifeline Medicaids Ltd. sold the medicines manufactured by it	--

	to the distributors of medicines- Healers Pharmacy - at ₹ 80,000.	
II	Healers Pharmacy sold the medicines to the wholesalers- All Well Medicos.	15%
II	All Well Medicos sold the medicines to the retailers- Cure Medicines.	20%
IV	Cure Medicines sold the medicines to the ultimate consumers	25%

Assume that the VAT rate is 4% and that there was no value addition at various stages of sale except profit margin. (4 Marks)

6. (a) Mr. Sagar submits the following information for the financial year ending 31st March, 2014. He desires that you should:
- Compute the total income and
 - Ascertain the amount of losses that can be carried forward.

	Particulars	₹
(i)	He has two houses :	
	(a) House No. I – Income after all statutory deductions	54,000
	(b) House No. II – Current year loss	(15,000)
(ii)	He has three proprietary businesses :	
	(a) Textile Business :	
	(i) Discontinued from 31 st August, 2013 – Current year loss	55,000
	(ii) Brought forward business loss of A.Y.2011-12	87,500
	(b) Chemical Business :	
	(i) Discontinued from 1 st February, 2012 – hence no profit/loss	Nil
	(ii) Bad debts allowed in earlier years recovered during this year	48,500
	(iii) Brought forward business loss of A.Y. 2012-13	57,000
	(c) Leather Business : Profit for the current year	1,25,000
	(d) Share of profit in a firm in which he is partner since 2003	21,450
(iii)	(a) Short-term capital gain	75,000
	(b) Long-term capital loss	45,000
(iv)	Contribution to LIC towards premium	18,000

(8 Marks)

- (b) "Mrs. Nirmal Aggarwal, a life insurer wants to pay service tax at a rate different than 12%". Can she do so? Critically examine the contention of Mrs. Nirmal Aggarwal.

(4 Marks)

- (c) State whether the following are true or false giving reasons to substantiate your answer:

- (i) Under VAT, the tax is payable on the first sale price.
(ii) VAT would increase the working capital requirements and the interest burden.

(2 × 2 = 4 Marks)

7. (a) Smt. Shobha reports the following transactions to you:

- (i) Received cash gifts on the occasion of her marriage on 25-12-2013 of ₹ 2,20,000. It includes gift of ₹ 40,000 received from non-relatives.
(ii) On 10-09-2013, being her birthday, she received a gift by means of cheque from her mother's maternal uncle, the amount being ₹ 45,000.
(iii) On 01-01-2014, she acquired a vacant site from her friend for ₹ 2,05,000. The State stamp valuation authority fixed the value of site at ₹ 2,80,000 for stamp duty purpose.
(iv) She bought 120 equity shares of a listed company from another friend for ₹ 72,000. The value of shares in the stock exchange on the date of purchase was ₹ 1,27,000.

Determine the income chargeable to tax under the head "Income from Other Sources" in the hands of Smt. Shobha for the A.Y. 2014-15. Your answer should be supported by reasons.

(6 Marks)

- (b) How will you calculate the period of holding in case of transfer of the following assets?

- (i) Shares received by Mr. A from his friend without consideration, having FMV of ₹ 75,000.

- (ii) Bonus shares

(2 Marks)

- (c) Ceridian Private Limited is engaged in providing the taxable services. Compute the value of taxable service and the service tax payable by it in the month of July, 2013 from the information furnished below:-

Receipts	Amount (₹)
Advances received from clients for which no service has been rendered so far	9,00,000
Demurrage charges recovered for use of the services beyond the agreed period	40,000

Advance forfeited for cancellation of an agreement to provide a service	4,00,000
Security deposits forfeited for damages done by service receiver owing to his negligence in the course of receiving a service	6,00,000

Besides, the above receipts, one of the clients-Extron Ltd. made a payment of ₹ 2,00,000 (out of which ₹ 35,000 were paid extra by mistake). However, Ceridian Private Limited refused to return the excess payment received.

Note: Ceridian Private Limited is not eligible for small service providers' exemption under *Notification No. 33/2012 – ST dated 20.06.2012.* (4 Marks)

- (d) An auditor plays an important role to ensure that the tax payers discharge their tax liability properly under the VAT system. Discuss the validity of the statement.

(4 Marks)

Test Series: February, 2014

MOCK TEST PAPER – 1
INTERMEDIATE (IPC): GROUP – II
PAPER – 5 : ADVANCED 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 – 3 Hours

Maximum Marks: – 100

1. (a) Explain briefly the accounting treatment needed in the following cases as per AS 11:
- (i) Trade receivables include amount receivable from Tug, U.S., ₹ 5,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at \$1 = ₹ 38.70
 - (ii) Long term loan taken from a U.S. Company, amounting to ₹ 60,00,000. It was recorded at \$1 = ₹ 35.60, taking exchange rate prevailing at the date of transactions.

Exchange rates at the end of the year were as under:
\$1 Receivable = ₹ 45.80
\$ 1 Payable = ₹ 45.90
- (b) X Co. Ltd. has its share capital divided into equity shares of ₹ 10 each. On 1.4.2012 it granted 16,000 employees' stock option at ₹ 50 per share, when the market price was ₹ 120 per share. The options were to be exercised between 15th March, 2013 and 31st March, 2013. The employees exercised their options for 16,000 shares. The company closes its books on 31st March every year. Show Journal entries (with narration) as would appear in the books of the company up to 31st March, 2013.
- (c) The company has to pay delayed cotton clearing charges over and above the negotiated price for taking delayed delivery of cotton from suppliers' godown. Upto 2012-13, the company has regularly included such charges in the valuation of closing stock. This being in the nature of interest the company has decided to exclude it from closing stock valuation for the year 2013-14. This would result into decrease in profit by ₹ 7.60 lakhs. State, how would you deal with the above in the annual accounts of a company for the year ended 31st March, 2014?
- (d) Hera Ltd. has got the license to manufacture particular medicines for 10 years at a license fee of ₹ 200 lakhs. Given below is the pattern of expected production and

expected operating cash inflow:

Year	Production in bottles (in lakhs)	Net operating cash flow (₹ in lakhs)
1	300	900
2	600	1,800
3	650	2,300
4	800	3,200
5	800	3,200
6	800	3,200
7	800	3,200
8	800	3,200
9	800	3,200
10	800	3,200

Net operating cash flow has increased for third year because of better inventory management and handling method. Suggest the amortization method.

(4 x 5 = 20 Marks)

2. X, Y and Z share profits and losses in the ratio of 5:3:2. Their firm was dissolved due to misconduct of Y and their balance sheet on that date was as under:

Balance Sheet as at 31-3-2011

Liabilities		₹	Assets		₹
Capital Accounts :			Land and Building		2,00,000
X	3,00,000		Plants		2,00,000
Y	2,00,000		Trade receivables		1,00,000
Z	<u>1,00,000</u>	6,00,000	Inventories		1,50,000
Current Accounts:			Cash		1,00,000
X	50,000		Current Account:		
Y	<u>30,000</u>	80,000	Z		50,000
Trade payables		1,20,000			
		<u>8,00,000</u>			<u>8,00,000</u>

The whole business of the firm was sold to Omega Limited, on that day on the following terms:

- (i) Omega Limited will issue the following securities in consideration for transfer of business:

10,000 equity shares @ ₹ 15 each, 15,000 preference shares @ ₹ 15 each; and 20,000 debentures @ ₹ 14.725.

(ii) The agreed value of assets and liabilities of partnership firm are as follows:

Land & Building – ₹ 3,00,000, Plants – ₹ 1,50,000, Inventory – ₹ 1,40,000, Trade Receivable – ₹ 97,500, and Trade Payable – ₹ 1,18,000.

It is mutually decided that preference shares and debentures will be distributed in profit sharing ratio and cash brought in by the partner (if any) will be shared equally by the remaining partners before distribution of equity shares. Equity shares are distributed on residual basis at the end.

Prepare the necessary accounts, to close the books of the firm. (16 Marks)

3. The following was the Balance Sheet of C Ltd. as on 31st March ,2014.

Equity & Liabilities	₹ Lakhs	Assets	₹ Lakhs
Share Capital:		Fixed Assets	14,000
Equity shares of ₹ 10 each Fully Paid Up	8,000	Investments	3,000
10% Redeemable Pref. Shares of ₹ 10 each Fully Paid Up	2,500	Cash at Bank	1,650
Reserves & Surplus		Other Current Assets	8,250
Capital Redemption Reserve	1,000		
Securities Premium	800		
General Reserve	6,000		
Profit & Loss Account	300		
Secured Loans:			
9% Debentures	5,000		
Current Liabilities:			
Trade payables	2,300		
Sundry Provisions	<u>1,000</u>		
	<u>26,900</u>		<u>26,900</u>

On 1st April, 2014 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 15% of its Equity Shares at ₹ 20 per Share. In order to make cash available, the Company sold all the Investments for ₹ 3,150 lakhs and raised a Bank Loan amounting to ₹ 400 lakh on the Security of the Company's Plant.

You are required to

(i) pass journal entries for the above and

(ii) prepare the Company's Balance sheet immediately thereafter. (16 Marks)

4. (a) Department L sells goods to Department M at a profit of 25% on cost and to Department N at 10% profit on cost. Department M sells goods to L and N at a profit of 15% and 20% on sales, respectively. Department N charges 20% and 25% profit on cost to Department L and M, respectively.

Department Managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated. Departmental profits after charging Managers' commission, but before adjustment of unrealised profit are as under :

	₹
Department L	1,08,000
Department M	81,000
Department N	54,000

Stock lying at different departments at the end of the year are as under :

	Dept. L ₹	Dept. M ₹	Dept. N ₹
Transfer from Department L	—	45,000	33,000
Transfer from Department M	42,000	—	36,000
Transfer from Department N	18,000	15,000	—

Find out the correct departmental Profits after charging Managers' commission.

- (b) Using the Stock and Debtors system, find out the profit or loss made at the Raipur Branch in 2013.

	₹
Stock (1 st January) invoice price	12,000
Debtors (1 st January)	6,200
Goods sent to the Branch (invoice price)	35,000
Goods returned by the Branch (invoice price)	1,000
Sales:	
Credit	21,000
Cash	20,000
Goods returned by customers	600
Cash received from debtors	19,800
Discount allowed to them	300
Cash sent for expenses at the Branch	6,100
Shortage of goods at the Branch (invoice price)	400

Goods are invoiced to the Branch at the selling price so as to show a profit of 30% on invoice price. (8 + 8 = 16 Marks)

5. (a) All India Motels Ltd. absorbed the business of West India Motels Ltd. as on 31st March, 2013. Their respective positions of assets and liabilities as on that date of absorption were as under:

	All India	West India
	₹	₹
Share Capital	6,00,00,000	6,00,00,000
Reserves and Surplus	5,40,00,000	3,60,00,000
Debentures	8,00,00,000	9,60,00,000
Trade payables	2,20,00,000	4,80,00,000
Goodwill	4,48,00,000	3,20,00,000
Buildings	11,60,00,000	11,20,00,000
Machinery	1,80,00,000	1,60,00,000
Trade receivables	60,00,000	5,60,00,000
Inventory	80,00,000	2,00,00,000
Cash	32,00,000	40,00,000
Investments	2,00,00,000	—

The intrinsic value of West India shares has to be determined. Equivalent intrinsic value worth of ₹ 10 fully paid up shares of All India are to be issued to the shareholders of West India. 50% of trade receivables of All India comprises of moneys due from West India. Inventory of West India includes goods worth ₹ 30 lakhs sold by All India at cost plus 20% value. Called and paid up on All India shares is ₹ 8 per share whilst it is ₹ 5 per share in case of West India. Face value of shares of both the companies is ₹ 10. Investments were valued at ₹ 2,60,00,000.

Indicate the necessary journal entries to record the above transactions assuming amalgamation in the nature of purchase.

- (b) From the following information of STP Bank Ltd. pertaining to the financial year 2012-13, compute the provisions to be made in the Profit and Loss Account:

	₹ in lakh
Assets	
Standard	30,000
Sub-standard	20,000
Doubtful:	

For one year (secured)	8,000
For two years and three years (secured)	2,500
For more than three years (secured by mortgage of Plant & Machinery ₹ 500 lakh)	2,000
Loss Assets	1,700

(12 +4= 16 Marks)

6. (a) The following particulars are presented to you by Perfect General Insurance Company regarding its fire insurance business for the year ended 31st March, 2013:

	₹	₹
Reserve for unexpired risk on 31 st March, 2012		
(i) 50% of net premium income for 2011-2012	3,12,500	
(ii) Additional reserve on 31 st March, 2012	62,500	3,75,000
Claims paid		1,75,000
Commission paid		50,000
Expenses of management		1,81,250
Reinsurance premium paid		43,750
Premiums received		8,00,000
Claims outstanding on 31 st March, 2012		62,500
Commission earned on reinsurance ceded		36,875
Estimated liability on 31 st March, 2013 in respect of claims due or intimated		1,25,000

Prepare the Fire Revenue Account for the year ended 31st March, 2013 in the format prescribed by Schedule B given under IDRA Regulations along with necessary schedules. On 31st March, 2013 the company decides to keep total additional reserve for unexpired risk equal to 10% of the net premium income for the year.

- (b) The liquidation of a joint stock company commenced on 1st April, 2013. Certain creditors could not receive payment out of realization of assets and the contributions from A list contributories. The following are the details of certain transfers which took place:

Shareholder's name	No. of shares transferred	Date of ceasing to be a member	Creditors remaining unpaid and outstanding on the date of each transfer ₹
A	2,000	2 nd March, 2012	5,000
B	1,500	3 rd May, 2012	3,300
C	1,000	1 st Sept., 2012	4,300
D	500	23 rd Nov., 2012	4,600
E	300	1 st Feb., 2013	6,000

All the shares were of the face value of ₹ 10 each, ₹ 8 per share paid up.

Show the amount to be realized from the various persons listed above, ignoring expenses and remuneration to liquidator. (8 + 8 = 16 Marks)

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

- (a) Mohan started a business on 1st April 2012 with ₹ 12,00,000 represented by stock of 60,000 units of ₹ 20 each. During the financial year ending on 31st March, 2013 he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Mohan in the year 2012-13 if Financial Capital is maintained at historical cost.
- (b) Viva Ltd. received a specific grant of ₹ 30 lakhs for acquiring the plant of ₹ 150 lakhs during 2010-11 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet. During 2013-14, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was ₹ 21 lakhs and written down value of plant was ₹ 105 lakhs.
 - (i) What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2013-14 in profit and loss account?
 - (ii) What should be the treatment of the refund, if grant was deducted from the cost of the plant during 2010-11 assuming plant account showed the balance of ₹ 84 lakhs as on 1.4.2013?
- (c) A company is in a dispute involving allegation of infringement of patents by a competitor company who is seeking damages of a huge sum of ₹ 900 lakhs. The directors are of the opinion that the claim can be successfully resisted by the company. How would you deal with the same in the annual accounts of the company?

- (d) Explain the concept of 'weighted average number of equity shares outstanding during the period'. State how would you compute, based on AS 20, the weighted average number of equity shares in the following case:

		No. of shares
1 st April, 2012	Balance of equity shares	7,20,000
31 st August, 2012	Equity shares issued for cash	2,40,000
1 st February, 2013	Equity shares bought back	1,20,000
31 st March, 2013	Balance of equity shares	8,40,000

- (e) In May, 2011, Speed Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2012 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was ₹ 18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2012 amounted to ₹ 25 lakhs. Can ₹ 25 lakhs be treated as part of the cost of factory building and thus be capitalized on the plea that the loan was specifically taken for the construction of factory building? *(4 x 4 = 16 Marks)*

Test Series: February, 2014

MOCK TEST PAPER – 1
INTERMEDIATE (IPC): GROUP – II
PAPER – 6: AUDITING AND ASSURANCE

Question No.1 is compulsory.

Attempt any five questions from the remaining six questions.

Time Allowed – 3 Hours

Maximum Marks – 100

1. Give your comments and observations on the following:
 - (a) "Independence is the keystone upon which the respect and dignity of a profession is based." Explain with reference to auditing and accounting profession. (5 Marks)
 - (b) A company has not provided depreciation on machinery on the plea that the machinery has been maintained in excellent condition and is as good as new. (5-Marks)
 - (c) M/s R. R. Hospital, a partnership firm, running a nursing home have decided to discontinue you as an auditor for the next year and requests you to handover all the relevant working papers of the previous year. (5 Marks)
 - (d) "The concept of True and fair is a fundamental concept in Auditing" Explain. (5 Marks)
2.
 - (a) Define Internal Check. What are the special steps involved in framing a system of Internal Check? (2 + 8 = 10 Marks)
 - (b) Explain briefly the Precautions to be taken in applying test check technique. (6 Marks)
3. As an auditor, comment on the following situation/statements or give your answer as per requirement of the question-:
 - (a) Mr. Lalit is a full time practising chartered accountant. During the year 2012-13, he has taken ₹ 300000 housing loan from OBC and the management of the OBC wants to appoint Mr. Lalit as its statutory auditor for the financial year 2012-13. (4 Marks)
 - (b) The Board of Directors of Flexible Ltd failed to appoint its first auditors within one month of the date of registration. (4 Marks)
 - (c) At the Annual General Meeting of the Company, a resolution was passed by the entire body of shareholders restricting some of the powers of the Statutory Auditors. Whether powers of the Statutory Auditors can be restricted? (4 Marks)
 - (d) G S & Company are the appointed auditors of SET Ltd. After completing the audit but before issuing report, the auditor has come to the conclusion that an unqualified opinion cannot be expressed but that the effect of the disagreement with the

management is not so material and pervasive as would require an adverse opinion
Advise in detail how should he report ? (4 Marks)

- 4 How will you verify/vouch the following?
- (a) Loss of stock by theft.
 - (b) Stock lying with subcontractor for fabrication.
 - (c) Sale of empties.
 - (d) Expenditure for advertisement in newspaper. (4 x 4 = 16 Marks)
5. (a) Explain in detail the duties of Comptroller and Auditor General of India. (8 Marks)
- (b) What are the special steps involved in conducting the audit of an Educational Institution? (8 Marks)
6. (a) Comment on the "Interest on share capital was paid to the shareholders as the company had a long gestation period before it could become operational". (8 Marks)
- (b) "The interest of a director in a transaction, entered into by the company has not been disclosed in the records maintained by the company". Comment. (8 Marks)
- 7 Write short note on any four of the following:
- (a) Going Concern Concept
 - (b) Audit Trail
 - (c) Advantages of CAAT
 - (d) Cut-off arrangement.
 - (e) Impairment of Assets. (4 x 4 = 16 Marks)

Test Series: February, 2014

MOCK TEST PAPER – 1
INTERMEDIATE (IPC): GROUP – II
PAPER – 7: INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT
SECTION – A: INFORMATION TECHNOLOGY

Question No.1 is compulsory.

Attempt any five questions from the rest.

Time Allowed – 1½ Hours

Maximum Marks – 50

1. Answer all the following questions in brief.
 - (i) System Software
 - (ii) Operating System
 - (iii) Intranet
 - (iv) File Transfer Protocol
 - (v) Application Server
 - (vi) Repeater
 - (vii) Business-to-Customer (B2C)
 - (viii) Database Administrator
 - (ix) Computer Network
 - (x) Voice over Internet Protocol (VoIP) *(1 x 10 = 10 Marks)*
2.
 - (a) Discuss Ring topology, its advantages and disadvantages in detail. *(4 Marks)*
 - (b) What are the advantages of EDI? Explain in brief. *(4 Marks)*
3.
 - (a) Define the concept of Multiprocessing. *(4 Marks)*
 - (b) Discuss the Internet's role in E-Commerce. *(4 Marks)*
4.
 - (a) What are the factors that are considered in determining the best file organization. *(4 Marks)*
 - (b) What are the advantages and concerns in using Data Warehouse? *(4 Marks)*
5.
 - (a) What is Communication media? Discuss its various types. *(4 Marks)*
 - (b) Discuss different tools, which are available for the protection of information and systems against compromise, intrusion or misuse. *(4 Marks)*

6. Draw a flow chart to compute and print income-tax and surcharge on the income of a person, where income is to be read from terminal and tax is to be calculated as per the following rates:

Upto ₹ 40,000	No tax
Upto ₹ 60,000	@ 10% of amount above ₹ 40,000
Upto ₹ 1,50,000	₹ 2,000 + 20% of amount above ₹ 60,000
Above ₹ 1,50,000	₹ 20,000 + 30% of amount above ₹ 1,50,000

Charge surcharge @ 2% on the amount of total tax, if the income of a person exceeds ₹ 2,00,000. (8 Marks)

7. Write short notes on any **four** of the following.

- (a) Text Editor
- (b) Primary Key
- (c) MODEM
- (d) Telnet
- (e) Single Tier Systems

(4 × 2 = 8 Marks)

Test Series: February, 2014

MOCK TEST PAPER – 1
INTERMEDIATE (IPC): GROUP – II
PAPER – 7: INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT
SECTION – B: STRATEGIC MANAGEMENT

Question No.1 is compulsory.

Attempt any five questions from the rest.

Time Allowed – 1½ Hours

Maximum Marks – 50

1. (a) Globalization means different things to different people. Discuss. (3 Marks)
- (b) Do you agree that control systems run parallel with strategic levels? How? (3 Marks)
- (c) How Portfolio analysis helps the strategists in identifying and evaluating various businesses of a company. (3 Marks)
- (d) Explain briefly the role of culture in promoting better strategy execution. (3 Marks)
- (e) Does HRM function play a role in organizational strategy? (3 Marks)
2. (a) State with reasons which of the following statements is correct/incorrect:
 - (i) Strategic management is a bundle of tricks and magic.
 - (ii) Marketers alone can deliver superior value to customers. (2 × 2 = 4 Marks)
- (b) Explain the meaning of the following concepts:
 - (i) Kieretsus
 - (ii) Market penetration
 - (iii) Opportunity (3 × 1 = 3 Marks)
3. Write short notes on the following:
 - (a) Synchro-marketing (2 Marks)
 - (b) Cost leadership strategy (2 Marks)
 - (c) Ethnic mix (3 Marks)
4. Explain how technological factors present an opportunity as well as threat to a particular business organization. (7 Marks)
5. Many organizations in order to achieve quick growth use strategies such as mergers and acquisitions. Explain. Discuss various types of mergers. (7 Marks)

6. Define each of the following and analyse its role in strategic implementation:
- (1) B.P.R.
 - (2) ERP
 - (3) Benchmarking *(7 Marks)*
7. Define corporate culture. Also elucidate the statement "Culture is a strength that can also be a weakness". *(7 Marks)*

Mayank Kothari's Classes.

Starts
20th June 2014

Time
6 Pm - 9 Pm

Sfm CA Final

Harshad Mehta
STOCK
Exchange
Securities
Euro
Ratan Tata
NSE & BSE
Steve Jobs
Dividend Policies
FOREX
options
Bull
Mergers
DERIVATIVES
Warren Buffet
PORTFOLIO
Capital Budgeting
Mutual Funds
swap
Long
Short
CAPM
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Dollar
Modigliani
futures
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For SFM Charts, Contact: +8983-47-5152, Mayank Kothari's Classes. Snapshot of Chart of Portfolio Management is given

Portfolio Management

Investor

Return, Risk (σ)

Systematic Risk (β)

Unsystematic Risk

Single Securities, Portfolio Beta

1 Security

2 Security

3 Security

Minimum Variance Portfolio

Single Index Model

Three Market Lines

Correlation Analysis

$$r_{12} = \frac{\text{Cov}(R_1, R_2)}{\sigma_1 \sigma_2}$$

Regression Analysis

$$\hat{R}_i = \frac{\sum XY - n\bar{X}\bar{Y}}{\sum X^2 - n\bar{X}^2}$$

Portfolio Rebalancing Strategies

- 1) Buy and Hold Policy
- 2) Constant Mix Policy
- 3) Constant Proportion Portfolio Investment Policy
- 4) Risk Parity Policy

Portfolio Evaluation Measures

Sharpe Ratio, Treynor Ratio, Jensen's Alpha

Minimum Variance Portfolio

Equation of MV: $\sigma_p^2 = \sigma_1^2 w_1^2 + \sigma_2^2 w_2^2 + 2w_1 w_2 r_{12} \sigma_1 \sigma_2$

Doctors Prescription

Dr. Mayank Kothari

CA MAYANK KOTHARI'S CLASSES

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