

MOCK EXAMINATION PAPER

Answers

1. [4] **Explanation:** *Calculation of Loss to be written off:*

Loss on Issue of Debentures A/c = Discount on issue of debentures (10%) + Premium on redemption of debentures (5%)
 $= (\text{₹ } 30,00,000 \times 10/100) + (\text{₹ } 30,00,000 \times 5/100) = \text{₹ } 4,50,000.$

Writing off Loss on Issue of Debentures:

First ₹ 1,00,000 will be set-off from Securities Premium Reserve,

Remaining ₹ 3,50,000 (i.e., ₹ 4,50,000 – ₹ 1,00,000) will be written off from Statement of Profit & Loss as Finance Cost.

2. [2] **Explanation:** Section 48 of the Indian Partnership Act, 1932 deals with the settlement of accounts when the firm is dissolved.
3. [4] **Explanation:** Listed companies other than Banking Companies and All India Financial Institutions are required to Invest in DRI. Thus, Listed Non-banking Finance Companies are required to invest in DRI.
4. [3] **Explanation:** Income & Expenditure Account shows incomes and expenditure of revenue nature relating to the current accounting period.
- A. Interest on General Fund Investments is a Revenue Receipt.
 B. Proceeds from Sale of Match Tickets is a Capital Receipt as Match Fund exists.
 C. Entrance Fees is accounted as a Revenue Receipt.
 D. Match Fund is a Capital Receipt.

5. [1] **Explanation:**

$$X's \text{ Gain} = 4/5 \times 5/15 = 4/15$$

$$Y's \text{ Gain} = 1/5 \times 5/15 = 1/15$$

$$X's \text{ New Profit Share} = 6/15 + 4/15 = 10/15$$

$$Y's \text{ New Profit Share} = 4/15 + 1/15 = 5/15$$

New Profit-sharing Ratio of X and Y = 10/15 : 5/15 or 2 : 1.

6. [3] **Explanation:**

- B. Default on Calls.
 A. Forfeiture of shares.
 D. Re-issue of shares.
 C. Amount transferred to Capital Reserve.

7. [1] **Explanation:**

Working Notes:

1. Calculation of Sacrifice/(Gain) of each Partner:

Particulars	Shashi	Shakti	Mona
I. Old Profit Share	1/6	2/6	3/6
II. New Profit Share	3/6	2/6	1/6
III. Sacrifice/(Gain)	(2/6)	...	2/6

2. Calculation of Net effect of Reserves, Accumulated Profits and Losses:

Profit and Loss A/c (Dr.)	(15,000)
General Reserve	60,000
Advertisement Suspense A/c	(75,000)
Net Effect	<u>(30,000)</u>

The net result being a loss will be debited to Sacrificing Partner's (Mona) Capital Account and credited to Gaining Partner's (Shashi) Account.

Thus, the Journal entry will be:

Mona's Capital A/c	...Dr.	₹ 10,000	
To Shashi's Capital A/c			₹ 10,000
(Adjustment of Reserves, Profits and Losses because of change in profit-sharing ratio)			

8. [3] **Explanation:** Opening Balance Sheet of a Not-for-Profit Organisation is prepared to determine Capital Fund, which is equal to the difference of Assets and Liabilities as on that date.

9. [3] **Explanation:**

Book Value of furniture sold is ₹ 60,000.

Depreciation charged till 1st October, 2020 ($\text{₹ } 60,000 \times 10/100 \times 6/12$) = ₹ 3,000

Depreciation on old unsold Furniture ($\text{₹ } 3,40,000 - \text{₹ } 60,000$) $\times 10/100$ = ₹ 28,000.

Depreciation on new Furniture = $\text{₹ } 3,00,000 \times 10/100 \times 6/12$ = ₹ 15,000

Depreciation shown in Income and Expenditure Account for the year ended 31st March, 2022
= ₹ 3,000 + ₹ 28,000 + ₹ 15,000 = ₹ 46,000.

10. [2] **Explanation:**

- Paid ₹ 6,00,000 to acquire shares in Reliance Ltd. and received ₹ 50,000. It is an outflow for investment and hence, it is Cash Used of ₹ 6,00,000 in Investing Activities. Dividend of ₹ 50,000 is received. Hence, net outflow in Investing Activity is ₹ 5,50,000. **(Option II)**
- Issue of Preference Shares of ₹ 5,00,000 at 10% premium is Cash Inflow from Financing Activities ₹ 5,50,000 ($\text{₹ } 5,00,000 + \text{₹ } 50,000$). **(Option III)**
- Sale of old Machinery for ₹ 5,50,000 is Cash Inflow from Investing Activities being sale proceeds of an asset. Purchase of new machinery for ₹ 6,00,000. Hence, Net Outflow in Investing Activities is ₹ 50,000. **(Option IV)**
- Redemption of 8% Debentures of nominal (face) value ₹ 5,00,000 at 10% premium is Cash Used in Financing Activities ₹ 5,50,000. **(Option I)**

11. [3] **Explanation:** Operating Cost includes the Cost of Revenue from Operations or Cost of Goods Sold (COGS) and Operating Expenses. They also include depreciation and amortisation. Operating Cost does not include Finance Cost.

12. [2] **Explanation:**

Securities premium can be used for these activities:

- Issuing fully paid-up bonus shares to existing shareholders.
- Writing off expense of issue of shares and debentures, such as discount given on issue of shares debentures.
- Writing off preliminary expenses
- Buying back shares
- For providing premium payable on redemption of debentures.

Thus, it cannot be used for issuing Partly Paid Bonus Shares.

13. [2] **Explanation:** Increase in Operating Income can result in increase in Net Profit before Interest, Tax and Dividend although Capital employed increased. Thus, in effect, ROI increased from 15% to 18%.

14. [4] **Explanation:**

$$\begin{aligned}\text{Return on Investment} &= \text{Net Profit before Interest, Tax and Dividend} / \text{Capital Employed} \times 100 \\ 18/100 &= \text{Net Profit before Interest, Tax and Dividend} / ₹ 42,00,000 \\ \text{Net Profit before Interest, Tax and Dividend} &= ₹ 7,56,000 \\ \text{Net Profit Before Tax} &= \text{Profit before Interest, Tax and Dividend} - \text{Interest on Long-term Debts}^* \\ &= ₹ 7,56,000 - ₹ 96,000 = ₹ 6,60,000 \\ \text{Net Profit after Tax} &= \text{Net Profit before Tax} - \text{Tax} \\ &= ₹ 6,60,000 - ₹ 2,64,000 = ₹ 3,96,000 \\ \text{Net Profit available for Equity Shareholders} &= \text{Net Profit after Tax} - \text{Dividend on Preference Shares}^{**} \\ &= ₹ 3,96,000 - ₹ 96,000 = ₹ 3,00,000 \\ \text{Number of Equity Shares} &= ₹ 20,00,000 / ₹ 10 = 2,00,000 \\ \text{EPS} &= \text{Profit available for equity shareholders} / \text{Number of Equity Shares} \\ &= ₹ 3,00,000 / 2,00,000 = ₹ 1.50 \text{ per share.}\end{aligned}$$

*Interest on Long-term Debts = ₹ 10,00,000 × 9.6% = ₹ 96,000.

**Dividend on Preference Shares = ₹ 12,00,000 × 8% = ₹ 96,000.

15. [1] **Explanation:**

$$\begin{aligned}\text{Dividend per Share} &= \text{Dividend paid to Equity shareholders} / \text{Number of Equity Shares} \\ &= ₹ 4,00,000 / 2,00,000 = ₹ 2 \text{ per share} \\ \text{Dividend paid to Equity shareholders} &= ₹ 20,00,000 \times 20\% = ₹ 4,00,000.\end{aligned}$$

16. [4] **Explanation:**

All Assets – Goodwill – Non-Trade Investments – Fictitious Assets – Current Liabilities is the formula to determine Capital Employed for the purpose of valuation of Goodwill.

17. [2] **Explanation:**

$$\begin{aligned}\text{Interest on Debentures due on 30th September, 2020} &= ₹ 60,00,000 \times 10/100 \times 2/12 = ₹ 1,00,000 \\ \text{Interest on Debentures due on 31st March, 2021} &= ₹ 60,00,000 \times 10/100 \times 6/12 = ₹ 3,00,000 \\ \text{Total Interest} &= ₹ 4,00,000 \\ \text{Loss on Issue of Debentures A/c} &= \text{Discount on issue of Debentures} + \text{Premium on redemption of Debentures} \\ \text{Discount on Issue of Debentures} &= ₹ 60,00,000 \times 20/100 = ₹ 12,00,000 \\ \text{Premium on Redemption of Debentures} &= ₹ 60,00,000 \times 10/100 = ₹ 6,00,000 \\ \text{Loss on Issue of Debentures} &= ₹ 12,00,000 + ₹ 6,00,000 = ₹ 18,00,000. \\ \text{Finance Cost} &= \text{Interest on Debentures} + \text{Loss on Issue of Debentures} \\ &= ₹ 4,00,000 + ₹ 18,00,000 = ₹ 22,00,000.\end{aligned}$$

18. [1] **Explanation:**

	₹
Unrecorded Asset taken by Gautam	50,000
Less: Unrecorded Liabilities assumed	5,000
Balance	45,000
Less: Gautam's Share of Unrecorded Asset and Liabilities (1/3rd of ₹ 45,000)	15,000
Amount for unrecorded assets and liabilities (Gautam's Share)	30,000
Therefore, amount due to Gautam	₹ 1,20,000 (₹ 1,50,000 – ₹ 30,000).

19. [2] **Explanation:** Under Fixed Capital Accounts Method, Remuneration (*i.e.*, Salary or Commission) given to partners is Credited to Partner's Current Account.
20. [4] **Explanation:**
 Stock of Sports Materials Consumed = Opening Stock + Purchases – Closing stock
 $= ₹ 2,00,000 + ₹ 7,50,000 - ₹ 2,50,000 = ₹ 7,00,000.$
21. [4] **Explanation:**
 B. The Components of Balance Sheet are written.
 A. The amounts of Previous and Current Year are written.
 D. Absolute Change is calculated by finding the difference between previous year values with the current year values.
 C. Percentage Change is calculated by, Absolute Increase or Decrease $\times 100$ / Previous year absolute figure.
22. [3] **Explanation:** Equity shares issued = $(₹ 30,00,000 - ₹ 6,00,000) / ₹ 120 = 20,000.$
23. [3] **Explanation:** AS 26, Intangible Assets, prescribes that Goodwill is not to be recognised in the books of account unless consideration is paid for it.
24. [4] **Explanation:** A's Drawings is debited to A's Capital Account, which will be transferred to his Capital Account. All other options affect Capital Accounts of other partners.
25. [3] **Explanation:** Sweat Equity shares means such equity shares as are issued by a company to its directors or employees. Section 54 of the Companies Act, 2013 allows companies to issue sweat equity at a discount.
26. [3] **Explanation:**
 Debentures Application $(12,000 \times ₹ 200) = ₹ 24,00,000$
 Debentures Allotment A/c $(12,000 \times ₹ 350) = ₹ 42,00,000$
27. [4] **Explanation:**
 A. Sports Fund ₹ 57,90,000 and Expenses on Sports events ₹ 52,90,000, thus ₹ 5,00,000 will be shown in Balance Sheet as Liabilities. **(Option III)**
 B. Sports Fund ₹ 68,70,000 and Expenses on Sports events ₹ 73,70,000. Thus ₹ 5,00,000 will be debited to Income & Expenditure Account. **(Option IV)**
 C. Sports Event Receipts ₹ 23,60,000 and Sports Events Expenses ₹ 18,60,000, thus ₹ 5,00,000 will be credited to Income & Expenditure Account. **(Option I)**
 D. Sports Event Receipts ₹ 34,56,000 and Sports Event Expenses ₹ 40,56,000, thus ₹ 6,00,000 will be debited to Income & Expenditure Account. **(Option II)**
28. [2] **Explanation:** *Calculation of interest on Debentures:*
 Interest as on 30th September, 2020 (from 1.5.2020 to 30.9.2020):
 $₹ 10,00,000 \times 9/100 \times 5/12 = ₹ 37,500$
 Interest as on 31st March, 2021 (from 1.10.2020 to 31.3.2021):
 $₹ 10,00,000 \times 9/100 \times 6/12 = ₹ 45,000.$
 Total Interest for the year = ₹ 82,500 (₹ 37,500 + ₹ 45,000); TDS = 10% of ₹ 82,500 = ₹ 8,250.
29. [1] **Explanation:** The Authorised Capital of a company is the maximum amount of share capital for which shares can be issued by a company. The Authorised Capital is stated in the Memorandum of Association of the Company.
30. [2] **Explanation:** When market value of Investment is more than book value, the increase in value is transferred to the credit of Revaluation Account. Since Investment Fluctuation Reserve is unutilised it becomes a free reserve and transferred to the credit of Partners' Capital Accounts.

31. [2] **Explanation:** Current Investments will be shown as Current Investments in the Balance Sheet.
32. [4] **Explanation:** The amount already received on forfeited share excluding premium.
33. [2] **Explanation:** When an asset is transferred to Realisation Account, related provision and reserve is also transferred to Realisation Account. Since Investment is transferred to Realisation Account, Investment Fluctuation Reserve will also be transferred to Realisation Account.
34. [1] **Explanation:** Half of the creditors are adjusted by Debtors (No entry is passed When an asset is given to settle a liability, towards payment of the dues). Remaining Half is ₹ 41,085, *i.e.*, ₹ 41,500 – Discount of ₹ 415 (₹ 41,500 × 6% for 2/12 months).
35. [4] **Explanation:** It is accumulated loss being debit balance in Profit & Loss Account or balance in fictitious asset accounts like Deferred Revenue Expenditure, etc., these are transferred to the debit of Partners' Capital Accounts in their profit-sharing ratio.
36. [1] **Explanation:** Court may pass order for the dissolution of the firm when:
1. a partner becomes a person of unsound mind;
 2. a partner becomes permanently incapable of performing his duties as a partner;
 3. a partner is found guilty of misconduct, which is likely to adversely affect the business of the firm;
 4. partnership agreement is breached persistently by a partner or partners;
 5. court finds dissolution of the firm justified;
 6. the business of the firm cannot be carried on except at a loss.
- The partnership firm is ordered to be dissolved and it can be by the process of law, *i.e.*, court.
37. [1] **Explanation:** Life membership Fee is a Capital Receipt and added to Capital Fund. Life Membership Fee of ₹ 50,000 wrongly treated as revenue receipt will increase the income and as a result surplus will be increased by the same amount. However, Capital Fund will not change as Life Membership Fees will get added to Capital Fund as it is included in surplus.
38. [3] **Explanation:**
- A. Workmen Compensation Reserve is fully set off to pay Workmen Compensation Claim. Hence, no amount will be transferred to Partners' Capital Accounts. **(Option III)**
 - B. Since the Market value of the Investment is more than book value, total Investment Fluctuation Reserve is in the nature of free reserve and thus, distributed among partners (including retiring partner) in their profit-sharing ratio. Therefore, B's share is 1/3rd of ₹ 60,000, *i.e.*, ₹ 20,000. **(Option I)**
 - C. Since there is no claim, total Workmen Compensation Reserve is in the nature of free reserve and thus, will be distributed among partners. Therefore, B's share is 1/3rd of ₹ 90,000 = ₹ 30,000. **(Option II)**
 - D. Investment Fluctuation Reserve to the extent of ₹ 60,000 is set off against fall in value of Investment amounting to ₹ 60,000. Balance amount (₹ 30,000) will be distributed among partners (including retiring partner). Hence, Z's Capital Account will be credited by ₹ 10,000 (1/3rd of ₹ 30,000). **(Option IV)**
39. [3] **Explanation:**
- | | |
|---|----------------------|
| Amount Forfeited on 6,000 Shares (6,000 × ₹ 6) | ₹ 36,000 |
| Amount Forfeited on 4,000 Shares (₹ 36,000 × 4,000/6,000) | ₹ 24,000 |
| Less: Discount on Reissue (Balancing Figure) | <u>₹ 20,000</u> |
| Gain on reissued shares (transferred to Capital Reserve) | <u>₹ 4,000</u> |
| Discount allowed on Reissued shares (₹ 20,000/4,000 shares) | <u>₹ 5 per share</u> |
| As Shares were fully Called-up (₹ 20), | |
| Shares were reissued at ₹ 15 (₹ 20 – ₹ 5) per share. | |

40. [4] **Explanation:**

- B. Charge interest on loan.
- C. Calculate net profit.
- D. Provide interest on capital.
- A. Distribute profits between/among partners.

41. [1] **Explanation:** *Calculation of Securities Premium Reserve:*

Number of shares to be issued = $(₹ 2,25,000 - ₹ 10,000) / ₹ 21.50 = 10,000$ shares

Therefore, Securities Premium Reserve = $10,000 \text{ shares} \times ₹ 1.50 = ₹ 15,000$.

42. [1] **Explanation:** Number of shares applied by Shobha: $(80,000/50,000) \times 12,500 = 20,000$ Shares

Note: 30,000 applications out of 1,10,000 shares were rejected and the remaining applicants of 80,000 shares were allotted 50,000 shares on *pro rata* basis.

43. [3] **Explanation:**

Average Profit = $₹ 65,000 + ₹ 35,000$ (Undervalued Stock) = $₹ 1,00,000$

Normal Profit = $\text{Capital Employed} \times \text{NRR}/100 = ₹ 8,00,000 \times 10/100 = ₹ 80,000$

Super Profit = $\text{Actual Average Profit} - \text{Normal Profit}$

$= ₹ 1,00,000 - ₹ 80,000 = ₹ 20,000$

Goodwill = $₹ 20,000 \times 4 = ₹ 80,000$.

44. [4] **Explanation:** Redemption of Debentures out of profits is a source and remaining are methods of Redemption.

45. [1] **Explanation:**

Trade Receivables Turnover Ratio = $\text{Credit Revenue from Operations} / \text{Average Trade Receivables}$

$= ₹ 36,00,000 / ₹ 12,00,000^* = 3$ Times.

Average Collection Period = $12 / \text{Trade Receivables Turnover Ratio} = 12/3 = 4$ months.

*In the absence of clear instructions Debtors and Bills Receivables are taken as average Trade Receivables.

46. [1] **Explanation:** ₹ 3,000 is the amount that the firm will not pay to Manoj. Therefore, it is a gain (profit) for the firm and hence is recorded in the credit side of the Realisation account.

47. [3]

48. [3]

49. [3]

50. [3]

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