CA INTERMEDIATE

SUBJECT- ACCOUNTS

Test Code – CIM 8444

(Date :)

(Marks - 100)

TOPIC : FULL

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.

QUESTION NO.1 **(5 MARKS X 4 = 20 MARKS)**

A. First Ltd. began construction of a new factory building on 1st April, 2017. It obtained Rs. 2,00,000 as a special loan to finance the construction of the factory building on 1st April, 2017 at an interest rate of 8% per annum. Further, expenditure on construction of the factory building was financed through other non-specific loans. Details of other outstanding non-specific loans were:

Amount (Rs.)	Rate of Interest per annum
4,00,000	9%
5,00,000	12%
3,00,000	14%

The expenditures that were made on the factory building construction were as follows:

Date	Amount (Rs.)
1st April, 2017	3,00,000
31st May, 2017	2,40,000
1st August, 2017	4,00,000
31st December, 2017	3,60,000

The construction of factory building was completed by 31st March, 2018. As per the provisions of AS 16, you are required to:

(1) **<u>Calculate the amount of interest to be capitalized.</u>**

(2) **<u>Pass Journal entry</u>** for capitalizing the cost and borrowing cost in respect of the factory building.

B. (i) Trade receivables as on 31.3.2019 in the books of XYZ Ltd. include an amount receivable from Umesh Rs. 5,00,000 recorded at the prevailing exchange rate on the date of sales, i.e. at US $ 1= Rs. 58.50. US $ 1 = Rs. 61.20 on 31.3.2019.

Explain briefly the accounting treatment needed in this case as per AS 11 as on 31.3.2019.

(ii) Power Track Ltd. purchased a plant for US$ 50,000 on 31st October, 2018 payable after 6 months. The company entered into a forward contract for 6 months @Rs. 64.25 per Dollar. On 31st October, 2018, the exchange rate was Rs. 61.50 per Dollar.

You are **required to recognise the profit or loss on forward contract in the books of the company for the year ended 31st March, 2019.**

C. The Accountant of Sohna Ltd. provides the following information for the year ended 31-03-2019:

Particulars	Rs.
Accounting Profit	7,50,000
Book Profit as per MAT	4,37,500
Profit as per Income Tax Act	90,000
Tax rate	20%
MAT rate	7.50%

You are required to calculate the deferred tax asset/ liability as per AS 22 and amount of tax to be debited to the Profit and Loss Account for the year.

D. On 15th June, 2018, Y limited wants **to re-classify its investments in accordance with AS 13 (revised).** Decide and state the amount of transfer, based on the following information:

1. A portion of long term investments purchased on 1st March, 2017 are to be re-classified as current investments. The original cost of these investments was Rs. 14 lakhs but had been written down by Rs. 2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15th June, 2018 was Rs. 11 lakhs.

2. Another portion of long term investments purchased on 15th January, 2017 are to be re-classified as current investments. The original cost of these investments was Rs. 7 lakhs but had been written down to Rs. 5 lakhs (to recognize 'other than temporary' decline in value). The fair value of these investments on 15th June, 2018 was Rs. 4.5 lakhs.

3. A portion of current investments purchased on 15th March, 2018 for Rs. 7 lakhs are to be re-classified as long term investments, as the company has decided to retain them. The market value of these investments on 31st March, 2018 was Rs. 6 lakhs and fair value on 15th June 2018 was Rs. 8.5 lakhs.

4. Another portion of current investments purchased on 7th December, 2017 for Rs. 4 lakhs are to be re-classified as long term investments. The market value of these investments was:

on 31st March, 2018	Rs. 3.5 lakhs
on 15th June, 2018	Rs. 3.8 lakhs

QUESTION NO.2

A. A fire occurred in the premises of M/s Bright on 25th May, 2017. As a result of fire, sales were adversely affected up to 30th September, 2017. The firm had taken Loss of profit policy (with an average clause) for Rs. 3,50,000 having indemnity period of 5 months. There is an upward trend of 10% in sales.

The firm incurred an additional expenditure of Rs. 30,000 to maintain the sales. There was a saving of Rs. 5,000 in the insured standing charges.

Actual turnover from 25th May, 2017 to 30th September, 2017	Rs. 1,75,000
Turnover from 25th May, 2016 to 30th September, 2016	Rs. 6,00,000
Net profit for last financial year	Rs. 2,00,000
Insured standing charges for the last financial year	Rs. 1,75,000
Total standing charges for the last financial year	Rs. 3,00,000
Turnover for the last financial year	Rs. 15,00,000
Turnover for one year from 25th May, 2016 to 24th May, 2017	Rs. 14,00,000

You are required to **calculate the loss of profit claim amount, assuming that entire sales during the interrupted period was due to additional expenses**.

(10 MARKS)

B. Roshani & Reshma working in partnership, registered a joint stock company under the name of Happy Ltd. on May 31st 2018 to take over their existing business. The summarized Profit & Loss A/c as given by Happy Ltd. for the year ending 31st March, 2019 is as under:

Happy Ltd.

Profit & Loss A/c for the year ending March 31, 2019

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Salary	1,44,000	By Gross Profit	4,50,000
To Interest on Debenture	36,000		
To Sales Commission	18,000		
To Bad Debts	49,000		
To Depreciation	19,250		
To Rent	38,400		
To Company Audit fees	12,000		
To Net Profit	1,33,350		
Total	4,50,000	Total	4,50,000

Prepare a Statement showing allocation of expenses & calculation of pre-incorporation & post- incorporation profits after considering the following information:

(i) GP ratio was constant throughout the year.

(ii) Depreciation includes Rs. 1,250 for assets acquired in post incorporation period.

(iii) Bad debts recovered amounting to Rs. 14,000 for a sale made in 2015-16 has been deducted from bad debts mentioned above.

(iv) Total sales were Rs. 18,00,000 of which Rs. 6,00,000 were for April to September.

(v) Happy Ltd. had to occupy additional space from 1st Oct. 2018 for which rent was Rs. 2,400 per month.

(10 MARKS)

QUESTION NO.3

A. The following information was provided by PQR Ltd. for the year ended 31st March, 2019 :

(1) Gross Profit Ratio was 25% for the year, which amounts to Rs. 3,75,000.

(2) Company sold goods for cash only.

(3) Opening inventory was lesser than closing inventory by Rs. 25,000.

(4) Wages paid during the year Rs. 5,55,000.

(5) Office expenses paid during the year Rs. 35,000.

(6) Selling expenses paid during the year Rs. 15,000.

(7) Dividend paid during the year Rs. 40,000 (including dividend distribution tax).

(8) Bank Loan repaid during the year Rs. 2,05,000 (included interest Rs. 5,000)

(9) Trade Payables on 31st March, 2018 were Rs. 50,000 and on 31st March, 2019 were Rs. 35,000.

(10) Amount paid to Trade payables during the year Rs. 6,10,000

(11) Income Tax paid during the year amounts to Rs. 55,000 (Provision for taxation as on 31st March, 2019 Rs. 30,000)·

(12) Investments of Rs. 8,20,000 sold during the year at a profit of Rs. 20,000.

(13) Depreciation on furniture amounts to Rs. 40,000.

(14) Depreciation on other tangible assets amounts to Rs. 20,000.

(15) Plant and Machinery purchased on 15th November, 2018 for Rs. 3,50,000.

(16) On 31st March, 2019 Rs. 2,00,000, 7% Debentures were issued at face value in an exchange for a plant.

(17) Cash and Cash equivalents on 31st March, 2018 Rs. 2,25,000.

(A) **Prepare cash flow statement for the year ended 31st March, 2019, using direct method.**

(B) **Calculate cash flow from operating activities, using indirect method.**

(10 MARKS)

B. M/s Amar bought six Scooters from M/s Bhanu on 1st April, 2015 on the following terms:

Down payment	Rs.	3,00,000
1st instalment payable at the end of 1st year	Rs.	1,59,000
2nd instalment payable at the end of 2nd year	Rs.	1,47,000
3rd instalment payable at the end of 3rd year	Rs.	1,65,000

Interest is charged at the rate of 10% per annum.

M/s Amar provides depreciation @ 20% per annum on the diminishing balance method.

On 31st March, 2018 M/s Amar failed to pay the 3rd instalment upon which M/s Bhanu repossessed two Scooters. M/s Bhanu agreed to leave the other four Scooters with M/s Amar and adjusted the value of the repossessed Scooters against the amount due. The Scooters taken over were valued on the basis of 30% depreciation per annum on written down value. The balance amount remaining in the vendor's account after the above adjustment was paid by M/s Amar after 5 months with interest@ 15% per annum.

M/s Bhanu incurred repairing expenses of Rs. 15,000 on repossessed scooters and sold scooters for Rs. 1,05,000 on 25th April, 2018.

<u>You are required to :</u>

a. Calculate the cash price of the Scooters and the interest paid with each instalment.

b. Prepare Scooters Account and M/s Bhanu Account in the books of M/s Amar.

c. Prepare Goods Repossessed Account in the books of M/s Bhanu.

(10 MARKS)

QUESTION NO.4

A. Following is the incomplete information of Jyotishikha Traders:

The following balances are available as on 31.03.2018 and 31.03.2019.

Balances	*31.03.2018*	*31.03.2019*
Land and Building	5,00,000	5,00,000
Plant and Machinery	2,20,000	3,30,000
Office equipment	1,05,000	85,000
Debtors (before charging for Bad debts)	?	2,25,000
Creditors for purchases	95,000	?
Creditors for office expenses	20,000	15,000
Stock	?	65,000
Long term loan from SBI @ 12%.	1,60,000	100,000
Bank	25,000	?

Other Information	In Rs.
Collection from debtors	9,25,000
Payment to creditors for purchases	5,25,000
Payment of office expenses (excluding interest on loan)	42,000
Salary paid	32,000
Selling expenses	15,000
Cash sales	2,50,000
Credit sales (80% of total sales)	
Credit purchases	5,40,000
Cash purchases (40% of total purchases)	
GP Margin at cost plus 25%	
Discount Allowed	5,500
Discount Received	4,500
Bad debts (2% of closing debtors)	
Depreciation to be provided as follows:	
Land and Building	5%
Plant and Machinery	10%
Office Equipment	15%

Other adjustments:

(i) On 01.10.18 they sold machine having Book Value Rs. 40,000 (as on 31.03.2018) at a loss of Rs. 15,000. New machine was purchased on 01.01.2019.

(ii) Office equipment was sold at its book value on 01.04.2018.

(iii) Loan was partly repaid on 31.03.19 together with interest for the year.

<u>You are required to prepare Trading, Profit & Loss Account and Balance Sheet as on 31.03.2019</u>.

(12 MARKS)

B. M/s Rani & Co. has head office at Singapore and branch at Delhi (India). Delhi branch is an integral foreign operation of M/s Rani & Co. Delhi branch furnishes you with its Trial Balance as on 31st March, 2019 and the additional information thereafter:

	Dr.	Cr.
	Rupees in thousands	
Stock on 1st April, 2018	600	-
Purchases and Sales	1,600	2,400
Sundry Debtors and Creditors	800	600
Bills of Exchange	240	480
Wages	1,120	-
Rent, rates and taxes	720	-
Sundry Expenses	320	-
Computers	600	-
		-

Bank Balance	520	
Singapore Office A/c	-	3,040
Total	6,520	6,520

Additional information :

(a) Computers were acquired from a remittance of Singapore dollar 12,000 received from Singapore Head Office and paid to the suppliers. Depreciate Computers at the rate of 40% for the year.

(b) Closing Stock of Delhi branch was Rs. 15,60,000 on 31st March, 2019.

(c) The Rates of Exchange may be taken as follows :

  (i) on 1.4.2018 @ Rs. 50 per Singapore Dollar

  (ii) on 31.3.2019 @ Rs. 52 per Singapore Dollar

  (iii) Average Exchange Rate for the year @ Rs. 51 per Singapore Dollar.

  (iv) Conversion in Singapore Dollar shall be made upto two decimal accuracy.

(d) Delhi Branch Account showed a debit balance of Singapore Dollar 59,897.43 on 31.3.2019 in the Head office books and there were no items pending for reconciliation.

In the books of Head office you are required to prepare :

(1) Revenue statement for the year ended 31st March, 2019 (in Singapore Dollar)

(2) Balance Sheet as on that date. (in Singapore Dollar)

(8 MARKS)

QUESTION NO.5

The following is the Balance Sheet of M/s Red and Black as on 31st March, 2018:

Liabilities		(Rs.)	Assets	(Rs.)
Red's Capital	80,000		Building	1,00,000
Black's Capital	1,00,000	1,80,000	Closing	60,000
Red's Loan			Stock Sundry	
General		20,000	Debtors	40,000
Reserve Sundry		20,000	Investment	40,000
Creditors				
		40,000	(6% Debentures in Cool	
			Ltd.) Cash	
				20,000
		2,60,000		2,60,000

It was agreed that Mr. White is to be admitted for a fifth share in the future profits from 1st April, 2018. He is required to contribute cash towards goodwill and Rs. 20,000 towards capital.

(a) The following further information is furnished:

(i) The partners Red and Black shared the profits in the ratio of 3 : 2.

(ii) Mr. Red was receiving a salary of Rs. 1,000 p.m. from the very inception of the firm in addition to the share of profit.

(iii) The future profit ratio between Red, Black and White will be 3 : 1 : 1. Mr. Red will not get any salary after the admission of Mr. White.

(iv) The goodwill of the firm should be determined on the basis of 2 years' purchase of the average profits from business of the last 5 years. The particulars of profits/losses are as under :

Year Ended	(Rs.)	Profit/Loss
31.3.2014	40,000	Profit
31.3.2015	20,000	Loss
31.3.2016	40,000	Profit
31.3.2017	50,000	Profit
31.3.2018	60,000	Profit

The above profits and losses are after charging the salary of Mr. Red. The profit of the year ended 31st March, 2014 included an extraneous profit of Rs. 60,000 and the loss for the year ended 31st March, 2015 was on account of loss by strike to the extent of Rs. 40,000.

(v) It was agreed that the value of the goodwill should not appear in the books of the firm.

(b) Trading profit for the year ended 31st March, 2019 was Rs. 80,000 (Before charging depreciation)

(c) Each partner had drawn Rs. 2,000 per month as drawing during the year 2018-19.

(d) On 31st March, 2019 the following balances appeared in the books:

Building (Before Depreciation)	Rs. 1,20,000
Closing Stock	Rs. 80,000
Sundry Debtors	Nil
Sundry Creditors	Nil
Investment	Rs. 40,000

(e) Interest was @ 6% per annum on Red's loan was not paid during the year.

(f) Interest on Debenture was received during the year.

(g) Depreciation is to be provided @ 5% on Closing Balance of Building.

(h) Partners applied for conversion of the firm into a private Limited Company i.e. RBW Private Limited. Certificate received on 1.4.2019.

They decided to convert Capital accounts of the partners into share capital, in the ratio of 3: 1: 1 (on the basis of total Capital as on 31.3.2019). If necessary, partners have to subscribe to fresh capital or withdraw.

You are required to prepare :

(1) Profit & Loss Account for the year ended 31st March, 2019 in the books of M/s Red and Black.

(2) Balance Sheet as on 1st April, 2019 in the books of RBW Private Limited.

(20 MARKS)

QUESTION NO.6 **(5 MARKS X 4 = 20 MARKS)**

A. Aman started a business on 1st April 20X1 with Rs. 24,00,000 represented by 1,20,000 units of Rs. 20 each. During the financial year ending on 31st March, 20X2, he sold the entire stock for Rs. 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Aman in the year 20X1-X2 if Financial Capital is maintained at historical cost.

B. The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 20X1:

Share capital: 50,000 Equity shares of Rs.10 each fully paid – Rs.5,00,000; 2,000 10% Redeemable preference shares of Rs.100 each fully paid – Rs. 2,00,000.

Reserve & Surplus: Capital reserve – Rs.2,00,000; General reserve –Rs. 2,00,000; Profit and Loss Account – Rs.75,000.

On 1st January 20X2, the Board of Directors decided to redeem the preference shares at premium of 5% by utilization of reserves.

You are required to prepare necessary Journal Entries including cash transactions in the books of the company.

C. Omega company offers new shares of Rs. 100 each at 20% premium to existing shareholders on the basis of one for four shares. The cum-right market price of a share is Rs. 190.
You are required to calculate the Value of a right share.

D. Wooden Plywood Limited has a normal wastage of 5% in the production process. During the year 2017-18, the Company used 16,000 MT of Raw material costing Rs. 190 per MT. At the end of the year, 950 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books.

You are required to :

(1) Calculate the amount of abnormal loss.
(2) Explain the treatment of normal loss and abnormal loss. [In the context of AS-2 (Revised)]