(Marks - 100)

Question 1 is Compulsory and Attempt any four questions from remaining five questions

Question 1:

(A)

Beta Ltd. is a full tax free enterprise for the first ten years of its existence and is in the second year of its operation. Depreciation timing difference resulting in a tax liability in year 1 and 2 is Rs. 1,000 lakhs and Rs. 2,000 lakhs respectively. From the third year it is expected that the timing difference would reverse each year by Rs. 50 lakhs. Assuming tax rate of 40%, you are required to compute to the deferred tax liability at the end of the second year and any charge to the Profit and Loss account. **(5 marks)**

(B)

Mohan Ltd. has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site.

The following incremental costs will be incurred:

Setup costs of Rs. 5,00,000 to install machinery in the new

location. Rent of Rs. 15,00,000

Removal costs of Rs. 3,00,000 to transport the machinery from the old location to the temporary location.

You are required to examine in line with **AS 10 "Property, Plant and Equipment"** whether these costs can be capitalized into the cost of the new building. **(5 marks)**

(C)

A private limited company manufacturing fancy terry towels had valued its closing inventory of inventories of finished goods at the realizable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.

You are required to advise the company on the valuation of the inventories in line with the provisions of **AS 2**. **(5 marks)**

(D)

A Company has an inter-segment transfer pricing policy of charging at cost less 5%. The market prices are generally 20% above cost.

You are required to **examine** whether the policy adopted by the company is correct or not?

(5 marks)

Question 2:

(A)

Smart Investments made the following investments in the year 2017-18:

12% State Government Bonds having face value Rs. 100

Date	Particulars
01.04.2017	Opening Balance (1200 bonds) book value of Rs. 1,26,000
02.05.2017	Purchased 2,000 bonds @ Rs. 100 cum interest
30.09.2017	Sold 1,500 bonds at Rs. 105 ex interest

Interest on the bonds is received on 30th June and 31st Dec. each year.

Equity Shares of X Ltd.	
15.04.2017	Purchased 5,000 equity shares @ Rs. 200 on cum right basis Brokerage of 1% was paid in addition (Face Value of shares Rs. 10)
03.06.2017	The company announced a bonus issue of 2 shares for every 5 shares held.
16.08.2017	The company made a rights issue of 1 share for every 7 shares held at Rs. 250 per share. The entire money was payable by 31.08.2017.
22.8.2017	Rights to the extent of 20% was sold @ Rs. 60. The remaining rights were subscribed.
02.09.2017	Dividend @ 15% for the year ended 31.03.2017 was received on 16.09.2017
15.12.2017	Sold 3,000 shares @ Rs. 300. Brokerage of 1% was incurred extra.
15.01.2018	Received interim dividend @ 10% for the year 2017-18
31.03.2018	The shares were quoted in the stock exchange @ Rs. 220

Prepare Investment Accounts in the books of Smart Investments. Assume that the average cost method is followed. **(12 marks)**

(B)

Prepare Cash Flow from Investing Activities of Creative Furnishings Limited for the year ended 31-3-2017.

Particulars	Rs.
Plant acquired by the issue of 8% Debentures	1,56,000
Claim received for loss of plant in fire	49,600
Unsecured loans given to subsidiaries	4,85,000
Interest on loan received from subsidiary companies	82,500
Pre-acquisition dividend received on investment made	62,400
Debenture interest paid	1,16,000
Term loan repaid	4,25,000
Interest received on investment	68,000
(TDS of Rs. 8,200 was deducted on the above interest)	
Book value of plant sold (loss incurred Rs. 9,600)	84,000

(8 marks)

Question 3:

(A)

Roshani & Reshma working in partnership, registered a joint stock company under the name of Happy Ltd. on May 31st 2017 to take over their existing business. The summarized Profit & Loss A/c as given by Happy Ltd. for the year ending 31st March, 2018 is as under:

Happy Ltd.

Profit & Loss Account for the year ending March 31, 2018

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 Audit fees (Company Audit)	12,000		
To Net Profit	1,33,350		
Total	**4,50,000**	**Total**	**4,50,000**

You are required to prepare a Statement showing allocation of expenses and calculation of **pre-incorporation and 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 2014-15 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. 2017 for which rent was Rs. 2,400 per month. **(10 marks)**

(B)

A trader's godown caught fire on 29th August, 2017, and a large part of the stock of goods was destroyed. However, goods costing Rs. 54,000 could be salvaged incurring fire fighting expenses amounting to Rs. 2,350.

The trader provides you the following additional information:

	Rs.
Cost of stock on 1st April, 2016	3,55,250
Cost of stock on 31st March, 2017	3,95,050
Purchases during the year ended 31st March, 2017	28,39,800
Purchases from 1st April, 2017 to the date of fire	16,55,350
Cost of goods distributed as samples for advertising from 1st April, 2017 to the date of fire	20,500
Cost of goods withdrawn by trader for personal use from 1st April, 2017 to the date of fire	1,000
Sales for the year ended 31st March, 2017	40,00,000
Sales from 1st April, 2017 to the date of fire	22,68,000

The insurance company also admitted firefighting expenses. The trader had taken the fire insurance policy for Rs. 4,50,000 with an average clause.

You are required to calculate the **amount of the claim** that will be admitted by the insurance company. **(10 marks)**

Question 4:

(A)

The following is the Balance Sheet of Chirag as on 31st March, 2015:

Liabilities	Rs.	Assets	Rs.
Capital Account	48,000	Building	32,500
Loan	15,000	Furniture	5,000
Creditor	31,000	Motor car	9,000
		Stock	20,000
		Debtors	17,000
		Cash in hand	2,000
		Cash at bank	8,500
	94,000		94,000

A riot occurred on the night of 31st March, 2016 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

(a) His sales for the year ended 31st March, 2016 were 20% higher than the previous year's. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2016 were for cash. There were no cash purchases

(b) On 1st April, 2015 the stock level was raised to Rs. 30,000 and stock was maintained at this new level all throughout the year.

(c) Collection from debtors amounted to Rs. 1,40,000 of which Rs. 35,000 was received in cash, Business expenses amounted to Rs. 20,000 of which Rs. 5,000 was outstanding on 31st March, 2016 and Rs. 6,000 was paid by cheques.

(d) Analysis of the Pass Book revealed the Payment to Creditors Rs. 1,37,500, Personal Drawing Rs. 7,500, Cash deposited in Bank Rs. 71,500, and Cash withdrawn from Bank Rs. 12,000.

(e) Gross profit as per last year's audited accounts was Rs. 30,000.

(f) Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.

(g) The amount defalcated by the cashier may be treated as recoverable from him.

You are required to **prepare the Trading and Profit and Loss Account** for the year ended 31 st March, 2016 and Balance Sheet as on that date. **(12 marks)**

(B)

Following is the extract of the Balance Sheet of Xeta Ltd. as at 31st March, 2017:

	Rs.
Authorised capital:	
50,000 12% Preference shares of Rs. 10 each	5,00,000
4,00,000 Equity shares of Rs. 10 each	40,00,000
	45,00,000

Issued and Subscribed capital:	
24,000 12% Preference shares of Rs. 10 each fully paid	2,40,000
2,70,000 Equity shares of Rs. 10 each, Rs. 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Securities premium	1,00,000
Profit and Loss Account	6,00,000

On 1st April, 2017, the Company has made final call @ Rs. 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2017. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

You are required to give necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2017 after bonus issue. **(8 marks)**

Question 5:

(A)

Following is the Trial Balance of Mr. Mohan as on 31.03.2017:

	Particulars	**Debit (Rs.)**	**Credit (Rs.)**
Capital Account			40,000
Drawing Account		1,500	
Opening Stock	Department A	8,500	
	Department B	5,700	
	Department C	1,200	
Purchases	Department A	22,000	
	Department B	17,000	
	Department C	8,000	
Sales	Department A		54,000
	Department B		33,000
	Department C		21,000
Sales Returns	Department A	4,000	
	Department B	3,000	
	Department C	1,000	
Freight and Carriage	Department A	1,400	
	Department B	800	
	Department C	200	
Furniture and fixtures		4,600	
Plant and Machinery		20,000	
Motor Vehicles		40,000	
Sundry Debtors		12,200	
Sundry Creditors			15,000
Salaries		4,500	
Power and water		1,200	
Telephone charges		2,100	
Bad Debts		750	
Rent and taxes		6,000	
Insurance		1,500	

Wages	Department A	800	
	Department B	550	
	Department C	150	
Printing and Stationeries		2,000	
Advertising		3,500	
Bank Overdraft			12,000
Cash in hand		850	
		1,75,000	**1,75,000**

You are required to **prepare** Department Trading, Profit and Loss Account and the Balance Sheet taking into account the following adjustments:

(a) Outstanding Wages: Department B- Rs. 150, Department C – Rs. 50.

(b) Depreciate Plant and Machinery and Motor Vehicles at the rate of 10%.

(c) Each Department shall share all expenses in proportion to their sales.

(d) Closing Stock: Department A - Rs. 3,500, Department B - Rs. 2,000, Department C - Rs. 1,500. **(10 marks)**

(B)

A and B are partners of AB & Co. sharing profits and losses in the ratio of 2:1 and C and D are partners of CD & Co. sharing profits and losses in the ratio of 3:2. On 1st April 2017, they decided to amalgamate and form a new firm M/s. AD & Co**.** wherein all the partners of both the firm would be partners sharing profits and losses in the ratio of 2:1:3:2 respectively to A,B,C and D.

Their balance sheets on that date were as under:

Liabilities	**AB & Co. (Rs.)**	**CD & Co. (Rs.)**	**Assets**	**AB & Co. (Rs.)**	**CD & Co. (Rs.)**
Capitals					
A	1,50,000	-	Building	75,000	90,000
B	1,00,000	-	Machinery	1,20,000	1,00,000
C	-	1,20,000	Furniture	15,000	12,000
D	-	80,000	Inventory	24,000	36,000
Reserve	66,000	54,000	Debtors	65,000	78,000
Creditors	52,000	35,000	Due from CD & Co.	47,000	-
Due to AB & Co.	-	47,000	Cash at Bank	18,000	15,000
			Cash in hand	4,000	5,000
	3,68,000	3,36,000		3,68,000	3,36,000

The amalgamated firm took over the business on the following terms:

(a) Building was taken over at Rs. 1,00,000 and Rs. 1,25,000 of AB & Co. and CD & Co. respectively and Machinery was taken over at Rs. 1,25,000 and Rs. 1,10,000 of AB & Co. and CD & Co. respectively.

(b) Goodwill of AB & Co. was worth Rs. 75,000 and that of CD & Co. was worth Rs. 50,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded through capital accounts of the partners.

(c) Provision for doubtful debts has to be carried forward at Rs. 5,000 in respect of debtors of AB & Co. and Rs. 8,000 in respect of CD & Co.

You are required to:

(i) Compute the adjustments necessary for goodwill.

(ii) Pass the Journal Entries in the books of AD & Co. assuming that excess/deficit capital (taking D's capital as base) with reference to share in profits are to be transferred to current accounts. **(10 marks)**

Question 6:

(A)

"One of the characteristics of financial statements is neutrality"- Do you agree with this statement? Comment. **(5 marks)**

(B)

The following particulars relate to hire purchase transactions:

(a) X purchased three cars from Y on hire purchase basis, the cash price of each car being Rs. 2,00,000.

(b) The hire purchaser charged depreciation @ 20% on diminishing balance method.

(c) Two cars were seized by on hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.

(d) The hire vendor spent Rs. 10,000 on repairs of the cars and then sold them for a total amount of Rs. 1,70,000.

You are required to compute:

(i) Agreed value of two cars taken back by the hire vendor.

(ii) Book value of car left with the hire purchaser.

(iii) Profit or loss to hire purchaser on two cars taken back by their hire vendor.

(iv) Profit or loss of cars repossessed, when sold by the hire vendor. **(8 marks)**

(C)

Explain the Limitations of Liability of Limited Liability Partnership (LLP) and its partners.

(4 marks)

(D)

Explain main elements of Financial Statements. **(3 marks)**