CA INTERMEDIATE N'19

SUBJECT- ACCOUNTS

Test Code – PIN 5052

(Date :)

(100 Marks)

Question No. 1 is compulsory.

Answer any four questions from the remaining five questions.

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

A. Omega Ltd., has a normal wastage of 4% in the production process. During the year 2016 -17, the Company used 12,000 MT of raw material costing Rs. 150 per MT. At the end of the year 630 MT of wastage was ascertained in stock. The accountant wants to know how this wastage is to be treated in the books.

You are required to compute the amount of normal and abnormal loss and treatment thereof in line with AS 2 "Valuation of inventories".

B. Suhana Ltd. issued 12% secured debentures of Rs. 100 Lakhs on 01.05.2016, to be utilized as under:

Particulars	Amount (Rs. in lakhs)
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2017, construction of the factory building was completed and machinery was installed and ready for it's intended use. Total interest on debentures for the financial year ended 31.03.2017 was Rs. 11,00,000. During the year 2016-17, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of Rs. 2,00,000.

Explain the treatment of interest under Accounting Standard 16 and also explain nature of assets.

C. 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.

Mohan Ltd. wants to seek your guidance as whether these costs can be capitalized into the cost of the new building. **<u>You are required to advise in line with AS 10 "Property, Plant and Equipment".</u>**

D. <u>How you will deal with following in the financial statements of the Paridhi Electronics Ltd. as on 31.3.18 with reference to AS-13?</u>

(i) Paridhi Electronics Ltd. invested in the shares of another unlisted company on 1 st May 2014 at a cost of Rs. 3,00,000 with the intention of holding more than a year. The published accounts of unlisted company received in January, 2018 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics L td. may not fetch more than Rs. 45,000.

(ii) Also Paridhi Electronics Ltd. has current investment (X Ltd.'s shares) purchased for Rs. 5 lakhs, which the company want to reclassify as long term investment. The market value of these investments as on date of Balance Sheet was Rs. 2.5 lakhs.

QUESTION NO.2 **(10 MARKS X 2 = 20 MARKS)**

A. The partnership of Sakshi Agencies decided to convert the partnership into Private Limited Company named Rameshwar Company Pvt. Ltd. with effect from 1st January, 2008. The consideration was agreed at Rs. 2,34,00,000 based on firm's Balance Sheet as on 31st December, 2007. However, due to some procedural difficulties, the company could be incorporated only on 1st April, 2008. Meanwhile, the business was continued on behalf of the company and the consideration was settled on that day with interest at 12% p.a. The same books of accounts were continued by the company, which closed its accounts for the first time on 31st March, 2009 and prepared the following summarized Profit and Loss account

	Rs.		Rs.
To Cost of goods sold	3,27,60,000	By Sales	4,68,00,000
To Salaries	23,40,000		
To Depreciation	3,60,000		
To Advertisement	14,04,000		
To Discount	23,40,000		
To Managing Director's remuneration	1,80,000		
To Miscellaneous office expenses	2,40,000		
To Office cum showroom rent	14,40,000		

To	Interest	19,02,000		
To	Profit	38,34,000		________
		4,68,00,000		4,68,00,000

The company's only borrowing was a loan of Rs. 1,00,00,000 at 12% p.a. to pay the purchase consideration due to the firm and for working capital requirements. The company was able to double the monthly average sales of the firm from 1st April, 2008, but the salaries trebled from the date. It had to occupy additional space from 1st July, 2008 for which rent was Rs. 60,000 per month.

<u>Prepare a statement showing apportionment of costs and revenue between pre-incorporation and post-incorporation periods.</u>

B. The books of Mr. Z showed the following information:

	1.1.2007 (Rs.)	31.12.2007 (Rs.)
Bank balance	---	50,000
Debtors	---	87,500
Creditors	---	46,000
Stock	50,000	62,500
Fixed assets	7,500	9,000

The following are the details of the bank transactions:

	Rs.
Receipt from customers	3,40,000
Payments to creditors	2,80,000
Capital brought in	5,000
Sale of fixed assets	1,750
Expenses paid	49,250
Drawings	25,000
Purchase of fixed assets	5,000

Other information:

(i) Cost of goods sold Rs. 2,60,000

(ii) Gross profit 25% on cost of goods sold

(iii) Book value of assets sold Rs. 2,500

Prepare Trading, Profit and Loss account for the year ended 31.12.2007 and Balance Sheet as at 31.12.2007.

QUESTION NO.3 **(10 MARKS X 2 = 20 MARKS)**

A. Mr. Brown has made following transactions during the financial year 2011-12:

Date	Particulars
01.05.2011	Purchased 24,000 12% Bonds of Rs. 100 each at Rs. 84 cum-interest. Interest is payable on 30th September and 31st March every year.
15.06.2011	Purchased 1,50,000 equity shares of Rs. 10 each in Alpha Limited forRs. 25 each through a broker, who charged brokerage @ 2%.
10.07.2011	Purchased 60,000 equity shares of Rs. 10 each in Beeta Limited forRs. 44 each through a broker, who charged brokerage @2%.
14.10.2011	Alpha Limited made a bonus issue of two shares for every three shares held.
31.10.2011	Sold 80,000 shares in Alpha Limited for Rs. 22 each.
01.01.2012	Received 15% interim dividend on equity shares of Alpha Limited.
15. 01.2012	Beeta Limited made a right issue of one equity share for every four shares held at Rs. 5 per share. Mr. Brown exercised his option for 40% of his entitlements and sold the balance rights in the market atRs. 2.25 per share.
01.03.2012	Sold 15,000 12% Bonds at Rs. 90 ex-interest.
15.03.2012	Received 18% interim dividend on equity shares of Beeta Limited.

Interest on 12% Bonds was duly received on due dates. **<u>Prepare separate investment account for 12% Bonds, Equity Shares of Alpha Limited and Equity Shares of Beeta Limited in the books of Mr. Brown for the year ended on 31st March, 2012.</u>**

B. Happy Valley Florists Ltd. acquired a delivery van on hire purchase on 01.04.2010 from Ganesh Enterprises. The terms were as follows:

Particulars	Amount (Rs.)
Hire Purchase Price	1,80,000
Down Payment	30,000
1^{st} installment payable after 1 year	50,000
2^{nd} installment after 2 years	50,000
3^{rd} installment after 3 years	30,000
4^{th} installment after 4 years	20,000

Cash price of van Rs. 1,50,000 and depreciation is charged at 10% WDV.

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

(i) Calculate Total Interest and Interest included in each installment

(ii) Prepare Van A/c., Ganesh Enterprises A/c. in the books of Happy Valley Florists Ltd. up to 31.03.2014.

QUESTION NO.4 **(10 MARKS X 2 = 20 MARKS)**

A. M/s Heera & Co. has head office at U.S.A. and branch in Patna(India). Patna branch is an integral foreign operation of Heera & Co.

Patna branch furnishes you with its trial balance as on 31^{st} March, 2018 and the additional information given thereafter:

	Dr.	Cr.
	(Rupees in thousands)	
Stock on 1^{st} April, 2017	300	
Purchases and Sales	800	1,200
Sundry Debtors & Creditors	400	300
Bills of Exchange	120	240
Wages & Salaries	560	-

Rent, Rates & Taxes	360	-
Sundry Charges	160	-
Plant	240	-
Bank Balance	420	-
New York Office A/c	-	1,620
	3,360	3,360

Information:

(a) Plant was acquired from a remittance of US $ 6,000 received from USA head office and paid to the suppliers. Depreciate Plant at 60% for the year.

(b) Unsold stock of Patna branch was worth Rs. 4,20,000 on 31st March, 2018.

(c) The rates of exchange may be taken as follows:

- On 01.04.2017 @ Rs. 55 per US$
- On 31.03.2018 @ Rs. 60 per US$
- Average exchange rate for the year @ Rs.58 per US $
- Conversion in $ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2018 and the balance sheet as on that date of Patna branch as would appear in the books of USA head office of Heera & Co. You are informed that Patna branch account showed a debit balance of US $ 29845.35 on 31.3.2018 in USA books and there were no items pending reconciliation.

B. A fire occurred in the premises of M/s. Fireproof Co. on 31st August, 2010. From the following particulars relating to the period from 1st April, 2010 to 31st August, 2010, **you are requested to ascertain the amount of claim to be filed with the insurance company for the loss of stock.** The concern had taken an insurance policy for Rs. 60,000 which is subject to an average clause.

		Rs.
(i)	Stock as per Balance Sheet at 31-03-2010	99,000
(ii)	Purchases	1,70,000
(iii)	Wages (including wages for the installation of a machine Rs. 3,000)	50,000
(iv)	Sales	2,42,000
(v)	Sale value of goods drawn by partners	15,000
(vi)	Cost of goods sent to consignee on 16th August, 2010, lying unsold with them	16,500
(vii)	Cost of goods distributed as free samples	1,500

While valuing the stock at 31st March, 2010, Rs. 1,000 were written off in respect of a slow moving item. The cost of which was Rs. 5,000. A portion of these goods were sold at a loss of Rs. 500 on the original cost of Rs. 2,500. The remainder of the stock is now estimated to be worth the original cost. The value of goods salvaged was estimated at Rs. 20,000. The average rate of gross profit was 20% throughout.

QUESTION NO.5

A. 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: **(15 MARKS)**

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.

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

(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 t o current accounts.

B. Omega company offers new shares of Rs. 100 each at 25% premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is Rs. 200.

<u>You are required to calculate the (i) Ex-right value of a share; (ii) Value of a right share?</u> **(5 MARKS)**

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

A. In the books of M/s Prashant Ltd., closing inventory as on 31.03.2015 amounts to Rs. 1,63,000 (on the basis of FIFO method).

The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory from the year 2014-15. On the basis of weighted average method, closing inventory as on 31.03.2015 amounts to Rs. 1,47,000. Realisable value of the inventory as on 31.03.2015 amounts to Rs. 1,95,000.

<u>Discuss disclosure requirement of change in accounting policy as per AS-1.</u>

B. <u>Classify the following activities as (i) Operating Activities, (ii) Investing Activities, (iii) Financing Activities:</u>

a. Purchase of Machinery.
b. Proceeds from issuance of equity share capital
c. Cash Sales.
d. Proceeds from long-term borrowings.
e. Proceeds from Trade receivables.
f. Cash receipts from Trade receivables.
g. Trading Commission received.
h. Purchase of investment.
i. Redemption of Preference Shares.
j. Cash Purchases.

C. Following items appear in the Trial Balance of Beta Ltd. as on 31st March, 2017:

Particulars	Amount
3,000 Equity Shares of Rs. 100 each	3,00,000
Securities Premium (collected in cash)	40,000
Capital Redemption Reserve	30,000
General Reserve	1,00,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. **Pass necessary Journal Entries in the books of Beta Ltd.**

D. ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom-made machine amounting to Rs. 4,00,000. As on 31st March, 2018 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is 'NIL'.

Show the treatment of machine in the books of ABC Ltd.