CA INTERMEDIATE – Nov. 19

SUBJECT- ACCOUNTS

Test Code – PIN 5075

(Marks - 100)

Question 1 is compulsory and attempt any 4 out of remaining 5 questions

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

A. While preparing its final accounts for the year ended 31st March, 2019, a company made provision for bad debts @ 5% of its total debtors. In the last week of February, 2019 a debtor for Rs. 20 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2019 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2019? Comment with reference to relevant Accounting Standard.

B. Kumar Ltd. had made a rights issue of shares in 2017. In the offer document to its members, it had projected a surplus of Rs. 40 crores during the accounting year to end on 31st March, 2017. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of Rs. 10 crores. The board in consultation with the managing director, decided not to provide for "after sales expenses" during the warranty period. Till the last year, provision at 2% of sales used to be made under the concept of "matching of costs against revenue" and actual expenses used to be charged against the provision. The board now decided to account for expenses as and when actually incurred. Sales during the year total to Rs. 600 crores.

   As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2016-2017.

C. Gamma Limited is working on different projects which are likely to be completed within 3 years period. It recognizes revenue from these contracts on percentage of completion method for financial statements during 2014-2015, 2015-2016 and 2016-2017 for Rs. 11,00,000, Rs. 16,00,000 and Rs. 21,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognized revenue of Rs. 7,00,000, Rs. 18,00,000 and Rs. 23,00,000 for the years 2014-2015, 2015-2016 and 2016-2017 respectively. Income-tax rate is 35%.

   You are **required to compute the amount of deferred tax asset/liability** for the years 2014-2015, 2015-2016 and 2016-2017. Also describe how this amount of deferred tax asset/liability will be disclosed in the balance sheet of Omega Limited as per provisions of AS 22.

D. 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".

QUESTION NO.2

A. In 2015, Royal Ltd. issued 12% fully paid debentures of Rs. 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year.

On 1st December, 2016, M/s. Kumar purchased 10,000 of these debentures at Rs.101 cum-interest price, also paying brokerage @ 1% of cum-interest amount of the purchase. On 1st March, 2017 the firm sold all of these debentures at Rs.106 cum-interest price, again paying brokerage @ 1 % of cum-interest amount. **Prepare Investment Account** in the books of M/s. Kumar for the period 1st December, 2016 to 1st March, 2017.

(6 MARKS)

B. On 30th March, 2018 fire occurred in the premises of M/s Alok & Co. The concern had taken an insurance policy of Rs. 1,20,000 which was subject to the average clause. From the books of accounts the following particulars are available relating to the period 1st January to 30th March, 2018:

(i)	Stock as per Balance Sheet at 31st December, 2017	Rs. 1,91,200
(ii)	Purchases (including purchase of machinery costing Rs. 60,000)	Rs. 3,40,000
(iii)	Wages (including wages Rs. 6,000 for installation of machinery)	Rs. 1,00,000
(iv)	Sales (including goods sold on approval basis amounting to Rs. 99,000)	Rs. 5,50,000

No approval has been received in respect of 2/3rd of the goods sold on approval.

(v) The average rate of gross profit is 20% of sales.

(vi) The value of the salvaged goods was Rs. 24,600

You are required to **compute the amount of the claim to be lodged to the Insurance Company.**

(8 MARKS)

C. Ganapati LLC submits the following information pertaining to a year. Using the data, you are required to **find the ending Cash and Bank Balances** given an Opening Figure thereof was Rs. 1.55 Million.

Particulars	Rs. Millions	Particulars	Rs. Millions
Additional Shares issued	6.50	Gains from Disposal of Assets	(1.20)
CAPEX (Capital Expenditure)	9.90	Net Income	3.30
Proceeds from Assets sold	1.60	Increase in Accounts Receivable	1.50
Dividends declared	0.50	Redemption of 4.5% Debentures	2.50
		Depreciation & Amortization	0.75

(6 MARKS)

QUESTION NO.3

A. Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained Rs. 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	As on 1.4.2016	Ason 31.3.2017
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?
Ram's capital	3,00,000	

Analysis of his bank pass book reveals the following information:

(a) Payment to creditors Rs. 7,00,000
(b) Payment for business expenses Rs. 1,20,000
(c) Receipts from debtors Rs. 7,50,000
(d) Loan from Laxman Rs. 1,00,000 taken on 1.10.2016 at 10% per annum
(e) Cash deposited in the bank Rs. 1,00,000

He informs you that he paid creditors for goods Rs. 20,000 in cash and salaries Rs. 40,000 in cash. He has drawn Rs. 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales.

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

(i) Trading and Profit and Loss Account for the year ended 31.3.2017.
(ii) Balance Sheet as at 31^{st} March, 2017.

(12 MARKS)

B. Krishan bought 2 cars from 'Fair Value Motors Pvt. Ltd. on 1.4.2015 on the following terms (for
both cars):

	Rs.
Down payment	6,00,000
1^{st} Installment at the end of first year	4,20,000
2^{nd} Installment at the end of 2^{nd} year	4,90,000
3^{rd} Installment at the end of 3^{rd} year	5,50,000

Interest is charged at 10% p.a.

Krishan provides depreciation @ 25% on the diminishing balances.

On 31.3.2018 Krishan failed to pay the 3rd installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Krishan agreed to leave one car with Fair Value Motors Pvt. Ltd. and adjusted the value of the car against the amount due. The car taken over was valued on the basis of 40% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Krishan after 3 months with interest @ 20% p.a.

You are required to: Calculate the cash price of the cars and the interest paid with each installment. and prepare Car Account in the books of Krishan for the year 2017-18 assuming books are closed on March 31, every year. Figures may be rounded off to the nearest rupee.

(8 MARKS)

QUESTION NO.4

A. Rishikesh Ltd is a Public Company with an Authorized Share Capital of Rs. 10,00,000 in Shares of Rs.10 each of which 35,000 Shares have been issued and fully paid. On 1st April 2017, it opened a Branch in a Foreign Country with a - Fluctuating Currency - Bancos (Bcs.) - having purchased (in the earlier year) Freehold Premises there for Bcs.1,20,000 which were paid for by a Rupee Draft for Rs. 58,000. Fixtures and Fittings, costing Bcs. 60,000 were paid for on 1st April 2017, out of a Rupee Remittance of Rs. 50,000 from the Head Office on that date.

All Goods were purchased by Head Office and those for Sale by the Branch were involved to it at Cost Plus 25%. The Cost of Forwarding and Import Duty were paid by the Branch on arrival of the Goods and averaged 5% of the Invoice Price. After making all the necessary Closing Entries, with the exception of the Branch Profit and the appropriation of the balance on P & L Account, the following were the Trial Balances as on 31st March 2018.

Particulars	Branch (Bcs.)	H.O. (Rs.)
DEBITS: Freehold Buildings at Cost	1,20,000	1,80,000
Fixtures and Fittings at Cost	60,000	84,000
Stock in Trade	84,000	1,48,640
Debtors	57,000	22,280
Short Term Loans	-	50,000
Balance at Bank	16,400	29,380
Cash in Hand	2,800	1,240
Branch Office Current Account	-	1,15,060
Total	**3,40,200**	**6,30,600**
CREDITS: Share Capital	-	3,50,000
12% Debentures redeemable 30th September 2021	-	80,000
Creditors	46,000	29,200
Provision for Taxation	15,000	25,400
Provision for Depreciation - Buildings (3%)	3,600	26,000
- Fixtures (5%)	3,000	38,000

Head Office Current Account	2,35,800	-
Profit and Loss Account as on 1st April 2017	-	27,800
Profit and Loss for the year	36,800	54,200
Total	**3,40,200**	**6,30,600**

Rate of Exchange of Bcs. to the Rupee was as under - (a) 1st April 2017 - 2.00, (b) 31st March 2018 - 2.50, and (c) Average for the year - 2.30.

Stock in Trade at HO was valued at Cost and at the Branch at the Invoice Price Plus Forwarding Charges and Import Duty. Entries in the Current Account between the Head Office and the Branch had all been agreed except the following: (a) Goods despatched and invoiced to the Branch on 29th March 2018 - Rs. 4,000, and Remittance by the Branch to the Head Office on 30th March 2018 - Bcs. 5,000. Both were received in April 2018, the remittance realizing Rs.2,000. In view of the need to maintain Cash Reserves for redemption of the 12% Debentures, the Directors decided to pay no Dividend.

Required:

(1) Set out the Branch Trial Balance after Conversion, & (2) Prepare the Company's Balance Sheet as on 31st March 2018.

(12 MARKS)

B. 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	Amt (Rs.)	Particulars	Amt (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 expense 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.

(8 MARKS)

QUESTION NO.5

A. From the following particulars furnished by Pioneer Ltd., prepare the Balance Sheet as at 31st March, 20X1 as required by Schedule III of the Companies Act. Give notes at the foot of the Balance Sheet as may be found necessary -

		Debit Rs.	**Credit Rs.**
Equity Capital (Face value of Rs.100)			10,00,000
Calls in Arrears		1,000	
Land		2,00,000	
Building		3,50,000	
Plant and Machinery		5,25,000	
Furniture		50,000	
General Reserve			2,10,000
Loan from State Financial Corporation			1,50,000
Inventory :			
Finished Goods	2,00,000		
Raw Materials	50,000	2,50,000	
Provision for Taxation			68,000
Trade receivables		2,00,000	
Advances		42,700	
Dividend Payable			60,000
Profit and Loss Account			86,700
Cash Balance		30,000	
Cash at Bank		2,47,000	
Loans (Unsecured)			1,21,000
Trade payables (For Goods and Expenses)			2,00,000
		18,95,700	**18,95,700**

The following additional information is also provided :

(1) 2,000 equity shares were issued for consideration other than cash.

(2) Trade receivables of Rs.52,000 are due for more than six months.

(3) The cost of assets:

Building	Rs.4,00,000
Plant and Machinery	Rs.7,00,000
Furniture	Rs.62,500

(4) The balance of Rs.1,50,000 in the loan account with State Finance Corporation is inclusive of Rs.7,500 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.

(5) Balance at Bank includes Rs.2,000 with Perfect Bank Ltd., which is not a Scheduled Bank.

(6) The company had contract for the erection of machinery at Rs.1,50,000 which is still

incomplete.

(8 MARKS)

B. X, Y and Z are in partnership sharing profits and losses in the ratio of 5:4:4. The Balance Sheet of the firm as on 31st March, 2016 is as below:

Liabilities	Rs.	Assets	Rs.
X's Capital	60,000	Factory Building	96,640
Y's Capital	40,000	Plant and Machinery	65,100
Z's Capital	50,000	Trade Receivable	21,600
Y's Loan	18,000	Inventories	49,560
Trade Payable	66,000	Cash at Bank	1,100
	2,34,000		2,34,000

On Balance Sheet date, all the three partners have decided to dissolve their partnership. Since the realisation of assets was protracted, they decided to distribute amounts as and when feasible and for this purpose they appoint Z who was to get as his remuneration 1% of the value of the assets realised other than cash at bank and 10% of the amount distributed to the partners.

Assets were realised piecemeal as under:

	Rs.
First instalment	74,600
Second instalment	69,301
Third instalment	40,000
Last instalment	28,000
Dissolution expenses were provided for estimated amount of	Rs. 12,000
The creditors were settled finally for	Rs. 63,600

<u>You are required to prepare a statement showing distribution of cash amongst the partners by "Highest Relative Capital Method</u>".

(12 MARKS)

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

A. 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>?

B. State under which head the following accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:

   a. Share application money received in excess of issued share capital.
   b. Share option outstanding account.
   c. Unpaid matured debenture and interest accrued thereon.
   d. Uncalled liability on shares and other partly paid investments.
   e. Calls unpaid.
   f. Intangible Assets under development.
   g. Money received against share warrant.
   h. Cash equivalents.

C. Omega Limited has borrowed a sum of US $ 10,00,000 at the beginning of Financial Year 2016 - 17 for its residential project at 4 %. The interest is payable at the end of the Financial Year. At the time of availment exchange rate was Rs. 56 per US $ and the rate as on31st March, 2017 was Rs. 62 per US $. If Omega Limited borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%.

   You are required to **compute Borrowing Cost and exchange difference for the year ending 31st March, 2017 as per applicable Accounting Standards**.

D. The Board of Directors of a Company decide to issue minimum number of equity shares of Rs. 9 to redeem Rs. 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is Rs. 3,00,000.

   You are required to compute the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of Rs. 50 only.