

Answers to questions are to be given only in English

Question No. 1 is compulsory

Candidates are required to answer any four questions from the remaining five questions.

Working notes should form part of the answer.

Q.1 (a) State whether the following statements are 'True' or 'False'. Also give reason for your answer.

- (i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
- (ii) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
- (iii) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
- (iv) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.
- (v) There is no single list of accounting policies which are applicable to all circumstances. **(5 Marks)**

(b) X Ltd. purchased machinery from A Ltd. on 30-9-2019. The price was Rs. 370.44 lakhs before charging 8% GST and giving a trade discount of 2% on the quoted price. Transport charges were 0.25% on the quoted price and installation charges come to 1% on the quoted price.

A loan of Rs. 300 lakhs was taken from the bank on which interest at 15% per annum was to be paid. Expenditure incurred on the trial run was Material Rs.50,000, wages Rs. 40,000 and Overheads Rs. 20,000.

Machinery was ready for use on 01.12.2019. However, it was actually put to use only on 1-5-2020. Find out the cost of the machine and suggest the accounting treatment for the expenses incurred in the interval between the dates 1-12-2019 to 1-5-2020. The entire loan amount remained unpaid on 1-5-2020. **(5 Marks)**

- (c) A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2017.

	Rs. Per unit
<u>Raw Material X</u>	
Cost price	380
Unloading Charges	20
Freight Inward	40
Replacement cost	300
<u>Chemical Y</u>	
Material consumed	440
Direct Labour	120
Variable Overheads	80

Additional Information:

(i) Total fixed overhead for the year was Rs. 4,00,000 on normal capacity of 20,000 units.

(ii) Closing balance of Raw Material X was 1,000 units and Chemical Y was Rs. 2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when Net realizable value of Chemical Y is Rs. 800 per unit. **(5 Marks)**

- (d) Viva Ltd. received a specific grant of Rs. 30 lakhs for acquiring the plant of Rs. 150 lakhs during 2016-17 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet and was not deducted from the cost of plant. During 2019-20, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was Rs. 21 lakhs and written down value of plant was Rs. 105 lakhs. What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2019-20 in profit and loss account? **(5 Marks)**

- Q.2 (a)** A Company issued Rs. 1,80,000 Redeemable preference shares at par on 1-1-2016, redeemable at the option of the company on or after 31-12-2017 in whole or in part. The following redemptions were made out of profits:-

On 30-06-2018: Rs. 60,000

On 30-06-2019: Rs. 40,000

In December 2019, the company issued equity shares of the face value of Rs. 60,000 at a premium of 2% and on 31.12.2019, It redeemed the balance of preference shares.

Pass the necessary Journal Entries to record all the above transactions.

(10 Marks)

(b) Following is the trial balance of ABC Limited as on 31.3.2018.

(Figures in Rs. 000)

Particulars	Debit	Particulars	Credit
Land at cost	800	Equity capital (shares of Rs. 10 each)	500
Calls in arrears	5	10% Debentures	300
Cash in hand	2	General reserve	150
Plant & Machinery at cost	824	Profit & Loss A/c (F.Y. 2016-17)	75
Trade receivables	120	Securities premium	40
Inventories (31-3-18)	96	Sales	1200
Cash at Bank	28	Trade payables	30
Adjusted Purchases	400	Provision for depreciation	150
Factory expenses	80	Suspense Account	10
Administrative expenses	45		
Selling expenses	25		
Debenture Interest	30		
	2455		2455

Additional Information :

- (i) The authorized share capital of the company is 80,000 shares of Rs. 10 each.
- (ii) The company revalued the land at Rs. 9,60,000.
- (iii) Equity capital includes shares of Rs. 50,000 issued for consideration other than cash.
- (iv) Suspense account of Rs. 10,000 represents cash received from the sale of some of the machinery on 1.4.2017. The cost of the machinery was Rs. 24,000 and the accumulated depreciation thereon being Rs. 20,000.
- (v) Depreciation is to be provided on plant and machinery at 10% on cost.
- (vi) Balance at bank includes Rs. 5,000 with Abhay Bank Ltd., which is not a Scheduled Bank.

You are required to prepare ABC Limited's Balance Sheet as on 31.3.2018 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.2018 as per Schedule III. Ignore previous year's figures & taxation. **(10 Marks)**

Q.3 (a) Omega Limited (a manufacturing company) recently made a public issue in respect of which the following information is available:

- (a) No. of partly convertible debentures issued- 2,00,000; face value and issue price- Rs. 100 per debenture.
- (b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue i.e 31.10.20X1.
- (c) Date of closure of subscription lists- 1.5.20X1, date of allotment- 1.6.20X1, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- Rs. 60 (Face Value Rs. 10).
- (d) Underwriting Commission- 2%.

- (e) Number of debentures applied for - 1,50,000.
 (f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 20X2 (including cash and bank entries). **(10 Marks)**

- (b) A partnership firm M/s. Nice Sons was carrying on business from 1st May, 2017. The partners of the firm decided to convert the partnership firm into a private company called Zenith (P) Ltd. with effect from 1st September, 2017. The annual accounts were drawn upto 31st March, 2018. The summarised Profit and Loss Account from 1st May, 2017 to 31st March, 2018 is as follows:

Particulars		Amount (Rs.)
Turnover		55,20,000
Interest on Investment		60,000
Profit on sale of Investment		<u>42,000</u>
		56,22,000
Less:		
Cost of goods sold	34,50,000	
Printing & Stationery	77,000	
Manager's Salary	82,000	
Audit Fees	41,000	
Rent	1,33,000	
Bad Debts	33,000	
Underwriting Commission	56,000	
Depreciation	71,500	
Interest on Debentures	8,900	
Advertising campaign expenses	69,800	
Sundry office expenses	1,06,700	
Interest on borrowings	1,25,000	
		42,53,900
Net Profit		13,68,100

Additional Information Provided:

- (1) The company's only borrowing was a loan of Rs. 15,00,000 at 9% p.a., to pay the purchase consideration due to the firm and for working capital requirements. The loan was taken on 1st September, 2017.
- (2) The company occupied additional space from 1st September, 2017 for which rent of Rs. 8,000 per month was incurred.
- (3) Audit fee pertains to the company.
- (4) Bad debts recovered amounting to Rs. 36,000 for a sale made in June 2017, has been deducted from bad debts mentioned above.
- (5) All investments were sold in August 2017.
- (6) Zenith (P) Ltd. initiated an advertising campaign on 1st September, 2017, which resulted increase in monthly average sales by 40%.

(7) The salary of Manager was increased by Rs. 3,000 p.m. from 1st July, 2017.

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March 2018. (10 Marks)

Q.4 (a) Following transactions of Nisha took place during the financial year 2017-18:

1 st April, 2017	Purchased 9,000 8% bonds of Rs. 100 each at Rs. 80.50 cum- interest. Interest is payable on 1 st November and 1 st May.
1 st May, 2017	Received half year's interest on 8% bonds.
10 July, 2017	Purchased 12,000 equity shares of Rs. 10 each in Moon Limited for Rs. 44 each through a broker, who charged brokerage @ 2%.
1 st October 2017	Sold 2,250 8% bonds at Rs. 81 Ex-interest.
1 st November, 2017	Received half year's interest on 8% bonds.
15 th January, 2018	Moon Limited made a rights issue of one equity share for every four Equity shares held at Rs. 5 per share. Nisha exercised the option for 40% of her entitlements and sold the balance rights in the market at Rs. 2.25 per share.
15 th March, 2018	Received 18% interim dividend on equity shares of Moon Limited.

Prepare separate investment account for 8% bonds and equity shares of Moon Limited in the books of Nisha for the year ended on 31st March, 2018. Assume that the average cost method is followed. (10 Marks)

(b) A fire occurred in the premises of M/s. Raxby & Co. on 30-06-2017. From the salvaged accounting records, the following particulars were ascertained

	Rs.
Stock at cost as on 01-04-2016	1,20,000
Stock at cost as on 31-03-2017	1,30,000
Purchases less return during 2016-17	5,25,000
Sales less return during 2016-17	6,00,000
Purchases from 01-04-2017 to 30-06-2017	97,000
Purchases upto 30-06-2017 did not include Rs. 35,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown.	
Sales from 1.4.2017 to 30.6.2017	1,66,000

In valuing the stock for the Balance Sheet at 31st March, 2017, Rs. 5,000 had been written off on certain stock which was at poor selling line having the cost of Rs.

8,000. A portion of these goods were sold in May, 2017 at a loss of Rs. 1,000 on original cost of Rs. 7,000. The remainder of the stock was now estimated to be worth its original cost. Subject to that exception, gross profit had remained at a uniform rate throughout the year.

The value of the salvaged stock was Rs. 10,000. M/s. Raxby & Co. had insured their stock for Rs. 1,00,000 subject to average clause.

Compute the amount of claim to be lodged to the insurance company.
(10 Marks)

Q.5(a) M & S Co. of Lucknow has a branch in Canberra, Australia (as an integral foreign operation of M & S Co.). At the end of 31st March 2019, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.

	Lucknow office (Rs. In thousand)		Canberra Branch (Aust. Dollars in thousand)	
	Dr.	Cr.	Dr.	Cr.
Capital		2,000		
Reserves & Surplus		1,000		
Land	500			
Buildings (Cost)	1,000			
Buildings Dep. Reserves		200		
Plant and Machinery (Cost)	2,500		200	
Plant and Machinery Dep. Reserves		600		130
Debtors/Creditors	280	200	60	30
Stock as on 1- 4-2018	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salary	75		45	
Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	4,880	4,880	390	390

The following information is also available:

- (i) Stock as at 31st March, 2019
Lucknow Rs. 1,50,000
Canberra A\$ 3125 (all stock are out of purchases made at Abroad)
- (ii) Head Office always sent goods to the Branch at cost plus 25%
- (iii) Provision is to be made for doubtful debts at 5%
- (iv) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down value.

You are required to:

- (1) Convert the Branch Trial Balance into rupees by using the following exchange rates:

Opening rate	1 A \$ = Rs. 50
Closing rate	1 A \$ = Rs. 53
Average rate	1 A \$ = Rs. 51.00
For Fixed Assets	1 A \$ = Rs. 46.00

- (2) Prepare Trading and Profit and Loss Account for the year ended 31st March 2019 showing to the extent possible H.O. results and Branch results separately.

(10 Marks)

- (b) 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	As on 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.

You are required to prepare:

- (i) Trading and Profit and Loss Account for the year ended 31.3.2017.
(ii) Balance Sheet as at 31st March, 2017. (10 Marks)

Q.6 Answer any **four** of the following:

(a) Following is the extract of the Balance Sheet of Manoj Ltd. as at 31st March, 2011

Authorised capital:	Rs.
30,000 12% Preference shares of Rs. 10 each	3,00,000
3,00,000 Equity shares of Rs. 10 each	<u>30,00,000</u>
	<u>33,00,000</u>
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
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2011, the Company has made final call @ Rs. 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2011. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Prepare necessary journal entries in the books of the company. (5 Marks)

(b) PQ Ltd., a non-investment company has been incurring losses for the past few years. The company provides the following information for the current year:

	(Rs. in lakhs)
Paid up equity share capital	180
Paid up Preference share capital	30
Reserves (including Revaluation reserve Rs. 15 lakhs)	225
Securities premium	60
Long term loans	60
Deposits repayable after one year	30
Application money pending allotment	1080
Accumulated losses not written off	30
Investments	270

PQ Ltd. has only one whole-time director, Mr. Hello. You are required to calculate the amount of maximum remuneration that can be paid to him as per provisions of Part II of Schedule XIII, if no special resolution is passed at the general meeting of the company in respect of payment of remuneration for a period not exceeding three years. (5 Marks)

- (c) The following balances were extracted from the books of M/s Division. You are required to prepare Departmental Trading Account and Profit and Loss account for the year ended 31st December, 2017 after adjusting the unrealized department profits if any.

	Deptt. A Rs.	Deptt. B Rs.
Opening Stock	50,000	40,000
Purchases	6,50,000	9,10,000
Sales	10,00,000	15,00,000

General expenses incurred for both the departments were Rs. 1,25,000 and you are also supplied with the following information: (a) Closing stock of Department A Rs. 1,00,000 including goods from Department B for Rs. 20,000 at cost of Department A. (b) Closing stock of Department B Rs. 2,00,000 including goods from Department A for Rs. 30,000 at cost to Department B. (c) Opening stock of Department A and Department B include goods of the value of Rs. 10,000 and Rs. 15,000 taken from Department B and Department A respectively at cost to transferee departments. (d) The rate of gross profit is uniform from year to year.

(5 Marks)

- (d) Amit Ltd. acquired 40% of Sumit Ltd.'s equity shares for Rs. 5,00,000 on 1.8.2019. Amit's 40% interest in Sumit gave Amit the ability to exercise significant influence over Sumit in operating and financial policies. During the financial year 2018-19 Sumit earned Rs. 1,00,000 and declared dividend of Rs. 60,000 on 16.8.2019. Sumit reported earning of Rs. 4,00,000 for the financial year 2019- 20 and declared dividend of Rs. 80,000 on 12.5.2020.

Calculate the carrying amount of investment in separate financial statement of Amit Ltd. on 31.3.2020.

(5 Marks)

- (e) M/s. Kodam Enterprises purchased a generator on hire purchase from M/s. Sanctum Ltd. on 1st April, 2017. The hire purchase price was Rs. 48,000. Down payment was Rs. 12,000 and the balance is payable in 3 annual instalments of Rs. 12,000 each payable at the end of each financial year. Interest is payable @ 8% p.a. and is included in the annual payment of Rs. 12,000.

Depreciation at 10% p.a. is to be written off using the straight line method.

You are required to:

Calculate the cash price of the generator and the interest paid on each instalment.

(5 Marks)