CA INTERMEDIATE

Test Code – JKN_ACC_12
(Date :17/09/2020)

(Marks -100)

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 1

(A) Karan Enterprises having its Head Office in Mangalore, Karnataka has a branch in Greenville, USA. Following is the trial balance of Branch as at 31 -3-2019:

Particulars	Amount ($) Dr.	Amount ($) Cr.
Fixed assets	8,000	
Opening inventory	800	
Cash	700	
Goods received from Head Office	2,800	
Sales		24,050
Purchases	11,800	
Expenses	1,800	
Remittance to head office	2,450	
Head office account		4,300
	28,350	28,350

(i) Fixed assets were purchased on 1st April, 2015.

(ii) Depreciation at 10% p.a. is to be charged on fixed assets on straight line method. ·

(iii) Closing inventory at branch is $ 700 as on 31-3-2019.

(iv) Goods received from Head Office (HO) were recorded at Rs. 1,85,500 in HO books.

(v) Remittances to HO were recorded at Rs. 1,62,000 in HO books.

(vi) HO account is recorded in HO books at Rs. 2,84,500.

(vii) Exchange rates of US Dollar at different dates can be Taken as :

1-4-2015	Rs. 63
1-4-2018	Rs. 65 and
31-3-2019	Rs. 67

Prepare the trial balance after been converted into Indian rupees in accordance with AS-11.

(B) 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 wasRs. 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

(C) Mr. Mehul gives the following information relating to items forming part of inventory as on 31-3-2019. His factory produces Product X using Raw material A.

i. 600 units of Raw material A (purchased @ Rs. 120). Replacement cost of raw material A as on 31-3-2019 is Rs. 90 per unit.

ii. 500 units of partly finished goods in the process of producing X and cost incurred till date Rs. 260 per unit. These units can be finished next year by incurring additional cost of Rs. 60 per unit.

iii. 1500 units of finished Product X and total cost incurred Rs. 320 per unit.

Expected selling price of Product X is Rs. 300 per unit.

Determine how each item of inventory will be valued as on 31-3-2019. Also calculate the value of total inventory as on 31-3-2019.

(D) 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.

(4 Parts x 5 Marks = 20 Marks)

QUESTION 2

(A) ABC Ltd. has several departments. Goods supplied to each department are debited to a Memorandum Departmental Stock Account at cost plus a fixed percentage (mark-up) to give the normal selling price. The amount of mark-up is credited to a Memorandum Departmental Markup account. If the selling price of goods is reduced below its normal selling prices, the reduction (mark-down) will require adjustment both in the stock account and the mark-up account. The mark-up for department X for the last three years has been 20%. Figures relevant to department X for the year ended 31st March, 2019 were as follows:

Stock as on 1st April, 2018, at cost	Rs. 1,50,000
Purchases at cost	Rs. 4,30,000
Sales	Rs. 6,50,000

It is further ascertained that:

(1) Shortage of stock found in the year ending 31.3.2019, costing Rs. 4,000 were written off.

(2) Opening stock on 1.4.2018 including goods costing Rs. 12,000 had been sold during the year and had been marked-down in the selling price by Rs. 1,600. The remaining stock had been sold during the year.

(3) Goods purchased during the year were marked down by Rs. 3,600 from a cost of Rs. 30,000. Marked-down stock costing Rs. 10,000 remained unsold on 31.3.2019.

(4) The departmental closing stock is to be valued at cost subject to adjustment for mark- up and mark-down.

You are required to prepare for the year ended 31st March, 2019 :

(i) Departmental Trading Account for department X for the year ended 31st March, 2019 in the books of head office.

(ii) Memorandum Stock Account for the year ended 31st March, 2019.

(iii) Memorandum Mark-Up account for the year ended 31st March, 2019.

(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.

You are required to :

(1) Calculate the cash price of the Scooters and the interest paid with each instalment.

(2) Prepare Scooters Account and M/s Bhanu Account in the books of M/s Amar.

(3) Prepare Goods Repossessed Account in the books of M/s Bhanu.

(10 Marks)

QUESTION 3

(A) On 1st April, 2019, Mr. Vijay had 30,000 Equity shares in X Ltd. (the company) at a book value of Rs. 4,50,000 (Face Value Rs. 10 per share). On 22nd June, 2019, he purchased another 5000 shares of the same company for Rs. 80,000.

The Directors of X Ltd. announced a bonus of equity shares in the ratio of one share for seven shares held on 10th August, 2019.

On 31st August, 2019 the Company made a right issue in the ratio of three shares for every eight shares held, on payment of Rs. 15 per share. Due date for the payment was 30th September, 2019, Mr. Vijay subscribed to 2/3rd of the right shares and sold the remaining of his entitlement to Viru for a consideration of Rs. 2 per share.

On 31st October, 2019, Vijay received dividends from X Ltd. @ 20% for the year ended 31st March, 2019. Dividend for the shares acquired by him on 22nd June, 2019 to be adjusted against the cost of purchase.

On 15th November, 2019 Vijay sold 20,000 Equity shares at a premium of Rs. 5 per share.

You are required to prepare Investment Account in the books of Mr. Vijay for the year ended 31st March, 2020 assuming the shares are being valued at average cost.

(10 Marks)

(B) From the following particulars furnished by Megha Ltd., prepare the Balance Sheet as on 31 st March 20X1 as required by Part I, Schedule III of the Companies Act, 2013.

Particulars		*Debit Rs.*	*Credit Rs.*
Equity Share Capital (Face value of Rs. 100 each)			50,00,000
Call in Arrears		5,000	
Land & Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Inventory:			
Raw Materials	2,50,000		
Finished Goods	10,00,000	12,50,000	
Provision for Taxation			6,40,000
Trade receivables		10,00,000	
Short term Advances		2,13,500	
Profit & Loss Account			4,33,500
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	

Unsecured Loan			6,05,000
Trade payables (for Goods and Expenses)			8,00,000
Loans & advances from related parties			2,00,000

The following additional information is also provided:

(i) 10,000 Equity shares were issued for consideration other than cash.

(ii) Trade receivables of Rs. 2,60,000 are due for more than 6 months.

(iii) The cost of the Assets were:

Building Rs. 30,00,000, Plant & Machinery Rs. 35,00,000 and Furniture Rs. 3,12,500

(iv) The balance of Rs. 7,50,000 in the Loan Account with State Finance Corporation is inclusive of Rs. 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes Rs. 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.

(vi) Transfer Rs. 20,000 to general reserve is proposed by the Board of directors.

(10 Marks)

QUESTION 4

(A) A fire occurred in the premises of M/s Kirti & Co. on 15th December, 2018. The working remained disturbed upto 15th March, 2019 as a result of which sales got adversely affected. The firm had taken out an insurance policy with an average clause against consequential losses for Rs. 2,50,000.

Following details are available from the quarterly sales tax return filed/GST return filed:

Sales	2015-16 (Rs.)	2016-17 (Rs.)	2017-18 (Rs.)	2018-19 (Rs.)
From 1st April to 30th June	3,80,000	3,15,000	4,11,900	3,24,000
From 1st July to 30th September	1,86,000	3,92,000	3,86,000	4,42,000
From 1st October to 31st December	3,86,000	4,00,000	4,62,000	3,50,000
From 1st January to 31st March	2,88,000	3,19,000	3,80,000	2,96,000
Total	12,40,000	14,26,000	16,39,900	14,12,000

A period of 3 months (i.e. from 16-12-2018 to 15-3-2019) has been agreed upon as indemnity period.

Sales from 16-12-2017 to 31-12-2017	68,000
Sales from 16-12-2018 to 31-12-2018	Nil
Sales from 16-03-2018 to 31-03-2018	1,20,000
Sales from 16-03-2019 to 31-03-2019	40,000

Net profit was Rs. 2,50,000 and standing charges (all insured) amounted to Rs. 77,980 for the year ending 31^{st} March, 2018.

You are required to calculate the loss of profit claim amount.

(10 Marks)

(B) Sun Limited took over the running business of a partnership firm M/s A & N Brothers with effect from 1st April, 2017. The company was incorporated on 1^{st} September, 2017. The following profit and loss account has been prepared for the year ended 31^{st} March, 2018.

Particulars	Rs.	Particulars	Rs.
To salaries	1,33,000	By Gross Profit b/d	7,50,000
To rent	96,000		
To carriage outward	75,000		
To audit fees	12,000		
To travelling expenses	66,000		
To commission on sales	48,000		
To printing and stationery	24,000		
To electricity charges	30,000		
To depreciation	80,000		
To advertising expenses	24,000		
To preliminary expenses	9,000		
To Managing Director's Remuneration	8,000		
To Net Profit c/d	1,45,000		
	7,50,000		7,50,000

Additional Information :

1. Trend of sales during April, 2017 to March, 2018 was as under:

April, May	Rs. 85,000 per month
June, July	Rs. 1,05,000 per month
August, September	Rs. 1,20,000 per month
October, November	Rs. 1,40,000 per month
December onwards	Rs.1,50,000 per month

2. Sun Limited took over a machine worth Rs. 7,20,000 from A&N Brothers and purchased a new machine on 1st February, 2018 for Rs. 4,80,000. The company decides to provide depreciation @ 10% p.a.
3. The company occupied additional space from 1st October, 2017 @ rent of Rs. 6,000 per month.
4. Out of travelling expenses, Rs. 30,000 were incurred by office staff while remaining expenses were incurred by salesmen.
5. Audit fees pertains to the company.
6. Salaries were doubled from the date of incorporation.

You are required to prepare a statement apportioning the expenses between pre and post incorporation periods and calculate the profit/(loss) for such periods.

(10 Marks)

QUESTION 5

(A) Aman, a readymade garment trader, keeps his books of account under single entry system. On the closing date, i.e. on 31st March, 2017 his statement of affairs stood as follows:

Liabilities	Amount Rs.	Assets	Amount Rs.
Aman's capital	4,80,000	Building	3,25,000
Loan	1,50,000	Furniture	50,000
Creditors	3,10,000	Motor car	90,000
		Stock	2,00,000
		Debtors	1,70,000
		Cash in hand	20,000
		Cash at bank	85,000
	9,40,000		9,40,000

Riots occurred and a fire broke out on the evening of 31st March, 2018, destroying the books of accounts. On that day, the cashier had absconded with the available cash. You are furnished with the following information:

1. Sales for the year ended 31st March, 2018 were 20% higher than the previous year's sales, out of which, 20% sales were for cash. He always sells his goods at cost plus 25%. There were no cash purchases.
2. Collection from debtors amounted to Rs. 14,00,000, out of which Rs. 3,50,000 was received in cash.
3. Business expenses amounted to Rs. 2,00,000, of which Rs. 50,000 were outstanding on 31st March, 2018 and Rs. 60,000 paid by cheques.
4. Gross profit as per last year's audited accounts was Rs. 3,00,000.
5. Provide depreciation on building and furniture at 5% each and motor car at 20%.
6. His private records and the Bank Pass Book disclosed the following transactions for the year 2017-18:

	Rs.
Payment to creditors (paid by cheques)	13,75,000
Personal drawings (paid by cheques)	75,000
Repairs (paid by cash)	10,000
Travelling expenses (paid by cash)	15,000
Cash deposited in bank	7,15,000
Cash withdrawn from bank	1,20,000

7. Stock level was maintained at Rs. 3,00,000 all throughout the year.
8. The amount defalcated by the cashier is to be written off to the Profit and Loss Account.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2018 and Balance Sheet as on that date of Aman. All the workings should form part of the answer.

(12 Marks)

(B) The following balances appeared in the books of Lakshya Ltd. as on 1-4-20X1:

(i) 10 % Debentures Rs. 37,50,000

(ii) Balance of DRR Rs. 1,25,000

(iii) DRR Investment 5,62,500 represented by 10% Rs. 5,625 Secured Bonds of the Government of India of Rs. 100 each.

Annual contribution to the DRR was made on 31st March every year. On 31-3-20X2, balance at bank was Rs. 37,50,000 before receipt of interest. Interest on Debentures had already been paid. The investment were realized at par for redemption of debentures at a premium of 10% on the above date.

Lakshya Ltd. is an unlisted company (other than AIFI, Banking company, NBFC and HFC). You are required to prepare Debenture Redemption Reserve Account, Debenture Redemption Reserve Investment Account and Bank Account in the books of Lakshya Ltd. for the year ended 31st March, 20X2.

(8 Marks)

QUESTION 6 (Attempt any four questions)

(A) 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.

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

(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.

(C) "Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. "Discuss and explain the benefits of Accounting Standards.

(D) Following is the extract of the Balance Sheet of Manoj Ltd. as at 31st March, 20X1

	Rs.
Authorised capital:	
30,000 12% Preference shares of Rs. 10 each	3,00,000
4,00,000 Equity shares of Rs. 10 each	40,00,000
	43,00,000
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
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 20X1, the Company has made final call @ Rs. 2 each on 2,70,000 equity shares. The call money was received by 20th April, 20X1. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and **prepare the relevant extract of the balance sheet** as on 30th April, 20X1 **after bonus issue.**

(E) From the following details of Western Branch Office of M/s. XYZ Corp. for the year ending 31st March, 2020, ascertain branch stock reserve in respect of unrealized profit in opening stock and closing stock:

i. Goods are sent to the branch at invoice price and branch also maintains stock at the same price.
ii. Sale price is cost plus 40%.
iii. Invoice price is cost plus 15%.
iv. Other information from accounts of branch:

Opening Stock as on 01-04-2019	3,45,000
Goods sent during the year by Head Office to Branch	16,10,000
Sales during the year	21,00,000
Expenses incurred at the branch	45,000

(4 Parts * 5 marks = 20 Marks)