# CA INTERMEDIATE

**SUBJECT-ACCOUNTS**

**Test Code – INP 2111**

**(Date:)**

**(Marks - 100)**

**TOPIC : Full course**

**(Time allowed: 3 hours)**

***Q1 is compulsory***

***Attempt any four out of remaining five questions***

**QUESTION : 1(A)**

Neon Enterprise operates a mojor chain of restaurants located in different cities. The company has acquired a new restaurant located at Chandigarh. The new – restaurant requires significant renovation expenditure. Management expects that the renovations will last for 3 months during which the restaurant will be closed.

Management has prepared the following budget for this period –

| | |
|---|---|
| Salaries of the staff engaged in preparation of restaurant before its opening | Rs. 7,50,000 |
| Construction and remodeling cost of restaurant | Rs. 30,00,000 |

Explain the treatment of these expenditures as per the provisions of AS 10 "Property, Plant and Equipment."

**(5 MARKS)**

**QUESTION : 1(B)**

Om Ltd. purchased an item of property, plant and equipment for US $ 50 lakh on 01.04.2019 and the same was fully financed by the foreign currency loan [US $] repayable in five equal installments annually. (Exchange rate at the time of purchase was 1 US $ = Rs. 60]. As on 31.03.2020 the first installment was paid when 1 US $ fetched Rs. 62.00. The entire loss on exchange was included in cost of goods sold. Om Ltd. normally provides depreciation on an item of property, plant and equipment at 20% on WDV basis and exercised the option to adjust the cost of asset for exchange difference arising out of loan restatement and payment. Calculate the amount of exchange loss, its treatment and depreciation on this item of property, plant and equipment.

**(5 MARKS)**

**QUESTION : 1(C)**

State whether the following statements are 'True' or 'False'. Also give reason for your answer.

(1) As per the provisions of AS-5, extraordinary items should not be disclosed in the statement of profit and loss as a part of net profit or loss for the period.

(2) As per the provisions of AS-12, government grants in the nature of promoters' contribution which become refundable should be reduced from the capital reserve.

(3) As per the provisions of AS-2, inventories should be valued at the lower of cost and selling price.

(4) As per the provisions of AS-13, a current investment is an investment, that by its nature, is readily realizable and is intended to be held for not more than six months from the date on which such investment is made.

(5) As per the provisions of AS-4, a contingency is a condition or situation, the ultimate outcome of which (gain or loss) will be known or determined only on the occurrence of one or more uncertain future events.

**(5 MARKS)**

**QUESTION : 1(D)**

Prepare cash flow from investing activities as per AS 3 of M/s Subham Creative Limited for year ended 31.3.2019.

| **Particulars** | **Amount (Rs.)** |
|---|---|
| Machinery acquired by issue of shares at face value | 2,00,000 |
| Claim received for loss of machinery in earthquake | 55,000 |
| Unsecured loans given to associates | 5,00,000 |
| Interest on loan received from associate company | 70,000 |
| Pre-acquisition dividend received on investment made | 52,600 |
| Debenture interest paid | 1,45,200 |
| Term loan repaid | 4,50,000 |
| Interest received on investment (TDS of Rs. 8,200 was deducted on the above interest) | 73,800 |
| Purchased debentures of X Ltd., on. 1st December, 2018 which are redeemable within 3 months | 3,00,000 |
| Book value of plant & machinery sold (loss incurred Rs. 9,600) | 90,000 |

**(5 MARKS)**

**QUESTION : 2(A)**

Meera carried out the following transactions in the shares of Kumar Ltd.:

(1) On $1^{st}$ April, 2019 she purchased 40,000 equity shares of Rs. 1 each fully paid up for Rs.60,000.

(2) On 15th May 2019, Meera sold 8,000 shares for Rs.15,200.

(3) At a meeting on $15^{th}$ June 2019, the company decided:

(i) To make a bonus issue of one fully paid up share for every four shares held on1st June 2019, and

(ii) To give its members the right to apply for one share for every five shares held on 1st June 2019 at a price of Rs. 1.50 per share of which 75 paise is payable on or before 15th July 2019 and the balance, 75 paise per share, on or before 15th September, 2019.

The shares issued under (i) and (ii) were not to rank for dividend for the year ending $31^{st}$ December 2019.

(a) Meera received her bonus shares and took up 4,000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30th September 2019.

(b) On 15th March 2020, she received interim dividend from Kumar Ltd. of 15 per cent in respect of the current financial year.

(c) On 30th March 2020, she received Rs.28,000 from the sale of 20,000 shares.

You are required to record these transactions in the Investment Account in Meera's books for the year ended 31st March 2020 transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis. Expenses and tax to be ignored.

**(10 MARKS)**

**QUESTION : 2(B)**

A fire engulfed the premises of a business of M/S Kite Ltd. in the morning, of 1 st October, 2017. The entire stock was destroyed except, stock salvaged of Rs. 50,000. Insurance Policy was for Rs. 5,00,000 with average clause.
The following information was obtained from the records saved for the period from 1st April to 30th September, 2017:

| | Rs. |
|---|---|
| Sales | 27,75,000 |
| Purchases | 18,75,000 |
| Carriage inward | 35,000 |
| Carriage outward | 20,000 |
| Wages | 40,000 |
| Salaries | 50,000 |
| Stock in hand on 31st March, 2017 | 3,50,000 |

**Additional Information:**

(1) Sales upto 30th September, 2017, includes Rs. 75,000 for which goods had not been dispatched.

(2) On 1st June, 2017, goods worth Rs. 1,98,000 sold to Hari on approval basis which was included in sales but no approval has been received in respect of 2/3rd of the goods sold to him till 30th September, 2017.

(3) Purchases upto 30th September, 2017 did not include Rs. 1,00,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown.

(4) Past records show the gross profit rate of 25% on sales.

You are required to prepare the statement of claim for loss of stock for submission to the Insurance Company.

**(10 MARKS)**

**QUESTION : 3(A)**

The following balances were extracted from the books of Beta. You are required to prepare Departmental Trading Account and general Profit & Loss Account for the year ended 31st March, 2020:

| **Particulars** | **Deptt. A Rs.** | **Deptt. B Rs.** |
|---|---|---|
| Opening Stock | 3,00,000 | 2,40,000 |
| Purchases | 39,00,000 | 54,60,000 |
| Sales | 60,00,000 | 90,00,000 |

General expenses incurred for both the Departments were Rs. 7,50,000 and you are also supplied with the following information:

(i) Closing stock of Department A Rs. 6,00,000 including goods from Department B for Rs. 1,20,000 at cost to Department A.

(ii) Closing stock of Department B Rs. 12,00,000 including goods from Department A for Rs. 1,80,000 at cost to Department B.

(iii) Opening stock of Department A and Department B include goods of the value of Rs. 60,000 and
Rs. 90,000 taken from Department B and Department A respectively at cost to transfereedepartments.

(iv) The gross profit is uniform from year to year.

**(8 MARKS)**

**QUESTION : 3(B)**

On 1st April, 2017, Mr. Nilesh acquired a Tractor on Hire purchase from Raj Ltd. The terms of contract were as follows:

(i) The Cash price of the Tractor was Rs. 11,50,000.

(ii) Rs. 2,50,000 were to be paid as down payment on the date of purchase.

(iii) The Balance was to be paid in annual instalments of Rs. 3,00,000 plus interest at theend of the year.

(iv) Interest chargeable on the outstanding balance was 8% p.a.

(v) Depreciation @ 10% p.a. is to be charged using straight line method.

Mr. Nilesh adopted the Interest Suspense method for recording his Hire purchase transactions.

You are required to :

Prepare the Tractor account, Interest Suspense account and Raj Ltd.'s account in the books of Mr. Nilesh for the period of hire purchase.

**(12 MARKS)**

**QUESTION : 4 (A)**

The partners of Ojasvi Enterprises decided to convert the partnership firm into a Private Limited Company Tejasvi (P) Ltd. with effect from 1st January, 2019. However, company could be incorporated only on 1st June, 2019. The business was continued on behalf of the company and the consideration of Rs. 6,00,000 was settled on that day along with interest @ 12% per annum. The company availed loan of Rs. 9,00,000 @ 10% per annum on 1st June, 2019 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2020 and presents you the following summarized profit and loss account.

| | Rs. | Rs. |
|---|---|---|
| Sales | | 19,80,000 |
| Cost of goods sold | 11,88,000 | |
| Discount to dealers | 46,200 | |
| Directors' remuneration | 60,000 | |
| Salaries | 90,000 | |
| Rent | 1,35,000 | |
| Interest | 1,05,000 | |
| Depreciation | 30,000 | |
| Office expenses | 1,05,000 | |
| Preliminary expenses (to be written off in first year itself) | 15,000 | |
| | | 17,74,200 |
| Profit | | 2,05,800 |

Sales from June, 2019 to December, 2019 were 2 ½ times of the average sales, which further increased to 3 ½ times in January to March quarter, 2019. The company recruited additional work force to expand the business. The salaries from July, 2019 doubled. The company also acquired additional showroom at monthly rent of Rs. 10,000 from July, 2019.

**(10 MARKS)**

**QUESTION : 4(B)**

The Books of Arpit Ltd. shows the following Balances as on 31st December, 2019:

| | Amount (Rs.) |
|---|---|
| 6,00,000 Equity shares of Rs. 10 each fully paid up | 60,00,000 |
| 30,000, 10% Preference shares of Rs. 100 each, Rs. 80 paid up | 24,00,000 |
| Securities Premium | 6,00,000 |
| Capital Redemption Reserve | 18,00,000 |
| General Reserve | 35,00,000 |

Under the terms of issue, the Preference Shares are redeemable on 31st March, 2020 at a premium of 10%. In order to finance the redemption, the Board of Directors decided to make a fresh issue of 1,50,000 Equity shares of Rs.10 each at a premium of 20%, Rs. 2 being payable on application, Rs. 7 (including premium) on allotment and the balance on 1st January, 2021. The issue was fully subscribed and allotment made on 1st March, 2020. The money due on allotment was received by 20th March, 2020.

The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are required to pass the necessary Journal Entries and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out on 31st March, 2020.

**(10 MARKS)**

**QUESTION : 5(A)**

Shree Ltd. has authorized capital of Rs. 50 lakhs divided into 5,00,000 equity shares of Rs. 10 each Their books show the following balances as on 31st March, 2020 :

| | Rs. | | Rs. |
|---|---|---|---|
| Inventory 1.4.2019 | 6,65,000 | Bank balance in Current Account | 20,000 |
| Discounts & Rebates allowed | 30,000 | Cash in hand | 8,000 |
| Carriage Inwards | 57,500 | Interest (bank overdraft) | 1,11,000 |
| Patterns | 3,75,000 | Calls in Arrears @ Rs. 2 per share | 10,000 |
| Rate, Taxes and Insurance | 55,000 | Equity share capital | 20,00,000 |
| Furniture & Fixtures | 1,50,000 | (2,00,000 shares of Rs. 10 each) | |
| Purchases | 12,32,500 | Bank Overdraft | 12,67,000 |
| Wages | 13,68,000 | Trade Payables (for goods) | 2,40,500 |
| Freehold Land | 16,25,000 | Sales | 36,17,000 |
| Plant & machinery | 7,50,000 | Rent (Cr.) | 30,000 |
| Engineering Tools | 1,50,000 | Transfer fees received | 6,500 |
| Trade Receivables | 4,00,500 | Profit & Loss A/c. (Cr.) | 67,000 |
| Advertisement | 15,000 | Repairs to Building | 56,500 |
| Commission & Brokerage(Dr.) | 67,500 | Bad debts | 25,500 |
| Business Expenses | 56,000 | | |

You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2020 and Balance Sheet as on that date in line with Schedule III to the Companies Act, 2013 after considering the following :

The inventory (valued at cost or market value, which is lower) as on 31st March, 2020 was Rs. 7,08,000. Outstanding liabilities for wages Rs. 25,000 and business expenses Rs. 36,000.

Charge depreciation on closing written down value of Plant & Machinery @ 5%, Engineering Tools @ 20%; Patterns @ 10%; and Furniture & Fixtures @ 10%. Provide 25,000 as doubtful debts after writing off Rs. 16,000 as additional bad debts. Provide for income tax @ 30%.

**(14 MARKS)**

**QUESTION : 5(B)**

Following is the information of Umesh Ltd. as at 31st March, 2021:

| | Rs. |
|---|---|
| Authorized 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 |
| 3,00,000 Equity shares of Rs. 10 each, Rs. 8 paid up | 24,00,000 |

| | |
|---|---|
| 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, 2021, the Company has made final call @ Rs. 2 each on 3,00,000 equity shares. The call money was received by 20th April, 2021. 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 prepare necessary journal entries in the books of the company.

**(6 MARKS)**

**QUESTION : 6(A)**

Ganesh Ltd. has head office at Delhi (India) and branch at New York. New York branch is an integral foreign operation of Ganesh Ltd. New York branch furnishes you with its trail balance as on 31st March, 2020 and the additional information given thereafter :

| | **Dr.($)** | **Cr.($)** |
|---|---|---|
| Stock on 1st April, 2019 | 300 | - |
| Purchases and sales | 800 | 1,500 |
| Sundry Debtors and creditors | 400 | 300 |
| Bills of exchange | 120 | 240 |
| Sundry expenses | 1,080 | - |
| Bank balance | 420 | - |
| Delhi office A/c. | - | 1,080 |
| | 3,120 | 3,120 |

The rates of exchange may be taken as follows :

- On 1.4.2019@ Rs. 40 per US $
- On 31.3.2020 @ Rs. 42 per US $
- Average exchange rate for the year @ Rs. 41 per US $.

New York branch account showed a debit balance of Rs. 44,380 on 31.3.2020 in Delhi books and there were no items pending reconciliation.

You are asked to prepare trial balance of New York in Rs. in the books of Ganesh Ltd.

**(5 MARKS)**

**QUESTION : 6(B)**

With regard to financial statements name any four.

(i) Users

(ii) Qualitative characteristics

(iii) Elements

**(5 MARKS)**

**QUESTION : 6(C)**

Vital Limited borrowed an amount of Rs. 150 crores on 1.4.2019 for construction of boiler plant @ 10% p.a. The plant is expected to be completed in 4 years. Since the weighted average cost of capital is 13% p.a., the accountant of Vital Ltd. capitalized Rs. 19.50 crores for the accounting period ending on 31.3.2020. Due to surplus fund out of Rs. 150 crores, an income of Rs. 1.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard.

**(5 MARKS)**

**QUESTION : 6(D)**

The inventory of Rich Ltd. as on 31$^{st}$ March, 2020 comprises of Product – A: 200 units and Product – B: 800 units.

Details of cost for these products are:

Product – A: Material cost, wages cost and overhead cost of each unit are Rs. 40, Rs. 30 and Rs. 20 respectively, Each unit is sold at Rs. 110, selling expenses amounts to 10% of selling costs.

Product – B: Material cost and wages cost of each unit are Rs. 45 and Rs. 35 respectively and normal selling rate is Rs. 150 each, however due to defect in the manufacturing process 800 units of Product-B were expected to be sold at Rs. 70.

You are requested to value closing inventory according to AS 2 after considering the above.

**(5 MARKS)**