CA INTERMEDIATE

SUBJECT- ACCOUNTS

Test Code – CIM 8728

(Date :)

(Marks - 100)

Question No. 1 is compulsory.

Attempt any four questions out of the remaining five questions.

Working notes should form part of the answer

QUESTION NO.1

A. Mr. Rakshit gives the following information relating to items forming part of inventory as on 31st March, 2019. His factory produces product X using raw material A.

(i) 800 units of raw material A (purchased @ Rs. 140 per unit). Replacement cost of raw material A as on 31st March, 2019 is Rs. 190 per unit.

(ii) 650 units of partly finished goods in the process of producing X and cost incurred till date Rs. 310 per unit. These units can be finished next year by incurring additional cost of Rs. 50 per unit.

(iii) 1,800 units of finished product X and total cost incurred Rs. 360 per unit.

Expected selling price of product X is Rs. 350 per unit.

In the context of AS-2, determine how each item of inventory will be valued as on 31st March, 2019. Also, **calculate the value of total inventory as on 31st March, 2019.**

B. Govind Ltd. issued 12% secured debentures of Rs. 100 Lakhs on 01.04.2018, to be utilized as under:

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

In March 2019, construction of the factory building was completed and machinery was installed and ready for its intended use. Total interest on debentures for the financial year ended 31.03.2019 was Rs. 12,00,000. During the year 2018-19, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of Rs. 3,00,000.

You are required to show the treatment of interest under Accounting Standard 16 and also explain nature of assets.

C. (i) In the year 2018-19, an entity has acquired a new freehold building with a useful life of 50 years for Rs. 75,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

Component	Useful life (Years)	Cost
Land	Infinite	Rs. 10,00,000
Roof	25	Rs. 15,00,000
Lifts	20	Rs. 7,50,000
Fixtures	10	Rs. 2,50,000
Remainder of building	50	Rs. 40,00,000
		Rs. 75,00,000

Calculate depreciation for the year 2018-19 as per componentization method. Also state the treatment, in case Roof requires replacement at the end of its useful life.

(ii) Entity A, a supermarket chain, is renovating one of its major stores. The store will have more available space for store promotion outlets after the renovation and will include a restaurant. Management is preparing the budgets for the year after the store reopens, which include the cost of remodeling and the expectation of a 15% increase in sales resulting from the store renovations, which will attract new customers.

Decide whether the remodeling cost will be capitalized or not as per provision of AS 10 "Property plant & Equipment".

D. ABC Ltd. was making provision for non-moving inventories based on no issues for the last 12 months up to 31.3.2019.

The company wants to provide during the year ending 31.3.2020 based on technical evaluation:

Total value of inventory	Rs. 100 lakhs
Provision required based on 12 months issue	Rs. 3.5 lakhs
Provision required based on technical evaluation	Rs. 2.5 lakhs

Does this amount to change in Accounting Policy? Can the company change the method of provision?

(4 X 5 =20 marks)

QUESTION NO.2

A. A firm acquired two tractors under hire purchase agreements, details of which were as follows:

Date of Purchase	Tractor A 1st April, 2011(Rs.)	Tractor B 1st Oct., 2011 (Rs.)
Cash price	14,000	19,000

Both agreements provided for payment to be made in twenty-four monthly instalments (of Rs. 600 each for Tractor A and Rs. 800 each for Tractor B), commencing on the last day of the month following purchase, all instalments being paid on due dates.

On 30th June, 2012, Tractor B was completely destroyed by fire. In full settlement, on 10th July, 2012 an insurance company paid Rs. 15,000 under a comprehensive policy out of which Rs. 10,000 was paid to the hire purchase company in termination of the agreement. Any balance on the hire purchase company's account in respect of these transactions was to be written off.

The firm prepared accounts annually to 31st December and provided depreciation on tractors on a straight-line basis at a rate of 20 per cent per annum rounded off to nearest ten rupees, apportioned as from the date of purchase and up to the date of disposal.

You are required to record these transactions in the following accounts, carrying down the balances on 31st December, 2011 and 31st December, 2012:

1. Tractors on hire purchase.
2. Provision for depreciation of tractors.
3. Disposal of tractors.

(10 marks)

B. ABC Ltd. has insured itself under a loss of profit policy for Rs. 3,30,000 with indemnity period of 8 months under average clause. A fire occurred in the factory on 01-01-2019 and normal business was affected up to 30-04-2019.

From the following information, prepare a Statement of Claim under the policy:

Actual Turnover over the period of dislocation (01-01-2019 to 30-4-2019)	50,000
Turnover for 12 months immediately preceding the date of fire (01-01-2018 to 31-12-2018)	10,00,000
Turnover for corresponding period in 12 months immediately preceding the date of fire (01-01-2018 to 30-04-2018)	4,50,000
Turnover for last financial year	12,00,000
Net Profit for last financial year	3,00,000
Uninsured Standing charges	18,000
Insured Standing charges for the last financial year	60,000

Following increases are approved in the policy:

(i) Increase in G.P. rate by 2%

(ii) Increase in turnover by 10%

There was an additional cost of working of Rs. 20,000 during dislocation period. Due to this additional cost there was a saving of Rs. 5,000 in insured standing charges during the indemnity period and but for this additional cost the turnover during the period of dislocation would have been only Rs. 35,000.

(10 marks)

QUESTION NO.3

A. Akash Ltd. had 4,000 equity share of X Limited, at a book value of Rs. 15 per share (face value of Rs. 10 each) on 1st April 2018. On 1st September 2018, Akash Ltd. acquired 1,000 equity shares of X Limited at a premium of Rs. 4 per share. X Limited announced a bonus and right issue for existing share holders.

The terms of bonus and right issue were -

(1) Bonus was declared, at the rate of two equity shares for every five equity shares held on 30th
September, 2018.

(2) Right shares are to be issued to the existing shareholders on 1st December, 2018. The company issued two right shares for every seven shares held at 25% premium. No dividend, was payable on these shares. The whole sum being payable by 31st December, 2018.

(3) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.

(4) Akash Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for Rs. 8 per share.

(5) Dividend for the year ended 31st March 2018, at the rate of 20% was declared by the company and received by Akash Ltd., on 20th January 2019.

(6) On 1st February 2019, Akash Ltd., sold half of its share holdings at a premium of Rs. 4 per share.

(7) The market price of share on 31.03.2019 was Rs. 13 per share.

You are required to prepare the Investment Account of Akash Ltd. for the year ended 31st March, 2019 and determine the value of shares held on that date assuming the investment as current investment.

(10 marks)

B. The following balances appeared in the books of M/s Sunshine Traders:

	As on 31-03-2018 (Rs.)	As on 31-03-2019 (Rs.)
Land and Building	2,50,000	2,50,000
Plant and Machinery	1,10,000	1,65,000
Office Equipment	52,500	42,500
Sundry Debtors	77,750	1,10,250
Creditors for Purchases	47,500	?
Provision for office expenses	10,000	7,500
Stock	?	32,500
Long Term loan from ABC Bank @ 10% per annum	62,500	50,000
Bank	12,500	?
Capital	4,65,250	?

Other information was as follows:

	In (Rs.)
- Collection from Sundry Debtors	4,62,500
- Payments to Creditors for Purchases	2,62,500
- Payment of office Expenses	21,000
- Salary paid	16,000
- Selling Expenses paid	7,500
- Total sales	6,25,000
Credit sales (80% of Total sales)	
- Credit Purchases	2,70,000
Cash Purchases (40% of Total Purchases)	
- Gross Profit Margin was 25% on cost	
- Discount Allowed	2,750
- Discount Received	2,250
- Bad debts	2,250

- Depreciation to be provided as follows:

Land and Building - 5% per annum

Plant and Machinery - 10% per annum

Office Equipment - 15% Per annum

- On 01.10.2018 the firm sold machine having book value, Rs. 20,000 (as on 31.03.2018) at a loss of Rs. 7,500. New machine was purchased on 01.01.2019.
- Office equipment was sold at its book value on 01.04.2018.
- Loan was partly repaid on 31.03.2019 together with interest for the year.

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

(i) Trading and Profit & Loss account for the year ended 31st March, 2019.

(ii) Balance Sheet as on 31st March 2019.

(10 Marks)

QUESTION NO.4

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 31 st 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:

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

b. 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.

c. 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.

d. 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 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.

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

(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)

QUESTION NO.5

A. The partners of Shri Enterprises decided to convert the partnership firm into a Private Limited Company Shreya (P) Ltd. with effect from 1st January, 2018. However, company could be incorporated only on 1st June, 2018. 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, 2018 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2019 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	
Sales promotion expenses	33,000	
Preliminary expenses (to be written off in first year itself)	15,000	18,07,200
Profit		1,72,800

Sales from June, 2018 to December, 2018 were 2½ times of the average sales, which further increased to 3½ times in January to March quarter, 2019. The company recruited additional work force to expand the business. The salaries from July, 2018 doubled. The company also acquired additional showroom at monthly rent of Rs. 10,000 from July, 2018.

<u>You are required to prepare a Profit and Loss Account showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods</u>.

(10 Marks)

B. From the following particulars furnished by the Prashant Ltd., prepare the Balance Sheet as at 31st March, 2019 as required by Schedule III of the Companies Act, 2013 :

Particulars	Debit (Rs.)	Credit (Rs.)
Equity share capital (face value of Rs. 10 each)		15,00,000
Calls-in-arrears	5,000	
Land	5,50,000	
Building	4,85,000	
Plant & machinery	5,60,000	
General reserve		2,70,000
Loan from State Financial Corporation		2,10,000
Inventories	3,15,000	
Provision for taxation		72,000
Trade receivables	2,95,000	
Short-term loans & advances	58,500	
Profit & loss account		1,06,800
Cash in hand	37,300	
Cash at bank	2,85,000	
Unsecured loans		1,65,000
Trade payables		2,67,000
Total	25,90,800	25,90,800

The following additional information is also provided :

(1) 10,000 equity shares were issued for consideration other than cash.

(2) Trade receivables of Rs. 55,000 are due for more than six months.

(3) The cost of building and plant & machinery is Rs. 5,50,000 and Rs. 6,25,000 respectively.

(4) The loan from State Financial Corporation is secured by hypothecation of plant & machinery. The balance of Rs. 2,10,000 in this account is inclusive of Rs. 10,000 for interest accrued but not due.

(5) Balance at Bank included Rs. 15,000 with Aakash Bank Ltd., which is not a scheduled bank.

(10 Marks)

QUESTION NO.6

Answer any four of the following:

A. Zeta Ltd. has decided to increase its existing share capital by making rights issue to its existing shareholders. Zeta Ltd. is offering one new share for every two shares held by the shareholder. The market value of the share is Rs. 360 and the company is offering one share of Rs. 180 each. **Calculate the value of a right. What should be the ex-right market price of a share?**

B. The following are the extracts from the Balance Sheet of Meera Ltd. as on 31st December, 2017.

Share capital: 60,000 Equity shares of Rs.10 each fully paid – Rs. 6,00,000; 1,500 10% Redeemable preference shares of Rs. 100 each fully paid – Rs.1,50,000.
Reserve & Surplus: Capital reserve – Rs. 75,000; Securities premium – Rs. 75,000; General reserve – Rs. 1,12,500; Profit and Loss Account – Rs. 62,500

On 1st January 2018, the Board of Directors decided to redeem the preference shares at premium of 10% by utilisation of reserve.

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

C. **Omega Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13**. State the values, at which the investments have to be reclassified in the following cases:

a. Long term investments in Company A, costing Rs. 8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to Rs. 6.5 lakhs to recognize a permanent decline in value. The fair value on date of transfer is Rs. 6.8 lakhs.

b. Current investment in Company C, costing Rs. 10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is Rs. 12 lakhs.

c. Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these investments was Rs. 18 lakhs but had been written down to Rs. 12 lakhs to recognize permanent decline as per AS 13.

D. The following is the Draft Profit & Loss A/c of Harsha Ltd., the year ended 31st March, 20X1:

		Rs.			Rs.
To	Administrative, Selling and distribution expenses	41,12,710	By	Balance b/d	28,61,750
”	Directors fees	6,73,900	“	Balance from Trading A/c	2,01,26,825
”	Interest on debentures	1,56,200	“	Subsidies received from Govt.	13,69,625
”	Managerial remuneration	14,26,750			
”	Depreciation on fixed assets	26,12,715			
”	Provision for Taxation	62,12,500			
”	General Reserve	20,00,000			
”	Investment Revaluation Reserve	62,500			
”	Balance c/d	71,00,925			
		243,58,200			243,58,200

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was Rs. 28,76,725. **You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.**

E. A company had issued 40,000, 12% debentures of Rs. 100 each on 1st April, 2015. The debentures are due for redemption on 1st March, 2019. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (nominal value Rs. 10) at a predetermined price of Rs. 15 per share and the payment in cash. 50 debentures holders holding totally 5,000 debentures did not exercise the option. **Calculate the number of equity shares to be allotted to the debenture holders and the amount to be paid in cash on redemption**.

(4 x 5 = 20 Marks)