CA INTERMEDIATE

SUBJECT- ACCOUNTS

Test Code – CIM 8661

(Date :)

(Marks -100)

QUESTION 1 IS COMPULSORY. ATTEMPT ANY FOUR OUT OF FIVE QUESTIONS.
WORKING NOTES SHOULD FORM PART OF ANSWER.
NEW QUESTION SHOULD BE ON NEW PAGE.

QUESTION 1(A) **(5 MARKS)**

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.

QUESTION 1(B) **(5 MARKS)**

Particulars		Kg.	Rs.
Opening Inventory:	Finished Goods	1,000	25,000
	Raw Materials	1,100	11,000
Purchases		10,000	1,00,000
Labour			76,500
Overheads (Fixed)			75,000
Sales		10,000	2,80,000
Closing Inventory:	Raw Materials	900	
	Finished Goods	1200	

The expected production for the year was 15,000 kg of the finished product. Due to fall in market demand the sales price for the finished goods was Rs. 20 per kg and the replacement cost for the raw material was Rs. 9.50 per kg on the closing day. **You are required to calculate the closing inventory as on that date.**

QUESTION 1(C) **(5 MARKS)**

Mohan Ltd. has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site.

The following incremental costs will be incurred:

Setup costs of Rs. 5,00,000 to install machinery in the new location.

Rent of Rs. 15,00,000

Removal costs of Rs. 3,00,000 to transport the machinery from the old location to the temporary location.

You are **required to examine in line with AS 10 "Property, Plant and Equipment"** **whether these costs can be capitalized into the cost of the new building.**

QUESTION 1(D) **(5 MARKS)**

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 was Rs. 11 lakhs.

(1) 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.

(2) 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,

(3) 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

QUESTION 2(A) **(10 MARKS)**

Mr. Vijay entered into the following transactions of purchase and sale of equity shares of JP Power Ltd. The shares have paid up value of Rs. 10 per share.

Date	No. of Shares	Terms
01.01.2016	600	Buy @ Rs. 20 per share
15.03.2016	900	Buy @ Rs. 25 per share
20.05.2016	1000	Buy @ Rs. 23 per share
25.07.2016	2500	Bonus Shares received
20.12.2016	1500	Sale @ Rs. 22 per share
01.02.2017	1000	Sale @ Rs. 24 per share

Addition information:

(1) On 15.09.2016 dividend @ Rs. 3 per share was received for the year ended 31.03.2016.

(2) On 12.11.2016 company made a right issue of equity shares in the ratio of one share for five shares held on payment of Rs. 20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of the premium of Rs. 3 per share.

(3) Shares are to be valued on weighted average cost basis.

You are **required to prepare Investment Account** for the year ended 31.03.2016 and 31.03.2017.

QUESTION 2(B) **(10 MARKS)**

A fire engulfed the premises of a business of M/S Kite Ltd. in the morning, of 1st 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.

QUESTION 3(A) **(10 MARKS)**

Neo Ltd., with headquarters at Mumbai, maintains a branch at Goa. Goods are invoiced at cost plus 25%. In respect of Goa branch, the following information pertaining to the year ended 31st March, 2013 are made available to you :

Particulars		Rs.
Goods sent to Branch (at Invoice price)		6,75,000
Goods returned by Branch during the year (at invoice price)		24,000
Cash sales affected by Branch		1,85,000
Discount allowed to Customers		2,500
Amount received from Branch Debtors		3,25,000
Cheques of Customers which got dishonoured		8,000
Branch Expenses met in Cash		72,500
Sales Return at Goa Branch		10,000
Bad Debts		5,500

Particulars	On 31st March, 2013	On 31st March, 2012
Branch Debtors	1,05,000	50,000
Stock of Branch (at invoice price)	2,36,000	1,50,000

Adopting the Stock and Debtors system, you are required to **prepare the following Ledger Accounts**, as appearing in the Books of the Head Office :

(i) Goa Branch Stock Account;
(ii) Goa Branch Debtors Account;
(iii) Goa Branch Adjustment Account;
(iv) Goa Branch Profit and Loss Account.

QUESTION 3(B) **(10 MARKS)**

Roshni and Reshma working in partnership, registered a joint stock company under the name of Happy Ltd. on May 31st 2016 to take over their existing business with effect from 1st April 2016. The summarized Profit and Loss A/c. are given by Happy Ltd. for the year ending 31st March, 2017 as under :

Profit and Loss A/c. for the year ending March 31, 2017

Particulars	Rs.	Particulars	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	12,000		
To Net Profit	1,33,350		
	4,50,000		**4,50,000**

Prepare a Statement showing allocation of expenses and calculation of pre – incorporation and post – incorporation profits after considering the following information :

1. GP ratio was constant throughout the year.
2. Depreciation includes Rs. 1,250 for assets acquired in post incorporation period.
3. Bad debts recovered amounting to Rs. 14,000 for a sale made in 2013 – 14 has been deducted from bad debts mentioned above.
4. Total sales were Rs. 18,00,000 of which Rs. 6,00,000 were for April for September.
5. Happy Ltd. had to occupy additional space from 1st Oct. 2016 for which rent was Rs. 2,400 per month.
6. Audit fees are for audit under the Companies Act.

QUESTION 4 **(20 MARKS)**

Shweta Ltd. has the Authorised Capital of Rs. 15,00,000 consisting of 6,000 6% Preference shares of Rs. 100 each and 90,000 equity Shares of Rs. 10 each. The following was the Trial Balance of the Company as on 31st March, 2018 :

Particulars	Dr.	Cr.
Investment in Share at cost	1,50,000	
Purchases	14,71,500	
Selling Expenses	2,37,300	
Inventory as at the beginning of the year	4,35,600	
Salaries and Wages	1,56,000	
Cash on Hand	36,000	
Interim Preference dividend for the half year to 30th September	18,000	
Bills Receivable	1,24,500	
Interest on Bank overdraft	29,400	
Interest on Debentures upto 30th Sep (1st half year)	11,250	
Debtors	1,50,300	
Trade payables		2,63,550
Freehold property at cost	10,50,000	
Furniture at cost less depreciation of Rs. 45,000	1,05,000	
6% Preference share capital		6,00,000
Equity share capital fully paid up		6,00,000
5% mortgage debentures secured on Freehold properties		4,50,000
Income tax paid in advance for the current year	30,000	
Dividends		12,750
Profit and Loss A/c. (opening balance)		85,500
Sales (Net)		20,11,050
Bank overdraft secured by hypothecation of stocks and receivables		4,50,000
Technical knowhow fees at cost paid during the year	4,50,000	
Audit fees	18,000	
Total	**44,72,850**	**44,72,850**

You are required to **prepare the Profit and Loss Statement** for the year ended 31st March, 2018 and **the Balance sheet** as on 31st March, 2018 as per Schedule III of the Companies Act, 2013 after taking into account the following –

1. Closing Stock was valued at Rs. 4,27,500.
2. Purchases include Rs. 15,000 worth of goods and articles distributed among valued customers.
3. Salaries and Wages include Rs. 6,000 being Wages incurred for installation of Electrical fittings which were recorded under "Furniture".
4. Bills Receivable include Rs. 4,500 being dishonoured bills. 50% of which had been considered irrecoverable.
5. Bills Receivable of Rs. 6,000 maturing after 31st March were discounted.
6. Depreciation on Furniture to be charged at 10% on Written Down Value.
7. Investment in shares is to be treated as non – current investments.
8. Interest on debentures for the half year ending on 31st March was due on that date.
9. Provide Provision for taxation Rs. 12,000.
10. Technical Knowhow Fees is to be written off over a period of 10 years.
11. Salaries and wages include Rs. 30,000 being Director's Remuneration.
12. Trade receivables include Rs. 18,000 due for more than six months.

QUESTION 5(A) **(10 MARKS)**

Following is the Summary Balance Sheet of M/s Ujjwal Ltd. as on 31.12.2017 :

Liabilities		Rs.	Assets	Rs.
2,000 Equity Shares of Rs. 100 each		2,00,000	Fixed Assets	3,00,000
1,000 9% Redeemable Preference Shares of Rs. 100 each	1,00,000		Current Assets (Including Bank balance of Rs. 1,00,000)	2,20,000
Less : Calls in arrears (Rs. 25 per share)	500	99,500		
General Reserve		48,000		
Sundry Creditors		1,22,500		
Bills Payable		50,000		
		5,20,000		5,20,000

The Directors forfeited preference shares for non – payment of calls after giving notice to the shareholders and thereafter redeemed the preference shares at a premium of 10%.

For the purpose of redemption, the company made a fresh issue of 640 Equity Shares of Rs. 100 each at a premium of 5%. All the shares were subscribed and fully paid.

<u>Pass journal entries</u> for the above transactions and **<u>prepare balance sheet</u>** of the company after redemption.

QUESTION 5(B) **(10 MARKS)**

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.

<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 31st March, 2017.

QUESTION 6 : Answer any four out of five Questions.

QUESTION 6(A) **(5 MARKS)**

AXE Limited purchased fixed assets costing $ 5,00,000 on 1st Jan. 2018 from an American company M/s M&M Limited. The amount was payable after 6 months. The company entered into a forward contract on 1st January 2018 for five months @ Rs. 62.50 per dollar. The exchange rate per dollar was as follows :

On 1^{st} January, 2018 Rs. 60.75 per dollar

On 31^{st} March, 2018 Rs. 63.00 per dollar

You are required to state **how the profit or loss on forward contract would be recognized** in the books of AXE Limited for the year ending 2017-18, **as per the provisions of AS 11.**

QUESTION 6(B) **(5 MARKS)**

On 01.04.2014, XYZ Ltd. received Government grant of Rs. 100 Lakhs for an acquisition of new machinery costing Rs. 500 lakhs. The grant was received and credited to the cost of the assets. The life span of the machinery is 5 years. The machinery is depreciated at 20% on WDV method.

The company had to refund the entire grant in 2nd April, 2017 due to non-fulfilment of certain conditions which was imposed by the government at the time of approval of grant.

How do you deal with the refund of grant to the Government in the books of XYZ Ltd., as per AS 12?

QUESTION 6(C) **(5 MARKS)**

Gurudev Limited purchases for immediate cancellation 6,000 of its own 12 % debentures of Rs. 100 each on 1^{st} November, 2017. The dates of interest being 31^{st} March, and 30^{th} September. **Pass necessary journal entries relating to the cancellation** if:

(i) Debentures are purchased at Rs. 98 ex-interest.
(ii) Debentures are purchased at Rs. 98 cum-interest.

QUESTION 6(D) **(5 MARKS)**

A company offers new shares of Rs. 100 each at 25% premium to existing shareholders on one for four basis. The cum – right market price of a share is Rs. 150. **Calculate the value of a right.**

QUESTION 6(E) **(5 MARKS)**

Classify the following activities as

(a) Operating Activities,(b) Investing activities, (c) Financial activities and (d) Cash Equivalents.

(1) Cash receipts from Trade Receivables
(2) Marketable Securities
(3) Purchase of investment
(4) Proceeds from long term borrowings
(5) Wages and Salaries paid
(6) Bank overdraft
(7) Purchase of Goodwill
(8) Interim dividend paid on equity shares
(9) Short term Deposits
(10) Underwriting commission paid