(GI-11, GI-12+15, GI-13+14, SI-5)

DATE: 27.12.2019 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

PAPER 1: ACCOUNTS

Q. No. 1 is compulsory.
Candidates are required to answer any four questions from the remaining five questions.
Wherever necessary suitable assumptions should be made by the candidates.
Working notes should form part of the answer.

Question 1:

(a) A business having the Head Office in Kolkata has a branch in UK. The following is the trial balance of Branch as at 31.03.2016:

Account Name	Amount in £	
	Dr.	Cr.
Fixed Assets (Purchased on 01.04.2013)	5,000	
Debtors	1,600	
Opening Stock	400	
Goods received from Head Office Account (Recorded in HO books as Rs. 4,02,000)	6,100	
Sales		20,000
Purchases	10,000	
Wages	1,000	
Salaries	1,200	
Cash	3,200	
Remittances to Head Office (Recorded in HO books as Rs. 1,91,000)	2,900	
Head Office Account (Recorded in HO books as Rs. 4,90,000)		7,400
Creditors		4,000

- Closing stock at branch is £ 700 on 31.03.2016.
- Depreciation @ 10% p.a. is to be charged on fixed assets.
- Prepare the trial balance after been converted in Indian Rupees.
- Exchange rates of Pounds on different dates are as follow:
  01.04.2013– Rs. 61; 01.04.2015– Rs. 63 & 31.03.2016 – Rs. 67

(5 Marks)

(b) Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were Rs. 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of Rs. 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at Rs. 49,500 per month after adding 10% profit margin.
The machine was purchased at Rs. 1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. Rs. 55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of Rs. 30,000 to supervise machinery installation at the factory site.
Also, payment under the invoice was due in 5 months. However, the Company made the payment in 3rd month. The company operates on Bank Overdraft @ 14% p.a.
Ascertain the amount at which the Machinery should be capitalized under AS 10.

(5 Marks)

(c) Tip top Limited has borrowed a sum of US $ 10,00,000 at the beginning of Financial Year 2014-15 for its residential project at 4 %. The interest is payable at the end of the Financial Year. At the time of availment exchange rate was Rs. 56 per US $ and the rate as on 31st March, 2015 was Rs. 62 per US $. If Tip top Builders Limited borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%. Compute Borrowing Cost and exchange difference for the year ending 31st March, 2015 as per applicable Accounting Standards.

(5 Marks)

(d) A fixed asset is purchased for Rs. 20 lakhs. Government grant received towards it is Rs. 8 lakhs. Residual Value is Rs. 4 lakhs and useful life is 4 years. Assume depreciation on the basis of Straight Line method. Asset is shown in the balance sheet net of grant. After 1 year, grant becomes refundable to the extent of Rs. 5 lakhs due to non-compliance with certain conditions. Pass journal entries for first two years.

(5 Marks)

Question 2:

(a) The premises of Anmol Ltd. caught fire on 22nd January 2017, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2016 the stock at cost was Rs. 6,63,600 as against Rs. 4,81,100 on 31st March, 2015.
Purchases from 1st April, 2016 to the date of fire were Rs. 17,41,350 as against Rs. 22,62,500 for the full year 2015-16 and the corresponding sales figures were Rs. 24,58,500 and Rs. 26,00,000 respectively. You are given the following further information:

(i) In July, 2016, goods costing Rs. 50,000 were given away for advertising purposes, no entries being made in the books.

(ii) During 2016-17, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged Rs. 1,000 per week from 1st April, 2016 until the clerk was dismissed on 18th August, 2016.

(iii) The rate of gross profit is constant.

You are required to calculate the value of stock in hand on the date of fire with the help of above information.

(8 Marks)

(b) Mr. Brown has made following transactions during the financial year 20X1-X2:

Date	Particulars
01.05.20X1	Purchased 24,000 12% Bonds of Rs. 100 each at Rs. 84 cum-interest. Interest is payable on 30th September and 31st March every year.
15.06.20X1	Purchased 1,50,000 equity shares of Rs. 10 each in Alpha Limited for Rs. 25 each through a broker, who charged brokerage @ 2%.
10.07.20X1	Purchased 60,000 equity shares of Rs.10 each in Beeta Limited for Rs. 44 each through a broker, who charged brokerage @2%.
14.10.20X1	Alpha Limited made a bonus issue of two shares for every three shares held.
31.10.20X1	Sold 80,000 shares in Alpha Limited for Rs. 22 each.
01.01.20X2	Received 15% interim dividend on equity shares of Alpha Limited.
15.01.20X2	Beeta Limited made a right issue of one equity share for every four shares held at Rs. 5 per share. Mr. Brown exercised his option for 40% of his entitlements and sold the balance rights in the market

	at Rs. 2.25 per share.
01.03.20X2	Sold 15,000 12% Bonds at Rs. 90 ex-interest.
15.03.20X2	Received 18% interim dividend on equity shares of Beeta Limited.

Interest on 12% Bonds was duly received on due dates.
Prepare separate investment account for 12% Bonds, Equity Shares of Alpha Limited and Equity Shares of Beeta Limited in the books of Mr. Brown for the year ended on 31st March, 20X2.

(12 Marks)

Question 3:

(a) The following is the Balance Sheet of Manish and Suresh as on 1st April, 2016:

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Building	1,00,000
Manish	1,50,000	Machinery	65,000
Suresh	75,000	Stock	40,000
Creditors for goods	30,000	Debtors	50,000
Creditors for expenses	25,000	Bank	25,000
	2,80,000		2,80,000

They give you the following additional information:

(i) Creditors' Velocity 1.5 month & Debtors' Velocity 2 months.

(ii) Stock level is maintained uniformly in value throughout all over the year.

(iii) Depreciation on machinery is charged @ 10%, Depreciation on building @ 5% in the current year.

(iv) Cost price will go up 15% as compared to last year and also sales in the current year will increase by 25% in volume.

(v) Rate of gross profit remains the same.

(vi) Business Expenditures are Rs. 50,000 for the year. All expenditures are paid off in cash.

(vii) Closing stock is to be valued on LIFO Basis.

(viii) All sales and purchases are on credit basis and there are no cash purchases and sales.

You are required to prepare Trading, Profit and Loss Account, Trade Debtors Account and Trade Creditors Account for the year ending 31.03.2017.

(15 Marks)

(b) Asha purchased a truck on hire purchase system. As per terms she is required to pay Rs. 70,000 down, Rs. 53,000 at the end of first year, Rs. 49,000 at the end of second year and Rs. 55,000 at the end of third year. Interest is charged @ 10% p.a.
You are required to calculate the total cash price of the truck and the interest paid with each instalment.

(5 Marks)

Question 4:

(a) ABC Ltd. took over a running business with effect from 1st April, 20X1. The company was incorporated on 1st August, 20X1. The following summarised Profit and Loss Account has been prepared for the year ended 31.3.20X2:

		Rs.		Rs.
To	Salaries	48,000	By Gross profit	3,20,000
To	Stationery	4,800		
To	Travelling expenses	16,800		
To	Advertisement	16,000		
To	Miscellaneous trade expenses	37,800		

To	Rent (office buildings)	26,400		
To	Electricity charges	4,200		
To	Director's fee	11,200		
To	Bad debts	3,200		
To	Commission to selling agents	16,000		
To	Tax Audit fee	6,000		
To	Debenture interest	3,000		
To	Interest paid to vendor	4,200		
To	Selling expenses	25,200		
To	Depreciation on fixed assets	9,600		
To	Net profit	87,600		
		3,20,000		3,20,000

Additional information:

(a) Total sales for the year, which amounted to Rs. 19,20,000 arose evenly up to the date of 30.9.20X1. Thereafter they recorded an increase of two-third during the rest of the year.

(b) Rent of office building was paid @ Rs. 2,000 per month up to September, 20X1 and thereafter it was increased by Rs. 400 per month.

(c) Travelling expenses include Rs. 4,800 towards sales promotion.

(d) Depreciation include Rs. 600 for assets acquired in the post incorporation period.

(e) Purchase consideration was discharged by the company on 30th September, 20X1 by issuing equity shares of Rs. 10 each.

Prepare Statement showing calculation of profits and allocation of expenses between pre and post incorporation periods.

(15 Marks)

(b) C Limited had 3,000, 12% Redeemable Preference Shares of Rs. 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

(i) 25,000 Equity Shares of Rs. 10 each at par,

(ii) 1,000 14% Debentures of Rs. 100 each.

The issue was fully subscribed and all amounts were received in full .The payment was duly made. The company had sufficient profits. Show Journal Entries in the books of the company.

(5 Marks)

Question 5:

(a) M/s. Suman Enterprises has two Departments, Finished Leather and Shoes. Shoes are made by the Firm itself out of leather supplied by Leather Department at its usual selling price. From the following figures, prepare Departmental Trading and Profit & Loss Account for the year ended 31st March, 20X3:

	Finished Leather Department (Rs.)	Shoes Department (Rs.)
Opening Stock (As on 01.04.20X2)	30,20,000	4,30,000
Purchases	1,50,00,000	2,60,000
Sales	1,80,00,000	45,20,000
Transfer to Shoes Department	30,00,000	-
Manufacturing Expenses	-	5,00,000
Selling Expenses	1,50,000	60,000
Rent and Warehousing	5,00,000	3,00,000
Stock on 31.03.20X3	12,20,000	5,00,000

The following further informations are available for necessary consideration:

(i) The stock in Shoes Department may be considered as consisting of 75% of Leather and 25% of other expenses.

(ii) The Finished Leather Department earned a Gross Profit @ 15% in 20X1-X2.

(iii) General expenses of the business as a whole amount to Rs. 8,50,000.

(10 Marks)

(b) AFFIX of Kolkata has a branch at Delhi to which the goods are supplied from Kolkata but the cost thereof is not recorded in the Head Office books. On 31st March, 20X1 the Branch Balance Sheet was as follows:

Liabilities	**Rs.**	**Assets**	**Rs.**
Creditors Balance	40,000	Debtors Balance	2,00,000
Head Office	1,68,000	Building Extension A/c closed by transfer to H.O. A/c	—
		Cash at Bank	8,000
	2,08,000		2,08,000

During the six months ending on 30-9-20X1, the following transactions took place at Delhi.

	Rs.		**Rs.**
Sales	2,40,000	Manager's Salary	4,800
Purchases	48,000	Collections from Debtors	1,60,000
Wages paid	20,000	Discounts allowed	8,000
Salaries (inclusive of advance of Rs. 2,000)	6,400	Discount earned	1,200
		Cash paid to Creditors	60,000
General Expenses	1,600	Building Account (further payment)	4,000
Fire Insurance (paid for one year)	3,200	Cash in Hand	1,600
Remittance to H.O.	38,400	Cash at Bank	28,000

Set out the Head Office Account in Delhi books and the Branch Balance Sheet as on 30-9-20X1. Also give journal entries in the Delhi books.

(10 Mark)

Question 6: (Answer any four questions)

(a) List out the criteria laid down for classification of non-corproate entities to bring them under Level 1 category as per ICAI.

(5 Marks)

(b) Due to inadequacy of profits during the year ended 31st March, 20X2, XYZ Ltd. proposes to declare 10% dividend out of general reserves. From the following particulars, ascertain the amount that can be utilised from general reserves, according to the Companies (Declaration of dividend out of Reserves) Rules, 2014:

	Rs.
17,500 9% Preference shares of Rs. 100 each, fully paid up	17,50,000
8,00,000 Equity shares of Rs. 10 each, fully paid up	80,00,000
General Reserves as on 1.4.20X1	25,00,000
Capital Reserves as on 1.4.20X1	3,00,000
Revaluation Reserves as on 1.4.20X1	3,50,000
Net profit for the year ended 31st March, 20X2	3,00,000
Average rate of dividend during the last five year has been 12%.	

(5 Marks)

(c) A company had issued 20,000, 13% debentures of Rs. 100 each on 1st April, 20X1. The debentures are due for redemption on 1st July, 20X2. 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 price of Rs. 15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders exercising the option to the maximum.

(5 Marks)

(d) "One of the characteristic of the financial statement is neutrality. "Do you agree with this statement? Explain in brief.

(5 Marks)

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

Authorised capital:	**Rs.**
15,000 12% Preference shares of Rs. 10 each	1,50,000
1,50,000 Equity shares of Rs. 10 each	15,00,000
	16,50,000
Issued and Subscribed capital:	
12,000 12% Preference shares of Rs. 10 each fully paid	1,20,000
1,35,000 Equity shares of Rs. 10 each, Rs. 8 paid up	10,80,000
Reserves and surplus:	
General Reserve	1,80,000
Capital Redemption Reserve	60,000
Securities premium (collected in cash)	37,500
Profit and Loss Account	3,00,000

On 1st April, 20X1, the Company has made final call @ Rs. 2 each on 1,35,000 equity shares. The call money was received by 20th April, 20X1. Thereafter, the company decided to capitalise 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 extract of the balance sheet as on 30th April, 20X1 after bonus issue.

(5 Marks)

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