(CA INTERMEDIATE ALL BATCHES)

DATE: 23.12.2020 **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) Classify the following activities as per AS 3 Cash Flow Statement:

(a) Interest paid by financial enterprise
(b) Tax deducted at source on interest received from subsidiary company
(c) Deposit with Bank for a term of two years
(d) Insurance claim received towards loss of machinery by fire
(e) Bad debts written off

(5 Marks)

(b) Entity A is a large manufacturing group. It owns a number of industrial buildings, such as factories and warehouses and office buildings in several capital cities. The industrial buildings are located in industrial zones, whereas the office buildings are in central business districts of the cities. Entity A's management want to apply the revaluation model as per AS 10 (Revised) to the subsequent measurement of the office buildings but continue to apply the historical cost model to the industrial buildings.
State whether this is acceptable under AS 10 (Revised) or not with reasons?

(5 Marks)

(c) Kalim Ltd. borrowed US$ 4,50,000 on 01/01/2016, which will be repaid as on 31/07/2016.
X Ltd. prepares financial statement ending on 31/03/2016. Rate of exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under:

01/01/2016 1 US$ = Rs. 48.00
31/03/2016 1 US$ = Rs. 49.00
31/07/2016 1 US$ = Rs. 49.50

(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 partners Kamal and Vimal decided to convert their existing partnership business into a Private Limited Company called M/s. KV Trading Private Ltd. with effect from 1-7-2014.

The same books of accounts were continued by the company which closed its account for first team on 31-3-2015.

The summarized Profit and Loss Account for the year ended 31-3-2015 is below:

	(Rs.) in lakhs	**(Rs.) in lakhs**
Turnover		240.00
Interest on investments		6.00
		246.00
Less: Cost of goods sold	102.00	
Advertisement	3.00	
Sales Commission	6.00	
Salary	18.00	
Managing directors remuneration	6.00	
Interest on Debentures	2.00	
Rent	5.50	
Bad Debts	1.00	
Underwriting Commission	2.00	
Audit fees	2.00	
Loss on sale of investment	1.00	
Depreciation	4.00	152.50
		93.50

The following additional information was provided

(i) The average monthly sales doubled from 1-7-2014. GP ratio was constant.

(ii) All investments were sold on 31-5-2014.

(iii) Average monthly salary double from 1-10-2014.

(iv) The company occupied additional space from 1-7-2014 for which rent of Rs. 20000 per month was incurred.

(v) Bad debts recovered amounting to Rs. 50000 for a sale made in 2012, has been deducted from bad debts mentioned above.

(vi) Audit fees pertains to the company.

Prepare a statement apportioning the expenses between per and post incorporation periods and calculate the Profit/Loss for such periods. Also suggest how the pre-incorporation profits are to be dealt with.

(10 Marks)

(b) 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.

(10 Marks)

Question 3:

(a) Red and White of Mumbai started a branch at Bangalore on 1.4.2012 to which goods were sent at 20% above cost. The branch makes both cash sales and credit sales. Branch expenses are met from branch cash and balance money remitted to H.O. The branch does not maintain double entry books of account and necessary accounts relating to branch are maintained in H.O. Following further details are given for the year ending on 31.3.2013:

	Rs.
Cost of goods sent to branch	1,00,000
Goods received by branch till 31.3.2013 at Invoice price	1,08,000
Credit sales for the year	1,16,000
Closing debtors on 31.3.2013	41,600
Bad debts written off during the year	400
Cash remitted to H.O.	86,000
Closing cash on hand at branch on 31.3.2013	4,000
Cash remitted by H.O. to branch during the year	6,000
Closing stock in hand at branch at invoice price	12,000
Expenses incurred at branch	24,000

Draw up the necessary Ledger Accounts like Branch Debtors Account, Branch Stock Account, Goods sent to Branch Account, Branch Cash Account, Branch Expenses Account and Branch Adjustment A/c for ascertaining gross profit and Branch Profit and Loss A/c for ascertaining Branch profit.

(10 Marks)

(b) The following notes pertain to Brite Ltd.'s Balance Sheet as on 31st March, 20X1:

Notes		**Rs. in Lakhs**
(1)	Share Capital	
	Authorised :	
	20 crore shares of Rs.10 each	20,000
	Issued and Subscribed:	
	10 crore Equity Shares of Rs. 10 each	10,000
	2 crore 11% Cumulative Preference Shares of Rs. 10 each	2,000
	Total	12,000
	Called and paid up:	
	10 crore Equity Shares of Rs. 10 each, Rs. 8 per share called and paid up	8,000
	2 crore 11% Cumulative Preference Shares of Rs. 10 each,	
	fully called and paid up	2,000
	Total	10,000
(2)	Reserves and Surplus :	
	Capital Redemption Reserve	1,485
	Securities Premium(collected in cash)	2,000
	General Reserve	1,040
	Surplus i.e. credit balance of Profit & Loss Account	273
	Total	4,798

On 2nd April 20X1, the company made the final call on equity shares @ Rs. 2 per share.
The entire money was received in the month of April, 20X1.

On 1st June 20X1, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held. Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares.

(10 Marks)

Question 4:

(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 2017. On 1st September 2017, 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 shareholders.

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, 2017.

(2) Right shares are to be issued to the existing shareholders on 1st December, 2017. 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, 2017.

(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 2017, at the rate of 20% was declared by the company and received by Akash Ltd., on 20th January 2018.

(6) On 1st February 2018, Akash Ltd., sold half of its shareholdings at a premium of Rs. 4 per share.

(7) The market price of share on 31.03.2018 was Rs. 13 per share.

You are required to prepare the Investment Account of Akash Ltd. for the year ended 31st March, 2018 and determine the value of share held on that date assuming the investment as current investment. Consider average cost basis for ascertainment of cost for equity share sold.

(10 Marks)

(b) Messrs D, B and R carried on a business of Drapers and Tailors in Delhi; D was incharge of Department "A" dealing in cloth, B of department "B" for selling garments and R of Department "C" the tailoring section. It had been agreed that each of the three partners would receive 75% of the profits disclosed by the accounts of the department of which he was in charge and the balance of the profits would be shared in the proportion: D 1/2, B 1/4, and R 1/4. The following is the Trading and Profit and Loss Account of the firm for the six months ended March 31, 2006.

Trading and Profit and Loss Account

Dr. **Cr.**

	Rs.	**Rs.**		**Rs.**	**Rs.**
To Opening Stock:			By Sales:		
Cloth (A)	37,890		Cloth (A)	1,80,000	
Ready-made Garments (B)	24,000		Ready-made Garments (B)	1,30,000	
Tailoring Jobs (C)	20,000	81,890	Tailoring Jobs (C)	90,000	4,00,000
To Purchase :			By Discount received		800
Cloth (A)	1,40,700		By Closing Stock:		

Ready-made Garments (B)	80,600		By Cloth (A)	45,100	
Tailoring Goods (C)	44,400	2,65,700	Ready-made Garments (B)	22,300	
To Salaries and Wages		48,000	Tailoring Jobs (C)	21,600	89,000
To Advertising		2,400	[Including Rs. 5,700		
To Rent		10,800	for goods transferred		
To Discount allowed		1,200	from department(A)]		
To Sundry Exp.		12,000			
To Depreciation on Furniture and Fittings		750			
Net Profit		67,060			
		4,89,800			4,89,800

After consideration of the following, prepare Departmental Accounts and Profit and Loss Appropriation Account:

(i) Cloth of the value of Rs. 10,700 and other goods of the value of Rs. 600 were transferred at selling price by Departments A and B respectively to Department C.

(ii) Cloth and garments are sold in the show-room. Tailoring work is carried out in the workshop.

(iii) The details of salaries and wages were as follows:
   - (a) General Office 50%, show-room 25% and 25% for workshop, which is for tailoring.
   - (b) Allocate General Office Expenses, in the proportion of 3:2:1 among the Departments A, B, C.
   - (c) Distribute show-room expenses in the proportion of 1:2 between Departments A and B.

(iv) The workshop rent is Rs. 1,000 per month. The rent of the General Office and Show room is to be divided equally between Departments A and B.

(v) Depreciation charges are to be allocated equally amongst the three Departments.

(vi) All other expenses are to be allocated on the basis of turnover.

(vii) Discounts received are to be credited to the three Departments as follows: A: Rs. 400; B: Rs. 250; C: Rs. 150.

(viii) The opening stock of Department C does not include any goods transferred from Department A.

(10 Marks)

Question 5:

(a) Preet Ltd. presents you the following information for the year ended 31st March, 2019:

		(Rs. in lacs)
(i)	Net profit before tax provision	72,000
(ii)	Dividend paid	20,404
(iii)	Income-tax paid	10,200
(iv)	Book value of assets sold	444
	Loss on sale of asset	96
(v)	Depreciation debited to P & L account	48,000
(vi)	Capital grant received - amortized to P & L A/c	20
(vii)	Book value of investment sold	66,636
	Profit on sale of investment	240
(viii)	Interest income from investment credited to P & L A/c	6,000

(ix)	Interest expenditure debited to P & L A/c	24,000
(x)	Interest actually paid (Financing activity)	26,084
(xi)	Increase in working capital [Excluding cash and bank balance]	1,34,580
(xii)	Purchase of fixed assets	44,184
(xiii)	Expenditure on construction work	83,376
(xiv)	Grant received for capital projects	36
(xv)	Long term borrowings from banks	1,11,732
(xvi)	Provision for Income-tax debited to P & L A/c	12,000
	Cash and bank balance on 1.4.2018	12,000
	Cash and bank balance on 31.3.2019	16,000

You are required to prepare a cash flow statement as per AS-3 (Revised).

(10 Marks)

(b) 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.

(10 Marks)

QUESTION 6: (ANSWER ANY FOUR QUESTIONS)

(a) Brahma Limited has three departments and submits the following information for the year ending on 31st March, 2011.

	A	**B**	**C**	**Total (Rs.)**
Purchase (Units)	5,000	10,000	15,000	
Purchase (Amount)				8,40,000
Sales (units)	5,200	9,800	15,300	
Selling Price (Rs. Per unit)	40	45	50	
Closing Stock (Units)	400	600	700	

You are required to prepare departmental trading account of Brahma Limited assuming that the rate of profit on sales is uniform in each case**.**

(5 Marks)

(b) Write short note on Accounting for investment by a holding company in subsidiaries.

(5 Marks)

(c) Distinguish between Integral foreign operation and Non-integral foreign operation.

(5 Marks)

(d) A company had 5,000 units of stock "A", costing @ Rs. 50 each on 31.3.2014. Out of this stock, 3,000 units are to be supplied under a firm contract at Rs. 45 each. Show how the valuation will be done of such stock when

(i) the general selling price is Rs. 49 each.

(ii) the general selling price is Rs. 52 each.

(5 Marks)

(e) (a) With regard to financial statements name any four.

(1) Users

(2) Qualitative characteristics

(3) Elements

(b) What are fundamental accounting assumptions?

(5 Marks)

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