(GI-1, GI-2, GI-3, VI-1, SI-1, VDI-1)

DATE: 12.06.2021 **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) 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)

(b) 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)

(c) 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)

(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) 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) Ms. Rashmi furnishes you with the following information relating to her business:

(a) Assets and Liabilities as on

	01.01.2012	**31.12.2012**
	Rs.	**Rs.**
Furniture (w.d.v)	12,000	12,700
Inventory at Cost	16,000	14,000
Sundry Debtors	32,000	?
Sundry Creditors	22,000	30,000
Prepaid expenses	1,200	1,400
Unpaid expenses	4,000	3,600
Cash in hand and at bank	2,400	1,250

(b) Receipts and payment during 2012:

Collections from debtors, after allowing discount o fRs. 3,000 amounted to Rs. 1,17,000.

Collections on discounting of bills of exchange, after deduction of discount of Rs. 250 by the bank, totalled to Rs. 12,250.

Creditors of Rs. 80,000 were paid Rs. 78,400 in full settlement of their dues.

Payment for freight inwards Rs. 6,000.

Amount withdrawn for personal use Rs. 14,000

Payment for office furniture Rs. 2,000.

Investment carrying annual interest of 4% were purchased at Rs. 192 (face value Rs. 200) on 1st July, 2012 and payment made there for.

Expenses including salaries paid Rs. 29,000.

Miscellaneous receipts Rs. 1,000.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to Rs. 20,000. Of these, bills of exchange of Rs. 4,000 were endorsed in favour of creditors. An endorsed bill of exchange of Rs. 800 was dishonored.

(d) Goods costing Rs. 1,800 were used as advertising materials.

(e) Goods are invariably sold to show a gross profit of 33-1/3% on sales.

(f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by Ms. Rashmi.

(g) Provide at 2.5% of doubtful debts on closing debtors.

Rashmi asks you to prepare trading and profit and loss account for the year ended 31^{st} December, 2012 and the balance sheet as on that date.

(10 Marks)

Question 4:

(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) Lucky bought 2 tractors from Happy on 1-10-2011 on the following terms:

	Rs.
Down payment	5,00,000
1^{st} installment at the end of first year	2,65,000
2^{nd} installment at the end of 2^{nd} year	2,45,000
3^{rd} installment at the end of 3^{rd} year	2,75,000
Interest is charged at 10% p.a.	

Lucky provides depreciation @ 20% on the diminishing balances.

On 30-9-2014 Lucky failed to pay the 3^{rd} installment upon which Happy repossessed 1 tractor. Happy agreed to leave one tractor with Lucky and adjusted the value of the tractor against the amount due. The tractor taken over was valued on the basis of 30% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Lucky after 3 months with interest @ 18% p.a.

You are required to:

(1) Calculate the cash price of the tractors and the interest paid with each installment.

(2) Prepare Tractor Account and Happy Account in the books of Lucky assuming that books are closed on September 30 every year. Figures may be rounded off to the nearest rupee.

(10 Marks)

Question 5:

(a) 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.

(10 Marks)

(b) 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)

QUESTION 6: (ANSWER ANY FOUR QUESTIONS)

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

(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) Om Ltd. purchased a machine on hire purchase basis from Kumar Machinery Co. Ltd. on the following terms:

(a) Cash price Rs. 80,000
(b) Down payment at the time of signing the agreement on 1.1.20X1 Rs. 21,622.
(c) 5 annual installments of Rs. 15,400, the first to commence at the end of twelve months from the date of down payment.
(d) Rate of interest is 10% p.a.

You are required to calculate the total interest and interest included in cash installment.

(5 Marks)

__**__