(GI-1, GI-2, GI-3, GI-6, VI-1, SI-1, VDI-1)

DATE: 16.10.2021 **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) A Ltd. had following assets. Calculate depreciation for the year ended 31st March, 2020 for each asset as per AS 10 (Revised):

(i) Machinery purchased for Rs. 10 lakhs on 1st April, 2015 and residual value after useful life of 5 years, based on 2015 prices is Rs. 10 lakhs.

(ii) Land for Rs. 50 lakhs.

(iii) A Machinery is constructed for Rs. 5,00,000 for its own use (useful life is 10 years). Construction is completed on 1st April, 2019, but the company does not begin using the machine until 31st March, 2020.

(iv) Machinery purchased on 1st April.2017 for Rs. 50,000 with useful life of 5 years and residual value is NIL. On 1st April, 2019, management decided to use this asset for further 2 years only.

(5 Marks)

(b) On 1st April, 2016, Mac Ltd. received a Government Grant of Rs. 60 lakhs for acquisition of machinery costing Rs. 300 lakhs. The grant was credited to the cost of the asset. The estimated useful life of the machinery is 10 years. The machinery is depreciated @ 10% on WDV basis. The company had to refund the grant in June 2019 due to non-compliance of certain conditions.

How the refund of the grant is dealt with in the books of Mac Ltd. assuming that the company did not charge any depreciation for the year 2019-20.

Pass necessary Journal Entries for the year 2019-20.

(5 Marks)

(c) A Limited invested in the shares of XYZ Ltd. on 1st December, 2019 at a cost of Rs. 50,000. Out of these shares, Rs. 25,000 shares were purchased with an intention to hold for 6 months and Rs. 25,000 shares were purchased with an intention to hold as long-term Investment.

A Limited also earlier purchased Gold of Rs. 1,00,000 and Silver of Rs. 30,00,000 on 1st April, 2019. Market value as on 31st March, 2020 of above investments are as follows:

Shares Rs. 47,500 (Decline in the value of shares is temporary.)
Gold Rs. 1,80,000
Silver Rs. 30,55,000

How above investments will be shown in the books of accounts of M/s A Limited for the year ended 31st March, 2020 as per the provisions of AS 13 (Revised)?

(5 Marks)

(d) On 15th April, 2019 RBM Ltd. obtained a Term Loan from the Bank for Rs. 320 lakhs to be utilized as under:

	Rs. (in lakhs)
Construction for factory shed	240

Purchase of Machinery	30
Working capital	24
Purchase of Vehicles	12
Advance for tools/cranes etc.	8
Purchase of technical know how	6

In March, 2020 construction of shed was completed and machinery was installed. Total interest charged by the bank for the year ending 31st March, 2020 was Rs. 40 lakhs.
In the context of provisions of AS 16 'Borrowing Costs', show the treatment of interest and also explain the nature of Assets.

(5 Marks)

Question 2:

(a) The following figures have been extracted from the books of Manan Jo Limited for the year ended on 31.3.2020. You are required to prepare the Cash Flow statement as per AS 3 using indirect method.

(i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was Rs. 30 lakhs :
  (a) Depreciation on Property, Plant & Equipment Rs. 7.50 lakhs.
  (b) Discount on issue of Debentures written off Rs. 45,000.
  (c) Interest on Debentures paid Rs. 5,25,000.
  (d) Book value of investments Rs. 4.50 lakhs (Sale of Investments for Rs. 4,80,000).
  (e) Interest received on investments Rs. 90,000.

(ii) Compensation received Rs. 1,35,000 by the company in a suit filed.

(iii) Income tax paid during the year Rs. 15,75,000.

(iv) 22,500, 10% preference shares of Rs. 100 each were redeemed on 02-04-2019 at a premium of 5%.

(v) Further the company issued 75,000 equity shares of Rs.10 each at a premium of 20% on 30.3.2020 (Out of 75,000 equity shares, 25,000 equity shares were issued to a supplier of machinery)

(vi) Dividend for FY 2018-19 on preference shares were paid at the time of redemption.

(vii) Dividend on Equity shares paid on 31.01.2020 for the year 2018-2019 Rs. 7.50 lakhs (including dividend distribution tax) and interim dividend paid Rs. 2.50 lakhs for the year 2019-2020.

(viii) Land was purchased on 02.4.2019 for Rs.3,00,000 for which the company issued 22,000 equity shares of Rs. 10 each at a premium of 20% to the land owner and balance in cash as consideration.

(ix) Current assets and current liabilities in the beginning and at the end of the years were as detailed below :

	As on 01.04.2019	As on 31.3.2020
	Rs.	Rs.
Inventory	18,00,000	19,77,000
Trade receivables	3,87,000	3,79,650
Cash in hand	3,94,450	16,950
Trade payables	3,16,500	3,16,950
Outstanding expenses	1,12,500	1,22,700

(10 Marks)

(b) Sumit Ltd. (an unlisted company other than AIFI, Banking company, NBFC and HFC) had 8,000, 9% debentures of Rs. 100 each outstanding as on 1st April, 2019, redeemable on 31st March, 2020.

On 1st April, 2019, the following balances appeared in the books of accounts:

- Investment in 1,000, 7% secured Govt. bonds of Rs. 100 each, Rs. 1,00,000.
- Debenture Redemption Reserve is Rs. 50,000.

Interest on investments is received yearly at the end of financial year.

1,000 own debentures were purchased on 30th March, 2020 at an average price of Rs. 96.50 and cancelled on the same date.

On 31st March, 2020, the investments were realized at par and the debentures were redeemed. You are required to write up the following accounts for the year ended 31st March, 2020.

(1) 9% Debentures Account.
(2) Debenture Redemption Reserve Account.
(3) DRR Investment Account.
(4) Own Debentures Account.

(10 Marks)

Question 3:

(a) On 1st April, 2019 Mr. H had 30,000 equity shares of ABC Ltd. at book value of Rs. 18 per share (Nominal value 10 per share). On 10th June, 2019, H purchased another 10,000 equity shares of the ABC ltd. at Rs. 16 per share through a broker who charged 1.5% brokerage.

The directors of ABC Ltd. announced a bonus and a right issue. The terms of the issues were as follows:

(i) Bonus shares were declared at the rate of one equity share for every four shares held on 15th July, 2019.
(ii) Right shares were to be issued to the existing equity shareholders on 31st August, 2019. The company decides to issue one right share for every five equity shares held at 20% premium and the due date for payment will be 30th September, 2019. Shareholders were entitled to transfer their rights in full or in part.
(iii) No dividend was payable on these issues.

Mr. H subscribed 60% of the rights entitlements and sold the remaining rights for consideration of Rs. 5 per share.

Dividends for the year ending 31st March, 2019 was declared by ABC Ltd. at the rate of 20% and received by Mr. H on 31st October, 2019.

On 15th January, 2020 Mr. H sold half of his shareholdings at Rs. 17.50 per share and brokerage was charged @1 %.

You are required to prepare Investment account in the books of Mr. H for the year ending 31st March, 2020, assuming the shares are valued at average cost.

(10 Marks)

(b) A Fire occurred in the premises of M/s B & Co. on 30th September, 2019. The firm had taken an insurance policy for Rs. 1,20,000 which was subject to an average clause. Following particulars were ascertained from the available records for the period from 1st April, 2018 to 30th September, 2019:

	Amount (Rs.)
Stock at cost on 1-04-2018	2,11,000
Stock at cost on 31-03-2019	2,52,000

Purchases during 2018-19	6,55,000
Wages during 2018-19	82,000
Sales during 2018-19	8,60,000
Purchases from 01-04-2019 to 30-09-2019 (including purchase of machinery costing Rs. 58,000)	4,48,000
Wages from 01-04-2019 to 30-09-2019 (including wages for installation of machinery costing Rs. 7,000)	85,000
Sales from 01-04-2019 to 30-09-2019	6,02,000
Sale value of goods drawn by partners (1-4-19 to 30-9-19)	52,000
Cost of Goods sent to consignee on 18th September, 2019 lying unsold with them	44,800
Cost of Goods distributed as free samples(1-4-19 to 30-9-19)	8,500

While valuing the Stock at 31st March, 2019, Rs. 8,000 were written off in respect of a slow moving item, cost of which was Rs. 12,000. A portion of these goods was sold at a loss of Rs. 4,000 on the original cost of Rs. 9,000. The remainder of the stock is estimated to be worth the original cost. The value of Goods salvaged was estimated at Rs. 35,000.

You are required to ascertain the amount of claim to be lodged with the Insurance Company for the loss of stock.

(10 Marks)

Question 4:

(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		Discount earned	1,200
of Rs. 2,000)	6,400	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 Marks)

Question 5:

(a) Omega Limited (a manufacturing company) recently made a public issue in respect of which the following information is available:

(a) No. of partly convertible debentures issued- 2,00,000; face value and issue price- Rs. 100 per debenture.

(b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue i.e 31.10.20X1.

(c) Date of closure of subscription lists- 1.5.20X1, date of allotment- 1.6.20X1, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- Rs. 60 (Face Value Rs. 10).

(d) Underwriting Commission- 2%.

(e) Number of debentures applied for - 1,50,000.

(f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 20X2 (including cash and bank entries).

(8 Marks)

(b) The Business carried on by Kamal under the name "K" was taken over as a running business with effect from 1st April, 2016 by Sanjana Ltd., which was incorporated on 1st July, 2016. The same set of books was continued since there was no change in the type of business and the following particulars of profits for the year ended 31st March, 2017 were available.

	Rs.	Rs.
Sales: Company period	40,000	
Prior period	10,000	50,000
Selling Expenses	3,500	
Preliminary Expenses written off	1,200	
Salaries	3,600	
Directors' Fees	1,200	

Interest on Capital (Upto 30.6.2016)	700	
Depreciation	2,800	
Rent	4,800	
Purchases	25,000	
Carriage Inwards	1,019	43,819
Net Profit		6,181

The purchase price (including carriage inwards) for the post-incorporation period had increased by 10 percent as compared to pre-incorporation period. No stocks were carried either at the beginning or at the end.

You are required to prepare a statement showing the amount of pre and post incorporation period profits stating the basis of allocation of expenses.

(8 Marks)

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

	Rs.		Rs.
To Administrative, Selling and distribution expenses	8,22,542	By Balance b/d	5,72,350
To Direct fees	1,34,780	By Balance form Trading A/c	40,25,365
To Interest on debentures	31,240	By Subsidies received from Govt.	2,73,925
To Managerial remuneration	2,85,350		
To Depreciation on fixed assets	5,22,543		
To Provision for Taxation	12,42,500		
To General Reserve	4,00,000		
To Investment Revaluation Reserve	12,500		
To Balance c/d	14,20,185		
	48,71,640		48,71,640

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was Rs. 5,75,345. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.

(4 Marks)

Question 6:

(a) Explain how financial capital is maintained at historical cost?

Kishore started a business on 1st April, 2019 with Rs. 15,00,000 represented by 75,000 units of Rs.20 each. During the financial year ending on 31st March, 2020, he sold the entire stock for Rs. 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Kishore in the year 2019-20 if Financial Capital is maintained at historical cost.

(5 Marks)

(b) The following is the Draft Profit & Loss A/c of Brown Ltd. the year ended 31st March,2020:

	Amount (Rs.)		Amount (Rs.)
To Administrative expenses	4,99,200	By Balance b/d	6,27,550
To Advertisement	1,18,200	By Balance from	
To Commission on sales	95,225	Trading A/c	38,15,890

To Director's Fees	1,35,940	By Subsidies received from Govt.	2,50,000
To Interest on debentures	28,460	By Profit on sale of forfeited shares	20,000
To Managerial remuneration	2,75,550		
To Depreciation on fixed assets	4,82,565		
To Provision for Taxation	11,50,200		
To General Reserve	4,50,000		
To Investment Revaluation Reserve	52,800		
To Balance c/d	14,25,300		
	47,13,440		47,13,440

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was Rs. 5,15,675. You are required to calculate the maximum limit of managerial remuneration as per Companies Act, 2013.

(5 Marks)

(c) Give Journal Entries in the books of Branch to rectify or adjust the following:

(1) Branch paid Rs. 5,000 as salary to H.O supervisor, but the amount paid by branch has been debited to salary account in the books of branch.

(2) Asset Purchased by branch for Rs. 25,000, but the Asset account was retained in H.O Books.

(3) A remittance of Rs. 8,000 sent by the branch has not been received by H.O.

(4) H.O collected Rs. 25,000 directly from the customer of Branch but fails to give the intimation to branch.

(5) Remittance of funds by H.O to branch Rs. 5,000 not entered in branch books.

(5 Marks)

(d) List the Criteria for classification of non-corporate entities as level I Entities for the purpose of application of Accounting Standards as per the Institute of Chartered Accountants of India.

(5 Marks)

(e) Following items appear in the Trail Balance of Star Ltd. as on 31st March, 2019:

Particulars	Rs.
80,000 Equity shares of Rs. 10 each, Rs. 8 paid-up	6,40,000
Capital Reserve (including Rs. 45,000 being profit on sale of Machinery)	1,10,000
Revaluation Reserve	80,000
Capital Redemption Reserve	75,000
Securities Premium	60,000
General Reserve	2,10,000
Profit & Loss Account (Cr. Balance)	1,00,000

On 1st April,2019, the Company has made final call on Equity shares @Rs. 2 per share. The entire money was received in the month of April, 2019.

On 1st June, 2019, the Company decided to issue to Equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it was decided that there should be minimum reduction in free reserves.

Pass necessary journal entries in the Books of Star Ltd.

(5 Marks)