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

DATE: 22.08.2022 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

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) (i) The draft results of Surya Ltd. for the year ended 31st March, 2020, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of Rs. 10 crores. The board in consultation with the managing director, decided to value year-end inventory at works cost (Rs. 50 crores) instead of the hitherto method of valuation of inventory at prime cost (Rs. 30 crores). As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2019-2020.

(ii) The inventory of Rich Ltd. as on 31st March, 2020 comprises of Product – A: 200 units and Product – B: 800 units.
Details of cost for these products are:
Product – A: Material cost, wages cost and overhead cost of each unit are Rs. 40, Rs. 30 and Rs. 20 respectively, Each unit is sold at Rs. 110, selling expenses amounts to 10% of selling costs.
Product – B: Material cost and wages cost of each unit are Rs. 45 and Rs. 35 respectively and normal selling rate is Rs. 150 each, however due to defect in the manufacturing process 800 units of Product-B were expected to be sold at Rs. 70.
You are requested to value closing inventory according to AS 2 after considering the above.

(5 Marks)

(b) In May, 2020, Omega Ltd. took a bank loan from a Bank. This loan was to be used specifically for the construction of a new factory building. The construction was completed in January, 2021 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was Rs. 18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31 st March, 2021 amounted to Rs. 25 lakhs.
The company wants to treat Rs. 25 lakhs as part of the cost of factory building and thus capitalize it on the plea that the loan was specifically taken for the construction of factory building? Explain the treatment in line with the provisions of AS 16.

(5 Marks)

(c) A Ltd. has incurred the following costs. Determine if the following costs can be added to the invoiced purchase price and included in the initial recognition of the cost of the item of property, plant and equipment:

1. Import duties paid
2. Shipping costs and cost of road transport for taking the machinery to factory
3. Insurance for the shipping
4. Inauguration costs for the factory
5. Professional fees charged by consulting engineer for the installation process
6. Costs of advertising and promotional activities
7. Administration and other general overhead costs

8. Cost of site preparation
9. Initial operating losses
10. Relocating cost of the operations.

(5 Marks)

(d) A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2022, when the exchange rate was Rs. 43 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2022 when the exchange rate was Rs. 47 per US Dollar. However, on 31st March, 2022, the rate of exchange was Rs. 48 per US Dollar. The company passed an entry on 31st March, 2022 adjusting the cost of raw materials consumed for the difference between Rs. 47 and Rs. 43 per US Dollar.
In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

(5 Marks)

Question 2:

(a) Summarised Balance Sheet of Cloth Trader as on 31.03.2021 is given below:

Equity & Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Proprietor's Capital	3,00,000	Property, plant and equipment	3,60,000
Profit & Loss Account	1,25,000	Closing Inventory	1,50,000
10% Loan Account	2,10,000	Trade receivables	1,00,000
Trade payables	50,000	Deferred Expenses	50,000
		Cash & Bank	25,000
	6,85,000		6,85,000

Additional Information is as follows :

(1) The remaining life of Property, plant and equipment is 8 years. The pattern of use of the asset is even. The net realisable value of Property, plant and equipment on 31.03.2022 was Rs. 3,25,000.
(2) Purchases and Sales in 2021-22 amounted to Rs. 22,50,000 and Rs. 27,50,000 respectively.
(3) The cost and net realizable value of inventory on 31.03.2022 were Rs. 2,00,000 and Rs. 2,50,000 respectively.
(4) Expenses including interest on loan for the year amounted to Rs. 78,000.
(5) Deferred Expenses are amortized equally over 5 years.
(6) Sundry Debtors on 31.03.2022 are Rs. 1,50,000 of which Rs. 5,000 is doubtful. Collection of another Rs. 25,000 depends on successful re-installation of certain product supplied to the customer;
(7) Closing Sundry Creditors are Rs. 75,000, likely to be settled at 10% discount.
(8) Cash balance as on 31.03.2022 is Rs. 4,22,000.
(9) There is an early repayment penalty for the loan of Rs. 25,000.

You are required to prepare: (Not assuming going concern)

(1) Profit & Loss Account for the year 2021-22.
(2) Balance Sheet as on 31st March, 2022.

(6 Marks)

(b) Moon Ltd. was incorporated on 1st August, 2019 to take over the running business of a partnership firm w.e.f. 1st April, 2019. The summarized Profit & Loss Account for the year ended 31st March, 2020 is as under:

		Amount (Rs.)
Gross Profit		6,30,000
Less: Salaries	1,56,000	
Rent, Rates & Taxes	72,000	
Commission on sales	40,600	
Depreciation	60,000	
Interest on Debentures	36,000	
Director's fees	24,000	
Advertisement	48,000	4,36,600
Net Profit for the year		1,93,400

Moon Ltd. initiated an advertising campaign which resulted in increase of monthly sales by 25% post incorporation.

You are required to prepare a statement showing the profit for the year between pre-incorporation and post-incorporation. Also, explain how these profits are to be treated in the accounts?

(6 Marks)

(c) The following particulars relate to hire purchase transactions:

(a) X purchased three cars from Y on hire purchase basis, the cash price of each car being Rs. 2,00,000.

(b) The hire purchaser charged depreciation @ 20% on diminishing balance method.

(c) Two cars were seized by on hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.

(d) The hire vendor spent Rs. 10,000 on repairs of the cars and then sold them for a total amount of Rs. 1,70,000.

You are required to compute:

(i) Agreed value of two cars taken back by the hire vendor.

(ii) Book value of car left with the hire purchaser.

(iii) Profit or loss to hire purchaser on two cars taken back by their hire vendor.

(iv) Profit or loss of cars repossessed, when sold by the hire vendor.

(8 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) Zeta Ltd. has decided to increase its existing share capital by making rights issue to its existing shareholders Zeta Ltd. is offering one new share for every two shares held by the shareholder. The market value of the share is Rs. 360 and the company is offering one share of Rs. 180 each. Calculate the value of a right. What should be the ex-right market price of a share?

(5 Marks)

Question 4:

(a) M/s. Bombay Cotton has 2 Departments Y and Z. The following information is provided for the year ended 31st March, 2022:

Particulars	Department Y (Rs.)	Department Z (Rs.)
Opening Stock	60,000	40,000
Purchases	1,20,000	3,05,400
Wages	70,000	32,000
Sales	3,10,300	3,72,700
Closing Stock	23,700	40,700

Other Expenses are:

Particulars	Amount in (Rs.)
Salaries	30,000
Rent	9,000
Advertisement	24,000
General Expenses	3,000
Depreciation	18,000

All Expenses are to be allocated between the Departments in the ratio of their Gross Profit.

Department Y sells goods to Department Z at a profit of 25% on sales. Department Z sells goods to Department Y at a profit of 28% on cost.

Each Department Manager is entitled to 10% Commission on Net Profit subject to unrealized profit on departmental sales being eliminated.

Stock Transfer during the year from Department Y to Department Z was Rs. 40,000 and from Department Z to Department Y was Rs. 50,000.

Closing Stock includes transfer from Department Y to Department Z Rs. 12,000 and from Department Z to Department Y Rs. 21,200. Opening stocks do not include any inter department transfer.

Prepare Departmental Trading and Profit & Loss Account for the year ended 31st March, 2022.

(10 Marks)

(b) On 27th July, 2022, a fire occurred in the godown of M/s. Vijay Exports and most of the stocks were destroyed. However goods costing Rs. 5,000 could be salvaged.

From the salvaged accounting records, the following information is available relating to the period from 1 4.2022 to 27.7.2022:

1.	Stock as per balance sheet as on 1.4.2022	Rs. 63,000
2.	Purchases (including purchase of machinery costing Rs. 10,000)	Rs. 2,92,000
3.	Wages (including wages paid for installation of machinery Rs. 3,000)	Rs. 53,000
4.	Sales (including goods sold on approval basis amounting to Rs. 40,000). No approval has been received in respect of 1/4th of the goods sold on approval.	Rs. 4,12,300
5.	Cost of goods distributed as free sample	Rs. 2,000

Other Information:

(i) While valuing the stock on 31.3.2022, Rs. 1,000 had been written off in respect of certain slow moving items costing Rs. 4,000. A portion of these goods were sold in June, 2022 at a loss of Rs. 700 on original cost of Rs. 3,000. The remainder of these stocks is now estimated to be worth its original cost.

(ii) Past record shows the normal gross profit rate is 20%.

(iii) The Company had taken the fire insurance policy of Rs. 55,000 with the average clause.

Compute the amount of claim of stock destroyed by fire, to be lodged to the Insurance Company. Also prepare Memorandum Trading Account for the period 1.4.2022 to 27.7.2022 for normal and abnormal items.

(10 Marks)

Question 5:

(a) 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
General Expenses	1,600	Cash paid to Creditors	60,000
Fire Insurance (paid for one year)	3,200	Building Account (further payment)	4,000
Remittance to H.O.	38,400	Cash in Hand	1,600
		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)

(b) P Ltd. had 8,000 equity shares of K Ltd., at a book value of Rs. 15 per share (face value of Rs. 10 each) on 1st April,2019. On 1st September, 2019, P Ltd. acquired another 2,000 equity shares of K Ltd. at a premium of Rs. 4 per share. K Ltd. announced a bonus and right issue for existing shareholders.

The term of bonus and right issue were:

(i) Bonus was declared at the rate for two equity shares for every five shares held on 30th September, 2019.

(ii) Right shares are to be issued to the existing shareholders on 1st December, 2019. The Company had issued two right shares for every seven shares held at 25% premium on face value. No dividend was payable on these shares. The whole sum being payable by 31st December, 2019.

(iii) Existing shareholders were entitled to transfer their right to outsiders either wholly or in part.

(iv) P Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for Rs. 8 per share.

(v) Dividend for the year ended 31st March,2019 at the rate of 20% was declared by K Ltd. and received by P Ltd. on 20th January, 2020.

(vi) On 1st February, 2020, P Ltd. sold half of its shareholdings at a premium of Rs. 4 per share.

(vii) The market price of share on 31st March,2020 was Rs. 13 per share.

You are required to prepare the Investment account of P Ltd. for the year ended 31st March,2020 and determine the value of shares held on that date, assuming the investment as current investment. Consider average cost basis for ascertainment fo r cost for equity shares sold.

(10 Marks)

Question 6: (Answer any four questions)

(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) A company sold 20% of the Goods on Cash Basis and the balance on Credit basis. Debtors are allowed 1.5 month's credit and their balance as on 31st March, 2021 is Rs. 1,50,000. Assume that sale is evenly spread throughout the year.

Purchases during the year Rs. 9,50,000

Closing stock is Rs. 10,000 less than the Opening Stock. Average stock maintained during the year Rs. 60,000

Direct Expenses amounted to Rs. 35,000

Calculate Credit sales, Total sales and Gross profit for the year ended 31 st March, 2021.

(5 Marks)

(c) What is meant by 'Measurement'? What are the bases of measurement of Elements of Financial Statements? Explain the brief.

(5 Marks)

(d) Harish Construction Company is constructing a huge building project consisting of four phases. It is expected that the full building will be constructed over several years but Phase I and Phase II of the building will be started as soon as they are completed.
Following is the detail of the work done on different phases of the building during the current year:

(Rs. in lakhs)

	Phase I	**Phase II**	**Phase III**	**Phase IV**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Cash expenditure	10	30	25	30
Building purchased	24	34	30	38
Total expenditure	34	64	55	68
Total expenditure of all phases				221
Loan taken @ 15% at the beginning of the year				200

During mid of the current year, Phase I and Phase II have become operational. Find out the total amount to be capitalized and to be expensed during the year.

(5 Marks)

(e) 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)

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