All BATCHES

DATE: 09.07.2018 **MAXIMUM MARKS: 100** **TIMING: 3¼Hours**

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 bemade by the candidates.
Working notes should form part of the answer.

Question 1:

(a) A company, ABC Ltd., prepares its accounts annually on 31st March. The company has incurred a loss of Rs. 1,00,000 in the year 20x1 and made profits of Rs. 50,000 and 60,000 in year 20x2 and year 20x3 respectively. It is assumed that under the tax laws, loss can be carried forward for 8 years and tax rate is 40% and at the end of year 20x1, it was virtually certain, supported by convincing evidence, that the company would have sufficient taxable income in the future years against which unabsorbed depreciation and carry forward of losses can be set-off. It is also assumed that there is no difference between taxable income and accounting income except that set- off of loss is allowed in years 20x2 and 20x3 for tax purposes. Prepare statement of Profit and Loss for year ended 2011, 2012 & 2013.

(5 Marks)

(b) A Limited Company closed its accounting year on 30.6.2017 and the accounts for that period were considered and approved by the board of directors on 20th August, 2017.
The company was engaged in laying pipe line for an oil company deep beneath the earth.
While doing the boring work on 1.9.2017 it had met a rocky surface for which it was estimated that there would be an extra cost to the tune of Rs. 80 lakhs. You are required to state with reasons, how the event would be dealt with in the financial statements for the year ended 30.6.2017.

(5 Marks)

(c) 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)

(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) 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.

(15 Marks)

(b) Department P sells goods to Department S at a profit of 25% on cost and to Department Q at a profit of 15% on cost. Department S sells goods to P and Q at a profit of 20% and 30% on sales respectively. Department Q sells goods to P and S at 20% and 10% profit on cost respectively.

Departmental Managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated. Departmental profits after charging Manager's commission, but before adjustment of unrealised profits are as below:

	Rs.
Department P	90,000
Department S	60,000
Department Q	45,000

Stock lying at different Departments at the end of the year are as below:

Figure in Rs.

	DEPARTMENTS		
	P	S	Q
Transfer from P	-	18,000	14,000
Transfer from S	48,000	-	38,000
Transfer from Q	12,000	8,000	-

Find out correct Departmental Profits after charging Managers' Commission.

(5 Marks)

Question 3:

(a) P and Q are partners of P & Co. sharing Profit and Losses in the ratio of 3:1 and Q and R are partners of R & Co., sharing profits and losses in the ratio of 2:1. On 31st March, 20X1, they decide to amalgamate and form a new firm M/s PQR& Co., wherein P, Q and R would be partners sharing profits and losses in the ratio of 3:2:1. The Balance Sheets of two firms on the above date are as under:

Liabilities	P & Co.	R & Co.	Assets	P & Co.	R & Co.
Capitals:			Fixed assets:		
P	2,40,000	----	Building	50,000	60,000
Q	1,60,000	2,00,000	Plant & machinery	1,50,000	1,60,000
Office equipment	----	1,00,000	Office equipment	20,000	6,000
Reserves	50,000	1,50,000	Current assets:		
Sundry creditors	1,20,000	1,16,000	Stock-in-trade	1,20,000	1,40,000
Due to P & Co.	----	1,00,000	Sundry debtors	1,60,000	2,00,000
Bank overdraft	80,000	-----	Bank balance	30,000	90,000
			Cash in hand	20,000	10,000
			Due from R & Co.	1,00,000	-----
	6,50,000	6,66,000		6,50,000	6,66,000

The amalgamated firm took over the business on the following terms:

(a) Building of P & Co. was valued at Rs. 1,00,000.

(b) Plant and machinery of P & Co. was valued at Rs. 2,50,000 and that of R & Co. at Rs.2,00,000.

(c) All stock in trade is to be appreciated by 20%.

(d) Goodwill valued of P & Co. at Rs. 1,20,000 and R & Co. at Rs. 60,000, but the same will not appear in the books of PQR& Co.

(e) Partners of new firm will bring the necessary cash to pay other partners to adjust their capitals according to the profit sharing ratio.

(f) Provisions for doubtful debts has to be carried forward at Rs. 12,000 in respect of debtors of P & Co. and Rs. 26,000 in respect of debtors of R & Co.

You are required to prepare the Balance Sheet of new firm and capital accounts of the partners in the books of old firms.

(15 Marks)

(b) From the following information, calculate cash flow from operating activities:

Summary of Cash Account
for the year ended March 31, 20X1

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,00,000	By Cash Purchases	1,20,000
To Cash sales	1,40,000	By Trade payables	1,57,000
To Trade receivables	1,75,000	By Office & Selling Expenses	75,000
To Trade Commission	50,000	By Income Tax	30,000
To Sale of Investment	30,000	By Investment	25,000
To Loan from Bank	1,00,000	By Repay of Loan	75,000
To Interest & Dividend	1,000	By Interest on loan	10,000
		By Balance c/d	1,04,000
	5,96,000		5,96,000

(5 Marks)

Question 4:

(a) SALE Limited was incorporated on 01.08.20X1 to take-over the business of a partnership firm w.e.f. 01.04.20X1. The following is the extract of Profit and Loss Account for the year ended 31.03.20X2:

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Salaries	1,20,000	By Gross Profit	6,00,000
To Rent, Rates & Taxes	80,000		
To Commission on Sales	21,000		
To Depreciation	25,000		
To Interest on Debentures	32,000		
To Director Fees	12,000		
To Advertisement	36,000		
To Net Profit for the Year	2,74,000		
	6,00,000		6,00,000

(i) SALE Limited initiated an advertising campaign which resulted increase in monthly average sales by 25% post incorporation.

(ii) The Gross profit ratio post incorporation increased to 30% from 25%.

You are required to apportion the profit for the year between pre-incorporation and post-incorporation, also explain how pre-incorporation profit is treated in the accounts.

(10 Marks)

(b) The following is the Balance Sheet of a concern on 31st March, 2015 :

	Rs.		Rs.
Capital	10,00,000	Fixed Assets	4,00,000
Creditors (Trade)	1,40,000	Stock	3,00,000
Profit & Loss A/c	60,000	Debtors	1,50,000
		Cash & Bank	3,50,000
	12,00,000		12,00,000

The management estimates the purchases and sales for the year ended 31st March, 2016 as under :

	upto 28.2.2016 Rs.	March 2016 Rs.
Purchases	14,10,000	1,10,000
Sales	19,20,000	2,00,000

It was decided to invest Rs. 1,00,000 in purchases of fixed assets, which are depreciated @ 10% on cost.

The time lag for payment to Trade Creditors for purchase and receipt from Sales is one month. The business earns a gross profit of 30% on turnover. The expenses against gross profit amount to 10% of the turnover. The amount of depreciation is not included in these expenses.

Draft a Balance Sheet as at 31st March, 2016 assuming that creditors are all Trade Creditors for purchases and debtors for sales and there is no other item of current assets and liabilities apart from stock and cash and bank balances. Assume that all sales and purchases are on credit basis.

(10 Marks)

Question 5:

(a) MM Ltd. had the following among their ledger opening balances on January 1,20X1:

	Rs.
11% Debentures A/c (2000 issue)	50,00,000
Debenture Redemption Reserve A/c	45,00,000
13.5% Debentures in XX Ltd. A/c (Face Value Rs. 20,00,000)	19,50,000
Own Debentures A/c (Face value Rs. 20,00,000)	18,50,000

As 31st December, 20X1 was the date for redemption of the 2000 debentures, the company started buying own debentures and made the following purchases in the open market :

1-2-20X1 2,000 debentures at Rs. 98 cum-interest.

1-6-20X1 2,000 debentures at Rs. 99 ex-interest.

Half yearly interest is due on the debentures on the 30th June and 31st December in the case of both the companies.

On 31st December, 20X1, the debentures in XX Ltd. were sold for Rs. 95 each ex-interest. On that date, the outstanding debentures of MM Ltd. were redeemed by payment and by cancellation.

Show the entries in the following ledger accounts of MM Ltd. during 20X1:

(i) Debenture Redemption Reserve A/c

(ii) Own Debentures A/c

The face value of a debenture was Rs. 100 (Round off calculations to the nearest rupee.)

(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 6:

(a) The Chief Accountant of Sports Ltd. gives the following data regarding its six segments:

Rs. in lakhs

Particulars	M	N	O	P	Q	R	Total
Segment Assets	40	80	30	20	20	10	200
Segment Results	50	(190)	10	10	(10)	30	(100)
Segment Revenue	300	620	80	60	80	60	1,200

The Chief accountant is of the opinion that segments "M" and "N" alone should be reported. Is he justified in his view? Discuss.

(4 Marks)

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

(i) Head Office expenses Rs. 3,500 allocated to the Branch, but not recorded in the Branch Books.

(ii) Depreciation of branch assets, whose accounts are kept by the Head Office not provided earlier for Rs. 1,500.

(iii) Branch paid Rs. 2,000 as salary to a H.O. Inspector, but the amount paid has been debited by the Branch to Salaries account.

(iv) H.O. collected Rs. 10,000 directly from a customer on behalf of the Branch, but no intimation to this effect has been received by the Branch.

(4 Marks)

(b) A company offers new shares of Rs. 100 each at 25% premium to existing shareholders on one for four bases. The cum-right market price of a share is Rs. 150. Calculate the value of a right. What should be the ex-right market price of a share?

(4 Marks)

(c) State the circumstances when Garner V/S Murraryrule not applicable.

(4 Marks)

(d) On 29th August, 20X2, the godown of a trader caught fire and a large part of the stock of goods was destroyed. However, goods costing Rs. 1,08,000 could be salvaged incurring fire fighting expenses amounting to Rs. 4,700.

The trader provides you the following additional information:

	Rs.
Cost of stock on 1st April, 20X1	7,10,500
Cost of stock on 31st March, 20X2	7,90,100
Purchases during the year ended 31st March, 20X2	56,79,600
Purchases from 1st April, 20X2 to the date of fire	33,10,700
Cost of goods distributed as samples for advertising from 1st April, 20X2 to the date of fire	41,000
Cost of goods withdrawn by trader for personal use from 1st April, 20X2 to the date of fire	2,000
Sales for the year ended 31st March, 20X2	80,00,000
Sales from 1st April, 20X2 to the date of fire	45,36,000

The insurance company also admitted firefighting expenses. The trader had taken the fire insurance policy for Rs. 9,00,000 with an average clause.

Calculate the amount of the claim that will be admitted by the insurance company.

(4 Marks)

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