

**(GI-1, GI-2, GI-3, GI-4, VI-1 & SI-1)**

DATE: 11.07.2019

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)** Explain the meaning of the terms 'cash' and 'cash equivalent' for the purpose of Cash Flow Statement as per AS-3.  
Ruby Exports had a bank balance of USD 25,000 stated in books at Rs. 16,76,250 using the rate of exchange Rs. 67.05 per USD prevailing on the date of receipt of dollars. However, on the balance sheet date, the closing rate of exchange was Rs. 67.80 and the bank balance had to be restated at Rs. 16,95,000.  
Comment on the effect of change in bank balance due to exchange rate fluctuation and also discuss how it will be disclosed in Cash Flow Statement of Ruby Exports with reference to AS-3.
- (5 Marks)**
- (b)** State whether the following statements are 'True' or 'False'. Also give reason for your answer.
- (i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
  - (ii) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
  - (iii) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
  - (iv) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.
  - (v) There is no single list of accounting policies which are applicable to all circumstances.
- (5 Marks)**
- (c)**
- (i) ABC Ltd. a Indian Company obtained long term loan from WWW private Ltd., a U.S. company amounting to Rs. 30,00,000. It was recorded at US \$1 = Rs. 60.00, taking exchange rate prevailing at the date of transaction. The exchange rate on balance sheet date (31.03.2018) was US \$1 = Rs. 62.00.
  - (ii) Trade receivable includes amount receivable from Preksha Ltd., Rs. 10,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US \$1 = Rs. 59.00. The exchange rate on balance sheet date (31.03.2018) was US \$1 = Rs. 62.00.
- You are required to calculate the amount of exchange difference and also explain the accounting treatment needed in the above two cases as per AS 11 in the books of ABC Ltd.
- (5 Marks)**

- (d) Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were Rs. 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of Rs. 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at Rs. 49,500 per month after adding 10% profit margin. The machine was purchased at Rs. 1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. Rs. 55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of Rs. 30,000 to supervise machinery installation at the factory site. Also, payment under the invoice was due in 5 months. However, the Company made the payment in 3<sup>rd</sup> month. The company operates on Bank Overdraft @ 14% p.a. Ascertain the amount at which the Machinery should be capitalized under AS 10.

**(5 Marks)****Question 2:**

- (a) The following balances were extracted from the books of Beta. You are required to prepare Departmental Trading Account and general Profit & Loss Account for the year ended 31<sup>st</sup> December, 2016:

Particulars	Deptt. A Rs.	Deptt. B Rs.
Opening Stock	3,00,000	2,40,000
Purchases	39,00,000	54,60,000
Sales	60,00,000	90,00,000

General expenses incurred for both the Departments were Rs. 7,50,000 and you are also supplied with the following information:

- Closing stock of Department A Rs. 6,00,000 including goods from Department B for Rs. 1,20,000 at cost to Department A.
- Closing stock of Department B Rs. 12,00,000 including goods from Department A for Rs. 1,80,000 at cost to Department B.
- Opening stock of Department A and Department B include goods of the value of Rs. 60,000 and Rs. 90,000 taken from Department B and Department A respectively at cost to transferee departments.
- The gross profit is uniform from year to year.

**(8 Marks)**

- (b) M/s Marena, Delhi has a branch at Bangalore to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch Expenses are paid direct from head office and the Branch has to remit all cash received into the Head Office Bank Account.

From the following details, relating to calendar year 2017, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit.

Branch does not maintain any books of account, but sends weekly returns to the Head Office.

	Rs.
Goods received from Head Office at invoice price	45,00,000
Returns to Heads Office at invoice price	90,000
Stock at Bangalore as on 1 <sup>st</sup> January, 2017	4,50,000
Sales during the year - Cash	15,00,000
- Credit	27,00,000
Sundry Debtors at Bangalore as on 1 <sup>st</sup> January, 2017	5,40,000
Cash received from Debtors	24,00,000
Discount allowed to Debtors	45,000
Bad Debts in the year	30,000
Sales returns at Bangalore Branch	60,000
Rent, Rates and Taxes at Branch	1,35,000
Salaries, Wages and Bonus at Branch	4,50,000
Office Expenses	45,000
Stock at Branch on 31 <sup>st</sup> December, 2017 at invoice price	9,00,000

**(8 Marks)**

- (c) M/s. Kodam Enterprises purchased a generator on hire purchase from M/s. Sanctum Ltd. on 1<sup>st</sup> April, 2017. The hire purchase price was Rs. 48,000. Down payment was Rs. 12,000 and the balance is payable in 3 annual installments of Rs. 12,000 each payable at the end of each financial year. Interest is payable @ 8% p.a. and is included in the annual payment of Rs. 12,000. Depreciation at 10% p.a. is to be written off using the straight line method. You are required to calculate the cash price of the generator and the interest paid on each installment.

**(4 Marks)****Question 3:**

- (a) The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and Profit & Loss A/c for the year ended 31<sup>st</sup> March, 2017 and a Balance Sheet as on that date.

(a) Assets and Liabilities as on:

	in Rs.	
	1.4.2016	31.3.2017
Furniture	60,000	63,500
Stock	80,000	70,000
Sundry Debtors	1,60,000	?
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000
Cash in Hand & Bank Balance	12,000	26,250

- (b) Cash transaction during the year:
- Collection from Debtors, after allowing discount of Rs. 15,000 amounted to Rs. 5,85,000.
  - Collection on discounting of Bills of Exchange, after deduction of discount of Rs. 1,250 by bank, totaled to Rs. 61,250.

- (iii) Creditors of Rs. 4,00,000 were paid Rs. 3,92,000 in full settlement of their dues.
  - (iv) Payment of Freight inward of Rs. 30,000.
  - (v) Amount withdrawn for personal use Rs. 70,000.
  - (vi) Payment for office furniture Rs. 10,000.
  - (vii) Investment carrying annual interest of 6% were purchased at Rs. 95 (200 Debenture, face Value Rs. 100 each) on 1<sup>st</sup> October 2016 and payment made thereof.
  - (viii) Expenses including salaries paid Rs. 95,000.
  - (ix) Miscellaneous receipt of Rs. 5,000.
- (c) Bills of exchange drawn on and accepted by customers during the year amounted to Rs. 1,00,000. Of these, bills of exchange of Rs. 20,000 were endorsed in favour of creditors. An endorsed bill of exchange of Rs. 4,000 was dishonoured.
- (d) Goods costing Rs. 9,000 were used as advertising material.
- (e) Goods are invariably sold to show a gross profit of 20% on sales.
- (f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC enterprises.
- (g) Provide at 2% for doubtful debts on closing debtor.
- (15 Marks)**
- (b)** On 30<sup>th</sup> March, 20X2 fire occurred in the premises of M/s Suraj Brothers. The concern had taken an insurance policy of Rs. 60,000 which was subject to the average clause. From the books of accounts, the following particulars are available relating to the period 1<sup>st</sup> January to 30<sup>th</sup> March 20X2.
- (1) Stock as per Balance Sheet at 31<sup>st</sup> December, 20X1, Rs. 95,600.
  - (2) Purchases (including purchase of machinery costing Rs. 30,000) Rs. 1,70,000.
  - (3) Wages (including wages Rs. 3,000 for installation of machinery) Rs. 50,000.
  - (4) Sales (including goods sold on approval basis amounting to Rs. 49,500) Rs. 2,75,000. No approval has been received in respect of 2/3<sup>rd</sup> of the goods sold on approval.
  - (5) The average rate of gross profit is 20% of sales.
  - (6) The value of the salvaged goods was Rs. 12,300.
- You are required to compute the amount of the claim to be lodged to the insurance company.
- (5 Marks)**

**Question 4**

- (a)** A partnership firm M/s. Nice Sons was carrying on business from 1<sup>st</sup> May, 2017. The partners of the firm decided to convert the partnership firm into a private company called Zenith (P) Ltd. with effect from 1<sup>st</sup> September, 2017. The annual accounts were drawn upto 31<sup>st</sup> March, 2018. The summarised Profit and Loss Account from 1<sup>st</sup> May, 2017 to 31<sup>st</sup> March, 2018 is as follows:

Particulars		Amount (Rs.)
Turnover		55,20,000
Interest on Investment		60,000
Profit on sale of Investment		42,000
		56,22,000
Less:		
Cost of goods sold	34,50,000	
Printing & Stationery	77,000	
Manager's Salary	82,000	
Audit Fees	41,000	
Rent	1,33,000	
Bad Debts	33,000	
Underwriting Commission	56,000	
Depreciation	71,500	
Interest on Debentures	8,900	
Advertising campaign expenses	69,800	
Sundry office expenses	1,06,700	
Interest on borrowings	1,25,000	42,53,900
Net Profit		13,68,100

Additional Information Provided:

- (1) The company's only borrowing was a loan of Rs. 15,00,000 at 9% p.a., to pay the purchase consideration due to the firm and for working capital requirements. The loan was taken on 1<sup>st</sup> September, 2017.
- (2) The company occupied additional space from 1<sup>st</sup> September, 2017 for which rent of Rs. 8,000 per month was incurred.
- (3) Audit fee pertains to the company.
- (4) Bad debts recovered amounting to Rs. 36,000 for a sale made in June 2017, has been deducted from bad debts mentioned above.
- (5) All investments were sold in August 2017.
- (6) Zenith (P) Ltd. initiated an advertising campaign on 1<sup>st</sup> September, 2017, which resulted increase in monthly average sales by 40%.
- (7) The salary of Manager was increased by Rs. 3,000 p.m. from 1<sup>st</sup> July, 2017.
- (8) Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31<sup>st</sup> March 2018.

**(12 Marks)**

- (b)** Sencom Limited issued Rs. 1,50,000 5% Debentures on which interest is payable half yearly on 31<sup>st</sup> March and 30<sup>th</sup> September. The company has power to purchase debentures in the open market for cancellation thereof. The following purchases were made during the year ended 31<sup>st</sup> December, 20X1 and the cancellation were made on the following 31<sup>st</sup> March :

1<sup>st</sup> March Rs. 25,000 nominal value purchased for Rs. 24,725 ex-interest.

1<sup>st</sup> September Rs. 20,000 nominal value purchased for Rs. 20,125 cum-interest.

You are required to draw up the following accounts up to the date of cancellation :

- (i) Debentures Account;
- (ii) Own Debenture Investment Account; and
- (iii) Debenture Interest Account.

Ignore taxation and make calculations to the nearest rupee.

**(8 Marks)**

**Question 5:**

- (a) (a) The partners P, Q & R have called you to assist them in winding up the affairs of their partnership on 31.12.2016. Their balance sheet as on that date is given below:

Liabilities	Amount Rs.	Assets	Amount Rs.
Capital Accounts:		Land & Building	50,000
P	65,000	Plant & Machinery	46,000
Q	50,500	Furniture & Fixture	10,000
R	32,000	Stock	14,500
Creditors	16,000	Debtors	14,000
		Cash at Bank	9,000
		Loan P	13,000
		Loan Q	7,000
Total	1,63,500	Total	1,63,500

- (b) The partners share profit and losses in the ratio of 4:3:2.  
(c) Cash is distributed to the partners at the end of each month.  
(d) A summary of liquidation transactions are as follows:

**January 2017**

- Rs. 9,000 - collected from debtors; balance is uncollectable.
- Rs. 8,000 - received from the sale of entire furniture
- Rs. 1,000 - Liquidation expenses paid.
- Rs. 6,000 - Cash retained in the business at the end of month.

**February 2017**

- Rs. 1,000 - Liquidation expenses paid.
- As part payment of his capital, R accepted a machinery for Rs. 9,000 (book value Rs. 3,500)
- Rs. 2,000 - Cash retained in the business at the end of month.

**March 2017**

- Rs. 38,000 - received on the sale of remaining plant and machinery.
- Rs. 10,000 - received from the sale of entire stock.
- Rs. 1,700 - Liquidation expenses paid.
- Rs. 41,000 - Received on sale of land & building.
- No Cash is retained in the business.

You are required to prepare a schedule of cash payments amongst the partners by "Higher Relative Capital Method".

**(15 Marks)**

- (b) Explain the nature of Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership?

**(5 Marks)****Question 6: (Answer any four questions)**

- (a) "One of the characteristic of the financial statement is neutrality. "Do you agree with this statement? Explain in brief.

**(5 Marks)**

- (b)** On 01.04.2014, XYZ Ltd. received Government grant of Rs. 100 Lakhs for an acquisition of new machinery costing Rs. 500 lakhs. The grant was received and credited to the cost of the assets. The life span of the machinery is 5 years. The machinery is depreciated at 20% on WDV method.  
The company had to refund the entire grant in 2<sup>nd</sup> April, 2017 due to non-fulfilment of certain conditions which was imposed by the government at the time of approval of grant.  
How do you deal with the refund of grant to the Government in the books of XYZ Ltd., as per AS 12?

**(5 Marks)**

- (c)** The capital structure of a company consists of 20,000 Equity Shares of Rs. 10 each fully paid up and 1,000 8% Redeemable Preference Shares of Rs. 100 each fully paid up (issued on 1.4.20X1).  
Undistributed reserve and surplus stood as: General Reserve Rs. 80,000; Profit and Loss Account Rs. 20,000; Investment Allowance Reserve out of which Rs. 5,000, (not free for distribution as dividend) Rs. 10,000; Securities Premium Rs. 2,000, Cash at bank amounted to Rs. 98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of Rs. 20,000 shall be retained in general reserve and which should not be utilised.  
Pass Journal Entries to give effect to the above arrangements.

**(5 Marks)**

- (d)** Due to inadequacy of profits during the year ended 31<sup>st</sup> 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 31 <sup>st</sup> March, 20X2	3,00,000
Average rate of dividend during the last five year has been 12%.	

**(5 Marks)**

- (e)** Explain the procedure for re-assessment of unrecognized D.T.A. as per AS-22.

**(5 Marks)**

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