Roll No. .... INTERMEDIATE (IPC) GROUP I - PAPER 1 ACCOUNTING

MAY 2017

Total No. of Questions – 7

Total No. of Printed Pages – 11

Time Allowed – 3 Hours

Maximum Marks – 100

ATP

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi medium, his/her answers in Hindi will not be valued.

Question No. 1 is compulsory.

Candidates are required to answer any **five** questions from the remaining **six** questions. In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.

Working notes should form part of the answer.

Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates.

Marks

1. (a) ABC Financial Services Ltd. is engaged in the business of financial services and is undergoing tight liquidity position, since most of the assets of the company are blocked in various claims/petitions in a Special Court. ABC Financial Services Ltd. has accepted Inter-Corporate Deposits (ICDs) and it is making its best efforts to settle the dues. There were claims at varied rates of interest, from lenders, from the due date of ICDs to the date of repayment. The company has provided interest, as per the terms of the contract till the due date and a note for non-provision of interest from the due date to date of repayment was mentioned in financial statements. **5**

On account of uncertainties existing regarding the determination of the amount and in the absence of any specific legal obligation at present as per the terms of contracts, the company considers that these claims are in the nature of "claims against the company not acknowledged as debt", and the same has been disclosed by way of a note in the accounts instead of making a provision in the Profit and Loss Account.

State whether the treatment done by the company is correct or not as per relevant Accounting Standard.

(b) Explain the meaning of the terms 'cash' and 'cash equivalent' for the purpose of Cash Flow Statement as per AS-3 **5**

Ruby Exports had a bank balance of USD 25,000, stated in books at ₹ 16,76,250 using the rate of exchange ₹ 67.05 per USD prevailing on the date of receipt of dollars. However, on the balance sheet date, the closing rate of exchange was ₹ 67.80 and the bank balance had to be restated at ₹ 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.

(c) Akar Ltd. signed on 01/04/16, a construction contract for ₹ 1,50,00,000. **5**
Following particulars are extracted in respect of contract, for the period ending 31/03/17.

- Materials issued ₹ 75,00,000
- Labour charges paid ₹ 36,00,000
- Hire charges of plant ₹ 10,00,000
- Other contract cost incurred ₹ 15,00,000
- Out of material issued, material lying unused at the end of period is ₹ 4,00,000
- Labour charges of ₹ 2,00,000 are still outstanding on 31.3.17.
- It is estimated that by spending further ₹ 33,50,000 the work can be completed in all respect.

You are required to compute profit/loss to be taken to Profit & Loss Account and additional provision for foreseeable loss as per AS-7

(d) Raj Ltd. entered into an agreement with Heena Ltd. to dispatch goods valuing ₹ 5,00,000 every month for next 6 months on receipt of entire payment. Heena Ltd. accordingly made the entire payment of ₹ 30,00,000 and Raj Ltd. started dispatching the goods. In fourth month, due to fire in premise of Heena Ltd., Heena Ltd. requested to Raj Ltd. not to dispatch goods untill further notice. Due to this, Raj Ltd. is holding the remaining goods worth ₹ 15,00,000 ready for dispatch. Raj Ltd. accounted ₹ 15,00,000 as sales and transferred the balance to Advance received against Sales account. **5**

Comment upon the above treatment by Raj Ltd. with reference to the provision of AS-9.

2. P Ltd. and Q Ltd. agreed to amalgamate and form a new company called PQ Ltd. The balance sheets of both the companies on the date of amalgamation stood as below : **16**

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Equity Shares (₹ 100 each)	8,20,000	3,20,000	Goodwill	1,00,000	80,000
9%Pref. Shares (₹ 100 each)	3,80,000	2,80,000	Land & Building	4,50,000	3,40,000
8% Debentures	2,00,000	1,00,000	Furniture & Fittings	1,00,000	50,000
General Reserve	1,50,000	50,000	Plant & Machinery	6,20,000	4,50,000
Profit & loss a/c	3,52,000	2,05,000	Debtors	3,25,000	1,50,000
			Stock	2,33,000	1,05,000
Unsecured Loan	–	1,75,000	Cash at bank	1,08,000	95,000
Creditors	88,000	1,60,000	Cash in hand	54,000	20,000
	19,90,000	**12,90,000**		**19,90,000**	**12,90,000**

Marks

PQ Ltd. took over the assets and liabilities of both the companies at book value after creating provision @ 5% on Stock and Debtors respectively and depreciating Furniture & Fittings by @ 10%, Plant and Machinery by @ 10%. The debtors of P Ltd. include ₹ 25,000 due from Q Ltd.

PQ Ltd., will issue

(i) 5 Pref. shares of ₹ 20 each @ ₹18 paid up at a premium of ₹ 4 per share for each pref. share held in both the companies.

(ii) 6 Equity shares of ₹ 20 each @ ₹ 18 paid up at a premium of ₹ 4 per share for each equity share held in both the companies.

(iii) 6% Debentures to discharge the 8% debentures of both the companies.

(iv) 20,000 new Equity shares of ₹ 20 each for cash @ ₹ 18 paid up at a premium of ₹ 4 per share.

PQ Ltd. will pay cash to equity shareholders of both the companies in order to adjust their rights as per the intrinsic value of the shares of both the companies.

Prepare ledger accounts in the books of P Ltd. and Q Ltd. to close their books.

3. (a) JRB Engineering College maintains a building fund. As on 31.3.2016, balance of building fund was ₹ 7,50,000 and it was represented by fixed deposit (7½ % p.a.) of ₹ 4,50,000 and Bank current account balance of ₹ 3,00,000. During the year 2016-17, the college collected as donations towards the building fund ₹ 4,20,000 and transferred 40% of development fees collected ₹ 16,92,375 to building fund. Capital work in progress as on 31st March 2016 was ₹ 6,18,750 for which contractors' bill up to 70% was paid on 14.4.2016. The extension of building was finished on 31.12.2016 costing ₹ 5,43,750 for which contractors' bill was fully met. It was decided to transfer the cost of completed building i.e. ₹ 11,62,500 to the corresponding asset account. **8**

You are required to pass journal entries to incorporate the above transactions in the books of JRB Engineering College for the year 2016-17 and show the trial balance of building fund ledger.

Marks

(b) The following transactions took place between A and B for the three months ending 31st March 2017. **8**

Books of A		
Date	**Particulars**	**₹**
1.1.2017	B's Opening balance	1,00,000
10.1.2017	Sold goods to B	2,00,000
15.1.2017	Cash received from B	2,00,000
15.2.2017	Sold goods to B	2,00,000
1.3.2017	Cash received from B	1,00,000

You are required to calculate the amount of interest to be paid by one party to the other at 10% per annum using Epoque Method. (1 year = 365 days)

4. 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 31st March, 2017 and a Balance Sheet as on that date. **16**

(a) Assets and Liabilities as on in ₹

	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 :

(i) Collection from Debtors, after allowing discount of ₹ 15,000 amounted to ₹ 5,85,000.

(ii) Collection on discounting of Bills of Exchange, after deduction of discount of ₹ 1250 by bank, totalled to ₹ 61,250.

(iii) Creditors of ₹ 4,00,000 were paid ₹ 3,92,000 in full settlement of their dues.

(iv) Payment of Freight inward of ₹ 30,000.

(v) Amount withdrawn for personal use ₹ 70,000.

(vi) Payment for office furniture ₹ 10,000.

(vii) Investment carrying annual interest of 6% were purchased at ₹ 95 (200 shares, face value ₹ 100 each) on 1st October 2016 and payment made thereof.

(viii) Expenses including salaries paid ₹ 95,000.

(ix) Miscellaneous receipt of ₹ 5,000.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 1,00,000. Of these, bills of exchange of ₹ 20,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 4,000 was dishonoured.

(d) Goods costing ₹ 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 debtors.

Marks

5. (a) Roshani & Reshma working in partnership, registered a joint stock company under the name of Happy Ltd. on May 31st 2016 to take over their existing business. The summarized Profit & Loss A/C as given by Happy Ltd. for the year ending 31st March, 2017 is as under : **8**

Happy Ltd.

Profit & Loss A/c. for the year ending March 31,2017

Particulars	**Amount in ₹**	**Particulars**	**Amount in ₹**
To Salary	1,44,000	By Gross Profit	4,50,000
To Interest on Debenture	36,000		
To Sales Commission	18,000		
To Bad Debts	49,000		
To Depreciation	19,250		
To Rent	38,400		
To Audit fees	12,000		
To Net Profit	1,33,350		
Total	**4,50,000**	**Total**	**4,50,000**

Prepare a Statement showing allocation of expenses & calculation of pre-incorporation & post-incorporation profits after considering the following information :

(i) GP ratio was constant throughout the year.

(ii) Depreciation includes ₹ 1,250 for assets acquired in post incorporation period.

(iii) Bad debts recovered amounting to ₹ 14,000 for a sale made in 2013-14 has been deducted from bad debts mentioned above.

(iv) Total sales were ₹ 18,00,000 of which ₹ 6,00,000 were for April to September.

(v) Happy Ltd. had to occupy additional space from 1st Oct. 2016 for which rent was ₹ 2,400 per month.

 Marks

(b) Akash Ltd. had 4,000 equity share of X Limited, at a book value of ₹ 15 per share (face value of ₹ 10 each) on 1st April 2016. On 1st September 2016, Akash Ltd. acquired 1,000 equity shares of X Limited at a premium of ₹ 4 per share. X Limited announced a bonus and right issue for existing share holders. **8**

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, 2016.

(2) Right shares are to be issued to the existing shareholders on 1st December 2016. 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, 2016.

(3) Exisiting 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 ₹ 8 per share.

(5) Dividend for the year ended 31st March 2016, at the rate of 20% was declared by the company and received by Akash Ltd. on 20th January 2017.

(6) On 1st February 2017, Akash Ltd. sold half of its share holdings at a premium of ₹ 4 per share.

(7) The market price of share on 31.03.2017 was ₹ 13 per share.

You are required to prepare the Investment Account of Akash Ltd. for the year ended 31st March, 2017 and determine the value of share held on that date assuming the investment as current investment.

Marks

6. Ram, Shyam and Laxman are in partnership sharing Profit & Loss equally. Interest on partner's capital and remuneration to partners not to be provided as agreed among partners. On 31st March, 2016 their Balance Sheet stood as follow : **16**

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c- Ram	2,70,000	Building	4,50,000
Capital A/c-Shyam	2,40,000	Plant & Machinery	90,000
Capital A/c-Laxman	2,40,000	Furniture & Fittings	69,000
Current A/c- Ram	4,200	Closing Stock	27,000
Current A/c-Shyam	6,000	Sundry Debtors	60,600
Sundry Creditors	24,600	Cash at Bank	85,200
		Current A/c-Laxman	3,000
Total	**7,84,800**	**Total**	**7,84,800**

On 31st July, 2016 Ram died. According to the partnership deed, on the death of partner, the sum to be paid to his estate will be :

(i) the amount of his capital and current account balance at the end of last financial year.

(ii) his share of profit for the relevent part of the year of death.

(iii) his share of goodwill.

Goodwill is to be valued at two years purchase of the average profits of immediately preceding three accounting years.

The profit as per Books of Accounts were as follows :

For accounting year ended 31st March, 2013	₹ 86,700
For accounting year ended 31st March, 2014	₹ 1,43,200
For accounting year ended 31st March, 2015	₹ 1,07,600

No goodwill account is to remain in the books after any change in the partnership's constitution. The stock value at 31st July has been calculated and all other accounts balanced off, including provision for depreciation, accured expenses and prepaid expenses.

This results in the following position of assets and liabilities at 31st July 2016 :

	₹		₹
Building	4,50,000	Stock	33,000
Plant & Machinery	97,700	Sundry Debtors	66,900
(including addition of ₹ 12,000)		Cash at Bank	1,01,100
Furniture & Fittings	66,700	Sundry Creditors	29,400

There were no additions to, or reduction in the capital accounts during the four months, but the following drawings have been made by the partners :

Ram ₹ 60,000 Shyam ₹ 48,000 Laxman ₹ 54,000

It has also been agreed that the share of deceased partner should be repaid in three equal installments, the first payment being made on the day after the day of death.

On 1st August 2016, Ram's son Shankar was admitted in to partnership as a new partner and agreed that he would bring in to the business ₹ 1,20,000 as his capital together with a premium for his share of goodwill using the existing valuation.

The new profit sharing ratio Shyam : 2/5th, Laxman : 2/5th and Shankar 1/5th.

You are required to prepare the partnership firm's Balance Sheet as at 1st August 2016, on the assumption that the above transactions have been completed by that date.

Marks

7. Answer any **four** :

(a) Prepare journal entries under the sectional balancing system in the books of Rex Ltd. for the following :- **4**

(i) The Sales book was found undercast by ₹ 10,000

(ii) Discount allowed to Ram ₹ 500 correctly, entered in cash book was not posted to his account.

(iii) Credit balance of ₹ 3,600 in Manish's account in the purchase ledger was to be transferred to his account in Sales Ledger.

(b) Distinguish between Hire Purchase system and Installment system. **4**

(c) What is Consequential loss policy and what items are generally covered by such policy ? **4**

(d) Accounting software is an invaluable source for modern business. Explain the criteria for selection of such Accounting software. **4**

(e) Mr. Praveen buys goods on Credit on following dates. 10 days credit is allowed to him after which interest @ 8% p.a. is charged by supplier. **4**

(1)	30^{th} July	₹ 12,000
(2)	12^{th} August	₹ 25,000
(3)	27^{th} July	₹ 18,000
(4)	10^{th} September	₹ 7,000
(5)	12^{th} September	₹ 21,000

It was agreed to be settled on 30^{th} September. Compute interest payable by him using average due date method. Due Date of earliest purchase shall be taken as base date. (one year = 365 days)

Any fraction of a day arising from the calculation to be considered as full day.
