

Roll No.

NOV 2018

Total No. of Questions – 7

**INTERMEDIATE (IPC)
GROUP I - PAPER 1
ACCOUNTING**

Total No. of Printed Pages – 15

Time Allowed – 3 Hours

Maximum Marks – 100

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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 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.

Working notes should form part of the answer.

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1. (a) 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 ₹ 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of ₹ 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at ₹ 49,500 per month after adding 10% profit margin.

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The machine was purchased at ₹ 1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. ₹ 55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of ₹ 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 3rd month. The company operates on Bank Overdraft @ 14% p.a.

Ascertain the amount at which the Machinery should be capitalized under AS 10.

- (b) Goods worth ₹ 6,62,500 were sold on 31.10.2017 by X Ltd. to Y Ltd. Y Ltd. requested for a trade discount of 8 % which was agreed by X Ltd. The sale was effected and goods were dispatched. However, on receipt of the goods, Y Ltd. found that goods worth ₹ 77,500 were damaged. Consequently, Y Ltd. returned the damaged goods to X Ltd. and made the due payment amounting to ₹ 5,32,000. The accountant of X Ltd. booked the sale for ₹ 5,32,000. 5

Discuss the above treatment by the accountant with reference to applicable Accounting Standard.

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- (c) M/s Action Construction Company Ltd. undertook a fixed price construction contract to construct a building within 3 years time for ₹ 10,000 lakhs.

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A summary of the financial data during the construction period is as follows :

(₹ lakhs)

	Year-1	Year-2	Year-3
Initial amount for revenue agreed in contract	10000	10000	10000
Variation in Revenue (+)	–	500	1000
Contract costs incurred upto the reporting date	2415	6375	8500
Estimated profit for whole contract	1950	2000	2500

The variation in cost and revenue in year 2 and 3 has been approved by customer.

Determine the stage of completion of contract and amount of revenue, expenses and profit or loss to be recognised in the statement of Profit and Loss for three years as per AS-7 (Revised).

- (d) Enumerate type of alternatives available to a business entity for accounting in computerised environment.

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Also, describe the criteria for selection among above alternatives.

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2. The following was the Balance Sheet of Rashmi Limited as on 31st March, 2018 :

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Particulars	Note No.	Amount
<u>Equity and Liabilities :</u>		
(1) Shareholders' fund		
(a) Share capital	1	18,00,000
(b) Reserve and Surplus	2	8,40,000
(2) Non-current liabilities :		
Long term Borrowings	3	2,85,000
(3) Current Liabilities :		
Trade Payables		75,000
		30,00,000
<u>Assets :</u>		
(1) Non-Current Assets :		
(a) Fixed Assets		
– Tangible Assets	4	18,00,000
– Intangible Assets (Goodwill)		1,40,000
(b) Non-current Investments	5	1,60,000
(2) Current Assets :		
Inventories		6,24,000
Trade Receivables		1,08,000
Cash & cash equivalents		1,68,000
		30,00,000

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Notes :

1. <u>Share Capital</u> :		
Issued, Subscribed and Paid up		
1,80,000 share of ₹ 10 each fully paid up		18,00,000
Total		18,00,000
2. <u>Reserve and Surplus</u> :		
General Reserve		4,10,000
Profit & Loss A/c	1,30,000	
Less : Preliminary Exp.	<u>30,000</u>	1,00,000
Export Profit Reserve		2,50,000
Investment Allowance Reserve		80,000
Total		8,40,000
3. <u>Long term Borrowing</u> :		
9% Secured Debenture of ₹ 100 each fully paid up		2,85,000
Total		2,85,000
4. <u>Tangible Assets</u> :		
Freehold Property		12,40,000
Plant & Machinery		5,60,000
Total		18,00,000
5. <u>Non-Current Investments</u> :		
Other Investments		1,60,000
(Current Market value ₹ 1,30,000)		
Total		1,60,000

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On 1st April, 2018 Nitin Ltd. agreed to absorb the business of Rashmi Ltd. on the following terms and conditions :

- (i) The purchase consideration would be settled by Nitin Ltd. as under :
 - (1) 3,00,000 equity shares of ₹ 10 each issued by Nitin Ltd. by valuing its share at ₹ 12 per share.
 - (2) Cash payment equivalent to ₹ 5 for every share in Rashmi Ltd.
- (ii) The issue of such an amount of fully paid 10% debentures in Nitin Ltd. at 95% as is sufficient to discharge 9% debenture in Rashmi Ltd. at a premium of 25%.
- (iii) Nitin Ltd. will takeover the Freehold property at 120% more than the book value and Plant & Machinery at 10% less than the book value. Inventories at ₹ 5,20,000 and Trade receivables at their book value subject to a provision of 8% for doubtful debts. Investments will be taken over at current market value. Nitin Ltd. will take over trade payables at book value.
- (iv) Liquidation expenses are to be reimbursed by Nitin Ltd. to the extent of ₹ 30,000. The cost of liquidation ; ₹ 50,000.
- (v) Statutory reserves are to be maintained for 2 more years.

You are required to :

- (a) Prepare the Realisation Account, Nitin Ltd. Account, Shareholders Accounts and Debenture Account in the book of Rashmi Ltd. and
- (b) Write up journal entries in the books of Nitin Ltd. regarding acquisition of business.

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3. (a) Prepare Cash Flow Statement of Tom & Jerry Ltd. for the year ended 31st March, 2018, in accordance with AS-3 (Revised) from the following Summary Cash Account :

Summary Cash Account

	₹ in '000	₹ in '000
Balance as on 01.04.2017		210
Receipts from Customers		16,596
Sale of Investments (Cost ₹ 90,000)		102
Issue of Shares		1,800
Sale of Fixed Assets		768
		19,476
Payment to Suppliers	12,204	
Purchase of Investments	78	
Purchase of Fixed Assets	1,380	
Wages & Salaries	414	
Selling & Administration Exp.	690	
Payment of Income Tax	1,458	
Payment of Dividends	480	
Repayment of Bank Loan	1,500	
Interest paid on Bank Loan	300	(18,504)
Balance as on 31.03.2018		972

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- (b) Prepare Sales Ledger Adjustment A/c & Purchase Ledger Adjustment A/c. respectively in General Ledger for the year ended 31st March, 2018 from the following information :

	₹
Sales Ledger Balance as on 1 st April, 2017	1,35,900
Purchases Ledger Balance as on 1 st April, 2017	1,17,900
Sales	5,71,200
Purchases	4,89,000
Cash received from Debtors	2,67,300
Return Inward	26,400
Bills Receivable, Received	2,04,000
Bad Debts written off	36,000
Bad Debts previously written off now recovered	20,000
Return Outward	21,000
Bills payable accepted	1,83,000
Cash paid to creditors	2,79,000
Discount Received	6,000
Discount Allowed	2,700
Reserve for Discounts to debtors	3,000
Transfer from Purchases Ledger to Sales Ledger	39,900

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4. From the following information, prepare Trading and Profit & Loss Account for the year ended 31.03.2018 and the Balance Sheet as at 31.03.2018 of M/s Prasad & Co., a proprietorship firm.

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Assets & Liabilities	As on 01.04.2017	As on 31.03.2018
Creditors	20,000	15,000
Outstanding Expenses	600	800
Fixed Assets	12,000	13,000
Stock	10,000	12,000
Cash in hand & at bank	10,000	12,000
Debtors	?	18,000

Details of the year's transactions are as follows :

(1) Discounts allowed to Debtor	4,000
(2) Returns from debtors	1,450
(3) Bad debts	500
(4) Total sales (Cash and Credit)	72,000
(5) Discount allowed by creditors	700
(6) Returns to creditors	400
(7) Receipts from debtors paid into Bank	76,000
(8) Cash purchases	1,000
(9) Expenses paid by cash	9,000
(10) Drawings by cheque	500
(11) Purchase of Fixed Assets by cheque	4,000
(12) Cash deposited into bank	5,000
(13) Cash withdrawn from bank	9,000
(14) Cash in hand at 31.03.2018	2,000
(15) Payments to creditors by cheque	60,000

No assets were sold during the year.

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5. (a) On 1st April, 2017, Mr. Vijay had 30,000 Equity shares in X Ltd. (the company) at a book value of ₹ 4,50,000 (Face Value ₹ 10 per share). On 22nd June, 2017, he purchased another 5000 shares of the same company for ₹ 80,000.

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The Directors of X Ltd. announced a bonus of equity shares in the ratio of one share for seven shares held on 10th August, 2017.

On 31st August, 2017 the Company made a right issue in the ratio of three shares for every eight shares held, on payment of ₹ 15 per share. Due date for the payment was 30th September, 2017, Mr. Vijay subscribed to 2/3rd of the right shares and sold the remaining of his entitlement to Viru for a consideration of ₹ 2 per share.

On 31st October, 2017, Vijay received dividends from X. Ltd. @ 20% for the year ended 31st March, 2017. Dividend for the shares acquired by him on 22nd June, 2017 to be adjusted against the cost of purchase.

On 15th November, 2017 Vijay sold 20,000 Equity shares at a premium of ₹ 5 per share.

You are required to prepare Investment Account in the books of Mr. Vijay for the year ended 31st March, 2018 assuming the shares are being valued at average cost.

- (b) Unfortunate Ltd. has a godown, a shop and a manufacturing unit. Godown is used to store goods purchased for manufacture as well as to store finished goods. Goods are transferred from godown everyday in the morning to manufacturing unit and shop. Inventory in godown is insured for ₹ 20 lakhs, that of manufacturing unit for ₹ 30 lakhs and of the shop for ₹ 5 lakhs.

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As on 31.12.17 inventory in godown at cost was ₹ 26 lakhs, inventory in manufacturing unit at cost was ₹ 12 lakhs and inventory in shop at cost was ₹ 5 lakhs.

Following transactions took place during the period mentioned :

(₹ in lakhs)

Particulars	Jan. '18	Feb. '18	March '18	1 st Apr.-28 th Apr.
Purchases	20	15	16	8
Returns to suppliers	—	—	4	—
Stock transfer to shop	26	20	25	10
Returns from shop	1	—	1	1
Sales in shop @ Gross Profit :				
10%	10	12	8	4
12%	18	12	15	5

Fire occurred in shop in the midnight of 27th April-28th April, 2018 and the entire stock was engulfed in fire. Good costing ₹ 40,000 could be salvaged intact and balance goods were recovered in damaged condition.

Expenses of fire fighting/salvage operation amounted to ₹ 20,000.

Goods recovered in damaged condition could be sold @ 40% of cost.

The insurance policy had average clause.

Compute the claim to be lodged with Insurance Co.

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6. Rose, Lily & Violet were carrying on a business as partners sharing profit & loss in ratio of 3 : 2 : 1 respectively. The Balance Sheet of the firm as on 31st March, 2018 was as follows :

Liabilities	₹	Assets	₹
<u>Capital Account :</u>		Building	2,25,000
Rose	2,00,000	Plant & Machinery	1,75,000
Lily	1,50,000	Furniture	40,000
Violet	1,25,000	Stock	1,25,000
General Reserve	60,000	Sundry Debtors	80,000
Sundry Creditors	95,000	Less : Provision for	
Bills Payable	25,000	Bad Debts	2,500
			<u>77,500</u>
		Cash at Bank	12,500
	6,55,000		6,55,000

Lily retires on that date subject to the following conditions :

- (1) The Goodwill of the Firm to be valued at ₹ 90,000, which is to be shown in the Balance Sheet of newly constituted firm.
- (2) Plant & Machinery to be depreciated by 10% and Furniture by 15%.
- (3) Stock to be appreciated by 20% and Building by 10%.
- (4) The provision for Bad Debts to be increased by ₹ 9,750.
- (5) Liability for Workmen's compensation to the extent of ₹ 8,250 is to be brought into account.

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- (6) It was agreed that Rose and Violet will share profits in future in the ratio 3 : 2.
- (7) Half of the amount due to Lily to be paid immediately by cheque and the balance to be treated as loan repayable within 2 years.
- (8) In order to facilitate cheque payment to Lily, Rose and Violet brought ₹ 1,50,000 in new profit sharing ratio.

You are required to (i) Pass Journal Entries (ii) Prepare Partners' Capital A/c, (iii) Prepare Balance Sheet of the firm as Newly Constituted.

7. Answer any **four** :

- (a) The Investment portfolio of XYZ Ltd. as on 31.03.2018 consisted of the following :

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(₹ in lacs)

	Current Investments	Cost	Fair Value as on 31.03.2018
(1)	1000 Equity Shares of A Ltd.	5	7
(2)	500 Equity Shares of B Ltd.	10	15
(3)	1000 Equity Shares of C Ltd.	15	12
	Total	30	34

Give your comments on below :

- (i) The company wants to value the above portfolio at ₹ 30 lakhs being lower of cost or fair market value.
- (ii) Company wants to transfer 1000 Equity Shares of C Ltd. from current investments to long term investments on 31.03.2018 at cost of ₹ 15 lakhs.

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- (b) X, Y, Z were in partnership sharing profits and losses equally and following financial year for accounting. Z died on 30th September, 2017. As per the accounts drawn upto 30th September, 2017 the Capital Accounts Balances were X : ₹ 30,000 (Cr.), Y : ₹ 40,000 (Cr.), Z : ₹ 50,000 (Cr.) respectively. Z's legal representatives would be paid their dues on 1st April, 2018.

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In the meanwhile, X and Y continued the business and earned a profit of ₹ 40,000 for the half year ended 31.03.2018. Partnership deed did not contain any clause for payment of Interest on deceased partners' dues. Suggest the amount that legal heirs of the deceased partner should settle for as per section 37 of the Partnership Act, 1932.

- (c) Pass Journal Entries in the following circumstances :

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- (i) A Limited company with subscribed capital of ₹ 5,00,000 consisting of 50,000 Equity shares of ₹ 10 each; called up capital ₹ 7.50 per share. A bonus of ₹ 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.
- (ii) A Limited company having fully paid up capital of ₹ 50,00,000 consisting of Equity shares of ₹ 10 each, had General Reserve of ₹ 9,00,000. It was resolved to capitalize ₹ 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of ₹ 10 each, each shareholder to get one such share for every ten shares held by him in the company.

- (d) Describe in brief the methods of recording Hire purchase transactions in the books of Hire vendor.

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(e) Hari owes to Om the following amounts :

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₹ 60,000 due on 11th March, 2018

₹ 1,00,000 due on 3rd April, 2018

₹ 80,000 due on 1th June, 2018

₹ 10,000 due on 15th June, 2018

Find out the average due date. Earliest date to be taken as base date.

Any fraction of day resulting from calculation to be considered as full day.

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