

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

MAY 2019

Roll No.

Total No. of Questions – 7

Total No. of Printed Pages – 12

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 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.

Working notes should form part of the answer.

- | | Marks |
|--|--------------|
| 1. (a) The closing stock of finished goods at cost of a company amounted to ₹ 4,50,000. The following items were included at cost in the total : | 5 |
| (a) 100 coats, which had cost ₹ 2200 each and normally sold for ₹ 4000 each. Owing to a defect in manufacture, they were all sold after the balance sheet date at 50% of their normal selling price. | |
| (b) 200 skirts, which had cost ₹ 50 each. These too were found to be defective. Remedial work in April cost ₹ 2 per skirt, and selling expenses for the batch totaled ₹ 200. They were sold for ₹ 55 each. | |
| (c) Shirts which had cost ₹ 50,000, their net realizable value at Balance sheet date was ₹ 55,000. Commission @ 10% on sales is payable to agents. | |

What should the inventory value be according to AS 2 after considering the above items ?

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(b) Classify the following activities as (a) Operating activities, **5**

(b) Investing activities, (c) Financing activities, (d) Cash equivalents, with reference to AS 3 (Revised).

- (a) Brokerage paid on purchase of investments
- (b) Underwriting commission paid
- (c) Trading commission received
- (d) Proceeds from sale of investment
- (e) Purchase of goodwill
- (f) Redemption of preference shares
- (g) Rent received from property held as investment
- (h) Interest paid on long-term borrowings
- (i) Marketable securities
- (j) Refund of income tax received

(c) In the year 2017-18, an entity has acquired a new freehold building with a useful life of 25 years for ₹ 45,00,000. The entity desires to calculate the depreciation charge per annum using a straight line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows :

Component	Useful life (Years)	Cost (₹)
Land	Infinite	10,00,000
Roof	25	5,00,000
Lifts	10	2,50,000
Fixtures	5	2,50,000
Remainder of building	25	25,00,000
		45,00,000

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- (i) Calculate depreciation for the year 2017-18 as per componentization method.
- (ii) Also state the treatment, in case Roof requires replacement at the end of its useful life.

(d) Mother Mart Ltd., wants to re-classify its investment in accordance with AS 13. Decide on the treatment to be given in each of the following cases assuming that the market value has been determined in an arm's length transaction between knowledgeable and willing buyer and seller : 5

- (i) A portion of current investments purchased for ₹ 25 lakhs to be reclassified as long-term investments, as the company has decided to retain them. The market value as on the date of balance sheet was ₹ 30 lakhs.
- (ii) Another portion of current investments purchased for ₹ 20 lakhs has to be re-classified as long-term investments. The market value of these investments as on the date of the balance sheet was ₹ 12.5 lakhs.
- (iii) One portion of long-term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹ 15 lakhs, but had been written down to ₹ 11 lakhs to recognize permanent decline as per AS 13.

2. Following is the trial balance of ABC Limited as on 31.3.2018.

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(Figures in ₹'000)

Particulars	Debit	Particulars	Credit
Land at cost	800	Equity capital (shares of ₹ 10 each)	500
Calls in arrears	5	10% debentures	300
Cash in hand	2	General reserve	150
Plant & Machinery at cost	824	Profit & Loss a/c (F.Y. 2016-17)	75
Trade receivables	120	Securities Premium	40
Inventories (31-3-18)	96	Sales	1200
Cash at Bank	28	Trade payables	30
Adjusted Purchases	400	Provision for depreciation	150
Factory Expenses	80	Suspense Account	10
Administrative Expenses	45		
Selling Expenses	25		
Debenture Interest	30		
	2455		2455

Additional Information :

- The authorized share capital of the company is 80,000 shares of ₹ 10 each.
- The company revalued the land at ₹ 9,60,000.
- Equity capital includes ₹ 50,000 of shares issued for consideration other than cash.
- Suspense account of ₹ 10,000 represents cash received for the sale of some of the machinery on 1.4.2017. The cost of the machinery was ₹ 24,000 and the accumulated depreciation thereon being ₹ 20,000.

- (v) Depreciation is to be provided on plant and machinery at 10% on cost.
- (vi) Balance at bank includes ₹ 5,000 with Abhay Bank Ltd., which is not a Scheduled Bank.

You are required to prepare ABC Limited's Balance Sheet as on 31.3.2018 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.2018 as per Schedule III. Ignore previous year's figures & taxation.

3. (a) M/s New Venture was carrying on business from 1st June, 2017 gets itself incorporated as a company on 1st October, 2017. The first accounts are drawn upto 31st March 2018. The gross profit for the period is ₹ 1,20,000.

Following information is given :

- (a) General Expenses are ₹ 24,000.
- (b) Director's Fees is ₹ 24,000 p.a.
- (c) Incorporation Expenses ₹ 4,000.
- (d) Rent upto 31st December, 2017 was ₹ 6,000 p.a., after which it is increased to ₹ 8,000 p.a.
- (e) Salary of the Manager, who upon incorporation of the company was made a director, is ₹ 12,000 p.a. His remuneration as director is included in the above figure of fees to the directors.
- (f) Advertisement Expenses ₹ 5,000 pretains to the Incorporated company.
- (g) Bad debts ₹ 4,000.

Give statement showing pre and post incorporation profit. The net sales are ₹ 20,00,000., the monthly average of which for the first four months is one-half of that of the remaining period. The company earned a uniform profit. Interest and tax may be ignored.

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- (b) Nova Ltd. has furnished the following information for the year ended 31st March, 2018 :

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	₹		₹
Cash sales	32,000	Bills receivable dishonoured	3,000
Credit purchases	3,10,000	Sales returns	10,000
Collection from debtors	5,15,000	Payments to creditors	1,85,000
Bills receivable drawn	28,000	Discount allowed	2,000
Discount received	3,000	Debtors cheque returned dishonoured	5,000
Cash purchases	15,000	Credit sales	5,60,000
Bills payable paid	8,000	Bills receivables collected	18,000
Recovery of bad debts	1,000	Purchase returns	4,800
Bills receivable discounted with bank	8,000	Bills receivable endorsed to creditors	5,000
Interest charged on overdue customer's accounts	2,000	Overpayments refunded by suppliers	500
Endorsed bills receivable dishonoured (noting charges ₹ 50)	2,000	Bad debts	2,000
(These B/R were endorsed to creditors only)		Opening balances	
Bills payable accepted	20,000	Sundry Debtors	90,000
		Sundry Creditors	75,000

You are required to prepare the Total Debtors Account and Total Creditors Account.

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4. The following is the Receipts and Payments Account of Premier Club for the year ended 31st March, 2018. 16

Receipts	₹	Payments	₹
Opening balance		Salaries	3,00,000
Cash	20,000	Creditors	18,00,000
Bank	4,000	Printing and Stationery	1,00,000
Subscription received	3,05,000	Postage	60,000
Entrance donation	1,85,000	Telephones and Telex	84,000
Interest received	72,000	Repairs and Maintenance	58,000
Sale of assets	10,000	Glass and table linen	20,000
Miscellaneous income	5,000	Crockery and cutlery	20,000
Receipts at		Garden upkeep	10,000
Restaurant	15,00,000	Membership fees	10,000
Bar	2,50,000	Insurance	15,000
Swimming pool	3,10,000	Electricity	1,10,000
Health club	2,40,000	Closing balance	
		Cash	28,000
		Bank	2,86,000
	29,01,000		29,01,000

The assets and liabilities as on 1.4.2017 were as follows :

	₹
Fixed assets (WDV)	6,00,000
Stock	4,00,000
Investment in 13% government securities	6,00,000
Outstanding subscription	15,000
Prepaid insurance	2,000
Sundry creditors	1,25,000
Subscription received in advance	20,000
Gratuity fund	2,00,000

The following adjustments are to be made while drawing-up accounts :

- (i) Subscription received in advance as on 31st March, 2018 was ₹ 22,000.
- (ii) Outstanding subscription as on 31st March, 2018 was ₹ 9,500.
- (iii) Outstanding expenses as on 31.3.2018 are salaries ₹ 12,000 and electricity ₹ 18,000.
- (iv) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31st March, 2018.
- (v) The WDV of assets sold net as on 1-04-2017 was ₹ 15,000.
- (vi) Depreciation is to be provided at the rate 10% on assets.
- (vii) A sum of ₹ 25,000 received in December 2017 as entrance donation from an applicant was to be refunded as he has not fulfilled the requisite membership qualifications. The refund was made on 15.4.2018.
- (viii) Purchases made during the year amounted ₹ 18,00,000.
- (ix) The value of closing stock was ₹ 2,40,000.
- (x) The club as a matter of policy, charges off to income and expenditure account all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.
- (xi) Repair and maintenance includes ₹ 40,000 of sports material purchased on April 1st, 2017, depreciation to be charged @ 20% p.a. on sports material.

You are required to prepare an Income and Expenditure Account for the year ended 31st March, 2018 and the Balance Sheet as on 31st March, 2018 along with necessary workings.

5. (a) Leena Transport Limited purchased from Ethnic Motors, 4 tempos costing ₹ 2,75,000 each on the hire purchase system on 1.1.2016. Payment was to be made ₹ 2,00,000 down and the balance in 3 equal annual instalments payable on 31.12.2016, 31.12.2017 and 31.12.2018 together with interest @ 12% p.a.
- Leena Transport Ltd. write off depreciation at the rate of 10% p.a. on the diminishing balance. It paid the instalment due at the end of the first year, i.e., 31.12.2016, but could not pay the next on 31.12.2017.
- Ethnic Motors decided to takeover the 2 tempos and to leave the other 2 tempos with the purchaser on 1.1.2018, adjusting the value of the 2 tempos (taken over) against the amount due on 31.12.2017. The tempos takeover were valued on the basis of 15% depreciation annually. Show the necessary accounts in the books of Leena Transport Ltd. for the years 2016, 2017 and 2018.
- (b) Mr. Ashok had 12% debentures of face value of ₹ 100 each of M/s XYZ Ltd. as current investments. He provides the following details relating to the investments :
- 1.04.2017 Opening balance 18,000 debentures costing at ₹ 98 each
- 1.06.2017 Purchased 9,000 debentures @ ₹ 120 each cum interest.
- 1.09.2017 Sold 13,500 debentures @ ₹ 110 each cum interest
- 01.12.2017 Sold 9,000 debentures @ ₹ 105 each ex interest
- 31.01.2018 Purchased 13,500 debentures @ ₹ 100 each ex-interest
- 31.03.2018 Market value of the investments @ ₹ 105 each.
- Interest due dates are 30th June and 31st December.
- Mr. Ashok closes his books on 31.03.2018. Show investment account in the books of Mr. Ashok assuming FIFO method is followed.

6. Amit, Sumit and Jatin were partners sharing profits and losses in the ratio of 2:2:1. Their balance sheet as on 1.1.2018 stood as follows :

Liabilities	₹	Assets	₹
Capital Accounts :		Fixed assets	55,000
Amit 30,000		Inventory	10,000
Sumit 25,000		Trade receivables	20,000
Jatin 20,000	75,000	Cash and bank	8,000
Reserves	8,000		
Trade payables	10,000		
	93,000		93,000

On 1st July, 2018 Jatin died. His representatives agreed that :

- Goodwill of the firm be valued at ₹ 10,000.
- Fixed assets be written down by ₹ 5,000 and
- In lieu of profits, Jatin should be paid at the rate of 10% per annum on his capital as on 1.1.2018.

Current years (2018) profit after charging depreciation of ₹ 5,500 (₹ 3,500 related to the 1st half) was ₹ 10,000. The year-end figures (31-12-2018) of inventory, trade receivables, trade payables and cash and bank balances were respectively ₹ 13,000, ₹ 22,000, ₹ 28,000 and ₹ 5,218. The particulars regarding their drawings are given below :

	Upto 1-7-2018 ₹	After 1-7-2018 ₹
Amit	2,000	1,000
Sumit	2,000	1,000
Jatin	1,000	—

The profit of the firm is evenly spread over the year and Jatin 's executors shall avail the maximum benefit as per Partnership Act.

Prepare the balance sheet of the firm as on 31st December, 2018 assuming, that final settlement to Jatin's executors was made on 31st December, 2018.

7. Attempt any four of the following :

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- (a) Following items appear in the Trial Balance of Satish Limited as on 31st March, 2018.

Particulars	Amount (₹)
9,000 Equity shares of ₹ 100 each	9,00,000
Capital Reserves (including ₹ 80,000 being profit on sale of plant)	1,80,000
Securities Premium	80,000
Capital Redemption Reserve	60,000
General Reserve	2,10,000
Profit and Loss Account (Cr. Balance)	1,30,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books of Satish Ltd.

- (b) Write any four disadvantages of Pre-packaged Accounting Software.

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- (c) A fire occurred in the premises of M/s Garden Springs & Co., on 30th September 2017. From the following particulars relating to the period from 1st April 2017 to 30th September 2017, you are required to ascertain the amount of claim to be filed with the insurance company for the loss of stock. The company has taken an insurance policy for ₹ 97,500 which is subject to average clause. The value of goods salvaged was estimated at ₹ 35,100. The average rate of gross profit was 20% throughout the period.

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	Particulars	Amount in (₹)
(i)	Opening stock	1,56,000
(ii)	Purchases made	3,12,000
(iii)	Wages paid (including wages for the installation of a machine - ₹ 6,500)	97,500
(iv)	Sales	4,03,000
(v)	Goods taken by the Proprietor (sales value)	32,500
(vi)	Cost of goods sent to consignee on 20 th Sept., 2017, lying unsold with them	23,400
(vii)	Free Samples Distributed - Cost	3,250

- (d) Two traders A and B buy goods from one another, each allowing the other 1 month's credit. At the end of 3 months, the accounts rendered are as follows :

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	Goods sold by A to B		Goods sold by B to A
	₹		₹
July 18	1000	July 23	800
Aug. 15	1200	Aug. 24	600
Sept. 16	1500		

Calculate the date upon which the balance should be paid so that no interest is due either to A or B.

Consider earliest due date as base date and treat fraction of day as next full day.

- (e) Please explain briefly the two benefits and two limitations of Accounting Standards for an accountant.

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