

**LAP**

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 also required to answer any five questions from the remaining six questions.

Wherever necessary, suitable assumptions may be made and disclosed by way of note forming part of the answer.

Working notes should form part of the respective answers.

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 questions answered shall be ignored.

**Marks**

1. Answer the following questions : 4×5  
=20  
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- (a) With reference to AS 4 “Contingencies and events occurring after the balance sheet date”, state whether the following events will be treated as contingencies, adjusting events or non-adjusting events occurring after balance sheet in case of a company which follows April to March as its financial year.
- (i) A major fire has damaged the assets in a factory on 5<sup>th</sup> April, 5 days after the year end. However, the assets are fully insured and the books have not been approved by the Directors.

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- (ii) A suit against the company's advertisement was filed by a party on 10<sup>th</sup> April, 10 days after the year end claiming damages of ₹ 20 lakhs.
- (iii) It sends a proposal to purchase an immovable property for ₹ 30 lakhs in March. The book value of the property is ₹ 20 lakhs as on year end date. However, the deed was registered as on 15<sup>th</sup> April.
- (iv) The terms and conditions for acquisition of business of another company have been decided by March end. But the financial resources were arranged in April and amount invested was ₹ 40 lakhs.
- (v) Theft of cash of ₹ 2 lakhs by the cashier on 31<sup>st</sup> March but was detected the next day after the financial statements have been approved by the Directors.

(b) M/s AB Ltd. is in the process of finalizing its account for the year ended 31<sup>st</sup> March, 2015. The company seeks your advice on the following:

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- (i) The company's sale tax assessment for assessment year 2012-13 has been completed on 14<sup>th</sup> February, 2015 with a demand of ₹ 5.40 crore. The company paid the entire due under protest without prejudice to its right of appeal. The company files its appeal before the appellate authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of ₹ 3.70 crore.

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(ii) The company has entered into a wage agreement in May 2015 whereby the labour union has accepted a revision in wage from June 2014. The agreement provides that the hike till May 2015 will not be paid to the employees but will be settled to them at the time of retirement. The company agrees to deposit the arrears in Government Bonds by September 2015.

(c) M/s ABC Ltd. purchased fixed assets for ₹ 50,00,000. Government grant received towards it is 20%. Residual value is ₹ 8,00,000 and useful life is 8 years. Assumed depreciation is on the basis of Straight Line Method. Asset is shown in the Balance Sheet net of grant. After one year, grant becomes refundable to the extent of ₹ 7,00,000 due to non-compliance of certain conditions.

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Pass Journal entries for 2<sup>nd</sup> year in the books of the company.

(d) M/s Power Track Ltd. purchased a plant for US \$ 50,000 on 31<sup>st</sup> October, 2015 payable after 6 months. The company entered into a forward contract for 6 months @ ₹ 64.25 per Dollar. On 31<sup>st</sup> October, 2015 the exchange rate was ₹ 61.50 per Dollar.

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You are required to recognise the profit or loss on forward contract in the books of the company for the year ended 31<sup>st</sup> March, 2016.

2. 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 31<sup>st</sup> March, 2015, they decide to amalgamate and form a new firm M/s PQR & Co., wherein P, Q and R would be partners sharing profits and

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losses in the ratio of 3:2:1. The Balance Sheets of two firms on the above date are as under :

| Liabilities    | P & Co.<br>(₹) | R & Co.<br>(₹) | Assets        | P & Co.<br>(₹) | R & Co.<br>(₹) |
|----------------|----------------|----------------|---------------|----------------|----------------|
| Capitals :     |                |                | Fixed assets: |                |                |
| P              | 2,50,000       | —              | Building      | 50,000         | 60,000         |
| Q              | 1,80,000       | 2,20,000       |               |                |                |
| R              |                | 1,20,000       | Plant &       |                |                |
|                |                |                | Machinery     | 1,60,000       | 1,70,000       |
| Reserves       | 60,000         | 1,50,000       |               |                |                |
|                |                |                | Office        |                |                |
| Sundry         |                |                | equipment     | 50,000         | 46,000         |
| Creditors      | 1,30,000       | 1,36,000       |               |                |                |
|                |                |                | Current       |                |                |
| Due to P & Co. | —              | 1,00,000       | assets :      |                |                |
|                |                |                | Stock - in -  |                |                |
| Bank Overdraft | 80,000         | —              | trade         | 1,20,000       | 1,40,000       |
|                |                |                | Sundry        |                |                |
|                |                |                | Debtors       | 1,60,000       | 2,00,000       |
|                |                |                | Bank          |                |                |
|                |                |                | balance       | 40,000         | 1,00,000       |
|                |                |                | Cash in hand  | 20,000         | 10,000         |
|                |                |                | Due to R &    |                |                |
|                |                |                | Co.           | 1,00,000       | —              |
|                | 7,00,000       | 7,26,000       |               | 7,00,000       | 7,26,000       |

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

- (a) Building of P & Co. was valued at ₹ 1,50,000.
- (b) Plant & Machinery of P & Co. was valued at ₹ 2,75,000 and that of R & Co. at ₹ 2,50,000.
- (c) All stock in trade is to be appreciated by 20%.
- (d) Goodwill of P & Co. was valued at ₹ 1,20,000 and of R & Co. at ₹ 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 ₹ 15,000 in respect of debtors of P & Co. and ₹ 30,000 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.

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3. (a) Following is the summarized Balance Sheet of M/s Complicated Ltd. as 12  
on 31<sup>st</sup> March, 2016 :

| Liabilities                                             | Amount<br>(₹)    |
|---------------------------------------------------------|------------------|
| Equity shares of ₹ 10 each fully paid up                | 12,50,000        |
| Bonus shares                                            | 1,00,000         |
| Share option outstanding Account                        | 4,00,000         |
| Revenue Reserve                                         | 15,00,000        |
| Securities Premium                                      | 2,50,000         |
| Profit & Loss Account                                   | 1,25,000         |
| Capital Reserve                                         | 1,00,000         |
| Revaluation Reserve                                     | 1,00,000         |
| Unpaid dividends                                        | 1,00,000         |
| 12% Debentures (Secured)                                | 18,75,000        |
| Advance from related parties (Unsecured)                | 10,00,000        |
| Current maturities of long term borrowings              | 16,50,000        |
| Application money received for allotment due for refund | 2,00,000         |
|                                                         | <b>86,50,000</b> |
| Assets                                                  | Amount<br>(₹)    |
| Fixed Assets                                            | 46,50,000        |
| Current Assets                                          | 40,00,000        |
|                                                         | <b>86,50,000</b> |

The Company wants to buy back 25000 equity shares of ₹ 10 each, on 1<sup>st</sup> April, 2016 at ₹ 20 per share. Buy back of shares is duly authorised by its Articles and necessary resolution has been passed by the Company towards this. The payment for buy back of shares will be made by the Company out of sufficient bank balance available shown as part of Current Assets.

Comment with your calculations, whether buy back of shares by the Company is within the provisions of the Companies Act, 2013. If yes, pass necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares.

- (b) Mention the ways by which Redeemable Debentures may be redeemed under Companies Act, 2013.

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4. From the following particulars, prepare a Statement of Affairs and the Deficiency Account for submission to official liquidator of Sun City Development Ltd., which went into liquidation on 31<sup>st</sup> March, 2016.

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| Liabilities                                                                                                 | (₹)       | (₹)       |
|-------------------------------------------------------------------------------------------------------------|-----------|-----------|
| 6,00,000 Equity shares of ₹ 10 each, ₹ 8 paid-up                                                            |           | 48,00,000 |
| 6% 2,00,000 Preference shares of ₹ 10 each                                                                  | 20,00,000 |           |
| less : call in arrear                                                                                       | 1,00,000  | 19,00,000 |
| 5% Debentures having a floating charge on the assets (interest paid up to 30 <sup>th</sup> September, 2015) |           | 20,00,000 |
| Mortgage on Land & Building                                                                                 |           | 16,00,000 |
| Trade Payable                                                                                               |           | 53,10,000 |
| Wage Payable                                                                                                |           | 4,00,000  |
| Secretary's Salary Payable @ ₹ 10,000 p.m.                                                                  |           | 60,000    |
| Managing Director's Salary Payable @ ₹ 30,000 p.m.                                                          |           | 1,20,000  |

| Assets                                                               | Estimated to produce<br>(₹) | Book value<br>(₹) |
|----------------------------------------------------------------------|-----------------------------|-------------------|
| Land & Building                                                      | 26,00,000                   | 24,00,000         |
| Plant & Machinery                                                    | 26,00,000                   | 40,00,000         |
| Tools & Equipments                                                   | 80,000                      | 4,00,000          |
| Patents & Copyrights                                                 | 6,00,000                    | 10,00,000         |
| Inventories                                                          | 14,80,000                   | 17,40,000         |
| Investments in the hand of a Bank<br>for an Overdraft of ₹ 38,00,000 | 34,00,000                   | 36,00,000         |
| Trade Receivables                                                    | 12,00,000                   | 18,00,000         |

On 31<sup>st</sup> March, 2011 the Balance Sheet of the Company showed a General Reserve of ₹ 8,00,000 accompanied by a debit balance of ₹ 5,00,000 in the Profit & Loss Account.

In 2012 the Company made a profit of ₹ 8,00,000 and declared a dividend of 10% on Equity Shares.

The Company suffered a total loss of ₹ 21,80,000 besides loss of stock due to fire to the tune of ₹ 8,00,000 during financial years ending March 2013, 2014 and 2015. For the financial year ended 31<sup>st</sup> March, 2016, accounts were not made.

The cost of winding-up is expected to be ₹ 3,00,000.

- 5 (a) From the following information of Wealth Bank Limited, Prepare Profit and Loss Account for the year ended 31<sup>st</sup> March, 2016 : 10

| Particulars                            | ₹ In Lakhs | Particulars                                 | ₹ In Lakhs |
|----------------------------------------|------------|---------------------------------------------|------------|
| Interest on Cash Credit                | 364        | Interest paid on Recurring Deposits         | 17         |
| Interest on Overdraft                  | 150        | Interest paid on Savings Bank Deposits      | 12         |
| Interest on Term Loans                 | 308        | Auditor's Fees and Allowances               | 24         |
| Income on Investments                  | 168        | Directors' Fees and Allowances              | 50         |
| Interest on Balance with RBI           | 30         | Advertisements                              | 36         |
| Commission on remittances and transfer | 15         | Salaries, allowances and bonus to employees | 248        |
| Commission on Letters of Credit        | 24         | Payment to Provident Fund                   | 56         |
| Commission on Government Business      | 16         | Printing & Stationery                       | 28         |
| Profit on Sale of Land & Building      | 5          | Repairs & Maintenance                       | 10         |
| Loss on exchange transactions          | 10         | Postage, courier & telephones               | 16         |
| Interest paid on Fixed Deposits        | 25         |                                             |            |

**Other Information :**

|                                                  |  | ₹ in lakhs |           |
|--------------------------------------------------|--|------------|-----------|
|                                                  |  | Earned     | Collected |
| (i) Interest on NPA is as follows :              |  |            |           |
| Cash Credit                                      |  | 164        | 80        |
| Term Loans                                       |  | 90         | 20        |
| Overdraft                                        |  | 150        | 50        |
| (ii) Classification of Non-Performing Advances : |  |            |           |
| Standard                                         |  |            | 60        |
| Sub-standard – fully secured                     |  |            | 22        |
| Doubtful assets – fully unsecured                |  |            | 40        |
| Doubtful assets covered fully by security :      |  |            |           |
| Less than 1 year                                 |  |            | 6         |
| More than 1 year upto 3 years                    |  |            | 3         |
| More than 3 years                                |  |            | 2         |
| Loss                                             |  |            | 38        |

## (iii) Investments

Bank should not keep more than 25% of its investment as 'held-for-maturity' investment; the market value of its rest 75% investment is ₹ 3,95,00,000 as on 31.03.2016.

(iv) Provide 35% of the profits towards provision for taxation.

(v) Transfer 20% of the profit to Statutory Reserves.

(b) Write short notes on the following principles and terms of Insurance **6**

Business :

(i) Principle of Indemnity

(ii) Insurable Interest

(iii) Principle of UBERRIMAE FIDEI

(iv) Catastrophic Loss

6. (a) There is transfer / sale among the three departments as below : **8**

Department X sells goods to Department Y at a profit of 25% on cost and to Department Z at 20% profit on cost.

Department Y sells goods to X and Z at a profit of 15% and 20% on sales respectively.

Department Z charges 20% and 25% profit on cost to Departments X and Y respectively.

Department Managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated.

Departmental profits after charging Managers' commission, but before adjustment of unrealised profit are as under :

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|              |          |
|--------------|----------|
| Department X | 1,80,000 |
| Department Y | 1,35,000 |
| Department Z | 90,000   |

Stocks lying at different Departments at the end of the year are as under:

|                            | Dept. X | Dept. Y | Dept. Z |
|----------------------------|---------|---------|---------|
| Transfer from Department X | —       | 75,000  | 57,000  |
| Transfer from Department Y | 70,000  | —       | 60,000  |
| Transfer from Department Z | 30,000  | 25,000  | —       |

Find out the correct departmental profits after charging Managers' commission.

- (b) M/s ABC & Co. has head office at New York (U.S.A.) and branch in Bangalore (India). Bangalore branch is an integral foreign operation of M/s ABC & Co.

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Bangalore branch furnishes you with its trial balance as on 31<sup>st</sup> March, 2015 and the additional information given thereafter :

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|                                      | Dr.                   | Cr.          |
|--------------------------------------|-----------------------|--------------|
|                                      | (Rupees in thousands) |              |
| Stock on 1 <sup>st</sup> April, 2014 | 300                   | —            |
| Purchases and Sales                  | 800                   | 1,200        |
| Sundry Debtors & Creditors           | 400                   | 300          |
| Bills of Exchange                    | 120                   | 240          |
| Wages & Salaries                     | 560                   | —            |
| Rent, Rates & Taxes                  | 360                   | —            |
| Sundry Charges                       | 160                   | —            |
| Computers                            | 240                   | —            |
| Bank Balance                         | 420                   | —            |
| New York Office A/c                  | —                     | 1,620        |
|                                      | <b>3,360</b>          | <b>3,360</b> |

**Additional Information :**

- (a) Computers were acquired from a remittance of US \$ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.
- (b) Unsold stock of Bangalore branch was worth ₹ 4,20,000 on 31<sup>st</sup> March, 2015.
- (c) The rates of exchange may be taken as follows:
- On 01.04.2014 @ ₹ 55 per US \$
  - On 31.03.2015 @ ₹ 60 per US \$
  - Average exchange rate for the year @ ₹ 58 per US \$
  - Conversion in \$ shall be made up to two decimal accuracy.



- (iv) Repairs and maintenance of capital assets
  - (v) Advertisement expenses
  - (vi) Labour welfare expenses
  - (vii) PF/ESI contributions
  - (viii) Carriage inward
- (e) Write short note on 'Suspension of Capitalisation' in context of Accounting Standard 16. 4
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