Roll No. ....   NOV 2015

Total No. of Questions – 7   INTERMEDIATE (IPC) GROUP I - PAPER 1 ACCOUNTING   Total No. of Printed Pages – 12

Time Allowed – 3 Hours   Maximum Marks – 100

PLE

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 respective answer.

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

Marks

4×5 =20

1. (a) M/s Umang Ltd. sold goods through its agent. As per terms of sales, consideration is payable within one month. In the event of delay in payment, interest is chargeable @ 12% p.a. from the agent. The company has not realized interest from the agent in the past. For the year ended 31st March, 2015 interest due from agent (because of delay in payment) amounts to ₹ 1,72,000. The accountant of M/s Umang Ltd. booked ₹ 1,72,000 as interest income in the year ended 31st March, 2015. Discuss the contention of the accountant with reference to Accounting Standard-9. **5**

Marks

(b) In the books of M/s Prashant Ltd., closing inventory as on 31.03.2015 amounts to ₹ 1,63,000 (on the basis of FIFO method). **5**

The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory from the year 2014-15. On the basis of weighted average method, closing inventory as on 31.03.2015 amounts to ₹ 1,47,000. Realisable value of the inventory as on 31.03.2015 amounts to ₹ 1,95,000.

Discuss disclosure requirement of change in accounting policy as per AS-1.

(c) A machinery with a useful life of 6 years was purchased on 1st April, 2012 for ₹ 1,50,000. Depreciation was provided on straight line method for first three years considering a residual value of 10% of cost. **5**

In the beginning of fourth year the company reassessed the remaining useful life of the machinery at 4 years and residual value was estimated at 5% of original cost.

The accountant recalculated the revised depreciation historically and charged the difference to profit and loss account. You are required to comment on the treatment by accountant and calculate the depreciation to be charged for the fourth year.

(d) Briefly explain the treatment of following items as per relevant accounting standards : **5**

- The accountant of Star Limited valued the Goodwill of the company at ₹ 50 lakhs and showed the same as Fixed Asset in Balance Sheet. The corresponding credit was given to Reserves.
- An expense of ₹ 5 crores was incurred on a Machine towards its Repairs and Maintenance. The accountant wants to capitalize the same considering the significance of amount spent.
- A plant was ready for commercial production on 01.04.2014 but could commence actual production only on 01.06.2014. The company incurred ₹ 50 lakhs as administrative expenditure during the period of which 20% was allocable to the plant. The accountant added ₹ 10 lakhs to cost of plant.

 Marks

2\. The Balance Sheet of M/s Clean Ltd. as on 31st March, 2015 was summarized as follows : **16**

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital :		Land & Building	75,00,000
Equity Shares of ₹ 50 each fully paid up	60,00,000	Plant & Machinery	22,00,000
9% Preference Shares of ₹ 10 each fully paid up	40,00,000	Trade Investment	16,50,000
7% Debentures (secured by plant & machinery)	23,00,000	Inventories	9,50,000
8% Debentures	17,00,000	Trade Receivables	18,00,000
Trade Payables	6,00,000	Cash and Bank Balances	3,60,000
Provision for Tax	75,000	Profit & Loss Account	2,15,000
	1,46,75,000		**1,46,75,000**

The Board of Directors of the company decided upon the following scheme of reconstruction duly approved by all concerned parties :

(1) The equity shareholders agreed to receive in lieu of their present holding of 1,20,000 shares of ₹ 50 each as under :

(a) New fully paid equity shares of ₹ 10 each equal to 2/3rd of their holding.

(b) 9% preference shares of ₹ 8 each to the extent of 25% of the above new equity share capital.

(c) ₹ 2,80,000 , 10% debentures of ₹ 80 each.

Marks

(2) The preference shareholders agreed that their ₹ 10 shares should be reduced to ₹ 8 by cancellation of ₹ 2 per share. They also agreed to subscribe for two new equity shares of ₹ 10 each for every five preference shares held.

(3) The taxation liability of the company is settled at ₹ 66,000 and the same is paid immediately.

(4) One of the trade creditors of the company to whom the company owes ₹ 1,00,000 decides to forgo 30% of his claim. He is allotted equity shares of ₹ 10 each in full satisfaction of his balance claim.

(5) Other trade creditors of ₹ 5,00,000 are given option of either to accept fully paid 9% preference shares of ₹ 8 each for the amount due to them or to accept 80% of the amount due to them in cash in full settlement of their claim. Trade creditors for ₹ 3,50,000 accepted preference shares option and rest of them opted for cash towards full settlement of their claim.

(6) Company's contractual commitments amounting to ₹ 6,50,000 have been settled by paying 4% penalty of contract value.

(7) Debenture holders having charge on plant and machinery accepted plant and machinery in full settlement of their dues.

(8) The rate of interest on 8% debentures is increased to 10%. The debenture holders surrender their existing debenture of ₹ 50 each and agreed to accept 10% debenture of ₹ 80 each for every two debentures held by them.

(9) The land and building to be depreciated by 5%.

(10) The debit balance of profit and loss account is to be eliminated.

(11) $1/4^{th}$ of trade receivables and $1/5^{th}$ of inventory to be written off.

Pass Journal Entries and prepare Balance Sheet after completion of the reconstruction scheme in the books of M/s Clean Ltd. as per Schedule III to the Companies Act, 2013.

Marks

3. (a) Prepare cash flow statement of M/s MNT Ltd. for the year ended 31st March, 2015 with the help of the following information : 8

(1) Company sold goods for cash only.

(2) Gross Profit Ratio was 30% for the year, gross profit amounts to ₹ 3,82,500.

(3) Opening inventory was lesser than closing inventory by ₹ 35,000.

(4) Wages paid during the year ₹ 4,92,500.

(5) Office and selling expenses paid during the year ₹ 75,000.

(6) Dividend paid during the year ₹ 30,000 (including dividend distribution tax.)

(7) Bank loan repaid during the year ₹ 2,15,000 (included interest ₹ 15,000)

(8) Trade payables on 31st March, 2014 exceed the balance on 31st March, 2015 by ₹ 25,000.

(9) Amount paid to trade payables during the year ₹ 4,60,000.

(10) Tax paid during the year amounts to ₹ 65,000 (Provision for taxation as on 31.03.2015 ₹ 45,000).

(11) Investments of ₹ 7,00,000 sold during the year at a profit of ₹ 20,000.

(12) Depreciation on fixed assets amounts to ₹ 85,000.

(13) Plant and machinery purchased on 15th November, 2014 for ₹ 2,50,000.

(14) Cash and Cash Equivalents on 31st March, 2014 ₹ 2,00,000.

(15) Cash and Cash Equivalents on 31st March, 2015 ₹ 6,07,500.

Marks

(b) Mr. Yash and Mr. Harsh are partners in a firm. They drawn the following amounts from the firm during the year ended 31.03.2015 : 8

Date	Amount (₹)	Drawn by
01.05.2014	75,000	Mr. Yash
30.06.2014	20,000	Mr. Yash
14.08.2014	60,000	Mr. Harsh
31.12.2014	50,000	Mr. Harsh
04.03.2015	75,000	Mr. Harsh
31.03.2015	15,000	Mr. Yash

Interest is charged @ 10% p.a. on all drawings. Calculate interest chargeable from each partner by using Average due date system. (Consider 1st May as base date)

4. (a) A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount : 8

	₹
Turnover in last financial year	6,75,000
Standing charges in the last financial year	1,14,750

Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.

Increase in turnover expected 30%.

To achieve additional sales, trader has to incur additional expenditure of ₹ 42,500.

Marks

(b) SALE Limited was incorporated on 01.08.2014 to take-over the business of a partnership firm w.e.f. 01.04.2014. The following is the extract of Profit and Loss Account for the year ended 31.03.2015 : 8

Particulars	Amount (₹)	Particulars	Amount (₹)
To Salaries	1,20,000	By Gross Profit	6,00,000
To Rent Rates & Taxes	80,000		
To Commission on Sales	21,000		
To Depreciation	25,000		
To Interest on Debentures	32,000		
To Director Fees	12,000		
To Advertisement	36,000		
To Net Profit for the Year	2,74,000		
	6,00,000		**6,00,000**

(i) SALE Limited initiated an advertising campaign which resulted increase in monthly average sales by 25% post incorporation.

(ii) The Gross profit ratio post incorporation increased to 30% from 25%.

You are required to apportion the profit for the year between pre-incorporation and post-incorporation, also explain how pre-incorporation profit is treated in the accounts.

Marks

5. Ms. Naina, Ms. Radha and Ms. Khushi were partners in a firm sharing profits and losses in the ratio of 4:3:2. Balance Sheet of the firm as on 31-03-2014 was as follows : **16**

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts :		Plant &	4,26,000
Naina	3,00,000	Machinery	
Radha	2,25,000	Stock	1,85,800
Khushi	1,50,000	Debtors	1,30,500
Current Accounts :		Bank Balance	92,700
Naina	25,000		
Radha	12,500		
Khushi	18,750		
Creditors	1,03,750		
	8,35,000		**8,35,000**

On 1st April 2014, Ms. Naina retired. On her retirement goodwill is valued at ₹ 1,80,000. Ms. Radha and Ms. Khushi do not wish to raise Goodwill account in the books.

Ms. Naina drew her balance of current account on 2nd April, 2014 and it is agreed to pay balance of her capital account over a period of two years by half yearly installments with interest at 10% per annum.

On 1st Oct. 2014 Ms. Asmita (Daughter of Radha) admitted as a partner. Ms. Radha surrendered one third of her share of profit and loss in favour of Asmita and also transferred one third of her capital to Ms. Asmita. Ms. Asmita was manager in the firm with annual salary of ₹ 16,000, prior to admission as a partner.

Marks

The other bank transactions during the financial year 2014-15 were as follows :

		(₹)
(1)	Payment to creditors	7,75,000
(2)	Received from debtors	11,25,000
(3)	Expenses paid	11,250
(4)	Asmita's salary paid	8,000
(5)	Partner's Drawing :	
	Ms. Radha	50,000
	Ms. Khushi	41,250
	Ms. Asmita	11,250

(6) First installment with interest paid to Ms. Naina on 1st Oct., 2014.

(7) Plant & Machinery sold at ₹ 9,000 on 3rd April, 2014 (Cost ₹ 10,000 & Book value ₹ 7,000)

(8) Balances as on 31st March, 2015 : Debtors ₹ 1,50,000, Creditors for purchases ₹ 1,25,000, Creditors for expenses ₹ 10,000 and Stock ₹ 1,71,250.

(9) Depreciation is to be written off on Plant & Machinery ₹ 30,350.

(10) Second installment with interest paid to Ms. Naina on 1st April, 2015.

You are required to prepare :

(a) Ms. Naina's loan account,

(b) Partners' capital account,

(c) Partners' current account,

(d) Bank Account, and

(e) Balance Sheet as on 31st March, 2015 in the books of the firm.

Marks

6. (a) The following information of M/s. TT Club are related for the year ended 31st March, 2015 : **6**

(1)

Balances	As on 01-04-2014 (₹)	As on 31-3-2015 (₹)
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

(2) Subscription received during the year ₹ 3,75,000

(3) Payments for Sports Material during the year ₹ 2,25,000

You are required to :

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2015 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2015.

(b) A Limited purchased 5000 equity shares (face value 100 each) of Allianz Limited for ₹ 105 each on 1st April, 2014. The shares were quoted cum dividend. On 15th May, 2014, Allianz Limited declared & paid dividend of 2% for year ended 31st March, 2014. On 30th June, 2014 Allianz Limited issued bonus shares in ratio of 1:5. On 1st October, 2014 Allianz Limited issued rights share in the ratio of 1:12 @ 45 per share. A limited subscribed to half of the rights issue and the balance was sold at ₹ 5 per right entitlement. The company declared interim dividend of 1% on 30th November, 2014. Right shares were not entitled to dividend. The company sold 3000 shares on 31st December, 2014 at 95 per share. The company A Ltd. incurred 2% as brokerage while buying and selling shares. **10**

You are required to prepare Investment Account in books of A Ltd.

Marks

7. Attempt any **four** out of the following : 4×4 =16

(a) Prepare the General ledger adjustment account in creditor's ledger for the year ending 31st March, 2015 from the following information : 4

Sundry creditors as on 01.04.2014 ₹ 2,30,000.

Total purchases amounted to ₹ 8,25,000 including purchase of trade investment for ₹ 45,000 (face value ₹ 50,000). The total cash purchases were 60% more than the credit purchases.

Cash paid to creditors during the year was 50% of the aggregate of the opening creditors and credit purchases for the period. Creditors allowed a cash discount of ₹ 8,000.

A Cheque paid to creditors ₹ 7,000 was dishonored.

Goods returned to suppliers ₹ 11,000.

Bills receivables amounting to ₹ 30,000 endorsed in favour of a creditor in the month of February, 2015.

(b) Describe the conditions to be satisfied for Amalgamation in the nature of merger as per AS-14. 4

(c) Anand purchased goods from Amirtha, the average due date for payment in cash is 10.08.2015 and the total amount due is ₹ 67,500. How much amount should be paid by Anand to Amirtha, if total payment is made on following dates and interest is to be considered at the rate of 12% p.a. 4

(i) On average due date.

(ii) On 25th August, 2015.

(iii) On 30th July, 2015.

Marks

(d) A company sold 20% of the goods on cash basis and the balance on credit basis. Debtors are allowed 1½ month's credit and their balance as on 31.03.2015 is ₹ 1,25,000. Assume that the sale is uniform through out the year. Calculate the credit sales and total sales of the company for the year ended 31.03.2015. 4

(e) What are the disadvantages of using an Enterprise Resource Planning package ? 4