

November - 2019

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

NOV 2019

[Signature]
02/11/19

Roll No.

Total No. of Questions – 7

Time Allowed – 3 Hours

Total No. of Printed Pages – 15

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

Working notes should form part of the answer.

1. (a) From the following information of XYZ Limited, calculate cash and cash equivalent as on 31-03-2019, as per AS-3. **5**

Particulars	Amount (₹)
Balance as per the Bank Statement	25,000
Cheque issued but not presented in the Bank	15,000
Short Term Investment in liquid equity shares of ABC Limited	50,000
Fixed Deposit created on 01-11-2018 and maturing on 15-04-2019	75,000
Short Term Investment in highly liquid Sovereign Debt Mutual Fund on 01-03-2019	1,00,000
Bank Balance in a Foreign Currency Account in India	\$ 1,000
(Conversion Rate : On the day of deposit – ₹ 69/USD As on 31-03-2019 – ₹ 70/USD)	

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(b) Given the following information of M/s. ABC Ltd.

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- (i) Goods of ₹ 80,000 were sold on 10-03-2019 but at the request of the buyer these were delivered on 10-04-2019.
- (ii) On 25-01-2019 goods of ₹ 2,00,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-03-2019.
- (iii) ₹ 2,40,000 worth of goods were sold on approval basis on 1-12-2018. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-1-2019 and no approval or disapproval received for the remaining goods till 31-3-2019.
- (iv) Apart from the above, the company has made cash sales of ₹9,60,000 (gross). Trade discount of 5% was allowed on the cash sales.

You are required to advise the accountant of M/s. ABC Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9 for the year ending 31-3-2019.

(c) Shyan Limited commenced a construction contract on 01-04-2018.

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The company expended ₹ 500 crores in 2018-19 for 40% work. The total estimated cost of the project is ₹ 1,250 crores. Compute (i) Revenue, (ii) Expense, (iii) Provision for loss and (iv) Profit or loss to be recognized in the statement of Profit and Loss A/c. as per AS-7 for the year ending 31-03-2019 if :

- (1) It is fixed price contract of ₹ 1,200 crores.
- (2) It is cost plus contract of 20%.

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(d) With reference to AS-10, classify the items under the following heads : **5**

HEADS

- (i) Purchase Price of PPE
- (ii) Directly attributable cost of PPE or
- (iii) Cost not included in determining the carrying amount of an item of PPE.

ITEMS

- (1) Import duties and non-refundable purchase taxes.
- (2) Initial delivery and handling costs.
- (3) Costs of testing whether the asset is functioning properly, after deducting the net proceeds.
- (4) Initial operating losses, such as those incurred while demand for the output of an item builds up.
- (5) Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity.
- (6) Trade discounts and rebates.
- (7) Costs of relocating or reorganizing part or all of the operations of an enterprise.
- (8) Installation and assembly costs.
- (9) Cost of site preparation.
- (10) Administration and other general overhead costs.

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2. A Limited and B Limited amalgamate to form a new company AB Limited. **16**

The financial position of these companies as on the date of amalgamation was as under :

Particulars	Amount	Amount
	A Ltd.	B Ltd.
Equity and Liabilities :		
Shareholders' Fund		
(a) Equity share capital of ₹ 100 each	5,00,000	2,50,000
(b) 9% Preference Share Capital of ₹ 100 each	3,00,000	2,00,000
(c) General Reserve	1,50,000	1,40,000
(d) Profit & Loss Account	1,36,800	80,500
Non-Current Liabilities :		
12% Debentures	2,00,000	—
Secured Loan	—	2,00,000
Current Liabilities :		
Trade Payables	3,17,500	2,00,800
	16,04,300	10,71,300

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Assets :		
<u>Non-Current Assets</u>		
Fixed Assets :		
– Land and Building	2,50,000	1,90,000
Plant and Machinery	1,75,000	2,00,000
Furniture	75,000	50,000
– Intangible Assets (Goodwill)	2,00,000	
Non-Current Investments :	–	–
<u>Current Assets :</u>		
Inventories	1,20,000	1,00,000
Trade Receivables	4,21,000	3,00,000
Bank Balance	3,40,000	1,80,000
Cash in hand	23,300	51,300
	16,04,300	10,71,300

The terms of Amalgamation are as under :

- (1) All assets and liabilities are to be taken at book value except inventory and trade receivables for which provision of 5% and 7.5% respectively is required.
- (2) Issue of 5 preference share of ₹ 20 each in AB Limited @ ₹ 18 paid up at a premium of ₹ 4 per share for each preference share held in both the companies.
- (3) Issue of 6 equity shares of ₹ 20 each in AB limited @ ₹ 18 paid up at a premium of ₹ 4 per share for each equity share held in both the companies.

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- (4) In addition cash should be paid to the equity shareholders of both the companies as is required to adjust the rights of the shareholders in accordance with the intrinsic value of shares of both the companies.
- (5) Issue of such amount of fully paid 15% debentures in AB limited as is sufficient to discharge the 12% debentures in A Limited.
- (6) Trade receivable of A Limited includes ₹ 25,000 due from B Ltd.
- (i) Prepare necessary ledger accounts in the books of A limited to close their book.
- (ii) Show necessary Journal entries in the books of AB Ltd. to give effect to the above transactions.
3. (a) Prepare cash flow for ABC Ltd., using Direct Method for the year ending 31-03-2019 from the following information : **10**
- (1) Sales for the year amounted to ₹ 270 Lakh out of which 50% was cash sales.
- (2) Purchases for the year amounted to ₹ 60 lakh out of which credit purchases were 80%.
- (3) Administrative expenses amounted to ₹ 18 lakh. Salary of ₹ 16 lakh was charged to profit and loss account for the year. Salary of ₹ 4 lakh was outstanding as on 31-03-2019. (Salary does not form part of Administrative expenses)
- (4) The company has 15% debentures of ₹ 10 lakh, which it redeemed during the year at a premium of 10% by issue of equity shares of ₹ 9 lakh towards redemption and the balance was paid in cash. Debenture Interest was also paid during the year.

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- (5) Dividend paid during the year amounted to ₹ 12 lakh. (including dividend distribution tax)
- (6) Investment costing ₹ 10 lakh were sold at a profit of ₹ 2.50 lakh.
- (7) Income tax payable for the year was ₹ 80,000.
- (8) Depreciation of 25% is charged by the company on opening balance of Plant and Machinery. At the year end one old plant costing ₹ 5,00,000 (WDV 2,00,000) was sold for ₹ 3,50,000. The purchases were also made at year end.
- (9) The following balances are also provided :

	₹ in Lakh 31-03-2018	₹ in Lakh 31-03-2019
Debtors	40	45
Creditors	20	23
Bank	5	—
Plant & Machinery	50	70
Provision for tax	1	0.7

- (b) From the following details, find out the average due date of the bills issued by A to B : **6**

Date of Bill	Amount (₹)	Usance of the Bill
29 th January, 2018	10,000	1 month
20 th March, 2018	8,000	2 months
12 th July, 2018	14,000	1 month
10 th August, 2018	12,000	2 months

Base date to be taken shall be the earliest due date.

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4. Prepare the Income & Expenditure Account of the Entertainment Club for the year ending 31st March, 2019 and Balance Sheet on that date from the following information :

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RECEIPTS AND PAYMENT ACCOUNT OF ENTERTAINMENT CLUB

For the year ending on 31st March, 2019

Receipts	₹	Payments	₹
To Balance b/f (cash)	25,000	By Rent and Rates	89,250
To Subscriptions :		By Furniture purchased (1-4-2018)	80,000
2017-18 13,350		By Creditors for Sports Materials	71,000
2018-19 4,20,000		By Purchases for Sports Materials	20,000
2019-20 <u>12,000</u>	4,45,350	By Cost of prizes awarded	23,450
To Sales of Sports Materials	34,000	By Match expenses	38,200
To Entrance Fees	50,000	By Miscellaneous expenses	1,28,300
To General Donation	25,750	By Balance C/d	1,49,300
To Donation for prize fund	15,500		
To Interest on prize fund Investments	2,000		
To Miscellaneous receipts	1,900		
	5,99,500		5,99,500

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Additional Information :

Particulars	31 st March, 2018	31 st March, 2019
Sports materials	25,000	28,000
Furniture	2,50,000	?
5% Prize fund investments	80,000	?
Creditors for sports materials	7,500	15,250
Subscription in arrears (17-18)	23,750	?
Prize fund	80,000	?
Rent paid in advance	—	4,750
Outstanding rent	3,750	—

- Book value of sports materials sold was ₹ 30,000.
- Depreciation on furniture is to be provided @ 10%.
- Half of the entrance fee is to be capitalized.
- There are 1520 members, each paying an annual subscription @ ₹ 300.
- Subscription received in advance on 31-3-2018 were ₹ 9,000 (For 2018-19).

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5. (a) ABC Ltd. has insured itself under a loss of profit policy for ₹ 3,30,000 **8**

with indemnity period of 8 months under average clause. A fire occurred in the factory on 01-01-2019 and normal business was affected upto 30-04-2019.

From the following information, prepare a Statement of Claim under the policy :

	₹
Actual Turnover over the period of dislocation (01-01-2019 to 30-4-2019)	50,000
Turnover for 12 months immediately preceding the date of fire (01-01-2018 to 31-12-2018)	10,00,000
Turnover for corresponding period in 12 months immediately preceding the date of fire (01-01-2018 to 30-04-2018)	4,50,000
Turnover for last financial year	12,00,000
Net Profit for last financial year	3,00,000
Uninsured Standing charges	18,000
Insured Standing charges for the last financial year	60,000

Following increases are approved in the policy :

(i) Increase in G.P. rate by 2%

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(ii) Increase in turnover by 10%

There was an additional cost of working ₹ 20,000 during dislocation period. Due to this additional cost there was a saving of ₹ 5,000 in insured standing charges during the indemnity period and but for this additional cost the turnover during the period of dislocation would have been only ₹ 35,000.

(b) XYZ Limited held on 1st April, 2018, 1000 9% Government Securities at ₹ 90,000. (Face Value of Security ₹ 100 each) : Three month's interest had accrued on the above date. On 1st May, the company purchased the same Government Securities of the face value of ₹ 80,000 at ₹ 95 cum-interest. On 1st June, ₹ 60,000 face value of the security was sold at ₹ 94 cum-interest. Interest on the security was paid each year on 30th June and 31st December and was credited by the bank on the same date. On 30th September ₹ 40,000 face value of the Govt. securities were sold at ₹ 97 cum-interest. On 1st December, the company purchased the same security ₹ 10,000 at par ex-interest. On 1st March, the company sold ₹ 10,000 face value of the government securities at ₹ 95 ex-interest.

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You are required to draw up the 9% Government Security Account in the books of XYZ Limited. FIFO method shall be followed. Calculation shall be made to the nearest rupee or multiple thereof.

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6. X, Y, and Z are partners of the firm XYZ & Co., sharing profits and losses in the ratio of 5 : 3 : 2. Following is the Balance Sheet of the firm as at 31-3-2019 : 16

Liabilities	Amount (₹)	Assets	Amount (₹)
Partner's Capital Accounts		Goodwill	2,00,000
X	5,00,000	Building	9,50,000
Y	2,50,000	Machinery	7,00,000
Z	2,00,000	Furniture	2,50,000
Investment fluctuation reserve	2,00,000	Investments (market Value ₹ 1,25,000)	1,00,000
General Reserve	95,000	Stock	5,50,000
Long-term loan	10,45,000	Sundry debtors	5,00,000
Bank overdraft	3,60,000	Profit and Loss A/c	50,000
Sundry Creditors	6,50,000		
	33,00,000		33,00,000

It was decided that Y would retire from the partnership on 1-4-2019 and M would be admitted as a partner on the same date. Following adjustments are agreed amongst the partners for the retirement/admission :

- (i) Goodwill is to be valued at ₹ 6,00,000, but the same will not appear as an asset in the books of the firm.
- (ii) Building and machinery are to be revalued at ₹ 10,00,000 and ₹ 6,40,000 respectively.

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- (iii) Investments are to be taken over by Y at the market value.
- (iv) Provision for doubtful debts is to be maintained at 15% on Sundry debtors.
- (v) The capital of the reconstituted firm will be ₹ 15,00,000 to be contributed by the partners X, Y and M in their new profit sharing ratio of 2 : 2 : 1.
- (vi) Surplus funds, if any will be used to pay the bank overdraft.
- (vii) Amount due to retiring partner Y will be transferred to his loan account.

Prepare :

- (1) Revaluation Account
- (2) Capital Accounts of the partners; and
- (3) Balance Sheet of the firm after reconstitution.

7. Answer any 4 out of below 5 questions.

- (a) What is an Enterprise Resource Planning (ERP) Software ? What are the factors which you will take into consideration while choosing an ERP software ? 4
- (b) PQR Investments Ltd., wants to re-classify its investments in accordance with AS 13 State the values, at which the investments have to be reclassified in the following cases : 4
 - (i) Long term investments in Company A, costing ₹ 10 lakhs are to be re-classified as current. The company had reduced the value of these investments to ₹ 8 lakhs to recognize a permanent decline in value. The fair value on date of transfer is ₹ 8.50 lakhs.

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- (ii) Long term investments in Company B, costing ₹ 5 lakhs are to be re-classified as current. The fair value on date of transfer is ₹ 6 lakhs and book value is ₹ 5 lakhs.
- (iii) Current investment in Company C, costing ₹ 8 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is ₹ 9 lakhs.
- (iv) Current investment in Company D, costing ₹ 12 lakhs are to be re-classified as long term. The market value on date of transfer is ₹ 11 Lakhs.

You are required to advise M/s. PQR Investments Ltd., the correct treatment in light of relevant accounting standard.

- (c) On 1st January 2016 M/s KMR acquired a machine on hire purchase 4
from M/s PQR on the following terms :

- (1) Cash price of the Van was ₹ 2,40,000.
- (2) The down payment at the time of signing the contract was ₹ 96,000.
- (3) The balance amount is to be paid in 3 equal annual instalments plus interest.
- (4) Interest is chargeable @ 8% p.a.

On this basis prepare the H.P. Interest Suspense Account and Account of M/s PQR in the books of the purchaser.

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- (d) (1) Under what circumstances does the necessity for valuation of Goodwill in a partnership firm arise. **4**
- (2) List four methods of valuation of Goodwill.

- (e) XYZ Ltd. proposes to declare 10% dividend out of General Reserves due to inadequacy of profits in the year ending 31-03-2019. **4**

From the following particulars ascertain the amount that can be utilized from general reserves, according to the Companies Rules, 2014 :

8,00,000 Equity Shares of ₹ 10 each fully paid up	80,00,000
General Reserves	25,00,000
Revaluation Reserves	6,50,000
Net profit for the year	1,42,500

Average rate of dividend during the last five years has been 12%.

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