INTERMEDIATE (IPC)
GROUP I - PAPER 1
ACCOUNTING

MAY 2018

Roll No. ....

Total No. of Questions – **6**

Total No. of Printed Pages – **15**

Time Allowed – **3** Hours

Maximum Marks – **100**

ALGY

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 **four** questions from the remaining **five** questions.

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 question(s) answered shall be ignored.

Working notes should form part of the answer.

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

Marks

1. (a) On 01.04.2014, XYZ Ltd. received Government grant of ₹ 100 Lakhs for an acquisition of new machinery costing ₹ 500 lakhs. The grant was received and credited to the cost of the asset. The life span of the machinery is 5 years. The machinery is depreciated at 20% on WDV method. **4×5 =20**

 Marks

The company had to refund the entire grant in 2nd April, 2017 due to non-fulfilment of certain conditions which was imposed by the government at the time of approval of grant.

How do you deal with the refund of grant to the government in the books of XYZ Ltd., as per AS12 ?

(b) ABC Ltd. borrowed US $ 5,00,000 on 01/01/2017, which was repaid as on 31/07/2017. ABC Ltd. prepares financial statement ending on 31/03/2017. Rate of Exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under :

01/01/2017	1 US $	= ₹ 68.50
31/03/2017	1 US $	= ₹ 69.50
31/07/2017	1 US $	= ₹ 70.00

You are required to pass necessary journal entries in the books of ABC Ltd. as per AS 11.

(c) Rohit Ltd. has provided the following information :

Particulars	**₹**
Depreciation as per accounting records	2,50,000
Depreciation as per tax records	5,50,000
Unamortized preliminary expenses as per tax record	40,000

There is adequate evidence of future profit sufficiency. How much deferred tax asset/liability should be recognised as transition adjustment when the tax rate is 50% ?

Marks

(d) M/s PQR Ltd. is in the process of finalising its accounts for the year ended 31st March, 2018. The company seeks your advice on the following :

(i) Goods worth ₹ 5,00,000 were destroyed due to flood in September, 2015. A claim was lodged with insurance company. But no entry was passed in the books for insurance claim in the financial year 2015-16. In March, 2018, the claim was passed and the company received a payment of ₹ 3,50,000 against the claim. Explain the treatment of such receipt in final account for the year ended 31st March, 2018.

(ii) Company created a provision for bad and doubtful debts at 2.5% on debtors in preparing the financial statements for the year 2017-18.

Subsequently, on a review of the credit period allowed and financial capacity of the customers, the company decides to increase the provision to 8% on debtors as on 31.03.2018. The accounts were not approved by the Board of Directors till the date of decision. While applying the relevant accounting standard, can this revision be considered as an extra ordinary item or prior period item ?

Marks

2. (a) Mr. Vijay entered into the following transactions of purchase and sale of equity shares of JP Power Ltd. The shares have paid up value of ₹ 10 per share. **2×10 =20**

Date	No. of Shares	Terms
01.01.2016	600	Buy @ ₹ 20 per share
15.03.2016	900	Buy @ ₹ 25 per share
20.05.2016	1000	Buy @ ₹ 23 per share
25.07.2016	2500	Bonus Shares received
20.12.2016	1500	Sale @ ₹ 22 per share
01.02.2017	1000	Sale @ ₹ 24 per share

Additional Information :

(1) On 15.09.2016 dividend @ ₹ 3 per share was received for the year ended 31.03.2016.

(2) On 12.11.2016 company made a right issue of equity shares in the ratio of one share for five shares held on payment of ₹ 20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of the premium of ₹ 3 per share.

(3) Shares are to be valued on weighted average cost basis.

You are required to prepare Investment Account for the year ended 31.03.2016 and 31.03.2017.

Marks

(b) On 30th March, 2018 fire occurred in the premises of M/s Alok & Co. The concern had taken an insurance policy of ₹ 1,20,000 which was subject to the average clause. From the books of accounts, the following particulars are available relating to the period 1st January to 30th March, 2018.

(i)	Stock as per Balance Sheet at 31st December, 2017	₹ 1,91,200
(ii)	Purchases (including purchase of machinery costing ₹ 60,000)	₹ 3,40,000
(iii)	Wages (including wages ₹ 6,000 for installation of machinery)	₹ 1,00,000
(iv)	Sales (including goods sold on approval basis amounting to ₹ 99,000)	₹ 5,50,000

No approval has been received in respect of 2/3rd of the goods sold on approval.

(v) The average rate of gross profit is 20% of sales.

(vi) The value of the salvaged goods was ₹ 24,600

You are required to compute the amount of the claim to be lodged to the Insurance Company.

Marks

3. (a) M/s Delta is a Departmental Store having three departments X, Y and Z. The information regarding three departments for the year ended 31st March, 2018 are given below : 2×10 =20

Particulars	Dept. X	Dept. Y	Dept. Z
	₹	₹	₹
Opening Stock	18,000	12,000	10,000
Purchases	66,000	44,000	22,000
Debtors at end	7,500	5,000	5,000
Sales	90,000	67,500	45,000
Closing Stock	22,500	8,750	10,500
Value of furniture in each Department	10,000	10,000	5,000
Floor space occupied by each Dept. (in sq. ft)	1,500	1,250	1,000
Number of employees in each Department	25	20	15
Electricity consumed by each Department (in units)	300	200	100

Marks

Additional Information :

	Amount (₹)
Carriage inwards	1,500
Carriage outwards	2,700
Salaries	24,000
Advertisement	2,700
Discount allowed	2,250
Discount received	1,800
Rent, Rates and Taxes	7,500
Depreciation on furniture	1,000
Electricity Expenses	3,000
Labour welfare expenses	2,400

Prepare Departmental Trading and Profit & Loss Account for the year ended 31st March, 2018 after providing provision for Bad Debts at 5%.

Marks

(b) Ayan Ltd. invoices goods to its branch at cost plus 33□□%. From the following particulars prepare Branch Stock Account, Branch Stock Adjustment Account and Branch Profit and Loss Account as they would appear in the books of head office.

	₹
Stock at commencement at Branch at invoice Price	3,60,000
Stock at close at Branch at Invoice Price	2,88,000
Goods sent to Branch during the year at invoice price (including goods invoiced at ₹ 48,000 to Branch on 31.03.2018 but not received by Branch before close of the year).	24,00,000
Return of goods to head office (invoice Price)	1,20,000
Credit Sales at Branch	1,20,000
Invoice value of goods pilfered	24,000
Normal loss at Branch due to wastage and deterioration of stock (at invoice price)	36,000
Cash Sales at Branch	21,60,000

Ayan closes its books on 31st March, 2018.

Marks

4. (a) A and B carrying on business in partnership sharing profits and losses equally, wished to dissolve the firm and sell the business to AB Limited Company on 31.03.2018 when the firm's position was as follows : 15

Liabilities	₹	Assets	₹
A's Capital	7,50,000	Land & Buildings	5,00,000
B's Capital	5,00,000	Furniture	2,00,000
Sundry Creditors	3,00,000	Stock	5,00,000
		Debtors	3,30,000
		Cash	20,000
	15,50,000		15,50,000

The arrangement with AB Limited Company was as follows :

(i) Land and Buildings was purchased at 20% more than the book value.

(ii) Furniture and stock were purchased at book value less 15%.

(iii) The Goodwill of the firm was valued at ₹ 2,00,000.

Marks

(iv) The firm's debtors, cash and creditors were not to be taken over, but the company agreed to collect the book debts of the firm and discharge the creditors of the firm as an agent, for which services the company was to be paid 5% on all collections from the firm's debtors and 3% on cash paid to firm's creditors.

(v) The purchase price was to be discharged by the company in fully paid equity shares of ₹ 10 each at a premium of ₹ 2 per share.

The company collected all the amounts from the debtors. The creditors were paid off less by ₹ 5,000 allowed as discount. The company paid the balance due to the vendors in cash.

Prepare the Realisation A/c, the Capital Accounts of the Partners and the Cash Account in the books of the Partnership firm.

(b) Write short notes on extent of liability of LLP and its Partners. 5

5. (a) The promotors of Shiva Ltd. took over on behalf of the company a running business with effect from 1st April 2017. The company got incorporated on 1st August 2017. The annual accounts were made up to 31st March, 2018 which revealed that the sales for the whole year totalled ₹ 2400 lakhs out of which sales till 31st July, 2017 were for ₹ 600 lakhs. Gross profit ratio was 20%. 2×10 =20

Marks

The expenses from 1st April 2017, till 31st March, 2018 were as follows :

Particulars	₹ in Lakhs
Salaries	75
Rent, Rates and Insurance	30
Sundry Office Expenses	72
Traveller's Commission	20
Discount allowed	16
Bad Debts	8
Directors' Fee	30
Tax Audit Fee	16
Depreciation on Tangible Assets	15
Debenture Interest	14

Prepare a statement showing the calculation of profits for the pre-incorporation and Post incorporation periods.

(b) Dheeraj Limited had 5,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

Marks

It was decided by the company to issue the following :

(i) 40,000 Equity Shares of ₹ 10 each at par

(ii) 2,000 12% Debentures of ₹ 100 each.

The issue was fully subscribed and all accounts were received in full. The payment was duly made. The company had sufficient profits. Show journal entries in the books of the company.

6. Answer any **four** from the following : 4×5 =20

(a) Briefly explain the elements of financial statements.

(b) Following are the balances appear in the trial balance of Arya Ltd. as at 31st March, 2018.

Issued and Subscribed Capital :	**₹**
10,000; 10% Preference Shares of ₹ 10 each fully paid.	1,00,000
1,00,000 Equity Shares of ₹ 10 each, ₹ 8 paid up	8,00,000

Reserves and Surplus :

General Reserve	2,40,000
Securities Premium (collected in cash)	25,000
Profit and Loss Account	1,20,000

On 1st April, 2018 the company has made final call @ ₹ 2 each on 1,00,000 Equity Shares. The call money was received by 15th April, 2018. Thereafter the company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 5 shares held and for this purpose, it decided that there should be minimum reduction in free reserves. Pass Journal entries.

(c) Gurudev Limited purchases for immediate cancellation 6,000 of its own 12% debentures of ₹ 100 each on 1st November, 2017. The dates of interest being 31st March, and 30th September. Pass necessary journal entries relating to the cancellation if :

(i) Debentures are purchased at ₹ 98 ex-interest.

(ii) Debentures are purchased at ₹ 98 cum-interest.

Marks

(d) M/s Nathan Limited has three segments namely P, Q and R. The total assets of the company are ₹ 15 crores. Segment P has 4 crores, Segment Q has 6 crores and Segment R has 5 crores. Deferred tax assets included in the assets of each segments are P – ₹ 1 crore, Q – ₹ 0.90 crores and R – ₹ 0.80 crores. The accountant contends that all these three segments are reportable segments. Comment.

(e) Classify the following activities as

(i) Operating Activities, (ii) Investing activities, (iii) Financing activities and (iv) Cash Equivalents.

(1) Cash receipts from Trade Receivables

(2) Marketable Securities

(3) Purchase of investment

(4) Proceeds from long term borrowings

(5) Wages and Salaries paid

(6) Bank overdraft

Marks

(7) Purchase of Goodwill

(8) Interim dividend paid on equity shares

(9) Short term Deposits

(10) Underwriting commission paid
