Roll No. ....

NOV 2018

Total No. of Questions – **6**

Total No. of Printed Pages – **12**

Time Allowed – **3** Hours

Maximum Marks – **100**

IPCE (New Syllabus)

Paper - 1 Accounting

AMGQ

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.

Working notes should form part of the answer.

Marks

1\. (a) Neon Enterprise operates a major chain of restaurants located in different cities. The company has acquired a new restaurant located at Chandigarh. The new restaurant requires significant renovation expenditure. Management expects that the renovations will last for 3 months during which the restaurant will be closed. **4×5 =20**

Management has prepared the following budget for this period –

Salaries of the staff engaged in preparation of restaurant before its opening	₹ 7,50,000
Construction and remodelling cost of restaurant	₹ 30,00,000

Explain the treatment of these expenditures as per the provisions of AS 10 "Property, Plant and Equipment".

(b) (i) ABC Ltd. a Indian Company obtained long term loan from WWW private Ltd., a U.S. company amounting to ₹ 30,00,000. It was recorded at US $1 = ₹ 60.00, taking exchange rate prevailing at the date of transaction. The exchange rate on balance sheet date (31.03.2018) was US $1 = ₹ 62.00.

(ii) Trade receivable includes amount receivable from Preksha Ltd., ₹ 10,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US $1 = ₹ 59.00. The exchange rate on balance sheet date (31.03.2018) was US $1 = ₹ 62.00.

You are required to calculate the amount of exchange difference and also explain the accounting treatment needed in the above two cases as per AS 11 in the books of ABC Ltd.

(c) HIL Ltd. was making provision for non-moving stocks based on no issues having occurred for the last 12 months upto 31.03.2017. The company now wants to make provision based on technical evaluation during the year ending 31.03.2018.

Total value of stock ₹ 120 lakhs

Provision required based on technical evaluation ₹ 3.00 lakhs

Provision required based on 12 months no issues ₹ 4.00 lakhs

You are requested to discuss the following points in the light of Accounting Standard (AS) – 1 :

(i) Does this amount to change in accounting policy ?

(ii) Can the company change the method of accounting ?

(d) The accounting year of Dee Limited ended on 31st March, 2018 but the accounts were approved on 30th April, 2018. On 15th April, 2018 a fire occurred in the factory and office premises. The loss by fire is of such a magnitude that it was not possible to expect the enterprise Dee Limited to start operation again.

State with reasons, whether the loss due to fire is an adjusting or non-adjusting event and how the fact of loss is to be disclosed by the company in the context of the provisions of AS-4 (Revised).

Marks

2. (a) Following transactions of Nisha took place during the financial year 2017-18 : 10

1st April, 2017	Purchased ₹ 9,000 8% bonds of ₹ 100 each at ₹ 80.50 cum-interest. Interest is payable on 1st November and 1st May.
1st May, 2017	Received half year's interest on 8% bonds.
10th July, 2017	Purchased 12,000 equity shares of ₹ 10 each in Moon Limited for ₹ 44 each through a broker, who charged brokerage @ 2%.
1st October, 2017	Sold 2,250 8% bonds at ₹ 81 Ex-interest.
1st November, 2017	Received half year's interest on 8% bonds.
15th January, 2018	Moon Limited made a rights issue of one equity share for every four Equity shares held at ₹ 5 per share. Nisha exercised the option for 40% of her entitlements and sold the balance rights in the market at ₹ 2.25 per share.
15th March, 2018	Received 18% interim dividend on equity shares of Moon Limited.

Prepare separate investment account for 8% bonds and equity shares of Moon Limited in the books of Nisha for the year ended on 31st March, 2018. Assume that the average cost method is followed.

Marks

(b) A fire engulfed the premises of a business of M/S Kite Ltd. in the morning, of 1st October, 2017. The entire stock was destroyed except, stock salvaged of ₹ 50,000. Insurance Policy was for ₹ 5,00,000 with average clause. **10**

The following information was obtained from the records saved for the period from 1st April to 30th September, 2017 :

	₹
Sales	27,75,000
Purchases	18,75,000
Carriage inward	35,000
Carriage outward	20,000
Wages	40,000
Salaries	50,000
Stock in hand on 31st March, 2017	3,50,000

Additional Information :

(1) Sales upto 30th September, 2017, includes ₹ 75,000 for which goods had not been dispatched.

(2) On 1st June, 2017, goods worth ₹ 1,98,000 sold to Hari on approval basis which was included in sales but no approval has been received in respect of 2/3rd of the goods sold to him till 30th September, 2017.

(3) Purchases upto 30th September, 2017 did not include ₹ 1,00,000 for which purchase invoices had not been received from suppliers, through goods have been received in godown.

(4) Past records show the gross profit rate of 25% on sales.

You are required to prepare the statement of claim for loss of stock for submission to the Insurance Company.

Marks

3. (a) Aman, a readymade garment trader, keeps his books of account under single entry system. On the closing on 31st March, 2017 his statement of affairs stood as follows : **15**

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Aman's capital	4,80,000	Building	3,25,000
Loan	1,50,000	Furniture	50,000
Creditors	3,10,000	Motor car	90,000
		Stock	2,00,000
		Debtors	1,70,000
		Cash in hand	20,000
		Cash at bank	85,000
	9,40,000		**9,40,000**

Riots occurred and a fire broke out on the evening of 31st March, 2018, destroying the books of accounts. On that day, the cashier had absconded with the available cash. You are furnished with the following information :

1. Sales for the year ended 31st March, 2018 were 20% higher than the previous year's sales, out of which, 20% sales were for cash. He always sells his goods at cost plus 25%. There were no cash purchases.

2. Collection from debtors amounted to ₹ 14,00,000, out of which ₹ 3,50,000 was received in cash.

Marks

3. Business expenses amounted to ₹ 2,00,000, of which ₹ 50,000 were outstanding on 31st March, 2018 and ₹ 60,000 paid by cheques.

4. Gross profit as per last year's audited accounts was ₹ 3,00,000.

5. Provide depreciation on building and furniture at 5% each and motor car at 20%.

6. His private records and the Bank Pass Book disclosed the following transactions for the year 2017-18 :

	₹
Payment to creditors (paid by cheques)	13,75,000
Personal drawings (paid by cheques)	75,000
Repairs (paid by cash)	10,000
Travelling expenses (paid by cash)	15,000
Cash deposited in bank	7,15,000
Cash withdrawn from bank	1,20,000

7. Stock level was maintained at ₹ 3,00,000 all throughout the year.

8. The amount defalcated by the cashier is to be written off to the Profit and Loss Account.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2018 and Balance Sheet as on that date of Aman. All the workings should form part of the answer.

Marks

(b) Axe Limited has four departments, A,B,C and D. Department A sells goods to other departments at a profit of 25% on cost. Department B sells goods to other department at a profit of 30% on sales. Department C sells goods to other departments at a profit of 10% on cost, Department D sells goods to other departments at a profit of 15% on sales. **5**

Stock lying at different departments at the year-end was as follows :

	Department A	**Department B**	**Department C**	**Department D**
Transfer from Department A	——	45,000	50,000	60,000
Transfer from Department B	50,000	——	——	75,000
Transfer from Department C	33,000	22,000	——	——
Transfer from Department D	40,000	10,000	65,000	——

Departmental managers are entitled to 10% commission on net profit subject to unrealized profit on departmental sales being eliminated.

Departmental profits after charging manager's commission, but before adjustment of unrealized profit are as under :

	₹
Department A	2,25,000
Department B	3,37,500
Department C	1,80,000
Department D	4,50,000

Calculate the correct departmental profits after charging Manager's commission.

Marks

4. E, F and G were partners in a firm, sharing profits and losses in the ratio of 3:2:1, respectively. Due to extreme competition, it was decided to dissolve the partnership on 31st December, 2017. The balance sheet on that date was as follows : **20**

Liabilities		₹	Assets	₹
Capital accounts :			Machinery	1,54,000
E	1,13,100		Furniture & fittings	25,800
F	35,400		Investments	5,400
G	31,500	1,80,000	Stock	97,700
Current accounts :			Debtors	56,400
E	26,400		Bank	29,700
G	6,000	32,400	Current account : F	18,000
Reserves		1,08,000		
Loan account : G		15,000		
Creditors		51,600		
		3,87,000		**3,87,000**

The realization of assets is spread over the next few months as follows :

February, Debtors, ₹ 51,900; March, Machinery, ₹ 1,39,500; April, Furniture, etc. ₹ 18,000; May, G agreed to take over investment at ₹ 6,300; June, Stock, ₹ 96,000.

Dissolution expenses, originally provided, were ₹ 13,500, but actually amounted to ₹ 9,600 and were paid on 30th April. The partners decided that after creditors were settled for ₹ 50,400, all cash received should be distributed at the end of each month in the most equitable manner.

You are required to prepare a statement of actual cash distribution as received using "Maximum loss basis" method.

Marks

5. (a) Sun Limited took over the running business of a partnership firm M/s A & N Brothers with effect from 1st April, 2017. The company was incorporated on 1st September, 2017. The following profit and loss account has been prepared for the year ended 31st March, 2018. **12**

Particulars	₹	Particulars	₹
To salaries	1,33,000	By Gross Profit b/d	7,50,000
To rent	96,000		
To carriage outward	75,000		
To audit fees	12,000		
To travelling expenses	66,000		
To commission on sales	48,000		
To printing and stationery	24,000		
To electricity charges	30,000		
To depreciation	80,000		
To advertising expenses	24,000		
To preliminary expenses	9,000		
To Managing Director's remuneration	8,000		
To Net Profit c/d	1,45,000		
	7,50,000		**7,50,000**

Marks

Additional Information :

1. Trend of sales during April, 2017 to March, 2018 was as under :

April, May	₹ 85,000 per month
June, July	₹ 1,05,000 per month
August, September	₹ 1,20,000 per month
October, November	₹ 1,40,000 per month
December onwards	₹ 1,50,000 per month

2. Sun Limited took over a machine worth ₹ 7,20,000 from A&N Brothers and purchased a new machine on 1st February, 2018 for ₹ 4,80,000. The company decides to provide depreciation @ 10% p.a.

3. The company occupied additional space from 1st October, 2017 @ rent of ₹ 6,000 per month.

4. Out of travelling expenses, ₹ 30,000 were incurred by office staff while remaining expenses were incurred by salesmen.

5. Audit fees pertains to the company.

6. Salaries were doubled from the date of incorporation.

You are required to prepare a statement apportioning the expenses between pre and post incorporation periods and calculate the profit/ (loss) for such periods.

Marks

(b) A Company had issued 1,000 12% debentures of ₹ 100 each redeemable at the company's option at the end of 10 years at par or prior to that by purchase in open market or at ₹ 102 after giving 6 months notice. On 31st December, 2016, the accounts of the company showed the following balances : **8**

On debenture redemption fund ₹ 53,500 represented by 10% Govt. Loan of a nominal value of ₹ 42,800 purchased at an average price of ₹ 101 and ₹ 10,272 uninvested cash in hand.

On 1st January 2017, the company purchased ₹ 11,000 of its own debentures at a cost of ₹ 10,272.

On 30th June, 2017, the company gave a six months notice to the holders of ₹ 40,000 debentures and on 31st December, 2017 carried out the redemption by sale of ₹ 40,800 worth of Govt. Loan at par and also cancelled the own debentures held by it.

Prepare ledger account of Debenture Redemption Fund Account and Debenture Redemption Fund Investment Account for the year ended 31.12.2017, assuming that, interest on company debentures & Govt. loan was payable on 31st December every year.

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

(a) "Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements." Discuss and explain the benefits of Accounting Standards.

(b) "One of the characteristic of the financial statement is neutrality." Do you agree with this statement ? Explain in brief.

Marks

(c) AXE Limited purchased fixed assets costing \$ 5,00,000 on 1st Jan. 2018 from an American company M/s M&M Limited. The amount was payable after 6 months. The company entered into a forward contract on 1st January 2018 for five months @ ₹ 62.50 per dollar. The exchange rate per dollar was as follows :

On 1st January, 2018 ₹ 60.75 per dollar

On 31st March, 2018 ₹ 63.00 per dollar

You are required to state how the profit or loss on forward contract would be recognized in the books of AXE Limited for the year ending 2017-18, as per the provisions of AS 11.

(d) Explain the conditions when a company should issue new equity shares for redemption of the preference shares. Also discuss the advantages and disadvantages of redemption of preference shares by issue of equity shares.

(e) Amit paid ₹ 50,000 as premium to other partners of the firm at the time of his admission to the firm, with a condition that it will not be dissolved before expiry of five years. The firm is dissolved after three years. Amit claims refund of premium. Explain –

(1) Whether he is entitled to get a refund of the premium ? If yes, list the criteria for the calculation of the amount of the refund.

(2) Also explain any two conditions when no claim in this respect will arise.