INTERMEDIATE (IPC)

Roll No. .... **GROUP I - PAPER 1** **NOV 2014**

ACCOUNTING

Total No. of Questions – **7** Total No. of Printed Pages – **15**

Time Allowed – **3** Hours Maximum Marks – **100**

RIN

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.

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

Marks

1. (a) In the books of Optic Fiber Ltd., plant and machinery stood at ₹ 6,32,000 on 1.4.2013. However on scrutiny it was found that machinery worth ₹ 1,20,000 was included in the purchases on 1.6.2013. On 30.6.2013 the company disposed a machine having book value of ₹ 1,89,000 on 1.4.2013 at ₹ 1,75,000 in part exchange of a new machine costing ₹ 2,56,000. The company charges depreciation @ 20% WDV on plant and machinery. **5**

Marks

You are required to calculate :

(i) Depreciation to be charged to P/L

(ii) Book value of Plant and Machinery A/c as on 31.3.2014

(iii) Loss on exchange of machinery.

(b) Sarita Publications publishes a monthly magazine on the 15^{th} of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2014 issue was made in February 2014. The magazine was published on its scheduled date. It received ₹ 2,40,000 on 10.3.2014 and ₹ 60,000 on 10.4.2014 for the March 2014 issue. **5**

Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2014. What will be the treatment if the publication is delayed till 2.4.2014 ?

(c) Capital Cables Ltd., has a normal wastage of 4% in the production process. During the year 2013-14 the Company used 12,000 MT of raw material costing ₹ 150 per MT. **5**

At the end of the year 630 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books.

Explain in the context of AS 2 the treatment of normal loss and abnormal loss and also find out the amount of abnormal loss if any.

Marks

(d) Blue-chip Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13. 5

(i) Long term investments in Company A, costing ₹ 8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to ₹ 6.5 lakhs to recognize a permanent decline in value. The fair value on date of transfer is ₹ 6.8 lakhs.

(ii) Long term investments in Company B, costing ₹ 7 lakhs are to be re-classified as current. The fair value on date of transfer is ₹ 8 lakhs and book value is ₹ 7 lakhs.

(iii) Current investment in Company C, costing ₹ 10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is ₹ 12 lakhs.

(iv) Current investment in Company D, costing ₹ 15 lakhs are to be re-classified as long term. The market value on date of transfer is ₹ 14 lakhs.

Marks

2. The following information relates to Country Sports Club for the year ended 31.3.2014. You are required to prepare the Receipts and Payments Account for the year ended 31.3.2014 and Balance Sheet as on that date. **16**

Expenditure	₹	Income	₹
To Salaries	3,36,000	By Subscriptions	8,40,000
To Repairs and maintenance	88,000	By Receipts for annual sports 3,25,000 Less : expenses for sports 2,75,000	50,000
To Ground upkeep	1,66,500	By Entrance fees	1,80,000
To Electricity charges	82,600	By Interest on 10% government bond	12,000
To Sports material used	1,48,000	By Rent on hire of club ground	84,000
To Printing and stationery	42,200	By Profit on sale of sports material	10,500
To Groundsman wages	80,000	By Sale of old newspaper	3,500
To Depreciation	1,36,000		
To Prizes distributed (net of fund income)	4,000		
To Surplus carried to capital fund	96,700		
	11,80,000		**11,80,000**

Additional information :

(a)

	Balance as on 1.4.2013 (₹)	Balance as on 31.3.2014 (₹)
Fixed assets (net block)	6,36,000	7,20,000
Stock of sports material	1,24,000	1,38,000
Investment in 10% government bond	1,20,000	1,20,000
Subscription received in advance	64,000	72,000
Outstanding subscriptions	1,24,000	88,000
Outstanding repairs expenses	13,500	24,500
Creditors for sports material	78,600	62,500
Salary paid in advance	32,000	28,000
Prize fund	2,40,000	2,40,000
Prize fund investments	2,36,000	2,36,000
Bank balance	54,500	?

(b) During the year the club purchased sports material of ₹ 1,80,000, out of which 75% was credit purchase.

(c) 25% of the entrance fees is to be capitalized.

(d) As per the Club's policy any excess of expense for prizes distributed over prize fund income is to be charged to income and expenditure a/c and vice versa :-

prize fund income earned during the year ₹ 36,000

prizes distributed during the year ₹ 40,000

(e) Interest on Government bond is received half yearly on 30th June and 31st December each year.

Marks

3. (a) Prepare Cash flow for Gamma Ltd., for the year ending 31.3.2014 from the following information : **6**

(1) Sales for the year amounted to ₹ 135 crores out of which 60% was cash sales.

(2) Purchases for the year amounted to ₹ 55 crores out of which credit purchase was 80%.

(3) Administrative and selling expenses amounted to ₹ 18 crores and salary paid amounted to ₹ 22 crores.

(4) The Company redeemed debentures of ₹ 20 crores at a premium of 10%. Debenture holders were issued equity shares of ₹ 15 crores towards redemption and the balance was paid in cash. Debenture interest paid during the year was ₹ 1.5 crores.

(5) Dividend paid during the year amounted to ₹ 10 crores. Dividend distribution tax @ 17% was also paid.

(6) Investment costing ₹ 12 crores were sold at a profit of ₹ 2.4 crores.

(7) ₹ 8 crores was paid towards income tax during the year.

(8) A new plant costing ₹ 21 crores was purchased in part exchange of an old plant. The book value of the old plant was ₹ 12 crores but the vendor took over the old plant at a value of ₹ 10 crores only. The balance was paid in cash to the vendor.

(9) The following balances are also provided

	₹ in crores	**₹ in crores**
	1.4.2013	**31.3.2014**
Debtors	45	50
Creditors	21	23
Bank	6	

Marks

(b) From the following particulars furnished by Elegant Ltd., prepare the Balance Sheet as on 31st March 2014 as required by Part I, revised Schedule VI of the Companies Act. 10

Particulars		Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each)			50,00,000
Call in Arrears		5000	
Land & Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Stock :			
Raw Materials	2,50,000		
Finished Goods	10,00,000	12,50,000	
Provision for Taxation			3,40,000
Sundry Debtors		10,00,000	
Advances		2,13,500	
Proposed Dividend			3,00,000
Profit & Loss Account			5,00,000
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Preliminary expenses		66,500	
Unsecured Loan			6,05,000
Sundry Creditors (for Goods and Expenses)			10,00,000

Marks

The following additional information is also provided :

(i) Preliminary expenses included ₹ 25,000 Audit Fees and ₹ 3,500 for out of pocket expenses paid to the Auditors.

(ii) 10000 Equity shares were issued for consideration other than cash.

(iii) Debtors of ₹ 2,60,000 are due for more than 6 months.

(iv) The cost of the Assets were :

Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500

(v) The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is inclusive of ₹ 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

(vi) Balance at Bank includes ₹ 10,000 with Global Bank Ltd., which is not a Scheduled Bank.

4. (a) The Balance Sheet of Vaibhav Ltd. as on 31st March 2014 is as follows: **12**

Liabilities	₹	Assets	₹
Equity Shares of ₹ 100 each	2,00,00,000	Fixed Assets	2,50,00,000
6% Cumulative Preference Shares of ₹ 100 each	1,00,00,000	Investments (Market Value ₹ 19,00,000)	20,00,000
5% Debentures of ₹ 100 each	80,00,000	Current Assets	2,00,00,000
Sundry Creditors	1,00,00,000	P & L A/c	12,00,000
Provision for taxation	2,00,000		
TOTAL	**4,82,00,000**	**TOTAL**	**4,82,00,000**

Marks

The following scheme of Internal Reconstruction is sanctioned :

(i) All the existing equity shares are reduced to ₹ 40 each.

(ii) All preference shares are reduced to ₹ 60 each.

(iii) The rate of Interest on Debentures is increased to 6%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.

(iv) Fixed assets are to be written down by 20%.

(v) Current assets are to be revalued at ₹ 90,00,000.

(vi) Investments are to be brought to their market value.

(vii) One of the creditors of the company to whom the company owes ₹ 40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60000 equity shares of ₹ 40 each in full and final settlement of his claim.

(viii) The taxation liability is to be settled at ₹ 3,00,000.

(ix) It is decided to write off the debit balance of Profit & Loss A/c

Pass journal entries and show the Balance Sheet of the company after giving effect to the above.

Marks

(b) From the following particulars, prepare the Creditors' Ledger Adjustment Account as would appear in the General Ledger of Mr. Sathish for the month of March 2014. 4

Date	Particulars
1	Purchase from Mr. Akash ₹ 7,500
3	Paid ₹ 3,000 after adjusting the initial advance in full to Mr. Akash
10	Paid ₹ 2,500 to Mr. Dev towards the purchases made in February in full
12	Paid advance to Mr. Giridhar ₹ 6,000
14	Purchased goods from Mr. Akash ₹ 6,200
20	Returned goods worth ₹ 1,000 to Mr. Akash
24	Settled the balance due to Mr. Akash at a discount of 5%
26	Goods purchased from Mr. Giridhar against the advance paid already
29	Purchased from Mr. Nathan ₹ 3,500
30	Goods returned to Mr. Prem ₹ 1,200. The goods were originally purchased for cash in the month of February 2014.

Marks

5. (a) A fire occurred in the premises of M/s Kailash & Co. on 30th September 2013. From the following particulars relating to the period from 1st April 2013 to 30th September 2013, you are required to ascertain the amount of claim to be filed with the Insurance Company for the loss of stock. The company has taken an Insurance policy for ₹ 75,000 which is subject to average clause. The value of goods salvaged was estimated at ₹ 27,000. The average rate of Gross Profit was 20% throughout the period. 8

	Particulars	Amount in ₹
i.	Opening Stock	1,20,000
ii.	Purchases made	2,40,000
iii.	Wages paid (including wages for the installation of a machine ₹ 5,000)	75,000
iv.	Sales	3,10,000
v.	Goods taken by the Proprietor (Sale Value)	25,000
vi.	Cost of goods sent to Consignee on 20th September 2013, lying unsold with them	18,000
vii.	Free Samples distributed – Cost	2,500

(b) On 1st April 2014, Hasan has 20,000 equity shares of Vayu Ltd., at a book value of ₹ 20 per share (face value of ₹ 10 each). He provides the following information : 8

(i) On 10th June 2014, he purchased another 5,000 shares in Vayu Ltd., @ ₹ 15 per share.

Marks

(ii) On 1st August 2014, Vayu Ltd., issued one bonus share for every five shares held by the shareholders.

(iii) On 31st August 2014, the directors of Vayu Ltd., announced a rights issue which entitle the shareholders to subscribe two shares for every six shares held @ of ₹ 15 per share. The shareholders can transfer their rights in full or in part.

Hasan sold 1/4th of his right shares holding to Harsh for a consideration of ₹ 3 per share and subscribed the rest on 31st of October 2014.

Prepare Investment A/c in the books of Hasan as on 31st October 2014.

6. Anuj, Ayush and Piyush are in partnership sharing profits and losses in the ratio 2 : 2 : 1. Their Balance Sheet as on 31.3.2014 is as follows : **16**

Liabilities **₹**	**₹**	**Assets**	**₹**
Capital account		Fixed assets	
Anuj 3,75,000		Plant	7,87,000
Ayush 2,80,000			
Piyush 2,25,000	8,80,000		
General Reserve	1,88,000	Current assets	
Creditors	2,16,000	Stock	1,03,000
		Debtors	1,56,000
		Bank FD	2,25,000
		Bank balance	13,000
	12,84,000		**12,84,000**

Anuj decided to retire with effect from 1.4.2014.

The remaining partners agreed to share profits and losses equally in future.

The following adjustments were agreed to be made upon retirement of Anuj :

(i) Goodwill was to be valued at 1 year purchase of the average profits of the preceding 3 years on the date of retirement.

The average profits of the past 3 years were as follows :

Year ended	₹	
31.3.2014	3,30,000	(as per draft accounts)
31.3.2013	2,32,000	
31.3.2012	2,20,000	

The partners decided not to raise goodwill account in the books.

(ii) The assets were revalued as follows :

Plant to be depreciated by 10%;

Creditors amounting to ₹ 10,000 were omitted to be recorded;

₹ 6,000 is to be written off from stock;

Provision for doubtful debts to be created @ 5% of the debtors;

Interest accrued on FD amounting to ₹ 9,000 was omitted to be recorded.

The above adjustments were to be made from the profit for the year ended 31.3.2014 before calculation of goodwill.

Marks

(iii) Anuj agreed to take over the bank FD including interest accrued thereon in part payment of his dues and the balance would remain as a loan carrying interest of 8% p.a.

(iv) Ayush and Piyush agreed to bring in sufficient cash to make their capital proportionate and maintain a bank balance of ₹ 1,50,000.

You are required to prepare

(1) Capital accounts of partners as on 1.4.2014 giving effect to the above adjustments.

(2) Balance Sheet as on 1.4.2014 after Anuj's retirement.

7. Answer any **four** from the following :

(a) From the following information state the amount to be capitalized as per AS 10. Give the explanations for your answers. **4**

₹ 5 lakhs as routine repairs and ₹ 1 lakh on partial replacement of a part of a machine.

₹ 10 lakhs on replacement of part of a machinery which will improve the efficiency of a machine.

(b) What are the advantages of customized accounting software ? **4**

(c) What are the differences between Hire Purchase and Installment System ? **4**

 Marks

(d) From the following particulars prepare a current account, as sent by Mr. Ram to Mr. Siva as on 31st October 2014 by means of product method charging interest @ 5% p.a. **4**

2014	Particulars	₹
1st July	Balance due from Siva	750
15th August	Sold goods to Siva	1250
20th August	Goods returned by Siva	200
22nd Sep	Siva paid by cheque	800
15th Oct	Received cash from Siva	500

(e) Kishanlal has made the following sales to Babulal. He allows a credit period of 10 days beyond which he charges interest @ 12% per annum. **4**

Date of Sales	Amount (₹)
26-05-14	12,000
18-07-14	18,000
02-08-14	16,500
28-08-14	9,500
09-09-14	15,500
17-09-14	13,500

Babulal wants to settle his accounts on 30-9-2014. Calculate the interest payable by him using Average Due Date (ADD). If Babulal wants to save interest of ₹ 588, how many days before 30.9.2014 does he have to make payment ? Also find the payment date in this case.