INTERMEDIATE (IPC) NOV 2017
GROUP I - PAPER 1
ACCOUNTING

Roll No. ....

Total No. of Questions – **7**

Total No. of Printed Pages – **16**

Time Allowed – **3** Hours

Maximum Marks – **100**

FBP

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 who 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.

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 questions(s) answered shall be ignored.

Working notes should form part of the respective answer.

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

Marks

1. (a) ABC Ltd. is installing a new plant at its production facility. It provides you the following information : **5**

Cost of the plant (cost as per supplier's invoice)	₹ 31,25,000
Estimated dismantling costs to be incurred after 5 years	₹ 2,50,000
Initial Operating losses before commercial production	₹ 3,75,000
Initial delivery and handling costs	₹ 1,85,000
Cost of site preparation	₹ 4,50,000
Consultants used for advice on the acquisition of the plant	₹ 6,50,000

Please advise ABC Ltd. on the costs that can be capitalised for plant in accordance with AS 10 : Property, Plant and Equipment.

Marks

(b) A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2017. 5

	₹ per unit
Raw Material X	
Cost price	380
Unloading Charges	20
Freight Inward	40
Replacement cost	300
Chemical Y	
Material consumed	440
Direct Labour	120
Variable Overheads	80

Additional Information :

(i) Total fixed overhead for the year was ₹ 4,00,000 on normal capacity of 20,000 units.

(ii) Closing balance of Raw Material X was 1,000 units and Chemical Y was ₹ 2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when

(a) Net realizable value of Chemical Y is ₹ 800 per unit

(b) Net realizable value of Chemical Y is ₹ 600 per unit

Marks

(c) Fashion Limited is engaged in manufacturing of readymade garments. 5

They provide you the following information on 31st March, 2017 :

(i) On 15th January, 2017 garments worth ₹ 4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31st March, 2017.

(ii) Garments worth ₹ 1,95,000 were sold to Shine boutique on 25th March, 2017 but at the request of Shine Boutique, these were delivered on 15th April, 2017.

(iii) On 1st November, 2016 garments worth ₹ 2,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods up to 31st December, 2016 and no approval or disapproval received for the remaining goods till 31st March, 2017.

You are required to advise the accountant of Fashion Limited, the amount to be recognised as revenue in above cases in the context of AS 9.

(d) What are Accounting Standards ? Explain the issues, with which they deal. 5

Marks

2. M/s Planet Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the balance sheet of the company as on 31st March, 2017 before reconstruction : 16

Particulars	Note No.	Amount (₹ in lakh)
Equity & Liabilities		
Shareholders' Funds		
Share Capital	1	2,100
Reserves & Surplus	2	(783)
Non-Current Liabilities		
Long term Borrowings	3	1,050
Current Liabilities		
Trade Payables	4	153
Other Liabilities	5	36
Total		**2,556**
Assets		
Non-Current Assets :		
Fixed Assets		
Tangible Assets	6	1,125
Current Assets		
Current Investments	7	300
Inventories	8	450
Trade Receivables	9	675
Cash & Cash Equivalents	10	6
Total		**2,556**

 Marks

Notes to Accounts :

		₹ in lakh
(1)	Share Capital	
	Authorised :	
	300 lakh shares of ₹ 10 each	3,000
	12 lakh, 8% Preference Shares of ₹ 100 each	1,200
		4,200
	Issued, Subscribed and Paid up :	
	150 lakh Equity Shares of ₹ 10 each, fully paid up	1,500
	6 lakh 8% Preference Shares of ₹ 100 each, fully paid up	600
		2,100
(2)	Reserves and Surplus	
	Debit balance of Profit & Loss A/c	(783)
(3)	Long Term Borrowings	
	6% Debentures (Secured by Freehold Property)	600
	Director's Loan	450
		1,050
(4)	Trade Payables	
	Trade payables for Goods	153
(5)	Other Liabilities	
	Interest Accrued and Due on 6% Debentures	36
(6)	Tangible Assets	
	Freehold Property	825
	Plant & Machinery	300
		1,125
(7)	Current Investment	
	Investment in Equity Instruments	300
(8)	Inventories	
	Finished Goods	450
(9)	Trade Receivables	
	Trade receivables for Goods	675
(10)	Cash and Cash Equivalents	
	Balance with Bank	6

Marks

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders :

(1) Preference Shares are to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of ₹ 450 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at ₹ 550 lakh.

(6) All investments sold out for ₹ 425 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be alloted.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to ₹ 900 lakh have been settled by paying 8% penalty of contract value.

You are required to :

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Capital Reduction Account, Bank Account; and

(c) Prepare Notes to Accounts on Share Capital and Tangible Assets, immediately after the implementation of internal reconstruction.

Marks

3. (a) On 27th July, 2016, a fire occurred in the godown of M/s. Vijay Exports and most of the stocks were destroyed. However goods costing ₹ 5,000 could be salvaged. Their fire fighting expenses were amounting to ₹ 1,300. From the salvaged accounting records, the following information is available relating to the period from 1.4.2016 to 27.7.2016 : **10**

1.	Stock as per balance sheet as on 31.3.2016	₹ 63,000
2.	Purchases (including purchase of machinery costing ₹ 10,000)	₹ 2,92,000
3.	Wages (including wages paid for installation of machinery ₹ 3,000)	₹ 53,000
4.	Sales (including goods sold on approval basis amounting to ₹ 40,000). No approval has been received in respect of 1/4th of the goods sold on approval.	₹ 4,12,300
5.	Cost of goods distributed as free sample	₹ 2,000

Other Information :

(i) While valuing the stock on 31.3.2016, ₹ 1,000 had been written off in respect of certain slow moving items costing ₹ 4,000. A portion of these goods were sold in June, 2016 at a loss of ₹ 700 on original cost of ₹ 3,000. The remainder of these stocks is now estimated to be worth its original cost.

(ii) Past record shows the normal gross profit rate is 20%.

Marks.

(iii) The insurance company also admitted firefighting expenses. The Company had taken the fire insurance policy of ₹ 55,000 with the average clause.

Compute the amount of claim of stock destroyed by fire, to be lodged to the Insurance Company. Also prepare Memorandum Trading Account to be for the period 1.4.2016 to 27.7.2016 for normal and abnormal items.

(b) M/s Martin Ltd. maintains self balancing ledgers . On the basis of the following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of March, 2017 6

	₹
Debit balance in Debtors Ledger on 01.03.2017	4,36,200
Credit balance in Debtors ledger on 01.03.2017	12,600
Transactions during the month of March, 2017 are:	
Total sales (Including cash sales of ₹ 2,50,000)	18,00,000
Bad debts recovered (written off in the year 2015-16)	1,000
Interest debited for delay in payment	3,500
Sales Returns	40,000
Cash received from Debtors	16,55,000
Bills Receivables received from Debtors	98,000
Bills Receivables dishonoured	6,000
Discount allowed to debtors for prompt payment	1,500
Noting charges on bills dishonoured	300
Bills Receivables endorsed to suppliers	7,000
Credit balance in Debtors Ledger on 31.03.2017	15,400

Marks

4. Following is the summary of Receipts and Payments of Radix Clinic for the year ended 31st March, 2017: 16

	₹
Opening Cash Balance	56,000
Donation Received (including ₹ 50,000 for Building Fund.)	1,55,000
Payment to creditors for Medicines Supply	2,10,000
Salaries	70,000
Purchase of Medical Equipments	1,05,000
Medical Camp Collections	87,500
Subscription Received	3,50,000
Interest on Investments @9% p.a.	63,000
Honorarium to Doctors	1,90,000
Telephone Expenses	6,000
Medical camp Expenses	10,500
Miscellaneous Expenses	7,000

Additional Information :

Sl. No.		01.04.2016 ₹	31.03.2017 ₹
1.	Subscription Due	10,500	15,400
2.	Subscription Received in Advance	8,400	4,900
3.	Stock of Medicine	70,000	1,05,000
4.	Medical Equipments	1,47,000	2,14,200
5.	Building	3,50,000	3,15,000
6.	Creditor for Medicine Supply	63,000	91,000
7.	Investments	7,00,000	7,00,000

You are required to prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March, 2017 and the Balance Sheet as on 31st March, 2017.

Marks

5. (a) The Balance Sheet of Harry Ltd. for the year ending 31st March, 2017 and 31st March, 2016 were summarised as : **12**

	2017 ₹	2016 ₹
Equity Share Capital	1,20,000	1,00,000
Reserves :		
Profit and Loss Account	9,000	8,000
Current Liabilities :		
Trade Payables	8,000	5,000
Income Tax Payable	3,000	2,000
Proposed Dividends	4,000	2,000
	1,44,000	**1,17,000**
Fixed Assets (at W.D.V.)		
Building	19,000	20,000
Furniture & Fixture	34,000	22,000
Cars	25,000	16,000
Long Term Investments	32,000	28,000
Current Assets :		
Inventory	14,000	8,000
Trade Receivables	8,000	6,000
Cash & Bank	12,000	17,000
	1,44,000	**1,17,000**

Marks

The Profit and Loss account for the year ended 31st March, 2017 disclosed :

	₹
Profit before tax	8,000
Income Tax	(3,000)
Profit after tax	5,000
Proposed Dividends	(4,000)
Retained Profit	1,000

Further Information is available:

1. Depreciation on Building ₹ 1,000
2. Depreciation on Furniture & Fixtures for the year ₹ 2,000
3. Depreciation on Cars for the year ₹ 5,000. One car was disposed during the year for ₹ 3,400 whose written down value was ₹ 2,000.
4. Purchase investments for ₹ 6,000.
5. Sold investments for ₹ 10,000, these investments cost ₹ 2,000.

Prepare Cash Flow Statements as per AS-3 (revised) using indirect method.

(b) Explain the special features of hire purchase agreement. 4

Marks

6. A and B were partners of a firm sharing profits and losses in the ratio 2 : 1. **16**

The Balance Sheet of the firm as at 31st March, 2017 was as under :

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Capital Accounts		Plant and Machinery	5,00,000
A	8,00,000	Building	9,00,000
B	4,00,000	Sundry Debtors	2,50,000
Reserves	5,25,000	Stock	3,00,000
Sundry Creditors	2,75,000	Cash	1,50,000
Bills Payable	1,00,000		
	21,00,000		**21,00,000**

They agreed to admit P and Q into the partnership on the following terms :

(i) The firm's goodwill to be valued at 2 years purchase of the weighted average of the profits of the last 3 years. The relevant figures are :

Year ended 31.3.2014 - Profit ₹ 37,000

Year ended 31.3.2015 - Profit ₹ 40,000

Year ended 31.3.2016 - Profit ₹ 45,000

(ii) The value of the stock and Plant & Machinery were to be reduced by 10%.

(iii) Building was to be valued at ₹ 10,11,000.

(iv) There was an unrecorded liability of ₹ 10,000.

(v) A,B,P & Q agreed to share profits and losses in the ratio 3:2:1:1.

Marks

(vi) The value of reserve, the values of liabilities and the values of assets other than cash were not to be altered.

(vii) P and Q were to bring Capitals equal to their shares of profit considering B's Capital as base after all adjustments.

You are required to prepare:

(1) Memorandum Revaluation Account,

(2) Partner's Capital Account and

(3) The Balance Sheet of the newly constructed firm.

7. Answer any **four** :

(a) ERP (Enterprise Resource Planning) package is gaining popularity in big organisations. Briefly explain the advantages and disadvantages of using an ERP Package. 4

(b) The following transactions took place between Abhik and Dipak during 1st January, 2017 to 31st March, 2017 : 4

Date		**₹**
1.1.2017	Balance due to Abhik by Dipak	2,16,000
15.1.2017	Goods sold by Dipak to Abhik	3,50,000
15.2.2017	Cash paid by Abhik to Dipak	1,00,000
15.3.2017	Goods sold by Abhik to Dipak	2,00,000

Marks

Draw up an Account Current upto 31.3.2017 to be rendered by Abhik to Dipak, by means of Product Method, charging interest at 9% per annum. Interest to be calculated to the nearest rupee.

(c) Mr. Aman is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Aman for the financial year 2016-17, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information : 4

On 31st March, 2016

Sundry Assets	₹ 16,65,000
Liabilities	₹ 4,13,000

On 31st March, 2017

Sundry Assets	₹ 28,40,000
Liabilities	₹ 5,80,000
Mr. Aman's drawings for the year 2016-17	₹ 32,000 per month
Income declared to the Income Tax Officer	₹ 9,12,000

During the year 2016-17, one life insurance policy of Mr. Aman was matured and amount received ₹ 50,000 was retained in the business.

State whether the Income Tax Officer's contention is correct. Explain by giving your working.

Marks

(d) A Ltd. decides to absorb B Ltd. The draft Balance Sheet of B Limited is as follows : 4

Liabilities	₹
Share Capital:	
5,000 9% Preference shares of ₹ 100 each (Fully paid up)	5,00,000
12,500 Equity shares of ₹ 100 each (Fully paid up)	12,50,000
Reserves	7,50,000
6% Debentures	5,00,000
Trade payables	2,50,000
Total	**32,50,000**
Assets:	
Sundry Assets	32,50,000
Total	**32,50,000**

A Ltd. has agreed:

(i) To pay ₹ 20 per share in cash to equity shareholders of B Ltd. and will issue six equity shares of ₹ 100 each (Market value ₹ 125) in lieu of every five equity shares held in B Ltd.

(ii) To issue 9% Preference shares of ₹ 100 each, in the ratio of 3 shares of A Ltd for 4 Preference shares in B Ltd.

(iii) To issue 8% debentures at ₹ 96 in lieu of 6% debentures in B Ltd. which are to be redeemed at a premium of 20%.

You are required to calculate the purchase consideration.

Marks

(e) What is self-balancing system ? How certain accounts can be kept secret from the members of the staff, in this system ? **4**
