

REVISION TEST PAPER 3

**PAPER – 1 : ACCOUNTING**

Question No. 1 is compulsory.

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

Working Notes should form part of the answer.

TOTAL HOURS: 3.00

TOTAL TMARKS:100

Question 1

Answer the following:

- (a) A Ltd. had following assets. Calculate depreciation for the year ended 31<sup>st</sup> March, 2020 for each asset as per AS 10 (Revised):
- (i) Machinery purchased for Rs 10 lakhs on 1<sup>st</sup> April, 2015 and residual value after useful life of 5 years, based on 2015 prices is Rs 10 lakhs.
  - (ii) Land for Rs 50 lakhs.
  - (iii) A Machinery is constructed for Rs 5,00,000 for its own use (useful life is 10 years). Construction is completed on 1<sup>st</sup> April, 2019, but the company does not begin using the machine until 31<sup>st</sup> March, 2020.
  - (iv) Machinery purchased on 1<sup>st</sup> April, 2017 for Rs 50,000 with useful life of 5 years and residual value is NIL. On 1<sup>st</sup> April, 2019, management decided to use this asset for further 2 years only.

- (b) On 1<sup>st</sup> April, 2016, Mac Ltd. received a Government Grant of Rs 60 lakhs for acquisition of machinery costing Rs 300 lakhs. The grant was credited to the cost of the asset. The estimated useful life of the machinery is 10 years. The machinery is depreciated @ 10% on WDV basis. The company had to refund the grant in June 2019 due to non-compliance of certain conditions.

How the refund of the grant is dealt with in the books of Mac Ltd. assuming that the company did not charge any depreciation for the year 2019-20.

Pass necessary Journal Entries for the year 2019-20.

- (c) A Limited invested in the shares of XYZ Ltd. on 1<sup>st</sup> December, 2019 at a cost of Rs 50,000. Out of these shares, Rs 25,000 shares were purchased with an intention to hold for 6 months and Rs 25,000 shares were purchased with an intention to hold as long-term Investment.

A Limited also earlier purchased Gold of Rs 1,00,000 and Silver of Rs 30,00,000 on 1<sup>st</sup> April, 2019. Market value as on 31<sup>st</sup> March, 2020 of above investments are as follows:

Shares Rs 47,500 (Decline in the value of shares is temporary.)

Gold Rs 1,80,000

Silver Rs 30,55,000

How above investments will be shown in the books of accounts of M/s A Limited for the year ended 31<sup>st</sup> March, 2020 as per the provisions of AS 13 (Revised)?

- (d) On 15<sup>th</sup> April, 2019 RBM Ltd. obtained a Term Loan from the Bank for Rs 320 lakhs to be utilized as under:

	Rs (in lakhs)
Construction for factory shed	240
Purchase of Machinery	30
Working capital	24

Purchase of Vehicles	12
Advance for tools/cranes etc.	8
Purchase of technical know how	6

In March, 2020 construction of shed was completed and machinery was installed. Total interest charged by the bank for the year ending 31<sup>st</sup> March, 2020 was Rs 40 lakhs.

In the context of provisions of AS 16 'Borrowing Costs', show the treatment of interest and also explain the nature of Assets. **(4 Parts X 5 Marks = 20 Marks)**

**Question 2**

- (a) Vijay & Co. of Jaipur has a branch in Patna to which goods are sent @ 20% above cost. The branch makes both cash & credit sales. Branch expenses are paid direct from Head office and the branch has to remit all cash received into the bank account of Head office. Branch doesn't maintain any books of accounts, but sends monthly returns to the head office.

Following further details are given for the year ended 31st March, 2020:

	Amount (Rs)
Goods received from Head office at Invoice Price	8,40,000
Goods returned to Head office at Invoice Price	60,000
Cash sales for the year 2019-20	1,85,000
Credit Sales for the year 2019-20	6,25,000
Stock at Branch as on 01-04-2019 at Invoice price	72,000
Sundry Debtors at Patna branch as on 01-04-2019	96,000
Cash received from Debtors	4,38,000
Discount allowed to Debtors	7,500
Goods returned by customer at Patna Branch	14,000
Bad debts written off	5,500
Amount recovered from Bad debts previously written off as Bad	1,000
Rent, Rates & taxes at Branch	24,000
Salaries & wages at Branch	72,000
Office Expenses (at Branch)	9,200
Stock at Branch as on 31-03-2020 at cost price	1,25,000

Prepare necessary ledger accounts in the books of Head office by following Stock and Debtors method and ascertain Branch profit.

- (b) M/s Rohan & Sons runs a business of Electrical goods on wholesale basis. The books of accounts are closed on 31<sup>st</sup> March every year. The Balance Sheet as on 31<sup>st</sup> March, 2019 is as follows :

Liabilities	Rs	Assets	Rs
Capital	12,50,000	Fixed Assets	6 50,000
		Closing stock	3,75,000
		Trade Debtors	3,65,000
Trade Creditors	1,90,000	Cash & Bank	1,95,000
Profit & Loss A/c	1,45,000		
	15,85,000		15,85,000

The management estimates the purchase & sales for the year ended 31st March, 2020 as under:

Particulars	Upto 31.01.2020 (Rs)	February 2020 (Rs)	March 2020 (Rs)
Purchases	16,20,000	1,40,000	1,25,000
Sales	20,75,000	2,10,000	1,75,000

All Sales and Purchases are on credit basis. It was decided to invest Rs 1,50,000 in purchase of Fixed assets, which are depreciated @ 10% on book value. A Fixed Asset of book value as on 01.04.2019, Rs 60,000 was sold for Rs 56,000 on 31st March, 2020.

The time lag for payment to Trade Creditors for purchases is one month and receipt from Trade debtors for sales, is two months. The business earns a gross profit of 25% on turnover. The expenses against gross profit amounts to 15% of the turnover. The amount of depreciation is not included in these expenses.

Prepare Trading & profit & Loss Account for the year ending 31st March, 2020 and draft a Balance Sheet as at 31st March, 2020 assuming that creditors are all Trade creditors for purchases and debtors are all Trade debtors for sales and there is no other current asset and liability apart from stock and cash and bank balances.

Also, prepare Cash & Bank account and Fixed Assets account for the year ending 31st March, 2020. **(10+10=20 Marks)**

**Question 3**

- (a) On 1st April, 2019 Mr. H had 30,000 equity shares of ABC Ltd. at book value of Rs 18 per share (Nominal value 10 per share). On 10th June, 2019, H purchased another 10,000 equity shares of the ABC Ltd. at Rs 16 per share through a broker who charged 1.5% brokerage.

The directors of ABC Ltd. announced a bonus and a right issue. The terms of the issues were as follows:

- (i) Bonus shares were declared at the rate of one equity share for every four shares held on 15th July, 2019.
- (ii) Right shares were to be issued to the existing equity shareholders on 31st August, 2019. The company decides to issue one right share for every five equity shares held at 20% premium and the due date for payment will be 30th September, 2019. Shareholders were entitled to transfer their rights in full or in part.
- (iii) No dividend was payable on these issues.

Mr. H subscribed 60% of the rights entitlements and sold the remaining rights for consideration of Rs 5 per share.

Dividends for the year ending 31st March, 2019 was declared by ABC Ltd. at the rate of 20% and received by Mr. H on 31st October, 2019.

On 15th January, 2020 Mr. H sold half of his shareholdings at Rs 17.50 per share and brokerage was charged @1 %.

You are required to prepare Investment account in the books of Mr. H for the year ending 31st March, 2020, assuming the shares are valued at average cost.

- (b) A Fire occurred in the premises of M/s B & Co. on 30th September, 2019. The firm had taken an insurance policy for Rs 1,20,000 which was subject to an average clause. Following particulars were ascertained from the available records for the period from 1st April, 2018 to 30th September, 2019:

	Amount (Rs)
Stock at cost on 1-04-2018	2,11,000
Stock at cost on 31-03-2019	2,52,000
Purchases during 2018-19	6,55,000
Wages during 2018-19	82,000
Sales during 2018-19	8,60,000
Purchases from 01-04-2019 to 30-09-2019 (including purchase of machinery costing Rs 58,000)	4,48,000
Wages from 01-04-2019 to 30-09-2019 (including wages for installation of machinery costing Rs 7,000)	85,000
Sales from 01-04-2019 to 30-09-2019	6,02,000
Sale value of goods drawn by partners (1-4-19 to 30-9-19)	52,000
Cost of Goods sent to consignee on 18 <sup>th</sup> September, 2019 lying unsold with them	44,800
Cost of Goods distributed as free samples(1-4-19 to 30-9-19)	8,500

While valuing the Stock at 31st March, 2019, Rs 8,000 were written off in respect of a slow moving item, cost of which was Rs 12,000. A portion of these goods was sold at a loss of Rs 4,000 on the original cost of Rs 9,000. The remainder of the stock is estimated to be worth the original cost. The value of Goods salvaged was estimated at Rs 35,000.

You are required to ascertain the amount of claim to be lodged with the Insurance Company for the loss of stock. **(10+10=20 Marks)**

**Question 4**

- (a) The following figures have been extracted from the books of Manan Jo Limited for the year ended on 31.3.2020. You are required to prepare the Cash Flow statement as per AS 3 using indirect method.
- (i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was Rs 30 lakhs :
    - (a) Depreciation on Property, Plant & Equipment Rs 7.50 lakhs.
    - (b) Discount on issue of Debentures written off Rs 45,000.
    - (c) Interest on Debentures paid Rs 5,25,000.
    - (d) Book value of investments Rs 4.50 lakhs (Sale of Investments for Rs 4,80,000).
    - (e) Interest received on investments Rs 90,000.
  - (ii) Compensation received Rs 1,35,000 by the company in a suit filed.
  - (iii) Income tax paid during the year Rs 15,75,000.
  - (iv) 22,500, 10% preference shares of Rs 100 each were redeemed on 02-04-2019 at a premium of 5%.
  - (v) Further the company issued 75,000 equity shares of Rs 10 each at a premium of 20% on 30.3.2020 (Out of 75,000 equity shares, 25,000 equity shares were issued to a supplier of machinery)
  - (vi) Dividend for FY 2018-19 on preference shares were paid at the time of redemption.
  - (vii) Dividend on Equity shares paid on 31.01.2020 for the year 2018-2019 Rs 7.50 lakhs

(including dividend distribution tax) and interim dividend paid Rs 2.50 lakhs for the year 2019-2020.

- (viii) Land was purchased on 02.4.2019 for Rs3,00,000 for which the company issued 22,000 equity shares of Rs 10 each at a premium of 20% to the land owner and balance in cash as consideration.
- (ix) Current assets and current liabilities in the beginning and at the end of the years were as detailed below :

	As on 01.04.2019	As on 31.3.2020
	Rs	Rs
Inventory	18,00,000	19,77,000
Trade receivables	3,87,000	3,79,650
Cash in hand	3,94,450	16,950
Trade payables	3,16,500	3,16,950
Outstanding expenses	1,12,500	1,22,700

- (b) Sumit Ltd. (an unlisted company other than AIFI, Banking company, NBFC and HFC) had 8,000, 9% debentures of Rs 100 each outstanding as on 1<sup>st</sup> April, 2019, redeemable on 31<sup>st</sup> March, 2020.

On 1<sup>st</sup> April, 2019, the following balances appeared in the books of accounts:

- Investment in 1,000, 7% secured Govt. bonds of Rs 100 each, Rs 1,00,000.
- Debenture Redemption Reserve is Rs 50,000.

Interest on investments is received yearly at the end of financial year.

1,000 own debentures were purchased on 30<sup>th</sup> March, 2020 at an average price of Rs 96.50 and cancelled on the same date.

On 31<sup>st</sup> March, 2020, the investments were realized at par and the debentures were redeemed. You are required to write up the following accounts for the year ended 31<sup>st</sup> March, 2020.

- (1) 9% Debentures Account.
- (2) Debenture Redemption Reserve Account.
- (3) DRR Investment Account.
- (4) Own Debentures Account.

(10+10=20 Marks)

### Question 5

- (a) On 1<sup>st</sup> April, 2017, Mr. Nilesh acquired a Tractor on Hire purchase from Raj Ltd. The terms of contract were as follows:

- (i) The Cash price of the Tractor was Rs 11,50,000.
- (ii) Rs 2,50,000 were to be paid as down payment on the date of purchase.
- (iii) The Balance was to be paid in annual instalments of Rs 3,00,000 plus interest at the end of the year.
- (iv) Interest chargeable on the outstanding balance was 8% p.a.
- (v) Depreciation @ 10% p.a. is to be charged using straight line method.

Mr. Nilesh adopted the Interest Suspense method for recording his Hire purchase transactions.

You are required to :

Prepare the Tractor account, Interest Suspense account and Raj Ltd.'s account in the books of Mr. Nilesh for the period of hire purchase.

(b) The Books of Arpit Ltd. shows the following Balances as on 31<sup>st</sup> December, 2019:

	Amount (Rs)
6,00,000 Equity shares of Rs 10 each fully paid up	60,00,000
30,000, 10% Preference shares of Rs 100 each, Rs 80 paid up	24,00,000
Securities Premium	6,00,000
Capital Redemption Reserve	18,00,000
General Reserve	35,00,000

Under the terms of issue, the Preference Shares are redeemable on 31<sup>st</sup> March, 2020 at a premium of 10%. In order to finance the redemption, the Board of Directors decided to make a fresh issue of 1,50,000 Equity shares of Rs10 each at a premium of 20%, Rs 2 being payable on application, Rs 7 (including premium) on allotment and the balance on 1<sup>st</sup> January, 2021. The issue was fully subscribed and allotment made on 1<sup>st</sup> March, 2020. The money due on allotment was received by 20<sup>th</sup> March, 2020.

The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are required to pass the necessary Journal Entries and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out on 31<sup>st</sup> March, 2020. **(8+12=20 Marks)**

**Question 6**

Answer any **four** of the following:

(a) Department A sells goods to Department B at a profit of 20% on cost and to Department C at 50% on cost. Department B sells goods to Department A and Department C at a profit of 15% and 10% on sales respectively. Department C sells goods to Department A and Department B at a profit of 10% and 5% on cost respectively.

Stock lying at different departments at the end of the year are as follows:

	Department A (Rs)	Department B (Rs)	Department C (Rs)
Transfer from Department A		1,14,000	60,000
Transfer from Department B	55,000		15,200
Transfer from Department C	52,800	1,11,300	

Calculate Department wise unrealized profit on Stock.

(b) What are the qualitative characteristics of the Financial Statements which improve the usefulness of the information furnished therein?

(c) Following is the draft Profit & Loss Account of X Ltd. for the year ended 31<sup>st</sup> March, 2020:

	Amount (Rs)		Amount (Rs)
To Administrative Expenses	5,96,400	By Balance b/d	7,25,300
To Advertisement Expenses	1,10,500	By Balance from Trading A/c	42,53,650
To Sales Commission	1,05,550	By Subsidies received from Government	3,50,000
To Director's fees	1,48,900		
To Interest on Debentures	56,000		
To Managerial Remuneration	3,05,580		

To Depreciation on Fixed Assets	5,78,530	
To Provision for taxation	12,50,600	
To General Reserve	5,50,000	
To Investment Revaluation Reserve	25,800	
To Balance c/d	16,01,090	
	53,28,950	53,28,950

Depreciation on Fixed Assets as per Schedule II of the Companies Act, 2013 was Rs 6,51,750. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.

(d) Following is the Balance Sheet of M/s. S Traders as on 31<sup>st</sup> March, 2019:

Liabilities	(Rs)	Assets	(Rs)
Capital	1,50,000	Fixed Assets	1,05,000
11% Bank Loan	80,000	Closing stock	76,000
Trade payables	52,000	Debtors	68,000
Profit & Loss A/c	56,000	Deferred Expenditure	24,000
		Cash & Bank	65,000
	3,38,000		3,38,000

Additional Information:

- (i) Remaining life of Fixed Assets is 6 years with even use. The net realizable value of Fixed Assets as on 31<sup>st</sup> March, 2020 is Rs 90,000.
- (ii) Firm's Sales & Purchases for the year ending 31<sup>st</sup> March, 2020 amounted to Rs 7,80,000 and Rs 6,25,000 respectively.
- (iii) The cost & net realizable value of the stock as on 31<sup>st</sup> March, 2020 was, Rs 60,000 and Rs 66,000 respectively.
- (iv) General expenses (including interest on Loan) for the year 2019-20 were Rs 53,800.
- (v) Deferred expenditure is normally amortised equally over 5 years starting from the Financial year 2018-19 i.e. Rs 6,000 per year.
- (vi) Debtors on 31<sup>st</sup> March, 2020 is Rs 65,000 of which Rs 5,000 is doubtful. Collection of another Rs 10,000 debtors depends on successful re-installation of certain products supplied to the customer.
- (vii) Closing Trade payable Rs 48,000, which is likely to be settled at 5% discount.
- (viii) There is a prepayment penalty of Rs 4,000 for Bank loan outstanding.
- (ix) Cash & Bank balances as on 31<sup>st</sup> March, 2020 is Rs 1,65,200.

Prepare Profit & Loss Account for the year ended 31<sup>st</sup> March, 2020 and Balance Sheet as on 31<sup>st</sup> March, 2020 assuming the firm is not a going concern.

(e) Moon Ltd. was incorporated on 1<sup>st</sup> August, 2019 to take over the running business of a partnership firm w.e.f. 1<sup>st</sup> April, 2019. The summarized Profit & Loss Account for the year ended 31<sup>st</sup> March, 2020 is as under:

	Amount (Rs)
Gross Profit	6,30,000

<i>Less: Salaries</i>	<i>1,56,000</i>	
<i>Rent, Rates &amp; Taxes</i>	<i>72,000</i>	
<i>Commission on sales</i>	<i>40,600</i>	
<i>Depreciation</i>	<i>60,000</i>	
<i>Interest on Debentures</i>	<i>36,000</i>	
<i>Director's fees</i>	<i>24,000</i>	
<i>Advertisement</i>	<i>48,000</i>	<i>4,36,600</i>
<i>Net Profit for the year</i>		<i>1,93,400</i>

*Moon Ltd. initiated an advertising campaign which resulted in increase of monthly sales by 25% post incorporation.*

*You are required to prepare a statement showing the profit for the year between pre-incorporation and post-incorporation. Also, explain how these profits are to be treated in the accounts?*  
**(4 Parts X 4 Marks = 16 Marks)**