V'Smart Academy

V'SMART EXAMPREP

CA IPC - Group I

TEST 1 - Accounting (Old Syllabus)

DATE : 16 Feb, 2018	TIME : 3.00 Hours	MARKS : 100
Total No. of Questions: 7	Total no. of pages: 08	

Question no. 1 is compulsory.
Attempt any 5 out of the remaining 6.

Question 1

(a) A limited has sold its building for ₹ 50 lakhs and the purchaser has paid the full price. The Company has given possession to the purchaser. The book value of the building is ₹ 35 lakhs. As at 31st March 2017, documentation and legal formalities are pending. The company has not recorded the sale. It has shown the amount received as advance. Do you agree with this treatment?
What accounting treatment should the buyer give in its financial statements?

(b) CC Ltd., a Pharmaceutical Company, while valuing its finished stock at the year end wants to include interest on Bank Overdraft as an element of cost, for the reason that overdraft has been taken specifically for the purpose of financing current assets like inventory and for meeting day to day working expenses". State your comments on this treatment.

(c)

Give your comments on the following situations, each being independent of the other.

1. Current Investments are valued at ₹ 60 Lakhs, being the cost of acquisition, fair value of these investments on the Balance Sheet date is ₹ 48 Lakhs.
2. Current investments were acquired at a cost of ₹ 86 lakhs whereas their fair market value as on the Balance Sheet Date was ₹ 90 lakhs. Due to insufficiency of profits from operations, the Company would like to recognize the profit on these investments for 'improving' its Financial Statements.

(d) Anjana Ltd. is absorbed by Sanjana Ltd.; the consideration being the takeover of liabilities, the payment of cost of absorption not exceeding ₹ 10,000 (actual cost ₹ 9,000) the payment of the 9% debentures of ₹ 50,000 at a premium of 20% in 8% debentures issued at a premium of 25% at face value and the payment of ₹ 15 per share in cash and allotment of three 11% preference share of ₹ 10 each at a discount of 10% and four equity share of ₹ 10 each. at a premium of 20% fully paid for every five shares in Anjana Ltd. The number of share of the vendor company are 1,50,000 of ₹ 10 each fully paid. Calculate purchase consideration as per Accounting Standard 14.

(4 x 5 = 20 Marks)

Question 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:

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 Investments	7	300
Inventories	8	450
Trade Receivables	9	675
Cash & Cash Equivalents	10	6
Total		2,556

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 payable	
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

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.

(16 Marks)

Question 3:

(a) Ajanta Investment Corporation has done the following transaction in 6% State Government Stock between 1st September 2009 and 31st July 2011 and all these transactions are cum-interest except those marked as ex-interest. Interest is payable half-yearly on 1st February and 1st August. The accounting period ends on 30th June every year:

1st September 2009- Purchased ₹ 10,000 stock @ ₹ 101.50

1st October 2009 - Purchased ₹ 25,000 stock @ ₹ 101

1st November 2009 - Sold ₹ 15,000 stock @ ₹ 103.25

1st November 2009 - Purchased ₹ 5,000 stock @ ₹ 103

15th January 2010 - Sold ₹ 10,000 stock @ ₹ 105 ex-interest

1st March 2010 - Sold ₹ 4,000 stock @ ₹ 102.50

15th July 2010 - Purchased ₹ 5,000 stock @ ₹ 101.25 ex-interest

1st November 2010-Purchased ₹ 5,000 stock @ ₹ 102

15th January 2011 - Sold ₹ 15,000 stock @ ₹ 103

1st July 2011 - Purchased ₹ 2,000 stock @ ₹ 102

Write up the Investment Account in the books of the Corporation, showing the profits and losses on the transactions using the average cost method and also showing the amount of interest for each accounting period duly realized.

(b) Happy Valley Florists Ltd. acquired a delivery van on hire purchase on 01.04.2017 from Ganesh Enterprises. The terms were as follows:

Particulars	Amount (₹)
Hire Purchase Price	180,000
Down Payment	30,000
1st installment payable after 1 year	50,000
2nd installment after 2 years	50,000
3rd installment after 3 years	30,000
4th installment after 4 years	20,000

Cash price of van ₹ 150,000 You are required to calculate Total Interest and Interest included in each instalment.

(8 Marks Each)

***Question* 4:**

Given below are the Balance Sheets of two companies as on 31st December, 2017.

A Limited

Liabilities	**₹**	**Assets**	**₹**
Share Capital: Issued and fully paid up		Patent	1,00,000
50,000 8% Cumulative Preference Shares of ₹ 10 each	5,00,000	Building	5,40,000
1,50,000 Equity shares of ₹ 10 each	15,00,000	Plant and Machinery	15,10,000
General Reserve	7,65,000	Furniture	75,000
Profit and Loss account	1,25,000	Investment	1,55,000
Sundry Creditors	60,000	Stock	3,58,000
		Sundry Debtors	72,000
		Cash and Bank	1,40,000
	29,50,000		**29,50,000**

B Limited

Liabilities	**₹**	**Assets**	**₹**
Share Capital:		Goodwill	62,000
Issued and fully paid		Motor Car	1,26,000
50,000 Shares of ₹ 10 each	5,00,000	Furniture	58,000
Profit and Loss Account	45,000	Stock	2,40,000
Sundry Creditors	31,000	Sundry Debtors	70,000
		Cash and Bank	20,000
	5,76,000		**5,76,000**

It has been agreed that both these companies should be wound up and a new company AB Ltd. should be formed to acquire the assets of both the companies on the following terms and conditions:

1) AB Ltd. is to have an authorized capital of ₹ 36,00,000 divided into 60,000, 8% cumulative preference shares of ₹ 10 each and 3,00,000 equity shares of ₹ 10 each.
2) AB Ltd. to purchase the whole of the assets of A Ltd. (except cash and Bank balances) for ₹ 28,25,000 to be settled as to ₹ 5,75,000 in cash and as to the balance by issue of 1,80,000 equity shares, credited as fully paid, to be treated as valued at ₹ 12.50 each.
3) AB Ltd. is to purchase the whole of the assets of B Ltd. (except cash and bank balances) for ₹ 4,91,000 to be settled as to ₹ 16,000 in cash and as to the balance by issue of 38,000 equity shares, credited as fully paid, to be treated as valued at ₹ 12.50 each.

4) A Ltd. and B Ltd. both are to be wound up, the two liquidators distributing the shares in AB Ltd. in kind among the equity shareholders of the respective companies.
5) The liquidator of A Ltd. is to pay the preference shareholders ₹ 12 in cash for every share held in full satisfaction of their claims.
6) AB Ltd. is to make a public issue of 60,000, 5% cumulative preference shares at a premium of 10% and 30,000 equity shares at the issue price of ₹ 12.50 per share, all amount payable in full on application.

It is estimated that the cost of liquidation (including the liquidators' remuneration) will be ₹ 10,000 in case of A Ltd. and ₹ 5,000 in case of B Ltd. and that the preliminary expenses of AB Ltd. will amount to ₹ 24,000· exclusive of the underwriting commission of ₹ 38,900 payable on the public issue.

You are required to prepare the initial Balance Sheet of AB Ltd. on the basis that all assets other than goodwill are taken over at the book value.

(16 Marks)

Question 5:

(a) The following particulars are obtained from books of Prime Ltd. for the year ended 31st March, 2017:

Particulars	₹	Particulars	₹
Cash Sales	50,000	Bills Receivable dishonoured	5,000
Credit Purchases	5,60,000	Return Inward	17,000
Collection from Debtors	8,50,000	Payment to creditors	3,24,000
Bills Receivable drawn	40,000	Discount allowed	6,000
Discount Received	5,000	Debtor's cheque returned dishonoured	15,000
Cash Purchases	24,000	Credit Sales	9,80,000
Bills Payable Paid	13,000	Bills Receivable Collected	20,000
Recovery of Bad Debts	3,000	Return Outward	7,400
Bills receivable discounted with Bank	16,000	Bills Receivable endorsed to Creditors	15,800
Interest charged on overdue customer's A/c	2,400	Overpayment refunded by Suppliers	1,200
Endorsed Bills Receivable Dishonoured (noting charges ₹ 150)	11,000	Bad debts	2,000
Bills payable accepted	32,000	Opening Balances:	
		Sundry Debtors	1,56,000
		Sundry Creditor	1,70,000

You are required to prepare the Total Debtors Account and Total Creditors Account.

(8 Marks)

(b) Market is full of ready-made accounting softwares. What factors will you consider to choose one of them for your enterprise?

(4 Marks)

(c) Explain the special features of hire purchase agreement.

(4 Marks)

Question 6:

(a) ABC Ltd. gives you the following summarized balance sheets. You are required to prepare Cash Flow Statement by using indirect method as per AS 3 for the year ended 31.03.2015:

Liabilities	***31st March 2016***	***31st March 2017***	***Assets***	***31st March 2016***	***31st March 2017***
	₹	₹		₹	₹
Capital	50,00,000	50,00,000	Plant & Machinery	27,30,000	40,70,000
Retained Earnings	26,50,000	36,90,000		6,10,000	7,90,000
Debentures	—	9,00,000	Less: Depreciation	21,20,000	32,80,000
Current Liabilities					
Trade Payables	8,80,000	8,20,000		23,90,000	28,30,000
Bank Loan	1,50,000	3,00,000		1,50,000	1,90,000
Liability for expenses	3,30,000	2,70,000	Trade Receivables	22,40,000	26,40,000
Dividend payable	1,50,000	3,00,000	Less: Provision	15,20,000	18,20,000
			Cash	11,80,000	15,00,000
			Marketable Securities	20,10,000	19,20,000
			Inventories	90,000	1,20,000
			Prepaid Expenses		
	91,60,000	1,12,80,000		91,60,000	1,12,80,000

Additional Information:

(i) Net profit for the year ended 31st March, 2017, after charging depreciation ₹ 1,80,000 is ₹ 22,40,000.

(ii) Trade Receivables of ₹ 2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account during the year.

(iii) ABC Ltd. declared dividend of ₹ 12,00,000 for the year 2016-2017.

(16 Marks)

Question 7: Answer the following:

(a) On 01-05-2012, Mr. Mishra purchased 800 equity shares of ₹ 10 each in Fillco Ltd. @ ₹ 50 each from a broker who charged 5%. He incurred 20 paisa per 100 as cost of shares transfer stamps. On 31-10-2012, bonus was declared in the ratio 1 : 4. The shares were quoted at ₹ 110 and ₹ 60 per share before and after the record date of bonus shares respectively. On 30-11-2012, Mr. Mishra sold the bonus shares to a broker who charged 5%. You are required to prepare Investment Account in the books of Mr. Mishra for the year ending 31-12-2012 and closing value of investment shall be made at cost or market value whichever is lower.

(b) State with reasons, whether the following statements are true or false:

1. Under the self balancing system the general ledger adjustment account is always opened in the general ledger.
2. Purchase Ledger Adjustment Account under sectional balancing system is also known as Creditors Ledger Control Account.
3. In self balancing system, whenever a balance is transferred from an account in one ledger to that in another, only one entry is recorded through the respective ledger.

(c) Distinguish between (i) the pooling of interests method and (ii) the purchase method of recording transactions relating to amalgamation.

(d) What are the disadvantages of a spreadsheet as an accounting tool?

(4 Marks Each)

ALL THE BEST