

Roll No. .... IPCE (New Syllabus)  
Paper - 1 Accounting

JAN 2021

Total No. of Questions – 6

Total No. of Printed Pages – 15

Time Allowed – 3 Hours

Maximum Marks – 100

## HPR

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

Working notes should form part of the respective answers.

- |  | Marks       |
|--|-------------|
| 1. Answer the following questions :  | 5×4<br>= 20 |
| (a) Darshan Ltd. purchased a Machinery on 1 <sup>st</sup> April, 2016 for ₹130 lakhs (Useful life is 4 years). Government grant received is ₹ 40 lakhs for the purchase of above Machinery.<br><br>Salvage value at the end of useful life is estimated at ₹ 60 lakhs.<br><br>Darshan Ltd. decides to treat the grant as deferred income.<br><br>You are required to calculate the amount of depreciation and grant to be recognised in profit & loss account for the year ending 31 <sup>st</sup> March, 2017, 31 <sup>st</sup> March, 2018, 31 <sup>st</sup> March, 2019 & 31 <sup>st</sup> March, 2020.<br><br>Darshan Ltd. follows straight line method for charging depreciation. |             |

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- (b) Kunal Securities Ltd. wants to reclassify its investments in accordance with AS-13 (Revised). State the values, at which the investments have to be reclassified in the following cases :
- (i) Long term investment in Company A, costing ₹ 10.5 lakhs is to be re-classified as current investment. The company had reduced the value of these investments to ₹ 9 lakhs to recognize a permanent decline in value. The fair value on the date of reclassification is ₹ 9.3 lakhs.
  - (ii) Long term investment in Company B, costing ₹ 14 lakhs is to be re-classified as current investment. The fair value on the date of reclassification is ₹ 16 lakhs and book value is ₹ 14 lakhs.
  - (iii) Current investment in Company C, costing ₹ 12 lakhs is to be re-classified as long term investment as the company wants to retain them. The market value on the date of reclassification is ₹ 13.5 lakhs.
  - (iv) Current investment in Company D, costing ₹ 18 lakhs is to be re-classified as long term investment. The market value on the date of reclassification is ₹ 16.5 lakhs.
- (c) Mr. Jatin gives the following information relating to the items forming part of the inventory as on 31.03.2019. His enterprise produces product P using Raw Material X.
- (i) 900 units of Raw Material X (purchased @ ₹ 100 per unit). Replacement cost of Raw Material X as on 31.03.2019 is ₹ 80 per unit.

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- (ii) 400 units of partly finished goods in the process of producing P. Cost incurred till date is ₹ 245 per unit. These units can be finished next year by incurring additional cost of ₹ 50 per unit.
- (iii) 800 units of Finished goods P and total cost incurred is ₹ 295 per unit.

Expected selling price of product P is ₹ 280 per unit, subject to a payment of 5% brokerage on selling price.

Determine how each item of inventory will be valued as on 31.03.2019.

Also calculate the value of total Inventory as on 31.03.2019.

- (d) Explain briefly the accounting treatment needed in the following cases as per AS 11 as on 31.03.2020.

- (i) Debtors include amount due from Mr. S ₹ 9,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US \$ 1 = ₹ 72.00

US \$ 1 = ₹ 73.50 on 31<sup>st</sup> March, 2020

US \$ 1 = ₹ 72.50 on 1<sup>st</sup> April, 2019

- (ii) Long term loan taken on 1<sup>st</sup> April, 2019 from a U.S. company amounting to ₹ 75,00,000. ₹ 5,00,000 was repaid on 31<sup>st</sup> December, 2019, recorded at US \$ 1 = ₹ 70.50. Interest has been paid as and when debited by the US company.

US \$ 1 = ₹ 73.50 on 31<sup>st</sup> March, 2020

US \$ 1 = ₹ 72.50 on 1<sup>st</sup> April, 2019

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2. (a) XYZ Garage consists of 3 departments : Spares, Service and Repairs, each department being managed by a departmental manager whose commission was respectively 5%, 10% and 10% of the respective departmental profit subject to a minimum of ₹ 5,000 in each case.

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Inter departmental transfers take place at a “loaded” price as follows :

From Spares to Service      5% above cost

From Spares to Repairs      10% above cost

From Repairs to Service      10% above cost

In respect of the year ended March 31<sup>st</sup> 2019 the firm had already prepared and closed the departmental trading and profit and loss account. Subsequently it was discovered that the closing stocks of department had included inter-departmentally transferred goods at “loaded” price instead of the correct cost price.

From the following information, you are required to prepare a statement re-computing the departmental profit or loss :

	<b>Spares</b>	<b>Service</b>	<b>Repairs</b>
	₹	₹	₹
Final Net Profit/Loss (after charging commission)	38,000 (Loss)	50,400 (Profit)	72,000 (Profit)
Inter-departmental transfers included at “loaded” price in the departmental stocks		65,000 (21,000 from Spares and 44,000 from Repairs)	4,202 (from Spares)

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(b) Mr. Prakash furnishes following information for his readymade garments business : **10**

(i) Receipts and Payments during 2019-20 :

<b>Receipts</b>	<b>Amount (₹)</b>	<b>Payments</b>	<b>Amount (₹)</b>
Bank Balance as on 1-4-2019	16,250	Payment to Sundry Creditors	3,43,000
Received from Sundry Debtors	4,81,000	Salaries	75,000
Cash sales	1,70,800	General Expenses	22,500
Capital brought in the business during the year	50,000	Rent and Taxes	11,800
Interest on Investment received	9,750	Drawings	96,000
		Cash Purchases	1,22,750
		Balance at Bank on 31-03-2020	36,600
		Cash in hand on 31-03-2020	20,150
	<b>7,27,800</b>		<b>7,27,800</b>

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(ii) Particulars of other Assets and Liabilities are as follows :

	1 <sup>st</sup> April, 2019	31 <sup>st</sup> March, 2020
	(₹)	(₹)
Machinery	85,000	85,000
Furniture	24,500	24,500
Trade Debtors	1,55,000	?
Trade Creditors	60,200	?
Stock	38,600	55,700
12% Investment	85,000	85,000
Outstanding Salaries	12,000	14,000

(iii) Additional information :

- (1) 20% of Total sales and 20% of total purchases are in cash.
- (2) Of the Debtors, a sum of ₹ 7,200 should be written off as Bad debt and further a reserve for doubtful debts is to be provided @ 2%.
- (3) Provide depreciation @ 10% p.a. on Machinery and Furniture.

You are required to prepare Trading and Profit & Loss account for the year ended 31<sup>st</sup> March, 2020, and Balance Sheet as on that date.

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3. (a) P Ltd. had 8,000 equity shares of K Ltd., at a book value of ₹ 15 per share (face value of ₹ 10 each) on 1<sup>st</sup> April, 2019. On 1<sup>st</sup> September, 2019, P Ltd. acquired another 2,000 equity shares of K Ltd. at a premium of ₹ 4 per share. K Ltd. announced a bonus and right issue for existing shareholders.

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The term of bonus and right issue were :

- (i) Bonus was declared at the rate of two equity shares for every five shares held on 30<sup>th</sup> September, 2019.
- (ii) Right shares are to be issued to the existing shareholders on 1<sup>st</sup> December, 2019. The Company had issued two right shares for every seven shares held at 25% premium on face value. No dividend was payable on these shares. The whole sum being payable by 31<sup>st</sup> December, 2019.
- (iii) Existing shareholders were entitled to transfer their rights to outsiders either wholly or in part.
- (iv) P Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for ₹ 8 per share.
- (v) Dividend for the year ended 31<sup>st</sup> March, 2019 at the rate of 20% was declared by K Ltd. and received by P Ltd. on 20<sup>th</sup> January, 2020.
- (vi) On 1<sup>st</sup> February, 2020, P Ltd. sold half of its shareholdings at a premium of ₹ 4 per share.
- (vii) The market price of share on 31<sup>st</sup> March, 2020 was ₹ 13 per share.

You are required to prepare the Investment account of P Ltd. for the year ended 31<sup>st</sup> March, 2020 and determine the value of shares held on that date, assuming the investment as current investment. Consider average cost basis for ascertainment of cost for equity share sold.

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- (b) A Fire occurred in the premises of M/S MJ & Co., on 31<sup>st</sup> December, 2019. From the following particulars related to the period from 1<sup>st</sup> April 2019 to 31<sup>st</sup> December 2019, 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 ₹ 1,00,000 which is subject to average clause. The value of goods salvaged was estimated at ₹ 31,000. The average rate of gross profit was 20% throughout the period :

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	<b>Particulars</b>	<b>Amount (₹)</b>
(i)	Opening stock as on 1 <sup>st</sup> April, 2019	1,50,000
(ii)	Purchases during the year	4,20,000
(iii)	Goods withdrawn by the proprietor for his self use at Sales Value	10,000
(iv)	Goods distributed as charity at cost	4,000
(v)	Purchases include ₹ 5,000 of Tools purchased, these Tools should have been capitalized.	
(vi)	Wages (include wages paid for the installation of machinery ₹ 6,000)	90,000
(vii)	Sales during the year	6,10,000
(viii)	Cost of goods sent to consignee on 1 <sup>st</sup> November, 2019, lying unsold with the consignee.	25,000
(ix)	Sales Return	10,000

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4. (a) During the year 2019-2020, A Limited (a listed company) made a public issue in respect of which the following information is available : **8**

- (i) No. of partly convertible debentures issued – 1,00,000; face value and issue price ₹ 100 per debenture. (Whole issue was underwritten by X Ltd.)
- (ii) Convertible portion per debenture – 60%, date of conversion – on expiry of 6 months from the date of closing of issue.
- (iii) Date of closure of subscription lists – 1<sup>st</sup> May, 2019, date of allotment – 1<sup>st</sup> June, 2019, rate of interest on debenture – 15% p.a. payable from the date of allotment, value of equity share for the purpose of conversion – ₹ 60 (face value ₹ 10)
- (iv) Underwriting Commission – 2%
- (v) No. of debentures applied for by public – 80,000
- (vi) Interest is payable on debentures half yearly on 30<sup>th</sup> September and 31<sup>st</sup> March each year.

Pass relevant journal entries for all transactions arising out of the above during the year ended 31<sup>st</sup> March, 2020. (including cash and bank entries)

(b) Following information was extracted from the books of S Ltd. for the year ended 31<sup>st</sup> March, 2020 : **12**

- (1) Net profit before taking into account income tax and after taking into account the following items was ₹ 30 lakhs;
  - (i) Depreciation on Property, Plant & Equipment ₹ 7,00,000

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- (ii) Discount on issue of debentures written off ₹ 45,000.
  - (iii) Interest on debentures paid ₹ 4,35,000.
  - (iv) Investment of Book value ₹ 3,50,000 sold for ₹ 3,75,000.
  - (v) Interest received on Investments ₹ 70,000
- (2) Income tax paid during the year ₹ 12,80,000
- (3) Company issued 60,000 Equity Shares of ₹ 10 each at a premium of 20% on 10th April, 2019.
- (4) 20,000, 9% Preference Shares of ₹ 100 each were redeemed on 31<sup>st</sup> March, 2020 at a premium of 5%
- (5) Dividend paid during the year amounted to ₹ 11 Lakhs (including dividend distribution tax)
- (6) A new Plant costing ₹ 7 Lakhs was purchased in part exchange of an old plant on 1<sup>st</sup> January, 2020 . The book value of the old plant was ₹ 8 Lakhs but the vendor took over the old plant at a value of ₹ 6 Lakhs only. The balance amount was paid to vendor through cheque on 30<sup>th</sup> March, 2020.
- (7) Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The inventory according to books on 31.03.2020 was ₹ 14,76,000.
- The inventory on 31.03.2019 was correctly valued at ₹ 13,50,000.

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- (8) Current Assets and Current Liabilities in the beginning and at the end of year 2019-2020 were as :

	<b>As on 1<sup>st</sup> April, 2019 (₹)</b>	<b>As on 31<sup>st</sup> March, 2020 (₹)</b>
Inventory	13,50,000	14,76,000
Trade Receivables	3,27,000	3,13,200
Cash & Bank Balances	2,40,700	3,70,500
Trade Payables	2,84,700	2,87,300
Outstanding Expenses	97,000	1,01,400

You are required to prepare a Cash Flow Statement for the year ended 31<sup>st</sup> March, 2020 as per AS 3 (revised) using the indirect method.

5. (a) The Capital structure of a company BK Ltd., consists of 30,000 Equity Shares of ₹ 10 each fully paid up and 2,000 9% Redeemable Preference Shares of ₹ 100 each fully paid up as on 31.03.2020. The other particulars as at 31.03.2020 are as follows :

**12**

	<b>Amount (₹)</b>
General Reserve	1,20,000
Profit & Loss Account	60,000
Investment Allowance Reserve (not free for distribution as dividend)	15,000
Cash at bank	1,95,000

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(12)

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Preference Shares are to be redeemed at a premium of 10%. For the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve & surplus, subject to the conditions that a sum of ₹ 40,000 shall be retained in General Reserve and which should not be utilized.

Company also sold investment of 4500 Equity Shares in G Ltd., costing ₹ 45,000 at ₹ 9 per share.

Pass Journal entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet as at 31.03.2020 of BK Ltd., after the redemption carried out.

- (b) Jai Ltd. purchased a machine on hire purchase basis from KM Ltd. on the following terms : 8
- (a) Cash price ₹ 1,20,000.
  - (b) Down payment at the time of signing the agreement on 1-1-2016, ₹ 32,433.
  - (c) 5 annual instalments of ₹ 23,100, the first to commence at the end of twelve months from the date of down payment.
  - (d) Rate of interest is 10% p.a.

You are required to calculate the total interest and interest included in each instalment.

Also prepare the Ledger Account of KM Ltd. in the books of Jai Ltd.

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6. Answer any **four** of the following :

4×5

=20

(a) Explain how financial capital is maintained at historical cost ?

Kishore started a business on 1<sup>st</sup> April, 2019 with ₹ 15,00,000 represented by 75,000 units of ₹ 20 each. During the financial year ending on 31<sup>st</sup> March, 2020, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Kishore in the year 2019-20 if Financial Capital is maintained at historical cost.

(b) The following is the Draft Profit & Loss A/c of Brown Ltd. the year ended 31<sup>st</sup> March, 2020 :

	Amount (₹)		Amount (₹)
To Administrative expenses	4,99,200	By Balance B/d	6,27,550
" Advertisement	1,18,200	" Balance from	
" Commission on sales	95,225	Trading A/c.	38,15,890
" Director's Fees	1,35,940	" Subsidies recd.	
" Interest on debentures	28,460	from Govt.	2,50,000
" Managerial remuneration	2,75,550	" Profit on sale of	
" Depreciation on fixed		forfeited shares	20,000
assets	4,82,565		
" Provision of Taxation	11,50,200		
" General Reserve	4,50,000		
" Investment Revaluation			
Reserve	52,800		
" To Balance c/d	14,25,300		
	<b>47,13,440</b>		<b>47,13,440</b>

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(14)

**HPR**

**Marks**

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was ₹ 5,15,675. You are required to calculate the maximum limit of the managerial remuneration as per Companies Act, 2013.

(c) Give Journal Entries in the books of Branch to rectify or adjust the following :

(1) Branch paid ₹ 5,000 as salary to H.O supervisor, but the amount paid by branch has been debited to salary account in the books of branch.

(2) Asset Purchased by branch for ₹ 25,000, but the Asset was retained in H.O Books

(3) A remittance of ₹ 8,000 sent by the branch has not been received by H.O

(4) H.O collected ₹ 25,000 directly from the customer of Branch but fails to give the intimation to branch.

(5) Remittance of funds by H.O. to branch ₹ 5,000 not entered in branch books.

(d) List the Criteria for classification of non-corporate entities as level I Entities for the purpose of application of Accounting Standards as per The Institute of Chartered Accountants of India.

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- (e) Following items appear in the Trial Balance of Star Ltd. as on 31<sup>st</sup> March, 2019 :

Particulars	₹
80,000 Equity shares of ₹ 10 each, ₹ 8 paid-up	6,40,000
Capital Reserve (including ₹ 45,000 being profit on sale of Machinery)	1,10,000
Revaluation Reserve	80,000
Capital Redemption Reserve	75,000
Securities Premium	60,000
General Reserve	2,10,000
Profit & Loss Account (Cr. Balance)	1,00,000

On 1<sup>st</sup> April, 2019, the Company has made final call on Equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2019.

On 1<sup>st</sup> June, 2019, the Company decided to issue to Equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it decided that there should be minimum reduction in free reserves.

Pass necessary journal entries in the Books of Star Ltd.

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