

JUL 2021

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

Total No. of Questions – 6

Total No. of Printed Pages – 16

Time Allowed – 3 Hours

Maximum Marks – 100

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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.

Questions No. 1 is compulsory.

Candidates are also required to answer any **four** questions from the remaining
five questions.

Working notes should form part of the answers.

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1. Answer the following questions :

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- (a) Joy Ltd. purchased 20,000 kilograms of Raw Material @ ₹ 20 per kilogram during the year 2020-21. They have furnished you with the following further information for the year ended 31st March, 2021 :

Particulars	Units	Amount (₹)
Opening Inventory :		
Finished Goods	2,000	1,00,000
Raw Materials	2,200	44,000
Direct Labour		3,06,000
Fixed Overheads		3,00,000
Sales	20,000	11,20,000
Closing Inventory :		
Finished Goods	2,400	
Raw Materials	1,800	

The plant has a capacity to produce 30,000 Units of finished product per annum. However, the actual production of finished products during the year 2020-21 was 20,400 Units. Due to a fall in the market demand, the price of the finished goods in which the raw material has been utilized is expected to be sold @ ₹ 40 per unit. The replacement cost of the raw material was ₹ 19 per kilogram.

You are required to ascertain the value of closing inventory as at 31st March, 2021 as per AS 2.

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- (b) (i) A Limited has contracted with a supplier to purchase machinery which is to be installed at its new plant in four months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were ₹ 2,10,000. These activities were supervised by an Architect during the entire period, who is employed for this purpose at a salary of ₹ 35,000 per month. The machinery was purchased for ₹ 1,27,50,000 and a sum of ₹ 2,12,500 was incurred towards transportation charges to bring the machinery to the plant site. An Engineer was appointed at a fees of ₹ 37,500 to supervise the installation of the machinery at the plant site. You are required to ascertain the amount at which the machinery should be capitalized in the books of A Limited.
- (ii) B Limited, which operates a major chain of retail stores, has acquired a new store location. The new location requires substantial renovation expenditure. Management expects that the renovation will last for 4 months during which the store will be closed. Management has prepared the budget for this period including expenditure related to construction and re-modelling costs, salary of staff who shall be preparing the store before its opening and related utilities cost. How would such expenditure be treated in the books of B Limited ?
- (c) Alps Limited has received the following Grants from the Government during the year ended 31st March, 2021 :
- (i) ₹ 120 Lacs received as Subsidy from the Central Government for setting up an Industrial undertaking in Medak, a notified backward area.

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(ii) ₹ 15 Lacs Grant received from the Central Government on installation of Effluent Treatment Plant.

(iii) ₹ 25 Lacs received from State Government for providing Medical facilities to its workmen during the pandemic.

Advise Alps Limited on the treatment of the above Grants in its books of Account in accordance with AS-12 "Government Grants".

(d) Prepare cash flow statement of Gama Limited for the year ended 31st March, 2021 in accordance with AS-3(Revised) from the following cash account summary :

Cash summary Account

Inflows	₹ ('000)	Outflows	₹ ('000)
Opening Balance	945	Payment to suppliers	54,918
Receipts from Customers	74,682	Purchase of Investments	351
Sale of Investments (Cost ₹ 4,05,000)	459	Property, plant and equipment acquired	6,210
Issue of Shares	8,100	Wages and salaries	1,863
Sale of Property, Plant and equipment	3,456	Payment of Overheads	3,105
		Taxation	6,561
		Dividends	2,160
		Repayment of Bank Overdraft	6,750
		Interest paid on Bank Overdraft	1,350
		Closing Balance	4,374
	87,642		87,642

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2. Mr. Z has made following transactions during the financial year 2020-21 : 20

Investment 1 : 8% Corporate Bonds having face value ₹ 100.

Date	Particulars
01-06-2020	Purchased 36,000 Bonds at ₹ 86 cum-interest. Interest is payable on 30 th September and 31 st March every year
15-02-2021	Sold 24,000 Bonds at ₹ 92 ex-interest

Interest on the bonds is received on 30th September and 31st March

Investment 2 : Equity Shares of G Ltd having face value ₹ 10

Date	Particulars
01-04-2020	Opening balance 8000 equity shares at a book value of ₹ 190 per share
01-05-2020	Purchased 7,000 equity shares @ ₹ 230 on cum right basis Brokerage of 1% was paid in addition.
15-06-2020	The company announced a bonus issue of 2 shares for every 5 shares held
01-08-2020	The company made a rights issue of 1 share for every 7 shares held at ₹ 230 per share. The entire money was payable by 31.08.2020
25-08-2020	Rights to the extent of 30% of his entitlements was sold @ ₹ 75 per share. The remaining rights were subscribed.
15-09-2020	Dividend @ ₹ 6 per share for the year ended 31.03.2020 was received on 16.09.2020. No dividend payable on Right issue and Bonus issue.
01-12-2020	Sold 7,000 shares @ 260 per share. Brokerage of 1% was incurred extra.
25-01-2021	Received interim dividend @ ₹ 3 per share for the year 2020-21.
31-03-2021	The shares were quoted in the stock exchange @ ₹ 260.

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Both investments have been classified as Current investment in the books of Mr. Z. On 15th May 2021, Mr. Z decides to reclassify investment in equity shares of Z Ltd. as Long term Investment. On 15th May 2021, the shares were quoted in the stock exchange @ ₹ 180.

You are required to :

- (i) Prepare Investment Accounts in the books of Mr. Z for the year 2020-21, assuming that the average cost method is followed.
- (ii) Profit and loss Account for the year 2020-21, based on the above information.
- (iii) Suggest values at which investment in equity shares should be re-classified in accordance with AS 13.

3. (a) Manohar of Mohali has a branch at Noida to which the goods are supplied from Mohali but the cost thereof is not recorded in the Head Office books. On 31st March, 2020 the Branch Balance Sheet was as follows :

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Liabilities	₹	Assets	₹
Creditors Balance	62,000	Debtors Balance	2,24,000
Head Office	1,88,000	Building Extension A/c.	
		Closed by transfer to H.O. A/c.	—
		Cash at Bank	26,000
	2,50,000		2,50,000

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During the six months ending on 30-09-2020, the following transactions took place at Noida :

	₹		₹
Sales	2,78,000	Manager's salary	16,400
Purchases	64,500	Collections from debtors	2,57,000
Wages Paid	24,000	Discounts allowed	16,000
Salaries (inclusive of advance of 5,000)	15,600	Discount earned	4,600
General Expenses	7,800	Cash paid to creditors	88,500
Fire Insurance (Paid for one year)	11,200	Building Account (further payment)	14,000
Remittance to H.O.	52,900	Cash in Hand	5,600
		Cash at Bank	47,000

Set out the Head Office Account in Noida Books and the Branch Balance Sheet as on 30.09.2020. Also give journal entries in the Noida books.

- (b) Mr. Arun runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2020 was as follows :

Liabilities	₹	Assets	₹
Capital A/c.	5,05,000	Furniture	50,000
Creditors	1,02,500	Closing Stock	3,50,000
		Debtors	1,25,000
		Cash in Hand	35,000
		Cash at Bank	47,500
	6,07,500		6,07,500

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You are furnished with following information :

- (1) His sales, for the year ended 31st March, 2021 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.

Total Sales during the year 2019-20 were ₹ 6,25,000

- (2) Payments for all the purchases were made by cheques only.
- (3) Goods were sold for cash and credit both. Credit customers pay by cheques only.
- (4) Deprecation on furniture is to be charged 10% p.a.
- (5) Mr. Arun sent to the bank the collection of the month at the last date of each month after paying salary of ₹ 2,500 to the clerk, office expenses ₹1,500 and personal expenses ₹ 625.

Analysis of bank pass book for the year ending 31st March, 2021 disclosed the following :

	₹
Payment to creditors	3,75,000
Payment to rent up to 31 st March, 2021	20,000
Cash deposited into bank during the year	1,00,000

The following are the balances on 31st March, 2021 :

	₹
Stock	2,00,000
Debtors	1,50,000
Creditors for goods	1,82,500

On the evening of 31st March, 2021, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c. for the year ended 31st March, 2021 and Balance Sheet as on that date. All the working should form part of the answer.

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4. The following is the Trial Balance of H Ltd., as on 31st March, 2021.

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	Dr.	Cr.
Equity Capital (Shares of 100 each)		8,05,000
5,000, 6% preference shares of ₹ 100 each		5,00,000
9% Debentures		4,00,000
General Reserve		40,00,000
Profit & Loss A/c. (of previous year)		72,000
Sales		60,00,000
Trade Payables		10,40,000
Provision for Depreciation on Plant & Machinery		1,72,000
Suspense Account		40,000
Land at cost	24,00,000	
Plant & Machinery at cost	7,70,000	
Trade Receivables	19,60,000	
Inventories (31-03-2020)	9,50,000	
Bank	2,30,900	
Adjusted Purchases	22,32,100	
Factory Expenses	15,00,000	
Administration Expenses	3,00,000	
Selling Expenses	14,00,000	
Debenture Interest	36,000	
Goodwill	12,50,000	
	1,30,29,000	1,30,29,000

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Additional Information :

- (i) The authorised share capital of the company is :

5000, 6% preference shares of ₹ 100 each 5,00,000

10000, equity shares of ₹ 100 each 10,00,000

Issued equity capital as on 1st April 2020 stood at ₹ 720,000, that is 6,000 shares fully paid and 2,000 shares ₹ 60 paid. The directors made a call of ₹ 40 per share on 1st October 2020. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ ₹ 90 per share as fully paid.

- (ii) On 31st March 2021, the Directors declared a dividend of 5% on equity shares, transferring any amount that may be required from General Reserve. Ignore Taxation.
- (iii) The company on the advice of independent valuer wishes to revalue the land at ₹ 36,00,000.
- (iv) Suspense account of ₹ 40,000 represents amount received for the sale of some of the machinery on 1-4-2020. The cost of the machinery was ₹ 100,000 and the accumulated depreciation thereon being ₹ 30,000.
- (v) Depreciation is to be provided on plant and machinery at 10% on cost.
- (vi) Amortize 1/5th of Goodwill.

You are required to prepare H Limited's Balance Sheet as on 31-3-2021 and Statement of Profit and Loss with notes to accounts for the year ended 31-3-2021 as per Schedule III of the Companies Act, 2013. Ignore previous years' figures & taxation.

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5. (a) The firm, M/s. K Creations has two Departments, Dyed fabric and readymade garments. Readymade garments are made by the firm itself. Both dyed fabric and readymade garments have independent market. Some of readymade garment department's requirement is supplied by Dyed Fabric Department at its usual Selling Price.

From the following figures, prepare Departmental Trading and Profit & Loss Account for the year ended 31st March 2021.

Particulars	Dyed Fabric Department	Readymade garments department
Opening stock as on April 1, 2020	5,40,000	15,20,000
Purchases (excluding inter department transfers)	20,12,080	1,50,00,000
Sales (excluding inter department transfers)	31,06,000	3,12,50,000
Transfer to Readymade garment	5,00,000	—
Direct wages	3,00,000	67,30,000
Direct expenses	1,00,000	19,50,000
Plant and Equipments for dyeing/stitching readymade garments (WDV as on April 1, 2020)	5,00,000	15,00,000
Rent and warehousing	4,50,000	12,00,000
Stock as on March 31 st 2021	6,00,000	22,50,000

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The following further information are available for necessary consideration :

- (i) The Stock in Readymade garments department may be considered as consisting of 60% of dyed fabric and 40% of Other Expenses.
- (ii) The Dyed Fabric Department earned a Gross Profit @ 30% in 2019-2020.
- (iii) On the plant and equipment, Depreciation @ 20% p.a. to be provided.
- (iv) The following expenses incurred for both the departments were not apportioned between the departments :

₹

(a) Salaries	2,70,000
(b) Advertisement expenses	90,000
(c) General expenses	8,00,000

- (v) Salaries in 1 : 2 ratio, Advertisement expenses in the turnover ratio and General expenses in 1 : 3 ratio are to be apportioned between the Dyed Fabric Department and Readymade Department respectively.
- (b) AB Limited (a listed company) recently made a public issue in respect of which the following information is available : 10
- (i) No. of partly convertible 8% debentures issued 3,00,000; face value and issue price ₹ 100 per debenture.

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- (ii) Convertible portion per debenture- 60%, date of conversion- on expiry of 7 months from the date of closing of issue.
- (iii) Date of closure of subscription lists 1-5-2020, date of allotment 1-6-2020, rate of interest on debenture 8% payable from the date of allotment, market value of equity share as on date of conversion ₹ 60 (Face Value ₹ 10).
- (iv) Underwriting Commission 1%
- (v) No. of debentures applied for 2,50,000.
- (vi) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2021 (including cash and bank entries)

6. Answer any four of the following :

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- (a) A trader commenced business on April 1, 2020 with ₹ 120,000, represented by 6000 units of a certain product at ₹ 20 per unit. During the year 2020-21 he sold these units at ₹ 30/- per unit and had withdrawn ₹ 60,000. The price of the product at the end of financial year was ₹ 25/- per unit. Compute retained profit of the trader under the concept of physical capital maintenance at current cost. Also state, whether answer would be different if the trader had not withdrawn any amount.

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- (b) On 13th Jan, 2021 fire occurred in the premises of Mr. X, a cloth merchant. The Goods were totally destroyed. From the books of account, for the period 01-04-2020 to the date of fire the following particulars were available :

Particulars	₹
Stock as on 01 -04-2020	57,000
Purchases	3,05,000
Manufacturing Expenses	60,000
Selling Expenses	24,200
Sales	4,98,000

At the time of valuing stock as on 31st March, 2020, a sum of ₹ 7,000 was written off on a particular item, which was originally purchased for ₹ 20,000 and was sold during the year for ₹ 18,000. Barring the transaction relating to this item, the gross profit earned during the period was 25% on sales. Mr. X has insured his stock for ₹ 40,000. Compute the amount of the claim.

- (c) An Engineer purchased a compressing machine on hire purchase system. As per the terms he is required to pay ₹ 1,40,000 down, ₹ 1,06,000 at the end of first year, ₹ 98,000 at the end of the second year, 87,000 at the end of the third year and ₹ 55,000 at the end of fourth year. Interest charged @ 12% p.a. You are required to calculate total cash price of the machine and the interest paid with each installment.

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(d) S. Ltd. was incorporated on 30th November 2020 to take over the running Business of proprietorship firm of Mr. S. The various expenses debited to the profit and loss Account for the year 2020-21 included :

- (i) Directors fees
- (ii) Preliminary expenses written off
- (iii) Salaries and general expenses
- (iv) Statutory Audit fees
- (v) Tax Audit fees u/s 44 AB of the Income Tax Act, 1961
- (vi) Commission to travelling agents
- (vii) Sale promotion expenses
- (viii) Advertisement expenses
- (ix) Rent expenses
- (x) Bad debts

You are required to determine the basis of apportionment of above expenses between pre incorporation and post incorporation periods.

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- (e) Following is the extract of the Balance Sheet of K Ltd (listed company) as at 31st March, 2020

	₹
Authorised capital :	
3,00,000 Equity shares of ₹ 10 each	30,00,000
	30,00,000
Issued and Subscribed capital :	
2,00,000 Equity shares of ₹ 10 each, ₹ 8 paid up	16,00,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (not realised in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2020, the Company has made final call @ ₹ 2 each on 2,00,000 equity shares. The call money was received by 25th April, 2020. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue.

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