INTERMEDIATE (IPC)
GROUP I - PAPER 1
ACCOUNTING

Roll No. ....

DEC 2021

Total No. of Questions – 7

Total No. of Printed Pages – 20

Time Allowed – 3 Hours

Maximum Marks – 100

GLK

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.

Question No. **1** is compulsory.

Answer any **five** questions out of the remaining **six** questions.

Working notes should form part of the respective answer.

Marks

1. (a) Haresh infra projects has undertaken a project to construct a bridge for the Government of India. The construction commenced during the financial year ending 31.03.2020 and is likely to be completed by the end of next financial year. The contract is for a fixed price of ₹ 22 Crore with an escalation clause. **5**

You are given the following information for the year ended 31.03.2020 :

Cost incurred up to 31.03.2020	₹ 8 Crore
Estimated costs to complete the contract	₹ 12 Crore

There is an escalation in cost by 5% and accordingly the contract price is increased by 5%.

During the second year, the total cost incurred on the contract was ₹ 13 Crore.

You are required to ascertain the stage of completion and state the revenue and profit to be recognized for the first year as per AS 7 and calculate the profit made on the contract during second year.

(b) An enterprise ordered 20,000 KG of certain material at ₹ 110 per unit. The purchase price includes GST ₹ 12 per KG, in respect of which full input tax credit (ITC) is admissible. Freight incurred amounted to ₹ 1,17,600. Normal transit loss is 2%. The enterprise actually received 19,500 KG and consumed 18,000 KG of the material. 5

(i) You are required to calculate Cost of material per KG

(ii) Allocation of material cost

(c) M/s. Star Limited purchased machinery for ₹ 6,80,000 (inclusive of GST of ₹ 40,000). Input credit is available for entire amount of GST paid. The company incurred the following other expenses for installation. 5

	₹
Cost of preparation of site for installation	21,200
Total Labour charges	56,000

Marks

(200 out of the total of 500 men hours worked, were spent on installation of the machinery)

Spare parts and tools consumed in installation	5,000
Total salary of supervisor	26,000
(Time spent for installation was 25% of the total time worked)	
Total administrative expenses	34,000
(1/10 relates to the plant installation)	
Test run and experimental production expenses	18,000
Consultancy charges to architect for plant set up	11,000
Depreciation on assets used for installation	12,000

The machine was ready for use on 15.01.2021 but was used from 01.02.2021. Due to this delay further expenses of ₹ 8,900 were incurred. Calculate the value at which the plant should be capitalized in the books of M/s. Star Limited.

(d) Sanket had 50,000 Equity shares of XYZ Ltd. on 01.04.2020 at a book value of ₹ 25 per share (face value ₹10). On 01.06.2020, he purchased another 10,000 shares of the company at ₹ 20 per share. 5

The director of XYZ Ltd. announces a bonus and right issue. No dividend was payable on these issues. The terms of the issue were as follows :

- Bonus basis 1:6 (Date: 16.08.2020)
- Right basis 3:7 (Date: 31.08.2020) price ₹ 15 per share
- Due date for payment 30.09.2020
- Shareholders can transfer their rights in full or in part.

Accordingly, Sanket sold 33 1/3% of his entitlement in the market for consideration of ₹ 4 per share on 31.08.2020 & he procured other entitlement by payment.

Dividends for the year ended 31.03.2020 at the rate of 20% were declared by XYZ Ltd. and received by Sanket on 31.10.2020. Dividend amount for shares acquired by him on 01.06.2020 are to be adjusted against the cost of purchase.

On 15.11.2020, Sanket sold 25,000 equity shares at premium ₹ 12 per share.

You are required to prepare in books of Sanket.

(i) Investment Account

(ii) Profit & Loss Account (Extract for Investment)

Books of accounts are closed by Sanket on 31.12.2020 and market price of shares on that date is ₹ 20 per share.

Marks

2. The Balance sheet of MNO Ltd. as at 31.03.2021 is as follows : 16

Balance Sheet as at 31st March, 2021 **(₹ '000)**

	Particulars	**Amount**	**Amount**
I	**Equity and Liabilities**		
(1)	Shareholders' fund		
	(a) Share Capital		4,00,000
	50 lakh Equity shares of ₹ 100 each	3,50,000	
	₹ 70 called and paid up		
	5 lakh 12% preference shares of	50,000	
	₹ 100 each, fully paid up		
	(b) Reserve and Surplus		(-) 86,000
	Profit and Loss Account (-ve)	(-) 86,000	
(2)	Non-current liabilities		
	(a) Long-term borrowings		1,12,000
	11% Debentures, secured by mortgage of Land and Building	1,00,000	
	Loan, Unsecured	12,000	

Marks

(3) Current liabilities		43,280
(a) Trade payables	26,000	
(b) Short-term provisions		
Staff Provident Fund	17,280	
Total		**4,69,280**
II Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment		
(i) Tangible assets		2,65,000
Land & Building	1,55,000	
Machinery	95,000	
Furniture and Fittings	15,000	
(ii) Intangible assets		11,600
Goodwill	11,600	
(2) Current assets		
(a) Inventories		1,13,640
(b) Trade receivables		76,400
(c) Cash and cash equivalents		2,640
Balance with Bank	2,600	
Cash -in hand	40	
Total		**4,69,280**

The following scheme of reconstruction has been passed and approved by the court :

(i) Uncalled capital is to be called in full.

(ii) Every equity share of ₹ 100 each to be subdivided into 10 equity shares of ₹ 10 each. After, sub-division, equity shareholders are to surrender 30% of their holdings for immediate cancellation.

(iii) Preference shareholders have agreed to accept identical number of fully paid 14% preference shares of ₹ 85 each in lieu of their present holdings.

(iv) 11% debenture holders have agreed to accept 12% debenture of ₹ 9 crore in full satisfaction of their claim on debentures for ₹ 10 crore

(v) Unsecured Loan of ₹ 1 Crore 20 lakhs is converted into 11% debentures for ₹ 1 Crore.

(vi) Trade payables have agreed to surrender 20% of their claim in consideration of the balance being paid in cash forthwith.

(vii) Inventories are overvalued by ₹ 1 Crore 25 Lakhs while machinery is to be depreciated by ₹ 3.50 Crore

(viii) A provision of ₹ 64 lakhs is to be made for doubtful debts against trade receivables.

The scheme of reconstruction is fully implemented. You are required to pass journal entries for all the transaction concerning reconstruction and draw company's balance sheet immediately after the reconstruction.

Marks

3. (a) Following is the Balance Sheet of Fox Ltd. **10**

You are required to prepare cash flow statement using Indirect Method.

Particulars	Note No.	31st March, 2021 (₹)	31st March, 2020 (₹)
I) Equity and Liabilities			
1 Shareholders' Funds			
a) Share capital	1	5,60,000	3,00,000
b) Reserve and Surplus	2	35,000	25,000
2 Current Liabilities			
a) Trade payables		1,50,000	60,000
b) Short-term provisions		8,000	5,000
(Provision for taxation)			
Total		**7,53,000**	**3,90,000**
II) Assets			
1 Non-current assets			
Property, Plant and Equipment :			
• Tangible assets		3,50,000	1,80,000

Marks

2	Current assets			
	a) Inventories		1,20,000	50,000
	b) Trade receivables		1,00,000	25,000
	c) Cash and cash equivalents		1,05,000	90,000
	d) Other current assets		78,000	45,000
	Total		**7,53,000**	**3,90,000**

Notes to Accounts

	Particulars	**Note No.**	**31st March, 2021 (₹)**	**31st March, 2020 (₹)**
1	Share capital			
	a) Equity share capital		4,10,000	2,00,000
	b) Preference share capital		1,50,000	1,00,000
			5,60,000	3,00,000
2	Reserve and surplus			
	Surplus in statement of profit and loss at the beginning of the year		25,000	
	Add : Profit of the year		20,000	
	Less : Dividend		10,000	
	Surplus in statement of profit and loss at the end of the year		35,000	25,000

Marks

Additional Information :

1. Dividend paid during the year ₹ 10,000
2. Depreciation charges during the year ₹ 40,000

(b) Calculate Average Due Date from the following information: 6

Date of the Bill	Term	Amount (₹)
10.08.2020	3 months	6,000
20.10.2020	60 days	5,000
02.12.2020	2 months	4,000
16.01.2021	60 days	2,000
05.03.2021	2 months	3,000

4. The following is the Balance Sheet of Shri Anand as on 31st March, 2020. 16

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Account	4,00,000	Machinery	1,25,000
Sundry Creditors for purchases	50,000	Furniture	25,000
		Stock	50,000
		Debtors	80,000
		Cash in hand	30,000
		Cash at Bank	1,40,000
Total	**4,50,000**	**Total**	**4,50,000**

Marks

Fire broke out on the evening of 31st March, 2021, destroying the books of account and Furniture. The cash available in the cash box was stolen.

Only the following information is available based on available records :

i. Sales are made as 25% for cash and the balance on credit. His total sales for the year ended 31st March, 2021 were 20% higher than the previous year. All the sales and purchases of goods were evenly spread throughout the year (as also in the last year).

ii. Terms of credit :

Debtors 2 Months

Creditors 1 Month

iii. Stock level was maintained at ₹ 50,000 all throughout the year.

iv. A steady Gross Profit rate of 25% on the turnover was maintained throughout. Creditors are paid by cheque only, except for cash purchase of ₹ 50,000.

v. His private records and the Bank Pass-book disclosed the following transaction for the year.

Miscellaneous Business expenses	₹ 1,70,000 (including ₹ 10,000 paid by cheque and ₹ 20,000 was outstanding as on 31st March, 2021)
Repairs	₹ 8,000 (paid by cash)
Addition to Machinery	₹ 50,000 (paid by cheque)
Personal drawing	₹ 48,000 (paid by cheque)
Travelling expenses	₹ 24,000 (paid by cheque)
Introduction of additional capital by depositing into the Bank	₹ 20,000

vi. Collections from debtors were all through cheques.

Marks

vii. Depreciation on Machinery is to be provided @15% on the Closing Book Value.

viii. The Cash stolen is to be charged to the Profit and Loss Account,

ix. Loss of furniture is to be adjusted from the Capital Account.

Prepare a statement of Trading, Profit and Loss for the year ended 31st March, 2021 and Balance Sheet as on that date.

Make appropriate assumptions wherever necessary.

All workings should from part of your answer.

5. Ramesh, Suresh and Ganesh were in partnership sharing profit & losses in the ratio of 9:4:2 respectively. Suresh retired from partnership on 31st March 2021, when the firms balance sheet was as under : **16**

Balance Sheet as at 31.03.2021

Liabilities	(₹'000)	(₹'000)	Assets	(₹'000)	(₹'000)
Capital Account			Property, Plant and Equipment		
Ramesh	3,375		Land & Building	3,125	
Suresh	1,500		Furniture	332.5	
Ganesh	750	5,625	Plant	1062.5	4,520
Current Liabilities			Current Assets		
Trade Payable		750	Inventories	1,000	
			Sundry Debtors	500	
			Cash and Bank	355	1,855
Total		**6,375**	**Total**		**6,375**

Marks

Suresh's share in goodwill and capital was acquired by Ramesh and Ganesh in the ratio of 1 : 3 respectively, the continuing partners bringing in the necessary finance to pay off Suresh. The partnership deed provided that on retirement or admission of a partner, the goodwill of the firm is to be valued at 3 times the average annual profit of the firm for 4 years ended on the date of retirement or admission. The profits of the firm during the four years ended 31st March 2021 were :

	(₹ '000)
2017-18:	562.5
2018-19:	312.5
2019-20:	750
2020-21:	875

The deed further provided that the goodwill account is not to appear in the books of accounts at all. The continuing partners agreed that with effect from 01st April 2021, Rajesh, son of Ramesh is admitted as a partner with 25% share of profits. Ramesh gifts to Rajesh by transfer from his capital account an amount sufficient to cover up 12.50% of capital and goodwill requirement. The balance 12.50% of capital and goodwill requirement is purchased by Rajesh from Ramesh and Ganesh in the ratio of 2 : 1 respectively.

You are required to prepare :

i. A statement showing the continuing partners' share

ii. The balance sheet of the firm after Rajesh's admission and

iii. Partners' Capital Account.

Marks

6. (a) RMP Ltd. give the following Trading and Profit and Loss Account for year ended 31st December, 2020. 10

Trading and Profit and Loss Account for the year ended 31st December, 2020

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	60,000	By Sales	10,00,000
To Purchases	3,50,000	By Closing Stock	90,000
To Wages	1,80,000		
(₹ 20,000 for skilled labour)			
To Manufacturing expenses	2,00,000		
To Gross Profit	3,00,000		
Total	**10,90,000**	**Total**	**10,90,000**
To Office administrative Exp.	80,000	By Gross Profit	3,00,000
To Advertising	25,000		
To Selling expenses (Fixed)	50,000		
To Commission on sales	60,000		
To Carriage outward	20,000		
To Net Profit	65,000		
Total	**3,00,000**	**Total**	**3,00,000**

The company had taken out policies both against loss of stock and against loss of profit, the amounts being ₹ 60,000 and ₹ 2,00,000 respectively. A fire occurred on 1st May, 2021 and as a result of which sales were seriously affected for a period of 4 months. You are given the following further information :

i. Purchases, wages and other manufacturing expenses for the first 4 months of 2021 were ₹ 1,10,000, ₹ 60,000 and ₹ 30,000 respectively.

ii. Sales for the same period of the year 2021 were ₹ 3,00,000.

iii. Other sales figures were as follows :

	Amount (₹)
From 1st January, 2020 to 30th April, 2020	4,00,000
From 1st May, 2020 to 31st August, 2020	4,50,000
From 1st May, 2021 to 31st August, 2021	80,000

iv. Due to rise in wages, gross profit during 2021 was expected to decline by 4% on sales.

Marks

v. Additional expenses incurred during the period after fire amounted to ₹ 1,50,000. The amount of the policy included ₹ 1,20,000 for expenses leaving the rest uncovered.

You are required to ascertain the claim for stock and for loss of profit.

All workings should form part of your answer.

(b) Hybrid Motors Ltd. purchased from Sneha Motors 3 Tempos costing ₹ 50,000 each on the hire purchase system on 1-1-2019. Payment was to be made ₹ 30,000 down and the remainder in 2 equal annual instalments payable on 31-12-2019 and 31-12-2020 together with interest @ 9%. Hybrid Motors Ltd. charge off depreciation at the rate of 20% on the diminishing balance. It paid the instalments due at the end of the first year i.e. 31-12-2019 but expressed inability to pay the next instalment on 31-12-2020. Sneha Motors agreed to leave one Tempo with the purchaser on 31-12-2020 adjusting the value of the other 2 Tempos against the amount due on 31-12-2020. The Tempos were valued on the basis of 30% depreciation annually on the diminishing balance. Balance amount was to be settled in cash on 31-12-2020 between the parties. Show the necessary accounts in the books of Hybrid Motors Ltd. for the years 2019 and 2020. 6

Marks

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

(a) Explain advantages of Customized Accounting Package. 4

(b) **Today Ltd** 4

Balance Sheet (Equity and Liability Side only) as at 31st March, 2021

Particulars	Note	(₹'000)
I Equity and Liabilities		
(1) Shareholders' fund		
(a) Share Capital	1	40,000
(b) Reserve and Surplus	2	48,000
(2) Current Liabilities		
(a) Trade Payables		7,500
Total		**95,500**

Notes :

Particulars	(₹'000)
1. Share Capital	
Authorized	90,000
Issued and subscribed	
40 lakh Equity shares of ₹ 10 each, fully paid up	40,000
2. Reserve and Surplus	
Securities Premium	15,000
General Reserve	20,000
Surplus i.e. credit balance of profit and loss account	13,000
	48,000

Marks

The company decided to issue bonus shares at the rate of three shares for every four shares held. For this purpose, it decided to utilize securities premium, ₹ 80 lakhs out of reserve and balance out of the Profit and Loss Account. Draw the Equity and liabilities side of the balance sheet after issue of bonus shares.

(c) Toys Ltd. was making provision for non-moving stocks based on no issues having occurred for the last 12 months up to 31.03.2020. The company now wants to change it and make provision based on technical evaluation during the year ending 31.03.2021. Total value of stock on 31.3.2021 is ₹ 300 lakhs. Provision required based on technical evaluation amounts to ₹ 7.50 lakhs. However, provision required based on 12 months (no issues) is ₹ 10.00 lakhs. You are required to discuss the following points in the light of relevant Accounting Standard. 4

i) Does this amount to change in accounting policy ?

ii) Can the company change the method of accounting ?

iii) Explain how it will be disclosed in the annual accounts of Toys Ltd. for the year 2020-21 ?

Marks

(d) On 01.04.2020, Mr. Ram purchased 2,000 equity shares of ₹ 100 each in Exchange Limited @ ₹ 150 each from a Broker, who charged 2% brokerage. On 31.01.2021, Bonus was declared in the ratio of 1 share for every 2 shares held. 4

Before and after the record date of bonus shares, the shares were quoted at ₹ 180 per share and ₹ 120 per share respectively.

On 31.03.2021, Mr Ram sold bonus shares to a Broker, who charged 2% brokerage.

Prepare the Investment Account in the books of Mr Ram, who held the shares as Current assets and closing value of Investment shall be made at cost or market value whichever is lower.

(e) The following information of City Club (A non-profit organisation) is provided. 4

Opening balance of sports materials	₹ 60,000
Closing balance of sports materials	₹ 35,000
Sports materials purchased in cash during the year	₹ 25,000
Payments made to creditors during the year	₹ 65,000
Opening balance of Creditors	₹ 25,000
Closing balance of Creditors	₹ 30,000

Marks

Out of the sports materials used 40% was consumed by the club, rest was sold at a profit of 20% on cost.

You are required to compute the following :

(i) Total Cost of sports materials consumed during the year,

(ii) Sales Value of sports materials for the year.