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FOR CA INTERMEDIATE EXAM PREPARATION

CA Intermediate 2019 Question Paper · Paper 1 Accounting

EXAM	YEAR	TYPE	SUBJECT
CA Intermediate	2019	Question Paper	Paper 1 Accounting

DATE

May 2019

MAY 2019

Roll No. .....

Total No. of Questions – 6 **IPCE (New Syllabus) Paper - 1 Accounting** Total No. of Printed Pages – **16**

Time Allowed – **3** Hours Maximum Marks – **100**

EHM2

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.

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

Working notes should form part of the answer.

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1. (a) M/s First Ltd. began construction of a new factory building on 1st April, 2017. It obtained ₹ 2,00,000 as a special loan to finance the construction of the factory building on 1st April, 2017 at an interest rate of 8% per annum. Further, expenditure on construction of the factory building was financed through other non-specific loans. Details of other outstanding non-specific loans were : **4×5 =20**

Amount (₹)	Rate of Interest per annum
4,00,000	9%
5,00,000	12%
3,00,000	14%

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The expenditures that were made on the factory building construction were as follows :

Date	Amount (₹)
1st April, 2017	3,00,000
31st May, 2017	2,40,000
1st August, 2017	4,00,000
31st December, 2017	3,60,000

The construction of factory building was completed by 31st March, 2018. As per the provisions of AS-16, you are required to :

(1) Calculate the amount of interest to be capitalized.

(2) Pass Journal entry for capitalizing the cost and borrowing cost in respect of the factory building.

(b) On 15th June, 2018, Y limited wants to re-classify its investments in accordance with AS 13 (revised). Decide and state the amount of transfer, based on the following information :

(1) A portion of long term investments purchased on 1st March, 2017 are to be re-classified as current investments. The original cost of these investments was ₹ 14 lakhs but had been written down by ₹ 2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15th June, 2018 was ₹ 11 lakhs.

(2) Another portion of long term investments purchased on 15th January, 2017 are to be re-classified as current investments. The original cost of these investments was ₹ 7 lakhs but had been written down to ₹ 5 lakhs (to recognize 'other than temporary' decline in value). The fair value of these investments on 15th June, 2018 was ₹ 4.5 lakhs.

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(3) A portion of current investments purchased on 15th March, 2018 for ₹ 7 lakhs are to be re-classified as long term investments, as the company has decided to retain them. The market value of these investments on 31st March, 2018 was ₹ 6 lakhs and fair value on 15th June 2018 was ₹ 8.5 lakhs.

(4) Another portion of current investments purchased on 7th December, 2017 for ₹ 4 lakhs are to be re-classified as long term investments. The market value of these investments was :

on 31st March, 2018 ₹ 3.5 lakhs

on 15th June, 2018 ₹ 3.8 lakhs

(c) State whether the following statements are 'True' or 'False'. Also give reason for your answer.

(1) As per the provisions of AS-5, extraordinary items should not be disclosed in the statement of profit and loss as a part of net profit or loss for the period.

(2) As per the provisions of AS-12, government grants in the nature of promoters' contribution which become refundable should be reduced from the capital reserve.

(3) As per the provisions of AS-2, inventories should be valued at the lower of cost and selling price.

(4) As per the provisions of AS-13, a current investments is an investment that is by its nature is readily realisable and is intended to be held for not more than six months from the date on which such investment is made.

(5) As per the provisions of AS-4, a contingency is a condition or situation, the ultimate outcome of which (gain or loss) will be known or determined only on the occurrence of one or more uncertain future events.

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(d) The financial statements of PQ Ltd. for the year 2017-18 approved by the Board of Directors on 15th July, 2018. The following information was provided :

(i) A suit against the company's advertisement was filed by a party on 20th April, 2018, claiming damages of ₹ 25 lakhs.

(ii) The terms and conditions for acquisition of business of another company have been decided by March, 2018. But the financial resources were arranged in April, 2018 and amount invested was ₹ 50 lakhs.

(iii) Theft of cash of ₹ 5 lakhs by the cashier on 31st March, 2018 but was detected on 16th July, 2018.

(iv) Company sends a proposal to sell an immovable property for ₹ 40 lakhs in March, 2018. The book value of the property is ₹ 30 lakhs on 31st March, 2018. However, the deed was registered on 15th April, 2018.

(v) A major fire has damaged the assets in a factory on 5th April, 2018. However, the assets are fully insured.

With reference to AS-4 "Contingencies and events occurring after the balance sheet date", state whether the above mentioned events will be treated as contingencies, adjusting events or non-adjusting events occurring after the balance sheet date.

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2. (a) M/s Amar bought six Scooters from M/s Bhanu on 1st April, 2015 on the following terms : 10

Down payment	₹ 3,00,000
1st instalment payable at the end of 1st year	₹ 1,59,000
2nd instalment payable at the end of 2nd year	₹ 1,47,000
3rd instalment payable at the end of 3rd year	₹ 1,65,000

Interest is charged at the rate of 10% per annum.

M/s Amar provides depreciation @ 20% per annum on the diminishing balance method.

On 31st March, 2018 M/s Amar failed to pay the 3rd instalment upon which M/s Bhanu repossessed two Scooters. M/s Bhanu agreed to leave the other four Scooters with M/s Amar and adjusted the value of the repossessed Scooters against the amount due. The Scooters taken over were valued on the basis of 30% depreciation per annum on written down value. The balance amount remaining in the vendor's account after the above adjustment was paid by M/s Amar after 5 months with interest @ 15% per annum.

M/s Bhanu incurred repairing expenses of ₹ 15,000 on repossessed scooters and sold scooters for ₹ 1,05,000 on 25th April, 2018.

You are required to :

(1) Calculate the cash price of the Scooters and the interest paid with each instalment.

(2) Prepare Scooters Account and M/s Bhanu Account in the books of M/s Amar.

(3) Prepare Goods Repossessed Account in the books of M/s Bhanu.

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(b) A fire occurred in the premises of M/s Bright on 25th May, 2017. As a result of fire, sales adversely affected up to 30th September, 2017. The firm had taken Loss of profit policy (with an average clause) for ₹ 3,50,000 having indemnity period of 5 months. **10**

There is an upward trend of 10% in sales.

The firm incurred an additional expenditure of ₹ 30,000 to maintain the sales.

There was a saving of ₹ 5,000 in the insured standing charges.

Actual turnover from 25th May, 2017 to 30th September, 2017	₹ 1 ,75,000
Turn over from 25th May, 2016 to 30th September, 2016	₹ 6,00,000
Net profit for last financial year	₹ 2,00,000
Insured standing charges for the last financial year	₹ 1,75,000
Total standing charges for the last financial year	₹ 3,00,000
Turnover for the last financial year	₹ 15,00,000
Turnover for one year from 25th May, 2016 to 24th May, 2017	₹ 14,00,000

You are required to calculate the loss of profit claim amount, assuming that entire sales during the interrupted period was due to additional expenses.

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3. (a) The following balances appeared in the books of M/s Sunshine Traders : **12**

	As on 31-03-2018 (₹)	As on 31-03-2019 (₹)
Land and Building	2,50,000	2,50,000
Plant and Machinery	1,10,000	1,65,000
Office Equipment	52,500	42,500
Sundry Debtors	77,750	1,10,250
Creditors for Purchases	47,500	?
Provision for office expenses	10,000	7,500
Stock	?	32,500
Long Term loan from ABC Bank @ 10% per annum	62,500	50,000
Bank	12,500	?
Capital	4,65,250	?

Other information was as follows :

	in (₹)
– Collection from Sundry Debtors	4,62,500
– Payments to Creditors for Purchases	2,62,500
– Payment of office Expenses	21,000
– Salary paid	16,000
– Selling Expenses paid	7,500
– Total sales	6,25,000
Credit sales (80% of Total sales)	
– Credit Purchases	2,70,000
Cash Purchases (40% of Total Purchases)	
– Gross Profit Margin was 25% on cost	
– Discount Allowed	2,750
– Discount Received	2,250
– Bad debts	2,250

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– Depreciation to be provided as follows :

Land and Machinery	5% per annum
Plant and Machinery	10% per annum
Office Equipment	15% Per annum

– On 01.10.2018 the firm sold machine having Book Value ₹ 20,000 (as on 31.03.2018) at a loss of ₹ 7,500. New machine was purchased on 01.01.2019.

– Office equipment was sold at its book value on 01.04.2018.

– Loan was partly repaid on 31.03.2019 together with interest for the year.

You are required to prepare :

(i) Trading and Profit & Loss account for the year ended 31st March, 2019.

(ii) Balance Sheet as on 31st March 2019.

(b) M/s Rani & Co. has head office at Singapore and branch at Delhi (India). Delhi branch is an integral foreign operation of M/s Rani & Co., Delhi branch furnishes you with its Trial Balance as on 31st March, 2019 and the additional information thereafter : 8

	Dr.	Cr.
	Rupees in thousands	
Stock on 1st April, 2018	600	–
Purchases and Sales	1,600	2,400
Sundry Debtors and Creditors	800	600
Bills of Exchange	240	480
Wages	1,120	–
Rent, rates and taxes	720	–
Sundry Expenses	320	–
Computers	600	–
Bank Balance	520	–
Singapore Office a/c	–	3,040
Total	**6,520**	**6,520**

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Additional information :

(a) Computers were acquired from a remittance of Singapore dollar 12,000 received from Singapore Head Office and paid to the suppliers. Depreciate Computers at the rate of 40% for the year.

(b) Closing Stock of Delhi branch was ₹ 15,60,000 on 31st March, 2019.

(c) The Rates of Exchange may be taken as follows :

(i) on 1.4.2018 @ ₹ 50 per Singapore Dollar

(ii) on 31.3.2019 @ ₹ 52 per Singapore Dollar

(iii) average Exchange Rate for the year @ ₹ 51 per Singapore Dollar

(iv) conversion in Singapore Dollar shall be made upto two decimal accuracy.

(d) Delhi Branch Account showed a debit balance of Singapore Dollar 59,897.43 on 31.3.2019 in the Head office books and there were no items pending for reconciliation.

In the books of Head office, you are required to prepare :

(1) Revenue statement for the year ended 31st March, 2019. (in Singapore Dollar)

(2) Balance Sheet as on that date. (in Singapore Dollar)

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4. The following is the Balance Sheet of M/s Red and Black as on 31st March, 2018 : **20**

Liabilities		(₹)	Assets	(₹)
Red's Capital	80,000		Building	1,00,000
Black's Capital	1,00,000	1,80,000	Closing Stock	60,000
Red's Loan		20,000	Sundry Debtors	40,000
General Reserve		20,000	Investment	40,000
Sundry Creditors		40,000	6% Debentures in Cool Ltd.	
			Cash	20,000
		2,60,000		**2,60,000**

It was agreed that Mr. White is to be admitted for a fifth share in the future profits from 1st April, 2018. He is required to contribute cash towards goodwill and ₹ 20,000 towards capital.

(a) The following further information is furnished :

(i) The partners Red and Black shared the profits in the ratio of 3 : 2.

(ii) Mr. Red was receiving a salary of ₹ 1000 p.m. from the very inception of the firm in addition to the share of profit.

(iii) The future profit ratio between Red, Black and White will be 3 : 1 : 1. Mr. Red will not get any salary after the admission of Mr. White.

(iv) The goodwill of the firm should be determined on the basis of 2 years' purchase of the average profits from business of the last 5 years. The particulars of profits/losses are as under :

Year Ended	(₹)	Profit/Loss
31.3.2014	40,000	Profit
31.3.2015	20,000	Loss
31.3.2016	40,000	Profit
31.3.2017	50,000	Profit
31.3.2018	60,000	Profit

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The above profits and losses are after charging the salary of Mr. Red. The profit of the year ended 31st March, 2014 included an extraneous profit of ₹ 60,000 and the loss of the year ended 31st March, 2015 was on account of loss by strike to the extent of ₹ 40,000.

(v) It was agreed that the value of the goodwill should not apprear in the books of the firm.

(b) Trading profit for the year ended 31st March, 2019 was ₹ 80,000 (Before charging depreciation)

(c) Each partner had drawn ₹ 2,000 per month as drawing during the year 2018-19.

(d) On 31st March, 2019 the following balances appreared in the books :

Building (Before Depreciation)	₹ 1,20,000
Closing Stock	₹ 80,000
Sundry Debtors	NIL
Sundry Creditors	NIL
Investment	₹ 40,000

(e) Interest @ 6% per annum on Red's loan was not paid during the year.

(f) Interest on Debenture received during the year.

(g) Depreciation is to be provided @ 5% on Closing Balance of Building.

(h) Partners applied for conversion of the firm into a private Limited Company. i.e. RBW Private Limited. Certificate received on 1.4.2019. They decided to convert Capital accounts of the partners into share capital, in the ratio of 3:1:1 (on the basis of total Capital as on 31.3.2019). If necessary, partners have to subscribe to fresh capital or withdraw.

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You are required to prepare :

(1) Profit & Loss Account for the year ended 31st March, 2019 in the books of M/s Red and Black.

(2) Balance Sheet as on 1st April, 2019 in the books of RBW Private Limited.

5. (a) The Summarized Balance Sheet of Clean Ltd. as on 31st March, 2019 is as follows : **10**

Particulars	(₹)
EQUITY AND LIABILITIES :	
1. Shareholder's funds :	
(a) Share Capital	5,80,000
(b) Reserves and Surplus	96,000
2. Current Liabilities :	
Trade Payables	1,13,000
Total	**7,89,000**
ASSETS :	
1. Non-Current Assets	
(a) Property, Plant and Equipment	
Tangible Assets	6,90,000
(b) Non-current investments	37,000
2. Current Assets	
Cash and cash equivalents (Bank)	62,000
Total	**7,89,000**

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The Share Capital of the company consists of ₹ 50 each Equity shares of ₹ 4,50,000 and ₹ 100 each 8% Redeemable Preference Shares of ₹ 1,30,000 (issued on 1.4.2017)

Reserves and Surplus comprises statement of profit and loss only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided :

(a) to sell all the investments for ₹ 30,000.

(b) to finance part of redemption from company funds, subject to, leaving a Bank balance of ₹ 24,000.

(c) to issue minimum equity share of ₹ 50 each at a premium of ₹ 10 per share to raise the balance of funds required.

You are required to

(1) Pass Journal Entries to record the above transactions.

(2) Prepare Balance Sheet as on completion of the above transactions.

(b) The following information was provided by M/s PQR Ltd. for the year ended 31st March, 2019 : **10**

(1) Gross Profit Ratio was 25% for the year, it amounts to ₹ 3,75,000.

(2) Company sold goods for cash only.

(3) Opening inventory was lesser than closing inventory by ₹ 25,000.

(4) Wages paid during the year ₹ 5,55,000.

(5) Office expenses paid during the year ₹ 35,000.

(6) Selling expenses paid during the year ₹ 15,000.

(7) Dividend paid during the year ₹ 40,000 (including dividend distribution tax).

(8) Bank Loan repaid during the year ₹ 2,05,000 (included interest ₹ 5,000)

(9) Trade Payables on 31st March, 2018 were ₹ 50,000 and on 31st March, 2019 were ₹ 35,000.

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(10) Amount paid to Trade payables during the year ₹ 6,10,000

(11) Income Tax paid during the year amounts to ₹ 55,000 (Provision for taxation as on 31st March, 2019 ₹ 30,000)

(12) Investments of ₹ 8,20,000 sold during the year at a profit of ₹ 20,000.

(13) Depreciation on furniture amounts to ₹ 40,000.

(14) Depreciation on other tangible assets amounts to ₹ 20,000.

(15) Plant and Machinery purchased on 15th November, 2018 for ₹ 3,50,000.

(16) On 31st March, 2019 ₹ 2,00,000, 7% Debentures issued at face value in an exchange for a plant.

(17) Cash and Cash equivalents on 31st March, 2018 ₹ 2,25,000.

(A) Prepare cash flow statement for the year ended 31st March, 2019, using direct method.

(B) Calculate cash flow from operating activities, using indirect method.

6. Answer any **four** of the following : **4×5 =20**

(a) Write short note on Timing difference and Permanent Difference as per AS 22.

(b) Summarised Balance Sheet of Cloth Trader as on 31.03.2017 is given below :

Liabilities	Amount (₹)	Assets	Amount (₹)
Proprietor's Capital	3,00,000	Fixed Assets	3,60,000
Profit & Loss Account	1,25,000	Closing Stock	1,50,000
10% Loan Account	2,10,000	Sundry Debtors	1,00,000
Sundry Creditors	50,000	Deferred Expenses	50,000
		Cash & Bank	25,000
	6,85,000		**6,85,000**

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Additional Information is as follows :

(1) The remaining life of fixed assets is 8 years. The pattern of use of the asset is even. The net realisable value of fixed assets on 31.03.2018 was ₹ 3,25,000.

(2) Purchases and Sales in 2017-18 amounted to ₹ 22,50,000 and ₹ 27,50,000 respectively.

(3) The cost and net realizable value of stock on 31.03.2018 were ₹ 2,00,000 and ₹ 2,50,000 respectively.

(4) Expenses for the year amounted to ₹ 78,000.

(5) Deferred Expenses are amortized equally over 5 years.

(6) Sundry Debtors on 31.03.2018 are ₹ 1,50,000 of which ₹ 5,000 is doubtful. Collection of another ₹ 25,000 depends on successful re-installation of certain product supplied to the customer.

(7) Closing Sundry Creditors are ₹ 75,000, likely to be settled at 10% discount.

(8) Cash balance as on 31.03.2018 is ₹ 4,22,000.

(9) There is an early repayment penalty for the loan of ₹ 25,000.

You are required to prepare :

(Not assuming going concern)

(1) Profit & Loss Account for the year 2017-18.

(2) Balance Sheet as on 31st March, 2018.

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(c) Tarun Ltd. was incorporated on 1st July, 2018 to acquire a running business of Vinay Sons with effect from 1st April, 2018. During the year 2018-19, the total sales were ₹ 12,00,000 of which ₹ 2,40,000 were for the first six months. The Gross Profit for the year is ₹ 4,15,000. The expenses debited to the Profit and Loss account included :

(i) Director's fees ₹ 25,000

(ii) Bad Debts ₹ 6,500

(iii) Advertising ₹ 18,000
(under a contract amounting to ₹ 1,500 per month)

(iv) Company Audit Fees ₹ 15,000

(v) Tax Audit Fees ₹ 10,000

(1) Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2019.

(2) Explain how profits are to be treated.

(d) State the circumstances when Garner V/s Murray rule is not applicable.

(e) Wooden Plywood Limited has a normal wastage of 5% in the production process. During the year 2017-18, the Company used 16,000 MT of Raw material costing ₹ 190 per MT. At the end of the year, 950 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books.

You are required to :

(1) Calculate the amount of abnormal loss.

(2) Explain the treatment of normal loss and abnormal loss.
[In the context of AS-2 (Revised)]

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