(GI-5+7, GI-6, GI-8, GI-9, SI-2+4, SI-3 & VI-2)

DATE: 13.08.2019 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

PAPER : ACCOUNTS

Q. No. 1 is compulsory.
Candidates are required to answer any four questions from the remaining five questions.
Wherever necessary suitable assumptions should be made by the candidates.
Working notes should form part of the answer.

Answer 1:
(a)

Particulars	Rs.
Purchase Price of Land	30,00,000
Stamp Duty & Legal Fee	2,00,000
Architect Fee	2,00,000
Site Preparation	50,000
Materials (10,00,000 - Wasted Materials Cost not includible in PPE 2,50,000)	7,50,000
Direct Labour Cost (4,00,000 - Cost of Delay period not includible in PPE 22,000)	3,78,000
Interest (40,00,000 × 8% × 9/12) (only upto date of completion of construction)	2,40,000
Total to be capitalized	**48,18,000**

{8 items x 1/2 = 4 M}

Note: General Overheads are not included in the Cost of PPE. **{1 M}**

Answer:
(b) Statement of Profit and Loss
(for the three years ending 31st March, 20x1, 20x2, 20x3)
(Rupees in thousands)

	20x1	20x2	20x3	
Profit (loss)	(100)	50	60	**{1 M}**
Less: Current tax	—	—	(4)	**{1 M}**
Deferred tax:				
Tax effect of timing differences originating during the year	40			**{1 M}**
Tax effect of timing differences reversing during the year		(20)	(20)	**{1 M}**
Profit (loss) after tax effect	(60)	30	36	**{1 M}**

Answer:
(c) As per para 21 of AS 12, 'Accounting for Government Grants', "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement. **{1 M}**

(i) In this case the grant refunded is Rs. 15 lakhs and balance in deferred income is Rs. 10.50 lakhs, Rs. 4.50 lakhs shall be charged to the profit and loss account for the year 2017-18. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years. **{2 M}**

(ii) If the grant was deducted from the cost of the plant in the year 2014-15 then, para 21 of AS 12 states that the amount refundable in respect of grant which relates to specific fixed assets should be recorded by increasing the book value of the assets, by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case, the book value of the plant shall be increased by Rs. 15 lakhs. The increased cost of Rs. 15 lakhs of the plant should be amortized over 7 years (residual life). Depreciation charged during the year 2017-18 shall be (56+15)/7 years = Rs. 10.14 lakhs presuming the depreciation is charged on SLM.) **{2 M}**

Answer:

(d) The question deals with the issue of Applicability of Accounting Standards to a non-corporate entity. For availment of the exemptions, first of all, it has to be seen that M/s X& Co. falls in which level of the non-corporate entities. Its classification will be done on the basis of the classification of non-corporate entities as prescribed by the ICAI. According to the ICAI, non-corporate entities can be classified under 3 levels viz Level I, Level II (SMEs) and Level III (SMEs). **{1 M}**

An entity whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year, will fall under the category of Level I entities. Non- corporate entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities: **{1 M}**

(i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees one crore but does not exceed rupees fifty crore in the immediately preceding accounting year. **{3/4 M}**

(ii) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees one crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year. **{3/4 M}**

(iii) Holding and subsidiary entities of any one of the above. **{1/2 M}**

As the turnover of M/s X& Co. is more than Rs. 1 crore, it falls under 1st criteria of Level II non- corporate entities as defined above. Even if its borrowings of Rs. 0.95 crores is less than Rs. 1 crores, it will be classified as Level II Entity. In this case, AS 3, AS 17, AS 21, AS 23, AS 27 will not be applicable to M/s X & Co. Relaxations from certain requirements in respect of AS 15, AS 19, AS 20, AS 25, AS 28 and AS 29 are also available to M/s X& Co. **{1 M}**

Answer 2:

(a) **Ascertainment of rate of gross profit for the year 2015-16**

Trading A/c for the year ended 31-3-2016

	Rs.		Rs.
To Opening stock	**4,81,100**	By Sales	**26,00,000**
To Purchases	**22,62,500**	By Closing stock	**6,63,600**
To Gross profit	**5,20,000**		
	32,63,600		32,63,600

{5 Item X 3/4 M}

$$\text{Rate of Gross Profit} = \frac{GP}{\text{sales}} \times 100$$
$$= \frac{5,20,000}{26,00,000} \times 100 = 20\%$$ **{1/2 M}**

Memorandum Trading A/c for the period from 1-4-2016 to 22-01-2017

	Rs.	Rs.		Rs.	Rs.
To Opening stock		**6,63,600**	By Sales	24,58,500	
To Purchases	17,41,350		*Add*: Unrecorded cash sales (W.N.)	20,000	**24,78,500**
Less: Goods used for advertisement	(50,000)	**16,91,350**	By Closing stock		**3,72,150**
To Gross profit (20% of Rs. 24,78,500)		**4,95,700**			
		28,50,650			28,50,650

{5 Item X 3/4 M}

Estimated stock in hand on the date of fire was Rs. 3,72,150. **{1/2 M}**

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 1.4.2016 to 18.8.2016= 140 days

Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks × Rs. 1,000 = Rs. 20,000. **{$1^{1/2}$ M}**

Answer (b)

Investment Account-Equity Shares in X Ltd.

Date		No. of shares	Dividend	Amount	Date		No. of shares	Dividend	Amount
			Rs.	Rs.				Rs.	Rs.
2017					2018				
April 1	To Balance b/d	4,000	-	**60,000**	Jan. 20	By Bank (dividend)		**8,000**	**2,000**
Sept 1	To Bank	1,000	-	**14,000**	Feb. 1	By Bank	4,000		**56,000**
Sept.30	To Bonus Issue	2,000	-	-	Mar. 31	By Balance c/d	4,000		**42,250**
Dec.1	To Bank (Right)	1,000	-	**12,500**					
2018									
Feb. 1	To Profit & Loss A/c		-	**13,750**					
Mar.31	To Profit & Loss A/c (Dividend income)		**8,000**	-					
		8,000	8,000	1,00,250			8,000	8,000	1,00,250
April. 1	To Balance b/d	4,000		**42,250**					

{10 Item X 1/2 M}

Working Notes:

1. Cost of shares sold — Amount paid for 8,000 shares

	Rs.
(Rs. 60,000 + Rs. 14,000 + Rs. 12,500)	86,500
Less: Dividend on shares purchased on 1st Sept, 2017	(2,000)
Cost of 8,000 shares	84,500
Cost of 4,000 shares (Average cost basis*)	42,250
Sale proceeds (4,000 shares @ 14/-)	56,000
Profit on sale	13,750

{$1^{1/2}$ M}

*For ascertainment of cost for equity shares sold, average cost basis has been applied.

2. Value of investment at the end of the year

Closing balance will be valued based on lower of cost (Rs. 42,250) or net realizable value (Rs. 13 x 4,000). Thus investment will be valued at Rs. 42,250. **{1 M}**

3. Calculation of sale of right entitlement

1,000 shares x Rs. 8 per share = Rs. 8,000
Amount received from sale of rights will be credited to P & L A/c as per AS 13 'Accounting for Investments' **{1 M}**

4. Dividend received on investment held as on 1st April, 2017

= 4,000 shares x Rs. 10 x 20%
= Rs. 8,000 will be transferred to Profit and Loss A/c

Dividend received on shares purchased on 1st Sep. 2017

= 1,000 shares x Rs. 10 x 20% = Rs. 2,000 will be adjusted to Investment A/c **{1 M}**

Note: It is presumed that no dividend is received on bonus shares as bonus shares are declared on 30th Sept., 2017 and dividend pertains to the year ended 31.3.2017. **{1/2 M}**

Answer 3:
(a)

Trading and Profit and Loss A/c of Mr. Green for the year ended….

Dr.	**Rs.**		**Cr. Rs.**
To Opening stock	**10,000**	By Sales	**4,00,000**
To Purchase- Balance Figure	**3,40,000**	By Closing Stock	**50,000**
To Gross Profit c/f	**1,00,000**		
	4,50,000		4,50,000
To Expenses (balancing figure)	**20,000**	By Gross Profit b/f	**1,00,000**
To Net Profit	**80,000**		
	1,00,000		1,00,000

{8 items x 1/2 = 4 M}

Balance Sheet of Mr. Green as at….

Liabilities:	Rs.	Assets	Cr.
Capital	**4,00,000**	Fixed Assets	**5,00,000**
Liabilities	**8,00,000**	Closing Stock	**50,000**
		Sundry Debtors	**6,00,000**
		Cash	**50,000**
	12,00,000		12,00,000

{6 items x 1/2 = 3 M}

Working notes:-

1. Capital:

Given Fixed Assets Rs. 5,00,000

$$\frac{\text{Fixed Assets}}{\text{Capital}} = 5/4$$

Or, Capital = $5,00,000 \times \frac{4}{5}$ = Rs. 4,00,000 **{1 M}**

2. Liabilities:

$$\frac{\text{Capital}}{\text{Liabilities}} = \frac{1}{2}$$

Or, Liabilities = 4,00,000 × 2 = Rs. 8,00,000 **{1 M}**

3. Net Profit:

$$\frac{\text{Net Profit}}{\text{Capital}} = 1/5$$

Or, $$\frac{\text{Net Profit}}{\text{Rs.}4,00,000} = 1/5$$

Or, Net profit = Rs. 4,00,000 × $\frac{1}{5}$

= Rs. 80,000 **{1 M}**

4. Sales: $$\frac{\text{Net Profit}}{\text{Sales}} \times 100 = 20$$

Or, $$\frac{80,000}{\text{Sales}} \times 100 = 20$$

Or, Sales = 80,000 × 100/20 = Rs. 4,00,000 **{1 M}**

5. Gross Profit:

Gross Profit Ratio = 25%

Or, $$\frac{\text{Gross Profit}}{\text{Sales}} \times 100 = 25$$

Or, $$\frac{\text{Gross Profit}}{4,00,000} \times 100 = 25$$

Or, Gross Profit = 4,00,000 × 25/100 = Rs. 1,00,000 **{1 M}**

6. Opening Stock:

Cost of Goods Sold = Sales - Gross Profit

= Rs. 4,00,000 - Rs. 1,00,000 = Rs. 3,00,000

Stock Turnover Ration = 10

Or, $$\frac{\text{Cost of Goods Sold}}{\text{Average Stock}} = 10$$

Or, $$\frac{3,00,000}{\text{Average Stock}} = 10$$

Or, Average Stock = 3,00,000/10

= Rs. 30,000

$$\text{Average Stock} = \frac{\text{Opening stock + closing stock}}{2}$$

Opening Stock + Closing Stock = 2 × Average Stock

= 2 × Rs. 30,000 = 60,000

Given Closing Stock = Rs. 50,000

So, Opening Stock = Rs. 60,000 - Rs. 50,000

= Rs. 10,000 **{2 M}**

7. Cash Balance :

$$\frac{\text{Fixed Assets}}{\text{Total Current Assets}} = 5/7$$

Or, $$\frac{5,000}{\text{Total Current Assets}} = 5/7$$

Or, Total Current Assets = Rs. 5,00,000 × 7/5

= Rs. 7,00,000

Total Current Assets = Closing Stock + Sundry Debtors + Cash

Or Cash = Total Current Assets - Closing Stock - Sundry Debtors

= Rs.7,00,000 - Rs. 50,000 - Rs. 6,00,000

= Rs. 50,000 {1 M}

Answer:

(b) 1. Calculation of Departmental Results (Actual Gross Profit):

	A Rs.	B Rs.	C Rs.	
Actual Sales	1,72,500	1,59,400	74,600	
Add back: Discount (Refer W.N.)	2,500	600	**400**	{1/2 M}
Normal Sale	1,75,000	1,60,000	75,000	
Gross Profit % on normal sales	20%	25%	33.33%	
Normal gross profit	35,000	40,000	**25,000**	{1/2 M}
Less: Discount	(2,500)	(600)	**(400)**	{1/2 M}
Actual Gross profit	32,500	39,400	**24,600**	{1/2 M}

2. Computation of value of stock as on 31st Dec. 2012:

Departments	A Rs.	B Rs.	C Rs.	
Stock (on 1.1.2011)	24,000	36,000	12,000	
Add: Purchases	1,46,000	1,24,000	**48,000**	{1/2 M}
	1,70,000	1,60,000	60,000	
Add: Actual gross profit	32,500	39,400	**24,600**	{1/2 M}
	2,02,500	1,99,400	84,600	
Less: Actual Sales	(1,72,500)	(1,59,400)	**(74,600)**	{1/2 M}
Closing stock as on 31.12.2012 (bal.fig.)	30,000	40,000	**10,000**	{1/2 M}

Working Note:

Calculation of Discount on sales:

Departments	A Rs.	B Rs.	C Rs.
Sales at normal price	10,000	3,000	1,000
Less: Sales at actual price	(7,500)	(2,400)	(600)
	2,500	600	400

{1 M}

Answer 4:

Partners' Current Accounts

Particular 1.1.20X1	A Rs.	B Rs.	C Rs.	Particulars 1.1.20X1	A Rs.	B Rs.	C Rs.
To Balance b/d			**5,000**	By Balance b/d	**29,000**	**20,000**	
To A's Current A/c - goodwill (W.N. 1)	-	**20,000**	**10,000**	By B's Current A/c - - goodwill	**20,000**		
To A's Current A/c - Revaluation Profit (W.N. 2)	-	**12,000**	**6,000**	By C's Current A/c - goodwill	**10,000**	-	-
To A's Capital A/c -	**80,000**	-	-	By B's Current A/c -	**12,000**	-	-

{31 items x 1/4 = 7.75 M}

transfer				Revaluation profit By C's Current A/c - Revaluation profit By Joint Life Policy A/c (Rs. 26,000 – Rs. 20,000) By Balance c/d	**6,000** **3,000**	 **2,000** **10,000**	 **1,000** **20,000**
	80,000	32,000	21,000		80,000	32,000	21,000
1.1.20X1 To Balance b/d 31.12.20X1 To Drawings A/c		 **10,000** **15,000**	 **20,000** **8,000**	31.12.20X1 By Profit & Loss Appropriation A/c By Balance c/d		 **17,617** **7,383**	 **8,808** **19,192**
		25,000	28,000			25,000	28,000
01.01.20X2 To Balance b/d To B's Capital A/c		 **7,383** **5,190**	 **19,192**	30.06.20X2 By Relaisation A/c – profit By C's Capital A/c – transfer		 **12,573**	 **6,287** **12,905**
		12,573	19,192			12,573	19,192

Partners' Capital Accounts

Particular 01.01.20X1	A Rs.	B Rs.	C Rs.	Particulars 01.01.20X1	A Rs.	B Rs.	C Rs.
To A's Executors To Balance c/d	**1,40,000**	 **40,000**	 **20,000**	By Balance b/d By A's Current A/c	**60,000** **80,000**	**40,000**	**20,000**
	1,40,000	40,000	20,000		1,40,000	40,000	20,000
31.12.20X1 To Balance c/d		 **40,000**	 **20,000**	01.01.20X1 By Balance b/d		 **40,000**	 **20,000**
		40,000	20,000			40,000	20,000
30.06.20X2 To C's Current A/c – transfer To Bank A/c		 --- **45,190**	 **12,905** **7,095**	01.01.20X2 By Balance b/d 30.06.20X2 By B's Current A/c – transfer		 **40,000** **5,190**	 **20,000** ---
		45,190	20,000			45,190	20,000

{17 items x 1/4 = 4.25 M}

Date	Particulars	Rs.	Date	Particulars	Rs.
01.01.20X1	To Bank A/c	**20,000**	01.01.20X1	To A's Capital A/c	**1,40,000**
01.01.20X1	To Balance c/d	**1,20,000**			
		1,40,000			1,40,000
30.06.20X1	To Bank A/c	**20,000**	01.01.20X1	By Balance b/d	**1,20,000**
30.06.20X1	To Balance c/d	**1,03,000**	30.06.20X1	By Interest A/c	**3,000**
		1,23,000			1,23,000
31.12.20X1	To Bank A/c	**20,000**	01.07.20X1	By Balance b/d	**1,03,000**
31.12.20X1	To Balance c/d	**85,575**	31.12.20X1	By Interest A/c	**2,575**
		1,05,575			1,05,575
30.06.20X2	To Bank A/c	**87,715**	01.01.20X2	By Balance b/d	**85,575**
			30.06.20X2	By Interest A/c	**2,140**
		87,715			87,715

{14 items x 1/4 = 3.5 M}

Working Notes:

1. Adjustment in regard to Goodwill

Partners		A	B	C
Share of goodwill before death	(Rs.)	30,000	20,000	10,000
Share of goodwill after death Gain	(Rs.)	--	40,000	20,000
(+)/Sacrifice (-)	(Rs.)	(30,000) Cr.	20,000 Dr.	10,000 Dr.

{1/2 M}

2. Adjustment in regard to revaluation of assets

Partners		A	B	C
Share of profit on revaluation credited to all the partners	(Rs.)	18,000	12,000	6,000
Debited to the continuing partners	(Rs.)	-	24,000	12,000
	(Rs.)	(18,000)	12,000	6,000
		Cr.	Dr.	Dr.

{1/2 M}

3. Ascertainment of Profit for the year ended 31.12.20X1

	(Rs.)	(Rs.)
Profit before charging interest on balance due to A's executors Less: Interest payable to A's executors:		32,000
from 01.01.20X1 to 30.06.20X1	3,000	
From 01.07.20X1 to 31.12.20X1	2,575	(5,575)
Balance of profit to be shared by B and C		26,425

{1/2 M}

4. Balance Sheet as at 31.12.20X1

Liabilities	Rs.	Assets	Rs.
Capital Account – B	40,000	Sundry Assets (balancing figure)	1,19,000
Capital Account – C	20,000	Partners' Current A/–B	7,383
A's Executors A/c	85,575	Partners' Current A/–C	19,192
	1,45,575		1,45,575

{$1^{1/2}$ M}

5. Realisation Account

Particular	Rs.	Particulars	Rs.
To Sundry Assets A/c	1,19,000	By Bank A/c (purchase consideration)	1,40,000
To Interest A/c – A's Executors	2,140		
To Partners' Capital A/c – B	12,573		
To Partners' Capital A/c – C	6,287		
	1,40,000		1,40,000

{$1^{1/2}$ M}

Answer 5:

(a) (i) Statement showing calculation of profit / losses for pre and port period.

	Total	Distri. base	Pre-period	Post-period
Sale	5:28	19,80,000	**3,00,000**	**16,80,000**
Less: Cost of Good. Sold	5:28	11,88,000	**1,80,000**	**10,08,000**
Discount to dealers	5:28	46,200	**7,000**	**39,200**
Director's Remuneration	Post	60,000	-	**60,000**
Salary	5:19	90,000	**18,750**	**71,250**
Rent	(W.N.-)	1,35,000	**15,000**	**1,20,000**
Interest	(W.N.-)	1,05,000	**30,000**	**75,000**
Depreciation	1:2	30,000	**10,000**	**20,000**
Office Expenses	1:2	1,05,000	**35,000**	**70,000**
Sale Promotion Exp.	5:28	33,000	**5,000**	**28,000**
Preliminary Exp.	Post	15,000	-	**15,000**
Profit/Loss (A-B)			(750)	1,73,550

20 item × $\frac{1}{4}$ = 5M.

(ii) Note:- Pre in corporation profit is a capital. Profit and will be transferred capital Reserve. **{2 M}**

W.N.-1 Time ration
Pre-Incorporation Period (From 1.1.2017 to 31.05.2017) = 5M
Post-Incorporation Period (From 1.6.2017 to 31.03.2017) = 10M
Ratio = 5:10
or
1:2
{1 M}

W.N.-2 Sales Ratio
Lest us assume average monthly sales = x
Pre-period sale [1.1.2017 to 31.5.2017] = 5x
Post Period sale [1.6.2017 to 31.3.2018] = 28x
Ratio = 5:28
{1 M}

W.N.-3 Salary Ratio
Let us assume average monthly salary = x
Pre-period salary = 5x
Post period salary = 19x
Ratio = 5:19
{1 M}

W.N.-4 Distribution of Rent

		Pre	Post
(i)	Rent for addition showroom (10,000×9)	-	90,000
(ii)	Balance Rent (1,35,000 - 90,000) in Time Ratio	15,000	30,000
		15,000	1,20,000

{1 M}

W.N.-5 Distribution of Interest

		Pre	Post
(i)	Interest charged to company (9,00,000 × 10% × $\frac{10}{12}$)	-	75,000
(ii)	Balance Interest for pre period	30,000	
		30,000	75,000

{1 M}

Answer:

(b) Journal of BEE Co. Ltd.

	Dr. Rs.	Cr. Rs.
Bank A/c Dr. To Equity Shareholders A/c (Application money received on 5,000 shares @ Rs. 15 per share to be issued as rights shares in the ratio of 1:4)	75,000	 75,000
Equity Shareholders A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Share application money on 5,000 shares @ Rs. 10 per share transferred to Share Capital Account, and Rs. 5 per share to Securities Premium Account vide Boards Resolution dated...)	75,000	 50,000 25,000
Securities Premium A/c Dr. Profit & Loss A/c Dr. To Bonus to Shareholders A/c (Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated...)	25,000 25,000	 50,000

{1/2 M} **{1/2 M}** **{1/2 M}**

Bonus to Shareholders A/c To Equity Share Capital A/c (Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated….)	Dr.	50,000	50,000	{1/2 M}
Profit and Loss A/c To Debenture Redemption Reserve (for DRR created 25% x 1,20,000)	Dr.	30,000	30,000	{1/2 M}
12% Debentures A/c Premium Payable on Redemption A/c @ 3% To Debenture holders A/c (Amount payable to debentures holders)	Dr. Dr.	1,20,000 3,600	1,23,600	{1/2 M}
Profit and loss A/c To Premium Payable on Redemption A/c (Premium payable on redemption charged to Profit & Loss A/c)	Dr.	3,600	3,600	{1/2 M}
Debenture Redemption Reserve A/c To General Reserve (for DRR transferred to general reserve)	Dr.	30,000	30,000	{1/2 M}
Debenture holders A/c To Bank A/c (Amount paid to debenture holders on redemption)	Dr.	1,23,600	1,23,600	{1/2 M}

Balance Sheet of BEE Co. Ltd. as on (after completion of transactions)

Particulars	Note No	Rs.
I. Equity and liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	**3,00,000**
(b) Reserves and Surplus	2	**91,400**
(2) Current Liabilities		
(a) Trade payables		**1,15,000**
Total		**5,06,400**
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment		
(i) Tangible Assets	3	**1,15,000**
(2) Current assets		
(a) Inventories		**1,35,000**
(b) Trade receivables		**75,000**
(c) Cash and bank balances	4	**1,81,400**
Total		**5,06,400**

{9 item × 1/4 M}

Notes to Accounts

			Rs.	
1.	**Share Capital** 30,000 shares of Rs. 10 each fully paid (5,000 shares of Rs. 10 each, fully paid issued as bonus shares out of securities premium and P&L Account)		**3,00,000**	**{1/4 M}**
2.	**Reserve and Surplus**			
	Profit & Loss Account	1,20,000		
	Less: Premium on redemption of debenture	(3,600)		
	Less: Utilisation for issue of bonus shares	(25,000)		

	Less: DRR created	(30,000)		
		61,400		
	General Reserve	30,000	**91,400**	{1/2 M}
3.	**Tangible assets**			
	Freehold property		**1,15,000**	{1/4 M}
4.	**Cash and bank balances**			
	Cash at bank (2,00,000 + 75,000 – 1,23,600)	1,51,400		
	Cash in hand	30,000	**1,81,400**	{1/4 M}

Answer 6:

(a) **Accounting Standards (ASs)** are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements. Accounting Standards reduce the accounting alternatives in the preparation of financial statements and ensure standardization of alternative accounting treatments and comparability of financial statements of different enterprises. **{2 M}**

Accounting Standards deal with the issues of

(i) **Recognition of events and transactions** in the financial statements, **{1/2 M}**

(ii) **Measurement** of these transactions and events, **{1/2 M}**

(iii) **Presentation** of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and **{1 M}**

(iv) **Disclosure requirements** which should be there to enable the public at large and the stakeholders and the potential investors, in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions. **{1 M}**

Answer (b)

(i)

Share capital	**Non-monetary**
Trade receivables	**Monetary**
Investment in equity shares	**Non-monetary**
Fixed assets	**Non-monetary**

{4 Item X 1/2 M}

(ii) As per AS 11 on 'The Effects of Changes in Foreign Exchange Rates', all foreign currency transactions should be recorded by applying the exchange rate on the date of transactions. Thus, goods purchased on 1.1.2017 and corresponding creditor would be recorded at Rs. 11,25,000 (i.e. \$15,000 × Rs. 75) **{1 M}**

According to the standard, at the balance sheet date all monetary transactions should be reported using the closing rate. Thus, creditors of US \$15,000 on 31.3.2017 will be reported at Rs. 11,10,000 (i.e. \$15,000 × Rs. 74) and exchange profit of Rs. 15,000 (i.e. 11,25,000 – 11,10,000) should be credited to Profit and Loss account in the year 2016-17. **{1 M}**

On 7.7.2017, creditors of \$15,000 is paid at the rate of Rs. 73. As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore, Rs. 15,000 (i.e. 11,10,000 – 10,95,000) will be credited to Profit and Loss account in the year 2017-18. **{1 M}**

Answer:
(c):

X Transport Ltd.
Tempo Account

		Rs.			Rs.
20X1 Jan. 1	To Delhi Motors	**1,50,000** **{1/4 M}**	20X1 Dec.31	By Depreciation A/c : 20% on 1,50,000	**30,000** **{1/4 M}**
				By Balance c/d	**1,20,000** **{1/4 M}**
		1,50,000			1,50,000
20X2 Jan. 1	To Balance b/d	**1,20,000** **{1/4 M}**	20X2 Dec.31	By Depreciation A/c	**24,000** **{1/4 M}**
				By Delhi Motors A/c	**87,200** **{3/4 M}**
				By Profit and Loss A/c	**8,800** **{3/4 M}**
		1,20,000			1,20,000

Delhi Motors Account

		Rs.			Rs.
20X1 Jan. 1	To Bank (Down Payment)	**30,000** **{1/4 M}**	20X1 Jan. 1	By Tempos A/c	**1,50,000** **{1/4 M}**
Dec.31	To Bank	**50,800** **{1/4 M}**	Dec.31	By Interest (9% on Rs. 1,20,000)	**10,800** **{1/4 M}**
	To Balance c/d	**80,000** **{1/4 M}**			
		1,60,800			1,60,800
20X2 Jan. 1	To Tempo	**87,200** **{1/2 M}**	20X2 Jan. 1	By Balance b/d	**80,000** **{1/4 M}**
			Dec.31	By Interest (9% on Rs. 80,000)	**7,200** **{1/4 M}**
		87,200			87,200

Answer
(b) Calculation of effective capital and maximum amount of monthly remuneration

	(Rs. in lakhs)
Paid up equity share capital	120
Paid up Preference share capital	20
Reserve excluding Revaluation reserve (150- 10)	140
Securities premium	40
Long term loans	40
Deposits repayable after one year	20
	380
Less: Accumulated losses not written off	(20)
Investments	(180)
Effective capital for the purpose of managerial remuneration	180

{10 item x 1/4= 2.5 M}

Since Kumar Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration, managerial remuneration will be calculated on the basis of effective capital of the company, therefore maximum remuneration payable to the Managing Director should be @ Rs. 60,00,000 per annum. **{$1^{1/2}$ M}**

Note : Revaluation reserve, and application money pending allotment are not included while computing effective capital of Kumar Ltd. **{1 M}**

Answer

(e) Para 17 of AS 1 'Disclosure of Accounting Policies', states that financial statements should disclose all material items, i.e., items the knowledge of which might influence the decisions of the user of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of its omission or misstatement. **{2 M}**

From a positive perspective, materiality has to do with the significance of an item or event to warrant attention in the accounting process. From a negative view point, materiality is critical because otherwise a great deal of time might be spent on trivial matters in the accounting process. **{1 M}**

Individual judgments are required to assess materiality, or to decide what the appropriate minimum quantitative criteria are to be set for given situations. What is material to one organization, may not be material for another organization. **{1 M}**

For example, a long term investor is interested in the current value of fixed asset like building, while the banker may not consider it significant for a short-term loan. Similarly a pair of scissors, ball pens, sharpeners, waste-paper baskets could be used for a number of years but still it is treated as an expense and not an asset. The omission of "paise" in the financial statements is also due to their insignificant effect to the users of the financial statement in making a decision. **{1 M}**

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