(GI-1, GI-2, GI-3, GI-4, VI-1 & SI-1)

DATE: 11.07.2019 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

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) Cash flow statement consists of: (a) Cash in hand and deposits repayable on demand with any bank or other financial institutions and (b) Cash equivalents, which are short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk or change in value.

Cash flows are inflows (i.e. receipts) and outflows (i.e. payments) of cash and cash equivalents. Any transaction, which does not result in cash flow, should not be reported in the cash flow statement. Movements within cash or cash equivalents are not cash flows because they do not change cash as defined by AS 3 "Cash Flow Statements" which is sum of cash, bank and cash equivalents. **{$2^{1/2}$ M}**

In the given case, due to increase in rate of foreign exchange by 75 paise, there is increase (change) in bank balance. This increase of Rs. 18,750 (25,000 x 0.75) is not a cash flow because neither there is any cash inflow nor there is any cash outflow. Therefore, this change in bank balance amounting Rs. 18,750 need not be disclosed in Cash Flow Statement of Ruby exports.

The net increase/decrease in Cash/Cash equivalents in the Cash Flow Statements are stated exclusive of exchange gains and losses. The resultant difference between Cash and Cash Equivalents as per the Cash flow statement and that recognized in the balance sheet is reconciled in the note on cash flow statements. **{$2^{1/2}$ M}**

Answer:

(b) (i) False; As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. **{1 M}**

(ii) False; As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed. **{1 M}**

(iii) True; To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place. **{1 M}**

(iv) False; Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. **{1 M}**

(v) True; As per AS 1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable. {1 M}

Answer:

(c) Amount of Exchange difference and its Accounting Treatment

	Long term Loan	Foreign Currency Rate	Rs.	
(i)	Initial recognition US $ 50,000 Rs. (30,00,000/60)	1 US $ = Rs. 60	30,00,000	{1/4 M}
	Rate on Balance sheet date	1 US $ = Rs. 62		
	Exchange Difference Loss US $ 50,000 x Rs. (62 – 60)		1,00,000	{1 M}
	Treatment: Credit Loan A/c and Debit FCMITD A/c or Profit and Loss A/c by Rs. 1,00,000			{1 M}
(ii)	Trade receivables			
	Initial recognition US $ 16,949.152* (Rs.10,00,000/59)	1 US $ = Rs. 59	10,00,000	{1/4 M}
	Rate on Balance sheet date	1 US $ = Rs. 62		
	Exchange Difference Gain US $ 16,949.152* x Rs. (62-59)		50,847.456*	{1 M}
	Treatment: Credit Profit and Loss A/c by Rs. 50,847.456* And Debit Trade Receivables			{1 M}

Thus, Exchange Difference on Long term loan amounting Rs. 1,00,000 may either be charged to Profit and Loss A/c or to Foreign Currency Monetary Item Translation Difference Account but exchange difference on trade receivables amounting Rs. 50,847.456 is required to be transferred to Profit and Loss A/c. {1/2 M}

Answer:

(d) Calculation of Cost of Fixed Asset (i.e. Machinery)

Particulars		Rs.	
Purchase Price	Given (Rs. 158,34,000 x 100/112)	**1,41,37,500**	{5 item x 1/2 M}
Add: Site Preparation Cost	Given	**1,41,870**	
Technician's Salary	Specific/Attributable overheads for 3 months (See Note) (45,000 x3)	**1,35,000**	
Initial Delivery Cost	Transportation	**55,770**	
Professional Fees for Installation	Architect's Fees	**30,000**	
Total Cost of Asset		1,45,00,140	{1 M}

Note:

(i) Interest on Bank Overdraft for earlier payment of invoice is not relevant under AS 10. {3/4 M}

(ii) Internally booked profits should be eliminated in arriving at the cost of machine. {3/4 M}

Answer 2:

(a) Departmental Trading Account for the year ended on 31st December, 2016

Particulars	A (Rs.)	B (Rs.)	Particulars	A (Rs.)	B (Rs.)
To Opening Stock	**3,00,000**	**2,40,000**	By Sales	**60,00,000**	**90,00,000**
To Purchases	**39,00,000**	**54,60,000**	By Closing Stock	**6,00,000**	**12,00,000**
To Gross Profit	**24,00,000**	**45,00,000**			
	66,00,000	**1,02,00,000**		**66,00,000**	**1,02,00,000**

{14 item x 1/4 M}

General profit and loss account of Beta for the year ended on 31st December, 2016

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To General expenses*	**7,50,000**	By Stock reserve (opening stock)	
To Stock reserve		Dept. A	**30,000**
(Closing Stock)		Dept. B	**36,000**
Dept. A	**60,000**	By Gross Profit	
Dept. B	**72,000**	Dept. A	**24,00,000**
To Net Profit	**60,84,000**	Dept. B	**45,00,000**
	69,66,000		**69,66,000**

{10 item x 1/4 M}

Working Notes:

		Dept. A	Dept. B
1.	Percentage of Profit	24,00,000/60,00,000 x 100 40%	45,00,000/90,00,000 x 100 50%
2.	Opening Stock reserve	60,000 x 50% = 30,000	90,000 X 40% = 36,000
3.	Closing Stock reserve	1,20,000 x 50%=60,000	1,80,000 x 40% = 72,000

{2 M}

Answer:

(b)

Bangalore Branch Stock Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	**4,50,000**	By Goods sent to branch A/c (Returns)	**90,000**
To Goods sent to branch A/c	**45,00,000**	By Bank A/c (Cash sales)	**15,00,000**
To Branch debtors A/c (Returns)	**60,000**	By Branch debtors A/c (credit sales)	**27,00,000**
To Branch adjustment A/c (Surplus over invoice price)*	**1,80,000**	By Balance c/d	**9,00,000**
	51,90,000		51,90,000

{8 item x 1/4 M}

Bangalore Branch Adjustment Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Stock reserve - 20% of Rs. 9,00,000 (closing stock)	**1,80,000**	By Stock reserve - 20% of Rs. 4,50,000 (Opening stock)	**90,000**
To Branch profit & loss A/c (Gross profit)	**9,72,000**	By Goods sent to branch A/c – 20% of Rs. 44,10,000 (45,00,000 – 90,000)	**8,82,000**
		By Branch stock A/c	**1,80,000**
	11,52,000		11,52,000

{5 item x 1/4 M}

Branch Profit & Loss Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Branch expenses A/c	**6,30,000**	By Branch adjustment A/c (Gross Profit)	**9,72,000**
To Branch debtors A/c (Discount)	**45,000**		
To Branch debtors A/c (Bad Debts)	**30,000**		
To Net profit (transferred to Profit & Loss A/c)	**2,67,000**		
	9,72,000		9,72,000

{5 item x 1/4 M}

Branch Expenses Account

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Bank A/c (Rent, rates & taxes)	**1,35,000**	By Branch profit and loss A/c (Transfer)	**6,30,000**
To Bank A/c (Salaries, wages & bonus)	**4,50,000**		
To Bank A/c (Office expenses)	**45,000**		
	6,30,000		6,30,000

{4 item x 1/4 M}

Branch Debtors Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	**5,40,000**	By Bank A/c	**24,00,000**
To Branch stock A/c	**27,00,000**	By Branch profit and loss A/c (Bad debts and discount) (30,000 + 45,000)	**75,000**
		By Branch stock A/c (Sales returns)	**60,000**
		By Balance c/d (bal. fig.)	**7,05,000**
	32,40,000		32,40,000

{6 item x 1/4 M}

Goods sent to Branch Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Branch stock A/c	**90,000**	By Branch stock A/c	**45,00,000**
To Branch adjustment A/c	**8,82,000**		
To Purchases A/c	**35,28,000**		
	45,00,000		45,00,000

{4 item x 1/4 M}

Note: The solution has been given on 'Stock and Debtors Method'. As the question is silent on the method to be adopted, an alternate solution is also possible.

Answer:

(c) (i) **Calculation of Interest and Cash Price**

Ratio of interest and amount due = 8 / (100 + rate of interest) i.e. 8/108 **{1/2 M}**

No. of installments	Amount due at the time of installment	Interest		Cumulative Cash price	
[1]	[2]	[3]		(2-3) = [4]	
3^{rd}	12,000	8/108 of Rs. 12,000 =	Rs. 889	11,111	**{1/2 M}**
2^{nd}	23,111 [W.N.1]	8/108 of Rs. 23,111=	Rs. 1,712	21,399	**{1/2 M}**
1^{st}	33,399 [W.N.2]	8/108 of Rs. 33,399=	Rs. 2,474	30,925	**{1/2 M}**
			Rs. 5,075		

Total cash price = Rs. 30,925 + 12,000 (down payment) =Rs. 42,925 **{1 M}**

Working Notes:

1. Rs. 11,111+ 2nd installment of Rs. 12,000= Rs. 23,111 **{1/2 M}**
2. Rs. 21,399+ 1st installment of Rs. 12,000= Rs. 33,399 **{1/2 M}**

Answer 3:

(a)

Trading and Profit and Loss Account of ABC enterprise
for the year ended 31st March, 2017

		Rs.		Rs.
To Opening Inventory		**80,000**	By Sales	**6,08,750**
To Purchases	4,56,000		By Closing inventory	**70,000**
Less: For advertising	(9,000)	**4,47,000**		
To Freight inwards		**30,000**		
To Gross profit c/d		**1,21,750**		
		6,78,750		6,78,750
To Sundry expenses		**92,000**	By Gross profit b/d	**1,21,750**
To Advertisement		**9,000**	By Interest on investment (20,000 x 6/100 x ½)	**600**
To Discount allowed –				
Debtors	15,000		By Discount received	**8,000**
Bills Receivable	1,250	**16,250**	By Miscellaneous income	**5,000**
To Depreciation on furniture		**6,500**		
To Provision for doubtful debts		**1,455**		
To Net profit		**10,145**		
		1,35,350		1,35,350

{16 item x 1/4 M}

Balance Sheet as on 31st March, 2017

Liabilities	Amount Rs.	Rs.	Assets	Rs.	Amount Rs.
Capital as on 1.4.2016	1,88,000		Furniture (w.d.v.)	60,000	
Less: Drawings	(91,000)		Additions during the year	10,000	
Add: Net Profit	10,145	**1,07,145**	Less: Depreciation	(6,500)	**63,500**
Sundry creditors		**1,50,000**	Investment		**19,000**
Outstanding expenses		**18,000**	Interest accrued		**600**
			Closing inventory		**70,000**
			Sundry debtors	72,750	
			Less: Provision for doubtful debts	1,455	**71,295**
			Bills receivable		**17,500**
			Cash in hand and at bank		**26,250**
			Prepaid expenses		**7,000**
		2,75,145			2,75,145

{11 item x 1/4 M}

Working Notes:

(1) Capital on 1st April, 2016

Balance Sheet as on 1st April, 2016

Liabilities	Rs.	Assets	Rs.
Capital (Bal. fig.)	1,88,000	Furniture (w.d.v.)	60,000
Creditors	1,10,000	Closing Inventory	80,000
Outstanding expenses	20,000	Sundry debtors	1,60,000
		Cash in hand and at bank	12,000
		Prepaid expenses	6,000
	3,18,000		3,18,000

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

(2) Purchases made during the year

Sundry Creditors Account

	Rs.		Rs.
To Cash and bank A/c	3,92,000	By Balance b/d	1,10,000
To Discount received A/c	8,000	By Sundry debtors A/c	4,000
To Bills Receivable A/c	20,000	By Purchases A/c	4,56,000
To Balance c/d	1,50,000	(Balancing figure)	
	5,70,000		5,70,000

{1 M}

(3) Sales made during the year

		Rs.
Opening inventory		80,000
Purchases	4,56,000	
Less: For advertising	(9,000)	4,47,000
Freight inwards		30,000
		5,57,000
Less: Closing inventory		(70,000)
Cost of goods sold		4,87,000
Add: Gross profit (25% on cost)		1,21,750
		6,08,750

{$1^{1/4}$ M}

(4) Debtors on 31st March, 2017

Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	1,60,000	By Cash and bank A/c	5,85,000
To Sales A/c	6,08,750	By Discount allowed A/c	15,000
To Sundry creditors A/c		By Bills receivable A/c	1,00,000
(bill dishonoured)	4,000	By Balance c/d (Bal. fig.)	72,750
	7,72,750		7,72,750

{1 M}

(5) Additional drawings by proprietors of ABC enterprises

Cash and Bank Account

	Rs.		Rs.
To Balance b/d	12,000	By Freight inwards A/c	30,000
To Sundry debtors A/c	5,85,000	By Furniture A/c	10,000
To Bills Receivable A/c	61,250	By Investment A/c	19,000
To Miscellaneous income A/c	5,000	By Expenses A/c	95,000
		By Creditors A/c	3,92,000
		By Drawings A/c	
		[Rs. 70,000 + Rs. 21,000)	91,000
		(Additional drawings)]	
		By Balance c/d	26,250
	6,63,250		6,63,250

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

(6) Amount of expenses debited to Profit and Loss A/c

Sundry Expenses Account

	Rs.		Rs.
To Prepaid expenses A/c (on 1.4.2016)	6,000	By Outstanding expenses A/c (on 1.4.2016)	20,000
To Bank A/c	95,000	By Profit and Loss A/c (Balancing figure)	92,000
To Outstanding expenses A/c (on 31.3.2017)	18,000	By Prepaid expenses A/c (on 31.3.17)	7,000
	1,19,000		1,19,000

{1 M}

(7) Bills Receivable on 31st March, 2017

Bills Receivable Account

	Rs.		Rs.
To Debtors A/c	1,00,000	By Creditors A/c	20,000
		By Bank A/c	61,250
		By Discount on bills receivable A/c	1,250
		By Balance c/d (Balancing figure)	17,500
	1,00,000		1,00,000

{1 M}

Note: All sales and purchases are assumed to be on credit basis.

Answer:

(b)

Computation of claim for loss of stock

	Rs.
Stock on the date of fire i.e. on 30th March, 20X2 (W.N.1)	62,600
Less: Value of salvaged stock	(12,300)
Loss of stock	50,300
Amount of claim $= \dfrac{\text{Insured Value}}{\text{Total cost of stock on the date of fire}} \times \text{Loss of stock}$ $= \dfrac{60{,}000}{62{,}600} \times 50{,}300$	48,211 (approx.)

{1 M} {1 M}

A claim of Rs. 48,211 (approx.) should be lodged by M/s Suraj Brothers to the insurance company.

Working Notes:

1. Calculation of closing stock as on 30th March, 2012

Memorandum Trading Account for

(from 1st January, 20X2 to 30th March, 20X2)

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening stock	95,600	By Sales (W.N.3)	2,42,000
To Purchases (1,70,000-30,000)	1,40,000	By Goods with customers (for approval) (W.N.2)	26,400*
To Wages (50,000 – 3,000)	47,000	By Closing stock (Bal. fig.)	62,600
To Gross profit (20% on sales)	48,400		
	3,31,000		3,31,000

{2 M}

2. Calculation of goods with customers
Since no approval for sale has been received for the goods of Rs. 33,000 (i.e. 2/3 of Rs. 49,500) hence, these should be valued at cost i.e. Rs. 33,000 – 20% of Rs. 33,000 = Rs. 26,400. **{1/2 M}**

3. Calculation of actual sales
Total sales – Sale of goods on approval ($2/3^{rd}$)= Rs. 2,75,000 – Rs. 33,000 = Rs. 2,42,000. **{1/2 M}**

Answer 4:

(a) Statement showing calculation of profit/loss for pre and post incorporation periods

Rs.

	Ratio	Total	Pre Incorporation	Post Incorporation
Sales	1:2.45	55,20,000	**16,00,000**	**39,20,000**
Interest on Investments	Pre	60,000	**60,000**	--
Bad debts recovered	Pre	36,000	**36,000**	--
Profit on sale of investment	Pre	42,000	**42,000**	--
(i)		56,58,000	**17,38,000**	**39,20,000**
Cost of goods sold	1:2.45	34,50,000	**10,00,000**	**24,50,000**
Advertisement	Post	69,800	--	**69,800**
Sundry office expenses	4:7	1,06,700	**38,800**	**67,900**
Printing & Stationary	4:7	77,000	**28,000**	**49,000**
Manager Salary	(W.N.3)	82,000	**26,000**	**56,000**
Interest on Debentures	Post	8,900	--	**8,900**
Rent	(W.N.4)	1,33,000	**28,000**	**1,05,000**
Bad debts	1:2.45	69,000	**20,000**	**49,000**
Underwriting commission	Post	56,000	--	**56,000**
Audit fees	Post	41,000	--	**41,000**
Depreciation	4:7	71,500	**26,000**	**45,500**
Interest on Borrowing	(W.N. 5)	1,25,000	**46,250**	**78,750**
(ii)		42,89,900	**12,13,050**	**30,76,850**
Net Profit [(i) – (ii)]		13,68,100	**5,24,950**	**8,43,150**

{31 item x 1/4 M}

Working Notes:

1. **Calculation of Sales Ratio**
Let the average sales per month be x
Total sales from 01.05.2017 to 31.08.2017 will be 4x
Average sales per month from 01.09.2017 to 31.03.2018 will be 1.4x
Total sales from 01.09.2017 to 31.03.2018 will be 1.4x X 7 =9.8x
Ratio of Sales will be 4x: 9.8x =1:2.45 **{1 M}**

2. **Calculation of time Ratio**
4 Months: 7 Months i.e. 4:7 **{1/4 M}**

3. **Manager Salary**

Rs.

Total salary	82,000
Less: Increased salary	27,000
	55,000
Monthly Salary =55,000/11	5,000
Salary from May to Aug	5,000 + 5,000 + 8,000 + 8,000 = 26,000
Salary from Sep to March	8,000 x 7= 56,000

{1 M}

4. **Apportionment of Rent**

	Rs.	
Total Rent	1,33,000	
Less: additional rent from 1.9.2017 to 31.3.2018	56,000	
Rent of old premises for 11 months	77,000	
	Pre	Post
Apportionment in time ratio (4:7)	28,000	49,000
Add: Rent for new space	---	56,000
Total	28,000	1,05,000

{1 M}

5. **Interest on borrowing**

Company's Borrowing Interest = Rs. 15,00,000 x 9% x 7/12= Rs. 78,750
Interest for Pre-incorporation period = Rs. 1,25,000 – 78,750 = Rs. 46,250 {1 M}

Answer:
(b)

Sencom Limited
Debenture Account

20X1		Rs.	20X1		Rs.
Dec. 31	To Balance c/d	**1,50,000**	Jan. 1	By Balance b/d	**1,50,000**
20X2			20X2		
Mar. 31	To Own Debenture A/c	**45,000**	Jan. 1	By Balance b/d	**1,50,000**
	To Balance c/d	**1,05,000**			
		1,50,000			1,50,000
			April. 1	By Balance b/d	**1,05,000**

{6 item x 1/4 M}

Own Debenture Investment Account

20X1		Nominal Cost Rs.	Interest Rs.	Cost Rs.	20X1		Nominal Cost Rs.	Interest Rs.	Cost Rs.
Mar. 1	To Bank	25,000	**521**	**24,725**	Mar. 31	By Debenture			
Sep. 1	To Bank	20,000	**417**	**19,708**		Interest A/c	—	**625**	—
Dec. 31	To P & L A/c (b.f.)		**1,375**		Sep. 30	By Debenture Interest A/c	—	**1,125**	—
					Dec. 31	By Debenture Interest A/c	—	**563**	—
						By Balance c/d	45,000	—	**44,433**
		45,000	2,313	44,433			45,000	2,313	44,433
20X2					20X2				
Jan. 1	To Balance b/d	45,000		**44,433**	Mar. 31	By Debenture Interest A/c	—	**563**	—
Mar. 31	To Capital Reserve (Profit on cancellation) (b.f.)	—	—	**567**		By 5% Deb. A/c	45,000	—	**45,000**
	To P & L A/c	—	**563**	—					
		45,000	563	45,000			45,000	563	45,000

{14 item x 1/4 M}

Debenture Interest Account

20X1		Rs.	20X1		Rs.
Mar. 31	To Bank (on Rs. 1,25,000 @ 5% for 6 months)	**3,125**	Jan. 1	By Accrued Interest (on Rs. 1,50,000 @ 5% for 3 months)	**1,875**
	To Interest on own debentures (25,000 x 5% x 6/ 12)	**625**	Dec. 31	By P & L A/c	**7,500**
Sep. 30	To Bank (on Rs. 1,05,000 @ 5% for 6 months)	**2,625**			
	To Interest on own debentures (45,000 x 5% x 6/12)	**1,125**			
Dec. 31	To Interest accrued (on Rs. 1,05,000 for 3 months @ 5%)	**1,312**			
	To Interest on own debentures (On Rs. 45,000 for 3 months @ 5%)	**563**			
		9375			9375
20X2 Mar. 31	To Bank (on Rs. 1,05,000 for 6 months @ 5%)	**2,625**	20X2 Jan. 1	By Interest Accrued	**1,312**
	To Interest on own debentures (On Rs. 45,000 for 3 months)	**563**	Mar. 31	By P & L A/c	**1,876**
		3,188			3,188

{12 item x 1/4 M}

Answer 5:

(a)

Particulars	Cash Rs.	Creditors Rs.	Capitals P (Rs.)	Capitals Q (Rs.)	Capitals R (Rs.)	
Balance due after loan		**16,000**	**52,000**	**43,500**	**32,000**	**{1 M}**
January						
Balance available	9,000					
Realization less expenses and cash retained	10,000					
Amount available and paid	19,000	(16,000)	--	--	(3,000)	
Balance due	**--**	**--**	**52,000**	**43,500**	**29,000**	**{1 M}**
February						
Opening Balance	6,000					
Expenses paid and cash carried forward	3,000					
Available for distribution	3,000					
Cash paid to Q and Machinery given to R			--	(3,000)	9,000	
Balance due	**--**		**52,000**	**40,500**	**20,000**	**{1 M}**
March						
Opening Balance	2,000					
Amount realized less expenses	87,300					
Amount paid to partners	89,300		**(41,689)**	**(32,767)**	**(14,844)**	**{1 M}**
Loss			**10,311**	**7,733**	**5,156**	**{1 M}**

Working Note:

(i) Adjusted Capital

	P (Rs.)	Q (Rs.)	R (Rs.)
Scheme of payment for January 2017			
Balance of Capital Accounts	65,000	50,500	32,000
Less: Loans	(13,000)	(7,000)	-
	52,000	43,500	32,000

{1 M}

(ii) Highest Relative Capital Basis

Adjusted Capital (A)	52,000	43,500	32,000
Profit Sharing Ratio	4	3	2
Capital / Profit sharing Ratio	13,000	14,500	16,000
Capital in profit sharing ratio, taking P's capital as base (B)	52,000	39,000	26,000
Excess of R's capital and Q's Capital (A – B) (i)		4,500	6,000
Profit Sharing Ratio		3	2
Capital / Profit sharing Ratio		1,500	3,000
Capital in profit sharing ratio, taking Q's capital as base (ii)		4,500	3,000
Excess of R's Capital over Q's capital (i – ii)			3,000

{3 1/2 M}

(iii) Highest Relative Capital Basis

	P (Rs.)	Q (Rs.)	R (Rs.)
Balance of Capital Accounts at end of February(A)	52,000	40,500	20,000
Profit Sharing Ratio	4	3	2
Capital / Profit sharing Ratio	13,000	13,500	10,000
Capital in profit sharing ratio, taking R's capital as base (B) (i)	40,000	30,000	20,000
Excess of P's Capital and Q's Capital (A– B) (i)	12,000	10,500	
Profit Sharing Ratio	4	3	
Capital / Profit sharing Ratio	3,000	3,500	
Capital in profit sharingratio taking P's capital as base (ii)	12,000	9,000	
Excess of Q's Capital over P's Capital (i – ii)	-	1,500	

{3 1/2 M}

(iv) Scheme of distribution of available cash for March:

Payment Rs. 1500 (C)		(1,500)	
Balance of Excess Capital (i –C)	12,000	9,000	
Payment Rs. 21000 (D)	(12,000)	(9,000)	
Balance due (A – C – D)	40,000	30,000	20,000
Balance cash Payment (Rs. 89,300 – Rs. 22,500) = Rs. 66,800 (E)	(29,689)	(22,267)	(14,844)
Total Payment (Rs. 89,000) (C + D +E) (iii)	**41,689**	**32,767**	**14,844**
Loss (A – iii)	**10,311**	**7,733**	**5,156**

{1 M} {1 M}

Answer:

(b) Nature of Limited Liability Partnership:

A limited liability partnership is a body corporate formed and incorporated under the LLP Act, 2008 and is a legal entity separate from that of its partners. A limited liability partnership shall have perpetual succession and any change in the partners of a limited liability partnership shall not affect the existence, rights or liabilities of the limited liability partnership. **{2 1/2 M}**

Designated partners:

Every limited liability partnership shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.
In case of a limited liability partnership in which all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such limited liability partnership or nominees of such bodies corporate shall act as designated partners. **{2$^{1/2}$ M}**

Answer 6:

(a) Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias.
Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion based on the business results. Information contained in the financial statements must be free from bias. It should reflect a balanced view of the financial position of the company without attempting to present them in biased manner. Financial statements cannot be prepared with the purpose to influence certain division, i.e. they must be neutral. **{5 M}**

Answer:

(b) According to AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset (if the grant had been credited to the cost of fixed asset at the time of receipt of grant) should be recorded by increasing the book value of the asset, by the amount refundable. Where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. **{2 M}**

		(Rs. in lakhs)
1st April, 2014	Acquisition cost of machinery (Rs. 500 – Rs. 100)	400.00
31st March, 2015	Less: Depreciation @ 20%	(80)
1st April, 2015	Book value	320.00
31st March, 2016	Less: Depreciation @ 20%	(64)
1st April, 2016	Book value	256.00
31st March, 2017	Less: Depreciation @ 20%	(51.20)
1st April, 2017	Book value	204.80
2nd April, 2017	Add: Refund of grant	100.00
	Revised book value	304.80

{2 M}

Depreciation @ 20% on the revised book value amounting Rs. 304.80 lakhs is to be provided prospectively over the residual useful life of the asset. **{1 M}**

Answer:

(c) In the books of ……….

Journal Entries

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. To Equity Share Capital A/c (Being the issue of 2,500 Equity Shares of Rs. 10 each at a premium of Re. 1 per share as per Board's Resolution No….. dated…….)	25,000	 25,000

{1/2 M}

	8% Redeemable Preference Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c Dr. To Preference Shareholders A/c (Being the amount paid on redemption transferred to Preference Shareholders Account)	1,00,000 10,000	1,10,000	{1 M}
	Preference Shareholders A/c Dr. To Bank A/c (Being the amount paid on redemption of preference shares)	1,10,000	1,10,000	{1/2 M}
	Profit & Loss A/c Dr. To Premium on Redemption of Preference Shares A/c (Being the premium payable on redemption is adjusted against Profit & Loss Account)	10,000	10,000	{1/2 M}
	General Reserve A/c Dr. Profit & Loss A/c Dr. Investment Allowance Reserve A/c Dr. To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	60,000 10,000 5,000	75,000	{1½ M}

Working Note:

No of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed		Rs. 1,00,000	{1 M}
Less: Profit available for distribution as dividend:			
General Reserve : Rs. (80,000-20,000)	Rs. 60,000		
Profit and Loss (20,000 – 10,000 set aside for adjusting premium payable on redemption of preference shares)	Rs. 10,000		
Investment Allowance Reserve: (` 10,000-5,000)	Rs. 5,000	(Rs. 75,000)	
		Rs. 25,000	

Therefore, No. of shares to be issued = 25,000/Rs. 10 = 2,500 shares.

Answer:

(d) Amount that can be drawn from reserves for 10% dividend

10% dividend on Rs. 80,00,000		Rs. 8,00,000	{2 M}
Profits available			
Current year profit	3,00,000		
Less: Preference dividend	(1,57,500)	(1,42,500)	
Amount which can be utilised from reserves		6,57,500	

Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 2014:

Condition I

Since 10% is lower than the average rate of dividend (12%), 10% dividend can be declared. **{1 M}**

Condition II

Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital plus free reserves ie. Rs. 12,25,000 [10% of (80,00,000 +17,50,000+25,00,000)] **{1 M}**

Condition III

The balance of reserves after drawl Rs. 18,42,500 (Rs. 25,00,000 - Rs. 6,57,500) should not fall below 15 % of its paid up capital ie. Rs. 14,62,500 (15% of Rs. 97,50,000]

Since all the three conditions are satisfied, the company can withdraw Rs. 6,57,500 from accumulated reserves.(as per Declaration and Payment of Dividend Rules, 2014.) **{1 M}**

Answer:

(e) At each balance sheet date, an enterprise re-assesses unrecognised deferred tax assets. The enterprise recognises previously unrecognised deferred tax assets to the extent that it has become reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realised. **{3 M}**

For example, an improvement in trading conditions may make it reasonably certain that the enterprise will be able to generate sufficient taxable income in the future. **{2 M}**

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