(GI-1, GI-2+4, GI-3, GI-5+6 & VDI-1, VI-1, SI-1)

DATE: 08.09.2020 MAXIMUM MARKS: 100 TIMING: 3¼ Hours

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) The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made. **2M**

In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from Rs. 3.5 lakhs to Rs. 2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2016-17: **2M**

"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been lower by Rs. 1 lakh." **1M**

Answer:

(b) **Journal Entries**

Year	Particulars		Rs. in lakhs (Dr.)	Rs. in lakhs (Cr.)	
1	Fixed Asset Account To Bank Account (Being fixed asset purchased)	Dr.	20	20	½ M
	Bank Account To Fixed Asset Account (Being grant received from the government reduced the cost of fixed asset)	Dr.	8	8	½ M
	Depreciation Account (W.N.1) To Fixed Asset Account (Being depreciation charged on Straight Line method (SLM))	Dr.	2	2	½ M
	Profit & Loss Account To Depreciation Account (Being depreciation transferred to Profit and Loss Account at the end of year 1)	Dr.	2	2	½ M
2	Fixed Asset Account To Bank Account (Being government grant on asset partly refunded which increased the cost of fixed asset)	Dr.	5	5	½ M
	Depreciation Account (W.N.2) To Fixed Asset Account (Being depreciation charged on SLM on revised value of fixed asset prospectively)	Dr.	3.67	3.67	½ M
	Profit & Loss Account To Depreciation Account (Being depreciation transferred to Profit and Loss Account at the end of year 2)	Dr.	3.67	3.67	½ M

Working Notes:

1. Depreciation of Year 1

	Rs. in Lakhs
Cost of the Asset	20
Less : Government grant received	(8)
	12
Depreciation $\frac{12-4}{4}$	2

½ M

2. Depreciation for Year 2:

	Rs. in Lakhs
Cost of the Asset	20
Less : Government grant received	(8)
	12
Less: Depreciation for the first year $\frac{12-4}{4}$	2
	10
Add: Government grant refundable	5
	15
Depreciation for the second year $\frac{15-4}{3}$	3.67

1 M

Answer:

(c) (i) Interest paid by financial enterprise Cash flows from operating activities

(ii) TDS on interest received from subsidiary company
Cash flows from investing activities

(iii) Deposit with bank for a term of two years
Cash flows from investing activities

(iv) Insurance claim received against loss of fixed asset by fire
Extraordinary item to be shown as a separate heading under 'Cash flow from investing activities'

(v) Bad debts written off

It is a non-cash item which is adjusted from net profit/loss under indirect method, to arrive at net cash flow from operating activity.

{5 M}

Answer:

(d) Entity A's management can apply the revaluation model only to the office buildings. The office buildings can be clearly distinguished from the industrial buildings in terms of their function, their nature and their general location.AS 10 (Revised) permits assets to be revalued on a class by class basis.
The different characteristics of the buildings enable them to be classified as different PPE classes. The different measurement models can, therefore, be applied to these classes for subsequent measurement.
However, all properties within the class of office buildings must be carried at revalued amount.

{5 M}

Answer 2:

(a)

K V Trading Private Limited
Statement showing calculation of profit/loss for pre and post incorporation periods

Rs. in lakhs

	Ratio	Total	Pre-Incorporation		Post-Incorporation	
Sales	1:6	240.00	34.29		205.71	
Interest on Investments	Pre	6.00	6.00		-	
Bad debts recovered	Pre	0.50	0.50		-	
(i)		246.50	40.79	}{1 M}	205.71	}{1 M}
Cost of goods sold	1:6	102.00	14.57		87.43	
Advertisement	1:6	3.00	0.43		2.57	
Sales commission	1:6	6.00	0.86		5.14	
Salary (W.N.3)	1:5	18.00	3.00		15.00	
Managing directors remuneration	Post	6.00	-		6.00	
Interest on Debentures	Post	2.00	-		2.00	
Rent (W.N.4)		5.50	0.93		4.57	
Bad debts (1 + 0.5)	1:6	1.50	0.21		1.29	
Underwriting commission	Post	2.00	-		2.00	
Audit fees	Post	2.00	-		2.00	
Loss on sale of Investment	Pre	1.00	1.00		-	
Depreciation	1:3	4.00	1.00		3.00	
(ii)		153.00	22.00	}{1 M}	131.00	}{1 M}
Net Profit [(i) – (ii)]		93.50	18.79	}{1 M}	74.71	}{1 M}

Working Notes:

1. **Calculation of Sales Ratio**
   Let the average sales per month be x
   Total sales from 01.04.20X2 to 30.06.20X2 will be 3x
   Average sales per month from 01.07.20X2 to 31.03.20X3 will be 2x Total sales from 01.07.20X2 to 31.03.20X3 will be 2x X 9 =18x Ratio of Sales will be 3x: 18x i.e. 3:18 or 1:6 **}{1 M}**
2. **Calculation of time Ratio**
   3 Months: 9 Months i.e. 1:3 **}{1 M}**
3. **Apportionment of Salary**
   Let the salary per month from 01.04.20X2 to 30.09.20X2 is x Salary per month from 01.10.20X2 to 31.03.20X3 will be 2x Hence, pre incorporation salary (01.04.20X2 to 30.06.20X2) = 3x
   Post incorporation salary from 01.07.20X2 to 31.03.20X3 = (3x + 12x) i.e. 15xRatio for division 3x: 15x or 1: 5 **}{1 M}**

4. **Apportionment of Rent**

	Rs. Lakhs	
Total Rent	5.5	
Less: additional rent from 1.7.20X2 to 31.3.20X3	1.8	
Rent of old premises for 12 months	3.7	
Apportionment in time ratio	0.925	2.775
Add: Rent for new space	-	1.80
Total	0.925**}{1 M}{**	4.575

Answer:

(b) Journal Entries in the books of Brite Ltd.

20X1			Dr. Rs. In Lakhs	Cr Rs. In Lakhs	
Apr-02	Equity Share Final Call A/c To Equity Share Capital A/c (Final call of Rs. 2 per share on 10 crore equity shares made due)	Dr.	2,000	2,000	{1 M}
	Bank A/c To Equity Share Final Call A/c (Final call money on 10 crore equity shares received)	Dr.	2,000	2,000	{1 M}
Jun-01	Capital Redemption Reserve A/c Securities Premium A/c General Reserve A/c (b.f.) To Bonus to Shareholders A/c (Bonus issue of two shares for every five shares held, by utilizing various reserves as per Board's resolution dated…….)	Dr. Dr. Dr. Dr.	1,485 2,000 515	4000	{1 M}
	Bonus to Shareholders A/c To Equity Share Capital A/c (Capitalisation of profit)	Dr.	4,000	4,000	{1 M}

Notes for Accounts:

			Rs. in lakhs	
1	Share Capital			
	Authorised share capital			
	20 crore shares of Rs. 10 each		20,000	
	Issued, subscribed and fully paid up share capital			
	14 crore Equity shares of Rs. 10 each, fully paid up		14,000	
	(Out of the above, 4 crore equity shares @ Rs. 10 each were			
	issued by way of bonus)			
	2 crore, 11% Cumulative Preference share capital of Rs. 10		2,000	
	each, fully paid up			
			16,000	}{3 M}
2	Reserves and Surplus			
	Capital Redemption reserve	1,485		
	Less: Utilised for bonus issue	-1,485	-	
	Securities Premium	2,000		
	Less: Utilised for bonus issue	-2,000	-	
	General Reserve	1,040		
	Less: Utilised for bonus issue	-515	525	
	Surplus (Profit and Loss Account)		273	
	TOTAL		798	}{3 M}

Answer 3:
(a)

Branch Debtors A/c

	Rs.		Rs.
To Branch Stock A/c	**1,16,000**	By Branch Cash A/c (balancing figure)	**74,000**
		By Bad Debts (written off)	**400**
		By Balance c/d	**41,600**
	1,16,000		1,16,000

4 items x ¼ M

Goods Sent to Branch A/c

	Rs.		Rs.
To Branch Adjustment A/c $1{,}00{,}000 \times \frac{20}{100}$	**20,000**	By Branch Stock A/c	**1,20,000**
To Purchases/ Trading A/c	**1,00,000**		
	1,20,000		1,20,000

3 items x ¼ M

Branch Cash A/c

	Rs.		Rs.
To Branch Debtors A/c	**74,000**	By Branch Expenses A/c	**24,000**
To H.O. A/c (cash remittance)	**6,000**	By H.O. (cash remittance)	**86,000**
To Branch Stock A/c		By Balance c/d	**4,000**
- Cash Sales (balancing figure)	**34,000**		
	1,14,000		1,14,000

6 items x ¼ M

Branch Stock A/c

	Rs.		Rs.
To Goods sent to Branch A/c	**1,20,000**	By Branch Debtors A/c	**1,16,000**
To Branch Adjustment A/c	**54,000**	By Branch Cash A/c (Sales)	**34,000**
(Excess profit over normal loading -balancing figure)		By Goods in Transit (1,20,000-1,08,000)	**12,000**
		By Balance c/d	**12,000**
	1,74,000		1,74,000

6 items x ¼ M

Branch Expenses A/c

	Rs.		Rs.
To Branch Cash A/c	24,000	By Branch P&L A/c	24,000

2 items x ¼ M

Branch Adjustment A/c

	Rs.		Rs.
To Stock Reserve A/c	**2,000**	By Goods sent to Branch A/c	**20,000**
To Goods in transit Reserve A/c	**2,000**	By Branch Stock A/c	**54,000**
To Branch P&L A/c (Balancing figure)	**70,000**		
	74,000		74,000

5 items x ¼ M

Branch P & L A/c

		Rs.			Rs.
To	Branch Expenses A/c	**24,000**	By	Branch Adjustment A/c	**70,000**
To	Bad Debts	**400**			
To	Net Profit (transferred to General P&L A/c)	**45,600**			
		70,000			70,000

4 items x ¼ M

Working Notes:

1. Loading is 20% of cost i.e. 16.67% (1/6th) of invoice value. Loading on closing stock = 1/6th of Rs. 12,000 =Rs. 2,000.
2. Loading on goods sent to branch = 1/6th of Rs. 1,20,000 = Rs. 20,000.
3. Loading on goods in transit = 1/6th of Rs. 12,000 = Rs. 2,000.

1/2 M

Answer:

(b)

In the books of Mr. Brown

12% Bonds for the year ended 31st March, 20X2

Date	*Particulars*	*Nos.*	*Income* Rs.	*Amount* Rs.	*Date*	*Particulars*	*Nos.*	*Income* Rs.	*Amount* Rs.
20X1 May, 1	To Bank A/c (W.N.7)	24,000	**24,000** **½ M**	**19,92,000** **½ M**	20X1 Sept.	By Bank-Interest (24,000 x 100 x 12% x 6/12)	-	**1,44,000** **½ M**	
20X2 March 1	To P & L A/c (W.N.1)			**1,05,000** **½ M**	3020X2 Mar. 1	By Bank A/c (W.N.8)	15,000	**75,000** **½ M**	**13,50,000** **½ M**
20X2 March 31	To P & L A/c (b.f.)		**2,49,000** **½ M**		20X2 Mar. 31	By Bank-Interest (9,000 x 100 x 12% x 6/12)		**54,000** **½ M**	
						By Balance c/d (W.N.2)	9,000		**7,47,000** **½ M**
		24,000	2,73,000	20,97,000			24,000	2,73,000	20,97,000

9 items = $\frac{1}{2}$M = 4$\frac{1}{2}$ M

Investment in Equity shares of Alpha Ltd. for the year ended 31st March, 20X2

Date	*Particulars*	*Nos.*	*Income* Rs.	*Amount* Rs.	*Date*	*Particulars*	*Nos.*	*Income* Rs.	*Amount* Rs.
20X1 June 15	To Bank A/c ([1,50,000 x 25] + [2% x (1,50,000 x 25)])	1,50,000	-	**38,25,000** **½ M**	20X1 Oct. 31	By Bank A/c	80,000	-	**17,60,000** **½ M**
Oct. 14	To Bonus Issue (1,50,000/ 3 x2)	1,00,000	-	-	20X2 Jan. 1	By Bank A/c –dividend (1,70,000 x 10 x 15%)		**2,55,000** **½ M**	
20X1 Oct. 31	To P & L A/c (W.N.3)			**5,36,000** **½ M**	March 31	By Balance c/d (W.N.4)	1,70,000	-	**26,01,000** **½ M**
20X2 Mar. 31	To P & L A/c		**2,55,000** **½ M**						
		2,50,000	2,55,000	43,61,000			2,50,000	2,55,000	43,61,000

6 items = $\frac{1}{2}$M 3 M.

Investment in Equity shares of Beeta Ltd. for the year ended 31st March, 20X2

Date	*Particulars*	*Nos.*	*Income* Rs.	*Amount* Rs.	*Date*	*Particulars*	*Nos.*	*Income* Rs.	*Amount* Rs.
20X1 July 10	To Bank A/c ([60,000 x 44] + [2% x (60,000 x 44)])	60,000	-	**26,92,800** **½ M**	20X2 Mar. 15	By Bank – dividend [(60,000 + 6,000) x 10 x 18%]	-	**1,18,800** **½ M**	
20X2 Jan. 15	To Bank A/c (W.N. 5)	6000	-	**30,000** **½ M**	March 31	By Balance c/d (bal. fig.)	66,000		**27,22,800** **½ M**
March 31	To P & L A/c		**1,18,800** **½ M**						
		66,000	1,18,800	27,22,800			66,000	1,18,800	27,22,800

5 items = $\frac{1}{2}$M

= 2$\frac{1}{2}$M

Working Notes:

1. **Profit on sale of 12% Bond**

Sales price — Rs. 13,50,000

Less : Cost of bond sold = $\frac{19,92,000}{24,000} \times 15,000$ — (Rs.12,45,000)

Profit on sale — Rs. 1,05,000 **1/4 M**

2. **Closing balance as on 31.3.20X2 of 12 % Bonds**

$\frac{19,92,000}{24,000} \times 9,000$ = Rs. 7,47,000 **1/4 M**

3. **Profit on sale of equity shares of Alpha Ltd.**

Sales price — Rs. 17,60,000

Less : Cost of bond sold = $\frac{38,25,000}{2,50,000} \times 80,000$ — (Rs. 12,24,000)

Profit on sale — Rs. 5,36,000 **1/4 M**

4. **Closing balance as on 31.3.20X2 of equity shares of Alpha Ltd.**

$\frac{38,25,000}{2,50,000} \times 1,70,000$ = Rs. 26,01,000 **1/4 M**

5. **Calculation of right shares subscribed by Beeta Ltd.**

Right Shares = $\frac{60,000 \text{ Shares}}{4} \times 1$ = 15,000 shares

Shares subscribed by Mr. Brown= 15,000 x 40%= 6,000 shares

Value of right shares subscribed= 6,000 shares @ Rs. 5 per share = Rs. 30,000 **1/4 M**

6. **Calculation of sale of right entitlement by Beeta Ltd.**

No. of right shares sold = 15,000 - 6,000 = 9,000 shares

Sale value of right = 9,000 shares x Rs. 2.25 per share = Rs. 20,250

Note: As per para 13 of AS 13, sale proceeds of rights is to be credited to P & L A/c. **1/4 M**

7. Purchase of bonds on 01.05.20X1

Interest element in purchase of bonds = 24,000 x 100 x 12% x 1/12
= Rs. 24,000
Investment element in purchase of bonds = (24,000 x 84) –24,000
= Rs. 19,92,000

1/4 M

8. Sale of bonds on 01.03.20X2

Interest element in purchase of bonds = 15,000 x 100 x 12% x 5/12
= Rs. 75,000
Investment element in purchase of bonds = 15,000 x 90 = Rs. 13,50,000

1/4 M

Answer 4:

(a)

Trading and Profit and Loss Account of Ms. Rashmi for the year ended 31st December, 2016

		Rs.		Rs.
To Opening Inventory		16,000	By Sales (W.N.3)	1,46,100
To Purchases (W.N.2)	91,200		By Closing inventory	14,000
Less : For advertising	(1,800)	89,400		
To Freight inwards		6,000		
To Gross profit c/d @ 33-1/3%		48,700		
		1,60,100		1,60,100
To Sundry expenses (W.N.6)		28,400	By Gross profit b/d	48,700
To Advertisement		1,800	By Interest on investment	
To Discount allowed: Debtors	3,000		(200 x 4/ 100 x ½)	4
Bills Receivable	250	3,250	By Discount received	1,600
To Depreciation on furniture (12,000 + 2,000 – 12,700)		1,300	By Miscellaneous income	1,000
To Provision for doubtful debts		972		
To Net Profit (b.f.)		15,582		
		51,304		51,304

{4 M}

Balance Sheet as on 31st December, 2016

Liabilities	**Amount**		**Assets**		**Amount**
	Rs.	**Rs.**		**Rs.**	**Rs.**
Capital as on 1.1.2016 (W.N.1)	37,600		Furniture (w.d.v.)	12,000	
Less: Drawings	(15,808)		Additions during the Year	2,000	
			Less: Depreciation (b.f.)	(1,300)	12,700
Add: Net Profit	21,792		Investment		192
Sundry creditors	15,582	37,374	Interest accrued (200 x 4% x 6/12)		4
Sundry creditors		30,000	Closing Inventory		14,000
Outstanding expenses		3,600	Sundry debtors	38,900	
			Less: Provision for doubtful debts @ 2.5%	972	37,928
			Bills receivable (W.N.7)		3,500
			Cash in hand and at bank		1,250
			Prepaid expenses		1,400
		70,974			70,974

{2½ M}

Working Notes :

(1) Capital on 1st January, 2016

Balance Sheet As On 1st January, 2016

Liabilities	Rs.	Assets	Rs.
Capital (Bal.fig.)	37,600	Furniture (w.d.v.)	12,000
Creditors	22,000	Inventory at cost	16,000
Outstanding expenses	4,000	Sundry debtors	32,000
		Cash in hand and at bank	2,400
		Prepaid expenses	1,200
	63,600		63,600

{½ M}

(2) Purchases made during the year

Sundry Creditors Account

	Rs.		Rs.
To Cash and bank A/c	78,400	By Balance b/d	22,000
To Discount received A/c (80,000 – 78,400)	1,600	By Sundry debtors A/c	800
To Bills Receivable A/c	4,000	By Purchases A/c (Balancing figure)	91,200
To Balance c/d	30,000		
	1,14,000		1,14,000

{½ M}

(3) Sales made during the year

		Rs.
Opening inventory		16,000
Purchases	91,200	
Less: For advertising	(1,800)	89,400
Freight inwards		6,000
		1,11,400
Less: Closing inventory		(14,000)
Cost of goods sold		97,400
Add: Gross profit (@ 50% on cost)		48,700
		1,46,100

{½ M}

(4) Debtors on 31st December, 2016

Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	32,000	By Cash and bank A/c	1,17,000
To Sales A/c (W.N.3)	1,46,100	By Discount allowed A/c	3,000
To Sundry creditors A/c (bill dishonored)	800	By Bills receivable A/c	20,000
		By Balance c/d (Bal.fig.)	38,900
	1,78,900		1,78,900

{½ M}

(5) Additional drawings by Ms. Rashmi

Cash and Bank Account

	Rs.		**Rs.**
To Balance b/d	2,400	By Freight inwards A/c	6,000
To Sundry debtors A/c	1,17,000	By Furniture A/c	2,000
To Bills Receivable A/c	12,250	By Investment A/c	192
To Miscellaneous income A/c	1,000	By Expenses A/c	29,000
		By Creditors A/c	78,400
		By Drawings A/c [Rs. 14,000 + Rs. 1,808 (b.f.) (Additional drawings)]	15,808
		By Balance c/d	1,250
	1,32,650		1,32,650

{½ M}

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

Sundry Expenses Account

	Rs.		**Rs.**
To Prepaid expenses A/c (on 1.1.2016)	1,200	By Outstanding expenses A/c (on 1.1.2016)	4,000
To Bank A/c	29,000	By Profit and Loss A/c (Balancing figure)	28,400
To Outstanding expenses A/c (on 31.12.2016)	3,600	By Prepaid expenses A/c	1,400
	33,800		33,800

{½ M}

(7) Bills Receivable on 31st December, 2016

Bills Receivable Account

	Rs.		Rs.
To Debtors A/c	20,000	By Creditors A/c	4,000
		By Bank A/c	12,250
		By Discount on bills receivable A/c	250
		By Balance c/d (Balancing figure)	3,500
	20,000		20,000

{½ M}

Answer:

(b) M/s D, B and R

Departmental Trading and Profit & Loss Account for the six months ended 31-3-2013

		A	**B**	**C**	**Total**			**A**	**B**	**C**	**Total**
To	Opening Stock	37,890	24,000	20,000	81,890	By	Sales	1,80,000	1,30,000	90,000	4,00,000
To	Purchases	1,40,700	80,600	44,400	2,65,700	By	Transfer	10,700	600	-	11,300
To	Transfer	—	-	11,300	11,300	By	Closing				
To	Wages	—	-	12,000	12,000		Stock	45,100	22,300	21,600	89,000
To	Gross profit c/d	57,210	48,300	23,900	1,29,410						
		2,35,800	1,52,900	1,11,600	5,00,300			2,35,800	1,52,900	1,11,600	5,00,300
To	Salaries & Wages:					By	Gross profit b/d	57,210	48,300	23,900	1,29,410
	General Office	12,000	8,000	4,000	24,000	By	Discount Received	400	250	150	800
	Showroom	4,000	8,000	[illegible]	12,000						

{5 M}

	Advertising	1,080	780	540	2,400						
To	Rent	2,400	2,400	6,000	10,800						
To	Discount	540	390	270	1,200						
	Allowed										
To	Sundry	5,400	3,900	2,700	12,000						
	Expenses										
To	Depreciation	250	250	250	750						
To	Net Profit										
	c/d	31,940	24,830	10,290	67,060						
		57,610	48,550	24,050	1,30,210			57,610	48,550	24,050	1,30,210

Note: Gross profit of Department A is 30% of Sales price (including transfer to Department C). There is some unrealised profit only on inter departmental stock. 30% of Rs. 5,700 is as stock reserve. This will be debited to Profit and Loss Appropriation Account.

Profit and Loss Appropriation Account

	Rs.		Rs.			Rs.
To	Stock Reserve (See Note)		1,710	By	Net Profit transferred from Profit & Loss A/c	67,060
To	D: 75% of Profit of					
	Deptt. A	23,955				
	50% of Combined profits	7,527	31,482			
To	B : 75% of Profit of					
	Deptt. B	18,623				
	25% of Combined profits	3,763	22,386			
To	R: 75% of Profit of					
	Deptt. C	7,718				
	25% of Combined profits	3,764	11,482			
			67,060			67,060

{5 M}

Answer 5:

(a) Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.20X2

Particulars	Pre-incorporation period Rs.	Post-incorporation period Rs.
Gross profit (1:3)	**80,000**	**2,40,000**
Less: Salaries (1:2)	**16,000**	**32,000**
Stationery (1:2)	**1,600**	**3,200**
Advertisement (1:3)	**4,000**	**12,000**
Travelling expenses (W.N.4)	**4,000**	**8,000**
Sales promotion expenses (W.N.4)	**1,200**	**3,600**
Misc. trade expenses (1:2)	**12,600**	**25,200**
Rent (office building) (W.N.3)	**8,000**	**18,400**
Electricity charges (1:2)	**1,400**	**2,800**
Director's fee (post-incorporation)	-	**11,200**
Bad debts (1:3)	**800**	**2,400**
Selling agents commission (1:3)	**4,000**	**12,000**
Audit fee (1:3)	**1,500**	**4,500**
Debenture interest (post-incorporation)	-	**3,000**
Interest paid to vendor (2:1) (W.N.5)	**2,800**	**1,400**
Selling expenses (1:3)	**6,300**	**18,900**
Depreciation on fixed assets (W.N.6)	**3,000**	**6,600**
Capital reserve (Bal.Fig.)	**12,800**	-
Net profit (Bal.Fig.)	-	**74,800**

34 Item X 1/4 M

Working Notes:

1. Time Ratio

Pre incorporation period = 1st April, 20X1 to 31st July, 20X1
i.e. 4 months
Post incorporation period is 8 months
Time ratio is 1: 2.

1 M

2. Sales ratio

Let the monthly sales for first 6 months (i.e. from 1.4.20X1 to 30.09.20X1) be x Then, sales for 6 months = 6x

Monthly sales for next 6 months (i.e. from 1.10.X1 to 31.3.20X2) $x + \frac{2}{3}x = \frac{5}{3}x$

Then, sales for next 6 months $= \frac{5}{3}x \times 6 = 10\times$

Total sales for the year = 6x + 10x = 16x
Monthly sales in the pre incorporation period = Rs. 19,20,000/16 = Rs. 1,20,000
Total sales for pre-incorporation period = Rs. 1,20,000 x 4 = Rs. 4,80,000
Total sales for post incorporation period = Rs. 19,20,000 – Rs. 4,80,000 = Rs. 14,40,000
Sales Ratio = 4,80,000 : 14,40,000=1: 3

$1\frac{1}{2}$ **M**

3. Rent

		Rs.
Rent for pre-incorporation period (Rs. 2,000 x 4)		8,000 (pre)
Rent for post incorporation period		
August,20X1 & September, 20X1 (Rs. 2,000 x 2)	4,000	
October,20X1 to March,20X2 (Rs. 2,400 x 6)	14,400	18,400 (post)

1 M

4. Travelling expenses and sales promotion expenses

	Pre Rs.	Post Rs.
Traveling expenses Rs. 12,000 (i.e. Rs. 16,800- Rs. 4,800) distributed in Time ratio (1:2)	4,000	8,000
Sales promotion expenses Rs. 4,800 distributed in Sales ratio (1:3)	1,200	3,600

1 M

5. Interest paid to vendor till 30th September, 20X1

	Pre Rs.	Post Rs.
Interest for pre-incorporation period $\left(\frac{Rs.\ 4{,}200}{6} \times 4\right)$	2,800	
Interest for post incorporation period i.e. for August, 20X1 & September, 20X1 $\left(\frac{Rs.\ 4{,}200}{6} \times 2\right)$		1,400

1 M

6. Depreciation

		Pre Rs.	Post Rs.
Total depreciation	9,600		
Less: Depreciation exclusively for post incorporation period	(600)		600
Remaining (for pre and post incorporation period)	9,000		
Depreciation for pre-incorporation period $\left[9000 \times \frac{4}{12}\right]$*		3000	
Depreciation for post incorporation period $\left[9000 \times \frac{8}{12}\right]$*			6,000
* Time ratio = 1 : 2			
		3000	6,600

1 M

Answer:

(b)

In the books of C Limited
Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)	
	Bank A/c To Equity Share Capital A/c (Being the issue of 25,000 equity shares of Rs. 10 each at par as per Board's resolution No……dated…..)	Dr.	2,50,000	2,50,000	$\frac{3}{4}$
	Bank A/c To 14% Debenture A/c (Being the issue of 1,000 Debentures of Rs. 100 each as per Board's Resolution No…..dated……)	Dr.	1,00,000	1,00,000	$\frac{3}{4}$
	12% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)	Dr. Dr.	3,00,000 30,000	3,30,000	$\frac{3}{4}$ M
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	3,30,000	3,30,000	$\frac{3}{4}$ M
	Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being the adjustment of premium on redemption against Profits & Loss Account)	Dr.	30,000	30,000	$\frac{3}{4}$ M
	Profit & Loss To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr.	50,000	50,000	$\frac{3}{4}$ M

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed	Rs. 3,00,000	
Less: Proceeds from new issue	(Rs. 2,50,000)	$\frac{1}{2}$ M
Total Balance	Rs.50,000	

Answer 6:

(a)
1. Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities: **1 M**
2. Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India. **1 M**
3. Banks (including co-operative banks), financial institutions or entities carrying on insurance business. **1/2 M**
4. All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year. **1 M**
5. All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year. **1 M**
6. Holding and subsidiary entities of any one of the above. **1/2 M**

Answer:

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

10% dividend on Rs. 80,00,000		Rs. 8,00,000
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

{2 M}

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:

(c) **Calculation of number of equity shares to be allotted**

	Number of debentures	
Total number of debentures	20,000	**{3/4 M}**
Less: Debenture holders not opted for conversion	(2,500)	**{3/4 M}**
Debenture holders opted for conversion	17,500	**{3/4 M}**
Option for conversion	20%	**{1/2 M}**
Number of debentures to be converted (20% of 17,500)	3,500	**{3/4 M}**
Redemption value of 3,500 debentures at a premium of 5% [3,500 x (100+5)]	Rs. 3,67,500	**{3/4 M}**

Equity shares of Rs. 10 each issued on conversion	
[Rs. 3,67,500/ Rs. 15]	24,500 shares

{3/4 M}

Answer:

(d) 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:

(e)

Calculation of interest

	Total (Rs.)	Interest in each installment (1)	Cash price in each installment (2)	
Cash Price	80,000			
Less : Down Payment	(21,622)	Nil	Rs. 21,622	$\frac{1}{2}$ **M**
Balance due after down payment	58,378			
Interest/Cash Price of 1st instalment	-	Rs. 58,378 x10/100 = Rs. 5,838	Rs. 15,400 – Rs. 5,838 = Rs. 9,562	$\frac{3}{4}$ **M**
Less : Cash price of 1st instalment	(9,562)			
Balance due after 1st instalment	48,816			
Interest/cash price of 2nd instalment	-	Rs. 48,816 x 10/100 = Rs. 4,882	Rs. 15,400 - Rs. 4,882 = Rs. 10,518	$\frac{3}{4}$ **M**
Less: Cash price of 2nd instalment	(10,518)			
Balance due after 2nd instalment	38,298			
Interest/Cash price of 3rd instalment	-	Rs. 38,298x10/100 = Rs. 3,830	Rs. 15,400 - Rs. 3,830 = Rs. 11,570	$\frac{3}{4}$ **M**
Less: Cash price of 3rd instalment	(11,570)			
Balance due after 3rd instalment	26,728			
Interest/Cash price of 4th instalment	-	Rs. 26,728 x10/100 = Rs. 2,672	Rs. 15,400 - Rs. 2,672 = Rs. 12,728	$\frac{3}{4}$ **M**
Less : Cash price of 4th instalment	(12,728)			
Balance due after 4th instalment	14,000			
Interest/Cash price of 5th instalment	-	Rs.14,000 x10/100 =Rs. 1,400	Rs. 15400 – Rs. 1,400 = 14,000	$\frac{3}{4}$ **M**
Less : Cash price of 5th instalment	(14,000)			
Total	Nil	Rs. 18,622	Rs. 80,000	

Total interest can also be calculated as follow:
(Down payment + installments) – Cash Price = Rs. [21,622+(15400 x 5)] – Rs. 80,000 = Rs. 18,622. $\frac{3}{4}$ **M**

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