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

DATE: 24.06.2020 **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)

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) (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) Trial Balance of the Foreign Branch converted into Indian Rupees as on March 31, 2016

Particulars	£ (Dr.)	£ (Cr.)	Conversion Basis	Rs. (Dr.)	Rs. (Cr.)	
Fixed Assets	5,000		Transaction Date Rate	**3,05,000**	**½ M**	
Debtors	1,600		Closing Rate	**1,07,200**	**¼ M**	
Opening Stock	400		Opening Rate	**25,200**	**¼ M**	
Goods Received from HO	6,100		Actuals	**4,02,000**	**½ M**	
Sales		20,000	Average Rate		**13,00,000**	**¼ M**
Purchases	10,000		Average Rate	**6,50,000**	**¼ M**	
Wages	1,000		Average Rate	**65,000**	**¼ M**	
Salaries	1,200		Average Rate	**78,000**	**¼ M**	
Cash	3,200		Closing Rate	**2,14,400**	**¼ M**	
Remittance to HO	2,900		Actuals	**1,91,000**	**½ M**	
HO Account		7,400	Actuals		**4,90,000**	**½ M**
Creditors		4,000	Closing Rate		**2,68,000**	**¼ M**
Exchange Rate Difference			Balancing Figure	**20,200**	**¼ M**	
	31,400	31,400		20,58,000	**20,58,000**	**¼ M**
Closing Stock	700		Closing Rate	**46,900**	**¼ M**	
Depreciation	500		Fixed Asset Rate	**30,500**	**¼ 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**	
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**	**{5 item x 1/2 M}**
	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) **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**	**7 Item X 1/2 M**
To Gross profit	**5,20,000**			
	32,63,600		**32,63,600**	

$$Rate\ of\ \ Gross\ \Pr ofit\ = \frac{GP}{sales} \times 100$$
$$= \frac{5,20,000}{26,00,000} \times 100 \ = \ 20\%$$
1 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	20,000	**24,78,500**
Less: Goods used for advertisement	(50,000)	**16,91,350**	cash sales (W.N.)		
To Gross profit (20% of Rs. 24,78,500)		**4,95,700**	By Closing stock		**3,72,150**
		28,50,650			**28,50,650**

7 Item X 1/2 M

Estimated stock in hand on the date of fire was Rs. 3,72,150. $\frac{1}{2}$ **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. $1\frac{1}{2}$ **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 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	**600**
To Discount allowed –				(20,000 x 6/100 x ½)	
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		Assets		Amount
	Rs.	Rs.		Rs.	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	6,000	By Outstanding expenses A/c	20,000
(on 1.4.2016)		(on 1.4.2016)	
To Bank A/c	95,000	By Profit and Loss A/c	92,000
To Outstanding expenses A/c		(Balancing figure)	
(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)

(1) Ratio of interest and amount due = $\frac{\text{Rate of interest}}{100+\text{Rate of interest}} = \frac{10}{110} = \frac{1}{11}$ **1 M**

(2) **Calculation of Interest and Cash Price**

No. of instalments	Amount due at the time of instalment	Interest	Cash price	
[1]	**[2]**	**[3]**	**[4]**	
3rd	55,000	1/11 of Rs. 55,000 = Rs. 5,000	50,000	1 M
2nd	*99,000	1/11 of Rs. 99,000 = Rs. 9,000	90,000	1 M
1st	**1,43,000	1/11of Rs. 1,43,000 = Rs. 13,000	1,30,000	1 M

Total cash price = Rs. 1,30,000+ 70,000 (down payment) = Rs. 2,00,000.
*Rs. 50,000 + 2nd instalment of Rs. 49,000 = Rs. 99,000.
** Rs. 90,000 + 1st instalment of Rs. 53,000 = Rs. 1,43,000.

1 M

Answer 4:

(a) **M/s X**

Departmental Trading A/c for the year ending 31st December, 20X1

		Deptt. A.	Deptt. B			Deptt. A	Deptt. B
		Rs.	**Rs.**			**Rs.**	**Rs.**
To	Stock	**20,000**	**12,000**	By	Sales	**1,40,000**	**1,12,000**
To	Purchases	**92,000**	**68,000**	By	Purchased Goods transferred	**8,000**	**10,000**
To	Wages	**12,000**	**8,000**	By	Finished goods transferred	**35,000**	**40,000**
To	Carriage	**2,000**	**2,000**	By	Return of finished Goods	**10,000**	**7,000**
To	Purchased Goods			By	Closing Stock:		
	transferred	**10,000**	**8,000**		Purchased Goods	**4,500**	**6,000**
To	F.G. transferred	**40,000**	**35,000**		Finished Goods	**24,000**	**14,000**
To	Ret. of finished Goods	**7,000**	**10,000**				
To	Gross profit c/d (b.f.)	**38,500**	**46,000**				
		2,21,500	1,89,000			2,21,500	1,89,000

{28 item x 1/4 M}

Consolidated Trading Account for the year ending 31st December, 20X1

		Rs.			Rs.
To	Opening Stock	**32,000**	By	Sales	**2,52,000**
To	Purchases	**1,60,000**	By	Closing Stock:	
To	Wages	**20,000**		Purchased Goods	**10,500**
To	Carriage	**4,000**		Finished Goods	**38,000**
To	Stock Reserve	**2,196**			
To	Gross Profit c/d	**82,304**			
		3,00,500			3,00,500

{9 item x 1/4 M}

1. **Working note:**

	Deptt. A	Deptt. B
Sale	1,40,000	1,12,000
Add : Transfer	35,000	40,000
	1,75,000	1,52,000
Less: Returns	(7,000)	(10,000)
Net Sales plus Transfer	1,68,000	1,42,000

{3/4 M}

2.	Rate of Gross profit	$\frac{38,500}{1,68,000} \times 100 = 22.916\%$	$\frac{46,000}{1,42,000} \times 100 = 32.394\%$	**{1 M}**
3.	Closing Stock out of transfer (20% of closing stock)	4,800	2,800	**{1/2 M}**
4.	Unrealised Profit	4,800 × 32.394% =1,555	2,800 × 22.916% 641	**{1/2 M}**

Answer:
(b)

Books of Harrison Branch Stock Account

	Rs.		Rs.
To Balance b/d	**30,000**	By Branch Debtors	**1,65,000**
To Goods Sent to Branch A/c	**2,40,000**	By Branch Bank	**59,000**
To Branch Adjustment A/c	**2,000**	By Balance c/d	
(Excess of sale over invoice price)		Goods in Transit	
		(Rs. 2,40,000 –Rs. 2,20,000)	**20,000**
		Stock at Branch	**28,000**
	2,72,000		2,72,000

{7 item x 1/4 M}

Branch Debtors Account

	Rs.		Rs.
To Balance b/d	**32,750**	By Bad debts written off	**750**
To Branch Stock	**1,65,000**	By Branch Cash- collection (bal. fig.)	**1,71,000**
		By Balance c/d	**26,000**
	1,97,750		1,97,750

{5 item x 1/4 M}

Branch Cash Account

	Rs.		Rs.
To Balance b/d	**5,000**	By Bank Remit to H.O.	**2,22,500**
To Branch Stock	**59,000**	By Branch profit & loss A/c	**12,000**
To Bank (as per contra)	**12,000**	(exp. paid by H.O.)	
To Branch Debtors	**1,71,000**	By Branch profit & loss A/c	**10,000**
		[Bal. fig. (exp. paid by Branch)]	
		By Balance c/d	**2,500**
	2,47,000		2,47,000

{8 item x 1/4 M}

Branch Adjustment Account

	Rs.		Rs.
To Stock Reserve (on closing stock (48,000 × 1/6)	**8,000**	By Stock Reserve opening (25000 × 20%)	**5,000**
To Gross Profit c/d	**39,000**	By Goods sent to Branch A/c	**40,000**
		By Branch Stock A/c	**2,000**
	47,000		47,000

{5 item x 1/4 M}

Branch Profit and Loss Account

	Rs.		Rs.
To Branch Expenses (paid by HO: Rs. 12,000 and paid by Branch Rs. 10,000)	**22,000**	By Gross Profit b/d	**39,000**
To Branch Debtors-Bad debts	**750**		
To Net Profit	**16,250**		
	39,000		39,000

{4 item x 1/4 M}

Goods Sent to Branch Account

	Rs.		Rs.
To Branch Adjustment A/c	**40,000**	By Branch to Stock A/c	**2,40,000**
To Purchase A/c - Transfer	**2,00,000**		
	2,40,000		2,40,000

{3 item x 1/4 M}

Answer 5:

(a) Statement showing the calculation of profits/losses for pre incorporation and Post incorporation period profits of Sanjana Ltd.

for the year ended 31st March, 2017

Particulars	Basis	Pre	Post
		Rs.	Rs.
Sales (given)		**10,000**	**40,000**
Less: Purchases	1:3.3	**5,814**	**19,186**
Carriage Inwards	1:3.3	**237**	**782**
Gross Profit (i)		**3,949**	**20,032**
Less: Selling Expenses	1:4	**700**	**2,800**
Preliminary Expenses			**1,200**
Salaries	1:3	**900**	**2,700**
Director Fees			**1,200**
Interest on capital		**700**	
Depreciation	1:3	**700**	**2,100**
Rent	1:3	**1,200**	**3,600**
Total of Expenses(ii)		**4,200**	**13,600**
Capital Loss/Net Profit (i-ii)		**(251)**	**6,432**

{23 item x 1/4 M} =5.75 M

Working Notes:

1: Sales Ratio = 10,000 : 40,000 = 1 :4 **{$1^{1/2}$ M}**

2: Time Ratio = 3:9 = 1:3 **{$1^{1/2}$ M}**

3: Purchase Price Ratio
∴ Ratio is 3 : 9

But purchase price was 10% higher in the company period
∴ Ratio is 3 : 9 + 10%
3:9.9 = 1:3.3. **{$1^{1/4}$ M}**

Answer:

(b) **Journal Entries in the books of Preet Ltd.**

			Rs.	Rs.	
1-4-20X1	Equity share final call A/c To Equity share capital A/c (For final calls of Rs. 2 per share on 1,35,000 equity shares due as per Board's Resolution dated….)	Dr.	2,70,000	 2,70,000	{1 M}
20-4-20X1	Bank A/c To Equity share final call A/c (For final call money on 1,35,000 equity shares received)	Dr.	2,70,000	 2,70,000	{1 M}
	Securities Premium A/c Capital Redemption Reserve A/c General Reserve A/c Profit and Loss A/c To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held)	Dr. Dr. Dr. Dr.	37,500 60,000 1,80,000 60,000	 3,37,500	{1 M}
	Bonus to shareholders A/c To Equity share capital A/c (For issue of bonus shares)	Dr.	3,37,500	 3,37,500	{1 M}

Extract of Balance Sheet as at 30th April, 20X1 (after bonus issue)

	Rs.
Authorised Capital	
15,000 12% Preference shares of Rs.10 each	1,50,000
1,83,750 Equity shares of Rs.10 each (refer working note below)	18,37,500
Issued and subscribed capital	
12,000 12% Preference shares of Rs.10 each, fully paid	**1,20,000**
1,68,750 Equity shares of Rs.10 each, fully paid	**16,87,500**
(Out of above, 33,750 equity shares @ Rs.10 each were issued by way of bonus)	
Reserves and surplus	
Profit and Loss Account	**2,40,000**

3 Item X 1 M = 3 M

Working Note:

	Rs.
The authorised capital should be increased as per details given below:	
Existing authorised Equity share capital	15,00,000
Add: Issue of bonus shares to equity shareholders	3,37,500
	18,37,500

3 Item X 1 M = 3 M

Answer 6:

(a) 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:

(b) Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares X Issue Price) / (Existing Number of shares + Rights Number of shares) **{1$^{1/2}$ M}**

= (Rs.150 X 4 Shares + Rs.125 X 1 Share) / (4 + 1) Shares
= Rs. 725 / 5 shares = Rs. 145 per share. **{1$^{1/2}$ M}**

Value of right = Cum-right value of the share – Ex-right value of the share
= Rs. 150 – Rs. 145 = Rs. 5 per share. **1 M**

Hence, any one desirous of having a confirmed allotment of one share from the company at Rs. 125 will have to pay Rs. 20 (4 shares X Rs. 5) to an existing shareholder holding 4 shares and willing to renounce his right of buying one share in favour of that person. **1 M**

Answer:

(c) In the books of ……….

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)	
	Bank A/c	Dr.	25,000		**{1/2 M}**
	To Equity Share Capital A/c			25,000	
	(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…….)				
	8% Redeemable Preference Share Capital A/c	Dr.	1,00,000		**{1 M}**
	Premium on Redemption of Preference Shares A/c	Dr.	10,000		
	To Preference Shareholders A/c			1,10,000	
	(Being the amount paid on redemption transferred to Preference Shareholders Account)				
	Preference Shareholders A/c	Dr.	1,10,000		**{1/2 M}**
	To Bank A/c			1,10,000	
	(Being the amount paid on redemption of preference shares)				
	Profit & Loss A/c	Dr.	10,000		**{1/2 M}**
	To Premium on Redemption of Preference Shares A/c			10,000	
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)				

	General Reserve A/c	Dr.	60,000	
	Profit & Loss A/c	Dr.	10,000	
	Investment Allowance Reserve A/c	Dr.	5,000	
	To Capital Redemption Reserve A/c			75,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

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

Working Note:

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

Face value of shares redeemed		Rs. 1,00,000
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.

{1 M}

Answer:

(d)

M/s MNT Ltd.

Cash Flow Statement for the year ended 31st March 20X1

(Using direct method)

Particulars	Rs.	Rs.
Cash flows from Operating Activities		
Cash sales (Rs. 3,82,500/.30)		**12,75,000**
Less: Cash payments for trade payables	(4,60,000)	
Wages Paid	(4,92,500)	
Office and selling expenses	(75,000)	**(10,27,500)**
Cash generated from operations before taxes		**2,47,500**
Income tax paid		**(65,000)**
Net cash generated from operating activities (A)		**1,82,500**
Cash flows from investing activities		
Sale of investments (7,00,000 + 20,000)	7,20,000	
Payments for purchase of Plant & machinery	(2,50,000)	
Net cash used in investing activities (B)		**4,70,000**
Cash flows from financing activities		
Bank loan repayment(including interest)	(2,15,000)	
Dividend paid(including dividend distribution tax)	(30,000)	
Net cash used in financing activities (C)		**(2,45,000)**
Net increase in cash (A+B+C)		**4,07,500**
Cash and cash equivalents at beginning of the period		**2,00,000**
Cash and cash equivalents at end of the period		**6,07,500**

{10 item x 1/2 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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