(GI-1, GI-2, VI-VDI-SI-1,2)

DATE: 22.08.2022 **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) (i) As per AS 1, 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. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect. **{1 M}**

Notes on Accounts:

"During the year inventory has been valued at factory cost, against the practice of valuing it at prime cost as was the practice till last year. This has been done to take cognizance of the more capital intensive method of production on account of heavy capital expenditure during the year. As a result of this change, the year-end inventory has been valued at Rs. 50 crores and the profit for the year is increased by Rs. 20 crores." **{1.5 M}**

(ii) According to AS 2 'Valuation of Inventories', inventories should be valued at the lower of cost and net realizable value.

Product – A

Material cost	Rs. 40 x 200 = 8,000	
Wages cost	Rs. 30 x 200 = 6,000	
Overhead	Rs. 20 x 200 = 4,000	
Total cost		**Rs. 18,000**
Realizable value [200 x (110-11)]		**Rs. 19,800**
Hence inventory value of Product -A		**Rs. 18,000**

{3 Item x 1/4 = 3/4 M}

Product – B

Material cost	Rs. 45 x 800 = 36,000	
Wages cost	Rs. 35 x 800 = 28,000	
Total cost		**Rs. 64,000**
Realizable value (800 x 70)		**Rs. 56,000**
Hence inventory value of Product-B		**Rs. 56,000**
Total Value of closing inventory i.e. Product A + Product B (18,000+ 56,000)		**Rs. 74,000**

{3 Item x 1/4 = 3/4 M}

{1 M}

Answer:

(b) AS 16 clearly states that capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Therefore, interest on the amount that has been used for the construction of the building up to the date of completion (January, 2021) i.e. Rs. 18 lakhs alone can be capitalized. It cannot be extended to Rs. 25 lakhs. **{5 M}**

Answer:

(c) Included in Cost:
Point no. **1,2,3,5,8**
Excluded from Cost:
Point no. **4,6,7,9,10**
{10 Item x 1/2 = 5 M}

Answer:

(d) As per AS 11 (revised 2003), 'The Effects of Changes in Foreign Exchange Rates', monetary items denominated in a foreign currency should be reported using the closing rate at each balance sheet date. The effect of exchange difference should be taken into profit and loss account. Trade payables is a monetary item, hence should be valued at the closing rate i.e, Rs. 48 at 31st March, 2022 irrespective of the payment for the same subsequently at lower rate in the next financial year. The difference of Rs. 5 (Rs. 48 - Rs. 43) per US dollar should be shown as an exchange loss in the profit and loss account for the year ended 31st March, 2022 and is not to be adjusted against the cost of raw materials. In the subsequent year, the company would record an exchange gain of Rs. 1 per US dollar, i.e., the difference between Rs. 48 and Rs. 47 per US dollar. Hence, the accounting treatment adopted by the company is incorrect. **{5 M}**

Answer 2:

(a) Profit and Loss Account for the year ended 2021-22 **(not assuming going concern)**

Particulars	Amount Rs.	Particulars	Amount Rs.
To Opening Stock	**1,50,000**	By Sales	**27,50,000**
To Purchases	**22,50,000**	By Closing Stock	**2,50,000**
To Expenses	**78,000**	By Trade payables	**7,500**
To Depreciation	**35,000**		
To Provision for doubtful debts	**30,000**		
To Deferred expenses	**50,000**		
To Loan penalty	**25,000**		
To Net Profit (b.f.)	**3,89,500**		
	30,07,500		**30,07,500**

{13 Item x 1/4 = 3.25 M}

Balance Sheet as at 31st March, 2022 **(not assuming going concern)**

Liabilities	Amount Rs.	Assets	Amount Rs.
Capital	**3,00,000**	Fixed Assets	**3,25,000**
Profit & Loss A/c	**5,14,500**	Inventory	**2,50,000**
10% Loan	**2,35,000**	Trade receivables (less provision)	**1,20,000**
Trade payables	**67,500**	Deferred expenses	**Nil**
		Bank	**4,22,000**
	11,17,000		**11,17,000**

{11 Item x 1/4 = 2.75 M}

Answer:
(b)

			Rs.	
(i)	Price of two cars = Rs. 2,00,000 x 2		4,00,000	
	Less: Depreciation for the first year @ 30%		1,20,000	
			2,80,000	
	Less: Depreciation for the second year = $2{,}80{,}000 \times \frac{30}{100}$		84,000	
	Agreed value of two cars taken back by the hire vendor		**1,96,000**	}{2 M}
(ii)	Cash purchase price of one car		2,00,000	
	Less: Depreciation on Rs. 2,00,000 @20% for the first year		40,000	
	Written drown value at the end of first year		1,60,000	
	Less: Depreciation on Rs. 1,60,000 @ 20% for the second year		32,000	
	Book value of car left with the hire purchaser		**1,28,000**	}{2 M}
(iii)	Book value of one car as calculated in working note (ii) above		1,28,000	
	Book value of Two cars = Rs. 1,28,000 x 2		2,56,000	
	Value at which the two cars were taken back, calculated in working note (i) above		1,96,000	
	Hence, loss on cars taken back = Rs. 2,56,000 – Rs. 1,96,000 =		**Rs. 60,000**	}{2 M}
(iv)	Sale proceeds of cars repossessed		1,70,000	
	Less: Value at which Cars were taken back	Rs. 1,96,000		
	Repair Rs.	Rs. 10,000	2,06,000	
	Loss on resale		**36,000**	}{2 M}

Answer:
(c) Statement showing the calculation of Profits for the pre-incorporation and post- incorporation periods

Particulars	Total Amount	Basis of Allocation	Pre-incorporation	Post-incorporation
	Rs.		Rs.	Rs.
Gross Profit (W.N.2)	6,30,000	2:5 (sales)	**1,80,000**	**4,50,000**
Less: Salaries	1,56,000	Time	**(52,000)**	**(1,04,000)**
Rent, rates and taxes	72,000	Time	**(24,000)**	**(48,000)**
Commission on sales	40,600	2:5 (sales)	**(11,600)**	**(29,000)**
Depreciation	60,000	Time	**(20,000)**	**(40,000)**
Interest on debentures	36,000	Post		**(36,000)**
Directors' fee	24,000	Post		**(24,000)**
Advertisement	48,000	Post		**(48,000)**
Net profit			72,400	1,21,000

{13 Item x 1/4 = 3.25 M}

Pre-incorporation profit will be transferred to Capital Reserve.
Post-incorporation profit will be transferred to Profit & Loss Account.

Working Notes:

1. Sales ratio

Let the monthly sales for first 4 months (i.e. from 1.4.2019 to 31.7.2019) be = x
Then, sales for 4 months = 4x
Monthly sales for next 8 months (1st August, 2019 to 31st March, 2020)
= x + 25% of x= 1.25x Then, sales for next 8 months = 1.25x X 8 = 10x
Total sales for the year = 4x + 10x = 14x. Hence Sales Ratio = 4 x : 10x i.e. **2:5**

{1.5 M}

2. Time ratio

1st April, 2019 to 31st July, 2019 : 1st August, 2019 to 31st March, 2020 = 4 months: 8 months = 1:2. Thus, time ratio is **1:2.** **{1.25 M}**

Answer 3:

(a)

Trading and Profit and Loss account for the year ending 31st March, 2017

Particulars		Rs.	Particulars	Rs.
To Opening Stock		**40,000**	By Sales	**4,31,250**
To Purchases (Working Note)		**3,45,000**	By Closing Stock	**40,000**
To Gross Profit c/d (20% on sales)		**86,250**		
		4,71,250		4,71,250
To Business Expenses		**50,000**	By Gross Profit b/d	**86,250**
To Depreciation on:				
Machinery	6,500			
Building	5,000	**11,500**		
To Net profit		**24,750**		
		86,250		86,250

5 Item X 1/2 M

4 Item X 1/2 M

Trade Debtors Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	**50,000**	By Bank (bal.fig.)	**4,09,375**
To Sales	**4,31,250**	By Balance c/d (1/6 of 4,31,250)	**71,875**
	4,81,250		4,81,250

4 Item X 1/2 M

Trade Creditors Account

Particulars	Rs.	Particulars	Rs.
To Bank (Balancing figure)	**3,31,875**	By Balancing b/d	**30,000**
To Balance c/d/ (1/8 of Rs. 3,45,000)	**43,125**	By Purchases	**3,45,000**
	3,75,000		3,75,000

4 Item X 1/2 M

Working Note:

		Rs.	
(i)	Calculation of Rate of Gross Profit earned during previous year		
A	Sales during previous year (Rs. 50,000 x 12/2)	3,00,000	**{1/2 M}**
B	Purchases (Rs. 30,000 x 12/1.5)	2,40,000	**{1/2 M}**
C	Cost of Goods Sold (Rs. 40,000 + Rs. 2,40,000 – Rs. 40,000)	2,40,000	**{1/2 M}**
D	Gross Profit (A-C)	60,000	**{1/2 M}**
E	Rate of Gross Profit $\frac{\text{Rs. } 60{,}000}{\text{Rs. } 3{,}00{,}000} \times 100$	20%	**{1 M}**
(ii)	Calculation of sales and Purchases during current year	Rs.	
A	Cost of goods sold during previous year	2,40,000	**{1/2 M}**
B	Add: Increases in volume @ 25 %	60,000	**{1/2 M}**
		3,00,000	**{1/2 M}**
C	Add: Increase in cost @ 15%	45,000	**{1/2 M}**
D	Cost of Goods Sold during Current Year	3,45,000	**{1/2 M}**
E	Add: Gross profit @ 25% on cost (20% on sales)	86,250	**{1/2 M}**
F	Sales for current year [D+E]	4,31,250	**{1/2 M}**

Answer:

(b) Ex-right value of the shares =

(Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + Rights No. of shares)

= (Rs. 360 x 2 Shares + Rs. 180 x 1 Share) / (2 + 1) Shares

= Rs. 900 / 3 shares = **Rs. 300 per share.** {2 M}

Value of right = Cum-right value of the share – Ex-right value of the share

= Rs. 360 – Rs. 300 = **Rs. 60 per share.** {2 M}

Hence, any one desirous of having a confirmed allotment of one share from the company at Rs. 180 will have to pay Rs. 120 (2 shares x Rs. 60) to an existing shareholder holding 2 shares and willing to renounce his right of buying one share in favour of that person. {1 M}

Answer 4:

(a) **Departmental Trading and Profit & Loss Account in the books of M/s. Bombay Cotton for the year ended 31st March, 2022**

Particulars	Department Y (Rs.)	Department Z (Rs.)	Particulars	Department Y (Rs.)	Department Z (Rs.)
To Opening Stock	**60,000**	**40,000**	By Sales	**3,10,300**	**3,72,700**
To Purchase	**1,20,000**	**3,05,400**	By Transfers	**40,000**	**50,000**
To Wages	**70,000**	**32,000**	By Closing Stock	**23,700**	**40,700**
To Transfers	**50,000**	**40,000**			
To Gross Profit c/d	**74,000**	**46,000**			
	3,74,000	**4,63,400**		**3,74,000**	**4,63,400**
To Salaries	**18,500**	**11,500**	By Gross Profit b/d	**74,000**	**46,000**
To Rent	**5,550**	**3,450**			
To Advertisement	**14,800**	**9,200**			
To General Expenses	**1,850**	**1,150**			
To Depreciation (all expenses divided in ratio of 37: 23)	**11,100**	**6,900**			
To Net profit c/d	**22,200**	**13,800**			
	74,000	**46,000**		**74,000**	**46,000**
To Unrealized profit	**3,000**	**4,638**	By Net Profit b/d	**22,200**	**13,800**
To Manager's commission	**1,920**	**916**			
To Net profit	**17,280**	**8,246**			
	22,200	**13,800**		**22,200**	**13,800**

{50 Item x 1/8 = 6.25 M}

Working notes:

1. Unrealized profit included in the closing stock

Department Y = 21,200 x $\frac{28}{128}$ = **4,637.50** (rounded off as Rs. 4,638) {1 M}

Department Z = 12,000 x 25%= **3,000** {1 M}

2. Calculation of Manager's Commission

Particulars	Department Y (Rs.)	Department Z (Rs.)
Net Profit	22,200	13,800
Less: Stock Reserve	3,000	4,638
	19,200	9,162
Manager's Commission @ 10%	**1,920** {1 M}	**916** {3/4 M}

Answer:

(b) Memorandum Trading Account for the period 1st April, 2022 to 27th July, 2022

	Normal Items	Abnormal Items	Total		Normal Items	Abnormal Items	Total
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Opening stock (W.N.5)	**60,000**	**4,000**	**64,000**	By Sales (W.N. 3)	**4,00,000**	**2,300**	**4,02,300**
To Purchases (W.N. 1)	**2,80,000**	-	**2,80,000**	By Loss	-	**700**	**700**
To Wages (W.N. 4)	**50,000**	-	**50,000**	By Goods on Approval (W.N. 2)	**8,000**	-	**8,000**
To Gross profit @ 20%	**80,000**	-	**80,000**	By Closing stock (Bal. fig.)	**62,000**	**1,000**	**63,000**
	4,70,000	4,000	4,74,000		4,70,000	4,000	4,74,000

{19 Item x 1/4 = 4.75 M}

Statement of Claim for Loss of Stock

	Rs.
Book value of stock as on 27th July, 2022	62,000
Add: Abnormal Stock	1,000
Less: Stock salvaged	(5,000)
Loss of stock	**58,000**

{3/4 M}

Amount of claim to be lodged with insurance company

$$= \text{Loss x } \frac{\textit{Policy Value}}{\textit{Value of stock on the date of fire}}$$

= Rs. 58,000 x (55,000/ 63,000) = **Rs. 50,635** (rounded off)

{1.5 M}

Working Notes:

1. Calculation of Adjusted Purchases

	Rs.
Purchases	2,92,000
Less: Purchase of Machinery	(10,000)
Less: Free samples	(2,000)
Adjusted purchases	**2,80,000**

{1/2 M}

2. Calculation of Goods with Customers

Approval for sale has not been received = Rs. 40,000 X 1/4 = Rs. 10,000.
Hence, these should be valued at cost i.e. (Rs. 10,000 – 20% of Rs. 10,000) = **Rs. 8,000** **{1 M}**

3. Calculation of Actual Sales

Total Sales	Rs. 4,12,300
Less: Approval for sale not received (1/4 X Rs. 40,000)	Rs. 10,000
Actual Sales	**Rs. 4,02,300** **{1/2 M}**

4. Calculation of Wages

Total Wages	Rs. 53,000
Less: Wages for installation of machinery	(Rs. 3,000)
	Rs. 50,000 **{1/2 M}**

5. Value of Opening Stock

Original cost of stock as on 31st March,2022
= Rs. 63,000 + Rs. 1,000 (Amount written off)
= Rs. 64,000 {1/2 M}

Answer 5:

(a) **Journal Entries**

20X1		Dr.	Cr.	
30 Sept.		**Rs.**	**Rs.**	
Salary Advance A/c	Dr.	2,000		1/2 M
To Salaries A/c			2,000	
(The amount paid as advance adjusted by debit to Salary Advance Account)				
Prepared Insurance A/c (3,200 x 6/12)	Dr.	1,600		1/2 M
To Fire Insurance A/c			1,600	
(Six months premium transferred to the Prepaid Insurance A/c)				
Head Office Account	Dr.	88,400		3/4 M
To Purchases A/c			48,000	
To Wages A/c			20,000	
To Salaries A/c (6,400 – 2,000)			4,400	
To General Expenses A/c			1,600	
To Fire Insurance A/c (3,200 x 6/12)			1,600	
To Manager's Salary A/c			4,800	
To Discount Allowed A/c			8,000	
(Transfer of various revenue accounts (Dr.) to the H.O. Account for closing the accounts)				
Sales Accounts	Dr.	2,40,000		1/2 M
Discount Earned A/c	Dr.	1,200		
To Head Office A/c			2,41,200	
[Revenue accounts (Cr.) transferred to H.O.]				
Head Office Account	Dr.	4,000		1/2 M
To Building Account			4,000	
(Transfer of amounts spent on building extension to H.O. A/c)				

Head Office Account

20X1		Rs.	20X1		Rs.
Sep. 30	To Cash-remittance	**38,400**	April 1	By Balance b/d	**1,68,000**
	To Sundries (Revenue A/cs)	**88,400**	Sep. 30	By Sundries (Revenue A/cs)	**2,41,200**
	To Building A/c	**4,000**			
	To Balanced c/d	**2,78,400**			
		4,09,200			**4,09,200**

8 Item X 1/4 M

Balance Sheet of Delhi Branch as on Sept. 30, 20X1

Liabilities	Rs.	Assets	Rs.
Creditors Balances	**26,800**	Debtors Balances	**2,72,000**
Head Office Account	**2,78,400**	Salary Advance	**2,000**
		Prepaid Insurance	**1,600**
		Building Extension A/c	

9 Item X 1/4 M

		transferred to H.O.	—
		Cash in Hand	**1,600**
		Cash at Bank	**28,000**
	3,05,200		**3,05,200**

Cash and Bank Account

		Rs.			Rs.	
To	Balance b/d	8,000	By	Wages	20,000	1 M
To	Collection from Debtors	1,60,000	By	Salaries	6,400	
			By	Insurance	3,200	
			By	General Exp.	1,600	
			By	H.O. A/c	38,400	
			By	Manager's Salary	4,800	
			By	Creditors	60,000	
			By	Building A/c	4,000	
			By	Balance c/d		
			By	Cash in Hand 1,600		
			By	Cash at Bank 28,000	**29,600**	
		1,68,000			1,68,000	

Debtors Account

	Rs.		Rs.	
To Balance b/d	2,00,000	By Cash Collection	1,60,000	1 M
To Sales	2,40,000	By Discount (allowed)	8,000	
		By Balance c/d	**2,72,000**	
	4,40,000		4,40,000	
To Balance b/d	2,72,000			

Creditors Account

	Rs.		Rs.	
To Cash	60,000	By Balance b/d	40,000	1 M
To Discount (earned)	1,200	By Purchases	48,000	
To Balance c/d	26,800			
	88,000		**88,000**	
		By Balance b/d	26,800	

Answer:

(b) **Investment Account-Equity Shares in K Ltd.**

Date		No. of shares	Dividend	Amount	Date		No. of shares	Dividend	Amount	
			Rs.	Rs.				Rs.	Rs.	
1.4.19	To Bal. b/d	8,000	-	**1,20,000**	20.1.20	By Bank (dividend) [8,000 x 10 x 20%] and [2,000 x 10x 20%]		**16,000**	**4,000**	{13 Item X 1/2 M = 6.5 M}
1.9.19	To Bank	2,000	-	**28,000**	1.2.20	By Bank	8,000		**1,12,000**	
30.9.19	To Bonus Issue	4,000		—						
31.12.19	To Bank (Right) (W.N. 1)	2,000	-	**25,000**	31.3.20	By Balance c/d (W.N. 3)	8,000		**84,500**	

20.1.20	To Profit & Loss A/c (Dividend income)		**16,000**						
1.2.20	To P & L A/c (profit on sale)			**27,500**					
		16,000	**16,000**	**2,00,500**			16,000	**16,000**	**2,00,500**

Working Notes:

1. Right shares

No. of right shares issued = (8,000 + 2,000 + 4,000)/ 7 X 2= **Rs. 4,000**
No. of right shares subscribed = 4,000 x 50% = 2,000 shares **{1/2 M}**
Value of right shares issued = 2,000 x Rs. 12.50 = **Rs. 25,000**
No. of right shares sold = 2,000 shares
Sale of right shares = 2,000 x Rs. 8 = Rs. 16,000 to be credited to statement of profit and loss **{1/2 M}**

2. Cost of shares sold — Amount paid for 16,000 shares

	Rs.
(Rs. 1,20,000 + Rs. 28,000 + Rs. 25,000)	1,73,000
Less: Dividend on shares purchased on Sept. 1 (since the dividend pertains to the year ended 31st March, 2019, i.e., the pre-acquisition period)	(4,000)
Cost of 16,000 shares	1,69,000
Cost of 8,000 shares (Average cost basis)	84,500
Sale proceeds (8,000 X Rs.14)	1,12,000
Profit on sale	**27,500**

{1 M}

3. Value of investment at the end of the year

Assuming investment as current investment, closing balance will be valued based on lower of cost or net realizable value. **{1/2 M}**
Here, Net realizable value is Rs. 13 per share i.e., 8,000 shares x Rs. 13 = Rs. 1,04,000 and cost = Rs. 84,500. **Therefore, value of investment at the end of the year will be Rs. 84,500.** **{1 M}**

Answer 6:

(a) Financial capital maintenance at historical cost: Under this convention, opening and closing assets are stated at respective historical costs to ascertain opening and closing equity. If retained profit is greater than or equals to zero, the capital is said to be maintained at historical costs. This means the business will have enough funds to replace its assets at historical costs. This is quite right as long as prices do not rise.
Maximum amount withdrawn by Kishore in year 2019-20 if Financial capital is maintained at historical cost **{2 M}**

Particulars	**Financial Capital Maintenance at Historical Cost (Rs.)**
Closing equity (Rs. 30 x 75,000 units)	22,50,000 represented by cash
Opening equity	75,000 units x Rs. 20 = 15,00,000
Permissible drawings to keep Capital intact	7,50,000 (22,50,000 – 15,00,000)

{2 M}

Thus Rs. 7,50,000 is the maximum amount that can be withdrawn by Kishore in year 2019-20 if Financial capital is maintained at historical cost. {1 M}

Answer:

(b) Calculation of Credit Sales, Total Sales and Gross Profit

Credit Sales for the year ended 31st March, 2021 = Debtors x $\frac{12 \text{ months}}{1.5 \text{ months}}$

= Rs. 1,50,000 x $\frac{12 \text{ months}}{1.5 \text{ months}}$

= **Rs. 12,00,000** {1 M}

Total sales for the year ended 2020 -21 = Credit sales x $\frac{100\%}{80\%}$

= Rs. 12,00,000 x $\frac{100\%}{80\%}$

= **Rs. 15,00,000** {1 M}

Trading Account for the year ended 31st March, 2021

	Rs.		**Rs.**
To Opening stock	**65,000**	By Sales	**15,00,000**
To Direct expenses	**35,000**	By Closing Stock	**55,000**
To Purchases	**9,50,000**		
To Gross profit	**5,05,000**		
	15,55,000		15,55,000

{6 Item X 1/4 M = 1.5 M}

Working Note:

Calculation of opening stock and closing stock
If closing stock is x then opening stock is x + 10,000
Average stock Rs. 60,000
Average stock = Opening stock + Closing stock /2
Thus Opening stock is **Rs. 65,000** and closing stock is **Rs. 55,000.**

{2 Item X 3/4 M = 1.5 M}

Answer:

(c) Measurement is the process of determining money value at which an element can be recognized in the balance sheet or statement of profit and loss. The Framework for Preparation and Presentation of Financial statements recognizes four alternative measurement bases for the purpose of determining the value at which an element can be recognized in the balance sheet or statement of profit and loss.
These bases are: (i) Historical Cost; (ii) Current cost (iii) Realizable (Settlement) Value and (iv) Present Value. {1 M}

A brief explanation of each measurement basis is as follows:

1. **Historical Cost:** Historical cost means acquisition price. According to this, assets are recorded at an amount of cash or cash equivalent paid or the fair value of the asset at the time of acquisition. Liabilities are generally recorded at the amount of proceeds received in exchange for the obligation. {1 M}
2. **Current Cost:** Current cost gives an alternative measurement basis. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently. {1 M}

3. **Realizable (Settlement) Value:** As per realizable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal. Liabilities are carried at their settlement values, i.e. the undiscounted amount of cash or cash equivalents paid to satisfy the liabilities in the normal course of business. **{1 M}**
4. **Present Value:** Under present value convention, assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities under this convention are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business. **{1 M}**

Answer:
(d)

	Particulars	Rs.
1.	Interest expense on loan Rs. 2,00,00,000 at 15%	30,00,000
2	Total cost of Phases I and II (Rs. 34,00,000 +64,00,000)	98,00,000
3.	Total cost of Phases III and IV (Rs. 55,00,000 + Rs. 68,00,000)	1,23,00,000
4.	Total cost of all 4 phases	2,21,00,000
5.	Total loan	2,00,00,000
6.	Interest on loan used for Phases I & II, based on proportionate Loan amount = $\frac{30,00,000}{2,21,00,000} \times 98,00,000$	**13,30,317 (approx.)** **{1 M}**
	Interest on loan used for Phases III & IV, based on proportionate Loan amount = $\frac{30,00,000}{2,21,00,000} \times 1,23,00,000$	**16,69,683 (approx.)** **{1 M}**

Accounting treatment:

1. For Phase I and Phase II

Since Phase I and Phase II have become operational at the mid of the year, half of the interest amount of Rs. 6,65,158.50 (i.e. Rs. 13,30,317/2) relating to Phase I and Phase II should be capitalized (in the ratio of asset costs 34:64) and added to respective assets in Phase I and Phase II and remaining half of the interest amount of Rs. 6,65,158.50 (i.e. Rs. 13,30,317/2) relating to Phase I and Phase II should be expensed during the year. **{1$^{1/2}$ M}**

2. For Phase III and Phase IV

Interest of Rs. 16,69,683 relating to Phase III and Phase IV should be held in Capital Work-in-Progress till assets construction work is completed, and thereafter capitalized in the ratio of cost of assets. No part of this interest amount should be charged/expensed off during the year since the work on these phases has not been completed yet. **{1$^{1/2}$ M}**

Answer:

(e) 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}**

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