(GI-8, FMT)

DATE: 01.02.2023 **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) **Recognition of Asset: The new boiler will produce economic benefits to RS Ltd., and the cost is measurable. Hence, the item should be recognized as an asset. The cost old boiler should be de-recognized and the new boiler will be added.** {2 M}

Statement showing cost of new boiler and machine after year 2

Original cost of plant	Rs. 2,00,00,000
Less: Accumulated depreciation [(2,00,00,000 /10) x 2]	Rs. 40,00,000
Carrying value of the plant after two years	Rs. 1,60,00,000
Less: Current Cost of Old Boiler to be derecognized	
Less: WDV of Boiler (replaced) after 2 years (50,00,000/10 x 8)	40,00,000
	1,20,00,000
Add: Cost of new Boiler to be recognized	60,00,000
Revised carrying amount of Plant	**1,80,00,000**

{3 M}

Answer:

(b) The investments are classified into two categories as per AS 13, viz., Current Investments and Long-term Investments. A current Investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made. The carrying amount for current investments is the lower of cost and fair value. Any reduction to fair value and any reversals of such reductions are included in the statement of profit and loss. A long - term investment is an investment other than a current investment. {2 M}

The investments referred in the question can be classified as long-term investments and long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long-term investment, the carrying amount is reduced to recognize the decline. The contention of the company to bring down the value of investment may be correct if the decline in value is permanent in nature and the reduction in carrying amount may be charged to the statement of profit and loss. The reduction in carrying amount is reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist. {3 M}

Answer:

(c) (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:

(d) 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, 2018	Acquisition cost of machinery (Rs. 500 – Rs. 100)	400.00
31st March, 2019	Less: Depreciation @ 20%	(80)
1st April, 2019	Book value	320.00
31st March, 2020	Less: Depreciation @ 20%	(64)
1st April, 2020	Book value	256.00
31st March, 2021	Less: Depreciation @ 20%	(51.20)
1st April, 2021	Book value	204.80
2nd April, 2021	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 2:

(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	**1,850**	**1,150**			

{50 Item x 1/8 = 6.25 M}

Expenses					
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**

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) **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**
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**

{13 Item X 1/2 M = 6.5 M}

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
Value of right shares issued = 2,000 x Rs. 12.50 = **Rs. 25,000**
{1/2 M}

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}**

Answers 3:

(a) Trading and Profit and Loss Account for the year ending on 31 st March, 2021

Particulars		**Rs.**	**Particulars**	**Rs.**
To Opening Stock		**20,000**	By Sales	**1,80,000**
To Purchases (bal.fig.)		**1,54,000**	By Closing Stock	**30,000**
To Gross Profit c/d (@20% on sales)		**36,000**		
		2,10,000		**2,10,000**
To Sundry Business Expenses		**20,000**	By Gross Profit b/d	**36,000**
To Depreciation:				
Building	1,625			
Furniture	250			
Motor	1,800	**3,675**		
To Net profit transferred to Capital A/c		**12,325**		
		36,000		**36,000**

{13 Item x 1/4 M = 3.25 M}

Balance Sheet as at 31st March, 2021

Liabilities		**Rs.**	**Assets**		**Rs.**
Capital Account:			Building	32,500	
Opening Balance	48,000		*Less:* Depreciation	(1,625)	**30,875**
Add: Net profit	12,325		Furniture	5,000	
	60,325		*Less:* Depreciation	(250)	**4,750**
Less: Drawings	(7,500)	**52,825**	Motor Car	9,000	
Loan		**15,000**	*Less:* Depreciation	(1,800)	**7,200**
Sundry Creditors		**47,500**	Stock in trade		**30,000**
Outstanding Expenses		**5,000**	Sundry Debtors		**21,000**
			Cash at Bank		**22,000**
			Sundry Advances (Amount recoverable from Cashier)		**4,500**
		1,20,325			**1,20,325**

{13 Item x 1/4 M = 3.25 M}

Working Notes:

(i) Total Debtors Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	17,000	By Bank (Rs. 1,40,000 – Rs. 35,000)	1,05,000
To Sales (80% of Rs. 1,80,000)	1,44,000	By Cash A/c	35,000
		By Balance c/d	**21,000**
	1,61,000		1,61,000

{3/4 M}

(ii) Total Creditors Account

Particulars	Rs.	Particulars	Rs.
To Bank	1,37,500	By Balance b/d	31,000
To Balance c/d	**47,500**	By Purchases	1,54,000
	1,85,000		1,85,000

{3/4 M}

(iii) Cash Book

Particulars	Cash Rs.	Bank Rs.	Particulars	Cash Rs.	Bank Rs.
To Balance b/d	2,000	8,500	By Business Expenses	9,000	6,000
To Sales	36,000	-	By Drawings	-	7,500
To Sundry Debtors	35,000	1,05,000	By Sundry Creditors	-	1,37,500
To Cash (Contra)	-	71,500	By Bank (Contra)	71,500	-
To Bank (Contra)	12,000		By Cash (Contra)	-	12,000
			By Defalcation (Bal fig.)	**4,500**	-
			By Balance c/d (Bal fig.)		**22,000**
	85,000	1,85,000		85,000	1,85,000

{1.5 M}

(iv) Last year's Total Sales = Gross Profit x 100/20 = Rs. 30,000 x 100/20 = **Rs. 1,50,000**

(v) Current year's Total Sales = Rs. 1,50,000+ 20% of Rs. 1,50,000= **Rs. 1,80,000**

(vi) Current year's Credit Sales = Rs. 1,80,000 x 80%= **Rs. 1,44,000**

(vii) Cost of Goods Sold = Sales – G.P. = Rs. 1,80,000 – Rs. 36,000 = **Rs. 1,44,000**

(viii) Purchases = Cost of Goods Sold + Closing Stock – Opening Stock
= Rs. 1,44,000 + Rs. 30,000 – Rs. 20,000 = **Rs. 1,54,000**

{5 Item x 1/2 M = 2.50 M}

Answer:

(b) (i) Calculation of Interest and Cash Price

No. of installments	Outstanding balance at the end after the payment of installment	Amount due at the time of installment	Outstanding balance at the end before the payment of installment	Interest	Outstanding balance at the beginning
[1]	**[2]**	**[3]**	**[4]= 2 +3**	**[5]= 4 x 10/110**	**[6]= 4-5**
3rd	-	2,75,000	2,75,000	25,000	2,50,000
2nd	2,50,000	2,45,000	4,95,000	45,000	4,50,000
1st	4,50,000	2,65,000	7,15,000	65,000	6,50,000

Total cash price = Rs. 6,50,000+ 5,00,000 (down payment) =**Rs. 11,50,000.** **}{3 M}**

(ii) In the books of Lucky

Tractors Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.10.20X1	To Happy a/c	11,50,000	30.9.20X2	By Depreciation a/c	2,30,000
				By Balance c/d	9,20,000
		11,50,000			11,50,000
1.10.20X2	To Balance b/d	9,20,000	30.9.20X3	By Depreciation a/c	1,84,000
				By Balance c/d	7,36,000
		9,20,000			9,20,000
1.10.20X2	To Balance b/d	7,36,000	30.9.20X4	By Depreciation a/c	**1,47,200** **}{1 M}**
				By Happy a/c (Value of 1 Tractor taken over after depreciation for 3 years @ 30% p.a.) (5,75,000-(1,72,500+1,20,750+84,525))	**1,97,225** **}{1 M}**
				By Loss transferred to profit and loss a/c on surrender (Bal. fig.) or (2,94,400-1,97,225)	**97,175** **}{1 M}**
				By Balance c/d 1/2 (7,36,000-1,47,200=5,88,800)	**2,94,400** **}{1 M}**
		7,36,000			7,36,000

Happy Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.1.X1	To Bank (down payment)	5,00,000	1.10.X1	By Tractors a/c	11,50,000
30.9.X2	To Bank (1st Installment)	2,65,000	30.9X2	By Interest a/c	65,000
	To Balance c/d	4,50,000			
		12,15,000			12,15,000
30.9.X3	To Bank (2nd Installment)	2,45,000	1.10.X2	By Balance b/d	4,50,000
	To Balance c/d	2,50,000	30.9.X3	By Interest a/c	45,000
		4,95,000			4,95,000
30.9.X4	To Tractor a/c	1,97,225	1.10.X3	By Balance b/d	2,50,000
	To Balance c/d (b.f.)	77,775	30.9.X4	By Interest a/c	25,000
		2,75,000			2,75,000
31.12.X4	To Bank (Amount settled after 3 months) **{1 M}{**	**81,275**	1.10.X4	By Balance b/d	77,775
			31.12.X4	By Interest a/c (@ 18% on bal.) (77,775 x 3/12 x 18/100)	3,500
		81,275			81,275

Answer 4:

(a)

Journal Entries

20X1 **30 Sept.**		**Dr.** **Rs.**	**Cr.** **Rs.**	
Salary Advance A/c	Dr.	2,000		{1 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 M}
To Fire Insurance A/c			1,600	
(Six months premium transferred to the Prepaid Insurance A/c)				
Head Office Account	Dr.	88,400		{1 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 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 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

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

{1 M}

Cash and Bank Account

	Rs.			Rs.
To Balance b/d	8,000	By Wages		20,000
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

{1 M}

Debtors Account

	Rs.		Rs.
To Balance b/d	2,00,000	By Cash Collection	1,60,000
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		

{1 M}

Creditors Account

	Rs.		Rs.
To Cash	60,000	By Balance b/d	40,000
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

{1 M}

Answer:

(b) In the given case, instalments due on 30.09.20X1 and 31.03.20X2 will be shown under the head 'short term borrowings' as current maturities of loan from bank as per the amendment to Schedule III vide MCA notification dated 24th March, 2021. Therefore, in the balance sheet as on 31.3.20X1, Rs. 8,00,000 (Rs. 1,00,000 x 8 instalments) will be shown under the heading 'Long term Borrowings' and Rs. 2,00,000 (Rs. 1,00,000 x 2 instalments) will be shown under the heading ' short term borrowings '. **{5 M}**

Answer:

(c) (a) Calculation of Gross Profit

Gross Profit = Net Profit + Standing Charges / Turnover x 100

Gross Profit = (Rs. 45,000 + Rs. 90,000 / Rs. 4,50,000) x 100 = 30%

(b) Calculation of policy amount to cover loss of profit

Particulars	Amount (Rs.)
Turnover in the last financial year	4,50,000
Add: 25% increase in turnover	1,12,500
Total	5,62,500

Gross profit on increase turnover (Rs. 5,62,500 x 30%)	1,68,750
Add: Additional standing charges	31,250
Policy Amount	2,00,000

Therefore, the trader should go in for a loss of profit policy of Rs. 2,00,000.

Answer 5:
(a)

Gamma Ltd.
Cash Flow Statement for the year ended 31st March, 20X1
(Using direct method)

Particulars	Rs. in crores	Rs. in crores	
Cash flows from operating activities			
Cash sales (60% of 135)	81		
Cash receipts from Debtors	49		
[45+ (135x40%) - 50]			
Cash purchases (20% of 55)	(11)		
Cash payments to suppliers	(42)		
[21+ (55x80%) – 23]			
Cash paid to employees	(22)		
Cash payments for overheads (Adm. and selling)	(18)		
Cash generated from operations	37		
Income tax paid	(8)		
Net cash generated from operating activities		**29**	{2 M}
Cash flows from investing activities			
Sale of investments (12+ 2.40)	14.4		
Payments for purchase of fixed assets (21 – 10)	(11)		
Net cash generated from investing activities		**3.4**	{2 M}
Cash flows from financing activities			
Redemption of debentures (22-15)	(7)		
Interest paid	(1.5)		
Dividend paid	(11.7)		
Net cash used in financing activities		**(20.2)**	{2 M}
Net increase in cash		12.2	
Cash at beginning of the period		6.0	
Cash at end of the period		**18.2**	{2 M}

Answer:
(b)

1. **12% Debentures Account**

Date	Particulars	Rs.	Date	Particulars	Rs.	
31st March, 20X2	To Debenture holders A/c	7,50,000	1st April, 20X1	By Balance b/d	**7,50,000**	{1 M}
		7,50,000			7,50,000	

2. **DRR Account**

Date	Particulars	Rs.	Date	Particulars	Rs.	
31st March, 20X2	To General reserve A/c (Refer Note 1)	**75,000**	1st April, 20X1	By Balance b/d	25,000	
			1st April, 20X1	By Profit and loss A/c (Refer Note 1)	50,000	{2 M}
		75,000			75,000	

3. **10% Secured Bonds of Govt. (DRR Investment) A/c**

		Rs.			Rs.
1st April, 20X1	To Balance b/d	1,12,500	31st March, 20X2	By Bank A/c	**1,12,500**
		1,12,500			1,12,500

{1 M}

4. **Bank A/c**

		Rs.			Rs.
31st March, 20X2	To Balance b/d	7,50,000	31st March, 20X2	By Debenture holders A/c	8,25,000
	To Interest on DRR Investment (1,12,500 X 10%)	11,250		By Balance c/d	**48,750**
	To DRR Investment A/c	1,12,500			
		8,73,750			8,73,750

{2 M}

5. **Debenture holders A/c**

		Rs.			Rs.
31st March, 20X2	To Bank A/c	**8,25,000**	31st March, 20X2	By 12% Debentures	7,50,000
				By Premium on redemption of debentures (7,50,000 X 10%)	75,000
		8,25,000			8,25,000

{1 M}

Note 1 –
Calculation of DRR before redemption = 10% of Rs. 7,50,000 = 75,000
Available balance = Rs. 25,000
DRR required = 75,000 – 25,000 = Rs. 50,000. **{1 M}**

Answer:

(c) Nominal value of preference shares Rs. 5,00,000

Maximum possible redemption out of profits Rs. 3,00,000

Minimum proceeds of fresh issue Rs. 5,00,000 – 3,00,000 = **Rs. 2,00,000** **{1 M}**

Proceed of one share = Rs. 9

Minimum number of shares $= \frac{2,00,000}{9}$ = **22,222.22 shares** **{1 M}**

As fractional shares are not permitted, the minimum number of shares to be issued is **22,223 shares.** **{1 M}**

If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 22,250. Hence, minimum number of shares to be issued in such a case is **22,250 shares.** **{1 M}**

Answer 6:

(a) Calculation of net profit u/s 198 of the Companies Act, 2013

	Rs.	Rs.
Net profit before income tax and managerial remuneration but after depreciation and provision for repairs		9,40,000
Add: Depreciation provided	4,05,000	

Provision for repairs	35,000	4,40,000
		13,80,000
Less: Repairs	25,000	
Depreciation as per schedule III	3,40,000	3,65,000
Profit u/s 198		**10,15,000**

{2 M}

Maximum Managerial remuneration under Companies Act, 2013

(i) When there is only one Whole time director: The remuneration payable to any one managing director; or whole-time director or manager should not exceed 5% of the net profits of the company. Therefore Managerial remuneration will be **Rs. 50,750 i.e 5% of Rs. 10,15,000.** **{1 M}**

(ii) When there are two Whole time directors: if there are more than one such director, remuneration should not exceed 10% of the net profits to all such directors and manager taken together. Therefore Managerial remuneration will be **Rs. 1,01,500 i.e 10% of Rs. 10,15,000.** **{1 M}**

(iii) When there are two whole time directors, a part time director and a manager, then 11% of the net profits of the company. Therefore Managerial remuneration will be **Rs. 1,11,650 i.e 11% of Rs. 10,15,000.** **{1 M}**

Answer:

(b) Physical Capital Maintenance at Current Cost

In the given case, the specific price index applicable to the product is 125 (25/20X100).

Current cost of opening stock = (Rs. 1,20,000 / 100) x 125 Or 6,000 units x Rs. 25
= Rs. 1,50,000

Current cost of closing cash = Rs. 1,20,000 (Rs. 1,80,000 – Rs. 60,000)

Opening equity at closing current costs = Rs. 1,50,000

Closing equity at closing current costs = Rs. 1,20,000

Retained Profit = Rs. 1,20,000 – Rs. 1,50,000 = (-) Rs. 30,000

The negative retained profit indicates that the trader has failed to maintain his capital. The available fund of Rs. 1, 20,000 is not sufficient to buy 6,000 units again at increased price of Rs. 25 per unit. The drawings should have been restricted to Rs. 30,000 (Rs. 60,000 – Rs. 30,000).

If the trader had not withdrawn any amount, then the answer would have been as below: **{3 M}**

Current cost of opening stock = Rs. 1,80,000

Opening equity at closing current costs = Rs. 1,50,000

Retained Profit = Rs. 1,80,000 – Rs. 1,50,000 = Rs. 30,000

If the trader had not withdrawn any amount, then the retained profit would have been Rs. 30,000. **{2 M}**

Answer:

(c) Computation of claim for loss of stock

Memorandum Trading Account as on 13.01.2021

Particulars	Normal	Abnormal	Total	Particulars	Normal	Abnormal	Total
To Opening Stock	**44,000**	**13,000**	57,000	By Sales	**4,80,000**	**18,000**	4,98,000
To Purchases	**3,05,000**	-	3,05,000	By Closing Stock	**49,000**	-	49,000
To Manufacturing Expenses	**60,000**	-	60,000				
To Gross Profit	**1,20,000**	**5,000**	1,25,000				
Total	**5,29,000**	**18,000**	5,47,000	Total	**5,29,000**	**18,000**	5,47,000

{13 Item x 1/4 = $3^{1/4}$ M}

Insurance policy was for Rs. 40,000 as such goods are under-insured. The amount of claim should be restricted to the policy amount, ie. Rs. 40,000. **{$1^{3/4}$ M}**

Answer:

(d) **Journal Entries in the books of Star Ltd.**

2019			Dr. Rs.	Cr. Rs.
April 1	Equity Share Final Call A/c	Dr.	1,60,000	
	To Equity Share Capital A/c			1,60,000
	(Final call of Rs. 2 per share on 80,000 equity shares made due)			
	Bank A/c	Dr.	1,60,000	
	To Equity Share Final Call A/c			1,60,000
	(Final call money on 80,000 equity shares received)			
June 1	Capital Redemption Reserve A/c	Dr.	75,000	
	Capital Reserve	Dr.	45,000*	
	Securities Premium A/c	Dr.	60,000	
	General Reserve A/c (b.f.)	Dr.	1,40,000**	
	To Bonus to Shareholders A/c			3,20,000
	(Bonus issue of two shares for every five shares held, by utilizing various reserves as per Board's resolution dated…….)			
	Bonus to Shareholders A/c	Dr.	3,20,000	
	To Equity Share Capital A/c			3,20,000
	(Capitalization of profit)			

{1 M} {1 M} {1 M} {1 M}

* Considering it as free reserve as it has been realized.

** General reserve has been used here. Alternatively, different combination of profit and loss balance and general reserve may also be used. {1 M}

Answer:

(e) **Elements of Financial Statements**

The Framework for preparation and Presentation of financial statements classifies items of financial statements can be classified in five broad groups depending on their economic characteristics: Asset, Liability, Equity, Income/Gain and Expense/ Loss.

Asset	Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise	{1 M}
Liability	Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.	{1 M}
Equity	Residual interest in the assets of an enterprise after deducting all its liabilities.	{1 M}
Income/gain	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants	{1 M}
Expense/loss	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity other than those relating to distributions to equity participants.	{1 M}

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