(GI-2, GI-6, GI-7, VI-1, VDI-1, DRIVE & FMT)

DATE: 15.07.2023 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) As per AS 13 "Accounting for 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. **{1 M}**

A long-term investment is an investment other than a current investment. Long term investments are usually carried at cost. If there is a decline, other than temporary, in the value of a long-term investment; the carrying amount is reduced to recognize the decline. **{1 M}**

Mutual Funds	Classification	Cost (Rs.)	Market value (Rs.)	Carrying value (Rs.)
A	Long-term Investment	50,220	48,225*	**50,220**
B	Current Investment	25,175	24,220	**24,220**
C	Current Investment	75,375	78,190	**75,375**
D	Current Investment	70,325	65,880	**65,880**
Total				**2,15,695**

{5 Item x 1/2 M = 2.5 M}

Note: ***The reduction in value of Mutual fund A is considered to be temporary. If reduction in Market value is assumed as other than temporary in nature, then the carrying value of Rs. 48,225 will be considered. **{1/2 M}**

Answer:

(b) Statement Showing the Computation of Value of Closing Inventory

<u>Value of Closing Finished Goods</u>

Particulars	Amount (Rs.)
Cost of Raw Material consumed (20,400 units X Rs. 20 per kg)	4,08,000
Direct Labour	3,06,000
Fixed Overheads (Rs. 3,00,000/30,000 x 20,400)	2,04,000
Cost of Production	9,18,000
Cost of Closing Inventory of Finished Goods per unit (Rs. 9,18,000/20,400)	**45**
Net Realizable Value (NRV) per unit	40

{1 M}

Since net realizable value is less than cost, closing inventory of Finished Goods will be valued at Rs. 40 per unit **{1 M}**

<u>Value of Closing Raw Materials</u>

As NRV of finished goods is less than its cost, the relevant raw material will be valued at its replacement cost, which is the best available measure of its NRV i.e. @ Rs. 19 per kg. **{1 M}**

Therefore, value of closing inventory would be as under:

Finished Goods 2,400 units @ Rs. 40 per unit	**Rs. 96,000**
Raw Materials 1,800 kg @ Rs. 19 per kg	**Rs. 34,200**
Total	**Rs. 1,30,200**

{3 Item x 1/2 M = 1.5 M}

Working Note:

Calculation of raw material consumed during the year

Particulars	Unit (Kg)
Opening Inventory	2,200
Purchases	20,000
Less: Closing Inventory	(1,800)
Raw Material Consumed	**20,400**

{1/2 M}

Answer

(c) (i) As per AS 12 "Accounting for Govt. Grants", two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives.

Under the first alternative, the grant of Rs. 10 crores (40% of 25 crores) is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognized the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge.

Under second alternative method, grant amounting Rs. 10 crores is treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset. {1 M}

(ii) In the given case, the grant amounting Rs. 150 lakhs received from the Central Government for setting up a plant in notified backward area may be considered as in the **nature of promoters' contribution.** Thus, amount of Rs. 150 lakhs should be **credited to capital reserve** and the plant will be shown at Rs. 300 lakhs. {1 M}

(iii) Rs. 50 lakhs received from Govt. for setting up a project for supply of arsenic free water in notified area should be **credited to capital reserve.**

Alternatively, if it is assumed that the project consists of capital asset only, then the amount of Rs. 50 lakhs received from Govt. for setting up a project for supply of arsenic free water should either be deducted from cost of asset of the project concerned in the balance sheet or treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset. {1 M}

(iv) Rs. 5 lakhs received from the local authority for providing corona vaccine to the employees is a grant received in nature of revenue grant. Such grants are generally presented as a credit in the profit and loss account, either separately or under a general heading 'Other Income'.

Alternatively, Rs. 5 lakhs may be deducted in reporting the related expense i.e. employee benefit expenses. {1 M}

(v) Rs. 500 Lakhs will be reduced from the renovation cost of power plant or will be treated as deferred income irrespective of the expenditure done by the entity out of it as it was specifically received for the purpose major renovation of power plant. However, it may be, later on, decided by the Govt. whether the grant will have to be refunded or not due to non-compliance of conditions attached to the grant. {1 M}

Answer:

(d) The related items given in the question will appear in the Cash Flow Statement of ABC Limited for the year ended 31st March, 2021 as follows:

	Rs.	Rs.
<u>Cash flows from operating activities</u>		

Closing Balance as per Profit and Loss Account		28,00,000	
Less: Opening Balance as per Profit and Loss Account		(20,00,000)	
		8,00,000	
Less: Dividend received		50,000	
			7,50,000 }{1 M}
Cash flows from investing activities			
Dividend received			**50,000** }{1 M}
Cash flows from financing activities			
Proceeds from issuance of share capital			
Equity shares issued for cash	Rs. 10,00,000		
Proceeds from securities premium			
(Rs. 5,50,000 – 5,00,000)	Rs. 50,000	10,50,000	
Less: Redemption of Preference shares (Rs. 7,00,000 – Rs. 6,00,000)		(1,00,000)	**9,50,000** }{2 M}

Note:

1. Machinery acquired by issue of shares does not amount to cash outflow, hence also not considered in the cash flow statement.
2. ABC Ltd. has been considered as a non-financial company in the given answer.

{1 M}

Answer 2:

(a) (i) **Department Trading Account**

For the year ending on 31.03.20X2 in the books of Head Office

Particulars	Rs.	Particulars	Rs.
To Opening Stock	**65,000**	By Sales	**3,00,000**
To Purchases	**2,00,000**	By Shortage	**1,000**
To Gross Profit c/d (b.f.)	**58,880**	By Closing Stock	**22,880**
	3,23,880		3,23,880

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

(ii) **Memorandum stock account (for Department A) (at selling price)**

Particulars	Rs.	Particulars	Rs.
To Balance b/d (Rs. 65,000 + 25% of Rs. 65,000)	**81,250**	By Profit & Loss A/c (Cost of Shortage)	**1,000**
To Purchases (Rs. 2,00,000 + 25% of Rs. 2,00,000)	**2,50,000**	By Memorandum Departmental Mark-up A/c (Load on Shortage) (Rs. 1,000 x 25%)	**250**
		By Memorandum Departmental Mark-up A/c (Mark-down on Current Purchases)	**1,200**
		By Debtors A/c (Sales)	**3,00,000**
		By Memorandum Departmental Mark-up A/c (Mark Down on Opening Stock)	**600**
		By Balance c/d (b.f.)	**28,200**
	3,31,250		3,31,250

{8 Item x 1/2 M = 4 M}

(iii) **Memorandum Departmental Mark-up Account**

Particulars	Rs.	Particulars	Rs.
To Memorandum Departmental Stock A/c (Rs. 1,000 × 25/100)	**250**	By Balance b/d (Rs. 81,250 x 25/125)	**16,250**

To Memorandum Departmental Stock A/c	**1,200**	By Memorandum Departmental Stock A/c (Rs. 2,50,000 x 25/125)	**50,000**
To Memorandum Departmental Stock A/c	**600**		
To Gross Profit transferred to Profit & Loss A/c	**58,880**		
To Balance c/d [(Rs. 28,200 + 400*) x 25/125 - Rs. 400]	**5,320**		
	66,250		66,250

{7 Item x 1/2 M = 3.5 M}

*[Rs. 1,200 ×5,000/15,000] = Rs. 400

Working Notes:

(i) Calculation of Cost of Sales

		Rs.
A	Sales as per Books	3,00,000
B	Add: Mark-down in opening stock (given)	600
C	Add: mark-down in sales out of current Purchases (Rs. 1,200 x 10,000 /15,000)	800
D	Value of sales if there was no mark-down (A+B+C)	3,01,400
E	Less: Gross Profit (25/125 of Rs. 3,01,400) subject to Mark Down (Rs. 600 + Rs. 800)	(60,280)
F	Cost of sales (D-E)	**2,41,120**

{1 M}

(ii) Calculation of Closing Stock

		Rs.
A	Opening Stock	65,000
B	Add: Purchases	2,00,000
C	Less: Cost of Sales	(2,41,120)
D	Less: Shortage	(1,000)
E	Closing Stock (A+B-C-D)	**22,880**

{2 M}

Note: It has been assumed that mark up (given in question) is determined as a percentage of cost.

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**
		7,50,000			7,50,000

{1 M}

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
		75,000			75,000

{2 M}

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 3:

(a) Computation of claim for loss of stock

	Rs.
Stock on the date of fire (i.e. on 28.9.2022)	5,98,000
Less: Stock salvaged	(62,500)
Stock destroyed by fire (Loss of stock)	**5,35,500**

}{1 M}

Amount of claim:

$$= \frac{\text{Insured Value}}{\text{Total cost of stock on the date of fire}} \times \text{loss of stock}$$ **}{1/2 M}**

(Average clause is applicable as insurance policy amount (Rs. 5,00,000) is less than the value of closing stock ie. Rs. 5,98,000)
5,00,000/5,98,000 X 5,35,500 = **Rs. 4,47,742** (rounded off) **}{1 M}**

Trading Account for the year ended 31.3.2022

Particulars	(Rs.)	Particulars	(Rs.)
To Opening stock	5,25,000	By Sales	48,00,000
To Purchases	37,35,000	By Closing Stock at cost	4,20,000
To Gross Profit	9,60,000		
	52,20,000		52,20,000

Rate of gross profit = $\frac{9,60,000}{48,00,000} = 20\%$ **}{1 M}**

Memorandum Trading A/c
(1.4.22 to 28.9.22)

Particulars		(Rs.)	Particulars	(Rs.)
To Opening stock		**4,20,000**	By Sales (W.N. 2)	**31,40,000**
To Purchases	Rs. 27,22,000		By Goods with customers* (for approval) (W.N.1)	**80,000**
Add: Purchase for which invoice not received	Rs. 1,20,000	**28,42,000**	By cost of goods distributed**	**72,000**
To Gross profit (Rs. 31,40,000 x 20%)		**6,28,000**	By Closing stock (bal. fig.)	**5,98,000**
		38,90,000		38,90,000

{7 Item x 1/2 M = 3.5 M}

Working Notes:

1. Calculation of goods with customers
Since no approval for sale has been received for the goods of Rs. 1,00,000 (i.e. 2/3 of Rs. 1,50,000) hence, these should be valued at cost i.e. Rs. 1,00,000 – 20% of Rs. 1,00,000 = **Rs. 80,000.** **{1/2 M}**

2. Calculation of actual sales
Total sales – Goods not dispatched - Sale of goods on approval (2/3rd)
= Sales (Rs. 33,30,000 – Rs. 90,000 – Rs. 1,00,000) = **Rs. 31,40,000** **{1/2 M}**

Answer:
(b) **Investment Account in Books of Saurabh**
(Script: Equity Shares in BT Ltd.)

		No.	Dividend	Amount			No.	Dividend	Amount
				Rs.					**Rs.**
1.4.21	To Bal b/d	10,000		**70,000**	19.9.21	By Bank (dividend on shares acquired on 4.7. 2021)		**5,000**	**3,750**
4.7.21	To Bank	7,500		**75,000**					
5.8.21	To Bonus	3,500		**0**	11.12.21	By Bank (Sale of shares)	7,500		**60,000**
11.12.21	To P & L A/c (Profit on sale of shares)			**9,554**					
31.3.22	To P&L A/c		5,000		31.3.22	By Bal. c/d	13,500		**90,804**
		21,000	5,000	1,54,554			21,000	5,000	1,54,554

{8 Item x 1/2 M = 4 M}

Working Notes:

(1) Right Shares = $\frac{(10,000 + 7,500 + 3,500)}{7} \times 2 = 6,000$
Sale of rights amounting Rs. 9,000 (Rs. 1.5 x 6,000 shares)
It will not be shown in investment A/c but will directly be taken to P & L statement. **{1 M}**

(2) **Profit on sale of 7,500 shares**
= Sales proceeds – Average cost
Sales proceeds = Rs. 60,000
Average cost = (70,000 + 75,000 – 3,750) /21,000 x 7,500 = Rs. 50,446
Profit = Rs. 60,000 – Rs. 50,446 = **Rs. 9,554.** **{1 M}**

(3) **Value of investments**
Current investments are valued at lower of cost or net realizable value.
Here, cost= (70,000 + 75,000 – 3,750)/ 21,000 X 13,500 = Rs. 90,804
Net realizable value of the shares = Rs. 94,500
Therefore, value of investments will be taken lower of above i.e. Rs. 90,804 **{2 M}**

Note: As question is silent, Average cost basis has been considered for calculation of cost of shares in above solution.

Answer:
(c) Effects of each transaction on Balance sheet of Mr. A is shown below:

Transactions	Assets Rs. lakh	–	Liabilities Rs. lakh	=	Equity Rs. lakh
Opening	8.00	–	3.00	=	5.00
(1) Dividend earned	**8.20**	–	**3.00**	=	**5.20**
(2) Settlement of Creditors	**7.70**	-	**2.30**	=	**5.40**
(3) Rent Outstanding	**7.70**	–	**2.40**	=	**5.30**
(4) Drawings	**7.61**	–	**2.40**	=	**5.21**

{4 Item x 1 = 4 M}

Answer 4:
(a) (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 atthe 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)	**81,275** **}{3 M}**	1.10.X4	By Balance b/d	77,775
			31.12.X4	By Interest a/c (@ 18% on bal.) (77,775x3/12x18/100)	3,500
		81,275			81,275

Answer:

(b) 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 1/2 = 6.5 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**

{3.5 M}

Answers 5:

(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**	**{1.5 M}**
	85,000	1,85,000		85,000	1,85,000	

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

9 Item X 1/4 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 6:

(a) 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:
(b)

	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

(c) 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
Less: Repairs	25,000	13,80,000
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:

(d) In the books of ……….

Journal Entries

Date	**Particulars**		**Dr. (Rs.)**	**Cr. (Rs.)**
	Bank A/c	Dr.	25,000	
	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…….)			
	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)			

{1/4 M} **{1/4 M}**

	8% Redeemable Preference Share Capital A/c Dr.	1,00,000	
	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	
	To Bank A/c		1,10,000
	(Being the amount paid on redemption of preference shares)		
	Profit & Loss A/c Dr.	10,000	
	To Premium on Redemption of Preference Shares A/c		10,000
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)		

{1/4 M} {1/4 M} {1/4 M}

Balance Sheet as at ....[Extracts]

	Particulars	Notes No.	Rs.
	EQUITY AND LIABILITIES		
1.	**Shareholders' funds**		
	a Share capital		
	b Reserves and Surplus	1	**2,25,000** {1/4 M}
	ASSETS	2	**1,02,000** {1/4 M}
2.	**Current Assets**		
	Cash and cash equivalents (98,000 + 25,000 – 1,10,000)		
			13,000 {1/4 M}

Notes to Accounts

1.	**Share Capital**	
	22,500 Equity shares (20,000 + 2,500) of Rs.10 each fully paid up	**2,25,000** {1 M}
2.	**Reserves and Surplus**	
	General Reserve	20,000
	Securities Premium	2,000
	Capital Redemption Reserve	75,000
	Investment Allowance Reserve	5,000
		1,02,000 {1 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: (Rs. 10,000-5,000) <u>Rs. 5,000</u> <u>(Rs. 75,000)</u>

<u>Rs. 25,000</u>

Therefore, No. of shares to be issued = Rs. 25,000/Rs. 10 = **2,500 shares.** {1 M}

Answer:
(e)

No.	Particulars	Basis of apportionment
(i)	Directors Fees	**Charge to Post incorporation period**
(ii)	Preliminary Expenses written off	**Charge to Post incorporation period**
(iii)	Salaries and general expenses	**Time ratio**
(iv)	Statutory Audit Fees	**Charge to Post incorporation period**
(v)	Tax Audit Fees u/s 44 AB of the Income Tax Act, 1961	**On the basis of sales /turnover ratio in the respective periods**
(vi)	Commission to travel agents	**On the basis of sales / turnover ratio in the respective periods**
(vii)	Sales Promotion expenses	**On the basis of sales / turnover ratio in the respective periods**
(viii)	Advertisement Expenses	**On the basis of sales / turnover ratio in the respective periods**
(ix)	Rent Expenses	**Time Ratio**
(x)	Bad Debts	**On the basis of sales / turnover ratio in the respective periods**

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

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