All BATCHES

DATE: 09.07.2018 **MAXIMUM MARKS: 100** **TIMING: 3¼Hours**

PAPER 1: ACCOUNTS

Q. No. 1 is compulsory.
Candidates are required to answer any four questions from the remaining five questions.
Wherever necessary suitable assumptions should bemade by the candidates.
Working notes should form part of the answer.

Answer 1:

(a) Statement of Profit and Loss
(for the three years ending 31st March, 20x1, 20x2, 20x3)

(Rupees in thousands)

	20x1	***20x2***	***20x3***	
Profit (loss)	(100)	50	*60*	**1 M**
Less: Current tax	—	—	*(4)*	**1M**
Deferred tax:				
Tax effect of timing differences originating during the year	40			**1 M**
Tax effect of timing differences reversing during the year		(20)	*(20)*	**1 M**
Profit (loss) after tax effect	(60)	30	*36*	**1 M**

(b) AS 4 (Revised) on Contingencies and Events Occurring after the Balance Sheet Date defines 'events occurring after the balance sheet date' as 'significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which financial statements are approved by the Board of Directors in the case of a company'. The given case is discussed in the light of the above mentioned definition and requirements given in AS 4 (Revised). **3M**

In this case the incidence, which was expected to push up cost, became evident after the date of approval of the accounts. So it is not an 'event occurring after the balance sheet date'. However, this may be mentioned in the Report of Approving Authority. **2M**

(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**	

(d) Journal Entries

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

Working Notes:

1. Depreciation of Year 1

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

½ M

2. Depreciation for Year 2:

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

1 M

Answer 2:

(a) In the books of Mr. Brown

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

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

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

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

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

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

3 M.

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

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

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

Working Notes:

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

Sales price	Rs. 13,50,000	½ M
Less : Cost of bond sold = $\frac{19,92,000}{24,000} \times 15,000$	(Rs.12,45,000)	
Profit on sale	Rs. 1,05,000	

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

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

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

Sales price	Rs. 17,60,000	½ M
Less : Cost of bond sold = $\frac{38,25,000}{2,50,000} \times 80,000$	(Rs. 12,24,000)	
Profit on sale	Rs. 5,36,000	

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

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

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

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

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

Value of right shares subscribed= 6,000 shares @ Rs. 5 per share = Rs. 30,000 **½ M**

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

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

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

Note: As per para 13 of AS 13, sale proceeds of rights is to be credited to P & L A/c. **½ M**

7. **Purchase of bonds on 01.05.20X1**

Interest element in purchase of bonds	= 24,000 x 100 x 12% x 1/12	½ M
	= Rs. 24,000	
Investment element in purchase of bonds	= (24,000 x 84) –24,000	
	= Rs. 19,92,000	

8. **Sale of bonds on 01.03.20X2**

Interest element in purchase of bonds	= 15,000 x 100 x 12% x 5/12	½ M
	= Rs. 75,000	
Investment element in purchase of bonds	= 15,000 x 90 = Rs. 13,50,000	

(b)

	Department P (Rs.)	Department S (Rs.)	Department Q (Rs.)	
Profit after charging Manager's Commission	90,000	60,000	45,000	
Add: Manager's Commission (1/9)	10,000	6,667	5,000	
	1,00,000	66,667	50,000	1 M
Less: Unrealised profit on Stock (WN)	(5,426)	(21,000)	(2,727)	
Profit Before Manager's Commission	94,574	45,667	47,273	1 M
Less: Manager's Commission 10%	(9,457)	(4,567)	(4,727)	
Correct Profit after Manager's Commission	85,117	41,100	42,546	1½ M

Working Notes:

	Department P (Rs.)	Department S (Rs.)	Department Q (Rs.)	Total (Rs.)	
Unrealised Profit of:					
Department P	-	25/125X18,000 =3,600	15/115X14,000 =1,826	5,426	½ M
Department S	20/100X48,000 =9,600	-	30/100X38,000 =11,400	21,000	½ M
Department Q	20/120X12,000 =2,000	10/110X8,000 =727		2,727	½ M

Answer 3:

(a) Balance Sheet of M/s PQR & Co. as at 31st March, 20X1

Liabilities		Rs.	Assets		Rs.
Capitals:			Building (Rs. 1,00,000 + Rs. 60,000)		***1,60,000***
P	5,52,000				
Q	3,68,000		Plant & machinery (Rs. 2,50,000+Rs. 2,00,000)		***4,50,000***
R	1,84,000	***11,04,000***			
Sundry creditors (1,20,000+1,16,000)		***2,36,000***	Office equipment (Rs. 20,000+Rs. 6,000)		***26,000***
Bank overdraft		***80,000***	Stock-in-trade (Rs. 1,44,000+Rs. 1,68,000)		***3,12,000***
			Sundry debtors (Rs. 1,60,000+Rs. 2,00,000)	3,60,000	
			Less: Provision for doubtful debts (Rs. 12,000+Rs. 26,000)	(38,000)	***3,22,000***
			Bank balance (Rs. 30,000 + Rs. 90,000)		***1,20,000***
			Cash in hand		***30,000****
		14,20,000			14,20,000

10 items (½M) = 5M

In the books of P & Co.
Partners' Capital Accounts

Liabilities	P (Rs.)	Q (Rs.)	Assets	P (Rs.)	Q (Rs.)
To Capital A/cs – M/s PQR & Co.	4,89,000	2,43,000	By Balance b/d	2,40,000	1,60,000
			By Reserve (3:1)	37,500	12,500
			By Profit on Realisation A/c (W.N.4)	2,11,500	70,500
	4,89,000	2,43,000		4,89,000	2,43,000

2M

In the books of R & Co.
Partners' Capital Accounts

Liabilities	P (Rs.)	Q (Rs.)	Assets	P (Rs.)	Q (Rs.)
To Capital A/cs – M/s PQR & Co.	3,68,000	1,84,000	By Balance b/d	2,00,000	1,00,000
			By Reserve (2:1)	1,00,000	50,000
			By Profit on Realisation (W.N.5)	68,000	34,000
	3,68,000	1,84,000		3,68,000	1,84,000

2M

Working Notes:

1. Computation of Purchase Considerations

	P & Co. (Rs.)	R & Co. (Rs.)
Assets:		
Goodwill	1,20,000	60,000
Building	1,00,000	60,000
Plant & machinery	2,50,000	2,00,000
Office equipment	20,000	6,000
Stock-in- trade	1,44,000	1,68,000
Sundry debtors	1,60,000	2,00,000
Bank balance	30,000	90,000
Cash in hand	20,000	10,000
Due from R & Co.	1,00,000	-
(A)	9,44,000	7,94,000
Liabilities:		
Creditors	1,20,000	1,16,000
Provision for doubtful debts	12,000	26,000
Due to P & Co.	-	1,00,000
Bank overdraft	80,000	-
(B)	2,12,000	2,42,000
Purchase consideration (A-B)	7,32,000	5,52,000

2M

2. Computation of proportionate capital

	Rs.
M/s PQR & Co. (Purchase Consideration) (Rs. 7,32,000+ Rs. 5,52,000)	12,84,000
Less : Goodwill adjustment	(1,80,000)
Total capital of new firm (Distributed in ratio 3:2:1)	11,04,000
P's proportionate capital	5,52,000
Q's proportionate capital	3,68,000
R's proportionate capital	1,84,000

1 M

3. Computation of Capital Adjustments

	P Rs.	Q Rs.	R Rs.	Total Rs.
Balance transferred from P & Co.	4,89,000	2,43,000		7,32,000
Balance transferred from R & Co.		3,68,000	1,84,000	5,52,000
	4,89,000	6,11,000	1,84,000	12,84,000
Less : Goodwill written off in the ratio of 3:2:1	(90,000)	(60,000)	(30,000)	(1,80,000)
Existing capital	3,99,000	5,51,000	1,54,000	11,04,000
Proportionate capital	5,52,000	3,68,000	1,84,000	11,04,000
Amount to be brought in (paid off)	1,53,000	(1,83,000)	30,000	

1 M

4. In the books of P & Co.

Realisation Account

		Rs.		Rs.
To Building		50,000	By Creditors	1,20,000
To Plant & machinery		1,50,000	By Bank overdraft	80,000
To Office equipment		20,000	By M/s PQR & Co. (purchase consideration) (W.N.1)	7,32,000
To Stock-in-trade		1,20,000		
To Sundry debtors		1,60,000		
To Bank balance		30,000		
To Cash in hand		20,000		
To Due from R & Co.		1,00,000		
To Partners' capital A/cs				
P	2,11,500			
Q	70,500	2,82,000		
		9,32,000		9,32,000

1 M

5. In the books of R & Co.

Realisation Account

		Rs.		Rs.
To Building		60,000	By Creditors	1,16,000
To Plant & machinery		1,60,000	By Due to P & Co.	1,00,000
To Office equipment		6,000	By M/s PQR & Co. (purchase consideration) (W.N.1)	5,52,000
To Stock-in-trade		1,40,000		
To Sundry debtors		2,00,000		
To Bank balance		90,000		
To Cash in hand		10,000		
To Partners' capital A/cs				
Q	68,000			
R	34,000	1,02,000		
		7,68,000		7,68,000

1 M

(b) Cash Flow Statement of ……

for the year ended March 31, 20X1(Direct Method)

Particulars	Rs.	Rs.	
Operating Activities :			
Cash received from sale of goods	**½M**1,40,000		
Cash received from Trade receivables	**½M**1,75,000		
Trade Commission received	**½M**50,000	3,65,000	**5 M**
Less : Payment for Cash Purchases	**½M**1,20,000		
Payment to Trade payables	**½M**1,57,000		
Office and Selling Expenses	**½M**75,000		
Payment for Income Tax	**½M**30,000	(3,82,000)	
Net Cash Flow used in Operating Activities		(17,000)	**1½M**

Answer 4:

(a) Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods

Particulars	Total Amount Rs.	Basis of Allocation	Pre-incorporation Rs.		Post-incorporation Rs.	
Gross Profit (W.N.2)	6,00,000	1:3	1,50,000	½ M	4,50,000	½ M
Less: Salaries	1,20,000	Time	40,000	½ M	80,000	½ M
Rent, rates and taxes	80,000	Time	26,667	½ M	53,333	½ M
Sales' commission	21,000	Sales (2:5)	6,000	½ M	15,000	½ M
Depreciation	25,000	Time	8,333	½ M	16,667	½ M
Interest on debentures	32,000	Post			32,000	½ M
Directors' fee	12,000	Post			12,000	½ M
Advertisement	36,000	Post			36,000	½ M
Net profit	2,74,000		69,000	¼ M	2,05,000	¼ M

Working Notes :

1. Sales ratio

Let the monthly sales for first 4 months (i.e. from 1.4.20X1 to 31.7.20X1) be = x
Then, sales for 4 months = 4x
Monthly sales for next 8 months (i.e. from 1.8.X1 to 31.3.20X2)
= x + 25% of x= 1.25x
Then, sales for next 6 months
= 1.25x X 8 = 10x Total sales for the year
= 4x + 10x = 14x Sales Ratio = 4 x :10x i.e. 2:5 **1 M**

2. Gross profit ratio

From 1.4.20X1 to 31.7.20X1 gross profit is 25% of sales Then,
25% of 4x= 1x
Gross profit for next 8 months (i.e. from 1.8.X1 to 31.3.20X2) is 30% Then,
30% of 10x = 3x
Therefore gross profit ratio will be 1:3 **1 M**

3. Time ratio

1st April, 20X1 to 31st July, 20X1 : 1st August, 20X1 to 31st March, 20X2 = 4 months: 8 months = 1:2 Thus, time ratio is 1:2. **1 M**

(b) Projected Balance Sheet of ......

as on 31st March, 2016

Liabilities		Rs.	*Assets*		Rs.
Capital		***10,00,000***	Fixed Assets	4,00,000	
Profit & Loss Account as on			Additions	1,00,000	
1st April, 2015	60,000			5,00,000	
Add : Profit for theyear	3,74,000	***4,34,000***	Less : Dep. @ 10%	(50,000)	***4,50,000***
Creditors(Trade)		***1,10,000***	Stock in trade		***3,36,000***
			Sundry Debtors		***2,00,000***
			Cash & Bank Balances (working note)		***5,58,000***
		15,44,000			15,44,000

7 items ½M = 3½M

Working Notes

1. Projected Trading and Profit and Loss Account
for the year ended 31st March, 2016

Particulars	Rs.	Particulars	Rs.
To Opening Stock	***3,00,000***	By Sales	***21,20,000***
To Purchases	***15,20,000***	By Closing Stock (balancing fig.)	***3,36,000***
To Gross Profit c/d (30% on sales)	***6,36,000***		
	24,56,000		24,56,000
To Sundry Expenses (10% on sales)	***2,12,000***	By Gross Profit b/d	***6,36,000***
To Depreciation	***50,000***		
To Net Profit (b.f.)	***3,74,000***		
	6,36,000		6,36,000

9 items ½M = 4½M

2. Cash and Bank Account
1st April, 2015 to 31st March, 2016

Particulars	Rs.	Particulars	Rs.
To Balance b/d	3,50,000	By Sundry Creditors(Rs. 1,40,000 + Rs. 14,10,000)	15,50,000
To Sundry Debtors (Rs.1,50,000 + Rs. 19,20,000)	20,70,000	By Expenses	2,12,000
		By Fixed Assets	1,00,000
		By Balance c/d (b.f.)	5,58,000
	24,20,000		24,20,000

2M

Answer 5:

(a)

(i) Debenture Redemption Reserve Account

20X1		Rs.	20X1		Rs.
Dec. 31	To 13.5% Deb. in XX Ltd. (Loss on sale of investment)	***50,000***	Jan. 1	By Balance b/d	***45,00,000***
	To General Reserve (transfer) (b.f.)	***49,73,000***	Dec. 31	By 13.5% Deb. in XX Ltd.	***2,70,000***
				By Own Deb. A/c (Int. on own Deb.)	***2,53,000***
		50,23,000			50,23,000

5 items ½M = 2½M

11% Debentures Account

20X1		Rs.	20X1		Rs.
Dec. 31	To Own Debentures A/c	***24,00,000***	Jan. 1	By Balance b/d	***50,00,000***
	To Bank	***26,00,000***			
		50,00,000			50,00,000

3 items ½M = 1½M

(ii) Own Debentures Account

20X1		Nominal	Int.	Amt. Rs.	20X1		Nominal		Amt. Rs.
Jan. 1	To Balance b/d	20,00,000	-	***18,50,000***	June 30	By debenture Int. A/c		***1,32,000***[3]	
Feb. 1	To Bank	2,00,000	***1,833***[1]	***1,94,167***[2]	Dec. 31	By Debenture Int. A/c		***1,32,000***[6]	
June 1	To Bank	2,00,000	***9,167***[4]	***1,98,000***[5]		By 11% Deb. Account (cancellation)	24,00,000		***24,00,000***
Dec. 31	To Capital Res. (profit on cancellation) (b.f.)			***1,57,833***					
	To Deb.Redemption Reserve (b.f.)		***2,53,000***						
		24,00,000	2,64,000	24,00,000			24,00,000	2,64,000	24,00,000

10 items × ½ M = 5M

1. 2,00,000 x 11% x 1/12
2. (2,000 x 98) – 1,833
3. 24,00,000 x 11% x 6/12
4. 2,00,000 x 11% x 5/12
5. 52,000 x 99
6. 24,00,000 x 11% x 6/12

6 items ½ M = 3M

Working Note :

13.5% Debentures in XX Ltd.

		Interest	Amount			Interest	Amount
20×1		**Rs.**	**Rs.**	**20×1**		**Rs.**	**Rs.**
Jan. 1	To Balance b/d (20,00,000)		***19,50,000***	Jun-30	By Bank (20,00,000 × 13.5% × 6/12)	***1,35,000***	
				Dec.31	By Bank (20,00,000 × 13.5% × 6/12)	***1,35,000***	
Dec.31	To Debenture Redemption. Reserve (1,35,000 + 1,35,000)	***2,70,000***			By Bank (20,00,000 × 95/ 100)		***19,00,000***
					By Debenture Redemption Reserve (Loss on sale) (19,50,000 – 19,00,000)		***50,000***
		2,70,000	19,50,000			2,70,000	19,50,000

6 items ½ M = 3M

(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 6:

(a) As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

Its segment result whether profit or loss is 10% or more of:

The combined result of all segments in profit; or

The combined result of all segments in loss,

whichever is greater in absolute amount; or

Its segment assets are 10% or more of the total assets of all segments.

If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until atleast 75% of total enterprise revenue is included in reportable segments. **2 M**

On the basis of turnover criteria segments M and N are reportable segments. On the basis of the result criteria, segments M, N and R are reportable segments (since their results in absolute amount is 10% or more of Rs. 200 lakhs).

On the basis of asset criteria, all segments except R are reportable segments.

Since all the segments are covered in at least one of the above criteria all segments have to be reported upon in accordance with Accounting Standard (AS) 17. Hence, the opinion of chief accountant is wrong. **2 M**

(b) Books of Branch A

Journal Entries

	Particulars		**Rs.**		
(i)	Expenses account To Head office account (Being the allocated expenditure by the head office recorded in branch books)	Dr.	3,500	3,500	1 M
(ii)	Depreciation account To Head office account (Being the depreciation provided)	Dr.	1,500	1,500	1 M
(iii)	Head office account To Salaries account (Being the rectification of salary paid on behalf of H.O.)	Dr.	2,000	2,000	1 M
(iv)	Head office account To Debtors account (Being the adjustment of collection from branch debtors)	Dr.	10,000	10,000	1 M

(c) Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares Issue Price) / (Existing Number of shares + Rights Number of shares)
= (Rs. 150 X 4 Shares + Rs. 125 X 1 Share) / (4 + 1) Shares
= Rs.725 / 5 shares =Rs.145 per share. **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 shareholderholding 4 shares and willing to renounce his right of buying one share in favour of that person. **1 M**

(d) Non-Applicability of Garner vs Murray rule:

1. When the solvent partner has a debit balance in the capital account.Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner. **1 M**
2. When the firm has only two partners. **1 M**
3. When there is an agreement between the partners to share the deficiency incapital account of insolvent partner. **1 M**
4. When all the partners of the firm are insolvent. **1 M**

(e) Memorandum Trading Account for the period 1st April, 20X2 to 29th August 20X2

		Rs.		**Rs.**
To Opening Stock		7,90,100	By Sales	45,36,000
To Purchases	33,10,700		By Closing stock (Bal. fig.)	8,82,600
Less: Advertisement	(41,000)			
Drawings	(2,000)	32,67,700		
To Gross Profit [30% of Sales – Refer Working Note]		13,60,800		
		54,18,600		54,18,600

1 M

Statement of Insurance Claim

	Rs.
Value of stock destroyed by fire	8,82,600
Less: Salvaged Stock	(1,08,000)
Add: Fire Fighting Expenses	4,700
Insurance Claim	7,79,300

1 M

Note: Since policy amount is more than claim amount, average clause will not apply. Therefore, claim amount of Rs. 7,79,300 will be admitted by the Insurance Company.

1 M

Working Note:

Trading Account for the year ended 31st March, 20X2

	Rs.		Rs.
To Opening Stock	7,10,500	By Sales	80,00,000
To Purchases	56,79,600	By Closing stock	7,90,100
To Gross Profit (b.f.)	24,00,000		
	87,90,100		87,90,100

1 M

Rate of Gross Profit in 20X1-X2

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100 = \frac{24,00,000}{80,00,000} \times 100 = 30\%$$

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