**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.<br>To Bank Account<br>(Being fixed asset purchased) | 20 | 20 | ½ M |
| | Bank Account Dr.<br>To Fixed Asset Account<br>(Being grant received from the government reduced the cost of fixed asset) | 8 | 8 | ½ M |
| | Depreciation Account (W.N.1) Dr.<br>To Fixed Asset Account<br>(Being depreciation charged on Straight Line method (SLM)) | 2 | 2 | ½ M |
| | Profit & Loss Account Dr.<br>To Depreciation Account<br>(Being depreciation transferred to Profit and Loss Account at the end of year 1) | 2 | 2 | ½ M |
| 2 | Fixed Asset Account Dr.<br>To Bank Account<br>(Being government grant on asset partly refunded which increased the cost of fixed asset) | 5 | 5 | ½ M |
| | Depreciation Account (W.N.2) Dr.<br>To Fixed Asset Account<br>(Being depreciation charged on SLM on revised value of fixed asset prospectively) | 3.67 | 3.67 | ½ M |
| | Profit & Loss Account Dr.<br>To Depreciation Account<br>(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. | 7,32,000 |
| To Stock-in-trade | | 1,20,000 | (purchase consideration) | |
| To Sundry debtors | | 1,60,000 | (W.N.1) | |
| 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. | 5,52,000 |
| To Stock-in-trade | | 1,40,000 | (purchase consideration) | |
| To Sundry debtors | | 2,00,000 | (W.N.1) | |
| 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 |
| **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** |

**5 M**

**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 = $\dfrac{\text{Rate of interest}}{100+\text{Rate of interest}} = \dfrac{10}{110} = \dfrac{1}{11}$ **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 |
| 2nd | *99,000 | 1/11 of Rs. 99,000 = Rs. 9,000 | 90,000 |
| 1st | **1,43,000 | 1/11of Rs. 1,43,000 = Rs. 13,000 | 1,30,000 |

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

1 M
1 M
1 M
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**

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

***