(GI-11, GI-12+15, GI-13+14, SI-5)

DATE: 27.12.2019 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

ACCOUNTING

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) 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**	

Answer:

(b) Calculation of Cost of Fixed Asset (i.e. Machinery)

Particulars		Rs.	
Purchase Price	Given (Rs. 158,34,000 x 100/112)	**1,41,37,500**	**{5 item x 1/2 M}**
Add: Site Preparation Cost	Given	**1,41,870**	
Technician's Salary	Specific/Attributable overheads for 3 months (See Note) (45,000 x3)	**1,35,000**	
Initial Delivery Cost	Transportation	**55,770**	
Professional Fees for Installation	Architect's Fees	**30,000**	
Total Cost of Asset		1,45,00,140	**{1 M}**

Note:

(i) Interest on Bank Overdraft for earlier payment of invoice is not relevant under AS 10. **{3/4 M}**

(ii) Internally booked profits should be eliminated in arriving at the cost of machine. **{3/4 M}**

Answer:

(c) (a) Interest for the period 2014-15
= US $ 10 lakhs x 4% × Rs. 62 per US$ = Rs. 24.80 lakhs **{3/4 M}**

(b) Increase in the liability towards the principal amount
= US $ 10 lakhs × Rs. (62 - 56) = Rs. 60 lakhs **{3/4 M}**

(c) Interest that would have resulted if the loan was taken in Indian currency
= US $ 10 lakhs × Rs. 56 x 10.5% = Rs. 58.80 lakhs **{3/4 M}**

(d) Difference between interest on local currency borrowing and foreign currency borrowing = Rs. 58.80 lakhs - Rs. 24.80 lakhs = Rs. 34 lakhs. **{3/4 M}**

Therefore, out of Rs. 60 lakhs increase in the liability towards principal amount, only Rs. 34 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be Rs. 58.80 lakhs being the aggregate of interest of Rs. 24.80 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of Rs. 34 lakhs. **{1 M}**

Hence, Rs. 58.80 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 and the remaining Rs. 26 lakhs (60 - 34) would be considered as the exchange difference to be accounted for as per AS 11. **{1 M}**

Answer:

(d) **Journal Entries**

Year	Particulars		Rs. in lakhs (Dr.)	Rs. in lakhs (Cr.)	
1	Fixed Asset Account To Bank Account (Being fixed asset purchased)	Dr.	20	20	½ M
	Bank Account To Fixed Asset Account (Being grant received from the government reduced the cost of fixed asset)	Dr.	8	8	½ M
	Depreciation Account (W.N.1) To Fixed Asset Account (Being depreciation charged on Straight Line method (SLM))	Dr.	2	2	½ M
	Profit & Loss Account To Depreciation Account (Being depreciation transferred to Profit and Loss Account at the end of year 1)	Dr.	2	2	½ M
2	Fixed Asset Account To Bank Account (Being government grant on asset partly refunded which increased the cost of fixed asset)	Dr.	5	5	½ M
	Depreciation Account (W.N.2) To Fixed Asset Account (Being depreciation charged on SLM on revised value of fixed asset prospectively)	Dr.	3.67	3.67	½ M
	Profit & Loss Account To Depreciation Account (Being depreciation transferred to Profit and Loss Account at the end of year 2)	Dr.	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) **Ascertainment of rate of gross profit for the year 2015-16**

Trading A/c for the year ended 31-3-2016

	Rs.		Rs.
To Opening stock	**4,81,100**	By Sales	**26,00,000**
To Purchases	**22,62,500**	By Closing stock	**6,63,600**
To Gross profit	**5,20,000**		
	32,63,600		32,63,600

5 Item X 1/2 M

$$\begin{aligned} Rate\ \ of\ \ Gross\ \mathrm{Pr}ofit &= \frac{GP}{sales} \times 100 \\ &= \frac{5{,}20{,}000}{26{,}00{,}000} \times 100 \ = \ 20\% \end{aligned}$$

1 M

Memorandum Trading A/c for the period from 1-4-2016 to 22-01-2017

	Rs.	Rs.		Rs.	Rs.
To Opening stock		**6,63,600**	By Sales	24,58,500	
To Purchases	17,41,350		*Add*: Unrecorded cash sales (W.N.)	20,000	**24,78,500**
Less: Goods used for advertisement	(50,000)	**16,91,350**	By Closing stock		**3,72,150**
To Gross profit (20% of Rs. 24,78,500)		**4,95,700**			
		28,50,650			28,50,650

5 Item X 1/2 M

Estimated stock in hand on the date of fire was Rs. 3,72,150. $\frac{1}{2}$ **M**

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 1.4.2016 to 18.8.2016= 140 days
Since, 140 days / 7 weeks = 20 weeks
Therefore, amount of defalcation = 20 weeks × Rs. 1,000 = Rs. 20,000. $1\frac{1}{2}$ **M**

Answer:

(b)

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	-	**30,000** **½ M**	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
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

1/4 M

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

$\frac{19,92,000}{24,000} \times 9,000$ = Rs. 7,47,000 **1/4 M**

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

Sales price	Rs. 17,60,000
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

1/4 M

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 **1/4 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 **1/4 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. **1/4 M**

7. Purchase of bonds on 01.05.20X1

Interest element in purchase of bonds	= 24,000 x 100 x 12% x 1/12	1/4 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	1/4 M
	= Rs. 75,000	
Investment element in purchase of bonds	= 15,000 x 90 = Rs. 13,50,000	

Answer 3:

(a)

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

Particulars	Rs.	Particulars	Rs.	
To Opening Stock	**40,000**	By Sales	**4,31,250**	5 Item X 1/2 M
To Purchases (Working Note)	**3,45,000**	By Closing Stock	**40,000**	
To Gross Profit c/d (20% on sales)	**86,250**			
	4,71,250		4,71,250	
To Business Expenses	**50,000**	By Gross Profit b/d	**86,250**	4 Item X 1/2 M
To Depreciation on:				
Machinery 6,500				
Building 5,000	**11,500**			
To Net profit	**24,750**			
	86,250		86,250	

Trade Debtors Account

Particulars	Rs.	Particulars	Rs.	
To Balance b/d	**50,000**	By Bank (bal.fig.)	**4,09,375**	4 Item X 1/2 M
To Sales	**4,31,250**	By Balance c/d (1/6 of 4,31,250)	**71,875**	
	4,81,250		4,81,250	

Trade Creditors Account

Particulars	Rs.	Particulars	Rs.	
To Bank (Balancing figure)	**3,31,875**	By Balancing b/d	**30,000**	4 Item X 1/2 M
To Balance c/d/ (1/8 of Rs. 3,45,000)	**43,125**	By Purchases	**3,45,000**	
	3,75,000		3,75,000	

Working Note:

		Rs.	
(i)	Calculation of Rate of Gross Profit earned during previous year		
A	Sales during previous year (Rs. 50,000 x 12/2)	**3,00,000**	1/2 M
B	Purchases (Rs. 30,000 x 12/1.5)	**2,40,000**	1/2 M
C	Cost of Goods Sold (Rs. 40,000 + Rs. 2,40,000 – Rs. 40,000)	**2,40,000**	1/2 M
D	Gross Profit (A-C)	**60,000**	1/2 M
E	Rate of Gross Profit $\frac{\text{Rs. } 60,000}{\text{Rs. } 3,00,000} \times 100$	**20%**	1 M
(ii)	Calculation of sales and Purchases during current year	Rs.	
A	Cost of goods sold during previous year	**2,40,000**	1/2 M

B	Add: Increases in volume @ 25 %	**60,000**	}1/2 M
		3,00,000	}1/2 M
C	Add: Increase in cost @ 15%	**45,000**	}1/2 M
D	Cost of Goods Sold during Current Year	**3,45,000**	}1/2 M
E	Add: Gross profit @ 25% on cost (20% on sales)	**86,250**	}1/2 M
F	Sales for current year [D+E]	**4,31,250**	}1/2 M

Answer:
(b)

(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 4:
(a) **Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.20X2**

Particulars	Pre-incorporation period Rs.	Post-incorporation period Rs.
Gross profit (1:3)	**80,000**	**2,40,000**
Less: Salaries (1:2)	**16,000**	**32,000**
Stationery (1:2)	**1,600**	**3,200**
Advertisement (1:3)	**4,000**	**12,000**
Travelling expenses (W.N.4)	**4,000**	**8,000**
Sales promotion expenses (W.N.4)	**1,200**	**3,600**
Misc. trade expenses (1:2)	**12,600**	**25,200**
Rent (office building) (W.N.3)	**8,000**	**18,400**
Electricity charges (1:2)	**1,400**	**2,800**
Director's fee (post-incorporation)	-	**11,200**
Bad debts (1:3)	**800**	**2,400**
Selling agents commission (1:3)	**4,000**	**12,000**
Audit fee (1:3)	**1,500**	**4,500**
Debenture interest (post-incorporation)	-	**3,000**
Interest paid to vendor (2:1) (W.N.5)	**2,800**	**1,400**
Selling expenses (1:3)	**6,300**	**18,900**
Depreciation on fixed assets (W.N.6)	**3,000**	**6,600**
Capital reserve (Bal.Fig.)	**12,800**	-
Net profit (Bal.Fig.)	-	**74,800**

34 Item X 1/4 M

Working Notes:

1. Time Ratio

Pre incorporation period = 1st April, 20X1 to 31st July, 20X1 i.e. 4 months
Post incorporation period is 8 months
Time ratio is 1: 2. **1 M**

2. Sales ratio

Let the monthly sales for first 6 months (i.e. from 1.4.20X1 to 30.09.20X1) be x Then, sales for 6 months = 6x
Monthly sales for next 6 months (i.e. from 1.10.X1 to 31.3.20X2) $x + \frac{2}{3}x = \frac{5}{3}x$

Then, sales for next 6 months $= \frac{5}{3}x \times 6 = 10\times$

Total sales for the year = 6x + 10x = 16x
Monthly sales in the pre incorporation period = Rs. 19,20,000/16 = Rs. 1,20,000
Total sales for pre-incorporation period = Rs. 1,20,000 x 4 = Rs. 4,80,000
Total sales for post incorporation period = Rs. 19,20,000 – Rs. 4,80,000 = Rs. 14,40,000
Sales Ratio = 4,80,000 : 14,40,000=1: 3 $1\frac{1}{2}$ **M**

3. Rent

		Rs.
Rent for pre-incorporation period (Rs. 2,000 x 4)		8,000 (pre)
Rent for post incorporation period		
August,20X1 & September, 20X1 (Rs. 2,000 x 2)	4,000	
October,20X1 to March,20X2 (Rs. 2,400 x 6)	14,400	18,400 (post)

1 M

4. Travelling expenses and sales promotion expenses

	Pre Rs.	Post Rs.
Traveling expenses Rs. 12,000 (i.e. Rs. 16,800- Rs. 4,800) distributed in Time ratio (1:2)	4,000	8,000
Sales promotion expenses Rs. 4,800 distributed in Sales ratio (1:3)	1,200	3,600

1 M

5. Interest paid to vendor till 30th September, 20X1

	Pre Rs.	Post Rs.
Interest for pre-incorporation period $\left(\frac{Rs.\ 4{,}200}{6} \times 4\right)$	2,800	
Interest for post incorporation period i.e. for August, 20X1 & September, 20X1 $\left(\frac{Rs.\ 4{,}200}{6} \times 2\right)$		1,400

1 M

6. Depreciation

		Pre Rs.	Post Rs.
Total depreciation	9,600		
Less: Depreciation exclusively for post incorporation period	(600)		600
Remaining (for pre and post incorporation period)	9,000		
Depreciation for pre-incorporation period $\left[9000 \times \frac{4}{12}\right]$*		3000	
Depreciation for post incorporation period $\left[9000 \times \frac{8}{12}\right]$*			6,000
* Time ratio = 1 : 2			
		3000	6,600

1 M

Answer:

(b)

In the books of C Limited

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)	
	Bank A/c To Equity Share Capital A/c (Being the issue of 25,000 equity shares of Rs. 10 each at par as per Board's resolution No……dated…..)	Dr.	2,50,000	2,50,000	$\frac{3}{4}$ **M**
	Bank A/c To 14% Debenture A/c (Being the issue of 1,000 Debentures of Rs. 100 each as per Board's Resolution No…..dated……)	Dr.	1,00,000	1,00,000	$\frac{3}{4}$ **M**
	12% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)	Dr. Dr.	3,00,000 30,000	3,30,000	$\frac{3}{4}$ **M**
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	3,30,000	3,30,000	$\frac{3}{4}$ **M**
	Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being the adjustment of premium on redemption against Profits & Loss Account)	Dr.	30,000	30,000	$\frac{3}{4}$ **M**
	Profit & Loss To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr.	50,000	50,000	$\frac{3}{4}$ **M**

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed	Rs. 3,00,000	$\frac{1}{2}$ **M**
Less: Proceeds from new issue	(Rs. 2,50,000)	
Total Balance	Rs.50,000	

Answer 5:

(a)

Departmental Trading and Profit and Loss Account for the year ended 31st March, 20X3

Particulars	Finished leather (Rs.)	Shoes (Rs.)	Total (Rs.)	Particulars	Finished leather (Rs.)	Shoes (Rs.)	Total (Rs.)
To Opening stock	30,20,000	4,30,000	34,50,000	By Sales	1,80,00,000	45,20,000	2,25,20,000
To Purchases	1,50,00,000	2,60,000	1,52,60,000	By Transfer to shoes Deptt.	30,00,000	-	30,00,000
To Transfer from Leather Department		30,00,000	30,00,000	By Closing stock	12,20,000	5,00,000	17,20,000
To Manufacturing expenses		5,00,000	5,00,000				
To Gross profit c/d (b.f.)	42,00,000	8,30,000	50,30,000				

13 Item X 1/4 M

	2,22,20,000	50,20,000	2,72,40,000		2,22,20,000	50,20,000	2,72,40,000
To Selling expenses	**1,50,000**	**60,000**	2,10,000	By Gross profit b/d	**42,00,000**	**8,30,000**	50,30,000
To Rent & warehousing	**5,00,000**	**3,00,000**	8,00,000				
To Net profit (b.f.)	**35,50,000**	**4,70,000**	40,20,000				
	42,00,000	8,30,000	50,30,000		42,00,000	8,30,000	50,30,000

8 Item X 1/4 M

General Profit and Loss Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To General expenses	**8,50,000**	**By Net profit**	**40,20,000**
To Unrealised profit (Refer W.N.)	**26,625**		
To General net profit (Bal. fig.)	**31,43,375**		
	40,20,000		40,20,000

4 Item X 1/4 M

Working Note:
Calculation of Stock Reserve

(1) Rate of Gross Profit of Finished leather Department, for the year 20X2-X3
$= \frac{\text{Gross Profit}}{\text{Total Sales}} \times 100$ = [(42,00,000)/ (1,80,00,000 + 30,00,000)] x100 = 20% **3/4 M**

(2) Closing Stock of Finished leather in Shoes Department = 75%
i.e. Rs. 5,00,000 x 75% = Rs. 3,75,000 **3/4 M**

(3) Stock Reserve required for unrealised profit @ 20% on closing stock
Rs. 3,75,000 x 20% = Rs. 75,000 **3/4 M**

(4) Stock reserve for unrealised profit included in opening stock of Shoes dept. @ 15%
i.e. (Rs. 4,30,000 x 75% x 15%) = Rs. 48,375 **3/4 M**

(5) Additional Stock Reserve required during the year = Rs. 75,000 – Rs. 48,375 = Rs. 26,625 **3/4 M**

Answer:

(b) Journal Entries

20X1 30 Sept.		**Dr. Rs.**	**Cr. 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 Discount Earned A/c To Head Office A/c [Revenue accounts (Cr.) transferred to H.O.]	Dr. Dr.	2,40,000 1,200	 2,41,200	**1/2 M**
Head Office Account To Building Account (Transfer of amounts spent on building extension to H.O. A/c)	Dr.	4,000	 4,000	**1/2 M**

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)

1. Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities: 1 M
2. Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India. 1 M
3. Banks (including co-operative banks), financial institutions or entities carrying on insurance business. 1/2 M
4. All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year. 1 M
5. All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year. 1 M
6. Holding and subsidiary entities of any one of the above. 1/2 M

Answer:

(b) Amount that can be drawn from reserves for 10% dividend

10% dividend on Rs. 80,00,000		Rs. 8,00,000
Profits available		
Current year profit	3,00,000	
Less: Preference dividend	(1,57,500)	(1,42,500)
Amount which can be utilised from reserves		6,57,500

{2 M}

Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 2014:

Condition I

Since 10% is lower than the average rate of dividend (12%), 10% dividend can be declared. {1 M}

Condition II

Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital plus free reserves ie. Rs. 12,25,000 [10% of (80,00,000 +17,50,000+25,00,000)] {1 M}

Condition III

The balance of reserves after drawl Rs. 18,42,500 (Rs. 25,00,000 - Rs. 6,57,500) should not fall below 15 % of its paid up capital ie. Rs. 14,62,500 (15% of Rs. 97,50,000]

Since all the three conditions are satisfied, the company can withdraw Rs. 6,57,500 from accumulated reserves.(as per Declaration and Payment of Dividend Rules, 2014.) {1 M}

Answer:

(c) Calculation of number of equity shares to be allotted

	Number of debentures	
Total number of debentures	20,000	{3/4 M}
Less: Debenture holders not opted for conversion	(2,500)	{3/4 M}
Debenture holders opted for conversion	17,500	{3/4 M}
Option for conversion	20%	{1/2 M}
Number of debentures to be converted (20% of 17,500)	3,500	{3/4 M}
Redemption value of 3,500 debentures at a premium of 5% [3,500 x (100+5)]	Rs. 3,67,500	{3/4 M}
Equity shares of Rs. 10 each issued on conversion		
[Rs. 3,67,500/ Rs. 15]	24,500 shares	{3/4 M}

Answer:

(d) Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias. Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion based on the business results. Information contained in the financial statements must be free from bias. It should reflect a balanced view of the financial position of the company without attempting to present them in biased manner. Financial statements cannot be prepared with the purpose to influence certain division, i.e. they must be neutral. {5 M}

Answer:

(e) Journal Entries in the books of Preet Ltd.

			Rs.	Rs.	
1-4-20X1	Equity share final call A/c To Equity share capital A/c (For final calls of Rs. 2 per share on 1,35,000 equity shares due as per Board's Resolution dated….)	Dr.	2,70,000	2,70,000	{3/4 M}
20-4-20X1	Bank A/c To Equity share final call A/c (For final call money on 1,35,000 equity shares received)	Dr.	2,70,000	2,70,000	{3/4 M}
	Securities Premium A/c Capital Redemption Reserve A/c General Reserve A/c Profit and Loss A/c To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held)	Dr. Dr. Dr. Dr.	37,500 60,000 1,80,000 60,000	3,37,500	{1 M}
	Bonus to shareholders A/c To Equity share capital A/c (For issue of bonus shares)	Dr.	3,37,500	3,37,500	{1 M}

Extract of Balance Sheet as at 30th April, 20X1 (after bonus issue)

	Rs.
Authorised Capital	
15,000 12% Preference shares of Rs.10 each	1,50,000
1,83,750 Equity shares of Rs.10 each (refer working note below)	18,37,500
Issued and subscribed capital	
12,000 12% Preference shares of Rs.10 each, fully paid	**1,20,000**
1,68,750 Equity shares of Rs.10 each, fully paid	**16,87,500**
(Out of above, 33,750 equity shares @ Rs.10 each were issued by way of bonus)	
Reserves and surplus	
Profit and Loss Account	**2,40,000**

3 Item X 1/4 M

Working Note:

The authorised capital should be increased as per details given below:

	Rs.
Existing authorised Equity share capital	15,00,000
Add: Issue of bonus shares to equity shareholders	3,37,500
	18,37,500

3 Item X 1/4 M

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