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

DATE: 16.06.2020 **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) Amount of Exchange difference and its Accounting Treatment

	Long term Loan	Foreign Currency Rate	Rs.	
(i)	Initial recognition US $ 50,000 Rs. (30,00,000/60)	1 US $ = Rs. 60	30,00,000	**{1/4 M}**
	Rate on Balance sheet date	1 US $ = Rs. 62		
	Exchange Difference Loss US $ 50,000 x Rs. (62 – 60)		1,00,000	**{1 M}**
	Treatment: Credit Loan A/c and Debit FCMITD A/c or Profit and Loss A/c by Rs. 1,00,000			**{1 M}**
(ii)	Trade receivables			
	Initial recognition US $ 16,949.152* (Rs.10,00,000/59)	1 US $ = Rs. 59	10,00,000	**{1/4 M}**
	Rate on Balance sheet date	1 US $ = Rs. 62		
	Exchange Difference Gain US $ 16,949.152* x Rs. (62-59)		50,847.456*	**{1 M}**
	Treatment: Credit Profit and Loss A/c by Rs. 50,847.456* And Debit Trade Receivables			**{1 M}**

Thus, Exchange Difference on Long term loan amounting Rs. 1,00,000 may either be charged to Profit and Loss A/c or to Foreign Currency Monetary Item Translation Difference Account but exchange difference on trade receivables amounting Rs. 50,847.456 is required to be transferred to Profit and Loss A/c. **{1/2 M}**

Answer:
(b)

Particulars	Rs.
Purchase Price of Land	**30,00,000**
Stamp Duty & Legal Fee	**2,00,000**
Architect Fee	**2,00,000**
Site Preparation	**50,000**
Materials (10,00,000 - Wasted Materials Cost not includible in PPE 2,50,000)	**7,50,000**
Direct Labour Cost (4,00,000 - Cost of Delay period not includible in PPE 22,000)	**3,78,000**
Interest (40,00,000 × 8% × 9/12) (only upto date of completion of construction)	**2,40,000**
Total to be capitalized	**48,18,000**

{8 items x 1/2 = 4 M}

Note: General Overheads are not included in the Cost of PPE. {1 M}

Answer:

(c) (i) False; As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. {1 M}

(ii) False; As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed. {1 M}

(iii) True; To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place. {1 M}

(iv) False; Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. {1 M}

(v) True; As per AS 1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable. {1 M}

Answer:

(d) Situation (i)

When Net Realisable Value of the Finished Goods Y is Rs. 400

NRV is greater than the cost of Finished Goods Y i.e. Rs. 330
Hence, Raw Material and Finished Goods are to be valued at cost
Value of Closing Stock: {1/2 M}

	Qty	Rate	Amount (Rs.)
Raw Material X	500	220	1,10,000
Finished Goods Y	1,200	330	3,96,000
Total Cost of Closing Stock			**5,06,000**

{1 M}

Situation (ii)

When Net Realisable Value of the Finished Goods Y is Rs. 300

NRV is less than the cost of Finished Goods Y i.e. Rs. 330
Hence, Raw Material is to be valued at replacement cost and
Finished Goods are to be valued at NRV since NRV is less than the cost
Value of Closing Stock: {1/2 M}

	Qty	Rate	Amount (Rs.)
Raw Material X	500	150	75,000
Finished Goods Y	1,200	300	3,60,000
Total Cost of Closing Stock			**4,35,000**

{1 M}

Working Notes:

Raw Material X	Rs.
Cost Price	200
Less: Cenvat Credit	(10)
	190
Add: Freight Inward	20
Unloading charges	10
Cost	**220**

{1 M}

Finished goods Y	Rs.
Materials consumed	220
Direct Labour	60
Direct overhead	40
Fixed overheads (Rs. 2,00,000/20,000 units)	10
Cost	**330**

{1 M}

Answer 2:

(a) **Trading and Profit and Loss Account of ABC enterprise for the year ended 31st March, 2017**

		Rs.		Rs.
To Opening Inventory		**80,000**	By Sales	**6,08,750**
To Purchases	4,56,000		By Closing inventory	**70,000**
Less: For advertising	(9,000)	**4,47,000**		
To Freight inwards		**30,000**		
To Gross profit c/d		**1,21,750**		
		6,78,750		6,78,750
To Sundry expenses		**92,000**	By Gross profit b/d	**1,21,750**
To Advertisement		**9,000**	By Interest on investment (20,000 x 6/100 x ½)	**600**
To Discount allowed –				
Debtors	15,000		By Discount received	**8,000**
Bills Receivable	1,250	**16,250**	By Miscellaneous income	**5,000**
To Depreciation on furniture		**6,500**		
To Provision for doubtful debts		**1,455**		
To Net profit		**10,145**		
		1,35,350		1,35,350

{16 item x 1/4 M}

Balance Sheet as on 31st March, 2017

Liabilities	Amount Rs.	Rs.	Assets	Rs.	Amount Rs.
Capital as on 1.4.2016	1,88,000		Furniture (w.d.v.)	60,000	
Less: Drawings	(91,000)		Additions during the year	10,000	
Add: Net Profit	10,145	**1,07,145**	Less: Depreciation	(6,500)	**63,500**
Sundry creditors		**1,50,000**	Investment		**19,000**
Outstanding expenses		**18,000**	Interest accrued		**600**
			Closing inventory		**70,000**

{11 item x 1/4 M}

			Sundry debtors	72,750	
			Less: Provision for doubtful debts	1,455	**71,295**
			Bills receivable		**17,500**
			Cash in hand and at bank		**26,250**
			Prepaid expenses		**7,000**
		2,75,145			2,75,145

Working Notes:

(1) Capital on 1st April, 2016

Balance Sheet as on 1st April, 2016

Liabilities	Rs.	Assets	Rs.
Capital (Bal. fig.)	1,88,000	Furniture (w.d.v.)	60,000
Creditors	1,10,000	Closing Inventory	80,000
Outstanding expenses	20,000	Sundry debtors	1,60,000
		Cash in hand and at bank	12,000
		Prepaid expenses	6,000
	3,18,000		3,18,000

{$1^{1/2}$ M}

(2) Purchases made during the year

Sundry Creditors Account

	Rs.		Rs.
To Cash and bank A/c	3,92,000	By Balance b/d	1,10,000
To Discount received A/c	8,000	By Sundry debtors A/c	4,000
To Bills Receivable A/c	20,000	By Purchases A/c	4,56,000
To Balance c/d	1,50,000	(Balancing figure)	
	5,70,000		5,70,000

{1 M}

(3) Sales made during the year

		Rs.
Opening inventory		80,000
Purchases	4,56,000	
Less: For advertising	(9,000)	4,47,000
Freight inwards		30,000
		5,57,000
Less: Closing inventory		(70,000)
Cost of goods sold		4,87,000
Add: Gross profit (25% on cost)		1,21,750
		6,08,750

{$1^{1/4}$ M}

(4) Debtors on 31st March, 2017

Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	1,60,000	By Cash and bank A/c	5,85,000
To Sales A/c	6,08,750	By Discount allowed A/c	15,000
To Sundry creditors A/c		By Bills receivable A/c	1,00,000
(bill dishonoured)	4,000	By Balance c/d (Bal. fig.)	72,750
	7,72,750		7,72,750

{1 M}

(5) Additional drawings by proprietors of ABC enterprises

Cash and Bank Account

	Rs.		Rs.
To Balance b/d	12,000	By Freight inwards A/c	30,000
To Sundry debtors A/c	5,85,000	By Furniture A/c	10,000
To Bills Receivable A/c	61,250	By Investment A/c	19,000
To Miscellaneous income A/c	5,000	By Expenses A/c	95,000
		By Creditors A/c	3,92,000
		By Drawings A/c	
		[Rs. 70,000 + Rs. 21,000)	91,000
		(Additional drawings)]	
		By Balance c/d	26,250
	6,63,250		6,63,250

{$1^{1/2}$ M}

(6) Amount of expenses debited to Profit and Loss A/c

Sundry Expenses Account

	Rs.		Rs.
To Prepaid expenses A/c (on 1.4.2016)	6,000	By Outstanding expenses A/c (on 1.4.2016)	20,000
To Bank A/c	95,000	By Profit and Loss A/c (Balancing figure)	92,000
To Outstanding expenses A/c (on 31.3.2017)	18,000	By Prepaid expenses A/c (on 31.3.17)	7,000
	1,19,000		1,19,000

{1 M}

(7) Bills Receivable on 31st March, 2017

Bills Receivable Account

	Rs.		Rs.
To Debtors A/c	1,00,000	By Creditors A/c	20,000
		By Bank A/c	61,250
		By Discount on bills receivable A/c	1,250
		By Balance c/d (Balancing figure)	17,500
	1,00,000		1,00,000

{1 M}

Note: All sales and purchases are assumed to be on credit basis.

Answer:

(b)

Computation of claim for loss of stock

	Rs.
Stock on the date of fire i.e. on 30th March, 20X2 (W.N.1)	62,600
Less: Value of salvaged stock	(12,300)
Loss of stock	50,300
Amount of claim $= \frac{\text{Insured Value}}{\text{Total cost of stock on the date of fire}} \times \text{Loss of stock}$ $= \frac{60,000}{62,600} \times 50,300$	48,211 (approx.)

{1 M} {1 M}

A claim of Rs. 48,211 (approx.) should be lodged by M/s Suraj Brothers to the insurance company.

Working Notes:

1. Calculation of closing stock as on 30th March, 2012

Memorandum Trading Account for
(from 1st January, 20X2 to 30th March, 20X2)

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening stock	95,600	By Sales (W.N.3)	2,42,000
To Purchases (1,70,000-30,000)	1,40,000	By Goods with customers (for approval) (W.N.2)	26,400*
To Wages (50,000 – 3,000)	47,000	By Closing stock (Bal. fig.)	62,600
To Gross profit (20% on sales)	48,400		
	3,31,000		3,31,000

{2 M}

2. **Calculation of goods with customers**
Since no approval for sale has been received for the goods of Rs. 33,000 (i.e. 2/3 of Rs. 49,500) hence, these should be valued at cost i.e. Rs. 33,000 – 20% of Rs. 33,000 = Rs. 26,400. {1/2 M}

3. **Calculation of actual sales**
Total sales – Sale of goods on approval (2/3rd)= Rs. 2,75,000 – Rs. 33,000 = Rs. 2,42,000. {1/2 M}

Answer 3:

(a) **M/s X**

Departmental Trading A/c for the year ending 31st December, 20X1

		Deptt. A.	Deptt. B			Deptt. A	Deptt. B
		Rs.	**Rs.**			**Rs.**	**Rs.**
To	Stock	**20,000**	**12,000**	By	Sales	**1,40,000**	**1,12,000**
To	Purchases	**92,000**	**68,000**	By	Purchased Goods	**8,000**	**10,000**
					transferred		
To	Wages	**12,000**	**8,000**	By	Finished goods	**35,000**	**40,000**
					transferred		
To	Carriage	**2,000**	**2,000**	By	Return of finished Goods	**10,000**	**7,000**
To	Purchased Goods			By	Closing Stock:		
	transferred	**10,000**	**8,000**		Purchased Goods	**4,500**	**6,000**
To	F.G. transferred	**40,000**	**35,000**		Finished Goods	**24,000**	**14,000**
To	Ret. of finished	**7,000**	**10,000**				
	Goods						
To	Gross profit	**38,500**	**46,000**				
	c/d (b.f.)						
		2,21,500	1,89,000			2,21,500	1,89,000

{28 item x 1/4 M}

Consolidated Trading Account for the year ending 31st December, 20X1

		Rs.			Rs.
To	Opening Stock	**32,000**	By	Sales	**2,52,000**
To	Purchases	**1,60,000**	By	Closing Stock:	
To	Wages	**20,000**		Purchased Goods	**10,500**
To	Carriage	**4,000**		Finished Goods	**38,000**
To	Stock Reserve	**2,196**			
To	Gross Profit c/d	**82,304**			
		3,00,500			3,00,500

{9 item x 1/4 M}

1. Working note:

	Deptt. A	Deptt. B
Sale	1,40,000	1,12,000
Add : Transfer	35,000	40,000
	1,75,000	1,52,000
Less: Returns	(7,000)	(10,000)
Net Sales plus Transfer	1,68,000	1,42,000

{3/4 M}

2. Rate of Gross profit $\frac{38,500}{1,68,000}$ x $100 = 22.916\%$ $\frac{46,000}{1,42,000}$ x $100 = 32.394\%$ {1 M}

3. Closing Stock out of transfer (20% of closing stock) 4,800 2,800 {1/2 M}

4. Unrealised Profit 4,800 × 32.394% =1,555 2,800 × 22.916% 641 {1/2 M}

Answer:

(b) Statement showing the calculation of profits/losses for pre incorporation and Post incorporation period profits of Sanjana Ltd.

for the year ended 31st March, 2017

Particulars	Basis	Pre Rs.	Post Rs.
Sales (given)		**10,000**	**40,000**
Less: Purchases	1:3.3	**5,814**	**19,186**
Carriage Inwards	1:3.3	**237**	**782**
Gross Profit (i)		**3,949**	**20,032**
Less: Selling Expenses	1:4	**700**	**2,800**
Preliminary Expenses			**1,200**
Salaries	1:3	**900**	**2,700**
Director Fees			**1,200**
Interest on capital		**700**	
Depreciation	1:3	**700**	**2,100**
Rent	1:3	**1,200**	**3,600**
Total of Expenses(ii)		**4,200**	**13,600**
Capital Loss/Net Profit (i-ii)		**(251)**	**6,432**

{23 item x 1/4 M} =5.75 M

Working Notes:

1: Sales Ratio = 10,000 : 40,000 = 1 :4 {3/4 M}

2: Time Ratio = 3:9 = 1:3 {3/4 M}

3: Purchase Price Ratio
∴ Ratio is 3 : 9

But purchase price was 10% higher in the company period
∴ Ratio is 3 : 9 + 10%
3:9.9 = 1:3.3.

{3/4 M}

Answer 4:
(a)

Books of Harrison Branch Stock Account

	Rs.		Rs.
To Balance b/d	**30,000**	By Branch Debtors	**1,65,000**
To Goods Sent to Branch A/c	**2,40,000**	By Branch Bank	**59,000**
To Branch Adjustment A/c	**2,000**	By Balance c/d	
(Excess of sale over invoice price)		Goods in Transit	
		(Rs. 2,40,000 –Rs. 2,20,000)	**20,000**
		Stock at Branch	**28,000**
	2,72,000		2,72,000

{7 item x 1/4 M}

Branch Debtors Account

	Rs.		Rs.
To Balance b/d	**32,750**	By Bad debts written off	**750**
To Branch Stock	**1,65,000**	By Branch Cash- collection (bal. fig.)	**1,71,000**
		By Balance c/d	**26,000**
	1,97,750		1,97,750

{5 item x 1/4 M}

Branch Cash Account

	Rs.		Rs.
To Balance b/d	**5,000**	By Bank Remit to H.O.	**2,22,500**
To Branch Stock	**59,000**	By Branch profit & loss A/c	**12,000**
To Bank (as per contra)	**12,000**	(exp. paid by H.O.)	
To Branch Debtors	**1,71,000**	By Branch profit & loss A/c	**10,000**
		[Bal. fig. (exp. paid by Branch)]	
		By Balance c/d	**2,500**
	2,47,000		2,47,000

{8 item x 1/4 M}

Branch Adjustment Account

	Rs.		Rs.
To Stock Reserve (on closing stock (48,000 × 1/6)	**8,000**	By Stock Reserve opening (25000 × 20%)	**5,000**
To Gross Profit c/d	**39,000**	By Goods sent to Branch A/c	**40,000**
		By Branch Stock A/c	**2,000**
	47,000		47,000

{5 item x 1/4 M}

Branch Profit and Loss Account

	Rs.		Rs.
To Branch Expenses (paid by HO: Rs. 12,000 and paid by Branch Rs. 10,000)	**22,000**	By Gross Profit b/d	**39,000**
To Branch Debtors-Bad debts	**750**		
To Net Profit	**16,250**		
	39,000		39,000

{4 item x 1/4 M}

Goods Sent to Branch Account

	Rs.		Rs.
To Branch Adjustment A/c	**40,000**	By Branch to Stock A/c	**2,40,000**
To Purchase A/c - Transfer	**2,00,000**		
	2,40,000		2,40,000

{3 item x 1/4 M}

Answer:
(b)

Date	Particulars	Amount Dr. Rs.	Amount Cr. Rs.	
01.05.20X1	Bank A/c Dr. To Debenture Application A/c (Application money received on 1,50,000 debentures @ Rs. 100 each)	1,50,00,000	1,50,00,000	**{1/2 M}**
01.06.20X1	Debenture Application A/c Dr. Underwriters A/c Dr. To 15% Debentures A/c (Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)	1,50,00,000 50,00,000	2,00,00,000	**{1 M}**
	Underwriting Commission Dr. To Underwriters A/c (Commission payable to underwriters @ 2% on Rs. 2,00,00,000)	4,00,000	4,00,000	**{1/2 M}**
	Bank A/c Dr. To Underwriters A/c (Amount received from underwriters in settlement of account)	46,00,000	46,00,000	**{1 M}**
01.06.20X1	Profit & Loss A/c Dr. To Debenture Redemption Reserve A/c (200,000 X 100 X 25% X 40%) (Being Debenture Redemption Reserve created on non-convertible debentures)	20,00,000	20,00,000	**{1 M}**
	Debenture Redemption Reserve Investment A/c Dr. To Bank A/c (200,000 X 100 x 15% X 40%) (Being Investments made for redemption purpose)	12,00,000	12,00,000	**{1 M}**
30.09.20X1	Debenture Interest A/ Dr. To Bank A/c (Interest paid on debentures for 4 months @ 15% on Rs. 2,00,00,000)	10,00,000	10,00,000	**{1/2 M}**
31.10.20X1	15% Debentures A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Conversion of 60% of debentures into shares of Rs. 60 each with a face value of Rs. 10)	1,20,00,000	20,00,000 1,00,00,000	**{1 M}**

31.03.20X2	Debenture Interest A/c Dr. To Bank A/c (Interest paid on debentures for the half year) (refer working note below)	7,50,000	7,50,000	{1/2 M}

Working Note :

Calculation of Debenture Interest for the half year ended 31st March, 20X2

On Rs. 80,00,000 for 6 months @ 15%	Rs. 6,00,000	{1 M}
On Rs. 1,20,00,000 for 1 months @ 15%	Rs. 1,50,000	
	Rs. 7,50,000	

Answer:

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

	Rs.	Rs.
Balance from Trading A/c		**40,25,365**
Add : Subsidies received from Government		**2,73,925**
		42,99,290
Less : Administrative, selling and distribution expenses	8,22,542	
Director's fees	1,34,780	
Interest on debentures	31,240	
Depreciation on fixed assets as per Schedule II	5,75,345	**(15,63,907)**
Profit u/s 198		**27,35,383**

{5 item x 1/2 M}

Maximum Managerial remuneration under Companies Act, 2013=11% of Rs. 27,35,383= Rs. 3,00,892 {$1^{1/2}$ M}

Answer 5:

(a)

		Rs.	
(i)	Price of two cars = Rs. 2,00,000 x 2	4,00,000	{3 M}
	Less: Depreciation for the first year @ 30%	1,20,000	
		2,80,000	
	Less: Depreciation for the second year = $2,80,000 \times \frac{30}{100}$	84,000	
	Agreed value of two cars taken back by the hire vendor	**1,96,000**	
(ii)	Cash purchase price of one car	2,00,000	{3 M}
	Less: Depreciation on Rs. 2,00,000 @20% for the first year	40,000	
	Written drown value at the end of first year	1,60,000	
	Less: Depreciation on Rs. 1,60,000 @ 20% for the second year	32,000	
	Book value of car left with the hire purchaser	**1,28,000**	
(iii)	Book value of one car as calculated in working note (ii) above	1,28,000	{2 M}
	Book value of Two cars = Rs. 1,28,000 x 2	2,56,000	
	Value at which the two cars were taken back, calculated in working note (i) above	1,96,000	
	Hence, loss on cars taken back = Rs. 2,56,000 – Rs. 1,96,000 =	**Rs. 60,000**	
(iv)	Sale proceeds of cars repossessed	1,70,000	{2 M}
	Less: Value at which Cars were taken back Rs. 1,96,000		
	Repair Rs. Rs. 10,000	2,06,000	
	Loss on resale	**36,000**	

Answer

(b) **Investment Account-Equity Shares in X Ltd.**

Date		No. of shares	Dividend	Amount	Date		No. of shares	Dividend	Amount
			Rs.	Rs.				Rs.	Rs.
2017					2018				
April 1	To Balance b/d	4,000	-	**60,000**	Jan. 20	By Bank (dividend)		**8,000**	**2,000**
Sept 1	To Bank	1,000	-	**14,000**	Feb. 1	By Bank	4,000		**56,000**
Sept.30	To Bonus Issue	2,000	-	-	Mar. 31	By Balance c/d	4,000		**42,250**
Dec.1	To Bank (Right)	1,000	-	**12,500**					
2018									
Feb. 1	To Profit & Loss A/c		-	**13,750**					
Mar.31	To Profit & Loss A/c (Dividend income)		**8,000**	-					
		8,000	8,000	1,00,250			8,000	8,000	1,00,250
April. 1	To Balance b/d	4,000		**42,250**					

{10 Item X 1/2 M}

Working Notes:

1. Cost of shares sold — Amount paid for 8,000 shares

	Rs.
(Rs. 60,000 + Rs. 14,000 + Rs. 12,500)	86,500
Less: Dividend on shares purchased on 1st Sept, 2017	(2,000)
Cost of 8,000 shares	84,500
Cost of 4,000 shares (Average cost basis*)	42,250
Sale proceeds (4,000 shares @ 14/-)	56,000
Profit on sale	13,750

{1 1/2 M}

*For ascertainment of cost for equity shares sold, average cost basis has been applied.

2. Value of investment at the end of the year

Closing balance will be valued based on lower of cost (Rs. 42,250) or net realizable value (Rs. 13 x 4,000). Thus investment will be valued at Rs. 42,250. **{1 M}**

3. Calculation of sale of right entitlement

1,000 shares x Rs. 8 per share = Rs. 8,000

Amount received from sale of rights will be credited to P & L A/c as per AS 13 'Accounting for Investments' **{1 M}**

4. Dividend received on investment held as on 1st April, 2017

= 4,000 shares x Rs. 10 x 20%

= Rs. 8,000 will be transferred to Profit and Loss A/c

Dividend received on shares purchased on 1st Sep. 2017

= 1,000 shares x Rs. 10 x 20% = Rs. 2,000 will be adjusted to Investment A/c **{1 M}**

Note: It is presumed that no dividend is received on bonus shares as bonus shares are declared on 30th Sept., 2017 and dividend pertains to the year ended 31.3.2017. **{1/2 M}**

Answer 6:

(a) **M/s MNT Ltd.**

Cash Flow Statement for the year ended 31st March 20X1

(Using direct method)

Particulars	Rs.	Rs.
Cash flows from Operating Activities		
Cash sales (Rs. 3,82,500/.30)		**12,75,000**
Less: Cash payments for trade payables	(4,60,000)	
Wages Paid	(4,92,500)	
Office and selling expenses	(75,000)	**(10,27,500)**
Cash generated from operations before taxes		**2,47,500**
Income tax paid		**(65,000)**
Net cash generated from operating activities (A)		**1,82,500**
Cash flows from investing activities		
Sale of investments (7,00,000 + 20,000)	7,20,000	
Payments for purchase of Plant & machinery	(2,50,000)	
Net cash used in investing activities (B)		**4,70,000**
Cash flows from financing activities		
Bank loan repayment(including interest)	(2,15,000)	
Dividend paid(including dividend distribution tax)	(30,000)	
Net cash used in financing activities (C)		**(2,45,000)**
Net increase in cash (A+B+C)		**4,07,500**
Cash and cash equivalents at beginning of the period		**2,00,000**
Cash and cash equivalents at end of the period		**6,07,500**

{10 item x 1/2 M}

Answer:

(b) As per para 21 of AS 12, 'Accounting for Government Grants', "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement. **{1 M}**

(i) In this case the grant refunded is Rs. 15 lakhs and balance in deferred income is Rs. 10.50 lakhs, Rs. 4.50 lakhs shall be charged to the profit and loss account for the year 2017-18. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years. **{2 M}**

(ii) If the grant was deducted from the cost of the plant in the year 2014-15 then, para 21 of AS 12 states that the amount refundable in respect of grant which relates to specific fixed assets should be recorded by increasing the book value of the assets, by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case, the book value of the plant shall be increased by Rs. 15 lakhs. The increased cost of Rs. 15 lakhs of the plant should be amortized over 7 years (residual life). Depreciation charged during the year 2017-18 shall be (56+15)/7 years = Rs. 10.14 lakhs presuming the depreciation is charged on SLM.) **{2 M}**

Answer

(c) Para 17 of AS 1 'Disclosure of Accounting Policies', states that financial statements should disclose all material items, i.e., items the knowledge of which might influence the decisions of the user of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of its omission or misstatement. **{2 M}**

From a positive perspective, materiality has to do with the significance of an item or event to warrant attention in the accounting process. From a negative view point, materiality is critical because otherwise a great deal of time might be spent on trivial matters in the accounting process. **{1 M}**

Individual judgments are required to assess materiality, or to decide what the appropriate minimum quantitative criteria are to be set for given situations. What is material to one organization, may not be material for another organization. **{1 M}**

For example, a long term investor is interested in the current value of fixed asset like building, while the banker may not consider it significant for a short-term loan. Similarly a pair of scissors, ball pens, sharpeners, waste-paper baskets could be used for a number of years but still it is treated as an expense and not an asset. The omission of "paise" in the financial statements is also due to their insignificant effect to the users of the financial statement in making a decision. **{1 M}**

Answer:

(d) Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares X Issue Price) / (Existing Number of shares + Rights Number of shares) $1\frac{1}{2}$ **M**

= (Rs. 150 X 4 Shares + Rs. 125 X 1 Share) / (4 + 1) Shares
= Rs. 725 / 5 shares = Rs. 145 per share. $1\frac{1}{2}$ **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 shareholder holding 4 shares and willing to renounce his right of buying one share in favour of that person. **1 M**

Answer:

(e) In the books of ……….

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)	
	Bank A/c	Dr.	25,000		**{1/2 M}**
	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…….)				
	8% Redeemable Preference Share Capital A/c	Dr.	1,00,000		**{1 M}**
	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		**{1/2 M}**
	To Bank A/c			1,10,000	
	(Being the amount paid on redemption of preference shares)				

	Profit & Loss A/c Dr. To Premium on Redemption of Preference Shares A/c (Being the premium payable on redemption is adjusted against Profit & Loss Account)	10,000	10,000	{1/2 M}
	General Reserve A/c Dr. Profit & Loss A/c Dr. Investment Allowance Reserve A/c Dr. To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	60,000 10,000 5,000	75,000	{1 1/2 M}

Working Note:

No of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed		Rs. 1,00,000	{1 M}
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: (` 10,000-5,000)	Rs. 5,000	(Rs. 75,000)	
		Rs. 25,000	

Therefore, No. of shares to be issued = 25,000/Rs. 10 = 2,500 shares.

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