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

DATE: 01.05.2020 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

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 be made by the candidates.
Working notes should form part of the answer.

Answer 1:

(a) 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:

(b) (i) In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2016. Subsequently in 2016-17, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year. **1 M**

(ii) As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous policy, will not be treated as change in an accounting policy. **1 M**

(iii) Change in useful life of furniture from 5 years to 3 years is a change in estimate and is not a change in accounting policy. **1 M**

(iv) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy. **1 M**

(v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy. **1 M**

Answer:

(c) The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made. **2M**

In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from Rs. 3.5 lakhs to Rs. 2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2016-17: **2M**

"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been lower by Rs. 1l akh." **1M**

Answer:

(d) (a) Calculation of profit or loss to be recognized in the books of Sterling Limited

	Rs.	
Forward contract rate	48.85	**1M**
Less: Spot rate	(47.50)	
Loss	1.35	
Forward Contract Amount	\$20,000	**½ M**
Total loss on entering into forward contract = (\$20,000 × Rs. 1.35)	Rs. 27,000	
Contract period	4 months	
Loss for the period 1st January, 2012 to 31st March, 2012 i.e. 3 months falling in the year 2011-2012 will be Rs. 27,000 x $\frac{3}{4}$	Rs. 20,250	**½ M**

Balance loss of Rs. 6,750 (i.e. Rs. 27,000 – Rs. 20,250) for the month of April, 2012 will be recognized in the financial year 2012-2013. **½ M**

(b) As per AS 11 on 'The Effects of Changes in Foreign Exchange Rates', all foreign currency transactions should be recorded by applying the exchange rate on the date of transactions. Thus, goods purchased on 1.1.2011 and corresponding creditor would be recorded at Rs. 4,50,000 (i.e. \$10,000 × Rs. 45). **½ M**

According to the standard, at the balance sheet date all monetary transactions should be reported using the closing rate. Thus, creditor of US \$10,000 on 31.3.2011 will be reported at Rs. 4,40,000 (i.e. \$10,000 × Rs. 44) and exchange profit of Rs. 10,000 (i.e. 4,50,000 – 4,40,000) should be credited to Profit and Loss account in the year 2010-11. **1 M**

On 7.7.2011, creditor of \$10,000 is paid at the rate of Rs. 43. As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore, Rs. 10,000 (i.e. 4,40,000 – 4,30,000) will be credited to Profit and Loss account in the year 2011-12. **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**	**5 Item X 3/4 M**
To Purchases	**22,62,500**	By Closing stock	**6,63,600**	
To Gross profit	**5,20,000**			
	32,63,600		32,63,600	

$$Rate\ \ of\ \ Gross\ Profit = \frac{GP}{sales}\times 100$$

$$= \frac{5,20,000}{26,00,000}\times 100 = 20\%$$

$\frac{1}{2}$ **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 3/4 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) Investment Account-Equity Shares in X Ltd.

Date		No. of shares	Dividend	Amount	Date		No. of shares	Dividend	Amount
2017			Rs.	Rs.	2018			Rs.	Rs.
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

$1\frac{1}{2}$ **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. $\frac{1}{2}$ **M**

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**	
To Depreciation on:				
Machinery 6,500				
Building 5,000	**11,500**			4 Item X 1/2 M
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. Calculation of Departmental Results (Actual Gross Profit):

	A Rs.	**B Rs.**	**C Rs.**	
Actual Sales	1,72,500	1,59,400	74,600	
Add back: Discount (Refer W.N.)	2,500	600	400	1/2 M
Normal Sale	1,75,000	1,60,000	75,000	
Gross Profit % on normal sales	20%	25%	33.33%	
Normal gross profit	35,000	40,000	25,000	1/2 M
Less: Discount	(2,500)	(600)	(400)	1/2 M
Actual Gross profit	32,500	39,400	24,600	1/2 M

2. Computation of value of stock as on 31st Dec. 2012:

Departments	A Rs.	B Rs.	C Rs.	
Stock (on 1.1.2011)	24,000	36,000	12,000	
Add: Purchases	1,46,000	1,24,000	48,000	1/2 M
	1,70,000	1,60,000	60,000	
Add: Actual gross profit	32,500	39,400	24,600	1/2 M
	2,02,500	1,99,400	84,600	
Less: Actual Sales	(1,72,500)	(1,59,400)	(74,600)	1/2 M
Closing stock as on 31.12.2012 (bal.fig.)	30,000	40,000	10,000	1/2 M

Working Note:

Calculation of Discount on sales:

Departments	A Rs.	B Rs.	C Rs.	
Sales at normal price	10,000	3,000	1,000	1 M
Less: Sales at actual price	(7,500)	(2,400)	(600)	
	2,500	600	400	

Answer 4 :

(a) Cash Flow Statement as per AS 3

Cash flows from operating activities:		**Rs. in lacs**	
Net profit before tax provision		72,000	
Add: Non cash expenditures:			
Depreciation	48,000		
Loss on sale of assets	96		
Interest expenditure (non-operating activity)	24,000	72,096	
		1,44,096	
Less: Non cash income			
Amortisation of capital grant received	(20)		
Profit on sale of investments (non-operating income)	(240)		
Interest income from investments (non-operating income)	(6,000)	6,260	
Operating profit		1,37,836	
Less: Increase in working capital		(1,34,580)	
Cash from operations		3,256	
Less: Income tax paid		(10,200)	
Net cash generated from operating activities		**(6,944)**	{2$^{1/2}$ M}
Cash flows from investing activities:			
Sale of assets (444 – 96)	348		
Sale of investments (66,636+240)	66,876		
Interest income from investments	6,000		
Purchase of fixed assets	(44,184)		
Expenditure on construction work	(83,376)		
Net cash used in investing activities		**(54,336)**	{2$^{1/2}$ M}
Cash flows from financing activities:			
Grants for capital projects	36		
Long term borrowings	1,11,732		
Interest paid	(26,084)		
Dividend paid	(20,404)		
Net cash from financing activities		**65,280**	{2$^{1/2}$ M}
Net increase in cash		4,000	
Add: Cash and bank balance as on 1.4.2018		12,000	
Cash and bank balance as on 31.3.2019		**16,000**	{2$^{1/2}$ M}

Answer:
(b)

Branch Debtors A/c

	Rs.		Rs.
To Branch Stock A/c	**1,16,000**	By Branch Cash A/c (balancing figure)	**74,000**
		By Bad Debts (written off)	**400**
		By Balance c/d	**41,600**
	1,16,000		1,16,000

4 items x ¼ M

Goods Sent to Branch A/c

	Rs.		Rs.
To Branch Adjustment A/c $1,00,000 \times \frac{20}{100}$	**20,000**	By Branch Stock A/c	**1,20,000**
To Purchases/ Trading A/c	**1,00,000**		
	1,20,000		1,20,000

3 items x ¼ M

Branch Cash A/c

	Rs.		Rs.
To Branch Debtors A/c	**74,000**	By Branch Expenses A/c	**24,000**
To H.O. A/c (cash remittance)	**6,000**	By H.O. (cash remittance)	**86,000**
To Branch Stock A/c - Cash Sales (balancing figure)	**34,000**	By Balance c/d	**4,000**
	1,14,000		1,14,000

6 items x ¼ M

Branch Stock A/c

	Rs.		Rs.
To Goods sent to Branch A/c	**1,20,000**	By Branch Debtors A/c	**1,16,000**
To Branch Adjustment A/c (Excess profit over normal loading -balancing figure)	**54,000**	By Branch Cash A/c (Sales)	**34,000**
		By Goods in Transit (1,20,000-1,08,000)	**12,000**
		By Balance c/d	**12,000**
	1,74,000		1,74,000

6 items x ¼ M

Branch Expenses A/c

	Rs.		Rs.
To Branch Cash A/c	24,000	By Branch P&L A/c	24,000

2 items x ¼ M

Branch Adjustment A/c

	Rs.		Rs.
To Stock Reserve A/c	**2,000**	By Goods sent to Branch A/c	**20,000**
To Goods in transit Reserve A/c	**2,000**	By Branch Stock A/c	**54,000**
To Branch P&L A/c (Balancing figure)	**70,000**		
	74,000		74,000

5 items x ¼ M

Branch P & L A/c

	Rs.		Rs.
To Branch Expenses A/c	**24,000**	By Branch Adjustment A/c	**70,000**
To Bad Debts	**400**		
To Net Profit (transferred to General P&L A/c)	**45,600**		
	70,000		70,000

4 items x ¼ M

Working Notes:

1. Loading is 20% of cost i.e. 16.67% ($1/6^{th}$) of invoice value. Loading on closing stock = $1/6^{th}$ of Rs. 12,000 =Rs. 2,000. **1 M**
2. Loading on goods sent to branch = $1/6^{th}$ of Rs. 1,20,000 = Rs. 20,000. **1 M**
3. Loading on goods in transit = $1/6^{th}$ of Rs. 12,000 = Rs. 2,000. **1/2 M**

Answer 5:

(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	Dr.	2,50,000	
	To Equity Share Capital A/c			2,50,000
	(Being the issue of 25,000 equity shares of Rs. 10 each at par as per Board's resolution No……dated…..)			
	Bank A/c	Dr.	1,00,000	
	To 14% Debenture A/c			1,00,000
	(Being the issue of 1,000 Debentures of Rs. 100 each as per Board's Resolution No…..dated……)			

$\frac{3}{4}$ **M**

$\frac{3}{4}$ **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	
Less: Proceeds from new issue	(Rs. 2,50,000)	$\frac{1}{2}$ M
Total Balance	Rs.50,000	

Answer 6:

(a)

(i)

Share capital	Non-monetary	
Trade receivables	Monetary	4 Item X 1/2 M
(i) Investment in equity shares	Non-monetary	
Fixed assets	Non-monetary	

(ii) As per AS 11 on 'The Effects of Changes in Foreign Exchange Rates', all foreign currency transactions should be recorded by applying the exchange rate on the date of transactions. Thus, goods purchased on 1.1.2017 and corresponding creditor would be recorded at Rs. 11,25,000 (i.e. \$15,000 × Rs. 75) **1 M**

According to the standard, at the balance sheet date all monetary transactions should be reported using the closing rate. Thus, creditors of US \$15,000 on 31.3.2017 will be reported at Rs. 11,10,000 (i.e. \$15,000 × Rs. 74) and exchange profit of Rs. 15,000 (i.e. 11,25,000 – 11,10,000) should be credited to Profit and Loss account in the year 2016-17. **1 M**

On 7.7.2017, creditors of \$15,000 is paid at the rate of Rs. 73. As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore, Rs. 15,000 (i.e. 11,10,000 – 10,95,000) will be credited to Profit and Loss account in the year 2017-18. **1 M**

Answer:

(b) 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:

(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)

Calculation of interest

	Total (Rs.)	**Interest in each installment (1)**	**Cash price in each installment (2)**	
Cash Price	80,000			
Less : Down Payment	(21,622)	Nil	Rs. 21,622	$\frac{1}{2}$ M
Balance due after down payment	58,378			
Interest/Cash Price of 1st instalment	-	Rs. 58,378 x10/100 = Rs. 5,838	Rs. 15,400 – Rs. 5,838 = Rs. 9,562	$\frac{3}{4}$ M
Less : Cash price of 1st instalment	(9,562)			
Balance due after 1st instalment	48,816			
Interest/cash price of 2nd instalment	-	Rs. 48,816 x 10/100 = Rs. 4,882	Rs. 15,400 - Rs. 4,882 = Rs. 10,518	$\frac{3}{4}$ M
Less: Cash price of 2nd instalment	(10,518)			
Balance due after 2nd instalment	38,298			
Interest/Cash price of 3rd instalment	-	Rs. 38,298x10/100 = Rs. 3,830	Rs. 15,400 - Rs. 3,830 = Rs. 11,570	$\frac{3}{4}$ M
Less: Cash price of 3rd instalment	(11,570)			
Balance due after 3rd instalment	26,728			
Interest/Cash price of 4th instalment	-	Rs. 26,728 x10/100 = Rs. 2,672	Rs. 15,400 - Rs. 2,672 = Rs. 12,728	$\frac{3}{4}$ M
Less : Cash price of 4th instalment	(12,728)			
Balance due after 4th instalment	14,000			
Interest/Cash price of 5th instalment	-	Rs.14,000 x10/100 =Rs. 1,400	Rs. 15400 – Rs. 1,400 = 14,000	$\frac{3}{4}$ M
Less : Cash price of 5th instalment	(14,000)			
Total	Nil	Rs. 18,622	Rs. 80,000	

Total interest can also be calculated as follow:
(Down payment + installments) – Cash Price = Rs. [21,622+(15400 x 5)] – Rs. 80,000 = Rs. 18,622. $\frac{3}{4}$ **M**

Answer:

(e)

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. $\frac{1}{2}$ **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. $\frac{1}{2}$ **M**

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