(CA INTERMEDIATE MOCK TEST MAY 2021)

DATE: 03.04.2021 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

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) 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 {1/2 M}
Value of Closing Stock:

	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 {1/2 M}
Value of Closing Stock:

	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) **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**

7 Item X 1/2 M

$$Rate\ \ of\ \ Gross\ Profit\ = \frac{GP}{sales} \times 100$$
$$= \frac{5,20,000}{26,00,000} \times 100 \ = \ 20\%$$

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	20,000	**24,78,500**
Less: Goods used for advertisement	(50,000)	**16,91,350**	cash sales (W.N.)		
To Gross profit (20% of Rs. 24,78,500)		**4,95,700**	By Closing stock		**3,72,150**
		28,50,650			**28,50,650**

7 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) **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 3:

(a) **Balance Sheet of Shree Ltd. as at 31st March, 2020**

		Particulars		Note No.	(Rs.)
I	Equity and Liabilities				
	(1)	Shareholders' Funds			
		(a)	Share Capital	1	19,90,000
		(b)	Reserves and Surplus	2	3,47,000
	(2)	Current Liabilities			
		(a)	Trade Payables		2,40,500
		(b)	Other Current Liabilities	3	13,28,000
		(c)	Short-Term Provisions	4	1,20,000
		Total			40,25,500
II	ASSETS				
	(1)	Non-Current Assets			
		(i)	Property, plant and Equipment (PPE)	5	29,30,000
	(2)	Current Assets			
		(a)	Inventories		7,08,000
		(b)	Trade Receivables	6	3,59,500
		(c)	Cash and Cash Equivalents	7	28,000
		Total			40,25,500

{4 M}

Shree Ltd.
Statement of Profit and Loss for the year ended 31st March, 2020

	Particulars	Note No.	(Rs.)
I	Revenue from Operations		36,17,000
II	Other Income	8	36,500
III	Total Revenue [I + II]		36,53,500
IV	Expenses:		
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,08,000]		(43,000)
	Employee Benefits Expenses	9	13,93,000
	Finance Costs	10	1,11,000
	Depreciation and Amortization Expenses		1,20,000
	Other Expenses	11	4,40,000
	Total Expenses		32,53,500
V	Profit before Tax (III-IV)		4,00,000
VI	Tax Expenses @ 30%		(1,20,000)
VII	Profit for the period		2,80,000

{3 M}

Notes to Accounts:

1. **Share Capital**

Authorised Capital	
5,00,000 Equity Shares of Rs. 10 each	50,00,000
Issued Capital	
2,00,000 Equity Shares of Rs. 10 each	20,00,000

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

Subscribed Capital and fully paid	
1,95,000 Equity Shares of Rs.10 each	19,50,000
Subscribed Capital but not fully paid	
5,000 Equity Shares of Rs.10 each Rs. 8 paid	40,000
(Call unpaid Rs.10,000)	19,90,000

2. **Reserves and Surplus**

Surplus i.e. Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	2,80,000	3,47,000

{1/2 M}

3. **Other Current Liabilities**

Bank Overdraft	12,67,000
Outstanding Expenses [25,000+36,000]	61,000
	13,28,000

{1/2 M}

4. **Short-term Provisions**

Provision for Tax	1,20,000

{1/2 M}

5. **PPE**

Particulars	Value given (Rs.)	Depreciation rate	Depreciation Charged (Rs.)	Written down value at the end (Rs.)
Land	16,25,000		-	16,25,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Patterns	3,75,000	10%	37,500	3,37,500
Engineering Tools	1,50,000	20%	30,000	1,20,000
	30,50,000		1,20,000	29,30,000

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

6. **Trade Receivables**

Trade receivables (4,00,500-16,000)	3,84,500
Less: Provision for doubtful debts	(25,000)
	3,59,500

{1/2 M}

7. **Cash & Cash Equivalent**

Cash Balance	8,000
Bank Balance in current A/c	20,000
	28,000

{1/2 M}

8. **Other Income**

Miscellaneous Income (Transfer fees)	6,500
Rental Income	30,000
	36,500

{1/2 M}

9. **Employee benefits expenses**

Wages	13,68,000
Add: Outstanding wages	25,000
	13,93,000

{1/2 M}

10. **Finance Cost**

Interest on Bank overdraft	1,11,000

{1/2 M}

11. **Other Expenses**

Carriage Inward	57,500
Discount & Rebates	30,000
Advertisement	15,000
Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,000] (Business Expenses)	92,000
Bad Debts [25,500+16,000]	41,500
Provision for Doubtful Debts	25,000
	4,40,000

{2 M}

Answer:

(b) As per Schedule III, a liability should be classified as current when it satisfies any of the following criteria:

(i) it is expected to be settled in the company's normal operating cycle;

(ii) it is held primarily for the purpose of being traded;

(iii) it is due to be settled within twelve months after the reporting date; or

(iv) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

{2 M}

In the given case, instalments due on 30.09.2020 and 31.03.2021 will be shown under the head 'other current liabilities'. Therefore, in the balance sheet as on 31.3.2020, Rs. 8,00,000 (Rs. 1,00,000 x 8 instalments) will be shown under the heading 'Long term Borrowings' and Rs. 2,00,000 (Rs. 1,00,000 x 2 instalments) will be shown under the heading 'Other Current Liabilities' as current maturities of loan from bank. {2 M}

Answer 4:

(a) Memorandum Trading Account for the period 1st April, 2020 to 29th August 2020

		Rs.		Rs.
To Opening Stock		3,95,050	By Sales	22,68,000
To Purchases	16,55,350		By Closing stock (Bal. fig.)	4,41,300
Less: Advertisement	(20,500)			
Drawings	(1,000)	16,33,850		
To Gross Profit [30% of Sales] [W N]		6,80,400		
		27,09,300		27,09,300

{2 M}

Statement of Insurance Claim

	Rs.
Value of stock on date of fire	4,41,300
Less: Salvaged Stock	(54,000)
stock destroyed	3,87,300

{2 M}

Application of Average Clause

Amount of Insurance claim= Rs. 3,87,300/ 4,41,300 X 2,50,000 = Rs. 2,19,409 (rounded off) {2 M}

Working Note:

Trading Account for the year ended 31st March, 2020

	Rs.		Rs.
To Opening Stock	3,55,250	By Sales	40,00,000
To Purchases	28,39,800	By Closing stock	3,95,050
To Gross Profit	12,00,000		
	43,95,050		43,95,050

{2 M}

Rate of Gross Profit in 2019-2020

$\frac{\text{Gross Profit}}{\text{Sales}}$ x 100 = 12,00,000 / 40,00,000 x 100 = 30% {2 M}

Answer:

(b) Calculation of unrealized profit of each department and total unrealized profit

	Dept. X	Dept. Y	Dept. Z	Total
	Rs.	Rs.	Rs.	Rs.
Unrealized Profit of:				
Department X		75,000 x 50/150 {1 M} = 25,000	48,000 x 20/120 {1 M} = 8,000	33,000
Department Y	50,000 x .25 {1 M} = 12,500		82,000 x .15 {1 M} = 12,300	24,800
Department Z	52,000 x 30/130 = 12,000	56,000 x 40/100 = 22,400		34,400
		{1 M}		92,200

Answer:

(c) Capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. An asset is normally ready for its intended use or sale when its physical construction or production is complete even though routine administrative work might still continue. If minor modifications such as the decoration of a property to the user's specification, are all that are outstanding, this indicates that substantially all the activities are complete. When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalization of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete. {5 M}

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				
	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

13 Item X 1/4 M

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
$= \frac{\text{Gross Profit}}{\text{Total Sales}} \times 100 = [(42,00,000)/ (1,80,00,000 + 30,00,000)] \times 100 = 20\%$ **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	
To Salaries A/c			2,000
(The amount paid as advance adjusted by debit to Salary Advance Account)			

1/2 M

Prepared Insurance A/c (3,200 x 6/12) To Fire Insurance A/c (Six months premium transferred to the Prepaid Insurance A/c)	Dr.	1,600	1,600	1/2 M
Head Office Account To Purchases A/c To Wages A/c To Salaries A/c (6,400 – 2,000) To General Expenses A/c To Fire Insurance A/c (3,200 x 6/12) To Manager's Salary A/c To Discount Allowed A/c (Transfer of various revenue accounts (Dr.) to the H.O. Account for closing the accounts)	Dr.	88,400	48,000 20,000 4,400 1,600 1,600 4,800 8,000	3/4 M
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

1 M

			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

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)

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
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
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
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
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
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
Less : Cash price of 5th instalment	(14,000)		
Total	Nil	Rs. 18,622	Rs. 80,000

$\frac{1}{2}$ **M** $\frac{3}{4}$ **M** $\frac{3}{4}$ **M** $\frac{3}{4}$ **M** $\frac{3}{4}$ **M** $\frac{3}{4}$ **M**

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**

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