(GI-1, GI-2, GI-3, VI-1, SI-1, VDI-1)

DATE: 12.06.2021 **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 bemade by the candidates.
Working notes should form part of the answer.

Answer 1:

(a) **Journal Entries in the Books of Kalim Ltd.**

Date	Particulars		Rs. (Dr.)	Rs. (Cr.)
Jan. 01, 2016	Bank Account (4,50,000 x 48)	Dr.	216,00,000	
	To Foreign Loan Account			216,00,000
Mar. 31, 2016	Foreign Exchange Difference Account	Dr.	4,50,000	
	To Foreign Loan Account [4,50,000 x(49-48)]			4,50,000
Jul. 01, 2016	Foreign Exchange Difference Account [4,50,000 x (49.5-49)]	Dr.	2,25,000	
	Foreign Loan Account	Dr.	220,50,000	
	To Bank Account			2,22,75,000

{5 M}

Answer:

(b)
(i) Interest paid by financial enterprise Cash flows from operating activities
(ii) TDS on interest received from subsidiary company
Cash flows from investing activities
(iii) Deposit with bank for a term of two years
Cash flows from investing activities
(iv) Insurance claim received against loss of fixed asset by fire
Extraordinary item to be shown as a separate heading under 'Cash flow from investing activities'
(v) Bad debts written off
It is a non-cash item which is adjusted from net profit/loss under indirect method, to arrive at net cash flow from operating activity.

{5 M}

Answer:

(c) Entity A's management can apply the revaluation model only to the office buildings. The office buildings can be clearly distinguished from the industrial buildings in terms of their function, their nature and their general location.AS 10 (Revised) permits assets to be revalued on a class by class basis.
The different characteristics of the buildings enable them to be classified as different PPE classes. The different measurement models can, therefore, be applied to these classes for subsequent measurement.
However, all properties within the class of office buildings must be carried at revalued amount.

{5 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	

Working Notes :

1. Depreciation of Year 1

	Rs. in Lakhs	
Cost of the Asset	20	
Less : Government grant received	(8)	
	12	{1 M}
Depreciation $\frac{12-4}{4}$	2	

2. Depreciation for Year 2

	Rs. in Lakhs	
Cost of the Asset	20	
Less : Government grant received	(8)	{1 M}
	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

Answer 2:

(a)

K V Trading Private Limited
Statement showing calculation of profit/loss for pre and post incorporation periods

Rs. in lakhs

	Ratio	Total	Pre-Incorporation	Post-Incorporation
Sales	1:6	240.00	34.29	205.71
Interest on Investments	Pre	6.00	6.00	-
Bad debts recovered	Pre	0.50	0.50	-
(i)		246.50	40.79 }{1 M}	205.71 }{1 M}
Cost of goods sold	1:6	102.00	14.57	87.43
Advertisement	1:6	3.00	0.43	2.57
Sales commission	1:6	6.00	0.86	5.14
Salary (W.N.3)	1:5	18.00	3.00	15.00
Managing directors remuneration	Post	6.00	-	6.00
Interest on Debentures	Post	2.00	-	2.00
Rent (W.N.4)		5.50	0.93	4.57
Bad debts (1 + 0.5)	1:6	1.50	0.21	1.29
Underwriting commission	Post	2.00	-	2.00
Audit fees	Post	2.00	-	2.00
Loss on sale of Investment	Pre	1.00	1.00	-
Depreciation	1:3	4.00	1.00	3.00
(ii)		153.00	22.00 }{1 M}	131.00 }{1 M}
Net Profit [(i) – (ii)]		93.50	18.79 }{1 M}	74.71 }{1 M}

Working Notes:

1. **Calculation of Sales Ratio**
   Let the average sales per month be x
   Total sales from 01.04.20X2 to 30.06.20X2 will be 3x
   Average sales per month from 01.07.20X2 to 31.03.20X3 will be 2x Total sales from 01.07.20X2 to 31.03.20X3 will be 2x X 9 =18x Ratio of Sales will be 3x: 18x i.e. 3:18 or 1:6 **}{1 M}**
2. **Calculation of time Ratio**
   3 Months: 9 Months i.e. 1:3 **}{1 M}**
3. **Apportionment of Salary**
   Let the salary per month from 01.04.20X2 to 30.09.20X2 is x Salary per month from 01.10.20X2 to 31.03.20X3 will be 2x Hence, pre incorporation salary (01.04.20X2 to 30.06.20X2) = 3x
   Post incorporation salary from 01.07.20X2 to 31.03.20X3 = (3x + 12x) i.e. 15xRatio for division 3x: 15x or 1: 5 **}{1 M}**

4.	**Apportionment of Rent**	**Rs. Lakhs**	
	Total Rent	5.5	
	Less: additional rent from 1.7.20X2 to 31.3.20X3	1.8	
	Rent of old premises for 12 months	3.7	
	Apportionment in time ratio	0.925	2.775
	Add: Rent for new space	-	1.80
	Total	0.925	4.575

{1 M}

Answer:

(b) **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 3/4 M

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

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

{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 *Less*: Goods used for	17,41,350		*Add*: Unrecorded cash sales (W.N.)	20,000	**24,78,500**
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. **{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.

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

Answer 3:

(a) **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**					

{10 Item X 1/2 M}

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**					

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

{1½ 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:

(b) Trading and Profit and Loss Account of Ms. Rashmi for the year ended 31st December, 2016

		Rs.		Rs.
To Opening Inventory		16,000	By Sales (W.N.3)	1,46,100
To Purchases (W.N.2)	91,200		By Closing inventory	14,000
Less : For advertising	(1,800)	89,400		
To Freight inwards		6,000		
To Gross profit c/d @ 33-1/3%		48,700		
		1,60,100		1,60,100
To Sundry expenses (W.N.6)		28,400	By Gross profit b/d	48,700
To Advertisement		1,800	By Interest on investment	
To Discount allowed: Debtors	3,000		(200 x 4/ 100 x ½)	4
Bills Receivable	250	3,250	By Discount received	1,600

{4 M}

To Depreciation on furniture (12,000 + 2,000 – 12,700)		1,300	By Miscellaneous income	1,000
To Provision for doubtful debts		972		
To Net Profit (b.f.)		15,582		
		51,304		51,304

Balance Sheet as on 31st December, 2016

Liabilities	Amount		Assets		Amount
	Rs.	Rs.		Rs.	Rs.
Capital as on 1.1.2016 (W.N.1)	37,600		Furniture (w.d.v.)	12,000	
Less: Drawings	(15,808)		Additions during the Year	2,000	
			Less: Depreciation (b.f.)	(1,300)	12,700
Add: Net Profit	21,792		Investment		192
Sundry creditors	15,582	37,374	Interest accrued (200 x 4% x 6/12)		4
Sundry creditors		30,000	Closing Inventory		14,000
Outstanding expenses		3,600	Sundry debtors	38,900	
			Less: Provision for doubtful debts @ 2.5%	972	37,928
			Bills receivable (W.N.7)		3,500
			Cash in hand and at bank		1,250
			Prepaid expenses		1,400
		70,974			70,974

{2½ M}

Working Notes :

(1) Capital on 1st January, 2016

Balance Sheet As On 1st January, 2016

Liabilities	Rs.	Assets	Rs.
Capital (Bal.fig.)	37,600	Furniture (w.d.v.)	12,000
Creditors	22,000	Inventory at cost	16,000
Outstanding expenses	4,000	Sundry debtors	32,000
		Cash in hand and at bank	2,400
		Prepaid expenses	1,200
	63,600		63,600

{½ M}

(2) Purchases made during the year

Sundry Creditors Account

	Rs.		Rs.
To Cash and bank A/c	78,400	By Balance b/d	22,000
To Discount received A/c (80,000 – 78,400)	1,600	By Sundry debtors A/c	800
To Bills Receivable A/c	4,000	By Purchases A/c (Balancing figure)	91,200
To Balance c/d	30,000		
	1,14,000		1,14,000

{½ M}

(3) Sales made during the year

		Rs.
Opening inventory		16,000
Purchases	91,200	
Less: For advertising	(1,800)	89,400
Freight inwards		6,000
		1,11,400
Less: Closing inventory		(14,000)
Cost of goods sold		97,400
Add: Gross profit (@ 50% on cost)		48,700
		1,46,100

{½ M}

(4) Debtors on 31st December, 2016

Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	32,000	By Cash and bank A/c	1,17,000
To Sales A/c (W.N.3)	1,46,100	By Discount allowed A/c	3,000
To Sundry creditors A/c (bill dishonored)	800	By Bills receivable A/c	20,000
		By Balance c/d (Bal.fig.)	38,900
	1,78,900		1,78,900

{½ M}

(5) Additional drawings by Ms. Rashmi

Cash and Bank Account

	Rs.		Rs.
To Balance b/d	2,400	By Freight inwards A/c	6,000
To Sundry debtors A/c	1,17,000	By Furniture A/c	2,000
To Bills Receivable A/c	12,250	By Investment A/c	192
To Miscellaneous income A/c	1,000	By Expenses A/c	29,000
		By Creditors A/c	78,400
		By Drawings A/c [Rs. 14,000 + Rs. 1,808 (b.f.) (Additional drawings)]	15,808
		By Balance c/d	1,250
	1,32,650		1,32,650

{½ M}

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

Sundry Expenses Account

	Rs.		Rs.
To Prepaid expenses A/c (on 1.1.2016)	1,200	By Outstanding expenses A/c (on 1.1.2016)	4,000
To Bank A/c	29,000	By Profit and Loss A/c (Balancing figure)	28,400
To Outstanding expenses A/c (on 31.12.2016)	3,600	By Prepaid expenses A/c	1,400
	33,800		33,800

{½ M}

(7) Bills Receivable on 31st December, 2016

Bills Receivable Account

	Rs.		Rs.
To Debtors A/c	20,000	By Creditors A/c	4,000
		By Bank A/c	12,250
		By Discount on bills receivable A/c	250
		By Balance c/d (Balancing figure)	3,500
	20,000		20,000

{½ M}

Answer 4:
(a)

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	**20,000**	By	Branch Stock A/c	**1,20,000**
$1,00,000 \times \frac{20}{100}$				
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		By Balance c/d	**4,000**
- Cash Sales (balancing figure)	**34,000**		
	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	**54,000**	By	Branch Cash A/c (Sales)	**34,000**
(Excess profit over normal loading -balancing figure)		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% (1/6th) of invoice value. Loading on closing stock = 1/6th of Rs. 12,000 =Rs. 2,000. **1 M**
2. Loading on goods sent to branch = 1/6th of Rs. 1,20,000 = Rs. 20,000. **1 M**
3. Loading on goods in transit = 1/6th of Rs. 12,000 = Rs. 2,000. **1/2 M**

Answer:

(b) (i) Calculation of Interest and Cash Price

No. of installments	Outstanding balance at the end after the payment of installment	Amount due at the time of installment	Outstanding balance at the end before the payment of installment	Interest	Outstanding balance atthe beginning
[1]	[2]	[3]	[4]= 2 +3	[5]= 4 x 10/110	[6]= 4-5
3rd	-	2,75,000	2,75,000	25,000	2,50,000
2nd	2,50,000	2,45,000	4,95,000	45,000	4,50,000
1st	4,50,000	2,65,000	7,15,000	65,000	6,50,000

Total cash price = Rs. 6,50,000+ 5,00,000 (down payment) =Rs. 11,50,000. **}{3 M}**

(ii) In the books of Lucky

Tractors Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.10.20X1	To Happy a/c	11,50,000	30.9.20X2	By Depreciation a/c	2,30,000
				Balance c/d	9,20,000
		11,50,000			11,50,000
110.20X2	To Balance b/d	9,20,000	30.9.20X3	By Depreciation a/c	1,84,000
				Balance c/d	7,36,000
		9,20,000			9,20,000
1.10.20X2	To Balance b/d	7,36,000	30.9.20X4	By Depreciation a/c	1,47,200 **}{1 M}**
				By Happy a/c (Value of 1 Tractor taken over after depreciation for 3 years @ 30% p.a.) (5,75,000-(1,72,500+1,20,750+84,525))	1,97,225 **}{1 M}**
				By Loss transferred to profit and loss a/c on surrender (Bal. fig.)	97,175 **}{1 M}**

				or (2,94,400-1,97,225) By Balance c/d 1/2 (7,36,000-1,47,200=5,88,800)	2,94,400 }{1 M}
		7,36,000			7,36,000

Happy Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.1.X1	To Bank (down payment)	5,00,000	1.10.X1	By Tractors a/c	11,50,000
30.9.X2	To Bank (1st Installment)	2,65,000	30.9X2	By Interest a/c	65,000
	To Balance c/d	4,50,000			
		12,15,000			12,15,000
30.9.X3	To Bank (2nd Installment)	2,45,000	1.10.X2	By Balance b/d	4,50,000
	To Balance c/d	2,50,000	30.9.X3	By Interest a/c	45,000
		4,95,000			4,95,000
30.9.X4	To Tractor a/c	1,97,225	1.10.X3	By Balance b/d	2,50,000
	To Balance c/d (b.f.)	77,775	30.9.X4	By Interest a/c	25,000
		2,75,000			2,75,000
31.12.X4	To Bank (Amount settled after 3 months) {1	M}{ 81,275	1.10.X4	By Balance b/d	77,775
			31.12.X4	By Interest a/c (@ 18% on bal.) (77,775x3/12x18/100)	3,500
		81,275			81,275

{2 M}

Answer 5:

(a) **Journal Entries in the books of Preet Ltd.**

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

Answer:

(b) 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**
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} {$2^{1/2}$ M}

Answer 6:
(a)

	Integral Foreign Operation	Non-Integral Foreign Operation (NFO)
Meaning	It is a foreign operation, the activities of which are an integral part of those of the reporting enterprise.	It is a foreign operation that is not an integral Foreign Operation.
Business	The business of IFO is carried on as if it were an extension of the reporting enterprise's operations.	The business of NFO is carried on in a substantially independent manner by accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowings, in its local currency.
Example	Sale of goods imported from the reporting enterprise and remittance of proceeds to the reporting enterprise.	Production in a foreign country out of resources available in such nation independent of the reporting enterprise.
Currencies operated	Generally, IFO carries on business in a single foreign currency, i.e. of the country where it is located.	NFO business may also enter into transactions in foreign currencies, including transactions in the reporting currency.
Cash flows from operations	Cash flows from operations of the reporting enterprise are directly and immediately affected by a change in the exchange rate between the reporting currency and the currency in the country of IFO.	Change in the exchange rate between the reporting currency and the local currency, has little or no direct effect on the present and future Cash Flows from Operations of either the NFO or the reporting enterprise.
Effect of Change in Exchange Rate	Change in the exchange rate affects the individual monetary items held by the IFO rather than the reporting enterprise's Net Investment in the IFO.	Change in the exchange rate affects the reporting enterprise's net investment in the NFO rather than the individual monetary and non-monetary items held by that NFO.

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

__**__