(GI-1, GI-2, GI-3, GI-6, VI-1, SI-1, VDI-1)

DATE: 23.08.2021 **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 be made by the candidates.
Working notes should form part of the answer.

Answer 1:

(a) 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. {2 M}

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: {2 M}

"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. 1 lakh." {1 M}

Answer:

(b) As per AS 10 Property, Plant and Equipment Bearer plant is a plant that

(a) is used in the production or supply of agricultural produce; **}{1 M}**
(b) is expected to bear produce for more than a period of twelve months; and **}{1 M}**
(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. **}{1 M}**

The following are not bearer plants:

(i) plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);
(ii) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated both for their fruit and their lumber);and
(iii) annual crops (for example, maize and wheat).

When bearer plants are no longer used to bear produce they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant. **{1 M}**

Biological Asset is a living animal or plant. **}{1 M}**

Answer:

(c) (i) **Valuation of stock as on 31.3.2014 when general selling price is** Rs. **49 each :** Value 3,000 units at Rs. 45 each (lower of cost and net realizable value). Value remaining 2,000 units at Rs. 49 each (lower of cost and net realizable value).

Units	Cost	NRV	Lower of Cost and NRV	Valuation
1	2	3	4	5 = 1×4
3000	50	45	45	135000
2000	50	49	49	98000
				233000

{2½ M}

Valuation of stock should be Rs. 2,33,000.

(ii) Valuation of stock as on 31.3.2014 when general selling price is Rs. **52 each:**

Units	Cost	NRV	Lower of Cost and NRV	Valuation
1	2	3	4	5 = 1×4
3000	50	45	45	135000
2000	50	52	50	100000
				235000

{2½ M}

Valuation of stock should be Rs. 2,35,000.

Answer:

(d) As per AS 3, Cash and cash equivalents consists of: (i) Cash in hand and deposits repayable on demand with any bank or other financial institutions and (ii) Cash equivalents, which are short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk or change in value. A short-term investment is one, which is due for maturity within three months from the date of acquisition. Investments in shares are not normally taken as cash equivalent, because of uncertainties associated with them as to realizable value. **{2 M}**

Computation of Cash and Cash Equivalents as on 31st March, 2019

	Rs.
Cash balance with bank	10,000
Short term investment in highly liquid sovereign debt mutual fund on 1.3.19	1,00,000
Bank balance in foreign currency account ($1,000 x Rs. 70)	70,000
	1,80,000

{2 M}

Note: Fixed deposit, Shares and Debentures will not be considered as cash and cash equivalents. **{1 M}**

Answer 2:

(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
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

{1 1/2 M}

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

{1 1/2 M}

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

6. **Trade Receivables**

Trade receivables (4,00,500-16,000)	3,84,500	{1/2 M}
Less: Provision for doubtful debts	(25,000)	
	3,59,500	

7. **Cash & Cash Equivalent**

Cash Balance	8,000	{1/2 M}
Bank Balance in current A/c	20,000	
	28,000	

8. **Other Income**

Miscellaneous Income (Transfer fees)	6,500	{1/2 M}
Rental Income	30,000	
	36,500	

9. **Employee benefits expenses**

Wages	13,68,000	{1/2 M}
Add: Outstanding wages	25,000	
	13,93,000	

10. **Finance Cost**

Interest on Bank overdraft	1,11,000	{1/2 M}

11. **Other Expenses**

Carriage Inward	57,500	{2 M}
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	

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 3:

(a)

(1) Gross profit ratio

	Rs.
Net profit in year 20X3	1,20,000
Add: Insured standing charges	43,990
Gross profit	1,63,990

Ratio of Gross Profit $= \frac{1{,}63{,}990}{8{,}19{,}950} = 20\%$ **{2 M}**

(2) Calculation of Short sales

Indemnity period: 16.9.20X4 to 15.12.X4

Standard sales to be calculated on basis of corresponding period of year 20X3

Sales for period 16.9.20X3 to 30.9.20X3	34,000
Sales for period 1.10.20X3 to 15.12.20X3 (Note 1)	1,30,000
Sales for period 16.9.20X3 to 15.12.20X3	1,64,000
Add: upward trend in sales (15%) (Note 2)	24,600
Standard Sales(adjusted)	1,88,600
Actual sales of disorganized period	
Calculation of sales from 16.9.20X4 to 15.12.20X4	
Sales for period 16.9.20X4 to 30.9.20X4	Nil
Sales for 1.10.20X4 to 15.12.20X4 (Rs. 1,48,000 – Rs. 20,000)	1,28,000
Actual Sales	1,28,000
Short Sales (Rs. 1,88,600 - Rs. 1,28,000)	60,600 **{3 M}**

(3) Loss of gross profit

Short sales x gross profit ratio = 60,600 x 20% 12,120

Application of average clause

$$\text{Net claim} = \text{Gross claim} \times \frac{\text{policy value}}{\text{gross profit on annual turnover}}$$

$$= 12{,}120 \times \frac{1{,}00{,}000}{1{,}63{,}120\ (\text{W.N.3})}$$

Amount of claim = Rs. 7,430 **{2 M}**

Working Notes:

1. Sales for period 1.10X3 to 15.12.X3

	Rs.
Sales for 1.10.X3 to 31.12.X3 (given)	1,90,000
Sales for 16.12.X3 to 31.12.X3 (given)	60,000
Sales for period 1.10.X3 to 15.12.X3	1,30,000 **{1 M}**

2. Calculation of upward trend in sales

Total sales in year 20X1 = Rs. 6,20,000

Increase in sales in year 20X2 as compared to 20X1 = Rs. 93,000

$$\% \text{ increase} = \frac{93{,}000\ (7{,}13{,}000 - 6{,}20{,}000)}{6{,}20{,}000} = 15\%$$ **{1 M}**

Increase in sales in year 20X3 as compared to year 20X2

$$\% \text{ increase} = \frac{1{,}06{,}950\ (8{,}19{,}950 - 7{,}13{,}000)}{7{,}13{,}000} = 15\%$$

Thus annual percentage increase trend is of 15%

3. Gross profit on annual turnover

	Rs.
Sales from 16.9.X3 to 30.9.X3 (adjusted) (34,000 x 1.15)	39,100
1.10.X3 to 31.12.X3 (adjusted) (1,90,000 x 1.15)	2,18,500
1.1.X4 to 31.3.X4	1,62,000
1.4.X4 to 30.6.X4	2,21,000
1.7.20X4 to 15.9.20X4 (1,75,000 - Nil)	1,75,000
Sales for 12 months just before date of fire	8,15,600
Gross profit on adjusted annual sales @ 20%	1,63,120 }{1 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.
20X1 Jan 1	To Balance b/d	20,000	–	3,20,000	20X1 Oct 20	By Bank (dividend)		30,000	7,500
June 1 Aug 2	To Bank To Bonus Issue	5,000 5,000	– –	70,000 –	Nov 1 Nov 1	By Bank By P & L A/c (W.N.2)	20,000		2,60,000 1,429
Sep 30	To Bank (Right) (W.N.1)	5,000	–	75,000	Dec 31	By Balance c/d (W.N.3)	15,000		1,96,071
Nov 1	To Profit & Loss A/c (Dividend income)		30,000						
		35,000	30,000	4,65,000			35,000	30,000	4,65,000
Jan 1 20X2	To Balance b/d	15,000		1,96,071					

{4 M}

Dividend = [20,000 x 10 x 15%] [5,000 x 10 x 15%]

Working Notes :

1. Right shares

No. of right shares issued = (20,000 + 5,000 + 5,000)/ 3 = 10,000 shares No. of right shares subscribed = 10,000 x 50% = 5,000 shares
Amount of right shares issued = 5,000 x 15 = Rs. 75,000
No. of right shares sold = 10,000 – 5,000 = 5,000 shares
Sale of right shares = 5,000 x 1.5 = Rs.7,500 to be credited to statement of profit and loss}{2 M}

2. Cost of shares sold

	Rs.
Amount paid for 35,000 shares (Rs. 3,20,000 + Rs. 70,000 + Rs. 75,000)	4,65,000
Less: Dividend on shares purchased on June 1 (since the dividend pertainstotheyearended31stMarch,20x1,i.e.,thepre-acquisition period)	(7,500)
Cost of 35,000 shares	4,57,500
Cost of 20,000 shares (Average cost basis)	2,61,429
Sale proceeds	2,60,000
Loss on sale	1,429 }{2 M}

3. Value of investment at the end of the year

Assuming investment as current investment, closing balance will be valued based on

lower of cost or net realisable value.
Here, Net realisable value is Rs. 14 per share i.e. 15,000 shares x Rs. 14 = Rs. 2,10,000 and cost = $\frac{4,57,500}{35,000}$ x 15,000 = Rs. 1,96,071. Therefore, value of investment at theend of the year will be Rs. 1,96,071.**}{2 M}**

Answer 4:

(a) **CASH FLOW STATEMENT OF RYAN LIMITED**
For the year ended 31st March, 20X1

Cash flow from operating activities	**Rs.**	**Rs.**	
Net Profit before taxation (W.N. 1)	2,45,000		
Adjustment for			
Depreciation (W.N. 3)	1,35,000		
Profit on sale of plant (W.N. 3)	(40,000)		
Profit on sale of investments (W.N. 3)	(20,000)		
Interest on debentures (W.N. 4)	18,000		
Operating profit before working capital changes	3,38,000		
Increase in inventory	(5,000)		
Increase in trade receivables	(25,000)		
Increase in trade payable	5,000		
Increase in accrued liabilities	10,000		
Cash generated from operations	3,23,000		
Income taxes paid (W.N. 8)	(1,00,000)		
Voluntary separation payments (W.N. 9)	(1,10,000)		
Net cash generated from operating activities		1,13,000	**}{2 M}**
Cash flow from investing activities			
Proceeds from sale of land (W.N. 2)	1,50,000		
Proceeds from sale of plant (W.N. 3)	90,000		
Proceeds from sale of investments (W.N. 4)	70,000		
Purchase of plant (W.N. 3)	(3,50,000)		
Purchase of investments (W.N. 4)	(25,000)		
Pre-acquisition dividend received (W.N. 4)	5,000		
Net cash used in investing activities		(60,000)	**}{2 M}**
Cash flow from financing activities			
Proceeds from issue of equity share (6,00,000 – 5,00,000)	1,00,000		
Proceeds from issue of debentures (2,00,000 – 1,00,000)	1,00,000		
Redemption of preference shares	(2,00,000)		
Dividends paid	(60,000)		
Interest paid on debentures	(18,000)		
Net cash used in financing activities		(78,000)	**}{1½ M}**
Net decrease in cash and cash equivalents		(25,000)	
Cash and cash equivalents at the beginning of the year		90,000	
Cash and Cash equivalents at the end of the year		65,000	

Working Notes;

1.

	Rs.	
Net profit before taxation		
Retained profit	70,000	**{½ M}**
Less: Balance as on 31.3.20X0	(50,000)	
	20,000	

Provision for taxation	1,35,000	
Dividend payable	90,000	
	2,45,000	

2. Land and Building Account

	Rs.		Rs.	
To Balance b/d	2,00,000	By Cash (Sale)	1,50,000	
To Capital reserve (Profit on sale)	30,000	By Balance c/d	1,50,000	{½ M}
To Capital reserve (Revaluation profit)	70,000			
	3,00,000		3,00,000	

3. Plant and Machinery Account

	Rs.		Rs.	
To Balance b/d	5,00,000	By Cash (Sale)	90,000	
To Profit and loss account	40,000	By Depreciation	1,35,000	{½ M}
To Debentures	1,00,000	By Balance c/d	7,65,000	
To Bank	3,50,000			
	9,90,000		9,90,000	

4. Investments Account

	Rs.		Rs.	
To Balance b/d	80,000	By Cash (Sale)	70,000	
To Profit and loss account	20,000	By Dividend		
To Bank (Balancing figure)	25,000	(Pre-acquisition)	5,000	{½ M}
		By Balance c/d	50,000	
	1,25,000		1,25,000	

5. Capital Reserve Account

	Rs.		Rs.	
To Balance c/d	1,00,000	By Profit on sale of land	30,000	
		By Profit on revaluation of land	70,000	{½ M}
	1,00,000		1,00,000	

6. General Reserve Account

	Rs.		Rs.	
To Voluntary separation cost	50,000	By Balance b/d	2,50,000	
To Capital redemption reserve	1,00,000			{½ M}
To Balance c/d	1,00,000			
	2,50,000		2,50,000	

7. Dividend Payable Account

	Rs.		Rs.	
To Bank (Balancing figure)	60,000	By Balance b/d	60,000	{½ M}
To Balance c/d	90,000	By Profit and loss account	90,000	
	1,50,000		1,50,000	

8. Provision for Taxation Account

	Rs.		Rs.	
To Bank (Balancing figure)	1,00,000	By Balance b/d	60,000	
To Balance c/d	95,000	By Profit and loss account	1,35,000	{½ M}
	1,95,000		1,95,000	

9. Voluntary Separation Payments Account

	Rs.		Rs.
To Balance b/d	65,000	By General reserve By	50,000
To Bank (Balancing figure)	1,10,000	Balance c/d	1,25,000
	1,75,000		1,75,000

{½ M}

Answer:
(b)

			Rs.
(i)	Price of two cars = Rs. 2,00,000 x 2		4,00,000
	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
	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
	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
	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**

{3 M} {3 M} {2 M} {2 M}

Answer 5:
(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**
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**		
To Net profit	**24,750**		
	86,250		86,250

5 Item X 1/2 M
4 Item X 1/2 M

Trade Debtors Account

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

4 Item X 1/2 M

Trade Creditors Account

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

4 Item X 1/2 M

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)

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	$\frac{3}{4}$ **M**
	(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	$\frac{3}{4}$ **M**
	(Being the issue of 1,000 Debentures of Rs. 100 each as per Board's Resolution No…..dated……)				
	12% Redeemable Preference Share Capital A/c	Dr.	3,00,000		
	Premium on Redemption of Preference Shares A/c	Dr.	30,000		$\frac{3}{4}$ **M**
	To Preference Shareholders A/c			3,30,000	
	(Being the amount payable on redemption transferred to Preference Shareholders Account)				

	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) Departmental Trading Account for the year ended 31st March, 20X1

Particulars	A	B	C	Particulars	A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Opening Stock (W.N.4)	14,400	10,800	30,000	By Sales A-5,200×40 B-9,800×45 C-15,300×50	2,08,000	4,41,000	7,65,000
To Purchases (W.N.2)	1,20,000	2,70,000	4,50,000	By Closing Stock (W.N.4)	9,600	16,200	21,000
To Gross Profit (b.f.)	83,200	1,76,400 {1 M}	3,06,000				
	2,17,600	4,57,200	7,86,000		2,17,600	4,57,200	7,86,000

Working Notes :

(1) Profit Margin Ratio

Selling price of units purchased :	Rs.
Department A (5,000 units x Rs. 40)	2,00,000
Department B (10,000 units x Rs. 45)	4,50,000
Department C (15,000 units x Rs. 50)	7,50,000
Total selling price of purchased units	14,00,000
Less: Purchases	(8,40,000)
Gross profit	5,60,000

{1 M}

Profit margin ratio $= \frac{Gross\ \ profit}{Selling\ \ price} \times 100 = \frac{5,60,000}{14,00,000} \times 100 = 40\%$ **{1 M}**

(2) Statement showing department-wise per unit cost and purchase cost

Particulars	A	B	C
Selling price per unit (Rs.)	40	45	50
Less: Profit margin @ 40% (Rs.) Profit	(16)	(18)	(20)

margin is uniform for all depts.			
Purchase price per unit (Rs.)	24	27	30
No. of units purchased	5,000	10,000	15,000
Purchases (purchase cost per unit × units purchased)	1,20,000	2,70,000	4,50,000

{1 M}

(3) Statement showing calculation of department-wise Opening Stock (in units)

Particulars	A	B	C
Sales (Units)	5,200	9,800	15,300
Add: Closing Stock (Units)	400	600	700
	5,600	10,400	16,000
Less: Purchases (Units)	(5,000)	(10,000)	(15,000)
Opening Stock (Units)	600	400	1,000

{1 M}

(4) Statement showing department-wise cost of Opening and Closing Stock

	A	B	C
Cost of Opening Stock (Rs.)	600 x 24 14,400	400 x 27 10,800	1,000 x 30 30,000
Cost of Closing Stock (Rs.)	400 x 24 9,600	600 x 27 16,200	700 x 30 21,000

Answer:

(b)

In the books of ……….

Journal Entries

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

Answer:

(c) 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) {$1^{1/2}$ M}

= (Rs.150 X 4 Shares + Rs.125 X 1 Share) / (4 + 1) Shares

= Rs. 725 / 5 shares = Rs. 145 per share. {$1^{1/2}$ 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:

(d) 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:

(e) (a) (1) **Users of financial statements:**
Investors, Employees, Lenders, Supplies/Creditors, Customers, Government & Public {1 M}

(2) **Qualitative Characteristics of Financial Statements:**
Understandability, Relevance, Comparability, Reliability & Faithful Representation {1 M}

(3) **Elements of Financial Statements:**
Asset, Liability, Equity, Income/Gain and Expense/Loss **{1 M}**

(b) **Fundamental Accounting Assumptions:**
Accrual, Going Concern and Consistency **{2 M}**

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