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

DATE: 16.10.2021 **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) Computation of amount of depreciation as per AS 10

		Rs.	
(i)	Machinery purchased on 1/4/15 for Rs. 10 lakhs (having residual value of Rs. 10 lakhs) Reason: The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost. Therefore, there is no depreciable amount and depreciation is correctly zero.	Nil	{1 M}
(ii)	Land (50 lakhs) (considered freehold) Reason: Land has an unlimited useful life and therefore, it is not depreciated.	Nil	{1 M}
(iii)	Machinery constructed for own use (Rs. 5,00,000/10) Reason: The entity should begin charging depreciation from the date the machine is ready for use i.e. 1st April,2019. The fact that the machine was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation.	50,000	{1 M}
(iv)	Machinery having revised useful life Reason: The entity has charged depreciation using the straight-line method at Rs. 10,000 per annum i.e (50,000/5 years). On 1st April,2019 the asset's net book value is [50,000 – (10,000 x 2)] i.e. Rs. 30,000. The remaining useful life is 2 years as per revised estimate. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of 2 years. Consequently, it should charge depreciation for the next 2 years at Rs. 15,000 per annum i.e. (30,000 / 2 years).	15,000	{2 M}

Answer:

(b)

		(Rs. in lakhs)
1st April, 2016	Acquisition cost of machinery	300.00
	Less: Government Grant	60.00
		240.00
31st March, 2017	Less: Depreciation @ 10%	(24.00)
1st April, 2017	Book value	216.00
31st March, 2018	Less: Depreciation @ 10%	(21.60)
1st April, 2018	Book value	194.40
31st March, 2019	Less: Depreciation @ 10%	(19.44)
1st April, 2019	Book value	174.96
	Less: Depreciation @10% for 2 months	(2.916)

1st June, 2019	Book value	172.044
June 2019	Add: Refund of grant*	60.00
	Revised book value	232.044

{2 M}

Depreciation @10% on the revised book value amounting to Rs. 232.044 lakhs is to be provided prospectively over the residual useful life of the machinery.

*considered refund of grant at beginning of June month and depreciation for two months already charged. Alternative answer considering otherwise also possible.

Journal Entries

Machinery Account	Dr.	60	
To Bank Account			60
(Being government grant on asset partly refunded which increased the cost of fixed asset)			
Depreciation Account	Dr.	19.337	
To Machinery Account			19.337
(Being depreciation charged on revised value of fixed asset prospectively for 10 months)			
Profit & Loss Account	Dr.	22.253	
To Depreciation Account			22.253
(Being depreciation transferred to Profit and Loss Account amounting to Rs. (2.916 + 19.337= 22.253)			

{1 M} {1 M} {1 M}

Answer:

(c) As per AS 13 (Revised) 'Accounting for Investments, for investment in shares - if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value. {2 M}

In the given case Rs. 25,000 shares held as current investment will be carried in the books at Rs. 23,750 (Rs. 47,500/2). {1 M}

If equity shares are acquired with an intention to hold for long term period (more than one year), then should be considered as long-term investment to be shown at cost in the Balance Sheet of the company. However, provision for diminution should be made to recognize a decline, if other than temporary, in the value of the investments. Hence, Rs. 25,000 shares held as long-term investment will be carried in the books at Rs. 25,000. Gold and silver are generally purchased with an intention to hold them for long term period (more than one year) until and unless given otherwise. {1 M}

Hence, the investment in Gold and Silver (purchased on 1st March, 2019) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2020. Thus Gold at Rs. 1,00,000 and Silver at Rs. 30,00,000 respectively will be shown in the books. {1 M}

Answer:

(d) As per AS 16 A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Other investments and those inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired also are not qualifying assets. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred. {2 M}

Construction of factory shed amounting Rs. 240 lakhs is qualifying asset in the given case. The interest for this amount during the year will be added to the cost of factory shed. All others (purchase of machinery, vehicles and technical know how, working capital, advance for tools/cranes) are non-qualifying assets and related borrowing cost will be charged to Profit and Loss statement. {2 M}

Qualifying Asset as per AS 16 (construction of a shed) = Rs. 240 lakhs Borrowing cost to be capitalized = Rs. 40 lakhs x 240/320 = Rs. 30 lakhs Interest to be debited to Profit or Loss account: Rs. (40 – 30) = Rs. 10 lakhs.
Note: Assumed that construction of factory shed completed on 31st March, 2020. {1 M}

Answer 2:

(a)

Manan Ltd.
Cash Flow Statement for the year ended 31st March, 2020

	Rs.	Rs.	
Cash flow from Operating Activities			
Net profit before income tax and extraordinary items:		30,00,000	
Adjustments for:			
Depreciation on Property, plant and equipment	7,50,000		
Discount on issue of debentures	45,000		
Interest on debentures paid	5,25,000		
Interest on investments received	(90,000)		
Profit on sale of investments	(30,000)		
		12,00,000	
Operating profit before working capital changes		42,00,000	
Adjustments for:			
Increase in inventory	(1,77,000)		
Decrease in trade receivable	7,350		
Increase in trade payables	450		
Increase in outstanding expenses	10,200	(1,59,000)	
Cash generated from operations		40,41,000	
Income tax paid		(15,75,000)	
Cash flow from ordinary items		24,66,000	
Cash flow from extraordinary items:			
Compensation received in a suit filed		1,35,000	
Net cash flow from operating activities		26,01,000	{5 M}
Cash flow from Investing Activities;			
Sale proceeds of investments	4,80,000		
Interest received on investments	90,000		
Purchase of land (3,00,000 less 2,64,000)	(36,000)		
Net cash flow from investing activities		5,34,000	{2 M}
Cash flow from Financing Activities			
Proceeds of issue of equity shares at 20% premium	6,00,000		
Redemption of preference shares at 5% premium	(23,62,500)		
Preference dividend paid	(2,25,000)		
Interest on debentures paid	(5,25,000)		
Dividend paid (7,50,000 + 2,50,000)	(10,00,000)		
Net cash used in financing activities		(35,12,500)	{2 M}
Net decrease in cash and cash equivalents during the year		(3,77,500)	{1 M}

Add: Cash and cash equivalents as on 31.3.2019		3,94,450
Cash and cash equivalents as on 31.3.2020		16,950

Answer:

(b) **9% Debentures Account**

Date	Particulars	Rs.	Date	Particulars	Rs.
30th March, 2020	To Own Debentures A/c	96,500	1st April, 2019	By Balance b/d	8,00,000
March, 2020	To Profit on cancellation	3,500			
31st March, 2020	To Bank A/c	7,00,000			
		8,00,000			8,00,000

{2 M}

Debenture Redemption Reserve (DRR) Account

Date	Particulars	Rs.	Date	Particulars	Rs.
			1st April, 2019	By Balance b/d	50,000
31st March, 2020	To General Reserve A/c	80,000	1st April, 2019	By Profit and loss A/c [Refer Working Note 3]	30,000
		80,000			80,000

{2 M}

Debenture Redemption Reserve Investments (DRRI) Account

Date	Particulars	Amount	Date	Particulars	Amount
1st April 2019	To Balance b/d	1,00,000	31st March, 2020	By Bank A/c (1,000 x 100 x 15%)	15,000
				(Refer Working Note 2)	
1st April 2019	To Bank A/c (Refer Working Note 1)	20,000	31st March, 2020	By Bank A/c (Refer Working Note 2)	1,05,000
		1,20,000			1,20,000

{2 M}

Own Debentures A/c

Date	Particulars	Amount	Date	Particulars	Amount
30th March, 2020	To Bank A/c*	96,500	30th March, 2020	By 9% Debentures	96,500
		96,500			96,500

{1 M}

* interest not considered.

Working Notes:

1. **Debenture Redemption Reserve Investment A/c**

   The company would be required to invest an amount equivalent to 15% of the value of the debentures in specified investments which would be equivalent to:
   = Total No of debentures X Face value per debenture X 15%
   = 8,000 X 100 X 15% = Rs. 1,20,000/-
   The company has already invested in specified investments i.e. 7% Govt bonds for an amount of Rs. 1,00,000 as per the information given in the question. The balance amount of Rs. 20,000 (i.e. Rs. 1,20,000 less Rs. 1,00,000) would be invested by the company on 1 April 2019.

{1 M}

2. **Redemption of Debenture Redemption Reserve Investments on 31.3.2020**

   Since the company purchased 1,000 own debentures on 31 March 2020, the company

would also realize the investments of 15% corresponding to these debentures for which computation is as follows:
= No of own debentures to be bought X Face value per debenture X 15%
= 1,000 X 100 X 15% = Rs. 15,000/-
The remaining debentures i.e. total debentures less own debentures would be redeemed on 31 March 2020 and hence the company would also realize the balance investments of 15% corresponding to these debentures for which computation is as follows:
= (Total no of debentures - No of own debentures) X Face value per debenture X 15% = (8,000 - 1,000) X 100 X 15% = Rs. 1,05,000/- {1 M}

3. **Debenture Redemption Reserve**
The company would be required to transfer an amount equivalent to 10% of the value of the debentures in Debentures Redemption Reserve Account. The value of debentures is 8,00,000 thus 10% of it i.e. 80,000 should be there in DRR a/c. The available balance in DRR a/c is only 50,000 therefore 30,000 (80,000 – 50,000) additional amount will be transferred from General Reserve or Profit and loss A/c to DRR A/c. {1 M}

Answer 3:

(a) **In the books of Mr. H**

Investment in equity shares of ABC Ltd. for the year ended 31st March, 2020

Date	Particulars	No.	Income Rs.	Amount Rs.	Date	Particulars	No.	Income Rs.	Amount Rs.	
2019 April 1	To Balance b/d	30,000	-	5,40,000	2019 Oct.	By Bank A/c (W.N. 5)	-	60,000	20,000	}{1 M}
June	To Bank A/c	10,000	--	1,62,400	20X2 Jan.	By Bank A/c (W.N.4)	28,000	-	4,85,100	}{1 M}
July	To Bonus Issue (W.N. 1)	10,000	-	-	March 31	By Balance c/d (W.N. 6)	28,000	-	3,77,200	}{2 M}
Sept.	To Bank A/c (W.N. 2)	6,000	-	72,000						
2020 Jan.	To P & L A/c (W.N. 4)	-	-	1,07,900	}{1/2 M}					
March 31	To P & L A/c	-	60,000 }{1/2 M}	-						
		56,000	60,000	8,82,300			56,000	60,000	8,82,300	

Working Notes:

1. Calculation of no. of bonus shares issued
Bonus Shares = (30,000 + 10,000) divided by 4= 10,000 shares

2. Calculation of right shares subscribed
Right Shares = $\frac{30,000\ shares + 10,000\ shares + 10,000\ shares}{5}$
= 10,000 shares
Shares subscribed 10,000 x 60% = 6,000 shares
Value of right shares subscribed = 6,000 shares @ Rs. 12 per share = Rs. 72,000 {1 M}

3. Calculation of sale of right entitlement
Amount received from sale of rights will be 4,000 shares x Rs. 5 per share = Rs. 20,000 and it will be credited to statement of profit and loss. {1 M}

4. Calculation of profit/loss on sale of shares-

Total holding = 30,000 shares original
10,000 shares purchased
10,000 shares bonus
6,000 shares right shares
56,000

50% of the holdings were sold i.e. 28,000 shares (56,000 x1/2) were sold.
Cost of total holdings of 56,000 shares
= Rs. 5,40,000 + Rs. 1,62,400 + Rs. 72,000– Rs. 20,000 = Rs. 7,54,400
Average cost of shares sold would be:

$$= \frac{7,54,400}{56,000} \times 28,000 = Rs.\ 3,77,200$$

Sale proceeds of 28,000 shares (28,000 x Rs. 17.50)	4,90,000
Less: 1% Brokerage	(4,900)
	4,85,100
Less: Cost of 28,000 shares sold	(3,77,200)
Profit on sale	1,07,900

{1 M}

5. Dividend received on investment held as on 1st April, 2019
= 30,000 shares x Rs. 10 x 20%
= Rs. 60,000 will be transferred to Profit and Loss A/c and
Dividend received on shares purchased on 10th June, 2019
= 10,000 shares x Rs. 10 x 20% = Rs. 20,000 will be adjusted to Investment A/c

{1 M}

6. Calculation of closing value of shares (on average basis) as on 31st March, 2020

$$\frac{7,54,400}{56,000} \times 28,000 = Rs.\ 3,77,200$$

{1 M}

Answer:

(b)

Memorandum Trading Account
for the period 1st April, 2019 to 30th September, 2019

	Normal Items	Abnormal Items	Total		Normal Items	Abnormal Items	Total	
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	
To Opening stock	2,48,000	12,000	2,60,000	By Sales	5,97,000	5,000	6,02,000	}{1 M}
To Purchases (W.N. 2)	3,39,900	-	3,39,900	By Goods sent to consignee	44,800	-	44,800	
To Wages (85,000 – 7,000)	78,000	}{1 M} -	78,000	By Loss	-	4,000	4,000	}{1 M}
To Gross profit @20%	1,19,400	-	1,19,400	By Closing stock (Bal. fig.)	1,43,500	3,000	1,46,500	}{2 M}
	7,85,300	12,000	7,97,300		7,85,300	12,000	7,97,300	

Statement of Claim for Loss of Stock

	Rs.
Book value of stock as on 30.9.2019	1,46,500
Less: Stock salvaged	(35,000)
Loss of stock	1,11,500

{1 M}

Amount of claim to be lodged with insurance company

$$= Loss \ of \ stock \times \frac{Policy \ value}{Value \ stock \ on \ the \ date \ of \ fire}$$

= Rs. 1,11,500 x 1,20,000/1,46,500 = Rs. 91,331 (approx.) {1 M}

Working Notes:
Rate of gross profit for the year ended 31st March, 2019

Trading Account for the year ended 31st March, 2019

	Rs.			Rs.
To Opening Stock	2,11,000	By Sales		8,60,000
To Purchases	6,55,000	By Closing stock Add: written off	2,52,000 8,000	
To Wages	82,000			2,60,000
To Gross Profit (b.f.)	1,72,000			
	11,20,000			11,20,000

{1 M}

Rate of Gross Profit in 2018-19

$$\frac{Gross \ Profit}{Sales} \times 100$$

= 1,72,000 X 100 / 8,60,000 = 20% {1 M}

2. **Calculation of Adjusted Purchases**

	Rs.
Purchases (4,48,000 – 58,000)	3,90,000
Less: Drawings [52,000 – (20 % of 52,000)]	(41,600)
Free samples	(8,500)
Adjusted purchases	3,39,900

{1 M}

Note: The answer has been given considering that the value of stock (at cost) on 31.3.19 amounting Rs. 2,52,000 is after adjustment of written off amount in respect of slow-moving item.

Answer 4:

(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				

13 Item X 1/4 M

	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	**42,00,000**	**8,30,000**	50,30,000
				profit b/d			
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

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	**26,625**		
(Refer W.N.)			
To General net profit	**31,43,375**		
(Bal. fig.)			
	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
= $\frac{\text{Gross Profit}}{\text{Total Sales}}$ x 100 = [(42,00,000)/ (1,80,00,000 + 30,00,000)] x100 = 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**

		Dr.	Cr.
20X1			
30 Sept.		**Rs.**	**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)			
Prepared Insurance A/c (3,200 x 6/12)	Dr.	1,600	
To Fire Insurance A/c			1,600
(Six months premium transferred to the Prepaid Insurance A/c)			
Head Office Account	Dr.	88,400	
To Purchases A/c			48,000
To Wages A/c			20,000
To Salaries A/c (6,400 – 2,000)			4,400
To General Expenses A/c			1,600
To Fire Insurance A/c (3,200 x 6/12)			1,600
To Manager's Salary A/c			4,800
To Discount Allowed A/c			8,000
(Transfer of various revenue accounts (Dr.) to the H.O. Account for closing the accounts)			

1/2 M **1/2 M** **3/4 M**

Sales Accounts	Dr.	2,40,000		1/2 M
Discount Earned A/c	Dr.	1,200		
To Head Office A/c			2,41,200	
[Revenue accounts (Cr.) transferred to H.O.]				
Head Office Account	Dr.	4,000		1/2 M
To Building Account			4,000	
(Transfer of amounts spent on building extension to H.O. A/c)				

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
			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

1 M

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 5:

(a)

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

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

Working Note :

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

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

Answer:

(b) Statement showing the calculation of profits/losses for pre incorporation and Post incorporation period profits of Sanjana Ltd. for the year ended 31st March, 2017

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

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

Working Notes:

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

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

3: Purchase Price Ratio

∴ Ratio is 3 : 9

But purchase price was 10% higher in the company period

∴ Ratio is 3 : 9 + 10%

3:9.9 = 1:3.3. **{3/4 M}**

Answer:

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

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

{5 item x 1/2 M}

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

Answer 6:

(a) Financial capital maintenance at historical cost: Under this convention, opening and closing assets are stated at respective historical costs to ascertain opening and closing equity. If retained profit is greater than or equals to zero, the capital is said to be maintained at historical costs. This means the business will have enough funds to replace its assets at historical costs. This is quite right as long as prices do not rise. Maximum amount withdrawn by Kishore in year 2019-20 if Financial capital is maintained at historical cost {2 M}

Particulars	Financial Capital Maintenance at Historical Cost (Rs.)
Closing equity (Rs. 30 x 75,000 units)	22,50,000 represented by cash
Opening equity	75,000 units x Rs. 20 = 15,00,000
Permissible drawings to keep Capital intact	7,50,000 (22,50,000 – 15,00,000)

{2 M}

Thus Rs. 7,50,000 is the maximum amount that can be withdrawn by Kishore in year 2019-20 if Financial capital is maintained at historical cost. {1 M}

Answer:

(b)

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

	Rs.	Rs.
Balance from Trading A/c		38,15,890
Add: Subsidies received from Government		2,50,000
		40,65,890
Less: Administrative, selling and distribution expenses	7,12,625	
(4,99,200 + 1,18,200 + 95,225)		
Director's fees	1,35,940	
Interest on debentures	28,460	
Depreciation on fixed assets as per Schedule II	5,15,675	(13,92,700)
Profit u/s 198		26,73,190

{1 M} {3 M}

Maximum Managerial remuneration under Companies Act, 2013= 11% of Rs. 26,73,190 = Rs. 2,94,051 (rounded off). {1 M}

Note:

1. Investment Revaluation reserve not to be deducted for calculation of profit under section 198;
2. Profit on sale of forfeited shares not to added for calculation of profit under section 198.

*Alternative presentation of the above answer also possible by starting from Net profit as per Profit and Loss Account.

Answer:

(c)

Journal Entries in Books of Branch A

	Particulars	Dr. Amount Rs.	Cr. Amount Rs.
(i)	Head office account Dr.	5,000	
	To Salaries account		5,000

{1 M}

	(Being the rectification of salary paid on behalf of H.O.)			
(ii)	Head office account Dr.	25,000		{1 M}
	To Bank / Liability A/c		25,000	
	(Being Asset purchased by branch but Asset account retained at head office books)			
(iii)	No Entry in Branch Books			{1 M}
(iv)	Head office account Dr.	25,000		{1 M}
	To Debtors account		25,000	
	(Being the amount of branch debtors collected by H.O.)			
(v)	Bank A/c Dr.	5,000		{1 M}
	To Head Office		5,000	
	(Remittance of Funds by H.O. to Branch)			

Answer:

(d) Criteria for classification of non-corporate entities as level 1 entities for purpose of application of Accounting Standards decided by the Institute of Chartered Accountants of India is given below:

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:

(i) 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.

(ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.

(iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.

(iv) 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.

(v) Holding and subsidiary entities of any one of the above.

{1 M Each}

Answer:

(e) **Journal Entries in the books of Star Ltd.**

2019		Dr. Rs.	Cr. Rs.	
April 1	Equity Share Final Call A/c Dr.	1,60,000		{1 M}
	To Equity Share Capital A/c		1,60,000	
	(Final call of Rs. 2 per share on 80,000 equity shares made due)			
	Bank A/c Dr.	1,60,000		{1 M}
	To Equity Share Final Call A/c		1,60,000	
	(Final call money on 80,000 equity shares received)			
June 1	Capital Redemption Reserve A/c Dr.	75,000		{2 M}
	Capital Reserve Dr.	45,000*		
	Securities Premium A/c Dr.	60,000		
	General Reserve A/c (b.f.) Dr.	1,40,000**		
	To Bonus to Shareholders A/c		3,20,000	
	(Bonus issue of two shares for every five shares held, by utilizing various reserves as per Board's			

	resolution dated…….)		
	Bonus to Shareholders A/c Dr.	3,20,000	
	To Equity Share Capital A/c		3,20,000
	(Capitalization of profit)		

{1 M}

* considering it as free reserve as it has been realized.

** Alternatively, different combination of profit and loss balance and general reserve may also be used.

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