(GI-7, GI-8, VI-VDI-SI-3)

DATE: 12.01.2022 **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) (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:

(b) 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:

(c) 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:

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

	Rs.	
Forward contract rate	48.85	1M
Less: Spot rate	(47.50)	
Loss	1.35	
Forward Contract Amount	$20,000	½ M
Total loss on entering into forward contract = ($20,000 × Rs. 1.35)	Rs. 27,000	
Contract period	4 months	
Loss for the period 1st January, 2012 to 31st March, 2012 i.e. 3	Rs. 20,250	½ M

months falling in the year 2011-2012 will be Rs. 27,000 x $\frac{3}{4}$	

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

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

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

On 7.7.2011, creditor of $10,000 is paid at the rate of Rs. 43. As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore, Rs. 10,000 (i.e. 4,40,000 – 4,30,000) will be credited to Profit and Loss account in the year 2011-12. {1 M}

Answer 2:

(a) **Ascertainment of rate of gross profit for the year 2015-16**

Trading A/c for the year ended 31-3-2016

	Rs.		Rs.
To Opening stock	**4,81,100**	By Sales	**26,00,000**
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

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

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

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

Memorandum Trading A/c for the period from 1-4-2016 to 22-01-2017

	Rs.	Rs.		Rs.	Rs.
To Opening stock		**6,63,600**	By Sales	24,58,500	
To Purchases *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. $\frac{1}{2}$ **M**

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 1.4.2016 to 18.8.2016= 140 days

Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks × Rs. 1,000 = Rs. 20,000. $1\frac{1}{2}$ **M**

Answer:

(b) **Investment Account-Equity Shares in X Ltd.**

Date		No. of shares	Dividend	Amount	Date		No. of shares	Dividend	Amount
2017			Rs.	Rs.	2018			Rs.	Rs.
April 1	To Balance b/d	4,000	-	**60,000**	Jan. 20	By Bank (dividend)		**8,000**	**2,000**
Sept 1	To Bank	1,000	-	**14,000**	Feb. 1	By Bank	4,000		**56,000**
Sept.30	To Bonus Issue	2,000	-	-	Mar. 31	By Balance c/d	4,000		**42,250**
Dec.1	To Bank (Right)	1,000	-	**12,500**					
2018									
Feb. 1	To Profit & Loss A/c		-	**13,750**					
Mar.31	To Profit & Loss A/c (Dividend income)		**8,000**	-					
		8,000	8,000	1,00,250			8,000	8,000	1,00,250
April. 1	To Balance b/d	4,000		**42,250**					

10 Item X 1/2 M

Working Notes:

1. Cost of shares sold — Amount paid for 8,000 shares

	Rs.
(Rs. 60,000 + Rs. 14,000 + Rs. 12,500)	86,500
Less: Dividend on shares purchased on 1st Sept, 2017	(2,000)
Cost of 8,000 shares	84,500
Cost of 4,000 shares (Average cost basis*)	42,250
Sale proceeds (4,000 shares @ 14/-)	56,000
Profit on sale	13,750

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

*For ascertainment of cost for equity shares sold, average cost basis has been applied.

2. Value of investment at the end of the year

Closing balance will be valued based on lower of cost (Rs. 42,250) or net realizable value (Rs. 13 x 4,000). Thus investment will be valued at Rs. 42,250. **1 M**

3. Calculation of sale of right entitlement

1,000 shares x Rs. 8 per share = Rs. 8,000

Amount received from sale of rights will be credited to P & L A/c as per AS 13 'Accounting for Investments' **1 M**

4. Dividend received on investment held as on 1st April, 2017

= 4,000 shares x Rs. 10 x 20%

= Rs. 8,000 will be transferred to Profit and Loss A/c **1 M**

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

Note: It is presumed that no dividend is received on bonus shares as bonus shares are declared on 30th Sept., 2017 and dividend pertains to the year ended 31.3.2017. $\frac{1}{2}$ **M**

Answer 3:

(a)

Branch Debtors A/c

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

4 items x ¼ M

Goods Sent to Branch A/c

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

3 items x ¼ M

Branch Cash A/c

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

6 items x ¼ M

Branch Stock A/c

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

6 items x ¼ M

Branch Expenses A/c

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

2 items x ¼ M

Branch Adjustment A/c

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

5 items x ¼ M

Branch P & L A/c

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

4 items x ¼ M

Working Notes:

1. Loading is 20% of cost i.e. 16.67% (1/6th) of invoice value. Loading on closing stock = 1/6th of Rs. 12,000 =Rs. 2,000. **1/8 M**
2. Loading on goods sent to branch = 1/6th of Rs. 1,20,000 = Rs. 20,000. **1/8 M**
3. Loading on goods in transit = 1/6th of Rs. 12,000 = Rs. 2,000. **1/4 M**

Answer:

(b)

M/s X

Departmental Trading A/c for the year ending 31st December, 20X1

	Deptt.A. Rs.	Deptt.B. Rs.		Deptt.A. Rs.	Deptt.B. Rs.
To Stock	**20,000**	**12,000**	By Sales	**1,40,000**	**1,12,000**
To Purchases	**92,000**	**68,000**	By Purchased Goods transferred	**8,000**	**10,000**
To Wages	**12,000**	**8,000**	By Finished Goods transferred	**35,000**	**40,000**
To Carriage	**2,000**	**2,000**	By Return of finished Goods	**10,000**	**7,000**
To Purchased Goods transferred	**10,000**	**8,000**	By Closing Stock:		
To F.G. transferred	**40,000**	**35,000**	Purchased Goods	**4,500**	**6,000**
To Return of finished Goods	**7,000**	**10,000**	Finished Goods	**24,000**	**14,000**
To Gross profit c/d (b.f.)	**38,500**	**46,000**			
	2,21,500	1,89,000		2,21,500	1,89,000

28 items x ¼ M

Consolidated Trading Account for the year ending 31st December, 20X1

	Particular	Rs.		Particulars	Rs.
To	Opening Stock	**32,000**	By	Sales	**2,52,000**
To	Purchases	**1,60,000**	By	Closing Stock:	
To	Wages	**20,000**		Purchased Goods	**10,500**
To	Carriage	**4,000**		Finished Goods	**38,000**
To	Stock Reserve	**2,196**			
To	Gross Profit c/d	**82,304**			
		3,00,500			3,00,500

9 items x ¼ M

Working note:	**Deptt. A**	**Deptt. B**
Sale	1,40,000	1,12,000
Add : Transfer	35,000	40,000
	1,75,000	1,52,000
Less: Returns	(7,000)	(10,000)
Net Sales plus Transfer	**1,68,000**	**1,42,000**
Rate of Gross profit	$\frac{38,500}{1,68,000} \times 100 = 22.916\%$	$\frac{46,000}{1,42,000} \times 100 = 32.394\%$
Closing Stock out of transfer (20% of closing stock)	4,800	2,800
Unrealised Profit	Rs. 4,800 × 32.394% = 1,555	2,800 × 22.916% = Rs. 641

3/4 M

1 M

1 M

Answer 4:

(a) Pre-incorporation period is for two months, from 1st April, 2018 to 31st May, 2018.
10 months' period (from 1st June, 2018 to 31st March, 2019) is post-incorporation period. **{1/2 M}**

Statement showing calculation of profit/losses for pre and post incorporation periods

	Pre-Inc	Post Inc
	Rs.	**Rs.**
Gross Profit	**50,000**	**4,00,000**
Bad debts Recovery	**14,000**	
	64,000	**4,00,000**
Less: Salaries	**24,000**	**1,20,000**
Audit fees	-	**12,000**
Depreciation	**3,000**	**16,250**
Sales commission	**2,000**	**16,000**
Bad Debts (49,000 + 14,000)	**7,000**	**56,000**
Interest on Debentures	-	**36,000**
Rent	**4,000**	**34,400**
Net Profit	**24,000**	**1,09,350**

19 items x ¼ M

* Pre-incorporation profit is a capital profit and will be transferred to Capital Reserve.

Working Notes:

(i) Calculation of ratio of Sales
Sales from April to September = 6,00,000 (1,00,000 p.m. on average basis)
October to March = Rs. 12,00,000 (2,00,000 p.m. on average basis)
Thus, sales for pre-incorporation period = Rs. 2,00,000
post-incorporation period = Rs. 16,00,000
Sales are in the ratio of 1:8 **{1 M}**

(ii) Gross profit, sales commission and bad debts written off have been allocated in pre and post incorporation periods in the ratio of Sales. **{1/8 M}**

(iii) Rent, salary are allocated on time basis. **{1/8 M}**

(iv) Interest on debentures is allocated in post incorporation period. **{1/8 M}**

(v) Audit fees charged to post incorporation period as relating to company audit. **{1/8 M}**

(vi) Depreciation of Rs. 18,000 divided in the ratio of 1:5 (time basis) and Rs. 1,250 charged to post incorporation period. **{1/8 M}**

(vii) Bad debt recovery of Rs. 14,000/- is allocated in pre-incorporation period, being sale made in 2015-16. **{1/8 M}**

(viii) Rent

		Rs.
(Rs. 38,400 – Additional rent for 6 months)		
[38,400- 14,400 (2,400 x 6) = Rs. 24,000 i.e. 2,000 per month]		
1/4/18 -31/5//18 (2,000 x 2)	=	4,000
1/6/18-31/3/19 – [(2,000 x 10) +14,400]	=	34,400
		38,400

{1 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 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 M}
Cash flows from financing activities:		
Grants for capital projects	36	
Long term borrowings	1,11,732	
Interest paid	(26,084)	
Dividend paid	(20,404)	
Net cash from financing activities		**65,280** {2 M}
Net increase in cash		4,000
Add: Cash and bank balance as on 1.4.2018		12,000
Cash and bank balance as on 31.3.2019		**16,000** {2 M}

Answer:

(c) Calculation of number of equity shares to be allotted

	Number of debentures	
Total number of debentures	20,000	
Less: Debenture holders not opted for conversion	(2,500)	{1 M}
Debenture holders opted for conversion	17,500	
Option for conversion	20%	{1 M}
Number of debentures to be converted (20% of 17,500)	3,500	
Redemption value of 3,500 debentures at a premium of 5% [3,500 x (100+5)]	Rs. 3,67,500	{1 M}
Equity shares of Rs. 10 each issued on conversion [Rs. 3,67,500/ Rs. 15]	24,500 shares	{1 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**	5 Item X 1/2 M
To Purchases (Working Note)	**3,45,000**	By Closing Stock	**40,000**	
To Gross Profit c/d (20% on sales)	**86,250**			
	4,71,250		4,71,250	
To Business Expenses	**50,000**	By Gross Profit b/d	**86,250**	4 Item X 1/2 M
To Depreciation on:				
Machinery 6,500				
Building 5,000	**11,500**			
To Net profit	**24,750**			
	86,250		86,250	

Trade Debtors Account

Particulars	Rs.	Particulars	Rs.	
To Balance b/d	**50,000**	By Bank (bal.fig.)	**4,09,375**	4 Item X 1/2 M
To Sales	**4,31,250**	By Balance c/d (1/6 of 4,31,250)	**71,875**	
	4,81,250		4,81,250	

Trade Creditors Account

Particulars	Rs.	Particulars	Rs.	
To Bank (Balancing figure)	**3,31,875**	By Balancing b/d	**30,000**	4 Item X 1/2 M
To Balance c/d/ (1/8 of Rs. 3,45,000)	**43,125**	By Purchases	**3,45,000**	
	3,75,000		3,75,000	

Working Note:

		Rs.	
(i)	Calculation of Rate of Gross Profit earned during previous year		
A	Sales during previous year (Rs. 50,000 x 12/2)	**3,00,000**	1/2 M
B	Purchases (Rs. 30,000 x 12/1.5)	**2,40,000**	1/2 M
C	Cost of Goods Sold (Rs. 40,000 + Rs. 2,40,000 – Rs. 40,000)	**2,40,000**	1/2 M
D	Gross Profit (A-C)	**60,000**	1/2 M
E	Rate of Gross Profit $\frac{Rs.\ 60,000}{Rs.\ 3,00,000} \times 100$	**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)

Journal Entries in Books of Branch A

	Particulars	Dr. Amount	Cr. Amount

		Rs.	Rs.	
(i)	Head office account Dr.	5,000		{1 M}
	To Salaries account		5,000	
	(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 6:

(a) 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:

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

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

Answer:

(c) 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:

(d) 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:

(e)

In the books of ……….

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)	
	Bank A/c	Dr.	25,000		{1/2 M}
	To Equity Share Capital A/c			25,000	
	(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…….)				
	8% Redeemable Preference Share Capital A/c	Dr.	1,00,000		{1 M}
	Premium on Redemption of Preference Shares A/c	Dr.	10,000		
	To Preference Shareholders A/c			1,10,000	
	(Being the amount paid on redemption transferred to Preference Shareholders Account)				
	Preference Shareholders A/c	Dr.	1,10,000		{1/2 M}
	To Bank A/c			1,10,000	
	(Being the amount paid on redemption of preference shares)				
	Profit & Loss A/c	Dr.	10,000		{1/2 M}
	To Premium on Redemption of Preference Shares A/c			10,000	
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)				
	General Reserve A/c	Dr.	60,000		{1$^{1/2}$ M}
	Profit & Loss A/c	Dr.	10,000		
	Investment Allowance Reserve A/c	Dr.	5,000		
	To Capital Redemption Reserve A/c			75,000	
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)				

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	
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.

{1 M}

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