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

DATE: 22.03.2022 **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) 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) Statement showing amount of depreciation as per Componentization Method-

Component	Depreciation (Per annum) (Rs.)	
Land	**Nil**	{1/2 M}
Roof	**40,000**	{1 M}
Lifts	**25,000**	{1 M}
Fixtures	**50,000**	{1 M}
Remainder of Building	**1,00,000**	{1 M}
	2,15,000	

Note: When the roof requires replacement at the end of its useful life the carrying amount will be nil. The cost of replacing the roof should be recognized as a new component. **{1/2 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. **{1 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. **{2 M}**

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.
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) (a) Interest for the period 2014-15
= US \$ 10 lakhs x 4% × Rs. 62 per US\$ = Rs. 24.80 lakhs **{3/4 M}**

(b) Increase in the liability towards the principal amount
= US \$ 10 lakhs × Rs. (62 - 56) = Rs. 60 lakhs **{3/4 M}**

(c) Interest that would have resulted if the loan was taken in Indian currency
= US \$ 10 lakhs × Rs. 56 x 10.5% = Rs. 58.80 lakhs **{3/4 M}**

(d) Difference between interest on local currency borrowing and foreign currency borrowing = Rs. 58.80 lakhs - Rs. 24.80 lakhs = Rs. 34 lakhs. **{3/4 M}**

Therefore, out of Rs. 60 lakhs increase in the liability towards principal amount, only Rs. 34 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be Rs. 58.80 lakhs being the aggregate of interest of Rs. 24.80 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of Rs. 34 lakhs. **{1 M}**

Hence, Rs. 58.80 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 and the remaining Rs. 26 lakhs (60 - 34) would be considered as the exchange difference to be accounted for as per AS 11. **{1 M}**

Answer 2:

(a) (a) **Number of Bonus shares to be issued:**
Existing paid up Capital = 60,000 Shares
Number of Bonus Shares = (60,000 × 1) ÷ 5 = 12,000 Shares (i.e. for Rs. 1,20,000) **{1 M}**

(b) **Bonus out of General Reserve:**
It is a usual practice to utilize specific reserve (available for specific purpose). Therefore, if CRR and Securities Premium are available, then company should utilize these reserves in priority over other free reserves. It is clear that company should not use General Reserve, in the given example, as Capital Redemption Reserve and Securities Premium are sufficiently available. **{1 M}**

(c) **Journal Entries in the Books of Mobile Ltd.**

Particulars		Dr. (Rs.)	Cr. (Rs.)
Capital Redemption Reserve A/c	Dr.	80,000	
Securities Premium A/c	Dr.	40,000	
To Bonus to Shareholders A/c			1,20,000
(Being issue of 1 Share for every 5 Shares held, by utilizing various reserves as per Board's Resolution dated …..)			
Bonus to Shareholders A/c	Dr.	1,20,000	
To Equity Share Capital A/c			1,20,000
(Capitalization of profits)			

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

Extracts of the Balance-Sheet after Bonus issue

	Particulars	Note No.	Amount (Rs.)	
	EQUITY AND LIABILITIES			
1.	**Shareholder's funds**			
	(a) Share Capital	1	**7,20,000**	{1 M}
	(b) Reserves and Surplus	2	**2,05,000**	{1 M}

Notes to Accounts

1.	**Share capital**			
	Authorised Capital			
	1,00,000 Equity Shares @ Rs. 10 each		10,00,000	
	Issued, Called up & Paid up Capital			
	72,000 Equity Shares @ Rs. 10 each		**7,20,000**	{1/2 M}
	(Out of above, 12,000 shares have been issued as bonus shares).			
2.	**Reserve and Surplus**			
	Plant Revaluation Reserve	25,000		
	Securities Premium A/c	20,000		
	General Reserve	1,60,000	**2,05,000**	{1/2 M}

(d) **Fully Paid up bonus shares only**

As per section 63 of the Companies Act, 2013, only fully paid up bonus shares can be issued. Therefore, it is not possible for the company to issue partly paid-up bonus shares. {1 M}

Answer:

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

		Dr. (Rs.)	Cr. (Rs.)	
Bank A/c	Dr.	80,000		{1/2 M}
Profit & Loss A/c (Loss on sale)	Dr.	20,000		
To Investment A/c			1,00,000	
(Being sale of Investments and transfer of Loss to Profit and Loss A/c)				
12% Preference Share Capital A/c	Dr.	4,80,000		{1/2 M}
Premium Payable on Redemption A/c	Dr.	48,000		
To Preference Shareholders Account			5,28,000	
(Being amount payable to Preference Shareholders on redemption of Preference Shares at a premium of 10%)				
Bank Account	Dr.	3,82,800		{1/2 M}
To Equity Share Application & Allotment A/c			3,82,800	
(Being application money received on Equity Shares issued)				
Equity Share Application & Allotment A/c	Dr.	3,82,800		{1/2 M}
To Equity Share Capital A/c			3,48,000	
To Securities Premium A/c			34,800	
(Being the allotment of 34,800 equity shares of Rs. 10 each at a premium of Rs. 1 per share)				
Profit & Loss Account	Dr.	1,32,000		{1/2 M}
To Capital Redemption Reserve Account			1,32,000	
Being creation of CRR to the extent of nominal value of Preference Shares redeemed out of profits.)				

Profit & loss Account	48,000		{1/2 M}
To Premium Payable on Redemption A/c		48,000	
(Being Premium Payable on Redemption written off.)			
Preference Shareholders Account Dr.	5,28,000		{1/2 M}
To Bank Account		5,28,000	
(Being amount paid to Preference Shareholders holding 4,800 preference shares on Redemption.)			

Balance Sheet of Rohan Limited
As at 15th May 2021 (After Redemption of Preference Shares)

	Particulars	Note No.	Amount (Rs.)
I	**EQUITY AND LIABILITIES**		
	1 Shareholders' funds		
	(a) Share Capital	1	**9,64,000**
	(b) Reserve and surplus	2	**2,96,800**
	2. Non-Current Liabilities		
	Long Term Borrowings (14% Debentures)		**1,50,000**
	3. Current Liabilities		
	(a) Trade Payables		**74,000**
	Total		**14,84,800**
II	**ASSETS**		
	1 Non-current Assets		
	(a) PPE		**13,00,000**
	2. Current Assets		
	(a) Inventories		**50,000**
	(b) Trade Receivables		**20,000**
	(c) Cash and Cash Equivalent (W.N.-4)		**1,14,800**
	Total		**14,84,800**

{10 item x 1/2 M = 5 M}

Notes to Accounts

		Rs.	Rs.
1	**Share Capital**		
	Equity Share Capital		
	Issued Subscribed and paid up:		
	94,800 Equity Shares of Rs. 10 each fully paid up		9,48,000
	12% Preference share Capital		
	200, 12% Preference Shares fully called up	20,000	
	Less: Calls-in-arrears (@ Rs. 20 per share)	(4,000)	16,000
	Total		**9,64,000** {1/4 M}
2	**Reserve and Surplus**		
	(a) Capital redemption Reserve Account		1,32,000
	(Transfer from Profit and Loss A/c)		
	(b) Securities Premium Account		
	Opening Balance	30,000	
	Add: Received on Fresh Issue (34,800 Shares × Rs. 1 each)	34,800	64,800
	(c) Profit and Loss A/c balance		1,00,000
	Total		**2,96,800** {1/4 M}

Working Notes:

1. 200 preference shares having calls in arrears, will not be redeemed. The amount of fresh issue under section 55 of the Companies Act has been calculated taking into consideration the redemption of 4,800 Preference shares, which are fully paid-up. {1/2 M}

2. Calculation of Profits Available for Redemption

Balance given in the Question	3,00,000
Less: Loss on sale of Investment (1,00,000 – 80,000)	(20,000)
Less: Minimum balance to be maintained in P& L A/c	(1,00,000)
Less: Premium on redemption of Preference shares	(48,000)
Closing Balance	**1,32,000**

{1/2 M}

3. No. of shares to be issued

Total Nominal Value of Preference Shares	4,80,000
Less: Amount of profit available for redemption of Preference shares	(1,32,000)
Amount required out of fresh issue	3,48,000

$$\text{No. of Shares to be issued} = \left(\frac{\text{Amount required out of proceeds of fresh issue of shares}}{\text{Par value per share (proposed Issue)}}\right)$$

$$= \frac{3,48,000}{10} = 34,800 \text{ shares of ₹ 10 each}$$ {1 M}

4. Determination of closing bank balance

Opening bank balance	1,80,000
Add: Proceeds from sale of Investment	80,000
Add: Proceeds from fresh issue of 34,800 equity shares @ Rs. 11	3,82,800
Less: Paid to Preference Shareholders on Redemption (4,800 × Rs. 110)	(5,28,000)
Closing Balance	**1,14,800**

{1 M}

Answer 3:

(a)

Investment A/c of Mr. Wise
for the year ending on 31-3-2021
(Scrip: 12% Debentures of Alpha Limited)
(Interest Payable on 30th June and 31st December)

Amount in Rs.

Date	Particulars	Nominal Value	Interest	Cost	Date	Particulars	Nominal Value	Interest	Cost
1.4.2020	To Balance b/d	4,00,000	**12,000**	**3,92,000**	30.6.2020	By Bank (6,00,000 x 6%)	-	**36,000**	-
1.6.2020	To Bank	2,00,000	**10,000**	**2,34,800**	1.9.2020	By Bank	3,00,000	**6,000**	**3,17,400**
1.9.2020	To Profit & Loss A/c			**23,400**	1.12.2020	By Bank	2,00,000	**10,000**	**2,05,800**
31.1.2021	To Bank	3,00,000	**3,000**	**3,06,000**	1.12.2020	By Profit & Loss a/c	-	-	**9,600**
31.3.2021	To Profit & Loss A/c (Bal. fig.)		**45,000**		31.12.20	By Bank (1,00,000 x 6%)	-	**6,000**	-
					31.3.2021	By Profit & Loss A/c	-	-	**3,400**
					31.3.2021	By Balance c/d	4,00,000	**12,000**	**4,20,000**
		9,00,000	**70,000**	**9,56,200**			9,00,000	**70,000**	**9,56,200**

{22 item x 1/4 M= 5.5 M}

Working Notes:

1. Valuation of closing balance as on 31.3.2021

	Rs.	Rs.
Market value of 4,000 Debentures at Rs. 105		4,20,000
Cost price of 1,000 debentures at	1,17,400	
3,000 debentures at	3,06,000	4,23,400
Value at the end = Rs. 4,20,000 i.e. whichever is less		

}{1/2 M}

2. Profit on sale of debentures as on 1.9.2020

	Rs.
Sales price of debentures (3,000 x Rs. 110)	3,30,000
Less: Brokerage @ 2%	(6,600)
	3,23,400
Less: Interest for 2 months	(6,000)
Less: Cost price of Debentures $\left(3{,}92{,}000 \times \frac{3{,}000}{4{,}000}\right)$	(2,94,000)
Profit on sale	**23,400**

}{1 M}

3. Loss on sale of debentures as on 1.12.2020

	Rs.
Sales price of debentures (2,000 x Rs. 105)	2,10,000
Less: Brokerage @ 2%	(4,200)
	2,05,800
Less: Cost price of Debentures (98,000 + 1,17,400)	(2,15,400)
Loss on sale	**9,600**

}{1 M}

4. Purchase Cost of 2,000 debentures on 1.6.2020

	Rs.
2000 Debentures @Rs. 120 cum interest	2,40,000
Add: Brokerage @ 2%	4,800
	2,44,800
Less: Interest for 5 months	(10,000)
Purchase cost of 2,000 debentures	**2,34,800**

}{1 M}

5. Sale value for 3,000 debentures on 1.9.2020

	Rs.
Sales price of debentures cum interest (3,000 x Rs. 110)	3,30,000
Less: Brokerage @ 2%	(6,600)
	3,23,400
Less: Interest for 2 months	(6,000)
Sale value for 3,000 debentures	**3,17,400**

}{1 M}

Answer:

(b)

Books of M/s Star & Sons

Memorandum Trading Account for the period 1st April, 2019 to 21st March, 2020

		Rs.		Rs.
To Opening Stock		**1,50,500**	By Sales (4,55,000 + 35,000)	**4,90,000**
To Purchases	3,17,000		By Closing Stock	**83,500**

{8 item x 1 M= 8 M}

			(Bal. fig.)	
Less: Returns	(15,000)			
Goods distributed as samples	(32,000)	**2,70,000**		
To Wages		**55,000**		
To Gross Profit (20% of Sales)		**98,000**		
		5,73,500		**5,73,500**

Statement of Insurance Claim

	Rs.
Value of stock destroyed by fire	83,500
Less: Salvaged Stock	12,000
Loss of stock	**71,500** }{1 M}

Note: Since policy amount is less than vale of stock on date of fire, average clause will apply. Therefore, claim amount will be computed by applying the formula.

$$Claim = \frac{Insured\ Value}{Total\ Cost} \times Loss\ Suffered$$

Claim amount = Rs. 71,500 X 70,000/ 83,500= **Rs. 59,940** (rounded off) **}{1 M}**

Answer 4:
(a)

Trading and Profit and Loss Account of ABC enterprise for the year ended 31st March, 2017

		Rs.			**Rs.**
To Opening Inventory		**80,000**	By	Sales	**6,08,750**
To Purchases	4,56,000		By	Closing inventory	**70,000**
Less: For advertising	(9,000)	**4,47,000**			
To Freight inwards		**30,000**			
To Gross profit c/d		**1,21,750**			
		6,78,750			6,78,750
To Sundry expenses		**92,000**	By	Gross profit b/d	**1,21,750**
To Advertisement		**9,000**	By	Interest on investment	**600**
To Discount allowed –				(20,000 x 6/100 x ½)	
Debtors	15,000		By	Discount received	**8,000**
Bills Receivable	1,250	**16,250**	By	Miscellaneous income	**5,000**
To Depreciation on furniture		**6,500**			
To Provision for doubtful debts		**1,455**			
To Net profit		**10,145**			
		1,35,350			1,35,350

{16 item x 1/4 M= 4 M}

Balance Sheet as on 31st March, 2017

Liabilities	**Amount**		**Assets**		**Amount**
	Rs.	**Rs.**		**Rs.**	**Rs.**
Capital as on 1.4.2016	1,88,000		Furniture (w.d.v.)	60,000	
Less: Drawings	(91,000)		Additions during the year	10,000	
Add: Net Profit	10,145	**1,07,145**	Less: Depreciation	(6,500)	**63,500**

{11 item x 1/4 M = 2.75 M}

Sundry creditors		**1,50,000**	Investment		**19,000**
Outstanding expenses		**18,000**	Interest accrued		**600**
			Closing inventory		**70,000**
			Sundry debtors	72,750	
			Less: Provision for doubtful debts	1,455	**71,295**
			Bills receivable		**17,500**
			Cash in hand and at bank		**26,250**
			Prepaid expenses		**7,000**
		2,75,145			2,75,145

Working Notes:

(1) **Capital on 1st April, 2016**

Balance Sheet as on 1st April, 2016

Liabilities	Rs.	Assets	Rs.
Capital (Bal. fig.)	1,88,000	Furniture (w.d.v.)	60,000
Creditors	1,10,000	Closing Inventory	80,000
Outstanding expenses	20,000	Sundry debtors	1,60,000
		Cash in hand and at bank	12,000
		Prepaid expenses	6,000
	3,18,000		3,18,000

{1½ M}

(2) **Purchases made during the year**

Sundry Creditors Account

	Rs.		Rs.
To Cash and bank A/c	3,92,000	By Balance b/d	1,10,000
To Discount received A/c	8,000	By Sundry debtors A/c	4,000
To Bills Receivable A/c	20,000	By Purchases A/c	4,56,000
To Balance c/d	1,50,000	(Balancing figure)	
	5,70,000		5,70,000

{1 M}

(3) **Sales made during the year**

		Rs.
Opening inventory		80,000
Purchases	4,56,000	
Less: For advertising	(9,000)	4,47,000
Freight inwards		30,000
		5,57,000
Less: Closing inventory		(70,000)
Cost of goods sold		4,87,000
Add: Gross profit (25% on cost)		1,21,750
		6,08,750

{1¼ M}

(4) **Debtors on 31st March, 2017**

Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	1,60,000	By Cash and bank A/c	5,85,000
To Sales A/c	6,08,750	By Discount allowed A/c	15,000
To Sundry creditors A/c		By Bills receivable A/c	1,00,000
(bill dishonoured)	4,000	By Balance c/d (Bal. fig.)	72,750
	7,72,750		7,72,750

{1 M}

(5) **Additional drawings by proprietors of ABC enterprises**

Cash and Bank Account

	Rs.		Rs.
To Balance b/d	12,000	By Freight inwards A/c	30,000
To Sundry debtors A/c	5,85,000	By Furniture A/c	10,000
To Bills Receivable A/c	61,250	By Investment A/c	19,000
To Miscellaneous income A/c	5,000	By Expenses A/c	95,000
		By Creditors A/c	3,92,000
		By Drawings A/c [Rs. 70,000 + Rs. 21,000)	91,000
		(Additional drawings)]	
		By Balance c/d	26,250
	6,63,250		6,63,250

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

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

Sundry Expenses Account

	Rs.		Rs.
To Prepaid expenses A/c	6,000	By Outstanding expenses A/c	20,000
(on 1.4.2016)		(on 1.4.2016)	
To Bank A/c	95,000	By Profit and Loss A/c	92,000
To Outstanding expenses A/c		(Balancing figure)	
(on 31.3.2017)	18,000	By Prepaid expenses A/c	
		(on 31.3.17)	7,000
	1,19,000		1,19,000

{1 M}

(7) **Bills Receivable on 31st March, 2017**

Bills Receivable Account

	Rs.		Rs.
To Debtors A/c	1,00,000	By Creditors A/c	20,000
		By Bank A/c	61,250
		By Discount on bills receivable A/c	1,250
		By Balance c/d (Balancing figure)	17,500
	1,00,000		1,00,000

{1 M}

Note: All sales and purchases are assumed to be on credit basis.

Answer:

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

Ratio of interest and amount due = 8 / (100 + rate of interest) i.e. 8/108 {3/4 M}

No. of installments	Amount due at the time of installment	Interest		Cumulative Cash price	
[1]	[2]	[3]		(2-3) = [4]	
3rd	12,000	8/108 of Rs. 12,000 =	Rs. 889	11,111	{3/4 M}
2nd	23,111 [W.N.1]	8/108 of Rs. 23,111=	Rs. 1,712	21,399	{3/4 M}
1st	33,399 [W.N.2]	8/108 of Rs. 33,399=	Rs. 2,474	30,925	{3/4 M}
			Rs. 5,075		

Total cash price = Rs. 30,925 + 12,000 (down payment) =Rs. 42,925 {1 M}

Working Notes:

1. Rs. 11,111+ 2nd installment of Rs. 12,000= Rs. 23,111 } **{1/2 M}**
2. Rs. 21,399+ 1st installment of Rs. 12,000= Rs. 33,399 } **{1/2 M}**

Answer 5:

(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**	**205.71**
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**	**131.00**
Net Profit [(i) – (ii)]		93.50	**18.79**	**74.71**

{29 item x 1/4 M = 7.25 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** **}{3/4 M}**

2. **Calculation of time Ratio**
   3 Months: 9 Months i.e. **1:3** **}{1/2 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** }{1/2 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) Journal Entries in the Books of Noida Branch

Particulars		**Debit (Rs.)**	**Credit (Rs.)**	
Salary Advance A/c	Dr.	5,000		{1/2 M}
To Salaries A/c			5,000	
(Being the amount paid as advance adjusted by debit to Salary Advance A/c)				
Prepaid Insurance A/c (11,200 X 6/12)	Dr.	5,600		{1/2 M}
To Fire Insurance A/c			5,600	
(Being the six months premium transferred to the Prepaid Insurance A/c)				
Head Office A/c	Dr.	1,44,900		{2 M}
To Purchases A/c			64,500	
To Wages A/c			24,000	
To Salaries A/c (15,600 – 5,000)			10,600	
To General Expenses A/c			7,800	
To Fire Insurance A/c (11,200 X 6/12)			5,600	
To Manager's Salary A/c			16,400	
To Discount Allowed A/c			16,000	
(Being the transfer of various revenue accounts to the HO A/c for closing the accounts)				
Sales A/c	Dr.	2,78,000		{1/2 M}
Discount Earned A/c	Dr.	4,600		
To Head Office A/c			2,82,600	
(Being the transfer of various revenue accounts to HO)				
Head Office A/c	Dr.	14,000		{1/2 M}
To Building A/c			14,000	
(Being the transfer of amounts spent on building extension to HO A/c)				

Head Office Account

2020	**Particulars**	**Amount (Rs.)**	**2020**	**Particulars**	**Amount (Rs.)**	
Sept 30	To Cash Remittance	52,900	April 1	By Balance b/d	1,88,000	{2 M}
	To Sundries* (Revenue)	1,44,900		By Sundries* (Revenue)	2,82,600	
	To Building A/c	14,000				

	To Balance c/d	**2,58,800**			
	Total	4,70,600		Total	4,70,600

* Instead of using Sundries (Revenue) A/c, the concerned revenue accounts can be posted in the ledger.

Balance Sheet of Noida Branch As at 30th Sept 2020

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	**33,400**	Debtors	**2,29,000**
Head Office A/c	**2,58,800**	Salary Advance	**5,000**
		Prepaid Insurance	**5,600**
		Building Extension A/c transferred to HO	
		Cash in Hand	**5,600**
		Cash at Bank	**47,000**
Total	**2,92,200**	Total	**2,92,200**

{9 item x 1/4 M = 2.25 M}

Working Notes:

Cash and Bank Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	26,000	By Wages	24,000
To Collection from debtors	2,57,000	By Salaries	15,600
		By Insurance	11,200
		By General Expenses	7,800
		By HO A/c	52,900
		By Manager's Salary	16,400
		By Creditors	88,500
		By Building A/c	14,000
		By Balance c/d	
		- Cash in Hand	5,600
		- Cash at bank	47,000
Total	2,83,000	Total	2,83,000

{3/4 M}

Debtors Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	2,24,000	By Cash Collection	2,57,000
To Sales A/c	2,78,000	By Discount (Allowed)	16,000
		By Balance c/d	2,29,000
Total	5,02,000	Total	5,02,000

{1/2 M}

Creditors Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Cash A/c	88,500	By Balance b/d	62,000
To Discount (Earned)	4,600	By Purchases	64,500
To Balance c/d	33,400		
Total	1,26,500	Total	1,26,500

{1/2 M}

Note:
Since the date of payment of fire insurance has not been mentioned in the question, it is assumed that it was paid on 01 April 2020. Alternative answer considering otherwise also possible.

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) (a) (i) Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares X Issue Price) / (Existing Number of shares + No. of right shares)

= (Rs. 140 X 4 Shares + Rs. 120 X 1 Share) / (1 + 4) Shares **{$1^{1/2}$ M}**

= Rs. 680 / 5 shares = **Rs. 136** per share.

(ii) Value of right = Cum-right value of the share – Ex-right value of the share

= Rs. 140 – Rs. 136 = **Rs. 4** per share. **{$1^{1/2}$ M}**

(b) The entry at the time of subscription of right shares by the existing shareholders will be:

Bank A/c	Dr.	5,00,000	
To Equity Share Capital A/c			2,00,000
To Securities Premium A/c			3,00,000
(Being issue of 20,000 right shares @ Rs. 25 offered)			

{2 M}

Answer:

(c) 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

{1 M}

Total selling price of purchased units	14,00,000
Less: Purchases	(8,40,000)
Gross profit	**5,60,000**

Profit margin ratio = $\frac{Gross\ \ profit}{Selling\ \ price}\times 100 = \frac{5,60,000}{14,00,000}\times 100$ = 40% **{1/2 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 margin is uniform for all depts.	(16)	(18)	(20)
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

{1/2 M}

Answer:

(d) (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}**

Answer:

(e) (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.

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