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

DATE: 22.06.2022 **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)
(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 AS11. **{1 M}**

Answer:

(b)
(i) As per para 24 of AS 2 (Revised) on Valuation of Inventories, material and other supplies held for use in the production of inventories are not written down below cost if the finished product in which they will be incorporated are expected to be sold at or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. **{1 M}**

Hence, in the given case, the stock of 10,000 kgs. of raw material will be valued at Rs. 80 per kg. The finished goods, if on stock, should be valued at cost or net realizable value which is lower. **{1 M}**

(ii) As per para 13 of AS 2 (Revised), abnormal amounts of waste materials, labour or other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred. **{1 M}**

In this case, normal waste is 250 MT an abnormal waste is 50 MT.
The cost of 250 MT will be included in determining the cost of inventories (finished goods at the year end. The cost of abnormal waste amounting to Rs. 50,000 (50 MT × Rs. 1,000) will be charged in the profit and loss statement. **{1 M}**

(iii) In accordance with paras & 8 and 9 of AS 2 (Revised), the costs of conversion include a systematic allocation of fixed and Variable production overheads that are incurred 'in converting materials into finished goods. The allocation of fixed production overheads for the purpose of their inclusion in the costs of conversion is based on the normal capacity of the production facilities. **{1 M}**

Answer:

(c) 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:

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

	Rs.
Forward contract rate	48.85
Less: Spot rate	(47.50)
Loss	1.35
Forward Contract Amount	$20,000
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 months falling in the year 2011-2012 will be Rs. 27,000 x $\frac{3}{4}$	**Rs. 20,250**

{1½ M} **{1/2 M}**

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. **{1/2 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). **{1/2 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) Departmental Trading Account for the year ended on 31st December, 2016

	Particulars	A (Rs.)	B (Rs.)		Particulars	A (Rs.)	B (Rs.)
To	Opening Stock	**3,00,000**	**2,40,000**	By	Sales	**60,00,000**	**90,00,000**
To	Purchases	**39,00,000**	**54,60,000**	By	Closing Stock	**6,00,000**	**12,00,000**
To	Gross Profit	**24,00,000**	**45,00,000**				
		66,00,000	**1,02,00,000**			**66,00,000**	**1,02,00,000**

{14 item x 1/4 M}

General profit and loss account of Beta for the year ended on 31st December, 2016

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To General expenses*	**7,50,000**	By Stock reserve (opening stock)	
To Stock reserve		Dept. A	**30,000**
(Closing Stock)		Dept. B	**36,000**
Dept. A	**60,000**	By Gross Profit	
Dept. B	**72,000**	Dept. A	**24,00,000**
To Net Profit	**60,84,000**	Dept. B	**45,00,000**
	69,66,000		**69,66,000**

{10 item x 1/4 M}

Working Notes:

		Dept. A	Dept. B
1.	Percentage of Profit	24,00,000/60,00,000 x 100	45,00,000/90,00,000 x 100
		40%	50%
2.	Opening Stock reserve	60,000 x 50% = 30,000	90,000 X 40% = 36,000
3.	Closing Stock reserve	1,20,000 x 50%=60,000	1,80,000 x 40% = 72,000

{2 M}

Answer:

(b)

Bangalore Branch Stock Account

	Particulars	Amount (Rs.)		Particulars	Amount (Rs.)
To	Balance b/d	**4,50,000**	By	Goods sent to branch A/c	**90,000**
To	Goods sent to			(Returns)	
	branch A/c	**45,00,000**	By	Bank A/c (Cash sales)	**15,00,000**
To	Branch debtors A/c (Returns)	**60,000**	By	Branch debtors A/c (credit sales)	**27,00,000**
To	Branch adjustment A/c (Surplus over invoice price)*	**1,80,000**	By	Balance c/d	**9,00,000**
		51,90,000			51,90,000

{8 item x 1/4 M}

Bangalore Branch Adjustment Account

	Particulars	Amount (Rs.)		Particulars	Amount (Rs.)
To	Stock reserve - 20% of Rs. 9,00,000 (closing stock)	**1,80,000**	By	Stock reserve - 20% of Rs. 4,50,000 (Opening stock)	**90,000**
To	Branch profit & loss A/c (Gross profit)	**9,72,000**	By	Goods sent to branch A/c – 20% of Rs. 44,10,000 (45,00,000 – 90,000)	**8,82,000**
			By	Branch stock A/c	**1,80,000**
		11,52,000			11,52,000

{5 item x 1/4 M}

Branch Profit & Loss Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Branch expenses A/c	**6,30,000**	By Branch adjustment A/c	**9,72,000**
To Branch debtors A/c (Discount)	**45,000**	(Gross Profit)	
To Branch debtors A/c (Bad Debts)	**30,000**		
To Net profit (transferred to Profit & Loss A/c)	**2,67,000**		
	9,72,000		9,72,000

{5 item x 1/4 M}

Branch Expenses Account

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Bank A/c (Rent, rates & taxes)	**1,35,000**	By Branch profit and loss A/c (Transfer)	**6,30,000**
To Bank A/c (Salaries, wages & bonus)	**4,50,000**		
To Bank A/c (Office expenses)	**45,000**		
	6,30,000		6,30,000

{4 item x 1/4 M}

Branch Debtors Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	**5,40,000**	By Bank A/c	**24,00,000**
To Branch stock A/c	**27,00,000**	By Branch profit and loss A/c (Bad debts and discount) (30,000 + 45,000)	**75,000**
		By Branch stock A/c (Sales returns)	**60,000**
		By Balance c/d (bal. fig.)	**7,05,000**
	32,40,000		32,40,000

{6 item x 1/4 M}

Goods sent to Branch Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Branch stock A/c	**90,000**	By Branch stock A/c	**45,00,000**
To Branch adjustment A/c	**8,82,000**		
To Purchases A/c	**35,28,000**		
	45,00,000		45,00,000

{4 item x 1/4 M}

Answer:

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

Ratio of interest and amount due = 8 / (100 + rate of interest) i.e. 8/108 **}{1/2 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	**}{1/2 M}**
2nd	23,111 [W.N.1]	8/108 of Rs. 23,111=	Rs. 1,712	21,399	**}{1/2 M}**
1st	33,399 [W.N.2]	8/108 of Rs. 33,399=	Rs. 2,474	30,925	**}{1/2 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 3:
(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}

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**
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

{11 item x 1/4 M}

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

{1 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

{1/2 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

{3/4 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

{1/2 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

{1 M}

		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

(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

{1/2 M}

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

Answer:

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

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

	Rs.		Rs.
To Opening stock	**4,81,100**	By Sales	**26,00,000**
To Purchases	**22,62,500**	By Closing stock	**6,63,600**
To Gross profit	**5,20,000**		
	32,63,600		32,63,600

{5 Item X 1/2 M}

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

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

{1 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	17,41,350		*Add*: Unrecorded cash sales (W.N.)	20,000	**24,78,500**
Less: Goods used for 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 1/2 M}

Estimated stock in hand on the date of fire was Rs. 3,72,150. {1/2 M}

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 1.4.2016 to 18.8.2016= 140 days
Since, 140 days / 7 weeks = 20 weeks
Therefore, amount of defalcation = 20 weeks × Rs. 1,000 = Rs. 20,000. {$1^{1/2}$ M}

Answer 4:

(a) Statement showing calculation of profit/loss for pre and post incorporation periods

Rs.

	Ratio	Total	Pre Incorporation	Post Incorporation
Sales	1:2.45	55,20,000	**16,00,000**	**39,20,000**
Interest on Investments	Pre	60,000	**60,000**	--
Bad debts recovered	Pre	36,000	**36,000**	--
Profit on sale of investment	Pre	42,000	**42,000**	--
(i)		56,58,000	**17,38,000**	**39,20,000**
Cost of goods sold	1:2.45	34,50,000	**10,00,000**	**24,50,000**
Advertisement	Post	69,800	--	**69,800**
Sundry office expenses	4:7	1,06,700	**38,800**	**67,900**
Printing & Stationary	4:7	77,000	**28,000**	**49,000**
Manager Salary	(W.N.3)	82,000	**26,000**	**56,000**
Interest on Debentures	Post	8,900	--	**8,900**
Rent	(W.N.4)	1,33,000	**28,000**	**1,05,000**
Bad debts	1:2.45	69,000	**20,000**	**49,000**
Underwriting commission	Post	56,000	--	**56,000**
Audit fees	Post	41,000	--	**41,000**
Depreciation	4:7	71,500	**26,000**	**45,500**
Interest on Borrowing	(W.N. 5)	1,25,000	**46,250**	**78,750**
(ii)		42,89,900	**12,13,050**	**30,76,850**
Net Profit [(i) – (ii)]		13,68,100	**5,24,950**	**8,43,150**

{31 item x 1/4 M}

Working Notes:

1. **Calculation of Sales Ratio**
Let the average sales per month be x
Total sales from 01.05.2017 to 31.08.2017 will be 4x
Average sales per month from 01.09.2017 to 31.03.2018 will be 1.4x
Total sales from 01.09.2017 to 31.03.2018 will be 1.4x X 7 =9.8x
Ratio of Sales will be 4x: 9.8x =**1:2.45** {1/2 M}

2. **Calculation of time Ratio**
4 Months: 7 Months i.e. **4:7** {1/4 M}

3. **Manager Salary** Rs.

Total salary	82,000
Less: Increased salary	<u>27,000</u>
	<u>55,000</u>
Monthly Salary =55,000/11	5,000
Salary from May to Aug	5,000 + 5,000 + 8,000 + 8,000 = 26,000
Salary from Sep to March	8,000 x 7= 56,000

{1/2 M}

4. **Apportionment of Rent**

	Rs.	
Total Rent	1,33,000	
Less: additional rent from 1.9.2017 to 31.3.2018	56,000	
Rent of old premises for 11 months	77,000	
	Pre	Post
Apportionment in time ratio (4:7)	28,000	49,000
Add: Rent for new space	---	56,000
Total	**28,000**	**1,05,000**

{1/2 M}

5. **Interest on borrowing**

Company's Borrowing Interest = Rs. 15,00,000 x 9% x 7/12= **Rs. 78,750**
Interest for Pre-incorporation period = Rs. 1,25,000 – 78,750 = **Rs. 46,250**
{1/2 M}

Answer:

(b) **In the books of Mr. Brown**

12% Bonds for the year ended 31st March, 20X2

Date	*Particulars*	*Nos.*	*Income*	*Amount*	*Date*	*Particulars*	*Nos.*	*Income*	*Amount*
			Rs.	**Rs.**				**Rs.**	**Rs.**
20X1	To Bank A/c	24,000	**24,000**	**19,92,000**	20X1	By Bank-Interest	-	**1,44,000**	
May, 1	(W.N.7)		**½ M**	**½ M**	Sept.	(24,000 x 100 x		**½ M**	
						12% x 6/12)			
20X2	To P & L A/c			**1,05,000**	3020X2	By Bank A/c	15,000	**75,000**	**13,50,000**
March 1	(W.N.1)			**½ M**	Mar. 1	(W.N.8)		**½ M**	**½ M**
20X2	To P & L A/c		**2,49,000**		20X2	By Bank-Interest		**54,000**	
March	(b.f.)		**½ M**		Mar. 31	(9,000 x 100 x		**½ M**	
31						12% x 6/12)			
						By Balance c/d	9,000		**7,47,000**
						(W.N.2)			**½ M**
		24,000	2,73,000	20,97,000			24,000	2,73,000	20,97,000

9 items = 1/2 M = $4^{1/2}$ M

Investment in Equity Share of Alpha Ltd. for the year ended 31st March, 20X2

Date	*Particulars*	*Nos.*	*Income* **Rs.**	*Amount* **Rs.**	*Date*	*Particulars*	*Nos.*	*Income* **Rs.**	*Amount* **Rs.**
20X1	To Bank A/c	1,50,000	-	**38,25,000**	20X1	By Bank A/c	80,000	-	**17,60,000**
June	([1,50,000 x			**½ M**	Oct. 31				**½ M**
15	25] + [2% x								
	(1,50,000 x								
	25)])								
Oct. 14	To Bonus	1,00,000	-	-	20X2	By Bank A/c		**2,55,000**	
	Issue				Jan. 1	–dividend		**½ M**	
	(1,50,000/					(1,70,000 x			
	3 x2)					10 x 15%)			
20X1	To P & L A/c			**5,36,000**	March	By Balance	1,70,000	-	**26,01,000**
Oct. 31	(W.N.3)			**½ M**	31	c/d			**½ M**
20X2	To P & L A/c					(W.N.4)			
Mar.			**2,55,000**						
31			**½ M**						
		2,50,000	2,55,000	43,61,000			2,50,000	2,55,000	43,61,000

6 items = 1/2 M 3 M.

Investment in Equity Share of Beeta Ltd. for the year ended 31st March, 20X2

Date	Particulars	Nos.	Income	Amount	Date	Particulars	Nos.	Income	Amount
			Rs.	Rs.				Rs.	Rs.
20X1	To Bank A/c	60,000	-	**26,92,800**	20X2	By Bank –	-	**1,18,800**	
July 10	([60,000 x			**1/4 M**	Mar. 15	dividend		**1/4 M**	
	44] + [2%					[(60,000 + 6,000)			
	x (60,000 x					x 10 x 18%]			
	44)])								
20X2	To Bank A/c	6000	-	**30,000**	March	By Balance c/d	66,000		**27,22,800**
Jan. 15	(W.N. 5)			**1/4 M**	31	(bal. fig.)			**1/4 M**
March	To P & L A/c		**1,18,800**						
31			**1/4 M**						
		66,000		27,22,800			66,000	1,18,800	27,22,800

5 items = 1/4 M = 1.25 M

Working Notes:

1. Profit on sale of 12% Bond

Sales price	Rs. 13,50,000
Less : Cost of bond sold = $\frac{19,92,000}{24,000} \times 15,000$	(Rs.12,45,000)
Profit on sale	Rs. 1,05,000

1/8 M

2. Closing balance as on 31.3.20X2 of 12 % Bonds

$\frac{19,92,000}{24,000} \times 9,000$ = Rs. 7,47,000 **1/8 M**

3. Profit on sale of equity shares of Alpha Ltd.

Sales price	Rs. 17,60,000
Less : Cost of bond sold = $\frac{38,25,000}{2,50,000} \times 80,000$	(Rs. 12,24,000)
Profit on sale	Rs. 5,36,000

1/8 M

4. Closing balance as on 31.3.20X2 of equity shares of Alpha Ltd.

$\frac{38,25,000}{2,50,000} \times 1,70,000$ = Rs. 26,01,000 **1/8 M**

5. Calculation of right shares subscribed by Beeta Ltd.

Right Shares = $\frac{60,000 \text{ Shares}}{4} \times 1$ = 15,000 shares
Shares subscribed by Mr. Brown= 15,000 x 40%= 6,000 shares
Value of right shares subscribed= 6,000 shares @ Rs. 5 per share = Rs. 30,000 **1/8 M**

6. Calculation of sale of right entitlement by Beeta Ltd.

No. of right shares sold = 15,000 - 6,000 = 9,000 shares
Sale value of right = 9,000 shares x Rs. 2.25 per share = Rs. 20,250
Note: As per para 13 of AS 13, sale proceeds of rights is to be credited to P & L A/c. **1/8 M**

7. **Purchase of bonds on 01.05.20X1**

Interest element in purchase of bonds = 24,000 x 100 x 12% x 1/12
= Rs. 24,000

Investment element in purchase of bonds = (24,000 x 84) –24,000
= Rs. 19,92,000

1/4 M

8. **Sale of bonds on 01.03.20X2**

Interest element in purchase of bonds = 15,000 x 100 x 12% x 5/12
= Rs. 75,000

Investment element in purchase of bonds = 15,000 x 90 = Rs. 13,50,000

1/4 M

Answer 5:

(a)

Bumbum Limited
Journal Entries

20X1		**Dr. (Rs.)**	**Cr. (Rs.)**	
July 1	Equity Share Capital A/c (Rs. 10 each) Dr.	3,00,000		**{1/2 M}**
	To Equity share capital A/c (Rs. 2 each)		3,00,000	
	(Being equity share of Rs.10 each splitted into 5 equity shares of Rs. 2 each) {1,50,000 X 2}			
July 10	Cash & Bank balance A/c Dr.	5,55,000		**{1/2 M}**
	To Investment A/c		4,90,000	
	To Profit & Loss A/c		65,000	
	(Being investment sold out and profit on sale credited to Profit & Loss A/c)			
July 10	8% Redeemable preference share capital A/c Dr.	5,00,000		**{1/2 M}**
	Premium on redemption of pref. share A/c Dr.	25,000		
	To Preference shareholders A/c		5,25,000	
	(Being amount payable to preference share holders on redemption) (refer W.N.1)			
July 10	Preference shareholders A/c Dr.	5,25,000		**{1/2 M}**
	To Cash & bank A/c		5,25,000	
	(Being amount paid to preference shareholders)			
July 10	General reserve A/c Dr.	5,00,000		**{1/2 M}**
	To Capital redemption reserve A/c		5,00,000	
	(Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law)			
Aug 1	9% Debentures A/c Dr.	2,50,000		**{1/2 M}**
	Interest on debentures A/c Dr. (2,50,000 x 9% x 4/12)	7,500		
	To Debenture holders A/c		2,57,500	
	(Being amount payable to debenture holders along with interest payable)			
Aug. 1	Debenture holders A/c Dr.	2,57,500		**{1/2 M}**
	To Cash & bank A/c (1,00,000 + 7,500)		1,07,500	
	To Equity share capital A/c (15,000 X 2)		30,000	
	To Securities premium A/c (15,000 x 8)		1,20,000	
	(Being claims of debenture holders satisfied) (refer W.N.2)			
Sept. 5	Capital Redemption Reserve A/c Dr.	1,10,000		**{1/2 M}**
	To Bonus to shareholders A/c		1,10,000	
	(Being balance in capital redemption reserve			

	capitalized to issue bonus shares) (refer W.N.3)			
Sept. 12	Bonus to shareholders A/c Dr.	1,10,000		{1/2 M}
	To Equity share capital A/c		1,10,000	
	(Being 55,000 fully paid equity shares of Rs. 2 each issued as bonus in ratio of 1 share for every 3 shares held)			
Sept. 30	General Reserve A/c Dr.	25,000		{1/2 M}
	To Premium on redemption of preference shares A/c		25,000	
	(Being premium on preference shares adjusted from general reserve)			
Sept. 30	Profit & Loss A/c Dr.	7,500		{1/2 M}
	To Interest on debentures A/c		7,500	
	(Being interest on debentures transferred to Profit and Loss Account)			

Balance Sheet as at 30th September, 20X1

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	**4,40,000**
	b	Reserves and Surplus	2	**13,32,500**
2		**Current liabilities**		
	a	Trade Payables		**1,70,000**
		Total		**19,42,500**
		Assets		
1		**Non-current assets**		
	a	Property, Plant and Equipment		**7,80,000**
	b	Deferred tax asset		**3,40,000**
2		**Current assets**		
		Trade receivables		**6,20,000**
		Cash and bank balances (W.N.4)		**2,02,500**
		Total		**19,42,500**

{9 item x 1/2 = 4.5 M}

Notes to accounts

		Rs.	Rs.	
1	Share Capital			
	Authorized share capital			
	2,50,000 Equity shares of Rs. 2 each	5,00,000		
	10,000 Preference shares of Rs.100 each	10,00,000	15,00,000	
	Issued, subscribed and paid up			
	2,20,000 Equity shares of Rs. 2 each [(30,000 x 5) + 15,000 + 55,000]		**4,40,000**	{1/2 M}
2	Reserves and Surplus			
	Securities Premium A/c			
	Balance as per balance sheet	6,00,000		
	Add: Premium on equity shares issued on conversion of debentures (15,000 x 8)	1,20,000		
	Balance		7,20,000	
	Capital Redemption Reserve (5,00,000-1,10,000)		3,90,000	
	General Reserve (6,50,000 – 5,00,000- 25,000)		1,25,000	
	Profit & Loss A/c	40,000		
	Add: Profit on sale of investment	65,000		

	Less: Interest on debentures	(7,500)	97,500
	Total		**13,32,500** }{1/2 M}

Working Notes:

	Rs.
1. **Redemption of preference share:**	
5,000 Preference shares of Rs. 100 each	5,00,000
Premium on redemption @ 5%	25,000
Amount Payable	**5,25,000** }{1/2 M}
2. **Redemption of Debentures**	
2,500 Debentures of Rs.100 each	2,50,000
Less: Cash option exercised by 40% holders	(1,00,000)
Conversion option exercised by remaining 60%	1,50,000
Equity shares issued on conversion = $\frac{1,50,000}{10}$ = **15,000 shares**	}{1 M}
3. **Issue of Bonus Shares**	
Existing equity shares after split (30,000 x 5)	1,50,000 shares
Equity shares issued on conversion	15,000 shares
Equity shares entitled for bonus	1,65,000 shares
Bonus shares (1 share for every 3 shares held) to be issued	**55,000 shares** }{1 M}
4. **Cash and Bank Balance**	
Balance as per balance sheet	2,80,000
Add: Realization on sale of investment	5,55,000
	8,35,000
Less: Paid to preference share holders	(5,25,000)
Paid to Debenture holders (7,500 + 1,00,000)	(1,07,500)
Balance	**2,02,500** }{1 M}
5. **Interest of Rs. 7,500 paid to debenture holders have been debited to Profit & Loss Account.**	}{1/2 M}

Answer:

(b) Schedule III has come into force for the Balance Sheet and Profit and Loss Account prepared for the financial year commencing on or after 1st April, 20X1. As per Part I of the Schedule III, a company should, inter alia, disclose in notes to accounts for the period of 5 years immediately preceding the balance sheet date (31st March, 20X2 in the instant case) the aggregate number and class of shares allotted as fully paid-up bonus shares. Schedule III does not require a company to disclose the source from which bonus shares have been issued. Therefore, non-disclosure of source from which bonus shares have been issued does not violate the Schedule III to the Companies Act. **{5 M}**

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) 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)

Journal Entries in the books of Libra Ltd.
Journal Entries

Date	Particulars		Amount Dr.	Amount Cr.	
			Rs.	Rs.	
1.5.20X1	Bank A/c	Dr.	1,50,00,000		{1/2 M}
	To Debenture Application A/c			1,50,00,000	
	(Application money received on 1,50,000 debentures @ Rs. 100 each)				
1.6.20X1	Debenture Application A/c	Dr.	1,50,00,000		{1/2 M}
	Underwriters A/c	Dr.	50,00,000		
	To 15% Debentures A/c			2,00,00,000	
	(Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)				
	Underwriting Commission	Dr.	4,00,000		{1/2 M}
	To Underwriters A/c			4,00,000	
	(Commission payable to underwriters @ 2% on Rs. 2,00,00,000)				
	Bank A/c	Dr.	46,00,000		{1/2 M}
	To Underwriters A/c			46,00,000	
	(Amount received from underwriters in settlement of account)				
01.06.20X1	Debenture Redemption Investment A/c	Dr.	12,00,000		{1/2 M}
	To Bank A/c (200,000 X 100 x 15% X 40%)			12,00,000	
	(BeingInvestments made for redemption purpose)				
30.9.20X1	Debenture Interest A/c	Dr.	10,00,000		{1/2 M}
	To Bank A/c			10,00,000	
	(Interest paid on debentures for 4 months				

	@ 15% on Rs. 2,00,00,000)		
31.10.20X1	15% Debentures A/c Dr.	1,20,00,000	
	To Equity Share Capital A/c		20,00,000
	To Securities Premium A/c		1,00,00,000
	(Conversion of 60% of debentures into shares of Rs. 60 each with a face value of Rs. 10)		
31.3.20X2	Debenture Interest A/c Dr.	7,50,000	
	To Bank A/c		7,50,000
	(Interest paid on debentures for the half year)**(Refer working note below)**		

{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

On Rs. 1,20,00,000 for 1 months @ 15% = Rs. 1,50,000

Rs. 7,50,000 {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)

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**

{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; {1/2 M}
2. Profit on sale of forfeited shares not to added for calculation of profit under section 198. {1/2 M}

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