(GI-10, GI-11, VI-2(A) & AI-2(A), DI-1+2 & Drive)

DATE: 19.01.2024 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

ADVANCE ACCOUNTING

Answer to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium. His/her answer in Hindi will not be valued.

1. The question paper comprises two parts, Part I and Part II.

2. Part I comprises Multiple Choice Questions (MCQs).

3. Part II comprises questions which require descriptive type answers.

In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then all answers shall be valued and best four will be considered.

Wherever necessary, suitable assumptions may be made and disclosed by way of note.

SECTION – A

PART – I – MULTIPLE CHOICE QUESTIONS

TOTAL MARKS: 30 MARKS

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given, All questions are compulsory.

1. Ans. b
2. Ans. c
3. Ans. a
4. Ans. a
5. Ans. c
6. Ans. b
7. Ans. b
8. Ans. a
9. Ans. b
10. Ans. b
11. Ans. a
12. Ans. b
13. Ans. c
14. Ans. d
15. Ans. c
16. Ans. c
17. Ans. c
18. Ans. b
19. Ans. c
20. Ans. d
21. Ans. a
22. Ans. d
23. Ans. c
24. Ans. c
25. Ans. d
26. Ans. c
27. Ans. c
28. Ans. c
29. Ans. c
30. Ans. d

(30 MCQ x 1 M Each = 30 Marks)

SECTION – B

PART – II - DESCRIPTIVE QUESTIONS

QUESTIONS NO. 1 IS COMPULSORY
ATTEMPT ANY FOUR QUESTIONS THE REMAINING FIVE QUESTIONS

TOTAL MARKS: 70 MARKS

Answer 1:

(a) (i) Carrying amount of investment in Separate Financial Statement of Bright Ltd. as on 31.03.20X2

	Rs.	
Amount paid for investment in Associate (on 1.06.20X1)	2,00,000	
Less: Pre-acquisition dividend (Rs. 50,000 x 30%)	(15,000)	
Carrying amount as on 31.3.20X2 as per AS 13	**1,85,000**	}{1/2 M}

(ii) Carrying amount of investment in Consolidated Financial Statements* of Bright Ltd. as on 31.3.20X2 as per AS 23

	Rs.	
Carrying amount as per separate financial statements	1,85,000	
Add: Proportionate share of 10-month profit of investee as per equity method (30% of Rs. 3,00,000 x 10/12)	75,000	
Carrying amount as on 31.3.20X2	**2,60,000**	}{1/2 M}

(iii) Carrying amount of investment in Consolidated Financial Statement of Bright Ltd. as on 30.6.20X2 as per AS 23

	Rs.	
Carrying amount as on 31.3.20X2	2,60,000	
Less: Dividend received (Rs. 60,000 x 30%)	(18,000)	
Carrying amount as on 30.6.20X2	**2,42,000**	}{1 M}

Answer:

(b) (i)

	Rs.	
Cost of closing inventory for 13,000 litres as on 30th June 2021		
10,000 litres @ Rs. 95	9,50,000	
3,000 litres @ Rs. 90	2,70,000	
Value of inventory (determined at cost in absence of NRV)		
	12,20,000	}{1/2 M}
Calculation of cost of goods sold		
Opening inventories (10,000 litres @ Rs. 92)	9,20,000	
Purchases June – 1 (20,000 litres @ Rs. 90)	18,00,000	
June – 30 (10,000 litres @ 95)	9,50,000	
	36,70,000	
Less: Closing inventories	(12,20,000)	
Cost of Goods Sold	**24,50,000**	}{1/2 M}
Calculation of Profit		
Sales (Given) (A)	30,40,000	
Cost of Goods Sold	24,50,000	
Add: General Overheads	4,00,000	
Total Cost (B)	28,50,000	
Profit (A-B)	**1,90,000**	}{1 M}

(ii) According to AS 2 'Valuation of Inventories', inventories should be valued at the lower of cost and net realizable value.

Product – A

Material cost	Rs. 40 x 200 = 8,000	
Wages cost	Rs. 30 x 200 = 6,000	
Overhead	Rs. 20 x 200 = 4,000	
Total cost		**Rs. 18,000**
Realizable value [200 x (110-11)]		**Rs. 19,800**
Hence inventory value of Product -A		**Rs. 18,000**

{3 Item x 1/4 = 3/4 M}

Product – B

Material cost	Rs. 45 x 800 = 36,000	
Wages cost	Rs. 35 x 800 = 28,000	
Total cost		**Rs. 64,000**
Realizable value (800 x 70)		**Rs. 56,000**
Hence inventory value of Product-B		**Rs. 56,000**
Total Value of closing inventory i.e. Product A + Product B (18,000+ 56,000)		**Rs. 74,000**

{3 Item x 1/4 = 3/4 M}

{1/2 M}

Answer:

(c) According to AS 16 "Borrowing Costs", a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use. As per the Standard, 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. The amount o f borrowing costs eligible for capitalization should be determined in accordance with this Standard. Other borrowing costs should be recognized as an expense in the period in which they are incurred. It also states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings. {1 M}

Thus, eligible borrowing cost = Rs. 10,00,000 (100 lakhs x 12% x 10/12) – Rs. 50,000 = Rs. 9,50,000 {1/2 M}

Particulars	Nature of assets	Interest to be capitalized (Rs.)	Interest to be charged to Profit & Loss Account (Rs.)
Construction of factory building	Qualifying Asset	9,50,000x40/100 = Rs. **3,80,000**	NIL
Purchase of Machinery	Not a Qualifying Asset	NIL	9,50,000x15/100 = **1,42,500**
Purchase of and furniture	Not a Qualifying Asset	NIL	9,50,000x2/100 = **19,000**
Purchase of truck	Not a Qualifying Asset	NIL	9,50,000x13/100 = **1,23,500**
Working Capital	Not a Qualifying Asset	NIL	9,50,000x30/100 = Rs. **2,85,000**
Total		Rs. 3,80,000	Rs. 5,70,000

{5 Item x 1/2 M = 2.5 M}

Answer:

(d) Statement of Profit and Loss for the year ended 31st March, 2019 (Extract)

		Rs.
Profit before depreciation and taxes		6,40,000
Less: Depreciation for accounting purposes (2,80,000+30,000)		(3,10,000)
Profit before taxes (A)		3,30,000
Less: Tax expense (B)		
Current tax (W.N.1) (3,30,000 x 40%)	1,32,000	
Deferred tax (W.N.2)	NIL	(1,32,000)
Profit after tax (A-B)		**1,98,000**

}{1 M}

Working Notes:

1. Computation of taxable income

	Amount (Rs.)
Profit before depreciation and tax	6,40,000
Less: Depreciation for tax purpose (1,90,000 + 1,20,000)	(3,10,000)
Taxable income	3,30,000
Tax on taxable income @ 40%	**1,32,000**

}{1 M}

2. Impact of various items in terms of deferred tax liability / deferred tax asset

S. No.	Transactions	Analysis	Nature of difference	Effect	Amount (Rs.)
(i)	Difference in depreciation	Generally, written down value method of depreciation is adopted under IT Act which leads to higher depreciation in earlier years of useful life of the asset in comparison to later years.	Responding timing difference	Reversal of DTL	(2,80,000 - 1,90,000) x 40% **= (36,000)** }{1 M}
(ii)	Depreciation on new machinery	Due to allowance of full amount as expenditure under IT Act, tax payable in the earlier years is less.	Timing difference	Creation of DTL	(1,20,000 – 30,000) x 40% **= 36,000** }{1 M}
	Net impact				NIL

Answer 2:

(a) Statement Showing Impairment Loss

	(Rs. in crores)
Carrying amount of the machine as on 1st April, 20X0	7.00
Depreciation for 4 years i.e. 20X0-20X1 to 20X3-20X4 $\left[\frac{7\ crores}{7\ years} \times 4\ years\right]$	(4.00)
Carrying amount as on 31.03.20X4	3.00
Add: Upward Revaluation (credited to Revaluation Reserve account)	2.10
Carrying amount of the machine as on 1st April, 20X4 (revalued)	5.10
Less: Depreciation for 2 years i.e. 20X4-20X5 & 20X5-20X6 $\left[\frac{5.10\ crores}{3\ years} \times 2\ years\right]$	(3.40)
Carrying amount as on 31.03.20X6	1.70
Less: Recoverable amount	(0.79)

Impairment loss		**0.91** {2 M}
Less: Balance in revaluation reserve as on 31.03.20X6:		
Balance in revaluation reserve as on 31.03.20X4		2.10
Less: Enhanced depreciation met from revaluation reserve		
20X4-20X5 & 20X5-20X6=[(1.70 – 1.00) x 2 years]	(1.40)	
Impairment loss set off against revaluation reserve balance as per para 58 of AS 28 "Impairment of Assets"		(0.70)
Impairment Loss to be debited to profit and loss account		**0.21** {2 M}

Answer:

(b) **In the books of KP**

Trading and Profit & Loss Account for the year ended 31st Dec., 20X1

	H.O.	Branch	Total		H.O.	Branch	Total
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Opening stock of finished goods	**13,000**	**9,200**	**22,200**	By Sales	**2,00,000**	**65,200**	**2,65,200**
To Material consumed (W.N.1)	**34,500**	-	**34,500**				
To Wages	**1,08,500**	-	**1,08,500**	By Goods Sent to Branch	**46,000**	-	-
To Factory Overheads	**39,000**	-	**39,000**	By Closing stock including transit (W.N.2)	**15,000**	**9,560**	**24,560**
To Goods from H.O.		**46,000**				(Bal Fig)	
To Gross Profit c/d (W.N.3)	**66,000**	**19,560**	**85,560**				
	(Bal Fig)						
	2,61,000	74,760	2,89,760		2,61,000	74,760	2,89,760
To Admn. Salaries	**13,900**	**4,000**	**17,900**	By Gross Profit b/d	**66,000**	**19,560**	**85,560**
To Salesmen Salaries	**22,500**	**6,200**	**28,700**				
To Other Admn. & selling Overheads	**12,500**	**2,300**	**14,800**				
To Stock Reserve (W.N.4)	**47**	-	**47**				
To Bonus to Staff	-	**156**	**156**				
To Net Profit	**17,053**	**6,904**	**23,957**				
	66,000	19,560	85,560		66,000	19,560	85,560

{39 Item x 1/8 M = 4.875 M}

Balance Sheet as on 31st Dec., 20X1

			H.O.	Branch	Total		H.O.	Branch	Total
		Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Capital			**50,000**	-	**50,000**	Fixed Assets	-	-	-
Profit:	H.O.	17,053				Current Assets:			
	Branch	6,904	**23,957**		**23,957**	Raw material	**2,300**		**2,300**
Trade Creditors			**13,000**		**13,000**	Finished Goods	**15,000**	**9,560**	**23,313***
Bonus Payable				**156**	**156**	(Less Stock Res.)			
H.O. Account*				**10,404**		Debtors	**37,000**	-	**37,000**
Stock Reserve (W.N.4)			**1,247**			Cash (including transit item)	**23,500**	**1,000**	**24,500**
						Branch A/c	**10,404****		
			88,204	10,560	87,113		88,204	10,560	87,113

{21 Item x 1/8 M = 2.625 M}

*9,560 × 100/115 i.e., (8,313 + 15,000) = Rs. 23,313 or (15,000 + 9,560) – 1,247 (Stock reserve)

** (5,000 + 6,904) – 1500 = Rs. 10,404.

Working Notes:

(1) Material consumed

Opening raw material + Raw Material Purchased – Closing raw material

= 1,800 + 35,000 - 2,300 = **34,500** {1 M}

(2) Closing stock at head office {1 M}
 (a) Calculation of total factor cost = Material consumed + Wages + Factory overhead
 = 34,500 + 1,08,500 + 39,000 = 1,82,000
 (b) Cost (factory cost) of goods sold = Sales – Gross profit
 = 2,00,000 – 2,00,000 x 30% = 1,40,000
 (c) Stock transferred to branch = 46,000 x 100/115 = 40,000
 (d) Closing stock = 13,000 (Opening Stock) + 1,82,000 – 1,40,000 – 40,000
 = 15,000

(3) Gross profit of Branch = Sales x Gross profit ratio {1/4 M}
= 65,200 x 30% = 19,560

(4) Closing stock reserve = 9,560 x 15/115 = 1,247 {1/4 M}
Charge to profit and loss = 1,247 – 1,200 (existing) = 47

Answer 3:

(a) Consolidated balance Sheet of Virat Ltd. and its Subsidiary Anushka Ltd. as at 31st March, 20X1

	Particulars	Note	Amount (Rs.)
I	**EQUITY AND LIABILITIES:**		
(1)	**Shareholders' Funds:**		
	(a) Share Capital	1	**6,00,000**
	(b) Reserve and Surplus	2	**1,80,000**
(2)	**Minority Interest**	3	**1,00,000**
(3)	**Non-Current Liabilities:**		
	Long Term Borrowings	4	**3,00,000**
(4)	**Current Liabilities:**		
	Trade Payables	5	**2,00,000**
	Total		**13,80,000**
II	**ASSETS:**		
(1)	**Non-Current Assets**		
	Property, Plant & Equipment	6	**7,00,000**
(2)	**Current Assets:**		
	(a) Inventories	7	**3,60,000**
	(b) Trade receivables	8	**2,20,000**
	(c) Cash and Cash Equivalents	9	**1,00,000**
	Total		**13,80,000**

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

Notes to Accounts

	Particulars	Rs.	Rs.
1.	**Share capital**		
	60,000 equity shares of Rs.10 each fully paid up		**6,00,000** **{1/4 M}**
2.	**Reserves and Surplus**		
	General Reserve	1,00,000	
	Add: General reserve of Anushka Ltd (80%)	80,000	
	Total		**1,80,000** **{1/4 M}**
3.	**Minority interest**		
	20% share in Anushka Ltd (WN 3)		**1,00,000** **{1/4 M}**
4	**Long term borrowings**		
	Long term borrowings of Virat	2,00,000	
	Add: Long term borrowings of Anushka	1,00,000	
	Total		**3,00,000** **{1/4 M}**
5.	**Trade payables**		
	Trade payables of Virat	1,00,000	
	Add: Trade payables of Anushka	1,00,000	

	Total		**2,00,000**	}{1/4 M}
6.	**Property, Plant and Equipment (PPE)**			
	PPE of Virat Ltd	4,00,000		
	Add: PPE of Anushka Ltd	3,00,000		
	Total		**7,00,000**	}{1/4 M}
7.	**Inventories**			
	Inventories of Virat Ltd	1,60,000		
	Add: Inventories of Anushka Ltd	2,00,000		
	Total		**3,60,000**	}{1/4 M}
8.	**Trade receivables**			
	Trade receivables of Virat Ltd	80,000		
	Add: Trade receivables of Anushka Ltd	1,40,000		
	Total		**2,20,000**	}{1/4 M}
9	**Cash and cash equivalents**			
	Cash and cash equivalents of Virat Ltd	40,000		
	Add: Cash and cash equivalents of Anushka Ltd	60,000		
	Total		**1,00,000**	}{1/4 M}

Working Notes:

1. Basic Information

Company Status	**Dates**	**Holding Status**
Holding Co. = Virat Ltd.	Acquisition: Anushka's Incorporation	Holding Company = 80%
Subsidiary = Anushka Ltd.	Consolidation: 31st March, 20X1	Minority Interest = 20%

{1/2 M}

2. Analysis of General Reserves of Anushka Ltd

Since Virat holds shares in Anushka since its incorporation, the entire Reserve balance of Rs. 1,00,000 will be Revenue. {1/2 M}

3. Consolidation of Balances

Holding- 80%, Minority - 20%	**Total**	**Minority Interest**	**Holding Company**	
Equity Capital	4,00,000	80,000	3,20,000	-
General Reserves	1,00,000	20,000	Nil (pre-acq)	80,000 (post-acq)
Total		**1,00,000**	3,20,000	80,000
Cost of Investment Goodwill/capital reserve		{1/2 M}	(3,20,000) **NIL**	- }{1/2 M}
Parent's Balance				1,00,000
Amount for Consolidated Balance Sheet				**1,80,000** }{1 M}

Answer:

(b) Provision:

As per AS-7 'Construction Contracts' when a contract covers a number of assets, the construction of each asset should be treated as a separate contract when:

1. separate proposal have been submitted for each asset;
2. each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
3. the costs and revenues of each asset can be identified.

{1 M}

Analysis:

In the given case, GTI Ltd. negotiates with Bharat Oil Corporation Ltd. Separate proposal is submitted for each construction, though a single agreement is entered between the two. Also values for each contract is defined separately such as Rs. 102 lakhs, Rs. 150 lakhs and Rs. 130 Lakhs for Region X, Region Y and Region Z respectively. {1 M}

Conclusion:

Thus, GTI Ltd. is required to treat construction of each unit as a separate construction contract. Therefore, three separate contract accounts must be recorded and maintained in the books of GTI Ltd. For each contract principles of revenue and cost recognition must be applied separately and net income will be determined for each asset as per AS-7. {1 M}

Answer:

(c) As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

(i) Its **revenue** from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

(ii) Its segment **result** whether profit or loss is 10% or more of:

(1) The combined result of all segments in profit; or

(2) The combined result of all segments in loss, whichever is greater in absolute amount; or

(iii) Its segment **assets** are 10% or more of the total assets of all segments.

Further, if the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments. {1 M}

Accordingly,

(a) On the basis of **revenue from sales** criteria, segment A is a reportable segment.

(b) On the basis of the **result** criteria, segments A & E are reportable segments (since their results in absolute amount is 10% or more of Rs. 100 crore).

(c) On the basis of **asset** criteria, all segments except E are reportable segments. {1 M}

Since all the segments are covered in atleast one of the above criteria, all segments have to be reported upon in accordance with AS 17.
Hence, the opinion of chief accountant that only segment 'A' is reportable is wrong. {1 M}

Answer 4:

(a) (i) Calculation of equity shares to be issued to Neel Ltd. and Gagan Ltd.

Profits of	**Neel**	**Gagan**
	Rs.	**Rs.**
I year	2,62,800	2,75,125
II year	2,12,200	2,49,875
Total	**4,75,000**	**5,25,000**

{2 Item x 3/4 M = 1.5 M}

The total profits- Rs. 4,75,000+ Rs. 5,25,000= Rs. 10,00,000

No. of shares to be issued = 24,000 equity shares in the proportion of the preceding 2 years' profits.

	Neel	Gagan	
24,000 x 475/1000	**11,400** equity shares		}{1/2 M}
24,000 x 525/1000		**12,600** equity shares	}{1/2 M}

Calculation of 12% Preference shares to be issued to Neel Ltd. and Gagan Ltd.

	Neel	Gagan	
	Rs.	**Rs.**	
Net assets (Refer working note)	**8,40,000**	**9,24,000**	{1/2 M}
8% return on Net assets	**67,200**	**73,920**	
12% Preference shares to be issued $\left[67,200 \times \frac{100}{12}\right] = 5,60,000\ @\ Rs.\ 10\ \ each$	**56,000** shares		{1/2 M}
$\left[73,920 \times \frac{100}{12}\right] = 6,16,000\ @\ Rs.\ 10\ \ each$		**61,600** shares	{1/2 M}

(ii) Total Purchase Consideration

	Neel	Gagan	
	Rs.	**Rs.**	
Equity shares @ of Rs. 25 each	2,85,000	3,15,000	
12% Preference shares @ of Rs. 10 each	5,60,000	6,16,000	
Total	**8,45,000**	**9,31,000**	}{2 Item x 1/2 M = 1 M}

Working Note:
Calculation of Net assets as on 31.3.20X1

	Neel	Gagan	
	Rs.	**Rs.**	
Plant and machinery	5,25,000	6,75,000	
Building	7,75,000	6,48,000	
Current assets	1,63,500	1,58,600	
Less: Current liabilities	(6,23,500)	(5,57,600)	
	8,40,000	**9,24,000**	}{2 Item x 1/2 M = 1 M}

Note- Since the income from the preference shares shall be equal to the 8% return on assets, the shares are computed in such way that 12% dividend on them shall be equal to 8% of the return on Net assets.

Answer:

(b) Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	When loan fund is		
	Rs. 3,200 crores	**Rs. 6,000 crores**	
Shares Outstanding Test (W.N.1)	**30**	**30**	{8 item x 1/4 M = 2 M}
Resources Test (W.N.2)	**24**	**24**	
Debt Equity Ratio Test (W.N.3)	**32**	**Nil**	
Maximum number of shares that can be bought back [least of the above]	**24**	**Nil**	

Journal Entries for the Buy Back
(applicable only when loan fund is Rs. 3,200 crores)

			Rs. in crores		
			Debit	**Credit**	
(a)	Equity share buyback account	Dr.	720		{1/4 M}
	To Bank account			720	
	(Being payment for buy back of 24 crores equity shares of Rs. 10 each @ Rs. 30 per share)				
(b)	Equity share capital account	Dr.	240		{1/4 M}
	Premium Payable on buyback account	Dr.	480		
	To Equity share buyback account			720	
	(Being cancellation of shares bought back)				
	Securities Premium account	Dr.	400		{1/4 M}
	General Reserve / Profit & Loss A/c	Dr.	80		
	To Premium Payable on buyback A/c			480	
	(Being Premium Payable on buyback account charged to securities premium and general reserve/Profit & Loss A/c)				
(c)	General Reserve / Profit & Loss A/c	Dr.	240		{1/4 M}
	To Capital redemption reserve account			240	
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)				

Working Notes:

1. **Shares Outstanding Test**

Particulars	(Shares in crores)	
Number of shares outstanding	120	{1/2 M}
25% of the shares outstanding	30	

2. **Resources Test**

Particulars		
Paid up capital (Rs. in crores)	1,200	
Free reserves (Rs. in crores) (1,080 + 400 +200)	1,680	
Shareholders' funds (Rs. in crores)	2,880	
25% of Shareholders fund (Rs. in crores)	**Rs. 720 crores**	{1/2 M}
Buy back price per share	Rs. 30	
Number of shares that can be bought back	**24 crores shares**	{1/2 M}

3. **Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy Back**

	Particulars	When loan fund is		
		Rs. 3,200 crores	**Rs. 6,000 crores**	{14 item x 1/4 M = 3.5 M}
(a)	Loan funds (Rs.)	**3,200**	**6,000**	
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs.) (a/2)	**1,600**	**3,000**	
(c)	Present equity shareholders fund (Rs.)	**2,880**	**2,880**	
(d)	Future equity shareholders fund (Rs.)	**2,560 (2,880-320)**	**N.A.**	

(e)	Maximum permitted buy back of Equity (Rs.) [(d) – (b)]	**960**	**Nil**
(f)	Maximum number of shares that can be bought back @ Rs. 30 per share	**32 crore shares**	**Nil**
	As per the provisions of the Companies Act, 2013, company	**Qualifies**	**Does not Qualify**

Answer 5:

(a)

Ring Ltd.

Profit and Loss Statement for the year ended 31st March, 20X2

	Particulars	Note No.	(Rs. In lacs)
I	**Revenue from operations**		**10,40,000**
II	**Other income** (interest on investment)		**24,000**
III	**Total income [I + II]**		**10,64,000**
IV	**Expenses:**		
	Cost of purchase [4,20,000+ 1,60,000]		**5,80,000**
	Changes in inventories [20,000-1,80,000]		**(1,60,000)**
	Employee Benefits Expense		**1,20,000**
	Finance Costs (debenture interest)		**56,000**
	Depreciation and Amortisation Expenses		**40,000**
	Other Expenses	**8**	**1,24,000**
	Total Expenses		**7,60,000**
V	Profit before Tax (III-IV)		**3,04,000**
VI	**Tax Expenses @ 30%**		**(91,200)**
VII	**Profit for the period**		**2,12,800**

{13 item x 1/4 M = 3.25 M}

Balance Sheet of Ring Ltd. as at 31ST March, 20X2

		Particulars	Note No.	Rs.
I	**EQUITY AND LIABILITIES**			
	(1)	**Shareholders' Funds**		
		(a) Share Capital	1	**4,00,000**
		(b) Reserves and Surplus	2	**3,42,800**
	(2)	**Non-Current Liabilities**		
		(a) Long-term Borrowings (14% debentures)		**4,00,000**
	(3)	**Current Liabilities**		
		(a) Trade Payable (Sundry Creditors)		**1,84,000**
		(b) Other Current Liabilities	3	**42,000**
		(c) Short-Term Provisions	4	**91,200**
		Total		**14,60,000**
II	**ASSETS**			
	(1)	**Non-Current Assets**		
		(a) PPE	5	**5,70,000**
		(b) Non-current Investments		**2,40,000**
	(2)	**Current Assets**		
		(a) Inventories	6	**2,26,000**
		(b) Trade Receivables	7	**2,40,000**
		(c) Cash and bank balances		**60,000**
		(d) Short Term Loans and Advances (Advance Payment of Tax)		**1,20,000**
		(e) Other Current Assets (Interest accrued on investments)		**4,000**
		Total		**14,60,000**

{15 item x 1/4 M = 3.75 M}

Note: There is a Contingent Liability for bills discounted but not yet matured amounting to Rs. 20,000.

Notes to Accounts:

1.	**Share Capital**			
	Authorised Capital			
	10,000 Equity Shares of Rs. 100 each		10,00,000	
	Issued Capital			
	4,000 Equity Shares of Rs. 100 each		**4,00,000**	}{1/4 M}
	Subscribed Capital and fully paid			
	4,000 Equity Shares of Rs. 100 each		4,00,000	
2.	**Reserve and Surplus**			
	General Reserve [Rs. 80,000 + Rs. 21,280]		1,01,280	
	Balance of Statement of Profit & Loss Account			
	Opening Balance	50,000		
	Add: Profit for the period	2,12,800		
		2,62,800		
	Appropriations			
	Transfer to General Reserve @ 10%	(21,280)	2,41,520	
			3,42,800	}{1/4 M}
3.	**Other Current Liabilities**			
	Unclaimed Dividend		10,000	
	Outstanding Expenses		4,000	
	Interest accrued on Debentures		28,000	
			42,000	}{1/4 M}
4.	**Short-Term Provision**			
	Provision for Tax		**91,200**	}{1/4 M}
5	**Property, plant and equipment**			
	Buildings	5,80,000		
	Less: Provision for Depreciation	1,00,000	4,80,000	
	Plant and Equipment	2,00,000		
	Less: Provision for Depreciation	1,10,000	90,000	
			5,70,000	}{1/4 M}
6	**Inventories**			
	Closing Stock of Finished Goods	1,80,000		
	Loose Tools	46,000	**2,26,000**	}{1/4 M}
7	**Trade Receivables**			
	Sundry Debtors	2,50,000		
	Less: Provision for Doubtful Debts	(10,000)	**2,40,000**	}{1/4 M}
8.	**Other Expenses**			
	Rent		52,000	
	Directors' Fees		20,000	
	Bad Debts		12,000	
	Provision for Doubtful Debts (4% of Rs. 2,50,000		4,000	
	less Rs. 6,000)			
	Sundry Expenses		36,000	
			1,24,000	}{1/4 M}

Note: The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 20X2. Such dividends will be disclosed in notes only. {1 M}

Answer

(b) **M/s MNT Ltd.**

Cash Flow Statement for the year ended 31st March, 20X1

(Using direct method)

Particulars	**Rs.**	**Rs.**	
Cash flows from Operating Activities			
Cash sales (Rs. 3,82,500/.30)		12,75,000	
Less: Cash payments for trade payables	(4,60,000)		
Wages Paid	(4,92,500)		
Office and selling expenses	(75,000)	(10,27,500)	
Cash generated from operations before taxes		2,47,500	
Income tax paid		(65,000)	
Net cash generated from operating activities (A)		**1,82,500**	}{1 M}
Cash flows from investing activities			
Sale of investments (7,00,000 + 20,000)	7,20,000		
Payments for purchase of Plant & machinery	(2,50,000)		
Net cash used in investing activities (B)		**4,70,000**	}{1 M}
Cash flows from financing activities			
Bank loan repayment (including interest)	(2,15,000)		
Dividend paid	(30,000)		
Net cash used in financing activities (C)		**(2,45,000)**	}{1 M}
Net increase in cash (A+B+C)		4,07,500	
Cash and cash equivalents at beginning of the period		**2,00,000**	}{1/2 M}
Cash and cash equivalents at end of the period		**6,07,500**	}{1/2 M}

Answer 6:

(a) Profit and Loss Account of Anurag Trading Co. for the year ended 31st March, 20X2

(Assuming business is not a going concern)

	Rs.		**Rs.**	
To Opening Stock	36,000	By Sales	5,00,000	{4 M}
To Purchases	4,50,000	By Trade payables	500	
To General expenses	16,500	By Closing Stock	38,000	
To Depreciation (69,000-64,000)	5,000			
To Provision for doubtful debts	4,000			
To Deferred expenditure	15,000			
To Loan penalty	2,000			
To Net Profit (b.f.)	10,000			
	5,38,500		5,38,500	

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

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}

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