SUGGESTED SOLUTION

INTERMEDIATE

SUBJECT- ACCOUNTS

Test Code - PIN 5069

BRANCH - () (Date :)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

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ANSWER-1

ANSWER-A

Valuation of unfinished unit

	Rs.
Net selling price	750
Less: Estimated cost of completion	(310)
	440
Less: Brokerage (4% of 750)	(30)
Net Realisable Value	410
Cost of inventory	530
Value of inventory (Lower of cost and net realisable value)	410

(5 MARKS)

ANSWER-B

As per AS 12 "Accounting for Government Grants", where the government grants are in the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, Central Investment Subsidy Scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

The subsidy received by Samrat Ltd. for setting up its business in a designated backward area will be treated as grant by the government in the nature of promoter's contribution as the grant is given with reference to the total investment in an undertaking i.e. subsidy is 25% of the eligible investment and also no repayment is apparently expected in respect thereof.

Since the subsidy received is neither in relation to specific fixed assets nor in relation to revenue. Thus, the company cannot recognize the said subsidy as income in its financial statements in the given case. It should be recognized as capital reserve which can be neither distributed as dividend nor considered as deferred income.

(5 MARKS)

ANSWER-C

(i) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or as expenses in the period in which they arise.

Accordingly, exchange difference on trade receivables amounting Rs. 23,076

{Rs. 5,23,076(US \$ 8547* x Rs. 61.20) less Rs. 5,00,000} should be charged to profit & Loss account.

(ii) Calculation of profit or loss to be recognized in the books of Power Track Limited

	Rs.
Forward contract rate	64.25
Less: Spot rate	(61.50)
Loss on forward contract	2.75
Forward Contract Amount	\$ 50,000
Total loss on entering into forward contract = (\$ 50,000 × Rs. 2.75)	Rs.1,37,500
Contract period	6 months
Loss for the period 1st November, 2018 to 31st March, 2019 i.e. 5 months falling in the year 2018-2019 Hence, Loss for 5 months will be Rs. 1,37,500 x =	5 months Rs. 1,14,583

Thus, the loss amounting to Rs. 1,14,583 for the period is to be recognized in the year ended 31st March, 2019.

(5 MARKS)

ANSWER-D

As per para 3.2 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 or sale.

Further, Explanation to the above para states that what constitutes a substantial period of time primarily depends on the facts and circumstances of each case. However, ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case. In estimating the period, time which an asset takes, technologically and commercially, to get it ready for its intended use or sale is considered.

It may be implied that there is a rebuttable presumption that a 12 months period constitutes substantial period of time.

Under present circumstances where construction period has reduced drastically due to technical innovation, the 12 months period should at best be looked at as a benchmark and not as a conclusive yardstick. It may so happen that an asset under normal circumstances may take more than 12 months to complete. However, an enterprise that completes the asset in 8 months should not be penalized for its efficiency by denying it interest capitalization and vice versa.

The substantial period criteria ensures that enterprises do not spend a lot of time and effort capturing immaterial interest cost for purposes of capitalization.

Therefore, if the factory is constructed in 8 months then it shall be considered as a qualifying asset. The interest on borrowings for the same shall be capitalized although it has taken less than 12 months for the asset to get ready to use.

(5 MARKS)

ANSWER-2

ANSWER-A

In the books of Mr. Brown

12% Bonds for the year ended 31st March, 2012

Date	Particulars	No.	Income Rs.	Amount Rs.	Date	Particulars	No.	Income Rs.	Amount Rs.
2011 May,1	To Bank A/c	24,000	24,000	19,92,000	2011 Sept. 30	By Bank- Interest	-	1,44,000	
2012 March 31	To P & L A/c (W.N.1)	-	-	1,05,000	2012 Mar. 1	By Bank A/c	15,000	75,000	13,50,000
	To P & L A/c		2,49,000		2012 Mar. 31	By Bank- Interest		54,000	
						By Balance c/d (W.N.2)	9,000	-	7,47,000
		24,000	2,73,000	20,97,000			24,000	2,73,000	20,97,000

(3 MARKS)

Investment in Equity shares of Alpha Ltd. for the year ended 31st March, 2012

Date	*Particulars*	*No.*	*Income* Rs.	*Amount* Rs.	*Date*	*Particulars*	*No.*	*Income* Rs.	*Amount* Rs.
2011 June 15	To Bank A/c	1,50,000	--	38,25,000	2011 Oct. 31	By Bank A/c	80,000	-	17,60,000
Oct. 14	To Bonus Issue (1,50,000/3 x2)	1,00,000	-	-	2012 Jan. 1	By Bank A/c - dividend		2,55,000	-
2012 Mar. 31	To P & L A/c (W.N.3)			5,36,000	March 31	By Balance c/d (W.N.4)	1,70,000		26,01,000
	To P & L A/c		2,55,000						
		2,50,000	2,55,000	43,61,000			2,50,000	2,55,000	43,61,000

(2 MARKS)

Investment in Equity shares of Beeta Ltd. for the year ended 31st March, 2012

Date	*Particulars*	*No.*	*Income* Rs.	*Amount* Rs.	*Date*	*Particulars*	*No.*	*Income* Rs.	*Amount* Rs.
2011 July 10	To Bank A/c	60,000	--	26,92,800	2012 Mar. 15	By Bank – dividend	-	1,18,800	
2012 Jan. 15	To Bank A/c (W.N. 5)	6,000	-	30,000	March 31	By Balance c/d (bal.fig.)	66,000	-	27,22,800
March 31	To P & L A/c	-	1,18,800	-					
		66,000	1,18,800	27,22,800			66,000	1,18,800	27,22,800

Working Notes:

1. **Profit on sale of 12% Bond**

Sales price	Rs. 13,50,000
Less: Cost of bond sold = ———	(12,45,000)
Profit on sale	Rs. 1,05,000

2. **Closing balance as on 31.3.2012 of 12 % Bond**

= ———

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

Sales price	Rs. 17,60,000
Less: Cost of bond sold = ———	(12,24,000)
Profit on sale	Rs. 5,36,000

4. **Closing balance as on 31.3.2012 of equity shares of Alpha Ltd.**

——— = Rs. 26,01,000

5. **Calculation of right shares subscribed by Beeta Ltd.**

Right Shares = 60000 shares/ 4 x 1 = 15000 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

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.

(5 MARKS)

ANSWER-B

Memorandum Trading Account for the period 1st April, 2017 to 27th July, 2017

	Normal Items Rs.	Abnormal Items Rs.	Total Rs.		Normal Items Rs.	Abnormal Items Rs.	Total Rs.
To Opening stock (W.N. 5)	60,000	4,000	64,000	By Sales	4,00,000	2,300	4,02,300
To Purchases (W.N. 1)	2,80,000	-	2,80,000	By Loss	-	700	700
To Wages (W.N. 4)	50,000	-	50,000	By Goods on Approval (W.N.2)	8,000	-	8,000
To Gross Profit @ 20%	80,000	-	80,000	By Closing stock (Bal. Fig.)	62,000	1,000	63,000
	4,70,000	**4,000**	**4,74,000**		**4,70,000**	**4,000**	**4,74,000**

(3 MARKS)

Statement of Claim for Loss of Stock

	Rs.
Book Value of stock as on 27th July, 2017	62,000
Add : Abnormal Stock	1,000
Less : Stock salvaged	(5,000)
Loss of stock	58,000

Amount of claim to be lodged with insurance company

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

=$58000 \times \frac{55000}{63000}$

= 50,635

Final Claim = 50,635 + 1300 (Fire fighting Exp)

= 51,935

(2 MARKS)

Working Notes :

1. **Calculation of Adjusted Purchases**

	Rs.
Purchases	2,92,000
Less : Purchase of Machinery	(10,000)
Less : Free samples	(2,000)
Adjusted purchases	2,80,000

2. **Calculation of Goods with Customers**

Approval for sale has not been received = Rs. 40,000 × ¼ = Rs. 10,000.

Hence, these should be valued at cost i.e. (Rs. 10,000 – 20% of Rs. 10,000)

= Rs. 8,000

3. **Calculation of Actual Sales**

Total Sales	Rs. 4,12,300
Less : Approval for sale not received (1/4 × Rs. 40,000)	Rs. 10,000
Actual Sales	Rs. 4,02,300

4. **Calculation of Wages**

Total Wages	Rs. 53,000
Less : Wages for installation of machinery	Rs. 3,000
	Rs. 50,000

5. **Value of Opening Stock**

Original cost of stock as on 31st March, 2018

= Rs. 63,000 + 1,000 (Amount written off)

= Rs. 64,000.

(5*1 = 5 MARKS)

ANSWER-3
ANSWER-A

Oliva Company Ltd.

Statement of Profit and loss for the year ended 31.03.2019

	Particulars	Note	Amount (Rs.)
I	Revenue from operations		17,10,000
II	Other income (3,900 +300)		4,200
III	**Total Revenue (I +II)**		17,14,200
IV	Expenses:		
	Cost of materials consumed	10	12,64,200
	Purchases of inventory-in-trade		--
	Changes in inventories of finished goods, work-in-progress andinventory-in-Trade	11	(13,500)
	Employee benefit expenses	12	44,700
	Finance costs		--
	Depreciation and amortization expenses		18,240
	Other expenses	13	3,51,510
	Total Expenses		**16,65,150**
V	Profit before exceptional and extraordinary items and tax		49,050
VI	Exceptional items		--

VII	Profit before extraordinary items and tax		49,050
VIII	Extraordinary items		--
IX	Profit before tax		49,050
X	Tax expense (40% of 49,050)		19,620
XI	Profit/Loss for the period from continuing operations		29,430

(5 MARKS)

Oliva Company Ltd.
Balance Sheet for the year ended 31.03.2019

	Particulars		Note	Amount
1.	**Equity and Liabilities**			
	(i) Shareholders' funds			
	(a) Share Capital			3,15,000
	(b) Reserves and surplus		**1**	50,430
2.	Non – current liabilities			
	(a) Long – term borrowings		**2**	23,300
3.	Current Liabilities			
	(a) Short – term borrowings		**3**	6,000
	(b) Trade payables			3,27,000
	(c) Other current liability		**4**	73,000
	(d) Short term provision		**5**	19,620
				8,14,350
II	**ASSETS**			
(1)	**Non Current assets**			
	(a) Property, Plant & equipment			
	(i) Tangible assets		**6**	2,04,160
	(b) Non – current investments			7,500
(2)	**Current Assets**			
	(a) Current investments			4,500
	(b) Inventories		**7**	85,800
	(c) Trade receivables			2,38,500
	(d) Cash and cash equivalents			2,71,100
	(e) Short – term loans and advances		**8**	2,490
	(f) Other current assets		**9**	300
				8,14,350

(5 MARKS)

Notes to accounts

No	Particulars		Amount	Amount
1.	**Reserve & Surplus**			
	Profit & Loss Account: Balance b/f		48,000	
	Net Profit for the year		29,430	
	Less: Interim Dividend including DDT		(27,000)	50,430
2.	**Long term borrowings**			
	Secured loans (21,000 less current maturities 1,000)		20,000	
	Fixed Deposits: Unsecured		3,300	23,300
3.	**Short term borrowings**			
	Secured loans		4,500	
	Fixed Deposits -Unsecured		1,500	6,000
4.	**Other current liabilities**			

	Expenses Payable (67,500 + 4,500)		72,000	
	Current maturities of long term borrowings		1,000	73,000
5.	**Short term provisions**			
	Provision for Income tax			19,620
6.	**Tangible Assets**			
	Building	1,01,000		
	Less: Depreciation @ 2%	(2,020)	98,980	
	Plant & Machinery	70,400		
	Less: Depreciation @10%	(7,040)	63,360	
	Furniture	10,200		
	Less: Depreciation @10%	(1,020)	9,180	
	Motor vehicles	40,800		
	Less: Depreciation @20%	(8,160)	32,640	2,04,160
7	**Inventory:**			
	Raw Material		25,800	
	Finished goods		60,000	85,800
8.	**Short term Loans & Advances**			
	General Charges prepaid			2,490
9.	**Other Current Assets:**			
	Interest accrued			300
10.	Cost of material consumed			
	Opening inventory of raw Material & Stores	30,000		
	Add: Purchases	12,15,000		
	Stores & Spare parts consumed	45,000	12,90,000	
	Less: Closing inventory		(25,800)	12,64,200
11.	**Changes in inventory of Finished Goods & WIP**			
	Closing Inventory of Finished Goods		60,000	
	Less: Opening Inventory of Finished Goods		46,500	13,500
12.	**Employee Benefit expenses**			
	Salary & Wages (40,200 + 4,500)			44,700
13.	**Other Expenses:**			
	Manufacturing Expenses (2,70,000 + 67,500)		3,37,500	
	General Charges (16,500 – 2,490)		14,010	3,51,510

(5 MARKS)

ANSWER-B

Arya Ltd.

Journal Entries

2018			*Dr.* Rs.	*Cr.* Rs.
April 1	Equity Share Final Call A/c	Dr.	2,00,000	
	To Equity Share Capital A/c			2,00,000
	(Final call of Rs. 2 per share on 1,00,000 equity shares due as per Board's Resolution dated ....)			
April 15	Bank A/c	Dr.	2,00,000	
	To Equity Share Final Call A/c			2,00,000
	(Final Call money on 1,00,000 equity shares received)			
	Securities Premium A/c	Dr.	25,000	
	General Reserve A/c*	Dr.	1,75,000	
	To Bonus to Shareholders A/c			2,00,000
	(Bonus issue @ one share for every 5 shares held by utilizing various reserves as per Board's Resolution dated...)			
April 15	Bonus to Shareholders A/c	Dr.	2,00,000	
	To Equity Share Capital A/c			2,00,000
	(Capitalization of profit)			

Note: Profit and Loss Account balance may also be utilized along with General Reserve for the purpose of issue of Bonus shares.

(5 MARKS)

ANSWER-4

ANSWER-A

Books of Branch
Journal Entries

		Amount (Rs.)	
		Dr.	**Cr.**
(i)	Head Office Account Dr. To Salaries Account (Being rectification of salary paid on behalf of Head Office)	5,000	 5,000
(ii)	No entry in Branch Books is required.		
(iii)	Depreciation A/c. Dr. To Head Office Account (Being depreciation of assets accounted for)	15,000	 15,000
(iv)	Expenses Account Dr. To Head Office Account (Being allocated expenses of Head Office recorded)	75,000	 75,000
(v)	Head Office Account Dr. To Debtors Account (Being adjustment entry for collection from Branch Debtors directly by Head Office)	60,000	 60,000
(vi)	Goods in – transit Account Dr. To Head Office Account (Being goods sent by Head Office still in – transit)	50,000	 50,000
(vii)	Head Office Account Dr. To expenses Account (Being expenditure incurred, wrongly recorded in books)	10,000	 10,000
(vii)	Purchases account A/c. Dr. To Head Office Account (Being purchases booked)	16,000	 16,000

(10 MARKS)

ANSWER-B

Trading and Profit & Loss Account for the year ended 31.12.2007

Dr. Cr.

		Rs.			Rs.
To	Opening stock	50,000	By	Sales (W.N.8)	3,25,000
To	Purchases (W.N.7)	2,72,500	By	Closing stock	62,500
To	Gross profit (W.N.6)	65,000			
		3,87,500			3,87,500
To	Expenses	49,250	By	Gross profit	65,000
To	Loss on sale of fixed asset	750			
To	Depreciation on fixed assets	1,000			
To	Net Profit	14,000			
		65,000			65,000

(3 MARKS)

Balance Sheet as at 31.12.2007

Liabilities	Rs.	Rs.	Assets	Rs.
Capital as on 1.1.2007	1,69,000		Fixed Assets	9,000
Add: Net profit	14,000		Debtors	87,500
Additional capital	5,000		Stock	62,500
	1,88,000		Bank	50,000
Less: Drawings	25,000	1,63,000		
Creditors		46,000		
		2,09,000		2,09,000

(2 MARKS)

Working Notes:

1. Balance Sheet as at 1.1.2007

Liabilities	Rs.	Assets	Rs.
Capital (Bal. Fig.)	1,69,000	Fixed Assets	7,500
Creditors	53,500	Debtors	1,02,500
		Stock	50,000
		Bank Balance	62,500
	2,22,500		2,22,500

2. **Bank account**

		Rs.			Rs.
To	Balance b/d (Bal. Fig.)	62,500	By	Creditors	2,80,000
To	Debtors	3,40,000	By	Expenses	49,250
To	Capital	5,000	By	Drawings	25,000
To	Fixed Assets	1,750	By	Fixed Assets (purchased)	5,000
			By	Balance c/d	50,000
		4,09,250			4,09,250

3. **Debtors account**

		Rs.			Rs.
To	Balance b/d (Bal. Fig.)	1,02,500	By	Bank	3,40,000
To	Sales (W.N.8)	3,25,000	By	Balance c/d	87,500
		4,27,500			4,27,500

4. **Creditors account**

		Rs.			Rs.
To	Bank	2,80,000	By	Balance b/d (Bal. Fig.)	53,500
To	Balance c/d	46,000	By	Purchases (W.N.7)	2,72,500
		3,26,000			3,26,000

5. **Fixed Assets account**

		Rs.			Rs.
To	Balance b/d	7,500	By	Bank (Sale)	1,750
To	Bank	5,000	By	Profit and Loss A/c (loss on sale)	750
			By	Depreciation (Bal. Fig.)	1,000
			By	Balance c/d	9,000
		12,500			12,500

6. Gross Profit = Rs. 2,60,000 x 25% = Rs.65,000.

7. Cost of goods sold = Opening stock + Purchases – Closing stock

Rs. 2,60,000 = Rs. 50,000 + Purchases - Rs.62,500

Purchases = Rs. 2,72,500

8. Sales = Cost of goods sold + gross profit

= Rs. 2,60,000 + Rs.65,000

= Rs. 3,25,000.

(5 MARKS)

ANSWER-5

ANSWER-A

Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.20X2

Particulars	Pre-incorporation period Rs.	Post-incorporation period Rs.
Gross profit (1:3)	80,000	2,40,000
Less: Salaries (1:2)	16,000	32,000
Stationery (1:2)	1,600	3,200
Advertisement (1:3)	4,000	12,000
Travelling expenses (W.N.4)	4,000	8,000
Sales promotion expenses (W.N.4)	1,200	3,600
Misc. trade expenses (1:2)	12,600	25,200
Rent (office building) (W.N.3)	8,000	18,400
Electricity charges (1:2)	1,400	2,800
Director's fee (post-incorporation)	-	11,200
Bad debts (1:3)	800	2,400
Selling agents commission (1:3)	4,000	12,000
Audit fee (1:3)	1,500	4,500
Debenture interest (post-incorporation)	-	3,000
Interest paid to vendor (2:1) (W.N.5)	2,800	1,400
Selling expenses (1:3)	6,300	18,900
Depreciation on fixed assets (W.N.6)	3,000	6,600
Capital reserve (Bal.Fig.)	12,800	-
Net profit (Bal.Fig.)	-	74,800

(3 MARKS)

Working Notes:

1. Time Ratio

Pre incorporation period = 1st April, 20X1 to 31st July, 20X1

i.e. 4 months

Post incorporation period is 8 months

Time ratio is 1: 2.

2. **Sales ratio**

Let the monthly sales for first 6 months (i.e. from 1.4.20X1 to 30.09.20X1) be x

Then, sales for 6 months = 6x

Monthly sales for next 6 months (i.e. from 1.10.X1 to 31.3.20X2) = x + $\frac{2}{3}x = \frac{5}{3}x$

Then , sales for next 6 months = $\frac{5}{3}$x x 6 = 10x

Total sales for the year = 6x + 10x = 16x

Monthly sales in the pre incorporation period = Rs. 19,20,000/16 = Rs. 1,20,000

Total sales for pre-incorporation period = Rs. 1,20,000 x 4 = Rs. 4,80,000

Total sales for post incorporation period = Rs. 19,20,000 – Rs. 4,80,000 = Rs. 14,40,000

Sales Ratio = 4,80,000 : 14,40,000 = 1 : 3

3. **Rent**

		Rs.
Rent for pre-incorporation period (Rs. 2,000 x 4)		8,000 (pre)
Rent for post incorporation period		
August,20X1 & September, 20X1 (Rs. 2,000 x 2)	4,000	
October,20X1 to March,20X2 (Rs. 2,400 x 6)	14,400	18,400 (post)

4. **Travelling expenses and sales promotion expenses**

	Pre Rs.	Post Rs.
Traveling expenses Rs. 12,000 (i.e. Rs. 16,800- Rs. 4,800) distributed in Time ratio (1:2)	4,000	8,000
Sales promotion expenses Rs. 4,800 distributed in Sales ratio (1:3)	1,200	3,600

5. **Interest paid to vendor till 30th September, 20X1**

	Pre Rs.	Post Rs.
Interest for pre-incorporation period $\left(\frac{\text{Rs.}4{,}200}{6} \text{x } 4\right)$	2,800	
Interest for post incorporation period i.e. for August, 20X1 & September, 20X1 = $\left(\frac{\text{Rs.}4{,}200}{6} \text{x } 2\right)$		1,400

6. **Depreciation**

	Pre Rs.	Post Rs.
Total depreciation	9,600	
Less: Depreciation exclusively for post incorporation period	(600)	600
Remaining (for pre and post incorporation period)	9,000	

Depreciation for pre-incorporation period $\left[9{,}000 x \frac{4}{12}\right]$*	3,000	
Depreciation for post incorporation period $\left[9{,}000 \text{ x } \frac{8}{12}\right]$*		6,000
* Time ratio = 1 : 2	3000	6,600

(7 MARKS)

ANSWER-B

1. Memorandum Stock Account

Particulars	**Rs.**	**Particulars**	**Rs.**
To balance b/d (Cost 65,000 + 25% Mark-Up)	81,250	By balance b/d (Mark Down on OpgSk)	600
To Purchases A/c	2,00,000	By Sales (given)	3,00,000
To Memorandum Mark-Up (2,00,000 x 25%)	50,000	By Abnormal Loss A/c(Cost transferred to P&L A/c)	1,000
To balance c/d [1,200 x (5,000 ÷ 15,000)]	400	By Memorandum Mark Up A/c(Mark-up on Stock Lost)	250
(Mark-down on Closing Stock)		By Memorandum Mark Up A/c(Mark Down = given)	1,200
		By balance c/d (Closing Stock - bal.fig)	28,600
Total	**3,31,650**	**Total**	**3,31,650**

(3 MARKS)

2. Trading Account for the year

Particulars	**Rs.**	**Particulars**	**Rs.**
To Opening Stock	65,000	By Sales	3,00,000
To Purchases	2,00,000	By Closing Stock (As per Note above)	22,880 To
Gross Profit (bal. fig.)	58,880 By	Abnormal Loss (given)	1,000
Total	**3,23,880**	**Total**	**3,23,880**

Note: Closing Stock at Cost

= Invoice Price as per Memorandum Stock A/c less Loading 25/125 thereon

= 28,600 (-) 25/125 thereon = 28,600 (-) 5,720 = 22,880

(2 MARKS)

3. Memorandum Mark Up Account

Particulars	Rs.	Particulars	Rs.
To balance b/d (Mark Down-given - per contra)	600	By balance b/d (65,000 x 25%)	16,250
To Memorandum Stock A/c (Mark-up on Abn. Loss)	250	By Memorandum Stock A/c (25% of Rs.2,00,000)	50,000
To Memorandum Stock A/c (Mark Down - given)	1,200	By balance c/d (Mark Down on Closing Stock)	400
To Gross Profit (as above)	58,800		
To balance c/d[28,600 x (25 ÷ 125)]	5,720		
Total	**66,650**	**Total**	**66,650**

(2.5 MARKS)

4. Confirmation / Verification of Gross Profit

	Particulars	Rs.
	Sales (given)	3,00,000
Add back:	Reduction / Mark down on Goods Sold during the period = (Opg Stock 600 + Current 800*)	1,400
	Total	**3,01,400**
	Normal Gross Profit at 1/5 of the above	60,280
Less:	Reduction / Mark down on Goods Sold during the period as above	1,400
	Gross Profit (as per Memo Mark Up A/c)	**58,880**

Note: Total Mark-down on the current period purchases is Rs.1,200 (given). Since 1/3rd of these goods are unsold, (i.e. Rs. 5,000 out of Rs. 15,000), the mark-down attributable to Unsold Stock is 1/3rd of Rs. 1,200 = Rs. 400. Hence, Mark-down attributable to goods sold out of current purchases = 2/3rd of Rs. 1,200 = Rs. 800.

(2.5 MARKS)

ANSWER-6

ANSWER-A

Sencom Limited
Debenture Account

20X2		`	20X2		`
Mar 1	To Own Debentures	24,725	Jan 1	By Balance b/d	1,50,000
Mar 1	To Profit on cancellation (25,000-24,725)	275			
Sep 1	To Own Debentures (Note 3)	19,708			
Sep 1	To Profit on cancellation (20,000-19,708)	292			
Dec 31	Balance c/d	1,05,000			
		1,50,000			1,50,000

Own Debenture (Investment) Account

		Nominal Cost `	Interest `	Cost `			Nominal Cost `	Interest `	Cost `
20X2					**20X2**				
Mar 1	To Bank (W.N. 1)	25,000	521	24,725	Mar 1	By Debentures A/c	25,000	-	24,725
Sep 1	To Bank (W.N. 2 & 3)	20,000	417	19,708	Sep 1	By Debentures A/c	20,000	-	19,708
					Dec. 31	By P&L A/c		938	
		45,000	938	44,433			45,000	938	44,433

Working notes:

1. 25,000 x 5% x 5/12 = 521
2. 20,000 x 5% x 5/12 = 417
3. 20,125 – 417 = 19,708

(5 MARKS)

ANSWER-B

Calculation of total Interest and Interest included in each installment

Hire Purchase Price (HPP) = Down Payment + installments

= 30,000 + 50,000 + 50,000 + 30,000 + 20,000 = 1,80,000

Total Interest = 1,80,000 – 1,50,000 = 30,000

Computation of IRR (considering two guessed rates of 6% and 12%)

Year	Cash Flow	DF @6%	PV	DF @12%	PV
0	30,000	1.00	30,000	1.00	30,000
1	50,000	0.94	47,000	0.89	44,500
2	50,000	0.89	44,500	0.80	40,000
3	30,000	0.84	25,200	0.71	21,300
4	20,000	0.79	15,800	0.64	12,800
		NPV	1,62,500	NPV	1,48,600

Interest rate implicit on lease is computed below by interpolation:

Interest rate implicit on lease = 6% + $\frac{1,62,500 - 1,50,000}{1,62,500 - 1,48,600}$ x (12-6) = 11.39%

Thus, repayment schedule and interest would be as under :

Installment no.	Principal at beginning	Interest included in each installment	Gross amount	Installment	Principal at end
Cash down	1,50,000		1,50,000	30,000	1,20,000
1	1,20,000	13,668	1,33,668	50,000	83,668
2	83,668	9,530	93,198	50,000	43,198
3	43,198	4,920	48,118	30,000	18,118
4	18,118	2,064	20,182	20,000	182*
		30,182*			

* the difference is on account of approximations.

(5 MARKS)

ANSWER-C

In the books of Meera Limited

Journal Entries

Date	**Particulars**		**Dr. (Rs.)**	**Cr. (Rs.)**
2018				
Jan 1	10% Redeemable Preference Share Capital A/c Premium on Redemption of Pref. share To Pref. Shareholders A/c (Being the amount payable on redemption transferred to pref. share holders account)	Dr. Dr.	1,50,000 15,000	 1,65,000
	Preference shareholders A/c To Bank A/c (Being the amount paid on redemption of Preference shares)	Dr.	1,65,000	 1,65,000
	Profit & Loss A/c To Premium on Redemption of Pref. Shares (Being adjustment of premium on redemption)	Dr.	15,000	 15,000
	General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr. Dr.	1,12,500 37,500	 1,50,000

Note : Securities premium and capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

(5 MARKS)

ANSWER-D

As per **AS 13 'Accounting for Investments', if the shares are purchased with an intention to hold for short – term period then investment will be shown at the realizable value.** In the given case, shares purchased on 31st October, 2016, will be valued at Rs. 3,75,000 as on 31st March, 2017.

Gold and Silver are generally purchased with an intention to hold it for long term period until and unless given otherwise. Hence, the investment in gold and silver (purchased on 31st March, 2014) shall continue to be shown at cost as on 31st March, 2017 i.e., Rs. 5,00,000 and Rs. 2,25,000 respectively, though their realizable values have been increased.

Thus the shares, gold and silver will be shown at Rs. 3,75,000, Rs. 5,00,000 and Rs. 2,25,000 respectively and hence, total investment will be valued at Rs. 11,00,000 in the books of account of M/s Active Builders for the year ending 31st March, 2017 as per provisions of AS 13.

(5 MARKS)