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SUBJECT- ACCOUNTS

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NOTE : INTERNAL WORKING NOTES SHOULD ALSO BE CONSIDERED/EVALUATED.

ANSWER 1(A)

According to AS 16 "Borrowing Costs", borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised 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 capitalisation 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.

Thus, eligible borrowing cost

= Rs.12,00,000 – Rs. 3,00,000

= Rs. 9,00,000

No.	Particulars	Nature of assets	Interest to be capitalized (Rs.)	Interest to be charged to Profit & Loss Account (Rs.)
i	Construction of factory building	Qualifying Asset	9,00,000x40/100 = Rs. 3,60,000	NIL
ii	Purchase of Machinery	Not a Qualifying Asset	NIL	9,00,000x35/100 = Rs. 3,15,000
iii	Working Capital	Not a Qualifying Asset	NIL	9,00,000x25/100 = Rs. 2,25,000
	Total		**Rs. 3,60,000**	**Rs. 5,40,000**

(5 MARKS)

ANSWER 1(B)

Calculation of cost for closing inventory

Particulars	**Rs.**
Cost of Purchase (10,200 x 10)	1,02,000
Direct Labour	76,500
Fixed Overhead $\frac{75,000 \times 10,200}{15,000}$	51,000
Cost of Production	2,29,500
Cost of closing inventory per unit (2,29,500/10,200)	Rs. 22.50
Net Realisable Value per unit	Rs.20.00

Since net realisable value is less than cost, closing inventory will be valued at Rs. 20.

As NRV of the finished goods is less than its cost, relevant raw materials will be valued at replacement cost i.e. Rs. 9.50.

Therefore, value of closing inventory: Finished Goods (1,200 x 20)	Rs. 24,000
Raw Materials (900 x 9.50)	Rs. 8,550
	Rs. 32,550

(5 MARKS)

ANSWER 1(C)

Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired. These costs are not be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The costs to be incurred by the company are in the nature of costs of reducing or reorganizing the operations of the company. These costs do not meet that requirement of AS 10 "Property, Plant and Equipment" and cannot, therefore, be capitalized.

(5 MARKS)

ANSWER 1(D)

As per AS 13 (Revised) 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are **made at the lower of cost and carrying amount** at the date of transfer; and where investments are reclassified from current to long term, transfers are made **at lower of cost and fair value** on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs. 12 lakhs in the books.

(ii) In this case also, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs. 5 lakhs in the books.

(iii) In this case, reclassification of current investment into long-term investments will be made at Rs. 7 lakhs as cost is less than its fair value of Rs. 8.5 lakhs on the date of transfer.

(iv) In this case, market value (considered as fair value) is Rs. 3.8 lakhs on the date of transfer which is lower than the cost of Rs. 4 lakhs. The reclassification of current investment into long-term investments will be made at Rs. 3.8 lakhs.

(5 MARKS)

ANSWER 2(A)

Investment in Equity shares of JP Power Ltd.

Date	Particulars	No.	Dividend Rs.	Amount Rs.	Date	Particulars	No.	Dividend Rs.	Amount Rs.
1.1.16	To Bank	600		12,000	31.3.16	By Balance c/d	1,500		34,500
15.3.16	To Bank	900		22,500					
		1,500		34,500			1,500		34,500
1.4.16	To Balance b/d	1,500		34,500	15.9.16	By Bank - dividend		4,500	3,000
20.5.16	To Bank	1,000		23,000	20.12.16	By Bank	1,500		33,000
25.7.16	To Bonus shares	2,500		_	1.2.17	By Bank	1,000		24,000
12.11.16	To Bank	600		12,000	31.3.17	By Balance c/d	3,100		36,812.50*
20.12.16	To P& L A/c (profit on sale)			15,187.50*					
1.2.17	To P& L A/c (profit on sale)			12,125					
31.3.17	To P & L A/c (dividend)		4,500						
		5,600	4,500	96,812.50			5,600	4,500	96,812.50

(7 MARKS)

Working Notes:

1. **Calculation of Weighted average cost of equity shares**

   600 shares purchased at Rs. 12,000

   900 shares purchased at Rs. 22,500

   1,000 shares purchased at Rs. 23,000

   2,500 shares at nil cost

   600 right shares purchased at Rs. 12,000

   Total cost of 5,600 shares is Rs. 66,500 [Rs. 69,500 less Rs. 3,000 (pre-acquisition dividend received on 1,000 shares purchased on 20.5.17].

   Hence, weighted average cost per share will be considered as Rs. 11.875 per share (66,500/5,600).

2. It has been considered that no dividend was received on bonus shares as the dividend pertains to the year ended 31st March, 2016.

3. **Calculation of right shares subscribed by Vijay**

   Right Shares (considering that right shares have been granted on Bonus shares also) = 5,000/5 x 1= 1,000 shares

   Shares subscribed = 1,000 x 60%= 600 shares

   Value of right shares subscribed = 600 shares @ Rs. 20 per share = Rs. 12,000

   Calculation of sale of right renouncement

   No. of right shares sold = 1,000 x 40% = 400 shares

   Sale value of right = 400 shares x Rs. 3 per share = Rs. 1,200

   Note: As per para 13 of AS 13, sale proceeds of rights is to be credited to P & L A/c.

4. **Profit on sale of equity shares**

   As on 20.12.16

Sales price (1,500 shares at Rs. 22)	33,000.00
Less: Cost of shares sold (1,500 x Rs. 11.875)	(17,812.50)
Profit on sale	15,187.50
As on 1. 2.17	
Sales price (1,000 shares at Rs. 24)	24,000
Less: Cost of shares sold (1,000 x Rs. 11.875)	(11,875)
Profit on sale	12,125

   Balance of 3,100 shares as on 31.3.17 will be valued at Rs. 36,812.50 (at rate of Rs. 11.875 per share)

(3 MARKS)

ANSWER 2(B)

Computation of claim for loss of stock

	Rs.
Stock on the date of fire (i.e. on 1.10.2017)	3,75,000
Less: Stock salvaged	(50,000)
Stock destroyed by fire (Loss of stock)	3,25,000

Insurance claim = Rs. 3,25,000

(Average clause is not applicable as insurance policy amount (Rs. 5,00,000) is more than the value of closing stock ie. Rs. 3,75,000)

(3 MARKS)

Memorandum Trading A/c (1.4.17 to 30.9.17)

Particulars	**(Rs.)**	**Particulars**	**(Rs.)**
To Opening stock	3,50,000	By Sales	25,68,000
To Purchases (Rs. 18,75,000+Rs. 1,00,000)	19,75,000	By Goods with customers* (for approval) (W.N.1)	99,000
To Carriage inward	35,000	By Closing stock (bal. fig.)	3,75,000
To Wages	40,000		
To Gross profit (Rs. 25,68,000 x 25%)	6,42,000		
	30,42,000		30,42,000

* For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the entity and, hence, there was no loss of such stock.

(5 MARKS)

Working Notes:

1. **Calculation of goods with customers**

   Since no approval for sale has been received for the goods of Rs. 1,32,000 (i.e. 2/3 of Rs. 1,98,000) hence, these should be valued at cost i.e. Rs. 1,32,000 – 25% of Rs. 1,32,000 =Rs. 99,000.

2. **Calculation of actual sales**

   Total sales – Goods not dispatched - Sale of goods on approval (2/3rd) = Sales

   (Rs. 27,75,000 – 75,000 – Rs.1,32,000) = Rs. 25,68,000

(2 MARKS)

ANSWER 3(A)

Goa Branch Stock Account (IP)

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2012	To Balance b/d	1,50,000	31.3.2013	By Bank (Cash Sales)	1,85,000
31.3.2013	To Goods sent to Goa Branch	6,75,000	31.3.2013	By Branch Debtors (Credit sales)	3,90,000
31.3.2013	To Branch Debtors (Goods Returned)	10,000	31.3.2013	By Goods sent to Goa Branch (Goods returned to H.O.)	24,000
			31.3.2013	By Balance c/d	2,36,000
		8,35,000			**8,35,000**

(2 MARKS)

Goa Branch Debtors Account (IP)

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2012	To Balance b/d	50,000	31.3.2013	By Bank (Collection from Debtors)	3,25,000
31.3.2013	To Bank A/c. (Dishonour of cheques)	8,000	31.3.2013	By Branch Stock (Goods returned by Customers)	10,000
31.3.2013	To Branch Stock A/c. (Credit sales)	3,90,000	31.3.2013	By Bad Debts By Discount allowed By Balance c/d	5,500 2,500 1,05,000
		4,48,000			4,48,000

(3 MARKS)

Goa Branch Adjustment Account (GP)

Date	Particulars	Rs.	Date	Particulars	Rs.
31.3.2013	To Goods sent to Goa Branch A/c. (Goods returns to H.O.)	4,800	1.4.2012	By Balance b/d (Opening Stock Reserve)	30,000
31.3.2013	To Branch P & L A/c. (Profit on sale at invoice price) (Bal. Fig.)	1,13,000	31.3.2013	By Goods sent to Goa Branch A/c. (Loading)	1,35,000
31.3.2013	To Balance c/d (Closing Stock Reserve)	47,200			
		1,65,000			**1,65,000**

(3 MARKS)

Goa Branch Profit and Loss Account for the year ending 31st March, 2013

Particulars	Rs.	Particulars	Rs.
To Branch Expenses a/c. To Branch Debtors - Discount - Bad Debts To Net Profit (Transferred to General Profit and Loss A/c)	72,500 2,500 5,500 32,500	By Branch Adjustment A/c.	1,13,000
	1,13,000		**1,13,000**

(2 MARKS)

ANSWER 3(B)

Pre – Incorporation period is for two months, from 1st April, 2016 to 31st May, 2016. 10 months period from 1st June, 2016 to 31st March, 2017) is post – incorporation period.

Statement showing Calculation of Profit / loss for Pre and Post Incorporation Periods

Particulars	**Total Rs.**	**Basis of Allocation**	**Pre – Inc.**	**Post – Inc.**
			Rs.	**Rs.**
Income				
Gross Profit	4,50,000	Sales	50,000	4,00,000
Bad debts Recovery	14,000	Pre	14,000	-
Total Income	4,64,000		64,000	4,00,000
Less : Expenses				
Salaries	1,44,000	Time	24,000	1,20,000
Interest on Debentures	36,000	Post	-	36,000
Sales Commission	18,000	Sales	2,000	16,000
Bad Debts (49,000 + 14,000)	63,000	Sales	7,000	56,000
Depreciation	19,250	Note	3,000	16,250
Rent	38,400	Time	4,000	34,400
Audit Fees	12,000	Post	-	12,000
Total Expenses	3,11,400		40,000	2,90,650
Net Profit	**1,52,600**		**24,000**	**1,09,350**

Note to Accounts : Net Profit for pre – incorporation period will be transferred to Capital Reserve and the Net Profit for the post – incorporation period will be transferred to the Profit and Loss Account.

(6 MARKS)

Working Notes :

1. **Calculation of Ratio of Sales**
   Sales from April to September = 6,00,000 (1,00,000 p.m. on an average basis)
   October to March = 12,00,000 (2,00,000 p.m. on an average basis)
   Thus, sales for pre – incorporation period = 2,00,000
   Post – incorporation period = 16,00,000
   Sales are in the ratio of 1 : 8.
2. Audit fees charged to post incorporation period since relating to company audit.
3. Depreciation of Rs. 18,000 divided in the ratio of 1 : 5 (time basis) and Rs. 1,250 charged to post incorporation period.
4. Bad debt recovery of Rs. 14,000 is allocated in pre – incorporation period, being sales made in 2013 – 14.
5. Rent (38,400 – Additional rent for 6 months)

[38,400 – 14,400 (2,400 × 6)]	24,000
1.4.16 – 31.5.16 (2,000 × 2)	4,000
1.6.16 – 31.3.17 – [(2,000 × 10) + 14,400]	34,400
	38,400

(4 MARKS)

ANSWER 4

Statement of profit and Loss of Shweta Ltd. for the year ended 31st March, 2018

	Particulars	**Note**	**Rs.**
I	Revenue from Operations		20,11,050
II	Other income (Divided income)		12,750
III	Total Revenue (I & II)		20,23,800

IV	Expenses :		
	(a) Purchases (14,71,500 – Advertisement Expenses 15,000)		14,56,500
	(b) Changes in Inventories of finished Goods /Work in progress (4,35,600 – 4,27,500)		8,100
	(c) Employee Benefits expense	9	1,20,000
	(d) Finance costs	10	51,900
	(e) Depreciation & Amortization Expenses [10% of (1,05,000 + 6,000)]		11,100
	(f) Other Expenses	11	3,47,550
	Total Expenses		19,95,150
V	Profit before exceptional, extraordinary items and tax (III – IV)		28,650
VI	Exceptional items		-
VII	Profit before extra ordinary items and tax (V – IV)		28,650
VIII	Extraordinary items		-
IX	Profit before tax (VII – VIII)		28,650
X	Tax expense :		
	Current Tax		12,000
XI	Profit / Loss for the period (after tax)		16,650

(7 MARKS)

Balance sheet of Shweta Ltd. as on 31st March, 2018

	Particulars as on 31st March	**Note**	
I			
(1)	**Shareholders' funds :**		
	(a) Share Capital	**1**	12,00,000
	(b) Reserves and surplus	**2**	66,150
(2)	**Non current liabilities :**		
	Long term borrowings	**3**	4,50,000
(3)	**Current Liabilities :**		
	(a) Short term borrowings	**4**	4,50,000
	(b) Trade payables		2,63,550
	(c) Other current liabilities	**5**	29,250
	Total		**24,58,950**
II	**ASSETS**		
(1)	**Non – current Assets**		
	(a) Property, Plant & Equipment		
	(i) Tangible assets	**6**	11,49,900
	(ii) Intangible assets	**7**	4,05,000
	(b) Non current investments (Shares at cost)		1,50,000
	Current Assets :		
	(a) Inventories		4,27,500
	(b) Trade receivables	**8**	2,72,550
	(c) Cash and Cash equivalents – Cash on hand		36,000
	(d) Short term loans and advances – Income tax (paid 30,000 – Provision 12,000)		18,000
	Total		**24,58,950**

Note : There is a Contingent liability for Bills receivable discounted with Bank Rs. 6,000.

*** Alternatively Provision for tax can be shown as short term provision on the liability side.**

(6 MARKS)

Notes to accounts

				(Rs.)
1.	**Share Capital**			
	Authorized			
	90,000 Equity shares of Rs. 10 each		9,00,000	
	6,000 6% Preference shares of Rs. 100 each		6,00,000	15,00,000
	Issued, subscribed & called up			
	60,000, Equity Shares of Rs. 10 each		6,00,000	
	6,000 6% Redeemable Preference shares of 100 each		6,00,000	12,00,000
2.	**Reserves and Surplus**			
	Balance as on 1st April, 2017		85,500	
	Add: Surplus for current year		16,650	1,02,150
	Less : Preference Dividend			36,000
	Balance as on 31st March, 2018			66,150
3.	**Long Term Borrowings**			
	5% Mortgage Debentures (Secured against Freehold Properties)			4,50,000
4.	**Short Term Borrowings**			
	Secured Borrowings : Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables)			4,50,000
5.	**Other Current liabilities**			
	Interest Accrued and due on Borrowings (5% Debentures)		11,250	
	Unpaid Preference Dividends		18,000	29,250
6.	**Tangible Fixed assets**			
	Furniture			
	Furniture at Cost Less depreciation Rs. 45,000 (as given in Trial Balance		1,05,000	
	Add : Depreciation		45,000	
	Cost of Furniture		1,50,000	
	Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages		6,000	
	Total Gross block of Furniture A/c.		1,56,000	
	Accumulated Depreciation Account : Opening Balance – given in Trial Balance	45,000		
	Depreciation for the year : On Opening WDV at 10% i.e. (10% × 1,05,000)	10,500		
	On additional purchase during the year at 10% i.e. (10% × 6,000)	600		
	Less : Accumulated Depreciation		56,100	99,900
	Freehold property (at cost)			10,50,000
				<u>11,49,900</u>

7.	**Intangible Fixed Assets**			
	Technical Knowhow		4,50,00	
	Less : Written off		45,000	4,05,000
8.	**Trade Receivables**			
	Sundry Debtors (a) Debt outstanding for more than six months		18,000	
	(b) Other Debts(refer Working Note)		1,34,550	
	Bills receivable (1,24,500 – 4,500)		1,20,000	2,72,550
9.	**Employee benefit expenses**			
	Amount as per Trial Balance		1,56,000	
	Less : Wages incurred for installation of electrical fittings to be capitalised		6,000	
	Less : Directors' Remuneration shown separately		30,000	
	Balance Amount			120000
10.	**Finance Costs**			
	Interest on bank overdraft		29,400	
	Interest on debentures		22,500	51,900
11.	**Other Expenses**			
	Payment to the auditors		18,000	
	Director's remuneration		30,000	
	Selling expenses		2,37,300	
	Technical knowhow written of (4,50,000/10)		45,000	
	Advertisement (Goods and Articles Distributed)		15,000	
	Bad Debts (4,500 $\times$ 50%)		2,250	3,47,550

NOTE : Presentation for Schedule 6 might differ, but final answer of Schedule 6 need to be consider

(6 MARKS)

Working Note

Calculation of Sundry Debtors – Other Debts

Sundry Debtors as given in Trial Balance	1,50,300
Add Back : Bills Receivables Dishonoured	4,500
	1,54,800
Less : Bad Debts written off – 50% Rs. 4,500	(2,250)
Adjusted Sundry Debtors	1,52,550
Less : Debts due for more than 6 months (as per information given)	(18,000)
Total of other Debtors i.e. Debtors outstanding for less than 6 months	1,34,550

(1 MARK)

ANSWER 5(A)

In the books of M/s Ujjwal Ltd.

No.	Particulars		Dr. (Rs.)	Cr.(Rs.)
1.	9% Redeemable Pref. share Capital A/c. To Call in Arrears A/c. To Share Forfeited A/c. (Being 9% Redeemable Pref. shares forfeited for non payment of calls as 20 shares]	Dr.	2,000	 500 1,500
2.	Share forfeited A/c. To Capital Reserve A/c. (Being transfer of share forfeited account to Capital Reserves Account)	Dr.	1,500	 1,500
3.	9% Redeemable Pref. Share Capital A/c. Premium on Redemption A/c. To Redeemable Pref. Shareholders A/c. (Being decision to redeem the Redeemable Pref. shares at a premium of 10%]	Dr.	98,000 9,800	 1,07,800
4.	General Reserve A/c. To Capital Redemption Reserve A/c. (Being amount transferred to Capital Redemption Reserve out of General Reserve for redemption)	Dr.	34,000	 34,000
5.	Bank A/c. To Equity Share Capital A/c. To Security Premium A/c. (Being fresh issue of 640 Equity Shares at a Premium for redemption)	Dr.	67,200	 64,000 3,200
6.	General Reserve A/c. To Premium on Redemption A/c (Being Premium on Redemption account written off to General Reserve Account)	Dr.	9,800	 9,800
7.	Redeemable Preference shareholders A/c. To Bank A/c. (Being payment made to 9% Redeemable Preference shareholders A/c)	Dr.	1,07,800	 1,07,800

(3.5 MARKS)

Balance sheet (After Redemption)

Particulars	Note	Rs.
I. EQUITY AND LIABILITIES		
1. Share holders' Funds		
(a) Share Capital	1	2,64,000
(b) Reserve and Surplus	2	42,900
2. Current Liabilities		
Trade Payable	3	1,72,500
Total		**4,79,400**
II. ASSETS		
1. Non – Current Assets		
Fixed Assets		3,00,000
2. Current Assets		
(a) Cash and Cash Equivalents(Bank)		59,400
(b) Other Current Assets		1,20,000
Total		**4,79,400**

(3 MARKS)

Notes to Accounts		Rs.
1. Share Capital	**No.**	
Equity share Capital		
Issued, subscribed & fully paid shares (Rs. 100)	2,640	2,64,000
Total		**2,64,000**
2. Reserve and Surplus	**Rs.**	
a. Capital Reserve		
- Tfd. From shares Forfeited Account		1,500
b. Capital Redemption Reserve		
- Tfd from General Reserve		34,000
c. Securities Premium		3,200
d. General Reserve		
Opening Balance	48,000	
Less : Tfd. To Capital Redemption Reserve	(34,000)	
Less : Premium of Redemption	(9,800)	
Total		**42,900**
3. Trade Payables		
a. Sundry Creditors		1,22,500
b. Bills payable		50,000
Total		**1,72,500**

(1.5 MARKS)

Working Notes :

(1) No. of 9% Redeemable Preference shares to be redeemed :

Issued Shares	1,000
Less : Forfeited Shares	20
Shares to be redeemed	980

(2) CRR = 98,000 – 64,000 = Rs. 34,000

(3) Bank	**1,00,000**
Add : Fresh Issued	64,000
Security Premium	3,200
	1,67,200
Less : 9% Red. Pref. Shareholders A/c.	1,07,800
	59,400

(2 MARKS)

ANSWER 5(B)

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

		Rs.			Rs.
To	Opening stock	2,80,000	By	Sales	
To	Purchases	7,70,000		Cash 2,40,000	
To	Gross Profit @ 25%	3,10,000		Credit 10,00,000	12,40,000
			By	Closing Stock (bal.fig.)	1,20,000
		13,60,000			13,60,000
To	Salaries	40,000	By	Gross Profit	3,10,000
To	Business expenses	1,20,000			
To	Interest on loan (10% of 1,00,000*6/12)	5,000			
To	Net Profit	1,45,000			
		3,10,000			3,10,000

(4 MARKS)

Balance Sheet as at 31st March, 2017

Liabilities	Rs.		Assets	Rs.
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	1,45,000		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000
Less: Drawings	(80,000)	3,65,000		
Loan from Laxman (including interest due)		1,05,000		
Sundry Creditors		90,000		
		5,60,000		5,60,000

(4 MARKS)

Working Notes:

1. Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	1,00,000	By Bank A/c	7,50,000
To Credit sales (Bal. fig)	10,00,000	By Balance c/d	3,50,000
	11,00,000		11,00,000

(0.5 MARK)

2. Sundry Creditors Account

	Rs.		Rs.
To Bank A/c	7,00,000	By Balance b/d	40,000
To Cash A/c	20,000	By Purchases (Bal. fig.)	7,70,000
To Balance c/d	90,000		
	8,10,000		8,10,000

(0.5 MARK)

3. Cash and Bank Account

	Cash	Bank		Cash	Bank
	Rs.	Rs.		Rs.	Rs.
To Balance b/d	10,000		By Balance b/d		50,000
To Sales (bal. fig)	2,40,000		By Bank A/c (C)	1,00,000	
To Cash (C)		1,00,000	By Salaries	40,000	
To Debtors		7,50,000	By Creditors	20,000	7,00,000
To Laxman's loan		1,00,000	By Drawings	80,000	
			By Business expenses		1,20,000
			By Balance c/d	10,000	80,000
	2,50,000	9,50,000		2,50,000	9,50,000

(1 MARK)

ANSWER 6(A)

As per AS 11 "The Effects of Changes in Foreign Exchange Rates", an enterprise may enter into a forward exchange contract to establish the amount of the reporting currency required, the premium or discount arising at the inception of such a forward exchange contract should be amortized as expenses or income over the life of the contract.

Forward Rate	Rs. 62.50
Less: Spot Rate	(Rs. 60.75)
Premium on Contract	Rs. 1.75
Contract Amount	US$ 5,00,000
Total Loss (5,00,000 x 1.75)	Rs. 8,75,000
Contract period 5 months	

3 months falling in the year 2017-18; therefore loss to be recognized in 2017-18 (8,75,000/5) x 3 = Rs. 5,25,000. Rest Rs. 3,50,000 will be recognized in the following year 2018-19.

(5 MARKS)

ANSWER 6(B)

According to AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset (if the grant had been credited to the cost of fixed asset at the time of receipt of grant) should be recorded by increasing the book value of the asset, by the amount refundable. Where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

		(Rs. in lakhs)
1st April, 2014	Acquisition cost of machinery (Rs. 500 – Rs. 100)	400.00
31st March, 2015	Less: Depreciation @ 20%	(80)
1st April, 2015	Book value	320.00
31st March, 2016	Less: Depreciation @ 20%	(64)
1st April, 2016	Book value	256.00
31st March, 2017	Less: Depreciation @ 20%	(51.20)
1st April, 2017	Book value	204.80
2nd April, 2017	Add: Refund of grant	100.00
	Revised book value	304.80

Depreciation @ 20% on the revised book value amounting Rs. 304.80 lakhs is to be provided prospectively over the residual useful life of the asset.

(5 MARKS)

ANSWER 6(C)

In the books of Gurudev Ltd.
Journal Entries

(i) **In case of ex-interest**

Date	Particulars		Rs.	Rs.
1.11.2017	Own Debentures A/c Debentures Interest A/c [6,000 x 100 x 12% x (1/12)] To Bank A/c (Purchase of 6,000 Debentures @ 98 ex interest for immediate cancellation)	Dr. Dr.	5,88,000 6,000	 5,94,000
1.11.17	12% Debentures A/c To Own Debentures A/c To Capital reserve A/c (Profit on cancellation of debentures) (Being profit on cancellation of 6,000 Debentures transferred to capital reserveaccount)	Dr.	6,00,000	 5,88,000 12,000
(ii) **In case of cum interest**				
1.11.17	Own Debenture A/c Debenture Interest Account A/c [6,000 x100 x12% x (1/12)] To Bank A/c (Being 6,000 debentures purchased @ Rs. 98 cum interest for immediate cancellation)	Dr. Dr.	5,82,000 6,000	 5,88,000
1.11.17	12% Debenture A/c To Own Debentures A/c To Capital reserve A/c (Profit on cancellation of debentures) (Being profit on cancellation of 6,000 Debentures transferred to capital reserve account)	Dr.	6,00,000	 5,82,000 18,000

(5 MARKS)

ANSWER 6(D)

Ex – right value of the shares = (Cum – right value of the existing shares + Rights shares Issue Price) / (Existing Number of shares + Rights Number of shares)

= (Rs. 150 × 4 Shares + Rs. 125 × 1 Share) / (4 + 1) Shares

= Rs. 725/5 shares = Rs. 145 per share.

Value of right = Cum – right value of the share – Ex – right value of the share

= Rs. 150 – Rs. 145 = Rs. 5 per share.

(5 MARKS)

ANSWER 6(E)

(a) Operating Activities: Items 1 and 5.
(b) Investing Activities: Items 3,7 and 9
(c) Financing Activities: Items 4,6,8 and 10
(d) Cash Equivalent: 2

(5 MARKS)