J.K. SHAH® TEST SERIES

Evaluate Learn Succeed

SUGGESTED SOLUTION

INTERMEDIATE N' 2018 EXAM

SUBJECT- ADVANCED ACCOUNTS

Test Code – CIN 5010

Date: 25.08.2018

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

Tel : (022) 26836666

ANSWER-1

ANSWER-A

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i): 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 3,00,000 (75% of Rs. 4,00,000) for the year ended on 31.3.17. In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (ii): The sale is complete but delivery has been postponed at buyer's request. Fashion Ltd. should recognize the entire sale of Rs.1,95,000 for the year ended 31st March, 2017.

Case (iii): In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting Rs. 2,50,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting Rs. 7,45,000 (3,00,000+1,95,000+2,50,000) will be recognized for the year ended 31st March, 2017 in the books of Fashion Ltd. **(5 MARKS)**

ANSWER-B

Desire Limited amortised Rs. 20,00,000 per annum for the first two years i.e. Rs. 40,00,000. The remaining carrying cost can be amortized during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows:

Year	*Net cash flows Rs.*	*Amortization Ratio*	*Amortization Amount Rs.*
I	-	0.200	20,00,000
II	-	0.200	20,00,000
III	45,00,000	0.225	13,50,000
IV	42,00,000	0.21	12,60,000
V	40,00,000	0.20	12,00,000
VI	38,00,000	0.19	11,40,000
VII	35,00,000	0.175	10,50,000
Total	2,00,00,000	1.000	1,00,00,000

It may be seen from above that from third year onwards, the balance of carrying amount i.e., Rs. 60,00,000 has been amortized in the ratio of net cash flows arising from the product of Desire Ltd. **(5 MARKS)**

ANSWER-C

			Rs.
a	Profit for equity fund after current cost adjustment		6,88,000
b	Profit (as per Long-term fund approach)		
	Profit for equity fund	6,88,000	
	Add: Interest on Long-term loan	2,16,000	9,04,000
c	Current cost of capital employed (by Equity approach)		41,60,000
d	Capital employed as per Long-term fund approach		
	Current cost of capital employed (by Equity approach)	41,60,000	
	Add: 12% Long term loan	18,00,000	59,60,000
e	Value of Goodwill		
	(A) By Equity Approach		

	Capitalised value of Profit as per equity approach = (6,88,000/14) x 100		49,14,286
	Less: Capital employed as per equity approach		(41,60,000)
	Value of Goodwill		7,54,286
	(B) By Long-Term Fund Approach		
	Capitalized value of Profit as per Long-term fund approach = (9,04,000 /12.5) x 100		72,32,000
	Less: Capital employed as per Long-term fund approach		(59,60,000)
	Value of Goodwill		12,72,000

(5 MARKS)

ANSWER-D

Computation of basic earnings per share

Net profit for the current year / Weighted average number of equity shares outstanding during the year

Rs. 75,00,000 / 10,00,000 = Rs. 7.50 per share

Computation of diluted earnings per share = $\frac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$

Adjusted net profit for the current year

	Rs.
Net profit for the current year	75,00,000
Add: Interest expense for the current year	8,00,000
Less: Tax relating to interest expense (30% of Rs. 8,00,000)	(2,40,000)
Adjusted net profit for the current year	80,60,000

Number of equity shares resulting from conversion of debentures

= 1,10,000 Equity shares (given in the question)

Weighted average number of equity shares used to compute diluted earnings per share

= 11,10,000 shares (10,00,000 + 1,10,000)

Diluted earnings per share

= 80,60,000/ 11,10,000 = Rs. 7.26 per share

Note: Conversion of convertible debentures into Equity Share will be dilutive potential equity shares. Hence, to compute the adjusted profit the interest paid on such debentures will be added back as the same would not be payable in case these are converted into equity shares. **(5 MARKS)**

ANSWER-2

ANSWER-A

In the Books of Beta Ltd.

Realisation Account

	Rs.		*Rs.*
To Sundry Assets	15,96,000	By Retirement Gratuity Fund	56,000
To Preference Shareholders (Premium on Redemption)	28,000	By Trade payables (Purchase Consideration)	2,24,000
To Equity Shareholders (Profit on Realisation)	1,40,000	By Alex Ltd.	14,84,000
	17,64,000		17,64,000

Equity Shareholders Account

	Rs.		*Rs.*
To Equity Shares of Alex Ltd.	11,76,000	By Share Capital	8,40,000
		By General Reserve	1,96,000
		By Realisation Account (Profit on Realisation)	1,40,000
	11,76,000		11,76,000

Preference Shareholders Account

		Rs.			*Rs.*
To	8% Preference Shares of Alex Ltd.	3,08,000	By	Preference Share Capital	2,80,000
			By	Realisation Account (Premium on Redemption of Preference Shares)	28,000
		3,08,000			3,08,000

Alex Ltd. Account

		Rs.			*Rs.*
To	Realisation Account	14,84,000	By	8% Preference Shares	3,08,000
			By	Equity Shares	11,76,000
		14,84,000			14,84,000

(5 MARKS)

In the Books of Alex Ltd.

Journal Entries

		Dr.	*Cr.*
		Rs.	*Rs.*
Business Purchase A/c	Dr.	14,84,000	
To Liquidators of Beta Ltd. Account			14,84,000
(Being business of Beta Ltd. taken over)			
Goodwill Account	Dr.	1,40,000	
Building Account	Dr.	4,20,000	
Machinery Account	Dr.	4,48,000	
Inventory Account	Dr.	4,41,000	
Trade receivables Account	Dr.	2,80,000	
Bank Account	Dr.	56,000	

To Retirement Gratuity Fund Account			56,000
To Trade payables Account			2,24,000
To Provision for Doubtful Debts Account			21,000
To Business Purchase A/c			14,84,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Beta Ltd. A/c	Dr.	14,84,000	
To 8% Preference Share Capital A/c			3,08,000
To Equity Share Capital A/c			11,20,000
To Securities Premium A/c			56,000
(Being Purchase Consideration satisfied as above).			

(5 MARKS)

Balance Sheet of Alex Ltd. (after absorption) as at 31st March, 2017

		Particulars	*Notes*	*Rs.*
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	45,08,000
	B	Reserves and Surplus	2	2,52,000
2		**Non-current liabilities**		
	A	Long-term provisions		1,96,000
3		**Current liabilities**		
	A	Trade Payables		5,88,000
	B	Short term provision		21,000
		Total		55,65,000
		Assets		
1		**Non-current assets**		
	A	Fixed assets		

		Tangible assets	3	31,08,000
		Intangible assets		2,80,000
2		**Current assets**		
	A	Inventories		11,41,000
	B	Trade receivables		8,40,000
	C	Cash and cash equivalents		1,96,000
		Total		55,65,000

(6 MARKS)

Notes to accounts:

		Rs.
1	**Share Capital**	
	Equity share capital	
	3,92,000 Equity Shares of Rs. 10 each fully paid (Out of above 1,12,000 Equity Shares were issued in consideration other than for cash)	39,20,000
	Preference share capital	
	5,880 8% Preference Shares of Rs. 100 each (Out of above 3,080 Preference Shares were issued in consideration other than for cash)	5,88,000
	Total	45,08,000
2	**Reserves and Surplus**	
	Securities Premium	56,000
	General Reserve	1,96,000
	Total	2,52,000
3	**Tangible assets**	
	Buildings	12,60,000
	Machinery	18,48,000
	Total	31,08,000

Working Notes:

Purchase Consideration:	*Rs.*
Goodwill	1,40,000
Building	4,20,000
Machinery	4,48,000
Inventory	4,41,000
Trade receivables	2,59,000
Cash at Bank	56,000
Less: Liabilities:	
Retirement Gratuity	(56,000)
Trade payables	(2,24,000)
Net Assets/ Purchase Consideration	14,84,000
To be satisfied as under:	
Preference Shareholders of Beta Ltd.	2,80,000
Add: 10% Premium	28,000
Satisfied by issue of 3,080 no. of 8% Preference Shares of Alex Ltd.	3,08,000
Equity Shareholders of Beta Ltd. to be satisfied by issue of 1,12,000	
Equity Shares of Alex Ltd. at 5% Premium	11,76,000
Total	14,84,000

ANSWER-B **(4 MARKS)**

Computation of provision in the Profit & Loss Account of the Commercial Bank:

Assets	*Amount (Rs. in lakhs)*	*% of Provision*	*Provision (Rs. in lakhs)*
Standard	4,000	0.40	16
Sub-standard*	2,000	15	300
Doubtful upto one year*	900	25	225
Doubtful upto three years*	400	40	160
Doubtful more than three years*	300	100	300
Loss	500	100	500
			1,501

* Sub-standard and doubtful assets are assumed as fully secured as it is logical for a commercial bank to cover itself by adequate security in the making of loans and advances in the ordinary course of business.

ANSWER-3

ANSWER-A

In the books of Bharat Insurance Co. Ltd. Journal Entries

Date	*Particulars*		*(Rs. in crores)*	
			Dr.	*Cr.*
1.4.2016	Unexpired Risk Reserve (Fire) A/c	Dr.	28	
	Unexpired Risk Reserve (Marine) A/c	Dr.	21	
	Unexpired Risk Reserve (Miscellaneous) A/c	Dr.	6	
	To Fire Revenue Account			28
	To Marine Revenue Account			21
	To Miscellaneous Revenue Account			6
	(Being unexpired risk reserve brought forward from last year)			
31.03.2017	Marine Revenue A/c	Dr.	23	

		To Unexpired Risk Reserve A/c (Being closing reserve for unexpired risk created at 100% of net premium income amounting to Rs. 23 crores i.e.22+8.5-7.5)			23
		Fire Revenue A/c	Dr.	23.95	
		To Unexpired Risk Reserve A/c (Being closing reserve for unexpired risk created at 50% of net premium income of Rs. 47.90 crores i.e.46+7.2-5.3)			23.95
		Miscellaneous Revenue A/c	Dr.	5	5
		To Unexpired Risk Reserve A/c			
		(Being closing reserve for unexpired risk created at 50% net premium income of Rs.10 crores i.e. 13+5-8)			

(1*4= 4 MARKS)

Unexpired Risk Reserve Account

Date	*Particulars*	*Marine*	*Fire (Rs.)*	*Misc. (Rs.)*	*Date*	*Particulars*	*Marine (Rs.)*	*Fire (Rs.)*	*Misc. (Rs.)*
1.4.2016	To Revenue A/c	21	28	6	1.4.2016	Balance b/d	21	28	6
31.3.2017	To Balance c/d	23	23.95	5	31.3.2017	Revenue A/c	23	23.95	5
		44	51.95	11			44	51.95	11

(4 MARKS)

Working Note:

Premium from other insurance companies in respect of risk undertaken:

Received during the year	11.5	9.2	5.5
Less: Receivable – 01.04.16	(7.0)	(3.0)	(1.5)
Add: Receivable – 31.03.17	4.0	1.0	1.0
	8.5	*7.2*	*5.0*

(2 MARKS)

ANSWER-B

(1) Capital employed as on 31st March, 2015 (Refer to 'Note')

		Rs. in lakhs
Land and Buildings		1,850
Machinery		3,760
Furniture and Fixtures		1,015
Patents and Trade Marks		32
Inventory		873
Trade receivables		614
Cash in hand and at Bank		546
		8,690
Less: Trade payables	568	
Provision for taxation (net)	22	590
		8,100

(2.5 MARKS)

(1) Future maintainable profit

(Amounts in lakhs of Rs.)

	2010-2011 Rs.	*2011-2012* Rs.	*2012-2013* Rs.	*2013-2014* Rs.
Profit before tax	3,190	2,500	3,108	2,900
Less: Extraordinary income due to foreign contract	(100)			
Add: Loss due to earthquake		50		
Less: Income from non-trading investments			(54)	(54)
	3,090	2,550	3,054	2,846

(2.5 MARKS)

As there is no trend, simple average profits will be considered for calculation of goodwill.

Total adjusted trading profits for the last four years = Rs. (3090 + 2550 + 3054 + 2846)
= Rs.11540 Lakhs

Average trading profit before tax = $\frac{Rs.11,540\ lakhs}{4} = Rs.2,885\ lakhs$

Less: Additional remuneration to directors	(50) lakhs
	2835 lakhs
Less: Income tax @ 35%(approx.)	(992) (Approx.)
	1,843 Lakh

Valuation of Goodwill on Super Profits Basis

	Rs. in lakh
Future maintainable profits	1,843
Less: Normal profits (20% of Rs. 8,100 lakhs)	(1,620)
Super profits	223

Goodwill at 3 years' purchase of super profits = 3 x Rs. 223 lakhs = Rs. 669 lakhs

Note: In the above solution, goodwill has been calculated on the basis of closing capital employed (i.e. on 31st March, 2015). Goodwill should be calculated on the basis of 'average capital employed' and not 'actual capital employed' as no trend is being observed in the previous years' profits. The average capital employed cannot be calculated in the absence of details about profits for the year ended 31st March, 2015. Since the current year's profit has not been given in the question, goodwill has been calculated on the basis of capital employed as on 31st March, 2015. **(5 MARKS)**

ANSWER-4

ANSWER-A

Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd.as on 31 st March, 2017

	Particulars	Note No.	Rs. in lakhs
I	**Equity and Liabilities**		
1	**Shareholders' Funds**		
	(a) Share Capital	1	19,000
	(b) Reserves and Surplus	2	5,620
2.	**Minority interest**	3	3,400
3.	**Current Liabilities**		
	(a) Trade payables	4	2,623
	Total		30,643
II	**Assets**		
1	**Non Current Assets**		
	Fixed Assets		
	(i) Tangible Assets	5	17,435
2	**Current Assets**		
	(a) Inventories	6	6,632
	(b) Trade Receivables	7	4,842

	(c) Cash and Cash equivalents	8	1,734
			30,643

(2 MARKS)

Notes to Accounts

			Rs. in lakhs
1.	**Share Capital**		
	Issued, Subscribed and Paid up (1,500 lakh Equity Shares of Rs. 10 each fully paid up)		15,000
	400 lakh Preference Shares of Rs. 10 each fully paid up		4,000
			19,000
2.	**Reserves and Surplus**		
	Credit Balance of Profit & Loss Account	2,750	
	Less: Capital Receipt wrongly credited (Dividend @ 10% on Rs. 4500 Lakh Equity Shares)	450	
		2,300	
	Add: Share in Y Ltd. Revenue Profit (Working Note i)	825	
		3,125	
	Less: Unrealised Profit (Working Note iv)	30	3,095
	Capital Reserve (Working Note iii)	25	
	General Reserve	2,500	2,525
			5,620
3.	**Minority interest**		
	100 Lakh Preference Shares of Rs. 10 fully paid up	1,000	
	150 Lakh Equity Shares of Rs.10 each fully paid up	1,500	2,500
	Share in Revenue Profits (Working Note i)	275	
	Share in Capital Profit (working Note ii)	625	900

			3,400
4.	**Trade payables**		
	X Ltd.	1,646	
	Y Ltd.	1,027	
		2,673	
	Less: Mutual owing	50	2,623
5.	**Tangible Assets**		
	Land & Building		
	X Ltd.	3,550	
	Y Ltd	1,510	5,060
	Plant & Machinery		
	X Ltd.	5,275	
	Y Ltd (Working note v)	4,500	9,775
	Furniture & Fixtures		
	X Ltd.	1,945	
	Y Ltd	655	2,600
			17,435
6.	**Inventories**		
	X Ltd.	4,142	
	Y Ltd	2,520	
		6,662	
	Less: Unrealized Profit	(30)	6,632
7.	**Trade Receivables**		
	X Ltd.	3,010	
	Y Ltd	1,882	
		4,892	
	Less: Mutual Owing	50	4,842
8.	**Cash & cash Equivalents**		

	X Ltd.	1,174	
	Y Ltd	560	1,734

(8 MARKS)

Working Notes

(i) Calculation of Revenue Profits

Y's Ltd Profit & Loss Account

	Rs. in lakh		**Rs. in lakh**
To Equity Dividend		By Balance b/d	650
10 % of 6,000 lakh	600	By Net profit for the year (Bal Fig.)	1,200
To balance c/d	1,250		
	1,850		1,850

Depreciation provided on Plant & Machinery

Balance as on 1st April, 2016	4,000
Less Balance as 31st March 2017	3,600
	400
Hence rate of Depreciation = 400/4000 x 100	10%
Net Profit for the year ended 31st March 2017	1,200
Less: Additional Depreciation	100
Revenue Profit	1,100
X Ltd's share- 1100 x 450/600	825
Y Ltd's share = 1100 x150/600	275

(i) Calculation of Capital Profits

Profit & Loss Balance as on 1st April, 2016	650
Less: Dividend Paid	600
	50
Add: General Reserve as on 1st April, 2016	1,450
Add: Profit on Revaluation of Plant & machinery	1,000

Capital Profit	2,500
X Ltd's Share in Capital Profit = 2,500 x 450/600	1,875
Y Ltd's Share in Capital Profit = 2,500 x 150/600	625

(i) **Calculation of Capital Reserve**

Paid up value of 450 Lakh equity shares	4,500
Add: Share in Capital Profits	1,875
	6,375
Amount Paid to acquire the 450 Lakh Equity Shares	6,800
Less: Dividend received out of Pre acquisition profits	450
	6,350
Capital Reserve = 6,375-6,350	25

(i) **Unrealised Profit**

Rs. 150 Lakh x 25/125* = 30 lakh

(ii) **Plant & Machinery of Y Ltd.**

Balance as on 31st March, 2017		3,600
Add: Addition due to revaluation	1,000	
Less: Depreciation on additional Value of Plant & Machinery @ 10 %		

* Rs. 150 lakh considered as cost to Y ltd.

(6 MARKS)

ANSWER-B

Computation of Average Capital employed

(4 MARKS)

		(Rs. in lakhs)
Total Assets as per Balance Sheet		147.8
Less: Non-trade investments (20% of Rs. 10 lakhs)		(2.00)
		145.80
Less: Outside Liabilities:		
16% Debentures	5.00	
16% Term Loan	18.00	
Cash Credit	13.30	
Trade Payables	2.70	
Provision for Taxation	6.40	(45.40)
Capital Employed as on 31.03.2017		100.40
Less: ½ of profit earned:		
Increase in Reserve balance	5.50	
Increase in Profit & Loss A/c	22.20	
	27.70	
50% of Total		13.85
Average capital employed		86.55

ANSWER-5

ANSWER-A

Calculation of Provisions and Contingencies

(i) **Provision on Non-Performing Assets**

			Rs.*in lakhs*
Particulars	*Amount*	*% of Provision*	*Provision*
Standard Assets	4,100	0.4	16.40
Sub-standard Assets	380	15	57
Doubtful Assets not covered by security	155	100	155
Doubtful Assets covered by security:			
For 1 year	10	25	2.50
More than 1 year, but less than 2 years	18	40	7.20
More than 2 years & but less than 3 years	35	40	14
More than 3 years	22	100	22
Loss Assets	50	100	50
	4,770		324.10

(3 MARKS)

(i) **Calculation of Provision for tax** = 35% of [Total Income – Total Expenditure (excluding tax)]

= 35% of [(1,840 +15) – (1,136+105+324.10)] = Rs. 101.47 lakhs

Total Provisions and contingencies = Provisions on NPAs + Provisions for tax

= 324.10 + 101.47 = Rs. 425.57 lakhs **(1 MARK)**

(b) **Supreme Bank Limited**

Profit and Loss Account for the year ended 31st March, 2018

	Particulars	*Schedule No.*	Rs. *in lakhs*
I	**Income**		
	Interest Earned	13	1,840
	Other Income	14	15
			1,855
II	**Expenditures**		
	Interest Expended		1,136
	Operating Expenses	16	1,05
	Provisions & Contingencies		425.57
			1,666.57
III	**Profit/Loss**		
	Net Profit/Loss for the year		188.43
	Profit/Loss brought forward		65
			253.43
IV	**Appropriations**		
	Transfer to Statutory Reserve @ 25% of 188.43		47.11
	Transfer to Other Reserves		-
	Balance carried over to Balance Sheet		206.32
			253.43
	Schedule 13 – Interest earned		
I	Interest & Discount (1,835 - 3		1,832
II	Interest on Investments		8
			1,840
	Schedule 14- other income		
	Commission, exchange and brokerage		12

Profit on sale of investments	1
Rent received	2
	15
Schedule 16- Operating Expenses	
Printing & stationery	18
Repair & maintenance	2
Payment to and provision for employees (salaries, bonus etc.)	80
Other Operating Expenses	5
	105

(6 MARKS)

ANSWER-B

Form B – RA (Prescribed by IRDA)

Name of the Insurer: X Fire Insurance Co. Ltd.

Registration No. and Date of registration with the IRDA: …………………..

Revenue Account for the year ended 31st March, 20X2

	Particulars	*Schedule*	*Current year ended on 31st March, 20X2*
			Rs.
1.	Premium earned (Net)	1	7,00,000
	Total (A)		7,00,000
1.	Claims incurred (Net)	2	8,00,000
2.	Commission	3	50,000
3.	Operating Expenses related to insurance business	4	3,00,000
	Total (B)		11,50,000
	Operating Profit/Loss from Fire Insurance Business [C =(A – B)]		(4,50,000)

(6 MARKS)

Schedule 1

Premium earned (Net)

	Rs.
Premium received from direct business written	15,00,000
Less: Premium on re-insurance ceded	(1,00,000)
	14,00,000
Adjustment for change in reserve for unexpired risk	7,00,000
Net Premium Earned	7,00,000

Schedule 2

Claims incurred (Net)

	Rs.
Claims paid – Direct	7,00,000
Add: Claims outstanding on 31.3.20X2	1,00,000
Total claims incurred	8,00,000

Schedule 3

Commission

Commission paid	50,000
Net commission	50,000

Schedule 4

Operating expenses related to insurance business

	Rs.
Expenses of Management	3,00,000

(1*4= 4 MARKS)

ANSWER-6

ANSWER-A

As per AS 18 'Related Party Disclosures', Enterprises over which a key management personnel is able to exercise significant influence are related parties. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprise that have a member of key management in common with the reporting enterprise. **(2 MARKS)**

In the given case, Sun Ltd. and Moon Ltd are related parties and hence disclosure of transaction between them is required irrespective of whether the transaction was done at normal selling price. **(1 MARK)**

Hence the contention of Chief Accountant of Sun Ltd is wrong. **(1 MARK)**

ANSWER-B

As per AS 19 "Leases", the lessee should recognize the lease as an asset and a liability at the inception of a finance lease. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of lease. However, if the fair value of the leased asset exceeds the present value of minimum lease payment from the standpoint of the lessee, the amount recorded as an asset and liability should be the present value of minimum lease payments from the standpoint of the lessee.

(1.5 MARKS)

Value of machinery

In the given case, fair value of the machinery is Rs. 10, 00,000 and the net present value of minimum lease payments is Rs. 10,01,497 (Refer working Note). As the present value of the machine is more than the fair value of the machine, the machine and the corresponding liability will be recorded at fair value of Rs. 10,00,000. **(1.5 MARKS)**

Calculation of finance charges for each year

Year	*Finance charge (Rs.)*	*Payment (Rs.)*	*Reduction in outstanding liability (Rs.)*	*Outstanding liability (Rs.)*
1st year beginning	-	-	-	10,00,000
End of 1st year	1,60,000	3,50,000	1,90,000	8,10,000
End of 2nd year	1,29,600	3,50,000	2,20,400	5,89,600
End of 3rd year	94,336	3,50,000	2,55,664	3,33,936
End of 4th year	53,430	3,50,000	2,96,570	37,366*

Working Note:

Present value of minimum lease payments

Annual lease rental x PV factor Rs. 3,50,000 x (0.8621 + 0.7432 + 0.6407+ 0.5523)	Rs. 9,79 ,405
Present value of guaranteed residual value Rs. 40,000 x (0.5523)	Rs. 22,092
	Rs. 10,01,497

(5 MARKS)

ANSWER-C

Balance Sheet of Super Fast Express Ltd as at 1st Jan., 20X2

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	30,00,000
	b	Reserves and Surplus	2	3,60,000
2		**Non-current liabilities**		
	a	Long-term provisions	3	1,00,000
3		**Current liabilities**		
	a	Trade Payables		1,00,000
		Total-		**35,60,000**
		Assets		
1		Non-current assets		
	a	**Fixed assets**		
		Tangible assets	4	25,00,000
		Intangible assets	5	1,00,000
2		**Current assets**		
		Inventories		3,40,000

Trade receivables		2,80,000
Cash and cash equivalents	6	3,40,000
Total		**35,60,000**

(4 MARKS)

Notes to accounts

		Rs.
1	**Share Capital**	
	Equity share capital	
	Issued, subscribed and paid up	
	30,000 Equity shares of Rs. 100 each	30,00,000
	Total	**30,00,000**
2	**Reserves and Surplus**	
	Reserve account	1,00,000
	Surplus	1,00,000
	Insurance reserve	1,00,000
	Employees profit sharing account	60,000
	Total	3,60,000
3	**Long-term provisions**	
	Provident fund	1,00,000
	Total	1,00,000
4	**Tangible assets**	
	Buildings	16,00,000
	Machinery	9,00,000
	Total	25,00,000
5	**Intangible assets**	
	Goodwill	1,00,000
	Total	1,00,000
6	**Cash and cash equivalents**	
	Balances with banks	2,30,000

Cash on hand	1,10,000
Total	3,40,000

(4 MARKS)