J.K. SHAH® TEST SERIES
Evaluate Learn Succeed

SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- ACCOUNTS

Test Code – CIM 8444

BRANCH - () (Date :)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.
Tel : (022) 26836666

ANSWER -1

ANSWER –A

(i) Computation of average accumulated expenses

		Rs.
Rs. 3,00,000 x 12 / 12	=	3,00,000
Rs. 2,40,000 x 10 / 12	=	2,00,000
Rs. 4,00,000 x 8 / 12	=	2,66,667
Rs. 3,60,000 x 3 / 12	=	90,000
		8,56,667

(ii) Calculation of average interest rate other than for specific borrowings

Amount of loan (`)	Rate of interest		Amount of interest (`)
4,00,000	9%	=	36,000
5,00,000	12%	=	60,000
3,00,000	14%	=	42,000
			1,38,000
Weighted average rate of interest $\left(\frac{1,38,000}{12,00,000}\times 100\right)$		=	11.5%

(iii) Amount of interest to be capitalized

		Rs.
Interest on average accumulated expenses:		
Specific borrowings (Rs. 2,00,000 x 8%)	=	16,000
Non-specific borrowings (Rs. 6,56,667 x 11.5	=	75,517
Amount of interest to be capitalised	=	91,517

(iv) Total expenses to be capitalised for building

	Rs.
Cost of building Rs. (3,00,000 + 2,40,000 + 4,00,000 + 3,60,000)	13,00,000
Add: Amount of interest to be capitalized	91,517
	13,91,517

(v) Journal Entry

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
31.3.2018	Building A/c	Dr.	13,91,517	
	To Building WIP A/c			13,00,000
	To Borrowing costs A/c			91,517
	(Being amount of cost of building and borrowing cost thereon capitalised)			

(5 MARKS)

ANSWER –B

(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	5 months
Hence, Loss for 5 months will be Rs. $1,37,500 \times \frac{5}{6} =$	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 –C

Tax as per accounting profit 7,50,000 X 20% = Rs. 1,50,000

Tax as per Income-tax Profit 90,000 X 20% = Rs. 18,000

Tax as per MAT 4,37,500 X 7.50% = Rs. 32,812.50

Tax expense= Current Tax + Deferred Tax

Rs. 1,50,000 = Rs. 18,000+ Deferred tax

Therefore, **Deferred Tax liability** as on 31-03-2019

= Rs. 1,50,000 – Rs. 18,000 = Rs. 1,32,000

Amount of tax to be debited in Profit and Loss account for the year 31 -03-2019

Current Tax + Deferred Tax liability + Excess of MAT over current tax

= Rs. 18,000 + Rs. 1,32,000 + Rs. 14,812.50 (32,812.50 – 18,000)

= Rs. 1,64,812.50

(5 MARKS)

ANSWER –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 vale) 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

ANSWER –A

Computation of the amount of claim for the loss of profit

1. Reduction in turnover

	Rs.
Turnover from 25th May, 2016 to 30th September, 2016	6,00,000
Add: 10% expected increase	60,000
	6,60,000
Less: Actual Turnover from 25th May, 2017 to 30th September, 2017	(1,75,000)
Short Sales	4,85,000

2. Calculation of loss of Profit

Gross Profit on reduction in turnover @ 25% on Rs. 4,85,000	1,21,250
(see working note 1)	
Add: Additional Expenses	
Lower of	
(i) Actual = Rs. 30,000	

(ii) $\text{Additional Exp.} \times \dfrac{\text{G.P. on Adjusted Annual Turnover}}{\text{G.P. as above + Uninsured Standing Charges}}$

30,000x [3,85,000/(3,85,000+1,25,000)] = ` 22,647

(iii) G.P. on sales generated by additional expenses

175000 x 25% = ` 43,750

It is given that entire sales during the interrupted period was due to additional expenses.

Therefore, lower of above is (i, ii & iii)	` 22,647
	1,43,897
Less: Saving in Insured Standing Charges	(5,000)
Amount of claim before application of Average Clause	1,38,897

3. **Application of Average Clause:**

$$\frac{\text{Amount of Policy}}{\text{G.P. on Annual Turnover}} \times \text{Amount of Claim}$$

(3,50,000/3,85,000) x 1,38,897= ` 1,26,270

Amount of claim under the policy = ` 1,26,270

Working Notes:

1. **Rate of Gross Profit for last Financial Year:**

	`
Net Profit for last financial year	2,00,000
Add: Insured Standing Charges	1,75,000
Gross Profit	3,75,000
Turnover for the last financial year	15,00,000

Rate of Gross Profit = $\frac{3,75,000}{15,00,000} \times 100$ = 25%

2. Annual Turnover (adjusted):

Turnover from 25 May, 2016 to 24 May, 2017	14,00,000
Add: 10% expected increase	1,40,000
	15,40,000
Gross Profit on ` 15,40,000 @ 25%	3,85,000
Standing charges not Insured (3,00,000 – 1,75,000)	1,25,000
Gross profit + Uninsured standing charges	5,10,000

(10 MARKS)

ANSWER –B

Pre-incorporation period is for two months, from 1st April, 2018 to 31st May, 2018. 10 months' period (from 1st June, 2018 to 31st March, 2019) is post-incorporation period.

Statement showing calculation of profit/losses for pre and post incorporation periods

	Pre-Inc ***Rs.***	***Post Inc*** ***Rs.***
Gross Profit	50,000	4,00,000
Bad debts Recovery	14,000	
	64,000	4,00,000

Less:	Salaries	24,000	1,20,000
	Audit fees	-	12,000
	Depreciation	3,000	16,250
	Sales commission	2,000	16,000
	Bad Debts (49,000 + 14,000)	7,000	56,000
	Interest on Debentures	-	36,000
	Rent	4,000	34,400
	Net Profit	24,000	1,09,350

* Pre-incorporation profit is a capital profit and will be transferred to Capital Reserve.

(5 MARKS)

Working Notes:

(i) Calculation of ratio of Sales

Sales from April to September = 6,00,000 (1,00,000 p.m. on average basis)

October to March = Rs. 12,00,000 (2,00,000 p.m. on average basis)

Thus, sales for pre-incorporation period = Rs.2,00,000

post-incorporation period = Rs. 16,00,000

Sales are in the ratio of 1:8

(ii) Gross profit, sales commission and bad debts written off have been allocated in pre and post incorporation periods in the ratio of Sales.

(iii) Rent, salary are allocated on time basis.

(iv) Interest on debentures is allocated in post incorporation period.

(v) Audit fees charged to post incorporation period as relating to company audit.

(vi) Depreciation of Rs. 18,000 divided in the ratio of 1:5 (time basis) and Rs. 1,250 charged to post incorporation period.

(vii) Bad debt recovery of Rs. 14,000/- is allocated in pre-incorporation period, being sale made in 2015-16.

(viii) Rent

(Rs. 38,400 – Additional rent for 6 months)		Rs.
[38,400- 14,400 (2,400 x 6) = Rs. 24,000 i.e. 2,000 per month] 1/4/18 -31/5//18 (2,000 x 2)	=	4,000

1/6/18-31/3/19 – [(2,000 x 10) +14,400] = 34,400

38,400

(5 MARKS)

ANSWER -3

ANSWER –A

PQR Ltd.

Cash Flow Statement for the year ended 31st March, 2019 (Using direct method)

Particulars	Rs.	Rs.
Cash flows from Operating Activities		
Cash sales (Rs. 3,75,000/25%)		15,00,000
Less: Cash payments for trade payables	(6,10,000)	
Wages Paid	(5,55,000)	
Office and selling expenses Rs. (35,000 + 15,000)	(50,000)	(12,15,000)
Cash generated from operations before taxes		2,85,000
Income tax paid		(55,000)
Net cash generated from operating activities (A)		2,30,000
Cash flows from Investing activities		
Sale of investments Rs. (8,20,000 + 20,000)	8,40,000	
Payments for purchase of Plant & machinery	(3,50,000)	
Net cash used in investing activities (B)		4,90,000
Cash flows from financing activities		
Bank loan repayment (including interest)	(2,05,000)	
Dividend paid (including dividend distribution tax)	(40,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,75,000
Cash and cash equivalents at beginning of the period		2,25,000
Cash and cash equivalents at end of the period		7,00,000

(ii) Cash Flow from Operating Activities' by indirect method

		Rs.
Net Profit for the year before tax and extraordinary items		2,80,000
Add: Non-Cash and Non-Operating Expenses:		
Depreciation		60,000
Interest Paid		5,000
Less: Non-Cash and Non-Operating Incomes:		
Profit on Sale of Investments		(20,000)
Net Profit after Adjustment for Non-Cash Items		3,25,000
Less: Decrease in trade payables	15,000	
Increase in inventory	25,000	(40,000)
Cash generated from operations before taxes		2,85,000

(8 MARKS)

Working Note:

Calculation of net profit earned during the year

	Rs.	Rs.
Gross profit		3,75,000
Less: Office expenses, selling expenses	50,000	
Depreciation	60,000	
Interest paid	5,000	(1,15,000)
		2,60,000
Add: Profit on sale of investments		20,000
Net profit before tax		2,80,000

(2 MARKS)

ANSWER –B

(i) Calculation of Interest and Cash Price

No. of installments	*Outstanding balance at the end after the payment of installment*	*Amount due at the time of installment*	*Outstanding balance at the end before the payment of installment*	*Interest*	*Outstanding balance at the beginning*
[1]	*[2]*	*[3]*	*[4] = 2 +3*	*[5] = 4 x 10/110*	*[6] = 4-5*
3rd	-	1,65,000	1,65,000	15,000	1,50,000
2nd	1,50,000	1,47,000	2,97,000	27,000	2,70,000
1st	2,70,000	1,59,000	4,29,000	39,000	3,90,000
Down payment					3,00,000
Total of interest and Total cash price				81,000	6,90,000

(2 MARKS)

(ii) In the books of M/s Amar

Scooters Account

Date	*Particulars*	*Rs.*	*Date*	*Particulars*	*Rs.*
1.4.2015	To Bhanu A/c	6,90,000	31.3.2016	By Depreciation A/c	1,38,000
				By Balance c/d	5,52,000
		6,90,000			6,90,000

1.4.2016	To Balance b/d	5,52,000	31.3.2017	By Depreciation A/c	1,10,400
				Balance c/d	4,41,600
		5,52,000			5,52,000
1.4.2017	To Balance b/d	4,41,600	31.3.2018	By Depreciation A/c	88,320
				By M/s Bhanu a/c (Value of 2 Scooters taken over)	78,890
				By Profit and Loss A/c (Bal. fig.)	38,870
				By Balance c/d	2,35,520
				4/6 (4,41,600 – 88,320)	
		4,41,600			4,41,600

M/s Bhanu Account

Date	*Particulars*	*Rs.*	*Date*	*Particulars*	*Rs.*
1.4.15	To Bank (down payment)	3,00,000	1.4.15	By Scooters A/c	6,90,000
			31.3.16	By Interest A/c	39,000
31.3.16	To Bank (1st Installment)	1,59,000			
	To Balance c/d	2,70,000			
		7,29,000			7,29,000
31.3.17	To Bank (2nd Installment)	1,47,000	1.4.2016	By Balance b/d	2,70,000
			31.3.2017	By Interest A/c	27,000
	To Balance c/d	1,50,000			
		2,97,000			2,97,000
31.3.18	To Scooter A/c	78,890	1.4.2017	By Balance b/d	1,50,000
	To Balance c/d (b.f.)	86,110	31.3.2018	By Interest A/c	15,000
		1,65,000			1,65,000
31.8.18	To Bank (Amount settled after 5 months)	91,492	1.4.2018	By Balance b/d	86,110
			31.8.2018	By Interest A/c (@ 15 % on bal.)	

				(86,110 x 5/12 x 15/100)	5,382
		91,492			91,492

(6 MARKS)

(ii) **In the Books of M/s Bhanu Goods**

Repossessed A/c

Date	*Particulars*	*Rs.*	*Date*	*Particulars*	*Rs.*
31.3.18	To Amar A/c	78,890	31.3.2018	By Balance c/d	78,890
		78,890			78,890
1.04.2018	To Balance b/d	78,890	25.4.2018	By Bank (Sale)	1,05,000
25.4.2018	To Repair A/c	15,000			
25.4.2018	To Profit & Loss A/c	11,110			
		1,05,000			1,05,000

Working Note:

Value of Scooters taken over

	Rs.
2 Scooters (6,90,000/6 x 2)	2,30,000
Depreciation @ 30% WDV for 3 years (69,000 + 48,300 +33,810)	(1,51,110)
	78,890

(2 MARKS)

ANSWER -4

ANSWER –A

In the Books of Jyotishikha Traders Trading Account

for the year ended 31.03.2019

	Particulars	*Rs.*		*Particulars*	*Rs.*
To	Opening Stock A/c (Bal. fig.)	1,65,000	By	Sales (W.N.1)	12,50,000
To	Purchases (W.N.2)	9,00,000	By	Closing Stock	65,000
To	Gross profit (12,50,000x25/125)	2,50,000			
		13,15,000			13,15,000

(3 MARKS)

Profit and Loss Account for the year ended 31.03.2019

	Particulars		*Rs.*	*Particulars*		*Rs.*
To	Discount		5,500	By	Gross profit	2,50,000
To	Salaries Expenses	32,000		By	Discount	4,500
To	Office expenses (W.N.3)	37,000				
To	Selling expenses	15,000	84,000			
To	Interest on loan (12% on Rs.1,60,000)		19,200			
To	Bad debts (2% of Rs.2,25,000)		4,500			
To	Loss on sale of Machinery		15,000			
To	Depreciation:					
	Land & Building	25,000				
	Plant &Machinery (W.N 4b)	23,750				
	Office Equipment (W.N. 5)	12,750	61,500			
To	Net profit after tax		64,800			
			2,54,500			2,54,500

(5 MARKS)

Balance sheet as on 31.3.2019

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*
Capital (W.N. 6)	8,95,500		Land and Building (5,00,000-25,000)	4,75,000
Add: Net Profit	64,800	9,60,300	Plant and Machinery (W.N.4a) (3,30,000-21,750)	3,08,250
Creditors for Purchases (W.N. 8)		1,05,500	Office Equipment (85,000-12,750)	72,250
Outstanding expenses		15,000	Debtors less Bad debts (W.N. 7)	2,20,500
Loan from SBI		1,00,000	Stock	65,000
			Bank Balance (W.N. 9)	39,800
		11,80,800		11,80,800

Working Notes:

1. **Calculation of Total Sales**

	Rs.
Cash Sales	2,50,000

Credit Sales (80% of total sales)	
Cash Sales (20% of total sales)	
Thus total Sales (250000 x 100/20)	12,50,000
Credit Sales (1250000 x 80/100)	10,00,000

2. Calculation of Total Purchases

	Rs.
Credit Purchases	5,40,000
Cash Purchases (40% of total purchases)	
Credit Purchases (60% of total purchases)	
Thus total Purchases (5,40,000 x 100/60)	9,00,000
Cash Purchases 9,00,000 x 40/100)	3,60,000

3. Office Expenses Account

	Rs.		*Rs.*
To Bank A/c	42,000	By Balance b/d	20,000
To Balance c/d	15,000	By Profit & loss A/c	37,000
	57,000		57,000

(4 MARKS)

ANSWER –B

Revenue Statement

for the year ended 31st March, 2019

	Singapore dollar		Singapore dollar
To Opening Stock	12,000.00	By Sales	47,058.82
To Purchases	31,372.55	By Closing stock	30,000.00
To Wages	21,960.78	(15,60,000/52)	
To Gross profit b/d	11,725.49		
	77,058.82		77,058.82
To Rent, rates and taxes	14,117.65	By Gross profit c/d	11,725.49
To Sundry Expenses	6,274.51	By Net loss b/d	13,466.67
To Depreciation on computers (Singapore dollar 12,000 × 0.4)	4,800.00		
	25,192.16		25,192.16

(3 MARKS)

Balance Sheet of Delhi Branch as on 31st March, 2019

Liabilities		Singapore dollar	*Assets*	Singapore dollar	Singapore dollar
Singapore Office A/c	59,897.43		Computers	12,000.00	
Less: Net Loss	(13,466.67)	46,430.76	*Less:* Depreciation	(4,800.00)	7,200.00
Sundry creditors		11,538.46	Closing stock		30,000.00
Bills payable		9,230.77	Sundry debtors		15,384.61
			Bank balance		10,000.00
			Bills receivable		4,615.38
		67,199.99			67,199.99

Working Note:

M/s Rani & Co.

Delhi Branch Trial Balance in (Singapore $) as on

31st March, 2019

			Conversion rate per Singapore dollar (Rs.)	Dr. Singapore dollar	Cr. Singapore dollar
Stock on 1.4.18	6,00,000.00		50	12,000.00	–
Purchases and sales	16,00,000.00	24,00,000.00	51	31,372.55	47,058.82
Sundry Debtors and Creditors	8,00,000.00	6,00,000.00	52	15,384.61	11,538.46
Bills of exchange	2,40,000.00	4,80,000.00	52	4,615.38	9,230.77
Wages	11,20,000.00		51	21,960.78	–
Rent, rates and taxes	7,20,000.00		51	14,117.65	–
Sundry Expenses	3,20,000.00		51	6,274.51	–
Computers	6,00,000.00		–	12,000.00	–
Bank balance	5,20,000.00		52	10,000.00	–
Singapore office A/c			–		59,897.43
				1,27,725.48	**1,27,725.48**

(5 MARKS)

ANSWER -5

M/s Red, Black and White

Statement of Profit & Loss for the year ended on 31st March, 2019

	Rs.		Rs.
To Depreciation on Building (1,20,000 x 5%)	6,000	By Trading Profit	80,000
To Interest on Red's loan (20,000 x 6%)	1,200	By Interest on Debentures	2,400
To Net Profit to :			
Red's Capital A/c	45,120		
Black's Capital A/c	15,040		
White's Capital A/c	15,040		
	82,400		82,400

(2 MARKS)

Balance Sheet of the RBW Pvt. Ltd. as on 1-4-2019

		Notes No.	Rs.
I	**Equity and Liabilities**		
	Shareholders funds		2,39,040
	Non-current liabilities		
	Long term borrowings	1	21,200
	Total		2,60,240
II	**Assets**		
	Non-current assets		
	Property, Plant & Equipment		
	Tangible assets	2	1,14,000
	Non-current investments		40,000
	Current assets		
	Inventories		80,000
	Cash and cash equivalents		26,240
	Total		2,60,240

(3 MARKS)

Notes to Accounts

		`
1.	Borrowings	
	Loan from Red	21,200
2.	Tangible assets	
	Land and Building ` (1,20,000 – 6,000)	1,14,000

Working Notes:

1. Calculation of goodwill

Year ended March, 31

	2014	2015 Rs.	2016 Rs.	2017 Rs.	2018 Rs.
Book Profits	40,000	(20,000)	40,000	50,000	60,000
Adjustment for extraneous profit of 2014 and abnormal loss for 2015	(60,000)	40,000	—	—	—
	(20,000)	20,000	40,000	50,000	60,000
Add Back: Remuneration of Red	12,000	12,000	12,000	12,000	12,000
	(8,000)	32,000	52,000	62,000	72,000
Less: Debenture Interest being non-operating income	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)
	(10,400)	29,600	49,600	59,600	69,600
Total Profit from 2015 to 2018					2,08,400
Less: Loss for 2014					(10,400)
Accumulated Profit					1,98,000
Average Profit					39,600
Goodwill equal to 2 years' purchase					79,200
Contribution from White, equal to 1/5					15,840

(2 MARKS)

2. Partners' Capital Accounts

	Red	Black	White		Red	Black	White
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Drawings	24,000	24,000	24,000	By Balance b/d	80,000	1,00,000	—
To Black A/c			15,840	By General Reserve	12,000	8,000	—
To Balance c/d	1,13,120	1,14,880	11,040				
				By White A/c		15,840	—
				By Bank A/c	—	—	35,840
				By Profit & Loss A/c	45,120	15,040	15,040
	1,37,120	1,38,880	50,880		1,37,120	1,38,880	50,880

(2 MARKS)

3. Balance Sheet as on 31^{st} March, 2019

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Red's Capital		1,13,120	Land & Building	1,20,000	
Black's Capital		1,14,880	Less: Depreciation	(6,000)	1,14,000
White's Capital		11,040	Investments		40,000
Red's Loan	20,000		Stock-in-trade		80,000
Add: Interest due	1,200	21,200	Cash (Balancing figure)		26,240*
		2,60,240			2,60,240

(3 MARKS)

4. Conversion into Company

		Rs.
Capital:	Red	1,13,120
	Black	1,14,880
	White	11,040
Share Capital		2,39,040
Distribution of share:	Red (3/5)	1,43,424
	Black (1/5)	47,808
	White (1/5)	47,808

Red should subscribe shares of Rs. 30,304 (Rs. 1,43,424 – Rs. 1,13,120) and White should subscribe shares of Rs. 36,768 (Rs. 47,808 less 11,040). Black withdraws Rs. 67,072 (Rs. 47,808 – Rs.1,14,880).

5. Adjustment for Goodwill

	To be raised in old Raio	To be written off in new ratio	Difference
Red	47,520	47,520	Nil
Black	31,680	15,840	15,840 Cr.
White		15,840	15,840 Dr.

6. Closing cash balance* can also be derived as shown below:

	Rs.	Rs.
Trading profit (assume realised)		80,000
Add: Debenture Interest		2,400
Add: Decrease in Debtors Balance		40,000
		1,22,400
Less: Increase in stock	20,000	
Less: Decrease in creditors	40,000	(60,000)
Cash Profit		62,400
Add: Opening cash balance		20,000
Add: Cash brought in by White		35,840

		1,18,240
Less: Drawings	72,000	
Less: Additions to Building	20,000	(92,000)
		26,240

(8 MARKS)

ANSWER -6

ANSWER –A

Particulars	*Financial Capital Maintenance at Historical Cost (Rs.)*
Closing equity (Rs. 30 x 1,20,000 units)	36,00,000 represented by cash
Opening equity	1,20,000 units x Rs. 20 = 24,00,000
Permissible drawings to keep Capital intact	12,00,000 (36,00,000 – 24,00,000)

(5 MARKS)

ANSWER –B

In the books of ABC Limited Journal Entries

Date 20X2	*Particulars*		*Dr. (Rs.)*	*Cr. (Rs.)*
Jan 1	10% Redeemable Preference Share Capital A/c	Dr.	2,00,000	
	Premium on Redemption of Preference Shares		10,000	
	To Preference Shareholders A/c			2,10,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	2,10,000	
	To Bank A/c			2,10,000
	(Being the amount paid on redemption of preference shares)			
	General Reserve A/c	Dr.	2,00,000	
	To Capital Redemption Reserve A/c			2,00,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			
	Profit & Loss A/c	Dr.	10,000	

	To Premium on Redemption of Preference Shares A/c (Being premium on redemption charged to Profit and Loss A/c)			10,000	

Note: Capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

(5 MARKS)

ANSWER –C

Value of right share = Cum-right value of the share – Ex-right value of the share (as computed in Working Note)

= Rs. 190 – Rs. 176 = Rs. 14 per share.

Working Note:

Ex-right value of the shares

= (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + No. of right shares) = (Rs. 190 X 4 Shares + Rs. 120 X 1 Share) / (4 + 1) Shares

= Rs. 880 / 5 shares = Rs. 176 per share.

(5 MARKS)

ANSWER –D

(i) As per AS 2 (Revised) 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

Amount of Abnormal Loss:

(ii) Material used 16,000 MT @ Rs. 190 = Rs.30,40,000

Normal Loss (5% of 16,000 MT) 800 MT (included in calculation of cost of inventories)

Net quantity of material 15,200 MT

(iii) Abnormal Loss in quantity (950 - 800) = 150

MT Abnormal Loss Rs.30,000

[150 units @ Rs. 200 (Rs.30,40,000/15,200)]

Amount of Rs. 30,000 (Abnormal loss) will be charged to the Profit and Loss statement.

(5 MARKS)