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INTERMEDIATE N'19 EXAM

SUBJECT- ACCOUNTS

Test Code – PIN 5052

BRANCH - () (Date :)

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ANSWER-1

ANSWER-A

As per para AS 2 '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 Normal Loss and Abnormal Loss:

Material used 12,000 MT @ Rs. 150 = Rs. 18,00,000 Normal Loss

(4% of 12,000 MT) 480 MT

Net quantity of material 11,520 MT

Abnormal Loss in quantity 150 MT (630 MT less 480 MT)

Abnormal Loss Rs. 23,437.50 [150 units @ Rs. 156.25 (Rs.18,00,000/11,520)]

Amount of Rs. 23,437.50 will be charged to the Profit and Loss statement.

(5 MARKS)

ANSWER-B

As per 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.

Also AS 16 "Borrowing Costs" 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. 11,00,000 – Rs. 2,00,000

= Rs. 9,00,000

Sr. No.	Particulars	Nature of assets	Interest to be Capitalized (Rs.)	Interest to be charged to Profit & Loss (Rs.) Account
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

* A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

(5 MARKS)

ANSWER-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 accompany. These costs do not meet that requirement of AS 10 "Property, Plant and Equipment" and cannot, therefore, be capitalized.

(5 MARKS)

ANSWER-D

(i) As per AS 13, "Accounting for Investments" Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.

On this basis, the facts of the case given in the question clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares to Rs. 45,000 in the financial statements for the year ended 31st March, 2018 and charge the difference of loss of Rs. 2,55,000 to profit and loss account.

(ii) As per AS 13 'Accounting for Investments', where investments are reclassified from current to long-term, transfers are made at the lower of cost or fair value at the date of transfer.

In the given case, the market value of the investment (X Ltd. shares) is Rs. 2.50 lakhs, which is lower than its cost i.e. Rs. 5 lakhs. Therefore, the transfer to long term investments should be made at cost of Rs. 2.50 lakhs. The loss of Rs. 2.50 lakhs should be charged to profit and loss account.

(2.5* 2 = 5 MARKS)

ANSWER-2

ANSWER-A

Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.09 (15 Months)

	Total (Rs.)	Ratio	Pre (Rs.)	Post (Rs.)
Gross profit	1,40,40,000	1:8	15,60,000	1,24,80,000
Less: Salaries	23,40,000	1:12	1,80,000	21,60,000
Depreciation	3,60,000	1:4	72,000	2,88,000
Advertisement	14,04,000	1:8	1,56,000	12,48,000
Discount	23,40,000	1:8	2,60,000	20,80,000
Managing director's remuneration	1,80,000	Post	-	1,80,000
Office cum showroom rent	14,40,000	Actual	1,80,000	12,60,000
Miscellaneous office expenses	2,40,000	1:4	48,000	1,92,000
Interest	19,02,000	Actual	7,02,000	12,00,000
Goodwill (bal. fig.)			38,000	---
Net profit (B.f.)			----	38,72,000

Note: Since the profits prior to incorporation are in the negative, they would:

(a) either be considered as a reduction from any capital reserve accruing in relation to the transaction, or

(b) be treated as goodwill.

(3 MARKS)

Working Notes:

(1) Calculation of Time Ratio

Pre-Incorporation Period	Post-Incorporation Period
1st January, 2008 to 31st March, 2008	1st April, 2008 to 31st March, 2009
(3 Months)	(12 Months)
3:	12
1:	4

(2) Calculation of Sales Ratio

Pre-Incorporation Period	Post-Incorporation Period
3 Months	12 Months
3 x 1	12 x 2
3:	24
1:	8

(3) Calculation of Staff Salary Ratio

Pre-Incorporation Period 3 Months	Post-Incorporation Period 12 Months
3 x 1	12 x 3
3:	36
1:	12

(4) Calculation of Interest

Pre-Incorporation Period	Post-Incorporation Period
2,34,00,000 x 3/12 x 12/100	1,00,00,000 x 12/100
= Rs. 7,02,000	= Rs. 12,00,000

(5) Calculation of Rent

Rent on additional space

1st July 2008 to 31st March ,2009 = 9 months

Total additional rent = 60,000 X 9 = Rs. 5,40,000

Remaining rent on earlier space = 14,40,000 – 5,40,000 = Rs. 9,00,000

Rent per month = 900000/15 = 60000 per month

Pre-Incorporation Period rent	=	60,000 x 3	=	1,80,000
Post-Incorporation Period rent	=	60,000 x 12	=	7,20,000
Additional rent			=	5,40,000
				12,60,000

(6) Calculation of Gross Profit

Trading Account

	Rs.		*Rs.*
To Cost of goods sold	3,27,60,000	By Sales	4,68,00,000
To Gross profit (Bal. fig.)	1,40,40,000		
	4,68,00,000		4,68,00,000

Note:

1. The Profit & Loss Account presented in for a period of 15 months from 1st Jan 2008 to 31st March 2009 out of which the pre incorporation period is 3 months upto 31st March 2008 and post incorporation period of 12 months
2. As advertisement cost and discounts are directly related to sales, it is proper to assume that they would be incurred in the same ratio of time as Sales. Hence, 1 : 8
3 Since Managing Director is a position which is appointed in a company, it is proper to assume that his pay is incurred during the post incorporation period.
4. Interest on money borrowed to pay the purchase consideration is a post incorporation cost whereas the interest on purchase consideration for 3 months till payment will be pre incorporation cost.

(7 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: **(5 MARKS)**

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.

ANSWER-3

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 = $\frac{19,92,000}{24,000} \times 15,000$	(12,45,000)
Profit on sale	Rs. 1,05,000

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

$= \frac{1992000}{24000} \times 9000 \quad = \quad Rs. 747000$

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

Sales price	Rs. 17,60,000
Less: Cost of bond sold = $\frac{3825000}{250000} \times 80000$	(12,24,000)
Profit on sale	Rs. 5,36,000

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

$\frac{38,25,000}{2,50,000} \times 1,70,000$ = 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

Calculation of total Interest and Interest included in each installment

Hire Purchase Price (HPP) = Down Payment + instalments

= 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% + $\frac{162500-150000}{162500-148600} \times (12-6) = 11.39\%$

$$= 6\% + \frac{12500}{13900} \times 6 = 11.39\%$$

Thus repayment schedule and interest would be as under:

Installment no.	Principal at beginning	Interest included in each installment	Gross amount	Installment	Principle 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*			

(5 MARKS)

Ledger Accounts in the books of Happy Valley Florist Ltd.

Van Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2010	To Ganesh Enterprises	1,50,000	31.03.2011	By Depreciation A/c	15,000
				By Balance c/d	1,35,000
		1,50,000			1,50,000
1.4.2011	To Balance b/d	1,35,000	31.03.2012	By Depreciation A/c	13,500
				By Balance c/d	1,21,500
		1,35,000			1,35,000
1.4.2012	To Balance b/d	1,21,500	31.03.2013	By Depreciation A/c	12,150
				By Balance c/d	1,09,350
		1,21,500			1,21,500
1.4.2013	To Balance b/d	1,09,350	31.03.2014	By Depreciation A/c	10,935
				By Balance c/d	98,415
		1,09,350			1,09,350

(2.5 MARKS)

Ganesh Enterprises Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2010	To Bank A/c	30,000	1.4.10	By Van A/c	1,50,000
31.03.2011	To Bank A/c	50,000	31.03.11	By Interest c/d	13,668
	To Balance c/d	83,668			
		1,63,668			1,63,668
31.03.2012	To Bank A/c	50,000	1.4.11	By Balance b/d	83,668
	To Balance c/d	43,198	31.03.12	By Interest A/c	9,530
		93,198			93,198
31.3.2013	To Bank A/c	30,000	1.4.12	By Balance b/d	43,198
	To Balance c/d	18,118	31.3.13	By Interest A/c	4,920
		48,118			48,118
31.3.2014	To Bank A/c	20,000	1.4.13	By Balance b/d	18,118
			31.3.14	By Interest A/c	1,882*
		20,000			20,000

*Balanced due to approximation in interest calculations.

(2.5 MARKS)

ANSWER-4

ANSWER-A

M/s Heera & Co.

Patna Branch Trial Balance in (US $)

as on 31st March, 2018

	Conversion rate per US $ *(Rs.)*	Dr. US $	Cr. US $
Stock on 1.4.15	55	5,454.55	–
Purchases and sales	58	13,793.10	20,689.66

Sundry debtors and creditors	60	6,666.67	5,000.00
Bills of exchange	60	2,000.00	4,000.00
Wages and salaries	58	9,655.17	-
Rent, rates and taxes	58	6,206.90	-
Sundry charges	58	2,758.62	-
Plant	–	6,000.00	-
Bank balance	60	7,000.00	-
USA office A/c	–	-	29,845.35
		59,535.01	59,535.01

(4 MARKS)

Trading and Profit & Loss Account

for the year ended 31st March, 2018

	US $		*US $*
To Opening Stock	5,454.55	By Sales	20,689.66
To Purchases	13,793.10	By Closing stock (Rs. 4,20,000/60)	7,000.00
To Wages and salaries	9,655.17		
		By Gross Loss c/d	1,213.16
	28,902.82		28,902.82
To Gross Loss b/d	1,213.16	By Net Loss	13,778.68
To Rent, rates and taxes	6,206.90		
To Sundry charges	2,758.62		
To Depreciation on Plant (US $ 6,000 × 0.6)	3,600.00		
	13,778.68		13,778.68

(4 MARKS)

Balance Sheet of Patna Branch
as on 31st March, 2018

Liabilities		US $	*Assets*	US $	US $
USA Office A/c	29,845.35		Plant	6,000.00	
Less: Net Loss	(13,778.68)	16,066.67	*Less:* Depreciation	(3,600.00)	2,400.00
Sundry creditors		5,000.00	Closing stock		7,000.00
Bills payable		4,000.00	Sundry debtors		6,666.67
			Bills receivable		2,000.00
			Bank balance		7,000.00
		25,066.67			25,066.67

(2 MARKS)

ANSWER-B

Memorandum Trading Account for the period 1st April, 2010 to 31st August, 2010

	Normal Items Rs.	Abnormal Items Rs.	Total Rs.		Normal Items Rs.	Abnormal Items Rs.	Total Rs.
To Opening stock	95,000	5,000	1,00,000	By Sales	2,40,000	2,000	2,42,000
To Purchases (Refer W.N.)	1,56,500	-	1,56,500	By Goods sent to consignee	16,500	-	16,500
To Wages	47,000	-	47,000	By Loss	- 90,000	500	500
To Gross profit @ 20%	48,000	-	48,000	By Closing stock (Bal.fig.)		2,500	92,500
	3,46,500	5,000	3,51,500		3,46,500	5,000	3,51,500

Statement of Claim for Loss of Stock

	Rs.
Book value of stock as on 31.08.2010	92,500
Less: Stock salvaged	(20,000)
Loss of stock	72,500

Amount of claim to be lodged with insurance company = Loss of stock x $\frac{Policy\ value}{Value\ of\ stock\ on\ the\ date\ of fire}$

= 72500 x 60000/92500

= Rs. 47,027

(8 MARKS)

Working Note:

Calculation of Adjusted Purchases

	Rs.
Purchases	1,70,000
Less: Drawings	(12,000)
Free samples	(1,500)
Adjusted purchases	1,56,500

(2 MARKS)

ANSWER-5

ANSWER-A

(i) Adjustment for raising & writing off of goodwill

	Goodwill raised in old profit sharing ratio			*Goodwill written off in new ratio*	*Difference*
	AB & Co.	*CD & Co.*	*Total*	*AD & Co.*	
	Rs.	*Rs.*	*Rs.*	*Rs.*	*Rs.*
A	50,000		50,000 Cr.	31,250 Dr.	18,750 Cr.
B	25,000		25,000 Cr.	15,625 Dr.	9,375 Cr.
C		30,000	30,000 Cr.	46,875 Dr.	16,875 Dr.
D	______	20,000	20,000 Cr.	31,250 Dr.	11,250 Dr.
	75,000	50,000	1,25,000	1,25,000	

(ii) **In the books of AD & Co.**

Journal Entries

Date	*Particulars*		*Debit*	*Credit*
			Rs.	Rs.
April 1, 2017	Building A/c	Dr.	1,00,000	
	Machinery A/c	Dr.	1,25,000	
	Furniture A/c	Dr.	15,000	
	Stock A/c	Dr.	24,000	
	Debtors A/c	Dr.	65,000	
	CD & Co. A/c	Dr.	47,000	
	Cash at bank A/c	Dr.	18,000	
	Cash in hand A/c	Dr.	4,000	
	To Provision for doubtful debts A/c			5,000
	To Creditors A/c			52,000
	To A's capital A/c (W.N. 2a)			2,10,667
	To B's capital A/c (W.N.2 a)			1,30,333
	(Being the sundry assets and liabilities of AB & Co. taken over at the values stated as per the agreement)			
April 1, 2017	Building A/c	Dr.	1,25,000	
	Machinery A/c	Dr.	1,10,000	
	Furniture A/c	Dr.	12,000	
	Stock A/c	Dr.	36,000	
	Debtors A/c	Dr.	78,000	
	Cash at bank A/c	Dr.	15,000	
	Cash in hand A/c	Dr.	5,000	
	To Provision for doubtful debts A/c			8,000

	To Creditors A/c			35,000
	To AB & Co. A/c			47,000
	To C's capital A/c (W.N. 2b)			1,74,600
	To D's capital A/c (W.N. 2b)			1,16,400
	(Being the sundry assets and liabilities of CD & Co. taken over at the values stated as per the agreement)			
	C's capital A/c	Dr.	16,875	
	D's capital A/c	Dr.	11,250	
	To A's capital A/c			18,750
	To B's capital A/c			9,375
	(Being adjustment in capital accounts of the partners on account of goodwill)			
	AB & Co. A/c	Dr.	47,000	
	To CD & Co. A/c			47,000
	(Being mutual indebtedness of AB & Co. and CD & Co. cancelled)			
	A's Capital A/c	Dr.	1,24,267	
	To A's Current A/c			1,24,267
	(Being excess amount in A's capital A/c transferred to A's current A/c - refer W.N.3)			
	B's Capital A/c	Dr.	87,133	
	To B's Current A/c			87,133
	(Being excess amount in B's capital A/c transferred to B's current A/c - refer W.N.3)			

Working Notes:

(1) Profit on Revaluation

	AB & Co.	*CD & Co.*
	Rs.	*Rs.*
Building (1,00,000 – 75,000)	25,000	
(1,25,000 – 90,000)		35,000
Machinery (1,25,000 – 1,20,000)	5,000	
(1,10,000 – 1,00,000)		10,000
	30,000	45,000
Less: Provision for doubtful debts	(5,000)	(8,000)
	25,000	37,000

(2) Balance of capital accounts of partners on transfer of business to AD & Co.

(a) AB & Co.

	A's Capital	*B's Capital*
	Rs.	Rs.
Balance as per the Balance Sheet	1,50,000	1,00,000
Reserves in the profits and losses sharing ratio	44,000	22,000
Profit on revaluation in the profits and losses sharing ratio (W.N.1)	16,667	8,333
	2,10,667	1,30,333

(b) CD & Co.

	C's Capital	*D's Capital*
	Rs.	Rs.
Balance as per the Balance Sheet	1,20,000	80,000
Reserves in the profits and losses sharing ratio	32,400	21,600
Profit on revaluation in the profits and losses sharing ratio (W.N.1)	22,200	14,800
	1,74,600	1,16,400

(1) **Calculation of capital of each partner in the new firm**

Particulars	*A*	*B*	*C*	*D*
	Rs.	Rs.	Rs.	Rs.
Balance as per W.N.2	2,10,667	1,30,333	1,74,600	1,16,400
Adjustment for goodwill	18,750	9,375	(16,875)	(11,250)
	2,29,417	1,39,708	1,57,725	1,05,150
Total capital Rs. 4,20,600* in the new ratio of 2:1:3:2	(1,05,150)	(52,575)	(1,57,725)	(1,05,150)
Transfer to Current Account	1,24,267 Cr.	87,133 Cr.	-	-

* Taking D's capital as the base which is 2/8th of total capital; total capital will be 1,05,150 x 8/2 i.e. Rs. 4,20,600.

ANSWER-B

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. 200 X 5 Shares + Rs. 125 X 1 Share) / (5 + 1) Shares

= Rs. 1,125 / 6 shares = Rs. 187.50 per share.

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

= Rs. 200 – Rs. 187.50 = Rs. 12.50 per share.

(5 MARKS)

ANSWER-6 (5 MARKS X 4 = 20 MARKS)

ANSWER-A

As per AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus Prashant Ltd. should disclose the change in valuation method of inventory and its effect on financial statements. The company may disclose the change in accounting policy in the following manner:

'The company values its inventory at lower of cost and net realisable value. Since net realisable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost. In the present year i.e. 2014-15, the company has changed to weighted average method, which better reflects the consumption pattern of inventory, for ascertaining inventory costs from the earlier practice of using FIFO for the purpose. The change in policy has reduced current profit and value of inventory by Rs. 16,000.

ANSWER-B

(i) Operating Activities: c, e, f, g, j
(ii) Investing Activities: a, h.
(iii) Financing Activities: b, d, i.

ANSWER-C

Capital Redemption Reserve A/c	Dr.	30,000	
Securities Premium A/c	Dr.	40,000	
General Reserve A/c	Dr.	30,000	
To Bonus shareholders			1,00,000
(Being issue of bonus shares by utilization of various Reserves, as per resolution dated …….)			
Bonus to Shareholders A/c	Dr.	1,00,000	
To Equity Share Capital			1,00,000
(Being capitalization of Profit)			

ANSWER-D

A liability is recognized when outflow of economic resources in settlement of a present oblig ation can be anticipated and the value of outflow can be reliably measured. In the given case, ABC Ltd. should recognize a liability of Rs.4, 00,000 payable to XYZ Ltd. When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognized as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognized as an expense. Hence ABC Ltd. should charge the amount of Rs. 4,00,000 (being loss due to change in production method) to Profit and loss statement and record the corresponding liability (amount payable to XYZ Ltd.) for the same amount in the books for the year ended 31st March, 2018.