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INTERMEDIATE M'19 EXAM

SUBJECT- ACCOUNTS

Test Code - PIN 5069

BRANCH - () (Date :)

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

ANSWER-1

ANSWER-A

As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date.

A debtor for Rs. 20,00,000 suffered heavy loss due to earthquake in the last week of February, 2017 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in April, 2017 (after the balance sheet date) is only an additional information related to the condition existing on the balance sheet date.

Accordingly, full provision for bad debts amounting Rs. 20,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March, 2017. Since the company has already made 5% provision of its total debtors, additional provision amounting Rs. 19,00,000 shall be made (20,00,000 × 95%) for the year ended 31st March, 2017.

(5 MARKS)

ANSWER-B

As per para 21 of AS 12, 'Accounting for Government Grants,' "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

(i) In this case the grant refunded is Rs. 15 lakhs and balance in deferred income is Rs. 10.50 lakhs, Rs. 4.50 lakhs shall be charged to the profit and loss account for the year 2017 – 18. There will be no effect on the cost of the fixed assets and depreciation charged will be on the same basis as charged in the earlier years.

(ii) If the grant was deducted from the cost of the plant in the year 2014 – 15 then, para 21 of AS 12 states that the amount refundable in respect of grant which relates to specific fixed assets should be recorded by increasing the book value of the assets, by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case, the book value of the plant shall be increased by Rs. 15 lakhs. The increased cost of Rs. 15 lakhs of the plant should be amortized over 7 years (residual life). Depreciation charged during the year 2017 – 18 shall be (56 + 15)/7 years = Rs. 10.14 lakhs presuming the depreciation is charged on SLM.

(5 MARKS)

ANSWER-C

(i) As per the provisions of AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", prior period items are income or expenses, which arise, in the current period as a result of error or omissions in the preparation of financial statements of one or more prior periods. Further, the nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on current profit or loss can be perceived.

In the given instance, it is clearly a case of error/omission in preparation of financial statements for the year 2015-16. Hence, claim received in the financial year 2017- 18 is a prior period item and should be separately disclosed in the statement of Profit and Loss.

(ii) In the given case, a limited company created 2.5% provision for doubtful debts for the year 2017-2018. Subsequently, the company revised the estimates based on the changed circumstances and wants to create 8% provision.

As per AS 5, the revision in rate of provision for doubtful debts will be considered as change in estimate and is neither a prior period item nor an extraordinary item.

The effect of such change should be shown in the profit and loss account for the year ending 31st March, 2018.

(5 MARKS)

ANSWER-D

As per para 3.2 to AS 16 'Borrowing Costs', a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

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

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

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

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

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

(5 MARKS)

ANSWER-2

ANSWER-A

In the books of Mr. Brown

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

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

(3 MARKS)

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

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

	(W.N.3)					By Balance c/d (W.N.4)			
	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**

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

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

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

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

(3 MARKS)

Statement of Claim for Loss of Stock

	Rs.
Book Value of stock as on 27th July, 2017	62,000
Add : Abnormal Stock	1,000
Less : Stock salvaged	(5,000)
Loss of stock	58,000
Add : Fire fighting expenses	1,300
Total Loss	59,300

Amount of claim to be lodged with insurance company

$= \text{Loss X } \frac{\text{Policy value}}{\textit{Value of stock on the date of fire}}$

= Rs. 59,300 × (55,000/ 63,000) = Rs. 51,770 (rounded off)

(2 MARKS)

Working Notes :

1. Calculation of Adjusted Purchases

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

2. Calculation of Goods with Customers

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

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

= Rs. 8,000

3. Calculation of Actual Sales

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

4. Calculation of Wages

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

5. Value of Opening Stock

Original cost of stock as on 31st March, 2018

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

= Rs. 64,000.

(5*1 = 5 MARKS)

ANSWER-3

ANSWER-A

Statement showing distribution of cash amongst the partners

		Creditors	B's Loan	A (Rs.)	Capitals B (Rs.)	C (Rs.)
Balance Due		16,500	4,500	15,000	7,500	15,000
On 1st Instalment amount with the firm Rs. (275 + 18,650)	18,925					
Less: Dissolution expenses provided for	(3,000)					
	15,925					
Less: C's remuneration of 1% on assets realised (18,650 x 1%)	(187)					
	15,738					
Less: Payment made to creditors	(15,738)	(15,738)				
Balance due	Nil	762				
2nd instalment realised	17,320					
Less: C's remuneration of 1% on assets realised (17,320 x 1%)	(173)					
	17,147					
Less: Payment made to creditors	(162)	(162)				
Transferred to P& L A/c		600				
Balance available	16,985					
Less: Payment for B's loan A/c	(4,500)		(4,500)			
Amount available for distribution to partners	12,485		nil			
Less: C's remuneration of 10% of the amount distributed to partners(12,485 x 10/110)	(1,135)					
Balance distributed to partners on the basis of HRCM	11,350					
Less: Paid to C (W.N.1)	(3,750)					(3,750)
	7,600					11,250
Less: Paid to A and C in 4:3 (W.N.1)	(7,600)			(4,343)	-	(3,257)
Balance due	nil			10,657	7,500	7,993
Amount of 3rd instalment	10,000					
Less: C's remuneration of 1% on assets realised (10,000 x 1%)	(100)					
	9,900					
Less: C's remuneration of 10% of the amount distributed to partners (9,900 x 10/110)	(900)					
	9,000					
Less: Paid to A and C in 4:3 for (Rs. 8,750 – 7,600) (W.N.1)	(1,150)			(657)	-	(493)
	7,850			10,000	7,500	7,500

Less: Paid to A, B and C in 4:3:3	(7,850)			(3,140)	(2,355)	(2,355)
Balance due	nil			6,860	5,145	5,145
Amount of 4th and last instalment	7,000					
Less: C's remuneration of 1% on assets realised (7,000 x 1%)	(70)					
	6,930					
Less: C's remuneration of 10% of the amount distributed to partners (6,930 x 10/110)	(630)					
	6,300					
Less: Paid to A, B and C in 4:3:3	(6,300)			(2,520)	(1,890)	(1,890)
Loss suffered by partners				4,340	3,255	3,255

(10 MARKS)

Working Note:

(i) Rs. 275 added to the first instalment received on sale of assets represents the Cash in Bank

(ii) The amount due to Creditors at the end of the utilisation of First Instalment is Rs. 762/-. However, since the creditors were settled for Rs. 15,900/- only the balance 162/- were paid and the balanceRs. 600/- was transferred to the Profit & Loss Account.

(iii) Highest Relative Capital Basis

	A	B	C
	Rs.	**Rs.**	**Rs.**
Balance of Capital Accounts (A)	15,000	7,500	15,000
Profit sharing ratio	4	3	3
Capital Profit sharing ratio	3,750	2,500	5,000
Capital in profit sharing			
ratio taking B's Capital as base (B)	10,000	7,500	7,500
Excess of A's Capital and C's Capital (A-B) =(C)	5,000	nil	7,500
Again repeating the process			
Profit sharing ratio	4		3
Capital Profit sharing ratio	1,250		2,500
Capital in profit sharing			
ratio taking A's Capital as base (D)	5,000		3,750
Excess of C's Capital (C-D)=(E)	nil		3,750

Therefore, firstly Rs. 3,750 is to be paid to C then A and C to be paid in proportion of 4:3 uptoRs. 8,750 to bring the capital of all partners A, B and C in proportion to their profit sharing ratio. Thereafter, balance available will be paid in their profit sharing ratio 4:3:3 to all partners viz A, B and C.

(5 MARKS)

ANSWER-B

Arya Ltd.

Journal Entries

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

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

(5 MARKS)

ANSWER-4

ANSWER-A

Books of Branch

Journal Entries

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

(10 MARKS)

ANSWER-B

Trading and Profit & Loss Account for

the year ended 31.12.2007

Dr. Cr.

		Rs.			Rs.
To	Opening stock	50,000	By	Sales (W.N.8)	3,25,000
To	Purchases (W.N.7)	2,72,500	By	Closing stock	62,500
To	Gross profit (W.N.6)	65,000			
		3,87,500			3,87,500

To	Expenses	49,250	By	Gross profit	65,000
To	Loss on sale of fixed asset	750			
To	Depreciation on fixed assets	1,000			
To	Net Profit	14,000			
		65,000			65,000

(3 MARKS)

Balance Sheet as at 31.12.2007

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

(2 MARKS)

Working Notes: **(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-5

ANSWER-A

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

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

(3 MARKS)

Working Notes:

1. Time Ratio

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

i.e. 4 months

Post incorporation period is 8 months

Time ratio is 1: 2.

2. Sales ratio

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

Then, sales for 6 months = 6x

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

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

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

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

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

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

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

3. Rent

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

4. Travelling expenses and sales promotion expenses

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

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

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

6. Depreciation

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

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

(7 MARKS)

ANSWER-B

1. Memorandum Stock Account

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

(3 MARKS)

2. Trading Account for the year

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

Note: Closing Stock at Cost

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

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

(2 MARKS)

3. Memorandum Mark Up Account

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

(2.5 MARKS)

4. Confirmation / Verification of Gross Profit

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

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

(2.5 MARKS)

ANSWER-6

ANSWER-A

Cash Flow Statement for the year ended 31st March

Particulars		Rs. Millions	Rs. Millions
A.	**CASH FLOW FROM OPERATING ACTIVITIES**		
	Net Income	3.30	
Add:	Depreciation & Amortizations	0.75	

	Loss on Sale of Assets	1.20	
Less:	Increase in Accounts Receivable	(1.50)	
	Net Cash Flow from / (used in) Operating Activities [A]		**3.75**
B.	**CASH FLOW FROM INVESTING ACTIVITIES**		
	Capital Expenditure	(9.90)	
	Proceeds from Sale of Fixed Assets	1.60	
	Net Cash Flow from / (used in) Investing Activities [B]		**(8.30)**
C.	**CASH FLOW FROM FINANCING ACTIVITIES**		
	Additional Shares issued	6.50	
	Dividend declared (assumed as Dividend Paid during the year)	(0.50)	
	Redemption of Debentures	(2.50)	
	Net Cash Flow from / (used in) Financing Activities [C]		**3.50**
D.	Net Increase / (Decrease) in Cash and Cash Equivalents [A + B + C]		(1.05)
E.	Opening Balance of Cash and Cash Equivalents		1.55
F.	Closing Balance of Cash and Cash Equivalents		0.50

Note: It is assumed that 4.5% Debentures is the only Debt of the Company and is redeemed at the beginning of the reporting period. Hence, Interest Expense on Debt is not considered.

(5 MARKS)

ANSWER-B

Calculation of effective capital and maximum amount of monthly remuneration

	(Rs. In lakhs)
Paid up equity share capital	180
Paid up Preference Share Capital	30
Reserve excluding Revaluation reserve (225 – 15)	210
Securities Premium	60
Long term loans	60
Deposits repayable after one year	30
	570
Less : Accumulated losses not written off	(30)
Investments	(270)
Effective capital for the purpose of managerial remuneration	270

Since PQ Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration, managerial remuneration will be calculated on the basis of effective capital of the company, therefore maximum remuneration payable to the Managing Director should be @ Rs. 60,00,000 per annum*.

*If the effective capital is less than 5 Crore, limit of yearly remuneration payable should not exceed Rs. 60 lakhs as per Companies Act, 2013.

(5 MARKS)

ANSWER-C

In the books of Meera Limited

Journal Entries

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

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

(5 MARKS)

ANSWER-D

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

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

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

(5 MARKS)