SUGGESTED SOLUTION

INTERMEDIATE Nov. 2019 EXAM

SUBJECT- ACCOUNTS

Test Code - PIN 5075

BRANCH - () (Date : //)

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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, 2019 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, 2019 (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 2019. 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 x 95%).

(5 MARKS)

ANSWER-B

As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, 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. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts:

So far, the company has been providing 2% of sales for meeting "after sales expenses during the warranty period. With the improved method of production, the probability of defects occurring in the products has reduced considerably. Hence, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is increased by Rs. 12 crores than would have been the case if the old policy were to continue.

(5 MARKS)

ANSWER-C

Gamma Limited

Calculation of Deferred Tax Asset/Liability

Year	*Accounting Income*	*Taxable Income*	*Timing Difference (balance)*	*Deferred Tax Liability (balance)*
2014-2015	11,00,000	7,00,000	4,00,000	1,40,000
2015-2016	16,00,000	18,00,000	2,00,000	70,000

2016-2017	21,00,000	23,00,000	NIL	NIL
	48,00,000	48,00,000		

As per AS 22, deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period. Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities. The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in the notes to accounts.

(5 MARKS)

ANSWER-D

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

(5 MARKS)

ANSWER-2

ANSWER-A

In the books of M/s Kumar Investment Account

for the period from 1st December 2016 to 1st March, 2017

(Scrip: 12% Debentures of Royal Ltd.)

Date	*Particulars*	*Nominal Value (Rs.)*	*Interest*	*Cost (Rs.)*	*Date*	*Particulars*	*Nominal Value (Rs.)*	*Interest*	*Cost (Rs.)*
1.12.2016	To Bank A/c (W.N.1)	10,00,000	20,000	10,00,100	1.03.2017	By Bank A/c (W.N.2)	10,00,000	50,000	9,99,400
1.3.2017	To Profit &	-			1.3.2017	By Profit & loss			

	loss A/c		30,000			A/c			700
		10,00,000	50,000	10,00,100			10,00,000	50,000	10,00,100

Working Notes:

(i) Cost of 12% debentures purchased on 1.12.2016

		Rs.
Cost Value (10,000 X Rs.101)	=	10,10,000
Add: Brokerage (1% of Rs.10,10,000)	=	10,100
Less: Cum Interest (10,000 x 100 x12% x 2/12)	=	(20,000)
Total	=	10,00,100

(ii) Sale proceeds of 12% debentures sold on 1st March, 2017

		Rs.
Sales Price (10,000 X Rs.106)	=	10,60,000
Less: Brokerage (1% of Rs.10,60,000)	=	(10,600)
Less: Cum Interest (10,000 x 100 x12% x 5/12)	=	(50,000)
Total	=	9,99,400

(6 MARKS)

ANSWER-B

Computation of claim for loss of stock

	Rs.
Stock on the date of fire i.e. on 30th March, 2018 (W.N.1)	1,25,200
Less: Value of salvaged stock	(24,600)
Loss of stock	1,00,600
Amount of claim $\left(\frac{insured\ value}{Total\ cost\ of\ stock\ on\ the\ date\ of\ time} \times Loss\ of\ stock\right)$ = = $\left(\frac{1,20,000}{1,25,200} \times 1,00,600 = 96,422 \quad (approx)\right)$	96,422 (approx.)

A claim of Rs. 96,422 (approx.) should be lodged by M/s Alok & Co. to the insurance company

Working Notes:

1. **Calculation of closing stock as on 30th March, 2018**

Memorandum Trading Account for

(from 1st January, 2018 to 30th March, 2018)

Particulars	*Amount* (Rs.)	*Particulars*	*Amount* (Rs.)
To Opening stock	1,91,200	By Sales (W.N.3)	4,84,000
To Purchases (3,40,000-60,000)	2,80,000	By Goods with customers (for approval) (W.N.2)	52,800*
To Wages (1,00,000 – 6,000)	94,000	By Closing stock (Bal. fig.)	1,25,200
To Gross profit (20% on sales)	96,800		
	6,62,000		6,62,000

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

2. **Calculation of goods with customers**

Since no approval for sale has been received for the goods of Rs. 66,000 (i.e. 2/3 of Rs. 99,000) hence, these should be valued at cost i.e. Rs. 66,000 – 20% of Rs. 66,000 = Rs. 52,800.

3. **Calculation of actual sales**

Total sales – Sale of goods on approval (2/3rd) = Rs. 5,50,000 – Rs. 66,000 =

Rs. 4,84,000.

(8 MARKS)

ANSWER-C

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 & Amortisations	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.

(6 MARKS)

ANSWER-3

ANSWER-A

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

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

	(10% of 1,00,000*6/12)			
To	Net Profit	1,45,000		
		3,10,000		3,10,000

(4 MARKS)

Balance Sheet as at 31st March, 2017

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

Working Notes:

1. **Sundry Debtors Account**

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

2. **Sundry Creditors Account**

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

3. **Cash and Bank Account**

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

			By	Balance c/d	10,000	80,000
	2,50,000	9,50,000			2,50,000	9,50,000

(8 MARKS)

ANSWER-B

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	-	5,50,000	5,50,000	50,000	5,00,000
2nd	5,00,000	4,90,000	9,90,000	90,000	9,00,000
1st	9,00,000	4,20,000	13,20,000	1,20,000	12,00,000

Total cash price = Rs. 12,00,000+ 6,00,000 (down payment) = Rs. 18,00,000.

(4 MARKS)

Cars Account in the books of Krishan for the year ended 31st March, 18

1.4.2017	To Balance b/d	10,12,500 [18,00,00 less depreciation (4,50,000 + 3,37,500)]	31.3.2018	By Depreciation A/c	2,53,125
				By Fair Value Motors A/c (Value of 1 Car taken over after depreciation for 3 years @ 40% p.a.) [9,00,000 - (3,60,000 + 2,16,000 +1,29,600)]	1,94,400
				By Loss transferred to Profit and Loss A/c on surrender (Bal. fig.)	1,85,288
				By Balance c/d ½ (10,12,500-2,53,125)	3,79,687

		10,12,500			**10,12,500**

(4 MARKS)

ANSWER-4

ANSWER-A

1. Branch Trial Balance as on 31st March 2018

Debit Balances	Rate	Bcs.	Rs.	Credit Balances	Rate	Bcs.	Rs.
Freehold Bldgs, at Cost	Actual	1,20,000	58,000	Creditors	2.50	46,000	18,400
Fixtures 8i Fittings at Cost	2	60,000	30,000	Provision for Taxation	2.50	15,000	6,000
Stock in Trade	2.50	84,000	33,600	Provision for Deprn:			
Debtors	2.50	57,000	22,800	Building (3%)	-	3,600	1,740
Balance at Bank	2.50	16,400	6,560	Fixtures (5%)	2.00	3,000	1,500
Cash in hand	2.50	2,800	1,120	HO Current A/c (Note)		2,45,800	1,13,060
Goods in Transit (Rs. given)	2.50	10,000	4,000	Profit for the year	2.30	36,800	16,000
Exchange Loss (bal. fig.)	-	-	620				
Total		**3,50,200**	**1,56,700**	**Total**		**3,50,200**	**1,56,700**

Note: Provision for Depreciation of Building = Rs. 58,000 x $\frac{3,600}{1,20,000}$ =Rs.1,740

HO Current A/c Revised (as per Branch Books) = 2,35,800 (given) + Goods in Transit 10,000 = Bcs.2,45,800

Branch Current A/c Revised (as per HO Books) = 1,15,060 (given) (-) Cash in Transit 2,000 = Rs.1,13,060

2. Computation of Branch Stock Reserve

Particulars	**Rs.**
Branch Stock as on 31.03.2012 (as given)	33,600
Less: Forwarding Charges and Import Duty = Rs. 33,600 x $\frac{5}{105}$	(1,600)
Branch Stock (at Invoiced Value)	32,000
Stock Reserve required on Rs. 32,000 = Rs. 32,000 x $\frac{25}{125}$	6,400

Stock Reserve required on Goods in Transit = Rs. 4,000 x $\frac{25}{125}$	800
Total Stock Reserve Required	**7,200**

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

Particulars	Rs.	Particulars	Rs.
To Exchange Loss (WN 1)	620	By Profit from HO TB	54,200
To Stock Reserve (WN 2)	7,200	By Profit from Branch TB (WN 1)	16,000
To Net Profit for the year (bal. fig)	62,380		
Total	**70,200**	**Total**	**70,200**

(7 MARKS)

4. Balance Sheet of Rishikesh Ltd as on 31st March 2018

Particulars as at 31st March			Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES:**				
(1)	**Shareholders' Funds:**				
	(a)	Share Capital	1	3,50,000	
	(b)	Reserves and Surplus	2	90,180	
(2)	**Non-Current Liabilities:**				
	Long Term Borrowings- 12% Debentures (redeemable on 30.09.2015)			80,000	
(3)	**Current Liabilities:**				
	(a)	Trade Payables - Creditors (HO 29,200 + Branch 18,400)		47,600	
	(b)	Short Term Provisions - Provision for Taxation (HO 25,400 + Branch 6,000)		31,400	
	Total			**5,99,180**	
II	**ASSETS**				
(1)	**Non-Current Assets - Fixed Assets: Tangible Assets**		**3**	**2,84,760**	
(2)	**Current Assets:**				
	(a)	Inventories (HO 1,48,640 + Branch 33,600 + In Transit 4,000 - Stk Reserve 7,200)		1,79,040	
	(b)	Trade Receivables (HO 22,280 + Branch 22,800)		45,080	
	(c)	Cash and Cash Equivalents	4	40,300	
	(d)	Short Term Loans and Advances		50,000	
		Total		**5,99,180**	

(5 MARKS)

Note 1: Share Capital

Particulars		This Year	Prev. Yr
Authorised:	1,00,000 Equity Shares of Rs. 10 each		
Issued, Subscribed & Paid up:	35,000 Equity Shares of Rs. 10 each	3,50,000	

Note 2: Reserves and Surplus

Particulars	Opg Bal.	Additions	Deductions	Clg.Bal.
Surplus (P&L A/c)	27,800	(WN 3) 62,380	-	90,180

Note 3: Tangible Fixed Assets

Item	Gross Block / Cost			Depreciation			Net Block / WDV	
	HO	Branch	Total	HO	Branch	Total	Opg Bal	Clg Bal.
Column	(1)	(2)	(3)=1+ 2	(4)	(5)	(6)=4+5	(7)	(8) = 3-6
Freehold Building	1,80,000	58,000	2,38,000	26,000	1,740	27,740		2,10,260
Furniture & Fittings	84,000	30,000	1,14,000	38,000	1,500	39,500		74,500
Total			**3,52,000**			**67,240**		**2,84,760**

Note 4 : Cash and Cash Equivalents

Particulars	This Year	Prev. Yr
Balances with Banks (HO 29,380 + Branch 6,560)	35,940	
Cash on Hand (HO 1,240 + Branch 1,120 + In Transit 2,000)	4,360	
Total	**40,300**	

ANSWER-B

Pre – incorporation period is for two months, from 1st April, 2017 to 31st May, 2017. 10 months' period (from 1st June, 2017 to 31st March, 2018) 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

(4 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)

Oct. 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 2014 – 15.

(viii) Rent

(Rs. 38,400 – Additional rent for 6 months)	Rs.
[38,400 – 14,400 (2,400 × 6)]	= 24,000
1/4/17 – 31/5/17 (2,000 × 2)	= 4,000
1/6/17 – 31/3/18 [(2,000 × 10) + 14,400]	= 34,400
	38,400

(4 MARKS)

ANSWER-5

ANSWER-A

Pioneer Ltd.

Balance Sheet as on 31st March, 20X1

Particulars		**Notes**	**Rs.**
Equity and Liabilities			
1	**Shareholders' funds**		
a	Share capital	1	9,99,000
b	Reserves and Surplus	2	2,96,700
2	**Non-current liabilities**		
a	Long-term borrowings	3	2,63,500
3	**Current liabilities**		
a	Trade Payables		2,00,000
b	Other current liabilities	4	67,500
c	Short-term provisions	5	68,000
	Total		**18,94,700**
Assets			
1	**Non-current assets**		
a	Fixed assets		
	Tangible assets	6	11,25,000
2	**Current assets**		
a	Inventories	7	2,50,000
b	Trade receivables	8	2,00,000
c	Cash and bank balances	9	2,77,000
d	Short-term loans and advances		42,700
	Total		**18,94,700**

Notes to accounts

			Rs..
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	10,000 Equity Shares of Rs.100 each	10,00,000	
	(Of the above 2,000 shares have		
	been issued for consideration other than cash)		
	Less: Calls in arrears	(1,000)	9,99,000
	Total		**9,99,000**
2	**Reserves and Surplus**		
	General Reserve		2,10,000
	Surplus (Profit & Loss A/c)		86,700

	Total		**2,96,700**
3	**Long-term borrowings**		
	Secured		
	Term Loans		
	Loan from State Financial Corporation (1,50,000 – 7,500)		
	(Secured by hypothecation of Plant and Machinery)		1,42,500
	Unsecured loan		1,21,000
	Total		**2,63,500**
4	**Other current liabilities**		
	Interest accrued but not due on loans (SFC)		7,500
	Dividend Payable		60,000
	Total		**67,500**
5	**Short-term provisions**		
	Provision for taxation		68,000
	Total		**68,000**
6	**Tangible assets**		
	Land		2,00,000
	Buildings	4,00,000	
	Less: Depreciation	(50,000) (b.f.)	3,50,000
	Plant & Machinery	7,00,000	
	Less: Depreciation	(1,75,000) (b.f.)	5,25,000
	Furniture & Fittings	62,500	
	Less: Depreciation	(12,500) (b.f.)	50,000
	Total		**11,25,000**
7	Inventories		
	Raw Material		50,000
	Finished goods		2,00,000
	Total		**2,50,000**
8	**Trade receivables**		
	Debts outstanding for a period exceeding six months		52,000
	Other Debts		1,48,000
	Total		**2,00,000**
9	**Cash and bank balances**		
	Cash and cash equivalents		
	Cash at bank		
	with Scheduled Banks	2,45,000	
	with others (Perfect Bank Ltd.)	2,000	2,47,000
	Cash in hand		30,000

Other bank balances	Nil
Total	**2,77,000**

Note : Estimated amount of contract remaining to be executed on capital account and not provided for Rs.1,50,000. It has been assumed that the company had given this contract for purchase of machinery.

(8 MARKS)

ANSWER-B

Statement showing distribution of cash amongst the partners

		Trade Payable	*Y's Loan*		*Capitals*	
				X (Rs.)	*Y (Rs.)*	*Z (Rs.)*
Balance Due		66,000	18,000	60,000	40,000	50,000
Including 1st Instalment amount with the firm Rs. (1100 + 74,600)	75,700					
Less: Dissolution expenses provided for	(12,000)					
	63,700					
Less: Z's remuneration of 1% on assets realized (74,600 x 1%)	(746)					
	62,954					
Less: Payment made to Trade Payables	(62,954)	(62,954)				
Balance due	Nil	3046				
2nd instalment realised	69,301					
Less: Z's remuneration of 1% on assets realized (69,301 x 1%)	(693)					
	68,608					
Less: Payment made to Trade Payables	(646)	(646)				

Transferred to P& L A/c		2,400				
	67,962					
Less: Payment for Y's	(18,000)		(18,000)			
loan A/c						
Amount available for distribution to partners	49,962		nil			
Less: Z's remuneration of 10% of the amount distributed to partners (49,962 x 10/110)	(4,542)					
Balance to be distributed to partners on the basis of HRCM	45,420					
Less: Paid to Z (W.N.)	(2,000)					(2,000)
	43,420					48,000
Less: Paid to X and Z in 5:4 (W.N.)	(18,000)			(10,000)	-	(8,000)
Balance due	25,420			50,000	40,000	40,000
Less: Paid to X, Y & Z in 5:4:4						
	25,420			(9,778)	(7,821)	(7,821)
	Nil					
Amount of 3rd instalment	40,000			40,222	32,179	32,179
Less: Z's remuneration of 1% on assets realized (40,000 x 1%)						
	(400)					
	39,600					
Less: Z's remuneration of 10% of the amount distributed to partners (39,600 x 10/110)						
	(3,600)					
	36,000					
Less: Paid to X, Y, Z in 5:4:4 for (W.N.)	(36,000)			(13,846)	(11,077)	(11,077)

	Nil			26,376	21,102	21,102
Amount of 4th and last instalment	28,000					
Less: Z's remuneration of 1% on assets realized (28,000 x 1%)	(280)					
	27,720					
Less: Z's remuneration of 10% of the amount distributed to partners (27,720 x 10/110)	(2,520)					
	25,200					
Less: Paid to X, Y and Z in 5:4:4	(25,200)			(9,692)	(7,754)	(7,754)
	Nil					
Loss suffered by partners				16,684	13,348	13,348

(8 MARKS)

Working Note:

(i) Rs. 1100 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 utilization of First Instalment is Rs. 3046. However, since the creditors were settled for Rs. 63,600 only the balance Rs.646 were paid and the balance Rs. 2400 was transferred to the Profit & Loss Account.

(i) Highest Relative Capital Basis

	X *Rs.*	*Y* *Rs.*	*Z* *Rs.*
Balance of Capital Accounts (A)	60,000	40,000	50,000
Profit sharing ratio	5	4	4
Capital Profit sharing ratio	12,000	10,000	12,500
Capital in profit sharing ratio taking Y's Capital as base (B)	50,000	40,000	40,000
Excess of X's Capital and Z's Capital (A-B) =(C)	10,000	nil	10,000
Again repeating the process			
Profit sharing ratio	5		4
Capital Profit sharing ratio	2,000		2,500

Capital in profit sharing ratio taking X's Capital as base (D)	10,000		8,000
Excess of Z's Capital (C-D)=(E)	nil		2,000

Therefore, firstly Rs.2,000 is to be paid to Z, then X and Z to be paid in proportion of 5:4 upto Rs. 18,000 to bring the capital of all partners X, Y and Z in proportion to their profit sharing ratio. Thereafter, balance available will be paid in the profit sharing ratio 5:4:4 to all partners viz X, Y and Z.

(4 MARKS)

ANSWER-6

ANSWER-A

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-B

(i) Current Liabilities/ Other Current Liabilities

(ii) Shareholders' Fund / Reserve & Surplus

(iii) Current liabilities/Other Current Liabilities

(iv) Contingent Liabilities and Commitments

(v) Shareholders' Fund / Share Capital

(vi) Fixed Assets

(vii) Shareholders' Fund / Money received against share warrants

(viii) Current Assets

(5 MARKS)

ANSWER-C

(i) Interest for the period 2016-17
= US \$ 10 lakhs x 4% × Rs. 62 per US\$ = Rs. 24.80 lakhs

(ii) Increase in the liability towards the principal amount

= US \$ 10 lakhs × Rs. (62 - 56) = Rs. 60 lakhs

(iii) Interest that would have resulted if the loan was taken in Indian currency

= US $ 10 lakhs × Rs. 56 x 10.5% = Rs. 58.80 lakhs

(iv) Difference between interest on local currency borrowing and foreign currency borrowing

= Rs. 58.80 lakhs - Rs. 24.80 lakhs = Rs. 34 lakhs.

Therefore, out of Rs. 60 lakhs increase in the liability towards principal amount, only Rs. 34 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be Rs. 58.80 lakhs being the aggregate of interest of Rs. 24.80 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of Rs. 34 lakhs.

Hence, Rs. 58.80 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 and the remaining Rs. 26 lakhs (60 - 34) would be considered as the exchange difference to be accounted for as per AS 11.

(5 MARKS)

ANSWER-D

Nominal value of preference shares	Rs. 5,00,000
Maximum possible redemption out of profits	Rs. 3,00,000
Minimum proceeds of fresh issue	Rs. 5,00,000 - 3,00,000 = Rs. 2,00,000
Proceed of one share	= Rs. 9
Minimum number of shares	$= \frac{2,00,000}{9} = 22,222.22$ shares

As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shares.

If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 22,250. Hence, minimum number of shares to be issued in such a case is 22,250 shares.

(5 MARKS)