Note: All questions are compulsory.

Question 1

A)

1. Nature of Information: Information is material if its mis-statement (i.e., omission or erroneous statement) could influence the economic decisions of users. Materiality depends on the size and nature of the item, judged in the particular circumstances of its mis-statement. Materiality provides a cut-off point than merely a primary qualitative characteristic of the information.**(1 mark)**

2. Materiality: The selection and application of an accounting policy depends on materiality. AS - 1 requires that "Financial Statements should disclose all material items, i.e. items the knowledge of which might influence the decisions of the users of the Financial Statements. Accrual is one of the basic assumptions, hence materiality in relation to accrual concept is important. **(1 mark)**

3. Applicability of AS: AS are intended only for items which are material. Whether the sum of ? 25,000 is material or not, in respect of each item, or in the aggregate, would depend upon the facts of the case and that would provide the basis for its accounting treatment. **(2 marks)**

4. Conclusion: The appropriateness of accounting policy depends on the considerations of materiality determined by the Auditor based on his professional judgement. The accounting policy would be proper, provided it does not cross the threshold of materiality. **(1 mark)**

B) 1. Value of Inventory as on June 30: (2 mark)

Particulars	`
0.30 Lakh Litres from June 1 Purchase Lot (0.30 Lakh Litres x ` 14.25 per Litre)	4,27,500
1 Lakh Litres from June 30 Purchase Lot (1 Lakh Litres x ` 15.15 per Litre)	15,15,000
Value of Inventory as on June 30	**19,42,500**

2. Cost of Goods Sold: (2 mark)

	Particulars	`
	Opening Stock (1 Lakh Litres x ` 15)	15,00,000
Add:	Purchases [(2 Lakh Litres x ` 14.25) + (1 Lakh Litres x ` 15.15)]	43,65,000
		19,42,500
	Cost of Goods Sold	**39,22,500**

3. **Profit / Loss for June:** Sales (` 47,25,000) – COGS (`39,22,500) – General OH (` 1,25,000) = Profit ` 6,77,500**(1 mark)**

C)

1. Management should capitalise the Construction & Re-Modelling Costs, because they are necessary to bring the Store to the condition necessary for it to be capable of operating in the manner intended by the Management. **(1 mark)**

2. The Supermarket cannot be opened without incurring the Re-Modelling Expenditure, and thus the expenditure should be considered part of the asset. **(1 mark)**

3. However, the Salaries, Utilities and Storage Cost of Goods are Operating Expenditures that would be incurred, if the Supermarket was open. These costs are not necessary to bring the Store to the condition necessary for it to be capable of operating in the manner intended by Management. Hence, such costs should be expensed off. **(2 marks)**

D) **(1 mark for each entry)**

	Particulars	Dr. (`)	Cr. (`)
1.	Fixed Assets A/c Dr. To Bank A/c (Being Purchase of Fixed Asset for ? 20,00,000)	20,00,000	20,00,000
2.	Bank A/c Dr. To Fixed Asset A/c (Being Grant recorded as reduction from Cost of Asset)	8,00,000	8,00,000
3.	Depreciation A/c Dr. To Fixed Asset A/c (Being Depreciation for year of acquisition, under SLM before Grant Refund) **(Note 1)**	2,00,000	2,00,000
4.	Fixed Asset A/c Dr. To Bank A/c (Being grant refunded to Government on non-compliance of related conditions and cost of the asset thereby increased.)	5,00,000	5,00,000
5.	Depreciation A/c Dr. To Fixed Asset A/c (Being depreciation charged on Fixed Asset under SLM after Grant Refund) **(Note 2)**	3,66,667	3,66,667

Note: 1. Depreciation (before Grant Refund) = $\frac{\text{Cost 20,00,000 (−)Grant 8,00,000 (−)Residual Value 4,00,000}}{\text{Useful Line 4 years}}$ = **2,00,000**

2. Depreciation (after Grant Refund) = $\frac{\text{WDV 10,00,000+Grant 5,00,000−Resi.Value 4,00,000}}{\text{Balance Useful Line 3 years}}$ = **3,66,667**

Question 2

1. Adjustment for raising & writing off of Goodwill (2 marks)

Particulars	P	Q	R	Total
Goodwill of P 8i Co. (raised in 3:1)	90,000	30,000	-	1,20,000
Goodwill of R 8t Co. (raised in 2:1)	-	40,000	20,000	60,000
Total **(Cr.)**	90,000	70,000	20,000	1,80,000
Written off in New Ratio (3:2:1) **(Dr.)**	90,000	60,000	30,000	1,80,000
Difference	-	**Cr. 10,000**	**Dr. 10,000**	-

2. Revaluation A/c in the books of P & Co. (2 marks)

Particulars	`	Particulars	`
To Provision for Doubtful Debts (given)	15,000	By Building (1,50,000 - 50,000)	1,00,000
To Partners' Capital A/c (transfer in 3:1)		By Plant Machinery (2,75,000 - 1,60,000)	1,15,000
- P [2,24,000 x ¾] 1,68,000		By Stock (1,20,000 x20%)	24,000
- Q [2,24,000 x ¼] 56,000	2,24,000		
Total	**2,39,000**	**Total**	**2,39,000**

3. Partners' Capital A/c in the Books of P & Co. (2 marks)

Particulars	P	Q	Particulars	P	Q
To balance c/d	4,63,000	2,51,000	By balance b/d	2,50,000	1,80,000
			By Reserves (3:1)	45,000	15,000
			By Revaluation A/c (3:1)	1,68,000	56,000
Total	**4,63,000**	**2,51,000**	**Total**	**4,63,000**	**2,51,000**

4. Revaluation A/c in the books of R & Co.(2 marks)

Particulars	`	Particulars	`
To Provision for Doubtful Debts (given)	30,000	By Plant & Machinery (2,50,000 - 1,70,000)	80,000
To Partners' Capital A/c (transfer in 2:1)		By Stock (1,40,000 x 20%)	28,000
- Q [78,000 x 2/3] 52,000			
- R [78,000 x 1/3] 26,000	78,000		

Total	1,08,000	Total	1,08,000

5. Partners' Capital A/c in the books of R & Co. (2 marks)

Particulars	Q	R	Particulars		Q	R
To balance c/d	3,72,000	1,96,000	By balance b/d		2,20,000	1,20,000
			By Reserves	(2:1)	1,00,000	50.000
			By Revaluation A/c	(2:1)	52,000	26.000
Total	**3,72,000**	**1,96,000**	**Total**		**3,72,000**	**1,96,000**

6. Computation of Capital of the PQR & Co.(3 marks)

Particulars	**P**	**Q**	**R**
Transferred from P & Co.	4,63,000	2.51.000	1,96,000
Transferred from R & Co.		3.72.000	
Total Capital Balance	4,63,000	6,23,000	1,96,000
(+)/(-):Adjustment for Goodwill **(WN 1)**		10,000	(10,000)
Sub Total [A]	4,63,000	6,33,000	1,86,000
Total Capital of the Firm [Total of above]			**12,82,000**
Required Capital in new Profit Sharing Ratio i.e, 3:2:1 **[B]**	6,41,000	4,27,333	2,13,667
Capital to be brought in / withdrawn **[B - A]**	**1,78,000** (brought in)	**(2,05,667)** (withdrawn)	**27,667** (brought in)

7. Balance Sheet of M/s. PQR & Co. (3 marks)

Capital and Liabilities	`	**Properties and Assets**	`
Capital Account:		**Non-Current Assets: Tangible Fixed Assets**	
- P 6,41,000		Building (1,50,000 + 60,000)	2,10,000
- Q 4,27,333		Plant & Machinery (2,75,000 + 2,50,000)	5,25,000
- R 2,13,667	12,82,000	Office Equipments (50,000 + 46,000)	96,000
Current Liabilities:		**Current Assets:**	
Sundry Creditors (1,30,000 + 1,36,000)	2,66,000	Stock-in-Trade (1,44,000 + 1,68,000)	3,12,000
		Debtors (1,60,000 + 2,00,000) 3,60,000	
Bank Overdraft	80,000	**Less:** Provision for Bad Debts (45,000)	3,15,000
		Bank Balance	1,40,000
		Cash in Hand [20,000 + 10,000 + 1,78,000 - 2,05,667 + 27,667]	30,000
Total	**16,28,000**	**Total**	**16,28,000**

Question 3

A. Trading and Profit and Loss Account for the year ended 31st March (4 marks)

Particulars	`	**Particulars**		`
To Opening Stock	89,500	By Sales - Cash Sales given	5,09,800	
To Purchases - Credit	4,13,500	- Credit Sales **(WN 3)**	2,31,900	7,41,700
To Gross Profit c/d **(bal. fig.)**	3,34,100	By Closing Stock		95,400
Total	**8,37,100**	**Total**		**8,37,100**
To Depreciation		By Gross Profit b/d		3,34,100
- Furniture	4,800			
- Computer	2,430			
- Mobile Phone	2,000			
To Provision for Bad Debts (6,50,000 x 5%)	3,250			
To Salaries **(WN 7)**	99,300			
To Rent **(WN 7)**	72,000			
To Insurance **(WN 8)**	9,900			
To Stationery **(WN 8)**	1,450			
To Mobile Phone Expenses	9,000			
To Net Profit **(bal. fig.)**	1,29,970			
Total	**3,34,100**	**Total**		**3,34,100**

B. Balance Sheet as on 31st March (4 marks)

Capital and Liabilities		`	Properties and Assets	`
Capital			**Non-Current Assets:**	
Opening Balance	1,97,430		Furniture: 96,000 less 5% Deprn 4,800	91,200
Add: Net Profits	1,29,970		Computer: 24,300 less 10% Deprn 2,430	21,870
Less: Drawings	(1,20,000)	2,07,400	Mobile Phone: 8,000 less 10% Deprn	6,000
Current Liabilities:			**Current Assets:**	
Outstanding Expenses			Stock	95,400
Salaries	8,300		Sundry Debtors 65,000	
Rent	6.000	14,300	**Less:** Provision at 5% (3,250)	61,750
Bills Payable		26,500	Bills Receivable	20,000
Sundry Creditors		76,000	Unexpired Insurance	2,500
			Stock of Stationery	250
			Cash in Hand	7,230
			Cash at Bank	18,000
Total		**3,24,200**	**Total**	**3,24,200**

Working Notes: (1 mark for each)

1. Bank Account (To compute Cash Deposited into Bank)

Particulars	`	Particulars	`
To Cash **(bal. fig.)**	22,270	By balance b/d (Overdraft Balance b/d)	4,270
		By balance c/d (Closing Balance given)	18,000
Total	**22,270**	**Total**	**22,270**

2.Bills Receivable Account (To compute B/R accepted by Debtors)

Particulars	`	Particulars	`
To balance b/d	15,000	By Cash	65,000
To Debtors **(bal. fig.)** B/R received	70,000	By balance c/d	20,000
Total	**85,000**	**Total**	**85,000**

3.Sundry Debtors Account (To compute Credit Sales)

Particulars	`	Particulars	`
To balance b/d	55,000	By Bills Receivable **(from WN 2)**	70,000
To Sales **(bal. fig.) Credit Sales**	2,31,900	By Cash	1,51,900
		By balance c/d	65,000
Total	**2,86,900**	**Total**	**2,86,900**

4.Bills Payable Account (To compute B/P accepted and given to Creditors)

Particulars	`	Particulars	`
To Cash	80,000	By balance b/d	22,500
To balance c/d	26,500	By Creditors **(bal. fig.)** - B/P accepted	84,000
Total	**1,06,500**	**Total**	**1,06,500**

5.Sundry Creditors Account (To compute Credit Purchases)

Particulars	`	Particulars	`
To Cash	3,06,000	By balance b/d	52,500
To Bills Payable **(from WN 4)**	84,000	By Purchases **(Bal. Fig.)**	4,13,500
To balance c/d	76,000		
Total	**4,66,000**	**Total**	**4,66,000**

6. Cash Account

Particulars	`	Particulars	`
To balance b/d	300	By Creditors	3,06,000
To Sales	5,09,800	By Bills Payable	80,000
To Sundry Debtors	1,51,900	By Salaries	99.000
To Bills Receivable	65,000	By Rent	72.000
		By Insurance Premium	10,000
		By Stationery	1,500
		By Mobile Phone Expenses	9,000
		By Drawings	1,20,000
		By Bank **(bal. fig.)** (to match with **WN 1)**	22,270
		By balance c/d	7,230
Total	**7,27,000**	**Total**	**7,27,000**

7. Rent / Salary, i.e. Expenses Outstanding Account (To compute Expense Recognised for the year)

Particulars	Rent	Salary	Particulars	Rent	Salary
To Cash	72,000	99,000	By balance b/d	6,000	8,000
To balance c/d	6,000	8,300	By P&L **(bal. fig.)**	72,000	99,300
Total	**78,000**	**1,07,300**	**Total**	**78,000**	**1,07,300**

8. Insurance and Stationery Expense Account (To compute Expense Recognised for the year)

Particulars	Insurance	Stationery	Particulars	Insurance	Stationery
To balance b/d	2,400	200	By P&L **(bal. fig.)**	9,900	1,450
To Cash	10,000	1,500	By balance c/d	2,500	250
Total	**12,400**	**1,700**	**Total**	**12,400**	**1,700**

Question 4

A) **1. Futura Leasing Company Ltd Account (2 marks)**

Date	Particulars	`	Date	Particulars	`
01.04.17	To Lease Rental A/c ($\frac{90}{1,000}$x 2,00,000)	18,000	25.03.18	By Car on Hire Purchase A/c	2,00,000
01.07.17	To Lease Rental A/c	18,000	25.03.18	By HP Interest Suspense	1,60,000
01.10.17	To Lease Rental A/c	18,000	31.03.18	**(WN 1)**	5,400
				By Interest A/c **(WN 1)**	
01.01.18	To Lease Rental A/c	18,000			
25.03.18	To Bank - Amount Paid on conversion of Lease into HP **(WN 3)**	53,400			
31.03.18	To balance c/d	2,40,000			
	Total	**3,65,400**		**Total**	**3,65,400**

2. Interest Suspense Account (1 mark)

Date	Particulars	`	Date	Particulars	`
25.03.18	To Futura Leasing Ltd	1,60,000	31.03.18	By Interest on Hirg Purchase **(WN 2)**	92,121
			31.03.18	By balance c/d **(bal. fig.)**	**67,879**
	Total	**1,60,000**		**Total**	**1,60,000**

Working Notes: **1. Total Amount of Interest on Hire Purchase (1 mark)**

Particulars	`

Hire Purchase Price of the Car (` 30,000 x 12)	3,60,000
Less: Cash Price	(2,00,000)
Amount of Interest for the Hire Period	**1,60,000**

2. Apportionment of HP Interest (Interest Rate not given) (2 marks)

The Interest on Hire Purchase Payments is apportioned over the Lease Period in the ratio of Hire Purchase Amount outstanding before payment of instalment. The first instalment of ` 30,000 will not involve any Hire Purchase Interest since it is paid at the inception of the Hire Period itself.

Date of Payment	Balance Outstanding	Proportion = Bal. O/s ÷ 30,000	Interest Calculation (Total Interest x Proportion of Bal. O/s / Total of Proportion)	Interest (`)
01.04.2017	First Instalment. No interest since paid at the inception itself.			
01.07.2017	3,30,000	11	` 1,60,000 x 11 / 66	26,667
01.10.2017	3,00,000	10	` 1,60,000 x 10 / 66	24,242
01.01.2018	2,70,000	9	` 1,60,000 x 9 / 66	21,818
01.04.2018	2,40,000	8	` 1,60,000 x 8 / 66	19,394
01.07.2018	2,10,000	7	` 1,60,000 x 7 / 66	16,970
01.10.2018	1,80,000	6	` 1,60,000 x 6 / 66	14,546
01.01.2019	1,50,000	5	` 1,60,000 x 5 / 66	12,121
01.04.2019	1,20,000	4	`1,60,000 x 4 / 66	9,697
01.07.2019	90,000	3	` 1,60,000 x 3 / 66	7,273
01.10.2019	60,000	2	` 1,60,000 x 2 / 66	4,848
01.01.2020	30,000	1	` 1,60,000 x 1 / 66	2,424
		66		**1,60,000**

Interest for the financial year 2017-18 = ` 26,667 + ` 24,242 + ` 19,394 = ` 92,121.

3. Computation of Balance Payable on 31.03.2018 and Interest thereon (2 marks)

Date	Quarterly Hire Chgs.	Quarterly Lease Paid	Difference Payable	Period in Months	Computation of Interest at 18%	Amount
01.04.17	30,000	18,000	12,000	1.4.17 to 31.3.18 = 12	12,000 x 18% x 12/12	2,160
01.07.17	30,000	18,000	12,000	1.7.17 to 31.3.18 = 9	12,000 x 18% x 9/12	1,620
01.10.17	30,000	18,000	12,000	1.10.17 to 31.3.18 = 6	12,000 x 18% x 6/12	1,080
01.01.18	30,000	18,000	12,000	1.1.18 to 31.3.18 = 3	12,000 x 18% x 3/12	540
	1,20,000	**72,000**	**48,000**			**5,400**

Total Amount Payable as at 31.03.2018 = ` 48,000 + Interest ` 5,400 = ` 53,400

B) **1. Memorandum Stock Account (in `)** **<u>(2.5 marks)</u>**

Particulars	X	Y	Particulars	X	Y
To balance b/d (Given Cost + 33.33% & 50% Mark-Up)	4,20,000	8,37,000	By balance b/d (Mark Down b/fd as given)	37,800	-
To Purchases (given)	22,77,000	28,02,000	By Sales (given)	28,68,000	37,50,000
			By Int. Tfr (as per contra)	2,07,000	
To Memorandum Mark Up (33.33% 8i 50% on Purchase)	7,59,000	14,01,000	By Memorandum Mark Up (Mark-up on Int. Trfr)	69,000	
To Internal Transfer (as per contra)		2,07,000	By Memorandum Mark Up (Mark Down = given)	10,800	60,000
To Memorandum Mark Up (50% on Internal Transfer)		1,03,500	By Abnormal Loss Cost transferred to P & L	11,700	
To Memorandum Mark Up (on Marked Down Goods still in Stock - **Given)**		30,000	By Memorandum Mark Up (Mark-up on Stock Lost)	3,900	**15,70,500**
			By balance c/d (Closing Stock - **balancing figure)**	**2,47,800**	

Total	34,56,000	53,80,500	Total	34,56,000	53,80,500

2. Valuation of Closing Stock at Cost (in `) (1 mark)

Department	X	Y
Closing Stock at Invoice Price as per Memorandum Stock A/c	2,47,800	15,70,500
Less: Markup = 33.33% 8i 50% on Cost = 1/4th &. 1/3rd on Invoice Price	1/4th = 61,950	1/3rd = 5,23,500
Closing Stock at Cost	**1,85,850**	**10,47,000**

3. Trading Account for the year (in c) (1 mark)

Particulars	X	Y	Particulars	X	Y
To Opening Stock	3,15,000	5,58,000	By Sales	28,68,000	37,50,000
To Purchases	22,77,000	28,02,000	By Internal Transfer	2,07,000	-
To Internal Transfer	-	2,07,000	By Abnormal Loss	11,700	-
To Gross Profit **(bal. fig.)**	**6,80,550**	**12,30,000**	By Closing Stock **(WN 2)**	1,85,850	10,47,000
Total	**32,72,550**	**47,97,000**	**Total**	**32,72,550**	**47,97,000**

4. Memorandum Mark Up Account (in `) (2.5 mark)

Particulars	X	Y	Particulars	X	Y
To balance b/d (Mark Down-given - per contra)	37,800		By balance b/d (1/3rd and 50% on given cost)	1,05,000	2,79,000
To Memorandum Stock A/c (Mark-up on Int. Transfer)	69,000		By Memorandum Stock A/c (Mark Up on Purchase)	7,59,000	14,01,000
To Memorandum Stock A/c (Mark Down - given)	10,800	60,000	By Memorandum Stock A/c (2,07,000 x 50%) (Mark Up on Int.		1,03,500
To Memorandum Stock A/c (Mark-up on Goods Lost)	3,900		By Memorandum Stock A/c (Marked Down goods still in Stock)		30,000
To Gross Profit (as above)	6,80,550	12,30,000			
To balance c/d **(b/f) (Note)**	**61,950**	**5,23,500**			
Total	**8,64,000**	**18,13,500**	**Total**	**8,64,000**	**18,13,500**

Note: This figure (i.e. Closing Balance in Memo Mark-Up A/c) to match with WN 2 above, i.e. Mark-Up on Closing Stock.

5. Confirmation / Verification of Gross Profit (in `) (1 mark)

Department	P	Q
Sales (given)	28,68,000	37,50,000
Add back: Reduction / Mark down	(37,800 + 10,800)= 48,600	(60,000-30,000)=30,000
Total	**29,16,600**	**37,80,000**
Normal Gross Profit at 1/4 and 1/3 of above	7,29,150	12,60,000
Less: Reduction / Mark down	48,600	30,000
Gross Profit (to match with Trading A/c)	**6,80,550**	**12,30,000**

Question 5

A) **1. Branch Stock Account (1.5 marks)**

Particulars	`	Particulars	`
To balance b/d	80,000	By Branch Cash/ Debtors	12,19,000
To Goods Sent to Branch	12,00,000	By Loss in Transit	6,000
		By Pilferage	40.000
		By balance c/d	
Total	**12,80,000**	**Total**	**12,80,000**

2. Goods sent to Branch Account (1.5 marks)

Particulars	`	Particulars	`
To Branch Adjustment A/c (Loading) (12,00,000 x $\frac{25}{125}$)	2,40,000	By Branch Stock A/c	12,00,000
To Trading A/c - transfer	9,60,000		

Total	12,00,000	Total	12,00,000

3. Branch Adjustment A/c (2 marks)

Particulars	`	Particulars	`
To Loss in Transit - Loading (15,000 x$\frac{25}{125}$)	3,000	By Stock Reserve on Opg Stk (80,000 x $\frac{25}{125}$)	16,000
To Pilferage - Loading (6,000 x$\frac{25}{125}$)	1,200	By Goods Sent to Branch A/c	2,40,000
To Branch P&L A/c **(balancing figure)**	**2,43,800**		
To Stock Reserve on Clg Stk (40,000x $\frac{25}{125}$)	8.000		
Total	**2,56,000**	**Total**	**2,56,000**

4. Branch Profit & Loss Account (2 marks)

Particulars		`	Particulars	`
To Expenses		60,000	By Branch Adjustment A/c (Gross Profit)	2,43,800
To Loss in transit	12,000			
Less: Insurance Cover	(10,000)	2,000		
To Pilferage (Cost)		4,800		
To General P & L A/c (Profit transferred)		**1,77,000**		
Total		**2,43,800**	**Total**	**2,43,800**

Working Notes: **Computation of Loss on Pilfered Goods and Goods lost in Transit (1 mark)**

Particulars	Loss in Transit	Pilfered Goods
Value of Goods Lost	15,000	6,000
Less: Loading adjusted in Branch Adjustment A/c at 20% of Value of	(3,000)	(1,200)
Cost of Loss in Transit	12,000	4,800
Less: Amount of Insurance Claim	(10,000)	-
Net Loss	**2,000**	**4,800**

B) Notes

1. Capital Reserve, is **not** a **"Free Reserve",** and hence **cannot** be used for issue of Bonus Shares.

2. Securities Premium which is not realized in Cash, i.e. on Shares issued to Vendor ` 20,000, **cannot** be used for issue of Bonus Shares, as per SEBI Guidelines.

1. Journal Entries in the books of Krishna Ltd (4 marks)

S.No	Particulars	Dr.(`)	Cr.(`)
1.	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Being Equity Share Final Call of ` 2.50 per Share due on 1,80,000 Shares as per Board Resolution No dated)	4,50,000	4,50,000
2.	Bank A/c Dr. To Equity Share Final Call A/c (Being Final Call Money on 1,80,000 Shares received)	4,50,000	4,50,000
3.	Securities Premium A/c (Total ` 50,000 - ` 20,000 not realized in Cash) Dr. General Reserve A/c Dr. Profit and Loss A/c **(balancing figure)** Dr. To Bonus to Shareholders A/c [Being appropriation made to facilitate issue of Fully Paid Up Bonus Shares at 1 Share for every 3 Shares held, i.e. for Total Bonus Value of ` 6,00,000, No. of Fully Paid Bonus Shares to be issued = 1,80,000 x 1/3 = 60,000 Shares of ` 10 each.)	30,000 2,40,000 3,30.000	6,00,000

4.	Bonus to Shareholders A/c To Equity Share Capital A/c (Being allotment of Bonus Shares as above)	Dr.	6,00,000	6,00,000

2. Balance Sheet of Jayaram Ltd (Extract) (2 marks)

	Particulars as at 31st March	Note	This Year	Prev. Yr
I (1)	**EQUITY AND LIABILITIES:** **Shareholders' Funds:** (a) Share Capital (b) Reserves and Surplus	 1 2	 28,00,000 1,40,000	
	Total			
II	**ASSETS**			
	Total			

Note 1: Share Capital (1 marks)

Particulars	This Year	Prev. Yr
Authorised: 2,40,000 Equity Shares of ` 10 each 50,000 10% Preference Share of ` 10 each	24,00,000 5,00,000	
Issued, Subscribed & Paid up: 2,40,000 Equity Shares of ` 10 each, fully paid (out of which 60,000 Shares issued as fully paid Bonus Shares, by capitalization of profits) 40,000, 10% Preference Shares of ` 10 each fully paid	24,00,000 4,00,000	
Total	**28,00,000**	

Note 2: Reserves and Surplus (showing appropriations and transfers) (all figures for this year) (1 marks)

Particulars	Opening Balance	Additions	Deductions	Closing Balance
Capital Reserve	1,50,000	Nil	Nil	1,50,000
Securities Premium Reserve	50,000	Nil	Bonus Issue 30,000	20,000
General Reserve	2,40,000	Nil	Bonus Issue 2,40,000	Nil
Surplus (P&L A/c)	4,00,000	Nil	Bonus Issue 3,30,000	70,000
Total	**8,40,000**	**Nil**	**6,00,000**	**2,40,000**

Question 6

A) (6 marks)

Date	Particulars	`	Date	Particulars	`
31.05.17	To Bank (Purchase)	7,84,000	31.12.17	By 9% Debentures A/c Cancellation)	5,00,000
31.12.17	To P&L A/c (Profit on Cancellation)	10,000	31.01.18	By Bank (Resale of 2,000 Debentures)	2,02,000
31.01.18	To Profit and Loss A/c	6,000	31.03.18	By balance c/d **(balancing figure)**	**98,000**
	Total	**8,00,000**		**Total**	**8,00,000**

Note:

1. Profit on Cancellation = Sale Proceeds ` 5,00,000 **Less** Cost ` 7,84,000 x $\frac{5,000}{8,000}$ = **` 10,000 (1 mark)**
2. Profit on Sale = Sale Proceeds ` 2,02,000 **Less** Cost ` 7,84,000 x $\frac{2,000}{8,000}$ = **` 6,000 (1 mark)**

B) (4 marks for each part)

Solution: **1. Computation of Time Ratio and Sales Ratio**

Particulars	Pre Inc. Period	Post Inc. Period	Total
(a) No. of Months = Time Ratio	01.04.2017 to 31.05.2017 = 2 months	01.06.2017 to 31.03.2018 = 10 months	2 : 10 = **1 : 5**
(b) Sales per Month Ratio (**Note**) Overall Sales Ratio	Say ₹ 1 × 2 Months = 2	₹ 1 × 4 Mths + ₹ 2 × 6 Mths = 16	2 : 16 = **1 : 8**
(c) Rent for Addnl Premises (from 1st Oct.)	–	2,400 × 6 Months = ₹ 14,400	
(d) Balance Rent (₹ 38,400 – ₹ 14,400) distributed in 1 : 5 (Time Ratio)	₹ 4,000	₹ 20,000	
(e) Total Rent Expense (d) + (e)	**₹ 4,000**	**₹ 34,400**	

Note:
Sales for April to September = (6 months) = ₹ 6,00,000 = ₹ 1,00,000 p.m
Sales for October to March = (6 months) = 18,00,000 – 6,00,000 = ₹ 12,00,000 = ₹ 2,00,000 p.m
Hence, Sales for October to March is **double** the sales in first 6 months.

2. Statement showing calculation of Profit / Losses for Pre and Post Incorporation Periods

	Particulars	Ratio	Pre Incorpn.	Post Incorpn.
A.	**Gross Profit** (Apportioned in Sales Ratio) **(Note)**	1:8	**50,000**	**4,00,000**
B.	**Other Income:** Bad Debts Recovered		14,000	–
	Total Income		**64,000**	**4,00,000**
C.	**Apportionment of Expenses**			
	Salary	1:5	24,000	1,20,000
	Interest on Debentures		–	36,000
	Sales Commission	1:8	2,000	16,000
	Bad Debts **(Note)**	1:8	7,000	56,000
	Depreciation **(Note)** (Post = 1,250 + 15,000)	1:5	3,000	16,250
	Rent	**(WN 1)**	4,000	34,400
	Audit Fees	1:5	2,000	10,000
	Total Expenses		**42,000**	**2,88,650**
D.	**Profit (A + B – C)**		**22,000**	**1,11,350**

Note:
1. Bad Debts = ₹ 49,000 (given) **Add** Bad Debts Recovered ₹ 14,000 = **₹ 63,000,** apportioned in Sales Ratio.
2. Depreciation = ₹ 19,250 Less Post 1,250 = ₹ 18,000, apportioned in Time Ratio of 1:5, i.e. ₹ 2,000 and ₹ 15,000.

Question 7

A) **(2 marks for A part, 6 marks for B part)**

Solution:

A. Computation of Claim for Loss of Stock

1. Memorandum Trading Account (1st Apr 2017 to 30th Jun 2017)

Particulars	₹	Particulars	₹
To Opening Stock	1,85,000	By Sales	3,36,000
To Purchases	2,14,000	By Stock on the date of fire	**2,26,800**
To Wages	51,000	**(balancing figure)**	
To Manufacturing Expenses	12,000		
To Gross Profit = 33% of Sales **(See Note)**	1,00,800		
Total	**5,62,800**	**Total**	**5,62,800**

Note: Normal GP Rate for **Loss of Stock Policy** (based on last year's Trading A/c) = $\frac{3,00,000}{12,00,000}$ = 25%.

There is a 5% increase in GP due to decrease in Material Costs, Adjusted GP Rate = 25% + 5% = **30%**

2. Statement of Insurance Claim

	Particulars	₹
	Value of Stock Lost on 30th June **(WN 1)**	2,26,800
Less:	Salvaged Stock	Nil
	Net Claim	**2,26,800**

B. Computation of Claim for Loss of Profit

1. Period of Indemnity

Policy Period: (assumed) = 3 months
Actual Dislocation: 1st July 2017 to 30th Sept 2017 = 3 months

whichever is lower. **Result: 3 months**

2. Computation of GP Rate

	Basic GP Rate = $\frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Sales}} = \frac{60,000 + 1,56,000}{12,00,000}$	18%
Add:	Adjustment for Increase in GP Rate	5%
	Adjusted GP Rate for Claim purposes	**23%**

3. Computation of Insurable Amount

	Particulars	₹
	Annual Turnover, i.e. Turnover for 12 months preceding the date of Fire **(See Note below)**	12,00,000
Less:	Adjustment for Increase in Turnover (12% of ₹ 12,00,000) = **(approx.) (See Note below)**	1,44,000
	Adjusted Annual Turnover	13,44,000
	GP on Annual Adjusted Turnover at 23% on ₹ 13,44,000 = Insurable Amount	**3,09,120**

GP on Annual Adjusted Turnover at 23% on ₹ 13,44,000 = Insurable Amount	**3,09,120**

Note 1: Trend in Sales and is computed as under –

- Sales for the period 1st Apr to 30th June of Year 2016 (Given) = ₹ 3,00,000
- Sales for the period 1st Apr to 30th June of Year 2017 (Given) = ₹ 3,36,000
- Percentage Increase in Sales = $\frac{3,36,000 - 3,00,000}{3,00,000}$ = 12%

Note 2: Computation of Turnover for 12 months preceding the date of Fire is as under –

Particulars	₹
(a) Since FY ends on 31st March 2017, Trend Adjustment is taken for every year from 1st Apr onwards.	
(b) Sales from 1st Apr 2017 to 30th June 2017 (i.e. 3 mths of Year 2017) is trend adjusted at 112% =	(Given)3,36,000
(c) After Trend Adjustment, Normal Value of Sales for 3 months of Year 2017 = ₹ 3,36,000 × $\frac{100}{112}$ =	3,00,000
(d) Sales from 1st Jul 2016 to 31st Mar 2017 (i.e. 9 mths of Year 2016–2017)= ₹ 12,00,000 p.a × $\frac{9}{10}$ =	9,00,000
(e) Normal Value of Sales for 12 months preceding the date of Fire = (c + d)	**12,00,000**

4. Computation of Short Sales

	Particulars	₹
	Turnover from 01.07.2016 to 30.09.2016 (previous year corresponding to Indemnity Period)	3,20,000
Less:	Adjustment for Increase in Turnover (₹ 3,20,000 × 12%)	38,400
	Adjusted / Expected Turnover during Indemnity Period	3,58,400
Less:	Actual Turnover during Indemnity Period, i.e. from 01.07.2017 to 30.09.2017	(48,000)
	Short Sales	**3,10,400**

5. Computation of Allowable Additional Expenses

Particulars	₹
(a) Actual Additional Expenses	1,98,000
(b) GP on Sales generated by Additional Expenses (₹ 48,000 × 23%)	11,040
(c) Additional Expenses × $\frac{\text{GP on Adjusted Annual Turnover}}{\text{GP on Adjusted Annual Turnover} + \text{Uninsured Standing Charges}}$ $= ₹\ 1,98,000 \times \frac{23\% \times 13,44,000}{(23\% \times 13,44,000) + 42,000} = ₹\ 1,98,000 \times \frac{3,09,120}{3,51,120} =$	1,74,316
Allowable Additional Expenses = Least of the above	**11,040**

6. Computation of Claim

	Particulars		₹
	Loss of Profit = Gross Profit on Short Sales = 23% on 3,10,400		71,392
Add:	Allowable Additional Expenses	**(WN 5)**	11,040
Less:	Saving in Insured Standing Charges		Nil
	Net Claim for Loss of Profit		**82,432**

(B) **(4 marks for working note, 2 marks each for accounts)**

Solution: **Points for Consideration**

- Sale Proceeds of Rights is to be credited to P&L A/c and not Investment A/c, since the Ex-Rights Price is not lower than the Cost of Acquisition.
- Reduce the Dividend on Shares acquired on 20th June 2017 from the cost of acquisition, to arrive at the Net Cost of Shares as on 31st December 2017, since it is Pre-Acquisition Dividend.

Working Notes

Particulars	Computation	Result
1. No. of Bonus Shares	(25,000 + 5,000) ÷ 6	5,000 Shares
2. No. of Rights Shares eligible	$(25{,}000 + 5{,}000 + 5{,}000) \times \frac{3}{7}$	15,000 Shares
3. No. of Rights Shares Renounced	15,000 ÷ 3 = 5,000 Shares at ₹ 2 will be taken to P&L	₹ 10,000
4. No. of Rights Shares subscribed	15,000 – 5,000 = 10,000 Shares at ₹ 15	₹ 1,50,000
5. Total Dividend Received	On OB + Fresh Purc. = 30,000 Shares × ₹ 10 × 20%	₹ 60,000
(a) Dividend on OB Shares taken to P&L	25,000 × ₹ 10 × 20%	₹ 50,000
(b) Dividend on Shares purc. on 20.06.2017	5,000 × ₹ 10 × 20% is adjusted in Investment A/c.	₹ 10,000
6. Cost of Shares sold on 15.11.2017	$(3{,}75{,}000 + 80{,}000 + 1{,}50{,}000 - 10{,}000) \times \frac{25{,}000}{45{,}000}$	₹ 3,30,556
7. Profit on Sale of Shares on 15.11.2017	Sale Proceeds (25,000 ×₹ 15) **less** Cost ₹ 3,30,556	₹ 44,444
8. Cost of Shares as on 31.12.2017	$(3{,}75{,}000 + 80{,}000 + 1{,}50{,}000 - 10{,}000) \times \frac{20{,}000}{45{,}000}$	₹ 2,64,444

1. Investment (Equity Shares in Milky Ocean Ltd) Account

Date	Particulars	Shares Nos.	₹	Date	Particulars	Shares Nos.	₹
01.04.17	To balance b/d at ₹ 15	25,000	3,75,000	31.10.17	By Bank (Dvd) **(WN 5b)**	–	10,000
20.06.17	To Bank	5,000	80,000				
16.08.17	To Bonus **(WN 1)**	5,000	–	15.11.17	By Bank (Sale of Shares)	25,000	3,75,000
30.09.17	To Bank (Rights) **(WN4)**	10,000	1,50,000				
15.11.17	To P&L– Pft tfr**(WN 7)**	–	44,444	31.12.17	By balance c/d **(WN 8)**	20,000	2,64,444
	Total	**45,000**	**6,49,444**		**Total**	**45,000**	**6,49,444**

2. Profit & Loss A/c (Abstract)

Particulars	₹	Particulars	₹
To balance c/d	**1,04,444**	By Profit on Sale of Shares **(WN 8)**	44,444
		By Renunciation of Right Shares **(WN 3)**	10,000
		By Dividend **(WN 4)**	50,000
Total	**1,04,444**	**Total**	**1,04,444**

****