J.K. SHAH TEST SERIES

Evaluate Learn Succeed

SUGGESTED SOLUTION

CA INTERMEDIATE

Test Code – JKN_ACC_11

Date: 16/08/2020

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

Tel : (022) 26836666

Q.1

(a) (i) **False;** As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

(ii) **False;** As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

(iii) **True;** To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.

(iv) **False;** 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. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

(v) **True**; As per AS 1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.

(b) Calculation of cost of Machine as per AS-10

	(Rupees in Lakhs)
Price of machine	370.44
Less: Trade discount 2%	7.41
	363.03
Add : GST 8%	29.04
	392.07
Transport Charges 0.25% on Rs. 370.44	0.93
Installation Charges 1% of Rs. 370.44	3.70
	396.70
Calculation of borrowings cost -	
30-09-2019 to 01-12-2019	
300 x 15/100 x 2/12	7.50
	404.20
Add: Expenses on trial run	1.10
Total Cost	**405.30**

As per AS-16, the capitalization of interest should cease when substantially all the activities necessary for intended use are completed. Therefore interest for the period 1-12-2012 to 1-5-2013 should be expensed.

Alternatively the entire borrowing cost can be transferred to P&L A/c. stating that the Machinery does not take substantial period of time to get ready for its intended use as in this case it has taken only 2 months which may not be substantial, so the Cost of the Machine will be **Rs. 397.80 lacs. (405.3 – 7.50)**

(c) When Net Realizable Value of the Chemical Y is Rs. 800 per unit NRV is greater than the cost of Finished Goods Y i.e. Rs. 660 (Refer W.N.) Hence, Raw Material and Finished Goods are to be valued at cost.

Value of Closing Stock:

	Qty.	*Rate (Rs.)*	*Amount (Rs.)*
Raw Material X	1,000	440	4,40,000
Finished Goods Y	2,400	660	15,84,000
Total Value of Closing Stock			20,24,000

Working Note:

Statement showing cost calculation of Raw material X and Chemical Y

Raw Material X	***Rs.***
Cost Price	380
Add: Freight Inward	40
Unloading charges	20
Cost	440

Chemical Y	***Rs.***
Materials consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (Rs.4,00,000/20,000 units)	20
Cost	660

(d) As per 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.

In this case the grant refunded is Rs. 30 lakhs and balance in deferred income is Rs. 21 lakhs, Rs. 9 lakhs shall be charged to the profit and loss account for the year 2019-20. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years.

Q.2

(a) **Journal of A Company**

Date	Particulars		L. F.	Debit (Rs.)	Credit (Rs.)	Marks
01.01.16	Bank A/c To Red. Pref. Sh. Cap. A/c (Being Pref. Shs. Issued at par)	Dr.		1,80,000	1,80,000	**0.5**
30.06.18	P/L A/c To Capital Redemption Reserve A/c (Being CRR Created)	Dr.		60,000	60,000	**1**
30.06.18	Red. Pref. Sh. Cap. A/c To Pref. Shareholders A/c (Being Redemption Due)	Dr.		60,000	60,000	**0.5**
30.06.18	Pref. Shareholders A/c To Bank (Being amount paid)	Dr.		60,000	60,000	**0.5**
30.06.19	P/L A/c To Cap. Red. Res. A/c (Being CRR created)	Dr.		40,000	40,000	**1**
30.06.19	Red. Pref. Sh. Cap. A/c To Pref. Shareholders A/c (Being Redemption due)	Dr.		40,000	40,000	**0.5**
30.06.19	Pref. Shareholders A/c To Bank (Being Amount paid)	Dr.		40,000	40,000	**0.5**
Dec.19	Bank A/c. To Equity Share Cap. A/c To Securities Prem. A/c (Being fresh issue made)	Dr.		61,200	60,000 1,200	**1.5**
31.12.19	P/L A/c. To Cap. Red. Res. A/c (Being CRR Created)	Dr.		20,000	20,000	**2**
31.12.19	Red. Pref. Share Cap. A/c To Pref. Shareholders A/c (Being Redemption due)	Dr.		80,000	80,000	**1**
31.12.19	Pref. Shareholders A/c To Bank A/c (Being payment made)	Dr.		80,000	80,000	**1**

(b)

ABC Limited

Balance Sheet as at 31st March 2018

Particulars	Note No.	(Rs.in '000)
A. Equity and Liabilities		
1. Shareholder's funds		
(a) Share Capital	1	495.00
(b) Reserves and Surplus	2	971.00
2. Non-Current Liabilities		
(a) Long Term Borrowings	3	300.00
3. Current Liabilities		
(a) Trade Payables		30.00
Total		1,796.00
B. Assets		
1. Non-Current Assets		
(a) Property, Plant and Equipment		
Tangible Assets – Machinery	4	1,550.00
2. Current Assets		
(a) Inventories		96.00
(b) Trade Receivables	5	120.00
(c) Cash and Cash equivalents		30.00
Total		1,796.00

(3 Marks)

ABC Limited

Statement of Profit and Loss for the year ended 31st March 2018

Particulars	Note No.	(Rs. in '000)
I. Revenue from Operations		1200.00
II. Other Income		
III. Total Revenue		1,200.00
IV. Expenses:		
Purchases		400.00
Finance Costs	7	30.00
Depreciation (10% of 800)		80.00
Other expenses	8	150.00
Total Expenses		660.00
V. Profit / (Loss) before exceptional item (III – IV)		540.00
VI. Exceptional Item (Profit on sale of plant)	6	6.00
VII. Profit / (Loss) for the period (V + VI)		546.00

(3 Marks)

Notes to Accounts

	Particulars		(Rs. in '000)
1	Share Capital		
	Equity Share Capital		
	Authorised		
	80,000 Shares of Rs. 10/- each		800
	Issued, Subscribed and Called-up		
	50,000 Shares of Rs. 10/- each	500	
	(Out of the above 5,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	(5)	495
2	Reserves and Surplus		
	Securities Premium Account		40
	General Reserve		150
	Profit & Loss Balance		
	Opening Balance	75	
	Add: Profit for the period	546	621
	Revaluation Reserve Rs. (960 – 800)		160
			971
3	Long-Term Borrowings		
	10% Debentures		300
4	Tangible Assets		
	Land		
	Opening Balance	800	
	Add: Revaluation adjustment	160	
	Closing Balance		960
	Plant and Machinery		
	Opening Balance	824	
	Less: Disposed off	(24)	
		800	
	Less: Depreciation Rs. (150 – 20 + 80)	(210)	
	Closing Balance		590
	Total		1,550
5	Cash and Cash Equivalents		
	Cash at Bank		
	With scheduled banks	23	
	With others (Abhay Bank Limited)	5	
	Cash in hand	2	30

6	Exceptional Item		
	Profit on sale of machinery		
	Sale value of machinery	10	
	Less: Book value of machinery (24 – 20)	(4)	6
7	Finance Costs		
	Debenture Interest		30
8	Other Expenses:		
	Factory expenses	80	
	Selling expenses	25	
	Administrative expenses	45	150

(8×0.5=4 Marks)

Q.3

(a) **Journal Entries in the books of Omega Ltd.**

Date	Particulars		Amount Dr.	Amount Cr.
			Rs.	Rs.
1.5.20X1	Bank A/c	Dr.	1,50,00,000	
	To Debenture Application A/c			1,50,00,000
	(Application money received on 1,50,000 debentures @ Rs. 100 each)			
1.6.20X1	Debenture Application A/c	Dr.	1,50,00,000	
	Underwriters A/c	Dr.	50,00,000	
	To 15% Debentures A/c			2,00,00,000
	(Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)			
	Underwriting Commission	Dr.	4,00,000	
	To Underwriters A/c			4,00,000
	(Commission payable to underwriters @ 2% on Rs. 2,00,00,000)			
	Bank A/c	Dr.	46,00,000	
	To Underwriters A/c			46,00,000
	(Amount received from underwriters in settlement of account)			
	Debenture Redemption Reserve Investment A/c	Dr.	12,00,000	
	To Bank A/c (200,000 X 100 x 15% X 40%)			12,00,000
	(Being Investments made for redemption purpose)			
30.9.20X1	Debenture Interest A/c	Dr.	10,00,000	
	To Bank A/c			10,00,000
	(Interest paid on debentures for 4 months @ 15% on Rs. 2,00,00,000)			

31.10.20X1	15% Debentures A/c Dr.		1,20,00,000	
	To Equity Share Capital A/c			20,00,000
	To Securities Premium A/c			1,00,00,0000
	(Conversion of 60% of debentures into shares of Rs. 60 each with a face value of Rs. 10)			
30.9.20X1	Debenture Interest A/c Dr.		6,00,000	
	To Bank A/c			6,00,000
	(Interest paid on debentures for the half year) (refer working note below)			
31.10.20X1	Debenture Interest A/c Dr.		1,50,000	
	To Bank A/c			1,50,000
	(Interest paid on debentures on conversion) (refer working note below)			
31.03.20X2	Profit & Loss A/c Dr.		7,50,000	
	To Debenture Interest A/c			7,50,000
	(Debenture interest transferred to Profit and loss account)			

(9 × 1 mark = 9 Marks)

Working Note :

Calculation of Debenture Interest for the half year ended 31st March, 20X2

On Rs. 80,00,000 for 6 months @ 15% = Rs. 6,00,000

On Rs. 1,20,00,000 for 1 months @ 15% = Rs. 1,50,000

Rs. 7,50,000

(1 Mark)

(b) Statement showing calculation of profit/loss for pre and post incorporation periods

Rs.

	Ratio	*Total*	*Pre Incorporation*	*Post Incorporation*
Sales	1:2.45	55,20,000	16,00,000	39,20,000
Interest on Investments	Pre	60,000	60,000	-
Bad debts recovered	Pre	36,000	36,000	-
Profit on sale of investment	Pre	42,000	42,000	-
(i)		56,58,000	17,38,000	39,20,000

Cost of goods sold Advertisement Sundry office expenses	1:2.45 Post 4:7	34,50,000 69,800 1,06,700	10,00,000 - 38,800	24,50,000 69,800 67,900
Printing & Stationary	4:7	77,000	28,000	49,000
Manager Salary	(W.N.3)	82,000	26,000	56,000
Interest on Debentures	Post	8,900	-	8,900
Rent	(W.N.4)	1,33,000	28,000	1,05,000
Bad debts	1:2.45	69,000	20,000	49,000
Underwriting commission	Post	56,000	-	56,000
Audit fees	Post	41,000	-	41,000
Depreciation	4:7	71,500	26,000	45,500
Interest on Borrowing	(W.N. 5)	1,25,000	16,818	1,08,182
(ii)		42,89,900	11,83,618	31,06,282
Net Profit [(i) – (ii)]		13,68,100	5,54,382	8,13,718

(5 Marks)

Working Notes:

1. **Calculation of Sales Ratio**

Let the average sales per month be x

Total sales from 01.05.2017 to 31.08.2017 will be 4x

Average sales per month from 01.09.2017 to 31.03.2018 will be 1.4x

Total sales from 01.09.2017 to 31.03.2018 will be 1.4x X 7 =9.8x

Ratio of Sales will be 4x: 9.8x =1:2.45

2. **Calculation of time Ratio**

4 Months: 7 Months i.e. 4:7

3. **Manager Salary** **Rs.**

Total salary *Less:* Increased salary Monthly Salary =55,000/11 Salary from May to Aug Salary from Sep to March	82,000 27,000 55,000 5,000 5,000 + 5,000 + 8,000 + 8,000 = 26,000 8,000 x 7= 56,000

4. **Apportionment of Rent** *Rs.*

Total Rent	1,33,000
Less: additional rent from 1.9.2017 to 31.3.2018	56,000
Rent of old premises for 11 months	77,000

	Pre	Post
Apportionment in time ratio (4:7)	28,000	49,000
Add: Rent for new space	______	56,000
Total	28,000	1,05,000

5. **Interest on borrowing**

Company's Borrowing Interest = Rs. 15,00,000 x 9% x 7/12= Rs.78,750 (post)

Balance Interest = Rs. 1,25,000 – 78,750 = Rs.46,250 (Time ratio - pre = 16,818, post = 29,432)

(5 × 1 Mark = 5 Marks)

Q.4

(a) **In the books of Nisha**

8% Bonds for the year ended 31st March, 2018

Date	*Particulars*	*No*.*	*Income* Rs.	*Amount* Rs.	*Date*	*Particulars*	*No*.*	*Income* Rs.	*Amount* Rs.
2017 1 April,	To Bank A/c	9,000	30,000	6,94,500	1 May 2017	By Bank-Interest	-	36,000	
Oct. 1	To P & L A/c (W.N.1)	-	-	8,625	1 Oct. 2017	By Bank A/c	2,250	7,500	1,82,250
2018 March 31	To P & L A/c		63,000		1 Nov. 2018	By Bank-Interest		27,000	
					31.03. 2018	By accrued interest		22,500	
					2018 Mar. 31	By Balance c/d (W.N.2)	6,750	-	5,20,875
		9,000	93,000	7,03,125			9,000	93,000	7,03,125

***Note : students may write nominal value/face value of bonds instead of showing number of bonds only and in that case number of bonds shall be multiplied with 100 . And presentation of working note might differ and marks should be allotted to them** **(4 MARKS)**

Investment in Equity shares of Moon Ltd. for the year ended 31st March, 2018

Date	*Particulars*	*No.*	*Income* Rs.	*Amount* Rs.	*Date*	*Particulars*	*No.*	*Income* Rs.	*Amount* Rs.
2017 July 10	To Bank A/c	12,000	--	5,38,560	2018 March 15	By Bank – dividend *	-	23,760	
2018 Jan. 15	To Bank A/c (W.N. 3)	1,200	-	6,000	March 31	By Balance c/d (bal. fig.)	13,200	-	5,44,560
March 31	To P & L A/c	-	23,760						
		13,200	23,760	5,44,560			13,200	23,760	5,44,560

* Considering that dividend was received on right shares also.

(3 MARKS)

Working Notes:

1. **Profit on sale of 8% Bonds**

Sales price	Rs. 1,82,250
Less: Cost of bond sold = 6,94,500/9,000x 2,250	(Rs. 1,73,625)
Profit on sale	Rs. 8,625

2. **Closing balance as on 31.3.2018 of 8 % Bonds**

   6,94,500/ 9,000 x 6,750= Rs. 5,20,875

3. **Calculation of right shares subscribed by Moon Ltd.**

   Right Shares = 12,000/4 x 1= 3,000 shares

   Shares subscribed by Nisha = 3,000 x 40%= 1,200 shares

   Value of right shares subscribed = 1,200 shares @ Rs. 5 per share = Rs. 6,000

4. **Calculation of sale of right entitlement by Moon Ltd.**

   No. of right shares sold = 3,000 – 1,200 = 1,800 rights for Rs. 4,050

   Note: As per para 13 of AS 13, sale proceeds of rights are to be credited to P & L A/c.

5. **Calculation of accrued interest**

   Accrued interest = 6,75,000 x 8/100 x 5/12 = 22,500

(3 MARKS)

(b)

M/s Raxby & Co.
Trading Account for 2016-17
(to determine the rate of gross profit)

		Rs.			Rs.	Rs.
To	Opening Stock	1,20,000	By	Sales A/c		6,00,000
To	Purchases	5,25,000	By	Closing Stock :		
To	Gross Profit	90,000		As valued	1,30,000	
				Add: Amount written off to restore stock to full cost	5,000	1,35,000
		7,35,000				7,35,000

(3 Marks)

The normal rate of gross profit to sales is $=\frac{90,000}{6,00,000} \times 100 = 15\%$ **(1 Mark)**

Memorandum Trading Account up to June 30, 2017

	Normal	*Abnormal*	*Total*		*Normal*	*Abnormal*	*Total*
	items	*items*				*items*	*items*
	Rs.	*Rs.*	*Rs.*		*Rs.*	*Rs.*	*Rs.*
To Opening Stock	1,27,000	8,000*	1,35,000	By Sales	1,60,000	6,000	1,66,000
To Purchases (97,000+35,000)	1,32,000	—	1,32,000	By Loss	—	1,000	1,000
To Gross Profit (15% on Rs. 1,60,000)	24,000	—	24,000	By Closing Stock (bal. fig.)	1,23,000	1,000	1,24,000
	2,83,000	8,000	2,91,000		2,83,000	8,000	2,91,000

* at cost.

(4 Mark)

Calculation of Insurance Claim

	Rs.
Value of stock on June 30, 2017	1,24,000
Less: Salvage	(10,000)
Loss of stock	1,14,000

Claim subject to average clause:

$$\frac{\text{Amount of Policy}}{\text{Value of Stock}} \times \text{Actual loss of stock} = \frac{1,00,000}{1,24,000} \times 1,14,000$$

= Rs. 91,935 (approx.)

Therefore, insurance claim will be limited to Rs. 91,935 (approx.) **(2 marks)**

Q.5

(a)

M & S Co. Ltd.
Canberra, Australia Branch Trial Balance
As on 31st March 2019 **(4 Marks)**

	($ 'thousands)			(Rs.' thousands)	
	Dr.	Cr.	Conversion rate per $	Dr.	Cr.
Plant & Machinery (cost)	200		Rs. 46	9,200	
Plant & Machinery Dep. Reserve		130	Rs. 46		5,980
Trade receivable/payable	60	30	Rs. 53	3,180	1,590
Stock (1.4.2018)	20		Rs. 50	1,000	
Cash & Bank Balances	10		Rs. 53	530	
Purchase / Sales	20	123	Rs. 51	1,020	6,273
Goods received from H.O.	5		Actual	100	
Wages & Salaries	45		Rs. 51	2,295	
Rent	12		Rs. 51	612	
Office expenses	18		Rs. 51	918	
Commission Receipts		100	Rs. 51		5,100
H.O. Current A/c		7	Actual		120
				18,855	19,063
Foreign Exchange Loss (bal. fig.)				208	
	390	390		19,063	19,063
Closing stock	3.125		53	165.625	

Trading and Profit & Loss Account for the year ended 31st March, 2019 (5 Marks)

(Rs.'000)

	H.O.	*Branch*	*Total*		*H.O.*	*Branch*	*Total*
To Opening Stock	100	1,000.000	1,100.000	By Sales	520	6,273.000	6,793.000
To Purchases	240	1,020.000	1,260.000	By Goods sent to Branch	100	–	100.000
To Goods received from Head Office	–	100.000	100.000	By Closing Stock	150	165.625	315.625
To Wages & Salaries	75	2,295.000	2,370.000				
To Gross profit c/d	355	2,023.625	2,378.625				
	770	6,438.625	7,208.625		770	6,438.625	7,208.625
To Rent	–	612.000	612.000	By Gross profit b/d	355	2,023.625	2,378.625
To Office expenses	25	918.000	943.000	By Commission receipts	256	5,100.000	5,356.000
To Provision for doubtful debts @ 5%	14	159.000	173.000				

To	Depreciation (W. N.)	460	644.000	1,104.000				
To	Net profit c/d	112	4,790.625	4,902.625				
		611	7,123.625	7,734.625		611	7,123.625	7,734.625
To	Managing Partner's Salary			30.000	By Net profit b/d			4,902.625
To	Exchange Loss			208.000	By Branch stock reserve			4.000
To	Net profit transfer to balance sheet			4,668.625				
				4,906.625				4,906.625

Working Note:

Calculation of Depreciation **(1 Mark)**

	H.O Rs. '000	*Branch Rs. '000*
Building – Cost	1,000	
Less: Dep. Reserve	(200)	
	800	
Depreciation @ 10% (A)	80	
Plant & Machinery Cost	2,500	9,200
Less: Dep. Reserve	(600)	(5,980)
	1,900	3,220
Depreciation @ 20% (B)	380	644
Total Depreciation (A+B)	460	644

Note: As the closing stock of Branch does not consist any stock transferred from M& S Co., there is no need to create closing stock reserve. But the opening branch stock reserve has to be reversed in the P&L A/c.

(b) **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 (10% of 1,00,000*6/12)	5,000			
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

(3 Marks)

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

(1 Mark)

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

(1 Mark)

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

(1 Mark)

Q.6

(a) **Journal Entries in the books of Manoj Ltd.**

			Rs.	*Rs.*
1-4-2011	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of Rs. 2 per share on 2,70,000 equity shares due as per Board's Resolution dated….)			
20-4-2011	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital redemption Reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

(5 Marks)

(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.

Note: Revaluation reserve and application money pending allotment are not included while computing effective capital of PQ Ltd. **(5 Marks)**

(c) Departmental Trading and Loss Account of M/s Division for the year ended 31.12. 2017

	Deptt. A	*Deptt. B*		*Deptt. A*	*Deptt. B*
	Rs.	*Rs.*		*Rs.*	*Rs.*
To Opening stock	50,000	40,000	By Sales	10,00,000	15,00,000
To Purchases To Gross profit	6,50,000 4,00,000	9,10,000 7,50,000	By Closing stock	1,00,000	2,00,000
	11,00,000	17,00,000		11,00,000	17,00,000
To Profit ts/f to general profit and loss account	4,00,000	7,50,000	By Gross profit	4,00,000	7,50,000
	4,00,000	7,50,000		4,00,000	7,50,000

(2.5 Marks)

General Profit and Loss Account

	Rs.		*Rs.*
To General expenses	1,25,000		
To Stock reserve required (additional:		By Profit from:	
Stock in Deptt. A		Deptt. A	4,00,000
50% of (Rs. 20,000 - Rs. 10,000) (W.N.1)	5,000	Deptt. B	7,50,000
Stock in Deptt. B			
40% of (Rs. 30,000 - Rs. 15,000) (W.N.2)	6,000		
To Net Profit	10,14,000		
	11,50,000		11,50,000

(1.5 Marks)

Working Notes:

1. Stock of department A will be adjusted according to the rate applicable to department B =[(7,50,000 ÷ 15,00,000) x 100] = 50%
2. Stock of department B will be adjusted according to the rate applicable to department A =[(4,00,000 ÷ 10,00,000) x 100] = 40%

(1 Mark)

(d) As per AS 13 "Accounting for Investments", pre – acquisition dividend if any received should be deducted from the Cost of the Investment to arrive at its Carrying Amount.

In the given case, Sumit Ltd., has declared dividend for the financial year 2018 – 19 on 16.08.2019 which is a pre – acquisition dividend for Amit Ltd., as these shares were purchased on 01.08.2019 by Amit Ltd. So to arrive at the Carrying Values of these investments as on 31.03.2020, Amit Ltd should deduct the the pre – acquisition dividend received of Rs. 24,000 (60,000 x 40%) from the Cost of Rs. 5,00,000.

Therefore the carrying value of Investments in Sumit Ltd., as on 31.03.2020 will be Rs. 4,76,000 (5,00,000 – 24,000). **(5 Marks)**

(e) Calculation of Interest and Cash Price

Ratio of interest and amount due = 8 / (100 + rate of interest) i.e. 8/108

To ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

No. of instalments	Amount due at the time of instalment	Interest	Cumulative Cash price
[1]	[2]	[3]	(2-3) = [4]
3rd	12,000	8/108 of Rs. 12,000 =Rs.889	11,111
2nd	23,111 [W.N.1]	8/108 of Rs. 23,111= Rs.1,712	21,399
1st	33,399 [W.N.2]	8/108 of Rs. 33,399= Rs.2,474	30,925
		5,075	

Total cash price = Rs. 30,925 + 12,000 (down payment) =Rs. 42,925

Working Notes:

1. Rs.11,111+ 2nd instalment of Rs.12,000= Rs.23,111
2. Rs.21,399+ 1st instalment of Rs.12,000= Rs.33,399

(5 Marks)