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(Date :17/09/2020)

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ANSWER 1

(A) Trial Balance of Foreign Branch (converted into Indian Rupees) as on March 31, 2019

Particulars	$ (Dr.)	$ (Cr.)	**Conversion Basis**	Rate	Rs. (Dr.)	Rs. (Cr.)
Fixed Assets	8,000		Transaction Date Rate	63	5,04,000	
Opening Inventory	800		Opening Rate	65	52,000	
Goods Received from HO	2,800		Actuals		1,85,500	
Sales		24,050	Average Rate	66		15,87,300
Purchases	11,800		Average Rate	66	7,78,800	
Expenses	1,800		Average Rate	66	1,18,800	
Cash	700		Closing Rate	67	46,900	
Remittance to HO	2,450		Actuals		1,62,000	
HO Account		4,300	Actuals			2,84,500
Exchange Rate Difference			Balancing Figure		23,800	
	28,350	28,350			18,71,800	18,71,800
Closing Stock	700		Closing Rate	67	46,900	
Depreciation	800		Fixed Asset Rate	63	50,400	

(B) As per AS 13 (Revised) 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are **made at the lower of cost and carrying amount** at the date of transfer; and where investments are reclassified from current to long term, transfers are made **at lower of cost and fair value** on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

(1) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs. 12 lakhs in the books.

(2) In this case also, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs. 5 lakhs in the books.

(3) In this case, reclassification of current investment into long-term investments will be made at Rs. 7 lakhs as cost is less than its fair value of Rs. 8.5 lakhs on the date of transfer.

(4) In this case, market value (considered as fair vale) is Rs. 3.8 lakhs on the date of transfer which is lower than the cost of Rs. 4 lakhs. The reclassification of current investment into

long-term investments will be made at Rs. 3.8 lakhs.

(C) As per AS 2 "Valuation of Inventories", materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at cost or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. In the given case, selling price of product X is Rs. 300 and total cost per unit for production is Rs. 320.

Hence the valuation will be done as under:

(i) 600 units of raw material will be written down to replacement cost as market value of finished product is less than its cost, hence valued at Rs. 90 per unit.

(ii) 500 units of partly finished goods will be valued at 240 per unit i.e. lower of cost Rs. 320 (Rs. 260 + additional cost Rs. 60) or Net estimated selling price or NRV i.e.Rs. 240 (Estimated selling price Rs. 300 per unit less additional cost of Rs. 60).

(iii) 1,500 units of finished product X will be valued at NRV of Rs. 300 per unit since it is lower than cost Rs. 320 of product X.

Valuation of Total Inventory as on 31.03.2019:

	Units	*Cost (Rs.)*	*NRV/Replacement cost*	*Value = units x cost or NRV whichever is less (Rs.)*
Raw material A	600	120	90	54,000
Partly finished goods	500	260	240	1,20,000
Finished goods X	1,500	320	300	4,50,000
Value of Inventory				6,24,000

(D) **(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 at 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.

ANSWER 2

(A) (i) Department Trading Account for Department X For the year ending on 31.03.2019

In the books of Head Office

Particulars	*Rs.*	*Particulars*	*Rs.*
To Opening Stock	1,50,000	By Sales	6,50,000
To Purchases	4,30,000	By Shortage	4,000
To Gross Profit c/d	1,05,000	By Closing Stock	31,000
	6,85,000		6,85,000

(2 Marks)

(ii) Memorandum Stock Account (for Department X) (at selling price)

Particulars	*Rs.*	*Particulars*	*Rs.*
To Balance b/d (Rs. 1,50,000+20% of Rs.1,50,000)	1,80,000	By Profit & Loss A/c (Cost of Shortage)	4,000
To Purchases (Rs. 4,30,000 + 20% of Rs.4,30,000)	5,16,000	By Memorandum Departmental Mark up A/c (Load on Shortage) (Rs.4,000 x 20%)	800
		By Memorandum Departmental Mark-up A/c (Mark-down on Current Purchases)	3,600
		By Debtors A/c (Sales)	6,50,000
		By Memorandum Departmental Mark-up A/c (Mark Down on Opening Stock)	1,600

		By Balance c/d	36,000
	6,96,000		6,96,000

(3 Marks)

(ii) Memorandum Departmental Mark-up Account

Particulars	*Rs.*	*Particulars*	*Rs.*
To Memorandum Departmental Stock A/c (Rs.4,000 × 20/100)	800	By Balance b/d (Rs.1,80,000 x 20/120)	30,000
To Memorandum Departmental Stock A/c	3,600	By Memorandum Departmental Stock A/c (Rs.5,16,000 x 20/120)	86,000
To Memorandum Departmental Stock A/c	1,600		
To Gross Profit transferred to Profit & Loss A/c	1,05,000		
To Balance c/d [(Rs.36,000 + 1,200*) x 20/120 - Rs.1,200]	5,000		
	1,16,000		1,16,000

**[Rs. 3,600 ×10,000/30,000] = Rs. 1,200. Alternatively, this adjustment of Rs. 1,200 may be* routed through Memorandum Stock Account.

(3 Marks)

Working Notes:

(i) Calculation of Cost of Sales

		Rs.
A	Sales as per Books	6,50,000
B	*Add*: Mark-down in opening stock (given)	1,600
C	*Add*: mark-down in sales out of current Purchases (Rs.3,600 x 20,000 /30,000)	2,400
D	Value of sales if there was no mark-down (A+B+C)	6,54,000
E	*Less*: Gross Profit (20/120 of Rs.6,54,000) subject to Mark Down	(1,09,000)
F	Cost of sales (D-E)	5,45,000

(ii) Calculation of Closing Stock

		Rs.
A	Opening Stock	1,50,000
B	*Add*: Purchases	4,30,000
C	*Less*: Cost of Sales	(5,45,000)
D	*Less*: Shortage	(4,000)
E	Closing Stock (A+B-C-D)	31,000

(1 * 2 = 2 Marks)

(B) (i) 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	-	1,65,000	1,65,000	15,000	1,50,000
2nd	1,50,000	1,47,000	2,97,000	27,000	2,70,000
1st	2,70,000	1,59,000	4,29,000	39,000	3,90,000
Down payment					3,00,000
Total of interest and Total cash price				81,000	6,90,000

(2 Marks)

(ii) In the books of M/s Amar

Scooters Account

Date	*Particulars*	*Rs.*	*Date*	*Particulars*	*Rs.*
1.4.2015	To Bhanu A/c	6,90,000	31.3.2016	By Depreciation A/c	1,38,000
				By Balance c/d	5,52,000
		6,90,000			6,90,000
1.4.2016	To Balance b/d	5,52,000	31.3.2017	By Depreciation A/c	1,10,400

				By Balance c/d	4,41,600
		5,52,000			5,52,000
1.4.2017	To Balance b/d	4,41,600	31.3.2018	By Depreciation A/c	88,320
				By M/s Bhanu a/c (Value of 2 Scooters taken over)	78,890
				By Profit and Loss A/c (Bal. fig.)	38,870
				By Balance c/d 4/6 (4,41,600 - 88,320)	2,35,520
		4,41,600			4,41,600

(3 Marks)

(iii) **M/s Bhanu Account**

Date	*Particulars*	*Rs.*	*Date*	*Particulars*	*Rs.*
1.4.15	To Bank (down payment)	3,00,000	1.4.15	By Scooters A/c	6,90,000
31.3.16	To Bank (1st Installment)	1,59,000	31.3.16	By Interest A/c	39,000
	To Balance c/d	2,70,000			
		7,29,000			7,29,000
31.3.17	To Bank (2nd Installment)	1,47,000	1.4.2016	By Balance b/d	2,70,000
	To Balance c/d	1,50,000	31.3.2017	By Interest A/c	27,000
		2,97,000			2,97,000
31.3.18	To Scooter A/c	78,890	1.4.2017	By Balance b/d	1,50,000
	To Balance c/d (b.f.)	86,110	31.3.2018	By Interest A/c	15,000
		1,65,000			1,65,000

31.8.18	To Bank (Amount settled after 5 months)	91,492	1.4.2018	By Balance b/d	86,110
			31.8.2018	By Interest A/c (@ 15 % on bal.) (86,110 x 5/12 x 15/100)	5,382
		91,492			91,492

(3 Marks)

(iv) **In the Books of M/s Bhanu**

Goods Repossessed A/c

Date	*Particulars*	*Rs.*	*Date*	*Particulars*	*Rs.*
31.3.18	To Amar A/c	78,890	31.3.2018	By Balance c/d	78,890
		78,890			78,890
1.04.2018	To Balance b/d	78,890	25.4.2018	By Bank (Sale)	1,05,000
25.4.2018	To Repair A/c	15,000			
25.4.2018	To Profit & Loss A/c	11,110			
		1,05,000			1,05,000

(2 Marks)

Working Note:

Value of Scooter taken over

	Rs.
2 Scooters (6,90,000/6 x 2)	2,30,000
Depreciation @ 30% WDV for 3 years (69,000 + 48,300 +33,810)	(1,51,110)
	78,890

ANSWER 3

(A) **Books of Vijay**

Investment Account

(Scrip: Equity Shares in X Ltd.)

		No.	Amount			No.	Amount
			Rs.				Rs.
1.4.2019	To Bal b/d	30,000	4,50,000	31.10.2019	By Bank (dividend	—	10,000
22.6.2019	To Bank	5,000	80,000				

10.8.2019	To Bonus	5,000	-		on shares acquired on 22/6/2019)		
30.9.2019	To Bank (Rights Shares)	10,000	1,50,000				
15.11.2019	To Profit (on sale of shares)		32,000	15.11.2019	By Bank (Sale of shares)	20,000	3,00,000
				31.3.2020	By Bal. c/d	30,000	4,02,000
		50,000	7,12,000			50,000	7,12,000

Working Notes:

(1) Bonus Shares = (30,000 + 5,000) / 7 = 5,000 shares

(2) Right Shares = $\frac{(30,000 + 5,000 + 5,000)}{8} \times 3$ = 15,000 shares

(3) Rights shares sold = 15,000×1/3 = 5,000 shares

(4) Dividend received = 30,000×10×20% = Rs.60,000 will be taken to P&L statement

(5) Dividend on shares purchased on 22.6.2019= 5,000×10×20% = Rs. 10,000 is adjusted to Investment A/c

(6) Profit on sale of 20,000 shares

= Sales proceeds – Average cost

Sales proceeds = Rs. 3,00,000

Average cost = $\frac{(4,50,000 + 80,000 + 1,50,000 - 10,000)}{50,000} \times 20,000$ = Rs. 2,68,000

Profit = Rs. 3,00,000– Rs.2,68,000= Rs.32,000.

(7) Cost of Share on 31.03.2020

$$\frac{(4,50,000 + 80,000 + 1,50,000 - 10,000)}{50,000} \times 30,000 = \text{Rs.}4,02,000$$

(8) Sale of rights amounting Rs. 10,000 (Rs. 2 x 5,000 shares) will not be shown in investment A/c but will directly be taken to P & L statement.

(10 Marks)

(B) **Megha Ltd.**

Balance Sheet as on 31st March, 20X1

	Particulars	*Notes*	*Rs.*
	Equity and Liabilities		
1	**Shareholders' funds**		
a	Share capital	1	49,95,000
b	Reserves and Surplus	2	14,83,500
2	**Non-current liabilities**		
	Long-term borrowings	3	13,17,500
3	**Current liabilities**		
a	Trade Payables		8,00,000
b	Other current liabilities	4	37,500
c	Short-term provisions	5	6,40,000
d	Short-term borrowings		2,00,000
	Total		**94,73,500**
	Assets		
1	**Non-current assets**		
	Property, Plant and Equipment		
	Tangible assets	6	56,25,000
2	**Current assets**		
a	Inventories	7	12,50,000
b	Trade receivables	8	10,00,000
c	Cash and cash equivalents	9	13,85,000
d	Short-term loans and advances		2,13,500
	Total		**94,73,500**

(5 Marks)

Notes to accounts

			Rs.
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of Rs. 100 each (of the above 10,000 shares have been issued for consideration other than cash)	50,00,000	
	Less: Calls in arrears	(5,000)	49,95,000
	Total		**49,95,000**
2	**Reserves and Surplus**		
	General Reserve	10,50,000	
	Add: current year transfer	20,000	10,70,000
	Profit & Loss balance		
	Profit for the year	4,33,500	
	Less: Appropriations:		
	Transfer to General reserve	(20,000)	
			4,13,500
			14.83,500
3	**Long-term borrowings**		
	Secured Term Loan		
	State Financial Corporation Loan (7,50,000-37,500) (Secured by hypothecation of Plant and Machinery)		7,12,500
	Unsecured Loan		6,05,000
	Total		**13,17,500**
4	**Other current liabilities**		
	Interest accrued but not due on loans (SFC)		37,500
5	**Short-term provisions**		
	Provision for taxation		6,40,000

6	**Tangible assets**			
	Land and Building		30,00,000	
	Less: Depreciation		(2,50,000) (b.f.)	27,50,000
	Plant & Machinery		35,00,000	
	Less: Depreciation		(8,75,000) (b.f.)	26,25,000
	Furniture & Fittings		3,12,500	
	Less: Depreciation		(62,500) (b.f.)	2,50,000
		Total		**56,25,000**
7	**Inventories**			
	Raw Materials			2,50,000
	Finished goods			10,00,000
		Total		**12,50,000**
8	**Trade receivables**			
	Outstanding for a period exceeding six months			2,60,000
	Other Amounts			7,40,000
		Total		**10,00,000**
9	**Cash and bank balances**			
	Cash and cash equivalents			
	Cash at bank			
	with Scheduled Banks		12,25,000	
	with others (Omega Bank Ltd.)		10,000	12,35,000
	Cash in hand			1,50,000
	Other bank balances			Nil
		Total		**13,85,000**

(5 Marks)

ANSWER 4

(A) Gross profit ratio

	Rs.
Net profit for the year 2017-18	2,50,000
Add: Insured standing charges	77,980
Ratio of Gross profit = $\frac{3,27,980}{16,39,900}$ = 20%	3,27,980

(1 Mark)

Calculation of Short sales

Indemnity period: 16.12.2018 to 15.3.19

Standard sales to be calculated on basis of corresponding period of year 2017-18

	Rs.
Sales for period 16.12.2017 to 31.12.17	68,000
Sales for period 1.1.2018 to 15.3.2018 (Note 1)	2,60,000
Sales for period 16.12.2017 to 15.3.2018	3,28,000
Add: upward trend in sales (15%) (Note 2)	49,200
Standard Sales (adjusted)	3,77,200
Actual sales of disorganized period	
Calculation of sales from 16.12.18 to 15.3.19	
Sales for period 16.12.18 to 31.12.18	Nil
Sales for 1.1.19 to 15.3.19 (Rs. 2,96,000 – Rs. 40,000)	2,56,000
Actual Sales	2,56,000
Short Sales (Rs. 3,77,200 - Rs.2,56,000)	1,21,200

(2.5 Marks)

Loss of gross profit

Short sales x gross profit ratio = 1,21,200 x 20% 24,240

(1 Mark)

Application of average clause

$$\text{Net claim} = \text{Gross claim} \times \frac{\text{policy value}}{\text{gross profit on annual turnover}}$$

$$= 24,240 \times \frac{2,50,000}{3,26,240 \text{ (W.N.3)}}$$

Amount of loss of profit claim = Rs. 18,575

(2 Marks)

Working Notes:

1. **Sales for period 1.1.18 to 15.3.18**

	Rs.
Sales for 1 Jan. to 31 March (2017-18) (given)	3,80,000
Less: Sales for 16.3.18 to 31.3.18 (given)	(1,20,000)
Sales for period 1.1.18 to 15.3.18	2,60,000

2. **Calculation of upward trend in sales**

Total sales in year 2015-16 = Rs. 12,40,000

Increase in sales in year 2016-17 as compared to 2015-16 = Rs. 1,86,000

$$\% \text{ increase} = \frac{1,86,000\ (14,26,000 - 12,40,000)}{12,40,000} = 15\%$$

Increase in sales in year 2017-18 as compared to year 2016-17

$$\% \text{ increase} = \frac{2,13,900\ (16,39,900 - 14,26,000)}{14,26,000} = 15\%$$

Thus annual percentage increase trend is of 15%

3. **Gross profit on annual turnover**

	Rs.
Sales from 16.12.17 to 30.12.17 (adjusted) (68,000 x 1.15)	78,200
1.1.18 to 31.3.18 (adjusted) (3,80,000 x1.15)	4,37,000
1.4.18 to 30.6.18	3,24,000
1.7.18 to 30.9.18	4,42,000
1.10.18 to 15.12.18 (3,50,000 – Nil)	3,50,000
Sales for 12 months just before date of fire*	16,31,200
Gross profit on adjusted annual sales @ 20%	3,26,240

NOTE*: Alternatively, the annual adjusted turnover may be computed as Rs. 17,98,600 (Rs. 15,64,000 X 1.15) considering the annual % increase trend for the entire period of last 12 months preceding to the date of fire. In that case, the gross profit on adjusted annual sales @ 20% will be computed as Rs. 3,59,720 and net claim will be computed accordingly **(3.5 Marks)**

(B) Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.2018

Particulars	*Pre-incorporation period Rs.*	*Post- incorporation period Rs.*
Gross profit (1:2)	2,50,000	5,00,000
Less: Salaries (5:14)	35,000	98,000
Carriage outward (1:2)	25,000	50,000
Audit fee	-	12,000
Travelling expenses (W.N.3)	24,500	41,500
Commission on sales (1:2)	16,000	32,000
Printing & stationary (5:7)	10,000	14,000
Rent (office building) (W.N.4)	25,000	71,000
Electricity charges (5:7)	12,500	17,500
Depreciation	30,000	50,000
Advertisement (1:2)	8,000	16,000
Preliminary expenses	-	9,000
MD remuneration	-	8,000
Pre-incorporation profit – ts/f to Capital reserve (Bal. Fig.)	64,000	-
Net profit (Bal. Fig.)	-	81,000

(4 Marks)

Working Notes:

1. **Time Ratio**

   Pre incorporation period = 1st April, 2017 to 31st August, 2017

   i.e. 5 months

   Post incorporation period is 7 months Time ratio is 5: 7.

2. **Sales ratio**

April	85,000
May	85,000
June	1,05,000
July	1,05,000
August	1,20,000
	5,00,000
September	1,20,000
Oct & Nov.	2,80,000
Dec. to March (1,50,000 x 4)	6,00,000
	10,00,000

5,00,000:10,00,000 = 1:2

3. **Travelling expenses**

	Rs.	Rs.
	Pre-incorporation	Post-incorporation
30,000 office staff (5:7)	12,500	17,500
36,000 sales (1:2)	12,000	24,000
	24,500	41,500

4. **Rent**

	Rs.
Rent for additional space Rs. (6,000 x 6)	36,000
Remaining rent Rs. (96,000-36,000)	60,000
Pre-incorporation period (5/12 of 60,000)	25,000
Post- incorporation period Rs.35,000 + Rs.36,000	71,000

5. Salaries

Suppose x for a month in pre- incorporation period then salaries for pre-incorporation period = 5x salaries for post- incorporation period = 2x X 7= 14x

Ratio = 5:14

6. Depreciation

	Rs.	Rs. Pre-incorporation	Rs. Post-incorporation
Total depreciation	80,000		
Less: Depreciation exclusively for post incorporation period			8,000
(Rs. 4,80,000 x 10 x 2/12)	8,000		
	72,000		
Depreciation for pre-incorporation period (Rs. 72,000 x 5/12)		30,000	
Depreciation for post incorporation period (Rs. 72,000 x 7/12)			42,000
		30,000	50,000

(1*6=6 Marks)

ANSWER 5

(A) Trading and Profit and Loss Account of Aman for the year ended 31st March, 2018

		Rs.			*Rs.*
To	Opening Stock	2,00,000	By	Sales	18,00,000
To	Purchases (Bal. fig.)	15,40,000	By	Closing Stock	3,00,000
To	Gross Profit c/d	3,60,000			________
		21,00,000			21,00,000
To	Business Expenses	2,00,000	By	Gross Profit b/d	3,60,000
To	Repairs	10,000			
To	Depreciation: Building 16,250 Machinery 2,500 Motor Car 18,000	36,750			
To	Travelling Expenses	15,000			
To	Loss by theft (cash defalcated)	20,000			

To	Net Profit	78,250		________
		3,60,000		3,60,000

(4 Marks)

Balance Sheet of Aman as at 31st March, 2018

Liabilities	*Rs.*	*Rs.*	Assets	*Rs.*	*Rs.*
Capital	4,80,000		Building	3,25,000	
Add:			*Less*: Depreciation	(16,250)	3,08,750
Net Profit	78,250		Furniture	50,000	
Drawings	(75,000)	4,83,250	*Less*: Depreciation	(2,500)	47,500
Loan		1,50,000	Motor car	90,000	
			Less: Depreciation	(18,000)	72,000
Sundry Creditors		4,75,000	Stock in Trade		3,00,000
Outstanding business Expenses			Sundry Debtors		2,10,000
		50,000	Bank Balance		2,20,000
		11,58,250			11,58,250

(4 Marks)

Working Notes:

1. Cash and Bank Account

	Particulars	Cash	Bank		Particulars	Cash	Bank
To	Balance b/d	20,000	85,000	By	Payment to Creditors	-	13,75,000
To	Collection from Debtors	3,50,000	10,50,000	By	Business Expenses	90,000	60,000
To	Sales (18,00,000 x 20%)	3,60,000	–	By	Repairs	10,000	–
To	Cash (C)	–	7,15,000	By	Cash (C) (withdrawal)		1,20,000

				By	Bank (C)	7,15,000	
To	Bank (C)	1,20,000	-	By	Travelling Expenses	15,000	–
				By	Private Drawings	-	75,000
				By	Balance c/d		2,20,000
				By	Cash defalcated (balancing fig.)	20,000	
		8,50,000	18,50,000			8,50,000	18,50,000

2. Calculation of sales during 2017-18 **Rs.**

Gross profit (last year i.e. for year ended 31.3.2017	3,00,000
Goods sold at cost plus 25% i.e. 20% of sales Sales for 2016-17 3,00,000/0.2	15,00,000
Sales for 2017-18 (15,00,000 x 1.2)	18,00,000
Credit sales for 2017-18	14,40,000 (80% of 18,00,000)

3. Debtors Account

To	Bal. b/d.	1,70,000	By	Cash	3,50,000
To	Sales (18,00,000 x 80%)	14,40,000	By	Bank	10,50,000
			By	Bal. c/d	2,10,000
		16,10,000			16,10,000

4. Creditors Account

To	Bank	13,75,000	By	Bal. b/d	3,10,000
To	Bal. c/d (bal. fig.)	4,75,000	By	Purchases	15,40,000
		18,50,000			18,50,000

(1*4 = 4 Marks)

(B) **Debenture Redemption Reserve Account**

Date	***Particulars***	**Rs.**	***Date***	***Particulars***	**Rs.**
31st March, 20X2	To General reserve A/c note 1 (Refer Note 1)	3,75,000	1st April, 20X1	By Balance b/d	1,25,000
			1st April, 20X1	By Profit and loss A/c (Refer Note 1)	2,50,000
		3,75,000			3,75,000

(2 Marks)

10% Secured Bonds of Govt. (DRR Investment) A/c

		Rs.			Rs.
1st April, 20X1	To Balance b/d	5,62,500	31st March, 20X2	By Bank A/c	5,62,500
		5,62,500			5,62,500

(2 Marks)

Bank Account

		Rs.			**Rs.**
31st March, 20X2	To Balance b/d	37,50,000	31st March, 20X2	By Debenture holders A/c. (110% of 37,50,000)	41,25,000
	To Interest on DRR Investment (5,62,500X 10%)	56,250		By Balance c/d	2,43,750
	To DRR Investment A/c	5,62,500			
		43,68,750			43,68,750

(3 Marks)

Working note –

Calculation of DRR before redemption = 10% of Rs. 37,50,000 = 3,75,000 Available balance = Rs. 1,25,000

DRR required =3,75,000 – 1,25,000 = Rs. 2,50,000. **(1 Mark)**

ANSWER 6

(A) **In the books of ABC Limited**

Journal Entries

Date 20X2	***Particulars***		***Dr. (Rs.)***	***Cr. (Rs.)***
Jan 1	10% Redeemable Preference Share Capital A/c	Dr.	2,00,000	
	Premium on Redemption of Preference Shares	Dr.	10,000	
	To Preference Shareholders A/c			2,10,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	2,10,000	
	To Bank A/c			2,10,000
	(Being the amount paid on redemption of preference shares)			
	General Reserve A/c	Dr.	2,00,000	
	To Capital Redemption Reserve A/c			2,00,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			
	Profit & Loss A/c	Dr.	10,000	
	To Premium on Redemption of Preference Shares A/c			10,000
	(Being premium on redemption charged to Profit and Loss A/c)			

Note: Capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

(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.

(C) Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. Accounting Standards provide a set of standard accounting policies, valuation norms and disclosure requirements. Accounting standards aim at improving the quality of financial reporting by promoting comparability, consistency and transparency, in the interests of users of financial statements.

The following are the benefits of Accounting Standards:

(i) ***Standardization of alternative accounting treatments:*** Accounting Standards reduce to a reasonable extent confusing variations in the accounting treatment followed for the purpose of preparation of financial statements.

(ii) ***Requirements for additional disclosures:*** There are certain areas where important is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

(iii) ***Comparability of financial statements:*** The application of accounting standards would facilitate comparison of financial statements of different companies situated in India and facilitate comparison, to a limited extent, of financial statements of companies situated in different parts of the world. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in Accounting Standards adopted in different countries.

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

			Rs.	*Rs.*
1-4-20X1	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….)			
20-4-20X1	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)			

Extract of Balance Sheet as at 30th April, 20X1 (after bonus issue)

	Rs.
Authorized Capital	
30,000 12% Preference shares of Rs. 10 each	3,00,000
4,00,000 Equity shares of Rs. 10 each	40,00,000
Issued and subscribed capital	
24,000 12% Preference shares of Rs.10 each, fully paid	2,40,000
3,37,500 Equity shares of Rs. 10 each, fully paid	33,75,000
(Out of the above, 67,500 equity shares @ Rs. 10 each were issued by way of bonus shares)	
Reserves and surplus	
Profit and Loss Account	4,80,000

(E) Branch Stock Reserve in respect of unrealized profit on
opening stock = Rs. 3,45,000 x (15/115) = Rs. 45,000
on closing stock = Rs. 2,30,000 x (15/115) = Rs. 30,000

Working Note: Rs.

Cost Price	100
Invoice Price	115

Sale Price	140
Calculation of closing stock at invoice price	Rs.
Opening stock at invoice price	3,45,000
Goods received during the year at invoice price	16,10,000
	19,55,000
Less: Cost of goods sold at invoice price [21,00,000 X (115/140)]	(17,25,000)
Closing stock	2,30,000

(4 Parts * 5 marks = 20 Marks)