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ANSWER -1

ANSWER -A

Cash Flow Statement of M/s GAGAN Ltd. for the year ended March 31 , 2018

A	**Cash flow from Operating activities**	
	Net profit as per profit and loss account	-
	Add: premium on redemption of debentures	1,650
	Add: interest on 10% debentures	11,000
	Less: Interest on 10% investments	(35,000)
B	**Cash flow from Investing activities**	
	Interest on investments (35,000 – 10,500)	24,500
C	**Cash flow from Financing activities**	
	Interest on debentures paid [11,000 – (1,175 – 275)]	(10,100)
	Redemption of debentures [(1,10,000 – 77,000) at 5% premium]	(34,650)

Note: Debtors written off against provision for doubtful debts does not require any further adjustment in Cash Flow Statement.

(5 MARKS)

ANSWER -B

According to AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset (if the grant had been credited to the cost of fixed asset at the time of receipt of grant) should be recorded by increasing the book value of the asset, by the amount refundable. Where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

		(Rs. in lakhs)
1st April, 2014	Acquisition cost of machinery (Rs. 500 – Rs. 100)	400.00
31st March, 2015	*Less*: Depreciation @ 20%	(80)
1st April, 2015	Book value	320.00
31st March, 2016	*Less*: Depreciation @ 20%	(64)
1st April, 2016	Book value	256.00
31st March, 2017	*Less*: Depreciation @ 20%	(51.20)
1st April, 2017	Book value	204.80
2nd April, 2017	*Add*: Refund of grant	100.00
	Revised book value	304.80

Depreciation @ 20% on the revised book value amounting Rs. 304.80 lakhs is to be provided prospectively over the residual useful life of the asset.

(5 MARKS)

ANSWER –C

Calculation of cost for closing inventory

Particulars	*Rs.*
Cost of Purchase (10,200 x 10)	1,02,000
Direct Labour	76,500
Fixed Overhead (75000 X 10200/15000)	51,000
Cost of Production	2,29,500
Cost of closing inventory per unit (2,29,500/10,200)	Rs. 22.50
Net Realisable Value per unit	Rs. 20.00

Since net realisable value is less than cost, closing inventory will be valued atRs. 20.

As NRV of the finished goods is less than its cost, relevant raw materials will be valued at replacement cost i.e. Rs. 9.50.

Therefore, value of closing inventory:

Finished Goods (1,200 x 20)	Rs. 24,000
Raw Materials (900 x 9.50)	Rs. 8,550
	Rs. 32,550

(5 MARKS)

ANSWER -D

(i) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", an enterprise may enter into a forward exchange contract to establish the amount of the reporting currency required, the premium or discount arising at the inception of such a forward exchange contract should be amortized as expenses or income over the life of the contract.

Forward Rate	Rs. 62.50
Less: Spot Rate	(Rs. 60.75)
Premium on Contract	Rs. 1.75

Contract Amount US$ 5,00,000

Total Loss (5,00,000 x 1.75) Rs. 8,75,000

Contract period 5 months

3 months falling in the year 2017-18; therefore loss to be recognized in 2017-18 (8,75,000/5) x 3 = Rs. 5,25,000. Rest Rs. 3,50,000 will be recognized in the following year 2018-19.

(ii) Financial statements of an integral foreign operation (for example, dependent foreign branches) should be translated using the principles and procedures described in paragraphs 8 to 16 of AS 11 (Revised 2003). The individual items in the financial statements of a foreign operation are translated as if all its transactions had been entered into by the reporting enterprise itself. Individual items in the financial statements of the foreign operation are translated at the actual rate on the date of transaction. The foreign currency monetary items (for example cash, receivables, payables) should be reported using the closing rate at each balance sheet date. Non-monetary items (for example, fixed assets, inventories, investments in equity shares) which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange date at the date of transaction. Thus the cost and depreciation of the tangible fixed assets is translated using the exchange rate at the date of purchase of the asset if asset is carried at cost. If the fixed asset is carried at fair value, translation should be done using the rate existed on the date of the valuation. The cost of inventories is translated at the exchange rates that existed when the cost of inventory was incurred and realizable value is translated applying exchange rate when realizable value is determined which is generally closing rate. Exchange difference arising on the translation of the financial statements of integral foreign operation should be charged to profit and loss account.

Thus, the treatment by the management of translating all assets and liabilities; income and expenditure items in respect of foreign branches at the prevailing rate at the year end and also the treatment of resultant exchange difference is not in consonance with AS 11 (Revised 2003).

(5 MARKS)

ANSWER -2

ANSWER -A

Oliva Company Ltd.

Statement of Profit and loss for the year ended 31.03.2019

(Rs.)

	Particulars	**Note**	**Amount**
I	Revenue from operations		17,10,000
II	Other income (3,900 +300)		4,200
III	**Total Revenue (I +II)**		17,14,200
IV	Expenses:		
	Cost of materials consumed	10	12,64,200
	Purchases of inventory-in-trade		--
	Changes in inventories of finished goods, work-in-progress and inventory-in-Trade	11	(13,500)
	Employee benefit expenses	12	44,700
	Finance costs		--
	Depreciation and amortization expenses		18,240
	Other expenses	13	3,51,510
	Total Expenses		16,65,150
V	Profit before exceptional and extraordinary items and tax		49,050

VI	Exceptional items		--
VII	Profit before extraordinary items and tax		49,050
VIII	Extraordinary items		--
IX	Profit before tax		49,050
X	Tax expense (40% of 49,050)		19,620
XI	Profit/Loss for the period from continuing operations		29,430

(5 MARKS)

Oliva Company Ltd.

Balance Sheet for the year ended 31.03.2019

	Particulars		Note	Amount
1	**Equity and Liabilities**			
	(i) Shareholders' funds			
	(a) Share Capital		1	3,15,000
	(b) Reserves and surplus			50,430
2)	**Non-current liabilities**			
	(a) Long-term borrowings		2	23,300
(3)	**Current Liabilities**			
	(a) Short -term borrowings		3	6,000
	(b) Trade payables			3,27,000
	(c) Other current liability		4	73,000
	(d) Short term provision		5	19,620
				8,14,350
II	**ASSETS**			
(1)	**Non current assets**			
	(a) Property, Plant & equipment			
	(i) Tangible assets		6	2,04,160
	(b) Non-current investments			7,500
(2)	**Current assets**			
	(a) Current investments			4,500
	(b) Inventories		7	85,800
	(c) Trade receivables			2,38,500
	(d) Cash and cash equivalents			2,71,100
	(e) Short-term loans and advances		8	2,490
	(f) Other current assets		9	300
				8,14,350

Notes to accounts

No	Particulars		Amount	Amount
1.	**Reserve & Surplus**			
	Profit & Loss Account: Balance b/f		48,000	
	Net Profit for the year		29,430	
	Less: Interim Dividend including DDT		(27,000)	50,430
2.	**Long term borrowings**			
	Secured loans (21,000 less current maturities 1,000)		20,000	
	Fixed Deposits: Unsecured		3,300	23,300
3.	Short term borrowings			
	Secured loans		4,500	
	Fixed Deposits -Unsecured		1,500	6,000
4.	Other current liabilities			
	Expenses Payable (67,500 + 4,500)		72,000	
	Current maturities of long term borrowings		1,000	73,000
5.	Short term provisions			
	Provision for Income tax			19,620
6.	Tangible Assets			
	Building	1,01,000		
	Less: Depreciation @ 2%	(2,020)	98,980	
	Plant & Machinery	70,400		
	Less: Depreciation @10%	(7,040)	63,360	
	Furniture	10,200		
	Less: Depreciation @10%	(1,020)	9,180	
	Motor vehicles	40,800		
	Less: Depreciation @20%	(8,160)	32,640	2,04,160
7	Inventory:			
	Raw Material		25,800	
	Finished goods		60,000	85,800
8.	Short term Loans & Advances			
	General Charges prepaid			2,490
9.	Other Current Assets:			
	Interest accrued			300
10.	Cost of material consumed			
	Opening inventory of raw Material & Stores	30,000		
	Add: Purchases	12,15,000		
	Stores & Spare parts consumed	(45,000)	12,90,000	
	Less: Closing inventory		(25,800)	12,64,200
11.	Changes in inventory of Finished Goods & WIP			

	Closing Inventory of Finished Goods		60,000	
	Less: Opening Inventory of Finished Goods		46,500	13,500
12.	Employee Benefit expenses			
	Salary & Wages (40,200 + 4,500)			44,700
13.	Other Expenses:			
	Manufacturing Expenses (2,70,000 + 67,500)		3,37,500	
	General Charges (16,500 – 2,490)		14,010	3,51,510

(7 MARKS)

ANSWER –B

Convertible Limited Balance Sheet as on July 1, 20X1

Particulars	Note No	Figures as at the end of current reporting period
		Rs.
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	60,00,000
(b) Reserves and Surplus	2	1,10,75,000
(2) Non-Current Liabilities		
(a) Long-term borrowings - Unsecured Loans		65,00,000
(3) Current Liabilities		
(a) Short-term provisions		1,25,00,000
Total		**3,60,75,000**
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment		
(i) Tangible assets		1,60,00,000
(2) Current assets		
(a) Cash and bank balances (**Refer WN (iii)**)		75,000
(b) Other current assets		2,00,00,000
Total		**3,60,75,000**

(4 MARKS)

Notes to Accounts

			Rs.
1.	**Share Capital** 6,00,000 Equity Shares (5,00,000 + 1,00,000) of Rs. 10 each **(Refer WN (i))**		60,00,000

2.	Reserves and Surplus		
	General Reserve Profit & Loss	90,00,000 10,00,000	
	Add: Debenture Redemption Reserve transfer	10,00,000	
		110,00,000	
	Less: Premium on redemption of debentures (1,00,000 debentures x Rs. 5 per debenture)	(5,00,000)	1,05,00,000
	Securities Premium (1,00,000 shares x 5.75) (Refer WN (i))		5,75,000
			1,10,75,000

Working Notes :

(i) Calculation of number of shares to be allotted:

Total number of debentures 1,00,000

Less: Number of debentures for which debenture holders

did not opt for conversion (25,000)

75,000

20% of 75,000 15,000

Redemption value of 15,000 debentures (15,000 x 105) Rs. 15,75,000

Number of Equity Shares to be allotted: 1575000/ 15.75 = 100000 shares of Rs. 10 each

(ii) Calculation of cash to be paid:

Total number of debentures 1,00,000

Less : number of debentures to be converted into equity shares (15,000)

Balance 85,000

Redemption value of 85,000 debentures (85,000 × Rs. 105) Rs. 89,25,000

(iii) **Cash and Bank Balance:**

Balance before redemption 75,00,000

Add : Proceeds of investments sold 15,00,000

90,00,000

Less : Cash paid to debenture holders (89,25,000)

75,000

(4 MARKS)

ANSWER -3

ANSWER -A

Trading and Profit and Loss A/c for the year ended 31.3.2019

			Rs.				Rs.
To	Opening stock (Balancing figure)		82,500	By	Sales- Cash (W.N.1)	1,25,000	
To	Purchases-Cash	1,80,000			Credit	5,00,000	6,25,000
	Credit (W.N.1)	2,70,000	4,50,000	By	Closing stock		32,500
To	Gross profit c/d		1,25,000				
			6,57,500				6,57,500
To	Loss on sale of		7,500	By	Gross profit b/d		1,25,000
	Machine			By	Discount		
To	Depreciation				received		2,250
	Land & Building	12,500					
	Plant & Machinery	11,875					
	Office Equipment	6,375	30,750				
To	Expenses paid						
	Salary	16,000					
	Selling Expenses	7,500					
	Office Expenses	18,500	42,000				
To	Bed debt		2,250				
To	Discount allowed		2,750				
To	Interest on loan		6,250				
To	Net profit		35,750				
			1,27,250				1,27,250

(5 MARKS)

Balance Sheet as on 31-3-2019

Liabilities		***Rs.***	***Assets***		***Rs.***
Capital (Balancing Figure)	4,65,250		Land & Building	2,50,000	
Add: Net profit	35,750	5,01,000	*Less:* Depreciation	(12,500)	2,37,500
Sundry creditors (W.N.3)		52,750	Plant & Machinery	1,65,000	
Bank loan		50,000	*Less:* Depreciation	(10,875)	1,54,125
Provision for expenses		7,500	Office Equipment	42,500	
			Less: Depreciation	(6,375)	36,125
			Debtors		1,10,250

			Stock		32,500
			Bank balance (W.N.4)		40,750
		6,11,250			**6,11,250**

(5 MARKS)

Notes:

1. **Calculation of Sales and Purchases**

Total sales = Rs.6,25,000

Cash sales = 20% of total sales (6,25,000) = Rs. 1,25,000

Credit sales = 80% of total sales = (6,25,000) Rs. 5,00,000

Gross Profit 25% on cost = 6,25,000 X 25/125 = Rs. 125000

Credit purchases = Rs.2,70,000

Credit purchases = 60% of total purchases

Cash purchases = 40% of total purchases

Total purchases = 270000/60 X 100 = Rs. 450000

Cash purchases = 4,50,000 – 2,70,000 = Rs. 1,80,000

2. **Plant & Machinery**

	Rs.		*Rs.*
To Balance b/d	1,10,000	By Sale of Machinery A/c	20,000
To Cash-purchase (Bal. Fig.)	75,000	By Balance c/d	1,65,000
	1,85,000		1,85,000

Depreciation on Plant & Machinery:

@ 10% p.a. on Rs. 20,000 for 6 months	=	1,000
@ 10% p.a. on Rs. 90,000 (i.e. Rs. 1,10,000 – Rs.20,000)	=	9,000
@ 10% p.a. on Rs. 75,000 for 3 months (i.e. during the year)	=	1,875
		11,875

Sale of Machinery Account

To Plant and Machinery	20,000	By Depreciation (20,000 x 10% x 1/2	1000
		By Profit and Loss A/c	7,500
		By Bank (Balancing figure)	11,500
	20,000		20,000

Note: Plant & Machinery account and sale of Machinery can be combined together

3. Creditors Account

		Rs.			*Rs.*
To	Cash	2,62,500	By	Balance b/d	47,500
To	Discount received	2,250	By	Credit purchases (W.N.2)	2,70,000
To	Balance c/d (Bal. Fig.)	52,750			
		3,17,500			3,17,500

Debtors Account

		Rs.			*Rs.*
To	Balance b/d (Given)	77,750	By	Bank	4,62,500
To	Sales (Credit)	5,00,000	By	Discount allowed	2,750
			By	Bad debts	2,250
			By	Balance c/d	1,10,250
		5,77,750			5,77,750

Provision for Office Expenses Account

	Rs.		Rs.
To Bank	21,000	By balance b/d	10,000
To balance c/d	7,500	By Expenses. (Bal. fig.)	18,500
	28,500		28,500

4. Bank Account

		Rs.			*Rs.*
To	Balance b/d	12,500	By	Creditors	2,62,500
To	Debtors	4,62,500	By	Purchases	1,80,000
To	Office Equipment (sales)	10,000	By	Expenses Rs. (16,000 + 7,500 + 21,000)	44,500
To	Cash sales (W.N.1)	1,25,000	By	Bank loan paid	18,750
To	Machine sold	11,500	By	Machine purchased (W.N.4)	75,000
			By	Balance c/d (Bal. Fig.)	40,750
		6,21,500			6,21,500

5. Office Equipment Account

To balance b/d	52,500	By Sales	10,000
		By balance c/d	42,500
	52,500		52,500

ANSWER –B

Investment in Equity shares of JP Power Ltd.

Date	Particulars	No.	Dividend Rs.	Amount Rs.	Date	Particulars	No.	Dividend Rs.	Amount Rs.
1.1.16	To Bank A/c	600		12,000	31.3.16	By Balance c/d	1,500		34,500
15.3.16	To Bank A/c	900		22,500					
		1,500		34,500			1,500		34,500
1.4.16	To Balance b/d	1,500		34,500	15.9.16	By Bank - dividend		4,500	3,000
20.5.16	To Bank A/c	1,000		23,000	20.12.16	By Bank	1,500		33,000
25.7.16	To Bonus shares	2,500		_	1.2.17	By Bank	1,000		24,000
12.11.16	To Bank A/c	600		12,000	31.3.17	By Balance c/d	3,100		36,812.50*
20.12.16	To P& L A/c (profit on sale)			15,187.50*					
1.2.17	To P& L A/c (profit on sale)			12,125					
31.3.17	To P & L A/c (dividend)		4,500						
		5,600	4,500	96,812.50			5,600	4,500	96,812.50

(6 MARKS)

Working Notes:

1. **Calculation of Weighted average cost of equity shares**

   600 shares purchased at Rs. 12,000

   900 shares purchased at Rs. 22,500

   1,000 shares purchased at Rs. 23,000

   2,500 shares at nil cost

   600 right shares purchased at Rs. 12,000

   Total cost of 5,600 shares is Rs. 66,500 [Rs. 69,500 less Rs. 3,000 (pre-acquisition dividend received on 1,000 shares purchased on 20.5.17].

   Hence, weighted average cost per share will be considered as Rs. 11.875 per share (66,500/5,600).

2. It has been considered that no dividend was received on bonus shares as the dividend pertains to the year ended 31^{st} March, 2016.

3. **Calculation of right shares subscribed by Vijay**

   Right Shares (considering that right shares have been granted on Bonus shares also) = 5,000/5 x 1= 1,000 shares

   Shares subscribed = 1,000 x 60%= 600 shares

   Value of right shares subscribed = 600 shares @ Rs. 20 per share = Rs. 12,000

   Calculation of sale of right renouncement

   No. of right shares sold = 1,000 x 40% = 400 shares

   Sale value of right = 400 shares x Rs. 3 per share = Rs. 1,200

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

4. **Profit on sale of equity shares**

   As on 20.12.16

Sales price (1,500 shares at Rs. 22)	33,000.00
Less: Cost of shares sold (1,500 x Rs. 11.875)	(17,812.50)
Profit on sale	15,187.50

   As on 1. 2.17

Sales price (1,000 shares at Rs. 24)	24,000

Less: Cost of shares sold (1,000 x Rs. 11.875)	(11,875)
Profit on sale	12,125

Balance of 3,100 shares as on 31.3.17 will be valued at Rs. 36,812.50 (at rate of Rs. 11.875 per share)

(4*1 = 4 MARKS)

ANSWER –4

ANSWER –A

Computation of claim for loss of stock

	Rs.
Stock on the date of fire (i.e. on 1.10.2017)	3,75,000
Less: Stock salvaged	(50,000)
Stock destroyed by fire (Loss of stock)	3,25,000

Insurance claim = Rs. 3,25,000

(Average clause is not applicable as insurance policy amount (Rs. 5,00,000) is more than the value of closing stock ie. Rs. 3,75,000)

(3 MARKS)

Memorandum Trading A/c (1.4.17 to 30.9.17)

Particulars	*(Rs.)*	*Particulars*	*(Rs.)*
To Opening stock	3,50,000	By Sales	25,68,000
To Purchases (Rs. 18,75,000+Rs. 1,00,000)	19,75,000	By Goods with customers* (for approval) (W.N.1)	99,000
To Carriage inward	35,000	By Closing stock (bal. fig.)	3,75,000
To Wages	40,000		
To Gross profit (Rs. 25,68,000 x 25%)	6,42,000		
	30,42,000		30,42,000

* 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 entity and, hence, there was no loss of such stock.

Alternatively

Memorandum Trading A/c (1.4.17 to 30.9.17)

Particulars	(Rs.)	Particulars	(Rs.)
To Opening stock	3,50,000	By Sales 27,75,000 (-) Goods not dispatched (75,000)	27,00,000
To Purchases (18,75,000 + 1,00,000)	19,75,000	By closing stock/ stock on date of fire	3,75,000
To carriage inwards	35,000		
To wages	40,000		
To Gross Profit (25% x 27,00,000)	6,75,000		

Working Notes:

1. **Calculation of goods with customers**

   Since no approval for sale has been received for the goods of Rs. 1,32,000 (i.e. 2/3 of Rs. 1,98,000) hence, these should be valued at cost i.e. Rs. 1,32,000 – 25% of Rs. 1,32,000 =Rs. 99,000.

2. **Calculation of actual sales**

   Total sales – Goods not dispatched - Sale of goods on approval (2/3rd) =

   Sales (Rs. 27,75,000 – 75,000 – Rs.1,32,000) = Rs. 25,68,000

(7 MARKS)

ANSWER –B

Departmental Trading Account for the year ended on 31st December, 2018

Particulars	*A*	*B*	*Particulars*	*A*	*B*
	Rs.	Rs.		Rs.	Rs.
To Opening Stock	3,00,000	2,40,000	By Sales	60,00,000	90,00,000
To Purchases	39,00,000	54,60,000	By Closing Stock	6,00,000	12,00,000
To Gross Profit	24,00,000	45,00,000			
	66,00,000	1,02,00,000		66,00,000	1,02,00,000

(4 MARKS)

General profit and loss account of Beta for the year ended on 31st December, 2018

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To General expenses*	7,50,000	By Stock reserve (opening stock)	
To Stock reserve (Closing Stock)		Dept. A	30,000
Dept. A	60,000	Dept. B	36,000
Dept. B	72,000	By Gross Profit	
To Net Profit	60,84,000	Dept. A	24,00,000
	_____	Dept. B	45,00,000
	69,66,000		69,66,000

Working Notes:

		Dept. A	Dept. B
1.	Percentage of Profit	24,00,000/60,00,000 x 100 40%	45,00,000/90,00,000 x 100 50%
2.	Opening Stock reserve	60,000 x 50% = 30,000	90,000 X 40% = 36,000
3.	Closing Stock reserve	1,20,000 x 50%=60,000	1,80,000 x 40% = 72,000

(6 MARKS)

ANSWER –5

ANSWER –A

Journal Entries in the Books of Prakash Ltd.

No.	Particulars		Dr. (Rs.)	Cr. (Rs.)
1.	Bank A/c. To investment A/c. To Profit and Loss A/c. [Being Investment sold at a profit]	Dr.	1,90,000	 1,50,000 40,000
2.	Bank A/c. To Equity Share capital A/c. To Security Premium A/c. [Being amount received on fresh issue of 4,000 shares @ Rs. 12]	Dr.	48,000	 40,000 8,000
3.	Profit and Loss A/c. To Capital Redemption Reserve A/c. [Being CRR created out of Profit & Loss A/c. 2,00,000 –	Dr.	1,60,000	 1,60,000

	40,000]			
4.	8% Redeemable Preference shares Capital A/c. Premium on Redemption of Preference Share Capital A/c. To Redeemable Preference Shareholders A/c. [Being amount payable to preference shareholder along with premium transferred to preferences shareholders A/c.]	Dr. Dr.	2,00,000 10,000	 2,10,000
5.	Redeemable Preference shareholder A/c. To Bank A/c. [Being amount paid on redemption except 100 shares]	Dr.	1,99,500	 1,99,500
6.	Profit and Loss A/c. To Premium on Redemption of Preference shares A/c. [Being premium on redemption of preference shares adjusted]	Dr.	10,000	 10,000

(6*1 = 6 MARKS)

PRAKASH Ltd.
Balance sheet as (after Redemption)

Particulars		**Note**	**Rs.**
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
a. Share capital	… … … … … …	1	10,40,000
b. Reserve and Surplus	… … … … … …	2	5,23,000
2. Current Liabilities	… … … … … …	3	2,68,500
Total			**18,31,500**
II. ASSETS			
1. Non – Current Assets			
Fixed Assets	… … …. … … …		15,75,000
2. Current Assets			
Cash and Cash Equivalents	… … … … … …	4	2,56,500
Total	**… … … … … …**		**18,31,500**

Notes to Accounts			**Rs.**
1. Share capital		**No.**	
Equity Share Capital of Rs. 10 each	**… … … … …**	1,04,000	10,40,000
2. Reserves and Surplus			
a. Securities Premium (35,000 + 8,000)	**… … … … … …**		43,000
b. Capital Redemption Reserve	**… … … … … …**		1,60,000
c. Profit and Loss A/c. (4,50,000 + 40,000 – 10,000 – 1,60,000)	**… … … … … …**		3,20,000
Total	**… … … … … …**		5,23,000
3. Current Liabilities			
a. Sundry Creditors	**… … … … … …**		2,58,000
b. Redeemable Preference shareholders			10,500
Total	**… … … … … …**		**2,68,500**
4. Cash and Cash Equivalents			
Bank (2,18,000 + 48,000 + 1,90,000 – 1,99,500	**… … … … … …**		2,56,500

(4 MARKS)

(B)

IN THE BOOK OF M/S NIMISH PVT. LTD.

Statement of Profit and Loss for the Year Ended 31.03.2017

Particulars		**Total**	**Basis of Allocation**	**Pre – Inc.**	**Post – Inc.**
Income					
Gross Profit	… … …. …. …. … …	1,00,000	Sales	25,000	75,000
Share Transfer fees	… … …. …. …. … …	2,000	Post – inc.	-	2,000
		1,02,000		25,000	77,000
Total Income					
Office Salaries	… … …. …. …. … …	24,000	Time	8,000	16,000
Chinmay’s salary	… … …. …. …. … …	2,000	Pre – Inc.	2,000	-
Advertisement	… … …. …. …. … …	18,000	Sales	4,500	13,500
Printing & Stationery	… … …. …. …. … …	1,500	Time	500	1,000
Travelling Expenses					
- Sales Promotion	… … …. …. …. … …	1,600	Sales	400	1,200
- Fixed	… … …. …. …. … …	2,400	Time	800	1,600
Office Rent	… … …. …. …. … …	9,600	Specific	2,800	6,800
Electricity Charges	… … …. …. …. … …	5,100	Time	1,700	3,400
Director’s Fees	… … …. …. …. … …	1,200	Post – inc.	-	1,200
Audit Fees	… … …. …. …. … …	600	Time	200	400
Bad Debts	… … …. …. …. … …	1,200	Specific	400	800
Commission on sales	… … …. …. …. … …	7,000	Sales	1,750	5,250
Preliminary Expenses	… … …. …. …. … …	2,000	Post – inc.	-	2,000
Debenture Interest	… … …. …. …. … …	2,300	Post – inc.	-	2,300
Interest on Capital	… … …. …. …. … …	800	Pre – inc.	800	-
Depreciation	… … …. …. …. … …	2,100	Specific	500	1,600
Total Expenses	… … …. …. …. … …	81,400		24,350	57,050
Net Profit	… … …. …. …. … …	20,600		650	19,950

Notes to Accounts : Net profit for pre – incorporation period will be transferred to Capital Reserve and the Net profit for the post – incorporation period will be transferred to the Profit and Loss Account.

(8 MARKS)

Working Notes :

(1) Ratios for Allocation

Particulars	**Pre – Incorporation**				**Total**	**Post incorporation**								**Total**
1. Time	April	May	June	July	04	Aug. 1	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	08
2. Sales	1	1	1	1	4	1	1	$1\,{}^2/_3$	$1\,{}^2/_3$	$1\,{}^2/_3$	$1\,{}^2/_3$	$1\,{}^2/_3$	$1\,{}^2/_3$	12
3. Office rent	700	700	700	700	2,800	700	700	900	900	900	900	900	900	6,800
4. Depreciation	= $\left(Rs. 1{,}500 \times \frac{1}{3}\right)$				500	$\left(Rs. 1{,}500 \times \frac{2}{3}\right)$ = 1,000 + 600								1,600
5. Travelling Expenses =	Sales Promotion = $\left(Rs. 1{,}600 \times \frac{1}{4}\right)$				400	$\left(Rs. 1{,}600 \times \frac{3}{4}\right)$								1,200
	Fixed = $\left(Rs. 2{,}400 \times \frac{1}{3}\right)$				800	$\left(Rs. 2{,}400 \times \frac{2}{3}\right)$								1,600
					1,200									2,800
6. Bad Debts					400									800

(2 MARKS)

ANSWER -6

ANSWER –A

The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made. In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from Rs. 3.5 lakhs to Rs. 2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2019-20:

"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been lower by Rs. 1 lakh."

(5 MARKS)

ANSWER – B

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….)			
	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
20-4-20X1	(For final call money on 2,70,000 equity shares received)			
	Capital Redemption Reserve A/c	Dr.	75,000	
	Securities Premium 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 (For issue of bonus shares)		6,75,000

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
	43,00,000
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)	
	36,15,000
Reserves and surplus	
Profit and Loss Account	4,80,000

(5 MARKS)

ANSWER –C

(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	-	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.

(ii) In the books of Amandeep

Cars Account

Date	*Particulars*	*Rs.*	*Date*	*Particulars*	*Rs.*
1.4.2016	To Fair Value Motors A/c	18,00,000	31.3.2017	By Depreciation A/c	4,50,000
				By Balance c/d	13,50,000
		18,00,000			18,00,000
1.4.2017	To Balance b/d	13,50,000	31.3.2018	By Depreciation A/c	3,37,500
				By Balance c/d	10,12,500
		13,50,000			13,50,000
1.4.2018	To Balance b/d	10,12,500	31.3.2019	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 on surrender transfer red to Profit and Loss A/c (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

(5 MARKS)

ANSWER –D

The Framework for Recognition and Presentation of Financial statements recognizes four alternative measurement bases for the purpose of determining the value at which an element can be recognized in the balance sheet or statement of profit and loss. These bases are: (i)Historical Cost; (ii)Current cost (iii) Realisable (Settlement) Value and (iv) Present Value.

A brief explanation of each measurement basis is as follows:

1. **Historical Cost**: Historical cost means acquisition price. According to this, assets are recorded at an amount of cash or cash equivalent paid or the fair value of the asset at the time of acquisition. Liabilities are generally recorded at the amount of proceeds received in exchange for the obligation.
2. **Current Cost:** Current cost gives an alternative measurement basis. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an

equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

3. **Realizable (Settlement) Value:** As per realisable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in *an orderly disposal*. Liabilities are carried at their settlement values; i.e. the undiscounted amount of cash or cash equivalents paid to satisfy the liabilities in the normal course of business.
4. **Present Value**: Under present value convention, assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities under this convention are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

(5 MARKS)

ANSWER –E

Calculation of net profit u/s 198 of the Companies Act, 2013

	Rs.	*Rs.*
Balance from Trading A/c		201,26,825
Add: Subsidies received from Government		13,69,625
		214,96,450
Less: Administrative, selling and distribution expenses	41,12,710	
Director's fees	6,73,900	
Interest on debentures	1,56,200	
Depreciation on fixed assets as per Schedule II	28,76,725	(78,19,535)
Profit u/s 198		136,76,915

Maximum Managerial remuneration under Companies Act, 2013 = 11% of

Rs. 136,76,915= Rs. 15,04,461.

(5 MARKS)