

PAPER – 1 : ACCOUNTING

Question No. 1 is compulsory.

Answer any **four** questions from the remaining **five** questions.

Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates.

Working Notes should form part of the answer.

Question 1

- (a) Darshan Ltd. purchased a Machinery on 1st April, 2016 for ₹ 130 lakhs (Useful life is 4Years). Government grant received is ₹ 40 lakhs for the purchase of above Machinery. Salvage value at the end of useful life is estimated at ₹ 60 lakhs. Darshan Ltd. decides to treat the grant as deferred income. You are required to calculate the amount of depreciation and grant to be recognized in profit & loss account for the year ending 31st March, 2017, 31st March, 2018, 31st March, 2019 & 31st March, 2020. Darshan Ltd. follows straight line method for charging depreciation.
- (b) Kunal Securities Ltd. wants to reclassify its investments in accordance with AS-13 (Revised). State the values, at which the investments have to be reclassified in the following cases:
- Long term investment in Company A, costing ₹ 10.5 lakhs is to be re-classified as current investment. The company had reduced the value of these investments to ₹ 9 lakhs to recognize a permanent decline in value. The fair value on the date of reclassification is ₹ 9.3 lakhs.
 - Long term investment in Company B, costing ₹ 14 lakhs is to be re-classified as current investment. The fair value on the date of reclassification is ₹ 16 lakhs and book value is ₹ 14 lakhs.
 - Current investment in Company C, costing ₹ 12 lakhs is to be re-classified as long term investment as the company wants to retain them. The market value on the date of reclassification is ₹ 13.5 lakhs.
 - Current investment in Company D, costing ₹ 18 lakhs is to be re-classified as long term investment. The market value on the date of reclassification is ₹ 16.5 lakhs.
- (c) Mr. Jatin gives the following information relating to the items forming part of the inventory as on 31.03.2019. His enterprise produces product P using Raw Material X.
- 900 units of Raw Material X (purchases @ ₹ 100 per unit). Replacement cost of Raw Material X as on 31.03.2019 is ₹ 80 per unit

(ii) 400 units of partly finished goods in the process of producing P. Cost incurred till date is ₹ 245 per unit. These units can be finished next year by incurring additional cost of ₹ 50 per unit.

(iii) 800 units of Finished goods P and total cost incurred is ₹ 295 per unit.

Expected selling price of product P is ₹280 per unit, subject to a payment of 5% brokerage on selling price.

Determine how each item of inventory will be valued as on 31.03.2019.

Also calculate the value of total Inventory as on 31.03.2019.

(b) Explain briefly the accounting treatment needed in the following cases as per AS 11 as on 31.03.2020

(i) Debtors include amount due from Mr. S ₹ 9,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US \$1 = ₹ 72.00

US \$ 1= ₹73.50 on 31st March,2020

US \$ 1= ₹ 72.50 on 1st April,2019.

(ii) Long term loan taken on 1st April, 2019 from a U.S. company amounting to ₹ 75,00,000. ₹5,00,000 was repaid on 31st December, 2019, recorded at US \$ 1 = ₹ 70.50. interest has been paid as and when debited by the US company.

US \$1= ₹ 73.50 on 31st March,2020

US \$1= ₹ 72.50 on 1st April, 2019.

(4 Parts X 5 Marks = 20 Marks)

Answer

(a) As per 12 "Accounting for government grants", grants related to depreciable assets, if treated as deferred income are recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

Amount of depreciation and grant to be recognized in the profit and loss account each year

Depreciation per year:

	₹in lakhs
Cost of the Asset	130
Less: Salvage value	(60)
	<u>70</u>
Depreciation per year(70lakhs/4)	<u>17.50</u>

₹ 17.50 Lakhs depreciation will be recognized for the year ending 31st March, 2017, 31st March, 2018, 31st March, 2019 and 31st March, 2020.

Amount of grant recognized in Profit and Loss account each year:

40 lakhs / 4 years = ₹ 10 Lakhs for the year ending 31st March, 2017, 31st March, 2018, 31st March, 2019 and 31st March, 2020.

- (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:

- (i) 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 ₹ 9 lakhs in the books.
 - (ii) The carrying / book value of the long-term investment is same as cost i.e., ₹ 14 lakhs. Hence this long-term investment will be reclassified as current investment at book value of ₹ 14 lakhs only.
 - (iii) In this case, reclassification of current investment into long-term investments will be made at ₹ 12 lakhs as cost are less than its market value of ₹ 13.5 lakhs.
 - (iv) Market value of the investment is ₹ 16.5 lakhs, which is lower than its cost i.e., ₹ 18 lakhs. Therefore, the transfer to long term investments should be done in the books at the market value i.e., ₹ 16.5 lakhs.
- (c) As per AS 2 (Revised) "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 P is ₹ 266 and total cost per unit for production is ₹ 295.

Hence the valuation will be done as under:

- (i) 900 units of raw material X will be written down to replacement cost as market value of finished product is less than its cost, hence valued at ₹ 80 per unit.
- (ii) 400 units of partly finished goods will be valued at 216 per unit i.e., lower of cost (₹ 245) or Net realizable value ₹ 216 (Estimated selling price ₹ 266 per unit less additional cost of ₹ 50).
- (iii) 800 units of finished product P will be valued at NRV of ₹ 266 per unit since it is lower than cost ₹ 295.

Valuation of Total Inventory as on 31.03.2019:

	Units	Cost (₹)	NRV/Replacement cost	Value = units x cost or NRV whichever is less (₹)
Raw material X	900	100	80	72,000
Partly finished goods	400	245	216	86,400
Finished goods P	800	295	266	<u>2,12,800</u>
Value of Inventory				<u>3,71,200</u>

- (d) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or as expenses in the period in which they arise.

However, at the option of an entity, exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a non-depreciable capital asset can be accumulated in a "Foreign Currency Monetary Item Translation Difference Account" in the enterprise's financial statements and amortized over the balance period of such long-term asset/liability, by recognition as income or expense in each of such periods.

	Foreign Currency Rate	₹
Debtors		
Initial recognition US \$12,500 (9,00,000/72)	1 US \$ = ₹72	9,00,000
Rate on Balance sheet date	1 US \$ = ₹ 73.50	
Exchange Difference Gain US \$ 12,500 X (73.50-72)		18,750
Treatment: Credit Profit and Loss A/c by ₹ 18,750		
Long term Loan		
Initial recognition US \$ 1,03,448.28 (75,00,000/72.50)	1 US \$ = ₹ 73.50	75,00,000
Rate on Balance sheet date	1 US \$ = ₹ 73.50	
Exchange Difference Loss after adjustment of exchange gain on repayment of ₹ 5,00,000		
₹ 67,987.48 [82,171.88 (US \$ 96,356.08 X ₹ 73.5 less ₹ 70,00,000) less profit 14,184.40		

[US \$ 7,092.2 (5,00,000/70.5) X ₹ 2)] NET LOSS	67,987.48*
Treatment: Credit Loan A/c and Debit FCMITD A/C or Profit and Loss A/c by ₹ 67,987.48	

Thus, Exchange Difference on Long term loan amounting ₹ 67,987.48 may either be charged to Profit and Loss A/c or to Foreign Currency Monetary Item Translation Difference Account but exchange difference on debtors amounting ₹ 18,750 is required to be transferred to Profit and Loss A/c.

NOTE 1: *Exchange Difference Loss (net of adjustment of exchange gain on repayment of ₹ 5,00,000) has been calculated in the above solution. Alternative considering otherwise also possible.

NOTE 2: Date of sales transaction of ₹ 9 lakhs has not been given in the question and hence it has been assumed that the transaction took place during the year ended 31 March 2020.

Question 2

- (a) XYZ Garage consists of 3 departments: Spares, Service and Repairs, each department being managed by a departmental manager whose commission was respectively 5%, 10% and 10% of the respective departmental profit subject to a minimum of ₹5,000 in each case.

Inter departmental transfers take place at a "loaded" price as follows:

From Spares to Service	5% above cost
From Spares to Repairs	10% above cost
From Spares to Service	10% above cost

In respect of the year ended March 31st 2019 the firm had already prepared and closed the departmental trading and profit and loss account. Subsequently it was discovered that the closing stocks of department had included inter-departmentally transferred goods at "loaded" price instead of the correct cost price.

From the following information, you are required to prepare a statement re-computing the departmental profit or loss:

	Spares	Service	Repairs
	₹	₹	₹
Final Net Profit/Loss (after charging commission)	38,000 (Loss)	50,400 (Profit)	72,000 (Profit)
Inter-departmental transfers Included at "loaded" price in		65,000 (21,000 from	4,202 (from Spares)

the departmental stocks		Spares and 44,000 from Repairs)	
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(b) Mr. Prakash furnishes following information for his readymade garments business:

(i) Receipts and Payments during 2019-20:

Receipts	Amount ₹	Payments	Amount ₹
Bank Balance as on 1-4-2019	16,250	Payment to Sundry Creditors	3,43,000
Received from Sundry Debtors	4,81,000	Salaries	75,000
Cash sales	1,70,800	General Expenses	22,500
Capital brought in the Business during the year	50,000	Rent and Taxes	11,800
Interest on Investment Received	9,750	Drawings	96,000
		Cash Purchases	1,22,750
		Balance at Bank on 31-03-2020	36,600
		Cash in hand on 31-03-2020	20,150
	7,27,800		7,27,800

(ii) Particulars of other Assets and Liabilities are as follows:

	1 st April, 2019	31 st March, 2020
	(₹)	(₹)
Machinery	85,000	85,000
Furniture	24,500	24,500
Trade Debtors	1,55,000	?
Trade Creditors	60,200	?
Stock	38,600	55,700
12% Investment	85,000	85,000
Outstanding Salaries	12,000	14,000

(iii) Additional information:

- (1) 20% of Total sales and 20% of total purchases are in cash.
- (2) Of the Debtors, a sum of ₹ 7,200 should be written off as Bad debt and further a provision for doubtful debts is to be provided @2%.

(3) Provide depreciation @10% p.a. on Machinery and Furniture.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2020, and Balance Sheet as on that date. **(10+10=20 Marks)**

Answer

(a) Calculation of correct Departmental Profits or Losses

	Department Spares (₹)	Department Service (₹)	Department Repair (₹)
Profit after charging Manager's Commission	(38,000)	50,400	72,000
Add: Manager's Commission (1/9)	5,000(Minimum)	5,600	8,000
	(33,000)	56,000	80,000
Less: Unrealized profit on Stock (WN)	(1,382)		(4,000)
Profit Before Manager's Commission	(34,382)	56,000	76,000
Less: Manager's Commission 10%	(5,000)	(5,600)	(7,600)
Correct Profit after Manager's Commission	(39,382)	50,400	68,400

Working Note:

	Department Spares (₹)	Department Service (₹)	Department Repair (₹)	Total (₹)
Unrealized Profit of: Department Spares		$21,000 \times 5/105 = 1,000$	$4202 \times 10/110 = 382$	1,382
Department Repair		$44000 \times 10/110 = 4000$		4,000

(b) Trading and Profit & Loss Account for the year ended 31-03-2020

	₹	₹		₹
To Opening Inventory		38,600	By Sales	8,54,000
To Purchases		6,13,750	By Closing Inventory	55,700
To Gross profit c/d (b.f.)		2,57,350		
		9,09,700		9,09,700
To Salaries (75,000+14,000-12,000)		77,000	By Gross Profit b/d	2,57,350
To Rent		11,800	By Interest on investment	10,200

To General expenses		22,500	(9,750+450)	
To Depreciation:				
Machinery @ 10%	8,500			
Furniture @ 10%	<u>2,450</u>	10,950		
To Bad Debts	7,200			
To Provision for doubtful debts	<u>7,000</u>	14,200		
To Balance being profit carried to Capital A/c (b.f.)		1,31,100		
		<u>2,67,550</u>		<u>2,67,550</u>

Balance Sheet as on 31st March, 2020

<i>Liabilities</i>	₹	₹	<i>Assets</i>	₹	₹
A. Adamjee's Capital on 1st April, 2019	3,32,150		Machinery	85,000	
Add: Fresh Capital	50,000		Less: Depreciation	<u>(8,500)</u>	76,500
Add: Profit for the year	<u>1,31,100</u>		Furniture	24,500	
	5,13,250		Less: Depreciation	<u>(2,450)</u>	22,050
Less: Drawings	<u>(96,000)</u>	4,17,250	Inventory-in-trade		55,700
			Sundry debtors	3,57,200	
Sundry creditors		2,08,200	Less: Provision for		
Outstanding expenses		14,000	Doubtful debts	<u>(14,200)</u>	3,43,000
			Investment		85,450
			(including accrued interest ₹ 450)		
			Cash at bank		36,600
			Cash in hand		20,150
		<u>6,39,450</u>			<u>6,39,450</u>

Working Notes:

1. Balance sheet as on 1-4-2019

	₹		₹
Sundry creditors	60,200	Machinery	85,000
Capital	3,32,150	Furniture	24,500
(balancing figure)		Inventory	38,600

Outstanding salaries	12,000	Sundry debtors	1,55,000
		Investments	85,000
		Bank balance (from Cash statement)	16,250
	4,04,350		4,04,350

2. Total Debtors Account

		₹			₹
1.4.19	To Balance b/d	1,55,000	31.3.20	By Cash	4,81,000
31.3.20	To Credit sales (1,70,800/20x80)	6,83,200	31.3.20	By Bad debts	7,200
				By Balance c/d (Bal. Fig.)	3,50,000
		8,38,200			8,38,200

3. Total Creditors Account

		₹			₹
31.3.20	To Cash	3,43,000	1.4.19	By Balance b/d	60,200
31.3.20	To Balance c/d (Bal. Fig.)	2,08,200	31.3.20	By Credit Purchases (1,22,750/20x80)	4,91,000
		5,51,200			5,51,200

Question 3

- (a) P Ltd. had 8,000 equity shares of K Ltd., at a book value of ₹ 15 per share (face value of ₹ 10 each) on 1st April, 2019. On 1st September, 2019, P Ltd. acquired another 2,000 equity shares of K Ltd. at a premium of ₹ 4 per share. K Ltd. announced a bonus and right issue for existing shareholders.

The term of bonus and right issue were:

- (i) Bonus was declared at the rate for two equity shares for every five shares held on 30th September, 2019.
- (ii) Right shares are to be issued to the existing shareholders on 1st December, 2019. The Company had issued two right shares for every seven shares held at 25% premium on face value. No dividend was payable on these shares. The whole sum being payable by 31st December, 2019.
- (iii) Existing shareholders were entitled to transfer their right to outsiders either wholly or in part.
- (iv) P Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for ₹ 8 per share.

- (v) Dividend for the year ended 31st March, 2019 at the rate of 20% was declared by K Ltd. and received by P Ltd. on 20th January, 2020.
- (vi) On 1st February, 2020, P Ltd. sold half of its shareholdings at a premium of ₹ 4 per share.
- (vii) The market price of share on 31st March, 2020 was ₹13 per share.

You are required to prepare the Investment account of P Ltd. for the year ended 31st March, 2020 and determine the value of shares held on that date, assuming the investment as current investment. Consider average cost basis for ascertainment for cost for equity shares sold. **(10 Marks)**

- (b) A Fire occurred in the premises of M/S MJ & Co., on 31st December, 2019. From the following particulars related to the period from 1st April 2019 to 31st December 2019, you are required to ascertain the amount of claim to be filed with the insurance policy for ₹ 1,00,000 which is subject to average clause. The value of goods salvaged was estimated at ₹ 31,000. The average rate of gross profit was 20% throughout the period:

	Particulars	Amount (₹)
(i)	Opening stock as on 1 st April, 2019	1,50,000
(ii)	Purchases during the year	4,20,000
(iii)	Goods withdrawn by the proprietor for his self-use at Sales Value	10,000
(iv)	Goods distributed as charity at cost	4,000
(v)	Purchases include ₹ 5,000 of Tools purchased, these tools should have been capitalized.	
(vi)	Wages (include wages paid for the installation of machinery ₹6,000)	90,000
(vii)	Sales during the year	6,10,000
(viii)	Cost of goods sent to consignee on 1 st November, 2019, lying unsold with the consignee.	25,000
(ix)	Sales Return	10,000

(10 Marks)

Answer

(a) Investment Account-Equity Shares in K Ltd.

Date		No. of shares	Dividend	Amount	Date		No. of shares	Dividend	Amount
1.4.19	To Bal.b/d	8,000	₹ -	₹ 1,20,000	20.1.20	By Bank (dividend) [8,000 x 10 x 20%] and		₹ 16,000	₹ 4,000

1.9.19	To Bank	2,000	-	28,000	1.2.20	[2,000 x 10 x 20%] By Bank	8,000		1,12,000
30.9.19	To Bonus Issue	4,000		—					
31.12.19	To Bank (Right) (W.N.1)	2,000	-	25,000	31.3.20	By Balance c/d (W.N. 3)	8,000		84,500
20.1.20	To Profit & Loss A/c (Dividend income)		16,000						
1.2.20	To P& L A/c (profit on sale)			27,500					
		16,000	16,000	2,00,500			16,000	16,000	2,00,500

Working Notes:

1. Right shares

No. of right shares issued = $(8,000 + 2,000 + 4,000) / 7 \times 2 = 4,000$

No. of right shares subscribed = $4,000 \times 50\% = 2,000$ shares

Value of right shares issued = $2,000 \times ₹12.50 = ₹ 25,000$

No. of right shares sold = 2,000 shares

Sale of right shares = $2,000 \times ₹ 8 = ₹ 16,000$ to be credited to statement of profit and loss

2. Cost of shares sold — Amount paid for 16,000 shares

	₹
(₹1,20,000 + ₹ 28,000 + ₹ 25,000)	1,73,000
Less: Dividend on shares purchased on Sept.1 (since the dividend pertains to the year ended 31 st March, 2019, i.e., the pre-acquisition period)	(4,000)
Cost of 16,000 shares	1,69,000
Cost of 8,000 shares (Average cost basis)	84,500
Sale proceeds (8,000 X ₹14)	1,12,000
Profit on sale	27,500

3. Value of investment at the end of the year

Assuming investment as current investment, closing balance will be valued based on lower of cost or net realizable value.

Here, Net realizable value is ₹13 per share i.e., 8,000 shares x ₹ 13 = ₹ 1,04,000 and cost = 84,500. Therefore, value of investment at the end of the year will be ₹ 84,500.

(b) Memorandum Trading Account for the period 1st April, 2019 to 31st Dec 2019

	₹		₹
To Opening Stock	1,50,000	By Sales	6,00,000
		(6,10,000 - 10,000)	
To Purchases	4,20,000	By Consignment stock	25,000
Less: Tools purchased	(5,000)	By Closing Stock (Bal. fig.)	1,32,000
Goods distributed as Charity	(4,000)		
Cost of goods taken by proprietor	(8,000)		
	4,03,000		
To Wages (90,000 – 6,000)	84,000		
To Gross Profit [20% of Sales]	1,20,000		
	7,57,000		7,57,000

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

Statement of Insurance Claim

	₹
Value of stock destroyed by fire	1,32,000
Less: Salvaged Stock	(31,000)
Loss of stock	1,01,000

Note:

Since policy amount is less than value of stock on date of fire, average clause will apply. Therefore, claim amount will be computed by applying the formula:

$$\text{Claim} = \frac{\text{Insured value}}{\text{Total cost}} \times \text{Loss suffered}$$

$$\text{Claim amount} = ₹ 1,01,000/1,32,000 \times 1,00,000 = ₹ 76,515 \text{ (Rounded off)}$$

NOTE: The average rate of 20% has been given in the question. In the above solution, Gross Profit is calculated @ 20% on sales. Alternative answer considering Gross Profit of 20% is also possible.

Question 4

(a) During the year 2019-2020, A Limited (a listed company) made a public issue in respect of which the following information is available:

- (i) No. of partly convertible debentures issued-1,00,000; face value and issue price ₹100 per debenture. (Whole issue was underwritten by X Ltd.)
- (ii) Convertible portion per debenture -60%, date of conversion -on expiry of 6 months from the date of closing of issue.
- (iii) Date of closure of subscription lists -1st May,2019, date of allotment – 1st June, 2019, rate of interest on debenture -15% p.a. payable from the date of allotment, value of equity share for the purpose of conversion – ₹60 (face value ₹10)
- (iv) Underwriting Commission –2%
- (v) No. of debentures applied for by public –80,000
- (vi) Interest is payable on debentures half yearly on 30th September and 31st March each year.

Pass relevant journal entries for all transactions arising out of the above during the year ended 31st March,2020. (including cash and bank entries) **(8 Marks)**

(b) Following information was extracted from the books of S Ltd. for the year ended 31st March,2020 :

- (1) Net profit before talking into account income tax and after talking into account the following items was ₹30 lakhs;
 - (i) Depreciation on Property, Plant & Equipment ₹7,00,000
 - (ii) Discount on issue of debentures written off ₹45,000.
 - (iii) Interest on debentures paid ₹4,35,000
 - (iv) Investment of Book value `3,50,000 sold for `3,75,000.
 - (v) Interest received on Investments `70,000
- (2) Income tax paid during the year ₹12,80,000
- (3) Company issued 60,000 Equity Shares of ₹10 each at a premium of 20% on 10th April,2019.
- (4) 20,000,9% Preference Shares of ₹100 each were redeemed on 31st March, 2020 at a premium of 5%

- (5) Dividend paid during the year amounted to ₹11 Lakhs (including dividend distribution tax)
- (6) A new Plant costing ₹7 Lakhs was purchased in part exchange of an old plant on 1st January, 2020. The book value of the old plant was ₹8 Lakhs but the vendor took over the old plant at a value of ₹6 Lakhs only. The balance amount was paid to vendor through cheque on 30th March, 2020.
- (7) Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The inventory according to books on 31.03.2020 was ₹14,76,000.

The inventory on 31.03.2019 was correctly valued at ₹13,50,000.

- (8) Current Assets and Current Liabilities in the beginning and at the end of year 2019-2020 were as:

	As on 1 st April, 2019 (₹)	As on 31 st March, 2020 (₹)
Inventory	13,50,000	14,76,000
Trade Receivables	3,27,000	3,13,200
Cash & Bank Balances	2,40,700	3,70,500
Trade Payables	2,84,700	2,87,300
Outstanding Expenses	97,000	1,01,400

You are required to prepare a Cash Flow Statement for the year ended 31st March, 2020 as per AS 3 (revised) using the indirect method. **(12 Marks)**

Answer

(a) Journal Entries in the books of A Ltd.

Date	Particulars		Amount Dr.	Amount Cr.
			₹	₹
1.5.2019	Bank A/c To Debenture Application A/c (Application money received on 80,000 debentures @ ₹100 each)	Dr.	80,00,000	80,00,000
1.6.2019	Debenture Application A/c Underwriters A/c To 15% Debentures A/c (Allotment of 80,000 debentures to applicants and 20,000 debentures to underwriters)	Dr. Dr.	80,00,000 20,00,000	1,00,00,000

	Underwriting Commission To Underwriters A/c (Commission payable to underwriters @ 2% on ₹ 1,00,00,000)	Dr.	2,00,000	2,00,000
	Bank A/c To Underwriters A/c (Amount received from underwriters in settlement of account)	Dr.	18,00,000	18,00,000
01.06.2019	Debenture Redemption Investment A/c To Bank A/c (100,000 X 100 x 15% X 40%) (Being Investments made for redemption purpose)	Dr.	6,00,000	6,00,000
30.9.2019	Debenture Interest A/c To Bank A/c (Interest paid on debentures for 4 months @ 15% on ₹ 1,00,00,000)	Dr.	5,00,000	5,00,000
31.10.2019	15% Debentures A/c To Equity Share Capital A/c To Securities Premium A/c (Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)	Dr.	60,00,000	10,00,000 50,00,000
31.3.2020	Debenture Interest A/c To Bank A/c (Interest paid on debentures for the half year) (Refer working note below)	Dr.	3,75,000	3,75,000

Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 2020

On ₹ 40,00,000 for 6 months @ 15%	=	₹3,00,000
On ₹ 60,00,000 for 1 months @ 15%	=	₹ 75,000
		₹3,75,000

(b)

S Ltd.

Cash Flow Statement for the year ended 31st March, 2020

	₹	₹
Cash flows from operating activities		
Net profit before taxation*		30,00,000
Adjustments for:		
Depreciation on PPE	7,00,000	
Discount on debentures	45,000	
Profit on sale of investments	(25,000)	
Interest income on investments	(70,000)	
Interest on debentures	4,35,000	
Stock adjustment	<u>1,64,000</u>	
{14,76,000 less 16,40,000(14,76,000/90X100)}		
Operating profit before working capital changes		<u>12,49,000</u>
Changes in working capital		42,49,000
(Excluding cash and bank balance):		
Less: Increase in inventory	(2,90,000)	
{16,40,000(14,76,000/90X100) less 13,50,000}		
Add: Decrease in Trade receivables	13,800	
Increase in trade payables	2,600	
Increase in o/s expenses	<u>4,400</u>	<u>(2,69,200)</u>
Cash generated from operations		39,79,800
Less: Income taxes paid		<u>(12,80,000)</u>
Net cash generated from operating activities		26,99,800
Cash flows from investing activities		
Sale of investments	3,75,000	
Interest received	70,000	
Payments for purchase of fixed assets	<u>(1,00,000)</u>	
(7,00,000 – 6,00,000)		
Net cash used in investing activities		3,45,000
Cash flows from financing activities		
Redemption of Preference shares	(21,00,000)	

Issue of shares	7,20,000	
Interest paid	(4,35,000)	
Dividend paid	(11,00,000)	
Net cash used in financing activities		(29,15,000)
Net increase in cash		1,29,800
Cash at beginning of the period		2,40,700
Cash at end of the period		3,70,500

*Net profit given in the question is after considering only the items listed as information point (1) of the question ; hence amount of loss on plant not added back.

Question 5

- (a) The Capital structure of a company BK Ltd., consists of 30,000 Equity Shares of ₹ 10 each fully paid up and 2,000 9% Redeemable Preference Shares of ₹ 100 each fully paid up as on 31.03.2020. the other particulars as at 31.03.2020 are as follows:

	Amount (₹)
General Reserve	1,20,000
Profit & Loss Account	60,000
Investment Allowance Reserve (not free for distribution as dividend)	15,000
Cash at bank	1,95,000

Preference Shares are to be redeemed at a premium of 10%. For the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at per after utilizing the undistributed reserve & surplus, subject to the conditions that a sum of ₹ 40,000 shall be retained in General Reserve and which should not be utilized.

Company also sold investment of 4500 Equity Shares in G Ltd., costing ₹45,000 at ₹ 9 per share.

(12 Marks)

Pass Journal entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet as at 31.03.2020 of BK Ltd., after the redemption is carried out.

- (b) Jai Ltd purchased a machine on hire purchase basis from KM Ltd. on the following terms:
- Cash price ₹ 1,20,000.
 - Down payment at the time of signing the agreement on 1-1-2016, ₹ 32,433.
 - 5 annual instalments of ₹ 23,100, the first to commence at the end of twelve months from the date of down payment.

(d) Rate of interest is 10% p.a.

You are required to calculate the total interest and interest included in each instalment.

Also prepare the Ledger Account of KM Ltd. in the books of Jai Ltd.

(8 Marks)

Answer

(a)

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c To Equity Share Capital A/c (Being the issue of 8,450 Equity Shares of ₹ 10 each as per Board's Resolution No.....dated.....)	Dr.	84,500	84,500
	9% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being the amount paid on redemption transferred to Preference Shareholders Account)	Dr. Dr.	2,00,000 20,000	2,20,000
	Bank A/c Profit and Loss A/c (loss on sale) A/c To Investment A/c (Being investment sold at loss of ₹ 4,500)	Dr. Dr.	40,500 4,500	45,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	2,20,000	2,20,000
	Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being the premium payable on redemption is adjusted against Profit & Loss Account)	Dr.	20,000	20,000
	General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account)	Dr. Dr.	80,000 35,500	1,15,500

Balance Sheet as on[Extracts]

	Particulars	Notes No.	₹
	EQUITY AND LIABILITIES		
1.	Shareholders' funds		
	a Share capital	1	3,84,500
	b Reserves and Surplus	2	1,70,500
	ASSETS		
2.	Current Assets		
	Cash and cash equivalents		1,00,000
	(1,95,000 + 84,500 + 40,500 – 2,20,000)		

Notes to accounts

1.	Share Capital	
	38,450 Equity shares (30,000 + 8,450) of ₹10 each fully paid up	<u>3,84,500</u>
2.	Reserves and Surplus	
	General Reserve	40,000
	Profit and loss account	NIL
	Capital Redemption Reserve	1,15,500
	Investment Allowance Reserve	<u>15,000</u>
		<u>1,70,500</u>

Working Note:

Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed	₹2,00,000
Less: Profit available for distribution as dividend:	
General Reserve: ₹ (1,20,000-40,000)	₹80,000
Profit and Loss (60,000 less 20,000 set aside for adjusting premium payable on redemption of Pref. shares less 4,500 loss on sale of investments)	<u>₹35,500</u>
	<u>₹ (1,15,500)</u>
	<u>₹ 84,500</u>

Therefore, No. of shares to be issued = 84,500/₹10 = 8,450 shares.

(b) Calculation of interest

	Total (₹)	Interest in each instalment (1)	Cash price in each instalment (2)
Cash Price	1,20,000		
Less: Down Payment	<u>(32,433)</u>	Nil	₹ 32,433
Balance due after down payment	87,567		
Interest/Cash Price of 1 st instalment	-	₹ 87,567x10/100 = 8,757	₹ 23,100 – ₹ 8,757 = ₹ 14,343
Less: Cash price of 1 st instalment	<u>(14,343)</u>		
Balance due after 1 st instalment	73,224		
Interest/cash price of 2 nd instalment	-	₹ 73,224x 10/100 = ₹ 7322	₹ 23,100 - ₹ 7,322= ₹ 15,778
Less: Cash price of 2 nd instalment	<u>(15,778)</u>		
Balance due after 2 nd instalment	57,446		
Interest/Cash price of 3 rd instalment	-	₹ 57,446 x 10/100 = ₹ 5745	₹ 23,100 - ₹ 5745= ₹ 17,355
Less: Cash price of 3 rd instalment	<u>(17,355)</u>		
Balance due after 3 rd instalment	40,091		
Interest/Cash price of 4 th instalment	-	₹ 40,091x10/100= ₹ 4,009	₹ 23,100 - ₹ 4,009= ₹ 19,091
Less: Cash price of 4 th instalment	<u>(19,091)</u>		
Balance due after 4 th instalment	21,000		
Interest/Cash price of 5 th instalment	-	₹21,000 x10/100 = ₹ 2,100	₹ 23,100 – ₹ 2,100= 21,000
Less: Cash price of 5 th instalment	<u>(21,000)</u>		
Total	Nil	₹ 27,933	₹1,20,000

Total interest can also be calculated as follow:

$$(\text{Down payment} + \text{instalments}) - \text{Cash Price} = ₹ [32,433 + (23,100 \times 5)] - ₹ 1,20,000 = ₹ 27,933$$

KM Ltd. Account in the books of Jai Ltd

Date		Particulars	₹	Date		Particulars	₹
1.1. 2016	To	Bank A/c	32,433	1.1.2016	By	Machine A/c	1,20,000

31.12.2016	To	Bank A/c	23,100	31.12.2016	By	Interest A/c	8,757
31.12.2016	To	Balance c/d	<u>73,224</u>				
			<u>1,28,757</u>				<u>1,28,757</u>
31.12.2017	To	Bank A/c	23,100	1.1.2017	By	Balance b/d	73,224
31.12.2017	To	Balance c/d	<u>57,446</u>	31.12.2017	By	Interest A/c	<u>7,322</u>
			<u>80,546</u>				<u>80,546</u>
31.12.2018	To	Bank A/c	23,100	1.1.2018	By	Balance b/d	57,446
31.12.2018	To	Balance c/d	<u>40,091</u>	31.12.2018	By	Interest A/c	<u>5,745</u>
			<u>63,191</u>				<u>63,191</u>
31.12.2019	To	Bank A/c	23,100	1.1.2019	By	Balance b/d	40,091
31.12.2019	To	Balance c/d	<u>21,000</u>	31.12.2019	By	Interest A/c	<u>4,009</u>
			<u>44,100</u>				<u>44,100</u>
31.12.2020	To	Bank A/c	23,100	1.1.2020	By	Balance b/d	21,000
			<u>23,100</u>	31.12.2020	By	Interest A/c	<u>2,100</u>
							<u>23,100</u>

Question 6

Answer any four of the following:

- (a) Explain how financial capital is maintained at historical cost?

Kishore started a business on 1st April, 2019 with ₹ 15,00,000 represented by 75,000 units of ₹20 each. During the financial year ending on 31st March, 2020, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Kishore in the year 2019-20 if Financial Capital is maintained at historical cost.

- (b) The following is the Draft Profit & Loss A/c of Brown Ltd. the year ended 31st March, 2020:

	Amount (₹)		Amount (₹)
To Administrative expenses	4,99,200	By Balance b/d	6,27,550
To Advertisement	1,18,200	By Balance from	
To Commission on sales	95,225	Trading A/c	38,15,890
To Director's Fees	1,35,940	By Subsidies	
To Interest on debentures	28,460	received from Govt.	2,50,000
To Managerial remuneration	2,75,550	By Profit on sale of	
To Depreciation on fixed assets	4,82,565	forfeited shares	20,000

To Provision for Taxation	11,50,200		
To General Reserve	4,50,000		
To Investment Revaluation Reserve	52,800		
To Balance c/d	<u>14,25,300</u>		
	47,13,440		<u>47,13,440</u>

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was ₹ 5,15,675. You are required to calculate the maximum limit of managerial remuneration as per Companies Act, 2013.

- (c) Give Journal Entries in the books of Branch to rectify or adjust the following:
- (1) Branch paid ₹ 5,000 as salary to H.O supervisor, but the amount paid by branch has been debited to salary account in the books of branch.
 - (2) Asset Purchased by branch for ₹ 25,000, but the Asset account was retained in H.O Books.
 - (3) A remittance of ₹ 8,000 sent by the branch has not been received by H.O.
 - (4) H.O collected ₹ 25,000 directly from the customer of Branch but fails to give the intimation to branch.
 - (5) Remittance of funds by H.O to branch ₹ 5,000 not entered in branch books.
- (d) List the Criteria for classification of non-corporate entities as level I Entities for the purpose of application of Accounting Standards as per the Institute of Chartered Accountants of India.
- (e) Following items appear in the Trail Balance of Star Ltd. as on 31st March, 2019:

Particulars	₹
80,000 Equity shares of ₹10 each, ₹ 8 paid-up	6,40,000
Capital Reserve (including ₹45,000 being profit on sale of Machinery)	1,10,000
Revaluation Reserve	80,000
Capital Redemption Reserve	75,000
Securities Premium	60,000
General Reserve	2,10,000
Profit & Loss Account (Cr. Balance)	1,00,000

On 1st April, 2019, the Company has made final call on Equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2019.

On 1st June, 2019, the Company decided to issue to Equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it was decided that there should be minimum reduction in free reserves.

Pass necessary journal entries in the Books of Star Ltd. (4 Parts x 5 Marks = 20 Marks)

Answer

- (a) Financial capital maintenance at historical cost: Under this convention, opening and closing assets are stated at respective historical costs to ascertain opening and closing equity. If retained profit is greater than or equals to zero, the capital is said to be maintained at historical costs. This means the business will have enough funds to replace its assets at historical costs. This is quite right as long as prices do not rise.

Maximum amount withdrawn by Kishore in year 2019-20 if Financial capital is maintained at historical cost

Particulars	Financial Capital Maintenance at Historical Cost (₹)
Closing equity (₹ 30 x 75,000 units)	22,50,000 represented by cash
Opening equity	75,000 units x ₹ 20 = 15,00,000
Permissible drawings to keep Capital intact	7,50,000 (22,50,000 – 15,00,000)

Thus ₹ 7,50,000 is the maximum amount that can be withdrawn by Kishore in year 2019-20 if Financial capital is maintained at historical cost.

(b) **Calculation of net profit u/s 198 of the Companies Act, 2013**

	₹	₹
Balance from Trading A/c		38,15,890
Add: Subsidies received from Government		2,50,000
		40,65,890
Less: Administrative, selling and distribution expenses (4,99,200 + 1,18,200 + 95,225)	7,12,625	
Director's fees	1,35,940	
Interest on debentures	28,460	
Depreciation on fixed assets as per Schedule II	5,15,675	(13,92,700)
Profit u/s 198		26,73,190

Maximum Managerial remuneration under Companies Act, 2013= 11% of ₹ 26,73,190 = ₹ 2,94,051 (rounded off).

Note:

1. Investment Revaluation reserve not to be deducted for calculation of profit under section 198;
2. Profit on sale of forfeited shares not to be added for calculation of profit under section 198.

**Alternative presentation of the above answer also possible by starting from Net profit as per Profit and Loss Account.*

(c) **Journal Entries in Books of Branch A**

	<i>Particulars</i>	<i>Dr. Amount ₹</i>	<i>Cr. Amount ₹</i>
(i)	Head office account Dr. To Salaries account (Being the rectification of salary paid on behalf of H.O.)	5,000	5,000
(ii)	Head office account Dr. To Bank / Liability A/c (Being Asset purchased by branch but Asset account retained at head office books)	25,000	25,000
(iii)	No Entry in Branch Books		
(iv)	Head office account Dr. To Debtors account (Being the amount of branch debtors collected by H.O.)	25,000	25,000
(v)	Bank A/c Dr. To Head Office (Remittance of Funds by H.O. to Branch)	5,000	5,000

- (d) Criteria for classification of non-corporate entities as level 1 entities for purpose of application of Accounting Standards decided by the Institute of Chartered Accountants of India is given below:

Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

- (i) Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.
- (ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.

- (iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.
- (iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year.
- (v) Holding and subsidiary entities of any one of the above.

(e) **Journal Entries in the books of Star Ltd.**

2019			Dr.	Cr.
			₹	₹
April 1	Equity Share Final Call A/c	Dr.	1,60,000	
	To Equity Share Capital A/c (Final call of ₹ 2 per share on 80,000 equity shares made due)			1,60,000
	Bank A/c	Dr.	1,60,000	
	To Equity Share Final Call A/c (Final call money on 80,000 equity shares received)			1,60,000
June 1	Capital Redemption Reserve A/c	Dr.	75,000	
	Capital Reserve	Dr.	45,000*	
	Securities Premium A/c	Dr.	60,000	
	General Reserve A/c (b.f.)	Dr.	1,40,000**	
	To Bonus to Shareholders A/c (Bonus issue of two shares for every five shares held, by utilizing various reserves as per Board's resolution dated.....)			3,20,000
	Bonus to Shareholders A/c	Dr.	3,20,000	
	To Equity Share Capital A/c (Capitalization of profit)			3,20,000

* considering it as free reserve as it has been realized.

** Alternatively, different combination of profit and loss balance and general reserve may also be used.