

**MOCK TEST PAPER**  
**INTERMEDIATE (NEW) : GROUP – I**  
**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 disclosed by way of a note.*

*Working Notes should form part of the answer.*

**(Time allowed: Three hours)**

**(Maximum Marks: 100)**

1. (a) The Board of Directors of New Graphics Ltd. in its Board Meeting held on 18<sup>th</sup> April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31<sup>st</sup> March, 2017 and recommended a dividend of ₹ 2 per equity share (on 2 crore fully paid up equity shares of ₹ 10 each) for the year ended 31<sup>st</sup> March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the company on 18<sup>th</sup> June, 2017, the same will be paid to all the eligible shareholders.

Discuss on the accounting treatment and presentation of the said proposed dividend in the annual accounts of the company for the year ended 31<sup>st</sup> March, 2017 as per the applicable Accounting Standard and other Statutory Requirements.

- (b) Gamma Limited is working on different projects which are likely to be completed within 3 years period. It recognizes revenue from these contracts on percentage of completion method for financial statements during 2014-2015, 2015-2016 and 2016-2017 for ₹ 11,00,000, ₹ 16,00,000 and ₹ 21,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognized revenue of ₹ 7,00,000, ₹ 18,00,000 and ₹ 23,00,000 for the years 2014-2015, 2015-2016 and 2016-2017 respectively. Income-tax rate is 35%.

You are required to compute the amount of deferred tax asset/liability for the years 2014-2015, 2015-2016 and 2016-2017. Also describe how this amount of deferred tax asset/liability will be disclosed in the balance sheet of Omega Limited as per provisions of AS 22.

- (c) On the basis of information given below, find the value of inventory (by periodic inventory method) as per AS 2, to be considered while preparing the Balance Sheet as on 31<sup>st</sup> March, 2017 on weighted Average Basis.

**Details of Purchases:**

Date of purchase	Unit (Nos.)	Purchase cost per unit (₹)
01-03-2017	20	108
08-03-2017	15	107
17-03-2017	30	109
25-03-2017	15	107

**Details of issue of Inventory:**

Date of Issue	Unit (Nos.)
03-03-2017	10
12-03-2017	20
18-03-2017	10
24-03-2017	20

Net realizable value of inventory as on 31<sup>st</sup> March, 2017 is ₹ 107.75 per unit.

You are required to compute the value of Inventory as per AS 2?

- (d) Mohan Ltd. has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site.

The following incremental costs will be incurred:

Setup costs of ₹ 5,00,000 to install machinery in the new location.

Rent of ₹ 15,00,000

Removal costs of ₹ 3,00,000 to transport the machinery from the old location to the temporary location.

You are required to examine in line with AS 10 "Property, Plant and Equipment" whether these costs can be capitalized into the cost of the new building. **(4 parts x 5 Marks = 20 Marks)**

2. (a) Meera carried out the following transactions in the shares of Kumar Ltd.:

(1) On 1<sup>st</sup> April, 2017 she purchased 40,000 equity shares of ₹ 1 each fully paid up for ₹ 60,000.

(2) On 15<sup>th</sup> May 2017, Meera sold 8,000 shares for ₹ 15,200.

(3) At a meeting on 15<sup>th</sup> June 2017, the company decided:

(i) To make a bonus issue of one fully paid up share for every four shares held on 1<sup>st</sup> June 2017, and

(ii) To give its members the right to apply for one share for every five shares held on 1<sup>st</sup> June 2017 at a price of ₹ 1.50 per share of which 75 paise is payable on or before 15<sup>th</sup> July 2017 and the balance, 75 paise per share, on or before 15<sup>th</sup> September, 2017.

The shares issued under (i) and (ii) were not to rank for dividend for the year ending 31<sup>st</sup> December 2017.

(a) Meera received her bonus shares and took up 4000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30<sup>th</sup> September 2017.

(b) On 15<sup>th</sup> March 2018, she received a dividend from Kumar Ltd. of 15 per cent in respect of the year ended 31<sup>st</sup> Dec 2017.

(c) On 30<sup>th</sup> March she received ₹ 28,000 from the sale of 20,000 shares.

You are required to prepare the Investment Account in Meera's books for the year ended 31<sup>st</sup> March 2018 recording the above mentioned transactions by transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis. Expenses and tax to be ignored.

- (b) A trader's godown caught fire on 29<sup>th</sup> August, 2017, and a large part of the stock of goods was destroyed. However, goods costing ₹ 54,000 could be salvaged incurring fire fighting expenses amounting to ₹ 2,350.

The trader provides you the following additional information:

	₹
Cost of stock on 1st April, 2016	3,55,250
Cost of stock on 31st March, 2017	3,95,050
Purchases during the year ended 31st March, 2017	28,39,800
Purchases from 1st April, 2017 to the date of fire	16,55,350

Cost of goods distributed as samples for advertising from 1st April, 2017 to the date of fire	20,500
Cost of goods withdrawn by trader for personal use from 1st April, 2017 to the date of fire	1,000
Sales for the year ended 31st March, 2017	40,00,000
Sales from 1st April, 2017 to the date of fire	22,68,000

The insurance company also admitted firefighting expenses. The trader had taken the fire insurance policy for ₹ 4,50,000 with an average clause.

You are required to calculate the amount of the claim that will be admitted by the insurance company. **(10+10 = 20 Marks)**

3. (a) XYZ is having its Branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses which are met by the Branch Manager. From the following particulars, you are required to prepare branch account in the books of Head Office.

	(₹)		(₹)
Stock on 1 <sup>st</sup> April 2017 (invoice price)	30,000	Discount allowed to debtors	160
Sundry Debtors on 1 <sup>st</sup> April, 2017	18,000	Expenses paid by head office:	
Cash in hand as on 1 <sup>st</sup> April, 2017		Rent	1,800
Office furniture on 1 <sup>st</sup> April, 2017	3,000	Salary	3,200
Goods invoiced from the head office (invoice price)	1,60,000	Stationery & Printing	800
Goods returned to Head Office	2,000	Petty expenses paid by the branch	600
Goods returned by debtors	960	Depreciation to be provided on furniture at 10% p.a.	
Cash received from debtors	60,000	Stock on 31 <sup>st</sup> March, 2018 (at invoice price)	28,000
Cash Sales	1,00,000		
Credit sales	60,000		

- (b) Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹ 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	As on 1.4.2016	As on 31.3.2017
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?
Ram's capital	3,00,000	

Analysis of his bank pass book reveals the following information:

- (a) Payment to creditors ₹ 7,00,000  
(b) Payment for business expenses ₹ 1,20,000

- (c) Receipts from debtors ₹ 7,50,000  
 (d) Loan from Laxman ₹ 1,00,000 taken on 1.10.2016 at 10% per annum  
 (e) Cash deposited in the bank ₹ 1,00,000

He informs you that he paid creditors for goods ₹ 20,000 in cash and salaries ₹ 40,000 in cash. He has drawn ₹ 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales.

You are required to prepare:

- (i) Trading and Profit and Loss Account for the year ended 31.3.2017.  
 (ii) Balance Sheet as at 31<sup>st</sup> March, 2017. **(10 + 10 = 20 Marks)**

4. (a) L, M and N share profits and losses in the ratio of 5:3:2. Their firm was dissolved due to misconduct of M and their balance sheet on that date was as under:

**Balance Sheet as at 31-3-2016**

Liabilities		₹	Assets		₹
Capital Accounts :			Land and Building		2,00,000
L	3,00,000		Plants		2,00,000
M	2,00,000		Trade receivables		1,00,000
N	<u>1,00,000</u>	6,00,000	Inventories		1,50,000
Current Accounts:			Cash		1,00,000
L	50,000		Current Account:		
M	<u>30,000</u>	80,000	N		50,000
Trade payables		1,20,000			
		<u>8,00,000</u>			<u>8,00,000</u>

The whole business of the firm was sold to Preet Limited, on that day on the following terms:

- (i) Preet Limited will issue the following securities in consideration for transfer of business:  
 10,000 equity shares @ ₹ 15 each, 15,000 preference shares @ ₹ 15 each; and 20,000 debentures @ ₹ 14.725.  
 (ii) The agreed value of assets and liabilities of partnership firm are as follows:  
 Land & Building – ₹ 3,00,000, Plants – ₹ 1,50,000, Inventory – ₹ 1,40,000, Trade Receivable – ₹ 97,500, and Trade Payable – ₹ 1,18,000.

It was mutually decided that preference shares and debentures will be distributed in profit sharing ratio and cash brought in by the partner (if any) will be shared equally by the remaining partners before distribution of equity shares. Equity shares are distributed on residual basis at the end.

You are required to prepare Realization Account, Cash Account, Partners' Current and Capital Accounts at the time of closing close the books of the firm.

- (b) Explain the nature of Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership? **(15 + 5 = 20 Marks)**
5. (a) From the following particulars furnished by Alpha Ltd., prepare the Balance Sheet as on 31<sup>st</sup> March 20X1 as required by Part I, Schedule III of the Companies Act, 2013.

Particulars	Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each)		50,00,000
Call in Arrears	5,000	

Land & Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Inventory:			
Raw Materials	2,50,000		
Finished Goods	<u>10,00,000</u>	12,50,000	
Provision for Taxation			6,40,000
Trade receivables		10,00,000	
Short term Advances		2,13,500	
Profit & Loss Account			4,33,500
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Unsecured Loan			6,05,000
Trade payables (for Goods and Expenses)			8,00,000
Loans & advances from related parties			2,00,000

The following additional information is also provided:

- (i) 10,000 Equity shares were issued for consideration other than cash.
  - (ii) Trade receivables of ₹ 2,60,000 are due for more than 6 months.
  - (iii) The cost of the Assets were:  
Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500
  - (iv) The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is inclusive of ₹ 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.
  - (v) Balance at Bank includes ₹ 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.
  - (vi) Transfer ₹ 20,000 to general reserve is proposed by Board of directors
  - (vii) Board of directors has declared dividend of 5% on the paid up capital. The dividend distribution tax liability is Corporate Dividend Tax Rate @ 17.304 (wherein Base Rate is 15%).
- (b) Megha Ltd. was incorporated on 1.8.2016 to take over the running business of M/s Happy with assets from 1.4.2016. The accounts of the company were closed on 31.3.2017.

The average monthly sales during the first four months of the year (2016-17) was twice the average monthly sales during each of the remaining eight months.

You are required to compute time ratio and sales ratio for pre and post incorporation periods.

**(15 + 5 = 20 Marks)**

6. (a) Omega Limited has borrowed a sum of US \$ 10,00,000 at the beginning of Financial Year 2016-17 for its residential project at 4 %. The interest is payable at the end of the Financial Year. At the time of avilment exchange rate was ₹ 56 per US \$ and the rate as on 31<sup>st</sup> March, 2017 was ₹ 62 per US \$. If Omega Limited borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%.

You are required to compute Borrowing Cost and exchange difference for the year ending 31<sup>st</sup> March, 2017 as per applicable Accounting Standards.

- (b) The following extract of Balance Sheet of X Ltd. (a non-investment company) was obtained:

*Balance Sheet (Extract) as on 31st March, 2017*

<i>Liabilities</i>	₹
<u>Issued and subscribed capital:</u>	
20,000, 14% preference shares of ₹ 100 each fully paid	20,00,000
1,20,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	96,00,000
Capital reserves (₹ 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Unsecured loans: Public deposits repayable after one year	3,70,000
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,00,000

You are required to compute Effective Capital as per the provisions of Schedule V to Companies Act, 2013.

- (c) The Board of Directors of a Company decide to issue minimum number of equity shares of ₹ 9 to redeem ₹ 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is ₹ 3,00,000.

You are required to compute the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of ₹ 50 only.

**OR**

Following items appear in the Trial Balance of Hello Ltd. as on 31st March, 2017:

<i>Particulars</i>	<i>Amount</i>
9,000 Equity Shares of ₹100 each	9,00,000
Securities Premium	80,000
Capital Redemption Reserve	1,40,000
General Reserve	2,10,000
Profit and Loss Account (Cr. Balance)	90,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves.

You are required to give the necessary Journal Entries in the books Hello Ltd.

- (e) "One of the characteristics of financial statements is neutrality"- Do you agree with this statement? Comment.  
**(4 Parts x 5 Marks = 20 Marks)**

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**INTERMEDIATE (NEW) : GROUP – I**  
**PAPER – 1: ACCOUNTING**  
**SUGGESTED ANSWERS/HINTS**

1. (a) As per the amendment in AS 4 “Contingencies and Events Occurring After the Balance Sheet Date” vide Companies (Accounting Standards) Amendments Rules, 2016 dated 30<sup>th</sup> March, 2016, the events which take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature.

However, dividends declared after the balance sheet date but before approval of financial statements are not recognized as a liability at the balance sheet date because no statutory obligation exists at that time. Hence such dividends are disclosed in the notes to financial statements.

Provision for proposed dividends is not required to be made as per the amendment in AS 4. Such proposed dividends are to be disclosed in the notes to financial statements. Accordingly, the dividend of ₹ 4 crores recommended by New Graphics Ltd. in its Board meeting on 18<sup>th</sup> April, 2017 shall not be accounted for in the books for the year 2016-17 irrespective of the fact that it pertains to the year 2016-17 and will be paid after approval in the Annual General Meeting of the members/shareholders.

- (b) **Gamma Limited**

**Calculation of Deferred Tax Asset/Liability**

Year	Accounting Income	Taxable Income	Timing Difference (balance)	Deferred Tax Liability (balance)
2014-2015	11,00,000	7,00,000	4,00,000	1,40,000
2015-2016	16,00,000	18,00,000	2,00,000	70,000
2016-2017	21,00,000	23,00,000	NIL	NIL
	48,00,000	48,00,000		

As per AS 22, deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period. Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities. The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in the notes to accounts.

- (c) Net Realisable Value of Inventory as on 31<sup>st</sup> March, 2017

$$= ₹ 107.75 \times 20 \text{ units} = ₹ 2,155$$

**Value of inventory as per Weighted Average basis**

Total units purchased and total cost:

01.03.2017	₹ 108 x 20 units = ₹ 2160
08.3.2017	₹ 107 x 15 units = ₹ 1605
17.03.2017	₹ 109 x 30 units = ₹ 3270
25.03.2017	₹ 107 x 15 units = ₹ 1605
Total	80 units = ₹ 8640

$$\text{Weighted Average Cost} = ₹ 8640/80 \text{ units} = ₹ 108$$

Total cost = ₹ 108 x 20 units = ₹ 2,160

Value of inventory to be considered while preparing Balance Sheet as on 31<sup>st</sup> March, 2017 is, Cost or Net Realisable value whichever is lower i.e. ₹ 2,155.

- (d) Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired. These costs are not to be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The costs to be incurred by the company are in the nature of costs of reducing or reorganizing the operations of the company. These costs do not meet that requirement of AS 10 "Property, Plant and Equipment" and cannot, therefore, be capitalized.

2. (a) **Investment Account (Shares in Kumar Limited) in the books of Meera**

Date	Particulars	No. of Shares	Income	Amount	Date	Particulars	No. of Shares	Income	Amount
2017			₹	₹	2017			₹	₹
April 1	To Bank (Purchases)	40,000	-	60,000	May	By Bank (Sale)	8,000	-	15,200
May	To Profit & Loss A/c (W.N.1)	-	-	3,200					
June	To Bonus Issue	8,000	-	Nil	2018				
July	To Bank (@ 75 p. paid on 4,000 shares)	4,000	-	3,000	Mar. 15	By Bank (Dividend @ 15% on ₹ 32,000)		4,800	-
Sept.	To Bank (@ 75 p. paid on 4,000 shares)	-	-	3,000	Mar. 30	By Bank (Sale)	20,000	-	28,000
2018 Mar. 31	To Profit & Loss A/c (W.N.2)			3,455	Mar. 31	By Balance c/d ( $\frac{24,000}{44,000} \times 54,000$ )	24,000	-	29,455
	To Profit & Loss A/c	-	4,800						
		<u>52,000</u>	<u>4,800</u>	<u>72,655</u>			<u>52,000</u>	<u>4,800</u>	<u>72,655</u>

**Working Notes:**

(1)	<b>Profit on Sale on 15-5-2017:</b>	
	Cost of 8,000 shares @ ₹1.50	₹ 12,000
	Less: Sales price	<u>₹ 15,200</u>
	Profit	₹ 3,200
(2)	<b>Cost of 20,000 shares sold:</b>	
	Cost of 44,000 shares (48,000 + 6,000)	₹ 54,000
	∴ Cost of 20,000 shares ( $\frac{₹ 54,000}{44,000 \text{ shares}} \times 20,000 \text{ shares}$ )	₹ 24,545
	Profit on sale of 20,000 shares (₹ 28,000 – ₹ 24,545)	₹ 3,455

**(b) Memorandum Trading Account for the period 1<sup>st</sup> April, 2017 to 29<sup>th</sup> August 2017**

		₹		₹
To Opening Stock		3,95,050	By Sales	22,68,000
To Purchases	16,55,350		By Closing stock (Bal. fig.)	4,41,300
Less: Advertisement	(20,500)			
Drawings	(1,000)	16,33,850		
To Gross Profit [30% of Sales] [W N]		<u>6,80,400</u>		
		<u>27,09,300</u>		<u>27,09,300</u>

**Statement of Insurance Claim**

	₹
Value of stock destroyed by fire	4,41,300
Less: Salvaged Stock	(54,000)
Add: Fire Fighting Expenses	<u>2,350</u>
Insurance Claim	<u>3,89,650</u>

**Note:** Since policy amount is more than claim amount, average clause will not apply. Therefore, claim amount of ₹ 3,89,650 will be admitted by the Insurance Company.

**Working Note:****Trading Account for the year ended 31<sup>st</sup> March, 2017**

	₹		₹
To Opening Stock	3,55,250	By Sales	40,00,000
To Purchases	28,39,800	By Closing stock	3,95,050
To Gross Profit	<u>12,00,000</u>		
	<u>43,95,050</u>		<u>43,95,050</u>

**Rate of Gross Profit in 2016-17**

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100 = 12,00,000 / 40,00,000 \times 100 = 30\%$$

3. (a)

**In the books of Head Office – XYZ****Kolkata Branch Account (at invoice)**

	₹		₹
To Balance b/d		By Stock reserve (opening)	6,000
Stock	30,000	By Remittances:	
Debtors	18,000	Cash Sales	1,00,000
Cash in hand	800	Cash from Debtors	<u>60,000</u>
Furniture	3,000	By Goods sent to branch (loading)	32,000
To Goods sent to branch	1,60,000	By Goods returned by branch (Return to H.O.)	2,000
To Goods returned by branch (loading)	400	By Balance c/d	
		Stock	28,000

To Bank (expenses paid by H.O.)		Debtors	16,880
Rent 1,800		Cash (800-600)	200
Salary 3,200		Furniture (3,000-300)	2,700
Stationary & printing <u>800</u>	5,800		
To Stock reserve (closing)	5,600		
To Profit transferred to General Profit & Loss A/c	24,180		
	<u>2,47,780</u>		<u>2,47,780</u>

**Working Note:**

**Debtors Account**

	₹		₹
To Balance b/d	18,000	By Cash account	60,000
To Sales account (credit)	60,000	By Sales return account	960
		By Discount allowed account	160
		By Balance c/d	16,880
	<u>78,000</u>		<u>78,000</u>

**Note:** It is assumed that goods returned by branch are at invoice price.

(b)

**Trading and Profit and Loss Account**

**for the year ended 31<sup>st</sup> March, 2017**

	₹		₹
To Opening stock	2,80,000	By Sales	
To Purchases	7,70,000	Cash 2,40,000	
To Gross Profit @ 25%	3,10,000	Credit <u>10,00,000</u>	12,40,000
	<u>13,60,000</u>	By Closing Stock (bal.fig.)	<u>1,20,000</u>
To Salaries	40,000	By Gross Profit	3,10,000
To Business expenses	1,20,000		
To Interest on loan (10% of 1,00,000*6/12)	5,000		
To Net Profit	<u>1,45,000</u>		
	<u>3,10,000</u>		<u>3,10,000</u>

**Balance Sheet as at 31<sup>st</sup> March, 2017**

Liabilities	₹	₹	Assets	₹
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	<u>1,45,000</u>		Sundry Debtors	3,50,000
	<u>4,45,000</u>		Stock in trade	1,20,000

Less: Drawings	<u>(80,000)</u>	3,65,000	
Loan from Laxman (including interest due)		1,05,000	
Sundry Creditors		<u>90,000</u>	
		<u>5,60,000</u>	<u>5,60,000</u>

**Working Notes:**

**1. Sundry Debtors Account**

	₹		₹
To Balance b/d	1,00,000	By Bank A/c	7,50,000
To Credit sales (Bal. fig)	<u>10,00,000</u>	By Balance c/d	<u>3,50,000</u>
	<u>11,00,000</u>		<u>11,00,000</u>

**2. Sundry Creditors Account**

	₹		₹
To Bank A/c	7,00,000	By Balance b/d	40,000
To Cash A/c	20,000	By Purchases (Bal. fig.)	7,70,000
To Balance c/d	<u>90,000</u>		
	<u>8,10,000</u>		<u>8,10,000</u>

**3. Cash and Bank Account**

	Cash	Bank		Cash	Bank
	₹	₹		₹	₹
To Balance b/d	10,000		By Balance b/d		50,000
To Sales (bal. fig)	2,40,000		By Bank A/c (C)	1,00,000	
To Cash (C)		1,00,000	By Salaries	40,000	
To Debtors		7,50,000	By Creditors	20,000	7,00,000
To Laxman's loan		1,00,000	By Drawings	80,000	
			By Business expenses		1,20,000
			By Balance c/d	<u>10,000</u>	<u>80,000</u>
	<u>2,50,000</u>	<u>9,50,000</u>		<u>2,50,000</u>	<u>9,50,000</u>

**4. (a) Realization Account**

	₹	₹		₹
To Land & Building		2,00,000	By Trade Payables	1,20,000
To Plant		2,00,000	By Preet Limited (W.N.1)	6,69,500
To Inventories		1,50,000		
To Trade Receivable		1,00,000		
To Cash		1,00,000		
To Profit transferred to Capital A/c:				
L	19,750			
M	11,850			
N	<u>7,900</u>	39,500		
		<u>7,89,500</u>		<u>7,89,500</u>

### Cash Account

	₹		₹
To N's Capital A/c	46,000	By L's Capital A/c	23,000
		By M's Capital A/c	23,000
	46,000		46,000

### Partners' Current Accounts

	L	M	N		L	M	N
	₹	₹	₹		₹	₹	₹
To Balance b/d	-		50,000	By Balance b/d	50,000	30,000	-
To L's Capital A/c	69,750			By Realisation A/c	19,750	11,850	7,900
To M's Capital A/c		41,850		By N's Capital A/c			42,100
	69,750	41,850	50,000		69,750	41,850	50,000

### Partners' Capital Accounts

	L	M	N		L	M	N
	₹	₹	₹		₹	₹	₹
To N's Current A/c	-	-	42,100	By Balance b/d	3,00,000	2,00,000	1,00,000
To Preference Shares in Preet Ltd. A/c	1,12,500	67,500	45,000	By L's Current A/c	69,750		
To Debentures A/c	1,47,250	88,350	58,900	By M's Current A/c		41,850	
To Cash A/c	23,000	23,000	-	By Cash A/c (bal. fig.)			46,000
To Equity Shares A/c	87,000	63,000	-				
	3,69,750	2,41,850	1,46,000		3,69,750	2,41,850	1,46,000

#### Working Notes:

#### 1. Calculation of Purchase consideration

##### Net Payment Method

			₹
Equity Shares	=	10,000 @ ₹ 15	1,50,000
Preference Shares	=	15,000 @ ₹ 15	2,25,000
Debentures	=	20,000 @ ₹ 14.725	<u>2,94,500</u>
			<u>6,69,500</u>

2. As whole business of the firm was sold to Preet Limited, cash balance of the firm ₹1,00,000 is also transferred to realization account. Cash brought in by N equal to Dr. balance appearing in his account, after distribution of preference shares and debentures in profit sharing ratio would be shared by L and M equally. The balance amount payable to L and M would be settled by transfer of equity shares in Preet Company.

- (b) **Nature of Limited Liability Partnership:** A limited liability partnership is a body corporate formed and incorporated under the LLP Act, 2008 and is a legal entity separate from that of its partners. A limited liability partnership shall have perpetual succession and any change in the partners of a

limited liability partnership shall not affect the existence, rights or liabilities of the limited liability partnership.

**Designated partners:** Every limited liability partnership shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.

In case of a limited liability partnership in which all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such limited liability partnership or nominees of such bodies corporate shall act as designated partners

5. (a)

**Alpha Ltd.**

**Balance Sheet as on 31st March, 20X1**

<i>Particulars</i>	<i>Notes</i>	<i>₹</i>
<b>Equity and Liabilities</b>		
<b>1 Shareholders' funds</b>		
a Share capital	1	49,95,000
b Reserves and Surplus	2	11,82,907
<b>2 Non-current liabilities</b>		
Long-term borrowings	3	13,17,500
<b>3 Current liabilities</b>		
a Trade Payables		8,00,000
b Other current liabilities	4	3,38,093
c Short-term provisions	5	6,40,000
d Short-term borrowings		2,00,000
<b>Total</b>		<b>94,73,500</b>
<b>Assets</b>		
<b>1 Non-current assets</b>		
Fixed assets		
Tangible assets	6	56,25,000
<b>2 Current assets</b>		
a Inventories	7	12,50,000
b Trade receivables	8	10,00,000
c Cash and bank balances	9	13,85,000
d Short-term loans and advances		2,13,500
<b>Total</b>		<b>94,73,500</b>

**Notes to accounts**

	<i>₹</i>
<b>1 Share Capital</b>	
Equity share capital	
Issued & subscribed & called up	
50,000 Equity Shares of ₹ 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
	<b>Total</b>		<b>49,95,000</b>
<b>2</b>	<b>Reserves and Surplus</b>		
	General Reserve	10,50,000	
	Add: current year transfer	<u>20,000</u>	10,70,000
	Profit & Loss balance		
	Profit for the year	4,33,500	
	Less: Appropriations:		
	Transfer to General reserve	(20,000)	
	Dividend Payable (Refer W N)	(2,49,750)	
	DDT on dividend (Refer W N)	<u>(50,843)</u>	<u>1,12,907</u>
	<b>Total</b>		<b>11,82,907</b>
<b>3</b>	<b>Long-term borrowings</b>		
	Secured Term Loan		
	State Financial Corporation Loan (7,50,000-37,500)		7,12,500
	(Secured by hypothecation of Plant and Machinery)		
	Unsecured Loan		6,05,000
	<b>Total</b>		<b>13,17,500</b>
<b>4</b>	<b>Other current liabilities</b>		
	Interest accrued but not due on loans (SFC)		37,500
	Dividend (Refer W N)	2,49,750	
	DDT on dividend (Refer W N)	<u>50,843</u>	<u>3,00,593</u>
			<u>3,38,093</u>
<b>5</b>	<b>Short-term provisions</b>		
	Provision for taxation		6,40,000
<b>6</b>	<b>Tangible assets</b>		
	Land and Building	30,00,000	
		<u>(2,50,000)</u>	27,50,000
	Less: Depreciation	(b.f.)	
	Plant & Machinery	35,00,000	
		<u>(8,75,000)</u>	26,25,000
	Less: Depreciation	(b.f.)	
	Furniture & Fittings	3,12,500	
	Less: Depreciation	<u>(62,500) (b.f.)</u>	<u>2,50,000</u>
	<b>Total</b>		<b>56,25,000</b>
<b>7</b>	<b>Inventories</b>		
	Raw Materials		2,50,000
	Finished goods		<u>10,00,000</u>
	<b>Total</b>		<b>12,50,000</b>

<b>8 Trade receivables</b>		
Outstanding for a period exceeding six months		2,60,000
Other Amounts		<u>7,40,000</u>
	<b>Total</b>	<b><u>10,00,000</u></b>
<b>9 Cash and bank balances</b>		
<i>Cash and cash equivalents</i>		
Cash at bank		
with Scheduled Banks	12,25,000	
with others (Omega Bank Ltd.)	<u>10,000</u>	12,35,000
Cash in hand		1,50,000
Other bank balances		<u>Nil</u>
	<b>Total</b>	<b><u>13,85,000</u></b>

**Working Note:**

**Calculation of grossing-up of dividend**

<i>Particulars</i>	<i>₹</i>
Dividend distributed by Alpha Ltd. (5% of 49,95,000)	2,49,750
Add: Increase for the purpose of grossing up of dividend	
$\left[ \frac{15}{100 - 15} \times 2,49,750 \right]$	<u>44,074</u>
Gross dividend	<u>2,93,824</u>
Dividend distribution tax @ 17.304%	50,843

**(b) Time ratio:**

Pre-incorporation period (1.4.2016 to 1.8.2016) = 4 months

Post incorporation period (1.8.2016 to 31.3.2017) = 8 months

Time ratio = 4 : 8 or 1 : 2

**Sales ratio:**

Average monthly sale before incorporation was twice the average sale per month of the post incorporation period. If weightage for each post-incorporation month is x, then

Weighted sales ratio =  $4 \times 2x : 8 \times 1x$  =  $8x : 8x$  or 1 : 1

6. (a) (i) Interest for the period 2016-17  
= US \$ 10 lakhs x 4% x ₹ 62 per US\$ = ₹ 24.80 lakhs
- (ii) Increase in the liability towards the principal amount  
= US \$ 10 lakhs x ₹ (62 - 56) = ₹ 60 lakhs
- (iii) Interest that would have resulted if the loan was taken in Indian currency  
= US \$ 10 lakhs x ₹ 56 x 10.5% = ₹ 58.80 lakhs
- (iv) Difference between interest on local currency borrowing and foreign currency borrowing  
= ₹ 58.80 lakhs - ₹ 24.80 lakhs = ₹ 34 lakhs.

Therefore, out of ₹ 60 lakhs increase in the liability towards principal amount, only ₹ 34 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be ₹ 58.80 lakhs being the aggregate of interest of ₹ 24.80 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of ₹ 34 lakhs.

Hence, ₹ 58.80 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 and the remaining ₹ 26 lakhs (60 - 34) would be considered as the exchange difference to be accounted for as per AS 11.

**(b) Computation of effective capital:**

	₹
Paid-up share capital-	
20,000, 14% Preference shares	20,00,000
1,20,000 Equity shares	96,00,000
Capital reserves (excluding revaluation reserve)	45,000
Securities premium	50,000
15% Debentures	65,00,000
Public Deposits	<u>3,70,000</u>
(A)	<u>1,85,65,000</u>
Investments	75,00,000
Profit and Loss account (Dr. balance)	<u>15,00,000</u>
(B)	<u>90,00,000</u>
Effective capital (A-B)	<u>95,65,000</u>

- (c) Nominal value of preference shares ₹ 5,00,000  
 Maximum possible redemption out of profits ₹ 3,00,000  
 Minimum proceeds of fresh issue ₹ 5,00,000 - 3,00,000 = ₹ 2,00,000  
 Proceed of one share = ₹ 9  
 Minimum number of shares =  $\frac{2,00,000}{9} = 22,222.22$  shares

As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shares.

If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 22,250. Hence, minimum number of shares to be issued in such a case is 22,250 shares.

**(d) Journal Entries in the books of Hello Ltd.**

Capital Redemption Reserve A/c	Dr. 1,40,000
Securities Premium A/c	Dr. 80,000
General Reserve A/c (balancing figure)	Dr. 80,000
To Bonus to Shareholders	3,00,000

(Being issue of bonus shares by utilization of various Reserves, as per resolution dated .....)

Bonus to Shareholders A/c	Dr. 3,00,000	
To Equity Share Capital		3,00,000

(Being capitalization of Profit)

- (e) Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias.

Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion on the business results.

For example, if the assets of a company primarily consist of trade receivables and insurance claims and the financial statements do not specify that the insurance claims have been lying unrealized for a number of years or that a few key trade receivables have not given balance confirmation certificates, an erroneous conclusion may be drawn on the liquidity of the company. Financial statements are said to depict the true and fair view of the business of the organization by virtue of neutrality.