

MOCK TEST PAPER – 1
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 18th April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31st March, 2017 and recommended a dividend of Rs. 2 per equity share (on 2 crore fully paid up equity shares of Rs. 10 each) for the year ended 31st March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the company on 18th 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 31st March, 2017 as per the applicable Accounting Standard and other Statutory Requirements.

- (b) ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom-made machine amounting to Rs. 4,00,000. As on 31st March, 2018 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is 'NIL'.

Explain the treatment of machine in the books of ABC Ltd.

- (c) How you will deal with following in the financial statements of the Paridhi Electronics Ltd. as on 31.3.18 with reference to AS-13?
- (i) Paridhi Electronics Ltd. invested in the shares of another unlisted company on 1st May 2014 at a cost of Rs. 3,00,000 with the intention of holding more than a year. The published accounts of unlisted company received in January, 2018 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics Ltd. may not fetch more than Rs. 45,000.
- (ii) Also Paridhi Electronics Ltd. has current investment (X Ltd.'s shares) purchased for Rs. 5 lakhs, which the company want to reclassify as long term investment. The market value of these investments as on date of Balance Sheet was Rs. 2.5 lakhs.

- (d) Suhana Ltd. issued 12% secured debentures of Rs. 100 Lakhs on 01.05.2016, to be utilized as under:

Particulars	Amount (Rs. in lakhs)
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2017, construction of the factory building was completed and machinery was installed and ready for its intended use. Total interest on debentures for the financial year ended 31.03.2017 was Rs. 11,00,000. During the year 2016-17, the company had invested idle fund out

of money raised from debentures in banks' fixed deposit and had earned an interest of Rs. 2,00,000.

Explain the treatment of interest under Accounting Standard 16 and also explain nature of assets.

(4 Parts x 5 Marks = 20 Marks)

2. (a) Smart Investments made the following investments in the year 2017-18:

12% State Government Bonds having face value Rs. 100

Date	Particulars
01.04.2017	Opening Balance (1200 bonds) book value of Rs. 1,26,000
02.05.2017	Purchased 2,000 bonds @ Rs. 100 cum interest
30.09.2017	Sold 1,500 bonds at Rs. 105 ex interest

Interest on the bonds is received on 30th June and 31st Dec. each year.

Equity Shares of X Ltd.	
15.04.2017	Purchased 5,000 equity shares @ Rs. 200 on cum right basis Brokerage of 1% was paid in addition (Face Value of shares Rs. 10)
03.06.2017	The company announced a bonus issue of 2 shares for every 5 shares held.
16.08.2017	The company made a rights issue of 1 share for every 7 shares held at Rs. 250 per share. The entire money was payable by 31.08.2017.
22.8.2017	Rights to the extent of 20% was sold @ Rs. 60. The remaining rights were subscribed.
02.09.2017	Dividend @ 15% for the year ended 31.03.2017 was received on 16.09.2017
15.12.2017	Sold 3,000 shares @ Rs. 300. Brokerage of 1% was incurred extra.
15.01.2018	Received interim dividend @ 10% for the year 2017-18
31.03.2018	The shares were quoted in the stock exchange @ Rs. 220

Prepare Investment Accounts in the books of Smart Investments. Assume that the average cost method is followed.

- (b) On 2.6.2018 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the records saved:

	Rs.
Stock at cost on 1.4.2017	1,35,000
Stock at 90% of cost on 31.3.2018	1,62,000
Purchases for the year ended 31.3.2018	6,45,000
Sales for the year ended 31.3.2018	9,00,000
Purchases from 1.4.2018 to 2.6.2018	2,25,000
Sales from 1.4.2018 to 2.6.2018	4,80,000

Sales upto 2.6.2018 includes Rs. 75,000 being the goods not dispatched to the customers. The sales invoice price is Rs. 75,000.

Purchases upto 2.6.2018 includes a machinery acquired for Rs. 15,000.

Purchases upto 2.6.2018 does not include goods worth Rs. 30,000 received from suppliers, as invoice not received upto the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for Rs. 1,20,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock. **(12 + 8 = 20 Marks)**

3. (a) M/s Heera & Co. has head office at U.S.A. and branch in Patna(India). Patna branch is an integral foreign operation of Heera & Co.

Patna branch furnishes you with its trial balance as on 31st March, 2018 and the additional information given thereafter:

	Dr.	Cr.
	(Rupees in thousands)	
Stock on 1 st April, 2017	300	
Purchases and Sales	800	1,200
Sundry Debtors & Creditors	400	300
Bills of Exchange	120	240
Wages & Salaries	560	-
Rent, Rates & Taxes	360	-
Sundry Charges	160	-
Plant	240	-
Bank Balance	420	-
New York Office A/c	-	<u>1,620</u>
	<u>3,360</u>	<u>3,360</u>

Information:

- (a) Plant was acquired from a remittance of US \$ 6,000 received from USA head office and paid to the suppliers. Depreciate Plant at 60% for the year.
- (b) Unsold stock of Patna branch was worth Rs. 4,20,000 on 31st March, 2018.
- (c) The rates of exchange may be taken as follows:
- On 01.04.2017 @ Rs. 55 per US \$
 - On 31.03.2018 @ Rs. 60 per US \$
 - Average exchange rate for the year @ Rs.58 per US \$
 - Conversion in \$ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2018 and the balance sheet as on that date of Patna branch as would appear in the books of USA head office of Heera & Co. You are informed that Patna branch account showed a debit balance of US \$ 29845.35 on 31.3.2018 in USA books and there were no items pending reconciliation.

- (b) The following balances were extracted from the books of M/s Division. You are required to prepare Departmental Trading Account and Profit and Loss account for the year ended 31st December, 2017 after adjusting the unrealized department profits if any.

	Deptt. A Rs.	Deptt. B Rs.
Opening Stock	50,000	40,000
Purchases	6,50,000	9,10,000
Sales	10,00,000	15,00,000

General expenses incurred for both the departments were Rs. 1,25,000 and you are also supplied with the following information: (a) Closing stock of Department A Rs. 1,00,000 including goods from Department B for Rs. 20,000 at cost of Department A. (b) Closing stock of Department B Rs. 2,00,000 including goods from Department A for Rs. 30,000 at cost to Department B. (c) Opening stock of Department A and Department B include goods of the value of Rs. 10,000 and Rs. 15,000 taken from Department B and Department A respectively at cost to transferee departments. (d) The rate of gross profit is uniform from year to year.

(12 + 8 = 20 Marks)

4. (a) A and B are partners of AB & Co. sharing profits and losses in the ratio of 2:1 and C and D are partners of CD & Co. sharing profits and losses in the ratio of 3:2. On 1st April 2017, they decided to amalgamate and form a new firm M/s. AD & Co. wherein all the partners of both the firm would be partners sharing profits and losses in the ratio of 2:1:3:2 respectively to A,B,C and D.

Their balance sheets on that date were as under:

Liabilities	AB & Co. (Rs.)	CD & Co. (Rs.)	Assets	AB & Co. (Rs.)	CD & Co. (Rs.)
Capitals					
A	1,50,000	-	Building	75,000	90,000
B	1,00,000	-	Machinery	1,20,000	1,00,000
C	-	1,20,000	Furniture	15,000	12,000
D	-	80,000	Inventory	24,000	36,000
Reserve	66,000	54,000	Debtors	65,000	78,000
Creditors	52,000	35,000	Due from CD		
Due to AB	-	47,000	& Co.	47,000	-
& Co.			Cash at Bank	18,000	15,000
			Cash in hand	4,000	5,000
	3,68,000	3,36,000		3,68,000	3,36,000

The amalgamated firm took over the business on the following terms:

- Building was taken over at Rs. 1,00,000 and Rs. 1,25,000 of AB & Co. and CD & Co. respectively and Machinery was taken over at Rs. 1,25,000 and Rs. 1,10,000 of AB & Co. and CD & Co. respectively.
- Goodwill of AB & Co. was worth Rs. 75,000 and that of CD & Co. was worth Rs. 50,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded through capital accounts of the partners.
- Provision for doubtful debts has to be carried forward at Rs. 5,000 in respect of debtors of AB & Co. and Rs. 8,000 in respect of CD & Co.

You are required to:

- Compute the adjustments necessary for goodwill.
 - Pass the Journal Entries in the books of AD & Co. assuming that excess/deficit capital (taking D's capital as base) with reference to share in profits are to be transferred to current accounts.
- (b) Under what circumstances, a partner may be called upon to pay the liabilities of LLP. Explain in brief.

(15 + 5 = Marks)

5. (a) From the following particulars furnished by Megha Ltd., prepare the Balance Sheet as on 31st March 20X1 as required by Part I, Schedule III of the Companies Act, 2013.

Particulars		Debit Rs.	Credit Rs.
Equity Share Capital (Face value of Rs. 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 Rs. 2,60,000 are due for more than 6 months.
 - (iii) The cost of the Assets were:
Building Rs. 30,00,000, Plant & Machinery Rs. 35,00,000 and Furniture Rs. 3,12,500
 - (iv) The balance of Rs. 7,50,000 in the Loan Account with State Finance Corporation is inclusive of Rs. 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.
 - (v) Balance at Bank includes Rs. 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.
 - (vi) Transfer of Rs. 20,000 to general reserve is proposed by the Board of directors.
- (b) Omega company offers new shares of Rs. 100 each at 25% premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is Rs. 200.

You are required to calculate the (i) Ex-right value of a share; (ii) Value of a right share?

(16 + 4 = 20 Marks)

6. Answer any **four** of the following:

(a) The following is the Draft Profit & Loss A/c of Mudra Ltd., the year ended 31st March, 20X1:

	Rs.		Rs.
To Administrative, Selling and distribution expenses	8,22,542	By Balance b/d	5,72,350
		By Balance from Trading A/c	40,25,365
		By Subsidies received from Govt.	2,73,925
To Directors fees	1,34,780		
To Interest on debentures	31,240		
To Managerial remuneration	2,85,350		
To Depreciation on fixed assets	5,22,543		
To Provision for Taxation	12,42,500		
To General Reserve	4,00,000		
To Investment Revaluation Reserve	12,500		
To Balance c/d	<u>14,20,185</u>		
	<u>48,71,640</u>		<u>48,71,640</u>

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was Rs.5,75,345. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.

(b) Following is the extract of the Balance Sheet of Manoj Ltd. as at 31st March, 20X1

	Rs.
Authorised capital:	
30,000 12% Preference shares of Rs. 10 each	3,00,000
3,00,000 Equity shares of Rs. 10 each	<u>30,00,000</u>
	<u>33,00,000</u>
Issued and Subscribed capital:	
24,000 12% Preference shares of Rs. 10 each fully paid	2,40,000
2,70,000 Equity shares of Rs. 10 each, Rs. 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 20X1, the Company has made final call @ Rs. 2 each on 2,70,000 equity shares. The call money was received by 20th April, 20X1. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Prepare necessary journal entries in the books of the company.

(c) Kumar Ltd. had made a rights issue of shares in 2017. In the offer document to its members, it had projected a surplus of Rs. 40 crores during the accounting year to end on 31st March, 2017. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of Rs. 10 crores. The board in consultation with the managing director, decided not to provide for "after sales expenses" during the warranty period. Till the last year, provision at 2% of sales used to be made under the concept of "matching of costs against revenue" and actual expenses used to be charged against

the provision. The board now decided to account for expenses as and when actually incurred. Sales during the year total to Rs. 600 crores.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2016-2017.

- (d) A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2017.

	Rs. Per unit
Raw Material X	
Cost price	380
Unloading Charges	20
Freight Inward	40
Replacement cost	300
Chemical Y	
Material consumed	440
Direct Labour	120
Variable Overheads	80

Additional Information:

- (i) Total fixed overhead for the year was Rs. 4,00,000 on normal capacity of 20,000 units.
(ii) Closing balance of Raw Material X was 1,000 units and Chemical Y was Rs. 2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when Net realizable value of Chemical Y is Rs. 800 per unit.

Or

- (d) ABC Ltd. is installing a new plant at its production facility. It has incurred these costs:

Cost of the plant (cost per supplier's invoice plus taxes)	Rs. 25,00,000
Initial delivery and handling costs	Rs. 2,00,000
Cost of site preparation	Rs. 6,00,000
Consultants used for advice on the acquisition of the plant	Rs. 7,00,000
Interest charges paid to supplier of plant for deferred credit	Rs. 2,00,000
Estimated dismantling costs to be incurred after 7 years	Rs. 3,00,000
Operating losses before commercial production	Rs. 4,00,000

Please advise ABC Ltd. on the costs that can be capitalised in accordance with AS 10 (Revised).

- (e) The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 20X1.

Share capital: 40,000 Equity shares of Rs.10 each fully paid – Rs.4,00,000; 1,000 10% Redeemable preference shares of Rs.100 each fully paid – Rs.1,00,000.

Reserve & Surplus: Capital reserve – Rs.50,000; Securities premium – Rs.50,000; General reserve –Rs.75,000; Profit and Loss Account – Rs.35,000

On 1st January 20X2, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve.

You are required to pass necessary Journal Entries including cash transactions in the books of the company. **(4 Parts x 5 Marks = 20 Marks)**

MOCK TEST PAPER - 1
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 30th 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.

No, provision for proposed dividends is not required to be made. Such proposed dividends are to be disclosed in the notes to financial statements. Accordingly, the dividend of Rs. 4 crores recommended by New Graphics Ltd. in its Board meeting on 18th 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) A liability is recognized when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured. In the given case, ABC Ltd. should recognize a liability of Rs.4, 00,000 payable to XYZ Ltd.

When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognized as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognized as an expense.

Hence ABC Ltd. should charge the amount of Rs. 4,00,000 (being loss due to change in production method) to Profit and loss statement and record the corresponding liability (amount payable to XYZ Ltd.) for the same amount in the books for the year ended 31st March, 2018.

- (c) (i) As per AS 13, “Accounting for Investments” Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.

On this basis, the facts of the case given in the question clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares to Rs. 45,000 in the financial statements for the year ended 31st March, 2018 and charge the difference of loss of Rs. 2,55,000 to profit and loss account.

- (ii) As per AS 13 ‘Accounting for Investments’, where investments are reclassified from current to long-term, transfers are made at the lower of cost or fair value at the date of transfer.

In the given case, the market value of the investment (X Ltd. shares) is Rs. 2.50 lakhs, which is lower than its cost i.e. Rs. 5 lakhs. Therefore, the transfer to long term investments should be made at cost of Rs. 2.50 lakhs. The loss of Rs. 2.50 lakhs should be charged to profit and loss account.

- (d) As per AS 16 “Borrowing Costs”, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

Also AS 16 “Borrowing Costs” states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost

= Rs. 11,00,000 – Rs. 2,00,000

= Rs. 9,00,000

Sr. No.	Particulars	Nature of assets	Interest to be Capitalized (Rs.)	Interest to be charged to Profit & Loss Account (Rs.)
i	Construction of factory building	Qualifying Asset*	9,00,000x40/100 = Rs. 3,60,000	NIL
ii	Purchase of Machinery	Not a Qualifying Asset	NIL	9,00,000x35/100 = Rs. 3,15,000
iii	Working Capital	Not a Qualifying Asset	NIL	9,00,000x25/100 = Rs. 2,25,000
	Total		<u>Rs. 3,60,000</u>	<u>Rs. 5,40,000</u>

* A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

2. (a)

In the books of Smart Investments

12% Govt. Bonds for the year ended 31st March, 2018

Date	Particulars	Nos.	Income	Amount	Date	Particulars	Nos.	Income	Amount
1.4.17	To Opening balance b/d	1,200	3,600	1,26,000	30.6.17	By Bank A/c (Interest) (3,200 x 100 x 12% x 6/12)	-	19,200	-
2.5.17	To Bank A/c	2,000	8,000	1,92,000	30.9.17	By Bank A/c	1,500	4,500	1,57,500
31.3.18	To P & L A/c (Interest)		27,400		31.12.17	By Bank A/c (Interest) (1,700 x 100 x 12% x 6/12)	-	10,200	-
	To P & L A/c (Profit on Sale)			8,437.50	31.3.18	By Bal. c/d	1,700	5,100	1,68,937.50
		3,200	39,000	3,26,437.50			3,200	39,000	3,26,437.50

Investments in Equity shares of X Ltd. for year ended 31.3.2018

Date	Particulars	Nos.	Income	Amount	Date	Particulars	Nos.	Income	Amount
15.4.17	To Bank A/c	5,000		10,10,000					
3.6.17	To Bonus Issue	2,000	-	-	16.9.17	By Bank (Dividend)	-	-	7,500
31.8.17	To Bank A/c	800		2,00,000	15.12.17	By Bank (Sale)	3,000	-	8,91,000
31.3.18	To P & L A/c		4,800	4,28,500	15.1.18	By Bank (interim dividend)		4,800	
					31.3.18	By Bal. c/d	4,800		7,40,000
		7,800	4,800	16,38,500			7,800	4,800	16,38,500

Working Notes:**1. Profit on sale of bonds on 30.9.17**

= Sales proceeds – Average cost

Sales proceeds = Rs. 1,57,500

Average cost = Rs. $[(1,26,000+1,92,000) \times 1,500/3,200]$ = 1,49,062.50

Profit = 1,57,500 – Rs. 1,49,062.50 = Rs. 8,437.50

2. Valuation of bonds on 31st March, 2018Cost = Rs. $3,18,000/3,200 \times 1,700$ = 1,68,937.50**3. Cost of equity shares purchased on 15/4/2017**

= Cost + Brokerage

= $(5,000 \times \text{Rs. } 200) + 1\% \text{ of } (5,000 \times \text{Rs. } 200)$ = Rs. 10,10,000**4. Sale proceeds of equity shares on 15/12/2017**

= Sale price – Brokerage

= $(3,000 \times \text{Rs. } 300) - 1\% \text{ of } (3,000 \times \text{Rs. } 300)$ = Rs. 8,91,000.**5. Profit on sale of shares on 15/12/2017**

= Sales proceeds – Average cost

Sales proceeds = Rs. 8,91,000

Average cost = Rs. $[(10,10,000+2,00,000-7,500) \times 3,000/7,800]$ = Rs. $[12,02,500 \times 3,000/7,800]$ = 4,62,500

Profit = Rs. 8,91,000 – Rs. 4,62,500 = Rs. 4,28,500.

6. Valuation of equity shares on 31st March, 2018Cost = Rs. $[12,02,500 \times 4,800/7,800]$ = Rs. 7,40,000Market Value = 4,800 shares \times Rs. 220 = Rs. 10,56,000

Closing stock of equity shares has been valued at Rs. 7,40,000 i.e. cost being lower than the market value.

Note: If rights are not subscribed for but are sold in the market, the sale proceeds are taken to the profit and loss statement as per para 13 of AS 13 “Accounting for Investments”**(b)****In the books of Mr. Black****Trading Account for the year ended 31.3.2018**

	Rs.		Rs.
To Opening Stock	1,35,000	By Sales	9,00,000
To Purchases	6,45,000	By Closing Stock at cost	1,80,000
To Gross Profit	3,00,000		
	<u>10,80,000</u>	$\left(1,62,000 \times \frac{100}{90}\right)$	<u>10,80,000</u>

Memorandum Trading A/c
for the period from 1.4.2018 to 02.06.2018

	Rs.		Rs.
To Opening Stock at cost	1,80,000	By Sales	4,80,000
To Purchases	2,25,000	Less: Goods not dispatched	<u>75,000</u>
Add: Goods received but invoice not received	<u>30,000</u>	By Closing stock (Balancing figure)	1,50,000
	<u>2,55,000</u>		
Less: Machinery	<u>15,000</u>		
To Gross Profit (Refer W.N.)	<u>1,35,000</u>		
	<u>5,55,000</u>		<u>5,55,000</u>

Calculation of Insurance Claim

$$\begin{aligned} \text{Claim subject to average clause} &= \left(\frac{\text{Actual loss of stock}}{\text{Value of stock on the date of fire}} \times \text{Amount of policy} \right) \\ &= 1,20,000 \times \left(\frac{1,50,000}{1,50,000} \right) = \text{Rs. } 1,20,000 \end{aligned}$$

Working Note:

$$\text{G.P. ratio} = \frac{3,00,000}{9,00,000} \times 100 = 33 \frac{1}{3} \%$$

$$\text{Amount of Gross Profit} = \text{Rs. } 4,05,000 \times 33 \frac{1}{3} \% = \text{Rs. } 1,35,000$$

3. (a)

M/s Heera & Co.

Patna Branch Trial Balance in (US \$)

as on 31st March, 2018

	Conversion rate per US \$ (Rs.)	Dr. US \$	Cr. US \$
Stock on 1.4.15	55	5,454.55	-
Purchases and sales	58	13,793.10	20,689.66
Sundry debtors and creditors	60	6,666.67	5,000.00
Bills of exchange	60	2,000.00	4,000.00
Wages and salaries	58	9,655.17	-
Rent, rates and taxes	58	6,206.90	-
Sundry charges	58	2,758.62	-
Plant	-	6,000.00	-
Bank balance	60	7,000.00	-
USA office A/c	-	-	<u>29,845.35</u>
		<u>59,535.01</u>	<u>59,535.01</u>

**Trading and Profit & Loss Account
for the year ended 31st March, 2018**

	US \$		US \$
To Opening Stock	5,454.55	By Sales	20,689.66
To Purchases	13,793.10	By Closing stock	7,000.00
To Wages and salaries	9,655.17	(Rs. 4,20,000/60)	
		By Gross Loss c/d	1,213.16
	28,902.82		28,902.82
To Gross Loss b/d	1,213.16	By Net Loss	13,778.68
To Rent, rates and taxes	6,206.90		
To Sundry charges	2,758.62		
To Depreciation on Plant (US \$ 6,000 × 0.6)	3,600.00		
	13,778.68		13,778.68

**Balance Sheet of Patna Branch
as on 31st March, 2018**

<i>Liabilities</i>		US \$	<i>Assets</i>		US \$	US \$
USA Office A/c	29,845.35		Plant	6,000.00		
Less: Net Loss	<u>(13,778.68)</u>	16,066.67	Less: Depreciation	<u>(3,600.00)</u>	2,400.00	
Sundry creditors		5,000.00	Closing stock		7,000.00	
Bills payable		4,000.00	Sundry debtors		6,666.67	
			Bills receivable		2,000.00	
			Bank balance		<u>7,000.00</u>	
		25,066.67			25,066.67	

(b)

**Departmental Trading and Loss Account of M/s Division
For the year ended 31st December, 2017**

	Deptt. A	Deptt. B		Deptt. A	Deptt. B
	Rs.	Rs.		Rs.	Rs.
To Opening stock	50,000	40,000	By Sales	10,00,000	15,00,000
To Purchases	6,50,000	9,10,000	By Closing stock		
To Gross profit	<u>4,00,000</u>	<u>7,50,000</u>	stock	<u>1,00,000</u>	<u>2,00,000</u>
	11,00,000	17,00,000	By Gross profit	4,00,000	7,50,000
To General Expenses (in ratio of sales)	50,000	75,000			
To Profit ts/f to general profit and loss account	3,50,000	6,75,000			
	4,00,000	7,50,000		4,00,000	7,50,000

General Profit and Loss Account

	Rs.		Rs.
To Stock reserve required (additional:		By Profit from:	
Stock in Deptt. A		Deptt. A	3,50,000
50% of (Rs. 20,000 - Rs. 10,000) (W.N.1)	5,000	Deptt. B	6,75,000
Stock in Deptt. B			
40% of (Rs. 30,000 - Rs. 15,000) (W.N.2)	6,000		
To Net Profit	<u>10,14,000</u>		
	<u>10,25,000</u>		<u>10,25,000</u>

Working Notes:

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

4. (a) (i) Adjustment for raising & writing off of goodwill

	Goodwill raised in old profit sharing ratio			Goodwill written off in new ratio	Difference
	AB & Co.	CD & Co.	Total		
	Rs.	Rs.	Rs.	Rs.	Rs.
A	50,000		50,000 Cr.	31,250 Dr.	18,750 Cr.
B	25,000		25,000 Cr.	15,625 Dr.	9,375 Cr.
C		30,000	30,000 Cr.	46,875 Dr.	16,875 Dr.
D	<u> </u>	<u>20,000</u>	<u>20,000 Cr.</u>	<u>31,250 Dr.</u>	11,250 Dr.
	<u>75,000</u>	<u>50,000</u>	<u>1,25,000</u>	<u>1,25,000</u>	

(ii)

In the books of AD & Co.

Journal Entries

Date	Particulars		Debit	Credit
			Rs.	Rs.
April 1, 2017	Building A/c	Dr.	1,00,000	
	Machinery A/c	Dr.	1,25,000	
	Furniture A/c	Dr.	15,000	
	Stock A/c	Dr.	24,000	
	Debtors A/c	Dr.	65,000	
	CD & Co. A/c	Dr.	47,000	
	Cash at bank A/c	Dr.	18,000	
	Cash in hand A/c	Dr.	4,000	
	To Provision for doubtful debts A/c			5,000
	To Creditors A/c			52,000
	To A's capital A/c (W.N. 2a)			2,10,667
	To B's capital A/c (W.N.2 a)			1,30,333

	(Being the sundry assets and liabilities of AB & Co. taken over at the values stated as per the agreement)			
April 1, 2017	Building A/c	Dr.	1,25,000	
	Machinery A/c	Dr.	1,10,000	
	Furniture A/c	Dr.	12,000	
	Stock A/c	Dr.	36,000	
	Debtors A/c	Dr.	78,000	
	Cash at bank A/c	Dr.	15,000	
	Cash in hand A/c	Dr.	5,000	
	To Provision for doubtful debts A/c			8,000
	To Creditors A/c			35,000
	To AB & Co. A/c			47,000
	To C's capital A/c (W.N. 2b)			1,74,600
	To D's capital A/c (W.N. 2b)			1,16,400
	(Being the sundry assets and liabilities of CD & Co. taken over at the values stated as per the agreement)			
	C's capital A/c	Dr.	16,875	
	D's capital A/c	Dr.	11,250	
	To A's capital A/c			18,750
	To B's capital A/c			9,375
	(Being adjustment in capital accounts of the partners on account of goodwill)			
	AB & Co. A/c	Dr.	47,000	
	To CD & Co. A/c			47,000
	(Being mutual indebtedness of AB & Co. and CD & Co. cancelled)			
	A's Capital A/c	Dr.	1,24,267	
	To A's Current A/c			1,24,267
	(Being excess amount in A's capital A/c transferred to A's current A/c - refer W.N.3)			
	B's Capital A/c	Dr.	87,133	
	To B's Current A/c			87,133
	(Being excess amount in B's capital A/c transferred to B's current A/c - refer W.N.3)			

Working Notes:

(1) Profit on Revaluation

	AB & Co.	CD & Co.
	Rs.	Rs.
Building (1,00,000 – 75,000)	25,000	
(1,25,000 – 90,000)		35,000

Machinery	(1,25,000 – 1,20,000)	5,000	
	(1,10,000 – 1,00,000)		10,000
		30,000	45,000
Less: Provision for doubtful debts		(5,000)	(8,000)
		25,000	37,000

(2) Balance of capital accounts of partners on transfer of business to AD & Co.

(a) AB & Co.

	<i>A's Capital</i>	<i>B's Capital</i>
	Rs.	Rs.
Balance as per the Balance Sheet	1,50,000	1,00,000
Reserves in the profits and losses sharing ratio	44,000	22,000
Profit on revaluation in the profits and losses sharing ratio (W.N.1)	<u>16,667</u>	<u>8,333</u>
	<u>2,10,667</u>	<u>1,30,333</u>

(b) CD & Co.

	<i>C's Capital</i>	<i>D's Capital</i>
	Rs.	Rs.
Balance as per the Balance Sheet	1,20,000	80,000
Reserves in the profits and losses sharing ratio	32,400	21,600
Profit on revaluation in the profits and losses sharing ratio (W.N.1)	<u>22,200</u>	<u>14,800</u>
	<u>1,74,600</u>	<u>1,16,400</u>

(3) Calculation of capital of each partner in the new firm

<i>Particulars</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>
	Rs.	Rs.	Rs.	Rs.
Balance as per W.N.2	2,10,667	1,30,333	1,74,600	1,16,400
Adjustment for goodwill	18,750	9,375	(16,875)	(11,250)
	2,29,417	1,39,708	1,57,725	1,05,150
Total capital Rs. 4,20,600* in the new ratio of 2:1:3:2	(1,05,150)	(52,575)	(1,57,725)	(1,05,150)
Transfer to Current Account	1,24,267 Cr.	87,133 Cr.	-	-

* Taking D's capital as the base which is $\frac{2}{8}$ th of total capital; total capital will be $1,05,150 \times \frac{8}{2}$ i.e. Rs. 4,20,600.

- (b) Under section 27 (3) of the LLP Act, 2008, any obligation of the LLP arising out of a contract or otherwise will be the sole obligation of the LLP. The partners of an LLP in the normal course of business are not liable for the debts of the LLP. However, under section 28 (2) of the LLP Act, 2008, a partner will be liable for his own wrongful acts or commissions, but will not be liable for the wrongful acts or commissions of other partners of the LLP.

5. (a)

Megha Ltd.

Balance Sheet as on 31st March, 20X1

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

Notes to accounts

<i>Particulars</i>	<i>Notes</i>	<i>Rs.</i>
1 Share Capital		
Equity share capital		
Issued & subscribed & called up		
50,000 Equity Shares of Rs. 100 each		
(of the above 10,000 shares have been issued for		
consideration other than cash)	50,00,000	
Less: Calls in arrears	(5,000)	49,95,000
Total		49,95,000
2 Reserves and Surplus		
General Reserve	10,50,000	
Add: current year transfer	<u>20,000</u>	10,70,000

Profit & Loss balance		
Profit for the year	4,33,500	
Less: Appropriations:		
Transfer to General reserve	<u>(20,000)</u>	<u>4,13,500</u>
	Total	<u>14,83,500</u>
3 Long-term borrowings		
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
	Total	<u>13,17,500</u>
4 Other current liabilities		
Interest accrued but not due on loans (SFC)		<u>37,500</u>
5 Short-term provisions		
Provision for taxation		6,40,000
6 Tangible assets		
Land and Building	30,00,000	
Less: Depreciation	<u>(2,50,000) (b.f.)</u>	27,50,000
Plant & Machinery	35,00,000	
Less: Depreciation	<u>(8,75,000) (b.f.)</u>	26,25,000
Furniture & Fittings	3,12,500	
Less: Depreciation	<u>(62,500)(b.f.)</u>	<u>2,50,000</u>
	Total	<u>56,25,000</u>
7 Inventories		
Raw Materials		2,50,000
Finished goods		<u>10,00,000</u>
	Total	<u>12,50,000</u>
8 Trade receivables		
Outstanding for a period exceeding six months		2,60,000
Other Amounts		<u>7,40,000</u>
	Total	<u>10,00,000</u>
9 Cash and bank balances		
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>
	Total	<u>13,85,000</u>

(b) Ex-right value of the shares

= (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + No. of right shares)

= (Rs. 200 X 5 Shares + Rs. 125 X 1 Share) / (5 + 1) Shares

= Rs. 1,125 / 6 shares = Rs. 187.50 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= Rs. 200 – Rs. 187.50 = Rs. 12.50 per share.

6. (a) Calculation of net profit u/s 198 of the Companies Act, 2013

	Rs.	Rs.
Balance from Trading A/c		40,25,365
Add : Subsidies received from Government		<u>2,73,925</u>
		42,99,290
Less : Administrative, selling and distribution expenses	8,22,542	
Director's fees	1,34,780	
Interest on debentures	31,240	
Depreciation on fixed assets as per Schedule II	<u>5,75,345</u>	<u>(15,63,907)</u>
Profit u/s 198		<u>27,35,383</u>
Maximum Managerial remuneration under Companies Act, 2013= 11% of Rs.27,35,383=		
Rs.3,00,892		

(b) Journal Entries in the books of Manoj Ltd.

		Rs.	Rs.
1-4-20X1	Equity share final call A/c To Equity share capital A/c (For final calls of Rs. 2 per share on 2,70,000 equity shares due as per Board's Resolution dated....)	Dr. 5,40,000	5,40,000
20-4-20X1	Bank A/c To Equity share final call A/c (For final call money on 2,70,000 equity shares received)	Dr. 5,40,000	5,40,000
	Securities Premium A/c	Dr. 75,000	
	Capital redemption Reserve A/c	Dr. 1,20,000	
	General Reserve A/c	Dr. 3,60,000	
	Profit and Loss A/c (b.f.) To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held)	Dr. 1,20,000	6,75,000
	Bonus to shareholders A/c To Equity share capital A/c (For issue of bonus shares)	Dr. 6,75,000	6,75,000

(c) As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts:

So far, the company has been providing 2% of sales for meeting "after sales expenses during the warranty period. With the improved method of production, the probability of defects occurring in

the products has reduced considerably. Hence, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is increased by Rs. 12 crores than would have been the case if the old policy were to continue.

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

Value of Closing Stock:

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

Working Note:

Statement showing cost calculation of Raw material X and Chemical Y

Raw Material X	Rs.
Cost Price	380
Add: Freight Inward	40
Unloading charges	<u>20</u>
Cost	<u>440</u>

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

OR

- (d) **According to AS 10 (Revised), the following costs can be capitalized:**

Cost of the plant	Rs. 25,00,000
Initial delivery and handling costs	Rs. 2,00,000
Cost of site preparation	Rs. 6,00,000
Consultants' fees	Rs. 7,00,000
Estimated dismantling costs to be incurred after 7 years	<u>Rs. 3,00,000</u>
	<u>Rs. 43,00,000</u>

Note: Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of Rs. 2,00,000 and operating losses before commercial production amounting to Rs. 4,00,000 are not regarded as directly attributable costs and thus cannot be capitalised. They should be written off to the Statement of Profit and Loss in the period they are incurred.

(e)

In the books of ABC Limited

Journal Entries

Date 20X2	Particulars		Dr. (Rs.)	Cr. (Rs.)
Jan 1	10% Redeemable Preference Share Capital A/c To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)	Dr.	1,00,000	1,00,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	1,00,000	1,00,000
	General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr. Dr.	75,000 25,000	1,00,000

Note: Securities premium and capital reserve cannot be utilised for transfer to Capital Redemption Reserve.