

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) State whether the following statements are 'True' or 'False'. Also give reason for your answer.
- (i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed.
 - (ii) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
 - (iii) All significant accounting policies adopted in the preparation and presentation of financial statements should not form part of the financial statements.
 - (iv) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need to be indicated.
 - (v) There is a single list of accounting policies which are applicable to all circumstances.
- (b) The Investment portfolio of XYZ Ltd. as on 31.03.2020 consisted of the following:

		(Rs. in lacs)	
	Current Investments	Cost	Fair Value as on 31.03.2020
(1)	1000 Equity Shares of A Ltd.	5	7
(2)	500 Equity Shares of B Ltd.	10	15
(3)	1000 Equity Shares of C Ltd.	<u>15</u>	<u>12</u>
	Total	<u>30</u>	<u>34</u>

Give your comments on the following:

- (i) The company wants to value the above portfolio at Rs. 30 lakhs being lower of cost or fair market value.
 - (ii) Company wants to transfer 1000 Equity Shares of C Ltd. from current investments to long term investments on 31.03.2020 at cost of Rs. 15 lakhs.
- (c) Viva Ltd. received a specific grant of Rs. 30 lakhs for acquiring the plant of Rs. 150 lakhs during 2016- 17 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet and was not deducted from the cost of plant. During 2019-20, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was Rs. 21 lakhs and written down

value of plant was Rs. 105 lakhs. What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2019-20 in profit and loss account?

- (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 Rs. 5,00,000 to install machinery in the new location.

Rent of Rs. 15,00,000

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

Mohan Ltd. wants to seek your guidance as whether these costs can be capitalized into the cost of the new building. You are required to advise in line with AS 10 "Property, Plant and Equipment".

(4 Parts x 5 Marks = 20 Marks)

2. On 31st March, 2020, SR Ltd. provides the following ledger balances after preparing its Profit & Loss Account for the year ended 31st March, 2020.

Particulars	Amount (Rs.)	
	Debit	Credit
Equity Share Capital, fully paid shares of Rs. 50 each		80,00,000
Calls in arrear	15,000	
Land	25,00,000	
Buildings	30,00,000	
Plant & Machinery	24,00,000	
Furniture & Fixture	13,00,000	
Securities Premium		15,00,000
General Reserve		9,41,000
Profit & Loss Account		5,80,000
Loan from Public Finance Corporation (Secured by Hypothecation of Land)		26,30,000
Other Long Term Loans		22,50,000
Short Term Borrowings		4,60,000
Inventories: Finished goods	45,00,000	
Raw materials	13,00,000	
Trade Receivables	17,50,000	
Advances: Short Term	3,75,000	
Trade Payables		8,13,000
Provision for Taxation		3,80,000
Dividend payable		70,000
Cash in Hand	70,000	
Balances with Banks	4,14,000	
Total	1,76,24,000	1,76,24,000

The following additional information was also provided in respect of the above balances:

- (1) 50,000 fully paid equity shares were allotted as consideration for land.
- (2) The cost of assets were:

Building	Rs. 32,00,000
Plant and Machinery	Rs. 30,00,000
Furniture and Fixture	Rs. 16,50,000

- (3) Trade Receivables for Rs. 4,86,000 due for more than 6 months.
- (4) Balances with banks include Rs. 56,000, the Naya bank, which is not a scheduled bank.
- (5) Loan from Public Finance Corporation repayable after 3 years.
- (6) The balance of Rs. 26,30,000 in the loan account with Public Finance Corporation is inclusive of Rs. 1,34,000 for interest accrued but not due. The loan is secured by hypothecation of land.
- (7) Other long-term loans (unsecured) include:

Loan taken from Nixes Bank	Rs. 13,80,000
(Amount repayable within one year	Rs. 4,80,000)
Loan taken from Directors	Rs. 8,50,000

- (8) Bills Receivable for Rs. 1,60,000 maturing on 15th June, 2020 has been discounted.
- (9) Short term borrowings include:

Loan from Naya bank	Rs. 1,16,000 (Secured)
Loan from directors	Rs. 48,000

- (10) Transfer of Rs. 35,000 to general reserve has been proposed by the Board of directors out of the profits for the year.
- (11) Inventory of finished goods includes loose tools costing Rs. 5 lakhs (which do not meet definition of property, plant & equipment as per AS 10)

You are required to prepare the Balance Sheet of the Company as on March 31st 2020 as required under Part – I of Schedule III of the Companies Act, 2013. Ignore previous year figures. **(20 Marks)**

3. (a) From the following information, prepare Trading and Profit & Loss Account for the year ended 31.03.2020 and the Balance Sheet as at 31.03.2020 of M/s Prasad & Co., a proprietorship firm.

Assets & Liabilities	As on 01.04.2019	As on 31.03.2020
Creditors	20,000	15,000
Outstanding Expenses	600	800
Fixed Assets	12,000	13,000
Stock	10,000	12,000
Cash in hand	7,500	2,000
Cash at Bank	2,500	10,000
Debtors	?	18,000

Details of the year's transactions are as follows:

(1)	Discounts allowed to Debtor	4,000
(2)	Returns from debtors	1,450
(3)	Bad debts	500
(4)	Total sales (Cash and Credit)	72,000
(5)	Discount allowed by creditors	700
(6)	Returns to creditors	400
(7)	Receipts from debtors paid into Bank	76,000
(8)	Cash purchases	1,000
(9)	Expenses paid by cash	9,000
(10)	Drawings by cheque	500
(11)	Purchase of Fixed Assets by cheque	4,000
(12)	Cash deposited into bank	5,000
(13)	Cash withdrawn from bank	9,000
(14)	Cash in hand at 31.03.2020	2,000
(15)	Payments to creditors by cheque	60,000

No assets were sold during the year. Any difference in cash account to be considered as cash sales.

- (b) From the following details of Western Branch Office of M/s. XYZ Corp. for the year ending 31st March, 2020, ascertain branch stock reserve in respect of unrealized profit in opening stock and closing stock:
- Goods are sent to the branch at invoice price and branch also maintains stock at the same price.
 - Sale price is cost plus 40%.
 - Invoice price is cost plus 15%.
 - Other information from accounts of branch:

Opening Stock as on 01-04-2019	3,45,000
Goods sent during the year by Head Office to Branch	16,10,000
Sales during the year	21,00,000
Expenses incurred at the branch	45,000

(16 + 4 = 20 Marks)

4. (a) On 1st April, 2019, Mr. Vijay had 30,000 Equity shares in X Ltd. (the company) at a book value of Rs. 4,50,000 (Face Value Rs. 10 per share). On 22nd June, 2019, he purchased another 5000 shares of the same company for Rs. 80,000.

The Directors of X Ltd. announced a bonus of equity shares in the ratio of one share for seven shares held on 10th August, 2019.

On 31st August, 2019 the Company made a right issue in the ratio of three shares for every eight shares held, on payment of Rs. 15 per share. Due date for the payment was 30th September, 2019, Mr. Vijay subscribed to 2/3rd of the right shares and sold the remaining of his entitlement to Viru for a consideration of Rs. 2 per share.

On 31st October, 2019, Vijay received dividends from X Ltd. @ 20% for the year ended 31st March, 2019. Dividend for the shares acquired by him on 22nd June, 2019 to be adjusted against the cost of purchase.

On 15th November, 2019 Vijay sold 20,000 Equity shares at a premium of Rs. 5 per share.

You are required to prepare Investment Account in the books of Mr. Vijay for the year ended 31st March, 2020 assuming the shares are being valued at average cost.

- (b) On 2.6.2019, there occurred a fire in the warehouse of Mr. White and his total stock was destroyed by fire. However, following information could be obtained from the records saved:

	Rs.
Stock at cost on 1.4.2018	10,80,000
Stock at 90% of cost on 31.3.2019	12,96,000
Purchases for the year ended 31.3.2019	51,60,000
Sales for the year ended 31.3.2019	72,00,000
Purchases from 1.4.2019 to 2.6.2019	18,00,000
Sales from 1.4.2019 to 2.6.2019	38,40,000

Sales up to 2.6.2019 includes Rs.6,00,000 (invoice price) being the goods not dispatched to the customers. Purchases up to 2.6.2019 includes a machinery acquired for Rs.1,20,000. However, it does not include goods worth Rs. 2,40,000 received from suppliers, as invoice not received up to the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for Rs. 9,60,000 and it is subject to average clause.

You are required to ascertain the amount of claim for loss of stock applying average clause.

(10 + 10 = 20 Marks)

5. (a) Prepare Cash Flow Statement of Tom & Jerry Ltd. for the year ended 31st March, 2020, in accordance with AS-3 (Revised) from the following Summary Cash Account:

Summary Cash Account

	Rs. in '000	Rs. in'000
Balance as on 01.04.2019		210
Receipts from Customers		16,596
Sale of Investments (Cost Rs. 90,000)		102
Issue of Shares		1,800
Sale of Fixed Assets		<u>768</u>
		<u>19,476</u>
Payment to Suppliers	12,204	

Purchase of Investments	78	
Purchase of Fixed Assets	1,380	
Wages & Salaries	414	
Selling & Administration Expenses	690	
Payment of Income Tax	1,458	
Payment of Dividends	480	
Repayment of Bank Loan	1,500	
Interest paid on Bank Loan	<u>300</u>	<u>(18,504)</u>
Balance as on 31.03.2020		<u>972</u>

- (b) The capital structure of a AP Ltd. consists of 20,000 Equity Shares of Rs.10 each fully paid up and 1,000 8% Redeemable Preference Shares of Rs.100 each fully paid up (issued on 1.4.20X1).

Undistributed reserve and surplus stood as: General Reserve Rs. 80,000; Profit and Loss Account Rs. 20,000; Investment Allowance Reserve is Rs. 10,000 out of which Rs. 5,000 is not ascertained as free reserve; Cash at bank amounted to Rs. 98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of Rs. 20,000 shall be retained in general reserve and which should not be utilised.

Pass Journal Entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out.

(8+12 = 20 Marks)

6. (a) Rau Ltd. purchased a plant for US\$ 1,00,000 on 01st February 2020, payable after three months. Company entered into a forward contract for three months @ Rs. 49.15 per dollar. Exchange rate per dollar on 01st Feb. was Rs. 48.85. How will you recognize the profit or loss on forward contract in the books of Rau Ltd.?

OR

Omega Ltd., has a normal wastage of 4% in the production process. During the year 2019-20, the Company used 12,000 MT of raw material costing Rs. 150 per MT. At the end of the year 630 MT of wastage was ascertained in stock. The accountant wants to know how this wastage is to be treated in the books.

You are required to compute the amount of normal and abnormal loss and treatment thereof in line with AS 2 "Valuation of inventories".

- (b) M/s. Kodam Enterprises purchased a generator on hire purchase from M/s. Sanctum Ltd. on 1st April, 2019. The hire purchase price was Rs.48,000. Down payment was Rs.12,000 and the balance is payable in 3 annual instalments of Rs.12,000 each payable at the end of each financial year. Interest is payable @ 8% p.a. and is included in the annual payment of Rs.12,000.

Depreciation at 10% p.a. is to be written off using the straight line method.

You are required to calculate the cash price of the generator and the interest paid on each instalment.

- (c) A Limited company with subscribed capital of Rs. 5,00,000 consisting of 50,000 Equity shares of Rs. 10 each; called up capital Rs. 7.50 per share. A bonus of Rs. 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up. You are required to pass necessary Journal Entries (with narration) for this issue of bonus shares.
- (d) XYZ Ltd. has issued 1,000, 12% convertible debentures of Rs. 100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of Rs. 10 each at a price of Rs. 20 per share and balance in cash. Debenture holders amounting Rs. 20,000 opted to get their debentures converted into equity shares as per terms of the issue.

You are required to calculate the number of shares issued and cash paid for redemption of Rs. 20,000 debenture holders and also pass journal entry for conversion and redemption of debentures. **(4 Parts x 5 Marks = 20 Marks)**

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SUGGESTED ANSWERS/HINTS

1. (a) (i) **True;** As per AS 1 “Disclosure of Accounting Policies”, certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.
- (ii) **False;** As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
- (iii) **False;** To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.
- (iv) **True;** Any change in the accounting policies which has a material effect in the current period, or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- (v) **False;** As per AS 1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.
- (b) As per AS 13 “Accounting for Investments”, Valuation of current investments on overall (or global) basis is not considered appropriate. Sometimes, the concern of an enterprise may be with the value of a category of related current investments and not with each individual investment, and accordingly the investments may be carried at the lower of cost and fair value computed category-wise (i.e. equity shares, preference shares, convertible debentures, etc.). However, the more prudent and appropriate method is to carry investments individually at the lower of cost and fair value.
- (i) Hence the company has to value the current investment at Rs. 27 Lacs (A Ltd. shares at Rs. 5 lacs; B Ltd. shares at Rs. 10 lacs and C Ltd. shares at Rs. 12 lacs). The company’s decision to value the portfolio at Rs. 30 lacs is not appropriate.
- (ii) Moreover, where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.
- Hence, the company has to make transfer of 1,000 equity shares of C Ltd. at Rs. 12 lacs (fair value) and not Rs. 15 lacs (cost) as the fair value is less than cost.
- (c) As per AS-12, ‘Accounting for Government Grants’, “the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

In this case the grant refunded is Rs. 30 lakhs and balance in deferred income is Rs. 21 lakhs, Rs. 9 lakhs shall be charged to the profit and loss account for the year 2019-20. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as

charged in the earlier years.

- (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 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 accompany. These costs do not meet that requirement of AS 10 "Property, Plant and Equipment" and cannot, therefore, be capitalized.

2.

SR Ltd.

Balance Sheet as on 31st March, 2020

Particulars	Notes	Figures at the end of current reporting period (Rs.)
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	79,85,000
b Reserves and Surplus	2	30,21,000
2 Non-current liabilities		
a Long-term borrowings	3	42,66,000
3 Current liabilities		
a Short-term borrowings	4	4,60,000
b Trade Payables		8,13,000
c Other current liabilities	5	6,84,000
d Short-term provisions	6	3,80,000
Total		1,76,09,000
Assets		
1 Non-current assets		
A PPE	7	92,00,000
2 Current assets		
A Inventories	8	58,00,000
B Trade receivables	9	17,50,000
C Cash and cash equivalents	10	4,84,000
D Short-term loans and advances		3,75,000
Total		1,76,09,000

Notes to accounts

		Rs.
1. Share Capital		
Equity share capital		
Issued, subscribed and called up		
1,60,000 Equity Shares of Rs. 50 each (Out of the above 50,000 shares have been issued for consideration other than cash)	80,00,000	
Less: Calls in arrears	<u>(15,000)</u>	79,85,000

2. Reserves and Surplus			
General Reserve		9,41,000	
Add: Transferred from Profit and loss account		<u>35,000</u>	9,76,000
Securities premium			15,00,000
Surplus (Profit & Loss A/c)		5,80,000	
Less: Appropriation to General Reserve (proposed)		<u>(35,000)</u>	<u>5,45,000</u>
			<u>30,21,000</u>
3. Long-term borrowings			
Secured: Term Loans			
Loan from Public Finance Corporation [repayable after 3 years (Rs. 26,30,000 - Rs. 1,34,000 for interest accrued but not due)]			24,96,000
Secured by hypothecation of land			
Unsecured			
Bank Loan (Nixes bank) (Rs. 13,80,000 - Rs. 4,80,000 repayable within 1 year)	9,00,000		
Loan from Directors	8,50,000		
Others	<u>20,000</u>		<u>17,70,000</u>
		Total	<u>42,66,000</u>
4. Short-term borrowings			
Loan from Naya bank (Secured)		1,16,000	
Loan from Directors		48,000	
Others		<u>2,96,000</u>	4,60,000
5. Other current liabilities			
Loan from Nixes bank repayable within one year		4,80,000	
Dividend payable		70,000	
Interest accrued but not due on borrowings		<u>1,34,000</u>	6,84,000
6. Short-term provisions			
Provision for taxation			3,80,000
7. PPE			
Land			25,00,000
Buildings		32,00,000	
Less: Depreciation		<u>(2,00,000)</u>	30,00,000
Plant & Machinery		30,00,000	
Less: Depreciation		<u>(6,00,000)</u>	24,00,000
Furniture & Fittings		16,50,000	
Less: Depreciation		<u>(3,50,000)</u>	<u>13,00,000</u>
		Total	<u>92,00,000</u>
8. Inventories			
Raw Material		13,00,000	

	Finished goods	40,00,000	
	Loose tools	<u>5,00,000</u>	58,00,000
9.	Trade receivables		
	Outstanding for a period exceeding six months		4,86,000
	Others		<u>12,64,000</u>
	Total		<u>17,50,000</u>
10.	Cash and cash equivalents		
	Balances with banks		
	with Scheduled Banks	3,58,000	
	with others banks	<u>56,000</u>	4,14,000
	Cash in hand		<u>70,000</u>
	Total		<u>4,84,000</u>

Note: There is a Contingent Liability amounting Rs. 1,60,000

3. (a)

In the books of M/s Prasad & Co.
Trading and Profit and Loss Account
for the year ended 31st March, 2020

	Rs.	Rs.		Rs.	Rs.
To Opening stock		10,000	By Sales:		
To Purchases:			Cash	500	
Cash	1,000		Credit	71,500	
Credit (W.N. 3)	<u>56,100</u>		Less: Returns	<u>(1,450)</u>	70,550
	57,100		By Closing stock		12,000
Less: Returns	<u>(400)</u>	56,700			
To Gross Profit c/d		15,850			
		<u>82,550</u>			<u>82,550</u>
To Discount allowed		4,000	By Gross profit b/d		15,850
To Bad debts		500	By Discount received		700
To General expenses (W.N. 5)		9,200	By Net Loss (balancing fig.)		150
To Depreciation (W.N. 4)		<u>3,000</u>			
		<u>16,700</u>			<u>16,700</u>

Balance Sheet as at 31st March, 2020

Liabilities		Rs.	Assets		Rs.
Capital (W.N. 1)	39,850		Fixed Assets	12,000	
Less: Net loss	<u>150</u>		Add: New asset	<u>4,000</u>	
	39,700			16,000	
Less: Drawings	<u>(500)</u>	39,200	Less: Depreciation	<u>(3,000)</u>	13,000
Sundry creditors		15,000	Stock in trade		12,000

Expenses outstanding		800	Sundry debtors (W.N. 2)	18,000
			Cash in hand	2,000
			Cash in Bank	<u>10,000</u>
		<u>55,000</u>		<u>55,000</u>

Working Notes:

(1) Ascertainment of Opening Capital - Statement of Affairs as at 1.4.19

Liabilities	Rs.	Assets	Rs.
Sundry creditors	20,000	Fixed Assets	12,000
Outstanding expenses	600	Stock	10,000
Prasad's Capital		Debtors	28,450
(Balancing figure)	39,850	Cash in hand	7,500
		Cash at Bank	<u>2,500</u>
	<u>60,450</u>		<u>60,450</u>

(2) Sundry Debtors Account

	Rs.		Rs.
To Balance b/d (bal. fig)	28,450	By Cash	76,000
To Sales (72,000 – 500)	71,500	By Discount	4,000
		By Returns (sales)	1,450
		By Bad debts	500
		By Balance c/d (given)	<u>18,000</u>
	<u>99,950</u>		<u>99,950</u>

(3) Sundry Creditors Account

	Rs.		Rs.
To Bank – Payments	60,000	By Balance b/d	20,000
To Discount	700	By Purchases - credit	56,100
To Returns	400	(Balancing figure)	
To Balance c/d (closing balance)	<u>15,000</u>		
	<u>76,100</u>		<u>76,100</u>

(4) Depreciation on Fixed Assets

	Rs.
Opening balance of fixed assets	12,000
Add: Additions	<u>4,000</u>
	16,000
Less: Closing balance of fixed assets	<u>(13,000)</u>
Depreciation	<u>3,000</u>

(5) Expenses to be shown in profit and loss account

Expenses (in cash)	9,000
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Add: Outstanding of 2020	<u>800</u>
	9,800
Less: Outstanding of 2019	<u>600</u>
	<u>9,200</u>

(6) **Cash and Bank Account**

	Cash	Bank		Cash	Bank
	Rs.	Rs.		Rs.	Rs.
To Balance b/d	7,500	2,500	By Purchases	1,000	—
To Debtors	-	76,000	By Expenses	9,000	
To Bank (C)	9,000	-	By Fixed Asset		4,000
To Cash (C)	-	5,000	By Drawings		500
To Sales (balancing figure considered as cash sales)	500	-	By Creditors		60,000
			By Cash (C)		9,000
			By Bank (C)	5,000	
			By Balance c/d		<u>10,000</u>
	17,000	83,500		<u>2,000</u>	<u>10,000</u>
				<u>17,000</u>	<u>83,500</u>

(b) **Branch Stock Reserve in respect of unrealized profit**

on opening stock = Rs. 3,45,000 x (15/115) = Rs. 45,000

on closing stock = Rs. 2,30,000 x (15/115) = Rs. 30,000

Working Note:

	Rs.
Cost Price	100
Invoice Price	115
Sale Price	140
Calculation of closing stock at invoice price	Rs.
Opening stock at invoice price	3,45,000
Goods received during the year at invoice price	<u>16,10,000</u>
	19,55,000
Less: Cost of goods sold at invoice price [21,00,000 X (115/140)]	<u>(17,25,000)</u>
Closing stock	2,30,000

4. (a)

Books of Vijay

Investment Account

(Scrip: Equity Shares in X Ltd.)

		No.	Amount			No.	Amount
			Rs.				Rs.
1.4.2019	To Bal b/d	30,000	4,50,000	31.10.2019	By Bank	—	10,000
22.6.2019	To Bank	5,000	80,000		(dividend		
10.8.2019	To Bonus	5,000	-		on shares		
30.9.2019	To Bank	10,000	1,50,000		acquired on		
	(Rights Shares)				22/6/2019)		

15.11.2019	To Profit (on sale of shares)		32,000	15.11.2019	By Bank (Sale of shares)	20,000	3,00,000
				31.3.2020	By Bal. c/d	<u>30,000</u>	<u>4,02,000</u>
		<u>50,000</u>	<u>7,12,000</u>			<u>50,000</u>	<u>7,12,000</u>

Working Notes:

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

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

(3) Rights shares sold = $15,000 \times 1/3 = 5,000$ shares

(4) Dividend received = $30,000 \times 10 \times 20\% = \text{Rs. } 60,000$ will be taken to P&L statement

(5) Dividend on shares purchased on 22.6.2019 = $5,000 \times 10 \times 20\% = \text{Rs. } 10,000$ is adjusted to Investment A/c

(6) Profit on sale of 20,000 shares

= Sales proceeds – Average cost

Sales proceeds = Rs. 3,00,000

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

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

(7) Cost of shares on 31.3.2018

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

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

(b)

In the books of Mr. White

Trading Account for the year ended 31.3.2019

	Rs.		Rs.
To Opening Stock	10,80,000	By Sales	72,00,000
To Purchases	51,60,000	By Closing Stock at cost	14,40,000
To Gross Profit	24,00,000	(12,96,000 x 100/90)	
	<u>86,40,000</u>		<u>86,40,000</u>

**Memorandum Trading A/c
for the period from 1.4.2019 to 02.06.2019**

	Rs.		Rs.
Opening Stock (at cost)	14,40,000	By Sales	38,40,000
Purchases 18,00,000		Less: Goods not dispatched <u>6,00,000</u>	32,40,000
Add: Goods received but invoice not received <u>2,40,000</u>		By Closing stock (Balancing figure)	12,00,000

	20,40,000		
Less: Machinery	<u>1,20,000</u>	19,20,000	
Gross Profit (Refer W.N.)		<u>10,80,000</u>	_____
		<u>44,40,000</u>	<u>44,40,000</u>

Calculation of Insurance Claim

$$\text{Claim subject to average clause} = \left(\frac{\text{Actual loss of stock}}{\text{Value of stock on the date of fire}} \times \text{Amount of policy} \right)$$

$$= 9,60,000 \times 12,00,000 / 12,00,000 = \text{Rs. } 9,60,000$$

Working Note:

$$\text{G.P. ratio} = 24,00,000 / 72,00,000 = 33 \frac{1}{3} \%$$

$$\text{Amount of Gross Profit} = \text{Rs. } 32,40,000 \times 33 \frac{1}{3} \% = \text{Rs. } 10,80,000$$

**5. (a) Cash Flow Statement of Tom & Jerry Ltd.
for the year ended 31st March, 2020**

		(Rs. '000)
Cash flows from operating activities		
Cash receipts from customers	16,596	
Cash payments to suppliers	(12,204)	
Cash paid to employees	(414)	
Other cash payments (for Selling & Administrative expenses)	<u>(690)</u>	
Cash generated from operations	3,288	
Income taxes paid	<u>(1,458)</u>	
Net cash from operating activities		1,830
Cash flows from investing activities		
Payments for purchase of fixed asset	(1,380)	
Proceeds from sale of fixed assets	768	
Purchase of investments	(78)	
Sale of investments	<u>102</u>	
Net cash used in investing activities		(588)
Cash flows from financing activities		
Proceeds from issue of share capital	1,800	
Bank loan repaid	(1,500)	
Interest paid on bank loan	(300)	
Dividend paid	<u>(480)</u>	
Net cash used in financing activities		<u>(480)</u>
Net increase in cash and cash equivalents		762
Cash and cash equivalents at beginning of period		<u>210</u>

(b)

In the books of AP Ltd.

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	Dr.	25,000	
	To Equity Share Capital A/c			25,000
	(Being the issue of 2,500 Equity Shares of Rs. 10 each at par, as per Board's Resolution No.....dated.....)			
	8% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	10,000	
	To Preference Shareholders A/c			1,10,000
	(Being the amount paid on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,10,000	
	To Bank A/c			1,10,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	10,000	
	To Premium on Redemption of Preference Shares A/c			10,000
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)			
	General Reserve A/c	Dr.	60,000	
	Profit & Loss A/c	Dr.	10,000	
	Investment Allowance Reserve A/c	Dr.	5,000	
	To Capital Redemption Reserve A/c			75,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Balance Sheet as on[Extracts]

	Particulars	Notes No.	Rs.
	EQUITY AND LIABILITIES		
1.	Shareholders' funds		
	a Share capital	1	2,25,000
	b Reserves and Surplus	2	1,00,000
	Total		?
	ASSETS		
2.	Current Assets		
	Cash and cash equivalents (98,000 + 25,000 – 1,10,000)		13,000
	Total		?

Notes to accounts

1. Share Capital

22,500 Equity shares (20,000 + 2,500) of Rs.10 each fully paid up	2,25,000
2. Reserves and Surplus	
General Reserve	20,000
Capital Redemption Reserve	75,000
Investment Allowance Reserve	5,000
	<u>1,00,000</u>

Working Note:

No of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed	Rs.1,00,000
Less: Profit available for distribution as dividend:	
General Reserve : Rs.(80,000-20,000)	Rs.60,000
Profit and Loss (20,000 – 10,000 set aside for adjusting premium payable on redemption of preference shares)	Rs.10,000
Investment Allowance Reserve: (Rs. 10,000-5,000)	<u>Rs. 5,000</u> (Rs. 75,000)
	<u>Rs. 25,000</u>

Therefore, No. of shares to be issued = 25,000/Rs.10 = 2,500 shares.

6. (a) Forward Rate	Rs. 49.15
Less: Spot Rate	(Rs. 48.85)
Premium on Contract	<u>Rs. 0.30</u>
Contract Amount	US\$ 1,00,000
Total Loss (1,00,000 x 0.30)	Rs. 30,000

Contract period 3 months

Two months falling in the year ended 31st March, 2020; therefore loss to be recognized (30,000/3) x 2 = Rs. 20,000.

Balance amount of Rs. 10,000 will be recognized in the following financial year.

OR

As per para AS 2 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

Amount of Normal Loss and Abnormal Loss:

Material used	12,000 MT @ Rs. 150 = Rs. 18,00,000
Normal Loss (4% of 12,000 MT)	480 MT
Net quantity of material	11,520MT
Abnormal Loss in quantity	150 MT (630 MT less 480 MT)
Abnormal Loss	Rs. 23,437.50 [150 units @ Rs. 156.25 (Rs.18,00,000/11,520)]

Amount of Rs. 23,437.50 will be charged to the Profit and Loss statement.

(b) Calculation of Interest and Cash Price

Ratio of interest and amount due = $8 / (100 + \text{rate of interest})$ i.e. $8/108$

To ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

No. of instalments	Amount due at the time of instalment	Interest	Cumulative Cash price
[1]	[2]	[3]	(2-3) = [4]
3 rd	12,000	$8/108$ of Rs.12,000 =Rs. 889	11,111
2 nd	23,111 [W.N.1]	$8/108$ of Rs. 23,111 = Rs.1,712	21,399
1 st	33,399 [W.N.2]	$8/108$ of Rs.33,399 = Rs. <u>2,474</u>	30,925
		<u>5,075</u>	

Total cash price = Rs. 30,925 + Rs. 12,000 (down payment) =Rs.42,925

Working Notes:

- Rs. 11,111+ 2nd instalment of Rs. 12,000= Rs. 23,111
- Rs. 21,399+ 1st instalment of Rs. 12,000= Rs. 33,399

(c) Journal Entries

		Rs.	Rs.
General Reserve A/c	Dr.	1,25,000	
To Bonus to shareholders A/c			1,25,000
(For making provision of bonus issue)			
Share Final Call A/c		1,25,000	
To Equity share capital A/c			1,25,000
(For final calls of Rs. 2.5 per share on 50,000 equity shares due as per Board's Resolution dated....)			
Bonus to shareholders A/c	Dr.	1,25,000	
To Share Final Call A/c			1,25,000
(For adjusting Final Call A/c against bonus issue)			

(d)

	Number of debentures
Debenture holders opted for conversion (20,000 /100)	<u>200</u>
Option for conversion	20%
Number of debentures to be converted (20% of 200)	40

Redemption value of 40 debentures at a premium of 5% $[40 \times (100+5)]$ Rs. 4,200

Equity shares of Rs. 10 each issued on conversion

[Rs. 4,200/ Rs. 20]

210 shares

Calculation of cash to be paid :	Rs.
Number of debentures	200
Less: number of debentures to be converted into equity shares	<u>(40)</u>
	<u>160</u>
Redemption value of 160 debentures (160 × Rs. 105)	<u>Rs. 16,800</u>

Journal Entry

Debentures A/c	Dr.	20,000	
Premium on redemption A/c	Dr.	1,000	
To Debenture holders A/c			21,000
(Being amount due to debenture holders at redemption)			
Debenture holders A/c	Dr.	21,000	
To Equity Share capital A/c			2,100
To Securities premium A/c	Dr.	2,100	
To Cash A/c			16,800
(Discharge of amount due to Debenture holders)			