

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) Om Ltd. purchased an item of property, plant and equipment for US \$ 50 lakh on 01.04.2019 and the same was fully financed by the foreign currency loan [US \$] repayable in five equal instalments annually. (Exchange rate at the time of purchase was 1 US \$ = ₹ 60). As on 31.03.2020 the first instalment was paid when 1 US \$ fetched ₹ 62.00. The entire loss on exchange was included in cost of goods sold. Om Ltd. normally provides depreciation on an item of property, plant and equipment at 20% on WDV basis and exercised the option to adjust the cost of asset for exchange difference arising out of loan restatement and payment. Calculate the amount of exchange loss, its treatment and depreciation on this item of property, plant and equipment.
- (b) On 01.04.2017, XYZ Ltd. received Government grant of ₹ 100 Lakhs for an acquisition of new machinery costing ₹ 500 lakhs. The grant was received and credited to the cost of the assets. The life span of the machinery is 5 years. The machinery is depreciated at 20% on WDV method. The company had to refund the entire grant in 2nd April, 2020 due to non-fulfilment of certain conditions which was imposed by the government at the time of approval of grant. How do you deal with the refund of grant to the Government in the books of XYZ Ltd. as per AS 12?
- (c) (i) Entity A carried plant and machinery in its books at ₹ 2,00,000 which were destroyed in a fire. These machines were insured 'New for old' and were replaced by the insurance company with new machines of fair value ₹ 20,00,000. The old destroyed machines were acquired by the insurance company and the company did not receive any cash compensation. State, how Entity A should account for the same?
- (ii) Omega Ltd, a supermarket chain, is renovating one of its major stores. The store will have more available space for store promotion outlets after the renovation and will include a restaurant. Management is preparing the budgets for the year after the store reopens, which include the cost of remodelling and the expectation of a 15% increase in sales resulting from the store renovations, which will attract new customers.
Decide whether Omega Ltd. can capitalize the remodelling cost or not as per provisions of AS 10 "Property plant & Equipment".
- (d) What do you mean by the term "cash and cash equivalent" as per AS 3? From the following information of XYZ Limited, calculate cash and cash equivalent as on 31-03-2019.

Particulars	Amount (₹)
Cash balance with Bank	10,000
Fixed Deposit created on 01-11-2018 and maturing on 15-07-2019	75,000
Short Term Investment in highly liquid Sovereign Debt Mutual fund made on 01-03-2019 (having maturity period of less than 3 months)	1,00,000
Bank Balance in a Foreign Currency Account in India	\$ 1,000

(Conversion Rate: on the day of deposit ₹ 69/USD; ₹ 70/USD as on 31-03-2019)	
Debentures purchased of ₹ 10 lacs of A Ltd., which are redeemable on 31 st October, 2019	90,000
Shares of Alpha Ltd. purchased on 1 st January, 2019	60,000

(4 Parts x 5 Marks = 20 Marks)

2. (a) Shree Ltd. has authorized capital of ₹ 50 lakhs divided into 5,00,000 equity shares of ₹ 10 each. Their books show the following balances as on 31st March, 2020:

	₹		₹
Inventory 1.4.2019	6,65,000	Bank balance in Current Account	20,000
Discounts & Rebates allowed	30,000	Cash in hand	8,000
Carriage Inwards	57,500	Interest (bank overdraft)	1,11,000
Patterns	3,75,000	Calls in Arrear @ ₹2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity share capital	20,00,000
Furniture & Fixtures	1,50,000	(2,00,000 shares of ₹ 10 each)	
Purchases	12,32,500	Bank Overdraft	12,67,000
Wages	13,68,000		
Freehold Land	16,25,000	Trade Payables (for goods)	2,40,500
Plant & Machinery	7,50,000	Sales	36,17,000
Engineering Tools	1,50,000	Rent (Cr.)	30,000
Trade Receivables	4,00,500	Transfer fees received	6,500
Advertisement	15,000	Profit & Loss A/c (Cr.)	67,000
Commission & Brokerage (Dr.)	67,500	Repairs to Building	56,500
Business Expenses	56,000	Bad debts	25,500

You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2020 and Balance Sheet as on that date in line with Schedule III to the Companies Act, 2013 after considering the following:

The inventory (valued at cost or market value, which is lower) as on 31st March, 2020 was ₹ 7,08,000. Outstanding liabilities for wages ₹ 25,000 and business expenses ₹ 36,000.

Charge depreciation on closing written down value of Plant & Machinery @ 5%, Engineering Tools @ 20%; Patterns @ 10%; and Furniture & Fixtures @ 10%. Provide 25,000 as doubtful debts after writing off ₹ 16,000 as additional bad debts. Provide for income tax @ 30%.

- (b) Medha Ltd. took a loan from bank for ₹ 10,00,000 to be settled within 5 years in 10 equal half yearly instalments with interest. First instalment is due on 30.09.2020 of ₹ 1,00,000. Determine how the loan will be classified in preparation of Financial Statements of Medha Ltd. for the year ended 31st March, 2020 according to Schedule III. (16 + 4 = 20 Marks)
3. (a) (i) Mr. Vijay entered into the following transactions of purchase and sale of equity shares of JP Power Ltd. The shares have paid up value of ₹ 10 per share.

Date	No. of Shares	Terms
01.01.2019	600	Buy @ ₹ 20 per share
15.03.2019	900	Buy @ ₹ 25 per share
20.05.2019	1000	Buy @ ₹ 23 per share

25.07.2019	2500	Bonus Shares received
20.12.2019	1500	Sale @ ₹ 22 per share
01.02.2020	1000	Sale @ ₹ 24 per share

Addition information:

- (1) On 15.09.2019 dividend @ ₹ 3 per share was received for the year ended 31.03.2019.
- (2) On 12.11.2019 company made a right issue of equity shares in the ratio of one share for five shares held on payment of ₹ 20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of ₹ 3 per share.
- (3) Shares are to be valued on weighted average cost basis.

You are required to prepare Investment Account for the year ended 31.03.2019 and 31.03.2020.

- (ii) Whether the accounting treatment 'at cost' under the head 'Long Term Investments' without providing for any diminution in value is correct and in accordance with the provisions of AS 13. If not, what should have been the accounting treatment in such a situation? What methodology should be adopted for ascertaining the provision for diminution in the value of investment, if any. Explain in brief. **(8 + 4 =12 Marks)**
- (b) A fire occurred in the premises of M/s. Fireproof on 31st August, 2020. From the following particulars relating to the period from 1st April, 2020 to 31st August, 2020, you are requested to ascertain the amount of claim to be filed with the insurance company for the loss of stock. The concern had taken an insurance policy for ₹ 60,000 which is subject to an average clause.

		₹
(i)	Stock as per Balance Sheet at 31-03-2020	99,000
(ii)	Purchases	1,70,000
(iii)	Wages (including wages for the installation of a machine ₹ 3,000)	50,000
(iv)	Sales	2,42,000
(v)	Sale value of goods drawn by partners	15,000
(vi)	Cost of goods sent to consignee on 16 th August, 2020, lying unsold with them	16,500
(vii)	Cost of goods distributed as free samples	1,500

While valuing the stock at 31st March, 2020, ₹ 1,000 were written off in respect of a slow moving item. The cost of which was ₹ 5,000. A portion of these goods were sold at a loss of ₹ 500 on the original cost of ₹ 2,500. The remainder of the stock is now estimated to be worth the original cost. The value of goods salvaged was estimated at ₹ 20,000. The average rate of gross profit was 20% (on sales) throughout. **(8 Marks)**

4. (a) The following balances were extracted from the books of Beta. You are required to prepare Departmental Trading Account and general Profit & Loss Account for the year ended 31st March, 2020:

Particulars	Deptt. A		Deptt. B	
	₹		₹	
Opening Stock	3,00,000		2,40,000	
Purchases	39,00,000		54,60,000	
Sales	60,00,000		90,00,000	

General expenses incurred for both the Departments were ₹ 7,50,000 and you are also supplied with the following information:

- (i) Closing stock of Department A ₹ 6,00,000 including goods from Department B for ₹ 1,20,000 at cost to Department A.
 - (ii) Closing stock of Department B ₹ 12,00,000 including goods from Department A for ₹ 1,80,000 at cost to Department B.
 - (iii) Opening stock of Department A and Department B include goods of the value of ₹ 60,000 and ₹ 90,000 taken from Department B and Department A respectively at cost to transferee departments.
 - (iv) The gross profit is uniform from year to year.
- (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 1.4.2019	As on 31.3.2020
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 1.10.2019 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 31.3.2020.
(ii) Balance Sheet as at 31st March, 2020. **(8 + 12 = 20 Marks)**

5. (a) The partners of Ojasvi Enterprises decided to convert the partnership firm into a Private Limited Company Tejasvi (P) Ltd. with effect from 1st January, 2019. However, company could be incorporated only on 1st June, 2019. The business was continued on behalf of the company and the consideration of ₹ 6,00,000 was settled on that day along with interest @ 12% per annum. The company availed loan of ₹ 9,00,000 @ 10% per annum on 1st June, 2019 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2020 and presents you the following summarized profit and loss account:

	₹	₹
Sales		19,80,000
Cost of goods sold	11,88,000	
Discount to dealers	46,200	

Directors' remuneration	60,000	
Salaries	90,000	
Rent	1,35,000	
Interest	1,05,000	
Depreciation	30,000	
Office expenses	1,05,000	
Preliminary expenses (to be written off in first year itself)	<u>15,000</u>	
		<u>17,74,200</u>
Profit		<u>2,05,800</u>

Sales from June, 2019 to December, 2019 were 2½ times of the average sales, which further increased to 3½ times in January to March quarter, 2019. The company recruited additional work force to expand the business. The salaries from July, 2019 doubled. The company also acquired additional showroom at monthly rent of ₹ 10,000 from July, 2019.

You are required to prepare a statement showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods.

- (b) L Ltd. has its head office at Mumbai and two branches at Pune and Goa. The branches purchase goods independently. Pune branch makes a profit of one third on cost and Goa branch makes a profit of 20% on sales. Goods are also supplied by one branch to another at the respective sales price. From the following particulars, prepare the Trading and Profit and Loss Account of Pune branch and find out the profit or loss made by it considering the reserve for unrealised profits:

Particulars	Pune Branch ₹	Goa Branch ₹
Opening Stock	40,000	30,000
Purchases (Including Inter Branch transfers)	2,00,000	2,50,000
Sales	2,80,000	2,95,625
Chargeable Expenses	15,000	27,500
Closing Stock	30,000	43,500
Office and Administration Expenses	13,250	7,000
Selling and Distribution Expenses	15,000	10,000

Information:

- Opening stock at Pune Branch includes goods of ₹ 10,000 (invoice price) taken from Goa Branch,
 - Opening stock at Goa Branch includes goods of invoice price ₹ 17,000 taken from Pune Branch,
 - The Pune Branch sales includes transfer of goods to Goa Branch at selling price ₹ 20,000
 - The sales of Goa Branch include transfer of goods to Pune Branch at selling price ₹ 15,000.
 - Closing stock at Pune Branch includes goods received from Goa Branch (invoice price ₹ 5,000).
 - Closing stock at Goa Branch includes goods of ₹ 4,000 (invoice price).
- (c) Ganesh Ltd. has head office at Delhi (India) and branch at New York. New York branch is an integral foreign operation of Ganesh Ltd. New York branch furnishes you with its trial balance as on 31st March, 2020 and the additional information given thereafter:

	Dr. (\$)	Cr. (\$)
Stock on 1st April, 2019	300	-

Purchases and sales	800	1,500
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Sundry expenses	1,080	–
Bank balance	420	–
Delhi office A/c	–	1,080
	3,120	3,120

The rates of exchange may be taken as follows:

- on 1.4.2019 @ ₹40 per US \$
- on 31.3.2020 @ ₹42 per US \$
- average exchange rate for the year @ ₹ 41 per US \$.

New York branch account showed a debit balance of ₹ 44,380 on 31.3.2020 in Delhi books and there were no items pending reconciliation.

You are asked to prepare trial balance of New York in ₹ in the books of Ganesh Ltd.

(10 + 6 + 4 = 20 Marks)

6. (a) The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st March, 2020.

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

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

On 1st April 2020, 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.

- (b) The following extract of Balance Sheet of X Ltd. as on 31.3.2020 (a non-investment company) was obtained:

<i>Liabilities</i>	₹
Issued and subscribed capital:	
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) Mr. Aman is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Aman for the financial year 2018-19, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information:

On 31 st March, 2018	
Sundry Assets	₹16,65,000
Liabilities	₹4,13,000
On 31 st March, 2019	
Sundry Assets	₹28,40,000
Liabilities	₹5,80,000
Mr. Aman's drawings for the year 2018-19	₹32,000 per month
Income declared to the Income Tax Officer	₹9,12,000

During the year 2018-19, one life insurance policy of Mr. Aman was matured and amount received ₹ 50,000 was retained in the business.

State whether the Income Tax Officer's contention is correct. Explain by giving your working.

OR

On 1st April, 2017, X Ltd. sells a Trucks on hire purchase basis to Transporters & Co. for a total purchase price of ₹ 18,00,000 payable as to ₹ 4,80,000 as down payment and the balance in three equal annual instalments of ₹ 4,40,000 each payable on 31st March 2018, 2019 and 2020.

The hire vendor charges interest @ 10% per annum.

You are required to ascertain the cash price of the truck for Transporters & Co. Calculations may be made to the nearest rupee.

- (d) 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, 2020 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'. Show the treatment of machine in the books of ABC Ltd. **(4 Parts x 5 Marks = 20 Marks)**

MOCK TEST PAPER
INTERMEDIATE (NEW) : GROUP – I
PAPER – 1: ACCOUNTING

1. (a) Exchange differences arising on restatement or repayment of liabilities incurred for the purpose of acquiring an item of property, plant and equipment should be adjusted in the carrying amount of the respective item of property, plant and equipment as Om Ltd. has exercised the option and it is long term foreign currency monetary item. Thus, the entire exchange loss due to variation of ₹ 20 lakh on 31.03.2020 on payment of US \$ 10 lakh, should be added to the carrying amount of an item of property, plant and equipment and not to the cost of goods sold. Further, depreciation on the unamortized depreciable amount should also be provided.

Calculation of Exchange loss:

Foreign currency loan (in ₹) = (50 lakh \$ x ₹ 60) = ₹ 3,000 lakh

Exchange loss on outstanding loan on 31.03.2020 = ₹ 40 lakh US \$ x (62.00-60.00) = ₹ 80 lakh.

So, ₹ 80 lakh should also be added to cost of an item of property, plant and equipment with corresponding credit to outstanding loan in addition to ₹ 20 lakh on account of exchange loss on payment of instalment. The total cost of an item of property, plant and equipment to be increased by ₹ 100 lakh. Total depreciation to be provided for the year 2019 - 2020 = 20% of (₹ 3,000 lakh + 100 lakh) = ₹ 620 lakh.

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

		(₹ in lakhs)
1 st April, 2017	Acquisition cost of machinery (₹ 500 – ₹ 100)	400.00
31 st March, 2018	Less: Depreciation @ 20%	<u>(80)</u>
1 st April, 2018	Book value	320.00
31 st March, 2019	Less: Depreciation @ 20%	<u>(64)</u>
1 st April, 2019	Book value	256.00
31 st March, 2020	Less: Depreciation @ 20%	<u>(51.20)</u>
1 st April, 2020	Book value	204.80
2 nd April, 2020	Add: Refund of grant	<u>100.00</u>
	Revised book value	<u>304.80</u>

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

- (c) (i) Entity A should account for a loss in the Statement of Profit and Loss on de-recognition of the carrying value of plant and machinery in accordance with AS 10 on Property, Plant and Equipment. Entity A should separately recognize a receivable and a gain in the income statement resulting from the insurance proceeds once receipt is virtually certain. The receivable should be measured at the fair value of assets provided by the insurer.
- (ii) The expenditure in remodelling the store will create future economic benefits (in the form of 15% of increase in sales). Moreover, the cost of remodelling can be measured reliably, therefore, it should be capitalized in line with AS 10.

- (d) As per AS 3, Cash and cash equivalents consists of: (i) Cash in hand and deposits repayable on demand with any bank or other financial institutions and (ii) Cash equivalents, which are short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk or change in value. A short-term investment is one, which is due for maturity within three months from the date of acquisition. Investments in shares are not normally taken as cash equivalent, because of uncertainties associated with them as to realizable value.

Computation of Cash and Cash Equivalents as on 31st March, 2019

	₹
Cash balance with bank	10,000
Short term investment in highly liquid sovereign debt mutual fund on 1.3.19	1,00,000
Bank balance in foreign currency account (\$1,000 x ₹ 70)	<u>70,000</u>
	<u>1,80,000</u>

Note: Fixed deposit, Shares and Debentures will not be considered as cash and cash equivalents.

2. (a) **Balance Sheet of Shree Ltd.**
as at 31st March, 2020

	Particulars	Note No.	(₹)
I	Equity and Liabilities		
	(1) Shareholders' Funds		
	(a) Share Capital	1	19,90,000
	(b) Reserves and Surplus	2	3,47,000
	(2) Current Liabilities		
	(a) Trade Payables		2,40,500
	(b) Other Current Liabilities	3	13,28,000
	(c) Short-Term Provisions	4	<u>1,20,000</u>
	Total		<u>40,25,500</u>
II	ASSETS		
	(1) Non-Current Assets		
	(i) Property, plant and Equipment (PPE)	5	29,30,000
	(2) Current Assets		
	(a) Inventories		7,08,000
	(b) Trade Receivables	6	3,59,500
	(c) Cash and Cash Equivalents	7	<u>28,000</u>
	Total		<u>40,25,500</u>

Shree Ltd.

Statement of Profit and Loss for the year ended 31st March, 2020

	Particulars	Note No.	(₹)
I	Revenue from Operations		36,17,000
II	Other Income	8	<u>36,500</u>

III	Total Revenue [I + II]		<u>36,53,500</u>
IV	Expenses:		
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,08,000]		(43,000)
	Employee Benefits Expenses	9	13,93,000
	Finance Costs	10	1,11,000
	Depreciation and Amortization Expenses		1,20,000
	Other Expenses	11	<u>4,40,000</u>
	Total Expenses		<u>32,53,500</u>
V	Profit before Tax (III-IV)		4,00,000
VI	Tax Expenses @ 30%		<u>(1,20,000)</u>
VII	Profit for the period		<u>2,80,000</u>

Notes to Accounts:

1. Share Capital

Authorised Capital	
5,00,000 Equity Shares of ₹ 10 each	<u>50,00,000</u>
Issued Capital	
2,00,000 Equity Shares of ₹ 10 each	20,00,000
Subscribed Capital and fully paid	
1,95,000 Equity Shares of ₹10 each	19,50,000
Subscribed Capital but not fully paid	
5,000 Equity Shares of ₹10 each ₹ 8 paid	<u>40,000</u>
(Call unpaid ₹10,000)	<u>19,90,000</u>

2. Reserves and Surplus

Surplus i.e. Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	<u>2,80,000</u>	3,47,000

3. Other Current Liabilities

Bank Overdraft	12,67,000
Outstanding Expenses [25,000+36,000]	<u>61,000</u>
	<u>13,28,000</u>

4. Short-term Provisions

Provision for Tax	1,20,000
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5. PPE

Particulars	Value given (₹)	Depreciation rate	Depreciation Charged (₹)	Written down value at the end (₹)
Land	16,25,000		-	16,25,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000

Patterns	3,75,000	10%	37,500	3,37,500
Engineering Tools	<u>1,50,000</u>	20%	<u>30,000</u>	<u>1,20,000</u>
	<u>30,50,000</u>		<u>1,20,000</u>	<u>29,30,000</u>

6. Trade Receivables

Trade receivables (4,00,500-16,000)	3,84,500
Less: Provision for doubtful debts	<u>(25,000)</u>
	<u>3,59,500</u>

7. Cash & Cash Equivalent

Cash Balance	8,000
Bank Balance in current A/c	<u>20,000</u>
	<u>28,000</u>

8. Other Income

Miscellaneous Income (Transfer fees)	6,500
Rental Income	<u>30,000</u>
	<u>36,500</u>

9. Employee benefits expenses

Wages	13,68,000
Add: Outstanding wages	<u>25,000</u>
	<u>13,93,000</u>

10. Finance Cost

Interest on Bank overdraft	1,11,000
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11. Other Expenses

Carriage Inward	57,500
Discount & Rebates	30,000
Advertisement	15,000
Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,000] (Business Expenses)	92,000
Bad Debts [25,500+16,000]	41,500
Provision for Doubtful Debts	<u>25,000</u>
	<u>4,40,000</u>

(b) As per Schedule III, a liability should be classified as current when it satisfies any of the following criteria:

- (i) it is expected to be settled in the company's normal operating cycle;
- (ii) it is held primarily for the purpose of being traded;
- (iii) it is due to be settled within twelve months after the reporting date; or
- (iv) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

In the given case, instalments due on 30.09.2020 and 31.03.2021 will be shown under the head 'other current liabilities'. Therefore, in the balance sheet as on 31.3.2020, ₹ 8,00,000 (₹ 1,00,000 x 8 instalments) will be shown under the heading 'Long term Borrowings' and ₹ 2,00,000 (₹ 1,00,000 x 2 instalments) will be shown under the heading 'Other Current Liabilities' as current maturities of loan from bank.

3. (a) (i) Investment in Equity shares of JP Power Ltd.

Date	Particulars	No.	Dividend ₹	Amount ₹	Date	Particulars	No.	Dividend ₹	Amount ₹
1.1.19	To Bank A/c	600		12,000	31.3.19	By Balance c/d	1,500		34,500
15.3.19	To Bank A/c	900		22,500					
		<u>1,500</u>		<u>34,500</u>			<u>1,500</u>		<u>34,500</u>
1.4.19	To Balance b/d	1,500		34,500	15.9.19	By Bank - dividend		4,500	3,000
20.5.19	To Bank A/c	1,000		23,000	20.12.19	By Bank	1,500		33,000
25.7.19	To Bonus shares	2,500		-	1.2.20	By Bank	1,000		24,000
12.11.19	To Bank A/c	600		12,000	31.3.20	By Balance c/d	3,100		36,812.50
20.12.19	To P & L A/c (profit on sale)			15,187.50					
1.2.20	To P & L A/c (profit on sale)			12,125					
31.3.20	To P & L A/c (dividend)		4,500						
		5,600	4,500	96,812.50			5,600	4,500	96,812.50

Working Notes:

1. Calculation of Weighted average cost of equity shares

600 shares purchased at ₹ 12,000

900 shares purchased at ₹ 22,500

1,000 shares purchased at ₹ 23,000

2,500 shares at nil cost

600 right shares purchased at ₹ 12,000

Total cost of 5,600 shares is ₹ 66,500 [₹ 69,500 less ₹ 3,000 (pre-acquisition dividend received on 1,000 shares purchased on 20.5.19)].

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

2. It has been considered that no dividend was received on bonus shares as the dividend pertains to the year ended 31st March, 2019.

3. Calculation of right shares subscribed by Vijay

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

Shares subscribed = $1,000 \times 60\% = 600$ shares

Value of right shares subscribed = $600 \text{ shares} @ ₹ 20 \text{ per share} = ₹ 12,000$

Calculation of sale of right renouncement

No. of right shares sold = $1,000 \times 40\% = 400$ shares

Sale value of right = $400 \text{ shares} \times ₹ 3 \text{ per share} = ₹ 1,200$

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

4. Profit on sale of equity shares

As on 20.12.19

Sales price (1,500 shares at ₹ 22)	33,000.00
Less: Cost of shares sold (1,500 x ₹ 11.875)	<u>(17,812.50)</u>
Profit on sale	<u>15,187.50</u>

As on 1.2.20

Sales price (1,000 shares at ₹ 24)	24,000
Less: Cost of shares sold (1,000 x ₹ 11.875)	<u>(11,875)</u>
Profit on sale	<u>12,125</u>

Balance of 3,100 shares as on 31.3.20 will be valued at ₹ 36,812.50 (at rate of ₹ 11.875 per share)

- (ii) The accounting treatment 'at cost' under the head 'Long Term Investment' in the financial statements of the company without providing for any diminution in value is correct and is in accordance with the provisions of AS 13 provided that there is no decline, other than temporary, in the value of investment. If the decline in the value of investment is, other than temporary, compared to the time when the shares were purchased, provision is required to be made. The reduction in market value should not be considered, in isolation to determine the decline, other than temporary. The amount of the provision for diminution in the value of investment may be ascertained considering the factors indicated in AS 13.

(b) Memorandum Trading Account for the period 1st April, 2020 to 31st August, 2020

	Normal Items ₹	Abnormal Items ₹	Total ₹		Normal Items ₹	Abnormal Items ₹	Total ₹
To Opening stock	95,000	5,000	1,00,000	By Sales	2,40,000	2,000	2,42,000
To Purchases (Refer W.N.)	1,56,500	-	1,56,500	By Goods sent to consignee	16,500	-	16,500
To Wages	47,000	-	47,000	By Loss	-	500	500
To Gross profit @ 20%	48,000	-	48,000	By Closing stock (Bal.fig.)	90,000	2,500	92,500
	<u>3,46,500</u>	<u>5,000</u>	<u>3,51,500</u>		<u>3,46,500</u>	<u>5,000</u>	<u>3,51,500</u>

Statement of Claim for Loss of Stock

	₹
Book value of stock as on 31.08.2020	92,500
Less: Stock salvaged	<u>(20,000)</u>
Loss of stock	<u>72,500</u>

Amount of claim to be lodged with insurance company

$$= \text{Loss of stock} \times \frac{\text{Policy value}}{\text{Value of stock on the date of fire}}$$

$$= ₹ 72,500 \times \frac{60,000}{92,500} = ₹ 47,027$$

Working Note:

Calculation of Adjusted Purchases

	₹
Purchases	1,70,000
Less: Drawings	(12,000)
Free samples	<u>(1,500)</u>
Adjusted purchases	<u>1,56,500</u>

4. (a) Departmental Trading Account for the year ended on 31st March, 2020

Particulars	A		B		Particulars	A		B	
	₹	₹	₹	₹		₹	₹	₹	₹
To Opening Stock	3,00,000		2,40,000		By Sales	60,00,000		90,00,000	
To Purchases	39,00,000		54,60,000		By Closing Stock	6,00,000		12,00,000	
To Gross Profit	<u>24,00,000</u>		<u>45,00,000</u>						
	<u>66,00,000</u>		<u>1,02,00,000</u>			<u>66,00,000</u>		<u>1,02,00,000</u>	

General profit and loss account of Beta for the year ended on 31st March, 2020

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

Working Notes:

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

(b) Trading and Profit and Loss Account for the year ended 31st March, 2020

	₹		₹
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 x 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 31st March, 2020

<i>Liabilities</i>	₹	₹	<i>Assets</i>	₹
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
	4,45,000		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

	<i>Cash</i>	<i>Bank</i>		<i>Cash</i>	<i>Bank</i>
	₹	₹		₹	₹
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>

5. (a)

Tejasvi (P) Limited

Statement showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods

	<i>Pre. inc. (5 months)</i> (₹)	<i>Post inc. (10 months)</i> (₹)
Sales (W.N.1)	3,00,000	16,80,000
Less: Cost of sales	1,80,000	10,08,000
Discount to dealers	7,000	39,200
Directors' remuneration	-	60,000
Salaries (W.N.2)	18,750	71,250
Rent (W.N.3)	15,000	1,20,000
Interest (W.N.4)	30,000	75,000
Depreciation	10,000	20,000
Office expenses	35,000	70,000
Preliminary expenses		<u>15,000</u>
Net profit	<u>4,250</u>	<u>2,01,550</u>

Working Notes:

1. Calculation of sales ratio

Let the average sales per month in pre-incorporation period be x

$$\text{Average Sales (Pre-incorporation)} = x \times 5 = 5x$$

$$\text{Sales (Post incorporation) from June to December, 2019} = 2\frac{1}{2}x \times 7 = 17.5x$$

$$\text{From January to March, 2020} = 3\frac{1}{2}x \times 3 = \underline{10.5x}$$

$$\text{Total Sales} = \underline{\underline{28.0x}}$$

Sales ratio of pre-incorporation & post incorporation is 5x : 28x

2. Calculation of ratio for salaries

Let the average salary be x

$$\text{Pre-incorporation salary} = x \times 5 = 5x$$

Post incorporation salary

$$\text{June, 2019} = x$$

$$\text{July, 2019 to March, 2020} = x \times 9 \times 2 = \underline{18x}$$

$$\underline{19x}$$

Ratio is 5 : 19

3. Calculation of Rent

₹

$$\text{Total rent} = 1,35,000$$

$$\text{Less: Additional rent for 9 months @ ₹ 10,000 p.m.} = \underline{90,000}$$

Rent of old premises apportioned in time ratio		<u>45,000</u>
Apportionment	Pre Inc.	Post Inc.
Old premises rent	15,000	30,000
Additional Rent	_____	<u>90,000</u>
	<u>15,000</u>	<u>1,20,000</u>

4. Calculation of interest

Pre-incorporation period from January, 2019 to May, 2019

$$\left(\frac{6,00,000 \times 12 \times 5}{100 \times 12} \right) = \text{₹ } 30,000$$

Post incorporation period from June, 2019 to March, 2020

$$\left(\frac{9,00,000 \times 10 \times 10}{100 \times 12} \right) = \text{₹ } 75,000$$

₹ 1,05,000

(b) Pune Branch Trading and Profit and Loss Account

Particulars		₹	Particulars		₹
To	Opening Stock (including ₹10,000 from Goa Branch)	40,000	By	Sales (including ₹20,000 to Goa Branch)	2,80,000
To	Purchases	2,00,000	By	Closing Stock (including ₹5,000 from Goa Branch)	30,000
To	Chargeable Expenses	15,000			
To	Gross Profit c/d (before making adjustment for unrealised profit)	55,000			
		<u>3,10,000</u>			<u>3,10,000</u>
To	Stock Reserve (for unrealised profit in Closing Stock lying at Goa Branch) (₹4,000 x 25/100)	1,000	By	Gross Profit b/d	55,000
To	Office & Adm. Expenses	13,250	By	Stock Reserve (for unrealised profit in Opening Stock lying at Goa Branch) (₹ 17,000 x 25/100)	4,250
To	Selling & Distribution Expenses	15,000			
To	Net Profit	<u>30,000</u>			
		<u>59,250</u>			<u>59,250</u>

(c) In the books of Ganesh Ltd.

New York Branch Trial Balance in (₹) as on 31st March, 2020

	Conversion rate per US \$ (₹)	Dr. ₹	Cr. ₹
Stock on 1.4.19	40	12,000	
Purchases and sales	41	32,800	61,500
Sundry debtors and creditors	42	16,800	12,600

Bills of exchange	42	5,040	10,080
Sundry expenses	41	44,280	
Bank balance	42	17,640	
Delhi office A/c	–		44,380
		1,28,560	1,28,560

6. (a)

In the books of ABC Limited

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
2020 April 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.

(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	<u>95,65,000</u>

(c) **Determination of Capital balances of Mr. Aman on 31.3.2018 and 31.3.2019**

	31.3.2018	31.3.2019
	₹	₹
Assets	16,65,000	28,40,000
Less: Liabilities	(4,13,000)	(5,80,000)
Capital	<u>12,52,000</u>	<u>22,60,000</u>

Determination of Profit by applying the method of the capital comparison

	₹
Capital Balance as on 31-3-2019	22,60,000
Less: Fresh capital introduced (matured life insurance policy amount)	<u>(50,000)</u>
	22,10,000
Add: Drawings (₹32,000 × 12)	<u>3,84,000</u>
	25,94,000
Less: Capital Balance as on 1.4.2018	<u>(12,52,000)</u>
Profit	13,42,000
Income declared	<u>9,12,000</u>
Suppressed Income	<u>4,30,000</u>

The Income-tax officer's contention that Mr. Aman has not declared his true income is correct. Mr. Aman's true income is in excess of the disclosed income by ₹4,30,000.

OR

$$\text{Ratio of interest and amount due} = \frac{\text{Rate of interest}}{100 + \text{Rate of interest}} = \frac{10}{110} = \frac{1}{11}$$

There is no interest element in the down payment as it is paid on the date of the transaction. Instalments paid after certain period includes interest portion also. Therefore, to ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

Calculation of Interest and Cash Price

No. of instalments	Amount due at the time of instalment	Interest	Cumulative Cash price
[1]	[2]	[3]	(2-3) = [4]
3 rd	4,40,000	1/11 of ₹ 4,40,000 = ₹ 40,000	4,00,000
2 nd	8,40,000	1/11 of ₹ 8,40,000 = ₹ 76,364	7,63,636
1 st	12,03,636	1/11 of ₹ 12,03,636 = ₹ 1,09,421	10,94,215

Total cash price = ₹ 10,94,215 + 4,80,000 (down payment) = ₹ 15,74,215.

- (d) 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 ₹ 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 ₹ 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, 2020.