

**MOCK TEST PAPER 1**  
**INTERMEDIATE: 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) Hello Ltd. purchased goods at the cost of ₹ 20 lakhs in October. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at ₹ 5 lakhs. The expected sale value is ₹ 5.5 lakhs and a commission at 10% on sale is payable to the agent. You are required to ascertain the value of closing stock?
- (b) Viva Ltd. received a specific grant of ₹ 30 lakhs for acquiring the plant of ₹ 150 lakhs during 2018-19 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 2021-22, 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 ₹ 21 lakhs and written down value of plant was ₹ 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 2021-22 in profit and loss account?
- (c) Neon Enterprise operates a major chain of restaurants located in different cities. The company has acquired a new restaurant located at Chandigarh. The new-restaurant requires significant renovation expenditure. Management expects that the renovations will last for 3 months during which the restaurant will be closed.

Management has prepared the following budget for this period –

Salaries of the staff engaged in preparation of restaurant before its opening	₹ 7,50,000
Construction and remodelling cost of restaurant	₹ 30,00,000

Explain the treatment of these expenditures as per the provisions of AS 10 "Property, Plant and Equipment".

- (d) ABC Ltd. borrowed US \$ 5,00,000 on 01/01/2021, which was repaid as on 31/07/2021. ABC Ltd. prepares financial statement ending on 31/03/2021. Rate of Exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under:

01/01/2021	1 US\$ =	₹ 68.50
31/03/2021	1 US \$ =	₹ 69.50
31/07/2021	1 US \$ =	₹ 70.00

You are required to pass necessary journal entries in the books of ABC Ltd. as per AS 11. **(4 parts x 5 Marks = 20 Marks)**

2. (a) The capital structure of Preet Ltd. consists of 20,000 Equity Shares of ₹10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹100 each fully paid up.

Undistributed reserve and surplus stood as: General Reserve ₹ 90,000; Profit and Loss Account ₹ 20,000; Investment Allowance Reserve is ₹ 20,000 out of which ₹ 15,000 is not ascertained as free reserve; Cash at bank amounted to ₹ 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 utilizing the undistributed reserves and surplus, subject to the condition that a sum of ₹ 30,000 shall be retained in general reserve which should not be utilized.

You are required to 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 is carried out.

- (b) On 30<sup>th</sup> March, 2022 fire occurred in the premises of M/s Alok & Co. The concern had taken an insurance policy of ₹ 1,20,000 which was subject to the average clause. From the books of accounts the following particulars are available relating to the period 1<sup>st</sup> January to 30<sup>th</sup> March, 2022:

(i)	Stock as per Balance Sheet at 31st December, 2021	₹ 1,91,200
(ii)	Purchases (including purchase of machinery costing ₹ 60,000)	₹ 3,40,000
(iii)	Wages (including wages ₹ 6,000 for installation of machinery)	₹ 1,00,000
(iv)	Sales (including goods sold on approval basis amounting to ₹ 99,000)	₹ 5,50,000

No approval has been received in respect of 2/3rd of the goods sold on approval.

- (v) The average rate of gross profit is 20% of sales.  
 (vi) The value of the salvaged goods was ₹ 24,600

You are required to compute the amount of the claim to be lodged to the Insurance Company.

**(10 + 10 = 20 Marks)**

3. (a) Moon Star has a branch at Virginia (USA). The Branch is a non-integral foreign operation of the Moon Star. The trial balance of the Branch as at 31st March, 2022 is as follows:

Particulars	US \$	
	Dr.	Cr.
Office equipments	48,000	
Furniture and Fixtures	3,200	
Stock (April 1, 2021)	22,400	
Purchases	96,000	
Sales	---	1,66,400
Goods sent from H.O	32,000	
Salaries	3,200	
Carriage inward	400	
Rent, Rates & Taxes	800	
Insurance	400	
Trade Expenses	400	
Head Office Account	---	45,600
Sundry Debtors	9,600	
Sundry Creditors	---	6,800
Cash at Bank	2,000	
Cash in Hand	400	
	<u>2,18,800</u>	<u>2,18,800</u>

The following further information is given:

- (1) Salaries outstanding \$ 400.
- (2) Depreciate office equipment and furniture & fixtures @10% p.a. at written down value.
- (3) The Head Office sent goods to Branch for ₹15,80,000.
- (4) The Head Office shows an amount of ₹ 20,50,000 due from Branch.
- (5) Stock on 31st March, 2022 -\$21,500.
- (6) There were no transit items either at the start or at the end of the year.
- (7) On April 1, 2020 when the fixed assets were purchased the rate of exchange was ₹ 43 to one \$. On April 1, 2021, the rate was 47 per \$. On March 31, 2022 the rate was ₹ 50 per \$. Average rate during the year was ₹ 45 to one \$.

Prepare Trial balance incorporating adjustments given converting dollars into rupees and Trading, Profit and Loss Account for the year ended 31<sup>st</sup> March, 2022 of the Branch as would appear in the books of Moon Star for the purpose of incorporating in the main Balance Sheet.

- (b) Alpha firm has two departments--X and Y. The product of Department Y is made with material supplied by the Department X at its usual selling price. From the following figures prepare Departmental Trading and Profit and Loss Account for the year 2021:

	Department X ₹	Department Y ₹
Opening Stock on 1st January, 2021	3,00,000	50,000
Sales	24,00,000	4,00,000
Purchases	20,00,000	15,000
Supply to Department Y	3,00,000	--
Selling expenses	20,000	6,000
Wages	60,000	20,000
Closing Stock on 31st December, 2021	2,00,000	60,000

The value of stocks in the Department Y consist of 75% material and 25% other expenses. The Department X earned Gross Profit at 15% on sales in 2020. General expenses of the business as a whole came to ₹ 1,10,000. The firm adopts FIFO method for assigning costs to inventories.

**(12+ 8 = 20 Marks)**

4. (a) Following is the incomplete information of Jyotishikha Traders:

The following balances are available as on 31.03.2021 and 31.03.2022.

Balances	31.03.2021	31.03.2022
Land and Building	5,00,000	5,00,000
Plant and Machinery	2,20,000	3,30,000
Office equipment	1,05,000	85,000
Trade receivables (before charging for Bad debts)	?	2,25,000
Trade payables	95,000	?
Payables for office expenses	20,000	15,000
Inventory	?	65,000
Long term loan from SBI @ 12%.	1,60,000	100,000
Bank	25,000	?

Other Information	In ₹
Collection from Trade receivables	9,25,000
Payment to Trade payables	5,25,000
Payment of office expenses (excluding interest on loan)	42,000
Salary paid	32,000
Selling expenses	15,000
Cash sales	2,50,000
Credit sales (80% of total sales)	
Credit purchases	5,40,000
Cash purchases (40% of total purchases)	
GP Margin at cost plus 25%	
Discount Allowed	5,500
Discount Received	4,500
Bad debts (2% of closing Trade receivables)	
Depreciation to be provided as follows:	
Land and Building	5%
Plant and Machinery	10%
Office Equipment	15%

Other adjustments:

- On 01.10.21 they sold machine having Book Value ₹ 40,000 (as on 31.03.2021) at a loss of ₹ 15,000. New machine was purchased on 01.01.2022.
- Office equipment was sold at its book value on 01.04.2021.
- Loan was partly repaid on 31.03.22 together with interest for the year.

You are required to prepare Trading, Profit & Loss Account and Balance Sheet as on 31.03.2022.

- (b) On 1st April, 2021, Rajat has 50,000 equity shares of P Ltd. at a book value of ₹ 15 per share (face value ₹ 10 each). He provides you the further information:
- On 20<sup>th</sup> June, 2021 he purchased another 10,000 shares of P Ltd. at ₹ 16 per share.
  - On 1<sup>st</sup> August, 2021, P Ltd. issued one equity bonus share for every six shares held by the shareholders.
  - On 31<sup>st</sup> October, 2021, the directors of P Ltd. announced a right issue which entitles the holders to subscribe three shares for every seven shares at ₹ 15 per share. Shareholders can transfer their rights in full or in part.

Rajat sold 1/3<sup>rd</sup> of entitlement to Umang for a consideration of ₹ 2 per share and subscribed the rest on 5<sup>th</sup> November, 2021.

You are required to prepare Investment A/c in the books of Rajat for the year ending 31<sup>st</sup> March, 2022. **(14+6 = 20 Marks)**

5. (a) From the following particulars furnished by Hello Ltd., prepare the Balance Sheet as on 31<sup>st</sup> March 2022 as required by Part I, Schedule III of the Companies Act, 2013.

Particulars		Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each)			50,00,000
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	2,55,000		
Finished Goods	<u>10,00,000</u>	12,55,000	
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)			10,00,000

The following additional information is also provided:

- (i) 10,000 Equity shares were issued for consideration other than cash.
  - (ii) Trade receivables of ₹ 2,60,000 are due for more than 6 months.
  - (iii) The cost of the Assets were:  
Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500
  - (iv) The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is secured by hypothecation of Plant & Machinery.
  - (v) Balance at Bank includes ₹ 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.
  - (vi) Transfer ₹ 20,000 to general reserve as proposed by Board of directors.
- (b) Aman Ltd. has issued 2,000, 12% convertible debentures of ₹ 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 ₹ 10 each at a price of ₹ 20 per share and balance in cash. Debenture holders amounting ₹ 40,000 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 ₹ 40,000 debenture holders and also pass journal entry for conversion and redemption of debentures.  
**(15 + 5 = 20 Marks)**

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

- (a) Omega Limited has borrowed a sum of US \$ 10,00,000 at the beginning of Financial Year 2021-22 for its residential project at 4%. The interest is payable at the end of the Financial Year. At the time of availment of loan exchange rate was ₹ 56 per US \$ and the rate as on 31<sup>st</sup> March, 2022 was ₹ 62 per US \$. If Omega Limited had borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%.

You are required to compute Borrowing Cost and exchange difference for the year ending 31<sup>st</sup> March, 2022 as per applicable Accounting Standards.

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

**Balance Sheet (Extract) as on 31<sup>st</sup> March, 2022**

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

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

- (c) Following items appear in the Trial Balance of Mehta Ltd. as on 31st March, 2022:

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

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. You are required to give the necessary Journal Entries in the books of Mehta Ltd.

- (d) Classify the following activities as
- (i) Operating Activities, (ii) Investing activities, (iii) Financial activities and (iv) Cash Equivalents.
- (1) Cash receipts from Trade Receivables
  - (2) Highly liquid Marketable Securities without risk of change in value
  - (3) Purchase of investment
  - (4) Proceeds from long term borrowings
  - (5) Wages and Salaries paid
  - (6) Bank overdraft
  - (7) Purchase of Goodwill
  - (8) Interim dividend paid on equity shares
  - (9) Short term Deposits
  - (10) Underwriting commission paid

- (e) Hari Enterprises purchased a generator on hire purchase from Sanctum Ltd. on 1<sup>st</sup>April, 2022. The hire purchase price was ₹ 48,000. Down payment was ₹ 12,000 and the balance is payable in 3 annual instalments of ₹ 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 ₹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.

**(4 Parts x 5 Marks = 20 Marks)**

**MOCK TEST PAPER 1**  
**INTERMEDIATE: GROUP – I**  
**PAPER – 1: ACCOUNTING**  
**ANSWERS**

1. (a) As per AS 2 “Valuation of Inventories”, the inventories are to be valued at lower of cost or net realizable value.

In this case, the cost of inventory is ₹ 5 lakhs. The net realizable value is ₹ 4.95 lakhs (₹ 5.5 lakhs less cost to make the sale @ 10% of ₹ 5.5 lakhs). So, the closing stock should be valued at ₹ 4.95 lakhs.

- (b) 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 ₹ 30 lakhs and balance in deferred income is ₹ 21 lakhs, ₹ 9 lakhs shall be charged to the profit and loss account for the year 2021-22. 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.

- (c) As per provisions of AS 10, any cost directly attributable to bring the assets to the location and conditions necessary for it to be capable of operating in the manner indicated by the management are called directly attributable costs and would be included in the costs of an item of property, plant and equipment (PPE).

Management of Neon Enterprise should capitalize the costs of construction and remodelling the restaurant, because they are necessary to bring the restaurant to the condition necessary for it to be capable of operating in the manner intended by management. The restaurant cannot be opened without incurring the construction and remodelling expenditure amounting ₹ 30,00,000 and thus the expenditure should be considered part of the asset.

However, the cost of salaries of staff engaged in preparation of restaurant ₹ 7,50,000 before its opening are in the nature of operating expenditure that would be incurred if the restaurant was open and these costs are not necessary to bring the restaurant to the conditions necessary for it to be capable of operating in the manner intended by management. Hence, ₹ 7,50,000 should be expensed.

- (d) **Journal Entries in the Books of ABC Ltd.**

Date	Particulars	₹ (Dr.)	₹ (Cr.)
Jan. 01, 2021	Bank Account (5,00,000 x 68.50) Dr. To Foreign Loan Account	342,50,000	342,50,000
March 31, 2021	Foreign Exchange Difference Account Dr. To Foreign Loan Account [5,00,000 x (69.50-68.50)]	5,00,000	5,00,000
Jul. 31, 2021	Foreign Exchange Difference Account [5,00,000 x (70-69.5)] Dr. Foreign Loan Account Dr. To Bank Account	2,50,000 347,50,000	350,00,000

2. (a)

**Journal Entries in the books of Preet Ltd.**

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

**Balance Sheet as at .....[Extracts]**

	Particulars	Notes No.	₹
	<b>EQUITY AND LIABILITIES</b>		
1.	<b>Shareholders' funds</b>		
a	Share capital	1	2,25,000
b	Reserves and Surplus	2	1,20,000
	<b>ASSETS</b>		
2.	<b>Current Assets</b>		
	Cash and cash equivalents (98,000 + 25,000 – 1,10,000)		13,000

**Notes to accounts**

1.	<b>Share Capital</b>	
	22,500 Equity shares (20,000 + 2,500) of ₹10 each fully paid up	2,25,000
2.	<b>Reserves and Surplus</b>	
	General Reserve	30,000

Capital Redemption Reserve	75,000
Investment Allowance Reserve	15,000
	1,20,000

**Working Note:**

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

Face value of shares redeemed ₹1,00,000

Less: Profit available:

General Reserve : ₹(90,000-30,000)	₹60,000	
Profit and Loss (20,000 – 10,000 set aside for adjusting premium payable on redemption of preference shares)	₹10,000	
Investment Allowance Reserve: (₹ 20,000-15,000)	<u>₹ 5,000</u>	(₹ 75,000)
		₹ 25,000

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

**(b) Computation of claim for loss of stock**

	₹
Stock on the date of fire i.e. on 30 <sup>th</sup> March, 2022 (W.N.1)	1,25,200
Less: Value of salvaged stock	<u>(24,600)</u>
Loss of stock	<u>1,00,600</u>
Amount of claim = $\frac{\text{Insured value}}{\text{Total cost of stock on the date of fire}} \times \text{Loss of stock}$	96,422 (approx.)
= $\left( \frac{1,20,000}{1,25,200} \times 1,00,600 = 96,422(\text{approx}) \right)$	

A claim of ₹ 96,422 (approx.) should be lodged by M/s Alok & Co. to the insurance company.

**Working Notes:**

**1. Calculation of closing stock as on 30<sup>th</sup> March, 2022**

**Memorandum Trading Account for  
(from 1<sup>st</sup> January, 2022 to 30<sup>th</sup> March, 2022)**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	1,91,200	By Sales (W.N.3)	4,84,000
To Purchases (3,40,000-60,000)	2,80,000	By Goods with customers (for approval) (W.N.2)	52,800*
To Wages (1,00,000 – 6,000)	94,000	By Closing stock (Bal. fig.)	1,25,200
To Gross profit (20% on sales)	<u>96,800</u>		
	<u>6,62,000</u>		<u>6,62,000</u>

\* For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock

since the goods were physically not with the concern and, hence, there was no loss of such stock.

2. **Calculation of goods with customers**

Since no approval for sale has been received for the goods of ₹ 66,000 (i.e. 2/3 of ₹ 99,000) hence, these should be valued at cost i.e. ₹ 66,000 – 20% of ₹ 66,000 = ₹ 52,800.

3. **Calculation of actual sales**

Total sales – Sale of goods on approval (2/3<sup>rd</sup>) = ₹ 5,50,000 – ₹ 66,000 = ₹ 4,84,000.

3. (a)

**In the books of Moon Star**  
**Trial Balance (in Rupees) of Virginia (USA) Branch**  
**as on 31<sup>st</sup> March, 2022**

	<i>Dr.</i>	<i>Cr.</i>	<i>Conversion</i>	<i>Dr.</i>	<i>Cr.</i>
	<i>US \$</i>	<i>US \$</i>	<i>rate</i>	<i>₹</i>	<i>₹</i>
Office Equipment	43,200		50	21,60,000	
Depreciation on Office Equipment	4,800		50	2,40,000	
Furniture and fixtures	2,880		50	1,44,000	
Depreciation on furniture and fixtures	320		50	16,000	
Stock (1 <sup>st</sup> April, 2021)	22,400		47	10,52,800	
Purchases	96,000		45	43,20,000	
Sales		1,66,400	45		74,88,000
Goods sent from H.O.	32,000			15,80,000	
Carriage inward	400		45	18,000	
Salaries (3,200+400)	3,600		45	1,62,000	
Outstanding salaries		400	50		20,000
Rent, rates and taxes	800		45	36,000	
Insurance	400		45	18,000	
Trade expenses	400		45	18,000	
Head Office A/c		45,600			20,50,000
Trade debtors	9,600		50	4,80,000	
Trade creditors		6,800	50		3,40,000
Cash at bank	2,000		50	1,00,000	
Cash in hand	400		50	20,000	
Exchange difference (bal. fig.) transferred to foreign currency translation reserve account					<u>4,66,800</u>
	<u>2,19,200</u>	<u>2,19,200</u>		<u>1,03,64,800</u>	<u>1,03,64,800</u>

**Trading and Profit and Loss Account of Virginia Branch**  
**for the year ended 31<sup>st</sup> March, 2022**

	<b>₹</b>		<b>₹</b>
To Opening stock	10,52,800	By Sales	74,88,000
To Purchases	43,20,000	By Closing stock	10,75,000

To Goods from Head Office	15,80,000	(21,500 US \$ × 50)	
To Carriage inward	18,000		
To Gross profit c/d	<u>15,92,200</u>		
	<u>85,63,000</u>		<u>85,63,000</u>
To Salaries	1,62,000	By Gross profit b/d	15,92,200
To Rent, rates and taxes	36,000		
To Insurance	18,000		
To Trade expenses	18,000		
To Depreciation on office equipment	2,40,000		
To Depreciation on furniture and fixtures	16,000		
To Net Profit c/d	<u>11,02,200</u>		
	<u>15,92,200</u>		<u>15,92,200</u>

(b) **Departmental Trading and Profit and Loss Account**

Particulars	Department X	Department Y	Particulars	Department X	Department Y
To Opening stock	3,00,000	50,000	By Sales	24,00,000	4,00,000
To Purchase	20,00,000	15,000	By Transfer to	3,00,000	
To Wages	60,000	20,000	Department Y		
To Transfer from Department X	-	3,00,000	By Closing stock	2,00,000	60,000
To Gross profit	<u>5,40,000</u>	<u>75,000</u>			
	<u>29,00,000</u>	<u>4,60,000</u>		<u>29,00,000</u>	<u>4,60,000</u>
To Selling expenses	20,000	6,000	By Gross profit	5,40,000	75,000
To Net Profit	<u>5,20,000</u>	<u>69,000</u>			
	<u>5,40,000</u>	<u>75,000</u>		<u>5,40,000</u>	<u>75,000</u>

**General Profit & Loss Account**

Particulars	Amount	Particulars	Amount
To General Expenses	1,10,000	By Net Profit from	
To Stock reserve (WN-2)	9,000	Department X	5,20,000
To Net Profit	4,75,625	Department Y	69,000
		By stock reserve (opening WN-1)	5,625
	<u>5,94,625</u>		<u>5,94,625</u>

**Working Notes**

**1. Calculation of Stock Reserve (opening)**

$$50,000 \times 75\% \text{ Department Y} \times 15\% = ₹ 5625$$

**2. Calculation of closing stock reserve**

Gross profit Rate of Department X of 2021

$$5,40,000 / (24,00,000 + 3,00,000) \times 100 = 20\%$$

$$60,000 \times 75\% \times 20\% = ₹ 9,000$$

4. (a)

**In the Books of Jyotishikha Traders**  
**Trading Account for the year ended 31.03.2022**

<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Opening Inventory A/c (Bal. fig.)	1,65,000	By Sales (W.N.1)	12,50,000
To Purchases (W.N.2)	9,00,000	By Closing Inventory	65,000
To Gross profit (12,50,000x25/125)	<u>2,50,000</u>		
	<u>13,15,000</u>		<u>13,15,000</u>

**Profit and Loss Account for the year ended 31.03.2022**

<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Discount	5,500	By Gross profit	2,50,000
To Salaries Expenses 32,000		By Discount	4,500
To Office expenses (W.N.3) 37,000			
To Selling expenses <u>15,000</u>	84,000		
To Interest on loan (12% on ₹ 1,60,000)	19,200		
To Bad debts (2% of ₹ 2,25,000)	4,500		
To Loss on sale of Machinery	15,000		
To Depreciation:			
Land & Building 25,000			
Plant & Machinery (W.N 4) 23,750			
Office Equipment (W.N. 5) <u>12,750</u>	61,500		
To Net profit after tax	<u>64,800</u>		
	<u>2,54,500</u>		<u>2,54,500</u>

**Balance sheet as on 31.3.2022**

<i>Liabilities</i>	₹	₹	<i>Assets</i>	₹
Capital (W.N. 6)	8,95,500		Land and Building (5,00,000-25,000)	4,75,000
Add: Net Profit	<u>64,800</u>	9,60,300	Plant and Machinery (W.N.4a) (3,30,000-21,750)	3,08,250
Trade payables (W.N. 8)		1,05,500	Office Equipment (85,000-12,750)	72,250
Outstanding expenses		15,000	Trade receivables less Bad debts (W.N. 7)	2,20,500
Loan from SBI		1,00,000	Inventory	65,000
			Bank Balance (W.N. 9)	39,800
		<u>11,80,800</u>		<u>11,80,800</u>

**Working Notes:****1. Calculation of Total Sales**

	₹
Cash Sales	2,50,000
Credit Sales (80% of total sales)	
Cash Sales (20% of total sales)	
Thus total Sales (250000 x 100/20)	12,50,000
Credit Sales (1250000 x 80/100)	10,00,000

**2. Calculation of Total Purchases**

	₹
Credit Purchases	5,40,000
Cash Purchases (40% of total purchases)	
Credit Purchases (60% of total purchases)	
Thus total Purchases (5,40,000 x 100/60)	9,00,000
Cash Purchases 9,00,000 x 40/100)	3,60,000

**3. Office Expenses Account**

	₹		₹
To Bank A/c	42,000	By Balance b/d	20,000
To Balance c/d	15,000	By Profit & loss A/c	37,000
	<u>57,000</u>		<u>57,000</u>

**4. (i) Plant and Machinery Account**

	₹		₹
To Opening balance	2,20,000	By Sale	40,000
To Purchases	<u>1,50,000</u>	By Closing Balance	<u>3,30,000</u>
	<u>3,70,000</u>		<u>3,70,000</u>

**(ii) Depreciation calculations on Plant & Machinery**

	₹
Depreciation on 1,80,000 x 10% (for full year)	18,000
1,50,000 x 10% x 3/12 (for 3 months)	3,750
40,000 x 10% x 6/12 (for 6 months)	<u>2,000</u>
	<u>23,750</u>

**Sale of Machinery Account**

	Amount (₹)		Amount (₹)
To Plant & Machinery	40,000	By Depreciation	2,000
		By Profit and Loss A/c	15,000
		By Bank	<u>23,000</u>
	<u>40,000</u>		<u>40,000</u>

5. Depreciation calculations on Office Equipments

	₹
Opening Balance	1,05,000
Less: Closing Balance	<u>85,000</u>
Sale of Office Equipment	<u>20,000</u>
Balance of Office Equipment after sale	<u>85,000</u>
Depreciation @15%	<u>12,750</u>

6. Opening Balance Sheet as on 31.03.2021

	₹		₹
Trade payables	95,000	Land & Building	5,00,000
Payables for Exp.	20,000	Plant & Machinery	2,20,000
Loan	1,60,000	Office Equipment	1,05,000
Capital (Bal. fig.)	8,95,500	Trade receivables	1,55,500
		Inventory	1,65,000
		Bank	25,000
	<u>11,70,500</u>		<u>11,70,500</u>

7. Trade receivables A/c

	₹		₹
To Balance b/d	1,55,500	By Bank	9,25,000
To Sales	10,00,000	By Discount	5,500
		By Bad debts	4,500
		By Bal. c/d	2,20,500
	<u>11,55,500</u>		<u>11,55,500</u>

8. Trade payables A/c

	₹		₹
To Bank	5,25,000	By Balance b/d	95,000
To Discount	4,500	By Purchases	5,40,000
To Balance c/d	1,05,500		
	<u>6,35,000</u>		<u>6,35,000</u>

9. Bank Account

	₹		₹
To Balance b/d	25,000	By Trade payables	5,25,000
To Trade receivables	9,25,000	By Office Expenses	42,000
To Cash Sales	2,50,000	By Salary Expense	32,000
To Sale of Machinery (W.N. 4c)	23,000	By Selling Expenses	15,000
To Sale of equipment	20,000	By Purchases (cash)	3,60,000
		By Purchase of Machinery	1,50,000
		By Bank Loan & Interest	79,200
		By Balance c/d	39,800
	<u>12,43,000</u>		<u>12,43,000</u>

(b)

**In the books of Rajat  
Investment Account  
(Equity shares in P Ltd.)**

Date	Particulars	No. of shares	Amount (₹)	Date	Particulars	No. of shares	Amount (₹)
1.4.21	To Balance b/d	50,000	7,50,000	31.3.22	By Balance c/d	90,000	12,10,000
20.6.21	To Bank A/c	10,000	1,60,000		(Bal. fig.)		
1.8.21	To Bonus issue (W.N.1)	10,000	-				
5.11.21	To Bank A/c (right shares) (W.N.4)	<u>20,000</u>	<u>3,00,000</u>				
		<u>90,000</u>	<u>12,10,000</u>			<u>90,000</u>	<u>12,10,000</u>

**Working Notes:**

- (1) Bonus shares =  $\frac{50,000 + 10,000}{6} = 10,000$  shares
- (2) Right shares =  $\frac{50,000 + 10,000 + 10,000}{7} \times 3 = 30,000$  shares
- (3) Sale of rights =  $30,000 \text{ shares} \times \frac{1}{3} \times ₹ 2 = ₹ 20,000$  to be credited to P & L A/c as per AS 13.
- (4) Rights subscribed =  $30,000 \text{ shares} \times \frac{2}{3} \times ₹ 15 = ₹ 3,00,000$

5. (a)

**Hello Ltd.****Balance Sheet as at 31st March, 2022**

Particulars	Notes	₹
<b>Equity and Liabilities</b>		
<b>1 Shareholders' funds</b>		
a Share capital	1	50,00,000
b Reserves and Surplus	2	14,83,500
<b>2 Non-current liabilities</b>		
Long-term borrowings	3	13,55,000
<b>3 Current liabilities</b>		
a Trade Payables		10,00,000
b Short-term provisions	4	6,40,000
<b>Total</b>		<b>94,78,500</b>
<b>Assets</b>		
<b>1 Non-current assets</b>		
Property, Plant & equipment	5	56,25,000
<b>2 Current assets</b>		
a Inventories	6	12,55,000

b Trade receivables	7	10,00,000
c Cash and Cash Equivalents	8	13,85,000
d Short-term loans and advances		2,13,500
<b>Total</b>		<b>94,78,500</b>

### Notes to accounts

		₹
<b>1 Share Capital</b>		
Equity share capital		
Issued & subscribed & called up		
50,000 Equity Shares of ₹ 100 each		50,00,000
(of the above 10,000 shares have been issued for consideration other than cash)		
<b>2 Reserves and Surplus</b>		
General Reserve	10,50,000	
Add: current year transfer	<u>20,000</u>	10,70,000
Profit & Loss balance		
Profit for the year	4,33,500	
Less: Appropriations:		
Transfer to General reserve	<u>(20,000)</u>	
		<u>4,13,500</u>
		<u>14,83,500</u>
<b>3 Long-term borrowings</b>		
Secured Term Loan		
State Financial Corporation Loan		
(Secured by hypothecation of Plant and Machinery)		7,50,000
Unsecured Loan		6,05,000
Total		13,55,000
<b>4 Short-term provisions</b>		
Provision for taxation		<u>6,40,000</u>
<b>5 Property, plant and Equipment</b>		
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>
<b>6 Inventories</b>		
Raw Materials		2,55,000
Finished goods		<u>10,00,000</u>
Total		<u>12,55,000</u>

<b>7 Trade receivables</b>		
Outstanding for a period exceeding six months		2,60,000
Other Amounts		<u>7,40,000</u>
	Total	<u>10,00,000</u>
<b>8 Cash and Cash Equivalents</b>		
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) Calculation of number of shares issued**

	Number of debentures
Debenture holders opted for conversion (40,000 /100)	<u>400</u>
Option for conversion	20%
Number of debentures to be converted (20% of 400)	80

Redemption value of 80 debentures at a premium of 5% [80 x (100+5)] ₹ 8,400

Equity shares of ₹ 10 each issued on conversion

[₹ 8,400/ ₹ 20 ] 420 shares

Calculation of cash to be paid :

Number of debentures 400

Less: number of debentures to be converted into equity shares (80)

320

Redemption value of 320 debentures (320 × ₹ 105) ₹ 33,600

**Journal Entry**

Debentures A/c	Dr.	40,000	
Premium on redemption A/c	Dr.	2,000	
To Debenture holders A/c			42,000
(Being amount due to debenture holders at redemption)			
Debenture holders A/c	Dr.	42,000	
To Equity Share capital A/c			4,200
To Securities premium A/c	Dr.		4,200
To Cash A/c			33,600
(Discharge of amount due to Debenture holders)			

6. (a) (i) Interest for the period 2021-22

$$= \text{US \$ } 10 \text{ lakhs} \times 4\% \times \text{₹ } 62 \text{ per US\$} = \text{₹ } 24.80 \text{ lakhs}$$

(ii) Increase in the liability towards the principal amount

$$= \text{US \$ } 10 \text{ lakhs} \times \text{₹ } (62 - 56) = \text{₹ } 60 \text{ lakhs}$$

(iii) Interest that would have resulted if the loan was taken in Indian currency

$$= \text{US \$ } 10 \text{ lakhs} \times \text{₹ } 56 \times 10.5\% = \text{₹ } 58.80 \text{ lakhs}$$

(iv) Difference between interest on local currency borrowing and foreign currency borrowing = ₹ 58.80 lakhs - ₹ 24.80 lakhs = ₹ 34 lakhs.

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

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

**(b) Computation of Effective capital**

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

(c) Capital Redemption Reserve A/c	Dr.	1,40,000	
Securities Premium A/c (considered to be realized in cash)	Dr.	80,000	
General Reserve A/c (balancing figure)	Dr.	80,000	
To Bonus to Shareholders			3,00,000
(Being issue of bonus shares by utilization of various Reserves, as per resolution dated .....)			
Bonus to Shareholders A/c	Dr.	3,00,000	
To Equity Share Capital			3,00,000
(Being capitalization of Profit)			

- (d) (a) Operating Activities: Items 1 and 5.  
 (b) Investing Activities: Items 3,7 and 9  
 (c) Financing Activities: Items 4,6,8 and 10

(d) Cash Equivalent: 2

**(e) 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 <sup>rd</sup>	12,000	$8/108$ of ₹12,000 = ₹ 889	11,111
2 <sup>nd</sup>	23,111 [W.N.1]	$8/108$ of ₹ 23,111 = ₹1,712	21,399
1 <sup>st</sup>	33,399 [W.N.2]	$8/108$ of ₹33,399 = ₹ <u>2,474</u>	30,925
		<u>5,075</u>	

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

**Working Notes:**

1. ₹ 11,111 + 2<sup>nd</sup> instalment of ₹ 12,000 = ₹ 23,111
2. ₹ 21,399 + 1<sup>st</sup> instalment of ₹ 12,000 = ₹ 33,399