

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) Kunal Securities Ltd. wants to reclassify its investments in accordance with AS-13 (Revised). State the values, at which the investments have to be reclassified in the following cases:
- (i) Long term investment in Company A, costing ₹ 10.5 lakhs is to be re-classified as current investment. The company had reduced the value of these investments to ₹ 9 lakhs to recognize a permanent decline in value. The fair value on the date of reclassification is ₹ 9.3 lakhs.
 - (ii) Long term investment in Company B, costing ₹ 14 lakhs is to be re-classified as current investment. The fair value on the date of reclassification is ₹ 16 lakhs and book value is ₹ 14 lakhs.
 - (iii) Current investment in Company C, costing ₹ 12 lakhs is to be re-classified as long term investment as the company wants to retain them. The market value on the date of reclassification is ₹ 13.5 lakhs.
 - (iv) Current investment in Company D, costing ₹ 18 lakhs is to be re-classified as long term investment. The market value on the date of reclassification is ₹ 16.5 lakhs.
- (b) Mr. Jatin gives the following information relating to the items forming part of the inventory as on 31.03.2023. His enterprise produces product P using Raw Material X.
- (i) 900 units of Raw Material X (purchased @ ₹ 100 per unit). Replacement cost of Raw Material X as on 31.03.2023 is ₹ 80 per unit.
 - (ii) 400 units of partly finished goods in the process of producing P. Cost incurred till date is ₹ 245 per unit. These units can be finished next year by incurring additional cost of ₹ 50 per unit.
 - (iii) 800 units of Finished goods P and total cost incurred is ₹ 295 per unit.
- Expected selling price of product P is ₹ 280 per unit, subject to a payment of 5% brokerage on selling price.
- Determine how each item of inventory will be valued as on 31.03.2023.
- Also calculate the value of total Inventory as on 31.03.2023.
- (c) On 15th April, 2022 RBM Ltd. obtained a Term Loan from the Bank for ₹ 320 lakhs to be utilized as under:

	₹ (in lakhs)
Construction for factory shed	240
Purchase of Machinery	30
Working capital	24
Purchase of Vehicles	12

Advance for tools/cranes etc.	8
Purchase of technical know how	6

In March, 2023 construction of shed was completed and machinery was installed. Total interest charged by the bank for the year ending 31st March, 2023 was ₹ 40 lakhs.

In the context of provisions of AS 16 'Borrowing Costs', show the treatment of interest and also explain the nature of Assets.

(d) A Ltd. had following assets. Calculate depreciation for the year ended 31st March, 2023 for each asset as per AS 10 (Revised):

(i) Machinery purchased for ₹ 10 lakhs on 1st April, 2018 and residual value after useful life of 5 years, based on 2018 prices is ₹ 10 lakhs.

(ii) Land for ₹ 50 lakhs.

(iii) A Machinery is constructed for ₹ 5,00,000 for its own use (useful life is 10 years). Construction is completed on 1st April, 2022, but the company does not begin using the machine until 31st March, 2023.

(iv) Machinery purchased on 1st April, 2020 for ₹ 50,000 with useful life of 5 years and residual value is NIL. On 1st April, 2022, management decided to use this asset for further 2 years only.

(4 Parts x 5 Marks = 20 Marks)

2. (a) Manohar of Mohali has a branch at Noida to which the goods are supplied from Mohali but the cost thereof is not recorded in the Head Office books. On 31st March, 2023 the Branch Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Creditors Balance	62,000	Debtors Balance	2,24,000
Head Office	1,88,000	Building Extension A/c	
		Closed by transfer to H.O. A/c	-
		Cash at Bank	<u>26,000</u>
	<u>2,50,000</u>		2,50,000

During the six months ending on 30-09-2023, the following transactions took place at Noida:

	₹		₹
Sales	2,78,000	Manager's salary	16,400
Purchases	64,500	Collections from debtors	2,57,000
Wages Paid	24,000	Discounts allowed	16,000
Salaries (inclusive of advance of ₹ 5,000)	15,600	Discount earned	4,600
General Expenses	7,800	Cash paid to creditors	88,500
Fire Insurance (Paid for one year)	11,200	Building Account (further payment)	14,000
Remittance to H.O.	52,900	Cash in Hand	5,600
		Cash at Bank	47,000

Set out the Head Office Account in Noida Books and the Branch Balance Sheet as on 30.09.2023. Also give journal entries in the Noida books. **(10 Marks)**

- (b) M/s Rohan & Sons runs a business of Electrical goods on wholesale basis. The books of accounts are closed on 31st March every year. The Balance Sheet as on 31st March, 2022 is as follows :

Liabilities	₹	Assets	₹
Capital	12,50,000	Fixed Assets	6 50,000
		Closing stock	3,75,000
		Trade Debtors	3,65,000
Trade Creditors	1,90,000	Cash & Bank	1,95,000
Profit & Loss A/c	1,45,000		
	15,85,000		15,85,000

The management estimates the purchase & sales for the year ended 31st March, 2023 as under:

Particulars	Upto 31.01.2023 (₹)	February 2023 (₹)	March 2023 (₹)
Purchases	16,20,000	1,40,000	1,25,000
Sales	20,75,000	2,10,000	1,75,000

All Sales and Purchases are on credit basis. It was decided to invest ₹ 1,50,000 in purchase of Fixed assets, which are depreciated @ 10% on book value. A Fixed Asset of book value as on 01.04.2022, ₹ 60,000 was sold for ₹ 56,000 on 31st March, 2023.

The time lag for payment to Trade Creditors for purchases is one month and receipt from Trade debtors for sales, is two months. The business earns a gross profit of 25% on turnover. The expenses against gross profit amounts to 15% of the turnover. The amount of depreciation is not included in these expenses.

Prepare Trading & profit & Loss Account for the year ending 31st March, 2023 and draft a Balance Sheet as at 31st March, 2023 assuming that creditors are all Trade creditors for purchases and debtors are all Trade debtors for sales and there is no other current asset and liability apart from stock and cash and bank balances.

Also, prepare Cash & Bank account and Fixed Assets account for the year ending 31st March, 2023. **(10 + 10 = 20 Marks)**

3. (a) The following figures have been extracted from the books of Manan Jo Limited for the year ended on 31.3.2023. You are required to prepare the Cash Flow statement as per AS 3 using indirect method.
- Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 30 lakhs:
 - Depreciation on Property, Plant & Equipment ₹ 7.50 lakhs.
 - Discount on issue of Debentures written off ₹ 45,000.
 - Interest on Debentures paid ₹ 5,25,000.
 - Book value of investments ₹ 4.50 lakhs (Sale of Investments for ₹ 4,80,000).
 - Interest received on investments ₹ 90,000.
 - Compensation received ₹ 1,35,000 by the company in a suit filed.
 - Income tax paid during the year ₹ 15,75,000.
 - 22,500, 10% preference shares of ₹ 100 each were redeemed on 02-04-2022 at a premium of 5%.

- (v) Further the company issued 75,000 equity shares of ₹10 each at a premium of 20% on 30.3.2023 (Out of 75,000 equity shares, 25,000 equity shares were issued to a supplier of machinery)
- (vi) Dividend for FY 2021-22 on preference shares were paid at the time of redemption.
- (vii) Dividend on Equity shares paid on 31.01.2023 for the year 2021-2022 ₹ 7.50 lakhs and interim dividend paid ₹ 2.50 lakhs for the year 2022-2023.
- (viii) Land was purchased on 02.4.2022 for ₹3,00,000 for which the company issued 22,000 equity shares of ₹ 10 each at a premium of 20% to the land owner and balance in cash as consideration.
- (ix) Current assets and current liabilities in the beginning and at the end of the years were as detailed below :

	As on 01.04.2022	As on 31.3.2023
	₹	₹
Inventory	18,00,000	19,77,000
Trade receivables	3,87,000	3,79,650
Cash in hand	3,94,450	16,950
Trade payables	3,16,500	3,16,950
Outstanding expenses	1,12,500	1,22,700

- (b) A Fire occurred in the premises of M/S MJ & Co., on 31st December, 2022. From the following particulars related to the period from 1st April 2022 to 31st December 2022, you are required to ascertain the amount of claim to be filed with the insurance policy for ₹ 1,00,000 which is subject to average clause. The value of goods salvaged was estimated at ₹ 31,000. The average rate of gross profit was 20% throughout the period:

	Particulars	Amount (₹)
(i)	Opening stock as on 1 st April,2022	1,50,000
(ii)	Purchases during the year	4,20,000
(iii)	Goods withdrawn by the proprietor for his self-use at Sales Value	10,000
(iv)	Goods distributed as charity at cost	4,000
(v)	Purchases include ₹ 5,000 of Tools purchased, these tools should have been capitalized.	
(vi)	Wages (include wages paid for the installation of machinery ₹ 6,000)	90,000
(vii)	Sales during the year	6,10,000
(viii)	Cost of goods sent to consignee on 1 st November,2022, lying unsold with the consignee.	25,000
(ix)	Sales Return	10,000

(12 + 8 = 20 Marks)

4. (a) The Capital structure of a company BK Ltd., consists of 30,000 Equity Shares of ₹ 10 each fully paid up and 2,000 9% Redeemable Preference Shares of ₹ 100 each fully paid up as on 31.03.2023. the other particulars as at 31.03.2023 are as follows:

	Amount (₹)
General Reserve	1,20,000
Profit & Loss Account	60,000

Investment Allowance Reserve (not free for distribution as dividend)	15,000
Cash at bank	1,95,000

Preference Shares are to be redeemed at a premium of 10%. For the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at per after utilizing the undistributed reserve & surplus, subject to the conditions that a sum of ₹ 40,000 shall be retained in General Reserve and which should not be utilized.

Company also sold investment of 4,500 Equity Shares in G Ltd., costing ₹ 45,000 at ₹ 9 per share.

Pass Journal entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet as at 31.03.2023 of BK Ltd., after the redemption is carried out.

- (b) Jai Ltd purchased a machine on hire purchase basis from KM Ltd. on the following terms:
- Cash price ₹ 1,20,000.
 - Down payment at the time of signing the agreement on 1-1-2018, ₹ 32,433.
 - 5 annual instalments of ₹ 23,100, the first to commence at the end of twelve months from the date of down payment.
 - Rate of interest is 10% p.a.

You are required to calculate the total interest and interest included in each instalment.

Also prepare the Ledger Account of KM Ltd. in the books of Jai Ltd. **(12 + 8 = 20 Marks)**

5. (a) Mr. Z has made following transactions during the financial year 2022-23:

Investment 1: 8% Corporate Bonds having face value ₹ 100.

Date	Particulars
01-06-2022	Purchased 36,000 Bonds at ₹ 86 cum-interest. Interest is payable on 30th September and 31st March every year
15-02-2023	Sold 24,000 Bonds at ₹ 92 ex-interest

Interest on the bonds is received on 30th September and 31st March.

Investment 2 : Equity Shares of G Ltd having face value ₹ 10

Date	Particulars
01-04-2022	Opening balance 8,000 equity shares at a book value of ₹ 190 per share
01-05-2022	Purchased 7,000 equity shares @ ₹ 230 on cum right basis; Brokerage of 1% was paid in addition.
15-06-2022	The company announced a bonus issue of 2 shares for every 5 shares held
01-08-2022	The company made a rights issue of 1 share for every 7 shares held at ₹ 230 per share. The entire money was payable by 31.08.2022
25-08-2022	Rights to the extent of 30% of his entitlements was sold @ ₹ 75 per share. The remaining rights were subscribed.
16-09-2022	Dividend @ ₹ 6 per share for the year ended 31.03.2022 was received on 16.09.2022. No dividend payable on Right issue and Bonus issue.
01-12-2022	Sold 7,000 shares @ 260 per share. Brokerage of 1% was incurred extra.
25-01-2023	Received interim dividend @ ₹ 3 per share for the year 2022-23.
31-03-2023	The shares were quoted in the stock exchange @ ₹ 260.

Both investments have been classified as Current investment in the books of Mr. Z. On 15th May 2023, Mr. Z decides to reclassify investment in equity shares of G Ltd. as Long term Investment. On 15th May 2023, the shares were quoted in the stock exchange @ ₹ 180.

You are required to:

- (i) Prepare Investment Accounts in the books of Mr. Z for the year 2022-23, assuming that the average cost method is followed.
 - (ii) Profit and loss Account for the year 2022-23, based on the above information.
- (b) A company had issued 20,000, 13% debentures of ₹ 100 each on 1st April, 2022. The debentures are due for redemption on 1st July, 2023. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value ₹ 10) at a price of ₹ 15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders exercising the option to the maximum.

(15 + 5 = 20 Marks)

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

- (a) Department A sells goods to Department B at a profit of 20% on cost and to Department C at 50% on cost. Department B sells goods to Department A and Department C at a profit of 15% and 10% on sales respectively. Department C sells goods to Department A and Department B at a profit of 10% and 5% on cost respectively.

Stock lying at different departments at the end of the year are as follows:

	Department A (₹)	Department B (₹)	Department C (₹)
Transfer from Department A		1,14,000	60,000
Transfer from Department B	55,000		15,200
Transfer from Department C	52,800	1,11,300	

Calculate Department wise unrealized profit on Stock.

- (b) Moon Ltd. was incorporated on 1st August, 2023 to take over the running business of a partnership firm w.e.f. 1st April, 2023. The following information is being furnished to you for year ended 31st March, 2023:

		Amount (₹)
Gross Profit		6,30,000
Less: Salaries	1,56,000	
Rent, Rates & Taxes	72,000	
Commission on sales	40,600	
Depreciation	60,000	
Interest on Debentures	36,000	
Director's fees	24,000	
Advertisement	48,000	4,36,600
Net Profit for the year		1,93,400

Moon Ltd. initiated an advertising campaign which resulted in increase of monthly sales by 25% post incorporation.

You are required to prepare a statement showing the profit for the year between pre- incorporation and post-incorporation. Also, explain how these profits are to be treated in the accounts?

- (c) A trader commenced business on April 1, 2022 with ₹ 1,20,000 represented by 6,000 units of a certain product at ₹ 20 per unit. During the year 2022-23 he sold these units at ₹ 30/- per unit and had withdrawn ₹ 60,000. The price of the product at the end of financial year was ₹ 25/- per unit. Compute retained profit of the trader under the concept of physical capital maintenance at current cost. Also state, whether answer would be different if the trader had not withdrawn any amount.
- (d) Following items appear in the Trail Balance of Star Ltd. as on 31st March, 2023:

Particulars	₹
80,000 Equity shares of ₹10 each, ₹ 8 paid-up	6,40,000
Capital Reserve (including ₹45,000 being profit on sale of Machinery)	1,10,000
Revaluation Reserve	80,000
Capital Redemption Reserve	75,000
Securities Premium	60,000
General Reserve	2,10,000
Profit & Loss Account (Cr. Balance)	1,00,000

On 1st April, 2023, the Company has made final call on Equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2023.

On 1st June, 2023, the Company decided to issue to Equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it was decided that there should be minimum reduction in free reserves. Pass necessary journal entries in the Books of Star Ltd.

- (e) Following is the draft Profit & Loss Account of X Ltd. for the year ended 31st March, 2023:

	Amount (₹)		Amount (₹)
To Administrative Expenses	5,96,400	By Balance b/d	7,25,300
To Advertisement Expenses	1,10,500	By Balance from Trading A/c	42,53,650
To Sales Commission	1,05,550	By Subsidies received from Government	3,50,000
To Director's fees	1,48,900		
To Interest on Debentures	56,000		
To Managerial Remuneration	3,05,580		
To Depreciation on Fixed Assets	5,78,530		
To Provision for taxation	12,50,600		
To General Reserve	5,50,000		
To Investment Revaluation Reserve	25,800		
To Balance c/d	16,01,090		
	53,28,950		53,28,950

Depreciation on Fixed Assets as per Schedule II of the Companies Act, 2013 was ₹ 6,51,750. You are required to calculate the maximum limits of the managerial remuneration as per the Companies Act, 2013.

(4 Parts x 5 Marks = 20 Marks)

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

1. (a) As per AS 13 (Revised) 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. And where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

- (i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 9 lakhs in the books.
 - (ii) The carrying / book value of the long-term investment is same as cost i.e., ₹ 14 lakhs. Hence this long-term investment will be reclassified as current investment at book value of ₹ 14 lakhs only.
 - (iii) In this case, reclassification of current investment into long-term investments will be made at ₹ 12 lakhs as cost are less than its market value of ₹ 13.5 lakhs.
 - (iv) Market value of the investment is ₹ 16.5 lakhs, which is lower than its cost i.e., ₹ 18 lakhs. Therefore, the transfer to long term investments should be done in the books at the market value i.e., ₹ 16.5 lakhs.
- (b) As per AS 2 (Revised) "Valuation of Inventories", materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at cost or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. In the given case, selling price of product P is ₹ 266 and total cost per unit for production is ₹ 295.

Hence the valuation will be done as under:

- (i) 900 units of raw material X will be written down to replacement cost as market value of finished product is less than its cost, hence valued at ₹ 80 per unit.
- (ii) 400 units of partly finished goods will be valued at 216 per unit i.e., lower of cost (₹ 245) or Net realizable value ₹ 216 (Estimated selling price ₹ 266 per unit less additional cost of ₹ 50).
- (iii) 800 units of finished product P will be valued at NRV of ₹ 266 per unit since it is lower than cost ₹ 295.

Valuation of Total Inventory as on 31.03.2023:

	Units	Cost (₹)	NRV / Replacement cost	Value = units x cost or NRV whichever is less (₹)
Raw material X	900	100	80	72,000
Partly finished goods	400	245	216	86,400
Finished goods P	800	295	266	<u>2,12,800</u>
Value of Inventory				<u>3,71,200</u>

- (c) As per AS 16 A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Other investments and those inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired also are not qualifying assets. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred.

Construction of factory shed amounting ₹ 240 lakhs is qualifying asset in the given case. The interest for this amount during the year will be added to the cost of factory shed. All others (purchase of machinery, vehicles and technical know how, working capital, advance for tools/cranes) are non-qualifying assets and related borrowing cost will be charged to Profit and Loss statement.

Qualifying Asset as per AS 16 (construction of a shed) = ₹ 240 lakhs

Borrowing cost to be capitalized = ₹ 40 lakhs x 240/320 = ₹ 30 lakhs

Interest to be debited to Profit or Loss account: ₹ (40 – 30) = ₹ 10 lakhs.

Note: Assumed that construction of factory shed completed on 31st March, 2023.

- (d) Computation of amount of depreciation as per AS 10

		₹
(i)	Machinery purchased on 1/4/18 for ₹ 10 lakhs (having residual value of ₹ 10 lakhs) Reason: The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost. Therefore, there is no depreciable amount and depreciation is correctly zero.	Nil
(ii)	Land (50 lakhs) (considered freehold) Reason: Land has an unlimited useful life and therefore, it is not depreciated.	Nil
(iii)	Machinery constructed for own use (₹ 5,00,000/10) Reason: The entity should begin charging depreciation from the date the machine is ready for use i.e. 1st April,2022. The fact that the machine was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation.	50,000
(iv)	Machinery having revised useful life Reason: The entity has charged depreciation using the straight-line method at ₹ 10,000 per annum i.e (50,000/5 years). On 1 st April,2022 the asset's net book value is [50,000 – (10,000 x 2)] i.e. ₹ 30,000. The remaining useful life is 2 years as per revised estimate. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of 2 years. Consequently, it should charge depreciation for the next 2 years at ₹ 15,000 per annum i.e. (30,000 / 2 years).	15,000

2. (a) Journal Entries in the Books of Noida Branch

Particulars		Debit (₹)	Credit (₹)
Salary Advance A/c	Dr.	5,000	
To Salaries A/c			5,000
(Being the amount paid as advance adjusted by debit to Salary Advance A/c)			

Prepaid Insurance A/c (11,200 X 6/12) To Fire Insurance A/c (Being the six months premium transferred to the Prepaid Insurance A/c)	Dr.	5,600	5,600
Head Office A/c To Purchases A/c To Wages A/c To Salaries A/c (15,600 – 5,000) To General Expenses A/c To Fire Insurance A/c (11,200 X 6/12) To Manager's Salary A/c To Discount Allowed A/c (Being the transfer of various revenue accounts to the HO A/c for closing the accounts)	Dr.	1,44,900	64,500 24,000 10,600 7,800 5,600 16,400 16,000
Sales A/c Discount Earned A/c To Head Office A/c (Being the transfer of various revenue accounts to HO)	Dr. Dr.	2,78,000 4,600	2,82,600
Head Office A/c To Building A/c (Being the transfer of amounts spent on building extension to HO A/c)	Dr.	14,000	14,000

Head Office Account

2023	Particulars	Amount (₹)	2023	Particulars	Amount (₹)
Sept 30	To Cash Remittance	52,900	April 1	By Balance b/d	1,88,000
	To Sundries* (Revenue)	1,44,900		By Sundries* (Revenue)	2,82,600
	To Building A/c	14,000			
	To Balance c/d	2,58,800			
	Total	4,70,600		Total	4,70,600

* Instead of using Sundries (Revenue) A/c, the concerned revenue accounts can be posted in the ledger.

Balance Sheet of Noida Branch
As at 30th Sept 2023

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	33,400	Debtors	2,29,000
Head Office A/c	2,58,800	Salary Advance	5,000
		Prepaid Insurance	5,600
		Building Extension A/c transferred to HO	-
		Cash in Hand	5,600

		Cash at Bank	47,000
Total	2,92,200	Total	2,92,200

Working Notes

Cash and Bank Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	26,000	By Wages	24,000
To Collection from debtors	2,57,000	By Salaries	15,600
		By Insurance	11,200
		By General Expenses	7,800
		By HO A/c	52,900
		By Manager's Salary	16,400
		By Creditors	88,500
		By Building A/c	14,000
		By Balance c/d	
		- Cash in Hand	5,600
		- Cash at bank	47,000
Total	2,83,000	Total	2,83,000

Debtors Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	2,24,000	By Cash Collection	2,57,000
To Sales A/c	2,78,000	By Discount (Allowed)	16,000
		By Balance c/d	2,29,000
Total	5,02,000	Total	5,02,000

Creditors Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cash A/c	88,500	By Balance b/d	62,000
To Discount (Earned)	4,600	By Purchases	64,500
To Balance c/d	33,400		
Total	1,26,500	Total	1,26,500

Note:

Since the date of payment of fire insurance has not been mentioned in the question, it is assumed that it was paid on 01 April 2023. Alternative answer considering otherwise also possible.

- (b) Trading and Profit and Loss Account of M/s Rohan & Sons
for the year ended 31st March, 2023

	₹		₹
To Opening stock	3,75,000	By Sales	24,60,000
To Purchases	18,85,000	By Closing stock	4,15,000

To Gross Profit c/d (25%)	6,15,000	(Balancing Figure)	
	28,75,000		28,75,000
To Depreciation	80,000	By Gross profit b/d	6,15,000
To Expenses (15% of ₹ 24,60,000)	3,69,000	By Profit on sale of Fixed assets	2,000
To Net Profit (b.f.)	1,68,000		
	6,17,000		6,17,000

Balance Sheet of M/s Rohan Sons as on 31st March, 2023

Liabilities		Assets	₹
Capital	12,50,000	Fixed assets (less Dep.)	6,66,000
Profit & Loss A/c (1,45,000 + 1,68,000)	3,13,000	Stock	4,15,000
Trade Creditors	1,25,000	Debtors	3,85,000
		Cash and bank	<u>2,22,000</u>
	<u>16,88,000</u>		<u>16,88,000</u>

Cash and Bank Account

To Bal. b/d	1,95,000	By Creditors (1,90,000 + 16,20,000 + 1,40,000)	19,50,000
To Debtors (3,65,000 + 20,75,000)	24,40,000	By Expenses	3,69,000
To Fixed assets	56,000	By Fixed assets	1,50,000
		By Bal. c/d	<u>2,22,000</u>
	<u>26,91,000</u>		<u>26,91,000</u>

Fixed Assets Account

To Bal. b/d	6,50,000	By Cash	56,000
To Profit on sale of Fixed asset	2,000	By Depreciation on sold fixed asset	6,000
		By Depreciation (59,000 + 15,000)	74,000
To Bank A/c	<u>1,50,000</u>	By Bal. c/d	<u>6,66,000</u>
	8,02,000		8,02,000

3. (a)

Manan Ltd.

Cash Flow Statement

for the year ended 31st March, 2023

	₹	₹
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		30,00,000
Adjustments for:		
Depreciation on Property, plant and equipment	7,50,000	
Discount on issue of debentures	45,000	
Interest on debentures paid	5,25,000	

Interest on investments received	(90,000)	
Profit on sale of investments	<u>(30,000)</u>	<u>12,00,000</u>
Operating profit before working capital changes		42,00,000
Adjustments for:		
Increase in inventory	(1,77,000)	
Decrease in trade receivable	7,350	
Increase in trade payables	450	
Increase in outstanding expenses	<u>10,200</u>	<u>(1,59,000)</u>
Cash generated from operations		40,41,000
Income tax paid		<u>(15,75,000)</u>
Cash flow from ordinary items		24,66,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		<u>1,35,000</u>
Net cash flow from operating activities		26,01,000
Cash flow from Investing Activities;		
Sale proceeds of investments	4,80,000	
Interest received on investments	90,000	
Purchase of land (3,00,000 less 2,64,000)	<u>(36,000)</u>	
Net cash flow from investing activities		5,34,000
Cash flow from Financing Activities		
Proceeds of issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(23,62,500)	
Preference dividend paid	(2,25,000)	
Interest on debentures paid	(5,25,000)	
Dividend paid (7,50,000 + 2,50,000)	<u>(10,00,000)</u>	
Net cash used in financing activities		<u>(35,12,500)</u>
Net decrease in cash and cash equivalents during the year		(3,77,500)
Add: Cash and cash equivalents as on 31.3.2022		<u>3,94,450</u>
Cash and cash equivalents as on 31.3.2023		<u>16,950</u>

(b) Memorandum Trading Account for the period 1st April, 22 to 31st Dec. 2022

	₹		₹
To Opening Stock	1,50,000	By Sales	6,00,000
		(6,10,000 - 10,000)	
To Purchases	4,20,000	By Consignment stock	25,000
Less: Tools purchased	(5,000)	By Closing Stock (Bal. fig.)	1,32,000
Goods distributed as Charity	(4,000)		
Cost of goods taken by proprietor	<u>(8,000)</u>		
	4,03,000		

To Wages (90,000 – 6,000)	84,000		
To Gross Profit [20% of Sales]	1,20,000		
	7,57,000		7,57,000

* 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.

Statement of Insurance Claim

	₹
Value of stock destroyed by fire	1,32,000
Less: Salvaged Stock	(31,000)
Loss of stock	1,01,000

Note:

Since policy amount is less than value of stock on date of fire, average clause will apply. Therefore, claim amount will be computed by applying the formula:

$$\text{Claim} = \frac{\text{Insured value}}{\text{Total cost}} \times \text{Loss suffered}$$

Claim amount = ₹ 1,01,000/1,32,000 × 1,00,000 = ₹ 76,515 (Rounded off)

NOTE: The average rate of 20% has been given in the question. In the above solution, Gross Profit is calculated @ 20% on sales. Alternative answer considering Gross Profit of 20% is also possible.

4. (a) Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	84,500	
	To Equity Share Capital A/c			84,500
	(Being the issue of 8,450 Equity Shares of ₹ 10 each as per Board's Resolution No.....dated.....)			
	9% Redeemable Preference Share Capital A/c	Dr.	2,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	20,000	
	To Preference Shareholders A/c			2,20,000
	(Being the amount paid on redemption transferred to Preference Shareholders Account)			
	Bank A/c	Dr.	40,500	
	Profit and Loss A/c (loss on sale) A/c	Dr.	4,500	
	To Investment A/c			45,000
	(Being investment sold at loss of ₹ 4,500)			
	Preference Shareholders A/c	Dr.	2,20,000	
	To Bank A/c			2,20,000
	(Being the amount paid on redemption of preference shares)			

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.	20,000	20,000
General Reserve A/c	Dr.	80,000	
Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account)	Dr.	35,500	1,15,500

Balance Sheet as at 31st March, 2023(Extract)

	Particulars	Notes No.	₹
	EQUITY AND LIABILITIES		
1.	Shareholders' funds		
	a Share capital	1	3,84,500
	b Reserves and Surplus	2	1,70,500
	ASSETS		
2.	Current Assets		
	Cash and cash equivalents (1,95,000 + 84,500 + 40,500 – 2,20,000)		1,00,000

Notes to accounts

1.	Share Capital 38,450 Equity shares (30,000 + 8,450) of ₹10 each fully paid up		<u>3,84,500</u>
2.	Reserves and Surplus		
	General Reserve		40,000
	Profit and loss account		NIL
	Capital Redemption Reserve		1,15,500
	Investment Allowance Reserve		<u>15,000</u>
			1,70,500

Working Note:

Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed	₹ 2,00,000
Less: Profit available for distribution as dividend:	
General Reserve: ₹ (1,20,000-40,000)	₹ 80,000
Profit and Loss (60,000 less 20,000 set aside for adjusting premium payable on redemption of Pref. shares less 4,500 loss on sale of investments)	<u>₹ 35,500</u>
	<u>₹ (1,15,500)</u>
	<u>₹ 84,500</u>

Therefore, No. of shares to be issued = $84,500/₹10 = 8,450$ shares.

(b)

Calculation of interest

	Total (₹)	Interest in each instalment (1)	Cash price in each instalment (2)
Cash Price	1,20,000		
Less: Down Payment	<u>(32,433)</u>	Nil	₹ 32,433
Balance due after down payment	87,567		
Interest/Cash Price of 1 st instalment	-	₹ 87,567x10/100 = ₹ 8,757	₹ 23,100 - ₹ 8,757 = ₹ 14,343
Less: Cash price of 1 st instalment	<u>(14,343)</u>		
Balance due after 1 st instalment	73,224		
Interest/cash price of 2 nd instalment	-	₹ 73,224x 10/100 = ₹ 7322	₹ 23,100 - ₹ 7,322 = ₹ 15,778
Less: Cash price of 2 nd instalment	<u>(15,778)</u>		
Balance due after 2 nd instalment	57,446		
Interest/Cash price of 3 rd instalment	-	₹ 57,446 x 10/100 = ₹ 5745	₹ 23,100 - ₹ 5745 = ₹ 17,355
Less: Cash price of 3 rd instalment	<u>(17,355)</u>		
Balance due after 3 rd instalment	40,091		
Interest/Cash price of 4 th instalment	-	₹ 40,091 x 10/100 = ₹ 4,009	₹ 23,100 - ₹ 4,009 = ₹ 19,091
Less: Cash price of 4 th instalment	<u>(19,091)</u>		
Balance due after 4 th instalment	21,000		
Interest/Cash price of 5 th instalment	-	₹ 21,000 x 10/100 = ₹ 2,100	₹ 23,100 - ₹ 2,100 = 21,000
Less: Cash price of 5 th instalment	<u>(21,000)</u>		
Total	Nil	₹ 27,933	₹1,20,000

Total interest can also be calculated as follow:

(Down payment + instalments) - Cash Price = ₹ [32,433 +(23,100 x 5)] - ₹ 1,20,000 = ₹ 27,933

KM Ltd. Account in the books of Jai Ltd

Date		Particulars	₹	Date		Particulars	₹
1.1. 2018	To	Bank A/c	32,433	1.1.2018	By	Machine A/c	1,20,000
31.12.2018	To	Bank A/c	23,100	31.12.2018	By	Interest A/c	<u>8,757</u>
31.12.2018	To	Balance c/d	<u>73,224</u>				
			<u>1,28,757</u>				<u>1,28,757</u>
31.12.2019	To	Bank A/c	23,100	1.1.2019	By	Balance b/d	73,224
31.12.2019	To	Balance c/d	<u>57,446</u>	31.12.2019	By	Interest A/c	<u>7,322</u>
			<u>80,546</u>				<u>80,546</u>
31.12.2020	To	Bank A/c	23,100	1.1.2020	By	Balance b/d	57,446
31.12.2020	To	Balance c/d	<u>40,091</u>	31.12.2020	By	Interest A/c	<u>5,745</u>
			<u>63,191</u>				<u>63,191</u>

31.12.2021	To	Bank A/c	23,100	1.1.2021	By	Balance b/d	40,091
31.12.2021	To	Balance c/d	<u>21,000</u>	31.12.2021	By	Interest A/c	<u>4,009</u>
			<u>44,100</u>				<u>44,100</u>
31.12.2022	To	Bank A/c	23,100	1.1.2022	By	Balance b/d	21,000
			<u>23,100</u>	31.12.2022	By	Interest A/c	<u>2,100</u>
							<u>23,100</u>

5. (a) (i)

In the books of Mr. Z

Investment in 8% Corporate Bonds Account

For the period 01 April 2022 to 31 March 2023

Date	Particulars	Nos	Interest (₹)	Amount (₹)	Date	Particulars	Nos	Interest (₹)	Amount (₹)
1/6/22	To Bank A/c (WN1)	36,000	48,000	30,48,000	30/9/22	By Bank A/c (Interest 36,000 x 100 x 8% x 6/12)		1,44,000	
15/2/23	To Profit & Loss A/c (WN 3)			1,76,000	15/2/23	By Bank A/c (WN2)	24,000	72,000	22,08,000
31/3/23	To Profit & Loss A/c		2,16,000		31/3/23	By Bank A/c (Interest 12,000 x 100 x 8% x 6/12)		48,000	
						By Balance c/d (WN 4)	12,000		10,16,000
	Total	36,000	2,64,000	32,24,000		Total	36,000	2,64,000	32,24,000

Note: For computing the interest on the bonds sold on 15 Feb 2023, if number of days (138 days) is taken instead of months, the interest received on 15.02.2023 should be ₹72,592 and the total interest transferred to Profit & Loss Account should be ₹ 2,16,592.

Investment in Equity Shares of G Ltd

For the period 1st April 2022 to 31 March 2023

Date	Particulars	Nos	Dividend (₹)	Amount (₹)	Date	Particulars	Nos	Dividend (₹)	Amount (₹)
01/4/22	To Balance b/d	8,000		15,20,000	16/9/22	By Bank A/c (WN 7)		48,000	42,000
01/5/22	To Bank A/c (WN 5)	7,000		16,26,100	1/12/22	By Bank A/c (WN 8)	7000		18,01,800
15/6/22	To Bonus Shares	6,000			25/1/23	By Bank A/c (WN 10)		48,300	
25/8/22	To Bank A/c (Right Shares) (WN 6)	2,100		4,83,000	31/3/23	By Balance c/d (WN 11)	16,100		25,00,100
01/12/22	To Profit & Loss A/c (Sale of shares) (WN 9)			7,14,800					
31/3/23	To Profit & Loss A/c		96,300						
	Total	23,100	96,300	43,43,900		Total	23,100	96,300	43,43,900

Working Notes

1. Computation of the Interest element in the bonds purchased on 01 June 2022

No of Bonds purchased	36,000
Face value per bond	₹ 100
Face value of the bonds purchased	₹ 36,00,000
Interest Rate	8%
Interest Amount	$36,00,000 \times 8\% \times 2/12$ ₹ 48,000
Cum-interest per bond	₹ 86
Value of bond excluding interest	$36,000 \times ₹ 86 - ₹ 48,000$ ₹ 30,48,000

2. Computation of the Interest element in the bonds sold on 15 Feb 2023

No of Bonds sold	24,000
Face value per bond	₹ 100
Face value of the bonds sold	₹ 24,00,000
Interest Rate	8%
Interest Amount	$₹ 24,00,000 \times 8\% \times 4.5/12$ = ₹ 72,000

3. Computation of Profit on Sale of Bonds on 15 Feb 2023

No of Bonds sold	24,000
Face value per bond	₹ 100
Ex- interest Rate per bond	₹ 92
Sales proceeds	₹ 22,08,000
Average Cost of Bonds	$(30,48,000/36,000) \times 24,000$ ₹ 20,32,000
Profit on sale of bonds	Sale Proceeds – Average Cost ₹ 22,08,000 – ₹ 20,32,000 ₹ 1,76,000

4. Valuation of Bonds as on 31 March 2023

No of Bonds held as on 31 Mar 2021	12,000
Average Cost of Bonds	$(₹ 30,48,000/36,000) \times 12,000$ ₹ 10,16,000

5. Computation of the cost of the equity shares purchased on 01 May 2022

No of shares purchased	7,000
Cum right price per share	₹ 230
Cost of purchase	₹ 16,10,000
Brokerage @1%	₹ 16,100
Cost including brokerage	₹ 16,26,100

6. Right Shares

No of Right Shares Issued	$(8,000+7,000+6,000)/7 = 3,000$ shares
No of right shares sold	$3,000$ shares \times $30\% = 900$ shares
Proceeds from sale of right shares to be credited to statement of profit & loss	900 shares \times $\text{₹ } 75 = \text{₹ } 67,500$
No of right shares subscribed	$3,000-900 = 2,100$ shares
Amount of right shares subscribed	$2,100 \times 230 = \text{₹ } 4,83,000$

7. Computation of Dividend Received on 16 Sept 2022

No of shares held during the period of dividend	8,000 shares
Dividend per share	₹ 6
Dividend Amount	$8,000 \times 6 = \text{₹ } 48,000$
No of shares received after the period of dividend (excluding bonus & right shares)	7,000 shares
Dividend per share	₹ 6
Dividend Amount	$7,000 \times \text{₹ } 6 = \text{₹ } 42,000$

The amount of dividend for the period for which the shares were not held by the investor has been treated as capital receipt. Thus ₹ 42,000 shall be treated as capital receipt.

8. Sale Proceeds for the shares sold on 1st Dec. 2022

No of shares sold	7,000 Shares
Sale price per share	₹ 260
Proceeds from sale of share	$7,000 \times 260 = \text{₹ } 18,20,000$
Less: Brokerage @ 1%	₹ 18,200
Net Sale Proceeds	₹ 18,01,800

9. Profit on sale of shares on 1st Dec. 2022

Sales Proceeds	₹ 18,01,800
Average Cost	$(15,20,000+16,26,100+4,83,000-42,000)/23,100 \times 7,000$ = ₹ 10,87,000
Profit on sale of shares	Sales Proceeds – Average Cost = ₹ 18,01,800 - ₹ 10,87,000 = ₹ 7,14,800

10. Computation of Amount of Interim Dividend

No of shares held	$8,000+7,000+6,000+2,100-7,000$ = 16,100
Dividend per share	₹ 3 per share
Dividend Received	$16,100$ shares \times ₹ 3 per share = ₹ 48,300

11. Valuation of Shares as on 31 March 2023

Cost of Shares $(15,20,000 + 16,26,100 + 4,83,000 - 42,000) / 23,100$
 $\times 16,100$
 $= 25,00,100$

Market Value of Shares ₹ 260 x 16,100 = ₹ 41,86,000

Closing stock of equity shares has been value at ₹ 25,00,100 i.e. cost being lower than its market value.

(ii) Profit & Loss Account (Extract)

For the period 01 April 2022 to 31 March 2023

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance c/d	12,70,600	By Investment in 8% Corporate Bonds Account (Profit on sale of bonds)	1,76,000
		By Investment in 8% Corporate Bonds Account (Interest on bonds)	2,16,000
		By Sale of Right Shares	67,500
		By Investment in Equity Shares of G Ltd (Profit on sale of shares)	7,14,800
		By Investment in Equity Shares of G Ltd (Dividend Income)	96,300

Note: The entire amount of sale proceeds from rights has been credited to Profit and Loss account in the above solution. However, the sale proceeds of rights in respect of 7,000 shares (purchased cum right on 1.5.20) can be applied to reduce the carrying amount of such investments (without crediting it to profit and loss account) considering that the value of these shares has reduced after becoming their ex-right. In that case, ₹ 22,500 (67,500X 7/21) will be applied to reduce the carrying amount of investment and ₹ 45,000 will be credited to profit and loss account.

(b) Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	20,000
Less: Debenture holders not opted for conversion	<u>(2,500)</u>
Debenture holders opted for conversion	<u>17,500</u>
Option for conversion	20%
Number of debentures to be converted (20% of 17,500)	3,500
Redemption value of 3,500 debentures at a premium of 5% [3,500 x (100+5)]	₹ 3,67,500
Equity shares of ₹ 10 each issued on conversion [₹ 3,67,500/ ₹ 15]	24,500 shares

6. (a) Calculation of unrealized profit of each department

	Dept. A	Dept. B	Dept. C	Total
	₹	₹	₹	₹
Unrealized Profit of:				

Department A		$1,14,000 \times 20/120$ = 19,000	$60,000 \times 50/150$ = 20,000	39,000
Department B	$55,000 \times .15$ = 8,250		$15,200 \times .10$ = 1,520	9,770
Department C	$52,800 \times 10/110$ = 4,800	$1,11,300 \times 5/105$ 5,300		10,100

(b) Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods

Particulars	Total Amount	Basis of Allocation	Pre-incorporation	Post-incorporation
	₹		₹	₹
Gross Profit (W.N.2)	6,30,000	2:5 (sales)	1,80,000	4,50,000
Less: Salaries	1,56,000	Time	(52,000)	(1,04,000)
Rent, rates and taxes	72,000	Time	(24,000)	(48,000)
Commission on sales	40,600	2:5 (sales)	(11,600)	(29,000)
Depreciation	60,000	Time	(20,000)	(40,000)
Interest on debentures	36,000	Post		(36,000)
Directors' fee	24,000	Post		(24,000)
Advertisement	48,000	Post		(48,000)
Net profit			<u>72,400</u>	<u>1,21,000</u>

Pre-incorporation profit will be transferred to Capital Reserve.

Post-incorporation profit will be transferred to Profit & Loss Account.

Working Notes:

1. Sales ratio

Let the monthly sales for first 4 months (i.e. from 1.4.2022 to 31.7.2022) be = x

Then, sales for 4 months = 4x

Monthly sales for next 8 months (1st August, 2022 to 31st March, 2023)

= x + 25% of x = 1.25x Then, sales for next 8 months = 1.25x X 8 = 10x

Total sales for the year = 4x + 10x = 14x. Hence Sales Ratio = 4 x :10x i.e. 2:5

2. Time ratio

1st April, 2022 to 31st July, 2022 : 1st August, 2022 to 31st March, 2023

= 4 months: 8 months = 1:2. Thus, time ratio is 1:2.

(c) Physical Capital Maintenance at Current Cost

In the given case, the specific price index applicable to the product is 125 (25/20X100).

Current cost of opening stock = (₹ 1,20,000 / 100) x 125 Or 6,000 units x ₹ 25
= ₹ 1,50,000

Current cost of closing cash = ₹ 1,20,000 (₹ 1,80,000 – ₹ 60,000)

Opening equity at closing current costs = ₹ 1,50,000

Closing equity at closing current costs = ₹ 1,20,000

Retained Profit = ₹ 1,20,000 – ₹ 1,50,000 = (-) ₹ 30,000

The negative retained profit indicates that the trader has failed to maintain his capital. The available fund of ₹ 1, 20,000 is not sufficient to buy 6,000 units again at increased price of ₹ 25 per unit. The drawings should have been restricted to ₹ 30,000 (₹ 60,000 – ₹ 30,000).

If the trader had not withdrawn any amount, then the answer would have been as below:

Current cost of opening stock = ₹ 1,80,000

Opening equity at closing current costs = ₹ 1,50,000

Retained Profit = ₹ 1,80,000 – ₹ 1,50,000 = ₹ 30,000

If the trader had not withdrawn any amount, then the retained profit would have been ₹ 30,000.

(d) Journal Entries in the books of Star Ltd.

2023			Dr.	Cr.
			₹	₹
April 1	Equity Share Final Call A/c	Dr.	1,60,000	
	To Equity Share Capital A/c (Final call of ₹ 2 per share on 80,000 equity shares made due)			1,60,000
	Bank A/c	Dr.	1,60,000	
	To Equity Share Final Call A/c (Final call money on 80,000 equity shares received)			1,60,000
June 1	Capital Redemption Reserve A/c	Dr.	75,000	
	Capital Reserve	Dr.	45,000*	
	Securities Premium A/c	Dr.	60,000	
	General Reserve A/c (b.f.)	Dr.	1,40,000**	
	To Bonus to Shareholders A/c (Bonus issue of two shares for every five shares held, by utilizing various reserves as per Board's resolution dated.....)			3,20,000
	Bonus to Shareholders A/c	Dr.	3,20,000	
	To Equity Share Capital A/c (Capitalization of profit)			3,20,000

* considering it as free reserve as it has been realized.

** Alternatively, different combination of profit and loss balance and general reserve may also be used.

(e) Calculation of net profit of X Ltd. as per the Companies Act, 2013

	₹	₹
Balance from Trading A/c		42,53,650
Add: Subsidies received from Government		3,50,000
		46,03,650
Less: Administrative expenses	5,96,400	
Advertisement expenses	1,10,500	

Sales commission	1,05,550	
Director's fees	1,48,900	
Interest on debentures	56,000	
Depreciation on fixed assets as per Schedule II	6,51,750	(16,69,100)
Profit u/s 198		<u>29,34,550</u>

Maximum Managerial remuneration under Companies Act, 2013 = 11% of ₹ 29,34,550
= ₹ 3,22,800 (rounded off).