

**ANSWERS OF MODEL TEST PAPER 5
INTERMEDIATE COURSE; GROUP I
PAAPER 1 ADVANCED ACCOUNTING**

1.	(i)	(d)
	(ii)	(c)
	(iii)	(b)
	(iv)	(a)
2.	(i)	(b)
	(ii)	(d)
	(iii)	(c)
	(iv)	(c)
3.	(i)	(b)
	(ii)	(a)
	(iii)	(d)
	(iv)	(a)
4.	(a)	
5.	(b)	
6.	(c)	

Part II- Descriptive questions (70 marks)

1. (a) (i) Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses

Date of incurrence of expenditure	Amount of spent	Financed through	Calculation	₹
1 st April 2023	4,00,000	Specific borrowing	$4,00,000 \times 12\% \times 10/12$	40,000
1 st August 2023	10,00,000	Specific borrowing	$10,00,000 \times 12\% \times 10/12$	1,00,000
1 st December 2023	25,00,000	General borrowing	$25,00,000 \times 10.8\% \times 2/12$	45,000
31 st January 2024	5,00,000	General borrowing	$5,00,000 \times 10.8\% \times 0/12$	Nil
				1,85,000
Less: interest income on borrowing				(15,000)
Total amount borrowing cost to be capitalized				1,70,000

(ii) **Journal Entry**

Date	Particulars	₹	₹
31.1.2024	Building account Dr. To Bank account To Interest payable (borrowing cost) (Being expenditure incurred on construction of building and borrowing cost thereon capitalized)	45,70,000	44,00,000 1,70,000

Note: In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.2024.

- (b) As per AS 2 'Valuation of Inventories', most by-products as well as scrap or waste materials by their nature, are immaterial. They are often measured at net realizable value and this value is deducted from the cost of the main product.

Determination of value of closing inventory of Polyester and Nylon

	Polyester	Nylon
Closing inventory in units	1,600 units	400 units
Cost per unit	₹ 31.14	₹ 18.68
Value of closing inventory	₹ 49,824	₹ 7,472

Working Notes

1. Calculation of net realizable value of by-product, Fiber

		₹
Selling price of by-product Fiber	(3,200 units x ₹ 40 per unit)	1,28,000
Less: Separate processing charges of by-product Fiber		(10,000)
Packing charges		(9,000)
Net realizable value of by-product Fiber		<u>1,09,000</u>

2. Calculation of cost of conversion for allocation between joint products Polyester and Nylon

	₹	₹
Raw material		3,50,000
Wages		1,60,000
Fixed overhead		1,20,000

Variable overhead		<u>60,000</u>
		6,90,000
Less: NRV of by-product Fiber (W.N. 1)	(1,09,000)	
Sale value of scrap	<u>(5,000)</u>	<u>(1,14,000)</u>
Joint cost to be allocated between Polyester and Nylon		<u>5,76,000</u>

Determination of “basis for allocation” and allocation of joint cost to Polyester and Nylon

	Polyester	Nylon
Output in units (a)	12,500 units	10,000 units
Sales price per unit (b)	₹ 100	₹ 60
Sales value (a x b)	₹ 12,50,000	₹ 6,00,000
Total value (12,50,000 + 6,00,000) = 18,50,000		
Joint cost of ₹ 5,76,000 allocated in the ratio of 12,50,000 : 6,00,000	₹ 3,89,189	₹ 1,86,811
Cost per unit [c/a]	₹ 31.14	₹ 18.68

2. (1)

Journal Entries

In the Books of Z Ltd. as on 1st April 2024

Particulars		Dr.	Cr.
01.04.2024		Amount (₹)	Amount (₹)
1.	Equity share capital A/c (₹ 100) To Equity share capital A/c (₹ 10) (Being sub-division of one share of ₹ 100 each into 10 shares of ₹ 10 each)	Dr. 60,00,000	60,00,000
2.	Equity share capital A/c (₹ 10) To Capital reduction A/c (Being reduction of Equity capital by 40%)	Dr. 24,00,000	24,00,000
3.	Capital reduction A/c To Bank A/c (Being payment in cash of 25% of arrear of preference dividend) [21,00,000x8%] x 4 years	Dr. 1,68,000	1,68,000
4.	Bank A/c To Own debentures A/c (5,76,000/6,00,000) x 2,40,000 To Capital reduction A/c (Being profit on sale of own debentures of ₹ 2,40,000 transferred to capital reduction A/c)	Dr. 2,35,200	2,30,400 4,800

5.	10% Debentures A/c (6,00,000 -2,40,000) To Own debentures A/c To Capital reduction A/c (Being profit on cancellation of own debentures transferred to capital reduction A/c)	Dr.	3,60,000	
				3,45,600
				14,400
6.	10% Debentures A/c Capital reduction A/c To Machinery or PPE A/c (Being machinery taken up by debenture holders for ₹ 6,00,000)	Dr. Dr.	6,00,000 3,00,000	
				9,00,000
7.	Capital reduction A/c (balancing figure) To PPE A/c (72,00,000 - 9,00,000 - 60,00,000) (Being PPE revalued)	Dr.	3,00,000	
				3,00,000
8.	Trade payables A/c (16,80,000 -15,00,000) To Trade receivables A/c (13,75,000-13,00,000) To Inventory A/c (9,80,000-9,44,000) To Capital Reduction A/c (Being assets and liabilities revalued)	Dr.	1,80,000	
				75,000
				36,000
				69,000
9.	Capital reduction A/c To Goodwill A/c To Profit and Loss A/c (Being the above assets written off)	Dr.	13,16,000	
				81,000
				12,35,000
10.	Capital reduction A/c To Bank A/c (Being penalty paid for avoidance of capital commitments)	Dr.	60,000	
				60,000
11.	Capital reduction A/c To Capital reserve A/c (Being the credit balance in Capital Reduction A/c transferred to Capital Reserve)	Dr.	3,44,200	
				3,44,200

2. Capital Reduction Account

	(₹)		(₹)
To Bank	1,68,000	By Equity Share Capital	24,00,000
To Property, Plant & Equipment	3,00,000	By Trade Payable	1,80,000
To Property, Plant & Equipment	3,00,000	By Bank A/c (Profit on Sale)	4,800
To Trade Receivables	75,000	By 10% debentures A/c (Profit on cancellation)	14,400
To Inventory	36,000		
To Goodwill	81,000		
To Profit and Loss A/c	12,35,000		
To Cash/Bank A/c	60,000		
To Capital Reserve	<u>3,44,200</u>		
	<u>25,99,200</u>		<u>25,99,200</u>

3. Bank Account

	₹		₹
To To balance b/d	1,33,000	By Capital Reduction	1,68,000
To Own Debenture (2,30,400 +4,800)	2,35,200	By Capital Reduction A/c	60,000
	<u> </u>	By balance c/d	<u>1,40,200</u>
	<u>3,68,200</u>		<u>3,68,200</u>

3. (a) (i) Stage of completion = Costs incurred to date / Total estimated costs

Year 1: 98.8 crore / 375 crore = 26.35%

Year 2: 202.4 crore / 375 crore = 53.97%

Year 3: (310 crore – 3 crore) / (375+7) crore = 80.37%

Year 4: 382 crore / 382 crore = 100%

(ii) Profit to be recognized each year has been calculated as follows:

	Year 1	Year 2	Year 3	Year 4
Contract Revenue (1)	105.40 crore	110.48 crore	113.64 crore	80.48 crore
	(400 crore x 26.35%)	(400 crore x 53.97% - 105.40 crore)	(410 crore x 80.37% - 105.40 crore - 110.48 crore)	(410 crore x 100% - 105.40 crore - 110.48 crore - 113.64 crore)
Contract Cost (2)	98.8 crore	103.60 crore	104.60 crore	75 crore

		202.40 - 98.80 crore)	(307 crore - 98.8 crore- 103.60 crore)	(382 crore - 98.8 crore- 103.6 crore - 104.6 crore)
Contract Profit (1) - (2)	6.60 crore	6.88 crore	9.04 crore	5.48 crore

(b) Cash Flow from Operating Activities

	₹
Difference between Profit and Loss Account ₹ (37,800 + 5,400)	43,200
Add: Transfer to General Reserve (81,000-54,000)	27,000
Add: Adjustment for Provision for taxation	<u>1,62,000</u>
Profit Before tax	2,32,200
Add: Adjustment for Depreciation (₹ 1,62,000 – ₹ 1,29,600)	32,400
Add: Adjustment for provision for doubtful debt (₹ 54,000 – ₹ 27,000)	27,000
Add: Debenture Interest Paid ₹ (1,18,800 × 12%)	14,256
Less: Income from Investments (54,000 × 8%)	<u>(4,320)</u>
Operating Profit before Working Capital changes	3,01,536
Decrease in Inventories ₹ (1,35,000-81,000)	54,000
Increase in Trade receivables ₹ (2,61,360-81,000)	(1,80,360)
Decrease in Trade payables ₹ (1,29,600-1,18,800)	<u>(10,800)</u>
Cash generated from operations	1,64,376
Income tax paid	<u>(2,48,400)</u>
Net Cash generated from Operating Activities	(84,024)

Working Note:

Provision for taxation account

	₹		₹
To Cash (Paid) (Balancing figure)	2,48,400	By Balance b/d	2,21,400
To Balance c/d	1,35,000	By Profit and Loss A/c	1,62,000
	<u>3,83,400</u>		<u>3,83,400</u>

4. Computation of shares and debentures to be issued

		Intelligent Ltd.	Diligent Ltd.
(i) Equity shares	22,000 x 7/11 = 14,000 (W.N.1)	14,00,000	

	22,000 x 4/11 =8,000 (W.N.1)		8,00,000
(ii) Preference shares	$\left(\frac{3,00,000}{100} \times 125\right)$ $\left(\frac{2,00,000}{100} \times 125\right)$	3,75,000	2,50,000
(iii) Debentures	Refer (W.N.3)	<u>17,50,000</u>	<u>11,25,000</u>
Total Purchase Consideration (i + ii + iii)		<u>35,25,000</u>	<u>21,75,000</u>

**Balance Sheet of Genius Limited
as at 1st April, 2024 (after amalgamation)**

		Notes no.	₹
I.	Equity and Liabilities		
(1)	Shareholder's fund		
(a)	Share Capital	1	27,00,000
(b)	Reserves & Surplus	2	1,25,000
(2)	Non-current Liabilities		
(a)	Long term borrowings	3	28,75,000
(b)	Other non-current liabilities	4	5,00,000
(3)	Current Liabilities		
(a)	Trade Payables (12,00,000 + 4,00,000 – 1,00,000)		<u>15,00,000</u>
	Total		<u>77,00,000</u>
II.	Assets		
(1)	Non-current Assets		
(a)	Property, Plant & Equipment	5	32,50,000
(b)	Intangible Assets	6	22,50,000
(2)	Current Assets		
(a)	Inventories (6,00,000 + 3,00,000)		9,00,000
(b)	Trade Receivables (6,00,000 + 3,00,000 - 1,00,000)		8,00,000
(c)	Cash & Cash Equivalent		<u>5,00,000</u>
	Total		<u>77,00,000</u>

Notes to Accounts:

Sr. No.	Particular	₹
1.	<u>Share Capital</u>	
	<u>Authorized Share Capital</u>	
	a) Equity Share Capital 30,000 Equity Shares of ₹ 100 each	30,00,000
	b) Preference Share Capital	

	10% 10,000 Preference Shares ₹ 100 each	<u>10,00,000</u>
		<u>40,00,000</u>
	<u>Issued, Subscribed & Paid-up Capital</u>	
	a) Equity Share Capital	
	22,000 Equity Shares of ₹100 each	22,00,000
	(out of the above all shares are issued for consideration other than cash)	
	b) Preference Share Capital	
	10% 5,000 Preference Shares of ₹ 100 each	<u>5,00,000</u>
	(out of the above all shares are issued for consideration other than cash)	
		<u>27,00,000</u>
2.	<u>Reserves & Surplus</u>	
	Securities Premium	1,25,000
3.	<u>Long term borrowings</u>	
	12% Debentures of ₹ 100 each	28,75,000
4.	Other Non-current Liabilities	
	Gratuity Fund	5,00,000
5.	Property, Plant & Equipment	
	Land & Building (11,00,000 + 8,50,000)	19,50,000
	Plant & Machinery (9, 00,000 + 4,00,000)	<u>13,00,000</u>
		<u>32,50,000</u>
6.	Intangible Assets	
	Goodwill	22,50,000

Working Notes:

1. Calculation of Ratio of Equity Shares

	Intelligent Ltd.	Diligent Ltd
*Opening balance P&L	4,50,000	2,50,000
Profit for the current year	<u>2,50,000</u>	<u>1,50,000</u>
Total	<u>7,00,000</u>	<u>4,00,000</u>

The total profits- ₹ 7,00,000+ ₹ 4,00,000 = ₹ 11,00,000.

No. of shares to be issued = 22,000 equity shares in the proportion of the preceding 2 years' profits. i.e. in 7:4.

*As the company has been in existence for two years, the opening balance of profit and loss account has been assumed to be the profit of the previous year.

2. Calculation of Net assets as on 31.3.2024

Particulars	Intelligent Ltd.	Diligent Ltd
<u>Assets (after revaluation)</u>		
Land and Buildings	11,00,000	8,50,000
Plant & Machinery	9,00,000	4,00,000
Inventories	6,00,000	3,00,000
Trade Receivables	6,00,000	3,00,000
Cash & Cash Equivalents	<u>4,00,000</u>	<u>1,00,000</u>
Total (a)	<u>36,00,000</u>	<u>19,50,000</u>
Liabilities		
Trade Payables	12,00,000	4,00,000
Gratuity Fund	<u>3,00,000</u>	<u>2,00,000</u>
Total (b)	<u>15,00,000</u>	<u>6,00,000</u>
Net Assets (a – b)	21,00,000	13,50,000

3. Calculation of 12% Debentures to be issued to Intelligent Ltd. and Diligent Ltd.

	Intelligent Ltd.	Diligent Ltd
	₹	₹
Net assets (Refer working note)	21,00,000	13,50,000
10% return on Net assets	2,10,000	1,35,000
12% Debentures to be issued	17,500	
$\left[2,10,000 \times \frac{100}{12}\right] = 17,50,000$ of ₹ 100 each		
$\left[1,35,000 \times \frac{100}{12}\right] = 11,25,000$ of ₹ 100 each		11,250

4. Calculation of Goodwill / Capital Reserve

S. No.	Particulars	Intelligent Ltd.	Diligent Ltd.	
(i)	Purchase Consideration Paid	35,25,000	21,75,000	
(ii)	Less: Net Assets	<u>21,00,000</u>	<u>13,50,000</u>	
(iii)	Goodwill	<u>14,25,000</u>	<u>8,25,000</u>	<u>22,50,000</u>

5. Consolidated Balance Sheet of Art and Craft Ltd
As on 31st March, 2024

	Particulars	Note no.	₹
I.	Equity & Liabilities		
(1)	Shareholders' fund		

(a)	Share Capital	1	6,50,000
(b)	Reserves & Surplus	2	3,73,460
(2)	Minority Interest	3	1,26,740
(3)	Current Liabilities		
(a)	Short term borrowings	4	70,000
(b)	Trade Payables (1,45,000 + 92,000)		<u>2,37,000</u>
	Total		<u>14,57,200</u>
II.	Assets		
(1)	Non-current Assets		
(a)	Property, Plant & Equipment	5	7,65,000
(2)	Current Assets		
(a)	Inventories	6	3,57,500
(b)	Trade Receivables	7	3,03,500
(c)	Cash & Cash Equivalents	8	<u>31,200</u>
	Total		<u>14,57,200</u>

Notes to Accounts

Sr. No.	Particulars	₹
1.	Share Capital <u>Issued, Subscribed & Paid-up Capital</u>	
	a) Equity Share Capital 6,500 Equity Shares of ₹ 100 each	6,50,000
2.	Reserves & Surplus	
	Profit & Loss A/c (WN 5)	2,40,100
	General Reserve (WN 5)	1,20,000
	Capital Reserve (W.N. 3)	<u>13,360</u>
		<u>3,73,460</u>
3.	Minority interest in Craft Ltd. (W.N.4)	1,26,740
4.	Short-term borrowings	
	Bank Overdraft	70,000
5.	Property, Plant & Equipment	
	Land & Building	
	Art Ltd. 1,90,000	
	Craft Ltd. <u>1,35,000</u>	3,25,000
	Plant & Machinery	
	Art Ltd. 2,31,000	
	Craft Ltd. (2,25,000-17,500+1,500) <u>2,09,000</u>	<u>4,40,000</u>
		<u>7,65,000</u>

6.	Inventories		
	Art Ltd.	1,66,000	
	Craft Ltd.	2,05,000	
	Less: unrealized profit	<u>(13,500)</u>	3,57,500
7.	Trade Receivables		
	Art Ltd.	1,33,500	
	Craft Ltd.	<u>1,70,000</u>	3,03,500
8.	Cash & Cash Equivalents		
	Art Ltd.	24,500	
	Craft Ltd.	<u>6,700</u>	<u>31,200</u>

Working Notes:

1. Shareholding Pattern

Total 4,000 shares	
3,200 shares	800 shares
Art Ltd (80%)	20% Minority Interest

2. Analysis of Profit

	General reserve	Profit and loss account
Opening balance	40,000	58,700
Closing balance	40,000	<u>2,08,000</u>
Changes during the year		<u>1,49,300</u>

Analysis of Profit

Particulars	Pre acquisition profit (6 months) (₹)	Post acquisition profit (6 months) (₹)
Opening Balances (40,000 + 58,700)	98,700	
Profit for 6 months (1,49,300 x 6/12)	74,650	74,650
Provision reversed (1,700) (W.N. 8)	850	850
Revaluation Loss (W.N. 6)	(17,500)	-
Savings in depreciation (W.N. 6)	<u>-</u>	<u>1,500</u>
Total	<u>1,56,700</u>	<u>77,000</u>
Holding (80%)	1,25,360	61,600
Minority Interest (20%)	31,340	15,400

3. Cost of Control

Particulars	₹	₹
Cost of Investment (Given)		4,32,000
Less: Share in Net Assets:		
a) Share Capital (3,200 shares × ₹100)	3,20,000	
b) Capital Profit (W.N. 2)	<u>1,25,360</u>	<u>(4,45,360)</u>
Capital Reserve		<u>13,360</u>

4. Minority Interest

Particulars	₹
Share Capital (800 shares × 100)	80,000
Capital Profit (W.N. 2)	31,340
Revenue Profit (W.N. 2)	<u>15,400</u>
Total	<u>1,26,740</u>

5. Consolidated Profit and General Reserve of Art Ltd

Particulars	Profit and loss account ₹	General reserve ₹
Balance as per Balance Sheet	1,92,000	1,20,000
Revenue Profit	61,600	-
Unrealized Profit (Downstream)	<u>(13,500)</u>	
Total	<u>2,40,100</u>	<u>1,20,000</u>

6. Calculation of Revaluation Profit /Loss

Particulars	₹
Balance as on 01.04.2023 (given)	2,50,000
Depreciation for 6 months (2,50,000 × 10% × 6/12)	<u>(12,500)</u>
WDV as on date of acquisition	2,37,500
Revalued amount	<u>2,20,000</u>
Revaluation Loss	17,500

7. Savings in Depreciation

= Depreciation Provided for 6 months – Depreciation Should be
= 12,500 – (2,20,000 × 10% × 6/12)
= 1,500

8. Calculation of provision reversed

Trade Receivable (Given) = 1,68,300 it is after provision i.e 99%

So, 100% will be 1,70,000 therefore provision will be **1,700**

As per para 20 and 21 of AS 21, Consolidated financial statements:
Consolidated financial statements should be prepared using uniform

accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

6. (a) Colour Limited leased a Machine to Red Limited on 1 April, 2021 on the Computation of Annual Lease Payment

Particulars	Amount
Cost of Equipment	18,00,000
Unguaranteed Residual Value	2,00,000
Present Value of unguaranteed residual value (₹ 200,000 x 0.7118)	1,42,360
Present Value of Lease Payments (₹ 18,00,000 – ₹ 1,42,360)	16,57,640
Present Value of Annuity for three years is 2.4018 Annual Lease Payment (16,57,640 / 2.4018)	6,90,165.71

Classification of Lease:

Parameter 1:

The present value of lease payment i.e. ₹ 16,57,649 which equals 92.09% of the fair market value i.e., ₹ 18,00,000.

The present value of minimum lease payments is substantially covers the fair value of the leased asset

Parameter 2:

The lease term (i.e. 3 years) covers the major part of the life of the asset (i.e. 5 years).

Therefore, it constitutes a finance lease.

Computation of unearned Finance Income:

Particulars	Amount
Total Lease Payments (₹ 6,90,165 x 3)	₹ 20,70,495
<i>Add:</i> Unguaranteed residual value	<u>₹ 2,00,000</u>
	<u>₹ 22,70,495</u>
Less: Present value of lease payments and residual value i.e. Net investment (1,42,360+16,57,640)	₹ 18,00,000
Unearned Finance Income	₹ 4,70,495

OR

(a) Basic Earnings per share (EPS) =

$$\frac{\text{Net profit attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$$

$$= \frac{1,84,000}{46,000 \text{ Shares (as per working note)}} = ₹ 4 \text{ per share}$$

Diluted earnings per share

Net profit for the current year	₹ 3,44,000
No. of equity shares outstanding	50,000
Basic earnings per share	₹ 4
No. of 12% convertible debentures of ₹ 100 each Each debenture is convertible into 3 equity shares	10,000
Interest expense for the current year	₹ 1,20,000
Tax relating to interest expense (30%)	₹ 36,000
Adjusted net profit for the current year	₹ (1,84,000 + 1,20,000 - 36,000) = ₹ 2,68,000
No. of equity shares resulting from conversion of debentures	30,000
No. of equity shares used to compute diluted earnings per share	46,000 + 30,000 = 76,000
Diluted earnings per share	2,68,000 / 76,000 = ₹ 3.53

Working Note:

1. Net profit attributable to equity share holders = Net profit less preference dividends

Total earnings – preference shares dividend

$$₹ 3,44,000 - ₹ (8\% \times 20,00,000)$$

$$₹ 3,44,000 - ₹ 1,60,000$$

$$= ₹ 1,84,000$$

2. Calculation of weighted average number of equity shares

As per AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period. Assuming that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows:

Date	No. of equity shares	Amount paid per share	Weighted average no. of equity shares
	₹	₹	₹
01.04.2023	50,000	80	50,000 x 80/100 x 3/12 = 10,000

01.07.2023	40,000	100	40,000 x 9/12 = 30,000
01.07.2023	10,000	80	10,000 x 80/100 x 9/12 = 6,000
Total weighted average equity shares			<u>46,000</u>

(b) In case of declaration of dividend out of free reserves, there are 3 conditions:

- (1) Dividend Rate < Average Rate of last 3 years
 $10\% < 12\% [(12+14+10)/3]$
 Condition is Satisfied
- (2) Dividend Distributed < 10% of PUSC + Reserve and Surplus
 $50,00,000 < 59,50,000 [(5,00,00,000 + 1,00,00,000 - 5,00,000) \times 10\%]$
 Condition is Satisfied
- (3) Reserves after dividend > 15% of PUSC 45,00,000 not > 75,00,000
 $(5,00,00,000 \times 15\%)$
 Condition is Not Satisfied
- (4) The closing balance of reserves after payment of dividend and set off of loss = ₹ 75,00,000
 Therefore, can be utilized = 20,00,000 (1,00,00,000 – 5,00,000 – 75,00,000)
 Thus, rate of dividend = $(20,00,000/5,00,00,000) = 4\%$

Alternatively

To judge the recommendation of management, the satisfaction of all three conditions is to be checked:

- (1) Condition I
 The proposed dividend of 10% is less than the average rate of dividend being 12%
 (i.e.) $(12+14+10) / 5 = 12\%$.
 Hence, this condition is satisfied.
- (2) Condition II
 Amount to be withdrawn.

10% dividend on Equity share capital	50,00,000
+ Loss of Current year	<u>5,00,000</u>
Amount to be drawn from General Reserve	<u>55,00,000</u>

Maximum amount that can be withdrawn should not exceed 10% of paid-up share capital + free reserves.

$$= 10\% \text{ of } [₹ 500 \text{ lakhs} + ₹ 100 \text{ lakhs}] = ₹ 60,00,000$$

As the amount to be withdrawn is within the maximum limit, hence, this condition is also satisfied.

(3) Condition III

Balance of reserves after withdrawal (100-55) ₹ 45,00,000

15% of paid-up capital ₹ 75,00,000

As the balance of reserves should not be less than 15% of its paid-up share capital, but here the balance of reserves after withdrawal is less than 15% of paid-up share capital, hence this condition is not satisfied, hence, 10% dividend cannot be declared.

Maximum withdrawal of Reserve if condition II is satisfied.

Opening balance of Reserves in the beginning of the year = ₹ 1,00,00,000

- Closing balance of reserves being 15% of paid-up capital = ₹ 75,00,000

Reserves available = ₹ 25,00,000

Maximum permissible Divisible Profits

Permissible withdrawal as above = ₹ 25,00,000

Less: Current Year's Loss = ₹ 5,00,000

Maximum permissible Divisible profit = ₹ 20,00,000

Actual permissible rate of Dividend =

$$(₹ 20,00,000 / ₹ 5,00,00,000) \times 100 = 4\%$$

Therefore, the recommendation of management is not justified and a dividend only up to a rate of 4% can be declared.

(c) **Converted branch trail balance (in the books of head office)**

Particular	Dr. \$	Cr. \$	Rate per \$	₹ Dr.	₹ Cr.
Expenditure	1,03,095		56	57,73,320	
Cash & bank balance	2,175		58	1,26,150	
Debtors	7,365		58	4,27,170	
Fixed assets	27,360		55	15,04,800	
Depreciation 20%	6,840		55	3,76,200	
Inventory P	5,520		Direct	2,85,000	
Inventory Q	1,065		53	56,445	
Income		1,32,000	56		73,92,000
Creditors		15,570	58		9,03,060
HO control A/c		5,820			2,66,265
Exchange difference				<u>12,240</u>	
				<u>85,61,325</u>	<u>85,61,325</u>

Working Note:

Inventory P	\$ 5,520	Inventory Q	\$ 1,065
Purchased Cost rate	56.50	NRV	\$ 1,035
NRV	₹ 2,85,000	Closing rate	58
Cost	₹ 3,11,880	Purchased Cost rate	53
Value at cost or NRV whichever is less	₹ 2,85,000	Value at cost or NRV whichever is less	\$ 1,035 @ ₹ 58 or \$1,065 @ ₹ 53 = 56,445 or 60,030