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Answer Paper	
Accounting	**Duration**: 180
Details: Test – 1 (Full Syllabus)	**Marks**: 100

Instructions:

- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material. Attempt as much as you know to fairly judge your performance.

SUGGESTED ANSWER

A-1: (a) Ministry of Corporate Affairs, Government of India, inserted paragraph 46A in notified AS 11 by Notification dated 29th December, 2011, which is relevant for companies. It states that in respect of accounting periods commencing on or after 1st April, 2011, for an enterprise which had earlier exercised the option under paragraph 46 or not (such option to be irrevocable and to be applied to all such foreign currency monetary items), the exchange difference arising on reporting of long term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a depreciable capital assets, can be added to or deducted from the cost of the asset and shall be depreciated over the balance life of the asset.

Accordingly, though Option Ltd. Had not earlier exercised the option as given by the notification on AS 11, issued in 2009, yet it can avail the option to capitalize the exchange difference to the cost of the machinery. The amount recognized to Profit and Loss account would be Rs.10 lakhs.

(b) Valuation of Investment: AS 13 on "Accounting for Investments" requires investments to be classified as long term and current investments distinctly in its financial statements. The investments in shares in a joint Venture can very well be considered as trade investments since they would not be intended to be liquidated within a period of one year from its acquisition. Hence they would be classified as long term investments.

AS 13 states, "long-term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually". In the instant case, the decline in the value of investment seems to be temporary and the company has profitable plans in the coming years. Also investments in LTI are never valued at MV but even cash flows are considered.

Conclusion: No diminution required.

(c)

Cost element	**Total Cost**	**X(6250X80) 2**	**Y (5000 X50) 1**	**Z**
Raw Material	160,000			
Less: Scrap	6,000			
	154,000			
Less: Cost of by-product	25,000			25,000
	129,000			
Add: Wages	82000			
Fixed overheads	58000			
Variable overheads	40,000			
Distributed in 2:1	309,000	2,06,000	1,03.000	

Cost of by product at the point of separation:

Sale Price by product		40,000
Less: Separate processing	4,000	
Packing	6,000	
Profit	5,000	15,000
		25000

Closing Stock Valuation

	X	**Y**
Total cost	2,06,000	1,03,000

Number of unit product	6250	5000
Closing stock	800	200
Value of closing stock (a/b X c)	26,368	4,120

(d) The new power train will produce economic benefits to XYZ Ltd., and the cost is measurable. Hence the item should be recognized as an asset as per AS 10 (Revised) as the recognition criteria is satisfied. The original invoice for the transporter did not specify the cost of the power train. However, its cost of the replacement is Rs 45,000 which can be used as an indication (usually by discounting factor) of the likely cost, six years previously.

If an appropriate discount rate is 5% per annum, Rs 45,000 discounted back six years amounts to Rs 33,570 (45,000 x 0.746), which would be written out of the asset records. The cost of the new power train, Rs 45,000, would be added to the asset record, resulting in a new asset cost of Rs 1,11,430 (Rs 1,00,000 – Rs 33,570 + Rs 45,000).

(5 x 4 = 20 Marks)

A-2 : (a)

INVESTMENT ACCOUNT – EQUITY SHARES IN X LTD.

DATE		NO. OF SHARES	DIVIDEND	AMOUNT	DATE		NO. OF SHARES	DIVIDEND	AMOUNT
			Rs.	Rs.				Rs.	Rs.
2017					2018				
April 1	To Balanced b/d	4,000	-	60,000	Jan.20	By bank (Dividend)		8,000	2,000
Sept.1	To Bank	1,000	-	14,000	Feb.1	By Bank	4,000		56,000
Sept.30	To Bonus	2,000		-	Mar.31	By	4,000		42,250

	Issue					Balance c/d			
Dec.1	To Bank(Right)	1,0000	-	12,500					
2018									
Feb.1	To Profit & Loss A/c			13,750					
Feb.1	To Profit & Loss A/c(divided income)		8,000						
		8,000	8,000	1,00,250			8,000	8,000	1,00,250
April 1	To Balance b/d	4,000		42,250					

Working Note:

1. COST OF SHARES SOLD – AMOUNT PAID FOR 8,000 SHARES

	Rs.
(Rs.60,000 +Rs.14,000 +Rs.12,500)	86,500
Less : dividend on shares purchased on 1st sept,2017	(2,000)
Cost of 8,000 shares	84,500
Cost of 4,000 shares (average cost basis*)	42,250
Sale proceeds (4,000 shares @ 14/-)	56,000
Profit on sale	13,750

*For ascertainment of cost for equity shares sold average cost basis has been applied

2. VALUE OF INVESTMEMNT AT THE END OF THE YEAR

Closing balance will be valued based on the lower of cost (Rs.42,250) or net realizable value (Rs.13 x 4,000) . Thus investment will be valued at Rs. 42,250.

3. CALCULATION OF SALE OF RIGHT ENTITLEMENT

1,000 shares x Rs. 8 per share = Rs. 8,000

Amount received from sale of rights will be credited to P & L A/c as per As 13 ‘accounting for investments’

4. DIVIDEND RECEIVED ON INVESTMENT HELD AS ON 14.2017

= 4,000 shares x Rs. 10 x 20%

= Rs.8,000 will be transferred to profit and loss A/c

Dividend received on shares purchased on 1^{st} sep.2017

= 1,000 shares x Rs.10 x20% =Rs.2,000 will be adjusted to investment A/c

NOTE: it is presumed that no dividend is received on bonus shares as bonus shares are declared on 30^{th} Sept , 2017 and dividend pertains to the year ended 31.3.2017

(12 Marks)

(b)

STATEMENT OF CLAIM

Particulars		**Rs.**
A. Estimated Value of Stock As at date of fire		
(a) Book-Value of Normal Items	Rs.54,600	
(b) Current Value of Abnormal Items (50% of 6,900]	Rs.3,450	58,050
B. Value of Salvaged Stock		5,800
C. Estimated Value of Stock Lost by fire (A - B)		52,250
D. Amount of claim by applying Average clause:		

Loss suffered x Sum Insured/Actual Insurable Value = 52,250 x 50,000/58,050	45,004

Working Notes:

(1) TRADING ACCOUNT FOR THE YEAR ENDING ON 31ST DEC., 2017

Particulars	Rs.	Particulars		Rs.
To Opening Stock	73,500	By Sales		4,87,000
To Purchases	3,98,000	By Closing Stock Valued	79,600	
To Gross Profit (b.f)	97,400	Add: w/o	2,300	81,900
GPR = 97,400/4,87,000 x 100 = 20%				
	5,68,900			5,68,900

(ii) MEMORANDUM TRADING ACCOUNT FOR THE PERIOD FROM 01.01.2018 TO 30.06.2018

Particulars	Normal Items Rs.	Abnormal Items Rs.	Total Items Rs.	Particulars	Normal Items Rs.	Abnormal Items Rs.	Total Items Rs.
To Opening Stock	75,000	4,600	79,600	By Sales	2,28,000	3,200	2,31,200
To Purchases	1,62,000	---	1,62,000	By Closing Stock	54,600	2,300	56,900
To Gross Profit@20%	45,600	900	46,500	By Gross Loss	---	---	---
	2,82,600	5,500	2,88,100		2,82,600	5,500	2,88,100

(8 Marks)

A-3: (a)

CALCULATION OF INTEREST AND CASH PRICE

Installment No	Closing balance	Installment Amount	O/S balance at the end before the payment of installment	Interest	Opening balance
[1]	**[2]**	**[3]**	**[4] = 2 + 3**	**[5] = 4 x 10/110**	**[6]= 4 - 5**
3rd	-	2,75,000	2,75,000	25,000	2,50,000
2nd	2,50,000	2,45,000	4,95,000	45,000	4,50,000
1st	4,50,000	2,65,000	7,15,000	65,000	6,50,000

Total cash price = Rs.6,50,000 + 5,00,000 (down payment) = Rs. 11,50,000.

TRACTORS ACCOUNT IN THE BOOKS OF LUCKY

DATE	PARTICULARS	Rs.	DATE	PARTICULARS	Rs.
01.04.2015	To Happy a/c	11,50,000	31.03.2016	By Depreciation A/C	2,30,000
				Balance c/d	9,20,000
		11,50,000			11,50,000
01.04.2016	To Balance b/d	9,20,000	31.03.2017	By Depreciation A/C	1,84,000
				Balance c/d	7,36,000
		9,20,000			9,20,000
01.04.2017	To Balance b/d	7,36,000	31.03.2018	By Depreciation A/C	1,47,200
				By happy a/c (value of	1,97,225

				1 Tractor taken over after depreciation for 3 years @ 30% p.a){ 5,75,000-(1,72,500+1,20,750+84,525)]	
				By loss transferred to profit and loss a/c on surrender (bal.fig.) or (2,94,400 – 1,97,225)	97,175
				By Balance c/d 1/2 (7,36,000-1,47,200 =5,88,800)	2,94,400
		7,36,000			7,36,000

HAPPY ACCOUNT

DATE	PARTICULARS	Rs.	DATE	PARTICULARS	Rs.
01.04.2015	To bank (Down Payment)	5,00,000	01.04.2015	By tractor A/c	11,50,000
31.03.2016	To bank 1st installment	2,65,000	31.03.2016	By interest A/c	65,000
	To Balance c/d	4,50,000			
		12,15,000			12,15,000
31.03.2017	To bank 2nd installment	2,45,000	01.04.2016	By balance B/d	4,50,000
	To Balance c/d	2,50,000	31.03.2017	By interest A/c	45,000
		4,95,000			4,95,000

31.03.2018	To tractor A/c	1,97,225	01.04.2017	By balance B/d	2,50,000
	To Balance c/d	77,775	31.03.2018	By interest A/c	25,000
		2,75,000			2,75,000
30.06.2018	To Bank (amount settled after 3 months)	81,275	01.04.2018	By balance B/d	77,775
			30.06.2018	By interest A/c(@ 18% on Bal.)(77,775 X 3/12 X 18/100)	3,500
		81,275			81,275

(10 Marks)

(b)

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

Particulars	**Ratio**	**Pre-Incorporation Rs**	**Post-Incorporation Rs**
I. Gross Profit [9,45,000 – 27,000]	4:14	2,04,000	7,14,000
II. Other Income [9,000 + 27,000 + 16,000]		52,000	-
III. Total Revenue [I + II]		2,56,000	7,14,000
II. Expenses			

Employees benefit Exp. [refer to working note]		1,44,000	3,04,000
Finance Costs [Interest on Co.'s Debentures]		-	80,000
Depreciation and Amortization Expenses	1:2	7,000	14,000
*Other Expenses		77,000	2,54,000
Total Expenses		2,28,000	6,52,000
III. Profit for the Period		**28,000**	**62,000**

Note- Profit for the pre- incorporation period will be treated as of capital nature and hence will be credited to capital reserve account but profit for the post- incorporation period will be treated as of revenue nature hence will remain in the Profit and Loss Statement.

Note as to Apportionment of other expenses

Particulars	Ratio	Pre-Incorporation Rs	Post-Incorporation Rs
Advertisement	4:14	22,000	77,000
Audit Fee	1:2	5,000	10,000
Bad dents	4:14	8,000	28,000
Discount	4:14	2,000	7,000
Preliminary expenses	Post	-	12,000
Rent	W.N (v)	40,000	1,00,000
Underwriting Commission	Post	-	20,000
		77,000	2,54,000

Working Notes:

(i) Calculation of sales Ratio

Lest us assume average monthly sales be X

Average sales during pre- incorporation period:

April – July = 4 x X = 4X

Average sales during post- incorporation period:

August – November = 4 x 1.5X = 6 X

December – March = 4 x 2X = 8X

Total average sales during post- incorporation period = 14 X

Ratio of sales between pre- incorporation and post incorporation period is 4X: 14X i.e. 4: 14.

(ii) Calculation of time ratio

4 months: 8 Months = 1: 2

(iii) Gross Profit related to trading activity

Particulars	Rs
Gross profit as per Profit and Loss a/c	9,45,000
Less: Profit on sale of Investment	(27,000)
Gross Profit related to trading activity	9,18,000

Gross profit apportioned in the ratio of sale 4:14 between pre incorporation and post-incorporation period i.e. Rs 2,04,000 and Rs 7, 14, 000 respectively.

(iv) Apportionment of bad Debts

Particulars	Rs
Bad debts as per profit and Loss A/c	27,000
Add: Bad debts recovered considered separately	9,000
	36,000

Bad debts apportioned in the ratio of sales 4:14 between pre- incorporation and post incorporation period i.e. Rs 8,000 and 28,000 respectively.

(v) Apportionment of Rent

Particulars	Rs

Total Rent	1,40,000
Less: Additional rent on new premises for 4 months (December to March)	(20,000)
Rent for old premises for 12 months	1,20,000

Particulars	**Pre. Inc.** **Rs**	**Post. In** **Rs**
Rent for old premises in time ratio 1:2	40,000	80,000
Rent for new premise	-	20,000
Apportioned rent	40,000	1,00,000

(vi) Apportionment of salary

Particulars	**Rs**
Total salary	4,48,000
Less: Increased salary of manager for 8 months @ Rs 2,000 p.m.	(16,000)
Normal salary for 12 months	4,32,000

Particulars	**Pre. Inc.** **Rs**	**Post. In** **Rs**
Normal salary in time ratio 1: 2	1,44,000	2,88,000
Increased salary of manager for post incorporation period only	-	16,000
Apportioned salary	1,44,000	3,04,000

(vii) Interest on debentures, underwriting commission and preliminary expenses are related to post incorporation period.

(10 Marks)

A-4 **TRADING & PROFIT/LOSS ACCOUNT**

For the year ended 31st March, 2018

Particulars	**Rs.**		**Particulars**		**Rs.**
To Opening Stock		60,000	By Sales		
To Purchases			Cash Sales	1,20,000	
Cash Purchases	72,000		Credit Sales	4,20,000	
Credit Purchases	4,20,000		Less: Sales Returns	(60,000)	4,80,000
Less: Purchase Returns	(60,000)		By Closing Stock		1,02,000
Less: Advertisement	(9,000)				
Less: Drawings	(1,000)	4,22,000			
To Freight Inward		4,000			
To Gross Profit		96,000			
		5,82,000			5,82,000
To Advertising		9,000	By Gross Profit B/d		96,000
To Bad Debts		9,375	By Discount Received		11,500
To Rebate Allowed		200	By Rebate Received		1,000
To Discount Allowed		16,125	By Accrued Interest on Govt. Securities		200
To Discount on bill		500			
To Loss by fire		20,000			
To Depreciation		12,000			
To Expenses		19,500			

(Balancing figure)					
To Net Profit		22,000			
		1,08,700			1,08,700

BALANCE SHEET OF BHARAT AS AT 31.03.2018

Liabilities	Rs.		Assets	Rs.	
X's Capital Account			Fixed Assets		
Opening Balance	1,80,000		Opening Balance	60,000	
Add: Net Profit	22,000		Less: Loss Due to fire	(20,000)	
Less: Drawings	(1,01,000)	1,01,000	Add: Addition	80,000	
Creditors		30,000	Less: Depreciation	(12,000)	1,08,000
Outstanding Business Exp. A/c		11,000	Closing Stock		1,02,000
Bank overdraft		1,39,700	Debtors		60,000
B/P		25,000	B/R		5,000
			Prepaid Business Expenses		4,000
			4% Govt. Securities		9,600
			Interest Accrued		200
			Due From Cashier		17,900
		3,06,700			3,06,700

Working Notes:

(1) CALCULATION OF CASH AND CREDIT SALES DURING THE CURRENT YEAR:

Particulars	**Rs.**
A. Previous year's Total Sales (Gross Profit/GP Ratio) (Rs.80,000/.20)	4,00,000
B. Add: Increase in Sales during current year @ 20%	80,000
C. Current year's Total Sales (A + B)	4,80,000
D. Less: Cash Sales @ 25% of Net Sales (4,80,000 x 25%)	1,20,000
E. Net Credit Sales (C-D)	3,60,000
F. Add: Sales Returns (3,60,000 x 1/6)	60,000
G. Gross Credit Sales (E+F).	4,20,000

(II) CALCULATION OF CASH AND CREDIT PURCHASES DURING THE CURRENT YEAR

Particulars	**Rs.**
A. Current year's Total Sales	4,80,000
B. Less: Gross Profit @ 20%	96,000
C. Cost of Goods Sold (A - B)	3,84,000
D. Add: Closing Stock (Rs.60,000 + Rs.42,000)	1,02,000
E. Add: Material used in advertising	9,000
F. Add: Goods used as drawings	1,000
G. Less: Opening Stock	60,000
H. Less: Freight inward	4,000
I Total Purchases	4,32,000
J. Less: Cash Purchases (4,32,000 X 1/6)	72,000
K. Net Credit Purchases	3,60,000
L. Add: Purchase Returns (3,60,000 X 1/6)	60,000
M. Gross Credit Purchases	4,20,000

(III) DEBTORS ACCOUNT

Particulars	Rs.	Particulars	Rs.
To Balance b/d	50,000	By Sales Returns A/c	60,000
To Sales A/c	4,20,000	By Bank A/c	9,375
To Creditors (Dish. of Endorsed B/R)	25,000	By Bad Debts A/C	9,375
To Bank A/C (Dish. of Discounted B/R)	12,500	By Discount Allowed A/c [2,68,750 X6%]	16,125
		By Bank A/c (Rs.2,52,625 x 20%]	50,525
		By Cash A/C	2,02,100
		By B/R A/C	1,00,000
		By Balance c/d	60,000
	5,07,500		5,07,500

(IV) CREDITORS ACCOUNT

Particulars	Rs.	Particulars	Rs.
To Purchase Returns A/C	60,000	By Balance b/d	25,000
To Bank A/C	1,74,800	By Purchases A/c	4,20,000
To Cash A/C	43,700	By Debtors A/c (Dish. of Endorsed B/R)	25,000
To Discount Received A/C (82,18,500 x 5/95]	11,500		

TO BIP	1,00,000		
TO BIR (Endorsed B/R) (b.f.)	50,000		
To Balance c/d	30,000		
	4,70,000		4,70,000

(V) BILLS RECEIVABLE ACCOUNT

Particulars	Rs.	Particulars	Rs.
To Debtors A/c (B/R Drawn)	1,00,000	By Creditors A/c (Endorsed B/R)	50,000
(Balancing Figure)		By Bank A/C	24,500
		By Discounting Charges A/C	500
		By Bank A/c	9,800
		By Rebate Allowed	200
		By Bank A/C	10,000
		By Balance c/d	5,000
	1,00,000		1,00,000

(VI) BILLS PAYABLE ACCOUNT

Particulars	Rs.	Particulars	Rs.
To Bank A/c	25,000	By Creditors A/C (B/P Accepted) (Balancing Figure)	1,00,000
To Bank A/c	49,000		
To Rebate Received	1,000		
To Balance c/d	25,000		
	1,00,000		1,00,000

(VII) FIXED ASSETS ACCOUNT

Particulars	Rs.	Particulars	Rs.
To Balance b/d	60,000	By Loss by fire	20,000
To Bank A/c (Purchases) (Balancing Figure)	80,000	By Depreciation A/c (1,08,000 x 10/90)	12,000
		By Balance c/d	1,08,000
	1,40,000		1,40,000

(VIII)

CALCULATION OF OPENING CAPITAL

BALANCE SHEET AS AT 31.03.2017

Liabilities	Rs.	Assets	Rs.
Outstanding Business Expenses	55,000	Fixed Assets	60,000
Trade Creditors for Goods	25,000	Stock	60,000
Capital (Balancing Figure)	1,80,000	Trade Debtors	50,000
		Cash	5,000
		Bank	65,000
		Prepaid Business Expenses	20,000
	2,60,000		2,60,000

(ix) Net Profit for current year = Closing Capital + Drawings - Opening Capital

= Rs.1,01,000 + 1,01,000 - Rs.1,80,000 = 22,000.

(X) BUSINESS EXPENSES ACCOUNT

Particulars	Rs.	Particulars	Rs.
To Prepaid Expenses A/c (Beg.)	20,000	By Outstanding Exp A/c (Beg.)	55,000
To Bank A/c (80% of 47,500)	38,000	By Profit & Loss A/C	19,500
To Cash A/c (20% of 47,500)	9,500	By Prepaid Expenses A/c (End)	4,000
To Outstanding Exp A/C (End)	11,000		
	78,500		78,500

(XI) CASH BOOK

Particulars	Cash Rs.	Bank Rs.	Particulars	Cash Rs.	Bank Rs.
To Balance b/d	5,000	65,000	By Cash Purchases A/C	72,000	
To Cash Sales A/C	1,20,000		By Creditors A/c	43,700	1,74,800
To Debtors A/C	2,02,100	50,525	By Freight	4,000	
To Cash A/c(C)		1,00,000	By Fixed Assets A/c		80,000
To B/R A/C		24,500	By Business Exp.	9,500	38,000
To Debtors A/C		9,375	By Drawings A/C	80,000	20,000
To B/R A/C		9,800	By Bank A/c (C)	1,00,000	
To B/R A/C		10,000	By Debtor A/c (Dish of B/R)		12,500
To Balance c/d		1,39,700	By B/P		49,000
			By B/P		25,000

			By Govt. Securities		9,600
			By Balance c/d	17,900	
			(Defalcated by cashier)		
	3,27,100	4,08,900		3,27,100	4,08,900

(20 Marks)

A-5: (a)

DEPARTMENTAL TRADING AND PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDING ON 31ST MARCH, 2018

Particulars	**A**	**B**	**C**	**Total**	**Particulars**	**A**	**B**	**C**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**		**Rs.**	**Rs.**	**Rs.**	**Rs.**
To opening Stock	3,000	4,000	6,000	13,000	By Internal t/f	18,0000	33,000	-	51,000
To Direct material consumed	8,000	12,000	---	20,000	By Sales	---	-	34,000	34,000
To Wages	5,000	10,000	---	15,000	By Closing Stock	4,000	14,000	8,000	26,000
To Internal Transfer	---	18,000	33,000	51,000					
To Gross	6,000	3,000	3,000	12,000					

Profit c/d									
	22,000	47,000	42,000	1,11,000		22,000	47,000	42,000	1,11,000
To Salaries	1,000	500	500	2,000	By Gross Profit b/d	6,000	3,000	3,000	12,000
To Printing & Stationery	500	250	250	1,000	By Net Loss c/d	2,000	1,000	1,000	4,000
To Rent	3,000	1,500	1,500	6,000					
To Depreciation	1,500	750	750	3,000					
To Interest paid	2,000	1,000	1,000	4,000					
	8,000	4,000	4,000	16,000		8,000	4,000	4,000	16,000
To Net Loss b/d				4,000	By Provision for unrealized profit on opening stock				3,000
To Provision for Unrealized profit On closing stock				3,918	By Balance t/f to profit & Loss A/C				4,918
				7,918					7,918

Working Notes:

(i) FIFO method for stock issue has been assumed. Alternatively this question could have been solved by assuming other methods for stock issue like LIFO Basis, Weighted Average basis, etc.

(ii) CALCULATION OF UNREALISED PROFIT ON CLOSING STOCK OF DEPTT B

Particulars	Rs.
Current cost incurred by Dept. B (Rs.12,000 + Rs.10,000+ Rs. 18,000)	40,000
Profit included in Above (18,000 x 50/150)	6,000
Profit included in closing stock of Rs.14,000 (Rs. 6,000 x Rs.14,000/Rs. 40,000)	2,100

(III) CALCULATION OF UNREALISED PROFIT ON CLOSING STOCK OF DEPT C

	Particulars	Rs.
A	Current Cost incurred by Dept. C	33,000
B	Profit of Dept. B included in above (33,000 x 10/110)	3,000
C	Cost element of Dept. B included in current cost (33,000 - 3,000)	30,000
D	Profit of Dept. A included in above cost (6,000 x 30,000/ 40,000)	4,500
E	Total Profit included in current cost of Dept. C (3,000 + 4,500)	7,500
F	Unrealized profit included in closing stock of 8,000 (7,500 X 8,000/ 33,000)	1,818
(iv)	Total unrealized profit (2,100 + 1,818)	3,918

(10 Marks)

(b) TRADING AND PROFIT AND LOSS AIC FOR THE YEAR ENDED 31ST MARCH 2018

Particulars	HO	Branch	Particulars	HO	Branch
To Opening stock	1,25,000	-	By Sales	23,79,600	7,30,000

To Purchases	21,50,000	-	By Goods sent to branch	7,38,000	-
To Goods from HO	-	7,38,000	By Closing stock	5,43,000	81,000
To Gross profit c/d	13,85,600	73,000			
	36,60,600	8,11,000		36,60,600	8,11,000
To Office expenses	50,000	4,500	By Gross profit b/d	13,85,600	73,000
To Selling expenses	32,000	3,300			
To Staff salaries	45,000	8,000			
To Branch Stock Reserve	36,000	-			
To Net Profit	12,22,600	57,200			
	13,85,600	73,000		13,85,600	73,000

Working Note:

(1) CALCULATION OF CLOSING STOCK OF HEAD OFFICE

Particulars	**Rs.**
Opening Stock of head office	1,25,000
Goods purchased by head office	21,50,000
	22,75,000
Less: Cost of goods sold [31,17,600 (23,79,600+ 7,38,000) x 100/180]	(17,32,000)
	5,43,000

(2) CALCULATION OF CLOSING STOCK OF BRANCH

Particulars	Rs.
Goods received from head office [At invoice value]	7,38,000
Less: Invoice value of goods sold [7,30,000 x 180/200]	(6,57,000)
	81,000

(3) CALCULATION OF UNREALIZED PROFIT IN BRANCH STOCK:

Particulars		Rs.
Branch stock	Rs.81,000	
Profit included	80%of cost	
Hence, unrealized profit would be = 81,000 x 80/180		Rs.36,000

(10 Marks)

A-6: (a) CASH FLOW STATEMENT OF TU TULSIAN LTD FOR THE YEAR ENDED 31ST MARCH 2018

A Cash Flow from Operating Activities		**Rs.**
Net Profit [9,50,000 - (40,000) + 10,000 (t/f to Reserve)]		10,00,000
Add: Depreciation [(7,65,000 x 15/85)]		1,35,000
Add: Goodwill amortized [60,000 - (26,640 + 10,000 + 18,360 – 15,000)]–15,000		5,000
Less: Under valuation of Opening stock (54,000 x 10/90)		(6,000)
Less: Compensation received		(90,000)
Less. Capital Grant amortized		(10,00,000)
Operating Profit before Working Capital changes		44,000
Add: Increase in Provision for doubtful debts	40,000	

LESS: Increase in Inventories [(95,640 - 26,640) - (54,000 + 6,000)]	(9,000)	
Increase in Trade Receivables [(7,50,000 – 10,000)-6,25,000]	(1,15,000)	
Decrease in Trade Payable [(1,05,000-15,000)-1,00,000]	(10,000)	(94,000)
Operating profit before extraordinary items		(50,000)
Add: compensation received		90,000
Less: voluntary separation payments [(1,25,000+50,000)-65,000]		(1,10,000)
Cash used in operating activities		(70,000)
B Cash Flow from investing Activities		
Purchase of machinery [(7,65,000+1,35,000)-5,00,000-18,360]		3,81,640
C Cash Flow from financing Activities		
Issue of equity share capital [(9,10,000-50,000-1,00,000-1,60,000)-5,00,000]		1,00,000
Grant received		18,00,000

Note: debtors written off against provision for doubtful debts do not require any further adjustment in cash flow statement.

(b) BALANCE SHEET OF HAPPY LTD. AS AT 15.5.2018

Particulars	Note No	Rs.(lacs)
1. Equity and Liabilities		

(1) Shareholders 'Funds		
(a) Share Capital (10 each)	1	25,00,000
(b) Reserves and Surplus	2	4,80,000
(2) Non-Current Liabilities (12% Debentures]		4,00,000
(3) Current Liabilities		2,20,000
Total		36,00,000
Assets		
(1) Non-Current Assets		
(a) Fixed Assets		
Tangible Assets		20,00,000
(b) Non-Current Investments		4,40,000
(2) Current Assets (5,60,000 + 6,00,000]		11,60,000
Total		36,00,000

Notes to Accounts:

Particulars	**Rs.(lacs)**
1. Share Capital	
2,50,000 Equity Shares of 10 each (Of the above 50,000 Shares were issued by way of bonus for considerations otherwise than cash)	25,00,000
2. Reserves and Surplus	
Debentures Redemption Reserve	
Profit & Loss Account (5,20,000 - 60,000]	4,60,000
Securities Premium	20,000

Total	4,80,000

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Date	Particulars	Dr.	Cr.
01.04.2018	Equity Share Final Call A/C Dr.	6,00,000	
	To Equity Share Capital A/C		6,00,000
	(Being final call of 3 per share on 2,00,000 equity shares made)		
30.04.2018	Bank A/C Dr.	6,00,000	
	To Equity Share Final Call A/C		6,00,000
	(Being final call money on 2,00,000 equity shares received)		
15.05.2018	Capital Reserve A/c Dr.	1,30,000	
	Securities Premium A/C (90,000 - 20, 000) Dr.	70,000	
	General Reserve A/C Dr.	2,40,000	
	Profit & Loss A/C Dr.	60,000	
	To Bonus to Shareholders A/C		5,00,000
	(Being bonus issue @ one share for every four shares held, by utilizing various reserves)		
15.05.2018	Bonus to Shareholders A/C Dr.	5,00,000	
	To Equity Share Capital A/C		5,00,000
	(Being capitalization of reserves and profits)		

Working Notes:

(1) AUTHORISED SHARE CAPITAL

Particulars	Number of shares
Existing number of authorized share capital	2,00,000
Add: Issue of bonus shares to existing equity shareholders	50,000
Add: Shares required for conversion of debentures	40,000
Add: Bonus shares to be issued to debenture holders after conversion	10,000
Total authorized share capital as on May 15, 2018 should be	3,00,000

(i) As per SEBI guidelines, no company can issue bonus shares to its shareholders without extending similar benefit to convertible debenture holders. Pending such conversion, necessary number of shares should be earmarked for convertible debenture holders. Therefore, convertible debenture holders are also entitled to the bonus shares in the same ratio as the equity shareholders on conversion.

(ii) As per SEBI guidelines, securities premium collected in cash can only be utilized for bonus issue

(c) Working notes:

Divisible profits available = 1,60,000 + 1,18,546 = 2,78,546

Face value of shares to be redeemed = 5,00,000

Minimum amount of new issue = 5,00,000 - 2,78,546 = 2,21,454.

But as no fraction of a share can be allotted, and new shares are of Rs. 10 each, the minimum amount of new issue = 2,21,460

Security premium to be received = 10% of 2,21,460 = 22,146.

Total security premium = 14,000 + 22,146 = 36,146

Premium payable on redemption of preference shares= 5/100*5,00,000 = 25,000

As the total share premium after the new issue would be sufficient to take care of the premium payable on redemption of preference shares, the company can proceed to redeem the preference shares by issuing 22,146 new equity shares of Rs. 10 each.

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Bank	2,43,606	
To equity share capital account		2,21,460
To securities premium account		22,146
(Allotment of 22,146 equity shares of 10each at a premium of 1 per share)		
Securities premium account	25,000	
To premium on redemption of preference share account		25,000
(Utilisation of Securities premium account for meeting the premium payable on redemption of preference share)		
General Reserve	1,60,000	
Profit and loss account	1,18,540	
To capital redemption Reserve account		2,78,540
(Creation of capital redemption Reserve account out of divisible profits for redemption of preference shares)		
Declared preference dividend account	49,800	
To bank		49,800
(Payment of declared preference dividend)		
bank	2,000	
To calls in arrear account		2,000

(Receipt of calls in arrear in respect of preference share)		
10% redeemable of preference share capital account	5,00,000	
Premium on redemption of preference share account	25,000	
To preference shareholders account		5,25,000
(Amount payable to preference shareholders on redemption of preference shares at a premium of 5%)		
Preference shareholders account	5,25,000	
To bank		5,25,000
(Payment made to preference shareholders to redeem all the preference shares at a premium of 5%)		

(d) AN EXTRACT OF BALANCE SHEET OF TULSIAN LTD. AS AT ....

Particulars	**Note No**	**Rs.(lacs)**
Equity and Liabilities		
(1) Shareholders 'Funds		
(a) Share Capital		
(b) Reserves and Surplus(Capital Reserve)		1,800
(**2) Non-Current Liabilities** (9500, 12% Debentures]		9,50,000
(3) Current Liabilities		
Total		
II. Assets		
(1) Non-Current Assets		
(a)Other Non-Current Assets (Discount on Issue of Debentures]		15,000
(2) Current Assets		
Total		

STATEMENT OF PROFIT & LOSS FOR THE YEAR ENDING 31ST DEECEMBER, 2018

2017	Particulars	Rs.
1,20,000	Interest on Debentures A/C	1,18,800
5,000	Discount on Issue of Debentures W/o	-

Working Notes:

1. DEBENTURE INTEREST

Particulars	Rs.
on 30.6.2018 on 10,00,000 for 6 months @ 12%	60,000
On 31.12.2018 on 39,80,000 for 6 months @ 12%	58,800
	1,18,800

2. Profit on cancellation

On Rs.20,000 @ 3% = 600

On Rs.30,000 @ 4% = 1,200

(e) Enterprises which fall in any one or more of the following categories, at any time during the accounting period, are classified as Level I enterprises:

(i) Enterprises, whose equity or debt securities are listed or is in the process of being listed in India or outside India.

(ii) Banks (including co-operative banks), Insurance companies and Financial Institutions.

(iii) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the bases of audited financial statements exceeds 50 crores. Here turnover does not include other income.

(iv) All commercial, industrial and business reporting enterprises whose total borrowings including public deposits exceeds 10 crores, at any time during the accounting period.

(v) Holding and subsidiary companies of any of the above enterprises at any time during the accounting period.

(5 x 4 = 20 Marks)