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 indicated in answer by the candidates.

Working Notes should form part of the answer.

Question 1

Answer the following questions:

(a) *In the books of Topmaker Limited, carrying amount of Plant and Machinery as on 1st April, 2022 is ₹ 56,30,000.*

On scrutiny, it was found that a purchase of Machinery worth ₹ 21,12,000 was included in the purchase of goods on 1st June, 2022. On 30th June, 2022 the company disposed a Machine having book value of ₹ 9,60,000 (as on 1st April, 2022) for ₹ 8,25,000 in part exchange of a new machine costing ₹ 15,65,000.

The company charges depreciation @ 10% p.a. on written down value method on Plant and Machinery.

You are required to compute:

(i) *Depreciation to be charged to Profit & Loss Account;*

(ii) *Book value of Plant & Machinery as on 31st March, 2023; and*

(iii) *Profit/Loss on exchange of Plant & Machinery.* ***(5 Marks)***

(b) *Trower Limited is an Indian importer. It imports goods from True View Limited situated at London. Trower Limited has a payable of £50,000 to True View Limited as on 31st March, 2023. True View Limited has given Trower Limited the following two options:*

(i) *Pay immediately with a cash discount of 1% on the payable.*

(ii) *Pay after 6 months with interest @ 5% p.a. on the payable.*

The borrowing rate for Trower Limited in rupees is 15% p.a.

The following are the exchange rates:

Date	*₹/£*
31st March,2023	*97*
30th September, 2023	*99*

You are required to give your opinion to Trower Limited on which of the above two options to be chosen. ***(5 Marks)*** *(c) On 1st April 2021, Eleanor Limited purchased a manufacturing Plant for ₹ 60 lakhs, which has an estimated useful life of 10 years with a salvage value of ₹ 10 lakhs. On purchase of the Plant, a grant of ₹ 20 lakhs was received from the government.*

You are required to calculate the amount of depreciation as per AS-12 for the financial year 2022-23 in the following cases:

(i) If the grant amount is deducted from the value of Plant.

(ii) If the grant is treated as deferred income.

(iii) If the grant amount is deducted from the value of Plant, but at the end of the year 2022-2023 grant is refunded to the extent of ₹ 4 lakhs, due to non-compliance of certain conditions.

(iv) If the grant is treated as the promoter's contribution.

(Assume depreciation on the basis of Straight-Line Method.) **(5 Marks)**

(d) On 1st April, 2022 Workhouse Limited took a loan from a Financial Institution for ₹ 25,00,000 for the construction of Building. The rate of interest is 12%.

In addition to above loan, the company has taken multiple borrowings as follows:

(i) 8% Debentures ₹ 15,00,000

(ii) 15% Term Loan ₹ 30,00,000

(iii) 10% Other Loans ₹ 18,00,000

The company has utilised the above funds in construction / purchase of the following assets:

(i) Building ₹ 70,00,000

(ii) Furniture ₹ 22,00,000

(iii) Plant & Machinery ₹ 90,00,000

(iv) Factory Shed ₹ 43,00,000

The construction of Building, Plant & Machinery and Factory Shed was completed on 31st March 2023. Readymade Furniture was purchased directly from the market. The factory was ready for production on 1st April 2023.

You are required to calculate the borrowing cost for both qualifying and non-qualifying assets. **(5 Marks)**

Answer

(a) (i) Depreciation to be charged in the Profit & Loss Account

Particulars	Amount in ₹
Depreciation on old Machinery	1,40,750

[10% on ₹ 56,30,000 for 3 months (01.04.2022 to 30.06.2022)]	
Add: Depreciation on Machinery acquired on 01.06.2022 (₹21,12,000 X 10% X10/12)	1,76,000
Add: Depreciation on Machinery after adjustment of Exchange [10% of ₹ 56,30,000 – 9,60,000 + 15,65,000) for 9 months]	4,67,625
Total Depreciation to be charged in Profit & Loss A/c	7,84,375

(ii) Book value of Plant & Machinery as on 31.3.2023

Particulars		Amount in ₹
Balance as per books on 01.04.2022		56,30,000
Add: Included in purchases on 01.06.2022	21,12,000	
Add: Purchases on 30.06.2022	15,65,000	36,77,000
		93,07,000
Less: Book value of Machine sold on 30.06.2022		(9,60,000)
		83,47,000
Less: Depreciation on Machinery in use ₹ (7,84,375 -24,000)		(7,60,375)
Book Value as on 31.03.2023		75,86,625

Note: The computation of depreciation and book value of Plant & Machinery can be presented in the following alternative manner:

Particulars	Book Value or Cost or Acquisition	Period	Depreciation	Book Value as on 31.03.2023
Opening Value	46,70,000 (56,30,000 – 9,60,000)	01.04.2022 to 31.03.2023	4,67,000 (46,70,000 x 10%)	42,03,000
Sold	9,60,000	01.04.2022 to 30.06.2022	24,000 (9,60,000 x 10% x 3/12)	-
Purchases	21,12,000	01.06.2022 to 31.03.2023	1,76,000 (21,12,000 x 10% x 10/12)	19,36,000
New Machinery	15,65,000	01.07.2022 to 31.03.2023	1,17,375 (15,65,000 x 10% x 9/12)	14,47,625
Total			7,84,375	75,86,625

(iii) Profit/Loss on Exchange of Machinery

Particulars	Amount in ₹
Balance as per books on 01.04.2022	9,60,000
Less: Depreciation for 3 months (₹ 9,60,000 x 10 /100 x 3 / 12)	(24,000)
W.D.V. as on 30.06.2022	9,36,000
Less: Exchange value	(8,25,000)
Loss on Exchange of Machinery	1,11,000

(b) Option (i) Pay immediately with Cash discount of 1% on the payable

	₹
Total amount payable as on 31.3.2023 (50,000 x ₹ 97)	48,50,000
Less: Cash discount	(48,500)
	48,01,500
Add: Borrowing cost @ 15% p.a. for 6 months	3,60,112.50
If payment made immediate	51,61,612.50

Option (ii) Pay after 6 months with interest @ 5% p.a. on the payable

	₹
Total amount payable as on 31.3.2023 (50,000 x ₹ 99)	49,50,000
Interest for 6 months @ 5%	1,23,750
If payment made after 6 months	50,73,750

Thus, Option (ii) is beneficial to Trower Limited as the Rupee outflow will be lower by ₹ (51,61,612 – 50,73,750) = ₹ 87,862 in option (ii).

Note: The above answer be presented in the alternative manner given as below:

Option (i) Pay immediately with Cash discount of 1% on the payable

Total amount payable on 31.3.2023	50,000
Less: Cash discount (50,000 x 1 / 100)	(500)
	49,500
49,500 x ₹ 97	48,01,500
Add: Borrowing cost @ 15% p.a. for 6 months	3,60,112.50
If payment made immediate	₹ 51,61,612.50

Option (ii) Pay after 6 months with interest @ 5% p.a. on the payable

	₹
Total amount payable on 31.3.2023	50,000
Interest for 6 months @ 5% (50,000 x 5 / 100 x 6 / 12)	1,250
	51,250
If payment made after 6 months (51,250 x 99)	50,73,750

Thus, Option (ii) is beneficial to Trower Limited as the Rupee outflow will be lower by ₹ (51,61,612 – 50,73,750) = ₹ 87,862 in option (ii).

(c) Calculation of depreciation as per AS 12 for the financial year 2022-23:

(i) If the grant amount is deducted from the value of Plant, then the amount of deprecation will be ₹ 3,00,000 p.a. (₹ 60,00,000 - ₹ 10,00,000 - ₹ 20,00,000) / 10 year.

(ii) If the grant is treated as deferred income, then amount of depreciation will be ₹ 5,00,000 p.a. (₹ 60,00,000 - ₹ 10,00,000) / 10 year.

(iii) If the grant amount is deducted from the value of plant, but at the end of the year 2022-23 grant is refunded to the extent of ₹ 4 lakh then the amount of depreciation will be ₹ 3,00,000 p.a. (₹ 60,00,000 - ₹ 10,00,000 - ₹ 20,00,000) /10 year for year 2021-22 and for the year 2022-23 Depreciation will be ₹ 3,00,000 calculated as follows, (₹60,00,000 - ₹ 10,00,000 - ₹ 20,00,000– ₹ 3,00,000) / 10 years.

Note: It is assumed that the depreciation for the year has been charged on the book value on the plant before making adjustment for grant. Alternatively, if it is considered otherwise then the depreciation will be charged after making adjustment for grant. In that case depreciation for the year 2022-23 will be as ₹ 3,44,444 calculated as follows, (₹ 60,00,000 - ₹10,00,000 - ₹ 20,00,000 + 4,00,000– ₹ 3,00,000 / 9 years

(iv) If the grant is treated as promoter's contribution, then the amount of depreciation will be ₹ 5,00,000 p.a. (₹ 60,00,000 -10,00,000) /10 year.

NOTE: The answer can be presented in the following alternative manner:

		(i)	(ii)	(iii)	(iv)
Date	Particulars	Grant Value deducted from Plant	Grant treated as Deferred Income	Grant Refunded	Grant is treated as Promoter's Contribution
01.04.2021	Cost of Plant	60,00,000	60,00,000	60,00,000	60,00,000
	Less: Salvage	10,00,000	10,00,000	10,00,000	10,00,000
		50,00,000	50,00,000	50,00,000	50,00,000

01.04.2021	Less: Grant	20,00,000	-	20,00,000	-
		30,00,000	50,00,000	30,00,000	50,00,000
	Useful Life (years)	10	10	10	10
31.03.2022	Depreciation FY 2021-22	3,00,000	5,00,000	3,00,000	5,00,000
1.4.2022	Cost of Plant			60,00,000	
	Less: Salvage			10,00,000	
				50,00,000	
	Less: Grant			20,00,000	
	Less:			30,00,000	
	Depreciation FY 2022-23			3,00,000	
				27,00,000	
	Book value at the time of refund of grant i.e. at the end of period			4,00,000	
	Add: Grant Refundable at end of 22-23			31,00,000	
	Book value available for remaining 8 years.				

Note:

It is assumed that the depreciation for the year has been charged on the book value on the plant before making adjustment for grant. Alternatively, if it is considered otherwise then the depreciation will be charged after making adjustment for grant. In that case depreciation for the year 2022-23 will be as:

Cost of Plant	60,00,000
Less: Salvage	10,00,000
	50,00,000
Less: Grant	20,00,000
	30,00,000
Add: Grant Refundable	4,00,000

	34,00,000
Less: Depreciation for 2021-22	3,00,000
	31,00,000
Useful Life (years)	9
Depreciation for 2022-23	3,44,444

(d) Interest to be Capitalized (on qualifying asset)

	Particulars	Computation	₹
i.	On specific Borrowings	25,00,000x12%	3,00,000
ii.	On non-specific borrowings	(W.N.1)	6,67,500
iii.	Amount of interest to be Capitalised	(i+ii)	9,67,500

Interest transferred to P&L (on non-qualifying asset)

	Particulars	Computation	₹
i.	On non-specific Borrowings	(W.N.1)	82,500

Working note:

1. Treatment of interest under AS 16 on non-specific borrowings

	Particulars	Qualifying asset	# Computation	Interest-Capitalized	Interest-charged to P&L A/c
i.	Building	Yes	45,00,000/2,00,00,000 x 63,00,000 x 11.9048%	1,68,750	-
ii.	Furniture	No	22,00,000/2,00,00,000 x 63,00,000 x 11.9048%	-	82,500
iii.	Plant & Machinery	Yes	90,00,000/2,00,00,000 x 63,00,000 x 11.9048%	3,37,500	-
iv.	Factory shed	Yes	43,00,000/2,00,00,000 x 63,00,000 x 11.9048%	1,61,250	-
	Total			6,67,500	82,500

NOTE: Alternative manner of presentation for Treatment of interest under AS 16 on non-specific borrowings:

	Particulars	Qualifying asset	Expenses Incurred ₹	Share in borrowings ₹	Interest-Capitalized ₹	Interest-charged to P&L A/c ₹
i.	Building	Yes	45,00,000	7,50,000 x 45/200	1,68,750	-
ii.	Furniture	No	22,00,000	7,50,000 x 22/200	-	82,500
iii.	Plant & Machinery	Yes	90,00,000	7,50,000 x 90 /200	3,37,500	-
iv.	Factory shed	Yes	43,00,000	7,50,000 x 43 / 200	1,61,250	-
	Total		2,00,00,000		6,67,500	82,500

2. Weighted Average interest rate for non-specific borrowings

Particulars	Amount of loan (a)	Rate of interest (b)	Amount of interest (c) = (a) x (b)
Debentures	15,00,000	8%	1,20,000
Term loan	30,00,000	15%	4,50,000
Other loans	18,00,000	10%	1,80,000
	63,00,000		7,50,000
	# Weighted Average Rate of Interest = 7,50,000 / 63,00,000 x 100 = 11.9048%		

Question 2

(a) *Montrek Limited purchased 2 Machines costing ₹ 2,80,000 each from M. K. Traders on 1st April, 2021 on hire purchase basis.*

Terms of payments for both the Machines together are as follows:

DATE	*Particulars*	*(₹)*
01-04-2021	*Down Payment*	*1,40,000*
30-09-2021	*1st Instalment*	*1,00,000*
31-03-2022	*2nd Instalment*	*95,000*
30-09-2022	*3rd Instalment*	*85,000*
31-03-2023	*4th Instalment*	*70,000*
30-09-2023	*5th Instalment*	*65,000*
31-03-2024	*6th Instalment*	*59,700*

The following information was provided:

(i) M. K. Traders charges interest @ 8% p.a. payable half-yearly.

(ii) Instalment payments are towards principal repayment and interest.

(iii) Montrek Limited writes off depreciation @ 20% p.a. on the diminishing balance method.

(iv) Montrek Limited has paid 3 half-yearly instalments but could not pay 4th instalment due on 31st March, 2023.

(v) M. K. Traders re-possessed one of the Machines on 31st March, 2023 adjusting its value against the amount due.

(vi) Re-possession was done on the basis of 25% p.a. depreciation on diminishing balance method, assuming that the balance due will be paid off in the next year.

You are required to prepare following accounts in the books of Montrek Limited up to 31st March, 2023:

(i) Machinery Account;

(ii) M. K. Traders Account ***(10 Marks)***

(b) The following information is given for Mr. Atwood for the year ended 31.03.2023:

01.04.2022	*Mr. Atwood has 3,000 equity shares in Sun Limited at a book value of ₹ 3,30,000 (nominal value ₹ 100 each.)*
01.07.2022	*Purchased 1,500 equity shares in Sun Limited for ₹ 1,38,600.*
01.08.2022	*Purchased 5,000.9% Bonds at ₹ 97 cum-interest (face value ₹ 100). The due dates of interest are 1st September and 1st March.*
02.10.2022	*Dividend declared on equity shares and paid by Sun Limited for the year 2021- 2022 @ 10%.*
15.10.2022	*Sun Limited made a bonus issue of two equity shares for every five shares held.*
01.01.2023	*1,000 equity shares in Sun Limited sold @ ₹ 115 per share.*
31.03.2023	*Sold 4,000,9% Bonds @ ₹ 99 ex-interest*

- *The market price of Equity Shares of Sun Limited is ₹ 125 each and Bonds ₹ 98 each on 31st March 2023.*
- *Interest on bonds was received on due dates.*

You are required to prepare Investment Account in the books of Mr. Atwood for the year ended 31stMarch 2023, assuming that the investments are valued at the average cost or market value, whichever is lower. (Round off to nearest Rupee) ***(10 Marks)***

Answer

(a) **In the books of Montrek**

Machinery Account

Date	Particulars	₹	Date	Particulars	₹
1.4.2021	To M.K. Traders A/c	5,60,000	31.3.2022	By Depreciation A/c	1,12,000
				Balance c/d	4,48,000
		5,60,000			5,60,000
1.4.2022	To Balance b/d	4,48,000	31.3.2023	By Depreciation A/c	89,600
				By M.K. Traders A/c (Value of 1 Machinery taken over after depreciation for 2 years @ 25% p.a.)	1,57,500
				By Loss transferred to Profit and Loss a/c on surrender (Bal. fig) or (1,79,200 - 1,57,500)	21,700
				By Balance c/d	1,79,200
		4,48,000			4,48,000

M.K. Traders Account

Date	Particulars	₹	Date	Particulars	₹
1.4.2021	To Bank (down payment)	1,40,000	1.4.2021	By Machinery a/c	5,60,000
30.9.2021	To Bank (1st Instalment)	1,00,000	30.9.2021	By Interest a/c	16,800
31.3.2022	To Bank (2nd Instalment)	95,000	31.3.2022	By Interest a/c	13,472
31.3.2022	To Balance c/d	2,55,272			
		5,90,272			5,90,272
30.9.2022	To Bank (3rd Instalment)	85,000	1.4.2022	By Balance b/d	2,55,272
31.3.2023	To Machinery a/c	1,57,500	30.9.2022	By Interest a/c	10,211
31.3.2023	To Balance c/d (b.f.)	30,202	31.3.2023	By Interest a/c	7,219
		2,72,702			2,72,702

Working Notes:

1. **Analysis of payment to M.K. Traders towards principal and interest Component**

Date	Opening Balance ₹	Total Instalment	Interest ₹	Principal ₹	Closing Balance ₹
01.04.2021	5,60,000	1,40,000	-	1,40,000	4,20,000
30.09.2021	4,20,000	1,00,000	16,800	83,200	3,36,800
31.03.2022	3,36,800	95,000	13,472	81,528	2,55,272
30.09.2022	2,55,272	85,000	10,211	74,789	1,80,483
31.03.2023	1,80,483	70,000	7,219	62,781	1,17,702

2. **Calculation of agreed value of Machine surrendered**

Date	Particulars	Value as per Montrek Limited ₹	Value as per M.K. Traders ₹
01.04.2021	Cost of one Machine	2,80,000	2,80,000
31.03.2022	Less: Depreciation	**56,000**	**70,000**
31.03.2022	Balance WDV	2,24,000	2,10,000
31.03.2023	Less: Depreciation	**44,800**	**52,500**
31.03.2023	Balance WDV	1,79,200	1,57,500

3. **Loss on surrender / repossession of oneMachine as on 31.03.2023.**

WDV Value as per Montrek Limited	[A]	₹ 1,79,200
Agreed value as per M.K. Traders	[B]	₹ 1,57,500
Loss on surrender / repossession	[A-B]	₹ 21,700

(b) **In the books of Atwood**

Investment in Equity Shares of Sun Ltd. Account

Date	*Particulars*	*No.*	*Dividend (₹)*	*Amount (₹)*	*Date*	*Particulars*	*No.*	*Dividend (₹)*	*Amount (₹)*
1.04.22	To Balance b/d	3,000		3,30,000	2.10.22	By Bank A/c (W.N. 5)		30,000	15,000
1.07.22	To Bank A/c	1,500		1,38,600	1.1.23	By Bank A/c	1,000		1,15,000
15.10.22	To Bonus Issue	1,800			31.3.23	By Balance	5,300		3,81,600
1.01.23	To Profit & Loss A/c (W.N. 6)			43,000		c/d (W.N.7)			

31.3.23	To Profit & Loss A/c		30,000						
		6,300	30,000	5,11,600			6,300	30,000	5,11,600

9% Bonds Account [Interest Payable: 1st September & 1st March]

ate	Particulars	Nominal Value (₹)	Interest (₹)	Cost (₹)	Date	Particulars	Nominal Value (₹)	Interest (₹)	Cost (₹)
1.8.22	To Bank A/c (W.N.1)	5,00,000	18,750	4,66,250	1.9.22	By Bank A/c (5,00,000 x 9% x 6/12)	-	22,500	-
31.3.23	To Profit & Loss A/c (W.N 3)			23,000	1.3.23	By Bank A/c	-	22,500	-
					31.3.23	By Bank A/c (W.N 2)	4,00,000	3,000	3,96,000
31.3.23	To Profit & Loss A/c		30,000		31.3.23	By Balance c/d (W.N.4)	1,00,000	750	93,250
		5,00,000	48,750	4,89,250			5,00,000	48,750	4,89,250

Working Notes:

1. **Cost of Bond purchased on 1st August, 2022**

   5,000, 9% bonds were purchased @ ₹ 97 cum-interest. Total amount paid 5,000 bonds x ₹ 97 = 4,85,000 which includes accrued interest for 5 months, i.e., 1st March, 2022 to 31st July, 2022. Accrued interest will be ₹ 5,00,000 x 9/100x 5/12 = ₹ 18,750. Therefore, cost of Bond purchased = ₹ 4,85,000 – 18,750 = ₹ 4,66,250.

2. **Sale of bonds on 31st March, 2023**

   4,000 bonds were sold@ ₹ 99 ex-interest, i.e., Total amount received = 4,000 x 99 + accrued interest for 1 month = ₹ 3,96,000 + ₹ 3,000 (4,00,000 x 9/100 x 1/12)

3. **Profit on sale of bonds**

	₹
Sale value	= 3,96,000
Cost of 4,00,000 9% bonds = 4,66,250/5,000x 4,000	= 3,73,000
Profit	= **23,000**

4. **Value of bonds on 31.3.2023**

   Lower of:

   Cost of bonds on 31.3.2023 will be ₹ 4,66,250/ 5,000 x 1,000 = ₹ 93,250.

   Market Value on 31.3.2023 will be ₹ 1,000 X 98 = 98,000

   Value of bonds on 31.3.2023 = ₹ 93,250

   Interest accrued on bonds on 31.3.2023 = 1,00,000 x 9% x 1/12 = ₹ 750

5. **Dividend on equity shares for 2021-22**

   Post acquisition dividend = 3,00,000 x 10% = ₹ 30,000 transferred to Profit & Loss account

   Pre-acquisition dividend = 1,50,000 X 10% = ₹ 15,000 credited to investment A/c

6. Profit on sale of equity shares

	₹
Sale value	= 1,15,000
Cost of shares = 4,53,600 / 6,300 x 1,000	= 72,000
Profit	= 43,000

   (Average cost method being followed)

7. **Value of equity shares at end of year**

   Lower of:

   Cost of shares on 31.3.2023 will be ₹ 4,53,600 / 6,300 x 5,300 = ₹ 3,81,600

   Market Value on 31.3.2023 will be ₹ 5,300 x 125 = 6,62,500

   Value of shares = ₹ 3,81,600

Question 3

(a) Pearsons Enterprises, a manufacturer of Bed Sheets, has three Departments A, B and C. Department A processes Gray Cloth and transfers 100% production to Department B for further processing. Department B does Dyeing and Printing of Cloth received from Department A and transfers 100% production to Department further processing. Department C manufactures Bed Sheets from cloth received from Department B and sells the same into the market.

The following information is provided:

Particulars	*Department A (₹)*	*Department B (₹)*	*Department C (₹)*
Opening Stock	*3,50,000*	*2,20,000*	*5,80,000*
Consumption of Materials	*7,20,000*	*7,60,000*	*-*
Wages	*1,60,000*	*1,80,000*	*3,20,000*
Closing Stock	*4,30,000*	*2,80,000*	*10,20,000*
Sales	*-*	*-*	*26,40,000*
No. of Employees	*18*	*15*	*12*
Floor space occupied by each department	*10,000 Sq. ft.*	*8,000 sq. ft.*	*6,000 sq. ft.*
Value of machinery used (at cost)	*12,00,000*	*15,00,000*	*6,00,000*

Additional Information:

(i) Other Expenses were:

- *Salaries to employees* ₹ *1,80,000*
- *Rent Paid* ₹ *2,88,000*
- *Depreciation on Machinery* ₹ *2,42,000*
- *Interest on Loan* ₹ *1,02,000*

(ii) Stock of Department A is transferred to Department B at cost plus 40% margin.

(iii) Stock of Department B is transferred to Department C at cost plus 25% margin.

(iv) Stock of each department is valued at cost to the respective department.

(v) Opening and closing stock of Department B and C comprises of 100% stock transferred from Department A and B respectively.

You are required to prepare Departmental-

(i) Trading Account;

(ii) Profit and Loss Account; and

(iii) General Profit & Loss Account ***(10 Marks)***

(b) Mr. Takewood keeps his books on single entry system. The following information of Mr. Takewood is given:

(i) Balances as on 1st April, 2022:

Cash in Hand	₹ *4,000*	*Stock*	₹ *35,000*
Cash in Bank	₹ *28000*	*Fixed Assets*	₹ *20000*
Sundry Creditors	₹ *15,000*	*Sundry Debtors*	₹ *23,000*
Capital Account	₹ *95,000*		

(ii) During the year 2022-2023 Sundry Creditors were paid ₹ *26,000 in cash and* ₹ *1,55.000 by cheque, and received* ₹ *55,000 in cash and* ₹ *1,90,000 by cheque from Sundry Debtors.*

(iii) All Sales and Purchases were on credit.

(iv) Balances as on 31st March, 2023 were, Sundry Debtors ₹ *27,000 and Sundry Creditors* ₹ *35,000.*

(v) All expenses which are debited to profit and loss accounts were disbursed by cheques except petty expenses amounting to ₹ *7,500 paid in cash.*

(vi) Outstanding expenses as on 31st March 2023 were ₹ *2,000,*

(vii) *Net Profit for the year was ₹ 41,000 after allowing 10% depreciation on fixed assets.*

(viii) *Closing Stock was valued at ₹ 75,000.*

(ix) *His Drawings during the year were ₹ 10,000 in cash and ₹ 14,000 by cheques.*

You are required to prepare Profit and Loss Account for the year ended 31st March 2023 and Balance Sheet as at that date. ***(10 Marks)***

Answer

(a) **Pearsons Enterprises**

Departmental Trading and Profit and Loss Account

	A	B	C	Total		A	B	C	Total
	₹	₹	₹	₹		₹	₹	₹	₹
To Opening stock	3,50,000	2,20,000	5,80,000	11,50,000	By Sales	-	-	26,40,000	26,40,000
To Material consumed	7,20,000	7,60,000	-	14,80,000	By Inter-departmental				
To Wages	1,60,000	1,80,000	3,20,000	6,60,000	transfer	11,20,000	25,00,000	-	36,20,000
To Inter-departmental transfer	-	11,20,000	25,00,000	36,20,000	By Closing stock	4,30,000	2,80,000	10,20,000	17,30,000
To Gross profit	3,20,000	5,00,000	2,60,000	10,80,000					
	15,50,000	27,80,000	36,60,000	79,90,000		15,50,000	27,80,000	36,60,000	79,90,000
To Salaries	72,000	60,000	48,000	1,80,000	By Gross profit b/d	3,20,000	5,00,000	2,60,000	10,80,000
To Rent	1,20,000	96,000	72,000	2,88,000					
To Depreciation	88,000	1,10,000	44,000	2,42,000					
To Net profit	40,000	2,34,000	96,000	3,70,000					
	3,20,000	5,00,000	2,60,000	10,80,000		3,20,000	5,00,000	2,60,000	10,80,000

General Profit & Loss account

	₹		₹
To Interest on loan	1,02,000	By Stock reserve on Opening Stock (W.N.1)	1,78,857
To Stock reserve on Closing Stock (W.N.2)	2,84,000		
To Balance transferred to P&L A/c	1,62,857	By Net profit	3,70,000
	5,48,857		5,48,857

Working Note:

1. **Calculation of Stock Reserve on Opening Stock**

Dept. – B ₹

Opening Stock 2,20,000

Stock reserve 2,20,000 x 40 / 140 = ₹ 62,857 (i)

Dept. – C ₹

Opening Stock 5,80,000

Stock reserve 5,80,000 x 25/ 125 = ₹ 1,16,000 (ii)

Total Stock reserve ₹ 1,78,857 (i+ii)

2. **Calculation of Stock Reserve on Closing Stock**

Dept. – B ₹

Closing Stock 2,80,000

Stock reserve 2,80,000 x 40 / 140 = ₹ 80,000 (i)

Dept. – C ₹

Closing Stock 10,20,000

Stock reserve 10,20,000 x 25/ 125 = ₹ 2,04,000 (ii)

Total Stock reserve ₹ 2,84,000 (i)+ (ii)

Note:

Stock Reserve may be shown as net amount of ₹ 1,05,143 in debit side of General Profit and Loss Account as follows:

Stock Reserve on Closing Stock	=	₹ 2,84,000
Less: Stock Reserve on Opening Stock	=	₹ 1,78,857
		₹ 1,05,143

(b) **Trading & P&L A/c of Mr. Takewood**

for the year ending 31.3.2023

Particulars	₹	Particulars	₹
To Opening Stock	35,000	By Sales	2,49,000
To Purchases	2,01,000	By Closing Stock	75,000
To Gross Profit c/d	88,000		
	3,24,000		3,24,000
To Expenses	37,500	By Gross Profit b/d	88,000

To Petty Expenses	7,500		
To Depreciation	2,000		
To Net Profit	41,000		
	88,000		88,000

Balance Sheet as on 31.3.2023

Liabilities	₹	₹	Assets	₹
Capital A/c			Fixed Asset	18,000
Opening Capital	95,000		Stock	75,000
Add Net Profit	41,000		Sundry Debtors	27,000
Less: Drawings	(24,000)	1,12,000	Cash at Bank	13,500
Sundry Creditors		35,000	Cash in Hand	15,500
Expenses Payable		2,000		
		1,49,000		1,49,000

Working notes:

1. **Sundry Debtors A/c**

Particulars	₹	Particulars	₹
To Bal b/d	23,000	By Cash	55,000
To Sales (credit)(b.f.)	2,49,000	By Bank	1,90,000
		By Bal c/d	27,000
	2,72,000		2,72,000

2. **Sundry Creditors A/c**

Particulars	₹	Particulars	₹
To Cash	26,000	By Bal B/d	15,000
To Bank	1,55,000	By Purchases (credit) (b.f.)	2,01,000
To Bal c/d	35,000		
	2,16,000		2,16,000

3. **Cash A/c**

Particulars	₹	Particulars	₹
To Balance b/d	4,000	By Sundry Creditors	26,000
To Sundry Debtors	55,000	By Petty expenses	7,500

		By Drawings	10,000
		By Balance c/d	15,500
	59,000		59,000

4. **Bank A/c**

Particulars	₹	Particulars	₹
To Balance b/d	28,000	By Sundry Creditors	1,55,000
To Sundry Debtors	1,90,000	By Expenses	35,500
		By Drawings	14,000
		By Balance c/d	13,500
	2,18,000		2,18,000

Question 4

(a) The following balances are extracted from the books of Travese Limited as on 31st March 2023:

Particulars	***Amount (₹)***	
	Debit	***Credit***
7% Debentures		*48,45,000*
Plant & Machinery (at cost)	*37,43,400*	
Trade Receivable	*35,70,000*	
Land	*97,37,000*	
Debenture Interest	*3,39,150*	
Bank Interest	*13,260*	
Sales		*47,22,600*
Transfer Fees		*38,250*
Discount received		*66,300*
Purchases	*28,86,600*	
Inventories 1.04.2022	*4,97,250*	
Factory Expenses	*2,58,060*	
Rates, Taxes and Insurance	*65,025*	
Repairs	*1,49,685*	
Sundry Expenses	*1,27,500*	
Selling Expenses	*26,520*	
Directors Fees	*38,250*	

Interest on Investment for the year 2022-2023		*55,000*
Provision for depreciation		*5,96,700*
Miscellaneous receipts		*1,42,800*

Additional information:

(i) *Closing inventory on 31.03.2023 is ₹ 4,76,850,*

(ii) *Miscellaneous receipts represent cash received from the sale of the Plant on 01.04.2022. The cost of the Plant was ₹ 1,65,750 and the accumulated depreciation thereon is ₹ 24865.*

(iii) *The Land is re-valued at 1,08,63,000.*

(iv) *Depreciation is to be provided on Plant & Machinery at 10% p.a. on cost.*

(v) *Make a provision for income tax @ 25%.*

(vi) *The Board of Directors declared a dividend of 10% on Equity shares on 4th April, 2023.*

You are required to prepare a Statement of Profit and Loss as per Schedule III of the Companies Act, 2013 for the year ended 31.03.2023. (Ignore previous year figures)

(10 Marks)

(b) *The summarized Balance Sheets of Flora Limited for the year ended 31st March, 2022 and 31st March, 2023 are as below:*

Assts	***31/03/2023 (₹)***	***31/03/2022 (₹)***
Goodwill	*15,000*	*28,000*
Land	*5,75,000*	*6,00,000*
Furniture and Fixtures	*48,000*	*44,000*
Vehicles	*22,000*	*28,000*
Office Equipment	*21,000*	*-*
Long-term Investments	*60,000*	*1,10,000*
Stock-in-hand	*96,000*	*88,000*
Bills Receivables	*18,150*	*14,500*
Trade Receivables	*46,000*	*52,000*
Cash and Bank Balances	*1,29,850*	*34,500*
Total	***10,31,000***	***9,99,000***

Liabilities	***31/03/2023 (₹)***	***31/03/2022 (₹)***
Equity Shares Capital	*6,80,000*	*5,00,000*

General Reserves	*90,000*	*60,000*
Profit and Loss Account	*93,000*	*52,000*
Capital Reserve	*75,000*	*-*
8% Debentures of ₹ 100 each	*-*	*3,00,000*
Loan from Mr. Andrew	*-*	*15,000*
Bills Payables	*11,000*	*13,000*
Trade Payables	*49,000*	*45,000*
Creditors for Equipment	*10,500*	*-*
Outstanding Expenses	*4,500*	*3,000*
Provision for Taxation	*18,000*	*11,000*
Total	***10,31,000***	***9,99,000***

Additional Information:

(i) On 1st April, 2022, one of the vehicles was sold for ₹ 3,000. No new purchases were made during the year.

(ii) A part of the total land was sold for ₹ 1,25,000 (Cost ₹ 1,00,000) and the balance land was revalued. Capital reserve consists of profit on revaluation of balance land. No new purchases were made during the year.

(iii) Depreciation provided during the year-

- *Furniture and Fixtures ₹ 5,000*
- *Vehicles ₹ 2,200*

(iv) Interim dividend of 5,000 was paid during the year.

(v) Provision for taxation for the year 2022-2023 was ₹ 16,000.

(vi) 8% Debentures were redeemed at par after half year interest payment on 30th September, 2022.

(vii) Part of the long-term investments were sold at a profit of 8,000.

(viii) Interest income received during the year on long-term investment was 6,500.

You are required to prepare Cash Flow Statement from Operating Activities for the year ended 31st March, 2023 using indirect method. (All workings should form part of the answer) ***(10 Marks)***

Answer

(a) Statement of Profit and Loss of Travese Limited.

for the year ended 31st March, 2023

	Particulars	Notes	Amount
I.	Revenue from operations	1	47,22,600
II.	Other income	2	1,61,465
III.	Total Income (I + II)		48,84,065
IV.	Expenses:		
	Purchases of Inventory-in-Trade		28,86,600
	Changes in inventories of finished goods, work-in-progress and Inventory-in-Trade	3	20,400
	Finance costs	4	3,52,410
	Depreciation and amortization expenses	5	3,57,765
	Other expenses	6	6,65,040
	Total expenses		42,82,215
V.	Profit (Loss) for the period (III - IV) before tax		6,01,850
VI	Provision for tax		(1,50,463)
VII	Profit for the period		4,51,387

Notes to accounts

			₹
1	Revenue from operations		
	Sale		47,22,600
2	Other Income		
	Transfer fees		38,250
	Discount received		66,300
	Interest on Investment		55,000
	Profit on sale of plant		1,915
	Total		1,61,465
3	Changes in inventories of finished goods, work-in-progress and Inventory-in-Trade		
	Opening Inventory	4,97,250	
	Less: Closing Inventory	(4,76,850)	20,400
	Total		20,400

4	Finance costs		
	Interest on Debentures		3,39,150
	Bank Interest		13,260
		Total	3,52,410
5	Depreciation and Amortization expenses		
	Depreciation on Plant & Machinery (10% x 37,43,400 - 1,65,750)		3,57,765
6	Other expenses		
	Factory expense		2,58,060
	Rent, Taxes and Insurance		65,025
	Repairs		1,49,685
	Sundry expenses		1,27,500
	Selling expenses		26,520
	Director's fees		38,250
		Total	6,65,040

Note:

The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of financial statements) as per accounting standards. Hence, it is not recognized in the financial statement for the year ending 31st March 2023. Such dividend will be disclosed in notes only.

(b) Cash Flow Statement of Flora Limited from Operating Activities

For the year ended 31st March, 2023

	₹	₹
Net profit before taxation (W.N.1)		92,000
Adjustment: Depreciation on Furniture & Fixtures	5,000	
Depreciation on Vehicles	2,200	
Profit on sale of land (₹ 125000 - ₹ 100000)	(25,000)	
Loss on sale (Vehicle)	800	
Profit on sale of long-term investments	(8,000)	
Interest received	(6,500)	
Interest on debentures	12,000	
Goodwill written off	13,000	(6,500)
Operating profit before working capital changes		85,500

Increase in Stock in Hand	(8,000)	
Increase in Bills Receivables	(3,650)	
Decrease in Trade Receivables	6,000	
Decrease in Bills payable	(2,000)	
Increase in Trade Payables	4,000	
Increase in outstanding expenses	1,500	(2,150)
Cash generated from Operations		83,350
Less: Income taxes paid		9,000
Cash flow from Operating activities		74,350

Alternative presentation:

Cash Flow Statement of Flora Limited from Operating Activities

For the year ended 31st March, 2023

		₹
Net profit before taxation (W.N. 1)		92,000
Adjustment: Depreciation on Furniture & fixtures	5,000	
Depreciation on Vehicles	2,200	
Profit on sale of land	(25,000)	
Loss on sale (Vehicle)	800	
Profit on sale of long- term investments	(8,000)	
Interest received	(6,500)	
Interest on debentures	12,000	
Goodwill written off	13,000	(6,500)
Operating profit before working capital changes		85,500
Increase in inventory	(8,000)	
Decrease in Trade receivables*	2,350	
Increase in Trade payables**	2,000	
Increase in outstanding expenses	1,500	(2,150)
Cash generated from Operations		83,350
Less: Income taxes paid		9,000
Cash flow from Operating activities		**74,350**

*[(18,150 +46,000) - (14,500 + 52,000)]

** [(11,000 + 49,000) - (13,000+45,000)]

Working Notes:

1. **Net Profit before Taxation**

Increases in Profit and Loss A/c (93,000-52,000)	41,000
Increases in General Reserve (90,000-60,000)	30,000
Interim dividend Paid	5,000
Transfer – provision for Taxation	16,000
Increase in retained earnings (Net Profit before Taxation)	92,000

2. **Provision for Taxation Account**

		₹			₹
To	Bank (Balancing figure)	9,000	By	Balance b/d	11,000
To	Balance c/d	18,000	By	Profit and loss account	16,000
		27,000			27,000

3. **Vehicles Account**

Particulars	(₹)
Opening Balance	28,000
Less: Depreciation	(2,200)
Less: Closing Balance	(22,000)
Book value of vehicle sold	3,800
Less: Sale Value	(3,000)
Loss on sale of Vehicle	800

Question 5

(a) Wringler Limited took over the running business of FIG Enterprises with effect from 1st April 2022. However, due to some procedural delay, the company could be incorporated on 1st August 2022.

The following information for the year ended 31.03.2023 is provided:

Particulars	***Amount (₹)***
Sales	*1,19,70,000*
Interest received on Investment	*60,000*
Profit on sale of investment	*40,000*
Cost of goods sold	*64,40,000*

Expenses:	
Printing & Stationery	*87,000*
Sales Manager's Salary	*81,000*
Donation	*41,000*
Rent	*1,35,000*
Bad debts	*67,000*
Underwriting Commission	*56,000*
Depreciation	*70,200*
Interest Paid on Debentures	*8,900*
Audit Fees	*15,000*
Sundry office expenses	*55,500*
Interest on Loan	*62,500*

Additional information:

(1) Details of Sales during the year 2022-23 are as follows:

- *From April 2022 to June 2022 average monthly Sales was ₹ 8,40,000.*
- *From July 2022 to January 2023 average monthly Sales was ₹ 9,00,000.*
- *From February 2023 to March 2023 average monthly Sales was ₹ 15,75,000.*

(2) There was a loan of ₹ 15,00,000 at an interest rate of 10% p.a.

The Loan was repaid on 1sttSeptember, 2022.

(3) Extra space was occupied from 1st June 2022 to 31st August 2022 for which additional rent of 5,000 per month was incurred.

(4) Audit fee pertains to Wringler Limited.

(5) Bad debts recovered amounting to ₹ 17,000 for a sale made in November have been deducted from bad debts mentioned above.

(6) All investments were sold in June 2022.

(7) Donation is given to a political party by the company.

(8) The salary of the Sales Manager was increased by ₹ 5,000 per month from 1st July 2022.

You are required to:

(i) Calculate the time ratio and sales ratio.

(ii) *Prepare a Statement ascertaining pre-incorporation and post-incorporation profits/losses for the year ending 31.03.2023,*

(iii) *Explain how these would appear in the Balance Sheet of Wringler Limited.*

(10 Marks)

(b) *On 24th July, 2022 fire occurred in the premises of Welsh Enterprises. Most of the stock was destroyed in fire, cost of stock salvaged being ₹ 51,200. In addition, some stock was salvaged in a damaged condition and its value in that condition was agreed at ₹ 30,540.*

The following information was available from the books of account:

(i) *Closing Stock as on 31.03.2022 was valued at ₹ 1,83,500*

(ii) *Purchases from 01.04.2022 to 24.07.2022 amounted to ₹ 31,12,000, commission of 2% was paid on purchases.*

(iii) *Sales from 01.04.2022 to 24.07.2022 amounted to ₹ 37,54,000.*

(iv) *On the basis of the accounts of Welsh Enterprises for the past three years, it appears it has earned a Gross Profit of 20% on sales.*

(v) *Welsh Enterprises has insured its stock for ₹ 3,00,000 which is subject to average clause.*

You are required to compute the amount of claim for loss of stock. ***(5 Marks)***

(c) *Artis Limited has a branch at Seattle USA. Its Trial Balance as on 31st December 2022 is as follows:*

	Dr. in US $	Cr. In US $
Stock as on 01.01.2022	22,000	
Purchases	1,00,000	
Sales		1,30,500
Goods from H.O.	30,000	
Salaries	4,000	
Head Office A/c.		27,000
Sundry Debtors	2,200	
Sundry Creditors		1,500
Cash at Bank & Hand	800	
Total	1,59,000	1,59,000

The following information is given:

(i) *Salaries outstanding are $ 500.*

(ii) *The Head Office sent goods to Branch for ₹ 24,00,000.*

(iii) The Head Office shows an amount of ₹21,90,000 due from Branch.

The exchange rates were as below:

- *On 1st January 2022 -₹79 to 1$*
- *On 31st December 2022-₹83 to 1 $*
- *Average rate during the year was ₹79.50 to 1 $*

You are required to prepare the Seattle Branch Trial Balance incorporating adjustments given above, converting dollars into rupees. ***(5 Marks)***

Answer

(a) (i) Calculation of Time Ratio

1st April 2022 to 31st July 2022= 4 months

1st August 2022 to 31st March 2023= 8 months

4 Months: 8 Months i.e., 4 : 8 or 1 : 2

Calculation of Sales Ratio

Sales from April 2022 to June 2022 (3 months)	= ₹ 8,40,000 pm
Sales from July 2022 to Jan 2023 (7 months)	= ₹ 9,00,000 pm
Sales from Feb 2023 to March 2023 (2 months)	= ₹ 15,75,000 pm
Therefore, sales from April 2022 to July 2022	= ₹ 34,20,000
Sales from 1st August 2022 to 31st March 2023	= ₹ 85,50,000

Sales ratio will be 34,20,000: 85,50,000 i.e**.,** 1 : 2.5 or 2 : 5

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

	Ratio	Total	Pre-Incorporation	Post-Incorporation
Sales	1:2.5	1,19,70,000	34,20,000	85,50,000
Interest on Investments	Pre	60,000	60,000	
Bad debts recovered	Post	17,000	-	17,000
Profit on sale of investment	Pre	40,000	40,000	-
(i)		1,20,87,000	35,20,000	85,67,000
Cost of goods sold	1:2.5	64,40,000	18,40,000	46,00,000
Donation	Post	41,000	-	41,000
Sundry office expenses	4:8	55,500	18,500	37,000

Printing & Stationary	4:8	87,000	29,000	58,000
Sales Manager Salary	W.N.1	81,000	17,000	64,000
Interest on Debentures	Post	8,900	-	8,900
Rent W.N.2	Actual	1,35,000	50,000	85,000
Bad Debts (67,000 + 17,000)	1:2.5	84,000	24,000	60,000
Underwriting commission	Post	56,000	-	56,000
Audit fees	Post	15,000	-	15,000
Depreciation	Actual	70,200	23,400	46,800
Interest on Loan	W.N. 3	62,500	50,000	12,500
(ii)		71,36,100	20,51,900	50,84,200
Net Profit [(i) – (ii)]		49,50,900	14,68,100	34,82,800

(iii) Such profit/ loss is disclosed separately from normal trading profits/losses of the business in the financial statements of the business entity. Pre-acquisition profit will be treated as capital profits and post-acquisition profit will be treated as normal profit and it will be transferred to profit and loss account.

Working Notes:

1. **Sales Manager Salary** ₹

Total Salary	81,000
Less: Increased Salary	45,000
	36,000
Monthly Salary = ₹ 36,000/12	3,000
Salary from April to July	3,000 + 3,000 + 3,000 + 8,000 = 17,000
Salary from August to March	8,000 x 8 = 64,000

2. **Apportionment of Rent**

		₹
Total Rent		1,35,000
Less: Additional rent from 1.6.2022 to 31.8.2022		15,000
Rent of old premises for 12 months		1,20,000
	Pre	**Post**
Apportionment in time ratio (4:8 or 1:2)	40,000	80,000
Add: Rent for new space	10,000	5,000
Total	50,000	85,000

3. **Interest on Loan**

   Borrowing Interest = ₹ 15,00,000 x 10% x 5 / 12 = ₹ 62,500

   Interest for Pre-incorporation period = ₹ 62,500 x 4 / 5 = ₹ 50,000

   Interest for Post-incorporation period = ₹ 62,500 x 1 / 5 = ₹ 12,500

(b) Computation of claim for Loss of Stock

	₹	₹
Opening Stock on 1.4.2022		1,83,500
Add: Purchases during the period including commission paid (₹ 31,12,000 + ₹ 62,240)		31,74,240
		33,57,740
Less: Cost of Goods Sold: Sales during the period	37,54,000	
Gross Profit thereon	(7,50,800)	(30,03,200)
Value of Closing Stock before fire		3,54,540

Note: Alternative way of presentation for computation of value of Closing Stock before fire:

Memorandum Trading A/c

Particulars	₹	Particulars	₹
To Opening Stock	1,83,500	By Sales	37,54,000
To Purchases including Commission (31,12,000 + 62,240)	31,74,240	By Closing Stock (b.f.)	3,54,540
To Gross Profit @ 20% on Sales	7,50,800		
	41,08,540		41,08,540

Claim for Loss of Stock:

	₹	₹
Value of Closing Stock before fire		3,54,540
Less: Stock Salvaged	51,200	
Agreed value of damage Stock	30,540	(81,740)
Loss of Stock		2,72,800
Claim = Loss of Stock x Insured Value / Total Cost of Stock = ₹ 2,72,800 x ₹ 3,00,000 / ₹ 3,54,540 =		₹ 2,30,834

(c) Seattle Branch Trial balance (in ₹)

Particulars	Rate as per ₹	Debit ₹	Credit ₹
Stock (01-01-2022)	79.00	17,38,000	
Purchases	79.50	79,50,000	
Sales	79.50		1,03,74,750
Goods from HO	Given	24,00,000	
Salaries ($ 4,000 + $ 500 = $ 4,500 x ₹ 79.50)[1]	79.50	3,57,750	
Head Office A/c	Given		21,90,000
Sundry Debtors	83.00	1,82,600	
Sundry Creditors	83.00		1,24,500
Cash at Bank & Hand	83.00	66,400	
Salaries Outstanding ($ 500 x ₹ 83)	83.00		41,500
Exchange gain		36,000	
Total		1,27,30,750	1,27,30,750

Question 6

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

(a) *You are required to comment on the following cases as per the provisions of Accounting Standard-1 'Disclosure of Accounting Policies':*

(1) *Bee Limited has not complied with AS-2 "Valuation of inventories" and the same is disclosed in the Notes on Accounts. Management is of the view that the financial statements give a true and fair view as non-compliance with AS-2 is disclosed.*

(2) *Cee Limited sold its Office Building for ₹ 10,00,000 on 1st March, 2023. The buyer has paid the full amount and taken possession of the building. The book value of the Office Building is ₹ 4,00,000. On 31st 2023, documentation and legal formalities are pending. The company has not recorded the disposal and the amount received is shown as an advance.*

(3) *Dee Limited has prepared its accounts on cash basis and the same is not disclosed.*

(4) *Jee Limited disclosed significant accounting policies adopted in the preparation of financial statements, in the Directors' Report.* ***(5 Marks)***

[1] *The amount of outstanding salary amounting $ 500 (included in the salaries) may be converted at ₹ 83 and the salary paid during the year at ₹79.50. In that case the amount of salaries including outstanding salary debited in the trial balance will be for ₹ 3,59,500 [(4,000 X 79.5 =3,18,000) + (500 x 83= 41,500). In this case, the amount of exchange gain will be computed as ₹ 34,250.*

(b) *Olivia bought a Home Theatre System on Instalment basis from Liam on 01/10/2022 on the following terms:*

(i) *₹ 40,000 to be paid immediately:*

(ii) *6 half yearly instalments of ₹ 50,000 each to be paid commencing from 01/04/2023.*

(iii) *Interest is charged at 8% p.a. at half yearly intervals.*

You are required to calculate the cash price of the Home Theatre System and the interest paid with each instalment. (Round off figures to nearest rupee) **(5 Marks)**

(c) *On 1st April, 2018 Improvis Limited issued ₹ 75,000, 9% Debentures of ₹ 100 each at a premium of 5%. The Debentures are redeemable at 10% premium on 31.03.2023, Investment as required by law was made in Fixed Deposit of Bank on 30.04.2022 earning interest @8% p.a.*

You are required to pass Journal Entries for the year 2022-2023 related to Investment and Redemption of the Debentures **(5 Marks)**

(d) *Mille started a business on 01.04.2022 with a capital of ₹ 15,00,000. She purchased 1,500 units of stock at ₹ 1,000 each. She sold the entire stock for ₹ 1,500 each unit till 31.03.2023.*

You are required to calculate the maximum amount which can be withdrawn by Mille in order to keep her capital intact, if Financial Capital is maintained at:

(i) *Historical Cost*

(ii) *Current Purchasing Power (opening index at 100 and closing index at 125)*

(iii) *Physical Capital Maintenance*

(Price per unit at the end of year is ₹ 1,350) **(5 Marks)**

(e) *Storek Limited has a subscribed capital of ₹ 21,00,000 in Equity Share Capital consisting of 1,50,000 shares of ₹ 10 each fully paid and 1,00,000 shares of ₹ 10 each, called up capital ₹ 6 per share.*

On 01.04.2023 the company decides to convert the partly paid-up shares into fully paid-up shares by way of bonus issue and holders of fully paid-up shares are also allotted fully paid-up bonus share in the same ratio.

The following figures appear in trial balance of Storek Limited as on 31.03.2023:

	(₹)
Capital Redemption Reserve	80,000
Capital Reserve	1,00,000
Securities Premium	2,20,000
General Reserve	12,50,000
Surplus (credit balance in Profit & Loss Account)	2,40,000

Securities Premium Account includes a premium of ₹75,000 for shares issued to vendors pursuant to a scheme of absorption. It was decided that there should be minimum reduction in free reserves.

You are required to pass necessary Journal Entries. ***(5 Marks)***

Answer

(a) (1) As per AS-I disclosure of accounting policies is not a remedy for wrong or inappropriate treatment in accounting. In the given case the financial statement does not give a true and fair view as they are not in compliance with AS-2.

(2) Considering the substance over form as per AS-I, documentation and legal formalities represent the form of the transaction, although the legal title has not been transferred, the economic reality and substance are that the rights and beneficial interest in the Office Building have been transferred. Therefore, recording of acquisition/ disposal (by the transferee and transferor respectively) would in substance represent the transaction entered into.

(3) Accrual is a fundamental accounting assumption. If it is not followed by the company, the facts should be disclosed under AS-I. Hence the company should disclose the fact that the cash basis of accounting has been followed in the notes on accounts.

(4) The practice followed by the company is not correct. It should be disclosed as part of financial statements (The director's report is not part of financial statements).

(b) **Statement showing cash value of the machine acquired on hire-purchase basis** (Whenever Installment is half yearly & interest is p.a. convert interest rate for 6 months dividing by 2)

Date	Principal sum o/s at the beginning	Interest @ 8%	Principal + Interest	Repayment	Principal sum o/s at the end
(A)	(B) = D-C	(C) = D x 4/104	(D) = E + F	(E)	(F)
1/4/23	262,107	10,484	272,591	50,000	222,591
1/10/23	222,591	8,904	231,495	50,000	181,495
1/4/24	181,495	7,260	188,755	50,000	138,755
1/10/24	138,755	5,550	144,305	50,000	94,305
1/4/25	94,305	3,772	98,077	50,000	48,077
1/10/25	48,077	1,923	50,000	50,000	0

Cash price = ₹ 2,62,107 + ₹ 40,000 = ₹ 3,02,107

(c)

Date	Particulars		₹	₹
30/4/22	Debenture Redemption Reserve Investment (DRRI) A/c	Dr.	11,25,000	
	To Bank A/c (75,00,000 x 15%)			11,25,000
	(Being Debenture to be redeemed invested)			
31/3/23	Bank A/c	Dr.	12,07,500	
	To Debenture Redemption Reserve Investment A/c			11,25,000
	To Interest on DRRI A/c (W.N.1) (11,25,000 x 8% x 11/12)			82,500
	(Being amount of Investment matured)			
	9% Debentures A/c (75,000 x 100)	Dr.	75,00,000	
	Premium payable on Redemption A/c		7,50,000	
	To Debentures Holder A/c			82,50,000
	(Being Redemption amount Due)			
	Debentures Holders A/c	Dr.	82,50,000	
	To Bank A/c			82,50,000
	(Being amount paid to Debenture Holders)			
	Debenture Redemption Reserves (DRR)A/c	Dr.	7,50,000	
	To General Reserve A/c	Dr.		7,50,000
	(Being Debenture Redemption Reserve account transferred to General Reserve Account)			
	Interest on DRRI A/c	Dr.	82,500	
	To Profit & Loss A/c			82,500
	(Being Interest transferred to Profit and Loss account)			
	Profit & Loss A/c		7,50,000	
	To Premium Payable on Redemption A/c			7,50,000
	(Being premium payable on redemption of Debentures charged to Profit and Loss account)			

Note:

1. The following set of journal entries may be combined with any other entry or may be presented as separate entries:

Interest on Debentures A/c To Debenture Holders A/c	Dr.	6,75,000	 6,75,000
(Being Interest due to Debenture Holders)			
Debenture Holders A/c To Bank A/c (Being interest on debentures paid to debenture holders)	Dr.	6,75,000	 6,75,000
P&L A/c To Interest on debentures A/c (Interest on debentures charged to Profit & Loss A/c)	Dr.	6,75,000	 6,75,000

2. Interest Received on DRRI = (11,25,000 x 8% x 11/12) = ₹ 82,500

(d) Financial Capital Maintenance at historical Costs

Sr. No.	Particulars	Computation	₹
(i)	Opening Equity	1,500 x 1,000	15,00,000
(ii)	Closing Equity	1,500 x 1,500	22,50,000
(iii)	Maximum Drawing	ii-i	7,50,000

Financial Capital Maintenance at current purchasing power

Sr. No.	Particulars	Computation	₹
(i)	Opening Equity	1,500 x 1,000 x 125/100	18,75,000
(ii)	Closing Equity	1,500 x 1,500	22,50,000
(iii)	Maximum Drawing	ii-i	3,75,000

Financial Capital Maintenance at Physical Capital Maintenance

Sr. No.	Particulars	Computation	₹
(i)	Opening Equity	1,500 x1,350	20,25,000
(ii)	Closing Equity	1,500 x 1,500	22,50,000
(iii)	Maximum Drawing	ii-i	2,25,000

(e) Journal Entries in the Books of Storek Limited

Sr. No.	Particulars		Debit ₹	Credit ₹
(i) (a)	General Reserve A/c	Dr.	4,00,000	
	To Bonus to Equity Shareholders A/c			4,00,000
	(Being transfer of ₹ 4,00,000 from General Reserve to make the partly paid-up shares fully paid up) (1,00,000 x 4)			
(b)	Equity Share Final Call A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being final call due on 1,00,000 shares @ ₹ 4 per share)			
(c)	Bonus to Equity Shareholders A/c	Dr.	4,00,000	
	To Equity Share Final Call A/c			4,00,000
	(Being Bonus money applied for final call)			
(ii) (a)	Capital Redemption Reserve A/c	Dr.	80,000	
	Security Premium A/c (₹ 2,20,000 – ₹ 75,000)	Dr.	1,45,000	
	General Reserve A/c	Dr.	7,75,000	
	To Bonus to Equity Shareholder A/c			10,00,000
	(Being bonus issue) (4,00,000 / 6,00,000 x 15,00,000)			
(b)	Bonus to Equity Shareholder A/c	Dr.	10,00,000	
	To Equity Share Capital A/c			10,00,000
	(Being Bonus Shares issued to fully paid-up shareholders)			

Working Note:

Value of fully paid-up shares to partly paid-up shares = 15,00,000: 6,00,000 or 5:2.

Therefore, Bonus to be issued to fully paid up if ₹ 4,00,000 bonus issued to partly paid up will be = ₹ 4,00,000 x 5 / 2 = ₹ 10,00,000.

Note:

1. Securities premium account and capital redemption reserve account may only be applied in the paying up of unissued shares to be issued to members of the company as fully paid bonus shares. In other words, securities premium account and capital redemption reserve **cannot** be applied towards payment of unpaid amount on any shares held by existing shareholders.

2. Question is silent on Capital Reserve whether realized in cash or not. Hence it is assumed that not realized in cash and therefore not available for free reserves in the above solution. If Capital Reserve is assumed to be realized in cash, then entry number (ii) (a) may be given as below:

Capital Redemption Reserve A/c	Dr.	80,000	
Capital Reserve A/c	Dr.	1,00,000	
Security Premium A/c (₹ 2,20,000 – ₹ 75,000)	Dr.	1,45,000	
General Reserve A/c	Dr.	6,75,000	
To Bonus to Equity Shareholder A/c			10,00,000
(Being bonus issue) (4,00,000/6,00,000 x 15,00,000)			