TOPPER'S INSTITUE

CA -INTER - ACCOUNTS – RTP

Q1. is compulsory, Attempt any **Five** questions from the remaining **Six** questions

Working Notes should form part of the Answers

Try to Solve the Questions within 3 hours without cheating

Q.1

(a) Why goods are marked on invoice price by the head office while sending goods to the branch?

(b) A Limited company charged depreciation on its assets on the basis of W.D.V. method from the date of assets coming to use till date amounts to ₹ 32.23 lakhs. Now the company decides to switch over to Straight Line Method of Providing for depreciation. The amount of depreciation computed on the basis of S.L.M. from the date of assets coming to use till the date of change of method amounts to ₹ 20 lakhs.

(c) Bell Co. Ltd. Submits the following information pertaining to year 2016. Using the given data, you are required to prepare Cash Flow Statement for the year ended 31st March, 2016 by indirect method.

	(₹ Millions)
Opening balance of cash and cash equivalents	1.55
Additional shares issued	6.50
Capital expenditure	9.90
Proceeds from assets sold	1.60
Dividend paid	0.50
Loss from disposal of assets	1.20
Net profit for the year	3.30
Increase in Accounts Receivable	1.50
Redemption of 4.5% debentures	2.50
Depreciation and Amortization	0.75

(d) A Company had issued 20,000, 13% Convertible debentures of ₹ 100 each on 1st April, 2011. The debentures are due for redemption on 1st July, 2013. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value ₹ 10) at a price of ₹ 15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the Debenture holders exercising the option to the maximum.

[4×5=20 Marks]

Q.2 A, B and C give you the following Balance Sheet as on 31st March, 2016.

Liabilities		**₹**	**Assets**	**₹**
A's Loan		15,000	Plant and Machinery at cost	30,000
Capital Accounts:			Fixtures and Fittings	2,000
A	30,000		Stock	10,400

B	10,000		Debtors	18,400	
C	2,000	42,000	Less: Provision	(400)	18,000
Sundry Creditors		17,800	Joint Life Policy		15,000
Loan on Hypothecation of			Patents and Trademarks		10,000
Stock		6,200	Cash at Bank		8,000
Joint Life Policy Reserve		12,400			
		93,400			93,400

The partners shared profits and losses in the ratio of A 4/9, B 2/9 and C 1/3. Firm was dissolved on 31st March, 2016 and you are given the following information:

(a) C had taken a loan from insurers for ₹ 5,000 on the security of Joint Life Policy. The policy was surrendered and Insurers paid a sum of ₹ 10,200 after deducting ₹ 5,000 for. C's loan and ₹ 300 as interest thereon.

(b) One of the creditors took some of the patents whose book value was ₹ 6,000 at a valuation of ₹ 4,500. The balance to that creditor was paid in cash.

(c) The firm had previously purchased some shares in a joint stock company and had written them off on finding them useless. The shares were now found to be worth ₹ 3,000 and the loan creditor agreed to accept the shares at this value.

(d) The remaining assets realized the following amount:

	₹
Plant and Machinery	17,000
Fixtures and Fittings	1,000
Stock	9,000
Debtors	16,500
Patents 50% of their book value	

(e) The liabilities were paid and a total discount of ₹ 500 was allowed by the creditors.

(f) The expenses of realization amounted to ₹ 2,300.

Prepare the Realisation Account Bank Account and Partners Capital Accounts in columnar form.

[16 Marks]

Q.3 (a) The following transactions of Patel took place during the year ended 31st March 2015:

1st April	Purchased ₹ 12,00,000 8% bonds at ₹ 80.50 cum-interest. Interest is payable on 1st November and 1st May.
12th April	Purchased 1,00,000 equity shares of ₹ 10 each in L Ltd. for ₹ 40,00,000
1st May	Received half-year's interest on 8% bonds.
15th May	L Ltd. made a bonus issue of three equity shares for every two held. Nidhi sold ₹ 1,25,000 bonus shares for ₹ 20 each.
1st October	Sold ₹ 3,00,000 8% bonds at ₹ 81 ex-interest.
1st November	Received half-year's bond interest.
1st December	Received 18% dividend on equity shares in L Ltd.

Prepare the relevant investment account in the books of Patel for the year ended 31st March, 2015.

(b) A firm M/s. Fame, which was carrying on business from 1st July, 2015 gets itself incorporated as a company on 1st November, 2015. The first accounts are drawn upto 31st March 2016. The gross profit for the period is ₹ 56,000.The general expenses are ₹ 14,220; Director's fee ₹ 12,000 p.a.; Incorporation expenses ₹ 1,500. Rent upto 31st December was ₹ 1,200 p.a. after which it is increased to ₹ 3,000 p.a. Salary of the manager, who upon incorporation of the company was made a director, is ₹ 6,000 p.a. His remuneration thereafter is included in the above figure of fee to the directors.

Give statement showing pre and post incorporation profit. The net sales are ₹ 8,20,000 the monthly average of which for the first four months is one-half of that of the remaining period. The company earned a uniform profit. Interest and tax may be ignored.

[10+6=16 Marks]

Q.4 Srikumar bought 2 cars from 'Fair Value Motors Pvt. Ltd. on 1.4.2014 on the following terms (for both cars):

Down payment	6,00,000
1st Installment at the end of first year	4,20,000
2nd Installment at the end of 2nd year	4,90,000
3rd Installment at the end of 3rd year	5,50,000

Interest is charged at 10% p.a.

Srikumar provides depreciation @ 25% on the diminishing balances.

On 31.3.2017 Srikumar failed to pay the 3rd installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Srikumar agreed to leave one car with Fair Value Motors Pvt. Ltd. and adjusted the value of the car against the amount due. The car taken over was valued on the basis of 40% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Srikumar after 3 months with interest @ 20% p.a.

You are required to:

(i) Calculate the cash price of the cars and the interest paid with each installment.

(ii) Prepare Cars Account in the books of Srikumar assuming books are closed on March 31, every year.

Figures may be rounded off to the nearest rupee.

[16 Marks]

Q.5 (a) Beta, having head office at Mumbai has a branch at Nagpur. The head office does wholesale trade only at cost plus 80%. The goods are sent to branch at the wholesale price viz., cost plus 80%. The branch at Nagpur is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 100%. Following details are furnished for the year ended 31st March, 2016:

	Head Office (₹)	**Branch (₹)**
Opening stock (as on 1.4.2015)	2,25,000	-
Purchases	25,50,000	-
Goods sent to branch (Cost to H.O. plus 80%)	9,54,000	-
Sales	27,81,000	9,50,000
Office expenses	90,000	8,500
Selling expenses	72,000	6,300
Staff salary	65,000	12,000

You are required to prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31st March, 2016.

[8 Marks]

(b) Following is the extract of the Balance Sheet of Manoj Ltd. as at 31st March, 20X1

	₹
Authorized capital:	
30,000 12% Preference shares of ₹ 10 each	3,00,000
4,00,000 Equity shares of ₹ 10 each	40,00,000
	43,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 20X1, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 20X1. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

You are required to prepare necessary journal entries in the books of the company and prepare the relevant extract of the balance sheet as on 30th April, 20X1 after bonus issue.

Q.6(a) Krishna Ltd. has two departments X and Y. From the following particulars prepare departmental trading accounts and general profits and loss account for the year ending 31st March, 2016:

	Department X	Department Y
	₹	₹
Opening stock (at cost)	80,000	48,000
Purchases	3,68,000	2,72,000
Carriage inward	8,000	8,000
Wages	48,000	32,000
Sales	5,60,000	4,48,000
Purchased goods transferred		
By department Y to X	40,000	-
By department X to Y	-	32,000
Finished goods transferred		
By department Y to X	1,40,000	-
By department X to Y	-	1,60,000
Return of finished goods		
By department Y to X	40,000	-
By department X to Y	-	28,000
Closing stock		
Purchased goods	18,000	24,000
Finished goods	96,000	56,000

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 25% of the closing finished stock with each department represents finished goods received from the other department.

(b) The premises of Vani Ltd. caught fire on 22nd January 2016, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2015 the stock at cost was ₹ 13,27,200 as against ₹ 9,62,200 on 31st March, 2014.

Purchases from 1st April, 2014 to the date of fire were ₹ 34,82,700 as against ₹ 45,25,000 for the full year 2014-15 and the corresponding sales figures were ₹ 49,17,000 and ₹ 52,00,000 respectively. You are given the following further information:

(i) In July, 2015, goods costing ₹ 1,00,000 were given away for advertising purposes, no entries being made in the books.

(ii) During 2015-16, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged ₹ 2,000 per week from 1st April, 2015 until the clerk was dismissed on 18th August, 2015.

(iii) The rate of gross profit is constant.

From the above information calculate the stock in hand on the date of fire.

[8+8=16 Marks]

Q.7 Answer any four of the following:

(a) When capitalisation of borrowing cost should cease as per Accounting Standard 16?

(b) The Managing Director of Anil Ltd. is entitled to 5% of the annual net profits, as his remuneration, subject to a minimum of ₹ 25,000 per month. The net profits, for this purpose, are to be taken without charging income-tax and his remuneration itself. During the year, Anil Ltd. made net profit of ₹ 43,00,000 before charging MD's remuneration, but after charging provision for taxation of ₹ 17,20,000. Compute remuneration payable to the Managing Director.

(c) King Ltd. sells beer to customers; some of the customers consume the beer in the bars run by King Limited. While leaving the bars, the consumers leave the empty bottles in the bars and the company takes possession of these empty bottles. The company has laid down a detailed internal record procedure for accounting for these empty bottles which are sold by the company by calling for tenders. Keeping this in view:

(i) Decide whether the inventory of empty bottles is an asset of the company;

(ii) If so, whether the inventory of empty bottles existing as on the date of Balance Sheet is to be considered as inventories of the company and valued as per AS 2 or to be treated as scrap and shown at realizable value with corresponding credit to 'Other Income'?

(d) Mohan bought a forward contract for three months of US $ 2,00,000 on 1st December 2015 at 1 US $;: ₹ 44.10 when the exchange rate was 1 US $ = ₹ 43.90. On 31-12-2015, when he closed his books, exchange rate was 1 US $ = ₹ 44.20. On 31st January, 2016 he decided to sell the contract at ₹ 44.30 per Dollar. Show how the profits from the contract will be recognized in the books of Mohan.

(e) State with reasons, how the following events would be dealt with in the financial statements of Omega Ltd. for the year ended 31st March, 2016:

(i) An agreement to sell a land for ₹ 30 lakh to another company was entered into on 1st March. 2016. The value of land is shown at ₹ 20 lakh in the Balance Sheet as on 31st March, 2015. However, the Sale Deed was registered on 15th April, 2016.

(ii) The negotiation with another company for acquisition of its business was started on 2nd February, 2016. Omega Ltd. invested ₹ 40 lakh on 12th April, 2016.

[4 × 4 = 16 Marks]

ACCOUNTS – RTP SOLUTIONS

Ans.1

(a) Goods are marked on invoice price to achieve the following objectives:

(i) To keep secret from the branch manager, the cost price of the goods and profit made, so that the branch manager may not start a rival and competitive business with the concern; and

(ii) To have effective control on stock i.e. stock at any time must be equal to opening stock plus goods received from head office minus sales made at branch.

(iii) To dictate pricing policy to its branches, as well as save work at branch because prices have already been decided.

(b) Paragraph 21 of Accounting Standard 6 on Depreciation Accounting says, "The depreciation method selected should be applied consistently from period to period. A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation .of the financial statements of the enterprise."

The paragraph also mentions the procedure to be followed when such a change in the method of depreciation is made by an enterprise. As per the said paragraph, depreciation should be recalculated in accordance with the new method from the date of the asset coming to use. The difference in the amount, being deficiency or surplus from retrospective re-computation should be adjusted in the profit and loss account in the year such change is affected. Since such a change amounts to a change in the accounting policy, it should be properly quantified and disclosed. In the question given, the surplus arising out of retrospective re-computation of depreciation as per the straight line method is ₹ 12.23 lakhs (₹ 32.23 lakhs - ₹ 20 lakhs). This should be written back to Profit and Loss Account and should be disclosed accordingly.

(c) **Bell Co. ltd.**

Cash Flow Statement for the year ended 31st March, 2016

	₹ In millions	**₹ In millions**
Cash flows from operating activities		
Net profit	3.30	
Add: Depreciation and amortization	0.75	
Loss from disposal of assets	1.20	
Operating profit before working capital changes	5.25	
Less: Increase in accounts receivables	(1.50)	
Net cash generated from operating activities		3.75
Cash flows from investing activities		
Capital expenditure	(9.90)	
Proceeds from sale of fixed assets	1.60	
Net cash used in investing activities		(8.30)
Cash flows from financing activities		
Proceeds from issue of additional shares	6.50	
Dividend paid	(0.50)	
Redemption of 4.5% debentures	(2.50)	
Net cash generated from financing activities		3.50
Net decrease in cash and cash equivalents		(1.05)
Cash and cash equivalents at beginning of the period		1.55
Cash and cash equivalents at end of the period (Balancing figure)		0.50

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

	₹
Total number of debentures	20,000
Less: Debenture holders not opted for conversion	(2,500)
Debenture holders opted for conversion	17,500
Option for conversion	20%
Number of debentures to be converted (20% of 17 ,500)	3,500

Redemption value of 3,500 debentures at a premium of 5%
[3.500 × (100+5)] ₹ 3,67,500
Equity shares of ₹10 each issued on conversion
[₹ 3,67,500/ ₹ 15] 24,500 shares

Ans.2 **Realisation Account**

Particulars	₹	Particulars		₹
To Plant and Machinery	30,000	By Provision for doubtful debts		400
To Fixture and Fitting	2,000	By Loan on hypothecation of stock (W.N.3)		3,000
		By Creditor (W.N.2)		500
To Stock	10,400	By Joint Life Policy (W.N.4)		12,900
To Debtor	18,400	By Bank		
To Patent and Trademark (W.N.5)	5,500	Plant and Machinery	17,000	
To Bank	2,300	Fixtures and fittings	1,000	
		Stock	9,000	
		Debtors	16,500	
		Patents and Trademarks	2,000	45,500
		By Partner's Capital Account		
		A	2,800	
		B	1,400	
		C	2,100	6,300
	68,600			68,600

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	8,000	By C's Capital A/c drawings	5,300
To Joint Life Policy	15,500	By Loan on hypothecation of stock	3,200
To Realisation A/c	45,500	By Creditor	12,800
To C's Capital A/c	5,400	By Realisation A/c (expenses)	2,300
		By A's Loan A/c	15,000
		By A's Capital A/c	27,200
		By B's Capital A/c	8,600
	74,400		**74,400**

Partner's Capital Accounts

Particulars	A	B	C	Particulars	A	B	C
	₹	₹	₹		₹	₹	₹
To Bank			5,300	By Balance b/d	30,000	10,000	2,000
To Realisation A/c	2,800	1,400	2,100	By Bank A/c (Balance figure)			5,400
To Bank (Balance figure)	27,200	8,600					
	30,000	10,000	7,400		30,000	10,000	7,400

Working Notes:

1. A's Loan Account

Particulars	₹	Particulars	₹
To Bank A/c	15,000	By Balance b/d	15,000
	15,000		15,000

2. Sundry Creditors Account

Particulars	₹	Particulars	₹
To Patents and Trademarks A/c To Realisation A/c To Bank A/c	4,500 500 12,800	By Balance b/d	17,800
	17,800		17,800

3. Loan on Hypothecation of Stock Account

Particulars	₹	Particulars	₹
To Realisation A/c To Bank A/c	3,000 3,200	By Balance b/d	6,200
	6,200		6,200

4. Joint Life Policy Account

Particulars	₹	Particulars	₹
To Balance b/d To Realisations A/c	15,000 12,900	By Joint Life Policy Reserve A/c By Bank A/c (10,200+5,300)	12,400 15,500
	27,900		27,900

5. Patents and Trademarks Account

Particulars	₹	Particulars	₹
To Balance b/d	10,000	By Creditors A/c By Realisation A/c	4,500 1,500 4,000*
	10,000		10,000

Ans.3(a) In the books of Patel

8% Bonds Account

[Interest Payable: 1st November & 1st May]

Date	Particulars	Nominal Value (₹)	Interest (₹)	Cost (₹)	Date	Particulars	Nominal Value (₹)	Interest (₹)	Cost (₹)
1.4.15	To Bank A/c (W.N.1)	12,00,000	40,000	9,26,000	1.5.15	By Bank A/c	-	48,000	-
31.3.16	To Profit & loss A/c (W.N. 6)		84,000	11,500	1.10.15	By Bank A/c (W.N.2)	3,00,000	10,000	2,43,000
					1.11.15	By Bank A/c (W.N.3)	-	36,000	-
					31.316	By Balance c/d (W.N.4)	9,00,000	30,000	6,94,500
		12,00,000	1,24,000	9,37,500			12,00,000	1,24,000	9,37,500

Investment in Equity Shares of L Ltd. Account

Date	Particulars	No	Dividend	Cost	Date	Particulars	No.	Dividend	Cost
			(₹)	(₹)				(₹)	(₹)
12.4.15	To Bank A/c	1,00,000		40,00,000	15.515	By Bank A/c	1,25,000		25,00,000
15.5.15	To Bonus	1,50,000			1.12.15	By Bank A/c		2,25,000	
31.316	To Profit & Loss A/c (W.N.)		2,25,000	5,00,000	31.3.16	By Balance c/d	1,25,000		20,00,000
		2,50,000	**2,25,000**	**45,00,000**			**2,50,000**	**2,25,000**	**45,00,000**

***Working Notes*:**

1. On 1st April, 2015, 12,000,8% bonds were purchased @ Rs. 80.50 cum- interest. Total amount paid 12,000 bonds × ₹ 80.50 = 9,66,000 which includes accrued interest for 5 months. i.e. 1st November, 2014 to 31st March, 2015. Accrued interest will be ₹ 12,00,000 × 8/100 × 5/12 = ₹ 40,000. Therefore, cost of investment purchased = ₹ 9,66,000 - 40,000 = ₹ 9,26,000.
2. On 1st October, 2015, 3,000 bonds were sold @ Rs. 81 ex-interest. Total amount received = 3,000 × 81 + accrued interest for 5 months = ₹ 2,43,000 + ₹ 10,000 (3,00,000 × 8/100 × 5/12)
3. On 1st November, 2015, interest will be received for 9,000 bonds @ 8% for 6 months, i.e., ₹ 9,00,000 × 8/100 × 1 /12 = ₹ 36,000.
4. Cost of bonds on 31.3.2015 will be ₹ 9,26,000/12,000 × 9,000 = ₹ 6,94,500. Interest accrued on bonds on 31.3.2016 = 9,00,000 × 8% × 5/12 = ₹ 30,000
5. Profit on sale of bonus shares:
   Cost per share after bonus = ₹ 40,00,000/2,50,000 = ₹ 16
   Profit per share sold (₹ 20 - ₹ 16) = ₹ 4.
   Therefore, total profit on sale of 1,25,000 shares = ₹ 4 × 1,25.000 = ₹ 5,00,000.
6. Profit on sale of bonds

		₹
Sale value	=	2,43,000
Cost of ₹ 3,00,000 8% bonds = 9,26,000/12,00,000 ×3,00,000	=	2,31,500
Profit	=	11 ,500

(b) Statement showing pre and post-incorporation profits

Particulars	Basis	Pre-incorporation period	Post-incorporation period	Total
		₹	₹	₹
Gross Profit	Sales ratio	16,000	40,000	56,000
Less: General Expenses	Time ratio	6,320	7,900	14,220
Directors' Fee	Actual	-	5,000	5,000
Incorporation expenses	Actual	-	1,500	1,500
Rent (600 + 750)	W.N. 2	400	950	1,350
Manager's salary	Actual	2,000	-	2,000
Net Profit transferred to:				
Capital Reserve		7,280	-	-
P & L A/c		-	24,650	31,930

Working Notes:

1. **Calculation of sales ratio**
   Let the average monthly sales of first four months = 100
   and next five months = 200
   Total sales of first four months = 100 × 4 = 400 and
   Total sales of next five months = 200 × 5 = 1,000
   The ratio of sales = 400 : 1,000 = 2 : 5

2. Rent

Till 31st December, 2016, rent was ₹ 1,200 p.a. i.e. ₹ 100 p.m.

So, Pre-incorporation rent = ₹ 100 × 4 months = ₹ 400

Post-incorporation rent = (₹ 100 × 2 months) + (₹ 250 × 3 months) = ₹ 950

Ans.4 (i) Calculation of Interest and Cash Price

No. of installments	Outstanding balance at the end after the payment of installment	Amount due at the time of installment	Outstanding balance at the end before the payment of installment	Interest	Outstanding balance at the beginning
[1]	[2]	[3]	[4] = 2 + 3	[5] = 4 × 10/110	[6] 4 - 5
3rd	-	5,50,000	5,50,000	50,000	5,00,000
2nd	5,00,000	4,90,000	9,90,000	90,000	9,00,000
1st	9,00,000	4,20,000	13,20,000	1,20,000	12,00,000

Total cash price = ₹ 12,00,000 + 6,00,000 (down payment) = ₹ 18,00,000

(ii) **In the books of Srikumar**

Cars Account

Date	Particulars	₹	Date	Particulars	₹
1.4.2014	To Fair value Motors A/c	18,00,000	31.3.2015	By Depreciation A/c	4,50,000
				By Balance c/d	13,50,000
		18,00,000			18,00,000
1.4.2015	To Balance b/d	13,50,000	31.3.2016	By Deprecation A/c	3,37,500
				By Balance c/d	10,12,500
		13,50,000			13,50,000
1.4.2016	To Balance b/d	10,12,500	31.3.2017	By Depreciation A/c	2,53,125
				By fair value Motors A/c (value of 1 Car taken over after depreciation for 3 years @ 40% p.a.)	1,94,400
				[9,00,000 – (3,60,000 + 22,16,000+1,29,600)]	1,85,288
				By Balance c/d ½ (10,12,500 -2,53,125)	3,79,687
		10,12,500			**10,12,500**

Ans.5 (a) **Trading and Profit and loss A/c**

For the year ended 31st March 2016

Particulars	Head Office ₹	Branch ₹	Particulars	Head Office ₹	Branch ₹
To Opening stock	2,25,000	-	By Sales	27,81,000	9,50,000
To Purchases	25,50,000	-	By Goods sent to Branch	9,54,000	
To Goods received from head office	-	9,54,000	By Closing stock (W.N.1 & 2)	7,00,000	99,000
To Gross profit c/d	16,60,000	95,000			
	44,35,000	10,49,000		44,35,000	10,49,000
To office expenses	90,000	8,500	By Gross profit b/d	16,60,000	95,000
To selling expenses	72,000	6,300			
To staff salaries	65,000	12,000			

To Branch stock Reserve (W.N.3) To Net Profit	44,000 13,89,000	- 68,200			
	16,60,000	**95,000**		**16,60,000**	**95,000**

Working Notes:

1. Calculation of closing stock of head office:	₹
Opening Stock of head office	2,25,000
Goods purchased by head office	25,50,000
	27,75,000
Less: Cost of goods sold [37,35,000 × 100/180]	(20,75,000)
	7,00,000
2. Calculation of closing stock of branch:	₹
Goods received from head office [At invoice value]	9,54,000
Less: Invoice value of goods sold [9,50,000 × 180/200]	(8,55,000)
	99,000
3. **Calculation of unrealized profit in branch stock:**	
Branch stock ₹ 99,000	
Profit included 80% of cost	-
Hence, unrealized profit would be = ₹ 99,000 × 80/180 =	₹ 44,000

(b) Journal Entries in the books of Manoj Ltd.

			₹	₹
1-4-20X1	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated….)			
20-4-20X1	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital redemption reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 20XI (after bonus issue)

	₹
Authorised Capital	
30,000 12% Preference shares of ₹ 10 each	3,00,000
4,00,000 Equity shares of ₹ 10 each	40,00,000
Issued and subscribed capital	
24,000 12% Preference shares of ₹ 10 each, fully paid	2,40,000
3,37,500 Equity shares of ₹ 10 each, fully paid	33,75,000
(Out of the above, 67,500 equity shares @ ₹ 10 each were issued by	

Way of bonus shares) Reserves and surplus Profit and Loss Account	4,80,000

Ans.6 (a) Departmental Trading Account in the books of Krishna ltd. for the year ended 31st March 2016

Particulars	Department X ₹	Department Y ₹	Particulars	Department X ₹	Department Y ₹
To Opening stock	80,000	48,000	By Sales	5,60,000	4,48,000
To Purchases	3,68,000	2,72,000	By Transfers:		
To Carriage inward	8,000	8,000	Purchased goods	32,000	40,000
To Wages	48,000	32,000	Finished goods	1,20,000	1,12,000
To Transfers:			By Closing stock:		
Purchased goods	40,000	32,000	Purchased goods	18,000	24,000
Finished goods	1,12,000	1,20,000	Finished goods	96,000	56,000
To Gross profit c/d	170000	168000			
	8,26,000	**6,80,000**		**8,26,000**	**6,80,000**

Profit and loss A/c
for the year ended 31st March 2016

Particulars	₹	Particulars	₹
To Provision for unrealized profit included in closing stock		**By Gross profit b/d**	
Department X (W.N. 3)	7,200	Department X	1,70,000
Department Y (W.N. 3)	3,500	Department Y	1,68,000
To Net profit	3,27,300		
	3,38,000		**3,38,000**

Working Notes:

1. Calculation of rates of gross profit margin on sales

Particulars	Department X ₹	Department Y ₹
Sales	5,60,000	4,48,000
Add: Transfer of finished goods	1,60,000	1,40,000
	7,20,000	5,88,000
Less: Return of finished goods	(40,000)	(28,000)
	6,80,000	5,60,000
Gross Profit	1,70,000	1,68,000
Gross profit margin = $\frac{1,70,000}{6,80,000}\times 100 = 25\%$		$\frac{1,68,000}{5,60,000}\times 100 = 30\%$

2. Finished goods from other department included in the closing stock

Particulars	Department X ₹	Department Y ₹
Stock of finished goods	96,000	56,000
Stock related to other department (25% of finished goods)	24,000	14,000

3. **Unrealized profit included in the closing stock**
Department X = 30% of ₹ 24,000 = ₹ 7,200
Department Y = 25% of ₹ 14,000 = ₹ 3,500

(b) Ascertainment of rate of gross profit for the year 2014-15

Trading A/c for the year ended 31-3-2015

	₹		₹
To Opening stock To Purchase To Gross profit	9,62,200 45,25,000 10,40,000	By Sales By Closing stock	52,00,000 13,27,200
	65,27,200		65,27,200

Rate of gross profit = $\frac{GP}{Sales}\times 100$

$= \frac{10,40,000}{52,00,000}\times 100 = 20\%$

Memorandum Trading A/c for the period from 1-4-2015 to 22-01-2016

	₹	₹		₹	₹
To Opening stock.		13,27,000	By Sales	49,17,000	
To Purchases	34,82,700		Add: Unrecorded cash sales	40,000	49,57,000
Less: Goods used for advertisement	(1,00,000)	33,82,700	By Closing stock		7,44,100
To Gross profit (20% of Rs. 49,57,000)		9,91,400			
		57,01,100			57,01,100

Estimated stock in hand on the date of fire: ₹ 7,44,100.

Working Note:

Cash sales defalcated by the Accountant:
Defalcation period = 1.4.2015 to 18.8.2015 = 140 days
Since, 140 days/7 weeks = 20 weeks
Therefore, amount of defalcation = 20 weeks × ₹ 2,000 = ₹ 40,000.

Ans.7(a)

Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

An asset is normally ready for its intended use or sale when its physical construction or production is complete even though routine administrative work might still continue. If minor modifications such as the decoration of a property to the user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.

When the construction of a qualifying-asset-is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete.

(b)

Calculation of remuneration of the Managing Director	**₹ In Lacs**
Net profit as per books	43.00
Add: Provision for taxation	17.20
Annual Profit for the purpose of managerial remuneration	60.20
Managing Director's Remuneration @ 5% of above	3.01
Minimum remuneration to be paid to the Managing Director = ₹ 25,000 per month $\times 12$	3.00

Hence, in this case, remuneration to be paid to the Managing Director of Anil Ltd.
= ₹ 3, 01,000 in the year.

(c) (i) Tangible objects or intangible rights carrying probable future benefits, owned by an enterprise are called assets. King Ltd. sells these empty bottles by calling tenders. It means further benefits are accrued on its sale. Therefore, empty bottles are assets for the company.

(ii) As per AS 2 "Valuation of Inventories", inventories are assets held for sale in the ordinary course of business. Inventory of empty bottles existing on the Balance Sheet date is the inventory and King Ltd. has detailed controlled recording and accounting procedure which duly signify its materiality. Hence inventory of empty bottles cannot be considered as scrap and should be valued as inventory in accordance with AS 2.

(d) As per para 39 of AS·11 'Changes in Foreign Exchange Rates', in recording a forward exchange contract intended for trading or speculation purpose, the premium or discount on the contract is ignored and at each balance sheet date, the value of contract is marked to its current market value and the gain or loss on the contract is recognised. Since the forward contract was for speculation purposes the premium on forward contract i.e. the difference between the spot rate and the forward contract rate will not be recorded in the books. Only when the forward contract is sold the difference between the forward contract rate and sale rate win be recorded in the Profit & Loss Account.

	₹
Sale rate	44.30
Less: Contract rate	(44.10)
Profit on sale of contract per US$	00.20

Contract Amount US $ 2,00,000
Total profit (2,00,000 $\times$ 0.20) ₹ 40,000

(e) (i) According to AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date.

In the given case, sale of immovable property was carried out before the closure of the books of accounts. This is clearly an event occurring after the balance sheet date but agreement to sell was effected on 1st March, 2016 i.e. before the balance sheet date. Registration of the sale deed on 15th April, 2016 simply provides additional information relating to the conditions existing at the balance sheet date. Therefore, adjustment to assets for sale of land is necessary in the financial statements of Omega Ltd. for the year ended 31st March, 2016.

(ii) AS 4 (Revised) defines "Events occurring after the balance sheet date" as those significant events, both favorable and unfavorable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company. Accordingly, the acquisition of another company is an event occurring after the balance sheet date. However, no adjustment to assets and liabilities is required as the event does not affect the determination and the condition of the amounts stated in the financial statements for the year ended 31st March, 2016.

Applying provisions of the standard which clearly state that/disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise, the investment of ₹ 40 lakhs in April, 2016 in the acquisition of another company should be disclosed in the report of the Board of Directors to enable users of financial statements to make proper evaluations and decisions.