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

(a) *On 01.04.2014, XYZ Ltd. received Government grant of ₹ 100 Lakhs for an acquisition of new machinery costing ₹ 500 lakhs. The grant was received and credited to the cost of the assets. The life span of the machinery is 5 years. The machinery is depreciated at 20% on WDV method.*

The company had to refund the entire grant in 2nd April, 2017 due to non-fulfilment of certain conditions which was imposed by the government at the time of approval of grant.

How do you deal with the refund of grant to the Government in the books of XYZ Ltd., as per AS 12?

(b) *ABC Ltd. borrowed US $ 5,00,000 on 01/07/2017, which was repaid as on 31/07/2017. ABC Ltd. prepares financial statement ending on 31/03/2017. Rate of Exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under:*

01/01/2017	*1 US$ =*	*₹ 68.50*
31/03/2017	*1 US $ =*	*₹ 69.50*
31/07/2017	*1 US $ =*	*₹ 70.00*

You are required to pass necessary journal entries in the books of ABC Ltd. as per AS 11.

(c) *Rohit Ltd. has provided the following information*

Particulars	*₹*
Depreciation as per accounting records	*2,50,000*
Depreciation as per tax records	*5,50,000*
Unamortised preliminary expenses as per tax record	*40,000*

There is adequate evidence of future profit sufficiency. How much deferred tax assets/liability should be recognized as transition adjustment when the tax rate is 50%?

(d) PQR Ltd. is in the process of finalizing its accounts for the year ended 31st March, 2018. The company seeks your advice on the following:

(i) Goods worth ₹ 5,00,000 were destroyed due to flood in September, 2015. A claim was lodged with insurance company. But no entry was passed in the books for insurance claim in the financial year 2015-16. In March, 2018, the claim was passed and the company received a payment of ₹ 3,50,000 against the claim. Explain the treatment of such receipt in final account for the year ended 31st March, 2018.

(ii) Company created a provision for bad and doubtful debts at 2.5% on debtors in preparing the financial statements for the year 2017-18.

Subsequently, on a review of the credit period allowed and financial capacity of the customers, the company decides to increase the provision to 8% on debtors as on 31.03.2018. The accounts were not approved by the Board of Directors till the date of decision. While applying the relevant accounting standard, can this revision be considered as an extra ordinary item or prior period item?

(4 Parts x 5 Marks = 20 Marks)

Answer

(a) According to AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset (if the grant had been credited to the cost of fixed asset at the time of receipt of grant) should be recorded by increasing the book value of the asset, by the amount refundable. Where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

		(₹ in lakhs)
1st April, 2014	Acquisition cost of machinery (₹ 500 – ₹ 100)	400.00
31st March, 2015	*Less*: Depreciation @ 20%	(80)
1st April, 2015	Book value	320.00
31st March, 2016	*Less*: Depreciation @ 20%	(64)
1st April, 2016	Book value	256.00
31st March, 2017	*Less*: Depreciation @ 20%	(51.20)
1st April, 2017	Book value	204.80
2nd April, 2017	*Add*: Refund of grant	100.00
	Revised book value	304.80

Depreciation @ 20% on the revised book value amounting ₹ 304.80 lakhs is to be provided prospectively over the residual useful life of the asset.

(b) Journal Entries in the Books of ABC Ltd.

Date	Particulars	₹ (Dr.)	₹ (Cr.)
Jan. 01, 2017	Bank Account (5,00,000 x 68.50) Dr.	342,50,000	
	To Foreign Loan Account		342,50,000
Mar. 31, 2017	Foreign Exchange Difference Account Dr.	5,00,000	
	To Foreign Loan Account [5,00,000 x (69.50-68.50)]		5,00,000
Jul. 31, 2017	Foreign Exchange Difference Account [5,00,000 x (70-69.5)] Dr.	2,50,000	
	Foreign Loan Account Dr.	347,50,000	
	To Bank Account		350,00,000

(c) Table showing calculation of deferred tax asset / liability

Particulars	*Amount*	*Timing difference*	*Deferred tax*	*Amount @ 50%*
	₹			*₹*
Excess depreciation as per tax records (₹ 5,50,000 – ₹ 2,50,000)	3,00,000	Timing	Deferred tax liability	1,50,000
Unamortised preliminary expenses as per tax records	40,000	Timing	Deferred tax asset	(20,000)
Net deferred tax liability				1,30,000

Net deferred tax liability amounting ₹ 1,30,000 should be recognized as transition adjustment.

(d) (i) As per the provisions of AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", prior period items are income or expenses, which arise, in the current period as a result of error or omissions in the preparation of financial statements of one or more prior periods. Further, the nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on current profit or loss can be perceived.

In the given instance, it is clearly a case of error/omission in preparation of financial statements for the year 2015-16. Hence, claim received in the financial year 2017-18 is a prior period item and should be separately disclosed in the statement of Profit and Loss.

(ii) In the given case, a limited company created 2.5% provision for doubtful debts for the year 2017-2018. Subsequently, the company revised the estimates based on the changed circumstances and wants to create 8% provision.

As per AS 5, the revision in rate of provision for doubtful debts will be considered as change in estimate and is neither a prior period item nor an extraordinary item.

The effect of such change should be shown in the profit and loss account for the year ending 31st March, 2018.

Question 2

(a) Mr. Vijay entered into the following transactions of purchase and sale of equity shares of JP Power Ltd. The shares have paid up value of ₹ 10 per share.

Date	*No. of Shares*	*Terms*
01.01.2016	*600*	*Buy @ ₹ 20 per share*
15.03.2016	*900*	*Buy @ ₹ 25 per share*
20.05.2016	*1000*	*Buy @ ₹ 23 per share*
25.07.2016	*2500*	*Bonus Shares received*
20.12.2016	*1500*	*Sale @ ₹ 22 per share*
01.02.2017	*1000*	*Sale @ ₹ 24 per share*

Addition information:

(1) On 15.09.2016 dividend @ ₹ 3 per share was received for the year ended 31.03.2016.

(2) On 12.11.2016 company made a right issue of equity shares in the ratio of one share for five shares held on payment of ₹ 20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of the premium of ₹ 3 per share.

(3) Shares are to be valued on weighted average cost basis.

You are required to prepare Investment Account for the year ended 31.03.2016 and 31.03.2017.

(b) On 30th March, 2018 fire occurred in the premises of M/s Alok & Co. The concern had taken an insurance policy of ₹ 1,20,000 which was subject to the average clause. From the books of accounts the following particulars are available relating to the period 1st January to 30th March, 2018:

(i)	*Stock as per Balance Sheet at 31st December, 2017*	*₹ 1,91,200*
(ii)	*Purchases (including purchase of machinery costing ₹ 60,000)*	*₹ 3,40,000*
(iii)	*Wages (including wages ₹ 6,000 for installation of machinery)*	*₹ 1,00,000*

(iv)	*Sales (including goods sold on approval basis amounting to ₹ 99,000)*	*₹ 5,50,000*

No approval has been received in respect of 2/3rd of the goods sold on approval.

(v) The average rate of gross profit is 20% of sales.

(vi) The value of the salvaged goods was ₹ 24,600

You are required to compute the amount of the claim to be lodged to the Insurance Company. ***(2 Parts x 10 Marks = 20 Marks)***

Answer

(a) Investment in Equity shares of JP Power Ltd.

Date	*Particulars*	*No.*	*Dividend ₹*	*Amount ₹*	*Date*	*Particulars*	*No.*	*Dividend ₹*	*Amount ₹*
1.1.16	To Bank A/c	600		12,000	31.3.16	By Balance c/d	1,500		34,500
15.3.16	To Bank A/c	900		22,500			____		______
		1,500		34,500			1,500		34,500
1.4.16	To Balance b/d	1,500		34,500	15.9.16	By Bank - dividend		4,500	3,000
20.5.16	To Bank A/c	1,000		23,000	20.12.16	By Bank	1,500		33,000
25.7.16	To Bonus shares	2,500		_	1.2.17	By Bank	1,000		24,000
12.11.16	To Bank A/c	600		12,000	31.3.17	By Balance c/d	3,100		36,812.50*
20.12.16	To P& L A/c (profit on sale)			15,187.50*					
1.2.17	To P& L A/c (profit on sale)			12,125					
31.3.17	To P & L A/c (dividend)		4,500						
		5,600	4,500	96,812.50			5,600	4,500	96,812.50

Working Notes:

1. **Calculation of Weighted average cost of equity shares**

   600 shares purchased at ₹ 12,000

900 shares purchased at ₹ 22,500

1,000 shares purchased at ₹ 23,000

2,500 shares at nil cost

600 right shares purchased at ₹ 12,000

Total cost of 5,600 shares is ₹ 66,500 [₹ 69,500 less ₹ 3,000 (pre-acquisition dividend received on 1,000 shares purchased on 20.5.17].

Hence, weighted average cost per share will be considered as ₹ 11.875 per share (66,500/5,600).

2. It has been considered that no dividend was received on bonus shares as the dividend pertains to the year ended 31st March, 2016.

3. **Calculation of right shares subscribed by Vijay**

   Right Shares (considering that right shares have been granted on Bonus shares also) = 5,000/5 x 1= 1,000 shares

   Shares subscribed = 1,000 x 60%= 600 shares

   Value of right shares subscribed = 600 shares @ ₹ 20 per share = ₹ 12,000

   Calculation of sale of right renouncement

   No. of right shares sold = 1,000 x 40% = 400 shares

   Sale value of right = 400 shares x ₹ 3 per share = ₹ 1,200

   Note: As per para 13 of AS 13, sale proceeds of rights is to be credited to P & L A/c.

4. **Profit on sale of equity shares**

   As on 20.12.16

Sales price (1,500 shares at ₹ 22)	33,000.00
Less: Cost of shares sold (1,500 x ₹ 11.875)	(17,812.50)
Profit on sale	15,187.50

   As on 1. 2.17

Sales price (1,000 shares at ₹ 24)	24,000
Less: Cost of shares sold (1,000 x ₹ 11.875)	(11,875)
Profit on sale	12,125

   Balance of 3,100 shares as on 31.3.17 will be valued at ₹ 36,812.50 (at rate of ₹ 11.875 per share)

(b) Computation of claim for loss of stock

	₹
Stock on the date of fire i.e. on 30th March, 2018 (W.N.1)	1,25,200
Less: Value of salvaged stock	(24,600)
Loss of stock	1,00,600
Amount of claim = $\frac{\text{Insured value}}{\text{Total cost of stock on the date of fire}}$ x Loss of stock	96,422 (approx.)
= $\left(\frac{1,20,000}{1,25,200} \times 1,00,600 = 96,422(\text{approx})\right)$	

A claim of ₹ 96,422 (approx.) should be lodged by M/s Alok & Co. to the insurance company.

Working Notes:

1. **Calculation of closing stock as on 30th March, 2018**

Memorandum Trading Account for

(from 1st January, 2018 to 30th March, 2018)

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To Opening stock	1,91,200	By Sales (W.N.3)	4,84,000
To Purchases (3,40,000-60,000)	2,80,000	By Goods with customers (for approval) (W.N.2)	52,800*
To Wages (1,00,000 – 6,000)	94,000	By Closing stock (Bal. fig.)	1,25,200
To Gross profit (20% on sales)	96,800		
	6,62,000		6,62,000

* For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the concern and, hence, there was no loss of such stock.

2. **Calculation of goods with customers**

Since no approval for sale has been received for the goods of ₹ 66,000 (i.e. 2/3 of ₹ 99,000) hence, these should be valued at cost i.e. ₹ 66,000 – 20% of ₹ 66,000 = ₹ 52,800.

3. **Calculation of actual sales**

Total sales – Sale of goods on approval (2/3rd) = ₹ 5,50,000 – ₹ 66,000 = ₹ 4,84,000.

Question 3

(a) M/s. Delta is a Departmental Store having three departments X, Y and Z. The information regarding three departments for the year ended 31st March, 2018 are given below:

Particulars	Dept. X	Dept. Y	Dept. Z
Opening Stock	18,000	12,000	10,000
Purchases	66,000	44,000	22,000
Debtors at end	7,500	5,000	5,000
Sales	90,000	67,500	45,000
Closing Stock	22,500	8,750	10,500
Value of furniture in each Department	10,000	10,000	5,000
Floor space occupied by each Dept. (in sq. ft.)	1,500	1,250	1,000
Number of employees in each Department	25	20	15
Electricity consumed by each Department (in units)	300	200	100

Additional Information:

	Amount (₹)
Carriage inwards	1,500
Carriage outwards	2,700
Salaries	24,000
Advertisement	2,700
Discount allowed	2,250
Discount received	1,800
Rent, Rates and Taxes	7,500
Depreciation on furniture	1,000
Electricity Expenses	3,000
Labour welfare expenses	2,400

Prepare Departmental Trading and Profit & Loss Account for the year ended 31st March, 2018 after providing provision for Bad Debts at 5%.

(b) *Ayan Ltd. invoices goods to its branch at cost plus $33\frac{1}{3}$%*. From the following particulars prepare Branch Stock Account, Branch Stock Adjustment Account and Branch Profit and Loss Account as they would appear in the books of head office.*

	₹
Stock at commencement at Branch at invoice Price	*3,60,000*
Stock at close at Branch at Invoice Price	*2,88,000*
Goods sent to Branch during the year at invoice price (including goods invoiced at ₹ 48,000 to Branch on 31.03.2018 but not received by Branch before close of the year).	*24,00,000*
Return of goods to head office (invoice Price)	*1,20,000*
Credit Sales at Branch	*1,20,000*
Invoice value of goods pilfered	*24,000*
Normal loss at Branch due to wastage and deterioration of stock (at invoice price)	*36,000*
Cash Sales at Branch	*21,60,000*

Ayan closes its books on 31st March, 2018. ***(2 Parts x 10 Marks = 20 Marks)***

* *There was a printing error in the question. $33\frac{1}{3}$ % was wrongly printed as 33▭▭% in the question paper.*

Answer

(a) **In the Books of M/s Delta**

Departmental Trading and Profit and Loss Account

for the year ended 31st March, 2018

Particulars	*Deptt.X*	*Deptt.Y*	*Deptt.Z*	*Total*	*Particulars*	*Deptt.X*	*Deptt.Y*	*Deptt.Z*	*Total*
	₹	₹	₹	₹		₹	₹	₹	₹
To Stock (opening)	18,000	12,000	10,000	40,000	By Sales	90,000	67,500	45,000	2,02,500
To Purchases	66,000	44,000	22,000	1,32,000	By Stock (closing)	22,500	8,750	10,500	41,750
To Carriage Inwards	750	500	250	1,500					
To Gross Profit c/d (b.f.)	27,750	19,750	23,250	70,750					
	1,12,500	76,250	55,500	2,44,250		1,12,500	76,250	55,500	2,44,250
To Carriage Outwards	1,200	900	600	2,700	By Gross Profit b/d	27,750	19,750	23,250	70,750
To Electricity	1,500	1,000	500	3,000	By Discount received	900	600	300	1,800
To Salaries	10,000	8,000	6,000	24,000					
To Advertisement	1,200	900	600	2,700					
To Discount allowed	1,000	750	500	2,250					
To Rent, Rates and Taxes	3,000	2,500	2,000	7,500					
To Depreciation	400	400	200	1,000					
To Provision for Bad Debts @ 5% of debtors	375	250	250	875					
To Labour welfare expenses	1,000	800	600	2,400					
To Net Profit (b.f.)	8,975	4,850	12,300	26,125					
	28,650	20,350	23,550	72,550		28,650	20,350	23,550	72,550

Working Note:

Basis of allocation of expenses	
Carriage inwards	Purchases (3:2:1)
Carriage outwards	Turnover (4:3:2)
Salaries	No. of Employees (5:4:3)
Advertisement	Turnover (4:3:2)
Discount allowed	Turnover (4:3:2)
Discount received	Purchases (3:2:1)
Rent, Rates and Taxes	Floor Space occupied (6:5:4)
Depreciation on furniture	Value of furniture (2:2:1)
Labour welfare expenses	No. of Employees (5:4:3)
Electricity expense	Units consumed (3:2:1)
Provision for bad debts	Debtors balances (3:2:2)

(b) **In the books of Head Office**

Branch Stock Account

Particulars	₹	Particulars	₹
To Balance b/d	3,60,000	By Bank A/c (cash Sales)	21,60,000
To Goods sent to Branch A/c	24,00,000	By Branch Debtors A/c (Credit Sales)	1,20,000
To Branch Adjustment A/c – balancing fig. (Surplus)***	36,000	By Goods sent to Branch A/c (Returns to H.O.)	1,20,000
		By Branch Adjustment A/c* (₹ 24,000 x25/100)	6,000
		By Branch P&L A/c * (Cost of Abnormal Loss)	18,000
		By Branch Adjustment A/c** (Invoice price of normal loss)	36,000
		By Balance c/d:	
		In hand	2,88,000
		In transit	48,000
	27,96,000		27,96,000

**Alternatively, combined posting for the amount of ₹ 24,000 may be passed through Goods pilfered account.*

*** Alternatively, it may first be transferred to normal Loss account which may ultimately be closed by transfer to Branch Adjustment account. The final amount of net profit will however remain same.*

**** It has been considered that the surplus may be due to sale of goods by branch at price higher than invoice price.*

Branch Stock Adjustment Account

Particulars	₹	Particulars	(₹)
To Branch Stock A/c (Loading on Abnormal Loss)	6,000	By Stock Reserve A/c (₹ 3,60,000 x 25/100)	90,000
To Branch Stock A/c (Normal Loss)	36,000	By Goods Sent to Branch A/c (₹ 24,00,000 – ₹ 1,20,000) x 25/100	5,70,000
To Stock Reserve A/c (₹ 3,36,000 x25/100)	84,000	By Branch Stock A/c (Surplus)	36,000
To Gross Profit t/f to P & L A/c	5,70,000		
	6,96,000		6,96,000

Branch Profit and Loss Account

Particulars	₹	Particulars	₹
To Branch Stock A/c (Cost of Abnormal Loss)	18,000	By Branch Adjustment A/c (Gross Profit)	5,70,000
To Net Profit t/f to General P & L A/c	5,52,000		
	5,70,000		5,70,000

Question 4

(a) A and B carrying on business in partnership sharing profits and losses equally, wished to dissolve the firm and sell the business to AB Limited Company on 31.03.2018 when the firm's position was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
A's Capital	*7,50,000*	*Land & Building*	*5,00,000*
B's Capital	*5,00,000*	*Furniture*	*2,00,000*
Sundry Creditors	*3,00,000*	*Stock*	*5,00,000*

		Debtors	*3,30,000*
		Cash	*20,000*
	15,50,000		*15,50,000*

The arrangement with AB Limited Company was as follows:

(i) Land and Building was purchased at 20% more than the book value.

(ii) Furniture and stock were purchased at book value less 15%.

(iii) The Goodwill of the firm was valued at ₹ 2,00,000.

(iv) The firm's debtors, cash and creditors were not to be taken over, but the company agreed to collect the book debts of the firm and discharge the creditors of the firm as an agent, for which services the company was to be paid 5% on all collections from the firm's debtors and 3% on cash paid to firm's creditors.

(v) The purchase price was to be discharged by the company in fully paid equity shares of ₹ 10 each at a premium of ₹ 2 per share.

The company collected all the amounts from the debtors. The creditors were paid off less by ₹ 5,000 allowed as discount. The company paid the balance due to the vendors in cash.

Prepare the Realisation A/c, the Capital Accounts of the Partners and the Cash Account in the books of the Partnership firm. ***(15 Marks)***

(b) Write short notes on extent of liability of LLP and its Partners. ***(5 Marks)***

Answer

(a) **In the Books of Partnership Firm**

Realization Account

		₹				₹
To	Land & Building	5,00,000	By	Sundry Creditors		3,00,000
To	Furniture	2,00,000	By	AB Ltd. Co. - Purchase consideration – (W.N.1)		13,95,000
To	Stock	5,00,000	By	AB Ltd. Company – Sundry Debtors	3,30,000	
To	Debtors	3,30,000		*Less*: Commission 5% on 3,30,000	16,500	3,13,500
To	AB Ltd. Co. - Sundry Creditors (3,00,000	2,95,000				

	less 5,000)					
To	AB Ltd. Co. – (Commission 3% on 2,95,000)	8,850				
To	Profits transferred to: A's Capital A/c 87,325 B's Capital A/c 87,325	1,74,650				
		20,08,500				20,08,500

Capital Accounts of Partners

		A	B			A	B
		₹	₹			₹	₹
To	Shares in AB Ltd. Co.– (W.N.2)	8,19,900	5,75,100	By	Balance b/d	7,50,000	5,00,000
To	Cash – Final Payment	17,425	12,225	By	Realization a/c - Profit	87,325	87,325
		8,37,325	5,87,325			8,37,325	5,87,325

Cash Account

		₹			₹
To	Balance b/d	20,000	By	A's Capital A/c- Final payment	17,425
To	AB Ltd. Co. (Amount realized from Debtors less amount paid to creditors) –(W.N.3)	9,650	By	B's Capital A/c- Final Payment	12,225
		29,650			29,650

Working Notes:

1. **Calculation of Purchase consideration:**

	₹
Land & Building	6,00,000
Furniture	1,70,000
Stock	4,25,000
Goodwill	2,00,000
	13,95,000

2. **Distribution of shares among partners**

The shares received from the company have been distributed between the two partners A & B in the ratio of their final claims i.e., 8,37,325: 5,87,325*.

No. of shares received from the company = 13,95,000/12= 1,16,250

A gets [(1,16,250 X 8,37,325)/14,24,650] = 68,325 shares valued at 68,325 x 12 = ₹ 8,19,900. B gets the remaining 47,925 shares, valued at ₹ 5,75,100 (47,925 × 12)

3. **Calculation of net amount received from AB Ltd on account of amount realized from debtors less amount paid to creditors.**

		₹
Amount realized from Debtors		3,30,000
Less:	Commission for realization from debtors (5% on 3,30,000)	16,500
		3,13,500
Less:	Amount paid to creditors	2,95,000
		18,500
Less:	Commission for cash paid to creditors (3% on 2,95,000)	8,850
Net amount received		9,650

*__Note:__ In the above situation, shares received from AB Ltd. Company have been distributed between two partners A and B in the ratio of their final claims. Alternatively, shares received from AB Ltd. can be distributed among the partners in their profit sharing ratio i.e. ₹ 13,95,000 x ½ = ₹ 6,97,500 each. In that case, firm will pay cash amounting ₹ 1,39,825 to A and will receive cash ₹ 1,10,175 from B. Partners' capital accounts and cash account will, accordingly get changed.

(b) Extent of Liability of LLP and its partners

Every partner of an LLP for the purpose of its business is an agent of the LLP but is not an agent of other partners. Obligations of LLP are solely its obligations and liabilities of LLP are to be met out of properties of LLP.

The partners of an LLP in the normal course of business are not liable for the debts of the LLP. The LLP is liable if a partner of LLP is liable to any person as a result of wrongful or omission on his part in the course of business of the LLP or with his authority. However, a partner will be liable for his own wrongful acts or commissions, but will not be liable for the wrongful acts or commissions of other partners of the LLP. Thus a partner may be called to pay the liability of an LLP under exceptional circumstances.

If an LLP or any of its partners act with the intent to defraud creditors of the LLP or any other person or for any fraudulent purpose, then the liability of the LLP and the concerned partners is unlimited. However, where the fraudulent act is carried out by a partner, the LLP is not liable if it is established by the LLP that the act was without the knowledge or authority of the LLP. Where the business is carried out with fraudulent intent or for fraudulent purpose, every person who was knowingly a party is punishable with imprisonment and fine.

Question 5

(a) *The promotors of Shiva Ltd. took over on behalf of the company a running business with effect from 1st April 2017. The company got incorporated on 1st August 2017. The annual accounts were made up to 31st March, 2018 which revealed that the sales for the whole year totalled ₹ 2400 lakhs out of which sales till 31st July, 2017 were for ₹ 600 lakhs. Gross profit ratio was 20%.*

The expenses from 1st April 2017, till 31st March, 2018 were as follows:

Particulars	*₹ in lakhs*
Salaries	*75*
Rent, Rates and Insurance	*30*
Sundry Office Expenses	*72*
Traveller's Commission	*20*
Discount allowed	*16*
Bad Debts	*8*
Directors' Fee	*30*
Tax Audit Fee	*16*
Depreciation on Tangible Assets	*15*
Debenture Interest	*14*

Prepare a statement showing the calculation of profits for the pre-incorporation and Post incorporation periods.

(b) *Dheeraj Limited had 5,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.*

It was decided by the company to issue the following:

(i) 40,000 Equity Shares of ₹ 10 each at par

(ii) 2,000 12% Debentures of ₹ 100 each.

The issue was fully subscribed and all accounts were received in full. The payment was duly made. The company had sufficient profits. Show journal entries in the books of the company. ***(2 Parts x 10 Marks =20 Marks)***

Answer

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

Particulars	*Total Amount*	*Basis of Allocation*	*Pre-incorporation*	*Post-incorporation*
	(₹ in lakhs)		*(₹ in lakhs)*	*(₹ in lakhs)*
Gross Profit (20% of ₹ 2,400)	480	Sales	120	360
Less: Salaries	75	Time	25	50
Rent, rates and Insurance	30	Time	10	20
Sundry office expenses	72	Time	24	48
Travellers' commission	20	Sales	5	15
Discount allowed	16	Sales	4	12
Bad debts	8	Sales	2	6
Directors' fee	30	Post	-	30
Tax Audit Fees*	16	Sales	4	12
Depreciation on tangible assets	15	Time	5	10
Debenture interest	14	Post	-	14
Net profit	184		41	143

** Tax Audit Fees allocated in the ratio of sales.*

Thus, pre-incorporation profits is ₹ 41 lakhs and post- incorporation profit is ₹ 143 akhs.

Working Notes:

1. **Sales ratio**

	(₹ in lakh)
Sales for the whole year	2400
Sales up to 31st July, 2017	600
Therefore, sales for the period from 1st August, 2017 to 31st March, 2018	1,800

Thus, sale ratio = 600:1800 = 1:3

2. **Time ratio**

1st April, 2017 to 31st July, 2017 : 1st August, 2017 to 31st March, 2018

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

(b) **In the books of Dheeraj Limited**

Journal Entries

Date	*Particulars*		*Dr. (₹)*	*Cr. (₹)*
	Bank A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being the issue of 40,000 equity shares of ₹ 10 each at par as per Board's resolution No……dated…..)			
	Bank A/c	Dr.	2,00,000	
	To 12% Debenture A/c			2,00,000
	(Being the issue of 2,000 Debentures of ₹ 100 each as per Board's Resolution No…..dated……)			
	10% Redeemable Preference Share Capital A/c	Dr.	5,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	50,000	
	To Preference Shareholders A/c			5,50,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	5,50,000	
	To Bank A/c			5,50,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	50,000	
	To Premium on Redemption of Preference Shares A/c			50,000
	(Being the adjustment of premium on redemption against Profits & Loss Account)			
	Profit & Loss A/c	Dr.	1,00,000	
	To Capital Redemption Reserve A/c (Working Note)			1,00,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed	₹ 5,00,000
Less: Proceeds from new issue	(₹ 4,00,000)
Balance	₹ 1,00,000

Question 6

*Answer any **four** from the following:*

(a) *Briefly explain the elements of financial statements.*

(b) *Following are the balances appear in the trial balance of Arya Ltd. as at 31st March. 2018.*

Issued and Subscribed Capital:

	₹
10,000; 10% Preference Shares of ₹ 10 each fully paid	*1,00,000*
1,00,000 Equity Shares of ₹ 10 each ₹ 8 paid up	*8,00,000*
Reserves and Surplus:	
General Reserve	*2,40,000*
Securities Premium (collected in cash)	*25,000*
Profit and Loss Account	*1,20,000*

On 1st April, 2018 the company has made final call @ ₹ 2 each on 1,00,000 Equity Shares. The call money was received by 15th April, 2018. Thereafter the company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 5 shares held and for this purpose, it decided that there should be minimum reduction in free reserves. Pass Journal entries.

(c) *Gurudev Limited purchases for immediate cancellation 6,000 of its own 12% debentures of ₹ 100 each on 1st November, 2017. The dates of interest being 31st March, and 30th September. Pass necessary journal entries relating to the cancellation if:*

(i) *Debentures are purchased at ₹ 98 ex-interest.*

(ii) *Debentures are purchased at ₹ 98 cum-interest.*

(d) *M/s Nathan Limited has three segments namely P, Q and R. The assets of the company are ₹ 15 crores. Segment P has 4 crores, Segment Q has 6 crores and Segment R has 5 crores. Deferred tax assets included in the assets of each segment are P - ₹ 1 crore,* *Q - ₹ 0.90 crores and R - ₹ 0.80 crores. The accountant contends all these three segments are reportable segments. Comment.*

(e) Classify the following activities as

(i) Operating Activities, (ii) Investing activities, (iii) Financial activities and (iv) Cash Equivalents.

(1) Cash receipts from Trade Receivables

(2) Marketable Securities

(3) Purchase of investment

(4) Proceeds from long term borrowings

(5) Wages and Salaries paid

(6) Bank overdraft

(7) Purchase of Goodwill

(8) Interim dividend paid on equity shares

(9) Short term Deposits

(10) Underwriting commission paid ***(4 Parts x 5 Marks = 20 Marks)***

Answer

(a) Elements of Financial Statements

Asset	Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise
Liability	Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.
Equity	Residual interest in the assets of an enterprise after deducting all its liabilities
Income/gain	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants
Expense/loss	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity other than those relating to distributions to equity participants

(b) **Arya Ltd.**

Journal Entries

2018			*Dr.* ₹	*Cr.* ₹
April 1	Equity Share Final Call A/c	Dr.	2,00,000	
	To Equity Share Capital A/c			2,00,000
	(Final call of ₹ 2 per share on 1,00,000 equity shares due as per Board's Resolution dated....)			
April 15	Bank A/c	Dr.	2,00,000	
	To Equity Share Final Call A/c			2,00,000
	(Final Call money on 1,00,000 equity shares received)			
	Securities Premium A/c	Dr.	25,000	
	General Reserve A/c*	Dr.	1,75,000	
	To Bonus to Shareholders A/c			2,00,000
	(Bonus issue @ one share for every 5 shares held by utilizing various reserves as per Board's Resolution dated...)			
April 15	Bonus to Shareholders A/c	Dr.	2,00,000	
	To Equity Share Capital A/c			2,00,000
	(Capitalization of profit)			

Note: Profit and Loss Account balance may also be utilized along with General Reserve for the purpose of issue of Bonus shares.

(c) **In the books of Gurudev Ltd.**

Journal Entries

(i) **In case of ex-interest**

Date	*Particulars*		₹	₹
1.11.2017	Own Debentures A/c	Dr.	5,88,000	
	Debentures Interest A/c	Dr.	6,000	
	[6,000 x 100 x 12% x (1/12)]			
	To Bank A/c			5,94,000
	(Purchase of 6,000 Debentures @ 98 ex interest for immediate cancellation)			
1.11.17	12% Debentures A/c	Dr.	6,00,000	

	To Own Debentures A/c			5,88,000
	To Capital reserve A/c (Profit on cancellation of debentures)			12,000
	(Being profit on cancellation of 6,000 Debentures transferred to capital reserve account)			
(ii) **In case of cum interest**				
1.11.17	Own Debenture A/c	Dr.	5,82,000	
	Debenture Interest Account A/c [6,000 x100 x12% x (1/12)]	Dr.	6,000	
	To Bank A/c			5,88,000
	(Being 6,000 debentures purchased @ ₹ 98 cum interest for immediate cancellation)			
1.11.17	12% Debenture A/c	Dr.	6,00,000	
	To Own Debentures A/c			5,82,000
	To Capital reserve A/c (Profit on cancellation of debentures)			18,000
	(Being profit on cancellation of 6,000 Debentures transferred to capital reserve account)			

(d) According to AS 17 "Segment Reporting", segment Assets do not include income tax assets.

Therefore, the revised total assets are 12.3 crores [₹ 15 – (₹ 1 + 0.9 + 0.8).

<u>Details of Segment wise assets</u>

Segment P holds total assets of ₹ 3 crores (₹ 4 crores – ₹ 1 crores);

Segment Q holds ₹ 5.1 crores (₹ 6 crores – 0.9 crores);

Segment R holds ₹ 4.2 crores (₹ 5 crores – ₹ 0.8 crores).

Thus, all the three segments hold more than 10% of the total assets, all segments are reportable segments.

Hence, the contention of the Accountant that all three segments are reportable segments is correct.

(e) **(a)** Operating Activities: Items 1 and 5.

(b) Investing Activities: Items 3,7 and 9

(c) Financing Activities: Items 4,6,8 and 10

(d) Cash Equivalent: 2