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) Prepare cash flow from investing activities as per AS 3 of M/s Subham Creative Limited for year ended 31.3.2019.

Particulars	Amount (₹)
Machinery acquired by issue of shares at face value	2,00,000
Claim received for loss of machinery in earthquake	55,000
Unsecured loans given to associates	5,00,000
Interest on loan received from associate company	70,000
Pre-acquisition dividend received on investment made	52,600
Debenture interest paid	1,45,200
Term loan repaid	4,50,000
Interest received on investment (TDS of ₹ 8,200 was deducted on the above interest)	73,800
Purchased debentures of X Ltd., on. 1st December, 2018 which are redeemable within 3 months	3,00,000
Book value of plant & machinery sold (loss incurred ₹ 9,600)	90,000

(b) Karan Enterprises having its Head Office in Mangalore, Karnataka has a branch in Greenville, USA. Following is the trial balance of Branch as at 31-3-2019:

Particulars	Amount ($) Dr.	Amount ($) Cr.
Fixed assets	8,000	
Opening inventory	800	
Cash	700	
Goods received from Head Office	2,800	
Sales		24,050
Purchases	11,800	

Expenses	*1,800*	
Remittance to head office	*2,450*	
Head office account		*4,300*
	28,350	*28,350*

(i) Fixed assets were purchased on 1st April, 2015.

(ii) Depreciation at 10% p.a. is to be charged on fixed assets on straight line method. ·

(iii) Closing inventory at branch is $ 700 as on 31-3-2019.

(iv) Goods received from Head Office (HO) were recorded at ₹ 1,85,500 in HO books.

(v) Remittances to HO were recorded at ₹ 1,62,000 in HO books.

(vi) HO account is recorded in HO books at ₹ 2,84,500.

(vii) Exchange rates of US Dollar at different dates can be taken as :

1-4-2015 ₹ 63

1-4-2018 ₹ 65 and

31-3-2019 ₹ 67

Prepare the trial balance after been converted into Indian rupees in accordance with AS-11.

(c) Mr. Rakshit gives the following information relating to items forming part of inventory as on 31st March, 2019. His factory produces product X using raw material A.

(i) 800 units of raw material A (purchased @ ₹ 140 per unit). Replacement cost of raw material A as on 31st March, 2019 is ₹ 190 per unit.

(ii) 650 units of partly finished goods in the process of producing X and cost incurred till date ₹ 310 per unit. These units can be finished next year by incurring additional cost of ₹ 50 per unit.

(iii) 1,800 units of finished product X and total cost incurred ₹ 360 per unit.

Expected selling price of product X is ₹ 350 per unit.

In the context of AS-2, determine how each item of inventory will be valued as on 31st March, 2019. Also, calculate the value of total inventory as on 31st March, 2019.

(d) Sheetal Ltd. has provided the following information for the year ended 31st March, 2019:

Particulars	*Amount (₹)*
Accounting profit	*9,00,000*
Book profit as per MAT	*5,25,000*
Profit as per Income Tax Act	*95,000*

Tax rate	*30%*
MAT rate	*7.5%*

You are required to calculate the deferred tax asset/liability as per AS-22 and amount of tax to be debited to the profit and loss account for the year.

(4 Parts x 5 Marks = 20 Marks)

Answer

(a) Cash Flow Statement from Investing Activities of Subham Creative Limited for the year ended 31-03-2019

Cash generated from investing activities	₹	₹
Interest on loan received	70,000	
Pre-acquisition dividend received on investment made	52,600	
Unsecured loans given to subsidiaries	(5,00,000)	
Interest received on investments (gross value)	82,000	
TDS deducted on interest	(8,200)	
Sale of Plant & Machinery ₹ (90,000 – 9,600)	80,400	
Cash used in investing activities (before extra-ordinary item)		(2,23,200)
Extraordinary claim received for loss of machinery		55,000
Net cash used in investing activities (after extra-ordinary item)		(1,68,200)

Note:

1. Debenture interest paid and Term Loan repaid are financing activities and therefore not considered for preparing cash flow from investing activities.
2. Machinery acquired by issue of shares does not amount to cash outflow, hence also not considered in the above cash flow statement.
3. The investments made in debentures are for short-term, it will be treated as 'cash equivalent' and will not be considered as outflow in cash flow statement.

(b) Trial Balance of Foreign Branch (converted into Indian Rupees) as on March 31, 2019

Particulars	$ (Dr.)	$ (Cr.)	**Conversion Basis**	Rate	₹ (Dr.)	₹ (Cr.)
Fixed Assets	8,000		Transaction Date Rate	63	5,04,000	
Opening Inventory	800		Opening Rate	65	52,000	
Goods Received from HO	2,800		Actuals		1,85,500	

Sales		24,050	Average Rate	66		15,87,300
Purchases	11,800		Average Rate	66	7,78,800	
Expenses	1,800		Average Rate	66	1,18,800	
Cash	700		Closing Rate	67	46,900	
Remittance to HO	2,450		Actuals		1,62,000	
HO Account		4,300	Actuals			2,84,500
Exchange Rate Difference			Balancing Figure		23,800	
	28,350	28,350			18,71,800	18,71,800
Closing Stock	700		Closing Rate	67	46,900	
Depreciation	800		Fixed Asset Rate	63	50,400	

(c) As per AS 2 (Revised) "Valuation of Inventories", materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at cost or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. In the given case, selling price of product X is ₹ 350 and total cost per unit for production is ₹ 360.

Hence the valuation will be done as under:

(i) 800 units of raw material will be valued at cost 140.

(ii) 650 units of partly finished goods will be valued at 300 per unit* i.e. lower of cost (₹ 310) or Net realizable value ₹ 300 (Estimated selling price ₹ 350 per unit less additional cost of ₹ 50).

(iii) 1,800 units of finished product X will be valued at NRV of ₹ 350 per unit since it is lower than cost ₹ 360 of product X.

Valuation of Total Inventory as on 31.03.2019:

	Units	Cost (₹)	NRV / Replacement cost ₹	Value = units x cost or NRV whichever is less (₹)	₹
Raw material A	800	140	190	1,12,000	(800 x 140)
Partly finished goods	650	310	300	1,95,000	(650 x 300)
Finished goods X	1,800	60	350	6,30,000	(1,800 x 350)
Value of Inventory				9,37,000	

**It has been assumed that the partly finished unit cannot be sold in semi-finished form and its NRV is zero without processing it further.*

(d) Tax as per accounting profit 9,00,000×30%= ₹ 2,70,000

Tax as per Income-tax Profit 95,000×30% =₹ 28,500

Tax as per MAT 5,25,000×7.50%= ₹ 39,375

Tax expense= Current Tax +Deferred Tax

₹ 2,70,000 = ₹ 28,500+ Deferred tax

Deferred Tax liability as on 31-03-2019

= ₹ 2,70,000 – ₹ 28,500 = ₹ 2,41,500

Amount of tax to be debited in Profit and Loss account for the year 31-03-2019

Current Tax + Deferred Tax liability + Excess of MAT over current tax

= ₹ 28,500 + ₹ 2,41,500+ ₹ 10,875 (39,375 – 28,500)

= ₹ 2,80,875

Question 2

(a) G, S & J were partners sharing profits and losses in the ratio of 4:3:2, no partnership salary or interest on capital being allowed. Their Balance Sheet as on 31.3.2019 is as follows:

Liabilities	*Amount (₹)*	*Amount (₹)*	*Assets*	*Amount (₹)*	*Amount (₹)*
Partners' fixed capital accounts:			*Fixed assets:*		
G	*24,000*		*Goodwill*	*48,000*	
S	*24,000*		*Land*	*9,600*	
J	*12,000*	*60,000*	*Plant & Machinery*	*15,360*	
Partners' current accounts:			*Motor car*	*840*	*73,800*
G	*600*		*Current assets:*		
S	*10,800*		*Stock*		*4,680*
J	*(480)*	*10,920*	*Trade debtors*	*2,400*	
Loan from G		*9,600*	*Less: provision*	*120*	*2,280*
Trade creditors		*14,880*	*Cash at bank*		*240*
			Miscellaneous losses:		
			Profit & loss sale		*14,400*
		95,400			*95,400*

On 1st April, 2019, the partnership was dissolved. Motor car was taken over by G at a value of ₹ 600, but no cash was given specifically in respect of this transaction. Sale of other assets realized the following amounts:

Particulars	*₹*
Goodwill	*Nil*
Land	*8,400*
Plant & machinery	*6,000*
Stock	*3,600*
Trade debtors	*1,920*

Trade creditors were paid ₹ 14,040 in full settlement of their debts. The cost of dissolution amounted to ₹ 1,800. The loan from G was repaid; G and S both were fully solvent and able to bring in any cash required but J was forced into bankruptcy and was only able to bring 1/2 of the amount due.

You are required to prepare:

(i) Cash & Bank account

(ii) Realization account, and

(iii) Partners' Fixed Capital Accounts (after transferring current accounts balances)

Apply Garner Vs. Murray rule.

(b) AD, BD & SD are partners sharing profits and losses in the ratio of 5:3:2. There capitals were ₹ 13,440, ₹ 8,400, ₹ 11,760 respectively.

Liabilities and assets of the firm are as under:

Liabilities:	*₹*
Trade creditors	*2.800*
Loan from partners	*1,400*
Assets of the firm:	
Patent	*1,400*
Furniture	*2,800*
Machinery	*1,680*
Stock	*5,600*

The assets realized in full in the order in which they are listed above. BD is insolvent.

You are required to prepare a statement showing the distribution of cash as and when available, applying maximum possible loss procedure. ***(15 + 5 = 20 Marks)***

Answer

(a) **Cash & Bank Account**

		₹		₹
To Balance b/d		240	By Realisation A/c-Creditors	14,040
To Realisation A/c-			By Realisation A/c-Expenses	1,800
Land		8,400	By G's Loan A/c	9,600
Plant and Machinery		6,000	By G's Capital A/c	16,280
Stock		3,600	By S's Capital A/c	28,680
Trade Debtors		1,920		
To Capital Accounts:				
G	27,200			
S	20,400			
J	2,640	50,240		
		70,400		70,400

Realisation Account

	₹			₹
To Goodwill	48,000	By Trade Creditors		14,880
To Land	9,600	By Provision for Bad Debts		120
To Plant and Machinery	15,360	By Bank:		
To Motor Car	840	Land	8,400	
To Stock	4,680	Plant and Machinery	6,000	
To Sundry Debtors	2,400	Stock	3,600	
To Bank (Creditors)	14,040	Debtors	1,920	19,920
To Bank (Expenses)	1,800	By G (Car)		600
		By Capital Accounts: (Loss)		
		G	27,200	
		S	20,400	
		J	13,600	61,200
	96,720			96,720

Partners' Fixed Capital Accounts

	G	S	J		G	S	J
	₹	₹	₹		₹	₹	₹
To Current A/c (Transfer)	5,800	—	3,680	By Balance b/d	24,000	24,000	12,000
To Realisation A/c (Loss)	27,200	20,400	13,600	By Current A/c (Transfer)	—	6,000	—
To Realisation A/c (Car)	600	-	—	By Bank	—	—	2,640
To J's Capital A/c (Deficiency)	1,320	1,320		By Bank* (realisation loss)	27,200	20,400	—
To Bank*	16,280	28,680	—	By G & S (Deficiency)	—	—	2,640
	51,200	50,400	17,280		51,200	50,400	17,280

Note:

1. G, S and J will bring cash to make good their share of the loss on realization.
2. As per Garner Vs. Murray rule, solvent partners- G and S have to bear the loss due to insolvency of a partner J in their fixed capital ratio.

**Alternatively, posting may be done for the net amount being received from /paid to G and S respectively.*

Working Note:

Current account balances of partners have been arrived after adjusting profit and loss account debit balance as follows:

	Current account balance	Profit & loss		
G	600	(6,400)	5,800	Dr.
S	10,800	(4,800)	6,000	Cr.
J	(480)	(3,200)	3,680	Dr.

(b) Statement of Distribution of Cash

	Realization	*Trade Creditor*	*Loans from partners*	*Partners' Capitals*			
				AD	*BD*	*SD*	*Total*
	₹	₹	₹	₹	₹	₹	₹
Balances due (1)		2,800	1,400	13,440	8,400	11,760	33,600

(i) Sale of Patent	1,400	(1,400)	-				
		1,400	1,400				
(ii) Sale of furniture	2,800	(1,400)	(1,400)				
(iii) Sale of machinery	1,680						
Maximum possible loss (total of capitals ₹ 33,600 less cash available ₹ 1,680) allocated to partners in the profit sharing ratio i.e. 5 : 3 : 2	₹ 31,920			(15,960)	(9,576)	(6,384)	(31,920)
Amounts at credit				(2,520)	(1,176)	5,376	1,680
Deficiency of AD and BD written off against SD				2,520	1,176	(3,696)	-
Amount paid (2)				–	–	1,680	1,680
Balances in capital accounts (1 – 2) = (3)				13,440	8,400	10,080	31,920
(iv) Sale of stock	5,600						
Maximum possible loss	26,320						
(₹ 31,920 – ₹ 5,600) allocated							
to partners in the ratio 5 : 3 : 2				(13,160)	(7,896)	(5,264)	(26,320)
Amounts at credit and cash paid (4)				280	504	4,816	5,600
Balances in capital accounts left unpaid— Loss (3 – 4) = (5)				13,160	7,896	5,264	26,320

Question 3

(a) Mr. Harsh provides the following details relating to his holding in 10% debentures (face value of ₹ 100 each) of Exe Ltd. held as current assets:

1.4.2018	*opening balance - 12,500 debentures, cost ₹ 12,25,000*
1.6.2018	*purchased 9,000 debentures@ ₹ 98 each ex-interest*
1.11.2018	*purchased 12,000 debentures @ ₹ 115 each cum interest*
31.1.2019	*sold 13,500 debentures@ ₹ 110 each cum-interest*
31.3.2019	*Market value of debentures @ ₹ 115 each*

Due dates of interest are 30th June and 31st December.

Brokerage at 1% is to be paid for each transaction. Mr. Harsh closes his books on 31.3.2019. Show investment account as it would appear in his books assuming FIFO method is followed.

(b) *A fire occurred in the premises of M/s Kirti & Co. on 15th December, 2018. The working remained disturbed upto 15th March, 2019 as a result of which sales got adversely affected. The firm had taken out an insurance policy with an average clause against consequential losses for ₹ 2,50,000.*

Following details are available from the quarterly sales tax return filed/GST return filed:

Sales	2015-16 (₹)	2016-17 (₹)	2017-18 (₹)	2018-19 (₹)
From 1st April to 30th June	3,80,000	3,15,000	4,11,900	3,24,000
From 1st July to 30th September	1,86,000	3,92,000	3,86,000	4,42,000
From 1st October to 31st December	3,86,000	4,00,000	4,62,000	3,50,000
From 1st January to 31st March	2,88,000	3,19,000	3,80,000	2,96,000
Total	12,40,000	14,26,000	16,39,900	14,12,000

A period of 3 months (i.e. from 16-12-2018 to 15-3-2019) has been agreed upon as indemnity period.

Sales from 16-12-2017 to 31-12-2017	*68,000*
Sales from 16-12-2018 to 31-12-2018	*Nil*
Sales from 16-03-2018 to 31-03-2018	*1,20,000*
Sales from 16~03-2019 to 31-03-2019	*40,000*

Net profit was ₹ 2,50,000 and standing charges (all insured) amounted to ₹ 77,980 for the year ending 31st March, 2018.

You are required to calculate the loss of profit claim amount. **(10 + 10 = 20 Marks)**

Answer

(a) **Investment Account of Mr. Harsh**

for the year ending on 31-3-2019

(Scrip: 10% Debentures of Exe Limited)

(Interest Payable on 30th June and 31st December)

Date	Particulars	Nominal Value ₹	Interest ₹	Cost ₹	Date	Particulars	Nominal Value ₹	Interest ₹	Cost ₹
1.4.18	To Balance b/d	12,50,000	31,250	12,25,000	30.6.18	By Bank 21,500 x 100	-	1,07,500	-

						x 10% x 1/2			
1.6.18	To Bank (ex-Interest) (W.N.1)	9,00,000	37,500	8,90,820	31.12.19	By Bank 33,500 x 100x10% x 1/2		1,67,500	
1.11.18	To Bank (cum-Interest) (W.N.2)	12,00,000	40,000	13,53,800	31.1.19	By Bank (W.N.3)	13,50,000	11,250	14,58,900
31.1.19	To Profit & Loss A/c (W.N.3)			1,34,920	31.3.19	By Balance c/d (W.N.4)	20,00,000	50,000 -	21,45,640
31.3.19	To Profit & Loss A/c (Bal. fig.)		2,27,500						
		33,50,000	3,36,250	36,04,540			33,50,000	3,36,250	36,04,540

Working Notes:

1. **Purchase of debentures on 1.6.18**

   Interest element = 9,000 x 100 x 10% x 5/12 = ₹ 37,500

   Investment element = (9,000 x 98) + [1%(9,000 x 98)] = ₹ 8,90,820

2. **Purchase of debentures on 1.11.2018**

   Interest element = 12,000 x 100 x 10% x 4/12 = ₹ 40,000

   Investment element = 12,000 X 115 X 101% less 40,000 = ₹ 13,53,800

3. **Profit on sale of debentures as on 31.1.19**

	₹
Sales price of debentures (13,500 x ₹ 110)	14,85,000
Less: Brokerage @ 1%	(14,850)
	14,70,150
Less: Interest (1,35,000/ 12)	(11,250)
	14,58,900
Less: Cost of Debentures [(12,25,000 + (890820 X 1,00,000/9,00,000)]	(13,23,980)
Profit on sale	1,34,920

4. **Valuation of closing balance as on 31.3.2019:**

   Market value of 20,000 Debentures at ₹ 115 = ₹ 23,00,000

   Cost of

8,000 Debentures	=	8,90,820/ 9,000 X 8,000 =	7,91,840
12,000 Debentures	=		13,53,800
Total			21,45,640

Value at the end is ₹ 21,45,640, i.e., which is less than market value of ₹ 23,00,000.

(b) Gross profit ratio

	₹
Net profit for the year 2017-18	2,50,000
Add: Insured standing charges	77,980
Ratio of Gross profit = $\frac{3,27,980}{16,39,900}$ = 20%	3,27,980

Calculation of Short sales

Indemnity period: 16.12.2018 to 15.3.19

Standard sales to be calculated on basis of corresponding period of year 2017-18

	₹
Sales for period 16.12.2017 to 31.12.17	68,000
Sales for period 1.1.2018 to 15.3.2018 (Note 1)	2,60,000
Sales for period 16.12.2017 to 15.3.2018	3,28,000
Add: upward trend in sales (15%) (Note 2)	49,200
Standard Sales (adjusted)	3,77,200
Actual sales of disorganized period	
Calculation of sales from 16.12.18 to 15.3.19	
Sales for period 16.12.18 to 31.12.18	Nil
Sales for 1.1.19 to 15.3.19 (₹ 2,96,000 – ₹ 40,000)	2,56,000
Actual Sales	2,56,000
Short Sales (₹ 3,77,200 - ₹ 2,56,000)	1,21,200

Loss of gross profit

Short sales x gross profit ratio = 1,21,200 x 20% 24,240

Application of average clause

Net claim = Gross claim x $\frac{\text{policy value}}{\text{gross profit on annual turnover}}$

$$= 24{,}240 \times \frac{2{,}50{,}000}{3{,}26{,}240\,(\text{W.N.3})}$$

Amount of loss of profit claim = ₹ 18,575

Working Notes:

1. **Sales for period 1.1.18 to 15.3.18**

	₹
Sales for 1 Jan. to 31 March (2017-18) (given)	3,80,000
Less: Sales for 16.3.18 to 31.3.18 (given)	(1,20,000)
Sales for period 1.1.18 to 15.3.18	2,60,000

2. **Calculation of upward trend in sales**

Total sales in year 2015-16	=	₹	12,40,000
Increase in sales in year 2016-17 as compared to 2015-16	=	₹	1,86,000

$$\% \text{ increase} = \frac{1{,}86{,}000\,(14{,}26{,}000 - 12{,}40{,}000)}{12{,}40{,}000} = 15\%$$

Increase in sales in year 2017-18 as compared to year 2016-17

$$\% \text{ increase} = \frac{2{,}13{,}900\,(16{,}39{,}900 - 14{,}26{,}000)}{14{,}26{,}000} = 15\%$$

Thus annual percentage increase trend is of 15%

3. **Gross profit on annual turnover**

	₹
Sales from 16.12.17 to 30.12.17 (adjusted) (68,000 x 1.15)	78,200
1.1.18 to 31.3.18 (adjusted) (3,80,000 x1.15)	4,37,000
1.4.18 to 30.6.18	3,24,000
1.7.18 to 30.9.18	4,42,000
1.10.18 to 15.12.18 (3,50,000 – Nil)	3,50,000
Sales for 12 months just before date of fire*	16,31,200
Gross profit on adjusted annual sales @ 20%	3,26,240

NOTE*: Alternatively, the annual adjusted turnover may be computed as ₹17,98,000 (₹ 15,64,000 X 1.15) considering the annual % increase trend for the entire period of last 12 months preceding to the date of fire. In that case, the gross profit on adjusted annual sales @ 20% will be computed as ₹ 3,59,720 and net claim will be computed accordingly.

Question 4

(a) *ABC Ltd. has several departments. Goods supplied to each department are debited to a Memorandum Departmental Stock Account at cost plus a fixed percentage (mark-up) to give the normal selling price. The amount of mark-up is credited to a Memorandum Departmental Markup account. If the selling price of goods is reduced below its normal selling prices, the reduction (mark-down) will require adjustment both in the stock account and the mark-up account. The mark-up for department X for the last three years has been 20%. Figures relevant to department X for the year ended 31st March, 2019 were as follows:*

Stock as on 1st April, 2018, at cost	*₹ 1,50,000*
Purchases at cost	*₹ 4,30,000*
Sales	*₹ 6,50,000*

It is further ascertained that:

(1) *Shortage of stock found in the year ending 31.3.2019, costing ₹ 4,000 were written off.*

(2) *Opening stock on 1.4.2018 including goods costing ₹ 12,000 had been sold during the year and had been marked-down in the selling price by ₹ 1,600. The remaining stock had been sold during the year.*

(3) *Goods purchased during the year were marked down by ₹ 3,600 from a cost of ₹ 30,000. Marked-down stock costing ₹ 10,000 remained unsold on 31.3.2019.*

(4) *The departmental closing stock is to be valued at cost subject to adjustment for mark-up and mark-down.*

You are required to prepare for the year ended 31st March, 2019 :

(i) *Departmental Trading Account for department X for the year ended 31st March, 2019 in the books of head office.*

(ii) *Memorandum Stock Account for the year ended 31st March, 2019.*

(iii) *Memorandum Mark-Up account for the year ended 31st March, 2019.*

(b) *Archana Enterprises maintain their books of accounts under single entry system. The Balance-Sheet as on 31st March, 2018 was as follows :*

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Capital A/c	*6,75,000*	*Furniture & fixtures*	*1,50,000*
Trade creditors	*7,57,500*	*Stock*	*9,15,000*
Outstanding expenses	*67,500*	*Trade debtors*	*3,12,000*
		Prepaid insurance	*3,000*

		Cash in hand & at bank	*1,20,000*
	15,00,000		*15,00,000*

The following was the summary of cash and bank book for the year ended 31st March, 2019:

Receipts	*Amount (₹)*	*Payments*	*Amount (₹)*
Cash in hand & at Bank on 1st April, 2018	*1,20,000*	*Payment to trade creditors*	*1,24,83,000*
Cash sales	*1,10,70,000*	*Sundry expenses paid*	*9,31,050*
Receipts from trade debtors	*27,75,000*	*Drawings*	*3,60,000*
		Cash in hand & at Bank on 31st March, 2019	*1,90,950*
	1,39,65,000		*1,39,65,000*

Additional Information:

(i) Discount allowed to trade debtors and received from trade creditors amounted to ₹ 54,000 and ₹ 42,500 respectively (for the year ended 31st March, 2019).

(ii) Annual fire insurance premium of ₹ 9,000 was paid every year on 1st August for the renewal of the policy.

(iii) Furniture & fixtures were subject to depreciation @ 15% p.a. on diminishing balance method.

(iv) The following are the balances as on 31st March, 2019:

Stock	*₹ 9,75,000*
Trade debtors	*₹ 3,43,000*
Outstanding expenses	*₹ 55,200*

(v) Gross profit ratio of 10% on sales is maintained throughout the year.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2019, and Balance Sheet as on that date. ***(10 + 10 = 20 Marks)***

Answer

(a) (i) Department Trading Account for Department X

For the year ending on 31.03.2019

In the books of Head Office

Particulars	*₹*	*Particulars*	*₹*
To Opening Stock	1,50,000	By Sales	6,50,000

To Purchases	4,30,000	By Shortage	4,000
To Gross Profit c/d	1,05,000	By Closing Stock	31,000
	6,85,000		6,85,000

(ii) Memorandum Stock Account (for Department X) (at selling price)

Particulars	₹	*Particulars*	₹
To Balance b/d (₹ 1,50,000+20% of ₹ 1,50,000)	1,80,000	By Profit & Loss A/c (Cost of Shortage)	4,000
To Purchases (₹ 4,30,000 + 20% of ₹ 4,30,000)	5,16,000	By Memorandum Departmental Mark up A/c (Load on Shortage) (₹ 4,000 x 20%)	800
		By Memorandum Departmental Mark-up A/c (Mark-down on Current Purchases)	3,600
		By Debtors A/c (Sales)	6,50,000
		By Memorandum Departmental Mark-up A/c (Mark Down on Opening Stock)	1,600
		By Balance c/d	36,000
	6,96,000		6,96,000

(iii) Memorandum Departmental Mark-up Account

Particulars	₹	*Particulars*	₹
To Memorandum Departmental Stock A/c (₹ 4,000 × 20/100)	800	By Balance b/d (₹ 1,80,000 x 20/120)	30,000
To Memorandum Departmental Stock A/c	3,600	By Memorandum Departmental Stock A/c (₹ 5,16,000 x 20/120)	86,000
To Memorandum Departmental Stock A/c	1,600		
To Gross Profit transferred to Profit & Loss A/c	1,05,000		
To Balance c/d [(₹ 36,000 + 1,200*) x 20/120 - ₹ 1,200]	5,000		

	1,16,000		1,16,000

**[₹ 3,600 ×10,000/30,000] = ₹ 1,200. Alternatively, this adjustment of ₹1,200 may be routed through Memorandum Stock Account.*

Working Notes:

(i) Calculation of Cost of Sales

		₹
A	Sales as per Books	6,50,000
B	*Add*: Mark-down in opening stock (given)	1,600
C	*Add*: mark-down in sales out of current Purchases (₹ 3,600 x 20,000 /30,000)	2,400
D	Value of sales if there was no mark-down (A+B+C)	6,54,000
E	*Less*: Gross Profit (20/120 of ₹ 6,54,000) subject to Mark Down	(1,09,000)
F	Cost of sales (D-E)	5,45,000

(ii) Calculation of Closing Stock

		₹
A	Opening Stock	1,50,000
B	*Add*: Purchases	4,30,000
C	*Less*: Cost of Sales	(5,45,000)
D	*Less*: Shortage	(4,000)
E	Closing Stock (A+B-C-D)	31,000

(b) Trading and Profit and Loss Account of Archana Enterprises for the year ended 31st March, 2019

	₹			₹
To Opening Stock	9,15,000	By Sales		
To Purchases (W.N. 2)	125,97,000	Cash	110,70,000	
To Gross profit c/d	13,93,000	Credit (W.N. 1)	28,60,000	139,30,000
(10% of 139,30,000)		By Closing stock		9,75,000

	149,05,000			149,05,000
To Sundry expenses (W.N. 4)	9,18,750	By Gross profit b/d		13,93,000
To Discount allowed	54,000	By Discount received		42,500
To Depreciation (15% ₹ 1,50,000)	22,500			
To Net Profit (b.f.)	4,40,250			
	14,35,500			14,35,500

Balance Sheet of Archana Enterprises as at 31st March, 2019

Liabilities		Amount ₹	Assets		Amount ₹
Capital			Furniture & Fittings	1,50,000	
Opening balance	6,75,000		Less: Depreciation	(22,500)	1,27,500
Less: Drawing	(3,60,000)		Stock		9,75,000
	3,15,000		Trade Debtors		3,43,000
Add: Net profit for the years	4,40,250	7,55,250	Unexpired insurance		3,000
Trade creditors (W.N. 3)		8,29,000	Cash in hand & at bank		1,90,950
Outstanding expenses		55,200			
		16,39,450			16,39,450

Working Notes:

1. **Trade Debtors Account**

	₹		₹
To Balance b/d	3,12,000	By Cash/Bank	27,75,000
To Credit sales (Bal. fig.)	28,60,000	By Discount allowed	54,000
		By Balance c/d	3,43,000
	31,72,000		31,72,000

2. **Memorandum Trading Account**

	₹		₹
To Opening stock	9,15,000	By Sales	139,30,000
To Purchases (Balancing figure)	125,97,000	By Closing stock	9,75,000
To Gross Profit (10% on sales)	13,93,000		
	149,05,000		149,05,000

3. **Trade Creditors Account**

	₹		₹
To Cash/Bank	124,83,000	By Balance b/d	7,57,500
To Discount received	42,500	By Purchases (as calculated in W.N. 2)	125,97,000
To Balance c/d (balancing figure)	8,29,000		
	133,54,500		133,54,500

4. **Computation of sundry expenses to be charged to Profit & Loss A/c**

	₹
Sundry expenses paid (as per cash and Bank book)	9,31,050
Add: Prepaid expenses as on 31–3–2018	3,000
	9,34,050
Less: Outstanding expenses as on 31–3–2018	(67,500)
	8,66,550
Add: Outstanding expenses as on 31–3–2019	55,200
	9,21,750
Less: Prepaid expenses as on 31–3–2019 (Insurance paid till July, 2019) (9,000 x 4/12)	(3,000)
	9,18,750

Question 5

(a) From the following particulars furnished by the Prashant Ltd., prepare the Balance Sheet as at 31st March, 2019 as required by Schedule III of the Companies Act, 2013 :

Particulars	*Debit (₹)*	*Credit (₹)*
Equity share capital (face value of ₹ 10 each)		*15,00,000*
Calls-in-arrears	*5,000*	
Land	*5,50,000*	
Building	*4,85,000*	
Plant & machinery	*5,60,000*	
General reserve		*2,70,000*
Loan from State Financial Corporation		*2,10,000*
Inventories	*3,15,000*	
Provision for taxation		*72,000*
Trade receivables	*2,95,000*	
Short-term loans & advances	*58,500*	
Profit & loss account		*1,06,800*
Cash in hand	*37,300*	
Cash at bank	*2,85,000*	
Unsecured loans		*1,65,000*
Trade payables		*2,67,000*
Total	*25,90,800*	*25,90,800*

The following additional information is also provided :

(1) 10,000 equity shares were issued for consideration other than cash.

(2) Trade receivables of ₹ 55,000 are due for more than six months.

(3) The cost of building and plant & machinery is ₹ 5,50,000 and ₹ 6,25,000 respectively.

(4) The loan from State Financial Corporation is secured by hypothecation of plant & machinery. The balance of ₹ 2,10,000 in this account is inclusive of ₹ 10,000 for interest accrued but not due.

(5) Balance at Bank included ₹ 15,000 with Aakash Bank Ltd., which is not a scheduled bank.

(b) The partners of C&G decided to convert their existing partnership business into a private limited called CG trading Pvt. Ltd. with effect from 1.7.2018.

The same books of accounts were continued by the company which closed its accounts for the first term on 31.3.2019.

The summarized profit & loss account for the year ended 31.3.2019 is below:

Particulars	*₹ in lakhs*	*₹ in lakhs*
Turnover	*245.00*	
Interest on investments	*6.00*	*251.00*
Less: Cost of goods sold	*124.32*	
Advertisement	*3.50*	
Sales Commission	*7.00*	
Salaries	*18.00*	
Managing Director's Remuneration	*6.00*	
Interest on Debentures	*2.00*	
Rent	*5.50*	
Bad debt	*1.15*	
Underwriting Commission	*1.00*	
Audit fees	*3.00*	
Loss on sale of Investments	*1.00*	
Depreciation	*4.00*	*176.47*
		74.53

The following additional information was provided :

(i) The average monthly sales doubled from 1.7.2018, GP ratio was constant.

(ii) All investments were sold on 31.5.2018.

(iii) Average monthly salaries doubled from 1.10.2018.

(iv) The company occupied additional space from 1.7.2018 for which rent of ₹ 20,000 per month was incurred.

(v) Bad debts recovered amounting to ₹ 60,000 for a sale made in 2016-17 has been deducted from bad debts mentioned above.

(vi) Audit fees pertains to the company.

Prepare a statement apportioning the expenses between pre and post incorporation periods and calculate the profit / loss for such periods.

Answer

(a) Prashant Ltd.

Balance Sheet as on 31st March, 2019

Particulars	*Notes*	*₹*
Equity and Liabilities		

1		**Shareholders' funds**		
	a	Share capital	1	14,95,000
	b	Reserves and Surplus	2	3,76,800
2		**Non-current liabilities**		
		Long-term borrowings	3	3,65,000
3		**Current liabilities**		
	a	Trade Payables		2,67,000
	b	Other current liabilities	4	10,000
	c	Short-term provisions	5	72,000
		Total		25,85,800
		Assets		
1		**Non-current assets**		
		Property, Plant and Equipment	6	15,95,000
2		**Current assets**		
	a	Inventories		3,15,000
	b	Trade receivables	7	2,95,000
	c	Cash and bank balances	8	3,22,300
	d	Short-term loans and advances		58,500
		Total		25,85,800

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	Issued & subscribed & fully paid up		
	1,50,000 Equity Shares of ₹ 10 each		
	(of the above 10,000 shares have been issued for consideration other than cash)	15,00,000	
	Less: Calls in arrears	(5,000)	14,95,000
2	Reserves and Surplus		
	General Reserve		2,70,000
	Profit & Loss balance		1,06,800
		Total	3,76,800
3	Long-term borrowings		

	Secured		
	Loan from State Financial Corporation (2,10,000-10,000) (Secured by hypothecation of Plant and Machinery)		2,00,000
	Unsecured Loan		1,65,000
	Total		3,65,000
4	Other current liabilities		
	Interest accrued but not due on loans (SFC)		10,000
5	Short-term provisions		
	Provision for taxation		72,000
6	Property, Plant & Equipment		
	Land		5,50,000
	Building	5,50,000	
	Less: Depreciation(b.f.)	(65,000)	4,85,000
	Plant & Machinery	6,25,000	
	Less: Depreciation (b.f.)	(65,000)	5,60,000
	Total		15,95,000
7	Trade receivables		
	Outstanding for a period exceeding six months		55,000
	Other Amounts		2,40,000
	Total		2,95,000
8	Cash and bank balances		
	Cash and cash equivalents		
	Cash at bank		2,85,000
	Cash in hand		37,300
	Other bank balances		Nil
	Total		3,22,300

(b) C G Trading Private Limited

Statement showing calculation of Profit/Loss for Pre and Post Incorporation Periods

₹ In lakhs

	Ratio	Total	Pre Incorporation	Post Incorporation
Sales	1:6	245.00	35.00	210.00
Interest on Investments	Pre	6.00	6.00	-
Bad debts recovered	Pre	0.60	0.60	-

(i)		251.6	41.60	210.00
Cost of goods sold	1:6	124.32	17.76	106.56
Advertisement	1:6	3.50	0.50	3.00
Sales commission	1:6	7.00	1.00	6.00
Salary (W.N.3)	1:5	18.00	3.00	15.00
Managing director's remuneration	Post	6.00	-	6.00
Interest on Debentures	Post	2.00	-	2.00
Rent (W.N.4)		5.50	0.93	4.57
Bad debts (1.15 + 0.6)	1:6	1.75	0.25	1.50
Underwriting commission	Post	1.00	-	1.00
Audit fees	Post	3.00	-	3.00
Loss on sale of Investment	Pre	1.00	1.00	-
Depreciation	1:3	4.00	1.00	3.00
(ii)		177.07	25.44	151.63
Net Profit [(i) – (ii)]		74.53	16.16	58.37

Working Notes:

1. **Calculation of Sales Ratio**

   Let the average sales per month be x

   Total sales from 01.04.2018 to 30.06.2018 will be 3x

   Average sales per month from 01.07.2018 to 31.03.2019 will be 2x

   Total sales from 01.07.2018 to 31.03.2019 will be 2x X 9 =18x

   Ratio of Sales will be 3x: 18x i.e. 3:18 or 1:6

2. **Calculation of time Ratio**

   3 Months: 9 Months i.e. 1:3

3. **Apportionment of Salary**

   Let the salary per month from 01.04.2018 to 30.09.2018 is x

   Salary per month from 01.10.2018 to 31.03.2019 will be 2x

   Hence, pre incorporation salary (01.04.2018 to 30.06.2018) = 3x

   Post incorporation salary from 01.07.2018 to 31.03.2019 = (3x + 12x) i.e.15x

   Ratio for division 3x: 15x or 1: 5

4. **Apportionment of Rent**

	₹ In Lakhs
Total Rent	5.50

Less: additional rent from 1.7.2018 to 31.3.2019	1.80	
Rent of old premises for 12 months	3.70	
	Pre	Post
Apportionment in time ratio	0.93	2.77
Add: Rent for new space	-	1.80
Total	0.93	4.57

Question 6

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

(a) *The following extract of Balance Sheet of Prabhat Ltd. (Non investment Company) was obtained:*

Balance Sheet (Extract) as on 31st March, 2019

Liabilities	*₹*
Issued and subscribed capital:	
30,000, 12% preference shares of ₹ 100 each (fully paid)	*30,00,000*
24,00,000 equity shares of ₹10 each, ₹ 8 paid up	*1,92,00,000*
Share suspense account	*40,00,000*
Reserves and Surplus:	
Securities premium	*1,00,000*
Capital reserves (₹ 3,00,000 is revaluation reserve)	*3,90,000*
Secured loans:	
12% debentures	*1,30,00,000*

Unsecured loans:	
Public deposits	*7,40,000*
Current liabilities:	
Trade payables	*6,90,000*
Cash credit from SBI (short term)	*9,30,000*
Assets	
Investments in shares, debentures etc.	*1,50,00,000*
Profit & loss account (Dr. balance)	*30,50,000*

Share suspense account represents application money received on shares, the allotment of which is not yet made.

You are required to compute effective capital as per the provisions of Schedule V. Would your answer differ if Prabhat Ltd. is an investment company?

(b) *Following is the extract of Balance Sheet of Prem Ltd. as at 31st March, 2018 :*

	₹
Authorized capital:	
3,00,000 equity shares of ₹10 each	*30,00,000*
25,000,10% preference shares of ₹10 each	*2,50,000*
	32,50,000
Issued and subscribed capital:	
2,70,000 equity shares of ₹ 10 each fully paid up	*27,00,000*
24,000, 10% preference shares of ₹ 10 each fully paid up	*2,40,000*
	29,40,000
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*
	11,55,000

On 1st April, 2018, the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet after bonus issue.

(c) Mac Ltd. gives the following data regarding to its six segments:

(₹ in lakhs)

Particulars	*A*	*B*	*C*	*D*	*E*	*F*	*Total*
Segment assets	*80*	*160*	*60*	*40*	*40*	*20*	*400*
Segment results	*100*	*(380)*	*20*	*20*	*(20)*	*60*	*(200)*
Segment revenue	*600*	*1,240*	*160*	*120*	*160*	*120*	*2,400*

The accountant contends that segments 'A' and 'B' alone are reportable segments. Is he justified in his view? Discuss in the context of AS-17 'Segment Reporting'.

(d) Give an analytical statement of distinction between an ordinary partnership firm and a limited liability partnership.

(e) A company had issued 40,000, 12% debentures of ₹ 100 each on 1st April, 2015. The debentures are due for redemption on 1st March, 2019. 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 predetermined price of ₹ 15 per share and the payment in cash. 50 debentures holders holding totally 5,000 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders and the amount to be paid in cash on redemption. ***(4 Parts x 5 Marks = 20 Marks)***

Answer

(a) Computation of effective capital

	Where Prabhat Ltd. Is a non-investment company ₹	Where Prabhat Ltd. is an investment company ₹
Paid-up share capital —		
30,000, 12% Preference shares	30,00,000	30,00,000
24,00,000 Equity shares of ₹ 8 paid up	1,92,00,000	1,92,00,000
Capital reserves (3,90,000 – 3,00,000)	90,000	90,000
Securities premium	1,00,000	1,00,000
12% Debentures	1,30,00,000	1,30,00,000
Public Deposits	7,40,000	7,40,000
(A)	36,130,000	36,130,000
Investments	1,50,00,000	—

Profit and Loss account (Dr. balance)	30,50,000	30,50,000
(B)	1,80,50,000	30,50,000
Effective capital (A–B)	1,80,80,000	3,30,80,000

(b) **Prem Ltd.**

Journal Entries

			Dr.	*Cr.*
April 1	Capital Redemption Reserve A/c	Dr.	1,20,000	
	Securities Premium A/c	Dr.	75,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	5,25,000	
	To Bonus to Equity Shareholders A/c			10,80,000
	(Bonus issue @ two shares for every five shares held by utilizing various reserves as per Board's Resolution dated...)			
	Bonus to Shareholders A/c	Dr.	10,80,000	
	To Equity Share Capital A/c			10,80,000
	(Issue of bonus shares)			

Balance Sheet (Extract) as on 1st April, 2018 (after bonus issue)

		Particulars	*Notes*	*Amount (₹)*
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	40,20,000
	b	Reserves and Surplus	2	75,000

Notes to Accounts

1	**Share Capital**	(₹)
	Authorized share capital:	
	3,78,000* Equity shares of ₹ 10 each	37,80,000*
	25,000 10% Preference shares of ₹ 10 each	2,50,000
	Total	40,30,000

	Issued, subscribed and fully paid share capital: 3,78,000 Equity shares of ₹ 10 each, fully paid (Out of above, 1,08,000 equity shares @ ₹ 10 each were issued by way of bonus)		37,80,000
	24,000 10% Preference shares of ₹ 10 each		2,40,000
	Total		40,20,000
2	Reserves and Surplus		
	Capital Redemption Reserve	1,20,000	Nil
	Less: Utilized	1,20,000	
	Securities Premium	75,000	
	Less: Utilised for bonus issue	(75,000)	Nil
	General reserve	3,60,000	
	Less: Utilised for bonus issue	(3,60,000)	Nil
	Profit & Loss Account	6,00,000	
	Less: Utilised for bonus issue	(5,25,000)	75,000
	Total		75,000

Note: *Authorized capital has been increased by the minimum required amount i.e. ₹ 7,80,000 (37,80,000 – 30,00,000) in the above solution.

(c) As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

Its segment result whether profit or loss is 10% or more of combined result of all segments in profit; or combined result of all segments in loss, whichever is greater in absolute amount; or

Its segment assets are 10% or more of the total assets of all segments.

If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments.

On the basis of turnover criteria segments A and B are reportable segments.

On the basis of the result criteria, segments A, B and F are reportable segments (since their results in absolute amount is 10% or more of ₹ 400 lakhs).

On the basis of asset criteria, all segments except F are reportable segments.

Since all the segments are covered in at least one of the above criteria all segments have to be reported upon in accordance with Accounting Standard (AS) 17. Hence, the opinion of accountant is wrong.

(d) Distinction between an ordinary partnership firm and an LLP

	Key Elements	Partnerships	LLPs
1	Applicable Law	Indian Partnership Act 1932	The Limited Liability Partnerships Act, 2008
2	Registration	Optional	Compulsory with ROC
3	Creation	Created by an Agreement	Created by Law
4	Body Corporate	No	Yes
5	Separate Legal Entity	No	Yes
6	Perpetual Succession	Partnerships do not have perpetual succession	It has perpetual succession and individual partners may come and go
7	Number of Partners	Minimum 2 and Maximum 20 (subject to 10 for banks)	Minimum 2 but no maximum limit
8	Ownership of Assets	Firm cannot own any assets. The partners own the assets of the firm	The LLP as an independent entity can own assets
9	Liability of Partners/ Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets	Limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner.
10	Principal Agent Relationship	Partners are the agents of the firm and of each other	Partners are agents of the firm only and not of other partners

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

	Number of debentures
Total number of debentures	40,000
Less: Debenture holders not opted for conversion	(5,000)
Debenture holders opted for conversion	35,000

Option for conversion	20%
Number of debentures to be converted (20% of 35,000)	7,000

Redemption value of 7,000 debentures at a premium of 5% [7,000 x (100+5)]	₹ 7,35,000
Equity shares of ₹ 10 each issued to debenture holders on redemption	
[₹ 7,35,000/ ₹ 15]	49,000 shares
Amount of cash to be paid	
Amount to be paid into cash [42,00,000 (40,000 x ₹ 105) – 7,35,000] on redemption	₹ 34,65,000