Test Series: September, 2023

MOCK TEST PAPER 1

INTERMEDIATE: GROUP – I

PAPER – 1: ACCOUNTING

ANSWERS

1. (a) As per AS 13 (Revised) 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. And where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 9 lakhs in the books.

(ii) The carrying / book value of the long-term investment is same as cost i.e., ₹ 14 lakhs. Hence this long-term investment will be reclassified as current investment at book value of ₹ 14 lakhs only.

(iii) In this case, reclassification of current investment into long-term investments will be made at ₹ 12 lakhs as cost are less than its market value of ₹ 13.5 lakhs.

(iv) Market value of the investment is ₹ 16.5 lakhs, which is lower than its cost i.e., ₹ 18 lakhs. Therefore, the transfer to long term investments should be done in the books at the market value i.e., ₹ 16.5 lakhs.

(b) 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 P is ₹ 266 and total cost per unit for production is ₹ 295.

Hence the valuation will be done as under:

(i) 900 units of raw material X will be written down to replacement cost as market value of finished product is less than its cost, hence valued at ₹ 80 per unit.

(ii) 400 units of partly finished goods will be valued at 216 per unit i.e., lower of cost (₹ 245) or Net realizable value ₹ 216 (Estimated selling price ₹ 266 per unit less additional cost of ₹ 50).

(iii) 800 units of finished product P will be valued at NRV of ₹ 266 per unit since it is lower than cost ₹ 295.

Valuation of Total Inventory as on 31.03.2023:

	Units	Cost (₹)	NRV / Replacement cost	Value = units x cost or NRV whichever is less (₹)
Raw material X	900	100	80	1 72,000
Partly finished goods	400	245	216	86,400
Finished goods P	800	295	266	2,12,800
Value of Inventory				3,71,200

(c) As per AS 16 A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Other investments and those inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired also are not qualifying assets. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred.

Construction of factory shed amounting ₹ 240 lakhs is qualifying asset in the given case. The interest for this amount during the year will be added to the cost of factory shed. All others (purchase of machinery, vehicles and technical know how, working capital, advance for tools/cranes) are non-qualifying assets and related borrowing cost will be charged to Profit and Loss statement.

Qualifying Asset as per AS 16 (construction of a shed) = ₹ 240 lakhs

Borrowing cost to be capitalized = ₹ 40 lakhs x 240/320 = ₹ 30 lakhs

Interest to be debited to Profit or Loss account: ₹ (40 – 30) = ₹ 10 lakhs.

Note: Assumed that construction of factory shed completed on 31st March, 2023.

(d) Computation of amount of depreciation as per AS 10

		₹
(i)	Machinery purchased on 1/4/18 for ₹ 10 lakhs (having residual value of ₹ 10 lakhs) Reason: The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost. Therefore, there is no depreciable amount and depreciation is correctly zero.	Nil
(ii)	Land (50 lakhs) (considered freehold) Reason: Land has an unlimited useful life and therefore, it is not depreciated.	Nil
(iii)	Machinery constructed for own use (₹ 5,00,000/10) Reason: The entity should begin charging depreciation from the date the machine is ready for use i.e. 1st April,2022. The fact that the machine was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation.	50,000
(iv)	Machinery having revised useful life Reason: The entity has charged depreciation using the straight-line method at ₹ 10,000 per annum i.e (50,000/5 years). On 1st April,2022 the asset's net book value is [50,000 – (10,000 x 2)] i.e. ₹ 30,000. The remaining useful life is 2 years as per revised estimate. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of 2 years. Consequently, it should charge depreciation for the next 2 years at ₹ 15,000 per annum i.e. (30,000 / 2 years).	15,000

2. (a) Journal Entries in the Books of Noida Branch

Particulars		Debit (₹)	Credit (₹)
Salary Advance A/c	Dr.	5,000 1	
To Salaries A/c			5,000
(Being the amount paid as advance adjusted by debit to Salary Advance A/c)			

Prepaid Insurance A/c (11,200 X 6/12)	Dr.	5,600	
To Fire Insurance A/c			5,600
(Being the six months premium transferred to the Prepaid Insurance A/c)			
Head Office A/c	Dr.	1,44,900	
To Purchases A/c			64,500
To Wages A/c			24,000
To Salaries A/c (15,600 – 5,000)			10,600
To General Expenses A/c			7,800
To Fire Insurance A/c (11,200 X 6/12)			5,600
To Manager's Salary A/c			16,400
To Discount Allowed A/c			16,000
(Being the transfer of various revenue accounts to the HO A/c for closing the accounts)			
Sales A/c	Dr.	2,78,000	
Discount Earned A/c	Dr.	4,600	
To Head Office A/c			2,82,600
(Being the transfer of various revenue accounts to HO)			
Head Office A/c	Dr.	14,000	
To Building A/c			14,000
(Being the transfer of amounts spent on building extension to HO A/c)			

Head Office Account

2023	Particulars	Amount (₹)	2023	Particulars	Amount (₹)
Sept 30	To Cash Remittance	52,900	April 1	By Balance b/d	1,88,000
	To Sundries* (Revenue)	1,44,900		By Sundries* (Revenue)	2,82,600
	To Building A/c	14,000			
	To Balance c/d	2,58,800			
	Total	4,70,600		Total	4,70,600

* Instead of using Sundries (Revenue) A/c, the concerned revenue accounts can be posted in the ledger.

Balance Sheet of Noida Branch
As at 30th Sept 2023

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	33,400	Debtors	2,29,000
Head Office A/c	2,58,800	Salary Advance	5,000
		Prepaid Insurance 1	5,600
		Building Extension A/c transferred to HO	-
		Cash in Hand	5,600

		Cash at Bank	47,000
Total	2,92,200	Total	2,92,200

Working Notes

Cash and Bank Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	26,000	By Wages	24,000
To Collection from debtors	2,57,000	By Salaries	15,600
		By Insurance	11,200
		By General Expenses	7,800
		By HO A/c	52,900
		By Manager's Salary	16,400
		By Creditors	88,500
		By Building A/c	14,000
		By Balance c/d	
		- Cash in Hand	5,600
		- Cash at bank	47,000
Total	2,83,000	Total	2,83,000

Debtors Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	2,24,000	By Cash Collection	2,57,000
To Sales A/c	2,78,000	By Discount (Allowed)	16,000
		By Balance c/d	2,29,000
Total	5,02,000	Total	5,02,000

Creditors Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cash A/c	88,500	By Balance b/d	62,000
To Discount (Earned)	4,600	By Purchases	64,500
To Balance c/d	33,400		
Total	1,26,500	Total	1,26,500

Note:

Since the date of payment of fire insurance has not been mentioned in the question, it is assumed that it was paid on 01 April 2023. Alternative answer considering otherwise also possible.

(b) Trading and Profit and Loss Account of M/s Rohan & Sons

for the year ended 31st March, 2023

	₹	1	₹
To Opening stock	3,75,000	By Sales	24,60,000
To Purchases	18,85,000	By Closing stock	4,15,000

To Gross Profit c/d (25%)	6,15,000	(Balancing Figure)	
	28,75,000		28,75,000
To Depreciation	80,000	By Gross profit b/d	6,15,000
To Expenses (15% of ₹ 24,60,000)	3,69,000	By Profit on sale of Fixed assets	2,000
To Net Profit (b.f.)	1,68,000		
	6,17,000		6,17,000

Balance Sheet of M/s Rohan Sons as on 31st March, 2023

Liabilities		Assets	₹
Capital	12,50,000	Fixed assets (less Dep.)	6,66,000
Profit & Loss A/c (1,45,000 + 1,68,000)	3,13,000	Stock	4,15,000
Trade Creditors	1,25,000	Debtors	3,85,000
		Cash and bank	2,22,000
	16,88,000		16,88,000

Cash and Bank Account

To Bal. b/d	1,95,000	By Creditors (1,90,000 + 16,20,000 + 1,40,000)	19,50,000
To Debtors (3,65,000 + 20,75,000)	24,40,000	By Expenses	3,69,000
To Fixed assets	56,000	By Fixed assets	1,50,000
		By Bal. c/d	2,22,000
	26,91,000		26,91,000

Fixed Assets Account

To Bal. b/d	6,50,000	By Cash	56,000
To Profit on sale of Fixed asset	2,000	By Depreciation on sold fixed asset	6,000
		By Depreciation (59,000 + 15,000)	74,000
To Bank A/c	1,50,000	By Bal. c/d	6,66,000
	8,02,000		8,02,000

3. (a) Manan Ltd.

Cash Flow Statement

for the year ended 31st March, 2023

	₹	₹
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		30,00,000
Adjustments for:		
Depreciation on Property, plant and equipment	1 7,50,000	
Discount on issue of debentures	45,000	
Interest on debentures paid	5,25,000	

Interest on investments received	(90,000)	
Profit on sale of investments	(30,000)	12,00,000
Operating profit before working capital changes		42,00,000
Adjustments for:		
Increase in inventory	(1,77,000)	
Decrease in trade receivable	7,350	
Increase in trade payables	450	
Increase in outstanding expenses	10,200	(1,59,000)
Cash generated from operations		40,41,000
Income tax paid		(15,75,000)
Cash flow from ordinary items		24,66,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		1,35,000
Net cash flow from operating activities		26,01,000
Cash flow from Investing Activities;		
Sale proceeds of investments	4,80,000	
Interest received on investments	90,000	
Purchase of land (3,00,000 less 2,64,000)	(36,000)	
Net cash flow from investing activities		5,34,000
Cash flow from Financing Activities		
Proceeds of issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(23,62,500)	
Preference dividend paid	(2,25,000)	
Interest on debentures paid	(5,25,000)	
Dividend paid (7,50,000 + 2,50,000)	(10,00,000)	
Net cash used in financing activities		(35,12,500)
Net decrease in cash and cash equivalents during the year		(3,77,500)
Add: Cash and cash equivalents as on 31.3.2022		3,94,450
Cash and cash equivalents as on 31.3.2023		16,950

(b) Memorandum Trading Account for the period 1st April, 22 to 31st Dec. 2022

		₹		₹
To Opening Stock		1,50,000	By Sales (6,10,000 - 10,000)	6,00,000
To Purchases	4,20,000		By Consignment stock	25,000
Less: Tools purchased	(5,000)		By Closing Stock (Bal. fig.)	1,32,000
Goods distributed as Charity	(4,000)		1	
Cost of goods taken by proprietor	(8,000)			
		4,03,000		

To Wages (90,000 – 6,000)	84,000		
To Gross Profit [20% of Sales]	1,20,000		
	7,57,000		7,57,000

* 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.

Statement of Insurance Claim

	₹
Value of stock destroyed by fire	1,32,000
Less: Salvaged Stock	(31,000)
Loss of stock	1,01,000

Note:

Since policy amount is less than value of stock on date of fire, average clause will apply. Therefore, claim amount will be computed by applying the formula:

$$\text{Claim} = \frac{\text{Insured value}}{\text{Total cost}} \times \text{Loss suffered}$$

Claim amount = ₹ 1,01,000/1,32,000X1,00,000 = ₹ 76,515 (Rounded off)

NOTE: The average rate of 20% has been given in the question. In the above solution, Gross Profit is calculated @ 20% on sales. Alternative answer considering Gross Profit of 20% is also possible.

4. (a) Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	84,500	
	To Equity Share Capital A/c			84,500
	(Being the issue of 8,450 Equity Shares of ₹ 10 each as per Board's Resolution No…..dated…….)			
	9% Redeemable Preference Share Capital A/c	Dr.	2,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	20,000	
	To Preference Shareholders A/c			2,20,000
	(Being the amount paid on redemption transferred to Preference Shareholders Account)			
	Bank A/c	Dr.	40,500	
	Profit and Loss A/c (loss on sale) A/c	Dr.	4,500	
	To Investment A/c			45,000
	(Being investment sold at loss of ₹ 4,500)			
	Preference Shareholders A/c	Dr.	2,20,000	
	To Bank A/c		1	2,20,000
	(Being the amount paid on redemption of preference shares)			

	Profit & Loss A/c	Dr.	20,000	
	To Premium on Redemption of Preference Shares A/c			20,000
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)			
	General Reserve A/c	Dr.	80,000	
	Profit & Loss A/c	Dr.	35,500	
	To Capital Redemption Reserve A/c			1,15,500
	(Being the amount transferred to Capital Redemption Reserve Account)			

Balance Sheet as at 31st March, 2023(Extract)

	Particulars	Notes No.	₹
	EQUITY AND LIABILITIES		
1.	Shareholders' funds		
	a Share capital	1	3,84,500
	b Reserves and Surplus	2	1,70,500
	ASSETS		
2.	Current Assets		
	Cash and cash equivalents (1,95,000 + 84,500+ 40,500 – 2,20,000)		1,00,000

Notes to accounts

1.	Share Capital	
	38,450 Equity shares (30,000 + 8,450) of ₹10 each fully paid up	3,84,500
2.	Reserves and Surplus	
	General Reserve	40,000
	Profit and loss account	NIL
	Capital Redemption Reserve	1,15,500
	Investment Allowance Reserve	15,000
		1,70,500

Working Note:

Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed	₹ 2,00,000	
Less: Profit available for distribution as dividend:		
General Reserve: ₹ (1,20,000-40,000)	₹ 80,000	
Profit and Loss (60,000 less 20,000 set aside for adjusting premium payable on redemption of Pref. shares less 4,500 loss on sale of investments)	₹ 35,500	1
	₹ (1,15,500)	
	₹ 84,500	

Therefore, No. of shares to be issued = 84,500/₹10 = 8,450 shares.

(b) Calculation of interest

	Total (₹)	Interest in each instalment (1)	Cash price in each instalment (2)
Cash Price	1,20,000		
Less: Down Payment	(32,433)	Nil	₹ 32,433
Balance due after down payment	87,567		
Interest/Cash Price of 1st instalment	-	₹ 87,567x10/100 = ₹ 8,757	₹ 23,100 - ₹ 8,757 = ₹ 14,343
Less: Cash price of 1st instalment	(14,343)		
Balance due after 1st instalment	73,224		
Interest/cash price of 2nd instalment	-	₹ 73,224x 10/100 = ₹ 7322	₹ 23,100 - ₹ 7,322 = ₹ 15,778
Less: Cash price of 2nd instalment	(15,778)		
Balance due after 2nd instalment	57,446		
Interest/Cash price of 3rd instalment	-	₹ 57,446 x 10/100 = ₹ 5745	₹ 23,100 - ₹ 5745 = ₹ 17,355
Less: Cash price of 3rd instalment	(17,355)		
Balance due after 3rd instalment	40,091		
Interest/Cash price of 4th instalment	-	₹ 40,091 x 10/100 = ₹ 4,009	₹ 23,100 - ₹ 4,009 = ₹ 19,091
Less: Cash price of 4th instalment	(19,091)		
Balance due after 4th instalment	21,000		
Interest/Cash price of 5th instalment	-	₹ 21,000 x 10/100 = ₹ 2,100	₹ 23,100 – ₹ 2,100 = 21,000
Less: Cash price of 5th instalment	(21,000)		
Total	Nil	₹ 27,933	₹1,20,000

Total interest can also be calculated as follow:

(Down payment + instalments) – Cash Price = ₹ [32,433 +(23,100 x 5)] – ₹ 1,20,000 = ₹ 27,933

KM Ltd. Account in the books of Jai Ltd

Date		Particulars	₹	Date		Particulars	₹
1.1. 2018	To	Bank A/c	32,433	1.1.2018	By	Machine A/c	1,20,000
31.12.2018	To	Bank A/c	23,100	31.12.2018	By	Interest A/c	8,757
31.12.2018	To	Balance c/d	73,224				
			1,28,757				1,28,757
31.12.2019	To	Bank A/c	23,100	1.1.2019	By	Balance b/d	73,224
31.12.2019	To	Balance c/d	57,446	31.12.2019	By	Interest A/c	7,322
			80,546				80,546
31.12.2020	To	Bank A/c	23,100	1.1.2020	By	Balance b/d	57,446
31.12.2020	To	Balance c/d	40,091	31.12.2020	By	Interest A/c	5,745
			63,191				63,191

31.12.2021	To	Bank A/c	23,100	1.1.2021	By	Balance b/d	40,091
31.12.2021	To	Balance c/d	21,000	31.12.2021	By	Interest A/c	4,009
			44,100				44,100
31.12.2022	To	Bank A/c	23,100	1.1.2022	By	Balance b/d	21,000
				31.12.2022	By	Interest A/c	2,100
			23,100				23,100

5. (a) (i) In the books of Mr. Z

Investment in 8% Corporate Bonds Account

For the period 01 April 2022 to 31 March 2023

Date	Particulars	Nos	Interest (₹)	Amount (₹)	Date	Particulars	Nos	Interest (₹)	Amount (₹)
1/6/22	To Bank A/c (WN1)	36,000	48,000	30,48,000	30/9/22	By Bank A/c (Interest 36,000 x 100 x 8% x 6/12)		1,44,000	
15/2/23	To Profit & Loss A/c (WN 3)			1,76,000	15/2/23	By Bank A/c (WN2)	24,000	72,000	22,08,000
31/3/23	To Profit & Loss A/c		2,16,000		31/3/23	By Bank A/c (Interest 12,000 x 100 x 8% x 6/12)		48,000	
						By Balance c/d (WN 4)	12,000		10,16,000
	Total	36,000	2,64,000	32,24,000		Total	36,000	2,64,000	32,24,000

Note: For computing the interest on the bonds sold on 15 Feb 2023, if number of days (138 days) is taken instead of months, the interest received on 15.02.2023 should be ₹72,592 and the total interest transferred to Profit & Loss Account should be ₹ 2,16,592.

Investment in Equity Shares of G Ltd

For the period 1st April 2022 to 31 March 2023

Date	Particulars	Nos	Dividend (₹)	Amount (₹)	Date	Particulars	Nos	Dividend (₹)	Amount (₹)
01/4/22	To Balance b/d	8,000		15,20,000	16/9/22	By Bank A/c (WN 7)		48,000	42,000
01/5/22	To Bank A/c (WN 5)	7,000		16,26,100	1/12/22	By Bank A/c (WN 8)	7000		18,01,800
15/6/22	To Bonus Shares	6,000			25/1/23	By Bank A/c (WN 10)		48,300	
25/8/22	To Bank A/c (Right Shares) (WN 6)	2,100		4,83,000	31/3/23	By Balance c/d (WN 11)	16,100		25,00,100
01/12/22	To Profit & Loss A/c (Sale of shares) (WN 9)			7,14,800					
31/3/23	To Profit & Loss A/c		96,300						
	Total	23,100	96,300	43,43,900		Total	23,100	96,300	43,43,900

Working Notes

1. Computation of the Interest element in the bonds purchased on 01 June 2022

No of Bonds purchased	36,000
Face value per bond	₹ 100
Face value of the bonds purchased	₹ 36,00,000
Interest Rate	8%
Interest Amount	36,00,000 x 8% x 2/12
	₹ 48,000
Cum-interest per bond	₹ 86
Value of bond excluding interest	36,000 x ₹ 86 – ₹48,000
	₹ 30,48,000

2. Computation of the Interest element in the bonds sold on 15 Feb 2023

No of Bonds sold	24,000
Face value per bond	₹ 100
Face value of the bonds sold	₹ 24,00,000
Interest Rate	8%
Interest Amount	₹ 24,00,000 x 8% x 4.5/12
	= ₹ 72,000

3. Computation of Profit on Sale of Bonds on 15 Feb 2023

No of Bonds sold	24,000
Face value per bond	₹ 100
Ex- interest Rate per bond	₹ 92
Sales proceeds	₹ 22,08,000
Average Cost of Bonds	(30,48,000/36,000) x 24,000
	₹ 20,32,000
Profit on sale of bonds	Sale Proceeds – Average Cost
	₹ 22,08,000 – ₹ 20,32,000
	₹ 1,76,000

4. Valuation of Bonds as on 31 March 2023

No of Bonds held as on 31 Mar 2021	12,000
Average Cost of Bonds	(₹ 30,48,000/36,000) x 12,000
	₹ 10,16,000

5. Computation of the cost of the equity shares purchased on 01 May 2022

No of shares purchased	7,000	
Cum right price per share	₹ 230	
Cost of purchase	₹ 16,10,000	1
Brokerage @1%	₹ 16,100	
Cost including brokerage	₹ 16,26,100	

6. Right Shares

No of Right Shares Issued	(8,000+7,000+6,000)/7 = 3,000 shares
No of right shares sold	3,000 shares x 30% = 900 shares
Proceeds from sale of right shares to be credited to statement of profit & loss	900 shares x ₹ 75 = ₹ 67,500
No of right shares subscribed	3,000-900 = 2,100 shares
Amount of right shares subscribed	2,100 x 230 = ₹ 4,83,000

7. Computation of Dividend Received on 16 Sept 2022

No of shares held during the period of dividend	8,000 shares
Dividend per share	₹ 6
Dividend Amount	8,000 x 6 = ₹ 48,000
No of shares received after the period of dividend (excluding bonus & right shares)	7,000 shares
Dividend per share	₹ 6
Dividend Amount	7,000 x ₹ 6 = ₹ 42,000

The amount of dividend for the period for which the shares were not held by the investor has been treated as capital receipt. Thus ₹ 42,000 shall be treated as capital receipt.

8. Sale Proceeds for the shares sold on 1st Dec. 2022

No of shares sold	7,000 Shares
Sale price per share	₹ 260
Proceeds from sale of share	7,000 x 260 = ₹ 18,20,000
Less: Brokerage @ 1%	₹ 18,200
Net Sale Proceeds	₹ 18,01,800

9. Profit on sale of shares on 1st Dec. 2022

Sales Proceeds	₹ 18,01,800
Average Cost	(15,20,000+16,26,100+4,83,000-42,000)/23,100 x 7,000
	= ₹ 10,87,000
Profit on sale of shares	Sales Proceeds – Average Cost
	= ₹ 18,01,800 - ₹ 10,87,000 = ₹ 7,14,800

10. Computation of Amount of Interim Dividend

No of shares held	8,000+7,000+6,000+2,100-7,000	
	= 16,100	
Dividend per share	₹ 3 per share	
Dividend Received	16,100 shares x ₹ 3 per share	1
	= ₹ 48,300	

11. Valuation of Shares as on 31 March 2023

Cost of Shares	(15,20,000 + 16,26,100 + 4,83,000 – 42,000) / 23,100 x 16,100
	= 25,00,100
Market Value of Shares	₹ 260 x 16,100 = ₹ 41,86,000

Closing stock of equity shares has been value at ₹ 25,00,100 i.e. cost being lower than its market value.

(ii) Profit & Loss Account (Extract)

For the period 01 April 2022 to 31 March 2023

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance c/d	12,70,600	By Investment in 8% Corporate Bonds Account (Profit on sale of bonds)	1,76,000
		By Investment in 8% Corporate Bonds Account (Interest on bonds)	2,16,000
		By Sale of Right Shares	67,500
		By Investment in Equity Shares of G Ltd (Profit on sale of shares)	7,14,800
		By Investment in Equity Shares of G Ltd (Dividend Income)	96,300

Note: The entire amount of sale proceeds from rights has been credited to Profit and Loss account in the above solution. However, the sale proceeds of rights in respect of 7,000 shares (purchased cum right on 1.5.20) can be applied to reduce the carrying amount of such investments (without crediting it to profit and loss account) considering that the value of these shares has reduced after becoming their ex-right. In that case, ₹ 22,500 (67,500X 7/21) will be applied to reduce the carrying amount of investment and ₹ 45,000 will be credited to profit and loss account.

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

	Number of debentures
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 x (100+5)]	₹ 3,67,500
Equity shares of ₹ 10 each issued on conversion [₹ 3,67,500/ ₹ 15]	24,500 shares

6. (a) Calculation of unrealized profit of each department

	Dept. A	Dept. B	Dept. C	Total
	₹	₹	₹	₹
Unrealized Profit of:				

1

Department A		1,14,000 x 20/120 = 19,000	60,000 x 50/150 = 20,000	39,000
Department B	55,000 x .15 = 8,250		15,200 x.10 = 1,520	9,770
Department C	52,800 x 10/110 = 4,800	1,11,300 x 5/105 5,300		10,100

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

Particulars	Total Amount	Basis of Allocation	Pre-incorporation	Post-incorporation
	₹		₹	₹
Gross Profit (W.N.2)	6,30,000	2:5 (sales)	1,80,000	4,50,000
Less: Salaries	1,56,000	Time	(52,000)	(1,04,000)
Rent, rates and taxes	72,000	Time	(24,000)	(48,000)
Commission on sales	40,600	2:5 (sales)	(11,600)	(29,000)
Depreciation	60,000	Time	(20,000)	(40,000)
Interest on debentures	36,000	Post		(36,000)
Directors' fee	24,000	Post		(24,000)
Advertisement	48,000	Post		(48,000)
Net profit			72,400	1,21,000

Pre-incorporation profit will be transferred to Capital Reserve.

Post-incorporation profit will be transferred to Profit & Loss Account.

Working Notes:

1. Sales ratio

   Let the monthly sales for first 4 months (i.e. from 1.4.2022 to 31.7.2022) be = x

   Then, sales for 4 months = 4x

   Monthly sales for next 8 months (1st August, 2022 to 31st March, 2023)

   = x + 25% of x= 1.25x Then, sales for next 8 months = 1.25x X 8 = 10x

   Total sales for the year = 4x + 10x = 14x. Hence Sales Ratio = 4 x :10x i.e. 2:5

2. Time ratio

   1st April, 2022 to 31st July, 2022 : 1st August, 2022 to 31st March, 2023

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

(c) Physical Capital Maintenance at Current Cost

In the given case, the specific price index applicable to the product is 125 (25/20X100).

Current cost of opening stock = (₹ 1,20,000 / 100) x 125 Or 6,000 units x ₹ 25 = ₹ 1,50,000

Current cost of closing cash = ₹ 1,20,000 (₹ 1,80,000 – ₹ 60,000) 1

Opening equity at closing current costs = ₹ 1,50,000

Closing equity at closing current costs = ₹ 1,20,000

Retained Profit = ₹ 1,20,000 – ₹ 1,50,000 = (-) ₹ 30,000

The negative retained profit indicates that the trader has failed to maintain his capital. The available fund of ₹ 1, 20,000 is not sufficient to buy 6,000 units again at increased price of ₹ 25 per unit. The drawings should have been restricted to ₹ 30,000 (₹ 60,000 – ₹ 30,000).

If the trader had not withdrawn any amount, then the answer would have been as below:

Current cost of opening stock = ₹ 1,80,000

Opening equity at closing current costs = ₹ 1,50,000

Retained Profit = ₹ 1,80,000 – ₹ 1,50,000 = ₹ 30,000

If the trader had not withdrawn any amount, then the retained profit would have been ₹ 30,000.

(d) Journal Entries in the books of Star Ltd.

2023			Dr. ₹	Cr. ₹
April 1	Equity Share Final Call A/c	Dr.	1,60,000	
	To Equity Share Capital A/c			1,60,000
	(Final call of ₹ 2 per share on 80,000 equity shares made due)			
	Bank A/c	Dr.	1,60,000	
	To Equity Share Final Call A/c			1,60,000
	(Final call money on 80,000 equity shares received)			
June 1	Capital Redemption Reserve A/c	Dr.	75,000	
	Capital Reserve	Dr.	45,000*	
	Securities Premium A/c	Dr.	60,000	
	General Reserve A/c (b.f.)	Dr.	1,40,000**	
	To Bonus to Shareholders A/c			3,20,000
	(Bonus issue of two shares for every five shares held, by utilizing various reserves as per Board's resolution dated…….)			
	Bonus to Shareholders A/c	Dr.	3,20,000	
	To Equity Share Capital A/c			3,20,000
	(Capitalization of profit)			

* considering it as free reserve as it has been realized.

** Alternatively, different combination of profit and loss balance and general reserve may also be used.

(e) Calculation of net profit of X Ltd. as per the Companies Act, 2013

	₹	₹
Balance from Trading A/c		42,53,650
Add: Subsidies received from Government	1	3,50,000
		46,03,650
Less: Administrative expenses	5,96,400	
Advertisement expenses	1,10,500	

Sales commission	1,05,550	
Director's fees	1,48,900	
Interest on debentures	56,000	
Depreciation on fixed assets as per Schedule II	6,51,750	(16,69,100)
Profit u/s 198		29,34,550

Maximum Managerial remuneration under Companies Act, 2013 = 11% of ₹ 29,34,550

= ₹ 3,22,800 (rounded off).

1