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) Suraj Limited provides you the following information:

(i) It received a Government Grant @40% towards the acquisition of Machinery worth ₹ 25 Crores.

(ii) It received a Capital Subsidy of ₹ 150 Lakhs from Government for setting up a Plant costing ₹ 300 Lakhs in a notified backward region.

(iii) It received ₹ 50 Lakhs from Government for setting up a project for supply of arsenic free water in a notified area.

(iv) It received ₹ 5 Lakhs from the Local Authority for providing Corona Vaccine free of charge to its employees and their families.

(v) It also received a performance award of ₹ 500 Lakhs from Government with a condition of major renovation in the Power Plant within 3 years. Suraj Limited incurred 90% of amount towards Capital expenditure and balance for Revenue Expenditure.

State, how you will treat the above in the books of Suraj Limited.

(b) SM Enterprises is a leading distributor of petrol. A detailed inventory of petrol in hand is taken when the books are closed at the end of each month. For the month ending June 2021 following information is available:

(i) Sales for the month of June 2021 was ₹30,40,000.

(ii) General overheads cost ₹4,00,000.

(iii) Inventory at beginning 10,000 litres @ ₹ 92 per litre.

(iv) Purchases-June 1, 2021, 20,000 litres @ ₹ 90 per litre, June 30, 2021, 10,000 litres @ ₹ 95 per litre.

(v) Closing inventory 13,000 litres.

You are required to compute the following by FIFO method as per AS 2:

(i) Value of Inventory on 30th June, 2021.

(ii) Amount of cost of goods sold for June,2021.

(iii) Profit/Loss for the month of June,2021.

(c) XYZ Limited provided you the following information for the year ended 31st March, 2022.

(i) The carrying amount of a property at the end of the year amounted to ₹ 2,16,000 (cost/value ₹ 2,50,000 and accumulated depreciation ₹ 34,000). On this date the property was revalued and was deemed to have a fair value of ₹ 1,90,000. The balance in the revaluation surplus relating to a previous revaluation gain for this property was ₹ 20,000.

You are required to calculate the revaluation loss as per AS 10 (Revised) and give its treatment in the books of accounts.

(ii) An asset that originally cost ₹ 76,000 and had accumulated depreciation of ₹ 62,000 was disposed of during the year for ₹ 4,000 cash.

You are required to explain how the disposal should be accounted for in the financial statements as per AS 10 (Revised).

(d) Zebra Limited began construction of a new plant on 1st April,2021 and obtained a special loan of ₹ 20,00,000 to finance the construction of the plant. The rate of interest on loan was 10%.

The expenditure that was incurred on the construction of plant was as follows:

	₹
1st April,2021	10,00,000
1st August,2021	24,00,000
1st January,2022	4,00,000

The company's other outstanding non-specific loan was ₹ 46,00,000 at an interest rate of 12%.

The construction of the plant completed on 31st March,2022.

You are required to:

(a) Calculate the amount of interest to be capitalized as per the provisions of AS 16 "Borrowing Cost".

(b) Pass a journal entry for capitalizing the cost and the borrowing cost in respect of the plant. ***(4 Parts X 5 Marks = 20 Marks)***

Answer

(a) (i) As per AS 12 “Accounting for Govt. Grants”, two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives. Under the first alternative, the grant of ₹ 10 crores (40% of 25 crores) is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognized the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Under second alternative method, grant amounting ₹ 10 crores is treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

(ii) In the given case, the grant amounting ₹ 150 lakhs received from the Central Government for setting up a plant in notified backward area may be considered as in the nature of promoters' contribution. Thus, amount of ₹ 150 lakhs should be credited to capital reserve-and the plant will be shown at ₹ 300 lakhs.

(iii) ₹ 50 lakhs received from Govt. for setting up a project for supply of arsenic free water in notified area should be credited to capital reserve.

Alternatively, if it is assumed that the project consists of capital asset only, then the amount of ₹ 50 lakhs received from Govt. for setting up a project for supply of arsenic free water should either be deducted from cost of asset of the project concerned in the balance sheet or treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

(iv) ₹ 5 lakhs received from the local authority for providing corona vaccine to the employees is a grant received in nature of revenue grant. Such grants are generally presented as a credit in the profit and loss account, either separately or under a general heading 'Other Income'. Alternatively, ₹ 5 lakhs may be deducted in reporting the related expense i.e. employee benefit expenses.

(v) ₹ 500 Lakhs will be reduced from the renovation cost of power plant or will be treated as deferred income irrespective of the expenditure done by the entity out of it as it was specifically received for the purpose major renovation of power plant. However, it may be, later on, decided by the Govt. whether the grant will have to be refunded or not due to non-compliance of conditions attached to the grant.

(b)

	₹
Cost of closing inventory for 13,000 litres as on 30th June 2021	
10,000 litres @ ₹ 95	9,50,000
3,000 litres @ ₹ 90	2,70,000
Value of inventory (determined at cost in absence of NRV)	
	12,20,000
Calculation of cost of goods sold	
Opening inventories (10,000 litres @ ₹ 92)	9,20,000
Purchases June – 1 (20,000 litres @ ₹ 90)	18,00,000
June – 30 (10,000 litres @ 95)	9,50,000
	36,70,000

Less: Closing inventories	(12,20,000)
Cost of Goods Sold	24,50,000
Calculation of Profit	
Sales (Given) (A)	30,40,000
Cost of Goods Sold	24,50,000
Add: General Overheads	4,00,000
Total Cost (B)	28,50,000
Profit (A-B)	1,90,000

(c) (i) As per AS 10, a decrease in the carrying amount of an asset arising on revaluation should be charged to the statement of profit and loss. However, the decrease should be debited directly to owners' interests under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Calculation of revaluation loss and its accounting treatment

		₹
Carrying value of the asset as on 31st March, 2022	a	2,16,000
Revalued amount of the asset	b	(1,90,000)
Total revaluation loss on asset	c=a-b	26,000
Adjustment of previous revaluation reserve	d	(20,000)
Net revaluation loss to be charged to the Profit and loss account	e=c-d	6,000

(ii) AS 10 states that the carrying amount of an item of property, plant and equipment is derecognized on disposal of the asset. It further states that the gain or loss arising from the derecognition of an item of property, plant and equipment should be included in the statement of profit and loss when the item is derecognized. Gains should also not be classified as revenue.

Calculation of loss on disposal of the asset and its accounting treatment

		₹
Original cost of the asset	a	76,000
Accumulated depreciation till date	b	62,000
Carrying value of the asset as on 31st March, 2022	c=a-b	14,000
Cash received on disposal of the asset	d	4,000
Loss on disposal of asset charged to the Profit and loss account	e=c-d	10,000

(d) Total expenses to be capitalized for borrowings as per AS 16 "Borrowing Costs":

	₹
Cost of Plant (10,00,000 + 24,00,000 + 4,00,000)	38,00,000
Add: Amount of interest to be capitalized (W.N.)	3,24,000
	41,24,000

Journal Entry

		₹	₹
31st March, 2022	Plant A/c Dr.	41,24,000	
	To Bank A/c		41,24,000
	[Being amount of cost of plant and borrowing cost thereon capitalized]		

Working Note:

Computation of interest to be capitalized:

	Expenditure			₹
1st April, 2021	10,00,000	On specific borrowing	₹ 10,00,000 x 10%	1,00,000
1st August, 2021	24,00,000	On specific borrowing	₹ 10,00,000 x 10%	1,00,000
1st August, 2021		On non-specific borrowings	₹ 14,00,000 $\times \frac{8}{12}$ x 12%	1,12,000
1st January, 2022	4,00,000	On non-specific borrowings	₹ 4,00,000 $\times \frac{3}{12}$ x 12%	12,000
				3,24,000

Alternatively, interest cost to be capitalized can be derived by computing average accumulated expenses in the following manner.

Computation of Average Accumulated Expenses:

1st April, 2021	10,00,000 x 12/12	10,00,000
1st August, 2021	10,00,000 x 12/12	10,00,000
	14,00,000 x 8/12	9,33,333
1st January, 2022	4,00,000 x 3/12	1,00,000
		30,33,333

Computation of interest to be capitalized:

		₹
On specific borrowing	₹ 20,00,000 x 10%	2,00,000
On non-specific borrowing	₹ (30,33,333- 20,00,000) x 12%	1,24,000
		3,24,000

NOTE: Since specific borrowings are earmarked for construction of a particular qualifying asset, it cannot be used for construction of any other qualifying asset except for temporary investment. Therefore, once the commencement of capitalization of borrowing cost criteria are met, actual borrowing cost incurred on specific borrowing shall be capitalized irrespective of the fact that amount had been utilized in parts.

Question 2

(a) The following particulars relate to hire purchase transactions:

(i) Mita purchased three bikes from Nita on hire purchase basis, the cash price of each bike being ₹ 1,00,000

(ii) Mita charged depreciation @ 20% on written down value method.

(iii) Two bikes were seized by the Nita when second instalment was not paid at the end of the second year. Nita valued the two bikes at cash price less 30% depreciation charged under written down valued method.

(iv) Nita spent ₹ 5,000 on repairs of the bikes and then sold them for a total amount of ₹ 85,000.

You are required to compute:

(i) Agreed value of two bikes taken back by Nita.

(ii) Book value of the bike left with Mita.

(iii) Profit or loss to Mita on two bikes taken back by Nita.

(iv) Profit or loss of bikes repossessed, when sold by Nita. ***(10 Marks)***

(b) Surya Limited, which operates a wholesale warehouse, had a fire in the premises on 31st January 2022 which destroyed most of the building, although stock of the value of ₹ 3.96 lakhs was salvaged.

The company has an insurance policy covering the stock for ₹ 600 Lakhs, and loss of profits including standing charges for ₹ 250 Lakhs with a six-month period of indemnity.

The company's last annual accounts for the year ended December 31st ,2021 showed the following position:

Particulars	*(₹ in Lakhs)*	*Particulars*	*(₹ in Lakhs)*
To Opening Stock	*412.50*	*By Sales*	*2000.00*
To Purchases	*1812.50*	*By Closing Stock*	*525.00*
To Gross Profit c/d	*300.00*		
	2525.00		*2525.00*
To Variable Expenses	*80.00*	*By Gross Profit b/d*	*300.00*
To Standing Charges	*167.50*		
To Net Profit	*52.50*		
	300.00		*300.00*

The company's record show that the turnover for January 2022 of ₹ 100 Lakhs had been the same as for the corresponding month in the previous year, payments made in January 2022 to trade creditors were ₹ 106.68 Lakhs and at the end of that month the balance owing to trade creditors had increased by ₹ 3.32 Lakhs.·

The company's business was disrupted until the end of April 2022, during which period the turnover fell by ₹ 180.00 Lakhs compared with the same period in the previous year.

You are required to compute the claim. to be lodged with the Insurance Company for Loss of Stock and Loss of Profit. ***(10 Marks)***

Answer

(a)

		₹
(i)	Price of two Bikes = ₹ 1,00,000 x 2	2,00,000
	Less: Depreciation for the first year @ 30%	60,000
		1,40,000
	Less: Depreciation for the second year = ₹ 1,40,000 x $\frac{30}{100}$	42,000
	Agreed value of two Bikes taken back by the hire vendor	98,000
(ii)	Cash purchase price of one Bike	1,00,000
	Less: Depreciation on ₹ 1,00,000 @20% for the first year	20,000
	Written drown value at the end of first year	80,000
	Less: Depreciation on ₹ 80,000 @ 20% for the second year	16,000
	Book value of Bike left with the hire purchaser	64,000
(iii)	Book value of one Bike as calculated above	64,000
	Book value of Two Bikes = ₹ 64,000 x 2	1,28,000

	Value at which the two Bikes were taken back, calculated in (i) above		98,000
	Hence, loss to hire purchaser on machine taken back by hire vendor (₹ 1,28,000 – ₹ 98,000)		₹ 30,000
(iv)	Profit or loss on Bikes repossessed when sold by hire vendor		
	Sale proceeds		85,000
	Less: Value at which Bikes were taken back	98,000	
	Repairs	5,000	(1,03,000)
	Loss on resale		18,000

(b) Computation of claim for Loss of Stock

Calculation of the value of stock destroyed by fire:	₹ (in lakhs)
Value of stock as per Memorandum Trading A/c (W.N. 1)	550.00
Less: Salvaged value of stock	3.96
Value of claim to be lodged for loss of stock	546.04

As Policy amount is ₹ 600 lakhs and the insurable amount is 550 lakhs so average clause will not be applicable. The value of claim is equal to value of loss i.e. ₹ 546.04 lakhs.

Computation of claim for loss of profit

		₹ (in lakhs)
Short sales (given in the question)		180
Gross Profit:		
Net Profit for the last financial year	52.50	
Add: Insured Standing Charges	167.50	
	220.00	
Turnover for the last financial year		
Rate of Gross Profit = 220/2,000 X 100 = 11%		
Sales for 12 months up to date of loss is ₹ 2,000 lakhs		
Claim: Loss of profit for short sales (11% of ₹180 lakhs)		19.80
G.P. on sales up to the date of loss of fire is ₹ 220 lakhs		
Insurable amount = ₹ 220 lakhs		
Loss of profit policy taken = ₹ 250 lakhs		
As policy amount is more than insurable amount average clause will not be applicable.		
Value of claim to be lodged for loss of profit = ₹ 19.80 lakhs		

Working Notes:

1. Memorandum Trading Account

	₹ (in lakhs)		₹ (in lakhs)
To Opening Stock	525	By Sales	100
To Purchases	110	By closing stock (bal. fig.)	550
To Gross profit* (15% of 100 Lakhs)	15		
	650		650

* Gross profit ratio = 300/2000 = 15%

2. Trade Creditors A/c

	₹ (in lakhs)		₹ (in lakhs)
To Bank A/c	106.68	By Balance b/d	106.68
To Balance c/d (106.68 + 3.32)	110.00	By Purchases	110.00
	216.68		216.68

Note: It is assumed that all standing charges are insured for the purpose of computation of gross profit.

Question 3

(a) *Stevie and Alicia are in partnership sharing profits and losses equally.*

They maintain their books on Single Entry System.

The following balances are available from their books as on 31.3 .2021 and 31.3 .2022:

Particulars	***31.3.2021 ₹***	***31.3.2022 ₹***
Building	*3,00,000*	*3,00,000*
Equipment	*4,80,000*	*5,44,000*
Furniture	*50,000*	*50,000*
Debtors	*?*	*2,00,000*
Creditors	*1,30,000*	*?*
Stock	*?*	*1,40,000*
Bank loan	*90,000*	*70,000*
Cash	*1,20,000*	*?*

The transactions during the year ended 31.3.2022 were the following:

Collection from Debtors	*7,60,000*
Payment to Creditors	*5,00,000*
Expenses Paid	*80,000*
Drawings by Stevie	*60,000*
Discount allowed	*11,000*
Discount received	*9,600*

Other information:

(i) On 1.4.2021, an equipment of book value ₹ 40,000 was sold for ₹ 30,000. On 1.10.2021, some more equipment were purchased.

(ii) Cash sales amounted to 10% of total sales.

(iii) Credit sales amounted to ₹ 9,00,000.

(iv) Credit purchases were 80% of total purchases.

(v) Cash Purchases amounted to ₹ 1,30,000.

(vi) The firm sells goods at cost plus 25%.

(vii) Outstanding expenses were ₹ 6,000 as on 31.3.2022.

(viii) Capital of Stevie as on 31.3.2021 was ₹ 30,000 more than the capital of Alicia, equipment and furniture to be depreciated at 10% p.a. and building @ 2% p.a. (apply depreciation of new equipment for 1/2 year)

You are required to prepare:

(i) Trading and Profit and Loss Account for the year ended31.3.2022 and;

(ii) Balance Sheet as on that date. **(12 Marks)**

(b) PQR Limited has three departments L, M and N. The following information is provided for the year ended 31.3.2022:

	L ₹	*M ₹*	*N ₹*
Opening stock	*10,000*	*16,000*	*38,000*
Opening reserve for unrealized Profit	*-*	*4,000*	*6,000*
Materials Consumed	*32,000*	*40,000*	*-*
Direct labour	*18,000*	*20,000*	*-*
Closing stock	*10,000*	*40,000*	*10,000*
Sales	*-*	*-*	*1,60,000*
Area occupied (sq. mtr.)	*5,000*	*3,000*	*2,000*
No. of employees	*60*	*40*	*20*

The following information is provided:

Stocks of each department are valued at cost to the department concerned.

Stocks of L are transferred to M at cost plus 20% and stocks of M are transferred to N at a gross profit of 20% on sales.

Other common expenses are salaries and staff welfare, ₹ 36,000 and Rent, ₹ 12,000.

You are required to prepare Departmental Trading, Profit and Loss Account for the year ending 31.3 .2022. ***(8 Marks)***

Answer

(a) Trading and Profit and Loss A/c for the year ended 31.3.2022

		₹			₹
To Opening stock (W.N.3)		2,90,000	By Sales - Cash (W.N.1)	1,00,000	
To Purchases-Cash	1,30,000		Credit	9,00,000	10,00,000
Credit (W.N.2)	5,20,000	6,50,000	By Closing stock		1,40,000
To Gross profit c/d		2,00,000			
		11,40,000			11,40,000
To Loss on sale of equipment (40,000-30,000)		10,000	By Gross profit b/d		2,00,000
To Depreciation			By Discount received		9,600
Building	6,000				
Furniture	5,000				
Equipment (W.N.4)	49,200	60,200			
To Expenses paid	80,000				
Add: Outstanding expenses	6,000	86,000			
To Discount allowed		11,000			
To Net profit transferred to: Stevie's capital A/c	21,200				
Alicia's capital A/c	21,200	42,400			
		2,09,600			2,09,600

Balance Sheet as on 31st March, 2022

Equity and Liabilities		₹	Assets		₹
Stevie's capital (W.N.7)	5,60,500		Building	3,00,000	
Less: Drawings	(60,000)		*Less:* Depreciation	(6,000)	2,94,000
	5,00,500		Equipment	5,44,000	
Add: Net profit	21,200	5,21,700	*Less:* Depreciation	(49,200)	4,94,800
Alicia's capital (W.N.7)	5,30,500		Furniture	50,000	
Add: Net profit	21,200	5,51,700	*Less:* Depreciation	(5,000)	45,000
Sundry creditors (W.N.5)		1,40,400	Debtors		2,00,000
Bank loan		70,000	Stock		1,40,000
Outstanding expenses		6,000	Cash balance (W.N.8)		1,16,000
		12,89,800			12,89,800

Working Notes:

1. **Calculation of total sales**

   Cash sales = 10% of total sales

   Credit sales = 90% of total sales = ₹ 9,00,000

   Total sales = $\frac{9,00,000}{90} \times 100$ = 10,00,000

   Cash sales = 10% of 10,00,000 = ₹ 1,00,000

2. **Calculation of total purchases**

   Cash purchases = ₹ 1,30,000

   Credit purchases = 80% of total purchases

   Cash purchases = 20% of total purchases

   Total purchases = $\frac{1,30,000}{20} \times 100$ = ₹ 6,50,000

   Credit purchases = 6,50,000 – 1,30,000 = ₹ 5,20,000

3. **Calculation of opening stock**

Stock Account

	₹		₹
To Balance b/d (Bal. Fig.)	2,90,000	By Cost of goods sold $\frac{10,00,000}{125} \times 100$	8,00,000

To Total purchases (W.N.2)	6,50,000	By Balance c/d	1,40,000
	9,40,000		9,40,000

4. Purchase of equipment & depreciation on equipment

Equipment Account

	₹		₹
To Balance b/d	4,80,000	By Cash -equipment sold	30,000
To Cash-purchase (Bal. Fig.)	1,04,000	By Profit and Loss Account (Loss on sale)	10,000
		By Balance c/d	5,44,000
	5,84,000		5,84,000

Depreciation on equipment:

@ 10% p.a. on ₹ 4,40,000 (i.e. ₹ 4,80,000 – ₹ 40,000)	=	44,000
@ 10% p.a. on ₹ 1,04,000 for 6 months (i.e. during the year)	=	5,200
		49,200

5. Calculation of closing balance of creditors

Creditors Account

	₹		₹
To Cash	5,00,000	By Balance b/d	1,30,000
To Discount received	9,600	By Credit purchases (W.N.2)	5,20,000
To Balance c/d (Bal. Fig.)	1,40,400		
	6,50,000		6,50,000

6. Calculation of opening balance of debtors

Debtors Account

	₹		₹
To Balance b/d (Bal. Fig.)	71,000	By Cash	7,60,000
To Sales (Credit)	9,00,000	By Discount allowed	11,000
		By Balance c/d	2,00,000
	9,71,000		9,71,000

7. Calculation of capital accounts of Stevie & Alicia as on 31.3.2021

Balance Sheet as on 31.3.2021

Liabilities	₹	*Assets*	₹
Combined Capital Accounts of Stevie & Alicia (Bal. Fig.)	10,91,000	Building	3,00,000
		Equipment	4,80,000
Creditors	1,30,000	Furniture	50,000
Bank Loan	90,000	Debtors (W.N.6)	71,000
		Stock (W.N.3)	2,90,000
		Cash balance	1,20,000
	13,11,000		13,11,000

	₹
Combined Capitals of Stevie & Alicia	10,91,000
Less: Difference in capitals of Stevie & Alicia	(30,000)
	10,61,000

Stevie's capital as on 31.3.2021= $\frac{10,61,000}{2}$ = 5,30,500 + 30,000 = ₹ 5,60,500

Alicia's capital as on 31.3.2021 = $\frac{10,61,000}{2}$ = ₹ 5,30,500

8. Cash Account

	₹		₹
To Balance b/d	1,20,000	By Creditors	5,00,000
To Debtors	7,60,000	By Purchases	1,30,000
To Equipment (sales)	30,000	By Expenses	80,000
To Cash sales (W.N.1)	1,00,000	By Stevie's drawings	60,000
		By Bank loan paid (90,000-70,000)	20,000
		By Equipment purchased (W.N.4)	1,04,000
		By Balance c/d (Bal. Fig.)	1,16,000
	10,10,000		10,10,000

(b) **PQR Ltd.**

Departmental Trading and Profit and Loss Account

for the year ended 31st March, 2022

		L	M	N	Total			L	M	N	Total
		₹	₹	₹	₹			₹	₹	₹	₹
To	Opening stock	10,000	16,000	38,000	64,000	By	Sales			1,60,000	1,60,000
To	Material consumed	32,000	40,000		72,000	By	Inter-depart-mental				
To	Direct labour	18,000	20,000		38,000		transfer	60,000	1,20,000		1,80,000
To	Inter-depart-mental transfer		60,000	1,20,000	1,80,000	By	Closing stock	10,000	40,000	10,000	60,000
To	Gross profit	10,000	24,000	12,000	46,000						
		70,000	1,60,000	1,70,000	4,00,000			70,000	1,60,000	1,70,000	4,00,000
To	Salaries and staff welfare	18,000	12,000	6,000	36,000	By	Gross profit b/d	10,000	24,000	12,000	46,000
To	Rent	6,000	3,600	2,400	12,000	By	Net loss	14,000			14,000
To	Net profit		8,400	3,600	12,000						
		24,000	24,000	12,000	60,000			24,000	24,000	12,000	60,000

Combined Profit and loss account for the

year ended 31st March, 2022

		₹			₹
To	Net loss (L)	14,000	By	Stock reserve b/d	
To	Stock reserve (M 3,333 + N 2,667)	6,000		(M 4,000 + N 6,000)	10,000
	(Refer W.N.)		By	Net profit (M 8,400 + N 3,600)	12,000
To	Balance transferred to profit and loss account	2,000			
		22,000			22,000

Working Notes:

1. **Calculation of Inter Department Transfer**

   (i) From Dept L to Dept M

   Opening Stock + Material Consumed + Direct Labour Cost – Closing Stock

   10,000 + 32,000 + 18,000 -10,000 = 50,000/-

   Profit on transfer is 20% of Cost = ₹ 10,000/-. Hence transfer = ₹ 60,000

   (ii) From Dept M to Dept N

   Opening Stock + Material Consumed + Direct Labour + Inward Transfer – Closing Stock

   16,000 + 40,000 + 20,000 + 60,000 – 40,000 = ₹ 96,000/-

   Profit on transfer = 20% of sale value i.e. 25% of cost price = ₹ 24,000

   Hence, stock transferred to N at a value of ₹ 1,20,000

2. **Calculation of unrealized profit on closing stock**

   (i) Stock reserve of M department

	₹
Cost - Material consumed + Direct labour cost	60,000
Transfer from L department	60,000
	1,20,000
Closing Stock of M department	40,000

Proportion of stock of L department = ₹ 40,000 × $\frac{₹\ 60,000}{₹\ 1,20,000}$ = ₹ 20,000

Stock reserve =₹ $20,000 \times \frac{20}{120}$ = ₹ 3,333 (approx.)

   (ii) Stock reserve of N department

	₹
Closing Stock (being stock transferred from M department)	10,000
Less: Profit (stock reserve) 10,000 × 20%	(2,000)
Cost to M department	8,000

Proportion of stock of L department = ₹ 8,000 × $\frac{₹\ 60,000}{₹\ 1,20,000}$ = ₹ 4,000

Stock reserve $= 4,000 \times \frac{20}{120} =$ ₹ 667 (approx.)

Total stock reserve = ₹ 2,000 + ₹ 667 = ₹ 2,667

Question 4

Cool Limited was formed to take over a running business of Fire Enterprises with effect from 1st April,2021. The company was incorporated on 1st August,2021 and the certificate of commencement of business was received on 1st October 2021. No entries relating to the transfer of the business were entered in the books which were continued until 31st March,2022. The following Trial Balance was extracted from the books as on 31st March,2022.

Particulars	Dr. (₹)	Cr. (₹)
Sales		19,20,000
Cost of Goods sold	15,54,000	
Rent	80,000	
Salaries	42,000	
Travelling Expenses	16,800	
Depreciation	9,600	
Carriage outward	800	
Printing & Stationary	4,800	
Advertisement	16,000	
Miscellaneous Expenses	25,200	
Directors' fees	1,200	
Managing Director's Remuneration	8,200	
Bad debts	3,200	
Commission & Brokerage to selling Agents	16,000	
Audit fees	6,000	
Interest on Debentures	3,000	
Interest to Vendors	4,200	
Selling & Distribution Expenses	24,000	
Preliminary Expenses	3,000	
Underwriting Commission	1,800	
Fixed Assets	7,30,000	
Current Assets	87,600	
Cool Limited's Capital as on 1st April, 2021		5,56,000
Current Liabilities		61,400
Debentures		1,00,000
Total	26,37,400	26,37,400

Additional Information:

(a) Total Sales for the year arose evenly up to the date of the certificate of commencement where-after they spurted to record an increase of two third during the rest of the year.

(b) The Company deals in one type of product. The unit cost of goods sold was reduced by 10% since 1st August, 2021 as compared to the pre incorporation period.

(c) Rent of old office building was increased by 20% since 1st November,2021. It had to also occupy additional space from 1stJuly, 2021 for which rent was ₹ 6,000 p.m.

(d) The Salaries were tripled from 1st July,2021.

(e) Travelling Expenses include ₹ 4,800 towards sales promotion.

(f) Depreciation includes, ₹ 600 for new assets acquired in August 2021.

(g) Purchase consideration was discharged by the company on 30th September, 2021 by issuing ₹ 60,000 Equity shares of ₹ 10 each.

You are required to prepare the Profit & Loss Statement in a columnar form for the year ended 31st March,2022 showing the allocation of profits between pre-incorporation and post-incorporation periods indicating the basis of apportionment. ***(20 Marks)***

Answer

Statement of Profit & Loss of Cool Limited for the year ended 31st March,2022 showing the allocation of profits between pre and post incorporation periods

	Particulars	Note	Pre-incorporation ₹	Post-incorporation ₹
	Revenue from Operations (W.N 2)		4,80,000	14,40,000
	Other Income		-	-
I.	Total Income		4,80,000	14,40,000
II	Expenses:			
	Costs of Goods sold (W.N. 3)		4,20,000	11,34,000
	Employee Benefits Expense	1	8,400	41,800
	Finance Costs	2	2,800	4,400
	Depreciation and Amortization Expense	3	3,000	6,600
	Other Expenses	4	44,200	1,54,600
	Total Expenses		4,78,400	13,41,400
III	Profit for the Period (I-II)		1,600	98,600

Notes relating to apportionment of expenses

for pre and post incorporation periods for the year ended 31.3.2022

	Particulars	Ratio	Total	Pre Incorporation ₹	Post Incorporation ₹
1	Employee benefit expenses:				
	Salaries (W.N.5)	1:4	42,000	8,400	33,600
	Managing director's remuneration	post	8,200	-	8,200
				8,400	41,800
2	Finance cost:				
	Debenture interest (post-incorporation)	post	3,000	-	3,000
	Interest paid to vendor (2:1) (W.N.7)		4,200	2,800	1,400
				2,800	4,400
3	Other expenses:				
	Rent (office building) (W.N.4)		80,000	14,000	66,000
	Travelling expenses (W.N.6)	1:2	12,000	4,000	8,000
	Carriage outward	1:3	800	200	600
	Printing & Stationery	1:2	4,800	1,600	3,200
	Advertisement	1:3	16,000	4,000	12,000
	Misc. expenses	1:2	25,200	8,400	16,800
	Sales promotion expenses (W.N.6)		4,800	1,200	3,600
	Commission & brokerage	1:3	16,000	4,000	12,000
	Selling & distribution expenses	1:3	24,000	6,000	18,000
	Audit fee*	post	6,000		6,000
	Director's fee (post-incorporation)	post	1,200	-	1,200
	Bad debts	1:3	3,200	800	2,400
	Preliminary expenses	post	3,000		3,000
	Underwriting commission	post	1,800		1,800
				44,200	1,54,600
4	Depreciation on fixed assets (W.N.8)		9,600	3,000	6,600

*Audit fee considered to be relating with company audit. If considered as related with tax audit, it will be divided in pre and post incorporation periods on the basis of turnover.

Working Notes:

1. **Time Ratio**

   Pre incorporation period = 1st April, 2021 to 31st July, 2021

   i.e. 4 months

   Post incorporation period is 8 months

   Time ratio is 1: 2.

2. **Sales ratio**

   Let the monthly sales for first 6 months (i.e. from 1.4.2021 to 30.09. 2021) be x

   Then, sales for 6 months = 6x

   Monthly sales for next 6 months (i.e. from 1.10.21 to 31.3.2022) = $x + \frac{2}{3}x = \frac{5}{3}x$

   Then, sales for next 6 months = $\frac{5}{3}x \times 6 = 10x$

   Total sales for the year = 6x + 10x = 16x

   Monthly sales in the pre incorporation period = ₹ 19,20,000/16 = ₹ 1,20,000

   Total sales for pre-incorporation period = ₹ 1,20,000 x 4 = ₹ 4,80,000

   Total sales for post incorporation period = ₹ 19,20,000 – ₹ 4,80,000 = ₹ 14,40,000

   Sales Ratio = 4,80,000 : 14,40,000

   Sales Ratio = 1 : 3

3. **Cost of goods sold**

   Cost of goods ratio between pre and post incorporation periods can be calculated as follows:

   Let cost of goods sold in the pre-incorporation period be ₹100

   Then cost of goods sold in the post-incorporation period is ₹90

   Sales Ratio (as calculated above) = 1:3

   Then, cost of goods sold ratio = (100 x 1): (90 x 3) = 100: 270= 10:27

4. **Apportionment of Rent**

	₹
Total Rent	80,000
Less: additional rent from 1.7.2021 to 31.3.2022	54,000
Rent of old premises for 12 months	26,000

Let monthly rent for old building is x pm.

Rent for April to July will be 4x and rent from Aug to March will be :

9x i.e. (x + x + x + 1.2x + 1.2x + 1.2x + 1.2x + 1.2x)

	Pre	Post
Apportionment of rent for old space (₹ 26,000 in 4:9 ratio)	8,000	18,000
Add: Rent for new space	6,000	48,000
Total	14,000	66,000

5. Apportionment of Salary

Let the salary per month from 01.04.2021 to 30.06.2021 is x

Salary per month from 01.7.2021 to 31.03.2022 will be 3x

Hence, pre incorporation salary (01.04.2021 to 31.07.2021) = 6x

Post incorporation salary from 01.08.2021 to 31.03.2022 = (3x X 8) i.e.24x

Ratio for division 6x: 24x or 1: 4

i.e. pre = ₹ 8,400 and

for post = ₹ 33,600

6. Travelling expenses and sales promotion expenses

	Pre ₹	***Post*** ₹
Traveling expenses ₹ 12,000 (i.e. ₹ 16,800- ₹ 4,800) distributed in Time ratio (1:2)	4,000	8,000
Sales promotion expenses ₹ 4,800 distributed in Sales ratio (1:3)	1,200	3,600

7. Interest paid to vendor till 30th September, 2021

	Pre ₹	***Post*** ₹
Interest for pre-incorporation period $\left(\frac{₹\ 4,200}{6}\times 4\right)$	2,800	
Interest for post incorporation period i.e. for August, 2021 & September, 2021 = $\left(\frac{₹\ 4,200}{6}\times 2\right)$		1,400

8. Depreciation

		Pre ₹	Post ₹
Total depreciation	9,600		
Less: Depreciation exclusively for post incorporation period	600		600
Remaining (for pre and post incorporation period)	9,000		
Depreciation for pre-incorporation period $\left[9,000 \times \frac{4}{12}\right]$		3,000	
Depreciation for post incorporation period $\left[9,000 \times \frac{8}{12}\right]$			6,000
		3,000	6,600

Question 5

(a) Given below is the extract of Balance Sheet of Daisy Limited as at 31st March,2021.

Particulars	***₹***
15% 650 Redeemable Preference Shares of ₹ 100 each, ₹ 80 per share paid up	*52,000*
22,500 Equity Shares off ₹ 10 each, ₹ 9.50 per share paid up	*2,13,750*
Revaluation Reserve	*45,000*
Capital Reserve (realized in cash)	*500*
General Reserve	*40,000*
Securities Premium	*500*
Profit & Loss Account	*40,500*
Current Liabilities	*1,07,750*
Fixed Assets	*3,71,500*
Non-Current Investments [Face value ₹ 50,000]	*1,00,000*
Bank Balance	*28,500*

The following information are provided:

On 1st April,2021, the Board of Directors decided to make a final call of ₹ 20 on Redeemable Preference Shares and to redeem the same at a premium of 10% on 1st June, 2021.

The investments of the face value of ₹ 20,000 are sold at the market price which was 150% of the face value.

It is decided to issue sufficient number of Equity Shares of ₹ 10 each at a premium of 25% after leaving a balance of ₹ 50,000 in bank account.

It was also decided to convert the partly paid-up Equity shares into fully paid up without requiring the shareholders to pay for the same.

On 1st July,2021 the Board decided to issue fully paid bonus shares to the equity shareholders in the ratio of one for five. ***(10 Marks)***

You are required to pass the necessary journal entries for the above.

(b) Walkaway Footwears has its head office at Nagpur and Branch at Patna. It invoiced goods to its branch at 20% less than the list price which is cost plus 100%, with instruction that cash sales were to be made at invoice price and credit sales at catalogue price (i.e. list price).

The following information was available at the branch for the year ended 31st March,2022.

(Figures in ₹)

Stock on 1st April,2021 (invoice price)		*12,000*
Debtors on 1st April, 2021		*10,000*
Goods received from head office (invoice price)		*1,32,000*
Sales:		
Cash	*46,000*	
Credit	*1,00,000*	*1,46,000*
Cash received from debtors		*85,000*
Expenses at branch		*17,500*
Debtors on 31st March, 2022		*25,000*
Stock on 31st March,2022 (invoice price)		*17,600*
Remittances to head office		*1,20,000*

You are required to prepare Branch Stock Account, Branch Adjustment Account, Branch Profit & Loss Account and Branch Debtors Account for the year ended 31st March,2022.

(10 Marks)

Answer

(a) Journal Entries

2021			Dr. (₹)	Cr. (₹)
April 1	15% Redeemable Preference Share Final Call A/c	Dr.	13,000	
	To 15% Preference Share Capital A/c			13,000
	(For final call made on 650 preference shares @ ₹ 20 each to make them fully paid up)			

	Bank A/c To 15% Preference Share Final Call A/c (For receipt of final call money on preference shares)	Dr.	13,000	13,000
1st June	15% Redeemable preference share capital A/c Premium on redemption of pref. share A/c To Redeemable Preference Shareholders A/c (Being amount payable to preference shareholders on redemption)	Dr. Dr.	65,000 6,500	71,500
	Cash & Bank balance A/c Profit & Loss A/c To Investment A/c (Being investment sold out and loss on sale debited to Profit & Loss A/c) [Book value = ₹ 1,00,000 x ₹ 20,000/ ₹ 50,000 = ₹ 40,000. Sale proceeds = ₹ 20,000 x 150/100 = ₹ 30,000]	Dr. Dr.	30,000 10,000	40,000
	Bank A/c To Equity share capital A/c To securities premium A/c (Being 4,000 equity shares of ₹ 10 issued at premium of ₹ 2.50 per share)	Dr.	50,000	40,000 10,000
	Preference shareholders A/c To Cash & bank A/c (Being amount paid to preference shareholders)	Dr.	71,500	71,500
	Profit and loss A/c/ General reserve A/c * To Capital redemption reserve A/c (Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law i.e. face value of shares redeemed 65,000 less fresh equity shares issued ₹ 40,000)	Dr.	25,000	25,000
	Profit and Loss A/c ** To Premium on redemption of preference shares A/c (Being premium on preference shares adjusted from Securities Premium A/c)	Dr.	6,500	6,500

	Profit & Loss/ General reserve A/c*	Dr.	11,250	
	To Bonus to shareholders A/c			11,250
	(Being 50 paisa for 22,500 shares making partly) paid up as fully paid up)			
	Share final call A/c	Dr.	11,250	
	To Equity share capital A/c			11,250
	(for making the final call due)			
	Bonus to shareholders A/c	Dr.	11,250	
	To Equity share final call A/c			11,250
	(Adjusted at final call)			
July 1	Capital Redemption Reserve A/c	Dr.	25,000	
	Securities Premium A/c	Dr.	4,000	
	Capital Reserve A/c	Dr.	500	
	Profit & Loss A/c / General Reserve*	Dr.	23,500	
	To Bonus to shareholders A/c			53,000
	(Being balance in reserves capitalized to issue bonus shares)			
	Bonus to shareholders A/c	Dr.	53,000	
	To Equity share capital A/c			53,000
	(Being 5,300 fully paid equity shares of ₹ 10 each issued as bonus in ratio of 1 share for every 5 shares held (22,500+4,000) divided by 5)			

Note: *Different combination of utilisation of available balances of general reserve and P& L A/c is possible in the given entries.

** Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and hence the company has to comply with the prescribed Accounting Standards.

*** As per the sequence of the information given in the question it has been considered that the fresh issue of equity shares is made at the time of the redemption of preference shares. Alternatively, it may be assumed that shares are issued after the redemption of preference shares. In that case the amount transferred to Capital Redemption Reserve will get changed.

(b) **In the books of walkaway footwears**

Patna Branch Stock Account

		Particulars	Amount (₹)			Particulars	Amount (₹)
1.1.21	To	Balance b/d	12,000	31.12.21	By	Bank A/c (Cash sales)	46,000
31.12.21	To	Goods sent to branch A/c	1,32,000		By	Branch debtors A/c (credit sales)	1,00,000
	To	Branch adjustment A/c (Surplus over invoice price)	20,000	31.12.21	By	Shortage in stock A/c	400
					By	Balance c/d	17,600
			1,64,000				1,64,000

Patna Branch Adjustment Account

		Particulars	Amount (₹)			Particulars	Amount (₹)
31.12.21	To	Stock reserve - ₹ 17,600 x 60/160 (closing stock)	6,600	31.12.21	By	Stock reserve – ₹ 12,000 x 60/160 (Opening stock)	4,500
	To	Shortage (400x 60/160)	150		By	Goods sent to branch A/c (₹ 1,32,000 x 60/160)	49,500
	To	Branch profit & loss A/c (Gross profit)	67,250		By	Branch stock A/c	20,000
			74,000				74,000

Branch Profit & Loss Account

	Particulars	Amount (₹)		Particulars	Amount (₹)
To	Branch expenses A/c	17,500	By	Branch adjustment A/c (Gross Profit)	67,250
To	Shortage in stock A/c	250			
To	Net profit (transferred to Profit & Loss A/c)	49,500			
		67,250			67,250

Branch Debtors Account

		Particulars	Amount (₹)			Particulars	Amount (₹)
1.1.21	To	Balance b/d	10,000	31.12.21	By	Bank A/c	85,000
31.12.21	To	Branch stock A/c	1,00,000		By	Balance c/d (bal. fig.)	25,000
			1,10,000				1,10,000

Question 6

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

(a) The following information is provided by Exe Limited for 31st March,2022:

Particulars	***₹***
Net Profit before Income Tax and Managerial Remuneration, but after Depreciation and Provision for Repairs	*9,40,000*
Depreciation provided in the Books	*4,05,000*
Provision for repairs for Machinery during the year	*35,000*
Depreciation Allowable under Schedule II	*3,40,000*
Actual Expenditure incurred on Repairs during the year	*25,000*
Provision for Income Tax	*1,50,000*

You are required to calculate the Managerial Remuneration for Exe Limited as on 31st March, 2022 in the following situations:

(i) There is only one Whole Time Director.

(ii) There are two Whole Time Directors.

(iii) There are two Whole Time Directors, a part time Director and a Manager.

(b) Following is the extract of the Balance Sheet of Sujata Foods Limited as at 31st March,2021:

Particulars	***₹***
Authorised Capital	
1,00,000 12% Preference shares of ₹ 10 each	*10,00,000*
5,00,000 Equity shares of ₹ 10 each	*50,00,000*
	60,00,000
Issued and Subscribed capital	
8,000 12% Preference shares of ₹ 10 each fully paid	*80,000*

90,000 Equity shares of ₹ 10 each, ₹ 8 paid up	*7,20,000*
Reserves and Surplus	
General Reserve	*1,20,000*
Capital Redemption Reserve	*75,000*
Securities Premium (Collected in cash)	*25,000*
Profit and Loss Account	*2,00,000*
Revaluation Reserve	*80,000*

On 1st April 2021, the company has made final call @ ₹ 2 each on 90,000 equity shares. The call money was received by 15th April,2021. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held, it also decided that there should be minimum reduction in free reserves.

On 1st June 2021, the Company issued right shares at the rate of two shares for every five shares held on that date at issue price of ₹ 12 per share. All the right shares were accepted by the existing shareholders and the money was duly received by 20th June,2021.

You are required to pass necessary journal entries in the books of the Sujata Foods Limited for bonus issue and rights issue.

(c) State whether the following statements are 'True' or 'False'. Also give reason for your answer.

(i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.

(ii) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.

(iii) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.

(iv) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the facts need not to be indicated.

(d) The following information is provided by Alpha Limited, for the year ended 31st March, 2022:

(i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 40 lakhs.

(ii) Depreciation on Fixed Assets ₹ 10 lakhs.

(iii) Discount on issue of Debentures written of ₹ 60,000.

(iv) Interest on Debentures paid ₹ 7,00,000.

(v) Book value of investments ₹ 6 lakhs (Sale of Investments for ₹ 6,40,000).

(vi) Interest received on investments ₹ 1,20,000.

(vii) Compensation received ₹ 1,80,000 by the company in a suit filed.

(viii) Income tax paid ₹ 21,00,000

(ix) Current assets and current liabilities in the beginning and at the end of the year were as detailed below:

	As on 31.3.2021 ₹	**As on 31.3.2022 ₹**
Stock	*24,00,000*	*26,36,000*
Sundry Debtors	*4,16,000*	*4,26,200*
Cash in hand	*3,92,600*	*70,600*
Bills Receivable	*1,00,000*	*80,000*
Bills Payable	*90,000*	*80,000*
Sundry Creditors	*3,32,000*	*3,42,600*
Outstanding Expenses	*1,50,000*	*1,63,600*

You are required to prepare Cash Flow Statement from Operating Activities in accordance with AS-3 (revised) using the indirect method for the year ended 31st March,2022.

(e) On 1st April 2021 Ms. Jayshree has 5,000 equity shares of Rama Limited (a listed company) of face value of ₹ 10 each. Ms. Jayshree has purchased the above shares at ₹ 15 per share and paid a brokerage of 2% and stamp duty of 1 %.

On 15th May,2021 Ms. Jayshree purchased another 5,000 shares of Rama Limited at ₹ 18 including brokerage and stamp duty.

On 26th August,2021 Rama Limited issued one bonus equity share for every 1 equity share held by the shareholders.

On 23rd October,2021 Rama Limited announced a Right Issue which entitles the holders to subscribe 1 equity share for every 2 equity shares held at ₹ 20 per share. Shareholders can exercise their rights in full or in part. Ms. Jayshree sold 1/4th of entitlement to Mr. Mike for a consideration of ₹ 10 per share and subscribed the rest on 1st November 2021.

Ms. Jayshree also sold 10,000 shares at ₹ 25 per share on 1st November,2021.

The shares of Rama Limited were quoted at ₹ 11 per share on 31st March,2022.

You are required to prepare Investment account for Ms. Jayshree for the year ended 31st March 2022. ***(4 Parts X 5 Marks = 20 Marks)***

Answer

(a) Calculation of net profit u/s 198 of the Companies Act, 2013

	₹	₹
Net profit before income tax and managerial remuneration but after depreciation and provision for repairs		9,40,000
Add: Depreciation provided	4,05,000	
Provision for repairs	35,000	4,40,000
		13,80,000
Less: Repairs	25,000	
Depreciation as per schedule III	3,40,000	3,65,000
Profit u/s 198		10,15,000

Maximum Managerial remuneration under Companies Act, 2013

(i) When there is only one Whole time director: The remuneration payable to any one managing director; or whole-time director or manager should not exceed 5% of the net profits of the company. Therefore Managerial remuneration will be ₹ 50,750 i.e 5% of ₹10,15,000.

(ii) When there are two Whole time directors: if there are more than one such director, remuneration should not exceed 10% of the net profits to all such directors and manager taken together. Therefore Managerial remuneration will be ₹1,01,500 i.e 10% of ₹10,15,000**.**

(iii) When there are two whole time directors, a part time director and a manager, then 11% of the net profits of the company. Therefore Managerial remuneration will be ₹ 1,11,650 i.e 11% of ₹10,15,000.

(b) Journal Entries in the books of Sujata Foods Ltd.

2021			**Dr.** ₹	**Cr.** ₹
April 1	Equity Share Final Call A/c	Dr.	1,80,000	
	To Equity Share Capital A/c			1,80,000
	(Final call of ₹ 2 per share on 90,000 equity shares made due)			
April 15	Bank A/c	Dr.	1,80,000	

	To Equity Share Final Call A/c (Final call money on equity shares received)			1,80,000
	Capital Redemption Reserve A/c Securities Premium A/c General Reserve A/c Profit and Loss A/c To Bonus to Shareholders A/c (Bonus issue of one share for every four shares held, by utilising various reserves as per Board's resolution dated…….)	Dr. Dr. Dr. Dr.	75,000 25,000 1,20,000 5,000	 2,25,000
	Bonus to Shareholders A/c To Equity Share Capital A/c (Capitalization of profit)	Dr.	2,25,000	 2,25,000
June 20	Bank A/c To Securities Premium A/c To Equity Share Capital A/c (Being Right issue of 2 shares for every 5 shares held as per board resolution dated ……….)	Dr.	5,40,000	 90,000 4,50,000

(c) (i) False: As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

(ii) False: As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

(iii) True: To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.

(iv) False: Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

(d) **Alpha Ltd.**

Cash Flow Statement (from Operating Activities)

for the year ended 31st March, 2022

	₹	₹
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		40,00,000
Adjustments for:		
Depreciation on Property, plant and equipment	10,00,000	
Discount on issue of debentures	60,000	
Interest on debentures paid	7,00,000	
Interest on investments received	(1,20,000)	
Profit on sale of investments	(40,000)	16,00,000
Operating profit before working capital changes		56,00,000
Adjustments for:		
Increase in inventory	(2,36,000)	
Increase in Sundry Debtors	(10,200)	
Decrease in Bills receivables	20,000	
Increase in Sundry Creditors	10,600	
Increase in Bills payables	(10,000)	
Increase in outstanding expenses	13,600	(2,12,000)
Cash generated from operations		53,88,000
Income tax paid		(21,00,000)
Cash flow from ordinary items		32,88,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		1,80,000
Net cash flow from operating activities		34,68,000

(e) **In the books of Ms. Jayshree**

Investment Account
(Equity shares in Rama Ltd.)

Date	*Particulars*	*No. of shares*	*Amount (₹)*	*Date*	*Particulars*	*No. of shares*	*Amount (₹)*
1.4.21	To Balance b/d	5,000	77,250	1.11.21	By Bank A/c	10,000	2,50,000
15.5.21	To Bank A/c	5,000	90,000				
26.8.21	To Bonus issue (W.N.1)	10,000	---	31.3.22	By Balance c/d	17,500	1,92,500
1.11.21	To Bank A/c (right shares) (W.N.4)	7,500	1,50,000	31.3.22	By Profit & Loss A/c (loss on valuation)		9,386
1.11.21	To Profit & Loss A/c		1,34,636				
		27,500	4,51,886			27,500	4,51,886

Working Notes:

(1) Profit on sale of shares (average cost basis) on 1.11.21

10,000 shares @ ₹ 25 per share = 2,50,000

Cost of shares sold = [(77,250 + 90,000 + 1,50,000)/27,500 x 10,000]

= ₹ 1,15,364

Profit on sale of shares = ₹ 1,34,636

(2) Value of shares on 31.3.22 [(77,250 + 90,000 + 1,50,000)/27,500 x 17,500] = ₹ 2,01,886 or ₹ 1,92,500 (17,500 shares at ₹ 11)

Shares will be valued at ₹, 1,92,500 as market value is less than cost.

Note: Average cost basis has been considered for valuation of shares at the year end and for calculation of cost of shares sold in the given answer.