1.)

(a) Depreciation for the year ending 31^{st} March, 2020 for each asset as per AS 10 (Revised) will be as follows :

(i) The purchase value and the residual value of the machinery is same i.e. Rs 10 lakhs. There is, therefore, no depreciable amount and depreciation is correctly zero. konceptca.com.

(ii) Land has an unlimited useful life and therefore is not depreciated.

(iii) A ltd. should begin charging depreciation from the date the machinery is ready for use — that is, 1^{st} April, 2019. The fact that the machinery was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation.

So, depreciation for the machinery for the year 2019 - 20 will be Rs. 50,000 (5,00,000 / 10).

(iv) A ltd. has charged depreciation using the straight-line method at Rs. 10,000 per annum i.e. (50,000 / 5 years). konceptca.com.

On 1^{st} April, 2019, the asset's net book value is [50,000 - (10,000 x 2)] = Rs. 30,000.

The management decided to use the asset for further 2 years only.

The company should amend the annual provision for depreciation to charge the unamortised cost over the revised remaining life for 2 years.
Consequently, it should charge depreciation for the next 2 years at Rs. 15,000 per annum, i.e. (30,000 / 2 years). konceptca.com

So, depreciation for the machinery for the year 2019 - 20 will be Rs. 15,000.

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

In the books of Mac Ltd. konceptca.com

Journal entries for the year 2019 - 20

Date	Particulars		L.F.	(₹ in lakhs)	(₹ in lakhs)
2019 June	Machinery A/c	Dr		60	
	To Bank A/c				60
	(Being government grant on asset refunded which increased the cost of fixed asset)				
2020 31st March	Depreciation A/c	Dr		23,496 (WN 1)	
	To Machinery A/c				23,496
	(Being depreciation charged on WDV on revised value of fixed asset prospectively) konceptca.com				
31st March	Profit & Loss A/c	Dr		23,496	
	To Depreciation A/c				23,496
	(Being depreciation transferred to Profit and Loss Account)				

Working note 1 :

		(₹ in lakhs)
1/4/2016	Acquisition cost of machinery (300 − 60)	240
31/03/17	Less : Depreciation @ 10%	(24)
1/4/2017	Book value	216
31/03/18	Less : Depreciation @ 10%	(21.6)
1/4/18	Book value	194.40
31/3/19	Less : Depreciation @ 10%	(19.44)
1/4/19	Book value	174.96
June 2019	Add : Refund of grant	60
	Revised book value	234.96
31/3/20	Less : Depreciation @ 10%	(23.496)
1/04/20	Book value	211.464

(c) As per AS 13 (Revised) 'Accounting for Investments', for investment in shares

1. If the investment is purchased with an intention to hold for a short-term period (less than one year), then it will be classified as 'Current Investment' and to be carried at lower of cost or fair value on reporting date. konceptca.com
2. If equity shares are acquired with an intention to hold for a long-term period (more than one year), they should be considered as 'Long-term investment' to be shown at cost in the Balance sheet of the company. However, provision for diminution should be made to recognise a decline, if other than temporary, in the value of the

investments.

As per AS13 (Revised), Gold and silver are generally purchased with an intention to hold it for long-term period (more than one year) until and unless given otherwise. These are shown at cost in the Balance sheet of the company. However, provision for diminution should be made to recognise a decline, if other than temporary, in the value of the investments. Also even if their values would have increased on the reporting day we would value it at cost due to a conservative approach. konceptca.com

Hence,

Investments	classified as	Value	
Share held with intention to hold for 6 months	Current Investment	23,750	to be carried at lower of cost or fair value, i.e. lower of (25000/23,750)
Share held with an intention to hold as long-term investment	Long-term Investment	25,000	to be valued at cost as the decline is temporary
Gold	Long-term Investment	1,00,000	to be valued at cost
Silver konceptca.com	Long-term Investment	30,00,000	to be valued at cost

(d) According to AS 16 'Borrowing costs', qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use. As for the standard, 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. Capitalization of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.

The treatment of interest by RBM Ltd. can be shown as : konceptca.com

	Qualifying Asset	Interest to be Capitalized (₹ in lakhs)	Interest to be charged to P/L A/c (₹ in lakhs)	
Construction for factory shed	Yes	30		40/320 x 240
Purchase of Machinery	No		₹ 3.75	40/320 x 30
Working Capital	No		3	40/320 x 24
Purchase of vehicles	No		1.5	40/320 x 12
Advance for tools, etc	No		1	40/320 x 8
Purchase of technical know how	No		0.75	40/320 x 6
Total		30	10	

* Note:
It is assumed that construction of factory shed will normally take more than a year (substantial period of time), hence considered as qualifying asset. konceptca.com

2.)
(a)

Books of Vijay & Co., Jaipur

Patna Branch Stock Account

	(₹)		(₹)
To Balance b/d	72,000	By Bank A/c (Cash Sales)	1,85,000
To Goods sent to Branch A/c	8,40,000	By Branch Debtors (Credit Sales)	6,25,000
To Branch Debtors A/c (Sales return)	14,000	By goods sent to Branch (Return to H.O.)	60,000
To Branch P/L A/c (Surplus)	94,000	By Balance c/d (Closing Stock) (1,25,000 + 20%)	1,50,000
	10,20,000	konceptca.com	10,20,000

Patna Branch Stock Adjustment Account

	(₹)		(₹)
To Goods sent to Branch A/c (1/6 × 60K)	10,000	By balance b/d (1/6 of ₹ 72,000)	12,000
To Branch P/L A/c (Profit on sale)	1,17,000	By goods sent to Branch A/c (1/6 of ₹ 8,40,000)	1,40,000
To Balance c/d	25,000		
	1,52,000		1,52,000

Goods sent to Branch Account

	(₹)		(₹)
To Patna Branch Stock Adj. A/c	1,40,000	By Patna Branch Stock A/c	8,40,000
To Patna Branch Stock A/c (Ret.)	60,000	By Patna Branch Stock Adj. A/c	10,000
To Purchases A/c	6,50,000		
	8,50,000		8,50,000

Branch Debtors Account

	(₹)		(₹)
To balance b/d	96,000	By Bank	4,38,000
To Branch Stock A/c	6,25,000	By Branch P/L A/c	
konceptca.com		Discount 7,500	
		Bad debts 5,500	13,000
		By Branch Stock (Sales Return)	14,000
		By balance c/d	2,56,000
	7,21,000		7,21,000

Branch expenses Account

	(₹)		(₹)
To Bank A/c (Taxes)	24,000	By Branch P/L A/c (transfer)	1,05,200
To Bank A/c (Salaries)	72,000	konceptca.com	
To Bank A/c (Office exp.)	9,200		
	1,05,200		1,05,200

Date ______
Page ______

Branch Profit and loss Account for the year ending 31st Dec, 20X1

	(₹)		(₹)
To Branch expenses A/c	1,05,200	By Branch Stock Adj. A/c	1,17,000
Discount 7,500			
Baddebts 5,500	13,000	By Branch Stock A/c (Sale over invoice price) konceptca.com	94,000
		By Bank A/c (Baddebts recovered)	1,000
To Net Profit transferred to P/L A/c	93,800		

(b)

Trading & Profit and Loss Account for the year ended 31st March, 2020

Particulars	₹	Particulars	₹
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 (25% on sales)	6,15,000	(balancing figure)	
konceptca.com	28,75,000		28,75,000
To Sundry expenses (15% on sales)	3,69,000	By Gross Profit b/d	6,15,000
		By fixed asset	
To Depreciation	80,000	(Profit on sale)	2,000
To Net Profit (b.f.)	1,68,000		
	6,17,000		6,17,000

Date
Page

Balance sheet of M/s Rohan & Sons as on 31st March, 2020

Liabilities		(₹)	Assets	(₹)
Capital		12,50,000	Fixed Assets	6,66,000
P/L A/c on			Stock in Trade	3,85,000
1/4/19	1,45,000		Trade Debtors (WN 1)	4,15,000
Add: Profit for			Cash & Bank	2,22,000
the year	1,68,000	3,13,000		
Trade Creditors		1,25,000		
(WN 2)				
konceptca.com		15,44,000		15,44,000

Cash and Bank Account 1st April, 2019 to 31st March, 2020

Particulars	(₹)	Particulars	₹
To balance b/d	1,95,000	By Fixed Assets	1,50,000
To Fixed Assets	56,000	By Trade Creditors	
To Trade Debtors	24,40,000	(1,90,000 + 16,20,000 +	
(3,65,000 + 20,75,000)		1,40,000)	19,50,000
		By Sundry Expenses	3,69,000
		By Balance c/d	2,22,000
	26,91,000		26,91,000

Fixed Assets Account
1st April, 2019 to 31st March, 2020

Particulars	(₹)	Particulars	(₹)
To balance b/d	6,50,000	By depreciation (W.N. 3)	80,000
To P/L (profit on sale)	2,000	By Cash & Bank (sale)	56,000
To Cash & Bank (addition)	1,50,000	By balance c/d	6,66,000
	8,02,000	konceptca.com	8,02,000

Working Note:

1.) Time lag for receipt from Trade Debtors for sales is two months. So, the Trade Debtors will be valued at sales amount of last 2 months i.e. February and March 2020. So closing balance value will be 2,10,000 + 1,75,000 = 3,85,000.

2.) Time lag for payment to Trade Creditors for purchases is one month. So, the Trade Creditors will be valued at purchase Amount of last 1 month, i.e. March 2020. So closing balance value will be ₹ 1,25,000. konceptca.com

3.) Depreciation

Particulars	(₹)
Fixed Assets as on 31-03-19	6,50,000
Addition	1,50,000
	8,00,000

3.)
(a)

Books of Mr. H

Investment Account
(Scrip : Equity Shares in ABC Ltd.)

		No.	(₹)			No.	(₹)
1/4/19	To Bal. b/d	30,000	5,40,000	31/10/19	By Bank (Dividend on shares on 10/6/19)(WN 5)	-	20,000
10/6/19	To Bank (WN1)	10,000	1,62,400		By Bank (Sale of shares)(WN6)	28,000	4,85,1000
15/7/19	To Bonus (WN2)	10,000			By Bal. c/d (WN. 8)	28,000	3,77,200
31/8/19	To Bank (Rights Shares)(WN4)	6,000	72,000				
15/1/20	To Profit (on sale of shares) (WN 7)		1,07,900				
		56,000	882,300			56,000	8,82,000

Profit and Loss Account (An extract)

To balance c/d	1,87,900	By Profit transferred	1,07,900
		By sales of rights (WN 4)	20,000
		By Dividend (WN5)	60,000
	1,87,900		1,87,900

konceptca.com

Working Notes :

1.) Shares Purchased = (10,000 x16) + 1.5% brokerage
= ₹1,62,400

2.) Bonus shares = (30,000 + 10,000)/4, = 10,000 shares

3) Right shares = (30,000 + 10,000 + 10,000)/5 = 10,000 shares

4) Sale of right shares = 10,000 × 40% × 5 = ₹ 20,000
Right shares subscribed = 10,000 × 60% = 6,000 shares

Amount paid for subscription of right shares konceptca.com = 6000 × 12
= ₹ 72,000

5) Dividend received = 30,000 (shares as on 1/4/20X1) × 10 × 20% = ₹ 60,000

Dividend on shares purchased on 10.6.2019 —

10,000 × 10 × 20% = ₹ 20,000 is adjusted to Investment A/c

6.) Sale of shares = (56,000/2 × 17.50) − 1% brokerage
= ₹ 4,85,100

7.) Profit on sale of 28,000 shares = sales proceeds − Average cost

Sales proceeds = ₹ 4,85,100

Average cost = $\frac{(5,40,000 + 1,62,400 + 72,000 - 20,000)}{56,000} \times 28000$

= ₹ 3,77,200

Profit = 4,85,100 − 3,77,200 = 1,07,900

8.) Cost of shares on 31.3.2020

(b)

Memorandum Trading Account for the period of 1st April 2019 to 30 Sep. 2019

	Normal Items (₹)	Abnormal Items (₹)	Total (₹)		Normal Items (₹)	Abnormal Items (₹)	Total (₹)
To Opening Stock	2,48,000	12,000	2,60,000	By Sales	597,000	5,000	6,02,000
To Purchases	3,81,500		3,81,500	By Goods drawn by partners	52,000		52,000
To Wages	78,000		78,000	By Goods sent to consignment	56,000		56,000
To Gross Profit	1,41,000		1,41,000	By Loss	~~4000~~	4000	4000
				By Closing Stock	1,43,500	3,000	1,46,500
				koncepca.com			
	848,500	12,000	8,60,500		848,500	12,000	8,60,500

~~Working~~

Amount of claim to be lodged with insurance company koncept ca.com

$$\Rightarrow \text{Loss of Stock} \times \frac{\text{Policy Value}}{\text{Value of stock on the date of fire}}$$

$$= 1,11,500 \times \frac{1,20,000}{1,46,500}$$

$$= ₹\ 91,331$$

Particulars	₹
Book value of stock as 30th Sep. 2019	1,46,500
Less : Stock salvaged	(35,000)
Loss of Stock	1,11,500

konceptca.com

Working Note :

1.) Valuation of slow - moving item -

12000

4000

3000   9000 - 5000 = 4000

Sell   Loss

1000   3000   - 5000 = 2000 (Profit)

2.) Memorandum Trading Account from 1/4/2018 to 31/3/2019

	Normal Items(₹)	Abnormal Items(₹)	Total (₹)		Normal Items(₹)	Abnormal Items(₹)	Total (₹)
To Opening Stock	2,11,000		2,11,000	By Sales	8,60,000		8,60,000
To Purchase	6,43,000	12,000	6,55,000	By Closing Stock	2,48,000	12,000	2,60,000
To Wages	82,000		82,000				
To Gross Profit	1,72,000		1,72,000				
	11,08,000	12,000	11,20,000	konceptca.com	11,08,000	12,000	11,20,000

Closing Stock is Valued at Cost

Q-4(a) ACCOUNTS SOLVED PAPER

CASH FLOW STATEMENT OF MANAN LTD. FOR THE YEAR ENDED 31.3.2020.

	(₹) AMOUNT	(₹) AMOUNT
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before income tax and extraordinary items :. konceptca.com		30,00,000
Adjustment for :.		
Depreciation PPE	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
Adjustment for :		
Increase in inventory	(1,77,000)	
Decrease in trade receivable	7,350	
Increase in trade payables	450	
Increase in o/s expenses	10,200	(1,59,000)
Cash generated from operations		40,41,000
Income tax paid konceptca.com		(15,75,000)
		24,66,000
Cash flow from extraordinary items : Compensation received in a law 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.	(36,000)	5,34,000

	(₹) AMOUNT	(₹) AMOUNT
Cash flow from financing activities :		
Proceeds by issue of equity at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(23,62,000)	
Preference dividend paid for FY 2018-19.	(2,25,000)	
Interest on debentures paid.	(5,25,000)	
Equity 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. konceptca.com		(3,77,500)
Add : Cash and cash equivalent as on 31.3.2019		3,94,450
Cash and cash equivalents as on 31.3.2020.		16,950.

NOTES :

1) Proceeds from equity shares is considered only to the extend as received i.e. equity shares issued in exchange for machinery does not form a part of cash flow statement.

Proceeds from issue of equity shares ⇒ (75,000 - 25,000) shares × 10₹ × 20% Prem.

= 50,000 × 12.

= 6,00,000

2) Purchase of land in exchange of equity shares does not form part of cash flow statement as it does not involve any cash transaction. konceptca.com

Only balance paid in cash is considered. konceptca.com

$\Rightarrow 3,00,000 - (22,000 \times 10 \times 1.2)$
$\Rightarrow 3,00,000 - (2,64,000)$
$= 36,000$

Q-4(b) In the books of Sumit Ltd. for year ended 31.3.2020

9% Debenture A/C

30.3.20	To own deb. A/C.	96,500	1.4.19	By bal b/d.	8,00,000
30.3.20	To (profit on) P&L (cancellation) A/C	3,500			
31.3.20	To bank A/C	7,00,000			
		8,00,000			8,00,000

DRR Investment A/C

1.4.19	To bal b/d	1,00,000	30.3.20	By bank A/C [2]	15,000
1.4.19	To bank A/C [1]	20,000	31.3.20	By bank A/C [4]	1,05,000
		1,20,000			1,20,000

DRR A/C

31.3.20	To General Reserve A/C	80,000	1.4.19	By bal b/d	50,000
			1.4.19	By P&L A/C [3]	30,000
		80,000			80,000

Own debentures A/C

30.3.20	To cash/bank A/C	96,500	30.3.20	By 9% deb A/C	96,500
		96,500			96,500

NOTES:

1) Debenture redemption Investment A/C
The company would be required to invest an amount equivalent to 15 % of the value of the debentures in specified investments which would be equivalent to:
⇒ Total no. of deb. × F.V. per deb × 15 %
= 8,000 × 100 × 15 %
= ₹ 1, 20,000

The company has already invested in specific investments i.e. 7 % government bonds for an amount of ₹ 1,00,000 as per the information given. konceptca.com
The balance of ₹ 20,000 (i.e. (1,20,000 − 1,00,000) would be invested by the company on 1.4-19.

2) Redemption of debenture redemption investments on 30.3.20 amounting to ₹ 15,000
Since the company purchased 1,000 own debentures on 30.3.20, the company would also realize the investments of 15 % corresponding to these debentures for which the computation is as follows: konceptca.com
= no. of own debentures × F.V. per debenture × 15 %
= 1,000 × 100 × 15 %
= ₹ 15,000

These investments have been realized on 30.3.20.

3) Balance amount to be transferred to DRR A/C
⇒ (8,00,000 × 10 %) − Op. bal
⇒ 80,000 − 50,000
= 30,000

4) Redemption of Debenture Redemption Investments on 30.3.20 amounting to ₹ 1,05,000.

The remaining debentures i.e. total debentures less own debentures would be redeemed on 30.3.20 and hence the company would also realize the balance investments of 15% corresponding to these debentures for which computation is as follows: konceptca.com

= (Total no of debentures - no. of own debentures) × FV. per debenture × 15 %

= (8,000 - 1,000) × 100 × 15 %

= ₹ 1,05,000.

These investments have been realized a day before redemption of debentures. Alternatively, these investments may also be realized on 31.3.20. konceptca.com

Q.5 (a). In the books of Mr. Nilesh

Tractor A/C

1-4.17	To Raj Ltd.'s A/c	11,50,000	31.3.18	By depreciation A/c	1,15,000
			31.3.18	By bal c/f.	10,35,000
		11,50,000			11,50,000
1.4.18	To bal b/d.	10,35,000	31.3.19	By depreciation A/c	1,15,000
			31.3.19	By bal c/f.	9,20,000
		10,35,000			10,35,000
1.4.19	To bal b/d	9,20,000	31.3.20	By depreciation A/c	1,15,000
			31.3.20	By bal c/f	8,05,000
		9,20,000			9,20,000

Interest Suspense A/C.

1.4.17	To Raj Ltd.'s A/C	1,44,000	31.3.18	By Interest A/C	72,000
			31.3.18	By bal c/f	72,000
		1,44,000			1,44,000
31.3.18	To bal b/d	72,000	31.3.19	By Interest A/C	48,000
			31.3.19	By bal c/f	24,000
		72,000			72,000
1.4.19	To bal b/d	24,000	31.3.20	By Interest A/C	24,000
		24,000			24,000

Raj Ltd.'s A/C

1.4.17	To bank A/C	2,50,000	1.4.17.	By Tractor A/C	11,50,000
31.3.18.	To bank A/C	3,72,000	1.4.17	By Interest Suspense A/C	1,44,000
31.3.18.	To bal c/f	6,72,000			
		12,94,000			12,94,000
31.3.19.	To bank A/C	3,48,000	1.4.18.	By bal b/d	6,72,000
31.3.19	To bal c/f	3,24,000			
		6,72,000			6,72,000
31.3.20	To bank A/C	3,24,000	1.4.19	By bal b/d	3,24,000
		3,24,000			3,24,000

NOTES:

1) Calculation of amount of depreciation (assuming 0 scrap value)
⇒ Tractor value × 10 % (SLM)
⇒ 11,50,000 × 10 % ⇒ 1,15,000 each year.

2) Calculation of Interest
⇒ Amount pending on the date of purchase ⇒ 11,50,000 − 2,50,000
⇒ 9,00,000

Interest is calculated on o/s amount @ 8 %
Amount of Instalment each year is ₹ 3,00,000

	[1] × 8%		3,00,000 + [2]
	O/s amount [1]	Int @ 8% [2]	Instalment [3]	Value of each Instalment [4]
17-18.	9,00,000	72,000	I	3,72,000
18-19	6,00,000	48,000	II	3,48,000
19-20	3,00,000.	24,000	III	3,24,000

Q-5(b). Journal entries in the books of Arpit Ltd.

		Dr.	Cr.
10% Pref. share final call A/C	Dr.	6,00,000	
To 10% Pref. share Capital A/C			6,00,000
(For final call made on pref. shares @ ₹20 each to make them fully paid up) (30,000 × 20)			
Bank A/C	Dr.	6,00,000	
To 10% Pref. share final call A/C			6,00,000
(For receipt of final call money on preference shares)			
Bank A/C	Dr.	3,00,000	
To Equity share Application A/C			3,00,000
(For receipt of application money on 1,50,000 equity shares @ ₹ 2 per share)			
Equity share Application A/C	Dr.	3,00,000	
To Equity share Capital A/C			3,00,000
(For capitalisation of application money received)			

Equity Share Allotment A/C Dr.	10,50,000	
To Equity Share Capital A/C		7,50,000
To Securities premium A/C		3,00,000
(For allotment money due on 1,50,000 equity shares @ ₹ 7 per share including a premium of ₹ 2 per share (5 + 2)].		
Bank A/C Dr.	10,50,000	
To Equity share allotment A/C		10,50,000
(For receipt of allotment money on equity shares) konceptca.com		
10 % Preference share capital A/C Dr.	30,00,000	
Premium on redemption of Pref. shares A/C Dr.	3,00,000	
To Pref. shareholders A/C		33,00,000
(For amount payable to pref. shareholders on redemption @ 10% premium)		
General Reserve A/C Dr.	3,00,000	
To Premium on redemption A/C		3,00,000
(For writing off premium on redemption of preference shares) konceptca.com		
General Reserve A/C Dr.	19,50,000	
To Capital Redemption Reserve A/C		19,50,000
(For Transfer to CRR the amount not covered by the proceeds of fresh issue of equity shares i.e. 30,00,000 (pref. shares) − 3,00,000 (application money) − 7,50,000 (allotment money) = ₹ 19,50,000)		

Preference shareholders A/C Dr.	33,00,000	
To Bank A/C.		33,00,000
(For amount paid to preference shareholders)		

Balance Sheet

	Notes.	As at 31.3.20	As at 31.12.19.
EQUITY AND LIABILITIES.			
1. Shareholders's funds.			
(a) Share Capital.	1	70,50,000	84,00,000
(b) Reserves and Surplus.	2.	59,00,000	59,00,000

Notes to Accounts

1. Share Capital. konceptca.com		
Issued, subscribed and paid up :		
6,00,000 equity shares of ₹ 10 each fully paid up.	60,00,000	60,00,000
1,50,000 equity shares of ₹ 10 each, ₹ 7 paid up.	10,50,000	-
30,000, 10% Pref. shares of ₹ 100 each, ₹ 80 paid up.	-	24,00,000
2. Reserves and Surplus.		
Securities Premium Reserve. (6,00,000 + 3,00,000)	9,00,000	6,00,000
Capital Redemption Reserve (18,00,000 + 19,50,000)	37,50,000	18,00,000
General Reserve (35,00,000 - 3,00,000 - 19,50,000)	12,50,000	35,00,000
	59,00,000	59,00,000

NOTE :.

Amount received (excluding premium) on fresh issue of shares till the date of redemption should be considered for calculation of proceeds of fresh issue of shares. Thus, proceeds of fresh issue of shares are ₹ 10,50,000 (₹ 3,00,000 application money plus ₹ 7,50,000 received on allotment towards share capital). konceptca.com

Q.6.

(a) Calculation of unrealised profit of each department and total unrealised profits :

	DEPARTMENT A	DEPARTMENT B	DEPARTMENT C	TOTAL
Unrealised profit of :				
Department A	–	$1,14,000 \times \frac{20}{120}$	$60,000 \times \frac{50}{150}$	
		= 19,000	= 20,000	39,000
Department B	$55,000 \times \frac{15}{100}$	–	$15,200 \times \frac{10}{100}$	
	= 8,250		= 1,520	9,770
Department C	$52,800 \times \frac{10}{110}$	$1,11,300 \times \frac{5}{105}$		
	= 4,800	= 5,300		10,100
				58,870

Q-6(b)

The qualitative characteristics are attributes that improve the usefulness of information provided in financial statements. The qualitative characteristics of financial statements are as follows: konceptca.com

1. Understandability:
The financial statements should present information in a manner as to be readily understandable by the users with reasonable knowledge of business and economic activities and accounting.

2. Relevance
It is not right to think that more information one discloses the better it is. A mass of irrelevant information creates confusion and can be even more harmful than non-disclosure.

The financial statements should contain relevant information only. Information, which is likely to influence the economic decisions by the users, is said to be relevant. Such information may help the users to evaluate past, present or future events or may help in conforming or correcting past evaluations. The relevance of a piece of information should be judged by its materiality. A piece of information is said to be material if its misstatement (i.e. omission or erroneous statement) can influence economic decisions of a user. konceptca.com

3. Reliability
To be useful, the information must be reliable; that is to say, they must be free from material errors and bias. The information provided are not likely to be reliable unless:

(a) Transactions and events reported are faithfully represented.
(b) Transactions and events are reported on the principle of 'substance over form.'
(c) The reporting of transactions and events are neutral, i.e. free from bias. konceptca.com
(d) Prudence is exercised in reporting uncertain outcome of transactions or events.
(e) The information in financial statements must be complete.

4. Comparability
Comparison of financial statements is one of the most frequently used and most effective tools of financial analysis. The financial statements should permit both inter-firm and intra-firm comparison. One essential requirements of comparability is disclosure of financial effect of change in accounting policies. konceptca.com

Q.6(c)

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

Balance from Trading A/C		42,53,650
Add: Subsidies received from Government		3,50,000
		46,03,650
Less: Administrative, advertisement and sales commission (5,96,400 + 1,10,500 + 1,05,550)	8,12,450	
Director's fees	1,48,900	
Interest on debentures	56,000	
Depreciation of FA as per schedule II	6,51,750	16,69,100
Profit u/s 198 konceptca.com		29,34,550

Maximum managerial remuneration ⇒ 11% of 27,34,550
= ₹ 3,22,800.50

Q-6(d)

Profit and loss Account of M/s. S. Traders as on 31.3.20 (Assuming business is not a going concern)

To opening stock	76,000	By Sales	7,80,000
To purchases	6,25,000	By trade payables (48,000 × 5%)	2,400
To general expenses	53,800	By closing stock	38,000
To depreciation (1,05,000 – 90,000)	15,000		
To provision for doubtful debts konceptca.com	15,000		
To deferred expenditure	24,000		
To loan penalty	4,000		
To net profit (b/f)	35,600		
	8,48,400		8,48,400

Q-6(e)

Statement showing the cal. of Pre-incorporation and Post-incorporation periods: konceptca.com

	TOTAL	ALLOCATION BASIS	PRE INCORPORATION	POST INCORPORATION
Gross Profit	6,30,000	2:5	1,80,000	4,50,000
Less: Salaries	1,56,000	(TIME) 1:2	52,000	1,04,000
Rent, rates and taxes	72,000	1:2	24,000	48,000
Sales' commission	40,600	2:5	11,600	29,000
Depreciation	60,000	1:2	20,000	40,000
Interest on debentures	36,000	POST	–	36,000
Director's fees	24,000	POST	–	24,000
Advertisement	48,000	POST	–	48,000
Net Profit	1,93,400		72,400	1,21,000

TREATMENT OF PRE-INCORPORATION PROFITS/LOSSES IN BOOKS OF ACCOUNTS.

Any profit/loss made before the incorporation is known as Pre-Incorporation profit/loss. konceptca.com
When there is pre-Incorporation profits, it cannot be taken as revenue profit, but is CAPITAL PROFIT.
Such profit is to be transferred to Capital Reserve or may be used in writing down capital loss.
When there arises a loss in the pre-Incorporation period, the loss should be debited to goodwill A/c.