Solved Question Paper Corporate Accounting SEP 2025

Section A

1

a) Pure underwriting, often referred to as **open underwriting** or **conditional underwriting** in the context of share issues, is an arrangement where underwriters agree to purchase the shares or debentures of a company **only if the public does not fully subscribe to the issue**

b) An **underwriting commission** is a fee paid by an issuing company to underwriters (typically investment banks or financial institutions) for guaranteeing the sale of their securities (shares or debentures) to the public

c)

- **Selling Commission**
- **Advertising Expenses**:
- **Bad Debts**:
- **Carriage Outwards**:

d)

1. Directors' Fees/Remuneration
2. Audit Fees for Company Audit (under Companies Act)

e) Cat goodwill refers to a highly stable, location-based business reputation where customers remain loyal to a specific place, shop, or brand, regardless of changes in ownership or management

f)

>Reconstitution of a Partnership Firm (Admission, Retirement, or Death of a Partner)

- Sale or Amalgamation of the Business

g)

1. Asset-Based Valuation
2. Earnings-Based Valuation
3. Dividend Discount Model (DDM)
4. Price-to-Earnings (P/E) Ratio
5. Discounted Cash Flow (DCF) Analysis

h) Examples are patents, copyright, franchises, goodwill, trademarks, and trade names, reputation.

Section B

2. Determine Net Liability of Underwriters and Company
Step 1: Calculate Gross Liability and Unmarked Applications
The total shares issued are 20,000. Underwriters A and B underwrote 10,000 and 6,000 shares respectively, totaling 16,000 shares. The remaining 4,000 shares (20,000 - 16,000) are assumed to be underwritten by the company.

- Gross Liability (GL) ratio: A: 10,000/20,000 = 50%; B: 6,000/20,000 = 30%; Company: 4,000/20,000 = 20%.
- Total applications received: 16,000 shares.
- Marked applications (MA): A: 2,400; B: 600. Total MA = 3,000 shares.
- Unmarked applications (UA) = Total applications - Total MA = 16,000 - 3,000 = 13,000 shares.

Step 2: Allocate Unmarked Applications
UA are allocated among the underwriters and the company in their GL ratio (5:3:2).

- UA for A: 13,000×50%=6,50013 comma 000 cross 50 % equals 6 comma 500

  13,000×50%=6,500shares.

- UA for B: 13,000×30%=3,90013 comma 000 cross 30 % equals 3 comma 900

  13,000×30%=3,900 shares.

- UA for Company: 13,000×20%=2,60013 comma 000 cross 20 % equals 2 comma 600

  13,000×20%=2,600 shares.

Step 3: Calculate Balance Liability Before Adjustments
Balance Liability = GL - MA - UA.

- A's balance: 10,000−2,400−6,500=1,100shares.
- B's balance: 6,000−600−3,900=1, 6,000−600−3,900=1,500 shares.
- Company's balance: 4,000−0−2,600=1400 shares.

Step 4: Calculate Net Liability
All underwriters and the company have a positive balance, so no further adjustments are needed.
Answer:
The net liability of A is **1,100 shares**, B is **1,500 shares**, and the company is **1,400 shares**.

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3. Find Time Ratio, Sales Ratio, and Pre and Post-Incorporation Sales

Step 1: Calculate the Time Ratio

- Pre-incorporation period: 1/4/2018 to 30/6/2018 = 3 months.
- Post-incorporation period: 1/7/2018 to 31/3/2019 = 9 months.
- Time Ratio: 3 months∶9 months= 3 months∶9 months=1∶3

  .

Step 2: Calculate the Sales Ratio
Let average monthly sales after incorporation be
rupees. Average monthly sales before incorporation are
S+0.25S=1.25Scap S plus 0.25 cap S equals 1.25 cap S
$S+0.25S=1.25S$ rupees.

- Total pre-incorporation sales = 3×1.25S=3.75S3 cross 1.25 cap S equals 3.75 cap S

  $3\times1.25S=3.75S$

- Total post-incorporation sales = 9×S=9S9 cross cap S equals 9 cap S

  $9\times S=9S$

- Total sales for the year = 3.75S+9S=12.75S3.75 cap S plus 9 cap S equals 12.75 cap S

  $3.75S+9S=12.75S$

- Given total sales = Rs. 26,50,000.

  $12.75S=26{,}50{,}000\Longrightarrow S=26{,}50{,}000/12.75\approx2{,}07{,}843.14$ rupees.

- Sales Ratio: 3.75S∶9S=3.75∶9=1.25∶3=5∶123.75 cap S colon 9 cap S equals 3.75 colon 9 equals 1.25 colon 3 equals 5 colon 12

  $3.75S:9S=3.75:9=1.25:3=5:12$

  .

Step 3: Calculate Pre and Post-incorporation Sales

- Pre-incorporation sales $26{,}50{,}000\times(5/17)\approx7{,}79{,}411.76$rupees.
- Post-incorporation sales: $26{,}50{,}000\times(12/17)\approx18{,}70{,}588.24$rupees.

Answer:
The time ratio is **1:3**, the sales ratio is **5:12**, pre-incorporation sales are approximately **Rs. 7,79,411.76**, and post-incorporation sales are approximately **Rs. 18,70,588.24**.

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4. Calculate Adjusted Average Profits
Step 1: Adjust Profits for Furniture Purchase Error
The furniture (capital expenditure) was wrongly entered in the purchase day book (revenue expenditure) on 30th Sep 2019.

- 2019-20 profit was understated by Rs. 10,000.
- Depreciation for 2019-20 (6 months10,000×10%×(6/12)=500rupees.
- Adjusted Profit 2019-20: 46,500+10,000−500=56,000 rupees.
- Depreciation for 2020-21: (10,000−500)×10%=950rupees.
- Depreciation for 2021-22: (9,500−950)×10%=855 rupees.

Step 2: Adjust Profits for Undervalued Opening Stock
Opening stock for 2020-21 was undervalued by Rs. 2,500.

- 2020-21 profit was overstated by Rs. 2,500 (undervalued opening stock means higher gross profit).
- Adjusted Profit 2020-21: 60,000−950−2,500=56,550rupees.
- The undervalued opening stock of 2020-21 becomes the undervalued closing stock of 2019-20.
- Adjusted Profit 2019-20: 56,000−2,500=53,500 rupees.

Step 3: Adjust for Administration Expenses
Administration expenses of Rs. 5,000 per annum are a normal business expense and are assumed to be already accounted for in the given profits. No adjustment needed.
Step 4: Calculate Final Adjusted Profits

- 2018-19: Rs. 40,500
- 2019-20: Rs. 53,500
- 2020-21: Rs. 56,550
- 2021-22:
- Total Adjusted Profit:

  40,500+53,500+56,550+74,145=2,24,695rupees.

Step 5: Calculate Adjusted Average Profit
- Average Profit = Total Adjusted Profit / Number of Years
- Average Profit = 22,24,695/4=56,173.75

Answer:
The adjusted average profit for 4 years is **Rs. 56,173.75**.

5. Calculate the value of shares under yield method

Step 1: Calculate the expected annual equity dividend

First, calculate the total equity share capital:

$$\text{Equity share capital} = 20,000 \text{ shares} \times \text{Rs. } 10 \text{ per share} = \text{Rs. } 2,00,000$$

Next, calculate the total preference share capital:

$$\text{Preference share capital} = 10,000 \text{ shares} \times \text{Rs. } 10 \text{ per share} = \text{Rs. } 1,00,000$$

Calculate the total preference dividend:

$$\text{Preference dividend} = 5\% \text{ of Rs. } 1,00,000 = \text{Rs. } 5,000$$

Calculate the net profit available for equity shareholders:

$$\text{Net profit for equity} = \text{Total net profit} - \text{Preference dividend} = \text{Rs. } 50,000 - \text{Rs. } 5,0$$

Calculate the expected dividend rate:

$$\text{Expected dividend rate} = \frac{\text{Net profit for equity}}{\text{Equity share capital}} \times 100$$

$$\text{Expected dividend rate} = \frac{\text{Rs. } 45,000}{\text{Rs. } 2,00,000} \times 100 = 22.5\%$$

Step 2: Calculate the value per share

Using the yield method formula:

$$\text{Value per share} = \frac{\text{Expected dividend rate}}{\text{Normal rate of return}} \times \text{Paid-up value per share}$$

The normal rate of return is given as 8%. The paid-up value per share is Rs. 10 (since the nominal and paid-up value are the same as per the balance sheet description).

$$\text{Value per share} = \frac{22.5\%}{8\%} \times \text{Rs. } 10$$

$$\text{Value per share} = 2.8125 \times \text{Rs. } 10 = \text{Rs. } 28.125$$

6. Balance Sheet Headings and Subheadings

Answer: The items will appear in the balance sheet as follows:

- (a) Trademarks: **Non-current Assets** (Heading), **Intangible Assets** (Sub-heading)
- (b) Proposed dividend: **Current Liabilities** (Heading), **Short-term Provisions** (Sub-heading)
- (c) Discount on issue of shares: **Shareholders' Funds** (Heading), **Reserves and Surplus** (Sub-heading) (shown as a negative balance/deduction)
- (d) Stores and spare parts: **Current Assets** (Heading), **Inventories** (Sub-heading)
- (e) Provision for taxation: **Current Liabilities** (Heading), **Short-term Provisions** (Sub-heading)

7)

Step 1: Calculate Net Profit After Tax (NPAT)

$$\text{Net Profit Before Tax} = \text{Rs. } 35,00,000$$

$$\text{Tax amount} = 40\% \text{ of Rs. } 35,00,000 = \text{Rs. } 14,00,000$$

$$\text{NPAT} = \text{Rs. } 35,00,000 - \text{Rs. } 14,00,000 = \text{Rs. } 21,00,000$$

Step 2: Calculate Appropriations

Calculate the preference dividend:

$$\text{Preference Shares Value} = 40,000 \text{ shares} \times \text{Rs. } 10 \text{ per share} = \text{Rs. } 4,00,000$$

$$\text{Preference Dividend} = 10\% \text{ of Rs. } 4,00,000 = \text{Rs. } 40,000$$

Calculate the proposed equity dividend:

$$\text{Equity Shares Paid-up Value} = 40,000 \text{ shares} \times \text{Rs. } 80 \text{ per share} = \text{Rs. } 32,00,000$$

$$\text{Proposed Equity Dividend} = 20\% \text{ of Rs. } 32,00,000 = \text{Rs. } 6,40,000$$

Transfer to reserve fund: Rs. 5,00,000

Step 3: Prepare the Note on Reserves and Surplus

Particulars	Amount (Rs.)
Reserves and Surplus	—
General Reserve	—
Transfer from Surplus, i.e., Statement of Profit and Loss	**5,00,000**
Surplus, i.e., Balance in Statement of Profit and Loss	—
Balance brought forward	4,00,000
Add: Net Profit for the year (after tax)	21,00,000
Less: Appropriations:	—
Transfer to General Reserve	(5,00,000)
Preference Dividend	(40,000)
Proposed Equity Dividend	(6,40,000)
Balance carried to Balance Sheet	**13,20,000**
Total Reserves and Surplus	**18,20,000**

Section C

8. Calculate net liability of each underwriter

(a) Firm underwriting as marked applications

Step 1: Calculate gross liability and total applications

The total issue is 5,00,000 shares. The gross liability (GL) for each underwriter is based on their percentage:

- L: $5,00,000 \times 30\% = 1,50,000$ shares
- M: $5,00,000 \times 25\% = 1,25,000$ shares
- N: $5,00,000 \times 25\% = 1,25,000$ shares
- O: $5,00,000 \times 20\% = 1,00,000$ shares

Total applications (including marked, excluding firm) were 3,60,000 shares.
Total marked applications (MA) for each underwriter:

- L: 80,000 shares
- M: 72,000 shares
- N: 48,000 shares
- O: 96,000 shares

Total MA: $80,000 + 72,000 + 48,000 + 96,000 = 2,96,000$ shares.

Step 2: Calculate unmarked applications

Unmarked applications (UA) are total applications minus total marked applications:

$$3,60,000 - 2,96,000 = 64,000 \text{ shares}$$

These are apportioned to underwriters in their gross liability ratio (30:25:25:20 or 6:5:5:4).

- L: $64,000 \times (6/20) = 19,200$ shares
- M: $64,000 \times (5/20) = 16,000$ shares
- N: $64,000 \times (5/20) = 16,000$ shares
- O: $64,000 \times (4/20) = 12,800$ shares

Underwriter O has a surplus of 8,800 shares. This surplus is distributed among L, M, and N in their respective GL ratio (6:5:5).

- L: $8,800 \times (6/16) = 3,300$ shares
- M: $8,800 \times (5/16) = 2,750$ shares
- N: $8,800 \times (5/16) = 2,750$ shares

Step 4: Calculate final balance liability and add firm underwriting

Adjusted Balance Liability = Balance Liability - Share of Surplus.

Underwriter	Balance	Share of Surplus	Adj. Balance	Firm UW	Net Liability
L	50,800	3,300	47,500	16,000	63,500
M	37,000	2,750	34,250	24,000	58,250
N	61,000	2,750	58,250	Nil	58,250
O	(8,800)	(8,800)	Nil	60,000	60,000
Total	—	—	**1,40,000**	**1,00,000**	**2,40,000**

(b) Firm underwriting as unmarked applications

Step 1: Calculate total applications including firm underwriting

Total applications including firm underwriting but excluding marked applications (as firm is treated as unmarked):

$$3,60,000 \text{ (Total excluding firm)} + 1,00,000 \text{ (Total firm)} = 4,60,000 \text{ shares}$$

Step 2: Calculate unmarked applications

Unmarked applications (UA) are total applications (as calculated in Step 1) minus total marked applications (MA).

$$4,60,000 - 2,96,000 = 1,64,000 \text{ shares}$$

These are apportioned to underwriters in their GL ratio (6:5:5:4).

- L: $1,64,000 \times (6/20) = 49,200$ shares
- M: $1,64,000 \times (5/20) = 41,000$ shares
- N: $1,64,000 \times (5/20) = 41,000$ shares
- O: $1,64,000 \times (4/20) = 32,800$ shares

Underwriter O has a surplus of 28,800 shares. This surplus is distributed among L, M, and N in their respective GL ratio (6:5:5).

- L: $28,800 \times (6/16) = 10,800$ shares
- M: $28,800 \times (5/16) = 9,000$ shares
- N: $28,800 \times (5/16) = 9,000$ shares

Step 4: Calculate final balance liability and add firm underwriting

Adjusted Balance Liability = Balance Liability - Share of Surplus.

Underwriter	Balance	Share of Surplus	Adj. Balance	Firm UW	Net Liability
L	20,800	10,800	10,000	16,000	26,000
M	12,000	9,000	3,000	24,000	27,000
N	36,000	9,000	27,000	Nil	27,000
O	(28,800)	(28,800)	Nil	60,000	60,000
Total	—	—	**40,000**	**1,00,000**	**1,40,000**

9)

Statement of Profits Before and After Incorporation

Working Notes:

1. Time Ratio

- **Pre-incorporation period:** 1 April 2024 to 30 June 2024 (3 months)
- **Post-incorporation period:** 1 July 2024 to 31 March 2025 (9 months)
- **Time Ratio:** $3 : 9$ or $\mathbf{1 : 3}$

2. Sales Ratio

- Let the average monthly sales before incorporation be x.
- Average monthly sales after incorporation were $2x$.
- **Total pre-incorporation sales:** $3 \text{ months} \times x = 3x$
- **Total post-incorporation sales:** $9 \text{ months} \times 2x = 18x$
- **Sales Ratio:** $3x : 18x$ or $\mathbf{1 : 6}$

3. Rent and Taxes Calculation

- **Total rent paid:** Rs. 3,000
- **Rent for first 3 months (Pre-incorporation):** $3 \times 200 = \text{Rs. } 600$
- **Rent for next 9 months (Post-incorporation):** $9 \times (200 + 50) = 9 \times 250 = \text{Rs. } 2,250$
- **Total rent calculation check:** $600 + 2,250 = \text{Rs. } 2,850$. The image states Rs. 3,000 was paid, so the remaining Rs. 150 must be an outstanding amount or a discrepancy in the problem statement. Assuming the given total amount of Rs. 3,000 is correct and needs to be apportioned based on the calculated values:
- **Pre-incorporation share:** $\frac{600}{2850} \times 3000 = \text{Rs. } \mathbf{631.58}$ (approx)
- **Post-incorporation share:** $\frac{2250}{2850} \times 3000 = \text{Rs. } \mathbf{2368.42}$ (approx)
- *Alternatively, apportioning based on actual rent incurred for respective periods:*
- **Pre-incorporation rent:** $\mathbf{Rs.600}$
- **Post-incorporation rent:** $\mathbf{Rs.2,400}$ (Total 3000 - Pre 600)

4. Bad Debts Calculation

- **Total Bad Debts:** Rs. 1,250
- **Related to period after 1 Sep 2024 (Post-incorporation):** Rs. 350
- **Balance related to sales up to 1 Sep 2024:** $1250 - 350 = \text{Rs. } 900$
- The period up to 1 Sep 2024 includes both pre and post-incorporation sales. The bad debts of Rs. 900 should be apportioned based on the sales ratio (1:6).
- **Pre-incorporation share of Rs. 900:** $900 \times \frac{1}{7} = \text{Rs. } \mathbf{128.57}$ (approx)
- **Post-incorporation share of Rs. 900:** $900 \times \frac{6}{7} = \text{Rs. } \mathbf{771.43}$ (approx)
- **Total Post-incorporation Bad Debts:** $350 + 771.43 = \text{Rs. } \mathbf{1121.43}$

Particulars	Basis of Apportionment	Pre-incorporation (Rs.)	Post-incorporation (Rs.)
Gross Profit	Sales Ratio (1:6)	14,000	84,000
Less: Expenses	—	—	—
Commission (Sales)	Sales Ratio (1:6)	375	2,250
Advertising	Sales Ratio (1:6)	750	4,500
Managing Director's Remuneration	Post	-	9,000
Depreciation	Time Ratio (1:3)	700	2,100
Salaries	Time Ratio (1:3)	4,500	13,500
Insurance	Time Ratio (1:3)	150	450
Preliminary Expenses written off	Post	-	700
Rent and Taxes	Actual Incurred	600	2,400
Discount	Sales Ratio (1:6)	50	300
Bad Debts	Calculated (WN 4)	128.57	1,121.43
Total Expenses	—	**8,250**	**36,321.43**
Add: Bad Debts Recovered	Pre (WN 4)	500	-
Net Profit / (Loss)	—	**6,250**	**47,678.57**

10. Goodwill Calculation

Step 1: Calculate Capital Employed

The capital employed is calculated by subtracting liabilities from total assets.

$$\text{Total Assets} = \text{Fixed Assets} + \text{Current Assets} + \text{Investment in Shares}$$

$$\text{Total Assets} = 1,80,000 + 2,44,080 + 60,000 = \text{Rs. } 4,84,080$$

$$\text{Capital Employed} = \text{Total Assets} - \text{Creditors}$$

$$\text{Capital Employed} = 4,84,080 - 76,080 = \text{Rs. } 4,08,000$$

Step 2: Calculate Average Maintainable Profits

First, adjust the profits by removing the income from investments.

$$\text{Adjusted Profit 2021} = 64,000 - 4,000 = \text{Rs. } 60,000$$

$$\text{Adjusted Profit 2022} = 72,000 - 4,000 = \text{Rs. } 68,000$$

$$\text{Adjusted Profit 2023} = 86,000 - 4,000 = \text{Rs. } 82,000$$

$$\text{Adjusted Profit 2024} = 90,000 - 4,000 = \text{Rs. } 86,000$$

Next, calculate the weighted average profit using weights 1, 2, 3, 4 for the years 2021-2024 respectively.

$$\text{Weighted Total Profit} = (60,000 \times 1) + (68,000 \times 2) + (82,000 \times 3) + (86,000 \times 4)$$

$$\text{Weighted Total Profit} = 60,000 + 1,36,000 + 2,46,000 + 3,44,000 = \text{Rs. } 7,86,000$$

Step 3: Calculate Normal Profit

Normal profit is the expected return based on the normal rate of return and capital employed.

$$\text{Normal Profit} = \text{Capital Employed} \times \text{Normal Rate of Return}$$

$$\text{Normal Profit} = 4,08,000 \times 8\% = \text{Rs. } 32,640$$

Step 4: Calculate Super Profit

Super profit is the excess of actual profit over normal profit.

$$\text{Super Profit} = \text{Weighted Average Profit} - \text{Normal Profit}$$

$$\text{Super Profit} = 78,600 - 32,640 = \text{Rs. } 45,960$$

Step 5: Calculate Goodwill

Goodwill is calculated based on the two methods requested.
For 3 years purchase of super profits:

$$\text{Goodwill} = \text{Super Profit} \times 3$$

$$\text{Goodwill} = 45,960 \times 3 = \mathbf{Rs.1,37,880}$$

For capitalization of super profits:

$$\text{Goodwill} = \frac{\text{Super Profit}}{\text{Normal Rate of Return}}$$

$$\text{Goodwill} = \frac{45,960}{8\%} = \mathbf{Rs.5,74,500}$$

11.

(a) Net assets method

Step 1: Calculate Net Assets (Tangible Assets)

To calculate the net assets available to equity shareholders, we use the revalued figures and deduct all external liabilities.

$$\text{Net Assets} = (\text{Revalued Fixed Assets} + \text{Current Assets} + \text{Revalued Goodwill}) - (\text{Deb}$$

$$= (\text{Rs. } 14,00,000 + \text{Rs. } 8,00,000 + \text{Rs. } 2,00,000) - (\text{Rs. } 4,00,000 + \text{Rs. } 5,20,000)$$

$$\text{Net Assets} = \text{Rs. } 24,00,000 - \text{Rs. } 9,20,000$$

$$\text{Net Assets} = \text{Rs. } 14,80,000$$

Step 2: Calculate Value per Share

The value per share is the net assets divided by the total number of shares.

$$\text{Number of Shares} = \frac{\text{Share Capital}}{\text{Face Value per Share}}$$

$$\text{Number of Shares} = \frac{\text{Rs. } 16,00,000}{\text{Rs. } 10} = 1,60,000 \text{ shares}$$

$$\text{Value per Share} = \frac{\text{Net Assets}}{\text{Number of Shares}}$$

$$\text{Value per Share} = \frac{\text{Rs. } 14,80,000}{1,60,000}$$

(b) Yield method

Step 1: Calculate Average Annual Profit

The average profit is calculated from the given net profits for the three years.

$$\text{Average Profit} = \frac{\text{Profit}_{2021-22} + \text{Profit}_{2022-23} + \text{Profit}_{2023-24}}{3}$$

$$\text{Average Profit} = \frac{\text{Rs. } 2,06,400 + \text{Rs. } 2,08,000 + \text{Rs. } 2,06,600}{3}$$

$$\text{Average Profit} = \frac{\text{Rs. } 6,21,000}{3}$$

$$\text{Average Profit} = \text{Rs. } 2,07,000$$

Step 2: Calculate Maintainable Profit

The maintainable profit is the average profit adjusted for reasonable reserves (20% o profit is placed under reserve). This is the profit available for dividends.

$$\text{Maintainable Profit} = \text{Average Profit} \times (1 - \text{Reserve Proportion})$$

$$\text{Maintainable Profit} = \text{Rs. } 2,07,000 \times (1 - 0.20)$$

$$\text{Maintainable Profit} = \text{Rs. } 2,07,000 \times 0.80$$

$$\text{Maintainable Profit} = \text{Rs. } 1,65,600$$

Step 3: Calculate Expected Rate of Return (ERR)

The fair investment return in the industry is 10%.

$$\text{ERR} = 10\%$$

Step 4: Calculate Value per Share

The value per share is calculated using the yield method formula.

$$\text{Value per Share} = \frac{\text{Maintainable Profit}}{\text{Number of Shares}} \times \frac{100}{\text{ERR}}$$

$$\text{Value per Share} = \frac{\text{Rs. } 1,65,600}{1,60,000} \times \frac{100}{10}$$

$$\text{Value per Share} = 1.035 \times 10$$

(c) Fair value method

Step 1: Calculate Fair Value per Share

The fair value per share is the average of the value calculated by the net assets method and the yield method.

$$\text{Fair Value per Share} = \frac{\text{Value per Share (Net Assets)} + \text{Value per Share (Yield)}}{2}$$

$$\text{Fair Value per Share} = \frac{\text{Rs. } 9.25 + \text{Rs. } 10.35}{2}$$

$$\text{Fair Value per Share} = \frac{\text{Rs. } 19.60}{2}$$

Answer:

The value of the company's shares by fair value method is **Rs. 9.80** per share.

12. **Step 1: Calculate Depreciation**

- **Land and Buildings:** Depreciation=3,00,000×51&=$Rs.$ 15,000
- **Furniture:** Depreciation=8,000×20%=$Rs.$ 1,600
- **Plant and Machinery:** =Depreciation = 100000 x 20% =20000

Step 2: Prepare Statement of Profit and Loss

Revenue:

- Revenue from operations: 114000

Expenses:

- • Salaries: $Rs.$ 70,000
- Directors fees: $Rs.$ 2,800
- Rent, rates, and insurance: $Rs.$ 29,200
- Depreciation: 15,000+$Rs.$ 1,600+$Rs.$ 20,000=$Rs.$ 36,600
- Audit Fees (Adjustment): $Rs.$ 2,500
- Preliminary Expenses Written Off: $Rs.$ 2,000
- Interest (Financing Cost):$Rs.$ 4,000+$Rs.$ 6,000 (Outstanding)=$Rs.$ 10,000

Net Profit = Revenue- Expenses

= 114000-153000

= - 39100(loss)

Step3: Preparation of Balance Sheet

- **Share Capital:** $Rs.$ 2,00,000
- **Reserves and Surplus:**
  - Securities Premium: $Rs.$ 40,000
  - General Reserve: $Rs.$ 10,000
  - Sinking Fund: $Rs.$ 6,500
  - Profit & Loss (Debit balance): $Rs.$ 1,14,000
- **Non-Current Liabilities:**
  - 8% Debentures: $Rs.$ 30,000
- **Current Liabilities:**
  - Bank Overdraft: $Rs.$ 3,500
  - Sundry Creditors: $Rs.$ 10,000
  - Audit Fees Payable: $Rs.$ 2,500
  - Tax Provision: $Rs.$ 14,000
  - Outstanding Interest: $Rs.$ 6,000
- **Non-Current Assets:**
  - Land & Buildings: $Rs.$ 1,40,000$-Rs.$ 15,000$=Rs.$ 1,25,000
  - Furniture: $Rs.$ 8,000$-Rs.$ 1,600$=Rs.$ 6,400
  - Plant & Machinery: $Rs.$ 1,00,000$-Rs.$ 20,000$=Rs.$ 80,000
  - Investments: $Rs.$ 1,200
- **Current Assets:**
  - Closing Stock: $Rs.$ 8,000
  - Debtors:$s.$ 24,000$-Rs.$ 5,000 (Provision)$=Rs.$ 19,000
  - Cash & Bank: $Rs.$ 2,000$+Rs.$ 1,28,000$=Rs.$ 1,30,000
  - Prepaid Expenses: 800

Section D

13)

Particulars	Note No.	₹
Income :		
Revenue from operation		10,00,000
Other Incomes		-
Total (A)		10,00,000
Expenses :		
Cost of materials consumed		4,00,000
Employee benefit expenses		1,90,000
Finance cost		18,000
Depreciation and Amortization		8,000
Total (B)		6,16,000
Profit before tax (A – B)		3,84,000
– Current tax		-
Profit after tax		3,84,000