Gurukripa's Guideline Answers to Nov 2014 Exam Questions
CA IPCC GROUP 1 ACCOUNTING

Question 1 is compulsory **(4 × 5 = 20 Marks)**
Answer **any five** questions from the **remaining six** questions **(16 × 5 = 80 Marks).** [Answer any 4 out of 5 in Q.7]

Note: Page Number Reference are from **"Padhuka's Ready Referencer on Accounting for CA IPC (Group I)"**

Question 1 (a): AS–6 Depreciation **5 Marks**

In the books of Optic Fiber Ltd, Plant and Machinery stood at ₹6,32,000 on 01.04.2013. However, on scrutiny it was found that Machinery worth ₹ 1,20,000 was included in the purchases on 01.06.2013. On 30.06.2013, the Company disposed a Machine having Book Value of ₹ 1,89,000 on 01.04.2013 at ₹1,75,000 in part exchange of a new machine costing ₹ 2,56,000. The Company charges depreciation @ 20% WDV on Plant and Machinery.
You are required to calculate:
(i) Depreciation to be charged to P&L A/c,
(ii) Book Value of Plant and Machinery A/c as on 31.03.2014
(iii) Loss on Exchange of Machinery.

1. Depreciation for the year

Particulars	Computation	(₹)
(a) On Exchanged Machinery for 3 months	₹ 1,89,000 × 20% × $\frac{3}{12}$	9,450
(b) On New purchased Machinery for 10 months	₹ 1,20,000 × 20% × $\frac{10}{12}$	20,000
(c) On New acquired Machinery on exchange for 9 months	₹ 2,56,000 × 20% × $\frac{9}{12}$	38,400
(d) On Balance of Opening Balance	(6,32,000 – 1,89,000) × 20%	88,600
Total Depreciation for the Year		**1,56,450**

2. Loss on Exchange

Particulars		Computation	₹
	Exchange Value		1,75,000
Less:	Book Value	Opening Balance ₹1,89,000 – Depreciation ₹9,450 **[WN(1)(a)]**	1,79,550
	Loss on Exchange		**(4,550)**

3. Plant and Machinery Account

Date	Particulars	₹	Date	Particulars	₹
01.04.13	To Balance b/d	6,32,000	30.06.13	By P&L A/c – Loss on Machinery Exchange **(WN2)**	4,550
01.06.13	To Purchase A/c–M/c Purchase Transfer	1,20,000	30.06.13	By Depreciation A/c **(WN1)–** [Depreciation on Machinery Exchanged]	9,450
30.06.13	To Bank A/c–Balance paid on machinery exchange (2,56,000 – 1,75,000)	81,000	31.03.14	By Depreciation A/c – for the year for other Machinery (**WN 1 b+c+d**)	1,47,000
			31.03.14	By Balance c/d	6,72,000
	Total	**8,33,000**		**Total**	**8,33,000**

Question 1 (b): AS–9 Revenue Recognition **5 Marks**

Saritha Publications publishes a monthly magazine on the 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2014 issue was made in February 2014. The Magazine was published on its scheduled date. It received ₹ 2,40,000 on 10.03.2014 and ₹60,000 on 10.04.2014 for the March 2014 issue.
Discuss in the context of AS – 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.03.2014. What will be the treatment if the publication is delayed till 02.04.2014?

Refer Para 4 in Page No. B.6.13

Solution:

1. **Principle:** As per AS–9 "Revenue Recognition"
   (a) Revenue should be recognized by an Advertising Agency, **only** when the service is completed.
   (b) For advertising agencies, Media Commission will normally be recognized, when the related advertisement or commercial appears before the public and the necessary intimation is received by the Agency.
2. **Analysis and Conclusion:**
   (a) The advance of ₹ 2,40,000 received and the amount balance to be received on 10.04.2014 of ₹ 60,000 shall be recognized in the financial year ending on 31.03.2014 as the publication appears before public on 10.03.2014 (within the Financial Year).
   (b) If the publication is delayed and the advertisement appears only on 02.04.2014, the Income of ₹ 2,40,000 should be recognized as Revenue only in Financial Year 2014–2015. The amount received on 10.03.2014 should be disclosed as an Advance Received on 31.03.2014.

Question 1 (c): AS–2 Treatment of Normal & Abnormal Loss **5 Marks**

Capital Cables Ltd has normal wastage of 4% in the production process. During the year 2013–14, the Company used 12,000 MT of Raw Material costing ₹150 per MT. At the end of the year 630 MT of Wastage was in Stock. The Accountant wants to know how this wastage is to be treated in the books. Explain in the context of AS – 2 the treatment of Normal Loss and Abnormal Loss and also find out the amount of Abnormal Loss if any.

Refer Q. No.26 Page No. B.2.8 – (F N 00), (P M 08)

Solution:

1. **Principle:** Abnormal Amounts of Waste Material, Labour or other Production costs are excluded from cost of inventories and such costs are **recognized as Expenses** in the period in which they are incurred.
2. **Analysis and Conclusion:** Normal Waste is 4% of 12,000 MT = 480 MT & Abnormal Waste is 630 MT (–) 480 MT= 150MT.
   (a) Cost of Normal Waste 480 MT will be absorbed in the Cost of Production and included in determining the Cost of Inventories (Finished Goods) at the year end.
   (b) Cost of Abnormal Waste will be charged in the Profit and Loss Statement.
3. **Computation:**
   (a) Effective Material Cost of Output = $\frac{12{,}000\text{ MT} \times ₹\,150}{12{,}000\text{ MT - 4\% Normal Waste}} = \frac{18{,}00{,}000}{11{,}520}$ = ₹ 156.25 per MT
   (b) Cost of Abnormal Waste = 150 MT × ₹ 156.25 = ₹ 23,437.50

   Alternatively, this may be taken at 150 MT × ₹ 150 = ₹ 22,500

Question 1 (d): AS–13 Investments – Reclassification **5 Marks**

Blue–Chip Equity Investments Ltd wants to re–classify its investments in accordance with AS–13.

(a) Long Term Investments in Company A, costing ₹ 8.5 Lakhs are to be re–classified as Current. The Company had reduced the value of these Investments to ₹ 6.5 Lakhs to recognize a permanent decline in value. The Fair Value on the date of transfer is ₹ 6.8 Lakhs.

(b) Long Term Investments in Company B, costing ₹7Lakhs are to be re–classified as Current. The Fair Value on the date of transfer is ₹ 8 Lakhs and Book Value is ₹ 7 Lakhs.

(c) Current Investment in Company C, costing ₹ 10 Lakhs are to be re–classified as long–term, as the Company wants to retain them. The Market Value on the date of transfer is ₹ 12 Lakhs.

(d) Current Investment in Company D, costing ₹ 15 Lakhs are to be re–classified as long term. The Market Value on the date of transfer is ₹ 14 Lakhs.

Solutions:

Refer Q. No 8, Page No. A.5.37 (F–RTP, M10) (P–RTP, M12)

1. Principle

Re–classification of Investments	**From:** Long Term Investments **To:** Current Investments	**From:** Current Investments **To:** Long term Investments
Transfers are made at	(a) Cost or (b) Carrying Amount whichever is **less**, at the date of transfer.	a) Cost or b) Fair Value whichever is **less**, at the date of transfer.

2. Treatment:

Invt	Transfer at ₹ Lakhs	Treatment of difference between Book Value & Transfer Amount
A	Lower of 8.5 or 6.5 = 6.5	Carrying amount = Transfer amount = ₹ 6.5 Lakhs. Hence no adjustment necessary, (since already permanent decline is recognized)
B	Only at Book Value = 7	Carrying amount = Transfer amount = ₹ 6.5 Lakhs. Hence no adjustment necessary.
C	Lower of 10 or 12 = 10	Carrying amount = Transfer amount = ₹ 6.5 Lakhs. Hence no adjustment necessary.
D	Lower of 15 or 14 = 14	15–14 = ₹ 1 Lakh debited to Profit and Loss A/c as Loss.

Question 2: NPO – Preparation of Receipts and Payments A/c and Balance Sheet 16 Marks

The following information relates to Country Sports Club for the year ended 31.3.2014. You are required to prepare the Receipts and Payments Account for the year ended 31.3.2014 and Balance Sheet as on that date.

Expenditure	₹	Income		₹
To Salaries	3,36,000	By Subscriptions		8,40,000
To Repairs and Maintenance	88,000	By Receipts for Annual Sports	3,25,000	
To Ground Upkeep	1,66,500	Less: Expenses for Sports	2,75,000	50,000
To Electricity Charges	82,600	By Entrance Fees		1,80,000
To Sports Material Used	1,48,000	By Interest on 10% Government Bond		12,000
To Printing and Stationery	42,200	By Rent on Hire of Club Ground		84,000
To Groundsman Wages	80,000	By Profit on sale of Sports Material		10,500
To Depreciation	1,36,000	By Sale of old newspaper		3,500
To Prizes distributed (Net of Fund Income)	4,000			
To Surplus carried to Capital Fund	96,700			
Total	11,80,000	Total		11,80,000

Additional information:

(a)

Balances as on	01.04.2013 (₹)	31.03.2014 (₹)
Fixed Assets (Net Block)	6,36,000	7,20,000
Stock of Sports Material	1,24,000	1,38,000
Investment in 10% Government Bond	1,20,000	1,20,000
Subscription Received in Advance	64,000	72,000
Outstanding Subscriptions	1,24,000	88,000
Creditors for Sports Material	78,600	62,500
Salary paid in Advance	32,000	28,000
Prize Fund	2,40,000	2,40,000
Prize Fund Investments	2,36,000	2,36,000
Bank Balance	54,500	?

(b) During the year, the Club purchased Sports Material of ₹ 1,80,000, out of which 75% was credit purchase.

(c) 25% of the Entrance Fees is to be capitalized.

(d) As per the Club's policy, any excess of expense for prized distributed over Prize Fund Income is to be charged to Income and Expenditure A/c and vice versa:

Prize Fund Income earned during the year ₹36,000

Prizes distributed during the year ₹40,000

(e) Interest on Government Bond is received half yearly on 30th June and 31st December each year.

Refer Q. No.39, Page No. A.4.64 – M 12

A. Receipts and Payments Account for the year ended on 31st March 2014

Receipts	₹	Payments	₹
To Balance b/d	54,500	By Sports materials Purchased (Cash)	45,000
To Prize Fund Income	36,000	By Salary	3,32,000
To Annual Sports Receipts	3,25,000	By Repairs and Maintenance **(WN7)**	77,000
To Entrance Fees (1,80,000 = 75%, So, Total is 1,80,000/75%)	2,40,000	By Prize Distribution	40,000
To Interest on Government Bond	12,000	By Ground Upkeep (as per Inc. & Exp. A/c)	1,66,500
To Rent on Hire of Club Ground	84,000	By Electricity Charges (as per I & E A/c)	82,600
To Sale of Sports Materials **(WN3)**	28,500	By Printing & Stationery (as per Inc. & Exp. A/c)	42,200
To Sale of Old newspaper	3,500	By Annual Sports Payments	2,75,000
To Subscriptions Received **(WN1)**	8,84,000	By Groundsman's Wages (as per Inc. & Exp. A/c)	80,000
		By Fixed Assets Purchase **(WN 5)**	2,20,000
		By Creditors (Amount paid) **(WN 6)**	1,51,100
		By Balance c/d (bal fig)	**1,56,100**
Total	**16,67,500**	**Total**	**16,67,500**

B. Balance Sheet as on 31st March 2014

Capital and Liabilities	₹	Properties and Assets	₹
Capital Fund:		**Non–Current Assets:**	
		Fixed assets	7,20,000
		Government Bond Investments	1,20,000
		Prize Fund investments	2,36,000
Opening Balance	9,33,400		
Add: Surplus for the year	96,700	**Current Assets:**	
Entrance fees capitalized(1,80,000/75%×25%)	60,000	Subscription Receivable	88,000
		Interest on Govt. Bond Receivable	3,000
	10,90,100	Stock	1,38,000
Closing Balance		Advance Salary	28,000
Non–Current Liabilities: Prize Fund	2,40,000	Cash & Bank Balances **(WN A)**	1,56,100
Current Liabilities: Subs. Received in Advance	72,000		
R& M Expenses Payable	24,500		
Creditors for Sports Materl.	62,500		
Total	**14,89,100**	**Total**	**14,89,100**

1. Subscription Account

Particulars	₹	Particulars	₹
To balance b/d (Opg. Bal. of Subs. Receivable)	1,24,000	By balance b/d (Opg. Bal. of Subs. Recd in Adv)	64,000
To Income and Expenditure A/c – Subs. Income recognized during the year	8,40,000	By Receipts and Payments A/c. – Subs. Received during the year **(Balancing fig)**	**8,84,000**
To Balance c/d (ClgBal of Subs. Recd in Adv.)	72,000	By balance c/d (Clsg. Bal of Subs. Rec'ble)	88,000
Total	**10,36,000**	**Total**	**10,36,000**

2. Salary Account

Particulars	₹	Particulars	₹
To balance b/d	32,000	By Income and Expenditure A/c (given)	3,36,000
To Bank A/c – Salary paid (bal. fig.)	3,32,000	By balance c/d	28,000
Total	**3,64,000**	**Total**	**3,64,000**

3. Sports Materials Account

Particulars	₹	Particulars	₹
To balance b/d (Opening Stock)	1,24,000	By Income and Expenditure A/c (given)	1,48,000
To Bank – Cash Purchase (25% of 1,80,000)	45,000	By Bank A/c (Sale proceeds – Balancing Figure)	**28,500**
To Creditors A/c	1,35,000	By balance c/d (Closing Stock)	1,38,000
To Inc. & Exp A/c (Profit on sale) (given)	10,500		
Total	**3,14,500**	**Total**	**3,14,500**

4. Balance Sheet as on 01 April 2013 (To find out Opening Balance of Capital Fund)

Capital and Liabilities	₹	Properties and Assets	₹
Capital Fund (balancing figure)	**9,33,400**	**Non–Current Assets:**	
Non-Current Liabilities: Prize Fund	2,40,000	Fixed Assets	6,36,000
Current Liabilities:		Govt. Bond Investments	1,20,000
Subs. Received in advance	64,000	Prize Fund Investments	2,36,000
Expenses Payable	13,500	**Current Assets:**	
Creditors for Sports Materials	78,600	Subscription Receivable	1,24,000
		Interest on Govt. Bond Rec'ble (3 Mths)	3,000
		Stock	1,24,000
		Advance Salary	32,000
		Cash and Bank Balances	54,500
Total	**13,29,500**	**Total**	**13,29,500**

5. Fixed Assets Account

Particulars	₹	Particulars	₹
To balance b/d	6,36,000	By Depreciation (given)	1,36,000
To Bank – Purchase **(balancing figure)**	**2,20,000**	By balance c/d	7,20,000
Total	**8,56,000**	**Total**	**8,56,000**

6. Creditors Account

Particulars	₹	Particulars	₹
To Bank–amount paid (bal.fig.)	**1,51,100**	By balance b/d	78,600
To balance c/d	62,500	By Sports Materials A/c – Credit Purchases [75% of ₹ 1,80,000]	1,35,000
Total	**2,13,600**	**Total**	**2,13,600**

7. Repairs and maintenance

Particulars	₹	Particulars	₹
To Bank A/c (bal.fig.)	**77,000**	By balance b/d	13,500
To balance c/d	24,500	By Income and Expenditure A/c (given)	88,000
Total	**1,01,500**	**Total**	**1,01,500**

Question 3 (a): AS-3 Cash Flow Statements – Direct Method **6 Marks**

Prepare Cash Flow for Gamma Ltd for the year ending 31.3.2014 from the following information:

(1) Sales for the year amounted to₹ 135 Crores out of which 60% was cash sales.

(2) Purchases for the year amounted to ₹ 55 Crores out of which Credit Purchase were 80%.

(3) Administrative and Selling Expenses amounted to ₹ 18 Crores and Salary paid amounted to₹22 Crores.

(4) The Company redeemed Debentures of ₹ 20 Crores at a premium of 10%. Debenture holders were issued Equity Shares or ₹ 15 Crores towards redemption, and the balance was paid in Cash. Debenture Interest paid during the year was ₹1.5 Crores.

(5) Dividend paid during the year amounted to ₹ 10 Crores. Dividend Distribution Tax @ 17% was also paid.

(6) Investment costing ₹ 12 Crores were sold at a profit of ₹2.4 Crores.

(7) ₹ 8 Crores was paid towards income tax during the year.

(8) A New Plant costing ₹ 21 Crores was purchased in part exchange of an Old Plant. The book value of the Old Plant was ₹ 12 Crores but the Vendor took over the Old Plant at a value of ₹ 10 Crores only. The balance was paid in Cash to the Vendor.

(9) The following balances are also provided (in ₹ Crores)

Item	1.4.2013	1.4.2014
Debtors	45	50
Creditors	21	23
Bank	6	

Solution:

Refer Illustration No. 2, Page No. B.3.11 – M 13

Cash Flow Statement for the year ended 31st March 2014 (in Crores) **(Direct method)**

Particulars	In Crores	In Crores
A. CASH FLOW FROM OPERATING ACTIVITIES:		
Cash Receipts from Customers for Sale of Goods and Rendering of Services [Cash Sales 60% of 135 = 81+ Collection from Debtors 49 **(WN 1)**]	130	
Cash Payments to Suppliers for Goods and Services [Cash Purchases 20% of 55 = 11 + Paid to Creditors 42 **(WN 2)** + Services (Selling and Administration Expenses 18)]	(71)	
Cash Payments to and on behalf of Employees **[given]**	(22)	
Cash generated from Operations before Taxes & Extra Ordinary Items	37	
Less: Taxes Paid	(8)	
Net Cash Flow from / (used in) Operating Activities [A]		**29**
B. CASH FLOW FROM INVESTING ACTIVITIES:		
Sale of Investments (Book value 12 + Profit 2.4)	14.4	
Purchase of New Plant (Value of New Plant 21 – Exchange Price of old M/C 10)	(11)	
Net Cash Flow from / (used in) Investing Activities [B]		**3.4**
C. CASH FLOW FROM FINANCING ACTIVITIES:		
Debenture Interest paid	(1.5)	
Dividends Paid	(10)	
Dividend Distribution Tax paid (17% on Dividend)	(1.7)	
Payment of Cash to debenture holders **(WN 3)**	(7)	
Net Cash Flow from / (used in) Financing Activities [C]		**(20.2)**
D. Net Increase or Decrease in Cash or Cash Equivalents **[A + B + C]**		12.2
E. Opening Balance of Cash & Cash Equivalents (given)		6
F. Closing Balance of Cash & Cash Equivalents		**18.2**

WN 1: **Debtors A/c**

To Balance b/d	45	By Bank A/c (Collection) **(balancing figure)**	**49**
To Sales A/c (135×40%)	54	By Balance c/d	50
	99		**99**

WN 2: **Creditors A/c**

To Bank A/c (balancing figure)	**42**	By Balance c/d	21
To Balance c/d	23	By Purchases A/c (80% of 55)	44
	65		**65**

WN 3: Redemption amount of Debentures = Face Value + 10% Premium = 20 + 10%= ₹ 22 Crores. Settlement By Equity Shares = ₹ 15 Crores, So, Settlement by Cash = ₹ 7 Crores (balance)

Question 3 (b): Companies – Financial Statements **10 Marks**

From the following particulars furnished by Elegant Ltd, prepare the Balance Sheet as on 31st March 2014 as required under Companies Act.

Particulars	Debit (₹)	Credit (₹)
Equity Share Capital (Face Value of 100 each)		**50,00,000**
Calls in Arrears	**5,000**	
Land & Building	**27,50,000**	
Plant & Machinery	**26,25,000**	
Furniture	**2,50,000**	

Particulars		Debit (₹)	Credit (₹)
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Stock:			
Raw Materials	2,50,000		
Finished Goods	10,00,000	12,50,000	
Provision for Taxation			3,40,000
Finished Goods		10,00,000	
Provision for Taxation		2,13,500	
Sundry Debtors			3,00,000
Advances			5,00,000
Proposed Dividend		1,50,000	
Profit & Loss Account		12,35,000	
Cash in Hand		66,500	
Cash at Bank			6,05,000
Preliminary Expenses			10,00,000

The following additional information is also provided:

(a) **Preliminary expenses included ₹ 25,000 Audit Fees and ₹ 3,500 for out of pocket expenses paid to the Auditors.**

(b) **10,000 Equity Shares were issued for consideration other than cash.**

(c) **Debtors of ₹ 2,60,000 are due for more than 6 months.**

(d) **The cost of the Assets were: Building ₹ 30,00,000,Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500**

(e) **The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is inclusive of ₹37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.**

(f) **Balance at Bank includes ₹ 10,000 with Global Bank Ltd, which is not a Scheduled Bank.**

Solution:

Refer Q. No. 2, Page No. A.8.26 – N 91

Balance Sheet of Elegant Limited as on 31st March 2014

	Particulars as at 31st March		Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES:**				
(1)	**Shareholders' Funds:**				
	(a) Share Capital		**1**	49,95,000	
	(b) Reserves and Surplus		**2**	14,83,500	
(2)	**Non–Current Liabilities:**				
	Long Term Borrowings		**3**	13,17,500	
(3)	**Current Liabilities:**				
	(a) Trade Payables	– Sundry Creditors		10,00,000	
	(b) Other Current Liabilities	– Interest Accrued but not due on Borrowing		37,500	
	(c) Short Term Provisions		**4**	6,40,000	
	Total			**94,73,500**	
II	**ASSETS**				
(1)	**Non–Current Assets**				
	Fixed Assets: Tangible Assets		**5**	56,25,000	
(2)	**Current Assets:**				
	(a) Inventories		**6**	12,50,000	
	(b) Trade Receivables		**7**	10,00,000	
	(c) Cash and Cash Equivalents		**8**	13,85,000	
	Total			**94,73,500**	

Note 1: Share Capital

Particulars		This Year	Prev. Yr
Authorised:	…………………Equity Shares of …… each …………………Preference Shares of …… each		

Particulars		This Year	Prev. Yr
Issued, Subscribed & Paid up:	50,000 Equity Shares of 100 each (Out of the above, Shares issued for consideration other than Cash= 10,000 Shares x ₹ 100 each = ₹ 10,00,000)	50,00,000	
	Less: Unpaid Calls (from Others)	(5,000)	
Total		**49,95,000**	

Note 2: Reserves and Surplus (showing appropriations and transfers) (all figures for this year)

Particulars	Opg. Bal.	Additions	Deductions	Clg. Bal
General Reserve	10,50,000	Nil	Nil	10,50,000
Surplus (P & L A/c)	Nil	(Given before considering Proposed Dividend) = 8,00,000	Prelim Exp. fully w/off (Refer Note) = 38,000 Audit fees = 25,000 Out of Pocket Audit Expenses = 3,500 Proposed Dividend = 3,00,000	4,33,500
Total	**10,50,000**	**8,00,000**	**3,63,000**	**14,83,500**

Note: Audit Fees and Out of Pocket Audit Expenses is not considered in Preliminary Expenses. It is deducted from P&L, Separately.

Note 3: Long Term Borrowings

Particulars	This Year	Prev. Yr
(a) **Term Loans from Banks:** From State Finance Corpn. (Secured by Hypothecation of P & M) (Interest accrued but not due ₹ 37,500 is included in Other Current Liabilities)	7,12,500	
(b) **Loans from Other Parties:** Unsecured	6,05,000	
Total	**13,17,500**	

Note 4: Short Term Provisions

Particulars	This Year	Prev. Yr
Provision for Taxation	3,40,000	
Proposed Dividend	3,00,000	
Total	**6,40,000**	

Note 5: Tangible Fixed Assets

Item	Gross Block / Cost			Depreciation			Net Block / WDV	
	Opg Bal.	**Addns / (Dedns)**	**ClgBal**	**Opg Bal.**	**Addns / (Dedns)**	**ClgBal**	**As at Yr Beginning**	**As at Yr End**
Column	**(1)**	**(2)**	**(3)=1± 2**	**(4)**	**(5)**	**(6)=4±5**	**(7)=1–4**	**(8)=3–6**
Land & Building			30,00,000			2,50,000		27,50,000
Plant & Machinery			35,00,000			8,75,000		26,25,000
Furniture and Fittings			3,12,500			62,500		2,50,000
Total			**68,12,500**			**11,87,500**		**56,25,000**

Note: In the absence of information, the Other Columns are not filled up in the above table. (Net Block as per Question)

Note 6: Inventories

Particulars	This Year	Prev. Yr
Raw Materials	2,50,000	
Finished Goods	10,00,000	
Total	**12,50,000**	

Note 7: Trade Receivables (assumed as Secured and considered good)

Particulars	This Year	Prev. Yr
Sundry Debtors:		
(a) Debt Outstanding for a period exceeding 6 months from the date they became due	2,60,000	
(b) Other Debts **(balancing figure)**	7,40,000	
Total	**10,00,000**	

Note 8: Cash and Cash Equivalents

Particulars	This Year	Prev. Yr
Balances with Banks	12,35,000	
Cash on Hand	1,50,000	
Total	**13,85,000**	

Note: Cash in Bank: With Scheduled Banks and with Non–Scheduled Banks disclosure, not mandatory under Schedule III.

Question 4 (a): Internal Reconstruction **12 Marks**

The Balance Sheet of Vaibhav Ltd. as on 31st March 2014 is as follows:

Liabilities		Assets	
Equity Shares of 100 each	**2,00,00,000**	**Fixed Assets**	**2,50,00,000**
6% Cumulative Pref. Shares of 100 each	**1,00,00,000**	**Investments(Market Value ₹ 19,00,000)**	**20,00,000**
5% Debentures of 100 each	**80,00,000**	**Current Assets**	**2,00,00,000**
Sundry Creditors	**1,00,00,000**	**Profit & Loss A/c**	**12,00,000**
Provision for Taxation	**2,00,000**		
Total	**4,82,00,000**	**Total**	**4,82,00,000**

The following scheme of Internal Reconstruction is sanctioned:

(a) All the existing Equity Shares are reduced to ₹ 40 each.

(b) All Preference Shares are reduced to ₹ 60 each.

(c) The Rate of Interest on Debentures is increased to 6%. The Debenture holders surrender their existing Debentures of ₹ 100 each and exchange the same for fresh Debentures of ₹ 70 each for every Debenture held by them.

(d) Fixed Assets are to be written down by 20%

(e) Current Assets are to be revalued at ₹ 90,00,000

(f) Investments are to be brought to their Market Value.

(g) One of the Creditors of the Company to whom the Company owes ₹ 40,00,000 decides to forego 40% of his claim. The Creditor is allotted with 60,000 Equity Shares of ₹ 40 each in full and final settlement of his claim.

(h) The Taxation Liability is to be settled at ₹ 3,00,000.

(i) It is decided to write off the Debit Balance of Profit & Loss A/c.

Pass Journal Entries and show the Balance Sheet of the Company after giving effect to above.

Solution:

Refer Illustration No. 12, Page No. A.10.22 – M12, Similar N 92

1. Journal Entries in the books of Vaibhav Ltd

S.No	Particulars		Dr. (₹)	Cr (₹)
1.	Equity Share Capital (at ₹100 each) A/c	Dr.	2,00,00,000	
	To Equity Share Capital (at ₹ 40 each) A/c			80,00,000
	To Reconstruction A/c			1,20,00,000
	(Being 2,00,000 Equity Shares of ₹ 100 each reduced to Equity Shares of ₹ 40 each and balance amount transferred to Reconstruction A/c vide approved Reconstruction Scheme dated…….)			
2.	6% Cum. Pref. Share Capital (at ₹ 100 each) A/c	Dr.	1,00,00,000	
	To 6% Cum. Pref. Share Capital (at ₹ 60 each) A/c			60,00,000
	To Reconstruction A/c			40,00,000
	(Being 1,00,0006% Cum. Pref. Shares of ₹ 100 each reduced to equal number of 6% Cum. Pref. Shares of ₹ 60 each and balance amount transferred to Reconstruction A/c vide approved Reconstruction Scheme dated……)			
3.	5% Debentures (at ₹ 100 each) A/c	Dr.	80,00,000	
	To 6% Debentures (at ₹ 70 each)A/c			56,00,000
	To Reconstruction A/c			24,00,000
	(Being 5% Debentures of ₹ 100 each converted into equal number of 6% Debentures of ₹ 70 each and balance amount transferred to Reconstruction vide approved Reconstruction Scheme dated…….)			

S.No	Particulars		Dr. (₹)	Cr (₹)
4.	Sundry Creditors A/c	Dr.	40,00,000	
	To Equity Share Capital (at ₹ 40 each) A/c			24,00,000
	To Reconstruction A/c			16,00,000
	(Being settlement with one of the Creditors 40% of the claim being given up and the balance discharged by the issue of 60,000 Equity Shares at ₹ 40 each)			
5.	Provision for Taxation A/c	Dr.	2,00,000	
	Reconstruction A/c	Dr.	1,00,000	
	To Current Assets			3,00,000
	(Being Liability for Taxation settled)			
6.	Reconstruction A/c	Dr.	1,61,00,000	
	To Fixed Assets A/c (20% of 2,50,00,000)			50,00,000
	To Current Assets A/c (2,00,00,000 – 90,00,000)			1,10,00,000
	To Investments A/c (20,00,000–19,00,000)			1,00,000
	(Being value of Fixed Assets and Current Assets, and Investments written down as per Reconstruction Scheme)			
7.	Reconstruction A/c	Dr.	12,00,000	
	To Profit and Loss A/c			12,00,000
	To Capital Reserve A/c **(WN 2)** (balancing figure)			26,00,000
	(Being Debit Balance of P & L A/c written off, and balance in Reconstruction A/c transferred to Capital Reserve)			

2. Reconstruction A/c

Particulars			Particulars	
To Current Assets A/c	(Tax paid)	1,00,000	By Equity Share Capital A/c	1,20,00,000
To Fixed Assets A/c	(written down)	50,00,000	By 6% Cum. Pref. Share Capital A/c	40,00,000
To Current Assets A/c	(written down)	1,10,00,000	By 5% Debentures A/c	24,00,000
To Investments	(written down)	1,00,000	By Sundry Creditors A/c	16,00,000
To Profit & Loss A/c	(written off)	12,00,000		
To Capital Reserve A/c	**(balancing figure)**	**26,00,000**		
Total		**2,00,00,000**	**Total**	**2,00,00,000**

3. Balance Sheet of Vaibhav Ltd as at 31st March 2014 (after Reconstruction)

	Particulars as at 31st March		Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES:**				
(1)	**Shareholders' Funds:**				
	(a) Share Capital		**1**	1,64,00,000	
	(c) Reserves and Surplus	– Capital Reserve		26,00,000	
(2)	**Non–Current Liabilities:**				
	Long Term Borrowings	– 6% Debentures		56,00,000	
(3)	**Current Liabilities:**				
	Trade Payables	– Sundry Creditors		60,00,000	
	Total			**3,06,00,000**	
II	**ASSETS**				
(1)	**Non–Current Assets**				
	(a) Fixed Assets: Tangible Assets	(250 Lakhs less 20% Decr. under Scheme)		2,00,00,000	
	(a) Non–Current Investments	(Cost 20 Lakhs, taken at Market Value)		19,00,000	
(2)	**Current Assets:**				
	Other Current Assets (90 given – 3 Tax paid)			87,00,000	
	Total			**3,06,00,000**	

Note: Based on the order of information provided, it is assumed that the value of Current Assets after settlement of Tax Liability is ₹ 45,00,000.

Note 1: Share Capital

Particulars		This Year	Prev. Yr
Authorized:	………………..Equity Shares of …… each ………………..Preference Shares of …… each		
Issued, Subscribed & Paid up:	Equity Shares of ₹40 each	1,04,00,000	
(Out of the above, 60,000 Equity Shares issued for non–Cash consideration to Creditors)			
	6% Cum. Preference Shares of ₹60 each	60,00,000	
Total		**1,64,00,000**	

Question 4(b): Self balancing / Sectional Balancing System–Creditors Ledger Adjustment A/c **4 Marks**

From the following particulars, prepare the Creditors' Ledger Adjustment Account as would appear in the General Ledger of Mr. Satish for the month of March 2014.

Date	Particulars
1	Purchase from Mr. Akash 7,500
3	Paid 3,000 after adjusting the initial advance in full to Mr. Akash
10	Paid 2,500 to Mr. Dev towards the purchases made in February in full
12	Paid advance to Mr. Giridhar 6,000
14	Purchased goods from Mr. Akash 6,200
20	Returned goods worth 1,000 to Mr. Akash
24	Settled the balance due to Mr. Akash at a discount of 5%
26	Goods purchased from Mr. Giridhar against the advance paid already
29	Purchased from Mr. Nathan 3,500.
30	Goods returned to Mr. Prem1,200. The goods were originally purchased for cash in the month of February 2014.

Solution:

Refer Q. No 11, Page No. A.2.38

Creditors Ledger Adjustment Account (in General Ledger)

Particulars		Particulars		₹
To balances b/d (Advance to Akash)(7,500–3,000)	4,500	By balance b/d (Dev)		2,500
To General Ledger Adj A/c (in Purchase Ledger)		By General Ledger Adj. A/c (in Purchase Ledger)		
Cash paid to Akash	3,000	Credit Purchases:		
Cash paid to Dev	2,500		Akash	7,500
Cash paid to Giridhar	6,000		Akash	6,200
Purchase Returns to Akash	1,000		Giridhar	6,000
Cash paid to Akash [(6,200–1,000) less 5%]	4,940		Nathan	3,500
Discount Received (Akash 260)	260			
To balance c/d (Nathan)	3,500			
Total	**26,900**	**Total**		**26,900**

Note: Returns to Prem not considered as it is a Cash purchase.

Question 5 (a): Insurance Claims – Loss of Stock **8 Marks**

A fire occurred in the premises of M/s Kailash&Co. on 30th September 2013. From the following particulars relating to the period from 1st April 2013 to 30th September 2013, you are required to ascertain the amount of claim to be filed with the Insurance Company for the loss of stock. The Company has taken an Insurance policy for ₹75,000 which is subject to average clause. The value of goods salvaged was estimated at ₹27,000. The average rate of Gross Profit was 20% throughout the period.

Particulars	Amount in ₹
Opening Stock	1,20,000
Purchases made	2,40,000
Wages paid (including Wages for the installation of a machine ₹5,000)	75,000
Sales	3,10,000
Goods taken by the Proprietor (Sale Value)	25,000
Cost of goods sent to Consignee on 20th September 2013, lying unsold with them	18,000
Free Samples distributed – Cost	2,500

Solution:

Refer Q. No 19, Page No. A.5.14 – N 11

Dr. **1. Memorandum Trading Account (1st Apr 2013 to 31st Aug 2013)** **Cr.**

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		1,20,000	By Sales		3,10,000
To Purchases	2,40,000				
Less: Cost of Drawings by Proprietor (25,000 less 20%)	(20,000)				
Less: Goods sent to Consignees	(18,000)		By Stock on the date of fire		**1,41,500**
Less: Free Samples Distributed	(2,500)	1,99,500	**(balancing figure)**		
To Wages (75,000 – 5,000)		70,000			
To Gross Profit = 20% on Sales		62,000			
Total		**4,51,500**	**Total**		**4,51,500**

	₹
Closing Stock on the date of fire	1,41,500
Less: Salvaged Stock	27,000
Net Claim	**1,14,500**
Admissible Claim $=\text{Net Claim}\times\dfrac{\text{PolicyAmount}}{\text{Value of Stock}}=₹1,14,500\times\dfrac{75,000}{1,41,500}$	**60,689**

Question 5 (b): Investment Accounts **8 Marks**

On 1st April 2014, Hasan has 20,000 Equity Shares of Vayu Ltd, at a Book Value of ₹ 20 per Share (Face Value of ₹ 10 each). He provides the following information:

(a) On 10th June 2014, he purchased another 5,000 shares in Vayu Ltd, at ₹ 15 per Share.
(b) On 1st August 2014, Vayu Ltd, issued one Bonus Share for every five Shares held by the Shareholders.
(c) On 31st August 2014, the Directors of Vayu Ltd, announced a Rights Issue which entitle the Shareholders to subscribe two Shares for every six Shares held, at ₹15 per Share. The Shareholders can transfer their rights in full or in part.

Hasan sold 1/4th of his Right Shares holding to Harsh for a consideration of ₹ 3 per Share and subscribed the rest on 31st October 2014. Prepare Investment A/c in the books of Hasan as on 31st October 2014.

Solution:

Refer Illustration 12, Page A.5.58 M 11

Investment (Equity Shares in Vayu Ltd) Account

Date	Particulars	Shares Nos.	₹	Date	Particulars	Shares Nos.	₹
01.04.14	To balance b/d at ₹20	20,000	4,00,000				
10.06.14	To Bank (5,000×15)	5,000	75,000				
01.08.14	To Bonus **(WN 1)**	5,000	—				
31.08.14	To Bank(Rights)**(WN 4)**	7,500	1,12,500	31.10.14	By balance c/d	37,500	5,87,500
	Total	**37,500**	**5,87,500**		**Total**	**37,500**	**5,87,500**

Working Notes

Particulars	Computation	Result
1. No. of Bonus Shares	(5,000 + 20,000) ÷ 5	5,000 Shares
2. No. of Rights Shares eligible	$(20,000 + 5,000 + 5,000) \times \frac{2}{6}$	10,000 Shares
3. No. of Rights Shares Renounced	10,000 ÷4 = 2,500 Shares at ₹ 3 will be taken to P&L	₹7,500
4. No. of Rights Shares subscribed	10,000 – 2,500 = 7,500 Shares at ₹ 15	₹1,12,500

Question 6: Partnership Accounts–Retirement **16Marks**

Anuj, Ayush and Piyush are in Partnership, sharing Profits and Losses in the ratio 2:2:1. Their Balance Sheet as on 31.3.2014 is as follows:

Liabilities		₹	Assets	₹
Capital account			Fixed Assets	
Anuj	3,75,000		Plant	7,87,000
Ayush	2,80,000		Current Assets	
Piyush	2,25,000	8,80,000	Stock	1,03,000
General Reserve		1,88,000	Debtors	1,56,000
Creditors		2,16,000	Bank FD	2,25,000
			Bank Balance	13,000
		12,84,000		12,84,000

Anuj decided to retire with effect from 01.04.2014.
The remaining Partners agreed to share Profits and Losses equally in future.
The following adjustments were agreed to be made upon retirement of Anuj:

(a) Goodwill was to be valued at 1 year purchase of the Average Profits of the preceding 3 years on the date of retirement. The Average Profits of the past 3 years were as follows:

Year ended		₹
31.3.2014	(as per draft accounts)	3,30,000
31.3.2013		2,32,000
31.3.2012		2,20,000

The Partners decided not to raise Goodwill Account in the books.

(b) The Assets were revalued as follows:

Plant to be depreciated by 10%,

Creditors amounting to ₹10,000 were omitted to be recorded,

₹6,000 is to be written off from Stock,

Provision for Doubtful Debts to be created @ 5% of the debtors,

Interest accrued on FD amounting to ₹9,000 was omitted to be recorded.

The above adjustments were to be made from the Profit for the year ended 31.3.2014 before calculation of Goodwill.

(c) Anuj agreed to take over the Bank FD including interest accrued thereon in part payment of his dues and the balance would remain as a Loan carrying interest of 8% p.a.

(d) Ayush and Piyush agreed to bring sufficient cash to make their capital proportionate and maintain a bank balance of ₹1,50,000.

You are required to prepare

1) Capital Accounts of partners as on 01.04.2014 giving effect to the above adjustments.

2) Balance Sheet as on 01.04.2014 after Anuj's retirement.

Solution:

Refer Illustration 27, Page A.6.34 M 94

1. P & L Adjustment A/c (See note below)

Particulars	₹	Particulars		₹
To Plant A/c (10% of ₹ 7,87,000)	78,700	By Accrued Interest on FD A/c		9,000
To Creditors A/c	10,000	By Loss on Revaluation		
To Stock	6,000	– Anuj (93,500×2/5)	37,400	
To Provision for Doubtful Debts (5% of 1,56,000)	7,800	– Ayush (93,500×2/5)	37,400	
		– Piyush (93,500×1/5)	18,700	93,500
Total	**1,02,500**	**Total**		**1,02,500**

Note: The question, indicates that the Revaluation Adjustments are to be made from the Profits for the year ended 31.03.2014. Profit and Loss Adjustment Account is prepared instead of Revaluation Account.

2. Computation of Goodwill

Goodwill = 1 year purchase of 3 years' Average Profits

	Particulars	₹
	Total Book Profits for the past three financial years (2,20,000+2,32,000+3,30,000)	7,82,000
Less:	Adjustment in respect of errors in the last financial year – Refer P & L Adjustment A/c	(93,500)
	Total Corrected Profits for the last 3 years	6,88,500
	Average Profit=6,88,500÷3 years	2,29,500
	Goodwill of the Firm (Average Profit × 1 Years)	**2,29,500**

Note: Weighted Average Profits may also be followed in the above calculations

Goodwill Adjustments–

Particulars	Anuj	Ayush	Piyush
Creation (2:2:1)	91,800 Cr.	91,800 Cr.	45,900 Cr.
Reversal (1:1)	–	1,14,750 Dr.	1,14,750 Dr.
Net effect	**91,800 Cr.**	**22,950 Dr.**	**68,850 Dr.**

4. Partners' Capital Accounts

Particulars	Anuj	Ayush	Piyush	Particulars	Anuj	Ayush	Piyush
To P & L Adjustment A/c	37,400	37,400	18,700	By balance b/d	3,75,000	2,80,000	2,25,000
To Anuj's Capital A/c	–	22,950	68,850	By Ayush's Capital	22,950	–	–
To Bank FD A/c	2,25,000	–	–	By Piyush's Capital	68,850	–	–
To Interest Accrued A/c	9,000	–	–	By General Reserve (1,88,000 in 2:2:1)	75,200	75,200	37,600
To Anuj's 8% Loan A/c	2,70,600	–	–	By Bank	–	8,600	1,28,400
To balance c/d **(WN3)**	–	3,03,450	3,03,450				
Total	**5,42,000**	**3,63,800**	**3,91,000**	**Total**	**5,42,000**	**3,63,800**	**3,91,000**

5. Balance Sheet of the Firm as on 1st April (after Anuj's retirement)

Capital and Liabilities		₹	Properties and Assets		₹
Capital Accounts:			**Non–Current Assets:**		
– Ayush	3,03,450		Plant and Machinery	7,87,000	
– Piyush	3,03,450	6,06,900	**Less:** Depreciation	(78,700)	7,08,300
Non–Current Liabilities					
Anuj's 8% Loan A/c		2,70,600	**Current Assets:**		
			Stock (1,03,000 – 6,000)		97,000
Current Liabilities:			Sundry Debtors	1,56,000	
Sundry Creditors		2,26,000	**Less:** Provision for Doubtful Debts	(7,800)	1,48,200
			Cash at Bank		1,50,000
Total		**11,03,500**	**Total**		**11,03,500**

<u>Working Notes:</u>

3. Determination of Final Capital balances of Ayush and Piyush.

(a)	Total Assets expected after Retirement Plant 7,08,300 + Stock 97,000 + Bank 1,50,000 + Debtors 1,48,200	11,03,500
(b)	Total Liabilities expected after Retirement Creditors 2,26,000 + Anuj's Loan (By Preparing Capital A/c) 2,70,600	4,96,600
(c)	Net Capital Balance required	6,06,900
(d)	Capital Balance required Ayush 6,06,900×1/2 =3,03,450 Piyush 6,06,900×1/2 =3,03,450	

4. Cross verification with Bank A/c

Particulars	₹	Particulars	₹
To Opening Balance b/d	13,000	By Closing Balance c/d	1,50,000
To Ayush Capital A/c	8,700		
To Piyush Capital A/c	1,28,300		
Total	**1,50,000**	**Total**	**1,50,000**

Question 7(a): AS–10 4 Marks

From the following information state the amount to be capitalized as per AS–10. Give the explanations for your answer (i) ₹5lakhs as routine repairs and ₹1 Lakh on partial replacement of a part of a machine. (ii) ₹10 Lakhs on replacement of part of machinery which will improve the efficiency of a machine.

Solution:

Refer Q. No 39 Page No. B.7.13 – M 04, M 10

1. As per AS – 10, expenditure on improvements / repairs that **increases the future benefits** from the existing asset beyond its previously assessed standard of performance should be capitalised. Other expenditures should be charged to the Statement of Profit & Loss.
2. The following is the breakup of Revenue and Capital expenditure in this case – (in ₹ Lakhs)

Particulars	Reasons / Explanation	Total	Revenue	Capital
(a) Routine Repairs	Maintenance of assets, rather than increase in future benefits.	5.00	5.00	Nil
(b) Partial replacement of Part of Machine.	Replacement of defective parts, does not lead to increase in future benefits.	1.00	1.00	Nil
(c) Replacement of Part of a Machinery (which will improve efficiency)	Improvement in asset functionality, which will create benefits of enduring nature.	10.00	Nil	10.00
	Total	**16.00**	**6.00**	**10.00**

Question 7(b): Accounting Basics and E–Environment 4 Marks

What are the advantages of Customized Accounting Software?

Solution:

Refer Q. No 8 Page No. A.1.8 – N 08, N 09, N 11

Question 7(c): Hire Purchase Accounting 4 Marks

What are the differences between Hire Purchase and Installment System?

Solution:

Refer Q. No 3 Page No. A.5.69

Particulars	Hire Purchase	Installment System
Passing of Property	Property in Goods passes only after payment of Last Installment.	The property in the goods sold under an Installment Sysem would immediately pass to the Buyer.
Repossession	Vendor has the right to re–posses goods for Non–Payment of installments.	Vendor does **not** have the right to recover back the goods. He can only bring an action against the Purchaser, for the recovery of unpaid portion of the price of the goods.

Question 7(d): Account Current 4Marks

From the following particulars prepare a Current Account, as sent by Mr. Ram to Mr. Siva as on 31st October 2014 by means of product method charging interest @ 5% p.a.

2014	Particulars	₹
1st July	Balance due from Siva	750
15th August	Sold goods to Siva	1250
20th August	Goods Returned By Siva	200
22nd September	Siva paid by Cheque	800
15th October	Received cash from Siva	500

Solution:

Refer Illustration 7, Page No. A.2.22 – M 11

In the books of Ram (Ledger from 1st July to 31st Oct)

Dr. **Siva in Account Current with Ram (Interest upto31st Oct at 5% p.a.)** **Cr.**

Dt	Due	Particulars	₹	Days	Interest	Dt	Due	Particulars	₹	Days	Interest
1st July	1st July	To bal b/d	750	123	92,250	20th Aug	20th Aug	By Sales Return A/c	200	72	14,400
15th Aug	15th Aug	To Sales	1,250	77	96,250	22nd Sep	22nd Sep	By bank a/c	800	39	31,200
31st Oct	31st Oct	To Interest	18			15st Oct	15st Oct	By cash a/c	500	16	8,000
						31st Oct	31st Oct	By balance of product a/c			1,34,900
						31stoct	31stoct	By Balance c/d	518		
		Total	**2018**		**1,88,500**			**Total**	**2018**		**1,88,500**

Note: Interest Receivable: 134900 × 5% × 1/365 = ₹18 (appx)

Question 7(e): Average Due Date **4 Marks**

Kishanlal has made the following sales to Babulal. He allows a credit period of 10 days beyond which he charges interest at 12% per annum.

Date of Sales	Amount
26.05.14	12,000
18.07.14	18,000
02.08.14	16,500
28.08.14	9,500
09.09.14	15,500
17.09.14	13,500

Babulal wants to settle his accounts on 30.09.2014. Calculate the interest payable by him using Average Due Date (ADD). If Babulal wants to save interest of ₹ 588, how many days before 30.09.2014 does he have to make payment? Also find payment date in this case.

Solution:

Base Date: 5th June (05/06/14)

Date of Sale	Due Date	No of days from Base Date	Amount	Product
26/05/14	05/06/14	0	12,000	0
18/07/14	28/07/14	53	18,000	9,54,000
02/08/14	12/08/14	68	16,500	11,22,000
28/08/14	07/09/14	94	9,500	8,93,000
09/09/14	19/09/14	106	15,500	16,43,000
17/09/14	27/09/14	114	13,500	15,39,000
Total			**85,000**	**61,51,000**

Average Due Date = Base Date ± $\frac{\text{Total of Products}}{\text{Total of Amounts}}$ = 5th June ± $\frac{61,51,000}{85,000}$ = 5th Jun +73 days (approx.) = 17th Aug

Pre–Payment for savings in Interest: Interest p.a. = ₹ 85000 × 12% = 1230 (for 365 days)
To save Interest of 588, he must pay an interest of (12,310–588) = ₹ 642
Let the number of days after Average due date to get interest as ₹ 642 be "X"
Then, X / 365 × 12% × 85,000 = 642 = 23 days from 17th Aug (appx.). Hence, payment should be made on 09/09/14, which is 21 days from 30/09/14.