MOCK TEST PAPER - 2

INTERMEDIATE: GROUP – I

PAPER – 1: ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired. These costs are not be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The costs to be incurred by the company are in the nature of costs of reducing or reorganizing the operations of the accompany. These costs do not meet that requirement of AS 10 "Property, Plant and Equipment" and cannot, therefore, be capitalized.

(b) As per AS 2 (Revised) "Valuation of Inventories", materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. Therefore, in this case, USA Ltd. will value the inventory of raw material at ₹ 30,00,000 (10,000 kg. @ ₹ 300 per kg.).

(c) (i) As per AS 13, "Accounting for Investments" Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.

On this basis, the facts of the case given in the question clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares to ₹ 45,000 in the financial statements for the year ended 31st March, 2022 and charge the difference of loss of ₹ 2,55,000 to profit and loss account.

(ii) As per AS 13 'Accounting for Investments', where investments are reclassified from current to long-term, transfers are made at the lower of cost or fair value at the date of transfer.

In the given case, the market value of the investment (X Ltd. shares) is ₹ 2.50 lakhs, which is lower than its cost i.e. ₹ 5 lakhs. Therefore, the transfer to long term investments should be made at cost of ₹ 2.50 lakhs. The loss of ₹ 2.50 lakhs should be charged to profit and loss account.

(d) As per AS 16 "Borrowing Costs", borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

Also AS 16 "Borrowing Costs" states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost

= ₹ 11,00,000 – ₹ 2,00,000

= ₹ 9,00,000

Sr. No.	Particulars	Nature of assets	Interest to be Capitalized (₹)	Interest to be charged to Profit & Loss Account (₹)
i	Construction of factory building	Qualifying Asset*	9,00,000x40/100 = ₹ 3,60,000	NIL
ii	Purchase of Machinery	Not a Qualifying Asset	NIL	9,00,000x35/100 = ₹ 3,15,000
iii	Working Capital	Not a Qualifying Asset	NIL	9,00,000x25/100 = ₹ 2,25,000
	Total		₹ 3,60,000	₹ 5,40,000

* A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

2. (a) Investment Account of Gopal

For the year ended 31.3.2022
(Script: 15% Debentures in Ritu Industries Ltd.)
(Interest payable on 30th June and 31st December)

Date	Particulars	Nominal Value ₹	Interest ₹	Cost ₹	Date	Particulars	Nominal Value ₹	Interest ₹	Cost ₹
1.04.21	To Balance A/c	2,00,000	7,500	2,10,000	30.06.21	By Bank A/c	-	22,500	
1.05.21	To Bank A/c	1,00,000	5,000	1,02,000	1.11.21	By Bank A/c	1,20,000	6,000	1,14,600
30.11.21	To Bank A/c	80,000	5,000	76,800	1.11.21	By Profit & Loss A/c	-	-	11,400
31.12.21	To Profit & Loss A/c			20,000	31.12.21	By Bank A/c	80,000	6,000	1,04,000
31.03.22	To Profit & Loss A/c		37,250		31.12.21	By Bank A/c	-	13,500	-
	(Bal. fig.)				31.12.21	By Bank A/c	-	6,750	-
					31.3.22	By Bal. c/d	1,80,000	-	1,78,800
		3,80,000	54,750	4,08,800			3,80,000	54,750	4,08,800

Working Notes:

(i) Accrued Interest as on 1st April, 2021 = ₹ $2,00,000 \times \frac{15}{100} \times \frac{3}{12} = \text{Rs. } 7,500$

(ii) Accrued Interest as on 1.5.2021 = ₹ $1,00,000 \times \frac{15}{100} \times \frac{4}{12} = \text{Rs.} 5,000$

(iii) Cost of Investment for purchase on 1st May = ₹ 1,07,000 – ₹ 5,000 = ₹ 1,02,000

(iv) Interest received as on 30.6.2021 = ₹ $3,00,000 \times \frac{15}{100} \times \frac{6}{12} = \text{Rs.} 22,500$

(v) Accrued Interest on debentures sold on 1.11.2021

= ₹ $1,20,000 \times \frac{15}{100} \times \frac{4}{12} = \text{Rs.} 6,000$

(vi) Accrued Interest = ₹ 80,000 x $\frac{15}{100} \times \frac{5}{12} = \text{Rs.}5{,}000$

(vii) Accrued Interest on sold debentures 31.12.2021 = ₹ 80,000 x $\frac{15}{100} \times \frac{6}{12} = \text{Rs.}6{,}000$

(viii) Sale Price of Investment on 31st Dec. 2021 = ₹ 1,10,000-₹ 6,000 = ₹ 1,04,000

(ix) Loss on Sale of Debenture on 1.11.2021

Sale Price of debenture	1,14,600
Less: Cost Price of debenture $\frac{2{,}10{,}000}{2{,}00{,}000}$ x Rs.1,20,000	1,26,000
Loss on sale	11,400

(x) Accrued interest as on 31.12.2021 = ₹ 1,80,000 x $\frac{15}{100} \times \frac{6}{12} = \text{Rs.}13{,}500$

(xi) Accrued Interest = ₹ 1,80,000 x $\frac{15}{100} \times \frac{3}{12} =$ ₹ 6,750

(xii) Cost of investment as on 31st March = ₹ 1,02,000 + ₹ 76,800 = ₹ 1,78,800

(xiii) Profit on debentures sold on 31st December

= ₹ 1,04,000 –(₹ 2,10,000x800/2,000) = ₹ 20,000

(b) **Ascertainment of rate of gross profit for the year 2020-21**

Trading A/c for the year ended 31-3-2021

	₹		₹
To Opening stock	9,62,200	By Sales	52,00,000
To Purchased	45,25,000	By Closing stock	13,27,200
To Gross profit	10,40,000		
	65,27,200		65,27,200

Rate of gross profit = $\frac{GP}{Sales} \times 100$

$= \frac{10{,}40{,}000}{52{,}00{,}000} \times 100 = 20\%$

Memorandum Trading A/c for the period from 1-4-2021 to 22-01-2022

	₹	₹		₹	₹
To Opening stock		13,27,200	By Sales	49,17,000	
To Purchases	34,82,700		*Add*: Unrecorded cash sales	40,000	49,57,000
Less: Goods used for advertisement	(1,00,000)	33,82,700	By Closing stock		7,44,300
To Gross profit (20% of ₹ 49,57,000)		9,91,400			
		57,01,300			57,01,300

Estimated stock in hand on the date of fire = ₹ 7,44,300.

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 1.4.2021 to 18.8.2021 = 140 days

Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks × ₹2,000 = ₹40,000.

3. (a) **M/s Heera & Co.**

Patna Branch Trial Balance in (US $)

as on 31st March, 2022

	Conversion rate per US $ (₹)	*Dr. US $*	*Cr. US $*
Stock on 1.4.21	55	5,454.55	–
Purchases and sales	58	13,793.10	20,689.66
Sundry debtors and creditors	60	6,666.67	5,000.00
Bills of exchange	60	2,000.00	4,000.00
Wages and salaries	58	9,655.17	-
Rent, rates and taxes	58	6,206.90	-
Sundry charges	58	2,758.62	-
Plant	–	6,000.00	-
Bank balance	60	7,000.00	-
USA office A/c	–	-	29,845.35
		59,535.01	59,535.01

Trading and Profit & Loss Account

for the year ended 31st March, 2022

	US $		*US $*
To Opening Stock	5,454.55	By Sales	20,689.66
To Purchases	13,793.10	By Closing stock (₹ 4,20,000/60)	7,000.00
To Wages and salaries	9,655.17		
		By Gross Loss c/d	1,213.16
	28,902.82		28,902.82
To Gross Loss b/d	1,213.16	By Net Loss	13,778.68
To Rent, rates and taxes	6,206.90		
To Sundry charges	2,758.62		
To Depreciation on Plant (US $ 6,000 × 0.6)	3,600.00		
	13,778.68		13,778.68

Balance Sheet of Patna Branch
as on 31st March, 2022

Liabilities		*US $*	*Assets*	*US $*	*US $*
USA Office A/c	29,845.35		Plant	6,000.00	
Less: Net Loss	(13,778.68)	16,066.67	*Less:* Depreciation	(3,600.00)	2,400.00
Sundry creditors		5,000.00	Closing stock		7,000.00
Bills payable		4,000.00	Sundry debtors		6,666.67
			Bills receivable		2,000.00
			Bank balance		7,000.00
		25,066.67			25,066.67

(b) **Departmental Trading and Loss Account of M/s Division**
For the year ended 31st December, 2021

	Deptt. A	*Deptt. B*		*Deptt. A*	*Deptt. B*
	₹	₹		₹	₹
To Opening stock	50,000	40,000	By Sales	10,00,000	15,00,000
To Purchases	6,50,000	9,10,000	By Closing stock	1,00,000	2,00,000
To Gross profit	4,00,000	7,50,000			
	11,00,000	17,00,000		11,00,000	17,00,000
To General Expenses (in ratio of sales)	50,000	75,000	By Gross profit	4,00,000	7,50,000
To Profit ts/f to general profit and loss account	3,50,000	6,75,000			
	4,00,000	7,50,000		4,00,000	7,50,000

General Profit and Loss Account

	₹		₹
To Stock reserve required (additional):		By Profit from:	
Stock in Deptt. A		Deptt. A	3,50,000
50% of (₹ 20,000 - ₹ 10,000) (W.N.1)	5,000	Deptt. B	6,75,000
Stock in Deptt. B			
40% of (₹ 30,000 - ₹ 15,000) (W.N.2)	6,000		
To Net Profit	10,14,000		
	10,25,000		10,25,000

Working Notes:

1. Stock of department A will be adjusted according to the rate applicable to department B = [(7,50,000 ÷ 15,00,000) x 100] = 50%
2. Stock of department B will be adjusted according to the rate applicable to department A = [(4,00,000 ÷ 10,00,000) x 100] = 40%

4. (a) **Trading and Profit and Loss Account of Mr. Preet for the year ended 31st March, 2022**

	Amount		Amount
	₹		₹
To Opening stock	1,60,000	By Sales	13,98,000
To Purchases (W.N.5)	9,12,000	By Closing stock	1,40,000
To Gross profit c/d (Bal.fig.)	4,66,000		
	15,38,000		15,38,000
To Expenses (W.N.7)	3,44,000	By Gross profit b/d	4,66,000
To Discount allowed (W.N.9)	32,500	By Discount received (W.N.10)	16,000
To Depreciation on furniture (W.N.1)	13,000	By Interest on Govt. Securities (W.N.8)	12,000
To Net profit	1,14,500	By Miscellaneous income	10,000
	5,04,000		5,04,000

Balance Sheet of Mr. Preet as on 31st March, 2022

Equity & Liabilities		*Amount* ₹	*Assets*	*Amount* ₹
Capital (W.N.6)	3,76,000		Furniture	1,27,000
Add: Additional capital (W.N.2)	1,72,000		12% Government Securities	2,00,000
Add: Profit during the year	1,14,500		Accrued interest on Govt. securities (W.N.8)	12,000
	6,62,500		Debtors (W.N.3)	3,26,000
Less: Drawings	(1,40,000)	5,22,500	Bills Receivable (W.N.4)	35,000
Creditors		3,00,000	Stock	1,40,000
Outstanding expenses		36,000	Prepaid expenses	14,000
			Cash on hand	3,000
			Bank balance	1,500
		8,58,500		8,58,500

Working Notes:

1. **Furniture account**

	₹		₹
To Balance b/d	1,20,000	By Depreciation (bal.fig.)	13,000
To Bank	20,000	By Balance c/d	1,27,000
	1,40,000		1,40,000

2. **Cash and Bank account**

	₹		₹
To Balance b/d		By Creditors	7,84,000
Cash	4,000	By Drawings	1,40,000
Bank	20,000	By Furniture	20,000
To Debtors	11,70,000	By 12% Govt. securities	2,00,000

To	Bill Receivable	1,22,500	By	Expenses	3,50,000
To	Miscellaneous income	10,000	By	Balance c/d	
To	Additional Capital (bal.fig.)	1,72,000		Cash	3,000
				Bank	1,500
		14,98,500			14,98,500

3. Debtors account

		₹			₹
To	Balance b/d	3,20,000	By	Cash and Bank	11,70,000
To	Creditors (Bills receivable dishonoured)	8,000	By	Discount	30,000
To	Sales (W.N.11)	13,98,000	By	Bills Receivable	2,00,000
			By	Balance c/d (bal.fig.)	3,26,000
		17,26,000			17,26,000

4. Bills Receivable account

		₹			₹
To	Debtors	2,00,000	By	Bank	1,22,500
			By	Discount	2,500
			By	Creditors	40,000
			By	Balance c/d (bal. fig.)	35,000
		2,00,000			2,00,000

5. Creditors account

		₹			₹
To	Bank	7,84,000	By	Balance b/d	2,20,000
To	Discount	16,000	By	Debtors (Bills receivable dishonoured)	8,000
To	Bills receivable	40,000	By	Purchases (bal. fig.)	9,12,000
To	Balance c/d	3,00,000			
		11,40,000			11,40,000

6. Balance Sheet as on 1st April, 2021

Equity & Liabilities	₹	*Assets*	₹
Creditors	2,20,000	Furniture	1,20,000
Outstanding expenses	40,000	Debtors	3,20,000
Capital (balancing figure)	3,76,000	Stock	1,60,000
		Prepaid expenses	12,000
		Cash	4,000
		Bank balance	20,000
	6,36,000		6,36,000

7. Expenses incurred during the year

		₹
Expenses paid during the year		3,50,000

Add: Outstanding expenses as on 31.3.2022	36,000	
Prepaid expenses as on 31.3.2021	12,000	48,000
		3,98,000
Less: Outstanding expenses as on 31.3.2021	40,000	
Prepaid expenses as on 31.3.2022	14,000	(54,000)
Expenses incurred during the year		3,44,000

8. Interest on Government securities

2,00,000 x 12% x 6/12= ₹ 12,000

Interest on Government securities receivables for 6 months = ₹ 12,000

9. Discount allowed

		₹
Discount to Debtors	$\left(\frac{11,70,000}{97.5\%}\times 2.5\%\right)$	30,000
Discount on Bills Receivable	$\left(\frac{1,22,500}{98\%}\times 2\%\right)$	2,500
		32,500

10. Discount received

		₹
Discount to Creditors	$\left(\frac{7,84,000}{98\%}\times 2\%\right)$	16,000

11. Credit sales

Cost of Goods sold = Opening stock + Net purchases – Closing stock

= ₹ 1,60,000 + ₹ 9,12,000 – ₹ 1,40,000

= ₹ 9,32,000

Sale price = ₹ 9,32,000 + 50% of 9,32,000 = ₹ 13,98,000

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

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

Pre-incorporation profit will be transferred to Capital Reserve.

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

Working Notes:

1. **Sales ratio**

   Let the monthly sales for first 4 months (i.e. from 1.4.2021 to 31.7.2021) be = x

   Then, sales for 4 months = 4x

   Monthly sales for next 8 months (1st August, 2021 to 31st March, 2022)

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

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

2. **Time ratio**

   1st April, 2021 to 31st July, 2021 : 1st August, 2021 to 31st March, 2022

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

5. (a) Cash Flow Statement as per AS 3

		₹ in lacs
Cash flows from operating activities:		
Net profit before tax provision		36,000
Add: Non cash expenditures:		
Depreciation	24,000	
Loss on sale of assets	48	
Interest expenditure (non operating activity)	11,990	36,038
		72,038
Less: Non cash income		
Profit on sale of investments (non operating income)	(120)	
Interest income from investments (non operating income)	(3,000)	3,120
Operating profit		68,918
Less: Increase in working capital		(67,290)
Cash from operations		1,628
Less: Income tax paid		(5,100)
Net cash generated from operating activities		(3,472)
Cash flows from investing activities:		
Sale of assets (222 – 48)	174	
Sale of investments (33,318+120)	33,438	
Interest income from investments	3,000	
Purchase of fixed assets	(22,092)	
Expenditure on construction work	(41,688)	
Net cash used in investing activities		(27,168)
Cash flows from financing activities:		
Long term borrowings	55,884	
Interest paid	(13,042)	
Dividend paid	(10,202)	
Net cash from financing activities		32,640

Net increase in cash		2,000
Add: Cash and bank balance as on 1.4.2021		6,000
Cash and bank balance as on 31.3.2022		8,000

(b) Schedule III to the Companies Act, 2013 provides that debit balance of Statement of Profit and Loss (after all allocations and appropriations) shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative. In this case, the debit balance of profit and loss i.e. ₹ 250 lakhs exceeds the total of all the reserves i.e. ₹ 230 lakhs. Therefore, balance of 'Reserves and Surplus' after adjusting debit balance of profit and loss is negative by ₹ 20 lakhs, which should be disclosed on the face of the balance sheet. Thus the treatment done by the company is incorrect.

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

	₹	₹	
Balance from Trading A/c		40,25,365	
Add : Subsidies received from Government		2,73,925	
			42,99,290
Less : Administrative, selling and distribution expenses	8,22,542		
Director's fees	1,34,780		
Interest on debentures	31,240		
Depreciation on fixed assets as per Schedule II	5,75,345		(15,63,907)
Profit u/s 198			27,35,383

Maximum Managerial remuneration under Companies Act, 2013= 11% of ₹27,35,383= ₹3,00,892

6. (a) (i) ₹ 35 lakhs received from the local authority for providing medical facilities to the employees is a grant received in the nature of revenue grant. Such grants are generally presented as a credit in the profit and loss statement, either separately or under a general heading such as 'Other Income'. Alternatively, ₹ 35 lakhs may be deducted in reporting the related expense i.e. employee benefit expenses.

(ii) As per AS 12 'Accounting for Government Grants', where the government grants are in the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

In the given case, the subsidy received from the Central Government for setting up a unit in notified backward area is neither in relation to specific fixed asset nor in relation to revenue. Thus, amount of ₹ 100 lakhs should be credited to capital reserve.

(iii) ₹ 10 lakhs grant received for installation anti-pollution equipment is a grant related to specific fixed asset. Two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives. Under first method, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Under the second method, grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

Thus, ₹ 10 lakhs may either be deducted from the cost of equipment or treated as deferred income to be recognized on a systematic basis in profit & Loss A/c over the useful life of equipment.

(b) **Journal Entries in the books of Manoj Ltd.**

			₹	₹
1-4-2022	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated….)			
20-4-2022	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital redemption Reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

(c) As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts:

So far, the company has been providing 2% of sales for meeting "after sales expenses during the warranty period. With the improved method of production, the probability of defects occurring in the products has reduced considerably. Hence, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is increased by ₹ 12 crores than would have been the case if the old policy were to continue.

(d) Financial statements of an integral foreign operation (for example, dependent foreign branches) should be translated using the principles and procedures of AS 11 (Revised 2003). The individual items in the financial statements of a foreign operation are translated as if all its transactions had been entered into by the reporting enterprise itself. Individual items in the financial statements of the foreign operation are translated at the actual rate on the date of transaction. The foreign currency monetary items (for example cash, receivables, payables) should be reported using the closing rate at each balance sheet date. Non-monetary items (for example, fixed assets, inventories, investments in equity shares) which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange date at the date of transaction. Thus the cost and depreciation of the tangible fixed assets is translated using the exchange rate at the date of purchase of the asset if asset is carried at cost. If the fixed asset is carried at fair value, translation should be done using the rate existed on the date of the valuation. The cost of inventories is translated at the exchange rates that existed when the cost of inventory was incurred and realizable value is translated applying exchange rate when realizable value is determined which is generally closing rate. Exchange difference arising on the translation of the financial statements of integral foreign operation should be charged to profit and loss account.

Thus, the treatment by the management of translating all assets and liabilities; income and expenditure items in respect of foreign branches at the prevailing rate at the year end and also the treatment of resultant exchange difference is not in consonance with AS 11 (Revised 2003).

(e) The question deals with the issue of Applicability of Accounting Standards to a non-corporate entity. For availment of the exemptions, first of all, it has to be seen that M/s Omega & Co. falls in which level of the non-corporate entities. Its classification will be done on the basis of the classification of non-corporate entities as prescribed by the ICAI. According to the ICAI, non-corporate entities can be classified under 4 levels viz Level I, Level II, Level III and Level IV entities.

Non-corporate entities which meet following criteria are classified as Level IV entities:

(i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) does not exceed rupees ten crores in the immediately preceding accounting year.

(ii) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) does not exceed rupees two crores at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

As the turnover of M/s Omega & Co. is less than ` 10 crores and borrowings less than ` 2 crores, it falls under Level IV non-corporate entities. In this case, AS 3, AS 14, AS 17, AS 18, AS 20, AS 21, AS 23, AS 24, AS 25, AS 27 and AS 28 will not be applicable to M/s Omega & Co. Relaxations from certain requirements in respect of AS 10, AS 11, AS 13, AS 15, AS 19, AS 22, AS 26 and AS 29 are also available to M/s Omega & Co.