PAPER – 1: ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR MAY 2020 EXAMINATION

A. <u>Applicable for May, 2020 examination</u>

I. Amendments in Schedule III (Division I) to the Companies Act, 2013

In exercise of the powers conferred by sub-section (1) of section 467 of the Companies Act, 2013), the Central Government made the following amendments in Division I of the Schedule III with effect from the date of publication of this notification in the Official Gazette:

(A) under the heading "II Assets", under sub-heading "Non-current assets", for the words "Fixed assets", the words "Property, Plant and Equipment" shall be substituted;

(B) in the "Notes", under the heading "General Instructions for preparation of Balance Sheet", in paragraph 6,-

(I) under the heading "B. Reserves and Surplus", in item (i), in sub- item (c), the word "Reserve" shall be omitted;

(II) in clause W., for the words "fixed assets", the words "Property, Plant and Equipment" shall be substituted.

II. Amendments in Schedule V to the Companies Act, 2013

In exercise of the powers conferred by sub-sections (1) and (2) of section 467 of the Companies Act, 2013, the Central Government hereby makes the following amendments to amend Schedule V.

In PART II, under heading "REMUNERATION", in Section II - ,

(a) in the heading, the words "without Central Government approval" shall be omitted;

(b) in the first para, the words "without Central Government approval" shall be omitted;

(c) in item (A), in the proviso, for the words "Provided that the above limits shall be doubled" the words "Provided that the remuneration in excess of above limits may be paid" shall be substituted;

(d) in item (B), for the words "no approval of Central Government is required" the words "remuneration as per item (A) may be paid" shall be substituted;

(e) in Item (B), in second proviso, for clause (ii), the following shall be substituted, namely:-

"(ii) the company has not committed any default in payment of dues to any bank or public financial institution or non-convertible debenture holders or any other secured creditor, and in case of default, the prior approval of the bank or public financial institution concerned or the non-convertible debenture holders or other secured creditor, as the case may be, shall be obtained by the company before obtaining the approval in the general meeting.";

(f) in item (B), in second proviso, in clause (iii), the words "the limits laid down in" shall be omitted;

In PART II, under the heading "REMUNERATION", in Section III, –

(a) in the heading, the words "without Central Government approval" shall be omitted;

(b) in first para, the words "without the Central Government approval" shall be omitted;

(c) in clause (b), in the long line, for the words "remuneration up to two times the amount permissible under Section II" the words "any remuneration to its managerial persons", shall be substituted;

III. Notification dated 13th June, 2017 to exempt startup private companies from preparation of Cash Flow Statement as per Section 462 of the Companies Act 2013

As per the Amendment, under Chapter I, clause (40) of section 2, an exemption has been provided to a startup private company besides one person company, small company and dormant company. Accordingly, a startup private company is not required to include the cash flow statement in the financial statements.

Thus the financial statements, with respect to one person company, small company, dormant company and private company (if such a private company is a start-up), may not include the cash flow statement.

IV. Amendment in Higher Education Cess as per Finance Act, 2018

The rate of DDT is 15% excluding surcharge of 12% plus secondary and higher education cess is 4%* (revised as per Finance Act, 2018). This revised effective rate 17.472% (that is, 15% plus surcharge@12% plus health and education cess @4%) will be considered for computation of corporate Dividend Tax in preparation of Financial Statements of companies.

**Earlier this was 3%.*

V. Amendment in AS 11 “The Effects of Changes in Foreign Exchange Rates”

In exercise of the powers conferred by clause (a) of sub-section (1) of section 642 of the Companies Act, 1956, the Central Government, in consultation with National Advisory Committee on Accounting Standards, hereby made the amendment in the Companies (Accounting Standards) Rules, 2006, in the "ANNEXURE", under the heading "ACCOUNTING STANDARDS" under "AS 11 on The Effects of Changes in Foreign Exchange Rates", for the paragraph 32, the following paragraph shall be substituted, namely :-

"32. An enterprise may dispose of its interest in a non-integral foreign operation through sale, liquidation, repayment of share capital, or abandonment of all, or part of, that operation. The payment of a dividend forms part of a disposal only when it constitutes a return of the investment. Remittance from a non-integral foreign operation by way of repatriation of accumulated profits does not form part of a disposal unless it constitutes return of the investment. In the case of a partial disposal, only the proportionate share of the related accumulated exchange differences is included in the gain or loss. A write-down of the carrying amount of a non-integral foreign operation does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognized at the time of a write-down".

VI. SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (reg. Issue of Bonus Shares)

A listed company, while issuing bonus shares to its members, must comply with the following requirements under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018:

Regulation 293 - Conditions for Bonus Issue

Subject to the provisions of the Companies Act, 2013 or any other applicable law, a listed issuer shall be eligible to issue bonus shares to its members if:

a) it is authorized by its articles of association for issue of bonus shares, capitalization of reserves, etc.: Provided that if there is no such provision in the articles of association, the issuer shall pass a resolution at its general body meeting making provisions in the articles of associations for capitalization of reserve; b) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;

c) it has not defaulted in respect of the payment of statutory dues of the employees such as contribution to provident fund, gratuity and bonus;

d) any outstanding partly paid shares on the date of the allotment of the bonus shares, are made fully paid-up;

e) any of its promoters or directors is not a fugitive economic offender.

Regulation 294 - Restrictions on a bonus issue

(1) An issuer shall make a bonus issue of equity shares only if it has made reservation of equity shares of the same class in favour of the holders of outstanding compulsorily convertible debt instruments if any, in proportion to the convertible part thereof.

(2) The equity shares so reserved for the holders of fully or partly compulsorily convertible debt instruments, shall be issued to the holder of such convertible debt instruments or warrants at the time of conversion of such convertible debt instruments, optionally convertible instruments, warrants, as the case may be, on the same terms or same proportion at which the bonus shares were issued.

(3) A bonus issue shall be made only out of free reserves, securities premium account or capital redemption reserve account and built out of the genuine profits or securities premium collected in cash and reserves created by revaluation of fixed assets shall not be capitalized for this purpose.

(4) Without prejudice to the provisions of sub-regulation (3), bonus shares shall not be issued in lieu of dividends.

(5) If an issuer has issued Superior Voting Right (SR) equity shares to its promoters or founders, any bonus issue on the SR equity shares shall carry the same ratio of voting rights compared to ordinary shares and the SR equity shares issued in a bonus issue shall also be converted to equity shares having voting rights same as that of ordinary equity shares along with existing SR equity shares.]

Regulation 295 - Completion of a bonus issue

(1) An issuer, announcing a bonus issue after approval by its board of directors and not requiring shareholders' approval for capitalization of profits or reserves for making the bonus issue, shall implement the bonus issue within fifteen days from the date of approval of the issue by its board of directors: Provided that where the issuer is required to seek shareholders' approval for capitalization of profits or reserves for making the bonus issue, the bonus issue shall be implemented within two months from the date of the meeting of its board of directors wherein the decision to announce the bonus issue was taken subject to shareholders' approval.

Explanation:

For the purpose of a bonus issue to be considered as 'implemented' the date of commencement of trading shall be considered.

(2) A bonus issue, once announced, shall not be withdrawn.

VII. Companies (Share Capital and Debentures) Amendment Rules, 2019 – reg. Debenture Redemption Reserve

In exercise of the powers conferred by sub-sections (1) and (2) of section 469 of the Companies Act, 2013 (18 of 2013), the Central Government made the Companies (Share Capital and Debentures) Amendment Rules, 2019 dated 16th August, 2019 to amend the Companies (Share Capital and Debentures) Rules, 2014. As per the Companies (Share Capital and Debentures) Amendment Rules, under principal rules, in rule 18, for sub-rule (7), the following sub-rule shall be substituted, namely: -

"(7) The company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year, in accordance with the conditions given below:-

(a) Debenture Redemption Reserve shall be created out of profits of the company available for payment of dividend;

(b) the limits with respect to adequacy of Debenture Redemption Reserve and investment or deposits, as the case may be, shall be as under;-

 (i) Debenture Redemption Reserve is not required for debentures issued by All India Financial Institutions regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures;

 (ii) For other Financial Institutions within the meaning of clause (72) of section 2 of the Companies Act, 2013, Debenture Redemption Reserve shall be as applicable to Non –Banking Finance Companies registered with Reserve Bank of India.

 (iii) For listed companies (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)), Debenture Redemption Reserve is not required in the following cases - (A) in case of public issue of debentures – A. for NBFCs registered with Reserve Bank of India under section 45-IA of the RBI Act, 1934 and for Housing Finance Companies registered with National Housing Bank; B. for other listed companies; (B) in case of privately placed debentures, for companies specified in sub-items A and B.

 (iv) for unlisted companies, (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)) -

  (A) for NBFCs registered with RBI under section 45-IA of the Reserve Bank of India Act, 1934 and for Housing Finance Companies registered with National Housing Bank, Debenture Redemption Reserve is not required in case of privately placed debentures.

  (B) for other unlisted companies, the adequacy of Debenture Redemption Reserve shall be ten percent. of the value of the outstanding debentures;

 (v) In case a company is covered in item (A) or item (B) of sub-clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), it shall on or before the 30th day of April in each year, in respect of debentures issued by a company covered in item (A) or item (B) of sub clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), invest or deposit, as the case may be, a sum which shall not be less than fifteen per cent., of the amount of its debentures maturing during the year, ending on the 31st day of March of the next year in any one or more methods of investments or deposits as provided in sub-clause (vi):

Provided that the amount remaining invested or deposited, as the case may be, shall not at any time fall below fifteen percent. of the amount of the debentures maturing during the year ending on 31st day of March of that year.

(vi) for the purpose of sub-clause (v), the methods of deposits or investments, as the case may be, are as follows:— (A) in deposits with any scheduled bank, free from any charge or lien; (B) in unencumbered securities of the Central Government or any State Government; (C) in unencumbered securities mentioned in sub-clause (a) to (d) and (ee) of section 20 of the Indian Trusts Act, 1882; (D) in unencumbered bonds issued by any other company which is notified under sub-clause (f) of section 20 of the Indian Trusts Act, 1882:

Provided that the amount invested or deposited as above shall not be used for any purpose other than for redemption of debentures maturing during the year referred above.

(c) in case of partly convertible debentures, Debenture Redemption Reserve shall be created in respect of non-convertible portion of debenture issue in accordance with this sub-rule.

(d) the amount credited to Debenture Redemption Reserve shall not be utilized by the company except for the purpose of redemption of debentures."

NOTE: Chapter 8 "Redemption of Debentures" of the Intermediate Paper 1: Accounting Study Material (Module II) has been revised and uploaded on the BoS Knowledge Portal of the Institute's website. It is advised to refer the updated chapter uploaded on the BoS Knowledge Portal of the Institute's website at the link: https://resource.cdn.icai.org/55831bos45229cp8.pdf.

B. Not applicable for May, 2020 examination

Non-Applicability of Ind ASs for May, 2020 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May, 2020 Examination.

Exclusion of Accounting Standards and topics from the Curriculum of Accounting w.e.f. May, 2020 Examination

The following topics/ sub-topics/ Accounting Standards have been excluded from the Curriculum of Accounting w.e.f. May, 2020 Examination:

- Application of Accounting Standards: AS 4; AS 5; AS 17 and AS 22;
- Accounting for Tax: Concept of deferred tax asset and deferred tax liability in line with AS 22 under Company Accounts;
- Dissolution of partnership firms including piecemeal distribution of assets; Amalgamation of partnership firms; Conversion of partnership firm into a company and Sale to a company; Issues related to accounting in Limited Liability Partnership.

NOTE: July 2019 Edition of the Study Material on Paper 1 Accounting is applicable for May, 2020 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Preparation of Financial Statements of Companies

1. On 31st March 2019, Gaurav Ltd. provides you the following particulars:

Particulars		Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each)			12,50,000
Call in Arrears		1,250	
Land & Building		6,87,500	
Plant & Machinery		6,56,250	
Furniture		62,500	
General Reserve			2,62,500
Loan from State Financial Corporation			1,87,500
Stock:			
Raw Materials	62,500		
Finished Goods	2,50,000	3,12,500	
Provision for Taxation			1,60,000
Trade receivables		2,50,000	
Advances		53,375	
Profit & Loss Account			1,08,375

Cash in Hand		37,500	
Cash at Bank		3,08,750	
Unsecured Loan			1,51,250
Trade payables			2,50,000

The following additional information is also provided:

(i) 2,500 Equity shares were issued for consideration other than cash.

(ii) Debtors of ₹ 65,000 (included in trade receivables) are due for more than 6 months.

(iii) The cost of the Assets were:

Building ₹ 7,50,000, Plant & Machinery ₹ 8,75,000 and Furniture ₹ 78,125

(iv) The balance of ₹ 1,87,500 in the Loan Account with State Finance Corporation is inclusive of ₹ 9,375 for Interest accrued but not due. The loan is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes ₹ 2,500 with Global Bank Ltd., which is not a Scheduled Bank.

You are required to prepare the Balance sheet of Gaurav Ltd. as on 31st March, 2019 as per Schedule III to the Companies Act, 2013.

Managerial Remuneration

2. The following is the Draft Profit & Loss A/c of Harsha Ltd., the year ended 31st March, 20X1:

		₹			₹
To	Administrative, Selling and distribution expenses	41,12,710	By	Balance b/d	28,61,750
”	Directors fees	6,73,900	“	Balance from Trading A/c	201,26,825
”	Interest on debentures	1,56,200	“	Subsidies received from Govt.	13,69,625
”	Managerial remuneration	14,26,750			
”	Depreciation on fixed assets	26,12,715			
”	Provision for Taxation	62,12,500			
”	General Reserve	20,00,000			
”	Investment Revaluation Reserve	62,500			
”	Balance c/d	71,00,925			
		243,58,200			243,58,200

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was ₹ 28,76,725. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.

Cash Flow Statement

3. The following figures have been extracted from the books of X Limited for the year ended on 31.3.2019. You are required to prepare a cash flow statement as per AS 3 using indirect method.

   (i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 20 lakhs:

      (a) Depreciation on Property, Plant & Equipment ₹ 5 lakhs.

      (b) Discount on issue of Debentures written off ₹ 30,000.

      (c) Interest on Debentures paid ₹ 3,50,000.

      (d) Book value of investments ₹ 3 lakhs (Sale of Investments for ₹ 3,20,000).

      (e) Interest received on investments ₹ 60,000.

      (f) Compensation received ₹ 90,000 by the company in a suit filed.

   (ii) Income tax paid during the year ₹ 10,50,000.

   (iii) 15,000, 10% preference shares of ₹ 100 each were redeemed on 31.3.2019 at a premium of 5%. Further the company issued 50,000 equity shares of ₹ 10 each at a premium of 20% on 2.4.2018. Dividend on preference shares were paid at the time of redemption.

   (iv) Dividend paid for the year 2017-2018 ₹ 5 lakhs and interim dividend paid ₹ 3 lakhs for the year 2018-2019.

   (v) Land was purchased on 2.4.2018 for ₹ 2,40,000 for which the company issued 20,000 equity shares of ₹ 10 each at a premium of 20% to the land owner as consideration.

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

	As on 31.3.2018	As on 31.3.2019
	₹	₹
Inventory	12,00,000	13,18,000
Trade receivables	2,58,000	2,53100
Cash in hand	1,96,300	35,300
Trade payables	2,11,000	2,11,300
Outstanding expenses	75,000	81,800

Profit/Loss prior to Incorporation

4. The partners of Shri Enterprises decided to convert the partnership firm into a Private Limited Company Shreya (P) Ltd. with effect from 1st January, 2018. However, company could be incorporated only on 1st June, 2018. The business was continued on behalf of the company and the consideration of ₹ 6,00,000 was settled on that day along with interest @ 12% per annum. The company availed loan of ₹ 9,00,000 @ 10% per annum on 1st June, 2018 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2019 and presents you the following summarized profit and loss account:

	₹	₹
Sales		19,80,000
Cost of goods sold	11,88,000	
Discount to dealers	46,200	
Directors' remuneration	60,000	
Salaries	90,000	
Rent	1,35,000	
Interest	1,05,000	
Depreciation	30,000	
Office expenses	1,05,000	
Sales promotion expenses	33,000	
Preliminary expenses (to be written off in first year itself)	15,000	18,07,200
Profit		1,72,800

Sales from June, 2018 to December, 2018 were 2½ times of the average sales, which further increased to 3½ times in January to March quarter, 2019. The company recruited additional work force to expand the business. The salaries from July, 2018 doubled. The company also acquired additional showroom at monthly rent of ₹ 10,000 from July, 2018.

You are required to prepare a Profit and Loss Account showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods.

Accounting for Bonus Issue

5. The following is the summarised Balance Sheet of Bumbum Limited as at 31st March, 2019:

	₹
Sources of funds	
Authorized capital	
50,000 Equity shares of ₹ 10 each	5,00,000
10,000 Preference shares of ₹ 100 each (8% redeemable)	10,00,000
	15,00,000

Issued, subscribed and paid up	
30,000 Equity shares of ₹ 10 each	3,00,000
5,000, 8%Redeemable Preference shares of ₹ 100 each	5,00,000
Reserves & Surplus	
Securities Premium	6,00,000
General Reserve	6,50,000
Profit & Loss A/c	40,000
Trade payables	4,20,000
	25,10,000
Application of funds	
PPE (net)	7,80,000
Investments (market value ₹ 5,80,000)	4,90,000
Deferred Tax Assets	3,40,000
Trade receivables	6,20,000
Cash & Bank balance	2,80,000
	25,10,000

In Annual General Meeting held on 20th June, 2019 the company passed the following resolutions:

(i) To split equity share of ₹ 10 each into 5 equity shares of ₹ 2 each from 1st July, 2019.

(ii) To redeem 8% preference shares at a premium of 5%.

(iii) To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On 10th July, 2019 investments were sold for ₹ 5,55,000 and preference shares were redeemed.

The bonus issue was concluded by 12th September, 2019

You are required to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30th September, 2019. All working notes should form part of your answer.

Right Issue

6. Zeta Ltd. has decided to increase its existing share capital by making rights issue to its existing shareholders. Zeta Ltd. is offering one new share for every two shares held by the shareholder. The market value of the share is ₹ 360 and the company is offering one share of ₹ 180 each. Calculate the value of a right. What should be the ex-right market price of a share?

Redemption of Preference Shares

7. The capital structure of Chand Ltd. consists of 20,000 Equity Shares of ₹10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹100 each fully paid up (issued on 1.4.20X1).

   Undistributed reserve and surplus stood as: General Reserve ₹ 80,000; Profit and Loss Account ₹ 20,000; Investment Allowance Reserve is ₹ 10,000 out of which ₹ 5,000 is not free for distribution as dividend; Cash at bank amounted to ₹ 98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve and surplus, subject to the conditions that a sum of ₹ 20,000 shall be retained in general reserve and which should not be utilized.

   Pass Journal Entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out.

Redemption of Debentures

8. The following balances appeared in the books of Lakshya Ltd. as on 1-4-20X1:

   (i) 10 % Debentures ₹ 37,50,000

   (ii) Balance of DRR ₹ 1,25,000

   (iii) DRR Investment 5,62,500 represented by 10% ₹ 5,625 Secured Bonds of the Government of India of ₹ 100 each.

   Annual contribution to the DRR was made on 31st March every year. On 31-3-20X2, balance at bank was ₹ 37,50,000 before receipt of interest. Interest on Debentures had already been paid. The investment were realized at par for redemption of debentures at a premium of 10% on the above date.

   Lakshya Ltd. is an unlisted company (other than AIFI, Banking company, NBFC and HFC). You are required to prepare Debenture Redemption Reserve Account, Debenture Redemption Reserve Investment Account and Bank Account in the books of Lakshya Ltd. for the year ended 31st March, 20X2.

Investment Accounts

9. Meera carried out the following transactions in the shares of Kumar Ltd.:

   (1) On 1st April, 2019 she purchased 40,000 equity shares of ₹ 1 each fully paid up for ₹ 60,000.

   (2) On 15th May 2019, Meera sold 8,000 shares for ₹ 15,200.

   (3) At a meeting on 15th June 2019, the company decided:

      (i) To make a bonus issue of one fully paid up share for every four shares held on 1st June 2019, and

(ii) To give its members the right to apply for one share for every five shares held on 1st June 2019 at a price of ₹ 1.50 per share of which 75 paise is payable on or before 15th July 2019 and the balance, 75 paise per share, on or before 15th September, 2019.

The shares issued under (i) and (ii) were not to rank for dividend for the year ending 31st December 2019.

(a) Meera received her bonus shares and took up 4,000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30th September 2019.

(b) On 15th March 2020, she received a dividend from Kumar Ltd. of 15 per cent in respect of the year ended 31st Dec 2019.

(c) On 30th March 2020, she received ₹ 28,000 from the sale of 20,000 shares.

You are required to record these transactions in the Investment Account in Meera's books for the year ended 31st March 2020 transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis. Expenses and tax to be ignored.

Insurance Claim for loss of stock or loss of profit

10. A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

	₹
Turnover in last financial year	36,00,000
Standing charges in last financial year	7,20,000

Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.

Increase in turnover expected 25%.

To achieve additional sales, trader has to incur additional expenditure of ₹ 50,000.

Hire Purchase Transactions

11. On January 1, 20X1 Kasturi Ltd. acquired a Pick-up Van on hire purchase from Shorya Ltd. The terms of the contract were as follows:

(a) The cash price of the van was ₹ 25,000.

(b) ₹ 10,000 were to be paid on signing of the contract.

(c) The balance was to be paid in annual instalments of ₹ 5,000 plus interest.

(d) Interest chargeable on the outstanding balance was 6% p.a.

(e) Depreciation at 10% p.a. is to be written-off using the straight-line method.

You are required to show the Van account & Shorya Ltd. account in the books of Kasturi Ltd. from January 1, 20X1 to December 31, 20X3.

Departmental Accounts

12. (a) How will you allocate the following expenses among different departments:

(i) Rent, rates and taxes, repairs and maintenance, insurance of building;

(ii) Maintenance of capital assets

(iii) PF/ESI contributions

(iv) Carriage inward/ Discount received

(v) Lighting and Heating expenses

(b) There is transfer/sale among the three departments as below:

Department X sells goods to Department Y at a profit of 25% on cost and to Department Z at 20% profit on cost.

Department Y sells goods to X and Z at a profit of 15% and 20% on sales respectively.

Department Z charges 20% and 25% profit on cost to Departments X and Y respectively.

Department Managers are entitled to 10% commission on net profit subject to urealised profit on departmental sales being eliminated.

Departmental profits after charging Managers' commission, but before adjustment of unrealised profit are as under:

	₹
Department X	1,80,000
Department Y	1,35,000
Department Z	90,000

Stocks lying at different Departments at the end of the year are as under:

	Dept. X	Dept. Y	Dept. Z
Transfer from Department X	-	75,000	57,000
Transfer from Department Y	70,000	-	60,000
Transfer from Department Z	30,000	25,000	-

Find out the correct departmental profits after charging Managers' commission.

Branch Accounting

13. On 31st March, 2019 Chennai Branch submits the following Trial Balance to its Head Office at Lucknow:

Debit Balances	₹ in lacs
Furniture and Equipment	18
Depreciation on furniture	2
Salaries	25
Rent	10
Advertising	6
Telephone, Postage and Stationery	3
Sundry Office Expenses	1
Stock on 1st April, 2018	60
Goods Received from Head Office	288
Debtors	20
Cash at bank and in hand	8
Carriage Inwards	7
	448
Credit Balances	
Outstanding Expenses	3
Goods Returned to Head Office	5
Sales	360
Head Office	80
	448

Additional Information:

Stock on 31st March, 2019 was valued at ₹ 62 lacs. On 29th March, 2019 the Head Office dispatched goods costing ₹ 10 lacs to its branch. Branch did not receive these goods before 1st April, 2019. Hence, the figure of goods received from Head Office does not include these goods. Also the head office has charged the branch ₹ 1 lac for centralized services for which the branch has not passed the entry.

You are required to :(i) pass Journal Entries in the books of the Branch to make the necessary adjustments and (ii) prepare Final Accounts of the Branch including Balance Sheet.

Accounts from Incomplete Records

14. The books of account of Mr. Maan of Mumbai showed the following figures:

	31.3.2018 ₹	31.3.2019 ₹
Furniture & fixtures	2,60,000	2,34,000
Stock	2,45,000	3,20,000
Debtors	1,25,000	?
Cash in hand & bank	1,10,000	?
Creditors	1,35,000	1,90,000
Bills payable	70,000	80,000
Outstanding salaries	19,000	20,000

An analysis of the cash book revealed the following:

	₹
Cash sales	16,20,000
Collection from debtors	10,58,000
Discount allowed to debtors	20,000
Cash purchases	6,15,000
Payment to creditors	9,73,000
Discount received from creditors	32,000
Payment for bills payable	4,30,000
Drawings for domestic expenses	1,20,000
Salaries paid	2,36,000
Rent paid	1,32,000
Sundry trade expenses	81,000

Depreciation is provided on furniture & fixtures @10% p.a. on diminishing balance method. Mr. Maan maintains a steady gross profit rate of 25% on sales.

You are required to prepare Trading and Profit and Loss account for the year ended 31st March, 2019 and Balance Sheet as on that date.

Framework for Preparation and Presentation of Financial Statements

15. A Ltd. has entered into a binding agreement with Gamma Ltd. to buy a custom-made machine ₹ 1,00,000. At the end of 20X1-X2, before delivery of the machine, A Ltd. had to

change its method of production. The new method will not require the machine ordered and it will be scrapped after delivery. The expected scrap value is nil.

You are required to advise the accounting treatment and give necessary journal entry in the year 20X1-X2.

Applicability of Accounting Standards

AS 1 Disclosure of Accounting Policies

16. (a) ABC Ltd. was making provision for non-moving inventories based on no issues for the last 12 months up to 31.3.2019.

The company wants to provide during the year ending 31.3.2020 based on technical evaluation:

Total value of inventory	₹ 100 lakhs
Provision required based on 12 months issue	₹ 3.5 lakhs
Provision required based on technical evaluation	₹ 2.5 lakhs

Does this amount to change in Accounting Policy? Can the company change the method of provision?

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

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

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

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

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

AS 2 Valuation of Inventories

17. (a)

Particulars		Kg.	₹
Opening Inventory:	Finished Goods	1,000	25,000
	Raw Materials	1,100	11,000
Purchases		10,000	1,00,000

Labour			76,500
Overheads (Fixed)			75,000
Sales		10,000	2,80,000
Closing Inventory:	Raw Materials	900	
	Finished Goods	1200	

The expected production for the year was 15,000 kg of the finished product. Due to fall in market demand the sales price for the finished goods was ₹ 20 per kg and the replacement cost for the raw material was ₹ 9.50 per kg on the closing day. You are required to calculate the closing inventory as on that date.

AS 3 Cash Flow Statements

(b) Classify the following activities as (1) Operating Activities, (2) Investing Activities, (3) Financing Activities (4) Cash Equivalents.

a. Proceeds from long-term borrowings.

b. Proceeds from Trade receivables.

c. Trading Commission received.

d. Redemption of Preference Shares.

e. Proceeds from sale of investment

f. Interim Dividend paid on equity shares.

g. Interest received on debentures held as investment.

h. Dividend received on shares held as investments.

i. Rent received on property held as investment.

j. Dividend paid on Preference shares.

k. Marketable Securities

AS 10 Property, Plant and Equipment

18. (a) Entity A has a policy of not providing for depreciation on PPE capitalized in the year until the following year, but provides for a full year's depreciation in the year of disposal of an asset. Is this acceptable?

(b) Entity A purchased an asset on 1st January 2016 for ₹ 1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil. On 1st January 2020, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years. Calculate the amount of depreciation for each year, if company charges depreciation on Straight Line basis.

(c) The following items are given to you:

ITEMS

(1) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment);

(2) Costs of conducting business in a new location or with a new class of customer (including costs of staff training);

(3) Any costs 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

(4) Costs of opening a new facility or business, such as, inauguration costs;

(5) Purchase price, including import duties and non–refundable purchase taxes, after deducting trade discounts and rebates.

With reference to AS 10 "Property, Plant and Equipment", classify the above items under the following heads:

HEADS

(i) Purchase Price of PPE

(ii) Directly attributable cost of PPE or

(iii) Cost not included in determining the carrying amount of an item of PPE.

AS 11 The Effects of Changes in Foreign Exchange Rates

19. (a) (i) AXE Limited purchased fixed assets costing $ 5,00,000 on 1st Jan. 2018 from an American company M/s M&M Limited. The amount was payable after 6 months. The company entered into a forward contract on 1st January 2018 for five months @ ₹ 62.50 per dollar. The exchange rate per dollar was as follows :

On 1st January, 2018 ₹ 60.75 per dollar

On 31st March, 2018 ₹ 63.00 per dollar

You are required to state how the profit or loss on forward contract would be recognized in the books of AXE Limited for the year ending 2017-18, as per the provisions of AS 11.

(ii) Assets and liabilities and income and expenditure items in respect of integral foreign operations are translated into Indian rupees at the prevailing rate of exchange at the end of the year. The resultant exchange differences in the case of profit, is carried to other Liabilities Account and the Loss, if any, is charged to revenue. You are required to comment in line with AS 11 .

AS 12 Accounting for Government Grants

(b) How would you treat the following in the accounts in accordance with AS 12 'Government Grants'?

(i) ₹ 35 Lakhs received from the Local Authority for providing Medical facilities to the employees.

(ii) ₹ 100 Lakhs received as Subsidy from the Central Government for setting up a unit in a notified backward area.

(iii) ₹ 10 Lakhs Grant received from the Central Government on installation of anti-pollution equipment.

AS 13 Accounting for Investments

20. (a) Omega Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13. State the values, at which the investments have to be reclassified in the following cases:

(i) 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 date of transfer is ₹ 6.8 lakhs.

(ii) 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 date of transfer is ₹ 12 lakhs.

(iii) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these investments was ₹ 18 lakhs but had been written down to ₹ 12 lakhs to recognize permanent decline as per AS 13.

AS 16 Borrowing Costs

(b) Govind Ltd. issued 12% secured debentures of ₹ 100 Lakhs on 01.04.2018, to be utilized as under:

Particulars	*Amount (₹ in lakhs)*
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2019, construction of the factory building was completed and machinery was installed and ready for its intended use. Total interest on debentures for the financial year ended 31.03.2019 was ₹ 12,00,000. During the year 2018-19, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of ₹ 3,00,000.

You are required to show the treatment of interest under Accounting Standard 16 and also explain nature of assets.

SUGGESTED ANSWERS/HINTS

1. **Gaurav Ltd.**

Balance Sheet as on 31st March, 2019

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	12,48,750
	b	Reserves and Surplus	2	3,70,875
2		**Non-current liabilities**		
		Long-term borrowings	3	3,29,375
3		**Current liabilities**		
	a	Trade Payables		2,50,000
	b	Other current liabilities	4	9,375
	c	Short-term provisions	5	1,60,000
		Total		**23,68,375**
		Assets		
1		**Non-current assets**		
		PPE	6	14,06,250
2		**Current assets**		
	a	Inventories	7	3,12,500
	b	Trade receivables	8	2,50,000
	c	Cash and cash equivalents	9	3,46,250
	d	Short-term loans and advances		53,375
		Total		**23,68,375**

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	12,500 Equity Shares of ₹ 100 each		
	(of the above 2,500 shares have been issued for consideration other than cash)	12,50,000	
	Less: Calls in arrears	(1,250)	12,48,750
	Total		**12,48,750**
2	**Reserves and Surplus**		
	General Reserve		2,62,500
	Surplus (Profit & Loss A/c)		1,08,375
	Total		**3,70,875**
3	**Long-term borrowings**		
	Secured Term Loan		
	State Financial Corporation Loan (1,87,500 – 9,375) (Secured by hypothecation of Plant and Machinery)		1,78,125
	Unsecured Loan		1,51,250
	Total		**3,29,375**
4	**Other current liabilities**		
	Interest accrued but not due on loans (SFC)		9,375
5	**Short-term provisions**		
	Provision for taxation		1,60,000
6	**PPE**		
	Land and Building	7,50,000	
	Less: Depreciation	(62,500)	6,87,500
	Plant & Machinery	8,75,000	
	Less: Depreciation	(2,18,750)	6,56,250
	Furniture & Fittings	78,125	
	Less: Depreciation	(15,625)	62,500
	Total		**14,06,250**
7	**Inventories**		
	Raw Materials		62,500
	Finished goods		2,50,000

	Total		**3,12,500**
8	**Trade receivables**		
	Outstanding for a period exceeding six months		65,000
	Other Amounts		1,85,000
	Total		**2,50,000**
9	**Cash and cash equivalents**		
	Cash at bank		
	with Scheduled Banks	3,06,250	
	with others (Global Bank Ltd.)	2,500	3,08,750
	Cash in hand		37,500
	Total		**3,46,250**

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

	₹	₹
Balance from Trading A/c		201,26,825
Add: Subsidies received from Government		13,69,625
		214,96,450
Less: Administrative, selling and distribution expenses	41,12,710	
Director's fees	6,73,900	
Interest on debentures	1,56,200	
Depreciation on fixed assets as per Schedule II	28,76,725	(78,19,535)
Profit u/s 198		136,76,915

Maximum Managerial remuneration under Companies Act, 2013 = 11% of ₹ 136,76,915= ₹ 15,04,461.

3. X Ltd.

Cash Flow Statement

for the year ended 31st March, 2019

	₹	₹
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		20,00,000
Adjustments for:		
Depreciation on PPE	5,00,000	

Discount on issue of debentures	30,000	
Interest on debentures paid	3,50,000	
Interest on investments received	(60,000)	
Profit on sale of investments	(20,000)	8,00,000
Operating profit before working capital changes		28,00,000
Adjustments for:		
Increase in inventory	(1,18,000)	
Decrease in trade receivable	4,900	
Increase in trade payables	300	
Increase in outstanding expenses	6,800	(1,06,000)
Cash generated from operations		26,94,000
Income tax paid		(10,50,000)
		16,44,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		90,000
Net cash flow from operating activities		17,34,000
Cash flow from Investing Activities		
Sale proceeds of investments	3,20,000	
Interest received on investments	60,000	
Net cash flow from investing activities		3,80,000
Cash flow from Financing Activities		
Proceeds by issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(15,75,000)	
Preference dividend paid	(1,50,000)	
Interest on debentures paid	(3,50,000)	
Dividend paid (5,00,000 + 3,00,000)	(8,00,000)	
Net cash used in financing activities		(22,75,000)
Net decrease in cash and cash equivalents during the year		(1,61,000)
Add: Cash and cash equivalents as on 31.3.2018		1,96,300
Cash and cash equivalents as on 31.3.2019		35,300

Note: Purchase of land in exchange of equity shares (issued at 20% premium) has not been considered in the cash flow statement as it does not involve any cash transaction.

4. **Shreya (P) Limited**

Profit and Loss Account

for 15 months ended 31st March, 2019

	Pre. inc. (5 months) (₹)	*Post inc. (10 months)* (₹)		*Pre. inc. (5 months)* (₹)	*Post inc. (10 months)* (₹)
To Cost of sales	1,80,000	10,08,000	By Sales	3,00,000	16,80,000
To Gross profit	1,20,000	6,72,000	(W.N.1)		
	3,00,000	16,80,000		3,00,000	16,80,000
To Discount to dealers	7,000	39,200	By Gross profit	1,20,000	6,72,000
To Directors' remuneration	-	60,000	By Loss	750	
To Salaries (W.N.2)	18,750	71,250			
To Rent (W.N.3)	15,000	1,20,000			
To Interest (W.N.4)	30,000	75,000			
To Depreciation	10,000	20,000			
To Office expenses	35,000	70,000			
To Preliminary expenses	-	15,000			
To Sales promotion expenses	5,000	28,000			
To Net profit	-	1,73,550			
	1,20,750	6,72,000		1,20,750	6,72,000

Working Notes:

1. **Calculation of sales ratio:**

   Let the average sales per month in pre-incorporation period be x

Average Sales (Pre-incorporation)		= x X 5 = 5x
Sales (Post incorporation) from June to December, 2018 = 2½ x X 7		= 17.5x
From January to March, 2019	= 3½ x X 3	= 10.5x
Total Sales		28.0x

   Sales ratio of pre-incorporation & post incorporation is 5x : 28x

2. **Calculation of ratio for salaries**

Let the average salary be x

Pre-incorporation salary = x X 5= 5x

Post incorporation salary

June, 2018 = x

July 18 to March, 2019 = x X 9 X 2 = 18x

19x

Ratio is 5 : 19

3. **Calculation of Rent**

		₹
Total rent		1,35,000
Less: Additional rent for 9 months @ ₹ 10,000 p.m.		90,000
Rent of old premises apportioned in time ratio		45,000
Apportionment	Pre Inc.	Post Inc.
Old premises rent	15,000	30,000
Additional Rent		90,000
	15,000	1,20,000

4. **Calculation of interest**

Pre-incorporation period from January, 2018 to May, 2018

$\left(\frac{6,00,000 \times 12 \times 5}{100 \times 12}\right) =$ ₹ 30,000

Post incorporation period from June, 2018 to March, 2019

$\left(\frac{9,00,000 \times 10 \times 10}{100 \times 12}\right) =$ ₹ 75,000

₹ 1,05,000

5. **Bumbum Limited**

Journal Entries

2019		*Dr. (₹)*	*Cr. (₹)*
July 1	Equity Share Capital A/c (₹ 10 each) Dr.	3,00,000	
	To Equity share capital A/c (₹ 2 each)		3,00,000

	(Being equity share of ₹ 10 each splitted into 5 equity shares of ₹ 2 each) {1,50,000 X 2}		
July 10	Cash & Bank balance A/c Dr. To Investment A/c To Profit & Loss A/c (Being investment sold out and profit on sale credited to Profit & Loss A/c)	5,55,000	 4,90,000 65,000
July 10	8% Redeemable preference share capital A/c Dr. Premium on redemption of preference share A/c Dr. To Preference shareholders A/c (Being amount payable to preference share holders on redemption)	5,00,000 25,000	 5,25,000
July 10	Preference shareholders A/c Dr. To Cash & bank A/c (Being amount paid to preference shareholders)	5,25,000	 5,25,000
July 10	General reserve A/c Dr. To Capital redemption reserve A/c (Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law)	5,00,000	 5,00,000
Sept. 12	Capital Redemption Reserve A/c Dr. To Bonus to shareholders A/c (Being balance in capital redemption reserve capitalized to issue bonus shares)	1,00,000	 1,00,000
Sept. 12	Bonus to shareholders A/c Dr. To Equity share capital A/c (Being 50,000 fully paid equity shares of ₹ 2 each issued as bonus in ratio of 1 share for every 3 shares held)	1,00,000	 1,00,000
Sept. 30	Securities Premium A/c Dr. To Premium on redemption of preference shares A/c (Being premium on preference shares adjusted from securities premium account)	25,000	 25,000

Balance Sheet as at 30th September, 2019

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	4,00,000
	b	Reserves and Surplus	2	12,30,000
2		**Current liabilities**		
	a	Trade Payables		4,20,000
		Total		**20,50,000**
		Assets		
1		**Non-current assets**		
	a	PPE		7,80,000
	b	Deferred tax asset		3,40,000
2		**Current assets**		
		Trade receivables		6,20,000
		Cash and cash equivalents		3,10,000
		Total		**20,50,000**

Notes to accounts

1	**Share Capital**	₹	₹
	Authorized share capital		
	2,50,000 Equity shares of ₹ 2 each	5,00,000	
	10,000 8% Preference shares of ₹100 each	10,00,000	15,00,000
	Issued, subscribed and paid up		
	2,00,000 Equity shares of ₹ 2 each		4,00,000
2	**Reserves and Surplus**		
	Securities Premium A/c		
	Balance as per balance sheet	6,00,000	
	Less: Adjustment for premium on preference Shares	(25,000)	
	Balance		5,75,000
	Capital Redemption Reserve (5,00,000-1,00,000)		4,00,000
	General Reserve (6,50,000 – 5,00,000)		1,50,000

	Profit & Loss A/c	40,000	
	Add: Profit on sale of investment	65,000	1,05,000
	Total		**12,30,000**

Working Notes:

		₹
1.	**Redemption of preference shares**	
	5,000 Preference shares of ₹ 100 each	5,00,000
	Premium on redemption @ 5%	25,000
	Amount Payable	5,25,000
2.	**Issue of Bonus Shares**	
	Existing equity shares after split (30,000 x 5)	1,50,000 shares
	Bonus shares (1 share for every 3 shares held) to be issued	50,000 shares
3.	**Cash and Bank Balance**	
	Balance as per balance sheet	2,80,000
	Add: Realization on sale of investment	5,55,000
		8,35,000
	Less: Paid to preference share holders	(5,25,000)
	Balance	3,10,000

6. Ex-right value of the shares =

(Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + Rights No. of shares) = (₹ 360 x 2 Shares + ₹ 180 x 1 Share) / (2 + 1) Shares

= ₹ 900 / 3 shares = ₹ 300 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= ₹ 360 – ₹ 300 = ₹ 60 per share.

Hence, any one desirous of having a confirmed allotment of one share from the company at ₹ 180 will have to pay ₹ 120 (2 shares x ₹ 60) to an existing shareholder holding 2 shares and willing to renounce his right of buying one share in favour of that person.

7. **Journal Entries**

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	25,000	
	To Equity Share Capital A/c			25,000
	(Being the issue of 2,500 Equity Shares of ₹ 10			

	each at par as per Board's Resolution No…..dated…….)			
	8% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	10,000	
	To Preference Shareholders A/c			1,10,000
	(Being the amount paid on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,10,000	
	To Bank A/c			1,10,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	10,000	
	To Premium on Redemption of Preference Shares A/c			10,000
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)			
	General Reserve A/c	Dr.	60,000	
	Profit & Loss A/c	Dr.	10,000	
	Investment Allowance Reserve A/c	Dr.	5,000	
	To Capital Redemption Reserve A/c			75,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Balance Sheet as on ………[Extracts]

		Particulars	Notes No.	₹
		EQUITY AND LIABILITIES		
1.	**Shareholders' funds**			
	a	Share capital	1	2,25,000
	b	Reserves and Surplus	2	1,02,000
		Total		?
	ASSETS			
2.	**Current Assets**			
		Cash and cash equivalents (98,000 + 25,000 – 1,10,000)		13,000
		Total		?

Notes to accounts

1.	**Share Capital**	
	22,500 Equity shares (20,000 + 2,500) of ₹10 each fully paid up	2,25,000
2.	**Reserves and Surplus**	
	General Reserve	20,000
	Capital Redemption Reserve	75,000
	Investment Allowance Reserve	5,000
		1,00,000

Working Note:

No of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed	₹1,00,000	
Less: Profit available for distribution as dividend:		
General Reserve: ₹(80,000-20,000)	₹60,000	
Profit and Loss (20,000 – 10,000 set aside for adjusting premium payable on redemption of preference shares)	₹10,000	
Investment Allowance Reserve: (₹ 10,000-5,000)	₹ 5,000	(₹ 75,000)
		₹ 25,000

Therefore, No. of shares to be issued = 25,000/₹10 = 2,500 shares.

8. Debenture Redemption Reserve Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
31st March, 20X2	To General reserve A/c note 1 (Refer Note 1)	3,75,000	1st April, 20X1	By Balance b/d	1,25,000
			1st April, 20X1	By Profit and loss A/c (Refer Note 1)	2,50,000
		3,75,000			3,75,000

10% Secured Bonds of Govt. (DRR Investment) A/c

		₹			₹
1st April, 20X1	To Balance b/d	5,62,500	31st March, 20X2	By Bank A/c	5,62,500
		5,62,500			5,62,500

Bank Account

		₹			₹
31st March, 20X2	To Balance b/d To Interest on DRR Investment (5,62,500X 10%) To DRR Investment A/c	37,50,000 56,250 5,62,500	31st March, 20X2	By Debenture holders A/c (110% of 37,50,000) By Balance c/d	41,25,000 2,43,750
		43,68,750			43,68,750

Working note –

Calculation of DRR before redemption = 10% of ₹ 37,50,000 = 3,75,000

Available balance = ₹ 1,25,000

DRR required =3,75,000 – 1,25,000 = ₹ 2,50,000.

9. Investment Account (Shares in Kumar Limited) in the books of Meera

Date	*Particulars*	*No. of Shares*	*Income*	*Amount*	*Date*	*Particulars*	*No. of Shares*	*Income*	*Amount*
2019			*₹*	*₹*	*2019*			*₹*	*₹*
April 1	To Bank (Purchases)	40,000	-	60,000	May 15	By Bank (Sale)	8,000	-	15,200
May 15	To Profit & Loss A/c (W.N.1)	-	-	3,200					
June15	To Bonus Issue	8,000	-	Nil	2020				
July 15	To Bank (@ 75 p. paid on 4,000 shares)	4,000	-	3,000	Mar. 15	By Bank (Dividend @ 15% on ₹ 32,000)		4,800	-
Sept.	To Bank (@ 75 p. paid on 4,000 shares)	-	-	3,000	Mar. 30	By Bank (Sale)	20,000	-	28,000
2020 Mar. 31	To Profit & Loss A/c (W.N.2)			3,455	Mar. 31	By Balance c/d*	24,000	-	29,455
	To Profit & Loss A/c	-	4,800						
		52,000	4,800	72,655			52,000	4,800	72,655

* $\left(\frac{24,000}{44,000}\times 54,000\right)$

Working Notes:

(1)	**Profit on Sale on 15-5-2019:**		
	Cost of 8,000 shares @ ₹1.50	₹ 12,000	
	Less: Sales price	₹ 15,200	
	Profit		₹ 3,200
(2)	**Cost of 20,000 shares sold:**		
	Cost of 44,000 shares (48,000 + 6,000)		₹ 54,000
	$\therefore$ Cost of 20,000 shares $\left(\frac{₹\,54,000}{44,000\text{ shares}} \times 20,000\text{ shares}\right)$		₹ 24,545
	Profit on sale of 20,000 shares (₹ 28,000 – ₹ 24,545)		₹ 3,455

10. (a) Calculation of Gross Profit

$$\text{Gross Profit} = \frac{\text{Net Profit} + \text{Standing Charges}}{\text{Turnover}} \times 100$$

$$= (3,60,000+7,20,000)/36,00,000 = 30\%$$

(b) Calculation of policy amount to cover loss of profit

	₹
Turnover in the last financial year	36,00,000
Add: 25% increase in turnover	9,00,000
	45,00,000
Gross profit on increased turnover	13,50,000
Add: Additional standing charges	50,000
Policy Amount	14,00,000

Therefore, the trader should go in for a loss of profit policy of ₹ 14,00,000.

11. Ledger Accounts in the books of Kasturi

Van Account

Date		*Particulars*	₹	*Date*		*Particulars*	₹
1.1.20X1	To	Shorya Ltd.	25,000	31.12.20X1	By	Depreciation A/c	2,500
				31.12.20X1	By	Balance c/d	22,500
			25,000				25,000
1.1.20X2	To	Balance b/d	22,500	31.12.20X2	By	Depreciation A/c	2,500
				31.12.20X2	By	Balance c/d	20,000
			22,500				22,500

1.1.20X3	To	Balance b/d	20,000	31.12.20X3	By	Depreciation A/c	2,500
				31.12.20X3	By	Balance c/d	17,500
			20,000				20,000

Shorya Ltd. Account

Date		*Particulars*	₹	*Date*		*Particulars*	₹
1.1.20X1	To	Bank A/c	10,000	1.1.20X1	By	Van A/c	25,000
31.12.20X1	To	Bank A/c	5,900	31.12.20X1	By	Interest A/c	900
31.12.20X1	To	Balance c/d	10,000				
			25,900				25,900
31.12.20X2	To	Bank A/c	5,600	1.1.20X2	By	Balance b/d	10,000
31.12.20X2	To	Balance c/d	5,000	31.12.20X2	By	Interest A/c	600
			10,600				10,600
31.12.20X3	To	Bank A/c	5,300	1.1.20X3	By	Balance b/d	5,000
				31.12.20X3	By	Interest A/c	300
			5,300				5,300

12. (a) (i) Floor area occupied by each department (if given) otherwise on time basis;

(ii) Value of assets of each department otherwise on time basis;

(iii) Wages and salaries of each department;

(iv) Purchases of each department;

(v) Consumption of energy by each department.

(b) Calculation of Correct Profit

	Department X	*Department Y*	*Department Z*
	₹	₹	₹
Profit after charging managers' commission	1,80,000	1,35,000	90,000
Add back: Managers' commission (1/9)	20,000	15,000	10,000
	2,00,000	1,50,000	1,00,000
Less: Unrealized profit on stock (W.N.)	(24,500)	(22,500)	(10,000)
Profit before Manager's commission	1,75,500	1,27,500	90,000
Less: Commission for Department Manager @ 10%	(17,550)	(12,750)	(9,000)
Departmental Profits after manager's commission	1,57,950	1,14,750	81,000

Working Note:

Stock lying with

	Dept. X	*Dept. Y*	*Dept. Z*	*Total*
	₹	₹	₹	₹
Unrealized Profit of:				
Department X		1/5×75,000 = 15,000	20/120×57,000 = 9,500	24,500
Department Y	0.15×70,000 = 10,500		0.20×60,000 = 12,000	22,500
Department Z	20/120×30,000 = 5,000	25/125×25,000 = 5,000		10,000

13. (i) Books of Branch

Journal Entries

			(₹ in lacs)
		Dr.	*Cr.*
Goods in Transit A/c	Dr.	10	
To Head Office A/c			10
(Goods dispatched by head office but not received by branch before 1st April, 2019)			
Expenses A/c	Dr.	1	
To Head Office A/c			1
(Amount charged by head office for centralised services)			

(ii) Trading and Profit & Loss Account of the Branch

for the year ended 31st March, 2019

		₹ in lacs		*₹ in lacs*
To Opening Stock		60	By Sales	360
To Goods received from			By Closing Stock	62
Head Office	288			
Less: Returns	(5)	283		
To Carriage Inwards		7		
To Gross Profit c/d		72		
		422		422
To Salaries		25	By Gross Profit b/d	72
To Depreciation on Furniture		2		
To Rent		10		
To Advertising		6		

To Telephone, Postage & Stationery	3		
To Sundry Office Expenses	1		
To Head Office Expenses	1		
To Net Profit Transferred to Head Office A/c	24		
	72		72

Balance Sheet as on 31st March, 2019

Liabilities	*₹ in lacs*		*Assets*	*₹ in lacs*	
Head Office	80		Furniture & Equipment	20	
Add: Goods in transit	10		*Less:* Depreciation	(2)	18
Head Office Expenses	1		Stock in hand		62
Net Profit	24	115	Goods in Transit		10
Outstanding Expenses		3	Debtors		20
			Cash at bank and in hand		8
		118			118

14. Trading & Profit and Loss Account In the books of Mr. Maan for the year ended 31st March, 2019

	Particulars	*Amount*		*Particulars*	*Amount*
		₹			₹
To	Opening stock	2,45,000	By	Sales:	
To	Purchases:			Cash	16,20,000
	Cash	6,15,000		Credit (W.N.3)	11,00,000
	Credit (W.N. 2)	15,00,000	By	Closing stock	3,20,000
To	Gross profit c/d	6,80,000			
		30,40,000			30,40,000
To	Salaries (W.N.5)	2,37,000	By	Gross profit b/d	6,80,000
To	Rent	1,32,000	By	Discount received	32,000
To	Sundry trade expenses	81,000			
To	Discount allowed	20,000			
To	Depreciation on furniture & fixtures	26,000			
To	Net profit	2,16,000			
		7,12,000			7,12,000

Balance Sheet

as at 31st March, 2019

Liabilities		*Amount*		*Amount*
		₹		₹
Capital			Fixed assets	
Opening balance (W.N.7)	5,16,000		Furniture & fixtures	2,34,000
Add: Net profit	2,16,000		Current assets:	
	7,32,000		Stock	3,20,000
Less: Drawings	1,20,000	6,12,000	Debtors (W.N.4)	1,47,000
Current liabilities & provisions:			Cash & bank (W.N.6)	2,01,000
Creditors		1,90,000		
Bills payable		80,000		
Outstanding salaries		20,000		
		9,02,000		9,02,000

Working Notes:

1. **Bills Payable Account**

	₹		₹
To Cash/Bank	4,30,000	By Balance b/d	70,000
To Balance c/d	80,000	By Trade creditors (Bal. fig.)	4,40,000
	5,10,000		5,10,000

2. **Creditors Account**

	₹		₹
To Cash/Bank	9,73,000	By Balance b/d	1,35,000
To Bills payable A/c (W.N.1)	4,40,000	By Credit purchases (Bal. fig.)	15,00,000
To Discount received	32,000		
To Balance c/d	1,90,000		
	16,35,000		16,35,000

3. **Calculation of credit sales**

	₹
Opening stock	2,45,000

Add: Purchases		
Cash purchases	6,15,000	
Credit purchases	15,00,000	21,15,000
		23,60,000
Less: Closing Stock		3,20,000
Cost of goods sold		20,40,000
Gross profit ratio on sales		25%
Total sales $\left[₹\ 20,40,000 \times \frac{100}{75}\right]$		27,20,000
Less: Cash sales		16,20,000
Credit sales		11,00,000

4. **Debtors Account**

	₹		₹
To Balance b/d	1,25,000	By Cash/Bank	10,58,000
To Credit sales (W.N.3)	11,00,000	By Discount allowed	20,000
		By Balance c/d (Bal. fig.)	1,47,000
	12,25,000		12,25,000

5. **Salaries**

	₹
Salaries paid during the year	2,36,000
Add: Outstanding salaries as on 31.3.2019	20,000
	2,56,000
Less: Outstanding salaries as on 31.03.2018	19,000
	2,37,000

6. **Cash / Bank Account**

	₹		₹
To Balance b/d	1,10,000	By Cash purchases	6,15,000
To Cash sales	16,20,000	By Creditors	9,73,000
To Debtors	10,58,000	By Bills payable	4,30,000
		By Drawings	1,20,000
		By Salaries	2,36,000

		By Rent	1,32,000
		By Sundry trade expenses	81,000
	______	By Balance c/d	2,01,000
	27,88,000		27,88,000

7. **Balance Sheet as at 31st March, 2018**

	₹		₹
Creditors	1,35,000	Furniture & fixtures	2,60,000
Bills payable	70,000	Stock	2,45,000
Outstanding salaries	19,000	Debtors	1,25,000
Capital (Bal. fig.)	5,16,000	Cash & bank	1,10,000
	7,40,000		7,40,000

15. A liability is recognised when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured. In the given case, A Ltd. should recognise a liability of ₹ 1,00,000 to Gamma Ltd..

When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognised as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognised as an expense.

Journal entry

Loss on change in production method To Gamma Ltd. (Loss due to change in production method)	Dr.	1,00,000	 1,00,000
Profit and loss A/c To Loss on change in production method (Loss transferred to profit and loss account)	Dr.	1,00,000	 1,00,000

16. (a) (i) The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made. In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from ₹ 3.5 lakhs to ₹ 2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2019-20:

"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been lower by ₹ 1 lakh."

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

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

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

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

17. (a) Calculation of cost for closing inventory

Particulars	₹
Cost of Purchase (10,200 x 10)	1,02,000
Direct Labour	76,500
Fixed Overhead $\frac{75{,}000 \times 10{,}200}{15{,}000}$	51,000
Cost of Production	2,29,500
Cost of closing inventory per unit (2,29,500/10,200)	₹ 22.50
Net Realisable Value per unit	₹ 20.00

Since net realisable value is less than cost, closing inventory will be valued at ₹ 20.

As NRV of the finished goods is less than its cost, relevant raw materials will be valued at replacement cost i.e. ₹ 9.50.

Therefore, value of closing inventory: Finished Goods (1,200 x 20)	₹ 24,000
Raw Materials (900 x 9.50)	₹ 8,550
	₹ 32,550

(b) Operating Activities: b, c.

Investing Activities: e, g, h, i.

Financing Activities: a, d, f, j.

Cash Equivalent: k.

18. (a) The depreciable amount of a tangible fixed asset should be allocated on a systematic basis over its useful life. The depreciation method should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Useful life means the period over which the asset is expected to be available for use by the entity. Depreciation should commence as soon as the asset is acquired and is available for use. Thus, the policy of Entity A is not acceptable.

(b) The entity has charged depreciation using the straight-line method at ₹ 10,000 per annum i.e (1,00,000/10 years). On 1st January 2020, the asset's net book value is [1,00,000 – (10,000 x 4)] = ₹ 60,000.

The remaining useful life is 4 years. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of four years. Consequently, it should charge depreciation for the next 4 years at ₹ 15,000 per annum i.e. (60,000 / 4 years). Depreciation is recognized even if the Fair value of the Asset exceeds its Carrying Amount. Repair and maintenance of an asset do not negate the need to depreciate it.

(c) (1) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment) will be classified as "Directly attributable cost of PPE".

(2) Costs of conducting business in a new location or with a new class of customer (including costs of staff training) will be classified under head (iii)as it will not be included in determining the carrying amount of an item of PPE.

(3) Any costs 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 will be included in determination of Purchase Price of PPE

(4) Costs of opening a new facility or business, such as, inauguration costs will be classified under head (iii) as it will not be included in determining the carrying amount of an item of PPE.

(5) Purchase price, including import duties and non–refundable purchase taxes, after deducting trade discounts and rebates will be included in determination of Purchase Price of PPE.

19. (a) (i) As per AS 11 “The Effects of Changes in Foreign Exchange Rates”, an enterprise may enter into a forward exchange contract to establish the amount of the reporting currency required, the premium or discount arising at the inception of such a forward exchange contract should be amortized as expenses or income over the life of the contract.

Forward Rate	₹ 62.50
Less: Spot Rate	(₹ 60.75)
Premium on Contract	₹ 1.75

Contract Amount US$ 5,00,000

Total Loss (5,00,000 x 1.75) ₹ 8,75,000

Contract period 5 months

3 months falling in the year 2017-18; therefore loss to be recognized in 2017-18 (8,75,000/5) x 3 = ₹ 5,25,000. Rest ₹ 3,50,000 will be recognized in the following year 2018-19.

(ii) Financial statements of an integral foreign operation (for example, dependent foreign branches) should be translated using the principles and procedures described in paragraphs 8 to 16 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).

(b) (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.

20. (a) As per AS 13 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. And where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer. Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 6.5 lakhs in the books.

(ii) In this case, reclassification of current investment into long-term investments will be made at ₹ 10 lakhs as cost is less than its market value of ₹ 12 lakhs.

(iii) In this case, the book value of the investment is ₹ 12 lakhs, which is lower than its cost i.e. ₹ 18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at ₹ 12 lakhs.

(b) According to 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.

It also 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

= ₹ 12,00,000 – ₹ 3,00,000

= ₹ 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