(CA INTERMEDIATE MOCK TEST MAY 2021)

DATE: 17.02.2021 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

ACCOUNTS

Q. No. 1 is compulsory.
Candidates are required to answer any four questions from the remaining five questions.
Wherever necessary suitable assumptions should be made by the candidates.
Working notes should form part of the answer.

Answer 1:
(a)

Particulars	Rs.
Purchase Price of Land	**30,00,000**
Stamp Duty & Legal Fee	**2,00,000**
Architect Fee	**2,00,000**
Site Preparation	**50,000**
Materials (10,00,000 - Wasted Materials Cost not includible in PPE 2,50,000)	**7,50,000**
Direct Labour Cost (4,00,000 - Cost of Delay period not includible in PPE 22,000)	**3,78,000**
Interest (40,00,000 × 8% × 9/12) (only upto date of completion of construction)	**2,40,000**
Total to be capitalized	**48,18,000**

{8 items x 1/2 = 4 M}

Note: General Overheads are not included in the Cost of PPE. **{1 M}**

Answer:
(b) Calculation of Cost of Fixed Asset (i.e. Machinery)

Particulars			Rs.
Purchase Price		Given (Rs. 158,34,000 x 100/112)	**1,41,37,500**
Add:	Site Preparation Cost	Given	**1,41,870**
	Technician's Salary	Specific/Attributable overheads for 3 months (See Note) (45,000 x3)	**1,35,000**
	Initial Delivery Cost	Transportation	**55,770**
	Professional Fees for Installation	Architect's Fees	**30,000**
Total Cost of Asset			1,45,00,140

{5 item x 1/2 M} **{1 M}**

Note:

(i) Interest on Bank Overdraft for earlier payment of invoice is not relevant under AS 10. **{3/4 M}**

(ii) Internally booked profits should be eliminated in arriving at the cost of machine. **{3/4 M}**

Answer:
(c) (i) Interest paid by financial enterprise Cash flows from operating activities

(ii) TDS on interest received from subsidiary company
Cash flows from investing activities

(iii) Deposit with bank for a term of two years
Cash flows from investing activities

(iv) Insurance claim received against loss of fixed asset by fire
Extraordinary item to be shown as a separate heading under 'Cash flow from investing activities'

{5 M}

(v) Bad debts written off
It is a non-cash item which is adjusted from net profit/loss under indirect method, to arrive at net cash flow from operating activity.

Answer:

(d) As per para 21 of AS 12, 'Accounting for Government Grants', "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement. **{1 M}**

(i) In this case the grant refunded is Rs. 15 lakhs and balance in deferred income is Rs. 10.50 lakhs, Rs. 4.50 lakhs shall be charged to the profit and loss account for the year 2017-18. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years. **{2 M}**

(ii) If the grant was deducted from the cost of the plant in the year 2014-15 then, para 21 of AS 12 states that the amount refundable in respect of grant which relates to specific fixed assets should be recorded by increasing the book value of the assets, by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case, the book value of the plant shall be increased by Rs. 15 lakhs. The increased cost of Rs. 15 lakhs of the plant should be amortized over 7 years (residual life). Depreciation charged during the year 2017-18 shall be (56+15)/7 years = Rs. 10.14 lakhs presuming the depreciation is charged on SLM.) **{2 M}**

Answer 2:

(a)

			Rs.	
(i)	Price of two cars = Rs. 2,00,000 x 2		4,00,000	{3 M}
	Less: Depreciation for the first year @ 30%		1,20,000	
			2,80,000	
	Less: Depreciation for the second year = $2,80,000 \times \frac{30}{100}$		84,000	
	Agreed value of two cars taken back by the hire vendor		**1,96,000**	
(ii)	Cash purchase price of one car		2,00,000	{3 M}
	Less: Depreciation on Rs. 2,00,000 @20% for the first year		40,000	
	Written drown value at the end of first year		1,60,000	
	Less: Depreciation on Rs. 1,60,000 @ 20% for the second year		32,000	
	Book value of car left with the hire purchaser		**1,28,000**	
(iii)	Book value of one car as calculated in working note (ii) above		1,28,000	{2 M}
	Book value of Two cars = Rs. 1,28,000 x 2		2,56,000	
	Value at which the two cars were taken back, calculated in working note (i) above		1,96,000	
	Hence, loss on cars taken back = Rs. 2,56,000 – Rs. 1,96,000 =		**Rs. 60,000**	
(iv)	Sale proceeds of cars repossessed		1,70,000	{2 M}
	Less: Value at which Cars were taken back	Rs. 1,96,000		
	Repair Rs.	Rs. 10,000	2,06,000	
	Loss on resale		**36,000**	

Answer

(b) **Investment Account-Equity Shares in X Ltd.**

Date		No. of shares	Dividend	Amount	Date		No. of shares	Dividend	Amount
			Rs.	Rs.				Rs.	Rs.
2017					2018				
April 1	To Balance b/d	4,000	-	**60,000**	Jan. 20	By Bank (dividend)		**8,000**	**2,000**
Sept 1	To Bank	1,000	-	**14,000**	Feb. 1	By Bank	4,000		**56,000**
Sept.30	To Bonus Issue	2,000	-	-	Mar. 31	By Balance c/d	4,000		**42,250**
Dec.1	To Bank (Right)	1,000	-	**12,500**					
2018									
Feb. 1	To Profit & Loss A/c		-	**13,750**					
Mar.31	To Profit & Loss A/c (Dividend income)		**8,000**	-					
		8,000	8,000	1,00,250			8,000	8,000	1,00,250
April. 1	To Balance b/d	4,000		**42,250**					

{10 Item X 1/2 M}

Working Notes:

1. Cost of shares sold — Amount paid for 8,000 shares

	Rs.
(Rs. 60,000 + Rs. 14,000 + Rs. 12,500)	86,500
Less: Dividend on shares purchased on 1st Sept, 2017	(2,000)
Cost of 8,000 shares	84,500
Cost of 4,000 shares (Average cost basis*)	42,250
Sale proceeds (4,000 shares @ 14/-)	56,000
Profit on sale	13,750

{1 1/2 M}

*For ascertainment of cost for equity shares sold, average cost basis has been applied.

2. Value of investment at the end of the year

Closing balance will be valued based on lower of cost (Rs. 42,250) or net realizable value (Rs. 13 x 4,000). Thus investment will be valued at Rs. 42,250. **{1 M}**

3. Calculation of sale of right entitlement

1,000 shares x Rs. 8 per share = Rs. 8,000

Amount received from sale of rights will be credited to P & L A/c as per AS 13 'Accounting for Investments' **{1 M}**

4. Dividend received on investment held as on 1st April, 2017

= 4,000 shares x Rs. 10 x 20%

= Rs. 8,000 will be transferred to Profit and Loss A/c

Dividend received on shares purchased on 1st Sep. 2017

= 1,000 shares x Rs. 10 x 20% = Rs. 2,000 will be adjusted to Investment A/c **{1 M}**

Note: It is presumed that no dividend is received on bonus shares as bonus shares are declared on 30th Sept., 2017 and dividend pertains to the year ended 31.3.2017. **{1/2 M}**

Answer 3:

(a)

Trading and Profit and Loss account for the year ending 31st March, 2017

Particulars	Rs.	Particulars	Rs.
To Opening Stock	**40,000**	By Sales	**4,31,250**
To Purchases (Working Note)	**3,45,000**	By Closing Stock	**40,000**
To Gross Profit c/d (20% on sales)	**86,250**		
	4,71,250		4,71,250
To Business Expenses	**50,000**	By Gross Profit b/d	**86,250**
To Depreciation on:			
Machinery 6,500			
Building 5,000	**11,500**		
To Net profit	**24,750**		
	86,250		86,250

5 Item X 1/2 M

4 Item X 1/2 M

Trade Debtors Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	**50,000**	By Bank (bal.fig.)	**4,09,375**
To Sales	**4,31,250**	By Balance c/d (1/6 of 4,31,250)	**71,875**
	4,81,250		4,81,250

4 Item X 1/2 M

Trade Creditors Account

Particulars	Rs.	Particulars	Rs.
To Bank (Balancing figure)	**3,31,875**	By Balancing b/d	**30,000**
To Balance c/d/ (1/8 of Rs. 3,45,000)	**43,125**	By Purchases	**3,45,000**
	3,75,000		3,75,000

4 Item X 1/2 M

Working Note:

		Rs.	
(i)	Calculation of Rate of Gross Profit earned during previous year		
A	Sales during previous year (Rs. 50,000 x 12/2)	**3,00,000**	**}1/2 M**
B	Purchases (Rs. 30,000 x 12/1.5)	**2,40,000**	**}1/2 M**
C	Cost of Goods Sold (Rs. 40,000 + Rs. 2,40,000 – Rs. 40,000)	**2,40,000**	**}1/2 M**
D	Gross Profit (A-C)	**60,000**	**}1/2 M**
E	Rate of Gross Profit $\frac{\text{Rs. } 60{,}000}{\text{Rs. } 3{,}00{,}000} \times 100$	**20%**	**}1 M**
(ii)	Calculation of sales and Purchases during current year	Rs.	
A	Cost of goods sold during previous year	**2,40,000**	**}1/2 M**
B	Add: Increases in volume @ 25 %	**60,000**	**}1/2 M**
		3,00,000	**}1/2 M**
C	Add: Increase in cost @ 15%	**45,000**	**}1/2 M**
D	Cost of Goods Sold during Current Year	**3,45,000**	**}1/2 M**
E	Add: Gross profit @ 25% on cost (20% on sales)	**86,250**	**}1/2 M**
F	Sales for current year [D+E]	**4,31,250**	**}1/2 M**

Answer:

(b)

(1) Ratio of interest and amount due = $\frac{\text{Rate of interest}}{100+\text{Rate of interest}} = \frac{10}{110} = \frac{1}{11}$ **}1 M**

(2) **Calculation of Interest and Cash Price**

No. of instalments	Amount due at the time of instalment	Interest	Cash price	
[1]	**[2]**	**[3]**	**[4]**	
3rd	55,000	1/11 of Rs. 55,000 = Rs. 5,000	50,000	1 M
2nd	*99,000	1/11 of Rs. 99,000 = Rs. 9,000	90,000	1 M
1st	**1,43,000	1/11of Rs. 1,43,000 = Rs. 13,000	1,30,000	1 M

Total cash price = Rs. 1,30,000+ 70,000 (down payment) = Rs. 2,00,000.
*Rs. 50,000 + 2nd instalment of Rs. 49,000 = Rs. 99,000.
** Rs. 90,000 + 1st instalment of Rs. 53,000 = Rs. 1,43,000.
1 M

Answer 4 :

(a) **Cash Flow Statement as per AS 3**

Cash flows from operating activities:		**Rs. in lacs**	
Net profit before tax provision		72,000	
Add: Non cash expenditures:			
Depreciation	48,000		
Loss on sale of assets	96		
Interest expenditure (non-operating activity)	24,000	72,096	
		1,44,096	
Less: Non cash income			
Amortisation of capital grant received	(20)		
Profit on sale of investments (non-operating income)	(240)		
Interest income from investments (non-operating income)	(6,000)	6,260	
Operating profit		1,37,836	
Less: Increase in working capital		(1,34,580)	
Cash from operations		3,256	
Less: Income tax paid		(10,200)	
Net cash generated from operating activities		**(6,944)**	{$2^{1/2}$ M}
Cash flows from investing activities:			
Sale of assets (444 – 96)	348		
Sale of investments (66,636+240)	66,876		
Interest income from investments	6,000		
Purchase of fixed assets	(44,184)		
Expenditure on construction work	(83,376)		
Net cash used in investing activities		**(54,336)**	{$2^{1/2}$ M}
Cash flows from financing activities:			
Grants for capital projects	36		
Long term borrowings	1,11,732		
Interest paid	(26,084)		
Dividend paid	(20,404)		
Net cash from financing activities		**65,280**	{$2^{1/2}$ M}
Net increase in cash		4,000	
Add: Cash and bank balance as on 1.4.2018		12,000	
Cash and bank balance as on 31.3.2019		**16,000**	{$2^{1/2}$ M}

Answer:

(b)

Branch Debtors A/c

	Rs.		Rs.
To Branch Stock A/c	**1,16,000**	By Branch Cash A/c (balancing figure)	**74,000**
		By Bad Debts (written off)	**400**
		By Balance c/d	**41,600**
	1,16,000		1,16,000

4 items x ¼ M

Goods Sent to Branch A/c

	Rs.		Rs.
To Branch Adjustment A/c 1,00,000 x $\frac{20}{100}$	**20,000**	By Branch Stock A/c	**1,20,000**
To Purchases/ Trading A/c	**1,00,000**		
	1,20,000		1,20,000

3 items x ¼ M

Branch Cash A/c

	Rs.		Rs.
To Branch Debtors A/c	**74,000**	By Branch Expenses A/c	**24,000**
To H.O. A/c (cash remittance)	**6,000**	By H.O. (cash remittance)	**86,000**
To Branch Stock A/c - Cash Sales (balancing figure)	**34,000**	By Balance c/d	**4,000**
	1,14,000		1,14,000

6 items x ¼ M

Branch Stock A/c

	Rs.		Rs.
To Goods sent to Branch A/c	**1,20,000**	By Branch Debtors A/c	**1,16,000**
To Branch Adjustment A/c (Excess profit over normal loading -balancing figure)	**54,000**	By Branch Cash A/c (Sales)	**34,000**
		By Goods in Transit (1,20,000-1,08,000)	**12,000**
		By Balance c/d	**12,000**
	1,74,000		1,74,000

6 items x ¼ M

Branch Expenses A/c

	Rs.		Rs.
To Branch Cash A/c	24,000	By Branch P&L A/c	24,000

2 items x ¼ M

Branch Adjustment A/c

	Rs.		Rs.
To Stock Reserve A/c	**2,000**	By Goods sent to Branch A/c	**20,000**
To Goods in transit Reserve A/c	**2,000**	By Branch Stock A/c	**54,000**
To Branch P&L A/c (Balancing figure)	**70,000**		
	74,000		74,000

5 items x ¼ M

Branch P & L A/c

	Rs.		Rs.
To Branch Expenses A/c	**24,000**	By Branch Adjustment A/c	**70,000**
To Bad Debts	**400**		
To Net Profit (transferred to General P&L A/c)	**45,600**		
	70,000		70,000

4 items x ¼ M

Working Notes:

1. Loading is 20% of cost i.e. 16.67% (1/6th) of invoice value. Loading on closing stock = 1/6th of Rs. 12,000 =Rs. 2,000. **1 M**
2. Loading on goods sent to branch = 1/6th of Rs. 1,20,000 = Rs. 20,000. **1 M**
3. Loading on goods in transit = 1/6th of Rs. 12,000 = Rs. 2,000. **1/2 M**

Answer 5:

(a) Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.20X2

Particulars	Pre-incorporation period Rs.	Post-incorporation period Rs.
Gross profit (1:3)	**80,000**	**2,40,000**
Less: Salaries (1:2)	**16,000**	**32,000**
Stationery (1:2)	**1,600**	**3,200**
Advertisement (1:3)	**4,000**	**12,000**
Travelling expenses (W.N.4)	**4,000**	**8,000**
Sales promotion expenses (W.N.4)	**1,200**	**3,600**
Misc. trade expenses (1:2)	**12,600**	**25,200**
Rent (office building) (W.N.3)	**8,000**	**18,400**
Electricity charges (1:2)	**1,400**	**2,800**
Director's fee (post-incorporation)	-	**11,200**
Bad debts (1:3)	**800**	**2,400**
Selling agents commission (1:3)	**4,000**	**12,000**
Audit fee (1:3)	**1,500**	**4,500**
Debenture interest (post-incorporation)	-	**3,000**
Interest paid to vendor (2:1) (W.N.5)	**2,800**	**1,400**
Selling expenses (1:3)	**6,300**	**18,900**
Depreciation on fixed assets (W.N.6)	**3,000**	**6,600**
Capital reserve (Bal.Fig.)	**12,800**	-
Net profit (Bal.Fig.)	-	**74,800**

34 Item X 1/4 M

Working Notes:

1. Time Ratio

Pre incorporation period = 1st April, 20X1 to 31st July, 20X1 i.e. 4 months **1 M**

Post incorporation period is 8 months

Time ratio is 1: 2.

2. Sales ratio

Let the monthly sales for first 6 months (i.e. from 1.4.20X1 to 30.09.20X1) be x Then, sales for 6 months = 6x

Monthly sales for next 6 months (i.e. from 1.10.X1 to 31.3.20X2) $x + \frac{2}{3}x = \frac{5}{3}x$

Then, sales for next 6 months $= \frac{5}{3}x \times 6 = 10\times$

Total sales for the year = 6x + 10x = 16x

Monthly sales in the pre incorporation period = Rs. 19,20,000/16 = Rs. 1,20,000

Total sales for pre-incorporation period = Rs. 1,20,000 x 4 = Rs. 4,80,000

Total sales for post incorporation period = Rs. 19,20,000 – Rs. 4,80,000 = Rs. 14,40,000

Sales Ratio = 4,80,000 : 14,40,000=1: 3 $1\frac{1}{2}$ **M**

3. Rent

		Rs.
Rent for pre-incorporation period (Rs. 2,000 x 4)		8,000 (pre)
Rent for post incorporation period		
August,20X1 & September, 20X1 (Rs. 2,000 x 2)	4,000	
October,20X1 to March,20X2 (Rs. 2,400 x 6)	14,400	18,400 (post)

1 M

4. Travelling expenses and sales promotion expenses

	Pre Rs.	Post Rs.
Traveling expenses Rs. 12,000 (i.e. Rs. 16,800- Rs. 4,800) distributed in Time ratio (1:2)	4,000	8,000
Sales promotion expenses Rs. 4,800 distributed in Sales ratio (1:3)	1,200	3,600

1 M

5. Interest paid to vendor till 30th September, 20X1

	Pre Rs.	Post Rs.
Interest for pre-incorporation period $\left(\frac{Rs.\ 4{,}200}{6} \times 4\right)$	2,800	
Interest for post incorporation period i.e. for		
August, 20X1 & September, 20X1 $\left(\frac{Rs.\ 4{,}200}{6} \times 2\right)$		1,400

1 M

6. Depreciation

		Pre Rs.	Post Rs.
Total depreciation	9,600		
Less: Depreciation exclusively for post incorporation period	(600)		600
Remaining (for pre and post incorporation period)	9,000		
Depreciation for pre-incorporation period $\left[9000 \times \frac{4}{12}\right]$*		3000	
Depreciation for post incorporation period $\left[9000 \times \frac{8}{12}\right]$*			6,000
* Time ratio = 1 : 2			
		3000	6,600

1 M

Answer:

(b)

In the books of C Limited

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	Dr.	2,50,000	
	To Equity Share Capital A/c			2,50,000
	(Being the issue of 25,000 equity shares of Rs. 10 each at par as per Board's resolution No……dated…..)			

$\frac{3}{4}$ **M**

	Particulars		Dr. (Rs.)	Cr. (Rs.)	
	Bank A/c To 14% Debenture A/c (Being the issue of 1,000 Debentures of Rs. 100 each as per Board's Resolution No…..dated……)	Dr.	1,00,000	1,00,000	$\frac{3}{4}$ M
	12% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)	Dr. Dr.	3,00,000 30,000	3,30,000	$\frac{3}{4}$ M
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	3,30,000	3,30,000	$\frac{3}{4}$ M
	Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being the adjustment of premium on redemption against Profits & Loss Account)	Dr.	30,000	30,000	$\frac{3}{4}$ M
	Profit & Loss To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr.	50,000	50,000	$\frac{3}{4}$ M

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed	Rs. 3,00,000	$\frac{1}{2}$ M
Less: Proceeds from new issue	(Rs. 2,50,000)	
Total Balance	Rs.50,000	

Answer 6:

(a) Departmental Trading Account for the year ended 31st March, 20X1

Particulars	A	B	C	Particulars	A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Opening Stock (W.N.4)	14,400	10,800	30,000	By Sales A-5,200×40 B-9,800×45 C-15,300×50	2,08,000	4,41,000	7,65,000
To Purchases (W.N.2)	1,20,000	2,70,000	4,50,000	By Closing Stock (W.N.4)	9,600	16,200	21,000
To Gross Profit (b.f.)	83,200	1,76,400 **{1 M}**	3,06,000				
	2,17,600	4,57,200	7,86,000		2,17,600	4,57,200	7,86,000

Working Notes :

(1) Profit Margin Ratio

Selling price of units purchased :	Rs.	
Department A (5,000 units x Rs. 40)	2,00,000	**{1 M}**
Department B (10,000 units x Rs. 45)	4,50,000	
Department C (15,000 units x Rs. 50)	7,50,000	
Total selling price of purchased units	14,00,000	
Less: Purchases	(8,40,000)	
Gross profit	5,60,000	

Profit margin ratio $= \dfrac{Gross\ \ profit}{Selling\ \ \ price} \times 100 = \dfrac{5{,}60{,}000}{14{,}00{,}000} \times 100 = 40\%$ **{1 M}**

(2) Statement showing department-wise per unit cost and purchase cost

Particulars	A	B	C
Selling price per unit (Rs.)	40	45	50
Less: Profit margin @ 40% (Rs.) Profit	(16)	(18)	(20)
margin is uniform for all depts.			
Purchase price per unit (Rs.)	24	27	30
No. of units purchased	5,000	10,000	15,000
Purchases (purchase cost per unit × units purchased)	1,20,000	2,70,000	4,50,000

{1 M}

(3) Statement showing calculation of department-wise Opening Stock (in units)

Particulars	A	B	C
Sales (Units)	5,200	9,800	15,300
Add: Closing Stock (Units)	400	600	700
	5,600	10,400	16,000
Less: Purchases (Units)	(5,000)	(10,000)	(15,000)
Opening Stock (Units)	600	400	1,000

{1 M}

(4) Statement showing department-wise cost of Opening and Closing Stock

	A	B	C
Cost of Opening Stock (Rs.)	600 x 24 14,400	400 x 27 10,800	1,000 x 30 30,000
Cost of Closing Stock (Rs.)	400 x 24 9,600	600 x 27 16,200	700 x 30 21,000

Answer:

(b) Investments by a holding company in the shares of its subsidiary company are normally considered as long term investments. Indian holding companies show investment in subsidiary just like any other investment and generally classify it as trade investment. As per AS 13 'Accounting for Investments', investments are classified as long term and current investments. A current investment is an investment that by its nature is readily realizable and is intended to be held for not more than one year from the date of acquisition. A long term investment is one that is not a current one. Costs of investment include besides acquisition charges, expenses such as brokerage, fees and duties. If an investment is acquired wholly or partly by an issue of shares or other securities, the acquisition cost is determined by taking the fair value of the shares/securities issued. If an investment were to be acquired in exchange – part or whole – for another asset, the acquisition cost of the investment is determined with reference to the value of the other asset exchanged. Dividends received out of income earned by a subsidiary before the acquisition of the shares by the holding company and not treated as income but treated as recovery of cost of the assets (investment made in the subsidiary). The carrying cost for current investment is the lower of cost or fair/market value whereas investment in the shares of the subsidiary (treated as long term) is carried normally at cost. **{5 M}**

Answer:
(c)

	Integral Foreign Operation	Non-Integral Foreign Operation (NFO)
Meaning	It is a foreign operation, the activities of which are an integral part of those of the reporting enterprise.	It is a foreign operation that is not an integral Foreign Operation.
Business	The business of IFO is carried on as if it were an extension of the reporting enterprise's operations.	The business of NFO is carried on in a substantially independent manner by accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowings, in its local currency.
Example	Sale of goods imported from the reporting enterprise and remittance of proceeds to the reporting enterprise.	Production in a foreign country out of resources available in such nation independent of the reporting enterprise.
Currencies operated	Generally, IFO carries on business in a single foreign currency, i.e. of the country where it is located.	NFO business may also enter into transactions in foreign currencies, including transactions in the reporting currency.
Cash flows from operations	Cash flows from operations of the reporting enterprise are directly and immediately affected by a change in the exchange rate between the reporting currency and the currency in the country of IFO.	Change in the exchange rate between the reporting currency and the local currency, has little or no direct effect on the present and future Cash Flows from Operations of either the NFO or the reporting enterprise.
Effect of Change in Exchange Rate	Change in the exchange rate affects the individual monetary items held by the IFO rather than the reporting enterprise's Net Investment in the IFO.	Change in the exchange rate affects the reporting enterprise's net investment in the NFO rather than the individual monetary and non-monetary items held by that NFO.

{5 M}

Answer:
(d) (i) Valuation of stock as on 31.3.2014 when general selling price is Rs. **49 each :** Value 3,000 units at Rs. 45 each (lower of cost and net realizable value). Value remaining 2,000 units at Rs. 49 each (lower of cost and net realizable value).

Units	Cost	NRV	Lower of Cost and NRV	Valuation
1	2	3	4	5 = 1×4
3000	50	45	45	135000
2000	50	49	49	98000
				233000

Valuation of stock should be Rs. 2,33,000.

{2½ M}

(ii) Valuation of stock as on 31.3.2014 when general selling price is Rs. 52 each:

Units	Cost	NRV	Lower of Cost and NRV	Valuation
1	2	3	4	5 = 1×4
3000	50	45	45	135000
2000	50	52	50	100000
				235000

Valuation of stock should be Rs. 2,35,000.

{2½ M}

Answer:

(e) (a) (1) **Users of financial statements:**
Investors, Employees, Lenders, Supplies/Creditors, Customers, Government & Public **{1 M}**

(2) **Qualitative Characteristics of Financial Statements:**
Understandability, Relevance, Comparability, Reliability & Faithful Representation **{1 M}**

(3) **Elements of Financial Statements:**
Asset, Liability, Equity, Income/Gain and Expense/Loss **{1 M}**

(b) **Fundamental Accounting Assumptions:**
Accrual, Going Concern and Consistency **{2 M}**

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