(CA INTERMEDIATE ALL BATCHES)

DATE: 23.12.2020 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

PAPER 1: ACCOUNTS

Q. No. 1 is compulsory.

Candidates are required to answer any four questions from the remaining five questions.
Wherever necessary suitable assumptions should bemade by the candidates.
Working notes should form part of the answer.

Answer 1:

(a) (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'

(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.

{5 M}

Answer:

(b) Entity A's management can apply the revaluation model only to the office buildings. The office buildings can be clearly distinguished from the industrial buildings in terms of their function, their nature and their general location.AS 10 (Revised) permits assets to be revalued on a class by class basis.

The different characteristics of the buildings enable them to be classified as different PPE classes. The different measurement models can, therefore, be applied to these classes for subsequent measurement.

However, all properties within the class of office buildings must be carried at revalued amount.

{5 M}

Answer:

(c) **Journal Entries in the Books of Kalim Ltd.**

Date	Particulars		Rs. (Dr.)	Rs. (Cr.)
Jan. 01, 2016	Bank Account (4,50,000 x 48)	Dr.	216,00,000	
	To Foreign Loan Account			216,00,000
Mar. 31, 2016	Foreign Exchange Difference Account	Dr.	4,50,000	
	To Foreign Loan Account [4,50,000 x(49-48)]			4,50,000
Jul. 01, 2016	Foreign Exchange Difference Account [4,50,000x(49.5-49)]	Dr.	2,25,000	
	Foreign Loan Account	Dr.	220,50,000	
	To Bank Account			2,22,75,000

{5 M}

Answer:

(d) **Journal Entries**

Year	Particulars		Rs. in lakhs (Dr.)	Rs. in lakhs (Cr.)	
1	Fixed Asset Account To Bank Account (Being fixed asset purchased)	Dr.	20	20	{½ M}
	Bank Account To Fixed Asset Account (Being grant received from the government reduced the cost of fixed asset)	Dr.	8	8	{½ M}
	Depreciation Account (W.N.1) To Fixed Asset Account (Being depreciation charged on Straight Line method (SLM))	Dr.	2	2	{½ M}
	Profit & Loss Account To Depreciation Account (Being depreciation transferred to Profit and Loss Account at the end of year 1)	Dr.	2	2	{½ M}
2	Fixed Asset Account To Bank Account (Being government grant on asset partly refunded which increased the cost of fixed asset)	Dr.	5	5	{½ M}
	Depreciation Account (W.N.2) To Fixed Asset Account (Being depreciation charged on SLM on revised value of fixed asset prospectively)	Dr.	3.67	3.67	{½ M}
	Profit & Loss Account To Depreciation Account (Being depreciation transferred to Profit and Loss Account at the end of year 2)	Dr.	3.67	3.67	

Working Notes :

1. Depreciation of Year 1

	Rs. in Lakhs	
Cost of the Asset	20	
Less : Government grant received	(8)	
	12	{1 M}
Depreciation $\frac{12-4}{4}$	2	

2. Depreciation for Year 2

	Rs. in Lakhs	
Cost of the Asset	20	{1 M}
Less : Government grant received	(8)	
	12	

Less : Depreciation for the first year $\frac{12-4}{4}$	2
	10
Add : Government grant refundable	5
	15
Depreciation for the second year $\frac{15-4}{3}$	3.67

Answer 2:

(a)

K V Trading Private Limited
Statement showing calculation of profit/loss for pre and post incorporation periods

Rs. in lakhs

	Ratio	Total	Pre-Incorporation	Post-Incorporation
Sales	1:6	240.00	34.29	205.71
Interest on Investments	Pre	6.00	6.00	-
Bad debts recovered	Pre	0.50	0.50	-
(i)		246.50	40.79 **}{1 M}**	205.71 **}{1 M}**
Cost of goods sold	1:6	102.00	14.57	87.43
Advertisement	1:6	3.00	0.43	2.57
Sales commission	1:6	6.00	0.86	5.14
Salary (W.N.3)	1:5	18.00	3.00	15.00
Managing directors remuneration	Post	6.00	-	6.00
Interest on Debentures	Post	2.00	-	2.00
Rent (W.N.4)		5.50	0.93	4.57
Bad debts (1 + 0.5)	1:6	1.50	0.21	1.29
Underwriting commission	Post	2.00	-	2.00
Audit fees	Post	2.00	-	2.00
Loss on sale of Investment	Pre	1.00	1.00	-
Depreciation	1:3	4.00	1.00	3.00
(ii)		153.00	22.00 **}{1 M}**	131.00 **}{1 M}**
Net Profit [(i) – (ii)]		93.50	18.79 **}{1 M}**	74.71 **}{1 M}**

Working Notes:

1. Calculation of Sales Ratio

Let the average sales per month be x
Total sales from 01.04.20X2 to 30.06.20X2 will be 3x
Average sales per month from 01.07.20X2 to 31.03.20X3 will be 2x Total sales from 01.07.20X2 to 31.03.20X3 will be 2x X 9 =18x Ratio of Sales will be 3x: 18x i.e. 3:18 or 1:6 **}{1 M}**

2. Calculation of time Ratio

3 Months: 9 Months i.e. 1:3 **}{1 M}**

3. Apportionment of Salary

Let the salary per month from 01.04.20X2 to 30.09.20X2 is x Salary per month from 01.10.20X2 to 31.03.20X3 will be 2x Hence, pre incorporation salary (01.04.20X2 to 30.06.20X2) = 3x
Post incorporation salary from 01.07.20X2 to 31.03.20X3 = (3x + 12x) i.e. 15xRatio for division 3x: 15x or 1: 5 **}{1 M}**

4.	**Apportionment of Rent**	**Rs. Lakhs**	
	Total Rent	5.5	
	Less: additional rent from 1.7.20X2 to 31.3.20X3	1.8	
	Rent of old premises for 12 months	3.7	
	Apportionment in time ratio	0.925	2.775
	Add: Rent for new space	-	1.80
	Total	0.925}**{1 M}**{	4.575

Answer:

(b)

Ascertainment of rate of gross profit for the year 2015-16

Trading A/c for the year ended 31-3-2016

	Rs.		**Rs.**
To Opening stock	**4,81,100**	By Sales	**26,00,000**
To Purchases	**22,62,500**	By Closing stock	**6,63,600**
To Gross profit	**5,20,000**		
	32,63,600		32,63,600

5 Item X 3/4 M

$$Rate\ of\ Gross\ Profit = \frac{GP}{sales} \times 100$$

$$= \frac{5,20,000}{26,00,000} \times 100 = 20\%$$

{1/2 M}

Memorandum Trading A/c for the period from 1-4-2016 to 22-01-2017

	Rs.	Rs.		Rs.	Rs.
To Opening stock		**6,63,600**	By Sales	24,58,500	
To Purchases *Less*: Goods used for	17,41,350		*Add*: Unrecorded cash sales (W.N.)	20,000	**24,78,500**
advertisement	(50,000)	**16,91,350**	By Closing stock		**3,72,150**
To Gross profit (20% of Rs. 24,78,500)		**4,95,700**			
		28,50,650			28,50,650

5 Item X 3/4 M

Estimated stock in hand on the date of fire was Rs. 3,72,150. **{1/2 M}**

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 1.4.2016 to 18.8.2016= 140 days

Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks × Rs. 1,000 = Rs. 20,000. **{1½ M}**

Answer 3:

(a)

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	**20,000**	By Branch Stock A/c	**1,20,000**	3 items x ¼ M
1,00,000 x $\frac{20}{100}$				
To Purchases/ Trading A/c	**1,00,000**			
	1,20,000		1,20,000	

Branch Cash A/c

	Rs.		Rs.	
To Branch Debtors A/c	**74,000**	By Branch Expenses A/c	**24,000**	6 items x ¼ M
To H.O. A/c (cash remittance)	**6,000**	By H.O. (cash remittance)	**86,000**	
To Branch Stock A/c		By Balance c/d	**4,000**	
- Cash Sales (balancing figure)	**34,000**			
	1,14,000		1,14,000	

Branch Stock A/c

	Rs.		Rs.	
To Goods sent to Branch A/c	**1,20,000**	By Branch Debtors A/c	**1,16,000**	6 items x ¼ M
To Branch Adjustment A/c	**54,000**	By Branch Cash A/c (Sales)	**34,000**	
(Excess profit over normal		By Goods in Transit	**12,000**	
loading -balancing figure)		(1,20,000-1,08,000)		
		By Balance c/d	**12,000**	
	1,74,000		1,74,000	

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**	5 items x ¼ M
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	

Branch P & L A/c

		Rs.			Rs.	
To	Branch Expenses A/c	**24,000**	By	Branch Adjustment A/c	**70,000**	4 items x ¼ M
To	Bad Debts	**400**				
To	Net Profit (transferred to General P&L A/c)	**45,600**				
		70,000			70,000	

Working Notes:

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

Answer:

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

20X1			Dr. Rs. In Lakhs	Cr Rs. In Lakhs	
Apr-02	Equity Share Final Call A/c To Equity Share Capital A/c (Final call of Rs. 2 per share on 10 crore equity shares made due)	Dr.	2,000	2,000	{1 M}
	Bank A/c To Equity Share Final Call A/c (Final call money on 10 crore equity shares received)	Dr.	2,000	2,000	{1 M}
Jun-01	Capital Redemption Reserve A/c Securities Premium A/c General Reserve A/c (b.f.) To Bonus to Shareholders A/c (Bonus issue of two shares for every five shares held, by utilizing various reserves as per Board's resolution dated…….)	Dr. Dr. Dr. Dr.	1,485 2,000 515	4000	{1 M}
	Bonus to Shareholders A/c To Equity Share Capital A/c (Capitalisation of profit)	Dr.	4,000	4,000	{1 M}

Notes for Accounts:

			Rs. in lakhs	
1	Share Capital			
	Authorised share capital			
	20 crore shares of Rs. 10 each		20,000	
	Issued, subscribed and fully paid up share capital			
	14 crore Equity shares of Rs. 10 each, fully paid up		14,000	
	(Out of the above, 4 crore equity shares @ Rs. 10 each were			
	issued by way of bonus)			
	2 crore, 11% Cumulative Preference share capital of Rs. 10		2,000	
	each, fully paid up			
			16,000	}{3 M}
2	Reserves and Surplus			
	Capital Redemption reserve	1,485		
	Less: Utilised for bonus issue	-1,485	-	
	Securities Premium	2,000		
	Less: Utilised for bonus issue	-2,000	-	
	General Reserve	1,040		
	Less: Utilised for bonus issue	-515	525	
	Surplus (Profit and Loss Account)		273	
	TOTAL		798	}{3 M}

Answer 4:

(a) Investment Account-Equity Shares in X Ltd.

Date		No. of shares	Dividend	Amount	Date		No. of shares	Dividend	Amount
2017			Rs.	Rs.	2018			Rs.	Rs.
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:

(b) **M/s D, B and R**

Departmental Trading and Profit & Loss Account for the six months ended 31-3-2013

		A	B	C	Total			A	B	C	Total
To	Opening	37,890	24,000	20,000	81,890	By	Sales	1,80,000	1,30,000	90,000	4,00,000
	Stock										
To	Purchases	1,40,700	80,600	44,400	2,65,700	By	Transfer	10,700	600	-	11,300
To	Transfer	—	-	11,300	11,300	By	Closing				
To	Wages	—	-	12,000	12,000		Stock	45,100	22,300	21,600	89,000
To	Gross profit										
	c/d	57,210	48,300	23,900	1,29,410						
		2,35,800	1,52,900	1,11,600	5,00,300			2,35,800	1,52,900	1,11,600	5,00,300
To	Salaries &					By	Gross	57,210	48,300	23,900	1,29,410
	Wages:						profit b/d				
	General	12,000	8,000	4,000	24,000	By	Discount	400	250	150	800
	Office						Received				
	Showroom	4,000	8,000	-	12,000						
	Advertising	1,080	780	540	2,400						
To	Rent	2,400	2,400	6,000	10,800						
To	Discount	540	390	270	1,200						
	Allowed										
To	Sundry	5,400	3,900	2,700	12,000						
	Expenses										
To	Depreciation	250	250	250	750						
To	Net Profit										
	c/d	31,940	24,830	10,290	67,060						
		57,610	48,550	24,050	1,30,210			57,610	48,550	24,050	1,30,210

{5 M}

Note:
Gross profit of Department A is 30% of Sales price (including transfer to Department C).
There is some unrealised profit only on inter departmental stock. 30% of Rs. 5,700 is as stock reserve. This will be debited to Profit and Loss Appropriation Account.

Profit and Loss Appropriation Account

		Rs.	Rs.			Rs.
To	Stock Reserve (See Note)		1,710	By	Net Profit transferred from Profit & Loss A/c	67,060
To	D: 75% of Profit of					
	Deptt. A	23,955				
	50% of Combined profits	<u>7,527</u>	31,482			
To	B : 75% of Profit of					
	Deptt. B	18,623				
	25% of Combined profits	<u>3,763</u>	22,386			
To	R: 75% of Profit of					
	Deptt. C	7,718				
	25% of Combined profits	<u>3,764</u>	11,482			
			67,060			67,060

{5 M}

Answer 5 :

(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) **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

9 Item X 1/4 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 1/4 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 1/4 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%	{1/4 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 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
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

{1 M}

Profit margin ratio = $\frac{Gross\ \ profit}{Selling\ \ price} \times 100 = \frac{5{,}60{,}000}{14{,}00{,}000} \times 100 =$ 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 margin is uniform for all depts.	(16)	(18)	(20)
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

{2½ M}

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

(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

{2½ M}

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

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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