

PAPER – 1: ACCOUNTING
PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY
FOR NOVEMBER 2019 EXAMINATION

A. Applicable for November, 2019 examination

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 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".

V. Redemption of Debentures

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 at the link: <https://resource.cdn.icai.org/55831bos45229cp8.pdf>.

B. Not applicable for November, 2019 examination

Non-Applicability of Ind AS for November, 2019 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 November, 2019 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

1. (a) The following balance appeared in the books of Oliva Company Ltd. as on 31-03-2019.

Particulars		₹	Particulars		₹
Inventory 01-04-2018			Sales		17,10,000
-Raw Material	30,000		Interest		3,900
-Finished goods	<u>46,500</u>	76,500	Profit and Loss A/c		48,000
Purchases		12,15,000	Share Capital		3,15,000

Manufacturing Expenses		2,70,000	Secured Loans: Short-term	4,500	
			Long-term	<u>21,000</u>	25,500
Salaries and wages		40,200	Fixed Deposits (unsecured):		
			Short-term	1,500	
General Charges		16,500	Long-term	<u>3,300</u>	4,800
Interim Dividend paid (inclusive of Dividend Distribution Tax)		27,000	Trade payables		3,27,000
Building		1,01,000			
Plant and Machinery		70,400			
Furniture		10,200			
Motor Vehicles		40,800			
Stores and Spare Parts Consumed		45,000			
Investments:					
Current	4,500				
Non-Current	<u>7,500</u>	12,000			
Trade receivables		2,38,500			
Cash in Bank		<u>2,71,100</u>			
		<u>24,34,200</u>			<u>24,34,200</u>

From the above balance and the following information, prepare the company's Profit and Loss Account for the year ended 31st March, 2019 and Company's Balance Sheet as on that date:

1. Inventory on 31st March, 2019 Raw material ₹ 25,800 & finished goods ₹ 60,000.
2. Outstanding Expenses: Manufacturing Expenses ₹ 67,500 & Salaries & Wages ₹ 4,500.
3. Interest accrued on Securities ₹ 300.
4. General Charges prepaid ₹ 2,490.
5. Provide depreciation: Building @ 2% p.a., Machinery @ 10% p.a., Furniture @ 10% p.a. & Motor Vehicles @ 20% p.a.
6. Current maturity of long term loan is ₹ 1,000.

7. The Taxation provision of 40% on net profit is considered.
- (b) The following extract of Balance Sheet of X Ltd. (a non-investment company) was obtained:

Balance Sheet (Extract) as on 31st March, 2019

<i>Liabilities</i>	₹
<u>Authorized capital:</u>	
15,000, 14% preference shares of ₹ 100	15,00,000
1,50,000 Equity shares of ₹ 100 each	<u>1,50,00,000</u>
	<u>1,65,00,000</u>
<u>Issued and subscribed capital:</u>	
15,000, 14% preference shares of ₹ 100 each fully paid	15,00,000
1,20,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	96,00,000
Capital reserves (₹ 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,25,000

You are required to compute Effective Capital as per the provisions of Schedule V to the Companies Act, 2013.

Cash flow statement

2. From the following information, prepare a Cash Flow Statement for the year ended 31st March, 2019.

Balance Sheets

	Particulars	Note	31.03.2019 (₹)	31.03.2018 (₹)
I	EQUITY AND LIABILITIES			
	(1) Shareholder's Funds			
	(a) Share Capital	1	3,50,000	3,00,000
	(b) Reserves and Surplus	2	82,000	38,000
	(2) Non-Current Liabilities			
	(3) Current Liabilities			
	(a) Trade Payables		65,000	44,000
	(b) Other Current Liabilities	3	37,000	27,000

	(c) Short term Provisions (provision for tax)		32,000	28,000
	Total		5,66,000	4,37,000
II	ASSETS			
	(1) Non-current Assets			
	(a) Tangible Assets	4	2,66,000	1,90,000
	(b) Intangible Assets (Goodwill)		47,000	60,000
	Non-Current Investments		35,000	10,000
	(2) Current Assets			
	(a) Inventories		78,000	85,000
	(b) Trade Receivables		1,08,000	75,000
	(c) Cash & Cash Equivalents		32,000	17,000
	Total		5,66,000	4,37,000

Note 1: Share Capital

Particulars	31.03.2019 (₹)	31.03.2018 (₹)
Equity Share Capital	2,50,000	1,50,000
8% Preference Share Capital	1,00,000	1,50,000
Total	3,50,000	3,00,000

Note 2: Reserves and Surplus

Particulars	31.03.2019 (₹)	31.03.2018 (₹)
General Reserve	30,000	20,000
Profit and Loss A/c	27,000	18,000
Capital Reserve	25,000	
Total	82,000	38,000

Note 3: Current Liabilities

Particulars	31.03.2019(₹)	31.03.2018 (₹)
Dividend declared	37,000	27,000

Note 4: Tangible Assets

Particulars	31.03.2019 (₹)	31.03.2018 (₹)
Land & Building	75,000	1,00,000
Machinery	1,91,000	90,000
Total	2,66,000	1,90,000

Additional Information:

- (i) ₹ 18,000 depreciation for the year has been written off on plant and machinery and no depreciation has been charged on Land and Building.
- (ii) A piece of land has been sold out for ₹ 50,000 and the balance has been revalued, profit on such sale and revaluation being transferred to capital reserve. There is no other entry in Capital Reserve Account.
- (iii) A plant was sold for ₹ 12,000 WDV being ₹ 15,000 on the date of sale (after charging depreciation).
- (iv) Dividend received amounted to ₹ 2,100 which included pre-acquisition dividend of ₹ 600.
- (v) An interim dividend of ₹ 10,000 including Dividend Distribution Tax has been paid.
- (vi) Non-current investments given in the balance sheet represents investment in shares of other companies.
- (vii) Amount of provision for tax existing on 31.3.2018 was paid during the year 2018-19.

Profit/Loss prior to Incorporation

3. Roshani & Reshma working in partnership, registered a joint stock company under the name of Happy Ltd. on May 31st 2018 to take over their existing business. The summarized Profit & Loss A/c as given by Happy Ltd. for the year ending 31st March, 2019 is as under:

Happy Ltd.**Profit & Loss A/c for the year ending March 31, 2019**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Salary	1,44,000	By Gross Profit	4,50,000
To Interest on Debenture	36,000		
To Sales Commission	18,000		
To Bad Debts	49,000		
To Depreciation	19,250		
To Rent	38,400		
To Company Audit fees	12,000		
To Net Profit	<u>1,33,350</u>		
Total	<u>4,50,000</u>	Total	<u>4,50,000</u>

Prepare a Statement showing allocation of expenses & calculation of pre-incorporation & post- incorporation profits after considering the following information:

- (i) GP ratio was constant throughout the year.
- (ii) Depreciation includes ₹ 1,250 for assets acquired in post incorporation period.
- (iii) Bad debts recovered amounting to ₹ 14,000 for a sale made in 2015-16 has been deducted from bad debts mentioned above.
- (iv) Total sales were ₹ 18,00,000 of which ₹ 6,00,000 were for April to September.
- (v) Happy Ltd. had to occupy additional space from 1st Oct. 2018 for which rent was ₹ 2,400 per month.

Accounting for Bonus Issue

4. Following is the extract of the Balance Sheet of Manoj Ltd. as at 31st March, 20X1

	₹
Authorised capital:	
30,000 12% Preference shares of ₹ 10 each	3,00,000
4,00,000 Equity shares of ₹ 10 each	<u>40,00,000</u>
	<u>43,00,000</u>
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 20X1, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 20X1. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. Show necessary journal entries in the books of the company and prepare the relevant extract of the balance sheet as on 30th April, 20X1 after bonus issue.

Right Issue

5. Omega company offers new shares of ₹ 100 each at 20% premium to existing shareholders on the basis of one for four shares. The cum-right market price of a share is ₹ 190. You are required to calculate the Value of a right share.

Redemption of Preference Shares

6. The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 20X1:

Share capital: 50,000 Equity shares of ₹10 each fully paid – ₹5,00,000; 2,000 10% Redeemable preference shares of ₹100 each fully paid – ₹ 2,00,000.

Reserve & Surplus: Capital reserve – ₹2,00,000; General reserve – ₹ 2,00,000; Profit and Loss Account – ₹75,000.

On 1st January 20X2, the Board of Directors decided to redeem the preference shares at premium of 5% by utilization of reserves.

You are required to prepare necessary Journal Entries including cash transactions in the books of the company.

Redemption of Debentures

7. Omega Limited (a manufacturing company) recently made a public issue in respect of which the following information is available:

- (a) No. of partly convertible debentures issued- 2,00,000; face value and issue price- ₹ 100 per debenture.
- (b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue i.e 31.10.20X1.
- (c) Date of closure of subscription lists- 1.5.20X1, date of allotment- 1.6.20X1, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- ₹ 60 (Face Value ₹ 10).
- (d) Underwriting Commission- 2%.
- (e) Number of debentures applied for - 1,50,000.
- (f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 20X2 (including cash and bank entries).

Investment Accounts

8. A Pvt. Ltd. follows the calendar year for accounting purposes. The company purchased 5,000 (nos.) 13.5% Convertible Debentures of Face Value of ₹ 100 each of P Ltd. on 1st May 2018 @ ₹ 105 on cum interest basis. The interest on these instruments is payable on 31st March & 30th September respectively. On August 1st 2018 the company again purchased 2,500 of such debentures @ ₹ 102.50 each on cum interest basis. On 1st October, 2018 the company sold 2,000 Debentures @ ₹ 103 each. On 31st December, 2018 the company received 10,000 equity shares of ₹ 10 each in P Ltd. on conversion of 20% of its holdings. Interest for 3 months on converted debentures was also received on 31.12.2018. The market value of the debentures and equity shares as at the close of the

year were ₹ 106 and ₹ 9 respectively. Prepare the Debenture Investment Account & Equity Shares Investment Account in the books of A Pvt. Ltd. for the year 2018 on Average Cost Basis.

Insurance Claim for loss of stock or profit

9. On 2.6.2019 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the records saved:

	₹
Stock at cost on 1.4.2018	1,35,000
Stock at 90% of cost on 31.3.2019	1,62,000
Purchases for the year ended 31.3.2019	6,45,000
Sales for the year ended 31.3.2019	9,00,000
Purchases from 1.4.2019 to 2.6.2019	2,25,000
Sales from 1.4.2019 to 2.6.2019	4,80,000

Sales up to 2.6.2019 includes ₹ 75,000 being the goods not dispatched to the customers. The sales (invoice) price is ₹ 75,000.

Purchases up to 2.6.2019 includes a machinery acquired for ₹ 15,000.

Purchases up to 2.6.2019 does not include goods worth ₹ 30,000 received from suppliers, as invoice not received up to the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for ₹ 1,20,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock.

Hire Purchase Transactions

10. Amandeep bought 2 cars from 'Fair Value Motors Pvt. Ltd. on 1.4.2016 on the following terms (for both cars):

Down payment	6,00,000
1 st Installment at the end of first year	4,20,000
2 nd Installment at the end of 2 nd year	4,90,000
3 rd Installment at the end of 3 rd year	5,50,000

Interest is charged at 10% p.a.

Amandeep provides depreciation @ 25% on the diminishing balances.

On 31.3.2019 Amandeep failed to pay the 3rd installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Amandeep agreed to leave one car with Fair Value Motors Pvt. Ltd. and adjusted the value of the car against the amount due. The car taken over was valued on the basis of 40% depreciation annually on written down basis. The balance

amount remaining in the vendor's account after the above adjustment was paid by Amandeep after 3 months with interest @ 20% p.a.

You are required to:

- (i) Calculate the cash price of the cars and the interest paid with each installment.
- (ii) Prepare Cars Account in the books of Amandeep assuming books are closed on March 31, every year.

Figures may be rounded off to the nearest rupee.

Departmental Accounts

11. A firm has two departments--Sawmill and Furniture. Furniture is made with wood supplied by the Sawmill department at its usual selling price. From the following figures prepare Departmental Trading and Profit and Loss Account for the year 2018:

	Sawmill ₹	Furniture ₹
Opening Stock on 1st January, 2018	1,50,000	25,000
Sales	12,00,000	2,00,000
Purchases	10,00,000	7,500
Supply to Furniture Department	1,50,000	--
Selling expenses	10,000	3,000
Wages	30,000	10,000
Closing Stock on 31st December, 2018	1,00,000	30,000

The value of stocks in the furniture department consist of 75% wood and 25% other expenses. The Sawmill Department earned Gross Profit at 15 % on sales in 2017. General expenses of the business as a whole came to ₹ 55,000. The firm adopts FIFO method for assigning costs to inventories.

Branch Accounting

12. From the following particulars relating to Pune branch for the year ending December 31, 2018, prepare Branch Account in the books of Head office.

	₹
Stock at Branch on January 1, 2018	10,000
Branch Debtors on January 1, 2018	4,000
Branch Debtors on Dec. 31, 2018	4,900
Petty cash at branch on January 1, 2018	500

Furniture at branch on January 1, 2018		2,000
Prepaid fire insurance premium on January 1, 2018		150
Salaries outstanding at branch on January 1, 2018		100
Good sent to Branch during the year		80,000
Cash Sales during the year		1,30,000
Credit Sales during the year		40,000
Cash received from debtors		35,000
Cash paid by the branch debtors directly to the Head Office		2,000
Discount allowed to debtors		100
Cash sent to branch for Expenses:		
Rent	2,000	
Salaries	2,400	
Petty Cash	1,000	
Annual Insurance up to March 31, 2019	<u>600</u>	6,000
Goods returned by the Branch		1,000
Goods returned by the debtors		2,000
Stock on December 31, 2018		5000
Petty Cash spent by branch		850
Provide depreciation on furniture 10% p.a.		

Goods costing ₹ 1,200 were destroyed due to fire and a sum of ₹ 1,000 was received from the Insurance Company.

Accounts from Incomplete Records

13. Following is the incomplete information of Jyotishikha Traders:

The following balances are available as on 31.03.2018 and 31.03.2019.

Balances	31.03.2018	31.03.2019
Land and Building	5,00,000	5,00,000
Plant and Machinery	2,20,000	3,30,000
Office equipment	1,05,000	85,000
Debtors (before charging for Bad debts)	?	2,25,000
Creditors for purchases	95,000	?
Creditors for office expenses	20,000	15,000
Stock	?	65,000

Long term loan from SBI @ 12%.	1,60,000	100,000
Bank	25,000	?

Other Information	In ₹
Collection from debtors	9,25,000
Payment to creditors for purchases	5,25,000
Payment of office expenses (excluding interest on loan)	42,000
Salary paid	32,000
Selling expenses	15,000
Cash sales	2,50,000
Credit sales (80% of total sales)	
Credit purchases	5,40,000
Cash purchases (40% of total purchases)	
GP Margin at cost plus 25%	
Discount Allowed	5,500
Discount Received	4,500
Bad debts (2% of closing debtors)	
Depreciation to be provided as follows:	
Land and Building	5%
Plant and Machinery	10%
Office Equipment	15%

Other adjustments:

- (i) On 01.10.18 they sold machine having Book Value ₹ 40,000 (as on 31.03.2018) at a loss of ₹ 15,000. New machine was purchased on 01.01.2019.
- (ii) Office equipment was sold at its book value on 01.04.2018.
- (iii) Loan was partly repaid on 31.03.19 together with interest for the year.

You are required to prepare Trading, Profit & Loss Account and Balance Sheet as on 31.03.2019.

Dissolution of partnership firm

14. P, Q, R and S are sharing profits and losses in the ratio 3 : 3 : 2 : 1. Frauds committed by R during the year were found out and it was decided to dissolve the partnership on 31st March, 2019 when their Balance Sheet was as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		Building	1,90,000
P	1,50,000	Stock	1,30,000
Q	1,50,000	Investments	50,000
R	-	Debtors	70,000
S	60,000	Cash	30,000
General reserve	40,000	R	40,000
Trade creditors	80,000		
Bills payable	30,000		
	<u>5,10,000</u>		<u>5,10,000</u>

Following information is given to you:

- (i) A cheque for ₹ 7,000 received from debtor was not recorded in the books and was misappropriated by R.
- (ii) Investments costing ₹ 8,000 were sold by R at ₹ 11,000 and the funds transferred to his personal account. This sale was omitted from the firm's books.
- (iii) A creditor agreed to take over investments of the book value of ₹ 9,000 at ₹ 13,000. The rest of the creditors were paid off at a discount of 5%.
- (iv) The other assets realized as follows:
 - Building 110% of book value
 - Stock ₹ 1,20,000
 - Investments The rest of investments were sold at a profit of ₹ 7,000
 - Debtors The rest of the debtors were realized at a discount of 10%
- (v) The bills payable were settled at a discount of ₹ 500.
- (vi) The expenses of dissolution amounted to ₹ 8,000
- (vii) It was found out that realization from R's private assets would only be ₹ 7,000.

Prepare Realization Account, Cash Account and Partner's Capital Accounts. All workings should part of your answer.

Framework for Preparation and Presentation of Financial Statements

15. Aman started a business on 1st April 20X1 with ₹ 24,00,000 represented by 1,20,000 units of ₹ 20 each. During the financial year ending on 31st March, 20X2, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Aman in the year 20X1-X2 if Financial Capital is maintained at historical cost.

AS 2 Valuation of Inventories

16. (a) Hello Ltd. purchased goods at the cost of ₹ 20 lakhs in October. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at ₹ 5 lakhs. The expected sale value is ₹ 5.5 lakhs and a commission at 10% on sale is payable to the agent. You are required to ascertain the value of closing stock?

AS 4 Contingencies and Events Occurring after the Balance Sheet Date

- (b) An earthquake destroyed a major warehouse of PQR Ltd. on 30.4.2019. The accounting year of the company ended on 31.3.2019. The accounts were approved on 30.6.2019. The loss from earthquake is estimated at ₹ 25 lakhs. State with reasons, whether the loss due to earthquake is an adjusting or non-adjusting event and how the fact of loss is to be disclosed by the company.

AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

17. (a) The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2019. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard;
- (i) Provision for doubtful debts was created @ 2% till 31st March, 2018. From the Financial year 2018-2019, the rate of provision has been changed to 3%.
 - (ii) During the year ended 31st March, 2019, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.
 - (iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.
 - (iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.
 - (v) During the year ended 31st March, 2019, there was change in cost formula in measuring the cost of inventories.

AS 10 Property, Plant and Equipment

- (b) Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were ₹ 1,41,870. These activities were supervised

by a technician during the entire period, who is employed for this purpose of ₹ 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at ₹ 49,500 per month after adding 10% profit margin.

The machine was purchased at ₹ 1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. ₹ 55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of ₹ 30,000 to supervise machinery installation at the factory site.

Ascertain the amount at which the Machinery should be capitalized under AS 10 considering that IGST credit is availed by the Shristhi Limited. Internally booked profits should be eliminated in arriving at the cost of machine.

AS 11 The Effects of Changes in Foreign Exchange Rates

18. (a) (i) Trade receivables as on 31.3.2019 in the books of XYZ Ltd. include an amount receivable from Umesh ₹ 5,00,000 recorded at the prevailing exchange rate on the date of sales, i.e. at US \$ 1 = ₹ 58.50. US \$ 1 = ₹ 61.20 on 31.3.2019.

Explain briefly the accounting treatment needed in this case as per AS 11 as on 31.3.2019.

- (ii) Power Track Ltd. purchased a plant for US\$ 50,000 on 31st October, 2018 payable after 6 months. The company entered into a forward contract for 6 months @ ₹ 64.25 per Dollar. On 31st October, 2018, the exchange rate was ₹ 61.50 per Dollar.

You are required to recognise the profit or loss on forward contract in the books of the company for the year ended 31st March, 2019.

AS 12 Accounting for Government Grants

- (b) Samrat Limited has set up its business in a designated backward area which entitles the company for subsidy of 25% of the total investment from Government of India. The company has invested ₹ 80 crores in the eligible investments. The company is eligible for the subsidy and has received ₹ 20 crores from the government in February 2019. The company wants to recognize the said subsidy as its income to improve the bottom line of the company.

Do you approve the action of the company in accordance with the Accounting Standard?

AS 13 Accounting for Investments

19. (a) Z Bank has classified its total investment on 31-3-2018 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI Guidelines.

'Held to maturity' investments are carried at acquisition cost less amortized amount. 'Available for sale' investments are carried at marked to market. 'Held for trading'

investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored.

You are required to comment whether the policy of the bank is in accordance with AS 13?

AS 16 Borrowing costs

- (b) In May, 2018, Capacity Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2019 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was ₹ 18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2019 amounted to ₹ 25 lakhs.

Can ₹ 25 lakhs be treated as part of the cost of factory building and thus be capitalized on the plea that the loan was specifically taken for the construction of factory building? Explain the treatment in line with the provisions of AS 16.

AS 17 Segment Reporting

- 20 (a) A Company has an inter-segment transfer pricing policy of charging at cost less 5%. The market prices are generally 20% above cost.

You are required to examine whether the policy adopted by the company is correct or not?

AS 22 Accounting for Taxes on Income

- (b) The Accountant of Sohna Ltd. provides the following information for the year ended 31-03-2019:

Particulars	₹
Accounting Profit	7,50,000
Book Profit as per MAT	4,37,500
Profit as per Income Tax Act	90,000
Tax rate	20%
MAT rate	7.50%

You are required to calculate the deferred tax asset/ liability as per AS 22 and amount of tax to be debited to the Profit and Loss Account for the year.

SUGGESTED ANSWERS/HINTS

1. (a)

Oliva Company Ltd.

Statement of Profit and loss for the year ended 31.03.2019

(₹)

	Particulars	Note	Amount
I	Revenue from operations		17,10,000
II	Other income (3,900 +300)		<u>4,200</u>
III	Total Revenue (I +II)		<u>17,14,200</u>
IV	Expenses:		
	Cost of materials consumed	10	12,64,200
	Purchases of inventory-in-trade		--
	Changes in inventories of finished goods, work-in-progress and inventory-in-Trade	11	(13,500)
	Employee benefit expenses	12	44,700
	Finance costs		--
	Depreciation and amortization expenses		18,240
	Other expenses	13	<u>3,51,510</u>
	Total Expenses		<u>16,65,150</u>
V	Profit before exceptional and extraordinary items and tax		49,050
VI	Exceptional items		--
VII	Profit before extraordinary items and tax		49,050
VIII	Extraordinary items		--
IX	Profit before tax		49,050
X	Tax expense (40% of 49,050)		19,620
XI	Profit/Loss for the period from continuing operations		29,430

Oliva Company Ltd.

Balance Sheet for the year ended 31.03.2019

	Particulars	Note	Amount
1	Equity and Liabilities		
	(i) Shareholders' funds		
	(a) Share Capital		3,15,000
	(b) Reserves and surplus	1	50,430

2)	Non-current liabilities		
	(a) Long-term borrowings	2	23,300
(3)	Current Liabilities		
	(a) Short -term borrowings	3	6,000
	(b) Trade payables		3,27,000
	(c) Other current liability	4	73,000
	(d) Short term provision	5	<u>19,620</u>
			<u>8,14,350</u>
II	ASSETS		
(1)	Non current assets		
	(a) Property, Plant & equipment		
	(i) Tangible assets	6	2,04,160
	(b) Non-current investments		7,500
(2)	Current assets		
	(a) Current investments		4,500
	(b) Inventories	7	85,800
	(c) Trade receivables		2,38,500
	(d) Cash and cash equivalents		2,71,100
	(e) Short-term loans and advances	8	2,490
	(f) Other current assets	9	<u>300</u>
			<u>8,14,350</u>

Notes to accounts

No	Particulars	Amount	Amount
1.	Reserve & Surplus		
	Profit & Loss Account: Balance b/f	48,000	
	Net Profit for the year	29,430	
	Less: Interim Dividend including DDT	<u>(27,000)</u>	50,430
2.	Long term borrowings		
	Secured loans (21,000 less current maturities 1,000)	20,000	
	Fixed Deposits: Unsecured	<u>3,300</u>	23,300

3.	Short term borrowings			
	Secured loans		4,500	
	Fixed Deposits -Unsecured		<u>1,500</u>	6,000
4.	Other current liabilities			
	Expenses Payable (67,500 + 4,500)		72,000	
	Current maturities of long term borrowings		<u>1,000</u>	73,000
5.	Short term provisions			
	Provision for Income tax			19,620
6.	Tangible Assets			
	Building	1,01,000		
	Less: Depreciation @ 2%	<u>(2,020)</u>	98,980	
	Plant & Machinery	70,400		
	Less: Depreciation @10%	<u>(7,040)</u>	63,360	
	Furniture	10,200		
	Less: Depreciation @10%	<u>(1,020)</u>	9,180	
	Motor vehicles	40,800		
	Less: Depreciation @20%	<u>(8,160)</u>	<u>32,640</u>	2,04,160
7	Inventory:			
	Raw Material		25,800	
	Finished goods		<u>60,000</u>	85,800
8.	Short term Loans & Advances			
	General Charges prepaid			<u>2,490</u>
9.	Other Current Assets:			
	Interest accrued			300
10.	Cost of material consumed			
	Opening inventory of raw Material & Stores	30,000		
	Add: Purchases	12,15,000		
	Stores & Spare parts consumed	<u>(45,000)</u>	12,90,000	
	Less: Closing inventory		<u>(25,800)</u>	12,64,200
11.	Changes in inventory of Finished Goods & WIP			

	Closing Inventory of Finished Goods	60,000	
	Less: Opening Inventory of Finished Goods	<u>46,500</u>	13,500
12.	Employee Benefit expenses		
	Salary & Wages (40,200 + 4,500)		44,700
13.	Other Expenses:		
	Manufacturing Expenses (2,70,000 + 67,500)	3,37,500	
	General Charges (16,500 – 2,490)	<u>14,010</u>	3,51,510

(b) Computation of Effective Capital

	₹
Paid-up share capital-	
15,000, 14% Preference shares	15,00,000
1,20,000 Equity shares	96,00,000
Capital reserves (excluding revaluation reserve)	45,000
Securities premium	50,000
15% Debentures	<u>65,00,000</u>
	(A) <u>1,76,95,000</u>
Investments	75,00,000
Profit and Loss account (Dr. balance)	<u>15,25,000</u>
	(B) <u>90,25,000</u>
Effective capital	(A-B) <u>86,70,000</u>

2. Cash flow Statement for the year ending 31st March, 2019

	Particulars	₹	₹
1	Cash Flow from Operating Activities		
A.	Closing balance as per Profit and Loss Account		27,000
	Less: Opening balance as per Profit and Loss Account		(18,000)
	Add: Dividend declared during the year		37,000
	Add: Interim dividend paid during the year		10,000
	Add: Transfer to reserve		10,000
	Add: Provision for Tax		<u>32,000</u>
B.	Net profit before taxation, and extra-ordinary item		98,000
C.	Add: Items to be added		

		Depreciation	18,000	
		Loss on sale of Plant	3,000	
		Goodwill written off	<u>13,000</u>	34,000
	D.	Less: Dividend Income		<u>(1,500)</u>
	E.	Operating profit before working capital changes [B + C - D]		1,30,500
	F.	Add: Decrease in Current Assets and Increase in Current Liabilities		
		Decrease in Inventories	7,000	
		Increase in Trade Payables	<u>21,000</u>	28,000
	G.	Less: Increase in Trade Receivables		<u>(33,000)</u>
	H.	Cash generated from operations (E+F-G)		1,25,500
	I.	Less: Income taxes paid		<u>(28,000)</u>
	J.	Net Cash from (used in) operating activities		<u>97,500</u>
II.		Cash Flows from investing activities:		
		Purchase of Plant		(1,34,000)
		Sale of Land		50,000
		Sale of plant		12,000
		Purchase of investments		(25,600)
		Dividend Received		<u>2,100</u>
		Net cash used in investing activities		<u>(95,500)</u>
III.		Cash Flows from Financing Activities:		
		Proceeds from issue of equity share capital		1,00,000
		Redemption of preference shares		(50,000)
		Interim Dividend (inclusive of DDT) paid		(10,000)
		Final dividend (inclusive of DDT) paid		<u>(27,000)</u>
		Net cash from financing activities		<u>13,000</u>
IV.		Net increase in cash and cash equivalents (I+II+III)		15,000
V.		Cash and cash equivalents at beginning of period		<u>17,000</u>
VI.		Cash and cash equivalents at end of period (IV+V)		<u>32,000</u>

1. Land and Building Account

Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	By Bank A/c (Sale)	50,000
To Capital Reserve A/c (Profit on sale/revaluation)	25,000	By Balance c/d	75,000
	<u>1,25,000</u>		<u>1,25,000</u>

2. Plant and Machinery Account

Particulars	₹	Particulars	₹
To Balance b/d	90,000	By Depreciation A/c	18,000
To Bank A/c (Purchase)	1,34,000	By Bank A/c (sale)	12,000
		By Profit and Loss A/c (Loss on sale)	3,000
	<u>2,24,000</u>	By Balance c/d	<u>1,91,000</u>
			<u>2,24,000</u>

3. Investments Account

Particulars	₹	Particulars	₹
To Balance b/d	10,000	By Bank A/c (Div. received)	600
To bank A/c (Purchase)	<u>25,600</u>	By Balance c/d	<u>35,000</u>
	35,600		35,600

3. Pre-incorporation period is for two months, from 1st April, 2018 to 31st May, 2018. 10 months' period (from 1st June, 2018 to 31st March, 2019) is post-incorporation period.

**Statement showing calculation of profit/losses for
pre and post incorporation periods**

	Pre-Inc ₹	Post Inc ₹
Gross Profit	50,000	4,00,000
Bad debts Recovery	<u>14,000</u>	<u> </u>
	64,000	4,00,000
Less: Salaries	24,000	1,20,000
Audit fees	-	12,000
Depreciation	3,000	16,250
Sales commission	2,000	16,000
Bad Debts (49,000 + 14,000)	7,000	56,000

Interest on Debentures	—	36,000
Rent	<u>4,000</u>	<u>34,400</u>
Net Profit	<u>24,000</u>	<u>1,09,350</u>

* Pre-incorporation profit is a capital profit and will be transferred to Capital Reserve.

Working Notes:

(i) Calculation of ratio of Sales

Sales from April to September = 6,00,000 (1,00,000 p.m. on average basis)

October to March = ₹ 12,00,000 (2,00,000 p.m. on average basis)

Thus, sales for pre-incorporation period = ₹ 2,00,000

post-incorporation period = ₹ 16,00,000

Sales are in the ratio of 1:8

(ii) Gross profit, sales commission and bad debts written off have been allocated in pre and post incorporation periods in the ratio of Sales.

(iii) Rent, salary are allocated on time basis.

(iv) Interest on debentures is allocated in post incorporation period.

(v) Audit fees charged to post incorporation period as relating to company audit.

(vi) Depreciation of ₹ 18,000 divided in the ratio of 1:5 (time basis) and ₹ 1,250 charged to post incorporation period.

(vii) Bad debt recovery of ₹ 14,000/- is allocated in pre-incorporation period, being sale made in 2015-16.

(viii) Rent

(₹ 38,400 – Additional rent for 6 months) ₹

[38,400- 14,400 (2,400 x 6) = ₹ 24,000 i.e. 2,000 per month]

1/4/18 -31/5//18 (2,000 x 2) = 4,000

1/6/18-31/3/19 – [(2,000 x 10) +14,400] = 34,400

38,400

4.

Journal Entries in the books of Manoj Ltd.

			₹	₹
1-4-20X1	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000

20-4-20X1	(For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated....)			
	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital Redemption Reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 20X1 (after bonus issue)

	₹
<u>Authorized Capital</u>	
30,000 12% Preference shares of ₹ 10 each	3,00,000
4,00,000 Equity shares of ₹ 10 each	<u>40,00,000</u>
<u>Issued and subscribed capital</u>	
24,000 12% Preference shares of ₹10 each, fully paid	2,40,000
3,37,500 Equity shares of ₹ 10 each, fully paid	33,75,000
(Out of the above, 67,500 equity shares @ ₹ 10 each were issued by way of bonus shares)	
Reserves and surplus	
Profit and Loss Account	4,80,000

5. **Value of right share** = Cum-right value of the share – Ex-right value of the share (as computed in Working Note)

$$= ₹ 190 - ₹ 176 = ₹ 14 \text{ per share.}$$

Working Note:**Ex-right value of the shares**

= (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + No. of right shares) = (₹ 190 X 4 Shares + ₹ 120 X 1 Share) / (4 + 1) Shares

= ₹ 880 / 5 shares = ₹ 176 per share.

6. In the books of ABC Limited
Journal Entries

<i>Date</i> 20X2	<i>Particulars</i>		<i>Dr. (₹)</i>	<i>Cr. (₹)</i>
Jan 1	10% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)	Dr.	2,00,000 10,000	2,10,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	2,10,000	2,10,000
	General Reserve A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr.	2,00,000	2,00,000
	Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption charged to Profit and Loss A/c)	Dr.	10,000	10,000

Note: Capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

7. Journal Entries in the books of Omega Ltd.

Journal Entries

<i>Date</i>	<i>Particulars</i>	<i>Amount Dr.</i>	<i>Amount Cr.</i>
		₹	₹
1.5.20X1	Bank A/c Dr. To Debenture Application A/c (Application money received on 1,50,000 debentures @ ₹ 100 each)	1,50,00,000	1,50,00,000
1.6.20X1	Debenture Application A/c Dr. Underwriters A/c Dr. To 15% Debentures A/c (Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)	1,50,00,000 50,00,000	2,00,00,000
	Underwriting Commission Dr. To Underwriters A/c (Commission payable to underwriters @ 2% on ₹ 2,00,00,000)	4,00,000	4,00,000
	Bank A/c Dr. To Underwriters A/c (Amount received from underwriters in settlement of account)	46,00,000	46,00,000
01.06.20X1	Profit & Loss A/c Dr. To Debenture Redemption Reserve A/c (200,000 X 100 X 25% X 40%) (Being Debenture Redemption Reserve created on non-convertible debentures)	20,00,000	20,00,000
	Debenture Redemption Reserve Investment A/c Dr. To Bank A/c (200,000 X 100 x 15% X 40%) (Being Investments made for redemption purpose)	12,00,000	12,00,000
30.9.20X1	Debenture Interest A/c Dr. To Bank A/c (Interest paid on debentures for 4 months @ 15% on ₹ 2,00,00,000)	10,00,000	10,00,000

31.10.20X1	15% Debentures A/c To Equity Share Capital A/c To Securities Premium A/c (Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)	Dr.	1,20,00,000	20,00,000 1,00,00,000
31.3.20X2	Debenture Interest A/c To Bank A/c (Interest paid on debentures for the half year) (refer working note below)	Dr.	7,50,000	7,50,000

Working Note :

Calculation of Debenture Interest for the half year ended 31st March, 20X2

On ₹ 80,00,000 for 6 months @ 15% = ₹ 6,00,000

On ₹ 1,20,00,000 for 1 months @ 15% = ₹ 1,50,000

₹ 7,50,000

8.

Books of A Pvt. Ltd.**Investment in 13.5% Convertible Debentures in P Ltd. Account****(Interest payable 31st March & 30th September)**

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
		₹	₹	₹			₹	₹	₹
2018					2018				
May 1	To Bank	5,00,000	5,625	5,19,375	Sept 30	By Bank (6 months Int)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000	Oct 1	By Bank	2,00,000		2,06,000
Oct.1	To P&L A/c			2,167	Dec. 31	By Equity share	1,10,000		1,12,108
Dec. 31	To P&L A/c		52,313		Dec. 31	By Bank (See note1)		3,713	
					Dec. 31	By Balance c/d	4,40,000	14,850	4,48,434
		<u>7,50,000</u>	<u>69,188</u>	<u>7,66,542</u>			<u>7,50,000</u>	<u>69,188</u>	<u>7,66,542</u>

Note 1: ₹ 3,713 received on 31.12.2018 represents interest on the debentures converted till date of conversion.

Note 2: Cost being lower than Market Value the debentures are carried forward at Cost.

Investment in Equity shares in P Ltd. Account

Date	Particulars	Nominal	Amount	Date	Particulars	Nominal	Amount
		₹	₹			₹	₹
2018 Dec 31	To 13.5% Deb.	1,00,000	1,12,108	2018 Dec.31	By P&L A/c		22,108
				Dec.31	By Bal. c/d	1,00,000	90,000
		<u>1,00,000</u>	<u>1,12,108</u>			<u>1,00,000</u>	<u>1,12,108</u>

Note 1: Cost being higher than Market Value the shares are carried forward at Market Value.

Working Notes:

- Interest paid on ₹ 5,00,000 purchased on May 1st, 2018 for the month of April 2018, as part of purchase price: $5,00,000 \times 13.5\% \times 1/12 = ₹ 5,625$
- Interest received on 30th Sept. 2018

On ₹ 5,00,000 = $5,00,000 \times 13.5\% \times \frac{1}{2} = 33,750$

On ₹ 2,50,000 = $2,50,000 \times 13.5\% \times \frac{1}{2} = 16,875$

Total ₹ 50,625
- Interest paid on ₹ 2,50,000 purchased on Aug. 1st 2018 for April 2018 to July 2018 as part of purchase price:

$2,50,000 \times 13.5\% \times 4/12 = ₹ 11,250$
- Loss on Sale of Debentures

Cost of acquisition

$(₹ 5,19,375 + ₹ 2,45,000) \times ₹ 2,00,000 / ₹ 7,50,000 = 2,03,833$

Less: Sale Price (2,000 x 103) = 2,06,000

Profit on sale = ₹ 2,167
- Interest on 1,100 Debentures (being those converted) for 3 months i.e. Oct-Dec. 2018

$1,10,000 \times 13.5\% \times 3/12 = ₹ 3,713$
- Cost of Debentures converted to Equity Shares

$(₹ 5,19,375 + ₹ 2,45,000) \times 1,10,000 / 7,50,000 = ₹ 1,12,108$

7. Cost of Balance Debentures

$$(\text{₹ } 5,19,375 + \text{₹ } 2,45,000) \times \frac{4,40,000}{\text{₹ } 7,50,000} = \text{₹ } 4,48,434$$

8. Interest on Closing Debentures for period Oct.- Dec. 2018 carried forward (accrued interest)

$$\text{₹ } 4,40,000 \times 13.5\% \times \frac{3}{12} = \text{₹ } 14,850$$

9. **In the books of Mr. Black**

Trading Account for the year ended 31.3.2019

	₹		₹
To Opening Stock	1,35,000	By Sales	9,00,000
To Purchases	6,45,000	By Closing Stock at cost	1,80,000
To Gross Profit	3,00,000		
		$\left(1,62,000 \times \frac{100}{90}\right)$	
	<u>10,80,000</u>		<u>10,80,000</u>

**Memorandum Trading A/c
for the period from 1.4.2019 to 02.06.2019**

	₹		₹
To Opening Stock (at cost)	1,80,000	By Sales	4,80,000
To Purchases	2,25,000	Less: Goods not dispatched	<u>75,000</u>
Add: Goods received but invoice not received	<u>30,000</u>	By Closing stock (Balancing figure)	1,50,000
	2,55,000		
Less: Machinery	<u>15,000</u>		
	2,40,000		
To Gross Profit (Refer W.N.)	<u>1,35,000</u>		
	<u>5,55,000</u>		<u>5,55,000</u>

Calculation of Insurance Claim

$$\text{Claim subject to average clause} = \left(\frac{\text{Actual loss of stock}}{\text{Value of stock on the date of fire}} \times \text{Amount of policy} \right)$$

$$= 1,20,000 \times \left(\frac{1,50,000}{1,50,000} \right) = \text{₹ } 1,20,000$$

Working Note:

$$\text{G.P. ratio} = \frac{3,00,000}{9,00,000} \times 100 = 33 \frac{1}{3} \%$$

Amount of Gross Profit = ₹ 4,05,000 × $33\frac{1}{3}\%$ = ₹ 1,35,000

10. (i) Calculation of Interest and Cash Price

No. of installments	Outstanding balance at the end after the payment of installment	Amount due at the time of installment	Outstanding balance at the end before the payment of installment	Interest	Outstanding balance at the beginning
[1]	[2]	[3]	[4] = 2 + 3	[5] = 4 × $\frac{10}{110}$	[6] 4-5
3 rd	-	5,50,000	5,50,000	50,000	5,00,000
2 nd	5,00,000	4,90,000	9,90,000	90,000	9,00,000
1 st	9,00,000	4,20,000	13,20,000	1,20,000	12,00,000

Total cash price = ₹ 12,00,000+ 6,00,000 (down payment) = ₹ 18,00,000.

(ii)

In the books of Amandeep
Cars Account

Date	Particulars	₹	Date	Particulars	₹
1.4.2016	To Fair Value Motors A/c	18,00,000	31.3.2017	By Depreciation A/c	4,50,000
				By Balance c/d	13,50,000
		18,00,000			18,00,000
1.4.2017	To Balance b/d	13,50,000	31.3.2018	By Depreciation A/c	3,37,500
				By Balance c/d	10,12,500
		13,50,000			13,50,000
1.4.2018	To Balance b/d	10,12,500	31.3.2019	By Depreciation A/c	2,53,125
				By Fair Value Motors A/c (Value of 1 Car taken over after depreciation for 3 years @ 40% p.a.) [9,00,000 - (3,60,000+2,16,000+1,29,600)]	1,94,400
				By Loss on surrender transferred to Profit and Loss A/c (Bal. fig.)	1,85,288
				By Balance c/d $\frac{1}{2} (10,12,500 - 2,53,125)$	3,79,687
		10,12,500			10,12,500

11. Departmental Trading and Profit and Loss Account

Particulars	Sawmill	Furniture	Particulars	Sawmill	Furniture
To Opening stock	1,50,000	25,000	By Sales	12,00,000	2,00,000
To Purchase	10,00,000	7,500	By Transfer to furniture department	1,50,000	
To Wages	30,000	10,000	By Closing stock	1,00,000	30,000
To Transfer from saw mill	-	1,50,000			
To Gross profit	<u>2,70,000</u>	<u>37,500</u>			
	<u>14,50,000</u>	<u>2,30,000</u>		<u>14,50,000</u>	<u>2,30,000</u>
To Selling expenses	10,000	3,000	By Gross profit	2,70,000	37,500
To Net Profit	<u>2,60,000</u>	<u>34,500</u>			
	<u>2,70,000</u>	<u>37,500</u>		<u>2,70,000</u>	<u>37,500</u>

General Profit & Loss Account

Particulars	Amount	Particulars	Amount
To General Expenses	55,000	By Net Profit from	
To Stock reserve (WN-2)	4,500	Saw Mill	2,60,000
To Net Profit	2,37,813	Furniture	34,500
		By stock reserve (opening WN-1)	2,813
	<u>2,97,313</u>		<u>2,97,313</u>

Working Notes

1. Calculation of Stock Reserve (opening)

$$25,000 \times 75\% \text{ wood} \times 15\% = ₹ 2,813$$

2. Calculation of closing stock reserve

Gross profit Rate of Saw Mill of 2018

$$2,70,000 / (12,00,000 + 1,50,000) \times 100 = 20\%$$

$$30,000 \times 75\% \times 20\% = ₹ 4,500$$

12.

Pune Branch Account

Particulars		₹	Particulars	₹	₹
To Opening Balance			By Opening Balance:		
Stock		10,000	Salaries outstanding		100
Debtors		4,000	By Remittances:		
Petty Cash		500	Cash sales	1,30,000	
Furniture		2,000	Cash received from debtors	35,000	
Prepaid Insurance		150	Cash paid by debtors directly to H.O.	2,000	
To Goods sent to Branch Account		80,000	Received from Insurance Company	<u>1,000</u>	1,68,000
To Bank (expenses)			By Goods sent to branch (return of goods by the branch to H.O.)		1,000
Rent	2,000		By Closing Balances:		
Salaries	2,400		Stock		5,000
Petty Cash	1,000		Petty Cash		650
Insurance	<u>600</u>	6,000	Debtors		4,900
To Net Profit		78,950	Furniture (2,000 – 10% depreciation)		1,800
			Prepaid insurance (1/4 x ₹ 600)		150
		1,81,600			1,81,600

Working Note:

Calculation of petty cash balance at the end:	₹
Opening balance	500
Add: Cash received from the Head Office	<u>1,000</u>
Total Cash with branch	1,500
Less: Spent by the branch	<u>850</u>
Closing balance	<u>650</u>

13.

In the Books of Jyotishikha Traders

Trading Account for the year ended 31.03.2019

Particulars	₹	Particulars	₹
To Opening Stock A/c (Bal. fig.)	1,65,000	By Sales (W.N.1)	12,50,000
To Purchases (W.N.2)	9,00,000	By Closing Stock	65,000
To Gross profit (12,50,000x25/125)	<u>2,50,000</u>		
	<u>13,15,000</u>		<u>13,15,000</u>

Profit and Loss Account for the year ended 31.03.2019

Particulars	₹	Particulars	₹
To Discount	5,500	By Gross profit	2,50,000
To Salaries Expenses	32,000	By Discount	4,500
To Office expenses (W.N.3)	37,000		
To Selling expenses	<u>15,000</u>		
	84,000		
To Interest on loan (12% on ₹1,60,000)	19,200		
To Bad debts (2% of ₹2,25,000)	4,500		
To Loss on sale of Machinery	15,000		
To Depreciation:			
Land & Building	25,000		
Plant & Machinery (W.N. 4b)	23,750		
Office Equipment (W.N. 5)	<u>12,750</u>		
	61,500		
To Net profit after tax	<u>64,800</u>		
	<u>2,54,500</u>		<u>2,54,500</u>

Balance sheet as on 31.3.2019

Liabilities	₹	₹	Assets	₹
Capital (W.N. 6)	8,95,500		Land and Building (5,00,000-25,000)	4,75,000
Add: Net Profit	<u>64,800</u>	9,60,300	Plant and Machinery (W.N.4a) (3,30,000-21,750)	3,08,250

Creditors for		1,05,500	Office Equipment (85,000-12,750)	72,250
Purchases (W.N. 8)				
Outstanding expenses		15,000	Debtors less Bad debts (W.N. 7)	2,20,500
Loan from SBI		1,00,000	Stock	65,000
			Bank Balance (W.N. 9)	39,800
		11,80,800		11,80,800

Working Notes:

1. **Calculation of Total Sales**

	₹
Cash Sales	2,50,000
Credit Sales (80% of total sales)	
Cash Sales (20% of total sales)	
Thus total Sales (250000 x 100/20)	12,50,000
Credit Sales (1250000 x 80/100)	10,00,000

2. **Calculation of Total Purchases**

	₹
Credit Purchases	5,40,000
Cash Purchases (40% of total purchases)	
Credit Purchases (60% of total purchases)	
Thus total Purchases (5,40,000 x 100/60)	9,00,000
Cash Purchases 9,00,000 x 40/100)	3,60,000

3. **Office Expenses Account**

	₹		₹
To Bank A/c	42,000	By Balance b/d	20,000
To Balance c/d	15,000	By Profit & loss A/c	37,000
	57,000		57,000

4. (a) **Plant and Machinery Account**

	₹		₹
To Opening balance	2,20,000	By Sale	40,000

To Purchases	<u>1,50,000</u>	By Closing Balance	<u>3,30,000</u>
	<u>3,70,000</u>		<u>3,70,000</u>

(b) Depreciation calculations on Plant & Machinery

	₹
Depreciation on 1,80,000 x 10% (for full year)	18,000
1,50,000 x 10% x 3/12 (for 3 months)	3,750
40,000 x 10% x 6/12 (for 6 months)	<u>2,000</u>
	<u>23,750</u>

(c) Sale of Machinery Account

	Amount (₹)		Amount (₹)
To Plant & Machinery	40,000	By Depreciation	2,000
		By Profit and Loss Ac	15,000
		By Bank	<u>23,000</u>
	<u>40,000</u>		<u>40,000</u>

5. Depreciation calculations on Office Equipments

	₹
Opening Balance	1,05,000
Less: Closing Balance	<u>85,000</u>
Sale of Office Equipment	<u>20,000</u>
Balance of Office Equipment after sale	<u>85,000</u>
Depreciation @15%	<u>12,750</u>

6. Opening Balance Sheet as on 31.03.2018

	₹		₹
Creditors	95,000	Land & Building	5,00,000
Creditor for Exp.	20,000	Plant & Machinery	2,20,000
Loan	1,60,000	Office Equipment	1,05,000
Capital (Bal. fig.)	8,95,500	Debtors	1,55,500
		Stock	1,65,000
		Bank	25,000
	<u>11,70,500</u>		<u>11,70,500</u>

7. **Sundry Debtors A/c**

	₹		₹
To Balance b/d	1,55,500	By Bank	9,25,000
To Sales	10,00,000	By Discount	5,500
		By Bad debts	4,500
		By Bal. c/d	2,20,500
	11,55,500		11,55,500

8. **Sundry Creditors A/c**

	₹		₹
To Bank	5,25,000	By Balance b/d	95,000
To Discount	4,500	By Purchases	5,40,000
To Balance c/d	1,05,500		
	6,35,000		6,35,000

9. **Bank Account**

	₹		₹
To Balance b/d	25,000	By Creditors	5,25,000
To Debtors	9,25,000	By Office Expenses	42,000
To Cash Sales	2,50,000	By Salary Expense	32,000
To Sale of Machinery (W.N. 4c)	23,000	By Selling Expenses	15,000
To Sale of equipment	20,000	By Purchases (cash)	3,60,000
		By Purchase of Machinery	1,50,000
		By Bank Loan & Interest	79,200
		By Balance c/d	39,800
	12,43,000		12,43,000

14. **Realization Account**

Particulars	₹	Particulars	₹
To Building	1,90,000	By Trade creditors	80,000
To Stock	1,30,000	By Bills payable	30,000
To Investment	50,000	By Cash	
To Debtors	70,000	Building	2,09,000

To Cash-creditors paid (W.N.1)	63,650	Stock	1,20,000	
To Cash-expenses	8,000	Investments (W.N.2)	40,000	
To Cash-bills payable (30,000-500)	29,500	Debtors (W.N. 3)	<u>56,700</u>	4,25,700
To Partners' Capital A/cs		By R – (Receipt from Debtors unrecorded)		7,000
P 4,183		By R - Receipt from Investments unrecorded		11,000
Q 4,183				
R 2,789				
S <u>1,395</u>	<u>12,550</u>			
	<u>5,53,700</u>			<u>5,53,700</u>

Cash Account

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	30,000	By Realization-creditors paid	63,650
To Realization – assets realized		By Realization-bills payable	29,500
Building 2,09,000		By Realization-expenses	8,000
Stock 1,20,000		By Capital accounts:	
Investments 40,000		P	1,51,132
Debtors <u>56,700</u>	4,25,700	Q	1,51,132
To R's capital A/c	<u>7,000</u>	S	<u>59,286</u>
	<u>4,62,700</u>		<u>4,62,700</u>

Partners' Capital Accounts

Particulars	P	Q	R	S	Particulars	P	Q	R	S
	₹	₹	₹	₹		₹	₹	₹	₹
To Balance b/d			40,000		By Balance b/d	1,50,000	1,50,000	-	60,000
To Realization A/c-Debtors misappropriation			7,000		By General reserve	13,333	13,333	8,889	4,445

To Realization A/c-Investment-misappropriation			11,000		By Realization profit	4,183	4,183	2,789	1,395
To R's capital A/c (W.N. 4)	16,384	16,384		6,554	By Cash A/c			7,000	
To Cash A/c	1,51,132	1,51,132		59,286	By P's capital A/c			16,384	
					By Q's capital A/c			16,384	
					By S's capital A/c			6,554	
	<u>1,67,516</u>	<u>1,67,516</u>	<u>58,000</u>	<u>65,840</u>		<u>1,67,516</u>	<u>1,67,516</u>	<u>58,000</u>	<u>65,840</u>

Working Notes:

1. Amount paid to creditors in cash

	₹
Book value	80,000
Less: Creditors taking over investments	<u>(13,000)</u>
	67,000
Less: Discount @ 5%	<u>(3,350)</u>
	<u>63,650</u>

2. Amount received from sale of investments

	₹
Book value	50,000
Less: Misappropriated by R	<u>(8,000)</u>
	42,000
Less: Taken over by a creditor	<u>(9,000)</u>
	33,000
Add: Profit on sale of investments	<u>7,000</u>
Cash received from sale of remaining investment	<u>40,000</u>

3. Amount received from debtors

	₹
Book value	70,000
Less: Unrecorded receipt	<u>(7,000)</u>
	63,000
Less: Discount @ 10%	<u>(6,300)</u>
	<u>56,700</u>

4. Deficiency of R

	₹
Balance of capital as on 31 st March, 2019	40,000
Debtors-misappropriation	7,000
Investment-misappropriation	<u>11,000</u>
	58,000
Less: Realization Profit	(2,789)
General reserve	(8,889)
Contribution from private assets	<u>(7,000)</u>
Net deficiency of capital	<u>39,322</u>

This deficiency of ₹ 39,322 in R's capital account will be shared by other partners P, Q and S in their capital ratio of 15 : 15 : 6.

Accordingly,

P's share of deficiency	= [39,322 x (15/36)] =	₹ 16,384
Q's share of deficiency	= [39,322 x (15/36)] =	₹ 16,384
S's share of deficiency	= [39,322 x (6/36)] =	₹ 6,554

15.

<i>Particulars</i>	<i>Financial Capital Maintenance at Historical Cost (₹)</i>
Closing equity (₹ 30 x 1,20,000 units)	36,00,000 represented by cash
Opening equity	1,20,000 units x ₹ 20 = 24,00,000
Permissible drawings to keep Capital intact	12,00,000 (36,00,000 – 24,00,000)

16. (a) As per para 5 of AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value.

In this case, the cost of inventory is ₹ 5 lakhs. The net realizable value is ₹ 4.95 lakhs (₹ 5.5 lakhs less cost to make the sale @ 10% of ₹ 5.5 lakhs). So, the closing stock should be valued at ₹ 4.95 lakhs.

- (b) Para 8.3 of AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", states that adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. The destruction of warehouse due to earthquake did not exist on the balance sheet date i.e. 31.3.2019. Therefore, loss occurred due to earthquake is not to be recognized in the financial year 2018-2019.

However, according to para 8.6 of the standard, unusual changes affecting the existence or substratum of the enterprise after the balance sheet date may indicate a need to consider the use of fundamental accounting assumption of going concern in the preparation of the financial statements. As per the information given in the question, the earthquake has caused major destruction; therefore, fundamental accounting assumption of going concern is called upon.

Hence, the fact of earthquake together with an estimated loss of ₹ 25 lakhs should be disclosed in the Report of the Directors for the financial year 2018-2019.

17. (a)
- (i) In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2018. Subsequently in 2018-19, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.
 - (ii) As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous policy, will not be treated as change in an accounting policy.
 - (iii) Change in useful life of furniture from 5 years to 3 years is a change in estimate and is not a change in accounting policy.
 - (iv) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.
 - (v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

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

<i>Particulars</i>		₹
Purchase Price	Given (₹ 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

18. (a) (i) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or as expenses in the period in which they arise. Accordingly, exchange difference on trade receivables amounting ₹ 23,076 {₹ 5,23,076(US \$ 8547* x ₹ 61.20) less ₹ 5,00,000} should be charged to profit & Loss account.
- (ii) Calculation of profit or loss to be recognized in the books of Power Track Limited

	₹
Forward contract rate	64.25
Less: Spot rate	(61.50)
Loss on forward contract	2.75
Forward Contract Amount	\$ 50,000
Total loss on entering into forward contract = (\$ 50,000 × ₹ 2.75)	₹ 1,37,500
Contract period	6 months
Loss for the period 1 st November, 2018 to 31 st March, 2019 i.e. 5 months falling in the year 2018-2019	5 months
Hence, Loss for 5 months will be ₹ 1,37,500 × $\frac{5}{6}$ =	₹ 1,14,583

Thus, the loss amounting to ₹ 1,14,583 for the period is to be recognized in the year ended 31st March, 2019.

- (b) 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 (for example, Central Investment Subsidy Scheme) 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.

The subsidy received by Samrat Ltd. for setting up its business in a designated backward area will be treated as grant by the government in the nature of promoter's contribution as the grant is given with reference to the total investment in an undertaking i.e. subsidy is 25% of the eligible investment and also no repayment is apparently expected in respect thereof.

* US \$ 8,547 = 5,00,000/58.50

Since the subsidy received is neither in relation to specific fixed assets nor in relation to revenue. Thus, the company cannot recognize the said subsidy as income in its financial statements in the given case. It should be recognized as capital reserve which can be neither distributed as dividend nor considered as deferred income.

19. (a) As per AS 13 'Accounting for Investments', the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds. In this case Z Bank is a bank, therefore, AS 13 does not apply to it. For banks, the RBI has issued separate guidelines for classification and valuation of its investment and Z Bank should comply with those RBI Guidelines/Norms. Therefore, though Z Bank has not followed the provisions of AS 13, yet it would not be said as non-compliance since, it is complying with the norms stipulated by the RBI.
- (b) AS 16 clearly states that capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Therefore, interest on the amount that has been used for the construction of the building up to the date of completion (January, 2019) i.e. ₹ 18 lakhs alone can be capitalized. It cannot be extended to ₹ 25 lakhs.
- 20 (a) AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing inter-segment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if followed consistently.

(b) Tax as per accounting profit $7,50,000 \times 20\% = ₹ 1,50,000$

Tax as per Income-tax Profit $90,000 \times 20\% = ₹ 18,000$

Tax as per MAT $4,37,500 \times 7.50\% = ₹ 32,812.50$

Tax expense = Current Tax + Deferred Tax

$₹ 1,50,000 = ₹ 18,000 + \text{Deferred tax}$

Therefore, **Deferred Tax liability** as on 31-03-2019

$= ₹ 1,50,000 - ₹ 18,000 = ₹ 1,32,000$

Amount of tax to be debited in Profit and Loss account for the year 31-03-2019

Current Tax + Deferred Tax liability + Excess of MAT over current tax

$= ₹ 18,000 + ₹ 1,32,000 + ₹ 14,812.50 (32,812.50 - 18,000)$

$= ₹ 1,64,812.50$