PAPER – 1: ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR MAY, 2018 EXAMINATION

A. Applicable for May, 2018 examination

I. Companies Act, 2013

Relevant Sections of the Companies Act, 2013 notified up to 31st October, 2017 will be applicable for May, 2018 Examination.

II. 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, new 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.

B. Not applicable for May, 2018 examination

Non-Applicability of Ind ASs for May, 2018 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May, 2018 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

Preparation of Profit and Loss Statement and Balance Sheet

1. Kapil Ltd. has authorized capital of ₹ 50 lakhs divided into 5,00,000 equity shares of ₹ 10 each. Their books show the following balances as on 31st March, 2017:

	₹		₹
Inventory 1.4.2016	6,65,000	Bank Current Account	20,000
Discounts & Rebates allowed	30,000	Cash in hand	8,000
Carriage Inwards	57,500	Interest (bank overdraft)	1,11,000

Patterns	3,75,000	Calls in Arrear @ ₹ 2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity share capital	20,00,000
Furniture & Fixtures	1,50,000	(2,00,000 shares of ₹ 10 each)	
Purchases	12,32,500	Bank Overdraft	12,67,000
Wages	13,68,000		
Freehold Land	16,25,000	Trade Payables (for goods)	2,40,500
Plant & Machinery	7,50,000	Sales	36,17,000
Engineering Tools	1,50,000	Rent (Cr.)	30,000
Trade Receivables	4,00,500	Transfer fees received	6,500
Advertisement	15,000	Profit & Loss A/c (Cr.)	67,000
Commission & Brokerage	67,500	Repairs to Building	56,500
Business Expenses	56,000	Bad debts	25,500

The inventory (valued at cost or market value, which is lower) as on 31st March, 2017 was ₹ 7,08,000. Outstanding liabilities for wages ₹ 25,000 and business expenses ₹ 36,000. Dividend declared @ 12% on paid-up capital and it was decided to transfer to reserve @ 2.5% of profits.

Charge depreciation on closing written down amount of Plant & Machinery @ 5%, Engineering Tools @ 20%; Patterns @ 10%; and Furniture & Fixtures @10%. Provide 25,000 as doubtful debts after writing off ₹16,000 as bad debts. Provide for income tax @ 30%. Corporate Dividend Tax Rate @ 17.304 (wherein Base Rate is 15%).

You are required to ***prepare Statement of Profit & Loss for the year ended 31st March, 2017 and Balance Sheet as on that date****.*

Preparation of Cash flow statement

2. A company provides you the following information:

   (i) Total sales for the year were ₹ 398 crores out of which cash sales amounted to ₹ 262 crores.

   (ii) Receipts from credit customers during the year, aggregated ₹ 134 crores.

   (iii) Purchases for the year amounted to ₹ 220 crores out of which credit purchase was 80%.

   Balance in creditors as on

   1.4.2016 ₹ 84 crores

   31.3.2017 ₹ 92 crores

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(iv) Suppliers of other consumables and services were paid ₹ 19 crores in cash.

(v) Employees of the enterprises were paid 20 crores in cash.

(vi) Fully paid preference shares of the face value of ₹ 32 crores were redeemed. Equity shares of the face value of ₹ 20 crores were allotted as fully paid up at premium of 20%.

(vii) Debentures of ₹ 20 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.

(viii) ₹ 26 crores were paid by way of income tax.

(ix) A new machinery costing ₹ 25 crores was purchased in part exchange of an old machinery. The book value of the old machinery was ₹ 13 crores. Through the negotiations, the vendor agreed to take over the old machinery at a higher value of ₹ 15 crores. The balance was paid in cash to the vendor.

(x) Investment costing ₹ 18 cores were sold at a loss of ₹ 2 crores.

(xi) Dividends amounting ₹ 15 crores (including dividend distribution tax of ₹ 2.7 crores) was also paid.

(xii) Debenture interest amounting ₹ 2 crore was paid.

(xiii) On 31st March 2016, Balance with Bank and Cash on hand was ₹ 2 crores.

On the basis of the above information, you are required to ***prepare a Cash Flow Statement*** *for the year ended 31st March, 2017 (Using direct method).*

Profit or Loss prior to Incorporation

3. The Business carried on by Kamal under the name "K" was taken over as a running business with effect from 1st April, 2016 by Sanjana Ltd., which was incorporated on 1st July, 2016. The same set of books was continued since there was no change in the type of business and the following particulars of profits for the year ended 31st March, 2017 were available.

	₹	₹
Sales: Company period	40,000	
Prior period	10,000	50,000
Selling Expenses	3,500	
Preliminary Expenses written off	1,200	
Salaries	3,600	
Directors' Fees	1,200	
Interest on Capital (Upto 30.6.2016)	700	
Depreciation	2,800	
Rent	4,800	

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Purchases	25,000	
Carriage Inwards	1,019	43,819
Net Profit		6,181

The purchase price (including carriage inwards) for the post-incorporation period had increased by 10 percent as compared to pre-incorporation period. No stocks were carried either at the beginning or at the end.

You are required to ***prepare a statement showing the amount of pre and post incorporation period profits*** *stating the basis of allocation of expenses.*

Accounting for Bonus Issue

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

	₹
Authorized capital:	
30,000 12% Preference shares of ₹ 10 each	3,00,000
4,00,000 Equity shares of ₹ 10 each	40,00,000
	43,00,000
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.

You are required to ***prepare 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 25% premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is ₹ 200.

You are required to ***calculate*** *the (i)* ***Ex-right value of a share****; (ii)* ***Value of a right share****?*

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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; 1,500 10% Redeemable preference shares of ₹100 each fully paid – ₹ 1,50,000.

   Reserve & Surplus: Capital reserve – ₹1,00,000; General reserve –₹ 1,00,000; Profit and Loss Account – ₹75,000.

   On 1st January 20X2, the Board of Directors decided to redeem the preference shares at premium of 10% 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. On 1st January, 2006 Raman Ltd. allotted 20,000 9% Debentures of ₹100 each at par, the total amount having been received along with applications.

   (i) On 1st January, 2008 the Company purchased in the open market 2,000 of its own debentures @ ₹ 101 each and cancelled them immediately.

   (ii) On 1st January, 2011 the company redeemed at par debentures for ₹6,00,000 by draw of a lot.

   (iii) On 1st January, 2012 the company purchased debentures of the face value of ₹4,00,000 for 3,95,600 in the open market, held them as investments for one year and then cancelled them.

   (iv) Finally, as per resolution of the board of directors, the remaining debentures were redeemed at a premium of 2% on 1st January, 2016.

   You are required to ***prepare required journal entries*** *for the above-mentioned transactions ignoring debenture redemption reserve, debenture interest and interest on own debentures.*

Investment Accounts

8. Alpha Ltd. purchased 5,000, 13.5% Debentures of Face Value of ₹ 100 each of Pergot Ltd. on 1st May 2017 @ ₹ 105 on cum interest basis. The interest on these instruments is payable on 31st & 30th of March & September respectively. On August 1st 2017 the company again purchased 2,500 of such debentures @ ₹ 102.50 each on cum interest basis. On October 1st, 2017 the company sold 2,000 Debentures @ ₹ 103 each on ex-interest basis. The market value of the debentures as at the close of the year was ₹ 106. *You are required to* ***prepare the Investment in Debentures Account*** *in the books of Alpha Ltd. for the year ended 31st Dec. 2017 on Average Cost Basis.*

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Insurance Claim for loss of stock

9. The premises of Anmol Ltd. caught fire on 22nd January 2017, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2016 the stock at cost was ₹ 6,63,600 as against ₹ 4,81,100 on 31st March, 2015.

   Purchases from 1st April, 2016 to the date of fire were ₹ 17,41,350 as against ₹ 22,62,500 for the full year 2015-16 and the corresponding sales figures were ₹ 24,58,500 and ₹ 26,00,000 respectively. You are given the following further information:

   (i) In July, 2016, goods costing ₹ 50,000 were given away for advertising purposes, no entries being made in the books.

   (ii) During 2016-17, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged ₹ 1,000 per week from 1st April, 2016 until the clerk was dismissed on 18th August, 2016.

   (iii) The rate of gross profit is constant.

   *You are required to **calculate** the value of stock in hand on the date of fire with the help of above information.*

Hire Purchase Transactions

10. Srikumar bought 2 cars from 'Fair Value Motors Pvt. Ltd. on 1.4.2014 on the following terms (for both cars):

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

   Interest is charged at 10% p.a.

   Srikumar provides depreciation @ 25% on the diminishing balances.

   On 31.3.2017 Srikumar failed to pay the 3rd installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Srikumar 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 Srikumar 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 Srikumar** assuming books are closed on March 31, every year.*

   Figures may be rounded off to the nearest rupee.

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Departmental Accounts

11. Following is the Trial Balance of Mr. Mohan as on 31.03.2017:

	Particulars	***Debit (₹)***	***Credit (₹)***
Capital Account			40,000
Drawing Account		1,500	
Opening Stock	Department A	8,500	
	Department B	5,700	
	Department C	1,200	
Purchases	Department A	22,000	
	Department B	17,000	
	Department C	8,000	
Sales	Department A		54,000
	Department B		33,000
	Department C		21,000
Sales Returns	Department A	4,000	
	Department B	3,000	
	Department C	1,000	
Freight and Carriage	Department A	1,400	
	Department B	800	
	Department C	200	
Furniture and fixtures		4,600	
Plant and Machinery		20,000	
Motor Vehicles		40,000	
Sundry Debtors		12,200	
Sundry Creditors			15,000
Salaries		4,500	
Power and water		1,200	
Telephone charges		2,100	
Bad Debts		750	
Rent and taxes		6,000	
Insurance		1,500	
Wages	Department A	800	
	Department B	550	

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	Department C	150	
Printing and Stationeries		2,000	
Advertising		3,500	
Bank Overdraft			12,000
Cash in hand		850	
		1,75,000	1,75,000

You are required to ***prepare*** *Department Trading, Profit and Loss Account and the Balance Sheet taking into account the following adjustments*:

(a) Outstanding Wages: Department B- ₹ 150, Department C – ₹ 50.

(b) Depreciate Plant and Machinery and Motor Vehicles at the rate of 10%.

(c) Each Department shall share all expenses in proportion to their sales.

(d) Closing Stock: Department A - ₹ 3,500, Department B - ₹ 2,000, Department C - ₹ 1,500.

Branch Accounting

12. Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit at selling price is constant at 25 per cent throughout the year to 31st March, 2017.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal in 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch in head office.

The following details for the year ended 31st March, 2017 are given as follows:

	₹		₹
Opening Stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,328
Sales	3,61,280		
Manager's commission paid on account	2,400		

From the above details, you are required to ***calculate the commission due to manager*** *for the year ended 31st March, 2017.*

Accounts from Incomplete Records

13. The following is the Balance Sheet of Manish and Suresh as on 1st April, 2016:

Liabilities	₹	Assets	₹
Capital Accounts:		Building	1,00,000

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Manish	1,50,000	Machinery	65,000
Suresh	75,000	Stock	40,000
Creditors for goods	30,000	Debtors	50,000
Creditors for expenses	25,000	Bank	25,000
	2,80,000		2,80,000

They give you the following additional information:

(i) Creditors' Velocity* 1.5 month & Debtors' Velocity* 2 months.

(ii) Stock level is maintained uniformly in value throughout all over the year.

(iii) Depreciation on machinery is charged @ 10%, Depreciation on building @ 5% in the current year.

(iv) Cost price will go up 15% as compared to last year and also sales in the current year will increase by 25% in volume.

(v) Rate of gross profit remains the same.

(vi) Business Expenditures are ₹ 50,000 for the year. All expenditures are paid off in cash.

(vii) Closing stock is to be valued on LIFO Basis.

(viii) All sales and purchases are on credit basis and there are no cash purchases and sales.

You are required to ***prepare Trading, Profit and Loss Account, Trade Debtors Account and Trade Creditors Account*** *for the year ending 31.03.2017.*

Conversion of Partnership Firm into a Company

14. (a) Aman, Baal and Chand share profits and losses of a business as to 3:2:1 respectively. Their balance sheet as at 31st March, 2017 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Goodwill	10,000
Aman	70,000	Land	20,000
Baal	80,000	Buildings	1,10,000
Chand	10,000	Machinery	50,000
General Reserve	18,000	Motor Car	28,000
Investment Fluctuation Fund	4,000	Furniture	12,000

* Velocity indicates the no. of times the creditors and debtors are turned over a year.

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Chand's Loan	33,000	Investments		18,000
Mrs. Aman's loan	15,000	Loose tools		7,000
Creditors	96,000	Stock		18,000
Bills Payable	14,000	Bills receivable		20,000
Bank overdraft	60,000	Debtors:	40,000	
		Less: Provision	2,000	38,000
		Cash		1,000
		Chand's current A/c		56,000
		Profit and Loss A/c		12,000
	4,00,000			4,00,000

The partners decide to convert their firm into a Joint Stock Company. For this purpose ABC Ltd. was formed with an authorized capital of ₹ 10,00,000 divided into ₹ 100 equity Shares. The business of the firm was sold to the company as at the date of balance sheet given above on the following terms:

(i) Motor car, furniture, investments, loose tools, debtors and cash are not to be taken over by the company.

(ii) Liabilities for bills payable and bank overdraft are to be taken over by the company.

(iii) The purchase price is settled at ₹ 1,95,500 payable as to ₹ 75,500 in cash and the balance in company's fully paid shares of ₹ 100 each.

(iv) The remaining assets and liabilities of the firm are directly disposed of by the firm as per details given below:

Investments are taken over by Aman for ₹ 13,000; debtors realize in all ₹ 20,000; Motor Car, furniture and loose tools fetch ₹ 24,000, ₹ 4,000, and ₹ 1,000 respectively. Aman agrees to pay his wife's loan. The creditors were paid ₹ 94,000 in final settlement of their claims. The realization expenses amount to ₹ 500.

(v) The equity share received from the vendor company are to be divided among the partners in profit-sharing ratio.

You are required to ***prepare the necessary ledger accounts*** *in the books of the partnership firm.*

Limited Liability Partnership

(b) ***Explain*** *the Limitations of Liability of Limited Liability Partnership (LLP) and its partners.*

Framework for Preparation and Presentation of Financial statements

15. **Explain** *main elements of Financial Statements*.

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Accounting Standards

AS 2 Valuation of Inventories

16. (a) A private limited company manufacturing fancy terry towels had valued its closing inventory of inventories of finished goods at the realizable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.

You are required to ***advise*** *the company on the valuation of the inventories in line with the provisions of AS 2.*

AS 4 Contingencies and Events Occurring after the Balance Sheet Date

(b) With reference to AS 4 "Contingencies and events occurring after the balance sheet date*",* ***identify*** *whether the following events will be treated as contingencies, adjusting events or non-adjusting events occurring after balance sheet date* in case of a company which follows April to March as its financial year.

(i) A major fire has damaged the assets in a factory on 5th April, 5 days after the year end. However, the assets are fully insured and the books have not been approved by the Directors.

(ii) A suit against the company's advertisement was filed by a party on 10th April, 10 days after the year end claiming damages of ₹ 20 lakhs.

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

17. (a) Bela Ltd. has a vacant land measuring 20,000 sq. mts, which it had no intention to use in the future. The Company decided to sell the land to tide over its liquidity problems and made a profit of ₹10 Lakhs by selling the said land. Moreover, there was a fire in the factory and a part of the unused factory shed valued at ₹ 8 Lakhs was destroyed. The loss from fire was set off against the profit from sale of land and profit of ₹ 2 lakhs was disclosed as net profit from sale of assets.

You are required to ***examine*** *the treatment and disclosure done by the company and advise the company in line with AS 5.*

Depreciation Accounting as per AS 10 Property, Plant and Equipment

(b) In the year 2016-17, an entity has acquired a new freehold building with a useful life of 50 years for ₹ 90,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

Component	Useful life (Years)	Cost
Land	Infinite	₹ 20,00,000

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Roof	25	₹ 10,00,000
Lifts	20	₹ 5,00,000
Fixtures	10	₹ 5,00,000
Remainder of building	50	₹ 50,00,000
		₹ 90,00,000

You are required to ***calculate depreciation*** *for the year 2016-17 as per componentization method.*

AS 11 The Effects of Changes in Foreign Exchange Rates

18. (a) Power Track Ltd. purchased a plant for US$ 50,000 on 31st October, 2016 payable after 6 months. The company entered into a forward contract for 6 months @₹ 64.25 per Dollar. On 31st October, 2016, the exchange rate was ₹ 61.50 per Dollar.

You are required to ***calculate the amount of the profit or loss on forward contract*** *to be recognized in the books of the company for the year ended 31st March, 2017.*

AS 12 Government Grants

(b) D Ltd. acquired a machine on 01-04-2012 for ₹ 20,00,000. The useful life is 5 years. The company had applied on 01-04-2012, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2015. The Company's Fixed Assets Account for the financial year 2015-16 shows a credit balance as under:

Particulars	₹
Machine (Original Cost)	20,00,000
Less: Accumulated Depreciation (from 2012-13- to 2014-15 on Straight Line Method)	12,00,000
	8,00,000
Less: Grant received	(16,00,000)
Balance	(8,00,000)

You are required to ***explain*** *how should the company deal with this asset in its accounts for 2015-16?*

AS 13 Accounting for Investments

19. (a) Paridhi Electronics Ltd. invested in the shares of another unlisted company on 1st May 2012 at a cost of ₹ 3,00,000 with the intention of holding more than a year. The published accounts of unlisted company received in January, 2017 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics Ltd. may not fetch more than ₹ 45,000.

You are required to ***explain*** *how you will deal with the above in the financial statements of the Paridhi Electronics Ltd. as on 31.3.17 with reference to AS 13*?

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AS 16 Borrowing costs

(b) In May, 2016, Capacity Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2017 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, 2017 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) Rama Ltd., has provided the following information:

	₹
Depreciation as per accounting records	= 2,00,000
Depreciation as per income tax records	= 5,00,000
Unamortized preliminary expenses as per tax record	= 30,000

There is adequate evidence of future profit sufficiency.

You are required to ***calculate*** *the amount of deferred tax asset/liability to be recognized as transition adjustment assuming Tax rate as 50%.*

ANSWERS

1. **Kapil Ltd.**

Balance Sheet
as at 31st March, 2017

		Particulars	Note No.	(₹)
I	**Equity and Liabilities**			
	(1)	**Shareholders' Funds**		
		(a) Share Capital	1	19,90,000

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		(b) Reserves and Surplus	2	59,586
	(2)	**Current Liabilities**		
		(a) Trade Payables		2,40,500
		(b) Other Current Liabilities	3	13,28,000
		(c) Short-Term Provisions	4	4,07,414
		Total		40,25,500
II	**ASSETS**			
	(1)	**Non-Current Assets**		
		(a) Fixed Assets		
		(i) Tangible Assets	5	29,30,000
	(2)	**Current Assets**		
		(a) Inventories		7,08,000
		(b) Trade Receivables	6	3,59,500
		(c) Cash and Cash Equivalents	7	28,000
		Total		40,25,500

Kapil Ltd.

Statement of Profit and Loss for the year ended 31st March, 2017

	Particulars	Note No.	(₹)
I	Revenue from Operations		36,17,000
II	Other Income	8	36,500
III	**Total Revenue [I + II]**		**36,53,500**
IV	Expenses:		
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,08,000]		(43,000)
	Employee Benefits Expenses	9	13,93,000
	Finance Costs	10	1,11,000
	Depreciation and Amortization Expenses		1,20,000
	Other Expenses	11	4,40,000
	Total Expenses		**32,53,500**
V	**Profit before Tax (III-IV)**		4,00,000
VI	**Tax Expenses @ 30%**		(1,20,000)
VII	**Profit for the period**		2,80,000

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Notes to Accounts:

1. Share Capital

Authorized Capital	
5,00,000 Equity Shares of ₹ 10 each	50,00,000
Issued Capital	
2,00,000 Equity Shares of ₹ 10 each	20,00,000
Subscribed Capital and fully paid	
1,95,000 Equity Shares of ₹10 each	19,50,000
Subscribed Capital but not fully paid	
5,000 Equity Shares of ₹10 each ₹ 8 paid	40,000
(Call unpaid ₹10,000)	19,90,000

2. Reserves and Surplus

General Reserve		7,000
Surplus i.e. Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	2,80,000	
Less: Transfer to Reserve @ 2.5%	(7,000)	
Less: Equity Dividend [12% of (20,00,000-10,000)]	(2,38,800)	
Less: Corporate Dividend Tax (Working note)	(48,614)	52,586
		59,586

3. Other Current Liabilities

Bank Overdraft	12,67,000
Outstanding Expenses [25,000+36,000]	61,000
	13,28,000

4. Short-term Provisions

Provision for Tax	1,20,000
Equity Dividend payable	2,38,800
Corporate Dividend Tax	48,614
	4,07,414

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5. Tangible Assets

Particulars	Value given (₹)	Depreciation rate	Depreciation Charged (₹)	Written down value at the end (₹)
Land	16,25,000		-	16,25,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Patterns	3,75,000	10%	37,500	3,37,500
Engineering Tools	1,50,000	20%	30,000	1,20,000
	30,50,000		1,20,000	29,30,000

6. Trade Receivables

Trade receivables (4,00,500-16,000)	3,84,500
Less: Provision for doubtful debts	(25,000)
	3,59,500

7. Cash & Cash Equivalent

Cash Balance	8,000
Bank Balance in current A/c	20,000
	28,000

8. Other Income

Miscellaneous Income (Transfer fees)	6,500
Rental Income	30,000
	36,500

9. Employee benefits expenses

Wages	13,68,000
Add: Outstanding wages	25,000
	13,93,000

10. Finance Cost

Interest on Bank overdraft	1,11,000

11. Other Expenses

Carriage Inward	57,500
Discount & Rebates	30,000
Advertisement	15,000

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Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,000] (Business Expenses)	92,000
Bad Debts [25,500+16,000]	41,500
Provision for Doubtful Debts	25,000
	4,40,000

Working Note

Calculation of grossing-up of dividend:

Particulars	₹
Dividend distributed by Company	2,38,800
Add: Increase for the purpose of grossing up of dividend 2,38,800 x [15/(100-15)]	42,141
Gross dividend	2,80,941
Dividend distribution tax @ 17.304%	48,614

2. Cash flow statement (using direct method) for the year ended 31st March, 2017

	(₹ in crores)	*(₹ in crores)*
Cash flow from operating activities		
Cash sales	262	
Cash collected from credit customers	134	
Less: Cash paid to suppliers for goods & services and to employees (Refer Working Note)	(251)	
Cash from operations	145	
Less: Income tax paid	(26)	
Net cash generated from operating activities		119
Cash flow from investing activities		
Net Payment for purchase of Machine (25 – 15)	(10)	
Proceeds from sale of investments	16	
Net cash used in investing activities		6
Cash flow from financing activities		
Redemption of Preference shares	(32)	
Proceeds from issue of Equity shares	24	
Debenture interest paid	(2)	
Dividend Paid	(15)	

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Net cash used in financing activities			(25)
Net increase in cash and cash equivalents			100
Add: Cash and cash equivalents as on 1.04.2016			2
Cash and cash equivalents as on 31.3.2017			102

Working Note:

Calculation of cash paid to suppliers of goods and services and to employees

	(₹ in crores)
Opening Balance in creditors Account	84
Add: Purchases (220x .8)	176
Total	260
Less: Closing balance in Creditors Account	92
Cash paid to suppliers of goods	168
Add: Cash purchases (220x .2)	44
Total cash paid for purchases to suppliers (a)	212
Add: Cash paid to suppliers of other consumables and services (b)	19
Add: Payment to employees (c)	20
Total cash paid to suppliers of goods & services and to employees [(a)+ (b) + (c)]	251

3. Statement showing the calculation of profits/losses for pre incorporation and Post incorporation period profits of Sanjana Ltd.

for the year ended 31st March, 2017

Particulars	**Basis**	**Pre**	**Post**
		₹	₹
Sales (given)		10,000	40,000
Less: Purchases	1:3.3	5,814	19,186
Carriage Inwards	1:3.3	237	782
Gross Profit (i)		3,949	20,032
Less: Selling Expenses	1:4	700	2,800
Preliminary Expenses			1,200
Salaries	1:3	900	2,700
Director Fees			1,200
Interest on capital		700	

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Depreciation	1:3	700	2,100
Rent	1:3	1,200	3,600
Total of Expenses(ii)		4,200	13,600
Capital Loss/Net Profit (i-ii)		(251)	6,432

Working Notes:

1: Sales Ratio = 10,000 : 40,000 = 1 :4

2: Time Ratio = 3:9 = 1:3

3: Purchase Price Ratio

∴ Ratio is 3 : 9

But purchase price was 10% higher in the company period

∴ Ratio is 3 : 9 + 10%

3:9.9 = 1:3.3.

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
	(For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated….)			
20-4-20X1	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)			

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

	₹
Authorised Capital	
30,000 12% Preference shares of ₹ 10 each	3,00,000
4,00,000 Equity shares of ₹ 10 each	40,00,000
Issued and subscribed capital	
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. **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)

= (₹ 200 X 5 Shares + ₹ 125 X 1 Share) / (5 + 1) Shares

= ₹ 1,125 / 6 shares = ₹ 187.50 per share.

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

= ₹ 200 – ₹ 187.50 = ₹ 12.50 per share.

6. **In the books of ABC Limited**

Journal Entries

Date 20X2	***Particulars***		***Dr. (₹)***	***Cr. (₹)***
Jan 1	10% Redeemable Preference Share Capital A/c	Dr.	1,50,000	
	Premium on Redemption of Preference Shares		15,000	
	To Preference Shareholders A/c			1,65,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,65,000	
	To Bank A/c			1,65,000

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	(Being the amount paid on redemption of preference shares)			
	General Reserve A/c	Dr.	1,00,000	
	Profit & Loss A/c	Dr.	50,000	
	To Capital Redemption Reserve A/c			1,50,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			
	Profit & Loss A/c	Dr.	15,000	
	To Premium on Redemption of Preference Shares A/c			15,000
	(Being premium on redemption charged to Profit and Loss A/c)			

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

7. Journal Entries

		(₹) Dr.	(₹) Cr.
2006 Jan 1	Bank Dr.	20,00,000	
	To 9% Debenture Applications& Allotment Account		20,00,000
	(Being application money on 20,000 debentures @ ₹ 100 per debenture received)		
	9% Debentures Applications & Allotment Account Dr.	20,00,000	
	To 9% Debentures Account		20,00,000
	(Being allotment of 20,000 9% Debentures of ₹100 each at par)		
(i)	9% Debenture Account Dr.	2,00,000	
2008 Jan. 1	Loss on Redemption of Debentures Account Dr.	2,000	
	To Bank		2,02,000
	(Being redemption of 2,000 9% Debentures of ₹100 each by purchase in the open market @ ₹101 each)		
” ”	Profit & Loss Account Dr.	2,000	
	To Loss on Redemption of Debentures Account		2,000
	(Being loss on redemption of debentures being written off by transfer to Profit and Loss Account)		
(ii)	9% Debentures Account Dr.	6,00,000	
2011Jan. 1	To Sundry Debenture holders		6,00,000
	(Being Amount payable to debenture holders on redemption debentures for ₹6,00,000 at par by draw of a lot)		

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” ”	Sundry Debenture holders Dr.		6,00,000	
	To Bank			6,00,000
	(Being Payment made to sundry debenture holders for redeeming debentures of ₹6,00,000 at par)			
(iii)	Own Debentures Dr.		3,95,600	
2012 Jan. 1	To Bank			3,95,600
	(Being purchase of own debentures of the face value of ₹4,00,000 for ₹3,95,600)			
2013 ”	9% Debentures Dr.		4,00,000	
	To Own Debentures			3,95,600
	To Profit on Cancellation of Own Debentures Account			4,400
	(Being Cancellation of own debentures of the face value of ₹4,00,000 purchased last year for ₹3,95,600)			
” ”	Profit on Cancellation of Own Debentures		4,400	
	Account Dr.			4,400
	To Capital Reserve Account			
	(Being transfer of profit on cancellation of own debentures to capital reserve)			
(iv) 2016Jan. 1	9% Debentures Account Dr.		8,00,000	
	Premium on Redemption of Debentures Account Dr.		16,000	
	To Sundry Debenture holders			8,16,000
	(Being amount payable to holders of debentures of the face value of ₹ 8,00,000 on redemption at a premium of 2% as per resolution of the board of directors)			
” ”	Sundry Debenture holders Dr.		8,16,000	
	To Bank Account			
	(Being payment to sundry debenture holders)			8,16,000
” ”	Profit & Loss Account Dr.		16,000	
	To Premium on Redemption of Debentures Account			16,000
	(Being utilization of a part of the balance in Securities Premium Account to write off premium paid on redemption of debentures)			

8. Books of Alpha Ltd.

Investment in 13.5% Debentures in Pergot Ltd. Account

(Interest payable on 31st March & 30th September)

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
2017		₹	₹	₹	2017		₹	₹	₹
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank		50,625	

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						(6 months Int)			
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	To P&L A/c		52,313						
					Dec.31	By Balance c/d	5,50,000	18,563	5,60,542
		7,50,000	69,188	7,66,542			7,50,000	69,188	7,66,542

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

Working Notes:

1. Interest paid on ₹ 5,00,000 purchased on May 1st, 2017 for the month of April 2017, as part of purchase price: 5,00,000 x 13.5% x 1/12 = ₹ 5,625

2. Interest received on 30th Sept. 2017

   On ₹ 5,00,000 = 5,00,000 x 13.5% x ½ = 33,750

   On ₹ 2,50,000 = 2,50,000 x 13.5% x ½ = 16,875

   Total ₹ 50,625

3. Interest paid on ₹ 2,50,000 purchased on Aug. 1st 2017 for April 2017 to July 2017 as part of purchase price:

   2,50,000 x 13.5% x 4/12 = ₹ 11,250

4. Loss on Sale of Debentures

   Cost of acquisition

(₹ 5,19,375 + ₹ 2,45,000) x ₹ 2,00,000/₹ 7,50,000	=	2,03,833
Less: Sale Price (2,000 x 103)	=	2,06,000
Profit on sale	=	₹ 2,167

5. Cost of Balance Debentures

   (₹ 5,19,375 + ₹ 2,45,000) x ₹ 5,50,000/₹ 7,50,000 = ₹ 5,60,542

6. Interest on Closing Debentures for period Oct.-Dec. 2017 carried forward (accrued interest)

   ₹ 5,50,000 x 13.5% x 3/12 = ₹ 18,563

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

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

	₹		₹
To Opening stock	4,81,100	By Sales	26,00,000
To Purchases	22,62,500	By Closing stock	6,63,600

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To Gross profit	5,20,000		
	32,63,600		32,63,600

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

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

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

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

Estimated stock in hand on the date of fire was ₹ 3,72,150.

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 × ₹ 1,000 = ₹ 20,000.

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 x 10/110*	*[6]4-5*
3rd	-	5,50,000	5,50,000	50,000	5,00,000
2nd	5,00,000	4,90,000	9,90,000	90,000	9,00,000
1st	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.

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(ii) **In the books of Srikumar**
Cars Account

Date	Particulars	₹	Date	Particulars	₹
1.4.2014	To Fair Value Motors A/c	18,00,000	31.3.2015	By Depreciation A/c	4,50,000
				By Balance c/d	13,50,000
		18,00,000			18,00,000
1.4.2015	To Balance b/d	13,50,000	31.3.2016	By Depreciation A/c	3,37,500
				By Balance c/d	10,12,500
		13,50,000			13,50,000
1.4.2016	To Balance b/d	10,12,500	31.3.2017	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 transferred to Profit and Loss A/c on surrender (Bal. fig.)	1,85,288
				By Balance c/d ½ (10,12,500-2,53,125)	3,79,687
		10,12,500			10,12,500

11. **Trading and Profit and Loss Account**
for the year ended on 31st Match, 2017

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Opening Stock	8,500	5,700	1,200	By Sales less Sales returns	50,000	30,000	20,000
To Purchases	22,000	17,000	8,000	By Closing Stock	3,500	2,000	1,500
To Freight & carriage	1,400	800	200				
To Wages	800	700	200				
To Gross profit	20,800	7,800	11,900				
	53,500	32,000	21,500		53,500	32,000	21,500
To Salaries	2,250	1,350	900	By Gross Profit	20,800	7,800	11,900
To Power & Water	600	360	240	By Net Loss	-	465	-

To Telephone Charges	1,050	630	420				
To Bad Debts	375	225	150				
To Rent & Taxes	3,000	1,800	1,200				
To Insurance	750	450	300				
To Printing & Stationery	1,000	600	400				
To Advertising	1,750	1,050	700				
To Depreciation (2,000 +4,000)	3,000	1,800	1,200				
To Net Profit	7,025		6,390				
	20,800	8,265	11,900		20,800	8,265	11,900

Balance Sheet as at 31.03.2017

Liabilities	₹		*Assets*	₹	
Capital A/c	40,000		Furniture & Fixtures		4,600
Add: Net Profit (₹ 7,025 + ₹ 6,390)	13,415		Plant & Machinery	20,000	
	53,415		*Less:* Depreciation	2,000	18,000
Less: Net loss in Dept B	465		Motor Vehicles	40,000	
	52,950		*Less:* Depreciation	4,000	36,000
Less: Drawings	1,500	51,450	Sundry Debtors		12,200
Sundry Creditors		15,000	Cash in hand		850
Bank Overdraft		12,000	Closing Stock		7,000
Wages Outstanding		200			
		78,650			78,650

Note: All expenses have been allocated among departments in proportion of their sales in the solution as per the specific requirement of the question.

12. Step 1: Calculation of Deficiency

Branch stock account (at invoice price)

Particulars	₹	*Particulars*	₹
To Opening Stock (₹ 74,736 + 1/3 of ₹ 74,736)	99,648	By Sales	3,61,280
To Goods sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328

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		By Deficiency at sale price [Balancing figure]	1,280
	4,85,888		4,85,888

Step 2: Calculation of Net Profit before Commission

Branch account

Particulars	₹	*Particulars*	₹
To Opening [₹74,736 + 1/3 of ₹ 74,736]	99,648	By Sales	3,61,280
To Gross sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328
To Expenses	49,120	By Stock Reserve A/c	24,912
To Stock Reserve A/c (₹ 1,23,328 x 25/100]	30,832	By goods sent to Branch A/c	96,560
To Net Profit – subject to manager's commission	40,240		
	6,06,080		6,06,080

Step 3: **Calculation of Commission still due to manager**

		₹
A	Calculation at 10% profit before charging his commission [₹ 40,240 x 10/100]	4,024
B	*Less:* 25% of cost of deficiency in stock (25% of (75% of ₹ 1,280)	(240)
C	Commission for the year [A-B]	3,784
D	*Less:* Paid on account	(2,400)
E	Balance due (C-D)	1,384

13. Trading and Profit and Loss account

for the year ending 31st March, 2017

Particulars	₹	*Particulars*	₹
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

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To Depreciation on:				
Machinery	6,500			
Building	5,000	11,500		
To Net profit		24,750		
		86,250		86,250

Trade Debtors Account

Particulars	₹	*Particulars*	₹
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

Trade Creditors Account

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

Working Note:

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

14. (a) Necessary Ledger Accounts in the books of Partnership Firm

Realization Account

Particulars	₹	₹	Particulars	₹	₹
To Goodwill		10,000	By provision to doubtful Debts		2,000
To land		20,000	By Trade creditors		96,000
To Buildings		1,10,000	By Bills Payable		14,000
To Machinery		50,000	By Bank overdraft		60,000
To Motor Car		28,000	By Mrs. Aman's loan		15,000
To Furniture		12,000	By ABC Ltd. (Purchase price)		1,95,500
To Investments		18,000	By Aman's Capital A/c (Investments taken over)		13,000
To Loose tools		7,000	By Cash A/c:		
To Stock		18,000	Debtors	20,000	
To Bill receivable		20,000	Motor Car	24,000	
To Debtors		40,000	Furniture	4,000	
To Aman's Capital A/c (Mrs. Aman's Loan)		15,000	Loose tools	1,000	49,000
To Cash A/c:					
Creditors	94,000				
Realization expenses	500	94,500			
To Profit on Realization t/f to:					
Aman's Capital A/c	1,000				
Baal's Capital A/c	667				
Chand's Capital A/c	333	2,000			
		4,44,500			4,44,500

ABC Ltd. Account

Particulars	₹	Particulars	₹
To Realization A/c	1,95,500	By Cash A/c	75,500
		By Shares in ABC Ltd.	1,20,000
	1,95,500		1,95,500

Partners' Capital Accounts

Particulars	*Aman* ₹	*Baal* ₹	*Chand* ₹	*Particulars*	*Aman* ₹	*Baal* ₹	*Chand* ₹
To Profit and Loss A/c	6,000	4,000	2,000	By Balance b/d	70,000	80,000	10,000

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To Realization A/c	13,000	-	-	By Chand's Loan A/c	-	-	33,000
To Chand's Current A/c	-	-	56,000	By General reserve	9,000	6,000	3,000
To shares in ABC Ltd.	60,000	40,000	20,000	By Investment Fluctuation Fund*	2,000	1,333	667
To Cash A/c	18,000	44,000	-	By Realization A/c	1,000	667	333
				By Realization A/c (Mrs. Aman's loan A/c)	15,000	-	-
				By Cash A/c	-		31,000
	97,000	88,000	78,000		97,000	88,000	78,000

**Alternatively, Investment Fluctuation Fund Account may be transferred to Realization Account.*

Chand's Current Account

Particulars	₹	Particulars	₹
To Balance b/d	56,000	By Chand's Capital A/c-transfer	56,000
	56,000		56,000

Shares in ABC Ltd. Account

Particulars	₹	Particulars	₹
To ABC Ltd. Account	1,20,000	By Aman's Capital A/c	60,000
		By Baal's Capital A/c	40,000
		By Chand's Capital A/c	20,000
	1,20,000		1,20,000

Cash Account

Particulars	₹	Particulars	₹
To Balance b/d	1,000	By Realization A/c (Liabilities and expenses)	94,500
To ABC Ltd.	75,500	By Aman's Capital A/c	18,000
To Realization A/c (sale of assets)	49,000	By Baal's Capital A/c	44,000
To Chand's Capital A/c	31,000		-
	1,56,500		1,56,500

(b) Under section 27 (3) of the LLP Act, 2008 an obligation of an LLP arising out of a contract or otherwise, shall be solely the obligation of the LLP. The limitations of liability of an LLP and its partners are as follows:

- The Liabilities of an LLP shall be met out of the properties of the LLP;
- A partner is not personally liable, directly or indirectly (for an obligation of an LLP arising out of a contract or otherwise), solely by reason of being a partner in the LLP;
- An LLP is not bound by anything done by a partner in dealing with a person, if:
  - The partner does not have the authority to act on behalf of the LLP in doing a particular act; and
  - The other person knows that the partner has no authority or does not know or believe him to be a partner in the LLP
- The liability of the LLP and the partners perpetrating fraudulent dealings shall be unlimited for all or any of the debts or other liabilities of the LLP.

15. Elements of Financial Statements

The Framework for preparation and Presentation of financial statements classifies items of financial statements can be classified in five broad groups depending on their economic characteristics: Asset, Liability, Equity, Income/Gain and Expense/Loss.

Asset	Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise
Liability	Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.
Equity	Residual interest in the assets of an enterprise after deducting all its liabilities.
Income/gain	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants
Expense/loss	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity other than those relating to distributions to equity participants.

16 (a) Accounting Standard 2 "Valuation of Inventories" states that inventories should be valued at lower of historical cost and net realizable value. The standard states, "at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when

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market exists and there is a negligible risk of failure to sell, the goods are often valued at net realizable value at certain stages of production."

Terry Towels do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing inventory of finished goods (Fancy terry towel) should have been valued at lower of cost and net realizable value and not at net realizable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing inventory of inventories of finished goods is not correct.

(b) According to AS 4 on 'Contingencies and Events Occurring after the Balance Sheet Date', adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. However, 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. "Contingencies" used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur.

(i) Fire has occurred after the balance sheet date and also the loss is totally insured. Therefore, the event becomes immaterial and the event is **non-adjusting** in nature.

(ii) The contingency is restricted to conditions existing at the balance sheet date. However, in the given case, suit was filed against the company's advertisement by a party on 10th April for amount of ₹ 20 lakhs. Therefore, it does not fit into the definition of a contingency and hence is a **non-adjusting event**.

17. (a) As per AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.

In the given case the selling of land to tide over liquidation problems as well as fire in the Factory does not constitute ordinary activities of the Company. These items are distinct from the ordinary activities of the business. Both the events are material in nature and expected not to recur frequently or regularly. Thus, these are Extraordinary Items.

Therefore, in the given case, disclosing net profits by setting off fire losses against profit from sale of land is not correct. The profit on sale of land, and loss due to fire should be disclosed separately in the statement of profit and loss.

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(b) Statement showing amount of depreciation as per Componentization Method

Component	Depreciation (Per annum) (₹)
Land	Nil
Roof	40,000
Lifts	25,000
Fixtures	50,000
Remainder of Building	1,00,000
	2,15,000

Note: When the roof requires replacement at the end of its useful life the carrying amount will be nil. The cost of replacing the roof should be recognized as a new component.

18. (a) 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 1st November, 2016 to 31st March, 2017 i.e. 5 months falling in the year 2016-2017	5 months
Hence, Loss for 5 months will be ₹ 1,37,500 $\times\frac{5}{6}$ =	₹ 1,14,583

Thus, the loss amounting to ₹ 1,14,583 for the period is to be recognized in the year ended 31st March, 2017.

(b) From the above account, it is inferred that the Company follows Reduction Method for accounting of Government Grants. Accordingly, out of the ₹ 16,00,000 that has been received, ₹ 8,00,000 (being the balance in Machinery A/c) should be credited to the machinery A/c.

The balance ₹ 8,00,000 may be credited to P&L A/c, since already the cost of the asset to the tune of ₹ 12,00,000 had been debited to P&L A/c in the earlier years by way of depreciation charge, and ₹ 8,00,000 transferred to P&L A/c now would be partial recovery of that cost.

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There is no need to provide depreciation for 2015-16 or 2016-17 as the depreciable amount is now Nil.

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

On this basis, the facts of the case given in the question clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares to ₹ 45,000 in the financial statements for the year ended 31st March, 2017 and charge the difference of loss of ₹ 2,55,000 to profit and loss account.

(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, 2017) 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) Table showing calculation of deferred tax asset / liability

Particulars	*Amount*	*Timing differences*	*Deferred tax*	*Amount @ 50%*
	₹			₹
Excess depreciation as per tax records (₹ 5,00,000 – ₹ 2,00,000)	3,00,000	Timing	Deferred tax liability	1,50,000
Unamortized preliminary expenses as per tax records	30,000	Timing	Deferred tax asset	(15,000)
Net deferred tax liability				1,35,000

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