PAPER – 1: ACCOUNTING

ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR NOVEMBER 2020 EXAMINATION

A. Applicable for November, 2020 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 Higher Education Cess as per Finance Act, 2018

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

**Earlier this was 3%.*

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

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

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

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

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

<u>Regulation 293 - Conditions for Bonus Issue</u>

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

(a) it is authorized by its articles of association for issue of bonus shares, capitalization of reserves, etc.: Provided that if there is no such provision in the articles of association, the issuer shall pass a resolution at its general body meeting making provisions in the articles of associations for capitalization of reserve;

(b) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;

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

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

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

<u>Regulation 294 - Restrictions on a bonus issue</u>

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

convertible part thereof.

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

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

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

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

Regulation 295 - Completion of a bonus issue

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

Explanation:

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

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

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

In exercise of the powers conferred by sub-sections (1) and (2) of section 469 of the Companies Act, 2013 (18 of 2013), the Central Government made the Companies (Share Capital and Debentures) Amendment Rules, 2019 dated 16th August, 2019 to amend the Companies (Share Capital and Debentures) Rules, 2014. As per the

Companies (Share Capital and Debentures) Amendment Rules, under principal rules, in rule 18, for sub-rule (7), the following sub-rule shall be substituted, namely: -

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Not applicable for November, 2020 examination

Non-Applicability of Ind AS for November, 2020 Examination

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

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

The following topics/ sub-topics/ Accounting Standards have been excluded from the Curriculum of Accounting:

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

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

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Preparation of Financial Statements of Companies

1. On 31st March, 2020, Om Ltd. provides to you the following ledger balances after preparing its Profit and Loss Account for the year ended 31st March, 2020:

Credit Balances

	₹
Equity shares capital (fully paid shares of ₹ 10 each)	1,05,00,000
General Reserve	21,84,000
Loan from State Finance Corporation	15,75,000
(Secured by hypothecation of Plant & Machinery - Repayable within one year ₹ 3,00,000)	
Loans: Unsecured (Long term)	12,70,500
Sundry Creditors for goods & expenses	
(Payable within 6 months)	21,00,000
Profit & Loss Account	10,50,000
Provision for Taxation	12,25,350
	199,04,850

Debit Balances :

	₹
Calls in arrear	10,500
Land	21,00,000
Buildings	30,75,000
Plant and Machinery	55,12,500
Furniture & Fixture	5,25,000
Inventories : Finished goods	21,00,000
Raw Materials	5,25,000
Trade Receivables	21,00,000
Advances: Short-term	4,48,350
Cash in hand	3,15,000
Balances with banks	25,93,500
Patents & Trade marks	6,00,000
	199,04,850

The following additional information is also provided in respect of the above balances:

(i) 6,30,000 fully paid equity shares were allotted as consideration for land & buildings.

(ii) Cost of Building ₹ 42,00,000

Cost of Plant & Machinery ₹ 73,50,000

Cost of Furniture & Fixture ₹ 6,56,250

(iii) Trade receivables for ₹ 5,70,000 are due for more than 6 months.

(iv) The amount of Balances with Bank includes ₹ 27,000 with a bank which is not a scheduled Bank and the deposits of ₹ 7,50,000 are for a period of 9 months.

(v) Unsecured loan includes ₹ 3,00,000 from a Bank and ₹ 1,50,000 from related parties.

You are not required to give previous year figures. You are required to prepare the Balance Sheet of the Company as on 31st March, 2020 as required under Schedule III of the Companies Act, 2013.

Managerial Remuneration

2. Kartik Ltd. is a non-investment company and has been incurring losses for the past few years. The company provides the following information for the current year:

	(₹ in lakhs)
Paid up equity share capital	270
Paid up Preference share capital	45

Reserves (including Revaluation reserve ₹ 22.5 lakhs)	337.5
Securities premium	90
Long term loans	90
Deposits repayable after one year	45
Application money pending allotment	1620
Accumulated losses not written off	45
Investments	405

Kartik Ltd. has only one whole-time director, Mr. Kumar. You are required to calculate the amount of maximum remuneration that can be paid to him as per provisions of the Companies Act, 2013, if no special resolution is passed at the general meeting of the company in respect of payment of remuneration.

Cash Flow Statement

3 Prepare Cash Flow Statement of Light Ltd. for the year ended 31st March, 2020, in accordance with AS 3 (Revised) from the following Summary Cash Account:

Summary Cash Account

	₹ in '000	₹ in '000
Balance as on 01.04.2019		315
Receipts from Customers		24,894
Sale of Investments (Cost ₹ 1,35,000)		153
Issue of Shares		2,700
Sale of Fixed Assets		1,152
		29,214
Payment to Suppliers	18,306	
Purchase of Investments	117	
Purchase of Fixed Assets	2,070	,
Wages & Salaries	621	
Selling & Administration Expenses	1,035	
Payment of Income Tax	2,187	
Payment of Dividends	720	
Repayment of Bank Loan	2,250	
Interest paid on Bank Loan	450	(27,756)
Balance as on 31.03.2020		1,458

Profit/Loss prior to Incorporation

4. Green Ltd. took over a running business with effect from 1st April, 2019. The company was incorporated on 1st August, 2019. The following summarized Profit and Loss Account has been prepared for the year ended 31.3.2020:

	₹		₹
To Salaries	72,000	By Gross profit	4,80,000
To Stationery	7,200		
To Travelling expenses	25,200		
To Advertisement	24,000		
To Miscellaneous trade expenses	56,700		
To Rent (office buildings)	39,600		
To Electricity charges	6,300		
To Director's fee	16,800		
To Bad debts	4,800		
To Commission to selling agents	33,000		
To Debenture interest	4,500		
To Interest paid to vendor	6,300		
To Selling expenses	37,800		
To Depreciation on fixed assets	14,400		
To Net profit	1,31,400		
	4,80,000		4,80,000

Additional information:

(a) Sales ratio between pre and post incorporation periods was 1:3.

(b) Rent of office building was paid @ ₹ 3,000 per month up to September, 2019 and thereafter it was increased by ₹ 600 per month.

(c) Travelling expenses include ₹ 7,200 towards sales promotion. Travelling expenses are to be allocated between pre and post incorporation periods on time basis.

(d) Depreciation include ₹ 900 for assets acquired in the post incorporation period.

(e) Purchase consideration was discharged by the company on 30th September, 2019 by issuing equity shares of ₹ 10 each.

You are required to prepare Statement showing calculation of profits and allocation of expenses between pre and post incorporation periods.

Accounting for Bonus Issue

5. Following is the extract of the Balance Sheet of Madhu Ltd.as at 31st March, 2020

	₹
Authorized capital:	
45,000 12% Preference shares of ₹ 10 each	4,50,000
6,00,000 Equity shares of ₹ 10 each	60,00,000
	64,50,000
Issued and Subscribed capital:	
36,000 12% Preference shares of ₹ 10 each fully paid	3,60,000
4,05,000 Equity shares of ₹ 10 each, ₹ 8 paid up	32,40,000
Reserves and surplus:	
General Reserve	5,40,000
Capital Redemption Reserve	1,80,000
Securities premium (collected in cash)	1,12,500
Profit and Loss Account	9,00,000

On 1st April, 2020, the Company has made final call @ ₹ 2 each on 4,05,000 equity shares. The call money was received by 20th April, 2020. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held by utilizing the balance of profit and loss account to the minimum extent.

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, 2020 after bonus issue.

Right Issue

6. 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?

Redemption of Preference Shares

7. The following are the extracts from the Balance Sheet of Hari Ltd. as on 31st March, 2020:

Share capital: 75,000 Equity shares of ₹10 each fully paid – ₹7,50,000; 2,250 10% Redeemable preference shares of ₹100 each fully paid – ₹ 2,25,000.

Reserve & Surplus: Capital reserve – ₹1,50,000; General reserve –₹ 1,50,000; Profit and Loss Account – ₹1,12,500.

On 1st April 2020, 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

8. XYZ Ltd. has issued 1,000, 12% convertible debentures of ₹ 100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of ₹ 10 each at a price of ₹ 20 per share and balance in cash. Debenture holders amounting ₹ 20,000 opted to get their debentures converted into equity shares as per terms of the issue. You are required to calculate the number of shares issued and cash paid for redemption of ₹ 20,000 debenture holders.

Investment Accounts

9. (a) In 2018, Royal Ltd. issued 12% fully paid debentures of ₹ 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year. On 1st December, 2019, M/s. Kumar purchased 10,000 of these debentures at ₹ 101 (cum-interest) price. On 1st March, 2020 the firm sold all of these debentures at ₹ 106 (cum-interest) price.

   You are required to prepare Investment (Debentures) Account in the books of M/s. Kumar for the period 1st December, 2019 to 1st March, 2020.

   (b) Mr. X acquires 200 shares of a company on cum-right basis for ₹ 60,000. He subsequently receives an offer of right to acquire fresh shares in the company in the proportion of 1:1 at ₹ 105 each. He does not subscribe but sells all the rights for ₹ 15,000. The market value of the shares after their becoming ex-rights has also gone down to ₹ 50,000. What should be the accounting treatment in this case?

Insurance Claim for loss of stock

10. Shyam's godown caught fire on 29th August, 2020, and a large part of the stock of goods was destroyed. However, goods costing ₹ 54,000 could be salvaged. The trader provides you the following additional information:

	₹
Cost of stock on 1st April, 2019	3,55,250
Cost of stock on 31st March, 2020	3,95,050
Purchases during the year ended 31st March, 2020	28,39,800
Purchases from 1st April, 2020 to the date of fire	16,55,350
Cost of goods distributed as samples for advertising from 1st April, 2020 to the date of fire	20,500
Cost of goods withdrawn by trader for personal use from 1st April, 2020	
to the date of fire	1,000
Sales for the year ended 31st March, 2020	40,00,000

Sales from 1st April, 2020 to the date of fire	22,68,000

Shyam had taken the fire insurance policy for ₹ 2,50,000 with an average clause.

Calculate the amount of the claim that will be admitted by the insurance company. Consider that the rate of gross profit up to date of fire is same as that of previous accounting year.

Hire Purchase Transactions

11. X purchased three cars from Y on hire purchase basis, the cash price of each car being ₹ 2,00,000. The hire purchaser charged depreciation @ 20% on diminishing balance method. Two cars were seized by on hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under diminishing balance method. The hire vendor spent ₹ 10,000 on repairs of the cars and then sold them for a total amount of ₹ 1,70,000.

    You are required to compute: (i) Agreed value of two cars taken back by the hire vendor and book value of car left with the hire purchaser and (ii) Profit or loss to hire purchaser on two cars taken back by the hire vendor.

Departmental Accounts

12. Department X sells goods to Department Y at a profit of 50% on cost and to Department Z at 20% on cost. Department Y sells goods to Department X and Z at a profit of 25% and 15% respectively on sales. Department Z charges 30% profit on cost to Department X and 40% profit on sale to Y.

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

	Dept. X	**Dept. Y**	**Dept. Z**
	₹	**₹**	**₹**
Transfer from Department X		75,000	48,000
Transfer from Department Y	50,000		82,000
Transfer from Department Z	52,000	56,000	

Calculate the unrealized profit of each department and also total unrealized profit.

Accounting for Branches

13. M & S Co. of Lucknow has an integral foreign branch in Canberra, Australia. At the end of 31st March 2020, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra branch.

	Lucknow office (₹ In thousand)		*Canberra Branch (Aust. Dollars in thousand)*	
	Dr.	*Cr.*	*Dr.*	*Cr.*
Capital		1,500		

Reserves & Surplus		1,500		
Land	500			
Buildings (Cost)	1,000			
Buildings - Accumulated Dep.		200		
Plant and Machinery (Cost)	2,500		200	
Plant and Machinery - Accumulated Dep.		600		130
Debtors/Creditors	280	200	60	30
Stock as on 1- 4-2019	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salaries	75		45	
Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	4,880	4,880	390	390

You are required to convert the Branch Trial Balance given above into rupees by using the following exchange rates:

Opening rate	1 A $ = ₹ 50
Closing rate	1 A $ = ₹ 53
Average rate	1 A $ = ₹ 51.00
for Fixed Assets	1 A $ = ₹ 46.00

Accounts from Incomplete Records

14. The following is the Balance Sheet of Manish and Suresh as on 1st April, 2019:

Liabilities	₹	Assets	₹
Capital Accounts:		Building	1,00,000
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) Sales and purchases for the year ended 31st March, 2019 were ₹ 3,00,000 and ₹ 2,40,000 respectively.

(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) Sales in the current year will increase by 43.75% in volume.

(v) Rate of gross profit remains the same.

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

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

You are required to prepare Trading and Profit and Loss Account for the year ended 31.03.2020.

Framework for Preparation and Presentation of Financial Statements

15. (a) With regard to financial statements name any four.

(i) Users

(ii) Qualitative characteristics

(iii) Elements

Accounting Standards

(b) What are the issues, with which Accounting Standards deal?

AS 1 Disclosure of Accounting Policies

16. (a) What are the three fundamental accounting assumptions recognized by Accounting Standard (AS) 1? Briefly describe each one of them.

AS 2 Valuation of Inventories

(b) A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2020.

	₹ Per unit
Raw Material X	
Cost price	400
Freight Inward	40
Replacement cost	320
Chemical Y	
Material consumed	440
Direct Labour	120
Variable Overheads	80

Additional Information:

(i) Total fixed overhead for the year was ₹ 4,00,000 on normal capacity of 25,000 units.

(ii) Closing balance of Raw Material X was 1,000 units and Chemical Y was 2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when Net realizable value of Chemical Y is ₹ 600 per unit.

AS 10 Property, Plant and Equipment

17. Omega Ltd. contracted with a supplier to purchase machinery which is to be installed in its one department 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 ₹ 1,40,000. These activities were supervised by a technician during the entire period, who is employed for this purpose at ₹ 45,000 per month.

The machine was purchased at ₹ 1,58,00,000 and ₹ 50,000 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.

You are required to ascertain the amount at which the Machinery should be capitalized under AS 10.

AS 11 The Effects of Changes in Foreign Exchange Rates

18. (a) Classify the following items as monetary or non-monetary item:

Share Capital

Trade Receivables

Investment in Equity shares

Fixed Assets.

(b)

	Exchange Rate per $
Goods purchased on 1.1.2019 for US $ 15,000	₹ 75
Exchange rate on 31.3.2019	₹ 74
Date of actual payment 7.7.2019	₹ 73

You are required to ascertain the loss/gain to be recognized for financial years 2018-19 and 2019-20 as per AS 11.

AS 12 Accounting for Government Grants

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

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

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

AS 13 Accounting for Investments

(b) A Ltd. on 1-1-2020 had made an investment of ₹ 600 lakhs in the equity shares of B Ltd. of which 50% is made in the long term category and the rest as temporary investment. The realizable value of all such investment on 31-3-2020 became ₹ 200 lakhs as B Ltd. lost a case of copyright. How will you recognize the reduction in the value of the investment in the financial statements for the year ended on 31-3-2020 as per AS 13 considering this downfall in the value of shares as non-temporary?

AS 16 Borrowing Costs

20. (a) Vital Limited borrowed an amount of ₹150 crores on 1.4.2019 for construction of boiler plant @ 10% p.a. The plant is expected to be completed in 4 years. Since the weighted average cost of capital is 13% p.a., the accountant of Vital Ltd. capitalized ₹ 19.50 crores for the accounting period ending on 31.3.2020. Due to surplus fund out of ₹150 crores, an income of ₹ 1.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard.

(b) When capitalization of borrowing cost should cease as per Accounting Standard 16? Explain in brief.

SUGGESTED ANSWERS/HINTS

1.. **Om Ltd.**

Balance Sheet as on 31st March, 2020

		Particulars	Notes	Figures at the end of current reporting period (₹)
Equity and Liabilities				
1		Shareholders' funds		
	a	Share capital	1	1,04,89,500
	b	Reserves and Surplus	2	32,34,000
2		Non-current liabilities		
	a	Long-term borrowings	3	25,45,500
3		Current liabilities		
	a	Trade Payables		21,00,000
	b	Other current liabilities	4	3,00,000
	c	Short-term provisions	5	12,25,350
		Total		1,98,94,350
Assets				
1		Non-current assets		
		a Property, Plant and Equipment	6	1,12,12,500
		b Intangible assets (Patents & Trade Marks)		6,00,000
2		Current assets		
	a	Inventories	7	26,25,000
	b	Trade receivables	8	21,00,000
	c	Cash and cash equivalents	9	29,08,500
	d	Short-term loans and advances		4,48,350
		Total		1,98,94,350

Notes to accounts

			₹
1	**Share Capital** Equity share capital		

	Issued, subscribed and called up		
	10,50,000 Equity Shares of ₹ 10 each (Out of the above 6,30,000 shares have been issued for consideration other than cash)	1,05,00,000	
	Less: Calls in arrears	(10,500)	1,04,89,500
	Total		1,04,89,500
2	**Reserves and Surplus**		
	General Reserve		21,84,000
	Surplus (Profit & Loss A/c)		10,50,000
	Total		32,34,000
3	**Long-term borrowings**		
	Secured		
	Term Loans		
	Loan from State Finance Corporation		
	(₹ 15,75,000 less ₹ 3,00,000) (Secured by hypothecation of Plant and Machinery)		12,75,000
	Unsecured		
	Bank Loan	3,00,000	
	Loan from related parties	1,50,000	
	Others	8,20,500	12,70,500
	Total		25,45,500
4	**Other current liabilities**		
	Loan Instalment repayable within one year		3,00,000
5	**Short-term provisions**		
	Provision for taxation		12,25,350
6	**Property, Plant and Equipment**		
	Land		21,00,000
	Buildings	42,00,000	
	Less: Depreciation	(11,25,000)	30,75,000
	Plant & Machinery	73,50,000	
	Less: Depreciation	(18,37,500)	55,12,500

	Furniture & Fittings	6,56,250	
	Less: Depreciation	(1,31,250)	5,25,000
	Total		1,12,12,500
7	**Inventories**		
	Raw Material		5,25,000
	Finished goods		21,00,000
			26,25,000
8	**Trade receivables**		
	Debts outstanding for a period exceeding six months		5,70,000
	Other Debts		15,30,000
	Total		21,00,000
9	**Cash and cash equivalents**		
	Cash at bank with Scheduled Banks including Bank deposits for period of 9 months amounting ₹ 7,50,000	25,66,500	
	with others	27,000	25,93,500
	Cash in hand		3,15,000
	Total		29,08,500

2. Calculation of effective capital and maximum amount of monthly remuneration

	(₹ in lakhs)
Paid up equity share capital	270
Paid up Preference share capital	45
Reserve excluding Revaluation reserve (337.5- 22.5)	315
Securities premium	90
Long term loans	90
Deposits repayable after one year	45
	855
Less: Accumulated losses not written off	(45)
Investments	(405)
Effective capital for the purpose of managerial remuneration	405

Kartik Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration. Effective capital of the company is less than 5 crores, maximum remuneration payable to the Managing Director should be @ ₹ 60,00,000 per annum. (Revaluation reserve and application money pending allotment are not included while computing effective capital of Kartik Ltd.)

3. Cash Flow Statement of Light Ltd. for the year ended 31st March, 2020

Cash flows from operating activities	(₹ '000)	(₹ '000)
Cash receipts from customers	24,894	
Cash payments to suppliers	(18,306)	
Cash paid to employees	(621)	
Other cash payments (for Selling & Administrative expenses)	(1,035)	
Cash generated from operations	4,932	
Income taxes paid	(2,187)	
Net cash from operating activities		2,745
Cash flows from investing activities		
Payments for purchase of fixed asset	(2,070)	
Proceeds from sale of fixed assets	1,152	
Purchase of investments	(117)	
Sale of investments	153	
Net cash used in investing activities		(882)
Cash flows from financing activities		
Proceeds from issuance of share capital	2,700	
Bank loan repaid	(2,250)	
Interest paid on bank loan	(450)	
Dividend paid	(720)	
Net cash used in financing activities		(720)
Net increase in cash and cash equivalents		1,143
Cash and cash equivalents at beginning of period		315
Cash and cash equivalents at end of period		1,458

4. Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.2020

Particulars	Pre-incorporation period ₹	Post- incorporation period ₹
A. Gross profit (1:3)	1,20,000	3,60,000

Less: Salaries (1:2)	24,000	48,000
Stationery (1:2)	2,400	4,800
Advertisement (1:3)	6,000	18,000
Travelling expenses (W.N.3)	6,000	12,000
Sales promotion expenses (W.N.3)	1,800	5,400
Misc. trade expenses (1:2)	18,900	37,800
Rent (office building) (W.N.2)	12,000	27,600
Electricity charges (1:2)	2,100	4,200
Director's fee		16,800
Bad debts (1:3)	1,200	3,600
Selling agents commission (1:3)	8,250	24,750
Debenture interest		4,500
Interest paid to vendor (2:1) (W.N.4)	4,200	2,100
Selling expenses (1:3)	9,450	28,350
Depreciation on fixed assets (W.N.5)	4,500	9,900
B.	1,00,800	2,47,800
Pre-incorporation profit (A less B)	19,200	
Post-incorporation profit (A less B)		1,12,200

Working Notes:

1. **Time Ratio**

   Pre incorporation period = 1st April, 2019 to 31st July, 2019 i.e. 4 months

   Post incorporation period is 8 months; Time ratio is 1: 2.

2. **Rent**

		₹
Rent for pre-incorporation period (₹ 3,000 x 4)		12,000 (pre)
Rent for post incorporation period		
August,2019 & September, 2019 (₹ 3,000 x 2)	6,000	
October,2019 to March,2020 (₹ 3,600 x 6)	21,600	27,600 (post)

3. **Travelling expenses and sales promotion expenses**

	Pre ₹	Post ₹
Traveling expenses ₹ 18,000 (i.e. ₹ 25200 - ₹ 7200) distributed in 1:2 ratio	6,000	12,000

Sales promotion expenses ₹ 7,200 distributed in 1:3 ratio	1,800	5,400

4. Interest paid to vendor till 30th September, 2019

	Pre ₹	Post ₹
Interest for pre-incorporation period ₹ 6,300x 4/6	4,200	
Interest for post incorporation period i.e. for August, 2019 & September, 2019 = ₹ 6,300x 2/6		2,100

5. Depreciation

		Pre ₹	Post ₹
Total depreciation	14,400		
Less: Depreciation exclusively for post incorporation period	900		900
	13,500		
Depreciation for pre-incorporation period (13,500x4/12)		4,500	
Depreciation for post incorporation period (13,500x8/12)		——	9,000
		4,500	9,900

5. Journal Entries in the books of Madhu Ltd.

			₹	₹
1-4-2020	Equity share final call A/c	Dr.	8,10,000	
	To Equity share capital A/c			8,10,000
	(For final calls of ₹ 2 per share on 4,05,000 equity shares due as per Board's Resolution dated….)			
20-4-2020	Bank A/c	Dr.	8,10,000	
	To Equity share final call A/c			8,10,000
	(For final call money on 4,05,000 equity shares received)			
	Securities Premium A/c	Dr.	1,12,500	
	Capital redemption reserve A/c	Dr.	1,80,000	
	General Reserve A/c	Dr.	5,40,000	

	Profit and Loss A/c (b.f.)	Dr.	1,80,000	
	To Bonus to shareholders A/c			10,12,500
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	10,12,500	
	To Equity share capital A/c			10,12,500
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 2020 (after bonus issue)

	₹
Authorized Capital	
45,000 12% Preference shares of ₹ 10 each	4,50,000
6,00,000 Equity shares of ₹ 10 each	60,00,000
Issued and subscribed capital	
36,000 12% Preference shares of ₹₹10 each, fully paid	3,60,000
5,06,250 Equity shares of ₹ 10 each, fully paid	50,62,500
(Out of the above, 1,01,250 equity shares @ ₹ 10 each were issued by way of bonus shares)	
Reserves and surplus	
Profit and Loss Account	7,20,000

6. **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.

7. **In the books of Hari Limited**

Journal Entries

Date 2020	Particulars		Dr. (₹)	Cr. (₹)
April 1	10% Redeemable Preference Share Capital A/c	Dr.	2,25,000	
	Premium on Redemption of Preference	Dr.	22,500	

	Shares To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)			2,47,500
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	2,47,500	 2,47,500
	General Reserve A/c Profit & Loss 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. Dr.	1,50,000 75,000	 2,25,000
	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.	22,500	 22,500

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

8.

	Number of debentures
Debenture holders opted for conversion (20,000 /100)	200
Option for conversion	20%
Number of debentures to be converted (20% of 200)	40
Redemption value of 40 debentures at a premium of 5% [40 x (100+5)]	₹ 4,200
Equity shares of ₹ 10 each issued on conversion [₹ 4,200/ ₹ 20]	210 shares

	₹
Calculation of cash to be paid :	
Number of debentures	200
Less: number of debentures to be converted into equity shares	(40)
	160

Redemption value of 160 debentures (160 × ₹ 105) ie. ₹ 16,800.

9. (a) Investment Account in the books of M/s Kumar

for the period from 1st December 2019 to 1st March, 2020
(Scrip: 12% Debentures of Royal Ltd.)

Date	Particulars	Nominal Value (₹)	Interest	Cost (₹)	Date	Particulars	Nominal Value (₹)	Interest	Cost (₹)
1.12.2019	To Bank A/c (W.N.1)	10,00,000	20,000	9,90,000	1.03.2020	By Bank A/c (W.N.2)	10,00,000	50,000	10,10,000
1.3.2020	To Profit & loss A/c		30,000	20,000					
		10,00,000	50,000	10,10,000			10,00,000	50,000	10,10,000

Working Notes:

(i) Cost of 12% debentures purchased on 1.12.2019 ₹

Cost Value (10,000 ×₹101)	=	10,10,000
Less: Interest (10,000 x 100 x12% x 2/12)	=	(20,000)
Total	=	9,90,000

(ii) Sale proceeds of 12% debentures sold on 1st March, 2020 ₹

Sales Price (10,000 ×₹106)	=	10,60,000
Less: Interest (10,000 x 100 x12% x 5/12)	=	(50,000)
Total	=	10,10,000

(b) As per AS 13, where the investments are acquired on cum-right basis and the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, it may be appropriate to apply the sale proceeds of rights to reduce the carrying amount of such investments to the market value. In this case, the amount of the ex-right market value of 200 shares bought by X immediately after the declaration of rights falls to ₹50,000. In this case, out of sale proceeds of ₹ 15,000, ₹ 10,000 may be applied to reduce the carrying amount to bring it to the market value ₹50,000 and ₹ 5,000 would be credited to the profit and loss account.

10. Memorandum Trading Account for the period 1st April, 2020 to 29th August 2020

		₹		₹
To Opening Stock		3,95,050	By Sales	22,68,000
To Purchases	16,55,350		By Closing stock (Bal. fig.)	4,41,300

Less: Advertisement	(20,500)			
Drawings	(1,000)	16,33,850		
To Gross Profit [30% of Sales] [W N]		6,80,400		
		27,09,300		27,09,300

Statement of Insurance Claim

	₹
Value of stock on date of fire	4,41,300
Less: Salvaged Stock	(54,000)
stock destroyed	3,87,300

Application of Average Clause

Amount of Insurance claim= ₹ 3,87,300/ 4,41,300 X 2,50,000 = ₹ 2,19,409 (rounded off)

Working Note:

Trading Account for the year ended 31st March, 2020

	₹		₹
To Opening Stock	3,55,250	By Sales	40,00,000
To Purchases	28,39,800	By Closing stock	3,95,050
To Gross Profit	12,00,000		
	43,95,050		43,95,050

Rate of Gross Profit in 2019-2020

$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$ = 12,00,000/40,00,000 x 100 = 30%

11.

		₹
(i)	Price of two cars = ₹ 2,00,000 x 2	4,00,000
	Less: Depreciation for the first year @ 30%	1,20,000
		2,80,000
	Less: Depreciation for the second year = ₹ 2, 80,000 x $\frac{30}{100}$	84,000
	Agreed value of two cars taken back by the hire vendor	1,96,000
	Cash purchase price of one car	2,00,000

	Less: Depreciation on ₹ 2,00,000 @20% for the first year	40,000
	Written drown value at the end of first year	1,60,000
	Less: Depreciation on ₹ 1,60,000 @ 20% for the second year	32,000
	Book value of car left with the hire purchaser	1,28,000
(ii)	Book value of one car as calculated above	1,28,000
	Book value of Two cars = ₹ 1,28,000 x 2	2,56,000
	Value at which the two cars were taken back, calculated in (i) above	1,96,000
	Hence, loss to hire purchaser on cars taken back by hire vendor = ₹ 2,56,000 – ₹ 1,96,000 =	₹ 60,000

12. Calculation of unrealized profit of each department and total unrealized profit

	Dept. X	Dept. Y	Dept. Z	Total
	₹	₹	₹	₹
Unrealized Profit of:				
Department X		75,000 x 50/150 = 25,000	48,000 x 20/120 = 8,000	33,000
Department Y	50,000 x .25 = 12,500		82,000 x .15 = 12,300	24,800
Department Z	52,000 x 30/130 = 12,000	56,000 x 40/100 = 22,400		34,400
				92,200

13. **M & S Co. Ltd.**

Canberra, Australia Branch Trial Balance

As on 31st March 2020

	($ 'thousands)				(₹ 'thousands)
	Dr.	Cr.	Conversion rate per $	Dr.	Cr.
Plant & Machinery (cost)	200		₹ 46	9,200	
Plant & Machinery (Accumulated Dep.)		130	₹ 46		5,980
Debtors/Creditors	60	30	₹ 53	3,180	1,590

Stock (1.4.2019)	20		₹ 50	1,000	
Cash & Bank Balances	10		₹ 53	530	
Purchase / Sales	20	123	₹ 51	1,020	6,273
Goods received from H.O.	5		Actual	100	
Wages & Salaries	45		₹ 51	2,295	
Rent	12		₹ 51	612	
Office expenses	18		₹ 51	918	
Commission Receipts		100	₹ 51		5,100
H.O. Current A/c		7	Actual		120
				18,855	19,063
Foreign Exchange Loss (bal. fig.)				208	
	390	390		19,063	19,063

14. Trading and Profit and Loss account for the year ending 31st March, 2020

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

Working Note:

		₹
(i)	Calculation of Rate of Gross Profit earned during previous year	
A	Sales during previous year	3,00,000
B	Purchases	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 during current year	₹
A	Cost of goods sold during previous year	2,40,000
B	Add: Increases in volume @ 43.75 %	1,05,000
C	Cost of goods sold during Current Year	3,45,000
D	Add: Gross profit @ 25% on cost (20% on sales)	86,250
E	Sales for current year [C+D]	4,31,250

15. (a) (i) Users of financial statements:

Investors, Employees, Lenders, Supplies/Creditors, Customers, Government & Public

(ii) Qualitative Characteristics of Financial Statements:

Understandability, Relevance, Comparability, Reliability & Faithful Representation

(iii) Elements of Financial Statements:

Asset, Liability, Equity, Income/Gain and Expense/Loss

(b) Accounting Standards deal with the issues of (i) Recognition of events and transactions in the financial statements, (ii) Measurement of these transactions and events, (iii) Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and (iv) Disclosure requirements.

16. (a) Accounting Standard (AS) 1 recognizes three fundamental accounting assumptions. These are as follows:

(i) Going Concern: The financial statements are normally prepared on the assumption that an enterprise will continue its operations in the foreseeable future and neither there is intention, nor there is need to materially curtail the scale of operations.

(ii) Consistency: The principle of consistency refers to the practice of using same accounting policies for similar transactions in all accounting periods unless the change is required (i) by a statute, (ii) by an accounting standard or (iii) for more appropriate presentation of financial statements.

(iii) Accrual basis of accounting: Under this basis of accounting, transactions are recognised as soon as they occur, whether or not cash or cash equivalent is actually received or paid.

(b) Net Realizable Value of the Chemical Y (Finished Goods) is ₹ 600 per unit which is less than its cost ₹ 656 per unit. Hence, Raw Material is to be valued at replacement cost and Finished Goods are to be valued at NRV since NRV is less than the cost.

Value of Closing Stock:

	Qty.	Rate (₹)	Amount (₹)
Raw Material X	1,000	320	3,20,000
Finished Goods Y	2,400	600	14,40,000
Total Value of Closing Stock			17,60,000

Working Note:

Statement showing cost calculation of Raw material X and Chemical Y

Raw Material X	₹
Cost Price	400
Add: Freight Inward	40
Cost	440
Chemical Y	**₹**
Materials consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (₹4,00,000/25,000 units)	16
Cost	656

17. Calculation of Cost of Machinery

Particulars		₹
Purchase Price	Given	1,58,00,000
Add: Site Preparation Cost	Given	1,40,000
Technician's Salary	Specific/Attributable overheads for 3 months (45,000 x3)	1,35,000
Initial Delivery Cost	Transportation	50,000
Professional Fees for Installation	Architect's Fees	30,000
Total Cost of Asset		1,61,55,000

18. (a)

Share capital	Non-monetary
Trade receivables	Monetary
Investment in equity shares	Non-monetary
Fixed assets	Non-monetary

(b) As per AS 11 on 'The Effects of Changes in Foreign Exchange Rates', all foreign currency transactions should be recorded by applying the exchange rate on the date of transactions. Thus, goods purchased on 1.1.2019 and corresponding creditors would be recorded at ₹ 11,25,000 (i.e. \$15,000 × ₹ 75)

According to the standard, at the balance sheet date all monetary transactions should be reported using the closing rate. Thus, creditors of US \$15,000 on 31.3.2019 will be reported at ₹ 11,10,000 (i.e. \$15,000 × ₹ 74) and exchange profit of ₹ 15,000 (i.e. 11,25,000 – 11,10,000) should be credited to Profit and Loss account in the year 2018-19.

On 7.7.2019, creditors of \$15,000 is paid at the rate of ₹ 73. As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore, ₹ 15,000 (i.e. 11,10,000 – 10,95,000) will be credited to Profit and Loss account in the year 2019-20.

19. (a) (i) ₹ 35 lakhs received from the local authority for providing medical facilities to the employees is a grant received in the nature of revenue grant. Such grants are generally presented as a credit in the profit and loss statement, either separately or under a general heading such as 'Other Income'. Alternatively, ₹ 35 lakhs may be deducted in reporting the related expense i.e. employee benefit expenses.

(ii) As per AS 12 'Accounting for Government Grants', where the government grants are in the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income. In the given case, the subsidy received from the Central Government for setting up a unit in notified backward area is neither in relation to specific fixed asset nor in relation to revenue. Thus, amount of ₹ 100 lakhs should be credited to capital reserve.

(b) A limited invested ₹ 600 lakhs in the equity shares of B Ltd. Out of the same, the company intends to hold 50% shares for long term period i.e. ₹ 300 lakhs and remaining as temporary (current) investment i.e. ₹ 300 lakhs. Irrespective of the fact that investment has been held by A Limited only for 3 months (from 1.1.2020 to 31.3.2020), AS 13 lays emphasis on intention of the investor to classify the investment as current or long term even though the long-term investment may be readily marketable.

In the given situation, the realizable value of all such investments on 31.3.2020 became ₹ 200 lakhs i.e. ₹ 100 lakhs in respect of current investment and ₹ 100 lakhs in respect of long-term investment.

As per AS 13, 'Accounting for Investment', the carrying amount for current investments is the lower of cost and fair value. In respect of current investments for which an active market exists, market value generally provides the best evidence of fair value.

Accordingly, the carrying value of investment held as temporary investment should be shown at realizable value i.e. at ₹ 100 lakhs. The reduction of ₹ 200 lakhs in the carrying value of current investment will be charged in the profit and loss account.

Standard further states that long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of long-term investment, the carrying amount is reduced to recognize the decline.

Here, B Limited has lost a case of copyright which drastically reduced the realizable value of its shares to one third which is quiet a substantial figure. Losing the case of copyright may affect the business and the performance of the company in long run. Accordingly, it will be appropriate to reduce the carrying amount of long-term investment by ₹ 200 lakhs and show the investments at ₹ 100 lakhs as the downfall in the value of shares is not temporary. The reduction of ₹ 200 lakhs in the carrying value of long-term investment will be charged to the profit and loss account.

20. (a) Para 10 of AS 16 'Borrowing Costs' states that to the extent the funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings. The capitalization rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Hence, in the above case, treatment of accountant of Vital Ltd. is incorrect. The amount of borrowing costs capitalized for the financial year 2019-20 should be calculated as follows:

Actual interest for 2019-20 (10% of ₹ 150 crores)	₹ 15.00 crores
Less: Income on temporary investment from specific borrowings	(₹ 1.50 crores)
Borrowing costs to be capitalized during year 2019-2020	₹ 13.50 crores

(b) Capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. An asset is normally ready for its intended use or sale when its physical construction or production is complete even though routine administrative work might still continue. If minor modifications such as the decoration of a property to the user's specification, are all that are outstanding, this indicates that substantially all the activities are complete. When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalization of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete.