# PAPER – 1: ACCOUNTING

## PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR NOVEMBER 2019 EXAMINATION

**A. <u>Applicable for November, 2019 examination</u>**

**I. Amendments in Schedule III (Division I) to the Companies Act, 2013**

In exercise of the powers conferred by sub-section (1) of section 467 of the Companies Act, 2013), the Central Government made the following amendments in Division I of the Schedule III with effect from the date of publication of this notification in the Official Gazette:

(A) under the heading "II Assets", under sub-heading "Non-current assets", for the words "Fixed assets", the words "Property, Plant and Equipment" shall be substituted;

(B) in the "Notes", under the heading "General Instructions for preparation of Balance Sheet", in paragraph 6,-

- (I) under the heading "B. Reserves and Surplus", in item (i), in sub- item (c), the word "Reserve" shall be omitted;
- (II) in clause W., for the words "fixed assets", the words "Property, Plant and Equipment" shall be substituted.

**II. Amendments in Schedule V to the Companies Act, 2013**

In exercise of the powers conferred by sub-sections (1) and (2) of section 467 of the Companies Act, 2013, the Central Government hereby makes the following amendments to amend Schedule V.

In PART II, under heading "REMUNERATION", in Section II - ,

(a) in the heading, the words "without Central Government approval" shall be omitted;

(b) in the first para, the words "without Central Government approval" shall be omitted;

(c) in item (A), in the proviso, for the words "Provided that the above limits shall be doubled" the words "Provided that the remuneration in excess of above limits may be paid" shall be substituted;

(d) in item (B), for the words "no approval of Central Government is required" the words "remuneration as per item (A) may be paid" shall be substituted;

(e) in Item (B), in second proviso, for clause (ii), the following shall be substituted, namely:-

"(ii) the company has not committed any default in payment of dues to any bank or public financial institution or non-convertible debenture holders or any other secured creditor, and in case of default, the prior approval of the bank or public financial institution concerned or the non-convertible debenture holders or other secured creditor, as the case may be, shall be obtained by the company before obtaining the approval in the general meeting.";

(f) in item (B), in second proviso, in clause (iii), the words "the limits laid down in" shall be omitted;

In PART II, under the heading "REMUNERATION", in Section III, –

(a) in the heading, the words "without Central Government approval" shall be omitted;

(b) in first para, the words "without the Central Government approval" shall be omitted;

(c) in clause (b), in the long line, for the words "remuneration up to two times the amount permissible under Section II" the words "any remuneration to its managerial persons", shall be substituted;

**III. Notification dated 13th June, 2017 to exempt startup private companies from preparation of Cash Flow Statement as per Section 462 of the Companies Act 2013**

As per the Amendment, under Chapter I, clause (40) of section 2, an exemption has been provided to a startup private company besides one person company, small company and dormant company. Accordingly, a startup private company is not required to include the cash flow statement in the financial statements.

Thus the financial statements, with respect to one person company, small company, dormant company and private company (if such a private company is a start-up), may not include the cash flow statement.

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

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

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

**V. Redemption of Debentures**

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

**B. Not applicable for November, 2019 examination**

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

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for November, 2019 Examination.

## PART – II: QUESTIONS AND ANSWERS

## QUESTIONS

### Financial Statements of Companies

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

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

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

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

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

7. The Taxation provision of 40% on net profit is considered.

(b) The following extract of Balance Sheet of X Ltd. (a non-investment company) was obtained:

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

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

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

**Cash flow statement**

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

**Balance Sheets**

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

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

**Note 1: Share Capital**

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

**Note 2: Reserves and Surplus**

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

**Note 3: Current Liabilities**

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

**Note 4: Tangible Assets**

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

**Additional Information:**

(i) ₹ 18,000 depreciation for the year has been written off on plant and machinery and no depreciation has been charged on Land and Building.

(ii) A piece of land has been sold out for ₹ 50,000 and the balance has been revalued, profit on such sale and revaluation being transferred to capital reserve. There is no other entry in Capital Reserve Account.

(iii) A plant was sold for ₹ 12,000 WDV being ₹ 15,000 on the date of sale (after charging depreciation).

(iv) Dividend received amounted to ₹ 2,100 which included pre-acquisition dividend of ₹ 600.

(v) An interim dividend of ₹ 10,000 including Dividend Distribution Tax has been paid.

(vi) Non-current investments given in the balance sheet represents investment in shares of other companies.

(vii) Amount of provision for tax existing on 31.3.2018 was paid during the year 2018-19.

**Profit/Loss prior to Incorporation**

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

**Happy Ltd.**

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

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

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

(i) GP ratio was constant throughout the year.

(ii) Depreciation includes ₹ 1,250 for assets acquired in post incorporation period.

(iii) Bad debts recovered amounting to ₹ 14,000 for a sale made in 2015-16 has been deducted from bad debts mentioned above.

(iv) Total sales were ₹ 18,00,000 of which ₹ 6,00,000 were for April to September.

(v) Happy Ltd. had to occupy additional space from 1st Oct. 2018 for which rent was ₹ 2,400 per month.

**Accounting for Bonus Issue**

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

| | ₹ |
|---|---:|
| **Authorised capital:** | |
| 30,000 12% Preference shares of ₹ 10 each | 3,00,000 |
| 4,00,000 Equity shares of ₹ 10 each | 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.

Show necessary journal entries in the books of the company and prepare the relevant extract of the balance sheet as on 30th April, 20X1 after bonus issue.

**Right Issue**

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

You are required to calculate the Value of a right share.

**Redemption of Preference Shares**

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

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

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

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

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

**Redemption of Debentures**

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

   (a) No. of partly convertible debentures issued- 2,00,000; face value and issue price- ₹ 100 per debenture.

   (b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue i.e 31.10.20X1.

   (c) Date of closure of subscription lists- 1.5.20X1, date of allotment- 1.6.20X1, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- ₹ 60 (Face Value ₹ 10).

   (d) Underwriting Commission- 2%.

   (e) Number of debentures applied for - 1,50,000.

   (f) Interest payable on debentures half-yearly on 30th September and 31st March.

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

**Investment Accounts**

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

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

**Insurance Claim for loss of stock or profit**

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

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

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

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

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

**Hire Purchase Transactions**

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

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

Interest is charged at 10% p.a.

Amandeep provides depreciation @ 25% on the diminishing balances.

On 31.3.2019 Amandeep failed to pay the 3$^{rd}$ installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Amandeep agreed to leave one car with Fair Value Motors Pvt. Ltd. and adjusted the value of the car against the amount due. The car taken over was valued on the basis of 40% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Amandeep after 3 months with interest @ 20% p.a.

You are required to:

(i) Calculate the cash price of the cars and the interest paid with each installment.

(ii) Prepare Cars Account in the books of Amandeep assuming books are closed on March 31, every year.

Figures may be rounded off to the nearest rupee.

**Departmental Accounts**

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

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

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

**Branch Accounting**

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

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

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

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

**Accounts from Incomplete Records**

13. Following is the incomplete information of Jyotishikha Traders:

The following balances are available as on 31.03.2018 and 31.03.2019.

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

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

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

Other adjustments:

(i) On 01.10.18 they sold machine having Book Value ₹ 40,000 (as on 31.03.2018) at a loss of ₹ 15,000. New machine was purchased on 01.01.2019.

(ii) Office equipment was sold at its book value on 01.04.2018.

(iii) Loan was partly repaid on 31.03.19 together with interest for the year.

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

**Dissolution of partnership firm**

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

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

Following information is given to you:

(i) A cheque for ₹ 7,000 received from debtor was not recorded in the books and was misappropriated by R.

(ii) Investments costing ₹ 8,000 were sold by R at ₹ 11,000 and the funds transferred to his personal account. This sale was omitted from the firm's books.

(iii) A creditor agreed to take over investments of the book value of ₹ 9,000 at ₹ 13,000. The rest of the creditors were paid off at a discount of 5%.

(iv) The other assets realized as follows:

Building 110% of book value

Stock ₹ 1,20,000

Investments The rest of investments were sold at a profit of ₹ 7,000

Debtors The rest of the debtors were realized at a discount of 10%

(v) The bills payable were settled at a discount of ₹ 500.

(vi) The expenses of dissolution amounted to ₹ 8,000

(vii) It was found out that realization from R's private assets would only be ₹ 7,000.

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

**Framework for Preparation and Presentation of Financial Statements**

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

**AS 2 Valuation of Inventories**

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

**AS 4 Contingencies and Events Occurring after the Balance Sheet Date**

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

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

17. (a) The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2019. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard;

(i) Provision for doubtful debts was created @ 2% till 31st March, 2018. From the Financial year 2018-2019, the rate of provision has been changed to 3%.

(ii) During the year ended 31st March, 2019, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.

(iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.

(iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

(v) During the year ended 31st March, 2019, there was change in cost formula in measuring the cost of inventories.

**AS 10 Property, Plant and Equipment**

(b) Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were ₹ 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of ₹ 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at ₹ 49,500 per month after adding 10% profit margin.

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

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

**AS 11 The Effects of Changes in Foreign Exchange Rates**

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

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

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

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

**AS 12 Accounting for Government Grants**

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

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

**AS 13 Accounting for Investments**

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

'Held to maturity' investments are carried at acquisition cost less amortized amount. 'Available for sale' investments are carried at marked to market. 'Held for trading' investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored.

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

**AS 16 Borrowing costs**

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

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

**AS 17 Segment Reporting**

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

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

**AS 22 Accounting for Taxes on Income**

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

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

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

**SUGGESTED ANSWERS/HINTS**

**1. (a) Oliva Company Ltd.**

**Statement of Profit and loss for the year ended 31.03.2019**

(₹)

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

**Oliva Company Ltd.**

**Balance Sheet for the year ended 31.03.2019**

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

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

**Notes to accounts**

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

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

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

**(b) Computation of Effective Capital**

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

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

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

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

1. **Land and Building Account**

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

2. **Plant and Machinery Account**

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

3. **Investments Account**

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

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

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

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

| | | |
|---|---|---|
| Interest on Debentures | – | 36,000 |
| Rent | 4,000 | 34,400 |
| Net Profit | 24,000 | 1,09,350 |

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

**Working Notes:**

(i) Calculation of ratio of Sales

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

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

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

post-incorporation period = ₹ 16,00,000

Sales are in the ratio of 1:8

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

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

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

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

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

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

(viii) Rent

| | | |
|---|---|---|
| (₹ 38,400 – Additional rent for 6 months) | | ₹ |
| [38,400- 14,400 (2,400 x 6) = ₹ 24,000 i.e. 2,000 per month] | | |
| 1/4/18 -31/5//18 (2,000 x 2) | = | 4,000 |
| 1/6/18-31/3/19 – [(2,000 x 10) +14,400] | = | 34,400 |
| | | 38,400 |

**4. Journal Entries in the books of Manoj Ltd.**

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

| | | | | |
|---|---|---|---|---|
| | (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) | | | |

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

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

= ₹ 190 – ₹ 176 = ₹ 14 per share.

**Working Note:**

**Ex-right value of the shares**

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

= ₹ 880 / 5 shares = ₹ 176 per share.

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

**Journal Entries**

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

**Journal Entries**

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

| | | | |
|---|---|---|---|
| 31.10.20X1 | 15% Debentures A/c Dr.<br>To Equity Share Capital A/c<br>To Securities Premium A/c<br>(Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10) | 1,20,00,000 | <br>20,00,000<br>1,00,00,0000 |
| 31.3.20X2 | Debenture Interest A/c Dr.<br>To Bank A/c<br>(Interest paid on debentures for the half year) (refer working note below) | 7,50,000 | <br>7,50,000 |

**Working Note :**

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

| | | |
|---|---|---|
| On ₹ 80,00,000 for 6 months @ 15% | = | ₹ 6,00,000 |
| On ₹ 1,20,00,000 for 1 months @ 15% | = | ₹ 1,50,000 |
| | | ₹ 7,50,000 |

**8. Books of A Pvt. Ltd.**

**Investment in 13.5% Convertible Debentures in P Ltd. Account**

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

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

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

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

**Investment in Equity shares in P Ltd. Account**

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

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

**Working Notes:**

1. Interest paid on ₹ 5,00,000 purchased on May 1st, 2018 for the month of April 2018, as part of purchase price: 5,00,000 x 13.5% x 1/12 = ₹ 5,625

2. Interest received on 30th Sept. 2018

   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 2018 for April 2018 to July 2018 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. Interest on 1,100 Debentures (being those converted) for 3 months i.e. Oct-Dec. 2018

   1,10,000 x 13.5% x 3/12 = ₹ 3,713

6. Cost of Debentures converted to Equity Shares

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

7. Cost of Balance Debentures

   (₹ 5,19,375 + ₹ 2,45,000) x ₹ 4,40,000/₹ 7,50,000 = ₹ 4,48,434

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

   ₹ 4,40,000 x 13.5% x 3/12 = ₹ 14,850

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

**Trading Account for the year ended 31.3.2019**

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

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

| | ₹ | | ₹ |
|---|---|---|---|
| To Opening Stock (at cost) | 1,80,000 | By Sales 4,80,000 | |
| To Purchases 2,25,000 | | *Less:* Goods not dispatched 75,000 | 4,05,000 |
| *Add:* Goods received but invoice not received 30,000 | | By Closing stock (Balancing figure) | 1,50,000 |
| 2,55,000 | | | |
| *Less:* Machinery 15,000 | 2,40,000 | | |
| To Gross Profit (Refer W.N.) | 1,35,000 | | |
| | 5,55,000 | | 5,55,000 |

**Calculation of Insurance Claim**

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

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

**Working Note:**

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

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

**10. (i) Calculation of Interest and Cash Price**

| *No. of installments* | *Outstanding balance at the end after the payment of installment* | *Amount due at the time of installment* | *Outstanding balance at the end before the payment of installment* | Interest | *Outstanding balance at the beginning* |
|---|---|---|---|---|---|
| *[1]* | *[2]* | *[3]* | *[4] = 2 +3* | *[5] = 4 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.

**(ii) In the books of Amandeep**

**Cars Account**

| *Date* | *Particulars* | *₹* | *Date* | *Particulars* | *₹* |
|---|---|---|---|---|---|
| 1.4.2016 | To Fair Value Motors A/c | 18,00,000 | 31.3.2017 | By Depreciation A/c | 4,50,000 |
| | | | | By Balance c/d | 13,50,000 |
| | | 18,00,000 | | | 18,00,000 |
| 1.4.2017 | To Balance b/d | 13,50,000 | 31.3.2018 | By Depreciation A/c | 3,37,500 |
| | | | | By Balance c/d | 10,12,500 |
| | | 13,50,000 | | | 13,50,000 |
| 1.4.2018 | To Balance b/d | 10,12,500 | 31.3.2019 | By Depreciation A/c | 2,53,125 |
| | | | | By Fair Value Motors A/c (Value of 1 Car taken over after depreciation for 3 years @ 40% p.a.) [9,00,000 - (3,60,000+2,16,000+1,29,600)] | 1,94,400 |
| | | | | By Loss on surrender transferred to Profit and Loss A/c (Bal. fig.) | 1,85,288 |
| | | | | By Balance c/d ½ (10,12,500-2,53,125) | 3,79,687 |
| | | 10,12,500 | | | 10,12,500 |

11. **Departmental Trading and Profit and Loss Account**

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

**General Profit & Loss Account**

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

**Working Notes**

1. **Calculation of Stock Reserve (opening)**

   25,000 x 75% wood x 15% = ₹ 2,813

2. **Calculation of closing stock reserve**

   Gross profit Rate of Saw Mill of 2018

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

   30,000x 75% x 20% = ₹ 4,500

12. **Pune Branch Account**

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

**Working Note:**

| Calculation of petty cash balance at the end: | ₹ |
|---|---|
| Opening balance | 500 |
| Add: Cash received form the Head Office | 1,000 |
| Total Cash with branch | 1,500 |
| *Less*: Spent by the branch | 850 |
| Closing balance | 650 |

**13.** **In the Books of Jyotishikha Traders**

**Trading Account for the year ended 31.03.2019**

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

**Profit and Loss Account for the year ended 31.03.2019**

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

**Balance sheet as on 31.3.2019**

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

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

**Working Notes:**

1. **Calculation of Total Sales**

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

2. **Calculation of Total Purchases**

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

3. **Office Expenses Account**

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

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

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

| | | | |
|---|---|---|---|
| To Purchases | 1,50,000 | By Closing Balance | 3,30,000 |
| | 3,70,000 | | 3,70,000 |

(b) **Depreciation calculations on Plant & Machinery**

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

(c) **Sale of Machinery Account**

| | *Amount* (₹) | | *Amount* (₹) |
|---|---|---|---|
| To Plant & Machinery | 40,000 | By Depreciation | 2,000 |
| | | By Profit and Loss A/c | 15,000 |
| | | By Bank | 23,000 |
| | 40,000 | | 40,000 |

5. **Depreciation calculations on Office Equipments**

| | ₹ |
|---|---|
| Opening Balance | 1,05,000 |
| *Less*: Closing Balance | 85,000 |
| Sale of Office Equipment | 20,000 |
| Balance of Office Equipment after sale | 85,000 |
| Depreciation @15% | 12,750 |

6. **Opening Balance Sheet as on 31.03.2018**

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

7. **Sundry Debtors A/c**

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

8. **Sundry Creditors A/c**

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

9. **Bank Account**

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

**14.** **Realization Account**

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

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

**Cash Account**

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

**Partners' Capital Accounts**

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

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

**Working Notes:**

**1. Amount paid to creditors in cash**

| | ₹ |
|---|---:|
| Book value | 80,000 |
| *Less:* Creditors taking over investments | ( 13,000) |
| | 67,000 |
| *Less:* Discount @ 5% | (3,350) |
| | 63,650 |

**2. Amount received from sale of investments**

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

**3. Amount received from debtors**

| | ₹ |
|---|---:|
| Book value | 70,000 |
| *Less:* Unrecorded receipt | (7,000) |
| | 63,000 |
| *Less:* Discount @ 10% | (6,300) |
| | 56,700 |

**4. Deficiency of R**

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

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

Accordingly,

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

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

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

**15.**

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

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

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

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

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

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

**17. (a)** (i) In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2018. Subsequently in 2018-19, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.

(ii) As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous policy, will not be treated as change in an accounting policy.

(iii) Change in useful life of furniture from 5 years to 3 years is a change in estimate and is not a change in accounting policy.

(iv) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.

(v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

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

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

**18. (a)** (i) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or as expenses in the period in which they arise.

Accordingly, exchange difference on trade receivables amounting ₹ 23,076 {₹ 5,23,076(US $ 8547* x ₹ 61.20) less ₹ 5,00,000} should be charged to profit & Loss account.

(ii) Calculation of profit or loss to be recognized in the books of Power Track Limited

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

**(b)** As per AS 12 "Accounting for Government Grants", where the government grants are in the nature of promoters' contribution, *i.e.,* they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, Central Investment Subsidy Scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

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

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

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

**19.** **(a)** As per AS 13 'Accounting for Investments', the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds. In this case Z Bank is a bank, therefore, AS 13 does not apply to it. For banks, the RBI has issued separate guidelines for classification and valuation of its investment and Z Bank should comply with those RBI Guidelines/Norms. Therefore, though Z Bank has not followed the provisions of AS 13, yet it would not be said as non-compliance since, it is complying with the norms stipulated by the RBI.

**(b)** AS 16 clearly states that capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Therefore, interest on the amount that has been used for the construction of the building up to the date of completion (January, 2019) i.e. ₹ 18 lakhs alone can be capitalized. It cannot be extended to ₹ 25 lakhs.

**20** **(a)** AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing inter-segment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if followed consistently.

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

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

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

Tax expense= Current Tax + Deferred Tax

₹ 1,50,000 = ₹ 18,000+ Deferred tax

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

= ₹ 1,50,000 – ₹ 18,000 = ₹ 1,32,000

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

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

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

= ₹ 1,64,812.50