MOCK TEST PAPER 2

INTERMEDIATE : GROUP – I

PAPER – 1: ACCOUNTING

ANSWERS

1. **(a)** **(i)** As per AS 2 'Valuation of Inventories', certain costs are excluded from the cost of the inventories and are recognized as expenses in the period in which incurred. Examples of such costs are:

(a) abnormal amount of wasted materials, labour, or other production costs;

(b) storage costs, unless those costs are necessary in the production process prior to a further production stage;

(c) administrative overheads that do not contribute to bringing the inventories to their present location and condition; and

(d) selling and distribution costs.

(ii) As per 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 ₹ 10 lakhs. The net realizable value is 11,00,000 $\times$ 90% = ₹ 9,90,000. So, the stock should be valued at ₹ 9,90,000.

(b) As per AS 12 'Accounting for Government Grants,' income from Deferred Grant Account is allocated to Profit and Loss account usually over the periods and in the proportions in which depreciation on related assets is charged. Accordingly, in the first two years (₹ 32 lakhs /4 years) = ₹ 8 lakhs x 2 years = ₹ 16 lakhs will be credited to Profit and Loss Account and ₹ 16 lakhs will be the balance of Deferred Grant Account after two years. Therefore, on refund of grant, following entry will be passed:

		₹	₹
Deferred Grant A/c	Dr.	16 lakhs	
Profit & Loss A/c	Dr.	16 lakhs	
To Bank A/c			32 lakhs
(Being Government grant refunded)			

1. Value of Fixed Assets after two years but before refund of grant

Fixed assets initially recorded in the books = ₹ 80 lakhs

Depreciation for each year = (₹ 80 lakhs – ₹8 lakhs)/4 years = ₹ 18 lakhs per year

Book value of fixed assets after two years = ₹ 80 lakhs – (₹ 18 lakhs x 2 years) = ₹ 44 lakhs

2. Value of Fixed Assets after refund of grant

On refund of grant the balance of deferred grant account will become nil. The fixed assets will continue to be shown in the books at ₹ 44 lakhs.

3. Amount of depreciation for remaining two years

Depreciation will continue to be charged at ₹ 18 lakhs per annum for the remaining two years.

(c) Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired. These costs are not be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The costs to be incurred by the company are in the nature of costs of reducing or reorganizing the operations of the accompany. These costs do not meet that requirement of AS 10 “Property, Plant and Equipment” and cannot, therefore, be capitalized.

(d) (i) False; As per AS 1 “Disclosure of Accounting Policies”, certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

(ii) False; As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

(iii) True; To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed at one place.

(iv) False; Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

(v) True; As per AS 1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.

2. (a) Investment Account for the year ending on 31st December, 2022

Scrip : 8% Convertible Debentures in C Ltd.

[Interest Payable on 31st March and 30th September]

Date	Particulars	Nominal value ₹	Interest ₹	Cost ₹	Date	Particulars	Nominal Value (₹)	Interest (₹	Cost (₹)
1.4.22	To Bank A/c	2,00,000	-	2,16,000	30.09.22	By Bank A/c	-	12,000	-
1.7.22	To Bank A/c (W.N.1)	1,00,000	2,000	1,10,000		[₹3,00,000 x 8% x (6/12]			
31.12.22	To P & L A/c	-	14,033	-	1.10.22	By Bank A/c	80,000		84,000
	[Interest]				1.10.22	By P & L A/c (loss) (W.N.3)			2,933
					1.12.22	By Bank A/c (Accrued interest) (₹ 55,000 x .08 x 2/12)		733	
					1.12.22	By Equity shares in C Ltd. (W.N. 3 and 4)	55,000		59,767
					31.12.22	By Balance c/d (W.N.5)	1,65,000	3,300	1,79,300
		3,00,000	16,033	3,26,000			3,00,000	16,033	3,26,000

SCRIP: Equity Shares in C LTD.

Date	Particulars	Cost (₹)	Date	Particulars	Cost (₹)
1.12.22	To 8 % debentures	59,767	31.12.22	By balance c/d	59,767

Working Notes:

(i) Cost of Debenture purchased on 1st July = ₹1,12,000 – ₹2,000 (Interest) = ₹1,10,000

(ii) Cost of Debentures sold on 1st Oct.

= (₹2,16,000 + ₹1,10,000) x 80,000/3,00,000 = ₹ 86,933

(iii) Loss on sale of Debentures = ₹ 86,933– ₹84,000 = ₹2,933

Nominal value of debentures converted into equity shares =₹ 55,000

[(₹ 3,00,000 – 80,000) x.25]

Interest received before the conversion of debentures

Interest on 25% of total debentures = 55,000 x 8% x 2/12 = 733

(iv) Cost of Debentures converted = (₹ 2,16,000 + ₹1,10,000) x 55,000/3,00,000 = ₹ 59,767

(v) Cost of closing balance of Debentures = (₹ 2,16,000 + ₹1,10,000) x 1,65,000 / 3,00,000 = ₹ 1,79,300

(vii) Closing balance of Debentures has been valued at cost.

(viii) 5,000 equity Shares in C Ltd. will be valued at cost of ₹ 59,767 being lower than the market value ₹ 75,000 (₹ 15 x5,000)

Note: It is assumed that interest on debentures, which are converted into cash, has been received at the time of conversion.

(b) Memorandum Trading Account for the Period from 1.1.2023 to 30.6.2023

		₹			₹
To Opening Stock (1.1.2023)		1,50,000	By Sales	11,50,000	
To Purchases	9,50,000		*Less:* Sales Returns	(40,000)	11,10,000
Less: Returns	(12,500)	9,37,500			
To Cartage Inwards		17,500	By Closing Stock		2,80,000
To Wages		7,500	(Bal. Fig.)		
To Gross Profit		2,77,500			
(25% of ₹ 11,10,000)					
		13,90,000			13,90,000

Stock Destroyed Account

	₹		₹
To Trading Account	2,80,000	By Stock Salvaged Account	20,000
		By Balance c/d (For Claim)	2,60,000
	2,80,000		2,80,000

Statement of Claim

Items	Cost (₹)	Depreciation (₹)	Salvage (₹)	Claim (₹)
A	B	C	D	(E=B-C-D)
Stock	2,80,000		20,000	2,60,000
Buildings	3,75,000	1,25,000 + 9,375	4,000	2,36,625
Equipment	75,000	22,500 + 5,625	2,500	44,375
				5,41,000

(c) Statement showing cash value of the machine acquired on hire-purchase basis

	Instalment Amount	*Interest @ 5% half yearly (10% p.a.) = 5/105 = 1/21) (in each instalment)*	*Principal Amount (in each instalment)*
	₹	₹	₹
5th Instalment	6,000	286	5,714
Less: Interest	(286)		
	5,714		
Add: 4th Instalment	6,000		
	11,714	558	5,442
Less: Interest	(558)		(11,156–5,714)
	11,156		
Add: 3rd instalment	6,000		
	17,156	817	5,183
Less: Interest	(817)		(16,339–11,156)
	16,339		
Add: 2nd instalment	6,000		
	22,339	1,063	4,937
Less: Interest	(1,063)		(21,276–16,339)
	21,276		
Add: 1st instalment	6,000		
	27,276	1,299	4,701
Less: Interest	(1,299)		(25,977–21,276)
	25,977	4,023	25,977

The cash purchase price of machinery is ₹ 25,977

3. (a) In the books of Moon Star

Trial Balance (in Rupees) of Virginia (USA) Branch

as on 31st March, 2023

	Dr.	*Cr.*	*Conversion*	*Dr.*	*Cr.*
	US $	*US $*	*rate*	₹	₹
Office Equipment	43,200		50	21,60,000	
Depreciation on Office Equipment	4,800		50	2,40,000	
Furniture and fixtures	2,880		50	1,44,000	
Depreciation on furniture and fixtures	320		50	16,000	
Stock (1st April, 2022)	22,400		47	10,52,800	
Purchases	96,000		45	43,20,000	
Sales		1,66,400	45		74,88,000
Goods sent from H.O.	32,000			15,80,000	
Carriage inward	400		45	18,000	
Salaries (3,200+400)	3,600		45	1,62,000	
Outstanding salaries		400	50		20,000

Rent, rates and taxes	800		45	36,000	
Insurance	400		45	18,000	
Trade expenses	400		45	18,000	
Head Office A/c		45,600			20,50,000
Trade debtors	9,600		50	4,80,000	
Trade creditors		6,800	50		3,40,000
Cash at bank	2,000		50	1,00,000	
Cash in hand	400		50	20,000	
Exchange gain (bal. fig.)					4,66,800
	2,19,200	2,19,200		1,03,64,800	1,03,64,800

(b) **Trading and Profit and Loss Account of Virginia Branch**

for the year ended 31st March, 2023

	₹		₹
To Opening stock	10,52,800	By Sales	74,88,000
To Purchases	43,20,000	By Closing stock	10,75,000
To Goods from Head Office	15,80,000	(21,500 US $ × 50)	
To Carriage inward	18,000		
To Gross profit c/d	15,92,200		
	85,63,000		85,63,000
To Salaries	1,62,000	By Gross profit b/d	15,92,200
To Rent, rates and taxes	36,000		
To Insurance	18,000		
To Trade expenses	18,000		
To Depreciation on office equipment	2,40,000		
To Depreciation on furniture and fixtures	16,000		
To Net Profit c/d	11,02,200		
	15,92,200		15,92,200

(b) **Trading and Profit and Loss Account of Archana Enterprises**

for the year ended 31st March, 2023

	₹			₹
To Opening Stock	9,15,000	By Sales		
To Purchases (W.N. 2)	125,97,000	Cash	110,70,000	
To Gross profit c/d	13,93,000	Credit (W.N. 1)	28,60,000	139,30,000
(10% of 139,30,000)		By Closing stock		9,75,000
	149,05,000			149,05,000
To Sundry expenses (W.N. 4)	9,18,750	By Gross profit b/d		13,93,000
To Discount allowed	54,000	By Discount received		42,500
To Depreciation	22,500			

(15% ₹ 1,50,000)			
To Net Profit (b.f.)	4,40,250		
	14,35,500		14,35,500

Balance Sheet of Archana Enterprises as at 31st March, 2023

Liabilities		Amount ₹	Assets		Amount ₹
Capital			Furniture & Fittings	1,50,000	
Opening balance	6,75,000		Less: Depreciation	(22,500)	1,27,500
Less: Drawing	(3,60,000)		Stock		9,75,000
	3,15,000		Trade Debtors		3,43,000
Add: Net profit for the years	4,40,250	7,55,250	Unexpired insurance		3,000
Trade creditors (W.N. 3)		8,29,000	Cash in hand & at bank		1,90,950
Outstanding expenses		55,200			
		16,39,450			16,39,450

Working Notes:

1. Trade Debtors Account

	₹		₹
To Balance b/d	3,12,000	By Cash/Bank	27,75,000
To Credit sales (Bal. fig.)	28,60,000	By Discount allowed	54,000
		By Balance c/d	3,43,000
	31,72,000		31,72,000

2. Memorandum Trading Account

	₹		₹
To Opening stock	9,15,000	By Sales	139,30,000
To Purchases (Balancing figure)	125,97,000	By Closing stock	9,75,000
To Gross Profit (10% on sales)	13,93,000		
	149,05,000		149,05,000

3. Trade Creditors Account

	₹		₹
To Cash/Bank	124,83,000	By Balance b/d	7,57,500
To Discount received	42,500	By Purchases (as calculated in W.N. 2)	125,97,000
To Balance c/d (balancing figure)	8,29,000		
	133,54,500		133,54,500

4. **Computation of sundry expenses to be charged to Profit & Loss A/c**

	₹
Sundry expenses paid (as per cash and Bank book)	9,31,050
Add: Prepaid expenses as on 31–3–2022	3,000
	9,34,050
Less: Outstanding expenses as on 31–3–2022	(67,500)
	8,66,550
Add: Outstanding expenses as on 31–3–2023	55,200
	9,21,750
Less: Prepaid expenses as on 31–3–2023 (Insurance paid till July, 2023) (9,000 x 4/12)	(3,000)
	9,18,750

4. (a) **Calculation of Departmental Results (Actual Gross Profit)**

	A (₹)	B (₹)	C (₹)
Actual Sales	1,72,500	1,59,400	74,600
Add back: Discount (Refer W.N.)	2,500	600	400
Normal sales	1,75,000	1,60,000	75,000
Gross profit % on normal sales	20%	25%	33.33%
Normal gross profit	35,000	40,000	25,000
Less: Discount	(2,500)	(600)	(400)
Actual gross profit	32,500	39,400	24,600

Computation of value of stock as on 31st Dec. 2022

Departments	**A** ₹	**B** ₹	**C** ₹
Stock (on 1.1. 2022)	24,000	36,000	12,000
Add: Purchases	1,46,000	1,24,000	48,000
	1,70,000	1,60,000	60,000
Add: Actual gross profit	32,500	39,400	24,600
	2,02,500	1,99,400	84,600
Less: Actual Sales	(1,72,500)	(1,59,400)	(74,600)
Closing stock as on 31.12.2022 (bal.fig.)	30,000	40,000	10,000

Working Note:

Calculation of discount on sales:

Departments	**A** ₹	**B** ₹	**C** ₹
Sales at normal price	10,000	3,000	1,000
Less: Sales at actual price	(7,500)	(2,400)	(600)
	2,500	600	400

(b) **Journal Entries**

Date	*Particulars*		*Amount Dr.*	*Amount Cr.*
			₹	₹
1.5.2022	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)			
1.6.2022	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)			
01.06.2022	Debenture Redemption 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)			
30.9.2022	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)			
31.10.2022	15% Debentures A/c	Dr.	1,20,00,000	
	To Equity Share Capital A/c			20,00,000
	To Securities Premium A/c			1,00,00,0000
	(Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)			
31.3.2023	Debenture Interest A/c	Dr.	7,50,000	
	To Bank A/c			7,50,000
	(Interest paid on debentures for the half year) (*Refer working note*)			

Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 2023:

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

(c) **Journal Entries**

			₹	₹
1-4-2023	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….)			
20-4-2023	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)			

5. (a) **Balance Sheet of Mehar Ltd. as at 31st March, 2023**

		Note	₹
I	**EQUITY AND LIABILITIES:**		
(1)	(a) Share Capital	1	1,60,00,000
	(b) Reserves and Surplus	2	110,68,000
(2)	**Non-current Liabilities**		
	Long term Borrowings- Terms Loans (Secured)		40,00,000
(3)	**Current Liabilities**		
	(a) Trade Payables		45,80,000
	(b) Other current liabilities	3	8,00,000
	(c) Short-term Provisions (Provision for taxation)		10,20,000
	Total		**3,74,68,000**
II	**ASSETS**		
(1)	**Non-current Assets**		
	(a) Property, Plant and Equipment	4	214,00,000
	(b) Non- current Investments		9,00,000

(2)	**Current Assets:**		
	(a) Inventories	5	48,00,000
	(b) Trade Receivables	6	48,20,000
	(c) Cash and Cash Equivalents		38,40,000
	(d) Short-term Loans and Advances	7	17,08,000
	Total		**3,74,68,000**

Notes to accounts

			(₹)
1.	**Share Capital**		
	Authorized, issued, subscribed & called up		
	1,20,000, Equity Shares of ₹ 100 each	1,20,00,000	
	40,000 10% Redeemable Preference Shares of 100 each	40,00,000	1,60,00,000
2.	**Reserves and Surplus**		
	Securities Premium Account	19,00,000	
	General reserve	62,00,000	
	Profit & Loss Balance		
	Opening balance -		
	Profit for the period 32,00,000		
	Less: Miscellaneous Expenditure		
	written off (2,32,000)	29,68,000	110,68,000
3.	**Other current liabilities**		
	Loan from other parties		8,00,000
4.	**Property, plant and equipment**		
	Plant and Machinery (WDV)		214,00,000
5.	**Inventories**		
	Finished Goods	30,00,000	
	Stores	16,00,000	
	Loose Tools	2,00,000	48,00,000
6.	**Trade Receivables**		
	Trade receivables	49,00,000	
	Less: Provision for Doubtful Debts	(80,000)	48,20,000
7.	**Short term loans & Advances**		
	Staff Advances*	2,20,000	
	Other Advances*	14,88,000	17,08,000

**Considered to be short term.*

(b) Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods for the year ended 31st March, 2023

Particulars	Total	Allocation basis	Pre-incorporation ₹	Post-incorporation ₹
Gross Profit	3,90,800	Sales	39,080	3,51,720

Less: Directors' fee	30,000	Post		30,000
Bad debts	7,200	Sales	720	6,480
Advertising	24,000	Time	6,000	18,000
Salaries & general expenses	1,28,000	Time	32,000	96,000
Preliminary expenses	10,000	Post		10,000
Donation to Political Party	10,000	Post		10,000
Net Profit	1,81,600			1,81,240
Pre-incorporation profit transferred to Capital Reserve			360	

Working Notes:

1. **Sales ratio**

Particulars	₹
Sales for period up to 30.06.2022 (4,80,000 X 3/6)	2,40,000
Sales for period from 01.07.2022 to 31.03.2023 (24,00,000 – 2,40,000)	21,60,000

Thus, Sales Ratio = 1 : 9

2. **Time ratio**

1st April, 2022 to 30 June, 2022: 1st July, 2022 to 31st March, 2023

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

6. **(a)** (i) Interest for the period 2022-23

= US \$ 10 lakhs x 4% × ₹ 62 per US\$ = ₹ 24.80 lakhs

(ii) Increase in the liability towards the principal amount

= US \$ 10 lakhs × ₹ (62 - 56) = ₹ 60 lakhs

(iii) Interest that would have resulted if the loan was taken in Indian currency

= US \$ 10 lakhs × ₹ 56 x 10.5% = ₹ 58.80 lakhs

(iv) Difference between interest on local currency borrowing and foreign currency borrowing = ₹ 58.80 lakhs - ₹ 24.80 lakhs = ₹ 34 lakhs.

Therefore, out of ₹ 60 lakhs increase in the liability towards principal amount, only ₹ 34 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be ₹ 58.80 lakhs being the aggregate of interest of ₹ 24.80 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of ₹ 34 lakhs.

Hence, ₹ 58.80 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 and the remaining ₹ 26 lakhs (60 - 34) would be considered as the exchange difference to be accounted for as per AS 11.

(b) **Computation of effective capital:**

	₹
Paid-up share capital-	
20,000, 14% Preference shares	20,00,000
1,20,000 Equity shares	96,00,000

Capital reserves (excluding revaluation reserve)		45,000
Securities premium		50,000
15% Debentures		65,00,000
Public Deposits		3,70,000
	(A)	1,85,65,000
Investments		75,00,000
Profit and Loss account (Dr. balance)		15,00,000
	(B)	90,00,000
Effective capital	(A–B)	95,65,000

OR

Capital Redemption Reserve A/c	Dr.	1,40,000	
Securities Premium A/c (considered to be realized in cash)	Dr.	80,000	
General Reserve A/c (balancing figure)	Dr.	80,000	
To Bonus to Shareholders			3,00,000
(Being issue of bonus shares by utilization of various Reserves, as per resolution dated …….)			
Bonus to Shareholders A/c	Dr.	3,00,000	
To Equity Share Capital			3,00,000
(Being capitalization of Profit)			

(c) Cash Flow Statement from Investing Activities of Subham Creative Limited for year ended 31-03-2023

Cash generated from investing activities	₹	₹
Interest on loan received	70,000	
Pre-acquisition dividend received on investment made	52,600	
Unsecured loans given to subsidiaries	(5,00,000)	
Interest received on investments (gross value)	82,000	
TDS deducted on interest	(8,200)	
Sale of Plant & Machinery ₹ (90,000 – 9,600)	80,400	
Cash used in investing activities (before extra-ordinary item)		(2,23,200)
Extraordinary claim received for loss of machinery		55,000
Net cash used in investing activities (after extra-ordinary item)		(1,68,200)

Note:

1. Debenture interest paid and Term Loan repaid are financing activities and therefore not considered for preparing cash flow from investing activities.
2. Machinery acquired by issue of shares does not amount to cash outflow, hence also not considered in the above cash flow statement.

(d) The Framework for Recognition and Presentation of Financial statements recognizes four alternative measurement bases for the purpose of determining the value at which an element can be recognized in the balance sheet or statement of profit and loss. These bases are: (i)Historical Cost; (ii)Current cost (iii) Realizable (Settlement) Value and (iv) Present Value.

A brief explanation of each measurement basis is as follows:

1. **Historical Cost**: Historical cost means acquisition price. According to this, assets are recorded at an amount of cash or cash equivalent paid or the fair value of the asset at the time of acquisition. Liabilities are generally recorded at the amount of proceeds received in exchange for the obligation.
2. **Current Cost:** Current cost gives an alternative measurement basis. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
3. **Realisable (Settlement) Value:** As per realizable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in *an orderly disposal*. Liabilities are carried at their settlement values; i.e. the undiscounted amount of cash or cash equivalents paid to satisfy the liabilities in the normal course of business.
4. **Present Value**: Under present value convention, assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities under this convention are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

(e) Calculation of Interest and Cash Price

Ratio of interest and amount due = 8 / (100 + rate of interest) i.e. 8/108

To ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

No. of instalments	Amount due at the time of instalment	Interest	Cumulative Cash price
[1]	[2]	[3]	(2-3) = [4]
3rd	12,000	8/108 of ₹12,000 =₹ 889	11,111
2nd	23,111 [W.N.1]	8/108 of ₹ 23,111 = ₹1,712	21,399
1st	33,399 [W.N.2]	8/108 of ₹33,399 = ₹2,474	30,925
		5,075	

Total cash price = ₹ 30,925 + ₹ 12,000 (down payment) =₹42,925

Working Notes:

1. ₹ 11,111+ 2nd instalment of ₹ 12,000= ₹ 23,111
2. ₹ 21,399+ 1st instalment of ₹ 12,000= ₹ 33,399