## PAPER – 1: ACCOUNTING

## PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY

### A. Applicable for November, 2023 examination

#### I. Relevant Legislative Amendments

The Central Government has amended Companies (Specification of definition details) Rules, 2014, through the Companies (Specification of definition details) Amendment Rules, 2022 vide Notification G.S.R. 700(E) dated 15th September, 2022.

Amendment in definition of Small Company:

In the Companies (Specification of definition details) Rules, 2014, in Rule 2, in sub-rule (1), for clause (t), the following clause shall be substituted, namely:-

"(t) For the purposes of sub-clause (i) and sub-clause (ii) of clause (85) of section 2 of the Act, paid up capital and turnover of the small company shall not exceed rupees four crore and rupees forty crore respectively.".

#### II. 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 (18 of 2013), the Central Government made amendments in Schedule III (Division I) to the said Act, vide MCA Notification dated 24th March, 2021, applicable with effect from 1st day of April, 2021. These amendments have been incorporated in Annexure "Schedule III to the Companies Act" to chapter 4 of September, 2021 Edition. The students are advised to refer the link https://resource.cdn.icai.org/66494bos53751-cp4-annex.pdf for the revised content.

#### III. Criteria for classification of Non-Company entities for applicability of Accounting Standards

The Council, at its 400th meeting, held on March 18-19, 2021, revised the criteria relating to applicability of Accounting Standards issued by The Institute of Chartered Accountants of India (ICAI), to Non-company entities (Enterprises). The scheme for applicability of Accounting Standards to Non-company entities shall come into effect in respect of accounting periods commencing on or after April 1, 2020. For the purpose of applicability of Accounting Standards, Non-company entities are classified into four categories, viz., Level I, Level II, Level III and Level IV. Level I entities are large size entities, Level II entities are medium size entities, Level III entities are small size entities and Level IV entities are micro entities. Level IV, Level III and Level II entities are referred to as Micro, Small and Medium size entities (MSMEs). The terms 'Small and Medium Enterprise' and 'SME' used in Accounting Standards shall be read as 'Micro, Small and Medium size entity' and 'MSME' respectively. Level I entities are required to comply in full with all the

Accounting Standards. However, certain exemptions/relaxations have been provided to Level II, Level III and Level IV Non-company entities.

The revised criteria for classification of Non-Company entities reg. applicability of Accounting Standards has been incorporated in the revised chapter 3 unit 1 of September, 2021 Edition of the Study Material. The students are advised to refer the link https://resource.cdn.icai.org/66492bos53751-cp3-u1.pdf for the revised content.

**NOTE:** September, 2021 Edition of the Study Material on Paper 1 Accounting is applicable for November, 2023 Examination. The students who have editions prior to September, 2021 may refer the uploaded chapters for the revised content.

**B. Not applicable for November, 2023 examination**

**Non-Applicability of Ind AS for November, 2023 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, 2023 Examination.

## PART – II: QUESTIONS AND ANSWERS

## QUESTIONS

### Preparation of Balance Sheet of a Company

1. From the following particulars furnished by Ambience Ltd., prepare the Balance Sheet as on 31st March 2023 as required by Division I of Schedule III of the Companies Act, 2013.

| Particulars | | Debit ₹ | Credit ₹ |
|---|---|---|---|
| Equity Share Capital (Face value of ₹ 100 each) | | | 25,00,000 |
| Call in Arrears | | 2,500 | |
| Land & Building | | 13,75,000 | |
| Plant & Machinery | | 13,12,500 | |
| Furniture | | 1,25,000 | |
| General Reserve | | | 5,25,000 |
| Loan from State Financial Corporation | | | 3,75,000 |
| Inventories: | | | |
| Raw Materials | 1,25,000 | | |

| | | | |
|---|---|---|---|
| Finished Goods | 5,00,000 | 6,25,000 | |
| Provision for Taxation | | | 3,20,000 |
| Trade receivables | | 5,00,000 | |
| Advances | | 1,06,750 | |
| Profit & Loss Account | | | 2,16,750 |
| Cash in Hand | | 75,000 | |
| Cash at Bank | | 6,17,500 | |
| Unsecured Loan | | | 3,02,500 |
| Trade creditors (for Goods and Expenses) | | | 5,00,000 |
| | | 47,39,250 | 47,39,250 |

The following additional information is also provided:

(i) 5,000 Equity shares were issued for consideration other than cash.

(ii) Trade receivables of ₹ 1,30,000 are due for more than 6 months.

(iii) The cost of the Assets were:

Building ₹ 15,00,000, Plant & Machinery ₹ 17,50,000 and Furniture ₹ 1,56,250

(iv) The balance of ₹ 3,75,000 in the Loan Account with State Finance Corporation is inclusive of ₹ 18,750 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes ₹ 5,000 with Global Bank Ltd., which is not a Scheduled Bank.

(vi) Bills Receivable for 1,60,000 maturing on 15th June, 2023 has been discounted.

(vii) Provide to doubtful debts @ 5% on trade receivables.

**Cash flow statement**

2. On the basis of the following information prepare a Cash Flow Statement for the year ended 31st March, 2023 (Using direct method):

(i) Total sales for the year were ₹ 796 crores out of which cash sales amounted to ₹ 524 crores.

(ii) Receipts from credit customers during the year, totalled ₹ 268 crores.

(iii) Purchases for the year amounted to ₹ 440 crores out of which credit purchase was 80%.

Balance in creditors as on

1.4.2022 ₹ 168 crores

31.3.2023 ₹ 184 crores

(iv) Suppliers of other consumables and services were paid ₹ 38 crores in cash.

(v) Employees of the enterprises were paid 40 crores in cash.

(vi) Fully paid 9% Preference shares of the face value of ₹ 64 crores were redeemed. Equity shares of the face value of ₹ 40 crores were allotted as fully paid up at premium of 20%.

(vii) 10% Debentures of ₹ 40 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.

(viii) ₹ 52 crores were paid by way of income tax.

(ix) A new machinery costing ₹ 50 crores was purchased in part exchange of an old machinery. The book value of the old machinery was ₹ 26 crores. Through the negotiations, the vendor agreed to take over the old machinery at a higher value of ₹ 30 crores. The balance was paid in cash to the vendor.

(x) Investment costing ₹ 36 cores were sold at a loss of ₹ 4 crores.

(xi) Dividends totalling ₹ 30 crores was also paid.

(xii) Debenture interest amounting ₹ 4 crore was paid.

(xiii) Non-cash expenditure incurred during the current year was 1.2 crores.

(ix) Dividends declared during the current year was 15% on equity share capital (ESC = '120 crores).

(x) On 31st March 2022, Balance with Bank and Cash on hand totalled ₹ 4 crores.

**Profit/Loss prior to Incorporation**

3. The partners of Shanti Enterprises decided to convert the partnership firm into a Private Limited Company Shaurya (P) Ltd. with effect from 1st January, 2022. However, company could be incorporated only on 1st June, 2022. The business was continued on behalf of the company and the consideration of ₹ 3,00,000 was settled on that day along with interest @ 12% per annum. The company availed loan of ₹ 4,50,000 @ 10% per annum on 1st June, 2022 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2023 and presents you the following summarized profit and loss account:

| | ₹ | ₹ |
|---|---|---|
| Sales | | 9,90,000 |
| Cost of goods sold | 5,94,000 | |
| Discount to dealers | 23,100 | |
| Directors' remuneration | 30,000 | |

| | | |
|---|---|---|
| Salaries | 45,000 | |
| Rent | 67,500 | |
| Interest | 52,500 | |
| Depreciation | 15,000 | |
| Office expenses | 52,500 | |
| Sales promotion expenses | 16,500 | |
| Preliminary expenses (to be written off in first year itself) | 7,500 | 9,03,600 |
| Profit | | 86,400 |

Sales from June, 2022 to December, 2022 were 2½ times of the average sales, which further increased to 3½ times in January to March quarter, 2023. The company recruited additional work force to expand the business. The salaries from July, 2022 doubled. The company also acquired additional showroom at monthly rent of ₹ 5,000 from July, 2022.

You are required to prepare a Profit and Loss Account showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods.

**Accounting for Bonus Issue**

4. Following is the extract of the Balance Sheet of Abhishek Ltd. as at 31st March, 2023

| Particulars | ₹ |
|---|---|
| **Share capital** | |
| **Authorised capital:** | |
| 60,000 12% Preference shares of ₹ 10 each | 6,00,000 |
| 8,00,000 Equity shares of ₹ 10 each | 80,00,000 |
| | 86,00,000 |
| **Issued and Subscribed capital:** | |
| 48,000 12% Preference shares of ₹ 10 each fully paid | 4,80,000 |
| 5,40,000 Equity shares of ₹ 10 each, ₹ 8 paid up | 43,20,000 |
| **Reserves and surplus:** | |
| Capital Redemption Reserve | 2,40,000 |
| Securities premium (collected in cash) | 1,50,000 |
| General Reserve | 7,20,000 |
| Profit and Loss Account | 12,00,000 |

On 1st April, 2023, the company has made final call @ ₹ 2 each on 5,40,000 equity shares. The call money was received by 20th April, 2023. 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, 2023 after bonus issue.

**Right Issue**

5. Beta Ltd. has decided to increase its existing share capital by making rights issue to its existing shareholders. Beta Ltd. is offering one new share for every two shares held by the shareholder. The market value of the share is ₹ 180 and the company is offering one share of ₹ 90 each. Calculate the value of a right. What should be the ex-right market price of a share?

**Redemption of Preference Shares**

6. The capital structure of Ambuja Ltd. consists of 40,000 Equity Shares of ₹10 each fully paid up and 2,000 8% Redeemable Preference Shares of ₹100 each fully paid up (issued on 1.4.2018).

   Undistributed reserve and surplus stood as: General Reserve ₹ 1,60,000; Profit and Loss Account ₹ 40,000; Investment Allowance Reserve is ₹ 20,000 out of which ₹ 10,000 is not free for distribution as dividend; Cash at bank amounted to ₹ 1,96,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve and surplus, subject to the conditions that a sum of ₹ 40,000 shall be retained in general reserve and which should not be utilized.

   Pass Journal Entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out.

**Redemption of Debentures**

7. The following balances appeared in the books of Lucky Ltd. as on 1-4-2022:

   (i) 10 % Debentures ₹ 75,00,000

   (ii) Balance of DRR ₹ 2,50,000

   (iii) DRR Investment 11,25,000 represented by 10% ₹ 11,250 Secured Bonds of the Government of India of ₹ 100 each.

   Annual contribution to the DRR was made on 31st March every year. On 31-3-2023, balance at bank was ₹ 75,00,000 before receipt of interest. Interest on Debentures had already been paid. The investment were realized at par for redemption of debentures at a premium of 10% on the above date.

   Lucky Ltd. is an unlisted company (other than AIFI, Banking company, NBFC and HFC). You are required to prepare Debenture Redemption Reserve Account, Debenture Redemption Reserve Investment Account and Bank Account in the books of Lucky Ltd. for the year ended 31st March, 2023.

**Investment Accounts**

8. On 1st April, 2022, Alpha has 1,00,000 equity shares of Beta Ltd. at a book value of ₹ 15 per share (nominal value ₹ 10 each). He provides you the further information:

   (1) On 20th June, 2022 he purchased another 20,000 shares of Beta Ltd. at ₹ 16 per share.

   (2) On 1st August, 2022, Beta Ltd. issued one equity bonus share for every six shares held by the shareholders.

   (3) On 31st October, 2022, the directors of Beta Ltd. announced a right issue which entitles the holders to subscribe three shares for every seven shares at ₹ 15 per share. Shareholders can transfer their rights in full or in part.

   Alpha sold 1/3rd of entitlement to Umang for a consideration of ₹ 2 per share and subscribed the rest on 5th November, 2022.

   You are required to prepare Investment A/c in the books of Alpha for the year ending 31st March, 2023.

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

9. The premises of Animesh Ltd. caught fire on 22nd January 2023, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2022 the stock at cost was ₹ 13,27,200 as against ₹ 9,62,200 on 31st March, 2021.

   Purchases from 1st April, 2022 to the date of fire were ₹ 34,82,700 as against ₹ 45,25,000 for the full year 2021-22 and the corresponding sales figures were ₹ 49,17,000 and ₹ 52,00,000 respectively. You are given the following further information:

   (i) In July, 2022, goods costing ₹ 1,00,000 were given away for advertising purposes, no entries being made in the books.

   (ii) During 2022-23, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged ₹ 2,000 per week from 1st April, 2022 until the clerk was dismissed on 18th August, 2022.

   (iii) The rate of gross profit is constant.

   From the above information calculate the stock in hand on the date of fire.

**Hire Purchase Transactions**

10. The following particulars relate to hire purchase transactions:

    (a) X purchased three cars from Y on hire purchase basis, the cash price of each car being ₹ 1,00,000.

    (b) The hire purchaser charged depreciation @ 20% on diminishing balance method.

(c) Two cars were seized by hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.

(d) The hire vendor spent ₹ 5,000 on repairs of the cars and then sold them for a total amount of ₹ 85,000.

You are required to compute:

(i) Agreed value of two cars taken back by the hire vendor.

(ii) Book value of car left with the hire purchaser.

(iii) Profit or loss to hire purchaser on two cars taken back by their hire vendor.

(iv) Profit or loss of cars repossessed, when sold by the hire vendor.

**Departmental Accounts**

11. A firm has two departments--P and Q. Department Q makes furniture with the wood supplied by P department at its usual selling price. From the following figures prepare Departmental Trading and Profit and Loss Account for the year 2022:

| | P<br>₹ | Q<br>₹ |
|---|---|---|
| Opening Stock on 1st January, 2022 | 3,00,000 | 50,000 |
| Sales | 24,00,000 | 4,00,000 |
| Purchases | 20,00,000 | 15,000 |
| Supply to Q | 3,00,000 | -- |
| Selling expenses | 20,000 | 6,000 |
| Wages | 60,000 | 20,000 |
| Closing Stock on 31st December, 2022 | 2,00,000 | 60,000 |

The value of stocks in the furniture department consist of 75 % wood and 25 % other expenses. P Department earned Gross Profit at 15 % on sales in 2021. General expenses of the business as a whole came to ₹ 1,10,000. The firm adopts FIFO method for assigning costs to inventories.

**Branch Accounting**

12. Treadmill invoices goods to its branch at cost plus 20%. The branch sells goods for cash as well as on credit. The branch meets its expenses out of cash collected from its debtors and cash sales and remits the balance of cash to head office after withholding ₹ 20,000 necessary for meeting immediate requirements of cash. On 31st March, 2022 the assets at the branch were as follows:

| | ₹ ('000) |
|---|---|
| Cash in Hand | 20 |
| Trade Debtors | 768 |
| Stock, at Invoice Price | 2,160 |
| Furniture and Fittings | 1,000 |

During the accounting year ended 31st March, 2023 the invoice price of goods dispatched by the head office to the branch amounted to ₹ 2 crore 64 lakhs. Out of the goods received by it, the branch sent back to head office goods invoiced at ₹ 1,44,000. Other transactions at the branch during the year were as follows:

| | (₹ '000) |
|---|---|
| Cash Sales | 19,400 |
| Credit Sales | 6,280 |
| Cash collected by Branch from Credit Customers | 5,684 |
| Cash Discount allowed to Debtors | 116 |
| Returns by Customers direct to Head office *(at invoice price)* | 204 |
| Bad Debts written off | 74 |
| Expenses paid by Branch | 1,684 |

On 1st January, 2023 the branch purchased new furniture for ₹ 2 lakh for which payment was made by head office through a cheque.

On 31st March, 2023 branch expenses amounting to ₹ 12,000 were outstanding and cash in hand was again ₹ 20,000. Furniture is subject to depreciation @ 16% per annum on diminishing balance method.

Prepare Branch Account in the books of head office for the year ended 31st March, 2023.

**Accounts from Incomplete Records**

13. From the following information in respect of Mr. Aman, prepare Trading and Profit and Loss Account for the year ended 31st March, 2023 and a Balance Sheet as at that date:

| | | 31-03-2022 | 31-03-2023 |
|---|---|---|---|
| (1) | Liabilities and Assets | ₹ | ₹ |
| | Stock in trade | 3,20,000 | 2,80,000 |
| | Debtors for sales | 6,40,000 | ? |
| | Bills receivable | - | ? |
| | Creditors for purchases | 4,40,000 | 6,00,000 |
| | Furniture at written down value | 2,40,000 | 2,54,000 |
| | Expenses outstanding | 80,000 | 72,000 |

| | | | |
|---|---|---|---|
| | Prepaid expenses | 24,000 | 28,000 |
| | Cash on hand | 8,000 | 6,000 |
| | Bank Balance | 40,000 | 3,000 |
| (2) | Receipts and Payments during 2022-2023: | | |
| | Collections from Debtors | | |
| | (after allowing 2-1/2% discount) | | 23,40,000 |
| | Payments to Creditors | | |
| | (after receiving 2% discount) | | 15,68,000 |
| | Proceeds of Bills receivable discounted at 2%) | | 2,45,000 |
| | Proprietor's drawings | | 2,80,000 |
| | Purchase of furniture on 30.09.2022 | | 40,000 |
| | 12% Government securities purchased on 1-10-2022 | | 4,00,000 |
| | Expenses | | 7,00,000 |
| | Miscellaneous Income | | 20,000 |
| (3) | Sales are effected so as to realize a gross profit of 50% on the cost. | | |
| (4) | Capital introduced during the year by the proprietor by cheques was omitted to be recorded in the Cash Book, though the bank balance of 3,000 on 31st March, 2023 (as shown above), is after taking the same into account. | | |
| (5) | Purchases and Sales are made only on credit. | | |
| (6) | During the year, Bills Receivable of ₹ 4,00,000 were drawn on debtors. out of these, Bills amount to ₹ 80,000 were endorsed in favour of creditors. Out of this latter amount, a Bill for ₹ 16,000 was dishonoured by the debtor. | | |

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

14. X Ltd. has entered into a binding agreement with Alpha Ltd. to buy a custom-made machine ₹ 2,00,000. At the end of 2022-23, before delivery of the machine, X Ltd. had to change its method of production. The new method will not require the machine ordered and it will be scrapped after delivery. The expected scrap value is nil.

    You are required to advise the accounting treatment and give necessary journal entry in the year 2022-23.

**AS 1 Disclosure in Accounting Policy**

15. ABC Ltd. was making provision for non-moving inventories based on issues for the last 12 months up to 31.3.2022.

    The company wants to provide during the year ending 31.3.2023 based on technical evaluation:

| | |
|---|---|
| Total value of Inventory | ₹ 100 lakhs |
| Provision required based on 12 months issue | ₹3.5 lakhs |
| Provision required based on technical evaluation | ₹ 2.5 lakhs |

Does this amount to change in Accounting Policy?

Can the company change the method of provision?

**AS 2 Valuation of Inventories**

16. Alpha Ltd. sells flavored milk to customers; some of the customers consume the milk in the shop run by Alpha Limited. While leaving the shop, the consumers leave the empty bottles in the shop and the company takes possession of these empty bottles. The company has laid down a detailed internal record procedure for accounting for these empty bottles which are sold by the company by calling for tenders.

    Keeping this in view:

    Decide whether the inventory of empty bottles is an asset of the company;

    If so, whether the inventory of empty bottles existing as on the date of Balance Sheet is to be considered as inventories of the company and valued as per AS 2 or to be treated as scrap and shown at realizable value with corresponding credit to 'Other Income'?

**AS 10 Property, Plant & Equipment**

17. A Ltd. is installing a new plant at its production facility. It has incurred these costs:

| | | ₹ |
|---|---|---|
| 1. | Cost of the plant (cost per supplier's invoice plus taxes) | 25,00,000 |
| 2. | Initial delivery and handling costs | 2,00,000 |
| 3. | Cost of site preparation | 6,00,000 |
| 4. | Consultants used for advice on the acquisition of the plant | 7,00,000 |
| 5. | Interest charges paid to supplier of plant for deferred credit | 2,00,000 |
| 6. | Estimated dismantling costs to be incurred after 7 years | 3,00,000 |
| 7. | Operating losses before commercial production | 4,00,000 |

Advise A Ltd. on the costs that can be capitalized in accordance with AS 10.

**AS 11 the effects of changes in foreign exchange rates**

18. Explain "monetary item" as per Accounting Standard 11.

    How are foreign currency monetary items to be recognized at each Balance Sheet date?

    Classify the following as monetary or non-monetary item:

    Share Capital.

Trade Receivables.

Investments.

Fixed Assets.

**AS 12 Accounting for Government Grant**

19. S Ltd. has received a grant of 18 crores from the Government for setting up a factory in a backward area. Out of this grant, the company distributed 12 crores as dividend.

Also, S Ltd. received land free of cost from the State Government but it has not recorded it at all in the books as no money has been spent.

In the light of AS-12 examine, whether the treatment of both the grants is correct.

**AS 16 Borrowing Costs**

20. Raj & Co. has taken a loan of US$ 20,000 at the beginning of the financial year for a specific project at an interest rate of 6% per annum, payable annually. On the day of taking loan, the exchange rate between currencies was ₹ 48 per 1 US$. The exchange rate at the closing of the financial year was ₹ 50 per 1 US$. The corresponding amount could have been borrowed by the company in Indian Rupee at an interest rate of 11% per annum.

Determine the treatment of borrowing cost in the books of accounts.

## SUGGESTED ANSWERS

**1.** **Ambience Ltd.**

**Balance Sheet as on 31st March, 2023**

| | | Particulars | Notes | ₹ |
|---|---|---|---|---|
| | | **Equity and Liabilities** | | |
| **1** | | **Shareholders' funds** | | |
| | a | Share capital | 1 | 24,97,500 |
| | b | Reserves and Surplus | 2 | 7,16,750 |
| **2** | | **Non-current liabilities** | | |
| | | Long-term borrowings | 3 | 6,58,750 |
| **3** | | **Current liabilities** | | |
| | a | Trade Payables | | 5,00,000 |
| | b | Other current liabilities | 4 | 18,750 |
| | c | Short-term provisions | 5 | 3,20,000 |
| | | **Total** | | **47,11,750** |

| | | | | |
|---|---|---|---|---|
| | | **Assets** | | |
| **1** | | **Non-current assets** | | |
| | | Property, Plant and Equipment | 6 | 28,12,500 |
| **2** | | **Current assets** | | |
| | a | Inventories | 7 | 6,25,000 |
| | b | Trade receivables | 8 | 4,75,000 |
| | c | Cash and cash equivalents | 9 | 6,92,500 |
| | d | Short-term loans and advances | | 1,06,750 |
| | | **Total** | | **47,11,750** |
| **Contingent Liabilities and Commitments (to the extent not provided for)**<br>Contingent Liabilities:<br>Bills discounted but not matured | | | | 1,60,000 |

**Notes to accounts**

| | | | ₹ |
|---|---|---|---|
| **1** | **Share Capital** | | |
| | Equity share capital | | |
| | Issued & subscribed & called up & paid-up | | |
| | 25,000 Equity Shares of ₹ 100 each | | |
| | (of the above 5,000 shares have been issued for consideration other than cash) | 25,00,000 | |
| | *Less:* Calls in arrears | (2,500) | 24,97,500 |
| | **Total** | | **24,97,500** |
| **2** | **Reserves and Surplus** | | |
| | General Reserve | | 5,25,000 |
| | Surplus (Profit & Loss A/c 2,16,750 | | |
| | Less: provision for debtors 25,000 | | 1,91,750 |
| | **Total** | | **7,16,750** |
| **3** | **Long-term borrowings** | | |
| | Secured Term Loan | | |
| | State Financial Corporation Loan (3,75,000-18,750) (Secured by hypothecation of Plant and Machinery) | | 3,56,250 |
| | Unsecured Loan | | 3,02,500 |
| | **Total** | | **6,58,750** |

| | | | |
|---|---|---|---|
| 4 | **Other current liabilities** | | |
| | Interest accrued but not due on loans (SFC) | | 18,750 |
| 5 | **Short-term provisions** | | |
| | Provision for taxation | | 3,20,000 |
| 6 | **Property, Plant and Equipment** | | |
| | Land and Building | 15,00,000 | |
| | *Less:* Depreciation | (1,25,000) | 13,75,000 |
| | Plant & Machinery | 17,50,000 | |
| | *Less:* Depreciation | (4,37,500) | 13,12,500 |
| | Furniture & Fittings | 1,56,250 | |
| | *Less:* Depreciation | (31,250) | 1,25,000 |
| | **Total** | | **28,12,500** |
| 7 | **Inventories** | | |
| | Raw Materials | | 1,25,000 |
| | Finished goods | | 5,00,000 |
| | **Total** | | **6,25,000** |
| 8 | **Trade receivables** | | |
| | Outstanding for a period exceeding six months | | 1,30,000 |
| | Other Amounts | | 3,70,000 |
| | Less: Provision for doubtful debts | | (25,000) |
| | **Total** | | **4,75,000** |
| 9 | **Cash and cash equivalents** | | |
| | Cash at bank | | |
| | with Scheduled Banks | 6,12,500 | |
| | with others (Global Bank Ltd.) | 5,000 | 6,17,500 |
| | Cash in hand | | 75,000 |
| | **Total** | | **6,92,500** |

**2. Cash flow statement (using direct method) for the year ended 31st March, 2023**

| | *(₹ in crores)* | *(₹ in crores)* |
|---|---|---|
| **Cash flow from operating activities** | | |
| Cash sales | 524 | |
| Cash collected from credit customers | 268 | |

| | | |
|---|---|---|
| *Less:* Cash paid to suppliers for goods & services and to employees (Refer Working Note) | (502) | |
| Cash from operations | 290 | |
| *Less:* Income tax paid | (52) | |
| Net cash from operating activities | | 238 |
| **Cash flow from investing activities** | | |
| Net Payment for purchase of Machine (50 – 30) | (20) | |
| Proceeds from sale of investments | 32 | |
| Net cash from investing activities | | 12 |
| **Cash flow from financing activities** | | |
| Redemption of Preference shares | (64) | |
| Proceeds from issue of Equity shares | 48 | |
| Debenture interest paid | (4) | |
| Dividend Paid | (30) | |
| Net cash used in financing activities | | (50) |
| Net increase in cash and cash equivalents | | 200 |
| *Add:* Cash and cash equivalents as on 1.04.2022 | | 4 |
| Cash and cash equivalents as on 31.3.2023 | | 204 |

**Working Note:**

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

| | *(₹ in crores)* |
|---|---|
| Opening Balance in creditors Account | 168 |
| *Add:* Purchases (440x .8) | 352 |
| Total | 520 |
| *Less:* Closing balance in Creditors Account | 184 |
| Cash paid to suppliers of goods | 336 |
| *Add:* Cash purchases (440x .2) | 88 |
| Total cash paid for purchases to suppliers (a) | 424 |

| | |
|---|---|
| *Add:* Cash paid to suppliers of other consumables and services (b) | 38 |
| *Add:* Payment to employees (c) | 40 |
| Total cash paid to suppliers of goods & services and to employees [(a)+ (b) + (c)] | 502 |

3. **Shaurya (P) Limited**

**Profit and Loss Account**

**for 15 months ended 31st March, 2023**

| | *Pre. inc. (5 months) (₹)* | *Post inc. (10 months) (₹)* | | *Pre. inc. (5 months) (₹)* | *Post inc. (10 months) (₹)* |
|---|---|---|---|---|---|
| To Cost of sales | 90,000 | 5,04,000 | By Sales | 1,50,000 | 8,40,000 |
| To Gross profit | 60,000 | 3,36,000 | (W.N.1) | | |
| | 1,50,000 | 8,40,000 | | 1,50,000 | 8,40,000 |
| To Discount to dealers | 3,500 | 19,600 | By Gross profit | 60,000 | 3,36,000 |
| To Directors' remuneration | - | 30,000 | By Loss | 375 | |
| To Salaries (W.N.2) | 9,375 | 35,625 | | | |
| To Rent (W.N.3) | 7,500 | 60,000 | | | |
| To Interest (W.N.4) | 15,000 | 37,500 | | | |
| To Depreciation | 5,000 | 10,000 | | | |
| To Office expenses | 17,500 | 35,000 | | | |
| To Preliminary expenses | - | 7,500 | | | |
| To Sales promotion expenses | 2,500 | 14,000 | | | |
| To Net profit | - | 86,775 | | | |
| | 60,375 | 3,36,000 | | 60,375 | 3,36,000 |

**Working Notes:**

1. **Calculation of sales ratio:**

Let the average sales per month in pre-incorporation period be x

| | | |
|---|---|---|
| Average Sales (Pre-incorporation) | = x X 5 = | 5x |
| Sales (Post incorporation) from June to December, 2022 | = 2½ x X 7 = | 17.5x |
| From January to March, 2023 | = 3½ x X 3 = | 10.5x |
| Total Sales (Post incorporation) | | 28x |

Sales ratio of pre-incorporation & post incorporation is 5x : 28x

2. **Calculation of ratio for salaries**

Let the average salary be x

| | | |
|---|---|---|
| Pre-incorporation salary | = x X 5 | = 5x |
| Post incorporation salary | | |
| June, 2022 | = | x |
| July 22 to March, 2023 = | x X 9 X 2 = | 18x |
| | | 19x |

Ratio is 5 : 19

3. **Calculation of Rent**

| | | ₹ |
|---|---|---|
| Total rent | | 67,500 |
| *Less*: Additional rent for 9 months @ ₹ 5,000 p.m. | | 45,000 |
| Rent of old premises apportioned in time ratio | | 22,500 |
| Apportionment | Pre Inc. | Post Inc. |
| Old premises rent | 7,500 | 15,000 |
| Additional Rent | | 45,000 |
| | 7,500 | 60,000 |

4. **Calculation of interest**

Pre-incorporation period from January, 2022 to May, 2022

$\frac{3,00,000 \times 12 \times 5}{100 \times 12}$ ₹ 15,000

Post incorporation period from June, 2022 to March, 2023

$\frac{4,50,000 \times 10 \times 10}{100 \times 12}$ ₹ 37,500

₹ 52,500

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

| Date | Particulars | | ₹ | ₹ |
|---|---|---|---|---|
| 1-4-2023 | Equity share final call A/c | Dr. | 10,80,000 | |
| | To Equity share capital A/c | | | 10,80,000 |
| | (For final calls of ₹ 2 per share on 5,40,000 equity shares due as per Board's Resolution dated….) | | | |
| 20-4-2023 | Bank A/c | Dr. | 10,80,000 | |
| | To Equity share final call A/c | | | 10,80,000 |
| | (For final call money on 5,40,000 equity shares received) | | | |
| | Capital redemption reserve A/c | Dr. | 2,40,000 | |
| | Securities Premium A/c | Dr. | 1,50,000 | |
| | General Reserve A/c | Dr. | 7,20,000 | |
| | Profit and Loss A/c (b.f.) | Dr. | 2,40,000 | |
| | To Bonus to shareholders A/c | | | 13,50,000 |
| | (For making provision for bonus issue of one share for every four shares held) | | | |
| | Bonus to shareholders A/c | Dr. | 13,50,000 | |
| | To Equity share capital A/c | | | 13,50,000 |
| | (For issue of bonus shares) | | | |

**Extract of Balance Sheet as at $30^{th}$ April,** 2023 **(after bonus issue)**

| Particulars | ₹ |
|---|---|
| **Share capital** | |
| Authorised Capital | |
| 60,000 12% Preference shares of ₹ 10 each | 6,00,000 |
| 8,00,000 Equity shares of ₹ 10 each | 80,00,000 |
| Issued and subscribed capital | |
| 48,000 12% Preference shares of ₹10 each, fully paid | 4,80,000 |
| 6,75,000 Equity shares of ₹ 10 each, fully paid | 67,50,000 |

| | |
|---|---|
| (Out of the above, 1,35,000 equity shares @ ₹ 10 each were issued by way of bonus shares) | |
| Reserves and surplus | |
| Profit and Loss Account | 9,60,000 |

5. **Ex-right value of the shares** =

(Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + Rights No. of shares) = (₹ 180 x 2 Shares + ₹ 90 x 1 Share) / (2 + 1) Shares

= ₹ 450 / 3 shares = ₹ 150 per share.

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

= ₹ 180 – ₹ 150 = ₹ 30 per share.

Hence, any one desirous of having a confirmed allotment of one share from the company at ₹ 90 will have to pay ₹ 60 (2 shares x ₹ 30) to an existing shareholder holding 2 shares and willing to renounce his right of buying one share in favour of that person.

6. **Journal Entries**

| Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|
| Bank A/c | Dr. | 50,000 | |
| To Equity Share Capital A/c | | | 50,000 |
| (Being the issue of 5,000 Equity Shares of ₹ 10 each at par as per Board's Resolution No…..dated…….) | | | |
| 8% Redeemable Preference Share Capital A/c | Dr. | 2,00,000 | |
| Premium on Redemption of Preference Shares A/c | Dr. | 20,000 | |
| To Preference Shareholders A/c | | | 2,20,000 |
| (Being the amount paid on redemption transferred to Preference Shareholders Account) | | | |
| Preference Shareholders A/c | Dr. | 2,20,000 | |
| To Bank A/c | | | 2,20,000 |
| (Being the amount paid on redemption of preference shares) | | | |
| Profit & Loss A/c | Dr. | 20,000 | |
| To Premium on Redemption of Preference Shares A/c | | | 20,000 |
| (Being the premium payable on redemption is adjusted against Profit & Loss Account) | | | |

| | | | |
|---|---|---|---|
| General Reserve A/c | Dr. | 1,20,000 | |
| Profit & Loss A/c | Dr. | 20,000 | |
| Investment Allowance Reserve A/c | Dr. | 10,000 | |
| To Capital Redemption Reserve A/c | | | 1,50,000 |
| (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act) | | | |

**Balance Sheet as on .........[Extracts]**

| | | Particulars | Notes No. | ₹ |
|---|---|---|---|---|
| | | **EQUITY AND LIABILITIES** | | |
| **1.** | **Shareholders' funds** | | | |
| | a | Share capital | 1 | 4,50,000 |
| | b | Reserves and Surplus | 2 | 2,00,000 |
| | **ASSETS** | | | |
| **2.** | **Current Assets** | | | |
| | | Cash and cash equivalents (1,96,000 + 50,000 – 2,20,000) | | 26,000 |

**Notes to accounts**

| | |
|---|---|
| **1. Share Capital** | |
| 45,000 Equity shares (40,000 + 5,000) of ₹10 each fully paid up | 4,50,000 |
| **2. Reserves and Surplus** | |
| General Reserve | 40,000 |
| Capital Redemption Reserve | 1,50,000 |
| Investment Allowance Reserve | 10,000 |
| | 2,00,000 |

**Working Note:**

No of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed ₹ 2,00,000

Less: Profit available for distribution as dividend:

General Reserve: ₹ (1,60,000-40,000) ₹ 1,20,000

Profit and Loss (40,000 – 20,000 set aside for

adjusting premium payable on redemption of
preference shares) ₹20,000
Investment Allowance Reserve: (₹ 20,000-10,000) ₹ 10,000 (₹ 1,50,000)
₹ 50,000

Therefore, No. of shares to be issued = 50,000/₹10 = 5,000 shares.

7. **Debenture Redemption Reserve Account**

| *Date* | *Particulars* | ₹ | *Date* | *Particulars* | ₹ |
|---|---|---|---|---|---|
| 31st March, 2023 | To General reserve A/c note 1 (Refer Note 1) | 7,50,000 | 1st April, 2022 | By Balance b/d | 2,50,000 |
| | | | 1st April, 2022 | By Profit and loss A/c (Refer Note 1) | 5,00,000 |
| | | 7,50,000 | | | 7,50,000 |

**10% Secured Bonds of Govt. (DRR Investment) A/c**

| | | ₹ | | | ₹ |
|---|---|---|---|---|---|
| 1st April, 2022 | To Balance b/d | 11,25,000 | 31st March, 2023 | By Bank A/c | 11,25,000 |
| | | 11,25,000 | | | 11,25,000 |

**Bank Account**

| | | ₹ | | | ₹ |
|---|---|---|---|---|---|
| 31st March, 2023 | To Balance b/d | 75,00,000 | 31st March, 2023 | By Debenture holders A/c (110% of 75,00,000) | 82,50,000 |
| | To Interest on DRR Investment (11,25,000x10%) | 1,12,500 | | | |
| | To DRR Investment A/c | 11,25,000 | | By Balance c/d | 4,87,500 |
| | | 87,37,500 | | | 87,37,500 |

**Working note –**

Calculation of DRR before redemption = 10% of ₹ 75,00,000 = 7,50,000

Available balance = ₹ 2,50,000

DRR required =7,50,000 – 2,50,000 = ₹ 5,00,000.

Investment Accounts

**8.** **In the books of Alpha**

**Investment Account**
**(Equity shares in Beta Ltd.)**

| Date | Particulars | No. of shares | Amount (₹) | Date | Particulars | No. of shares | Amount (₹) |
|---|---|---|---|---|---|---|---|
| 1.4.2022 | To Balance b/d | 1,00,000 | 15,00,000 | 31.3.2023 | By Balance c/d (Bal. fig.) | 1,80,000 | 24,20,000 |
| 20.6.2022 | To Bank A/c | 20,000 | 3,20,000 | | | | |
| 1.8.2022 | To Bonus issue (W.N.1) | 20,000 | - | | | | |
| 5.11.2022 | To Bank A/c (right shares) (W.N.4) | 40,000 | 6,00,000 | | | | |
| | | 1,80,000 | 24,20,000 | | | 1,80,000 | 24,20,000 |

**Working Notes:**

(1) Bonus shares $= \frac{1,00,000 + 20,000}{6}$ = 20,000 shares

(2) Right shares $= \frac{1,00,000 + 20,000 + 20,000}{7} \times 3$ = 60,000 shares

(3) Sale of rights $= 60,000\ shares \times \frac{1}{3} \times$ ₹ 2= ₹ 40,000 to be credited to statement of profit and loss

(4) Rights subscribed = $60,000\ shares \times \frac{2}{3} \times$ \`15 = ₹ 6,00,000

**9.** **Ascertainment of rate of gross profit for the year 2021-22**

**Trading A/c for the year ended 31-3-2022**

| | ₹ | | ₹ |
|---|---|---|---|
| To Opening stock | 9,62,200 | By Sales | 52,00,000 |
| To Purchases | 45,25,000 | By Closing stock | 13,27,200 |
| To Gross profit | 10,40,000 | | |
| | 65,27,200 | | 65,27,200 |

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

$= \frac{10,40,000}{52,00,000} \times 100 = 20\%$

**Memorandum Trading A/c for the period from 1-4-2022 to 22-01-2023**

| | ₹ | ₹ | | ₹ | ₹ |
|---|---|---|---|---|---|
| To Opening stock | | 13,27,200 | By Sales | 49,17,000 | |
| To Purchases<br>*Less*: Goods used for | 34,82,700 | | *Add*: Unrecorded cash | 40,000 | 49,57,000 |
| advertisement | (1,00,000) | 33,82,700 | By Closing stock | | 7,44,300 |
| To Gross profit<br>(20% of ₹ 49,57,000) | | 9,91,400 | | | |
| | | 57,01,300 | | | 57,01,300 |

**Estimated stock in hand on the date of fire was ₹ 7,44,300.**

**Working Note:**

**Cash sales defalcated by the Accountant:**

Defalcation period = 1.4.2022 to 18.8.2023 = 140 days

Since, 140 days / 7 = 20 weeks

Therefore, amount of defalcation = 20 weeks × ₹ 2,000 = ₹ 40,000.

**10.**

| | | ₹ |
|---|---|---|
| **(i)** | **Agreed value of two cars taken back by the hire vendor** | |
| | Price of two cars = ₹ 1,00,000 x 2 | 2,00,000 |
| | *Less:* Depreciation for the first year @ 30% | 60,000 |
| | | 1,40,000 |
| | Less: Depreciation for the second year = ₹ 1, 40,000 x $\frac{30}{100}$ | 42,000 |
| | Agreed value of two cars taken back by the hire vendor | 98,000 |
| **(ii)** | **Book value of car left with the hire purchaser** | |
| | Cash purchase price of one car | 1,00,000 |
| | *Less:* Depreciation on ₹ 1,00,000 @20% for the first year | 20,000 |
| | Written drown value at the end of first year | 80,000 |
| | *Less:* Depreciation on ₹ 80,000 @ 20% for the second year | 16,000 |
| | Book value of car left with the hire purchaser | 64,000 |

| | | |
|---|---|---|
| **(iii)** | **Profit or loss to hire purchaser on two cars taken back by their hire vendor.** | |
| | Book value of one car as calculated in working note (ii) above | 64,000 |
| | Book value of Two cars = ₹ 64,000 x 2 | 1,28,000 |
| | Value at which the two cars were taken back, calculated in working note (i) above | 98,000 |
| | Hence, loss on cars taken back = ₹ 1,28,000 – ₹ 98,000 = | ₹ 30,000 |
| **(iv)** | **Profit or loss of cars repossessed, when sold by the hire vendor.** | |
| | Sale proceeds of cars repossessed | 85,000 |
| | Less: Value at which plant were taken back ₹ 98,000 | |
| | Repair ₹ 5,000 | 1,03,000 |
| | Loss on resale | 18,000 |

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

| Particulars | Dept. P | Dept. Q | Particulars | Dept. P | Dept. Q |
|---|---|---|---|---|---|
| To Opening stock | 3,00,000 | 50,000 | By Sales | 24,00,000 | 4,00,000 |
| To Purchase | 20,00,000 | 15,000 | By Transfer to Q | 3,00,000 | |
| To Wages | 60,000 | 20,000 | By Closing stock | 2,00,000 | 60,000 |
| To Transfer from P | - | 3,00,000 | | | |
| To Gross profit | 5,40,000 | 75,000 | | | |
| | 29,00,000 | 4,60,000 | | 29,00,000 | 4,60,000 |
| To Selling expenses | 20,000 | 6,000 | By Gross profit | 5,40,000 | 75,000 |
| To Net Profit | 5,20,000 | 69,000 | | | |
| | 5,40,000 | 75,000 | | 5,40,000 | 75,000 |

**General Profit & Loss Account**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To General Expenses | 1,10,000 | By Net Profit from | |
| To Stock Reserve (WN2) | 9,000 | P | 5,20,000 |
| To Net Profit | 4,75,625 | Q | 69,000 |
| | | By Stock reserve (opening WN-1) | 5,625 |
| | 5,94,625 | | 5,94,625 |

**Working Notes**

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

   50,000 x 75% wood x 15% = ₹ 5,625

2. **Calculation of closing stock reserve**

   Gross profit Rate of Department P - for 2022

   5,40,000 / (24,00,000 + 3,00,000) x 100 = 20%

   60,000x 75% x 20% = ₹ 9,000

**12. In the Head Office Books**

**Branch Account**

**for the year ended 31st March, 2023**

| | ₹ '000 | | | ₹'000 |
|---|---|---|---|---|
| To Balance b/d | | By | Balance b/d | |
| Cash in hand | 20 | | Stock reserve ₹ 2,160 × $\frac{1}{6}$ | 360 |
| Trade debtors | 768 | | | |
| Stock | 2,160 | By | Goods sent to branch A/c (Returns to H.O.) {144 + [204 -34 (loading]} | 314 |
| Furniture and fittings | 1,000 | | | |
| To Goods sent to branch A/c | 26,400 | By | Goods sent to branch A/c (Loading | 4,376 |
| To Bank A/c (Payment for furniture) | 200 | | on net goods sent to branch – (26,256 x 1/6) | |
| To Balance c/d<br>Stock reserve (2,736 x 1/6) | 456 | By | Bank A/c (Remittance from branch to H.O.) | 23,400 |
| To Outstanding expenses | 12 | By | Balance c/d | |
| To Profit and loss A/c (Net Profit) | 2,192 | | Cash in hand | 20 |
| | | | Trade debtors | 970 |
| | | | Stock | 2,736 |
| | | | Furniture and fittings | 1,032 |
| | 33,208 | | | 33,208 |

**Working Notes:**

1. **Invoice price and cost**

   Let cost be 100

| | |
|---|---|
| So, invoice price | 120 |
| Loading | 20 |
| Loading: Invoice price | = 20 : 120 = 1 : 6 |

**2. Invoice price of closing stock in branch**

**Branch Stock Account**

| | ₹ '000 | | ₹ '000 |
|---|---|---|---|
| To Balance b/d | 2,160 | By Goods sent to branch | 144 |
| To Goods sent to branch | 26,400 | By Branch Cash | 19,400 |
| | | By Branch debtors | 6,280 |
| | | By Balance c/d (Bal fig) | 2,736 |
| | 28,560 | | 28,560 |

**Note:** adjustment regarding returns by Customers direct to Head office has not been made in branch stock account.

**3. Closing balance of branch debtors**

**Branch Debtors Account**

| | ₹ '000 | | ₹ '000 |
|---|---|---|---|
| To Balance b/d | 768 | By Branch cash | 5,684 |
| To Branch stock | 6,280 | By Branch expenses discount | 116 |
| | | By Goods sent to Branch (Returns) | 204 |
| | | By Branch expenses (Bad debts) | 74 |
| | | By Balance c/d (Bal fig) | 970 |
| | 7,048 | | 7,048 |

**4. Closing balance of furniture and fittings**

**Branch Furniture and Fittings Account**

| | ₹ '000 | | ₹ '000 |
|---|---|---|---|
| To Balance b/d | 1,000 | By Depreciation (160+8) | 168 |
| To Bank | 200 | By Balance c/d | 1,032 |
| | 1,200 | | 1,200 |

**Note:** Since the new furniture was purchased on 1st Jan 2023 depreciation will be for 3 months.

5. **Remittance by branch to head office**

**Branch Cash Account**

| | ₹ '000 | | ₹ '000 |
|---|---|---|---|
| To Balance b/d | 20 | By Branch expenses | 1,684 |
| To Branch stock | 19,400 | By Remittances to H.O. | 23,400 |
| To Branch debtors | 5,684 | By Balance b/d | 20 |
| | 25,104 | | 25,104 |

13 **Trading and Profit and Loss Account of Mr. Aman**

**for the year ended 31st March, 2023**

| | | Amount | | | Amount |
|---|---|---|---|---|---|
| | | ₹ | | | ₹ |
| To | Opening stock | 3,20,000 | By | Sales | 27,96,000 |
| To | Purchases (W.N.5) | 18,24,000 | By | Closing stock | 2,80,000 |
| To | Gross profit c/d (Bal. fig.) | 9,32,000 | | | |
| | | 30,76,000 | | | 30,76,000 |
| To | Expenses (W.N.7) | 6,88,000 | By | Gross profit b/d | 9,32,000 |
| To | Discount allowed (W.N.9) | 65,000 | By | Discount received (W.N.10) | 32,000 |
| To | Depreciation on furniture (W.N.1) | 26,000 | By | Interest on Govt. Securities (W.N.8) | 24,000 |
| To | Net profit | 2,29,000 | By | Miscellaneous income | 20,000 |
| | | 10,08,000 | | | 10,08,000 |

**Balance Sheet of Mr. Aman as on 31st March, 2023**

| *Liabilities* | | *Amount* ₹ | *Assets* | *Amount* ₹ |
|---|---|---|---|---|
| Capital (W.N.6) | 7,52,000 | | Furniture | 2,54,000 |
| *Add*: Additional capital (W.N.2) | 3,44,000 | | 12% Government Securities Accrued interest on Govt. | 4,00,000 |
| *Add:* Profit during the year | 2,29,000 | | securities (W.N.8) | 24,000 |
| | 13,25,000 | | Debtors (W.N.3) | 6,52,000 |
| *Less:* Drawings | (2,80,000) | 10,45,000 | Bills Receivable (W.N.4) | 70,000 |

| | | | | |
|---|---|---|---|---|
| Creditors | | 6,00,000 | Stock | 2,80,000 |
| Outstanding expenses | | 72,000 | Prepaid expenses | 28,000 |
| | | | Cash on hand | 6,000 |
| | | | Bank balance | 3,000 |
| | | 17,17,000 | | 17,17,000 |

**Working Notes:**

1. **Furniture account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Balance b/d | 2,40,000 | By Depreciation (bal.fig.) | 26,000 |
| To Bank | 40,000 | By Balance c/d | 2,54,000 |
| | 2,80,000 | | 2,80,000 |

2. **Cash and Bank account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Balance b/d | | By Creditors | 15,68,000 |
| Cash | 8,000 | By Drawings | 2,80,000 |
| Bank | 40,000 | By Furniture | 40,000 |
| To Debtors | 23,40,000 | By 12% Govt. securities | 4,00,000 |
| To Bill Receivable | 2,45,000 | By Expenses | 7,00,000 |
| To Miscellaneous income | 20,000 | By Balance c/d | |
| To Additional Capital (bal. fig.) | 3,44,000 | Cash | 6,000 |
| | | Bank | 3,000 |
| | 29,97,000 | | 29,97,000 |

3. **Debtors account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Balance b/d | 6,40,000 | By Cash and Bank | 23,40,000 |
| To Creditors (Bills receivable dishonoured) | 16,000 | By Discount | 60,000 |
| To Sales (W.N.11) | 27,96,000 | By Bills Receivable | 4,00,000 |
| | | By Balance c/d (bal.fig.) | 6,52,000 |
| | 34,52,000 | | 34,52,000 |

4. **Bills Receivable account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Debtors | 4,00,000 | By Bank | 2,45,000 |
| | | By Discount | 5,000 |
| | | By Creditors | 80,000 |
| | | By Balance c/d (bal. fig.) | 70,000 |
| | 4,00,000 | | 4,00,000 |

5. **Creditors account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Bank | 15,68,000 | By Balance b/d | 4,40,000 |
| To Discount | 32,000 | By Debtors (Bills receivable dishonoured) | 16,000 |
| To Bills receivable | 80,000 | By Purchases (bal. fig.) | 18,24,000 |
| To Balance c/d | 6,00,000 | | |
| | 22,80,000 | | 22,80,000 |

6. **Balance Sheet as on 1st April, 2022**

| ***Liabilities*** | ₹ | *Assets* | ₹ |
|---|---|---|---|
| Creditors | 4,40,000 | Furniture | 2,40,000 |
| Outstanding expenses | 80,000 | Debtors | 6,40,000 |
| Capital (balancing figure) | 7,52,000 | Stock | 3,20,000 |
| | | Prepaid expenses | 24,000 |
| | | Cash | 8,000 |
| | | Bank balance | 40,000 |
| | 12,72,000 | | 12,72,000 |

7. **Expenses incurred during the year**

| | | ₹ |
|---|---|---|
| Expenses paid during the year | | 7,00,000 |
| *Add:* Outstanding expenses as on 31.3.2023 | 72,000 | |
| Prepaid expenses as on 31.3.2022 | 24,000 | 96,000 |
| | | 7,96,000 |
| Less: Outstanding expenses as on 31.3.2022 | 80,000 | |
| Prepaid expenses as on 31.3.2023 | 28,000 | (1,08,000) |
| Expenses incurred during the year | | 6,88,000 |

**8. Interest on Government securities**

4,00,000 x 12% x 6/12= ₹ 24,000

Interest on Government securities receivables for 6 months = ₹ 24,000

**9. Discount allowed**

| | | ₹ |
|---|---|---|
| Discount to Debtors | 23,40,000/97.5% x 2.5% | 60,000 |
| Discount on Bills Receivable | 2,45,000/98% x 2% | 5,000 |
| | | 65,000 |

**10. Discount received**

| | | ₹ |
|---|---|---|
| Discount to Creditors | 15,68,000/98% x 2% | 32,000 |

**11. Credit sales**

Cost of Goods sold = Opening stock + Net purchases – Closing stock

= ₹ 3,20,000 + ₹ 18,24,000 – ₹ 2,80,000

= ₹ 18,64,000

**Sales price = ₹ 18,64,000 + 50% of 18,64,000 = ₹ 27,96,000**

**14.** A liability is recognised when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured. In the given case, X Ltd. should recognise a liability of ₹ 2,00,000 to Alpha Ltd..

When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognised as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognised as an expense.

**Journal entry**

| | | | |
|---|---|---|---|
| Loss on change in production method | Dr. | 2,00,000 | |
| To Alpha Ltd. | | | 2,00,000 |
| (Loss due to change in production method) | | | |
| Profit and loss A/c | Dr. | 2,00,000 | |
| To Loss on change in production method | | | 2,00,000 |
| (Loss transferred to profit and loss account) | | | |

**15.** Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made.

The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy.

In the above case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from ₹ 3.5 lakhs to ₹ 2.5 lakhs is also not material.

The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2022-23:

"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year-end net assets would have been lower by ₹ 1 lakh."

**16.** As per the 'Framework on Presentation and Preparation of Financial Statements':

Tangible objects or intangible rights carrying probable future benefits, owned by an enterprise are called assets.

Alpha Ltd. sells these empty bottles by calling tenders. It means further benefits are accrued on its sale.

Therefore, empty bottles are assets for the company.

As per AS 2, inventories are assets held for sale in the ordinary course of business.

Inventory of empty bottles existing on the Balance Sheet date is the inventory and Alpha Ltd. has detailed controlled recording and accounting procedure which duly signify its materiality.

Thus, inventory of empty bottles cannot be considered as scrap and should be valued as inventory in accordance with AS 2.

**17.** Costs which will be capitalized:

| | | ₹ |
|---|---|---|
| 1. | Cost of the plant | 25,00,000 |
| 2. | Initial delivery and handling costs | 2,00,000 |
| 3. | Cost of site preparation | 6,00,000 |
| 4. | Consultants' fees | 7,00,000 |

| | | |
|---|---|---|
| 5. | Estimated dismantling costs to be incurred after 7 years | 3,00,000 |
| | Total | 43,00,000 |

**Note:** Interest charges paid on to the supplier for deferred credit of the plant (not a qualifying asset) of ₹ 2,00,000 and operating losses before commercial production amounting to ₹ 4,00,000 are not regarded as directly attributable costs and thus cannot be capitalized.

They should be written off to the Profit and Loss in the period they are incurred.

**18.** As per AS 11, Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.

Foreign currency monetary items should be reported using the closing rate at each balance sheet date. However, in certain circumstances, the closing rate may not reflect with reasonable accuracy the amount in reporting currency that is likely to be realized from, or required to disburse, a foreign currency monetary item at the balance sheet date.

In such circumstances, the relevant monetary item should be reported in the reporting currency at the amount which is likely to be realized from or required to disburse, such item at the balance sheet date.

Classification of items as monetary or non-monetary item:

| | |
|---|---|
| Share capital | Non-monetary |
| Trade receivables | Monetary |
| Investments | Non-monetary |
| Fixed Assets (PPE) | Non-monetary |

**19.** As per AS 12, when government grant is received for a specific purpose, it should be utilized for the same.

Thus, the grant received for setting up a factory is not available for distribution of dividend.

As per AS-12, if an asset is acquired free of cost it is to be recorded at a nominal value.

Thus, even if the company has not spent money for the acquisition of land, land should be recorded in the books of accounts at a nominal value.

The treatment of both the elements of the grant is incorrect as per AS 12.

**20.** Interest on Foreign Currency Loan:

= US $ 20,000 x₹ 50 per US $ x 6% = ₹ 60,000.

Foreign Exchange Loss on Foreign currency loan:

= US$ 20,000 x₹ (50-48) = ₹ 40,000.

Interest that would have been if the loan was taken in Indian currency i.e. local currency:

= US $ 20,000 x 48 x 11% = ₹1,05,600

Difference between interest on local currency borrowing and foreign currency borrowing:

= ₹ 1,05,600 - ₹ 60,000 = ₹45,600

The entire exchange difference of 40,000 would be considered as borrowing costs.

The total borrowing cost would be ₹ 100000 (₹ 60000+ ₹ 40000).