PAPER – 1: ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY

A. Applicable for May, 2022 examination

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

In exercise of the powers conferred by sub-section (1) of section 467 of the Companies Act, 2013 (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.

II. 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 May, 2022 Examination which incorporates the above amendments. The students who have editions prior to September, 2021 may refer the uploaded chapters for the revised content.

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B. Not applicable for May, 2022 examination

Non-Applicability of Ind AS for May, 2022 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May, 2022 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Preparation of Statement of Profit and Loss and Balance Sheet

1. (a) Following is the trial balance of Delta limited as on 31.3.2021.

(Figures in ₹ '000)

Particulars	Debit	Particulars	Credit
Land at cost	800	Equity share capital (shares of ₹ 10 each)	500
Calls in arrears	5	10% Debentures	300
Cash in hand	2	General reserve	150
Plant & Machinery at cost	824	Profit & Loss A/c (balance on 1.4.20)	75
Trade receivables	120	Securities premium	40
Inventories (31-3-21)	96	Sales	1200
Cash at Bank	28	Trade payables	30
Adjusted Purchases	400	Provision for depreciation	150
Factory expenses	80	Suspense Account	10
Administrative expenses	45		
Selling expenses	25		
Debenture Interest	30		
	2455		2455

Additional Information :

(i) The authorized share capital of the company is 80,000 shares of ₹ 10 each.

(ii) The company revalued the land at ₹ 9,60,000.

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(iii) Equity share capital includes shares of ₹ 50,000 issued for consideration other than cash.

(iv) Suspense account of ₹ 10,000 represents cash received from the sale of some of the machinery on 1.4.2020. The cost of the machinery was ₹ 24,000 and the accumulated depreciation thereon being ₹ 20,000. The balance of Plant & Machinery given in trial balance is before adjustment of sale of machinery.

(v) Depreciation is to be provided on plant and machinery at 10% on cost.

(vi) Balance at bank includes ₹ 5,000 with ABC Bank Ltd., which is not a Scheduled Bank.

(vii) Make provision for income tax @30%.

(viii) Trade receivables of ₹ 50,000 are due for more than six months.

You are required to prepare Delta Limited's Balance Sheet as at 31.3.2021 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.2021 as per Schedule III. Ignore previous year's figures & taxation.

(b) "Current maturities of long term borrowing are disclosed separately under the head Other current liabilities in the balance sheet of a company." You are required to comment in line with schedule III to the Companies Act 2013.

Managerial remuneration

2. The following is the extract of Balance Sheet of Jupiter Ltd. as at 31st March 2021:

	₹
Equity and Liabilities	
Authorized Capital:	
40,000, 14% preference shares of ₹ 100	40,00,000
4,00,000 Equity shares of ₹ 100 each	4,00,00,000
	4,40,00,000
Issued and Subscribed Capital:	
30,000, 14% Preference Shares of ₹100 each, fully paid up	30,00,000
2,40,000 Equity Shares of ₹100 each, ₹80 paid-up	1,92,00,000
Share Suspense Account	40,00,000
Reserve & Surplus:	
Capital reserves (60% is revaluation reserve)	5,00,000
Securities Premium	1,00,000
Secured loans:	
15% Debentures	1,30,00,000

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Unsecured loans:	
Public deposits	7,40,000
Cash credit loan from IDBI (short term)	9,30,000
Current Liabilities:	
Trade payables	6,90,000
Assets	
Investment in Shares, debentures, etc.	1,50,00,000
Profit and Loss Account	30,50,000
Preliminary expenses not written off	1,10,000

Share Suspense Account represents application money received on shares, the allotment of which is not yet made.

Jupiter Ltd. has been incurring losses for the last few years. Jupiter Ltd. has only one whole-time director.

You are required to compute effective capital as per provisions of schedule V to the Companies Act, 2013. Would your answer differ if Jupiter Ltd. is an investment company? Also calculate the amount of maximum remuneration that can be paid if no special resolution is passed at the general meeting of the company in respect of payment for a period not exceeding three years.

Cash Flow Statement

3. From the following details relating to the accounts of Omega Ltd. prepare Cash Flow Statement for the year ended 31st March, 2021:

	31.03.2021(₹)	31.03.2020 (₹)
Share Capital	14,00,000	11,20,000
General Reserve	5,60,000	3,50,000
Profit and Loss Account	1,40,000	84,000
Debentures	2,80,000	-
Provision for taxation	1,40,000	98,000
Trade payables	9,80,000	11,48,000
Plant and Machinery	9,80,000	7,00,000
Land and Building	8,40,000	5,60,000
Investments	1,40,000	-
Trade receivables	7,00,000	9,80,000
Inventories	5,60,000	2,80,000
Cash in hand and at Bank	2,80,000	2,80,000

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(i) Depreciation @ 20% was charged on the opening value of Plant and Machinery.

(ii) At the year end, one old machine costing 70,000 (WDV 28,000) was sold for ₹ 49,000. Purchase of machinery was also made at the year end.

(iii) ₹ 70,000 was paid towards Income tax during the year.

(iv) Land & Building is not subject to any depreciation. Expenses on renovation of building amount ₹ 2,80,000 were incurred during the year.

Prepare Cash Flow Statement.

Profit/Loss prior to Incorporation

4. The partners of Shamsher converted their partnership firm into a Private Limited Company named Smriti (P) Ltd. w.e.f 1st January, 2020 which was incorporated on 1st June, 2020. The purchase consideration amounting to ₹ 11,40,000 was payable later on an interest of 12% per annum. To make the payment of purchase consideration and meet working capital requirements a loan worth ₹ 17,10,000 @ 10% per annum was availed on 1st June, 2020 & payment for purchase consideration was made. The company obtained a building on lease at a monthly rent of ₹ 19,000 on 1st July, 2020.Following is the information of the company as on 31st March, 2021 (for the period of 15 months):

	₹	₹
Sales		37,62,000
Less:		
Cost of goods sold	22,57,200	
Discount	87,780	
Director's remuneration	1,14,000	
Salaries	1,71,000	
Rent	2,56,500	
Interest	1,99,500	
Depreciation	57,000	
Office expenses	1,99,500	
Sales promotion expenses	62,700	
Preliminary expenses	28,500	(34,33,680)
Profit		3,28,320

Sales between June 2020 and December, 2020 were 2 ½ times of the average sales, which further increased to 3½ times in January to March quarter, 2021. The salaries from July, 2020 doubled. Prepare a statement showing the calculation of profits or losses for the pre-incorporation and post-incorporation periods.

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Accounting for Bonus Issue

5. Mobile Limited has authorized share capital of 1,00,000 equity shares @ ₹ 10 each. The company has already issued 60% of its capital for cash. Now the company wishes to issue bonus shares in the ratio 1:5 to its existing shareholders. The following is the status of Reserve and Surplus of the company:

General Reserve	₹ 1,60,000
Plant Revaluation Reserve	₹ 25,000
Securities Premium Account (Realised in cash)	₹ 60,000
Capital Redemption Reserve	₹ 80,000

Answer the following questions:

(a) What is the number of Bonus shares to be issued?

(b) Can company issue Bonus out of General Reserve only?

(c) Give Journal Entries and also give the extracts of the balance-sheet after such Bonus issue.

(d) Is it possible for the company to issue partly paid-up bonus shares?

Issue of Right Shares

6. (a) A company offers new right shares of ₹ 100 each at 20% premium to existing shareholders on one for four shares. The cum-right market price of a share is ₹ 140. You are required to calculate (i) Ex-right value of a share; (ii) Value of a right.

(b) A company having 1,00,000 shares of ₹ 10 each as its issued share capital, and having a market value of ₹ 45 issues rights shares in the ratio of 1:5 at an issue price of ₹ 25. Pass journal entry for issue of right shares.

Redemption of Preference Shares

7. Rohan Ltd. gives you following information as at 31st March, 2021:

Particulars		₹	₹
<u>Equity and Liabilities</u>			
Issued & subscribed capital:			
Equity shares capital:			
60,000 Equity shares of ₹ 10 each fully paid up		6,00,000	
12% Redeemable Preference share Capital:			
5,000 share of ₹ 100 each	5,00,000		
Less: Calls in arrear (final call of ₹ 20 on 200 shares)	<u>(4,000)</u>	<u>4,96,000</u>	10,96,000

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Reserve & surplus		
Profit and Loss Account	3,00,000	
Securities Premium Account	30,000	3,30,000
Non- current liability		
Long term borrowings: 14% Debentures		1,50,000
Current liabilities		
Trade payables		74,000
Assets		
Non-current Assets		
(i) Property, Plant & Equipment		13,00,000
(ii) Non- current Investment		1,00,000
Current Assets		
(i) Inventory		50,000
(ii) Trade Receivables		20,000
(iii) Bank		1,80,000

On April 1, 2021, the Board of Directors decided to redeem the preference shares (excluding 200 shares on which there are calls in arrear) at 10% premium and to sell the investment at its market price of ₹ 80,000. They also decided to issue sufficient number of equity shares of ₹ 10 at a premium of ₹ 1 per share and the balance in profit and loss account was to be maintained at ₹ 1,00,000. Premium on redemption can't be set off against securities premium account as Rohan Ltd. is governed by section 133 of the Companies act, 2013 and comply with Accounting Standards.

You are required to show the journal entries and the balance sheet of the company immediately after completion of redemption as per Schedule III. Show working for availability of profits for redemption and determination of bank balance at the end. All the above formalities and transactions were completed up to the end of 15th May, 2021.

Redemption of Debentures

8. Case Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following information as at 31st March, 2021:

Particulars	₹
Shareholder's Funds	
(a) Share Capital	
Authorized share capital:	
45,000 equity shares of ₹ 10 each fully paid	4,50,000

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Issued and subscribed share capital:	
30,000 equity shares of ₹ 10 each fully paid	3,00,000
(b) Reserves and Surplus	
Profit & Loss Account	1,62,000
Debenture Redemption Reserve	18,000
Non-current liabilities	
(a) Long term borrowings	
12% Debentures	1,80,000
Current Liabilities	
(a) Trade payables	1,72,500
Non-current assets	
(a) Property, Plant and Equipment (Freehold property)	1,72,500
(b) Non-current Investment: DRR Investment	27,000
Current assets	
(a) Inventories	2,02,500
(b) Trade receivables	1,12,500
(c) Cash and bank balances:	
Cash at bank	2,73,000
Cash in hand	45,000

At the Annual General Meeting on 1.4.2021, it was resolved:

(a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.

(b) To issue one bonus share for every five shares held.

(c) To repay the debentures at a premium of 3%.

Give the necessary journal entries and the company's Balance Sheet after these transactions are completed.

Investment Accounts

9. Mr. Wise had 12% Debentures of Face Value ₹ 100 of Alpha Ltd. as current investments.

He provides the following details relating to the investments.

1-4-2020	Opening balance 4,000 debentures costing ₹ 98 each
1-6-2020	Purchased 2,000 debentures @ ₹ 120 cum interest

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1-9-2020	Sold 3,000 debentures @ ₹ 110 cum interest
1-12-2020	Sold 2,000 debentures @ ₹ 105 ex interest
31-1-2021	Purchased 3,000 debentures @ ₹ 100 ex interest
31-3-2021	Market value of the investments ₹ 105 each

Interest due dates are 30th June and 31st December.

Mr. Wise closes his books on 31-3-2021. He incurred 2% brokerage for all his transactions.

Show investment account in the books of Mr. Wise assuming FIFO method is followed.

Insurance Claim for loss of stock

10. A fire occurred in the premises of M/s Star & Sons on 21st March 2020. The concern had taken Insurance Policy of ₹ 70,000 which was subject to average clause. From the books of accounts, the following particulars are available relating to the period 1st April 2019 to March 21st 2020:

(i)	Stock as on April 1st 2019	₹ 1,50,500
(ii)	Purchases (including purchase of ₹ 40,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown)	₹ 3,17,000
(iii)	Cost of goods distributed as, samples for advertising from April 1st 2019 to the date of fire, included in above purchases	₹ 32,000
(iv)	Sales (excluding goods sold on approval basis having sale value ₹ 35,000)	₹ 4,55,000
	Approval has been received for all goods sold on approval basis, before the date of fire.	
(v)	Purchase return	₹ 15,000
(vi)	Wages (including salary of Manager ₹ 10000)	₹ 65,000
(vii)	Average Rate of Gross Profit @ 20% on sales.	
(viii)	Cost of goods salvaged	₹ 12,000

You are required to calculate the amount of claim to be lodged to Insurance Company.

Hire Purchase Transactions

11. M/s Beta Enterprises bought 3 trucks from Gamma Ltd. on 01-04-2017 on the following terms:

	₹
Down Payment	6,50,000

3 Instalments to be paid, each at the end of each year: 1st Instalment ₹ 3,55,000 2^{nd} Instalment ₹ 3,38,000 3^{rd} Instalment ₹ 3,30,000 Interest is charged @ 10 % p.a. and included in above instalments. M/s Beta Enterprises provides depreciation @ 20 % on the diminishing balance of the Trucks	

On 31^{st} March, 2020, M/s Beta Enterprises failed to pay the 3^{rd} Instalment upon which Gamma Ltd. repossessed 1 truck. Gamma Ltd. agreed to leave 2 trucks with M/s Beta Enterprises and adjusted the value of 1 truck against the amount due.

The truck taken over was valued on the basis of 30% depreciation annually on written down value basis.

The balance amount remaining in the Vendor's Account after the above adjustment was paid by M/s. Beta Enterprises after 2 months with interest @ 18 % p.a.

You are required to:

(i) Calculate the Cash Price of the trucks and the amount of Interest paid with each instalment.

(ii) Prepare Truck Account, Gamma Ltd.'s Account in the books of M/s Beta Enterprises assuming that the books of accounts are closed on 31st March every year.

Departmental Accounts

12. P Ltd. has two Departments X and Y. From the following particulars you are required to prepare Departmental Trading Account and Combined Trading and P & L Account for the year ending 31^{st} March, 2021.

Particulars	Department X ₹	Department Y ₹
Opening stock (at Cost)	70,000	54,000
Purchase	2,14,000	1,66,000
Carriage inwards	6,000	6,000
Wages	21,000	24,450
Sales	3,10,000	2,54,000
Purchased goods transferred by Dept. Y to Dept. X	30,000	-
Purchased goods transferred by Dept. X to Dept. Y	-	24,000
Finished goods transferred by Dept. Y to Dept. X	80,000	-
Finished goods transferred by Dept. X to Dept. Y	-	1,00,000

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Return of Finished Goods by Dept. Y to Dept. X	25,000	-
Return of Finished Goods by Dept. X to Dept. Y	-	17,000
Closing Stock of Purchased Goods	12,000	15,000
Closing Stock of Finished Goods	60,000	35,000

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 20% of the finished stock (closing) at each department represented finished goods received from the other department.

Accounting for Branches

13. Mr. Chena Swami of Chennai trades in Refined Oil and Ghee. It has a branch at Salem. He despatches 30 tins of Refined Oil @ ₹ 1,500 per tin and 20 tins of Ghee @ ₹ 5,000 per tin on 1st of every month. The Branch has incurred expenditure of ₹ 45,890 which is met out of its collections; this is in addition to expenditure directly paid by Head Office.

Following are the other details:

	Chennai H.O.	Salem B.O.
	Amount (₹)	Amount (₹)
Purchases:		
Refined Oil	27,50,000	
Ghee	48,28,000	
Direct Expenses	6,35,800	
Expenses paid by H.O.		76,800
Sales:		
Refined Oil	24,10,000	5,95,000
Ghee	38,40,500	14,50,000
Collection during the year		20,15,000
Remittance by Branch to Head Office		19,50,000

Chennai H.O.		
Balance as on	01-04-2020 Amount (₹)	31-03-2021 Amount (₹)
Stock:		
Refined Oil	44,000	8,90,000
Ghee	10,65,000	15,70,000
Building	5,10,800	7,14,780
Furniture & Fixtures	88,600	79,740

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Salem Brach Office		
Balance as on	01-04-2020 Amount (₹)	31-03-2021 Amount (₹)
Stock:		
Refined Oil	22,500	19,500
Ghee	40,000	90,000
Sundry Debtors	1,80,000	?
Cash in hand	25,690	?
Furniture & Fixtures	23,800	21,420

Additional information:

(i) Addition to Building on 01-04-2020 ₹ 2,41,600 by H.O.

(ii) Rate of depreciation: Furniture & Fixtures @ 10% and Building @ 5% (already adjusted in the above figure)

(iii) The Branch Manager is entitled to 10% commission on Branch profits (after charging his commission).

(iv) The General Manager is entitled to a salary of ₹ 20,000 per month.

(v) General expenses incurred by Head Office is ₹ 1,86,000.

You are requested to prepare Branch Account in the Head Office books and also prepare Chena Swami's Trading and Profit & loss Account (excluding branch transactions) for the year ended 31st March, 2021.

Accounts from Incomplete Records

14. The following is the Balance Sheet of Mr. Kumar as on 31st March, 2020:

Equity and Liabilities	₹	Assets	₹
Capital Account	4,10,000	Machinery	1,60,000
Sundry Creditors for purchases	60,000	Furniture	35,000
		Stock	25,000
		Debtors	1,45,000
		Cash in Hand	25,000
		Cash at Bank	80,000
	4,70,000		4,70,000

Riots occurred and fire broke out on the evening of 31st March, 2021, destroying the books of account and furniture. The cash available in the cash box was stolen.

The trader gives you the following information:

(i) Sales are 25% for cash and the balance on credit. His total sales for the year ended 31st March, 2021 were 25% higher than the previous year. All the sales and purchases of goods were evenly spread throughout the year (as also in the last year).

(ii) Terms of credit

Debtors	2 Months
Creditors	1 Month

(iii) Stock level was maintained at ₹ 25,000 all throughout the year.

(iv) A steady Gross Profit rate of 25% on the turnover was maintained throughout the year. Creditors are paid by cheque only, except for cash purchases of ₹ 60,000.

(v) His private records and the Bank Pass-book disclosed the following transactions for the year.

a.	Miscellaneous Business expenses	₹ 1,85,500 (including ₹ 20,000 paid by cheque)
b.	Travelling expenses	₹ 24,000 (paid by cash)
c.	Addition to Machinery	₹ 1,00,000 (paid by cheque) (on 1st April, 2020)
d.	Private drawings	₹ 10,000 (paid by cash)
e.	Introduction of additional capital by deposited into the Bank	₹ 25,000

(vi) Collection from debtors were all through cheques.

(vii) Depreciation on Machinery is to be provided @ 15% p.a.

(viii) The Cash stolen is to be charged to the Profit and Loss Account,

(ix) Loss of furniture is to be adjusted from Capital Account.

Prepare Trading, Profit and Loss Account for the year ended 31st March, 2021 and a Balance Sheet as on that date.

Framework for Preparation and Presentation of Financial Statements

15. Summarised Balance Sheet of Cloth Trader as on 31.03.2020 is given below:

Equity and Liabilities	Amount (₹)	Assets	Amount (₹)
Proprietor's Capital	3,00,000	Fixed Assets	3,60,000
Profit & Loss Account	1,25,000	Closing Stock	1,50,000
10% Loan Account	2,10,000	Trade receivables	1,00,000
Trade payables	50,000	Deferred Expenses	50,000

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		Cash & Bank	25,000
	6,85,000		6,85,000

Additional Information is as follows:

(1) The remaining life of fixed assets is 8 years. The pattern of use of the asset is even. The net realizable value of fixed assets on 31.03.2021 was ₹ 3,25,000.

(2) Purchases and Sales in 2020-21 amounted to ₹ 22,50,000 and ₹ 27,50,000 respectively.

(3) The cost and net realizable value of stock on 31.03.2021 were ₹ 2,00,000 and ₹ 2,50,000 respectively.

(4) Expenses for the year amounted to ₹ 78,000 which includes interest on 10% loan amount for the year.

(5) Deferred Expenses are amortized equally over 5 years.

(6) Trade receivables on 31.03.2021 are ₹ 1,50,000 of which ₹ 5,000 is doubtful. Collection of another ₹ 25,000 depends on successful re-installation of certain product supplied to the customer;

(7) Closing trade payables are ₹ 75,000, likely to be settled at 10% discount.

(8) Cash balance as on 31.03.2021 is ₹ 4,22,000.

(9) There is an early repayment penalty for the loan of ₹ 25,000.

You are required to prepare: (Not assuming going concern)

(1) Profit & Loss Account for the year 2020-21.

(2) Balance Sheet as on 31st March, 2021.

Applicability of Accounting Standards

16. (a) A company with a turnover of ₹225 crores and borrowings of ₹51 crore during the year ended 31st March, 2021, wants to avail the exemptions available in adoption of Accounting Standards applicable to companies for the year ended 31.3.2021. Advise the management on the exemptions that are available as per the Companies (Accounting Standards) Rules, 2021.

(b) An organization whose objects are charitable or religious, believes that the Accounting Standards are not applicable to it since only a very small proportion of its activities are business in nature. Comment.

AS 2 Valuation of Inventories

17. (a) "In determining the cost of inventories, it is appropriate to exclude certain costs and recognize them as expenses in the period in which they are incurred". Provide examples of such costs as per AS 2 'Valuation of Inventories'.

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(b) On the basis of information given below, find the value of inventory (by periodic inventory method) as per AS 2, to be considered while preparing the Balance Sheet as on 31st March, 2021 on weighted Average Basis.

Details of Purchases:

Date of purchase	Unit (Nos.)	Purchase cost per unit (₹)
01-03-2021	20	108
08-03-2021	15	107
17-03-2021	30	109
25-03-2021	15	107

Details of issue of Inventory:

Date of Issue	Unit (Nos.)
03-03-2021	10
12-03-2021	20
18-03-2021	10
24-03-2021	20

Net realizable value of inventory as on 31st March, 2021 is ₹ 107.75 per unit.

You are required to compute the value of Inventory as per AS 2?

(c) Rohan Pvt. Ltd., a wholesaler in agriculture products, has valued the inventory on Net Realizable Value on the ground that AS 2 does not apply to inventory of agriculture products.

AS 10 Property, Plant and Equipment

18. (a) A Ltd. has incurred the following costs. Determine if the following costs can be added to the invoiced purchase price and included in the initial recognition of the cost of the item of property, plant and equipment:

1. Import duties paid
2. Shipping costs and cost of road transport for taking the machinery to factory
3. Insurance for the shipping
4. Inauguration costs for the factory
5. Professional fees charged by consulting engineer for the installation process
6. Costs of advertising and promotional activities
7. Administration and other general overhead costs
8. Cost of site preparation.

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AS 11 The Effects of Changes in Foreign Exchange Rates

(b) Kumar Ltd. borrowed US $ 3,00,000 on 31-12-2020 which will repaid as on 30-06-2021. Kumar Ltd. prepares its financial statements ending on 31-03-2021. Rate of exchange between reporting currency (Rupee) and foreign currency (US$) on different dates are as under:

31-12-2020	1 US $ = ₹ 44.00
31-03-2021	1 US $ = ₹ 44.50
30-06-2021	1 US $ = ₹ 44.75

(i) Calculate Borrowings in reporting currency to be recognized in the books on above mentioned dates and also show journal entries for the same.

(ii) if borrowings were repaid on 28-2-2021 on which date exchange rate was 1 US $ = ₹ 44.20 then what entry should be passed?

AS 12 Accounting for Government Grants

19. (a) A fixed asset is purchased for ₹ 30 lakhs. Government grant received towards it is ₹ 12 lakhs. Residual Value is ₹ 6 lakhs and useful life is 4 years. The company charges depreciation based on Straight-Line method. Asset is shown in the balance sheet net of grant. After 1 year, grant becomes refundable to the extent of ₹ 7.5 lakhs due to non-compliance with certain conditions. You are required to give necessary journal entries for second year.

AS 13 Accounting for Investments

(b) JVR Limited has made investment of ₹ 97.84 Crores in Equity Shares of QSR Limited in 2016-17. The investment has been made at par. QSR Limited has been in continuous losses for the last 2 years. JVR Limited is willing to re-assess the carrying amount of its investment in QSR Limited and wish to provide for diminution in value of investment for the year ended 31st March, 2021. Discuss whether the connection of JVR Limited to bring down the carrying Amount of investment in QSR Limited is in accordance with Accounting Standards.

AS 16 Borrowing Costs

20. (a) An enterprise has constructed a complex piece of equipment (qualifying asset) that is to be installed on the production line of a manufacturing plant. The equipment has been constructed over a period of 15 months. However, on installation, certain calibrations are required to achieve the desired level of production before it is finally commissioned. This process is expected to take approximately 2 months during which test runs will be made. Should the borrowing costs attributable to borrowings pertaining to the 2 months test run period be capitalized?

(b) Should capitalization of borrowing costs be continued when the qualifying asset has been constructed but marketing activities to sell the asset are still in progress?

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SUGGESTED ANSWERS

1. (a) **Delta Limited**

Balance Sheet as at 31st March 2021

Particulars	Note No.	(₹ in '000)
A. Equity and Liabilities		
1. Shareholders' funds		
(a) Share Capital	1	495.00
(b) Reserves and Surplus	2	807.20
2. Non-Current Liabilities		
(a) Long Term Borrowings	3	300.00
3. Current Liabilities		
(a) Trade Payables		30.00
(b) Short- term provision	4	163.80
Total		1,796.00
B. Assets		
1. Non-Current Assets		
(a) Property, Plant and Equipment	5	1,550.00
2. Current Assets		
(a) Inventories		96.00
(b) Trade Receivables	6	120.00
(c) Cash and Cash equivalents	7	30.00
Total		1,796.00

Statement of Profit and Loss for the year ended 31st March 2021

Particulars	Note No.	(₹ in '000)
I. Revenue from Operations		1200.00
II. Other Income	8	6.00
III. Total Income (I +II)		1,206.00
IV. Expenses:		
Purchases (adjusted)		400.00
Finance Costs	9	30.00

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	Depreciation (10% of 800)		80.00
	Other expenses	10	150.00
	Total Expenses		660.00
V.	Profit / (Loss) for the period before tax (III – IV)		546.00
VI.	Tax expenses @30%		163.80
VII	Profit for the period		382.20

Notes to Accounts

	Particulars		(₹ in '000)
1	Share Capital		
	Equity Share Capital		
	Authorised		
	80,000 Shares of ₹ 10/- each		800
	Issued, Subscribed and Called-up		
	50,000 Shares of ₹ 10/- each	500	
	(Out of the above 5,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	(5)	495
2	Reserves and Surplus		
	Securities Premium		40.00
	Revaluation Reserve ₹ (960 – 800)		160.00
	General Reserve		150.00
	Surplus i.e. Profit & Loss Account Balance		
	Opening Balance	75.00	
	Add: Profit for the period	382.20	457.20
			807.20
3	Long-Term Borrowings		
	10% Debentures		300
4.	Short – term provision		
	Provision for tax		163.80
5	Property, plant & equipment		
	Land		
	Opening Balance	800	

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	Add: Revaluation adjustment	160	
	Closing Balance		960
	Plant and Machinery		
	Opening Balance	824	
	Less: Disposed off	(24)	
		800	
	Less: Depreciation ₹ (150 – 20 + 80)	(210)	
	Closing Balance		590
	Total		1,550
6	Trade receivables		
	Debits outstanding for a period exceeding six months	50	
	Other debts	70	120
7	Cash and Cash Equivalents		
	Cash at Bank With scheduled banks	23	
	With others (ABC Bank Limited)	5	
	Cash in hand	2	30
8	Other Income		
	Profit on sale of machinery		
	Sale value of machinery	10	
	Less: Book value of machinery (24 – 20)	(4)	6
9	Finance Costs		
	Debenture Interest		30
10	Other Expenses:		
	Factory expenses	80	
	Selling expenses	25	
	Administrative expenses	45	150

(b) Current maturities of loan term borrowing are shown under 'short term borrowings' and not under 'Other current liabilities' as per the amendment to Schedule III vide MCA notification dated 24th March, 2021. Hence the statement given in the question is not valid.

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2. **Calculation of effective capital**

Particulars	Where Jupiter Ltd. is a non-investment Company (₹)	Where Jupiter Ltd. is an investment Company (₹)
Paid-up share capital		
30,000, 14% Preference Shares	30,00,000	30,00,000
2,40,000 Equity Shares	1,92,00,000	192,00,000
Capital Reserves excluding revaluation reserve	2,00,000	2,00,000
Securities Premium	1,00,000	1,00,000
15% Debentures	1,30,00,000	1,30,00,000
Public Deposits	7,40,000	7,40,000
Total (A)	362,40,000	362,40,000
Investments	1,50,00,000	
Profit and Loss Account (Dr. balance)	30,50,000	30,50,000
Preliminary Expenses not written off	1,10,000	1,10,000
Total (B)	181,60,000	31,60,000
Effective Capital [A – B]	1,80,80,000	3,30,80,000

Effective capital of the company for both the situations is less than 5 crores. Hence maximum remuneration payable to director should be @ ₹ 60,00,000 per annum.

3. **Omega Ltd.**

Cash Flow Statement for the year ended 31st March, 2021

Cash Flow from Operating Activities		
Increase in balance of Profit and Loss Account	56,000	
Provision for taxation	1,12,000	
Transfer to General Reserve	2,10,000	
Depreciation	1,40,000	
Profit on sale of Plant and Machinery	(21,000)	
Operating Profit before Working Capital changes	4,97,000	
Increase in Inventories	(2,80,000)	
Decrease in Trade receivables	2,80,000	
Decrease in Trade payables	(1,68,000)	

Cash generated from operations	3,29,000	
Income tax paid	(70,000)	
Net Cash from operating activities		2,59,000
Cash Flow from Investing Activities		
Purchase of plant & machinery	(4,48,000)	
Expenses on building	(2,80,000)	
Increase in investments	(1,40,000)	
Sale of old machine	49,000	
Net Cash used in investing activities		(8,19,000)
Cash Flow from Financing activities		
Proceeds from issue of shares	2,80,000	
Proceeds from issue of debentures	2,80,000	
Net cash from financing activities		5,60,000
Net increase in cash or cash equivalents		NIL
Cash and Cash equivalents at the beginning of the year		2,80,000
Cash and Cash equivalents at the end of the year		2,80,000

Working Notes:

Provision for taxation account

	₹		₹
To Cash (Tax Paid)	70,000	By Balance b/d	98,000
To Balance c/d	1,40,000	By Profit and Loss A/c (Balancing figure)	1,12,000
	2,10,000		2,10,000

Plant and Machinery account

	₹		₹
To Balance b/d	7,00,000	By Depreciation	1,40,000
To Profit and Loss A/c (profit on sale of machine)	21,000		
To Cash (Balancing figure)	4,48,000	By Cash (sale of machine)	49,000
		By Balance c/d	9,80,000
	11,69,000		11,69,000

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4. Statement showing the calculation of Profits/losses for the pre-incorporation and post-incorporation periods

Particulars	Total Amount	Basis of Allocation	Pre. Inc.	Pos. Inc.
Sales	37,62,000	Sale Ratio	5,70,000	31,92,000
Less: Cost of goods sold	22,57,200	Sales Ratio	3,42,000	19,15,200
Discount	87,780	Sales Ratio	13,300	74,480
Director's Remuneration	1,14,000	Post	-----	1,14,000
Salaries	1,71,000	(W.N. 3)	35,625	1,35,375
Rent	2,56,500	(W.N. 4)	28,500	2,28,000
Interest	1,99,500	(W.N. 5)	57,000	1,42,500
Depreciation	57,000	Time Ratio	19,000	38,000
Office Expenses	1,99,500	Time Ratio	66,500	1,33,000
Preliminary Expenses	28,500	Post	-----	28,500
Sales Promotion expenses	62,700	Sales Ratio	9,500	53,200
Net Profit/loss			(1,425)	3,29,745

Working Notes:

1. **Calculation of Time ratio**

   Date of Purchase : 01/01/2020

   Date of Incorporation: 01/06/2020

   Date of Closing of Books of Accounts : 31/03/2021

   Time Ratio = 5:10 i.e 1:2

2. **Computation of sales ratio:**

   Let average Sale per month= 1

   Then average Sale for June to Dec. 20 = 2.5 per month

   Average Sale from January to March 21 = 3.5 per month

Month Sale	Average Sale	Month Sale	Average Sale
January	1	September	2.5
February	1	October	2.5
March	1	November	2.5
April	1	December	2.5
May	1	January	3.5

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June	2.5	February	3.5
July	2.5	March	3.5
August	2.5		

Total Sale during Pre-Incorporation Period = 5

& Post Incorporation Period = 28

Hence Sales Ratio = 5:28

3. Computation of ratio for salaries:

Let Salary from January 20 to June 20 = 1 per month

Then Salary from July 20 to March 21 = 2 per month

Month Sale	Average Salary	Month Salary	Average Salary
January	1	September	2
February	1	October	2
March	1	November	2
April	1	December	2
May	1	January	2
June	1	February	2
July	2	March	2
August	2		

Total Salary during Pre-Incorporation Period = 5

& Post Incorporation Period = 19

Hence Salary Ratio = 5:19

4. Computation of Rent:

Total rent		2,56,500
Less: Building rent for 9 months @ 19,000 p.m.		1,71,000
Rent of old premises apportioned in time ratio		85,500
Apportionment	Pre Inc.	Post Inc.
Old premises rent	28,500	57,000
Building Rent	____	1,71,000
	28,500	2,28,000

5. Computation of interest:

Pre-incorporation period from Jan, 2020 to May, 2020

$\left[\dfrac{11,40,000 \times 12 \times 5}{100 \times 12}\right]$ = 57,000

Post incorporation period from June, 2020 to March, 2021

$\left[\dfrac{17,10,000 \times 10 \times 10}{100 \times 12}\right]$ = 1,42,500

1,99,500

5. (a) Number of Bonus shares to be issued:

Existing paid up Capital = 60,000 Shares

Number of Bonus Shares = (60,000 × 1) ÷ 5 = 12,000 Shares (i.e. for ₹ 1,20,000)

(b) Bonus out of General Reserve:

It is a usual practice to utilize specific reserve (available for specific purpose). Therefore, if CRR and Securities Premium are available, then company should utilize these reserves in priority over other free reserves. It is clear that company should not use General Reserve, in the given example, as Capital Redemption Reserve and Securities Premium are sufficiently available

(c) Journal Entries in the Books of Mobile Ltd.

Particulars		Dr. (₹)	Cr. (₹)
Capital Redemption Reserve A/c	Dr.	80,000	
Securities Premium A/c	Dr.	40,000	
To Bonus to Shareholders A/c			1,20,000
(Being issue of 1 Share for every 5 Shares held, by utilizing various reserves as per Board's Resolution dated .....)			
Bonus to Shareholders A/c	Dr.	1,20,000	
To Equity Share Capital A/c			1,20,000
(Capitalization of profits)			

Extracts of the Balance-Sheet after Bonus issue

	Particulars	Note No.	Amount (₹)
	EQUITY AND LIABILITIES		
1.	**Shareholder's funds**		
	(a) Share Capital	1	7,20,000
	(b) Reserves and Surplus	2	2,05,000

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Notes to Accounts

1.	**Share capital**		
	Authorised Capital		
	1,00,000 Equity Shares @ ₹ 10 each		10,00,000
	Issued, Called up & Paid up Capital		
	72,000 Equity Shares @ ₹ 10 each		7,20,000
	(Out of above, 12,000 shares have been issued as bonus shares).		
2.	**Reserve and Surplus**		
	Plant Revaluation Reserve	25,000	
	Securities Premium A/c	20,000	
	General Reserve	1,60,000	2,05,000

(d) Fully Paid up bonus shares only

As per section 63 of the Companies Act, 2013, only fully paid up bonus shares can be issued. Therefore, it is not possible for the company to issue partly paid-up bonus shares.

6. (a) (i) Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares X Issue Price) / (Existing Number of shares + No. of right shares)

= (₹ 140 X 4 Shares + ₹ 120 X 1 Share) / (1 + 4) Shares

= ₹ 680 / 5 shares = ₹ 136 per share.

(ii) Value of right = Cum-right value of the share – Ex-right value of the share

= ₹ 140 – ₹ 136 = ₹ 4 per share.

(b) The entry at the time of subscription of right shares by the existing shareholders will be:

Bank A/c	Dr.	5,00,000	
To Equity Share Capital A/c			2,00,000
To Securities Premium A/c			3,00,000
(Being issue of 20,000 right shares @ ₹ 25 offered)			

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7. **Journal Entries in the books of Rohan Ltd.**

		Dr. (₹)	Cr. (₹)
Bank A/c	Dr.	80,000	
Profit & Loss A/c (Loss on sale)	Dr.	20,000	
To Investment A/c			1,00,000
(Being sale of Investments and transfer of Loss to Profit and Loss A/c)			
12% Preference Share Capital A/c	Dr.	4,80,000	
Premium Payable on Redemption A/c	Dr.	48,000	
To Preference Shareholders Account			5,28,000
(Being amount payable to Preference Shareholders on redemption of Preference Shares at a premium of 10%)			
Bank Account	Dr.	3,82,800	
To Equity Share Application & Allotment A/c			3,82,800
(Being application money received on Equity Shares issued)			
Equity Share Application & Allotment A/c	Dr.	3,82,800	
To Equity Share Capital A/c			3,48,000
To Securities Premium A/c			34,800
(Being the allotment of 34,800 equity shares of ₹ 10 each at a premium of ₹ 1 per share)			
Profit & Loss Account	Dr.	1,32,000	
To Capital Redemption Reserve Account			1,32,000
Being creation of CRR to the extent of nominal value of Preference Shares redeemed out of profits.)			
Profit & loss Account		48,000	
To Premium Payable on Redemption A/c			48,000
(Being Premium Payable on Redemption written off.)			
Preference Shareholders Account	Dr.	5,28,000	
To Bank Account			5,28,000
(Being amount paid to Preference Shareholders holding 4,800 preference shares on Redemption.)			

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Balance Sheet of Rohan Limited

As at 15th May 2021 (After Redemption of Preference Shares)

	Particulars	Note No.	Amount (₹)
I	**EQUITY AND LIABILITIES**		
	1 Shareholders' funds		
	(a) Share Capital	1	9,64,000
	(b) Reserve and surplus	2	2,96,800
	2. Non-Current Liabilities		
	Long Term Borrowings (14% Debentures)		1,50,000
	3. Current Liabilities		
	(a) Trade Payables		74,000
	Total		**14,84,800**
II	**ASSETS**		
	1 Non-current Assets		
	(a) PPE		13,00,000
	2. Current Assets		
	(a) Inventories		50,000
	(b) Trade Receivables		20,000
	(c) Cash and Cash Equivalent (W.N -4)		1,14,800
	Total		**14,84,800**

Notes to Accounts

		₹	₹
1	**Share Capital**		
	Equity Share Capital		
	Issued Subscribed and paid up:		
	94,800 Equity Shares of ₹ 10 each fully paid up		9,48,000
	12% Preference share Capital		
	200, 12% Preference Shares fully called up	20,000	
	Less: Calls-in-arrears (@ ₹ 20 per share)	(4,000)	16,000
	Total		**9,64,000**
2	**Reserve and Surplus**		
	(a) Capital redemption Reserve Account		1,32,000

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	(Transfer from Profit and Loss A/c)		
	(b) Securities Premium Account		
	Opening Balance	30,000	
	Add: Received on Fresh Issue (34,800 Shares × ₹ 1 each)	34,800	64,800
	(c) Profit and Loss A/c balance		1,00,000
	Total		2,96,800

Working Notes:

1. 200 preference shares having calls in arrears, will not be redeemed. The amount of fresh issue under section 55 of the Companies Act has been calculated taking into consideration the redemption of 4,800 Preference shares, which are fully paid-up.

2 Calculation of Profits Available for Redemption

Balance given in the Question	3,00,000
Less: Loss on sale of Investment (1,00,000 – 80,000)	(20,000)
Less: Minimum balance to be maintained in P& L A/c	(1,00,000)
Less: Premium on redemption of Preference shares	(48,000)
Closing Balance	1,32,000

3 No. of shares to be issued

Total Nominal Value of Preference Shares	4,80,000
Less: Amount of profit available for redemption of Preference shares	(1,32,000)
Amount required out of fresh issue	3,48,000

$$\text{No. of Shares to be issued} = \left(\frac{\text{Amount required out of proceeds of fresh issue of shares}}{\text{Par value per share (proposed Issue)}}\right)$$

$$= \frac{3,48,000}{10} = 34,800 \text{ shares of ₹ 10 each}$$

4. **Determination of closing bank balance**

Opening bank balance	1,80,000
Add: Proceeds from sale of Investment	80,000
Add: Proceeds from fresh issue of 34,800 equity shares @ ₹ 11	3,82,800
Less: Paid to Preference Shareholders on Redemption (4,800 × ₹ 110)	(5,28,000)
Closing Balance	1,14,800

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8. **Journal Entries in the Books of Case Ltd.**

		Dr. ₹	Cr. ₹
Bank A/c	Dr.	1,12,500	
To Equity Shareholders A/c			1,12,500
(Application money received on 7,500 shares @ ₹ 15 per share to be issued as rights shares in the ratio of 1:4)			
Equity Shareholders A/c	Dr.	1,12,500	
To Equity Share Capital A/c			75,000
To Securities Premium A/c			37,500
(Share application money on 7,500 shares @ ₹ 10 per share transferred to Share Capital Account, and ₹ 5 per share to Securities Premium Account vide Board's Resolution dated…)			
Securities Premium A/c	Dr.	37,500	
Profit & Loss A/c	Dr.	37,500	
To Bonus to Shareholders A/c			75,000
(Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 *vide* General Body's resolution dated...)			
Bonus to Shareholders A/c	Dr.	75,000	
To Equity Share Capital A/c			75,000
(Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated....)			
12% Debentures A/c	Dr.	1,80,000	
Premium Payable on Redemption A/c (@ 3%)	Dr.	5,400	
To Debenture holders A/c			1,85,400
(Amount payable to debentures holders)			
Profit and loss A/c	Dr.	5,400	
To Premium Payable on Redemption A/c			5,400
(Premium payable on redemption of debentures charged to Profit & Loss A/c)			
Debenture Redemption Reserve A/c	Dr.	18,000	
To General Reserve			18,000
(For DRR transferred to general reserve)			

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Bank A/c To Debenture Redemption Reserve Investment (for DRR Investment realised)	Dr.	27,000	27,000
Debenture holders A/c To Bank A/c (Amount paid to debenture holders on redemption)	Dr.	1,85,400	1,85,400

Balance Sheet of Case Ltd. as at...... (after completion of transactions)

Particulars	Note No	₹
I. Equity and liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	4,50,000
(b) Reserves and Surplus	2	1,37,100
(2) Current Liabilities		
(a) Trade payables		1,72,500
Total		7,59,600
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	3	1,72,500
(2) Current assets		
(a) Inventories		2,02,500
(b) Trade receivables		1,12,500
(c) Cash and bank balances	4	2,72,100
Total		7,59,600

Notes to Accounts

			₹
1.	**Share Capital**		
	45,000 shares of ₹ 10 each fully paid (7,500 shares of ₹ 10 each, fully paid issued as bonus shares out of securities premium and P&L Account)		4,50,000
2.	**Reserve and Surplus**		
	Profit & Loss Account	1,62,000	
	Less: Premium on redemption of debenture	(5,400)	
	Less: Utilisation for issue of bonus shares	(37,500)	

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		1,19,100	
	General Reserve	18,000	1,37,100
3.	**Property, Plant and Equipment**		
	Freehold property		1,72,500
4.	**Cash and bank balances**		
	Cash at bank (2,73,000 + 1,12,500 - 1,85,400 + 27,000)	2,27,100	
	Cash in hand	45,000	2,72,100

9. **Investment A/c of Mr. Wise**

for the year ending on 31-3-2021

(Scrip: 12% Debentures of Alpha Limited)

(Interest Payable on 30th June and 31st December) Amount in ₹

Date	*Particulars*	*Nominal Value*	*Interest*	*Cost*	*Date*	*Particulars*	*Nominal Value*	*Interest*	*Cost*
1.4.2020	To Balance b/d	4,00,000	12,000	3,92,000	30.6.2020	By Bank (6,00,000 x 6%)	-	36,000	-
1.6.2020	To Bank	2,00,000	10,000	2,34,800	1.9.2020	By Bank	3,00,000	6,000	3,17,400
1.9.2020	To Profit & Loss A/c			23,400	1.12.2020	By Bank	2,00,000	10,000	2,05,800
31.1.2021	To Bank	3,00,000	3,000	3,06,000	1.12.2020	By Profit & Loss a/c	-	-	9,600
31.3.2021	To Profit & Loss A/c (Bal. fig.)		45,000		31.12.20	By Bank (1,00,000 x 6%)	-	6,000	-
					31.3.2021	By Profit & Loss A/c	-	-	3,400
					31.3.2021	By Balance c/d	4,00,000	12,000	4,20,000
		9,00,000	70,000	9,56,200			9,00,000	70,000	9,56,200

Working Notes:

1. **Valuation of closing balance as on 31.3.2021**

	₹	
Market value of 4,000 Debentures at ₹ 105		4,20,000
Cost price of 1,000 debentures at	1,17,400	

3,000 debentures at Value at the end = ₹ 4,20,000 i.e. whichever is less	3,06,000	4,23,400

2. Profit on sale of debentures as on 1.9.2020

	₹
Sales price of debentures (3,000 x ₹ 110)	3,30,000
Less: Brokerage @ 2%	(6,600)
	3,23,400
Less: Interest for 2 months	(6,000)
Less: Cost price of Debentures $\left(3,92,000\text{x}\frac{3,000}{4,000}\right)$	(2,94,000)
Profit on sale	23,400

3. Loss on sale of debentures as on 1.12.2020

	₹
Sales price of debentures (2,000 x ₹ 105)	2,10,000
Less: Brokerage @ 2%	(4,200)
	2,05,800
Less: Cost price of Debentures (98,000 + 1,17,400)	(2,15,400)
Loss on sale	9,600

4. Purchase Cost of 2,000 debentures on 1.6.2020

	₹
2000 Debentures @₹ 120 cum interest	2,40,000
Add: Brokerage @ 2%	4,800
	2,44,800
Less: Interest for 5 months	(10,000)
Purchase cost of 2,000 debentures	2,34,800

5. Sale value for 3,000 debentures on 1.9.2020

	₹
Sales price of debentures cum interest (3,000 x ₹ 110)	3,30,000
Less: Brokerage @ 2%	(6,600)
	3,23,400

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Less: Interest for 2 months	(6,000)
Sale value for 3,000 debentures	3,17,400

10. Books of M/s Star & Sons

Memorandum Trading Account for the period 1st April, 2019 to 21st March, 2020

		₹		₹
To Opening Stock		1,50,500	By Sales (4,55,000 + 35,000)	4,90,000
To Purchases	3,17,000			
Less: Returns	(15,000)		By Closing Stock (Bal. fig.)	83,500
Goods distributed as samples	(32,000)	2,70,000		
To Wages		55,000		
To Gross Profit (20% of Sales)		98,000		
		5,73,500		5,73,500

Statement of Insurance Claim

	₹
Value of stock destroyed by fire	83,500
Less: Salvaged Stock	12,000
Loss of stock	71,500

Note: Since policy amount is less than vale of stock on date of fire, average clause will apply. Therefore, claim amount will be computed by applying the formula.

$$\text{Claim} = \frac{\text{Insured value}}{\text{Total cost}} \times \text{Loss suffered}$$

Claim amount = ₹ 71,500X 70,000/ 83,500= ₹ 59,940 (rounded off)

11. (a) (i) Calculation of Interest and Cash Price

No. of instalments	*Outstanding balance at the end after the payment of instalment*	*Amount due at the time of instalment*	*Outstanding balance at the end before the payment of instalment*	*Interest*	*Outstanding balance at the beginning*
[1]	*[2]*	*[3]*	*[4] = 2 +3*	*[5] = 4 x 10/110*	*[6] = 4-5*
3rd	-	3,30,000	3,30,000	30,000	3,00,000

2nd	3,00,000	3,38,000	6,38,000	58,000	5,80,000
1st	5,80,000	3,55,000	9,35,000	85,000	8,50,000

Total cash price = ₹ 8, 50,000+ 6, 50,000 (down payment) = ₹ 15, 00,000.

(ii) In the books of M/s Beta Enterprises

Trucks Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
1.4.2017	To Gamma Ltd. A/c	15,00,000	31.3.2018	By Depreciation A/c	3,00,000
				Balance c/d	12,00,000
		15,00,000			15,00,000
1.4.2018	To Balance b/d	12,00,000	31.3.2019	By Depreciation A/c	2,40,000
				Balance c/d	9,60,000
		12,00,000			12,00,000
1.4.2019	To Balance b/d	9,60,000	31.3.2020	By Depreciation A/c	1,92,000
				By Gamma Ltd. A/c (Value of 1 truck taken over after depreciation for 3 years @30% p.a.) {5,00,000 -(1,50,000 + 1,05,000 + 73,500)}	1,71,500
				By Loss transferred to Profit and Loss a/c on surrender (Bal. fig.) or (2,56,000 - 1,71,500)	84,500
				By Balance c/d 2/3 (9,60,000 - 1,92,000 = 7,68,000)	5,12,000
		9,60,000			9,60,000

Gamma Ltd. Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
1.4.17	To Bank (down payment)	6,50,000	1.4.17	By Trucks A/c	
31.3.18	To Bank (1st Instalment)	3,55,000	31.3.18	By Interest A/c	15,00,000

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	To Balance c/d	5,80,000			85,000
		15,85,000			15,85,000
31.3.19	To Bank (2^{nd} Instalment)	3,38,000	1.4.18	By Balance b/d	5,80,000
31.3.19	To Balance c/d	3,00,000	31.3.19	By Interest a/c	58,000
		6,38,000			6,38,000
31.3.20	To Trucks A/c	1,71,500	1.4.19	By Balance b/d	3,00,000
31.3.20	To Balance c/d (b.f.)	1,58,500	31.3.20	By Interest A/c	30,000
		3,30,000			3,30,000
31.5.20	To Bank (Amount settled after 2 months)	1,63,255	1.4.20	By Balance b/d	1,58,500
			31.5.20	By Interest A/c (@ 18% on bal.) (1,58,500x2/12 x 18/100)	4,755
		1,63,255			1,63,255

12. **P Ltd.**

Departmental Trading A/c for the year ending 31st March, 2021

	Deptt. X. ₹	Deptt. Y ₹		Deptt. X ₹	Deptt. Y ₹
To Stock	70,000	54,000	By Sales	3,10,000	2,54,000
To Purchases	2,14,000	1,66,000	By Purchased Goods transferred	24,000	30,000
To Wages	21,000	24,450	By Finished goods transferred	1,00,000	80,000
To Carriage inward	6,000	6,000	Return of finished Goods	17,000	25,000
To Purchased Goods			By Closing Stock:		
transferred	30,000	24,000	Purchased Goods	12,000	15,000
To Finished Goods transferred	80,000	1,00,000	Finished Goods	60,000	35,000
To Return of finished Goods	25,000	17,000			
To Gross profit c/d	77,000	47,550			
	5,23,000	4,39,000		5,23,000	4,39,000

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Combined Trading and P & L Account for the year ending 31st March, 2021

	₹		₹
To Opening Stock (₹ 70,000 + ₹ 54,000)	1,24,000	By Sales (₹ 3,10,000 + ₹ 2,54,000)	5,64,000
To Purchases (₹ 2,14,000 + ₹ 1,66,000)	3,80,000	By Closing Stock:	
To Wages (₹ 21,000 + ₹ 24,450)	45,450	Purchased Goods (₹ 12,000 + ₹ 15,000)	27,000
To Carriage (₹ 6,000 + ₹ 6,000)	12,000	Finished Goods (₹ 60,000 + ₹ 35,000)	95,000
To Gross Profit c/d	1,24,550		
	6,86,000		6,86,000
To Stock Reserve	3,200	By Gross Profit b/d	1,24,550
To Net Profit	1,21,350		
	1,24,550		1,24,550

Working note:

	Deptt. X	Deptt. Y
1. Calculation of Rate of Gross Profit	**Deptt. X**	**Deptt. Y**
Closing Stock out of transfer (20%)	12,000	7,000
Sale	3,10,000	2,54,000
Add: Transfer	1,00,000	80,000
	4,10,000	3,34,000
Less: Returns	(25,000)	(17,000)
Net Sales plus Transfer	3,85,000	3,17,000
Rate of Gross profit	$\frac{77,000}{3,85,000} \times 100$ = 20%	$\frac{47,550}{3,17,000} \times 100$ = 15%

2. Unrealized Profit Deptt. X ₹ 12,000 × 15% = ₹ 1,800

Deptt. Y ₹ 7,000 × 20% = ₹ 1,400

13 **In the books of Mr. Chena Swami**

Salem Branch Account

	₹		₹
To Balance b/d Opening stock:		By Bank (Remittance to H.O.)	19,50,000

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Ghee	40,000	By Balance c/d	
Refined Oil	22,500	Closing stock:	
Debtors	1,80,000	Refined oil	19,500
Cash on hand	25,690	Ghee	90,000
Furniture & fittings	23,800	Debtors (W.N. 1)	2,10,000
To Goods sent to Branch A/c		Cash on hand (W.N. 2)	44,800
Refined Oil (30 x ₹ 1,500x12)	5,40,000	Furniture & fittings	21,420
Ghee (20 x ₹ 5,000 x12)	12,00,000		
To Bank (Expenses paid by H.O.)	76,800		
To Manager's commission in profits			
10% (2,26,930x10/110)	20,630		
To Net Profit transferred			
to General P & L A/c	2,06,300		
	23,35,720		23,35,720

Mr. Chena Swami

Trading and Profit and Loss account for the year ended 31st March, 2021

(Excluding branch transactions)

		₹		₹
To Opening Stock:			By Sales:	
Refined Oil		44,000	Refined Oil	24,10,000
Ghee		10,65,000	Ghee	38,40,500
To Purchases:			By Closing Stock:	
Refined Oil	27,50,000		Refined Oil	8,90,000
Less: Goods sent to Branch	(5,40,000)	22,10,000	Ghee	15,70,000
Ghee	48,28,000			
Less: Goods sent to Branch	(12,00,000)	36,28,000		
To Direct Expenses		6,35,800		
To Gross Profit		11,27,700		
		87,10,500		87,10,500

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To	Manager's Salary	2,40,000	By	Gross Profit	11,27,700
To	General Expenses	1,86,000	By	Branch Profit transferred	2,06,300
To	Depreciation				
	Furniture (88,600 - 79,740)	8,860			
	Building (5,10,800 + 2,41,600 - 7,14,780)	37,620			
To	Net profit	8,61,520			
		13,34,000			13,34,000

Working Notes:

(1) Debtors Account

	₹		₹
To Balance b/d	1,80,000	By Cash Collections	20,15,000
To Sales made during the year:		By Balance c/d (Bal. Figure)	2,10,000
Refined oil	5,95,000		
Ghee	14,50,000		
	22,25,000		22,25,000

(2) Branch Cash Account

	₹		₹
To Balance b/d	25,690	By Remittance	19,50,000
To Collections	20,15,000	By Exp.	45,890
		By Balance c/d (Bal. Figure)	44,800
	20,40,690		20,40,690

14. Trading and Profit and Loss Account of Mr. Kumar for the year ended 31st March, 2021

		₹			₹
To	Opening Stock	25,000	By	Sales	14,50,000
To	Purchases	10,87,500	By	Closing Stock	25,000
To	Gross Profit c/d	3,62,500			
		14,75,000			14,75,000
To	Business Expenses	1,85,500	By	Gross Profit b/d	3,62,500

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To	Repairs	4,000	By	Net loss	14,000
To	Depreciation (WDV basis)	39,000			
To	Travelling Expenses	20,000			
To	Loss by theft	1,28,000			
		3,76,500			3,76,500

Balance Sheet of Mr. Kumar as at 31st March, 2021

Liabilities	₹	₹	Assets	₹	₹
Capital	4,10,000		Machinery	1,60,000	
			Add: additions	1,00,000	
				2,60,000	
Add: Additional Capital	25,000		*Less*: Dep. @ 15%	(39,000)	2,21,000
Less: Net Loss	(14,000)		Stock in Trade		25,000
	4,56,000		Sundry Debtors		1,81,250
Less: Loss of Furniture	(35,000)		Bank		34,375
Drawings	(10,000)	3,76,000			
Sundry Creditors		85,625			
		4,61,625			4,61,625

Working Notes:

1.	Sales during 2020-2021	₹
	Debtors as on 31st March, 2020	1,45,000
	(Being equal to 2 months' sales)	
	Total credit sales in 2019- 2020, ₹ 1,45,000 × 6	8,70,000
	Cash Sales, being equal to 1/3rd of credit sales or 1/4th of the total	2,90,000
	Sales in 2019-2020	11,60,000
	Increase, 25% as stated in the problem	2,90,000
	Total sales during 2020-2021	14,50,000
	Cash sales: 1/4th	3,62,500
	Credit sales: 3/4th	10,87,500
2.	Purchases	
	Sales in 2020-2021	14,50,000

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	Gross Profit @ 25%	3,62,500
	Cost of goods sold being purchases (no change in stock level)	10,87,500
3.	Debtors equal to two months credit sales	1,81,250
4.	Sundry Creditors for goods	
	(₹ 10,87,500 – ₹ 60,000) /12 = ₹ 10,27,500/12	85,625
5.	Collections from Debtors	
	Opening Balance	1,45,000
	Add: Credit Sales	10,87,500
		12,32,500
	Less: Closing Balance	(1,81,250)
		10,51,250
6.	Payment to Creditors	
	Opening Balance	60,000
	Add: Credit Purchases (₹ 10,87,500 – ₹ 60,000)	10,27,500
		10,87,500
	Less: Closing Balance	(85,625)
	Payment by cheque	10,01,875

7. **Cash and Bank Account**

	Cash	Bank		Cash	Bank
To Balance b/d	25,000	80,000	By Payment to Creditors	60,000	10,01,875
To Collection from Debtors	–	10,51,250	By Misc. Expenses	1,75,500	10,000
To Sales	3,62,500	–	By Addition to Machinery	–	1,00,000
To Additional Capital	–	50,000	By Travelling Expenses	24,000	–
			By Private Drawings	10,000	–
			By Loss by theft	1,18,000	
			By Balance c/d		69,375
	3,87,500	11,81,250		3,87,500	11,81,250

15. Books of Cloth Trader

Profit and Loss Account for the year ended 2020-21 (not assuming going concern)

Particulars	***Amount***	***Particulars***	***Amount***
	₹		₹
To Opening Stock	1,50,000	By Sales	27,50,000
To Purchases	22,50,000	By Closing Stock	2,50,000
To Expenses	78,000	By Trade payables	7,500
To Depreciation	35,000		
To Provision for doubtful debts	30,000		
To Deferred cost	50,000		
To Loan penalty	25,000		
To Net Profit (b.f.)	3,89,500		
	30,07,500		30,07,500

Balance Sheet as at 31st March, 2021 (not assuming going concern)

Liabilities	*Amount* ₹	*Assets*	*Amount* ₹
Capital	3,00,000	Fixed Assets	3,25,000
Profit & Loss A/c	5,14,500	Stock	2,50,000
10% Loan	2,35,000	Trade receivables (less provision)	1,20,000
Trade payables	67,500	Deferred costs	Nil
		Bank	4,22,000
	11,17,000		11,17,000

16. (a) The question deals with the issue of Applicability of Accounting Standards for corporate entities. The companies can be classified under two categories viz SMCs and Non-SMCs under the Companies (Accounting Standards) Rules, 2021. As per the Companies (Accounting Standards) Rules, 2021, criteria for above classification as SMCs, are:

"Small and Medium Sized Company" (SMC) means, a company-

- whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- which is not a bank, financial institution or an insurance company;
- whose turnover (excluding other income) does not exceed rupees two-fifty crores in the immediately preceding accounting year;

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- which does not have borrowings (including public deposits) in excess of rupees fifty crores at any time during the immediately preceding accounting year; and
- which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Since, XYZ Ltd.'s turnover was ₹ 225 crores which does not exceed ₹ 250 crores but borrowings of ₹ 51 crore are more than ₹ 50 crores, it is not a small and medium sized company (SMC). The exemptions available to SMC are not available to this company.

(b) Accounting Standards apply in respect of any enterprise (whether organized in corporate, co-operative or other forms) engaged in commercial, industrial or business activities, whether or not profit oriented and even if established for charitable or religious purposes. Accounting Standards however, do not apply to enterprises solely carrying on the activities, which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the Accounting Standards would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature. Even if a very small proportion of the activities of an enterprise were considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those, which are not commercial, industrial or business in nature.

17. (a) As per AS 2 "Valuation of Inventories", certain costs are excluded from the cost of the inventories and are recognised 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.

(b) Net Realisable Value of Inventory as on 31st March, 2021

= ₹ 107.75 x 20 units = ₹ 2,155

Value of inventory as per Weighted Average basis

<u>Total units purchased and total cost:</u>

01.03.2021	₹ 108 x 20 units = ₹ 2160
08.3.2021	₹ 107 x 15 units = ₹ 1605
17.03.2021	₹ 109 x 30 units = ₹ 3270
25.03.2021	₹ 107 x 15 units = ₹ 1605
Total	80 units = ₹ 8640

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Weighted Average Cost = ₹ 8640/80 units = ₹108

Total cost = ₹ 108 x 20 units = ₹ 2,160

Value of inventory to be considered while preparing Balance Sheet as on 31st March, 2021 is, Cost or Net Realisable value whichever is lower i.e. ₹ 2,155.

(c) AS 2 does not apply to producers of agricultural products but applies to traders in agricultural products. Hence AS 2 will apply to Rohan Pvt. Ltd. and it will have to value inventory at lower of cost or market value.

18. (a) Included in Cost**:**

Point no. 1,2,3,5,8

Excluded from Cost:

Point no. 4,6,7

(b) (i) As per AS 11 'The Effect of Changes in Foreign Exchange Rates", a foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Moreover, at each balance sheet date, foreign currency monetary items should be reported using the closing rate. Accordingly, on 31.12.2020 borrowings will be recorded at ₹ 1,32,00,000 (i.e., ₹ 3,00,000 × ₹ 44.00). On 31.3.2021 borrowings (monetary items) will be recorded at ₹ 1,33,50,000 (i.e. $ 3,00,000 × ₹ 44.50).

Journal of Kumar Ltd.

Date	Particular	Dr. (₹)	Cr. (₹)
31-12-2020	Bank A/c Dr.	1,32,00,000	
	To Foreign Loan Account		1,32,00,000
31-03-2021	Foreign Exchange Difference Account A/c Dr.	1,50,000	
	To Foreign Loan Account		1,50,000
30-06-2021	Foreign Loan Account A/c Dr.	1,33,50,000	
	Foreign Exchange Difference Account A/c Dr.	75,000	
	To Bank A/c		1,34,25,0000

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(ii) In case borrowings were repaid before Balance Sheet Date, then the entry would be as follows:

Date	Particular	Dr. (₹)	Cr. (₹)
28-02-2021	Foreign Loan Account A/c Dr.	1,32,00,000	
	Foreign Exchange Difference Account A/c Dr.	60,000	
	To Bank A/c		1,32,60,000

Working Notes:

(i) The exchange difference of ₹ 1,50,000 is arising because the transaction has been reported at different rate (₹ 44.50 = 1 US $) from the rate initially recorded (i.e., ₹ 44 = 1 US $) from the rate initially recorded (i.e., ₹ 44 = 1 US $)

(ii) The exchange difference of ₹ 75,000 is arising because the transaction has been settled at an exchange rate (₹ 44.75 = 1 US$) different from the rate at which reported in the last financial statements (₹ 44.50 = 1 US$).

(iii) The exchange difference of ₹ 60,000 is arising because the transaction has been settled at a different rate (i.e., ₹ 44.20 = 1 US $) than the rate at which initially recorded (1 US $ = ₹ 44.00)

19. (a) **Journal Entries**

Year	*Particulars*		*₹ in lakhs (Dr.)*	*₹ in lakhs (Cr.)*
2nd	Fixed Asset Account	Dr.	7.5	
	To Bank Account			7.5
	(Being government grant on asset partly refunded which increased the cost of fixed asset)			
	Depreciation Account (W.N.)	Dr.	5.5	
	To Fixed Asset Account			5.5
	(Being depreciation charged on SLM on revised value of fixed asset prospectively)			
	Profit & Loss Account	Dr.	5.5	
	To Depreciation Account			5.5
	(Being depreciation transferred to Profit and Loss Account at the end of year 2)			

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Working Note:

Depreciation for Year 2

	₹ in lakhs
Cost of the Asset	30
Less: Government grant received	(12)
	18
Less: Depreciation for the first year $\left[\frac{18-6}{4}\right]$	3
	15
Add: Government grant refundable	7.5
	22.5
Depreciation for the second year $\left[\frac{22.5-6}{3}\right]$	5.5

(b) The investments are classified into two categories as per AS 13, *viz.*, Current Investments and Long-term Investments. A current Investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made. The carrying amount for current investments is the lower of cost and fair value. Any reduction to fair value and any reversals of such reductions are included in the statement of profit and loss. A long-term investment is an investment other than a current investment. The investments referred in the question can be classified as long-term investments and long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long-term investment, the carrying amount is reduced to recognize the decline. The contention of the company to bring down the value of investment may be correct if the decline in value is permanent in nature and the reduction in carrying amount may be charged to the statement of profit and loss. The reduction in carrying amount is reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist.

20. (a) As per AS 16 Borrowing Costs "Capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete". On installation of the equipment, an evaluation has to be made to conclude whether substantially all the activities necessary to prepare the asset are complete. After an equipment has been installed it is usually tested and adjusted for commercial production before it is finally commissioned. The calibrations and adjustments required during this period are performed in order to bring the equipment up to the stage at which it is ready to commence commercial production. Until the asset reaches the stage when it is ready to support commercial levels of production, it is not appropriate to conclude that substantially all the activities

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necessary to prepare the asset are complete. Thus, the borrowing cost incurred during the normal period of test runs (after the installation) are required to be capitalized.

(b) As per provisions of AS 16, capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Further, the standard also explains that "An asset is normally ready for its intended use or sale when its physical construction or production is complete even though routine administrative work might sill continue. If minor modifications, such as the decoration of a property to the user's specification, are all that are outstanding, this indicates that substantially all the activities are complete". The emphasis in the Standard is on "to prepare the qualifying asset for its intended use or sale" and not the actual activity of sale. Therefore, where the physical construction of the asset is complete, substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Therefore, in the given case, the borrowing costs pertaining to the period during which the marketing activities to sell the asset are still in progress should not be capitalized as part of the cost of the asset.

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