

**PAPER – 1: ACCOUNTING**  
**ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY**  
**FOR MAY 2021 EXAMINATION**

**A. Applicable for May, 2021 examination**

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

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

- (A) under the heading “II Assets”, under sub-heading “Non-current assets”, for the words “Fixed assets”, the words “Property, Plant and Equipment” shall be substituted;
- (B) in the “Notes”, under the heading “General Instructions for preparation of Balance Sheet”, in paragraph 6,-
  - (I) under the heading “B. Reserves and Surplus”, in item (i), in sub- item (c), the word “Reserve” shall be omitted;
  - (II) in clause W., for the words “fixed assets”, the words “Property, Plant and Equipment” shall be substituted.

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

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

In PART II, under heading “REMUNERATION”, in Section II - ,

- (a) in the heading, the words “without Central Government approval” shall be omitted;
- (b) in the first para, the words “without Central Government approval” shall be omitted;
- (c) in item (A), in the proviso, for the words “Provided that the above limits shall be doubled” the words “Provided that the remuneration in excess of above limits may be paid” shall be substituted;
- (d) in item (B), for the words “no approval of Central Government is required” the words “remuneration as per item (A) may be paid” shall be substituted;
- (e) in Item (B), in second proviso, for clause (ii), the following shall be substituted, namely:-
  - “(ii) the company has not committed any default in payment of dues to any bank

or public financial institution or non-convertible debenture holders or any other secured creditor, and in case of default, the prior approval of the bank or public financial institution concerned or the non-convertible debenture holders or other secured creditor, as the case may be, shall be obtained by the company before obtaining the approval in the general meeting.";

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

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

- (a) in the heading, the words "without Central Government approval" shall be omitted;
- (b) in first para, the words "without the Central Government approval" shall be omitted;
- (c) in clause (b), in the long line, for the words "remuneration up to two times the amount permissible under Section II" the words "any remuneration to its managerial persons", shall be substituted;

**III. Notification dated 13th June, 2019 to exempt startup private companies from preparation of Cash Flow Statement as per Section 462 of the Companies Act 2013**

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

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

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

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

"32. An enterprise may dispose of its interest in a non-integral foreign operation through sale, liquidation, repayment of share capital, or abandonment of all, or part of, that operation. The payment of a dividend forms part of a disposal only when it constitutes a return of the investment. Remittance from a non-integral foreign operation by way of repatriation of accumulated profits does not form part of a

disposal unless it constitutes return of the investment. In the case of a partial disposal, only the proportionate share of the related accumulated exchange differences is included in the gain or loss. A write-down of the carrying amount of a non-integral foreign operation does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognized at the time of a write-down".

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

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

Regulation 293 - Conditions for Bonus Issue

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

- (a) it is authorized by its articles of association for issue of bonus shares, capitalization of reserves, etc.: Provided that if there is no such provision in the articles of association, the issuer shall pass a resolution at its general body meeting making provisions in the articles of associations for capitalization of reserve;
- (b) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
- (c) it has not defaulted in respect of the payment of statutory dues of the employees such as contribution to provident fund, gratuity and bonus;
- (d) any outstanding partly paid shares on the date of the allotment of the bonus shares, are made fully paid-up;
- (e) any of its promoters or directors is not a fugitive economic offender.

Regulation 294 - Restrictions on a bonus issue

- (1) An issuer shall make a bonus issue of equity shares only if it has made reservation of equity shares of the same class in favour of the holders of outstanding compulsorily convertible debt instruments if any, in proportion to the convertible part thereof.
- (2) The equity shares so reserved for the holders of fully or partly compulsorily convertible debt instruments, shall be issued to the holder of such convertible debt instruments or warrants at the time of conversion of such convertible debt instruments, optionally convertible instruments, warrants, as the case may be, on the same terms or same proportion at which the bonus shares were issued.
- (3) A bonus issue shall be made only out of free reserves, securities premium account or capital redemption reserve account and built out of the genuine

profits or securities premium collected in cash and reserves created by revaluation of fixed assets shall not be capitalized for this purpose.

- (4) Without prejudice to the provisions of sub-regulation (3), bonus shares shall not be issued in lieu of dividends.
- (5) If an issuer has issued Superior Voting Right (SR) equity shares to its promoters or founders, any bonus issue on the SR equity shares shall carry the same ratio of voting rights compared to ordinary shares and the SR equity shares issued in a bonus issue shall also be converted to equity shares having voting rights same as that of ordinary equity shares along with existing SR equity shares.]

Regulation 295 - Completion of a bonus issue

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

Explanation:

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

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

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

In exercise of the powers conferred by sub-sections (1) and (2) of section 469 of the Companies Act, 2013 (18 of 2013), the Central Government made the Companies (Share Capital and Debentures) Amendment Rules, 2019 dated 16th August, 2019 to amend the Companies (Share Capital and Debentures) Rules, 2014. As per the Companies (Share Capital and Debentures) Amendment Rules, under principal rules, in rule 18, for sub-rule (7), the following sub-rule shall be substituted, namely: -

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

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

- (b) the limits with respect to adequacy of Debenture Redemption Reserve and investment or deposits, as the case may be, shall be as under;-
- (i) Debenture Redemption Reserve is not required for debentures issued by All India Financial Institutions regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures;
  - (ii) For other Financial Institutions within the meaning of clause (72) of section 2 of the Companies Act, 2013, Debenture Redemption Reserve shall be as applicable to Non –Banking Finance Companies registered with Reserve Bank of India.
  - (iii) For listed companies (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)), Debenture Redemption Reserve is not required in the following cases - (A) in case of public issue of debentures – A. for NBFCs registered with Reserve Bank of India under section 45-IA of the RBI Act, 1934 and for Housing Finance Companies registered with National Housing Bank; B. for other listed companies; (B) in case of privately placed debentures, for companies specified in sub-items A and B.
  - (iv) for unlisted companies, (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)) -
    - (A) for NBFCs registered with RBI under section 45-IA of the Reserve Bank of India Act, 1934 and for Housing Finance Companies registered with National Housing Bank, Debenture Redemption Reserve is not required in case of privately placed debentures.
    - (B) for other unlisted companies, the adequacy of Debenture Redemption Reserve shall be ten percent. of the value of the outstanding debentures;
  - (v) In case a company is covered in item (A) or item (B) of sub-clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), it shall on or before the 30th day of April in each year, in respect of debentures issued by a company covered in item (A) or item (B) of sub clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), invest or deposit, as the case may be, a sum which shall not be less than fifteen per cent., of the amount of its debentures maturing during the year, ending on the 31st day of March of the next year in any one or more methods of investments or deposits as provided in sub-clause (vi):

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

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

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

- (c) in case of partly convertible debentures, Debenture Redemption Reserve shall be created in respect of non-convertible portion of debenture issue in accordance with this sub-rule.
- (d) the amount credited to Debenture Redemption Reserve shall not be utilized by the company except for the purpose of redemption of debentures.”

**NOTE:** October, 2020 Edition of the Study Material on Paper 1 Accounting is applicable for May, 2021 Examination which incorporates the above amendments. The students who have editions prior to October, 2020 may refer above amendments.

**B. Not applicable for May, 2021 examination**

**Non-Applicability of Ind AS for May, 2021 Examination**

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16<sup>th</sup> February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May, 2021 Examination.

**PART – II: QUESTIONS AND ANSWERS**

**QUESTIONS**

**Financial Statements of Companies**

1. Om Ltd. has authorized capital of ₹ 50 lakhs divided into 5,00,000 equity shares of ₹ 10 each. Their books show the following ledger balances as on 31<sup>st</sup> March, 2021:

	₹		₹
Inventory 1.4.2020	6,65,000	Bank Current Account (Dr. balance)	20,000
Discounts & Rebates allowed	30,000	Cash in hand	11,000

Carriage Inwards	57,500		
Purchases	12,32,500	Calls in Arrear @ ₹ 2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity share capital	20,00,000
Furniture & Fixtures	1,50,000	(2,00,000 shares of ₹ 10 each)	
Business Expenses	56,000	Trade Payables	2,40,500
Wages	14,79,000	Sales	36,17,000
Freehold Land	7,30,000	Rent (Cr.)	30,000
Plant & Machinery	7,50,000	Transfer fees received	6,500
Engineering Tools	1,50,000	Profit & Loss A/c (Cr.)	67,000
Trade Receivables	4,00,500	Repairs to Building	56,500
Advertisement Expenses	15,000	Bad debts	25,500
Commission & Brokerage Expenses	67,500		

The inventory (valued at cost or market value, which is lower) as on 31<sup>st</sup> March, 2021 was ₹ 7,05,000. Outstanding liabilities for wages ₹ 25,000 and business expenses ₹ 36,500. It was decided to transfer ₹ 10,000 to reserves.

Charge depreciation on written down values of Plant & Machinery @ 5%, Engineering Tools @ 20% and Furniture & Fixtures @10%. Provide ₹ 25,000 as doubtful debts for trade receivables. Provide for income tax @ 30%. It was decided to transfer ₹ 10,000 to reserves.

You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2021 and Balance Sheet as at that date.

2. (a) XYZ Ltd. is having inadequacy of profits in the year ending 31-03-2021 and it proposes to declare 10% dividend out of General Reserves.

From the following particulars ascertain the amount that can be utilized from general reserves, according to the Companies (Declaration of Dividend out of Reserves) Rules, 2014:

5,00,000 Equity Shares of ₹ 10 each fully paid up	50,00,000
General Reserves	25,00,000
Revaluation Reserves	6,50,000
Net profit for the year	1,42,500

Average rate of dividend during the last five years has been 12%.

(b) Mohit Ltd. provides the following information as on 31st March, 2021:

Liabilities	₹
<u>Authorized capital:</u>	
1,00,000, 14% preference shares of ₹100	1,00,00,000
10,00,000 Equity shares of ₹100 each	<u>10,00,00,000</u>
	<u>11,00,00,000</u>
<u>Issued and subscribed capital:</u>	
77,500, 14% preference shares of ₹ 100 each fully paid	77,50,000
5,40,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	4,32,00,000
Share suspense account	90,00,000
Reserves and surplus	
Capital reserves (₹ 5,00,000 is revaluation reserve)	8,77,500
Securities premium	2,25,000
Secured loans:	
15% Debentures	2,92,50,000
Unsecured loans:	
Public deposits	16,65,000
Cash credit loan from SBI (short term)	5,92,500
Current Liabilities:	
Trade Payables	15,52,500
Assets:	
Investment in shares, debentures, etc.	3,50,50,000
Profit and Loss account (Dr. balance)	68,50,000

Share suspense account represents application money received on shares, the allotment of which is not yet made. You are required to compute effective capital as per the provisions of Schedule V if Mohit Ltd is non-investment company. Would your answer differ if Mohit Ltd. is an investment company?



**Cash Flow Statement**

- 3 The following are the extracts of Balance Sheet and Statement of Profit and Loss of Supriya Ltd.:

**Extract of Balance Sheet**

		<b>Particulars</b>	<b>Notes</b>	<b>2021 (₹000)</b>	<b>2020 (₹000)</b>
		<b>Equity and Liabilities</b>			
1		<b>Shareholder's funds</b>			
	(a)	Share capital	1	500	200
2		<b>Non-current liabilities</b>			
	(a)	Long term loan from bank		---	250
3		<b>Current liabilities</b>			
	(a)	Trade Payables		1,000	3,047
		<b>Assets</b>			
1		<b>Non-current assets</b>			
	(a)	Property, Plant and Equipment		230	128
2		<b>Current assets</b>			
	(a)	Trade receivables		2,000	4,783
	(b)	Cash & cash equivalents (Cash balance)		212	35

**Extract of Statement of Profit and Loss**

	<b>Particulars</b>	<b>Notes</b>	<b>2021 (₹000)</b>	<b>2020 (₹000)</b>
I	Expenses:			
	Employee benefits expense		69	25
	Other expenses	2	115	110
II	Tax expense:			
	Current tax (paid during year)		243	140

**Notes to accounts**

		<b>2021 (₹000)</b>	<b>2020 (₹000)</b>
1	<b>Share Capital</b>		
	Equity Shares of ₹10 each, fully paid up	500	200
2	<b>Other expenses</b>		
	Overheads	115	110

Prepare Cash Flow Statement of Supriya Ltd. for the year ended 31st March, 2021 in accordance with AS-3 (Revised) using direct method. All transactions were done in cash only. There were no outstanding/prepaid expenses as on 31st March, 2020 and on 31st March, 2021. Ignore depreciation. Dividend amounting ₹ 80,000 was paid during the year ended 31st March, 2021.

#### Profit/Loss prior to Incorporation

4. (a) Megha Ltd. was incorporated on 1.7.2020 to take over the running business of M/s Happy from 1.4.2020. The accounts of the company were closed on 31.3.2021.

The average monthly sales during the first three months of the year (2020-21) was twice the average monthly sales during each of the remaining nine months.

You are required to compute time ratio and sales ratio for pre and post incorporation periods.

- (b) The Business carried on by Kamal under the name "K" was taken over as a running business with effect from 1st April, 2020 by Sanjana Ltd., which was incorporated on 1st July, 2020. The same set of books was continued since there was no change in the type of business and the following particulars for the year ended 31st March, 2021 were available:

	₹	₹
Sales: Company period (1.7.20 to 31.3.21)	40,000	
Prior period (1.4.20 to 30.6.20)	<u>10,000</u>	50,000
Selling Expenses	3,500	
Preliminary Expenses written off	1,200	
Salaries paid	3,600	
Directors' Fees	1,200	
Interest on Capital (Upto 30.6.2020)	700	
Depreciation	2,800	
Rent expense	4,800	
Purchases: Company period (1.7.20 to 31.3.21)	3,125	
Prior period (1.4.20 to 30.6.20)	21,875	
Carriage Inwards	<u>1,000</u>	<u>43,800</u>
Net Profit		<u>6,200</u>

You are required to prepare a statement showing the amount of pre and post incorporation period profits stating the basis of allocation of expenses.

#### Accounting for Bonus Issue

5. Following is the information of Umesh Ltd. as at 31st March, 2021:

	₹
<b>Authorized capital:</b>	
30,000 12% Preference shares of ₹ 10 each	3,00,000
4,00,000 Equity shares of ₹ 10 each	<u>40,00,000</u>
	<u>43,00,000</u>
<b>Issued and Subscribed capital:</b>	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
3,00,000 Equity shares of ₹ 10 each, ₹ 8 paid up	24,00,000
<b>Reserves and surplus:</b>	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1<sup>st</sup> April, 2021, the Company has made final call @ ₹ 2 each on 3,00,000 equity shares. The call money was received by 20<sup>th</sup> April, 2021. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

You are required to prepare necessary journal entries in the books of the company.

### Right Issue

6. (a) Beta Ltd. having share capital of 20,000 equity shares of ₹10 each decides to issue rights share at the ratio of 1 for every 8 shares held at par value. Assuming all the share holders accepted the rights issue and all money was duly received, pass journal entry in the books of the company.
- (b) Omega Ltd. offers new shares of ₹ 100 each at 25% premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is ₹ 200. You are required to calculate the (i) Ex-right value of a share; (ii) Value of a right share?

### Redemption of Preference Shares

7. ABC Ltd. provides you the following information as on 31st March, 2021:

#### Share capital:

50,000 Equity shares of ₹ 10 each fully paid – ₹ 5,00,000;

1,500 10% Redeemable preference shares of ₹100 each fully paid – ₹ 1,50,000.

#### Reserve & Surplus:

Capital reserve – ₹ 1,00,000;

General reserve – ₹ 80,000;

Profit and Loss Account – ₹95,000.

On 1st April 2021, the Board of Directors decided to redeem the preference shares at premium of 10% by utilization of reserves.

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

### Redemption of Debentures

8. The following balances appeared in the books of Omega Ltd. as on 1-4-2020:

- (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 as per the requirement. On 31-3-2021, balance at bank was ₹ 80,00,000 before receipt of interest. Interest on Debentures had already been paid. The investments were realized at par for redemption of debentures at a premium of 10% on the above date.

Omega 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 Omega Ltd. for the year ended 31st March, 2021.

### Investment Accounts

9. On 1<sup>st</sup> April, 2019 Mr. Shyam had an opening balance of 1000 equity shares of X Ltd ₹ 1,20,000 (face value ₹100 each).

On 5.04.2019 he further purchased 200 cum-right shares for ₹ 135 each. On 8.04.2019 the director of X Ltd announced right issue in the ratio of 1:6.

Mr. Shyam waived off 100% of his entitlement of right issue in the favour of Mr. Rahul at the rate of ₹ 20 each.

All the shares held by Shyam had been acquired on cum right basis and the total market price (ex-right) of all these shares after the declaration of rights got reduced by ₹ 3,400.

On 10.10.2019 Shyam sold 350 shares for ₹ 140 each.

31.03.2020 The market price of each share is ₹ 125 each.

You are required to prepare the Investment account in the books of Mr. Shyam for the year ended 31.03.2020 assuming that the shares are being valued at average cost.

**Insurance Claim for loss of stock**

10. Ram's godown caught fire on 29th August, 2020. Large part of the stock of goods was destroyed and goods costing ₹ 56,350 could be salvaged. Ram provides you the following additional information:

	₹
Cost of stock on 1st April, 2019	3,55,250
Cost of stock on 31st March, 2020	3,95,050
Purchases during the year ended 31st March, 2020	28,39,800
Purchases from 1st April, 2020 to the date of fire	16,55,350
Cost of goods distributed as samples for advertising from 1st April, 2020 to the date of fire	20,500
Cost of goods withdrawn by trader for personal use from 1st April, 2020 to the date of fire	1,000
Sales for the year ended 31st March, 2020	40,00,000
Sales from 1st April, 2020 to the date of fire	22,68,000

Ram had taken the fire insurance policy for ₹ 4,00,000 with an average clause. You are required to compute the amount of the claim that will be admitted by the insurance company.

**Hire Purchase Transactions**

11. (a) What is meant by repossession. What is the treatment for repossession in the books of Hire Purchaser?
- (b) On 1st April 2018 M/s KMR acquired a machine on hire purchase from M/s PQR on the following terms:
- (1) Cash price of the machine was ₹ 2,40,000.
  - (2) The down payment at the time of signing the contract was ₹ 96,000.
  - (3) The balance amount is to be paid in 3 equal annual instalments plus interest.
  - (4) Interest is chargeable @ 8% p.a.

On this basis prepare the H.P. Interest Suspense Account and Account of M/s PQR in the books of the purchaser for the period of hire purchase.

**Departmental Accounts**

12. Below balances are taken from the records of M/s Big Shopping Complex for the year ended 31<sup>st</sup> March, 2020:

Details	Department P (₹)	Department Q (₹)
Opening Stock	1,00,000	80,000
Purchases	13,00,000	18,20,000
Sales	20,00,000	30,00,000

- Closing stock of Department P was ₹ 2,00,000 including goods transferred from Department Q for ₹ 40,000.
- Closing stock of Department Q was ₹ 4,00,000 including goods transferred from Department P for ₹ 60,000.
- Opening stock of Department P included goods for ₹ 20,000 transferred from Department Q and Opening stock of Department Q included goods for ₹ 30,000 transferred from Department P.
- Assume that above transfer amounts are cost to the transferee departments and the rate of gross profit is uniform from year to year.
- Total selling expenses incurred were ₹ 2,50,000 for both the departments.

From the above information, prepare Departmental Trading Account and Profit & Loss Account for the year ended 31<sup>st</sup> March 2020, after adjusting the unrealized departmental profits, if any.

**Accounting for Branches**

13. Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit at selling price is constant at 25 per cent throughout the year to 31<sup>st</sup> March, 2020.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal to 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch from head office.

The following details for the year ended 31<sup>st</sup> March, 2020 are given as follows:

	₹		₹
Opening Stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,328
Sales	3,61,280		

Manager's commission paid on account	2,400		
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From the above details, you are required to calculate the commission due to manager for the year ended 31<sup>st</sup> March, 2020.

### Accounts from Incomplete Records

14. Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹ 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	As on 1.4.2020	As on 31.3.2021
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?
Ram's capital	3,00,000	?

Analysis of his bank pass book reveals the following information:

- (a) Payment to creditors ₹ 7,00,000
- (b) Payment for business expenses ₹ 1,20,000
- (c) Receipts from debtors ₹ 7,50,000
- (d) Loan ₹ 1,00,000 taken on 1.10.2020 at 10% per annum
- (e) Cash deposited in the bank ₹ 1,00,000

He informs you that he paid creditors for goods ₹ 20,000 in cash and salaries ₹ 40,000 in cash. He has drawn ₹ 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales. All purchases are on credit basis.

You are required to prepare: Trading and Profit and Loss Account for the year ended 31.3.2021 and Balance Sheet as at 31<sup>st</sup> March, 2021.

### Framework for Preparation and Presentation of Financial Statements

15. (a) With regard to financial statements, name any five qualitative characteristics and elements.

- (b) Aman started a business on 1<sup>st</sup> April 2020 with ₹ 24,00,000 represented by 1,20,000 units of ₹ 20 each. During the financial year ending on 31<sup>st</sup> March, 2021, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Aman in the year 2020-21 if Financial Capital is maintained at historical cost.

### Accounting Standards

#### AS 1 Disclosure of Accounting Policies

16. (a) The draft results of Surya Ltd. for the year ended 31<sup>st</sup> March, 2020, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of ₹ 10 crores. The board in consultation with the managing director, decided to value year-end inventory at works cost (₹ 50 crores) instead of the hitherto method of valuation of inventory at prime cost (₹ 30 crores). As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2019-2020.

#### AS 2 Valuation of Inventories

- (b) The inventory of Rich Ltd. as on 31<sup>st</sup> March, 2020 comprises of Product – A: 200 units and Product – B: 800 units.

Details of cost for these products are:

Product – A: Material cost, wages cost and overhead cost of each unit are ₹ 40, ₹ 30 and ₹ 20 respectively, Each unit is sold at ₹ 110, selling expenses amounts to 10% of selling costs.

Product – B: Material cost and wages cost of each unit are ₹ 45 and ₹ 35 respectively and normal selling rate is ₹ 150 each, however due to defect in the manufacturing process 800 units of Product-B were expected to be sold at ₹ 70.

You are requested to value closing inventory according to AS 2 after considering the above.

#### AS 10 Property, Plant and Equipment

17. You are required to give the correct accounting treatment for the following in line with provisions of AS 10:
- (a) Trozen Ltd. operates a major chain of supermarkets all over India. It acquires a new store in Pune which requires significant renovation expenditure. It is expected that the renovations will be done in 2 months during which the store will be closed. The budget for this period, including expenditure related to construction and remodelling costs (₹ 18 lakhs), salaries of staff (₹ 2 lakhs) who will be preparing the store before its opening and related utilities costs (₹ 1.5 lakhs), is prepared. The cost of salaries of the staff and utilities are operating expenditures that would be incurred even after



the opening of the supermarket. What will the treatment of all these expenditures in the books of accounts?

- (b) ABC Ltd is setting up a new refinery outside the city limits. In order to facilitate the construction of the refinery and its operations, ABC Ltd. is required to incur expenditure on the construction/development of railway siding, road and bridge. Though ABC Ltd. incurs the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Can ABC Ltd. capitalize expenditure incurred on these items as property, plant and equipment (PPE)?

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

18. (a) Classify the following items into Monetary and Non-monetary:
- (i) Share capital; (ii) Trade Payables; (iii) Cash balance; (iv) Property, plant and equipment
  - (b) Trade payables of CAT Ltd. include amount payable to JBB Ltd., ₹ 10,00,000 recorded at the prevailing exchange rate on the date of transaction, transaction recorded at US \$1 = ₹ 80.00. The exchange rate on balance sheet date (31.03.2020) was US \$1 = ₹ 85.00. You are required to calculate the amount of exchange difference and also explain the accounting treatment needed for this as per AS 11 in the books of CAT Ltd.

### AS 12 Accounting for Government Grants

19. (a) (i) Hygiene Ltd. had received a grant of ₹ 50 lakh in 2012 from a State Government towards installation of pollution control machinery on fulfilment of certain conditions. The company, however, failed to comply with the said conditions and consequently was required to refund the said amount in 2020.
- The company debited the said amount to its machinery account in 2020 on payment of the same. It also reworked the depreciation for the said machinery from the date of its purchase and passed necessary adjusting entries in the year 2020 to incorporate the retrospective impact of the same. State whether the treatment done by the company is correct or not.
- (ii) ABC Ltd. received two acres of land received for set up of plant. It also received ₹2 lakhs received for purchase of machinery of ₹ 10 lakhs. Useful life of machinery is 5 years. Depreciation on this machinery is to be charged on straight-line basis. How should ABC Ltd. recognize these government grants in its books of accounts?

### AS 13 Accounting for Investments

- (b) Paridhi Electronics Ltd. invested in the shares of Dhansukh Ltd. on 1<sup>st</sup> May 2020 at a cost of ₹ 10,00,000. Three fourth of these investments were current investments and

the remaining investments were intended to be held for more than a year. The published accounts of Dhansukh Ltd. received in January, 2021 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics Ltd. may not fetch more than 7,50,000. The reduction in value is apparent to be non-temporary.

You are required to explain how you will deal with the above in the financial statements of the Paridhi Electronics Ltd. as on 31.3.21 with reference to AS 13?

### AS 16 Borrowing Costs

20. (a) When capitalisation of borrowing cost should cease as per Accounting Standard 16? Explain in brief.

### AS 11 The Effects of Changes in Foreign Exchange Rates and AS 16 Borrowing Costs

- (b) Shan Builders Limited has borrowed a sum of US \$ 10,00,000 at the beginning of Financial Year 2019-20 for its residential project at 4 %. The interest is payable at the end of the Financial Year. At the time of availment, exchange rate was ₹ 56 per US \$ and the rate as on 31<sup>st</sup> March, 2020 ₹ 62 per US \$. If Shan Builders Limited had borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%. You are required to compute Borrowing Cost and exchange difference for the year ending 31<sup>st</sup> March, 2020 as per applicable Accounting Standards.

## SUGSTED ANSWERS

### 1. Balance Sheet of Om Ltd. as at 31<sup>st</sup> March, 2021

	Particulars	Note No.	(₹)
<b>I</b>	<b>Equity and Liabilities</b>		
(1)	<b>Shareholders' Funds</b>		
	(a) Share Capital	1	19,90,000
	(b) Reserves and Surplus	2	3,82,000
(2)	<b>Current Liabilities</b>		
	(a) Trade Payables		2,40,500
	(b) Other Current Liabilities	3	61,500
	(c) Short-Term Provisions	4	<u>1,35,000</u>
	<b>Total</b>		<u>28,09,000</u>
<b>II</b>	<b>ASSETS</b>		
(1)	<b>Non-Current Assets</b>		
	(a) Property, Plant and Equipment	5	16,97,500

(2)	<b>Current Assets</b>		
	(a) Inventories		7,05,000
	(b) Trade Receivables	6	3,75,500
	(c) Cash and Cash Equivalents	7	<u>31,000</u>
	<b>Total</b>		<u>28,09,000</u>

**Statement of Profit and Loss of Om Ltd.**  
**for the year ended 31<sup>st</sup> March, 2021**

	Particulars	Note No.	(₹)
I	Revenue from Operations		36,17,000
II	Other Income	8	<u>36,500</u>
III	<b>Total Revenue [I + II]</b>		<b><u>36,53,500</u></b>
IV	Expenses:		
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,05,000]		(40,000)
	Employee Benefits Expenses	9	15,04,000
	Depreciation and Amortization Expenses		82,500
	Other Expenses	10	<u>4,24,500</u>
	<b>Total Expenses</b>		<b><u>32,03,500</u></b>
V	<b>Profit before Tax (III-IV)</b>		4,50,000
VI	<b>Tax Expenses @ 30%</b>		<u>(1,35,000)</u>
VII	<b>Profit for the period</b>		<u><u>3,15,000</u></u>

**Notes to Accounts:**

**1. Share Capital**

<b>Authorized Capital</b>	
5,00,000 Equity Shares of ₹ 10 each	<u>50,00,000</u>
<b>Issued Capital</b>	
2,00,000 Equity Shares of ₹ 10 each	20,00,000
<b>Subscribed Capital and fully paid</b>	
1,95,000 Equity Shares of ₹10 each	19,50,000
<b>Subscribed Capital but not fully paid</b>	
5,000 Equity Shares of ₹10 each ₹ 8 paid	<u>40,000</u>
(Call unpaid ₹10,000)	<u>19,90,000</u>

**2. Reserves and Surplus**

General Reserve		10,000
<b>Surplus i.e. Balance in Statement of Profit &amp; Loss:</b>		
Opening Balance	67,000	
Add: Profit for the period	3,15,000	
Less: Transfer to Reserve	<u>(10,000)</u>	<u>3,72,000</u>
		<u>3,82,000</u>

**3. Other Current Liabilities**

Outstanding Expenses [25,000+36,500]	61,500
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**4. Short-term Provisions**

Provision for Tax	1,35,000
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**5. Property, Plant and Equipment**

Particulars	Value given (₹)	Depreciation rate	Depreciation Charged (₹)	Written down value at the end (₹)
Land	7,30,000		-	7,30,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Engineering Tools	<u>1,50,000</u>	20%	<u>30,000</u>	<u>1,20,000</u>
	<u>17,80,000</u>		<u>82,500</u>	<u>16,97,500</u>

**6. Trade Receivables**

Trade receivables	4,00,500
Less: Provision for doubtful debts	<u>(25,000)</u>
	<u>3,75,500</u>

**7. Cash & Cash Equivalent**

Cash Balance	11,000
Bank Balance in current A/c	<u>20,000</u>
	<u>31,000</u>

**8. Other Income**

Miscellaneous Income (Transfer fees)	6,500
Rental Income	<u>30,000</u>
	<u>36,500</u>

**9. Employee benefits expenses**

Wages	14,79,000
Add: Outstanding wages	<u>25,000</u>
	<u>15,04,000</u>

**10. Other Expenses**

Carriage Inwards	57,500
Discount & Rebates	30,000
Advertisement	15,000
Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,500] (Business Expenses)	92,500
Bad Debts	25,500
Provision for Doubtful Debts	<u>25,000</u>
	<u>4,24,500</u>

2. (a) Amount that can be drawn from reserves for (10% dividend on ₹ 50,00,000 i.e. ₹ 5,00,000)

Profits available

Current year profit ₹ 1,42,500

Amount which can be utilized from reserves (₹ 5,00,000 – 1,42,500) ₹ 3,57,500

Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 20X1:

**Condition I**

Since 10% is lower than the average rate of dividend (12%), 10% dividend can be declared.

**Condition II**

Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital plus free reserves ie. ₹ 7,50,000 [10% of (50,00,000 + 25,00,000)]

**Condition III**

The balance of reserves after drawl ₹ 21,42,500 (₹ 25,00,000 - ₹ 3,57,500) should not fall below 15 % of its paid up capital ie. ₹ 7,50,000 (15% of ₹ 50,00,000]

Since all the three conditions are satisfied, the company can withdraw ₹ 3,57,500 from accumulated reserve (as per Declaration and Payment of Dividend Rules, 2014).

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

	Where Mohit Ltd. is a non-investment company	Where Mohit Ltd. is an investment company
Paid-up share capital —		
77,500, 14% Preference shares	77,50,000	77,50,000
5,40,000 Equity shares	4,32,00,000	4,32,00,000
Capital reserves	3,77,500	3,77,500
Securities premium	2,25,000	2,25,000
15% Debentures	2,92,50,000	2,92,50,000
Public Deposits	<u>16,65,000</u>	<u>16,65,000</u>
(A)	<u>8,24,67,500</u>	<u>8,24,67,500</u>
Investments	3,50,50,000	-
Profit and Loss account (Dr. balance)	<u>68,50,000</u>	<u>68,50,000</u>
(B)	<u>4,19,00,000</u>	<u>68,50,000</u>
Effective capital (A–B)	<u>4,05,67,500</u>	<u>7,56,17,500</u>

3.

**Supriya Ltd.**

**Cash Flow Statement for the year ended 31st March, 2021**  
(Using direct method)

		(₹ '000)
<b>Cash flows from operating activities</b>		
Cash receipts from customers	2,783	
Cash payments to suppliers	(2,047)	
Cash paid to employees	(69)	
Other cash payments (for overheads)	<u>(115)</u>	
Cash generated from operations	552	

Income taxes paid	(243)	
<i>Net cash from operating activities</i>		309
<b>Cash flows from investing activities</b>		
Payments for purchase of Property, Plant and Equipment	(102)	
<i>Net cash used in investing activities</i>		(102)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of share capital	300	
Bank loan repaid	(250)	
Dividend paid	(80)	
<i>Net cash used in financing activities</i>		(30)
<b>Net increase in cash and cash equivalents</b>		177
<b>Cash and cash equivalents at beginning of period</b>		<u>35</u>
<b>Cash and cash equivalents at end of period</b>		212

## 4. (a) Time ratio:

Pre-incorporation period (1.4.2020 to 1.7.2020) = 3 months

Post incorporation period (1.7.2020 to 31.3.2021) = 9 months

Time ratio = 3 : 9 or 1 : 3

**Sales ratio:**

Average monthly sale before incorporation was twice the average sale per month of the post incorporation period. If weightage for each post-incorporation month is x, then

Weighted sales ratio =  $3 \times 2x : 9 \times 1x = 6x : 9x$  or 2 : 3

## (b) Statement showing the calculation of profits/losses for pre incorporation and Post incorporation period profits of Sanjana Ltd.

for the year ended 31<sup>st</sup> March, 2021

Particulars	Basis	Pre	Post
		₹	₹
Sales (given)		10,000	40,000
Less: Purchases (given)		3,125	21,875
Carriage Inwards	1:7	<u>125</u>	<u>875</u>
Gross Profit (i)		<u>6,750</u>	<u>17,250</u>
Less: Selling Expenses	1:4	700	2,800

Preliminary Expenses			1,200
Salaries	1:3	900	2,700
Director Fees			1,200
Interest on capital		700	
Depreciation	1:3	700	2,100
Rent	1:3	<u>1,200</u>	<u>3,600</u>
Total of Expenses(ii)		<u>4,200</u>	<u>13,600</u>
Pre-incorporation/Net Profit (i-ii)		2,550	3,650

**Working Notes:**

1: Sales Ratio = 10,000 : 40,000 = 1 : 4

2: Time Ratio = 3:9 = 1:3

**5. Journal Entries in the books of Umesh Ltd.**

			₹	₹
1-4-2021	Equity share final call A/c	Dr.	6,00,000	
	To Equity share capital A/c			6,00,000
	(For final calls of ₹ 2 per share on 3,00,000 equity shares due as per Board's Resolution dated....)			
20-4-2021	Bank A/c	Dr.	6,00,000	
	To Equity share final call A/c			6,00,000
	(For final call money on 3,00,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital redemption reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	1,95,000	
	To Bonus to shareholders A/c			7,50,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	7,50,000	
	To Equity share capital A/c			7,50,000
	(For issue of bonus shares)			



6. (a)

		₹	₹
Bank A/c	Dr.	25,000	
To Equity share capital A/c			25,000
(For rights share issued at par value in the ratio of 1:8 equity shares due as per Board's Resolution dated....)			

**Working Note:**

Number of Rights shares to be issued -  $20,000/8 \times 1 = 2,500$  shares

(b) **Ex-right value of the shares**

= (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + No. of right shares) =  $(₹ 200 \times 5 \text{ Shares} + ₹ 125 \times 1 \text{ Share}) / (5+1)$  Shares

=  $₹ 1,125 / 6 \text{ shares} = ₹ 187.50$  per share.

**Value of right** = Cum-right value of the share – Ex-right value of the share  
 =  $₹ 200 - ₹ 187.50 = ₹ 12.50$  per share.

7.

**In the books of ABC Limited****Journal Entries**

Date	Particulars		Dr. (₹)	Cr. (₹)
2021				
April 1	10% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)	Dr.	1,50,000 15,000	1,65,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	1,65,000	1,65,000
	General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the	Dr. Dr.	80,000 70,000	1,50,000

	requirement of the Act)			
	Profit & Loss A/c	Dr.	15,000	
	To Premium on Redemption of Preference Shares A/c			15,000
	(Being premium on redemption charged to Profit and Loss A/c)			

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

**8. Debenture Redemption Reserve Account**

Date	Particulars	₹	Date	Particulars	₹
31 <sup>st</sup> March, 2021	To General reserve A/c (Refer Note)	7,50,000	1 <sup>st</sup> April, 2020	By Balance b/d	2,50,000
		—	1 <sup>st</sup> April, 2020	By Profit and loss A/c (Refer Note 1)	5,00,000
		<u>7,50,000</u>			<u>7,50,000</u>

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

		₹			₹
1 <sup>st</sup> April, 2020	To Balance b/d	11,25,000	31 <sup>st</sup> March, 2021	By Bank A/c	11,25,000
		<u>11,25,000</u>			<u>11,25,000</u>

**Bank Account**

		₹			₹
31 <sup>st</sup> March, 2021	To Balance b/d	80,00,000	31 <sup>st</sup> March, 2021	By Debenture holders A/c (110% of 75,00,000)	82,50,000
	To Interest on DRR Investment (11,25,000X 10%)	1,12,500			
	To DRR Investment A/c	<u>11,25,000</u>		By Balance c/d	<u>9,87,500</u>
		92,37,500			92,37,500

**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.

9.

**In the books of Mr. Shyam**  
**for the year ending on 31-3-2020**  
**(Scrip: Equity Shares of X Limited)**

Date	Particulars	Qty	Amount	Date	Particulars	Qty	Amount
1.4.2019	To Balance b/d	1000	1,20,000	8.04.2019	By Bank A/c (W.N.1)		3,400
5.04.2019	To Bank (200x ₹135)	200	27,000	10.10.2019	By Bank A/c (350x ₹140)	350	49,000
10.10.2019	To Profit & Loss A/c (W.N.2)		7,117	31.3.2020	By Balance c/d (W.N.3)	850	1,01,717
		1200	1,54,117			1200	1,54,117

**Working Notes:****1. Sale of Rights** ₹ 4,000

The market price of all shares of X Ltd after shares becoming ex-rights has been reduced by ₹ 3,400

In this case out of sale proceeds of ₹4,000; ₹ 3,400 may be applied to reduce the carrying amount to the market value and ₹ 600 would be credited to the profit and loss account.

**2. Profit on sale of 350 shares**

	Amount
Sale price of 350 shares (350 shares X 140 each)	₹ 49,000
Less: Cost of 350 shares $[(1,20,000+27,000-3,400) \times 350]/1200$	<u>₹ 41,883</u>
Profit	₹ 7,117

**3. Valuation of 850 shares as on 31.03.2020**

Particulars	Amount
Cost price of 850 shares $[(1,20,000 + 27,000 - 3,400) \times 850 / 1,200]$	₹ 1,01,717
Fair Value as on 31.03.2020 [850 X ₹ 125 each]	₹ 1,06,250
Cost price or fair value whichever is less	₹ 1,01,717

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

		₹		₹
To Opening Stock		3,95,050	By Sales	22,68,000
To Purchases	16,55,350		By Closing stock (Bal. fig.)	4,41,300
Less: Advertisement	(20,500)			
Drawings	<u>(1,000)</u>	16,33,850		
To Gross Profit [30% of Sales] [W N]		<u>6,80,400</u>		
		<u>27,09,300</u>		<u>27,09,300</u>

## Statement of Insurance Claim

	₹
Value of stock destroyed by fire	4,41,300
Less: Salvaged Stock	<u>(56,350)</u>
	<u>3,84,950</u>

**Note:** Since policy amount is less than the value of stock on date of fire, average clause will apply.

₹ 4,00,000/4,41,300 X 3,84,950 = ₹ 3,48,924 (rounded off)

Therefore, claim amount of ₹ 3,48,924 will be admitted by the Insurance Company.

**Working Note:**Trading Account for the year ended 31<sup>st</sup> March, 2020

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

## Rate of Gross Profit in 2019-20

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

11. (a) Repossession is the Right of the Seller to take back the goods sold from the Hire purchaser in case of any default by the Hire purchaser and can sell the goods after reconditioning to any other person. The hire purchaser closes the Hire Vendor's Account by transferring the balance of Hire Vendor Account to Hire Purchase Asset and then finding the profit and loss on repossession in Asset Account.

(b) In the books of M/s KMR (purchaser)

**H.P. Interest Suspense Account**

Date	Particulars	₹	Date	Particulars	₹
1.4.18	To M/s PQR A/c (W.N.)	23,040	31.3.19	By Interest A/c	11,520
			31.3.19	By Balance c/d	11,520
		<u>23,040</u>			<u>23,040</u>
1.4.19	To Balance b/d	11,520	31.3.20	By Interest A/c	7,680
			31.3.20	By Balance c/d	3,840
		<u>11,520</u>			<u>11,520</u>
1.4.20	To Balance b/d	3,840	31.3.21	By Interest A/c	3,840

**M/s PQR Account**

Date	Particulars	₹	Date	Particulars	₹
1.4.18	To Bank/Cash A/c	96,000	1.4.18	By Machine A/c	2,40,000
31.3.19	To Bank/Cash A/c	59,520	1.4.18	By H.P. Interest Suspense A/c	23,040
31.3.18	To Balance c/d	1,07,520			
		<u>2,63,040</u>			<u>2,63,040</u>
31.3.20	To Bank/Cash A/c	55,680	1.4.19	By Balance b/d	1,07,520
31.3.20	To Balance c/d	51,840			
		<u>1,07,520</u>			<u>1,07,520</u>
31.3.21	To Bank/Cash A/c	51,840	1.4.20	By Balance b/d	51,840

**Working Note:**

Cash Price 2,40,000

Down Payment 96,0001,44,000

₹ 1,44,000 to be paid in 3 instalments ie. ₹ 48,000 plus interest

Total interest = ₹ 11,520 + ₹ 7,680 + ₹ 3,840 = ₹ 23,040

**12. Departmental Trading and Profit & Loss A/c for M/s Big Shopping Complex****For the year ended 31<sup>st</sup> March 2020**

Details	Deptt. P (₹)	Deptt. Q (₹)	Details	Deptt. P (₹)	Deptt. Q (₹)
To Opening Stock	1,00,000	80,000	By Sales	20,00,000	30,00,000
To Purchases	13,00,000	18,20,000		2,00,000	4,00,000

To Gross Profit	8,00,000	15,00,000	By Closing Stock		
	22,00,000	34,00,000		22,00,000	34,00,000
To Selling Exp (in ratio of sales)	1,00,000	1,50,000	By Gross Profit	8,00,000	15,00,000
To Profit transferred to General P&L A/c	7,00,000	13,50,000			
	8,00,000	15,00,000		8,00,000	15,00,000

**General Profit and Loss A/c for M/s Big Shopping Complex**

**For the year ended 31<sup>st</sup> March 2020**

Details	Amount (₹)	Details	Amount (₹)
To Stock Reserve		By Profit transferred from	
Deptt. P WN 1 & 2		Deptt. P	7,00,000
50% x (40,000 – 20,000)	10,000	Deptt. Q	13,50,000
Deptt. Q WN 1 & 3			
40% x (60,000 – 30,000)	12,000		
To Net Profit	20,28,000		
	20,50,000		20,50,000

**Working Notes:**

- Gross Profit Ratios are: Deptt. P =  $8,00,000 / 20,00,000 = 40\%$  and of Deptt. Q =  $15,00,000 / 30,00,000 = 50\%$ .
- Stock Reserve for Deptt. P shall be adjusted as per the gross profit ratio of Deptt. Q i.e. 50% (On Closing Stock – Opening Stock)
- Stock Reserve for Deptt. Q shall be adjusted as per the gross profit ratio of Deptt. P i.e. 40% (On Closing Stock – Opening Stock)

**13. In the books of Alpha Ltd.**

**Step 1: Calculation of Deficiency**

**Branch stock account (at invoice price)**

Particulars	₹	Particulars	₹
To Opening Stock (₹ 74,736 + 1/3 of ₹ 74,736)	99,648	By Sales	3,61,280
To Goods sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328
		By Deficiency at sale price [Balancing figure]	1,280
	<u>4,85,888</u>		<u>4,85,888</u>

**Step 2: Calculation of Net Profit before Commission****Branch account**

Particulars	₹	Particulars	₹
To Opening Stock [₹74,736 + 1/3 of ₹ 74,736]	99,648	By Sales	3,61,280
To Gross sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328
To Expenses	49,120	By Stock Reserve A/c	24,912
To Stock Reserve A/c [₹ 1,23,328 x 25/100]	30,832	By Goods sent to Branch A/c	96,560
To Net Profit – subject to manager's commission	<u>40,240</u>		
	<u>6,06,080</u>		<u>6,06,080</u>

**Step 3: Calculation of Commission still due to manager**

		₹
A	Calculation at 10% profit before charging his commission [₹ 40,240 x 10/100]	4,024
B	Less: 25% of cost of deficiency in stock [25% of (75% of ₹ 1,280)]	<u>(240)</u>
C	Commission for the year [A-B]	3,784
D	Less: Paid on account	<u>(2,400)</u>
E	Balance due (C-D)	1,384

14.

**Trading and Profit and Loss Account of Ram****for the year ended 31<sup>st</sup> March, 2021**

	₹		₹
To Opening stock	2,80,000	By Sales	
To Purchases	7,70,000	Cash      2,40,000	
To Gross Profit @ 25%	3,10,000	Credit <u>10,00,000</u>	12,40,000
	<u>13,60,000</u>	By Closing Stock (bal.fig.)	<u>1,20,000</u>
			<u>13,60,000</u>
To Salaries	40,000	By Gross Profit	3,10,000
To Business expenses	1,20,000		
To Interest on loan	5,000		

(10% of 1,00,000 x 6/12)			
To Net Profit	<u>1,45,000</u>		<u>3,10,000</u>
	<u>3,10,000</u>		<u>3,10,000</u>

**Balance Sheet of Ram as at 31<sup>st</sup> March, 2021**

Liabilities	₹	₹	Assets	₹
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	<u>1,45,000</u>		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000
Less: Drawings	<u>(80,000)</u>	3,65,000		
Loan (including interest due)		1,05,000		
Sundry Creditors		<u>90,000</u>		
		<u>5,60,000</u>		<u>5,60,000</u>

**Working Notes:****1. Sundry Debtors Account**

	₹		₹
To Balance b/d	1,00,000	By Bank A/c	7,50,000
To Credit sales (Bal. fig)	<u>10,00,000</u>	By Balance c/d	<u>3,50,000</u>
	<u>11,00,000</u>		<u>11,00,000</u>

**2. Sundry Creditors Account**

	₹		₹
To Bank A/c	7,00,000	By Balance b/d	40,000
To Cash A/c	20,000	By Purchases (Bal. fig.)	7,70,000
To Balance c/d	<u>90,000</u>		
	<u>8,10,000</u>		<u>8,10,000</u>

**3. Cash and Bank Account**

	Cash	Bank		Cash	Bank
	₹	₹		₹	₹
To Balance b/d	10,000		By Balance b/d		50,000
To Sales (bal. fig)	2,40,000		By Bank A/c (C)	1,00,000	
To Cash (C)		1,00,000	By Salaries	40,000	
To Debtors		7,50,000	By Creditors	20,000	7,00,000
To Loan		1,00,000	By Drawings	80,000	



			By Business expenses		1,20,000
			By Balance c/d	10,000	80,000
	<u>2,50,000</u>	<u>9,50,000</u>		<u>2,50,000</u>	<u>9,50,000</u>

15. (a) (i) **Qualitative Characteristics of Financial Statements:**

Understandability, Relevance, Comparability, Reliability & Faithful Representation

(ii) **Elements of Financial Statements:**

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

(b)

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

16. (a) As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

**Notes on Accounts:**

“During the year inventory has been valued at factory cost, against the practice of valuing it at prime cost as was the practice till last year. This has been done to take cognizance of the more capital intensive method of production on account of heavy capital expenditure during the year. As a result of this change, the year-end inventory has been valued at ₹ 50 crores and the profit for the year is increased by ₹ 20 crores.”

- (b) According to AS 2 ‘Valuation of Inventories’, inventories should be valued at the lower of cost and net realizable value.

**Product – A**

Material cost	₹ 40 x 200 = 8,000	
Wages cost	₹ 30 x 200 = 6,000	

Overhead	₹ 20 x 200 = <u>4,000</u>	
Total cost		₹ 18,000
Realizable value [200 x (110-11)]		₹ 19,800
Hence inventory value of Product -A		₹ 18,000

**Product – B**

Material cost	₹ 45 x 800 = 36,000	
Wages cost	₹ 35 x 800 = <u>28,000</u>	
Total cost		₹ 64,000
Realizable value (800 x 70)		₹ 56,000
Hence inventory value of Product-B		₹ 56,000
Total Value of closing inventory i.e. Product A + Product B (18,000+ 56,000)		₹ 74,000

17. (a) Trozen Ltd. should capitalize the costs of construction and remodelling the supermarket, because they are necessary to bring the store to the condition necessary for it to be capable of operating in the manner intended. The supermarket cannot be opened without incurring the remodelling expenditure. Therefore, this construction and remodelling expenditure of ₹ 18 lakh should be considered as part of the cost of the asset. However, the cost of salaries of the staff ₹ 2 lakh and utilities cost ₹ 1.5 lakh are operating expenditures that would be incurred even after the opening of the supermarket. Therefore, these costs are not necessary to bring the store to the condition necessary for it to be capable of operating in the manner intended by the management and should be expensed.
- (b) AS 10 states that the cost of an item of property, plant and equipment shall be recognized as an asset if, and only if:
- it is probable that future economic benefits associated with the item will flow to the entity; and
  - the cost of the item can be measured reliably.

Further, the standard provides that the standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. The cost of an item of property, plant and equipment comprise any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In the given case, railway siding, road and bridge are required to facilitate the construction of the refinery and for its operations. Expenditure on these items is

required to be incurred in order to get future economic benefits from the project as a whole which can be considered as the unit of measure for the purpose of capitalization of the said expenditure even though the company cannot restrict the access of others for using the assets individually. It is apparent that the aforesaid expenditure is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In view of this, even though ABC Ltd. may not be able to recognize expenditure incurred on these assets as an individual item of property, plant and equipment in many cases (where it cannot restrict others from using the asset), expenditure incurred may be capitalized as a part of overall cost of the project. From this, it can be concluded that, in the given case the expenditure incurred on these assets, i.e., railway siding, road and bridge, should be considered as the cost of constructing the refinery and accordingly, expenditure incurred on these items should be allocated and capitalized as part of the items of property, plant and equipment of the refinery.

18. (a) Share capital - Non-monetary; Trade Payables - Monetary

Cash balance – Monetary; Property, plant and equipment - Non-monetary

- (b) **Amount of Exchange difference and its Accounting Treatment**

	Foreign Currency Rate	₹
<b>Trade payables</b>		
Initial recognition US \$ 12,500 (₹10,00,000/80)	1 US \$ = ₹ 80	10,00,000
Rate on Balance sheet date	1 US \$ = ₹ 85	
Exchange Difference loss US \$ 12,500 x ₹ (85-80)		62,500
Treatment:		
Debit Profit and Loss A/c by ₹ 62,500 and Credit Trade Payables		

Thus, Exchange Difference on trade payables amounting ₹ 62,500 is required to be transferred to Profit and Loss.

19. (a) (i) As per the facts of the case, Hygiene Ltd. had received a grant of ₹ 50 lakh in 2012 from a State Government towards installation of pollution control machinery on fulfilment of certain conditions. However, the amount of grant has to be refunded since it failed to comply with the prescribed conditions. In such circumstances, AS 12, "Accounting for Government Grants", requires that the amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. The Standard further makes it clear that in the first alternative, i.e., where the book value of the

asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Accordingly, the accounting treatment given by Hygiene Ltd. of increasing the value of the plant and machinery is quite proper. However, the accounting treatment in respect of depreciation given by the company of adjustment of depreciation with retrospective effect is improper and constitutes violation of AS 12.

**(ii) ABC Ltd. should recognize the grants in the following manner:**

- As per AS 12, government grants may take the form of non-monetary assets, such as land or other resources, given at concessional rates. In these circumstances, it is usual to account for such assets at their acquisition cost. Non-monetary assets given free of cost are recorded at a nominal value. Accordingly, land should be recognised at nominal value in the balance sheet.
- The standard provides option to treat the grant either as a deduction from the gross value of the asset or to treat it as deferred income as per provisions of the standard. Under first method, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Accordingly, the grant of ₹ 2 lakhs is deducted from the cost of the machinery. Machinery will be recognised in the books at ₹ 10 lakhs – ₹ 2 lakhs = ₹ 8 lakhs and depreciation will be charged on it as follows:

$\text{₹ 8 lakhs} / 5 \text{ years} = \text{₹ 1.60 lakhs per year.}$

Under the second method, grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset. Such allocation to income is usually made over the periods and in the proportions in which depreciation on related assets is charged. ₹ 2 lakhs should be recognised as deferred income and will be transferred to profit and loss over the useful life of the asset. In this case, ₹ 40,000 [ $\text{₹ 2 lakhs} / 5 \text{ years}$ ] should be credited to profit and loss each year over the period of 5 years.

- (b)** As per AS 13, "Accounting for Investments", carrying amount for current investments is the lower of cost and fair value. But long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.

Paridhi Ltd. made three fourth of ₹ 10,00,000 i.e. ₹7,50,000 as current investment and remaining ₹ 2,50,000 as long term. The facts of the case given in the question clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares for both categories of shares to bring them to market value. Hence the carrying value of investments will be shown at amount of ₹ 7,50,000 in the financial statements for the year ended 31st March, 2021 and charge the difference of loss of ₹ 2,50,000 to profit and loss account.

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

- (b) (i) Interest for the period 2019-20

$$= \text{US \$ } 10 \text{ lakhs} \times 4\% \times ₹ 62 \text{ per US \$} = ₹ 24.80 \text{ lakhs}$$

- (ii) Increase in the liability towards the principal amount

$$= \text{US \$ } 10 \text{ lakhs} \times ₹ (62 - 56) = ₹ 60 \text{ lakhs}$$

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

$$= \text{US \$ } 10 \text{ lakhs} \times ₹ 56 \times 10.5\% = ₹ 58.80 \text{ lakhs}$$

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

Therefore, out of ₹ 60 lakhs increase in the liability towards principal amount, only ₹ 34 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be ₹ 58.80 lakhs being the aggregate of interest of ₹ 24.80 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of ₹ 34 lakhs. Hence, ₹ 58.80 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 "Borrowing Costs" and the remaining ₹ 26 lakhs (60 - 34) would be considered as the exchange difference to be accounted for as per AS 11 "The Effects of Changes in Foreign Exchange Rates".