

PAPER – 1: ACCOUNTING

**PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY
FOR May, 2020 EXAMINATION**

A. Applicable for May, 2020 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. Amendment in Higher Education Cess as per Finance Act, 2018

The rate of DDT is 15% excluding surcharge of 12% plus secondary and higher education cess is 4%* (revised as per Finance Act, 2018). This revised effective rate 17.472% (that is, 15% plus surcharge@12% plus health and education cess @4%) will be considered for computation of corporate Dividend Tax in preparation of Financial Statements of companies.

**Earlier this was 3%.*

IV. 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.

V. Amendments made by MCA in the Companies (Accounting Standards) Rules, 2006

MCA has issued Companies (Accounting Standards) Amendment Rules, 2016 to amend Companies (Accounting Standards) Rules, 2006 by incorporating the references of the Companies Act, 2013, wherever applicable. Also, the Accounting Standard (AS) 2, AS 4, AS 10, AS 13, AS 14, AS 21 and AS 29 as specified in these Rules will substitute the corresponding Accounting Standards with the same number as specified in Companies (Accounting Standards) Rules, 2006.

Following table summarizes the changes made by the Companies (Accounting Standards) Amendment Rules, 2016 vis a vis the Companies (Accounting Standards) Rules, 2006 in the Accounting Standards relevant for Paper 1:

Name of the standard	Para no.	As per the Companies (Accounting Standards) Rules, 2006	As per the Companies (Accounting Standards) Amendment Rules, 2016	Implication
AS 2	4 (an extract)	Inventories do not include machinery spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular; such machinery spares are accounted for in accordance with Accounting Standard (AS) 10, Accounting for Fixed Assets.	Inventories do not include spare parts, servicing equipment and standby equipment which meet the definition of property, plant and equipment as per AS 10, Property, Plant and Equipment. Such items are accounted for in accordance with Accounting Standard (AS) 10, Property, Plant and Equipment.	Now, inventories also do not include servicing equipment and standby equipment other than spare parts if they meet the definition of property, plant and equipment as per AS 10, Property, Plant and Equipment.

	27	Common classifications of inventories are raw materials and components, work in progress, finished goods, stores and spares, and loose tools.	Common classifications of inventories are: (a) Raw materials and components (b) Work-in-progress (c) Finished goods (d) Stock-in-trade (in respect of goods acquired for trading) (e) Stores and spares (f) Loose tools (g) Others (specify nature)".	Para 27 of AS 2 requires disclosure of inventories under different classifications. One residual category has been added to the said paragraph i.e. 'Others'.
AS 10	All	Fixed Assets	Property, Plant and Equipment	Entire standard has been revised with the title AS 10: 'Property, Plant and Equipment' by replacing the existing AS 6 and AS 10. The students are advised to refer the explanation of AS 10 Property, Plant and equipment (2016) given in Supplementary Material on AS 10 at the link: https://resource.cdn.icai.org/44440bos34351.PDF . AS 10 Property, Plant and equipment (2016) has also

				been incorporated in the revised chapter 1 "Accounting Standards" uploaded on the BoS knowledge portal at the link: https://resource.cdn.icai.org/38480bos28154-mod1-cp1.pdf
AS 13	20	The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property.	An investment property is accounted for in accordance with cost model as prescribed in Accounting Standard (AS) 10, Property, Plant and Equipment. The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property.	Accounting of investment property was not stated in this para but now incorporated i.e. at cost model.
	30	An enterprise holding investment properties should account for them as long term investments.	An enterprise holding investment properties should account for them in accordance with cost model as prescribed in AS 10, Property, Plant and Equipment.	Accounting of investment property shall now be in accordance with AS 10 i.e. at cost model

AS 14	3(a)	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to companies.	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'.	Definition of Amalgamation has been made broader by specifically including 'merger'.
	18 and 39	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Account') which is disclosed as a part of 'miscellaneous expenditure' or other similar category in the balance sheet. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Reserve') which is presented as a separate line item. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	Corresponding debit on account of statutory reserve in case of amalgamation in the nature of purchase is termed as 'Amalgamation Adjustment Reserve' and is now to be presented as a separate line item since there is not sub-heading like 'Miscellaneous expenditure' in Schedule III to the Companies Act, 2013

B. Not applicable for May, 2020 examination**Non-Applicability of Ind ASs for May, 2020 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 have not been made applicable for May, 2020 Examination.

PART – II: QUESTIONS AND ANSWERS**QUESTIONS****Financial Statements of Companies**

1. (a) On 31st March 2019, Gaurav Ltd. provides you the following particulars:

Particulars		Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each)			12,50,000
Call in Arrears		1,250	
Land & Building		6,87,500	
Plant & Machinery		6,56,250	
Furniture		62,500	
General Reserve			2,62,500
Loan from State Financial Corporation			1,87,500
Stock:			
Raw Materials	62,500		
Finished Goods	<u>2,50,000</u>	3,12,500	
Provision for Taxation			1,60,000
Trade Receivables		2,50,000	
Advances		53,375	
Profit & Loss Account			1,08,375
Cash in Hand		37,500	
Cash at Bank		3,08,750	
Unsecured Loan			1,51,250
Trade Payables (for Goods and Expenses)			2,50,000

The following additional information is also provided:

- (i) 2,500 Equity shares were issued for consideration other than cash.

- (ii) Debtors of ₹ 65,000 (included in trade receivables) are due for more than 6 months.
- (iii) The cost of the assets were:
Building ₹ 7,50,000, Plant & Machinery ₹ 8,75,000 and Furniture ₹ 78,125
- (iv) The balance of ₹ 1,87,500 in the Loan Account with State Finance Corporation is inclusive of ₹ 9,375 for Interest accrued but not due. The loan is secured by hypothecation of Plant & Machinery.
- (v) Balance at Bank includes ₹ 2,500 with Global Bank Ltd., which is not a Scheduled Bank.

You are required to prepare the Balance sheet of Gaurav Ltd. as on 31st March, 2019 as per Schedule III to the Companies Act, 2013.

- (b) The following is the Draft Profit & Loss A/c of Harsha Ltd., the year ended 31st March, 20X1:

		₹			₹
To	Administrative, Selling and distribution expenses	41,12,710	By	Balance b/d	28,61,750
To	Directors fees	6,73,900	By	Balance from Trading A/c	201,26,825
To	Interest on debentures	1,56,200	By	Subsidies received from Govt.	13,69,625
To	Managerial remuneration	14,26,750			
To	Depreciation on PPE	26,12,715			
To	Provision for Taxation	62,12,500			
To	General Reserve	20,00,000			
To	Investment Revaluation Reserve	62,500			
To	Balance c/d	71,00,925			
		243,58,200			243,58,200

Depreciation on PPE as per Schedule II of the Companies Act, 2013 was ₹ 28,76,725. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.

Cash Flow Statement

2. The following figures have been extracted from the books of X Limited for the year ended on 31.3.2019. You are required to prepare a cash flow statement as per AS 3 using indirect method.

- (i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 20 lakhs:
- Depreciation on PPE ₹ 5 lakhs.
 - Discount on issue of Debentures written off ₹ 30,000.
 - Interest on Debentures paid ₹ 3,50,000.
 - Book value of investments ₹ 3 lakhs (Sale of Investments for ₹ 3,20,000).
 - Interest received on investments ₹ 60,000.
 - Compensation received ₹ 90,000 by the company in a suit filed.
- (ii) Income tax paid during the year ₹ 10,50,000.
- (iii) 15,000, 10% preference shares of ₹ 100 each were redeemed on 31.3.2019 at a premium of 5%. Further the company issued 50,000 equity shares of ₹ 10 each at a premium of 20% on 2.4.2018. Dividend on preference shares were paid at the time of redemption.
- (iv) Dividend paid for the year 2017-2018 ₹ 5 lakhs and interim dividend paid ₹ 3 lakhs for the year 2018-2019.
- (v) Land was purchased on 2.4.2018 for ₹ 2,40,000 for which the company issued 20,000 equity shares of ₹ 10 each at a premium of 20% to the land owner as consideration.
- (vi) Current assets and current liabilities in the beginning and at the end of the years were as detailed below:

	As on 31.3.2018	As on 31.3.2019
	₹	₹
Inventory	12,00,000	13,18,000
Trade receivables	2,58,000	2,53,100
Cash in hand	1,96,300	35,300
Trade payables	2,11,000	2,11,300
Outstanding expenses	75,000	81,800

Profit/Loss prior to Incorporation

3. The partners of Shri Enterprises decided to convert the partnership firm into a Private Limited Company Shreya (P) Ltd. with effect from 1st January, 2018. However, company could be incorporated only on 1st June, 2018. The business was continued on behalf of the company and the consideration of ₹ 6,00,000 was settled on that day along with interest @ 12% per annum. The company availed loan of ₹ 9,00,000 @ 10% per annum on 1st June, 2018 to pay purchase consideration and for working capital. The company closed

its accounts for the first time on 31st March, 2019 and presents you the following summarized profit and loss account:

	₹	₹
Sales		19,80,000
Cost of goods sold	11,88,000	
Discount to dealers	46,200	
Directors' remuneration	60,000	
Salaries	90,000	
Rent	1,35,000	
Interest	1,05,000	
Depreciation	30,000	
Office expenses	1,05,000	
Sales promotion expenses	33,000	
Preliminary expenses (to be written off in first year itself)	<u>15,000</u>	<u>18,07,200</u>
Profit		<u>1,72,800</u>

Sales from June, 2018 to December, 2018 were 2½ times of the average sales, which further increased to 3½ times in January to March quarter, 2019. The company recruited additional work force to expand the business. The salaries from July, 2018 doubled. The company also acquired additional showroom at monthly rent of ₹ 10,000 from July, 2018.

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

Accounting for Bonus Issue

4. The following is the summarized Balance Sheet of Bumbum Limited as at 31st March, 2019:

	₹
Sources of funds	
<u>Authorized capital</u>	
50,000 Equity shares of ₹ 10 each	5,00,000
10,000 Preference shares of ₹ 100 each (8% redeemable)	<u>10,00,000</u>
	<u>15,00,000</u>
<u>Issued, subscribed and paid up</u>	
30,000 Equity shares of ₹ 10 each	3,00,000
5,000, 8% Redeemable Preference shares of ₹ 100 each	5,00,000

<u>Reserves & Surplus</u>	
Securities Premium	6,00,000
General Reserve	6,50,000
Profit & Loss A/c	40,000
Trade payables	<u>4,20,000</u>
	<u>25,10,000</u>
Application of funds	
Property, Plant & Equipment (net)	7,80,000
Investments (market value ₹ 5,80,000)	4,90,000
Deferred Tax Assets	3,40,000
Trade receivables	6,20,000
Cash & Bank balance	<u>2,80,000</u>
	<u>25,10,000</u>

In Annual General Meeting held on 20th June, 2019 the company passed the following resolutions:

- (i) To split equity share of ₹ 10 each into 5 equity shares of ₹ 2 each from 1st July, 2019.
- (ii) To redeem 8% preference shares at a premium of 5%.
- (iii) To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On 10th July, 2019 investments were sold for ₹ 5,55,000 and preference shares were redeemed.

The bonus issue was concluded by 12th September, 2019

You are requested to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30th September, 2019. All working notes should form part of your answer.

Internal Reconstruction of a Company

5. Platinum Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the company as on 31st March, 2019 before reconstruction:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital		Land & Building	42,70,000
50,000 shares of ₹ 50		Machinery	8,50,000
each fully paid up	25,00,000	Computers	5,20,000

1,00,000 shares of ₹ 50		Inventories	3,20,000
each ₹ 40 paid up	40,00,000	Trade receivables	10,90,000
Capital Reserve	5,00,000	Cash at Bank	2,68,000
8% Debentures of ₹ 100 each	4,00,000	Profit & Loss	29,82,000
12% Debentures of ₹ 100 each	6,00,000		
Trade Creditors	12,40,000		
Outstanding Expenses	<u>10,60,000</u>		
Total	<u>1,03,00,00</u>	Total	<u>1,03,00,000</u>

Following is the interest of Mr. Shiv and Mr. Ganesh in Platinum Limited:

	Mr. Shiv	Mr. Ganesh
8% Debentures	3,00,000	1,00,000
12% Debentures	<u>4,00,000</u>	<u>2,00,000</u>
Total	<u>7,00,000</u>	<u>3,00,000</u>

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

- (1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹ 40 each.
- (2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for ₹ 12,50,000.
- (3) Trade Creditors are given option of either to accept fully paid equity shares of ₹ 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade Creditors for ₹ 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.
- (4) Mr. Shiv agrees to cancel debentures amounting to ₹ 2,00,000 out of total debentures due to him and agrees to accept 15% Debentures for the balance amount due. He also agrees to subscribe further 15% Debentures in cash amounting to ₹ 1,00,000.
- (5) Mr. Ganesh agrees to cancel debentures amounting to ₹ 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.
- (6) Land & Building to be revalued at ₹ 51,84,000, Machinery at ₹ 7,20,000, Computers at ₹ 4,00,000, Inventories at ₹ 3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.
- (7) Outstanding Expenses are fully paid in cash.

- (8) Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

Amalgamation of Companies

6. The following are the summarized Balance Sheets of M Ltd. and N Ltd. as at 31st March, 2019:

	(₹ in lakhs)	
Liabilities	M Ltd.	N Ltd.
Fully paid equity shares of ₹ 10 each	3,600	900
10% Preference shares of ₹ 10 each, fully paid up	1,200	-
Capital Reserve	600	-
General Reserve	2,100	-
Profit and Loss Account	780	-
8% Redeemable debentures of ₹ 1,000 each	-	300
Trade payables	2,421	369
Provisions	870	93
	11,571	1,662
Assets		
Plant and Machinery	4,215	468
Furniture and Fixtures	2,400	183
Motor Vehicles	-	51
Inventory	2,370	444
Trade receivables	1,044	237
Cash at Bank	1,542	240
Discount on Issue of Debentures	-	39
	11,571	1,662

A new Company MN Ltd. was incorporated with an authorised capital of ₹ 15,000 lakhs divided into shares of ₹ 10 each. For the purpose of amalgamation in the nature of merger, M Ltd. and N Ltd. were merged into MN Ltd. on the following terms:

- (i) Purchase consideration for M Ltd.'s business is to be discharged by issue of 120 lakhs fully paid 11% preference shares of ₹ 10 each and 720 lakhs fully paid equity

shares of ₹ 10 each of MN Ltd. to the preference and equity shareholders of M Ltd. in full satisfaction of their claims.

- (ii) To discharge purchase consideration for N Ltd.'s business, MN Ltd. to allot 90 lakhs fully paid up equity shares of ₹ 10 each to shareholders of N Ltd. in full satisfaction of their claims.
- (iii) Expenses on the liquidation of M Ltd. and N Ltd. amounting to ₹ 6 lakhs are to be borne by MN Ltd.
- (iv) 8% redeemable debentures of N Ltd. to be converted into 8.5% redeemable debentures of MN Ltd.
- (v) Expenses on incorporation of MN Ltd. were ₹ 15 lakhs.

You are requested to:

- (a) Pass necessary Journal Entries in the books of MN Ltd. to record above transactions, and
- (b) Prepare Balance Sheet of MN Ltd. after merger.

Average Due Date

7. T owes to K the following amounts:

₹ 7,000 due on 15th March, 2019

₹ 12,000 due on 5th April, 2019

₹ 30,000 due on 25th April, 2019

₹ 20,000 due on 11th June, 2019

He desires to make the full payment on 30th June, 2019 along with interest @ 10% per annum after the average due date. Find out the average due date and the amount of interest. Amount of interest may be rounded off to the nearest rupee. Take 365 days in year.

Account Current

8. From the following particulars prepare the account current to be rendered by Mr. Singh to Mr. Paul as on 31st August, 2019. Interest must be calculated @ 10% p.a.

2019			Rs.		2019	Rs.
June	11	Goods sent to Mr. Paul	1,020	July 07	Goods sent to Mr. Paul	700
June	15	Cash received from Mr. Paul	500	August 08	Cash received from Mr. Paul	1,100
June	20	Goods sent to Mr. Paul	650			

Self – Balancing Ledgers

9. Ujju Enterprise furnishes you the following information for the period October to December, 2019. You are requested to draw up Debtors Ledger Adjustment account in the General Ledger:
- Total sales amounted to ₹ 2,20,000 including sale of old motor car for ₹ 10,000 (book value ₹ 5,000). Total credit sales were 80% higher than the cash sales.
 - Cash collection from debtors amounted to 60% of the aggregate of the opening debtors amounting to ₹ 40,000 and credit sales for the period. Debtors were allowed discount of ₹ 10,000.
 - Bills receivables drawn during the period totalled ₹ 20,000 of which one bill of ₹ 5,000 was dishonoured for non-payment as the party became insolvent and his estate realized 50 paise in a rupee.
 - A sum of ₹ 3,000 was written off as bad debts, ₹ 7,000 was realized against bad debts written off in earlier years and provision of ₹ 6,000 was made for doubtful debts.

Financial Statements of Not-For-Profit Organizations

10. The Income and Expenditure Account of City Sports Club for the year ended 31st March, 2019 was as follows:

Expenditure	Amount (₹)	Income	Amount (₹)
To Salaries	1,20,000	By Subscriptions	1,60,000
To Printing and Stationery	6,000	By Entrance Fee	10,000
To Rent	12,000	By Contribution for Annual dinner	20,000
To Repairs	10,000	By Profit on Annual Sports meet	20,000
To Sundry Expenses	8,000		
To Annual Dinner Expenses	30,000		
To Interest to Bank	6,000		
To Depreciation on Sports equipment	6,000		
To Excess of Income over Expenditure	<u>12,000</u>		
	<u>2,10,000</u>		<u>2,10,000</u>

The above account had been prepared after the following adjustments:

	₹
Subscriptions outstanding on 31.03.2018	12,000
Subscriptions received in advance on 31.03.2018	9,000
Subscriptions received in advance on 31.03.2019	5,400
Subscriptions outstanding on 31.03.2019	15,000

Salaries outstanding at the beginning and at the end of the financial year were ₹ 8,000 and ₹ 10,000 respectively. Sundry expenses included prepaid insurance expenses of ₹ 1,200.

The Club owned a freehold ground valued ₹ 2,00,000. The Club has sports equipment on 01.04.2018 valued at ₹ 52,000. At the end of the year, after depreciation, the sports equipment amounted to ₹ 54,000. The Club raised a loan of ₹ 40,000 from a bank on 01.01.2018, which was unpaid till 31.03.2019. On 31.03.2019, cash in hand was ₹ 32,000.

Prepare Receipts and Payments account of the Club for the year ended 31st March, 2019 and Balance Sheet as on that date. Consider the fact that the profit on annual sports meet has been realized in cash.

Accounts from Incomplete Records

11. The books of account of Mr. Maan of Mumbai showed the following figures:

	31.3.2018 ₹	31.3.2019 ₹
Furniture & fixtures	2,60,000	2,34,000
Stock	2,45,000	3,20,000
Debtors	1,25,000	?
Cash in hand & bank	1,10,000	?
Creditors	1,35,000	1,90,000
Bills payable	70,000	80,000
Outstanding salaries	19,000	20,000

An analysis of the cash book revealed the following:

	₹
Cash sales	16,20,000
Collection from debtors	10,58,000
Discount allowed to debtors	20,000

Cash purchases	6,15,000
Payment to creditors	9,73,000
Discount received from creditors	32,000
Payment for bills payable	4,30,000
Drawings for domestic expenses	1,20,000
Salaries paid	2,36,000
Rent paid	1,32,000
Sundry trade expenses	81,000

Depreciation is provided on furniture & fixtures @10% p.a. on diminishing balance method. Mr. Maan maintains a steady gross profit rate of 25% on sales.

You are required to prepare Trading and Profit and Loss account for the year ended 31st March, 2019 and Balance Sheet as on that date.

Hire Purchase Transactions

12. On January 1, 20X1 Kasturi Ltd. acquired a Pick-up Van on hire purchase from Shorya Ltd. The terms of the contract were as follows:

- The cash price of the van was ₹ 25,000.
- ₹ 10,000 were to be paid on signing of the contract.
- The balance was to be paid in annual instalments of ₹ 5,000 plus interest.
- Interest chargeable on the outstanding balance was 6% p.a.
- Depreciation at 10% p.a. is to be written-off using the straight-line method.

You are required to show the Van account & Shorya Ltd. account in the books of Kasturi Ltd. from January 1, 20X1 to December 31, 20X3.

Investment Accounts

13. Meera carried out the following transactions in the shares of Kumar Ltd.:

- On 1st April, 2019 she purchased 40,000 equity shares of ₹ 1 each fully paid up for ₹ 60,000.
- On 15th May 2019, Meera sold 8,000 shares for ₹ 15,200.
- At a meeting on 15th June 2019, the company decided:
 - To make a bonus issue of one fully paid up share for every four shares held on 1st June 2019, and
 - To give its members the right to apply for one share for every five shares held on 1st June 2019 at a price of ₹ 1.50 per share of which 75 paise is payable on

or before 15th July 2019 and the balance, 75 paise per share, on or before 15th September, 2019.

The shares issued under (i) and (ii) were not to rank for dividend for the year ending 31st December 2019.

- (a) Meera received her bonus shares and took up 4000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30th September 2019.
- (b) On 15th March 2020, she received a dividend from Kumar Ltd. of 15 per cent in respect of the year ended 31st Dec 2019.
- (c) On 30th March 2020, she received ₹ 28,000 from the sale of 20,000 shares.

You are required to record these transactions in the Investment Account in Meera's books for the year ended 31st March 2020 transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis. Expenses and tax to be ignored.

Insurance Claim for loss of stock

14. A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

	₹
Turnover in last financial year	36,00,000
Standing charges in last financial year	7,20,000
Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.	
Increase in turnover expected 25%.	
To achieve additional sales, trader has to incur additional expenditure of ₹ 50,000.	

Issues in Partnership Accounts

15. E, F and G were partners sharing Profits and Losses in the ratio of 5:3:2 respectively. On 31st March, 2018 Balance Sheet of the firm stood as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Buildings	55,000
E 50,000		Furniture	25,000
F 40,000		Stock	42,000
G <u>28,000</u>	1,18,000	Debtors	20,000
Creditors	33,500	Cash at bank	11,200

Outstanding Expenses	1,700		
	1,53,200		1,53,200

On 31st March, 2018, E decided to retire and F and G decided to continue as equal partners. Other terms of retirement were as follows:

- (i) Building be appreciated by 20%.
- (ii) Furniture be depreciated by 10%.
- (iii) A provision of 5% be created for bad debts on debtors.
- (iv) Goodwill be valued at two years' purchase of profit for the latest accounting year. The firm's profit for the year ended 31st March, 2018 was ₹ 25,000. No goodwill account is to be raised in the books of accounts.
- (v) Fresh capital be introduced by F and G to the extent of ₹ 10,000 and ₹ 35,000 respectively.
- (vi) Out of sum payable to retiring partner E, a sum of ₹ 45,000 be paid immediately and the balance be transferred to his loan account bearing interest @ 12% per annum. The loan is to be paid off by 31st March, 2020.

One month after E's retirement, F and G agreed to admit E's son H as a partner with one-fourth share in profits/losses. E agreed that the balance in his loan account be converted into H's capital. E also agreed to forgo one month's interest on his loan. It was also agreed that H will bring in, his share of goodwill through book adjustment, valued at the price on the date of E's retirement. No goodwill account is to be raised in the books.

You are requested to pass necessary Journal Entries to give effect to the above transactions and prepare partners' capital accounts.

Accounting in Computerized Environment

16. What do you mean by Customised Accounting Software? Explain in brief.

Applicability of Accounting Standards

AS 1 Disclosure of Accounting Policies

17. (a) (i) ABC Ltd. was making provision for non-moving inventories based on no issues for the last 12 months up to 31.3.2019.

The company wants to provide during the year ending 31.3.2020 based on technical evaluation:

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

Does this amount to change in Accounting Policy? Can the company change the method of provision?

- (ii) State whether the following statements are 'True' or 'False'. Also give reason for your answer.
1. Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
 2. If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
 3. All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
 4. Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.

AS 2 Valuation of Inventories

(b)

Particulars		Kg.	₹
Opening Inventory:	Finished Goods	1,000	25,000
	Raw Materials	1,100	11,000
Purchases		10,000	1,00,000
Labour			76,500
Overheads (Fixed)			75,000
Sales		10,000	2,80,000
Closing Inventory:	Raw Materials	900	
	Finished Goods	1200	

The expected production for the year was 15,000 kg of the finished product. Due to fall in market demand the sales price for the finished goods was ₹ 20 per kg and the replacement cost for the raw material was ₹ 9.50 per kg on the closing day. You are required to calculate the closing inventory as on that date.

AS 3 Cash Flow Statements

18. (a) Classify the following activities as (1) Operating Activities, (2) Investing Activities, (3) Financing Activities (4) Cash Equivalents.

- a. Proceeds from long-term borrowings.
- b. Proceeds from Trade receivables.
- c. Trading Commission received.
- d. Redemption of Preference Shares.
- e. Proceeds from sale of investment
- f. Interim Dividend paid on equity shares.
- g. Interest received on debentures held as investment.
- h. Dividend received on shares held as investments.
- i. Rent received on property held as investment.
- j. Dividend paid on Preference shares.
- k. Marketable Securities

Depreciation Accounting as per AS 10 Property, Plant and Equipment

- (b) (i) Entity A has a policy of not providing for depreciation on PPE capitalised in the year until the following year, but provides for a full year's depreciation in the year of disposal of an asset. Is this acceptable?
- (ii) Entity A purchased an asset on 1st January 2016 for ₹ 1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil. On 1st January 2020, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years. Calculate the amount of depreciation for each year, if company charges depreciation on Straight Line basis.

AS 7 Construction Contracts

19. (a) A construction contractor has a fixed price contract for ₹ 9,000 lacs to build a bridge in 3 years time frame. A summary of some of the financial data is as under:

	(Amount ₹ in lacs)		
	Year 1	Year 2	Year 3
Initial Amount for revenue agreed in contract	9,000	9,000	9,000
Variation in Revenue (+)	-	200	200
Contracts costs incurred up to the reporting date	2,093	6,168*	8,100**
Estimated profit for whole contract	950	1,000	1,000

*Includes ₹ 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.

**Excludes ₹ 100 lacs for standard material brought forward from year 2.

The variation in cost and revenue in year 2 has been approved by customer.

Compute year wise amount of revenue, expenses, contract cost to complete and profit or loss to be recognized in the Statement of Profit and Loss as per AS-7 (revised).

AS 9 Revenue Recognition

- (b) The following information of Meghna Ltd. is provided:
- (i) Goods of ₹ 60,000 were sold on 20-3-2019 but at the request of the buyer these were delivered on 10-4-2019.
 - (ii) On 15-1-2019 goods of ₹ 1,50,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-3-2019.
 - (iii) ₹ 1,20,000 worth of goods were sold on approval basis on 1-12-2018. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-1-2019 and no approval or disapproval received for the remaining goods till 31-3-2019.
 - (iv) Apart from the above, the company has made cash sales of ₹ 7,80,000 (gross). Trade discount of 5% was allowed on the cash sales.

You are required to advise the accountant of Meghna Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9.

AS 10 Property, Plant and Equipment

20. (a) The following items are given to you:

ITEMS

- (1) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment);
- (2) Costs of conducting business in a new location or with a new class of customer (including costs of staff training);
- (3) 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;
- (4) Costs of opening a new facility or business, such as, inauguration costs;
- (5) Purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

With reference to AS 10 "Property, Plant and Equipment", classify the above items under the following heads:

HEADS

- (i) Purchase Price of PPE
- (ii) Directly attributable cost of PPE or
- (iii) Cost not included in determining the carrying amount of an item of PPE.

AS 13 Accounting for Investments

- (b) Omega Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13. State the values, at which the investments have to be reclassified in the following cases:
- (i) Long term investments in Company A, costing ₹ 8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to ₹ 6.5 lakhs to recognize a permanent decline in value. The fair value on date of transfer is ₹ 6.8 lakhs.
 - (ii) Current investment in Company C, costing ₹ 10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is ₹ 12 lakhs.
 - (iii) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these investments was ₹ 18 lakhs but had been written down to ₹ 12 lakhs to recognize permanent decline as per AS 13.

SUGGESTED ANSWERS/HINTS

1. (a)

Gaurav Ltd.**Balance Sheet as on 31st March, 2019**

<i>Particulars</i>		<i>Notes</i>	₹
Equity and Liabilities			
1	Shareholders' funds		
a	Share capital	1	12,48,750
b	Reserves and Surplus	2	3,70,875
2	Non-current liabilities		
	Long-term borrowings	3	3,29,375

3	Current liabilities		
a	Trade Payables		2,50,000
b	Other current liabilities	4	9,375
c	Short-term provisions	5	1,60,000
	Total		23,68,375
	Assets		
1	Non-current assets		
	PPE	6	14,06,250
2	Current assets		
a	Inventories	7	3,12,500
b	Trade receivables	8	2,50,000
c	Cash and cash equivalents	9	3,46,250
d	Short-term loans and advances		53,375
	Total		23,68,375

Notes to accounts

		₹
1 Share Capital		
Equity share capital		
Issued & subscribed & called up		
12,500 Equity Shares of ₹ 100 each		
(of the above 2,500 shares have been issued for consideration other than cash)	12,50,000	
Less: Calls in arrears	(1,250)	12,48,750
Total		12,48,750
2 Reserves and Surplus		
General Reserve		2,62,500
Surplus (Profit & Loss A/c)		1,08,375
Total		3,70,875
3 Long-term borrowings		
Secured Term Loan		
State Financial Corporation Loan (1,87,500 – 9,375)		
(Secured by hypothecation of Plant and Machinery)		1,78,125

Unsecured Loan		1,51,250
Total		3,29,375
4 Other current liabilities		
Interest accrued but not due on loans (SFC)		9,375
5 Short-term provisions		
Provision for taxation		1,60,000
6 PPE		
Land and Building	7,50,000	
Less: Depreciation	<u>(62,500)</u>	6,87,500
Plant & Machinery	8,75,000	
Less: Depreciation	<u>(2,18,750)</u>	6,56,250
Furniture & Fittings	78,125	
Less: Depreciation	<u>(15,625)</u>	62,500
Total		<u>14,06,250</u>
7 Inventories		
Raw Materials		62,500
Finished goods		<u>2,50,000</u>
Total		<u>3,12,500</u>
8 Trade receivables		
Outstanding for a period exceeding six months		65,000
Other Amounts		<u>1,85,000</u>
Total		<u>2,50,000</u>
9 Cash and cash equivalents		
Cash at bank		
with Scheduled Banks	3,06,250	
with others (Global Bank Ltd.)	<u>2,500</u>	3,08,750
Cash in hand		<u>37,500</u>
Total		<u>3,46,250</u>

(b) Calculation of net profit u/s 198 of the Companies Act, 2013

	₹	₹
Balance from Trading A/c		201,26,825
Add: Subsidies received from Government		<u>13,69,625</u>
		214,96,450
Less: Administrative, selling and distribution expenses	41,12,710	
Director's fees	6,73,900	
Interest on debentures	1,56,200	
Depreciation on PPE as per Schedule II	<u>28,76,725</u>	<u>(78,19,535)</u>
Profit u/s 198		136,76,915

Maximum Managerial remuneration under Companies Act, 2013 = 11% of ₹ 136,76,915 = ₹ 15,04,461.

2.

X Ltd.

Cash Flow Statementfor the year ended 31st March, 2019

	₹	₹
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		20,00,000
Adjustments for:		
Depreciation on PPE	5,00,000	
Discount on issue of debentures	30,000	
Interest on debentures paid	3,50,000	
Interest on investments received	(60,000)	
Profit on sale of investments	<u>(20,000)</u>	<u>8,00,000</u>
Operating profit before working capital changes		28,00,000
Adjustments for:		
Increase in inventory	(1,18,000)	
Decrease in trade receivable	4,900	
Increase in trade payables	300	
Increase in outstanding expenses	<u>6,800</u>	<u>(1,06,000)</u>

Cash generated from operations		26,94,000
Income tax paid		<u>(10,50,000)</u>
		16,44,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		<u>90,000</u>
Net cash flow from operating activities		17,34,000
Cash flow from Investing Activities		
Sale proceeds of investments	3,20,000	
Interest received on investments	<u>60,000</u>	
Net cash flow from investing activities		3,80,000
Cash flow from Financing Activities		
Proceeds by issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(15,75,000)	
Preference dividend paid	(1,50,000)	
Interest on debentures paid	(3,50,000)	
Dividend paid (5,00,000 + 3,00,000)	<u>(8,00,000)</u>	
Net cash used in financing activities		<u>(22,75,000)</u>
Net decrease in cash and cash equivalents during the year		(1,61,000)
Add: Cash and cash equivalents as on 31.3.2018		<u>1,96,300</u>
Cash and cash equivalents as on 31.3.2019		<u>35,300</u>

Note: Purchase of land in exchange of equity shares (issued at 20% premium) has not been considered in the cash flow statement as it does not involve any cash transaction.

3.

Shreya (P) Limited**Profit and Loss Account****for 15 months ended 31st March, 2019**

	<i>Pre. inc.</i> <i>(5 months)</i> <i>(₹)</i>	<i>Post inc.</i> <i>(10 months)</i> <i>(₹)</i>		<i>Pre. inc.</i> <i>(5 months)</i> <i>(₹)</i>	<i>Post inc.</i> <i>(10 months)</i> <i>(₹)</i>
To Cost of sales	1,80,000	10,08,000	By Sales	3,00,000	16,80,000
To Gross profit	<u>1,20,000</u>	<u>6,72,000</u>	(W.N.1)		
	<u>3,00,000</u>	<u>16,80,000</u>		<u>3,00,000</u>	<u>16,80,000</u>
To Discount to dealers	7,000	39,200	By Gross profit	1,20,000	6,72,000

To Directors' remuneration	-	60,000	By Loss	750	
To Salaries (W.N.2)	18,750	71,250			
To Rent (W.N.3)	15,000	1,20,000			
To Interest (W.N.4)	30,000	75,000			
To Depreciation	10,000	20,000			
To Office expenses	35,000	70,000			
To Preliminary expenses	-	15,000			
To Sales promotion expenses	5,000	28,000			
To Net profit	-	<u>1,73,550</u>			
	<u>1,20,750</u>	<u>6,72,000</u>		<u>1,20,750</u>	<u>6,72,000</u>

Working Notes:**1. Calculation of sales ratio:**

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

Average Sales (Pre-incorporation) = $x \times 5 = 5x$

Sales (Post incorporation) from June to December, 2018 = $2\frac{1}{2} \times x \times 7 = 17.5x$

From January to March, 2019 = $3\frac{1}{2} \times x \times 3 = 10.5x$

Total Sales = 28.0x

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

2. Calculation of ratio for salaries

Let the average salary be x

Pre-incorporation salary = $x \times 5 = 5x$

Post incorporation salary

June, 2018 = x

July 18 to March, 2019 = $x \times 9 \times 2 = 18x$
19x

Ratio is 5 : 19

3. Calculation of Rent ₹

Total rent 1,35,000

Less: Additional rent for 9 months @ ₹ 10,000 p.m. 90,000

Rent of old premises apportioned in time ratio 45,000

Apportionment Pre Inc. Post Inc.

Old premises rent 15,000 30,000

Additional Rent	<u> </u>	<u>90,000</u>
	<u>15,000</u>	<u>1,20,000</u>

4. **Calculation of interest**

Pre-incorporation period from January, 2018 to May, 2018

$$\left(\frac{6,00,000 \times 12 \times 5}{100 \times 12} \right) = ₹ 30,000$$

Post incorporation period from June, 2018 to March, 2019

$$\left(\frac{9,00,000 \times 10 \times 10}{100 \times 12} \right) = ₹ 75,000$$

₹ 1,05,000

4.

Bumbum Limited

Journal Entries

2019		Dr. (₹)	Cr. (₹)
July 1	Equity Share Capital A/c (₹ 10 each) Dr. To Equity share capital A/c (₹ 2 each) (Being equity share of ₹ 10 each splitted into 5 equity shares of ₹ 2 each) {1,50,000 X 2}	3,00,000	3,00,000
July 10	Cash & Bank balance A/c Dr. To Investment A/c To Profit & Loss A/c (Being investment sold out and profit on sale credited to Profit & Loss A/c)	5,55,000	4,90,000 65,000
July 10	8% Redeemable preference share capital A/c Dr. Premium on redemption of preference share A/c Dr. To Preference shareholders A/c (Being amount payable to preference share holders on redemption)	5,00,000 25,000	5,25,000
July 10	Preference shareholders A/c Dr. To Cash & bank A/c (Being amount paid to preference shareholders)	5,25,000	5,25,000
July 10	General reserve A/c Dr. To Capital redemption reserve A/c (Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law)	5,00,000	5,00,000

Sept. 12	Capital Redemption Reserve A/c To Bonus to shareholders A/c (Being balance in capital redemption reserve capitalized to issue bonus shares)	Dr.	1,00,000	1,00,000
Sept. 12	Bonus to shareholders A/c To Equity share capital A/c (Being 50,000 fully paid equity shares of ₹ 2 each issued as bonus in ratio of 1 share for every 3 shares held)	Dr.	1,00,000	1,00,000
Sept. 30	Securities Premium A/c To Premium on redemption of preference shares A/c (Being premium on preference shares adjusted from securities premium account)	Dr.	25,000	25,000

Balance Sheet as at 30th September, 2019

Particulars		Notes	₹
Equity and Liabilities			
1 Shareholders' funds			
a Share capital	1		4,00,000
b Reserves and Surplus	2		12,30,000
2 Current liabilities			
a Trade Payables			4,20,000
Total			20,50,000
Assets			
1 Non-current assets			
a Property, Plant and Equipment			7,80,000
b Deferred tax asset			3,40,000
2 Current assets			
Trade receivables			6,20,000
Cash and cash equivalents			3,10,000
Total			20,50,000

Notes to accounts

1	Share Capital	₹	₹
	Authorized share capital		
	2,50,000 Equity shares of ₹ 2 each	5,00,000	
	10,000 8% Preference shares of ₹100 each	<u>10,00,000</u>	<u>15,00,000</u>

2	Issued, subscribed and paid up 2,00,000 Equity shares of ₹ 2 each		4,00,000
	Reserves and Surplus		
	Securities Premium A/c		
	Balance as per balance sheet	6,00,000	
	Less: Adjustment for premium on preference Shares	<u>(25,000)</u>	
	Balance		5,75,000
	Capital Redemption Reserve (5,00,000 -1,00,000)		4,00,000
	General Reserve (6,50,000 – 5,00,000)		1,50,000
	Profit & Loss A/c	40,000	
	Add: Profit on sale of investment	<u>65,000</u>	<u>1,05,000</u>
	Total		<u>12,30,000</u>

Working Notes:

₹		
1.	Redemption of preference share:	
	5,000 Preference shares of ₹ 100 each	5,00,000
	Premium on redemption @ 5%	<u>25,000</u>
	Amount Payable	<u>5,25,000</u>
2.	Issue of Bonus Shares	
	Existing equity shares after split (30,000 x 5)	1,50,000 shares
	Bonus shares (1 share for every 3 shares held) to be issued	50,000 shares
3.	Cash and Bank Balance	
	Balance as per balance sheet	2,80,000
	Add: Realization on sale of investment	<u>5,55,000</u>
		8,35,000
	Less: Paid to preference share holders	<u>(5,25,000)</u>
	Balance	<u>3,10,000</u>

5. **Journal Entries**

		₹	₹
Bank A/c	Dr.	10,00,000	

To Equity share capital A/c (Being money on final call received)			10,00,000
Equity share capital (₹ 50) A/c Dr.	75,00,000		
To Equity share capital (₹ 40) A/c			60,00,000
To Capital Reduction A/c			15,00,000
(Being conversion of equity share capital of ₹ 50 each into ₹ 40 each as per reconstruction scheme)			
Bank A/c Dr.	12,50,000		
To Equity Share Capital A/c			12,50,000
(Being new shares allotted at ₹ 40 each)			
Trade Creditors A/c Dr.	12,40,000		
To Equity share capital A/c (18,750 shares of ₹ 40 each)			7,50,000
To Bank A/c (4,90,000 x 70%)			3,43,000
To Capital Reduction A/c			1,47,000
(Being payment made to creditors in shares or cash to the extent of 70% as per reconstruction scheme)			
8% Debentures A/c Dr.	3,00,000		
12% Debentures A/c Dr.	4,00,000		
To Shiv A/c			7,00,000
(Being cancellation of 8% and 12% debentures of Shiv)			
Shiv A/c Dr.	8,00,000		
To 15% Debentures A/c (5,00,000+1,00,000)			6,00,000
To Capital Reduction A/c			2,00,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Bank A/c Dr.	1,00,000		
To Shiv A/c			1,00,000
(Being new debentures subscribed by Shiv)			
8% Debentures A/c Dr.	1,00,000		
12% Debentures A/c Dr.	2,00,000		
To Ganesh A/c			3,00,000

(Being cancellation of 8% and 12% debentures of Ganesh)			
Ganesh A/c Dr.	3,00,000		
To 15% Debentures A/c		2,50,000	
To Capital Reduction A/c		50,000	
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Land and Building Dr.	9,14,000		
(51,84,000 – 42,70,000)			
Inventories Dr.	30,000		
To Capital Reduction A/c		9,44,000	
(Being value of assets appreciated)			
Outstanding expenses A/c Dr.	10,60,000		
To Bank A/c		10,60,000	
(Being outstanding expenses paid in cash)			
Capital Reduction A/c Dr.	33,41,000		
To Machinery A/c		1,30,000	
To Computers A/c		1,20,000	
To Trade Receivables A/c		1,09,000	
To Profit and Loss A/c		29,82,000	
(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance, goodwill and downfall in value of other assets)			
Capital Reserve A/c Dr.	5,00,000		
To Capital Reduction A/c		5,00,000	
(Being debit balance of capital reduction account adjusted against capital reserve)			

Balance Sheet (as reduced) as on 31.3.2019

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	80,00,000

2	Non-current liabilities		
a	Long-term borrowings	2	<u>8,50,000</u>
	Total		<u>88,50,000</u>
	Assets		
1	Non-current assets		
a	PPE	3	63,04,000
2	Current assets		
a	Inventories		3,50,000
b	Trade receivables		9,81,000
c	Cash and cash equivalents		<u>12,15,000</u>
	Total		<u>88,50,000</u>

Notes to accounts

			₹
1. Share Capital			
	2,00,000 Equity shares of ₹ 40		80,00,000
2. Long-term borrowings			
	Secured		
	15% Debentures (assumed to be secured)		8,50,000
3. PPE			
	Land & Building	51,84,000	
	Machinery	7,20,000	
	Computers	<u>4,00,000</u>	63,04,000

Working Notes:**1. Cash at Bank Account**

Particulars	₹	Particulars	₹
To Balance b/d	2,68,000	By Trade Creditors A/c	3,43,000
To Equity Share capital A/c	10,00,000	By Outstanding expenses A/c	10,60,000
To Equity Share Capital A/c	12,50,000	By Balance c/d (bal. fig.)	12,15,000
To Shiv A/c	<u>1,00,000</u>		
	<u>26,18,000</u>		<u>26,18,000</u>

2. Capital Reduction Account

Particulars	₹	Particulars	₹
To Machinery A/c	1,30,000	By Equity Share Capital A/c	15,00,000

To Computers A/c	1,20,000	By Trade Creditors A/c	1,47,000
To Trade receivables A/c	1,09,000	By Shiv A/c	2,00,000
To Profit and Loss A/c	29,82,000	By Ganesh A/c	50,000
		By Land & Building	9,14,000
		By Inventories	30,000
		By Capital Reserve A/c	5,00,000
	<u>33,41,000</u>		<u>33,41,000</u>

6.

In the books of MN Ltd.

Journal Entries

(₹ in lakhs)			
		Dr.	Cr.
Business Purchase Account	Dr.	9,300	
To Liquidator of M Ltd.			8,400
To Liquidator of N Ltd.			900
(Being consideration payable to liquidators of the two companies taken over)			
Plant and Machinery Account (4,215+468)	Dr.	4,683	
Furniture and Fixtures Account (2,400+183)	Dr.	2,583	
Motor Vehicles Account	Dr.	51	
Inventory Account (2,370+444)	Dr.	2,814	
Trade receivables Account (1,044+237)	Dr.	1,281	
Cash at Bank Account (1,542+240)	Dr.	1,782	
Discount on issue of Debentures Account	Dr.	39	
Profit and Loss Account (Refer W.N.)	Dr.	120	
To 8% Redeemable Debentures of N Ltd. Account			300
To Trade payables Account (2,421+369)			2,790
To Provisions Account (870+93)			963
To Business Purchase Account			9,300
(Being incorporation of all the assets and liabilities and the excess of consideration over the share capital being adjusted against reserves and surplus)			
Liquidator of M Ltd. Account	Dr.	8,400	
Liquidator of N Ltd. Account	Dr.	900	

To Equity Share Capital Account (7,200+900)			8,100
To 11% Preference Share Capital Account			1,200
(Being allotment of fully paid shares in discharge of purchase consideration)			
Profit and Loss Account	Dr.	6	
To Bank Account			6
(Being payment of liquidation expenses of M Ltd. and N Ltd.)			
Preliminary Expenses Account	Dr.	15	
To Bank Account			15
(Being expenses on incorporation of MN Ltd.)			
8% Redeemable Debentures of N Ltd. Account	Dr.	300	
To 8.5% Redeemable Debentures Account			300
(Being conversion of 8% Debentures of N Ltd. into 8.5% Debentures)			
Profit and Loss Account	Dr.	15	
To Preliminary Expenses Account			15
(Being Preliminary Expenses are charged to Profit & Loss A/c in the year it is incurred and not shown in the Balance Sheet as per para 56 of AS 26)			

Balance Sheet of MN Ltd.

Particulars		Notes	₹ in lakhs
1. EQUITY & LIABILITY			
Shareholders' Funds			
a Share capital	1		9,300
b Reserve & Surplus	2		(141)
2 Non-Current-Liabilities			
a Long- term borrowings	3		300
3. Current-Liabilities			
a Trade Payables			2,790
b Short term provisions	4		963
Total			<u>13,212</u>

ASSETS			
1	Non-current assets		
a	Property, Plant & equipment	5	7,317
b	Other Non-current asset	6	39
2.	Current assets		
a	Inventories		2,814
b	Trade receivables		1,281
c	Cash and cash equivalents	7	<u>1,761</u>
	Total		<u>13,212</u>

Note to Accounts

		<i>₹ in lakhs</i>
1	Share Capital	
	Authorised share capital	
	15 crore shares of ₹10 each	<u>15,000</u>
	Issued, subscribed and paid up	
	810 lakhs Equity shares of ₹10 each, fully paid Reserves and Surplus	8,100
	120 lakhs 11% Preference shares of ₹10 each, fully paid	<u>1,200</u>
	(All the above mentioned shares have been issued for consideration other than cash)	
	Total	<u>9,300</u>
2	Reserves and Surplus	
	Profit and Loss Account (120+6+15)	(141)
3	Long-term borrowings	
	Secured	
	8.5% Redeemable Debentures	300
4	Short-term provisions	
	Others	963
5	PPE	
	Plant and Machinery	4,683
	Furniture and Fixtures	2,583
	Motor Vehicles	<u>51</u>
	Total	<u>7,317</u>

6 Other non-current assets	
Discount on Issue of Debentures	<u>39</u>
7 Cash and cash equivalents	
Cash at Bank (1,782–6–15)	1,761

Working Note:

Profit and Loss Account	(₹ in lakhs)	
Total consideration = ₹ (8,400 + 900) lakhs		9,300
Less: Share Capital of Companies taken over		<u>5,700</u>
[₹ (3,600 + 1,200 + 900) lakhs]		3,600
Amount to be adjusted:		
Capital Reserve	600	
General Reserve	2,100	
Profit & Loss A/c	<u>780</u>	<u>3,480</u>
Debit balance of Profit & Loss Account		<u>120</u>

7. Calculation of Average Due Date taking 15th March, 2019 as the base date

<i>Due date</i>	<i>Amount</i>	<i>No. of days from the base date i.e. 15th March, 2019</i>	<i>Product</i>
	₹		
15 th March, 2019	7,000	0	0
5 th April, 2019	12,000	21	2,52,000
25 th April, 2019	30,000	41	12,30,000
11 th June 2019	<u>20,000</u>	88	<u>17,60,000</u>
	<u>69,000</u>		<u>32,42,000</u>

$$\begin{aligned}
 \text{Average due date} &= \text{Base date} + \text{Days equal to } \frac{\text{Total of products}}{\text{Total amount}} \\
 &= 15^{\text{th}} \text{ March, 2019} + \frac{32,42,000}{69,000} \\
 &= 15^{\text{th}} \text{ March, 2019} + 47 \text{ days} = 1^{\text{st}} \text{ May, 2019}
 \end{aligned}$$

Interest amount: Interest can be calculated on ₹ 69,000 after 1st May, 2019 to 30th June, 2019 at 10% p.a. i.e. interest on ₹ 69,000 for 60 days at 10% p.a. = ₹ 69,000 x 10/100 x 60/365 = ₹ 1,134 (approx.)

8. **Mr. Paul in Account Current with Mr. Singh**
(Interest to 31st August, 2019 @ 10% p.a.)

Date	Particulars	Due Date	Amount	Days	Interest	Date	Particulars	Due Date	Amount	Days	Interest
2019			Rs.			2019			Rs.		
June 11	To Sales A/c	June 11	1,020	81	82,620	June 15	By Cash A/c	June 15	500	77	38,500
June 20	To Sales A/c	June 20	650	72	46,800	Aug. 8	By Cash A/c	Aug. 8	1,100	23	25,300
July 7	To Sales A/c	July 7	700	55	38,500	Aug. 31	By Balance of product				1,04,120
Aug. 31	To Interest A/c		28.53			Aug. 31	Balance c/d		798.53		
	(₹ 1,04,120 x 10%)/365		2,398.53		1,67,920				2,398.53		1,67,920
Sept. 1	To Balance b/d		798.53								

9. **In the books of Ujju Enterprise**

Debtors Ledger Adjustment Account in the General Ledger

2019		₹	2019		₹
Oct. 1	To Balance b/d	40,000	Oct. 1 to Dec. 31	By General Ledger Adj. A/c:	
Oct. 1 to Dec. 31	To General Ledger Adj. A/c:	1,35,000		Collection from debtors-bank	1,05,000
	Sales (Refer W.N.)			[60% of ₹ (40,000 + 1,35,000)]	
	Bills Receivables dishonoured	5,000		Discount allowed	10,000
				Bills receivables	20,000
				Bad debts (₹ 2,500 + ₹ 3,000)	5,500
				By Balance c/d	39,500
		1,80,000			1,80,000

Note: No entries are to be made:

- For ₹ 7,000 realised against bad debts written off in earlier years, and
- For provision of ₹ 6,000 made for doubtful debts.

Working Note:**Calculation of credit sales :**

	₹
Total trade sales (2,20,000 – 10,000)	2,10,000
Less: Cash sales $\left(2,10,000 \times \frac{100}{(180+100)} \right)$	<u>(75,000)</u>
Credit sales	<u>1,35,000</u>

10.

City Sports Club**Receipt and Payments Account for the year ended 31st March, 2019**

<i>Receipts</i>	<i>Amount (₹)</i>	<i>Payments</i>	<i>Amount (₹)</i>
To Balance b/d (Bal. Fig.)	27,800	By Salaries: for 2017-2018	8,000
To Subscription: for 2017-2018	12,000	for 2018-2019	1,10,000
for 2018-2019 (W.N.3)	1,36,000	By Printing and Stationery	6,000
for 2019-2020	5,400	By Rent	12,000
To Entrance Fees	10,000	By Repairs	10,000
To Contribution for Annual Dinner	20,000	By Sundry Expenses (8,000 + 1,200)	9,200
To Profit on Annual Sports Meet	20,000	By Annual Dinner Expenses	30,000
		By Interest to Bank	6,000
		By Sports Equipment (W.N.2)	8,000
		By Balance c/d	32,000
	<u>2,31,200</u>		<u>2,31,200</u>

Balance Sheet as at 31st March, 2019

<i>Liabilities</i>	<i>Amount (₹)</i>	<i>Amount (₹)</i>	<i>Assets</i>	<i>Amount (₹)</i>	<i>Amount (₹)</i>
Capital Fund (W.N.1)	2,34,800		Freehold Ground		2,00,000

Add: Excess of income over expenditure	<u>12,000</u>	2,46,800	Sports Equipment	52,000	
			Add: Additions during the year (Bal. Fig.)	<u>8,000</u>	
				60,000	
Bank Loan		40,000	Less: Depreciation	<u>(6,000)</u>	54,000
Outstanding Salaries		10,000	Subscription in Arrear		15,000
Subscription in Advance		5,400	Prepaid Insurance		1,200
			Cash in hand		32,000
		<u>3,02,200</u>			<u>3,02,200</u>

Working Notes:**(1) Opening Balance of Capital Fund:****Balance Sheet as at 31st March, 2018**

	₹		₹
Capital Fund (Bal. Fig.)	2,34,800	Freehold Ground	2,00,000
Bank Loan	40,000	Sports Equipment	52,000
Outstanding Salaries	8,000	Subscription in Arrear	12,000
Subscription in Advance	<u>9,000</u>	Cash in hand	<u>27,800</u>
	<u>2,91,800</u>		<u>2,91,800</u>

(2) Sports Equipment Account

	₹		₹
To Balance b/d	52,000	By Depreciation Account	6,000
To Bank Account	<u>8,000</u>	By Balance c/d	<u>54,000</u>
	<u>60,000</u>		<u>60,000</u>

(3) Subscription received during 2018-2019

	₹	₹
Subscription for 2018-2019		1,60,000
Less: Subscription outstanding as on 31.3.2019	15,000	
Less: Subscription received in advance as on 31.3.2018	<u>9,000</u>	<u>24,000</u>
		<u>1,36,000</u>

11. **Trading and Profit & Loss Account In the books of Mr. Maan**
for the year ended 31st March, 2019

<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
	₹		₹
To Opening stock	2,45,000	By Sales:	
To Purchases:		Cash	16,20,000
Cash	6,15,000	Credit (W.N.3)	11,00,000
Credit (W.N. 2)	15,00,000	By Closing stock	3,20,000
To Gross profit c/d	<u>6,80,000</u>		<u> </u>
	<u>30,40,000</u>		<u>30,40,000</u>
To Salaries (W.N.5)	2,37,000	By Gross profit b/d	6,80,000
To Rent	1,32,000	By Discount received	32,000
To Sundry trade expenses	81,000		
To Discount allowed	20,000		
To Depreciation on furniture & fixtures	26,000		
To Net profit	<u>2,16,000</u>		<u> </u>
	<u>7,12,000</u>		<u>7,12,000</u>

Balance Sheet
as at 31st March, 2019

<i>Liabilities</i>	<i>Amount</i>		<i>Amount</i>
	₹		₹
Capital		Fixed assets	
Opening balance (W.N.7)	5,16,000	Furniture & fixtures	2,34,000
Add: Net profit	<u>2,16,000</u>	Current assets:	
	7,32,000	Stock	3,20,000
Less: Drawings	<u>1,20,000</u>	Debtors (W.N.4)	1,47,000
	6,12,000	Cash & bank (W.N.6)	2,01,000
Current liabilities & provisions:			
Creditors	1,90,000		
Bills payable	80,000		
Outstanding salaries	<u>20,000</u>		<u> </u>
	<u>9,02,000</u>		<u>9,02,000</u>

Working Notes:**1. Bills Payable Account**

	₹		₹
To Cash/Bank	4,30,000	By Balance b/d	70,000
To Balance c/d	<u>80,000</u>	By Trade creditors (Bal. fig.)	<u>4,40,000</u>
	<u>5,10,000</u>		<u>5,10,000</u>

2. Creditors Account

	₹		₹
To Cash/Bank	9,73,000	By Balance b/d	1,35,000
To Bills payable A/c (W.N.1)	4,40,000	By Credit purchases (Bal. fig.)	15,00,000
To Discount received	32,000		
To Balance c/d	<u>1,90,000</u>		
	<u>16,35,000</u>		<u>16,35,000</u>

3. Calculation of credit sales

	₹
Opening stock	2,45,000
Add: Purchases	
Cash purchases	6,15,000
Credit purchases	<u>15,00,000</u>
	23,60,000
Less: Closing Stock	<u>3,20,000</u>
Cost of goods sold	<u>20,40,000</u>
Gross profit ratio on sales	25%
	27,20,000
Total sales $\left[₹ 20,40,000 \times \frac{100}{75} \right]$	
Less: Cash sales	<u>16,20,000</u>
Credit sales	<u>11,00,000</u>

4. Debtors Account

	₹		₹
To Balance b/d	1,25,000	By Cash/Bank	10,58,000
To Credit sales (W.N.3)	11,00,000	By Discount allowed	20,000
		By Balance c/d (Bal. fig.)	<u>1,47,000</u>
	<u>12,25,000</u>		<u>12,25,000</u>

5. **Salaries**

	₹
Salaries paid during the year	2,36,000
Add: Outstanding salaries as on 31.3.2019	<u>20,000</u>
	2,56,000
Less: Outstanding salaries as on 31.03.2018	<u>19,000</u>
	<u>2,37,000</u>

6. **Cash / Bank Account**

	₹		₹
To Balance b/d	1,10,000	By Cash purchases	6,15,000
To Cash sales	16,20,000	By Creditors	9,73,000
To Debtors	10,58,000	By Bills payable	4,30,000
		By Drawings	1,20,000
		By Salaries	2,36,000
		By Rent	1,32,000
		By Sundry trade expenses	81,000
		By Balance c/d	<u>2,01,000</u>
	<u>27,88,000</u>		<u>27,88,000</u>

7. **Balance Sheet as at 31st March, 2018**

	₹		₹
Creditors	1,35,000	Furniture & fixtures	2,60,000
Bills payable	70,000	Stock	2,45,000
Outstanding salaries	19,000	Debtors	1,25,000
Capital (Bal. fig.)	<u>5,16,000</u>	Cash & bank	<u>1,10,000</u>
	<u>7,40,000</u>		<u>7,40,000</u>

12. **Ledger Accounts in the books of Kasturi****Van Account**

Date	Particulars	₹	Date	Particulars	₹
1.1.20X1	To Shorya Ltd. A/c	25,000	31.12.20X1	By Depreciation A/c	2,500

1.1.20X2	To	Balance b/d	25,000	31.12.20X1	By	Balance c/d	22,500
			22,500	31.12.20X2	By	Depreciation A/c	2,500
			22,500	31.12.20X2	By	Balance c/d	20,000
1.1.20X3	To	Balance b/d	20,000	31.12.20X3	By	Depreciation A/c	2,500
			20,000	31.12.20X3	By	Balance c/d	17,500
			20,000				20,000

Shorya Ltd. Account

Date		Particulars	₹	Date		Particulars	₹
1.1.20X1	To	Bank A/c	10,000	1.1.20X1	By	Van A/c	25,000
31.12.20X1	To	Bank A/c	5,900	31.12.20X1	By	Interest A/c	900
31.12.20X1	To	Balance c/d	10,000				
			25,900				25,900
31.12.20X2	To	Bank A/c	5,600	1.1.20X2	By	Balance b/d	10,000
31.12.20X2	To	Balance c/d	5,000	31.12.20X2	By	Interest A/c	600
			10,600				10,600
31.12.20X3	To	Bank A/c	5,300	1.1.20X3	By	Balance b/d	5,000
			5,300	31.12.20X3	By	Interest A/c	300
							5,300

13. Investment Account (Shares in Kumar Limited) in the books of Meera

Date	Particulars	No. of Shares	Income	Amount	Date	Particulars	No. of Shares	Income	Amount
2019			₹	₹	2019			₹	₹
April 1	To Bank (Purchases)	40,000	-	60,000	May	By Bank (Sale)	8,000	-	15,200
May	To Profit & Loss A/c (W.N.1)	-	-	3,200					
June	To Bonus Issue	8,000	-	Nil	2020				
July	To Bank (@ 75 p. paid on 4,000 shares)	4,000	-	3,000	Mar. 15	By Bank (Dividend @ 15% on ₹ 32,000)		4,800	-

Sept.	To Bank (@ 75 p. paid on 4,000 shares)	-	-	3,000	Mar. 30	By Bank (Sale)	20,000	-	28,000
2020	To Profit & Loss A/c (W.N.2)			3,455	Mar. 31	By Balance c/d*	24,000	-	29,455
Mar. 31	To Profit & Loss A/c	-	4,800						
		<u>52,000</u>	<u>4,800</u>	<u>72,655</u>			<u>52,000</u>	<u>4,800</u>	<u>72,655</u>

$$* \left(\frac{24,000}{44,000} \times 54,000 \right)$$

Working Notes:

(1)	Profit on Sale on 15-5-2019: Cost of 8,000 shares @ ₹1.50 Less: Sales price Profit	₹ 12,000 ₹ 15,200 ₹ 3,200
(2)	Cost of 20,000 shares sold: Cost of 44,000 shares (48,000 + 6,000) ∴ Cost of 20,000 shares $\left(\frac{₹ 54,000}{44,000 \text{ shares}} \times 20,000 \text{ shares} \right)$ Profit on sale of 20,000 shares (₹ 28,000 – ₹ 24,545)	₹ 54,000 ₹ 24,545 ₹ 3,455

14. (a) Calculation of Gross Profit

$$\begin{aligned} \text{Gross Profit} &= \frac{\text{Net Profit} + \text{Standing Charges}}{\text{Turnover}} \times 100 \\ &= (3,60,000 + 7,20,000) / 36,00,000 = 30\% \end{aligned}$$

(b) Calculation of policy amount to cover loss of profit

	₹
Turnover in the last financial year	36,00,000
Add: 25% increase in turnover	<u>9,00,000</u>
	<u>45,00,000</u>
Gross profit on increased turnover (30% on 45,00,000)	13,50,000
Add: Additional standing charges	<u>50,000</u>
Policy Amount	<u>14,00,000</u>

Therefore, the trader should go in for a loss of profit policy of ₹ 14,00,000.

15.

		<i>Dr.</i>	<i>Cr.</i>
		₹	₹
1.	Building Account Dr. To Revaluation Account (Being building appreciated)	11,000	11,000
2.	Revaluation Account Dr. To Furniture Account To Provision for Doubtful Debts Account (Being furniture depreciated by 10% and Provision for doubtful debts created @ 5% on Debtors)	3,500	2,500 1,000
3.	Revaluation Account Dr. To E's Capital Account To F's Capital Account To G's Capital Account (Being profit on revaluation transferred to capital accounts of partners)	7,500	3,750 2,250 1,500
4.	F's Capital Account Dr. G's Capital Account Dr. To E's Capital Account (Being adjustment for E's share of goodwill)	10,000 15,000	25,000
5.	Bank Account Dr. To F's Capital Account To G's Capital Account (Being fresh capital introduced by F and G)	45,000	10,000 35,000
6.	E's Capital Account Dr. To Bank Account To E's Loan Account (Being settlement of E's capital on his retirement)	78,750	45,000 33,750
7.	E's Loan Account Dr. To H's Capital Account (Transfer of E's Loan Account to H's Capital Account)	33,750	33,750

8.	H's Capital Account	Dr.	12,500	
	To F's Capital Account			6,250
	To G's Capital Account			6,250
	(Being adjustment entry passed for H's share of goodwill)			

Partners' Capital Accounts

	E	F	G	H		E	F	G	H
	₹	₹	₹	₹		₹	₹	₹	₹
To E (Goodwill)		10,000	15,000		By Balance b/d	50,000	40,000	28,000	
To Bank	45,000				By Revaluation A/c	3,750	2,250	1,500	
To E's Loan A/c	33,750				By F (Goodwill)	10,000			
To Balance c/d		42,250	49,500		By G (Goodwill)	15,000			
					By Bank (fresh capital)		10,000	35,000	
	<u>78,750</u>	<u>52,250</u>	<u>64,500</u>			<u>78,750</u>	<u>52,250</u>	<u>64,500</u>	
To F (Goodwill)				6,250	By Balance b/d		42,250	49,500	
To G (Goodwill)				6,250	By E's Loan A/c				33,750
To Balance c/d		<u>48,500</u>	<u>55,750</u>	<u>21,250</u>	By H (goodwill)		<u>6,250</u>	<u>6,250</u>	
		<u>48,500</u>	<u>55,750</u>	<u>33,750</u>		<u>48,500</u>	<u>55,750</u>	<u>33,750</u>	

Working Notes:**1. Calculation of gaining ratio**

Partners	New ratio	Old ratio	Gain	Sacrifice
E		$\frac{5}{10}$		$\frac{5}{10}$
F	$\frac{1}{2}$	$\frac{3}{10}$	$\frac{1}{2} - \frac{3}{10} = \frac{2}{10}$	
G	$\frac{1}{2}$	$\frac{2}{10}$	$\frac{1}{2} - \frac{2}{10} = \frac{3}{10}$	

Hence, ratio of gain between F and G = 2:3

2. Value of total goodwill of the firm = ₹ 25,000 × 2 = ₹ 50,000

$$\text{E's share} = ₹ 50,000 \times \frac{5}{10} = \text{Rs. } 25,000$$

$$\text{F will bear} = ₹ 25,000 \times \frac{2}{5} = \text{Rs. } 10,000$$

$$\text{G will bear} = ₹ 25,000 \times \frac{3}{5} = \text{Rs. } 15,000$$

$$3. \quad \text{H's share of goodwill} = ₹ 50,000 \times \frac{1}{4} = ₹ 12,500$$

F and G share equal profits. Therefore, their sacrificing ratio will also be equal

Hence, each of them will be credited with ₹ 6,250

16. A customised accounting software is one where the software is developed on the basis of requirement specifications provided by the organisation. The choice of customised accounting software could be because of the typical nature of the business or else the functionality desired to be computerised is not available in any of the pre-packaged accounting software. An organisation desiring to have an integrated software package covering most of the functional area may have the financial module as part of the entire customised system.

17 (a) (i) The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made. In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from ₹ 3.5 lakhs to ₹ 2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2019-20:

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

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

2. False; As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
3. True; To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.
4. False; Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

(b) Calculation of cost for closing inventory

Particulars	₹
Cost of Purchase (10,200 x 10)	1,02,000
Direct Labour	76,500
Fixed Overhead $\frac{75,000 \times 10,200}{15,000}$	<u>51,000</u>
Cost of Production	<u>2,29,500</u>
Cost of closing inventory per unit (2,29,500/10,200)	₹ 22.50
Net Realisable Value per unit	₹ 20.00

Since net realisable value is less than cost, closing inventory will be valued at ₹ 20.

As NRV of the finished goods is less than its cost, relevant raw materials will be valued at replacement cost i.e. ₹ 9.50.

Therefore, value of closing inventory: Finished Goods (1,200 x 20)	₹ 24,000
Raw Materials (900 x 9.50)	<u>₹ 8,550</u>
	₹ 32,550

18. (a) Operating Activities: b, c.

Investing Activities: e, g, h, i.

Financing Activities: a, d, f, j.

Cash Equivalent: k.

- (b) (i)** The depreciable amount of a tangible fixed asset should be allocated on a systematic basis over its useful life. The depreciation method should reflect the

pattern in which the asset's future economic benefits are expected to be consumed by the entity. Useful life means the period over which the asset is expected to be available for use by the entity. Depreciation should commence as soon as the asset is acquired and is available for use. Thus, the policy of Entity A is not acceptable.

- (ii) The entity has charged depreciation using the straight-line method at ₹ 10,000 per annum i.e. (1,00,000/10 years). On 1st January 2020, the asset's net book value is [1,00,000 – (10,000 x 4)] = ₹ 60,000.

The remaining useful life is 4 years. The company should amend the annual provision for depreciation to charge the unamortised cost over the revised remaining life of four years. Consequently, it should charge depreciation for the next 4 years at ₹ 15,000 per annum i.e. (60,000 / 4 years). Depreciation is recognised even if the Fair value of the Asset exceeds its Carrying Amount. Repair and maintenance of an asset do not negate the need to depreciate it.

19. (a) The amounts of revenue, expenses and profit recognized in the statement of profit and loss in three years are computed below:

(Amount in ₹ lakhs)

	Up to the reporting date	Recognized in previous years	Recognized in current year
Year 1			
Revenue (9,000 x 26%)	2,340	-	2,340
Expenses (8,050 x 26%)	<u>2,093</u>	-	<u>2,093</u>
Profit	<u>247</u>	-	<u>247</u>
Year 2			
Revenue (9,200 x 74%)	6,808	2,340	4,468
Expenses (8,200 x 74%)	<u>6,068</u>	<u>2,093</u>	<u>3,975</u>
Profit	<u>740</u>	<u>247</u>	<u>493</u>
Year 3			
Revenue (9,200 x 100%)	9,200	6,808	2,392
Expenses (8,200 x 100%)	<u>8,200</u>	<u>6,068</u>	<u>2,132</u>
Profit	<u>1,000</u>	<u>740</u>	<u>260</u>

Working Note:

	Year 1	Year 2	Year 3
Revenue after considering variations	9,000	9,200	9,200
Less: Estimated profit for whole contract	<u>950</u>	<u>1,000</u>	<u>1,000</u>
Estimated total cost of the contract (A)	<u>8,050</u>	<u>8,200</u>	<u>8,200</u>

Actual cost incurred upto the reporting date (B)	2,093	6,068	8,200
		(6,168-100)	(8,100+100)
Degree of completion (B/A)	26%	74%	100%

(b) As per AS 9 “Revenue Recognition”, in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i) The sale is complete but delivery has been postponed at buyer’s request. Meghna Ltd. should recognize the entire sale of ₹ 60,000 for the year ended 31st March, 2019.

Case (ii) 20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 1,20,000 (80% of ₹ 1,50,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (iii) In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 1,20,000 as the time period for rejecting the goods had expired.

Case (iv) Trade discounts given should be deducted in determining revenue. Thus ₹ 39,000 should be deducted from the amount of turnover of ₹ 7,80,000 for the purpose of recognition of revenue. Thus, revenue should be ₹ 7,41,000.

20. (a)
- (1) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment) will be classified as “Directly attributable cost of PPE”.
 - (2) Costs of conducting business in a new location or with a new class of customer (including costs of staff training) will be classified under head (iii) as it will not be included in determining the carrying amount of an item of PPE.
 - (3) 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 will be included in determination of Purchase Price of PPE

- (4) Costs of opening a new facility or business, such as, inauguration costs will be classified under head (iii) as it will not be included in determining the carrying amount of an item of PPE.
 - (5) Purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates will be included in determination of Purchase Price of PPE.
- (b) As per AS 13 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. And where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer. Accordingly, the re-classification will be done on the following basis:
- (i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 6.5 lakhs in the books.
 - (ii) In this case, reclassification of current investment into long-term investments will be made at ₹ 10 lakhs as cost is less than its market value of ₹ 12 lakhs.
 - (iii) In this case, the book value of the investment is ₹ 12 lakhs, which is lower than its cost i.e. ₹ 18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at ₹ 12 lakhs.