

PAPER – 1: ACCOUNTING

**PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY
FOR MAY 2019 EXAMINATION**

A. Applicable for May, 2019 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, 2017 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. 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 summarises 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	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'.

			<p>goods acquired for trading)</p> <p>(e) Stores and spares</p> <p>(f) Loose tools</p> <p>(g) Others (specify nature)".</p>	
AS 10	All	Fixed Assets	Property, Plant and Equipment	<p>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 the Annexure. The Annexure is given at the end of Accounting Part II Suggested Answers.</p>
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	An investment property is accounted for in accordance with cost model as prescribed in Accounting Standard (AS) 10, Property, Plant and Equipment.	Accounting of investment property was not stated in this para but now incorporated i.e. at cost model.

		added to the carrying amount of the investment property.	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.	
	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	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable	Corresponding debit on account of statutory reserve in case of amalgamation in the nature of purchase is termed as 'Amalgamation

		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.	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.	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
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B. Not applicable for May, 2019 examination

Non-Applicability of Ind ASs for May, 2019 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May, 2019 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

1. (a) Shweta Ltd. has the Authorised Capital of ₹ 15,00,000 consisting of 6,000 6% Preference shares of ₹ 100 each and 90,000 equity Shares of ₹10 each. The following was the Trial Balance of the Company as on 31st March, 2018:

Particulars	Dr.	Cr.
Investment in Shares at cost	1,50,000	
Purchases	14,71,500	

Selling Expenses	2,37,300	
Inventory as at the beginning of the year	4,35,600	
Salaries and Wages	1,56,000	
Cash on Hand	36,000	
Interim Preference dividend for the half year to 30 th September	18,000	
Bills Receivable	1,24,500	
Interest on Bank overdraft	29,400	
Interest on Debentures upto 30 th Sep (1 st half year)	11,250	
Debtors	1,50,300	
Trade payables		2,63,550
Freehold property at cost	10,50,000	
Furniture at cost less depreciation of ₹ 45,000	1,05,000	
6% Preference share capital		6,00,000
Equity share capital fully paid up		6,00,000
5% mortgage debentures secured on Freehold properties		4,50,000
Income tax paid in advance for the current year	30,000	
Dividends		12,750
Profit and Loss A/c (opening balance)		85,500
Sales (Net)		20,11,050
Bank overdraft secured by hypothecation of stocks and receivables		4,50,000
Technical knowhow fees at cost paid during the year	4,50,000	
Audit fees	18,000	
Total	44,72,850	44,72,850

You are required to prepare the Profit and Loss Statement for the year ended 31st March, 2018 and the Balance Sheet as on 31st March, 2018 as per Schedule III of the Companies Act, 2013 after taking into account the following –

1. Closing Stock was valued at ₹ 4,27,500.
2. Purchases include ₹ 15,000 worth of goods and articles distributed among valued customers.
3. Salaries and Wages include ₹ 6,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".

4. Bills Receivable include ₹ 4,500 being dishonoured bills. 50% of which had been considered irrecoverable.
5. Bills Receivable of ₹ 6,000 maturing after 31st March were discounted.
6. Depreciation on Furniture to be charged at 10% on Written Down Value.
7. Investment in shares is to be treated as non-current investments.
8. Interest on Debentures for the half year ending on 31st March was due on that date.
9. Provide Provision for taxation ₹12,000.
10. Technical Knowhow Fees is to be written off over a period of 10 years.
11. Salaries and Wages include ₹ 30,000 being Director's Remuneration.
12. Trade receivables include ₹ 18,000 due for more than six months.

Managerial Remuneration – Effective Capital

- (b) The following extract of Balance Sheet of Gaurav Ltd. was obtained:

Balance Sheet (Extract) as on 31st March, 2018

Liabilities	Rs.
Authorised capital:	
90,000, 14% preference shares of ₹100	90,00,000
9,00,000 Equity shares of ₹100 each	<u>9,00,00,000</u>
	<u>9,90,00,000</u>
Issued and subscribed capital:	
67,500, 14% preference shares of ₹ 100 each fully paid	67,50,000
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 (₹ 6,75,000 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.	3,37,50,000
Profit and Loss account (Dr. balance)	68,62,500

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. Would your answer differ if Gaurav Ltd. is an investment company?

- (c) State under which head these accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:
- Share application money received in excess of issued share capital.
 - Share option outstanding account.
 - Unpaid matured debenture and interest accrued thereon.
 - Uncalled liability on shares and other partly paid investments.
 - Calls unpaid.

Cash flow statement

2. Preet Ltd. presents you the following information for the year ended 31st March, 2019:

		(₹ in lacs)
(i)	Net profit before tax provision	72,000
(ii)	Dividend paid	20,404
(iii)	Income-tax paid	10,200
(iv)	Book value of assets sold	444
	Loss on sale of asset	96
(v)	Depreciation debited to P & L account	48,000
(vi)	Capital grant received - amortized to P & L A/c	20
(vii)	Book value of investment sold	66,636
	Profit on sale of investment	240
(viii)	Interest income from investment credited to P & L A/c	6,000
(ix)	Interest expenditure debited to P & L A/c	24,000
(x)	Interest actually paid (Financing activity)	26,084
(xi)	Increase in working capital [Excluding cash and bank balance]	1,34,580
(xii)	Purchase of fixed assets	44,184
(xiii)	Expenditure on construction work	83,376

(xiv)	Grant received for capital projects	36
(xv)	Long term borrowings from banks	1,11,732
(xvi)	Provision for Income-tax debited to P & L A/c	12,000
	Cash and bank balance on 1.4.2018	12,000
	Cash and bank balance on 31.3.2019	16,000

You are required to prepare a cash flow statement as per AS-3 (Revised).

Profit/Loss prior to Incorporation

3. Lotus Ltd. was incorporated on 1st July, 2017 to acquire a running business of Feel goods with effect from 1st April, 2017. During the year 2017-18, the total sales were ₹ 48,00,000 of which ₹ 9,60,000 were for the first six months. The Gross profit of the company ₹ 7,81,600. The expenses debited to the Profit & Loss Account included:

- (i) Director's fees ₹ 60,000
- (ii) Bad debts ₹ 14,400
- (iii) Advertising ₹ 48,000 (under a contract amounting to ₹ 4,000 per month)
- (iv) Salaries and General Expenses ₹ 2,56,000
- (v) Preliminary Expenses written off ₹ 20,000
- (vi) Donation to a political party given by the company ₹ 20,000.

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2018.

Accounting for Bonus Issue

4. Following is the extract of the Balance Sheet of Xeta Ltd. as at 31st March, 2017

	₹
Authorised capital:	
50,000 12% Preference shares of ₹ 10 each	5,00,000
4,00,000 Equity shares of ₹ 10 each	<u>40,00,000</u>
	<u>45,00,000</u>
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Securities premium	1,00,000
Profit and Loss Account	6,00,000

On 1st April, 2017, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2017. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2017 after bonus issue.

Right issue

5. A company offers new shares of ₹ 100 each at 25% premium to existing shareholders on one for four basis. The cum-right market price of a share is ₹ 150. Calculate the value of a right.

Redemption of Preference shares

6. The capital structure of a AP Ltd. consists of 20,000 Equity Shares of ₹10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹100 each fully paid up (issued on 1.4.20X1).

Undistributed reserve and surplus stood as: General Reserve ₹ 80,000; Profit and Loss Account ₹ 20,000; Investment Allowance Reserve out of which ₹ 5,000, (not free for distribution as dividend) ₹ 10,000; Cash at bank amounted to ₹ 98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of ₹ 20,000 shall be retained in general reserve and which should not be utilised.

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

Redemption of Debentures

7. On 1st January, 2008 Raman Ltd. allotted 20,000 9% Debentures of ₹100 each at par, the total amount having been received along with applications.
- (i) On 1st January, 2010 the Company purchased in the open market 2,000 of its own debentures @ ₹ 101 each and cancelled them immediately.
 - (ii) On 1st January, 2013 the company redeemed at par debentures for ₹6,00,000 by draw of a lot.
 - (iii) On 1st January, 2014 the company purchased debentures of the face value of ₹4,00,000 for 3,95,600 in the open market, held them as investments for one year and then cancelled them.
 - (iv) Finally, as per resolution of the board of directors, the remaining debentures were redeemed at a premium of 2% on 1st January, 2018 when Securities Premium Account in the company's ledger showed a balance of ₹60,000.

Pass journal entries for the above mentioned transactions ignoring debenture redemption reserve, debenture - interest and interest on own' debentures.

Investment Accounts

8. A Ltd. purchased on 1st April, 2018 8% convertible debenture in C Ltd. of face value of ₹ 2,00,000 @ ₹ 108. On 1st July, 2018 A Ltd. purchased another ₹ 1,00,000 debenture @ ₹ 112 cum interest.

On 1st October, 2018 ₹ 80,000 debenture was sold @ ₹ 105. On 1st December, 2018, C Ltd. give option for conversion of 8% convertible debentures into equity share of ₹ 10 each. A Ltd. receive 5,000 equity share in C Ltd. in conversion of 25% debenture held on that date. The market price of debenture and equity share in C Ltd. at the end of year 2018 is ₹ 110 and ₹ 15 respectively.

Interest on debenture is payable each year on 31st March, and 30th September.

The accounting year of A Ltd. is calendar year.

Prepare investment account in the books of A Ltd. on average cost basis.

Insurance Claim for loss of stock or profit

9. A fire engulfed the premises of a business of M/s Preet on the morning of 1st July 2018. The building, equipment and stock were destroyed and the salvage recorded the following:

Building – ₹ 4,000; Equipment – ₹ 2,500; Stock – ₹ 20,000. The following other information was obtained from the records saved for the period from 1st January to 30th June 2018:

	₹
Sales	11,50,000
Sales Returns	40,000
Purchases	9,50,000
Purchases Returns	12,500
Cartage inward	17,500
Wages	7,500
Stock in hand on 31 st December, 2017	1,50,000
Building (value on 31 st December, 2017)	3,75,000
Equipment (value on 31 st December, 2017)	75,000
Depreciation provision till 31 st December, 2017 on:	
Building	1,25,000
Equipment	22,500

No depreciation has been provided since December 31st 2017. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method.

Normally business makes a profit of 25% on net sales. You are required to prepare the statement of claim for submission to the Insurance Company.

Hire Purchase Transactions

10. The following particulars relate to hire purchase transactions:

- (a) X purchased three cars from Y on hire purchase basis, the cash price of each car being ₹ 2,00,000.
- (b) The hire purchaser charged depreciation @ 20% on diminishing balance method.
- (c) Two cars were seized by on hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.
- (d) The hire vendor spent ₹ 10,000 on repairs of the cars and then sold them for a total amount of ₹ 1,70,000.

You are required to compute:

- (i) Agreed value of two cars taken back by the hire vendor.
- (ii) Book value of car left with the hire purchaser.
- (iii) Profit or loss to hire purchaser on two cars taken back by their hire vendor.
- (iv) Profit or loss of cars repossessed, when sold by the hire vendor.

Departmental Accounts

11. The following balances were extracted from the books of M/s Division. You are required to prepare Departmental Trading Account and Profit and Loss account for the year ended 31st December, 2018 after adjusting the unrealized department profits if any.

	<i>Deptt. A</i> ₹	<i>Deptt. B</i> ₹
Opening Stock	50,000	40,000
Purchases	6,50,000	9,10,000
Sales	10,00,000	15,00,000

General expenses incurred for both the departments were ₹ 1,25,000 and you are also supplied with the following information: (a) Closing stock of Department A ₹ 1,00,000 including goods from Department B for ₹ 20,000 at cost of Department A. (b) Closing stock of Department B ₹ 2,00,000 including goods from Department A for ₹ 30,000 at cost to Department B. (c) Opening stock of Department A and Department B include goods of the value of ₹ 10,000 and ₹ 15,000 taken from Department B and Department A respectively at cost to transferee departments. (d) The rate of gross profit is uniform from year to year.

Branch Accounting

12. M/s ABC & Co. has head office at New York (U.S.A.) and branch in Bangalore (India). Bangalore branch is an integral foreign operation of ABC & Co.

Bangalore branch furnishes you with its trial balance as on 31st March, 2018 and the additional information given thereafter:

	Dr.	Cr.
	(Rupees in thousands)	
Stock on 1 st April, 2017	300	
Purchases and Sales	800	1,200
Sundry Debtors & Creditors	400	300
Bills of Exchange	120	240
Wages & Salaries	560	-
Rent, Rates & Taxes	360	-
Sundry Charges	160	-
Computers	240	-
Bank Balance	420	-
New York Office A/c	<u>-</u>	<u>1,620</u>
	<u>3,360</u>	<u>3,360</u>

Additional Information:

- (a) Computers were acquired from a remittance of US \$ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.
- (b) Unsold stock of Bangalore branch was worth ₹ 4,20,000 on 31st March, 2018.
- (c) The rates of exchange may be taken as follows:
 - On 01.04.2017 @ ₹ 55 per US \$
 - On 31.03.2018 @ ₹ 60 per US \$
 - Average exchange rate for the year @ ₹ 58 per US \$
 - Conversion in \$ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2018 and the balance sheet as on that date of Bangalore branch as would appear in the books of New York head office of ABC & Co. You are informed that Bangalore branch account showed a debit balance of US \$ 29845.35 on 31.3.2018 in New York books and there were no items pending reconciliation.

Accounts from Incomplete Records

13. From the following information in respect of Mr. Preet, prepare Trading and Profit and Loss Account for the year ended 31st March, 2018 and a Balance Sheet as at that date:

		31-03-2017	31-03-2018
(1)	Liabilities and Assets	₹	₹
	Stock in trade	1,60,000	1,40,000
	Debtors for sales	3,20,000	?
	Bills receivable	-	?
	Creditors for purchases	2,20,000	3,00,000
	Furniture at written down value	1,20,000	1,27,000
	Expenses outstanding	40,000	36,000
	Prepaid expenses	12,000	14,000
	Cash on hand	4,000	3,000
	Bank Balance	20,000	1,500
(2)	Receipts and Payments during 2017-2018:		
	Collections from Debtors (after allowing 2-1/2% discount)		11,70,000
	Payments to Creditors (after receiving 2% discount)		7,84,000
	Proceeds of Bills receivable discounted at 2%)		1,22,500
	Proprietor's drawings		1,40,000
	Purchase of furniture on 30.09.2017		20,000
	12% Government securities purchased on 1-10-2017		2,00,000
	Expenses		3,50,000
	Miscellaneous Income		10,000
(3)	Sales are effected so as to realize a gross profit of 50% on the cost.		
(4)	Capital introduced during the year by the proprietor by cheques was omitted to be recorded in the Cash Book, though the bank balance on 31 st March, 2018 (as shown above), is after taking the same into account.		
(5)	Purchases and Sales are made only on credit.		
(6)	During the year, Bills Receivable of ₹ 2,00,000 were drawn on debtors. out of these, Bills amount to ₹ 40,000 were endorsed in favour of creditors. Out of this latter amount, a Bill for ₹ 8,000 was dishonoured by the debtor.		

Dissolution of partnership firm

14. A partnership firm was dissolved on 30th June, 2018. Its Balance Sheet on the date of dissolution was as follows:

Capitals:			Cash	21,600
A	1,52,000		Sundry Assets	3,78,400
B	96,000			
C	<u>72,000</u>	3,20,000		
Loan A/c – B		20,000		
Sundry Creditors		<u>60,000</u>		
		4,00,000		<u>4,00,000</u>

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid ₹ 58,000 in full settlement of their account. Expenses of realization were estimated to be ₹ 10,800 but actual amount spent was ₹ 8,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:

	₹
On 5 th July, 2018	50,400
On 30 th August, 2018	1,20,000
On 15 th September, 2018	1,60,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

Framework for Preparation and Presentation of Financial Statements

15. (a) With regard to financial statements name any four.
- (1) Users
 - (2) Qualitative characteristics
 - (3) Elements
- (b) What are fundamental accounting assumptions?

AS 2 Valuation of Inventories

16. (a) On 31st March 2017, a business firm finds that cost of a partly finished unit on that date is ₹ 530. The unit can be finished in 2017-18 by an additional expenditure of ₹ 310. The finished unit can be sold for ₹ 750 subject to payment of 4% brokerage

on selling price. The firm seeks your advice regarding the amount at which the unfinished unit should be valued as at 31st March, 2017 for preparation of final accounts. Assume that the partly finished unit cannot be sold in semi finished form and its NRV is zero without processing it further.

AS 4 Contingencies and Events Occurring after the Balance Sheet Date

- (b) The Board of Directors of New Graphics Ltd. in its Board Meeting held on 18th April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31st March, 2017 and recommended a dividend of ₹ 2 per equity share (on 2 crore fully paid up equity shares of ₹ 10 each) for the year ended 31st March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the company on 18th June, 2017, the same will be paid to all the eligible shareholders.

Discuss on the accounting treatment and presentation of the said proposed dividend in the annual accounts of the company for the year ended 31st March, 2017 as per the applicable Accounting Standard and other Statutory Requirements.

AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

17. (a) Goods of ₹ 5,00,000 were destroyed due to flood in September, 2015. A claim was lodged with insurance company, but no entry was passed in the books for insurance claim.

In March, 2018, the claim was passed and the company received a payment of ₹ 3,50,000 against the claim. Explain the treatment of such receipt in final accounts for the year ended 31st March, 2018.

AS 10 Property, Plant and Equipment

- (b) Preet Ltd. is installing a new plant at its production facility. It has incurred these costs:

1.	Cost of the plant (cost per supplier's invoice plus taxes)	₹ 50,00,000
2.	Initial delivery and handling costs	₹ 4,00,000
3.	Cost of site preparation	₹ 12,00,000
4.	Consultants used for advice on the acquisition of the plant	₹ 14,00,000
5.	Interest charges paid to supplier of plant for deferred credit	₹ 4,00,000
6.	Estimated dismantling costs to be incurred after 7 years	₹ 6,00,000
7.	Operating losses before commercial production	₹ 8,00,000

Please advise Preet Ltd. on the costs that can be capitalised in accordance with AS 10 (Revised).

AS 11 The Effects of Changes in Foreign Exchange Rates

18. (a) Rau Ltd. purchased a plant for US\$ 1,00,000 on 01st February 2016, payable after three months. Company entered into a forward contract for three months @ ₹ 49.15 per dollar. Exchange rate per dollar on 01st Feb. was ₹ 48.85. How will you recognise the profit or loss on forward contract in the books of Rau Ltd.?

AS 12 Accounting for Government Grants

- (b) Viva Ltd. received a specific grant of ₹ 30 lakhs for acquiring the plant of ₹ 150 lakhs during 2014- 15 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet and was not deducted from the cost of plant. During 2017-18, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was ₹ 21 lakhs and written down value of plant was ₹ 105 lakhs. What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2017-18 in profit and loss account? AS 13 Accounting for Investments.

AS 13 Accounting for Investments

19. (a) Paridhi Electronics Ltd. has current investment (X Ltd.'s shares) purchased for ₹ 5 lakhs, which the company want to reclassify as long term investment on 31.3.2018. The market value of these investments as on date of Balance Sheet was ₹ 2.5 lakhs. How will you deal with this as on 31.3.18 with reference to AS-13?

AS 16 Borrowing Costs

- (b) Zen Bridge Construction Limited obtained a loan of ₹ 64 crores to be utilized as under:

(i)	Construction of Hill link road in Kedarnath	₹ 50 crores
(ii)	Purchase of Equipment and Machineries	₹ 6 crores
(iii)	Working Capital	₹ 4 crores
(iv)	Purchase of Vehicles	₹ 1crore
(v)	Advances for tools/cranes etc.	₹ 1crore
(vi)	Purchase of Technical Know how	₹ 2 crores
(vii)	Total Interest charged by the Bank for the year ending 31 st March, 2018	₹ 1.6 crores

Show the treatment of Interest according to Accounting Standard by Zen Bridge Construction Limited.

AS 17 Segment Reporting

20. (a) PK Ltd. has identified business segment as its primary reporting format. It has identified India, USA and UK as three geographical segments. It sells its products in the Indian market, which constitutes 70 percent of the Company's sales. 25 per cent

is sold in USA and the balance is sold in UK. Is PK Ltd. as part of its geographical secondary segment information, required to disclose segment revenue from export sales, where such sales are not significant?

AS 22 Accounting for taxes on income

- (b) Is it permissible not to recognize deferred tax liability on the ground that the Company expects that there will be losses both for accounting and tax purposes in near future? You are required to give advise to the company.

SUGGESTED ANSWERS

1. (a) Statement of Profit and Loss of Shweta Ltd. for the year ended 31st March, 2018

	<i>Particulars</i>	<i>Note</i>	<i>₹</i>
I	Revenue from Operations		20,11,050
II	Other income (Divided income)		<u>12,750</u>
III	Total Revenue (I &+ II)		<u>20,23,800</u>
IV	Expenses:		
	(a) Purchases (14,71,500 – Advertisement Expenses 15,000)		14,56,500
	(b) Changes in Inventories of finished Goods / Work in progress (4,35,600 – 4,27,500)		8,100
	(c) Employee Benefits expense	9	1,20,000
	(d) Finance costs	10	51,900
	(e) Depreciation & Amortization Expenses [10% of (1,05,000 + 6,000)]		11,100
	(f) Other Expenses	11	<u>3,47,550</u>
	Total Expenses		<u>19,95,150</u>
V	Profit before exceptional, extraordinary items and tax (III-IV)		28,650
VI	Exceptional items		-
VII	Profit before extra ordinary items and tax (V-IV)		28,650
VIII	Extraordinary items		-
IX	Profit before tax (VII-VIII)		28,650
X	Tax expense:		
	Current Tax		12,000
XI	Profit/Loss for the period (after tax)		16,650

Balance sheet of Shweta Ltd. as on 31st March, 2018

	Particulars as on 31st March	Note	
I			
(1)	Shareholders' funds:		
	(a) Share capital	1	12,00,000
	(b) Reserves and surplus	2	66,150
(2)	Non current liabilities:		
	Long term borrowings	3	4,50,000
(3)	Current liabilities:		
	(a) Short term borrowings	4	4,50,000
	(b) Trade payables		2,63,550
	(c) Other current liabilities	5	<u>29,250</u>
	Total		<u>24,58,950</u>
II	ASSETS		
(1)	Non-current Assets		
	(a) Property, Plant & Equipment		
	(i) Tangible assets	6	11,49,900
	(ii) Intangible assets	7	4,05,000
	(b) Non current investments (Shares at cost)		1,50,000
	Current Assets:		
	(a) Inventories		4,27,500
	(b) Trade receivables	8	2,72,550
	(c) Cash and Cash equivalents – Cash on hand		36,000
	(d) Short term loans and advances –Income tax (paid 30,000-Provision 12,000)		<u>18,000</u>
	Total		<u>24,58,950</u>

Note: There is a Contingent liability for Bills receivable discounted with Bank ₹ 6,000.

Notes to accounts

			(₹)
1.	Share Capital		
	Authorized		
	90,000 Equity Shares of ₹ 10 each	9,00,000	

	6,000 6% Preference shares of ₹ 100 each Issued, subscribed & called up	<u>6,00,000</u>	15,00,000
	60,000, Equity Shares of ₹ 10 each	6,00,000	
	6,000 6% Redeemable Preference Shares of 100 each	<u>6,00,000</u>	12,00,000
2.	Reserves and Surplus		
	Balance as on 1st April, 2017	85,500	
	Add: Surplus for current year	<u>16,650</u>	1,02,150
	Less: Preference Dividend		<u>36,000</u>
	Balance as on 31st March, 2018		<u>66,150</u>
3.	Long Term Borrowings		
	5% Mortgage Debentures (Secured against Freehold Properties)		4,50,000
4.	Short Term Borrowings		
	Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables)		4,50,000
5.	Other Current liabilities		
	Interest Accrued and due on Borrowings (5% Debentures)	11,250	
	Unpaid Preference Dividends	<u>18,000</u>	29,250
6.	Tangible Fixed assets		
	Furniture		
	Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance)	1,05,000	
	Add: Depreciation	<u>45,000</u>	
	Cost of Furniture	1,50,000	
	Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages	<u>6,000</u>	
	Total Gross block of Furniture A/c	1,56,000	
	Accumulated Depreciation Account: Opening Balance-given in Trial Balance	45,000	
	Depreciation for the year:		
	On Opening WDV at 10% i.e. (10% x 1,05,000)	10,500	

	On additional purchase during the year at 10% i.e. (10% x 6,000)	<u>600</u>	
	Less: Accumulated Depreciation Freehold property (at cost)	<u>56,100</u>	99,900
			<u>10,50,000</u>
			<u>11,49,900</u>
7.	Intangible Fixed Assets		
	Technical knowhow	4,50,000	
	Less: Written off	<u>45,000</u>	4,05,000
8.	Trade Receivables		
	Sundry Debtors (a) Debt outstanding for more than six months	18,000	
	(b) Other Debts (refer Working Note)	1,34,550	
	Bills Receivable (1,24,500 -4,500)	1,20,000	2,72,550
9.	Employee benefit expenses		
	Amount as per Trial Balance	1,56,000	
	Less: Wages incurred for installation of electrical fittings to be capitalised	6,000	
	Less: Directors' Remuneration shown separately	<u>30,000</u>	
	Balance amount		1,20,000
10.	Finance Costs		
	Interest on bank overdraft	29,400	
	Interest on debentures	<u>22,500</u>	51,900
11.	Other Expenses		
	Payment to the auditors	18,000	
	Director's remuneration	30,000	
	Selling expenses	2,37,300	
	Technical knowhow written of (4,50,000/10)	45,000	
	Advertisement (Goods and Articles Distributed)	15,000	
	Bad Debts (4,500 x50%)	2,250	3,47,550

Working Note**Calculation of Sundry Debtors-Other Debts**

Sundry Debtors as given in Trial Balance	1,50,300
Add Back: Bills Receivables Dishonoured	<u>4,500</u>
	1,54,800

Less: Bad Debts written off – 50% ₹ 4,500	(2,250)
Adjusted Sundry Debtors	1,52,550
Less: Debts due for more than 6 months (as per information given)	(18,000)
Total of other Debtors i.e. Debtors outstanding for less than 6 months	<u>1,34,550</u>

(b) Computation of effective capital:

	Where Gaurav Ltd. is a non-investment company	Where Gaurav Ltd. is an investment company
Paid-up share capital —		
67,500, 14% Preference shares	67,50,000	67,50,000
5,40,000 Equity shares	4,32,00,000	4,32,00,000
Capital reserves	2,02,500	2,02,500
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>8,12,92,500</u>	<u>8,12,92,500</u>
Investments	3,37,50,000	-
Profit and Loss account (Dr. balance)	<u>68,62,500</u>	68,62,500
(B)	<u>4,06,12,500</u>	<u>68,62,500</u>
Effective capital (A–B)	<u>4,06,80,000</u>	<u>7,44,30,000</u>

- (c) (i) Current Liabilities/ Other Current Liabilities
(ii) Shareholders' Fund / Reserve & Surplus
(iii) Current liabilities/Other Current Liabilities
(iv) Contingent Liabilities and Commitments
(v) Shareholders' Fund / Share Capital

2. Cash Flow Statement as per AS 3

		₹ in lacs
<i>Cash flows from operating activities:</i>		
Net profit before tax provision		72,000
<i>Add: Non cash expenditures:</i>		
Depreciation	48,000	
Loss on sale of assets	96	
Interest expenditure (non-operating activity)	<u>24,000</u>	<u>72,096</u>
		1,44,096

Less: Non cash income		
Amortisation of capital grant received	(20)	
Profit on sale of investments (non-operating income)	(240)	
Interest income from investments (non-operating income)	<u>(6,000)</u>	<u>6,260</u>
Operating profit		1,37,836
Less: Increase in working capital		<u>(1,34,580)</u>
Cash from operations		3,256
Less: Income tax paid		<u>(10,200)</u>
Net cash generated from operating activities		(6,944)
<i>Cash flows from investing activities:</i>		
Sale of assets (444 – 96)	348	
Sale of investments (66,636+240)	66,876	
Interest income from investments	6,000	
Purchase of fixed assets	(44,184)	
Expenditure on construction work	<u>(83,376)</u>	
Net cash used in investing activities		(54,336)
<i>Cash flows from financing activities:</i>		
Grants for capital projects	36	
Long term borrowings	1,11,732	
Interest paid	(26,084)	
Dividend paid	<u>(20,404)</u>	
Net cash from financing activities		<u>65,280</u>
Net increase in cash		4,000
Add: Cash and bank balance as on 1.4.2018		<u>12,000</u>
Cash and bank balance as on 31.3.2019		<u>16,000</u>

3. **Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods**

For the year ended 31st March, 2018

<i>Particulars</i>	<i>Total Amount</i>	<i>Basis of Allocation</i>	<i>Pre-incorporation</i>	<i>Post-incorporation</i>
Gross Profit	7,81,600	Sales	78,160	7,03,440
Less: Directors' fee	60,000	Post		60,000
Bad debts	14,400	Sales	1,440	12,960
Advertising	48,000	Time	12,000	36,000
Salaries & general expenses	2,56,000	Time	64,000	1,92,000

Preliminary expenses	20,000	Post		20,000
Donation to Political Party	20,000	Post		20,000
Net Profit	3,63,200		720	3,62,480

Working Notes:**1. Sales ratio**

Particulars	₹
Sales for period up to 30.06.2017 (9,60,000 x 3/6)	4,80,000
Sales for period from 01.07.2017 to 31.03.2018 (48,00,000 – 4,80,000)	43,20,000

Thus, Sales Ratio = 1 : 9

2. Time ratio

1st April, 2017 to 30 June, 2017: 1st July, 2017 to 31st March, 2018

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

4. Journal Entries in the books of Xeta Ltd.

			₹	₹
1-4-2017	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated....)			
20-4-2017	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	1,00,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c	Dr.	2,15,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 2017 (after bonus issue)

	₹
Authorised Capital	
50,000 12% Preference shares of ₹10 each	5,00,000
4,00,000 Equity shares of ₹10 each	<u>40,00,000</u>
Issued and subscribed capital	
24,000 12% Preference shares of ₹10 each, fully paid	2,40,000
3,37,500 Equity shares of ₹10 each, fully paid (Out of above, 67,500 equity shares @ ₹10 each were issued by way of bonus)	33,75,000
Reserves and surplus	
Profit and Loss Account	3,85,000

5. Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares Issue Price) / (Existing Number of shares + Rights Number of shares)

$$= (\text{₹ } 150 \times 4 \text{ Shares} + \text{₹ } 125 \times 1 \text{ Share}) / (4 + 1) \text{ Shares}$$

$$= \text{₹ } 725 / 5 \text{ shares} = \text{₹ } 145 \text{ per share.}$$

$$\text{Value of right} = \text{Cum-right value of the share} - \text{Ex-right value of the share}$$

$$= \text{₹ } 150 - \text{₹ } 145 = \text{₹ } 5 \text{ per share.}$$

6. **In the books of AP Ltd.**
Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	25,000	
	To Equity Share Capital A/c			25,000
	(Being the issue of 2,500 Equity Shares of ₹ 10 each at par, as per Board's Resolution No.....dated.....)			
	8% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	10,000	
	To Preference Shareholders A/c			1,10,000
	(Being the amount paid on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,10,000	
	To Bank A/c			1,10,000
	(Being the amount paid on redemption of preference shares)			

Profit & Loss A/c	Dr.	10,000	
To Premium on Redemption of Preference Shares A/c			10,000
(Being the premium payable on redemption is adjusted against Profit & Loss Account)			
General Reserve A/c	Dr.	60,000	
Profit & Loss A/c	Dr.	10,000	
Investment Allowance Reserve A/c	Dr.	5,000	
To Capital Redemption Reserve A/c			75,000
(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Balance Sheet as on[Extracts]

	Particulars	Notes No.	₹
	EQUITY AND LIABILITIES		
1.	Shareholders' funds		
a	Share capital	1	2,25,000
b	Reserves and Surplus	2	1,00,000
	Total		?
	ASSETS		
2.	Current Assets		
	Cash and cash equivalents (98,000 + 25,000 – 1,10,000)		13,000
	Total		?

Notes to accounts

1. Share Capital

22,500 Equity shares (20,000 + 2,500) of ₹10 each fully paid up 2,25,000

2. Reserves and Surplus

General Reserve 20,000

Capital Redemption Reserve 75,000

Investment Allowance Reserve 5,000

1,00,000

Working Note:

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

Face value of shares redeemed ₹1,00,000

Less: Profit available for distribution as dividend:

General Reserve : ₹(80,000-20,000) ₹60,000

Profit and Loss (20,000 – 10,000 set aside for
adjusting premium payable on redemption of
preference shares) ₹10,000

Investment Allowance Reserve: (₹ 10,000-5,000) ₹ 5,000 (₹ 75,000)

₹ 25,000

Therefore, No. of shares to be issued = 25,000/₹10 = 2,500 shares.

7. Journal

		(₹) Dr.	(₹) Cr.
2008 Jan 1	Bank Dr. To 9% Debenture Applications & Allotment Account (Being application money on 20,000 debentures @ ₹ 100 per debenture received)	20,00,000	20,00,000
	9% Debentures Applications & Allotment Account Dr. To 9% Debentures Account (Being allotment of 20,000 9% Debentures of ₹100 each at par)	10,00,000	20,00,000
(i) 2010 Jan. 1	9% Debenture Account Dr. Loss on Redemption of Debentures Account Dr. To Bank (Being redemption of 2,000 9% Debentures of ₹100 each by purchase in the open market @ ₹101 each)	2,00,000 2,000	2,02,000
" "	Profit & Loss Account/Securities Premium Account Dr. To Loss on Redemption of Debentures Account (Being loss on redemption of debentures being written off by transfer to Profit and Loss Account or Securities Premium Account)	2,000	2,000
(ii) 2013 Jan. 1	9% Debentures Account Dr. To Sundry Debentureholders (Being Amount payable to debentureholders on redemption debentures for ₹6,00,000 at par by draw of a lot)	6,00,000	6,00,000

"	"	Sundry Debentureholders To Bank (Being Payment made to sundry debentureholders for redeeming debentures of ₹6,00,000 at par)	Dr. 	6,00,000	6,00,000
(iii)	2014 Jan. 1	Own Debentures To Bank (Being purchase of own debentures of the face value of ₹4,00,000 for ₹3,95,600)	Dr. 	3,95,600	3,95,600
2015	"	9% Debentures To Own Debentures To Profit on Cancellation of Own Debentures Account (Being Cancellation of own debentures of the face value of ₹4,00,000 purchased last year for ₹3,95,600)	Dr. 	4,00,000	3,95,600 4,400
"	"	Profit on Cancellation of Own Debentures Account To Capital Reserve Account (Being transfer of profit on cancellation of own debentures to capital reserve)	Dr. 	4,400	4,400
(iv)	2018 Jan.	9% Debentures Account Premium on Redemption of Debentures Account To Sundry Debentureholders (Being amount payable to holders of debentures of the face value of ₹ 8,00,000 on redemption at a premium of 2% as per resolution of the board of directors)	Dr. Dr. 	8,00,000 16,000	8,16,000
"	"	Sundry Debentureholders To Bank Account (Being payment to sundry debentureholders)	Dr. 	8,16,000	8,16,000
"	"	Securities Premium Account To Premium on Redemption of Debentures Account (Being utilisation of a part of the balance in Securities Premium Account to write off premium paid on redemption of debentures)	Dr. 	16,000	16,000

8.

Investment Account for the year ending on 31st December, 2018

Scrip : 8% Convertible Debentures in C Ltd.

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

Date	Particulars	Nominal value (₹)	Interest (₹)	Cost (₹)	Date	Particulars	Nominal Value (₹)	Interest (₹)	Cost (₹)
1.4.18	To Bank A/c	2,00,000	-	2,16,000	30.09.18	By Bank A/c	-	12,000	-
1.7.18	To Bank A/c (W.N.1)	1,00,000	2,000	1,10,000		[₹3,00,000 x 8% x (6/12)]			
31.12.18	To P & L A/c [Interest]	-	14,033	-	1.10.18	By Bank A/c	80,000		84,000
					1.10.18	By P&L A/c (loss) (W.N.1)			2,933
					1.12.18	By Bank A/c (Accrued interest) (₹ 55,000 x .08x 2/12)		733	
					1.12.18	By Equity shares in C Ltd. (W.N. 3 and 4)	55,000		59,767
					31.12.18	By Balance c/d (W.N.5)	<u>1,65,000</u>	<u>3,300</u>	<u>1,79,300</u>
		<u>3,00,000</u>	<u>16,033</u>	<u>3,26,000</u>			<u>3,00,000</u>	<u>16,033</u>	<u>3,26,000</u>

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INTERMEDIATE (NEW) EXAMINATION: MAY, 2019

SCRIP: Equity Shares in C LTD.

Date	Particulars	Cost (₹)	Date	Particulars	Cost (₹)
1.12.18	To 8 % debentures	<u>59,767</u>	31.12.18	By balance c/d	<u>59,767</u>

Working Notes:

- (i) Cost of Debenture purchased on 1st July = ₹1,12,000 – ₹2,000 (Interest)
= ₹1,10,000
- (ii) Cost of Debentures sold on 1st Oct.
= (₹2,16,000 + ₹1,10,000) x 80,000/3,00,000 = ₹ 86,933
- (iii) Loss on sale of Debentures = ₹ 86,933 – ₹84,000 = ₹2,933
Nominal value of debentures converted into equity shares = ₹ 55,000
[(₹ 3,00,000 – 80,000) x .25]
Interest received before the conversion of debentures
Interest on 25% of total debentures = 55,000 x 8% x 2/12 = 733
- (iv) Cost of Debentures converted = (₹ 2,16,000 + ₹1,10,000) x 55,000/3,00,000
= ₹ 59,767
- (v) Cost of closing balance of Debentures = (₹ 2,16,000 + ₹1,10,000) x
1,65,000 / 3,00,000
= ₹ 1,79,300
- (vii) Closing balance of Debentures has been valued at cost.
- (viii) 5,000 equity Shares in C Ltd. will be valued at cost of ₹ 59,767 being lower than the market value ₹ 75,000 (₹ 15 x 5,000)

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

9. Memorandum Trading Account for the Period from 1.1.2018 to 30.6.2018

	₹		₹
To Opening Stock (1.1.2018)	1,50,000	By Sales	11,50,000
To Purchases	9,50,000	Less: Sales	
Less: Returns	<u>(12,500)</u>	Returns	<u>(40,000)</u>
To Cartage Inwards	17,500	By Closing Stock	2,80,000
To Wages	7,500	(Bal. Fig.)	

To Gross Profit (25% of ₹ 11,10,000)	2,77,500	
	13,90,000	13,90,000

Stock Destroyed Account

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

Statement of Claim

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

10.

		₹
(i)	Price of two cars = ₹ 2,00,000 x 2	4,00,000
	Less: Depreciation for the first year @ 30%	<u>1,20,000</u>
		2,80,000
	Less: Depreciation for the second year = ₹ 2,80,000 x $\frac{30}{100}$	<u>84,000</u>
	Agreed value of two cars taken back by the hire vendor	<u>1,96,000</u>
(ii)	Cash purchase price of one car	2,00,000
	Less: Depreciation on ₹ 2,00,000 @20% for the first year	<u>40,000</u>
	Written down value at the end of first year	1,60,000
	Less: Depreciation on ₹ 1,60,000 @ 20% for the second year	<u>32,000</u>
	Book value of car left with the hire purchaser	<u>1,28,000</u>
(iii)	Book value of one car as calculated in working note (ii) above	1,28,000
	Book value of Two cars = ₹ 1,28,000 x 2	2,56,000
	Value at which the two cars were taken back, calculated in working note (i) above	1,96,000

12.

M/s ABC & Co.

Bangalore Branch Trial Balance in (US \$)

as on 31st March, 2018

	Conversion rate per US \$ (₹)	Dr. US \$	Cr. US \$
Stock on 1.4.17	55	5,454.55	–
Purchases and sales	58	13,793.10	20,689.66
Sundry debtors and creditors	60	6,666.67	5,000.00
Bills of exchange	60	2,000.00	4,000.00
Wages and salaries	58	9,655.17	–
Rent, rates and taxes	58	6,206.90	–
Sundry charges	58	2,758.62	–
Computers	–	6,000.00	–
Bank balance	60	7,000.00	–
New York office A/c	–	–	29,845.35
		59,535.01	59,535.01

Trading and Profit & Loss Account

for the year ended 31st March, 2018

	US \$		US \$
To Opening Stock	5,454.55	By Sales	20,689.66
To Purchases	13,793.10	By Closing stock	7,000.00
To Wages and salaries	9,655.17	(₹ 4,20,000/60)	
		By Gross Loss c/d	1,213.16
	28,902.82		28,902.82
To Gross Loss b/d	1,213.16	By Net Loss	13,778.68
To Rent, rates and taxes	6,206.90		
To Sundry charges	2,758.62		
To Depreciation on computers (US \$ 6,000 × 0.6)	3,600.00		
	13,778.68		13,778.68

**Balance Sheet of Bangalore Branch
as on 31st March, 2018**

<i>Liabilities</i>		<i>US \$</i>	<i>Assets</i>	<i>US \$</i>	<i>US \$</i>
New York Office A/c	29,845.35		Computers	6,000.00	
Less: Net Loss	<u>(13,778.68)</u>	16,066.67	Less:	<u>(3,600.00)</u>	2,400.00
			Depreciation		
Sundry creditors		5,000.00	Closing stock		7,000.00
Bills payable		4,000.00	Sundry debtors		6,666.67
			Bills receivable		2,000.00
			Bank balance		7,000.00
		<u>25,066.67</u>			<u>25,066.67</u>

13. **Trading and Profit and Loss Account of Mr. Preet
for the year ended 31st March, 2018**

	<i>Amount</i>		<i>Amount</i>
	₹		₹
To Opening stock	1,60,000	By Sales	13,98,000
To Purchases (W.N.5)	9,12,000	By Closing stock	1,40,000
To Gross profit c/d (Bal.fig.)	<u>4,66,000</u>		
	<u>15,38,000</u>		<u>15,38,000</u>
To Expenses (W.N.7)	3,44,000	By Gross profit b/d	4,66,000
To Discount allowed (W.N.9)	32,500	By Discount received (W.N.10)	16,000
To Depreciation on furniture (W.N.1)	13,000	By Interest on Govt. Securities (W.N.8)	12,000
To Net profit	<u>1,14,500</u>	By Miscellaneous income	<u>10,000</u>
	<u>5,04,000</u>		<u>5,04,000</u>

Balance Sheet of Mr. Preet as on 31st March, 2018

<i>Liabilities</i>		<i>Amount</i>	<i>Assets</i>	<i>Amount</i>
		₹		₹
Capital (W.N.6)	3,76,000		Furniture	1,27,000
Add: Additional capital	1,72,000		12% Government	2,00,000

(W.N.2)			Securities	
			Accrued interest on Govt. securities (W.N.8)	12,000
Add: Profit during the year	<u>1,14,500</u>		Debtors (W.N.3)	3,26,000
	6,62,500		Bills Receivable (W.N.4)	35,000
Less: Drawings	<u>(1,40,000)</u>	5,22,500	Stock	1,40,000
			Prepaid expenses	14,000
Creditors		3,00,000	Cash on hand	3,000
Outstanding expenses		36,000	Bank balance	<u>1,500</u>
		<u>8,58,500</u>		<u>8,58,500</u>

Working Notes:

1.

Furniture account

	₹		₹
To Balance b/d	1,20,000	By Depreciation (bal.fig.)	13,000
To Bank	<u>20,000</u>	By Balance c/d	<u>1,27,000</u>
	<u>1,40,000</u>		<u>1,40,000</u>

2.

Cash and Bank account

	₹		₹
To Balance b/d		By Creditors	7,84,000
Cash	4,000	By Drawings	1,40,000
Bank	20,000	By Furniture	20,000
To Debtors	11,70,000	By 12% Govt. securities	2,00,000
To Bill Receivable	1,22,500	By Expenses	3,50,000
To Miscellaneous income	10,000	By Balance c/d	
To Additional Capital (bal.fig.)	1,72,000	Cash	3,000
		Bank	<u>1,500</u>
	<u>14,98,500</u>		<u>14,98,500</u>

3. Debtors account

	₹		₹
To Balance b/d	3,20,000	By Cash and Bank	11,70,000
To Creditors (Bills receivable dishonoured)	8,000	By Discount	30,000
To Sales (W.N.11)	13,98,000	By Bills Receivable	2,00,000
	<u>17,26,000</u>	By Balance c/d (bal.fig.)	<u>3,26,000</u>
			<u>17,26,000</u>

4. Bills Receivable account

	₹		₹
To Debtors	2,00,000	By Bank	1,22,500
		By Discount	2,500
		By Creditors	40,000
	<u>2,00,000</u>	By Balance c/d (bal. fig.)	<u>35,000</u>
			<u>2,00,000</u>

5. Creditors account

	₹		₹
To Bank	7,84,000	By Balance b/d	2,20,000
To Discount	16,000	By Debtors (Bills receivable dishonoured)	8,000
To Bills receivable	40,000	By Purchases (bal. fig.)	9,12,000
To Balance c/d	<u>3,00,000</u>		
	<u>11,40,000</u>		<u>11,40,000</u>

6. Balance Sheet as on 1st April, 2017

Liabilities	₹	Assets	₹
Creditors	2,20,000	Furniture	1,20,000
Outstanding expenses	40,000	Debtors	3,20,000
Capital (balancing figure)	3,76,000	Stock	1,60,000
		Prepaid expenses	12,000
		Cash	4,000
		Bank balance	<u>20,000</u>
	<u>6,36,000</u>		<u>6,36,000</u>

7. Expenses incurred during the year

		₹
Expenses paid during the year		3,50,000
Add: Outstanding expenses as on 31.3.2018	36,000	
Prepaid expenses as on 31.3.2017	<u>12,000</u>	<u>48,000</u>
		3,98,000
Less: Outstanding expenses as on 31.3.2017	40,000	
Prepaid expenses as on 31.3.2018	<u>14,000</u>	<u>(54,000)</u>
Expenses incurred during the year		<u>3,44,000</u>

8. Interest on Government securities

$$2,00,000 \times 12\% \times 6/12 = ₹ 12,000$$

Interest on Government securities receivables for 6 months = ₹ 12,000

9. Discount allowed

		₹
Discount to Debtors	$\left(\frac{11,70,000}{97.5\%} \times 2.5\% \right)$	30,000
Discount on Bills Receivable	$\left(\frac{1,22,500}{98\%} \times 2\% \right)$	<u>2,500</u>
		<u>32,500</u>

10. Discount received

		₹
Discount to Creditors	$\left(\frac{7,84,000}{98\%} \times 2\% \right)$	16,000

11. Credit sales

$$\text{Cost of Goods sold} = \text{Opening stock} + \text{Net purchases} - \text{Closing stock}$$

$$= ₹ 1,60,000 + ₹ 9,12,000 - ₹ 1,40,000$$

$$= ₹ 9,32,000$$

$$\text{Sale price} = ₹ 9,32,000 + 50\% \text{ of } 9,32,000 = ₹ 13,98,000$$

14. Statement showing distribution of cash amongst the partners

	Creditors	B's loan	A	B	C
2018	₹	₹	₹	₹	₹
Jun-30					
Balance b/d	60,000	20,000	1,52,000	96,000	72,000
Cash balance less Provision for expenses (₹ 21,600– ₹ 10,800)	10,800	-	-	-	-
Balances unpaid	49,200	20,000	1,52,000	96,000	72,000
Jul-05					
1 st Instalment of ₹ 50,400	47,200	3,200	-	-	-
Discount received on full settlement	2,000	16,800	1,52,000	96,000	72,000
Less: Transferred to Realisation A/c	2,000				
Aug-30					
2 nd instalment of ₹ 1,20,000 (W.N. 2)		16,800	65,280	9,280	28,640
Balance unpaid			86,720	86,720	43,360
Sep-15					
Amount realised ₹ 1,60,000					
Add: Balance out of the Provision for Expenses A/c					
			2,800		
			1,62,800		
Amount unpaid being loss on Realisation in the ratio of 2 : 2 : 1			21,600	21,600	10,800

Working Notes:

1. Highest relative capital basis

		A	B	C
		₹	₹	₹
1.	Present Capitals	1,52,000	96,000	72,000
2.	Profit-sharing ratio	2	2	1

3.	Capital per unit of Profit share (1 ÷ 2)	<u>76,000</u>	<u>48,000</u>	<u>72,000</u>
4.	Proportionate capitals taking B, whose capital is the least, as the basis	96,000	96,000	48,000
5.	Excess capital (1-4)	56,000	Nil	24,000
6.	Profit-sharing ratio	<u>2</u>	<u>-</u>	<u>1</u>
7.	Excess capital per unit of Profit share (5 ÷ 6)	28,000		24,000
8.	Proportionate capitals as between A and C taking C capital as the basis	48,000	-	24,000
9.	Excess of A's Capital over C's Excess capital (5-8)	8,000	-	-
10.	Balance of Excess capital (5-9)	48,000		24,000
11.	Distribution sequence:			
	First ₹ 8,000 (2 : 0 : 0)	8,000	-	-
	Next ₹ 72,000 (2 : 0 : 1)	48,000	-	24,000
	Over ₹ 80,000 (2 : 2 : 1)			

2. Distribution of Second instalment

	Creditors	A	B	C
First ₹ 16,800	16,800	-	-	-
Next ₹ 8,000 (2 : 0 : 0)		8,000	-	-
Next ₹ 72,000 (2 : 0 : 1)		48,000	-	24,000
Balance ₹ 23,200 (2 : 2 : 1)		9,280	9,280	4,640
1,20,000	16,800	65,280	9,280	28,640

15. (a) (1) Users of financial statements:

Investors, Employees, Lenders, Supplies/Creditors, Customers, Government & Public

(2) Qualitative Characteristics of Financial Statements:

Understandability, Relevance, Comparability, Reliability & Faithful Representation

(3) Elements of Financial Statements:

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

(b) Fundamental Accounting Assumptions:

Accrual, Going Concern and Consistency

16. (a) Valuation of unfinished unit

	₹
Net selling price	750
Less: Estimated cost of completion	(310)
	440
Less: Brokerage (4% of 750)	(30)
Net Realisable Value	410
Cost of inventory	530
Value of inventory (Lower of cost and net realisable value)	410

- (b) As per the amendment in AS 4 “Contingencies and Events Occurring After the Balance Sheet Date” vide Companies (Accounting Standards) Amendments Rules, 2016 dated 30th March, 2016, the events which take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature.

However, dividends declared after the balance sheet date but before approval of financial statements are not recognized as a liability at the balance sheet date because no statutory obligation exists at that time. Hence such dividends are disclosed in the notes to financial statements.

No, provision for proposed dividends is not required to be made. Such proposed dividends are to be disclosed in the notes to financial statements. Accordingly, the dividend of ₹ 4 crores recommended by New Graphics Ltd. in its Board meeting on 18th April, 2017 shall not be accounted for in the books for the year 2016-17 irrespective of the fact that it pertains to the year 2016-17 and will be paid after approval in the Annual General Meeting of the members / shareholders.

17. (a) As per the provisions of AS 5 “Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies”, prior period items are income or expenses, which arise, in the current period as a result of error or omissions in the preparation of financial statements of one or more prior periods. Further, the nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on current profit or loss can be perceived.

In the given instance, it is clearly a case of error in preparation of financial statements for the year 2015-16. Hence, claim received in the financial year 2017-18 is a prior period item and should be separately disclosed in the statement of Profit and Loss.

- (b) According to AS 10 (Revised), these costs can be capitalised:

1.	Cost of the plant	₹ 50,00,000
2.	Initial delivery and handling costs	₹ 4,00,000
3.	Cost of site preparation	₹ 12,00,000

4.	Consultants' fees	₹14,00,000
5.	Estimated dismantling costs to be incurred after 7 years	<u>₹ 6,00,000</u>
		₹ 86,00,000

Note: Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of ₹ 4,00,000 and operating losses before commercial production amounting to ₹ 8,00,000 are not regarded as directly attributable costs and thus cannot be capitalised. They should be written off to the Statement of Profit and Loss in the period they are incurred.

18. (a)	Forward Rate	₹ 49.15
	Less: Spot Rate	(₹ 48.85)
	Premium on Contract	<u>₹ 0.30</u>
	Contract Amount	<u>US\$ 1,00,000</u>
	Total Loss (1,00,000 x 0.30)	₹ 30,000

Contract period 3 months

Two falling the year 2016-17; therefore loss to be recognised $(30,000/3) \times 2 = ₹ 20,000$. Rest ₹ 10,000 will be recognised in the following year.

- (b) As per AS-12, 'Accounting for Government Grants', "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

In this case the grant refunded is ₹ 30 lakhs and balance in deferred income is ₹ 21 lakhs, ₹ 9 lakhs shall be charged to the profit and loss account for the year 2017-18. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years.

19. (a) As per AS 13 'Accounting for Investments', where investments are reclassified from current to long-term, transfers are made at the lower of cost or fair value at the date of transfer.

In the given case, the market value of the investment (X Ltd. shares) is ₹ 2.50 lakhs, which is lower than its cost i.e. ₹ 5 lakhs. Therefore, the transfer to long term investments should be made at cost of ₹ 2.50 lakhs. The loss of ₹ 2.50 lakhs should be charged to profit and loss account.

- (b) According to AS 16 'Borrowing costs', qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use. As per the standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which

they are incurred. Capitalization of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.

The treatment of interest by Zen Bridge Construction Ltd. can be shown as:

	Qualifying Asset	Interest to be capitalized ₹ in crores	Interest to be charged to Profit & Loss A/c ₹ in crores	
Construction of hill road*	Yes	1.25		1.6/64 x 50
Purchase of equipment and machineries	No		0.15	1.6/64 x 6
Working capital	No		0.10	1.6/64 x 4
Purchase of vehicles	No		0.025	1.6/64 x 1
Advance for tools, cranes etc.	No		0.025	1.6/64 x 1
Purchase of technical know-how	No		<u>0.05</u>	1.6/64 x 2
Total		<u>1.25</u>	<u>0.35</u>	

*Note: It is assumed that construction of hill road will normally take more than a year (substantial period of time), hence considered as qualifying asset.

20. (a) As per AS 17 if primary format of an enterprise for reporting segment information is business segments, it should also report segment revenue from external customers by geographical area based on the geographical location of its customers, for each geographical segment whose revenue from sales to external customers is 10 per cent or more of enterprise revenue. Accordingly, for the purposes of disclosing secondary segment information, PK Ltd. is not required to disclose segment revenue from export sales to UK, since that segment does not meet the 10 per cent or more of enterprise revenue threshold. However, other secondary segment information as per AS 17 should be disclosed in respect of this segment if the thresholds prescribed in the AS 17 are met.
- (b) The Company should provide for deferred tax liability on the timing differences irrespective for the fact that these timing differences will reverse in the period in which the Company expects to be in loss both from the accounting as well as tax point of view. It may, however, be added that the deferred tax liability recognized at the balance sheet date will give rise to future taxable income at the time of reversal thereof.