

MOCK TEST PAPER
INTERMEDIATE (IPC) : GROUP – I
PAPER – 1: ACCOUNTING

1. (a) According to AS 14, 'consideration' for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. Therefore, debentures issued to the debenture holders will not be included in purchase consideration

The purchase consideration will be

	₹	Form
Preference shareholders : $5,000 \times \frac{3}{4} \times 100$	3,75,000	9% Pref. shares
Equity shareholders: $12,500 \times ₹ 20$	2,50,000	Cash
$12,500 \times \frac{6}{5} \times 100$	<u>15,00,000</u>	Equity shares
Total Purchase Consideration	<u>21,25,000</u>	

- (b) (i) Entity A should account for a loss in the Statement of Profit and Loss on de-recognition of the carrying value of plant and machinery in accordance with AS 10 on Property, Plant and Equipment. Entity A should separately recognize a receivable and a gain in the income statement resulting from the insurance proceeds once receipt is virtually certain. The receivable should be measured at the fair value of assets provided by the insurer.
- (ii) The expenditure in remodelling the store will create future economic benefits (in the form of 15% of increase in sales). Moreover, the cost of remodelling can be measured reliably, therefore, it should be capitalized in line with AS 10.
- (c) As per AS 3, Cash and cash equivalents consists of: (i) Cash in hand and deposits repayable on demand with any bank or other financial institutions and (ii) Cash equivalents, which are short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk or change in value. A short-term investment is one, which is due for maturity within three months from the date of acquisition. Investments in shares are not normally taken as cash equivalent, because of uncertainties associated with them as to realizable value.

Computation of Cash and Cash Equivalents as on 31st March, 2019

	₹
Cash balance with bank	10,000
Short term investment in highly liquid sovereign debt mutual fund on 1.3.19	1,00,000
Bank balance in foreign currency account ($\$1,000 \times ₹ 70$)	<u>70,000</u>
	<u>1,80,000</u>

Note: Fixed deposit, Shares and Debentures will not be considered as cash and cash equivalents.

- (d) **Statement showing the amount of profit/loss to be taken to Profit and Loss Account and additional provision for the foreseeable loss as per AS 7**

Cost of Construction	₹	₹
Material used		71,00,000
Labour Charges paid	36,00,000	
Add: Outstanding on 31.03.2020	<u>2,00,000</u>	38,00,000

	Hire Charges of Plant	10,00,000
	Other Contract cost incurred	<u>15,00,000</u>
	Cost incurred upto 31.03.2020	1,34,00,000
Add:	Estimated future cost	<u>33,50,000</u>
	Total Estimated cost of construction	<u>1,67,50,000</u>
	Degree of completion (1,34,00,000/1,67,50,000 x 100)	80%
	Revenue recognized (80% of 1,50,00,000)	1,20,00,000
	Total foreseeable loss (1,67,50,000 - 1,50,00,000)	17,50,000
Less:	Loss for the current year (1,34,00,000 - 1,20,00,000)	<u>14,00,000</u>
	Loss to be provided for	3,50,000

2. (a) **Balance Sheet of Shree Ltd.**
as at 31st March, 2020

		Particulars	Note No.	(₹)
I		Equity and Liabilities		
	(1)	Shareholders' Funds		
		(a) Share Capital	1	19,90,000
		(b) Reserves and Surplus	2	3,47,000
	(2)	Current Liabilities		
		(a) Trade Payables		2,40,500
		(b) Other Current Liabilities	3	13,28,000
		(c) Short-Term Provisions	4	<u>1,20,000</u>
		Total		<u>40,25,500</u>
II		ASSETS		
	(1)	Non-Current Assets		
		(i) Property, Plant and Equipment (PPE)	5	29,30,000
	(2)	Current Assets		
		(a) Inventories		7,08,000
		(b) Trade Receivables	6	3,59,500
		(c) Cash and Cash Equivalents	7	<u>28,000</u>
		Total		<u>40,25,500</u>

Kapil Ltd.

Statement of Profit and Loss for the year ended 31st March, 2020

	Particulars	Note No.	(₹)
I	Revenue from Operations		36,17,000
II	Other Income	8	<u>36,500</u>
III	Total Revenue [I + II]		<u>36,53,500</u>

IV	Expenses:		
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,08,000]		(43,000)
	Employee Benefits Expenses	9	13,93,000
	Finance Costs	10	1,11,000
	Depreciation and Amortization Expenses		1,20,000
	Other Expenses	11	<u>4,40,000</u>
	Total Expenses		<u>32,53,500</u>
V	Profit before Tax (III-IV)		4,00,000
VI	Tax Expenses @ 30%		<u>(1,20,000)</u>
VII	Profit for the period		<u><u>2,80,000</u></u>

Notes to Accounts:

1. Share Capital

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

2. Reserves and Surplus

Surplus i.e. Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	<u>2,80,000</u>	3,47,000

3. Other Current Liabilities

Bank Overdraft	12,67,000
Outstanding Expenses [25,000+36,000]	<u>61,000</u>
	<u>13,28,000</u>

4. Short-term Provisions

Provision for Tax	1,20,000
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5. PPE

Particulars	Value given (₹)	Depreciation rate	Depreciation Charged (₹)	Written down value at the end (₹)
Land	16,25,000		-	16,25,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000

Patterns	3,75,000	10%	37,500	3,37,500
Engineering Tools	<u>1,50,000</u>	20%	<u>30,000</u>	<u>1,20,000</u>
	<u>30,50,000</u>		<u>1,20,000</u>	<u>29,30,000</u>

6. Trade Receivables

Trade receivables (4,00,500-16,000)	3,84,500
Less: Provision for doubtful debts	<u>(25,000)</u>
	<u>3,59,500</u>

7. Cash & Cash Equivalent

Cash Balance	8,000
Bank Balance in current A/c	<u>20,000</u>
	<u>28,000</u>

8. Other Income

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

9. Employee benefits expenses

Wages	13,68,000
Add: Outstanding wages	<u>25,000</u>
	<u>13,93,000</u>

10. Finance Cost

Interest on Bank overdraft	1,11,000
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11. Other Expenses

Carriage Inward	57,500
Discount & Rebates	30,000
Advertisement	15,000
Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,000] (Business Expenses)	92,000
Bad Debts [25,500+16,000]	41,500
Provision for Doubtful Debts	<u>25,000</u>
	<u>4,40,000</u>

3. (a)

In the books of Parth Ltd.

Journal entries

Particulars	Dr.	Cr.
	₹	₹
Reconstruction A/c Dr.	2,39,000	
To Furniture and Fixtures A/c		55,000

To Plant and machinery A/c			89,000
To Investment A/c			95,000
(Writing off overvalued assets as per Reconstruction Scheme dated...)			
Freehold premises A/c	Dr.	55,000	
To Reconstruction A/c			55,000
(Being the increase in the premises credited to reconstruction account as per reconstruction scheme)			
9% Debentures A/c	Dr.	2,50,000	
To Bank A/c			50,000
To Land and building A/c			72,000
To Reconstruction A/c			1,28,000
(Being the debenture holders claim settled partly and foregone partly as per reconstruction scheme)			
Reconstruction A/c	Dr.	70,000	
To Profit and loss A/c			70,000
(Being the loss written off as per reconstruction scheme)			
General reserve A/c	Dr.	1,26,000	
To Reconstruction A/c			1,26,000
(Being the balance in general reserve utilized to write off the losses as per reconstruction scheme)			

(b)

Creditors' Ledger

General Ledger Adjustment Account

			₹				₹
1.4.2019	To Balance b/d		26,300	1.4.2019	By Balance b/d		280
	To Creditors' ledger adjustment A/c:				By Creditors' ledger adjustment A/c:		
	Purchases	67,000			Bank	39,500	
	Endorsed bills				Discount received	500	
	receivable				Returns	1,800	
	dishonoured	<u>1,000</u>	68,000				
31.3.2020	To Balance c/d		420		Bills payable	5,500	
					Bills receivable endorsed	<u>4,000</u>	51,300
					By Creditors' ledger adjustment A/c:		
					Transfer from debtors' ledger to creditors' ledger		3,000
				31.3.2020	By Balance c/d (bal. fig.)		<u>40,140</u>
			<u>94,720</u>				<u>94,720</u>

Note: No postings have been done for the transactions which do not affect general ledger adjustment account in Creditors Ledger.

4.

Receipts and Payments Account of Curefit Clinic
for the year ended 31.3.2020

<i>Receipts</i>	₹	<i>Payments</i>	₹
To Cash in hand (opening)	56,000	By Medicine supply	2,10,000
To Subscription	3,50,000	By Honorarium to doctors	1,90,000
To Donation	1,55,000	By Salaries	70,000
To Interest on investment	63,000	By Misc. expenses	7,000
To Medical Camp collections	87,500	By Purchase of equipment	1,05,000
		By Telephone expenses	6,000
		By Medical Camp expenses	10,500
		By Cash in hand (closing)	<u>1,13,000</u>
	<u>7,11,500</u>		<u>7,11,500</u>

Income and Expenditure Account of Curefit Clinic
for the year ended 31.3.2020

<i>Expenditure</i>	₹	<i>Income</i>	₹
To Medicine consumed	2,03,000	By Subscription	3,58,400
To Honorarium to doctors	1,90,000	By Donation	1,05,000
To Salaries	70,000	By Interest on investments	63,000
To Telephone expenses	6,000	By Profit on Medical camp:	
To Misc. expenses	7,000	Collections 87,500	
To Depreciation on		Less: Expenses <u>(10,500)</u>	77,000
Medical Equipment 37,800			
Building			
(3,50,000 - 3,15,000) <u>35,000</u>	72,800		
To Surplus - excess of income over expenditure	<u>54,600</u>		
	<u>6,03,400</u>		<u>6,03,400</u>

Balance Sheet of Curefit Clinic
as on 31.3.2020

<i>Liabilities</i>	₹		<i>Assets</i>	₹	₹
Capital fund:			Building	3,50,000	
Opening balance 12,62,100			Less: Depreciation <u>(35,000)</u>		3,15,000
Add: Surplus <u>54,600</u>	13,16,700		Medical Equipment	1,47,000	
Building Fund	50,000		Add: Purchase <u>1,05,000</u>		
			2,52,000		
Subscription received in advance	4,900		Less: Depreciation <u>(37,800)</u>		2,14,200
Creditors for medicine supply	91,000		Stock of medicine		1,05,000

		Investments		7,00,000
		Subscription receivable		15,400
		Cash in hand		<u>1,13,000</u>
Total	<u>14,62,600</u>	Total		<u>14,62,600</u>

Working Notes:

			₹
1.	Subscription for the year ended 31.3.2020		
	Subscription received during the year		3,50,000
	Less: Subscription receivable on 1.4.2019	10,500	
	Less: Subscription received in advance on 31.3.2020	<u>4,900</u>	<u>(15,400)</u>
			3,34,600
	Add: Subscription receivable on 31.3.2020	15,400	
	Add: Subscription received in advance on 1.4.2019	<u>8,400</u>	<u>23,800</u>
			<u>3,58,400</u>
2.	Purchase of medicine:		
	Payment for medicine supply		2,10,000
	Less: Amounts due for medicine supply on 1.4.2019		<u>(63,000)</u>
			1,47,000
	Add: Amounts due for medicine supply on 31.3.2020		<u>91,000</u>
			<u>2,38,000</u>
3.	Medicine consumed:		
	Stock of medicine on 1.4.2019		70,000
	Add: Purchase of medicine during the year		<u>2,38,000</u>
			3,08,000
	Less: Stock of medicine on 31.3.2020		<u>(1,05,000)</u>
			<u>2,03,000</u>
4.	Depreciation on equipment:		
	Value of equipment on 1.4.2019		1,47,000
	Add: Purchase of equipment during the year		<u>1,05,000</u>
			2,52,000
	Less: Value of equipment on 31.3.2020		<u>(2,14,200)</u>
	Depreciation on equipment for the year		<u>37,800</u>

5. **Balance Sheet of Curefit clinic**
as on 31.3.2019

Liabilities	₹	Assets	₹
Capital fund (balancing figure)	12,62,100	Building	3,50,000
Subscription received in advance	8,400	Medical Equipment	1,47,000
Creditors for medicine supply	63,000	Stock of medicine	70,000
		Investments	7,00,000

		Subscription receivable	10,500
		Cash in hand	<u>56,000</u>
	<u>13,33,500</u>		<u>13,33,500</u>

5. (a) Investment in Equity shares of JP Power Ltd.

Date	Particulars	No.	Dividend ₹	Amount ₹	Date	Particulars	No.	Dividend ₹	Amount ₹
1.1.19	To Bank A/c	600		12,000	31.3.19	By Balance c/d	1,500		34,500
15.3.19	To Bank A/c	<u>900</u>		<u>22,500</u>					
		<u>1,500</u>		<u>34,500</u>			<u>1,500</u>		<u>34,500</u>
1.4.19	To Balance b/d	1,500		34,500	15.9.19	By Bank dividend		4,500	3,000
20.5.19	To Bank A/c	1,000		23,000	20.12.19	By Bank	1,500		33,000
25.7.19	To Bonus shares	2,500		—	1.2.20	By Bank	1,000		24,000
12.11.19	To Bank A/c	600		12,000	31.3.20	By Balance c/d	3,100		36,812.50
20.12.19	To P & L A/c (profit on sale)			15,187.50					
1.2.20	To P & L A/c (profit on sale)			12,125					
31.3.20	To P & L A/c (dividend)		4,500						
		5,600	4,500	96,812.50			5,600	4,500	96,812.50

Working Notes:

1. Calculation of Weighted average cost of equity shares

600 shares purchased at ₹ 12,000

900 shares purchased at ₹ 22,500

1,000 shares purchased at ₹ 23,000

2,500 shares at nil cost

600 right shares purchased at ₹ 12,000

Total cost of 5,600 shares is ₹ 66,500 [₹ 69,500 less ₹ 3,000 (pre-acquisition dividend received on 1,000 shares purchased on 20.5.19)].

Hence, weighted average cost per share will be considered as ₹ 11.875 per share (66,500/5,600).

2. It has been considered that no dividend was received on bonus shares as the dividend pertains to the year ended 31st March, 2019.

3. Calculation of right shares subscribed by Vijay

Right Shares (considering that right shares have been granted on Bonus shares also) = $5,000/5 \times 1 = 1,000$ shares

Shares subscribed = $1,000 \times 60\% = 600$ shares

Value of right shares subscribed = 600 shares @ ₹ 20 per share = ₹ 12,000

Calculation of sale of right renouncement

No. of right shares sold = $1,000 \times 40\% = 400$ shares

Sale value of right = 400 shares x ₹ 3 per share = ₹ 1,200

Note: As per para 13 of AS 13, sale proceeds of rights is to be credited to P & L A/c.

4. **Profit on sale of equity shares**

As on 20.12.19

Sales price (1,500 shares at ₹ 22)	33,000.00
Less: Cost of shares sold (1,500 x ₹ 11.875)	<u>(17,812.50)</u>
Profit on sale	<u>15,187.50</u>

As on 1.2.20

Sales price (1,000 shares at ₹ 24)	24,000
Less: Cost of shares sold (1,000 x ₹ 11.875)	<u>(11,875)</u>
Profit on sale	<u>12,125</u>

Balance of 3,100 shares as on 31.3.20 will be valued at ₹ 36,812.50 (at rate of ₹ 11.875 per share)

(b) **Memorandum Trading Account for the period 1st April, 2020 to 31st August, 2020**

	Normal Items ₹	Abnormal Items ₹	Total ₹		Normal Items ₹	Abnormal Items ₹	Total ₹
To Opening stock	95,000	5,000	1,00,000	By Sales	2,40,000	2,000	2,42,000
To Purchases (Refer W.N.)	1,56,500	-	1,56,500	By Goods sent to consignee	16,500	-	16,500
To Wages	47,000	-	47,000	By Loss	-	500	500
To Gross profit @ 20%	48,000	-	48,000	By Closing stock (Bal.fig.)	90,000	2,500	92,500
	<u>3,46,500</u>	<u>5,000</u>	<u>3,51,500</u>		<u>3,46,500</u>	<u>5,000</u>	<u>3,51,500</u>

Statement of Claim for Loss of Stock

	₹
Book value of stock as on 31.08.2020	92,500
Less: Stock salvaged	<u>(20,000)</u>
Loss of stock	<u>72,500</u>

Amount of claim to be lodged with insurance company

$$= \text{Loss of stock} \times \frac{\text{Policy value}}{\text{Value of stock on the date of fire}}$$

$$= ₹ 72,500 \times \frac{60,000}{92,500} = ₹ 47,027$$

Working Note:

Calculation of Adjusted Purchases

	₹
Purchases	1,70,000
Less: Drawings	(12,000)
Free samples	<u>(1,500)</u>
Adjusted purchases	<u>1,56,500</u>

6.

Balance Sheet as at 1st August, 2019

Liabilities	₹	Assets	₹
<i>Capital Accounts:</i>		Building	4,50,000
Shyam	2,25,000	Plant and Machinery	97,700
Laxman	2,25,000	Stock	33,000
Shankar	1,20,000	Debtors	66,900
<i>Current Accounts:</i>		Furniture and Fittings	66,700
Shyam	21,600	Cash at Bank	1,48,500
Laxman	6,600	(1,01,100+1,65,000-	
Sundry Creditors	29,400	1,17,600)	
Ram's Executor's Loan	<u>2,35,200</u>		
	<u>8,62,800</u>		<u>8,62,800</u>

Working Notes:**(1) Calculation of Goodwill:**

₹

Profit for the year ended 31.3.2016	86,700
Profit for the year ended 31.3.2017	1,43,200
Profit for the year ended 31.3.2018	<u>1,07,600</u>
	3,37,500

$$\text{Average profit} = \frac{3,37,500}{3} = 1,12,500$$

$$\text{Goodwill} = ₹ 1,12,500 \times 2 \text{ years} = ₹ 2,25,000$$

$$\text{Ram's share of goodwill} = 2,25,000 \times \frac{1}{3} = 75,000$$

$$\text{Shankar's share of goodwill} = 2,25,000 \times \frac{1}{5} = 45,000$$

2.

Balance Sheet as on 31st July, 2019

Liabilities	₹	Assets	₹
Capital A/c (balancing figure)	7,86,000	Building	4,50,000
Creditors	29,400	Stock	33,000
		Sundry Debtors	66,900
		Plant and Machinery	97,700
		Furniture & Fittings	66,700
		Cash at bank	<u>1,01,100</u>
	<u>8,15,400</u>		<u>8,15,400</u>

3. Calculation of profits made during the period of 1st April, 2019 to 31st July, 2019

	₹
Combined Capital (of all partners) as on 31.7.2019	7,86,000
Less: Combined Capitals on 1.4.2019	

[2,70,000 + 2,40,000 + 2,40,000 + 4,200 + 6,000 less 3,000)	<u>7,57,200</u>
	28,800
Add: Drawings of all partners (60,000 + 48,000 + 54,000)	<u>1,62,000</u>
Total Profit	<u>1,90,800</u>
Share of Profit of each partner	63,600

4. Partners' Capital Accounts

Dr.					Cr.				
	Ram	Shyam	Laxman	Shankar		Ram	Shyam	Laxman	Shankar
	₹	₹	₹	₹		₹	₹	₹	₹
To Ram (Goodwill adj.)	-	37,500	37,500	-	By Balance b/d	2,70,000	2,40,000	2,40,000	-
					By Goodwill adjustment (Shyam and Laxman)	75,000	-	-	-
To Ram's Executors A/c	3,52,800	-	-	-	By Ram's current a/c	7,800	-	-	-
To Shyam and Laxman	-	-	-	45,000	By Cash	-	-	-	1,65,000
					By Shankar (Goodwill adj.)	-	22,500	22,500	-
To Balance c/d		<u>2,25,000</u>	<u>2,25,000</u>	<u>1,20,000</u>					
	<u>3,52,800</u>	<u>2,62,500</u>	<u>2,62,500</u>	<u>1,65,000</u>		<u>3,52,800</u>	<u>2,62,500</u>	<u>2,62,500</u>	<u>1,65,000</u>

5. Partners' Current Accounts

Dr.							
	Ram	Shyam	Laxman		Ram	Shyam	Laxman
	₹	₹	₹		₹	₹	₹
To Balance b/d	-	-	3,000	By Balance b/d	4,200	6,000	-
To Drawings	60,000	48,000	54,000	By Profit and loss A/c	63,600	63,600	63,600
To Capital A/c (bal. fig.)	7,800	-	-				
To Balance c/d	-	<u>21,600</u>	<u>6,600</u>				
	<u>67,800</u>	<u>69,600</u>	<u>63,600</u>		<u>67,800</u>	<u>69,600</u>	<u>63,600</u>

6. Ram's Executors' Account

	₹		₹
To Cash and Bank	1,17,600	By Ram's Capital A/c	3,52,800
To Ram's Executor's Loan A/c	<u>2,35,200</u>		
	<u>3,52,800</u>		<u>3,52,800</u>

7. (a) Journal Entries in the books of Hello Ltd.

Capital Redemption Reserve A/c	Dr. 1,40,000
Securities Premium A/c	Dr. 80,000
General Reserve A/c	Dr. 80,000

To Bonus to Shareholders 3,00,000
(Being issue of bonus shares by utilization of various
Reserves, as per resolution dated)

Bonus to Shareholders A/c Dr. 3,00,000
To Equity Share Capital 3,00,000
(Being capitalization of Profit)

(b) **Ratio of interest and amount due** = $\frac{\text{Rate of interest}}{100 + \text{Rate of interest}} = \frac{10}{110} = \frac{1}{11}$

There is no interest element in the down payment as it is paid on the date of the transaction. Instalments paid after certain period includes interest portion also. Therefore, to ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

Calculation of Interest and Cash Price

No. of instalments	Amount due at the time of instalment	Interest	Cumulative Cash price
[1]	[2]	[3]	(2-3) = [4]
3 rd	4,40,000	1/11 of ₹ 4,40,000 = ₹ 40,000	4,00,000
2 nd	8,40,000	1/11 of ₹ 8,40,000 = ₹ 76,364	7,63,636
1 st	12,03,636	1/11 of ₹ 12,03,636 = ₹ 1,09,421	10,94,215

Total cash price = ₹ 10,94,215 + 4,80,000 (down payment) = ₹ 15,74,215.

- (c) Accounting software is an invaluable resource for modern business. Selection of the accounting software depends upon the requirement of business. If you have small organization that makes only a few basic transactions a month—deposits, withdrawals and invoices, you can even use a spread sheet package like Microsoft Excel. If your business is growing fast you should consider using pre-packaged accounting software like, Sage, Tally, or any other billing software. At the higher end, in service industry or if some business has its specific requirements which are not available in common pre-packaged software, one will have to go for customised accounting software. Larger organisations go often for an ERP package where finance comes as module. An ERP is an integrated software package which manages the business process across the entire enterprise. Thus, fulfilment of business requirements, completeness of reports, ease of use, complexity, size of business and cost are some of the important criteria for selection of appropriate accounting software for the organization.

(d)

Joint life policy (JLP)		₹ 2,00,000
Individual Policies:	X	₹ 1,50,000 (Assured Value)
	Y	₹ 1,00,000 (Surrender Value)
	Z	₹ 1,50,000 (Surrender Value)
		₹ 6,00,000

Total amount of Life Policies = ₹ 6,00,000

Share of life policies which X's executors will get = ₹ 6,00,000 $\times \frac{2}{4}$ = ₹ 3,00,000

X's executor will get ₹ 3,00,000 in the event of X's death as share of life policies.

(e) **Determination of Capital balances of Mr. Aman on 31.3.2018 and 31.3.2019**

	31.3.2018	31.3.2019
	₹	₹
Assets	16,65,000	28,40,000
Less: Liabilities	(4,13,000)	(5,80,000)
Capital	<u>12,52,000</u>	<u>22,60,000</u>

Determination of Profit by applying the method of the capital comparison

	₹
Capital Balance as on 31-3-2019	22,60,000
Less: Fresh capital introduced (matured life insurance policy amount)	<u>(50,000)</u>
	22,10,000
Add: Drawings ($₹32,000 \times 12$)	<u>3,84,000</u>
	25,94,000
Less: Capital Balance as on 1.4.2018	<u>(12,52,000)</u>
Profit	13,42,000
Income declared	<u>9,12,000</u>
Suppressed Income	<u>4,30,000</u>

The Income-tax officer's contention that Mr. Aman has not declared his true income is correct. Mr. Aman's true income is in excess of the disclosed income by ₹4,30,000.