

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

A. Applicable for November, 2021 examination

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

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

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

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

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

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

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

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

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

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

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

III. Notification dated 13th June, 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. 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	Common classifications of inventories are:	Para 27 of AS 2 requires disclosure of inventories

		components, work in progress, finished goods, stores and spares, and loose tools.	(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)".	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	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be	Definition of Amalgamation has been made broader by specifically including ‘merger’.

		statute which may be applicable to companies.	applicable to companies and includes '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 November, 2021 examination

Non-Applicability of Ind AS for November, 2021 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 November, 2021 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Preparation of Statement of Profit and Loss and Balance Sheet

1. Om Ltd. has the Authorised Capital of ₹ 15,00,000 consisting of 6,000 6% Redeemable 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, 2021:

Particulars	Dr.	Cr.
Investment in shares at cost (non-current investment)	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 (included ₹ 30,000 being Director's Remuneration)	1,56,000	
Cash on hand	84,000	
Bills receivable	1,24,500	
Interest on Bank overdraft	29,400	
Interest on debentures upto 30 th Sep (1 st half year)	11,250	
Trade receivables and trade payables	1,50,300	2,63,550
Freehold property at cost	10,50,000	
Furniture at cost less depreciation of ₹ 45,000	1,05,000	
6% Redeemable 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
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 (cost paid during the year)	4,50,000	
Audit fees	<u>18,000</u>	
Total	<u>44,72,850</u>	<u>44,72,850</u>

Other Information:

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. Interest on Debentures for the half year ending on 31st March was due on that date.
8. Technical Knowhow Fees is to be written off over a period of 10 years.
9. Trade receivables include ₹ 18,000 due for more than six months.

You are required to prepare the Balance Sheet as at 31st March, 2021 and Statement of Profit and Loss for the year ended 31st March, 2021 as per Schedule III to the Companies Act, 2013 after taking into account the above information. Ignore taxation.

2. (a) Star Ltd. gives the following information the year ended 31st March, 2021:

	₹
Gross profit	60,38,048
Subsidies received from Govt.	4,10,888
Administrative, Selling and distribution expenses	12,33,813
Directors' fees	2,02,170
Interest on debentures	46,860
Managerial remuneration	4,28,025
Depreciation on Property, plant and equipment (PPE)	7,83,815
Provision for Taxation	18,63,750
Transfer to General Reserve	6,00,000
Transfer to Investment Revaluation Reserve	18,750

Depreciation on PPE as per Schedule II of the Companies Act, 2013 was ₹ 8,63,018

You are required to calculate the maximum amount of the managerial remuneration allowed as per Companies Act, 2013.

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

Cash Flow Statement

3. On the basis of the following information prepare a Cash Flow Statement for the year ended 31st March, 2021 (Using direct method):
- (i) Total sales for the year were ₹ 597 crores out of which cash sales amounted to ₹ 393 crores.
 - (ii) Receipts from credit customers during the year, totalled ₹ 201 crores.
 - (iii) Purchases for the year amounted to ₹ 330 crores out of which credit purchases were 80%.
Balance in creditors as on

1.4.2020	₹ 126 crores
31.3.2021	₹ 138 crores
 - (iv) Suppliers of other consumables and services were paid ₹ 28.5 crores in cash.
 - (v) Employees of the enterprises were paid 30 crores in cash.
 - (vi) Fully paid preference shares of the face value of ₹ 48 crores were redeemed. Equity shares of the face value of ₹ 30 crores were allotted as fully paid up at premium of 20%.
 - (vii) Debentures of ₹ 30 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.
 - (viii) ₹ 39 crores were paid by way of income tax.
 - (ix) A new machinery costing ₹ 15 was purchased.
 - (x) Investment costing ₹ 27 cores were sold at a loss of ₹ 3 crores.
 - (xi) Dividends totalling ₹ 22.5 crores was also paid.
 - (xii) Debenture interest amounting ₹ 3 crore was paid.
 - (xiii) On 31st March 2020, Balance with Bank and Cash on hand totalled ₹ 3 crores.

Profit/Loss prior to Incorporation

4. New Limited was incorporated on 01.08.2020 to take-over the business of a partnership firm w.e.f. 01.04.2020. It provides you the following information for the year ended 31.03.2021:

	₹
Gross profit	9,00,000
Expenses:	
Salaries	1,80,000
Rent, Rates & Taxes	1,20,000
Depreciation	37,500
Commission on Sales	31,500
Interest on Debentures	48,000
Director's Fees	18,000
Advertisement	54,000
Net Profit for the Year	4,11,000

- (i) New Limited initiated an advertising campaign which resulted increase in monthly average sales by 25% post incorporation.
- (ii) The Gross profit ratio post incorporation increased to 30% from 25%.

You are required to apportion the profit for the year between pre-incorporation and post-incorporation periods.

Amalgamation of Companies

5. Som Ltd. agreed to takeover Dove Ltd. on 1st April, 2021. The terms and conditions of takeover were as follows:
- Som Ltd. issued 56,000 equity shares of ₹ 100 each at a premium of ₹ 15 per share to the equity shareholders of Dove Ltd.
 - Cash payment of ₹ 39,000 was made to equity shareholders of Dove Ltd.
 - 24,000 fully paid preference shares of ₹ 50 each issued at par to discharge the preference shareholders of Dove Ltd.
 - The 8% Debentures of Dove Ltd. (₹ 78,000) converted into equivalent value of 9% debentures in Som Ltd.
 - The actual cost of liquidation of Dove Ltd. was ₹ 23,000. Liquidation cost is to be reimbursed by Som Ltd. to the extent of ₹ 15,000.

You are required to:

- (1) calculate the amount of purchase consideration as per the provisions of AS-14 and
- (2) pass Journal Entry relating to discharge of purchase consideration in books of Som Ltd.

Internal Reconstruction of a Company

6. The following scheme of reconstruction has been approved for Win Limited:
- (i) The shareholders to receive in lieu of their present holding at 1,00,000 shares of ₹ 10 each, the following:
 - (a) New fully paid ₹ 10 Equity shares equal to $\frac{3}{5}$ th of their holding.
 - (b) 10% Preference shares fully paid to the extent of $\frac{1}{5}$ th of the above new equity shares.
 - (c) ₹ 40,000, 8% Debentures.
 - (ii) An issue of ₹ 1 lakh 10% first debentures was made and allotted, payment for the same being received in cash forthwith.
 - (iii) Goodwill which stood at ₹ 1,40,000 was completely written off.
 - (iv) Plant and machinery which stood at ₹ 2,00,000 was written down to ₹ 1,50,000.
 - (v) Freehold property which stood at ₹ 1,50,000 was written down by ₹ 50,000.

You are required to draw up the necessary Journal entries in the books of Win Limited for the above reconstruction. Suitable narrations to Journal entries should form part of your answer.

Average due date

7. A merchant trader having accepted the following several bills falling due on different dates, now desires to have these bills cancelled and to accept a new bill for the whole amount payable on the average due date:

Sl. No.	Date of Bills	Amount (₹)	Usance of the bill
1	1 st May, 2021	500	2 months
2	10 th May, 2021	300	3 months
3	5 th June, 2021	400	2 months
4	25 th June, 2021	375	1 month
5	10 th July, 2021	500	2 months

You are required to find the said average due date.

Any fraction of a day arising from the calculation to be considered as full day.

Account current

- 8 What is Account Current? Explain the situations when account current is prepared.

Self balancing Ledgers

9. A business concern maintains self-balancing ledgers. On the basis of following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of April, 2021:

	(₹)
Debit balances in Debtors Ledger on 01-04-2021	1,79,100
Credit balances in Debtors Ledger on 01-04-2021	4,700
Transactions during the month of April, 2021 are:	
Total Sales (including Cash Sales, ₹ 50,000)	10,47,700
Sales Returns	16,550
Cash received from debtors	8,62,850
Bills Receivable received from debtors	47,500
Bills Receivable dishonoured	3,750
Cash paid to debtors for returns	3,000
Transfers to Creditors Ledger	8,000
Credit balances in Debtors Ledger on 30-04-2021	4,900

Financial statements of Not-for profit organizations

10. The following is the Income and Expenditure Account of Gama Club for the year ended 31st March, 2021:

Income and Expenditure Account for the year ended 31st March, 2021

	₹		₹
To Salaries	19,500	By Subscription	68,000
To Rent	4,500	By Donation	5,000
To Printing	750		
To Insurance	500		
To Audit Fees	750		
To Games & Sports	3,500		
To Subscriptions written off	350		
To Miscellaneous Expenses	14,500		
To Loss on sale of furniture	2,500		
To Depreciation:			
Sports Equipment	6,000		

Furniture	3,100		
To Excess of income over expenditure	17,050		
	73,000		73,000

Additional information:

	31-3-2020	31-3-2021
	₹	₹
Subscriptions in arrears	2,600	3,700
Advance Subscriptions	1,000	1,500
Outstanding expenses:		
Rent	500	800
Salaries	1,200	350
Audit Fee	500	750
Sports Equipment less depreciation	25,000	24,000
Furniture less depreciation	30,000	27,900
Prepaid Insurance	-	150

Book value of furniture sold is ₹ 7,000. Entrance fees capitalized ₹ 4,000. On 1st April, 2020 there was no cash in hand but Bank Overdraft was for ₹ 15,000. On 31st March, 2021. Cash in hand amounted to ₹ 850 and the rest was Bank balance.

Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2021.

Accounts from Incomplete Records

11. From the following details furnished by Mittal ji, prepare Trading and Profit and Loss account for the year ended 31.3.2021. Also draft his Balance Sheet as at 31.3.2021:

	1.4.2020	31.3.2021
	₹	₹
Creditors	3,15,400	2,48,000
Expenses outstanding	12,000	6,600
Plant and Machinery	2,32,200	2,40,800
Stock in hand	1,60,800	2,22,400
Cash in hand	59,200	24,000
Cash at bank	80,000	1,37,600
Sundry debtors	3,30,600	?

Details of the year's transactions are as follows:		
Cash and discount credited to debtors		12,80,000
Returns from debtors		29,000
Bad debts		8,400
Sales (Both cash and credit)		14,36,200
Discount allowed by creditors		14,000
Returns to creditors		8,000
Capital introduced by cheque		1,70,000
Collection from debtors (Deposited into bank after receiving cash)		12,50,000
Cash purchases		20,600
Expenses paid by cash		1,91,400
Drawings by cheque		8,600
Machinery acquired by cheque		63,600
Cash deposited into bank		1,00,000
Cash withdrawn from bank		1,84,800
Cash sales		92,000
Payment to creditors by cheque		12,05,400

Note: Mittalji has not sold any machinery during the year.

Hire Purchase Transactions

12. On January 1, 2018 M/s Hello acquired a Machine on hire purchase from M/s Pass. The terms of the contract were as follows:
- The cash price of the Machine was ₹ 2,00,000.
 - ₹ 80,000 were to be paid on signing of the contract.
 - The balance was to be paid in annual instalments of ₹ 40,000 plus interest. The first instalment was to be paid on 31st Dec. 2018.
 - Interest chargeable on the outstanding balance was 6% p.a.
 - Depreciation at 10% p.a. is to be written-off using the WDV method.

You are required to give Journal Entries in the books of M/s Hello from January 1, 2018 to December 31, 2020.

Investment accounts

13. Following transactions of Meeta took place during the financial year 2020-21:

1 st April, 2020	Purchased ₹ 4,500 8% bonds of ₹ 100 each at ₹ 80.50 cum-interest. Interest is payable on 1 st November and 1 st May.
1 st May, 2020	Received half year's interest on 8% bonds.
10 July, 2020	Purchased 6,000 equity shares of ₹ 10 each in Kamal Limited for ₹ 44 each through a broker, who charged brokerage @ 2%.
1 st October 2020	Sold 1,125 8% bonds at ₹ 81 Ex-interest.
1 st November, 2020	Received half year's interest on 8% bonds.
15 th January, 2021	Received 18% interim dividend on equity shares of Kamal Limited.
15 th March, 2021	Kamal Limited made a rights issue of one equity share for every four Equity shares held at ₹ 5 per share. Meeta exercised the option for 40% of her entitlements and sold the balance rights in the market at ₹ 2.25 per share.

Prepare separate investment account for 8% bonds and equity shares of Kamal Limited in the books of Meeta for the year ended on 31st March, 2021. Assume that the average cost method is followed.

Insurance Claims for loss of stock or loss of profit

14. On 2.6.2021 the stock of Mr. Heera was destroyed by fire. However, following particulars were furnished from the records saved:

	₹
Stock at cost on 1.4.2020	2,02,500
Stock at 90% of cost on 31.3.2021	2,43,000
Purchases for the year ended 31.3.2021	9,67,500
Sales for the year ended 31.3.2021	13,50,000
Purchases from 1.4.2021 to 2.6.2021	3,37,500
Sales from 1.4.2021 to 2.6.2021	7,20,000

Sales up to 2.6.2021 includes ₹ 1,12,500 being the goods not dispatched to the customers. The sales (invoice) price is ₹ 1,12,500.

Purchases up to 2.6.2021 includes a machinery acquired for ₹ 22,500.

Purchases up to 2.6.2021 does not include goods worth ₹ 45,000 received from suppliers, as invoice not received up to the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for ₹ 1,80,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock.

Issue in partnership accounts

15. On 31st March, 2021, the Balance Sheet of Mary, Rima and Sunny who were sharing profits and losses in the ratio 3:4:2 stood as follows:

Liabilities	₹	₹	Assets	₹
Capital Account :			Land & Building	90,000
Mary	45,000		Machinery	55,000
Rima	60,000		Trade Receivables	60,000
Sunny	<u>30,000</u>	1,35,000	Inventories	30,000
General Reserve		45,000	Cash in hand and at Bank	20,000
Workmen Compensation Reserve		5,000		
Trade Payables		<u>70,000</u>		
		<u>2,55,000</u>		<u>2,55,000</u>

Sunny retired on 31st March 2021. Mary and Rima continued in partnership sharing profits/losses in the ratio 6:4.

The following adjustments are agreed upon:

- Adjustment for Machinery having net book value of ₹ 4,000 which had been scrapped during the year. The original cost of Machinery was ₹ 15,000.
- Debts amounting ₹ 3,000 considered bad and further debts amounting ₹ 5,000 were considered doubtful and required 100% provision.
- An item of the inventory having value of ₹ 6,000 had been omitted from the stock valuation.
- Provision of ₹ 3,000 to be made in respect of an outstanding bill of purchase.
- Goodwill of the entire firm be fixed at ₹ 36,000 and Sunny's share of the same be adjusted into the accounts of Mary and Rima. No goodwill account to be raised.
- The entire capital of the firm as newly constituted be fixed at ₹ 1,40,000 between Mary and Rima in proportion to their profit sharing ratio after passing entries in the accounts for adjustments i.e. actual cash to be paid off or to be brought in by the continuing partners as the case may be.

Sunny to be paid ₹ 30,000 cash on the date of retirement and balance to be transferred to her Loan Account.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the firm of Mary and Rima after retirement of Sunny. (Journal entries not required)

Accounting in computerized environment

16. State the advantages of outsourcing the accounting functions of an enterprise.

AS 2 Valuation of Inventories

17. On 31st March 2020, a business firm finds that cost of a partly finished unit on that date is ₹ 430. The unit can be finished in 2020-21 by an additional expenditure of ₹ 310. The finished unit can be sold for ₹ 750 subject to payment of 2% brokerage on selling price. The firm seeks your advice regarding the amount at which the unfinished unit should be valued as at 31st March, 2020 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 10 Property, Plant and Equipment

18. A property costing ₹ 10,00,000 is bought on 1.4.2020. Its estimated total physical life is 50 years. However, the company considers it likely that it will sell the property after 25 years. The estimated residual value in 25 years' time, based on current year prices, is:
- Case (a) ₹ 10,00,000
- Case (b) ₹ 9,00,000
- You are required to compute the amount of depreciation charged for the year ended 31.3.2021.

AS 9 Revenue Recognition

19. How will you recognize revenue in the following cases:
1. Installation Fees
 2. Advertising and insurance agency commissions

AS 13 Accounting for Investments

20. Z Bank has classified its total investment on 31-3-2021 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI Guidelines.
- 'Held to maturity' investments are carried at acquisition cost less amortised amount. 'Available for sale' investments are carried at marked to market. 'Held for trading' investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored. Comment whether the policy of the bank is in accordance with AS 13?

SUGGESTED ANSWERS

1. Balance sheet of Om Ltd. as at 31st March, 2021

		Note	(₹)
I	Equity and Liabilities		
(1)	Shareholders' funds:		
	(a) Share capital	1	12,00,000
	(b) Reserves and surplus	2	1,14,150
(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>11,250</u>
	Total		<u>24,88,950</u>
II	ASSETS		
(1)	Non- Current Assets:		
	(a) Property, plant and equipment	6	11,49,900
	(b) Intangible assets	7	4,05,000
	(c) Non-current investments (Shares at cost)		1,50,000
(2)	Current Assets:		
	(a) Inventories		4,27,500
	(b) Trade receivables	8	2,72,550
	(c) Cash and Cash equivalents – Cash on hand		84,000
	Total		<u>24,88,950</u>

Note: There is a Contingent liability for Bills receivable discounted with Bank ₹ 6000.

Statement of Profit and Loss of Om Ltd. for the year ended 31st March, 2021

	Particulars	Note	₹
I	Revenue from Operations		20,11,050
II	Other income (Dividend income)		<u>12,750</u>
III	Total Revenue (I &+ II)		<u>20,23,800</u>
IV	Expenses:		
	(a) Purchases of Inventory (14,71,500 – Advertisement		14,56,500

	Expenses 15,000)		
	(b) Changes in Inventories of finished Goods / Work in progress & inventory (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		28,650
VI	Exceptional items		-
VII	Profit before extra-ordinary items and tax		28,650
VIII	Extraordinary items		-
IX	Profit before tax		28,650

Notes to accounts

			(₹)
1.	Share Capital		
	Authorized capital:		
	90,000 Equity Shares of ₹ 10 each.	9,00,000	
	6,000 6% Preference shares of ₹ 100 each	<u>6,00,000</u>	
	Issued, subscribed & called up:		
	60,000, Equity Shares of ₹ 10 each	6,00,000	
	6,000 6% Redeemable Preference Shares of 100 each	<u>6,00,000</u>	
			<u>12,00,000</u>
2.	Reserves and Surplus		
	Balance as on 1st April, 2020	85,500	
	Add: Surplus for current year	<u>28,650</u>	
	Balance as on 31st March, 2021		<u>1,14,150</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 due on Borrowings (5% Debentures)		11,250
6.	Property, plant and equipment		
	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	<u>56,100</u>	99,900
	Freehold property (at cost)		<u>10,50,000</u>
			<u>11,49,900</u>
7.	Intangible Assets		
	Technical knowhow	4,50,000	
	Less: Written off	<u>45,000</u>	<u>4,05,000</u>
8.	Trade Receivables		
	Sundry Debtors (a) Debt outstanding due more than six months	18,000	
	(b) Other Debts (refer Working Note)	1,34,550	
	Bills Receivable (1,24,500 -4,500)	<u>1,20,000</u>	2,72,550

9.	Employee benefit expenses		
	Salaries & Wages	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		<u>1,20,000</u>
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 off (4,50,000/10)	45,000	
	Advertisement (Goods and Articles Distributed)	15,000	
	Bad Debts (4,500 x 50%)	<u>2,250</u>	
			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	<u>(2,250)</u>
Adjusted Sundry Debtors	1,52,550
Less: Debts due for more than 6 months (as per information given)	<u>(18,000)</u>
Total of other Debtors i.e. Debtors outstanding for less than 6 months	1,34,550

2. (a) Calculation of net profit u/s 198 of the Companies Act, 2013

	₹	₹
Gross profit		60,38,048
Add: Subsidies received from Government		<u>4,10,888</u>
		64,48,936
Less: Administrative, selling and distribution expenses	12,33,813	
Director's fees	2,02,170	
Interest on debentures	46,860	

Depreciation on PPE as per Schedule II	8,63,018	(23,45,861)
Profit u/s 198		41,03,075

Maximum Managerial remuneration under Companies Act, 2013= 11% of ₹ 41,03,075
= ₹ 4,51,338

- (b) (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

3. Cash flow statement (using direct method) for the year ended 31st March, 2021

	(₹ in crores)	(₹ in crores)
Cash flow from operating activities		
Cash sales	393	
Cash collected from credit customers	201	
Less: Cash paid to suppliers for goods & services and to employees (Refer Working Note)	(376.5)	
Cash from operations	217.5	
Less: Income tax paid	(39)	
Net cash generated from operating activities		178.5
Cash flow from investing activities		
Payment for purchase of Machine	(15)	
Proceeds from sale of investments	24	
Net cash used in investing activities		9
Cash flow from financing activities		
Redemption of Preference shares	(48)	
Proceeds from issue of Equity shares	36	
Debenture interest paid	(3)	
Dividend Paid	(22.5)	
Net cash used in financing activities		(37.5)
Net increase in cash and cash equivalents		150
Add: Cash and cash equivalents as on 1.04.2020		3
Cash and cash equivalents as on 31.3.2021		153

Working Note:**Calculation of cash paid to suppliers of goods and services and to employees**

	(₹ in crores)
Opening Balance in creditors Account	126
Add: Purchases (330x .8)	<u>264</u>
Total	390
Less: Closing balance in Creditors Account	<u>138</u>
Cash paid to suppliers of goods	252
Add: Cash purchases (330x .2)	<u>66</u>
Total cash paid for purchases to suppliers (a)	318
Add: Cash paid to suppliers of other consumables and services (b)	28.5
Add: Payment to employees (c)	<u>30</u>
Total cash paid to suppliers of goods & services and to employees [(a)+ (b) + (c)]	<u>376.5</u>

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

Particulars	Total Amount	Basis of Allocation	Pre-incorporation	Post-incorporation
	₹		₹	₹
Gross Profit	9,00,000	1:3	2,25,000	6,75,000
Less: Salaries	1,80,000	Time	60,000	1,20,000
Rent, rates and taxes	1,20,000	Time	40,000	80,000
Commission on sales	31,500	Sales(2:5)	9,000	22,500
Depreciation	37,500	Time	12,500	25,000
Interest on debentures	48,000	Post		48,000
Directors' fee	18,000	Post		18,000
Advertisement	<u>54,000</u>	post		<u>54,000</u>
Net profit	<u>4,11,000</u>		<u>1,03,500</u>	<u>3,07,500</u>

Working Notes:**1. Sales ratio**

Let the monthly sales for first 4 months (i.e. from 1.4.2020 to 31.7.2020) be = x

Then, sales for 4 months = 4x

Monthly sales for next 8 months (i.e. from 1.8.20 to 31.3.2021) = $x + 25\%$ of $x = 1.25x$

Then, sales for next 8 months = $1.25x \times 8 = 10x$

Total sales for the year = $4x + 10x = 14x$

Sales Ratio = $4x : 10x$ i.e. 2:5

2. Gross profit ratio

From 1.4.2020 to 31.7.2020 gross profit is 25% of sales

Then, 25% of $4x = 1x$

gross profit for next 8 months (i.e. from 1.8.20 to 31.3.2021) is 30%

Then, 30% of $10x = 3x$

Therefore gross profit ratio will be 1:3

3. Time ratio

1st April, 2020 to 31st July, 2020 : 1st August, 2020 to 31st March, 2021

= 4 months: 8 months = 1:2

Thus, time ratio is 1:2.

5. As per AS 14, 'Accounting for Amalgamations' consideration for the amalgamation means the aggregate of shares and other securities issued and payment made in form of cash or other assets by the transferee company to the shareholders of the transferor company.

(i) Computation of Purchase Consideration

	₹
(a) Preference Shares: ₹ 50 per share	
24,000 Preference shares	12,00,000
(b) Cash	39,000
(c) Equity shares: 56,000 equity shares in	
Som Ltd. @ ₹ 115	<u>64,40,000</u>
	<u>76,79,000</u>

(ii) Journal entry

	₹	₹
Liquidator of Dove Ltd.	Dr.	76,79,000
To Cash		39,000
To Preference Share Capital A/c		12,00,000
To Equity Share Capital A/c		56,00,000

To Securities Premium A/c 8,40,000

[56,000 x ₹ 15 (115-100)]

(Payment of cash and issue of shares in satisfaction of purchase consideration)

6. Journal Entries

		₹	₹
Equity Share Capital (old) A/c	Dr.	10,00,000	
To Equity Share Capital (₹ 10) A/c			6,00,000
To 10% Preference Share Capital A/c			1,20,000
To 8% Debentures A/c			40,000
To Capital Reduction A/c			2,40,000
(Being new equity shares, 10% Preference Shares, 8% Debentures issued and the balance transferred to Reconstruction account as per the Scheme)			
Bank A/c	Dr.	1,00,000	
To 10% First Debentures A/c			1,00,000
(Being allotment of 10% first Debentures)			
Capital Reduction A/c	Dr.	2,40,000	
To Goodwill Account			1,40,000
To Plant and Machinery Account			50,000
To Freehold Property Account			50,000
(Being Capital Reduction Account utilized for writing off of Goodwill, Plant and Machinery and Freehold property as per the scheme)			

7. Calculation of the average due date

Taking 4th July as the base date

Sl. No.	Date of bill	Due Date of Maturity	Amount ₹	No. of days from starting date (4 th July)	Product
1	1 st May 2021	4 th July	500	0	0
2	10 th May 2021	13 th August	300	40	12,000
3	5 th June 2021	8 th August	400	35	14,000
4	25 th June 2021	28 th July	375	24	9,000
5	10 th July 2021	13 th September	<u>500</u>	71	<u>35,500</u>
Total			<u>2,075</u>		<u>70,500</u>

Average Due Date is $70,500/2,075 = 34$ days after the assumed due date, 4th July, 2021.
The new bill should be for ₹ 2,075 payable on 7th August, 2021.

8. An Account Current is a running statement of transactions between parties for a given period of time and includes interest allowed or charged on various items. It takes the form of an ledger account.

Some of the situations when account current is prepared are:

1. It is prepared when frequent transactions regularly take place between two parties. An example is of a manufacturer who sells goods frequently to a merchant on credit and receives payments from him in instalments at different intervals and charges interest on the amount which remains outstanding.
2. A consignee of goods can also prepare an Account Current, if the latter is to settle the account at the end of the consignment & interest is chargeable on outstanding balance.
3. An Account Current also is frequently prepared to set out the transactions taking place between a banker and his customer.
4. It is prepared when two or more persons are in joint venture and each co-venture is entitled to interest on their investment. Also, no separate set of book is maintained for it.

9. **General Ledger Adjustment Account in Debtors Ledger**

Date	Particulars	₹	Date	Particulars	₹
01.04.2021	To Balance b/d	4,700	1.4.2021	By Balance b/d	1,79,100
01.04.2021	To Debtors ledger		01.04.2021	By Debtors ledger	
to	adjustment A/c:		to	adjustment A/c:	
30.4.2021	Cash received	8,62,850	30.4.2021	Credit sales	9,97,700
	Sales Returns	16,550		Cash paid for returns	3,000
	Bills receivable received	47,500		Bills receivable dishonoured	3,750
	Transfer to creditors ledger	8,000	30.04.2021	By Balance c/d	4,900
30.04.2021	To Balance c/d (bal.fig)	<u>2,48,850</u>			
		<u>11,88,450</u>			<u>11,88,450</u>

10. **Receipts and Payments Account**
For the year ended 31-3-2021

To Subscription A/c (W.N.1)	67,050	By Balance b/d		
To Donation A/c	5,000	(Bank overdraft)		15,000

To Entrance Fees A/c	4,000	By Salary	19,500	
To Furniture A/c (Sale of furniture) (7,000 – 2,500)	4,500	Add: Outstanding of last year	1,200	
		Less: Outstanding of this year	(350)	20,350
		By Rent	4,500	
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(800)	4,200
		By Printing		750
		By Insurance	500	
		Add: Prepaid in this year	150	650
		By Audit Fees	750	
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(750)	500
		By Games & Sports		3,500
		By Miscellaneous Expenses		14,500
		By Sports Equipment		
		(Purchased) (W.N. 2)		5,000
		By Furniture (Purchased)(W.N.3)		8,000
		By Balance c/d		
		Cash		850
		Bank (bal. fig.)		7,250
	80,550			80,550

Working Notes:**1. Calculation of subscription received during the year 2020-2021**

	₹	₹
Subscription as per Income & Expenditure A/c		68,000
Less: Arrears of 2020-2021	3,700	
Advance in 2019-2020	1,000	(4,700)
		63,300
Add: Arrears of 2019-2020	2,600	
Advance for 2021-2022	1,500	4,100
		67,400
Less: Written off during 2020-2021		(350)
		67,050

2. Calculation of Sports Equipment purchased during 2020-2021**Sports Equipment A/c**

	₹		₹
To Balance b/d	25,000	By Income & Expenditure A/c	6,000
To Receipts & Payments A/c	5,000	(Depreciation)	
(Purchases) (bal. fig.)		By Balance c/d	24,000
	30,000		30,000

3. Calculation of Furniture purchased during 2020-2021**Furniture A/c**

	₹		₹
To Balance b/d	30,000	By Receipts & Payments A/c	4,500
To Receipts & Payments A/c	8,000	By Income & Expenditure A/c	2,500
(Purchases)(Bal.fig.)		(Loss on sale)	
		By Income & Expenditure A/c	
		(Depreciation)	3,100
		By Balance c/d	27,900
	38,000		38,000

11.

In the books of Mittal ji**Trading and Profit and Loss Account****for the year ended 31st March, 2021**

	₹	₹		₹	₹
To Opening stock		1,60,800	By Sales:		
To Purchases:			Cash	92,000	
Cash	20,600		Credit	<u>13,44,200</u>	
Credit	<u>11,60,000</u>			14,36,200	
(W.N. 3)					
	11,80,600		Less: Returns	<u>(29,000)</u>	14,07,200
Less: Returns	<u>(8,000)</u>	11,72,600			
To Gross Profit c/d		<u>2,96,200</u>	By Closing stock		<u>2,22,400</u>
		<u>16,29,600</u>			<u>16,29,600</u>

To Discount allowed	30,000	By Gross profit b/d	2,96,200
To Bad debts	8,400	By Discount	14,000
To General expenses (W.N. 5)	1,86,000		
To Depreciation (W.N. 4)	55,000		
To Net profit	<u>30,800</u>		
	<u>3,10,200</u>		<u>3,10,200</u>

Balance Sheet as at 31st March, 2021

<i>Liabilities</i>		₹	<i>Assets</i>		₹
Capital (W.N. 1)	5,35,400		Plant & Machinery	2,32,200	
Add: Additional capital	1,70,000		Add: New machinery	<u>63,600</u>	
Net profit	<u>30,800</u>			2,95,800	
	7,36,200		Less: Depreciation	<u>(55,000)</u>	2,40,800
Less: Drawings	<u>(8,600)</u>	7,27,600	Stock in trade		2,22,400
Sundry creditors		2,48,000	Sundry debtors (W.N. 2)		3,57,400
Expenses outstanding		6,600	Cash in hand		24,000
			Cash in Bank		<u>1,37,600</u>
		<u>9,82,200</u>			<u>9,82,200</u>

Working Notes:**(1) Statement of Affairs as at 31st March, 2020**

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Sundry creditors	3,15,400	Plant & Machinery	2,32,200
Outstanding expenses	12,000	Stock	1,60,800
Mittal's Capital		Debtors	3,30,600
(Balancing figure)	5,35,400	Cash in hand	59,200
		Cash at Bank	<u>80,000</u>
	<u>8,62,800</u>		<u>8,62,800</u>

(2) **Sundry Debtors Account**

	₹		₹
To Balance b/d	3,30,600	By Cash	12,50,000
To Sales (14,36,200 – 92,000)	13,44,200	By Discount	30,000
		By Returns (sales)	29,000
		By Bad debts	8,400
		By Balance c/d (Bal. fig.)	<u>3,57,400</u>
	<u>16,74,800</u>		<u>16,74,800</u>

(3) **Sundry Creditors Account**

	₹		₹
To Bank – Payments	12,05,400	By Balance b/d	3,15,400
To Discount	14,000	By Purchases credit	11,60,000
To Returns	8,000	(Balancing figure)	
To Balance c/d (closing balance)	<u>2,48,000</u>		
	<u>14,75,400</u>		<u>14,75,400</u>

(4)

<i>Depreciation on Plant & Machinery:</i>	₹
Opening balance	2,32,200
Add: Additions	<u>63,600</u>
	2,95,800
Less: Closing balance	<u>(2,40,800)</u>
Depreciation	<u>55,000</u>

(5) **Expenses to be shown in profit and loss account**

Expenses (in cash)	1,91,400
Add: Outstanding of 2021	<u>6,600</u>
	1,98,000
Less: Outstanding of 2020	<u>12,000</u>
	<u>1,86,000</u>

(6) **Cash and Bank Account**

	Cash	Bank		Cash	Bank
	₹	₹		₹	₹
To Balance b/d	59,200	80,000	By Purchases	20,600	—
To Capital		1,70,000	By Expenses	1,91,400	
To Debtors		12,50,000	By Plant and Machinery		63,600
To Bank	1,84,800		By Drawings		8,600
To Cash		1,00,000	By Creditors		12,05,400
To Sales	92,000		By Cash		1,84,800
			By Bank	1,00,000	
			By Balance c/d	24,000	1,37,600
	<u>3,36,000</u>	<u>16,00,000</u>		<u>3,36,000</u>	<u>16,00,000</u>

12.

In the books of M/s Hello**Journal Entries**

Date	Particulars		Dr.	Cr.
			₹	₹
2018 Jan. 1	Machine A/c To M/s Pass A/c (Being the purchase of a Machine on hire purchase from M/s Pass)	Dr.	2,00,000	2,00,000
"	M/s Pass A/c To Bank A/c (Being the amount paid on signing the H.P. contract)	Dr.	80,000	80,000
Dec. 31	Interest A/c To M/s Pass A/c (Being the interest payable @ 6% on ₹ 1,20,000)	Dr.	7,200	7,200
"	M/s Pass A/c (₹ 40,000+₹ 7,200) To Bank A/c (Being the payment of 1 st instalment along with interest)	Dr.	47,200	47,200

2019 Dec. 31	“	Depreciation A/c To Machine A/c (Being the depreciation charged @ 10% p.a. on ₹ 2,00,000)	Dr.	20,000	20,000
	“	Profit & Loss A/c To Depreciation A/c To Interest A/c (Being the depreciation and interest transferred to Profit and Loss Account)	Dr.	27,200	20,000 7,200
		Interest A/c To M/s Pass A/c (Being the interest payable @ 6% on ₹ 80,000)	Dr.	4,800	4,800
		M/s Pass A/c (₹ 40,000 + ₹ 4,800) To Bank A/c (Being the payment of 2 nd instalment along with interest)	Dr.	44,800	44,800
		Depreciation A/c To Machine A/c (Being the depreciation charged @ 10% p.a.)	Dr.	18,000	18,000
		Profit & Loss A/c To Depreciation A/c To Interest A/c (Being the depreciation and interest charged to Profit and Loss Account)	Dr.	22,800	18,000 4,800
	2020 Dec. 31	Interest A/c To M/s Pass A/c (Being the interest payable @ 6% on ₹ 40,000)	Dr.	2,400	2,400
		M/s Pass A/c (₹ 40,000 + ₹ 2,400) To Bank A/c (Being the payment of final instalment along with interest)	Dr.	42,400	42,400
		Depreciation A/c	Dr.	16,200	

To Machine A/c (Being the depreciation charged @ 10% p.a.)	Dr.	18,600	16,200
Profit & Loss A/c			
To Depreciation A/c			16,200
To Interest A/c (Being the interest and depreciation charged to Profit and Loss Account)			2,400

13.

In the books of Meeta

8% Bonds for the year ended 31st March, 2021

Date	Particulars	No.	Income ₹	Amount ₹	Date	Particulars	No.	Income ₹	Amount ₹
2020 1 April, Oct. 1	To Bank A/c	4,500	15,000	3,47,250	1 May 2020	By Bank- Interest	-	18,000	
2021 March 31	To P & L A/c (W.N.1)	-	-	4,312.50	1 Oct. 2020	By Bank A/c	1,125	3,750	91,125
	To P & L A/c		20,250		1 Nov. 2021	By Bank- Interest		13,500	
					2021 Mar. 31	By Balance c/d (W.N.2)	3,375	-	2,60,437.50
		4,500	35,250	3,51,562.50			4,500	35,250	3,51,562.50

Investment in Equity shares of Kamal Ltd. for the year ended 31st March, 2021

Date	Particulars	No.	Income ₹	Amount ₹	Date	Particulars	No.	Income ₹	Amount ₹
2020 July 10	To Bank A/c	6,000	--	2,69,280	2021 Jan 15	By Bank – dividend	-	10,800	
2021 March 15	To Bank A/c (W.N. 3)	600	-	3,000	March 31	By Balance c/d (bal. fig.)	6,600		2,72,280
March 31	To P & L A/c	-	10,800						
		6,600	10,800	2,72,280			6,600	10,800	2,72,280

Working Notes:

1. Profit on sale of 8% Bonds

Sales price	₹ 91,125
Less: Cost of bonds sold = $3,47,250/4,500 \times 1,125$	(₹ 86,812.50)
Profit on sale	<u>₹ 4,312.50</u>

2. Closing balance as on 31.3.2021 of 8 % Bonds

$$3,47,250/4,500 \times 3,375 = ₹ 2,60,437.50$$

3. Calculation of right shares subscribed by Kamal Ltd.

$$\text{Right Shares} = 6,000/4 \times 1 = 1,500 \text{ shares}$$

$$\text{Shares subscribed by Meeta} = 1,500 \times 40\% = 600 \text{ shares}$$

$$\text{Value of right shares subscribed} = 600 \text{ shares @ ₹ 5 per share} = ₹ 3,000$$

4. Calculation of sale of right entitlement by Kamal Ltd.

$$\text{No. of right shares sold} = 1,500 - 600 = 900 \text{ rights for } 2,025$$

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

14.

In the books of Mr. Heera

Trading Account for the year ended 31.3.2021

	₹		₹
To Opening Stock	2,02,500	By Sales	13,50,000
To Purchases	9,67,500	By Closing Stock at cost	2,70,000
To Gross Profit	4,50,000	$\left(2,43,000 \times \frac{100}{90}\right)$	
	<u>16,20,000</u>		<u>16,20,000</u>

Memorandum Trading A/c**for the period from 1.4.2021 to 02.06.2021**

	₹		₹
To Opening Stock (at cost)	2,70,000	By Sales	7,20,000
To Purchases	3,37,500	Less: Goods not dispatched	<u>1,12,500</u>
Add: Goods received but invoice not received	<u>45,000</u>	By Closing stock (Balancing figure)	2,25,000
	3,82,500		
Less: Machinery	<u>22,500</u>		
	3,60,000		
To Gross Profit (Refer W.N.)	<u>2,02,500</u>		
	<u>8,32,500</u>		<u>8,32,500</u>

Calculation of Insurance Claim

$$\text{Claim subject to average clause} = \left(\frac{\text{Actual loss of stock}}{\text{Value of stock on the date of fire}} \times \text{Amount of policy} \right)$$

$$= 1,80,000 \times \left(\frac{2,25,000}{2,25,000} \right) = ₹ 1,80,000$$

Working Note:

$$\text{G.P. ratio} = \frac{4,50,000}{13,50,000} \times 100 = 33 \frac{1}{3} \%$$

$$\text{Amount of Gross Profit} = ₹ 6,07,500 \times 33 \frac{1}{3} \% = ₹ 2,02,500$$

15. (i) Revaluation Account

	₹		₹	₹
To Machinery	4,000	By Inventory		6,000
To Provision for Doubtful Debts	5,000	By Loss on revaluation transferred		
To Bad debt	3,000	By Capital Accounts:		
To Provision for Outstanding bill	3,000	Mary (3/9)	3,000	
		Rima (4/9)	4,000	
		Sunny (2/9)	<u>2,000</u>	
				<u>9,000</u>
	<u>15,000</u>			<u>15,000</u>

(ii) Capital Accounts of Partners

	Mary	Rima	Sunny		Mary	Rima	Sunny
	₹	₹	₹		₹	₹	₹
To Revaluation A/c (loss)	3,000	4,000	2,000	By Balance b/d	45,000	60,000	30,000
To Rima	1,600	-	-	By General Reserve A/c	15,000	20,000	10,000
To Sunny	8,000	-	-	By Mary (goodwill)	-	1,600	8,000
To Cash	-	21,600	30,000	By Cash	36,600	-	-
To Loan			16,000				
To Balance c/d	<u>84,000</u>	<u>56,000</u>					
	<u>96,600</u>	<u>81,600</u>	<u>48,000</u>		<u>96,600</u>	<u>81,600</u>	<u>48,000</u>

Balance Sheet of Mary and Rima (after Sunny's retirement)

<i>Liability</i>	₹	₹	<i>Assets</i>	₹	₹
Capital Accounts			Land & Building		90,000
Mary	84,000		Machinery	55,000	
Rima	<u>56,000</u>	1,40,000	Less: Scrapped	<u>(4,000)</u>	51,000
Sunny's loan		16,000	Inventory		36,000
Workmen compensation reserve		5,000	Trade receivables	60,000	
Provision for outstanding bill		3,000	Less: Bad debt	(3,000)	
Trade payables		70,000	Less: Provision for doubtful debts	<u>(5,000)</u>	52,000
			Cash in hand & at Bank		<u>5,000</u>
		<u>2,34,000</u>			<u>2,34,000</u>

Working Notes:

- (1) Goodwill of the firm = ₹ 36,000

	<i>Goodwill in Old ratio</i>	<i>Goodwill in New ratio</i>
Mary	12,000	21,600
Rima	16,000	14,400
Sunny	8,000	--

Journal Entry for adjustment of goodwill

Mary's capital account	Dr.	9,600
To Sunny's capital account		8,000
To Rima's capital account		1,600

- (2) Cash balance given in the balance sheet after retirement of Sunny

$$₹ 20,000 + ₹ 36,600 - ₹ 30,000 - ₹ 21,600 = ₹ 5,000$$

16. Advantages of outsourcing the accounting functions:

1. **Saving of Time:** The organization that outsources its accounting function is able to save time to concentrate on the core area of business activity.
2. **Expertise of the third party:** The organization is able to utilize the expertise of the third party in undertaking the accounting work.
3. **Maintenance of data:** Storage and maintenance of the data is in the hand of professional people.

4. **Economical:** The organization is not bothered about people leaving the organization in key accounting positions. The proposition is proving to be economically and more sensible as they do not have to train the people again. Hence, the training cost is saved.

17. Valuation of unfinished unit

	₹
Net selling price	750
Less: Estimated cost of completion	(310)
	440
Less: Brokerage (2 % of 750)	(15)
Net Realisable Value	425
Cost of inventory	430
Value of inventory (Lower of cost and net realisable value)	425

18. Case (a)

The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost.

There is, therefore, no depreciable amount and depreciation is zero.

Case (b)

The company considers that the residual value, based on prices prevailing at the balance sheet date, will be ₹ 9,00,000 and the depreciable amount is, therefore, ₹ 1,00,000.

Annual depreciation (on a straight line basis) will be ₹ 4,000 $[(10,00,000 - 9,00,000) \div 25]$.

19. **Installation Fees:** In cases where installation fees are other than incidental to the sale of a product, they should be recognised as revenue only when the equipment is installed and accepted by the customer.

Advertising and insurance agency commissions: Revenue should be recognised when the service is completed. For advertising agencies, media commissions will normally be recognised when the related advertisement or commercial appears before the public and the necessary intimation is received by the agency, as opposed to production commission, which will be recognised when the project is completed. Insurance agency commissions should be recognised on the effective commencement or renewal dates of the related policies.

20. As per AS 13 'Accounting for Investments', the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds. In this case Z Bank is a bank, therefore, AS 13 does not apply to it. For banks, the RBI has issued guidelines for classification and valuation of its investment and Z Bank should comply with those RBI Guidelines/Norms. Therefore, though Z Bank has not followed the provisions of AS 13, yet it would not be said as non-compliance since, it is complying with the norms stipulated by the RBI.