

PAPER – 1: ACCOUNTING

**PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY
FOR MAY, 2021 EXAMINATION**

A. Applicable for May, 2021 examination

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

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

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

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

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

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

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

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

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

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

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

III. Notification dated 13th June, 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 May, 2021 examination

Non-Applicability of Ind ASs for May, 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 have not been made applicable for May, 2021 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Preparation of Financial Statements of Companies

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

	₹		₹
Inventory 1.4.2020	6,65,000	Bank Current Account (Dr. balance)	20,000
Discounts & Rebates allowed	30,000	Cash in hand	11,000
Carriage Inwards	57,500		
Purchases	12,32,500	Calls in Arrear @ ₹ 2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity share capital	20,00,000
Furniture & Fixtures	1,50,000	(2,00,000 shares of ₹ 10 each)	
Business Expenses	56,000	Trade Payables	2,40,500
Wages	14,79,000	Sales	36,17,000
Freehold Land	7,30,000	Rent (Cr.)	30,000
Plant & Machinery	7,50,000	Transfer fees received	6,500
Engineering Tools	1,50,000	Profit & Loss A/c (Cr.)	67,000
Trade Receivables	4,00,500	Repairs to Building	56,500
Advertisement Expenses	15,000	Bad debts	25,500
Commission & Brokerage Expenses	67,500		

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

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

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

- (b) XYZ Ltd. is having inadequacy of profits in the year ending 31-03-2021 and it proposes to declare 10% dividend out of General Reserves. From the following particulars ascertain the amount that can be utilized from general reserves, according to the Companies (Declaration of Dividend out of Reserves) Rules, 2014:

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

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

Cash flow statement

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

Extract of Balance Sheet

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

Extract of Statement of Profit and Loss

	Particulars	Notes	2021 (₹000)	2020 (₹000)
I	Expenses:			
	Employee benefits expense		69	25

II	Other expenses	2	115	110
	Tax expense:			
	Current tax (paid during year)		243	140

Notes to accounts

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

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

Profit/Loss prior to Incorporation

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

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

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

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

	₹	₹
Sales: Company period (1.7.20 to 31.3.21)	40,000	
Prior period (1.4.20 to 30.6.20)	<u>10,000</u>	50,000
Selling Expenses	3,500	
Preliminary Expenses written off	1,200	
Salaries paid	3,600	
Directors' Fees	1,200	
Interest on Capital (Upto 30.6.2020)	700	
Depreciation	2,800	

Rent expense	4,800	
Purchases: Company period (1.7.20 to 31.3.21)	3,125	
Prior period (1.4.20 to 30.6.20)	21,875	
Carriage Inwards	<u>1,000</u>	<u>43,800</u>
Net Profit		<u>6,200</u>

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

Accounting for Bonus Issue

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

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

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

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

Internal Reconstruction of a Company

5. As a part of the reconstruction scheme of Getting better Ltd, the following terms were agreed upon-
- The shareholders to receive in lieu of their present holdings (viz. 10,000 shares of ₹ 50 each), the following-
 - 15,000 Fully paid equity shares of ₹ 10 each;
 - 12% fully paid preference shares to the extent of 2/5 of total equity shares;

- c. To pay them ₹ 50,000 and transfer the remaining to the reconstruction account.
2. 8% Preference share capital - ₹ 3,00,000
To write down the value of preference shares to ₹ 50 (original face value ₹ 100).
3. 14% debentures of the nominal value of ₹ 2,00,000 along with accrued interest ₹ 56,000 was waived off for three fourths of the total amount, and the remaining being paid in cash.

Show the necessary journal entries in the books of Getting better company based on the above scheme.

Amalgamation of Companies

6. M Ltd. and N Ltd. provide the following information as on 31st March, 2020:

	(₹ in lakhs)	
	M Ltd.	N Ltd.
Fully paid equity shares of ₹ 10 each	3,600	900
10% Preference shares of ₹ 10 each, fully paid up	1,200	-
Capital Reserve	600	-
General Reserve	2,100	-
Profit and Loss Account	780	-
8% Redeemable debentures of ₹ 1,000 each	-	300
Trade payables	2,421	369
Provisions	870	54
Plant and Machinery	4,215	468
Furniture and Fixtures	2,400	183
Motor Vehicles	-	51
Inventory	2,370	444
Trade receivables	1,044	237
Cash at Bank	1,542	240

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

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

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

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

You are required to pass necessary Journal Entries in the books of MN Ltd. to record above transactions.

Average Due Date

7. T owes to K the following amounts:

₹ 7,000 due on 15th March, 2019

₹ 12,000 due on 5th April, 2019

₹ 30,000 due on 25th April, 2019

₹ 20,000 due on 11th June, 2019

He desires to make the full payment on 30th June, 2019 along with interest @ 10% per annum after the average due date. Find out the average due date.

Account Current

8. From the following particulars prepare a account current, as sent by Mr. Ram to Mr. Siva as on 31st October 2020 by means of product method charging interest @ 5% p.a. Take 365 days in year.

2020	Particulars	₹
1 st July	Balance due from Siva	750
15 th August	Sold goods to Siva	1250
20 th August	Goods returned by Siva	200
22 nd Sep	Siva paid by cheque	800
15 th Oct	Received cash from Siva	500

Self – Balancing Ledgers

9. M/s Martin Ltd. maintains self balancing ledgers. On the basis of the following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of March, 2019

	₹
Debit balance in Debtors Ledger on 01.03.2019	4,36,200
Credit balance in Debtors ledger on 01.03.2019	12,600
Transactions during the month of March, 2019 are:	
Total sales (Including cash sales of ₹ 2,50,000)	18,00,000
Bad debts recovered (written off in the year 2015-16)	1,000
Interest debited for delay in payment	3,500
Sales Returns	40,000
Cash received from Debtors	16,55,000
Bills Receivables received from Debtors	98,000
Bills Receivables dishonoured	6,000
Discount allowed to debtors for prompt payment	1,500
Noting charges on bills dishonoured	300
Bills Receivables endorsed to suppliers	7,000
Credit balance in Debtors Ledger on 31.03.2019	15,400

Financial Statements of Not-For-Profit Organizations

- 10 You are provided the following information related to Krishna sports club:

	31 st Dec. 2019	31 st Dec. 2020
Building (subject to 10% depreciation for the current year)	60,000	?
Furniture (subject to 10% depreciation for the current year)	-	20,000
Stock of Sports Materials	5,000	2,000
Prepaid Insurance	3,000	6,000
Outstanding Subscription	12,000	8,000
Advance Subscription	6,000	4,000
Outstanding Locker Rent		6,000

Advance Locker Rent received	-	2,000
Outstanding Rent for Godown	6,000	3,000
12% General Fund Investments	2,00,000	?
Accrued Interest on above (for 2 months)	-	4,000
Cash Balance	1,000	64,000
Bank Balance	2,000	-
Bank Overdraft		2,000

Entrance Fees received ₹ 20,000, Life Membership Fees received ₹ 20,000, surplus from Income & expenditure Account ₹ 60,000. It is the policy of the club to treat 60% of entrance fees and 40% of Life Membership Fees as of revenue nature. The furniture was purchased on 1.01.2020

You are required to prepare the opening and closing balance sheets of Krishna sports club as on 1st January, 2020 and 31st December, 2020.

Accounts from Incomplete Records

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

Following information is given to you:

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

Analysis of his bank pass book reveals the following information:

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

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

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

Hire Purchase Transactions

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

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

Investment Accounts

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

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

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

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

On 10.10.2019 Shyam sold 350 shares for ₹ 140 each.

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

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

Insurance Claim for loss of stock

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

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

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

Issues in Partnership Accounts

15. Neha & Co. is a partnership firm with partners Mr. P, Mr. Q and Mr. R, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2020 is as under:

Liabilities		₹	Assets	₹
Capitals:			Land	10,000
Mr. P	80,000		Buildings	2,00,000
Mr. Q	20,000		Plant and machinery	1,30,000
Mr. R	30,000	1,30,000	Furniture	43,000
Reserves			Investments	12,000
(un-appropriated profit)		20,000	Inventories	1,30,000
Long Term Debt		3,00,000	Trade receivables	1,39,000
Bank Overdraft		44,000		
Trade payables		1,70,000		
		6,64,000		6,64,000

It was mutually agreed that Mr. Q will retire from partnership and in his place Mr. T will be admitted as a partner with effect from 1st April, 2020. For this purpose, the following adjustments are to be made:

- (a) Goodwill is to be valued at ₹1 lakh but the same will not appear as an asset in the books of the reconstituted firm.
- (b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.
- (c) In the reconstituted firm, the total capital will be ₹ 2 lakhs which will be contributed by Mr. P, Mr. R and Mr. T in their new profit sharing ratio, which is 2:2:1.
 - (i) The surplus funds, if any, will be used for repaying bank overdraft.
 - (ii) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare: (a) Revaluation account; (b) Partners' capital accounts; (c) Bank account; and (d) Balance sheet of the reconstituted firm as on 1.4.2020.

Accounting in Computerized Environment

16. A large size hospital decided to outsource the accounting functions. Hospital invited proposals from vendors through open tender and received three proposals. How will you select the vendor?

Applicability of Accounting Standards

AS 1 Disclosure of Accounting Policies

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

AS 2 Valuation of Inventories

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

Details of cost for these products are:

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

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

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

AS 3 Cash Flow Statements

18. (a) Classify the following activities as (i) Operating Activities, (ii) Investing Activities, (iii) Financing Activities.
- a. Purchase of Machinery.
 - b. Proceeds from issuance of equity share capital
 - c. Cash Sales.
 - d. Proceeds from long-term borrowings.
 - e. Payment for trade payables.
 - f. Cash receipts from trade receivables.
 - g. Trading Commission received.
 - h. Purchase of investment.
 - i. Redemption of Preference Shares.
 - j. Cash Purchases.
 - k. Proceeds from sale of investment
 - l. Purchase of fixed asset.
 - m. Cash paid to suppliers.
 - n. Interim Dividend paid on equity shares.
 - o. Wages and salaries paid.
 - p. Proceed from sale of patents.
 - q. Interest received on debentures held as investment.
 - r. Interest paid on Long-term borrowings.
 - s. Office and Administration Expenses paid
 - t. Manufacturing Overheads paid.
 - u. Dividend received on shares held as investments.
 - v. Rent received on property held as investment.
 - w. Selling and distribution expense paid.
 - x. Income tax paid

- y. Dividend paid on Preference shares.
- z. Underwritings Commission paid.

Depreciation Accounting as per AS 10 Property, Plant and Equipment

- (b) A property costing ₹ 10,00,000 is bought on 1.4.19. Its estimated total physical life is 50 years. However, the company considers it is likely that it will sell the property after 20 years. The estimated residual value in 20 years' time, based on current year prices, is ₹ 9,00,000. You are required to compute the amount of depreciation charged for the year ended 31st March, 2020.

AS 7 Construction Contracts -

- 19. (a) Mr. 'Mehta' as a contractor has just entered into a contract with a local municipal body for building a flyover. As per the contract terms, Mr. 'Mehta' will receive an additional ₹ 2 crore if the construction of the flyover were to be finished within a period of two years of the commencement of the contract. Mr. 'Mehta' wants to recognize this revenue since in the past he has been able to meet similar targets very easily.

Is Mr. 'Mehta' correct in his proposal? Discuss.

AS 9 Revenue Recognition

- (b) Tonk Tanners is engaged in manufacturing of leather shoes. They provide you the following information for the year ended 31st March, 2020:
 - (i) On 31st December, 2019 shoes worth ₹ 3,20,000 were sent to Mohan Shoes for sale on consignment basis of which 25% shoes were unsold and lying with Mohan Shoes as on 31st March, 2020.
 - (ii) On 10th January, 2020, Tonk Tanner supplied shoes worth ₹ 4,50,000 to Shani Shoes and concurrently agrees to re-purchase the same goods on 11th April, 2020.
 - (iii) On 21st March, 2020 shoes worth ₹ 1,60,000 were sold to Shoe Shine but due to refurbishing of their showroom being underway, on their request, shoes were delivered on 12th April, 2020.

You are required to advise the accountant of Tonk Tanners, when amount is to be recognised as revenue in 2019 -20 in above cases in the context of AS 9.

AS 10 Property, Plant and Equipment

- 20. (a) You are required to give the correct accounting treatment for the following in line with provisions of AS 10:

Trozen Ltd. operates a major chain of supermarkets all over India. It acquires a new store in Pune which requires significant renovation expenditure. It is expected that the renovations will be done in 2 months during which the store will be closed. The budget for this period, including expenditure related to construction and remodelling

costs (₹ 18 lakhs), salaries of staff (₹ 2 lakhs) who will be preparing the store before its opening and related utilities costs (₹ 1.5 lakhs), is prepared. The cost of salaries of the staff and utilities are operating expenditures that would be incurred even after the opening of the supermarket. What will the treatment of all these expenditures in the books of accounts?

AS 13 Accounting for Investments

- (b) Paridhi Electronics Ltd. invested in the shares of Dhansukh Ltd. on 1st May 2020 at a cost of ₹ 10,00,000. Three fourth of these investments were current investments and the remaining investments were intended to be held for more than a year. The published accounts of Dhansukh Ltd. received in January, 2021 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics Ltd. may not fetch more than 7,50,000. Reduction in value is non-temporary in nature.

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

SUGGESTED ANSWERS

1. (a) Balance Sheet of Om Ltd. as at 31st March, 2021

		Particulars	Note No.	(₹)
I		Equity and Liabilities		
	(1)	Shareholders' Funds		
		(a) Share Capital	1	19,90,000
		(b) Reserves and Surplus	2	3,82,000
	(2)	Current Liabilities		
		(a) Trade Payables		2,40,500
		(b) Other Current Liabilities	3	61,500
		(c) Short-Term Provisions	4	<u>1,35,000</u>
		Total		<u>28,09,000</u>
II		ASSETS		
	(1)	Non-Current Assets		
		(a) Property, Plant and Equipment	5	16,97,500
	(2)	Current Assets		
		(a) Inventories		7,05,000
		(b) Trade Receivables	6	3,75,500

	(c) Cash and Cash Equivalents	7	<u>31,000</u>
	Total		<u>28,09,000</u>

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

	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 [6,65,000-7,05,000]		(40,000)
	Employee Benefits Expenses	9	15,04,000
	Depreciation and Amortization Expenses		82,500
	Other Expenses	10	<u>4,24,500</u>
	Total Expenses		<u>32,03,500</u>
V	Profit before Tax (III-IV)		4,50,000
VI	Tax Expenses @ 30%		<u>(1,35,000)</u>
VII	Profit for the period		<u>3,15,000</u>

Notes to Accounts:

1. Share Capital

Authorized 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

General Reserve		10,000
Surplus i.e. Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	3,15,000	

Less: Transfer to Reserve	(10,000)	<u>3,72,000</u>
		<u>3,82,000</u>

3. Other Current Liabilities

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

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

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

6. Trade Receivables

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

7. Cash & Cash Equivalent

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

8. Other Income

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

9. Employee benefits expenses

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

10. Other Expenses

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

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

Profits available

Current year profit ₹ 1,42,500

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

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

Condition I

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

Condition II

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

Condition III

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

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

2.

Supriya Ltd.

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

		(₹ '000)
Cash flows from operating activities		
Cash receipts from customers	2,783	
Cash payments to suppliers	(2,047)	
Cash paid to employees	(69)	
Other cash payments (for overheads)	(115)	
Cash generated from operations	552	
Income taxes paid	(243)	
<i>Net cash from operating activities</i>		309
Cash flows from investing activities		
Payments for purchase of Property, Plant and Equipment	(102)	
<i>Net cash used in investing activities</i>		(102)
Cash flows from financing activities		
Proceeds from issuance of share capital	300	
Bank loan repaid	(250)	
Dividend paid	(80)	
<i>Net cash used in financing activities</i>		(30)
Net increase in cash and cash equivalents		177
Cash and cash equivalents at beginning of period		35
Cash and cash equivalents at end of period		212

3. (a) Time ratio:

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

Post incorporation period (1.7.2020 to 31.3.2021) = 9 months

Time ratio = 3 : 9 or 1 : 3

Sales ratio:

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

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

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

for the year ended 31st March, 2021

Particulars	Basis	Pre	Post
		₹	₹
Sales (given)		10,000	40,000
Less: Purchases (given)		3,125	21,875
Carriage Inwards	1:7	<u>125</u>	<u>875</u>
Gross Profit (i)		<u>6,750</u>	<u>17,250</u>
Less: Selling Expenses	1:4	700	2,800
Preliminary Expenses			1,200
Salaries	1:3	900	2,700
Director Fees			1,200
Interest on capital		700	
Depreciation	1:3	700	2,100
Rent	1:3	<u>1,200</u>	<u>3,600</u>
Total of Expenses(ii)		<u>4,200</u>	<u>13,600</u>
Pre-incorporation /Net Profit (i-ii)		2,550	3,650

Working Notes:

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

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

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

			₹	₹
1-4-2021	Equity share final call A/c Dr.	6,00,000		
	To Equity share capital A/c			6,00,000
	(For final calls of ₹ 2 per share on 3,00,000 equity shares due as per Board's Resolution dated....)			
20-4-2021	Bank A/c Dr.	6,00,000		
	To Equity share final call A/c			6,00,000
	(For final call money on 3,00,000 equity shares received)			
	Securities Premium A/c Dr.	75,000		

Capital redemption reserve A/c	Dr.	1,20,000	
General Reserve A/c	Dr.	3,60,000	
Profit and Loss A/c (b.f.)	Dr.	1,95,000	
To Bonus to shareholders A/c			7,50,000
(For making provision for bonus issue of one share for every four shares held)			
Bonus to shareholders A/c	Dr.	7,50,000	
To Equity share capital A/c			7,50,000
(For issue of bonus shares)			

5. **Journal entries in the books of Getting better Co**

Date	Particulars	Dr.	Cr.
		₹	₹
	Share capital A/c (₹50) Dr.	5,00,000	
	To Share capital A/c (₹10)		1,50,000
	To 12% Preference share capital A/c		2,00,000
	To Bank A/c		50,000
	To Reconstruction A/c		1,00,000
	(Being 15,000 equity shares of ₹ 10 and 12% preference shares issued, paid in cash and remaining forgone as a part of Reconstruction Scheme dated...)		
	Preference Share capital A/c (₹ 100) Dr.	3,00,000	
	To Preference share capital A/c (₹50)		1,50,000
	To Reconstruction A/c		1,50,000
	(Being the preference share capital reduced and forfeited as per reconstruction scheme)		
	14% Debenture A/c Dr.	2,00,000	
	Interest accrued on Debentures A/c Dr.	56,000	
	To Bank A/c		64,000
	To Reconstruction A/c		1,92,000
	(Being the debenture holders paid their interest and amount foregone as per reconstruction scheme)		
	Reconstruction A/c Dr.	4,42,000	
	To Capital Reserve A/c		4,42,000
	(Being the balance in reconstruction ac transferred to capital reserve as per reconstruction scheme)		

6. Journal Entries in the books of MN Ltd.

(₹ in lakhs)		
	Dr.	Cr.
Business Purchase Account Dr.	9,300	
To Liquidator of M Ltd.		8,400
To Liquidator of N Ltd.		900
(Being consideration payable to liquidators of the two companies taken over)		
Plant and Machinery Account (4,215+468) Dr.	4,683	
Furniture and Fixtures Account (2,400+183) Dr.	2,583	
Motor Vehicles Account Dr.	51	
Inventory Account (2,370+444) Dr.	2,814	
Trade receivables Account (1,044+237) Dr.	1,281	
Cash at Bank Account (1,542+240) Dr.	1,782	
Profit and Loss Account (Refer W.N.) Dr.	120	
To 8% Redeemable Debentures of N Ltd. Account		300
To Trade payables Account (2,421+369)		2,790
To Provisions Account (870+54)		924
To Business Purchase Account		9,300
(Being incorporation of all the assets and liabilities and the excess of consideration over the share capital being adjusted against reserves and surplus)		
Liquidator of M Ltd. Account Dr.	8,400	
Liquidator of N Ltd. Account Dr.	900	
To Equity Share Capital Account (7,200+900)		8,100
To 11% Preference Share Capital Account		1,200
(Being allotment of fully paid shares in discharge of purchase consideration)		
Profit and Loss Account Dr.	6	
To Bank Account		6
(Being payment of liquidation expenses of M Ltd. and N Ltd.)		
Preliminary Expenses Account Dr.	15	
To Bank Account		15

(Being expenses on incorporation of MN Ltd.)		
8% Redeemable Debentures of N Ltd. Account	Dr.	300
To 8.5% Redeemable Debentures Account		300
(Being conversion of 8% Debentures of N Ltd. into 8.5% Debentures)		
Profit and Loss Account	Dr.	15
To Preliminary Expenses Account		15
(Being Preliminary Expenses are charged to Profit & Loss A/c in the year it is incurred and not shown in the Balance Sheet as per AS 26)		

Working Note:

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

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

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

$$\text{Average due date} = \text{Base date} + \text{Days equal to } \frac{\text{Total of products}}{\text{Total amount}}$$

$$= 15^{\text{th}} \text{ March, 2019} + \frac{32,42,000}{69,000}$$

$$= 15^{\text{th}} \text{ March, 2019} + 47 \text{ days} = 1^{\text{st}} \text{ May, 2019}$$

8. Shiva in Account Current with Ram as on 31st Oct, 2020

Dr.

Cr.

		₹	Days	Product (₹)			₹	Days	Product (₹)
01.07.20	To Bal. b/d	750	123	92,250	20.08.20	By Sales Returns	200	72	14,400
15.8.20	To Sales	1,250	77	96,250	22.09.20	By Bank	800	39	31,200
31.10.20	To Interest	18.48			15.10.20	By Cash	500	16	8,000
					31.10.20	By Balance of Products			1,34,900
						By Bal. c/d	518.48		
		<u>2018.48</u>		<u>1,88,500</u>			<u>2018.48</u>		<u>1,88,500</u>

$$\text{Interest} = ₹ 1,34,900 \times \frac{5}{100} \times \frac{1}{365} = ₹ 18.48$$

9. Books of Martin Ltd.

General Ledger Adjustment Account in Debtors' Ledger

			₹				₹
1.3.19	To Balance b/d		12,600	1.3.19	By Balance b/d		4,36,200
1.3.19	To Debtor's ledger adjustment account:			1.3.19	By Debtors ledger adjustment account:		
to				to			
31.3.19	Bank/Cash	16,55,000		31.3.19	Sales (on credit)	15,50,000	
	Discount	1,500			Interest	3,500	
	Bills receivable	98,000			Bills receivable dishonoured	6,000	
	Sales returns	<u>40,000</u>	17,94,500		Noting charges on Bill receivable dishonoured	<u>300</u>	15,59,800
31.3.19	To Balance c/d (bal. fig.)		2,04,300				
				31.3.19	By Balance c/d		15,400
			20,11,400				20,11,400

Note:

1. No entry will be made in the above account for cash sales.
2. Bad debts of the year 2015-16 recovered in 2018-19 will not appear in the General Ledger Adjustment account in the Debtors Ledger. It will be credited to profit & loss account.
3. Bills receivables endorsed to the supplier will not be shown in the General Ledger Adjustment account because at the time of endorsement, Supplier's account will be debited and Bills receivable account will be credited.

10. Balance Sheet of Krishna sports club
as on 1st Jan., 2020

Liabilities	₹	Assets	₹
Outstanding Rent for godown	6,000	Building	60,000
Advance Subscription	6,000	Stock of Sports Materials	5,000
Capital Fund (<i>Balancing Figure</i>)	2,71,000	Prepaid Insurance	3,000
		Outstanding Subscription	12,000
		12% General Fund Investments	2,00,000
		Cash Balance	1,000
		Bank Balance	<u>2,000</u>
	<u>2,83,000</u>		<u>2,83,000</u>

Balance Sheet of Krishna sports club as on 31st Dec. 2020

Liabilities	₹	₹	Assets	₹
Outstanding Rent		3,000	Building	
Advance Subscription		4,000	Book Value	60,000
Advance Locker Rent		2,000	Less: Depreciation	<u>6,000</u>
Bank Overdraft		2,000	Furniture Cost	20,000
<i>Capital Fund:</i>			Less: Depreciation	<u>2,000</u>
Opening Balance	2,71,000		Stock of Sports Materials	2,000
Add: Entrance Fees [20,000 x 40%]	8,000		Prepaid Insurance	6,000
Add: Life Membership Fees [₹ 20,000 x 60%]	12,000		Outstanding Subscription	8,000

Add: Surplus	<u>60,000</u>	3,51,000	Outstanding Locker Rent	6,000
			12% General Fund Investment	2,00,000
			Accrued interest on 12% General Fund Investments	4,000
			Cash Balance	<u>64,000</u>
		<u>3,62,000</u>		<u>3,62,000</u>

11. **Trading and Profit and Loss Account of Ram**
for the year ended 31st March, 2021

	₹		₹
To Opening stock	2,80,000	By Sales	
To Purchases	7,70,000	Cash	2,40,000
To Gross Profit @ 25%	3,10,000	Credit	<u>10,00,000</u>
	<u>13,60,000</u>	By Closing Stock (bal.fig.)	<u>1,20,000</u>
			<u>13,60,000</u>
To Salaries	40,000	By Gross Profit	3,10,000
To Business expenses	1,20,000		
To Interest on loan (10% of 1,00,000x 6/12)	5,000		
To Net Profit	<u>1,45,000</u>		
	<u>3,10,000</u>		<u>3,10,000</u>

Balance Sheet of Ram as at 31st March, 2021

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

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

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

2. Sundry Creditors Account

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

3. Cash and Bank Account

	Cash	Bank		Cash	Bank
	₹	₹		₹	₹
To Balance b/d	10,000		By Balance b/d		50,000
To Sales (bal. fig)	2,40,000		By Bank A/c (C)	1,00,000	
To Cash (C)		1,00,000	By Salaries	40,000	
To Debtors		7,50,000	By Creditors	20,000	7,00,000
To loan		1,00,000	By Drawings	80,000	
			By Business expenses		1,20,000
			By Balance c/d	<u>10,000</u>	<u>80,000</u>
	<u>2,50,000</u>	<u>9,50,000</u>		<u>2,50,000</u>	<u>9,50,000</u>

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

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

H.P. Interest Suspense Account

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

M/s PQR Account

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

Working Note:

Cash Price 2,40,000

Down Payment 96,0001,44,000

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

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

13.

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

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

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

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

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

2. Profit on sale of 350 shares

	Amount
Sale price of 350 shares (350 shares X ₹140 each)	₹ 49,000
Less: Cost of 350 shares [(1,20,000+27,000-3,400) X350]/1200	<u>₹ 41,883</u>
Profit	₹ 7,117

3. Valuation of 850 shares as on 31.03.2020

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

14. Memorandum Trading Account for the period 1st April, 2020 to 29th August 2020

		₹		₹
To Opening Stock		3,95,050	By Sales	22,68,000
To Purchases	16,55,350		By Closing stock (Bal. fig.)	4,41,300

Less: Advertisement	(20,500)		
Drawings	(1,000)	16,33,850	
To Gross Profit [30% of Sales] [W N]		<u>6,80,400</u>	
		<u>27,09,300</u>	<u>27,09,300</u>

Statement of Insurance Claim

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

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

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

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

Working Note:Trading Account for the year ended 31st March, 2020

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

Rate of Gross Profit in 2019-20

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

15.

Revaluation Account

	₹		₹
To Buildings A/c	10,000	By Investments A/c	3,000
To Plant and Machinery A/c	26,000	By Loss to Partners:	
To Provision for Doubtful Debts A/c	27,800	P 30,400	
		Q 18,240	
		R <u>12,160</u>	60,800
	<u>63,800</u>		<u>63,800</u>

Capital Accounts of Partners

Particulars	P	Q	R	T	Particulars	P	Q	R	T
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	30,400	18,240	12,160	-	By Balance b/d	80,000	20,000	30,000	-
To Investments A/c	-	15,000	-	-	By Reserves A/c	10,000	6,000	4,000	-
To Q's Loan A/c	-	22,760	-	-	By R and T's Capital A/c	10,000	30,000	-	-
To P and Q's Capital A/c			20,000	20,000	By Bank A/c (balancing figure)	10,400	-	78,160	60,000
To Balance c/d	<u>80,000</u>	<u>-</u>	<u>80,000</u>	<u>40,000</u>					
	<u>1,10,400</u>	<u>56,000</u>	<u>1,12,160</u>	<u>60,000</u>		<u>1,10,400</u>	<u>56,000</u>	<u>1,12,160</u>	<u>60,000</u>

Bank Account

	₹		₹
To P's capital A/c	10,400	By Bank Overdraft A/c	44,000
To R's capital A/c	78,160	By Balance c/d	1,04,560
To T's capital A/c	60,000		
	<u>1,48,560</u>		<u>1,48,560</u>

Balance Sheet of NEHA Co.

as at 1st April, 2020

Liabilities	₹	Assets	₹
Capital Accounts:		Land	10,000
P 80,000		Buildings	1,90,000
Q 80,000		Plant and Machinery	1,04,000
R <u>40,000</u>	2,00,000	Furniture	43,000
Long Term Debts	3,00,000	Inventories	1,30,000
Trade payables	1,70,000	Trade receivables 1,39,000	
Q's Loan Account	22,760	Less: Provision for Doubtful Debts <u>(27,800)</u>	1,11,200
		Balance at Bank	1,04,560
	<u>6,92,760</u>		<u>6,92,760</u>

16. The proposals will be evaluated and vendor will be selected considering the following criteria:
1. Quantum of services provided and whether the same matches with the requirements of the hospital.
 2. Reputation and background of the vendor.
 3. Comparative costs of the various propositions.
 4. Organizational set up of the vendor particularly technical staffing to obtain services without inordinate delay.
 5. Assurance of quality, confidentiality and secrecy.
 6. Data storage and processing facilities.
17. (a) As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts:

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

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

Product – A

Material cost	₹ 40 x 200 = 8,000	
Wages cost	₹ 30 x 200 = 6,000	
Overhead	₹ 20 x 200 = <u>4,000</u>	
Total cost		₹ 18,000
Realizable value [200 x (110-11)]		₹ 19,800
Hence inventory value of Product -A		₹ 18,000

Product – B

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

18. (a) (i) Operating Activities: c, e, f, g, j, m, o, s, t, w, x.
(ii) Investing Activities: a, h, k, l, p, q, u, v.
(iii) Financing Activities: b, d, i, n, r, y, z.
- (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 ₹ 5,000 $[(10,00,000 - 9,00,000) \div 20]$.
19. (a) According to para 14 of AS 7 (Revised) 'Construction Contracts', incentive payments are additional amounts payable to the contractor if specified performance standards are met or exceeded. For example, a contract may allow for an incentive payment to the contractor for early completion of the contract. Incentive payments are included in contract revenue when: (i) the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and (ii) the amount of the incentive payment can be measured reliably. In the given problem, the contract has not even begun and hence the contractor (Mr. Mehta) should not recognize any revenue of this contract.
- (b) (i) **Shoes sent to Mohan Shoes (consignee) for consignment sale**
In case goods are sent for consignment sale, revenue is recognized when significant risks of ownership have passed from seller to the buyer.
In the given case, Mohan Shoes is the consignee i.e. an agent of Tonk Tanners and not the buyer. Therefore, the risk and reward is considered to vest with Tonk Tanners only till the time the sale is made to the third party by Mohan Shoes; although the goods are held by Mohan Shoes. Hence, in the year 2019-2020, the sale will be recognized for the amount of goods sold by Mohan Shoes to the third party i.e. for ₹ 3,20,000 x 75% = ₹ 2,40,000.
- (ii) **Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date**
For such transactions that are in substance a financing agreement, the resulting

cash inflow is not revenue and should not be recognised as revenue in the year 2019-2020. Hence, sale of ₹ 4,50,000 to Shani Shoes should not be recognized as revenue.

(iii) Delivery is delayed at buyer's request

On 21st March, 2020, if Shoe Shine takes title and accepts billing for the goods then it is implied that the sale is complete and all the risk and rewards of ownership has been transferred to the buyer. In case no significant uncertainty exists regarding the amount of consideration for sale, revenue shall be recognized in the year 2019-2020 irrespective of the fact that the delivery is delayed on the request of Shoe Shine.

20. (a) Trozen Ltd. should capitalize the costs of construction and remodelling the supermarket, because they are necessary to bring the store to the condition necessary for it to be capable of operating in the manner intended. The supermarket cannot be opened without incurring the remodelling expenditure. Therefore, this construction and remodelling expenditure of ₹ 18 lakh should be considered as part of the cost of the asset. However, the cost of salaries of the staff ₹ 2 lakh and utilities cost ₹ 1.5 lakh are operating expenditures that would be incurred even after the opening of the supermarket. Therefore, these costs are not necessary to bring the store to the condition necessary for it to be capable of operating in the manner intended by the management and should be expensed.
- (b) As per AS 13, "Accounting for Investments", carrying amount for current investments is the lower of cost and fair value. But long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.

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