

## PAPER – 1: ACCOUNTING

### PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY

#### A. Applicable for November, 2022 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 (18 of 2013), the Central Government made amendments in Schedule III (Division I) to the said Act, vide MCA Notification dated 24<sup>th</sup> March, 2021, applicable with effect from 1<sup>st</sup> day of April, 2021. These amendments have been incorporated in Annexure “Schedule III to the Companies Act” to chapter 4 of September, 2021 Edition. The students are advised to refer the link <https://resource.cdn.icai.org/66494bos53751-cp4-annex.pdf> for the revised content.

##### II. Criteria for classification of Non-Company entities for applicability of Accounting Standards

The Council, at its 400<sup>th</sup> meeting, held on March 18-19, 2021, revised the criteria relating to applicability of Accounting Standards issued by The Institute of Chartered Accountants of India (ICAI), to Non-company entities (Enterprises). The scheme for applicability of Accounting Standards to Non-company entities shall come into effect in respect of accounting periods commencing on or after April 1, 2020. For the purpose of applicability of Accounting Standards, Non-company entities are classified into four categories, viz., Level I, Level II, Level III and Level IV. Level I entities are large size entities, Level II entities are medium size entities, Level III entities are small size entities and Level IV entities are micro entities. Level IV, Level III and Level II entities are referred to as Micro, Small and Medium size entities (MSMEs). The terms ‘Small and Medium Enterprise’ and ‘SME’ used in Accounting Standards shall be read as ‘Micro, Small and Medium size entity’ and ‘MSME’ respectively. Level I entities are required to comply in full with all the Accounting Standards. However, certain exemptions/relaxations have been provided to Level II, Level III and Level IV Non-company entities.

The revised criteria for classification of Non-Company entities reg. applicability of Accounting Standards has been incorporated in the revised chapter 3 unit 1 of September, 2021 Edition of the Study Material. The students are advised to refer the link <https://resource.cdn.icai.org/66492bos53751-cp3-u1.pdf> for the revised content.

**NOTE:** September, 2021 Edition of the Study Material on Paper 1 Accounting is applicable for November, 2022 Examination which incorporates the above amendments. The students who have editions prior to September, 2021 may refer the uploaded chapters for the revised content.

**B. Not applicable for November, 2022 examination****Non-Applicability of Ind AS for November, 2022 Examination**

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16<sup>th</sup> February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for November, 2022 Examination.

**PART – II: QUESTIONS AND ANSWERS****QUESTIONS****Preparation of Statement of Profit and Loss and Balance Sheet**

1. The following balances appeared in the books of Oliva Ltd. as on 31-03-2022.

Particulars		₹	Particulars		₹
Inventory 01-04-2021			Sales		17,10,000
-Raw Material	30,000		Interest		3,900
-Finished goods	<u>46,500</u>	76,500	Profit and Loss A/c		21,000
Purchases of raw material		12,60,000	Share Capital		3,15,000
Manufacturing Expenses		2,70,000	Secured Loans:		
			Short-term	4,500	
			Long-term	<u>21,000</u>	25,500
Salaries and wages		40,200	Fixed Deposits (unsecured):		
			Short-term	1,500	
General Charges		16,500	Long-term	<u>3,300</u>	4,800
Building		1,01,000	Trade payables		3,27,000
Plant and Machinery		70,400			
Furniture		10,200			
Motor Vehicles		40,800			
Investments:					
Current	4,500				
Non-Current	<u>7,500</u>	12,000			

Trade receivables		2,38,500			
Cash in Bank		<u>2,71,100</u>			<u>          </u>
		24,07,200			<u>24,07,200</u>

From the above balances and the following information, prepare the company's statement of Profit and Loss for the year ended 31<sup>st</sup> March, 2022 and company's Balance Sheet as on that date:

- Inventory on 31<sup>st</sup> March, 2022- Raw material ₹ 25,800 and finished goods ₹ 60,000.
- Outstanding Expenses: Manufacturing Expenses ₹ 67,500 & Salaries & Wages ₹ 4,500.
- Interest accrued on Securities ₹ 300.
- General Charges prepaid ₹ 2,490.
- Provide depreciation: Building @ 2% p.a., Machinery @ 10% p.a., Furniture @ 10% p.a. & Motor Vehicles @ 20% p.a.
- Current maturity of long term loan is ₹ 1,000.
- The Taxation provision of 40% on net profit is considered.

#### Managerial remuneration

- The following information of X Ltd. (a non-investment company) as on 31<sup>st</sup> March, 2022 was obtained:

	₹
<b>Authorized capital:</b>	
15,000, 14% preference shares of ₹ 100	15,00,000
1,50,000 Equity shares of ₹ 100 each	<u>1,50,00,000</u>
	<u>1,65,00,000</u>
<b>Issued and subscribed capital:</b>	
14,000, 14% preference shares of ₹ 100 each fully paid	14,00,000
1,30,000 Equity shares of ₹ 100 each, ₹ 90 paid-up	1,17,00,000
Capital reserves (₹ 1,75,000 is revaluation reserve)	2,00,000
Securities premium	50,000
15% Debentures	70,00,000
Investment in shares, debentures, etc.	60,00,000
Profit and Loss account (debit balance)	13,50,000

You are required to compute Effective Capital as per the provisions of Schedule V to the Companies Act, 2013.

### Cash Flow Statement

3. The Balance Sheet of Max Ltd. for the year ending 31<sup>st</sup> March, 2022 and 31<sup>st</sup> March, 2021 were summarised as:

Particulars	Note No	2022 ₹	2021 ₹
<b>Equity and Liabilities</b>			
<b>Shareholders' funds</b>			
Equity share capital		1,20,000	1,00,000
Reserves and Surplus	1	9,000	8,000
<b>Current Liabilities</b>			
(i) Trade Payables		8,000	5,000
(ii) Short term provision	2	<u>7,000</u>	<u>4,000</u>
		<u>1,44,000</u>	<u>1,17,000</u>
<b>Assets</b>			
<b>Non-current assets</b>			
(i) PPE (at W.D.V)	3	78,000	58,000
(ii) Long Term Investments		32,000	28,000
<b>Current Assets</b>			
(i) Inventory		14,000	8,000
(ii) Trade Receivables		8,000	6,000
(iii) Cash & Bank		<u>12,000</u>	<u>17,000</u>
		<u>1,44,000</u>	<u>1,17,000</u>

### Notes to accounts

		2022	2021
1	<b>Reserves and Surplus</b>		
	Profit & Loss A/c	9,000	8,000
2	<b>Short term provision</b>		
	provision for Income tax	7,000	4,000
3	<b>PPE</b>		
	Building	19,000	20,000

Furniture & Fixture	34,000	22,000
Cars	<u>25,000</u>	<u>16,000</u>
	<u>78,000</u>	<u>58,000</u>

The Profit and Loss statement for the year ended 31<sup>st</sup> March, 2022 disclosed:

	₹
Profit before tax	8,000
Income Tax	<u>(7,000)</u>
Profit after tax	<u>1,000</u>

Further Information is available:

1. Depreciation on Building for the year ₹ 1,000
2. Depreciation on Furniture & Fixtures for the year ₹ 2,000
3. Depreciation on Cars for the year ₹ 5,000. One car was disposed during the year for ₹ 3,400 whose written down value was ₹ 2,000.
4. Purchases investments for ₹ 6,000.
5. Sold investments for ₹ 10,000, these investments cost ₹ 2,000.

Prepare Cash Flow Statements for the year ended 31<sup>st</sup> March, 2022 as per AS-3 (revised) using indirect method.

#### Profit/Loss prior to Incorporation

4. The promoters of Shiva Ltd. took over on behalf of the company a running business with effect from 1<sup>st</sup> April 2021. The company got incorporated on 1<sup>st</sup> August 2021. The annual accounts were made up to 31<sup>st</sup> March, 2022 which revealed that the sales for the whole year totalled ₹ 24 lakhs out of which sales till 31<sup>st</sup> July, 2021 were for ₹ 6 lakhs. Gross profit ratio was 20%.

The expenses from 1<sup>st</sup> April 2021, till 31<sup>st</sup> March, 2022 were as follows:

Particulars	₹
Salaries	75,000
Rent, Rates and Insurance	30,000
Sundry Office Expenses	72,000
Traveller's Commission	20,000
Discount allowed	16,000
Bad Debts	8,000
Directors' Fee	30,000

Tax Audit Fee	16,000
Depreciation on Property, Plant & Equipment	15,000
Debenture Interest	14,000

Prepare a statement showing the calculation of profits for the pre-incorporation and Post incorporation periods.

### Accounting for Bonus Issue

5. Pass Journal Entries in the following circumstances:

- (i) Rise Limited with subscribed capital of ₹ 7,50,000 consisting of 75,000 Equity shares of ₹ 10 each; called up capital ₹ 7.50 per share. A bonus of ₹ 1,87,500 declared out of General Reserve to be applied in making the existing shares fully paid up.
- (ii) A Limited company having fully paid up capital of ₹ 75,00,000 consisting of Equity shares of ₹ 10 each, had General Reserve of ₹ 13,50,000. It was resolved to capitalize ₹ 7,50,000 out of General Reserve by issuing 75,000 fully paid bonus shares of ₹ 10 each, each shareholder to get one such share for every ten shares held by him in the company.

### Issue of Right Shares

6. Meeta Ltd. has decided to increase its existing share capital by making rights issue to its existing shareholders. The company is offering one new share for every two shares held by the shareholder. The market value of the share is ₹ 360 and the company is offering one share of ₹ 180 each. Calculate the value of a right. What should be the ex-right value of a share?

### Redemption of Preference Shares

7. Dheeraj Limited had 5,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

- (i) 40,000 Equity Shares of ₹ 10 each at par.
- (ii) 2,000 12% Debentures of ₹ 100 each.

The issue was fully subscribed and all accounts were received in full. The payment was duly made. The company had sufficient profits. Show journal entries in the books of the company.

**Redemption of Debentures**

8. XYZ Ltd. has issued 1,000, 12% convertible debentures of ₹ 100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of ₹ 10 each at a price of ₹ 20 per share and balance in cash. Debenture holders amounting ₹ 20,000 opted to get their debentures converted into equity shares as per terms of the issue. You are required to calculate the number of shares issued and cash paid for redemption of ₹ 20,000 debenture holders.

**Investment Accounts**

9. Alpha Ltd. purchased 5,000, 13.5% Debentures of Face Value of ₹ 100 each of Pergot Ltd. on 1<sup>st</sup> May 2021 @ ₹ 105 on cum interest basis. The interest on these debentures is payable on 31<sup>st</sup> & 30<sup>th</sup> of March & September respectively. On August 1<sup>st</sup> 2021 the company again purchased 2,500 of such debentures @ ₹ 102.50 each on cum interest basis. On October 1<sup>st</sup>, 2021 the company sold 2,000 Debentures @ ₹ 103 each on ex-interest basis. The market value of the debentures as at the close of the year was ₹ 106. You are required to prepare the Investment in Debentures Account in the books of Alpha Ltd. for the year ended 31<sup>st</sup> Dec. 2021 on Average Cost Basis.

**Insurance Claim for loss of stock**

10. On 27<sup>th</sup> July, 2022, a fire occurred in the godown of M/s. Vijay Exports and most of the stocks were destroyed. However goods costing ₹ 5,000 could be salvaged.

From the salvaged accounting records, the following information is available relating to the period from 1.4.2022 to 27.7.2022:

1.	Stock as per balance sheet as on 1.4.2022	₹ 63,000
2.	Purchases (including purchase of machinery costing ₹ 10,000)	₹ 2,92,000
3.	Wages (including wages paid for installation of machinery ₹ 3,000)	₹ 53,000
4.	Sales (including goods sold on approval basis amounting to ₹ 40,000). No approval has been received in respect of 1/4 <sup>th</sup> of the goods sold on approval.	₹ 4,12,300
5.	Cost of goods distributed as free sample	₹ 2,000

Other Information:

- (i) While valuing the stock on 31.3.2022, ₹ 1,000 had been written off in respect of certain slow moving items costing ₹ 4,000. A portion of these goods were sold in June, 2022 at a loss of ₹ 700 on original cost of ₹ 3,000. The remainder of these stocks is now estimated to be worth its original cost.
- (ii) Past record shows the normal gross profit rate is 20%.

(iii) The Company had taken the fire insurance policy of ₹ 55,000 with the average clause.

Compute the amount of claim of stock destroyed by fire, to be lodged to the Insurance Company. Also prepare Memorandum Trading Account for the period 1.4.2022 to 27.7.2022 for normal and abnormal items.

### Hire Purchase Transactions

11. Leena Transport Limited purchased from Ethnic Motors, 4 tempos costing ₹ 2,75,000 each on the hire purchase system on 1.1.2020. Payment was to be made ₹ 2,00,000 down and the balance in 3 equal annual instalments payable on 31.12.2020, 31.12.2021 and 31.12.2022 together with interest @ 12% p.a.

Leena Transport Ltd. charge depreciation at the rate of 10% p.a. on the diminishing balance. It paid the instalment due at the end of the first year, i.e., 31.12.2020, but could not pay the next on 31.12.2021. Ethnic Motors decided to takeover 2 tempos and to leave the other 2 tempos with the purchaser on 1.1.2022, adjusting the value of the 2 tempos (taken over) against the amount due on 31.12.2021. The tempos taken over were valued on the basis of 15% depreciation (W.D.V method) annually. Show the necessary accounts in the books of Leena Transport Ltd. for the years 2020, 2021 and 2022 assuming the balance was paid to ethnic Motors Ltd. on 31.12.2022.

### Departmental Accounts

12. M/s. Bombay Cotton has 2 Departments Y and Z. The following information is provided for the year ended 31<sup>st</sup> March, 2022:

Particulars	Department Y (₹)	Department Z (₹)
Opening Stock	60,000	40,000
Purchases	1,20,000	3,05,400
Wages	70,000	32,000
Sales	3,10,300	3,72,700
Closing Stock	23,700	40,700

Other Expenses are:

Particulars	Amount in (₹)
Salaries	30,000
Rent	9,000
Advertisement	24,000
General Expenses	3,000
Depreciation	18,000

All Expenses are to be allocated between the Departments in the ratio of their Gross Profit.

Department Y sells goods to Department Z at a profit of 25% on sales. Department Z sells goods to Department Y at a profit of 28% on cost.

Each Department Manager is entitled to 10% Commission on Net Profit subject to unrealized profit on departmental sales being eliminated.

Stock Transfer during the year from Department Y to Department Z was ₹ 40,000 and from Department Z to Department Y was ₹ 50,000.

Closing Stock includes transfer from Department Y to Department Z ₹ 12,000 and from Department Z to Department Y ₹ 21,200. Opening stocks do not include any inter department transfer.

Prepare Departmental Trading and Profit & Loss Account for the year ended 31<sup>st</sup> March, 2022.

### Accounting for Branches

13. M & S Co. of Lucknow has a branch(integral foreign operation) in Canberra, Australia. As on 31st March 2022, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.

	Lucknow office (₹ In thousand)		Canberra Branch (Aust. Dollars in thousand)	
	Dr.	Cr.	Dr.	Cr.
Capital		2,000		
Reserves & Surplus		1,000		
Land	500			
Buildings (Cost)	1,000			
Buildings Depreciation Provision		200		
Plant and Machinery (Cost)	2,500		200	
Plant and Machinery Dep. Provision		600		130
Debtors/Creditors	280	200	60	30
Stock as on 1-4-2021	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salary	75		45	

Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	4,880	4,880	390	390

The following information is also available:

- (i) Stock as at 31<sup>st</sup> March, 2022  
Lucknow ₹ 1,50,000  
Canberra A\$ 3125 (all stock are out of purchases made at Abroad)
- (ii) Head Office always sent goods to the Branch at cost plus 25%
- (iii) Provision is to be made for doubtful debts at 5%
- (iv) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down value.

You are required to:

- (1) Convert the Branch Trial Balance into rupees by using the following exchange rates:

Opening rate	1 A \$ = ₹ 50
Closing rate	1 A \$ = ₹ 53
Average rate	1 A \$ = ₹ 51.00
For Fixed Assets	1 A \$ = ₹ 46.00

- (2) Prepare Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March 2022 showing to the extent possible H.O. results and Branch results separately.

#### Accounts from Incomplete Records

14. Aman, a readymade garment trader, keeps his books of account under single entry system. On the closing date, i.e. on 31<sup>st</sup> March, 2021 his statement of affairs stood as follows:

Equity & Liabilities	Amount ₹	Assets	Amount ₹
Aman's capital	4,80,000	Building	3,25,000
Loan	1,50,000	Furniture	50,000
Creditors	3,10,000	Motor car	90,000
		Stock	2,00,000
		Debtors	1,70,000
		Cash in hand	20,000

	9,40,000	Cash at bank	85,000
			9,40,000

Riots occurred and a fire broke out on the evening of 31<sup>st</sup> March, 2022, destroying the books of accounts. On that day, the cashier had absconded with the available cash. You are furnished with the following information:

1. Sales for the year ended 31<sup>st</sup> March, 2022 were 20% higher than the previous year's sales, out of which, 20% sales were for cash. He always sells his goods at cost plus 25%. There were no cash purchases.
2. Collection from debtors amounted to ₹ 14,00,000, out of which ₹ 3,50,000 was received in cash.
3. Business expenses amounted to ₹ 2,00,000, of which ₹ 50,000 were outstanding on 31<sup>st</sup> March, 2022 and ₹ 60,000 paid by cheques.
4. Gross profit as per last year's audited accounts was ₹ 3,00,000.
5. Provide depreciation on building and furniture at 5% each and motor car at 20%.
6. His private records and the Bank Pass Book disclosed the following transactions for the year 2021-22:

	₹
Payment to creditors (paid by cheques)	13,75,000
Personal drawings (paid by cheques)	75,000
Repairs (paid by cash)	10,000
Travelling expenses (paid by cash)	15,000
Cash deposited in bank	7,15,000
Cash withdrawn from bank	1,20,000

7. Stock level was maintained at ₹ 3,00,000 all throughout the year.
8. The amount defalcated by the cashier is to be written off to the Profit and Loss Account.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31<sup>st</sup> March, 2022 and Balance Sheet as on that date of Aman. All the workings should form part of the answer.

#### Framework for Preparation and Presentation of Financial Statements

15. Summarised Balance Sheet of Cloth Trader as on 31.03.2021 is given below:

Equity & Liabilities	Amount (₹)	Assets	Amount (₹)
Proprietor's Capital	3,00,000	Property, plant and equipment	3,60,000
Profit & Loss Account	1,25,000	Closing Inventory	1,50,000

10% Loan Account	2,10,000	Trade receivables	1,00,000
Trade payables	50,000	Deferred Expenses	50,000
		Cash & Bank	<u>25,000</u>
	<u>6,85,000</u>		6,85,000

Additional Information is as follows :

- (1) The remaining life of Property, plant and equipment is 8 years. The pattern of use of the asset is even. The net realisable value of Property, plant and equipment on 31.03.2022 was ₹ 3,25,000.
- (2) Purchases and Sales in 2021-22 amounted to ₹ 22,50,000 and ₹ 27,50,000 respectively.
- (3) The cost and net realizable value of inventory on 31.03.2022 were ₹ 2,00,000 and ₹ 2,50,000 respectively.
- (4) Expenses including interest on loan for the year amounted to ₹ 78,000.
- (5) Deferred Expenses are amortized equally over 5 years.
- (6) Sundry Debtors on 31.03.2022 are ₹ 1,50,000 of which ₹ 5,000 is doubtful. Collection of another ₹ 25,000 depends on successful re-installation of certain product supplied to the customer;
- (7) Closing Sundry Creditors are ₹ 75,000, likely to be settled at 10% discount.
- (8) Cash balance as on 31.03.2022 is ₹ 4,22,000.
- (9) There is an early repayment penalty for the loan of ₹ 25,000.

You are required to prepare: (Not assuming going concern)

- (1) Profit & Loss Account for the year 2021-22.
- (2) Balance Sheet as on 31<sup>st</sup> March, 2022.

### AS 2 Valuation of Inventories

16. The closing stock of finished goods (at cost) of a company amounted to ₹ 4,50,000. The following items were included at cost in the total:
  - (a) 100 coats, which had cost ₹ 2,200 each and normally sold for ₹ 4,000 each. Owing to a defect in manufacture their NRV was determined at 50% of their normal selling price.
  - (b) Shirts which had cost ₹ 50,000, their net realizable value at Balance sheet date was ₹ 55,000. Commission @ 10% on sales is payable to agents.

What should the inventory value be according to AS 2 after considering the above items?

**AS 10 Property, Plant and Equipment**

17. RS Ltd. has acquired a heavy plant at a cost of ₹ 2,00,00,000. The estimated useful life is 10 years. At the end of the 2nd year, one of the major components i.e. the Boiler has become obsolete (which was acquired at price of ₹ 50,00,000) and requires replacement, as further maintenance is uneconomical. The remainder of the plant is perfect and is expected to last for next 8 years. The cost of a new boiler is ₹ 60,00,000.

Can the cost of the new boiler be recognised as an asset, and, if so, what should be the carrying value of the plant at the end of second year?

**AS 11 The Effects of Changes in Foreign Exchange Rates**

18. A company had imported raw materials worth US Dollars 6,00,000 on 5<sup>th</sup> January, 2022, when the exchange rate was ₹ 43 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5<sup>th</sup> April, 2022 when the exchange rate was ₹ 47 per US Dollar. However, on 31<sup>st</sup> March, 2022, the rate of exchange was ₹ 48 per US Dollar. The company passed an entry on 31<sup>st</sup> March, 2022 adjusting the cost of raw materials consumed for the difference between ₹ 47 and ₹ 43 per US Dollar.

In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

**AS 12 Accounting for Government Grants**

19. (a) Samrat Limited has set up its business in a designated backward area which entitles the company for subsidy of 25% of the total investment from Government of India. The company has invested ₹ 80 crores in the eligible investments. The company is eligible for the subsidy and has received ₹ 20 crores from the government in February 2022. The company wants to recognize the said subsidy as its income to improve the bottom line of the company.

Do you approve the action of the company in accordance with the Accounting Standard?

**AS 13 Accounting for Investments**

- (b) Mother Mart Ltd., wants to re-classify its investment in accordance with AS 13. Decide the treatment to be given in each of the following cases assuming that the market value has been determined in an arm's length transaction between knowledgeable and willing buyer and seller:
- (i) A portion of current investments purchased for ₹ 25 lakhs to be reclassified as long-term investments, as the company has decided to retain them. The market value as on the date of balance sheet was ₹ 30 lakhs. The fair value of the investments on the date of transfer is same as the market value on the balance sheet date

- (ii) Another portion of current investments purchased for ₹ 20 lakhs has to be re-classified as long-term investments. The Fair value of these investments as on the date of the balance sheet was ₹ 12.5 lakhs.
- (iii) One portion of long-term investments, no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹ 15 lakhs, but had been written down to ₹ 11 lakhs to recognize permanent decline as per AS 13.

**AS 16 Borrowing Costs**

20. Harish Construction Company is constructing a huge building project consisting of four phases. It is expected that the full building will be constructed over several years but Phase I and Phase II of the building will be started as soon as they are completed.

Following is the detail of the work done on different phases of the building during the current year: (₹ in lakhs)

	Phase I ₹	Phase II ₹	Phase III ₹	Phase IV ₹
Cash expenditure	10	30	25	30
Building purchased	<u>24</u>	<u>34</u>	<u>30</u>	<u>38</u>
Total expenditure	<u>34</u>	<u>64</u>	<u>55</u>	<u>68</u>
Total expenditure of all phases				221
Loan taken @ 15% at the beginning of the year				200

During mid of the current year, Phase I and Phase II have become operational. Find out the total amount to be capitalized and to be expensed during the year.

**SUGGESTED ANSWERS**

1.

**Oliva Ltd.****Balance Sheet as at 31.03.2022**

	Particulars	Note	Amount
(1)	<b>Equity and Liabilities</b>		
	(i) Shareholders' funds		
	(a) Share Capital		3,15,000
	(b) Reserves and surplus	1	50,430
(2)	<b>Non-current liabilities</b>		
	(a) Long-term borrowings	2	23,300

(3)	<b>Current Liabilities</b>		
	(a) Short -term borrowings	3	7,000
	(b) Trade payables		3,27,000
	(c) Other current liability	4	72,000
	(d) Short term provision	5	<u>19,620</u>
			<u>8,14,350</u>
II	<b>ASSETS</b>		
(1)	<b>Non-current assets</b>		
	(a) Property, Plant & equipment	6	2,04,160
	(b) Non-current investments		7,500
(2)	<b>Current assets</b>		
	(a) Current investments		4,500
	(b) Inventories	7	85,800
	(c) Trade receivables		2,38,500
	(d) Cash and cash equivalents		2,71,100
	(e) Other current assets	8	<u>2,790</u>
			<u>8,14,350</u>

Oliva Ltd.

## Statement of Profit and loss for the year ended 31.03.2022

(₹)

	Particulars	Note	Amount
I	Revenue from operations		17,10,000
II	Other income (3,900 +300)		<u>4,200</u>
III	<b>Total income (I +II)</b>		<u>17,14,200</u>
IV	Expenses:		
	Cost of materials consumed	9	12,64,200
	Purchases of inventory-in-trade		--
	Changes in inventories of finished goods, work-in-progress and inventory-in-Trade	10	(13,500)
	Employee benefit expenses	11	44,700
	Finance costs		--
	Depreciation and amortization expenses		18,240

	Other expenses	12	<u>3,51,510</u>
	<b>Total Expenses</b>		<u>16,65,150</u>
V	Profit before exceptional and extraordinary items and tax		49,050
VI	Exceptional items		--
VII	Profit before extraordinary items and tax		49,050
VIII	Extraordinary items		--
IX	Profit before tax		49,050
X	Tax expense (40% of 49,050)		19,620
XI	Profit/Loss for the period from continuing operations		29,430

**Notes to accounts**

No.	Particulars		Amount	Amount
1.	<b>Reserve &amp; Surplus</b>			
	Profit & Loss Account: Balance b/f		21,000	
	Net Profit for the year		<u>29,430</u>	50,430
2.	<b>Long term borrowings</b>			
	Secured loans (21,000 less current maturities 1,000)		20,000	
	Fixed Deposits: Unsecured		<u>3,300</u>	23,300
3.	<b>Short term borrowings</b>			
	Secured loans		4,500	
	Fixed Deposits -Unsecured		1,500	
	Current maturities of long term borrowings		<u>1,000</u>	7,000
4.	<b>Other current liabilities</b>			
	Expenses Payable (67,500 + 4,500)		72,000	72,000
5.	<b>Short term provisions</b>			
	Provision for Income tax			19,620
6.	<b>Property, plant and equipment</b>			
	Building	1,01,000		
	Less: Depreciation @ 2%	<u>(2,020)</u>	98,980	
	Plant & Machinery	70,400		
	Less: Depreciation @10%	<u>(7,040)</u>	63,360	

	Furniture	10,200		
	Less: Depreciation @10%	<u>(1,020)</u>	9,180	
	Motor vehicles	40,800		
	Less: Depreciation @20%	<u>(8,160)</u>	<u>32,640</u>	2,04,160
7.	<b>Inventory</b>			
	Raw Material		25,800	
	Finished goods		<u>60,000</u>	85,800
8.	<b>Other Current Assets</b>			
	General Charges prepaid		2,490	
	Interest accrued		<u>300</u>	2,790
9.	<b>Cost of material consumed</b>			
	Opening inventory of raw Material	30,000		
	Add: Purchases	<u>12,60,000</u>	12,90,000	
	Less: Closing inventory		<u>(25,800)</u>	12,64,200
10.	<b>Changes in inventory of Finished Goods &amp; WIP</b>			
	Closing Inventory of Finished Goods		60,000	
	Less: Opening Inventory of Finished Goods		<u>(46,500)</u>	13,500
11.	<b>Employee Benefit expenses</b>			
	Salary & Wages (40,200 + 4,500)			44,700
12.	<b>Other Expenses:</b>			
	Manufacturing Expenses (2,70,000 + 67,500)		3,37,500	
	General Charges (16,500 – 2,490)		<u>14,010</u>	3,51,510

## 2. Computation of Effective Capital

	₹
Paid-up share capital-	
14,000, 14% Preference shares	14,00,000
1,30,000 Equity shares	1,17,00,000
Capital reserves (excluding revaluation reserve)	25,000
Securities premium	50,000
15% Debentures	<u>70,00,000</u>

	(A)	<u>2,01,75,000</u>
Investments		60,00,000
Profit and Loss account (Dr. balance)		<u>13,50,000</u>
	(B)	<u>73,50,000</u>
Effective capital	(A-B)	<u>1,28,25,000</u>

3.

Max Ltd.

**Cash Flow Statement for the year ended 31<sup>st</sup> March, 2022**

	(₹)	(₹)
<b>Cash flows from operating activities</b>		
Net Profit before taxation	8,000	
Adjustments for:		
Depreciation ₹ (1,000 + 2,000 +5,000)	8,000	
Profit on sale of Investment	(8,000)	
Profit on sale of car	<u>(1,400)</u>	
Operating profit before working capital changes	6,600	
Increase in Trade receivables	(2,000)	
Increase in inventories	(6,000)	
Increase in Trade payables	<u>3,000</u>	
Cash generated from operations	1,600	
Income taxes paid	<u>(4,000)</u>	
Net cash generated from operating activities (A)		(2,400)
<b>Cash flows from investing activities</b>		
Sale of car	3,400	
Purchase of car	(16,000)	
Sale of Investment	10,000	
Purchase of Investment	(6,000)	
Purchase of Furniture & fixtures	<u>(14,000)</u>	
Net cash used in investing activities (B)		(22,600)
<b>Cash flows from financing activities</b>		
Issue of shares for cash	<u>20,000</u>	
Net cash from financing activities(C)		<u>20,000</u>
Net decrease in cash and cash equivalents (A + B +C)		(5,000)

Cash and cash equivalents at beginning of period		<u>17,000</u>
Cash and cash equivalents at end of period		12,000

**Working Notes:****1. Calculation of Income taxes paid**

	₹
Income tax expense for the year	7,000
Add: Income tax liability at the beginning of the year	<u>4,000</u>
	11,000
Less: Income tax liability at the end of the year	<u>(7,000)</u>
	<u>4,000</u>

**2. Calculation of Fixed assets acquisitions**

	Furniture & Fixtures (₹)	Car (₹)
W.D.V. at 31.3.2022	34,000	25,000
Add back: Depreciation for the year	2,000	5,000
Disposals	<u>-</u>	<u>2,000</u>
	36,000	32,000
Less: W.D.V. at 31.3.2021	<u>(22,000)</u>	<u>(16,000)</u>
Acquisitions during 2021-2022	<u>14,000</u>	<u>16,000</u>

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

Particulars	Total Amount	Basis of Allocation	Pre-in-corporation	Post-in-corporation
	(₹)		(₹)	(₹)
Gross Profit (20% of ₹ 24,00,000)	4,80,000	Sales	1,20,000	3,60,000
Less: Salaries	75,000	Time	25,000	50,000
Rent, rates and Insurance	30,000	Time	10,000	20,000
Sundry office expenses	72,000	Time	24,000	48,000
Travellers' commission	20,000	Sales	5,000	15,000
Discount allowed	16,000	Sales	4,000	12,000
Bad debts	8,000	Sales	2,000	6,000
Directors' fee	30,000	Post	-	30,000
Tax Audit Fees*	16,000	Sales	4,000	12,000

Depreciation on PPE	15,000	Time	5,000	10,000
Debenture interest	<u>14,000</u>	Post	-	<u>14,000</u>
Net profit	<u>184,000</u>		<u>41,000</u>	<u>1,43,000</u>

\* Tax Audit Fees allocated in the ratio of sales.

Thus, pre-incorporation profits is ₹ 41,000 and post- incorporation profit is ₹ 1,43,000.

### Working Notes:

#### 1. Sales ratio

	(₹)
Sales for the whole year	24,00,000
Sales up to 31 <sup>st</sup> July, 2021	<u>6,00,000</u>
Therefore, sales for the period from 1 <sup>st</sup> August, 2021 to 31 <sup>st</sup> March, 2022	<u>18,00,000</u>

Thus, sale ratio = 600:1800 = 1:3

#### 2. Time ratio

1<sup>st</sup> April, 2021 to 31<sup>st</sup> July, 2021 : 1<sup>st</sup> August, 2021 to 31<sup>st</sup> March, 2022

= 4 months: 8 months = 1:2, Thus, time ratio is 1:2.

#### 5. Journal Entries

		₹	₹
(i)	General Reserve A/c	Dr.	1,87,500
	To Bonus to shareholders A/c		1,87,500
	(For making provision of bonus issue)		
	Share final call A/c		1,87,500
	To Equity share capital A/c		1,87,500
	(For final calls of ₹ 2.50 per share on 75,000 equity shares due as per Board's Resolution dated....)		
	Bonus to shareholders A/c	Dr.	1,87,500
	To Share final call A/c		1,87,500
	(For bonus money applied for call)		
(ii)	General Reserve A/c	Dr.	7,50,000
	To Bonus to shareholders A/c		7,50,000
	(For making provision of bonus issue)		

Bonus to shareholders A/c	Dr.	7,50,000	
To Equity share capital A/c			7,50,000
(For issue of 75,000 bonus shares at ₹ 10)			

6. Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing Number of shares + No. of right shares)

$$= (\text{₹ } 360 \times 2 \text{ Shares} + \text{₹ } 180 \times 1 \text{ Share}) / (2 + 1) \text{ Shares}$$

$$= \text{₹ } 900 / 3 \text{ shares} = \text{₹ } 300 \text{ per share.}$$

Value of right = Cum-right value of the share – Ex-right value of the share

$$= \text{₹ } 360 - \text{₹ } 300 = \text{₹ } 60 \text{ per share.}$$

7. **In the books of Dheeraj Limited**

**Journal Entries**

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c	Dr. 4,00,000	
	To Equity Share Capital A/c		4,00,000
	(Being the issue of 40,000 equity shares of ₹ 10 each at par as per Board's resolution No...dated..)		
	Bank A/c	Dr. 2,00,000	
	To 12% Debenture A/c		2,00,000
	(Being the issue of 2,000 Debentures of ₹ 100 each as per Board's Resolution No.....dated.....)		
	10% Redeemable Preference Share Capital A/c	Dr. 5,00,000	
	Premium on Redemption of Preference Shares A/c	Dr. 50,000	
	To Preference Shareholders A/c		5,50,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)		
	Preference Shareholders A/c	Dr. 5,50,000	
	To Bank A/c		5,50,000
	(Being the amount paid on redemption of preference shares)		

Profit & Loss A/c	Dr.	50,000	
To Premium on Redemption of Preference Shares A/c			50,000
(Being the adjustment of premium on redemption against Profits & Loss Account)			
Profit & Loss A/c	Dr.	1,00,000	
To Capital Redemption Reserve A/c (Working Note)			1,00,000
(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

**Working Note:****Amount to be transferred to Capital Redemption Reserve Account**

Face value of shares to be redeemed	₹ 5,00,000
Less: Proceeds from new issue	<u>(₹ 4,00,000)</u>
Balance	<u>₹ 1,00,000</u>

8.

	Number of debentures
Debenture holders opted for conversion (20,000 /100)	<u>200</u>
Option for conversion	20%
Number of debentures to be converted (20% of 200)	40
Redemption value of 40 debentures at a premium of 5% [40 x (100+5)]	₹ 4,200
Equity shares of ₹ 10 each issued on conversion [₹ 4,200/ ₹ 20]	210 shares

<b>Calculation of cash to be paid:</b>	₹
Number of debentures	200
Less: number of debentures to be converted into equity shares	<u>(40)</u>
	<u>160</u>

Redemption value of 160 debentures (160 × ₹ 105) ie. ₹ 16,800.

9.

## Books of Alpha Ltd.

## Investment in 13.5% Debentures in Pergot Ltd. Account

(Interest payable on 31<sup>st</sup> March & 30<sup>th</sup> September)

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
2021		₹	₹	₹	2021		₹	₹	₹
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank (6 months Int)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000	Oct.1	By Bank	2,00,000		2,06,000
Oct.1	To P&L A/c			2,167					
Dec.31	To P&L A/c		52,313		Dec.31	By Balance c/d	5,50,000	18,563	5,60,542
		<u>7,50,000</u>	<u>69,188</u>	<u>7,66,542</u>			<u>7,50,000</u>	<u>69,188</u>	<u>7,66,542</u>

**Note:** Cost being lower than Market Value the debentures are carried forward at Cost.

**Working Notes:**

- Interest paid on ₹ 5,00,000 purchased on May 1<sup>st</sup>, 2021 for the month of April 2021, as part of purchase price:  $5,00,000 \times 13.5\% \times 1/12 = ₹ 5,625$
- Interest received on 30<sup>th</sup> Sept. 2021
 
$$\text{On ₹ 5,00,000} = 5,00,000 \times 13.5\% \times \frac{1}{2} = 33,750$$

$$\text{On ₹ 2,50,000} = 2,50,000 \times 13.5\% \times \frac{1}{2} = \underline{16,875}$$

Total ₹ 50,625
- Interest paid on ₹ 2,50,000 purchased on Aug. 1<sup>st</sup> 2021 for April 2021 to July 2021 as part of purchase price:
 
$$2,50,000 \times 13.5\% \times 4/12 = ₹ 11,250$$
- Loss on Sale of Debentures
 

Cost of acquisition

$$(\text{₹ } 5,19,375 + \text{₹ } 2,45,000) \times \text{₹ } 2,00,000 / \text{₹ } 7,50,000 = 2,03,833$$

Less: Sale Price (2,000 x 103) = 2,06,000

Profit on sale = ₹ 2,167
- Cost of Balance Debentures
 
$$(\text{₹ } 5,19,375 + \text{₹ } 2,45,000) \times \text{₹ } 5,50,000 / \text{₹ } 7,50,000 = ₹ 5,60,542$$
- Interest on Closing Debentures for period Oct.-Dec. 2021 carried forward (accrued interest)

$$₹ 5,50,000 \times 13.5\% \times 3/12 = ₹ 18,563$$

10. Memorandum Trading Account for the period 1<sup>st</sup> April, 2022 to 27<sup>th</sup> July, 2022

	Normal Items ₹	Abnormal Items ₹	Total ₹		Normal Items ₹	Abnormal Items ₹	Total ₹
To Opening stock (W.N.5)	60,000	4,000	64,000	By Sales (W.N. 3)	4,00,000	2,300	4,02,300
To Purchases (W.N. 1)	2,80,000	-	2,80,000	By Loss	-	700	700
To Wages (W.N. 4)	50,000	-	50,000	By Goods on Approval (W.N. 2)	8,000	-	8,000
To Gross profit @ 20%	80,000	-	80,000	By Closing stock (Bal. fig.)	62,000	1,000	63,000
	4,70,000	4,000	4,74,000		4,70,000	4,000	4,74,000

**Statement of Claim for Loss of Stock**

	₹
Book value of stock as on 27 <sup>th</sup> July, 2022	62,000
Add: Abnormal Stock	1,000
Less: Stock salvaged	<u>(5,000)</u>
Loss of stock	<u>58,000</u>

**Amount of claim to be lodged with insurance company**

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

$$= ₹ 58,000 \times (55,000 / 63,000) = ₹ 50,635 \text{ (rounded off)}$$

**Working Notes:**

1. Calculation of Adjusted Purchases

	₹
Purchases	2,92,000
Less: Purchase of Machinery	(10,000)
Less: Free samples	<u>(2,000)</u>
Adjusted purchases	<u>2,80,000</u>

2. Calculation of Goods with Customers

$$\text{Approval for sale has not been received} = ₹ 40,000 \times 1/4 = ₹ 10,000.$$

Hence, these should be valued at cost i.e. (₹ 10,000 – 20% of ₹ 10,000) = ₹ 8,000

### 3. Calculation of Actual Sales

Total Sales	₹ 4,12,300
Less: Approval for sale not received (1/4 X ₹ 40,000)	<u>₹ 10,000</u>
Actual Sales	<u>₹4,02,300</u>

### 4. Calculation of Wages

Total Wages	₹ 53,000
Less: Wages for installation of machinery	<u>(₹ 3,000)</u>
	<u>₹ 50,000</u>

### 5. Value of Opening Stock

Original cost of stock as on 31st March, 2022

= ₹ 63,000 + ₹1,000 (Amount written off)

= ₹ 64,000.

## 11. In the books of Leena Transport Limited

### Tempos Account

		₹			₹
2020			2020		
Jan. 1	To Ethnic Motors	11,00,000	Dec. 31	By Depreciation – 10% on ₹ 11,00,000	1,10,000
	₹ (2,75,000 x 4)			By Balance c/d	<u>9,90,000</u>
		<u>11,00,000</u>			<u>11,00,000</u>
2021			2021		
Jan. 1	To Balance b/d	9,90,000	Dec.31	By Depreciation A/c	99,000
				By Ethnic Motors A/c (Value of 2 tempos taken away)	3,97,375
				By Profit & Loss A/c (Balancing figure)	48,125
				By Balance c/d (Value of two tempos left)	4,45,500
		<u>9,90,000</u>			<u>9,90,000</u>
2022			2022		
Jan. 1	To Balance b/d	4,45,500	Dec. 31	By Depreciation A/c	44,550

		<u>4,45,500</u>	By Balance b/d	4,00,950
				<u>4,45,500</u>

**Ethnic Motors Limited**

		₹			₹
2020			2020		
Jan-01	To Bank (Down Payment)	2,00,000	Jan-01	By Tempos A/c	11,00,000
Dec-31	To Bank	4,08,000	Dec-31	By Interest (12% on ₹ 9,00,000)	1,08,000
	To Balance c/d	<u>6,00,000</u>			<u>12,08,000</u>
		<u>12,08,000</u>			<u>12,08,000</u>
2021			2021		
Jan-01	To Tempo	3,97,375	Jan. 1	By Balance b/d	6,00,000
Dec-31	To Balance c/d	<u>2,74,625</u>	Dec-31	By Interest (12% on ₹ 6,00,000)	<u>72,000</u>
		<u>6,72,000</u>			<u>6,72,000</u>
2022			2022		
Dec-31	To Bank	3,07,580	Jan-01	By Balance b/d	2,74,625
		<u>3,07,580</u>	Dec-31	By Interest (12% on ₹ 2,74,625)	<u>32,955</u>
		<u>3,07,580</u>			<u>3,07,580</u>

**Working Notes:**

**(1) Value of Two Tempos left with the buyer**

	₹
Cost ₹ (2,75,000 x 2)	5,50,000
Depreciation @ 10% p.a. under WDV method for 2 years [i.e. ₹ 55,000 + ₹ 49,500]	<u>(1,04,500)</u>
Value of the Tempos left with the buyer at the end of 2 <sup>nd</sup> year	<u>4,45,500</u>

**(2) Value of Tempos taken away by the seller – Number of tempos - 2**

	₹
Cost – (₹ 2,75,000 x 2)	5,50,000
Depreciation @ 15% p.a. under WDV method for 2 years [i.e. ₹ 82,500 + ₹ 70,125]	<u>(1,52,625)</u>
Value of Tempos taken away at the end of 2 <sup>nd</sup> year	<u>3,97,375</u>

12. **Departmental Trading and Profit & Loss Account in the books of  
M/s. Bombay Cotton for the year ended 31<sup>st</sup> March, 2022**

Particulars	Department Y (₹)	Department Z (₹)	Particulars	Department Y (₹)	Department Z (₹)
To Opening Stock	60,000	40,000	By Sales	3,10,300	3,72,700
To Purchase	1,20,000	3,05,400	By Transfers	40,000	50,000
To Wages	70,000	32,000	By Closing Stock	23,700	40,700
To Transfers	50,000	40,000			
To Gross Profit c/d	<u>74,000</u>	<u>46,000</u>			
	<u>3,74,000</u>	<u>4,63,400</u>		<u>3,74,000</u>	<u>4,63,400</u>
To Salaries	18,500	11,500	By Gross Profit b/d	74,000	46,000
To Rent	5,550	3,450			
To Advertisement	14,800	9,200			
To General Expenses	1,850	1,150			
To Depreciation (all expenses divided in ratio of 37: 23)	11,100	6,900			
To Net profit c/d	<u>22,200</u>	<u>13,800</u>			
	<u>74,000</u>	<u>46,000</u>		<u>74,000</u>	<u>46,000</u>
To Unrealized profit	3,000	4,638	By Net Profit b/d	22,200	13,800
To Manager's commission	1,920	916			
To Net profit	17,280	8,246			
	<u>22,200</u>	<u>13,800</u>		<u>22,200</u>	<u>13,800</u>

**Working notes:**

1. **Unrealized profit included in the closing stock**

$$\text{Department Y} = 21,200 \times \frac{28}{128} = 4,637.50 \text{ (rounded off as ₹ 4,638)}$$

$$\text{Department Z} = 12,000 \times 25\% = 3,000$$

2. **Calculation of Manager's Commission**

Particulars	Department Y (₹)	Department Z (₹)
Net Profit	22,200	13,800
Less: Stock Reserve	<u>3,000</u>	<u>4,638</u>
	<u>19,200</u>	<u>9,162</u>
Manager's Commission @ 10%	1,920	916

13.

M &amp; S Co. Ltd.

Canberra, Australia Branch Trial Balance as on 31<sup>st</sup> March 2022

	(\$ 'thousands)			(₹ 'thousands)	
	Dr.	Cr.	Conversion rate per \$	Dr.	Cr.
Plant & Machinery (cost)	200		₹ 46	9,200	
Plant & Machinery Dep. Provision		130	₹ 46		5,980
Trade receivable/payable	60	30	₹ 53	3,180	1,590
Stock (1.4.2021)	20		₹ 50	1,000	
Cash & Bank Balances	10		₹ 53	530	
Purchase / Sales	20	123	₹ 51	1,020	6,273
Goods received from H.O.	5		Actual	100	
Wages & Salaries	45		₹ 51	2,295	
Rent	12		₹ 51	612	
Office expenses	18		₹ 51	918	
Commission Receipts		100	₹ 51		5,100
H.O. Current A/c		7	Actual		120
				18,855	19,063
Foreign Exchange Loss (bal. fig.)				208	
	<u>390</u>	<u>390</u>		<u>19,063</u>	<u>19,063</u>
Closing stock	3.125		53	165.625*	

Trading and Profit & Loss Account for the year ended 31<sup>st</sup> March, 2022

(₹'000)							
	H.O.	Branch	Total		H.O.	Branch	Total
To Opening Stock	100	1,000.000	1,100.000	By Sales	520	6,273.000	6,793.000
To Purchases	240	1,020.000	1,260.000	By Goods sent to Branch	100	—	100.000
To Goods received from Head Office	—	100.000	100.000	By Closing Stock	150	165.625	315.625
To Wages & Salaries	75	2,295.000	2,370.000				
To Gross profit c/d	355	2,023.625	2,378.625				
	<u>770</u>	<u>6,438.625</u>	<u>7,208.625</u>		<u>770</u>	<u>6,438.625</u>	<u>7,208.625</u>
To Rent	—	612.000	612.000	By Gross profit b/d	355	2,023.625	2,378.625

To Office expenses	25	918.000	943.000	By Commission receipts	256	5,100.000	5,356.000
To Provision for doubtful debts @ 5%	14	159.000	173.000				
To Depreciation (W. N.)	460	644.000	1,104.000				
To Balance c/d	112	4,790.625	4,902.625				
	611	7,123.625	7,734.625		611	7,123.625	7,734.625
To Managing Partner's Salary			30.000	By Balance b/d			4,902.625
To Exchange Loss			208.000	By Branch stock reserve			4.000
To Balance c/d			4,668.625				
			4,906.625				4,906.625

**Working Note:**

**Calculation of Depreciation**

	H.O ₹ '000	Branch ₹ '000
Building – Cost	1,000	
Less: Depreciation Provision	(200)	
	<u>800</u>	
Depreciation @ 10% (A)	<u>80</u>	
Plant & Machinery Cost	2,500	9,200
Less: Depreciation Provision	(600)	(5,980)
	<u>1,900</u>	<u>3,220</u>
Depreciation @ 20% (B)	<u>380</u>	<u>644</u>
Total Depreciation (A+B)	460	644

14.

**Trading and Profit and Loss Account of Aman  
for the year ended 31<sup>st</sup> March, 2022**

	₹		₹
To Opening Stock	2,00,000	By Sales	18,00,000
To Purchases (Bal. fig.)	15,40,000	By Closing Stock	3,00,000
To Gross Profit c/d	<u>3,60,000</u>		
	<u>21,00,000</u>		<u>21,00,000</u>

To Business Expenses	2,00,000	By Gross Profit b/d	3,60,000
To Repairs	10,000		
To Depreciation:			
Building	16,250		
Machinery	2,500		
Motor Car	<u>18,000</u>		
	36,750		
To Travelling Expenses	15,000		
To Loss by theft (cash defalcated)	20,000		
To Net Profit	<u>78,250</u>		
	<u>3,60,000</u>		<u>3,60,000</u>

**Balance Sheet of Aman as at 31<sup>st</sup> March, 2022**

Liabilities	₹	₹	Assets	₹	₹
Capital	4,80,000		Building	3,25,000	
Add:			Less: Depreciation	<u>(16,250)</u>	3,08,750
Net Profit	78,250		Furniture	50,000	
Less: Drawings	<u>(75,000)</u>	4,83,250	Less: Depreciation	<u>(2,500)</u>	47,500
Loan		1,50,000	Motor car	90,000	
			Less: Depreciation	<u>(18,000)</u>	72,000
Sundry Creditors		4,75,000	Stock in Trade		3,00,000
Outstanding business Expenses		<u>50,000</u>	Sundry Debtors		2,10,000
		<u>11,58,250</u>	Bank Balance		<u>2,20,000</u>
					<u>11,58,250</u>

**Working Notes:**

**1. Cash and Bank Account**

Particulars	Cash	Bank	Particulars	Cash	Bank
To Balance b/d	20,000	85,000	By Payment to Creditors	-	13,75,000
To Collection from Debtors	3,50,000	10,50,000	By Business Expenses	90,000	60,000
To Sales (18,00,000 x 20%)	3,60,000	-	By Repairs	10,000	-

To Cash (C)	-	7,15,000	By Cash (C) (withdrawal)		1,20,000
To Bank (C)	1,20,000		By Bank (C)	7,15,000	
			By Travelling Expenses	15,000	-
			By Private Drawings	-	75,000
			By Balance c/d		<u>2,20,000</u>
			By Cash defalcated (balancing fig.)	<u>20,000</u>	
	<u>8,50,000</u>	<u>18,50,000</u>		<u>8,50,000</u>	<u>18,50,000</u>

2. Calculation of sales during 2021-22

₹

Gross profit (last year i.e. for year ended 31.3.2021)	3,00,000
Goods sold at cost plus 25% i.e. 20% of sales	15,00,000
Sales for 2020-21 $3,00,000/0.2$	
Sales for 2021-22 $(15,00,000 \times 1.2)$	18,00,000
Credit sales for 2021-22	14,40,000
	(80% of 18,00,000)

3. Debtors Account

To Bal. b/d.	1,70,000	By Cash	3,50,000
To Sales $(18,00,000 \times 80\%)$	14,40,000	By Bank	10,50,000
		By Bal. c/d	<u>2,10,000</u>
	<u>16,10,000</u>		<u>16,10,000</u>

4. Creditors Account

To Bank	13,75,000	By Bal. b/d	3,10,000
To Bal. c/d (bal. fig.)	4,75,000	By Purchases	15,40,000
	<u>18,50,000</u>		<u>18,50,000</u>

15. Profit and Loss Account for the year ended 2021-22(not assuming going concern)

Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stock	1,50,000	By Sales	27,50,000
To Purchases	22,50,000	By Closing Stock	2,50,000
To Expenses	78,000	By Trade payables	7,500
To Depreciation	35,000		
To Provision for doubtful debts	30,000		

To Deferred expenses	50,000		
To Loan penalty	25,000		
To Net Profit (b.f.)	3,89,500		
	30,07,500		30,07,500

**Balance Sheet as at 31<sup>st</sup> March, 2022 (not assuming going concern)**

Liabilities	Amount ₹	Assets	Amount ₹
Capital	3,00,000	Fixed Assets	3,25,000
Profit & Loss A/c	5,14,500	Inventory	2,50,000
10% Loan	2,35,000	Trade receivables (less provision)	1,20,000
Trade payables	67,500	Deferred expenses	Nil
		Bank	4,22,000
	11,17,000		11,17,000

**16. Valuation of closing stock**

	₹
Closing stock at cost	4,50,000
Less: Adjustment for 100 coats (Working Note 1)	<u>(20,000)</u>
Value of inventory	<u>4,30,000</u>

**Working Notes:**

- Adjustment for Coats
 

	₹
Cost included in Closing Stock	2,20,000
NRV of Coats	<u>2,00,000</u>
Adjustment to be made as NRV is less than Cost	<u>20,000</u>
- No adjustment required for shirts as their NRV is more than their cost which was included in value of inventory.

- 17. Recognition of Asset:** The new boiler will produce economic benefits to RS Ltd., and the cost is measurable. Hence, the item should be recognized as an asset. The cost old boiler should be de-recognized and the new boiler will be added.

**Statement showing cost of new boiler and machine after year 2**

Original cost of plant	₹ 2,00,00,000
Less: Accumulated depreciation [(2,00,00,000 / 10) x 2]	<u>₹ 40,00,000</u>
Carrying value of the plant after two years	₹ 1,60,00,000
Less: Current Cost of Old Boiler to be derecognized	

WDV of Boiler (replaced) after 2 years (50,00,000/10 x 8)	<u>40,00,000</u>
	1,20,00,000
Add: Cost of new Boiler to be recognized	<u>60,00,000</u>
Revised carrying amount of Plant	1,80,00,000

18. As per AS 11 (revised 2003), 'The Effects of Changes in Foreign Exchange Rates', monetary items denominated in a foreign currency should be reported using the closing rate at each balance sheet date. The effect of exchange difference should be taken into profit and loss account. Trade payables is a monetary item, hence should be valued at the closing rate i.e, ₹ 48 at 31<sup>st</sup> March, 2022 irrespective of the payment for the same subsequently at lower rate in the next financial year. The difference of ₹ 5 (₹ 48-₹ 43) per US dollar should be shown as an exchange loss in the profit and loss account for the year ended 31<sup>st</sup> March, 2022 and is not to be adjusted against the cost of raw materials. In the subsequent year, the company would record an exchange gain of ₹ 1 per US dollar, i.e., the difference between ₹ 48 and ₹ 47 per US dollar. Hence, the accounting treatment adopted by the company is incorrect.

19. (a) As per AS 12 "Accounting for Government Grants", where the government grants are in the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, Central Investment Subsidy Scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

The subsidy received by Samrat Ltd. for setting up its business in a designated backward area will be treated as grant by the government in the nature of promoter's contribution as the grant is given with reference to the total investment in an undertaking i.e. subsidy is 25% of the eligible investment and also no repayment is apparently expected in respect thereof.

Since the subsidy received is neither in relation to specific fixed assets nor in relation to revenue. Thus, the company cannot recognize the said subsidy as income in its financial statements in the given case. It should be recognized as capital reserve which can be neither distributed as dividend nor considered as deferred income.

- (b) As per AS 13 'Accounting for Investments', where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer. When long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

- (i) In the first case, the market value of the investments is ₹ 30 lakhs, which is higher than its cost i.e. ₹ 25 lakhs. Therefore, the transfer to long term investments should be made at cost i.e. ₹ 25 lakhs

- (ii) In the second case, the market value of the investment is ₹ 12.5 lakhs, which is lower than its cost i.e. ₹ 20 lakhs. Therefore, the transfer to long term investments should be made in the books at the market value i.e. ₹ 12.5 lakhs. The loss of ₹ 7.50 lakhs (20-12.5) should be charged to Profit and Loss statement.
- (iii) In the third case, the book value of the investments is ₹ 11 lakhs, which is lower than its cost, i.e. ₹ 15 lakhs. As the transfer should be at carrying amount, hence this re-classified current investment should be carried at ₹ 11 lakhs.

20.

	Particulars	₹
1.	Interest expense on loan ₹ 2,00,00,000 at 15%	<u>30,00,000</u>
2.	Total cost of Phases I and II (₹ 34,00,000 +64,00,000)	98,00,000
3.	Total cost of Phases III and IV (₹ 55,00,000 + ₹ 68,00,000)	<u>1,23,00,000</u>
4.	Total cost of all 4 phases	<u>2,21,00,000</u>
5.	Total loan	2,00,00,000
6.	Interest on loan used for Phases I & II, based on proportionate Loan amount = $\frac{30,00,000}{2,21,00,000} \times 98,00,000$	13,30,317 (approx.)
7.	Interest on loan used for Phases III & IV, based on proportionate Loan amount = $\frac{30,00,000}{2,21,00,000} \times 1,23,00,000$	16,69,683 (approx.)

**Accounting treatment:****1. For Phase I and Phase II**

Since Phase I and Phase II have become operational at the mid of the year, half of the interest amount of ₹ 6,65,158.50 (i.e. ₹ 13,30,317/2) relating to Phase I and Phase II should be capitalized (in the ratio of asset costs 34:64) and added to respective assets in Phase I and Phase II and remaining half of the interest amount of ₹ 6,65,158.50 (i.e. ₹ 13,30,317/2) relating to Phase I and Phase II should be expensed during the year.

**2. For Phase III and Phase IV**

Interest of ₹ 16,69,683 relating to Phase III and Phase IV should be held in Capital Work-in-Progress till assets construction work is completed, and thereafter capitalized in the ratio of cost of assets. No part of this interest amount should be charged/expensed off during the year since the work on these phases has not been completed yet.