PAPER – 1: ACCOUNTING

ANNOUNCEMENT STATING APPLICABILITY & NON-APPLICABILITY FOR NOVEMBER 2020 EXAMINATION

A. Applicable for November, 2020 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. Amendment in Higher Education Cess as per Finance Act, 2018

The rate of DDT is 15% excluding surcharge of 12% plus secondary and higher education cess is 4%* (revised as per Finance Act, 2018). This revised effective rate 17.472% (that is, 15% plus surcharge@12% plus health and education cess @4%) will be considered for computation of corporate Dividend Tax in preparation of Financial Statements of companies.

**Earlier this was 3%.*

V. 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.

VI. 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	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,	Now, inventories also do not include servicing equipment and standby equipment other than spare parts if they meet the definition of property, plant

		are accounted for in accordance with Accounting Standard (AS) 10, Accounting for Fixed Assets.	Plant and Equipment. Such items are accounted for in accordance with Accounting Standard (AS) 10, Property, Plant and Equipment.	and equipment as per AS 10, Property, Plant and Equipment.
	27	Common classifications of inventories are raw materials and components, work in progress, finished goods, stores and spares, and loose tools.	Common classifications of inventories are: (a) Raw materials and components (b) Work-in-progress (c) Finished goods (d) Stock-in-trade (in respect of goods acquired for trading) (e) Stores and spares (f) Loose tools (g) Others (specify nature)".	Para 27 of AS 2 requires disclosure of inventories under different classifications. One residual category has been added to the said paragraph i.e. 'Others'.
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	Accounting of investment property was not stated in this para but now incorporated i.e. at cost model.

			property, is added to the carrying amount of the investment property.	
	30	An enterprise holding investment properties should account for them as long term investments.	An enterprise holding investment properties should account for them in accordance with cost model as prescribed in AS 10, Property, Plant and Equipment.	Accounting of investment property shall now be in accordance with AS 10 i.e. at cost model
AS 14	3(a)	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to companies.	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'.	Definition of Amalgamation has been made broader by specifically including 'merger'.
	18 and 39	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Account') which is disclosed as a part of 'miscellaneous expenditure' or other similar	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	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

		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.	reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	expenditure' in Schedule III to the Companies Act, 2013

B. <u>Not applicable for November, 2020 examination</u>

Non-Applicability of Ind ASs for November, 2020 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 November, 2020 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Preparation of Financial Statements of Companies

1. On 31st March, 2020, Om Ltd. provides to you the following ledger balances after preparing its Profit and Loss Account for the year ended 31st March, 2020:

Credit Balances

	₹
Equity shares capital (fully paid shares of ₹ 10 each)	1,05,00,000
General Reserve	21,84,000
Loan from State Finance Corporation	15,75,000
(Secured by hypothecation of Plant & Machinery - Repayable within one year ₹ 3,00,000)	
Loans: Unsecured (Long term)	12,70,500
Sundry Creditors for goods & expenses	
(Payable within 6 months)	21,00,000
Profit & Loss Account	10,50,000
Provision for Taxation	12,25,350
	199,04,850

Debit Balances :

	₹
Calls in arrear	10,500
Land	21,00,000
Buildings	30,75,000
Plant and Machinery	55,12,500
Furniture & Fixture	5,25,000
Inventories : Finished goods	21,00,000
Raw Materials	5,25,000
Trade Receivables	21,00,000
Advances: Short-term	4,48,350
Cash in hand	3,15,000
Balances with banks	25,93,500
Patents & Trade marks	6,00,000
	199,04,850

The following additional information is also provided in respect of the above balances:

(i) 6,30,000 fully paid equity shares were allotted as consideration for land & buildings.

(ii) Cost of Building ₹ 42,00,000

Cost of Plant & Machinery ₹ 73,50,000

Cost of Furniture & Fixture ₹ 6,56,250

(iii) Trade receivables for ₹ 5,70,000 are due for more than 6 months.

(iv) The amount of Balances with Bank includes ₹ 27,000 with a bank which is not a scheduled Bank and the deposits of ₹ 7,50,000 are for a period of 9 months.

(v) Unsecured loan includes ₹ 3,00,000 from a Bank and ₹ 1,50,000 from related parties.

You are not required to give previous year figures. You are required to prepare the Balance Sheet of the Company as on 31st March, 2020 as required under Schedule III of the Companies Act, 2013.

Cash Flow Statement

2 Prepare Cash Flow Statement of Light Ltd. for the year ended 31st March, 2020, in accordance with AS 3 (Revised) from the following Summary Cash Account:

Summary Cash Account

	₹ in '000	₹ in '000
Balance as on 01.04.2019		315
Receipts from Customers		24,894

Sale of Investments (Cost ₹ 1,35,000)		153
Issue of Shares		2,700
Sale of Fixed Assets		1,152
		29,214
Payment to Suppliers	18,306	
Purchase of Investments	117	
Purchase of Fixed Assets	2,070	,
Wages & Salaries	621	
Selling & Administration Expenses	1,035	
Payment of Income Tax	2,187	
Payment of Dividends	720	
Repayment of Bank Loan	2,250	
Interest paid on Bank Loan	450	(27,756)
Balance as on 31.03.2020		1,458

Profit/Loss prior to Incorporation

3. Green Ltd. took over a running business with effect from 1st April, 2019. The company was incorporated on 1st August, 2019. The following summarized Profit and Loss Account has been prepared for the year ended 31.3.2020:

	₹		₹
To Salaries	72,000	By Gross profit	4,80,000
To Stationery	7,200		
To Travelling expenses	25,200		
To Advertisement	24,000		
To Miscellaneous trade expenses	56,700		
To Rent (office buildings)	39,600		
To Electricity charges	6,300		
To Director's fee	16,800		
To Bad debts	4,800		
To Commission to selling agents	33,000		
To Debenture interest	4,500		
To Interest paid to vendor	6,300		
To Selling expenses	37,800		

To Depreciation on fixed assets	14,400		
To Net profit	1,31,400		
	4,80,000		4,80,000

Additional information:

(a) Sales ratio between pre and post incorporation periods was 1:3.

(b) Rent of office building was paid @ ₹ 3,000 per month up to September, 2019 and thereafter it was increased by ₹ 600 per month.

(c) Travelling expenses include ₹ 7,200 towards sales promotion. Travelling expenses are to be allocated between pre and post incorporation periods on time basis.

(d) Depreciation include ₹ 900 for assets acquired in the post incorporation period.

(e) Purchase consideration was discharged by the company on 30th September, 2019 by issuing equity shares of ₹ 10 each.

You are required to prepare Statement showing calculation of profits and allocation of expenses between pre and post incorporation periods.

Accounting for Bonus Issue

4. Following is the extract of the Balance Sheet of Madhu Ltd.as at 31st March, 2020

	₹
Authorized capital:	
45,000 12% Preference shares of ₹ 10 each	4,50,000
6,00,000 Equity shares of ₹ 10 each	60,00,000
	64,50,000
Issued and Subscribed capital:	
36,000 12% Preference shares of ₹ 10 each fully paid	3,60,000
4,05,000 Equity shares of ₹ 10 each, ₹ 8 paid up	32,40,000
Reserves and surplus:	
General Reserve	5,40,000
Capital Redemption Reserve	1,80,000
Securities premium (collected in cash)	1,12,500
Profit and Loss Account	9,00,000

On 1st April, 2020, the Company has made final call @ ₹ 2 each on 4,05,000 equity shares. The call money was received by 20th April, 2020. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held by utilizing the balance of profit and loss account to the minimum extent.

You are required to prepare necessary journal entries in the books of the company and prepare the relevant extract of the balance sheet as on 30th April, 2020 after bonus issue.

Internal Reconstruction of a Company

5. Preet Limited gives you the following information as on 31st March, 2020:

	(₹)
Authorized and subscribed capital:	
20,000 Equity shares of ₹ 100 each, fully paid up	20,00,000
Unsecured loans:	
15% Debentures	6,00,000
Accrued interest	90,000
Current Liabilities:	
Trade payables	1,04,000
Provision for income tax	72,000
Fixed Assets:	
Machineries	7,00,000
Current Assets:	
Inventory	5,06,000
Trade receivables	4,60,000
Bank	40,000
Profit & loss A/c (Dr. Balance)	11,60,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

(i) Each share be sub-divided into 10 fully paid up equity shares of ₹ 10 each.

(ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.

(iii) Out of shares surrendered 20,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.

(iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of ₹ 2,00,000 which are converted out of shares surrendered.

(v) Trade payables claim shall be reduced by 25%. Remaining trade payables are to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.

(vi) Balance of Profit and Loss account to be written off.

(vii) The shares surrendered and not re-issued shall be cancelled.

You are required to pass Journal Entries giving effect to the above and the resultant Balance Sheet as on 31st March, 2020 after reconstruction.

Amalgamation of Companies

6. P Ltd. and Q Ltd. were carrying on the business of manufacturing of auto components. Both the companies decided to amalgamate and a new company PQ Ltd. is to be formed with an Authorized Capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹ 10 each. The summarized Balance Sheets of the companies as on 31.03.2019 were as under:

P Limited

	Amount (₹)
I. Equity and Liabilities	
1. Shareholder's Fund	
(a) Share Capital	1,40,000
(b) Reserves & Surplus	
Profit & Loss A/c	30,000
2. Non Current Liabilities	
8 % Secured Debentures	1,10,000
3. Current Liabilities	
Trade Payables	54,000
Total	3,34,000
II. Assets	
1. Non-current Assets	
(a) Property, Plant & Equipment	
(i) Building at cost less Depreciation	1,00,000
(ii) Plant & Machinery at cost less Depreciation	25,000
2. Current Assets	
(a) Inventories	1,35,000
(b) Trade Receivables	44,000
(c) Cash at bank	30,000
Total	3,34,000

Q Limited

	Amount (₹)
I. Equity and Liabilities	
1. Shareholder's Fund	
(a) Share Capital	2,50,000
(b) Reserves & Surplus	
General Reserve	1,20,000

Profit & Loss A/c	35,000
2. Current Liabilities	
Trade Payables	1,40,000
Total	5,45,000
II. Assets	
1. Non-current assets	
(a) Property, Plant & Equipment	
(i) Building at cost less depreciation	1,90,000
(ii) Plant & Machinery at cost less depreciation	80,000
(iii) Furniture & Fixture at cost less depreciation	25,000
2. Current Assets	
(a) Inventories	50,000
(b) Trade Receivables	1,42,000
(c) Cash at bank	58,000
Total	5,45,000

The assets and liabilities of the existing companies are to be transferred at book value with the exception of some items detailed below:

(i) Goodwill of P Ltd. was worth ₹ 50,000 and of Q Ltd. was worth ₹ 1,50,000.

(ii) Furniture & Fixture of Q Ltd. was valued at ₹ 35,000.

(iii) The Trade receivables of P Ltd. are realized fully and bank balance of P Ltd. are to be retained by the liquidator and the trade payables are to be paid out of the proceeds thereof.

(iv) The debentures of P Ltd. are to be discharged by issue of 8% 11,000 debentures of PQ Ltd. at a premium of 10%.

You are required to:

(i) Compute the basis on which shares in PQ Ltd. will be issued at par to the shareholders of the existing companies.

(ii) Draw up a Balance Sheet of PQ Ltd. as at 1st April, 2019, the date of completion of amalgamation.

Average Due Date

7. Harish has the following bills due on different dates. It was agreed to settle the total amount due by a single cheque payment. Find the date of the cheque.

(i) ₹ 5,000 due on 5.3.2019

(ii) ₹ 7,500 due on 7.4.2019

(iii) ₹ 6,000 due on 17.7.2019

(iv) ₹ 8,000 due on 14.9.2019

Account Current

8. Explain the meaning of Account Current and its significance in brief.

Self – Balancing Ledgers

9. A business concern maintains self-balancing ledgers. On the basis of following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of April, 2019:

	(₹)
Debit balances in Debtors Ledger on 01-04-2019	1,79,100
Credit balances in Debtors Ledger on 01-04-2019	4,700
Transactions during the month of April, 2019 are:	
Total Sales (including Cash Sales, ₹ 50,000)	10,47,700
Sales Returns	16,550
Cash received from debtors	8,62,850
Bills Receivable received from debtors	47,500
Bills Receivable dishonoured	3,750
Cash paid to debtors for returns	3,000
Transfers to Creditors Ledger	8,000
Credit balances in Debtors Ledger on 30-04-2019	4,900

Financial Statements of Not-For-Profit Organizations

10. The Accountant of 'Retreat & Refresh' Club furnishes you the following Receipts and Payment Account for the year ending 31st March, 2020:

Receipts	₹	Payments	₹
Opening Balance:		Honoraria to Secretary	19,200
Cash & Bank	33,520	Misc. expenses	6,120
Subscription	42,840	Rates & Taxes	5,040
Sale of Old Magazines	9,600	Ground man's wages	3,360
Entertainment Fees	17,080	Printing & Stationary	1,880
Bank Interest	920	Payment for bar purchases	23,080
Bar Receipts	29,800	Repairs	1,280
		Telephone expenses	9,560
		New car (less sale proceeds of old car ₹ 12,000) (Old car was sold on 1.4.2019)	50,400

		Closing Balance:	
		Cash & Bank	13,840
	1,33,760		1,33,760

Additional Information

	1.4.2019 (₹)	31.3.2020 (₹)
Subscription due (not received)	4,800	3,920
Club premises at cost	1,16,000	-
Depreciation on club premises provided so far	75,200	-
Car at cost	48,760	-
Depreciation on car provided so far	41,160	-
Value of Bar stock	2,840	3,480
Amount unpaid for bar purchases	2,360	1,720

Depreciation is to be provided @ 5% p.a. on written down value of the club premises and @ 15% p.a. on car for the whole year.

You are required to prepare an Income & Expenditure Account of Retreat & Refresh Club for the year ending 31st March, 2020 and Balance Sheet as on that date.

Accounts from Incomplete Records

11. The following is the Balance Sheet of Manish and Suresh as on 1st April, 2019:

Liabilities	₹	Assets	₹
Capital Accounts:		Building	1,00,000
Manish	1,50,000	Machinery	65,000
Suresh	75,000	Stock	40,000
Creditors for goods	30,000	Debtors	50,000
Creditors for expenses	25,000	Bank	25,000
	2,80,000		2,80,000

They give you the following additional information:

(i) Sales and purchases for the year ended 31st March, 2019 were ₹ 3,00,000 and ₹ 2,40,000 respectively.

(ii) Stock level is maintained uniformly in value throughout all over the year.

(iii) Depreciation on machinery is charged @ 10%, Depreciation on building @ 5% in the current year.

(iv) Sales in the current year will increase by 43.75% in volume.

(v) Rate of gross profit remains the same.

(vi) Business Expenditures are ₹ 50,000 for the year. All expenditures are paid off in cash.

(vii) All sales and purchases are on credit basis and there are no cash purchases and sales.

You are required to prepare Trading and Profit and Loss Account for the year ended 31.03.2020.

Hire Purchase Transactions

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

You are required to compute: (i) Agreed value of two cars taken back by the hire vendor and book value of car left with the hire purchaser and (ii) Profit or loss to hire purchaser on two cars taken back by the hire vendor.

Investment Accounts

13. (a) In 2018, Royal Ltd. issued 12% fully paid debentures of ₹ 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year. On 1st December, 2019, M/s. Kumar purchased 10,000 of these debentures at ₹ 101 (cum-interest) price. On 1st March, 2020 the firm sold all of these debentures at ₹ 106 (cum-interest) price.

You are required to prepare Investment (Debentures) Account in the books of M/s. Kumar for the period 1st December, 2019 to 1st March, 2020.

(b) Mr. X acquires 200 shares of a company on cum-right basis for ₹ 60,000. He subsequently receives an offer of right to acquire fresh shares in the company in the proportion of 1:1 at ₹ 105 each. He does not subscribe but sells all the rights for ₹ 15,000. The market value of the shares after their becoming ex-rights has also gone down to ₹ 50,000. What should be the accounting treatment in this case?

Insurance Claim for loss of stock

14. Shyam's godown caught fire on 29th August, 2020, and a large part of the stock of goods was destroyed. However, goods costing ₹ 54,000 could be salvaged. The trader 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

Shyam had taken the fire insurance policy for ₹ 2,50,000 with an average clause.

Calculate the amount of the claim that will be admitted by the insurance company. Consider that the rate of gross profit up to date of fire is same as that of previous accounting year.

Issues in Partnership Accounts

15. Laurel and Hardy are partners of the firm LH & Co., from 1.4.2015. Initially both of them contributed ₹ 1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2019 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2015.

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31st March	*2016*	*2017*	*2018*	*2019*
	₹	*₹*	*₹*	*₹*
Profit as per accounts prepared and finalized	1,40,000	2,60,000	3,20,000	3,60,000
Expenses not provided for (as at 31st March)	30,000	20,000	36,000	24,000
Incomes not taken into account (as at 31st March)	18,000	15,000	12,000	21,000

The partners decided to admit Chaplin as a partner with effect from 1.4.2019. It was decided that Chaplin would be allotted 20% share in the firm and he must bring 20% of the combined capital of Laurel and Hardy.

Following is the Balance sheet of the firm as on 31.3.2019 before admission of Chaplin and before adjustment of revised profits between Laurel and Hardy.

Balance Sheet of LH & Co. as at 31.3.2019

Liabilities	₹	*Assets*	₹
Capital Accounts:		Plant and machinery	60,000
Laurel	2,11,500	Cash on hand	10,000
Hardy	1,51,500	Cash at bank	5,000
Trade Payables	2,27,000	Stock in trade	3,10,000
		Trade Receivables	2,05,000
	5,90,000		5,90,000

You are required to prepare:

(i) Profit and Loss Adjustment account assuming that expenses and incomes not taken into account in earlier years were fully ignored and these amounts are still outstanding and accrued on 1.4.2019;

(ii) Capital accounts of the partners; and

(iii) Balance Sheet of the firm after the admission of Chaplin.

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) What are the three fundamental accounting assumptions recognized by Accounting Standard (AS) 1? Briefly describe each one of them.

AS 2 Valuation of Inventories

(b) A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2020.

	₹ Per unit
Raw Material X	
Cost price	400
Freight Inward	40
Replacement cost	320
Chemical Y	
Material consumed	440
Direct Labour	120
Variable Overheads	80

Additional Information:

(i) Total fixed overhead for the year was ₹ 4,00,000 on normal capacity of 25,000 units.

(ii) Closing balance of Raw Material X was 1,000 units and Chemical Y was 2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when Net realizable value of Chemical Y is ₹ 600 per unit.

AS 3 Cash Flow Statements

18. (a) Intelligent Ltd., a non-financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.

(i) Investment made in subsidiary Smart Ltd. and dividend received

(ii) Dividend paid for the year

(iii) TDS on interest income earned on investments made.

Discuss in the context of AS 3 Cash Flow Statement.

Depreciation Accounting as per AS 10 Property, Plant and Equipment

(b) Omega Co. constructs a machine for its own use. Construction is completed on 1st November 2019 but the company does not begin using the machine until 1st April, 2020. The company did not provide depreciation for the year ended 31st March, 2020 as the company did not use the machine in that year. Comment on this in line with provisions of AS 10.

AS 7 Construction Contracts

19. (a) On 1st December, 2018, "Sampath" Construction Company Limited undertook a contract to construct a building for ₹ 108 lakhs. On 31st March, 2019 the company found that it had already spent ₹ 83.99 lakhs on the construction. A prudent estimate of additional cost for completion was ₹ 36.01 lakhs.

You are required to compute the amount of provision for foreseeable loss, which must be made in the Final Accounts for the year ended 31st March, 2019 based on AS 7 "Accounting for Construction Contracts."

AS 9 Revenue Recognition

(b) Raj Ltd. entered into an agreement with Heena Ltd. to dispatch goods valuing ₹ 5,00,000 every month for next 6 months on receipt of entire payment. Heena Ltd. accordingly made the entire payment of ₹ 30,00,000 and Raj Ltd. started dispatching the goods. In fourth month, due to fire in premise of Heena Ltd., Heena Ltd. requested to Raj Ltd. not to dispatch goods worth ₹ 15,00,000 ready for dispatch. Raj Ltd. accounted ₹ 15,00,000 as sales and transferred the balance to Advance received against Sales account. Comment upon the above treatment by Raj Ltd. with reference to the provision of AS 9.

AS 10 Property, Plant and Equipment

20. (a) Omega Ltd. contracted with a supplier to purchase machinery which is to be installed in its one department in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were ₹ 1,40,000. These activities were supervised by a technician during the entire period, who is employed for this purpose of ₹ 45,000 per month.

The machine was purchased at ₹ 1,58,00,000 and ₹ 50,000 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of ₹ 30,000 to supervise machinery installation at the factory site.

You are required to ascertain the amount at which the Machinery should be capitalized under AS 10.

AS 13 Accounting for Investments

(b) A Ltd. on 1-1-2020 had made an investment of ₹ 600 lakhs in the equity shares of B Ltd. of which 50% is made in the long term category and the rest as temporary investment. The realizable value of all such investment on 31-3-2020 became ₹ 200 lakhs as B Ltd. lost a case of copyright. How will you recognize the reduction in the value of the investment in the financial statements for the year ended on 31-3-2020 as per AS 13 considering this downfall in the value of shares as non-temporary?

SUGGESTED ANSWERS/HINTS

1. **Om Ltd.**

Balance Sheet as on 31st March, 2020

		Particulars	Notes	Figures at the end of current reporting period (₹)
Equity and Liabilities				
1		Shareholders' funds		
	a	Share capital	1	1,04,89,500
	b	Reserves and Surplus	2	32,34,000
2		Non-current liabilities		
	a	Long-term borrowings	3	25,45,500
3		Current liabilities		
	a	Trade Payables		21,00,000
	b	Other current liabilities	4	3,00,000
	c	Short-term provisions	5	12,25,350
		Total		1,98,94,350
Assets				
1		Non-current assets		
		a Property, Plant and Equipment	6	1,12,12,500
		b Intangible assets (Patents & Trade Marks)		6,00,000
2		Current assets		
	a	Inventories	7	26,25,000
	b	Trade receivables	8	21,00,000
	c	Cash and cash equivalents	9	29,08,500
	d	Short-term loans and advances		4,48,350
		Total		1,98,94,350

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		

	Issued, subscribed and called up		
	10,50,000 Equity Shares of ₹ 10 each (Out of the above 6,30,000 shares have been issued for consideration other than cash)	1,05,00,000	
	Less: Calls in arrears	(10,500)	1,04,89,500
	Total		1,04,89,500
2	**Reserves and Surplus**		
	General Reserve		21,84,000
	Surplus (Profit & Loss A/c)		10,50,000
	Total		32,34,000
3	**Long-term borrowings**		
	Secured		
	Term Loans		
	Loan from State Finance Corporation		
	(₹ 15,75,000 less ₹ 3,00,000) (Secured by hypothecation of Plant and Machinery)		12,75,000
	Unsecured		
	Bank Loan	3,00,000	
	Loan from related parties	1,50,000	
	Others	8,20,500	12,70,500
	Total		25,45,500
4	**Other current liabilities**		
	Loan Instalment repayable within one year		3,00,000
5	**Short-term provisions**		
	Provision for taxation		12,25,350
6	**Property, Plant and Equipment**		
	Land		21,00,000
	Buildings	42,00,000	
	Less: Depreciation	(11,25,000)	30,75,000
	Plant & Machinery	73,50,000	
	Less: Depreciation	(18,37,500)	55,12,500

	Furniture & Fittings	6,56,250	
	Less: Depreciation	(1,31,250)	5,25,000
	Total		1,12,12,500
7	**Inventories**		
	Raw Material		5,25,000
	Finished goods		21,00,000
			26,25,000
8	**Trade receivables**		
	Debts outstanding for a period exceeding six months		5,70,000
	Other Debts		15,30,000
	Total		21,00,000
9	**Cash and cash equivalents**		
	Cash at bank with Scheduled Banks including Bank deposits for period of 9 months amounting ₹ 7,50,000	25,66,500	
	with others	27,000	25,93,500
	Cash in hand		3,15,000
	Total		29,08,500

2. **Light Ltd.**

Cash Flow Statement for the year ended 31st March, 2020

Cash flows from operating activities	(₹ '000)	(₹ '000)
Cash receipts from customers	24,894	
Cash payments to suppliers	(18,306)	
Cash paid to employees	(621)	
Other cash payments (for Selling & Administrative expenses)	(1,035)	
Cash generated from operations	4,932	
Income taxes paid	(2,187)	
Net cash from operating activities		2,745
Cash flows from investing activities		
Payments for purchase of fixed asset	(2,070)	
Proceeds from sale of fixed assets	1,152	
Purchase of investments	(117)	

Sale of investments	153	
Net cash used in investing activities		(882)
Cash flows from financing activities		
Proceeds from issuance of share capital	2,700	
Bank loan repaid	(2,250)	
Interest paid on bank loan	(450)	
Dividend paid	(720)	
Net cash used in financing activities		(720)
Net increase in cash and cash equivalents		1,143
Cash and cash equivalents at beginning of period		315
Cash and cash equivalents at end of period		1,458

3. Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.2020

Particulars	Pre-incorporation period ₹	Post- incorporation period ₹
A. Gross profit (1:3)	1,20,000	3,60,000
Less: Salaries (1:2)	24,000	48,000
Stationery (1:2)	2,400	4,800
Advertisement (1:3)	6,000	18,000
Travelling expenses (W.N.3)	6,000	12,000
Sales promotion expenses (W.N.3)	1,800	5,400
Misc. trade expenses (1:2)	18,900	37,800
Rent (office building) (W.N.2)	12,000	27,600
Electricity charges (1:2)	2,100	4,200
Director's fee		16,800
Bad debts (1:3)	1,200	3,600
Selling agents commission (1:3)	8,250	24,750
Debenture interest		4,500
Interest paid to vendor (2:1) (W.N.4)	4,200	2,100
Selling expenses (1:3)	9,450	28,350
Depreciation on fixed assets (W.N.5)	4,500	9,900

B.	1,00,800	2,47,800
Pre-incorporation profit (A less B)	19,200	
Post-incorporation profit (A less B)		1,12,200

Working Notes:

1. **Time Ratio**

   Pre incorporation period = 1st April, 2019 to 31st July, 2019

   i.e. 4 months

   Post incorporation period is 8 months

   Time ratio is 1: 2.

2. **Rent**

		₹
Rent for pre-incorporation period (₹ 3,000 x 4)		12,000 (pre)
Rent for post incorporation period		
August,2019 & September, 2019 (₹ 3,000 x 2)	6,000	
October,2019 to March,2020 (₹ 3,600 x 6)	21,600	27,600 (post)

3. **Travelling expenses and sales promotion expenses**

	Pre ₹	Post ₹
Traveling expenses ₹ 18,000 (i.e. ₹ 25200 - ₹ 7200) distributed in 1:2 ratio	6,000	12,000
Sales promotion expenses ₹ 7,200 distributed in 1:3 ratio	1,800	5,400

4. **Interest paid to vendor till 30th September, 2019**

	Pre ₹	Post ₹
Interest for pre-incorporation period ₹ 6,300x 4/6	4,200	
Interest for post incorporation period i.e. for		
August, 2019 & September, 2019 = ₹ 6,300x 2/6		2,100

5. **Depreciation**

		Pre ₹	Post ₹
Total depreciation	14,400		
Less: Depreciation exclusively for post incorporation period	900		900
	13,500		

Depreciation for pre-incorporation period (13,500x4/12)	4,500	
Depreciation for post incorporation period (13,500x8/12)	____	9,000
	4,500	9,900

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

			₹	₹
1-4-2020	Equity share final call A/c	Dr.	8,10,000	
	To Equity share capital A/c			8,10,000
	(For final calls of ₹ 2 per share on 4,05,000 equity shares due as per Board's Resolution dated….)			
20-4-2020	Bank A/c	Dr.	8,10,000	
	To Equity share final call A/c			8,10,000
	(For final call money on 4,05,000 equity shares received)			
	Securities Premium A/c	Dr.	1,12,500	
	Capital redemption reserve A/c	Dr.	1,80,000	
	General Reserve A/c	Dr.	5,40,000	
	Profit and Loss A/c (b.f.)	Dr.	1,80,000	
	To Bonus to shareholders A/c			10,12,500
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	10,12,500	
	To Equity share capital A/c			10,12,500
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 2020 (after bonus issue)

	₹
Authorized Capital	
45,000 12% Preference shares of ₹ 10 each	4,50,000
6,00,000 Equity shares of ₹ 10 each	60,00,000
Issued and subscribed capital	
36,000 12% Preference shares of ₹₹10 each, fully paid	3,60,000
5,06,250 Equity shares of ₹ 10 each, fully paid	50,62,500

(Out of the above, 1,01,250 equity shares @ ₹ 10 each were issued by way of bonus shares)	
Reserves and surplus	
Profit and Loss Account	7,20,000

5. **In the books of Preet Limited**

Journal Entries

			₹	₹
(i)	Equity Share Capital (₹ 100) A/c	Dr.	20,00,000	
	To Share Surrender A/c			10,00,000
	To Equity Share Capital (₹ 10) A/c			10,00,000
	(Sub-division of 20,000 equity shares of ₹ 100 each into 2,00,000 equity shares of ₹ 10 each and surrender of 1,00,000 of such sub-divided shares as per capital reduction scheme)			
(ii)	15% Debentures A/c	Dr.	3,00,000	
	Accrued Interest A/c (proportionate 50%)	Dr.	45,000	
	To Reconstruction A/c			3,45,000
	(Transferred 50% of the claims of the debenture holders to Reconstruction A/c in consideration of which 10% Preference shares are being issued, out of share surrender A/c as per capital reduction scheme)			
(iii)	Trade payables A/c	Dr.	1,04,000	
	To Reconstruction A/c			1,04,000
	(Transferred claims of the trade payables to Reconstruction A/c, 25% of which is reduction and equity shares are issued in consideration of the balance amount)			
(iv)	Share Surrender A/c	Dr.	10,00,000	
	To 10% Preference Share Capital A/c			2,00,000
	To Equity Share Capital A/c			78,000
	To Reconstruction A/c			7,22,000

	(Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as per scheme and the balance in share surrender account is transferred to reconstruction account)			
(v)	Reconstruction A/c	Dr.	11,71,000	
	To Profit & Loss A/c			11,60,000
	To Capital Reserve A/c			11,000
	(Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve account)			

Preet Limited (and reduced)

Balance Sheet as on 31st March, 2020

	Particulars	Notes No.	₹
	Equity and Liabilities		
1	Shareholders' funds		
	a) Share capital	1	12,78,000
	b) Reserves and Surplus	2	11,000
2	Non-current liabilities		
	Long-term borrowings	3	3,00,000
3	Current liabilities		
	a) Other current liabilities	4	45,000
	b) Short-term provisions	5	72,000
	Total		17,06,000
	Assets		
1	Non-current assets		
	a) Property, Plant & Equipment	6	7,00,000
2	Current assets		
	a) Inventories		5,06,000
	b) Trade receivables		4,60,000
	c) Cash and cash equivalents	7	40,000
	Total		17,06,000

Notes to Accounts

		₹
1.	**Share Capital**	
	1,07,800, Equity shares of ₹ 10 each	10,78,000
	20,000, 10% Preference shares of ₹ 10 each	2,00,000
		12,78,000
	(all the above shares are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares)	
2.	**Reserves and Surplus**	
	Capital Reserves	11,000
3.	**Long-term borrowings**	
	Unsecured	
	15% Debentures	3,00,000
4.	**Other current liabilities**	
	Accrued Interest on 15% Debentures	45,000
5.	**Short-term provisions**	
	Provision for income tax	72,000
6.	**Tangible assets**	
	Machineries	7,00,000
7.	**Cash and cash equivalents**	
	Balances with banks	40,000

6. Calculation of Purchase Consideration

	P Ltd. (₹)	*Q Ltd.* (₹)
Assets taken over:		
Goodwill	50,000	1,50,000
Building	1,00,000	1,90,000
Plant & Machinery	25,000	80,000
Furniture & Fixtures	-	35,000
Inventories	1,35,000	50,000
Trade Receivables	-	1,42,000
Cash at Bank	-	58,000

	3,10,000	7,05,000
Less :Liabilities taken over		
8% Debentures	(1,21,000)	-
Trade Payables	-	(1,40,000)
Net Assets taken over	1,89,000	5,65,000
To be satisfied by issue of shares of PQ Ltd. of ₹ 10 each at par	18,900	56,500

PQ Limited

Balance Sheet as at 1st April, 2019

Particulars	*Note No.*	*Amount (₹)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	7,54,000
(b) Reserve & Surplus	2	11,000
(2) Non-current Liabilities		
(a) Long term borrowings	3	1,10,000
(3) Current Liabilities		
(a) Trade Payables		1,40,000
Total		10,15,000
II. Assets		
(1) Non-current assets		
Property, Plant & Equipment	4	4,30,000
Intangible assets	5	2,00,000
(2) Current Assets		
a) Inventories		1,85,000
b) Trade Receivables		1,42,000
c) Cash at Bank		58,000
Total		10,15,000

Notes to Accounts:

		₹
1	**Share Capital**	
	Authorized	
	1,00,000 shares of ₹ 10 each	10,00,000
	Issued, Subscribed and Paid up	
	75,400 shares of ₹ 10 each	7,54,000

	(All the above shares are allotted as fully paid up pursuant to scheme of amalgamation without payments being received in cash)		
2	**Reserve & Surplus**		
	Securities Premium Account		11,000
3	**Long term borrowings**		
	8 % Debentures		1,10,000
4	**Tangible Fixed Assets**		
	Building		
	P Ltd.	1,00,000	
	Q Ltd.	1,90,000	2,90,000
	Plant & Machinery		
	P Ltd.	25,000	
	Q Ltd.	80,000	1,05,000
	Furniture & Fixture		
	Q Ltd.		35,000
			4,30,000
5	**Intangible Assets**		
	Goodwill		
	P Ltd.	50,000	
	Q. Ltd.	1,50,000	2,00,000

Working Note:

Computation of Securities Premium

Debentures issued by PQ Ltd. to the existing debenture holders of P Ltd. at 10% premium.

Securities Premium = ₹ 1,10,000 x 10% = ₹ 11,000.

7. Calculation of number of days from the base date

Due date	*Amount (₹)*	*No. of days from 5.3.19*	*Product*
5.3.2019	5,000	0	0
7.4.2019	7,500	33	2,47,500
17.7.2019	6,000	134	8,04,000
14.9.2019	8,000	193	15,44,000
	26,500		25,95,500

$$\text{Average due date} = \text{Base date} + \frac{\text{Sum of Product}}{\text{Sum of Amount}}$$

$$= 5.3.2019 + \frac{25,95,500}{26,500} = 98 \text{ days (round off)}$$

The date of the cheque will be 98 days from the base date i.e.11.6.2019. So on 11th June, 2019, all bills will be settled by a single cheque payment.

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

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

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

Date	*Particulars*	₹	*Date*	*Particulars*	₹
01.04.2019	To Balance b/d	4,700	1.4.2019	By Balance b/d	1,79,100
01.04.2019	To Debtors ledger		01.04.2019	By Debtors ledger	
to	adjustment A/c:		to	adjustment A/c:	
30.4.2019	Cash received	8,62,850	30.4.2019	Credit sales	9,97,700
	Sales Returns	16,550		Cash paid for returns	3,000
	Bills receivable received	47,500		Bills receivable dishonoured	3,750
	Transfer to creditors ledger	8,000	30.04.2019	By Balance c/d	4,900
30.04.2019	To Balance c/d (bal.fig)	2,48,850			
		11,88,450			11,88,450

10. Income and Expenditure Account of Retreat & Refresh Club for the year ended 31st March, 2020

Expenditure		*Amount*	*Income*	*Amount*
		₹		₹
To Honoraria to secretary		19,200	By Subscriptions (W.N.3)	41,960
To Misc. expenses		6,120	By Sale of old magazines	9,600
To Rates and taxes		5,040	By Entertainment fees	17,080
To Groundman's wages		3,360	By Bank interest	920
To Printing and stationary		1,880	By Bar receipts	29,800
To Telephone expenses		9,560	By Profit on sale of car (W.N.5)	4,400
To Bar expenses:				
Opening bar stock	2,840			
Add: Purchases (W.N.2)	22,440			
	25,280			
Less: Closing bar stock	(3,480)	21,800		
To Repairs		1,280		
To Depreciation				
Club premises (W.N.4)	2,040			
Car (W.N. 6)	9,360	11,400		
To Excess of income over expenditure transferred to capital fund		24,120		
		1,03,760		1,03,760

Balance Sheet of Retreat & Refresh Club as on 31st March, 2020

Liabilities		*Amount*	*Assets*	*Amount*
		₹		₹
Capital fund (W.N. 1)	87,200		Club Premises	38,760
Add: Excess of income over expenditure	24,120	1,11,320	Car	53,040
			Bar stock	3,480
Outstanding liabilities for bar purchases		1,720	Outstanding subscription	3,920
			Cash and bank	13,840
		1,13,040		1,13,040

Working Notes:

1. Balance Sheet of Retreat & Refresh Club as on 1st April, 2019

Liabilities	*Amount*	*Assets*		*Amount*
	₹			₹
Amount due for bar purchases	2,360	Club premises	1,16,000	
		Less: Depreciation	(75,200)	40,800
Capital fund on 1.4.2017 (balancing figure)	87,200	Car	48,760	
		Less: Depreciation	(41,160)	7,600
		Bar stock		2,840
		Outstanding subscription		4,800
		Cash at bank		33,520
	89,560			89,560

2. Calculation of bar purchases for the year

	₹
Bar payments as per receipts and payments account	23,080
Add: Amount due on 31st March, 2020	1,720
	24,800
Less: Amount due on 1st April, 2019	(2,360)
	22,440

3. Calculation of subscriptions earned during the year

	₹
Subscriptions received as per receipts and payments account	42,840
Add: Outstanding on 31st March, 2020	3,920
	46,760
Less: Outstanding on 1st April, 2019	(4,800)
	41,960

4. Depreciation on club premises and its written down value on 31st March, 2020

	₹
Written down value on 1st April, 2019 (1,16,000- 75,200)	40,800
Less: Depreciation for the year @ 5% p.a.	(2,040)
	38,760

5. Calculation of profit on sale of car

		₹
Sale proceeds of old car		12,000
Less: Written down value of old car:		
Cost of car on 1st April, 2019	48,760	
Less: Depreciation upto 1st April, 2019	(41,160)	(7,600)
		4,400

6. Depreciation on car and its written down value on 31st March, 2020

	₹
Cost of new car purchased (50,400 + 12,000)	62,400
Less: Depreciation for the year @ 15% p.a.	(9,360)
Written down value on 31st March, 2020	53,040

11. Trading and Profit and Loss account for the year ending 31st March, 2020

Particulars		₹	Particulars	₹
To Opening Stock		40,000	By Sales	4,31,250
To Purchases (Working Note)		3,45,000	By Closing Stock	40,000
To Gross Profit c/d (20% on sales)		86,250		
		4,71,250		4,71,250
To Business Expenses		50,000	By Gross Profit b/d	86,250
To Depreciation on:				
Machinery	6,500			
Building	5,000	11,500		
To Net profit		24,750		
		86,250		86,250

Working Note:

		₹
(i)	Calculation of Rate of Gross Profit earned during previous year	
A	Sales during previous year	3,00,000
B	Purchases	2,40,000
C	Cost of Goods Sold (₹ 40,000 + ₹ 2,40,000 – ₹ 40,000)	2,40,000

D	Gross Profit (A-C)	60,000
E	Rate of Gross Profit $\frac{₹\ 60,000}{₹\ 3,00,000}$ x 100	20%
(ii)	Calculation of sales and Purchases during current year	₹
A	Cost of goods sold during previous year	2,40,000
B	Add: Increases in volume @ 43.75 %	1,05,000
C	Cost of goods sold during Current Year	3,45,000
D	Add: Gross profit @ 25% on cost (20% on sales)	86,250
E	Sales for current year [C+D]	4,31,250

12.

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

13. (a) Investment Account in the books of M/s Kumar

for the period from 1st December 2019 to 1st March, 2020
(Scrip: 12% Debentures of Royal Ltd.)

Date	Particulars	Nominal Value (₹)	Interest	Cost (₹)	Date	Particulars	Nominal Value (₹)	Interest	Cost (₹)
1.12.2019	To Bank A/c (W.N.1)	10,00,000	20,000	9,90,000	1.03.2020	By Bank A/c (W.N.2)	10,00,000	50,000	10,10,000
1.3.2020	To Profit & loss A/c		30,000	20,000					
		10,00,000	50,000	10,10,000			10,00,000	50,000	10,10,000

Working Notes:

(i) Cost of 12% debentures purchased on 1.12.2019 ₹

Cost Value (10,000 ×₹101)	=	10,10,000
Less: Interest (10,000 x 100 x12% x 2/12)	=	(20,000)
Total	=	9,90,000

(ii) Sale proceeds of 12% debentures sold on 1st March, 2020 ₹

Sales Price (10,000 ×₹106)	=	10,60,000
Less: Interest (10,000 x 100 x12% x 5/12)	=	(50,000)
Total	=	10,10,000

(b) As per AS 13, where the investments are acquired on cum-right basis and the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, it may be appropriate to apply the sale proceeds of rights to reduce the carrying amount of such investments to the market value. In this case, the amount of the ex-right market value of 200 shares bought by X immediately after the declaration of rights falls to ₹50,000. In this case, out of sale proceeds of ₹ 15,000, ₹ 10,000 may be applied to reduce the carrying amount to bring it to the market value ₹40,000 and ₹ 5,000 would be credited to the profit and loss account.

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]		6,80,400		
		27,09,300		27,09,300

Statement of Insurance Claim

	₹
Value of stock on date of fire	4,41,300
Less: Salvaged Stock	(54,000)
stock destroyed	3,87,300

Application of Average Clause

Amount of Insurance claim= ₹ 3,87,300/ 4,41,300 X 2,50,000 = ₹ 2,19,409 (rounded off)

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	12,00,000		
	43,95,050		43,95,050

Rate of Gross Profit in 2019-2020

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

15. (i) Profit and Loss Adjustment Account

	₹		₹
To Expenses not provided for (years 2016-2019)	1,10,000	By Income not considered (for years 2016-2019)	66,000
		By Partners' capital accounts (loss)	
		Laurel	22,000
		Hardy	22,000
	1,10,000		1,10,000

(ii) **Partners' Capital Accounts**

	Laurel ₹	Hardy ₹	Chaplin ₹		Laurel ₹	Hardy ₹	Chaplin ₹
To P & L Adjustment A/c	22,000	22,000	-	By Balance b/d	2,11,500	1,51,500	-
To Hardy	60,000			By Laurel	-	60,000	-
To Balance c/d	1,29,500	1,89,500	63,800	By Cash	-	-	63,800
	2,11,500	2,11,500	63,800		2,11,500	2,11,500	63,800
				By Balance b/d	1,29,500	1,89,500	63,800

(iii) **Balance Sheet of LH & Co.**

as on 1.4.2019

(After admission of Chaplin)

Liabilities	₹	*Assets*	₹
Capital accounts:		Plant and machinery	60,000
Laurel	1,29,500	Trade receivables	2,05,000
Hardy	1,89,500	Stock in trade	3,10,000
Chaplin	63,800	Accrued income	66,000
Trade payables	2,27,000	Cash on hand (10,000 + 63,800)	73,800
Outstanding expenses	1,10,000	Cash at bank	5,000
	7,19,800		7,19,800

Working Notes:

1. **Computation of Profit and Loss distributed among partners**

		₹
Profit for the year ended	31.3.2016	1,40,000
	31.3.2017	2,60,000
	31.3.2018	3,20,000
	31.3.2019	3,60,000
Total Profit		10,80,000

	Laurel	*Hardy*	*Total*
	₹	₹	₹
Profit shared in old ratio i.e 5:4	6,00,000	4,80,000	10,80,000
Profit to be shared as per new ratio i.e. 1:1	5,40,000	5,40,000	10,80,000
Excess share	60,000		
Deficit share		(60,000)	

Laurel to be debited by ₹ 60,000 and Hardy to be credited by ₹ 60,000.

2. **Capital brought in by Chaplin**

	₹
Capital to be brought in by Chaplin must be equal to 20% of the combined capital of Laurel and Hardy	
Capital of Laurel (2,11,500 – 22,000 – 60,000)	1,29,500
Capital of Hardy (1,51,500 – 22,000 + 60,000)	1,89,500
Combined Capital	3,19,000
20% of the combined capital brought in by Chaplin (20% of ₹ 3,19,000)	63,800

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) Accounting Standard (AS) 1 recognizes three fundamental accounting assumptions. These are as follows:

(i) Going Concern: The financial statements are normally prepared on the assumption that an enterprise will continue its operations in the foreseeable future and neither there is intention, nor there is need to materially curtail the scale of operations.

(ii) Consistency: The principle of consistency refers to the practice of using same accounting policies for similar transactions in all accounting periods unless the change is required (i) by a statute, (ii) by an accounting standard or (iii) for more appropriate presentation of financial statements.

(iii) Accrual basis of accounting: Under this basis of accounting, transactions are recognised as soon as they occur, whether or not cash or cash equivalent is actually received or paid.

(b) Net Realizable Value of the Chemical Y (Finished Goods) is ₹ 600 per unit which is less than its cost ₹ 656 per unit. Hence, Raw Material is to be valued at replacement cost and Finished Goods are to be valued at NRV since NRV is less than the cost.

Value of Closing Stock:

	Qty.	Rate (₹)	Amount (₹)
Raw Material X	1,000	320	3,20,000
Finished Goods Y	2,400	600	14,40,000
Total Value of Closing Stock			17,60,000

Working Note:

Statement showing cost calculation of Raw material X and Chemical Y

Raw Material X	₹
Cost Price	400
Add: Freight Inward	40
Cost	440
Chemical Y	**₹**
Materials consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (₹4,00,000/25,000 units)	16
Cost	656

18. (a) (i) **Investment made in subsidiary company and dividend received**

Investing Cash flow

(ii) **Dividend paid for the year**

Financing Cash Outflow

(iii) **TDS on interest income earned on investments made**

Investing Cash Outflow

(b) The entity should begin charging depreciation from the date the machine is ready for use – that is, 1st November 2019. The fact that the machine was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation. Thus the company is not correct.

19. (a) Calculation of foreseeable loss for the year ended 31st March, 2019

(as per AS 7 "Construction Contracts")

	(₹ in lakhs)
Cost incurred till 31st March, 2019	83.99
Prudent estimate of additional cost for completion	36.01
Total cost of construction	120.00
Less: Contract price	(108.00)
Foreseeable loss	12.00

According to para 35 of AS 7 (Revised 2002) "Construction Contracts", when it is probable that total contract costs will exceed total contract revenue; the expected loss should be recognized as an expense immediately. Therefore, amount of ₹12 lakhs is required to be provided for in the books of Sampath Construction Company for the year ended 31st March, 2019.

(b) As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. Raj Ltd. should recognize the entire sale of ₹ 30,00,000 (₹ 5,00,000 x 6) and no part of the same is to be treated as Advance Received against Sales.

20. (a) Calculation of Cost of Fixed Asset (i.e. Machinery)

Particulars		₹
Purchase Price	Given	1,58,00,000

Add: Site Preparation Cost	Given	1,40,000
Technician's Salary	Specific/Attributable overheads for 3 months (45,000 x3)	1,35,000
Initial Delivery Cost	Transportation	50,000
Professional Fees for Installation	Architect's Fees	30,000
Total Cost of Asset		1,61,55,000

(b) A limited invested ₹ 600 lakhs in the equity shares of B Ltd. Out of the same, the company intends to hold 50% shares for long term period i.e. ₹ 300 lakhs and remaining as temporary (current) investment i.e. ₹ 300 lakhs. Irrespective of the fact that investment has been held by A Limited only for 3 months (from 1.1.2020 to 31.3.2020), AS 13 lays emphasis on intention of the investor to classify the investment as current or long term even though the long-term investment may be readily marketable.

In the given situation, the realizable value of all such investments on 31.3.2020 became ₹ 200 lakhs i.e. ₹ 100 lakhs in respect of current investment and ₹ 100 lakhs in respect of long-term investment.

As per AS 13, 'Accounting for Investment', the carrying amount for current investments is the lower of cost and fair value. In respect of current investments for which an active market exists, market value generally provides the best evidence of fair value.

Accordingly, the carrying value of investment held as temporary investment should be shown at realizable value i.e. at ₹ 100 lakhs. The reduction of ₹ 200 lakhs in the carrying value of current investment will be charged in the profit and loss account.

Standard further states that long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of long-term investment, the carrying amount is reduced to recognize the decline.

Here, B Limited has lost a case of copyright which drastically reduced the realizable value of its shares to one third which is quiet a substantial figure. Losing the case of copyright may affect the business and the performance of the company in long run. Accordingly, it will be appropriate to reduce the carrying amount of long-term investment by ₹ 200 lakhs and show the investments at ₹ 100 lakhs as the downfall in the value of shares is not temporary. The reduction of ₹ 200 lakhs in the carrying value of long-term investment will be charged to the profit and loss account.