

PAPER – 1: ACCOUNTING**PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY****A. Applicable for May, 2023 examination****I. Relevant Legislative Amendments**

The Central Government has amended Companies (Specification of definition details) Rules, 2014, through the Companies (Specification of definition details) Amendment Rules, 2022 vide Notification G.S.R. 700(E) dated 15th September, 2022.

Amendment in definition of Small Company:

In the Companies (Specification of definition details) Rules, 2014, in Rule 2, in sub-rule (1), for clause (t), the following clause shall be substituted, namely: -

“(t) For the purposes of sub-clause (i) and sub-clause (ii) of clause (85) of section 2 of the Act, paid up capital and turnover of the small company shall not exceed rupees four crore and rupees forty crore respectively.”.

II. 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 24th March, 2021, applicable with effect from 1st 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.

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

The Council, at its 400th 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 May, 2023 Examination. The students who have editions prior to September, 2021 may refer the uploaded chapters for the revised content.

B. Not applicable for May, 2023 examination

Non-Applicability of Ind AS for May, 2023 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May, 2023 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Preparation of Balance Sheet of a Company

1. On 31st March 2022, Hari Ltd. provides you the following particulars:

Particulars		Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each)			12,50,000
Call in Arrears		1,250	
Land & Building		6,87,500	
Plant & Machinery		6,56,250	
Furniture		62,500	
General Reserve			2,62,500
Loan from State Financial Corporation			1,87,500
Inventory:			
Raw Materials	62,500		
Finished Goods	<u>2,50,000</u>	3,12,500	

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Provision for Taxation		1,60,000
Trade Receivables	2,50,000	
Advances	53,375	
Profit & Loss Account		1,08,375
Cash in Hand	37,500	
Cash at Bank	3,08,750	
Unsecured Loan (Long-term)		1,51,250
Trade Payables		2,50,000

The following additional information is also provided:

- (i) 2,500 Equity shares were issued for consideration other than cash.
- (ii) Debtors of ₹ 65,000 (included in trade receivables) are due for more than 6 months.
- (iii) The cost of the assets were:
Building ₹ 7,50,000, Plant & Machinery ₹ 8,75,000 and Furniture ₹ 78,125
- (iv) The balance of ₹ 1,87,500 in the Loan Account with State Finance Corporation is inclusive of ₹ 9,375 for Interest accrued but not due. The loan is secured by hypothecation of Plant & Machinery.
- (v) Balance at Bank includes ₹ 2,500 with Global Bank Ltd., which is not a Scheduled Bank.

You are required to prepare the Balance sheet of Hari Ltd. as on 31st March, 2022 as per Schedule III to the Companies Act, 2013.

Managerial remuneration

2. Omega Ltd. provides the following information as on 31st March, 2022:

Liabilities	₹
<u>Authorized capital:</u>	
50,000, 14% preference shares of ₹100	50,00,000
5,00,000 Equity shares of ₹100 each	<u>5,00,00,000</u>
	<u>5,50,00,000</u>
<u>Issued and subscribed capital:</u>	
38,750, 14% preference shares of ₹ 100 each fully paid	38,75,000
2,70,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	2,16,00,000
Share suspense account	45,00,000
Reserves and surplus:	

Capital reserves (₹ 2,50,000 is revaluation reserve)	4,38,750
Securities premium	1,12,500
Secured loans:	
15% Debentures	1,46,25,000
Unsecured loans:	
Public deposits	8,32,500
Cash credit loan from SBI (short term)	2,96,250
Current Liabilities:	
Trade Payables	7,76,250
Assets:	
Investment in shares, debentures, etc.	1,75,25,000
Profit and Loss account (Dr. balance)	34,25,000

Share suspense account represents application money received on shares, the allotment of which is not yet made. You are required to compute effective capital as per the provisions of Schedule V if Omega Ltd is non-investment company. Would your answer differ if Omega Ltd. is an investment company?

Cash Flow Statement

3. Following is the Balance Sheet of Fox Ltd. You are required to prepare cash flow statement using Indirect Method.

Particulars	Note No.	31 st March, 2021 (₹)	31 st March, 2020 (₹)
(I) Equity and Liabilities			
1. Shareholders' Funds			
(a) Share capital	1	5,60,000	3,00,000
(b) Reserve and Surplus	2	35,000	25,000
2. Current Liabilities			
(a) Trade payables		1,50,000	60,000
(b) Short-term provisions (Provision for taxation)		8,000	5,000
Total		7,53,000	3,90,000

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(II) Assets			
1. Non-current assets			
(a) Property, Plant and Equipment		3,50,000	1,80,000
2. Current assets			
(a) Inventories		1,20,000	50,000
(b) Trade receivables		1,00,000	25,000
(c) Cash and cash equivalents		1,05,000	90,000
(d) Other current assets		78,000	45,000
Total		7,53,000	3,90,000

Notes to Accounts

Particulars	31 st March, 2021 (₹)	31 st March, 2020 (₹)
1. Share capital		
(a) Equity share capital	4,10,000	2,00,000
(b) Preference share capital	<u>1,50,000</u>	<u>1,00,000</u>
	<u>5,60,000</u>	<u>3,00,000</u>
2. Reserve and surplus		
Surplus in statement of profit and loss at the beginning of the year	25,000	
Add: Profit of the year	20,000	
Less: Dividend	<u>(10,000)</u>	
Surplus in statement of profit and loss at the end of the year	35,000	25,000

Additional Information:

- Dividend paid during the year ₹ 10,000
- Depreciation charges during the year ₹ 40,000.

Profit/Loss prior to Incorporation

- M/s New Venture, who was carrying on business from 1st June, 2021 gets itself incorporated as a company on 1st October, 2021. The first accounts are drawn upto 31st March 2022. The gross profit for the period is ₹ 1,20,000.

Following information is given :

- General Expenses are ₹ 24,000.

- (b) Director's Fees is ₹ 24,000 p.a.
- (c) Incorporation Expenses ₹ 4,000.
- (d) Rent upto 31st December, 2021 was ₹ 6,000 p.a., after which it was increased to ₹ 8,000 p.a.
- (e) Salary of the Manager, who upon incorporation of the company was made a director, is ₹ 12,000 p.a. His remuneration as director is included in the above figure of fees to the directors.
- (f) Advertisement Expenses of ₹ 5,000 pertains to the incorporated company.
- (g) Bad debts ₹ 4,000.

Give statement showing pre and post incorporation profit. The net sales are ₹ 20,00,000, the monthly average of which, for the first four months is one-half of that of the remaining period. The company earned a uniform profit. Interest and tax may be ignored.

Accounting for Bonus Issue

5. Following items appear in the Trial Balance of Satish Limited as on 31st March, 2022:

Particulars	Amount
9,000 Equity shares of ₹ 100 each	9,00,000
Capital Reserves (including ₹ 80,000 being profit on sale of plant)	1,80,000
Securities Premium	80,000
Capital Redemption Reserve	60,000
General Reserve	2,10,000
Profit and Loss Account (Cr. Balance)	1,30,000

The company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books of Satish Ltd.

Issue of Right Shares

6. A company having 1,00,000 shares of ₹ 10 each as its issued share capital, and having a market value of ₹ 46, issues rights shares in the ratio of 1:10 at an issue price of ₹ 31. Pass journal entry for issue of right shares.

Redemption of Preference Shares

7. (a) The Board of Directors of a Company decided to issue minimum number of equity shares of ₹ 9 to redeem ₹ 2,50,000 preference shares. The maximum amount of divisible profits available for redemption is ₹ 1,50,000. Calculate the number of shares to be issued by the company to ensure that the provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of ₹ 50 only.

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- (b) Make Ltd. had 6,000, 14% 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) 50,000 Equity Shares of ₹ 10 each at par,
- (ii) 2,000 12% Debentures of ₹ 100 each.

The issue was fully subscribed and all amounts 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. Alfa Ltd. (listed company) issued ₹ 3,00,000 5% Debentures on 30th September 20X0 on which interest is payable half yearly on 31st March and 30th September. The company has power to purchase debentures in the open market for cancellation thereof. The following purchases were made during the year ended 31st December, 20X2 and the cancellation were made on the same date. On 31 December 20X0, investments had been made for the purpose of redemption were ₹ 45,000.

1st March 20X2 - ₹ 50,000 nominal value purchased for ₹ 49,450 ex-interest.

1st September 20X2 - ₹ 40,000 nominal value purchased for ₹ 40,250 cum-interest.

You are required to draw up the following accounts up to the date of cancellation:

- (i) Debentures Account; and
- (ii) Own Debentures (Investment) Account.

Ignore taxation. Interest to be rounded off to the nearest rupee on the higher side.

Investment Accounts

9. Remo Ltd. held on 1st April, 2021, 1000 9% Government Securities at ₹ 90,000 (Face Value of Security ₹ 100 each). Three month's interest had accrued on the above date. On 1st May, the company purchased the same Government Securities of the face value of ₹ 80,000 at ₹ 95 cum-interest. On 1st June, ₹ 60,000 face value of the security was sold at ₹ 94 cum-interest. Interest on the security was paid each year on 30th June and 31st December and was credited by the bank on the same date. On 30th September, ₹ 40,000 face value of the Govt. securities were sold at ₹ 97 cum-interest. On 1st December, the company purchased the same security ₹ 10,000 at par ex-interest. On 1st March, the company sold ₹ 10,000 face value of the government securities at ₹ 95 ex-interest.

You are required to draw up the 9% Government Security Account in the books of Remo Limited. FIFO method shall be followed.

Calculation shall be made to the nearest rupee or multiple thereof.

Insurance Claim for loss of stock

10. A fire occurred in the premises of M/s Star & Sons on 21st March 2022. The concern had taken Insurance Policy of ₹ 75,000 which was subject to average clause. From the books of accounts, the following particulars are available relating to the period 1st April 2021 to March 21st 2022 :

(i) Stock as on April 1st 2021	₹ 1,50,500
(ii) Purchases (including purchase of ₹ 40,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown)	₹ 3,17,000
(iii) Cost of goods distributed as, samples for advertising from April 1 st 2021 to the date of fire, included in above purchases	₹ 32,000
(iv) Sales (excluding goods sold on approval basis having sale value ₹ 35,000)	₹ 4,55,000
Approval has been received for goods before the date of fire.	
(v) Purchase return	₹ 15,000
(vi) Wages (including salary of Manager ₹ 10,000)	₹ 65,000
(vii) Average Rate of Gross Profit @ 20% on sales	
(viii) Cost of goods salvaged	₹ 12,000

You are required to calculate the amount of claim to be lodged to Insurance Company.

Hire Purchase Transactions

11. The following particulars relate to hire purchase transactions:

- R (hire purchaser) purchased three machineries from S on hire purchase system. The cash price of each machinery being ₹ 3,00,000.
- The hire purchaser charged depreciation @ 20% on written down value method.
- Two machineries were seized by hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two machineries at cash price less 30% depreciation charge for each of the years under written down value method.
- The hire vendor spent ₹ 15,000 on repairs of the machineries and then sold them for a total amount of ₹ 2,55,000.

You are required to compute:

- Agreed value of two machineries taken back by the hire vendor.

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- (2) Book value of one machine left with the Hire purchaser.
- (3) Profit or loss to hire purchaser on two machineries taken, back by the hire vendor.
- (4) Profit or loss on machineries repossessed, when sold by the hire vendor.

Departmental Accounts

12. The following balances were extracted from the books of Beta. You are required to prepare Departmental Trading Account and general Profit & Loss Account for the year ended 31st December, 2022:

Particulars	Deptt. A ₹	Deptt. B ₹
Opening Stock	3,00,000	2,40,000
Purchases	39,00,000	54,60,000
Sales	60,00,000	90,00,000

General expenses incurred for both the Departments were ₹ 7,50,000 and you are also supplied with the following information:

- (i) Closing stock of Department A ₹ 6,00,000 including goods from Department B for ₹ 1,20,000 at cost to Department A.
- (ii) Closing stock of Department B ₹ 12,00,000 including goods from Department A for ₹ 1,80,000 at cost to Department B.
- (iii) Opening stock of Department A and Department B include goods of the value of ₹ 60,000 and ₹ 90,000 taken from Department B and Department A respectively at cost to transferee departments.
- (iv) The gross profit is uniform from year to year.

Accounting for Branches

13. PQR has a branch at Houston (USA). Business of the Branch is carried out substantially independent by way of accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowing in its local currency. The trial balance of the Branch as at 31st March, 2022 is as follows:

Particulars	US\$	
	Debit	Credit
Office equipment (Cost)	56,400	
Opening Accumulated Depreciation (Office equipment)		5,400
Furniture and Fixtures (Cost)	36,000	
Opening Accumulated Depreciation (Furniture and Fixtures)		6,840

Opening Stock as on 1 st April, 2021	24,500	
Purchases	96,500	
Sales		1,76,250
Salaries	4,250	
Carriage inward	256	
Rent, Rates & Taxes	956	
Trade receivables	12,560	
Trade payables		8,650
Cash at bank	2,540	
Cash in hand	500	
Head office Account		<u>37,322</u>
Total	2,34,462	2,34,462

Following further information are given:

- (i) Salaries outstanding as on 31st March, 2022 is US\$ 600.
- (ii) Depreciate office equipment and furniture & fixtures @ 10% at written down value.
- (iii) Closing stock as on 31st March, 2022 is US \$, 24,650.
- (iv) You are informed that the Head office is showing receivable from the Branch as ₹ 23,75,614 as on 31st March, 2022. No transaction in respect of the Branch is pending in Head office.
- (v) Office equipment (cost) includes one office equipment of US \$ 2,400 purchased on 1/04/2021.
- (vi) One furniture of carrying value of US \$ 450 as on 01/04/2021 (cost: US \$ 500 and Accumulated depreciation: US \$ 50) has been sold for US \$ 405 on 31/03/2022 to Mr. M at no profit no loss. Mr. M has not paid the amount till the finalization of branch account. No entry has been passed for this sale of furniture in the above trial balance.
- (vii) The rate of exchange on different dates are:

Date	1 US \$ is equivalent to
1 st April, 2021	₹ 64
31 st December, 2021	₹ 70
31 st March, 2022	₹ 75
Average for the year	₹ 72

You are required to prepare the trial Balance after incorporating adjustments given and converting US \$ into rupees.

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Accounts from Incomplete Records

14. The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and Profit & Loss A/c for the year ended 31st March, 2022 and a Balance Sheet as on that date.

(a) Assets and Liabilities as on:

in ₹		
	1.4.2021	31.3.2022
Furniture	60,000	63,500
Stock	80,000	70,000
Sundry Debtors	1,60,000	?
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000
Cash in Hand & Bank Balance	12,000	26,250

(b) Cash transaction during the year:

- (i) Collection from Debtors, after allowing discount of ₹ 15,000 amounted to ₹ 5,85,000.
 - (ii) Collection on discounting of Bills of Exchange, after deduction of discount of ₹ 1,250 by bank, totalled to ₹ 61,250.
 - (iii) Creditors of ₹ 4,00,000 were paid ₹ 3,92,000 in full settlement of their dues.
 - (iv) Payment of Freight inward of ₹ 30,000.
 - (v) Amount withdrawn for personal use ₹ 70,000.
 - (vi) Payment for office furniture ₹ 10,000.
 - (vii) Investment carrying annual interest of 6% were purchased at ₹ 95 (200 shares, face Value ₹ 100 each) on 1st October 2021 and payment made thereof.
 - (viii) Expenses including salaries paid ₹ 95,000.
 - (ix) Miscellaneous receipt of ₹ 5,000.
- (c) Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 1,00,000. Of these, bills of exchange of ₹ 20,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 4,000 was dishonoured.
- (d) Goods costing ₹ 9,000 were used as advertising material.
- (e) Goods are invariably sold to show a gross profit of 20% on sales.

- (f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC enterprises.
- (g) Provide at 2% for doubtful debts on closing debtors.

Framework for Preparation and Presentation of Financial Statements

15. A Ltd. has entered into a binding agreement with Gamma Ltd. to buy a custom-made machine ₹ 1,00,000. At the end of 20X1-X2, before delivery of the machine, A Ltd. had to change its method of production. The new method will not require the machine ordered and it will be scrapped after delivery. The expected scrap value is nil.

You are required to advise the accounting treatment and give necessary journal entry in the year 20X1-X2.

AS 1 "Disclosure of Accounting Policies"

16. (a) In the books of Rani Ltd., closing inventory as on 31.03.2022 amounts to ₹ 1,75,000 (valued on the basis of FIFO method).

The Company decides to change from FIFO method to weighted average method for ascertaining the costs of inventory from the year 2021-22. On the basis of weighted average method, closing inventory as on 31.03.2022 amounts to ₹ 1,59,000. Realizable value of the inventory as on 31.03.2022 amounts to ₹ 2,07,000.

Discuss disclosure requirements of change in accounting policy as per AS 1.

AS 2 Valuation of Inventories

- (b) An enterprise ordered 20,000 KG of certain material at ₹ 110 per unit. The purchase price includes GST ₹ 12 per KG, in respect of which full input tax credit (ITC) is admissible. Freight incurred amounted to ₹ 1,17,600. Normal transit loss is 2%. The enterprise actually received 19,500 KG and consumed 18,000 KG of the material.
- (i) You are required to calculate cost of material per KG;
 - (ii) Allocation of material cost.

AS 10 Property, Plant and Equipment

17. Star Limited purchased machinery for ₹ 6,80,000 (inclusive of GST of ₹ 40,000). Input credit is available for entire amount of GST paid. The company incurred the following other expense for installation.

	₹
Cost of preparation of site for installation	21,200
Total Labour charges	56,000

(200 out of the total of 500 men hours worked, were spent on installation of the machinery)

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Spare parts and tools consumed in installation	5,000
Total salary of supervisor	26,000
(Time spent for installation was 25% of the total time worked)	
Total administrative expense	34,000
(1/10 relates to the plant installation)	
Test run and experimental production expenses	18,000
Consultancy charges to architect for plant set up	11,000
Depreciation on assets used for installation	12,000

The machine was ready for use on 15.01.2021 but was used from 01.02.2021. Due to this delay further expenses of ₹ 8,900 were incurred. Calculate the value at which the plant should be capitalized in the books of Star Limited.

AS 11 The Effects of Changes in Foreign Exchange Rates and AS 16 Borrowing Costs

18. ABC Builders Limited had borrowed a sum of US \$ 15,00,000 at the beginning of Financial year 2020-21 for its residential project at London Interbank Offered Rate (LIBOR) + 4 %. The interest is payable at the end of the Financial Year. At the time of availing the loan, the exchange rate was ₹ 72 per US \$ and the rate as on 31st March, 2021 was ₹ 76 per US \$. If ABC Builders Limited borrowed the loan in Indian Rupee equivalent, the pricing of loan would have been 9.50%. Compute Borrowing Cost and exchange difference for the year ending 31st March, 2021 as per applicable Accounting Standards. (Applicable LIBOR is 1%).

AS 12 Accounting for Government Grants

19. (a) Hygiene Ltd. had received a grant of ₹ 50 lakh in 2012 from a State Government towards installation of pollution control machinery on fulfilment of certain conditions. The company, however, failed to comply with the said conditions and consequently was required to refund the said amount in 2022. The company debited the said amount to its machinery account in 2022 on payment of the same. It also reworked the depreciation for the said machinery from the date of its purchase and passed necessary adjusting entries in the year 2022 to incorporate the retrospective impact of the same. State whether the treatment done by the company is correct or not.

AS 13 Accounting for Investments

- (b) Gowtham Limited invested in shares of another company (with the intention to hold the shares for short-term period) on 30th November, 2021 at a cost of ₹ 4,25,000. It

also earlier purchased Gold of ₹ 8,00,000 and Silver of ₹ 3,50,000 on 31st March, 2019.

Market values as on 31st March, 2022, of the above investments are as follows:

Shares ₹ 3,50,000

Gold ₹ 10,25,000

Silver ₹ 5,10,000

You are required to explain how will the above investments be shown (individually and in total) in the books of account of Gowtham Limited for the year ending 31st March, 2022 as per the provisions of AS 13.

AS 16 Borrowing Costs

20. Expert Limited issued 12% secured debentures of ₹ 100 lakhs on 01.06.2021. Money raised from debentures to be utilized as under:

Intended Purpose	Amount ₹ in lakhs
Construction of factory building	40
Working Capital	30
Purchase of Machinery	15
Purchase of Furniture	2
Purchase of truck	13

Additional Information:

- (i) Interest on debentures for the Financial Year 2021-2022 was paid by the Company.
- (ii) During the year, the company invested idle fund of ₹ 5 lakhs (out of the money raised from debentures) in Bank's fixed deposit and earned interest of ₹ 50,000.
- (iii) In March, 2022 construction of factory building was not completed (it is expected that it will take another 6 months).
- (iv) In March 2022, Machinery was installed and ready for its intended use.
- (v) Furniture was put to use at the end of March 2022.
- (vi) Truck is going to be received in April, 2022.

You are required to show the treatment of interest as per AS 16 in respect of borrowing cost for the year ended 31st March, 2022 in the Books of Expert Limited.

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SUGGESTED ANSWERS

1. (a)

Hari Ltd.

Balance Sheet as on 31st March, 2022

Particulars		Notes	₹
Equity and Liabilities			
1	Shareholders' funds		
a	Share capital	1	12,48,750
b	Reserves and Surplus	2	3,70,875
2	Non-current liabilities		
	Long-term borrowings	3	3,29,375
3	Current liabilities		
a	Trade Payables		2,50,000
b	Other current liabilities	4	9,375
c	Short-term provisions	5	1,60,000
Total			23,68,375
Assets			
1	Non-current assets		
	Property, Plant & Equipment (PPE)	6	14,06,250
2	Current assets		
a	Inventories	7	3,12,500
b	Trade receivables	8	2,50,000
c	Cash and cash equivalents	9	3,46,250
d	Short-term loans and advances		53,375
Total			23,68,375

Notes to accounts

	₹
1 Share Capital	
Equity share capital	
Issued & subscribed & called up	

12,500 Equity Shares of ₹ 100 each (of the above 2,500 shares have been issued for consideration other than cash)		12,50,000	
Less: Calls in arrears		(1,250)	12,48,750
Total			12,48,750
2 Reserves and Surplus			
General Reserve			2,62,500
Surplus (Profit & Loss A/c)			1,08,375
Total			3,70,875
3 Long-term borrowings			
Secured Term Loan			
State Financial Corporation Loan (1,87,500–9,375) (Secured by hypothecation of Plant and Machinery)			1,78,125
Unsecured Loan			1,51,250
Total			3,29,375
4 Other current liabilities			
Interest accrued but not due on loans (SFC)			9,375
5 Short-term provisions			
Provision for taxation			1,60,000
6 PPE			
Land and Building		7,50,000	
Less: Depreciation		(62,500)	6,87,500
Plant & Machinery		8,75,000	
Less: Depreciation		(2,18,750)	6,56,250
Furniture & Fittings		78,125	
Less: Depreciation		(15,625)	62,500
Total			14,06,250
7 Inventories			
Raw Materials			62,500
Finished goods			2,50,000
Total			3,12,500

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8 Trade receivables		
Outstanding for a period exceeding six months		65,000
Other Amounts		<u>1,85,000</u>
Total		<u>2,50,000</u>
9 Cash and cash equivalents		
Cash at bank		
with Scheduled Banks	3,06,250	
with others (Global Bank Ltd.)	<u>2,500</u>	3,08,750
Cash in hand		<u>37,500</u>
Total		<u>3,46,250</u>

2. Computation of effective capital:

	Where Omega Ltd. is a non-investment company	Where Omega Ltd. is an investment company
Paid-up share capital —		
38,750, 14% Preference shares	38,75,000	38,75,000
2,70,000 Equity shares	2,16,00,000	2,16,00,000
Capital reserves	1,88,750	1,88,750
Securities premium	1,12,500	1,12,500
15% Debentures	1,46,25,000	1,46,25,000
Public Deposits	<u>8,32,500</u>	<u>8,32,500</u>
(A)	<u>4,12,33,750</u>	<u>4,12,33,750</u>
Investments	1,75,25,000	
Profit and Loss account (Dr. balance)	<u>34,25,000</u>	<u>34,25,000</u>
(B)	<u>2,09,50,000</u>	<u>34,25,000</u>
Effective capital (A–B)	2,02,83,750	3,78,08,750

3.

Fox Ltd.

Cash Flow Statement for the year ended 31st March, 2021

	₹	₹
<u>Cash flows from operating activities</u>		
Net Profit (35,000 less 25,000)	10,000	

Add: Dividend	10,000	
Provision for tax	<u>8,000</u>	
Net profit before taxation and extraordinary items	28,000	
Adjustments for:		
Depreciation	40,000	
Operating profit before working capital changes		68,000
Increase in trade receivables	(75,000)	
Increase in inventories	(70,000)	
Increase in other current assets	(33,000)	
Increase in trade payables	90,000	(88,000)
<i>Cash used in operating activities</i>		(20,000)
Less: Tax paid*		(5,000)
<i>Net cash used in operating activities</i>		(25,000)
<u>Cash flows from investing activities</u>		
Purchase of PPE	(2,10,000)	
<i>Net cash used in investing activities</i>		(2,10,000)
<u>Cash flows from financing activities</u>		
Issue of equity shares for cash	2,10,000	
Issue of preference shares	50,000	
Dividends paid	(10,000)	
<i>Net cash generated from financing activities</i>		2,50,000
Net increase in cash and cash equivalents		15,000
Cash and cash equivalents at beginning of period		90,000
Cash and cash equivalents at end of period		1,05,000

*Provision for tax of last year considered to be paid in the current year.

Working Note:

	₹
Property, plant and equipment acquisitions W.D.V. at 31.3.2021	3,50,000
Add back:	
Depreciation for the year	40,000
	<u>3,90,000</u>

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Less: W.D.V. at 31.12.2020	1,80,000
Acquisitions during 2020-2021	2,10,000

4.

Particulars	Basis	Pre-incorporation period	Post-incorporation period	Total
		₹	₹	₹
Gross Profit	Sales Ratio	30,000	90,000	1,20,000
Less: General expenses	Time Ratio	9,600	14,400	24,000
Director's fee	Actual	---	12,000	12,000
Incorporation expenses	Actual	---	4,000	4,000
Rent	W.N.2	2,000	3,500	5,500
Manager's salary	Actual	4,000	---	4,000
Advertisement expenses	Post	---	5,000	5,000
Bad Debts	Sales Ratio	<u>1,000</u>	<u>3,000</u>	<u>4,000</u>
Pre-incorporation Profit transferred to Capital Reserve				
Post-incorporation Profit transferred to P/L Account		<u>13,400</u>	<u>48,100</u>	<u>61,500</u>

Working Notes:**1. Calculation of sales ratio**

	₹
Let the average monthly sales of first four months =	100
Next six months =	200
Total sales of first four months = 100×4 =	400
Total sales of next six months = 200×6 =	1,200
Ratio of sales = $400 : 1,200$ =	1:3

2. Rent

Till 31st December, 2021, rent was ₹ 6,000 p.a., i.e. ₹ 500 p.m.

So, pre-incorporation rent = ₹ 500 x 4 = ₹ 2,000

Post incorporation rent = (₹ 500 x 3) + (8,000 x 3/12) = ₹ 3,500.

3. Time Ratio

Pre-incorporation period = 1st June, 2021 to 30th Sept, 2021 = 4 months

Post-incorporation = 1st October, 2021 to 31st March, 2022 = 6 months

= 4 months: 6 months

Thus, time ratio is 2:3

5. Journal Entries in the Books of Satish Ltd

Particulars		Debit (₹)	Credit (₹)
Capital Redemption Reserve A/c	Dr.	60,000	
Securities Premium A/c	Dr.	80,000	
Capital Reserve A/c	Dr.	80,000	
General Reserve A/c *	Dr.	80,000	
To Bonus to Shareholders			3,00,000
(Being issue of one bonus shares for every 3 shares held, by utilization of various Reserves, as per Board's resolution dated)			
Bonus to Shareholders A/c	Dr.	3,00,000	
To Equity Share Capital A/c			3,00,000
(Being capitalisation of profit)			

Note: Instead of general reserve, Profit and Loss Account may also be used.

6. The entry at the time of subscription of right shares by the existing shareholders will be:

Bank A/c	Dr.	3,10,000	
To Equity Share Capital A/c			1,00,000
To Securities Premium A/c			2,10,000

(Being issue of 10,000 right shares @ ₹ 31 offered)

7. (a) Nominal value of preference shares ₹ 2,50,000

Maximum possible redemption out of profits	₹ 1,50,000
Minimum proceeds of fresh issue	₹ 2,50,000 – 1,50,000 = ₹ 1,00,000
Proceed of one share	= ₹ 9
Minimum number of shares	= $\frac{1,00,000}{9} = 11,111.11$ shares

As fractional shares are not permitted, the minimum number of shares to be issued is 11,111 shares.

If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 11,150. Hence, minimum number of shares to be issued in such a case is 11,150 shares.

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(b)

In the books of Make Ltd.

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c To Equity Share Capital A/c (Being the issue of 5,00,000 equity shares of ₹ 10 each at par as per Board's resolution No.....dated.....)	Dr.	5,00,000	5,00,000
	Bank A/c To 12% Debenture A/c (Being the issue of 2,000 Debentures of ₹ 100 each as per Board's Resolution No.....dated.....)	Dr.	2,00,000	2,00,000
	Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr.	1,00,000	1,00,000
	12% Redeemable Preference Share Capital A/c	Dr.	6,00,000	
	Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)	Dr.	60,000	6,60,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	6,60,000	6,60,000
	Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being the adjustment of premium on redemption against Profits & Loss Account)	Dr.	60,000	60,000

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

Face value of shares to be redeemed	6,00,000
Less: Proceeds from new issue	<u>(5,00,000)</u>
Total Balance	<u>1,00,000</u>

8.

Alfa Ltd.**Debentures Account**

20X2		₹	20X2		₹
March 1	To Own Debentures	49,450	Jan 1	By Balance b/d	3,00,000
March 1	To Profit on cancellation (50,000-49,450)	550			
Sep 1	To Own Debentures (Note 3)	39,416			
Sep 1	To Profit on cancellation (40,000-39,416)	584			
Dec 31	Balance c/d	2,10,000			
		3,00,000			3,00,000

Own Debentures (Investment) Account

		Nominal Cost ₹	Interest ₹	Cost ₹			Nominal Cost ₹	Interest ₹	Cost ₹
20X2					20X2				
March 1	To Bank (W.N. 1)	50,000	1,042	49,450	March 1	By Debentures A/c	50,000	-	49,450
Sep 1	To Bank (W.N. 2 & 3)	40,000	834	39,416	Sep 1	By Debentures A/c	40,000	-	39,416
			-	-	Dec. 31	By P&L A/c		1,876	-
		90,000	1,876	88,866			90,000	1,876	88,866

Working notes:

- $50,000 \times 5\% \times 5/12 = 1,042$
- $40,000 \times 5\% \times 5/12 = 834$
- $40,250 - 834 = 39,416$

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9.

In the Books of Remo Ltd.

9% Government Securities (Investment) Account

Particulars		Face Value	Interest	Cost	Particulars		Face Value	Interest	Cost
2021		₹	₹	₹	2021		₹	₹	₹
April 1	To Balance b/d	1,00,000	2,250	90,000	June 1	By Bank A/c	60,000	2,250	54,150
May 1	To Bank A/c	80,000	2,400	73,600	June 30	By Bank A/c	-	5,400	-
June 1	To P&L A/c	-	-	150	Sept. 30	By Bank A/c	40,000	900	37,900
Sept. 30	To P & L A/c	-	-	1,900	Dec. 31	By Bank A/c	-	4,050	-
Dec. 1	To Bank A/c	10,000	375	10,000	Mar. 1 2022	By Bank A/c	10,000	150	9,500
Mar. 1 2022	To P&L A/c	-	-	300	Mar. 31 2022	By Balance c/d	80,000	1,800	74,400
Mar. 31, 2022	To P&L A/c (Transfer)	-	9,525	-					
		<u>1,90,000</u>	<u>14,550</u>	<u>1,75,950</u>			<u>1,90,000</u>	<u>14,550</u>	<u>1,75,950</u>

Working Notes:

- Interest accrued on 1st April 2021 = ₹1,00,000 x 9% x 3/12 = ₹ 2,250
- Accrued Interest on 800 units as on 01.05.2021 = ₹ 80,000 x 9/100 x 4/12 = ₹ 2,400
- Cost of Investment for purchase on 01.05.2021 = ₹ 76,000 - ₹ 2,400 = ₹ 73,600
- Accrued Interest on 600 units as on 01.06.2021 = ₹ 60,000 x 9/100 x 5/12 = ₹ 2,250
- Profit on Securities sold on 1st June = ₹ 54,150 (56,400 – 2,250) - ₹ 54,000 (60,000 x 90,000/1,00,000) = ₹ 150
- Interest received on 30.06.2021 = ₹1,20,000 x 9/100 x 6/12 = ₹ 5,400
- Accrued Interest on 400 units as on 30.09.2021 = ₹ 40,000 x 9/100 x 3/12 = ₹ 900
- Cost of 400 Govt. Securities sold on 30.09.2021 = 40,000 x 90,000/1,00,000 = ₹ 36,000
- Profit on securities sold on 30th September = ₹37,900 (38,800-900) - ₹ 36,000 = ₹ 1,900
- Accrued Interest on 1.12.2021 = ₹ 10,000 x 9/100 x 5/12 = ₹ 375
- Interest received on 31.12.2021 = ₹ 90,000 x 9/100 x 6/12 = ₹ 4,050
- Accrued Interest on 100 units as on 01.03.2022 = ₹ 10,000 x 9/100 x 2/12 = ₹ 150

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INTERMEDIATE EXAMINATION: MAY 2023

13. Cost of 100 Govt. Securities sold on 01.03.2022 = ₹ 10,000 × 73,600/80,000 = ₹ 9,200
14. Profit on securities sold on 01.03.2022 = ₹ 9,500 - ₹ 9,200 = ₹ 300
- 15.

Calculation of closing balance:	Units	₹
Securities in hand remained in hand at 31/3/2022		
From original holding (1,00,000 – 60,000 – 40,000)		-
Purchased on 1st May (80,000 – 10,000)	70,000	64,400
Purchased on 1 st December	<u>10,000</u>	<u>10,000</u>
	<u>80,000</u>	<u>74,400</u>

10. Memorandum Trading Account for the period 1st April, 2021 to 21st March, 2022

	₹		₹
To Opening Stock	1,50,500	By Sales (4,55,000 + 35,000)	4,90,000
To Purchases 3,17,000			
Less: Returns (15,000)		By Closing Stock (Bal. fig.)	83,500
Goods distributed as samples (32,000)	2,70,000		
To Wages 55,000			
To Gross Profit (20% of Sales) 98,000			
	<u>5,73,500</u>		<u>5,73,500</u>

Statement of Insurance Claim

	₹
Value of stock destroyed by fire	83,500
Less: Salvaged Stock	12,000
Loss of stock	<u>71,500</u>

Note: Since policy amount is less than value of stock on date of fire, average clause will apply. Therefore, claim amount will be computed by applying the formula.

$$\text{Claim} = \frac{\text{Insured Value}}{\text{Total Cost}} \times \text{Loss suffered}$$

Claim amount = ₹ 71,500 × 75,000 / 83,500 = ₹ 64,222 (rounded off)

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11.

		₹
(i)	Price of two machines = ₹ 3,00,000 x 2	6,00,000
	Less: Depreciation for the first year @ 30%	<u>1,80,000</u>
		4,20,000
	Less: Depreciation for the second year = ₹ 4,20,000 x $\frac{30}{100}$	<u>1,26,000</u>
	Agreed value of two machines taken back by the hire vendor	<u>2,94,000</u>
(ii)	Cash purchase price of one machine	3,00,000
	Less: Depreciation on ₹ 3,00,000 @20% for the first year	<u>60,000</u>
	Written down value at the end of first year	2,40,000
	Less: Depreciation on ₹ 2,40,000 @ 20% for the second year	<u>48,000</u>
	Book value of machine left with the hire purchaser	<u>1,92,000</u>
(iii)	Book value of one machine as calculated above	1,92,000
	Book value of Two machines = ₹ 1,92,000 x 2	3,84,000
	Value at which the two machines were taken back, calculated in (i) above	2,94,000
	Hence, loss to hire purchaser on machine taken back by hire vendor (₹3,84,000 – ₹ 2,94,000)	₹ 90,000
(iv)	Profit or loss on machines repossessed when sold by hire vendor	
	Sale proceeds	2,55,000
	Less: Value at which machines were taken back	2,94,000
	Repairs	<u>15,000</u>
	Loss on resale	<u>54,000</u>

12. Departmental Trading Account for the year ended on 31st December, 2022

Particulars	A	B	Particulars	A	B
	₹	₹		₹	₹
To Opening Stock	3,00,000	2,40,000	By Sales	60,00,000	90,00,000
To Purchases	39,00,000	54,60,000	By Closing Stock	6,00,000	12,00,000
To Gross Profit	<u>24,00,000</u>	<u>45,00,000</u>			
	<u>66,00,000</u>	<u>1,02,00,000</u>		<u>66,00,000</u>	<u>1,02,00,000</u>

General profit and loss account of Beta for the year ended on 31st December, 2022

Particulars	Amount	Particulars	Amount
	₹		₹
To General expenses*	7,50,000	By Stock reserve (opening stock)	
To Stock reserve (Closing Stock)		Dept. A	30,000
Dept. A	60,000	Dept. B	36,000
Dept. B	72,000	By Gross Profit	
To Net Profit	60,84,000	Dept. A	24,00,000
		Dept. B	<u>45,00,000</u>
	<u>69,66,000</u>		<u>69,66,000</u>

Working Notes:

		Dept. A	Dept. B
1.	Percentage of Profit	$24,00,000/60,00,000 \times 100$ 40%	$45,00,000/90,00,000 \times 100$ 50%
2.	Opening Stock reserve	$60,000 \times 50\% = 30,000$	$90,000 \times 40\% = 36,000$
3.	Closing Stock reserve	$1,20,000 \times 50\% = 60,000$	$1,80,000 \times 40\% = 72,000$

13.

In the books of PQR**Trial Balance (in Rupees) of Houston (USA) Branch – Non Integral foreign operation****as on 31st March, 2022**

	Dr.	Cr.	Conversion	Dr.	Cr.
	US \$	US \$	rate	₹	₹
Office Equipment	56,400		75	42,30,000	
Depreciation on Office Equipment (Accumulated) (5,400+5,100)		10,500	75		7,87,500
Depreciation	8,016		75	6,01,200	

* General expenses have not been allocated to individual department and are charged to General Profit and Loss Account.

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Furniture and fixtures (36,000-500)	35,500		75	26,62,500	
Depreciation on furniture and fixtures (Accumulated) (6,840-50-45 +2,916)		9,661	75		7,24,575
Stock (1 st April, 2021)	24,500		64	15,68,000	
Purchases	96,500		72	69,48,000	
Sales		1,76,250	72		126,90,000
Carriage inward	256		72	18,432	
Salaries (4,250+600)	4,850		72	3,49,200	
Rent, rates and taxes	956		72	68,832	
Salaries payable		600	75		45,000
Head Office A/c		37,322			23,75,614 (given)
Trade receivables	12,560		75	9,42,000	
Trade payables		8,650	75		6,48,750
Cash at bank	2,540		75	1,90,500	
Cash in hand	500		75	37,500	
Mr. M (Receivable for sale of furniture)	405		75	30,375	
Exchange gain (bal. fig.)					<u>3,75,100</u>
	<u>2,42,983</u>	<u>2,42,983</u>		<u>176,46,539</u>	<u>176,46,539</u>

Closing stock 24,650 US\$ x ₹ 75 = ₹18,48,750.

**14. Trading and Profit and Loss Account of ABC enterprise
for the year ended 31st March, 2022**

		₹		₹
To Opening Inventory		80,000	By Sales	6,08,750
To Purchases	4,56,000		By Closing inventory	70,000
Less: For advertising	<u>(9,000)</u>	4,47,000		
To Freight inwards		30,000		
To Gross profit c/d		<u>1,21,750</u>		
		<u>6,78,750</u>		<u>6,78,750</u>

To Sundry expenses		92,000	By Gross profit b/d	1,21,750
To Advertisement		9,000	By Interest on investment (20,000 x 6/100 x ½)	600
To Discount allowed – Debtors	15,000		By Discount received	8,000
Bills Receivable	<u>1,250</u>	16,250	By Miscellaneous income	5,000
To Depreciation on furniture		6,500		
To Provision for doubtful debts		1,455		
To Net profit		<u>10,145</u>		
		<u>1,35,350</u>		<u>1,35,350</u>

Balance Sheet as on 31st March, 2022

Liabilities	Amount		Assets		Amount
	₹	₹		₹	₹
Capital as on 1.4.2021	1,88,000		Furniture (w.d.v.)	60,000	
Less: Drawings	<u>(91,000)</u>		Additions during the year	10,000	
	97,000		Less: Depreciation	<u>(6,500)</u>	63,500
Add: Net Profit	<u>10,145</u>	1,07,145	Investment		19,000
Sundry creditors		1,50,000	Interest accrued		600
			Closing inventory		70,000
Outstanding expenses		18,000	Sundry debtors	72,750	
			Less: Provision for doubtful debts	<u>1,455</u>	71,295
			Bills receivable		17,500
			Cash in hand and at bank		26,250
			Prepaid expenses		<u>7,000</u>
		<u>2,75,145</u>			<u>2,75,145</u>

Working Notes:

(1) Capital on 1st April, 2021

Balance Sheet as on 1st April, 2021

Liabilities	₹	Assets	₹
Capital (Bal.fig.)	1,88,000	Furniture (w.d.v.)	60,000

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Creditors	1,10,000	Closing Inventory	80,000
Outstanding expenses	20,000	Sundry debtors	1,60,000
		Cash in hand and at bank	12,000
		Prepaid expenses	<u>6,000</u>
	<u>3,18,000</u>		<u>3,18,000</u>

(2) Purchases made during the year

Sundry Creditors Account

	₹		₹
To Cash and bank A/c	3,92,000	By Balance b/d	1,10,000
To Discount received A/c	8,000	By Sundry debtors A/c	4,000
To Bills Receivable A/c	20,000	By Purchases A/c	4,56,000
To Balance c/d	<u>1,50,000</u>	(Balancing figure)	
	<u>5,70,000</u>		<u>5,70,000</u>

(3) Sales made during the year

		₹
Opening inventory		80,000
Purchases	4,56,000	
Less: For advertising	<u>(9,000)</u>	4,47,000
Freight inwards		<u>30,000</u>
		5,57,000
Less: Closing inventory		<u>(70,000)</u>
Cost of goods sold		4,87,000
Add: Gross profit (25% on cost)		<u>1,21,750</u>
		<u>6,08,750</u>

(4) Debtors on 31st March, 2022

Sundry Debtors Account

	₹		₹
To Balance b/d	1,60,000	By Cash and bank A/c	5,85,000
To Sales A/c	6,08,750	By Discount allowed A/c	15,000
To Sundry creditors A/c		By Bills receivable A/c	1,00,000
(bill dishonoured)	<u>4,000</u>	By Balance c/d (Bal.fig.)	<u>72,750</u>
	<u>7,72,750</u>		<u>7,72,750</u>

(5) Additional drawings by proprietors of ABC enterprises**Cash and Bank Account**

	₹		₹
To Balance b/d	12,000	By Freight inwards A/c	30,000
To Sundry debtors A/c	5,85,000	By Furniture A/c	10,000
To Bills Receivable A/c	61,250	By Investment A/c	19,000
To Miscellaneous income A/c	5,000	By Expenses A/c	95,000
		By Creditors A/c	3,92,000
		By Drawings A/c	
		[₹ 70,000 + ₹ 21,000]	91,000
		(Additional drawings)]	
		By Balance c/d	<u>26,250</u>
	<u>6,63,250</u>		<u>6,63,250</u>

(6) Amount of expenses debited to Profit and Loss A/c**Sundry Expenses Account**

	₹		₹
To Prepaid expenses A/c (on 1.4.2021)	6,000	By Outstanding expenses A/c (on 1.4.2021)	20,000
To Bank A/c	95,000	By Profit and Loss A/c (Balancing figure)	92,000
To Outstanding expenses A/c (on 31.3.2022)	<u>18,000</u>	By Prepaid expenses A/c (on 31.3.22)	<u>7,000</u>
	<u>1,19,000</u>		<u>1,19,000</u>

(7) Bills Receivable on 31st March, 2022**Bills Receivable Account**

	₹		₹
To Debtors A/c	1,00,000	By Creditors A/c	20,000
		By Bank A/c	61,250
		By Discount on bills receivable A/c	1,250
		By Balance c/d (Balancing figure)	<u>17,500</u>
	<u>1,00,000</u>		<u>1,00,000</u>

Note: All sales and purchases are assumed to be on credit basis.

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15. A liability is recognised when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured. In the given case, A Ltd. should recognise a liability of ₹ 1,00,000 to Gamma Ltd.

When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognised as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognised as an expense.

Journal entry

Loss on change in production method To Gamma Ltd. (Loss due to change in production method)	Dr.	1,00,000	1,00,000
Profit and loss A/c To Loss on change in production method (Loss transferred to profit and loss account)	Dr.	1,00,000	1,00,000

16. (a) As per AS 1 “Disclosure of Accounting Policies”, any change in an accounting policy which has a material effect should be disclosed in the financial statements. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus Rani Ltd. should disclose the change in valuation method of inventory and its effect on financial statements. The company may disclose the change in accounting policy in the following manner:

“The company values its inventory at lower of cost and net realizable value. Since net realizable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost. In the present year i.e. 2021-22, the company has changed to weighted average method, which better reflects the consumption pattern of inventory, for ascertaining inventory costs from the earlier practice of using FIFO for the purpose. The change in policy has reduced current profit and value of inventory by ₹ 16,000 (1,75,000 – 1,59,000).”

- (b) Calculation of Normal cost per Kg.

	₹
Purchase price (20,000 Kg. x ₹ 110)	22,00,000
Less: Input Tax Credit (20,000 Kg. x ₹ 12)	(2,40,000)
	19,60,000
Add: Freight	1,17,600

A. Total material cost	20,77,600
B. Number of units normally received = 98% of 20,000 Kg.	Kg. 19,600
C. Normal cost per Kg. (A/B)	106

Allocation of material cost

	Kg.	₹ /Kg.	₹
Materials consumed	18,000	106	19,08,000
Cost of inventory	1,500	106	1,59,000
Abnormal loss	100	106	10,600
Total material cost	19,600	106	20,77,600

Note: Abnormal losses are recognized as separate expense.

17. Calculation of Cost of Plant

Particulars		₹
Purchase Price	Given	6,80,000
Add: Site Preparation Cost	Given	21,200
Labour charges	(56,000×200/500) Given	22,400
Spare parts		5,000
Supervisor's Salary	25% of ₹ 26,000	6,500
Administrative costs	1/10 of ₹ 34,000	3,400
Test run and experimental production charges	Given	18,000
Architect Fees for set up	Given	11,000
Depreciation on assets used for installation	Given	<u>12,000</u>
Total Cost of Asset		7,79,500
Less: GST credit receivable		<u>(40,000)</u>
Value to be capitalized		<u>7,39,500</u>

Note: Further Expenses of ₹ 8,900 from 15.1.2021 to 1.2.2021 to be charged to profit and loss A/c as plant was ready for production on 15.1.2021.

18. (i) Interest for the period 2020-21
 $= \text{US \$ } 15 \text{ lakhs} \times 5\% \times \text{₹ } 76 \text{ per US \$} = \text{₹ } 57 \text{ lakhs}$
- (ii) Increase in the liability towards the principal amount
 $= \text{US \$ } 15 \text{ lakhs} \times \text{₹ } (76 - 72) = \text{₹ } 60 \text{ lakhs}$

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- (iii) Interest that would have resulted if the loan was taken in Indian currency
 $= \text{US \$ } 15 \text{ lakhs} \times ₹ 72 \times 9.5\% = ₹ 102.60 \text{ lakhs}$
- (iv) Difference between interest on local currency borrowing and foreign currency borrowing = ₹ 102.60 lakhs less ₹ 57 lakhs = ₹ 45.60 lakhs.

Therefore, out of ₹ 60 lakhs increase in the liability towards principal amount, only ₹ 45.60 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be ₹ 102.60 lakhs being the aggregate of interest of ₹ 57 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of ₹ 45.60 lakhs.

Hence, ₹ 102.60 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 "Borrowing Costs" and the remaining ₹ 14.4 lakhs (60 - 45.60) would be considered as the exchange difference to be accounted for as per AS 11 "The Effects of Changes in Foreign Exchange Rates".

19. (a) As per the facts of the case, Hygiene Ltd. had received a grant of ₹ 50 lakh in 2012 from a State Government towards installation of pollution control machinery on fulfilment of certain conditions. However, the amount of grant has to be refunded since it failed to comply with the prescribed conditions. In such circumstances, AS 12, "Accounting for Government Grants", requires that the amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. The Standard further makes it clear that in the first alternative, i.e., where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Accordingly, the accounting treatment given by Hygiene Ltd. of increasing the value of the plant and machinery is quite proper. However, the accounting treatment in respect of depreciation given by the company of adjustment of depreciation with retrospective effect is improper and constitutes violation of AS 12.
- (b) As per AS 13 (Revised) 'Accounting for Investments', for investment in shares - if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value, i.e., in case of shares, at lower of cost (₹ 4,25,000) and market value (₹ 3,50,000) as on 31 March 2022, i.e., ₹ 3,50,000.

Gold and silver are generally purchased with an intention to hold it for long term period (more than one year) until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 31st March, 2019) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2022, i.e., ₹ 8,00,000 and ₹ 3,50,000 respectively, though their market values have been increased.

Thus the shares, gold and silver will be shown at ₹ 3,50,000, ₹ 8,00,000 and ₹ 3,50,000 respectively and hence, total investment will be valued at ₹ 15,00,000 for the year ending on 31st March, 2022 as per AS 13.

20. (a) According to AS 16 "Borrowing Costs", a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use. As per the Standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization should be determined in accordance with this Standard. Other borrowing costs should be recognized as an expense in the period in which they are incurred. It also states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost = ₹ 10,00,000 (100 lakhs x 12% x 10/12) – ₹ 50,000
= ₹ 9,50,000

Particulars	Nature of assets	Interest to be capitalized (₹)	Interest to be charged to Profit & Loss Account (₹)
Construction of factory building	Qualifying Asset	9,50,000x40/100 = ₹ 3,80,000	NIL
Purchase of Machinery	Not a Qualifying Asset	NIL	9,50,000x15/100 = 1,42,500
Purchase of and furniture	Not a Qualifying Asset	NIL	9,50,000x2/100 =19,000
Purchase of truck	Not a Qualifying Asset	NIL	9,50,000x13/100 = 1,23,500
Working Capital	Not a Qualifying Asset	NIL	9,50,000x30/100 = ₹ 2,85,000
Total		<u>₹ 3,80,000</u>	<u>₹ 5,70,000</u>