PAPER – 1: ACCOUNTING

ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR NOVEMBER 2021 EXAMINATION

A. <u>Applicable for November, 2021 examination</u>

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, 2019 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 AS 11 "The Effects of Changes in Foreign Exchange Rates"

In exercise of the powers conferred by clause (a) of sub-section (1) of section 642 of the Companies Act, 1956, the Central Government, in consultation with National Advisory Committee on Accounting Standards, hereby made the amendment in the Companies (Accounting Standards) Rules, 2006, in the "ANNEXURE", under the heading "ACCOUNTING STANDARDS" under "AS 11 on The Effects of Changes in Foreign Exchange Rates", for the paragraph 32, the following paragraph shall be substituted, namely :-

"32. An enterprise may dispose of its interest in a non-integral foreign operation through sale, liquidation, repayment of share capital, or abandonment of all, or part of, that operation. The payment of a dividend forms part of a disposal only when it constitutes a return of the investment. Remittance from a non-integral foreign operation by way of repatriation of accumulated profits does not form part of a disposal unless it constitutes return of the investment. In the case of a partial disposal, only the proportionate share of the related accumulated exchange differences is included in the gain or loss. A write-down of the carrying amount of a non-integral foreign operation does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognized at the time of a write-down".

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. Companies (Share Capital and Debentures) Amendment Rules, 2019 – reg. Debenture Redemption Reserve

In exercise of the powers conferred by sub-sections (1) and (2) of section 469 of the Companies Act, 2013 (18 of 2013), the Central Government made the Companies (Share Capital and Debentures) Amendment Rules, 2019 dated 16th August, 2019 to amend the Companies (Share Capital and Debentures) Rules, 2014. As per the Companies (Share Capital and Debentures) Amendment Rules, under principal rules, in rule 18, for sub-rule (7), the following sub-rule shall be substituted, namely: -

"(7) The company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year, in accordance with the conditions given below:-

(a) Debenture Redemption Reserve shall be created out of profits of the company available for payment of dividend;

(b) the limits with respect to adequacy of Debenture Redemption Reserve and investment or deposits, as the case may be, shall be as under;-

  (i) Debenture Redemption Reserve is not required for debentures issued by All India Financial Institutions regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures;

  (ii) For other Financial Institutions within the meaning of clause (72) of section 2 of the Companies Act, 2013, Debenture Redemption Reserve shall be as applicable to Non –Banking Finance Companies registered with Reserve Bank of India.

  (iii) For listed companies (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)), Debenture Redemption Reserve is not required in the following cases - (A) in case of public issue of debentures – A. for NBFCs registered with Reserve Bank of India under section 45-IA of the RBI Act, 1934 and for Housing Finance Companies registered with National Housing Bank; B. for other listed companies; (B) in case of privately placed debentures, for companies specified in sub-items A and B.

  (iv) for unlisted companies, (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)) -

    (A) for NBFCs registered with RBI under section 45-IA of the Reserve Bank of India Act, 1934 and for Housing Finance Companies registered with National Housing Bank, Debenture Redemption Reserve is not required in case of privately placed debentures.

    (B) for other unlisted companies, the adequacy of Debenture Redemption Reserve shall be ten percent. of the value of the outstanding debentures;

  (v) In case a company is covered in item (A) or item (B) of sub-clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), it shall on or before the 30th day of April in each year, in respect of debentures issued by a company covered in item (A) or item (B) of sub clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), invest or deposit, as the case may be, a sum which shall not be less than fifteen per cent., of the amount of its debentures maturing during the year, ending on the 31st day of March of the next year in any one or more methods of investments or deposits as provided in sub-clause (vi):

Provided that the amount remaining invested or deposited, as the case may be, shall not at any time fall below fifteen percent. of the amount of the debentures maturing during the year ending on 31st day of March of that year.

(vi) for the purpose of sub-clause (v), the methods of deposits or investments, as the case may be, are as follows:— (A) in deposits with any scheduled bank, free from any charge or lien; (B) in unencumbered securities of the Central Government or any State Government; (C) in unencumbered securities mentioned in sub-clause (a) to (d) and (ee) of section 20 of the Indian Trusts Act, 1882; (D) in unencumbered bonds issued by any other company which is notified under sub-clause (f) of section 20 of the Indian Trusts Act, 1882:

Provided that the amount invested or deposited as above shall not be used for any purpose other than for redemption of debentures maturing during the year referred above.

(c) in case of partly convertible debentures, Debenture Redemption Reserve shall be created in respect of non-convertible portion of debenture issue in accordance with this sub-rule.

(d) the amount credited to Debenture Redemption Reserve shall not be utilized by the company except for the purpose of redemption of debentures."

NOTE: October, 2020 Edition of the Study Material on Paper 1 Accounting is applicable for November, 2021 Examination which incorporates the above amendments. The students who have editions prior to October, 2020 may refer above amendments.

B. Not applicable for November, 2021 examination

Non-Applicability of Ind AS for November, 2021 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for November, 2021 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Preparation of Statement of Profit and Loss and Balance Sheet

1. Om Ltd. has the Authorised Capital of ₹ 15,00,000 consisting of 6,000 6% Redeemable Preference shares of ₹ 100 each and 90,000 equity Shares of ₹10 each. The following was the Trial Balance of the Company as on 31st March, 2021:

Particulars	Dr.	Cr.
Investment in shares at cost (non-current investment)	1,50,000	
Purchases	14,71,500	
Selling expenses	2,37,300	
Inventory as at the beginning of the year	4,35,600	
Salaries and wages (included ₹ 30,000 being Director's Remuneration)	1,56,000	
Cash on hand	84,000	
Bills receivable	1,24,500	
Interest on Bank overdraft	29,400	
Interest on debentures upto 30th Sep (1st half year)	11,250	
Trade receivables and trade payables	1,50,300	2,63,550
Freehold property at cost	10,50,000	
Furniture at cost less depreciation of ₹ 45,000	1,05,000	
6% Redeemable Preference share capital		6,00,000
Equity share capital fully paid up		6,00,000
5% mortgage debentures secured on freehold properties		4,50,000
Dividends		12,750
Profit and Loss A/c (opening balance)		85,500
Sales (Net)		20,11,050
Bank overdraft (secured by hypothecation of stocks and receivables)		4,50,000
Technical knowhow fees (cost paid during the year)	4,50,000	
Audit fees	18,000	
Total	44,72,850	44,72,850

Other Information:

1. Closing Stock was valued at ₹ 4,27,500.
2. Purchases include ₹ 15,000 worth of goods and articles distributed among valued customers.
3. Salaries and Wages include ₹ 6,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".
4. Bills Receivable include ₹ 4,500 being dishonoured bills. 50% of which had been considered irrecoverable.
5. Bills Receivable of ₹ 6,000 maturing after 31st March were discounted.
6. Depreciation on Furniture to be charged at 10% on Written Down Value.
7. Interest on Debentures for the half year ending on 31st March was due on that date.
8. Technical Knowhow Fees is to be written off over a period of 10 years.
9. Trade receivables include ₹ 18,000 due for more than six months.

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

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

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

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

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

(b) State under which head these accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:

(i) Share application money received in excess of issued share capital.

(ii) Share option outstanding account.

(iii) Unpaid matured debenture and interest accrued thereon.

(iv) Uncalled liability on shares and other partly paid investments.

(v) Calls unpaid.

Cash Flow Statement

3 On the basis of the following information prepare a Cash Flow Statement for the year ended 31st March, 2021 (Using direct method):

(i) Total sales for the year were ₹ 597 crores out of which cash sales amounted to ₹ 393 crores.

(ii) Receipts from credit customers during the year, totalled ₹ 201 crores.

(iii) Purchases for the year amounted to ₹ 330 crores out of which credit purchases were 80%.

Balance in creditors as on

1.4.2020	₹ 126 crores
31.3.2021	₹ 138 crores

(iv) Suppliers of other consumables and services were paid ₹ 28.5 crores in cash.

(v) Employees of the enterprises were paid 30 crores in cash.

(vi) Fully paid preference shares of the face value of ₹ 48 crores were redeemed. Equity shares of the face value of ₹ 30 crores were allotted as fully paid up at premium of 20%.

(vii) Debentures of ₹ 30 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.

(viii) ₹ 39 crores were paid by way of income tax.

(ix) A new machinery costing ₹ 15 was purchased.

(x) Investment costing ₹ 27 cores were sold at a loss of ₹ 3 crores.

(xi) Dividends totalling ₹ 22.5 crores was also paid.

(xii) Debenture interest amounting ₹ 3 crore was paid.

(xiii) On 31st March 2020, Balance with Bank and Cash on hand totalled ₹ 3 crores.

Profit/Loss prior to Incorporation

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

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

(i) New Limited initiated an advertising campaign which resulted increase in monthly average sales by 25% post incorporation.

(ii) The Gross profit ratio post incorporation increased to 30% from 25%.

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

Accounting for Bonus Issue

5. Raman Ltd. gives the following information as at 31st March, 2021:

	₹
Authorised capital:	
45,000 12% Preference shares of ₹ 10 each	4,50,000
6,00,000 Equity shares of ₹ 10 each	<u>60,00,000</u>
	<u>64,50,000</u>
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, 2021, the Company has made final call @ ₹ 2 each on 4,05,000 equity shares. The call money was received by 20th April, 2021. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company.

Issue of Right Shares

6. Super company offers new shares of ₹ 100 each at 20% premium to existing shareholders on the basis one for four shares. The cum-right market price of a share is ₹ 190.

   You are required to calculate the value of a right share.

Redemption of Preference Shares

7. Neeraj Ltd.'s capital structure consists of 45,000 Equity Shares of ₹ 10 each fully paid up and 3,000 9% Redeemable Preference Shares of ₹ 100 each fully paid up as on 31.03.2021. The other particulars as at 31.03.2021 are as follows:

	Amount (₹)
General Reserve	1,80,000
Profit & Loss Account	90,000
Investment Allowance Reserve (not free for distribution as dividend)	22,500
Cash at bank	2,92,500

   Preference Shares are to be redeemed at a premium of 10%. For the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve & surplus, subject to the conditions that a sum of ₹ 60,000 shall be retained in General Reserve and which should not be utilized. Company also sold investment of 6,750 Equity Shares in Kumar Ltd., costing ₹67,500 at ₹ 9 per share.

   Pass Journal entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet as at 31.03.2021 of Neeraj Ltd. after the redemption is carried out.

Redemption of Debentures

8. Jeet Limited (listed company) recently made a public issue in respect of which the following information is available:

   (a) No. of partly convertible debentures issued - 1,00,000; face value and issue price- ₹ 100 per debenture.

(b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue i.e 31.10.2020.

(c) Date of closure of subscription lists - 1.5.2020, date of allotment- 1.6.2020, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- ₹ 60 (Face Value ₹ 10).

(d) Underwriting Commission- 2%.

(e) Number of debentures applied for - 75,000.

(f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2021 (including cash and bank entries).

Investment Accounts

9. (a) Following transactions of Meeta took place during the financial year 2020-21:

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

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

Insurance Claim for loss of stock or loss of profit

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

	₹
Stock at cost on 1.4.2020	2,02,500

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

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

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

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

Hire Purchase Transactions

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

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

Departmental Accounts

12. M/s. Hero is a Departmental Store having three departments X, Y and Z. The information regarding three departments for the year ended 31st March, 2021 are given below:

Particulars	Dept. X	Dept. Y	Dept. Z
Opening Stock	18,000	12,000	10,000
Purchases	66,000	44,000	22,000
Debtors at end	7,500	5,000	5,000
Sales	90,000	67,500	45,000
Closing Stock	22,500	8,750	10,500
Value of furniture in each Department	10,000	10,000	5,000
Floor space occupied by each Dept. (in Sq. ft.)	1,500	1,250	1,000

Number of employees in each Department	25	20	15
Electricity consumed by each Department (in units)	300	200	100

Additional Information:

	Amount (₹)
Carriage inwards	1,500
Carriage outwards	2,700
Salaries	24,000
Advertisement	2,700
Discount allowed	2,250
Discount received	1,800
Rent, Rates and Taxes	7,500
Depreciation on furniture	1,000
Electricity Expenses	3,000
Labour welfare expenses	2,400

Prepare Departmental Trading and Profit & Loss Account for the year ended 31st March, 2021 after providing provision for Bad Debts at 5%.

Accounting for Branches

13. Lal & Co. of Jaipur has a branch in Patna to which goods are sent @ 20% above cost. The branch makes both cash & credit sales. Branch expenses are paid direct from Head office and the branch has to remit all cash received into the bank account of Head office. Branch doesn't maintain any books of accounts but sends monthly returns to the head office.

Following further details are given for the year ended 31st March, 2020:

	Amount (₹)
Goods received from Head office at Invoice Price	4,20,000
Goods returned to Head office at Invoice Price	30,000
Cash sales for the year 2019-20	92,500
Credit Sales for the year 2019-20	3,12,500
Stock at Branch as on 01-04-2019 at Invoice price	36,000
Sundry Debtors at Patna branch as on 01-04-2019	48,000
Cash received from Debtors	2,19,000
Discount allowed to Debtors	3,750
Goods returned by customer at Patna Branch	7,000
Bad debts written off	2,750
Amount recovered from Bad debts previously written off as Bad	500

Rent, Rates & taxes at Branch	12,000
Salaries & wages at Branch	36,000
Office Expenses (at Branch)	4,600
Stock at Branch as on 31-03-2020 at cost price	62,500

Prepare necessary ledger accounts in the books of Head office by following Stock and Debtors method and ascertain Branch profit.

Accounts from Incomplete Records

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

	1.4.2020	31.3.2021
	₹	₹
Creditors	3,15,400	2,48,000
Expenses outstanding	12,000	6,600
Plant and Machinery	2,32,200	2,40,800
Stock in hand	1,60,800	2,22,400
Cash in hand	59,200	24,000
Cash at bank	80,000	1,37,600
Sundry debtors	3,30,600	?
Details of the year's transactions are as follows:		
Cash and discount credited to debtors		12,80,000
Returns from debtors		29,000
Bad debts		8,400
Sales (Both cash and credit)		14,36,200
Discount allowed by creditors		14,000
Returns to creditors		8,000
Capital introduced by cheque		1,70,000
Collection from debtors (Deposited into bank after receiving cash)		12,50,000
Cash purchases		20,600
Expenses paid by cash		1,91,400
Drawings by cheque		8,600
Machinery acquired by cheque		63,600
Cash deposited into bank		1,00,000

Cash withdrawn from bank		1,84,800
Cash sales		92,000
Payment to creditors by cheque		12,05,400

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

Framework for Preparation and Presentation of Financial Statements

15. What is meant by 'Measurement'? What are the bases of measurement of Elements of Financial Statements? Explain in brief.

AS 2 Valuation of Inventories

16. On 31st March 2020, a business firm finds that cost of a partly finished unit on that date is ₹ 430. The unit can be finished in 2020-21 by an additional expenditure of ₹ 310. The finished unit can be sold for ₹ 750 subject to payment of 2% brokerage on selling price. The firm seeks your advice regarding the amount at which the unfinished unit should be valued as at 31st March, 2020 for preparation of final accounts. Assume that the partly finished unit cannot be sold in semi-finished form and its NRV is zero without processing it further.

AS 10 Property, Plant and Equipment

17. A property costing ₹ 10,00,000 is bought on 1.4.2020. Its estimated total physical life is 50 years. However, the company considers it likely that it will sell the property after 25 years.

    The estimated residual value in 25 years' time, based on current year prices, is:

    Case (a) ₹ 10,00,000

    Case (b) ₹ 9,00,000

    You are required to compute the amount of depreciation charged for the year ended 31.3.2021.

AS 11 The Effects of Changes in Foreign Exchange Rates

18. Mona Ltd. purchased a plant for US$ 1,00,000 on 01st December 2020, payable after three months. Company entered into a forward contract for three months @ ₹ 49.15 per dollar. Exchange rate per dollar on 01st December was ₹ 48.85. How will you recognize the profit or loss on forward contract in the books of Mona Ltd for the year ended 31st March, 2021?

AS 12 Accounting for Government Grants

19. (a) D Ltd. acquired a machine on 01-04-2017 for ₹ 20,00,000. The useful life is 5 years. The company had applied on 01-04-2017, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2020. The Company's Fixed Assets Account for the financial year 2020-21 shows a credit balance as under:

Particulars	₹
Machine (Original Cost)	20,00,000
Less: Accumulated Depreciation (from 2017-18- to 2019-20 on Straight Line Method)	12,00,000
	8,00,000
Less: Grant received	(16,00,000)
Balance	(8,00,000)

You are required to explain how should the company deal with this asset in its accounts for 2020-21?

AS 13 Accounting for Investments

(b) Z Bank has classified its total investment on 31-3-2021 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI Guidelines.

'Held to maturity' investments are carried at acquisition cost less amortised amount. 'Available for sale' investments are carried at marked to market. 'Held for trading' investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored. Comment whether the policy of the bank is in accordance with AS 13?

AS 16 Borrowing Costs

20. In May, 2020, Omega Ltd. took a bank loan from a Bank. This loan was to be used specifically for the construction of a new factory building. The construction was completed in January, 2021 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was ₹ 18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2021 amounted to ₹ 25 lakhs.

the company wants to treat ₹ 25 lakhs as part of the cost of factory building and thus capitalize it on the plea that the loan was specifically taken for the construction of factory building? Explain the treatment in line with the provisions of AS 16.

SUGGESTED ANSWERS

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

		Note	*(₹)*
I	**Equity and Liabilities**		
(1)	Shareholders' funds:		
	(a) Share capital	1	12,00,000
	(b) Reserves and surplus	2	1,14,150

(2)	Non-current liabilities:		
	Long term borrowings	3	4,50,000
(3)	Current liabilities:		
	(a) Short term borrowings	4	4,50,000
	(b) Trade payables		2,63,550
	(c) Other current liabilities	5	11,250
	Total		24,88,950
II	**ASSETS**		
(1)	Non- Current Assets:		
	(a) Property, plant and equipment	6	11,49,900
	(b) Intangible assets	7	4,05,000
	(c) Non-current investments (Shares at cost)		1,50,000
(2)	Current Assets:		
	(a) Inventories		4,27,500
	(b) Trade receivables	8	2,72,550
	(c) Cash and Cash equivalents – Cash on hand		84,000
	Total		24,88,950

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

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

	Particulars	*Note*	₹
I	Revenue from Operations		20,11,050
II	Other income (Dividend income)		12,750
III	Total Revenue (I &+ II)		20,23,800
IV	Expenses:		
	(a) Purchases of Inventory (14,71,500 – Advertisement Expenses 15,000)		14,56,500
	(b) Changes in Inventories of finished Goods / Work in progress & inventory (4,35,600 – 4,27,500)		8,100
	(c) Employee Benefits expense	9	1,20,000
	(d) Finance costs	10	51,900
	(e) Depreciation & Amortization Expenses [10% of (1,05,000 + 6,000)]		11,100
	(f) Other Expenses	11	3,47,550

	Total Expenses		19,95,150
V	Profit before exceptional, extraordinary items and tax		28,650
VI	Exceptional items		-
VII	Profit before extra-ordinary items and tax		28,650
VIII	Extraordinary items		-
IX	Profit before tax		28,650

Notes to accounts

			(₹)
1.	**Share Capital**		
	Authorized capital:		
	90,000 Equity Shares of ₹ 10 each.	9,00,000	
	6,000 6% Preference shares of ₹ 100 each	6,00,000	
	Issued, subscribed & called up:		
	60,000, Equity Shares of ₹ 10 each	6,00,000	
	6,000 6% Redeemable Preference Shares of 100 each	6,00,000	
			12,00,000
2.	**Reserves and Surplus**		
	Balance as on 1st April, 2020	85,500	
	Add: Surplus for current year	28,650	
	Balance as on 31st March, 2021		1,14,150
3.	**Long Term Borrowings**		
	5% Mortgage Debentures (Secured against Freehold Properties)		4,50,000
4.	**Short Term Borrowings**		
	Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables)		4,50,000
5.	**Other Current liabilities**		
	Interest due on Borrowings (5% Debentures)		11,250
6.	**Property, plant and equipment**		
	Furniture		
	Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance	1,05,000	
	Add: Depreciation	45,000	

	Cost of Furniture	1,50,000	
	Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages	6,000	
	Total Gross block of Furniture A/c	1,56,000	
	Accumulated Depreciation Account: Opening Balance-given in Trial Balance 45,000		
	Depreciation for the year: On Opening WDV at 10% i.e. (10% x 1,05,000) 10,500		
	On additional purchase during the year at 10% i.e. (10% x 6,000) 600		
	Less: Accumulated Depreciation	56,100	99,900
	Freehold property (at cost)		10,50,000
			11,49,900
7.	**Intangible Assets**		
	Technical knowhow	4,50,000	
	Less: Written off	45,000	4,05,000
8.	**Trade Receivables**		
	Sundry Debtors (a) Debt outstanding due more than six months	18,000	
	(b) Other Debts (refer Working Note)	1,34,550	
	Bills Receivable (1,24,500 -4,500)	1,20,000	2,72,550
9.	**Employee benefit expenses**		
	Salaries & Wages	1,56,000	
	Less: Wages incurred for installation of electrical fittings to be capitalised	6,000	
	Less: Directors' Remuneration shown separately	30,000	
	Balance amount		1,20,000
10.	**Finance Costs**		
	Interest on bank overdraft	29,400	
	Interest on debentures	22,500	
			51,900

11.	**Other Expenses**		
	Payment to the auditors	18,000	
	Director's remuneration	30,000	
	Selling expenses	2,37,300	
	Technical knowhow written of (4,50,000/10)	45,000	
	Advertisement (Goods and Articles Distributed)	15,000	
	Bad Debts (4,500 x 50%)	2,250	3,47,550

Working Note:

Calculation of Sundry Debtors-Other Debts	
Sundry Debtors as given in Trial Balance	1,50,300
Add Back: Bills Receivables Dishonoured	4,500
	1,54,800
Less: Bad Debts written off – 50% ₹ 4,500	(2,250)
Adjusted Sundry Debtors	1,52,550
Less: Debts due for more than 6 months (as per information given)	(18,000)
Total of other Debtors i.e. Debtors outstanding for less than 6 months	1,34,550

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

	₹	₹
Gross profit		60,38,048
Add: Subsidies received from Government		4,10,888
		64,48,936
Less: Administrative, selling and distribution expenses	12,33,813	
Director's fees	2,02,170	
Interest on debentures	46,860	
Depreciation on PPE as per Schedule II	8,63,018	(23,45,861)
Profit u/s 198		41,03,075

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

(b) (i) Current Liabilities/ Other Current Liabilities

(ii) Shareholders' Fund / Reserve & Surplus

(iii) Current liabilities/Other Current Liabilities

(iv) Contingent Liabilities and Commitments

(v) Shareholders' Fund / Share Capital

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

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

Working Note:

Calculation of cash paid to suppliers of goods and services and to employees

	(₹ in crores)
Opening Balance in creditors Account	126
Add: Purchases (330x .8)	264
Total	390
Less: Closing balance in Creditors Account	138
Cash paid to suppliers of goods	252
Add: Cash purchases (330x .2)	66

Total cash paid for purchases to suppliers (a)	318
Add: Cash paid to suppliers of other consumables and services (b)	28.5
Add: Payment to employees (c)	30
Total cash paid to suppliers of goods & services and to employees [(a)+ (b) + (c)]	376.5

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

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

Working Notes:

1. Sales ratio

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

Then, sales for 4 months = 4x

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

Then, sales for next 8 months = 1.25x X 8 = 10x

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

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

2. Gross profit ratio

From 1.4.2020 to 31.7.2020 gross profit is 25% of sales

Then, 25% of 4x= 1x

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

Then, 30% of 10x = 3x

Therefore gross profit ratio will be 1:3

3. **Time ratio**

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

= 4 months: 8 months = 1:2

Thus, time ratio is 1:2.

5. **Journal Entries in the books of Raman Ltd.**

			₹	₹
1-4-2021	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….)			
20-4-2021	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)			

6. **Value of right** = Cum-right value of the share – Ex-right value of the share (as computed in Working Note)

= ₹ 190 – ₹ 176 = ₹ 14 per share.

Working Note:

Ex-right value of the shares

= (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + No. of right shares) = (₹ 190 X 4 Shares + ₹ 120 X 1 Share) / (4 + 1) Shares

= ₹ 880 / 5 shares = ₹ 176 per share.

7. **Journal Entries**

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	1,26,750	
	To Equity Share Capital A/c			1,26,750
	(Being the issue of 12,675 Equity Shares of ₹ 10 each as per Board's Resolution No....dated....)			
	9% Redeemable Preference Share Capital A/c	Dr.	3,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	30,000	
	To Preference Shareholders A/c			3,30,000
	(Being the amount paid on redemption transferred to Preference Shareholders Account)			
	Bank A/c	Dr.	60,750	
	Profit and Loss A/c (loss on sale) A/c	Dr.	6,750	
	To Investment A/c			67,500
	(Being investment sold at loss of ₹ 6,750)			
	Preference Shareholders A/c	Dr.	3,30,000	
	To Bank A/c			3,30,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	30,000	
	To Premium on Redemption of Preference Shares A/c			30,000
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)			
	General Reserve A/c	Dr.	1,20,000	
	Profit & Loss A/c	Dr.	53,250	
	To Capital Redemption Reserve A/c			1,73,250
	(Being the amount transferred to Capital Redemption Reserve Account)			

Balance Sheet as at 31.3.2021[Extracts]

	Particulars	Notes No.	₹
	EQUITY AND LIABILITIES		
1.	Shareholders' funds		
	a Share capital	1	5,76,750

	b Reserves and Surplus	2	2,55,750
	ASSETS		
2.	Current Assets		
	Cash and cash equivalents (2,92,500 + 1,26,750+ 60,750 – 3,30,000)		1,50,000

Notes to accounts

1.	Share Capital	
	57,675 Equity shares (45,000 + 12,675) of ₹10 each fully paid up	5,76,750
2.	Reserves and Surplus	
	General Reserve	60,000
	Profit and loss account	NIL
	Capital Redemption Reserve	1,73,250
	Investment Allowance Reserve	22,500
		2,55,750

Working Note:

Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed		₹ 3,00,000
Less: Profit available for distribution as dividend:		
General Reserve: ₹ (1,80,000-60,000)		₹ 1,20,000
Profit and Loss (90,000 less 30,000 set aside for adjusting premium payable on redemption of Pref. shares less 6,750 loss on sale of investments)	₹ 53,250	
	₹ (1,73,250)	
	₹ 1,26,750	

Therefore, No. of shares to be issued = ₹ 1,26,750/₹10 = 12,675 shares.

8. **Journal Entries in the books of Jeet Ltd.**

Journal Entries

Date	*Particulars*	*Amount Dr.*	*Amount Cr.*
		₹	₹
1.5.2020	Bank A/c Dr.	75,00,000	
	To Debenture Application A/c		75,00,000

	(Application money received on 75,000 debentures @ ₹ 100 each)		
1.6.2020	Debenture Application A/c Dr.	75,00,000	
	Underwriters A/c Dr.	25,00,000	
	To 15% Debentures A/c		1,00,00,000
	(Allotment of 75,000 debentures to applicants and 25,000 debentures to underwriters)		
	Underwriting Commission Dr.	2,00,000	
	To Underwriters A/c		2,00,000
	(Commission payable to underwriters @ 2% on ₹ 1,00,00,000)		
	Bank A/c Dr.	23,00,000	
	To Underwriters A/c		23,00,000
	(Amount received from underwriters in settlement of account)		
1.6.2020	Debenture Redemption Reserve Investment A/c	6,00,000	
	To Bank A/c (1,00,000x100x15%x 40%) Dr.		6,00,000
	(Being Investments made for redemption purpose)		
30.9.2020	Debenture Interest A/c Dr.	5,00,000	
	To Bank A/c		5,00,000
	(Interest paid on debentures for 4 months @ 15% on ₹ 1,00,00,000)		
31.10.2020	15% Debentures A/c Dr.	60,00,000	
	To Equity Share Capital A/c		10,00,000
	To Securities Premium A/c		50,00,000
	(Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)		
31.3.2021	Debenture Interest A/c Dr.	3,75,000	
	To Bank A/c		3,75,000
	(Interest paid on debentures for the half year) (refer working note below)		

Working Note :

Calculation of Debenture Interest for the half year ended 31st March, 2021

On ₹ 40,00,000 for 6 months @ 15%	=	₹ 3,00,000
On ₹ 60,00,000 for 1 months @ 15%	=	₹ 75,000
		₹ 3,75,000

9. **In the books of Meeta**

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

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

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

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

Working Notes:

1. Profit on sale of 8% Bonds

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

2. Closing balance as on 31.3.2021 of 8 % Bonds

3,47,250/4,500x 3,375= ₹ 2,60,437.50

3. Calculation of right shares subscribed by Kamal Ltd.

Right Shares = 6,000/4 x 1= 1,500 shares

Shares subscribed by Meeta = 1,500 x 40%= 600 shares

Value of right shares subscribed = 600 shares @ ₹ 5 per share = ₹ 3,000

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

No. of right shares sold = 1,500 – 600 = 900 rights for 2,025

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

10. In the books of Mr. Heera

Trading Account for the year ended 31.3.2021

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

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

	₹		₹
To Opening Stock (at cost)	2,70,000	By Sales 7,20,000	
To Purchases 3,37,500 *Add:* Goods received but		*Less:* Goods not dispatched 1,12,500	6,07,500
invoice not received 45,000 3,82,500		By Closing stock (Balancing figure)	2,25,000
Less: Machinery 22,500	3,60,000		
To Gross Profit (Refer W.N.)	2,02,500		
	8,32,500		8,32,500

Calculation of Insurance Claim

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

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

Working Note:

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

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

11. **In the books of M/s Hello**

Journal Entries

Date	*Particulars*		*Dr.*	*Cr.*
			₹	₹
2018 Jan. 1	Machine A/c	Dr.	2,00,000	
	To M/s Pass A/c			2,00,000
	(Being the purchase of a Machine on hire purchase from M/s Pass)			
"	M/s Pass A/c	Dr.	80,000	
	To Bank A/c			80,000
	(Being the amount paid on signing the H.P. contract)			
Dec. 31	Interest A/c	Dr.	7,200	
	To M/s Pass A/c			7,200
	(Being the interest payable @ 6% on ₹ 1,20,000			
"	M/s Pass A/c (₹ 40,000+₹ 7,200)	Dr.	47,200	
	To Bank A/c			47,200
	(Being the payment of 1st instalment along with interest)			
"	Depreciation A/c	Dr.	20,000	
	To Machine A/c			20,000
	(Being the depreciation charged @ 10% p.a. on ₹ 2,00,000)			

"	Profit & Loss A/c	Dr.	27,200	
	To Depreciation A/c			20,000
	To Interest A/c			7,200
	(Being the depreciation and interest transferred to Profit and Loss Account)			
2019	Interest A/c	Dr.	4,800	
Dec. 31	To M/s Pass A/c			4,800
	(Being the interest payable @ 6% on ₹ 80,000)			
	M/s Pass A/c (₹ 40,000 + ₹ 4,800)	Dr.	44,800	
	To Bank A/c			44,800
	(Being the payment of 2nd instalment along with interest)			
	Depreciation A/c	Dr.	18,000	
	To Machine A/c			18,000
	(Being the depreciation charged @ 10% p.a.)			
	Profit & Loss A/c	Dr.	22,800	
	To Depreciation A/c			18,000
	To Interest A/c			4,800
	(Being the depreciation and interest charged to Profit and Loss Account)			
2020	Interest A/c	Dr.	2,400	
Dec. 31	To M/s Pass A/c			2,400
	(Being the interest payable @ 6% on ₹ 40,000)			
	M/s Pass A/c (₹ 40000 + ₹ 2,400)	Dr.	42,400	
	To Bank A/c			42,400
	(Being the payment of final instalment along with interest)			
	Depreciation A/c	Dr.	16,200	
	To Machine A/c			16,200
	(Being the depreciation charged @ 10% p.a.)			
	Profit & Loss A/c	Dr.	18,600	
	To Depreciation A/c			16,200

	To Interest A/c (Being the interest and depreciation charged to Profit and Loss Account)			2,400

12. **In the Books of M/s Hero**

Departmental Trading and Profit and Loss Account

for the year ended 31st March, 2021

Particulars	*Deptt.X*	*Deptt.Y*	*Deptt.Z*	*Total*	*Particulars*	*Deptt.X*	*Deptt.Y*	*Deptt.Z*	*Total*
	₹	₹	₹	₹		₹	₹	₹	₹
To Stock (opening)	18,000	12,000	10,000	40,000	By Sales	90,000	67,500	45,000	2,02,500
To Purchases	66,000	44,000	22,000	1,32,000	By Stock (closing)	22,500	8,750	10,500	41,750
To Carriage Inwards	750	500	250	1,500					
To Gross Profit c/d (b.f.)	27,750	19,750	23,250	70,750					
	1,12,500	76,250	55,500	2,44,250		1,12,500	76,250	55,500	2,44,250
To Carriage Outwards	1,200	900	600	2,700	By Gross Profit b/d	27,750	19,750	23,250	70,750
To Electricity	1,500	1,000	500	3,000	By Discount received	900	600	300	1,800
To Salaries	10,000	8,000	6,000	24,000					
To Advertisement	1,200	900	600	2,700					
To Discount allowed	1,000	750	500	2,250					
To Rent, Rates and Taxes	3,000	2,500	2,000	7,500					
To Depreciation	400	400	200	1,000					
To Provision for Bad Debts @ 5% of debtors	375	250	250	875					
To Labour welfare expenses	1,000	800	600	2,400					
To Net Profit (b.f.)	8,975	4,850	12,300	26,125					
	28,650	20,350	23,550	72,550		28,650	20,350	23,550	72,550

Working Note:

Basis of allocation of expenses	
Carriage inwards	Purchases (3:2:1)

Carriage outwards	Turnover (4:3:2)
Salaries	No. of Employees (5:4:3)
Advertisement	Turnover (4:3:2)
Discount allowed	Turnover (4:3:2)
Discount received	Purchases (3:2:1)
Rent, Rates and Taxes	Floor Space occupied (6:5:4)
Depreciation on furniture	Value of furniture (2:2:1)
Labour welfare expenses	No. of Employees (5:4:3)
Electricity expense	Units consumed (3:2:1)
Provision for bad debts	Debtors balances (3:2:2)

13. Branch Stock Account

			₹				₹	₹	₹
1.4.19	To	Balance b/d (opening stock)	36,000	31.3.20	By	Sales:			
31.3.20	To	Goods Sent to Branch A/c	4,20,000			Cash		92,500	
						Credit	3,12,500		
	To	Branch P&L	47,000			Less: Return	(7,000)	3,05,500	3,98,000
					By	Goods sent to branch - returns			30,000
					By	Balance c/d (closing stock)			75,000
			5,03,000						5,03,000
1.4.20	To	Balance b/d	75,000						

Branch Debtors Account

			₹				₹
1.4.19	To	Balance b/d	48,000	31.3.20	By	Cash	2,19,000
31.3.20	To	Sales	3,12,500		By	Returns	7,000
					By	Discounts	3,750
					By	Bad debts	2,750
					By	Balance c/d	1,28,000
			3,60,500				3,60,500
1.4.20	To	Balance b/d	1,28,000				

Branch Expenses Account

			₹				₹
31.3.20	To	Salaries & Wages	36,000	31.3.20	By	Branch P&L A/c	59,100
	To	Rent, Rates & Taxes	12,000				
	To	Office Expenses	4,600				
	To	Discounts	3,750				
	To	Bad Debts	2,750				
			59,100				59,100

Branch Profit & Loss Account for year ended 31.3.20

			₹				₹
31.3.20	To	Branch Expenses A/c	59,100	31.3.20	By	Branch stock	47,000
	To	Net Profit transferred to General P & L A/c	46,900		By	Branch Stock Adjustment account	58,500
					By	Bad debts recovered	500
			1,06,000				106,000

Branch Stock Adjustment Account for year ended 31.3.20

			₹				₹
31.3.20	To	Goods sent to branch (30,000x1/6) -returns	5,000	31.3.20	By	Balance b/d (36,000x1/6)	6,000
	To	Branch P & L A/c	58,500		By	Goods sent to branch (4,20,000x1/6)	70,000
	To	Balance c/d (75,000x1/6)	12,500				
			76,000				76,000

14. **In the books of Mittal ji**

Trading and Profit and Loss Account

for the year ended 31st March, 2021

	₹	₹		₹	₹
To Opening stock		1,60,800	By Sales:		
To Purchases:			Cash	92,000	
Cash	20,600		Credit	13,44,200	
Credit (W.N. 3)	11,60,000			14,36,200	
	11,80,600		*Less:* Returns	(29,000)	14,07,200
Less: Returns	(8,000)	11,72,600			
To Gross Profit c/d		2,96,200	By Closing stock		2,22,400
		16,29,600			16,29,600
To Discount allowed		30,000	By Gross profit b/d		2,96,200
To Bad debts		8,400	By Discount		14,000
To General expenses (W.N. 5)		1,86,000			
To Depreciation (W.N. 4)		55,000			
To Net profit		30,800			
		3,10,200			3,10,200

Balance Sheet as at 31st March, 2021

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

Working Notes:

(1) Statement of Affairs as at 31st March, 2020

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

(2) Sundry Debtors Account

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

(3) Sundry Creditors Account

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

(4)

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

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

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

(6) Cash and Bank Account

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

15. Measurement is the process of determining money value at which an element can be recognized in the balance sheet or statement of profit and loss. The framework recognizes four alternative measurement bases for the purpose. These bases can be explained as:

Historical cost	This is the Acquisition price. According to this, assets are recorded at an amount of cash and cash equivalent paid or the fair value of the assets at time of acquisition.
Current Cost	Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
Realisable (Settlement) Value	For assets, amount currently realizable on sale of the asset in an orderly disposal. For liabilities, this is the undiscounted amount expected to be paid on settlement of liability in the normal course of business.

Present Value	Assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

In preparation of financial statements, all or any of the measurement basis can be used in varying combinations to assign money values to financial items.

16. Valuation of unfinished unit

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

17. Case (a)

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

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

Case (b)

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

Annual depreciation (on a straight line basis) will be ₹ 4,000 [{10,00,000 – 9,00,000} ÷ 25].

18. Forward Rate	₹ 49.15
Less: Spot Rate	(₹ 48.85)
Premium on Contract	₹ 0.30
Contract Amount	US$ 1,00,000

Total Loss (1,00,000 x 0.30) ₹ 30,000 to be recognized in year ended 31.3.2021.

19. (a) From the above account, it is inferred that the Company has deducted grant from the book value of asset for accounting of Government Grants. Accordingly, out of the ₹ 16,00,000 that has been received, ₹ 8,00,000 (being the balance in Machinery A/c) should be credited to the machinery A/c.

The balance ₹ 8,00,000 may be credited to P&L A/c, since already the cost of the asset to the tune of ₹ 12,00,000 had been debited to P&L A/c in the earlier years by way of depreciation charge, and ₹ 8,00,000 transferred to P&L A/c now would be partial recovery of that cost.

There is no need to provide depreciation for 2020-21 or 2021-22 as the depreciable amount is now Nil.

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

20. AS 16 clearly states that capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Therefore, interest on the amount that has been used for the construction of the building up to the date of completion (January, 2021) i.e. ₹ 18 lakhs alone can be capitalized. It cannot be extended to ₹ 25 lakhs.