

I01

Roll No.

Total No. of Questions – 7

Total No. of Printed Pages - 9

Maximum Marks : 100

GENERAL INSTRUCTIONS TO CANDIDATES

Part - I

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
6. Duration of the examination is 3 hours. You will be required to submit the descriptive answer book to the invigilator before leaving the exam hall, after the conclusion of the exam.
7. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
8. Candidate found copying or receiving or giving any help or defying instructions of the invigilators or having / using mobile phone or smart watch will be expelled from the examination and will also be liable for further punitive action.

Part - II

1. Question paper comprises 6 questions. Question 1 is compulsory. Answer any 4 out of the remaining 5 questions.
2. Working notes should form part of the answer.
3. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.

Part - I

Question 1[a] (i to x)

(1 Mark × 10 = 10 Marks)

- 1(a)(i).** Alpha Ltd developed a technology to enhance the battery life of mobile devices. Alpha has capitalised development expenditure of ₹ 5,00,000. Alpha estimates the life of the technology developed to be 3 years but the company has forecasted that 50% of sales will be in year 1, 35% in year 2 and 15% in year 3. What should be the amortisation charge in the second year of the product's life?
- (1) ₹ 2,50,000
 - (2) ₹ 1,75,000
 - (3) ₹ 1,66,667
 - (4) ₹ 1,85,000
- (ii).** XYZ Limited reported a net profit of ₹ 50,00,000 for the year ended 31st December 2022. The company had 20 Lakh ordinary shares outstanding throughout the year. On 1st July 2022, XYZ issued ₹ 30,00,000 of 5% convertible bonds of ₹100 each convertible into 10 shares. The bonds were outstanding for the entire year, and XYZ pays tax at a rate of 25%. Calculate the diluted earnings per share (EPS) for the year ended 31st December 2022.
- (1) 1.80
 - (2) 2.00
 - (3) 2.50
 - (4) 2.35

- (iii). X Co. is a business that sells second hand cars. If a car develops a fault within 30 days of the sale, X Co. will repair it free of charge. At 1st March 2023, X Co. had made a provision for repairs of ₹ 25,000. At 31st March 2023, X Co. calculated that the provision should be ₹ 20,000. What entry should be made for the provision in X Co's income statement for the month 31st March 2023?
- (1) A charge of ₹ 5,000
 - (2) A credit of ₹ 5,000
 - (3) A charge of ₹ 20,000
 - (4) A credit of ₹ 25,000
- (iv). All non-corporate entities engaged in commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees 250 crores in the immediately preceding accounting year, are classified as
- (1) Level II entities.
 - (2) Level I entities.
 - (3) Level III entities.
 - (4) Level IV entities.
- (v). State which of the following statements are incorrect.
- i. The requirements relating to accounting for joint ventures in consolidated financial statements according to proportionate consolidation method, as contained in AS 27, applies only when consolidated financial statements are prepared by venturer.
 - ii. The requirements relating to accounting for joint ventures in consolidated financial statements according to proportionate consolidation method, as contained in AS 27, applies irrespective whether consolidated financial statements are prepared by venturer or not.
 - iii. An investor in joint venture, which does not have joint control, should report its interest in a joint venture in its consolidated financial statements in accordance with AS 13, AS 21 and AS 23 as the case may be
- (1) Point (i) is incorrect.
 - (2) Point (ii) is incorrect
 - (3) Point (iii) is incorrect.
 - (4) None of the above
- (vi). XYZ Ltd. has a defined benefit plan. How should the plan assets be valued for the purpose of determining the net defined benefit liability?
- (1) Historical cost
 - (2) Fair value
 - (3) Present value of expected cash flows
 - (4) Nominal value
- (vii). If an asset incorporates both intangible and tangible elements, it shall be treated under
- (1) AS 10 Property, Plant and Equipment
 - (2) AS 26 Intangible Assets
 - (3) A or B, depending which element is more significant
 - (4) A and B
- (viii). An entity prepares quarterly interim financial reports in accordance with AS 25. The entity is engaged in sale of mobile phones and normally 5% of customers claim on their warranty. The provision in the first quarter was calculated as 5% of sales to date, which was ₹10 million. However, in the second quarter, a fault was found and warranty claims were expected to be 10% for the whole of the year. Sales in the second quarter were ₹15 million. What would be the provision charged in the second quarter's interim financial statements?
- (1) ₹ 1 million
 - (2) ₹ 2 million
 - (3) ₹ 1.25 million
 - (4) ₹ 1.5 million

(ix). Identify which of the following statements is incorrect?

- (1) A discontinuing operation is a component of an enterprise that represents a separate major line of business or geographical area of operations.
- (2) A discontinuing operation is a component of an enterprise that can be distinguished operationally and for financial reporting purposes
- (3) A discontinuing operation is a component of an enterprise that may or may not be distinguished operationally and for financial reporting purposes.
- (4) A discontinuing operation may be disposed of in its entirety or piecemeal, but always pursuant to an overall plan to discontinue the entire component.

(x). A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on October 01 of the same year. Other information is as follows:

Cost of Investment for 10% ₹ 1,00,000 and for 15% ₹ 1,55,000

Net asset on April 01 ₹ 8,50,000 and on October 01 ₹ 10,00,000.

What is the amount of goodwill or capital reserve arising on significant influence?

- (1) Goodwill = ₹ 10,000
- (2) Goodwill = ₹ 20,000
- (3) Capital Reserve = ₹ 10,000
- (4) Capital Reserve = ₹ 20,000

1(b). Best Ltd., a manufacturing company, has the following summarized Balance Sheet as of March 31, 2024:

Equity Shares of ₹ 10 each fully paid up: ₹ 17,00,000 Reserves and Surplus:

Revenue Reserve: ₹ 23,50,000

Securities Premium: ₹ 2,50,000

Profit and Loss Account: ₹ 2,00,000

Infrastructure Development Reserve: ₹ 1,50,000

Secured Loan:

9% Debentures: ₹ 38,00,000

Unsecured Loan: ₹ 8,50,000

Property, Plant and Equipment: ₹ 58,50,000

Current Assets: ₹ 34,50,000

Best Ltd. plans to buy back 35,000 equity shares of ₹ 10 each fully paid up on April 1, 2024, at ₹ 30 per share. The buyback is authorized by its articles, and necessary resolutions have been passed. The payment for the buyback will be made using the company's bank balance, which is part of its current assets.

Answer the following questions based on the above information:

(2 Marks × 5 = 10 Marks)

(i). As per The Companies Act, 2013 under Section 68(2) the buy-back of shares in any financial year must not exceed

- (1) 20% of its total paid-up capital and free reserves
- (2) 25% of its total paid-up capital and free reserves
- (3) 25% of its total paid-up capital
- (4) 20% of its total paid-up capital

(ii). How many shares can Best Ltd. buy back according to the Shares Outstanding Test?

- (1) 35,000 shares
- (2) 42,500 shares
- (3) 37,500 shares
- (4) 54,375 shares

(iii). What is the maximum number of shares that can be bought back according to the Resources Test?

- (1) 35,000 shares
- (2) 42,500 shares
- (3) 37,500 shares
- (4) 54,375 shares

(iv). According to the Debt Equity Ratio Test, what is the maximum number of shares that can be bought back?

- (1) 35,000 shares
- (2) 42,500 shares
- (3) 37,500 shares
- (4) 54,375 shares

(v). Buy back

- (1) decreases earning per share.
- (2) decreases promoters holding.
- (3) Both (a) and (b)
- (4) supports the share price on stock exchange.

1(c). ABC limited is a manufacturing company. It purchased a machinery costing ₹ 10 Lakhs in April 2023. It paid ₹ 4 lakhs upfront and paid the remaining ₹ 6,00,000 as deferred payment by paying instalment of ₹ 1,05,000 for the next 6 months. During the year, the Company sold a land which was classified as its 'property, plant and equipment' for ₹ 25,00,000 and paid ₹ 1,00,000 as income tax as long term capital gain on such sale. During the year, the Company also received income tax refund along with interest.

Answer the following questions based on the above information:

(2 Marks × 5 = 10 Marks)

(i). How the amount for purchase of machinery should be presented:

- (1) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 will simply be booked in profit and loss with no presentation in Cash Flow Statement.
- (2) ₹ 10.30 lakhs as 'Cash flows from Investing Activities' as entire amount is spent on purchase of machinery.
- (3) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 as 'Cash flows from Financing Activities'.
- (4) ₹ 10.30 lakhs as 'Cash flows from Financing Activities' as the machinery has been purchased on finance.

(ii). At what amount, the machinery should be recognised in the financial statements:

- (1) ₹ 400,000
- (2) ₹ 10,30,000
- (3) ₹ 600,000
- (4) ₹ 10,00,000

(iii). How should the income tax paid on sale of land should be disclosed in the Cash Flows Statement:

- (1) Cash flows from Operating Activities
- (2) Cash flows from Investing Activities
- (3) Cash flows from Financing Activities
- (4) No disclosure in Cash Flow Statement

(iv). How should the interest on income tax refunds should be disclosed in the Cash Flows Statement:

- (1) Cash flows from Operating Activities
- (2) Cash flows from Investing Activities
- (3) Cash flows from Financing Activities
- (4) No disclosure in Cash Flow Statement

(v). Which accounting standard deals with the preparation of Cash flow statement?

- (1) AS 13
- (2) AS 3
- (3) AS 11
- (4) AS 2

I01
Part - II

1(a). State whether the following items are examples of change in Accounting Policy / Change in Accounting Estimates / Extraordinary items / Prior period items / Ordinary Activity:

- (i) Actual bad debts turning out to be more than provisions.
- (ii) Change from Cost model to Revaluation model for measurement of carrying amount of PPE.
- (iii) Government grant receivable as compensation for expenses incurred in previous accounting period.
- (iv) Treating operating lease as finance lease.
- (v) Capitalisation of borrowing cost on working capital.
- (vi) Legislative changes having long term retrospective application.
- (vii) Change in the method of depreciation from straight line to WDV.
- (viii) Government grant becoming refundable.
- (ix) Applying 10% depreciation instead of 15% on furniture.
- (x) Change in useful life of fixed assets..

(5 Marks)

1(b). PQR Limited has borrowed a sum of US \$ 10,00,000 at the beginning of Financial Year 2021-22 for its residential project at 4 %. The interest is payable at the end of the Financial Year. At the time of availment, exchange rate was ₹ 56 per US \$ and the rate as on 31st March, 2022 ₹ 62 per US \$. If PQR Limited borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%. Compute Borrowing Cost and exchange difference for the year ending 31st March, 2022 as per applicable Accounting Standards.

(4 Marks)

1(c). Following particulars are stated in the Balance Sheet of Pradeep Limited as on 31st March, 2020

	(₹ in Lakhs)
Deferred Tax Liability (Cr.)	28.00
Deferred Tax Assets (Dr.)	14.00

The following transactions were reported during the year 2020 -2021:

- (i) Depreciation as per books was ₹ 70 Lakhs whereas Depreciation for Tax purposes was ₹ 42 Lakhs. There were no additions to Fixed Assets during the year.
- (ii) Expenses disallowed in 2019-20 and allowed for tax purposes in 2020-21 were ₹ 14 Lakhs.
- (iii) Share issue expenses allowed under section 35(D) of the Income Tax Act, 1961 for the year 2020-21 (1/10th of ₹ 70.00 lakhs incurred in 2019-20).
- (iv) Repairs to Plant and Machinery were made during the year for ₹ 140.00 Lakhs and was spread over the period 2020-21 and 2021-22 equally in the books.

However, the entire expenditure was allowed for income-tax purposes in the year 2020-21. Tax Rate to be taken at 40%.

You are required to show the impact of above items on Deferred Tax Assets and Deferred Tax Liability as on 31st March, 2021.

(5 Marks)

2(a). Arjun Ltd. invoices goods to its branch at cost plus 33 1/3%. From the following particulars prepare Branch Stock Account, Branch Stock Adjustment Account and Branch Profit and Loss Account as they would appear in the books of head office.

Stock at commencement at Branch at invoice Price	3,60,000
Stock at close at Branch at Invoice Price	2,88,000
Goods sent to Branch during the year at invoice price (including goods invoiced at ₹48,000 to Branch on 31.03.2021 but not received by Branch before close of the year).	24,00,000
Return of goods to head office (invoice Price)	1,20,000
Credit Sales at Branch	1,20,000
Invoice value of goods pilfered	24,000
Normal loss at Branch due to wastage and deterioration of stock (at invoice price)	36,000
Cash Sales at Branch	21,60,000

Arjun closes its books on 31st March, 2021.

(10 Marks)

- 2(b).** Write down the 4 examples of activities that do not necessarily satisfy criterion(a) of definition of "Discontinuing operations", but that might do so in combination with other circumstances.

(4 Marks)

- 3(a).** The following figures have been extracted from the books of Manan Jo Limited for the year ended on 31.3.2022. Prepare Cash Flow statement as per AS 3 using indirect method.

- (i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 30 lakhs:
 - (a) Depreciation on Property, Plant & Equipment ₹ 7.50 lakhs.
 - (b) Discount on issue of Debentures written off ₹ 45,000.
 - (c) Interest on Debentures paid ₹ 5,25,000.
 - (d) Book value of investments ₹ 4.50 lakhs (Sale of Investments for ₹ 4,80,000).
 - (e) Interest received on investments ₹ 90,000.
- (ii) Compensation received ₹ 1,35,000 by the company in a suit filed.
- (iii) Income tax paid during the year ₹ 15,75,000.
- (iv) 22,500, 10% preference shares of 100 each were redeemed on 02.04.21 at premium of 5%
- (v) Further the company issued 75,000 equity shares of ₹ 10 each at a premium of 20% on 30.3.2022 (Out of 75,000 equity shares, 25,000 equity shares were issued to a supplier of machinery)
- (vi) Dividend for FY 2020-21 on preference shares were paid at the time of redemption.
- (vii) Dividend on Equity shares paid on 31.01.2022 for the year 2020-2021 ₹ 7.50 lakhs and interim dividend paid ₹ 2.50 lakhs for the year 2021-2022.
- (viii) Land was purchased on 02.4.2021 for ₹ 3,00,000 for which the company issued 22,000 equity shares of ₹ 10 each at a premium of 20% to the land owner and balance in cash as consideration.
- (ix) Current assets & current liabilities in the beginning & at the end of the years were as:

	As on 01.04.2021	As on 31.03.2022
Inventory	18,00,000	19,77,000
Trade receivables	3,87,000	3,79,650
Cash in Hand	3,94,450	16,950
Trade payables	3,16,500	3,16,950
Outstanding expenses	1,12,500	1,22,700

(10 Marks)

- 3(b).** On 01.04.2018, XYZ Ltd. received Government grant of ₹ 100 Lakhs for an acquisition of new machinery costing ₹ 500 lakhs. The grant was received and credited to the cost of the assets. The life span of the machinery is 5 years. The machinery is depreciated at 20% on WDV method. The company had to refund the entire grant on 2nd April, 2021 due to nonfulfillment of certain conditions which was imposed by the government at the time of approval of grant. How do you deal with the refund of grant to the Government in the books of XYZ Ltd., as per AS 12?

(4 Marks)

- 4(a).** The following was the Balance Sheet of Rekha Limited as on 31st March, 2020 :

Balance Sheet as at 31.03.2020

	Not No.	Amount (₹)
A. Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	18,00,000
(b) Reserves and Surplus	2	8,40,000
2. Non-Current Liabilities		
Long term Borrowings	3	2,85,000
3. Current Liabilities		

Trade Payables		75,000
Total		30,00,000
B. Assets		
1. Non-Current assets		
(a) Property, Plant and Equipment and Intangible Assets		
(i) Property, Plant and Equipment	4	18,00,000
(ii) Intangible Assets		1,40,000
(b) Non Current Investments	5	1,60,000
2. Current Assets		
(a) Inventories		6,24,000
(b) Trade Receivables		1,08,000
(c) Cash and Cash Equivalents		1,68,000
		30,00,000

Note No.	Particulars	Amount
1.	Share Capital: Issued, Subscribed and Paid up	
	1,80,000 share of ₹ 10 each fully paid up	18,00,000
	Total	18,00,000
2.	Reserve and Surplus:	
	General Reserve	4,10,000
	Profit and Loss A/c 1,30,000	
	Less: Preliminary Exp. (30,000)	1,00,000
	Export Profit Reserve	2,50,000
	Investment Allowance Reserve	80,000
	Total	8,40,000
3.	Long term Borrowing:	
	9% Secured Debenture of ₹100 each fully paid up	2,85,000
	Total	2,85,000
4.	Property, Plant and Equipment	
	Freehold Property	12,40,000
	Plant and Machinery	5,60,000
	Total	18,00,000
5.	Non-Current Investments:	
	Other Investments (Current Market value 1,30,000)	1,60,000
	Total	1,60,000

On 1st April, 2020 Nitin Ltd. agreed to absorb the business of Rekha Ltd. on the following terms and conditions:

- (i) The purchase consideration would be settled by Nitin Ltd. as under:
 - (1) 3,00,000 equity shares of 10 each issued by Nitin Ltd. by valuing its share at 12 per share
 - (2) Cash payment equivalent to ₹ 5 for every share in Rekha Ltd.
- (ii) The issue of such an amount of fully paid 10% debentures in Nitin Ltd. at 95% as is sufficient to discharge 9% debenture in Rekha Ltd. at a premium of 25%.

- (iii) Nitin Ltd. will takeover the Freehold property at 120% more than the book value and Plant and Machinery at 10% less than the book value. Inventories at ₹ 5,20,000 and Trade receivables at their book value subject to a provision of 8% for doubtful debts. Investments will be taken over at current market value. Nitin Ltd. will take over trade payables at book value.
- (iv) Liquidation expenses are to be reimbursed by Nitin Ltd. to the extent of ₹ 30,000. The cost of liquidation: ₹ 50,000.
- (v) Statutory reserves are to be maintained for 2 more years.

You are required to:

- (a) Prepare the Realisation Account, Nitin Ltd. Account, Shareholders Accounts and Debenture Account in the book of Rekha Ltd. and
- (b) Write up journal entries in the books of Nitin Ltd. regarding acquisition of business.

(10 Marks)

4(b). Mr. Jatin gives the following information relating to the items forming part of the inventory as on 31.03.2021. His enterprise produces product P using Raw Material X.

- (i) 900 units of Raw Material X (purchases @ ₹ 100 per unit). Replacement cost of Raw Material X as on 31.03.2021 is ₹ 80 per unit
- (ii) 400 units of partly finished goods in the process of producing P. Cost incurred till date is ₹ 245 per unit. These units can be finished next year by incurring additional cost of ₹ 50 per unit.
- (iii) 800 units of Finished goods P and total cost incurred is ₹ 295 per unit.

Expected selling price of product P is ₹ 280 per unit, subject to a payment of 5% brokerage on selling price. Determine how each item of inventory will be valued as on 31.03.2021. Also calculate the value of total Inventory as on 31.03.2021

(4 Marks)

5(a). PQ Ltd. acquired 80% of equity shares of KD Ltd. on 1st April, 2016 at a cost of ₹ 58,00,000 when KD Ltd. had an Equity share capital of ₹ 50,00,000 and Reserves and Surplus of ₹ 4,64,000. The following information is provided:

Year	Profit/(Loss) of KD Ltd. (₹)
2016-17	(14,50,000)
2017-18	(23,20,000)
2018-19	(29,00,000)
2019-20	(6,96,000)
2020-21	1,90,000
2021-22	6,80,000
2022-23	12,70,000

You are required to calculate the minority interests and cost of control at the end of each year for the purpose of consolidation.

(10 Marks)

5(b). Skanda Ltd. acquired a machinery for ₹ 2,50,00,000 five years ago. Depreciation was charged at 10% p.a. on SLM basis, useful life being 10 years. At the beginning of Year 3, the machinery was revalued to ₹ 3,00,00,000 with the surplus on revaluation being credited to Revaluation Reserve. Depreciation was provided on the revalued amount over the balance useful life of 8 years. The machinery was sold in the current year for ₹ 1,12,50,000. Give the accounting treatment for the above in the Company's accounts. What will be the treatment if the machinery fetched only ₹ 42,50,000 now?

(4 Marks)

Attempt any two out of following three Questions.

6(a). X Ltd. had ₹ 1,00,000 equity share capital divided into 1,000 shares of ₹ 100 each out of which ₹ 80 per share was called up and paid up. It has 1,500 cumulative preference shares of ₹ 100 each fully paid up. Intangible assets include Goodwill of ₹ 80,000 and patents of ₹ 27,800.

Preference dividends are in arrears of ₹ 33,000. You are required to show the entries (Ignore dates) under each of the following conditions:

- If X Ltd. resolves to subdivide the equity shares into 10,000 equity shares of ₹ 10 each of which ₹ 8 per share is called up and paid up.
- If X Ltd. resolves to convert its 1,000 equity shares of ₹ 100 each (assume fully paid) into ₹ 1,00,000 worth of stock.
- The preference shares are to be converted into 11% unsecured debentures of ₹ 100 each (including arrears of dividends).
- Patents and Goodwill to be written-off

(5 Marks)

6(b). Sarita Construction Co. obtained a contract for construction of a dam. The following details are available in records of company for the year ended 31st March, 2020:

	₹ in Lakhs
Total Contract Price	12,000
Work Certified	6,250
Work not certified	1,250
Estimated further cost to completion	8,750
Progress payment received	5,500
Progress payment to be received	1,500

Applying the provisions of Accounting Standard 7 "Accounting for Construction Contracts" you are required to compute:

- Profit/Loss for the year ended 31st March, 2020.
- Contract work in progress as at end of financial year 2019-20.
- Revenue to be recognized out of the total contract value.
- Amount due from/to customers as at the year end

(5 Marks)

6(c). Venus Ltd. has a fixed asset, which is carried in the Balance Sheet on 31.3.2021 at ₹ 500 lakhs. As at that date the value in use is ₹ 400 lakhs and the net selling price is ₹ 375 lakhs. From the above data:

- Calculate impairment loss.
- Prepare journal entries for adjustment of impairment loss.
- Show, how impairment loss will be shown in the Balance Sheet

OR

6(c). M/s Nathan Limited has three segments namely P, Q and R. The assets of the company are ₹ 15 crores. Segment P has 4 crores, Segment Q has 6 crores and Segment R has 5 crores. Deferred tax assets included in the assets of each segment are P - ₹ 1 crore, Q - ₹ 0.90 crores and R - ₹ 0.80 crores. The accountant contends all these three segments are reportable segments. Comment

(4 Marks)



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Part - I

1(a)

-
- (i). (2)
- (ii). (4)
- (iii). (2)
- (iv). (2)
- (v). (2)
- (vi). (2)
- (vii). (3)
- (viii). (2)
- (ix). (3)
- (x). (2)

1(b)

-
- (i). (2)
- (ii). (2)
- (iii). (3)
- (iv). (4)
- (v). (4)

1(c)

-
- (i). (3)
- (ii). (4)
- (iii). (2)
- (iv). (2)
- (v). (2)

Part - II

1(a). (H & S)

- (i) Change in Accounting Estimates
- (ii) Change in Accounting Policy
- (iii) Extra -ordinary Items
- (iv) Prior- period Items
- (v) Prior-period Items (as interest on working capital loans is not eligible for capitalization)
- (vi) Ordinary Activity
- (vii) Change in Accounting Estimates
- (viii) Extra -ordinary Items
- (ix) Prior- period Items
- (x) Change in Accounting Estimates

1(b). (H & S)

- a) Interest for the period 2021-22 = US\$ 10 lakhs \times 4% \times ₹ 62 per US\$ = ₹24.80 lakhs
- b) Increase in liability towards the principal amount = US \$ 10 lakhs \times ₹ (62 - 56) = ₹ 60 lakhs
- c) Interest that would have resulted if the loan was taken in Indian currency = US\$ 10 lakhs \times ₹ 56 \times 10.5% = ₹ 58.80 lakhs
- d) Difference between interest on local currency borrowing and foreign currency borrowing = ₹ 58.80 lakhs - ₹ 24.80 lakhs = ₹34 lakhs.

Therefore, out of ₹ 60 lakhs increase in the liability towards principal amount, only ₹ 34 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be ₹ 58.80 lakhs being the aggregate of interest of ₹ 24.80 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 ₹ 34 lakhs.

Hence, ₹ 58.80 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 “Borrowing Costs” and the remaining ₹ 26 lakhs (60 - 34) would be considered as the exchange difference to be accounted for as per AS 11 “The Effects of Changes in Foreign Exchange Rates”.

1(c). (H & S)

Impact of various items in terms of deferred tax liability/deferred tax asset on 31.3.21

Transactions	Analysis	Nature of difference	Effect	Amount (₹)
Difference in depreciation	Generally, WDV method of dep. Is adopted under IT Act which leads to higher dep. in earlier years of useful life of asset in comparison to later years.	Responding timing difference	Reversal of DTL	28 lakhs \times 40% = ₹11.20 lakhs
Disallowances, as per IT Act, of earlier years	Tax payable for the earlier year was higher on this account.	Responding timing difference	Reversal of DTA	14 lakhs \times 40% = 5.6 lakhs
Share issue expenses	Due to disallowance of full expenditure under IT Act, tax payable in the earlier years was higher.	Responding timing difference	Reversal of DTA	7 lakhs \times 40% = ₹2.8 lakhs
Repairs to plant and machinery	Due to allowance of full expenditure under IT Act, tax payable of the current year will be less.	Originating timing difference	Increase in DTL	70 lakhs \times 40% = 28 lakhs

2(a). (H & S)

Branch Stock Account

Particulars	Amount	Particulars	Amount
To Balance b/d	3,60,000	By Goods sent to branch (returns)	1,20,000
To Goods sent to branch	24,00,000	By Bank (Cash Sales)	21,60,000
To Surplus (Bal.Fig.)	36,000	By Branch Debtors A/c (Credit Sale)	1,20,000
		By Goods Pilfered (Abnormal loss)	24,000
		By Branch Adjustment (Normal Loss)	36,000
		By Balance c/d	
		In Hand	2,88,000
		In Transit	48,000
	27,96,000		27,96,000

Branch Adjustment Account

Particulars	Amount	Particulars	Amount
To Goods sent to branch>Returns (Loading) [1,20,000 × 25%]	30,000	By Stock Reserve (Opening stock) [3,60,000 × 25%]	90,000
To Goods Pilfered (Loading on Abnormal Loss) [24,000 × 25%]	6,000	By Goods sent to branch (Loading) [24,00,000 × 25%]	6,00,000
To Branch Stock A/c (Normal Loss)	36,000	By Surplus	36,000
To Stock Reserve (Closing stock) [3,36,000 × 25%]	84,000		
To Branch P&L {G.P} (Bal. Fig)	5,70,000		
	7,26,000		7,26,000

Branch P & L Account

Particulars	Amount	Particulars	Amount
To Goods Pilfered (Cost of Abnormal Loss) [24,000 × 75%]	18,000	By Branch Adjustment (G.P.)	5,70,000
To Net Profit (Bal. Fig.)	5,52,000		
	5,70,000		5,70,000

2(b). (H & S)

1. Gradual or evolutionary phasing out of a product line or class of service.
2. Discontinuing, even if relatively abruptly, several products within an ongoing line of business.
3. Shifting of some production or marketing activities for a particular line of business from one location to another and
4. Closing of a facility to achieve productivity improvements or other cost savings

3(a). (H & S)

Manan Ltd.

Cash Flow Statement for the year ended 31st March, 2022

	Amount	Amount
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		30,00,000
Adjustments for:		
Depreciation on Property, plant and equipment	7,50,000	
Discount on issue of debentures	45,000	
Interest on debentures paid	5,25,000	
Interest on investments received	(90,000)	
Profit on sale of investments	<u>(30,000)</u>	
		12,00,000
Operating profit before working capital changes		42,00,000
Adjustments for:		
Increase in inventory	(1,77,000)	
Decrease in trade receivable	7,350	
Increase in trade payables	450	
Increase in outstanding expenses	<u>10,200</u>	<u>(1,59,000)</u>
Cash generated from operations		40,41,000
Income tax paid		<u>(15,75,000)</u>
Cash flow from ordinary items		24,66,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		<u>1,35,000</u>
Net cash flow from operating activities		26,01,000
Cash flow from Investing Activities;		
Sale proceeds of investments	4,80,000	
Interest received on investments	90,000	
Purchase of land (3,00,000 less 2,64,000)	<u>(36,000)</u>	
Net cash flow from investing activities		5,34,000
Cash flow from Financing Activities		
Proceeds of issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(23,62,500)	
Preference dividend paid	(2,25,000)	
Interest on debentures paid	(5,25,000)	
Dividend paid (7,50,000 + 2,50,000)	<u>(10,00,000)</u>	
Net cash used in financing activities		<u>(35,12,500)</u>
Net decrease in cash and cash equivalents during the year		(3,77,500)
Add: Cash and cash equivalents as on 31.3.2021		<u>3,94,450</u>
Cash and cash equivalents as on 31.3.2022		<u>16,950</u>

3(b). (H & S)

According to AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset (if the grant had been credited to the cost of fixed asset at the time of receipt of grant) should be recorded by increasing the book value of the asset, by the amount refundable. Where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

		(in Lakhs)
1 st April 2018	Acquisition cost of machinery (500 - 100)	400.00
31 st March 2019	Less: Depreciation @ 20%	(80.00)
1 st April 2019	Book value	320.00
31 st March 2020	Less: Depreciation @ 20%	(64.00)
1 st April 2020	Book value	256.00
31 st March 2021	Less: Depreciation @ 20%	(51.20)
1 st April 2021	Book value	204.80
2 nd April 2021	Add: Refund of grant	100.00
	Revised Book value	304.80

Depreciation @ 20% on the revised book value amounting ₹ 304.80 lakhs is to be provided prospectively over the residual useful life of the asset

4(a). (H & S)

1. Purchase Consideration	₹
Equity share capital (3,00,000 × 12)	36,00,000
Cash Payment (1,80,000 × 5)	9,00,000
	45,00,000

Realisation Account

	₹		₹
To Goodwill	1,40,000	By 9% Debentures	2,85,000
To Freehold Property	12,40,000	By Trade Payables	75,000
To Plant & Machinery	5,60,000	By Nitin Ltd.	45,00,000
To Inventory	6,24,000		
To Trade Receivable	1,08,000		
To Investment	1,60,000		
To Cash & Cash equivalent	1,48,000		
(1,68,000 - 20,000)			
To Cash/Bank:			
Realisation expenses	20,000		
To Profit	18,60,000		
	48,60,000		48,60,000

Equity Shareholders Account

	₹		₹
To Preliminary Expenses	30,000	By Equity Share Capital	18,00,000
To Cash & Bank A/c	9,00,000	By Export Profit Reserves	2,50,000
To Equity Shares in Nitin Ltd.	36,00,000	By General Reserves a/c	4,10,000
		By Investment allowance Reserve	80,000
		By Profit & Loss Account	1,30,000
		By Realisation Account	18,60,000
	45,30,000		45,30,000

Nitin Ltd. Account

	₹		₹
To Realisation Account	45,00,000	By Equity shares in Nitin Ltd.	36,00,000
		By Cash & Bank A/c	9,00,000
	45,00,000		45,00,000

9% Debentures Account

	₹		₹
To Realisation A/c	2,85,000	By Balance b/d	2,85,000
	2,85,000		2,85,000

In the Book of Nitin Ltd.**Journal Entries**

S. No.		Dr.	Cr.
		₹	₹
1	Business Purchase A/c Dr.	45,00,000	
	To Liquidators of Rekha Ltd. Account		45,00,000
	(Being business of Rekha Ltd. taken over)		
2	Freehold Property Account Dr.	27,28,000	
	Plant & Machinery Account Dr.	5,04,000	
	Investment Account Dr.	1,30,000	
	Inventory Account Dr.	5,20,000	
	Trade receivables Account Dr.	1,08,000	
	Cash & Cash Equivalent Account Dr.	1,48,000	
	Goodwill Account (Bal. Fig.) Dr.	8,01,890	
	To Provision for Doubtful Debts Account		8,640
	To Trade payables Account		75,000
	To 9% Debentures of Rekha Ltd (2,85,000*125%)		3,56,250
	To Business Purchase A/c		45,00,000
	(Being Assets and Liabilities taken over).		
3	Liquidators of Rekha Ltd. A/c Dr.	45,00,000	
	To Equity Share Capital A/c		30,00,000
	To Securities Premium A/c		6,00,000
	To Bank A/c		9,00,000
	(Being Purchase Consideration satisfied as above).		
4	9% Debentures of Rekha Ltd Dr.	3,56,250	
	Discount on issue of debentures Dr.	18,750	
	To 10% Debentures (3,56,250*100/95)		3,75,000
	(Being liability of debenture holders discharged)		
5	Amalgamation Adjustment Reserve Dr.	3,30,000	
	To Export Profit Reserve		2,50,000
	To Investment Allowance Reserve		80,000
	(Being statutory Reserves taken over)		
6	Goodwill OR P&L A/c Dr.	30,000	
	To Cash/Bank A/c		30,000
	(Liquidation expense reimbursed)		

4(b). (H & S)

As per AS 2 (Revised) “Valuation of Inventories”, materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at cost or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. In the given case, selling price of product P is ₹ 266 and total cost per unit for production is ₹ 295.

Hence the valuation will be done as under:

- (i) 900 units of raw material X will be written down to replacement cost as market value of finished product is less than its cost, hence valued at ₹ 80 per unit.
- (ii) 400 units of partly finished goods will be valued at 216 per unit i.e., lower of cost (₹ 245) or Net realizable value ₹ 216 (Estimated selling price ₹ 266 per unit less additional cost of ₹ 50).
- (iii) 800 units of finished product P will be valued at NRV of ₹ 266 per unit since it is lower than cost ₹ 295.

Particulars	Units	Cost (₹)	NRV/Replacement Cost ₹	Value = units × cost or NRV whichever is less (₹)
Raw material X	900	100	80	72,000
Partly finished goods	400	245	216	86,400
Finished goods P	800	295	266	2,12,800
Value of Inventory				3,71,200

5(a). (H & S)

Year	Profit / (Loss)	Minority Internet (20%)	Additional Consolidate P & L (Dr.) Cr.	Minority's Share of losses borne by PQ Ltd.		Cost of Control
				₹	Balance	
At the time of acquisition in 2016		10,92,800 (W.N.)				
2016-17	(14,50,000)	(2,90,000)	(11.60.000)			14,28,800 (W.N.)
Balance		8,02,800				
2017-18	(23,20,000)	(4.64.000)	(18,56,000)			14,28,800
Balance		3,38,800				
2018-19	(29,00,000)	(5.80,000)	(23.20,000)			14,28,800
		(2,41,200)				
	Loss of minority borne by Holding Co.	2.41.200	(2.41.200)	2,41,200	2,41,200	
Balance		Nil	(25,61,200)			
2019-20	(6,96,000)	(1,39,200)	(5,56,800)			14,28,800
	Loss of minority borne by Holding Co.	1,39,200	(1.39.200)	1,39,200	3,80,400	
Balance		Nil	(6,96,000)			
2020-21	1,90,000	38,000	1,52,000			14,28,800
	Profit share	(38,000)	38,000	38,000	3,42,400	

	adjusted. against losses of minority absorbed by Holding Co.					
Balance		Nil	1,90,000			
2021-22	6,80,000	1,36,000	5,44,000			
	Profit share adjusted against losses of minority absorbed by Holding Co.	(1.36.000)	1.36.000	1,36,000	2,06,400	14,28,800
Balance		Nil	6,80,000			
2022-23	12,70,000	2,54,000	10,16,000	(2,06,400)	Nil	14,28,800
		(2.06,400)	2,06,400			
Balance		47,600	12,22,400			

Working Note:**Calculation of Minority interest and Cost of control on 1.4.2016**

		Share of Holding Co.	Minority Interest
	100% (₹)	80% (₹)	20% (₹)
Share Capital	50,00,000	40,00,000	10,00,000
Reserve	4,64,000	3,71,200	92,800
		43,71,200	10,92,800
Less: Cost of investment		(58,00,000)	
Goodwill		14,28,800	

5(b). (H & S)

Particulars	₹
Original Cost of the Asset	2,50,00,000
Less: Depreciation for 2 years ($₹2,50,00,000 \times 10\% \times 2$ years)	(50,00,000)
Book Value at the beginning of Year 3	2,00,00,000
Add: Revaluation Surplus (balancing figure)	1,00,00,000
Revalued Amount as given (= revised depreciable value)	3,00,00,000
Less: Depreciation for Years 3 - 5 ($₹3,00,00,000 \div 8$ yrs $\times 3$ yrs)	(1,12,50,000)
Carrying Amount at the end of Year 5	1,87,50,000

The treatment of Gain / Loss on Disposal / Revaluation is as below:

Particulars	Disposal Proceeds = ₹1,12,50,000	Disposal Proceeds = ₹42,50,000
Book Value Less Disposal Proceeds Loss = recognized in Profit or Loss	1,87,50,000-₹1,12,50,000 75,00,000 (Loss)	₹1,87,50,000-₹42,50,000 ₹ 1,45,00,000 (Loss)
Revaluation Surplus directly transferred to Retained Earnings	₹ 1,00,00,000	₹ 1,00,00,000

6(a). (H & S)

Journal Entries in the books of X Ltd.

			₹	₹
(i)	Equity Share Capital (₹100) A/c	Dr.	80,000	
	To Equity Share Capital (10) A/c			80,000
	(Being the sub-division of 1,000 shares of ₹100 each with ₹80 paid up into 10,000 shares ₹10 each with ₹8 paid up by resolution in general meeting dated)			
(ii)	Equity Share Capital (₹100) A/c	Dr.	1,00,000	
	To Equity Stock A/c			1,00,000
	(Being conversion of 1,000 fully paid Equity Shares of ₹100 into ₹1,00,000 Equity Stock as per resolution in general meeting dated...)			
(iii)	Cumulative Preference Share Capital A/c	Dr.	1,50,000	
	Capital Reduction (Reconstruction) A/c	Dr.	33,000	
	To 11% Debentures (Unsecured)			1,83,000
	(Being 1,500 cumulative preference shares of fully paid up converted into 11% debentures of ₹100 each ₹100 each (including arrears of dividends amounting ₹33,000))			
(iv)	Capital Reduction (Reconstruction) A/c	Dr.	1,07,800	
	To Goodwill			80,000
	To Patents			27,800
	(Writing off patents, goodwill)			

6(b). (H & S)

- (i) Profit/Loss for the year ended 31st March, 2020.

Amount of foreseeable loss	
Total cost of construction (6,250 + 1,250 + 8,750)	16,250
Less : Total contract price	(12,000)
Total foreseeable loss to be recognised as expense	4,250

According to AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately. Loss for the year ended, 31st March, 2020 amounting ₹ 4,250 will be recognized.

- (ii) Contract work in progress as at end of financial year 2019-20.

Contract work-in-progress i.e. cost incurred to date are ₹7,500 lakhs	
Work certified	6,250
Work not certified	1,250
	7,500

- (iii) Proportion of total contract value recognised as revenue Cost incurred till 31.3.20 is 46.15% $(7,500/16,250 \times 100)$ of total costs of construction. Proportion of total contract value recognised as revenue: 46.15% of ₹ 12,000 lakhs = ₹ 5,538 lakhs
- (iv) Amount due from/to customers at year end (Contract costs + Recognised profits – Recognised Losses) – (Progress payments received + Progress payments to be received)
 $= (7,500 + \text{Nil} - 4,250) - (5,500 + 1,500)$ ₹ in lakhs = $[3,250 - 7,000]$ ₹ in lakhs
 Amount due to customers = ₹ 3,750 lakhs

6(c). (H & S)

- a. Recoverable amount is higher of value in use 400 lakhs & net selling price 375 lakhs

Recoverable amount = ₹ 400 lakhs

Impairment loss = Carried Amount – Recoverable amount = ₹ 500 lakhs – ₹ 400 lakhs = ₹ 100 lakhs.

- b.

Journal Entries**(in lakhs)**

	Particulars	Dr.	Cr.
(i)	Impairment loss account Dr.	100	
	To Provision for Accumulated Impairment Loss Account		100
	(Being the entry for accounting impairment loss)		
(ii)	Profit and loss account Dr.	100	
	To Impairment loss		100
	(Being the entry to transfer impairment loss to P&L A/c)		

Balance Sheet of Venus Ltd. As on 31.3.2021

	(₹ in lakhs)
Fixed Asset	
Asset less depreciation	500
Less: Impairment loss	<u>(100)</u>
	400

Or**6(c). (H & S)**

According to AS 17 “Segment Reporting”, segment Assets do not include income tax assets.

Therefore, the revised total assets are 12.3 crores [₹ 15 – (₹ 1 + 0.9 + 0.8)].

Details of Segment wise assets Segment P holds total assets of ₹ 3 crores (₹ 4 crores – ₹ 1 crores);

Segment Q holds ₹ 5.1 crores (₹ 6 crores – 0.9 crores);

Segment R holds ₹ 4.2 crores (₹ 5 crores – ₹ 0.8 crores).

Thus, all the three segments hold more than 10% of the total assets, all segments are reportable segments.

Hence, the contention of the Accountant that all three segments are reportable segments is correct.