

SOLUTION OF QUESTION 1 (AS 12):

ABC Ltd. should recognise the grants in the following manner:

- Rs. 20 lakhs has been received for immediate start-up of business as promotor's contribution. This should be recognised in **the Capital Reserve. (1 Mark)**
- Rs. 50 lakhs should be treated **as deferred grant** and amortised over the 3 years period on a systematic basis provided that there is reasonable assurance that ABC Ltd. will comply with the conditions attached to the grant. **(1 Mark)**
- Land should be presented in the Balance Sheet **at Nominal value** say Rs. 1 or Rs. 10 only and not at Fair Value. **(1 Mark)**
- Alternative 1: Rs. 2 lakhs should be recognised as deferred income and will be transferred to profit and loss over the useful life of the asset. In these cases, Rs. 40,000 [Rs. 2 lakhs/5] should be credited to profit and loss each year over period of 5 years. **(1 Mark)**

(OR)

Alternative 2: Rs. 2,00,000 will be deducted from the cost of the asset and depreciation will be charged at Rs. 8,00,000 (Rs. 10,00,000 – Rs. 2,00,000). **(1 Mark)**

SOLUTION OF QUESTION 2 (Cash Flow Statement)**Cash Flow Statement of J Ltd.**

For the Year Ending 31st March, 2019

		Rs. in lacs	Marks
<u>Cash flows from operating activities:</u>			
Net profit before tax provision		36,000	0.5
(+/-) Adjustments for			
Depreciation	24,000		0.5
Loss on sale of assets	48		0.5
Interest expenditure (non-operating activity)	12,000		0.5
Amortisation of capital grant received	(10)		0.5
Profit on sale of investments (non-operating income)	(120)		0.5
Interest income from investments (non-operating income)	(3,000)		0.5
Cash Operating profit		68,918	
Less: Increase in working capital		<u>(67,290)</u>	0.5
Cash from operations		1,628	
Less: Income tax paid		<u>(5,100)</u>	0.5
Net cash Used in operating activities		(3,472)	Total 4.5 for Operating Activity
<u>Cash flows from investing activities:</u>			
Sale of assets (222 – 48)	174		0.5
Sale of investments (33,318+120)	33,438		0.5
Interest income from investments	3,000		0.5
Purchase of fixed assets	(22,092)		0.5
Expenditure on construction work	(41,688)		0.5

Grants for capital projects	18		0.5
Net cash used in investing activities		(27,150)	Total 3 Marks for Investing Activity
Cash flows from financing activities:			
Long term borrowings	55,866		0.5
Interest paid	(13,042)		0.5
Dividend paid	(10,202)		0.5
Net cash generated from financing activities		<u>32,622</u>	Total 1.5 Marks for Financing Activity
Net Cash Generated During the Year		2,000	Remaining 1 Mark for this working
Add: Cash and bank balance as on 1.4.2018		<u>6,000</u>	
Cash and bank balance as on 31.3.2019		<u>8,000</u>	