J.K. SHAH® TEST SERIES

# SUGGESTED SOLUTION

## CA INTERMEDIATE

**SUBJECT-** ADVANCE ACCOUNT

## Test Code – IMP 2401

**BRANCH - () (Date :)**

**Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.**

**Tel : (022) 26836666**

## Section - A :

## MULTIPLE CHOICE QUESTION :

| No. | Answer | | Marks |
|---|---|---|---|
| 1. | B | Rs. 6 crore | 2 |
| 2. | A | Capital Reduction account | 2 |
| 3. | D | True – True | 2 |
| 4. | A | Goodwill | 2 |
| 5. | B | A credit of Rs. 5,000 | 2 |
| 6. | A | 25% of the total paid –up capital and free reserves of the company. | 2 |
| 7. | A | Decrease net profit per share from continuing ordinary operations. | 2 |
| 8. | B | Internal reconstruction without liquidation of the company | 2 |
| 9. | B | Rs. 2 million | 2 |
| 10. | C | Initial upward valuation of Rs. 50,000 credited to Revaluation Reserve. Subsequent downward revaluation of Rs. 20,000 debited to Revaluation Reserve. | 2 |
| 11. | C | Goodwill written off can be reversed only if certain conditions are met. | 1 |
| 12. | C | Either (a) and (b) | 1 |
| 13. | C | Charged immediately to Profit and Loss statement | 1 |
| 14. | A | The overall test of 75% considers only external revenue to compute the threshold limit. | 1 |
| 15. | A | An Adjusting event | 1 |
| 16. | B | There is a separate entity for joint venture business. | 1 |
| 17. | B | Whose turnover (excluding other income) does not exceed rupees two – fifty crores in the immediately preceding accounting year; | 1 |
| 18. | D | All the three | 1 |
| 19. | A | Current asset | 1 |
| 20. | C | Both (a) and (b) | 1 |

## SECTION B

**ANSWER : 1(A)**

| | Rs. |
|---|---|
| Cost incurred till 31st March, 20X2 | 64,99,000 |
| Prudent estimate of additional cost for completion | 32,01,000 |
| Total cost of construction | 97,00,000 |
| Less : Contract price | (85,00,000) |
| Total foreseeable loss | 12,00,000 |

According to AS 7, the amount of Rs. 12,00,000 is required to be recognised as an expense.

Contract work in progress = $\frac{Rs. 64,99,000 \times 100}{97,00,000}$ = 67%

Proportion of total contract value recognised as turnover :

= 67% of Rs. 85,00,000 = Rs. 56,95,000

The amount of expected loss will be split as under :

| Particulars | Workings | Amount |
|---|---|---|
| Expected Loss | 97,00,000 – 85,00,000 | 12,00,000 |
| Contract revenue | 67% of 85,00,000 | 56,95,000 |
| Contract cost | Given | 64,99,000 |
| Actual loss | 56,95,000 – 64,99,000 | 8,04,000 |
| Amount of provision required [As per Para 35] | 12,00,000 – 8,04,000 | 3,96,000 |

**(5 MARKS)**

**ANSWER : 1(B)**

As per AS 11 (revised 2003); 'The Effects of changes in Foreign Exchange Rates', monetary items denominated in a foreign currency should be reported using the closing rate at each balance sheet date. The effect of exchange difference should be taken into profit and loss account. Trade payables is a monetary item, hence should be valued at the closing rate i.e. Rs. 48 at 31st March, 2022 irrespective of the payment for the same subsequently at lower rate in the next financial year. The difference of Rs. 5(Rs. 48 – Rs. 43) per US dollar should be shown as an exchange loss in the profit and loss account for the year ended 31st March, 2022 and is not to be adjusted against the cost of raw materials. In the subsequent year, the company would record an exchange gain of Rs. 1 per US dollar, i.e.., the difference between Rs. 48 and Rs. 47 per US dollar. Hence, the accounting treatment adopted by the company is incorrect.

**(5 MARKS)**

**ANSWER : 1(C)**

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 X is Rs. 350 and total cost per unit for production is Rs. 360.

Hence the valuation will be done as under :

(i) 800 units of raw material will be valued at cost 140.

(ii) 650 units of partly finished goods will be valued at 300 per unit * i.e. lower of cost (Rs. 310) or Net realizable value Rs. 300 (Estimated selling price Rs. 350 per unit less additional cost of Rs. 50)

(iii) 1,800 units of finished product X will be valued at NRV of Rs. 350 per unit since it is lower than cost Rs. 360 of product X.

**Valuation of Total Inventory as on 31.03.2019 :**

| | **Units** | **Cost (Rs.)** | **NRV /Replacement Cost (Rs.)** | **Value = units x cost or NRV whichever is less (Rs.)** | **(Rs.)** |
|---|---|---|---|---|---|
| Raw material A | 800 | 140 | 190 | 1,12,000 | (800 × 140) |
| Partly finished goods | 650 | 310 | 300 | 1,95,000 | (650 × 300) |

| | | | | | |
|---|---|---|---|---|---|
| Finished goods X | 1,800 | 60 | 350 | 6,30,000 | (1,800 × 350) |
| Value of Inventory | | | | 9,37,000 | |

*****It has been assumed that the partly finished unit cannot be sold in semi – finished form and its NRV is zero without processing it further.

**(5 MARKS)**

**ANSWER : 1(D)**

Swift Limited amortized Rs. 10,00,000 per annum for the first two years i.e. Rs. 20,00,000. The remaining carrying cost can be amortized during next 5 years on the basis of net cash flows arising from the sale of the product. The amortization may be found as follows :

| S | Net Cash flow Rs. | Amortisation Ratio | Amortisation Amount (Rs.) |
|---|---|---|---|
| I | - | 0.125 | 10,00,000 |
| II | - | 0.125 | 10,00,000 |
| III | 36,00,000 | 0.180 | 10,80,000 |
| IV | 46,00,000 | 0.230 | 13,80,000 |
| V | 44,00,000 | 0.220 | 13,20,000 |
| VI | 40,00,000 | 0.200 | 12,00,000 |
| VII | 34,00,000 | 0.170 | 10,20,000 |
| Total | 2,00,00,000 | 1,000 | 80,00,000 |

**(4 MARKS)**

**ANSWER : 2(A)**

**Journal Entries in the books of Vaibhav Ltd.**

| | | Rs. | Rs. |
|---|---|---|---|
| (i) | Equity share capital (Rs. 100) A/c Dr. | 2,00,00,000 | |
| | To Equity Share Capital (Rs. 40) A/c | | 80,00,000 |
| | To Capital Reduction A/c | | 1,20,00,000 |
| | (Being conversion of equity share capital of Rs. 100 each into Rs.40 each as per reconstruction scheme) | | |
| (ii) | 6% Cumulative Preference Share capital (Rs. 100) A/c Dr. | 1,00,00,000 | |
| | To 6% Cumulative Preference Share Capital (Rs. 60)A/c | | 60,00,000 |
| | To Capital Reduction A/c | | 40,00,000 |
| | (Being conversion of 6% cumulative preference shares capital of Rs. 100 each into Rs. 60 each as per reconstruction scheme) | | |
| (iii) | 5% Debentures (Rs. 100) A/c Dr. | 80,00,000 | |
| | To 6% Debentures (Rs. 70) A/c | | 56,00,000 |
| | To Capital Reduction A/c | | 24,00,000 |
| | (Being 6% debentures of Rs. 70 each issued to existing 5% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme) | | |
| (iv) | Sundry Creditors A/c Dr. | 40,00,000 | |
| | To Equity Share Capital (Rs. 40) A/c | | 24,00,000 |

| | | | |
|---|---|---|---|
| | To Capital Reduction A/c<br>(Being a creditor of Rs. 40,00,000 agreed to surrender his claim by 40% and was allotted 60,000 equity shares of Rs. 40 each in full settlement of his dues as per reconstruction scheme) | | 16,00,000 |
| (v) | Provision for Taxation A/c Dr.<br>Capital Reduction A/c Dr.<br>To Liability for Taxation A/c<br>(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due) | 2,00,000<br>1,00,000 | <br><br>3,00,000 |
| (vi) | Capital Reduction A/c Dr.<br>To P & L A/c<br>To Property, Plant and Equipment A/c<br>To Current Assets A/c<br>To Investments A/c<br>To Capital Reserve A/c (Bal. fig.)<br>(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, PPE, Current Assets, Investments and the Balance transferred to Capital Reserve) | 199,00,000 | <br>12,00,000<br>50,00,000<br>110,00,000<br>1,00,000<br>26,00,000 |
| (vii) | Liability for Taxation A/c Dr.<br>To Current Assets (Bank A/c)<br>(Being the payment of tax liability) | 3,00,000 | <br>3,00,000 |

**(8 MARKS)**

**ANSWER : 2(B)**

**In the books of Mr. Shyam**

**For the year ending on 31.3.2020**

**(Scrip : Equity Shares of X Limited)**

| Date | Particulars | Qty | Amount | Date | Particulars | Qty | Amount |
|---|---|---|---|---|---|---|---|
| 1.4.2019 | To balance b/d | 1000 | 1,20,000 | 8.04.2019 | By Bank A/c. (W.N.1) | | 3,400 |
| 5.04.2019 | To Bank (200 × Rs. 135) | 200 | 27,000 | 10.10.2019 | By Bank A/c. (350 × Rs. 140) | 350 | 49,000 |
| 10.10.2019 | To Profit & Loss A/c. (W.N. 2) | | 7,117 | 31.3.2020 | By Balance c/d (W.N. 3) | 850 | 1,01,717 |
| | | **1200** | **1,54,117** | | | **1200** | **1,54,117** |

**Working Notes :**

**1.** Sale of Rights Rs. 4,000

The market price of all shares of X Ltd. after shares becoming ex – rights has been reduced by Rs. 3,400

In this case out of sale proceeds of Rs. 4,000; Rs. 3,400 may be applied to reduce the carrying amount to the market value and Rs. 600 would be credited to the profit and loss account.

**2.** Profit on sale of 350 shares

| | **Amount** |
|---|---|
| Sale price of 350 shares (350 shares $\times$ 140 each) | Rs. 49,000 |
| Less : Cost of 350 sahres [(1,20,000 + 27,000 – 3,400) $\times$ 350] / 1200 | Rs. 41,883 |
| Profit | Rs. 7,117 |

**3. Valuation of 850 shares as on 31.03.2020**

| **Particulars** | **Amount** |
|---|---|
| Cost price of 850 shares | Rs. 1,01,717 |
| [(1,20,000 + 27,000 – 3,400) $\times$ 850/1,200] | |
| Fair value as on 31.03.2020 [850 $\times$ Rs. 125 each] | Rs. 1,06,250 |
| Cost price of fair value whichever is less | Rs. 1,01,717 |

**(9 MARKS)**

**ANSWER : 3(A)**

**Balance Sheet of C Ltd. as at 1st April, 20X1**

| | **Particulars** | **Note No.** | **(Rs. In lakhs)** |
|---|---|---|---|
| **I.** | Equity and Liabilities | | |
| | (1) Share holder's Funds | | |
| | (a) Share Capital | 1 | 1,200 |
| | (b) Reserves and Surplus | 2 | 1,650 |
| | (2) Non – Current Liabilities | | |
| | Long – term borrowings | 3 | 60 |
| | (3) Current Liabilities | | |
| | Trade payables | 8 | 610 |
| | **Total** | | **3,520** |
| **II.** | Assets | | |
| | (1) Non – current assets | | |
| | (a) Property, Plant and Equipment | 4 | 1550 |
| | (b) Intangible asset | 5 | 20 |
| | (c) Non – current investments | 6 | 200 |
| | (2) Current assets | | |
| | (a) Inventory (350 + 250) | | 600 |
| | (b) Trade receivables | 7 | 650 |
| | (c) Cash and bank balances | | |
| | (300 + 200) | | 500 |
| | **Total** | | **3,520** |

## Notes to Accounts

| | | (Rs. in lakhs) | (Rs. in lakhs) |
|---|---|---|---|
| 1. | Share Capital | | |
| | Equity share capital (W.N. 1) | | |
| | 70,00,000 Equity share of Rs. 10 each | 700 | |
| | 5,00,000 Preference shares of Rs. 100 each | 500 | |
| | (all the above shares are allotted as fully paid – up pursuant to contracts without payment being received in cash) | | 1,200 |
| 2. | Reserves and surplus | | |
| | Securities Premium Account (W.N. 3) | | |
| | (950 + 700) | 1,650 | |
| | Investment Allowance Reserve (50 + 50) | 100 | |
| | Amalgamation Adjustment Reserve (50 + 50) | (100) | 1,650 |
| 3. | Long – term borrowings | | |
| | 15% Debentures | | 60 |
| 4. | Property, Plant and Equipment | | |
| | Land and Building (550 + 400) | 950 | |
| | Plant and Machinery (350 + 250) | 600 | 1,550 |
| 5. | Intangible assets | | |
| | Goodwill [W.N. 2] (110 – 90) | | 20 |
| 6. | Non – current Investments | | |
| | Investments (150 + 50) | | 200 |
| 7. | Trade receivables (300 + 350) | | 650 |
| 8. | Trade Payables (420 + 190) | | 610 |

**Working Notes :**

| | | (Rs. in lakhs) | |
|---|---|---|---|
| | | A Ltd. | B Ltd. |
| (1) | Computation of Purchase consideration | | |
| | (a) Preference shareholders : | | |
| | $\left(\frac{3,00,00,000}{100} i.e. 3,00,000\ shares\right) \times$ Rs. 150 each | 450 | |
| | $\left(\frac{2,00,00,000}{100} i.e. 2,00,000\ shares\right) \times$ Rs. 150 each | | 300 |
| | (b) Equity shareholders : | | |
| | $\left(\frac{8,00,00,000 \times 5}{100} i.e. 40,00,000\ shares\right) \times$ Rs. 30 each | 1200 | |
| | $\left(\frac{7,50,00,000 \times 4}{100} i.e. 30,00,000\ shares\right) \times$ Rs. 30 each | ----- | 900 |
| | Amount of Purchase Consideration | 1,650 | 1,200 |
| (2) | Net Assets Taken Over | | |
| | Assets taken over : | | |
| | Land and Building | 550 | 400 |
| | Plant and Machinery | 350 | 250 |
| | Investments | 150 | 50 |
| | Inventory | 350 | 250 |

| | | | | |
|---|---|---|---|---|
| | Trade receivables | | 300 | 350 |
| | Cash and bank | | 300 | 200 |
| | | | 2,000 | 1,500 |
| | Less : Liabilities taken over | | | |
| | Debentures | 40 | | 20 |
| | Trade payables | 420 | | 190 |
| | | | 460 | 210 |
| | Net assets taken over | | 1,540 | 1,290 |
| | Purchase consideration | | 1,650 | 1,200 |
| | Goodwill | | 110 | |
| | Capital reserve | | | 90 |
| (3) | Computation of securities premium | | | |
| | On preference share capital | | | |
| | A Ltd. – 3,00,000 × 50 | | 150 | |
| | B Ltd. – 2,00,000 × 50 | | | 100 |
| | On equity share capital | | | |
| | A Ltd. – 40,00,000 × 20 | | 800 | |
| | B Ltd. – 30,00,000 × 20 | | | 600 |
| | Total | | 950 | 700 |

**(12 MARKS)**

**ANSWER : 3(B)**

**Debt Equity Ratio Test :**

| | Particulars | Rs. |
|---|---|---|
| | Loan Funds | 63,00,000 |
| | Minimum equity to be maintained after buy back in the ratio of 2:1 | 31,50,000 |
| | Present Equity Shareholders Fund (W.N. 1) | 1,09,20,000 |
| | Future Equity Shareholders Fund (Rs. 1,09,20,000 - Rs. 19,42,500) (W.N. 2) | 89,77,500 |
| | Maximum permitted buy back of Equity (d) – (b) (W.N. 2) | 58,27,500 |
| | Maximum Number of shares that can be bought back @ Rs. 30 per share as per Debt Equity Ratio Test (e) / 30 | 1,94,250 |

**Working Notes:**

1. **Shareholders' Funds**

| Particulars | Rs. |
|---|---|
| Paid-up Capital | 45,00,000 |
| Free Reserves (48,75,000+9,00,000+6,45,000) | 64,20,000 |
| | 1,09,20,000 |

2. **Assume 'x' be the maximum number of shares bought back**

**Equity Share** Capital + Free Reserves – x(Buy Back Price) – x(Face Value) = (Debt x 50%)

1,09,20,000 – x(30) – x(10) = (63,00,000 x 50%)

x = 77,70,000 / 40 = 1,94,250

**(5 MARKS)**

**ANSWER : 4(A)**

**Ring Ltd.**
**Profit and Loss Statement for the year ended 31st March, 20X2**

| | Particulars | Note No. | (Rs. In lacs) |
|---|---|---|---|
| I | **Revenue from operations** | | 10,40,000 |
| II | **Other income** (interest on investment) | | 24,000 |
| III | **Total Income [I + II]** | | 10,64,000 |
| IV | **Expenses :** | | |
| | Cost of purchase [4,20,000 + 1,60,000] | | 5,80,000 |
| | Changes in inventories [20,000 – 1,80,000] | | (1,60,000) |
| | Employee Benefits Expenses | | 1,20,000 |
| | Finance Costs (debenture interest) | | 56,000 |
| | Depreciation and Amortisation Expenses | | 40,000 |
| | Other Expenses | 8 | 1,24,000 |
| | Total Expenses | | **7,60,000** |
| V | Profit before Tax (III – IV) | | 3,04,000 |
| VI | **Tax Expenses @ 30%** | | (91,200) |
| VII | **Profit for the period** | | **2,12,800** |

**Balance Sheet of Ring Ltd. as at 31st March, 20X2**

| | | Particulars | Note No. | Rs. |
|---|---|---|---|---|
| I | **EQUITY AND LIABILITIES** | | | |
| | **(1)** | **Share holders' Funds** | | |
| | | (a) Share Capital | 1 | 4,00,000 |
| | | (b) Reserves and Surplus | 2 | 3,42,800 |
| | **(2)** | **Non – Current Liabilities** | | |
| | | (a) Long – term Borrowings (14% debentures) | | 4,00,000 |
| | **(3)** | **Current Liabilities** | | |
| | | (a) Trade Payable (Sundry Creditors) | | 1,84,000 |
| | | (b) Other Current Liabilities | 3 | 42,000 |
| | | (c) Short – Term Provisions | 4 | 91,200 |
| | | **Total** | | **14,60,000** |
| II | **ASSETS** | | | |
| | **(1)** | **Non – current Assets** | | |
| | | (a) PPE | 5 | 5,70,000 |
| | | (b) Non – current Investments | | 2,40,000 |

| | | | | |
|---|---|---|---|---|
| | (2) | **Current Assets** | | |
| | | (a) Inventories | 6 | 2,26,000 |
| | | (b) Trade Receivables | 7 | 2,40,000 |
| | | (c) Cash and bank balances | | 60,000 |
| | | (d) Short Term Loans and Advances (Advance Payment of Tax) | | 1,20,000 |
| | | (e) Other Current Assets (Interest accrued on investments) | | 4,000 |
| | | **Total** | | **14,60,000** |

**Notes to Accounts :**

| | | | |
|---|---|---|---|
| **1.** | **Share capital** | | |
| | **Authorised Capital** | | |
| | 10,000 Equity shares of Rs. 100 each | | 10,00,000 |
| | **Issued Capital** | | |
| | 4,000 Equity shares of Rs. 100 each | | 4,00,000 |
| | Subscribed Capital and fully paid | | |
| | 4,000 Equity shares of Rs. 100 each | | 4,00,000 |
| **2.** | **Reserve and Surplus** | | |
| | General Reserve [Rs. 80,000 + Rs. 21,280] | | 1,01,280 |
| | Balance of statement of Profit & Loss Account | | |
| | Opening Balance | 50,000 | |
| | Add : profit for the period | 2,12,800 | |
| | | 2,62,800 | |
| | **Appropriations** | | |
| | Transfer to General Reserve @ 10% | (21,280) | 2,41,520 |
| | | | 3,42,800 |
| **3.** | **Other Current Liabilities** | | |
| | Unclaimed Dividend | | 10,000 |
| | Outstanding Expenses | | 4,000 |
| | Interest accrued on Debentures | | 28,000 |
| | | | 42,000 |
| **4.** | **Short – Term Provision** | | |
| | Provision for Tax | | 91,200 |
| **5.** | **Property, plant and equipment** | | |
| | Buildings | 5,80,000 | |
| | Less : Provision for Depreciation | 1,00,000 | 4,80,000 |
| | Plant and Equipment | 2,00,000 | |
| | Less : Provision for Depreciation | 1,10,000 | 90,000 |
| | | | 5,70,000 |
| **6.** | **Inventories** | | |
| | Closing stock of Finished Goods | 1,80,000 | |
| | Loose Tools | 46,000 | 2,26,000 |
| **7.** | **Trade Receivables** | | |
| | Sundry Debtors | 2,50,000 | |
| | Less : Provision for Doubtful Debts | (10,000) | 2,40,000 |

| | | | |
|---|---|---|---|
| **8.** | **Other Expenses** | | |
| | Rent | | 52,000 |
| | Director's Fees | | 20,000 |
| | Bad Debts | | 12,000 |
| | Provision for Doubtful Debts (4% of Rs. 2,50,000 less Rs. 6,000) | | 4,000 |
| | Sundry Expenses | | 36,000 |
| | | | 1,24,000 |

**(12 MARKS)**

**ANSWER : 4(B)**

**(i)** Para 10 of AS 16 'Borrowing Costs' states that to the extent the funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Hence, in the above case, treatment of accountant of Vital Ltd. is incorrect. The amount of borrowing costs capitalized for the financial year 2019 – 20 should be calculated as follows :

| | |
|---|---|
| Actual interest for 2019 – 20 (10% of Rs. 150 crores) | Rs. 15.00 crores |
| Less : Income on temporary investment from specific borrowings | (Rs. 1.50 crores) |
| Borrowing costs to be capitalized during year 2019 – 2020 | Rs. 13.50 crores |

**(ii)** Capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. An asset is normally ready for its intended use or sale when its physical construction or production is complete even though routing administrative work might still continue. If minor modifications such as the decoration of a property to the user's specification, are all that are outstanding, this indicates that substantially all the activities are complete. When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalization of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete.

**(5 MARKS)**

**ANSWER : 5(A)**

**M/s Carlin**

**Mumbai Branch Trial Balance in (US $)**

**as on 31st March, 20X2**

| | **Conversion** | **Dr.** | **Cr.** |
|---|---|---|---|
| | **rate per US $ (Rs.)** | **US $** | **US $** |

| | | | |
|---|---|---|---|
| Stock on 1.4.X1 | 40 | 7,500.00 | – |
| Purchases and sales | 41 | 19,512.20 | 29,268.29 |
| Sundry debtors and creditors | 42 | 9,523.81 | 7,142.86 |
| Bills of exchange | 42 | 2,857.14 | 5,714.29 |
| Wages and salaries | 41 | 13,658.54 | – |
| Rent, rates and taxes | 41 | 8,780.49 | – |
| Sundry charges | 41 | 3,902.44 | – |
| Computers | – | 6,000.00 | – |
| Bank balance | 42 | 10,000.00 | – |
| New York office A/c | – | – | 39,609.18 |
| | | **81,734.62** | **81,734.62** |

**Trading and Profit & Loss Account for the year ended 31st March, 20X2**

| | **US $** | | **US $** |
|---|---|---|---|
| To Opening Stock | 7,500.00 | By Sales | 29,268.29 |
| To Purchases | 19,512.20 | By Closing stock (4,20,000/42) | 10,000.00 |
| To Wages and salaries | 13,658.54 | By Gross Loss c/d | 1,402.45 |
| | 40,670.74 | | 40,670.74 |
| To Gross Loss b/d | 1,402.45 | By Net Loss | 17,685.38 |
| To Rent, rates and taxes | 8,780.49 | | |
| To Sundry charges | 3,902.44 | | |
| To Depreciation on computers (US $ 6,000 × 0.6) | 3,600.00 | | |
| | **17,685.38** | | **17,685.38** |

**Balance Sheet of Mumbai Branchas on 31st March, 20X2**

| **Liabilities** | | **US $** | **Assets** | **US $** | **US $** |
|---|---|---|---|---|---|
| New York OfficeA/c | 39,609.18 | | Computers | 6,000.00 | |
| *Less:* Net Loss | (17,685.38) | 21,923.80 | *Less:* Depreciation | (3,600.00) | 2,400.00 |
| Sundry creditors | | 7,142.86 | Closing stock | | 10,000.00 |
| Bills payable | | 5,714.29 | Sundry debtors | | 9,523.81 |

| | | | | | |
|---|---|---|---|---|---|
| | | | Bank balance | | 10,000.00 |
| | | | Bills receivable | | 2,857.14 |
| | | **34,780.95** | | | **34,780.95** |

**(9 MARKS)**

**ANSWER : 5(B)**

**Calculation of Deferred Tax Asset/Liability in Omega Limited**

| Year | Accounting Income | Taxable Income | Timing Difference | Timing Difference (balance) | Deferred Tax | Deferred Tax Liability (balance) |
|---|---|---|---|---|---|---|
| 20X0-20X1 | 11,00,000 | 7,00,000 | 4,00,000 | 4,00,000 | 1,40,000 | 1,40,000 |
| 20X1-20X2 | 16,00,000 | 18,00,000 | (2,00,000) | 2,00,000 | (70,000) | 70,000 |
| 20X2-20X3 | 21,00,000 | 23,00,000 | (2,00,000) | NIL | (70,000) | NIL |
| | 48,00,000 | 48,00,000 | | | | |

**(4 MARKS)**

**ANSWER : 5(C)**

(i) Although the case under consideration does not relate to extraordinary item, but the nature and amount of such item may be relevant to users of financial statements in understanding the financial position and performance of an enterprise and in making projections about financial position and performance. AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' states that:
"When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately".
Circumstances which may require separate disclosure of items of income and expense in accordance with AS 5 include the write-down of inventories to Net Realisable Value as well as the reversal of such write-downs.

(ii) AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', defines Prior Period items as "income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods". Rectification of error in inventory valuation is a prior period item vide AS 5. Separate disclosure of this item as a prior period item is required as per AS 5.

**(4 MARKS)**