Gurukripa's Guideline Answers to Nov 2016 Exam Questions CA Inter (IPC) Group I Accounting

Question No.1 is compulsory **(4 X 5 = 20 Marks).**

Answer **any five** questions from the **remaining six** questions **(16 X 5 = 80 Marks).** [Answer any 4 out of 5 in Q.7]

Working Notes should form part of the answer.

Wherever necessary, suitable assumptions should be made and indicated in answer by the Candidates.

Note: All Page References given are from Padhuka's Ready Referencer on Accounting – For CA Inter (IPC)

Question 1(a): AS–7 Segmenting / Combining Contracts **5 Marks**

GTI Ltd negotiates with Bharat Oil Corporation Ltd (BOCL), for construction of "Retail Petrol & Diesel Outlet Stations". Based on proposals submitted to different Regional Offices of BOCL, the final approval for one outlet each in Region X, Region Y, Region Z is awarded to GTI Ltd. A single agreement is entered into between two. The agreement lays down values for each of the three outlets, i.e. ₹ 102 Lakhs, ₹ 150 Lakhs, ₹ 130 Lakhs for Region X, Region Y, Region Z respectively. Agreement also lays down completion time for each Region.

Comment whether GTI Ltd will treat it as single contract or three separate contracts with reference to AS–7.

Solution: Similar to Page B.5.2 Q.No.5 [RTP Qn]

1. **Principle:** When a Contract covers as number of assets, the Construction of each Asset should be treated as a **separate Construction Contract**, when –
   (a) Separate proposals have been submitted for each asset,
   (b) Each Asset has been subject to separate negotiation, and the Contractor and Customer have been able to accept or reject that part of the Contract relating to each Asset, and
   (c) The Costs and Revenues of each Asset can be identified.
2. **Analysis:** Here, each Outlet is submitted as a separate proposal to **different** Regional Office, separately negotiated, and Costs and Revenues thereof can be separately identified. Hence, each Asset will be treated as a "**single contract**" even if there is only one document of contract.
3. **Conclusion:** Three separate Contract Accounts have to be recorded and maintained in the books of GTI Ltd. For each Contract, principles of Revenue and Cost recognition have to be applied separately, and Net Income determined for each asset as per AS–7.

Question 1(b): AS–10 Revaluation of Asset, Disposal of Machinery **5 Marks**

Hema Ltd purchased a Machinery on 01.04.2008 for ₹ 15,00,000. The Company charged straight–line depreciation based on 15 years working life estimate and Residual Value ₹ 3,00,000. At the beginning of the 4th year, the Company by way of systematic evaluation, revalued the Machinery upward by 20% of Net Book Value as on date and also re–estimated the useful life as 7 years and Scrap Value as Nil. The increase in Net Book Value was credited directly to Revaluation Reserves. Depreciation (on SLM basis) later on was charged to Profit & Loss Account. At the beginning of 8th year, the Company decided to dispose off the Machinery and estimated the Realizable Value to ₹ 2,00,000.

Ascertain the amount to be charged to Profit & Loss Account at the beginning of 8th year with reference to AS–10.

Solution: Similar to Page B.7.19 Q.No.54. Also see Page B.7.17, Q.No.49 [RTP, N 96, N 98, M 06]

Particulars	Workings	₹
(a) Cost of the Machinery as on 01.04.2008	Given	15,00,000
(b) Depreciation p.a.	$\frac{₹15,00,000 - ₹3,00,000}{15\text{ Years}}$	80,000
(c) Depreciation from 01.04.2008 to 31.03.2011 (for 3 years)	₹ 80,000 × 3 Years	2,40,000
(d) Net Book Value of the Machinery as on 01.04.2011	(a) – (c)	12,60,000
(e) Revised Net Book Value as on 01.04.2011	₹12,60,000 + 20%	15,12,000
(f) Increase in Revaluation to be taken to Revaluation Reserve	(d) – (e)	2,52,000

Particulars	Workings	₹
(g) Revised Depreciation p.a. [Assuming balance Useful Life is 7 yrs]	$\frac{\text{₹ 15,12,000 (-) Nil}}{\text{7 Years}}$	2,16,000
(h) Depreciation from 01.04.2011 to 31.03.2015 (for 4 years)	₹ 2,16,000 × 4 years	8,64,000
(i) Net Book Value of the Machinery as on 01.04.2015	(e) – (h)	6,48,000
(j) Deemed Book Value of M/c, on 01.04.2015, if the **Revaluation had not taken place** = Original Cost (–) Old Depreciation for first 3 years (–)Deprn for next 4 years based on new Useful Life **(Note 1)**	₹ 15,00,000 (–) ₹ 80,000 × 3 Years (–) ₹ 1,80,000 × 4 Years	5,40,000
(k) Loss on Disposal = Book Value (–) Realizable Value on Disposal	₹ 6,48,000 (–) ₹ 2,00,000	4,48,000
(l) Deemed Book Value (–) Realizable Value on Disposal	₹ 5,40,000 (–) ₹ 2,00,000	3,40,000
(m) Loss to be **debited** / adjusted in **Revaluation Reserve** (**Note 2**)	4,48,000 (–) 3,40,000 **(OR)** 6,48,000 (–) 8,40,000	**1,08,000**
(n) Amount to **debited** / adjusted in **Profit and Loss** A/c (**Note 3**)	(k) – (m)	**3,40,000**
(o) Balance in Revaluation Reserve transferred to **General Reserve**	(f–m)₹ 2,52,000 (–) ₹ 1,08,000	**1,44,000**

Note 1: Revised Depreciation p.a. for Years 4 to 7 = $\frac{\text{₹ 12,60,000 (-) Nil}}{\text{7 Years}}$ = ₹ 1,80,000

Note 2: On disposal of a previously revalued Fixed Asset, the difference between Net Disposal Proceeds and the Net Book Value should be charged or credited to the **Profit and Loss Statement**. However, to the extent such Loss is attributed to earlier revaluation, it shall be adjusted with balance available in Revaluation Reserve on the date of disposal. Hence, adjustment with **Revaluation Reserve** may be computed in any of the 2 ways as under –

- Loss based on Actual Book Value (–) Loss based on Deemed Book Value as if Revaluation had not taken place (K–L)
- Difference between Actual Book Value and Deemed Book Value as if Revaluation had not taken place (I–J)

Note 3: Total Loss on Disposal = ₹ 4,48,000, out of which ₹ 1,08,000 adjusted against Revaluation Reserve. Hence, balance is debited to Profit and Loss A/c.

Question 1(c): AS–13 Valuation of Investments **5 Marks**

How you will deal with following in the Financial Statement of Paridhi Electronics Ltd as on 31.03.2016 with reference to AS–13?

(a) Paridhi Electronics Ltd invested in the Shares of another Unlisted Company on 1st May 2012 at a cost of ₹ 3,00,000 with the intention of holding more than a year. The Published Accounts of Unlisted Company received in Jan 2016 reveals that the Company has incurred Cash Losses with decline market share and investment of Paridhi Electronics Ltd may not fetch more than ₹ 45,000.

(b) Also Paridhi Electronics Ltd has Current Investment (X Ltd's Shares) purchased for ₹ 5 Lakhs, which the Company wants to re–classify as Long–Term Investment. The Market Value of these Investments as on date of Balance Sheet was ₹ 2.5 Lakhs.

Solution:

Case (a): **Similar to Page A.5.41 Q.No.23 [RTP, M 98. M 09, M 10, M 11 Qn]**

Hint: Refer Principle on Carrying Amount of Long Term Investments [Para 17–19, 32, 33].

1. The facts of the case clearly indicate that the decline in the value of the Long–Term Investment is **not** temporary. Hence, a provision for diminution should be made to reduce the Carrying Amount of Long–Term Investment to ₹ 45,000 in the Financial Statements for the year ended 31.03.2016.
2. The Published Accounts of the Unlisted Company provide further evidence as to the conditions persisting at the Balance Sheet date. Hence, this is an "**Adjusting Event**" under AS – 4.
3. The amount of reduction ₹ 2,55,000 (i.e. ₹ 3,00,000 – ₹ 45,000) should be **charged** in the P&L A/c for the year. AS – 13 requires **disclosure** of changes in the Carrying Amounts of Long–Term Investments.

Case (b): **Similar to Page A.5.37 Q.No.8 [RTP, M 12]**

1. **Principle:** Transfer should be made at **lower** of – (a) Cost, & (b) Fair Value / Carrying Amount at the date of transfer.
2. **Analysis and Conclusion:** In this case, the transfer should be made at Market Value (being lower of ₹ 5 Lakhs and ₹ 2.5 Lakhs) and hence the Long Term Investments should be carried at ₹ 2.50 Lakhs. The loss of ₹ 5 – ₹ 2.5 = ₹ 2.5 Lakhs should be provided for, in the Profit and Loss Account.

Question 1(d): AS–9 Revenue Recognition **5 Marks**

A Manufacturing Company has the following stages of production and sale in manufacturing Fine Paper Rolls:

Date	Activity	Costs to Date (₹)	Net Realizable Value (₹)
15.01.2016	Raw Material	1,00,000	80,000
20.01.2016	Pulp (WIP 1)	1,20,000	1,20,000
27.01.2016	Rough & Thick Paper (WIP 2)	1,50,000	1,80,000
15.02.2016	Fine Paper Rolls	1,80,000	3,50,000
20.02.2016	Ready for Sale	1,80,000	3,50,000
15.03.2016	Sale agreed and Invoice raised	2,00,000	3,50,000
02.04.2016	Delivered and paid for	2,00,000	3,50,000

Explain the state on which you think Revenue will be generated and state how much would be the Net Profit for year ending 31.03.2016 on this product, according to AS–9.

Solution: **Refer Principles in Chapter B.6.2 – AS–9 Revenue Recognition**

1. As per AS–9, Revenue from Sale of Goods is recognised only when the following conditions are satisfied –
   (a) **Transfer** of Property / Significant Risks and Rewards of Ownership, from the Seller to the Buyer,
   (b) **No effective control of Seller**, over the Ownership of Goods,
   (c) **No significant uncertainty** exists as to the amount of consideration derived from sale of goods,
   (d) It is reasonable to expect **ultimate collection** at the time of performance.

2. Raw Material, WIP 1 and WIP 2 are not "saleable" as such. Only when the goods are produced and ownership is transferred to the Buyer for consideration, the question of recognizing Revenue arises. Since the sale is agreed and the Invoice is raised on 15.03.2016, the ownership is assumed to be transferred on 15.03.2016. Hence, Revenue will be recognized on 15.03.2016.

3. Hence, Sale Value is ₹ 3,50,000 and Related Costs is ₹ 2,00,000. So, the Net Profit for the year ended 31.03.2016 will be ₹ 3,50,000 – ₹ 2,00,000 = ₹ 1,50,000.

Question 2: Internal Reconstruction **16 Marks**

Proficient Infosoft Ltd is in the hands of a Receiver for Debenture Holders who holds a charge on all Assets except Capital. The following statement shows the position as regards Creditors as on 30th June 2016:

Liabilities	₹	Assets		₹
8000 Shares of ₹ 100 each ₹ 60 paid up	–	Property (Cost is ₹ 3,80,800) estimated at		1,08,000
First Debentures	3,60,000	Plant and Machinery (Cost is ₹ 2,87,200) estimated at		72,000
Second Debentures	7,80,000	Cash in hand of the Receiver		3,24,000
Unsecured Trade Payables	5,40,000		Sub–Total	5,04,000
		Add:	Uncalled capital	3,20,000
			Sub–Total	8,24,000
		Add:	Deficiency	8,56,000
Total	16,80,000	Total		16,80,000

A holds First Debentures for ₹ 3,60,000 and Second Debentures for ₹ 3,60,000. He is also an Unsecured Trade Payable for ₹ 1,08,000. B holds Second Debentures for ₹ 3,60,000 and is an Unsecured Trade Payable for ₹ 72,000.

The following scheme of reconstruction is proposed.

(a) A is to cancel ₹ 2,52,000 of the Total Debt owing to him, to bring ₹ 36,000 in Cash and to take First Debentures (in cancellation of those already issued to him) for ₹ 6,12,000 in satisfaction of all his claims.

(b) B to accept ₹ 1,08,000 in cash in satisfaction of all claims by him.

(c) In full settlement of 60% of the claim, Unsecured Trade Payable (other than A and B) agreed to accept 3 Shares of ₹ 25 each, fully paid against their claim for each ₹ 100.

The balance of 40% is to be postponed and to be payable at the end of 3 years from the date of Court's approval of the scheme. The Nominal Share Capital is to be increased accordingly.

(d) Uncalled Capital is to be called up in full and ₹ 75 per Share cancelled, thus making the Shares of ₹ 25 each.

Assuming that the Scheme is duly approved by all parties interested and by the Court, give necessary Journal Entries.

Solution: Similar to Page A.10.35 Q.No.18 of Padhuka's Ready Referencer on Accounting [N 00]

Journal Entries in the Books of Proficient Infosoft Ltd

S.No.	Particulars		Dr. (₹)	Cr. (₹)
1.	First Debentures A/c	Dr.	3,60,000	
	Second Debentures A/c	Dr.	3,60,000	
	Sundry Creditors A/c	Dr.	1,08,000	
	To A's A/c			8,28,000
	(Being the total amount due to A, transferred to his Account)			
2.	Bank A/c	Dr.	36,000	
	To A's A/c			36,000
	(Being amount received from A under Reconstruction Scheme)			
3.	A's A/c (Total 8,28,000 + 36,000)	Dr.	8,64,000	
	To First Debentures A/c (given)			6,12,000
	To Reconstruction A/c (balancing figure)			2,52,000
	(Being issue of First Debentures for ₹ 6,12,000 and cancellation of ₹ 2,52,000 (bal.fig) Total Debt due to A, and as per approved Reconstruction Scheme)			
4.	Second Debentures A/c	Dr.	3,60,000	
	Sundry Creditors A/c	Dr.	72,000	
	To B's A/c			4,32,000
	(Being the total amount due to B, transferred to his account)			
5.	B's A/c	Dr.	4,32,000	
	To Cash A/c (given)			1,08,000
	To Reconstruction A/c (balancing figure)			3,24,000
	(Being cash to B in full satisfaction, and balance ₹ 3,24,000 out of Total Debt due to B cancelled, as per approved Reconstruction Scheme)			
6.	Sundry Creditors A/c [Given 5,40,000 – A 1,08,000 – B 72,000] X 60%	Dr.	2,16,000	
	To Equity Share Capital (₹ 25) A/c			1,62,000
	To Reconstruction A/c			54,000
	(Being allotment of 3 Shares of ₹ 25 each, for every ₹ 100 of balance due to Creditors, towards 60% of their Dues.)			
7.	Bank A/c	Dr.	3,20,000	
	To Equity Share Capital A/c			3,20,000
	(Being the balance of ₹ 40 per Share on 8,000 Equity Shares called up and received as per approved reconstruction scheme)			
8.	Equity Share Capital (₹ 100) A/c	Dr.	8,00,000	
	To Equity Share Capital (₹ 25) A/c			2,00,000
	To Reconstruction A/c			6,00,000
	(Being the reduction of Equity Shares of ₹ 100 each to Shares of ₹ 25 each, as per approved Reconstruction Scheme)			

Question 3(a): Cash Flow Statement – Direct Method **8 Marks**

On the basis of the following data, prepare a Cash Flow Statement for the year ended 31st March 2016 (Using Direct Method):

(a) **Total Sales for the year were ₹ 398 Crores out of which Cash Sales amounted to ₹ 262 Crores.**

(b) **Receipts from Credit Customers during the year, totalled ₹ 134 Crores.**

(c) **Purchases for the year amounted to ₹ 220 Crores out of which Credit Purchase was 80%.**
Balance in Creditors as on 01.04.2015 ₹ 84 Crores, and as on 31.03.2016 ₹ 92 Crores.

(d) **Suppliers of Other Consumables and Services were paid ₹ 19 Crores in cash.**

(e) **Employees of the Enterprises were paid 20 Crores in cash.**

(f) **Fully–paid Preference Shares of the Face Value of ₹ 32 Crores were redeemed. Equity Shares of the Face Value of ₹ 20 Crores were allotted as fully paid up at Premium of 20%.**

(g) **Debentures of ₹ 20 Crores at a premium of 10% were redeemed. Debentureholders were issued Equity Shares in lieu of their Debentures.**

(h) ₹ 26 Crores were paid by way of Income Tax.

(i) A New Machinery costing ₹ 25 Crores was purchased in part exchange of an Old Machinery. The Book Value of the Old Machinery was ₹ 13 Crores. Through the negotiations, the Vendor agreed to take over the Old Machinery at a higher value of ₹ 15 Crores. The balance was paid in Cash to the Vendor.

(j) Investment costing ₹ 18 Crores were sold at a Loss of ₹ 2 Crores.

(k) Dividends totally ₹ 15 Crores (including Dividend Distribution Tax of ₹ 2.7 Crores) was also paid.

(l) Debenture Interest amounting ₹ 3 Crores was paid.

(m) On 31st March 2015, Balance with Bank and Cash on hand totalled ₹ 2 Crores.

Solution: **Similar to Page B.3.11 Q.No.2 [M 13 Qn]**

Cash Flow Statement for the year ended 31st March

Particulars	₹ Crores	₹ Crores
A. CASH FLOW FROM OPERATING ACTIVITIES:		
Cash Receipts from Customers for Sale of Goods [Cash Sales 262 + Receipts from Credit Customers 134]	396	
Cash Payments to Suppliers for Goods [Cash Purchases (220 × 20%) = 44 + Payment to Creditors **WN 1** 168]	(212)	
Cash Payments to Suppliers of Consumables and Services	(19)	
Cash Payments to Employees	(20)	
Cash generated from Operations before Taxes & Extra Ordinary Items	145	
Less: Taxes Paid	(26)	
Net Cash Flow from / (used in) Operating Activities [A]		**119**
B. CASH FLOW FROM INVESTING ACTIVITIES:		
Sale of Investments [Cost 18 Crores – Loss on Sale 2 Crores]	16	
Purchase of new Machinery [25 Crores – 15 Crores]	(10)	
Net Cash Flow from / (used in) Investing Activities [B]		**6**
C. CASH FLOW FROM FINANCING ACTIVITIES:		
Issue of Equity Shares at Premium (20 Crores + 20% Premium) **(WN 2)**	24	
Redemption of Preference Shares **(WN 2)**	(32)	
Debenture Interest paid	(2)	
Dividends Paid (including Dividend Distribution Tax 2.7 Crores)	(15)	
Net Cash Flow from / (used in) Financing Activities [C]		**(25)**
D. Net Increase or Decrease in Cash or Cash Equivalents [A + B + C]		100
E. Opening Balance of Cash & Cash Equivalents		2
F. Closing Balance of Cash & Cash Equivalents		**102**

WN 1: Payment to Creditors = (Opg Bal 84 + Credit Purchases 176 [220 × 80%] – Clg Bal 92) = **168.**

WN 2: It is assumed that the Preference Shares are settled by Cash and Equity Shares are issued for Cash Consideration.

WN 3: Since Debentures are redeemed on non–cash basis, i.e. by allotment of Equity Shares, it will not form part of the Cash Flow Statement.

Question 3(b): Self–Balancing and Sectional Balancing System – Preparation of Total Debtors and Creditors A/cs 8 Marks

The following particulars are obtained from books of Prime Ltd for the year ended 31st March 2016:

Particulars	₹	Particulars	₹
Cash Sales	**50,000**	**Bills Receivable dishonoured**	**5,000**
Credit Purchases	**5,60,000**	**Return Inward**	**17,000**
Collection from Debtors	**8,50,000**	**Payment to Creditors**	**3,24,000**
Bills Receivable drawn	**40,000**	**Discount allowed**	**6,000**
Discount Received	**5,000**	**Debtor's Cheque Returned dishonoured**	**15,000**
Cash Purchases	**24,000**	**Credit Sales**	**9,80,000**
Bills Payable Paid	**13,000**	**Bills Receivable Collected**	**20,000**
Recovery of Bad Debts	**3,000**	**Return Outward**	**7,400**
Bills Receivable discounted at Bank	**16,000**	**Bills Receivable endorsed to Creditors**	**15,800**

Particulars	₹	Particulars		₹
Interest charged on Overdue Customer's A/c	**2,400**	**Overpayment Refunded by Suppliers**		**1,200**
Endorsed Bills Receivable dishonoured	**11,000**	**Bad Debts**		**2,000**
(Noting Charges ₹ 150)		**Opening Balances:**	**Sundry Debtors**	**1,56,000**
Bills Payable accepted	**32,000**		**Sundry Creditors**	**1,70,000**

You are required to prepare the Total Debtors Account and Total Creditors Account.

Solution: **Similar to Page A.2.42 Q.No.16 [N 12 Qn]**

1. Total Debtors A/c, i.e. Sales Ledger Adjustment Account (in General Ledger)

Particulars	₹	Particulars	₹
To balance b/d (Opening Balances)	1,56,000	By Bank – Collection from Debtors	8,50,000
To Bills Receivable – Dishonoured	5,000	By Bills Receivable A/c – B/R drawn on Drs.	40,000
To Sales – Credit Sales	9,80,000	By Sales Return A/c – Returns Inward	17,000
To Bank – Cheque dishonoured	15,000	By Discount Allowed	6,000
To Interest Charged on Overdue Accounts	2,400	By Bad Debts A/c	2,000
To Creditors – Bills Dishonoured (11,000 +150)	11,150	By balance c/d **(bal. fig.)**	**2,54,550**
Total	**11,69,550**	**Total**	**11,69,550**

Note: Cash Sales, Recovery of Bad Debts, B/R discounted with Bank, B/R Collected, B/R endorsed to Creditors, will not affect the Total Debtors A/c.

2. Total Creditors A/c, i.e. Purchase Ledger Adjustment Account (in General Ledger)

Particulars	₹	Particulars	₹
To Discount Received	5,000	By balance b/d (Opening)	1,70,000
To Bills Payable A/c – accepted	32,000	By Purchases (Credit Purchases)	5,60,000
To Bank – Payment to Creditors	3,24,000	By Bank A/c – overpayments refunded	1,200
To Purchase Returns A/c – Returns Outward	7,400	By Debtors – endorsed Bills Dishonoured	11,000
To Bills Receivable – endorsed to Creditors	15,800		
To balance c/d **(bal. fig.)**	**3,58,000**		
Total	**7,42,200**	**Total**	**7,42,200**

Note: Cash Purchases, Bills Payable paid, will not affect the Total Creditors Account.

Question 4: Not for Profit Organisations – Preparation of I&E A/c and Balance Sheet **16 Marks**

The Accountant of 'Retreat & Refresh' Club furnishes you the following Receipts and Payments Accounts for the year ending 31st March 2016:

Receipts	₹	Receipts	₹
Opening Balance: Cash & Bank	**33,520**	**Honoraria to Secretary**	**19,200**
Subscription	**42,840**	**Miscellaneous Expenses**	**6,120**
Sale of Old Magazines	**9,600**	**Rates & Taxes**	**5,040**
Entertainment Fees	**17,080**	**Groundman's Wages**	**3,360**
Bank Interest	**920**	**Printing & Stationery**	**1,880**
Bar Receipts	**29,800**	**Payment for Bar Purchases**	**23,080**
		Repairs	**1,280**
		Telephone Expenses	**9,560**
		New Car (less Sale Proceeds of Old Car ₹ 12,000) (sold on 01.04.2015)	**50,400**
		Closing Balance: Cash & Bank	**13,840**
Total	**1,33,760**	**Total**	**1,33,760**

Additional Information:

Particulars	1.4.2015 (₹)	31.3.2016 (₹)
Subscription due (not received)	**4,800**	**3,920**
Cheque issued, but not presented (payment of Printing Expenses)	**360**	**120**
Club Premises at Cost	**1,16,000**	**–**
Depreciation on Club Premises provided so far	**75,200**	**–**

Particulars	1.4.2015 (₹)	31.3.2016 (₹)
Car at Cost	**48,760**	**–**
Depreciation on Car provided so far	**41,160**	**–**
Value of Bar Stock	**2,840**	**3,480**
Amount Unpaid for Bar Purchases	**2,360**	**1,720**

Depreciation is to be provided @ 5% p.a. on Written Down Value of the Club Premises and @ 15% p.a. on Car for the whole year.

Prepare the Income & Expenditure A/c of the Club for the year ending 31st March 2016, and Balance Sheet as on that date.

Solution: **Similar to Page A.4.26 Q.No.18 [N 04 (Mod)]**

A. Income and Expenditure Account for the year ended 31st March 2016

Expenditure	₹	Income	₹
To Honorarium to Secretary	19,200	By Subscription **(WN 3)**	41,960
To Miscellaneous Expenses	6,120	By Sale of Old Newspapers	9,600
To Rates and Taxes	5,040	By Entertainment Fees	17,080
To Groundman's Wages	3,360	By Bank Interest	920
To Printing and Stationery **(Note)**	1,880	By Surplus from Bar Operations **(WN 2)**	8,000
To Telephone Expenses	9,560	By Profit on Sale of Car	4,400
To Repairs	1,280	Sale Proceeds – Book Value = 12,000 – 7,600	
To Depreciation:			
– Club Premises (40,800 × 5%)	2,040		
– Car (50,400 + 12,000) × 15%	9,360		
To Excess of Income over Expenditure **(b/f)**	**24,120**		
Total	**81,960**	**Total**	**81,960**

Note: Opening and Closing Balances of Cash and Bank shown in the Receipts and Payments A/c (given in the Question), are Bank Balance as per **Cash Book**. Therefore, no adjustment is required in the above solution on account of cheques issued, but not presented for payment, since entries would already have been made in Cash Book.

B. Balance Sheet as on 31.03.2016

Capital and Liabilities		₹	Properties and Assets		₹
Capital Fund:			**Non–Current Assets:** Fixed Assets		
Opening Balance **(WN 1)**	87,200		Club Premises (Cost)	1,16,000	
Add: Surplus during the year	24,120	1,11,320	**Less:** Accumulated Depreciation	(77,240)	38,760
Current Liabilities:			Car (Cost) (50,400 + 12,000)	62,400	
Amount due for Bar Purchases		1,720	**Less:** Depreciation	(9,360)	53,040
			Current Assets: Bar Stock		3,480
			Subscription Receivable		3,920
			Cash and Bank		13,840
Total		**1,13,040**	**Total**		**1,13,040**

Working Notes:

1. Balance Sheet as on 01.04.2015 (To find out Opening Balance of Capital Fund)

Capital and Liabilities	₹	Properties and Assets	₹
Capital Fund (balancing figure)	**87,200**	**Non–Current Assets:** Fixed Assets	
		Club Premises (1,16,000 – 75,200)	40,800
		Car (48,760 – 41,160)	7,600
Current Liabilities:		**Current Assets:** Bar Stock	2,840
Amount due for Bar Purchases	2,360	Subscription Receivable	4,800
		Cash at Bank	33,520
Total	**89,560**	**Total**	**89,560**

2. Bar Operations

(a) Bar Purchases for the year = Payment + Due at end – Due at beginning = 23,080 + 1,720 – 2,360 =	₹ 22,440
(b) Bar Stock consumed for the year = Opg Stock + Purchases – Clg Stock = 2,840 + 22,440 – 3,480 =	₹ 21,800
(c) Surplus from Bar Operations = Receipts – Cost of Stock consumed = 29,800 – 21,800 =	₹ 8,000

Note: Alternatively, the computations can be made by preparing "Creditors for Bar Purchases A/c" and "Bar Stock A/c".

3. Subscription Account

Particulars	₹	Particulars	₹
To balance b/d (Opg Bal of Subs. Rec'ble)	4,800	By balance b/d (Opg Bal of Subs. Recd in Adv.)	–
To Income and Expenditure A/c – Subs. Income recognised during the year **(balancing figure)**	**41,960**	By Cash / Bank – Subs. Received during the year	42,840
To balance c/d (Clg Bal of Subs. Recd in Adv.)	–	By balance c/d (Clg Bal of Subs. Rec'ble)	3,920
Total	**46,760**	**Total**	**46,760**

Question 5(a): Hire Purchase – Repossession **8 Marks**

Srikumar bought 2 Cars from Fair Value Motors Pvt Ltd on 01.04.2012 on the following terms:

Down Payment	**₹ 6,00,000**
1st Installment at the end of First Year	**₹ 4,20,000**
2nd Installment at the end of 2nd Year	**₹ 4,90,000**
3rd Installment at the end of 3rd Year	**₹ 5,50,000**

Interest is charged at 10% p.a.

Srikumar provides Depreciation @ 25% on the diminishing balances.

On 31.03.2015, Srikumar failed to pay the 3rd installment upon which Fair Value Motors Pvt Ltd re–possessed 1 Car. Srikumar agreed to leave one car with Fair Value Motors Pvt Ltd and adjusted the value of the Car against the amount due. The Car taken over was valued on the basis of 40% depreciation annually on written–down basis. The balance amount remaining in the Vendor's Account after the above adjustment was paid by Srikumar after 3 months with Interest @ 20% p.a.

You are required to:

(a) Calculate the Cash Price of the Cars and the interest paid with each installment.

(b) Prepare Car Account and Fair Value Motors Pvt Ltd Account in the books of Srikumar, assuming books are closed on 31st March every year. Figures may be rounded off to the nearest rupee.

Solution: **Similar to Page A.5.82 Q.No.14 & 15 [M 90, N 88 Qn]**

1. Computation of Cash Price & Interest for Srikumar (Amount in ₹)

End of Instalment	Balance due after Instalment	Inst. Amt	Cum. Amount	Int. at 10% p.a	Principal
(1)	**(2)**	**(3)**	**(4)=(2) + (3)**	**(5) = (4) × 10/110**	**(6)=(3)–(5)**
3	NIL	5,50,000	5,50,000	50,000	5,00,000
2	NIL + 5,00,000 = 5,00,000	4,90,000	9,90,000	90,000	4,00,000
1	5,00,000 + 4,00,000 = 9,00,000	4,20,000	13,20,000	1,20,000	3,00,000
				2,60,000	**12,00,000**

Note: Total Cost of the Cars = ₹12,00,000 + ₹ 6,00,000 (Down Payment) = ₹18,00,000. (i.e. ₹ 9,00,000 per Car)

2. Valuation of Car (Amount in ₹)

	Particulars	Value as per Purchaser	Value as per Vendor
	Depreciation Rate	25% p.a on Cash Price	40% p.a on Cash Price
	Value of Car on 01.04.2012	18,00,000	18,00,000
Less:	Depreciation for 2012–2013	(4,50,000)	(7,20,000)
	Value of Car on 01.04.2013	13,50,000	10,80,000
Less:	Depreciation for 2013–2014	(3,37,500)	(4,32,000)
	Value of Car on 01.04.2014	10,12,500	6,48,000
Less:	Depreciation for 2014–2015	(2,53,125)	(2,59,200)

	Particulars	Value as per Purchaser	Value as per Vendor
	Value of 2 Cars on 31.03.2015	7,59,375	3,88,800
Less:	Value of 1 Car taken over	3,79,688	1,94,400
	Value of Car after repossession	**3,79,687**	1,94,400

3. Car A/c (in the Books of Srikumar)

Date	Particulars	₹	Date	Particulars	₹
01.04.2012	To Fair Value Motors A/c	18,00,000	31.03.2013	By Depreciation (18,00,000× 25%)	4,50,000
			31.03.2013	By balance c/d	13,50,000
	Total	**18,00,000**		**Total**	**18,00,000**
01.04.2013	To balance b/d	13,50,000	31.03.2014	By Depreciation (13,50,000× 25%)	3,37,500
			31.03.2014	By balance c/d	10,12,500
	Total	**10,12,500**		**Total**	**10,12,500**
01.04.2014	To balance b/d	10,12,500	31.03.2015	By Depreciation (10,12,500 × 25%)	2,53,125
			31.03.2015	By Fair Value Motors A/c (takeover)	1,94,400
			31.03.2015	By Loss on Takeover(3,79,688–1,94,400)	1,85,288
			31.03.2015	By balance c/d	3,79,687
	Total	**10,12,500**		**Total**	**10,12,500**

4. Fair Value Motors A/c

Date	Particulars	₹	Date	Particulars	₹
01.04.2012	To Bank A/c (Down Pymt)	6,00,000	01.04.2012	By Car A/c	18,00,000
31.03.2013	To Bank (Instalment)	4,20,000	31.03.2013	By Interest(18,00,000–6,00,000)×10%	1,20,000
31.03.2013	To balance c/d **(bal.fig)**	**9,00,000**			
	Total	**19,20,000**		**Total**	**19,20,000**
31.03.2014	To Bank	4,90,000	01.04.2013	By Balance b/d	9,00,000
	To Balance c/d **(bal.fig)**	**5,00,000**	31.03.2014	By Interest (9,00,000×10%)	90,000
		9,90,000			**9,90,000**
31.03.2015	To Car A/c (take over)	3,79,687	01.04.2014	By Balance b/d	5,00,000
31.03.2015	To Balance c/d **(bal.fig)**	**1,70,313**	31.03.2015	By Interest 5,00,000 × 10%	50,000
	Total	**5,50,000**		**Total**	**5,50,000**
30.06.2015	To Bank	1,78,628	01.04.2015	By Balance b/d	1,70,313
			30.06.2015	By Interest 1,70,313 × 20% ×3/12	8,516
	Total	**1,78,828**		**Total**	**1,78,828**

Question 5(b): Insurance Claims – Loss of Stock **8 Marks**

On 1st April 2016, the Stock of Mr. Hariprasad was destroyed by fire but sufficient records were saved from which following particulars were ascertained:

Stock at Cost 1 January 2015	**1,47,000**
Stock at Cost 31 December 2015	**1,59,200**
Purchases year ended 31 December 2015	**7,96,000**
Sales year ended 31 December 2015	**9,74,000**
Purchases 01.01.2016 to 31.03.2016	**3,24,000**
Sales 01.01.2016 to 31.03.2016	**4,62,400**

In valuing the Stock for the Balance Sheet at 31st December 2015, ₹ 4,600 had been written off on certain stock which was a poor selling line having cost of ₹ 13,800. A portion of these goods were sold in March 2016 at a loss of ₹ 500 on original cost of ₹ 6,900. The remainder of this Stock was now estimated to be worth its original cost. Subject to the above exception, Gross Profit had remained at a uniform rate throughout the year.

The value of stock salvaged was ₹ 11,600. The policy was for ₹ 1,00,000 and was subject to Average Clause.

Work out the amount of the claim of loss by fire.

Solution: **Similar to Page A.5.13 Q.No.17 [N 89, M 12 (Mod)]**

1. Trading Account for the year ended 31st December 2015 (to compute Normal GP Rate)

Particulars	Normal	Abnml	Total	Particulars	Normal	Abnml	Total
To Opening Stk	1,47,000	–	1,47,000	By Sales	9,74,000	–	9,74,000
To Purchases	**(b/f)** 7,82,200	13,800	7,96,000	By Closing Stock	**(b/f)** 1,50,000	9,200	1,59,200
To GP **(b/f)**	**1,94,800**	–	**1,94,800**	By Abn Item w/off	–	**4,600**	**4,600**
Total	**11,24,000**	**13,800**	**11,37,800**	**Total**	**11,24,000**	**13,800**	**11,37,800**

Normal Gross Profit Ratio $= \dfrac{\text{Gross Profit}}{\text{Sales}} = \dfrac{₹\,1,94,800}{₹\,9,74,000} = \mathbf{20\%}$

Note:

- Normal Value of Purchases, and Normal Value of Closing Stock are derived as balancing figures from respective **Rows**.
- Normal GP and Amt written off on Abnormal Item are derived as balancing figure from the respective **Columns**.

Dr. **2. Memorandum Trading Account (1st Jan 2016 to 31st Mar 2016)** **Cr.**

Particulars			₹	Particulars			₹
To	Opening Stock	1,59,200		By	Sales	4,62,400	
Less:	Abnormal Item	(9,200)	1,50,000	**Less:**	Abnormal Item (6,900 – 500)	(6,400)	4,56,000
To Purchases			3,24,000	By Stock on the date of fire			**1,09,200**
To Gross Profit = 20% on Sales			91,200		**(balancing figure)**		
Total			**5,65,200**	**Total**			**5,65,200**

3. Statement of Insurance Claim

	Particulars	₹
	Value of Normal Stock **(WN 2)**	1,09,200
Add:	Value of Abnormal Stock (at Original Cost as given) [13,800 – 6,900]	6,900
	Total Value of Stock on 1st Apr 2016	1,16,100
Less:	Salvaged Stock	(11,600)
	Net Loss of Stock	**1,04,500**
	Admissible Claim = Net Claim $\times \dfrac{\text{Policy Amount}}{\text{Value of Stock Lost}} = ₹\ 1,04,500 \times \dfrac{₹\,1,00,000}{₹\,1,16,100}$	**90,009**

Question 6: Partnership Accounts – Death of Partner **16 Marks**

A, B & C were Partners sharing Profit and Losses in the Ratio of 2:2:1. Their Balance Sheet as on 01.04.2015 stood as follows:

Capital and Liabilities	₹	Assets	₹
Capital Accounts:		**Fixed Assets**	**10,00,000**
A 5,00,000		**Inventory**	**2,50,000**
B 4,00,000		**Trade Receivables**	**3,50,000**
C 3,00,000	**12,00,000**	**Cash and Bank**	**1,00,000**
Reserves	**1,00,000**		
Trade Payables	**4,00,000**		
Total	**17,00,000**	**Total**	**17,00,000**

On 1st October 2015, C died, His representatives agreed that:

(a) Goodwill of the Firm be valued at ₹ 5,00,000. Goodwill not to be shown in Books of Accounts,

(b) Fixed Assets be written down by ₹ 1,00,000, and

(c) In lieu of Profits, C should be paid at the rate of 25% p.a. on his Capital as on 01.04.2015.

Current Year's (2015–2016) Profit after charging depreciation of ₹ 95,000 (₹ 50,000 related to the 1st half) was ₹ 4,05,000. Profit was evenly spread throughout the year.

As on 31.03.2016, the following were the balances:

Inventory	**₹ 2,30,000**	**Trade Receivables**	**₹ 1,90,000**
Cash and Bank Balances	**₹ 43,770**	**Trade Payables**	**₹ 3,50,000**

The particulars regarding their Drawings as given below:

Partner	Upto 01.10.2015	After 01.10.2015
A	41,250	50,000
B	41,250	50,000
C	17,500	–

You are required:

(a) Prepare the Balance Sheet of the Firm as on 31.03.2016, assuming that final settlement to C's Executors was made on 31.3.2016.

(b) Prepare the Capital A/c of the Partners as on 01.10.2015 & 31.03.2016.

Solution: **Similar to Page A.6.57 Q.No.39 [N 00]**

1. Goodwill = Given = ₹ **5,00,000**

This is credited to all Partners in old PSR (2:2:1) and debited to Remaining Partners A & B in new PSR (2:2) (1:1)

Particulars	A	B	C
Creation (2:2:1)	2,00,000 (Cr.)	2,00,000 (Cr.)	1,00,000 (Cr.)
Reversal (2:2)	2,50,000 (Dr.)	2,50,000 (Dr.)	–
Net Effect	**50,000 (Dr.)**	**50,000 (Dr.)**	**1,00,000 (Cr.)**

2. Partners' Capital A/c from 01.04.2015 to 30.09.2015 (6 Months)

Particulars	A	B	C	Particulars	A	B	C
To Drawings (6 Mths)	41,250	41,250	17,500	By Balance b/d	5,00,000	4,00,000	3,00,000
To C's Capital(**WN 1**)	50,000	50,000	–	By Reserves (2:2:1)	40,000	40,000	20,000
To C's Executor's A/c **(bal. fig.)**			4,20,000	By A's Capital (WN 1)	–	–	50,000
				By B's Capital (WN 1)	–	–	50,000
To Revaluation Loss	40,000	40,000	20,000	By P&L Suspense A/c	81,250	81,250	37,500
To balance c/d	4,90,000	3,90,000	–				
Total	**6,21,250**	**5,21,250**	**4,57,500**	**Total**	**6,21,250**	**5,21,250**	**4,57,500**

Note: Loss on Revaluation of Fixed Asset = ₹ 1,00,000, distributed in old PSR 2:2:1.

3. Distribution of Profit to Partners and Application of Sec.37

Profit before Depreciation for whole year = ₹ 405,000 + ₹ 95,000 = ₹ **5,00,000**

Upto date of Death 30.09.2015 (i.e. 6 months period)

	Particulars	₹
	Pft before Deprn=₹ 5,00,000 × 6/12	2,50,000
Less:	Depreciation (given)	50,000
	Balance Profit for Distribution	**2,00,000**
Less:	**C's Share**: 3,00,000 × 25% × 6/12	37,500
	Balance to be given to A & B (2:2)	**1,62,500**

A ₹ 81,250 **B** ₹ 81,250

Balance Period (i.e. 6 months period)

	Particulars	₹
	Pft before Deprn = ₹ 5,00,000 × 6/12	2,50,000
Less:	Depreciation (given)	45,000
	Balance Profit	2,05,000
Less:	To C's Executor **(Note below)**	(66,230)
	Profit distributed in New PSR 2:2	**1,38,770**

A ₹ 69,385 **B** ₹ 69,385

Note: Right of Claim u/s 37 = Higher of the following –

(a) 6% Interest on Unsettled Capital for 6 months = ₹ 4,20,000 × 6% × 6/12 = ₹ **12,600**

(b) Profit earned out of Unsettled Capital = ₹ 2,05,000 × $\frac{4,20,000}{(4,90,000 + 3,90,000 + 4,20,000)}$ = ₹ **66,230**

(Note: Capital Balances are obtained from **WN 2**, after crediting Share of Profit upto date of death as per **WN 3.)**

4. Profit & Loss Appropriation A/c

Particulars	₹	Particulars	₹
To P&L Suspense A/c (I Half Year Profit)	2,00,000	By Profit & Loss A/c (Given)	4,05,000
To C's Executor's A/c **(WN 3)**	66,230		
To A & B Capital at 69,385 each **(WN 3)**	1,38,770		
Total	**4,05,000**	**Total**	**4,05,000**

5. C's Executor's A/c

Particulars	₹	Particulars	₹
To Bank	4,86,230	By C's Capital – transfer	4,20,000
		By P&L Appropriation A/c	66,230
Total	**4,86,230**	**Total**	**4,86,230**

6. Partners' Capital A/c from 01.10.2015 to 31.03.2016

Particulars	A	B	Particulars	A	B
To Drawings	50,000	50,000	By balance b/d	4,90,000	3,90,000
To balance c/d	**5,09,385**	**4,09,385**	By P&L Appropriation	69,385	69,385
Total	**5,59,385**	**4,59,385**	**Total**	**5,59,385**	**4,59,385**

7. Balance Sheet of the Firm as on 31.03.2016 (after death)

Capital and Liabilities	₹	Assets	₹
Capital Accounts:		Fixed Assets (10,00,000 – 95,000 – 1,00,000)	8,05,000
A 5,09,385		**Current Assets:** Inventory	2,30,000
B 4,09,385	9,18,770	Trade Receivables	1,90,000
Current Liabilities: Trade Payables	3,50,000	Cash and Bank	43,770
Total	**12,68,770**	**Total**	**12,68,770**

Question 7(a): Accounting in e–Environment **4 Marks**

Recently a growing trend has developed for outsourcing the accounting function to a Third Party. What are the bases on which choice of such Third Party is made?

Solution: **Refer Page A.1.9, Q.No.10, Point 4 [N 07, N 10, M 12, N 12 Qn]**

Question 7(b): Average Due Date **4 Marks**

A Merchant Trader having accepted the following several bills falling due on different dates, now desires to have these bill cancelled and to accept a new bill for the whole amount payable on the average due date:

Sl.No	Date of Bills	Amount (₹)	Usance of the Bill
1	1st May, 2016	500	2 Months
2	10th May, 2016	300	3 Months
3	5th June, 2016	400	2 Months
4	20th June, 2016	375	1 Months
5	10th July, 2016	500	2 Months

Find the Average Due Date. Any fraction of a day arising from the calculation to be considered as full day.

Solution: **Similar to Page A.2.4 Q.No.3 [N 11 Qn]**

Computation of Average Due Date (**Note:** Base Date = 04th July 2016)

Bill Date	Term	Due Date	No. of Days from Base Date	Amt (₹)	Product (₹)
Col. (1)	**Col. (2)**	**Col. (3)**	**Col. (4)**	**Col. (5)**	**Col. (6) = (4) × (5)**
1st May	2 months	4th July	0	500	0
10th May	3 months	13th Aug	27 + 13 = 40	300	12,000
5th June	2 months	8th Aug	27 + 8 = 35	400	14,000
20th June	1 month	23rd July	19	375	7,125
10th July	2 months	13th Sep	27 + 31+13 = 71	500	35,500
Total				**2,075**	**68,625**

Average Due Date = Base Date ± $\frac{\text{Total of Products}}{\text{Total of Amounts}}$ = 4th July + $\frac{₹68,625}{₹2,075}$ = 4th July + 34 days (approx.) = **7th August**

Question 7(c): Investment Accounts – Cum Interest Purchase **4 Marks**

On 1st December 2015, M/s Blue & Black purchased, 20,000 12% fully paid Debentures of ₹ 100 each at ₹ 105 cum–Interest Price, also paying Brokerage at 1% of Cum Interest Amount of the purchase. On 1st March 2016, the Firm sold all these Debentures at ₹ 110 Cum–Interest Price, again paying Brokerage @ 1% of Cum Interest Amount. Prepare Investment Account in the books of M/s. Blue & Black for the period 1st Dec 2015 to 1st March 2016. Interest being payable half yearly on 30th September and 31st March of every accounting year.

Solution: **Similar to Page A.5.49 Q.No.1 [M 13 Qn]**

Investment in 12% Debentures of Ram Ltd A/c

Date	Particulars	FV	Int.	Cost	Date	Particulars	FV	Int.	Cost
01.12.15	To Bank A/c	20,00,000	40,000	20,81,000	01.03.16	By Bank A/c	20,00,000	1,00,000	20,78,000
31.03.16	To P&L –Int tfr **(bal.fig)**	–	**60,000**	–	31.03.16	By P&L A/c (Loss Tfr)	–	–	**3,000 (bal.fig)**
	Total	20,00,000	1,00,000	20,81,000		Total	20,00,000	1,00,000	20,81,000

Working Notes: **1. Computation of Cost of Purchase on 01.12.2015**

	Particulars	₹
	Amount Paid (20,000 × ₹105)	21,00,000
Less:	Interest (Cum–Interest Purchase only) (for Oct and Nov 2015) (20,00,000 × 12% × 2/12)	(40,000)
Add:	Brokerage at 1% of amount paid	21,000
	Net Cost of Purchase	**20,81,000**

2.Computation of Net Sale Value of Investments on 01.03.2016

	Particulars	₹
	Sale Proceeds (20,000 × ₹110)	22,00,000
Less:	Brokerage @ 1%	(22,000)
	Net Sale Proceeds	21,78,000
Less:	Interest Component (from 1st Oct 2015 to 28 Feb 2016) (20,00,000 × 12% × 5/12)	(1,00,000)
	Net Sale Value	**20,78,000**

Question 7(d): Partnership Accounts – Share of Life Policy **4 Marks**

X, Y, Z were Partners in a Firm sharing Profit & Loss in ratio of 2:1:1. The Firm took a Joint Life Policy on the lives of all the Partners of Assured Value of ₹ 2,00,000. The Firm also took separate Life Policies of Partners as follows:

Partner	Assured Values
X	**₹ 1,50,000**
Y	**₹ 2,00,000**
Z	**₹ 3,00,000**

The premium paid for separate Life Policies was debited to Profit & Loss A/c. Surrender Value of all policies is 50%.

You are required to calculate the share of life policies which X's Executors will get in event of X's death.

Solution: **Refer Accounting Principles in Page A.6.6 Q.No.17**

Particulars	X	Y	Z	Total
1. Amount received on JLP, due to X's death, distributed to all Partners in PSR (2 : 1 : 1)	1,00,000	50,000	50,000	2,00,000
2. Amount received on Separate Life Policy of X, distributed to all Partners in PSR (2 : 1 : 1)	75,000	37,500	37,500	1,50,000
3. Surrender Value of Y's Policy, distributed to all Partners in PSR (2 : 1 : 1) = 50% of Assured Value 2,00,000	50,000	25,000	25,000	1,00,000
4. Surrender Value of Z's Policy, distributed to all Partners in PSR (2 : 1 : 1) = 50% of Assured Value 3,00,000	75,000	37,500	37,500	1,50,000
Total Amount due	**3,00,000**	**1,50,000**	**1,50,000**	**6,00,000**

Question 7(e): Profits prior to Incorporation **4 Marks**

What are the purposes for which Pre–Incorporation Profit & Pre–Incorporation Losses can be used for?

Solution: **Refer Page A.9.1 Q.No.2**

Latest Amendments in Companies Act, 2013 – relevant for IPC Group I Accounting Subject

	Notfn/Circular	Description
1.	F.No.01/19/2013 CL–V dated 27.07.2016	Amendments in **Companies (Accounts) Rules**, 2013: **Page A.8.2, A.8.3 – Q.No.2 – 8th Item – Consolidated Financial Statement:** 5th Point – Manner of Consolidation is modified as under – (a) Consolidation of Fin.Stmts shall be as per Schedule III and applicable AS. (b) The above shall **not** apply to a Company which – • is a wholly/partly–Owned Subsidiary of another Company and all its other Members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery is available with the Company, do **not** object to the Company not presenting CFS, • is a Company whose Securities are not listed or are not in the process of listing on any Stock Exchange, whether in India or outside India, and • its ultimate or any intermediate Holding Company files CFS with the ROC, which are in compliance with the applicable AS.
2.	SO 2922(E) dated 12.09.2016	**Amendments in Schedule V – Managerial Remuneration** **Page A.8.17, Q.7 – Section II of Schedule V** amended – Refer **Note below**

Schedule V – Section II

SECTION II: Remuneration Payable by Companies having no profit or Inadequate Profit without Central Government approval:

Where in any financial year during the currency of tenure of a Managerial Person, a Company has no profits or its profits are inadequate, it may, **without** Central Government approval, pay remuneration to the Managerial Person not exceeding the limits under (A) and (B) given below –

(A) BASED ON EFFECTIVE CAPITAL:

Where the Effective Capital is	Remuneration Payable p.a. shall not exceed
Negative or less than ₹ 5 Crores	₹ 60 Lakhs
₹ 5 Crores and above but less than ₹ 100 Crores	₹ 84 Lakhs
₹ 100 Crores and above but less than ₹ 250 Crores	₹ 120 Lakhs
₹ 250 Crores and above	₹ 120 Lakhs + 0.01% of the Effective Capital in excess of ₹ 250 Crores

Note: (a) Above limits shall be **doubled** if the resolution passed by the Shareholders is a **Special Resolution**.
(b) For a period less than 1 year, the limits shall be pro–rated.

(B) BASED ON KNOWLEDGE/ NO INTEREST IN CAPITAL, etc.:

In case of a Managerial Person who is functioning in a **Professional Capacity**, no approval of Central Government is required, if such Managerial Person –

(a) is **not** having any interest in the Capital of – (i) the Company, or (ii) its Holding Company, or (iii) any of its Subsidiaries directly or indirectly or through any other Statutory Structures, and **not** having any, direct or indirect interest or related to the Directors or Promoters of the Company or its Holding Company or any of its Subsidiaries at any time during the last 2 years before or on or after the date of appointment, **and**

(b) possesses Graduate Level Qualification, with expertise and specialised knowledge in the field in which the Company operates.

Note: Any Employee of a Company holding Shares of the Company not exceeding 0.5% of its Paid Up Share Capital under any scheme formulated for allotment of Shares to such Employees including ESOP or by way of qualification shall be **deemed** to be a person **not** having any interest in the Capital of the Company.

The limits specified under (A) and (B) shall apply, if –

1. **Approval by Board / Committee:** Payment of Remuneration is approved by a resolution passed by the Board and, in the case of a Company covered u/s 178(1) also by the Nomination and Remuneration Committee.
2. **No default in Debts:** The Company has not made any default in repayment of any of its Debts (including Public Deposits) or Debentures or interest payable thereon for a continuous period of 30 days in the preceding financial year before the date of appointment of such Managerial Person. [**Note:** In case of a default, the Company obtains prior approval from Secured Creditors for the proposed Remuneration and the fact of such prior approval having been obtained is mentioned in the Explanatory Statement to the Notice convening the General Meeting.]
3. **Special Resolution:** A Special Resolution has been passed at the General Meeting of the Company for payment of remuneration for a period not exceeding 3 years.
4. **Notice:** A Statement along with a Notice calling the General Meeting referred in Point 3 above, is given to the Shareholders containing – I. General Information, II. Information about the Appointee, III. Other Information, IV. Disclosures.