INTERMEDIATE

GROUP-1

PAPER-1 ACCOUNTING

RTP, MTP AND PAST PAPERS

CHAPTER-1

ACCOUNTING STANDARDS

Q-1 (a) ABC Ltd. was making provision for non-moving inventories based on no issues for the last 12 months up to 31.3.2019.

The company wants to provide during the year ending 31.3.2020 based on technical evaluation:

Total value of inventory	` 100 lakhs
Provision required based on 12 months issue	` 3.5 lakhs
Provision required based on technical evaluation	` 2.5 lakhs

Does this amount to change in Accounting Policy? Can the company change the method of provision?

(b) State whether the following statements are 'True' or 'False'. Also give reason for your answer.

1. Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
2 If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
3. All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
4. Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated. **[RTP-May'2020]**

Ans.(a) The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made. In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from ` 3.5 lakhs to ` 2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2019-20:

"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been lower by ` 1 lakh."

(b) 1. **False;** As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

2. **False;** As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
3. **True;** To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.
4. **False;** Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclose.

Q-2

Particulars		Kg.	`
Opening Inventory:	Finished Goods	1,000	25,000
	Raw Materials	1,100	11,000
Purchases		10,000	1,00,000
Labour			76,500
Overheads (Fixed)			75,000
Sales		10,000	2,80,000
Closing Inventory:	Raw Materials	900	
	Finished Goods	1200	

The expected production for the year was 15,000 kg of the finished product. Due to fall in market demand the sales price for the finished goods was ` 20 per kg and the replacement cost for the raw material was ` 9.50 per kg on the closing day. You are required to calculate the closing inventory as on that date. **[RTP-May'2020]**

Ans. Calculation of cost for closing inventory

Particulars	`
Cost of Purchase (10,200 x 10)	1,02,000
Direct Labour	76,500
Fixed Overhead $\frac{75,000 \times 10,200}{15,000}$	51,000
Cost of Production	2,29,500
Cost of closing inventory per unit (2,29,500/10,200)	` 22.50
Net Realisable Value per unit	` 20.00
Since net realisable value is less than cost, closing inventory will be valued at ` 20.	
As NRV of the finished goods is less than its cost, relevant raw materials will be valued at replacement cost i.e. ` 9.50.	
Therefore, value of closing inventory: Finished Goods (1,200 x 20) ` 24,000	
Raw Materials (900 x 9.50)	` 8,550
	` 32,550

Q-3 Classify the following activities as (1) Operating Activities, (2) Investing Activities, (3) Financing Activities (4) Cash Equivalents.

a. Proceeds from long-term borrowings.

b. Proceeds from Trade receivables.

c. Trading Commission received.

d. Redemption of Preference Shares.

e. Proceeds from sale of investment

f. Interim Dividend paid on equity shares.

g. Interest received on debentures held as investment.

h. Dividend received on shares held as investments.

i. Rent received on property held as investment.

j. Dividend paid on Preference shares.

k. Marketable Securities

Ans. Operating Activities: b, c.

Investing Activities: e, g, h, i.

Financing Activities: a, d, f, j.

Cash Equivalent: k.

Q-4

(a) Entity A has a policy of not providing for depreciation on PPE capitalized in the year until the following year, but provides for a full year's depreciation in the year of disposal of an asset. Is this acceptable?

(b) Entity A purchased an asset on 1st January 2016 for ` 1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil. On 1st January 2020, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years. Calculate the amount of depreciation for each year, if company charges depreciation on Straight Line basis

(c) The following items are given to you:

ITEMS

(1) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment);

(2) Costs of conducting business in a new location or with a new class of customer (including costs of staff training);

(3) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

(4) Costs of opening a new facility or business, such as, inauguration costs;

(5) Purchase price, including import duties and non–refundable purchase taxes, after deducting trade discounts and rebates.

With reference to AS 10 "Property, Plant and Equipment", classify the above items under the following heads

HEADS

(i) Purchase Price of PPE

(ii) Directly attributable cost of PPE or

(iii) Cost not included in determining the carrying amount of an item of PPE. **[RTP-May'20]**

Ans. (a) The depreciable amount of a tangible fixed asset should be allocated on a systematic basis over its useful life. The depreciation method should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Useful life means the period over which the asset is expected to be available for use by the entity. Depreciation should commence as soon as the asset is acquired and is available for use. Thus, the policy of Entity A is not acceptable.

(b) The entity has charged depreciation using the straight-line method at ` 10,000 per annum i.e (1,00,000/ 10 years). On 1st January 2020, the asset's net book value is [1,00,000 – (10,000 x 4)] = ` 60,000.

The remaining useful life is 4 years. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of four years. Consequently, it should charge depreciation for the next 4 years at ` 15,000 per annum i.e. (60,000 / 4 years). Depreciation is recognized even if the Fair value of the Asset exceeds its Carrying Amount. Repair and maintenance of an asset do not negate the need to depreciate it.

(c) (1) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment) will be classified as "Directly attributable cost of PPE".

(2) Costs of conducting business in a new location or with a new class of customer (including costs of staff training) will be classified under head (iii)as it will not be included in determining the carrying amount of an item of PPE.

(3) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management will be included in determination of Purchase Price of PPE

(4) Costs of opening a new facility or business, such as, inauguration costs will be classified under head (iii) as it will not be included in determining the carrying amount of an item of PPE.

(5) Purchase price, including import duties and non–refundable purchase taxes, after deducting trade discounts and rebates will be included in determination of Purchase Price of PPE.

Q-5 (i) AXE Limited purchased fixed assets costing $ 5,00,000 on 1st Jan. 2018 from an American company M/s M&M Limited. The amount was payable after 6 months. The company entered into a forward contract on 1st January 2018 for five months @ ` 62.50 per dollar. The exchange rate per dollar was as follows :

On 1st January, 2018 ` 60.75 per dollar

On 31st March, 2018 ` 63.00 per dollar

You are required to state how the profit or loss on forward contract would be recognized in the books of AXE Limited for the year ending 2017-18, as per the provisions of AS 11.

(ii) Assets and liabilities and income and expenditure items in respect of integral foreign operations are translated into Indian rupees at the prevailing rate of exchange at the end of the year. The resultant exchange differences in the case of profit, is carried to other Liabilities Account and the Loss, if any, is charged to revenue. You are required to comment in line with AS 11 **[RTP-May'20]**

Ans. **(i)** As per AS 11 "The Effects of Changes in Foreign Exchange Rates", an enterprise may enter into a forward exchange contract to establish the amount of the reporting currency required, the premium or discount arising at the inception of such a forward exchange contract should be amortized as expenses or income over the life of the contract.

	Forward Rate	` 62.50
Less: Spot Rate		(` 60.75)
	Premium on Contract	` 1.75
Contract Amount	US$ 5,00,000	
	Total Loss (5,00,000 x 1.75)	` 8,75,000
Contract period 5 months		

3 months falling in the year 2017-18; therefore loss to be recognized in 2017-18 (8,75,000/5) x 3 = ` 5,25,000. Rest ` 3,50,000 will be recognized in the following year 2018-19.

(ii) Financial statements of an integral foreign operation (for example, dependent foreign branches) should be translated using the principles and procedures described in paragraphs 8 to 16 of AS 11 (Revised 2003). The individual items in the financial statements of a foreign operation are translated as if all its transactions had been entered into by the reporting enterprise itself. Individual items in the financial statements of the foreign operation are translated at the actual rate on the date of transaction. The foreign currency monetary items (for example cash, receivables, payables) should be reported using the closing rate at each balance sheet date. Non-monetary items (for example, fixed assets, inventories, investments in equity shares) which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange date at the date of transaction. Thus the cost and depreciation of the tangible fixed assets is translated using the exchange rate at the date of purchase of the asset if asset is carried at cost. If the fixed asset is carried at fair value, translation should be done using the rate existed on the date of the valuation. The cost of inventories is translated at the exchange rates that existed when the cost of inventory was incurred and realizable value is translated applying exchange rate when realizable value is determined which is generally closing rate. Exchange difference arising on the translation of the financial statements of integral foreign operation should be charged to profit and loss account.

Thus, the treatment by the management of translating all assets and liabilities; income and expenditure items in respect of foreign branches at the prevailing rate at the year end and also the treatment of resultant exchange difference is not in consonance with AS 11 (Revised 2003).

Q-6 Omega Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13. State the values, at which the investments have to be reclassified in the following cases:

(i) Long term investments in Company A, costing ` 8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to ` 6.5 lakhs to recognize a permanent decline in value. The fair value on date of transfer is ` 6.8 lakhs.

(ii) Current investment in Company C, costing ` 10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is ` 12 lakhs.

(iii) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these investments was ` 18 lakhs but had been written down to ` 12 lakhs to recognize permanent decline as per AS 13. **[RTP-May'2020]**

Ans. As per AS 13 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer**.** And where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer. Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ` 6.5 lakhs in the books.

(ii) In this case, reclassification of current investment into long-term investments will be made at ` 10 lakhs as cost is less than its market value of ` 12 lakhs.

(iii) In this case, the book value of the investment is ` 12 lakhs, which is lower than its cost i.e. `18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at ` 12 lakhs.

Q-7 Govind Ltd. issued 12% secured debentures of ` 100 Lakhs on 01.04.2018, to be utilized as under:

Particulars	**Amount (` in lakhs)**
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2019, construction of the factory building was completed and machinery was installed and ready for its intended use. Total interest on debentures for the financial year ended 31.03.2019 was ` 12,00,000. During the year 2018-19, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of `3,00,000.

You are required to show the treatment of interest under Accounting Standard 16 and also explain nature of assets. **[RTP-May'2020]**

Ans. According to AS 16 "Borrowing Costs", borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

It also states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation 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 borrowings.

Thus, eligible borrowing cost

= ` 12,00,000 – ` 3,00,000

= ` 9,00,000

Sr. No.	**Particulars**	**Nature of assets**	**Interest to be capitalized (`)**	**Interest to be charged to Profit & Loss Account (`)**
i	Construction of factory building	Qualifying Asset	9,00,000x40/100 = ` 3,60,000	NIL
ii	Purchase of Machinery	Not a Qualifying Asset	NIL	9,00,000x35/100 = ` 3,15,000
iii	Working Capital	Not a Qualifying Asset	NIL	9,00,000x25/100 = ` 2,25,000 = ` 2,25,000
	Total		` 3,60,000	` 5,40,000

Q-8 On 31st March 2017, a business firm finds that cost of a partly finished unit on that date is Rs.530. The unit can be finished in 2017-18 by an additional expenditure of Rs.310. The finished unit can be sold for Rs.750 subject to payment of 4% brokerage on selling price. The firm seeks your advice regarding the amount at which the unfinished unit should be valued as at 31st March, 2017 for preparation of final accounts. Assume that the partly finished unit cannot be sold in semi finished form and its NRV is zero without processing it further. **[RTP May '19]**

Ans. **Valuation of unfinished unit**

	Rs.
Net selling price	750
Less : estimated cost of completion	(310)
	440
Less : Brokrage (4% of 750)	(30)
Net Realisable Value	410
Cos of inventory	530
Value of inventory (lower of cost and ane trealisable value)	410

Q-9 The Board of Directors of New Graphics Ltd. in its Board Meeting held on 18th April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31st March, 2017 and recommended a dividend of Rs.2 per equity share (on 2 crore fully paid up equity shares of Rs.10 each) for the year ended31st March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the companyon 18th June, 2017, the same will be paid to all the eligible shareholders.

Discuss on the accounting treatment and presentation of the said proposed dividend in the annual accounts of the company for the year ended 31st March, 2017 as per the applicable Accounting Standard and other Statutory Requirements. **[RTP May '19]**

Ans. As per the amendment in AS 4 "Contingencies and Events Occurring After the Balance Sheet Date" vide Companies (Accounting Standards) Amendments Rules, 2016 dated 30th March, 2016, the events which take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature.

However, dividends declared after the balance sheet date but before approval of financial statements are not recognized as a liability at the balance sheet date because no statutory obligation exists at that time. Hence such dividends are disclosed in the notes to financial statements.

No, provision for proposed dividends is not required to be made. Such proposed dividends are to be disclosed in the notes to financial statements. Accordingly, the dividend of ? 4 crores recommended by New Graphics Ltd. in its Board meeting on 18th April, 2017 shall not be accounted for in the books for the year 2016-17 irrespective of the fact that it pertains to the year 2016-17 and will be paid after approval in the Annual General Meeting of the members/shareholders.

Q-10 Goods of Rs.5,00,000 were destroyed due to flood in September, 2015. A claim was lodged with insurance company, but no entry was passed in the books for insurance claim. **[RTP May '19]**

In March, 2018, the claim was passed and the company received a payment of Rs.3,50,000 against the claim. Explain the treatment of such receipt in final accounts for the year ended 31st March, 2018.

Ans. As per the provisions of AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", prior period items are income or expenses, which arise, in the current period as a result of error or omissions in the preparation of financial statements of one or more prior periods. Further, the nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on current profit or loss can be perceived.

In the given instance, it is clearly a case of error in preparation of financial statements for the year 2015-16. Hence, claim received in the financial year 2017-18 is a prior period item and should be separately disclosed in the statement of Profit and Loss.

Q-11 Preet Ltd. is installing a new plant at its production facility. It has incurred these costs:**[RTP May '19]**

1. Cost of the plant (cost per supplier's invoice plus taxes)	Rs.50,00,000
2. Initial delivery and handling costs	Rs.4,00,000
3. Cost of site preparation	Rs.12,00,000
4. Consultants used for advice on the acquisition of the plant	Rs.14,00,000
5. Interest charges paid to supplier of plant for deferred credit	Rs.4,00,000
6. Estimated dismantling costs to be incurred after 7 years	Rs.6,00,000
7. Operating losses before commercial production	Rs.8,00,000

Please advise Preet Ltd. on the costs that can be capitalised in accordance with AS 10 (Revised).

Ans. Accordint ot As 10 (Revised), these costs can be capitalised :

1. Cost of the plant	Rs.50,00,000
2. Initial delivery and handling costs	Rs.4,00,000
3. Cost of site preparation	Rs.12,00,000
4. Consultants' fees	Rs.14,00,000
5. Estimated dismantling costs to be incurred after 7 years.	Rs.6,00,000
	Rs.86,00,000

Note: Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of Rs.4,00,000 and operating losses before commercial production amounting to Rs.8,00,000 are not regarded as directly attributable costs and thus cannot be capitalised. They should be written off to the Statement of Profit and Loss in the period they are incurred.

Q-12 Rau Ltd. purchased a plant for US$ 1,00,000 on 01st February 2016, payable after three months. Company entered into a forward contract for three months @ Rs.49.15 per dollar. Exchange rate per dollar on 01st Feb. was Rs.48.85. How will you recognise the profit or loss on forward contract in the books of Rau Ltd.?

[RTP May '19]

Ans.

Forward Rate	Rs.49.15
Less: Spot Rate	(Rs.48.85)
Premium on Contract	Rs.0.30
Contract Amount	US$ 1,00,000
Total Loss (1,00,000 x 0.30)	Rs.30,000

Contract period 3 months

Two falling the year 2016-17; therefore loss to be recognised (30,000/3) x 2 = Rs.20,000. Rest Rs.10,000 will be recognised in the following year.

Q-13 Viva Ltd. received a specific grant of Rs.30 lakhs for acquiring the plant of Rs.150 lakhs during 2014- 15 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet and was not deducted from the cost of plant. During 2017-18, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was Rs.21 lakhs and written down value of plant was Rs.105 lakhs. What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2017-18 in profit and loss account? AS 13 Accounting for Investments. **[RTP May '19]**

Ans. As per AS-12, 'Accounting for Government Grants', "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

In this case the grant refunded is ? 30 lakhs and balance in deferred income is Rs.21 lakhs, Rs.9 lakhs shall be charged to the profit and loss accountfor the year 2017-18. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years.

Q-14 Paridhi Electronics Ltd. has current investment (X Ltd.'s shares) purchased for Rs.5 lakhs, which the company want to reclassify as long term investment on 31.3.2018. The market value of these investments as on date of Balance Sheet was ?2.5 lakhs. How will you deal with this as on 31.3.18 with reference to AS-13? **[RTP May '19]**

Ans. As per AS 13'Accounting for Investments', where investments are reclassified from current to long-term, transfers are made at the lower of cost or fair value at the date of transfer.

In the given case, the market value of the investment (X Ltd. shares) is Rs.2.50 lakhs, which is lower than its cost i.e. Rs.5 lakhs. Therefore, the transfer to long term investments should be made at cost of Rs.2.50 lakhs. The loss of Rs.2.50 lakhs should be charged to profit and loss account.

Q-15 Zen Bridge Construction Limited obtained a loan of Rs.64 crores to be utilized asunder:

(i) Construction of Hill link road in Kedarnath	Rs.50 crores
(ii) Purchase of Equipment and Machineries	Rs.6 crores
(ii) Working Capital	Rs.4 crores
(iv) Purchase of Vehicles	Rs.1 crore
(v) Advances for tools/cranes etc.	Rs.1 crore
(vi) Purchase of Technical Know how	Rs.2 crores
(vii)Total Interest charged by the Bank for the year ending 31st March, 2018	Rs.1.6 crores

Show the treatment of Interest according to Accounting Standard by Zen Bridge Construction Limited. **[RTP May '19]**

Ans. According to AS 16 'Borrowing costs', qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use. As per the standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred. Capitalization of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.

The treatment of interest by Zen Bridge Construction Ltd. can be shown as:

	Qualifying Assets	**Interest to be capitalized Rs.in crores**	**Interest to be charges to Profit & Loss A/c Rs. in crores**	
Construction of hill road*	Yes	1.25		1 .6/64 x 50
Purchase of equipment and machineries	No		0.15	1.6/64x6
Working capital	No		0.10	1.6/64x4
Purchase of vehicles	No		0.025	1 .6/64 x 1
Advance for tools, cranes etc.	No		0.025	1 .6/64 x 1
Purchase of technical know-how	No		0.05	1 .6/64 x 2
Total		1.25	0.35	

*Note: It is assumed that construction of hill road will normally take more than a year (substantial period of time), hence considered as qualifying asset.

Q-16 PK Ltd. has identified business segment as its primary reporting format. It has identified India, USA and UK as three geographical segments. It sells its products in the Indian market, which constitutes 70 percent of the Company's sales. 25 per cent is sold in USA and the balance is sold in UK. Is PK Ltd. as part of its geographical secondary segment information, required to disclose segment revenue from export sales, where such sales are not significant? **[RTP May '19]**

Ans. As per AS 17 if primary format of an enterprise for reporting segment information is business segments, it should also report segment revenue from external customers by geographical area based on the geographical location of its customers, for each geographical segment whose revenue from sales to external customers is 10 per cent or more of enterprise revenue. Accordingly, for the purposes of disclosing secondary segment information, PK Ltd. is not required to disclose segment revenue from export sales to UK, since that segment does not meet the 10 per center more of enterprise revenue threshold. However, other secondary segment information as per AS 17 should be disclosed in respect of this segment if the thresholds prescribed in the AS 17 are met.

Q-17 Is it permissible not to recognize deferred tax liability on the ground that the Company expects that there will be losses both for accounting and tax purposes in near future? You are required to give advise to the company. **[RTP May '19]**

Ans. The Company should provide for deferred tax liability on the timing differences irrespective for the fact that these timing differences will reverse in the period in which the Company expects to be in loss both from the accounting as well as tax point of view. It may, however, be added that the deferred tax liability recognized at the balance sheet date will give rise to future taxable income at the time of reversal thereof.

Q-18 A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2017.

	Rs.Per unit
Raw Material X	
Cost price	380
Unloading Charges	20
Freight Inward	40
Replacement cost	300
Chemical Y	
Material consumed	440
Direct Labour	120
Variable Overheads	80

Additional Information:

(i) Total fixed overhead for the year was Rs.4,00,000 on normal capacity of 20,000 units.

(ii) Closing balance of Raw Material X was 1,000 units and Chemical Y was Rs.2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when

(i) Net realizable value of Chemical Y is Rs.800 per unit

(ii) Net realizable value of Chemical Y is Rs.600 per unit **[RTP Nov '18]**

Ans. (i) When Net Realizable Value of the Chemical Y is Rs.800 per unit

NRV is greater than the cost of Finished Goods Y i.e. Rs.660 (Refer W.N.) Hence, Raw Material and Finished Goods are to be valued at cost.

Value of Closing Stock:

	Qty.	**Rate (Rs.)**	**Amount (Rs.)**
Raw Material X	1,000	440	4,40,000
Finished Goods Y	2,400	660	15,84,000
Total Value of Closing Stock			20,24,000

(ii) When Net Realizable Value of the Chemical Y is Rs. 600 per unit

NRV is less than the cost of Finished Goods Y i.e. Rs. 660. Hence, Raw Material is to be valued at replacement cost and Finished Goods are to be valued at NRV since NRV is less than the cost.

Value of Closing Stock:

	Qty.	**Rate (Rs.)**	**Amount (Rs.)**
Raw Material X	1,000	300	3,00,000
Finished Goods Y	2,400	600	14,40,000
Total Value of Closing Stock			17,40,000

Working Note:

Statement showing cost calculation of Raw material X and Chemical Y

Raw Material X	**Rs.**
Cost Price	380
Add: Freight Inward	40
Unloading charges	20
Cost	440
Chemical Y	**Rs.**
Materials consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (Rs.4,00,000/20,000 units)	20
Cost	660

Q-19 While preparing its final accounts for the year ended 31st March, 2017, a company made provision for bad debts @ 5% of its total debtors. In the last week of February, 2017 a debtor for Rs.20 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2017 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2017? You are required to advise the company in line with AS 4. **[RTP Nov '18]**

Ans. As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date.

A debtor for Rs 20,00,000 suffered heavy loss due to earthquake in the last week of February, 2017 which was not covered by insurance. This information with its implications was already known to the company.

The fact that he became bankrupt in April, 2017 (after the balance sheet date) is only an additional information related to the condition existing on the balance sheet date.

Accordingly, full provision for bad debts amounting Rs. 20,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2017. Since the company has already made 5% provision of its total debtors, additional provision amounting Rs. 19,00,000 shall be made (20,00,000 x 95%) for the year ended 31st March, 2017.

Q-20 The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2017. You are required to advise him in the following situations in accordance with the provisions of AS 5

(i) Provision for doubtful debts was created @ 2% till 31st March, 2016. From the Financial year 2016-2017, the rate of provision has been changed to 3%.

(ii) During the year ended 31st March, 2017, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.

(iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.

(iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of Rs.20,000 per month. Earlier there was no such scheme of pension in the organization.

(v) During the year ended 31st March, 2017, there was change in cost formula in measuring the cost of inventories. **[RTP Nov '18]**

Ans. **(i)** In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2016. Subsequently in 2016-17, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.

(ii) As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous policy, will not be treated as change in an accounting policy.

(iii) Change in useful life of furniture from 5 years to 3 years is a change in estimate and is not a change in accounting policy.

(iv) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.

(v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

Q-21 ABC Ltd. is installing a new plant at its production facility. It provides you the following information:

	Rs.
Cost of the plant (cost as per supplier's invoice)	31,25,000
Estimated dismantling costs to be incurred after 5 years	2,50,000
Initial Operating losses before commercial production	3,75,000
Initial delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants used for advice on the acquisition of the plant	6,50,000

You are required to compute the costs that can be capitalised for plant by ABC Ltd., in accordance with AS 10: Property, Plant and Equipment. **[RTP Nov '18]**

Ans. According to AS 10 on Property, Plant and Equipment, the costs which will be capitalized by ABC Ltd.:

	Rs.
Cost of the plant	31,25,000
Initial delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants' fees	6,50,000
Estimated dismantling costs to be incurred after 5 years	2,50,000
Total cost of Plant	46,60,000

Note: Operating losses before commercial production amounting to Rs.3,75,000 will not be capitalized as per AS 10. They should be written off to the Statement of Profit and Loss in the period they are incurred.

Q-22 (i) Classify the following items as monetary or non-monetary item:

Share Capital

Trade Receivables

Investment in Equity shares

Fixed Assets.

(ii)

	Exchange Rate per $
Goods purchased on 1.1.2017 for US $ 15,000	Rs.75
Exchange rate on 31.3.2017	Rs.74
Date of actual payment 7.7.2017	Rs.73

You are required to ascertain the loss/gain for financial years 2016-17 and 2017-18, also give their treatment as per AS 11. **[RTP Nov '18]**

Ans. (i)

Share capital	Non-monetary
Trade receivables	Menotary
Investment in equity shares	Non-monetary
Fixed assets	Non-monetary

(ii) As per AS 11 on The Effects of Changes in Foreign Exchange Rates', all foreign currency transactions should be recorded by applying the exchange rate on the date of transactions. Thus, goods purchased on 1.1.2017 and corresponding creditor would be recorded at Rs 11,25,000 (i.e. $15,000 x Rs. 75)

According to the standard, at the balance sheet date all monetary transactions should be reported using the closing rate. Thus, creditors of US $15,000 on 31.3.2017 will be reported at Rs. 11,10,000 (i.e. $15,000 x Rs. 74) and exchange profit of Rs. 15,000 (i.e. 11,25,000 - 11,10,000) should be credited to Profit and Loss account in the year 2016-17.

On 7.7.2017, creditors of $15,000 is paid at the rate of Rs.73. As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore, Rs.15,000 (i.e. 11,10,000 - 10,95,000) will be credited to Profit and Loss account in the year 2017-18.

Q-23 A specific government grant of Rs.15 lakhs was received by USB Ltd. for acquiring the Hi-Tech Diary plant of Rs.95 lakhs during the year 2014-15. Plant has useful life of 10 years. The grant received was credited to deferred income in the balance sheet. During 2017-18, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was ? 10.50 lakhs and written down value of plant was Rs.66.50 lakhs.

(i) What should be the treatment of the refund of the grant and the effect on cost of plant and the amount of depreciation to be charged during the year 2017-18 in profit and loss account?

(ii) What should be the treatment of the refund, if grant was deducted from the cost of the plant during 2014-15 assuming plant account showed the balance of Rs.56 lakhs as on 1.4.2017?

You are required to explain in the line with provisions of AS 12. **[RTP Nov '18]**

Ans. As per para 21 of AS 12, 'Accounting for Government Grants', "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

(i) In this case the grant refunded is Rs.15 lakhs and balance in deferred income is Rs. 10.50 lakhs, Rs. 4.50 lakhs shall be charged to the profit and loss account for the year 2017-18. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years.

(ii) If the grant was deducted from the cost of the plant in the year 2014-15 then, para 21 of AS 12 states that the amount refundable in respect of grant which relates to specific fixed assets should be recorded by increasing the book value of the assets, by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case, the book value of the plant shall be increased by Rs. 15 lakhs. The increased cost of Rs. 15 lakhs of the plant should be amortized over 7 years (residual life). Depreciation charged during the year 2017-18 shall be (56+15)17 years = Rs.10.14 lakhs presuming the depreciation is charged on SLM.

Q-24 M/s Active Builders Ltd. invested in the shares of another company (with an intention to hold the shares for short term period) on 31st October, 2016 at a cost of Rs.4,50,000. It also earlier purchased Gold of Rs.5,00,000 and Silver of Rs.2,25,000 on 31st March, 2014.

Market values as on 31st March, 2017 of the above investments are as follows:

Shares Rs.3,75,000; Gold Rs.7,50,000 and Silver Rs.4,35,000

You are required explain how will the above investments be shown in the books of account of M/s Active Builders Ltd. for the year ending 31st March, 2017 as per the provisions of AS 13? **[RTP Nov '18]**

Ans. As per AS 13 'Accounting for Investments', if the shares are purchased with an intention to hold for short-term period then investment will be shown at the realizable value. In the given case, shares purchased on 31st October, 2016, will be valued at Rs. 3,75,000 as on 31st March, 2017.

Gold and silver are generally purchased with an intention to hold it for long term period until and unless given otherwise. Hence, the investment in gold and silver (purchased on 31st March, 2014) shall continue to be shown at cost as on 31st March, 2017 i.e., Rs. 5,00,000 and Rs. 2,25,000 respectively, though their realizable values have been increased.

Thus the shares, gold and silver will be shown at Rs.3,75,000, Rs. 5,00,000 and Rs. 2,25,000 respectively and hence, total investment will be valued at Rs.11,00,000 in the books of account of M/s Active Builders for the year ending 31st March, 2017 as per provisions of AS 13.

Q-25 A company incorporated in June 2017, has setup a factory within a period of 8 months with borrowed funds. The construction period of the assets had reduced drastically due to usage of technical innovations by the company. Whether interest on borrowings for the period prior to the date of setting up the factory should be capitalized although it has taken less than 12 months for the assets to get ready for use. You are required to comment on the necessary treatment with reference to AS 16. **[RTP Nov '18]**

Ans. As per para 3.2 to AS 16 'Borrowing Costs', a qualifying asset is an asset that necessarily akes a substantial period of time to get ready for its intended use or sale.

Further, Explanation to the above para states that what constitutes a substantial period of time primarily depends on the facts and circumstances of each case. However, ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case. In estimating the period, time which an asset takes, technologically and commercially, to get it ready for its intended use or sale is considered.

It may be implied that there is a rebuttable presumption that a 12 months period constitutes substantial period of time.

Under present circumstances where construction period has reduced drastically due to technical innovation, the 12 months period should at best be looked at as a benchmark and not as a conclusive yardstick. It may so happen that an asset under normal circumstances may take more than 12 months to complete. However, an enterprise that completes the asset in 8 months should not be penalized for its efficiency by denying it interest capitalization and vice versa.

The substantial period criteria ensures that enterprises do not spend a lot of time and effort capturing immaterial interest cost for purposes of capitalization.

Therefore, if the factory is constructed in 8 months then it shall be considered as a qualifying asset. The interest on borrowings for the same shall be capitalised although it has taken less than 12 months for the asset to get ready to use.

Q-26 Calculate the segment results of a manufacturing organization from the following information:

Segments	**A**	**B**	**C**	**Total**
Directly attributed revenue	5,00,000	3,00,000	1,00,000	9,00,000
Enterprise revenue (allocated in 5 : 4 : 2 basis)				1,10,000
Revenue from transactions with other segments				
Transaction from B	1,00,000		50,000	1,50,000
Transaction from C	10,000	50,000		60,000
Transaction from A		25,000	1,00,000	1,25,000
Operating expenses	3,00,000	1,50,000	75,000	5,25,000
Enterprise expenses (allocated in 5 : 4 : 2 basis)				77,000
Expenses on transactions with other segments				
Transaction from B	75,000		30,000	
Transaction from C	6,000	40,000		
Transaction from A		18,000	82,000	

[RTP Nov '18]

Ans. Calculation of segment result

Segments	**A**	**B**	**C**	**Total**
Directly attributed revenue	5,00,000	3,00,000	1,00,000	9,00,000
Enterprise revenue (allocated in 5 : 4 : 2 basis)	50,000	40,000	20,000	1,10,000
Revenue from transactions with other segments				
Transaction from B	1,00,000		50,000	1,50,000
Transaction from C	10,000	50,000		60,000
Transaction from A		25,000	1,00,000	1,25,000

Total segment revenue as per AS 17 (A)	6,60,000	4,15,000	2,70,000	13,45,000
Operating expenses	3,00,000	1,50,000	75,000	5,25,000
Enterprise expenses (allocated in 5 : 4 : 2 basis)	35,000	28,000	14,000	77,000
Expenses on transactions with other segments				
Transaction from B	75,000		30,000	1,05,000
Transaction from C	6,000	40,000		46,000
Transaction from A		18,000	82,000	1,00,000
Total segment expenses as per AS 17 (B)	4,16,000	2,36,000	2,01,000	8,53,00
Segment result (A-B)	2,44,000	1,79,000	69,000	4,92,000

Q-27 Beta Ltd. is a full tax free enterprise for the first ten years of its existence and is in the second year of its operation. Depreciation timing difference resulting in a tax liability in year 1 and 2 is Rs.1,000 lakhs and Rs.2,000 lakhs respectively. From the third year it is expected that the timing difference would reverse each year by Rs.50 lakhs. Assuming tax rate of 40%, you are required to compute to the deferred tax liability at the end of the second year and any charge to the Profit and Loss account. **[RTP Nov '18]**

Ans. As per para 13 of Accounting Standard (AS) 22, Accounting for Taxes on Income", deferred tax in respect of timing differences which originate during the tax holiday period and reverse during the tax holiday period, should not be recognized to the extent deduction from the total income of an enterprise is allowed during the tax holiday period as per the provisions of sections 10A and 10B of the Income-tax Act. Deferred tax in respect of timing differences which originate during the tax holiday period but reverse after the tax holiday period should be recognized in the year in which the timing differences originate. However, recognition of deferred tax assets should be subject to the consideration of prudence. For this purpose, the timing differences which originate first should be considered to reverse first.

Out of Rs. 1,000 lakhs depreciation, timing difference amounting Rs. 400 lakhs (Rs. 50 lakhs x 8 years) will reverse in the tax holiday period and therefore, should not be recognized. However, for Rs. 600 lakhs (Rs. 1,000 lakhs - Rs. 400 lakhs), deferred tax liability will be recognized for Rs. 240 lakhs (40% of Rs. 600 lakhs) in first year. In the second year, the entire amount of timing difference of Rs. 2,000 lakhs will reverse only after tax holiday period and hence, will be recognized in full. Deferred tax liability amounting Rs. 800 lakhs (40% of Rs.2,000 lakhs) will be created by charging it to profit and loss account and the total balance of deferred tax liability account at the end of second year will be Rs. 1,040 lakhs (240 lakhs + 800 lakhs).

Q-28 "Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. "Discuss and explain the benefits of Accounting Standards. **[Sugg. Nov.'18, 5 Marks]**

Ans. Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. Accounting Standards provide a set of standard accounting policies, valuation norms and disclosure requirements. Accounting standards aim at improving the quality of financial reporting by promoting comparability, consistency and transparency, in the interests of users of financial statements.

The following are the benefits of Accounting Standards:

(i) **Standardization of alternative accounting treatments**: Accounting Standards reduce to a reasonable extent confusing variations in the accounting treatment followed for the purpose of preparation of financial statements.

(ii) **Requirements for additional disclosures**: There are certain areas where important is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

(iii) **Comparability of financial statements**: The application of accounting standards would facilitate comparison of financial statements of different companies situated in India and facilitate comparison, to a limited extent, of financial statements of companies situated in different parts of the world. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in Accounting Standards adopted in different countries.

Q-29 Hello Ltd. purchased goods at the cost of ` 20 lakhs in October. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at ` 5 lakhs. The expected sale value is ` 5.5 lakhs and a commission at 10% on sale is payable to the agent. You are required to ascertain the value of closing stock? **[RTP Nov. '19]**

Ans. As per para 5 of AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value.

In this case, the cost of inventory is ` 5 lakhs. The net realizable value is ` 4.95 lakhs (` 5.5 lakhs less cost to make the sale @ 10% of ` 5.5 lakhs). So, the closing stock should be valued at ` 4.95 lakhs.

Q-30 An earthquake destroyed a major warehouse of PQR Ltd. on 30.4.2019. The accounting year of the company ended on 31.3.2019. The accounts were approved on 30.6.2019. The loss from earthquake is estimated at ` 25 lakhs. State with reasons, whether the loss due to earthquake is an adjusting or non-adjusting event and how the fact of loss is to be disclosed by the company. **[RTP Nov. '19]**

Ans. Para 8.3 of AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", states that adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. The destruction of warehouse due to earthquake did not exist on the balance sheet date i.e. 31.3.2019. Therefore, loss occurred due to earthquake is not to be recognized in the financial year 2018-2019.

However, according to para 8.6 of the standard, unusual changes affecting the existence or substratum of the enterprise after the balance sheet date may indicate a need to consider the use of fundamental accounting assumption of going concern in the preparation of the financial statements. As per the information given in the question, the earthquake has caused major destruction; therefore, fundamental accounting assumption of going concern is called upon.

Hence, the fact of earthquake together with an estimated loss of ` 25 lakhs should be disclosed in the Report of the Directors for the financial year 2018-2019.

Q-31 The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2019. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard;

(i) Provision for doubtful debts was created @ 2% till 31st March, 2018. From the Financial year 2018-2019, the rate of provision has been changed to 3%.

(ii) During the year ended 31st March, 2019, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.

(iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.

(iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ` 20,000 per month.

Earlier there was no such scheme of pension in the organization.

(v) During the year ended 31st March, 2019, there was change in cost formula in measuring the cost of inventories. **[RTP Nov. '19]**

Ans.(i) In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2018. Subsequently in 2018-19, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.

(ii) As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous policy, will not be treated as change in an accounting policy.

(iii) Change in useful life of furniture from 5 years to 3 years is a change in estimate and is not a change in accounting policy.

(iv) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.

(v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

Q-32 Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were ` 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of ` 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at ` 49,500 per month after adding 10% profit margin.

The machine was purchased at ` 1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. ` 55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of ` 30,000 to supervise machinery installation at the factory site.

Ascertain the amount at which the Machinery should be capitalized under AS 10 considering that IGST credit is availed by the Shristhi Limited. Internally booked profits should be eliminated in arriving at the cost of machine. **[RTP Nov. '19]**

Ans. **Calculation of Cost of Fixed Asset (i.e. Machinery)**

Particulars			`
Purchase Price		Given (` 158,34,000 x 100/112)	1,41,37,500
Add:	Site Preparation Cost	Given	1,41,870
	Technician's Salary	Specific/Attributable overheads for 3 months (See Note) (45,000 x3)	1,35,000
	Initial Delivery Cost	Transportation	55,770
	Professional Fees for Installation	Architect's Fees	30,000
Total Cost of Asset			**1,45,00,140**

Q-33(i) Trade receivables as on 31.3.2019 in the books of XYZ Ltd. include an amount receivable from Umesh ` 5,00,000 recorded at the prevailing exchange rate on the date of sales, i.e. at US $ 1= ` 58.50. US $ 1 = ` 61.20 on 31.3.2019.

Explain briefly the accounting treatment needed in this case as per AS 11 as on 31.3.2019.

[RTP Nov. '19]

(ii) Power Track Ltd. purchased a plant for US$ 50,000 on 31st October, 2018 payable after 6 months. The company entered into a forward contract for 6 months @` 64.25 per Dollar. On 31st October, 2018, the exchange rate was ` 61.50 per Dollar.

You are required to recognise the profit or loss on forward contract in the books of the company for the year ended 31st March, 2019. **[RTP Nov. '19]**

Ans. (i) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or as expenses in the period in which they arise.

Accordingly, exchange difference on trade receivables amounting ` 23,076 {` 5,23,076(US $ 8547* x ` 61.20) less ` 5,00,000} should be charged to profit & Loss account.

(ii) Calculation of profit or loss to be recognized in the books of Power Track Limited

	`
Forward contract rate	64.25
Less: Spot rate	(61.50)
Loss on forward contract	2.75
Forward Contract Amount	$ 50,000
Total loss on entering into forward contract = ($ 50,000 x ` 2.75)	`1,37,500
Contract period	6 months
Loss for the period 1st November, 2018 to 31st March, 2019 i.e. 5 months falling in the year 2018-2019	5 months
Hence, Loss for 5 months will be ` 1,37,500 x $\frac{5}{6}$ =	` 1,14,583

Thus, the loss amounting to ` 1,14,583 for the period is to be recognized in the year ended 31st March, 2019.

Q-34 Samrat Limited has set up its business in a designated backward area which entitles the company for subsidy of 25% of the total investment from Government of India. The company has invested ` 80 crores in the eligible investments. The company is eligible for the subsidy and has received ` 20 crores from the government in February 2019. The company wants to recognize the said subsidy as its income to improve the bottom line of the company.

Do you approve the action of the company in accordance with the Accounting Standard? **[RTP Nov. '19]**

Ans. As per AS 12 "Accounting for Government Grants", where the government grants are in the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, Central Investment Subsidy Scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

The subsidy received by Samrat Ltd. for setting up its business in a designated backward area will be treated as grant by the government in the nature of promoter's contribution as the grant is given with reference to the total investment in an undertaking i.e. subsidy is 25% of the eligible investment and also no repayment is apparently expected in respect thereof.

* US $ 8,547 = 5,00,000/58.50

Since the subsidy received is neither in relation to specific fixed assets nor in relation to revenue.

Thus, the company cannot recognize the said subsidy as income in its financial statements in the given case. It should be recognized as capital reserve which can be neither distributed as dividend nor considered as deferred income.

Q-35 Z Bank has classified its total investment on 31-3-2018 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI Guidelines.

'Held to maturity' investments are carried at acquisition cost less amortized amount. 'Available for sale' investments are carried at marked to market. 'Held for trading' investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored.

You are required to comment whether the policy of the bank is in accordance with AS 13?**[RTP Nov. '19]**

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

Q-36 In May, 2018, Capacity Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2019 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was ` 18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2019 amounted to ` 25 lakhs.

Can ` 25 lakhs be treated as part of the cost of factory building and thus be capitalized on the plea that the loan was specifically taken for the construction of factory building? Explain the treatment in line with the provisions of AS 16. AS 17 Segment Reporting. **[RTP Nov. '19]**

Ans. AS 16 clearly states that capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Therefore, interest on the amount that has been used for the construction of the building up to the date of completion (January, 2019) i.e. ` 18 lakhs alone can be capitalized. It cannot be extended to ` 25 lakhs.

Q-37 A Company has an inter-segment transfer pricing policy of charging at cost less 5%. The market prices are generally 20% above cost.

You are required to examine whether the policy adopted by the company is correct or not?

[RTP Nov. '19]

Ans. AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing inter-segment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if followed consistently.

Q-38 The Accountant of Sohna Ltd. provides the following information for the year ended 31-03-2019:

Particulars	`
Accounting Profit	7,50,000
Book Profit as per MAT	4,37,500
Profit as per Income Tax Act	90,000
Tax rate	20%
MAT rate	7.50%

You are required to calculate the deferred tax asset/ liability as per AS 22 and amount of tax to be debited to the Profit and Loss Account for the year. **[RTP Nov. '19]**

Ans. Tax as per accounting profit 7,50,000 x 20% = ` 1,50,000

Tax as per Income-tax Profit 90,000 x 20% = ` 18,000

Tax as per MAT 4,37,500 x 7.50% = ` 32,812.50

Tax expense= Current Tax + Deferred Tax

` 1,50,000 = ` 18,000 + Deferred tax

Therefore, **Deferred Tax liability** as on 31-03-2019

= ` 1,50,000 - ` 18,000 = ` 1,32,000

Amount of tax to be debited in Profit and Loss account for the year 31-03-2019

Current Tax + Deferred Tax liability + Excess of MAT over current tax

= ` 18,000 + ` 1,32,000 + ` 14,812.50 (32,812.50 - 18,000)

= ` 1,64,812.50

Q-39 A private limited company manufacturing fancy terry towels had valued its closing inventory of inventories of finished goods at the realizable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.

You are required to ***advise*** the company on the valuation of the inventories in line with the provisions of AS 2. **[RTP May '18]**

Ans. Accounting Standard 2 "Valuation of Inventories" states that inventories should be valued at lower of historical cost and net realizable value. The standard states, "at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods are often valued at net realizable value at certain stages of production."

Terry Towels do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing inventory of finished goods (Fancy terry towel) should have been valued at lower of cost and net realizable value and not at net realizable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing inventory of inventories of finished goods is not correct.

Q-40 With reference to AS 4 "Contingencies and events occurring after the balance sheet date", ***identify*** whether the following events will be treated as contingencies, adjusting events or non-adjusting events occurring after balance sheet date in case of a company which follows April to March as its financial year.

(i) A major fire has damaged the assets in a factory on 5th April, 5 days after the year end. However, the assets are fully insured and the books have not been approved by the Directors.

(ii) A suit against the company's advertisement was filed by a party on 10th April, 10 days after the year end claiming damages of Rs.20 lakhs. **[RTP May '18]**

Ans. According to AS 4 on 'Contingencies and Events Occurring after the Balance Sheet Date', adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. However, adjustments to assets and liabi lilies are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. "Contingencies" used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur.

(i) Fire has occurred after the balance sheet date and also the loss is totally insured. Therefore, the event becomes immaterial and the event is **non-adjusting** in nature.

(ii) The contingency is restricted to conditions existing at the balance sheet date. However, in the given case, suit was filed against the company's advertisement by a party on 10th April for amount of Rs. 20 lakhs. Therefore, it does not fit into the definition of a contingency and hence is a **non-adjusting event**.

Q-41 Bela Ltd. has a vacant land measuring 20,000 sq. mts, which it had no intention to use in the future. The Company decided to sell the land to tide over its liquidity problems and made a profit of Rs.10 Lakhs by selling the said land. Moreover, there was a fire in the factory and a part of the unused factory shed valued at Rs.8 Lakhs was destroyed. The loss from fire was set off against the profit from sale of land and profit of Rs.2 lakhs was disclosed as net profit from sale of assets.

*You are required to **examine** the treatment and disclosure done by the company and advise the company in line with AS 5.* **[RTP May '18]**

Ans. As per AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.

In the given case the selling of land to tide over liquidation problems as well as fire in the Factory does not constitute ordinary activities of the Company. These items are distinct from the ordinary activities of the business. Both the events are material in nature and expected not to recur frequently or regularly. Thus, these are Extraordinary Items.

Therefore, in the given case, disclosing net profits by setting off fire losses against profit from sale of land is not correct. The profit on sale of land, and loss due to fire should be disclosed separately in the statement of profit and loss.

Q-42 In the year 2016-17, an entity has acquired a new freehold building with a useful life of 50 years for Rs.90,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

Component	**Useful life (years)**	**Cost**
Land	Infinite	Rs.20,00,000
Roof	25	Rs.10,00,000
Lifts	20	Rs.5,00,000
Fixtures	10	Rs.5,00,000
Remainder of building	50	Rs.50,00,000
		Rs.90,00,000

You are required to calculate depreciation for the year 2016-17 as per componentization method.

[RTP May '18]

Ans. **Statement showing amount of depreciation as per Componentization Method**

Component	**Depreciation (Per annum) Rs.**
Land	Nil
Roof	40,000
Lifts	25,000

Fixtures	50,000
Remainder of Building	1,00,000
	2,15,000

Note: When the roof requires replacement at the end of its useful life the carrying amount will be nil. The cost of replacing the roof should be recognized as a new component.

Q-43 Power Track Ltd. purchased a plant for US$ 50,000 on 31st October, 2016 payable after 6 months. The company entered into a forward contract for 6 months @ Rs.64.25 per Dollar. On 31st October, 2016, the exchange rate was Rs.61.50 per Dollar.

You are required to ***calculate the amount of the profit or loss on forward contract*** to be recognized in the books of the company for the year ended 31st March, 2017. **[RTP May '18]**

Ans. **Calculation of profit or loss to be recognized in the books of Power Track Limited**

	Rs.
Forward contract rate	64.25
Less; Spot rate	61.50
Loss on forward contract	2.75
Forward Contract Amount	$50,000
Total loss on entering into forward contract = ($ 50,000 x Rs.2.75)	Rs.1,37,500
Contract period	6 months
Loss for the period 1st November, 2016 to 31st March, 2017 i.e. 5 months falling in the year 2016-2017	5 months
Hence, Loss for 5 months will be Rs.1,37,500 x $\frac{5}{6}$ =	Rs.1,14,583

Thus, the loss amounting to Rs. 1,14,583 for the period is to be recognized in the year ended 31st March, 2017.

Q-44 D Ltd. acquired a machine on 01-04-2012 for Rs.20,00,000. The useful life is 5 years. The company had applied on 01-04-2012, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2015. The Company's Fixed Assets Account for the financial year 2015-16 shows a credit balance as under:

Particular	**Rs.**
Machine (Original Cost)	20,00,000
Less; Accumulated Depreciation (from 2012-13- to 2014-15 on Straight Line Method)	12,00,000
	8,00,000
Less; Grant received	16,00,000
Balance	8,00,000

You are required to ***explain*** how should the company deal with this asset in its accounts for 2015-16?

[RTP May '18]

Ans. From the above account, it is inferred that the Company follows Reduction Method for accounting of Government Grants. Accordingly, out of the Rs. 16,00,000 that has been received, Rs. 8,00,000 (being the balance in Machinery A/c) should be credited to the machinery A/c.

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

There is no need to provide depreciation for 2015-16 or 2016-17 as the depreciable amount is now Nil.

Q-45 Paridhi Electronics Ltd. invested in the shares of another unlisted company on 1st May 2012 at a cost of Rs. 3,00,000 with the intention of holding more than a year. The published accounts of unlisted company received in January, 2017 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics Ltd. may not fetch more than Rs.45,000.

You are required to ***explain*** how you will deal with the above in the financial statements of the Paridhi Electronics Ltd. as on 31.3.17 with reference to AS 13? **[RTP May '18]**

Ans. As per AS 13, "Accounting for Investments" Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.

On this basis, the facts of the case given in the question clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares to Rs. 45,000 in the financial statements for the year ended 31st March, 2017 and charge the difference of loss of Rs. 2,55,000 to profit and loss account.

Q-46 In May, 2016, Capacity Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2017 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was Rs.18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2017 amounted to Rs. 25 lakhs.

Can Rs. 25 lakhs be treated as part of the cost of factory building and thus be capitalized on the plea that the loan was specifically taken for the construction of factory building? ***Explain*** the treatment in line with the provisions of AS 16. **[RTP May '18]**

Ans. AS 16 clearly states that capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Therefore, interest on the amount that has been used for the construction of the building up to the date of completion (January, 2017) i.e. Rs.18 lakhs alone can be capitalized. It cannot be extended to Rs.25 lakhs.

Q-47 A Company has an inter-segment transfer pricing policy of charging at cost less 5%. The market prices are generally 20% above cost.

You are required to examine whether the policy adopted by the company is correct or not?**[RTP May '18]**

Ans. AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing intersegment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if followed consistently.

Q-48 Rama Ltd., has provided the following information:

	Rs.
Depreciation as per accounting records	= 2,00,000
Depreciation as per income tax records	= 5,00,000
Unamortized preliminary expenses as per tax record	= 30,000

There is adequate evidence of future profit sufficiency.

You are required to calculate the amount of deferred tax asset/liability to be recognized as transition adjustment assuming Tax rate as 50%. **[RTP May '18]**

Ans. **Table showing calculation of deferred tax asset / liability**

Particulars	**Amount Rs.**	**Timing differences**	**Deferred tax**	**Amount @50%**
Excess depreciation as per tax records (Rs.5,00,000 - Rs.2,00,000)	3,00,000	Timing	Deferred tax liability	1,50,000
Unamortized preliminary expenses as per tax records	30,000	Timing	Deferred tax assets	15,000
Net deferred tax liability				1,35,000

---0---0---

CHAPTER-2

Framework for prepartion and presentation of Financial Statements

Q-1 A Ltd. has entered into a binding agreement with Gamma Ltd. to buy a custom-made machine `1,00,000. At the end of 20X1-X2, before delivery of the machine, A Ltd. had to change its method of production. The new method will not require the machine ordered and it will be scrapped after delivery. The expected scrap value is nil.

You are required to advise the accounting treatment and give necessary journal entry in the year 20X1-X2. **[RTP-May'2020]**

Ans. A liability is recognised when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured. In the given case, A Ltd. should recognise a liability of ` 1,00,000 to Gamma Ltd..

When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognised as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognised as an expense.

Journal entry

Loss on change in production method	Dr.	1,00,000	
To Gamma Ltd.			1,00,000
(Loss due to change in production method)			
Profit and loss A/c	Dr.	1,00,000	
To Loss on change in production method			1,00,000
transferred to profit and loss account)			

Q-2 With regard to financial statements name any four.

(1) Users

(2) Qualitative characteristics

(3) Elements

(b) What are fundamental accounting assumptions? **[RTP May '19]**

Ans. **(1) Users of Financial statement**

Investors, employees, Lenders, Supllies/Creditors, Customers, Govt. & Public

(2) Qualitative Characteristics of Financial Statements :

Understandability, Relevance, Comparability, Reliability & Faithful Representation

(3) Elements of Financial Statement :

Asset, Liability, Equity, Income/gain and Expense/Loss

(b) Fundamental Accountig Assumptions :

Accrual, Going Concern and Consistency

Q-3

(a) Explain in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the Balance Sheet or Statement of Profit and Loss.

(b) Mohan started a business on 1st April 2017 with Rs.12,00,000 represented by 60,000 units of Rs.20 each. During the financial year ending on 31st March, 2018, he sold the entire stock for Rs.30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Mohan in the year 2017-18 if Financial Capital is maintained at historical cost. **[RTP Nov '18]**

Ans. **(a)** The Framework for Recognition and Presentation of Financial statements recognizes four alternative measurement bases for the purpose of determining the value at which an element can be recognized in the balance sheet or statement of profit and loss. These bases are: (i)Historical Cost; (ii)Currentcost (iii) Realizable (Settlement) Value and (iv) Present Value.

A brief explanation of each measurement basis is as follows:

1. **Historical Cost:** Historical cost means acquisition price. According to this, assets are recorded at an amount of cash or cash equivalent paid or the fair value of the asset at the time of acquisition. Liabilities are generally recorded at the amount of proceeds received in exchange for the obligation.
2. **Current Cost:** Current cost gives an alternative measurement basis. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
3. **Realizable (Settlement) Value:** As per realizable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal. Liabilities are carried at their settlement values; i.e. the undiscounted amount of cash or cash equivalents paid to satisfy the liabilities in the normal course of business.
4. **Present Value:** Under present value convention, assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities under this convention are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

(b)

Particular	**Financial Capital Maintenance at Historical Cost (Rs.)**
Closing equity (Rs.30 x 60,000 units)	18,00,000 represented by cash
Opening equity	60,000 units x Rs. = 12,00,000
Permissible drawings to keep Capital intact	6,00,000 (1,80,000 - 12,00,000)

Thus, in order to maintain the capital intact Mohan can withdraw Rs. 6,00,000 as the maximum amount

Q-4 Explain main elements of Financial Statements. **[RTP May '18]**

Ans. **Elements of Financial Statements**

The Framework for preparation and Presentation of financial statements classifies items of financial statements can be classified in five broad groups depending on their economic characteristics: Asset, Liability, Equity, Income/Gain and Expense/Loss.

Assets Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise

Liability Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.

Equity	Residual interest in the assets of an enterprise after deducting all its liabilities.
Income/gain	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants
Expense/loss	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity other than those relating to distributions to equity participants.

Q-5 Summarised Balance Sheet of Cloth Trader as on 31.03.2017 is given below:

Liabilities	**Amount (`)**	**Assets**	**Amount (`)**
Proprietor's Capital	3,00,000	Fixed Assets	3,60,000
Profit & Loss Account	1,25,000	Closing Stock	1,50,000
10% Loan Account	2,10,000	Sundry Debtors	1,00,000
Sundry Creditors	50,000	Deferred Expenses	50,000
		Cash & Bank	25,000
	6,85,000		**6,85,000**

Additional Information is as follows :

(1) The remaining life of fixed assets is 8 years. The pattern of use of the asset is even. The net realisable value of fixed assets on 31.03.2018 was ` 3,25,000.

(2) Purchases and Sales in 2017-18 amounted to ` 22,50,000 and ` 27,50,000 respectively.

(3) The cost and net realizable value of stock on 31.03.2018 were ` 2,00,000 and ` 2,50,000 respectively.

(4) Expenses for the year amounted to ` 78,000.

(5) Deferred Expenses are amortized equally over 5 years.

(6) Sundry Debtors on 31.03.2018 are ` 1,50,000 of which ` 5,000 is doubtful. Collection of another ` 25,000 depends on successful re-installation of certain product supplied to the customer;

(7) Closing Sundry Creditors are ` 75,000, likely to be settled at 10% discount.

(8) Cash balance as on 31.03.2018 is ` 4,22,000.

(9) There is an early repayment penalty for the loan of ` 25,000.

You are required to prepare: (Not assuming going concern)

(1) Profit & Loss Account for the year 2017-18.

(2) Balance Sheet as on 31st March, 2018. **[Sugg. May '19, 5 Marks]**

Ans. Profit and Loss Account for the year ended 2017-18(not assuming going concern)

Particulars	**Amount** `	**Particulars**	**Amount** `
To Opening Stock	1,50,000	By Sales	27,50,000
To Purchases	22,50,000	By Closing Stock	2,50,000
To Expenses*	78,000	By Trade payables	7,500
To Depreciation	35,000		
To Provision for doubtful debts	30,000		
To Deferred cost	50,000		
To Loan penalty	25,000		
To Net Profit (b.f.)	3,89,500		
	30,07,500		**30,07,500**

Balance Sheet as at 31st March, 2018 (not assuming going concern)

Liabilities	Amount `	Assets	Amount `
Capital	3,00,000	Fixed Assets	3,25,000
Profit & Loss A/c	5,14,500	Stock	2,50,000
10% Loan	2,35,000	Trade receivables (less provision)	1,20,000
Trade payables	67,500	Deferred costs	Nil
		Bank	4,22,000
	11,17,000		**11,17,000**

*Assumed that ` 78,000 includes interest on 10% loan amount for the year.

Q-6 "One of the characteristic of the financial statement is neutrality."Do you agree with this statement? Explain in brief. **[Sugg. Nov.'18, 5 Marks]**

Ans. Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias.

Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion based on the business results. Information contained in the financial statements must be free from bias. It should reflect a balanced view of the financial position of the company without attempting to present them in biased manner. Financial statements cannot be prepared with the purpose to influence certain division, i.e. they must be neutral.

Q-7 Briefly explain the elements of financial statements. **[Sugg. May '18, 5 Marks]**

Ans. **Elements of Financial Statements**

Assets	Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise
Liability	Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.
Equity	Residual interest in the assets of an enterprise after deducting all its liabilities
Income/gain	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants
Expense/loss	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity other than those relating to distributions to equity participants.

Q-8 ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom-made machine amounting to Rs. 4,00,000. As on 31st March, 2018 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is 'NIL'.

Show the treatment of machine in the books of ABC Ltd. **[MTP Oct. '19, 5 Marks]**

Ans. A liability is recognized when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured. In the given case, ABC Ltd. should recognize a liability of Rs. 4,00,000 payable to XYZ Ltd. When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognized as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognized as an expense. Hence ABC Ltd. should charge the amount of Rs. 4,00,000 (being loss due to change in production method) to Profit and loss statement and record the corresponding liability (amount payable to XYZ Ltd.) for the same amount in the books for the year ended 31st March, 2018.

Q-9 Explain in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the Balance Sheet or Statement of Profit and Loss.

[MTP March '19, April '19,18, 5 Marks]

Ans. The Framework for Recognition and Presentation of Financial statements recognises four alternative measurement bases for the purpose of determining the value at which an element can be recognized in the balance sheet or statement of profit and loss. These bases are: (i)Historical Cost; (ii)Current cost (iii) Realisable (Settlement) Value and (iv) Present Value.

A brief explanation of each measurement basis is as follows:

1. **Historical Cost**: Historical cost means acquisition price. According to this, assets are recorded at an amount of cash or cash equivalent paid or the fair value of the asset at the time of acquisition. Liabilities are generally recorded at the amount of proceeds received in exchange for the obligation.
2. **Current Cost**: Current cost gives an alternative measurement basis. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
3. **Realisable (Settlement) Value**: As per realisable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal. Liabilities are carried at their settlement values; i.e. the undiscounted amount of cash or cash equivalents paid to satisfy the liabilities in the normal course of business.
4. **Present Value**: Under present value convention, assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities under this convention are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

Q-10 "One of the characteristics of financial statements is neutrality"- Do you agree with this statement? Comment. **[MTP March '18, 5 Marks]**

Ans. Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias.

Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion on the business results.

For example, if the assets of a company primarily consist of trade receivables and insurance claims and the financial statements do not specify that the insurance claims have been lying unrealized for a number of years or that a few key trade receivables have not given balance confirmation certificates, an erroneous conclusion may be drawn on the liquidity of the company. Financial statements are said to depict the true and fair view of the business of the organization by virtue of neutrality.

Q-11 ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom -made machine amounting to Rs. 4,00,000. As on 31st March, 2018 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is 'NIL'.

Explain the treatment of machine in the books of ABC Ltd. **[MTP Aug. '18, 5 Marks]**

Ans. A liability is recognized when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured. In the given case, ABC Ltd. should recognize a liability of Rs.4,00,000 payable to XYZ Ltd.

When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognized as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to t he enterprise is improbable. The entire amount of purchase price of the machine should be recognized as an expense.

Hence ABC Ltd. should charge the amount of Rs.4,00,000 (being loss due to change in production method) to Profit and loss statement and r ecord the corresponding liability (amount payable to XYZ Ltd.) for the same amount in the books fo r the year ended 31st March, 2018 .

Q-12 ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom-made machine amounting to Rs. 4,00,000. As on 31st March, 2018 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is 'NIL'.

Show the treatment of machine in the books of ABC Ltd. **[MTP Oct. '18, 5 Marks]**

Ans. A liability is recognized when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured. In the given case, ABC Ltd. should recognize a liability of Rs.4, 00,000 payable to XYZ Ltd. When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognized as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognized as an expense. Hence ABC Ltd. should charge the amount of Rs. 4,00,000 (being loss due to change in production method) to Profit and loss statement and record the corresponding liability (amount payable to XYZ Ltd.) for the same amount in the books for the year ended 31st March, 2018.

Q-13 Aman started a business on 1st April 20X1 with ` 24,00,000 represented by 1,20,000 units of ` 20 each. During the financial year ending on 31st March, 20X2, he sold the entire stock for ` 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Aman in the year 20X1-X2 if Financial Capital is maintained at historical cost. **[RTP Nov. '19]**

Ans.

Particulars	**Financial Capital Maintenance at Historical Cost (`)**
Closing equity (` 30 x 1,20,000 units)	36,00,000 represented by cash
Opening equity	1,20,000 units x ` 20 = 24,00,000
Permissible drawings to keep Capital intact	12,00,000 (36,00,000 – 24,00,000)

---0---0---

CHAPTER-3

Overview of Accounting Standards

UNIT - I

Q-1 Prepare cash flow from investing activities as per AS 3 of M/s Subham Creative Limited for year ended 31.3.2019.

Particulars	**Amount (`)**
Machinery acquired by issue of shares at face value	2,00,000
Claim received for loss of machinery in earthquake	55,000
Unsecured loans given to associates	5,00,000
Interest on loan received form associate company	70,000
Pre-acquisition dividend received on investment made	52,600
Debenture interest paid	1,45,200
Term loan repaid	4,50,000
Interest received on investment (TDS of ` 8,200 was deducted on the above interest)	73,800
Purchased debentures of X Ltd., on 1st December, 2018 which are redeemable within 3 months	3,00,000
Book value of plant & machinery sold (loss incurred ` 9,600)	90,000

[Sugg.Nov.'19,5 Marks]

Ans. **Cash Flow Statement from Investing Activities of Subham Creative Limited for the year ended 31-03-2019**

Cash generated from investing activities	`	`
Interest on loan received	70,000	
Pre-acquisition dividend received on investment made	52,600	
Unsecured loans given to subsidiaries	(5,00,000)	
Interest received on investments (gross value)	82,000	
TDS deducted on interest	(8,200)	
Sale of Plant & Machinery ` (90,000 – 9,600)	80,400	
Cash used in investing activities (before extra-ordinary item)		(2,23,200)
Extraordinary claim received for loss of machinery		55,000
Net cash used in investing activities (after extra-ordinary item)		(1,68,200)

Note:

1. Debenture interest paid and Term Loan repaid are financing activities and therefore not considered for preparing cash flow from investing activities.
2. Machinery acquired by issue of shares does not amount to cash outflow, hence also not considered in the above cash flow statement.
3. The investments made in debentures are for short-term, it will be treated as 'cash equivalent' and will not be considered as outflow in cash flow statement.

Q-2 Karan Enterprises having is Head office in Mangalore, Karnataka has a branch in Greenville, USA. Following is the trial balance of Branch as at 31-3-2019:

Particulars	**Amount ($) Dr.**	**Amount ($) Cr.**
Fixed assets	8,000	
Opening inventory	800	
Cash	700	
Goods received form Head Office	2,800	
Sales		24,050
Purchases	11,800	
Expenses	1,800	
Remittance to head office	2,450	
Head office account		4,300
	28,350	**28,350**

(i) Fixed assets were purchased on 1st April, 201

(ii) Depreciation at 10% p.a. is to be charged on fixed assets on straight line method,

(iii) Closing inventory at branch is $ 700 as on 31-3-2019.

(iv) Goods received form Head Office (HO) were recorded at ` 1,85,500 in HO books.

(v) Remittances to HO were recorded at ` 1,62,000 in HO books.

(vi) HO account is recorded in HO books at ` 2,84,500.

(vii) Exchange rates of US Dollar at different dates can be taken as :

1-4-2015 ` 63;

1-4-2018 ` 65 and

31-3-2019 ` 67.

Prepare the trial balance after been converted into Indian rupees in accordance with AS-11.

[Sugg.Nov.'19,5 Marks]

Ans. **Trial Balance of Foreign Branch (converted into Indian Rupees) as on March 31, 2019**

Particulars	**$ (Dr.)**	**$ (Cr.)**	**Conversion Basis**	**Rate**	**` (Dr.)**	**` (Cr.)**
Fixed Assets	8,000		Transaction Date Rate	63	5,04,000	
Opening Inventory	800		Opening Rate	65	52,000	
Goods Received from HO	2,800		Actuals		1,85,500	
Sales		24,050	Average Rate	66	15,87,300	
Purchases	11,800		Average Rate	66	7,78,800	

Expenses	1,800		Average Rate	66	1,18,800	
Cash	700		Closing Rate	67	46,900	
Remittance to HO	2,450		Actuals		1,62,000	
HO Account		4,300	Actuals			2,84,500
Exchange Rate Difference			Balancing Figure		23,800	
	28,350	**28,350**			**18,71,800**	**18,71,800**
Closing Stock	700		Closing Rate	67	46,900	
Depreciation	800		Fixed Asset Rate	63	50,400	

Q-3 Mr. Rakshit gives the following information relating to items forming part of inventory as on 31st March, 2019. His factory produces product X using raw material A.

(i) 800 units of raw material A (purchased @ ` 140 per unit).

Replacement cost of raw material A as on 31st March, 2019 is ` 190 per unit.

(ii) 650 units of partly finished goods in the process of producing X and cost incurred till date ` 310 per unit. These units can be finished next year by incurring additional cost of ` 50 per unit.

(iii) 1,800 units of finished product X and total cost incurred ` 360 per unit.

Expected selling price of product X is ` 350 per unit.

In the context of AS-2, determine how each item of inventory will be valued as on 31st March, 2019. Also, calculate the value of total inventory as on 31st March, 2019. **[Sugg.Nov.'19,5 Marks]**

Ans. 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 ` 350 and total cost per unit for production is ` 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 (` 310) or Net realizable value ` 300 (Estimated selling price ` 350 per unit less additional cost of ` 50).

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

Valuation of Total Inventory as on 31.03.2019:

	Units	**Cost (`)**	**NRV / Replacement cost `**	**Value = units x cost or NRV whichever is** less (`)	`
Raw material A	800	140	190	1,12,000	(800 x 140)
Partly finished goods	650	310	300	1,95,000	(650 x 300)
Finished goods X	1,800	60	350	6,30,000	(1,800 x 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.

Q-4 Sheetal Ltd. has provided the following information for the year ended 31st March, 2019:

Particulars	Amount (`)
Accounting profit	9,00,000
Book profit as per MAT	5,25,000
Profit as per Income Tax Act	95,000
Tax rate	30%
MAT rate	7.5%

You are required to calculate the deferred tax asset/liability as per AS-22 and amount of tax to be debited to the profit and loss account for the year. **[Sugg.Nov.'19,5 Marks]**

Ans.

Tax as per accounting profit 9,00,000 x 30%= ` 2,70,000

Tax as per Income-tax Profit 95,000 x 30% = ` 28,500

Tax as per MAT 5,25,000 x 7.50%= ` 39,375

Tax expense= Current Tax +Deferred Tax

` 2,70,000 = ` 28,500+ Deferred tax

Deferred Tax liability as on 31-03-2019

= ` 2,70,000 – ` 28,500 = ` 2,41,500

Amount of tax to be debited in Profit and Loss account for the year 31-03-2019

Current Tax + Deferred Tax liability + Excess of MAT over current tax

= ` 28,500 + ` 2,41,500+ ` 10,875 (39,375 – 28,500)

= ` 2,80,875

Q-5 M/s X & Co. (a partnership firm), had a turnover of Rs. 1.25 crores (excluding other income) and borrowings of Rs. 0.95 crores in the previous year. It wants to avail the exemptions available in application of Accounting Standards to non-corporate entities for the year ended 31.3.2018. Advise the management of M/s X & Co in respect of the exemptions of provisions of ASs, as per the directive issued by the ICAI.

[MTP Oct. '18, 5 Marks]

Ans. The question deals with the issue of Applicability of Accounting Standards to a non-corporate entity. For availment of the exemptions, first of all, it has to be seen that M/s X& Co. falls in which level of the non-corporate entities. Its classification will be done on the basis of the classification of non-corporate entities as prescribed by the ICAI. According to the ICAI, non-corporate entities can be classified under 3 levels viz Level I, Level II (SMEs) and Level III (SMEs).

An entity whose turnover (excluding other income) does exceed rupees fifty crore in the immediately preceding accounting year, will fall under the category of Level I entities. Non-corporate entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities:

(i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees one crore but does not exceed rupees fifty crore in the immediately preceding accounting year.

(ii) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees one crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

As the turnover of M/s X& Co. is more than Rs. 1 crore, it falls under 1st criteria of Level II non-corporate entities as defined above. Even if its borrowings of Rs. 0.95 crores is less than Rs. 1 crores, it will be classified as Level II Entity. In this case, AS 3, AS 17, AS 21, AS 23, AS 27 will not be applicable to M/s X & Co. Relaxations from certain requirements in respect of AS 15, AS 19, AS 20, AS 25, AS 28 and AS 29 are also available to M/s X& Co.

UNIT - II

Q-1 Mac Ltd. gives the following data regarding to its six segments :

(` in lakhs)

Particulars	A	**B**	C	**D**	**E**	**F**	**Total**
Segment assets	80	160	60	40	40	20	400
Segment results	100	(380)	20.	20	(20)	60	(200)
Segment revenue	600	1,240	160	120	160	120	2,400

The accountant contends that segments 'A' and **'B'** alone are reportable segments. Is he justified in his view ? Discuss in the context of AS-17 'Segment Reporting'. **[Sugg.Nov.'19, 5 Marks]**

Ans. As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

- Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or
- Its segment result whether profit or loss is 10% or more of combined result of all segments in profit; or combined result of all segments in loss, whichever is greater in absolute amount; or
- Its segment assets are 10% or more of the total assets of all segments.

If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments.

On the basis of turnover criteria segments A and B are reportable segments.

On the basis of the result criteria, segments A, B and F are reportable segments (since their results in absolute amount is 10% or more of ` 400 lakhs).

On the basis of asset criteria, all segments except F are reportable segments.

Since all the segments are covered in at least one of the above criteria all segments have to be reported upon in accordance with Accounting Standard (AS) 17. Hence, the opinion of accountant is wrong.

Q-2 First Ltd. began construction of a new factory building on 1st April, 2017. It obtained ` 2,00,000 as a special loan to finance the construction of the factory building on 1st April, 2017 at an interest rate of 8% per annum. Further, expenditure on construction of the factory building was financed through other non-specific loans. Details of other outstanding non-specific loans were:

Amount (`)	Rate of Interest per annum
4,00,000	9%
5,00,000	12%
3,00,000	14%

The expenditures that were made on the factory building construction were as follows:

Date	Amount (`)
1st April, 2017	3,00,000
31st May, 2017	2,40,000
1st August, 2017	4,00,000
31st December, 2017	3,60,000

The construction of factory building was completed by 31st March, 2018. As per the provisions of AS 16, you are required to:

(1) Calculate the amount of interest to be capitalized.

(2) Pass Journal entry for capitalizing the cost and borrowing cost in respect of the factory building.

[Sugg. May '19, 5 Marks]

Ans.

(i) Computation of average accumulated expenses

		`
` 3,00,000 x 12 / 12	=	3,00,000
` 2,40,000 x 10 / 12	=	2,00,000
` 4,00,000 x 8 / 12	=	2,66,667
` 3,60,000 x 3 / 12	=	90,000
		8,56,667

(ii) Calculation of average interest rate other than for specific borrowings

Amount of loan (`)	Rate of interest	Amount of interest (`)
4,00,000	9%	= 36,000
5,00,000	12%	= 60,000
3,00,000	14%	= 42,000
		1,38,000
Weighted average rate of interest		
$\left(\frac{1,38,000}{12,00,000} \times 100\right)$		= 11.5%

(iii) Amount of interest to be capitalized

	`
Interest on average accumulated expenses:	
Specific borrowings (` 2,00,000 x 8%)	= 16,000
Non-specific borrowings (` 6,56,667* x 11.5%)	= 75,517
Amount of interest to be capitalised	= 91,517

(iv) Total expenses to be capitalised for building

	`
Cost of building ` (3,00,000 + 2,40,000 + 4,00,000 + 3,60,000)	13,00,000
Add: Amount of interest to be capitalized	91,517
	13,91,517

(v) Journal Entry

Date	Particulars	Dr. (`)	Cr. (`)
31.3.2018	Building A/c Dr.	13,91,517	
	To Building WIP* A/c		13,00,000
	To Borrowing costs A/c		91,517
	(Being amount of cost of building and borrowing cost thereon capitalised)		

Q-3 On 15th June, 2018, Y limited wants to re-classify its investments in accordance with AS 13 (revised). Decide and state the amount of transfer, based on the following information:

(1) A portion of long term investments purchased on 1st March, 2017 are to be re-classified as current investments. The original cost of these investments was ` 14 lakhs but had been written down by ` 2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15th June, 2018 was ` 11 lakhs.

(2) Another portion of long term investments purchased on 15th January, 2017 are to be re-classified as current investments. The original cost of these investments was ` 7 lakhs but had been written down to ` 5 lakhs (to recognize 'other than temporary' decline in value). The fair value of these investments on 15th June, 2018 was ` 4.5 lakhs.

(3) A portion of current investments purchased on 15th March, 2018 for ` 7 lakhs are to be re-classified as long term investments, as the company has decided to retain them. The market value of these investments on 31st March, 2018 was ` 6 lakhs and fair value on 15th June 2018 was ` 8.5 lakhs,

(4) Another portion of current investments purchased on 7th December, 2017 for ` 4 lakhs are to be re-classified as long term investments. The market value of these investments was :

on 31st March, 2018	` 3.5 lakhs
on 15th June, 2018	` 3.8 lakhs

[Sugg. May '19, 5 Marks]

Ans. As per AS 13 (Revised) 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer; and where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ` 12 lakhs in the books.

(ii) In this case also, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ` 5 lakhs in the books.

(iii) In this case, reclassification of current investment into long-term investments will be made at ` 7 lakhs as cost is less than its fair value of ` 8.5 lakhs on the date of transfer.

* (` 8,56,667 - ` 2,00,000)

** Considering that ` 13,00,000 was debited to Building WIP A/c earlier.

(iv) In this case, market value (considered as fair vale) is ` 3.8 lakhs on the date of transfer which is lower than the cost of ` 4 lakhs. The reclassification of current investment into long-term investments will be made at ` 3.8 lakhs.

Q-4 State whether the following statements are 'True' or 'False'. Also give reason for your answer.

(1) As per the provisions of AS-5, extraordinary items should not be disclosed in the statement of profit and loss as a part of net profit or loss for the period.

(2) As per the provisions of AS-12, government grants in the nature of promoters' contribution which become refundable should be reduced from the capital reserve.

(3) As per the provisions of AS-2, inventories should be valued at the lower of cost and selling price.

(4) As per the provisions of AS-13, a current investment is an investment, that by its nature, is readily realisable and is intended to be held for not more than six months from the date on which such investment is made.

(5) As per the provisions of AS-4, a contingency is a condition or situation, the ultimate outcome of which (gain or loss) will be known or determined only on the occurrence of one or more uncertain future events. **[Sugg. May '19, 5 Marks]**

Ans.

(1) **False :** The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.

(2) **True:** When grants in the nature of promoters' contribution becomes refundable, in part or in full to the government on non-fulfillment of some specified conditions, the relevant amount refundable to the government is reduced from the capital reserve.

(3) **False:** Inventories should be valued at the lower of cost and net realizable value (not selling price) as per AS 2.

(4) **False:** A current investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made.

(5) **False:** A contingency is a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.

Q-5 The financial statements of PQ Ltd. for the year 2017-18 approved by the Board of Directors on 15th July, 2018. The following information was provided :

(i) A suit against the company's advertisement was filed by a party on 20th April, 2018, claiming damages of ` 25 lakhs.

(ii) The terms and conditions for acquisition of business of another company have been decided by March, 2018. But the financial resources were arranged in April, 2018 and amount invested was ` 50 lakhs.

(iii) Theft of cash of ` 5 lakhs by the cashier on 31st March, 2018 but was detected on 16th July, 2018.

(iv) Company sent a proposal to sell an immovable property for ` 40 lakhs in March, 2018. The book value of the property was ` 30 lakhs on 31st March, 2018. However, the deed was registered on 15th April, 2018.

(v) A, major fire has damaged the assets in a factory on 5th April, 2018. However, the assets are fully insured.

With reference to AS-4 "Contingencies and events occurring after the balance sheet date", state whether the above mentioned events will be treated as contingencies, adjusting events or non-adjusting events occurring after the balance sheet date. **[Sugg. May '19, 5 Marks]**

Ans. (i) Suit filed against the company is a contingent liability but it was not existing as on balance sheet date as the suit was filed on 20th April after the balance Sheet date. As per AS 4, 'Contingencies' used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. Hence, it will have no effect on financial statements and will be a non-adjusting event.

(ii) In the given case, terms and conditions for acquisition of business were finalised and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2018. This is clearly an event occuring after the balance sheet date. Hence, necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st March 2018.

(iii) Only those significant events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustment to assets and liabilities existing on the balance sheet date or may require disclosure. In the given case, theft of cash was detected on 16th July, 18 after approval of financial statements by the Board of Directors, hence no treatment is required.

(iv) Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. In the given case, sale of immovable property was under proposal stage (negotiations also not started) on the balance sheet date. Therefore, no adjustment to assets for sale of immovable property is required in the financial statements for the year ended 31st March, 2018.

(v) The condition of fire occurrence was not existing on the balance sheet date. Only the disclosure regarding event of fire and loss being completely insured may be given in the report of approving authority.

Q-6 Write short note on Timing difference and Permanent Difference as per AS 22.

[Sugg. May '19, 5 Marks]

Ans. Matching of taxes against revenue for a period poses special problems arising from the fact that in number of cases, taxable income may be different from the accounting income. The divergence between taxable income may be different from the accounting income arises due to two main reasons: Firstly, there are differences between items of revenue and expenses as appearing in the statement of profit and loss and the items which are considered as revenue, expenses or deductions for tax purposes, known as Permanent Difference. Secondly, there are differences between the amount in respect of a particular item of revenue or expense as recognised in the statement of profit and loss and the corresponding amount which is recognised for the computation of taxable income, known as Timing Difference.

Permanent differences are the differences between taxable income and accounting income which arise in one accounting period and do not reverse subsequently. For example, an income exempt from tax or an expense that is not allowable as a deduction for tax purposes.

Timing differences are those differences between taxable income and accounting income which arise in one accounting period and are capable of reversal in one or more subsequent periods. For e.g., Depreciation, Bonus, etc.

Q-7 Wooden Plywood Limited has a normal wastage of 5% in the production process. During the year 2017-18, the Company used 16,000 MT of Raw material costing ` 190 per MT. At the end of the year, 950 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books.

You are required to :

(1) Calculate the amount of abnormal loss.

(2) Explain the treatment of normal loss and abnormal loss. [In the context of AS-2 (Revised)]

[Sugg. May '19, 5 Marks]

Ans. (i) As per AS 2 (Revised) 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognised as expenses in the period in which they are incurred.

The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

Amount of Abnormal Loss:

(ii) Material used 16,000 MT @ ` 190 = ` 30,40,000

Normal Loss (5% of 16,000 MT) 800 MT (included in calculation of cost of inventories)

Net quantity of material 15,200 MT

(iii) Abnormal Loss in quantity (950 - 800) 150 MT

Abnormal Loss ` 30,000

[150 units @ ` 200 (` 30,40,000/15,200)]

Amount of ` 30,000 (Abnormal loss) will be charged to the Profit and Loss statement.

Q-8 Neon Enterprise operates a major chain of restaurants located in different cities. The company has acquired a new restaurant located at Chandigarh. The new-restaurant requires significant renovation expenditure. Management expects that the renovations will last for 3 months during which the restaurant will be closed.

Management has prepared the following budget for this period -

Salaries of the staff engaged in preparation of restaurant before its opening	` 7,50,000
Construction and remodelling cost of restaurant	` 30,00,000

Explain the treatment of these expenditures as per the provisions of AS 10 "Property, Plant and Equipment". **[Sugg. Nov.'18, 5 Marks]**

Ans. As per provisions of AS 10, any cost directly attributable to bring the assets to the location and conditions necessary for it to be capable of operating in the manner indicated by the management are called directly attributable costs and would be included in the costs of an item of PPE.

Management of Neon Enterprise should capitalize the costs of construction and remodelling the restaurant, because they are necessary to bring the restaurant to the condition necessary for it to be capable of operating in the manner intended by management. The restaurant cannot be opened without incurring the construction and remodelling expenditure amounting Rs.30,00,000 and thus the expenditure should be considered part of the asset.

However, the cost of salaries of staff engaged in preparation of restaurant Rs.7,50,000 before its opening are in the nature of operating expenditure that would be incurred if the restaurant was open and these costs are not necessary to bring the restaurant to the conditions necessary for it to be capable of operating in the manner intended by management. Hence, Rs. 7,50,000 should be expensed.

Q-9 (i) ABC Ltd. a Indian Company obtained long term loan from WWW private Ltd., a U.S. company amounting to Rs.30,00,000. It was recorded at US $1 = Rs.60.00, taking exchange rate prevailing at the date of transaction. The exchange rate on balance sheet date (31.03.2018) was US $1 = ` 62.00.

(II) Trade receivable includes amount receivable from Preksha Ltd., ` 10,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US $1 = ` 59.00. The exchange rate on balance sheet date (31.03.2018) was US $1 = ` 62.00.

You are required to calculate the amount of exchange difference and also explain the accounting treatment needed in the above two cases as per AS 11 in the books of ABC Ltd. **[Sugg. Nov.'18, 5 Marks]**

Ans. Amount of Exchange difference and its Accounting Treatment

		Foreign Currency Rate	`
	Long term Loan		
(i)	Intial recognitation US $50,000 ` (30,00,000/60)	1 US $ = ` 60	30,00,000
	Rate on Blance sheet date	1 US $ = ` 62	
	Exchange Difference Loss Us $ 50,000 X ` (62 - 60)		1,00,000
	Treatment : Credit Loan A/c and Debit FCMITD A/c or Profit and Loss A/c by ` 1,00,000		
	Trade receivables		
(ii)	Initial recognition US $ 16,949.152* (` 10,00,000/59)	1 US $ = ` 59	10,00,000
	Rate on Balance sheet date	1 Us $ = ` 62	
	Exchange Difference Gain US $ 16,949.152* x ` (62-59)		50,847.456*
	Treatment : Credit Profit and Loss A/c by ` 50,847.456* And Debit Trade Receivales		

Thus, Exchange Difference on Long term loan amounting ` 1,00,000 may either be charged to Profit and Loss A/c or to Foreign Currency Monetary Item Translation Difference Account but exchange difference on trade receivables amounting ` 50,847.456 is required to be transferred to Profit and Loss A/c.

Q-10 HIL Ltd. was making provision for non-moving stocks based on no issues having occurred for the last 12 months upto 31.03.2017. The company now wants to make provision based on technical evaluation during the year ending 31.03.2018.

Total value of stock ` 120 lakhs

Provision required based on technical evaluation ` 3.00 lakhs.

Provision required based on 12 months no issues ` 4.00 lakhs.

You are requested to discuss the following points in the light of Accounting Standard (AS)-1

(i) Does this amount to change in accounting policy?

(II) Can the company change the method of accounting? **[Sugg. Nov.'18, 5 Marks]**

Ans. The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made but the basis for making provision will not constitute accounting policy. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made.

In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from ` 4 lakhs to ? 3 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of MIL Ltd. for the year 2017-18 in the following manner:

"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the value of net assets at the end of the year would have been lower by ` 1 lakh."

Q-11 The accounting year of Dee Limited ended on 31st March, 2018 but the accounts were approved on 30th April, 2018. On 15th April, 2018 a fire occurred in the factory and office premises. The loss by fire is of such a magnitude that it was not possible to expect the enterprise Dee Limited to start operation again.

State with reasons, whether the loss due to fire is an adjusting or non- adjusting event and how the fact of loss is to be disclosed by the company in the context of the provisions of AS-4 (Revised).

[Sugg. Nov.'18, 5 Marks]

Ans. As per AS 4 (Revised) "Contingencies and Events occurring after the Balance Sheet Date", an event occurring after the balance sheet date should be an adjusting event even if it does not reflect any condition existing on the balance sheet date, if the event is such as to indicate that the fundamental accounting assumption of going concern is no longer appropriate.

The fire occurred in the factory and office premises of an enterprise after 31 March, 2018 but before approval of financial statement of 30.4.18. The loss by fire is of such a magnitude that it is not reasonable to expect the Dee Ltd. to start operations again, i.e., the going concern assumption is not valid. Since the fire occurred after 31/03/18, the loss on fire is not a result of any condition existing on 31/03/18. But the loss due to fire is an adjusting event the entire accounts need to be prepared on a liquidation basis with adequate disclosures by the company by way of note in its financial statements in the following manner:

"Major fire occurred in the factory and office premises on 15th April, 2018 which has made impossible for the enterprise to start operations again. Therefore, the financial statements have been prepared on liquidation basis."

Q-12 AXE Limited purchased fixed assets costing $ 5,00,000 on 1st Jan. 2018 from an American company M/s M&M Limited. The amount was payable after 6 months. The company entered into a forward contract on 1st January 2018 for five months @ f 62.50 per dollar. The exchange rate per dollar was as follows :

On 1st January, 2018 Rs. 60.75 per dollar

On 31st March, 2018 Rs. 63.00 per dollar

You are required to state how the profit or loss on forward contract would be recognized in the books of AXE Limited for the year ending 2017-18, as per the provisions of AS 11. **[Sugg. Nov.'18, 5 Marks]**

Ans. As per AS 11 "The Effects of Changes in Foreign Exchange Rates", an enterprise may enter into a forward exchange contract to establish the amount of the reporting currency required, the premium or discount arising at the inception of such a forward exchange contract should be amortized as expenses or income over the life of the contract.

Forward Rate	Rs.62.50
Less: Spot Rate	(Rs. 60.75)
Premium on Contract	Rs. 1.75
Contract Amount	US$5,00,000
Total Loss (5,00,000 x 1.75)	` 8,75,000

Contract period 5 months

3 months falling in the year 2017-18; therefore loss to be recognized in 2017-18 (8,75,000/5) x 3 = Rs. 5,25,000. Rest ` 3,50,000 will be recognized in the following year 2018-19.

Q-13 On 01.04.2014, XYZ Ltd. received Government grant of f 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 in 2nd April, 2017 due to non-fulfilment 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?

[Sugg. May '18, 5 Marks]

Ans. 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.

(Rs. in lakhs)

1st April, 2014	Acquisition cost of machinery (` 500 - ` 100)	400.00
31st March, 2015	Less: Depreciation @ 20%	(80)
1st April, 2015	Book value	320.00
31st March, 2016	Less: Depreciation @ 20%	(64)
1st April, 2016	Book value	256.00
31st March, 2017	Less: Depreciation @ 20%	(51.20)
1st April, 2017	Book value	204.80
2nd April, 2017	Add: Refund of grant	100.00
	Revised book value	304.80

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

Q-14 ABC Ltd. borrowed US $ 5,00,000 on 01/07/2017, which was repaid as on 31/07/2017. ABC Ltd. prepares financial statement ending on 31/03/2017. Rate of Exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under:

01/01/2017	1 US$ =	Rs.68.50
31/03/2017	1 US$ =	Rs.69.50
31/07/2017	1 US$ =	Rs70.00

You are required to pass necessary journal entries in the books of ABC Ltd. as per AS 11.

[Sugg. May '18, 5 Marks]

Ans. **Journal Entries in the Books of ABC Ltd.**

Date	Particular		Rs.(Dr.)	Rs.(Cr)
Jan. 01,2017	Bank Account (5,00,000x68.50)	Dr.	342,50,000	
	To Foreign Loan Account			342,50,000
Mar. 31, 2017	Foreign Exchange Difference Account	Dr.	5,00,000	
	To Foreign Loan Account			5,00,000
	[5,00,000 x (69.50-68.50)]			
Jul.31,2017	Foreign Exchange Difference Account		2,50,000	
	[5,00,000 x (70-69.5)]	Dr.		
	Foreign Loan Account	Dr.	347,50,000	
	To Bank Account			350,00,000

Q-15 Rohit Ltd. has provided the following information

Particulars	Rs.
Depreciation as per accounting records	2,50,000
Depreciation as per tax records	5,50,000
Unamortised preliminary expenses as per tax record	40,000

There is adequate evidence of future profit sufficiency. How much deferred tax assets/liability should be recognized as transition adjustment when the tax rate is 50%? **[Sugg. May '18, 5 Marks]**

Ans. Table showing calculation deferred tax asset/liability

Particulars	Amount Rs.	Timing defirrence	Defferred tax	Amount @50% Rs.
Excess depreciation as per tax records (Rs.5,50,000 - Rs.2,50,000)	3,00,000	Timing	Deferred tax liability	1,50,000
Unamortised preliminary expenses as per tax records	40,000	Timing	Deferred tax assest	20,000
Net deffered tax liablity				1,30,000

Net deferred tax liablity amounting Rs.1,30,000 should be recognized as transition adjustment.

Q-16 PQR Ltd. is in the process of finalizing its accounts for the year ended 31st March, 2018. The company seeks your advice on the following:

(I) Goods worth f 5,00,000 were destroyed due to flood in September, 2015. A claim was lodged with insurance company. But no entry was passed in the books for insurance claim in the financial year 2015-16. In March, 2018, the claim was passed and the company received a payment of f 3,50,000 against the claim. Explain the treatment of such receipt in final account for the year ended 31st March, 2018.

(II) Company created a provision for bad and doubtful debts at 2.5% on debtors in preparing the financial statements for the year 2017-18.

Subsequently, on a review of the credit period allowed and financial capacity of the customers, the company decides to increase the provision to 8% on debtors as on 31.03.2018. The accounts were not approved by the Board of Directors till the date of decision. While applying the relevant accounting standard, can this revision be considered as an extra ordinary item or prior period item? **[Sugg. May '18, 5 Marks]**

Ans.

(i) As per the provisions of AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", prior period items are income or expenses, which arise, in the current period as a result of error or omissions in the preparation of financial statements of one or more prior periods. Further, the nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on current profit or loss can be perceived.

In the given instance, it is clearly a case of error/omission in preparation of financial statements for the year 2015-16. Hence, claim received in the financial year 2017-18 is a prior period item and should be separately disclosed in the statement of Profit and Loss.

(ii) In the given case, a limited company created 2.5% provision for doubtful debts for the year 2017-2018. Subsequently, the company revised the estimates based on the changed circumstances and wants to create 8% provision.

As per AS 5, the revision in rate of provision for doubtful debts will be considered as change in estimate and is neither a prior period item nor an extraordinary item.

The effect of such change should be shown in the profit and loss account for the year ending 31st March, 2018.

Q-17 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 - Rs.0.90 crores and R - Rs.0.80 crores. The accountant contends all these three segments are reportable segments. Comment.

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

Therefore, the revised total assets are 12.3 crores [Rs.15 - (Rs. 1 + 0.9 + 0.8).

Details of Segment wise assets

Segment P holds total assets of Rs 3 crores (Rs 4 crores - Rs 1 crores);

Segment Q holds Rs. 5.1 crores (Rs 6 crores - 0.9 crores);

Segment R holds Rs 4.2 crores (Rs 5 crores - Rs 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.

Q-18 Classify the following activities as

(i) Operating Activities, (ii) Investing activities, (iii) Financial activities and (iv) Cash Equivalents.

(1) Cash receipts from Trade Receivables
(2) Marketable Securities
(3) Purchase of investment
(4) Proceeds from long term borrowings
(5) Wages and Salaries paid
(6) Bank overdraft
(7) Purchase of Goodwill
(8) Interim dividend paid on equity shares
(9) Short term Deposits
(10) Underwriting commission paid

[MTP Oct. '18, Sugg. May '18, 5 Marks]

Ans.

(a) Operating Activities: Items 1 and 5.
(b) Investing Activities: Items 3,7 and 9
(c) Financing Activities: Items 4,6,8 and 10
(d) Cash Equivalent: 2

Q-19 **(i)** In the year 2018-19, an entity has acquired a new freehold building with a useful life of 50 years for Rs. 75,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

Component	Useful life (Years)	Cost
Land	Infinite	Rs. 10,00,000
Roof	25	Rs. 15,00,000
Lifts	20	Rs. 7,50,000
Fixtures	10	Rs. 2,50,000
Remainder of building	50	Rs. 40,00,000
		Rs. 75,00,000

Calculate depreciation for the year 2018-19 as per componentization method. Also state the treatment, in case Roof requires replacement at the end of its useful life.

(ii) Entity A, a supermarket chain, is renovating one of its major stores. The store will have more available space for store promotion outlets after the renovation and will include a restaurant. Management is preparing the budgets for the year after the store reopens, which include the cost of remodeling and the expectation of a 15% increase in sales resulting from the store renovations, which will attract new customers.

Decide whether the remodeling cost will be capitalized or not as per provision of AS 10 "Property plant & Equipment". **[MTP Oct. '19, 5 Marks]**

Ans. **(i) Statement showing amount of depreciation as per Componentization Method**

Component	**Depreciation (Per annum) (Rs.)**
Land	Nil
Roof	60,000
Lifts	37,500
Fixtures	25,000
Remainder of Building	80,000
	2,02,500

Note: When the roof requires replacement at the end of its useful life the carrying amount will be nil. The cost of replacing the roof should be recognised as a new component.

(ii) The expenditure in remodelling the store will create future economic benefits (in the form of 15% of increase in sales). Moreover, the cost of remodelling can be measured reliably, therefore, it should be capitalized in line with AS 10 PPE.

Q-20 The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2019. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard;

(i) Provision for doubtful debts was created @ 2% till 31st March, 2018. From the Financial year 2018-2019, the rate of provision has been changed to 3%.

(ii) During the year ended 31st March, 2019, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.

(iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.

(iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organization.

(v) During the year ended 31st March, 2019, there was change in cost formula in measuring the cost of inventories. **[MTP Oct. '18, MTP Oct. '19, 5 Marks]**

Ans. **(i)** In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2018. Subsequently in 2018-19, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.

(ii) As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous policy, will not be treated as change in an accounting policy.

(iii) Change in useful life of furniture from 5 years to 3 years is a change in estimate and is not a change in accounting policy.

(iv) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.

(v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

Q-21 Mr. Mehul gives the following information relating to items forming part of inventory as on 31-3-2019. His factory produces Product X using Raw material A.

(i) 600 units of Raw material A (purchased @ Rs. 120). Replacement cost of raw material A as on 31-3-2019 is Rs. 90 per unit.

(ii) 500 units of partly finished goods in the process of producing X and cost incurred till date Rs. 260 per unit. These units can be finished next year by incurring additional cost of Rs. 60 per unit.

(iii) 1500 units of finished Product X and total cost incurred Rs. 320 per unit.

Expected selling price of Product X is Rs. 300 per unit.

Determine how each item of inventory will be valued as on 31-3-2019. Also calculate the value of total inventory as on 31-3-2019. **[MTP Oct. '19, 5 Marks]**

Ans. As per AS 2 "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. 300 and total cost per unit for production is Rs. 320.

Hence the valuation will be done as under:

(i) 600 units of raw material will be written down to replacement cost as market value of finished product is less than its cost, hence valued at Rs. 90 per unit.

(ii) 500 units of partly finished goods will be valued at 240 per unit i.e. lower of cost Rs. 320 (Rs. 260 + additional cost Rs. 60) or Net estimated selling price or NRV i.e.Rs. 240 (Estimated selling price Rs. 300 per unit less additional cost of Rs. 60).

(iii) 1,500 units of finished product X will be valued at NRV of Rs. 300 per unit since it is lower than cost Rs. 320 of product X.

Valuation of Total Inventory as on 31.03.2019:

	Units	**Cost (Rs.)**	**NRV/Replacement cost**	**Value = units x cost or NRV whichever is less (Rs.)**
Raw material A	600	120	90	54,000
Partly finished goods	500	260	240	1,20,000
Finished goods X	1,500	320	300	4,50,000
Value of Inventory				6,24,000

Q-22 State whether the following statements are 'True' or 'False'. Also give reason for your answer.

(i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.

(ii) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.

(iii) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.

(iv) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.

(v) There is no single list of accounting policies which are applicable to all circumstances.

[MTP Oct. '19, 5 Marks]

Ans. **(i) False**; As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

(ii) False; As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

(iii) True; To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed at one place.

(iv) False; Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

(v) True; As per AS 1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.

Q-23 Suhana Ltd. issued 12% secured debentures of Rs. 100 Lakhs on 01.05.2018, to be utilized as under:

Particulars	**Amount (Rs. in lakhs)**
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2019, construction of the factory building was completed and machinery was installed and ready for its intended use. Total interest on debentures for the financial year ended 31.03.2019 was Rs. 11,00,000. During the year 2018-19, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of Rs. 2,00,000.

Show the treatment of interest under Accounting Standard 16 and also explain nature of assets.

OR

Beta Ltd. is a full tax free enterprise for the first ten years of its existence and is in the second year of its operation. Depreciation timing difference resulting in a tax liability in year 1 and 2 is Rs. 1,000 lakhs and Rs. 2,000 lakhs respectively. From the third year it is expected that the timing difference would reverse each year by Rs. 50 lakhs. Assuming tax rate of 40%, find out the deferred tax liability at the end of the second year and any charge to the Profit and Loss account.

[MTP Oct. '18, MTP Aug. '18, MTP Oct. '19, 5 Marks]

Ans. According to AS 16 "Borrowing Costs", borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

It also states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation 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 borrowings.

Thus, eligible borrowing cost

= Rs. 11,00,000 - Rs. 2,00,000

= Rs. 9,00,000

Sr. No.	Particulars	Nature of assets	Interest to be Capitalized (Rs.)	Interest to be charged to Profit & Loss Account (Rs.)
i	Construction of factory building	Qualifying Asset*	9,00,000x40/100 = Rs. 3,60,000	NIL
ii	Purchase of Machinery	Not a Qualifying Asset	NIL	9,00,000x35/100 = Rs. 3,15,000
iii	Working Capital	Not a Qualifying Asset	NIL	9,00,000x25/100 = Rs. 2,25,000
	Total		Rs. 3,60,000	Rs. 5,40,000

* A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

OR

As per para 13 of Accounting Standard (AS) 22, Accounting for Taxes on Income", deferred tax in respect of timing differences which originate during the tax holiday period and reverse during the tax holiday period, should not be recognized to the extent deduction from the total income of an enterprise is allowed during the tax holiday period as per the provisions of sections 10A and 10B of the Income-tax Act. Deferred tax in respect of timing differences which originate during the tax holiday period but reverse after the tax holiday period should be recognized in the year in which the timing differences originate. However, recognition of deferred tax assets should be subject to the consideration of prudence. For this purpose, the timing differences which originate first should be considered to reverse first.

Out of Rs. 1,000 lakhs depreciation, timing difference amounting Rs. 400 lakhs (Rs. 50 lakhs x 8 years) will reverse in the tax holiday period and therefore, should not be recognized. However, for Rs. 600 lakhs (Rs. 1,000 lakhs . Rs. 400 lakhs), deferred tax liability will be recognized for Rs. 240 lakhs (40% of Rs. 600 lakhs) in first year. In the second year, the entire amount of timing difference of Rs. 2,000 lakhs will reverse only after tax holiday period and hence, will be recognized in full. Deferred tax liability amounting Rs. 800 lakhs (40% of Rs. 2,000 lakhs) will be created by charging it to profit and loss account and the total balance of deferred tax liability account at the end of second year will be Rs. 1,040 lakhs (240 lakhs + 800 lakhs).

Q-24 Gamma Limited is working on different projects which are likely to be completed within 3 years period. It recognizes revenue from these contracts on percentage of completion method for financial statements during 2014-2015, 2015-2016 and 2016-2017 for Rs. 11,00,000, Rs. 16,00,000 and Rs. 21,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognized revenue of Rs. 7,00,000, Rs. 18,00,000 and Rs. 23,00,000 for the years 2014-2015, 2015-2016 and 2016-2017 respectively. Income-tax rate is 35%.

You are required to compute the amount of deferred tax asset/liability for the years 2014-2015, 2015-2016 and 2016-2017. Also describe how this amount of deferred tax asset/liability will be disclosed in the balance sheet of Omega Limited as per provisions of AS 22.

[MTP March '18, MTP March '19, 5 Marks]

Ans. **Gamma Limited**

Calculation of Deferred Tax Asset/Liability

Year	Accounting Income	Taxable Income	Timing Difference (Balance)	Deferred Tax Liability (Balance)
2014-2015	11,00,000	7,00,000	4,00,000	1,40,000
2015-2016	16,00,000	18,00,000	2,00,000	70,000
2016-2017	21,00,000	23,00,000	NIL	NIL
	48,00,000	48,00,000		

As per AS 22, deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period. Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities. The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in the notes to accounts.

Q-25 While preparing its final accounts for the year ended 31st March, 2016, a company made provision for bad debts @ 5% of its total debtors. In the last week of February, 2016 a debtor for Rs. 20 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2016 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2016?

Commentwith reference to relevant Accounting Standard. **[MTP March '19, 5 Marks]**

Ans. As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date.

A debtor for Rs. 20,00,000 suffered heavy loss due to earthquake in the last week of February, 2016 which was not covered by insurance. Thisinformation with its implicationswas already known to the company. Thefact that he became bankrupt in April, 2016 (after the balance sheet date) is only an additional information related to the condition existing on the balance sheet date.

Accordingly, full provision for bad debts amounting Rs. 20,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2016. Since the company has already made 5% provision of its total debtors, additional provision amounting Rs. 19,00,000 shall be made (20,00,000 x95%).

Q-26 Examine whether the following will constitute a change in accounting policy or not as per AS 5.

(i) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.

(ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organisation. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organisation. **[MTP March '19, 5 Marks]**

Ans. As per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy.

(i) Accordingly, introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.

(ii) Similarly, the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial will not be treated as a change in an accounting policy.

Q-27 On the basis of information given below, find the value of inventory (by periodic inventory method) as per AS 2, to be considered while preparing the Balance Sheet as on 31st March, 2017 on weighted Average Basis.

Details of Purchases:

Date of purchase	Unit(Nos.)	Purchase cost per unit (Rs.)
01-03-2017	20	108
08-03-2017	15	107
17-03-2017	30	109
25-03-2017	15	107

Details of issue of Inventory:

Date of Issue	Unit(Nos.)
03-03-2017	10
12-03-2017	20
18-03-2017	10
24-03-2017	20

Net realizable value of inventory as on 31st March, 2017 is Rs. 107.75 per unit.

You are required to compute the value of Inventory as per AS 2. **[MTP March '19, 5 Marks]**

Ans. Net Realisable Value of Inventory as on 31st March, 2017

= Rs. 107.75 x 20 units = Rs. 2,155

Value of inventory as per Weighted Average basis

Total units purchased and total cost:

01.03.2017	Rs. 108 x 20 units = Rs. 2160
08.3.2017	Rs. 107 x 15 units = Rs. 1605
17.03.2017	Rs. 109 x 30 units = Rs. 3270
25.03.2017	Rs. 107 x 15 units = Rs. 1605
Total	80 units = Rs. 8640

Weighted Average Cost = Rs. 8640/80 units = Rs.108

Total cost =Rs. 108 x 20 units = Rs. 2,160

Value of inventory to be considered while preparing Balance Sheet as on 31st March, 2017 is, Cost or Net Realisable value whichever is lower i.e. Rs. 2,155.

Q-28 Omega Limited has borrowed a sum of US $ 10,00,000 at the beginning of Financial Year 2016-17 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 Rs. 56 per US $ and the rate as on31s'March,2017 was Rs. 62 per US $. If Omega Limited borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%.

You are required to compute Borrowing Cost and exchange difference for the year ending 31st March, 2017 as per applicable Accounting Standards. **[MTP March '19, 5 Marks]**

Ans. (i) Interest for the period 2016-17

= US $ 10 lakhs x4% x Rs. 62 per US$ = Rs. 24.80 lakhs

(ii) Increase in the liability towards the principal amount

= US $ 10 lakhs x Rs. (62 - 56) = Rs. 60 lakhs

(iii) Interest that would have resulted if the loan was taken in Indian currency

= US $ 10 lakhs x Rs. 56 x 10.5% = Rs. 58.80 lakhs

(iv) Difference between interest on local currency borrowing and foreign currency borrowing = Rs. 58.80 lakhs - Rs. 24.80 lakhs = Rs. 34 lakhs.

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

Hence, Rs. 58.80 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 and the remaining Rs. 26 lakhs (60 - 34) would be considered as the exchange difference to be accounted for as per AS 11.

Q-29 Omega Ltd., has a normal wastage of 4% in the production process. During the year 2016-17, the Company used 12,000 MTof raw material costing Rs. 150 per MT.At the end of the year 630 MT of wastage was ascertained in stock. The accountant wants to know how this wastage is to be treated in the books.

You are required to compute the amount of normal and abnormal loss and treatment thereof in line with AS 2 "Valuation of inventories". **[MTP Oct. '18, MTP April '19, MTP April '18, 5 Marks]**

Ans. As per para AS 2 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

Amount of Normal Loss and Abnormal Loss:

Material used	12,000 MT @ Rs. 150 = Rs. 18,00,000
Normal Loss (4% of 12,000 MT)	480 MT
Net quantity of material	11,520 MT
Abnormal Loss in quantity	150 MT (630 MT less480 MT)
Abnormal Loss	Rs. 23,437.50 [150 units @ Rs. 156.25 (Rs.18,00,000/11,520)]

Amount Rs. 23,437.50 will be charged to the Profit and Loss statement.

Q-30 Ram Ltd. purchased machineryfor Rs. 80 lakhs, (useful life 4 years and residual value Rs. 8 lakhs). Government grant received is Rs. 32 lakhs. Show the Journal Entry to be passed at the time of refund of grant and the value of the fixed assets in the third year and the amount of depreciation for remaining two years, if the grant is credited to Deferred Grant A/c. **[MTP April '18, MTP April '19, 5 Marks]**

Ans. **In the books of Ram Ltd.**

If the grant is credited to Deferred Grant Account:

As per AS 12 'Accounting for Government Grants,' income from Deferred Grant Account is allocated to Profit and Loss account usually over the periods and in the proportions in which depreciation on related assets is charged.

Accordingly, in the first two years (Rs. 32 lakhs /4 years) = Rs. 8 lakhs x 2 years = Rs. 16 lakhs will be credited to Profit and Loss Account and Rs. 16 lakhs will be the balance of Deferred Grant Account after two years.

Therefore, on refund of grant, following entry will be passed:

			Rs.	**Rs.**
I	Deferred Grant A/c	Dr.	16 lakhs	
	Profit & Loss A/c	Dr.	16 lakhs	
	To Bank A/c			32 lakhs
	(Being Government grant refunded)			

1. **Value of Fixed Assets after two years but before refund of grant**

   Fixed assets initially recorded in the books = Rs. 80 lakhs

   Depreciation for each year= (Rs. 80 lakhs- Rs.8 lakhs)/4 years = Rs. 18 lakhs per year Book value of fixed assets after two years = Rs. 80 lakhs - (Rs. 18 lakhs x 2 years) = Rs. 44 lakhs

2. **Value of Fixed Assets after refund of grant**

   On refund of grant the balance of deferred grant account will becomenil. Thefixed assets will continue to be shown in the books at Rs. 44 lakhs.

3. **Amount of depreciation for remaining two years**

Value of Fixed Assets before refund of grant	Rs. 28 lakhs
Add Refund of grant	Rs. 32 lakhs
	Rs. 60 lakhs

4. **Amount of depreciation for remaining two years**

   Value of the fixed assets after refund of grant -residual value of the assets / No. of years

   = Rs. 60 lakhs - Rs. 8 lakhs/ 2

   = Rs. 26 lakhs per annum will be charged for next two years.

Q-31 While preparing its final accounts for the year ended 31st March, 2019, a company made provision for bad debts @ 5% of its total debtors. In the last week of February, 2019 a debtor for Rs. 20 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2019 the debtor becamea bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2019? Comment with reference to relevant Accounting Standard. **[MTP April '19, 5 Marks]**

Ans. As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date.

A debtor for Rs. 20,00,000 suffered heavy loss due to earthquake in the last week of February, 2019 which was not covered by insurance. Thisinformation with its implicationswas already known to the company. Thefact that he became bankrupt in April, 2019 (after the balance sheet date) is only an additional information related to the condition existing on the balance sheet date.

Accordingly, full provision for bad debts amounting Rs. 20,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2019. Since the company has already made5% provision of its total debtors, additional provision amounting Rs. 19,00,000 shall be made (20,00,000 x95%).

Q-32 KumarLtd. had made a rights issue of shares in 2017. In the offer documentto its members, it had projected a surplus of Rs. 40 crores during the accounting year to end on 31st March, 2017. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of Rs. 10 crores. The board in consultation with the managing director, decided not to provide for "after sales expenses" during the warranty period. Till the last year, provision at 2% of sales used to be made under the conceptof "matching of costs against revenue" and actual expenses used to be charged against the provision. The board now decided to account for expenses as and when actually incurred. Sales during the year total to Rs. 600 crores.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2016-2017. **[MTP April '18,MTP April '19, 5 Marks]**

Ans. As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts:

So far, the companyhas been providing 2% of sales for meeting "after sales expenses during the warranty period. With the improved method of production, the probability of defects occurring in the products has reduced considerably. Hence, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is increased by Rs. 12 crores than would have been the case if the old policy were to continue.

Q-33 Mohan Ltd. purchased an asset on 1st January 2013 for Rs. 5,00,000 and the asset had an estimated useful life of 5 years and a residual value of nil. On 1st January 2017, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years.

You are required to compute the amount of depreciation for each year, if company charges depreciation on Straight Line basis. **[MTP April '19, 5 Marks]**

Ans. The entity has charged depreciation using the straight-line method at Rs. 1,00,000 per annum i.e (5,00,000/5 years). On 1st January 2017, the asset's net book value is [5,00,000 - (1,00,000 x4)] Rs. 1,00,000. The remaining useful life is 4years. Thecompanyshould amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of four years. Consequently, it should charge depreciation for the next 4 years at Rs. 25,000 per annum i.e. (1,00,000/4 years).

Q-34 Zen Bridge Construction Limited obtained a loan of Rs. 64 crores to be utilized as under:

(i) Construction of Hill link road in Kedarnath: Rs. 50 crores

(work was held up totally for a month during the year due to heavy rain which are common in the geographic region involved)

(ii) Purchase of Equipment and Machineries Rs.6 crores

(iii) Working Capital Rs.4 crores

(iv) Purchase of Vehicles Rs.1 crores

(v) Advances for tools/cranes etc. Rs. 1 crores

(vi) Purchase of Technical Know how Rs.2 crores

(vii) Total Interest charged by the Bank for the year ending 31st March, 2016 Rs.1.6 crores

You are required to show the treatment of Interest according to Accounting Standard by Zen Bridge Construction Limited. **[MTP April '18, 5 Marks]**

Ans. According to AS 16'Borrowing costs', qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use. As per the standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred. Capitalization of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.

The treatment of interest by Zen Bridge Construction Ltd. can be shown as:

	Qualifying Assets	**Interest to be capitalized Rs. in crores**	**Interest to be charged to profit & Loss A/c Rs. in crores**	
Construction of hill road*	Yes	1.25		1.6/64x50
Purchase of equipment and machineries	No		0.15	1.6/64x6
Working capitalNo			0.10	1.6/64x4
Purchase of vehicles	No		0.025	1.6/64x1
Advance for tools, cranes etc.	No			
			0.025	1.6/64x1
Purchase of technical know-how	No			
			0.05	1.6/64x2
Total		1.25	0.35	

***Note**: It is assumed that construction of hill road will normally take more than a year (substantial period of time), hence considered as qualifying asset.

Q-35 Prepare Cash Flow from Investing Activities of Creative Furnishings Limited for the year ended 31-3-2017.

Particulars	**Rs.**
Plant acquired by the issue of 8% Debentures	1,56,000
Claim received for loss of plant in fire	49,600
Unsecured loans given to subsidiaries	4,85,000
Interest on loan received from subsidiary companies	82,500

Pre-acquisition dividend received on investment made	62,400
Debenture interest paid	1,16,000
Term loan repaid	4,25,000
Interest received on investment	68,000
(IDS of Rs. 8,200 was deducted on the above interest)	
Book value of plant sold (loss incurred Rs. 9,600)	84,000

[MTP April '18, 5 Marks]

Ans. **(a) Cash Flow Statement from Investing Activities of Creative Furnishings Limited for the year ended 31-03-2017**

Cash generated from investing activities	**Rs.**	**Rs.**
Interest on loan received	82,500	
Pre-acquisition dividend received on investment made	62,400	
Unsecured loans given to subsidiaries	4,85,000	
Interest received on investments (gross value)	76,200	
IDS deducted on interest	8,200	
Sale of plant	74,400	
Cash used in investing activities (before extra ordinary item)		1,97,700
Extraordinary claim received for loss of plant		49,600
Net cash used in investing activities (after extra ordinary item)		1,48,100

Note :

1. Debenture interest paid and Term Loan repaid are financing activities and therefore not considered for preparing cash flow from investing activities.
2. Plant acquired by issue of 8% debentures does not amount to cash outflow, hence also not considered in the above cash flow statement.

Q-36 While preparing its final accounts for the year ended 31st March, 2016, a company made provision for bad debts @ 5% of its total debtors. In the last week of February, 2016 a debtor for Rs. 20 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2016 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2016?

You are required to examine and comment with reference to relevant Accounting Standard.

[MTP April '18, 5 Marks]

Ans. As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date.

A debtor for Rs. 20,00,000 suffered heavy loss due to earthquake in the last week of February, 2016 which was not covered by insurance. This information with its implications was al ready known to the company. The fact that he became bankrupt in April, 2016 (after the balance sheet date) is only an additional information related to the condition existing on the balance sheet date.

Accordingly, full provision for bad debts amounting Rs. 20,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2016. Since the company has already made 5% provision of its total debtors, additional provision amounting Rs. 19,00,000 shall be made (20,00,000 x 95%).

Q-37 The Board of Directors of New Graphics Ltd. in its Board Meeting held on 18th April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31st March, 2017 and recommended a dividend of Rs. 2 per equity share (on 2 crore fully paid up equity shares of Rs. 10 each) for the year ended 31st March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the company on 18th June, 2017, the same will be paid to all the eligible shareholders.

Discuss on the accounting treatment and presentation of the said proposed dividend in the annual accounts of the company for the year ended 31st March, 2017 as per the applicable Accounting Standard and other Statutory Requirements. **[MTP March '18, 5 Marks]**

Ans. As per the amendment in AS 4 "Contingencies and Events Occurring After the Balance Sheet Date" vide Companies (Accounting Standards) Amendments Rules, 2016 dated 30th March, 2016, the events which take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature.

However, dividends declared after the balance sheet date but before approval of financial statements are not recognized as a liability at the balance sheet date because no statutory obligation exists at that time. Hence such dividends are disclosed in the notes to financial statements.

Provision for proposed dividends is not required to be made as per the amendment in AS 4. Such proposed dividends are to be disclosed in the notes to financial statements. Accordingly, the dividend of Rs.4 crores recommended by New Graphics Ltd. in its Board meeting on 18th April, 2017 shall not be accounted for in the books for the year 2016-17 irrespective of the fact that it pertains to the year 2016-17 and will be paid after approval in the Annual General Meeting of the members/shareholders.

Q-38 On the basis of information given below, find the value of inventory (by periodic inventory method) as per AS 2, to be considered while preparing the Balance Sheet as on 31st March, 2017 on weighted Average Basis.

Details of Purchases:

Date of purchase	Unit (Nos.)	Purchase cost per unit (Rs.)
01-03-2017	20	108
08-03-2017'	15	107
17-03-2017	30	109
25-03-2017	15	107

Details of issue of Inventory:

Date of Issue	Unit (Nos.)
03-03-2017	10
12-03-2017	20
18-03-2017	10
24-03-2017	20

Net realizable value of inventory as on 31st March, 2017 is Rs. 107.75 per unit. You are required to compute the value of Inventory as per AS 2? **[MTP March '18, 5 Marks]**

Ans. Net Realisable Value of Inventory as on 31st March, 2017 = Rs.107.75 x 20 units = Rs.2,155

Value of inventory as per Weighted Average basis

Total units purchased and total cost:

01.03.2017	Rs.108x20 units = Rs.2160
08.3.2017	Rs.107x15 units = Rs.1605
17.03.2017	Rs.109x30 units = Rs.3270
25.03.2017	Rs.107x15 units = Rs.1605
Total	80 units = Rs.8640

Weighted Average Cost = Rs.8640/80 units = Rs.108

Total cost = Rs.108 x 20 units = Rs.2,160

Value of inventory to be considered while preparing Balance Sheet as on 31st March, 2017 is, Cost or Net Realisable value whichever is lower i.e. Rs.2,155.

Q-39 Mohan Ltd. has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site.

The following incremental costs will be incurred:

Setup costs of Rs.5,00,000 to install machinery in the new location.

Rent of Rs.15,00,000

Removal costs of Rs.3,00,000 to transport the machinery from the old location to the temporary location.

You are required to examine in line with AS 10 "Property, Plant and Equipment" whether these costs can be capitalized into the cost of the new building. **[MTP Oct. '18, MTP March '18, 5 Marks]**

Ans. Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired. These costs are not be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The costs to be incurred by the company are in the nature of costs of reducing or reorganizing the operations of the accompany. These costs do not meet that requirement of AS 10 "Property, Plant and Equipment" and cannot, therefore, be capitalized.

Q-40 Omega Limited has borrowed a sum of US $ 10,00,000 at the beginning of Financial Year 2016-17 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 Rs.56 per US $ and the rate as on31st March, 2017 was Rs.62 per US $. If Omega Limited borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%.

You are required to compute Borrowing Cost and exchange difference for the year ending 31st March, 2017 as per applicable Accounting Standards. **[MTP March '18, 5 Marks]**

Ans. (i) Interest for the period 2016-17

= US $ 10 lakhs x 4% x Rs.62 per US$ = Rs.24.80 lakhs

(ii) Increase in the liability towards the principal amount

= US $ 10 lakhs x Rs.(62 - 56) = Rs.60 lakhs

(iii) Interest that would have resulted if the loan was taken in Indian currency

= US $ 10 lakhs x Rs.56 x 10.5% = Rs.58.80 lakhs

(iv) Difference between interest on local currency borrowing and foreign currency borrowing

= Rs.58.80 lakhs - Rs.24.80 lakhs = Rs. 34 lakhs.

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

Hence, Rs.58.80 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 and the remaining Rs.26 lakhs (60 - 34) would be considered as the exchange difference to be accounted for as per AS 11.

Q-41 The Board of Directors of New Graphics Ltd. in its Board Meeting held on 18th April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31st March, 2017 and recommended a dividend of Rs. 2 per equity share (on 2 crore fully paid up equity shares of Rs. 10 each) for the year ended 31st March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the company on 18th June, 2017, the same will be paid to all the eligible shareholders.

Discuss on the accounting treatment and presentation of the said proposed dividend in the annual accounts of the compa ny for the year ended 31st March, 2017 as per the applicable Accounting Standard and other Statutory Requirements. **[MTP Aug. '18, 5 Marks]**

Ans. As per the amendment in AS 4 "Contingencies and Events Occurring After the Balance Sheet Date" vide Companies (Accounting Sta ndards) Amendments Rules, 2016 dated 30th March, 2016, the events which take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature.

However, dividends declared after the balance sheet date but before approval of financial statements are not recognized as a liability at the balance sheet date because no statutory obligation exists at that time. Hence such dividends are disclosed in the notes to financial statements.

No, provision for proposed dividends is not required to be made. Such proposed dividends are to be disclosed in the notes to financial statements. Accordingly, the dividend of Rs.4 crores recommended by New Graphics Ltd. in its Board meeting on 18th April, 2017 shall not be accounted for in the books for the year 2016 -17 irrespective of the fact that it pertains to the year 2016-17 and will be paid after approval in the Annual General Meeting of the members / shareholders.

Q-42 How you will deal with following in the financial statements of the Paridhi Electronics Ltd. as on 31.3.18 with reference to AS-13?

(i) Paridhi Electronics Ltd. invested in the shares of another unlised company on 1st May 2014 at a cost of Rs. 3,00,000 with the intention of holding more than a year. The published accounts of unlisted company received in January, 2018 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics L td. may not fetch more than Rs. 45,000.

(ii) Also Paridhi Electronics Ltd. has current investment (X Ltd.'s shares) purchased for Rs. 5 lakhs, which the company want to reclassify as long term investment. The market value of these investments as on date o f Balance Sheet was Rs. 2.5 lakhs. **[MTP Aug. '18, 5 Marks]**

Ans. (i) As per AS 13, "Accounting for Investments" Investments classified as long term investments should be carried in t he financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.

On this basis, the facts of the case given in the question clearly sugge st that the provision for diminution should be made to reduce the carrying amount of shares to Rs. 45,000 in the financial statements for the year ended 31st March, 2018 and charge the difference of loss of Rs. 2,55,000 to profit and loss account.

(ii) As per AS 13 'Accounting for Investments', where investments are reclassified from current to long -term, transfers are made at the lower of cost or fair value at the date of transfer.

In the given case, the market value of the investment (X Ltd. shares) is Rs.2.50 lakhs, which is lower than its cost i.e. Rs. 5 lakhs. Therefore, the transfer to long term investments should be made at cost of Rs. 2.50 lakhs. The loss of Rs. 2.50 lakhs should be charged to profit and loss account.

Q-43 Kumar Ltd. had made a rights issue of shares in 2017. In the offer document to its members, it had projected a surplus of Rs. 40 crores during the accounting year to end on 31st March, 2017.

The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of Rs. 10 crores. The board in consultation with the managing director, decided not to provide for "after sales expenses" during the warranty period. Till the last year, provision at 2% of sales used to be made under the concept of "matching of costs against revenue" and actual expenses used to be charged against the provision. The board now decided to account for expenses as and when actually incurred.

Sales during the year total to Rs. 600 crores.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2016 -2017. **[MTP Aug. '18, 5 Marks]**

Ans. As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a mat erial effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclose d to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts:

So far, the company has been providing 2% of sales for meeting "after sales expenses during the warranty period. With the improved method of production, the probability of defects occurring in the products has reduced considerably. Hence, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is increased by Rs. 12 crores than would have been the case if the old policy were to continue.

Q-44 A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2017.

	Rs. Per unit
<u>Raw Material X</u>	
Cost price	380
Unloading Charges	20
Freight Inward	40
Replacement cost	300
<u>Chemical Y</u>	
Material consumed	440
Direct Labour	120
Variable Overheads	80

Additional Information:

(i) Total fixed overhead for the year was Rs. 4,00,000 on normal capacity of 20,000 units.

(ii) Closing balance of Raw Material X was 1,000 units and Chemical Y was Rs. 2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when Net realizable value of Chemical Y is Rs. 800 per unit. **[MTP Aug. '18, 5 Marks]**

Ans. When Net Realizable Value of the Chemical Y is Rs. 800 per unit NRV is greater than the cost of Finished Goods Y i.e. Rs. 660 (Refer W.N.)

Hence, Raw Material and Finished Goods are to be valued at cost.

Value of Closing Stock:

	Qty.	Rate (Rs.)	Amount (Rs.)
Raw Material X	1,000	440	4,40,000
Finished Goods Y	2,400	660	15,84,000
Total Value of Closing Stock			20,24,000

Working Note:

Statement showing cost calculation of Raw material X and Chemical Y

Raw Material X	**Rs.**
Cost Price	380
Add: Freight Inward	40
Unloading charges	20
Cost	440
Chemical Y	**Rs.**
Materials consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (Rs.4,00,000/20,000 units)	20
Cost	660

Q-45 ABC Ltd. is installing a new plant at its production facility. It has incurred these costs:

Cost of the plant (cost per supplier's invoice plus taxes)	Rs. 25,00,000
Initial delivery and handling costs	Rs. 2,00,000
Cost of site preparation	Rs. 6,00,000
Consultants used for advice on the acquisition of the plant	Rs. 7,00,000
Interest charges paid to supplier of plant for deferred credit	Rs. 2,00,000
Estimated dismantling costs to be incurred after 7 years	Rs. 3,00,000
Operating losses before commercial production	Rs. 4,00,000

Please advise ABC Ltd. on the costs that can be capitalised in accordance with AS 10 (Revised).

[MTP Aug. '18, 5 Marks]

Ans. According to AS 10 (Revised), the following costs can be capitalized:

Cost of the plant	Rs. 25,00,000
Initial delivery and handling costs	Rs. 2,00,000
Cost of site preparation	Rs. 6,00,000
Consultants' fees	Rs. 7,00,000
Estimated dismantling costs to be incurred after 7 years	Rs. 3,00,000
	Rs. 43,00,000

Note: Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of Rs. 2,00,000 and operating losses before commercial production amounting to Rs.4,00,000 are not regarded as directly attributable costs and thus cannot be capitalised. They should be written off to the Statement of Profit and Loss in the period they are incurred.

Q-46 In the books of M/s Prashant Ltd., closing inventory as on 31.03.2015 amounts to Rs. 1,63,000 (on the basis of FIFO method).

The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory from the year 2014-15. On the basis of weighted average method, closing inventory as on 31.03.2015 amounts to Rs. 1,47,000. Realisable value of the inventory as on 31.03.2015 amounts to Rs. 1,95,000.

Discuss disclosure requirement of change in accounting policy as per AS-1. **[MTP Oct. '18, 5 Marks]**

Ans. As per AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus Prashant Ltd. should disclose the change in valuation method of inventory and its effect on financial statements. The company may disclose the change in accounting policy in the following manner:

'The company values its inventory at lower of cost and net realisable value. Since net realisable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost. In the present year i.e. 2014-15, the company has changed to weighted average method, which better reflects the consumption pattern of inventory, for ascertaining inventory costs from the earlier practice of using FIFO for the purpose. The change in policy has reduced current profit and value of inventory by Rs. 16,000.

---0---0---

CHAPTER-4

Financial Statements of Companies

UNIT I

PREPARATION OF FINANCIAL STATEMENTS

Q-1 You are required to prepare a Balance Sheet as at 31st March 2018, as per Schedule III of the Companies Act, 2013, from the following information of Mehar Ltd.:

Particulars	Amount (Rs.)	Particulars	Amount (Rs)
Term Loans (Secured)	40,00,000	Investments (Non-current)	9,00,000
Trade payables	45,80,000	Profit for the year	32,00,000
Other advances	14,88,000	Trade receivables	49,00,000
Cash and Bank Balances	38,40,000	Miscellaneous Expenses	2,32,000
Staff Advances	2,20,000	Loan from other parties	8,00,000
Provision for Taxation	10,20,000	Provision for Doubtful Debts	80,000
Securities Premium	19,00,000		
Loose Tools	2,00,000	Stores	16,00,000
General Reserve	62,00,000	Fixed Assets (WDV)	2,26,00,000
Capital Work-in- progress	8,00,000	Finished Goods	30,00,000

Additional Information:-

1. Share Capital consist of-

   (a)1,20,000 Equity Shares of Rs.100 each fully paid up.

   (b)40,000, 10% Redeemable Preference Shares of Rs.100 each fully paid up.

2. The company declared dividend @ 5% of equity share capital. The dividend distribution tax rate is 17.304%. (15% CDT, surcharge 12%, Education Cess 2%andSHEC@1%)

3. Depreciate Assets by Rs.20,00,000. **[RTP Nov '18]**

Ans. **Balance Sheet of Mehar Ltd. as at 31st March, 2018**

	Note	Rs.
I EQUITY AND LIABILITIES:		
(1) (a) Share Capital	1	1,60,00,000
(b) Reserves and Surplus	2	98,64,424

(2) Non-current Liabilities		
Long term Borrowings-		40,00,000
Terms Loans (Secured)		
(3) Current Liabilities		
(a) Trade Payables	-	45,80,000
(b) Other current liabilities	3	20,03,576
(c) Short-term Provisions (Provision for taxation)		10,20,000
Total		**3,74,68,000**
II ASSETS		
(1) Non-current Assets		
(a) Fixed Assets:		
(i) Tangible Assets	4	2,06,00,000
(ii) Capital WIP		8,00,000
(b) Non- current Investments		9,00,000
(2) Current Assets:		
(a) Inventories	5	48,00,000
(b) Trade Receivables	6	48,20,000
(c) Cash and Cash Equivalents		38,40,000
(d) Short-term Loans and Advances	7	17,08,000
Total		**3,74,68,000**

Notes to account

			Rs.
1. Share Capital			
Authorized, issued, subscribed & called up			
1,20,000, Equity Shares of Rs. 100 each		1,20,00,000	
40,000 10% Redeemable Preference Shares of 100 each		40,00,000	1,60,00,000
2. Reserves and Surplus			
Securities Premium Account		19,00,000	
General reserve		62,00,000	
Profit & Loss Balance			
Opening balance			
Profit for the period	32,00,000		
Less; Miscellaneous Expenditure written off	(2,32,000)		
	29,68,000		
Less: Appropriations			
Dividend	(10,00,000)		
Dividend distribution tax	(2,03,576)	17,64,424	98,64,424

3. Other current liabilities		
Loan from other parties Dividend	8,00,000	
Dividend	10,00,00	
Distribution tax [W.N]	2,03,576	20,03,576
4. Tangible assets		
Fixed Assets		
Opening balance	2,26,00,000	
Less; Depreciation	20,00,000	
Closing balance		2,06,00,000
5. Inventories		
Finished Goods	30,00,000	
Stores	16,00,000	
Loose Tools	2,00,000	48,00,000
6. Trade Receivables		
Trade receivables	49,00,000	
Less: Provision for Doubtful Debts	80,000	48,20,000
7. Short term loans & Advances		
Staff Advances	2,20,000	
Other Advances	14,88,000	17,08,000

Working Note:

Calculation of Dividend distribution tax

(i) Grossing-up of dividend:		
Dividend distributed by Mehar Ltd.		
Equity shares dividend	6,00,000	
Preference share dividend	4,00,000	10,00,000
Add:Increase for the purpose of grossing up of dividend		
10,00,000 x[15/(100-15)]		1,76,470
Gross dividend		11,76,470
(ii) Dividend distribution tax @ 17.304%		2,03,576

Q-2 PQ Ltd., a non-investment company has been incurring losses for the past few years. The company provides the following information for the current year:

	(Rs.In lakhs)
Paid up equity share capital	180
Paid up preference share capital	30
Reserves (including Revaluation reserve Rs.15 lakhs)	225
Securities premium	60
Long term loans	60
Deposits repayable after one year	30

Application money pending allotment	1080
Accumulated losses not written off	30
Investments	270

PQ Ltd. has only one whole-time director, Mr. Hello. You are required to calculate the amount of maximum remuneration that can be paid to him as per provisions of Companies Act, 2013, if no special resolution is passed at the general meeting of the company in respect of payment of remuneration for a period not exceeding three years. **[RTP Nov '18]**

Ans. Calculation of effective capital and maximum amount of monthly remuneration

	(Rs.In lakhs)
Paid up equity share capital	180
Paid up Preference share capital	30
Reserve excluding Revaluation reserve (225-15)	210
Securities premium	60
Long term loans	60
Deposits repayable after one year	30
	570
Less; Accumulated losses not written off	30
Investments	270
Effective capital for the purpose of managerial remuneration	270

Since PQ Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration, managerial remuneration will be calculated on the basis of effective capital of the company, therefore maximum remuneration payable to the Managing Director should be @ Rs.60,00,000 per annum*.

*If the effective capital is less then 5 Crore, limit of yearly remuneration payable should not exceed Rs.60 lakhs as per Companies Act, 2013.

Q-3 Kapil Ltd. has authorized capital of Rs. 50 lakhs divided into 5,00,000 equity shares of Rs. 10 each. Their books show the following balances as on 31st March, 2017:

	Rs.		**Rs.**
Inventory 1.4.2016	6,65,000	Bank Current Account	20,000
Discounts & Rebates allowed	30,000	Cash in hand	8,000
Carriage Inwards	57,500	Interest (bank overdraft)	1,11,000
Patterns	3,75,000	Calls in Arrear @ Rs.2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity share capital	20,00,000
Furniture & Fixtures	1,50,000	(2,00,000 shares of Rs.10 each)	
Purchases	12,32,500	Bank Overdraft	12,67,000
Wages	13,68,000		
Freehold Land	16,25,000	Trade Payables (for goods)	2,40,000
Plant & Machinery	7,50,000	Sales	36,17,000
Engineering Tools	1,50,000	Rent (Cr.)	30,000

Trade Receivables	4,00,500	Transfer fees received	6,500
Advertisement	15,000	Profit & Loss A/c (Cr.)	67,000
Commission & Brokerage	67,500	Repairs to Building	56,500
Business Expenses	56,000	Bed debts	25,500

The inventory (valued at cost or market value, which is lower) as on 31st March, 2017 was Rs. 7,08,000. Outstanding liabilities for wages Rs.25,000 and business expenses Rs.36,000. Dividend declared @ 12% on paid-up capital and it was decided to transfer to reserve @ 2.5% of profits.

Charge depreciation on closing written down amount of Plant & Machinery @ 5%, Engineering Tools @ 20%; Patterns @ 10%; and Furniture & Fixtures @10%. Provide 25,000 as doubtful debts after writing off Rs.16,000 as bad debts. Provide for income tax @ 30%. Corporate Dividend Tax Rate @ 17.304 (wherein Base Rate is 15%).

You are required to **prepare Statement of Profit & Loss for the year ended 31st March, 2017 and Balance Sheet as on that date.** **[RTP May '18]**

Ans. **Kapil Ltd.**

Balance Sheet as at 31st March, 2017

	Particulars	Note No.	Rs.
I	**Equity and Liabilities**		
	(1) Shareholders' Funds		
	(a) Share Capital	1	19,90,000
	(b) Reserves and Surplus	2	59,586
	(2) Current Liabilities		
	(a) Trade Payables		2,40,500
	(b) Other Current Liabilities	3	13,28,000
	(c) Short-Term Provisions	4	4,07,414
	Total		40,25,500
II	**ASSETS**		
	(1) Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible Assets	5	29,30,000
	(2) Current Assets		
	(a) Inventories		7,08,000
	(b) Trade Receivables	6	3,59,500
	(c) Cash and Cash Equivalents	7	28,000
	Total		40,25,500

Kapil Ltd.

Statement of Profit and Loss for the year ended 31st March, 2017

	Particular	Note No.	(Rs.)
I	Revenue from Operations		36,17,000
II	Other Income	8	36,500
III	**Total Revenue [I + II]**		**36,53,500**

IV	Expenses:		
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,08,000]		(43,000)
	Employee Benefits Expenses	9	13,93,000
	Finance Costs	10	1,11,000
	Depreciation and Amortization Expenses		1,20,000
	Other Expenses	11	4,40,000
	Total Expenses		**32,53,500**
V	**Profit before Tax (III-IV)**		4,00,000
VI	**Tax Expenses @ 30%**		(1,20,000)
VII	**Profit for the period**		2,80,000

Notes Accounts :

1.	**Share Capital**		
	Authorized Capital		
	5,00,000 Equity Shares of Rs 10 each		50,00,000
	Issued Capital		
	2,00,000 Equity Shares of Rs. 10 each		20,00,000
	Subscribed Capital and fully paid		
	1,95,000 Equity Shares of Rs.10 each		19,50,000
	Subscribed Capital but not fully paid		
	5,000 Equity Shares of Rs.10 each Rs. 8 paid		40,000
	(Call unpaid Rs.10,000)		19,90,000
2.	**Reserves and Surplus**		
	General Reserve		7,000
	Surplus i.e. Balance in Statement of Profit & Loss:		
	Opening Balance	67,000	
	Add: Profit for the period	2,80,000	
	Less; Transfer to Reserve @ 2.5%	(7,000)	
	Less; Equity Dividend [12% of (20,00,000-10,000)]	(2,38,800)	
	Less; Corporate Dividend Tax (Working note)	(48,614)	52,586
			59,586
3.	**Other Current Liabilites**		
	Bank Orverdraft		12,67,000
	Outstanding expenses (25,000 + 36,000)		61,000
			13,28,000
4.	**Short term Provisions**		
	Provision for Tax		1,20,000
	Equity dividend payable		2,38,800
	Corporate Dividend Tax		48,614
			4,07,414

5. Tangible Assets

Particulars	Value given (Rs.)	Depreciation rate	Depreciation Charged (Rs.)	Writen down value at the end
Land	16,25,000		-	16,25,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Patterns	3,75,000	10%	37,500	3,37,500
Engineering Tools	1,50,000	20%	30,000	1,20,000
	30,50,000		1,20,000	29,30,000

6. Trade Receivables

Trade receivables (4,00,500 - 16,000)	3,84,500
Less : Provision for doubtful debts	25,000
	3,59,500

7. Cash & Cash equivalent

Cash Balance	8,000
Bank Balance in current A/c	20,000
	28,000

8. Other Income

Miscellaneos Income (Transfer fees)	6,500
Rental Income	30,000
	36,500

9. Employee benefits expenses

Wages	13,68,000
Add : Outstanding wages	25,000
	13,93,000

10. Finance Cost

Interest on Bank overdraft 1,11,000

11. Other Expenses

Carriage Inward	57,500
Discount & Rebats	30,000
Advertisement	15,000
Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,000] (Business Expenses)	92,000
Bad Debts [25,500+16,000]	41,500
Provision for Doubtful Debts	25,000
	4,40,000

Working Note

Calculation of grossing up of dividend:

Particulars	Rs.
Dividend distributed by Company	2,38,800
Add: Increase for the purpose of grossing up of dividend 2,38,800 x[15/(1 00-1 5)]	42,141
Gross dividend	2,80,941
Dividend distribution tax @ 17.304%	48,614

Q-4 Shweta Ltd. has the Authorised Capital of Rs. 15,00,000 consisting of 6,000 6% Preference shares of Rs.100 each and 90,000 equity Shares of Rs.10 each. T he following was the Trial Balance of the Company as on 31st March, 2018:

Particulars	Dr.	Cr.
Investment in Shares at cost	1,50,000	
Purchases	14,71,500	
Selling Expenses	2,37,300	
Inventory as at the beginning of the year	4,35,600	
Salaries and Wages	1,56,000	
Cash on Hand	36,000	
Interim Preference dividend for the half year to 30th September	18,000	
Bills Receivable	1,24,500	
Interest on Bank overdraft	29,400	
Interest on Debentures upto 30th Sep (1st half year)	11,250	
Debtors	1,50,300	
Trade payables		2,63,550
Freehold property at cost	10,50,000	
Furniture at cost less depreciation of Rs. 45,000	1,05,000	
6% Preference share capital		6,00,000
Equity share capital fully paid up		6,00,000
5% mortgage debentures secured on Freehold properties		4,50,000
Income tax paid in advance for the current year	30,000	
Dividends		12,750
Profit and Loss A/c (opening balance)		85,500
Sales (Net)		20,11,050
Bank overdraft secured by hypothecation of stocks and receivables		4,50,000
Technical knowhowfees at cost paid during the year	4,50,000	
Audit fees	18,000	
Total	**44,72,850**	**44,72,850**

You are required to prepare the Profit and Loss Statement for the year ended 31st March, 2018 and the Balance Sheet as on 31st March, 2018 as per Schedule III of the Companies Act, 2013 after taking into account the following -

1. Closing Stock was valued at Rs.4,27,500.
2. Purchases include Rs.15,000 worth of goods and articles distributed among valued customers.
3. Salaries and Wages include Rs.6,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".
4. Bills Receivable include Rs. 4,500 being dishonoured bills. 50% of which had been considered irrecoverable.
5. Bills Receivable of Rs.6,000 maturing after 31st March were discounted.
6. Depreciation on Furniture to be charged at 10% on Written Down Value. Investment in shares is to be treated as non-current investments.
7. Interest on Debentures for the half year ending on 31st March was due on that date.
8. Provide Provision for taxation Rs.12,000.
9. Technical KnowhowFees is to be written off over a period of 10 years.
10. Salaries and Wages include Rs.30,000 being Director's Remuneration.
11. Trade receivables include Rs.18,000 due for more than six months. **[RTP May '19]**

Ans. **Statement of Profit and Loss of Shweta Ltd. forthe year ended 31st March, 2018**

	Particular	Note	Rs.
I	Revenue from Operations		20,11,050
II	Other income (Divided income)		12,750
III	Total Revenue (I &+ II)		20,23,800
IV	Expenses:		
	(a) Purchases (14,71,500 - Advertisement Expenses 15,000)		14,56,500
	(b) Changes in Inventories of finished Goods / Work in progress (4,35,600 -4,27,500)		8,100
	(c) Employee Benefits expense	9	1,20,000
	(d) Finance costs	10	51,900
	(e) Depreciation & Amortization Expenses [10% of (1,05,000+6,000)]		11,100
	(f) Other Expenses	11	3,47,550
	Total Expenses		19,95,150
V	Profit before exceptional, extraordinary itemsand tax (III-IV)		28,650
VI	Exceptional items		-
VII	Profit before extra ordinary itemsand tax (V-IV)		28,650
VIII	Extraordinary items		-
IX	Profit before tax (VII-VI II)		28,650
X	Tax expense:		
	Current Tax		12,000
XI	Profit/Loss for the period (after tax)		16,650

Balance sheet of Shweta Ltd. as on 31st March, 2018

Particular as on 31st March	Note	
I		
(1) **Shareholders' funds:**		
(a) Share capital	**1**	12,00,000
(b) Reserves and surplus	**2**	66,150
(2) **Non current liabilities:**		
Long term borrowings	**3**	4,50,000
(3) **Current liabilities:**		
(a) Short term borrowings	**4**	4,50,000
(b) Trade payables		2,63,550
(c) Other current liabilities	**5**	29,250
Total		24,58,950
II ASSETS		
(1) **Non-current Assets**		
(a) Property, Plant & Equipment		
(i) Tangible assets	**6**	11,49,900
(ii) Intangible assets	**7**	4,05,000
(b) Non current investments (Shares at cost)		1,50,000
Current Assets:		
(a) Inventories		4,27,500
(b) Trade receivables	**8**	2,72,550
(c) Cash and Cash equivalents - Cash on hand		36,000
(d) Short term loans and advances -Income tax (paid 30,000-Provision 12,000)		18,000
Total		24,58,950

Note : There is a Contingent liability for Bills receivable discounted with Bank Rs.6,000

Notes to accounts

		Rs.
1. Share Capital		
Authorized		
90,000 Equity Shares of Rs.10 eahc	9,00,000	
6,000 6% Preference shares of Rs.100 each	6,00,000	15,00,000
Issued, subscribed & called up		
60,000, Equity Shares of Rs.10 each	6,00,000	
6,000 6% Redeemable Preference Shares of 100 each	6,00,000	12,00,000
2. Reserves and Surplus		
Balance as on 1st April, 2017	85,500	
Add: Surplus for current year	16,650	1,02,150
Less; Preference Dividend		36,000
Balance as on 31st March, 2018		66,150

3.	**Long Term Borrowings**		
	5% Mortgage Debentures (Secured against Freehold Properties)		4,50,000
4.	**Short Term Borrowings**		
	Secured Borrowings: Loans Repayable on Demand		
	Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables)		4,50,000
5.	**Other Current liabilities**		
	Interest Accrued and due on Borrowings (5% Debentures)	11,250	
	Unpaid Preference Dividends	18,000	29,250
6.	**Tangible Fixed assets**		
	Furniture		
	Furniture at Cost Less depreciation Rs.45,000 (as given in Trial Balance	1,05,000	
	Add: Depreciation	45,000	
	Cost of Furniture	1,50,000	
	Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages	6,000	
	Total Gross block of Furniture A/c	1,56,000	
	Accumulated Depreciation Account: Opening Balance-given in Trial Balance 45,000		
	Depreciation for the year:		
	On Opening WDV at 10% i.e. (10%x 1,05,000) 10,500		
	On additional purchase during the year at 10% i.e. (10%x 6,000) 600		
	Less; Accumulated Depreciation	56,100	99,900
	Freehold property (at cost)		10,50,000
			11,49,900
7.	**Intangible Fixed Assets**		
	Technical knowhow	4,50,000	
	Less; Written off	45,000	4,05,000
8.	**Trade Receivables**		
	Sundry Debtors (a) Debt outstanding for more than six months	18,000	
	(b) Other Debts (refer Working Note)	1,34,550	
	Bills Receivable (1,24,500 -4,500)	1,20,000	2,72,550
9.	**Employee benefit expenses**		
	Amount as per Trial Balance	1,56,000	
	Less; Wages incurred for installation of electrical fittings to be capitalised	6,000	
	Less; Directors' Remuneration shown separately	30,000	
	Balance amount		1,20,000
10.	**Finance Costs**		
	Interest on bank overdraft	29,400	
	Interest on debentures	22,500	51,900

11. Other Expenses		
Payment to the auditors	18,000	
Director's remuneration	30,000	
Selling expenses	2,37,300	
Technical knowhow written of (4,50,000/10)	45,000	
Advertisement (Goods and Articles Distributed)	15,000	
Bad Debts (4,500 x50%)	2,250	3,47,550

Working Note

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

Q-5 From the following particulars furnished by the Prashant Ltd., prepare the Balance Sheet as at 31st March, 2019 as required by Schedule III of the Companies Act, 2013 :

Particulars	Debit (`)	Credit (`)
Equity share capital (face value of ` 10 each)		15,00,000
Calls-in-arrears	5,000	
Land	5,50,000	
Building	4,85,000	
Plant & machinery	5,60,000	
General reserve		2,70,000
Loan from State Financial Corporation		2,10,000
Inventories	3,15,000	
Provision for taxation		72,000
Trade receivables	2,95,000	
Short-term loans & advances	58,500	
Profit & loss account		1,06,800
Cash in hand	37,300	
Cash at bank	2,85,000	
Unsecured loans		1,65,000
Trade payables		2,67,000
Total	**25,90,800**	**25,90,800**

The following additional information is also provided :

(1) 10,000 equity shares were issued for consideration other than cash.

(2) Trade receivables of ` 55,000 are due for more than six months.

(3) The cost of building and plant & machinery is ` 5,50,000 and ` 6,25,000 respectively.

(4) The loan from State Financial Corporation is secured by hypothecation of plant & machinery. The balance of ` 2,10,000 in this account is inclusive of ` 10,000 for interest accrued but not due.

(5) Balance at Bank included ` 15,000 with Aakash Bank Ltd., which is not a scheduled bank.

[Sugg.Nov.'19,10 Marks]

Ans.(a)

Prashant Ltd.

Balance Sheet as on 31st March, 2019

		Particulars	**Notes**	`
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	14,95,000
	b	Reserves and Surplus	2	3,76,800
2		**Non-current liabilities**		
		Long-term borrowings	3	3,65,000
3		**Current liabilities**		
	a	Trade Payables		2,67,000
	b	Other current liabilities	4	10,000
	c	Short-term provisions	5	72,000
		Total		25,85,800
		Assets		
1		**Non-current assets**		
		Property, Plant and Equipment	6	15,95,000
2		**Current assets**		
	a	Inventories		3,15,000
	b	Trade receivables	7	2,95,000
	c	Cash and bank balances	8	3,22,300
	d	Short-term loans and advances		58,500
		Total		25,85,800

Notes to accounts

			`
1	Share Capital		
	Equity share capital		
	Issued & subscribed & fully paid up		
	1,50,000 Equity Shares of ` 10 each		
	(of the above 10,000 shares have been issued		
	for consideration other than cash)	15,00,000	
	Less: Calls in arrears	(5,000)	14,95,000

2	Reserves and Surplus		
	General Reserve		2,70,000
	Profit & Loss balance		1,06,800
		Total	3,76,800
3	Long-term borrowings		
	Secured		
	Loan from State Financial Corporation (2,10,000-10,000)		
	(Secured by hypothecation of Plant and Machinery)		2,00,000
	Unsecured Loan		1,65,000
	Total		3,65,000
4	Other current liabilities		
	Interest accrued but not due on loans (SFC)		10,000
5	Short-term provisions		
	Provision for taxation		72,000
6	Property, Plant & Equipment		
	Land		5,50,000
	Building	5,50,000	
	Less: Depreciation(b.f.)	(65,000)	4,85,000
	Plant & Machinery	6,25,000	
	Less: Depreciation (b.f.)	(65,000)	5,60,000
	Total		15,95,000
7	Trade receivables		
	Outstanding for a period exceeding six months		55,000
	Other Amounts		2,40,000
	Total		2,95,000
8	Cash and bank balances		
	Cash and cash equivalents Cash at bank		2,85,000
	Cash in hand		37,300
	Other bank balances		Nil
	Total		3,22,300

Q-6 The following extract of Balance Sheet of Prabhat Ltd. (Non-investment Company) was obtained: Balance Sheet (Extract) as on 31st March, 2019

Liabilities	
Issued and subscribed capital:	
30,000,12% preference shares of ` 100 each (fully paid)	30,00,000
24,00,000 equity shares of ` 10 each, ` 8 paid up	1,92,00,000
Share suspense account	40,00,000
Reserves and Surplus:	
Securities premium	1,00,000

Capital reserves (` 3,00,000 is revaluation reserve)	3,90,000
Secured loans:	
12% debentures	1,30,00,000
Unsecured loans:	
Public deposits	7,40,000
Current liabilities:	
Trade payables	6,90,000
Cash credit from SBI (short term)	9,30,000
Assets	
Investments in shares, debentures etc.	1,50,00,000
Profit & loss account (Dr. balance)	30,50,000

Share suspense account represents application money received on shares, the allotment of which is not yet made.

You are required to compute effective capital as per the provisions of Schedule V. Would your answer differ if Prabhat Ltd. is an investment company ? **[Sugg.Nov.'19, 5 Marks]**

Ans. Computation of effective capital

	Where Prabhat Ltd. Is a non-investment company `	**Where Prabhat Ltd. is an investment company `**
Paid-up share capital —		
30,000, 12% Preference shares	30,00,000	30,00,000
24,00,000 Equity shares of ` 8 paid up	1,92,00,000	1,92,00,000
Capital reserves (3,90,000 – 3,00,000)	90,000	90,000
Securities premium	1,00,000	1,00,000
12% Debentures	1,30,00,000	1,30,00,000
Public Deposits	7,40,000	7,40,000
(A)	36,130,000	36,130,000
Investments	1,50,00,000	—
Profit and Loss account (Dr. balance)	30,50,000	30,50,000
(B)	1,80,50,000	30,50,000
Effective capital (A–B)	1,80,80,000	3,30,80,000

Q-7 Futura Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 2019:

	Amount Rs. in lakhs
Securities Premium Account	80
Capital Reserve	60
General Reserve	90

The company had an accumulated loss of Rs. 250 lakhs on the same date, which it has disclosed under the head "Statement of Profit and Loss" as asset in its Balance Sheet. Comment on accuracy of this treatment in line with Schedule III to the Companies Act, 2013. **[MTP Oct. '19, 4 Marks]**

Ans. Note 6 (B) given under Part I of Schedule III to the Companies Act, 2013 provides that debit balance of Statement of Profit and Loss (after all allocations and appropriations) shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative. In this case, the debit balance of profit and loss i.e. Rs. 250 lakhs exceeds the total of all the reserves i.e. Rs. 230 lakhs. Therefore, balance of 'Reserves and Surplus' after adjusting debit balance of profit and loss is negative by Rs. 20 lakhs, which should be disclosed on the face of the balance sheet. Thus the treatment done by the company is incorrect.

Q-8 PQ Ltd., a non-investment company has been incurring losses for the past few years. The company provides the following information for the current year:

	(Rs. in lakhs)
Paid up equity share capital	180
Paid up Preference share capital	30
Reserves (including Revaluation reserve Rs. 15 lakhs)	225
Securities premium	60
Long term loans	60
Deposits repayable after one year	30
Application money pending allotment	1080
Accumulated losses not written off	30
Investments	270

PQ Ltd. has only one whole-time director, Mr. Hello. You are required to calculate the amount of maximum remuneration that can be paid to him as per provisions of Part II of Schedule XIII, if no special resolution is passed at the general meeting of the company in respect of payment of remuneration for a period not exceeding three years. **[MTP Oct. '19, 4 Marks]**

Ans. **Calculation of effective capital and maximum amount of monthly remuneration**

	(Rs. in lakhs)
Paid up equity share capital	180
Paid up Preference share capital	30
Reserve excluding Revaluation reserve (225- 15)	210
Securities premium	60
Long term loans	60
Deposits repayable after one year	30
	570
Less: Accumulated losses not written off	(30)
Investments	(270)
Effective capital for the purpose of managerial remuneration	270

Since PQ Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration, managerial remuneration will be calculated on the basis of effective capital of the company, therefore maximum remuneration payable to the Managing Director should be @ Rs. 60,00,000 per annum.

Note: Revaluation reserve and application money pending allotment are not included while computing effective capital of PQ Ltd.

Q-9 From the following particulars furnished by Alpha Ltd., prepare the Balance Sheet as on 31st March 20X1 as required by Part I, Schedule III of the Companies Act, 2013.

Particulars	Debit Rs.	Credit Rs.
Equity Share Capital (Face value of Rs. 100 each)		50,00,000
Call in Arrears	5,000	
Land & Building	27,50,000	
Plant & Machinery	26,25,000	
Furniture		2,50,000
General Reserve		10,50,000
Loan from State Financial Corporation		7,50,000
Inventory:		
Raw Materials	2,50,000	
Finished Goods	10,00,000	12,50,000
Provision for Taxation		6,40,000
Trade receivables	10,00,000	
Short term Advances	2,13,500	
Profit & Loss Account		4,33,500
Cash in Hand	1,50,000	
Cash at Bank	12,35,000	
Unsecured Loan		6,05,000
Trade payables (for Goods and Expenses)		8,00,000
Loans & advances from related parties		2,00,000

The following additional information is also provided:

(i) 10,000 Equity shares were issued for consideration other than cash,

(ii) Trade receivables of Rs. 2,60,000 are due for more than 6 months,

(iii) The costofthe Assets were:

Building Rs. 30,00,000, Plant & Machinery Rs. 35,00,000 and Furniture Rs. 3,12,500

(iv) The balance of Rs. 7,50,000 in the Loan Account with State Finance Corporation is inclusive of Rs. 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plants Machinery.

(v) Balance at Bank includes Rs. 10,000 with Omega Bank Ltd., which is not a Scheduled Bank,

(vi) Transfer Rs. 20,000 to general reserve is proposed by Board of directors

(vii) Board of directors has declared dividend of 5% on the paid up capital. The dividend distribution tax liability is Corporate Dividend Tax Rate @ 17.304 (wherein Base Rate is 15%).

[MTP March '19, MTP March '18, 20 Marks]

Ans. **Alpha Ltd.**

Balance Sheet as on 31st March, 20X1

	Particular		Notes	Rs.
Equity and Liabilities				
1	**Shareholders' funds**			
	a	Share capital	1	49,95,000
	b	Reserves and Surplus	2	11,82,907
2	**Non-current liabilities**			
	Long-term borrowings		3	13,17,500
3	**Current liabilities**			
	a	Trade Payables		8,00,000
	b	Other current liabilities	4	3,38,093
	c	Short term provisions	5	6,40,000
	d	Short term borrowings		2,00,000
		Total		**94,73,500**
Assets				
1	**Non-current assets**			
	Property, Plant & equipment			
	Tangible assets		6	56,25,000
2	**Current assets**			
	a	Inventories	7	12,50,000
	b	Trade receivables	8	10,00,000
	c	Cash and bank balances	9	13,85,000
	d	Short-term loans and advances		2,13,500
		Total		**94,73,500**

Notes to accounts

			Rs.
1.	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of Rs. 100 each		
	(of the above 10,000 shares have been issued for		
	consideration other than cash)	50,00,000	
	Less; Calls in arrears	(5,000)	49,95,000
	Total		**49,95,000**
2	**Reserves and Surplus**		
	General Reserve	10,50,000	
	Add: current year transfer	20,000	10,70,000

	Profit & Loss balance		
	Profit for the year	4,33,500	
	Less; Appropriations:		
	Transfer to General reserve	(20,000)	
	Dividend Payable (Refer W N)	(2,49,750)	
	DOT on dividend (Refer W N)	(50,843)	1,12,907
	Total		**11,82,907**
3	**Long-term borrowings**		
	Secured Term Loan		
	State Financial Corporation Loan (7,50,000-37,500)		
	(Secured by hypothecation of Plant and Machinery)		7,12,500
	Unsecured Loan		6,05,000
	Total		**13,17,500**
4	**Other current liabilities**		
	Interest accrued but not due on loans (SFC)		37,500
	Dividend (Refer W N)	2,49,750	
	DOT on dividend (Refer W N)	50,843	3,00,593
			3,38,093
5	**Short-term provisions**		
	Provision for taxation		6,40,000
6	**Tangible assets**		
	Land and Building	30,00,000	
	Less; Depreciation	(2,50,000) (b.f.)	27,50,000
	Plants Machinery	35,00,000	
	Less; Depreciation	(8,75,000) (b.f.)	26,25,000
	Furniture & Fittings	3,12,500	
	Less; Depreciation	(62,500) (b.f.)	2,50,000
	Total		**56,25,000**
7	**Inventories**		
	Raw Materials		2,50,000
	Finished goods		10,00,000
	Total		**12,50,000**
8	**Trade receivables**		
	Outstanding for a period exceeding six months		2,60,000
	Other Amounts		7,40,000
	Total		**10,00,000**

9	**Cash and bank balances**		
	Cash and cash equivalents		
	Cash at bank		
	with Scheduled Banks	12,25,000	
	with others (Omega Bank Ltd.)	10,000	12,35,000
	Cash in hand		1,50,000
	Other bank balances		Nil
	Total		**13,85,000**
	Working Note :		
	Calculation of grossing-up of dividend		
	Particular		**Rs.**
	Dividend distributed Aplha Ltd. (5% of 49,95,000)		2,49,750
	Add : Increases for the purpose of grossing up of dividend		
	$\left[\frac{15}{100-15} \times 2,49,750\right]$		44,074
	Gross dividend		2,93,824

Q-10 The following extract of Balance Sheet of X Ltd. (a non-investment company) was obtained:

Balance Sheet (Extract) as on 31st March, 2017

Liabilities	**Rs.**
Issued and subscribed capital:	
20,000,14% preference shares of Rs. 100 each fully paid	20,00,000
1,20,000 Equity shares of Rs. 100 each, Rs. 80 paid-up	96,00,000
Capital reserves (Rs. 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Unsecured loans: Public deposits repayable after one year	3,70,000
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,00,000

You are required to compute Effective Capital as per the provisions of Schedule V to Companies Act, 2013.

[[MTP March '18, MTP March '19, 5 Marks]

Ans. **Computation of effective capital :**

	Rs.
Paid-up share capital	
20,000, 14% Preference shares	20,00,000
1,20,000 Equity shares	96,00,000
Capital reserves (excluding revaluation reserve)	45,000
Securities premium	50,000

15% Debentures	65,00,000
Public Deposits	3,70,000
(A)	1,85,65,000
Investments	75,00,000
Profit and Loss account (Dr. balance)	15,00,000
(B)	90,00,000
Effective capital (A-B)	95,65,000

Q-11 State under which head the following accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:

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

(ii) Share option outstanding account.

(iii) Unpaid matured debenture and interest accrued thereon.

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

(v) Calls unpaid.

(vi) Intangible Assets under development.

(vii) Money received against share warrant.

(viii) Cash equivalents. **[MTP April '19, 5 Marks]**

Ans.

(i) Current Liabilities/Other Current Liabilities

(ii) Shareholders' Fund / Reserve & Surplus

(iii) Current liabilities/Other Current Liabilities

(iv) Contingent Liabilities and Commitments

(v) Shareholders' Fund / Share Capital

(vi) Fixed Assets

(vii) Shareholders' Fund/Money received against share warrants

(viii) Current Assets

Q-12 From the following particulars furnished by Megha Ltd., prepare the Balance Sheet as on 31st March 20X1 as required by Part I, Schedule III of the Companies Act, 2013.

Particulars	**Debit Rs.**	**Credit Rs.**
Equity Share Capital (Face value of Rs. 100 each)		50,00,000
Call in Arrears	5,000	
Land & Building	27,50,000	
Plant & Machinery	26,25,000	
Furniture	2,50,000	
General Reserve		10,50,000
Loan from State Financial Corporation		7,50,000
Inventory:		

Raw Materials	2,50,000		
Finished Goods	10,00,000	12,50,000	
Provision for Taxation			6,40,000
Trade receivables		10,00,000	
Short term Advances		2,13,500	
Profit & Loss Account			4,33,500
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Unsecured Loan			6,05,000
Trade payables (for Goods and Expenses)			8,00,000
Loans & advances from related parties			2,00,000

The following additional information is also provided:

(i) 10,000 Equity shares were issued for consideration other than cash.

(ii) Trade receivables of Rs. 2,60,000 are due for more than 6 months.

(iii) The cost of the Assets were: Building Rs. 30,00,000, Plant & Machinery Rs. 35,00,000 and Furniture Rs. 3,12,500

(iv) The balance of Rs. 7,50,000 in the Loan Account with State Finance Corporation is inclu sive of Rs. 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes Rs. 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.

(vi) Transfer of Rs. 20,000 to general reserve is proposed by the Board of directors.

[MTP Aug. '18, 16 Marks]

Ans.

Megha Ltd.

Balance Sheet as on 31st March, 20X1

		Particulars	Notes	Rs.
	Equity and Liabilities			
1	**Shareholders' funds**			
	a	Share capital	1	49,95,000
	b	Reserves and Surplus	2	14,83,500
2	**Non-current liabilities**			
	Long-term borrowings		3	13,17,500
3	**Current liabilities**			
	a	Trade Payables		8,00,000
	b	Other current liabilities	4	37,500
	c	Short-term provisions	5	6,40,000
	d	Short-term borrowings		2,00,000
		Total		**94,73,500**

	Assets			
1	**Non-current assets**			
	Fixed assets			
	Tangible assets		6	56,25,000
2	**Current assets**			
	a	Inventories	7	12,50,000
	b	Trade receivables	8	10,00,000
	c	Cash and bank balances	9	13,85,000
	d	Short-term loans and advances		2,13,500
		Total		**94,73,500**

Notes to accounts

			Rs.
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of Rs. 100 each		
	(of the above 10,000 shares have been issued for		
	consideration other than cash)	50,00,000	
	Less: Calls in arrears	(5,000)	49,95,000
	Total		49,95,000
2	**Reserves and Surplus**		
	General Reserve	10,50,000	
	Add: current year transfer	20,000	10,70,000
	Profit & Loss balance		
	Profit for the year	4,33,500	
	Less: Appropriations:		
	Transfer to General reserve	(20,000)	4,13,500
	Total		14,83,500
3	**Long-term borrowings**		
	Secured Term Loan		
	State Financial Corporation Loan (7,50,000-37,500)		
	(Secured by hypothecation of Plant and Machinery)		7,12,500
	Unsecured Loan		6,05,000
	Total		13,17,500
4	**Other current liabilities**		
	Interest accrued but not due on loans (SFC)		37,500

5	**Short-term provisions**		
	Provision for taxation		6,40,000
6	**Tangible assets**		
	Land and Building	30,00,000	
	Less: Depreciation	(2,50,000) (b.f.)	27,50,000
	Plant & Machinery	35,00,000	
	Less: Depreciation	(8,75,000) (b.f.)	26,25,000
	Furniture & Fittings	3,12,500	
	Less: Depreciation	(62,500)(b.f.)	2,50,000
	Total		56,25,000
7	**Inventories**		
	Raw Materials		2,50,000
	Finished goods		10,00,000
	Total		12,50,000
8	**Trade receivables**		
	Outstanding for a period exceeding six months		2,60,000
	Other Amounts		7,40,000
	Total		10,00,000
9	**Cash and bank balances**		
	Cash at bank		
	with Scheduled Banks	12,25,000	
	with others (Omega Bank Ltd.)	10,000	12,35,000
	Cash in hand		1,50,000
	Other bank balances		Nil
	Total		13,85,000

Q-13 The following is the Draft Profit & Loss A/c of Mudra Ltd., the year ended 31st March, 20X1:

	Rs.		**Rs.**
To Administrative, Selling and distribution expenses	8,22,542	By Balance b/d	5,72,350
		By Balance from Trading A/c	40,25,365
		By Subsidies received from Govt.	2,73,925
To Directors fees	1,34,780		
To Interest on debentures	31,240		
To Managerial remuneration	2,85,350		
To Depreciation on fixed assets	5,22,543		
To Provision for Taxation	12,42,500		
To General Reserve	4,00,000		
To Investment Revaluation Reserve	12,500		
To Balance c/d	14,20,185		
	48,71,640		**48,71,640**

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was Rs.5,75,345. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.

[MTP Aug. '18, 5 Marks]

Ans. Calculation of net profit u/s 198 of the Companies Act, 2013

	Rs.	Rs.	
Balance from Trading A/c		40,25,365	
Add : Subsidies received from Government		2,73,925	
			42,99,290
Less : Administrative, selling and distribution expenses	8,22,542		
Director's fees	1,34,780		
Interest on debentures	31,240		
Depreciation on fixed assets as per Schedule II	**5,75,345**		(15,63,907)
Profit u/s 198			27,35,383

Maximum Managerial remuneration under Companies Act, 2013= 11% of Rs.27,35,383= Rs.3,00,892.

Q-14 From the following particulars furnished by Happy Ltd., prepare the Balance Sheet as on 31st March 2018 as required by Part I, Schedule III of the Companies Act.

Particulars		Debit Rs.	Credit Rs.
Equity Share Capital (Face value of Rs. 100 each)			50,00,000
Call in Arrears		5,000	
Land & Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Stock:			
Raw Materials	2,50,000		
Finished Goods	10,00,000	12,50,000	
Provision for Taxation			6,40,000
Sundry Debtors		10,00,000	
Advances		2,13,500	
Profit & Loss Account			4,33,500
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Unsecured Loan			6,05,000
Sundry Creditors (for Goods and Expenses)			10,00,000

The following additional information is also provided:

(i) 10,000 Equity shares were issued for consideration other than cash.

(ii) Debtors of Rs. 2,60,000 are due for more than 6 months.

(iii) The cost of the Assets were: Building Rs. 30,00,000, Plant & Machinery Rs. 35,00,000 and Furniture Rs. 3,12,500

(iv) The balance of Rs. 7,50,000 in the Loan Account with State Finance Corporation is inclusive of Rs. 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes Rs. 10,000 with Global Bank Ltd., which is not a Scheduled Bank.

[MTP Oct. '18, 15 Marks]

Ans.

Happy Ltd.

Balance Sheet as on 31st March, 2018

	Particulars		Notes	Rs.
	Equity and Liabilities			
1	**Shareholders' funds**			
	a	Share capital	1	49,95,000
	b	Reserves and Surplus	2	14,83,500
2	**Non-current liabilities**			
	Long-term borrowings		3	13,17,500
3	**Current liabilities**			
	a	Trade Payables		10,00,000
	b	Other current liabilities	4	37,500
	c	Short-term provisions	5	6,40,000
		Total		**94,73,500**
	Assets			
1	**Non-current assets**			
	Fixed assets			
	Tangible assets		6	56,25,000
2	**Current assets**			
	a	Inventories	7	12,50,000
	b	Trade receivables	8	10,00,000
	c	Cash and cash equivalents	9	13,85,000
	d	Short-term loans and advances		2,13,500
		Total		**94,73,500**

Notes to accounts

			Rs.
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of Rs. 100 each		
	(of the above 10,000 shares have been issued for		
	consideration other than cash)	50,00,000	
	Less: Calls in arrears	(5,000)	49,95,000
	Total		**49,95,000**

2	**Reserves and Surplus**		
	General Reserve		10,50,000
	Surplus (Profit & Loss A/c)		4,33,500
	Total		**14,83,500**
3	**Long-term borrowings**		
	Secured Term Loan		
	State Financial Corporation Loan (7,50,000 - 37,500)		
	(Secured by hypothecation of Plant and Machinery)		7,12,500
	Unsecured Loan		6,05,000
	Total		**13,17,500**
4	**Other current liabilities**		
	Interest accrued but not due on loans (SFC)		37,500
5	**Short-term provisions**		
	Provision for taxation		6,40,000
6	**Tangible assets**		
	Land and Building	30,00,000	
	Less: Depreciation	(2,50,000)	27,50,000
	Plant & Machinery	35,00,000	
	Less: Depreciation	(8,75,000)	26,25,000
	Furniture & Fittings	3,12,500	
	Less: Depreciation	(62,500)	2,50,000
	Total		**56,25,000**
7	**Inventories**		
	Raw Materials		2,50,000
	Finished goods		10,00,000
	Total		**12,50,000**
8	Trade receivables		
	Outstanding for a period exceeding six months		2,60,000
	Other Amounts		7,40,000
	Total		**10,00,000**
9	**Cash and cash equivalents**		
	Cash at bank with Scheduled Banks	12,25,000	
	with others (Global Bank Ltd.)	10,000	12,35,000
	Cash in hand		1,50,000
	Total		**13,85,000**

Q-15 **(a)** The following balance appeared in the books of Oliva Company Ltd. as on 31-03-2019.

Particulars	`		**Particulars**		`
Inventory 01-04-2018			Sales		17,10,000
-Raw Material	30,000		Interest		3,900
-Finished goods	46,500	76,500	Profit and Loss A/c		48,000
Purchases		12,15,000	Share Capital		3,15,000
Manufacturing Expenses		2,70,000	Secured Loans:		
			Short–term	4,500	
			Long-term	21,000	25,500
Salaries and wages		40,200	Fixed Deposits (unsecured):		
			Short -term	1,500	
General Charges		16,500	Long - term	3,300	4,800
Interim Dividend paid (inclusive of Dividend Distribution Tax)		27,000	Trade payables		3,27,000
Building		1,01,000			
Plant and Machinery		70,400			
Furniture		10,200			
Motor Vehicles		40,800			
Stores and Spare Parts Consumed		45,000			
Investments:					
Current	4,500				
Non-Current	7,500	12,000			
Trade receivables		2,38,500			
Cash in Bank		2,71,100			
		24,34,200			**24,34,200**

From the above balance and the following information, prepare the company's Profit and Loss Account for the year ended 31st March, 2019 and Company's Balance Sheet as on that date:

1. Inventory on 31st March,2019 Raw material ` 25,800 & finished goods ` 60,000.
2. Outstanding Expenses: Manufacturing Expenses ` 67,500 & Salaries & Wages ` 4,500.
3. Interest accrued on Securities ` 300.
4. General Charges prepaid ` 2,490.
5. Provide depreciation: Building @ 2% p.a., Machinery @ 10% p.a., Furniture @ 10% p.a. & Motor Vehicles @ 20% p.a.
6. Current maturity of long term loan is ` 1,000.
7. The Taxation provision of 40% on net profit is considered.

(b) The following extract of Balance Sheet of X Ltd. (a non-investment company) was obtained:

Balance Sheet (Extract) as on 31st March, 2019

Liabilities	`
Authorized capital:	
15,000, 14% preference shares of ` 100	15,00,000
1,50,000 Equity shares of ` 100 each	1,50,00,000
	1,65,00,000
Issued and subscribed capital:	
15,000, 14% preference shares of ` 100 each fully paid	15,00,000
1,20,000 Equity shares of ` 100 each, ` 80 paid-up	96,00,000
Capital reserves (` 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,25,000

You are required to compute Effective Capital as per the provisions of Schedule V to the Companies Act, 2013. **[RTP Nov '19]**

Ans. (a) **Oliva Company Ltd.**

Statement of Profit and loss for the year ended 31.03.2019

	Particulars	**Note**	**(`) Amount**
I	Revenue from operations		17,10,000
II	Other income (3,900 +300)		4,200
III	Total Revenue (I +II)		17,14,200
IV	Expenses:		
	Cost of materials consumed	10	12,64,200
	Purchases of inventory-in-trade		--
	Changes in inventories of finished goods, work-in-progress and inventory-in-Trade	11	(13,500)
	Employee benefit expenses	12	44,700
	Finance costs		--
	Depreciation and amortization expenses		18,240
	Other expenses	13	3,51,510
	Total Expenses		16,65,150
V	Profit before exceptional and extraordinary items and tax		49,050
VI	Exceptional items		--
VII	Profit before extraordinary items and tax		49,050
VIII	Extraordinary items		--

IX	Profit before tax	49,050
X	Tax expense (40% of 49,050)	19,620
XI	Profit/Loss for the period from continuing operations	29,430

Oliva Company Ltd.

Balance Sheet for the year ended 31.03.2019

			Particulars	Note	Amount
1	**Equity and Liabilities**				
	(i)	Shareholders' funds			
		(a)	Share Capital		3,15,000
		(b)	Reserves and surplus	1	50,430
2)	**Non-current liabilities**				
	(a)	Long-term borrowings		2	23,300
(3)	**Current Liabilities**				
	(a)	Short -term borrowings		3	6,000
	(b)	Trade payables			3,27,000
	(c)	Other current liability		4	73,000
	(d)	Short term provision		5	19,620
					8,14,350
II	**ASSETS**				
(1)	**Non current assets**				
	(a)	Property, Plant & equipment			
		(i)	Tangible assets	6	2,04,160
	(b)	Non-current investments			7,500
(2)	**Current assets**				
	(a)	Current investments			4,500
	(b)	Inventories		7	85,800
	(c)	Trade receivables			2,38,500
	(d)	Cash and cash equivalents			2,71,100
	(e)	Short-term loans and advances		8	2,490
	(f)	Other current assets		9	300
					8,14,350

Notes to accounts

No	Particulars	Amount	Amount
1.	**Reserve & Surplus**		
	Profit & Loss Account: Balance b/f	48,000	
	Net Profit for the year	29,430	
	Less: Interim Dividend including DDT	(27,000)	50,430

2.	**Long term borrowings**			
	Secured loans (21,000 less current maturities 1,000)		20,000	
	Fixed Deposits: Unsecured		3,300	23,300
3.	**Short term borrowings**			
	Secured loans		4,500	
	Fixed Deposits -Unsecured		1,500	6,000
4.	**Other current liabilities**			
	Expenses Payable (67,500 + 4,500)		72,000	
	Current maturities of long term borrowings		1,000	73,000
5.	**Short term provisions**			
	Provision for Income tax			19,620
6.	**Tangible Assets**			
	Building	1,01,000		
	Less: Depreciation @ 2%	(2,020)	98,980	
	Plant & Machinery	70,400		
	Less: Depreciation @10%	(7,040)	63,360	
	Furniture	10,200		
	Less: Depreciation @10%	(1,020)	9,180	
	Motor vehicles	40,800		
	Less: Depreciation @20%	(8,160)	32,640	2,04,160
7	**Inventory:**			
	Raw Material		25,800	
	Finished goods		60,000	85,800
8.	**Short term Loans & Advances**			
	General Charges prepaid			2,490
9.	**Other Current Assets:**			
	Interest accrued			300
10.	**Cost of material consumed**			
	Opening inventory of raw Material & Stores	30,000		
	Add: Purchases	12,15,000		
	Stores & Spare parts consumed	(45,000)	12,90,000	
	Less: Closing inventory		(25,800)	12,64,200
11.	**Changes in inventory of Finished Goods & WIP**			
	Closing Inventory of Finished Goods		60,000	
	Less: Opening Inventory of Finished Goods		46,500	13,500
12.	**Employee Benefit expenses**			
	Salary & Wages (40,200 + 4,500)			44,700

13.	**Other Expenses:**		
	Manufacturing Expenses	3,37,500	
	(2,70,000 + 67,500)		
	General Charges (16,500 - 2,490)	14,010	3,51,510

(b) Computation of Effective Capital

		`
Paid-up share capital-		
15,000, 14% Preference shares		15,00,000
1,20,000 Equity shares		96,00,000
Capital reserves (excluding revaluation reserve)		45,000
Securities premium		50,000
15% Debentures		65,00,000
	(A)	1,76,95,000
Investments		75,00,000
Profit and Loss account (Dr. balance)		15,25,000
	(B)	90,25,000
Effective capital	(A-B)	86,70,000

Q-16 Shweta Ltd. has the Authorised Capital of Rs. 15,00,000 consisting of 6,000 6% Preference shares of Rs.100 each and 90,000 equity Shares of Rs.10 each. T he following was the Trial Balance of the Company as on 31st March, 2018:

Particulars	**Dr.**	**Cr.**
Investment in Shares at cost	1,50,000	
Purchases	14,71,500	
Selling Expenses	2,37,300	
Inventory as at the beginning of the year	4,35,600	
Salaries and Wages	1,56,000	
Cash on Hand	36,000	
Interim Preference dividend for the half year to 30th September	18,000	
Bills Receivable	1,24,500	
Interest on Bank overdraft	29,400	
Interest on Debentures upto 30th Sep (1st half year)	11,250	
Debtors	1,50,300	
Trade payables		2,63,550
Freehold property at cost	10,50,000	
Furniture at cost less depreciation of Rs. 45,000	1,05,000	
6% Preference share capital		6,00,000
Equity share capital fully paid up		6,00,000
5% mortgage debentures secured on Freehold properties		4,50,000

Income tax paid in advance for the current year	30,000	
Dividends		12,750
Profit and Loss A/c (opening balance)		85,500
Sales (Net)		20,11,050
Bank overdraft secured by hypothecation of stocks and receivables		4,50,000
Technical knowhowfees at cost paid during the year	4,50,000	
Audit fees	18,000	
Total	**44,72,850**	**44,72,850**

You are required to prepare the Profit and Loss Statement for the year ended 31st March, 2018 and the Balance Sheet as on 31st March, 2018 as per Schedule III of the Companies Act, 2013 after taking into account the following -

1. Closing Stock was valued at Rs.4,27,500.
2. Purchases include Rs.15,000 worth of goods and articles distributed among valued customers.
3. Salaries and Wages include Rs.6,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".
4. Bills Receivable include Rs. 4,500 being dishonoured bills. 50% of which had been considered irrecoverable.
5. Bills Receivable of Rs.6,000 maturing after 31st March were discounted.
6. Depreciation on Furniture to be charged at 10% on Written Down Value. Investment in shares is to be treated as non-current investments.

7. Interest on Debentures for the half year ending on 31st March was due on that date.
9. Provide Provision for taxation Rs.12,000.
10. Technical KnowhowFees is to be written off over a period of 10 years.
11. Salaries and Wages include Rs.30,000 being Director's Remuneration.
12. Trade receivables include Rs.18,000 due for more than six months. **[RTP May '19]**

Ans.

(a) **Statement of Profit and Loss of Shweta Ltd. forthe year ended 31st March, 2018**

	Particular	**Note**	**Rs.**
I	Revenue from Operations		20,11,050
II	Other income (Divided income)		12,750
III	Total Revenue (I &+ II)		20,23,800
IV	Expenses:		
	(a) Purchases (14,71,500 - Advertisement Expenses 15,000)		14,56,500
	(b) Changes in Inventories of finished Goods / Work in progress (4,35,600 -4,27,500)		8,100
	(c) Employee Benefits expense	9	1,20,000
	(d) Finance costs	10	51,900
	(e) Depreciation & Amortization Expenses [10% of (1,05,000+6,000)]		11,100
	(f) Other Expenses	11	3,47,550
	Total Expenses		19,95,150

V	Profit before exceptional, extraordinary itemsand tax (III-IV)	28,650
VI	Exceptional items	-
VII	Profit before extra ordinary itemsand tax (V-IV)	28,650
VIII	Extraordinary items	-
IX	Profit before tax (VII-VI II)	28,650
X	Tax expense:	
	Current Tax	12,000
XI	Profit/Loss for the period (after tax)	16,650

Balance sheet of Shweta Ltd. as on 31st March, 2018

	Particular as on 31st March	Note	
I			
	(1) **Shareholders' funds:**		
	(a) Share capital	**1**	12,00,000
	(b) Reserves and surplus	**2**	66,150
	(2) **Non current liabilities:**		
	Long term borrowings	**3**	4,50,000
	(3) **Current liabilities:**		
	(a) Short term borrowings	**4**	4,50,000
	(b) Trade payables		2,63,550
	(c) Other current liabilities	**5**	29,250
	Total		24,58,950
II	**ASSETS**		
	(1) **Non-current Assets**		
	(a) Property, Plant & Equipment		
	(i) Tangible assets	**6**	11,49,900
	(ii) Intangible assets	**7**	4,05,000
	(b) Non current investments (Shares at cost)		1,50,000
	Current Assets:		
	(a) Inventories		4,27,500
	(b) Trade receivables	**8**	2,72,550
	(c) Cash and Cash equivalents - Cash on hand		36,000
	(d) Short term loans and advances -Income tax (paid 30,000-Provision 12,000)		18,000
	Total		24,58,950

Note : There is a Contingent liability for Bills receivable discounted with Bank Rs.6,000

Notes to accounts

				Rs.
1.	**Share Capital**			
	Authorized			
	90,000 Equity Shares of Rs.10 eahc		9,00,000	
	6,000 6% Preference shares of Rs.100 each		6,00,000	15,00,000
	Issued, subscribed & called up			
	60,000, Equity Shares of Rs.10 each		6,00,000	
	6,000 6% Redeemable Preference Shares of 100 each		6,00,000	12,00,000
2.	**Reserves and Surplus**			
	Balance as on 1st April, 2017		85,500	
	Add: Surplus for current year		16,650	1,02,150
	Less; Preference Dividend			36,000
	Balance as on 31st March, 2018			66,150
3.	**Long Term Borrowings**			
	5% Mortgage Debentures (Secured against Freehold Properties)			4,50,000
4.	**Short Term Borrowings**			
	Secured Borrowings: Loans Repayable on Demand			
	Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables)			4,50,000
5.	**Other Current liabilities**			
	Interest Accrued and due on Borrowings (5% Debentures)		11,250	
	Unpaid Preference Dividends		18,000	29,250
6.	**Tangible Fixed assets**			
	Furniture			
	Furniture at Cost Less depreciation Rs.45,000 (as given in Trial Balance		1,05,000	
	Add: Depreciation		45,000	
	Cost of Furniture		1,50,000	
	Add: Installation charge of Electrical Fittings wrongly			
	included under the heading Salaries and Wages		6,000	
	Total Gross block of Furniture A/c		1,56,000	
	Accumulated Depreciation Account: Opening			
	Balance-given in Trial Balance	45,000		
	Depreciation for the year:			
	On Opening WDV at 10% i.e. (10%x 1,05,000)	10,500		
	On additional purchase during the year at 10% i.e. (10%x 6,000)	600		
	Less; Accumulated Depreciation		56,100	99,900
	Freehold property (at cost)			10,50,000
				11,49,900

7. Intangible Fixed Assets		
Technical knowhow	4,50,000	
Less; Written off	45,000	4,05,000
8. Trade Receivables		
Sundry Debtors (a) Debt outstanding for more than six months	18,000	
(b) Other Debts (refer Working Note)	1,34,550	
Bills Receivable (1,24,500 -4,500)	1,20,000	2,72,550
9. Employee benefit expenses		
Amount as per Trial Balance	1,56,000	
Less; Wages incurred for installation of electrical fittings to be capitalised	6,000	
Less; Directors' Remuneration shown separately	30,000	
Balance amount		1,20,000
10. Finance Costs		
Interest on bank overdraft	29,400	
Interest on debentures	22,500	51,900
11. Other Expenses		
Payment to the auditors	18,000	
Director's remuneration	30,000	
Selling expenses	2,37,300	
Technical knowhow written of (4,50,000/10)	45,000	
Advertisement (Goods and Articles Distributed)	15,000	
Bad Debts (4,500 x50%)	2,250	3,47,550

Working Note

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

Q-17 The following extract of Balance Sheet of Gaurav Ltd. was obtained:

Balance Sheet (Extract) as on 31st March, 2018

Liabilities	**Rs.**
Authorised capital:	
90,000, 14% preference shares of Rs.100	90,00,000
9,00,000 Equity shares of Rs.100 each	9,00,00,000
	9,90,00,000

Issued and subscribed capital:	
67,500, 14% preference shares of Rs.100 each fully paid	67,50,000
5,40,000 Equity shares of Rs.100 each, Rs.80 paid-up	4,32,00,000
Share suspense account	90,00,000
Reserves and surplus	
Capital reserves (Rs.6,75,000 is revaluation reserve)	8,87,500
Securities premium	2,25,000
Secured loans:	
15% Debentures	2,92,50,000
Unsecured loans:	
Public deposits	16,65,000
Cash credit loan from SBI (short term)	5,92,500
Current Liabilities:	
Trade Payables	15,50,500
Assets:	
Investment in shares, debentures, etc.	3,37,50,000
Profit and Loss account (Dr. balance)	68,62,500

Share suspense account represents application money received on shares, the allotment of which is not yet made. You are required to compute effective capital as per the provisions of Schedule V. Would your answer differ if Gaurav Ltd.is an investment company? **[RTP May '19]**

Ans. Computation of effective capital :

	Where Gaurav Ltd. is a non-investement company	**Where Gaurav Lts. is an investment company**
Paid-up share capital - 67,500, 14% Preference shares	67,50,000	67,50,000
5,40,000 Equity shares	4,32,00,000	4,32,00,000
Capital reserves	2,02,500	2,02,500
Securities premium	2,25,000	2,25,000
15% Debentures	2,92,50,000	2,92,50,000
Public Deposits	16,65,000	16,65,000
(A)	8,12,92,500	8,12,92,500
Investments	3,37,50,000	-
Profit and Loss account (Dr. balance)	68,62,500	68,62,500
(B)	4,06,12,500	68,62,500
Effective capital (A-B)	4,06,80,000	7,44,30,000

Q-18 The following is the Draft Profit & Loss A/c of Harsha Ltd., the year ended 31st March, 20X1:

		`			`
To	Administrative, Selling and		By	Balance b/d	28,61,750
”	distribution expenses	41,12,710		Balance from Trading A/c	201,26,825
	Directors fees	6,73,900	“		
” ”	Interest on debentures	1,56,200			
	Managerial remuneration	14,26,750	“	Subsidies received from Govt.	13,69,625
”	Depreciation on fixed assets	26,12,715			
”	Provision for Taxation	62,12,500			
”	General Reserve	20,00,000			
”	Investment Revaluation				
	Reserve	62,500			
”	Balance c/d	71,00,925			
		243,58,200			**243,58,200**

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was ` 28,76,725. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.

[RTP-May’2020]

Ans. Calculation of net profit u/s 198 of the Companies Act, 2013

		`	`
Balance from Trading A/c			201,26,825
Add: Subsidies received from Government			13,69,625
			214,96,450
Less:	Administrative, selling and distribution expenses	41,12,710	
	Director’s fees	6,73,900	
	Interest on debentures	1,56,200	
	Depreciation on fixed assets as per Schedule II	28,76,725	(78,19,535)
Profit u/s 198			136,76,915

Maximum Managerial remuneration under Companies Act, 2013 = 11% of ` 136,76,915= ` 15,04,461

Q-19 The following extract of Balance Sheet of Gaurav Ltd. was obtained:

Balance Sheet (Extract) as on 31st March, 2018

Liabilities	**Rs.**
Authorised capital:	
90,000, 14% preference shares of Rs.100	90,00,000
9,00,000 Equity shares of Rs.100 each	9,00,00,000
	9,90,00,000
Issued and subscribed capital:	
67,500, 14% preference shares of Rs.100 each fully paid	67,50,000

5,40,000 Equity shares of Rs.100 each, Rs.80 paid-up	4,32,00,000
Share suspense account	90,00,000
Reserves and surplus	
Capital reserves (Rs.6,75,000 is revaluation reserve)	8,87,500
Securities premium	2,25,000
Secured loans:	
15% Debentures	2,92,50,000
Unsecured loans:	
Public deposits	16,65,000
Cash credit loan from SBI (short term)	5,92,500
Current Liabilities:	
Trade Payables	15,50,500
Assets:	
Investment in shares, debentures, etc.	3,37,50,000
Profit and Loss account (Dr. balance)	68,62,500

Share suspense account represents application money received on shares, the allotment of which is not yet made. You are required to compute effective capital as per the provisions of Schedule V. Would your answer differ if Gaurav Ltd.is an investment company? **[RTP May '19]**

Ans. Computation of effective capital :

	Where Gaurav Ltd. is a non-investement company	**Where Gaurav Lts. is an investment company**
Paid-up share capital - 67,500, 14% Preference shares	67,50,000	67,50,000
5,40,000 Equity shares	4,32,00,000	4,32,00,000
Capital reserves	2,02,500	2,02,500
Securities premium	2,25,000	2,25,000
15% Debentures	2,92,50,000	2,92,50,000
Public Deposits	16,65,000	16,65,000
(A)	8,12,92,500	8,12,92,500
Investments	3,37,50,000	-
Profit and Loss account (Dr. balance)	68,62,500	68,62,500
(B)	4,06,12,500	68,62,500
Effective capital (A-B)	4,06,80,000	7,44,30,000

---0---0---

UNIT II

CASH FLOW STATEMENT

Q-1 The following information was provided by PQR Ltd. for the year ended 31st March, 2019 :

(1) Gross Profit Ratio was 25% for the year, which amounts to ` 3,75,000.

(2) Company sold goods for cash only.

(3) Opening inventory was lesser than closing inventory by ` 25,000.

(4) Wages paid during the year ` 5,55,000.

(5) Office expenses paid during the year ` 35,000.

(6) Selling expenses paid during the year ` 15,000.

(7) Dividend paid during the year ` 40,000 (including dividend distribution tax).

(8) Bank Loan repaid during the year ` 2,05,000 (included interest ` 5,000)

(9) Trade Payables on 31st March, 2018 were ` 50,000 and on 31st March, 2019 were ` 35,000.

(10) Amount paid to Trade payables during the year ` 6,10,000

(11) Income Tax paid during the year amounts to ` 55,000
(Provision for taxation as on 31st March, 2019 ` 30,000).

(12) Investments of ` 8,20,000 sold during the year at a profit of ` 20,000.

(13) Depreciation on furniture amounts to ` 40,000.

(14) Depreciation on other tangible assets amounts to ` 20,000.

(15) Plant and Machinery purchased on 15th November, 2018 for ` 3,50,000.

(16) On 31st March, 2019 ` 2,00,000, 7% Debentures were issued at face value in an exchange for a plant.

(17) Cash and Cash equivalents on 31st March, 2018 ` 2,25,000.

(A) Prepare cash flow statement for the year ended 31st March, 2019, using direct method.

(B) Calculate cash flow from operating activities, using indirect method.

[Sugg. May '19, 10 Marks]

Ans. **PQR Ltd.**

Cash Flow Statement for the year ended 31st March, 2019

(Using direct method)

Particulars	`	`
Cash flows from Operating Activities		
Cash sales (` 3,75,000/25%)		15,00,000
Less: Cash payments for trade payables	(6,10,000)	
Wages Paid	(5,55,000)	
Office and selling expenses ` (35,000 + 15,000)	(50,000)	(12,15,000)
Cash generated from operations before taxes		2,85,000

Income tax paid		(55,000)
Net cash generated from operating activities (A)		2,30,000
Cash flows from Investing activities		
Sale of investments ` (8,20,000 + 20,000)	8,40,000	
Payments for purchase of Plant & machinery	(3,50,000)	
Net cash used in investing activities (B)		4,90,000
Cash flows from financing activities		
Bank loan repayment (including interest)	(2,05,000)	
Dividend paid (including dividend distribution tax)	(40,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,75,000
Cash and cash equivalents at beginning of the period		2,25,000
Cash and cash equivalents at end of the period		7,00,000
(ii) 'Cash Flow from Operating Activities' by indirect method		
		`
Net Profit for the year before tax and extraordinary items		2,80,000
Add: Non-Cash and Non-Operating Expenses:		
Depreciation		60,000
Interest Paid		5,000
Less: Non-Cash and Non-Operating Incomes:		
Profit on Sale of Investments		(20,000)
Net Profit after Adjustment for Non-Cash Items		3,25,000
Less: Decrease in trade payables	15,000	
Increase in inventory	25,000	(40,000)
Cash generated from operations before taxes		2,85,000

Working Note:

Calculation of net profit earned during the year

	`	`
Gross profit		3,75,000
Less: Office expenses, selling expenses	50,000	
Depreciation	60,000	
Interest paid	5,000	(1,15,000)
		2,60,000
Add: Profit on sale of investments		20,000
Net profit before tax		2,80,000

Q-2 J Ltd. presents you the following information for the year ended 31st March, 2019:

		(Rs. in lacs)
(i)	Net profit before tax provision	36,000
(ii)	Dividend paid	10,202
(iii)	Income-tax paid	5,100
(iv)	Book value of assets sold	222
	Loss on sale of asset	48
(v)	Depreciation debited to P & L account	24,000
(vi)	Capital grant received - amortized to P & L A/c	10
(vii)	Book value of investment sold	33,318
	Profit on sale of investment	120
(viii)	Interest income from investment credited to P & L A/c	3,000
(ix)	Interest expenditure debited to P & L A/c	12,000
(x)	Interest actually paid (Financing activity)	13,042
(xi)	Increase in working capital	67,290
	[Excluding cash and bank balance]	
(xii)	Purchase of fixed assets	22,092
(xiii)	Expenditure on construction work	41,688
(xiv)	Grant received for capital projects	18
(xv)	Long term borrowings from banks	55,866
(xvi)	Provision for Income-tax debited to P & L A/c	6,000
	Cash and bank balance on 1.4.2018	6,000
	Cash and bank balance on 31.3.2019	8,000

You are required to prepare a cash flow statement as per AS-3 (Revised). **[MTP Oct. '19, 12 Marks]**

Ans. **Cash Flow Statement as per AS 3**

			Rs. in lacs
Cash flows from operating activities:			36,000
Net profit before tax provision			
Add:	Non cash expenditures:		
	Depreciation	24,000	
	Loss on sale of assets	48	
	Interest expenditure (non operating activity)	12,000	36,048
			72,048
Less:	Non cash income		
	Amortisation of capital grant received	(10)	
	Profit on sale of investments (non operating income)	(120)	
	Interest income from investments (non operating income)	(3,000)	3,130

Operating profit		68,918
Less: Increase in working capital		(67,290)
Cash from operations		1,628
Less: Income tax paid		(5,100)
Net cash generated from operating activities		(3,472)
Cash flows from investing activities:		
Sale of assets (222 . 48)	174	
Sale of investments (33,318+120)	33,438	
Interest income from investments	3,000	
Purchase of fixed assets	(22,092)	
Expenditure on construction work	(41,688)	
Net cash used in investing activities		(27,168)
Cash flows from financing activities:		
Grants for capital projects	18	
Long term borrowings	55,866	
Interest paid	(13,042)	
Dividend paid	(10,202)	
Net cash from financing activities		32,640
Net increase in cash		2,000
Add: Cash and bank balance as on 1.4.2018		6,000
Cash and bank balance as on 31.3.2019		8,000

Q-3 The following figures have been extracted from the books of X Limited for the year ended on 31.3.2019. You are required to prepare a 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 ` 20 lakhs:

(a) Depreciation on Property, Plant & Equipment ` 5 lakhs.

(b) Discount on issue of Debentures written off ` 30,000.

(c) Interest on Debentures paid ` 3,50,000.

(d) Book value of investments ` 3 lakhs (Sale of Investments for ` 3,20,000).

(e) Interest received on investments ` 60,000.

(f) Compensation received ` 90,000 by the company in a suit filed.

(ii) Income tax paid during the year ` 10,50,000.

(iii) 15,000, 10% preference shares of ` 100 each were redeemed on 31.3.2019 at a premium of 5%. Further the company issued 50,000 equity shares of ` 10 each at a premium of 20% on 2.4.2018. Dividend on preference shares were paid at the time of redemption.

(iv) Dividend paid for the year 2017-2018 ` 5 lakhs and interim dividend paid ` 3 lakhs for the year 2018-2019.

(v) Land was purchased on 2.4.2018 for ` 2,40,000 for which the company issued 20,000 equity shares of ` 10 each at a premium of 20% to the land owner as consideration.

(vi) Current assets and current liabilities in the beginning and at the end of the years were as detailed below:

	As on 31.3.2018 `	**As on 31.3.2019** `
Inventory	12,00,000	13,18,000
Trade receivables	2,58,000	2,53100
Cash in hand	1,96,300	35,300
Trade payables	2,11,000	2,11,300
Outstanding expenses	75,000	81,800

[RTP-May'20]

Ans.

X Ltd.

Cash Flow Statement

for the year ended 31st March, 2019

	`	`
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		20,00,000
Adjustments for:		
Depreciation on PPE	5,00,000	
Discount on issue of debentures	30,000	
Interest on debentures paid	3,50,000	
Interest on investments received	(60,000)	
Profit on sale of investments	(20,000)	8,00,000
Operating profit before working capital changes		28,00,000
Adjustments for:		
Increase in inventory	(1,18,000)	
Decrease in trade receivable	4,900	
Increase in trade payables	300	
Increase in outstanding expenses	6,800	(1,06,000)
Cash generated from operations		26,94,000
Income tax paid		(10,50,000)
		16,44,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		90,000
Net cash flow from operating activities		17,34,000
Cash flow from Investing Activities		
Sale proceeds of investments	3,20,000	
Interest received on investments	60,000	
Net cash flow from investing activities		3,80,000

Cash flow from Financing Activities		
Proceeds by issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(15,75,000)	
Preference dividend paid	(1,50,000)	
Interest on debentures paid	(3,50,000)	
Dividend paid (5,00,000 + 3,00,000)	(8,00,000)	
Net cash used in financing activities		(22,75,000)
Net decrease in cash and cash equivalents during the year		(1,61,000)
Add: Cash and cash equivalents as on 31.3.2018		1,96,300
Cash and cash equivalents as on 31.3.2019		35,300

Note: Purchase of land in exchange of equity shares (issued at 20% premium) has not been considered in the cash flow statement as it does not involve any cash transaction.

Q-4 From the following information, prepare a Cash Flow Statement for the year ended 31st March, 2019.

Balance Sheets

	Particulars	Note	31.03.2019 (`)	31.03.2018 (`)
I	EQUITY AND LIABILITES			
	(1) Shareholder's Funds			
	(a) Share Capital	1	3,50,000	3,00,000
	(b) Reserves and Surplus	2	82,000	38,000
	(2) Non-Current Liabilities			
	(3) Current Liabilities			
	(a) Trade Payables		65,000	44,000
	(b) Other Current Liabilities	3	37,000	27,000
	(c) Short term Provisions (provision for tax)		32,000	28,000
	Total		5,66,000	4,37,000
II	ASSETS			
	(1) Non-current Assets			
	(a) Tangible Assets	4	2,66,000	1,90,000
	(b) Intangible Assets (Goodwill)		47,000	60,000
	Non-Current Investments		35,000	10,000
	(2) Current Assets			
	(a) Inventories		78,000	85,000
	(b) Trade Receivables		1,08,000	75,000
	(c) Cash & Cash Equivalents		32,000	17,000
	Total		5,66,000	4,37,000

Note 1: Share Capital

Particulars	31.03.2019 (`)	31.03.2018 (`)
Equity Share Capital	2,50,000	1,50,000
8% Preference Share Capital	1,00,000	1,50,000
Total	3,50,000	3,00,000

Note 2: Reserves and Surplus

Particulars	31.03.2019 (`)	31.03.2018 (`)
General Reserve	30,000	20,000
Profit and Loss A/c	27,000	18,000
Capital Reserve	25,000	____
Total	82,000	38,000

Note 3: Current Liabilities

Particulars	31.03.2019(`)	31.03.2018 (`)
Dividend declared	37,000	27,000

Note 4: Tangible Assets

Particulars	31.03.2019 (`)	31.03.2018 (`)
Land & Building	75,000	1,00,000
Machinery	1,91,000	90,000
Total	2,66,000	1,90,000

Additional Information:

(i) ` 18,000 depreciation for the year has been written off on plant and machinery and no depreciation has been charged on Land and Building.

(ii) A piece of land has been sold out for ` 50,000 and the balance has been revalued, profit on such sale and revaluation being transferred to capital reserve. There is no other entry in Capital Reserve Account.

(iii) A plant was sold for ` 12,000 WDV being ` 15,000 on the date of sale (after charging depreciation).

(iv) Dividend received amounted to ` 2,100 which included pre-acquisition dividend of ` 600.

(v) An interim dividend of ` 10,000 including Dividend Distribution Tax has been paid.

(vi) Non-current investments given in the balance sheet represents investment in shares of other companies.

(vii) Amount of provision for tax existing on 31.3.2018 was paid during the year 2018-19.

[RTP Nov '19]

Ans. **Cash flow Statement for the year ending 31st March, 2019**

		Particulars	`	`
1		**Cash Flow from Operating Activities**		
	A.	Closing balance as per Profit and Loss Account		27,000
		Less: Opening balance as per Profit and Loss Account		(18,000)
		Add: Dividend declared during the year		37,000
		Add: Interim dividend paid during the year		10,000
		Add: Transfer to reserve		10,000
		Add: Provision for Tax		32,000

	B.	Net profit before taxation, and extra-ordinary item		98,000
	C.	Add: Items to be added		
		Depreciation	18,000	
		Loss on sale of Plant	3,000	
		Goodwill written off	13,000	34,000
	D.	Less: Dividend Income		(1,500)
	E.	Operating profit before working capital changes [B + C - D]		1,30,500
	F.	Add: Decrease in Current Assets and Increase in Current Liabilities		
		Decrease in Inventories	7,000	
		Increase in Trade Payables	21,000	28,000
	G.	Less: Increase in Trade Receivables		(33,000)
	H	Cash generated from operations (E+F-G)		1,25,500
	I	Less: Income taxes paid		(28,000)
	J	Net Cash from (used in) operating activities		97,500
II.		**Cash Flows from investing activities:**		
		Purchase of Plant		(1,34,000)
		Sale of Land		50,000
		Sale of plant		12,000
		Purchase of investments		(25,600)
		Dividend Received		2,100
		Net cash used in investing activities		(95,500)
III.		**Cash Flows from Financing Activities:**		
		Proceeds from issue of equity share capital		1,00,000
		Redemption of preference shares		(50,000)
		Interim Dividend (inclusive of DDT) paid		(10,000)
		Final dividend (inclusive of DDT) paid		(27,000)
		Net cash from financing activities		13,000
IV.		**Net increase in cash and cash equivalents (I+II+III)**		15,000
V.		**Cash and cash equivalents at beginning of period**		17,000
VI.		**Cash and cash equivalents at end of period (IV+V)**		32,000

1. Land and Building Account

Particulars	`	**Particulars**	`
To Balance b/d	1,00,000	By Bank A/c (Sale)	50,000
To Capital Reserve A/c	25,000	By Balance c/d	75,000
(Profit on sale/revaluation)			
	1,25,000		**1,25,000**

2. **Plant and Machinery Account**

Particulars	`	**Particulars**	`
To Balance b/d	90,000	By Depreciation A/c	18,000
To Bank A/c (Purchase)	1,34,000	By Bank A/c (sale)	12,000
		By Profit and Loss A/c (Loss on sale)	3,000
		By Balance c/d	1,91,000
	2,24,000		**2,24,000**

3. **Investments Account**

Particulars	`	**Particulars**	`
To Balance b/d	10,000	By Bank A/c (Div. received)	600
To bank A/c (Purchase	25,600	By Balance c/d	35,000
	35,600		**35,600**

Q-5 Preet Ltd. presents you the following information for the year ended 31st March, 2019:

		(Rs. in lacs)
(i)	Net profit before tax provision	72,000
(ii)	Dividend paid	20,404
(iii)	Income-tax paid	10,200
(iv)	Book value of assets sold	444
	Loss on sale of asset	96
(v)	Depreciation debited to P & L account	48,000
(vi)	Capital grant received - amortized to P & L A/c	20
(vii)	Book value of investment sold	66,636
	Profit on sale of investment	240
(viii)	Interest income from investment credited to P & LA/c	6,000
(ix)	Interest expenditure debited to P & L A/c	24,000
(x)	Interest actually paid (Financing activity)	26,084
(xi)	Increase in working capital [Excluding cash and bank balance]	1,34,580
(xii)	Purchase of fixed assets	44,184
(xiii)	Expenditure on construction work	83,376
(xiv)	Grant received for capital projects	36
(xv)	Long term borrowings from banks	1,11,732
(xvi)	Provision for Income-tax debited to P & L A/c	12,000
	Cash and bank balance on 1.4.2018	12,000
	Cash and bank balance on 31.3.2019	16,000

You are required to prepare a cash flow statement as per AS-3 (Revised). **[RTP May '19]**

Ans. Cash Flow Statement as per AS 3

		Rs. in lacs
Cash flows from operating activities:		
Net profit before tax provision		72,000
Add: Non cash expenditures:		
Depreciation	48,000	
Loss on sale of assets	96	
Interest expenditure (non-operating acivity)	24,000	72,096
		1,44,096
Less: Non cash income		
Amortisation of capital grant received	(20)	
Profit on sale of investments (non-operating income)	(240)	
Interest income from investments (non-operating income)	(6,000)	6,260
Operating profit		1,37,836
Less; Increase in working capital		1,34,580
Cash from operations		3,256
Less; Income tax paid		10,200
Net cash generated from operating activities		6944
Cash flows from investing activities:		
Sale of assets (444 - 96)	348	
Sale of investments (66,636+240)	66,876	
Interest income from investments	6,000	
Purchase of fixed assets	44,184	
Expenditure on construction work	83,376	
Net cash used in investing activities		54,336
Cash flows from financing activities:		
Grants for capital projects	36	
Long term borrowings	1,11,732	
Interest paid	26,084	
Dividend paid	20,404	
Net cash from financing activities		65,280
Net increase in cash		4,000
Add: Cash and bank balance as on 1.4.2018		12,000
Cash and bank balance as on 31.3.2019		16,000

Q-6 The Balance Sheet of Harry Ltd. for the year ending 31st March, 2018 and 31st March, 2017 were summarised as follows:

	2018 (Rs.)	**2017 (Rs.)**
Equity share capital	1,20,000	1,00,000
Reserves:		
Profit and Loss Account	9,000	8,000
Current Liabilities:		
Trade Payables	8,000	5,000
Income tax pay able	3,000	2,000
Declared Dividends	4,000	2,000
	1,44,000	**1,17,000**
Fixed Assets (at W.D.V) :		
Building	19,000	20,000
Furniture & Fixture	34,000	22,000
Cars	25,000	16,000
Long Term Investments	32,000	28,000
Current Assets:		
Inventory	14,000	8,000
Trade Receivables	8,000	6,000
Cash & Bank	12,000	17,000
	1,44,000	**1,17,000**

The Profit and Loss account for the year ended 31st March, 2018 disclosed :

	Rs.
Profit before tax	8,000
Income Tax	(3,000)
Profit after tax	5,000
Declared Dividends	(4,000)
Retained Profit	1,000

Further Information is available:

1. Depreciation on Building Rs.1,000.
2. Depreciation on Furniture & Fixtures for the year Rs.2,000.
3. Depreciation on Cars for the year Rs.5,000. One car was disposed during the year for Rs.3,400 whose written down value was Rs.2,000.
4. Purchase investments for Rs.6,000.
5. Sold investments for Rs.10,000, these investments cost Rs.2,000.

You are required to prepare Cash Flow Statement as per AS-3 (revised) using indirect method.

[RTP Nov '18]

Ans. **Harry Ltd.**

Cash Flow Statement for the year ended 31st March, 2018

	Rs.	Rs.
Cash flows from operating activities		
Net Profit before taxation	8,000	
Adjustments for:		
Depreciation (1,000+2,000 +5,000)	8,000	
Profit on sale of Investment	(8,000)	
Profit on sale of car	(1,400)	
Operating profit before working capital changes	6,600	
Increase in Trade receivables	(2,000)	
Increase in inventories	(6,000)	
Increase in Trade payables	3,000	
Cash generated from operations	1,600	
Income taxes paid	(2,000)	
Net cash generated from operating activities (A)		(400)
Cash flows from investing activities		
Sale of car	3,400	
Purchase of car	(16,000)	
Sale of Investment	10,000	
Purchase of Investment	(6,000)	
Purchase of Furniture & fixtures	(14,000)	
Net cash used in investing activities (B)		(22,600)
Cash flows from financing activities		
Issue of shares for cash	20,000	
Dividends paid*	(2,000)	
Net cash from financing activities(C)		18,000
Net decrease in cash and cash equivalents (A + B +C)		(5,000)
Cash and cash equivalents at beginning of period		17,000
Cash and cash equivalents at end of period		12,000

* Dividend declared for the year ended 31st March, 2017 amounting Rs. 2,000 must have been paid in the year 2017-18. Hence, it has been considered as cash outflow for preparation of cash flow statement of 2017-18.

Working Notes:

1. **Calculation of Income taxes paid**

	Rs.
Income tax expense for the year	3,000
Add: Income tax liability at the beginning of the year	2,000
	5,000
Less: Income tax liability at the end of the year	(3,000)
	2,000

2. **Calculation of Fixed assets acquisitions**

	Furniture & Fixtures (Rs.)	Car (Rs.)
W.D.V. at 31.3.2018	34,000	25,000
Add back: Depreciation for the year	2,000	5,000
Disposals	--	2,000
	36,000	32,000
Less; W.D.V. at 31. 3. 2017	(22,000)	(16,000)
Acquisitions during 2016-2018	14,000	16,000

Q-7 A company provides you the following information:

(i) Total sales for the year were Rs. 398 crores out of which cash sales amounted to Rs.262 crores.

(ii) Receipts from credit customers during the year, aggregated Rs.134 crores.

(iii) Purchases for the year amounted to Rs.220 crores out of which credit purchase was 80%.

Balance in creditors as on

1.4.2016	Rs.84 crores
31.3.2017	Rs.92 crores

(iv) Suppliers of other consumables and services were paid Rs. 19 crores in cash, (v) Employees of the enterprises were paid 20 crores in cash.

(vi) Fully paid preference shares of the face value of Rs.32 crores were redeemed. Equity shares of the face value of Rs. 20 crores were allotted as fully paid up at premium of 20%.

(vii) Debentures of Rs.20 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.

(viii) Rs. 26 crores were paid by way of income tax.

(ix) A new machinery costing Rs.25 crores was purchased in part exchange of an old machinery. The book value of the old machinery was Rs.13 crores. Through the negotiations, the vendor agreed to take over the old machinery at a higher value of Rs.15 crores. The balance was paid in cash to the vendor.

(x) Investment costing Rs 18 cores were sold at a loss of Rs.2 crores.

(xi) Dividends amounting Rs.15 crores (including dividend distribution tax of Rs.2.7 crores) was also paid.

(xii) Debenture interest amounting Rs.2 crore was paid.

(xiii) On 31st March 2016, Balance with Bank and Cash on hand was Rs. 2 crores.

On the basis of the above information, you are required to ***prepare a Cash Flow Statement*** for the year ended 31st March, 2017 (Using direct method). **[RTP May '18]**

Ans. Cash flow statement (using direct method) for the year ended 31st March, 2017

	(Rs. in crores)	(Rs. In crores)
Cash flow from operating activities		
Cash sales	262	
Cash collected from credit customers	134	
Less; Cash paid to suppliers for goods & services		
and to employees (Refer Working Note)	(251)	
Cash from operations	145	
Less; Income tax paid	(26)	
Net cash generated from operating activities		119
Cash flow from investing activities		
Net Payment for purchase of Machine (25 - 15)	(10)	
Proceeds from sale of investments	16	
Net cash used in investing activities		6
Cash flow from financing activities		
Redemption of Preference shares	(32)	
Proceeds from issue of Equity shares	24	
Debenture interest paid	(2)	
Dividend Paid	(15)	
Net cash used in financing activities		(25)
Net increase in cash and cash equivalents		100
Add : Cash and cash equivalents as on 1-4-2016		2
Cash and cash equivalents as on 31-3-2017		102

Working Note:

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

	(Rs. in crores)
Opening Balance in creditors Account	84
Add: Purchases (220x .8)	176
Total	220
Less; Closing balance in Creditors Account	92
Cash paid to suppliers of goods	168
Add: Cash purchases (220x .2)	44
Total cash paid for purchases to suppliers (a)	212
Add: Cash paid to suppliers of other consumables and services (b)	19
Add: Payment to employees (c)	20
Total cash paid to suppliers of goods & services and to employees [(a) + (b) + (c)]	251

---0---0---

CHAPTER-5

Profit or Loss Pre and Post Incorporation

Q-1 The partners of C&G decided to convert their existing partnership business into a private limited called CG trading Pvt. Ltd. with effect from 1.7.2018.

The same books of accounts were continued by the company which closed its accounts for the first term on 31.3.2019. The summarized profit & loss account for the year ended 31.3.2019 is below:

Particulars	**` in lakhs**	**` in lakhs**
Turnover	245.00	
Interest on investments	6.00	251.00
Less: Cost of goods sold	124.32	
Advertisement	3.50	
Sales Commission	7.00	
Salaries	18.00	
Managing Director's Remuneration	6.00	
Interest on Debenture	2.(XV	
Rent	5.50	
Bad debt	1.15	
Underwriting Commission	1.00	
Audit fees	3.00	
Loss on sale of Investments	1.00	
Depreciation	4.00	176.47
		74.53

The following additional information was provided :

(i) The average monthly sales doubled from 1.7.2018, GP ratio was constant.

(ii) All investments were sold on 31.5.2018.

(iii) Average monthly salaries doubled from 1.10.2018.

(iv) The company occupied additional space from 1.7.2018 for which rent of ` 20,000 per month was incurred.

(v) Bad debts recovered amounting to ` 60,000 for a sale madern 2016-17 has been deducted from bad debts mentioned above.

(vi) Audit fees pertains to the company.

Prepare a statement apportioning the expenses between pre and post incorporation periods and calculate the profit / loss for such periods. **[Sugg.Nov.'19,10 Marks]**

Ans. **C G Trading Private Limited**

Statement showing calculation of Profit/Loss for Pre and Post Incorporation Periods

` In lakhs

	Ratio	Total	Pre Incorporation	Post Incorporation
Sales	1:6	245.00	35.00	210.00
Interest on Investments	Pre	6.00	6.00	-
Bad debts recovered	Pre	0.60	0.60	-
(i)		251.6	41.60	210.00
Cost of goods sold	1:6	124.32	17.76	106.56
Advertisement	1:6	3.50	0.50	3.00
Sales commission	1:6	7.00	1.00	6.00
Salary (W.N.3)	1:5	18.00	3.00	15.00
Managing director's remuneration	Post	6.00	-	6.00
Interest on Debentures	Post	2.00	-	2.00
Rent (W.N.4)		5.50	0.93	4.57
Bad debts (1.15 + 0.6)	1:6	1.75	0.25	1.50
Underwriting commission	Post	1.00	-	1.00
Audit fees	Post	3.00	-	3.00
Loss on sale of Investment	Pre	1.00	1.00	-
Depreciation	1:3	4.00	1.00	3.00
(ii)		177.07	25.44	151.63
Net Profit [(i)-(ii)		74.53	16.16	58.37

Working Notes:

1. Calculation of Sales Ratio

Let the average sales per month be x

Total sales from 01.04.2018 to 30.06.2018 will be 3x

Average sales per month from 01.07.2018 to 31.03.2019 will be 2x

Total sales from 01.07.2018 to 31.03.2019 will be 2x X 9 =18x

Ratio of Sales will be 3x: 18x i.e. 3:18 or 1:6

2. Calculation of time Ratio

3 Months: 9 Months i.e. 1:3

3. Apportionment of Salary

Let the salary per month from 01.04.2018 to 30.09.2018 is x

Salary per month from 01.10.2018 to 31.03.2019 will be 2x

Hence, pre incorporation salary (01.04.2018 to 30.06.2018) = 3x

Post incorporation salary from 01.07.2018 to 31.03.2019 = (3x + 12x) i.e.15x

Ratio for division 3x: 15x or 1: 5

4.	Apportionment of Rent	` In Lakhs	
	Total Rent	5.50	
	Less: additional rent from 1.7.2018 to 31.3.2019	1.80	
	Rent of old premises for 12 months	3.70	
		Pre	**Post**
	Apportionment in time ratio	0.93	2.77
	Add: Rent for new space	-	1.80
	Total	0.93	4.57

Q-2 Tarun Ltd. was incorporated on 1st July, 2018 to acquire a running business of Vinay Sons with effect from 1st April, 2018. During the year 2018-19, the total sales were ` 12,00,000 of which ` 2,40,000 were for the first six months. The Gross Profit for the year is ` 4,15,000. The expenses debited to the Profit and Loss account included:

(i) Director's fees ` 25,000

(ii) Bad Debts ` 6,500

(iii) Advertising ` 18,000 (under a contract amounting to ` 1,500 per month)

(iv) Company Audit Fees ` 15,000

(v) Tax Audit Fees ` 10,000

(1) Prepare a statement showing pre-incorporation and post incorporation profit for the year ended 31st March, 2019.

(2) Explain how profits are to be treated. **[Sugg. May '19, 5 Marks]**

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

For the year ended 31st March, 2019

Particulars	**Total Amount**	**Basis of Allocation**	**Pre-incorporation**	**Post incorporation**
Gross Profit	4,15,000	Sales (1:9)	41,500	3,73,500
Less: Directors' fee	25,000	Post		25,000
Bad debts	6,500	Sales (1:9)	650	5,850
Advertising	18,000	Time (1:3)	4,500	13,500
Company Audit Fees	15,000	Post		15,000
Tax Audit Fee	10,000	Sales (1:9)	1,000	9,000
Net Profit	**3,40,500**		**35,350**	**3,05,150**

Pre-incorporation profits to be transferred to capital reserve and post -incorporation profit to be transferred to profit & Loss A/c.

Working Notes:

(i)	Sales ratio	
	Particulars	`
	Sales for period up to 30.06.2018 (2,40,000 x 3/6)	1,20,000
	Sales for period from 01.07.2018 to 31.03.2019 (12,00,000 –1,20,000)	10,80,000
	Thus, Sales Ratio = 1 : 9 (1,20,000 : 10,80,000)	

(ii) Time ratio

1st April, 2018 to 30 June, 2018: 1st July, 2018 to 31st March, 2019

= 3 months: 9 months = 1: 3

Thus, T ime Ratio is 1: 3

Q-3 Sun Limited took over the running business of a partnership firm M/s A & N Brothers with effect from 1st April, 2017. The company was incorporated on 1st September, 2017. The following profit and loss account has been prepared for the year ended 31st March, 2018.

Particular	`	**Particular**	`
To salaries	1,33,000	By Gross Profit b/d	7,50,000
To rent	96,000		
To carriage outward	75,000		
To audit fees	12,000		
To travelling expenses	66,000		
To commission on sales	48,000		
To printing and stationery	24,000		
To electricity charges	30,000		
To depreciation	80,000		
To advertising expenses	24,000		
To preliminary expenses	9,000		
To Managing Director's remuneration	8,000		
To Net Profit c/d	1,45,000		
	7,50,000		**7,50,000**

Additional Information :

1. Trend of sales during April, 2017 to March, 2018 was as under:

April, May	` 85,000 per month
June, July	` 1,05,000 per month
August, September	` 1,20,000 per month
October, November	` 1,40,000 per month
December onward	` 1,50,000 per month

2. Sun Limited took over a machine worth ` 7,20,000 from A&N Brothers and purchased a new machine on 1st February, 2018 for ` 4,80,000. The company decides to provide depreciation @ 10% p.a.
3. The company occupied additional space from 1st October, 2017 @ rent of ` 6,000 per month.
4. Out of travelling expenses, ` 30,000 were incurred by office staff while remaining expenses were incurred by salesmen.
5. Audit fees pertains to the company.
6. Salaries were doubled from the date of incorporation.

You are required to prepare a statement apportioning the expenses between pre and post in corporation periods and calculate the profit/(loss) for such periods.

[Sugg. Nov.'18, 12 Marks]

Ans. Statement showing calculation of profit for per and post incorporation periods For the year ended 31-3-2018

Particulars	Pre-incorporation period `	Post- incorporation period `
Gross profit (1:2)	2,50,000	5,00,000
Less; Salaries (5:14)	35,000	98,000
Carriage outward (1:2)	25,000	50,000
Audit fee	-	12,000
Travelling expenses (W.N.3)	24,500	41,500
Commission on sales (1:2)	16,000	32,000
Printing & stationary (5:7)	10,000	14,000
Rent (office building) (W.N.4)	25,000	71,000
Electricity charges (5:7)	12,500	17,500
Depreciation	30,000	50,000
Advertisement (1:2)	8,000	16,000
Preliminary expenses	-	9,000
MD remuneration	-	8,000
Pre-incorporation profit - ts/f to Capital reserve (Bal. Fig.)	64,000	-
Net profit (Bal. Fig.)	-	81,000

Working Notes:

1. Time Ratio

Pre incorporation period = 1st April, 2017 to 31st August, 2017 i.e. 5 months

Post incorporation period is 7 months

Time ratio is 5: 7.

2. Sales ratio

April	85,000
May	85,000
June	1,05,000
July	1,05,000
August	1,20,000
	5,00,000
September	1,20,000
Oct & Nov.	2,80,000
Dec. to March (1,50,000 x4)	6,00,000
	10,00,000

5,00,000 : 10,00,000 = 1.2

3. Travelling expenses

	Pre-incorporation	Post-incorporation
30,000 office staff (5:7)	12,500	17,500
36,000 sales (1:2)	12,000	24,000
	24,500	41,500

4. Rent

	`
Rent for additional space Rs.(6,000 x 6)	36,000
Remaining rent Rs. (96,000-36,000)	60,000
Pre-incorporation period (5/12 of 60,000)	25,000
Post- incorporation period Rs.35,000 + Rs.36,000	71,000

5. Salaries

Suppose x for a month in pre-incorporation period then salaries for preincorporation period = 5x salaries for post incorporation period = 2x X 7 = 14x Ratio = 5:14

6. Depreciation

	Rs.	Rs Pre-incorporation	Rs. Post incorporation
Total depreciation	80,000		
Less: Dereciation exclusively for post incorporation period (Rs.4,80,000 x 10 x 2/12)	8,000		
	72,000		
Depreciation for pre-incorporation period Rs.72,000 x 5/12)		30,000	
Depreciation for post incorporation period (Rs. 72,000 x 7/12)			42,000
		30,000	50,000

Q-4 The promotors of Shiva Ltd. took over on behalf of the company a running business with effect from 1st April 2017. The company got incorporated on 1st August 2017. The annual accounts were made up to 31st March, 2018 which revealed that the sales for the whole year totalled ` 2400 lakhs out of which sales till 31st July, 2017 were for ` 600 lakhs. Gross profit ratio was 20%.

The expenses from 1st April 2017, till 31st March, 2018 were as follows:

Particular	**Rs. in lakhs**
Salaries	75
Rent, rates and Insurance	30
Sundry Office expenses	72
Traveller's Commission	20
Discount allowed	16
Bad Debts	6
Directors Fee	30
Tax Audit Fee	16
Depreciation on Tangible Assets	15
Debenture Interest	14

Prepare a statement showing the calculation of profits for the pre-incorporation and Post incorporation periods. **[Sugg. May '18, 10 Marks]**

Ans. Statement Showing the calculation of Profits for the pre-incorporation and postincorporation periods

Particulars	Total Amount (Rs. in lakhs)	Basis of Allocation	Pre-incorporation (Rs. in lakhs)	Post-incorporation (Rs. in lakhs)
Gross Profit (20% of Rs. 2,400)	480	Sales	120	360
Less: Salaries	75	Time	25	50
Rent, rates and Insurance	30	Time	10	20
Sundry office expenses	72	Time	24	48
Travellers' commission	20	Sales	5	15
Discount allowed	16	Sales	4	12
Bad debts	8	Sales	2	6
Directors' fee	30	Post	-	30
Tax Audit Fees*	16	Sales	4	12
Depreciation on tangible assets	15	Time	5	10
Debentures interest	14	Post	-	14
Net Profit	184		41	143

* Tax Audit Fees allocated in the ratio of sales.

Thus, pre-incorporation profits is ` 41 lakhs and post- incorporation profit is ` 143 akhs.

Working Notes:

1. **Sales ratio**

	(Rs. in lakh)
Sales for the whole year	2400
Sales up to 31st July, 2017	600
Therefore, sales for the period from 1st August, 2017 to 31st March 2018	1,800

Thus, saLe ration = 600:1800 = 1:3

2. **Time ratio**

1st April, 2017 to 31st July, 2017 : 1st August, 2017 to 31st March, 2018

= 4 monhts:8 month = 1:2, Thus, time ratio is 1:2.

Q-5 The Business carried on by Kamal under the name "K" was taken over as a running business with effect from 1stApril, 2016 by Sanjana Ltd., which was incorporated on 1st July, 2016. The same set of books was continued since there was no change in the type of business and the following particulars of profits for the year ended 31st March, 2017 were available.

	Rs.	Rs.
Sales: Company period	40,000	
Prior period	10,000	50,000
Selling Expenses	3,500	
Preliminary Expenses written off	1,200	

Salaries	3,600	
Directors' Fees	1,200	
Interest on Capital (Upto 30.6.2016)	700	
Depreciation	2,800	
Rent	4,800	
Purchases	25,000	
Carriage Inwards	1,019	43,819
Net Profit		6,181

The purchase price (including carriage inwards) for the post-incorporation period had increased by 10 percent as com pared to pre-incorporation period. No stocks were carried either at the beginning or at the end.

You are required to prepare a statement showing the amount of pre and post-incorporation period profits stating the basis of allocation of expenses.

OR

Following items appear in the Trial Balance of Beta Ltd. as on 31st March, 2017:

Particulars	**Amount**
3,000 Equity Shares of Rs. 100 each	3,00,000
Securities Premium	40,000
Capital Redemption Reserve	30,000
General Reserve	1,00,000
Profit and Loss Account (Cr. Balance)	50,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books of Beta Ltd. **[MTP April '19, 5 Marks]**

Ans. Statement showing the calculation of profits/losses for pre incorporation and Post incorporation period profits of Sanjana Ltd.

for the year ended 31st March, 2017

Particular	**Basis Rs.**	**Pre Rs.**	**Post**
Sales (given)		10,000	40,000
Less; Purchases	1:3.3	5,814	19,186
Carriage Inwards	1:3.3	237	782
Gross Profit (i)		3,949	20,032
Less; Selling Expenses	1:4	700	2,800
Preliminary Expenses			1,200
Salaries	1:3	900	2,700
Director Fees			1,200
Interest on capital		700	
Depreciation	1:3	700	2,100
Rent	1:3	1,200	3,600
Total of Expenses (ii)		4,200	13,600
Capital Loss/Net Profit (i-ii)		251	6,432

Working Notes:

1 Sales Ratio =10,000:40,000 =1 :4

2 Time Ratio = 3:9 =1:3

3 Purchase Price Ratio

$\therefore$ Ratio is 3 : 9

But purchase price was 10% higher in the company period

$\therefore$ Ratio is3 :9 + 10% ie. 3:9.9=1:3.3.

Or

Capital Redemption Reserve A/c	Dr. 30,000	
Securities Premium A/c	Dr. 40,000	
General Reserve A/c	Dr. 30,000	
To Bonus to Shareholders		1,00,000
(Being issue of bonus shares by utilization of various Reserves, as per resolution dated ....)		
Bonus to Shareholders A/c	Dr. 1,00,000	
To Equity Share Capital		1,00,000
(Being capitalization of Profit)		

Q-6 ABC Ltd. took over a running business with effect from 1st April, 2016. The company was incorporated on 1st August, 2016. The following summarized Profit and Loss Account has been prepared for the year ended 31.3.2017:

	Rs.		Rs.
To Salaries	48,000	By Gross profit	3,20,000
To Stationery	4,800		
To Travelling expenses	16,800		
To Advertisement	16,000		
To Miscellaneous trade expenses	37,800		
To Rent (office buildings)	26,400		
To Electricity charges	4,200		
To Director's fee	11,200		
To Bad debts	3,200		
To Commission to selling agents	16,000		
To Tax Audit fee	6,000		
To Debenture interest	3,000		
To Interest paid to vendor	4,200		
To Selling expenses	25,200		
To Depreciation on fixed assets	9,600		
To Net profit	87,600		
	3,20,000		**3,20,000**

Additional information:

(a) Total sales for the year, which amounted to Rs. 19,20,000 arose evenly upto the date of 30.9.2016. Thereafter they spurted to record an increase of two-third during the rest of the year.

(b) Rent of office building was paid @ Rs. 2,000 per month upto September, 2016 and thereafter it was increased by Rs.400 per month.

(c) Travelling expenses include Rs. 4,800 towards sales promotion.

(d) Depreciation include Rs.600 for assets acquired in the post incorporation period.

(e) Purchase consideration was discharged by the company on 30th September, 2016 by issuing equity shares of Rs.10 each.

Prepare Statement showing calculation of profits and allocation of expenses between pre and post incorporation periods. **[MTP April '18, 10 Marks]**

Ans. Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.2017

Particulars	Pre incorporation period Rs.	Post incorporation period Rs.
Gross profit (1:3)	80,000	2,40,000
Less; Salaries (1:2)	16,000	32,000
Stationery (1:2)	1,600	3,200
Advertisement (1:3)	4,000	12,000
Travelling expenses (W.N.3)	4,000	8,000
Sales promotion expenses (W.N.3)	1,200	3,600
Misc. trade expenses (1:2)	12,600	25,200
Rent (office building) (W.N.2)	8,000	18,400
Electricity charges (1:2)	1,400	2,800
Director's fee	-	11,200
Bad debts (1:3)	800	2,400
Selling agents commission (1:3)	4,000	12,000
Audit fee (1:3)	1,500	4,500
Debenture interest	-	3,000
Interest paid to vendor (2:1) (W.N.4)	2,800	1,400
Selling expenses (1:3)	6,300	18,900
Depreciation on fixed assets (W.N.5)	3,000	6,600
Capital reserve (Bal. Fig.)	12,800	-
Net profit (Bal. Fig.)	-	74,800

Working Notes:

1. Time Ratio

Pre incorporation period = 1st April, 2016 to 31st July, 2016

i.e. 4 months

Post incorporation period is 8 months

Time ratio is 1: 2.

2. Sales ratio

Let the monthly sales for first 6 months (i.e. from 1.4.2016 to 30.09.16) be = x

Then, sales for 6 months = 6x

Monthly sales for next 6 months (i.e. from 1.10.16 to 31.3.2017) = $x + \frac{2}{3}x = \frac{5}{3}x$

Then, sales for next 6 months = $\frac{5}{3}x \times 6 = 10x$

Total sales for the year = 6x + 10x = 16x

Monthly sales in the pre incorporation period = Rs. 19,20,000/16 = Rs. 1,20,000

Total sales for pre-incorporation period = Rs. 1,20,000 x 4 = Rs.4,80,000

Total sales for post incorporation period = Rs. 19,20,000 - Rs.4,80,000=Rs. 14,40,000

Sales Ratio = 4,80,000 : 14,40,000= 1 : 3

3. Rent

		Rs.
Rent for pre-incorporation period (Rs.2,000 x 4)		8,000 (pre)
Rent for post incorporation period		
August,2016& September,2016 (Rs.2,000 x 2)	4,000	
October,2016 to March,2017 (Rs.2,400 x 6)	14,400	18,400 (post)

4. Travelling expenses and sales promotion expenses

	Pre Rs.	Post Rs.
Traveling expenses Rs.12,000 (i.e. Rs.16,800-Rs.4,800) distributed in 1:2 ratio distributed in 1:2 ratio	40,00	8,000
Sales promotion expenses Rs. 4,800 distributed in 1:3 ratio	1,200	3,600

5. Interest paid to vendor till 30th September, 2016

	Pre Rs.	Post Rs.
Interest for pre-incorporation period $\frac{Rs.4,200}{6} x 4$	2,800	
Interest for post incorporation period i.e. for August, 2016 & September, 2016 = $\frac{Rs.4,200}{6} x 2$		1,400

6. Depreciation

		Pre Rs.	Post Rs.
Total depreciation	9,600		
Less:Depreciation exclusinvely for post incorporation period	600		600
	9,000		
Depreciation for pre-incorporation period $\left[9,000 \frac{4}{12}\right]$		3,000	
Depreciation for post-incorporation period $\left[9,000 \frac{8}{12}\right]$			6,000
		30,000	6,600

Q-7 Megha Ltd. was incorporated on 1.8.2016 to take over the running business of M/s Happy with assets from 1.4.2016. The accounts of the company were closed on 31.3.2017.

The average monthly sales during the first four months of the year (2016-17) was twice the average monthly sales during each of the remaining eight months.

You are required to compute time ratio and sales ratio for pre and post incorporation periods.

[MTP March '18, 5 Marks]

Ans. Time ration :

Pre-incorporation period (1.4.2016 to 1.8.2016)	= 4 months
Post incorporation period (1.8.2016 to 31.3.2017)	= 8 months
Time ratio	= 4:8 or 1 : 2

Sales ratio:

Average monthly sale before incorporation was twice the average sale per month of the post incorporation period. If weightage for each post-incorporation month is x, then

Weighted sales ratio = 4 x 2x : 8 x 1x = 8x : 8x or 1 : 1

Q-8 Roshani & Reshma working in partnership, registered a joint stock company under the name of Happy Ltd. on May 31st 2018 to take over their existing business. The summarized Profit & Loss A/c as given by Happy Ltd. for the year ending 31st March, 2019 is as under:

Happy Ltd.

Profit & Loss A/c for the year ending March 31, 2019

Particulars	Amount (`)	Particulars	Amount (`)
To Salary	1,44,000	By Gross Profit	4,50,000
To Interest on Debenture	36,000		
To Sales Commission	18,000		
To Bad Debts	49,000		
To Depreciation	19,250		
To Rent	38,400		
To Company Audit fees	12,000		
To Net Profit	1,33,350		
Total	**4,50,000**	**Total**	**4,50,000**

Prepare a Statement showing allocation of expenses & calculation of pre-incorporation & post- incorporation profits after considering the following information:

(i) GP ratio was constant throughout the year.

(ii) Depreciation includes ` 1,250 for assets acquired in post incorporation period.

(iii) Bad debts recovered amounting to ` 14,000 for a sale made in 2015-16 has been deducted from bad debts mentioned above.

(iv) Total sales were ` 18,00,000 of which ` 6,00,000 were for April to September.

(v) Happy Ltd. had to occupy additional space from 1st Oct. 2018 for which rent was ` 2,400 per month.

[RTP Nov '19]

Ans. Pre-incorporation period is for two months, from 1st April, 2018 to 31st May, 2018. 10 months' period (from 1st June, 2018 to 31st March, 2019) is post-incorporation period.

Statement showing calculation of profit/losses for

pre and post incorporation periods

		Pre-Inc `	Post Inc `
Gross Profit		50,000	4,00,000
Bad debts Recovery		14,000	______
		64,000	4,00,000
Less:	Salaries	24,000	1,20,000
	Audit fees	-	12,000
	Depreciation	3,000	16,250
	Sales commission	2,000	16,000
	Bad Debts (49,000 + 14,000)	7,000	56,000
	Interest on Debentures	-	36,000
	Rent	4,000	34,400
Net Profit		24,000	1,09,350

* Pre-incorporation profit is a capital profit and will be transferred to Capital Reserve.

Working Notes:

(i) Calculation of ratio of Sales

Sales from April to September = 6,00,000 (1,00,000 p.m. on average basis)

October to March = ` 12,00,000 (2,00,000 p.m. on average basis)

Thus, sales for pre-incorporation period = `2,00,000

post-incorporation period = ` 16,00,000

Sales are in the ratio of 1:8

(ii) Gross profit, sales commission and bad debts written off have been allocated in pre and post incorporation periods in the ratio of Sales.

(iii) Rent, salary are allocated on time basis.

(iv) Interest on debentures is allocated in post incorporation period.

(v) Audit fees charged to post incorporation period as relating to company audit.

(vi) Depreciation of ` 18,000 divided in the ratio of 1:5 (time basis) and ` 1,250 charged to post incorporation period.

(vii) Bad debt recovery of ` 14,000/- is allocated in pre-incorporation period, being sale made in 2015-16.

(viii) Rent

(` 38,400 - Additional rent for 6 months)	`
[38,400- 14,400 (2,400 x 6) = ` 24,000 i.e. 2,000 per month]	
1/4/18 -31/5//18 (2,000 x 2)	= 4,000
1/6/18-31/3/19 - [(2,000 x 10) +14,400]	= 34,400
	38,400

Q-9 Lotus Ltd. was incorporated on 1st July, 2017 to acquire a running business of Feel goods with effect from 1st April, 2017. During the year 2017-18, the total sales were Rs. 48,00,000 of which Rs. 9,60,000 were for the first six months. The Gross profit of the company Rs. 7,81,600. The expenses debited to the Profit & Loss Account included:

(i) Director's fees Rs.60,000

(ii) Bad debts Rs.14,400

(iii) Advertising Rs. 48,000 (under a contract amounting to Rs.4,000 per month)

(iv) Salaries and General Expenses Rs.2,56,000

(v) Preliminary Expenses written off Rs.20,000

(vi) Donation to a political party given by the company Rs.20,000.

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2018. **[RTP May '19]**

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

For the year ended 31st March, 2018

Particulars	**Total Amount**	**Basis of Allocation**	**Pre-incorporation**	**Post-incorporation**
Gross Profit	7,81,600	Sales	78,160	7,03,440
Less: Directors' fee	60,000	Post		60,000
Bad debts	14,400	Sales	1,440	12,960
Advertising	48,000	Time	12,000	36,000
Salaries & general expenses	2,56,000	Time	64,000	1,92,000
Preliminary expenses	20,000	Post		20,000
Donation to Political Party	20,000	Post		20,000
Not Profit	3,63,200		720	3,62,480

Working Notes :

1. Sales ratio

Particular	**Rs.**
Sales for period up to 30.06.2017 (9,60,000 x 3/6)	4,80,000
Sales for period from 01 .07.2017 to 31 .03.2018 (48,00,000 - 4,80,000)	43,20,000

Thus, Sales Ratio = 1 : 9

2. Time ratio

1st April, 2017 to 30 June, 2017:1st July, 2017 to 31st March, 2018

= 3 months: 9 months = 1:3

Thus, Time Ratio is 1: 3

Q-10 Roshani & Reshma working in partnership, registered a joint stock company under the name of Happy Ltd. on May 31st 2017 to take over their existing business. The summarized Profit & Loss A/c as given by Happy Ltd. for the year ending 31st March, 2018 is as under:

Happy Ltd.

Profit & Loss Account for the year ending March 31, 2018

Particular	**Amount (Rs.)**	**Particulars**	**Amount(Rs.)**
To Salary	1,44,000	By Gross Profit	4,50,000
To Interest on Debenture	36,000		
To Sales Commission	18,000		
To Bad Debts	49,000		
To Depreciation	19,250		
To Rent	38,400		
To Audit fees (Company Audit)	12,000		
To Net Profit Total	1,33,350		
Total	**4,50,000**	**Total**	**4,50,000**

You are required to prepare a Statement showing allocation of expenses and calculation of pre-incorporation and post- incorporation profits after considering the following information:

(i) GP ratio was constant throughout the year.

(ii) Depreciation includes Rs.1,250 for assets acquired in post incorporation period.

(iii) Bad debts recovered amounting to Rs. 14,000 for a sale made in 2014-15 has been deducted from bad debts mentioned above.

(iv) Total sales were Rs.18,00,000 of which Rs.6,00,000 were for April to September.

(v) Happy Ltd. had to occupy additional space from 1st Oct. 2017 for which rent was Rs.2,400 per month.

[RTP Nov '18]

Ans. Pre-incorporation period is for two months, from 1st April, 2017 to 31st May, 2017. 10 months' period (from 1st June, 2017 to 31st March, 2018) is post-incorporation period.

Statement showing calculation of profit/losses for pre and post incorporation periods

	Pre-Inc Rs.	**Post-Inc Rs.**
Gross Profit	50,000	4,00,000
Bad debts Recovery	14,000	
	64,000	4,00,000
Less: Salaries	24,000	1,20,000
Audit fees	-	12,000
Depreciation	3,000	16,250
Sales commission	2,000	16,000
Bad Debts (49,000 + 14, 000)	7,000	56,000
Interest on Debentures	-	36,000
Rent	4,000	34,400
Net Profit	24,000	1,09,350

Working Notes:

(i) Calculation of ratio of Sales

Sales from April to September = 6,00,000 (1,00,000 p.m. on average basis)

Oct. to March = Rs. 12,00,000 (2,00,000 p.m. on average basis)

Thus, sales for pre-incorporation period = Rs.2,00,000

post-incorporation period =Rs.16,00,000

Sales are in the ratio of 1:8

(ii) Gross profit, sales commission and bad debts written off have been allocated in pre and post incorporation periods in the ratio of Sales.

(iii) Rent, salary are allocated on time basis.

(iv) Interest on debentures is allocated in post incorporation period.

(v) Audit fees charged to post incorporation period as relating to company audit.

(vi) Depreciation of Rs.18,000 divided in the ratio of 1:5 (time basis) and Rs.1,250 charged to post incorporation period.

(vii) Bad debt recovery of Rs.14.000/- is allocated in pre-incorporation period, being sale made in 2014-15.

(viii) Rent

(Rs.38,400 - Additional rent for 6 months)	Rs.
[38,400-14,400 (2,400 x 6)]	= 24,000
1/4/17-31/5/ /17 (2,000x2)	= 4,000
1/6/17-31/3/18-[(2,000x10)+14,400]	= 34,400
	38,400

Q-11 The Business carried on by Kamal under the name "K" was taken over as a running business with effect from 1st April, 2016 by Sanjana Ltd., which was incorporated on 1st July, 2016. The same set of books was continued since there was no change in the type of business and the following particulars of profits for the year ended 31st March, 2017 were available.

	Rs.	Rs.
Sales: Company period	40,000	
Prior period	10,000	50,000
Selling Expenses		3,500
Preliminary Expenses written off		1,200
Salaries		3,600
Directors' Fees		1,200
Interest on Capital (Upto 30.6.2016)		700
Depreciation		2,800
Rent		4,800
Purchases		25,000
Carriage Inwards	1,019	43,819
Net Profit		6,181

The purchase price (including carriage inwards) for the post-incorporation period had increased by 10 percent as compared to pre-incorporation period. No stocks were carried either at the beginning or at the end.

You are required to prepare a statement showing the amount of pre and post incorporation period profits stating the basis of allocation of expenses. **[RTP May '18]**

Ans. Statement showing the calculation of profits/losses for pre incorporation and Post incorporation period profits of Sanjana Ltd. for the year ended 31st March, 2017

Particulars	Basis	Pre Rs.	Post Rs.
Sales (given)		10,000	40,000
Less; Purchases	1:3.3	5,814	19,186
Carriage Inwards	1:3.3	237	782
Gross Profit (i)		3,949	20,032
Less; Selling Expenses	1:4	700	2,800
Preliminary Expenses			1,200
Salaries	1:3	900	2,700
Director Fees			1,200
Interest on capital		700	
Depreciation	1:3	700	2,100
Rent	1:3	1,200	3,600
Total of Expenses(ii)		4,200	13,600
Capital Loss/Net Profit (i-ii)		(251)	6,432

Working Notes :

1. Sales Ratio = 10,000 : 40,000 = 1 : 4
2. Time Ratio = 3 : 9 = 1 : 3
3. Purchases Price Ratio

   ∴ Ratio is 3 : 9

   But purchases price was 10% higher in the company period

   ∴ Ratio is 3 : 9 + 10%

   3:9.9 = 1:3.3.

---0---0---

CHAPTER-6

Accounting for Bonus Issue and Right Issue

Q-1 Following is the extract of the Balance Sheet of Xeta Ltd. as at 31st March, 2017

	Rs.
Authorised capital:	
50,000 12% Preference shares of Rs.10 each	5,00,000
4,00,000 Equity shares of Rs.10 each	40,00,000
	45,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of Rs.10 each fully paid	2,40,000
2,70,000 Equity shares of Rs.10 each, Rs.8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Securities premium	1,00,000
Profit and Loss Account	6,00,000

On 1st April, 2017, the Company has made final call@ ` 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2017. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2017 after bonus issue. **[RTP May '19]**

Ans. **Journal Entries in the books of Xeta Ltd.**

			Rs.	**Rs.**
1-4-2017	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of Rs.2 per share on 2,70,000 equity shares due as per Board's Resolution dated....)			
20-4-2017	Bank A/c	Dr.	5,40,000	
	Dr. To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	1,00,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c	Dr.	2,15,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 2017 (after bous issue)

	Rs.
Authorised Capital	
50,000 12% Preference shares of Rs.10 each	5,00,000
4,00,000 Equity shares of Rs.10 each	40,00,000
Issued and subscribed capital	
24,000 12% Preference shares of Rs.10 each, fully paid	2,40,000
3,37,500 Equity shares of Rs.10 each, fully paid	33,75,000
(Out of above, 67,500 equity shares @ ` 10 each were issued by wayof bonus)	
Reserves and surplus	
Profit and Loss Account	3,85,000

Q-2 Following is the extract of the Balance Sheet of Xeta Ltd. as at 31st March, 2017:

	Rs.
Authorised capital:	
50,000 12% Preference shares of Rs.10 each	5,00,000
4,00,000 Equity shares of Rs.10 each	40,00,000
	45,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of Rs.10 each fully paid	2,40,000
2,70,000 Equity shares of Rs.10 each, Rs.8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Securities premium	1,00,000
Profit and Loss Account	6,00,000

On 1st April, 2017, the Company has made final call @ Rs.2 each on 2,70,000 equity shares. The call money was received by 20th April, 2017. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

You are required to give necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2017 after bonus issue. **[RTP Nov '18]**

Ans. **Journal Entries in the books of Xeta Ltd.**

			Rs.	Rs.
1-4-2017	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of Rs.2 per share on 2,70,000 equity shares due as per Board's Resolution dated....)			
20-4-2017	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	1,00,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c	Dr.	2,15,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			

Bonus to shareholders A/c	Dr.	6,75,000	
To Equity share capital A/c (For issue of bonus shares)			6,75,000

Extract of Balance Sheet as at 30th April, 2017 (after bonus issue)

	Rs.
Authorised Capital	
50,000 12% Preference shares of Rs.10 each	5,00,000
4,00,000 Equity shares of Rs.10 each	40,00,000
Issued and subscribed capital	
24,000 12% Preference shares of Rs.10 each, fully paid	2,40,000
3,37,500 Equity shares of Rs.10 each, fully paid	33,75,000
(Out of above, 67,500 equity shares @ Rs.10 each were issued by way of bonus)	
Reserves and surplus	
Profit and Loss Account	3,85,000

Q-3 Following is the extract of the Balance Sheet of Manoj Ltd. as at 31st March, 20X1

		Rs.
Authorized capital:		
30,000 12% Preference shares of Rs.10 each		3,00,000
4,00,000 Equity shares of Rs.10 each	40,00,000	
	43,00,000	
Issued and Subscribed capital:		
24,000 12% Preference shares of Rs.10 each fully paid	2,40,000	
2,70,000 Equity shares of Rs.10 each, Rs.8 paid up	21,60,000	
Reserves and surplus:		
General Reserve	3,60,000	
Capital Redemption Reserve	1,20,000	
Securities premium (collected in cash)	75,000	
Profit and Loss Account	6,00,000	

On 1st April, 20X1, the Company has made final call @ Rs. 2 each on 2,70,000 equity shares. The call money was received by 20th April, 20X1. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

You are required to ***prepare necessary journal entries*** in the books of the company and ***prepare the relevant extract of the balance sheet*** as on 30th April, 20X1 after bonus issue. **[RTP May '18]**

Ans. **Journal Entries in the books of Manoj Ltd.**

			Rs.	Rs.
1-4-20x1	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of Rs. 2 per share on 2,70,000 equity shares due as per Board's Resolution dated....)			

20-4-20x1	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital redemption reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 20X1 (after bonus issue)

	Rs.
Authorised Capital	
30,000 12% Preference shares of Rs. 10 each	3,00,000
4,00,000 Equity shares of Rs. 10 each	40,00,000
Issued and subscribed capital	
24,000 12% Preference shares of Rs.10 each, fully paid	2,40,000
3,37,500 Equity shares of Rs. 10 each, fully paid	33,75,000
(Out of the above, 67,500 equity shares @ Rs.10 each were issued by way of bonus shares)	
Reserves and surplus Profit and Loss Account	4,80,000

Q-4 The following is the summarised Balance Sheet of Bumbum Limited as at 31st March, 2019:

	`
Sources of funds	
Authorized capital	
50,000 Equity shares of ` 10 each	5,00,000
10,000 Preference shares of ‘ 100 each (8% redeemable)	10,00,000
	15,00,000
Issued, subscribed and paid up	
30,000 Equity shares of ` 10 each	3,00,000
5,000, 8%Redeemable Preference shares of ` 100 each	5,00,000
Reserves & Surplus x	
Securities Premium	6,00,000
General Reserve	6,50,000
Profit & Loss A/c	40,000
Trade payables	4,20,000
	25,10,000

Application of funds

PPE (net)	7,80,000
Investments (market value ` 5,80,000)	4,90,000
Deferred Tax Assets	3,40,000
Trade receivables	6,20,000
Cash & Bank balance	2,80,000
	25,10,000

In Annual General Meeting held on 20th June, 2019 the company passed the following resolutions:

(i) To split equity share of ` 10 each into 5 equity shares of ` 2 each from 1st July, 2019.

(ii) To redeem 8% preference shares at a premium of 5%.

(iii) To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On 10th July, 2019 investments were sold for ` 5,55,000 and preference shares were redeemed.

The bonus issue was concluded by 12th September, 2019

You are required to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30th September, 2019. All working notes should form part of your answer. **[RTP-May'20]**

Ans.

Bumbum Limited

Journal Entries

2019			**Dr. (`)**	**Cr. (`)**
July 1	Equity Share Capital A/c (` 10 each)	Dr.	3,00,000	
	To Equity share capital A/c (` 2 each)			3,00,000
	(Being equity share of ` 10 each splitted into 5 equity shares of ` 2 each) {1,50,000 x 2}			
July 10	Cash & Bank balance A/c	Dr.	5,55,000	
	To Investment A/c			4,90,000
	To Profit & Loss A/c			65,000
	(Being investment sold out and profit on sale credited to Profit & Loss A/c)			
July 10	8% Redeemable preference share capital A/c	Dr.	5,00,000	
	Premium on redemption of preference share A/c Dr.		25,000	
	To Preference shareholders A/c			5,25,000
	(Being amount payable to preference share holders on redemption)			
July 10	Preference shareholders A/c	Dr.	5,25,000	
	To Cash & bank A/c			5,25,000
	(Being amount paid to preference shareholders)			
July 10	General reserve A/c	Dr.	5,00,000	
	To Capital redemption reserve A/c			5,00,000
	(Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law)			

Sept. 12	Capital Redemption Reserve A/c	Dr.	1,00,000	
	To Bonus to shareholders A/c			1,00,000
	(Being balance in capital redemption reserve capitalized to issue bonus shares)			
Sept. 12	Bonus to shareholders A/c	Dr.	1,00,000	
	To Equity share capital A/c			1,00,000
	(Being 50,000 fully paid equity shares of ` 2 each issued as bonus in ratio of 1 share for every 3 shares held)			
Sept. 30	Securities Premium A/c	Dr.	25,000	
	To Premium on redemption of preference shares A/c			25,000
	(Being premium on preference shares adjusted from securities premium account)			

Balance Sheet as at 30th September, 2019

Particulars			Notes	`
Equity and Liabilities				
1	Shareholders' funds			
	a	Share capital	1	4,00,000
	b	Reserves and Surplus	2	12,30,000
2	Current liabilities			
	a	Trade Payables		4,20,000
		Total		**20,50,000**
Assets				
1	Non-current assets			
	a	PPE		7,80,000
	b	Deferred tax asset		3,40,000
2	Current assets			
	Trade receivables			6,20,000
	Cash and cash equivalents			3,10,000
		Total		**20,50,000**

Notes to accounts

1	**Share Capital**	`	`
	Authorized share capital		
	2,50,000 Equity shares of ` 2 each	5,00,000	
	10,000 8% Preference shares of `100 each	10,00,000	15,00,000
	Issued, subscribed and paid up		
	2,00,000 Equity shares of ` 2 each		4,00,000

2	**Reserves and Surplus**		
	Securities Premium A/c		
	Balance as per balance sheet	6,00,000	
	Less: Adjustment for premium on preference Shares	(25,000)	
	Balance		5,75,000
	Capital Redemption Reserve (5,00,000-1,00,000)		4,00,000
	General Reserve (6,50,000 – 5,00,000)		1,50,000
	Profit & Loss A/c	40,000	
	Add: Profit on sale of investment	65,000	1,05,000
	Total		**12,30,000**

Working Notes:

		`
1.	**Redemption of preference shares**	
	5,000 Preference shares of ` 100 each	5,00,000
	Premium on redemption @ 5%	25,000
	Amount Payable	5,25,000
2.	**Issue of Bonus Shares**	
	Existing equity shares after split (30,000 x 5)	1,50,000 shares
	Bonus shares (1 share for every 3 shares held) to be issued	50,000 shares
3.	**Cash and Bank Balance**	
	Balance as per balance sheet	2,80,000
	Add: Realization on sale of investment	5,55,000
		8,35,000
	Less: Paid to preference share holders	(5,25,000)
	Balance	3,10,000

Q-5 Following is the extract of Balance Sheet of Prem Ltd. as at 31st March, 2018 :

	`
Authorized capital	
3,00,000 equity shares of ` 10 each	30,00,000
25,000, 10% preference shares of ` 10 each	2,50,000
	32,50,000
Issued and subscribed capital:	
2,70,000 equity shares of ` 10 each fully paid up	27,00,000
24,000,10% preference shares of ` 10 each fully paid up	2,40,000
	29,40,000
Reserves and surplus:	
General reserve	3,60,000
Capital redemption reserve	1,20,000
Securities premium (in cash)	75,000
Profit and loss account	6,00,000
	11,55,000

On 1st April, 2018, the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five shares held.. Show necessary journal entries in the books of the company and prepare the extract of the balance sheet after bonus issue. **[Sugg.Nov.'19, 5 Marks]**

Ans. **Prem Ltd.**

Journal Entries

April 1	Capital Redemption Reserve A/c	Dr.	1,20,000	
	Securities Premium A/c	Dr.	75,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	5,25,000	
	To Bonus to Equity Shareholders A/c			10,80,000
	(Bonus issue @ two shares for every five shares held by utilizing various reserves as per Board's Resolution dated...)			
	Bonus to Shareholders A/c	Dr.	10,80,000	
	To Equity Share Capital A/c			10,80,000
	(Issue of bonus shares)			

Balance Sheet (Extract) as on 1st April, 2018 (after bonus issue)

Particulars			**Notes**	**Amount (`)**
Equity and Liabilities				
1		Shareholders' funds		
	a	Share capital	1	40,20,000
	b	Reserves and Surplus	2	75,000

Notes to Accounts

1	**Share Capital**		(`)
	Authorized share capital:		
	3,78,000* Equity shares of ` 10 each		37,80,000*
	25,000 10% Preference shares of ` 10 each		**2,50,000**
	Total		40,30,000
	Issued, subscribed and fully paid share capital: 3,78,000 Equity shares of ` 10 each, fully paid (Out of above, 1,08,000 equity shares @ ` 10 each were issued by way of bonus)		37,80,000
	24,000 10% Preference shares of ` 10 each		2,40,000
	Total		40,20,000
2	**Reserves and Surplus**		
	Capital Redemption Reserve	1,20,000	Nil
	Less: Utilized	1,20,000	
	Securities Premium	75,000	
	Less: Utilised for bonus issue	(75,000)	Nil
	General reserve	3,60,000	
	Less: Utilised for bonus issue	(3,60,000)	Nil
	Profit & Loss Account	6,00,000	
	Less: Utilised for bonus issue	(5,25,000)	75,000
	Total		**75,000**

**Note: ***Authorized capital has been increased by the minimum required amount i.e. ` 7,80,000 (37,80,000 – 30,00,000) in the above solution.

Q-6 Following are the balances appear in the trial balance of Arya Ltd. as at 31st March. 2018.

Issued and Subscribed Capital:

	Rs.
10,000; 10% Preference Shares of Rs.10 each fully paid	1,00,000
1,00,00, Equity Shares of Rs.10 each Rs 8 paid up	8,00,000
Reserves and Surplus :	
General Reserve	2,40,000
Security Premium (collected in cash)	25,000
Profit and Loss Account	1,20,000

On 1st April, 2018 the company has made final call @ ` 2 each on 1,00,000 Equity Shares. The call money was received by 15th April, 2018. Thereafter the company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 5 shares held and for this purpose, it decided that there should be minimum reduction in free reserves. Pass Journal entries. **[Sugg. May '18, 5 Marks]**

Ans.

Arya Ltd.

Journal Entries

2018			**Dr. Rs.**	**Cr. Rs.**
April 1	Equity Share Final Call A/c	Dr.	2,00,000	
	To Equity Share Capital A/c			2,00,000
	(Final call of Rs.2 per share on 1,00,000 equity shares due as per Board's Resolution dated....)			
April 15	Bank A/c	Dr.	2,00,000	
	To Equity Share final Call A/c			2,00,000
	(Final Call money on 1,00,000 eqity shares received)			
	Securities Premium A/c	Dr.	25,000	
	General Reserve A/c*	Dr.	1,75,000	
	To Bonus to Shareholder A/c			2,00,000
	(Bonus issue @ one share for every 5 shares held by utilizing various reserves as per Board's resolution dated...)			
April 15	Bonus to Shareholders A/c	Dr.	2,00,000	
	To Equity Share Capital A/c (Capitalization of profit)			2,00,000

Note: Profit and Loss Account balance may also be utilized along with General Reserve for the purpose of issue of Bonus shares.

Q-7 Following items appear in the Trial Balance of Beta Ltd. as on 31st March, 2017:

Particulars	**Amount**
3,000 Equity Shares of Rs. 100 each	3,00,000
Securities Premium (collected in cash)	40,000
Capital Redemption Reserve	30,000
General Reserve	1,00,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books of Beta Ltd. **[MTP Oct. '19, 5 Marks]**

Ans.

Capital Redemption Reserve A/c	Dr.	30,000	
Securities Premium A/c	Dr.	40,000	
General Reserve A/c	Dr.	30,000	
To Bonus to Shareholders			1,00,000
(Being issue of bonus shares by utilization of various Reserves, as per resolution dated .....)			
Bonus to Shareholders A/c	Dr.	1,00,000	
To Equity Share Capital			1,00,000
(Being capitalization of Profit)			

Q-8 Omega company offers new shares of Rs. 100 each at 25% premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is Rs. 200.

You are required to calculate the (i) Ex-right value of a share; (ii) Value of a right share?

[MTP April '19, 4 Marks]

Ans. Ex-right value of the shares

= (Gum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + No. of right shares) = (Rs. 200 X 5 Shares + Rs. 125 X 1 Share) / (5 + 1) Shares

= Rs. 1,125 / 6 shares = Rs. 187.50 per share.

Value of right = Gum-right value of the share - Ex-right value of the share

= Rs. 200-Rs. 187.50 = Rs. 12.50 per share.

Q-9 The following notes pertain to Brite Ltd.'s Balance Sheet as on 31st March, 20X1:

Notes	**Rs. in Lakhs**
(1) Share Capital	
Authorised :	
20 crore shares of Rs. 10 each	20,000
Issued and Subscribed :	
10 crore Equity Shares of Rs. 10 each	10,000
2 crore 11% Cumulative Preference Shares of Rs. 10 each	2,000
Total	12,000
Called and paid up:	
10 crore Equity Shares of Rs. 10 each, Rs. 8 per share called and paid up 2 crore	8,000
11% Cumulative Preference Shares of Rs. 10 each, fully called and paid up	2,000
Total	10,000
(2) Reserves and Surplus:	
Capital Redemption Reserve	1,485
Securities Premium (collected in cash)	2,000
General Reserve	1,040
Surplus i.e. credit balance of Profit & Loss Account	273
Total	4,798

On 2nd April 20X1, the company made the final call on equity shares @ Rs. 2 per share. The entire money was received in the month of April, 20X1.

On 1st June 20X1, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held .

Youa re required to prepare journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares. **[MTP April '18, 10 Marks]**

Ans. **Journal Entries in the books of Brite Ltd.**

20x1			**Dr. Rs.in lakhs**	**Cr. Rs. in lakhs**
April 2	Equity Share Final Call A/c	Dr.	2,000	
	To Equity Share Capital A/c			2,000
	(Final call of Rs. 2 per share on 10 crore equity shares made due)			
	Bank A/c	Dr.	2,000	
	To Equity Share Final Call A/c			2,000
	(Final call money on 10 crore equity shares received)			
June 1	Capital Redemption Reserve A/c	Dr.	1,485	
	Securities Premium A/c	Dr.	2,000	
	General Reserve A/c (b.f.)	Dr.	515	
	To Bonus to Shareholders A/c			4,000
	(Bonus issue of two shares for every five shares held, by utilising various reserves as per Board's resolution dated.......)			
	Bonus to Shareholders A/c	Dr.	4,000	
	To Equity Share Capital A/c			4,000
	(Capitalisation of profit)			

Notes to Accounts

1	Share Capital		
	Authorised share capital		
	20 crores shares of Rs.10 each		20,000
	Issued, subscribed and fully paid up share capital		
	14 crore Equity shares of Rs. 10 each, fully paid up		14,000
	(Out of the above, 4 crore equity shares @ Rs.10 each were issued by way of bonus)		
	2 crore, 11% Cumulative Preference share capital of Rs. 10 each, fully paid up		2,000
			16,000
2.	Reserves and Surplus		
	Capital Redemption reserve	1,485	
	Less: Utilised for bonus issue	1,485	
	Securities Premium	2,000	
	Less: Utilised for bonus issue	(2,000)	
	General Reserve	1,040	
	Less: Utilised for bonus issue	515	515
	Surplus (Profit and Loss Account)		273
	Total		798

Q-10 The following notes pertain to Brite Ltd.'s Balance Sheet as on 31st March, 20X1:

Notes	Rs. in Lakhs
(1) Share Capital	
Authorised :	
20 crore shares of Rs. 10 each	20,000
Issued and Subscribed :	
10 crore Equity Shares of Rs. 10 each	10,000
2 crore 11% Cumulative Preference Shares of Rs. 10 each	2,000
Total	12,000
Called and paid up:	
10 crore Equity Shares of Rs. 10 each, Rs. 8 per share called and paid up 2 crore	8,000
11% Cumulative Preference Shares of Rs. 10 each, fully called and paid up	2,000
Total	10,000
(2) Reserves and Surplus:	
Capital Redemption Reserve	1,485
Securities Premium (collected in cash)	2,000
General Reserve	1,040
Surplus i.e. credit balance of Profit & Loss Account	273
Total	4,798

On 2nd April 20X1, the company made the final call on equity shares @ Rs. 2 per share. The entire money was received in the month of April, 20X1.

On 1st June 20X1, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held .

Youa re required to prepare journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares. **[MTP April '18, 10 Marks]**

Ans. **Journal Entries in the books of Brite Ltd.**

20x1			Dr. Rs.in lakhs	Cr. Rs. in lakhs
April 2	Equity Share Final Call A/c	Dr.	2,000	
	To Equity Share Capital A/c			2,000
	(Final call of Rs. 2 per share on 10 crore equity shares made due)			
	Bank A/c	Dr.	2,000	
	To Equity Share Final Call A/c			2,000
	(Final call money on 10 crore equity shares received)			
June 1	Capital Redemption Reserve A/c	Dr.	1,485	
	Securities Premium A/c	Dr.	2,000	
	General Reserve A/c (b.f.)	Dr.	515	
	To Bonus to Shareholders A/c			4,000

(Bonus issue of two shares for every five shares held, by utilising various reserves as per Board's resolution dated.......)		
Bonus to Shareholders A/c Dr.	4,000	
To Equity Share Capital A/c		4,000
(Capitalisation of profit)		

Notes to Accounts

1 Share Capital		
Authorised share capital		
20 crores shares of Rs.10 each		20,000
Issued, subscribed and fully paid up share capital		
14 crore Equity shares of Rs. 10 each, fully paid up		14,000
(Out of the above, 4 crore equity shares @ Rs.10 each were issued by way of bonus)		
2 crore, 11% Cumulative Preference share capital of Rs. 10 each, fully paid up		2,000
		16,000
2. Reserves and Surplus		
Capital Redemption reserve	1,485	
Less: Utilised for bonus issue	1,485	
Securities Premium	2,000	
Less: Utilised for bonus issue	(2,000)	
General Reserve	1,040	
Less: Utilised for bonus issue	515	515
Surplus (Profit and Loss Account)		273
Total		798

Q-11 Following items appear in the Trial Balance of Hello Ltd. as on 31st March, 2017:

Particulars	**Amount**
9,000 Equity Shares of Rs.100 each	9,00,000
Securities Premium	80,000
Capital Redemption Reserve	1,40,000
General Reserve	2,10,000
Profit and Loss Account (Cr. Balance)	90,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves.

You are required to give the necessary Journal Entries in the books Hello Ltd.**[MTP March '18, 5 Marks]**

Ans. Journal Entries in the books of Hello Ltd.

Capital Redemption Reserve A/c	Dr. 1,40,000	
Securities Premium A/c	Dr. 80,000	
General Reserve A/c (balancing figure)	Dr. 80,000	
To Bonus to Shareholders		3,00,000

(Being issue of bonus shares by utilization of various Reserves, as per resolution dated ....)
Bonus to Shareholders A/c Dr.3,00,000
To Equity Share Capital 3,00,000
(Being capitalization of profit)

Q-12 Omega company offers new shares of Rs. 100 each at 25% premium to existing shareholders on the basis one for five shares. The cum -right market price of a share is Rs. 200.

You are required to calculate the (i) Ex -right value of a share; (ii) Value of a right share?

[MTP Aug. '18, 4 Marks]

Ans. **Ex-right value of the shares**

= (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + No. of right shares)

= (Rs. 200 x 5 Shares + Rs. 125 x 1 Share) / (5 + 1) Shares

= Rs. 1,125 / 6 shares = Rs. 187.50 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= Rs. 200 – Rs. 187.50 = Rs. 12.50 per share.

Q-13 Following is the extract of the Balance Sheet of Manoj Ltd. as at 31st March, 20X1

Authorised capital:	**Rs.**
30,000 12% Preference shares of Rs. 10 each	3,00,000
3,00,000 Equity shares of Rs. 10 each	30,00,000
	33,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of Rs. 10 each fully paid	2,40,000
2,70,000 Equity shares of Rs. 10 each, Rs. 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 20X1, the Company has made final call @ Rs. 2 each on 2,70,000 equity shares.

The call money was received by 20th April, 20X1. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Prepare necessary journal entries in the books of the company . **[MTP Aug. '18, 5 Marks]**

Ans. **Journal Entries in the books of Manoj Ltd.**

			Rs.	**Rs.**
1-4-20X1	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of Rs. 2 per share on 2,70,000 equity shares due as per Board's Resolution dated....)			

20-4- 20X1	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital redemption Reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

Q-14 Following items appear in the Trial Balance of Beta Ltd. as on 31st March, 2017:

Particulars	**Amount**
3,000 Equity Shares of Rs. 100 each	3,00,000
Securities Premium (collected in cash)	40,000
Capital Redemption Reserve	30,000
General Reserve	1,00,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books of Beta Ltd. **[MTP Oct. '18, 5 Marks]**

Ans.

Capital Redemption Reserve A/c	Dr. 30,000	
Securities Premium A/c	Dr. 40,000	
General Reserve A/c	Dr. 30,000	
To Bonus to Shareholders		1,00,000
(Being issue of bonus shares by utilization of various Reserves, as per resolution dated ....)		
Bonus to Shareholders A/c	Dr. 1,00,000	
To Equity Share Capital		1,00,000
(Being capitalization of Profit)		

Q-15 Following is the extract of the Balance Sheet of Manoj Ltd. as at 31st March, 20X1

	`
Authorised capital:	
30,000 12% Preference shares of ` 10 each	3,00,000
4,00,000 Equity shares of ` 10 each	40,00,000
	43,00,000

Issued and Subscribed capital:	
24,000 12% Preference shares of ` 10 each fully paid	2,40,000
2,70,000 Equity shares of ` 10 each, ` 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 20X1, the Company has made final call @ ` 2 each on 2,70,000 equity shares. The call money was received by 20th April, 20X1. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the relevant extract of the balance sheet as on 30th April, 20X1 after bonus issue. **[RTP Nov '19]**

Ans. **Journal Entries in the books of Manoj Ltd.**

			`	`
1-4-20X1	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of ` 2 per share on 2,70,000 equity shares due as per Board's Resolution dated....)			
20-4-20X1	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital Redemption Reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 20X1 (after bonus issue)

	`
Authorized Capital	
30,000 12% Preference shares of ` 10 each	3,00,000
4,00,000 Equity shares of ` 10 each	40,00,000
Issued and subscribed capital	
24,000 12% Preference shares of `10 each, fully paid	2,40,000
3,37,500 Equity shares of ` 10 each, fully paid	33,75,000
(Out of the above, 67,500 equity shares @ ` 10 each were issued by way of bonus shares)	
Reserves and surplus	
Profit and Loss Account	4,80,000

RIGHT ISSUE

Q-1 Omega company offers new shares of ` 100 each at 20% premium to existing shareholders on the basis of one for four shares. The cum-right market price of a share is ` 190.

You are required to calculate the Value of a right share. **[RTP Nov. '19]**

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

= ` 190 - ` 176 = ` 14 per share.

Working Note:

Ex-right value of the shares

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

= ` 880 / 5 shares = ` 176 per share.

Q-2 State under which head these accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:

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

(ii) Share option outstanding account.

(iii) Unpaid matured debenture and interest accrued thereon.

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

(v) Calls unpaid. **[RTP May '19]**

Ans. (i) Current Liabilities/ Other Current Liabilities

(ii) Shareholders' Fund/Reserve & Surplus

(iii) Current liabilities/Other Current Liabilities

(iv) Contingent Liabilities and Commitments

(v) Shareholders' Fund / Share Capital

Q-3 A company offers new shares of Rs.100 each at 25% premium to existing shareholders on one for four basis. Thecum-right market price of a share is ` 150. Calculate the value of a right. **[RTP May '19]**

Ans. Ex-right value of the shares = (Gum-right value of the existing shares + Rights shares Issue Price) / (Existing Number of shares + Rights Number of shares)

= (Rs. 150 X 4 Shares + Rs.125 X 1 Share) / (4 + 1) Shares

= Rs. 725 / 5 shares = Rs.145 per share.

Value of right = Gum-right value of the share - Ex-right value of the share

= Rs.150-Rs.145 = Rs.5 per share.

Q-4 Zeta Ltd. has decided to increase its existing share capital by making rights issue to its existing shareholders. Zeta Ltd. is offering one new share for every two shares held by the shareholder. The market value (cum-right) of the share is Rs.360 and the company is offering one right share of Rs.180 each to its existing shareholders. You are required to calculate the value of a right. What should be the ex-right value of a share? **[RTP Nov '18]**

Ans. Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing Number of shares + Number of Right shares)

= (Rs. 360 x 2 Shares+ Rs.180 x 1 Share)/(2 + 1) Shares

= Rs.900/3 shares = Rs.300 per share.

Value of right = Cum-right value of the share - Ex-right value of the share

= Rs.360- Rs.300 = Rs.60 per share.

Hence, any one desirous of having a confirmed allotment of one share from the company at Rs. 180 will have to pay Rs. 120 (2 shares x Rs. 60) to an existing shareholder holding 2 shares and willing to renounce his right of buying one share in favour of that person.

Q-5 Omega company offers new shares of Rs. 100 each at 25% premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is Rs.200.

You are required to calculate the (I) Ex-right value of a share; (II) Value of a right share? **[RTP May '18]**

Ans. **Ex-right value of the shares**

= (Gum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + No. of right shares)

= (Rs.200 X 5 Shares + Rs.125 X 1 Share) / (5 + 1) Shares

= Rs.1,125 / 6 shares = Rs.187.50 per share.

Value of right = Gum-right value of the share-Ex-right value of the share

= Rs.200-Rs.187.50 =Rs.12.50 per share.

---0---0---

CHAPTER-7

Redemption of Preference Shares

Q-1 The Summarized Balance Sheet of Clean Ltd. as on 31st March, 2019 is as follows:

Particulars	**(`)**
EQUITY AND LIABILITIES	
1. Shareholder's funds:	
(a) Share Capital	5,80,000
(b) Reserves and Surplus	96,000
2. Current Liabilities:	
Trade Payables	1,13,000
Total	**7,89,000**
ASSETS:	
1. Non-Current Assets	
(a) Property, Plant and Equipment	
Tangible Assets	6,90,000
(b) Non-current investments	37,000
2. Current Assets	
Cash and cash equivalents (Bank)	62,000
Total	7,89,000

The Share Capital of the company consists of ` 50 each Equity shares of ` 4,50,000 and ` 100 each 8% Redeemable Preference Shares of ` 1,30,000 (issued on 1.4.2017).

Reserves and Surplus comprises statement of profit and loss only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

(a) to sell all the investments for ` 30,000.

(b) to finance part of redemption from company funds, subject to, leaving a Bank balance of ` 24,000.

(c) to issue minimum equity share of ` 50 each at a premium of ` 10 per share to raise the balance of funds required.

You are required to :

(1) Pass Journal Entries to record the above transactions.

(2) Prepare Balance Sheet after completion of the above transactions. **[Sugg. May '19, 10 Marks]**

Ans.

(a) **Journal Entries**

	Particulars		**Dr. (`)**	**Cr. (`)**
1	Bank A/c	Dr.	75,000	
	To Share Application A/c			75,000
	(For application money received on 1,250 shares @ ` 60 per share)			
2	Share Application A/c	Dr.	75,000	
	To Equity Share Capital A/c			62,500
	To Securities Premium A/c			12,500
	(For disposition of application money received)			
3	Preference Share Capital A/c	Dr.	1,30,000	
	Premium on Redemption of Preference Shares A/c	Dr.	13,000	
	To Preference Shareholders A/c			1,43,000
	(For amount payable on redemption of preference shares)			
4	Profit and Loss A/c	Dr.	13,000	
	To Premium on Redemption of Preference Shares A/c			13,000
	(For writing off premium on redemption out of profits)			
5	Bank A/c	Dr.	30,000	
	Profit and Loss A/c (loss on sale) A/c	Dr.	7,000	
	To Investment A/c			37,000
	(For sale of investments at a loss of ` 3,500)			
6	Preference Shareholders A/c	Dr.	1,43,000	
	To Bank			1,43,000
	(Being amount paid to Preference shareholders)			
7	Profit and Loss A/c	Dr.	67,500	
	To Capital Redemption Reserve A/c			67,500
	(For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds (face value of equity shares) i.e., ` 1,30,000 - ` 62,500)			

Balance Sheet of Clean Ltd. (after redemption)

	Particulars	**Notes No.**	**`**
	EQUITY AND LIABILITIES		
1.	Shareholders' funds		
	a) Share capital	1	5,12,500
	b) Reserves and Surplus	2	88,500
2.	Current liabilities		
	Trade Payables		1,13,000
	Total		7,14,000

ASSETS

1.	Non-Current Assets		
	Property Plant and Equipments		
	Tangible asset		6,90,000
2.	Current Assets		
	Cash and cash equivalents (bank)	3	24,000
	Total		7,14,000

Notes to accounts `

1.	Share Capital	
	Equity share capital ` (4,50,000 + 62,500)	5,12,500
2.	Reserves and Surplus	
	Capital Redemption Reserve	67,500
	Profit and Loss Account ` (96,000 - 13,000 - 7,000 - 67,500)	8,500
	Security Premium	12,500
		88,500
3.	Cash and cash equivalents	
	Balances with banks ` (62,000 + 75,000 +30,000 - 1,43,000)	24,000

Working Note:

Calculation of Number of Shares:	`
Amount payable on redemption (1,30,000 + 10% Premium)	1,43,000
Less: Sale price of investment	(30,000)
	1,13,000
Less: Available bank balance (62,000 - 24,000)	(38,000)
Funds required from fresh issue	75,000
No. of shares = 75,000/60	= 1,250 shares

Q-2 Explain the conditions when a company should issue new equity shares for redemption of the preference shares. Also discuss the advantages and disadvantages of redemption of preference shares by issue of equity shares. **[Sugg. Nov.'18, 5 Marks]**

Ans. A company may prefer issue of new equity shares in the following situations:

(a) When the company realizes that the capital is needed permanently and it makes more sense to issue Equity Shares in place of Redeemable Preference Shares which carry a fixed rate of dividend.

(b) When the balance of profit, which would otherwise be available for dividend, is insufficient.

(c) When the liquidity position of the company is not good enough.

Advantages of redemption of preference shares by issue of fresh equity shares

(1) No cash outflow of money is required -now or later.

(2) New equity shares may be valued at a premium.

(3) Shareholders retain their equity interest.

Disadvantages of redemption of preference shares by issue of fresh equity shares

(1) Therewill be dilution of future earnings;

(2) Share-holding in the companyis changed.

Q-4 Dheeraj Limited had 5,000, 10% Redeemable Preference Shares of Rs. 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

(i) 40,000 Equity Shares of Rs. 10 each at par

(ii) 2,000 12% Debentures of Rs.100 each.

The issue was fully subscribed and all accounts were received in full. The payment was duly made. The company had sufficient profits. Show journal entries in the books of the company

[Sugg. May '18, 10 Marks]

Ans. **In the books of Dheeraj Limited**

Journal Entries

Date	Particular	Dr.	Dr.(Rs.)	Cr.(Rs.)
	Bank A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being the issue of 40,000 equity shares of Rs.10 each at par as per Board's resolution No... ...dated.....)			
	Bank A/c	Dr.	2,00,000	
	To 12% Debenture A/c			2,00,000
	(Being the issue of 2,000 Debentures of Rs.100 each as per Board's Resolution No.....dated......)			
	10% Redeemable Preference Share Capital A/c	Dr.	5,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	50,000	
	To Preference Shareholders A/c			5,50,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	5,50,000	
	To Bank A/c			5,50,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	50,000	
	To Premium on Redemption of Preference Shares A/c			50,000
	(Being the adjustment of premium on redemption against Profits & Loss Account)			
	Profit & Loss A/c	Dr.	1,00,000	
	To Capital Redemption Reserve A/c (Working Note)			1,00,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed	Rs.5,00,000
Less: Proceeds from new issue	Rs.4,00,000
Balance	Rs.1,00,000

Q-5 The Board of Directors of a Company decide to issue minimum number of equity shares of Rs. 9 to redeem Rs. 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is Rs. 3,00,000.

Calculate the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of Rs. 50 only. **[MTP Oct. '19, 5 Marks]**

Ans.

Nominal value of preference shares	Rs.5,00,000
Maximum possible redemption out of profits	Rs.3,00,000
Minimum proceeds of fresh issue	Rs.5,00,000 - 3,00,000 = Rs.2,00,000
Proceeds of one share	= Rs.9
Minimum number of shares	= 2,00,000/9 = 22,222.22 shares

As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shares.

If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 22,250. Hence, minimum number of shares to be issued in such a case is 22,250 shares.

Q-6 The Board of Directors of a Company decide to issue minimum number of equity shares of Rs. 9 to redeem Rs. 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is Rs. 3,00,000.

You are required to compute the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of Rs. 50 only.

OR

Following items appear in the Trial Balance of Hello Ltd. as on 31st March, 2017:

Particulars	**Amount**
9,000 Equity Shares of Rs.100 each	9,00,000
Securities Premium	80,000
Capital Redemption Reserve	1,40,000
General Reserve	2,10,000
Profit and Loss Account (Cr. Balance)	90,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves.

You are required to give the necessary Journal Entries in the books Hello Ltd.

[MTP March '19, 5 Marks]

Ans.

Nominal value of preference shares	Rs.5,00,000
Maximum possible redemption out of profit	Rs.3,00,000
Minimum proceeds of fresh issue	Rs.5,00,000 - 3,00,000 = Rs.2,00,000
Proceed of one shares	= Rs.9
Minimum number of shares	$= \frac{2,00,000}{9}$ = 22,222,22 shares

As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shars.

If shares are to be issued in multiples of 50, then the next higher figure which is a multiples of 50 is 22,250. Hence minimum number of shares to be issued in such a case is 22,250 shares.

OR

Journal Entries in the books of Hello Ltd.

Capital Redemption Reserve A/c	Dr. 1,40,000	
Securities Premium A/c	Dr. 80,000	
General Reserve A/c (balancing figure)	Dr. 80,000	
To Bonus to Shareholders (Being issue of bonus shares		3,00,000
by utilization of various Reserves, as per resolution dated ....)		
Bonus to Shareholders A/c	Dr. 3,00,000	
To Equity Share Capital (Being capitalization of Profit)		3,00,000

Q-10 G India Ltd. had 9,000 10% redeemable Preference Shares of Rs.10 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of Rs.9 each fully paid up.

You are required to prepare necessary Journal Entries including cash transactions in the books of the company. **[MTP April '18, 5 Marks]**

Ans. **In the books of G India Limited**

Journal

Date	Particular		Dr.(Rs.)	Cr.(Rs.)
	Bank A/c	Dr.	90,000	
	To Equity Share Capital A/c			90,000
	(Being the issue of 10,000 Equity Shares of Rs.9 each at par, as per Board's Resolution No......Dated.....)			
	10% Redeemable Preference Shares Capital A/c	Dr.	90,000	
	To Preference Shareholders A/c			90,000
	(Being the amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
	Preference Shareholders A/c	Dr.	90,000	
	To Bank A/c			90,000
	(Being the amount paid on redemption of preference shares)			

Q-11 The Board of Directors of a Company decide to issue minimum number of equity shares of Rs.9 to redeem Rs.5,00,000 preference shares. The maximum amount of divisible profits available for redemption is Rs.3,00,000.

You are required to compute the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of Rs. 50 only. **[MTP March '18, 5 Marks]**

Ans.

Nominal value of preference shares	Rs.5,00,000
Maximum possible redemption out of profits	Rs.3,00,000
Minimum proceeds of fresh issue	Rs.5,00,000 - 3,00,000 = Rs.2,00,000
Proceed of one share	= Rs.9
Minimum number of shares	$= \frac{2,00,000}{9}$ =22,222,22 share

As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shares.

If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 22,250. Hence, minimum number of shares to be issued in such a case is 22,250 shares.

Q-12 The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 20X1.

Share capital: 40,000 Equity shares of Rs.10 each fully paid – Rs.4,00,000; 1,000 10% Redeemable preference shares of Rs.100 each fully paid – Rs.1,00,000.

Reserve & Surplus: Capital reserve – Rs.50,000; Securities premium – Rs.50,000; General reserve – Rs.75,000; Profit and Loss Account – Rs.35,000

On 1st January 20X2, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve.

You are required to pass necessary Journal Entries including cash transactions in the books of the company. **[MTP Aug. '18, 5 Marks]**

Ans.

In the books of ABC Limited

Journal Entries

Date 20X2	**Particulars**		**Dr. (Rs.)**	**Cr. (Rs.)**
Jan 1	10% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
	To Preference Shareholders A/c			1,00,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,00,000	
	To Bank A/c			1,00,000
	(Being the amount paid on redemption of preference shares)			
	General Reserve A/c	Dr.	75,000	
	Profit & Loss A/c	Dr.	25,000	
	To Capital Redemption Reserve A/c			1,00,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Note: Securities premium and capital reserve cannot be utilised for transfer to Capital Redemption Reserve.

Q-13 The Board of Directors of a Company decide to issue minimum number of equity shares of Rs. 9 to redeem Rs. 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is Rs. 3,00,000.

Calculate the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of Rs. 50 only. **[MTP Oct. '18, 5 Marks]**

Ans.

Nominal value of preference shares	Rs.5,00,000
Maximum possible redemption out of profits	Rs.3,00,000
Minimum proceeds of fresh issue	Rs.5,00,000 - 3,00,000 = Rs.2,00,000
Proceed of one share	= Rs.9
Minimum number of shares	$= \frac{2,00,000}{9} = 22,222.22$ shares

As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shares.

If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 22,250. Hence, minimum number of shares to be issued in such a case is 22,250 shares.

Q-14 The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 20X1:

Share capital: 50,000 Equity shares of `10 each fully paid – `5,00,000; 2,000 10% Redeemable preference shares of `100 each fully paid – ` 2,00,000.

Reserve & Surplus: Capital reserve – `2,00,000; General reserve –` 2,00,000; Profit and Loss Account – `75,000.

On 1st January 20X2, the Board of Directors decided to redeem the preference shares at premium of 5% by utilization of reserves.

You are required to prepare necessary Journal Entries including cash transactions in the books of the company. **[RTP Nov. '19]**

Ans. **In the books of ABC Limited**

Journal Entries

Date 20X2	**Particulars**		**Dr. (`)**	**Cr. (`)**
Jan 1	10% Redeemable Preference Share Capital A/c	Dr.	2,00,000	
	Premium on Redemption of Preference Shares		10,000	
	To Preference Shareholders A/c			2,10,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	2,10,000	
	To Bank A/c			2,10,000
	(Being the amount paid on redemption of preference shares)			
	General Reserve A/c	Dr.	2,00,000	

To Capital Redemption Reserve A/c		2,00,000
(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)		
Profit & Loss A/c Dr.	10,000	
To Premium on Redemption of Preference Shares A/c		10,000
(Being premium on redemption charged to Profit and Loss A/c)		

Note: Capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

Q-15 Thecapital structure of a AP Ltd. consists of 20,000 Equity Shares of Rs.10 each fully paid up and 1,000 8% Redeemable Preference Shares of Rs.100 each fully paid up (issued on 1.4.20X1).

Undistributed reserve and surplus stood as: General Reserve Rs.80,000; Profit and Loss Account Rs.20,000; Investment Allowance Reserve out of which Rs.5,000, (not free for distribution as dividend) Rs.10,000; Cash at bank amounted to Rs.98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of Rs.20,000 shall be retained in general reserve and which should not be utilised.

Pass Journal Entries to give effect to the above arrangements and also show how the relevant itemswillappearin the Balance Sheet of the companyafterthe redemption carried out. **[RTP May '19]**

Ans.

In the books of AP Ltd.

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	Dr.	25,000	
	To Equity Share Capital A/c			25,000
	(Being the issue of 2,500 Equity Shares of Rs.10 each at par, as per Board's Resolution No... ..dated.......)			
	8% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	10,000	
	To Preference Shareholders A/c			1,10,000
	(Being the amount paid on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,10,000	
	To Bank A/c			1,10,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	10,000	
	To Premium on Redemption of Preference Shares A/c			10,000
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)			
	General Reserve A/c	Dr.	60,000	
	Profit & Loss A/c	Dr.	10,000	

Investment Allowance Reserve A/c	Dr.	5,000	
To Capital Redemption Reserve A/c			75,000
(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Balance Sheets as on .... (Extracts)

	Particulars	Notes	Rs.
	EQUITY AND LIABILITIES		
1.	**Shareholders' funds**		
	a Share capital	1	2,25,000
	b Reserves and Surplus	2	1,00,000
	Total		?
	ASSETS		
2.	**Current Assets**		
	Cash and cach eqivalents (98,000 + 25,000 - 1,10,000)		13,000
	Total		?
Notes to accounts			
1.	**Share capital**		
	22,500 Equity shares (20,000 + 2,500) of Rs.10 eahc fully paid up	2,25,000	
2.	**Reserves and Surplus**		
	General Reserve	20,000	
	Capital Redemption Reserve	75,000	
	Investment Allowance Reserve	5,000	
		1,00,000	

Working Note:

No of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed		Rs.1,00,000
Less: Profit available for distribution as dividend:		
General Reserve : Rs.(80,000-20,000)	Rs.60,000	
Profit and Loss (20,000 - 10,000 set aside for adjusting premium payable on redemption of preference shares)	Rs.10,000	
Investment Allowance Reserve: (Rs 10,000-5,000)	Rs.5,000	(Rs.75,000)
		25,000

Therefore, No. of shares to be issued = 25,000/`10 = 2,500 shares.

Q-16 The following are the extracts from the Balance Sheet of Meera Ltd. as on 31st December, 2017.

Share capital: 60,000 Equity shares of Rs.10 each fully paid - Rs.6,00,000; 1,500 10% Redeemable preference shares of Rs.100 each fully paid - Rs.1,50,000.

Reserve & Surplus: Capital reserve - Rs.75,000; Securities premium - Rs.75,000; General reserve - Rs.1,12,500; Profit and Loss Account - Rs.62,500.

On 1st January 2018, the Board of Directors decided to redeem the preference shares at premium of 10% by utilisation of reserve.

You are required to prepare necessary Journal Entries including cash transactions in the books of the company. **[RTP Nov '18]**

Ans. **In the books of Meera Limited**

Journal Entries

Date 2018	Particulars		Dr. Rs.	Cr.Rs.
Jan 1	10% Redeemable Preference Share Capital A/c	Dr.	1,50,000	
	Premium on Redemption of Pref. shares	Dr.	15,000	
	To Preference Shareholders A/c			1,65,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,65,000	
	To Bank A/c			1,65,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	15,000	
	To Premium on Redemption of Pref. Shares			15,000
	(Being adjustment of premium on redemption)			
	General Reserve A/c	Dr.	1,12,500	
	Profit & Loss A/c	Dr.	37,500	
	To Capital Redemption Reserve A/c			1,50,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Note: Securities premium and capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

Q-17 The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 20X1:

Share capital: 50,000 Equity shares of Rs.10 each fully paid - Rs.5,00,000; 1,500 10% Redeemable preference shares of Rs.100 each fully paid - Rs. 1,50,000.

Reserve & Surplus: Capital reserve - Rs.1,00,000; General reserve -Rs.1,00,000; Profit and Loss Account - Rs.75,000.

On 1st January 20X2, the Board of Directors decided to redeem the preference shares at premium of 10% by utilization of reserves.

You are required to prepare necessary Journal Entries including cash transactions in the books of the company.

[RTP May '18]

Ans. **In the books of ABC Limited**

Journal Entries

Date 20x2	**Particulars**		**Dr. Rs.**	**Cr.Rs.**
Jan 1	10% Redeemable Preference Share Capital A/c	Dr.	1,50,000	
	Premium on Redemption of Preference Shares		15,000	
	To Preference Shareholders A/c			1,65,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,65,000	
	To Bank A/c			1,65,000
	(Being the amount paid on redemption of preference shares)			
	General Reserve A/c	Dr.	1,00,000	
	Profit & Loss A/c	Dr.	50,000	
	To Capital Redemption Reserve A/c			1,50,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			
	Profit & Loss A/c	Dr.	15,000	
	To Premium on Redemption of Preference Shares A/c			15,000
	(Being premium on redemption charged to Profit and Loss A/c)			

Note : Capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

---0---0---

CHAPTER-8

Redemption of Debentures

Q-1 A company had issued 40,000, 12% debentures of ` 100 each on 1st April, 2015. The debentures are due for redemption on 1st March, 2019. The terms of issue of. debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (nominal value ` 10) at a predetermined price of ` 15 per share and the payment in cash. 50 debentures holders holding totally 5,000 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders and the amount to be paid in cash on redemption. **[Sugg.Nov.'19, 5 Marks]**

Ans. **Calculation of number of equity shares to be allotted**

	Number of debentures
Total number of debentures	40,000
Less: Debenture holders not opted for conversion	(5,000)
Debenture holders opted for conversion	35,000
Option for conversion	20%
Number of debentures to be converted (20% of 35,000)	7,000
Redemption value of 7,000 debentures at a premium of 5% [7,000 x (100+5)]	` 7,35,000
Equity shares of ` 10 each issued to debenture holders on redemption	
[` 7,35,000/ ` 15]	49,000 shares
Amount of cash to be paid	
Amount to be paid into cash [42,00,000 (40,000 x ` 105) – 7,35,000] on redemption	`34,65,000

Q-2 A Company had issued 1,000 12% debentures of f fOO each redeemable at the company's option at the end of 10 years at par or prior to that by purchase in open market or at f 102 after giving 6 months notice. On 31st December, 2016, the accounts of the company showed the following balances:

Debenture redemption fund ` 53,500 represented by 10% Govt. Loan of a nominal value of ` 42,800 purchased at an average price of ` 101 and ` 10,272 uninvested cash in hand.

On 1st January 2017, the company purchased ` 11,000 of its own debentures at a cost of Rs.10,272.

On 30th June, 2017, the company gave a six months notice to the holders of ` 40,000 debentures and on 31st December, 2017 carried out the redemption by sale of ` 40,800 worth of Govt. Loan at par and also cancelled the own debentures held by it.

Prepare ledger account of Debenture Redemption Fund Account and Debenture Redemption Fund Investment Account for the year ended 31.12.2017, assuming that, interest on company debentures & Govt. loan was payable on 31st December every year. **[Sugg. Nov.'18, 8 Marks]**

Ans. **Debenture Redemption Fund Account**

Date	Particulars	Rs.	Date	Particulars	Rs.
31-12-17	To Debenture Redemption Fund Investment A/c	408	1-1-17	By Balance b/d	53,500
	To Premium on redemption of debentures	800	31-12-17	By interest on DRFI (10% of Rs.42,800)	4,280
	To Balance c/d	57,892		By interest on Own debentures (ie. 12% on Rs.11,000)	1,320
		59,100			59,100
			1-1-18	To Balance b/d	57,892

Debenture Redemption Fund Investment Account

		Rs.			Rs.
1.1.17	To Balance b/d (428 x Rs.101)	43,228	31.12.17	By Bank A/c	40,800
				By Debenture redemption Fund (1% of Rs.40,800)	
				By 12% Debentures	11,000
1.1.17	To Bank	10,272		By Balance c/d	2,020
31.12.17	To Capital Reserve (Profit on cancellation of Debentures)	728			
		54,228			54,228
1.1.18	To Balance b/d	2,020			

Q-3 Gurudev Limited purchases for immediate cancellation 6,000 of its own 12% debentures of ` 100 each on 1st November, 2017. The dates of interest being 31st March, and 30th September. Pass necessary journal entries relating to the cancellation if:

(i) Debentures are purchased at ` 98 ex-interest,

(ii) Debentures are purchased at ` 98 cum-interest. **[Sugg. May '18, 5 Marks]**

Ans. **In the books of Gurudev Ltd.**

Journal Entries

(i) **In case of ex-interest**

Date	Particulars		Rs.	Rs.
1.11.2017	Own Debentures A/c	Dr.	5,88,000	
	Debentures Interest A/c [6,000 x 100 x 12% x (1/12)]	Dr	6,000	
	To Bank A/c (Purchase of 6,000 Debentures			5,94,000
	@ 98 ex interest for immediate cancellation			
1.11.17	12% Debentures A/c	Dr	6,00,000	
	To Own Debentures A/c			5,88,000

	To Capital reserve A/c (Profit on cancellation of debentures)		12,000
	(Being profit on cancellation of 6,000 Debentures trasferred to capital reserved account)		

(ii) **Incase of cum interest**

1.11.17	Own Debenture A/c	Dr.	5,82,000	
	Debenture Interest Account A/c	Dr.	6,000	
	[6,000 x 100 x 12% x (1/12)]			
	To Bank A/c			5,88,000
	(Being 6,000 debentures purchased @ Rs. 98 cum interest for immediate cancellation			
1.11.17	12% Debenture A/c	Dr.	6,00,000	
	To Own Debentures A/c			5,82,000
	To Capital reserve A/c (Profit on cancellation of debentures)			18,000
	(Being Profit on cancelation of 6,000 Debentures transferred to capital reserve account).			

Q-4 A Company had issued 20,000, 13% Convertible debentures of Rs. 100 each on 1st April, 20X1. The debentures are due for redemption on 1st July, 20X2. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value Rs. 10) at a price of Rs. 15 per share. Debenture holders holding 2,500 debentures did not exercise the option.

Calculate the number of equity shares to be allotted to the Debenture holders exercising the option to the maximum. **[MTP April '18, 5 Marks]**

Ans. **Calculation of number of equity shares to be allotted**

	Number of debentures
Total number of debentures	20,000
Less; Debenture holders not opted for conversion	2,500
Debenture holders opted for conversion	17,500
Option for conversion	20%
Number of debentures to be converted (20% of 17,500)	3,500
Redemption value of 3,500 debentures at a premium of 5% [3,500 x (100+5)]	Rs. 3,67,500
Equity shares of Rs. 10 each issued on conversion [Rs. 3,67,500/ Rs. 15]	24,500 shares

Q-5 Omega Limited (a manufacturing company) recently made a public issue in respect of which the following information is available:

(a) No. of partly convertible debentures issued- 2,00,000; face value and issue price- ` 100 per debenture.

(b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue i.e 31.10.20X1.

(c) Date of closure of subscription lists- 1.5.20X1, date of allotment- 1.6.20X1, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- ` 60 (Face Value ` 10).

(d) Underwriting Commission- 2%.

(e) Number of debentures applied for - 1,50,000.

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

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 20X2 (including cash and bank entries). **[RTP Nov. '19]**

Ans. **Journal Entries in the books of Omega Ltd.**

Journal Entries

Date	Particulars		Amount Dr. `	Amount Cr. `
1.5.20X1	Bank A/c	Dr.	1,50,00,000	
	To Debenture Application A/c			1,50,00,000
	(Application money received on 1,50,000 debentures @ ` 100 each)			
1.6.20X1	Debenture Application A/c	Dr.	1,50,00,000	
	Underwriters A/c	Dr.	50,00,000	
	To 15% Debentures A/c			2,00,00,000
	(Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)			
	Underwriting Commission	Dr.	4,00,000	
	To Underwriters A/c			4,00,000
	(Commission payable to underwriters @ 2% on ` 2,00,00,000)			
	Bank A/c	Dr.	46,00,000	
	To Underwriters A/c			46,00,000
	(Amount received from underwriters in settlement of account)			
01.06.20X1	Profit & Loss A/c			
	To Debenture Redemption Reserve A/c	Dr.	20,00,000	
	(200,000 x 100 x 25% x 40%)			20,00,000
	(Being Debenture Redemption Reserve created on non-convertible debentures)			
	Debenture Redemption Reserve Investment A/c			
	To Bank A/c (200,000 x 100 x 15% x 40%)	Dr.	12,00,000	
	(Being Investments made for redemption purpose)			
12,00,000				
30.9.20X1	Debenture Interest A/c	Dr.	10,00,000	
	To Bank A/c			10,00,000
	(Interest paid on debentures for 4 months @ 15% on ` 2,00,00,000)			

31.10.20X1	15% Debentures A/c Dr.	1,20,00,000	
	To Equity Share Capital A/c		20,00,000
	To Securities Premium A/c		1,00,00,0000
	(Conversion of 60% of debentures into shares of ` 60 each with a face value of ` 10)		
31.3.20X2	Debenture Interest A/c Dr.	7,50,000	
	To Bank A/c		7,50,000
	(Interest paid on debentures for the half year) (refer working note below)		

Working Note :

Calculation of Debenture Interest for the half year ended 31st March, 20X2

On ` 80,00,000 for 6 months @ 15% = ` 6,00,000

On ` 1,20,00,000 for 1 months @ 15% = ` 1,50,000

` 7,50,000

Q-6 On 1st January, 2008 Raman Ltd. allotted 20,000 9% Debentures of ?100 each at par, the total amount having been received along with applications.

(i) On 1st January, 2010 the Company purchased in the open market 2,000 of its own debentures @ Rs.101 each and cancelled them immediately.

(ii) On 1st January, 2013 the companyredeemed at par debentures for Rs.6,00,000 by draw of a lot.

(iii) On 1st January, 2014 the company purchased debentures of the face value of Rs.4,00,000 for 3,95,600 in the open market, held them as investments for one year and then cancelled them.

(iv) Finally, as per resolution of the board of directors, the remaining debentures were redeemed at a premium of 2% on 1st January, 2018 when Securities Premium Account in the company's ledger showed a balanceof Rs.60,000.

Pass journal entries for the above mentioned transactions ignoring debenture redemption reserve, debenture - interest and interest on own' debentures. **[RTP May '19]**

Ans. **Journal**

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
2008 Jan 1	Bank	Dr.	20,00,000	20,00,000
	To 9% Debenture Applications SAllotment Account			
	(Being application money on 20,000 debentures @ Rs.100 per debenture received)			
	9% Debentures Applications & Allotment Account	Dr.	10,00,000	
	To 9% Debentures Account			20,00,000
	(Being allotment of 20,000 9% Debentures of Rs.100each at par)			
(i)	9% Debenture Account	Dr.	2,00,000	
2010 Jan. 1	Loss on Redemption of Debentures Account	Dr.	2,000	
	To Bank			2,02,000
	(Being redemption of 2,000 9% Debentures of Rs.100			

	each by purchase in the open market @Rs.101 each)			
	Profit & Loss Account/Securities Premium		2,000	
	Account	Dr.		2,000
	To Loss on Redemption of Debentures Account			
	(Being loss on redemption of debentures being written off by transfer b Profit and Loss Account or Securities Premium Account			
(ii) 2013	9% Debentures Account	Dr.	6,00,000	
Jan. 1	To Sundry Debenture holders			6,00,000
	(Being Amount payable b debenture holders on redemption debentures for Rs.6,00,000 at par by draw of a lot)			
	Sundry Debenture holders	Dr.	6,00,000	
	To Bank			6,00,000
	(Being Payment made b sundry debenture holders for redeeming debentures of Rs.6,00,000 at par)			
(iii) 2014	Own Debentures	Dr.	3,95,000	
Jan. 1	To Bank			3,95,600
	(Being purchase of own debentures of the face value of Rs.4,00,000 for Rs.3,95,600)			
2015 "	9% Debentures	Dr.	4,00,000	
	To Own Debentures			3,95,600
	To Profit on Cancellation of Own Debentures Account		4,400	
	(Being Cancellation of own debentures of the face value of Rs.4,00,000 purchased last year for Rs.3,95,600)			
" "	Profit on Cancellation of Own Debentures		4,400	
	Account	Dr.		4,400
	To Capital Reserve Account			
	(Being transfer of profit on cancellation of own debentures to capital reserve)			
(iv) 2018	9% Debentures Account	Dr.	8,00,000	
Jan.	Premium on Redemption of Debentures Account	Dr.	16,000	
	To Sundry Debenture holders			8,16,000
	(Being amount payable to holders of debentures of the face value of Rs.8,00,000 on redemption at a premium of 2% as per resolution of the board of directors)			
" "	Sundry Debenture holders	Dr.	8,16,000	
	To Bank Account			

	(Being payment to sundry debenture holders)			8,16,000
" "	Securities Premium Account	Dr.	16,000	
	To Premium on Redemption of Debentures Account			16,000
	(Being utilisation of a part of the balance in Securities Premium Account to write off premium paid on redemption of debentures)			

Q-7 The summarized Balance Sheet of Spices Ltd. as on 31st March, 2018 read as under:

	Rs.
Liabilities:	
Share Capital: 9,000 equity shares of Rs.10 each, fully paid up	90,000
General Reserve	38,000
Debenture Redemption Reserve	35,000
12% Convertible Debentures : 1,200 Debentures of Rs.50 each	60,000
Unsecured Loans	28,000
Short term borrowings	19,000
	2,70,000
Assets:	
Fixed Assets (at cost less depreciation)	72,000
Debenture Redemption Reserve Investments	34,000
Cash and Bank Balances	86,000
Other Current Assets	78,000
	2,70,000

The debentures are due for redemption on 1st April, 2018. The terms of issue of debentures provided that they were redeemable at a premium 10% and also conferred option to the debenture holders to convert 40% of their holding into equity shares at a predetermined price of ? 11 per share and the balance payment in cash.

Assuming that:

(i) Except for debentureholders holding 200 debentures in aggregate, rest of them exercised the option for maximum conversion,

(ii) The investments realized Rs.56,000 on sale,

(iii) All the transactions were taken place on 1st April, 2018

(iv) Premium on redemption of debentures is to be adjusted against General Reserve.

You are required to

(a) Redraft the Balance Sheet of Spices Ltd. as on 01.04.2018 after giving effect to the redemption.

(b) Show your calculations in respect of the number of equity shares to be allotted and the cash payment necessary. **[RTP Nov '18]**

Ans. **Spices Ltd.**

Balance Sheet as on 01.04.2018

Particulars	**Note No.**	**Figures as at the end of current reporting period**
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,10,000
(b) Reserves and Surplus	2	91,000
(2) Non-Current Liabilities		
(a) Long-term borrowings - Unsecured Loans		28,000
(3) Current Liabilities		
(a) Short-term borrowings		19,000
Total		2,48,000
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets		72,000
(2) Current assets		
(a) Cash and cash equivalents		98,000
(b) Other current assets		78,000
Total		2,48,000

Notes to Accounts

		Rs.
1. Share Capital		
11,000 Equity Shares of Rs.10 each		1,10,000
(Out of above, 2000 shares issued to debentures holders who opted for conversion into shares)		
2. Reserve and Surplus		
General Reserve	38,000	
Add: Debenture Redemption Reserve transfer	35,000	
	73,000	
	22,000	
Add: Profit on sale of investments	95,000	
Less: Premium on redemption of debentures (1,200 xRs.5)	6,000	89,000
Securities Premium Account (2,000 x Rs.1)		2,000
		91,000

Working Notes:

(i) Calculation of number of shares to be allotted	**Rs.**
Total number of debentures	1,200
Less; Number of debentures not opting for conversion	(200)
	1,000

	40% of 1,000	400
	Redemption value of 400 debentures (400 x Rs.55)	Rs.22,000
	Number of Equity Shares to be allotted 22,000/11 = 2,000 shares of Rs.10 each.	
(ii)	**Calculation of cash to be paid**	**Rs.**
	Number of debentures	1,200
	Less; Number of debentures to be converted into equity shares	(400)
		800
	Redemption value of 800 debentures (800 x Rs.55) Rs.44,000	
(ii)	**Cash and Bank Balance**	**Rs.**
	Balance before redemption	86,000
	Add: Proceeds of investments sold	56,000
		1,42,000
	Less: Cash paid to debenture holders	44,000
		98,000

Q-8 On 1st January, 2006 Raman Ltd. allotted 20,000 9% Debentures of Rs.100 each at par, the total amount having been received along with applications.

(i) On 1st January, 2008 the Company purchased in the open market 2,000 of its own debentures @ ? 101 each and cancelled them immediately.

(ii) On 1st January, 2011 the company redeemed at par debentures for Rs.6,00,000 by draw of a lot.

(iii) On 1st January, 2012 the company purchased debentures of the face value of Rs.4,00,000 for 3,95,600 in the open market, held them as investments for one year and then cancelled them.

(iv) Finally, as per resolution of the board of directors, the remaining debentures were redeemed at a premium of 2% on 1st January, 2016.

You are required to prepare required journal entries for the above-mentioned transactions ignoring debenture redemption reserve, debenture interest and interest on own debentures. **[RTP May '18]**

Ans. **Journal Entries**

			(Rs.) Dr.	**(Rs.) Cr.**
2006 Jan 1	Bank	Dr.	20,00,000	
	To 9% Debenture Applications & Allotment Account			20,00,000
	(Being application money on 20,000 debentures @ Rs.100 per debenture received)			
	9% Debentures Applications & Allotment Account	Dr.	20,00,000	
	To 9% Debentures Account			20,00,000
	(Being allotment of 20,000 9% Debentures of Rs.100 each at par)			
(i)	9% Debenture Account	Dr.	2,00,000	
2008 Jan.1	Loss on Redemption of Debentures Account	Dr.	2,000	
	To Bank			2,02,000
	(Being redemption of 2,000 9% Debentures of Rs.100 each by purchase in the open market @ Rs.101 each)			
	Profit & Loss Account	Dr.	2,000	
	To Loss on Redemption of Debentures Account			2,000
	(Being loss on redemption of debentures being written off by transfer to Profit and Loss Account)			

(ii)	9% Debentures Account	Dr.	6,00,000	
2011 Jan.1	To Sundry Debenture holders			6,00,000
	(Being Amount payable to debenture holders on redemption debentures for Rs.6,00,000 at par by draw of a lot)			
	Sundry Debenture holders	Dr.	6,00,000	
	To Bank			6,00,000
	(Being Payment made to sundry debenture holders for redeeming debentures of Rs.6,00,000 at par)			
(iii)	Own Debentures	Dr.	3,95,600	
2012 Jan.1	To Bank			3,95,600
	(Being purchase of own debentures of the face value of Rs.4,00,000 for Rs.3,95,600)			
2013	9% Debentures	Dr.	4,00,000	
	To Own Debentures			3,95,600
	To Profit on Cancellation of Own Debentures Account			4,400
	(Being Cancellation of own debentures of the face value of Rs.4,00,000 purchased last year for Rs.3,95,600)			
	Profit on Cancellation of Own Debentures		4,400	
	Account	Dr.		4,400
	To Capital Reserve Account			
	(Being transfer of profit on cancellation of own debentures to capital reserve)			
(iv)	9% Debentures Account	Dr.	8,00,000	
2016 Jan.1	Premium on Redemption of Debentures Account	Dr.	16,000	
	To Sundry Debenture holders			8,16,000
	(Being amount payable to holders of debentures of the face value of Rs.8,00,000 on redemption at a premium of 2% as per resolution of the board of directors)			
	Sundry Debenture holders	Dr.	8,16,000	
	To Bank Account			8,16,000
	(Being payment to sundry debenture holders)			
	Profit & Loss Account	Dr.	16,000	
	To Premium on Redemption of Debentures Account			16,000
	(Being utilization of a part of the balance in Securities Premium Account to write off premium paid on redemption of debentures)			

---0---0---

CHAPTER-9

Investment Accounts

Q-1 Mr. Harsh provides the following details relating to his holding m 10% debentures (face value of ` 100 each) of Exe Ltd., held as current assets:

1.4.2018	opening balance - 12,500 debentures, cost ` 12,25,000
1.6.2018	purchased 9,000 debentures @ ` 98 each ex-interest
1.11.2018	purchased 12,000 debentures @ ` 115 each cum-in terest
31.1.2019	sold 13,500 debentures @ ` 110 each cum-interest
31.3.2019	Market value of debentures @ ` 115 each

Due dates of interest are 30th June and 31st December. Brokerage at 1% is to be paid for each transaction. Mr, Harsh closes his books on 31.3.2019. Show investment account as it would appear in his books assuming FIFO method is followed. **[Sugg.Nov.'19,10 Marks]**

Ans.

Investment Account of Mr. Harsh

for the year ending on 31-3-2019

(Scrip: 10% Debentures of Exe Limited)

(Interest Payable on 30th June and 31st December)

Date	Particulars	Nominal Value `	Interest `	Cost `	Date	Particulars	Nominal Value `	Interest `	Cost `
1.4.18	To Balance b/d	12,50,000	31,250	12,25,000	30.6.18	By Bank 21,500 x 100 x 10% x 1/2	-	1,07,500	-
1.6.18	To Bank (ex-Interest) (W.N.1)	9,00,000	37,500	8,90,820	31.12.19	By Bank 33,500 x 100 x10% x 1/2			1,67,500
1.11.18	To Bank (cum-Interest) (W.N.2)	12,00,000	40,000	13,53,800	31.1.19	By Bank (W.N.3)	13,50,000	11,250	14,58,900
31.1.19	To Profit & Loss A/c (W.N.3)			1,34,920	31.3.19	By Balance c/d (W.N.4)	20,00,000	50,000	21,45,640 -
31.3.19	To Profit & Loss A/c (Bal. fig.)		2,27,500						
		33,50,000	3,36,250	36,04,540			33,50,000	3,36,250	36,04,540

Working Notes:

1. **Purchase of debentures on 1.6.18**

   Interest element = 9,000 x 100 x 10% x 5/12 = ` 37,500

   Investment element = (9,000 x 98) + [1%(9,000 x 98)] = ` 8,90,820

2. **Purchase of debentures on 1.11.2018**

   Interest element = 12,000 x 100 x 10% x 4/12 = ` 40,000

   Investment element = 12,000 X 115 X 101% less 40,000 = ` 13,53,800

3. **Profit on sale of debentures as on 31.1.19**

	`
Sales price of debentures (13,500 x ` 110)	14,85,000
Less: Brokerage @ 1%	(14,850)
	14,70,150
Less: Interest (1,35,000/ 12)	(11,250)
	14,58,900
Less: Cost of Debentures [(12,25,000 + (890820 X 1,00,000/9,00,000)]	(13,23,980)
Profit on sale	1,34,920

4. **Valuation of closing balance as on 31.3.2019:**

   Market value of 20,000 Debentures at ` 115 = ` 23,00,000

   Cost of

8,000 Debentures	=	8,90,820/ 9,000 X 8,000 =	7,91,840
12,000 Debentures	=		13,53,800
Total			21,45,640

   Value at the end is ` 21,45,640, i.e., which is less than market value of ` 23,00,000.

Q-2 Following transaction of Nisha took Place during the financil year 2017-18 :

1st April, 2017	Puchased ` 9,000 8% bonds of ` 100 each at ` 80.50 cuminterset. Intersest. Interest is payable on 1st November and 1st May.
1st May, 2017	Received half year's interset on 8% bonds.
10 July, 2017	Puchased 12,000 equilty shares of Rs.10 each in Moon Limited for ` 44 each through a broker, who charged brokerage @2%
1st October 2017	Sold 2,250 8% bonds at ` 81 Ex-interest.
1st November, 2017	Received half year's interest on 8% bonds.
15th January, 2018	Moon Limited made a right issue of one equity share for every four Equity shares helf at ` 5 per share. Nisha exercised the option for 4% of her entitlements and sold the balance right int he makret at ` 2.25 per share.
15th March, 2018	Received 18% interm dvidend on equity shares of Moon Limited.

Prepare separate investment account for 8% bonds and equity shares of Moon Limited in the books of Nisha for the year ended on 31st March, 2018. Assume that the average cost method is followed.

[Sugg. Nov.'18, 10 Marks]

Ans. **In the books of Nisha**

8% Bonds for the year ended 31st March, 2018

Date	Particular	No.	Income `	Amount `	Date	Particular	No.	Income `	Amount `
2017 1 April,	To Bank A/c	9,000	30,000	6,94,500	1 May 2017	By Bank Interset	-	36,000	-
Oct. 1 2018	To P & L A/c (W.N.1)	-	-	8,625	1 Oct. 2017	By Bank A/c	2,250	7,500	1,82,250
March 31	To P & L A/c		40,500		1 Nov. 2018	By bank Interest		27,000	
					2018 Mar.31	By Balance c/d (W.N.2)	6,750	-	5,20,875
		9,000	70,500	7,03,125			9,000	70,500	7,03,125

Investment In Equity shares of Moon Ltd. for the year ended 31st March, 2018

Date	Particular	No.	Income `	Amount `	Date	Particular	No.	Income `	Amount `
2017	To Bank A/c	12,000	--	5,38,560	2018 March 15 *	By Bank-dividend	-	23,760	
2018 Jan. 15	To Bank A/c (W.N.3)	1,200	-	6,000	March 31	By Balance c/d (bal.fig)	13,200	-	5,44,560
March 31	To P & L A/c	-	23,760						
		13,200	23,760	5,44,560			13,200	23,760	5,44,560

* Considering that dividend was received on right share also.

Working Notes:

1. **Profit on sale of 8% Bonds**

Sales price	` 1,82,250
Less: Cost of bond sold = 6,94,500/9,000x 2,250	(` 1,73,625)
Profit on sale	` 8,625

2. **Closing balanceas on 31.3.2018 of 8% Bonds**

   6,94,500/ 9,000 x 6,750= ` 5,20,875

3. **Calculation of right shares subscribed by Moon Ltd.**

   Right Shares = 12,000/4 x 1= 3,000 shares

   Shares subscribed by Nisha = 3,000 x 40%= 1,200 shares

   Value of right shares subscribed = 1,200 shares @ ` 5 per share = ` 6,000

4. **Calculation of sale of rightentitlement by Moon Ltd.**

   No. of right shares sold = 3,000 -1,200 = 1,800 rights for ` 4,050

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

Q-3 Mr. Vijay entered into the following transactions of purchase and sale of equity shares of JP Power Ltd. The shares have paid up value of ` 10 per share.

Date	No.of Shares	Terms
01.01.2016	600	Buy @ Rs.20 per share
15.03.2016	900	Buy @ Rs.25 per share
20.05.2016	1000	Buy@ Rs.23 per share
25.07.2016	2500	Bonus Shares received
20.12.2016	1500	Sale @ Rs.22 per share
01.02.2017	1000	Sale @ Rs.24 per share

Addition information:

(1) On 15.09.2016 dividend @ ` 3 per share was received for the year ended 31.03.2016.

(2) On 12.11.2016 company made a right issue of equity shares in the ratio of one share for five shares held on payment of ` 20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of the premium of ` 3 per share.

(3) Shares are to be valued on weighted average cost basis.

You are required to prepare Investment Account for the year ended 31.03.2016 and 31.03.2017.

[Sugg. May '18, 10 Marks]

Ans. **Investment in Equity Shares of JP Power Ltd.**

Date	Particular	No.	Dividend	Amount	Date	Particular	No.	Dividend	Amount
01.01.16	To Bank A/c	600		12,000	31.3.16	By Balance c/d	1,500		34,500
15.3.16	To Bank A/c	900		22,500					
		1,500		34,500			1,500		34,500
1.4.16	To Balance b/d	1,500		34,500	15.9.16	By Bank dividend		4,500	3,000
20.5.16	To Bank A/c	1,000		23,000	20.12.16	By Bank	1,500		33,000
25.7.16	To Bonus shares	2,500		-	1.2.17	By Bank	1,000		24,000
12.11.16	To Bank A/c	600		12,000	31.3.17	By Balance c/d	3,100		36,812.50*
20.12.16	To P&L A/c (profit on sale)			15,187,50*					
1.2.17	To P&L A/c (profit on sale)			12,125					
31.3.17	To P&L A/c (divdend)		4,500						
		5,600	4,500	96,812,50			5,600	4,500	96,812.50

Working Notes :

1. **Calculation of Weighted average cost of equity shres**

   600 shares puchased at Rs.12,000

   900 shares purchased at Rs.22,500

   1,000 shares purchased at Rs.23,000

   2,500 shares at nil cost

   600 right shares purchased at Rs.12,000

   Total cost of 5,600 shares is Rs.66,500 [Rs. 69,500 less Rs.3,000 (pre-acquisition dividend received on 1,000 shares purchased on 20.5.17].

   Hence, weighted average cost per share will be considered as Rs.11.875 per share (66,500/5,600).

2. It has been considered that no dividend was received on bonus shares as the dividend pertains to the year ended 31st March, 2016.

3. **Calculation of right shares subscribed by Vijay**

   Right Shares (considering that right shares have been granted on Bonus shares also) = 5,000/5 x 1= 1,000 shares

   Shares subscribed = 1,000 x 60%= 600 shares

   Value of right shares subscribed = 600 shares @ Rs. 20 per share = Rs.12,000

   Calculation of sale of right renouncement

   No. of right shares sold = 1,000 x 40% = 400 shares

   Sale value of right = 400 shares x Rs.3 per share = Rs.1,200

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

4. **Profit on sale of equity shares**

   As on 20.12.16

Sales price (1,500 shares at Rs.22)	33,000.00
Less: Cost of shares sold (1,500 x Rs 11.875)	(17,812.50)
Profit on sale	15,187.50
As on 1.2.17	
Sales price (1,000 shares at Rs.24)	24,000
Less: Cost of shares sold (1,000 x Rs. 11.875)	11,875
Profit on sale	12,125

Balance of 3,100 shares as on 31.3.17 will be valued at ` 36,812.50 (at rate of Rs.11.875 per share).

Q-4 Akash Ltd. had 4,000 equity share of X Limited, at a book value of Rs. 15 per share (face value of Rs. 10 each) on 1st April 2018. On 1st September 2018, Akash Ltd. acquired 1,000 equity shares of X Limited at a premium of Rs. 4 per share. X Limited announced a bonus and right issue for existing share holders.

The terms of bonus and right issue were -

(1) Bonus was declared, at the rate of two equity shares for every five equity shares held on 30th September, 2018.

(2) Right shares are to be issued to the existing shareholders on 1st December, 2018. The company issued two right shares for every seven shares held at 25% premium. No dividend, was payable on these shares. The whole sum being payable by 31st December, 2018.

(3) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.

(4) Akash Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for Rs. 8 per share.

(5) Dividend for the year ended 31st March 2018, at the rate of 20% was declared by the company and received by Akash Ltd., on 20th January 2019.

(6) On 1st February 2019, Akash Ltd., sold half of its share holdings at a premium of Rs. 4 per share.

(7) The market price of share on 31.03.2019 was Rs. 13 per share.

You are required to prepare the Investment Account of Akash Ltd. for the year ended 31st March, 2019 and determine the value of shares held on that date assuming the investment as current investment.

[MTP Oct. '19, 10 Marks]

Ans. **Investment Account-Equity Shares in X Ltd.**

Date		No. of shares	Dividend Rs.	Amount Rs.	Date		No. of shares	Dividend Rs.	Amount Rs.
2018					2019				
April 1	To Balance b/d	4,000	-	60,000	Jan. 20	By Bank (dividend)		8,000	2,000
Sept 1	To Bank	1,000	-	14,000	Feb. 1	By Bank	4,000		56,000
Sept.30	To Bonus Issue	2,000		-	Mar. 31	By Balance c/d	4,000		42,250
Dec.1	To Bank (Right)	1,000	-	12,500					
2019									
Feb. 1	To Profit & Loss A/c			13,750					
Feb. 1	To Profit & Loss A/c (Dividend income)		8,000						
		8,000	8,000	1,00,250			8,000	8,000	1,00,250
April. 1	To Balance b/d	4,000		42,250					

Working Notes:

1. **Cost of shares sold . Amount paid for 8,000 shares**

	Rs.
(Rs. 60,000 + Rs. 14,000 + Rs. 12,500)	86,500
Less: Dividend on shares purchased on 1st Sept, 2018	(2,000)
Cost of 8,000 shares	84,500
Cost of 4,000 shares (Average cost basis*)	42,250
Sale proceeds (4,000 shares @ 14/-)	56,000
Profit on sale	13,750

* For ascertainment of cost for equity shares sold, average cost basis has been applied.

2. **Value of investment at the end of the year**

   Closing balance will be valued based on lower of cost (Rs. 42,250) or net realizable value (Rs.13 x 4,000). Thus investment will be valued at Rs. 42,250.

3. **Calculation of sale of right entitlement**

   1,000 shares x Rs. 8 per share = Rs. 8,000

   Amount received from sale of rights will be credited to P & L A/c as per AS 13

4. **Dividend received on investment held as on 1st April, 2018**

   = 4,000 shares x Rs. 10 x 20%

   = Rs. 8,000 will be transferred to Profit and Loss A/c

   Dividend received on shares purchased on 1st Sep. 2018

   = 1,000 shares x Rs. 10 x 20% = Rs. 2,000 will be adjusted to Investment A/c

Note: It is presumed that no dividend is received on bonus shares as bonus shares are declared on 30th Sept., 2018 and dividend pertains to the year ended 31.3.2018.

Q-5 In 2015, Royal Ltd. issued 12% fully paid debentures of Rs. 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year.

On 1st December, 2016, M/s. Kumar purchased 10,000 of these debentures at Rs.101 cum-interest price, also paying brokerage @ 1% of cum-interest amount of the purchase. On 1st March, 2017 the firm sold all of these debentures at Rs.106 cum-interest price, again paying brokerage @ 1 % of cum-interest amount. Prepare Investment Account in the books of M/s. Kumar for the period 1st December, 2016 to 1st March, 2017. **[MTP March '19, 6 Marks]**

Ans.

In the books of M/s Kumar

Investment Account for the period from 1st December 2016 to 1st March, 2017

(Scrip : 12% Debentures of Royal Ltd.)

Date	Particulars	Nominal	Interest	Cost	date	Particulars	Nominal	Interest	Cost
1.12.2016	To Bank A/c (W.N.1)	10,00,000	20,000	10,00,100	1.3.2017	By Bank A/c (W.N.2)	10,00,000	50,000	9,99,400
1.3.2017	To Profit & loss A/c	-	30,000		1.3.2017	By Profit & loss A/c			700
		10,00,000	50,000	10,00,100			10,00,000	50,000	10,00,100

Working Notes :

(i)	Costof 12% debentures purchased on 1.12.2016		Rs.
	Cost Value (10,000 xRs.101)	=	10,10,000
	Add: Brokerage (1% of Rs.10,10,000)	=	10,100
	Less; Cum Interest (10,000 x 100 x12% x 2/12)	=	(20,000)
	Total	=	10,00,100
(ii)	Sale proceeds of 12% debentures sold on 1st March, 2017		Rs.
	Sales Price (10,000 xRs.106)	=	10,60,000
	Less; Brokerage (1% of Rs.10,60,000)	=	(10,600)
	Less; Cum Interest (10,000 x 100 x12% x 5/12)	=	(50,000)
	Total	=	9,99,400

Q-6 Gopal holds 2,000, 15% Debentures of Rs. 100 each in Ritu Industries Ltd. as on April 1, 2015 at a cost of Rs. 2,10,000. Interest is payable on June, 30 and December, 31 each year. On May 1, 2015,1,000 debentures are purchased cum-interest at Rs. 1,07,000. On November 1,2015,1,200 debentures are sold ex-interest at Rs. 1,14,600. On November 30, 2015, 800 debentures are purchased ex-interest atRs. 76,800. On December31,2015,800 debentures are sold cum-interest for Rs. 1,10,000. You are required to prepare the Investment Account showing value of holdings on March31, 2016 at cost, using FIFO Method.

[MTP April '19, 10 Marks]

Ans.

Investment Accountof Gopal

For the year ended 31.3.2016

(Script: 15% Debentures in Ritu Industries Ltd.)

(Interest payable on 30th June and 31st December)

Date	Particulars	Nominal	Interest	Cost Rs.	Date	Particulars	Nominal	Interest	Cost Rs.
1.04.15	To Balance A/c	2,00,000	7,500	2,10,000	30.06.15	By Bank A/c	-	22,500	
1.05.15	To Bank A/c	1,00,000	5,000	1,02,000	1.11.15	By Bank A/c	1,20,000	6,000	1,14,600
30.11.15	To Bank A/c	80,000	5,000	76,800	1.11.15	By Profit & Loss A/c	-	-	11,400
31.12.15	To Profit & Loss A/c			20,000	31.12.15	By Bank A/c	80,000	6,000	1,04,000
31.03.16	To Profit & Loss A/c (Bal. fig.)		37,250		31.12.15	By Bank A/c	-	13,500	-
					31.12.15	By Bank A/c		6,750	
					31.3.16	By Bal. c/d	1,80,000		1,78,800
		3,80,000	**54,750**	**4,08,800**			**3,80,000**	**54,750**	**4,08,800**

Working Notes:

(i) Accrued Interest as on 1st April, 2015 = Rs. 2,00,000 x $\frac{15}{100}$ x $\frac{3}{12}$ = Rs.7,500

(ii) Accrued Interest as on 1.5.2015 = Rs. 1,00,000 x $\frac{15}{100}$ x $\frac{4}{12}$ = Rs.5,000

(iii) Cost of Investment for purchase on 1st May = Rs. 1,07,000-Rs. 5,000= Rs. 1,02,000

(iv) Interest received as on 30.6.2015 = Rs. 3,00,000 x $\frac{15}{100}$ x $\frac{6}{12}$ =Rs. 22,500

(v) Accrued Interest on debentures sold on 1.11.2015

= Rs. 1,20,OOOx $\frac{15}{100}$ x $\frac{4}{12}$ =Rs. 6,000

(vi) Accrued Interest = Rs. 80,000 x $\frac{15}{100}$ x $\frac{5}{12}$ = Rs.5,000

(vii) Accrued Interest on sold debentures 31.12.2015 = Rs. 80,000 x $\frac{15}{100}$ x $\frac{6}{12}$ =Rs. 6,000

(viii) Sale Price of Investment on 31st Dec. = Rs. 1,10,000-Rs. 6,000 = Rs. 1,04,000

(ix) Loss on Sale of Debenture on 1.1.2015

Sales Price of debenture	1,14,6000
Less : Cost Price of debenture	
$\frac{2,10,000}{2,00,000} \times 1,20,000$	1,26,000
Less on sale	11,400

(x) Accrued interest as on 31.12.2015 = Rs. 1,80,000 x $\frac{15}{100}$ x $\frac{6}{12}$ = Rs.13,500

(xi) Accrued Interest =Rs. 1,80,000 x $\frac{15}{100}$ x $\frac{3}{12}$ =Rs.6,750

(xii) Cost of investment as on 31st March = Rs. 1,02,000+ Rs. 76,800 = Rs. 1,78,800

(xiii) Profit on debentures sold on 31st December

= Rs. 1,04,000-(Rs. 2,10,000x800/2,000) =Rs. 20,000.

Q-7 Meera carried out the following transactions in the shares of Kumar Ltd.:

(1) On 1st April, 2017 She purchased 40,000 equity shares of Rs.1 each fully paid up for Rs.60,000

(2) On 15th May, 2017 Meera sold 8,000 shares for Rs.15,200

(3) At a meeting on 15th June, 2017, the company decided:

(i) To make a bonus issue of one fully paid up share for every four shares held on 1st June 2017, and

(ii) To give its members the right to apply for one share for every five shares held on 1st June 2017 at a price of ` 1.50 per share of which 75 paise is payable on or before 15th July 2017 and the balance, 75 paise per share, on or before 15th September, 2017.

The shares issued under (i) and (ii) were not to rank for dividend for the year ending 31st December 2017.

(a) Meera received her bonus shares and took up 4000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30th September 2017.

(b) On 15th March 2018, she received a dividend from Kumar Ltd. of 15 per cent in respect of the year ended 31st Dec 2017.

(c) On 30th March she received Rs.28,000 from the sale of 20,000 shares.

You are required to prepare the Investment Account in Meera's books for the year ended 31st March 2018 recording the above mentioned transactions by transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis. Expenses and tax to be ignored.

[MTP March '18, 10 Marks]

Ans. Investment Account (Shares in Kumar Limited) in the books of Meera

Date 2017	Particulars	No.of Shares	Income	Amount	Date	Particular	No.of Shares	Income	Amount
April 1	To Bank (Purchases)	40,000	-	60,000	May	By Bank (Sale)	8,000	-	15,200
May	To Profit & Loss A/c (W.N.1)	-	-	3,200					
June	To Bonus Issue	8,000	-	Nil	2018				
July	To Bank @ 75 p. paid on 4,000 shares)	4,000	-	3,000	Mar. 15	By Bank (Dividend @ 15% on Rs.32,000)		4,800	-
Sept.	To Bank @ 75 p. paid on 4,000 shares)	-	-	3,000	Mar. 30	By Bank (Sale)	20,000	-	28,000
2018 Mar.	To Profit & Loss A/c (W.N.2)			3,455	Mar. 31	By Balance c/d $\left(\frac{24,000}{44,000} x 54,000\right)$	24,000	-	29,455
	To Profit & Loss A/c	-	4,800						
		52,000	4,800	72,655			52,000	4,800	72,655

Working Notes:

(1) Profit on Sae on 15-5-2017

Cos of 8,000 shares @ Rs.1.50	Rs.12,000	
Less: Sales price	Rs.15,200	
Profit		Rs.3,200

(2) Cost of 20,000 shares sold :

Cost of 44,000 shares (48,000 + 6,000)	Rs.54,000
$\therefore$ Cost of 20,000 $\left(\frac{Rs.54,000}{44,000 shares} x 20,000 shares\right)$	Rs.24,545
Profit on sale of 20,000 shares (Rs.28,000 - Rs.24,545)	Rs.3,455

Q-8 Smart Investments made the following investments in the year 201 7-18:

12% State Government Bonds having face value Rs. 100

Date	**Particulars**
01.04.2017	Opening Balance (1200 bonds) book value of Rs. 1,26,000
02.05.2017	Purchased 2,000 bonds @ Rs. 100 cum interest
30.09.2017	Sold 1,500 bonds at Rs. 105 ex interest

Interest on the bonds is received on 30th June and 31st Dec. each year.

Equity Shares of X Ltd.

15.04.2017	Purchased 5,000 equity shares @ Rs. 200 on cum right basis Brokerage of 1% was paid in addition (Face Value of shares Rs. 10) 03.06.2017 The company announced a bonus issue of 2 shares for every 5 shares held.
16.08.2017	The company made a rights issue of 1 share for every 7 shares held at Rs. 250 per share. The entire money was payable by 31.08.2017.
22.8.2017	Rights to the extent of 20% was sold @ Rs. 60. The remaining rights were subscribed.
02.09.2017	Dividend @ 15% for the year ended 31.03.2017 was received on 16.09.2017
15.12.2017	Sold 3,000 shares @ Rs. 300. Brokerage of 1% was incurred extra.
15.01.2018	Received interim dividend @ 10% for the year 2017-18
31.03.2018	The shares were quoted in the stock exchange @ Rs. 220

Prepare Investment Accounts in the books of Smart Investments. Assume that the average cost method is followed. **[MTP Aug. '18, 12 Marks]**

Ans. **In the books of Smart Investments**

12% Govt. Bonds for the year ended 31st March, 2018

Date	Particulars	Nos.	Income	Amount	Date	Particulars	Nos.	Income	Amount
1.4.17	To Opening balance b/d	1,200	3,600	1,26,000	30.6.17	By Bank A/c (Interest) (3,200 x 100 x 12% x 6/12)	-	19,200	-
2.5.17	To Bank A/c	2,000	8,000	1,92,000	30.9.17	By Bank A/c	1,500	4,500	1,57,500
31.3.18	To P & L A/c (Interest)		27,400		31.12.17	By Bank A/c (Interest) (1,700 x 100 x 12% x 6/12)	-	10,200	-
	To P & L A/c (Profit on Sale)			8,437.50	31.3.18	By Bal. c/d	1,700	5,100	1,68,937.50
		3,200	39,000	3,26,437.50			3,200	39,000	3,26,437.50

Investments in Equity shares of X Ltd. for year ended 31.3.2018

Date	Particulars	Nos.	Income	Amount	Date	Particulars	Nos.	Income	Amount
15.4.17	To Bank A/c	5,000		10,10,000					
3.6.17	To Bonus Issue	2,000	-	-	16.9.17	By Bank (Dividend)	-	-	7,500
31.8.17	To Bank A/c	800		2,00,000	15.12.17	By Bank (Sale)	3,000	-	8,91,000
31.3.18	To P & L A/c		4,800	4,28,500	15.1.18	By Bank (interim dividend)		4,800	
					31.3.18	By Bal. c/d	4,800		7,40,000
		7,800	4,800	16,38,500			7,800	4,800	16,38,500

Working Notes:

1. **Profit on sale of bonds on 30.9.17**

   = Sales proceeds – Average cost

Sales proceeds = Rs. 1,57,500

Average cost = Rs. [(1,26,000+1,92,000) x 1,500/3,200] = 1,49,062.50

Profit = 1,57,500– Rs. 1,49,062.50=Rs. 8,437.50

2. Valuation of bonds on 31st March, 2018

Cost = Rs. 3,18,000/3,200 x1,700 = 1,68,937.50

3. Cost of equity shares purchased on 15/4/2017

= Cost + Brokerage

= (5,000 x Rs. 200) + 1% of (5,000 x Rs. 200) = Rs. 10,10,000

4. Sale proceeds of equity shares on 1 5/12/2017

= Sale price – Brokerage

= (3,000 x Rs. 300) – 1% of (3,000 x Rs. 300) = Rs. 8,91,000.

5. Profit on sale of shares on 15/12/2017

= Sales proceeds – Average cost

Sales proceeds = Rs. 8,91,000

Average cost = Rs. [(10,10,000+2,00,000 -7,500) x 3,000/7,800]

= Rs. [12,02,500 x 3,000/7,800] = 4,62,500

Profit = Rs. 8,91,000 – Rs. 4,62,500=Rs. 4,28,500.

6. Valuation of equity shares on 31st March, 2018

Cost =Rs. [12,02,500 x 4,800/7,800] = Rs. 7,40,000

Market Value = 4,800 shares ×Rs. 220 =Rs. 10,56,000

Closing stock of equity shares has been valued at Rs.7,40,000 i.e. cost being lower than the market value.

Note: If rights are not subscribed for but are sold in the market, the sale proceeds are taken to the profit and loss statement as per para 13 of AS 13 “Accounting for Investments”.

Q-9 A Pvt. Ltd. follows the calendar year for accounting purposes. The company purchased 5,000 (nos.) 13.5% Convertible Debentures of Face Value of ` 100 each of P Ltd. on 1st May 2018 @ ` 105 on cum interest basis. The interest on these instruments is payable on 31st March & 30th September respectively. On August 1st 2018 the company again purchased 2,500 of such debentures @ ` 102.50 each on cum interest basis. On 1st October, 2018 the company sold 2,000 Debentures @ ` 103 each. On 31st December, 2018 the company received 10,000 equity shares of ` 10 each in P Ltd. on conversion of 20% of its holdings. Interest for 3 months on converted debentures was also received on 31.12.2018. The market value of the debentures and equity shares as at the close of the year were ` 106 and ` 9 respectively. Prepare the Debenture Investment Account & Equity Shares Investment Account in the books of A Pvt. Ltd. for the year 2018 on Average Cost Basis. **[RTP Nov.’19]**

Ans. **Books of A Pvt. Ltd.**

Investment in 13.5% Convertible Debentures in P Ltd. Account

(Interest payable 31st March & 30th September)

Date	Particulars	Nominal `	Interest `	Amount `	Date	Particulars	Nominal `	Interest `	Amount `
2018					2018				
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank (6 months Int)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000	Oct.1	By Bank	2,00,000		2,06,000
Oct.1	To P&L A/c			2,167					
Dec. 31	To P&L A/c		52,313		Dec. 31	By Equity share	1,10,000		1,12,108
					Dec. 31	By Bank (See note1)		3,713	
					Dec. 31	By Balance c/d	4,40,000	14,850	4,48,434
		7,50,000	69,188	7,66,542			7,50,000	69,188	7,66,542

Note 1 : ` 3,713 received on 31.12.2018 represents interest on the debentures converted till date of conversion.

Note 2: Cost being lower than Market Value the debentures are carried forward at Cost.

Investment in Equity shares in P Ltd. Account

Date	Particulars	Nominal `	Amount `	Date	Particulars	Nominal `	Amount `
2018				**2018**			
Dec 31	To 13.5% Deb.	1,00,000	1,12,108	Dec.31	By P&L A/c		22,108
				Dec.31	By Bal. c/d	1,00,000	90,000
		1,00,000	1,12,108			1,00,000	1,12,108

Note 1: Cost being higher than Market Value the shares are carried forward at Market Value.

Working Notes:

1. Interest paid on ` 5,00,000 purchased on May 1st, 2018 for the month of April 2018, as part of purchase price: 5,00,000 x 13.5% x 1/12 = ` 5,625
2. Interest received on 30th Sept. 2018

   On ` 5,00,000 = 5,00,000 x 13.5% x ½ = 33,750

   On ` 2,50,000 = 2,50,000 x 13.5% x ½ = 16,875

   Total ` 50,625
3. Interest paid on ` 2,50,000 purchased on Aug. 1st 2018 for April 2018 to July 2018 as part of purchase price:

   2,50,000 x 13.5% x 4/12 = ` 11,250
4. Loss on Sale of Debentures

   Cost of acquisition

   (` 5,19,375 + ` 2,45,000) x ` 2,00,000/` 7,50,000 = 2,03,833

   Less: Sale Price (2,000 x 103) = 2,06,000

   Profit on sale = ` 2,167

5. Interest on 1,100 Debentures (being those converted) for 3 months i.e. Oct-Dec. 2018

   1,10,000 x 13.5% x 3/12 = ` 3,713

6. Cost of Debentures converted to Equity Shares

   (` 5,19,375 + ` 2,45,000) x 1,10,000/7,50,000= ` 1,12,108

7. Cost of Balance Debentures

   (` 5,19,375 + ` 2,45,000) x ` 4,40,000/` 7,50,000 = ` 4,48,434

8. Interest on Closing Debentures for period Oct.- Dec. 2018 carried forward (accrued interest)

   ` 4,40,000 x 13.5% x 3/12 = ` 14,850

Q-10 A Ltd. purchased on 1st April, 2018 8% convertible debenture in C Ltd. of face value of Rs.2,00,000 @ Rs.108. On 1st July, 2018 A Ltd. purchased another Rs.1,00,000 debenture @ Rs.112 cum interest.

On 1st October, 2018 Rs.80,000 debenture was sold @ Rs.108. On 1st December, 2018, C Ltd. give option for conversion of 8% convertible debentures into equity share of Rs.10 each. A Ltd. receive 5,000 equity share in C Ltd. in conversion of 25% debenture held on that date. The market price of debenture and equity share in C Ltd. at the end of year 2018 is Rs.110 and Rs.15 respectively.

Interest on debenture is payable each year on 31st March, and 30th September. The accounting year of A Ltd. is calendar year. Prepare investment account in the books of A Ltd. on average cost basis.

[RTP May '19]

Ans. **Investment Account for the year ending on 31st December, 2018**

Scrip : 8% Convertible Debentures in C Ltd.

[Interest Payable on 31st March and 30th September]

Date	Particulars	Nominal value (Rs.)	Interest (Rs.)	Cost (Rs.)	Date	Particulars	Nominal Value (Rs.)	Interest (Rs.)	Cost (Rs.)
1.4.18	To Bank A/c	2,00,000	-	2,16,000	30.09.18	By Bank A/c	-	12,000	-
1.7.18	To Bank A/c	1,00,000	2,000	1,10,000		[Rs. 3,00,000 x 8% x			
	(W.N.1)					(6/12]			
31.12.18	To P & L A/c	-	14,033	-	1.10.18	By Bank A/c	80,000		84,000
	[Interest]				1.10.18	By P&L A/c (loss) (W.N.1)			2,933
					1.12.18	By Bank A/c (Accrued interest)		733	
						(Rs. 55,000 x .08x 2/12)			
					1.12.18	By Equity shares in C Ltd.	55,000		59,767
						(W.N. 3 and 4)			
					31.12.18	By Balance c/d (W.N.5)	1,65,000	3,300	1,79,300
		3,00,000	16,033	3,26,000			3,00,000	16,033	3,26,000

SCRIP: Equity Shares in C LTD.

Date	Particulars	Cost (Rs.)	Date	Particulars	Cost (Rs.)
1.12.18	To 8 % debentures	59,767	31.12.18	By balance c/d	59,767

Working Notes:

(i) Cost of Debenture purchased on 1st July = Rs.1,12,000-Rs.2,000 (Interest) = Rs.1,10,000

(ii) Cost of Debentures sold on 1st Oct.

= (Rs.2,16,000 + Rs.1,10,000) x 80,000/3,00,000 = Rs.86,933

(iii) Loss on sale of Debentures = Rs.86,933-Rs.84,000 = Rs.2,933

Nominal value of debentures converted into equity shares = Rs.55,000
[(Rs.3,00,000-80,000) x.25]

Interest received before the conversion of debentures

Interest on 25% of total debentures = 55,000 x 8% x 2/12 = 733

(iv) Cost of Debentures converted = (Rs.2,16,000 + Rs.1,10,000) x 55,000/3,00,000 = Rs.59,767

(v) Cost of closing balance of Debentures =
(Rs.2,16,000 + Rs.1,10,000) x 1,65,000/3,00,000 = Rs.1,79,300

(vii) Closing balance of Debentures has been valued at cost being lower than the market value i.e. Rs.1,81,500 (Rs.1,65,000 @ Rs.110)

(viii) 5,000 equity Shares in C Ltd. will be valued at cost of Rs.59,767 being lower than the market value Rs.75,000 (Rs.15 x5,000)

Note : It is assumed that interest on debentures, which are converted into cash, has been received at the time of conversion.

Q-11 Akash Ltd. had 4,000 equity share of X Limited, at a book value of Rs.15 per share (face value of Rs.10 each) on 1st April 2017. On 1st September 2017, Akash Ltd. acquired 1,000 equity shares of X Limited at a premium of Rs.4 per share. X Limited announced a bonus and right issue for existing shareholders.

The terms of bonus and right issue were -

(1) Bonus was declared, at the rate of two equity shares for every five equity shares held on 30th September, 2017.

(2) Right shares are to be issued to the existing shareholders on 1st December, 2017. The company issued two right shares for every seven shares held at 25% premium. No dividend was payable on these shares. The whole sum being payable by 31st December, 2017.

(3) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.

(4) Akash Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for Rs.8 per share.

(5) Dividend for the year ended 31st March 2017, at the rate of 20% was declared by the company and received by Akash Ltd., on 20th January 2018.

(6) On 1st February 2018, Akash Ltd., sold half of its shareholdings at a premium of Rs.4 per share.

(7) The market price of share on 31.03.2018 was Rs.13 per share.

You are required to prepare the Investment Account of Akash Ltd. for the year ended 31st March, 2018 and determine the value of share held on that date assuming the investment as current investment. Consider average cost basis for ascertainment of cost for equity share sold. **[RTP Nov '18]**

Ans. **Investment Account-Equity Shares in X Ltd.**

Date		No. of Share	Dividend Rs.	Amount Rs.	Date		No.of Share	Dividend Rs.	Amount Rs.
2017					2018				
April 1	To Balance b/d	4,000	-	60,000	Jan. 20	By Bank (divdend)		8,000	2,000
Sept 1	To Bank	1,000	-	14,000	Feb. 1	By Bank	4,000		56,000
Sept.30	To Bonus Issue	2,000		-	Mar. 31	By Balance c/d	4,000		42,250
Dec.1	To Bank (Right)	1,000	-	12,500					
2018									
Feb.1	To Profit & Loss A/c			13,750					
Mar.31	To Profit & Loss A/c (Dividend income)		8,000						
		8,000	8,000	1,00,250			8,000	8,000	1,00,250
April.1	To Balance b/d	4,000		42,250					

Working Notes:

1. **Cost Shares sold-Amount paid of Rs.8,000 shares**

	Rs.
(Rs.60,000 + Rs.14,000+Rs.12,500)	86,500
Less; Dividend on shares purchased on 1st Sept, 2017	(2,000)
Cost of 8,000 shares	84,500
Cost of 4,000 shares (Average cost basis*)	42,250
Sale proceeds (4,000 shares @ 14/-)	56,000
Profit on sale	13,750

* For ascertainment of cost for equity shares sold, average cost basis has been applied.

2. **Value of investment at the end of the year**

   Closing balance will be valued based on lower of cost (Rs.42,250) or net realizable value (Rs.13 x 4,000). Thus investment will be valued at Rs.42,250.

3. **Calculation of sale of right entitlement**

   1,000 shares x Rs.8 per share = Rs.8,000

   Amount received from sale of rights will be credited to P & L A/c as per AS 13 'Accounting for Investments'.

4. **Dividend received on investment held as on 1st April, 2017**

   = 4,000 sharesx Rs10x20%

   = Rs.8,000 will be transferred to Profit and Loss A/c

   Dividend received on shares purchased on 1st Sep. 2017

   = 1,000 shares x Rs.10 x 20% = Rs.2,000 will be adjusted to Investment A/c

   Note: It is presumed that no dividend is received on bonus shares as bonus shares are declared on 30th Sept., 2017 and dividend pertains to the year ended 31.3.2017.

Q-12 Alpha Ltd. purchased 5,000,13.5% Debentures of Face Value of Rs.100 each of Pergot Ltd. on 1st May 2017 @ Rs.105 on cum interest basis. The interest on these instruments is payable on 31st & 30th of March & September respectively. On August 1st 2017 the company again purchased 2,500 of such debentures @ Rs.102.50 each on cum interest basis. On October 1st, 2017 the company sold 2,000 Debentures @ Rs.103 each on ex-interest basis. The market value of the debentures as at the close of the year was Rs.106. You are required to **prepare the Investment in Debentures Account** in the books of Alpha Ltd. for the year ended 31st Dec. 2017 on Average Cost Basis. **[RTP May '18]**

Ans. **Books of Alpha Ltd.**

Investment in 13.5% Debentrures in Pergot Ltd. Account

(Interest Payable on 31st March & 30th September)

Date 2017	**Particular**	**Nominal Rs.**	**Interest Rs.**	**Amount Rs.**	**Date 2017**	**Particular**	**Nominal Rs.**	**Interest Rs.**	**Amount Rs.**
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank (6 months Int)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000	Oct.1	By Bank	2,00,000		2,06,000
Oct.1	To P&L A/c			2,167					
Dec.31	To P&L A/c		52,313		Dec.31	By Balance c/d	5,50,000	18,563	5,60,542
		7,50,000	69,188	7,66,542			7,50,000	69,188	7,66,542

Note: Cost being lower than Market Value the debentures are carried forward at Cost.

Working Notes:

1. Interest paid on Rs. 5,00,000 purchased on May 1st, 2017 for the month of April 2017, as part of purchase price: 5,00,000 x 13.5% x 1/12 = Rs.5,625
2. Interest received on 30th Sept. 2017

On Rs. 5,00,000 = 5,00,000 x 13.5% x 1/2 =	33,750
On Rs. 2,50,000 = 2,50,000 x 13.5% x 1/2 =	16,875
Total	Rs. 50,625

3. Interest paid on Rs.2,50,000 purchased on Aug. 1st 2017 for April 2017 to July 2017 as part of purchase price:

   2,50,000 x13.5% x 4712 = Rs.11,250
4. Loss on Sale of Debentures Cost of acquisition

(Rs.5,19,375 + Rs.2,45,000) x Rs.2,00,000/Rs.7,50,000	= 2,03,833
Less: Sale Price (2,000 x 103)	= 2,06,000
Profit on sale	= Rs. 2,167

5. Cost of Balance Debentures

   (Rs.5,19,375 + Rs.2,45,000) x Rs.5,50,000/Rs.7,50,000 = Rs.5,60,542
6. Interest on Closing Debentures for period Oct.-Dec. 2017 carried forward (accrued interest) Rs.5,50,000 x 13.5% x 3/12 = Rs.18,563.

---0---0---

CHAPTER-10

Insurance Claims

Q-1 A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

	₹
Turnover in last financial year	36,00,000
Standing charges in last financial year	7,20,000

Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.

Increase in turnover expected 25%.

To achieve additional sales, trader has to incur additional expenditure of ₹ 50,000. **[RTP-May'2020]**

Ans.(a) Calculation of Gross Profit

$$\text{Gross Profit} = \frac{\text{Net Profit} + \text{Standing Charges}}{\text{Turnover}} \times 100$$

$$= (3,60,000 + 7,20,000)/36,00,000 = 30\%$$

(b) Calculation of policy amount to cover loss of profit

	₹
Turnover in the last financial year	36,00,000
Add: 25% increase in turnover	9,00,000
	45,00,000
Gross profit on increased turnover	13,50,000
Add: Additional standing charges	50,000
Policy Amount	14,00,000

Therefore, the trader should go in for a loss of profit policy of ₹ 14,00,000.

Q-2 A fire occurred in the premises of M/s Kirti & Co. on 15th December, 2018. The working remained disturbed upto 15th March, 2019 as a result of which sales adversely affected. The firm had taken out an insurance policy with an average clause against consequential losses for ₹ 2,50,000.

Following details are available form the quarterly sales tax return filed / GST return filed :

Sales	**2015-16**	**2016-17(₹)**	**2017-18 (₹)**	**2018-19(₹)**
From 1st April to 30th June	3,80,000	3,15,000	4,11,900	3,24,000
From 1st July to 30th September	1,86,000	3,92,000	3,86,000	4,42,000
I From 1st October to 31st December	3,86,000	4,00,000	4,62,000	3,50,000
From 1st January to 31st March	2,88,000,	3,19,000	3,80,000	2,96,000
Total	**12,40,000**	**14,26,000**	**16,39,900**	**14,12,000**

A period of 3 months (i.e. from 16-12-2018 to 15-3-2019) has been agreed upon as indemnity period.

Sales from 16-12-2017 to 31-12-2017	68,000
Sales from 16-12-2018 to 31-12-2018	Nil
Sales from 16-03-2018 to 31-03-2018	1,20,000
Sales from 16-03-2019 to 31-03-2019	40,000

Net profit was ? 2,50,000 and standing charges (all insured) amounted to ` 77,980 for the year ending 31st March, 2018.

You are required to calculate the loss of profit claim amount. **[Sugg.Nov.'19,10 Marks]**

Ans. **Gross profit ratio**

	`
Net profit for the year 2017-18	2,50,000
Add: Insured standing charges	77,980
$\text{Ratio of Gross profit} = \frac{3,27,980}{16,39,900} = 20\%$	3,27,980

Calculation of Short sales

Indemnity period: 16.12.2018 to 15.3.19

Standard sales to be calculated on basis of corresponding period of year 2017-18

	`
Sales for period 16.12.2017 to 31.12.17 68,000	
Sales for period 1.1.2018 to 15.3.2018 (Note 1)	2,60,000
Sales for period 16.12.2017 to 15.3.2018	3,28,000
Add: upward trend in sales (15%) (Note 2)	49,200
Standard Sales (adjusted)	3,77,200
Actual sales of disorganized period	
Calculation of sales from 16.12.18 to 15.3.19	
Sales for period 16.12.18 to 31.12.18	Nil
Sales for 1.1.19 to 15.3.19 (` 2,96,000 – ` 40,000)	2,56,000
Actual Sales	2,56,000
Short Sales (` 3,77,200 - ` 2,56,000) 1,21,200	

Loss of gross profit

Short sales x gross profit ratio = 1,21,200 x 20% 24,240

Application of average clause

$$\text{Net claim} \quad = \text{Gross claim} \times \frac{\text{policy value}}{\text{gross profit on annual turnover}}$$

$$= 24,240 \times \frac{2,50,000}{3,26,240\,(\text{W.N.3})}$$

Amount of loss of profit claim = ` 18,575

Working Notes:

1. Sales for period 1.1.18 to 15.3.18

	`
Sales for 1 Jan. to 31 March (2017-18) (given)	3,80,000
Less: Sales for 16.3.18 to 31.3.18 (given)	(1,20,000)
Sales for period 1.1.18 to 15.3.18	2,60,000

2. Calculation of upward trend in sales

Total sales in year 2015-16	=	`	12,40,000
Increase in sales in year 2016-17 as compared to 2015-16	=	`	1,86,000

% increase = $\frac{1,86,000\,(14,26,000 - 12,40,000)}{12,40,000} = 15\%$

Increase in sales in year 2017-18 as compared to year 2016-17

% increase = $\frac{2,13,900\,(16,39,900 - 14,26,000)}{14,26,000} = 15\%$

Thus annual percentage increase trend is of 15%

3. Gross profit on annual turnover

	`
Sales from 16.12.17 to 30.12.17 (adjusted) (68,000 x 1.15)	78,200
1.1.18 to 31.3.18 (adjusted) (3,80,000 x1.15)	4,37,000
1.4.18 to 30.6.18	3,24,000
1.7.18 to 30.9.18	4,42,000
1.10.18 to 15.12.18 (3,50,000 – Nil)	3,50,000
Sales for 12 months just before date of fire*	16,31,200
Gross profit on adjusted annual sales @ 20%	3,26,240

NOTE*: Alternatively, the annual adjusted turnover may be computed as ` 17,98,000 (` 15,64,000 X 1.15) considering the annual % increase trend for the entire period of last 12 months preceding to the date of fire. In that case, the gross profit on adjusted annual sales @ 20% will be computed as ` 3,59,720 and net claim will be computed accordingly.

Q-3 A fire occurred in the premises of M/s Bright on 25th May, 2017. As a result of fire, sales were adversely affected up to 30th September, 2017. The firm had taken Loss of profit policy (with an average clause) for ` 3,50,000 having indemnity period of 5 months. There is an upward trend of 10% in sales.

The firm incurred an additional expenditure of ` 30,000 to maintain the sales.

There was a saving of ` 5,000 in the insured standing charges.

Actual turnover from 25th May, 2017 to 30th September, 2017	` 1,75,000
Turnover from 25th May, 2016 to 30th September, 2016	` 6,00,000
Net profit for last financial year	` 2,00,000
Insured standing charges for the last financial year	` 1,75,000
Total standing charges for the last financial year	` 3,00,000
Turnover for the last financial year	` 15,00,000
Turnover for one year from 25th May, 2016 to 24th May, 2017	` 14,00,000

You are required to calculate the loss of profit claim amount, assuming that entire sales during the interrupted period was due to additional expenses. **[Sugg. May '19, 10 Marks]**

Ans. **Computation of the amount of claim for the loss of profit**

		`
1.	**Reduction in turnover**	
	Turnover from 25th May, 2016 to 30th September, 2016	6,00,000
	Add: 10% expected increase	60,000
		6,60,000
	Less: Actual Turnover from 25th May, 2017 to 30th September, 2017	(1,75,000)
	Short Sales	4,85,000
2.	**Calculation of loss of Profit**	
	Gross Profit on reduction in turnover @ 25% on ` 4,85,000	1,21,250
	(see working note 1)	
	Add: Additional Expenses	
	Lower of	
	(i) Actual = ` 30,000	
	(ii) Additional Exp. x $\frac{\text{G.P. on Adjusted Annual Turnover}}{\text{G.P. as above + Uninsured Standing Charges}}$	
	30,000x [3,85,000/(3,85,000+1,25,000)]	= ` 22,647
	(iii) G.P. on sales generated by additional expenses	
	175000 x 25%	= ` 43,750
	It is given that entire sales during the interrupted period was due to additional expenses.	
	Therefore, lower of above is (i, ii & iii)	` 22,647
		1,43,897
	Less: Saving in Insured Standing Charges	(5,000)
	Amount of claim before application of Average Clause	1,38,897

3. **Application of Average Clause:**

$$\frac{\text{Amount of Policy}}{\text{G.P. on Annual Turnover}} \times \text{Amount of Claim}$$

(3,50,000/3,85,000) x 1,38,897= ` 1,26,270

Amount of claim under the policy = ` 1,26,270

Working Notes:

		`
1.	**Rate of Gross Profit for last Financial Year:**	
	Net Profi t for last financial year	2,00,000
	Add: Insured Standing Charges	1,75,000
	Gross Profit	3,75,000
	Turnover for the last financial year	15,00,000

Rate of Gross Profit = $\frac{3,75,000}{15,00,000} \times 100$ = 25%

2. Annual Turnover (adjusted):

Turnover from 25 May, 2016 to 24 May, 2017	14,00,000
Add: 10% expected increase	1,40,000
	15,40,000
Gross Profi t on ` 15,40,000 @ 25%	3,85,000
Standing charges not Insured (3,00,000 - 1,75,000)	1,25,000
Gross profit + Uninsured standing charges	5,10,000

Q-4 A fire engulfed the premises of a business of M/S Kite Ltd. in the morning, of 1st October, 2017. The entire stock was destroyed except, stock salvaged of ` 50,000. Insurance Policy was for ` 5,00,000 with average clause.

The following information was obtained from the records saved for the period from 1st April to 30th September, 2017:

	`
Sales	27,75,000
Purchases	18,75,000
Carriage inward	35,000
Carriage outward	20,000
Wages	40,000
Salaries	50,000
Stock in hand on 31st March, 2017	3,50,000

Additional Information:

(1) Sales upto 30th September, 2017, includes ` 75,000 for which goods had not been dispatched.

(2) On 1st June, 2017, goods worth ` 1,98,000 sold to Hari on approval basis which was included in sales but no approval has been received in respect of 2/3rd of the goods sold to him till 30th September, 2017.

(3) Purchases upto 30th September, 2017 did not include ` 1,00,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown.

(4) Past records show the gross profit rate of 25% on sales.

You are required to prepare the statement of claim for loss of stock for submission to the Insurance Company.

[Sugg. Nov.'18, 10 Marks]

Ans. Computation of claim for loss of stock

	`
Stock on the date of fire (i.e. on 1.10.2017)	3,75,000
Less : Stock salvage	50,000
Stock destroyed by fire (Loss of stock)	3,25,000

Insurance Claim = ` 3,25,000

(Average clause is not applicable as insurance policyt amount (` 5,00,000) is more than that value of closing stock ie. ` 3,75,000)

Memorandum Trading A/c
(1.4.17 to 30.9.17)

Particular	`	Particular	`
To Opening stock	3,50,000	By Sales	25,68,000
To Purchases	19,75,000	By Goods with customers*	99,000
(` 18,75,000 + ` 1,00,000)		(for approval) (W.N.1)	
To Carriage inward	35,000	By Closing stock (bal.fig)	3,75,000
To Wages	40,000		
To Gross profit			
(` 25,68,000 x25%)	6,42,000		
	30,42,000		30,42,000

* For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the entity and, hence, there was no loss of such stock.

Working Notes:

1. **Calculation of goods with customers**

   Since no approval for sale has been received for the goods of ` 1,32,000 (i.e. 2/3 of ` 1,98,000) hence, these should be valued at cost i.e. ` 1,32,000 - 25% of ` 1,32,000 = ` 99,000.

2. **Calculation of actual sales**

   Total sales - Goods not dispatched - Sale of goods on approval (2/3rd) =

   Sales (` 27,75,000 - 75,000 - ` 1,32,000) = ` 25,68,000

Q-5 On 30th March, 2018 fire occurred in the premises of M/s Alok & Co. The concern had taken an insurance policy of ` 1,20,000 which was subject to the average clause. From the books of accounts the following particulars are available relating to the period 1st January to 30th March, 2018:

(i)	Stock as per Blance Sheet at 31st December, 2017	Rs.1,91,200
(ii)	Purchases (including purchase of machinery costing f 60,000)	Rs.3,40,000
(iii)	Wages (including wages ` 6,000 for installation of machinery)	Rs.1,00,000
(iv)	Sales (including goods sold on approval basis amounting to Rs.99,000)	Rs.5,50,000

No approval has been received in respect of 2/3rd of the goods sold on approval.

(v) The average rate of gross profit is 20% of sales.

(vi) The value of the salveged goods was Rs.24,600

You are required to compute the amount of the claim to be lodged to the Insurance Company.

[Sugg. May '18, 10 Marks]

Ans. **Computation of claim for loss of stock**

	Rs.
Stock on the date of fire i.e. on 30th March, 2018 (W.N.1)	1,25,000
Less : Value of salvaged stock	24,600
Loss of stock	1,00,600

Amount of Claim = $\frac{\text{Insured value}}{\text{Total cost of stock on the date of fire}}$ X Loss of stock 96,422

$$= \left(\frac{1,20,000}{1,25,200} X1,00,600 = 96,422(\text{approx}) \right)$$

A claim of Rs.96,422 (aprrox) should be lodged by M/s Alok & Co. to the insurance company.

Working Notes :

1. Calculation of closing stock as on 30th March, 2018

Memorandum Trading Account for (From 1st January, 2018 to 30th March, 2018)

Particulars	**Amount Rs.**	**Particular**	**Amount Rs.**
To Opening stock	1,91,200	By Sales (W.N.3)	4,84,000
To Purchases (3,40,000-60,000)	2,80,000	By Goods with customers (for approval) (W.N.2)	52,800
To Wages (1,00,000-6,000)	94,000	By Closing stock (Bal. Fig.)	1,25,200
To Gross profit (20% on sales)	96,800		
	6,62,000		6,62,000

* For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the concern and, hence, there was no loss of such stock.

2. **Calculation of goods with customers**

Since no approval for sale has been received for the goods of Rs. 66,000 (i.e. 2/3 of Rs. 99,000) hence, these should be valued at cost i.e. Rs.66,000 - 20% of Rs.66,000 = Rs.52,800.

3 **Calculation of actual sales**

Total sales - Sale of goods on approval (2/3rd) = Rs.5,50,000 - 66,000 = Rs.4,84,000.

Q-6 The premises of Anmol Ltd. caught fire on 22nd January 2017, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2016 the stock at cost was Rs. 6,63,600 as against Rs. 4,81,100 on 31st March, 2015.

Purchases from 1st April, 2016 to the date of fire were Rs. 17,41,350 as against Rs. 22,62,500 for the full year 2015-16 and the corresponding sales figures were Rs. 24,58,500 and Rs. 26,00,000 respectively. You are given the following further information:

(i) In July, 2016, goods costing Rs. 50,000 were given away for advertising purposes, no entries being made in the books.

(ii) During 2016-17, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged Rs. 1,000 per week from 1st April, 2016 until the clerk was dismissed on 18th August, 2016.

(iii) The rate of gross profit is constant.

You are required to calculate the value of stock in hand on the date of fire with the help of above information. **[MTP Oct. '19, 6 Marks]**

Ans. **Ascertainment of rate of gross profit for the year 2015-16**

Trading A/c for the year ended 31-3-2016

	`		`
To Opening stock	4,81,100	By Sales	26,00,000
To Purchases	22,62,500	By Closing stock	6,63,600
To Gross profit	5,20,000		
	32,63,600		**32,63,600**

Rate of gross profit = $\frac{GP}{Sales} \times 100 = \frac{5,20,000}{26,00,000} \times 100 = 20\%$

Memorandum Trading A/c for the period from 1-4-2016 to 22-01-2017

		`	`		`	`
To	Opening stock		6,63,600	By Sales	24,58,500	
To	Purchases	17,41,350		Add: Unrecorded cash sales (W.N.)	20,000	24,78,500
	Less: Goods used for advertisement	(50,000)	16,91,350	By Closing stock		3,72,150
To	Gross profit (20% of ` 24,78,500)		4,95,700			
			28,50,650			**28,50,650**

Estimated stock in hand on the date of fire was ` 3,72,150.

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 1.4.2016 to 18.8.2016= 140 days

Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks x ` 1,000 = ` 20,000.

Q-7 A trader's godown caught fire on 29th August, 2017, and a large part of the stock of goods was destroyed. However, goods costing Rs. 54,000 could be salvaged incurring fire fighting expenses amounting to Rs. 2,350.

The trader provides you the following additional information:

	Rs.
Cost of stock on 1st April, 2016	3,55,250
Cost of stock on 31st March,2017	3,95,050
Purchases during the year ended 31st March, 2017	28,39,800
Purchases from 1st April, 2017 to the date of fire	16,55,350
Cost of goods distributed as samples for advertising from 1st April, 2017 to the date of fire	20,500
Cost of goods withdrawn by trader for personal use from 1st April, 2017 to the date of fire	1,000
Sales for the year ended 31st March, 2017	40,00,000
Sales from 1st April, 2017 to the date of fire	22,68,000

The insurance company also admitted firefighting expenses. The trader had taken the fire insurance policy for Rs. 4,50,000 with an average clause. **[MTP March '19, 8 Marks]**

Ans. **Memorandum Trading Accountfor the period 1st April, 2017 to 29th August 2017**

		Rs.		Rs.
To opening Stock		3,95,050	By sales	22,68,000
To Purchases	16,55,350		By Closing stock (Bal. fig.)	4,41,300
Less : Advertisement	(20,500)			
Drawing	(1,000)	16,33,850		
To Gross Profit [30% of Sales] [W.N]		6,80,400		
		27,09,300		27,09,300

Statement of Insurance Claim

	Rs.
Value of stock destroyed by fire	4,41,300
Less; Salvaged Stock	(54,000)
Add: Fire Fighting Expenses	2,350
Insurance Claim	3,89,650

Note : Since policy amount is more than claim amount, average clause will not apply. Therefore, claim amount of Rs. 3,89,650 will be admitted by the Insurance Company.

Working Note:

Trading Account for the year ended 31st March, 2017

	Rs.		Rs.
To Opening Stock	3,55,250	By Sales	40,00,000
To Purchases	28,39,800	By Closing stock	3,95,050
To Gross Profit	12,00,000		
	43,95,050		43,95,050

Rate of Gross Profit in 2016-17

$\frac{[illegible]}{[illegible]}$ x 100 = 12,00,000/40,00,000 x 100 = 30%.

Q-8 The premises of Vani Ltd. caught fire on 22nd January 2015, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2014 the stock at cost was Rs. 13,27,200 as against Rs. 9,62,200 on 31st March, 2013.

Purchases from 1st April, 2014 to the date of fire were Rs.34,82,700 as against Rs.45,25,000 for the full year 2013-14 and the corresponding sales figures were Rs.49,17,000 and Rs. 52,00,000 respectively. You are given the following further information:

(i) In July, 2014, goods costing Rs.1,00,000 were given away for advertising purposes, no entries being made in the books.

(ii) During 2014-15, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged Rs. 2,000 per week from 1st April, 2014 until the clerk was dismissed on 18th August, 2014.

(iii) The rate of gross profit is constant.

From the above information calculate the stock in hand on the date of fire. **[MTP April '18, 10 Marks]**

Ans. **Ascertainment of rate of gross profit for the year 2013-14**

Trading A/c for the year ended 31-3-2014

	Rs.		Rs.
To Opening stock	9,62,000	By Sales	52,00,000
To Purchased	45,25,000	By Closing stock	13,27,200
To Gross profit	10,40,00		
	65,27,200		65,27,200

Rate of gross profit = $\frac{GP}{Sales}$ x100

$= \frac{10,40,000}{52,00,000}$ x100 = 20

Memorandum Trading A/c for the period from 1-4-2014 to 22-01-2015

	Rs.	Rs		Rs.	Rs.
To Opening stock		13,27,000	By sales	49,17,000	
To Purchases	34,82,700		Add. Unrecorded	<u>40,000</u>	49,57,000
Less: Goods used			cash sales		
for advertisement	<u>(1,00,000)</u>	33,82,700	By Closing stock		7,44,100
To Gross profit (20%		9,91,400			
of Rs.49,57,000)					
		57,01,100			57,01,100

Estimated stock in hand on the date of fire= Rs.7,44,100.

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 1.4.2014 to 18.8.2014 = 140 days

Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks x Rs.2,000 = Rs.40,000.

Q-9 A trader's godown caught fire on 29th August, 2017, and a large part of the stock of goods was destroyed. However, goods costing Rs.54,000 could be salvaged incurring fire fighting expenses amounting to Rs.2,350.

The trader provides you the following additional information:

	Rs.
Cost of stock on 1st April, 2016	3,55,250
Cost of stock on 31st March, 2017	3,95,050
Purchases during the year ended 31st March, 2017	28,39,800
Purchases from 1st April, 2017 to the date of fire	16,55,350
Cost of goods distributed as samples for advertising from 1st April, 2017 to the date of fire	20,500
Cost of goods withdrawn by trader for personal use from 1st April, 2017 to the date of fire	1,000
Sales for the year ended 31st March, 2017	40,00,000
Sales from 1st April, 2017 to the date of fire	22,68,000

The insurance company also admitted firefighting expenses. The trader had taken the fire insurance policy for Rs. 4,50,000 with an average clause.

You are required to calculate the amount of the claim that will be admitted by the insurance Company.

[MTP March '18, 10 Marks]

Ans. **Memorandum Trading Account for the period 1st April, 2017 to 29th August 2017**

		Rs.		Rs.
To Opening Stock		3,95,050	By Sales	22,68,000
To Purchases	16,55,350		By Closing stock (Bal.fig.)	4,41,300
Less: Advertisement	(20,500)			
Drawings	(1,000)	16,33,850		
To Gross Profit [30% of Sales] [W N]		6,80,400		
		27,09,300		27,09,300

Statement of Insurance Claim

	Rs.
Value of stock destroyed by fire	4,41,300
Less; Salvaged Stock	(54,000)
Add: Fire Fighting Expenses	2,350
Insurance Claim	3,89,650

Note: Since policy amount is more than claim amount, average clause will not apply. Therefore, claim amount of Rs.3,89,650 will be admitted by the Insurance Company.

Working Note:

Trading Account for the year ended 31st March, 2017

	Rs.		Rs.
To Opening Stock	3,55,250	By Sales	40,00,000
To Purchases	28,39,800	By Closing stock	3,95,050
To Gross Profit	12,00,000		
	43,95,050		43,95,050

Rate of Gross Profit in 2016-2017

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100 = 12{,}00{,}000/40{,}00{,}000 \times 100 = 30\%$$

Q-10 On 2.6.2018 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the records saved:

	Rs.
Stock at cost on 1.4.2017	1,35,000
Stock at 90% of cost on 31.3.2018	1,62,000
Purchases for the year ended 31.3.2018	6,45,000
Sales for the year ended 31.3.2018	9,00,000
Purchases from 1.4.2018 to 2.6.2018	2,25,000
Sales from 1.4.2018 to 2.6.2018	4,80,000

Sales upto 2.6.2018 includes Rs. 75,000 being the goods not dispatched to the customers . The sales invoice price is Rs. 75,000.

Purchases upto 2.6.2018 includes a machinery acquired for Rs. 15,000.

Purchases upto 2.6.2018 does not include goods worth Rs. 30,000 received from suppliers, as invoice not received upto the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for Rs. 1,20,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock. **[MTP Aug. '18, 8 Marks]**

Ans. **In the books of Mr. Black**

Trading Account for the year ended 31.3.2018

	Rs.		**Rs.**
To Opening Stock	1,35,000	By Sales	9,00,000
To Purchases	6,45,000	By Closing Stock at cost	1,80,000
To Gross Profit	3,00,000	$\left(1,62,000 \times \frac{100}{90}\right)$	
	10,80,000		**10,80,000**

Memorandum Trading A/c

for the period from 1.4.2018 to 02.06.2018

			Rs.			***Rs.***
To	Opening Stock at cost		1,80,000	By Sales	4,80,000	
To	Purchases	2,25,000		Less: Goods not		
	Add: Goods received but			dispatched	75,000	4,05,000
	invoice not received	30,000		By Closing stock (Balancing figure)		1,50,000
		2,55,000				
	Less: Machinery	15,000	2,40,000			
To	Gross Profit (Refer W.N.)		1,35,000			
			5,55,000			**5,55,000**

Calculation of Insurance Claim

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

$1,20,000 \times \left(\frac{1,50,000}{1,50,000}\right)$ = Rs. 1,20,000

Working Note:

G.P. ratio = $\frac{3,00,000}{9,00,000} \times 100 = 33\frac{1}{3}\%$

Amount of Gross Profit = Rs. 4,05,000 x $33\frac{1}{3}\%$ = Rs. 1,35,000.

Q-11 On 15th December, 2017, a fire occurred in the premises of M/s. OM Exports. Most of the stocks were destroyed. Cost of stock salvaged being Rs. 1,40,000. Stock on 15th December, 2017 was valued at Rs. 6,40,000. Compute the amount of the claim, if the stock were insured for Rs. 4,00,000.

[MTP Oct. '18, 4 Marks]

Ans.

	Rs.
Estimated value of Stock as at date of fire	6,40,000
Less: Value of Salvaged Stock	1,40,000
Estimated Value of Stock lost by fire	5,00,000

As the value of stock is more than insured value, amount of claim would be subject to average clause.

$$\text{Amount of Claim} = \frac{\text{Amount of Policy}}{\text{Value of Stock}} \times \text{Actual Loss of Stock}$$

$$\text{unt of Claim} = \frac{4,00,000}{6,40,000} \times 5,00,000 = 3,12,500$$

Q-12 On 2.6.2019 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the records saved:

	`
Stock at cost on 1.4.2018	1,35,000
Stock at 90% of cost on 31.3.2019	1,62,000
Purchases for the year ended 31.3.2019	6,45,000
Sales for the year ended 31.3.2019	9,00,000
Purchases from 1.4.2019 to 2.6.2019	2,25,000
Sales from 1.4.2019 to 2.6.2019	4,80,000

Sales up to 2.6.2019 includes ` 75,000 being the goods not dispatched to the customers. The sales (invoice) price is ` 75,000.

Purchases up to 2.6.2019 includes a machinery acquired for ` 15,000.

Purchases up to 2.6.2019 does not include goods worth ` 30,000 received from suppliers, as invoice not received up to the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for ` 1,20,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock. **[RTP Nov '19]**

Ans.

In the books of Mr. Black

Trading Account for the year ended 31.3.2019

	`		`
To Opening Stock	1,35,000	By Sales	9,00,000
To Purchases	6,45,000	By Closing Stock at cost	1,80,000
To Gross Profit	3,00,000	$\left(1,62,000 \times \frac{100}{90}\right)$	
	10,80,000		**10,80,000**

Memorandum Trading A/c
for the period from 1.4.2019 to 02.06.2019

		`			`
To Opening Stock (at cost)		1,80,000	By Sales	4,80,000	
To Purchases	2,25,000		Less: Goods not		
Add: Goods received but			dispatched	75,000	4,05,000
invoice not received	30,000		By Closing stock (Balancing		
	2,55,000		figure)		1,50,000
Less: Machinery	15,000	2,40,000			
To Gross Profit (Refer W.N.)		1,35,000			
		5,55,000			**5,55,000**

Calculation of Insurance Claim

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

$= 1,20,000 \times \left(\frac{1,50,000}{1,50,000}\right) =$ ` 1,20,000

Working Note :

G.P. ratio = $\frac{3,00,000}{9,00,000} \times 100 = 33\frac{1}{3}\%$

Amount of Gross Profit = ` 4,05,000 x $33\frac{1}{3}\%$ = ` 1,35,000

Q-13 A fire engulfed the premises of a business of M/s Preet on the morning of 1st July 2018. The building, equipment and stock were destroyed and the salvage recorded the following:

Building-Rs.4,000; Equipment-Rs.2,500; Stock-Rs.20,000. The following other information was obtained from the records saved for the period from 1st January to 30th June 2018:

	Rs.
Sales	11,50,000
Sales Returns	40,000
Purchases	9,50,000
Purchases Returns	12,500
Cartage inward	17,500
Wages	1,50,000
Stock in hand on 31st December, 2017	3,75,000
Building (value on 31st December, 2017)	75,000
Equipment (value on 31st December, 2017)	

Depreciation provision till 31st December,2017 on:

Building	1,25,000
Equipment	22,500

No depreciation has been provided since December 31st 2017. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method.

Normally business makes a profit of 25% on net sales. You are required to prepare the statementof claim for submission to the Insurance Company. **[RTP May '19]**

Ans. **Memorandum Trading Accountforthe Period from 1.1.2018 to 30.6.2018**

		Rs.			Rs.
To Opening Stock (1.1.2018)		1,50,000	By Sales	11,50,000	
To Purchases	9,50,000		Less : Sales		
Less: Returns	(12,500)	93,37,500	Returns	(40,000)	
To cartage Inward		17,500	By Closing Stock		2,80,000
To wages		7,500	(Bal.fig)		
To Gross Profit		2,77,500			
(25% of Rs.11,10,000)					
		13,90,000			**13,90,000**

Stock Destroyed Account

To Trading Account	2,80,000	By Stock Salvaged Account	20,000
		By Balance c/d (For Claim)	2,60,000
	2,80,000		2,80,000

Statement of Claim

Items	**Cost**	**Depreciation**	**Salvage**	**Claim**
	Rs.	**Rs.**	**Rs.**	**Rs.**
A	**B**	**C**	**D**	**E=B-C-D**
Stock	2,80,000		20,000	2,60,000
Buildings	3,75,000	1,25,000+9,375	4,000	2,36,625
Equipment	75,000	22,500+5,625	2,500	44,375
				5,41,000

Q-14 On 27th July, 2017, a fire occurred in the godown of M/s. Vijay Exports and most of the stocks were destroyed. However goods costing Rs.5,000 could be salvaged. Their fire fighting expenses were amounting to Rs.1,300.

From the salvaged accounting records, the following information is available relating to the period from 1.4.2017 to 27.7.2017:

1.	Stock as per balance sheet as on 31.3.2017	Rs.63,000
2.	Purchases (including purchase of machinery costing Rs.10,000	Rs.2,92,000
3.	Wages (including wages paid for installation of machinery Rs.3,000)	Rs.53,000
4.	Sales (including goods sold on approval basis amounting to Rs.40,000. No approval has been received in respect of 1/4th of the goods sold on approval)	Rs.4,12,000
5.	Cost of goods distributed as free sample	Rs.2,000

Other Information:

(i) While valuing the stock on 31.3.2017, Rs.1,000 had been written off in respect of certain slow moving items costing Rs.4,000. A portion of these goods were sold in June, 2017 at a loss of Rs.700 on original cost of Rs.3,000. The remainder of these stocks is now estimated to be worth its original cost.

(ii) Past record shows the normal gross profit rate is 20%.

(iii) The insurance company also admitted fire fighting expenses. The Company had taken the fire insurance policy of Rs.55,000 with the average clause.

You are required to compute the amount of claim of stock destroyed by fire, to be lodged to the Insurance Company. Also prepare Memorandum Trading Account for the period 1.4.2017 to 27.7.2017 for normal and abnormal items. **[RTP Nov '18]**

Ans. **Memorandum Trading Account for the period 1st April, 2017 to 27th July, 2017**

	Normal	Abnormal	Total		Normal	Abnormal	Total
To Opening stock (W.N.5)	60,000	4,000	64,000	By Sales (W.N.3)	4,00,000	2,300	4,02,300
To Purchases (W.N.1)	2,80,000	-	2,80,000	By Loss	-	700	700
To Wages (W.N.4)	50,000	-	50,000	By Goods on Approval (W.N.2)	8,000	-	8,000
To Gross profit @ 20%	80,000	-	80,000	By Closing stock (Bal. fig.)	62,000	1,000	63,000
	4,70,00	4,000	4,74,000		4,70,000	4,000	4,74,000

Statement of Claim for Loss of Stock

	Rs.
Book value of stock as on 27th July, 2017	62,000
Add: Abnormal Stock	1,000
Less; Stock salvaged	5,000
Loss of stock	58,000
Add: Fire fighting expenses	1,300
Total Loss	59,300

Amount of claim to be lodged with insurance company

$$= \text{Loss x } \frac{\text{Policy value}}{\text{Value of stock on the date of fire}}$$

= Rs.59m300 x (55,000 / 63,000) = Rs.51,770 (rounded off)

Working Notes:

1. Calculation of Adjusted Purchases

	Rs.
Purchases	2,92,000
Less; Purchase of Machinery	10,000
Less: Free samples	2,000
Adjusted purchases	2,80,000

2. Calculation of Goods with Customers

Approval for sale has not been received = Rs.40,000 X 1/4 = Rs.10,000.

Hence, these should be valued at cost i.e. (Rs.10,000 - 20% of Rs.10,000) = Rs.8,000

3. Calculation of Actual Sales

Total Sales	Rs.4,12,300
Less; Approval for sale not received (1/4 X Rs.40,000)	Rs.10,000
Actual Sales	Rs.4,02,300

4. Calculation of Wages

Total Wages	Rs.53,000
Less; Wages for installation of machinery	Rs.3,000
	Rs. 50,000

5. Value of Opening Stock

Original cost of stock as on 31st March,2018

= Rs.63,000 + 1,000 (Amount written off)

= Rs.64,000.

Q-15 The premises of Anmol Ltd. caught fire on 22nd January 2017, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2016 the stock at cost was Rs. 6,63,600 as against Rs. 4,81,100 on 31st March, 2015.

Purchases from 1st April, 2016 to the date of fire were Rs.17,41,350 as against Rs.22,62,500 for the full year 2015-16 and the corresponding sales figures were Rs.24,58,500 and Rs.26,00,000 respectively. You are given the following further information:

(i) In July, 2016, goods costing Rs.50,000 were given away for advertising purposes, no entries being made in the books.

(ii) During 2016-17, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged Rs.1,000 per week from 1st April, 2016 until the clerk was dismissed on 18th August, 2016.

(iii) The rate of gross profit is constant.

You are required to calculate the value of stock in hand on the date of fire with the help of above information. **[RTP May '18]**

Ans. **Ascertainment of rate of gross profit for the year 2015-16**

Trading A/c for the year ended 31-3-2016

	Rs.		Rs.
To Opening stock	4,81,100	By Sales	26,00,000
To Purchases	22,62,500	By Closing stock	6,63,000
To Gross profit	5,20,000		
	32,63,600		32,63,600

Rate of gross profit $= \frac{GP}{Sales} \times 100$

$$= \frac{5,20,000}{26,00,000} \times 100 = 20\%$$

Memorandum Trading A/c for the period from 1-4-2016 to 22-01-2017

	Rs.	Rs.		Rs.	Rs.
To Opening stock		6,63,600	By Sales	24,58,500	
To Purchases	17,41,350		Add: Unrecorded cash sales (W.N.)	20,000	24,78,500
Less: Goods used for advertisement	(50,000)	16,91,350	By Closing stock		3,72,150
To Gross profit (20% of Rs. 24,78,500)		4,95,700			
	28,50,650				28,50,650

Estimated stock in hand on the date of fire was Rs.3,72,150.

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 1.4.2016 to 18.8.2016= 140 days

Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks x Rs. 1,000 = Rs. 20,000.

---0---0---

CHAPTER-11

Hire Purchase

Q-1 On January 1, 20X1 Kasturi Ltd. acquired a Pick-up Van on hire purchase from Shorya Ltd. The terms of the contract were as follows:

(a) The cash price of the van was ` 25,000.

(b) ` 10,000 were to be paid on signing of the contract.

(c) The balance was to be paid in annual instalments of ` 5,000 plus interest.

(d) Interest chargeable on the outstanding balance was 6% p.a.

(e) Depreciation at 10% p.a. is to be written-off using the straight-line method.

You are required to show the Van account & Shorya Ltd. account in the books of Kasturi Ltd. from January 1, 20X1 to December 31, 20X3. **[RTP-May' 20]**

Ans.

Ledger Accounts in the books of Kasturi

Van Account

Date	**Particulars**	**`**	**Date**	**Particulars**	**`**
1.1.20X1	To Shorya Ltd.	25,000	31.12.20X1	By Depreciation A/c	2,500
			31.12.20X1	By Balance c/d	22,500
		25,000			**25,000**
1.1.20X2	To Balance b/d	22,500	31.12.20X2	By Depreciation A/c	2,500
			31.12.20X2	By Balance c/d	20,000
		22,500			**22,500**
1.1.20X3	To Balance b/d	20,000	31.12.20X3	By Depreciation A/c	2,500
			31.12.20X3	By Balance c/d	17,500
		20,000			**20,000**

Shorya Ltd. Account

Date	**Particulars**	**`**	**Date**	**Particulars**	**`**
1.1.20X1	To Bank A/c	10,000	1.1.20X1	By Van A/c	25,000
31.12.20X1	To Bank A/c	5,900	31.12.20X1	By Interest A/c	900
31.12.20X1	To Balance c/d	10,000			
		25,900			**25,900**
31.12.20X2	To Bank A/c	5,600	1.1.20X2	By Balance b/d	10,000
31.12.20X2	To Balance c/d	5,000	31.12.20X2	By Interest A/c	600
		10,600			**10,600**
31.12.20X3	To Bank A/c	5,300	1.1.20X3	By Balance b/d	5,000
31.12.20X3	By Interest A/c	300			
		5,300			**5,300**

Q-2 M/s Amar bought six Scooters from M/s Bhanu on 1st April, 2015 on the following terms:

Down payment	` 3,00,000
1st instalment payable at the end of 1st year	` 1,59,000
2nd instalment payable at the end of 2nd year	` 1,47,000
3rd instalment payable at the end of 3rd year	` 1,65,000

Interest is charged at the rate of 10% per annum.

M/s Amar provides depreciation @ 20% per annum on the diminishing balance method.

On 31st March, 2018 M/s Amar failed to pay the 3rd instalment upon which M/s Bhanu repossessed two Scooters. M/s Bhanu agreed to leave the other four Scooters with M/s Amar and adjusted the value of the repossessed Scooters against the amount due. The Scooters taken over were valued on the basis of 30% depreciation per annum on written down value. The balance amount remaining in the vendor's account after the above adjustment was paid by M/s Amar after 5 months with interest@ 15% per annum.

M/s Bhanu incurred repairing expenses of ` 15,000 on repossessed scooters and sold scooters for ` 1,05,000 on 25th April, 2018.

You are required to :

(1) Calculate the cash price of the Scooters and the interest paid with each instalment.

(2) Prepare Scooters Account and M/s Bhanu Account in the books of M/s Amar.

(3) Prepare Goods Repossessed Account in the books of M/s Bhanu. **[Sugg. May '19, 10 Marks]**

Ans.

(i) Calculation of Interest and Cash Price

No. of installments	**Outstanding balance at the end after the ayment of installment**	**Amount due at the time of installment**	**Outstanding balance at the end before the payment of installment**	**Interest**	**Outstanding balance at the beginning**
[1]	[2]	[3]	[4] = 2 +3	[5] = 4 x 10/110	[6] = 4-5
3rd	-	1,65,000	1,65,000	15,000	1,50,000
2nd	1,50,000	1,47,000	2,97,000	27,000	2,70,000
1st	2,70,000	1,59,000	4,29,000	39,000	3,90,000
Down payment					3,00,000
Total of interest and Total cash price				81,000	6,90,000

(ii) **In the books of M/s Amar**

Scooters Account

Date	**Particulars**	**`**	**Date**	**Particulars**	**`**
1.4.2015	To Bhanu A/c	6,90,000	31.3.2016	By Depreciation A/c	1,38,000
				By Balance c/d	5,52,000
		6,90,000			6,90,000
1.4.2016	To Balance b/d	5,52,000	31.3.2017	By Depreciation A/c	1,10,400
				Balance c/d	4,41,600
		5,52,000			5,52,000
1.4.2017	To Balance b/d	4,41,600	31.3.2018	By Depreciation A/c	88,320
				By M/s Bhanu a/c (Value of 2 Scooters taken over)	78,890
				By Profit and Loss A/c (Bal. fig.)	38,870
				By Balance c/d 4/6 (4,41,600 - 88,320)	2,35,520
		4,41,600			**4,41,600**

(iii) **M/s Bhanu Account**

Date	Particulars	`	Date	Particulars	`
1.4.15	To Bank (down payment)	3,00,000	1.4.15	By Scooters A/c	6,90,000
31.3.16	To Bank (1st Installment)	1,59,000	31.3.16	By Interest A/c	39,000
	To Balance c/d	2,70,000			
		7,29,000			**7,29,000**
31.3.17	To Bank (2nd Installment)	1,47,000	1.4.2016	By Balance b/d	2,70,000
	To Balance c/d	1,50,000	31.3.2017	By Interest A/c	27,000
		2,97,000			**2,97,000**
31.3.18	To Scooter A/c	78,890	1.4.2017	By Balance b/d	1,50,000
	To Balance c/d (b.f.)	86,110	31.3.2018	By Interest A/c	15,000
		1,65,000			**1,65,000**
31.8.18	To Bank (Amount settled after 5 months)	91,492	1.4.2018	By Balance b/d	86,110
			31.8.2018	By Interest A/c (@ 15 % on bal.) (86,110 x 5/12 x 15/100)	5,382
		91,492			**91,492**

(iv) **In the Books of M/s Bhanu**

Goods Repossessed A/c

Date	Particulars	`	Date	Particulars	`
31.3.18	To Amar A/c	78,890	31.3.2018	By Balance c/d	78,890
		78,890			**78,890**
1.04.2018	To Balance b/d	78,890	25.4.2018	By Bank (Sale)	1,05,000
25.4.2018	To Repair A/c	15,000			
25.4.2018	To Profit & Loss A/c	11,110			
		1,05,000			**1,05,000**

Working Note:

	`
Value of Scooters taken over	
2 Scooters (6,90,000/6 x 2)	2,30,000
Depreciation @ 30% WDV for 3 years	
(69,000 + 48,300 +33,810)	(1,51,110)
	78,890

Q-3 Krishan bought 2 cars from 'Fair Value Motors Pvt. Ltd. on 1.4.2015 on the following terms (for both cars):

	Rs.
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.	

Krishan provides depreciation @ 25% on the diminishing balances.

On 31.3.2018 Krishan failed to pay the 3rd installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Krishan 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 Krishan after 3 months with interest@ 20% p.a.

You are required to: Calculate the cash price of the cars and the interest paid with each installment, and prepare Car Account in the books of Krishan for the year 2017-18 assuming books are closed on March 31, every year. Figures may be rounded off to the nearest rupee. **[MTP March '19, 6 Marks,RTP N '19]**

Ans.

Calculation of Interest and Cash Price

No. of installment (1)	Outstanding balance at the end after the payment of installment (2)	Amount due at the time of installment (3)	Outstanding balance at the end before the payment of installment (4)= 2 + 3	Interest (5)=4x10/110	Outstanding balance at the begining (6)=4-5
3rs	-	5,50,000	5,50,000	50,000	5,00,000
2nd	5,00,000	4,90,000	90,000	90,000	9,00,000
1st	9,00,000	4,20,000	13,20,000	1,20,000	12,00,000

Total cash price = Rs. 12,00,000+6,00,000 (down payment) = Rs.18,00,000

Cars Account in the boosk of Krishna for the year ended 31st March, 18

1.4.2017	To Balance b/d	10,12,500 [18,00,000 less depreciation (4,50,000+ 3,37,500)	31.3.2018	By Depreciation A/c	2,53,125
				By Fair value Morots A/c (value of 1 Car taken over after depreciation for 3 years @ 40% p.a.) [9,00,000- (3,60,000 + 2,16,000 + 1,29,600)]	1,94,400
				By Loss transferred to Profit and Loss A/c on surrender (Bal.fig.)	1,85,288
				By balance c/d (10,12,500-2,53,125)	3,79,687
		10,12,500			**10,12,500**

Q-4 The following particulars relate to hire purchase transactions:

(a) X purchased three cars from Y on hire purchase basis, the cash price of each car being Rs. 2,00,000.

(b) The hire purchaser charged depreciation @20% on diminishing balance method.

(c) Two cars were seized by on hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.

(d) The hire vendor spent Rs.10,000 on repairs of the cars and then sold them for a total amount of Rs.1,70,000.

You are required to compute:

(i) Agreed value of two cars taken back by the hire vendor

(ii) Book value of car left with the hire purchaser.

(iii) Profit or loss to hire purchaser on two cars taken back by their hire vendor,

(iv) Profit or loss of cars repossessed, when sold by the hire vendor. **[RTP May '19, RTP Nov '18]**

Ans.

			Rs.
(i)	Price of two cars = Rs.2,00,000 x 2		4,00,000
	Less; Depreciation for the first year @ 30%		1,20,000
			2,80,000
	Less: Depreciation for the second year = Rs.2, 80,000 x $\frac{30}{100}$		84,000
	Agreed value of two cars taken back by the hire vendor		1,96,000
(ii)	Cash purchase price of one car		2,00,000
	Less; Depreciation on Rs.2,00,000 @20% for the first year		40,000
	Written drown value at the end of first year		1,60,000
	Less; Depreciation on Rs.1,60,000 @ 20% for the second year		32,000
	Book value of car left with the hire purchaser		1,28,000
(iii)	Book value of one car as calculated in working note (ii) above		1,28,000
	Book value of Two cars = Rs.1,28,000 x 2		2,56,000
	Value at which the two cars were taken back, calculated in working note (i) above		1,96,000
	Hence, loss on cars taken back = Rs.2,56,000 - Rs.1,96,000		60,000
(iv)	Sale proceeds of cars repossessed		1,70,000
	Less: Value at which cars were taken back	Rs.1,96,000	
	Repair	Rs.10,000	2,06,000
	Loss on resale		36,000

---0---0---

CHAPTER-12

Departmental Accounts

Q-1 ABC Ltd. has several departments. Goods supplied to each department are debited to a Memorandum Departmental Stock Account at cost plus a fixed percentage (mark-up) to give the normal selling price. The amount of mark-up is credited to a Memorandum Departmental Markup account. If the selling price of goods is reduced below its normal selling prices, the reduction (mark-down) will require adjustment both in the stock account and the mark-up account. The mark-up for department X for the last three years has been 20%. Figures relevant to department X for the year ended 31^{st} March, 2019 were as follows;

Stock as on 1^{st} April, 2018, at cost	` 1,50,000
Purchases at cost	` 4,30,000
Sales	` 6,50,000

It is further ascertained that:

(1) Shortage of stock found in the year ending 31.3.2019, costing ` 4,000 were written off.

(2) Opening stock on 1.4.2018 including goods costing ` 12,000 had been sold during the year and had been marked-down in the selling price by `1,600. The remaining stock had been sold during the year.

(3) Goods purchased during the year were marked down by ` 3,600 from a cost of ? 30,000. Marked-down stock costing ? 10,000 remained unsold on 31.3.2019.

(4) The departmental closing stock is to be valued at cost subject to adjustment for mark-up and mark-down.

You are required to prepare for the year ended 31^{st} March, 2019 :

(i) Departmental Trading Account for department X for the year ended 31^{st} March, 2019 in the books of head office.

(ii) Memorandum Stock Account for the year ended 31^{st} March, 2019.

(iii) Memorandum Mark-Up account for the year ended 31^{st} March, 2019.

[Sugg.Nov.'19,10 Marks]

Ans.(i)

Department Trading Account for Department X
For the year ending on 31.03.2019
In the books of Head Office

Particulars	`	**Particulars**	`
To Opening Stock	1,50,000	By Sales	6,50,000
To Purchases	4,30,000	By Shortage	4,000
To Gross Profit c/d	1,05,000	By Closing Stock	31,000
	6,85,000		**6,85,000**

(ii) Memorandum Stock Account (for Department X) (at selling price)

Particulars	`	**Particulars**	`
To Balance b/d (` 1,50,000+20% of ` 1,50,000)	1,80,000	By Profit & Loss A/c (Cost of Shortage)	4,000
To Purchases (` 4,30,000 + 20% of ` 4,30,000)	5,16,000	By Memorandum Departmental Mark up A/c (Load on Shortage) (` 4,000 x 20%)	800
		By Memorandum Departmental Mark-up A/c (Mark-down on Current Purchases)	3,600
		By Debtors A/c (Sales)	6,50,000
		By Memorandum Departmental Mark-up A/c (Mark Down on Opening Stock)	1,600
		By Balance c/d	36,000
	6,96,000		**6,96,000**

(iii) **Memorandum Departmental Mark-up Account**

Particulars	`	**Particulars**	`
To Memorandum Departmental Stock A/c (` 4,000 × 20/100)	800	By Balance b/d (` 1,80,000 x 20/120)	30,000
To Memorandum Departmental Stock A/c	3,600	By Memorandum Departmental Stock A/c (` 5,16,000 x 20/120)	86,000
To Memorandum Departmental Stock A/c	1,600		
To Gross Profit transferred to Profit & Loss A/c	1,05,000		
To Balance c/d [(` 36,000 + 1,200*) x 20/120 - ` 1,200]	5,000		
	1,16,000		**1,16,000**

*[` 3,600 ×10,000/30,000] = ` 1,200. Alternatively, this adjustment of ` 1,200 may be routed through Memorandum Stock Account.

Working Notes:

(i) Calculation of Cost of Sales

		`
A	Sales as per Books	6,50,000
B	*Add*: Mark-down in opening stock (given)	1,600
C	*Add*: mark-down in sales out of current Purchases	
	(` 3,600 x 20,000 /30,000)	2,400
D	Value of sales if there was no mark-down (A+B+C)	6,54,000
E	*Less*: Gross Profit (20/120 of ` 6,54,000) subject to Mark Down	(1,09,000)
F	Cost of sales (D-E)	5,45,000

(ii) Calculation of Closing Stock

		`
A	Opening Stock	1,50,000
B	*Add*: Purchases	4,30,000
C	*Less*: Cost of Sales	(5,45,000)
D	*Less*: Shortage	(4,000)
E	Closing Stock (A+B-C-D)	31,000

Q-2 Axe Limited has four departments, A, B, C and D. Department A sells goods to other partments at a profit of 25% on cost. Department B sells goods to other department at a profit of 30% on sales. Department C sells goods to other departments at a profit of 10% on cost, Department D sells goods to other departments at a profit of 15% on sales.

Stock lying at different departments at the year-end was as follows :

	Department A	**Department B**	**Department C**	**Department D**
Transfer from Department A	-	45,000	50,000	60,000
Trasfer from Department B	50,000	-	-	75,000
Trasfer from Departmnet C	33,000	22,000	-	-
Trasfer from Department D	40,000	10,000	65,000	-

Departmental managers are entitled to 10% commission on net profit subject to unrealized profit on departmental sales being eliminated.

Departmental profits after charging manager's commission, but before adjustment of unrealized profit are as under:

	`
Department A	2,25,000
Department B	3,37,500
Department C	1,80,000
Department D	4,50,000

Calculate the correct departmental profit after charging Manager's commission. **[Sugg. Nov.'18, 5 Marks]**

Answer

Calculation of correct departmental profits

	Department A `	Department B `	Department C `	Department D `
Profit after charging managers' commission	2,25,000	3,75,500	1,80,000	4,50,000
Add back: managers' commission (1/9)	25,000	37,500	20,000	50,000
	2,50,000	3,75,000	2,00,000	5,00,000
Less: Unrealized profit on stock (Working Note)	31,000	37,500	5,000	17,250
Profit before Manager's commission	2,19,000	3,37,500	1,95,000	4,82,750
Less : Commission for Department Manager @ 10%	21,900	33,750	19,500	48,275
Correct Department Profit after manager's commission	1,97,100	3,03,750	1,75,500	4,34,475

Working Note:

Stock lying with

	Dept. A `	Dept.B `	Dept.C `	Dept.D `	Total `
Unrealized Profit of Department A		45,000 x 25/125=9,000	50,000 x 25/125=10,000	60,000 x 25/125=12,000	31,000
Department B	50,000x0.3 = 15,000			75,000x0.3 = 22,500	37,500
Department C	33,000 x 10/110 = 3,000	22,000 x 10/110 = 2,000			5,000
Department D	40,000 x .15 = 6,000	10,000 x 0.15 = 1,500	65,000 x 0.15 = 9,750		17,250

Q-3 M/s. Delta is a Department Store having three department X, Y and Z. The information regardin three department for the year ended 31st March, 2019 are given below :

Particular	**Dept.X**	**Dept.Y**	**Dept.Z**
Opening Stock	18,000	12,000	10,000
Purchases	66,000	44,000	22,000
Debtors at end	7,500	5,000	5,000
Sales	90,000	67,500	45,000
Closing Stock	22,500	8,750	10,500
Value of furniture in each Department	10,000	10,000	5,000
Floor space occupied by each Dept. (in sq. ft.)	1,500	1,250	1,000
Number of employees in each Department	25	20	15
Electricity consumed by each Department (in units)	300	200	100

Additinal infromation

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

Prepare Departmental Trading and Profit & Loss Account for the year ended 31st March, 2018 after providing provision for Bad Debts at 5%. **[Sugg. May '18, 10 Marks]**

Ans. **In the Books of M/s Delta Departmental Trading and Profit and Loss Account for the year ended 31st March, 2018**

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

Working Note :

Basis of allocation of expenses

Carriage inwards	Purchases (3:2:1)
Carriage outwards	Turnover (4:3:2)
Salaries	No.of Employees (5:4:3)
Advertisement	Turnover (4:3:2)

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

Q-4 The following balances were extracted from the books of Beta. You are required to prepare Departmental Trading Account and general Profit & Loss Account for the year ended 31st December, 2018:

Particulars	Deptt. A Rs.	Deptt. B Rs.
Opening Stock	3,00,000	2,40,000
Purchases	39,00,000	54,60,000
Sales	60,00,000	90,00,000

General expenses incurred for both the Departments were Rs. 7,50,000 and you are also supplied with the following information:

(i) Closing stock of Department A Rs. 6,00,000 including goods from Department B for Rs. 1,20,000 at cost to Department A.

(ii) Closing stock of Department B Rs. 12,00,000 including goods from Department A for Rs. 1,80,000 at cost to Department B.

(iii) Opening stock of Department A and Department B include goods of the value of Rs. 60,000 and Rs. 90,000 taken from Department B and Department A respectively at cost to transferee departments.

(iv) The gross profit is uniform from year to year. **[MTP Oct. '19, 10 Marks]**

Ans. **Departmental Trading Account for the year ended on 31st December, 2018**

Particulars	A Rs.	B Rs.	Particulars	A Rs.	B Rs.
To Opening Stock	3,00,000	2,40,000	By Sales	60,00,000	90,00,000
To Purchases	39,00,000	54,60,000	By Closing Stock	6,00,000	12,00,000
To Gross Profit	24,00,000	45,00,000			
	66,00,000	**1,02,00,000**		**66,00,000**	**1,02,00,000**

General profit and loss account of Beta for the year ended on 31st December, 2018

Particulars	Amount Rs.	Particulars	Amount Rs.
To General expenses.	7,50,000	By Stock reserve (opening stock)	
To Stock reserve (Closing Stock)		Dept. A	30,000
Dept. A	60,000	Dept. B	36,000
Dept. B	72,000	By Gross Profit	
To Net Profit	60,84,000	Dept. A	24,00,000
		Dept. B	45,00,000
	69,66,000		**69,66,000**

Working Notes :

		Dept. A	Dept. B
1.	Percentage of Profit	24,00,000/60,00,000 x 100	45,00,000/90,00,000 x 100
		40%	50%
2.	Opening Stock reserve	60,000 x 50% = 30,000	90,000 x 40% = 36,000
3.	Closing Stock reserve	1,20,000 x 50%=60,000	1,80,000 x 40% = 72,000

. General expenses have not been allocated to individual department and are charged to General Profit and Loss Account.

Q-5 The following balances were extracted from the books of M/s Division. You are required to prepare Departmental Trading Account and Profit and Loss account for the year ended 31st December, 2017 after adjusting the unrealized department profits if any.

	Deptt. A Rs.	Deptt. B Rs.
Opening Stock	50,000	40,000
Purchases	6,50,000	9,10,000
Sales	10,00,000	15,00,000

General expenses incurred for both the departments were Rs. 1,25,000 and you are also supplied with the following information: (a) Closing stock of Department A Rs.1,00,000 including goods from Department B for Rs. 20,000 at cost of Department A. (b) Closing stock of Department B Rs. 2,00,000 including goods from Department A for Rs. 30,000 at cost to Department B. (c) Opening stock of Department A and Department B include goods of the value of Rs. 10,000 and Rs. 15,000 taken from Department B and Department A respectively at cost to transferee departmen ts. (d) The rate of gross profit is uniform from year to year. **[MTP Aug. '18, 8 Marks]**

Ans. **Departmental Trading and Loss Account of M/s Division**

For the year ended 31st December, 2017

	Deptt. A Rs.	Deptt. B Rs.		Deptt. A Rs.	Deptt. B Rs.
To Opening stock	50,000	40,000	By Sales	10,00,000	15,00,000
To Purchases	6,50,000	9,10,000	By Closing stock		
To Gross profit	4,00,000	7,50,000		1,00,000	2,00,000
	11,00,000	17,00,000		11,00,000	17,00,000
To General Expenses (in ratio of sales)	50,000	75,000	By Gross profit	4,00,000	7,50,000
To Profit ts/f to general profit and loss account	3,50,000	6,75,000			
	4,00,000	**7,50,000**		**4,00,000**	**7,50,000**

General Profit and Loss Account

	Rs.		Rs.
To Stock reserve required (additional:		By Profit from:	
Stock in Deptt. A		Deptt. A	3,50,000
50% of (Rs. 20,000 - Rs. 10,000) (W.N.1)	5,000	Deptt. B	6,75,000
Stock in Deptt. B			
40% of (Rs. 30,000 - Rs. 15,000) (W.N.2)	6,000		
To Net Profit	10,14,000		
	10,25,000		**10,25,000**

Working Notes:

1. Stock of department A will be adjusted according to the rate appli cable to department B = [(7,50,000 ÷ 15,00,000) x 100] = 50%
2. Stock of department B will be adjusted according to the rate applicable to department A = [(4,00,000 ÷ 10,00,000) x 100] = 40%

Q-6 Following is the Trial Balance of Mr. Mohan as on 31.03.2017:

	Particulars	Debit (Rs.)	Credit (Rs.)
Capital Account			40,000
Drawing Account		1,500	
Opening Stock	Department A	8,500	
	Department B	5,700	
	Department C	1,200	
Purchases	Department A	22,000	
	Department B	17,000	
	Department C	8,000	
Sales	Department A		54,000
	Department B		33,000
	Department C		21,000
Sales Returns	Department A	4,000	
	Department B	3,000	
	Department C	1,000	
Freight and Carriage	Department A	1,400	
	Department B	800	
	Department C	200	
Furniture and fixtures		4,600	
Plant and Machinery		20,000	
Motor Vehicles		40,000	
Sundry Debtors		12,200	
Sundry Creditors			15,000
Salaries		4,500	
Power and water		1,200	
Telephone charges		2,100	
Bad Debts		750	

Rent and taxes		6,000	
Insurance		1,500	
Wages	Department A	800	
	Department B	550	
	Department C	150	
Printing and Stationeries		2,000	
Advertising		3,500	
Bank Overdraft			12,000
Cash in hand		850	
		1,75,000	**1,75,000**

You are required to prepare Department Trading, Profit and Loss Account and the Balance Sheet taking into account the following adjustments:

(a) Outstanding Wages: Department B- Rs. 150, Department C – Rs. 50.

(b) Depreciate Plant and Machinery and Motor Vehicles at the rate of 10%.

(c) Each Department shall share all expenses in proportion to their sales.

(d) Closing Stock: Department A - Rs. 3,500, Department B - Rs. 2,000, Department C - Rs. 1,500.

[MTP Oct. '18, 10 Marks, RTP May '18]

Ans.

Trading and Profit and Loss Account

for the year ended on 31st March, 2017

Particulars	A (Rs.)	B (Rs.)	C (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (Rs.)
To Opening Stock	8,500	5,700	1,200	By Sales less			
				Sales returns	50,000	30,000	20,000
To Purchases	22,000	17,000	8,000	By Closing Stock	3,500	2,000	1,500
To Freight & carriage	1,400	800	200				
To Wages	800	700	200				
To Gross profit	20,800	7,800	11,900				
	53,500	**32,000**	**21,500**		**53,500**	**32,000**	**21,500**
To Salaries	2,250	1,350	900	By Gross Profit	20,800	7,800	11,900
To Power & Water	600	360	240	By Net Loss	-	465	-
To Telephone Charges	1,050	630	420				
To Bad Debts	375	225	150				
To Rent & Taxes	3,000	1,800	1,200				
To Insurance	750	450	300				
To Printing & Stationery	1,000	600	400				
To Advertising	1,750	1,050	700				
To Depreciation (2,000 +4,000)	3,000	1,800	1,200				
To Net Profit	7,025	6,390					
	20,800	**8,265**	**11,900**		**20,800**	**8,265**	**11,900**

Balance Sheet as at 31.03.2017

Liabilities	Rs.		Assets		Rs.
Capital A/c	40,000		Furniture & Fixtures		4,600
Add: Net Profit					
(Rs. 7,025 + Rs. 6,390)	13,415		Plant & Machinery	20,000	
	53,415				
			Less: Depreciation	2,000	18,000
Less: Net loss in Dept B	465		Motor Vehicles	40,000	
	52,950		*Less:* Depreciation	4,000	36,000
Less: Drawings	1,500	51,450	Sundry Debtors		12,200
Sundry Creditors		15,000	Cash in hand		850
Bank Overdraft		12,000	Closing Stock		7,000
Wages Outstanding		200			
		78,650			**78,650**

Note: All expenses have been allocated among departments in proportion of their sales in the solution as per the specific requirement of the question.

Q-7 A firm has two departments--Sawmill and Furniture. Furniture is made with wood supplied by the Sawmill department at its usual selling price. From the following figures prepare Departmental Trading and Profit and Loss Account for the year 2018:

	Sawmill `	Furniture `
Opening Stock on 1st January, 2018	1,50,000	25,000
Sales	12,00,000	2,00,000
Purchases	10,00,000	7,500
Supply to Furniture Department	1,50,000	--
Selling expenses	10,000	3,000
Wages	30,000	10,000
Clsong Stock on 31st December, 2018	1,00,000	30,000

The value of stocks in the furniture department consist of 75% wood and 25% other expenses. The Sawmill Department earned Gross Profit at 15 % on sales in 2017. General expenses of the business as a whole came to ` 55,000. The firm adopts FIFO method for assigning costs to inventories.

[RTP Nov.'19]

Ans. **Departmental Trading and Profit and Loss Account**

Particulars	Sawmill	Furniture	Particulars	Sawmill	Furniture
To Opening stock	1,50,000	25,000	By Sales	12,00,000	2,00,000
To Purchase	10,00,000	7,500	By Transfer to furniture department	1,50,000	
To Wages	30,000	10,000	By Closing stock	1,00,000	30,000

To	Transfer from sawmill	-	1,50,000			
To	Gross profit	2,70,000	37,500			
		14,50,000	**2,30,000**		**14,50,000**	**2,30,000**
To	Selling expenses	10,000	3,000	By Gross profit	2,70,000	37,500
To	Net Profit	2,60,000	34,500			
		2,70,000	**37,500**		**2,70,000**	**37,500**

General Profit & Loss Account

Particulars		**Amount**	**Particulars**		**Amount**
To	General Expenses	55,000	By	Net Profit from	
To	Stock reserve (WN-2)	4,500		Saw Mill	2,60,000
To	Net Profit	2,37,813		Furniture	34,500
			By	stock reserve (opening WN-1)	2,813
		2,97,313			**2,97,313**

Working Notes

1. **Calculation of Stock Reserve (opening)**

   25,000 x 75% wood x 15% = ` 2,813

2. **Calculation of closing stock reserve**

   Gross profit Rate of Saw Mill of 2018

   2,70,000 / (12,00,000 + 1,50,000) x 100 = 20%

   30,000x 75% x 20% = ` 4,500.

Q-8 The following balances were extracted from the books of M/s Division. You are required to prepare Departmental Trading Account and Profit and Loss account for the year ended 31st December, 2018 after adjusting the unrealized department profits if any.

	Deptt.A	**Deptt.B**
	Rs.	**Rs.**
Opening stock	50,000	40,000
Purchases	6,50,000	9,10,000
Sales	10,00,000	15,00,000

General expenses incurred for both the departments were Rs.1,25,000 and you are also supplied with the following information: (a) Closing stock of Department A Rs.1,00,000 including goods from Department B for Rs.20,000 at cost of Department A. (b) Closing stock of Department B Rs. 2,00,000 including goods from Department A for Rs.30,000 at cost to Department B. (c) Opening stock of Department A and Department B include goods of the value of Rs.10,000 and Rs.15,000 taken from Department B and Department A respectively at cost to transferee departments, (d) The rate of gross profit is uniform from year to year. **[RTP May '19, RTP Nov.'18]**

Ans. **Departmental Trading and Loss account of M/s Division**

For the year ended 31st December, 2018

	Deptt. A.	Deptt.B		Deptt.A	Deptt.B
	Rs.	Rs.	Rs.	Rs.	
To Opening sbck	50,000	40,000	By Sales	10,00,000	15,00,000
To Purchases	6,50000	9,10,000	By Closing stock	1,00,000	2,00,000
To Gross profit	4,00,000	7,50,000		11,00,000	17,00,000
	11,00,000	17,00,000			
To General Expenses			By Gross profit	4,00,000	7,50,000
(in ratio of sales)	50,000	75,000			
To Profit it/f to general	3,50,000	6,75,000			
profit and loss account					
	4,00,000	**7,50,000**		**4,00,000**	**7,50,000**

General Profit and Loss Account

	Rs.		Rs.
To Stock reserve requeird (additional:	-	By Profit from	-
Stock in Deptt. A	-	Deptt. A	3,50,000
50% of (Rs.20,000 - Rs.10,000) (W.N.1)	50,000	Deptt. A	6,75,000
Stock in Deptt. B			
40% of (Rs.30,000 - Rs.15,000 (W.N.2)	6,000		
To Net Profit	10,14,000		
	10,25,000		10,25,000

Working Notes :

1. Stock of department A will be adjusted according to the rate applicable to department B = [(7,50,000 ÷ 15,00,000) x 100] = 50%
2. Stock of department B will be adjusted according to the rate applicable to department A = [(4,00,000 ÷ 10,00,000) x 100] = 40%.

---0---0---

CHAPTER-13

Accounting for Branches including Foreign Branches

Q-1 On 31st March, 2019 Chennai Branch submits the following Trial Balance to its Head Office at Lucknow:

Debit Balances	` in lacs
Furniture and Equipment	18
Depreciation on furniture	2
Salaries	25
Rent	10
Advertising	6
Telephone, Postage and Stationery	3
Sundry Office Expenses	1
Stock on 1st April, 2018	60
Goods Received from Head Office	288
Debtors	20
Cash at bank and in hand	8
Carriage Inwards	7
	448
Credit Balances	
Outstanding Expenses	3
Goods Returned to Head Office	5
Sales	360
Head Office	80
	448

Additional Information:

Stock on 31st March, 2019 was valued at ` 62 lacs. On 29th March, 2019 the Head Office dispatched goods costing ` 10 lacs to its branch. Branch did not receive these goods before 1st April, 2019. Hence, the figure of goods received from Head Office does not include these goods. Also the head office has charged the branch ` 1 lac for centralized services for which the branch has not passed the entry.

You are required to :(i) pass Journal Entries in the books of the Branch to make the necessary adjustments and (ii) prepare Final Accounts of the Branch including Balance Sheet. **[RTP-May' 20]**

Ans.(i) **Books of Branch**

Journal Entries

(` in lacs)

		Dr.	Cr.
Goods in Transit A/c	Dr.	10	
To Head Office A/c		`	10
(Goods dispatched by head office but not received by branch before 1st April, 2019)			
Expenses A/c	Dr.	1	
To Head Office A/c			1
(Amount charged by head office for centralised services)			

(ii) **Trading and Profit & Loss Account of the Branch for the year ended 31st March, 2019**

	` in lacs			` in lacs
To Opening Stock	60		By Sales	360
To Goods received from			By Closing Stock	62
Head Office	288			
Less: Returns	(5)	283		
To Carriage Inwards		7		
To Gross Profit c/d		72		
		422		422
To Salaries		25	By Gross Profit b/d	72
To Depreciation on Furniture		2		
To Rent		10		
To Advertising		6		
To Telephone, Postage & Stationery		3		
To Sundry Office Expenses		1		
To Head Office Expenses		1		
To Net Profit Transferred to Head Office A/c		24		
		72		72

Balance Sheet as on 31st March, 2019

Liabilities	**` in lacs**		***Assets***		**` in lacs**
Head Office	80		Furniture & Equipment	20	
Add: Goods in transit	10		*Less:* Depreciation	(2)	18
Head Office Expenses	1		Stock in hand		62
Net Profit	24	115	Goods in Transit		10
Outstanding Expenses		3	Debtors		20
			Cash at bank and in hand		8
		118			**118**

Q-2 M/s Rani & Co. has head office at Singapore and branch at Delhi (India). Delhi branch is an integral foreign operation of M/s Rani & Co. Delhi branch furnishes you with its Trial Balance as on 31st March, 2019 and the additional information thereafter:

	Dr.	Cr.
	Rupees in thousands	
Stock on 1st April, 2018	600	-
Purchases and Sales	1,600	2,400
Sundry Debtors and Creditors	800	600
Bills of Exchange	240	480
Wages	1,120	-
Rent, rates and taxes	720	-
Sundry Expenses	320	-
Computers	600	-
Bank Balance	520	-
Singapore Office A/c	-	3,040
Total	**6,520**	**6,520**

Additional information :

(a) Computers were acquired from a remittance of Singapore dollar 12,000 received from Singapore Head Office and paid to the suppliers. Depreciate Computers at the rate of 40% for the year.

(b) Closing Stock of Delhi branch was ` 15,60,000 on 31st March, 2019.

(c) The Rates of Exchange may be taken as follows :

(i) on 1.4.2018 @ ` 50 per Singapore Dollar

(ii) on 31.3.2019 @ ` 52 per Singapore Dollar

(iii) Average Exchange Rate for the year @ ` 51 per Singapore Dollar.

(iv) Conversion in Singapore Dollar shall be made upto two decimal accuracy.

(d) Delhi Branch Account showed a debit balance of Singapore Dollar 59,897.43 on 31.3.2019 in the Head office books and there were no items pending for reconciliation.

In the books of Head office you are required to prepare :

(1) Revenue statement for the year ended 31st March, 2019 (in Singapore Dollar)

(2) Balance Sheet as on that date. (in Singapore Dollar) **[Sugg. May '19, 8 Marks]**

Ans.

Revenue Statement

for the year ended 31st March, 2019

	Singapore dollar		Singapore dollar
To Opening Stock	12,000.00	By Sales	47,058.82
To Purchases	31,372.55	By Closing stock	30,000.00
To Wages	21,960.78	(15,60,000/52)	
To Gross profit b/d	11,725.49		
	77,058.82		**77,058.82**

To Rent, rates and taxes	14,117.65	By Gross profit c/d	11,725.49
To Sundry Expenses	6,274.51	By Net loss b/d	13,466.67
To Depreciation on computers			
(Singapore dollar 12,000 x 0.4)	4,800.00		
	25,192.16		**25,192.16**

Balance Sheet of Delhi Branch

as on 31st March, 2019

Liabilities		**Singapore dollar**	**Assets**	**Singapore dollar**	**Singapore dollar**
Singapore Office A/c	59,897.43		Computers	12,000.00	
Less: Net Loss	(13,466.67)	46,430.76	Less: Depreciation	(4,800.00)	7,200.00
Sundry creditors		11,538.46	Closing stock		30,000.00
Bills payable		9,230.77	Sundry debtors		15,384.61
			Bank balance		10,000.00
			Bills receivable		4,615.38
		67,199.99			**67,199.99**

Working Note :

M/s Rani & Co.

Delhi Branch Trial Balance in (Singapore $)

as on 31st March, 2019

			Conversion rate per Singapore dollar (`)	**Dr. Singapore dollar**	**Cr. Singapore dollar**
Stock on 1.4.18	6,00,000.00		50	12,000.00	-
Purchases and sales	16,00,000.00	24,00,000.00	51	31,372.55	47,058.82
Sundry Debtors and Creditors	8,00,000.00	6,00,000.00	52	15,384.61	11,538.46
Bills of exchange	2,40,000.00	4,80,000.00	52	4,615.38	9,230.77
Wages	11,20,000.00		51	21,960.78	-
Rent, rates and taxes	7,20,000.00		51	14,117.65	-
Sundry Expenses	3,20,000.00		51	6,274.51	-
Computers	6,00,000.00		-	12,000.00	-
Bank balance	5,20,000.00		52	10,000.00	-
Singapore office A/c			-		59,897.43
				1,27,725.48	**1,27,725.48**

Q-3 Ayan Ltd. invoices goods to its branch at cost plus $33\frac{1}{3}\%$. 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.

	Rs.
Stock at commencement at Branch at invoice Price	36,60,000
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 31.03.2018 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

Ayan closes its books on 31st March, 2018. **[Sugg. May '18, 10 Marks]**

Ans. **In the books of Head Office**

Branch Stock Account

Particular	**Rs.**	**Particular**	**Rs.**
To Balance b/d	3,60,000	By Bank A/c (cash Sales)	21,60,000
To Goods sent to Branch A/c	24,00,000	By Branch Debtors A/c (Credit Sales)	1,20,000
To Branch Adjustment A/c balancing fig. (Surplus)***	36,000	By Goods sent to Branch A/c (Returns to H.O.)	1,20,000
		By Branch Adjustment A/c* (Rs.24,000 x 25/100)	6,000
		By Branch P&L A/c* (Cost of Abnormal Loss)	18,000
		By Branch Adjustment A/c** (invoice price of normal loss	36,000
		By Balance c/d:	
		In hand	2,88,000
		In transit	48,000
	27,96,000		**27,96,000**

*Alternative, comined postin for the amount of Rs.24,000 may be passed through Goods pifered account.

** Alternatively, it may first be transferred to normal Loss account which may ultimately be closed by transfer to Branch Adjustment account. The final amount of net profit will however remain same.

*** It has been considered that the surplus may be due to sale of goods by branch at price higher than invoice price.

Branch Stock Adjustment Account

Particulars	Rs.	Particulars	Rs.
To Branch Stock A/c	6,000	By Stock Reserve A/c	90,000
(Loading on Abnormal Loss)		(Rs. 3,60,000x25/100)	
To Branch Stock A/c	36,000	By Goods Sent to Branch A/c	5,70,000
(Normal Loss)		(Rs.24,00,000 - Rs.1,20,000) x 25/100	
To Stock Reserve A/c	84,000	By Branch Stock A/c (Surplus)	36,000
(Rs.3,36,000x25/100)			
To Gross Profit t/f to P & LA/c	5,70,000		
	6,96,000		**6,96,000**

Branch Profit and Loss Account

Particulars	Rs.	Particulars	Rs.
To Branch Stock A/c	18,000	By Branch Adjustment A/c	5,70,000
(Cost of Abnormal Loss)		(Gross Profit)	
To Net Profit t/f to General P&LA/c	5,52,000		
	5,70,000		**5,70,000**

Q-4 M & S Co. of Lucknow has a branch in Canberra, Australia (as an integral foreign operation of M & S Co.). At the end of 31st March 2019, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.

	Lucknow office (Rs. In thousand)		**Canberra Branch (Aust. Dollars in thousand)**	
	Dr.	**Cr.**	**Dr.**	**Cr.**
Capital		2,000		
Reserves & Surplus		1,000		
Land	500			
Buildings (Cost)	1,000			
Buildings Dep. Reserves		200		
Plant and Machinery (Cost)	2,500		200	
Plant and Machinery Dep. Reserves		600		130
Debtors/Creditors	280	200	60	30
Stock as on 1- 4-2018	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salary	75		45	
Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	4,880	**4,880**	**390**	**390**

The following information is also available:

(i) Stock as at 31st March, 2019

Lucknow Rs. 1,50,000

Canberra A$ 3125 (all stock are out of purchases made at Abroad)

(ii) Head Office always sent goods to the Branch at cost plus 25%

(iii) Provision is to be made for doubtful debts at 5%

(iv) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down value.

You are required to:

(1) Convert the Branch Trial Balance into rupees by using the following exchange rates:

Opening rate	1 A $ = Rs. 50
Closing rate	1 A $ = Rs. 53
Average rate	1 A $ = Rs. 51.00
For Fixed Assets	1 A $ = Rs. 46.00

(2) Prepare Trading and Profit and Loss Account for the year ended 31st March 2019 showing to the extent possible H.O. results and Branch results separately. **[MTP Oct. '19, 10 Marks]**

Ans. **M & S Co. Ltd.**

Canberra, Australia Branch Trial Balance

As on 31st March 2019

	($ 'thousands)			**(Rs. ' thousands)**	
	Dr.	**Cr.**	**Conversion** rate per $	**Dr.**	**Cr.**
Plant & Machinery (cost)	200		Rs. 46	9,200	
Plant & Machinery Dep. Reserve		130	Rs. 46		5,980
Trade receivable/payable	60	30	Rs. 53	3,180	1,590
Stock (1.4.2018)	20		Rs. 50	1,000	
Cash & Bank Balances	10		Rs. 53	530	
Purchase / Sales	20	123	Rs. 51	1,020	6,273
Goods received from H.O.	5		Actual	100	
Wages & Salaries	45		Rs. 51	2,295	
Rent	12		Rs. 51	612	
Office expenses	18		Rs. 51	918	
Commission Receipts		100	Rs. 51		5,100
H.O. Current A/c		7	Actual		120
				18,855	19,063
Foreign Exchange Loss (bal. fig.)				208	
	390	**390**		**19,063**	**19,063**
Closing stock	3.125		53	165.625	

Trading and Profit & Loss Account for the year ended 31st March, 2019

(Rs.'000)

		H.O.	Branch	Total			H.O.	Branch	Total
To	Opening Stock	100	1,000.000	1,100.000	By	Sales	520	6,273.000	6,793.000
To	Purchases	240	1,020.000	1,260.000	By	Goods sent to Branch	100	-	100.000
To	Goods received from Head Office	-	100.000	100.000	By	Closing Stock	150	165.625	315.625
To	Wages & Salaries	75	2,295.000	2,370.000					
To	Gross profit c/d	355	2,023.625	2,378.625					
		770	6,438.625	7,208.625			770	6,438.625	7,208.625
To	Rent	-	612.000	612.000	By	Gross profit b/d	355	2,023.625	2,378.625
To	Office expenses	25	918.000	943.000	By	Commission receipts	256	5,100.000	5,356.000
To	Provision for doubtful debts @ 5%	14	159.000	173.000					
To	Depreciation (W. N.)	460	644.000	1,104.000					
To	Balance c/d	112	4,790.625	4,902.625					
		611	**7,123.625**	**7,734.625**			**611**	**7,123.625**	**7,734.625**
To	Managing Partner's Salary			30.000	By	Balance b/d			4,902.625
To	Exchange Loss			208.000	By	Branch stock reserve			4,000
To	Balance c/d			4,668.625					
				4,906.625					**4,906.625**

Working Note:

Calculation of Depreciation

	H.O Rs. '000	Branch Rs. '000
Building . Cost	1,000	
Less: Dep. Reserve	(200)	
	800	
Depreciation @ 10% (A)	80	
Plant & Machinery Cost	2,500	9,200
Less: Dep. Reserve	(600)	(5,980)
	1,900	3,220
Depreciation @ 20% (B)	380	644
Total Depreciation (A+B)	460	644

Note: As the closing stock of Branch does not consist any stock transferred from M& S Co., there is no need to create closing stock reserve. But the opening branch stock reserve has to be reversed in the P&L A/c.

Q-5 XYZ is having its Branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses which are met by the Branch Manager. From the following particulars, you are required to prepare branch account in the books of Head Office.

	Rs.		**Rs.**
Stockon 1st April 2017 (invoice price)	30,000	Discount allowed to debtors	160
Sundry Debtors on 1st April, 201 7	18,000	Expenses paid by head office:	
Cash in hand as on 1st April, 2017	-	Rent	1,800
Office furniture on 1st April, 2017	3,000	Salary	3,200
Goods invoiced from the head		Stationery & Printing	800
office (invoice price)	1,60,000		
Goods returned to Head Office	2,000	Petty expenses paid by the branch	600
(invoice price)			
Goods returned by debtors	960	Depreciation to be provided on branch	
Cash received from debtors	60,000	furniture at 10% p. a.	
Cash Sales	1,00,000	Stockon 31st March, 2018	
Credit sales	60,000	(at invoice price)	28,000

[MTP March '19, MTP March '18, 8 Marks]

Ans. **In the books of Head Office - XYZ**

Kolkata Branch Account (at invoice)

		Rs.			**Rs.**
To Balance b/d			By Stock reserve (opening)		6,000
Stock		30,000	By Remittances:		
Debtors		18,000	Cash Sales	1,00,000	
Furniture		3,000	Cash from Debtors	60,000	
To Goods sent to branch		1,60,000	Less; Petty expenses	(600)	1,59,400
To Goods returned by branch (loading)		400	By Goods sent to branch (loading)		32,000
To Bank (expenses paid by H.O.)			By Goods returned by		
Rent	1 ,800		branch (Return to H.O.)		2,000
Salary	3,200		By Balance c/d		
Stationary & printing	800	5,800	Stock		28,000
To Stock reserve (closing)		5,600	Debtors		16,880
To Profit transferred to			Furniture (3,000-300)		2,700
General Profits Loss A/c		24,180			
		2,46,980			**2,46,980**

Working Note :

Debtors Account

	Rs.		Rs.
To Balance c/d	18,000	By Cash account	60,000
To Sales account (credit)	60,000	By Sales return account	960
		By Discount allowed account	160
		By Balance c/d	16,880
	78,000		**78,000**

Note : In the absence of opening cash balance, remittance to Head Office has been made after payment of petty expenses.

Q-6 On 31st December, 2016 the following balances appeared in the books of Kolkata Branch of an English firm having its HO office in New York:

	Amount in Rs.	Amount in Rs.
Stock on 1st Jan, 2016	2,34,000	
Purchases and Sales	15,62,500	23,43,750
Debtors and Creditors	7,65,000	5,10,000
Bills Receivable and Payable	2,04,000	1,78,500
Salaries and Wages	1,00,000	-
Rent, Rates and Taxes	1,06,250	-
Furniture	91,000	-
Bank A/c	5,68,650	
New York Account	-	5,99,150
	36,31,400	**36,31,400**

Stock on 31st December, 2016 was Rs. 6,37,500.

Branch account in New York books showed a debit balance of $ 13,400 on 31st December, 2016 and Furniture appeared in the Head Office books at $ 1,750.

The rate of exchange on 31st December, 2015 was Rs. 52 and on 31st December, 2016 was Rs. 51. The average rate for the year was Rs. 50.

Prepare in the Head Office books the Profit and Loss a/c and the Balance Sheet of the Branch.

[MTP April '19,MTP April '18, 10 Marks]

Ans. **In the books of English Firm (Head Office in New York)**

Kolkata Branch Profit and Loss Account for the year ended 31st December, 2016

	$		$
To Opening Stock	4,500	By Sales	46,875
To Purchases	31,250	By Closing stock	12,500
To Gross profit c/d	23,625	(6,37,500 / 51)	
	59,375		59,375
To salaries	2,000	By Gross profit b/d	23,625
To Rent, rates and taxes	2,125		
To exchange translation loss	2,000		
To Net Profit c/d	17,500		
	23,625		**23,625**

Balance Sheet of Kolkata Branch as on 31st December, 2016

Liabilities		$	Assets	$
Head office A/c	13,400		Furniture	1,750
Add : Net profit	17,500	30,900	Closing Stock	12,500
Trade creditors		10,000	Trade Debtors	15,000
Bills Payable		3,500	Bill Receivable	4,000
			Cash at Bank	11,150
		44,400		**44,400**

Working Note :

Require for calculation of Exchange Translation Loss

Kalkata Branch Trail Balance (converted in $) as on 31st December, 2016

	Dr. Rs.	Cr. Rs.	Coversion rate	Dr. $	Cr. $
Stock on 1st Jan., 2016	2,34,000		52	4,500	
Purchases & Sales	15,62,500	23,43,750	50	31,250	46,875
Debtors & creditors	7,65,000	5,10,000	51	15,000	10,000
Bills Receivable and Bills Payable	2,04,000	1,78,500	51	4,000	3,500
Salaries and wages	1,00,000		50	2,000	
Rent, Rates and Taxes	1,06,250		50	2,125	
Furniture	91,000			1,750	
Bank A/c	5,68,650		51	11,150	
New York Account		5,99,150			13,400
Exchange translation loss (bal. fig.)				2,000	
	36,31,400	**36,31,400**		**73,775**	**73,775**

Q-7 M/s Heera & Co. has head office at U.S.A. and branch in Patna(India). Patna branch is an integral foreign operation of Heera & Co.Patna branch furnishes you with its trial balance as on 31stMarch, 2018 and the additional information given thereafter:

	Dr.	Cr.
	(Rupees in thousands)	
Stock on 1st April, 2017	300	
Purchases and Sales	800	1,200
Sundry Debtors & Creditors	400	300
Bills of Exchange	120	240
Wages & Salaries	560	-
Rent, Rates & Taxes	360	-
Sundry Charges	160	-
Plant	240	-
Bank Balance	420	-
New York Office A/c	-	1,620
	3,360	**3,360**

Information:

(a) Plant was acquired from a remittance of US $ 6,000 received from USA head office and paid to the suppliers. Depreciate Plant at 60% for the year.

(b) Unsold stock of Patna branch was worth Rs. 4,20,000 on 31st March, 2018.

(c) The rates of exchange may be taken as follows:

- On 01.04.2017 @ Rs. 55 per US $
- On 31.03.2018 @ Rs. 60 per US $
- Average exchange rate for the year @ Rs.58 per US $

Conversion in $ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2018 and the balance sheet as on that date of Patna branch as would appear in the books of USA head office of Heera & Co. You are informed that Patna branch account showed a debit balance of US $ 29845.35 on 31.3.2018 in USA books and there were no items pending reconciliation. **[MTP Aug. '18, 12 Marks]**

Ans. **M/s Heera & Co.**

Patna Branch Trial Balance in (US $)

as on 31st March, 2018

	Conversion rate per US $ (Rs.)	**Dr. US $**	**Cr. US $**
Stock on 1.4.15	55	5,454.55	–
Purchases and sales	58	13,793.10	20,689.66
Sundry debtors and creditors	60	6,666.67	5,000.00
Bills of exchange	60	2,000.00	4,000.00
Wages and salaries	58	9,655.17	-
Rent, rates and taxes	58	6,206.90	-
Sundry charges	58	2,758.62	-
Plant	–	6,000.00	-
Bank balance	60	7,000.00	-
USA office A/c	–	-	29,845.35
		59,535.01	**59,535.01**

Trading and Profit & Loss Account

for the year ended 31st March, 2018

	US $		**US $**
To Opening Stock	5,454.55	By Sales	20,689.66
To Purchases	13,793.10	By Closing stock	7,000.00
To Wages and salaries	9,655.17	(Rs. 4,20,000/60)	
By Gross Loss c/d	1,213.16		
	28,902.82		**28,902.82**

To Gross Loss b/d	1,213.16	By Net Loss	13,778.68
To Rent, rates and taxes	6,206.90		
To Sundry charges	2,758.62		
To Depreciation on Plant	3,600.00		
(US $ 6,000 × 0.6)			
	13,778.68		**13,778.68**

Balance Sheet of Patna Branch

as on 31st March, 2018

Liabilities		**US $**	**Assets**	**US $**	**US $**
USA Office A/c	29,845.35		Plant	6,000.00	
Less: Net Loss	(13,778.68)	16,066.67	Less: Depreciation	(3,600.00)	2,400.00
Sundry creditors		5,000.00	Closing stock		7,000.00
Bills payable		4,000.00	Sundry debtors		6,666.67
			Bills receivable		2,000.00
			Bank balance		7,000.00
		25,066.67			**25,066.67**

Q-8 On 31st December, 2016 the following balances appeared in the books of Kolkata Branch of an English firm having its Head office in New York:

	Amount in Rs.	**Amount in Rs.**
Stock on 1st Jan., 2016	2,34,000	
Purchases and Sales	15,62,500	23,43,750
Debtors and Creditors	7,65,000	5,10,000
Bills Receivable and Payable	2,04,000	1,78,500
Salaries and Wages	1,00,000	-
Rent, Rates and Taxes	1,06,250	-
Furniture	91,000	-
Bank A/c	5,68,650	
New York Account	-	5,99,150
	36,31,400	**36,31,400**

Stock on 31st December, 2016 was Rs.6,37,500.

Branch account in New York books showed a debit balance of $ 13,400 on 31st December, 2016 and Furniture appeared in the Head Office books at $ 1,750.

The rate of exchange on 31st December, 2015 was Rs. 52 and on 31st December, 2016 was Rs. 51. The average rate for the year was Rs. 50.

Prepare in the Head Office books the Profit and Loss A/c and the Balance Sheet of the Branch assuming branch to be an integral foreign operation of H.O. **[MTP Oct. '18, 10 Marks]**

Ans. **In the books of English Firm (Head Office in New York)**

Kolkata Branch Profit and Loss Account

for the year ended 31st December, 2016

	$		$
To Opening stock	4,500	By Sales	46,875
To Purchases	31,250	By Closing stock	12,500
To Gross profit c/d	23,625	(6,37,500 / 51)	
	59,375		**59,375**
To Salaries	2,000	By Gross profit b/d	23,625
To Rent, rates and taxes	2,125		
To Exchange translation loss	2,000		
To Net Profit c/d	17,500		
	23,625		**23,625**

Balance Sheet of Kolkata Branch

as on 31st December, 2016

Liabilities	**$**	**$**	**Assets**	**$**
Head Office A/c	13,400		Furniture	1,750
Add : Net profit	17,500	30,900	Closing Stock	12,500
Trade creditors		10,000	Trade Debtors	15,000
Bills Payable		3,500	Bills Receivable	4,000
			Cash at bank	11,150
		44,400		**44,400**

Working Note:

Calculation of Exchange Translation Loss

Kolkata Branch Trial Balance (converted in $)

as on 31st December, 2016

	Dr. Rs.	**Cr. Rs.**	**Conversion rate**	**Dr. ($)**	**Cr. ($)**
Stock on 1st Jan., 2016	2,34,000		52	4,500	
Purchases & Sales	15,62,500	23,43,750	50	31,250	46,875
Debtors & creditors	7,65,000	5,10,000	51	15,000	10,000
Bills Receivable and Bills Payable	2,04,000	1,78,500	51	4,000	3,500
Salaries and wages	1,00,000		50	2,000	
Rent, Rates and Taxes	1,06,250		50	2,125	
Furniture	91,000	1,750			
Bank A/c	5,68,650		51	11,150	
New York Account		5,99,150			13,400
Exchange translation loss (bal. fig.)				2,000	
	36,31,400	**36,31,400**		**73,775**	**73,775**

Q-9 From the following particulars relating to Pune branch for the year ending December 31, 2018, prepare Branch Account in the books of Head office.

		`
Stock at Branch on January 1, 2018		10,000
Branch Debtors on January 1, 2018		4,000
Branch Debtors on Dec. 31, 2018		4,900
Petty cash at branch on January 1, 2018		500
Furniture at branch on January 1, 2018		2,000
Prepaid fire insurance premium on January 1, 2018		150
Salaries outstanding at branch on January 1, 2018		100
Good sent to Branch during the year		80,000
Cash Sales during the year		1,30,000
Credit Sales during the year		40,000
Cash received from debtors		35,000
Cash paid by the branch debtors directly to the Head Office		2,000
Discount allowed to debtors		100
Cash sent to branch for Expenses:		
Rent	2,000	
Salaries	2,400	
Petty Cash	1,000	
Annual Insurance up to March 31, 2019	600	6,000
Goods returned by the Branch		1,000
Goods returned by the debtors		2,000
Stock on December 31,2018		5000
Petty Cash spent by branch		850

Provide depreciation on furniture 10% p.a.

Goods costing ` 1,200 were destroyed due to fire and a sum of ` 1,000 was received from the Insurance Company. **[RTP Nov '19]**

Ans.

Pune Branch Account

Particulars	`	**Particulars**	`	`
To Opening Balance		By Opening Balance:		
Stock	10,000	Salaries outstanding		100
Debtors	4,000	By Remittances:		
Petty Cash	500	Cash sales	1,30,000	
Furniture	2,000	Cash received from debtors	35,000	
Prepaid Insurance	150	Cash paid by debtors directly		
		to H.O.	2,000	

To	Goods sent to Branch Account		80,000		Received from		
					Insurance Company	<u>1,000</u>	1,68,000
To	Bank (expenses)			By	Goods sent to branch		1,000
	Rent	2,000			(return of goods by		
	Salaries	2,400			the branch to H.O.)		
	Petty Cash	1,000		By	Closing Balances:		
	Insurance	<u>600</u>	6,000		Stock		5,000
To	Net Profit		78,950		Petty Cash		650
					Debtors		4,900
					Furniture (2,000 – 10% depreciation)		1,800
					Prepaid insurance		
					(1/4 x ` 600)		<u>150</u>
			<u>1,81,600</u>				**<u>1,81,600</u>**

Working Note:

Calculation of petty cash balance at the end:	`
Opening balance	500
Add: Cash received form the Head Office	<u>1,000</u>
Total Cash with branch	1,500
Less: Spent by the branch	<u>850</u>
Closing balance	<u>650</u>

Q-10 M/s ABC & Co. has head office at New York (U.S.A.) and branch in Bangalore (India). Bangalore branch is an integral foreign operation of ABC & Co.

Bangalore branch furnishes you with its trial balance as on 31st March, 2018 and the additional information given thereafter:

	Dr.	**Cr.**
		(Rupees in thousands)
Stock on 1st April, 2017	300	
Purchases and Sales	800	1,200
Sundry Debtors & Creditors	400	300
Bills of Exchange	120	240
Wages & Salaries	560	-
Rent, Rates & Taxes	360	-
Sundry Charges	160	-
Computers	240	-
Bank Balance	420	-
New York Office A/c	–	<u>1,620</u>
	<u>3,360</u>	**<u>3,360</u>**

Additional Information:

(a) Computers were acquired from a remittance of US $ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.

(b) Unsold stock of Bangalore branch was worth ? 4,20,000 on 31st March, 2018.

(c) The rates of exchange may be taken as follows:

- On 01.04.2017 @Rs.55 per US $
- On 31.03.2018 @Rs.60 per US $
- Average exchange rate for the year @ Rs.58 per US $
- Conversion in $ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2018 and the balance sheet as on that date of Bangalore branch as would appear in the books of New York head office of ABC & Co. You are informed that Bangalore branch accountshowed a debit balance of US $29845.35 on 31.3.2018 in New York books and there were no items pending reconciliation. **[RTP May '19]**

Ans. **M/s ABC & Co.**

Bangalore Branch Trial Balance in (US $)

as on 31st March, 2018

	Conversion rate per US $ Rs.	**Dr. US $**	**Cr. US $**
Stock on 1.4.17	55	5,454.55	-
Purchases and sales	58	13,793.10	20,689.66
Sundry debtors and creditors	60	6,666.67	5,000.00
Bills of exchange	60	2,000.00	4,000.00
Wages and salaries	58	9,655.17	-
Rent, rates and taxes	58	6,206.90	-
Sundry charges	58	2,758.62	-
Computers	-	6,000.00	-
Bank balance	60	7,000.00	-
New York office A/c	-	-	29,845.35
		59,535.01	**59,535.01**

Q-11 Pass necessary Journal entries in the books of an independent Branch of M/s TPL Sons, wherever required, to rectify or adjust the following transactions:

(i) Branch paid Rs.5,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.

(ii) A remittance of Rs.1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.

(iii) Branch assets accounts retained at head office, depreciation charged for the year Rs.15,000 not recorded by Branch.

(iv) Head Office expenses Rs.75,000 allocated to the Branch, but not yet been recorded by the Branch.

(v) Head Office collected Rs.60,000 directly from a Branch Customer. The intimation of the fact has not been received by the Branch.

(vi) Goods dispatched by the Head office amounting to Rs.50,000, but not received by the Branch till date of reconciliation.

(vii) Branch incurred advertisement expenses of Rs.10,000 on behalf of other Branches, but not recorded in the books of Branch.

(viii) Head office made payment of Rs.16,000 for purchase of goods by branch, but not recorded in branch books. **[RTP Nov '18]**

Ans. **Books of Branch**

Journal Entries

Amount Rs.

			Dr.	**Cr.**
(i)	Head Office Account	Dr.	5,000	
	To Salaries Account			5,000
	(Being rectification of salary paid on behalf of Head Office)			
(ii)	No entry in Branch Books is required.			
(iii)	Depreciation A/c	Dr.	15,000	
	To Head Office Account			15,000
	(Being depreciation of assets accounted for)			
(iv)	Expenses Account	Dr.	75,000	
	To Head Office Account			75,000
	(Being allocated expenses of Head Office recorded)			
(v)	Head Office Account	Dr.	60,000	
	To Debtors Account			60,000
	(Being adjustment entry for collection from Branch Debtors directly by Head Office)			
(vi)	Goods in-transit Account	Dr.	50,000	
	To Head Office Account			50,000
	(Being goods sent by Head Office still in-transit)			
(vii)	Head Office Account	Dr.	10,000	
	To expenses Account			50,000
	(Being expenditure incurred, wrongly recorded in books)			
(vii)	Purchases account A/c	Dr.	16,000	
	To Head Office Account			16,000
	(Being purchases booked)			

Q-12 Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit at selling price is constant at 25 per cent throughout the year to 31 st March, 2017.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal in 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch in head office.

The following details for the year ended 31 st March, 2017 are given as follows:

	Rs.		Rs.
Opening Stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,328
Sales	3,61,280		
Manager's commission paid on account	2,400		

From the above details, you are required to ***calculate the commission due to manager*** for the year ended 31st March, 2017. **[RTP May '18]**

Ans. Step: Calculation of Deficiency

Branch stock account (at invoice price)

Particulars	Rs.	Particulars	Rs.
To Opening Stock (Rs.74,736 + 1/3 of Rs.74,736)	99,648	By Sales	3,61,280
To Goods sent to Branch A/c (Rs.2,89,680 + 1/3 of Rs.2,89,680)	3,86,240	By Closing Stock	1,23,328
		By Deficiency at sale price [Balancing figure]	1,280
	4,85,888		4,85,000

Step 2 : Calculation of Net Profit before Commission

Branch account

Particular	Rs.	Particular	Rs.
To Opening [Rs.74,736 + 1/3 of Rs.74,736]	99,648	By Sales	3,61,280
To Gross sent to Branch A/c (Rs.2,89,680 + 1/3 of Rs.2,89,680)	3,86,240	By Closing Stock	1,23,328
To Expenses	49,120	By Stock Reserve A/c	24,912
To Stock Reserve A/c (Rs.1,23,328x25/1 00]	30,832	By goods sent to Branch A/c	96,560
To Net Profit - subject to manager's commission	40,240		
	6,06,080		**6,06,080**

Step 3 : Calculation of Commission still due to manager

		Rs.
A	Calculation at 10% profit before charging his commission [Rs.40,240x1 0/1 00]	4,024
B	Less; 25% of cost of deficiency in stock (25% of (75% of Rs.1,280)	(240)
C	Commission for the year [A-B]	3,784
D	Less; Paid on account	(2,400)
E	Balance due (C-D)	1,384

---0---0---

CHAPTER-14

Accounts from Incomplete Records

Q-1 The books of account of Mr. Maan of Mumbai showed the following figures:

	31.3.2018 `	31.3.2019 `
Furniture & fixtures	2,60,000	2,34,000
Stock	2,45,000	3,20,000
Debtors	1,25,000	?
Cash in hand & bank	1,10,000	?
Creditors	1,35,000	1,90,000
Bills payable	70,000	80,000
Outstanding salaries	19,000	20,000
An analysis of the cash book revealed the following:		
		`
Cash sales		16,20,000
Collection from debtors		10,58,000
Discount allowed to debtors		20,000
Cash purchases		6,15,000
Payment to creditors		9,73,000
Discount received from creditors		32,000
Payment for bills payable		4,30,000
Drawings for domestic expenses		1,20,000
Salaries paid		2,36,000
Rent paid		1,32,000
Sundry trade expenses		81,000

Depreciation is provided on furniture & fixtures @10% p.a. on diminishing balance method. Mr. Maan maintains a steady gross profit rate of 25% on sales.

You are required to prepare Trading and Profit and Loss account for the year ended 31st March, 2019 and Balance Sheet as on that date. **[RTP-May' 20]**

Ans. **Trading & Profit and Loss Account In the books of Mr. Maan for the year ended 31st March, 2019**

Particulars		Amount `	Particulars	Amount `
To	Opening stock	2,45,000	By Sales:	
To	Purchases:		Cash	16,20,000
	Cash	6,15,000	Credit (W.N.3)	11,00,000
Credit (W.N. 2)		15,00,000	By Closing stock	3,20,000
To	Gross profit c/d	6,80,000		
		30,40,000		30,40,000
To	Salaries (W.N.5)	2,37,000	By Gross profit b/d	6,80,000
To	Rent	1,32,000	By Discount received	32,000
To	Sundry trade expenses	81,000		
To	Discount allowed	20,000		
To	Depreciation on furniture & fixtures	26,000		
To	Net profit	2,16,000		
		7,12,000		**7,12,000**

Balance Sheet as at 31st March, 2019

Liabilities		Amount `		Amount `
Capital			Fixed assets	
Opening balance (W.N.7)	5,16,000		Furniture & fixtures	2,34,000
Add: Net profit	2,16,000		Current assets:	
	7,32,000		Stock	3,20,000
Less: Drawings	1,20,000	6,12,000	Debtors (W.N.4)	1,47,000
Current liabilities & provisions:			Cash & bank (W.N.6)	2,01,000
Creditors		1,90,000		
Bills payable		80,000		
Outstanding salaries		20,000		
		9,02,000		**9,02,000**

Working Notes:

1. Bills Payable Account

		`			`
To	Cash/Bank	4,30,000	By	Balance b/d	70,000
To	Balance c/d	80,000	By	Trade creditors (Bal. fig.)	4,40,000
		5,10,000			**5,10,000**

2. **Creditors Account**

		`		`
To	Cash/Bank	9,73,000	By Balance b/d	1,35,000
To	Bills payable A/c (W.N.1)	4,40,000	By Credit purchases (Bal. fig.)	15,00,000
To	Discount received	32,000		
To	Balance c/d	1,90,000		
		16,35,000		**16,35,000**

3. **Calculation of credit sales**

		`
Opening stock		2,45,000
Add: Purchases		
Cash purchases	6,15,000	
Credit purchases	15,00,000	21,15,000
		23,60,000
Less: Closing Stock		3,20,000
Cost of goods sold		20,40,000
Gross profit ratio on sales		25%
Gross profit ratio on sales		
Total sales $\left[` \ 20,40,000 \times \frac{100}{75} \right]$		27,20,000
Less: Cash sales		16,20,000
Credit sales		11,00,000

4. **Debtors Account**

		`		`
To	Balance b/d	1,25,000	By Cash/Bank	10,58,000
To	Credit sales (W.N.3)	11,00,000	By Discount allowed	20,000
			By Balance c/d (Bal. fig.)	1,47,000
		12,25,000		**12,25,000**

5. **Salaries**

	`
Salaries paid during the year	2,36,000
Add: Outstanding salaries as on 31.3.2019	20,000
	2,56,000
Less: Outstanding salaries as on 31.03.2018	19,000
	2,37,000

6. **Cash / Bank Account**

	`		`
To Balance b/d	1,10,000	By Cash purchases	6,15,000
To Cash sales	16,20,000	By Creditors	9,73,000
To Debtors	10,58,000	By Bills payable	4,30,000
		By Drawings	1,20,000
		By Salaries	2,36,000
		By Rent	1,32,000
		By Sundry trade expenses	81,000
		By Balance c/d	2,01,000
	27,88,000		**27,88,000**

7. **Balance Sheet as at 31st March, 2018**

	`		`
Creditors	1,35,000	Furniture & fixtures	2,60,000
Bills payable	70,000	Stock	2,45,000
Outstanding salaries	19,000	Debtors	1,25,000
Capital (Bal. fig.)	5,16,000	Cash & bank	1,10,000
	7,40,000		**7,40,000**

Q-2 Archana Enterprises maintain their books of accounts under single entry system. The Balance Sheet as on 31st March, 2018 was as follows :

Liabilities	**Amount(`)**	**Assets**	**Amount(`)**
Capital A/c	6,75,000	Furniture & fixtures	1,50,000
Trade creditors	7,57,500	Stock	9,15,000
Outstanding exp.	67,500	Trade debtors	3,12,000
		Prepaid insurance	3,000
		Cash in hand & at bank	1,20,000
	15,00,000		**15,00,000**

The following was the summary of cash and bank book for the year ended 31st March, 2019:

Receipts	**Amount(`)**	**Payments**	**Amount (`)**
Cash in hand & at Bank on 1st April, 2018	1,20,000	Payment to trade creditors	1,24,83,000
Cash sales	1,10,70,000	Sundry expenses paid	9,31,050
Receipts from trade debtors	27,75,000	Drawings	3,60,000
		Cash in hand & at Bank on 31st March, 2019	1,90,950
	1,39,65,000		**1,39,65,000**

Additional Information:

(i) Discount allowed to trade debtors and received from trade creditors amounted to ` 54,000 and ` 42,500 respectively, (for the year ended 31st March, 2019)

(ii) Annual fire insurance premium of ` 9,000 was paid every year on 1st August for the renewal of the policy.

(iii) Furniture & fixtures were subject to depreciation @ 15% p.a. on diminishing balance method.

(iv) The following are the balances as on 31st March, 2019 :

Stock	` 9,75,000
Trade debtors	` 3,43,000
Outstanding expenses	` 55,200

(v) Gross profit ratio of 10% on sales is maintained throughout the year.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2019, and Balance Sheet as on that date. **[Sugg.Nov.'19,10 Marks]**

Ans. **Trading and Profit and Loss Account of Archana Enterprises for the year ended 31st March, 2019**

	`			`
To Opening Stock	9,15,000	By Sales		
To Purchases (W.N. 2)	125,97,000	Cash	110,70,000	
To Gross profit c/d	13,93,000	Credit (W.N. 1)	28,60,000	139,30,000
(10% of 139,30,000)		By Closing stock		9,75,000
	149,05,000			**149,05,000**
To Sundry expenses (W.N. 4)	9,18,750	By Gross profit b/d		13,93,000
To Discount allowed	54,000	By Discount received		42,500
To Depreciation (15% `1,50,000)	22,500			
To Net Profit (b.f.)	4,40,250			
	14,35,500			**14,35,500**

Balance Sheet of Archana Enterprises as at 31st March, 2019

Liabilities		**Amount** `	**Assets**		**Amount** `
Capital			Furniture & Fittings	1,50,000	
Opening balance	6,75,000		Less: Depreciation	(22,500)	1,27,500
Less: Drawing	(3,60,000)		Stock		9,75,000
	3,15,000		Trade Debtors		3,43,000
Add: Net profit for the years	4,40,250	7,55,250	Unexpired insurance		3,000
Trade creditors (W.N. 3)		8,29,000	Cash in hand & at bank		1,90,950
Outstanding expenses		55,200			
		16,39,450			**16,39,450**

Working Notes:

1. **Trade Debtors Account**

		`			`
To	Balance b/d	3,12,000	By	Cash/Bank	27,75,000
To	Credit sales	28,60,000	By	Discount allowed	54,000
	(Bal. fig.)		By	Balance c/d	3,43,000
		31,72,000			**31,72,000**

2. **Memorandum Trading Account**

		`			`
To	Opening stock	9,15,000	By	Sales	139,30,000
To	Purchases (Balancing figure)	125,97,000	By	Closing stock	9,75,000
To	Gross Profit (10% on sales)	13,93,000			
		149,05,000			**149,05,000**

3. **Trade Creditors Account**

		`			`
To	Cash/Bank	124,83,000	By	Balance b/d	7,57,500
To	Discount received	42,500	By	Purchases (as calculated	125,97,000
To	Balance c/d	in W.N. 2)			
	(balancing figure)	8,29,000			
		133,54,500			**133,54,500**

4. **Computation of sundry expenses to be charged to Profit & Loss A/c**

	`
Sundry expenses paid (as per cash and Bank book)	9,31,050
Add: Prepaid expenses as on 31–3–2018	3,000
	9,34,050
Less: Outstanding expenses as on 31–3–2018	(67,500)
	8,66,550
Add: Outstanding expenses as on 31–3–2019	55,200
	9,21,750
Less: Prepaid expenses as on 31–3–2019 (Insurance paid till July, 2019) (9,000 x 4/12)	(3,000)
	9,18,750

Q-3 The following balances appeared in the books of M/s Sunshine Traders:

	As on 31-03-2018 (`)	**As on 31-03-2019 (`)**
Land and Building	2,50,000	2,50,000
Plant and Machinery	1,10,000	1,65,000
Office Equipment	52,500	42,500
Sundry Debtors	77,750	1,10,250
Creditors for Purchases	47,500	?
Provision for office expenses	10,000	7,500

Stock	?	32,500
Long Term loan from ABC Bank @ 10% per annum	62,500	50,000
Bank	12,500	?
Capital	4,65,250	?

Other information was as follows: In (`)

- Collection from Sundry Debtors 4,62,500
- Payments to Creditors for Purchases 2,62,500
- Payment of office Expenses 21,000
- Salary paid 16,000
- Selling Expenses paid 7,500
- Total sales 6,25,000

  Credit sales (80% of Total sales)
- Credit Purchases 2,70,000

  Cash Purchases (40% of Total Purchases)
- Gross Profit Margin was 25% on cost
- Discount Allowed 2,750
- Discount Received 2,250
- Bad debts 2,250
- Depreciation to be provided as follows:

  Land and Building - 5% per annum

  Plant and Machinery - 10% per annum

  Office Equipment - 15% Per annum
- On 01.10.2018 the firm sold machine having book value, ` 20,000 (as on 31.03.2018) at a loss of ` 7,500. New machine was purchased on 01.01.2019.
- Office equipment was sold at its book value on 01.04.2018.
- Loan was partly repaid on 31.03.2019 together with interest for the year.

You are required to prepare:

(i) Trading and Profit & Loss account for the year ended 31st March, 2019.

(ii) Balance Sheet as on 31st March 2019. **[Sugg. May '19, 12 Marks]**

Ans. **Trading and Profit and Loss A/c for the year ended 31.3.2019**

			`				`
To	Opening stock (Balancing figure)		82,500	By	Sales- Cash (W.N.1)	1,25,000	
To	Purchases-Cash	1,80,000			Credit	5,00,000	6,25,000
	Credit (W.N.1)	2,70,000	4,50,000	By	Closing stock		32,500
To	Gross profit c/d	1,25,000					
		6,57,500					**6,57,500**

To Loss on sale of Machine	7,500		By Gross profit b/d		1,25,000
To Depreciation			By Discount received		2,250
Land & Building	12,500				
Plant & Machinery	11,875				
Office Equipment	6,375	30,750			
To Expenses paid					
Salary	16,000				
Selling Expenses	7,500				
Office Expenses	18,500	42,000			
To Bed debt		2,250			
To Discount allowed		2,750			
To Interest on loan		6,250			
To Net profit		35,750			
		1,27,250			**1,27,250**

Balance Sheet as on 31-3-2019

Liabilities		`	**Assets**		`
Capital (Balancing Figure)	4,65,250		Land & Building	2,50,000	
Add: Net profit	35,750	5,01,000	Less: Depreciation	(12,500)	2,37,500
Sundry creditors (W.N.3)		52,750	Plant & Machinery	1,65,000	
Bank loan		50,000	Less: Depreciation	(10,875)	1,54,125
Provision for expenses		7,500	Office Equipment	42,500	
			Less: Depreciation	(6,375)	36,125
			Debtors		1,10,250
			Stock		32,500
			Bank balance (W.N.4)		40,750
		6,11,250			**6,11,250**

Working Notes :

1. Calculation of Sales and Purchases

Total sales = ` 6,25,000

Cash sales = 20% of total sales (6,25,000) = ` 1,25,000

Credit sales = 80% of total sales = (6,25,000) ` 5,00,000

Gross Profit 25% on cost = 6,25,000 x 25 / 125 = `1,25,000

Credit purchases = ` 2,70,000

Credit purchases = 60% of total purchases

Cash purchases = 40% of total purchases

Total purchases = 2,70,000 / 60 x 100 = ` 4,50,000

Cash purchases = 4,50,000 - 2,70,000 = ` 1,80,000

2. **Plant & Machinery**

	`		`
To Balance b/d	1,10,000	By Sale of Machinery A/c	20,000
To Cash-purchase (Bal. Fig.)	75,000	By Balance c/d	1,65,000
	1,85,000		1,85,000

Depreciation on Plant & Machinery:

@ 10% p.a. on ` 20,000 for 6 months	= 1,000
@ 10% p.a. on ` 90,000 (i.e. ` 1,10,000 - ` 20,000)	= 9,000
@ 10% p.a. on ` 75,000 for 3 months (i.e. during the year)	= 1,875
	11,875

Sale of Machinery Account

To Plant and Machinery	20,000	By Depreciation (20,000 x 10% x 1/2)	1000
		By Profit and Loss A/c	7,500
		By Bank (Balancing figure)	11,500
	20,000		**20,000**

3. **Creditors Account**

	`		`
To Cash	2,62,500	By Balance b/d	47,500
To Discount received	2,250	By Credit purchases (W.N.2)	2,70,000
To Balance c/d (Bal. Fig.)	52,750		
	3,17,500		**3,17,500**

Debtors Account

	`		`
To Balance b/d (Given)	77,750	By Cash	4,62,500
To Sales (Credit)	5,00,000	By Discount allowed	2,750
		By Bad debts	2,250
		By Balance c/d	1,10,250
	5,77,750		**5,77,750**

Provision for Office Expenses Account

	`		`
To Bank	21,000	By balance b/d	10,000
To balance c/d	7,500	By Expenses. (Bal. fig.)	18,500
	28,500		**28,500**

4. **Bank Account**

	`		`
To Balance b/d	12,500	By Creditors	2,62,500
To Debtors	4,62,500	By Purchases	1,80,000
To Office Equipment (sales)	10,000	By Expenses	
		` (16,000 + 7,500 + 21,000)	44,500
To Cash sales (W.N.1)	1,25,000	By Bank loan paid	18,750
To Machine sold	11,500	By Machine purchased (W.N.4)	75,000
		By Balance c/d (Bal. Fig.)	40,750
	6,21,500		**6,21,500**

5. Office Equipment Account

To balance b/d	52,500	By Sales	10,000
		By balance c/d	42,500
	52,500		**52,500**

Q-4 Aman, a readymade garment trader, keeps his books of account under single entry system. On the closing date, i.e. on 31st March, 2017 his statement of affairs stood as follows:

Liabilities	Amount `	Assets	Amount `
Aman's Capital	4,80,000	Building	3,25,000
Loan	1,50,00	Furniture	50,000
Creditors	3,10,00	Motor car	90,000
		Stock	2,00,000
		Debtors	1,70,00
		Cash in hand	20,000
		Cash at bank	85,000
	9,40,00		**9,40,000**

Riots occurred and a fire broke out on the evening of 31st March, 2018, destroying the books of accounts. On that day, the cashier had absconded with the available cash. You are furnished with the following information:

1. Sales for the year ended 31st March, 2018 were 20% higher than the previous year's sales, out of which, 20% sales were for cash. He always sells his goods at cost plus 25%. There were no cash purchases.
2. Collection from debtors amounted to ` 14,00,000, out of which ` 3,50,000 was received in cash.
3. Business expenses amounted to ` 2,00,000, of which ` 50,000 were outstanding on 31st March, 2018 and ` 60,000 paid by cheques.
4. Gross profit as per last year's audited accounts was ` 3,00,000.
5. Provide depreciation on building and furniture at 5% each and motor car at 20%.
6. His private records and the Bank Pass Book disclosed the following transactions for the year 2017-18:

	`
Payment to creditors (paid by cheques)	13,75,000
Perosnal drawings (paid by cheques)	75,000
Repairs (paid by cash)	10,000
Travelling expenses (paid by cash)	15,000
Cash deposited in bank	7,15,000
Cash withdran from bank	1,20,000

7. Stock level was maintained at ` 3,00,000 all throughout the year.
8. The amount defalcated by the cashier is to be written off to the Profit and Loss Account.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2018 and Balance Sheet as on that date of Aman. All the workings should form part of the answer.**[Sugg. Nov.'18, 15 Marks]**

Ans. Trading and Profit and Loss Account of Aman for the year ended 31st March, 2018

	`		`
To Opening Stock	2,00,000	By Sales	18,00,000
To Purchases (Bal. fig.)	15,40,000	By Closing Stock	3,00,000
To Gross Profit c/d	3,60,000		
	21,00,000		**21,00,000**

To Business Expenses	2,00,000	By Gross Profit b/d	3,60,00
To Repairs	10,000		
To Depreciation :			
Building 16,250			
Machinery 2,500			
Motor Car 18,000	36,750		
To Travelling Expenses	15,000		
To Loss by theft (cash defalcated	20,000		
To Net profit	78,250		
	3,60,000		3,60,000

Balance Sheet of Aman as at 31st March, 2018

Liabilites	`	`	Assets	`	`
Capital	4,80,000		Building	3,25,000	
Add:			Less : Depreciation	16,250	3,08,750
Net Profit	78,250		Furniture	50,000	
Drawings	75,000	4,83,250	Less : Depreciation	2,500	47,500
Loan		1,50,000	Motor Car	90,000	
			Less : Depreciation	18,000	72,000
Sundry Creditors		4,75,000	Stock in Trade		3,00,000
Outstanding business			Sundry Debtors		2,10,000
Expenses		50,000	Bank Balance		2,20,000
		11,58,250			11,58,250

Working Notes :

1. Cash and Bank Account

Particular	Cash	Bank	Particulars	Cash	Bank
To Balance b/d	20,000	85,000	By Payment to Creditors	-	13,75,000
To Collection from Debtors	3,50,000	10,50,000	By Business Expenses	90,000	60,000
To Sales (18,00,000 x 20%)	3,60,000	-	By Repair	10,000	-
To Cash (C)	-	7,15,000	By Cash (C) (withdrawal)		1,20,000
			By Bank (c)	7,15,000	
To Bank (C)	1,20,000	-	By Travelling Expenses	15,000	-
			By Private Drawings	-	75,000
			By Balance c/d		2,20,000
			By Cash defalcated (balancing fig.)	20,000	
	8,50,000	**18,50,000**		**8,50,000**	**18,50,000**

2. Calculation of sales during 2017-18

Gross profit (last year i.e. for year ended 31-3-2017)	3,00,000
Goods sold at cost plus 25% i.e. 20% of sales	15,00,000
Sales for 2016-17 3,00,000/0.2	
Sales for 2017-18 (15,00,000 x 1.2)	18,00,000
Credit sales for 2017-18	17,40,000 (80% of 18,00,000)

3. Debtors Acounting

To Bal. b/d	1,70,000	By	Cash	3,50,000
To Sales (18,00,000 x 80%)	14,40, 000	By	Bank	10,50,000
		By	Bal. c/d	2,10,000
	16,10,000			16,10,000

4. Creditors Account

To Bank	13,75,000	By	Bal. b/d	3,10,000
To Bal. c/d (bal. fig.)	4,75,000	By	Purchases	15,40,000
	18,50,000			18,50,000

Q-5 Mr. Aman is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Aman for the financial year 2018-19, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information:

On 31st March, 2018	
Sundry Assets	Rs. 16,65,000
Liabilities	Rs. 4,13,000
On 31st March, 2019	
Sundry Assets	Rs. 28,40,000
Liabilities	Rs. 5,80,000
Mr. Aman's drawings for the year 2018-19	Rs. 32,000 per month
Income declared to the Income Tax Officer	Rs. 9,12,000

During the year 2018-19, one life insurance policy of Mr. Aman was matured and amount received Rs. 50,000 was retained in the business.

State whether the Income Tax Officer's contention is correct. Explain by giving your working.

[MTP Oct. '19, 4 Marks]

Ans. **Determination of Capital balances of Mr. Aman on 31.3.2018 and 31.3.2019**

	31.3.2018 Rs.	31.3.2019 Rs.
Assets	16,65,000	28,40,000
Less: Liabilities	(4,13,000)	(5,80,000)
Capital	12,52,000	22,60,000

Determination of Profit by applying the method of the capital comparison

	Rs.
Capital Balance as on 31-3-2019	22,60,000
Less: Fresh capital introduced (matured life insurance policy amount)	(50,000)
	22,10,000
Add: Drawings (Rs. 32,000 x 12)	3,84,000
	25,94,000
Less: Capital Balance as on 1.4.2018	(12,52,000)
Profit	13,42,000
Income declared	9,12,000
Suppressed Income	4,30,000

The Income-tax officer's contention that Mr. Aman has not declared his true income is correct. Mr. Aman's true income is in excess of the disclosed income by Rs. 4,30,000.

Note:

. Closing capital is increased due to fresh capital introduction, so it is deducted.

. Closing capital was reduced due to withdrawal by proprietor; so it is added back.

Q-6 Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained Rs. 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	As on 1.4.2016	As on 31.3.2017
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000(Dr.)
Sundry Debtors	1,00,000	3,50,000
Stockin Trade	2,80,000	?
Ram's capital	3,00,000	

Analysis of his bank pass book reveals the following information:

(a) Payment to creditors Rs. 7,00,000

(b) Payment for business expenses Rs. 1,20,000

(c) Receipts from debtors Rs. 7,50,000

(d) Loan from Laxman Rs. 1,00,000 taken on 1.10.2016 at 10% per annum

(e) Cash deposited in the bank Rs. 1,00,000

He informs you that he paid creditors for goods Rs. 20,000 in cash and salaries Rs. 40,000 in cash. He has drawn Rs. 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales.

You are required to prepare:

(i) Trading and Profit and Loss Account for the year ended 31.3.2017.

(ii) Balance Sheet as at 31st March, 2017. **[MTP March '19, 12 Marks]**

Ans. **Trading and Profit and Loss Account for the year ended 31st March, 2017**

	Rs.		Rs.
To Opening stock	2,80,000	By Sales	
To Purchases	7,70,000	Cash 2,40,000	
To Gross Profit @ 25%	3,10,000	Creditor 10,00,000	12,40,000
		By Closing Stock (bal.fig)	1,20,000
	13,60,000		13,60,000
To Salaries	40,000	By Gross Profit	3,10,000
To Business expenses	1,20,000		
To Interest on loan	5,000		
(10% of 1,00,000*6/12)			
To Net Profit	1,45,000		
	3,10,000		**3,10,000**

Balance Sheet as at 31st March, 2017

Liabilitities	Rs.	Rs.	Assets	Rs.
Ram'scapital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	1,45,000		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000
Less; Drawings	(80,000)	3,65,000		
Loan from Laxman		1,05,000		
(including interestdue)				
Sundry Creditors		90,000		
		5,60,000		**5,60,000**

Working Notes :

1. Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	1,00,000	By Bank A/c	7,50,000
To Credit sales (Bal.fig)	10,00,000	By Balance c/d	3,50,000
	11,00,000		11,00,000

2. Sundry Creditor Account

	Rs.		Rs.
To Bank A/c	7,00,000	By Balance b/d	7,50,000
To Cash A/c	20,000	By Purchases (Bal. Fig)	7,70,000
To Balance c/d	90,000		
	8,10,000		**8,10,000**

3. Cash and Bank Account

	Cash Rs.	Bank Rs.		Cash Rs.	Bank Rs.
To Balance b/d	10,000		By Balance b/d		50,000
To Sales (bal. fig)	2,40,000		By Bank/Vc(C)	1,00,000	
To Cash (C)		1,00,000	By Salaries	40,000	
To Debtors		7,50,000	By Creditors	20,000	7,00,000
To Laxman'sloan		1,00,000	By Drawings	80,000	
			By Business expenses		1,20,000
			By Balance c/d	10,000	80,000
	2,50,000	**9,50,000**		**2,50,000**	**9,50,000**

Q-7 The following is the Balance Sheet of Chirag as on 31st March, 2015:

Liabilities	Rs.	Assets	Rs.
Capital Account	48,000	Building	32,500
Loan	15,000	Furniture	5,000
Creditor	31,000	Motor car	9,000
		Stock	20,000
		Debtors	17,000
		Cash in hand	2,000
		Cash at bank	8,500
	94,000		**94,000**

A riot occurred on the night of 31st March, 2016 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

(a) His sales for the year ended 31st March, 2016 were 20% higher than the previous year's. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2016 were for cash. There were no cash purchases

(b) On 1st April, 2015 the stock level was raised to Rs. 30,000 and stock was maintained at this new level all throughout the year.

(c) Collection from debtors amounted to Rs. 1,40,000 of which Rs. 35,000 was received in cash, Business expenses amounted to Rs. 20,000 of which Rs. 5,000 was outstanding on 31st March, 2016 and Rs. 6,000 was paid by cheques.

(d) Analysis of the Pass Book revealed the Payment to Creditors Rs. 1,37,500, Personal Drawing Rs. 7,500, Cash deposited in Bank Rs. 71,500, and Cash withdrawn from Bank Rs. 12,000.

(e) Gross profit as per last year's audited accounts was Rs. 30,000.

(f) Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.

(g) The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2016 and Balance Sheet as on that date. **[MTP April '19, 10 Marks]**

Ans. **Trading and Profit Loss Account for the year ending on 31st March, 2016**

Particular		Rs.	Particular	Rs.
To Opening Stock		20,000	By Sales	1,80,000
To Purchases (bal .fig.);		1,54,000	By Closing Stock	30,000
To Gross Profit c/d (@20% on sales)		36,000		2,10,000
To Sundry Business Expenses		20,0000	By Gross Profit b/d	36,000
To Depreciation on Building	1,625			
Funiture	250			
Motor	1,800	3,675		
To Net profit transferred to Capital A/c		12,325		
		36,000		**36,000**

Balance Sheet as at 31st March, 2016

Liabilities		Rs.	Assets		Rs.
Capital Account:			Building		32,500
Opening Balance	48,000		Less; Depreciation	(1,625)	30,875
Add: Net profit	12,325		Furniture	5,000	
	60,325		Less; Depreciation	(250)	4,750
Less; Drawings	(7,500)	52,825	Motor Car	9,000	
Loan		15,000	Less; Depreciation	(1,800)	7,200
Sundry Creditors		47,500	Stock in trade		30,000
Outstanding Expenses		5,000	Sundry Debtors		21,000
			Cash at Bank		22,000
			Sundry Advances (Amount recoverable from Cashier)		4,500
		1,20,325			**1,20,325**

Working Notes :

(i) **Total Debtors Amount**

Particular	**Rs.**	**Particular**	**Rs.**
To Balance b/d	17,000	By Bank (Rs.1,40,000-Rs.35,000)	1,05,000
To Sales (80% of Rs.1,80,000)	1,44,000	By Cash A/c	35,000
		By Balance c/d	21,000
	1,61,000		1,61,000

(ii) **Total Creditor Account**

Particular	**Rs.**	**Particular**	**Rs.**
To Bank	1,37,500	By Balance b/d	31,000
To Balance c/d	47,500	By Pruchases	1,54,000
	1,85,000		1,85,000

(iii) Cash Book

Particulars	**Cash Rs.**	**Bank Rs.**	**Particulars**	**Cash Rs.**	**Bank Rs.**
To Balance b/d	2,000	8,500	By Business Expenses	9,000	6,000
To sales	36,000	-	By drawings	-	7,500
To Sundry Debtors	35,000	1,05,000	By Sundry Creditors	-	1,37,500
To Cash (Contra)	-	71,500	By Bank (Contra)	71,500	-
To Bank (Contra)	12,000		By Cash (Contra)	-	12,000
			By Defalcation (Bla.Fig)	4,500	-
			By Balance c/d (Bal.Fig)		
	85,000	1,85,000		85,000	1,85,000

(iv) Last year's Total Sales = Gross Profit x 100/20 = Rs.30,000 x 100/20 = Rs.1,50,000

(v) Current year's total Sales = Rs.1,50,000 + 20% of Rs.1,50,000 = Rs.1,80,000

(vi) Current year's Credit Sales =Rs.1,80,000 x 80% = Rs.1,44,000

(vii)Cos of Goods Sold = Sales - G.P. = Rs.1,80,000 - Rs.36,000 = Rs.1,44,000

(vii)Purchases = Cost of Goods Sold + Closing stock - Opening Stock

= Rs.1,44,000 + Rs.30,000 - Rs.20,000 = Rs.1,54,000.

Q-8 The following is the Balance Sheet of Chirag as on 31st March, 2015:

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital Account	48,000	Building	32,500
Loan	15,000	Furniture	5,000
Creditor	31,000	Motor car	9,000
		Stock	20,000
		Debtors	17,000
		Cash in hand	2,000
		Cash at bank	8,500
	94,000		**94,000**

A riot occurred on the night of 31st March, 2016 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

(a) His sales for the year ended 31st March, 2016 were 20% higher than the previous year's. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2016 were for cash. There were no cash purchases

(b) On 1st April, 2015 the stock level was raised to Rs. 30,000 and stock was maintained at this new level all throughout the year.

(c) Collection from debtors amounted to Rs. 1,40,000 of which Rs. 35,000 was received in cash, Business expenses amounted to Rs. 20,000 of which Rs. 5,000 was outstanding on 31st March, 2016 and Rs. 6,000 was paid by cheques.

(d) Analysis of the Pass Book revealed the Payment to Creditors Rs. 1,37,500, Personal Drawing Rs. 7,500, Cash deposited in Bank Rs. 71,500, and Cash withdrawn from Bank Rs. 12,000.

(e) Gross profit as per last year's audited accounts was Rs. 30,000.

(f) Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.

(g) The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2016 and Balance Sheet as on that date. **[MTP April '18, 10 Marks]**

Ans.

Trading and Profit and Loss Account

For the year ending on 31st March, 2016

Particulars		**Rs.**	**Particulars**	**Rs.**
To Opening Stock		20,000	By Sales	1,80,000
To Purchases (bal.fig.);		1,54,000	By Closing Stock	30,000
To Gross Profit c/d (@20% on sales)		36,000		2,10,000
		2,10,000		
To Sundry Business Expenses		20,000	By Gross Profit b/d	36,000
To Depreciation on Building	1,625			
Furniture	250			
Motor	1,800	3,675		
To Net profit transferred to Capital A/c		12,325		
		36,000		**36,000**

Balance Sheet as at 31st March, 2016

Liabilities		**Rs.**	**Assets**		**Rs.**
Capital Account:			Building	32,500	
Opening Balance	48,000		Less; Depreciation	(1,625)	30,875
Add: Net profit	12,325		Furniture	5,000	
	60,325		Less; Depreciation	(250)	4,750
Less; Drawings	(7,500)	52,825	Motor Car	9,000	
Loan		15,000	Less; Depreciation	(1,800)	7,200
Sundry Creditors		47,500	Stock in trade		30,000
Outstanding Expenses		5,000	Sundry Debtors		21,000
			Cash at Bank		22,000
			Sundry Advances (Amount recoverable from Cashier)	4,500	
		1,20,325			**1,20,325**

Working Notes :

(i) **Total Debtors Account**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	17,000	By Bank (Rs.1,40,000 - Rs.35,000)	1,05,000
To Sales (80% of Rs. 1,80,000)	1,44,0000	By Cash A/c	35,000
		By Balance c/d	21,000
	1,61,000		**1,61,000**

(ii) **Total Creditors Account**

Particulars	Rs.	Particulars	Rs.
To Bank	1,37,500	By Balalnce b/d	31,000
To Balance c/d	47,500	By Purchases	1,54,000
	1,85,000		1,85,000

(iii) **Cash Book**

Particulars	Cash Rs.	Bank Rs.	Particulars	Cash Rs.	Bank Rs.
To Balance b/d	2,000	8,500	By Business Expenses	9,000	6,000
To Sales	36,000	-	By Drawings	-	7,500
To Sundry Debtors	35,000	1,05,000	By Sundry Creditors	-	1,37,500
To Cash (Contra)	-	71,500	By Bank (Contra)	71,500	-
To Bank (Contra)	12,000		By Cash (Contra)	-	12,000
			By Defalcation (Bal fig.)	4,500	-
			By Balance c/d (Bal fig.)	22,000	
	85,000	**1,85,000**		**85,000**	**1,85,000**

(iv) Last year's Total Sales = Gross Profit x 100/20 = Rs. 30,000 x 100/20 = Rs. 1,50,000

(v) Current year's Total Sales = Rs. 1,50,000+20% of Rs. 1,50,000= Rs. 1,80,000

(vi) Current year's Credit Sales = Rs. 1,80,000 x 80%= Rs. 1,44,000

(vii)Cost of Goods Sold = Sales - G.P. = Rs. 1,80,000 - Rs. 36,000 = Rs. 1,44,000

(viii)Purchases = Cost of Goods Sold + Closing Stock - Opening Stock

= Rs. 1,44,000 + Rs. 30,000 - Rs. 20,000 = Rs. 1,54,000

Q-9 Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained Rs.10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liability	As on 1.4.2016	As on 31.3.2017
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000(Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?
Ram's capital	3,00,000	

Analysis of his bank pass book reveals the following information:

(a) Payment to creditors Rs.7,00,000

(b) Payment for business expenses Rs.1,20,000

(c) Receipts from debtors Rs.7,50,000

(d) Loan from Laxman Rs.1,00,000 taken on 1.10.2016 at 10% per annum

(e) Cash deposited in the bank Rs.1,00,000

He informs you that he paid creditors for goods Rs.20,000 in cash and salaries Rs.40,000 in cash. He has drawn Rs.80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales.

You are required to prepare:

(i) Trading and Profit and Loss Account for the year ended 31.3.2017.

(ii) Balance Sheet as at 31st March, 2017. **[MTP March '18, 10 Marks]**

Ans. **Trading and profit and loss account for the year ended 31st March, 2017**

	Rs.		Rs.
To Opening stock	2,80,000	By Sales	
To Purchases	7,70,000	Cash 2,40,000	
To Gross Profit @ 25%	3,10,000	Credit 10,00,000	12,40,000
		By Closing Stock (bal.fig.)	1,20,000
	13,60,000		13,60,000
To Salaries	40,000	By Gross Profit	3,10,000
To Business expenses	1,20,000		
To Interest on loan (10% of 1,00,000*6/1 2)	5,000		
To Net Profit	1,45,000		
	3,10,000		3,10,000

Balance Sheet as at 31st March, 2017

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	1,45,000		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000
Less; Drawings	(80,000)	3,65,000		
Loan from Laxman (including interest due)		1,05,000		
Sundry Creditors		90,000		
		5,60,000		**5,60,000**

Working Notes:

1. Sundry Debtors Account

	Rs.		Rs.
To Balance c/d	1,00,000	By Bank A/c	7,50,000
To Credit sales (Bal.fig)	10,00,000	By Balance c/d	3,50,000
	11,00,000		**11,00,000**

2. Sundray Creditor Account

	Rs.		Rs.
To Bank A/c	7,00,000	By Balance b/d	40,000
To Cash A/c	20,000	By Purchased (Bal.fig)	7,70,000
To Balance c/d	90,000		
	8,10,000		**8,10,000**

3. Cash and Bank Account

	Cash Rs.	Bank Rs.		Cash Rs.	Bank Rs.
To Balance b/d	10,000		By Balance b/d		50,000
To Sales (bal. fig)	2,40,000		By Bank A/c (C)	1,00,000	
To Cash (C)		1,00,000	By Salaries	40,000	
To Debtors		7,50,000	By Creditors	20,000	7,00,000
To Laxman's loan		1,00,000	By Drawings	80,000	
			By Business expenses		1,20,000
			By Balance c/d	10,000	80,000
	2,50,000	**9,50,000**		**2,50,000**	**9,50,000**

Q-10 Following is the incomplete information of Jyotishikha Traders:

The following balances are available as on 31.03.2018 and 31.03.2019.

Balances	**31.03.2018**	**31.03.2019**
Land and Building	5,00,000	5,00,000
Plant and Machinery	2,20,000	3,30,000
Office equipment	1,05,000	85,000
Debtors (before charging for Bad debts)	?	2,25,000
Creditors for purchases	95,000	?
Creditors for office expenses	20,000	15,000
Stock	?	65,000
Long term loan from SBI @ 12%.	1,60,000	100,000
Bank	25,000	?
Other Information	In `	
Collection from debtors	9,25,000	
Payment to creditors for purchases	5,25,000	
Payment of office expenses (excluding interest on loan)	42,000	
Salary paid	32,000	
Selling expenses	15,000	
Cash sales	2,50,000	
Credit sales (80% of total sales)		
Credit purchases	5,40,000	
Cash purchases (40% of total purchases)		
GP Margin at cost plus 25%		
Discount Allowed	5,500	
Discount Received	4,500	
Bad debts (2% of closing debtors)		
Depreciation to be provided as follows:		
Land and Building	5%	
Plant and Machinery	10%	
Office Equipment	15%	

Other adjustments:

(i) On 01.10.18 they sold machine having Book Value ` 40,000 (as on 31.03.2018) at a loss of ` 15,000. New machine was purchased on 01.01.2019.

(ii) Office equipment was sold at its book value on 01.04.2018.

(iii) Loan was partly repaid on 31.03.19 together with interest for the year.

You are required to prepare Trading, Profit & Loss Account and Balance Sheet as on 31.03.2019.

[RTP Nov.'19]

Ans.

In the Books of Jyotishikha Traders

Trading Account for the year ended 31.03.2019

Particulars	`	Particulars	`
To Opening Stock A/c (Bal. fig.)	1,65,000	By Sales (W.N.1)	12,50,000
To Purchases (W.N.2)	9,00,000	By Closing Stock	65,000
To Gross profit (12,50,000x25/125)	2,50,000		
	13,15,000		**13,15,000**

Profit and Loss Account for the year ended 31.03.2019

Particulars		`	Particulars	`
To Discount		5,500	By Gross profit	2,50,000
To Salaries Expenses	32,000		By Discount	4,500
To Office expenses (W.N.3)	37,000			
To Selling expenses	15,000	84,000		
To Interest on loan (12% on `1,60,000)		19,200		
To Bad debts (2% of `2,25,000)		4,500		
To Loss on sale of Machinery		15,000		
To Depreciation:				
Land & Building	25,000			
Plant &Machinery (W.N 4b)	23,750			
Office Equipment (W.N. 5)	12,750	61,500		
To Net profit after tax		64,800		
		2,54,500		**2,54,500**

Balance sheet as on 31.3.2019

Liabilities	`	`	Assets	`
Capital (W.N. 6)	8,95,500		Land and Building (5,00,000-25,000)	4,75,000
Add: Net Profit	64,800	9,60,300	Plant and Machinery (W.N.4a) (3,30,000-21,750)	3,08,250
Creditors for Purchases (W.N. 8)	1,05,500		Office Equipment (85,000-12,750)	72,250
Outstanding expenses		15,000	Debtors less Bad debts (W.N. 7)	2,20,500
Loan from SBI		1,00,000		
			Stock	65,000
			Bank Balance (W.N. 9)	39,800
		11,80,800		**11,80,800**

Working Notes:

1. Calculation of Total Sales

	`
Cash Sales	2,50,000
Credit Sales (80% of total sales)	
Cash Sales (20% of total sales)	
Thus total Sales (250000 x 100/20)	12,50,000
Credit Sales (1250000 x 80/100)	10,00,000

2. Calculation of Total Purchases

	`
Credit Purchases	5,40,000
Cash Purchases (40% of total purchases)	
Credit Purchases (60% of total purchases)	
Thus total Purchases (5,40,000 x 100/60)	9,00,000
Cash Purchases 9,00,000 x 40/100)	3,60,000

3. Office Expenses Account

	`		`
To Bank A/c	42,000	By Balance b/d	20,000
To Balance c/d	15,000	By Profit & loss A/c	37,000
	57,000		**57,000**

4. (a) Plant and Machinery Account

	`		`
To Opening balance	2,20,000	By Sale	40,000
To Purchases	1,50,000	By Closing Balance	3,30,000
	3,70,000		**3,70,000**

(b) Depreciation calculations on Plant & Machinery

		`
Depreciation on	1,80,000 x 10% (for full year)	18,000
	1,50,000 x 10% x 3/12 (for 3 months)	3,750
	40,000 x 10% x 6/12 (for 6 months)	2,000
		23,750

(c) Sale of Machinery Account

	Amount (`)		**Amount (`)**
To Plant & Machinery	40,000	By Depreciation	2,000
By Profit and Loss A/c	15,000	By Bank	23,000
	40,000		**40,000**

5. Depreciation calculations on Office Equipments

	`
Opening Balance	1,05,000
Less: Closing Balance	85,000
Sale of Office Equipment	20,000
Balance of Office Equipment after sale	85,000
Depreciation @15%	12,750

6. Opening Balance Sheet as on 31.03.2018

	`		`
Creditors	95,000	Land & Building	5,00,000
Creditor for Exp.	20,000	Plant & Machinery	2,20,000
Loan	1,60,000	Office Equipment	1,05,000
Capital (Bal. fig.)	8,95,500	Debtors	1,55,500
		Stock	1,65,000
		Bank	25,000
	11,70,500		**11,70,500**

7. Sundry Debtors A/c

	`		`
To Balance b/d	1,55,500	By Bank	9,25,000
To Sales	10,00,000	By Discount	5,500
		By Bad debts	4,500
		By Bal. c/d	2,20,500
	11,55,500		**11,55,500**

8. Sundry Creditors A/c

	`		`
To Bank	5,25,000	By Balance b/d	95,000
To Discount	4,500	By Purchases	5,40,000
To Balance c/d	1,05,500		
	6,35,000		**6,35,000**

9. Bank Account

	`		`
To Balance b/d	25,000	By Creditors	5,25,000
To Debtors	9,25,000	By Office Expenses	42,000
To Cash Sales	2,50,000	By Salary Expense	32,000
To Sale of Machinery (W.N. 4c)	23,000	By Selling Expenses	15,000
To Sale of equipment	20,000	By Purchases (cash)	3,60,000
		By Purchase of Machinery	1,50,000
		By Bank Loan & Interest	79,200
		By Balance c/d	39,800
	12,43,000		**12,43,000**

Q-11 From the following information in respect of Mr. Preet, prepare Trading and Profit and Loss Account for the year ended 31st March, 2018 and a Balance Sheet as at that date:

	31-03-2017	**31-03-2018**
(1) Liabilities and Assets	**Rs.**	**Rs.**
Stock in trade	1,60,000	1,40,000
Debtors for sales	3,20,000	?

Bills receivable	-	?
Creditors for purchases	2,20,000	3,00,000
Furniture at written down value	1,20,000	1,27,000
Expenses outstanding	40,000	36,000
Prepaid expenses	12,000	14,000
Cash on hand	4,000	3,000
Bank Balance	20,000	1,500

(2) Receipts and Payments during 2017-2018:

Collections from Debtors (after allowing 2-1/2% discount)	11,70,000
Payments to Creditors (after receiving 2% discount)	7,84,000
Proceeds of Bills receivable discounted at 2%)	1,22,500
Proprietor's drawings	1,40,000
Purchase of furniture on 30.09.2017	20,000
12% Government securities purchased on 1-10-2017	2,00,000
Expenses	3,50,000
Miscellaneous Income	10,000

(3) Sales are effected so as to realize a gross profit of 50% on the cost.

(4) Capital introduced during the year by the proprietor by cheques was omitted to be recorded in the Cash Book, though the bank balance on 31st March, 2018 (as shown above), is after taking the same into account.

(5) Purchases and Sales are made only on credit.

(6) During the year, Bills Receivable of Rs.2,00,000 were drawn on debtors, out of these, Bills amount to Rs.40,000 were endorsed in favour of creditors. Out of this latter amount, a Bill for Rs.8,000 was dishonoured by the debtor. **[RTP May '19]**

Ans. **Trading and Profit & Loss Account for the year ended 31st March, 2018**

	US $		US $
To Opening Stock	5,454.55	By Sales	20,689.66
To Purchases	13,793.10	By Closing stock (Rs.4,20,000/60)	7,000.00
To Wages and salaries	9,655.17	By Gross Loss c/d	1,213.16
	28,902.82		28,902.82
To Gross Loss b/d	1,213.16	By Net Loss	13,778.68
To Rent, rates and taxes	6,206.90		
To Sundry charges	2,758.62		
To Depreciation on computers (US $ 6,000 x 0.6)	3,600.00		
	13,778.68		**13,778.68**

Balance Sheet of Bangalore Branch as on 31st March, 2018

Liabilities		**US$**	**Assets**	**US$**	**US$**
New York Office A/c	29,845.35		Computers	6,000.00	
Less; Net Loss	(13,778.68)	16,066.67	Less;	(3,600.00)	2,400.00

		Depreciation	
Sundry creditors	5,000.00	Closing stock	7,000.00
Bills payable	4,000.00	Sundry debtors	6,666.67
		Bills receivable	2,000.00
		Bank balance	7,000.00
	25,066.67		**25,066.67**

Trading and Profit and Loss Account of Mr. Preet For the year ended 31st March, 2018

	Amount Rs.		Amount Rs.
To Opening stock	1,60,000	By Sales	13,98,000
To Purchases (W.N. 5)	9,12,000	By Closing stock	1,40,000
To Gross profit c/d (Bal.fig.)	4,66,000		
	15,38,000		15,38,000
To Expenses (W.N. 7)	3,44,000	By Gross profit b/d	4,66,000
To Discount allowed (W.N. 9)	32,500	By Discount received (W.N.10)	16,000
To Depreciation on furniture (W.N.1)	13,000	By Interest on Govt. Securities (W.N. 8)	12,000
To Net profit	1,14,500	By Miscellaneous income	10,000
	5,04,000		**5,04,000**

Balance Sheet of Mr. Preet as on 31st March, 2018

Liabilities		**Amount Rs.**	**Assets Rs.**	**Amount**
Capital (W.N.6)	3,76,000		Furniture	1,27,000
Add: Additional capital (W.N.2)	1,72,00		12% Government Securities	2,00,000
			Accrued interest on Govt.	
Add : Profit during the year	1,14,500		securities (W.N.8)	12,000
	6,62,500		Debtors (W.N.3)	3,26,000
Less: Drawing	1,40,000	5,22,500	Bills Receivable (W.N.4)	35,000
Creditors		3,00,000	Stock	1,40,000
Outstanding expenses		36,000	Prepaid expenses	14,000
			Cash on hand	3,000
			Bank balance	1,500
		8,58,500		**8,58,500**

Working Notes:

1. **Furniture account**

	Rs.		Rs.
To Balance b/d	1,20,000	By Depreciation (bal.Fig.)	13,000
To Bank	20,000	By Balance c/d	1,27,000
	1,40,000		**1,40,000**

2. **Cash and Bank account**

	Rs.		Rs.
To Balance b/d		By Creditors	7,84,000
Cash	4,000	By Drawing	1,40,000
Bank	20,000	By Furniture	20,000

To Debtors	11,70,000	By 12% Govt. secutirites	2,00,000
To Bill receivable	1,22,500	By expenses	3,50,000
To Micellaneous income	10,000	By Balance c/d	
To Additinal Capital (bal.fig)	1,72,000	Cash	3,000
		Bank	1,500
	14,98,500		**14,98,500**

3. Debtors account

	Rs.		**Rs.**
To balance b/d	3,20,000	By Cash and Bank	11,70,000
To Creditors (Bills receivable dishonoured)	8,000	By Discount	30,000
To Sales (W.N.1)	13,98,000	By Bills Receivable	2,00,000
		By balance c/d (bal.fig)	3,26,000
	17,26,000		**17,26,000**

4. Bills Receivable account

	Rs.		**Rs.**
To Debtors	2,00,000	By Bank	1,22,500
		By Discount	2,500
		By Creditors	40,000
		By Balance c/d (bal. fig.)	35,000
	2,00,000		**2,00,000**

5. Creditors account

	Rs.		**Rs.**
To Bank	7,84,000	By Balance b/d	2,20,000
To Discount	16,000	By Debtors (Bills receivable dishonoured)	8,000
To Bills receivable	40,000	By Purchases (bal. fig.)	9,12,000
To Balance c/d	3,00,000		
	11,40,000		11,40,000

6. Balance Sheet as on 1st April, 2017

Liabilities	**Rs.**	**Assets**	**Rs.**
Creditors	2,20,000	Furniture	1,20,000
Outstanding expenses	40,000	Debtors	3,20,000
Capital (balancing figure)	3,76,000	Stock	1,60,000
		Prepaid expenses	12,000
		Cash	4,000
		Bank balance	20,000
	6,36,000		6,36,000

7. Expenses incurred during the year

		Rs.
Expenses paid during the year		3,50,000
Add: Outstanding expenses as on 31 .3.2018	36,000	
Prepaid expenses as on 31.3.2017	12,000	48,000
		3,98,000
Less: Outstanding expenses as on 31.3.2017	40,000	
Prepaid expenses as on 31.3.2018	14,000	54,000
Expenses incurred during the year		3,44,000

8. Interest on Government securities

2,00,000 x 12% x 6/12 = Rs.12,000

Interest on Government securities receivables for 6 monhts = Rs.12,000

9. Discount allowed

		Rs.
Discount to Debtors	$\left(\frac{11,70,000}{97.5\%} \times 2.5\%\right)$	30,000
Discount on Bills Receivable	$\left(\frac{1,22,500}{98\%} \times 2\%\right)$	2,500
		32,500

10. Discount received

		Rs.
Discount to Creditors	$\left(\frac{7,84,000}{98\%} \times 2\%\right)$	16,000

11. Credit slaes

Cash of Goods sold = Opening stock + net purchases - Closing stock

= Rs.1,60,000 + Rs.9,12,000 - Rs.1,40,000

= Rs.9,32,000

Sale price = Rs.9,32,000 + 50% of 9,32,000 = Rs.13,98,000.

Q-12 The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and Profit & Loss A/c for the year ended 31st March, 2017 and a Balance Sheet as on that date.

(a) Assets and Liabilities as on:

	1-4-2016	**in Rs.** **31-3-2017**
Furniture	60,000	63,500
Inventory	80,000	70,000
Sundry Debtors	1,60,000	?
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000
Cash in Hand & Bank Balance	12,000	26,250

(b) Cash transaction during the year:

(i) Collection from Debtors, after allowing discount of Rs.15,000 amounted to Rs.58,85,000

(ii) Collection on discounting of Bills of Exchange, after deduction of discount of Rs.1,250 by bank, totalled to Rs.61,250.

(iii) Creditors of Rs.4,00,000 were paid Rs.3,92,000 in full settlement of their dues.

(iv) Payment of Freight inward of Rs.30,000.

(v) Amount withdrawn for personal use Rs.70,000.

(vi) Payment for office furniture Rs.10,000.

(vii) Investment carrying annual interest of 6% were purchased at Rs.95 (200 shares, face value Rs.100 each) on 1st October 2016 and payment made thereof.

(viii) Expenses including salaries paid Rs.95,000. (ix) Miscellaneous receipt of Rs.5,000.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to Rs. 1,00,000. Of these, bills of exchange of Rs.20,000 were endorsed in favour of creditors. An endorsed bill of exchange of Rs.4,000 was dishonoured.

(d) Goods costing Rs.9,000 were used as advertising material.

(e) Goods are invariably sold to show a gross profit of 20% on sales.

(f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC enterprises.

(g) Provide at 2% for doubtful debts on closing debtors. Partnership Accounts: Dissolution of Partnership.

[RTP Nov '18]

Ans. Trading and Profit and Loss Account of ABC enterprise for the year ended 31st March, 2017

		Rs.		Rs.
To Opening Inventor		80,000	By Sales	6,08,750
To Purchases	4,56,000		By Closing inventory	70,000
Less: For advertising	(9,000)	4,47,000		
To Freight inwards		30,000		
To Gross profit c/d		1,21,750		
		6,78,750		6,78,750
To Sundry expenses		92,000	By Gross profit b/d	1,21,750
To Advertisement		9,000	By Interest on investment	600
To Discount allowed -			(20,000 x 6/1 00 x1/2)	
Debtors	15,000		By Discount received	8,000
Bills Receivable	1,250	16,250	By Miscellaneous income	5,000
To Depreciation on furniture		6,500		
To Provision for doubtful debts		1,455		
To Net profit		10,145		
		1,35,350		**135,350**

Balance Sheet as on 31st March, 2017

Liabilities	Amount Rs.	Rs.	Assets	Rs.	Amount Rs.
Capital as on 1.4.2016	1,88,000		Furniture (w.d.v.)	60,000	
Less; Drawings	(91,000)		Additions during the year	10,000	
	97,000		Less; Depreciation	(6,500)	63,500
Add: Net Profit	10,145	1,07,145	Investment (200x95)		19,000
Sundry creditors		1,50,000	Interest accrued		600
Outstanding expenses		18,000	Closing inventory		70,000
			Sundry debtors	72,750	

		Less; Provision for		
		doubtful debts	1,455	71,295
		Bills receivable		17,500
		Cash in hand and at bank		26,250
		Prepaid expenses		7,000
	2,75,145			**2,75,145**

Working Notes

(1) Capital on 1st April, 2016

Balance sheet as on 1st April, 2016

Liabilities	Rs.	Assets	Rs.
Capital (Bal.fig.)	1,88,000	Furniture (w.d.v.)	60,000
Creditors	1,10,000	Closing Inventory	80,000
Outstanding expenses	20,000	Sundry debtors	1,60,000
		Cash in hand and at bank	12,000
		Prepaid expenses	6,000
	3,18,000		**3,18,000**

(2) Purchses made during the year

Sundry Credotors Account

	Rs.		Rs.
To Cash and Bank A/c	3,92,000	Ba Balance b/d	1,10,000
To Discount received A/c	8,000	By Sundry debtors A/c	4,000
To Bills Receivable A/c	20,000	By Purchases A/c	4,56,000
To Balance c/d	1,50,000	(Balancing figure)	
	5,70,000		**5,70,000**

(3) Sales Made During the year

		Rs.
Opening inventory		80,000
Purchases	4,56,000	
Less: For advertising	(9,000)	4,47,000
Freight inwards		30,000
		5,57,000
Less: Closing inventory		70,000
Cost of goods sold		4,87,000
Add: Gross profit (25% on cost)		1,21,750
		6,08,750

(4) Debtors on 31st March, 2017

Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	1,60,000	By Cash and bank A/c	5,85,000
To Sales A/c	6,08,750	By Discount allowed A/c	15,000
To Sundry creditors A/c		By Bills receivable A/c	1,00,000
(bill dishonoured)	4,000	By Balance c/d (Bal. fig.)	72,750
	7,72,750		**7,72,750**

(5) **Additional drawings by proprietors of ABC entrprises**

Cash and Bank Account

	Rs.		Rs.
To Balance b/d	12,000	By Freight inwards A/c	30,000
To Sundry debtors A/c	5,85,000	By Furniture A/c	10,000
To Bills Receivable A/c	61,250	By Investment A/c	19,000
To Miscellaneous income A/c	5,000	By Expenses A/c	95,000
		By Creditors A/c	3,92,000
		By Drawings A/c	
		[Rs.70,000 + Rs.21, 000)	91,000
		(Additional drawings)]	
		By Balance c/d	26,250
	6,63,250		**6,63,250**

(6) **Amount of expenses debited to profit and Loss A/c**

Sundry expenses Account

	Rs.		Rs.
To Prepaid expenses A/c (on 1.4.2016)	6,000	By Outstanding expenses A/c (on 1.4.2016)	20,000
To Bank A/c	95,000	By Profit and Loss A/c (Balancing figure)	92,000
To Outstanding expenses A/c (on 31. 3.201 7)	18,000	By Prepaid expenses A/c (on 31.3.17)	7,000
	1,19,000		**1,19,000**

(7) **Bills Receivable on 31st March, 2017**

Bills Receivable Account

	Rs.		Rs.
To Debtors A/c	1,00,000	By Creditors A/c	20,000
		By Bank A/c	61,250
		By Discount on bills receivable A/c	1,250
		By Balance c/d (Balancing figure)	17,500
	1,00,000		**1,00,000**

Note : All sales and purchases are assumed to be on credit basis.

Q-13 The following is the Balance Sheet of Manish and Suresh as on 1st April, 2016:

Liabilities	Rs.	Assets	Rs.
Capital Accounts		Building	1,00,000
Manish	1,50,000	Machinery	65,000
Suresh	75,000	Stock	40,000
Creditors for goods	30,000	Debtors	50,000
Creditors for expenses	25,000	Bank	25,000
	2,80,000		2,80,000

They give you the following additional information:

(i) Creditors' Velocity* 1.5 month & Debtors' Velocity* 2 months.

(ii) Stock level is maintained uniformly in value throughout all over the year.

(iii) Depreciation on machinery is charged @ 10%, Depreciation on building @ 5% in the current year.

(iv) Cost price will go up 15% as compared to last year and also sales in the current year will increase by 25% in volume.

(v) Rate of gross profit remains the same.

(vi) Business Expenditures are Rs.50,000 for the year. All expenditures are paid off in cash.

(vii) Closing stock is to be valued on LIFO Basis.

(viii) All sales and purchases are on credit basis and there are no cash purchases and sales.

You are required to prepare Trading, Profit and Loss Account, Trade Debtors Account and Trade Creditors Account for the year ending 31.03.2017. **[RTP May '18]**

Ans. **Trading and Profit and Loss account for the year ending 31st March, 2017**

Particulars		Rs.	Particulars	Rs.
To Opening Stock		40,000	By Sales	4,31,250
To Purchases (Working Note)		3,45,000	By Closing Stock	40,000
To Gross Profit c/d (20% on sales)		86,250		
		4,71,250		**4,71,250**
To Business Expenses		50,000	By Gross Profit b/d	86,250
To Depreciation on :				
Machinery	6,500			
Building	5,000	11,500		
To Net profit		24,750		
		86,250		**86,250**

Trade Debtros Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	50,000	By Bank (bal.fig).	4,09,375
To Sales	4,31,250	By Balance c/d (1/6 of 4,31,250)	71,875
	4,81,250		**4,81,250**

Trade Creditors Account

Particulars	Rs.	Particulars	Rs.
To Bank (Balancing figure)	3,31,875	By Balanceing b/d	30,000
To Balance c/d (1/8 of Rs.3,45,000)	43,125	By Purchases	3,45,000
	3,75,000		**3,75,000**

Working Note :

		Rs.
(i)	Calculation of Rate of Gross Profit earned during previous year	
A	Sales during previous year (Rs.50,000 x 12/2)	3,00,000
B	Purchases (Rs.30,000x12/1 .5)	2,40,000
C	Cost of Goods Sold (Rs.40,000 + Rs.2,40,000 - Rs.40,000)	2,40,000

D	Gross Profit (A-C)	60,000
E	Rate of Gross Profit $\frac{Rs\ 60{,}000}{Rs\ 3{,}00{,}000} \times 100$	20%
(ii)	Calculation of sales and Purchases during current year	Rs.
A	Cost of goods sold during previous year	2,40,000
B	Add: Increases in volume @ 25 %	60,000
		3,00,000
C	Add: Increase in cost @ 15%	45,000
D	Cost of Goods Sold during Current Year	3,45,000
E	Add: Gross profit @ 25% on cost (20% on sales)	86,250
F	Sales for current year [D+E]	**4,31,250**

---0---0---