

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

	Secured		
	Term Loans		
	Loan from State Financial Corporation (1,50,000 – 7,500)		1,42,500
	(Unsecured by hypothecation of Plant and Machinery)		
	Unsecured loan		1,21,000
		Total	2,63,500
4	Other current liabilities		
	Interest accrued but not due on loans (SFC)		7,500
	Dividend Payable		60,000
		Total	67,500
5	Short-term provisions		
	Provision for taxation		68,000
		Total	68,000
6	Tangible assets		
	Land		2,00,000
	Buildings	4,00,000	
	Less: Depreciation	(50,000)	3,50,000
		(b.f.)	
	Plant & Machinery	7,00,000	
	Less: Depreciation	(1,75,000)	5,25,000
		(b.f.)	
	Furniture & Fittings	62,500	
	Less: Depreciation	(12,500)	50,000
		(b.f.)	
		Total	11,25,000

7	Inventories		
	Raw Material		50,000
	Finished goods		2,00,000
		Total	2,50,000
8	Trade receivables		
	Debts outstanding for a period exceeding six months		52,000
	Other Debts		1,48,000
		Total	2,00,000
9	Cash and bank balances		
	Cash and cash equivalents		
	Cash at bank		
	with Scheduled Banks	2,45,000	
	with others (Perfect Bank Ltd.)	2,000	2,47,000
	Cash in hand		30,000
	Other bank balances		Nil
		Total	2,77,000

**CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0****QUESTION 16 (STUDY MATERIAL)**

Trade payables as per Schedule III will include:

- (a) Dues payable in respect to statutory obligation
- (b) Interest accrued on trade payables
- (c) Bills payables

Answer: (c)

QUESTION 17 (STUDY MATERIAL)

Securities Premium Account is shown on the liabilities side in the Balance Sheet under the heading:

- (a) Reserves and Surplus
- (b) Current Liabilities.
- (c) Share Capital.

Answer: (a)

QUESTION 18 (STUDY MATERIAL)

“Fixed assets held for sale” will be classified in the company’s balance sheet as

- (a) Current asset
- (b) Non-current asset
- (c) Capital work- in-progress

Answer: (a)

QUESTION 19 (STUDY MATERIAL)

Receivables arising from the activities being carried out by the company, during the lean period, which is not in its normal course of business, is considered as:

- a. Other current/non-current assets
- b. Trade Receivables
- c. Bill Receivables

Answer: (a)

**CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0****QUESTION 20 (STUDY MATERIAL)**

Declaration of dividends for current year is made after providing for

- a) Depreciation of past years only.
- b) Depreciation on assets for the current year and arrears of depreciation of past years (if any).
- c) Depreciation on current year only and by forgoing arrears of depreciation of past years.

Answer: (b)

QUESTION 21 (STUDY MATERIAL)

For companies having profits, the overall maximum limit for managerial remuneration as per Section 198 of the Companies Act, 2013 is

- a. 11% of net profit.
- b. 10% of net profit.
- c. 5% of net profit.

Answer: (a)

QUESTION 22

For the purpose of managerial remuneration, paid up share capital used for calculation of effective capital means

- (a) Paid up share capital excluding share application money and advances against shares.
- (b) Paid up share capital excluding share application money but including advances against shares.
- (c) Paid up share capital including both share application money and advances against shares.

Answer: (a)

QUESTION 23 (STUDY MATERIAL)

Which of the following is not a current liability as per Schedule III?

- (a) Bank overdraft
- (b) Net deferred tax liability
- (c) Dividend declared

Answer: (b)

QUESTION 24 (STUDY MATERIAL)

If there is increase in managerial remuneration, exceeding the overall ceiling as given in section 198 of the Companies Act, then sanction of which authority is required?

- (a) Registrar of the company.
- (b) Central Government.
- (c) Board of Directors of the company

ANSWER 24-B**QUESTION 25 (STUDY MATERIAL)**

As per the Schedule III, separate disclosure is required for an item of income or expenditure which exceeds:

- (a) % of Revenue from operations or ₹ 1,00,000 whichever is lower
- (b) 1% of Revenue or ₹ 5,000
- (c) 1% of Revenue from operations or ₹ 1,00,000 whichever is higher.

ANSWER-C**QUESTION 26 (STUDY MATERIAL)**

Few friends created a start-up and formed private company for production and marketing of product. At the end of financial year, their company is not required to prepare:

- (a) Cash flow statement

**CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0**

(b) Balance Sheet and Profit & Loss Account

(c) Notes to Accounts.

ANSWER-A

QUESTION 28 (STUDY MATERIAL)

The following is not included while computing "Effective capital":

(a) Paid up share capital.

(b) Long term loans repayable after one year.

(c) Revaluation reserves

ANSWER-C

QUESTION 24 (STUDY MATERIAL)

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.
- (vi) Money received against share warrant.

Answer

- (i) Current Liabilities/ Other Current Liabilities
- (ii) Shareholders' Fund / Reserve & Surplus
- (iii) Current liabilities/Other Current Liabilities
- (iv) Contingent Liabilities and Commitments

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

- (v) Shareholders' Fund / Share Capital
- (vi) Shareholders' Fund / Money received against share warrants

QUESTION 25 (STUDY MATERIAL)

The following extract of Balance Sheet of Star Ltd. (non- investment) company was obtained:

Liabilities	₹
Authorised capital:	
60,000, 14% preference shares of ₹ 100	60,00,000
6,00,000 Equity shares of ₹ 100 each	6,00,00,000
	6,60,00,000
Issued and subscribed capital:	
45,000, 14% preference shares of ₹ 100 each fully paid	45,00,000
3,60,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	2,88,00,000
Share suspense account	60,00,000
Reserves and surplus:	
Capital reserves (₹ 4,50,000 is revaluation reserve)	5,85,000
Securities premium	1,50,000
Secured loans:	
15% Debentures	1,95,00,000
Unsecured loans:	
Public deposits	11,10,000
Cash credit loan from SBI (short term)	3,95,000
Current Liabilities:	
Trade Payables	10,35,000
Assets:	
Investment in shares, debentures, etc.	2,25,00,000
Profit and Loss account (Dr. balance)	45,75,000

Share suspense account represents application money received on shares, the allotment of which is not yet made.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

You are required to compute effective capital as per the provisions of Schedule V. Would your answer differ if Star Ltd. is an investment company?

Answer

Computation of effective capital:

	Where Star Ltd. Is a non-investment company ₹	Where Star Ltd. is an investment company ₹
Paid-up share capital —		
45,000, 14% Preference shares	45,00,000	45,00,000
3,60,000 Equity shares	2,88,00,000	2,88,00,000
Capital reserves (5,85,000 – 4,50,000)	1,35,000	1,35,000
Securities premium	1,50,000	1,50,000
15% Debentures	1,95,00,000	1,95,00,000
Public Deposits	11,10,000	11,10,000
(A)	5,41,95,000	5,41,95,000
Investments	2,25,00,000	—
Profit and Loss account (Dr. balance)	45,75,000	45,75,000
(B)	2,70,75,000	45,75,000
Effective capital (A–B)	2,71,20,000	4,96,20,000

QUESTION 26 (STUDY MATERIAL)

On 31st March, 20X1 Bose and Sen Ltd. provides to you the following ledger balances after preparing its Profit and Loss Account for the year ended 31st March, 20X1:

Credit Balances:

Equity shares capital, fully paid shares of ₹ 10 each	70,00,000
General Reserve	15,49,100
Loan from State Finance Corporation	10,50,000
(Secured by hypothecation of Plant & Machinery Repayable within one year ₹ 2,00,000)	
Loans: Unsecured (Long term)	8,47,000
Sundry Creditors for goods & expenses (Payable within 6 months)	14,00,000
Profit & Loss Account	7,00,000
Provision for Taxation	8,16,900
	1,33,63,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Debit Balances:

	₹
Calls in arrear	7,000
Land	14,00,000
Buildings	20,50,000
Plant and Machinery	36,75,000
Furniture & Fixture	3,50,000
Inventories: Finished goods	14,00,000
Raw Materials	3,50,000
Trade Receivables	14,00,000
Advances: Short-term	2,98,900
Cash in hand	2,10,000
Balances with banks	17,29,000
Preliminary Expenses	93,100
Patents & Trademarks	4,00,000
	1,33,63,000

The following additional information is also provided in respect of the above balances:

(i) 4,20,000 fully paid equity shares were allotted as consideration for land & buildings.

(ii) Cost of Building ₹ 28,00,000

(iii) Cost of Plant & Machinery ₹ 49,00,000

Cost of Furniture & Fixture ₹ 4,37,500

(iv) Trade receivables for ₹ 3,80,000 are due for more than 6 months.

(v) The amount of Balances with Bank includes ₹ 18,000 with a bank which is not a scheduled Bank and the deposits of ₹ 5 lakhs are for a period of 9 months.

(vi) Unsecured loan includes ₹ 2,00,000 from a Bank and ₹ 1,00,000 from related parties.

You are not required to give previous year's figures. You are required to prepare the Balance Sheet of the Company as on 31st March, 20X1 as required under Schedule III to the Companies Act, 2013.

ANSWER

Bose and Sen Ltd.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0
Balance Sheet as at 31st March, 20X1

Particulars	Notes	Figures at the end of current reporting period (₹)
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	69,93,000
b Reserves and Surplus	2	21,56,000
2 Non-current liabilities		
a Long-term borrowings	3	16,97,000
3 Current liabilities		
a Trade Payables		14,00,000
b Other current liabilities	4	2,00,000
c Short-term provisions	5	8,16,900
Total		1,32,62,900
Assets		
1 Non-current assets		
a PPE	6	74,75,000
b Intangible assets (Patents & Trade Marks)		4,00,000
2 Current assets		
a Inventories	7	17,50,000
b Trade receivables	8	14,00,000
c Cash and bank balances	9	19,39,000
d Short-term loans and advances		2,98,900
Total		1,32,62,900

Notes to accounts

Share Capital		
Equity share capital		
Issued, subscribed and called up		
7,00,000 Equity Shares of ₹ 10 each (Out of the above 4,20,000 shares have been issued for consideration other than cash)	70,00,000	
Less: Calls in arrears	(7,000)	69,93,000
Total		69,93,000
2 Reserves and Surplus		

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

General Reserve		15,49,100
Surplus (Profit & Loss A/c)	7,00,000	
Less: Preliminary expenses	(93,100)☞	6,06,900
Total		21,56,000
3 Long-term borrowings		
Secured		
Term Loans		
Loan from State Finance Corporation (₹ 10,50,000 - ₹ 2,00,000) (Secured by hypothecation of Plant and Machinery)		8,50,000
Unsecured		
Bank Loan	2,00,000	
Loan from related parties	1,00,000	
Others	5,47,000	8,47,000
Total		16,97,000
4 Other current liabilities		
Current maturities of long-term debt-loan Instalment repayable within one year		2,00,000
5 Short-term provisions		
Provision for taxation		8,16,900
6 Property, plant and equipment		
Land		14,00,000
Buildings	28,00,000	
Less: Depreciation	(7,50,000) (b.f.)	20,50,000
Plant & Machinery	49,00,000	
Less: Depreciation	(12,25,000) (b.f.)	36,75,000
Furniture & Fittings	4,37,500	
Less: Depreciation	(87,500) (b.f.)	3,50,000
Total		74,75,000

7 Inventories		
Raw Material		3,50,000
Finished goods		14,00,000
		17,50,000
8 Trade receivables		
Debts outstanding for a period exceeding six months		3,80,000
Other Debts		10,20,000
Total		14,00,000
9 Cash and bank balances		
Cash and cash equivalents		

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Cash at bank with Scheduled Banks	12,11,000	
with others	18,000	12,29,000
Cash in hand	5,00,000	2,10,000
Other bank balances		
Bank deposits for period of 9 months		5,00,000
Total		19,39,000

QUESTION 27 (STUDY MATERIAL)

From the following particulars furnished by Alpha Ltd., prepare the Balance Sheet as on 31st March 20X1 as required by Part I, Schedule III to the Companies Act, 2013.

Particulars	Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 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
	94,78,500	94,78,500

The following additional information is also provided:

- (i) 10,000 Equity shares were issued for consideration other than cash.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

(ii) Trade receivables of ₹ 2,60,000 are due for more than 6 months.

(iii) The cost of the Assets were:

Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500

(iv) The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is inclusive of ₹ 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes ₹ 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.

(vi) Transfer ₹ 20,000 to general reserve is proposed by Board of directors.

(vii) Board of directors declared dividend of 5% on the paid up capital on 2nd April, 20X1.

Answer

AlphaLtd.

Balance Sheet as on 31st March, 20X1

Particulars	Notes	₹
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		
PPE	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

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Notes to accounts

₹		
1 Share Capital		
Equity share capital		
Issued & subscribed & called up		
50,000 Equity Shares of ₹ 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	
		37,500
5 Short-term provisions		
Provision for taxation		6,40,000
6 Property, plant and equipment		
Land and Building	30,00,000	
Less: Depreciation	(2,50,000) (b.f.)	27,50,000
Plant & Machinery	35,00,000	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

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	Nil
Other bank balances		
Total		13,85,000

Note: The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 20X1. Such dividends will be disclosed in notes only.

QUESTION 28 (STUDY MATERIAL)

Ring Ltd. was registered with a nominal capital of Rs.10,00,000 divided into shares of Rs.100 each. The following Trial Balance is extracted from the books on 31st March, 20X2:

Particulars	Rs.	Particulars	Rs.
Buildings	5,80,000	Sales	10,40,000
Machinery	2,00,000	Outstanding Expenses	4,000
Closing Stock	1,80,000	Provision for Doubtful	6,000
Loose Tools	46,000	Debts (1-4-20X1)	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Purchases (Adjusted)	4,20,000	Equity Share Capital	4,00,000
Salaries	1,20,000	General Reserve	80,000
Rent	52,000	(1-4-20X1)	
Depreciation	40,000	Creditors	1,84,000
Bad Debts	12,000	Provision for depreciation:	
Investment	2,40,000	On Building 1,00,000	
Interest accrued on investment	4,000	On Machinery 1,10,000	2,10,000
Debenture Interest	56,000	14% Debentures	4,00,000
Advance Tax	1,20,000	Interest on Debentures accrued but not due	28,000
Sundry expenses	36,000		
Debtors	2,50,000	Interest on Investments	24,000
Bank	60,000	Unclaimed dividend	10,000
	24,36,000		24,36,000

You are required to prepare statement of Profit and Loss for the year ending 31st March, 20X2 and Balance sheet as at that date after taking into consideration the following information:

- Closing stock is more than opening stock by Rs.1,60,000;
- Provide to doubtful debts @ 4% on Debtors
- Make a provision for income tax@30%.
- Depreciation expense included depreciation of Rs.16,000 on Building and that of Rs.24,000 on Machinery.
- The directors declared a dividend @ 25% and transfer to General Reserve @ 10%.
- Bills Discounted but not yet matured Rs.20,000.

Answer

Ring Ltd.

Profit and Loss Statement for the year ended 31st March, 20X2

Particulars	Note No.	(₹ In lacs)
I Revenue from operations		10,40,000
II Other income (interest on investment)		24,000
III Total Revenue [I + II]		10,64,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

IV Expenses:		
Cost of purchase [4,20,000+ 1,60,000]		5,80,000
Changes in inventories [20,000-1,80,000]		(1,60,000)
Employee Benefits Expense		1,20,000
Finance Costs (debenture interest)		56,000
Depreciation and Amortisation Expenses		40,000
Other Expenses	8	1,24,000
Total Expenses		7,60,000
V Profit before Tax (III-IV)		3,04,000
VI Tax Expenses @ 30%		(91,200)
VII Profit for the period		2,12,800

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

Particulars	Note No.	₹
I EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
(a) Share Capital	1	4,00,000
(b) Reserves and Surplus	2	3,42,800
Non-Current Liabilities		
(a) Long-term Borrowings (14% debentures)		4,00,000
(3) Current Liabilities		
(a) Trade Payable (Sundry Creditors)		1,84,000
(b) Other Current Liabilities	3	42,000
(c) Short-Term Provisions	4	91,200
Total		14,60,000
II ASSETS		
(1) Non-Current Assets		
(a) PPE	5	5,70,000
(b) Non-current Investments		2,40,000
(2) Current Assets		
(a) Inventories	6	2,26,000
(b) Trade Receivables	7	2,40,000
(c) Cash and bank balances		60,000
(d) Short Term Loans and Advances (Advance Payment of Tax)		1,20,000
(e) Other Current Assets		4,000
(Interest accrued on investments)		
Total		14,60,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Note: There is a Contingent Liability for bills discounted but not yet matured amounting to ₹20,000.

Notes to Accounts:

1. Share Capital		
Authorised Capital		
10,000 Equity Shares of ₹ 100 each		10,00,000
Issued Capital		
4,000 Equity Shares of ₹ 100 each		4,00,000
Subscribed Capital and fully paid		
4,000 Equity Shares of ₹ 100 each		4,00,000
2. Reserve and Surplus		
General Reserve [₹ 80,000 + ₹ 21,280]		1,01,280
Balance of Statement of Profit & Loss Account		
Opening Balance	50,000	
Add: Profit for the period	2,12,800	
	2,62,800	
Appropriations		
Transfer to General Reserve @ 10%	(21,280)	
		2,41,520
		3,42,800
3. Other Current Liabilities		
Unclaimed Dividend		10,000
Outstanding Expenses		4,000
Interest accrued on Debentures		28,000
42,000		
4. Short-Term Provision		
Provision for Tax		91,200

5 Property, plant and equipment		
Buildings	5,80,000	
Less: Provision for Depreciation	1,00,000	4,80,000
Plant and Equipment	2,00,000	
Less: Provision for Depreciation	1,10,000	90,000
5,70,000		
6 Inventories		
Closing Stock of Finished Goods	1,80,000	
Loose Tools	46,000	2,26,000
7 Trade Receivables		

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Sundry Debtors	2,50,000	
Less: Provision for Doubtful Debts	(10,000)	2,40,000
8. Other Expenses		
Rent		52,000
Directors' Fees		20,000
Bad Debts		12,000
Provision for Doubtful Debts (4% of ₹ 2,50,000 less ₹ 6,000)		4,000
Sundry Expenses		36,000
		1,24,000

Note: The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 20X2. Such dividends will be disclosed in notes only.

QUESTION 29 (STUDY MATERIAL)

On 31st March, 20X1, SR Ltd. provides the following ledger balances after preparing its Profit & Loss Account for the year ended 31st March, 20X1.

Particulars	Amount (₹)	
	Debit	Credit
Equity Share Capital, fully paid shares of ₹ 50 each		80,00,000
Calls in arrear	15,000	
Land	25,00,000	
Buildings	30,00,000	
Plant & Machinery	24,00,000	
Furniture & Fixture	13,00,000	

Securities Premium		15,00,000
General Reserve		9,41,000
Profit & Loss Account		5,80,000
Loan from Public Finance Corporation (Secured by Hypothecation of Land)		26,30,000
Other Long Term Loans		22,50,000
Short Term Borrowings		4,60,000
Inventories: Finished goods	45,00,000	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Raw materials	13,00,000	
Trade Receivables	17,50,000	
Advances: Short Term	3,75,000	
Trade Payables		8,13,000
Provision for Taxation		3,80,000
Unpaid Dividend		70,000
Cash in Hand	70,000	
Balances with Banks	4,14,000	
Total	1,76,24,000	1,76,24,000

The following additional information was also provided in respect of the above balances:

(1) 50,000 fully paid equity shares were allotted as consideration for land.

(2) The cost of assets were:

Building	₹ 32,00,000
Plant and Machinery	₹ 30,00,000
Furniture and Fixture	₹ 16,50,000

(3) Trade Receivables for ₹ 4,86,000 due for more than 6 months.

(4) Balances with banks include ₹ 56,000, the Naya bank, which is not a scheduled bank.

(5) Loan from Public Finance Corporation repayable after 3 years.

(6) The balance of ₹ 26,30,000 in the loan account with Public Finance Corporation is inclusive of ₹1,34,000 for interest accrued but not due. The loan is secured by hypothecation of land.

(7) Other long term loans (unsecured) includes:

Loan taken from Nixes Bank	₹ 13,80,000
(Amount repayable within one year)	₹ 4,80,000
Loan taken from Directors	₹ 8,50,000

(8) Bills Receivable for ₹ 1,60,000 maturing on 15th June, 20X1 has been discounted.

(9) Short term borrowings includes:

Loan from Naya bank	₹ 1,16,000 (Secured)
Loan from directors	₹ 48,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

(10) Transfer of ₹ 35,000 to general reserve has been proposed by the Board of directors out of the profits for the year.

(11) Inventory of finished goods includes loose tools costing ₹ 5 lakhs (which do not meet definition of property, plant & equipment as per AS 10)

You are required to prepare the Balance Sheet of the Company as on March 31st 20X1 as required under Part - I of Schedule III of the Companies Act, 2013.

You are not required to give previous year figures.

ANSWER

SR Ltd.

Balance Sheet as at 31st March, 20X1

Particulars	Notes	Figures at the end of current reporting period (₹)
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	79,85,000
b Reserves and Surplus	2	30,21,000
2 Non-current liabilities		
a Long-term borrowings	3	42,66,000
3 Current liabilities		
a Short-term borrowings	4	4,60,000
b Trade Payables		8,13,000
c Other current liabilities	5	6,84,000
d Short-term provisions	6	3,80,000
Total		1,76,09,000
Assets		
1 Non-current assets		
a PPE	7	92,00,000
2 Current assets		
a Inventories	8	58,00,000
b Trade receivables	9	17,50,000
c Cash and cash equivalents	10	4,84,000
d Short-term loans and advances		3,75,000
Total		1,76,09,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0
Notes to accounts

1. Share Capital		
Equity share capital		
Issued, subscribed and called up		
1,60,000 Equity Shares of ₹ 50 each (Out of the above 50,000 shares have been issued for consideration other than cash)	80,00,000	
Less: Calls in arrears	(15,000)	79,85,000
2. Reserves and Surplus		
General Reserve	9,41,000	9,76,000
Add: Transferred from Profit and loss account	35,000	
Securities premium		15,00,000
Surplus (Profit & Loss A/c)	5,80,000	
Less: Appropriation to General Reserve (proposed)	(35,000)	5,45,000
		30,21,000
(secured by hypothecation of land)		
Unsecured		
Bank Loan (Nixes bank) 9,00,000		
(₹ 13,80,000 - ₹ 4,80,000 repayable within 1 year)		
Loan from Directors	8,50,000	
Others	20,000	17,70,000
Total		42,66,000
Short-term borrowings		
Loan from Naya bank (Secured)	1,16,000	
Loan from Directors	48,000	
Others	2,96,000	4,60,000
5. Other current liabilities		
Loan from Nixes bank repayable within one year	4,80,000	
Unpaid dividend	70,000	
Interest accrued but not due on borrowings	1,34,000	6,84,000
6. Short-term provisions		
Provision for taxation		3,80,000
7. PPE		
Land		25,00,000
Buildings	32,00,000	
Less: Depreciation	(2,00,000)	30,00,000
Plant & Machinery	30,00,000	
Less: Depreciation	(6,00,000)	24,00,000
Furniture & Fittings	16,50,000	
Less: Depreciation	(3,50,000)	13,00,000
Total		92,00,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

8. Inventories		
Raw Material	13,00,000	
Finished goods	40,00,000	
Loose tools	5,00,000	58,00,000
9. Trade receivables		
Outstanding for a period exceeding six months		4,86,000
Others		12,64,000
Total		17,50,000
10. Cash and cash equivalents		
Balances with banks		
with Scheduled Banks	3,58,000	
with others banks	56,000	4,14,000
Cash in hand		70,000
Total		4,84,000

Note: There is a contingent liability amounting to ₹ 1,60,000

QUESTION 29 (STUDY MATERIAL)

Intelligent Ltd., a non-financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.

- (i) Loans and Advances given to the following and interest earned on them:
 - (1) To suppliers
 - (2) To employees
 - (3) to its subsidiaries companies
- (ii) Investment made in subsidiary Smart Ltd. and dividend received
- (iii) Dividend paid for the year
- (iv) TDS on interest income earned on investments made
- (v) TDS on interest earned on advance given to suppliers
- (vi) Insurance claim received against loss of fixed asset by fire Discuss in the context of AS 3 Cash Flow Statement.

Answer

- (i) Loans and advances given and interest earned
 - (1) To suppliers Operating Cash flow

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

- (2) To employees Operating Cash flow
 (3) to its subsidiary companies Investing Cash flow

(ii) Investment made in subsidiary company and dividend received

Investing Cash flow

(iii) Dividend paid for the year

Financing Cash Outflow

(iv) TDS on interest income earned on investments made

Investing Cash Outflow

(v) TDS on interest earned on advance given to suppliers

Operating Cash Outflow

(vi) Insurance claim received of amount loss of fixed asset by fire

Extraordinary item to be shown under a separate heading as 'Cash inflow from investing activities'

QUESTION 30 (STUDY MATERIAL)

Following are the extracts of Balance Sheet of Ajay Ltd.:

Liabilities	31.3.20X1	31.3.20X2	Assets	31.3.20X1	31.3.20X2
	Rs.	Rs.			Rs.
Share Capital	5,00,000	5,00,000	Goodwill	1,15,000	90,000
15% Debentures	5,00,000	7,50,000	Discount on issue of Debentures	90,000	1,15,000
Unpaid Interest	--	5,000			
Profit & Loss A/c	50,000	90,000			

You are required to show the related items in Cash Flow Statement, if Discount on issue of Debentures amounting to Rs.10,000 has been written off during the year.

Answer

An Extract of Cash Flow Statement for the year ending 31.3.20X2

	Rs.
Closing balance as per Profit & Loss A/c	90,000
Less: Opening balance as per Profit & Loss Alc.	(50,000)
Add: Goodwill amortisation	25,000
Add: Discount on issue of Debentures	10,000
Interest on Debentures	75,000
Net Cash from Operating Activities	1,50,000

Cash flows from financing activities:

Proceeds from debentures	2,15,000
Interest paid on Debentures [less unpaid]	(70,000)
Net Cash from Financing Activities	1,45,000

Working Note:

(i) Discount on issue of Debentures Account

Particulars	Rs.	Particular	Rs.
To Balance b/d	90,000	By Profit & Loss A/c (w/o)	10,000
To 15% Debentures A/c (Bal. fig.)	35,000	By Balance c/d	1,15,000
	1,25,000		1,25,000

(ii) 15% Debentures Account

Particulars	Rs.	Particular	Rs.
To Balance c/d	7,50,000	By Balance b/d	5,00,000
		By Bank A/c (Bal. fig.)	2,15,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

		By Discount on issue of Debentures A/c	35,000
	7,50,000		7,50,000

QUESTION 31 (STUDY MATERIAL)

From the following information, calculate cash flow from operating activities:

Summary of Cash Account
for the year ended March 31, 20X1

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,00,000	By Cash Purchases	1,20,000
To Cash sales	1,40,000	By Trade payables	1,57,000
To Trade receivables	1,75,000	By Office & Selling Expenses	75,000
To Trade Commission	50,000	By Income Tax	30,000
To Sale of Investment	30,000	By Investment	25,000

To Loan from Bank	1,00,000	By Repay of Loan	75,000
To Interest & Dividend	1,000	By Interest on loan	10,000
		By Balance c/d	1,04,000
	5,96,000		5,96,000

Answer

Cash Flow Statement of

for the year ended March 31, 20X1(Direct Method)

Particulars	Rs.	Rs.
Operating Activities:		
Cash received from sale of goods	1,40,000	
Cash received from Trade receivables	1,75,000	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Trade Commission received	50,000	3,65,000
Less: Payment for Cash Purchases	1,20,000	
Payment to Trade payables	1,57,000	
Office and Selling Expenses	75,000	
Payment for Income Tax	30,000	(3,82,000)
Net Cash Flow used in Operating Activities		(17,000)

QUESTION 32 (STUDY MATERIAL)

The following summary cash account has been extracted from the company's accounting records:

Summary Cash Account

		(Rs.'000)
Balance at 1.3.20X1		35
Receipts from customers		2,783
Issue of shares		300
Sale of fixed assets		128
	2,047	3,246
Payments to suppliers		
Payments for fixed assets	230	
Payments for overheads	115	
Wages and salaries	69	
Taxation	243	
Dividends	80	(3,034)
Repayments of bank loan	250	
Balance at 31.3.20X2		212

Prepare Cash Flow Statement of this company Hills Ltd. for the year ended 31st March, 20X2 in accordance with AS-3 (Revised).

The company does not have any cash equivalents

Answer

Hills Ltd.

Cash Flow Statement for the year ended 31st March, 20X2 (Using direct method)

		(Rs.'000)
Cash flows from operating activities		
Cash receipts from customers	2,783	
Cash payments to suppliers	(2,047)	
Cash paid to employees	(69)	
Other cash payments (for overheads)	(115)	
Cash generated from operations	552	
Income taxes paid	(243)	
Net cash from operating activities		309
Cash flows from investing activities		
Payments for purchase of fixed assets	(230)	
Proceeds from sale of fixed assets	128	
Net cash used in investing activities		(102)
Cash flows from financing activities		
Proceeds from issuance of share capital	300	
Bank loan repaid	(250)	
Dividend paid	(80)	
Net cash used in financing activities		(30)
Net increase in cash and cash equivalents		177
Cash and cash equivalents at beginning of period		35
Cash and cash equivalents at end of period		212

QUESTION 33 (STUDY MATERIAL)

Prepare cash flow statement of M/s MNT Ltd. for the year ended 31st March, 20X1 with the help of the following information:

- (1) Company sold goods for cash only.
- (2) Gross Profit Ratio was 30% for the year, gross profit amounts to Rs.3,82,500.
- (3) Opening inventory was lesser than closing inventory by Rs.35,000.
- (4) Wages paid during the year Rs.4,92,500.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

- (5) Office and selling expenses paid during the year Rs.75,000.
- (6) Dividend paid during the year Rs.30,000 (including dividend distribution tax.)
- (7) Bank loan repaid during the year Rs.2,15,000 (including interest Rs.15,000)
- (8) Trade payables on 31st March, 20X0 exceed the balance on 31st March, 20X1 by Rs.25,000.
- (9) Amount paid to trade payables during the year Rs.4,60,000.
- (10) Tax paid during the year amounts to Rs.65,000 (Provision for taxation as on 31.03.20X1 Rs.45,000).
- (11) Investments of Rs.7,00,000 sold during the year at a profit of Rs.20,000.
- (12) Depreciation on fixed assets amounts to Rs.85,000.
- (13) Plant and machinery purchased on 15th November, 20X0 for Rs.2,50,000.
- (14) Cash and Cash Equivalents on 31st March, 20X0 Rs.2,00,000.
- (15) Cash and Cash Equivalents on 31st March, 20X1 Rs.6,07,500.

Answer

M/s MNT Ltd.

Cash Flow Statement for the year ended 31st March, 20X1 (Using direct method)

Particulars	Rs.	Rs.
Cash flows from Operating Activities		
Cash sales (Rs.3,82,500/.30)		12,75,000
Less: Cash payments for trade payables	(4,60,000)	
Wages Paid	(4,92,500)	
Office and selling expenses	(75,000)	(10,27,500)
Cash generated from operations before taxes		2,47,500
Income tax paid		(65,000)
Net cash generated from operating activities (A)		1,82,500

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Cash flows from investing activities		
Sale of investments (7,00,000 + 20,000)	7,20,000	
Payments for purchase of Plant & machinery	(2,50,000)	
Net cash used in investing activities (B)		4,70,000
Cash flows from financing activities		
Bank loan repayment(including interest)	(2,15,000)	
Dividend paid(including dividend distribution tax)	(30,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,07,500
Cash and cash equivalents at beginning of the period		2,00,000
Cash and cash equivalents at end of the period		6,07,500

QUESTION 34 (STUDY MATERIAL)

The following data were provided by the accounting records of Ryan Ltd. at year- end, March 31,20X1:

Income Statement

		Rs.
Sales		6,98,000
Cost of Goods Sold		(5,20,000)
Gross Margin		1,78,000
Operating Expenses (including Depreciation Expense of Rs.37,000)		(1,47,000)
		31,000
Other Income / (Expenses)		
Interest Expense paid	(23,000)	
Interest Income received	6,000	
Gain on Sale of Investments	12,000	
Loss on Sale of Plant	(3,000)	
		(8,000)
		23,000
Income tax		(7,000)
		16,000

Comparative Balance Sheets

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

	31st March	31st March
Assets		
Plant Assets	7,15,000	5,05,000
Less: Accumulated Depreciation	(1,03,000)	(68,000)
	6,12,000	4,37,000
Investments (Long term)	1,15,000	1,27,000
Current Assets:		
Inventory	1,44,000	1,10,000
Accounts receivable	47,000	55,000
Cash	46,000	15,000
Prepaid expenses	1,000	5,000
	9,65,000	7,49,000
Liabilities		
Share Capital	4,65,000	3,15,000
Reserves and surplus	1,40,000	1,32,000
Bonds	2,95,000	2,45,000
Current liabilities:		
Accounts payable	50,000	43,000
Accrued liabilities	12,000	9,000
Income taxes payable	3,000	5,000
	9,65,000	7,49,000

Analysis of selected accounts and transactions during 20X0-X1

1. Purchased investments for Rs.78,000.
2. Sold investments for Rs.1,02,000. These investments cost Rs.90,000.
3. Purchased plant assets for Rs.1,20,000.
4. Sold plant assets that cost Rs.10,000 with accumulated depreciation of Rs.2,000 for Rs.5,000.
5. Issued Rs.1,00,000 of bonds at face value in an exchange for plant assets on 31st March, 20X1.
6. Repaid Rs.50,000 of bonds at face value at maturity.
7. Issued 15,000 shares of Rs.10 each.
8. Paid cash dividends Rs.8,000.

Prepare Cash Flow Statement as per AS-3 (Revised), using indirect method.

Answer

Ryan Ltd.
Cash Flow Statement
for the year ending 31st March, 20X1

	Rs.	Rs.
Cash flows from operating activities		
Net profit before taxation	23,000	
Adjustments for:		
Depreciation	37,000	
Gain on sale of investments	(12,000)	
Loss on sale of plant assets	3,000	
Interest expense	23,000	
Interest income	(6,000)	
Operating profit before working capital changes	68,000	
Decrease in accounts receivable	8,000	
Increase in inventory	(34,000)	
Decrease in prepaid expenses	4,000	
Increase in accounts payable	7,000	
Increase in accrued liabilities	3,000	
Cash generated from operations	56,000	
Income taxes paid*	(9,000)	
Net cash generated from operating activities		
Cash flows from investing activities		
Purchase of plant	(1,20,000)	
Sale of plant	5,000	
Purchase of investments	(78,000)	
Sale of investments	1,02,000	
Interest received	6,000	
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from issuance of share capital	1,50,000	
Repayment of bonds	(50,000)	
Interest paid	(23,000)	
Dividends paid	(8,000)	
Net cash from financing activities		
Net increase in cash and cash equivalents		
Cash and cash equivalents at the beginning of the period		
Cash and cash equivalents at the end of the period		

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

***Working Note:**

	Rs.
Income taxes paid:	
Income tax expense for the year	7,000
Add: Income tax liability at the beginning of the year	<u>5,000</u>
	12,000
Less: Income tax liability at the end of the year	<u>(3,000)</u>
	<u>9,000</u>

QUESTION 35 (STUDY MATERIAL)

The balance sheets of Sun Ltd. for the years ended 31st March 20X1 and 20X0 were summarised as:

	20X1 Rs.	20X0 Rs.
Equity Share Capital	60,000	50,000
Reserves:		
Profit and Loss Account	5,000	4,000
Current Liabilities:		
Trade payables	4,000	2,500
Taxation	1,500	1,000
dividends payable	2,000	1,000
	<u>72,500</u>	<u>58,500</u>
Fixed Assets (at w.d.v.)		
Premises	10,000	10,000
Fixtures	17,000	11,000
Vehicles	12,500	8,000
Short-term investments	2,000	1,000
Current Assets		
Inventory	17,000	14,000
Trade receivables	8,000	6,000
Bank and Cash	6,000	8,500
	<u>72,500</u>	<u>58,500</u>

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

The profit and loss account for the year ended 31st March, 20X1 disclosed

	Rs.
Profit before tax	4,500
Taxation	<u>(1,500)</u>
Profit after tax	3,000
Declared dividends	<u>(2,000)</u>
Retained profit	<u>1,000</u>

Further information is available

	Fixtures Rs.	Vehicles Rs.
Depreciation for year	1,000	2,500
Disposals:		
Proceeds on disposal	—	1,700
Written down value	—	<u>(1,000)</u>
Profit on disposal		<u>700</u>

Prepare a Cash Flow Statement for the year ended 31st March, 20X1.

Solution

Sun Ltd.
Cash Flow Statement

for the year ended 31st March, 20X1

	Rs.	Rs.
Cash flows from operating activities		
Net Profit before taxation	4,500	
Adjustments for:		
Depreciation	3,500	
Profit on sale of vehicles (1,700 – 1,000)	(700)	
Operating profit before working capital changes	7,300	
Increase in Trade receivables	(2,000)	
Increase in inventories	(3,000)	
Increase in Trade payables	1,500	
Cash generated from operations	3,800	
Income taxes paid (W.N.1)	(1,000)	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Net cash generated from operating activities		2,800
Cash flows from investing activities		
Sale of vehicles	1,700	
Purchase of vehicles (W.N.3)	(8,000)	
Purchase of fixtures (W.N.3)	(7,000)	
Net cash used in investing activities		(13,300)
Cash flows from financing activities		
Issue of shares for cash	10,000	
Dividends paid (W.N.2)	(1,000)	
Net cash from financing activities		<u>9,000</u>
Net decrease in cash and cash equivalents		(1,500)
Cash and cash equivalents at beginning of period (See Note)		9,500
Cash and cash equivalents at end of period (See Note)		8,000
Note to the Cash Flow Statement		
Cash and Cash Equivalents		
	31.3.20X1	31.3.20X0
Bank and Cash	6,000	8,500
Short-term investments	2,000	1,000
Cash and cash equivalents	8,000	9,500

Working Notes:

		Rs.
1.	Income taxes paid	
	Income tax expense for the year	1,500
	Add: Income tax liability at the beginning of the year	1,000
		2,500
	Less: Income tax liability at the end of the year	(1,500)
		1,000
2.	Dividend paid	
	Declared dividend for the year	2,000
	Add: Amount payable at the beginning of the year	1,000
		3,000
	Less: Amount payable at the end of the year	(2,000)
		1,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

3. Fixed assets acquisitions	Fixtures	Vehicles
	Rs.	Rs.
W.D.V. at 31.3.20X1	17,000	12,500
Add back:		
Depreciation for the year	1,000	2,500
Disposals	—	1,000
	18,000	16,000
Less: W.D.V. at 31.12.20X0	(11,000)	(8,000)
Acquisitions during 20X0-20X1	7,000	8,000

QUESTION 36 (STUDY MATERIAL)

Ms. Jyoti of Star Oils Limited has collected the following information for the preparation of cash flow statement for the year ended 31st March, 20X1:

	(Rs. in lakhs)
Net Profit	25,000
Dividend (including dividend tax) paid	8,535
Provision for Income tax	5,000
Income tax paid during the year	4,248
Loss on sale of assets (net)	40
Book value of the assets sold	185
Depreciation charged to Profit & Loss Account	20,000
Profit on sale of Investments	100
Carrying amount of Investment sold	27,765
Interest income on investments	2,506
Interest expenses of the year	10,000
Interest paid during the year	10,520
Increase in Working Capital (excluding Cash & Bank Balance)	56,081
Purchase of fixed assets	14,560
Investment in joint venture	3,850
Expenditure on construction work in progress	34,740
Proceeds from calls in arrear	2

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Receipt of grant for capital projects	12
Proceeds from long-term borrowings	25,980
Proceeds from short-term borrowings	20,575
Opening cash and Bank balance	5,003
Closing cash and Bank balance	6,988

Prepare the Cash Flow Statement for the year 20X1 in accordance with AS 3. (Make necessary assumptions).

Answer

**Star Oils Limited Cash Flow
Statement**
for the year ended 31st March, 20X1

		(Rs.in lakhs)
Cash flows from operating activities		
Net profit before taxation (25,000 + 5,000)	30,000	
Adjustments for :		
Depreciation	20,000	
Loss on sale of assets (Net)	40	
Profit on sale of investments	(100)	
Interest income on investments	(2,506)	
Interest expenses	10,000	
Operating profit before working capital changes	57,434	
Changes in working capital (Excluding cash and bank balance)	(56,081)	(2,895)
Cash generated from operations	1,353	
Income taxes paid	(4,248)	
Net cash used in operating activities		
Cash flows from investing activities		
Sale of assets (W.N.1)	145	
Sale of investments (27,765 + 100)	27,865	
Interest income on investments	2,506	
Purchase of fixed assets	(14,560)	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Investment in joint venture	(3,850)	
Expenditure on construction work-in progress	(34,740)	
Net cash used in investing activities		(22,634)
Cash flows from financing activities		
Proceeds from calls in arrear	2	
Receipts of grant for capital projects	12	
Proceeds from long-term borrowings	25,980	
Proceed from short-term borrowings	20,575	
Interest paid	(10,520)	
Dividend (including dividend tax) paid	<u>(8,535)</u>	27,514
Net increase in cash and cash equivalents		1,985
Cash and cash equivalents at the beginning of the period		5,003
Cash and cash equivalents at the end of the period		6,988

Working note:

1. Book value of the assets sold	185
Less : Loss on sale of assets	<u>(40)</u>
Proceeds on sale	<u>145</u>

Assumption :

Interest income on investments Rs.2,506 has been received during the year.

QUESTION 37 (STUDY MATERIAL)

From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 20X1 in accordance with AS 3 (Revised) using the direct method. The company does not have any

Summary Cash Account for the year ended 31.3.20X1

	Rs. 000		Rs. 000
Balance on 1.4.20X0	50	Payment to Suppliers	2,000
Issue of Equity Shares	300	Purchase of Fixed Assets	200
Receipts from Customers	2,800	Overhead expense	200
Sale of Fixed Assets	100	Wages and Salaries	100
		Taxation	250

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

		Dividend	50
		Repayment of Bank Loan	300
		Balance on 31.3.20X1	150
	3,250		3,250

Answer

XLtd.

Cash Flow Statement for the year ended 31st March, 20X1 (Using direct method)

	Rs.'000	Rs.'000
Cash flows from operating activities		
Cash receipts from customers	2,800	
Cash payments to suppliers	(2,000)	
Cash paid to employees	(100)	
Cash payments for overheads	(200)	
Cash generated from operations	500	
Income tax paid	(250)	
Net cash generated from operating activities		250
Cash flows from investing activities		
Payments for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	100	
Net cash used in investing activities		(100)
Cash flows from financing activities		
Proceeds from issuance of equity shares	300	
Bank loan repaid	(300)	
Dividend paid	(50)	
Net cash used in financing activities		(50)
Net increase in cash		100
Cash at beginning of the period		50
Cash at end of the period		150

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

QUESTION 38 (STUDY MATERIAL)

Given below is the Statement of Profit and Loss of ABC Ltd. and relevant Balance Sheet information:

Extract of Balance sheet

Particulars	Notes	31.3.20X1 (₹ in lakhs)	31.3.20X0 (₹ in lakhs)
Equity and Liabilities			
1 Current liabilities			
(a) Trade Payables		250	230
(b) Short term Provisions	1	200	180
(c) Other current liabilities	2	70	50
Assets			
1 Current assets			
(a) Inventories		200	180
(b) Trade Receivables		400	250
(c) Other current assets	3	195	180

Statement of Profit and Loss of ABC Ltd. for the year ended 31st March, 20X1

	Rs.in lakhs
Revenue:	
Sales	4,150
Interest and dividend	100
Stock adjustment	20
Total (A)	4,270
Expenditure:	
Purchases	2,400
Wages and salaries	800

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Other expenses	200
Interest	60
Depreciation	100
Total (B)	3,560
Profit before tax (A – B)	710
Tax provision	200
Profit after tax	510
Balance of Profit and Loss account brought forward	50
Profit available for distribution (C)	560
Appropriations:	
Transfer to general reserve	200
Declared dividend (including CDT)	330
Total (D)	530
Balance (C – D)	30

Relevant Balance Sheet information	31.3.20X1	31.3.20X0
	Rs. in lakhs	Rs. in lakhs
Trade receivables	400	250
Inventories	200	180
Trade payables	250	230
Outstanding wages	50	40
Outstanding expenses	20	10
Advance tax	195	180
Tax provision	200	180

Compute cash flow from operating activities using both direct and indirect method.

Answer

By direct method

Computation of Cash Flow from Operating Activities

	Rs. in lakhs	Rs. in lakhs
Cash Receipts:		
Cash sales and collection from Trade receivables		
Sales + Opening Trade receivables – Closing Trade receivables (A)	4,150 + 250 $\bar{\text{?}}$ 400	<u>4,000</u>
Cash payments:		
Cash purchases & payment to Trade payables		
Purchases + Opening Trade payables – Closing Trade payables	2,400 + 230 $\bar{\text{?}}$ 250	2,380
Wages and salaries paid	800 + 40 $\bar{\text{?}}$ 50	790
Cash expenses	200 + 10 – 20	190
Taxes paid – Advance tax		195
(B)		<u>3,555</u>
Cash flow from operating activities (A – B)		<u>445</u>
By indirect method		
Profit before tax		710
Add: Non-cash items : Depreciation		100
Add: Interest : Financing cash outflow		60
Less: Interest and Dividend : Investment cash inflow		(100)
Less: Tax paid		(195)
Working capital adjustments		
Trade receivables	250 $\bar{\text{?}}$ 400	(150)
Inventories	180 $\bar{\text{?}}$ 200	(20)
Trade payables	250 $\bar{\text{?}}$ 230	20
Outstanding wages	50 $\bar{\text{?}}$ 40	10
Outstanding expenses	20 $\bar{\text{?}}$ 10	10
		<u>(130)</u>
Cash flow from operating activities		<u>445</u>

QUESTION 39 (STUDY MATERIAL)

Prepare Cash flow for Gamma Ltd., for the year ending 31.3.20X1 from the following information:

- (1) Sales for the year amounted to Rs.135 crores out of which 60% was cash sales.
- (2) Purchases for the year amounted to Rs.55 crores out of which credit purchase was 80%.
- (3) Administrative and selling expenses amounted to Rs.18 crores and salary paid amounted to Rs.22 crores.
- (4) The Company redeemed debentures of Rs.20 crores at a premium of 10%. Debenture holders were issued equity shares of Rs.15 crores towards redemption and the balance was paid in cash. Debenture interest paid during the year was Rs.1.5 crores.
- (5) Dividend paid during the year amounted to Rs.11.7 crores (including Dividend distribution tax) was also paid.
- (6) Investment costing Rs.12 crores were sold at a profit of Rs.2.4 crores.
- (7) Rs.8 crores was paid towards income tax during the year.
- (8) A new plant costing Rs.21 crores was purchased in part exchange of an old plant. The book value of the old plant was Rs.12 crores but the vendor took over the old plant at a value of Rs.10 crores only. The balance was paid in cash to the vendor.
- (9) The following balances are also provided:

	Rs.in crores 1.4.20X0	Rs.in crores 31.3.20X1
Debtors	45	50
Creditors	21	23
Bank	6	

Answer

Gamma Ltd.

Cash Flow Statement for the year ended 31st March, 20X1 (Using direct method)

Particulars	Rs.in crores	Rs.in crores
Cash flows from operating activities		
Cash sales (60% of 135)	81	
Cash receipts from Debtors [45+ (135x40%) - 50]	49	
Cash purchases (20% of 55)	(11)	
Cash payments to suppliers [21+(55x80%) 23]	(42)	
Cash paid to employees	(22)	
Cash payments for overheads (Adm. and selling)	<u>(18)</u>	29
Cash generated from operations	37	
Income tax paid	<u>(8)</u>	
Net cash generated from operating activities		
Cash flows from investing activities		
Sale of investments (12+ 2.40)	14.4	
Payments for purchase of fixed assets (21 – 10)	(11)	
Net cash used in investing activities		3.4
Cash flows from financing activities		
Redemption of debentures (22-15)	(7)	
Interest paid	(1.5)	
Dividend paid	<u>(11.7)</u>	
Net cash used in financing activities		(20.2)
Net increase in cash		12.2
Cash at beginning of the period		6.0
Cash at end of the period		18.2

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0
QUESTION 40 (STUDY MATERIAL)

From the following Balance Sheets of Mr. Zen, prepare a Cash flow statement as per AS-3 for the year ended 31.3.20X1:

Balance Sheets of Mr. Zen

Liabilities	As on 1.4.20X0 Rs.	As on 1.4.20X1 Rs.
Zen's Capital A/c	10,00,000	12,24,000
Trade payables	3,20,000	3,52,000
Mrs. Zen's loan	2,00,000	--
Loan from Bank	<u>3,20,000</u>	<u>4,00,000</u>
	<u>18,40,000</u>	<u>19,76,000</u>
Assets	As on 1.4.20X0 Rs.	As on 1.4.20X1 Rs.
Land	6,00,000	8,80,000
Plant and Machinery	6,40,000	4,40,000
Inventories	2,80,000	2,00,000
Trade receivables	2,40,000	4,00,000
Cash	<u>80,000</u>	<u>56,000</u>
	<u>18,40,000</u>	<u>19,76,000</u>

Additional information:

A machine costing Rs.80,000 (accumulated depreciation there on Rs.24,000) was sold for Rs.40,000. The provision for depreciation on 1.4.20X0 was Rs.2,00,000 and 31.3.20X1 was Rs.3,20,000. The net profit for the year ended on 31.3.20X1 was

Rs.3,60,000.

Answer
**Cash Flow Statement of Mr. Zen as per AS 3 for the year
ended 31.3.20X1**

		Rs.
(i) Cash flow from operating activities		
Net Profit (given)		3,60,000
Adjustments for		
Depreciation on Plant & Machinery (W.N.2)	1,44,000	
Loss on Sale of Machinery (W.N.1)	16,000	1,60,000
Operating Profit before working capital changes		5,20,000
Decrease in inventories	80,000	
Increase in trade receivables	(1,60,000)	
Increase in trade payables	32,000	(48,000)
Net cash generated from operating activities		4,72,000
(ii) Cash flow from investing activities		
Sale of Machinery (W.N.1)	40,000	
Purchase of Land (8,80,000 – 6,00,000)	(2,80,000)	
Net cash used in investing activities		(2,40,000)
(iii) Cash flow from financing activities		
Repayment of Mrs. Zen's Loan	(2,00,000)	
Drawings (W.N.3)	(1,36,000)	
Loan from Bank	80,000	
Net cash used in financing activities		(2,56,000)
Net decrease in cash		(24,000)
Opening balance as on 1.4.20X0		80,000
Cash balance as on 31.3.20X1		56,000

Working Notes:
1. Plant & Machinery A/c

	Rs.		Rs.
To Balance b/d (6,40,000 + 2,00,000)	8,40,000	By Cash – Sales	40,000
		By Provision for Depreciation A/c	24,000
		By Profit & Loss A/c – Loss on Sale (80,000 – 64,000)	16,000
		By Balance c/d (4,40,000+3,20,000)	7,60,000
	8,40,000		8,40,000

2. Provision for depreciation on Plant and Machinery A/c

	Rs.		Rs.
To Plant and Machinery A/c	24,000	By Balance b/d	2,00,000
To Balance c/d	<u>3,20,000</u>	By Profit & Loss A/c (Bal. fig.)	<u>1,44,000</u>
	<u>3,44,000</u>		<u>3,44,000</u>

To find out Mr. Zen's drawings:

	Rs.
Opening Capital	10,00,000
Add: Net Profit	<u>3,60,000</u>
	13,60,000
Less: Closing Capital	<u>(12,24,000)</u>
Drawings	<u>1,36,000</u>

QUESTION 41 (STUDY MATERIAL)

While preparing cash flow statement, conversion of debt to equity

- (a) Should be shown as a financing activity.
- (b) Should be shown as an investing activity.
- (c) Should not be shown as it is a non-cash transaction.

Answer: (c)

QUESTION 42 (STUDY MATERIAL)

Which of the following would be considered a 'cash-flow item from an "investing activity"?

- (a) Cash outflow to the government for taxes.
- (b) Cash outflow to purchase bonds issued by another company
- (c) Cash outflow to shareholders as dividends.

Answer: (b)

QUESTION 43 (STUDY MATERIAL)

Hari, Uttam, stock broking firm received 1,50,000 as premium forward contracts entered for purchase of equity shares. How will you classify this amount in the cash flow statement of the firm?

- (a) Operating Activities.
- (b) Investing Activities.
- (c) Financing Activities

Answer: (a)

QUESTION 44 (STUDY MATERIAL)

As per AS 3 on Cash Flow Statements, cash received by a manufacturing company from sale of shares of ABC Company Ltd. Should be classified as

- (a) Operating activity.
- (b) Financing activity.
- (c) Investing activity.

Answer : (c)

QUESTION 45 (STUDY MATERIAL)

Which of the following activities would generally be regarded as a financing activity in preparing a cash flow statement?

- (a) Dividend distribution.
- (b) Proceeds from the sale of shares of other companies.
- (c) Loans made by the financial enterprise to other businesses entities.

Answer: (a)

QUESTION 46 (STUDY MATERIAL)

All of the following are examples of cash flows arising from Investing activities except

- (a) Cash payments to acquire fixed assets.
- (b) Cash receipts from disposal of fixed assets.
- (c) Cash payments to suppliers for goods and services.

Answer: (c)

QUESTION 47 (STUDY MATERIAL)

Cash repayments of amounts borrowed will be disclosed in the cash flow statements

- (a) An operating activity.
- (b) A financing activity
- (c) An investing activity

Answer : (b)

QUESTION 48 STUDY MATERIAL)

In the cash flow statement, 'cash and cash equivalents' include

- (a) Bank balances and Cash balances.
- (b) Short-term investments readily convertible into Cash are subject to an insignificant risk of changes in value.
- (c) Both (a) and (b).

Answer : (c)

QUESTION 49 STUDY MATERIAL)

While preparing a Cash Flow Statement using the Indirect method as required under AS 3, which of the following will be deducted from the Net Profit to arrive at the "Cash flow from Operating activities"?

- (a) Interest income
- (b) Gain on sale of a Fixed asset..
- (c) Both (a) and (b)

Answer : (c)

QUESTION 50 STUDY MATERIAL)

XYZ Co. Ltd is a financial Institute and has given loans and advances to its subsidiary and earned interest of ₹ 5 lacs on that loan. Interest earned by XYZ Co. Ltd is shown as

- (a) Operating Cash Flow.
- (b) Investing Cash Flow.
- (c) Financing Cash Flow.

Answer : (a)

Theoretical Questions

1. What is the significance of cash flow statement? Explain in brief.

ANSWER 1

Cash flow statement provides information about the changes in cash and cash equivalents of an enterprise. It identifies cash generated from trading operations and is very useful tool of planning.

2. Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to AS 3.

ANSWER 2

As per Para 18 of AS 3 (Revised) on Cash Flow Statements, an enterprise should report cash flows from operating activities using either:

- (a) The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
- (b) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Practical Questions

Question 1

Classify the following activities as (a) Operating activities, (b) Investing activities (c) Financing activities (d) Cash equivalents with reference to AS 3 (Revised).

- (a) Brokerage paid on purchase of investments
- (b) Underwriting commission paid
- (c) Trading commission received
- (d) Proceeds from sale of investment
- (e) Purchase of goodwill
- (f) Redemption of preference shares
- (g) Rent received from property held as investment
- (h) Interest paid on long-term borrowings
- (i) Marketable securities (having risk of change in value)
- (j) Refund of income tax received

ANSWER 1

Classification of activities with reference to AS 3

a.	Brokerage paid on purchased of investments	Investing Activities
b.	Underwriting Commission paid	Financing Activities
c.	Trading Commission received	Operating Activities
d.	Proceeds from sale of investment	Investing Activities
e.	Purchase of goodwill	Investing Activities
f.	Redemption of Preference shares	Financing Activities
g.	Rent received from property held as investment	Investing Activities
h.	Interest paid on long term borrowings	Financing Activities
i.	Marketable securities	Not a Cash equivalent
j.	Refund of Income tax received	Operating activities

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Question 2

How will you disclose following items while preparing Cash Flow Statement of Gagan Ltd. as per AS-3 for the year ended 31st March, 20X2?

(i) 10% Debentures issued: As on 01-04-20X1 ₹ 1,10,000

As on 31-03-20X2 ₹ 77,000

(ii) Debentures were redeemed at 5% premium at the end of the year. Premium was charged to the Profit & Loss Account for the year.

(iii) Unpaid Interest on Debentures: As on 01-04-20X1 ₹ 275

As on 31-03-20X2 ₹ 1,175

(iv) Debtors of ₹ 36,000 were written off against the Provision for Doubtful Debts A/c during the year.

(v) 10% Bonds (Investments): As on 01-04-20X1 ₹ 3,50,000

As on 31-03-20X2 ₹ 3,50,000

(vi) Accrued Interest on Investments: As on 31-03-20X2 ₹ 10,500

Answer 2

Cash Flow Statement of M/s Gagan Ltd. for the year ended March 31, 20X2

A Cash Flow from Operating Activities	
Net Profit as per Profit & Loss A/c	xxxxx
Add: Premium on Redemption of Debentures	1,650
Add: Interest on 10% Debentures	11,000
Less: Interest on 10% Investments	(35,000)
B Cash Flow from Investing Activities	
Interest on Investments [35,000-10,500]	24,500
C Cash Flow from Financing Activities	
Interest on Debentures paid [11,000 - (1,175 - 275)] - outflow	(10,100)
Redemption of Debentures [(1,10,000 - 77,000) at 5% premium] - outflow	(34,650)

Note: Debtors written off against provision for doubtful debts does not require any further adjustment in Cash Flow Statement

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0
Question 3

From the following Balance sheet of Grow More Ltd., prepare Cash Flow Statement for the year ended 31st March, 20X1 :

Particulars	Notes	31st March, 20X1	31st March, 20X0
Equity and Liabilities			
1 Shareholders' funds			
A Share capital		10,00,000	8,00,000
B Reserves and Surplus	1	3,00,000	2,10,000
2 Non-current liabilities			
Long term borrowings	2	2,00,000	-
3 Current liabilities			
A Trade Payables		7,00,000	8,20,000
B Other current liabilities	3	-	1,00,000
C Short term provision (provision for tax)		1,00,000	70,000
Total		23,00,000	20,00,000
Assets			
1 Non-current assets			
A Property, plant and Equipment	4	13,00,000	9,00,000
B Non-Current Investments		1,00,000	-
2 Current assets			
A Inventories		4,00,000	2,00,000
B Trade receivables		5,00,000	7,00,000
C Cash and Cash equivalents		-	2,00,000
Total		23,00,000	20,00,000

Notes to accounts

No. Particulars	31st March, 20X1	31st March, 20X0
1 Reserves and Surplus		
Revenue reserve	2,00,000	1,50,000
Profit and Loss account	1,00,000	60,000
Total	3,00,000	2,10,000
2 Long term borrowings		
Debentures	2,00,000	--
3. Other current liabilities		
Dividend payable	-	1,00,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

4 Property, plant and equipment		
Plant and machinery	7,00,000	5,00,000
Land and building	6,00,000	4,00,000
Net carrying value	13,00,000	9,00,000

(i) Depreciation @ 25% was charged on the opening value of Plant and Machinery.

(ii) At the year end, one old machine costing ₹ 50,000 (WDV ₹ 20,000) was sold for ₹ 35,000. Purchase was also made at the year end.

(iii) ₹ 50,000 was paid towards Income tax during the year.

(iv) Construction of the building got completed on 31.03.20X1 and hence no depreciation may be charged on the same.

Prepare Cash flow Statement

ANSWER 3

Cash Flow Statement of Grow More Ltd for the year ended 31st March, 20X1

Cash Flow from Operating Activities

		₹
Increase in balance of Profit and Loss Account (1,00,000 – 60,000)	40,000	
Provision for taxation (W.N.1)	80,000	
Transfer to General Reserve (2,00,000 – 1,50,000)	50,000	
Depreciation (W.N.2)	1,25,000	
Profit on sale of Plant and Machinery	(15,000)	
Operating Profit before Working Capital changes	2,80,000	
Increase in Inventories	(2,00,000)	
Decrease in Trade receivables	2,00,000	
Decrease in Trade payables	(1,20,000)	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Cash generated from operations	1,60,000	
Income tax paid	(50,000)	
Net Cash generated from operating activities		1,10,000

Cash Flow from Investing Activities

Purchase of fixed assets	(3,45,000)	
Expenses on building (6,00,000 – 4,00,000)	(2,00,000)	
Increase in investments	(1,00,000)	
Sale of old machine	35,000	
Net Cash used in investing activities		(6,10,000)

Cash Flow from Financing activities

Proceeds from issue of shares (10,00,000 – 8,00,000)	2,00,000	
Proceeds from issue of debentures	2,00,000	
Dividend paid	(1,00,000)	
Net cash generated from financing activities		3,00,000
Net increase in cash or cash equivalents		NIL
Cash and Cash equivalents at the beginning of the year		2,00,000
Cash and Cash equivalents at the end of the year		Nil

Working Notes:
1. Provision for taxation account

	₹		₹
To Cash (Paid)	50,000	By Balance b/d	70,000
To Balance c/d	1,00,000	By Profit and Loss A/c (Balancing figure)	80,000
	<u>1,50,000</u>		<u>1,50,000</u>

2. Plant and Machinery account

	₹		₹
To Balance b/d	5,00,000	By Depreciation	1,25,000
To Profit and Loss A/c (profit on sale of machine)	15,000		
To Cash (Balancing figure)	3,45,000	By Cash (sale of machine)	35,000
	<u>8,60,000</u>	By Balance c/d	7,00,000
			<u>8,60,000</u>

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0
Question 4

From the following Balance Sheets and information, prepare Cash Flow Statement of Ryan Ltd. by Indirect method for the year ended 31st March, 20X1:

<i>Particulars</i>		<i>Notes</i>	<i>31st March 20X1 ₹</i>	<i>31st March 20X0 ₹</i>
	Equity and Liabilities			
1	Shareholders' funds			
A	Share capital	1	6,00,000	7,00,000
B	Reserves and Surplus	2	4,20,000	3,00,000
2	Non-current liabilities			
	Long term borrowings	3	2,00,000	-
3	Current liabilities			
A	Trade Payables		1,15,000	1,10,000
B	Other current liabilities	4	30,000	80,000
C	Short term provision (provision for tax)		95,000	60,000
	Total		14,60,000	12,50,000
	Assets			
1	Non-current assets			
A	Property, plant and Equipment	5	9,15,000	7,00,000
B	Non-Current Investments		50,000	80,000
2	Current assets			
A	Inventories		95,000	90,000
B	Trade receivables		2,50,000	2,25,000
C	Cash and Cash equivalents		50,000	90,000
D	Other Current assets		1,00,000	65,000
	Total		14,60,000	12,50,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Notes to accounts

No.		31 st March, 20X1	31 st March, 20X0
1.	Share capital		
	Equity share capital	6,00,000	5,00,000
	10% Redeemable Preference share capital	—	<u>2,00,000</u>
	Total	<u>6,00,000</u>	<u>7,00,000</u>
2	Reserves and Surplus		
	Capital redemption reserve	1,00,000	-
	Capital reserve	70,000	-
	General reserve	1,50,000	2,50,000
	Profit and Loss account	<u>1,00,000</u>	<u>50,000</u>
	Total	<u>4,20,000</u>	<u>3,00,000</u>
3	Long term borrowings		
	9% Debentures	<u>2,00,000</u>	—
4.	Other current liabilities		
	Dividend payable	-	60,000
	Liabilities for expenses	<u>30,000</u>	<u>20,000</u>
	Total	<u>30,000</u>	<u>80,000</u>
5	Property, plant and equipment		
	Plant and machinery	7,65,000	5,00,000
	Land and building	<u>1,50,000</u>	<u>2,00,000</u>
	Net carrying value	<u>9,15,000</u>	<u>7,00,000</u>

Additional Information:

(i) A piece of land has been sold out for ₹1,50,000 (Cost – ₹1,20,000) and the balance land was revalued. Capital Reserve consisted of profit on revaluation of land.

(ii) On 1st April, 20X0 a plant was sold for ₹90,000 (Original Cost – ₹70,000 and W.D.V. – ₹ 50,000) and Debentures worth ₹1 lakh were issued at par as part consideration for plant of ₹4.5 lakhs acquired.

(iii) Part of the investments (Cost – ₹50,000) was sold for ₹70,000.

(iv) Pre-acquisition dividend received ₹5,000 was adjusted against cost of investment.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

(v) Interim dividend was declared and paid @ 15% during the current year.

(vi) Income-tax liability for the current year was estimated at ₹1,35,000.

(vii) Depreciation @ 15% has been charged on Plant and Machinery but no depreciation has been charged on Building.

ANSWER 4

Cash Flow Statement of Ryan Limited
For the year ended 31st March, 20X1

₹	₹	
Cash flow from operating activities	2,75,000	
Net Profit before taxation (W.N.1)		
Adjustment for		
Depreciation (W.N.3)	1,35,000	
Profit on sale of land	(30,000)	
Profit on sale of plant (W.N.3)	(40,000)	
Profit on sale of investments (W.N.4)	(20,000)	
Interest on debentures (2,00,000 X 9%)	18,000	
Operating profit before working capital changes	3,38,000	
Increase in inventory	(5,000)	
Increase in trade receivables	(25,000)	
Increase in Other current assets (W.N.9)	(35,000)	
Increase in Trade payables	5,000	
Increase in liabilities for expenses	10,000	
Cash generated from operations	2,88,000	
Income taxes paid (W.N.8)	(1,00,000)	
Net cash generated from operating activities		1,88,000
Cash flow from investing activities		
Proceeds from sale of land (W.N.2)	1,50,000	
Proceeds from sale of plant (W.N.3)	90,000	
Proceeds from sale of investments (W.N.4)	70,000	
Purchase of plant (W.N.3)	(3,50,000)	
Purchase of investments (W.N.4)	(25,000)	
Pre-acquisition dividend received (W.N.4)	5,000	
Net cash used in investing activities		(60,000)
Cash flow from financing activities		
Proceeds from issue of equity shares (6,00,000 – 5,00,000)	1,00,000	
Proceeds from issue of debentures (2,00,000 – 1,00,000)	1,00,000	
Redemption of preference shares	(2,00,000)	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Dividends paid	(1,50,000)	
Interest paid on debentures	(18,000)	
Net cash used in financing activities		(1,68,000)
Net decrease in cash and cash equivalents		(40,000)
Cash and cash equivalents at the beginning of the year		90,000
Cash and Cash equivalents at the end of the year		50,000

Working Notes:

1.

	₹
Net profit before taxation	
Retained profit	1,00,000
Less: Balance as on 31.3.20X0	(50,000)
	50,000
Provision for taxation	1,35,000
Dividend	90,000
	2,75,000

2.

Land and Building Account

	₹		₹
To Balance b/d	2,00,000	By Cash (Sale)	1,50,000
To Profit and Loss A/c (Profit on sale)	30,000	By Balance c/d	1,50,000
To Capital reserve (Revaluation profit)	70,000		
	3,00,000		3,00,000

3.

Plant and Machinery Account

	₹		₹
To Balance b/d	5,00,000	By Cash (Sale)	90,000
To Profit and loss account	40,000	By Depreciation	1,35,000
To Debentures	1,00,000	By Balance c/d	7,65,000
To Bank	3,50,000		
	9,90,000		9,90,000

4.

Investments Account

	₹		₹
To Balance b/d	80,000	By Cash (Sale)	70,000
To Profit and loss account	20,000	By Dividend	
To Bank (Balancing figure)	25,000	(Pre-acquisition)	5,000
		By Balance c/d	50,000
	1,25,000		1,25,000

5. Capital Reserve Account

		₹			₹
To	Balance c/d	70,000	By	Profit on revaluation of land	70,000
		<u>70,000</u>			<u>70,000</u>

6. General Reserve Account

		₹			₹
To	Capital redemption	1,00,000	By	Balance b/d	2,50,000
To	Balance c/d	1,50,000			
		<u>2,50,000</u>			<u>2,50,000</u>

7. Dividend payable Account

		₹			₹
To	Bank (Balancing figure)	1,50,000	By	Balance b/d	60,000
To	Balance c/d	-	By	Profit and loss account	90,000
		<u>1,50,000</u>			<u>1,50,000</u>

8. Provision for Taxation Account

		₹			₹
To	Bank (Balancing figure)	1,00,000	By	Balance b/d	60,000
To	Balance c/d	95,000	By	Profit and loss account	1,35,000
		<u>1,95,000</u>			<u>1,95,000</u>

9. Other Current Assets Account

		₹			₹
To	Balance b/d	65,000			
To	Bank (Balancing figure)	35,000	By	Balance c/d	1,00,000
		<u>1,00,000</u>			<u>1,00,000</u>

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Question 5

The Balance Sheet of New Light Ltd. as at 31st March, 20X1 and 20X0 (for the years ended) are as follows:

		Notes	₹ 31 st March 20X0	₹ 31 st March 20X1	
Equity and Liabilities					
Shareholders' funds					
1	A	Share capital	1	16,00,000	18,80,000
	B	Reserves and Surplus	2	8,40,000	11,00,000
Non-current liabilities					
2		Long term borrowings	3	4,00,000	2,80,000
Current liabilities					
3	A	Other current liabilities	4	6,00,000	5,20,000
	B	Short term provision (provision for tax)		3,60,000	3,40,000
Total			38,00,000	41,20,000	
Assets					
Non-current assets					
1	A	Property, plant and Equipment	5	22,80,000	26,40,000
	B	Non-Current Investments		4,00,000	3,20,000
Current assets					
2	A	Cash and Cash equivalents		10,000	10,000
	B	Other Current assets		11,10,000	11,50,000
Total			38,00,000	41,20,000	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Notes to accounts

No.	Particulars	31 st March, 20X0	31 st March, 20X1
1.	Share capital		
	Equity share capital	12,00,000	16,00,000
	10% Preference share capital	<u>4,00,000</u>	<u>2,80,000</u>
	Total	<u>16,00,000</u>	<u>18,80,000</u>
2	Reserves and Surplus		
	General reserve	6,00,000	7,60,000
	Profit and Loss account	<u>2,40,000</u>	<u>3,40,000</u>
	Total	<u>8,40,000</u>	<u>11,00,000</u>
3	Long term borrowings		
	9% Debentures	<u>4,00,000</u>	<u>2,80,000</u>
	Total	<u>4,00,000</u>	<u>2,80,000</u>
4.	Other current liabilities		
	Dividend payable	1,20,000	-
	Current Liabilities	<u>4,80,000</u>	<u>5,20,000</u>
	Total	<u>6,00,000</u>	<u>5,20,000</u>
5	Property, plant and equipment		
	Property, plant and equipment	32,00,000	38,00,000
	Less: Depreciation	<u>(9,20,000)</u>	<u>(11,60,000)</u>
	Net carrying value	<u>22,80,000</u>	<u>26,40,000</u>

Additional information:

(i) The company sold one property, plant and equipment for ₹ 1,00,000, the cost of which was ₹ 2,00,000 and the depreciation provided on it was ₹80,000.

(ii) The company also decided to write off another item of property, plant and equipment costing ₹ 56,000 on which depreciation amounting to ₹ 40,000 has been provided.

(iii) Depreciation on property, plant and equipment provided ₹ 3,60,000

(iv) Company sold some investment at a profit of ₹ 40,000.

(v) Debentures and preference share capital redeemed at 5% premium.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

(vi) Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The inventory according to books on 31.3.20X0 was ₹ 2,16,000. The inventory on 31.3.20X1 was correctly valued at ₹ 3,00,000.

Prepare Cash Flow Statement as per revised Accounting Standard 3 by indirect method.

Answer 5

New Light Ltd.

Cash Flow Statement for the year ended 31st March, 20X1

A.	Cash Flow from operating activities	₹	₹
	Profit after appropriation		
	Increase in profit and loss A/c after inventory adjustment [₹3,40,000 – (₹2,40,000 + ₹24,000)]	76,000	
	Transfer to general reserve	1,60,000	
	Provision for tax	3,40,000	
	Net profit before taxation and extraordinary item	5,76,000	
	Adjustments for:		
	Depreciation	3,60,000	
	Loss on sale of property, plant and equipment	20,000	
	Decrease in value of property, plant and equipment	16,000	
	Profit on sale of investment	(40,000)	
	Premium on redemption of preference share capital	6,000	
	Premium on redemption of debentures	6,000	
	Operating profit before working capital changes	9,44,000	
	Increase in current liabilities (₹5,20,000 – ₹4,80,000)	40,000	
	Increase in other current assets [₹11,50,000 – (₹ 11,10,000 + ₹24,000)]	(16,000)	
	Cash generated from operations	9,68,000	
	Income taxes paid	(3,60,000)	
	Net Cash generated from operating activities		6,08,000
	B. Cash Flow from investing activities		
	Purchase of property, plant and equipment (W.N.3)	(8,56,000)	
	Proceeds from sale of property, plant and equipment (W.N.3)	1,00,000	
	Proceeds from sale of investments (W.N.2)	1,20,000	
	Net Cash used in investing activities		(6,36,000)

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

C. Cash Flow from financing activities		
Proceeds from issuance of share capital	4,00,000	
Redemption of preference share capital (₹1,20,000 + ₹6,000)	(1,26,000)	
Redemption of debentures (₹ 1,20,000 + ₹ 6,000)	(1,26,000)	
Dividend paid	(1,20,000)	
Net Cash generated from financing activities		28,000
Net increase/decrease in cash and cash equivalent during the year		Nil
Cash and cash equivalent at the beginning of the year		10,000
Cash and cash equivalent at the end of the year		10,000

Working Notes:

1. Revaluation of inventory will increase opening inventory by ₹ 24,000.

$$2,16,000/90 \times 10 = ₹ 24,000$$

Therefore, opening balance of other current assets would be as follows:

$$₹ 11,10,000 + ₹ 24,000 = ₹ 11,34,000$$

Due to under valuation of inventory, the opening balance of profit and loss account be increased by ₹ 24,000.

The opening balance of profit and loss account after revaluation of inventory will be ₹ 2,40,000 + ₹ 24,000 = ₹ 2,64,000

2. Investment Account

	₹		₹
To Balance b/d	4,00,000	By Bank A/c (balancing figure being investment sold)	1,20,000
To Profit and Loss A/c (Profit on sale of investment)	40,000	By Balance c/d	3,20,000
	4,40,000		4,40,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0
3. Property, Plant and Equipment Account

	₹		₹	₹
To Balance b/d	32,00,000	By Bank A/c (sale of assets)	1,00,000	
To Bank A/c (balancing figure being assets purchased)	8,56,000	By Accumulated depreciation A/c	80,000	
		By Profit and loss A/c (loss on sale of assets)	20,000	2,00,000
		By Accumulated depreciation A/c	40,000	
		By Profit and loss A/c (assets written off)	<u>16,000</u>	56,000
		By Balance c/d		<u>38,00,000</u>
	<u>40,56,000</u>			<u>40,56,000</u>

4. Accumulated Depreciation Account

	₹		₹
To Property, plant and equipment A/c	80,000	By Balance b/d	9,20,000
To Property, plant and equipment A/c	40,000	By Profit and loss A/c (depreciation for the year)	3,60,000
To Balance c/d	11,60,000		
	<u>12,80,000</u>		<u>12,80,000</u>

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Question 6

ABC Ltd. gives you the Balance sheets as at 31st March 20X0 and 31st March 20X1. You are required to prepare Cash Flow Statement by using indirect method as per AS 3 for the year ended 31st March 20X1:

Particulars		Notes	₹ 31 st March 20X0	₹ 31 st March 20X1
1	Equity and Liabilities			
	Shareholders' funds			
A	Share capital		50,00,000	50,00,000
B	Reserves and Surplus		26,50,000	36,90,000
2	Non-current liabilities			
	Long term borrowings	1	-	9,00,000
3	Current liabilities			
A	Short-term borrowings (Bank loan)		1,50,000	3,00,000
B	Trade payables		8,80,000	8,20,000
C	Other current liabilities	2	4,80,000	2,70,000
	Total		91,60,000	1,09,80,000
1	Assets			
	Non-current assets			
A	Property, plant and Equipment	3	21,20,000	32,80,000
2	Current assets			
A	Current Investments		11,80,000	15,00,000
B	Inventory		20,10,000	19,20,000
C	Trade receivables	4	22,40,000	26,40,000
D	Cash and Cash equivalents		15,20,000	15,20,000
E	Other Current assets (Prepaid expenses)		90,000	1,20,000
	Total		91,60,000	1,09,80,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Notes to accounts

No. Particulars	₹20X0	20X1
1 Long term borrowings		
9% Debentures	-	9,00,000
Total	-	9,00,000
2. Other current liabilities		
Dividend payable	1,50,000	-
Liabilities for expenses	3,30,000	2,70,000
Total	4,80,000	2,70,000
3 Property, plant and equipment		
Plant and machinery	27,30,000	40,70,000
Less: Depreciation	(6,10,000)	(7,90,000)
Net carrying value	21,20,000	32,80,000
4 Trade receivables		
Gross amount	23,90,000	28,30,000
Less: Provision for doubtful debts	(1,50,000)	(1,90,000)
Total	22,40,000	26,40,000

Additional Information:

(i) Net profit for the year ended 31st March, 20X1, after charging depreciation ₹ 1,80,000 is ₹ 10,40,000.

(ii) Trade receivables of ₹ 2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account during the year.

Answer 6

Cash Flow Statement of ABC Ltd. for the year ended 31.3.20X1

Cash flows from Operating Activities	₹	₹
Net Profit	10,40,000	
Add: Adjustment For Depreciation (₹7,90,000 – ₹6,10,000)	1,80,000	
Add: Adjustment for Provision for Doubtful Debts (₹ 4,20,000 – ₹1,50,000)	2,70,000	
Operating Profit Before Working Capital Changes	14,90,000	
Add: Decrease in Inventories (₹ 20,10,000 – ₹ 19,20,000)	90,000	
	15,80,000	
Less: Increase in Current Assets		
Trade Receivables (₹ 30,60,000 – ₹23,90,000)	6,70,000	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Prepaid Expenses (₹ 1,20,000 – ₹90,000)	30,000		
Decrease in Current Liabilities:			
Trade Payables (₹ 8,80,000 – ₹ 8,20,000)	60,000		
Expenses Outstanding (₹ 3,30,000 – ₹ 2,70,000) 60,000		(8,20,000)	
Net Cash generated from Operating Activities			7,60,000
Cash Flows from Investing Activities			
Investment in Current Investments		(3,20,000)	
Purchase of Plant & Machinery (₹ 40,70,000 – ₹ 27,30,000)		(13,40,000)	
Net Cash Used in Investing Activities		(16,60,000)	
Cash Flows from Financing Activities			
Bank Loan Raised (₹ 3,00,000 – ₹ 1,50,000)		1,50,000	
Issue of Debentures		9,00,000	
Payment of Dividend		(1,50,000)	
Net Cash Used in Financing Activities		9,00,000	
Net Increase in Cash During the Year		-	
Add: Cash and Cash Equivalents as on 1.4.20X0		15,20,000	
Cash and Cash Equivalents as on 31.3.20X1		15,20,000	

Note:

1. Bad debts amounting ₹ 2,30,000 were written off against provision for doubtful debts account during the year. In the above solution, Bad debts have been added back in the balances of provision for doubtful debts and trade receivables as on 31.3.20X1. Alternatively, the adjustment of writing off bad debts may be ignored and the solution can be given on the basis of figures of trade receivables and provision for doubtful debts as appearing in the balance sheet on 31.3.20X1.

2. Current investments (i.e. Marketable securities) may not be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value as per the requirements of AS 3 and hence those have been considered as investing activities.

S

QUESTION 51 (RTP MAY 18)

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	Trade Payables (for goods)	2,40,500
Freehold Land	16,25,000	Sales	36,17,000
Plant & Machinery	7,50,000	Rent (Cr.)	30,000
Engineering Tools	1,50,000	Transfer fees received	6,500
Trade Receivables	4,00,500	Profit & Loss A/c (Cr.)	67,000
Advertisement	15,000	Repairs to Building	56,500
Commission & Brokerage	67,500	Bad debts	25,500
Business Expenses	56,000		

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%).

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2017 and Balance Sheet as on that date.

ANSWER:

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	<u>4,07,414</u>
	Total		<u>40,25,500</u>
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	<u>28,000</u>
	Total		<u>40,25,500</u>

Kapil Ltd.

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

	Particulars	Note No.	(Rs.)
I	Revenue from Operations		36,17,000
II	Other Income	8	<u>36,500</u>
III	Total Revenue [I + II]		<u>36,53,500</u>
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	<u>4,40,000</u>
	Total Expenses		<u>32,53,500</u>
V	Profit before Tax (III-IV)		4,00,000
VI	Tax Expenses @ 30%		<u>(1,20,000)</u>
VII	Profit for the period		<u>2,80,000</u>

Notes to Accounts:

1. Share Capital

Authorized Capital	
5,00,000 Equity Shares of Rs. 10 each	<u>50,00,00</u>
	<u>0</u>
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	<u>40,000</u>
(Call unpaid Rs.10,000)	<u>19,90,000</u>

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)	<u>(48,614)</u>	<u>52,586</u>
		<u>59,586</u>

3. Other Current Liabilities

Bank Overdraft	12,67,000
Outstanding Expenses [25,000+36,000]	<u>61,000</u>
	<u>13,28,000</u>

4. Short-term Provisions

Provision for Tax	1,20,000
Equity Dividend payable	2,38,800
Corporate Dividend Tax	<u>48,614</u>
	<u>4,07,414</u>

5. Tangible Assets

Particulars	Value given (Rs.)	Depreciation rate	Depreciation Charged (Rs.)	Written down value at the end (Rs.)
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	<u>1,50,000</u>	20%	<u>30,000</u>	<u>1,20,000</u>
	<u>30,50,000</u>		<u>1,20,000</u>	<u>29,30,000</u>

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

6. Trade Receivables

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

7. Cash & Cash Equivalent

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

8. Other Income

Miscellaneous Income (Transfer fees)	6,500
Rental Income	<u>30,000</u>
	<u>36,500</u>

9. Employee benefits expenses

Wages	13,68,000
Add: Outstanding wages	<u>25,000</u>
	<u>13,93,000</u>

10. Finance Cost

Interest on Bank overdraft	1,11,000
	0

11. Other Expenses

Carriage Inward	57,500
Discount & Rebates	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	<u>25,000</u>
	<u>4,40,000</u>

Working Note**Calculation of grossing-up of dividend:**

Particulars	Rs.
Dividend distributed by Company	2,38,800
	0
Add: Increase for the purpose of grossing up of dividend $2,38,800 \times [15/(100-15)]$	<u>42,141</u>
Gross dividend	2,80,941
	1
Dividend distribution tax @ 17.304%	48,614

QUESTION 52 (RTP MAY 18)

A company provides you the following information:

- (i) Total sales for the year were Rs.398croresoutofwhichcashsalesamountedto Rs. 262crores.
- (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

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

negotiations, the vendor agreed to take over the old machinery at a high value of Rs. 15 crores. The balance was paid in cash to the vendor.

- (x) Investment costing Rs. 18 crores 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).

ANSWER:

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)	<u>(251)</u>	
Cash from operations	145	
Less: Income tax paid	<u>(26)</u>	
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	<u>16</u>	
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	<u>(15)</u>	
Net cash used in financing activities		<u>(25)</u>
Net increase in cash and cash equivalents		100
Add: Cash and cash equivalents as on 1.04.2016		<u>2</u>
Cash and cash equivalents as on 31.3.2017		<u>102</u>

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)	<u>176</u>
Total	260
Less: Closing balance in Creditors Account	<u>92</u>
Cash paid to suppliers of goods	168
Add: Cash purchases (220x .2)	<u>44</u>
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)	<u>20</u>
Total cash paid to suppliers of goods & services and to employees [(a)+ (b) + (c)]	<u>251</u>

QUESTION 53 (RTP NOVEMBER 18)

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

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Capital Work-in-progress	8,00,000	Finished Goods	30,00,000
--------------------------	----------	----------------	-----------

Additional Information:-

- Share Capital consist of-
 - 1,20,000 Equity Shares of Rs.100 each fully paid up.
 - 40,000, 10% Redeemable Preference Shares of Rs.100 each fully paid up.
- The company declared dividend @ 5% of equity share capital. The dividend distribution tax rate is 17.304%. (15% CDT, surcharge 12%, Education Cess 2% and SHEC @ 1%)
- Depreciate Assets by Rs.20,00,000.

ANSWER:
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- Terms Loans (Secured)		40,00,000
(3)	Current Liabilities		
	(a) Trade Payables	-	45,80,000
	(b) Other current liabilities	3	20,03,576
	(c) Short-term Provisions (Provision for taxation)		<u>10,20,000</u>
	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

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

(c) Cash and Cash Equivalents		38,40,000
(d) Short-term Loans and Advances	7	<u>17,08,000</u>
Total		3,74,68,000

Notes to accounts

		(Rs.)
1. Share Capital		
Authorized, issued, subscribed & called up	1,20,00,000	
1,20,000, Equity Shares of Rs.100 each		
40,000 10% Redeemable Preference Shares of 100each	<u>40,00,000</u>	<u>1,60,00,000</u>
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	<u>(2,32,000)</u>	
	29,68,000	
Less: Appropriations		
Dividend (10,00,000)		
Dividend distribution tax	<u>17,64,424</u>	98,64,424
	<u>(2,03,576)</u>	
3. Other current liabilities		
Loan from other parties	8,00,000	
Dividend	10,00,000	
Dividend Distribution tax [W.N]	<u>2,03,576</u>	20,03,576
4. Tangible assets		
Fixed Assets		
Opening balance	2,26,00,000	
Less: Depreciation	<u>(20,00,000)</u>	
Closing balance		2,06,00,000
5. Inventories		
Finished Goods	30,00,000	
Stores	16,00,000	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

	Loose Tools	<u>2,00,000</u>	<u>48,00,000</u>
6. Trade Receivables			
	Trade receivables	49,00,000	
	Less: Provision for Doubtful Debts	<u>(80,000)</u>	48,20,000
7. Short term loans & Advances			
	Staff Advances	2,20,000	
	Other Advances	<u>14,88,000</u>	17,08,000

Working Note:

Calculation of Dividend distribution tax

(i) Grossing-up of dividend:

		Rs.
Dividend distributed by Mehar Ltd.		
Equity shares dividend	6,00,000	
Preference share dividend	<u>4,00,000</u>	10,00,000
Add: Increase for the purpose of grossing up of dividend $10,00,000 \times [15 / (100-15)]$		<u>1,76,470</u>
Gross dividend		<u>11,76,470</u>

(ii) Dividend distribution tax@17.304% 2,03,576

QUESTION 54 (RTP NOVEMBER 18)

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

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

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.

ANSWER:

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	<u>30</u>
	570
Less: Accumulated losses not written off	(30)
Investments	<u>(270)</u>
Effective capital for the purpose of managerial remuneration	<u>270</u>

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 than 5 Crore, limit of yearly remuneration payable should not exceed Rs.60 lakhs as per Companies Act, 2013.

QUESTION 55 RTP NOVEMBER 18)

The Balance Sheet of Harry Ltd. for the year ending 31st March, 2018 and 31st March, 2017 were summarised as follows:

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

	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 payable	3,000	2,000
Declared Dividends	<u>4,000</u>	<u>2,000</u>
	<u>1,44,000</u>	<u>1,17,000</u>
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	<u>12,000</u>	<u>17,000</u>
	<u>1,44,000</u>	<u>1,17,000</u>

The Profit and Loss account for the year ended 31st March, 2018 disclosed:

	Rs.
Profit before tax	8,000
Income Tax	<u>(3,000)</u>
Profit after tax	5,000
Declared Dividends	<u>(4,000)</u>
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.

ANSWER:

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	<u>(1,400)</u>	
Operating profit before working capital changes	6,600	
Increase in Trade receivables	(2,000)	
Increase in inventories	(6,000)	
Increase in Trade payables	<u>3,000</u>	
Cash generated from operations	1,600	
Income taxes paid	<u>(2,000)</u>	
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	<u>(14,000)</u>	
Net cash used in investing activities (B)		(22,600)
Cash flows from financing activities		
Issue of shares for cash	20,000	
Dividends paid*	<u>(2,000)</u>	
Net cash from financing activities(C)		<u>18,000</u>
Net decrease in cash and cash equivalents (A + B +C)		(5,000)
Cash and cash equivalents at beginning of period		<u>17,000</u>
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	=	<u>2,000</u>
	36,000	32,000
Less: W.D.V. at 31. 3. 2017	<u>(22,000)</u>	<u>(16,000)</u>
Acquisitions during 2016-2018	<u>14,000</u>	<u>16,000</u>

QUESTION 56 (RTP MAY 19)

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. The 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	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

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 30 th September	18,000	
Bills Receivable	1,24,500	
Interest on Bank overdraft	29,400	
Interest on Debentures upto 30 th Sep (1 st 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 knowhow fees 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".

**CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0**

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.
7. Investment in shares is to be treated as non-current investments.
8. 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 Knowhow Fees 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.

ANSWER:

Statement of Profit and Loss of Shweta Ltd. for the year ended 31st March, 2018

	Particulars	Note	Rs.
I	Revenue from Operations		20,11,050
II	Other income (Divided		<u>12,750</u>
III	income) Total Revenue (I		<u>20,23,800</u>
IV	&+ II) 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)	9 10	8,100 1,20,000 51,900
	(c) Employee Benefits expense		11,100
	(d) Finance costs		
	(e) Depreciation & Amortization Expenses [10% of (1,05,000 + 6,000)]	11	<u>3,47,550</u> <u>19,95,150</u>
V	(f) Other		28,650
VI	Expenses Total		-
VII	Expenses		28,650
VIII	Profit before exceptional, extraordinary items and tax (III-IV)		-
IX	Exceptional items		28,650
X	Profit before extra ordinary items and tax (V-		12,000
XI			16,650

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

IV) Extraordinary items			
Profit before tax (VII-			
VIII) Tax expense:			
Current Tax			
Profit/Loss for the period (after tax)			

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

	Particulars 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	<u>29,250</u>
	Total		<u>24,58,950</u>
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-Provision12,000)		<u>18,000</u>
	Total		<u>24,58,950</u>

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 each	9,00,000		
6,000 6% Preference shares of Rs.100 each	<u>6,00,000</u>	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	<u>6,00,000</u>	12,00,000	
2. Reserves and Surplus			
Balance as on 1st April, 2017	85,500		
Add: Surplus for current year	<u>16,650</u>	1,02,150	
Less: Preference Dividend		<u>36,000</u>	
Balance as on 31st March, 2018		<u>66,150</u>	
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	<u>18,000</u>	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	<u>45,000</u>		
Cost of Furniture	1,50,000		
Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages	<u>6,000</u>		
Total Gross block of Furniture A/c	1,56,000		

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

	Accumulated Depreciation Account:		
	Opening Balance-given in Trial Balance		
		45,00	
	0		
	Depreciation for the year:		
	On Opening WDV at 10% i.e.		
	(10% \times 1,05,000)	10,500	
	On additional purchase during the year		
	at 10% i.e. (10% \times 6,000)	<u>600</u>	
	Less: Accumulated Depreciation	<u>56,100</u>	99,900
	Freehold property (at cost)		<u>10,50,000</u>
			<u>11,49,900</u>
7.	Intangible Fixed Assets		
	Technical knowhow	4,50,000	
	Less: Written off	<u>45,000</u>	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	<u>30,000</u>	
	separately		
	Balance amount		1,20,000
10.	Finance Costs		
	Interest on bank overdraft	29,400	
	Interest on debentures	<u>22,500</u>	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	15,000	
	Distributed)		
	Bad Debts (4,500 x50%)	2,250	3,47,550

Working Note

Calculation of Sundry Debtors-Other Debts

Sundry Debtors as given in Trial Balance	1,50,300
Add Back: Bills Receivables Dishonoured	<u>4,500</u>
Less: Bad Debts written off – 50% Rs. 4,500	<u>(2,250)</u>
Adjusted Sundry Debtors	<u>1,52,550</u>
Less: Debts due for more than 6 months (as per information given)	<u>(18,000)</u>
Total of other Debtors i.e. Debtors outstanding for less than 6 months	<u>1,34,550</u>

QUESTION 57 (RTP MAY 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	<u>9,00,00,000</u>
	<u>9,90,00,000</u>
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)	8,77,500
Securities premium	2,25,000
Secured loans:	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

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	15,52,500
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?

ANSWER:

Computation of effective capital:

	Where Gaurav Ltd. is a non-investment company	Where Gaurav Ltd. 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	<u>16,65,000</u>	<u>16,65,000</u>
(A)	<u>8,12,92,500</u>	<u>8,12,92,500</u>
Investments	3,37,50,000	-
Profit and Loss account (Dr. balance)	<u>68,62,500</u>	68,62,500
(B)	<u>4,06,12,500</u>	<u>68,62,500</u>
Effective capital (A-B)	<u>4,06,80,000</u>	<u>7,44,30,000</u>

QUESTION 58 (RTP MAY 19)

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.

ANSWER:

- (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

QUESTION 59 (RTP MAY 19)

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

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

(viii)	Interest income from investment credited to P & L A/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).

ANSWER:

Cash Flow Statement as per AS3

		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 activity)	<u>24,000</u>	<u>72,096</u>
		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)	<u>(6,000)</u>	<u>6,260</u>
Operating profit		1,37,836
Less: Increase in working capital		<u>(1,34,580)</u>
Cash from operations		3,256
Less: Income tax paid		<u>(10,200)</u>
Net cash generated from operating activities		(6,944)
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	<u>(83,376)</u>	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Net cash used in investing activities		(54,336)
Cash flows from financing activities:		
Grants for capital projects	36	
Long term borrowings	1,11,73	
	2	
Interest paid	(26,084)	
Dividend paid	(20,404)	
Net cash from financing activities		<u>65,280</u>
Net increase in cash		4,000
Add: Cash and bank balance as on 1.4.2018		<u>12,000</u>
Cash and bank balance as on 31.3.2019		<u>16,000</u>

QUESTION 60 (RTP NOVEMBER 19)

The following balance appeared in the books of Oliva Company Ltd. as on 31-03-2019.

Particulars		Rs.	Particulars		Rs.
Inventory 01-04-2018			Sales		17,10,000
-Raw Material	30,000		Interest		3,900
-Finished goods	<u>46,500</u>	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	
Salaries and wages		40,200	Long-term	<u>21,000</u>	25,500
General Charges		16,500	Fixed Deposits (unsecured):		
Interim Dividend paid (inclusive of Dividend Distribution Tax)		27,000	Short-term	1,500	
Building		1,01,000	Long-term	<u>3,300</u>	4,800
Plant and Machinery		70,400	Trade payables		3,27,000
Furniture		10,200			
Motor Vehicles		40,800			
Stores and Spare Parts Consumed		45,000			

**CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0**

Investments: Current	4,500			
Non-Current	<u>7,500</u>	12,000		
Trade receivables		2,38,500		
Cash in Bank		<u>2,71,100</u>		
		<u>24,34,200</u>		<u>24,34,200</u>
				<u>0</u>

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:

- Inventory on 31st March, 2019 Raw material Rs.25,800 & finished goods Rs.60,000.
- Outstanding Expenses: Manufacturing Expenses Rs.67,500 & Salaries & Wages Rs.4,500.
- Interest accrued on Securities Rs.300.
- General Charges prepaid Rs.2,490.
- Provide depreciation: Building @ 2% p.a., Machinery @ 10% p.a., Furniture @ 10% p.a. & Motor Vehicles @ 20% p.a.
- Current maturity of long term loan is Rs.1,000.
- The Taxation provision of 40% on net profit is considered.

ANSWER:

Oliva Company Ltd.

Statement of Profit and loss for the year ended 31.03.2019

(Rs.)

	Particulars	Note	Amount
I	Revenue from operations		17,10,000
II	Other income (3,900 +300)		<u>4,200</u>
III	Total Revenue (I +II)		<u>17,14,200</u>
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

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

	Finance costs		--
	Depreciation and amortization expenses		18,240
	Other expenses	13	<u>3,51,510</u>
	Total Expenses		<u>16,65,150</u>
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	1	3,15,000
	(b) Reserves and surplus		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	<u>19,620</u>
			<u>8,14,350</u>
II	ASSETS		
(1)	Non current assets		
	(a) Property, Plant & equipment		
	(i) Tangible assets	6	2,04,160
	(b) Non-current investments		7,500

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

(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	<u>300</u>
			<u>8,14,350</u>

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		<u>(27,000)</u>	50,430
2.	Long term borrowings			
	Secured loans (21,000 less current maturities 1,000)		20,000	
	Fixed Deposits: Unsecured		<u>3,300</u>	23,300
3.	Short term borrowings			
	Secured loans		4,500	
	Fixed Deposits -Unsecured		<u>1,500</u>	6,000
4.	Other current liabilities			
	Expenses Payable (67,500 + 4,500)		72,000	
	Current maturities of long term borrowings		<u>1,000</u>	73,000
5.	Short term provisions			
	Provision for Income tax			19,620
6.	Tangible Assets			
	Building	1,01,000		
	Less: Depreciation @ 2%	<u>(2,020)</u>	98,980	
	Plant & Machinery	70,400		
	Less: Depreciation @10%	<u>(7,040)</u>	63,360	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

	Furniture	10,200		
	Less: Depreciation @10%	<u>(1,020)</u>	9,180	
	Motor vehicles	40,800		
	Less: Depreciation @20%	<u>(8,160)</u>	<u>32,640</u>	2,04,160
7.	Inventory:			
	Raw Material		25,800	
	Finished goods		<u>60,000</u>	85,800
8.	Short term Loans & Advances			
	General Charges prepaid			<u>2,490</u>
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	<u>(45,000)</u>	12,90,000	
	Less: Closing inventory		<u>(25,800)</u>	12,64,200
11.	Changes in inventory of Finished Goods & WIP			
	Closing Inventory of Finished Goods		60,000	
	Less: Opening Inventory of Finished Goods		<u>46,500</u>	13,500
12.	Employee Benefit expenses			
	Salary & Wages (40,200 + 4,500)			44,700
13.	Other Expenses:			
	Manufacturing Expenses (2,70,000 + 67,500)		3,37,500	
	General Charges (16,500 – 2,490)		<u>14,010</u>	3,51,510

QUESTION 61 (RTP NOVEMBER 19)

The following extract of Balance Sheet of X Ltd. (a non-investment company) was obtained:

Balance Sheet (Extract) as on 31st March, 2019

Liabilities	Rs.
Authorized capital:	
15,000, 14% preference shares of Rs.100	15,00,000
1,50,000 Equity shares of Rs.100 each	<u>1,50,00,000</u>
	<u>1,65,00,000</u>
Issued and subscribed capital:	
15,000, 14% preference shares of Rs.100 each fully paid	15,00,000
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
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.

ANSWER:

Computation of Effective Capital

	Rs.
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	<u>65,00,000</u>
(A)	<u>1,76,95,000</u>
Investments	75,00,000
Profit and Loss account (Dr. balance)	<u>15,25,000</u>
(B)	<u>90,25,000</u>
Effective capital	<u>86,70,000</u>
(A-B)	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0
QUESTION 62 (RTP NOVEMBER 19)

From the following information, prepare a Cash Flow Statement for the year ended 31st March, 2019.

Balance Sheets

	Particulars	Note	31.03.2019 (Rs.)	31.03.2018 (Rs.)
I	EQUITY AND LIABILITIES			
	(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		<u>32,000</u>	<u>17,000</u>
	Total		<u>5,66,000</u>	<u>4,37,000</u>

Note 1: Share Capital

Particulars	31.03.2019 (Rs.)	31.03.2018 (Rs.)
Equity Share Capital	2,50,000	1,50,000
8% Preference Share Capital	<u>1,00,000</u>	<u>1,50,000</u>
Total	3,50,000	3,00,000

Note 2: Reserves and Surplus

Particulars	31.03.2019 (Rs.)	31.03.2018 (Rs.)
General Reserve	30,000	20,000
Profit and Loss A/c	27,000	18,000
Capital Reserve	<u>25,000</u>	
Total	82,000	38,000

Note 3: Current Liabilities

Particulars	31.03.2019(Rs.)	31.03.2018 (Rs.)
Dividend declared	37,000	27,000

Note 4: Tangible Assets

Particulars	31.03.2019 (Rs.)	31.03.2018 (Rs.)
Land & Building	75,000	1,00,000
Machinery	<u>1,91,000</u>	<u>90,000</u>
Total	2,66,000	1,90,000

Additional Information:

- (i) Rs.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 Rs.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 Rs.12,000 WDV being Rs.15,000 on the date of sale (after charging depreciation).
- (iv) Dividend received amounted to Rs.2,100 which included pre-acquisition dividend of Rs.600.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

- (v) An interim dividend of Rs.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.

ANSWER: Cash flow Statement for the year ending 31st March,2019

	Particulars	Rs.	Rs.
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		<u>32,000</u>
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	<u>13,000</u>	34,000
D.	Less: Dividend Income		<u>(1,500)</u>
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	<u>21,000</u>	28,000
G.	Less: Increase in Trade Receivables	<u>0</u>	<u>(33,000)</u>
H.	Cash generated from operations (E+F-G)		1,25,500
I.	Less: Income taxes paid		<u>(28,000)</u>
J.	Net Cash from (used in) operating activities		<u>97,500</u>
II.	Cash Flows from investing activities:		
	Purchase of Plant		(1,34,000)
	Sale of Land		50,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

	Sale of plant	12,000
	Purchase of investments	(25,600)
	Dividend Received	<u>2,100</u>
	Net cash used in investing activities	<u>(95,500)</u>
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	<u>(27,000)</u>
	Net cash from financing activities	<u>13,000</u>
IV.	Net increase in cash and cash equivalents (I+II+III)	15,000
V.	Cash and cash equivalents at beginning of period	<u>17,000</u>
VI.	Cash and cash equivalents at end of period (IV+V)	<u>32,000</u>

1. Land and Building Account

Particulars	Rs.	Particulars	Rs.
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)	<u>1,25,000</u>		<u>1,25,000</u>

2. Plant and Machinery Account

Particulars	Rs.	Particulars	Rs.
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
	<u>2,24,000</u>	By Balance c/d	<u>1,91,000</u>
			<u>2,24,000</u>

3. Investments Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	10,000	By Bank A/c (Div. received)	600
To bank A/c (Purchase)	<u>25,600</u>	By Balance c/d	<u>35,000</u>
	<u>35,600</u>		<u>35,600</u>

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0
QUESTION 63 (RTP MAY 20)

On 31st March 2019, Gaurav Ltd. provides you the following particulars:

Particulars		Debit Rs.	Credit Rs.
Equity Share Capital (Face value of Rs. 100 each)			12,50,000
Call in Arrears		1,250	
Land & Building		6,87,500	
Plant & Machinery		6,56,250	
Furniture		62,500	
General Reserve			2,62,500
Loan from State Financial Corporation			1,87,500
Stock:			
Raw Materials	62,500		
Finished Goods	<u>2,50,000</u>	3,12,500	
Provision for Taxation			1,60,000
Trade receivables		2,50,000	
Advances		53,375	
Profit & Loss Account			1,08,375
Cash in Hand		37,500	
Cash at Bank		3,08,750	
Unsecured Loan			1,51,250
Trade payables			2,50,000

The following additional information is also provided:

- (i) 2,500 Equity shares were issued for consideration other than cash.
- (ii) Debtors of Rs. 65,000 (included in trade receivables) are due for more than 6 months.
- (iii) The cost of the Assets were:
Building Rs. 7,50,000, Plant & Machinery Rs. 8,75,000 and Furniture Rs. 78,125
- (iv) The balance of Rs. 1,87,500 in the Loan Account with State Finance Corporation is inclusive of Rs. 9,375 for Interest accrued but not due. The loan is secured by hypothecation of Plant & Machinery.
- (v) Balance at Bank includes Rs. 2,500 with Global Bank Ltd., which is not a Scheduled Bank.

You are required to prepare the Balance sheet of Gaurav Ltd. as on 31st March, 2019 as per

**CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0**

Schedule III to the Companies Act, 2013.

ANSWER:

Gaurav Ltd.

Balance Sheet as on 31st March, 2019

Particulars	Notes	Rs.
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	12,48,750
b Reserves and Surplus	2	3,70,875
2 Non-current liabilities		
Long-term borrowings	3	3,29,375
3 Current liabilities		
a Trade Payables		2,50,000
b Other current liabilities	4	9,375
c Short-term provisions	5	1,60,000
Total		23,68,375
Assets		
1 Non-current assets		
PPE	6	14,06,250
2 Current assets		
a Inventories	7	3,12,500
b Trade receivables	8	2,50,000
c Cash and cash equivalents	9	3,46,250
d Short-term loans and advances		53,375
Total		23,68,375

Notes to account

	Rs.
1 Share Capital	
Equity share capital	
Issued & subscribed & called up	
12,500 Equity Shares of Rs. 100 each	
(of the above 2,500 shares have been	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

issued for consideration other than cash)	12,50,000	12,48,750
Less: Calls in arrears	(1,250)	
Total		12,48,750
2 Reserves and Surplus		
General Reserve		2,62,500
Surplus (Profit & Loss A/c)		1,08,375
Total		3,70,875
3 Long-term borrowings		
Secured Term Loan		
State Financial Corporation Loan (1,87,500 – 9,375) (Secured by hypothecation of Plant and Machinery)		1,78,125
Unsecured Loan		1,51,250
Total		3,29,375
4 Other current liabilities		
Interest accrued but not due on loans (SFC)		9,375
5 Short-term provisions		
Provision for taxation		1,60,000
6 PPE		
Land and Building	7,50,000	
Less: Depreciation	<u>(62,500)</u>	6,87,500
Plant & Machinery	8,75,000	
Less: Depreciation	<u>(2,18,750)</u>	6,56,250
Furniture & Fittings	78,125	
Less: Depreciation	<u>(15,625)</u>	62,500
Total		14,06,250
7 Inventories		
Raw Materials		62,500
Finished goods		<u>2,50,000</u>
Total		3,12,500
8 Trade receivables		
Outstanding for a period exceeding six months		65,000
Other Amounts		<u>1,85,000</u>
Total		2,50,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

9 Cash and cash equivalents		
Cash at bank		
with Scheduled Banks	3,06,250	
with others (Global Bank Ltd.)	<u>2,500</u>	3,08,750
Cash in hand		<u>37,500</u>
Total		<u>3,46,250</u>

QUESTION 64 (RTP MAY 20)

The following is the Draft Profit & Loss A/c of Harsha Ltd., the year ended 31st March, 20X1:

		Rs.			Rs.
To	Administrative, Selling and distribution expenses	41,12,710	By	Balance b/d	28,61,750
"	Directors fees	6,73,900	"	Balance fr	201,26,825
"	Interest on debentures	1,56,200	"	om Trading/c	
"	Managerial remuneration	14,26,750	"	Subsidies	13,69,625
"	Depreciation on fixed assets	26,12,715		received from Govt.	
"	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 Rs. 28,76,725. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.

ANSWER:**Calculation of net profit u/s 198 of the Companies Act,2013**

	Rs.	Rs.
Balance from Trading A/c		201,26,825
Add: Subsidies received from Government		<u>13,69,625</u>
		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	<u>28,76,725</u>	<u>(78,19,535)</u>
Profit u/s 198		136,76,915

Maximum Managerial remuneration under Companies Act, 2013 = 11% of Rs. 136,76,915 = Rs. 15,04,461.

QUESTION 65 (RTP MAY 20) (PAST EXAM JAN 21)

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 Rs. 20lakhs:
 - (a) Depreciation on Property, Plant & Equipment Rs. 5lakhs.
 - (b) Discount on issue of Debentures written off Rs.30,000.
 - (c) Interest on Debentures paid Rs.3,50,000.
 - (d) Book value of investments Rs. 3 lakhs (Sale of Investments for Rs.3,20,000).
 - (e) Interest received on investments Rs.60,000.
 - (f) Compensation received Rs. 90,000 by the company in a suit filed.
- (ii) Income tax paid during the year Rs.10,50,000.
- (iii) 15,000, 10% preference shares of Rs. 100 each were redeemed on 31.3.2019 at a premium of 5%. Further the company issued 50,000 equity shares of Rs. 10 each at a premium of 20% on 2.4.2018. Dividend on preference shares were paid at the time of redemption.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

- (iv) Dividend paid for the year 2017-2018 Rs. 5 lakhs and interim dividend paid Rs. 3 lakhs for the year 2018-2019.
- (v) Land was purchased on 24.3.2018 for Rs. 2,40,000 for which the company issued 20,000 equity shares of Rs. 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
	Rs.	Rs.
Inventory	12,00,000	13,18,000
Trade receivables	2,58,000	2,53,100
Cash in hand	1,96,300	35,300
Trade payables	2,11,000	2,11,300
Outstanding expenses	75,000	81,800

ANSWER:

X Ltd.
Cash Flow Statement
for the year ended 31st March, 2019

	Rs.	Rs.
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	<u>(20,000)</u>	<u>8,00,000</u>
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	<u>6,800</u>	<u>(1,06,000)</u>
Cash generated from operations		26,94,000
Income tax paid		<u>(10,50,000)</u>

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

		16,44,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		<u>90,000</u>
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	<u>60,000</u>	
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)	<u>(8,00,000)</u>	
Net cash used in financing activities		<u>(22,75,000)</u>
Net decrease in cash and cash equivalents during the year		(1,61,000)
Add: Cash and cash equivalents as on 31.3.2018		<u>1,96,300</u>
Cash and cash equivalents as on 31.3.2019		<u>35,300</u>

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.

QUESTION 66 (RTP NOVEMBER 20)

On 31st March, 2020, Om Ltd. provides to you the following ledger balances after preparing its Profit and Loss Account for the year ended 31st March, 2020:

Credit Balances

	Rs.
Equity shares capital (fully paid shares of Rs.10 each)	1,05,00,000
General Reserve	21,84,000
Loan from State Finance Corporation (Secured by hypothecation of Plant & Machinery - Repayable within one year Rs.3,00,000)	15,75,000
Loans: Unsecured (Long term)	12,70,500

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Sundry Creditors for goods & expenses (Payable within 6 months)	21,00,000
Profit & Loss Account	10,50,000
Provision for Taxation	12,25,350
	199,04,850

Debit Balances:

	Rs.
Calls in arrear	10,500
Land	21,00,000
Buildings	30,75,000
Plant and Machinery	55,12,500
Furniture & Fixture	5,25,000
Inventories: Finished goods	21,00,000
Raw Materials	5,25,000
Trade Receivables	21,00,000
Advances: Short-term	4,48,350
Cash in hand	3,15,000
Balances with banks	25,93,500
Patents & Trade marks	6,00,000
	199,04,850

The following additional information is also provided in respect of the above balances:

- (i) 6,30,000 fully paid equity shares were allotted as consideration for land & buildings.
- (ii) Cost of Building Rs.42,00,000 Cost of Plant Machinery Rs.73,50,000 Cost of Furniture Fixture Rs.6,56,250
- (iii) Trade receivables for Rs.5,70,000 are due for more than 6 months.
- (iv) The amount of Balances with Bank includes Rs.27,000 with a bank which is not a scheduled Bank and the deposits of Rs.7,50,000 are for a period of 9 months.
- (v) Unsecured loan includes Rs.3,00,000 from a Bank and Rs.1,50,000 from related parties.

You are not required to give previous year figures. You are required to prepare the Balance Sheet of the Company as on 31st March, 2020 as required under Schedule III of the Companies Act, 2013.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

ANSWER:

Om Ltd.

Balance Sheet as on 31st March, 2020

Particulars	Notes	Figures at the end of current reporting period (Rs.)
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	1,04,89,500
b Reserves and Surplus	2	32,34,000
2 Non-current liabilities		
a Long-term borrowings	3	25,45,500
3 Current liabilities		
a Trade Payables		21,00,000
b Other current liabilities	4	3,00,000
c Short-term provisions	5	12,25,350
Total		1,98,94,350
Assets		
1 Non-current assets		
a Property, Plant and Equipment	6	1,12,12,500
b Intangible assets (Patents & Trade Marks)		6,00,000
2 Current assets		
a Inventories	7	26,25,000
b Trade receivables	8	21,00,000
c Cash and cash equivalents	9	29,08,500
d Short-term loans and advances		4,48,350
Total		1,98,94,350

Notes to accounts

		Rs.
1 Share Capital		
Equity share capital		
Issued, subscribed and called up 10,50,000 Equity Shares of Rs.10 each (Out of the above 6,30,000 shares have been issued for consideration other than cash)	1,05,00,000	
Less: Calls in arrears	(10,500)	1,04,89,500
Total		1,04,89,500
2 Reserves and Surplus		
General Reserve		21,84,000
Surplus (Profit & Loss A/c)		10,50,000
Total		32,34,000
3 Long-term borrowings		
Secured		
Term Loans		
Loan from State Finance Corporation (Rs. 15,75,000 less Rs. 3,00,000) (Secured by hypothecation of Plant and Machinery)		12,75,000
Unsecured		
Bank Loan	3,00,000	
Loan from related parties	1,50,000	
Others	8,20,500	12,70,500
Total		25,45,500
4 Other current liabilities		
Loan Instalment repayable within one year		3,00,000
5 Short-term provisions		
Provision for taxation		12,25,350
6 Property, Plant and Equipment		
Land		21,00,000
Buildings	42,00,000	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

	Less: Depreciation	(11,25,000)	30,75,000
	Plant & Machinery	73,50,000	
	Less: Depreciation	(18,37,500)	55,12,500
	Furniture & Fittings	6,56,250	
	Less: Depreciation	(1,31,250)	5,25,000
			0
	Total		1,12,12,500
7	Inventories		
	Raw Material		5,25,000
	Finished goods		21,00,000
			<u>26,25,000</u>
8	Trade receivables		
	Debts outstanding for a period exceeding six months		5,70,000
	Other Debts		15,30,000
	Total		21,00,000
9	Cash and cash equivalents		
	Cash at bank with Scheduled Banks including Bank deposits for period of 9 months amounting Rs.7,50,000 with others	25,66,500	
		<u>27,000</u>	25,93,500
	Cash in hand		3,15,000
	Total		29,08,500

QUESTION 67 (RTP NOVEMBER 20)

Kartik Ltd. is a non-investment company and 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	270
Paid up Preference share capital	45
Reserves (including Revaluation reserve Rs. 22.5 lakhs)	337.5
Securities premium	90
Long term loans	90

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Deposits repayable after one year	45
Application money pending allotment	1620
Accumulated losses not written off	45
Investments	405

Kartik Ltd. has only one whole-time director, Mr. Kumar. You are required to calculate the amount of maximum remuneration that can be paid to him as per provisions of the Companies Act, 2013, if no special resolution is passed at the general meeting of the company in respect of payment of remuneration.

ANSWER:

Calculation of effective capital and maximum amount of monthly remuneration

	(Rs. in lakhs)
Paid up equity share capital	270
Paid up Preference share capital	45
Reserve excluding Revaluation reserve (337.5- 22.5)	315
Securities premium	90
Long term loans	90
Deposits repayable after one year	<u>45</u>
	855
Less: Accumulated losses not written off	(45)
Investments	<u>(405)</u>
Effective capital for the purpose of managerial remuneration	405

Kartik Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration. Effective capital of the company is less than 5 crores, maximum remuneration payable to the Managing Director should be @ Rs.60,00,000 per annum. (Revaluation reserve and application money pending allotment are not included while computing effective capital of Kartik Ltd.)

QUESTION 68 (RTP NOVEMBER 20)

Prepare Cash Flow Statement of Light Ltd. for the year ended 31st March, 2020, in accordance with AS3 (Revised) from the following Summary Cash Account:

Summary Cash Account

	Rs.in '000	Rs.in '000
Balance as on 01.04.2019		315
Receipts from Customers		24,894
Sale of Investments (Cost Rs.1,35,000)		153
Issue of Shares		2,700
Sale of Fixed Assets		<u>1,152</u>
		29,214
Payment to Suppliers	18,306	
Purchase of Investments	117	
Purchase of Fixed Assets	2,070	,
Wages & Salaries	621	
Selling & Administration Expenses	1,035	
Payment of Income Tax	2,187	
Payment of Dividends	720	
Repayment of Bank Loan	2,250	
Interest paid on Bank Loan	<u>450</u>	<u>(27,756)</u>
Balance as on 31.03.2020		1,458

ANSWER:

Cash Flow Statement of Light Ltd.
for the year ended 31st March, 2020

Cash flows from operating activities	(Rs.'000)	(Rs.'000)
Cash receipts from customers	24,894	
Cash payments to suppliers	(18,306)	
Cash paid to employees	(621)	
Other cash payments (for Selling & Administrative expenses)	<u>(1,035)</u>	
Cash generated from operations	4,932	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Income taxes paid	<u>(2,187)</u>	
Net cash from operating activities		2,745
Cash flows from investing activities		
Payments for purchase of fixed asset	(2,070)	
Proceeds from sale of fixed assets	1,152	
Purchase of investments	(117)	
Sale of investments	<u>153</u>	
Net cash used in investing activities		(882)
Cash flows from financing activities		
Proceeds from issuance of share capital	2,700	
Bank loan repaid	(2,250)	
Interest paid on bank loan	(450)	
Dividend paid	<u>(720)</u>	
Net cash used in financing activities		<u>(720)</u>
Net increase in cash and cash equivalents		1,143
Cash and cash equivalents at beginning of period		<u>315</u>
Cash and cash equivalents at end of period		<u>1,458</u>

QUESTION 69 (MTP AUGUST 18)

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	<u>10,00,000</u>	12,50,000	
Provision for Taxation			6,40,000
Trade receivables		10,00,000	
Short term Advances		2,13,500	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

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 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 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.

ANSWER:

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		

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

	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

		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	<u>(5,000)</u>
	Total	49,95,000
2	Reserves and Surplus	
	General Reserve	10,50,000
	Add: current year transfer	<u>20,000</u>
	Profit & Loss balance	
	Profit for the year	4,33,500
	Less: Appropriations:	
	Transfer to General reserve	<u>(20,000)</u>
	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	<u>6,05,000</u>
	Total	13,17,500
4	Other current liabilities	
	Interest accrued but not due on loans	
	(SFC)	<u>37,500</u>
5	Short-term provisions	
	Provision for taxation	6,40,000
6	Tangible assets	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Land and Building	30,00,000	
Less: Depreciation	<u>(2,50,000) (b.f.)</u>	27,50,000
Plant & Machinery	35,00,000	
Less: Depreciation	<u>(8,75,000) (b.f.)</u>	26,25,000
Furniture & Fittings	3,12,500	
Less: Depreciation	<u>(62,500)(b.f.)</u>	<u>2,50,000</u>
Total		<u>56,25,000</u>
7 Inventories		
Raw Materials		2,50,000
Finished goods		<u>10,00,000</u>
Total		<u>12,50,000</u>
8 Trade receivables		
Outstanding for a period exceeding six months		2,60,000
Other Amounts		<u>7,40,000</u>
Total		<u>10,00,000</u>
9 Cash and bank balances		
Cash at bank		
with Scheduled Banks	12,25,000	
with others (Omega Bank Ltd.)	<u>10,000</u>	12,35,000
Cash in hand		1,50,000
Other bank balances		<u>Nil</u>
Total		<u>13,85,000</u>

QUESTION 70 (MTP OCTOBER 18) (MTP OCTOBER 19)

J Ltd. presents you the following information for the year ended 31st March,2017:

	(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	222
sold 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	33,318
sold Profit on sale of	120

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

	investment	
(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 [Excluding cash and bank balance]	67,290
(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 1.4.2016	6,000
	Cash and bank balance on 31.3.2017	8,000

You are required to prepare a cash flow statement as per AS-3 (Revised).

ANSWER:

Cash Flow Statement as per AS3

		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)	<u>12,000</u>	<u>36,048</u>
		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)	<u>(3,000)</u>	<u>3,130</u>
Operating profit		68,918
Less: Increase in working capital		<u>(67,290)</u>
Cash from operations		1,628
Less: Income tax paid		<u>(5,100)</u>
Net cash generated from operating activities		(3,472)
Cash flows from investing activities:		

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

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	<u>(41,688)</u>	
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	<u>(10,202)</u>	
Net cash from financing activities		<u>32,640</u>
Net increase in cash		2,000
Add: Cash and bank balance as on 1.4.2016		<u>6,000</u>
Cash and bank balance as on 31.3.2017		<u>8,000</u>

QUESTION 71(MTP OCTOBER 18) (MTP OCTOBER 19)

Futura Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 2017:

	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.

ANSWER:

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.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

QUESTION 72 (MTP MARCH 19) (MTP OCTOBER 20)

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.

ANSWER:

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	<u>3,70,000</u>
(A)	<u>1,85,65,000</u>
Investments	75,00,000
Profit and Loss account (Dr. balance)	<u>15,00,000</u>
(B)	<u>90,00,000</u>
Effective capital (A-B)	<u>95,65,000</u>

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

QUESTION 73 (MTP MARCH 19)

Prepare Cash Flow from Investing Activities of M/s. Creative Furnishings Limited for the year ended 31-3-2018.

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 (TDS of Rs. 8,200 was deducted on the above interest)	68,000
Book value of plant sold (loss incurred Rs. 9,600)	84,000

ANSWER:

**Cash Flow Statement from Investing Activities of
M/s Creative Furnishings Limited for the year ended 31-03-2018**

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	
TDS deducted on interest	(8,200)	
Sale of plant	<u>74,400</u>	
Cash used in investing activities (before extra ordinary item)		(1,97,700)
Extraordinary claim received for loss of plant		<u>49,600</u>
Net cash used in investing activities (after extra ordinary item)		<u>(1,48,100)</u>

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.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

QUESTION 74 (MTP APRIL 19)

You are required to prepare Cash flow Statement from the following details relating to the accounts of Surbhi Ltd.

	31.03.20X1 (Rs.)	31.03.20X0 (Rs.)
Equity and Liabilities		
Share Capital	10,00,000	8,00,000
Reserve	2,00,000	1,50,000
Profit and Loss Account	1,00,000	60,000
Debentures	2,00,000	—
Provision for taxation	1,00,000	70,000
Dividend payable	2,00,000	1,00,000
Trade payables	<u>7,00,000</u>	<u>8,20,000</u>
	<u>25,00,000</u>	<u>20,00,000</u>
Assets		
Plant and Machinery	7,00,000	5,00,000
Land and Building	6,00,000	4,00,000
Investments	1,00,000	—
Trade receivables	5,00,000	7,00,000
Inventories	4,00,000	2,00,000
Cash on hand/Bank	<u>2,00,000</u>	<u>2,00,000</u>
	<u>25,00,000</u>	<u>20,00,000</u>

- (i) Depreciation @ 25% was charged on the opening value of Plant and Machinery.
- (ii) At the year end, one old machine costing 50,000 (WDV 20,000) was sold for Rs. 35,000. Purchase was also made at the yearend.
- (iii) Rs. 50,000 was paid towards Income tax during the year.
- (iv) Building is not subject to any depreciation.

ANSWER:

Surbhi Ltd. Cash Flow Statement
for the year ended 31st March, 20X1
Cash Flow from Operating Activities

	Rs.	Rs.
Increase in balance of Profit and Loss Account (1,00,000 – 60,000)	40,000	
Dividend payable	2,00,000	
Provision for taxation (W.N.1)	80,000	
Transfer to General Reserve (2,00,000 – 1,50,000)	50,000	
Depreciation (W.N.2)	1,25,000	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Profit on sale of Plant and Machinery	<u>(15,000)</u>	
Operating Profit before Working Capital changes	4,80,000	
Increase in Inventories	(2,00,000)	
Decrease in Trade receivables	2,00,000	
Decrease in Trade payables	<u>(1,20,000)</u>	
Cash generated from operations	3,60,000	
Income tax paid	<u>(50,000)</u>	
Net Cash from operating activities		3,10,000
Cash Flow from Investing Activities		
Purchase of fixed assets	(3,45,000)	
Expenses on building (6,00,000 – 4,00,000)	(2,00,000)	
Increase in investments	(1,00,000)	
Sale of old machine	<u>35,000</u>	
Net Cash used in investing activities		(6,10,000)
Cash Flow from Financing activities		
Proceeds from issue of shares (10,00,000 – 8,00,000)	2,00,000	
Proceeds from issue of debentures	2,00,000	
Dividend paid	<u>(1,00,000)</u>	
Net cash used in financing activities		<u>3,00,000</u>
Net increase in cash or cash equivalents		NIL
Cash and Cash equivalents at the beginning of the year		<u>2,00,000</u>
Cash and Cash equivalents at the end of the year		<u>2,00,000</u>

Working Notes:**Provision for taxation account**

	Rs.		Rs.
To Cash (Paid)	50,000	By Balance b/d	70,000
To Balance c/d	1,00,000	By Profit and Loss A/c (Balancing figure)	80,000
	<u>1,50,000</u>		<u>1,50,000</u>

Plant and Machinery account

	Rs.		Rs.
To Balance b/d	5,00,000	By Depreciation	1,25,000
To Profit and Loss A/c (profit on sale of machine)	15,000		
To Cash (Balancing figure)	3,45,000	By Cash (sale of machine)	35,000
	<u>8,60,000</u>	By Balance c/d	<u>7,00,000</u>
			<u>8,60,000</u>

QUESTION 75 (MTP APRIL 19)

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.

ANSWER:

- (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

QUESTION 76 (MTP APRIL 19)

Classify the following activities as (i) Operating Activities, (ii) Investing Activities, (iii) Financing Activities:

- a. Purchase of Machinery.
- b. Proceeds from issuance of equity share capital
- c. Cash Sales.
- d. Proceeds from long-term borrowings.
- e. Proceeds from Trade receivables.
- f. Cash receipts from Trade receivables.
- g. Trading Commission received.
- h. Purchase of investment.
- i. Redemption of Preference Shares.
- j. Cash Purchases.
- k. Proceeds from sale of investment
- l. Purchase of fixed asset.
- m. Cash paid to suppliers.
- n. Interim Dividend paid on equity shares.
- o. Wages and salaries paid.
- p. Proceed from sale of patents.

ANSWER:

- (i) Operating Activities: c, e, f, g, j, m, o.
- (ii) Investing Activities: a, h, k, l, p.
- (iii) Financing Activities: b, d, i, n.

QUESTION 77 (MTP OCTOBER 19)

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

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

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.

ANSWER:

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	<u>30</u>
	570
Less: Accumulated losses not written off	(30)
Investments	<u>(270)</u>
Effective capital for the purpose of managerial remuneration	<u>270</u>

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.

QUESTION 78 (MTP OCTOBER 20)

Shree 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, 2020:

	Rs.		Rs.
Inventory 1.4.2019	6,65,000	Bank balance in 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)	2,40,500
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 (Dr.)	67,500	Repairs to Building	56,500
Business Expenses	56,000	Bad debts	25,500

You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2020 and Balance Sheet as on that date in line with Schedule III to the Companies Act, 2013 after considering the following:

The inventory (valued at cost or market value, which is lower) as on 31st March, 2020 was Rs. 7,08,000. Outstanding liabilities for wages Rs. 25,000 and business expenses Rs.36,000.

Charge depreciation on closing written down value 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 additional bad debts. Provide for income tax @ 30%.

ANSWER:

Balance Sheet of Shree Ltd. as at 31st March, 2020

	Particulars	Note No.	(Rs.)
I	Equity and Liabilities		
	(1) Shareholders' Funds		
	(a) Share Capital	1	19,90,000
	(b) Reserves and Surplus	2	3,47,000
	(2) Current Liabilities		
	(a) Trade Payables		2,40,500
	(b) Other Current Liabilities	3	13,28,000
	(c) Short-Term Provisions	4	<u>1,20,000</u>
	Total		<u>40,25,500</u>
II	ASSETS		
	(1) Non-Current Assets		
	(i) Property, plant and Equipment(PPE)	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	<u>28,000</u>
	Total		<u>40,25,500</u>

Shree Ltd.

Statement of Profit and Loss for the year ended 31st March, 2020

	Particulars	Note No.	(Rs.)
I	Revenue from Operations		36,17,000
II	Other Income	8	<u>36,500</u>
III	Total Revenue [I + II]		<u>36,53,500</u>
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

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

	Depreciation and Amortization Expenses		1,20,000
	Other Expenses	11	<u>4,40,000</u>
	Total Expenses		<u>32,53,500</u>
V	Profit before Tax (III-IV)		4,00,000
VI	Tax Expenses @ 30%		<u>(1,20,000)</u>
VI	Profit for the period		<u>2,80,000</u>
I			

Notes to Accounts:
1. Share Capital

Authorised Capital		
5,00,000 Equity Shares of Rs.10 each		<u>50,00,00</u>
		<u>0</u>
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		<u>40,000</u>
(Call unpaid Rs.10,000)		<u>19,90,000</u>

2. Reserves and Surplus

Surplus i.e. Balance in Statement of Profit & Loss:		
Opening Balance	67,000	3,47,00
Add: Profit for the period	<u>2,80,000</u>	<u>0</u>

3. Other Current Liabilities

Bank Overdraft	12,67,000
Outstanding Expenses [25,000+36,000]	<u>61,000</u>
	<u>13,28,000</u>

4. Short-term Provisions

Provision for Tax	1,20,00
	<u>0</u>

5. PPE

Particulars	Value given (Rs.)	Depreciation rate	Depreciation Charged (Rs.)	Written down value at the end (Rs.)
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	<u>1,50,000</u>	20%	<u>30,000</u>	<u>1,20,000</u>
	<u>30,50,000</u>		<u>1,20,000</u>	<u>29,30,000</u>

6. Trade Receivables

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

7. Cash & Cash Equivalent

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

8. Other Income

Miscellaneous Income (Transfer fees)	6,500
Rental Income	<u>30,000</u>
	<u>36,500</u>

9. Employee benefits expenses

Wages	13,68,000
Add: Outstanding wages	<u>25,000</u>
	<u>13,93,000</u>

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

10. Finance Cost

Interest on Bank overdraft	1,11,000
	0

11. Other Expenses

Carriage Inward	57,500
Discount & Rebates	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	<u>25,000</u>
	<u>4,40,000</u>

QUESTION 79 (MTP OCTOBER 20)

Medha Ltd. took a loan from bank for Rs.10,00,000 to be settled within 5 years in 10 equal half yearly instalments with interest. First instalment is due on 30.09.20 20 of Rs. 1,00,000. Determine how the loan will be classified in preparation of Financial Statements of Medha Ltd. for the year ended 31st March, 2020 according to Schedule III.

ANSWER:

As per Schedule III, a liability should be classified as current when it satisfies any of the following criteria:

- (i) It is expected to be settled in the company's normal operating cycle;
- (ii) it is held primarily for the purpose of being traded;
- (iii) it is due to be settled within twelve months after the reporting date; or
- (iv) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

In the given case, instalments due on 30.09.2020 and 31.03.2021 will be shown under the head 'other current liabilities'. Therefore, in the balance sheet as on 31.3.2020, Rs. 8,00,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

(Rs. 1,00,000 x 8 instalments) will be shown under the heading 'Long term Borrowings' and Rs. 2,00,000 (Rs. 1,00,000 x 2 instalments) will be shown under the heading 'Other Current Liabilities' as current maturities of loan from bank.

QUESTION 80 (PAST PAPER MAY 18)

Briefly explain the elements of financial statements.

ANSWER:

Elements of Financial Statements

Asset	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

QUESTION 81 (PAST PAPER MAY 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

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

- 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

Answer:

- (i) operating Activities: Items 1 and 5.
- (ii) Investing Activities: Items 3,7 and 9
- (iii) Financing Activities: Items 4,6,8 and 10
- (iv) Cash Equivalent: 2

QUESTION 82 (PAST PAPER NOVEMBER 18)

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 (Rs.)	Credit (Rs.)
Equity share capital (face value of Rs. 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	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

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 Rs. 55,000 are due for more than six months.
- (3) The cost of building and plant & machinery is Rs. 5,50,000 and Rs. 6,25,000 respectively.
- (4) The loan from State Financial Corporation is secured by hypothecation of plant & machinery. The balance of Rs. 2,10,000 in this account is inclusive of Rs. 10,000 for interest accrued but not due.
- (5) Balance at Bank included Rs. 15,000 with Aakash Bank Ltd., which is not a scheduled bank.

ANSWER:

Prashant Ltd.

Balance Sheet as on 31st March, 2019

Particulars	Notes	Rs.
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
		0
Assets		
1 Non-current assets		
Property, Plant and Equipment	6	15,95,000
		0

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

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

		Rs.
1	Share Capital	
	Equity share capital	
	Issued & subscribed & fully paid up	
	1,50,000 Equity Shares of Rs.10 each	
	(of the above 10,000 shares have been issued	
	for consideration other than cash)	15,00,000
	Less: Calls in arrears	<u>(5,000)</u>
		<u>14,95,000</u>
2	Reserves and Surplus	
	General Reserve	2,70,000
	Profit & Loss balance	<u>1,06,800</u>
	Total	<u>3,76,800</u>
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.)	<u>(65,000)</u>
	Plant & Machinery	6,25,000
	Less: Depreciation (b.f.)	<u>(65,000)</u>
	Total	15,95,000
7	Trade receivables	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

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	37,30
Other bank balances	0
	Nil
Total	3,22,300

QUESTION 83 (PAST PAPER NOVEMBER 18)

The following extract of Balance Sheet of Prabhat Ltd. (Non investment Company) was obtained:

Balance Sheet (Extract) as on 31st March, 2019

Liabilities	Rs.
Issued and subscribed capital:	
30,000, 12% preference shares of Rs. 100 each (fully paid)	30,00,000
24,00,000 equity shares of Rs.10 each, Rs. 8 paid up	1,92,00,00
	0
Share suspense account	40,00,000
Reserves and Surplus:	
Securities premium	1,00,000
Capital reserves (Rs. 3,00,000 is revaluation reserve)	3,90,000
Secured loans:	
12% debentures	1,30,00,00
	0
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.	1,50,00,00
	0
Profit & loss account (Dr. balance)	30,50,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

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?

ANSWER:

Computation of effective capital

	Where Prabhat Ltd. Is a non-investment company Rs.	Where Prabhat Ltd. is an investment company Rs.
Paid-up share capital — 30,000, 12% Preference shares	30,00,000	30,00,000
24,00,000 Equity shares of Rs.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

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0
QUESTION 84 (RTP JULY 21)

Om Ltd. has authorized capital of ₹ 50 lakhs divided into 5,00,000 equity shares of ₹ 10 each. Their books show the following ledger balances as on 31st March, 2021

	₹		₹
Inventory 1.4.2020	6,65,000	Bank Current Account (Dr. balance)	20,000
Discounts & Rebates allowed	30,000	Cash in hand	11,000
Carriage Inwards	57,500		
Purchases	12,32,500	Calls in Arrear @ ₹ 2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity share capital (2,00,000 shares of ₹ 10 each)	20,00,000
Furniture & Fixtures	1,50,000		
Business Expenses	56,000	Trade Payables	2,40,500
Wages	14,79,000	Sales	36,17,000
Freehold Land	7,30,000	Rent (Cr.)	30,000
Plant & Machinery	7,50,000	Transfer fees received	6,500
Engineering Tools	1,50,000	Profit & Loss A/c (Cr.)	67,000
Trade Receivables	4,00,500	Repairs to Building	56,500
Advertisement Expenses	15,000	Bad debts	25,500
Commission & Brokerage Expenses		67,500	

The inventory (valued at cost or market value, which is lower) as on 31st March, 2021 was ₹ 7,05,000. Outstanding liabilities for wages ₹ 25,000 and business expenses ₹ 36,500. It was decided to transfer ₹ 10,000 to reserves.

Charge depreciation on written down values of Plant & Machinery @ 5%, Engineering Tools @ 20% and Furniture & Fixtures @10%. Provide ₹ 25,000 as doubtful debts for trade receivables. Provide for income tax @ 30%. It was decided to transfer ₹ 10,000 to reserves.

You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2021 and Balance Sheet as at that date.

ANSWER:

Balance Sheet of Om Ltd. as at 31st March, 2021

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

	Particulars	Note No.	(₹)
I	Equity and Liabilities		
	(1) Shareholders' Funds		
	(a) Share Capital	1	19,90,000
	(b) Reserves and Surplus	2	3,82,000
	(2) Current Liabilities		
	(a) Trade Payables		2,40,500
	(b) Other Current Liabilities	3	61,500
	(c) Short-Term Provisions	4	<u>1,35,000</u>
	Total		<u>28,09,000</u>
II	ASSETS		
	(1) Non-Current Assets		
	(a) Property, Plant and Equipment	5	16,97,500
	(2) Current Assets		
	(a) Inventories		7,05,000
	(b) Trade Receivables	6	3,75,500
	(c) Cash and Cash Equivalents	7	<u>31,000</u>
	Total		<u>28,09,000</u>

Statement of Profit and Loss of Om Ltd.
for the year ended 31st March, 2021

	Particulars	Note No.	(₹)
I	Revenue from Operations		36,17,000
II	Other Income	8	<u>36,500</u>
III	Total Revenue [I + II]		<u>36,53,500</u>
IV	Expenses:		
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,05,000]		(40,000)
	Employee Benefits Expenses	9	15,04,000
	Depreciation and Amortization Expenses		82,500
	Other Expenses	10	<u>4,24,500</u>
	Total Expenses		<u>32,03,500</u>
V	Profit before Tax (III-IV)		4,50,000
VI	Tax Expenses @ 30%		<u>(1,35,000)</u>
VII	Profit for the period		<u>3,15,000</u>

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0
Notes to Accounts:**1. Share Capital**

Authorized Capital	
5,00,000 Equity Shares of ₹ 10 each	<u>50,00,000</u>
Issued Capital	
2,00,000 Equity Shares of ₹ 10 each	20,00,000
Subscribed Capital and fully paid	
1,95,000 Equity Shares of ₹10 each	19,50,000
Subscribed Capital but not fully paid	
5,000 Equity Shares of ₹10 each ₹ 8 paid	<u>40,000</u>
(Call unpaid ₹10,000)	<u>19,90,000</u>

2. Reserves and Surplus

General Reserve		10,000
Surplus i.e. Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	3,15,000	
Less: Transfer to Reserve	<u>(10,000)</u>	<u>3,72,000</u>
		<u>3,82,000</u>

3. Other Current Liabilities

Outstanding Expenses [25,000+36,500]	61,500
--------------------------------------	--------

4. Short-term Provisions

Provision for Tax	1,35,000
-------------------	----------

5. Property, Plant and Equipment

Particulars	Value given (₹)	Depreciation rate	Depreciation Charged (₹)	Written down value at the end (₹)
Land	7,30,000		-	7,30,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Engineering Tools	<u>1,50,000</u>	20%	<u>30,000</u>	<u>1,20,000</u>
	<u>17,80,000</u>		<u>82,500</u>	<u>16,97,500</u>

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

6. Trade Receivables

Trade receivables	4,00,500
Less: Provision for doubtful debts	<u>(25,000)</u>
	<u>3,75,500</u>

7. Cash & Cash Equivalent

Cash Balance	11,000
Bank Balance in current A/c	<u>20,000</u>
	<u>31,000</u>

8. Other Income

Miscellaneous Income (Transfer fees)	6,500
Rental Income	<u>30,000</u>
	<u>36,500</u>

9. Employee benefits expenses

Wages	14,79,000
Add: Outstanding wages	<u>25,000</u>
	<u>15,04,000</u>

10. Other Expenses

Carriage Inwards	57,500
Discount & Rebates	30,000
Advertisement	15,000
Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,500] (Business Expenses)	92,500
Bad Debts	25,500
Provision for Doubtful Debts	<u>25,000</u>
	<u>4,24,500</u>

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0
QUESTION 85 (PAST PAPER MAY 19)

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.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

- 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.

ANSWER

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)	<u>2,70,000</u>	4,50,000	By Closing stock		32,500
To Gross profit c/d		<u>1,25,000</u>			
		<u>6,57,500</u>			<u>6,57,500</u>
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	<u>6,375</u>	30,750			
To Expenses paid					
Salary	16,000				
Selling Expenses	7,500				
Office Expenses	<u>18,500</u>	42,000			
To Bad debt		2,250			
To Discount allowed		2,750			
To Interest on loan		6,250			
To Net profit		35,750			
		<u>1,27,250</u>			<u>1,27,250</u>

Balance Sheet as on 31-3-2019

Liabilities		₹	Assets		₹
Capital (Balancing Figure)	4,65,250		Land & Building	2,50,000	
Add: Net profit	<u>35,750</u>	5,01,000	Less: Depreciation	<u>(12,500)</u>	2,37,500
Sundry creditors (W.N.3)		52,750	Plant & Machinery	1,65,000	
Bank loan		50,000	Less: Depreciation	<u>(10,875)</u>	1,54,125
Provision for expenses		7,500	Office Equipment	42,500	
			Less: Depreciation	<u>(6,375)</u>	36,125
			Debtors		1,10,250
			Stock		32,500
			Bank balance (W.N.4)		<u>40,750</u>
		<u>6,11,250</u>			<u>6,11,250</u>

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 = ₹1,25,000 25 125

Credit purchases = ₹ 2,70,000

Credit purchases = 60% of total purchases

Cash purchases = 40% of total purchases

Total purchases = 2,70,000 X 100 / 60 = 4,50,000

Cash purchases = 4,50,000 – 2,70,000 = ₹ 1,80,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Plant & Machinery

	₹		₹
To Balance b/d	1,10,000	By Sale of Machinery A/c	20,000
To Cash-purchase (Bal. Fig.)	<u>75,000</u>	By Balance c/d	<u>1,65,000</u>
	<u>1,85,000</u>		<u>1,85,000</u>

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)	=	<u>1,875</u>
		<u>11,875</u>

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)	<u>11,500</u>
	<u>20,000</u>		<u>20,000</u>

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.)	<u>52,750</u>		
	<u>3,17,500</u>		<u>3,17,500</u>

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
	<u>5,77,750</u>		<u>5,77,750</u>

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0
Provision for Office Expenses Account

	₹		₹
To Bank	21,000	By balance b/d	10,000
To balance c/d	<u>7,500</u>	By Expenses. (Bal. fig.)	<u>18,500</u>
	<u>28,500</u>		<u>28,500</u>

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
	<u>6,21,500</u>		<u>6,21,500</u>

5. Office Equipment Account

To balance b/d	52,500	By Sales	10,000
		By balance c/d	<u>42,500</u>
	<u>52,500</u>		<u>52,500</u>

QUESTION 86 (PAST PAPER MAY 19)

The following is the Balance Sheet of M/s Red and Black as on 31st March, 2018:

Liabilities		(₹)	Assets		(₹)
Red's Capital	80,000		Building		1,00,000
Black's Capital	1,00,000	1,80,000	Closing Stock		60,000
Red's Loan		20,000	Sundry Debtors		40,000
General Reserve		20,000	Investment		40,000
Sundry Creditors		40,000	(6% Debentures in Cool Ltd.)		
			Cash		20,000
		<u>2,60,000</u>			<u>2,60,000</u>

It was agreed that Mr. White is to be admitted for a fifth share in the future profits from 1st April, 2018. He is required to contribute cash towards goodwill and ₹ 20,000 towards capital.

(a) The following further information is furnished:

(i) The partners Red and Black shared the profits in the ratio of 3 : 2.

(ii) Mr. Red was receiving a salary of ₹ 1,000 p.m. from the very inception of the firm in addition to the share of profit.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

- (iii) The future profit ratio between Red, Black and White will be 3 : 1 : 1. Mr. Red will not get any salary after the admission of Mr. White.
- (iv) The goodwill of the firm should be determined on the basis of 2 years' purchase of the average profits from business of the last 5 years. The particulars of profits/losses are as under :

Year Ended	(₹)	Profit/Loss
31.3.2014	40,000	Profit
31.3.2015	20,000	Loss
31.3.2016	40,000	Profit
31.3.2017	50,000	Profit
31.3.2018	60,000	Profit

The above profits and losses are after charging the salary of Mr. Red. The profit of the year ended 31st March, 2014 included an extraneous profit of ₹ 60,000 and the loss for the year ended 31st March, 2015 was on account of loss by strike to the extent of ₹ 40,000.

- (v) It was agreed that the value of the goodwill should not appear in the books of the firm.
- (b) Trading profit for the year ended 31st March, 2019 was ₹ 80,000 (Before charging depreciation)
- (c) Each partner had drawn ₹ 2,000 per month as drawing during the year 2018-19.
- (d) On 31st March, 2019 the following balances appeared in the books:

Building (Before Depreciation) ₹ 1,20,000
 Closing Stock ₹ 80,000
 Sundry Debtors Nil
 Sundry Creditors Nil
 Investment ₹ 40,000

- (e) Interest was @ 6% per annum on Red's loan was not paid during the year.
- (f) Interest on Debenture was received during the year.
- (g) Depreciation is to be provided @ 5% on Closing Balance of Building.
- (h) Partners applied for conversion of the firm into a private Limited Company i.e. RBW Private Limited. Certificate received on 1.4.2019.

They decided to convert Capital accounts of the partners into share capital, in the ratio of 3: 1: 1 (on the basis of total Capital as on 31.3.2019). If necessary, partners have to subscribe to fresh capital or withdraw.

You are required to prepare :

- (1) Profit & Loss Account for the year ended 31st March, 2019 in the books of M/s Red and Black.
- (2) Balance Sheet as on 1st April, 2019 in the books of RBW Private Limited.

ANSWER

M/s Red, Black and White

Statement of Profit & Loss for the year ended on 31st March, 2019

	₹		₹
To Depreciation on Building (1,20,000 x 5%)	6,000	By Trading Profit	80,000
To Interest on Red's loan (20,000 x 6%)	1,200	By Interest on	2,400
To Net Profit to:		Debentures	
Red's Capital A/c	45,120		
Black's Capital A/c	15,040		
White's Capital A/c	<u>15,040</u>		
	<u>82,400</u>		<u>82,400</u>

Balance Sheet of the RBW Pvt. Ltd. as on 1-4-2019

		Notes No.	₹
I	Equity and Liabilities		
	Shareholders funds		2,39,040
	Non-current liabilities		
	Long term borrowings	1	<u>21,200</u>
	Total		<u>2,60,240</u>
II	Assets		
	Non-current assets		
	Property, Plant & Equipment		
	Tangible assets	2	1,14,000
	Non-current investments		40,000
	Current assets		
	Inventories		80,000
	Cash and cash equivalents		<u>26,240</u>
	Total		<u>2,60,240</u>

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Notes to Accounts

		₹
1.	Borrowings	
	Loan from Red	21,200
2.	Tangible assets	
	Land and Building ₹ (1,20,000 – 6,000)	1,14,000

Working Notes:**1. Calculation of goodwill**

Year ended March, 31

	2014 ₹	2015 ₹	2016 ₹	2017 ₹	2018 ₹
Book Profits	40,000	(20,000)	40,000	50,000	60,000
Adjustment for extraneous profit of 2014 and abnormal loss for 2015	<u>(60,000)</u>	<u>40,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
	(20,000)	20,000	40,000	50,000	60,000
Add Back: Remuneration of Red	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>
	(8,000)	32,000	52,000	62,000	72,000
Less: Debenture Interest being non-operating income	<u>(2,400)</u>	<u>(2,400)</u>	<u>(2,400)</u>	<u>(2,400)</u>	<u>(2,400)</u>
	<u>(10,400)</u>	<u>29,600</u>	<u>49,600</u>	<u>59,600</u>	<u>69,600</u>
Total Profit from 2015 to 2018					2,08,400
Less: Loss for 2014					<u>(10,400)</u>
Accumulated Profit					<u>1,98,000</u>
Average Profit					39,600
Goodwill equal to 2 years' purchase					79,200
Contribution from White, equal to 1/5					15,840

2. Partners' Capital Accounts

	Red ₹	Black ₹	White ₹		Red ₹	Black ₹	White ₹
To Drawings	24,000	24,000	24,000	By Balance b/d	80,000	1,00,000	—
To Black A/c			15,840	By General Reserve	12,000	8,000	—
To Balance c/d	1,13,120	1,14,880	11,040				

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

				By White A/c		15,840	—
				By Bank A/c		—	35,840
				By Profit & Loss A/c	45,120	15,040	15,040
	1,37,120	1,38,880	50,880		1,37,120	1,38,880	50,880

3. Balance Sheet as on 31st March, 2019

Liabilities	₹	₹	Assets	₹	₹
Red's Capital		1,13,120	Land & Building	1,20,000	
Black's Capital		1,14,880	Less: Depreciation	(6,000)	1,14,000
White's Capital		11,040	Investments		40,000
Red's Loan	20,000		Stock-in-trade		80,000
Add: Interest due	<u>1,200</u>	<u>21,200</u>	Cash (Balancing figure)		<u>26,240*</u>
		2,60,240			2,60,240

4. Conversion into Company

		₹
Capital:	Red	1,13,120
	Black	1,14,880
	White	<u>11,040</u>
Share Capital		2,39,040
Distribution of share:	Red (3/5)	1,43,424
	Black (1/5)	47,808
	White (1/5)	47,808

Red should subscribe shares of ₹ 30,304 (₹ 1,43,424 – ₹ 1,13,120) and White should subscribe shares of ₹ 36,768 (₹ 47,808 less 11,040). Black withdraws ₹ 67,072 (₹ 47,808 – ₹ 1,14,880).

5 Adjustment for Goodwill

	To be raised in old Ratio	To be written off in new ratio	Difference
Red	47,520	47,520	Nil
Black	31,680	15,840	15,840 Cr.
White		15,840	15,840 Dr.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

6. Closing cash balance* can also be derived as shown below:

	₹	₹
Trading profit (assume realised)		80,000
Add: Debenture Interest		2,400
Add: Decrease in Debtors Balance		<u>40,000</u>
		1,22,400
Less: Increase in stock	20,000	
Less: Decrease in creditors	<u>40,000</u>	<u>(60,000)</u>
Cash Profit		62,400
Add: Opening cash balance		20,000
Add: Cash brought in by White		<u>35,840</u>
		1,18,240
Less: Drawings	72,000	
Less: Additions to Building	<u>20,000</u>	<u>(92,000)</u>
		26,240

QUESTION 87 (PAST PAPER NOV 19)

G, S & J were partners sharing profits and losses in the ratio of 4:3:2, no partnership salary or interest on capital being allowed. Their Balance Sheet as on 31.3.2019 is as follows:

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Partners' fixed capital accounts:			Fixed assets:		
G	24,000		Goodwill	48,000	
S	24,000		Land	9,600	
J	<u>12,000</u>	60,000	Plant & Machinery	15,360	
Partners' current accounts:			Motor car	<u>840</u>	73,800
G	600		Current assets:		
S	10,800		Stock		4,680
J	<u>(480)</u>	10,920	Trade debtors	2,400	
Loan from G		9,600	Less: provision	<u>120</u>	2,280
Trade creditors		14,880	Cash at bank		240
			Miscellaneous losses:		
			Profit & loss sale		<u>14,400</u>
		<u>95,400</u>			95,400

On 1st April, 2019, the partnership was dissolved. Motor car was taken over by G at a value of ₹ 600, but no cash was given specifically in respect of this transaction. Sale of other assets realized the following amounts:

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Particulars	₹
Goodwill	Nil
Land	8,400
Plant & machinery	6,000
Stock	3,600
Trade debtors	1,920

Trade creditors were paid ₹ 14,040 in full settlement of their debts. The cost of dissolution amounted to ₹ 1,800. The loan from G was repaid; G and S both were fully solvent and able to bring in any cash required but J was forced into bankruptcy and was only able to bring 1/2 of the amount due.

You are required to prepare:

- (i) Cash & Bank account
 - (ii) Realization account, and
 - (iii) Partners' Fixed Capital Accounts (after transferring current accounts balances)
- Apply Garner Vs. Murray rule.

ANSWER
Cash & Bank Account

	₹		₹
To Balance b/d	240	By Realisation A/c-Creditors	14,040
To Realisation A/c-		By Realisation A/c-Expenses	1,800
Land	8,400	By G's Loan A/c	9,600
Plant and Machinery	6,000	By G's Capital A/c	16,280
Stock	3,600	By S's Capital A/c	28,680
Trade Debtors	1,920		
To Capital Accounts:			
G	27,200		
S	20,400		
J	2,640		
	50,240		
	70,400		70,400

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0
Realisation Account

	₹		₹
To Goodwill	48,000	By Trade Creditors	14,880
To Land	9,600	By Provision for Bad Debts	120
To Plant and Machinery	15,360	By Bank:	
To Motor Car	840	Land	8,400
To Stock	4,680	Plant and Machinery	6,000
To Sundry Debtors	2,400	Stock	3,600
To Bank (Creditors)	14,040	Debtors	<u>1,920</u>
To Bank (Expenses)	1,800	By G (Car)	600
		By Capital Accounts:	
		(Loss)	
		G	27,200
		S	20,400
		J	<u>13,600</u>
	96,720		61,200
			96,720

Partners' Fixed Capital Accounts

	G	S	J		G	S	J
	₹	₹	₹		₹	₹	₹
To Current A/c (Transfer)	5,800	—	3,680	By Balance b/d	24,000	24,000	12,000
To Realisation A/c (Loss)	27,200	20,400	13,600	By Current A/c (Transfer)	—	6,000	—
To Realisation A/c (Car)	600	—	—	By Bank	—	—	2,640
To J's Capital A/c (Deficiency)	1,320	1,320	—	By Bank* (realisation loss)	27,200	20,400	—
To Bank*	16,280	28,680	—	By G & S (Deficiency)	—	—	2,640
	51,200	50,400	17,280		51,200	50,400	17,280

Note:

- G, S and J will bring cash to make good their share of the loss on realization.
- As per Garner Vs. Murray rule, solvent partners- G and S have to bear the loss due to insolvency of a partner J in their fixed capital ratio.

*Alternatively, posting may be done for the net amount being received from /paid to G and S respectively.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Working Note:

Current account balances of partners have been arrived after adjusting profit and loss account debit balance as follows:

	Current account balance	Profit & loss		
G	600	(6,400)	5,800	Dr.
S	10,800	(4,800)	6,000	Cr.
J	(480)	(3,200)	3,680	Dr.

QUESTION 88 (PAST PAPER NOV 20)

Vijay & Co. of Jaipur has a branch in Patna to which goods are sent @ 20% above cost. The branch makes both cash & credit sales. Branch expenses are paid direct from Head office and the branch has to remit all cash received into the bank account of Head office. Branch doesn't maintain any books of accounts, but sends monthly returns to the head office.

Following further details are given for the year ended 31st March, 2020

	Amount (₹)
Goods received from Head office at Invoice Price	8,40,000
Goods returned to Head office at Invoice Price	60,000
Cash sales for the year 2019-20	1,85,000
Credit Sales for the year 2019-20	6,25,000
Stock at Branch as on 01-04-2019 at Invoice price	72,000
Sundry Debtors at Patna branch as on 01-04-2019	96,000
Cash received from Debtors	4,38,000
Discount allowed to Debtors	7,500
Goods returned by customer at Patna Branch	14,000
Bad debts written off	5,500
Amount recovered from Bad debts previously written off as Bad	1,000
Rent, Rates & taxes at Branch	24,000
Salaries & wages at Branch	72,000
Office Expenses (at Branch)	9,200
Stock at Branch as on 31-03-2020 at cost price	1,25,000

Prepare necessary ledger accounts in the books of Head office by following Stock and Debtors method and ascertain Branch profit.

ANSWER

Branch Stock Account

		₹				₹		₹	
1.4.19	To	Balance b/d (opening stock)	72,000	31.3.20	By	Sales:			
31.3.20	To	Goods Sent to Branch A/c	8,40,000			Cash		1,85,000	
	To	Branch P&L	94,000			Credit	6,25,000		
						Less:			
						Return	(14,000)	6,11,000	7,96,000
					By	Goods sent to branch returns			60,000
					By	Balance c/d (closing stock)			1,50,000

1.4.20	To	Balance b/d	<u>10,06,000</u>						<u>10,06,000</u>
			1,50,000						

Branch Debtors Account

		₹				₹	
1.4.19	To	Balance b/d	96,000	31.3.20	By	Cash	4,38,000
31.3.20	To	Sales	6,25,000		By	Returns	14,000
					By	Discounts	7,500
					By	Bad debts	5,500
					By	Balance c/d	2,56,000
			<u>7,21,000</u>				<u>7,21,000</u>
1.4.20	To	Balance b/d	2,56,000				

Branch Expenses Account

		₹				₹	
31.3.20	To	Salaries & Wages	72,000	31.3.20	By	Branch P&L A/c	1,18,200
	To	Rent, Rates & Taxes	24,000				
	To	Office Expenses	9,200				
	To	Discounts	7,500				
	To	Bad Debts	5,500				
			<u>1,18,200</u>				<u>1,18,200</u>

Branch Profit & Loss Account for year ended 31.3.20

		₹				₹	
31.3.20	To	Branch Expenses A/c	1,18,200	31.3.20	By	Branch stock	94,000
	To	Net Profit transferred to			By	Branch Stock Adjustment account	1,17,000
		General P & L A/c	93,800		By	Bad debts recovered	1,000
			<u>2,12,000</u>				<u>2,12,000</u>

Branch Stock Adjustment Account for year ended 31.3.20

		₹				₹	
31.3.20	To	Goods sent to branch (60,000x1/6) - returns	10,000	31.3.20	By	Balance b/d (72,000x1/6)	12,000
	To	Branch P & L A/c	1,17,000		By	Goods sent to branch (8,40,000x1/6)	1,40,000
	To	Balance c/d (1,50,000x1/6)	25,000				
			1,52,000				1,52,000

QUESTION 89 (MTP MAY 20) (STUDY MAT)

From the following information, prepare Trading and Profit & Loss Account for the year ended 31.03.2020 and the Balance Sheet as at 31.03.2020 of M/s Prasad & Co., a proprietorship firm.

Assets & Liabilities	As on 01.04.2019	As on 31.03.2020
Creditors	20,000	15,000
Outstanding Expenses	600	800
Fixed Assets	12,000	13,000
Stock	10,000	12,000
Cash in hand	7,500	2,000
Cash at Bank	2,500	10,000
Debtors	?	18,000

Details of the year's transactions are as follows:

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

(1)	Discounts allowed to Debtor	4,000
(2)	Returns from debtors	1,450
(3)	Bad debts	500
(4)	Total sales (Cash and Credit)	72,000
(5)	Discount allowed by creditors	700
(6)	Returns to creditors	400
(7)	Receipts from debtors paid into Bank	76,000
(8)	Cash purchases	1,000
(9)	Expenses paid by cash	9,000
(10)	Drawings by cheque	500
(11)	Purchase of Fixed Assets by cheque	4,000
(12)	Cash deposited into bank	5,000
(13)	Cash withdrawn from bank	9,000
(14)	Cash in hand at 31.03.2020	2,000
(15)	Payments to creditors by cheque	60,000

No assets were sold during the year. Any difference in cash account to be considered as cash sales.

ANSWER

In the books of M/s Prasad & Co.
 Trading and Profit and Loss Account
 for the year ended 31st March, 2020

	Rs.	Rs.		Rs.	Rs.
To Opening stock		10,000	By Sales:		
To Purchases:			Cash	500	
Cash	1,000		Credit	71,500	
Credit (W.N. 3)	<u>56,100</u>		Less: Returns	<u>(1,450)</u>	70,550
	57,100		By Closing stock		12,000
Less: Returns	<u>(400)</u>	56,700			
To Gross Profit c/d		15,850			
		<u>82,550</u>			<u>82,550</u>
To Discount allowed		4,000	By Gross profit b/d		15,850
To Bad debts		500	By Discount received		700
To General expenses (W.N. 5)		9,200	By Net Loss (balancing fig.)		150
To Depreciation (W.N. 4)		<u>3,000</u>			
		<u>16,700</u>			<u>16,700</u>

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0
Balance Sheet as at 31st March, 2020

Liabilities		Rs.	Assets		Rs.
Capital (W.N. 1)	39,850		Fixed Assets	12,000	
Less: Net loss	<u>150</u>		Add: New asset	<u>4,000</u>	
	39,700			16,000	
Less: Drawings	<u>(500)</u>	39,200	Less: Depreciation	<u>(3,000)</u>	13,000
Sundry creditors		15,000	Stock in trade		12,000
Expenses outstanding		800	Sundry debtors (W.N. 2)		18,000
			Cash in hand		2,000
			Cash in Bank		<u>10,000</u>
		<u>55,000</u>			<u>55,000</u>

Working Notes:
(1) Ascertainment of Opening Capital - Statement of Affairs as at 1.4.19

Liabilities	Rs.	Assets	Rs.
Sundry creditors	20,000	Fixed Assets	12,000
Outstanding expenses	600	Stock	10,000
Prasad's Capital		Debtors	28,450
(Balancing figure)	39,850	Cash in hand	7,500
		Cash at Bank	<u>2,500</u>
	<u>60,450</u>		<u>60,450</u>

(2) Sundry Debtors Account

	Rs.		Rs.
To Balance b/d (bal. fig)	28,450	By Cash	76,000
To Sales (72,000 – 500)	71,500	By Discount	4,000
		By Returns (sales)	1,450
		By Bad debts	500
		By Balance c/d (given)	<u>18,000</u>
	<u>99,950</u>		<u>99,950</u>

(3) Sundry Creditors Account

	Rs.		Rs.
To Bank – Payments	60,000	By Balance b/d	20,000
To Discount	700	By Purchases - credit	56,100
To Returns	400	(Balancing figure)	
To Balance c/d (closing balance)	<u>15,000</u>		
	<u>76,100</u>		<u>76,100</u>

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

(4) Depreciation on Fixed Assets

	Rs.
Opening balance of fixed assets	12,000
Add: Additions	<u>4,000</u>
	16,000
Less: Closing balance of fixed assets	<u>(13,000)</u>
Depreciation	<u>3,000</u>

(5) Expenses to be shown in profit and loss account

Expenses (in cash)	9,000
--------------------	-------

Add: Outstanding of 2020	<u>800</u>
	9,800
Less: Outstanding of 2019	<u>600</u>
	<u>9,200</u>

(6) Cash and Bank Account

	Cash	Bank		Cash	Bank
	Rs.	Rs.		Rs.	Rs.
To Balance b/d	7,500	2,500	By Purchases	1,000	—
To Debtors	—	76,000	By Expenses	9,000	
To Bank (C)	9,000	—	By Fixed Asset		4,000
To Cash (C)	—	5,000	By Drawings		500
To Sales (balancing figure considered as cash sales)	500	—	By Creditors		60,000
			By Cash (C)		9,000
			By Bank (C)	5,000	
			By Balance c/d		<u>10,000</u>
	<u>17,000</u>	<u>83,500</u>		<u>2,000</u>	
				<u>17,000</u>	<u>83,500</u>

Chapter 5 Profit or Loss Pre and Post Incorporation

QUESTION 1 (STUDY MATERIAL)

Profit prior to incorporation is transferred to

- (a) General reserve.
- (b) Capital reserve.
- (c) Profit and loss account.

Answer: (b)

QUESTION 2 (STUDY MATERIAL)

The profit earned by the company from the date of purchase to the date of incorporations

- (a) Pre- incorporation profit.
- (b) Post- incorporation profit.
- (c) Notional profit.

Answer: (a)

QUESTION 3 (STUDY MATERIAL)

Loss prior to incorporation is debited to which account?

- (a) Goodwill account
- (b) Loss prior to incorporation a account
- (c) Either (a) or(b)

Answer: (c)

QUESTION 4 (STUDY MATERIAL)

Profit prior to incorporation is

- (a) Available for distribution as dividend among the members of the company.

- (b) Not available for distribution as dividend among the members of the company.
- (c) Depends upon the Memorandum of Association.

Answer: (b)

QUESTION 5 (STUDY MATERIAL)

Profit or loss prior to incorporation is of

- (a) Revenue nature.
- (b) Capital nature.
- (c) Nominal nature.

Answer: (b)

QUESTION 6 (STUDY MATERIAL)

Which of the following expenditure is allocated on the basis of time?

- (a) Insurance
- (b) Bad debts.
- (c) Discount allowed.

Answer: (a)

QUESTION 7 (STUDY MATERIAL)

Which of the following is allocated on the basis of turnover?

- (a) Salaries.
- (b) Depreciation.
- (c) Gross profit.

Answer: (c)

QUESTION 8 (STUDY MATERIAL)

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Preliminary expenses on the formation of the company are charged against

- (a) Pre-incorporation profit.
- (b) Post- incorporation profit.
- (c) Not calculated because of bifurcation of profit into pre and post.

Answer: (b)

QUESTION 9 (STUDY MATERIAL)

Which of the following expense is not allocated on time basis?

- (a) Rent
- (b) Salaries
- (c) Discount

Answer: (c)

QUESTION 10 (STUDY MATERIAL)

ABC Ltd. M on 1.5.20X1 to take over the business of DEF and Co. from 1.1.20X1. The following information as given by ABC Ltd. for the year ending 31.12.20X1 is provided to you:

Gross Profit	10,64,000
Interest on Investments earned	36,000
Expenses:	
Rent and Taxes	90,000
Salaries including manager's salary of ₹ 85,000	3,31,000
Carriage Outwards	14,000
Printing and Stationery	18,000
Interest on Debentures	25,000
Sales Commission	30,800
Bad Debts (related to sales)	91,000
Underwriting Commission	26,000
Preliminary Expenses	28,000
Audit Fees	45,000
Loss on Sale of Investments	11,200
Net Profit	3,90,000

Prepare a Statement showing allocation of expenses and calculations of pre-incorporation and post-incorporation profits after considering the following information:

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

- (i) G.P. ratio was constant throughout the year.
- (ii) Sales for January and October were 1½ times the average monthly sales while sales for December were twice the average monthly sales.
- (iii) Bad Debts are shown after adjusting a recovery of ₹ 7,000 of Bad Debt for a sale made in July, 20X0.
- (iv) Manager's salary was increased by ₹ 2,000 p.m. from 1.5.20X1.
- (v) All investments were sold in April, 20X1.
- (vi) The entire audit fees relates to the company.

Solution

Pre-incorporation period is for four months, from 1st January, 20X1 to 30th April, 20X1. 8 months' period (from 1st May, 20X1 to 31st December, 20X1) is post-incorporation period.

Statement showing calculation of profit/losses for pre and post incorporation periods

	Pre-Inc	Post inc
	₹	₹
Gross Profit	3,42,000	7,22,000
Interest on Investments	36,000	?
Bad debts Recovery	7,000	?
	3,85,000	7,22,000
Less:: Rent and Taxes	30,000	60,000
Salaries		
Manager's salary (85,000- refer note below)	23,000	62,000
Other salaries (3,31,000 – 85,000)	82,000	1,64,000
Printing and stationery	6,000	12,000
Audit fees	-	45,000
Carriage outwards	4,500	9,500
Sales commission	9,900	20,900
Bad Debts (91,000 + 7,000)	31,500	66,500
Interest on Debentures	???	25,000
Underwriting Commission	???	26,000
Preliminary expenses	???	28,000
Loss on sale of investments	11,200	???
Net Profit	1,86,900	2,03,100

Working Notes:

(i) Calculation of Sales ratio

Let average monthly sales be x .

Thus Sales from January to April are $4\frac{1}{2}x$ (i.e., $1.5x + x + x + x$) and sales from May to December are $9\frac{1}{2}x$ ($x + x + x + x + x + x + 1.5x + x + 2x$).

Sales are in the ratio of $9/2x : 19/2x$ or $9 : 19$.

Calculation of Time Ratio

Pre-incorporation period = 1.1.20X1 to 30.4.20X1 = 4 months

Post-incorporation period = 1.5.20X1 to 31.12.20X1 = 8 months

Time ratio = 1:2

(ii) Gross profit, carriage outwards, sales commission and bad debts written off (after adjustment for bad debt recovery) have been allocated in pre and post incorporation periods in the ratio of Sales i.e. $9 : 19$.

(iii) Rent, salaries (subject to increase in manager's salary), printing and stationery are allocated on time basis.

(iv) Interest on debentures, underwriting commission and preliminary expenses are allocated in post incorporation period.

(v) Interest on investments, loss on sale of investments and bad debt recovery are allocated in pre-incorporation period.

Note

Let Pre-incorporation period manager's monthly salary be x

Total pre-incorporation period manager's monthly salary = $4x$

Post-incorporation period manager's monthly salary = $x + 2,000$

Total pre-incorporation period manager's monthly salary = $8(x+2,000)$

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Total manager's salary (pre and post) = ₹ 85,000

Thus, $4x + 8(x+2,000) = 85,000$

$x = 5,750$

Total pre-incorporation period manager's monthly salary = $4 \times 5,750 = ₹ 23,000$

Total pre-incorporation period manager's monthly salary = $8(5,750 + 2,000) = ₹ 62,000$

QUESTION 10 (STUDY MATERIAL)

Define Pre-incorporation profit/loss in brief.

The determination of such profit or loss would be a simple matter if it is possible to close the books and take the stock held by the business before the company came into existence. In such a case, the trial balance will be abstracted from the books and the profit or loss computed. Thereafter, the books will be either closed off or the balance allowed continuing undistributed; only the amount of profit or loss so determined being adjusted in the manner described above. The simplest, though not always the most expedient method is to close off old books and open new books with the assets and liabilities as they existed at the date of incorporation. In this way, automatically the result to that date will be adjusted, the difference between the values of assets and liabilities acquired and the purchase consideration being accounted for either as goodwill or as reserve. The accounts, therefore, would relate exclusively to the post-incorporation period and any adjustment for the pre-incorporation period, whether an adjustment of profit or loss, would not be required.

QUESTION 11 (STUDY MATERIAL)

Rama Udyog Limited was incorporated on August 1, 20X1. It had acquired a running business of Rama & Co. with effect from April 1, 20X1. During the year 20X1-X2, the total sales were Rs.36,00,000. The sales per month in the first half year were half of what they were in the later half year. The net profit of the company,

Rs.2,00,000 was worked out after charging the following expenses:

- (i) Depreciation Rs.1,23,000,
- (ii) Directors' fees Rs.50,000,
- (iii) Preliminary expenses Rs.12,000,
- (iv) Office expenses Rs.78,000,
- (v) Selling expenses Rs.72,000 and
- (vi) Interest to vendors upto August 31, 20 X1 Rs.5,000.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Please ascertain pre-incorporation and post-incorporation profit for the year ended 31st March, 20X2.

Statement showing pre and post incorporation profit
for the year ended 31st March, 20X2

Particulars	Total Amount Rs.	Basis of Allocation	Pre-incorporation Rs.	Post-Incorporation Rs.
Gross Profit (W.N.3)	5,40,000	2:7	1,20,000	4,20,000
Less: Depreciation	1,23,000	1:2	41,000	82,000
Director's Fees	50,000	Post	-	50,000
Preliminary Expenses	12,000	Post	-	12,000
Office Expenses	78,000	1:2	26,000	52,000
Selling Expenses	72,000	2:7	16,000	56,000
Interest to vendors	5,000	Actual	4,000	1,000
Net Profit (Rs.33,000 being pre-incorporation profit is transferred to capital reserve Account)	<u>2,00,000</u>		<u>33,000</u>	<u>1,67,000</u>

Working Notes:
1. Sales ratio

The sales per month in the first half year were half of what they were in the later half year. If in the later half year, sales per month is then it should be .5 x per month in the first half year. So sales for the first four months (i.e. from 1st April, 20X1 to 31st July, 20X1) will be $4 \times .50 = \text{Rs.}2$ and for the last eight months (i.e. from 1st August, 20X1 to 31st March, 20X2) will be $(2 \times .50 + 6 \times 1) = \text{Rs.}7$. Thus sales ratio is 2:7.

2. Time ratio

1st April, 20X1 to 31st July, 20X1 : 1st August, 20X1 to 31st March, 20X2

= 4 months: 8 months = 1:2 Thus, time ratio is 1:2.

3. Gross profit

Gross profit = Net profit + All expenses

**CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0**

$$= \text{Rs.}2,00,000 + \text{Rs.}(1,23,000+50,000+12,000+78,000+72,000+5,000)$$

$$= \text{Rs.}2,00,000 + \text{Rs.}3,40,000 = \text{Rs.}5,40,000.$$

QUESTION 12 (STUDY MATERIAL)

The promoters of Glorious Ltd. took over on behalf of the company a running business with effect from 1st April, 20X1. The company got incorporated on 1st August, 20X1. The annual accounts were made up to 31st March, 20X2 which revealed that the sales for the whole year totalled Rs.1,600 lakhs out of which sales till 31st July, 20X1 were for Rs.400 lakhs. Gross profit ratio was 25%.

The expenses from 1st April 20X1, till 31st March, 20X2 were as follows:

	(Rs. in lakhs)
Salaries	69
Rent, Rates and Insurance	24
Sundry Office Expenses	66
Travellers' Commission	16
Discount Allowed	12
Bad Debts	4
Directors' Fee	25
Tax Audit Fee	9
Depreciation on Tangible Assets	12
Debenture Interest	11

Prepare a statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods.

Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods

Particulars	Total Amount	Basis of Allocation	Pre-incorporation	Post-incorporation
	(Rs. in lakhs)		(Rs. in lakhs)	(Rs. in lakhs)
Gross Profit (25% of Rs.1,600)	400	Sales	100	300
Less: Salaries	69	Time	23	46

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Rent, rates and Insurance	24	Time	8	16
Sundry office expenses	66	Time	22	44
Travellers' commission	16	Sales	4	12
Discount allowed	12	Sales	3	9
Bad debts	4	Sales	1	3
Directors' fee	25	Post	-	25
Tax Audit Fees	9	Sales	2.25	6.75
Depreciation on tangible assets	12	Time	4	8
Debenture interest	11	Post	-	11
Net profit	152		32.75	119.25

Working Notes:
1. Sales ratio

	(Rs.in lakh)
Sales for the whole year	1,600
Sales up to 31st July, 20X1	400
Therefore, sales for the period from 1 st August, 20X1 to 31 st March, 20X2	1,200

Thus, sale ratio = 400:1200 = 1:3

2. Time ratio

1st April, 20X1 to 31st July, 20X1 : 1st August, 20X1 to 31st March, 20X2

= 4 months: 8 months = 1:2 Thus, time

ratio is 1:2.

QUESTION 13 (STUDY MATERIAL)

Inder and Vishnu, working in partnership registered a joint stock company under the name of Fellow Travellers Ltd. on May 31, 20X1 to take over their existing business. It was agreed that they would take over the assets of the partnership from January 1st, 20X1 for a sum of Rs.3,00,000 and that until the amount was discharged they would pay interest on the amount at the rate of 6% per annum. The amount was paid on June 30, 20X1. To discharge the purchase consideration, the company issued 20,000 equity shares of Rs.10 each at a premium of Rs.1 each and allotted 7% Debentures of the face value of Rs.1,50,000 to the vendors at par.

The summarised Profit and Loss Account of the "Fellow Travellers Ltd." for the year ended 31st December, 20X1 was as follows:

	Rs.		Rs.
To Purchase, including Inventory	1,40,000	By Sales:	
To Freight and carriage	5,000	1st January to 31st May 20X1	60,000
To Gross Profit c/d	60,000	1st June to 31st Dec., 20X1	1,20,000
		By Inventory in hand	25,000
	2,05,000		2,05,000
To Salaries and Wages	10,000	By Gross profit b/d	60,000
To Debenture Interest	5,250		
To Depreciation	1,000		
To Interest on purchase Consideration (up to 30-6-20X1)	9,000		
To Selling commission	9,000		
To Directors' Fee	600		
To Preliminary expenses	900		
To Provision for taxes (entirely related with company)	6,000		
To Dividend paid on equity shares @ 5%	5,000		
To Balance c/d	13,250		
	60,000		60,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Prepare statement apportioning the expenses and calculate profits/losses for the 'post' and 'pre-incorporation' periods and also show how these figures would appear in the Balance Sheet of the company.

Fellow Travellers Ltd.
Statement showing calculation of profit /losses for pre and post incorporation periods

	Ratio	Pre-incorporation	Post-incorporation
Gross profit allocated on the basis of sale	1:2	20,000	40,000
Less: Administrative Expenses allocated			
On time basis:			
(i) Salaries and wages	10,000		
(ii) Depreciation	1,000		
	<u>11,000</u>		
	5:7	4,583	6,417
Selling Commission on the basis of sales	1:2	3,000	6,000
Interest on Purchase Consideration (Time basis)	5:1	7,500	1,500
Expenses applicable wholly to the Post-incorporation period:			
Debenture Interest	5,250		
(1,50,000 x 7% x 6/12)			
Director's Fee	<u>600</u>		5,850
Preliminary expenses			900
Provision for taxes			6,000
Balance c/d to Balance Sheet		4,917	13,333

Time Ratio

Pre incorporation period = 1 January 20X1 to 31 May 20X1 = 5 months

Post incorporation period = 1 June 20X1 to 31 December 20X1 = 7 months

Time ratio = 5:7

Sales Ratio

Sales in pre incorporation period (1 January 20X1 to 31 May 20X1) = Rs.60,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Sales in post incorporation period (1 June 20X1 to 31 December 20X1) = Rs.1,20,000

Sales ratio = 1:2

Fellow Travellers Ltd.

Extract from the Balance Sheet as on 31st Dec., 20X1

	Particulars	Notes	Rs.
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	2,00,000
b	Reserves and Surplus	2	33,250
2	Non-current liabilities		
a	Long-term borrowings	3	1,50,000
3	Current liabilities		
a	Short term provisions	4	<u>6,000</u>
	Total		<u>3,89,250</u>

Notes to accounts

	Rs.
1. Share Capital	
20,000 equity shares of Rs.10 each fully paid	2,00,000
2. Reserves and Surplus	
Profit Prior to Incorporation	4,917
Securities Premium Account	20,000
Profit and loss Account	13,333
Less: Dividend on equity share	<u>(5,000)</u>
Total	33,250
3. Long term borrowings	
Secured	
7% Debentures	1,50,000
4. Other Current liabilities	
Provision for Taxes	6,000

QUESTION 14 (STUDY MATERIAL)

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

The partners of Maitri Agencies decided to convert the partnership into a private limited company called MA (P) Ltd. with effect from 1st January, 20X2. The consideration was agreed at Rs.1,17,00,000 based on the firm's Balance Sheet as at 31st December, 20X1. However, due to some procedural difficulties, the company could be incorporated only on 1st April, 20X2. Meanwhile the business was continued on behalf of the company and the consideration was settled on that day with interest at 12% per annum. The same books of account were continued by the company which closed its account for the first time on 31st March, 20X3 and prepared the following summarised profit and loss account.

		Rs.
Sales		2,34,00,000
Less: Cost of goods sold	1,63,80,000	
Salaries	11,70,000	
Depreciation	1,80,000	
Advertisement	7,02,000	
Discounts	11,70,000	
Managing Director's remuneration	90,000	
Miscellaneous office expenses	1,20,000	2,14,83,000
Office-cum-show room rent	7,20,000	
Interest	9,51,000	
Profit		19,17,000

The company's only borrowing was a loan of Rs.50,00,000 at 12% p.a. to pay the purchase consideration due to the firm and for working capital requirements.

The company was able to double the average monthly sales of the firm, from 1st April, 20X2 but the salaries tripled from that date. It had to occupy additional space from 1st July, 20X2 for which rent was Rs.30,000 per month.

Prepare statement of apportioning cost and revenue between pre-incorporation and post-incorporation periods and calculation of profits/losses for such periods MA (P) Ltd.

**Statement showing calculation of profit/losses for pre and post
incorporation periods**

	Basis of allocation	Pre-inc.	Post-inc.
		Rs.	Rs.
Sales	Sales ratio	26,00,000	2,08,00,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Less: Cost of goods sold	Sales ratio	18,20,000	1,45,60,000
Salaries	W.N.4	90,000	10,80,000
Depreciation	Time ratio	36,000	1,44,000
Advertisement	Sales ratio	78,000	6,24,000
Discounts	Sales ratio	1,30,000	10,40,000
M.D.'s remuneration	Post-inc	—	90,000
Misc. Office Expenses	Time ratio	24,000	96,000
Rent	W.N.5	90,000	6,30,000
Interest	Time ratio	3,51,000	6,00,000
Net Profit/(Loss)		(19,000)	19,36,000

Working Notes:

(1) Calculation of Sales ratio:

Let the average sales per month in pre-incorporation period be x.

Then the average sales in post-incorporation period are 2x.

Thus total sales are $(3 \times x) + (12 \times 2x)$ or 27x.

Ratio of sales will be 3x : 24x or 1:8.

Time ratio is 3 months: 12 months or 1:4

(2) Expenses apportioned on turnover ratio basis are cost of goods sold, advertisement, discounts.

(3) Expenses apportioned on time ratio basis are Depreciation, and misc. office expenses.

(4) Ratio for apportionment of Salaries:

If pre-incorporation monthly average is x, for 3 months 3x.

Average for balance 12 months 3 x, for 12 months 36 x.

Hence ratio for division, 1: 12.

(5) Apportionment of Rent:

	Rs.
Total Rent	7,20,000
Additional rent for 9 months (From 1st July 20X2 to 31st March, 20X3)	(2,70,000)
Rent for old premises for 15 months at Rs.30,000 p.m.	4,50,000

**CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0**

	Pre-inc.	Post-inc.
Old Premises	90,000	3,60,000
Additional rent	—	2,70,000
	90,000	6,30,000

QUESTION 15 (STUDY MATERIAL)

ABC Ltd. took over a running business with effect from 1stApril, 20X1. The company was incorporated on 1stAugust, 20X1. The following summarised Profit and Loss Account has been prepared for the year ended 31.3.20X2:

	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	37,800		
	trad		
	e expenses		
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	16,000		
	selling		
	agents		
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	<u>87,600</u>		
	<u>3,20,000</u>		<u>3,20,000</u>

Additional information:

- (a) Total sales for the year, which amounted to Rs.19,20,000 arose evenly up to the date of 30.9.20X1. Thereafter they recorded an increase of two-third during the rest of the year.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

- (b) Rent of office building was paid @ Rs.2,000 per month up to September, 20X1 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 30thSeptember, 20X1 by issuing equity shares of Rs.10each.

Prepare Statement showing calculation of profits and allocation of expenses between pre and post incorporation periods.

**Statement showing calculation of profits for pre and post
incorporation periods for the year ended
31.3.20X2**

Particulars	Pre-incorporation period	Post- incorporation period
	Rs.	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.4)	4,000	8,000
Sales promotion expenses (W.N.4)	1,200	3,600
Misc. trade expenses (1:2)	12,600	25,200
Rent (office building) (W.N.3)	8,000	18,400
Electricity charges (1:2)	1,400	2,800
Director's fee (post-incorporation)	-	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 (post-incorporation)	-	3,000
Interest paid to vendor (2:1) (W.N.5)	2,800	1,400
Selling expenses (1:3)	6,300	18,900
Depreciation on fixed assets (W.N.6)	3,000	6,600
Capital reserve (Bal. Fig.)	12,800	-
Net profit (Bal. Fig.)	-	74,800

Working Notes:

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

1. Time Ratio

Pre incorporation period = 1stApril, 20X1 to 31stJuly,20X1 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 1.4.20X1 to 30.09. 20X1) be x

Then, sales for 6 months = 6x

Monthly sales for next 6 months (i.e. from 1.10.X1 to 31.3.20X2) = $x + 2/3x = 5/3x$

Then, sales for next 6 months = $5/3x \times 6 = 10x$

Total sales for the year = $6x + 10x = 16x$

Monthly sales in the pre incorporation period = $\text{Rs.}19,20,000/16 = \text{Rs.}1,20,000$ Total

sales for pre-incorporation period = $\text{Rs.}1,20,000 \times 4 = \text{Rs.}4,80,000$

Total sales for post incorporation period = $\text{Rs.}19,20,000 - \text{Rs.}4,80,000 = \text{Rs.}14,40,000$

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,20X1 & September, 20X1 (Rs.2,000 x 2)	4,000	
October,20X1 to March,20X2 (Rs.2,400 x 6)	<u>14,400</u>	18,400 (post)

4. Travelling expenses and sales promotion expenses

	Pre	Post
	Rs.	Rs.
Traveling expenses Rs.12,000 (i.e. Rs.16,800-		

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

5. Interest paid to vendor till 30th September, 20X1

	Pre Rs.	Post Rs.
Interest for pre-incorporation period	2,800	
Interest for post incorporation period i.e. for August, 20X1 & September, 20X1		1,400

6. Depreciation

	Pre Rs.	Post Rs.
Total depreciation	9,600	
Less: Depreciation exclusively for post incorporation period		600
Remaining (for pre and post incorporation period)	9,000	
Depreciation for pre-incorporation period	3,000	
Depreciation for post incorporation period		<u>6,000</u>
* Time ratio = 1 : 2	<u>3,000</u>	<u>6,600</u>

QUESTION 16 (STUDY MATERIAL)

ABC Ltd. was incorporated on 1.5.20X1 to take over the business of DEF and Co. from 1.1.20X1. The summarised Profit and Loss Account as given by ABC Ltd. for the year ending 31.12.20X1 is asunder:

Summarised Profit and Loss Account

	Rs.		Rs.
To Rent and Taxes	90,000	By Gross Profit	10,64,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

To	Salaries including manager's salary of Rs.85,000	3,31,000	By	Interest on Investments	36,000
To	Carriage Outwards	14,000			
To	Printing and Stationery	18,000			
To	Interest on Debentures	25,000			
To	Sales Commission	30,800			
To	Bad Debts (related to sales)	91,000			
To	Underwriting Commission	26,000			
To	Preliminary Expenses	28,000			
To	Audit Fees	45,000			
To	Loss on Sale of Investments	11,200			
To	Net Profit	3,90,000			
		11,00,000			11,00,000

Prepare a Statement showing allocation of expenses and calculations of pre-incorporation and post-incorporation profits after considering the following information:

- (i) G.P. ratio was constant throughout the year.
- (ii) Sales for January and October were $1\frac{1}{2}$ times the average monthly sales while sales for December were twice the average monthly sales.
- (iii) Bad Debts are shown after adjusting a recovery of Rs.7,000 of Bad Debt for a sale made in July, 20X0.
- (iv) Manager's salary was increased by Rs.2,000 p.m. from 1.5.20X1.
- (v) All investments were sold in April, 20X1.
- (vi) The entire audit fees relates to the company.

Answer:

Pre-incorporation period is for four months, from 1st January, 20X1 to 30th April, 20X1. 8 months' period (from 1st May, 20X1 to 31st December, 20X1) is post-incorporation period.

Statement showing calculation of profit/losses
for pre and post incorporation periods

	Pre-Inc Rs.	Post inc Rs.
Gross Profit	3,42,000	7,22,000
Interest on Investments	36,000	?
Bad debts Recovery	7,000	?
	3,85,000	7,22,000
Less: Rent and Taxes	30,000	60,000
Salaries		
Manager's salary (85,000- refer note below)	23,000	62,000
Other salaries (3,31,000 – 85,000)	82,000	1,64,000
Printing and stationery	6,000	12,000
Audit fees	-	45,000
Carriage outwards	4,500	9,500
Sales commission	9,900	20,900
Bad Debts (91,000 + 7,000)	31,500	66,500
Interest on Debentures	?	25,000
Underwriting Commission	?	26,000
Preliminary expenses	?	28,000
Loss on sale of investments	11,200	?
Net Profit	1,86,900	2,03,100

Working Notes:

(i) Calculation of Sales ratio

Let average monthly sales be x.

Thus Sales from January to April are $4\frac{1}{2}x$ (i.e., $1.5x + x + x + x$) and sales from May to December are $9\frac{1}{2}x$ ($x+x+x+x+x+1.5x+x+2x$).

Sales are in the ratio of $9/2x : 19/2x$ or 9 : 19.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Calculation of Time Ratio

Pre-incorporation period = 1.1.20X1 to 30.4.20X1 = 4 months

Post-incorporation period = 1.5.20X1 to 31.12.20X1 = 8 months

Time ratio = 1:2

- (ii) Gross profit, carriage outwards, sales commission and bad debts written off (after adjustment for bad debt recovery) have been allocated in pre and post incorporation periods in the ratio of Sales i.e. 9 :19.
- (iii) Rent, salaries (subject to increase in manager's salary), printing and stationery are allocated on time basis.
- (iv) Interest on debentures, underwriting commission and preliminary expenses are allocated in post incorporation period.
- (v) Interest on investments, loss on sale of investments and bad debt recovery are allocated in pre-incorporation period.

Note

Let Pre-incorporation period manager's monthly salary be x

Total pre-incorporation period manager's monthly salary = 4x

Post-incorporation period manager's monthly salary = x +2,000

Total pre-incorporation period manager's monthly salary = 8(x+2,000)

Total manager's salary (pre and post) = Rs.85,000

Thus, $4x + 8(x+2,000) = 85,000$ $x = 5,750$

Total pre-incorporation period manager's monthly salary = $4 \times 5,750 = \text{Rs.}23,000$

Total pre-incorporation period manager's monthly salary= $8(5,750+2,000)= \text{Rs.}62,000$

QUESTION 17 (study material)

SALE Limited was incorporated on 01.08.20X1 to take-over the business of a partnership firm w.e.f. 01.04.20X1. The following is the extract of Profit and Loss Account for the year-ended 31.03.20X2:

Particulars	Amount (₹)
Gross Profit (A)	6,00,000
Expenses: Salaries	1,20,000
Rent, Rates & Taxes	80,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Commission on Sales	21,000
Depreciation	25,000
Interest on Debentures	32,000
Director Fees	12,000
Advertisement	36,000
(B)	3,26,000
Net Profit for the Year (A less B)	2,74,000

(i) SALE Limited initiated an advertising campaign which resulted increase in monthly average sales by 25% post incorporation.

(ii) The Gross profit ratio post incorporation increased to 30% from 25%.

You are required to apportion the profit for the year between pre-incorporation and post-incorporation, also explain how pre-incorporation profit is treated in the accounts.

**Statement showing the calculation of Profits
for the pre-incorporation and post-incorporation periods**

Particulars	Total	Basis of Allocation	Pre-	Post-
	Amount		incorporation	incorporation
	Rs.		Rs.	Rs.
Gross Profit (W.N.2)	6,00,000	1:3	1,50,000	4,50,000
Less: Salaries	1,20,000	Time	40,000	80,000
Rent, rates and taxes	80,000	Time	26,667	53,333
Sales' commission	21,000	Sales (2:5)	6,000	15,000
Depreciation	25,000	Time	8,333	16,667
Interest on debentures	32,000	Post		32,000
Directors' fee	12,000	Post		12,000
Advertisement	<u>36,000</u>	post		<u>36,000</u>
Net profit	2,74,000		69,000	2,05,000

Working Notes:

1. Sales ratio

Let the monthly sales for first 4 months (i.e. from 1.4.20X1 to 31.7.20X1) be = x

Then, sales for 4 months = 4x

Monthly sales for next 8 months (i.e. from 1.8.X1 to 31.3.20X2) = x + 25% of x = 1.25x

Then sales for next 6 months = 1.25x X 8 = 10x

Total sales for the year = 4x + 10x = 14x

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Sales Ratio = 4x : 10x i.e. 2:5

2. Gross Profit Ratio

From 1.4.20X1 to 31.7.20X1 gross profit is 25% of sales

Then, 25% of 4x = 1x gross profit for next 8 months (i.e. from 1.8.X1 to 31.3.20X2) is 30%

Then, 30% of 10x = 3x

Therefore gross profit ratio will be 1:3

3. Time ratio

1st April, 20X1 to 31st July, 20X1 : 1st August, 20X1 to 31st March, 20X2

= 4 months: 8 months = 1:2

Thus, time ratio is 1:2.

Question 18 (STUDY MATERIAL)

A partnership firm M/s. Nice Sons was carrying on business from 1st May, 20X1. The partners of the firm decided to convert the partnership firm into a private company called Zenith (P) Ltd. with effect from 1st September, 20X1. The annual accounts were drawn upto 31st March, 20X2. The related information from 1st May, 20X1 to 31st March, 20X2 is as follows:

Particulars	Amount (₹)	Amount (₹)
Turnover		55,20,000
Interest on Investment		60,000
Profit on sale of Investment		42,000
		56,22,000
Less:		
Cost of goods sold	34,50,000	
Printing & Stationery	77,000	
Manager's Salary	82,000	
Audit Fees	41,000	
Rent	1,33,000	
Bad Debts	33,000	
Underwriting Commission	56,000	
Depreciation	71,500	
Interest on Debentures	8,900	

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Advertising campaign expenses	69,800	
Sundry office expenses	1,06,700	
Interest on borrowings	1,25,000	
		42,53,900
Net Profit		13,68,100

Additional Information Provided:

- (1) The company's only borrowing was a loan of ₹ 15,00,000 at 9% p.a., to pay the purchase consideration due to the firm and for working capital requirements. The loan was taken on 1st September, 20X1
 - (2) The company occupied additional space from 1st September, 20X1 for which rent of ₹ 8,000 per month was incurred.
 - (3) Audit fee pertains to the company.
 - (4) Bad debts recovered amounting to ₹ 36,000 for a sale made in June 20X1, has been deducted from bad debts mentioned above.
 - (5) All investments were sold in August 20X1.
 - (6) Zenith (P) Ltd. initiated an advertising campaign on 1st September, 20X1, which resulted increase in monthly average sales by 40%.
 - (7) The salary of Manager was increased by ₹ 3,000 p.m. from 1st July, 20X1
- Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March 20X2.

ANSWER

Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods ₹

	Ratio	Total	Pre Incorporation	Post Incorporation
Sales	1:2.45	55,20,000	16,00,000	39,20,000
Interest on Investments	Pre	60,000	60,000	-
Bad debts recovered	Pre	36,000	36,000	-
Profit on sale of investment	Pre	42,000	42,000	-
(i)		56,58,000	17,38,000	39,20,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Cost of goods sold	1:2.45	34,50,000	10,00,000	24,50,000
Advertisement	Post	69,800	-	69,800
Sundry office expenses	4:7	1,06,700	38,800	67,900
Printing & Stationary	4:7	77,000	28,000	49,000
Manager Salary	W.N.3 Post	82,000	26,000	56,000
Interest on Debentures	W.N.4	8,900	-	8,900
Rent	1:2.45	1,33,000	28,000	1,05,000
Bad debts	Post	69,000	20,000	49,000
Underwriting commission	Post	56,000	-	56,000
Audit fees	4:7	41,000	-	41,000
Depreciation	W.N. 5	71,500	26,000	45,500
Interest on Borrowing		1,25,000	46,250	78,750
(ii)		42,89,900	12,13,050	30,76,850
Net Profit [(i) – (ii)]		13,68,100	5,24,950	8,43,150

Working Notes:
1. Calculation of Sales Ratio

Let the average sales per month be x

Total sales from 01.05.20X1 to 31.08.20X1 will be 4x

Average sales per month from 01.09.20X1 to 31.03.20X2 will be 1.4x

Total sales from 01.09.20X1 to 31.03.20X2 will be 1.4x X 7 =9.8x

Ratio of Sales will be 4x: 9.8x =1:2.45

2. Calculation of time Ratio

4 Months: 7 Months i.e. 4:7

3. Manager Salary

Total salary	82,000
Less: Increased salary	27,000
55,000	
Monthly Salary =55,000/11	5,000
Salary from May to August	5,000 + 5,000 + 8,000 + 8,000 = 26,000
Salary from Sep to March	8,000 x 7= 56,000

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

4. Apportionment of Rent ₹

Total Rent 1,33,000

Less: Additional rent from 1.9.20X1 to 31.3.20X2 56,000

Rent of old premises for 11 months 77,000

Pre Post

Apportionment in time ratio (4:7) 28,000 49,000

Add: Rent for new space 56,000

Total 28,000 1,05,000

5. Interest on borrowing

Company's Borrowing Interest = ₹ 15,00,000 x 9% x 7/12 = ₹ 78,750

Interest for Pre-incorporation period = ₹ 1,25,000 – 78,750 = ₹ 46,250

QUESTION 19 (RTP MAY 18) (RTP JULY 21)

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	<u>10,000</u>	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	<u>1,019</u>	<u>43,819</u>
Net Profit		<u>6,181</u>

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.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

You are required to prepare a statement showing the amount of pre and post incorporation period profits stating the basis of allocation of expenses.

ANSWER::

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	Post
		Rs.	Rs.
Sales (given)		10,000	40,000
Less: Purchases	1:3.3	5,814	19,186
Carriage Inwards	1:3.3	<u>237</u>	<u>782</u>
Gross Profit (i)		<u>3,949</u>	<u>20,032</u>
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	<u>1,200</u>	<u>3,600</u>
Total of Expenses(ii)		<u>4,200</u>	<u>13,600</u>
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

∴ Ratio is 3 : 9

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

But purchase price was 10% higher in the company period

Ratio is 3 : 9 + 10%

3:9.9 = 1:3.3.

QUESTION 20 (RTP MAY 19) (RTP MAY 18)

Lotus Ltd. was incorporated on 1st July, 2017 to

Balance Sheet of Manoj 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 permonth)
- (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.

ANSWER:

1. **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

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Preliminary expenses	20,000	Post		20,000
Donation to Political Party	20,000	Post		20,000
Net Profit	3,63,200		720	3,62,480

Working Notes:**1. Sales ratio**

Particulars	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

QUESTION 21 (RTP NOVEMBER 19) (RTP NOVEMBER 18)

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 (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		

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

To Rent	38,400		
To Company Audit fees	12,000		
To Net Profit	<u>1,33,350</u>		
Total	<u>4,50,000</u>	Total	<u>4,50,000</u>

Prepare a Statement showing allocation of expenses & calculation of pre-incorporation & post-incorporation profits after considering the following information:

- GP ratio was constant throughout the year.
- Depreciation includes Rs.1,250 for assets acquired in post incorporation period.
- Bad debts recovered amounting to Rs.14,000 for a sale made in 2015-16 has been deducted from bad debts mentioned above.
- Total sales were Rs.18,00,000 of which Rs.6,00,000 were for April to September.
- Happy Ltd. had to occupy additional space from 1st Oct. 2018 for which rent was Rs.2,400 per month.

ANSWER:

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 Rs.	Post Inc Rs.
Gross Profit	50,000	4,00,000
Bad debts Recovery	<u>14,000</u>	
	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	<u>4,000</u>	<u>34,400</u>

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Net Profit	<u>24,000</u>	<u>1,09,350</u>
------------	---------------	-----------------

* 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 = 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 2015-16

(viii) Rent

(Rs.38,400 – Additional rent for 6 months) Rs.

[38,400 - 14,400 (2,400 x 6) = Rs.24,000 i.e. 2,000
per month] = 4,000

1/4/18 -31/5//18 (2,000 x 2)

1/6/18-31/3/19 – [(2,000 x 10) +14,400] = 34,400
38,400

QUESTION 22 (RTP MAY 20)

The partners of Shri Enterprises decided to convert the partnership firm into a Private Limited Company Shreya (P) Ltd. with effect from 1st January, 2018. However, company could be incorporated only on 1st June, 2018. The business was continued on behalf of the company and the consideration of Rs.6,00,000 was settled on that day along with interest @ 12% per

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

annum. The company availed loan of Rs.9,00,000 @ 10% per annum on 1st June, 2018 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2019 and presents you the following summarized profit and loss account:

	Rs.	Rs.
Sales		19,80,000
Cost of goods sold	11,88,000	
	0	
Discount to dealers	46,200	
Directors' remuneration	60,000	
Salaries	90,000	
Rent	1,35,000	
Interest	1,05,000	
Depreciation	30,000	
Office expenses	1,05,000	
Sales promotion expenses	33,000	
Preliminary expenses (to be written off in first year itself)	<u>15,000</u>	<u>18,07,200</u>
Profit		<u>1,72,800</u>

Sales from June, 2018 to December, 2018 were 2½ times of the average sales, which further increased to 3½ times in January to March quarter, 2019. The company recruited additional work force to expand the business. The salaries from July, 2018 doubled. The company also acquired additional showroom at monthly rent of Rs.10,000 from July, 2018.

You are required to prepare a Profit and Loss Account showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods.

ANSWER:

Shreya (P)Limited

Profit and Loss Account

for 15 months ended 31st March, 2019

	Pre. inc. (5 months) (Rs.)	Post inc. (10 months) (Rs.)		Pre. inc. (5 months) (Rs.)	Post inc. (10 months) (Rs.)
To Cost of sales	1,80,000	10,08,000	By Sales	3,00,000	16,80,000
To Gross profit	<u>1,20,000</u>	<u>6,72,000</u>	(W.N.1)		
	<u>3,00,000</u>	<u>16,80,000</u>		<u>3,00,000</u>	<u>16,80,000</u>

**CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0**

To Discount to dealers	7,000	39,200	By Gross profit	1,20,000	6,72,000
To Directors' remuneration	-	60,000	By Loss	750	
To Salaries (W.N.2)	18,750	71,250			
To Rent (W.N.3)	15,000	1,20,000			
To Interest (W.N.4)	30,000	75,000			
To Depreciation	10,000	20,000			
To Office expenses	35,000	70,000			
To Preliminary expenses	-	15,000			
To Sales promotion expenses	5,000	28,000			
To Net profit	-	<u>1,73,550</u>			
	<u>1,20,750</u>	<u>6,72,000</u>		<u>1,20,750</u>	<u>6,72,000</u>

Working Notes:
1. Calculation of sales ratio:

Let the average sales per month in pre-incorporation period be x

Average Sales(Pre-incorporation) = x X 5 = 5x Sales (Post

incorporation) from June to December, 2018 = 2½ x X 7 = 17.5x From January

to March, 2019 = 3½ x X 3 = x

Total Sales x

Sales ratio of pre-incorporation & post incorporation is 5x : 28x

2. Calculation of ratio for salaries

Let the average salary be x

Pre-incorporation salary = x X 5 = 5x Post

incorporation salary

June, 2018 = x

July 18 to March, 2019 = x X 9 X 2 = 18x

19x

Ratio is 5 : 19

3. Calculation of Rent Rs.

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

Total rent		1,35,000
Less: Additional rent for 9 months @ Rs.10,000p.m.		
		<u>90,000</u> Rent of old
premises apportioned in time ratio		<u>45,000</u>
Apportionment	PreInc.	PostInc.
Old premises rent	15,000	30,000
Additional Rent	_____	<u>90,000</u>
	<u>15,000</u>	<u>1,20,000</u>

QUESTION 23 (RTP NOVEMBER 20)

Green Ltd. took over a running business with effect from 1st April, 2019. The company was incorporated on 1st August, 2019. The following summarized Profit and Loss Account has been prepared for the year ended 31.3.2020:

	Rs.		Rs.
To Salaries	72,000	By Gross profit	4,80,000
To Stationery	7,200		
To Travelling expenses	25,200		
To Advertisement	24,000		
To Miscellaneous trade expenses	56,700		
To Rent (office buildings)	39,600		
To Electricity charges	6,300		
To Director's fee	16,800		
To Bad debts	4,800		
To Commission to selling agents	33,000		
To Debenture interest	4,500		
To Interest paid to vendor	6,300		
To Selling expenses	37,800		
To Depreciation on fixed assets	14,400		
To Net profit	<u>1,31,400</u>		
	<u>4,80,000</u>		<u>4,80,000</u>

Additional information:

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

- (a) Sales ratio between pre and post incorporation periods was 1:3.
- (b) Rent of office building was paid @ Rs.3,000 per month up to September, 2019 and thereafter it was increased by Rs.600 per month.
- (c) Travelling expenses include Rs.7,200 towards sales promotion. Travelling expenses are to be allocated between pre and post incorporation periods on time basis.
- (d) Depreciation include Rs.900 for assets acquired in the post incorporation period.
- (e) Purchase consideration was discharged by the company on 30th September, 2019 by issuing equity shares of Rs.10 each.

You are required to prepare Statement showing calculation of profits and allocation of expenses between pre and post incorporation periods.

ANSWER:

Statement showing calculation of profits
For pre and post incorporation periods
for the year ended 31.3.2020

Particulars	Pre-incorporation period Rs.	Post- incorporation period Rs.
A. Gross profit (1:3)	1,20,000	3,60,000
Less: Salaries (1:2)	24,000	48,000
Stationery (1:2)	2,400	4,800
Advertisement (1:3)	6,000	18,000
Travelling expenses (W.N.3)	6,000	12,000
Sales promotion expenses (W.N.3)	1,800	5,400
Misc. trade expenses (1:2)	18,900	37,800
Rent (office building) (W.N.2)	12,000	27,600
Electricity charges (1:2)	2,100	4,200
Director's fee		16,800
Bad debts (1:3)	1,200	3,600
Selling agents commission (1:3)	8,250	24,750
Debenture interest		4,500
Interest paid to vendor (2:1) (W.N.4)	4,200	2,100
Selling expenses (1:3)	9,450	28,350
Depreciation on fixed assets (W.N.5)	<u>4,500</u>	<u>9,900</u>

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

B.		
Pre-incorporation profit (A less B)	<u>1,00,800</u>	<u>2,47,800</u>
Post-incorporation profit (A less B)	19,200	1,12,200

Working Notes:**1. Time Ratio**

Pre incorporation period = 1st April, 2019 to 31st July, 2019 i.e. 4 months

Post incorporation period is 8 months; Time ratio is 1: 2.

2. Rent

		Rs.
Rent for pre-incorporation period (Rs.3,000 x 4)		12,000 (pre)
Rent for post incorporation period August,2019 & September, 2019 (Rs.3,000 x 2)	6,000	
October,2019 to March,2020 (Rs.3,600 x 6)	<u>21,600</u>	27,600 (post)

3. Travelling expenses and sales promotion expenses

	Pre Rs.	Post Rs.
Traveling expenses Rs. 18,000 (i.e. Rs. 25200- Rs.7200) distributed in 1:2 ratio	6,000	12,000
Sales promotion expenses Rs.7,200 distributed in 1:3ratio	1,800	5,400

4. Interest paid to vendor till 30th September,2019

	Pre Rs.	Post Rs.
Interest for pre-incorporation period Rs.6,300x 4/6	4,200	
Interest for post incorporation period i.e. for August, 2019 & September, 2019 = Rs.6,300x 2/6		2,100

5. Depreciation

	Pre Rs.	Post Rs.
Total depreciation	14,400	
Less: Depreciation exclusively for post incorporation		900

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

period	<u>900</u>		
	<u>13,500</u>		
Depreciation for pre-incorporation period (13,500x4/12)		4,500	
Depreciation for post incorporation period (13,500x8/12)		<u> </u>	<u>9,000</u>
		4,500	9,900

QUESTION 24 (MTP MARCH 19)

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	<u>87,600</u>		
	<u>3,20,000</u>		<u>3,20,000</u>

Additional information:

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

- (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 30thSeptember, 2016 by issuing equity shares of Rs.10each.

Prepare Statement showing calculation of profits and allocation of expenses between pre and post incorporation periods.

ANSWER:

**Statement showing calculation of profits
for pre and post incorporation periods
for the year ended 31.3.2017**

Particulars	Pre- incorporation period	Post- incorporation period
	Rs.	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	<u>3,000</u>	<u>6,600</u>

**CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0**

(W.N.5)		
Capital reserve (Bal. Fig.)	12,800	-
Net profit (Bal. Fig.)	<u>-</u>	<u>74,800</u>

Working Notes:**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.

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)	<u>14,400</u>	18,400 (post)

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 1:2ratio	4,000	8,000
Sales promotion expenses Rs.4,800 distributed in 1:3 ratio	1,200	3,600

Interest paid to vendor till 30th September, 2016

	Pre Rs.	Post Rs.