CA Ravi Agarwal's CA INTER ACCOUNTING COMPILER 4.0

## ANSWER

Cash flow statement (using direct method) for the year ended 31st March, 2021

|  | (₹ in crores) | (₹ in crores) |
| :---: | :---: | :---: |
| Cash flow from operating activities |  |  |
| Cash sales | 393 |  |
| Cash collected from credit customers | 201 |  |
| Less: Cash paid to suppliers for goods \& services and to employees (Refer Working Note) | (376.5) |  |
| Cash from operations | 217.5 |  |
| Less: Income tax paid | (39) |  |
| Net cash generated from operating activities |  | 178.5 |
| Cash flow from investing activities |  |  |
| Payment for purchase of Machine | (15) |  |
| Proceeds from sale of investments | $\underline{24}$ |  |
| Net cash used in investing activities |  | 9 |
| Cash flow from financing activities |  |  |
| Redemption of Preference shares | (48) |  |
| Proceeds from issue of Equity shares | 36 |  |
| Debenture interest paid | (3) |  |
| Dividend Paid | (22.5) |  |
| Net cash used in financing activities |  | (37.5) |
| Net increase in cash and cash equivalents |  | 150 |
| Add: Cash and cash equivalents as on 1.04.2020 |  | $\underline{3}$ |
| Cash and cash equivalents as on 31.3.2021 |  | 153 |

## Working Note:

Calculation of cash paid to suppliers of goods and services and to employees

|  | (Rs. in crores) |
| :--- | :--- |
| Opening Balance in creditors Account | 126 |
| Add: Purchases (330x .8) | 264 |
| Total | 390 |
| Less: Closing balance in Creditors Account | 138 |
| Cash paid to suppliers of goods | 252 |
| Add: Cash purchases (330x .2) | 66 |
| Total cash paid for purchases to suppliers (a) | 318 |
| Add: Cash paid to suppliers of other consumables and services (b) | 28.5 |
| Add: Payment to employees (c) | 30 |
| Total cash paid to suppliers of goods \& services and to employees [(a)+ (b) + c)] | 376.5 |

Profit/Loss prior to Incorporation

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

4. New Limited was incorporated on 01.08.2020 to take-over the business of a partnership firm w.e.f. 01.04.2020. It provides you the following information for the year ended 31.03.2021:

| Gross profit | $9,00,000$ |
| :--- | :--- |
| Expenses: | $1,80,000$ |
| Salaries | $1,20,000$ |
| Rent, Rates \& Taxes | 37,500 |
| Depreciation | 31,500 |
| Commission on Sales | 48,000 |
| Interest on Debentures | 18,000 |
| Director's Fees | 54,000 |
| Advertisement | $4,11,000$ |
| Net Profit for the Year |  |

(i) New Limited initiated an advertising campaign which resulted increase in monthly average sales by $\mathbf{2 5 \%}$ post incorporation.
(ii) The Gross profit ratio post incorporation increased to $\mathbf{3 0 \%}$ from $\mathbf{2 5 \%}$.

You are required to apportion the profit for the year between pre-incorporation and postincorporation periods.

## ANSWER

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

| Particulars | Total Amount | Basis of Allocation | Pre- incorporation | Post- <br> incorporation |
| :---: | :---: | :---: | :---: | :---: |
|  | F |  | F | F |
| Gross Profit | 9,00,000 | 13 | 2,25,000 | 6,75,000 |
| Less: Salaries | 1,80,000 | Time | 60,000 | 1,20,000 |
| Rent, rates and taxes | 1,20,000 | Time | 40,000 | 80,000 |
| Commission on sales | 31,500 | Sales(2.5) | 92000 | 22,500 |
| Depreciation | 37,500 | Time | 12,500 | 25,000 |
| Interest on debentures | 48,000 | Post |  | 48,000 |
| Directors' fee | 18,000 | Post |  | 18,000 |
| Advertisement | 54,000 | post |  | $\underline{54,000}$ |
| Net profit | 4,11,000 |  | 1,03,500 | 3,07,500 |

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

Working Notes:

## 1. Sales ratio

Let the monthly sales for first 4 months (i.e. from 1.4.2020 to 31.7.2020) be $=x$
Then, sales for 4 months $=4 x$
Monthly sales for next 8 months (i.e. from 1.8.20 to 31.3.2021) $=x+25 \%$ of $x=1.25 x$
Then, sales for next 8 months $=1.25 \times \times 8=10 \mathrm{x}$
Total sales for the year $=4 x+10 x=14 x$
Sales Ratio $=4 x: 10 x$ i.e. 2:5

## 2. Gross profit ratio

From 1.4.2020 to 31.7.2020 gross profit is $25 \%$ of sales
Then, $25 \%$ of $4 x=1 x$
gross profit for next 8 months (i.e. from 1.8.20 to 31.3.2021) is $30 \%$
Then, $30 \%$ of $10 x=3 x$
Therefore gross profit ratio will be 1:3

## 3. Time ratio

1st April, 2020 to 31st July, 2020 : 1st August, 2020 to 31st March, 2021
$=4$ months: 8 months $=1: 2$
Thus, time ratio is 1:2.

## Accounting for Bonus Issue

5. Raman Ltd. gives the following information as at 31st March, 2021:

|  | ₹ |
| :---: | :---: |
| Authorised capital: |  |
| 45,000 12\% Preference shares of ₹ 10 each | 4,50,000 |
| 6,00,000 Equity shares of ₹ 10 each | $\underline{60,00,000}$ |
|  | 64,50,000 |
| Issued and Subscribed capital: |  |
| 36,000 12\% Preference shares of ₹ 10 each fully paid | 3360000 |
| $4,05,000$ Equity shares of ₹ 10 each, ₹ 8 paid up | $32,40,000$ |
| Reserves and surplus: |  |
| General Reserve | 5400000 |
| Capital Redemption Reserve | 1880000 |
| Securities premium (collected in cash) | 1, 12,500 |
| Profit and Loss Account | 9200000 |

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

On 1st April, 2021, the Company has made final call @ Rs. 2 each on 4,05,000 equity shares. The call money was received by 20th April, 2021. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. Show necessary journal entries in the books of the company.

ANSWER

Journal Entries in the books of Raman Ltd.

|  |  | ₹ | \% |
| :---: | :---: | :---: | :---: |
| 1-4-2021 | Equity share final call $\mathrm{A} / \mathrm{c}$ <br> To Equity share capital A/c <br> (For final calls of ₹ 2 per share on $4,05,000$ equity shares due as per Board's Resolution dated...) | 8,10,000 | 8,10,000 |
|  | Bank A/c $\quad$ To Equity share final call A/c (For final call money on $4,05,000$ equity shares received) | 8,10,000 | 8,10,000 |
|  | Securities Premium A/c Dr | 1,12,500 |  |
|  | Capital Redemption Reserve A/c | 1,80,000 |  |
|  | General Reserve A/c Dr | 540,000 |  |
|  | Profit and Loss A/c (b.f.) <br> To Bonus to shareholders A/c <br> (For making provision for bonus issue of one share for every four shares held) | 1,80,000 | 10,12,500 |
|  | Bonus to shareholders A/c <br> To Equity share capital A/c <br> (For issue of bonus shares) | 10,12,500 | 10,12,500 |

Issue of Right Shares
6. Super company offers new shares of Rs. 100 each at $20 \%$ premium to existing shareholders on the basis one for four shares. The cum-right market price of a share is Rs. 190.
You are required to calculate the value of a right share.

## ANSWER

Value of right = Cum-right value of the share - Ex-right value of the share (as computed in Working Note)
= Rs. 190 - Rs. 176 = Rs. 14 per share.

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

## Working Note:

Ex-right value of the shares
$=$ (Cum-right value of the existing shares + Rights shares $x$ Issue Price) / (Existing No. of shares + No. of right shares) $=$ (Rs. 190 X 4 Shares + Rs. 120 X 1 Share) / (4 + 1) Shares
$=$ Rs. 880 / 5 shares $=$ Rs. 176 per share.

## Redemption of Preference Shares

7. Neeraj Ltd.'s capital structure consists of 45,000 Equity Shares of Rs. 10 each fully paid up and 3,000 9\% Redeemable Preference Shares of Rs. 100 each fully paid up as on 31.03.2021. The other particulars as at 31.03.2021 are as follows:

|  | Amount (₹) |
| :--- | ---: |
| General Reserve | $1_{2}, 80,000$ |
| Profit \& Loss Account | $90_{z}, 000$ |
| Investment Allowance Reserve (not free for distribution as dividend) | 22,500 |
| Cash at bank | $2,92,500$ |

Preference Shares are to be redeemed at a premium of $10 \%$. For the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve \& surplus, subject to the conditions that a sum of Rs. 60,000 shall be retained in General Reserve and which should not be utilized. Company also sold investment of 6,750 Equity Shares in Kumar Ltd., costing Rs.67,500 at Rs. 9 per share.

Pass Journal entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet as at 31.03.2021 of Neeraj Ltd. after the redemption is carried out.

## ANSWER

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

Journal Entries

| Date | Particulars |  | Dr. (₹) | Cr. (₹) |
| :---: | :---: | :---: | :---: | :---: |
|  | Bank A/c <br> To Equity Share Capital A/c <br> (Being the issue of 12,675 Equity Shares of ₹ 10 each as per Board's Resolution No....dated....) | Dr. | 1,26,750 | 1,26,750 |
|  | 9\% Redeemable Preference Share Capital A/c | Dr. | 3,00,000 |  |
|  | Premium on Redemption of Preference Shares A/c <br> To Preference Shareholders A/c <br> (Being the amount paid on redemption transferred to Preference Shareholders Account) | Dr. | 30,000 | 3,30,000 |
|  | Bank Alc | Dr. | 60,750 |  |
|  | Profit and Loss A/c (loss on sale) A/c <br> To Investment A/c <br> (Being investment sold at loss of ₹ 6,750) | Dr. | 6.750 | 67,500 |
|  | Preference Shareholders A/c <br> To Bank A/c <br> (Being the amount paid on redemption of preference shares) | Dr. | 3,30,000 | 3,30,000 |
|  | Profit \& Loss A/c <br> To Premium on Redemption of <br> Preference Shares A/c <br> (Being the premium payable on redemption is <br> adjusted against Profit \& Loss Account) | Dr. | 30,000 | 30,000 |
|  | General Reserve A/c | Dr. | 1,20,000 |  |
|  | Profit \& Loss A/c <br> To Capital Redemption Reserve A/c <br> (Being the amount transferred to Capital Redemption Reserve Account) | Dr. | 53,250 | 1,73,250 |

Balance Sheet as at 31.3.2021[Extracts]

|  | Particulars | Notes <br> No. | $₹$ |
| :--- | :--- | :---: | ---: |
| 1. | EQUITY AND LIABILITIES <br> Shareholders' funds <br> a Share capital | 1 | $5,76,750$ |$|$

## Notes to accounts

| 1. | Share Capital |  |
| :--- | :--- | ---: |
| 2. | 57,675 Equity shares $(45,000+12,675)$ of ₹10 each fully paid up | $5,76,750$ |
|  | Reserves and Surplus |  |
|  | General Reserve | 60,000 |
|  | Profit and loss account | NIL |
|  | Capital Redemption Reserve | $1,73,250$ |
|  | Investment Allowance Reserve | $\underline{22,500}$ |
|  | $2,55,750$ |  |

## Working Note:

Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed
Less: Profit available for distribution as dividend:
General Reserve:
Rs. $(1,80,000-60,000)$
Rs. 3,00,000

Rs. 1,20,000

Profit and Loss (90,000 less 30,000 set aside for adjusting premium payable on redemption of Pref. shares less 6,750 loss on sale of investments)=

Rs. 53,250 Rs. $(1,73,250)$
Rs. 1,26,750

Therefore, No. of shares to be issued = Rs. 1,26,750/Rs. $10=12,675$ shares

## Redemption of Debentures

8. Jeet Limited (listed company) recently made a public issue in respect of which the following information is available:
(a) No. of partly convertible debentures issued-1,00,000; face value and issue price- Rs. 100 per debenture
(b) Convertible portion per debenture- 60\%, date of conversion- on expiry of 6 months from the date of closing of issue i.e 31.10.2020.

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(c) Date of closure of subscription lists - 1.5.2020, date of allotment- 1.6.2020, rate of interest on debenture- $15 \%$ payable from the date of allotment, value of equity share for the purpose of conversion- Rs. 60 (Face Value Rs. 10).
(d) Underwriting Commission- 2\%.
(e) Number of debentures applied for - 75,000.
(f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2021 (including cash and bank entries).

## ANSWER

Journal Entries in the books of Jeet Ltd.
Journal Entries

| Date | Particulars | Amount Dr. | Amount Cr . |
| :---: | :---: | :---: | :---: |
| 1.5 .2020 | Bank A/c <br> To Debenture Application A/c Dr. | 75,00,000 | ₹ |
| 1.6.2020 | (Application money received on 75,000 debentures @ ₹ 100 each) |  | 1,00,00,000 |
|  | Debenture Application A/c Dr  <br> Underwriters A/c Dr  <br> $\quad$ To 15\% Debentures A/c   <br> (Allotment of 75,000 debentures <br> applicants and 25,000 do <br> underwriters)   | $75,00,000$ $25,00,000$ |  |
|  | Underwriting Commission <br> $\quad$ To Underwriters A/c Dr <br> (Comminssion payable to underwriters @  <br> $2 \%$ on ₹ $1,00,00,000$ )  | 2,00,000 | 2,00,000 |
|  | Bank A/c Dr- <br> To Underwriters A/c  <br> (Amount received from underwriters in  <br> settlement of account)  | 23,00,000 | 23,00,000 |
| 1.6 .2020 | Debenture Redemption Investment A/c | $6,00,000$ |  |
|  | To Bank A/c ( $1,00,000 \times 100 \times 15 \% \times 40 \%$ ) Dr. (Being Investments made for redemption purpose) |  | 6,00,000 |
| 30.9.2020 | Debenture Interest A/c <br> $\quad$ To Bank A/c Dr. <br> (Interest paîd on debentures for 4 months  <br> @ 15\% on ₹ $1,00,00,000$ )  | 5,00,000 | 5,00,000 |
| 31.10 .2020 | 15\% Debentures A/c Dr- <br> To Equity Share Capital A/c  <br> To Securities Premium A/c  <br> (Conversion of $60 \%$ of debentures into  <br> shares of ₹ 60 each with a face value of  <br> $₹ 10$ )  | 60,00,000 | $\begin{aligned} & 10,00,000 \\ & 50,00_{2} 000 \end{aligned}$ |
| 31.3.2021 | Debenture Interest A/c <br> $\quad$ To Bank A/c Dr- <br> (Interest paid on debentures for the half <br> year) (refer working note below)  | 3,75,000 | 3,75,000 |

## Working Note :

Calculation of Debenture Interest for the half year ended 31st March, 2021

On Rs. 40,00,000 for 6 months @ 15\% = Rs. 3,00,000
On Rs. 60,00,000 for 1 months @ 15\% = Rs. 75,000
Rs. 3,75,000

Investment Accounts
9. (a) Following transactions of Meeta took place during the financial year 2020-21:

| 1st April, 2020 | Purchased Rs. 4,500 8\% bonds of Rs. 100 each at Rs. 80.50 <br> cum-interest. Interest is payable on 1st November and 1st <br> May. |
| :--- | :--- |
| 1st May, 2020 | Received half year's interest on 8\% bonds. |
| 10 July, 2020 | Purchased 6,000 equity shares of Rs. 10 each in Kamal <br> Limited for Rs. 44 each through a broker, who charged <br> brokerage @ 2\%. |
| 1st October 2020 | Sold 1,125 8\% bonds at Rs. 81 Ex-interest. |
| 1st November, <br> 2020 | Received half year's interest on 8\% bonds. |
| 15th January, <br> 2021 | Received 18\% interim dividend on equity shares of Kamal <br> Limited. |
| 15th March, 2021 | Kamal Limited made a rights issue of one equity share for <br> every four Equity shares held at Rs. 5 per share. Meeta <br> exercised the option for 40\% of her entitlements and sold <br> the balance rights in the market at Rs. 2.25 per share. |

Prepare separate investment account for $8 \%$ bonds and equity shares of Kamal Limited in the books of Meeta for the year ended on 31st March, 2021. Assume that the average cost method is followed.

ANSWER

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In the books of Meeta
8\% Bonds for the year ended 31st March, 2021

| Date | Particulars | No. | Income <br> \% | Amount | Date | Particulars | No. | Income <br> ₹ | Amount |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 2020 <br> 1 April, Oct. 1 <br> 2021 <br> March 31 | $\begin{aligned} & \text { To Bank A/c } \\ & \text { To P \& L A/c } \\ & \text { (W.N.1) } \\ & \text { To P \& L A/c } \end{aligned}$ | 4,500 | $\begin{array}{r} 15,000 \\ - \\ 20,250 \end{array}$ | $\begin{aligned} & 3,47,250 \\ & 4,312.50 \end{aligned}$ | $\begin{aligned} & 1 \text { May } \\ & 2020 \\ & 10 \mathrm{ct} . \\ & 2020 \\ & 1 \text { Nov. } \\ & 2021 \\ & 2021 \\ & \text { Mar. } \\ & 31 \end{aligned}$ | By Bank-InterestBy Bank A/c |  | 18,000 |  |
|  |  |  |  |  |  |  | 1,125 | 3750 | 91,125 |
|  |  |  |  |  |  | $\begin{array}{\|l\|} \text { By By } \\ \text { Interest } \end{array}$ |  | 13,500 |  |
|  |  |  |  |  |  | By Balance <br> cld <br> (W.N.2) | 3,375 |  | 2,60,437.50 |
|  |  | 4.500 | 35,250 | $3,51,562.50$ |  |  | 4,500 | 35,250 | $3,51,562.50$ |

Investment in Equity shares of Kamal Ltd. for the year ended 31st March, 2021

| Date | Particulars | No. | Income <br> ₹ | Amount | Date | Particulars | No. | Income <br> ₹ | Amount |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 2020 <br> July 10 | To Bank Alc | 6,000 | - | 2,69,280 | $\begin{aligned} & 2021 \\ & \text { Jan } \\ & 15 \end{aligned}$ | By Bank dividend | - | 10,800 |  |
| $2021$ <br> March $15$ | To Bank <br> A/c <br> (W.N. 3) | 600 | - | 3,000 | March 31 | $\begin{gathered} \text { By Balance } \\ \text { d/d } \\ \text { (bal. fig.) } \end{gathered}$ | 6,600 |  | 2,72,280 |
| March $31$ | $\begin{gathered} \text { To P \& L } \\ \text { A/c } \end{gathered}$ |  | 10,800 |  |  |  |  |  |  |
|  |  | 6.600 | 10.800 | $\underline{2.72 .280}$ |  |  | 6.600 | 10,800 | 2.72,280 |

## Working Notes:

1. Profit on sale of $8 \%$ Bonds

Sales price Rs. 91,125
Less: Cost of bonds sold $=3,47,250 / 4,500 \times 1,125$ (Rs. 86,812.50)
Profit on sale Rs. 4,312.50
2. Closing balance as on 31.3 .2021 of $8 \%$ Bonds

3,47,250/4,500x 3,375= Rs. 2,60,437.50
3. Calculation of right shares subscribed by Kamal Ltd.

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Right Shares $=6,000 / 4 \times 1=1,500$ shares
Shares subscribed by Meeta $=1,500 \times 40 \%=600$ shares
Value of right shares subscribed = 600 shares @ Rs. 5 per share = Rs. 3,000
4. Calculation of sale of right entitlement by Kamal Ltd.

No. of right shares sold $=1,500-600=900$ rights for 2,025
Note: As per para 13 of AS 13, sale proceeds of rights are to be credited to P \& L A/c.

Insurance Claim for loss of stock or loss of profit
10. On 2.6.2021 the stock of Mr. Heera was destroyed by fire. However, following particulars were furnished from the records saved:

| Stock at cost on 1.4.2020 | $2,02,500$ |
| :--- | :--- |
| Stock at 90\% of cost on 31.3.2021 | $2,43,000$ |
| Purchases for the year ended <br> 31.3 .2021 | $9,67,500$ |
| Sales for the year ended <br> 31.3 .2021 | $13,50,000$ |
| Purchases from 1.4.2021 to <br> 2.6.2021 | $3,37,500$ |
| Sales from 1.4.2021 to 2.6.2021 | $7,20,000$ |

Sales up to 2.6.2021 includes Rs. 1,12,500 being the goods not dispatched to the customers. The sales (invoice) price is Rs. 1,12,500.
Purchases up to 2.6.2021 includes a machinery acquired for Rs. 22,500.
Purchases up to 2.6 .2021 does not include goods worth Rs. 45,000 received from suppliers, as invoice not received up to the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for Rs. 1,80,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock.

## ANSWER

In the books of Mr. Heera
Trading Account for the year ended 31.3.2021 Hire Purchase Transactions

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|  |  | $₹$ |  | $₹$ |  |
| :--- | :--- | ---: | :--- | :--- | ---: |
| To | Opening Stock | $2,02,500$ | By | Sales | $13,50,000$ |
| To | Purchases | $9,67,500$ | By | Closing Stock at cost | $2,70,000$ |
| To | Gross Profit | $4,50,000$ |  | $\left(2,43,000 \times \frac{100}{90}\right)$ |  |
|  |  |  |  |  |  |

Memorandum Trading A/c
for the period from 1.4.2021 to 02.06.2021

|  |  | ₹ |  | F |
| :---: | :---: | :---: | :---: | :---: |
| To | Opening Stock (at cost) | 2,70,000 | By Sales 7 720,000 |  |
| To | Purchases $\quad 3,37,500$ Add: Goods received but |  | Less: Goods not dispatched 1,12,500 | 6,07,500 |
|  | invoice not received $\frac{45,000}{3,82,500}$ |  | By Closing stock (Balancing figure) | 2,25,000 |
|  | Less: Machinery $\quad 22,500$ | 3,60,000 |  |  |
| To | Gross Profit (Refer W.N.) | 2,02,500 |  |  |
|  |  | 8,32,500 |  | 8,32,500 |

## Calculation of Insurance Claim

Claim subject to average clause $=\left(\frac{\text { Actual loss of stock }}{\text { Value of stock on the date of fire }} \times\right.$ Amount of policy $)$

$$
=1,80,000 \times\left(\frac{2,25,000}{2,25,000}\right)=₹ 1,80,000
$$

## Working Note:

G.P. ratio $=\frac{4,50,000}{13,50,000} \times 100=33 \frac{1}{3} \%$

Amount of Gross Profit $=₹ 6,07,500 \times 33 \frac{1}{3} \%=₹ 2,02,500$
11. On January 1, 2018 M/s Hello acquired a Machine on hire purchase from M/s Pass. The terms of the contract were as follows:
(a) The cash price of the Machine was Rs. 2,00,000.

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(b) Rs. 80,000 were to be paid on signing of the contract.
(c) The balance was to be paid in annual instalments of Rs. 40,000 plus interest. The first instalment was to be paid on 31st Dec. 2018.
(d) Interest chargeable on the outstanding balance was $6 \%$ p.a.
(e) Depreciation at $10 \%$ p.a. is to be written-off using the WDV method.

You are required to give Journal Entries in the books of M/s Hello from January 1, 2018 to December 31, 2020.

ANSWER

In the books of $\mathrm{M} / \mathrm{s}$ Hello
Journal Entries

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

## Departmental Accounts

12. $M / s$. Hero is a Departmental Store having three departments $X, Y$ and $Z$. The information regarding three departments for the year ended 31st March, 2021 are given below:

| Particulars | Dept. X | Dept. Y | Dept. Z |
| :--- | :--- | :--- | :--- |
| Opening Stock | 18,000 | 12,000 | 10,000 |
| Purchases | 66,000 | 44,000 | 22,000 |
| Debtors at end | 7,500 | 5,000 | 5,000 |
| Sales | 90,000 | 67,500 | 45,000 |
| Closing Stock | 22,500 | 8,750 | 10,500 |
| Value of furniture in each Department | 10,000 | 10,000 | 5,000 |
| Floor space occupied by each Dept. (in Sq. ft.) | 1,500 | 1,250 | 1,000 |
| Number of employees in each Department | 25 | 20 | 15 |
| Electricity consumed by each Department (in units) | 300 | 200 | 100 |

## Additional Information:

| Carriage inwards | 1,500 |
| :--- | :--- |
| Carriage outwards | 2,700 |
| Salaries | 24,000 |
| Advertisement | 2,700 |
| Discount allowed | 2,250 |
| Discount received | 1,800 |
| Rent, Rates and Taxes | 7,500 |
| Depreciation on furniture | 1,000 |
| Electricity Expenses | 3,000 |
| Labour welfare expenses | 2,400 |

Prepare Departmental Trading and Profit \& Loss Account for the year ended 31st March, 2021 after providing provision for Bad Debts at 5\%.

## ANSWER

In the Books of $\mathrm{M} / \mathrm{s}$ Hero
Departmental Trading and Profit and Loss Account for the year ended 31st March, 2021

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

| Particulars | Deptt.X | Deptt. Y | Deptt.Z | Total | Particulars | Deptt $X$ | Deptt. $Y$ | Deptt. Z | Total |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | ? | ? | $?$ | ? |  | ? | $?$ | , |  |
| To Stock (opening) | 18,000 | 12,000 | 10,000 | 40,000 | By Sales | 90,000 | 67,500 | 45,000 | 2,02,500 |
| To Purchases | 66,000 | 44,000 | 22,000 | 1,32,000 | $\begin{array}{ll} \text { By } & \text { Stock } \\ \text { (dlosing) } \end{array}$ | 22,500 | 8,750 | 10,500 | 41,750 |
| To Carriage Inwards | 750 | 500 | 250 | 1,500 |  |  |  |  |  |
| To Gross Profit | 27,750 | 19,750 | 23,250 | 70750 |  |  |  |  |  |
|  | 1,12,500 | 76,250 | 55,500 | 2,44,250 |  | 1,12,500 | 76,250 | 55,500 | 2,44,250 |
| To Carriage Outwards | 1,200 | 900 | 600 | 2,700 | $\begin{aligned} & \text { By Gross } \\ & \text { Profit b/d } \end{aligned}$ | $27_{2} 750$ | 19,750 | 23,250 | 70,750 |
| To Electricity | 1,500 | 1,000 | 500 | 3,000 | By Discount received | 900 | 600 | 300 | 1,800 |
| To Salañes | 10,000 | 8,000 | 6,000 | 24,000 |  |  |  |  |  |
| To Adverisement | 1,200 | 900 | 600 | 2,700 |  |  |  |  |  |
| To Discount allowed | 1,000 | 750 | 500 | 2,250 |  |  |  |  |  |
| To Rent, Rates and Taxes | 3,000 | 2,500 | 2,000 | 7,500 |  |  |  |  |  |
| To Depreciation | 400 | 400 | 200 | 1,000 |  |  |  |  |  |
| To Provision for Bad Debts @ 5\% of debtors | 375 | 250 | 250 | 875 |  |  |  |  |  |
| To Labour welfare expenses | 1,000 | 800 | 600 | 2,400 |  |  |  |  |  |
| To Net Profit (bif) | 8,975 | 4,850 | 12,300 | 26,125 |  |  |  |  |  |
|  | 28,650 | 20,350 | 23,550 | 72,550 |  | 28,650 | 20,350 | 23,550 | 72,550 |

## Working Note:

$|$| Basis of allocation of expenses |  |
| :--- | :--- |
| Carriage inwards | Purchases (3:2:1) |
| $\|$Carriage outwards Turnover (4:3:2) <br> Salaries No. of Employees (5:4:3) <br> Advertisement Turnover (4:3:2) <br> Discount allowed Turnover (4:3:2) <br> Discount received Purchases (3:2:1) <br> Rent, Rates and Taxes Floor Space occupied (6:5:4) <br> Depreciation on furniture Value of furniture (2:2:1) <br> Labour welfare expenses No. of Employees (5:4:3) <br> Electricity expense Units consumed (3:2:1) <br> Provision for bad debts Debtors balances (3:2:2) |  |

## Accounting for Branches

13. Lal \& 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:

| Goods received from Head office at Invoice Price | $4,20,000$ |
| :--- | :--- |
| Goods returned to Head office at Invoice Price | 30,000 |
| Cash sales for the year 2019-20 | 92,500 |
| Credit Sales for the year 2019-20 | $3,12,500$ |
| Stock at Branch as on 01-04-2019 at Invoice price | 36,000 |
| Sundry Debtors at Patna branch as on 01-04-2019 | 48,000 |
| Cash received from Debtors | $2,19,000$ |
| Discount allowed to Debtors | 3,750 |
| Goods returned by customer at Patna Branch | 7,000 |
| Bad debts written off | 2,750 |
| Amount recovered from Bad debts previously written off as Bad | 500 |
| Rent, Rates \& taxes at Branch | 12,000 |
| Salaries \& wages at Branch | 36,000 |
| Office Expenses (at Branch) | 4,600 |
| Stock at Branch as on 31-03-2020 at cost price | 62,500 |

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

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

ANSWER

## Branch Stock Account

|  |  |  | ₹ |  |  |  | ₹ | ₹ | ₹ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 1.4.19 | To | Balance b/d (opening stock) | 36,000 | 31.3 .20 | By | Sales: |  |  |  |
| 31.3 .20 | To | Goods Sent to Branch A/c | 4,20,000 |  |  | Cash Credit | O | 92,500 |  |
|  | To | Branch P\&L | 47,000 |  |  | Less: Return | (7.000) | 3,05.500 | 3,98,000 |
|  |  |  |  |  | By | Goods sent to branch returns |  |  | 30,000 |
|  |  |  |  |  | By | Balance <br> c/d <br> (closing <br> stock) |  |  | 75,000 |
|  |  |  | 5,03,000 |  |  |  |  |  | 5,03,000 |
| 1.4 .20 | To | Balance b/d | 75,000 |  |  |  |  |  |  |

## Branch Debtors Account

|  |  |  | $₹$ |  |  |  | $₹$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 1.4.19 | To | Balance b/d | 48,000 | 31.3 .20 | $\begin{aligned} & \hline \mathrm{By} \\ & \mathrm{By} \\ & \mathrm{By} \\ & \mathrm{By} \\ & \mathrm{By} \end{aligned}$ | Cash <br> Returns <br> Discounts <br> Bad debts <br> Balance c/d | 2,19,000 |
| 31.3 .20 | To | Sales | 3,12,500 |  |  |  | 7,000 |
|  |  |  |  |  |  |  | 3,750 |
|  |  |  |  |  |  |  | 2,750 |
|  |  |  |  |  |  |  | 1,28,000 |
|  |  |  | 3,60,500 |  |  |  | 3,60,500 |
| 1.4 .20 | To | Balance b/d | 1,28,000 |  |  |  |  |

## Branch Expenses Account

|  |  |  | $₹$ |  |  |  | $₹$ |
| :--- | :--- | :--- | ---: | :--- | :--- | :--- | ---: |
| 31.3 .20 | To | Salaries \& Wages | 36,000 | 31.3 .20 | By | Branch P\&L <br> A/c | 59,100 |
|  | To |  |  |  |  |  |  |
|  | Rent, Rates \& | 12,000 |  |  |  |  |  |
|  | To | Taxes | Office Expenses | 4,600 |  |  |  |
|  | To | Discounts | 3,750 |  |  |  |  |
|  | To | Bad Debts | 2,750 |  |  |  |  |
|  |  |  | 59,100 |  |  |  | 59,100 |

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

Branch Profit \& Loss Account for year ended 31.3.20

|  |  |  | F |  |  |  | ₹ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 31.3 .20 | To To | Branch Expenses Alc | 59,100 | 31.3 .20 | $\begin{aligned} & \text { By } \\ & \text { By } \end{aligned}$ | Branch stock <br> Branch Stock Adjustment account | $\begin{aligned} & 47,000 \\ & 58,500 \end{aligned}$ |
|  |  | Net Profit transferred to |  |  |  |  |  |
|  |  | General P \& L Alc | 46,900 |  | By | Bad debts recovered |  |
|  |  |  | 1,06,000 |  |  |  | 106,000 |

Branch Stock Adjustment Account for year ended 31.3.20

|  |  |  | F |  |  |  | F |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 31.3 .20 | To | Goods sent to branch $(30,000 \times 1 / 6)$ -returns <br> Branch P \& L A/c | 5,000 | 31.3 .20 | $\begin{gathered} \text { By } \\ \text { By } \end{gathered}$ | Balance b/d $(36,000 \times 1 / 6)$ <br> (36,000x1/6) <br> Goods sent to branch <br> (4,20,000x1/6) | 6,000 |
|  | To |  | 58,500 |  |  |  | 70,000 |
|  | To | Balance c/d $(75,000 \times 1 / 6)$ | 12,500 |  |  |  |  |
|  |  |  | 76,000 |  |  |  | 76,000 |

Accounts from Incomplete Records
14. From the following details furnished by Mittal ji, prepare Trading and Profit and Loss account for the year ended 31.3.2021. Also draft his Balance Sheet as at 31.3.2021:

|  | 1.4 .2020 | 31.3 .2021 |
| :--- | :--- | :--- |
|  | Rs. | Rs. |
| Creditors | $3,15,400$ | $2,48,000$ |
| Expenses outstanding | 12,000 | 6,600 |
| Plant and Machinery | $2,32,200$ | $2,40,800$ |
| Stock in hand | $1,60,800$ | $2,22,400$ |
| Cash in hand | 59,200 | 24,000 |
| Cash at bank | 80,000 | $1,37,600$ |
| Sundry debtors | $3,30,600$ | $?$ |
| Details of the year's transactions are as follows: |  |  |
| Cash and discount credited to debtors |  | $12,80,000$ |
| Returns from debtors |  | 29,000 |
| Bad debts |  | 8,400 |
| Sales (Both cash and credit) |  | $14,36,200$ |

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

| Discount allowed by creditors |  | 14,000 |
| :--- | :--- | :--- |
| Returns to creditors |  | 8,000 |
| Capital introduced by cheque |  | $1,70,000$ |
| Collection from debtors (Deposited into bank after <br> receiving cash) |  | $12,50,000$ |
| Cash purchases |  | 20,600 |
| Expenses paid by cash |  | $1,91,400$ |
| Drawings by cheque | 8,600 |  |
| Machinery acquired by cheque |  | 63,600 |
| Cash deposited into bank | $1,00,000$ |  |
| Cash withdrawn from bank |  | $1,84,800$ |
| Cash sales | 92,000 |  |
| Payment to creditors by cheque | $12,05,400$ |  |

Note: Mittalji has not sold any machinery during the year.

## ANSWER

In the books of Mittal ji
Trading and Profit and Loss Account for the year ended 31st March, 2021

|  | F | $₹$ |  |  | $₹$ | ₹ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To Opening stock |  | 1,60,800 | By | Sales: |  |  |
| To Purchases: |  |  |  | Cash | 92,000 |  |
| Cash | 20,600 |  |  | Credit | 13,44.200 |  |
| Credit (W.N. 3) | 11,60,000 |  |  |  | 14,36,200 |  |
|  | 11,80,600 |  |  | Less: Returns | $(29,000)$ | 14,07,200 |
| Less: Refurns | (8,000) | 11,72,600 |  |  |  |  |
| To Gross Profit cld |  | 2,96,200 | By | Closing stock |  | 2,22,400 |
|  |  | 16,29,600 |  |  |  | 16,29,600 |
| To Discountallowed |  | 30,000 | By | Gross profit b/d |  | 2,96,200 |
| To Bad debts |  | 8,400 | By | Discount |  | 14,000 |
| To General expenses (W.N.5) |  | $1{ }_{3} 86,000$ |  |  |  |  |
| To Depreciation (W.N. 4) |  | 55,000 |  |  |  |  |
| To Net profit |  | 30,800 |  |  |  |  |
|  |  | 3,10,200 |  |  |  | 3,10,200 |

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

Balance Sheet as at 31st March, 2021

| Liabilities |  | ₹ | Assets |  | ₹ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Capital (W.N. 1) Add: Additional capital <br> Net profit | 5,35,400 |  | Plant \& Machinery | 2,32,200 |  |
|  | 1,70,000 |  | Add: <br> New <br> machinery | 63,600 |  |
|  | 30,800 |  |  | 2,95,800 |  |
|  | 7,36,200 |  | Less: Depreciation | $(55,000)$ | 2,40,800 |
| Less: Drawings <br> Sundry creditors <br> Expenses outstanding | $(8,600)$ | 7,27,600 | Stock in trade |  | 2,22,400 |
|  |  | 2,48,000 | Sundry debtors (W.N |  | 3,57,400 |
|  |  | 6,600 | Cash in hand |  | 24,000 |
|  |  |  | Cash in Bank |  | 1,37,600 |
|  |  | 9,82,200 |  |  | $\underline{9,82,200}$ |

Working Notes:
(1) Statement of Affairs as at 31st March, 2020

| Liabilities | $\mathfrak{F}$ | Assets | $\mathfrak{F}$ |
| :--- | ---: | :--- | ---: |
| Sundry creditors | $3,15,400$ | Plant \& Machinery | $2,32,200$ |
| Outstanding expenses | 12,000 | Stock | $1,60,800$ |
| Mittal's Capital |  | Debtors | $3,30,600$ |
| (Balancing figure) | $5,35,400$ | Cash in hand | 59,200 |
|  | $\underline{8,62,800}$ | Cash at Bank | $\underline{80,000}$ |
|  |  | $\underline{8,62,800}$ |  |

(2) Sundry Debtors Account

|  |  | $₹$ |  | $₹$ |  |
| :--- | :--- | ---: | :--- | :--- | ---: |
| To | Balance b/d | $3,30,600$ | By | Cash | $12,50,000$ |
| To | Sales | $13,44,200$ | By | Discount | 30,000 |
|  | $(14,36,200-92,000)$ |  |  |  |  |
|  |  |  | By | Returns (sales) | 29,000 |
|  |  |  | By | Bad debts | 8,400 |
|  |  |  | By | Balance cld (Bal. fig.) | $\underline{3,57,400}$ |

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

(3) Sundry Creditors Account

|  |  | $\boldsymbol{₹}$ |  |  | $₹$ |
| :--- | :--- | ---: | :--- | :--- | ---: |
| To | Bank-Payments | $12,05,400$ | By | Balance b/d | $3,15,400$ |
| To | Discount | 14,000 | By | Purchases credit | $11,60,000$ |
| ToReturns | 8,000 |  | (Balancing figure) |  |  |
| To (closing |  |  |  |  |  |
|  | Balance c/d <br> balance) | $\underline{14,48,000}$ |  |  |  |

(4)

| Depreciation on Plant \& Machinery: | $₹$ |
| :--- | ---: |
| Opening balance | $2,32,200$ |
| Add: Additions | $\frac{63,600}{2,95,800}$ |
|  | $\underline{(2,40,800)}$ |
| Less: Closing balance | $\underline{55,000}$ |

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

| Expenses (in cash) | $1,91,400$ |
| :--- | ---: |
| Add: Outstanding of 2021 | $\frac{6,600}{}$ |
|  | $1,98,000$ |
| Less: Outstanding of 2020 | $\underline{12,000}$ |

(6) Cash and Bank Account

|  | Cash | Bank |  | Cash | Bank |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | F | F |  | ₹ | F |
| To Balance b/d | 59,200 | 80,000 | By Purchases | 20,600 | - |
| To Capital |  | 1,70,000 | By Expenses | 1,91,400 |  |
| To Debtors |  | 12,50,000 | By Plant and Machinery |  | 63,600 |
| To Bank | 1,84,800 |  | By Drawings |  | 8,600 |
| To Cash |  | 1,00,000 | By Creditors |  | 12,05,400 |
| To Sales | 92,000 |  | By Cash |  | $1,84,800$ |
|  |  |  | By Bank | 1,00,000 |  |
|  |  |  | By Balance c/d | 24,000 | 1,37,600 |
|  | 3,36,000 | 16,00,000 |  | 3,36,000 | 16,00,000 |

## Framework for Preparation and Presentation of Financial Statements

## 15. What is meant by 'Measurement'? What are the bases of measurement of Elements of Financial Statements? Explain in brief.

## ANSWER

Measurement is the process of determining money value at which an element can be recognized in the balance sheet or statement of profit and loss. The framework recognizes four alternative measurement bases for the purpose. These bases can be explained as:

| Historical cost | This is the Acquisition price. According to this, assets are recorded <br> at an amount of cash and cash equivalent paid or the fair value of <br> the assets at time of acquisition. |
| :--- | :--- |
| Current Cost | Assets are carried out at the amount of cash or cash equivalent that <br> would have to be paid if the same or an equivalent asset was <br> acquired currently. Liabilities are carried at the undiscounted <br> amount of cash or cash equivalents that would be required to settle <br> the obligation currently. |
| Realisable (Settlement) Value | For assets, amount currently realizable on sale of the asset in an <br> orderly disposal. For liabilities, this is the undiscounted amount <br> expected to be paid on settlement of liability in the normal course <br> of business. |
| Present Value | Assets are carried at present value of future net cash flows <br> generated by the concerned assets in the normal course of <br> business. Liabilities are carried at present value of future net cash <br> flows that are expected to be required to settle the liability in the <br> normal course of business |

In preparation of financial statements, all or any of the measurement basis can be used in varying combinations to assign money values to financial items.

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

## AS 2 Valuation of Inventories

16. On 31st March 2020, a business firm finds that cost of a partly finished unit on that date is Rs. 430. The unit can be finished in 2020-21 by an additional expenditure of Rs. 310. The finished unit can be sold for Rs. 750 subject to payment of $2 \%$ brokerage on selling price. The firm seeks your advice regarding the amount at which the unfinished unit should be valued as at 31st March, 2020 for preparation of final accounts. Assume that the partly finished unit cannot be sold in semifinished form and its NRV is zero without processing it further.

## ANSWER

Valuation of unfinished unit

|  | ₹ |
| :--- | ---: |
| Net selling price | 750 |
| Less: Estimated cost of completion | $(310)$ |
|  | 440 |
| Less: Brokerage (2\% of 750) | $(15)$ |
| Net Realisable Value | 425 |
| Cost of inventory | 430 |
| Value of inventory (Lower of cost and net realisable value) | 425 |

## AS 10 Property, Plant and Equipment

17. A property costing Rs. $10,00,000$ is bought on 1.4.2020. Its estimated total physical life is $\mathbf{5 0}$ years. However, the company considers it likely that it will sell the property after 25 years.
The estimated residual value in $\mathbf{2 5}$ years' time, based on current year prices, is:
Case (a) Rs. 10,00,000
Case (b) Rs. 9,00,000
You are required to compute the amount of depreciation charged for the year ended 31.3.2021.

## ANSWER

## Case (a)

The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost.
There is, therefore, no depreciable amount and depreciation is zero.

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

## Case (b)

The company considers that the residual value, based on prices prevailing at the balance sheet date, will be Rs. 9,00,000 and the depreciable amount is, therefore, Rs. 1,00,000.
Annual depreciation (on a straight line basis) will be Rs. $4,000[\{10,00,000-9,00,000\} \div 25]$.

## AS 11 The Effects of Changes in Foreign Exchange Rates

18. Mona Ltd. purchased a plant for US\$ 1,00,000 on 01st December 2020, payable after three months. Company entered into a forward contract for three months @ Rs. 49.15 per dollar. Exchange rate per dollar on 01st December was Rs. 48.85. How will you recognize the profit or loss on forward contract in the books of Mona Ltd for the year ended 31st March, 2021?

## ANSWER

Forward Rate Rs. 49.15
Less: Spot Rate (Rs. 48.85)
Premium on Contract Rs. 0.30
Contract Amount US\$ 1,00,000
Total Loss (1,00,000 x 0.30) Rs. 30,000 to be recognized in year ended 31.3.2021.

## AS 12 Accounting for Government Grants

19. (a) D Ltd. acquired a machine on 01-04-2017 for Rs. 20,00,000. The useful life is 5 years. The company had applied on 01-04-2017, for a subsidy to the tune of $80 \%$ of the cost. The sanction letter for subsidy was received in November 2020. The Company’s Fixed Assets Account for the financial year 2020-21 shows a credit balance as under:

| Particulars | $₹$ |
| :--- | ---: |
| Machine (Original Cost) | $20,00,000$ |
| Less: Accumulated Depreciation (from 2017-18- to 2019-20 on |  |
| $\quad$ Straight Line Method) | $\frac{12,00,000}{8,00,000}$ |
|  | $\frac{(16,00,000)}{}$ |
| Less: Grant received | $\underline{(8,00,000)}$ |

You are required to explain how should the company deal with this asset in its accounts for 202021?
ANSWER
(a) From the above account, it is inferred that the Company has deducted grant from the book value of asset for accounting of Government Grants. Accordingly, out of the Rs. 16,00,000 that has been

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0
received, Rs. 8,00,000 (being the balance in Machinery $A / c$ ) should be credited to the machinery $A / c$. The balance Rs. 8,00,000 may be credited to P\&LA/c, since already the cost of the asset to the tune of Rs. 12,00,000 had been debited to P\&L A/c in the earlier years by way of depreciation charge, and Rs. 8,00,000 transferred to P\&L A/c now would be partial recovery of that cost.
There is no need to provide depreciation for 2020-21 or 2021-22 as the depreciable amount is now Nil.

## AS 13 Accounting for Investments

(b) Z Bank has classified its total investment on 31-3-2021 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI Guidelines.
'Held to maturity' investments are carried at acquisition cost less amortised amount. 'Available for sale' investments are carried at marked to market. 'Held for trading' investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored. Comment whether the policy of the bank is in accordance with AS 13?

## ANSWER

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

## AS 16 Borrowing Costs

20. In May, 2020, Omega Ltd. took a bank loan from a Bank. This loan was to be used specifically for the construction of a new factory building. The construction was completed in January, 2021 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was Rs. 18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2021 amounted to Rs. 25 lakhs. the company wants to treat Rs. 25 lakhs as part of the cost of factory building and thus capitalize it on the plea that the loan was specifically taken for the construction of factory building? Explain the treatment in line with the provisions of AS 16.

## ANSWER

AS 16 clearly states that capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Therefore, interest on the amount that has been used for the construction of the building up to the date of completion (January, 2021) i.e. Rs. 18 lakhs alone can be capitalized. It cannot be extended to Rs. 25 lakhs.

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

## PAST PAPER JULY 2021

## Question 1

Answer the following questions:
(a) Joy Ltd. purchased $\mathbf{2 0 , 0 0 0}$ kilograms of Raw Material @ ` 20 per kilogram during the year 202021. They have furnished you with the following further information for the year ended 31st March, 2021:

| Particulars | Units | Amount (₹) |
| :--- | ---: | ---: |
| Opening Inventory: |  |  |
| Finished Goods | 2,000 | $1,00,000$ |
| Raw Materials | 2,200 | 44,000 |
| Direct Labour |  | $3,06,000$ |
| Fixed Overheads |  | $3,00,000$ |
| Sales | 20,000 | $11,20,000$ |
| Closing Inventory: |  |  |
| Finished Goods | 2,400 |  |
| Raw Materials | 1,800 |  |

The plant has a capacity to produce 30,000 units of finished product per annum. However, the actual production of finished products during the year 2020-21 was 20,400 units. Due to a fall in the market demand, the price of the finished goods in which the raw material has been utilized is expected to be sold @ `40 per unit. The replacement cost of the raw material was` 19 per kilogram.
You are required to ascertain the value of closing inventory as at 31st March, 2021 as per AS 2.
Answer
(a) Statement Showing the Computation of Value of Closing Inventory

Value of Closing Finished Goods

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

| Particulars | Amount (₹) |  |
| :--- | :--- | ---: |
| Cost of Raw Material consumed (20,400 units X ₹ 20 per kg) | $4,08,000$ |  |
| Direct Labour | $3,06,000$ |  |
| Fixed Overheads (₹ $3,00,000 / 30,000 \times 20,400)$ |  | $2,04,000$ |
| Cost of Production | $9,18,000$ |  |
| Cost of Closing Inventory of Finished Goods per unit | 45 |  |
| (₹ 9,18,000/20,400) |  |  |
| Net Realizable Value (NRV) per unit |  | 40 |

Since net realizable value is less than cost, closing inventory of Finished Goods will be valued at `40 per unit Value of Closing Raw Materials As NRV of finished goods is less than its cost, the relevant raw material will be valued at its replacement cost, which is the best available measure of its NRV i.e. @` 19 per kg.
Therefore, value of closing `96,000 inventory would be as under: Finished Goods 2,400 units @ `40 per unit
Raw Materials 1,800 kg @ `19 per `34,200 kg Total `1,30,200

| Particulars | Unit (Kg) |
| :--- | :--- |
| Opening Inventory | 2,200 |
| Purchases | 20,000 |
| Less: Closing Inventory | $(1,800)$ |
| Raw Material Consumed | 20,400 |

(b) (i) A Limited has contracted with a supplier to purchase machinery which is to be installed at its new plant in four months time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were ${ }^{`} \mathbf{2 , 1 0 , 0 0 0}$. These activities were supervised by an Architect during the entire period, who is employed for this purpose at a salary of `35,000 per month. The machinery was purchased for \(1,27,50,000\) and a sum of` $2,12,500$ was incurred towards transportation charges to bring the machinery to the plant site. An Engineer was appointed at a fees of ` 37,500 to supervise the installation of the machinery at the plant site. You are required to ascertain the amount at which the machinery should be capitalized in the books of A Limited.

## ANSWER

(i) Statement Showing the Computation of the amount at which the Machinery should be capitalized in the books of A Limited

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

| Particulars |  | Amount <br> (₹) |
| :--- | :--- | ---: |
| Purchase cost of machinery | Given | $1,27,50,000$ |
| Add: Site Preparation Cost | Given | $2,10,000$ |
| Architect's Salary | Specific / Attributable |  |
| overheads for 4 months |  |  |
| (₹ $35,000 \times 4$ ) |  |  |
| $\quad$ Initial Delivery Cost | Transportation | $2,12,500$ |
| Professional Fees for Installation <br> Total Cost of Machinery to be <br> capitalized | Engineer's Fees | 37,500 |

(ii) B Limited, which operates a major chain of retail stores, has acquired a new store location. The new location requires substantial renovation expenditure. Management expects that the renovation will last for 4 months during which the store will be closed. Management has prepared the budget for this period including expenditure related to construction and re-modelling costs, salary of staff who shall be preparing the store before its opening and related utilities cost. How would such expenditure be treated in the books of B Limited ?

## ANSWER

(ii) Management should capitalize the costs of construction and remodelling the store, because they are necessary to bring the store to the condition necessary for it to be capable of operating in the manner intended by management. The store cannot be opened without incurring the remodelling expenditure, and thus the expenditure should be considered part of the asset. However, if the cost of salaries, utilities and storage of goods are in the nature of operating expenditure that would be incurred if the store was open, then these costs are not necessary to bring the store to the condition necessary for it to be capable of operating in the manner intended by management and should be expensed.
(c) Alps Limited has received the following Grants from the Government during the year ended 31st March, 2021:
(i) `120 Lacs received as Subsidy from the Central Government for setting up an Industrial undertaking in Medak, a notified backward area.

## ANSWER

As per AS 12 'Accounting for Government Grants', where the government grants are in the nature of promoters' contribution i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income. In the given case, the subsidy received from the Central Government for setting up an industrial undertaking in Medak is neither in relation to specific fixed asset nor in relation in revenue. Thus, the amount of ` 120 Lacs should be credited to capital reserve.

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

(Note: Subsidy for setting up an industrial undertaking is considered to be in the nature of promoter's contribution)
(ii) ` 15 Lacs Grant received from the Central Government on installation of Effluent Treatment Plant.

## ANSWER

As per AS 12 'Accounting for Government Grants', two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives -
(a) The grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value.

The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Where the grant equals the whole, or virtually the whole, of the cost of the asset, the asset is shown in the balance sheet at a nominal value.
(b) Grants related to depreciable asset are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset.
In the given case, ` 15 Lacs was received as grant from the Central Government for installation of Effluent Treatment Plant. Since the grant was received for a fixed asset, either of the above methods can be adopted. (iii)` 25 Lacs received from State Government for providing Medical facilities to its workmen during the pandemic.
Advise Alps Limited on the treatment of the above Grants in its books of Account in accordance with AS-12 "Government Grants".

## ANSWER

`25 lacs received from State Government for providing medical facilities to its workmen during the pandemic is a grant received in nature of revenue grant. Such grants are generally presented as credit in the profit and loss statement, either separately or under a general heading such as "Other Income". Alternatively,` 25 lacs may be deducted in reporting the related expense i.e., employee benefit expense.
(d) Prepare cash flow statement of Gama Limited for the year ended 31st March, 2021 in accordance with AS-3(Revised) from the following cash account summary :
Cash summary Account

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

| Inflows | $₹$ ('000) | Outflows | ₹ ('000) |
| :---: | :---: | :---: | :---: |
| Opening Balance | 945 | Payment to suppliers | 54,918 |
| Receipts from Customers | 74,682 | Purchase of Investments | 351 |
| Sale of Investments (Cost ₹ $4,05,000$ ) | 459 | Property, plant and equipment acquired | 6,210 |
| Issue of Shares | 8,100 | Wages and salaries | 1,863 |
| Sale of Property, Plant and equipment | 3,456 | Payment of overheads | 3,105 |
|  |  | Taxation | 6,561 |
|  |  | Dividends | 2,160 |
|  |  | Repayment of Bank Overdraft | 6,750 |
|  |  | Interest paid on Bank Overdraft | 1,350 |
|  |  | Closing Balance | 4,374 |
|  | 87,642 |  | 87,642 |

## ANSWER

Gama Limited
Cash Flow Statement
For the Year Ended 31st March 2021

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

| Particulars | Amount (₹'000) | Amount (₹'000) |
| :---: | :---: | :---: |
| Cash flow from Operating Activities: |  |  |
| Cash receipts from customers | 74,682 |  |
| Cash payments to suppliers | $(54,918)$ |  |
| Cash payments for wages \& salaries | $(1,863)$ |  |
| Cash payments of overheads | $(3,105)$ |  |
| Cash Generated from Operations | 14,796 |  |
| Payment of Taxation | $(6,561)$ |  |
| Net Cash from Operating Activities |  | 8,235 |
| Cash Flow from Investing Activities: |  |  |
| Proceeds from sale of investments | 459 |  |
| Proceeds from sale of Property, Plant and Equipment | 3,456 |  |
| Purchase of Investments | (351) |  |
| Purchase of Property, Plant and Equipment | $(6,210)$ |  |
| Net Cash Used in Investing Activities |  | $(2,646)$ |
| Cash Flow from Financing Activities: |  |  |
| Proceeds from issue of shares | 8,100 |  |
| Payment of Dividend | $(2,160)$ |  |
| Repayment of Bank Overdraft | $(6,750)$ |  |
| Interest paid on Bank Overdraft | $(1,350)$ |  |
| Net Cash Used in Financing Activities |  | $(2,160)$ |
| Net Increase in Cash \& Cash Equivalent |  | 3,429 |
| Cash and Cash Equivalent in the Beginning of the year |  | 945 |
| Cash and Cash Equivalent in the end of the year |  | 4374 |

## Question 2.

Mr. Z has made following transactions during the financial year 2020-21: Investment 1: 8\% Corporate Bonds having face value` 100.

\begin{tabular}{|l|l|}
\hline Date \& Particulars <br>

\hline 01-06-2020 \& | Purchased 36,000 Bonds at `86 cum- |
| :--- |
| interest. Interest is payable on 30th | <br>

\hline
\end{tabular}

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

|  | September and 31st March every year |
| :--- | :--- |
| 15-02-2021 | Sold 24,000 Bonds at `92 ex-interest |

Interest on the bonds is received on 30th September and 31st March. Investment 2 : Equity Shares of G Ltd having face value` 10

| Date | Particulars |
| :---: | :---: |
| 01-04-2020 | Opening balance 8,000 equity shares at a book value of `190 per share \\ \hline 01-05-2020 & Purchased 7,000 equity shares@` 230 on cum right basis; Brokerage of 1\% was paid in addition. |
| 15-06-2020 | The company announced a bonus issue of 2 shares for every 5 shares held |
| 01-08-2020 | The company made a rights issue of 1 share for every 7 shares held at `230 per share. The entire money was payable by 31.08.2020 \\ \hline 25-08-2020 & Rights to the extent of \(30 \%\) of his entitlements was sold @` 75 per share. The remaining rights were subscribed. |
| 16-09-2020 | Dividend @ `6 per share for the year ended 31.03.2020 was received on 16.09.2020. No dividend payable on Right issue and Bonus issue. \\ \hline 01-12-2020 & Sold 7,000 shares @ 260 per share. Brokerage of 1\% was incurred extra. \\ \hline 25-01-2021 & Received interim dividend @` 3 per share for the year 2020-21. |
| 31-03-2021 | The shares were quoted in the stock exchange @ `260. |

Both investments have been classified as Current investment in the books of Mr. Z. On 15th May 2021, Mr. Z decides to reclassify investment in equity shares of Z®Ltd. as Long term Investment. On 15th May 2021, the shares were quoted in the stock exchange @ `180.
You are required to:
(i) Prepare Investment Accounts in the books of Mr. Z for the year 2020-21, assuming that the average cost method is followed.
(ii) Profit and loss Account for the year 2020-21, based on the above information.
(iii) Suggest values at which investment in equity shares should be reclassified in accordance with AS 13.

Answer

In the books of Mr. Z
Investment in 8\% Corporate Bonds Account
For the period 01 April 2020 to 31 March 2021

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

| Date | Particulars | Nos | Interest | Amount (₹) | Date | Particulars | Nos | Interest (₹) | Amount (₹) |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 1/6/20 | To Bank A/c (WN1) | 36,000 | 48,000 | $30,48,000$ | 30/9/20 | $\begin{aligned} & \text { By Bank A/c } \\ & \text { (Interest } \\ & 36,000 \times 100 \times \\ & 8 \% \times 6 / 12 \text { ) } \end{aligned}$ |  | 1,44,000 |  |
| 15/2/21 | To Profit \& Loss A/c (WN 3) |  |  | 1,76,000 | 15/2/21 | By Bank A/c (WN2) | 24,000 | 72,000 | 22,08,000 |
| 31/3/21 | To Profit \& Loss A/c |  | 2,16,000 |  | 31/3/21 | $\begin{aligned} & \text { By Bank A/c } \\ & \text { (Interest } \\ & 12,000 \times 100 \times \\ & 8 \% \times 6 / 12 \text { ) } \end{aligned}$ |  | 48,000 |  |
|  |  |  |  |  |  | By Balance c/d (WN 4) | 12,000 |  | 10,16,000 |
|  | Total | 36,000 | 2,64,000 | $32,24,000$ |  | Total | 36,000 | 2,64,000 | 32,24,000 |

Note: For computing the interest on the bonds sold on 15 Feb 2021, if number of days ( 138 days) is taken instead of months, the interest received on 15.02 .2021 should be ${ }^{`} 72,592$ and the total interest transferred to Profit \& Loss Account should be `2,16,592.

[^0]
## CA Ravi Agcrwal's <br> CA INTER ACCOUNTING COMPILER 4.0

| Date | Particulars | Nos | Dividend (₹) | Amount (₹) | Date | Particulars | Nos | Dividend (₹) | Amount (₹) |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 01/4/20 | To Balance b/d | 8,000 |  | 15,20,000 | 16/9/20 | By Bank A/c (WN 7) |  | 48,000 | 42,000 |
| 01/5/20 | To Bank A/c (WN 5) | 7,000 |  | 16,26,100 | 1/12/20 | By Bank A/c (WN 8) | 7000 |  | 18,01,800 |
| 15/6/20 | To Bonus Shares | 6,000 |  |  | 25/1/21 | By Bank A/c (WN 10) |  | 48,300 |  |
| 25/8/20 | To Bank A/c (Right Shares) (WN 6) | 2,100 |  | 4,83,000 | 31/3/21 | By Balance c/d (WN 11) | 16,100 |  | 25,00,100 |
| 01/12/20 | To Profit \& Loss A/c (Sale of shares) (WN 9) |  |  | 7,14,800 |  |  |  |  |  |
| 31/3/21 | To Profit \& Loss A/c |  | 96,300 |  |  |  |  |  |  |
|  | Total | 23,100 | 96,300 | 43,43,900 |  | Total | 23,100 | 96,300 | 43,43,900 |

## Working Notes

1. Computation of the Interest element in the bonds purchased on 01 June 2020

| No of Bonds purchased | 36,000 |
| :--- | :--- |
| Face value per bond | ${f8b8ba542-a730-45ef-9541-462ea4863697} 36,00,000$ |
| Interest Rate | $8 \%$ |
| Interest Amount | $36,00,000 \times 8 \% \times 2 / 12$ |
|  | ${f4b502ce8-a386-45f2-a622-2c367445b287} 86$ |
| Value of bond excluding interest | $36,000 \times {fc4764cde-93a4-449a-9ce2-73fee2f46474} 48,000$ |
|  | ${fb7dc9d46-8fe3-42f6-ada5-82ec6ea8b5f8} 24,00,000$ |
| Interest Rate | $8 \%$ |
| Interest Amount | ${f816c2abe-40b6-4057-9245-71fee401fd7e} 72,000$ |

3. Computation of Profit on Sale of Bonds on 15 Feb 2021

| No of Bonds sold | 24,000 |
| :--- | :--- |
| Face value per bond | ${fd0e56cd6-32d4-48f7-84ce-e36fbf40647d} 92$ |
| Sales proceeds | $` 22,08,000$ |

CA Ravi Agarwal's CA INTER ACCOUNTING COMPILER 4.0

| Average Cost of Bonds | $(30,48,000 / 36,000) \times 24,000$ |
| :--- | :--- |
|  | ${fbb93854b-947c-478f-b26f-e6f6dacd5832} 22,08,000-{fe2562eb3-8206-400d-8f3c-0e44c257f97f} 1,76,000$ |

4. Valuation of Bonds as on 31 March 2021

| No of Bonds held as on 31 Mar <br> 2021 | 12,000 |
| :--- | :--- |
| Average Cost of Bonds | $({f7bd362cf-7600-4d69-a676-b6f7844e105c} 10,16,000$ |

5. Computation of the cost of the equity shares purchased on 01 May 2020

| No of shares purchased | 7,000 |
| :--- | :--- |
| Cum right price per share | ${f31906194-86bb-48c9-a3f9-82aa814503e5} 16,10,000$ |
| Brokerage @1\% | ${fad680175-2924-4d99-86c9-cf62c4aecae5} 16,26,100$ |

## 6. Right Shares

| No of Right Shares Issued | $(8,000+7,000+6,000) / 7=3,000$ shares |
| :--- | :--- |
| No of right shares sold | 3,000 shares $\times 30 \%=900$ shares |
| Proceeds from sale of right shares to be credited to statement <br> of profit \& loss | 900 shares $\times {fd266d1d6-7cf1-4d6a-a95a-c13de62acafd} 67,500$ |
| No of right shares subscribed | $3,000-900=2,100$ shares |
| Amount of right shares subscribed | $2,100 \times 230=` 4,83,000$ |

## 7. Computation of Dividend Received on 16 Sept 2020

| No of shares held during the period of dividend | 8,000 shares |
| :--- | :--- |
| Dividend per share | ${ffda62cc2-7952-42fa-befb-369d7f0eff1a} 48,000$ |
| No of shares received after the period of dividend (excluding bonus \& right shares) | 7,000 shares |
| Dividend per share | ${f0836f7ed-a4e1-4fd1-9832-f1a475d398cf} 6=` 42,000$ |

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

The amount of dividend for the period for which the shares were not held by the investor has been treated as capital receipt. Thus ` 42,000 shall be treated as capital receipt
8. Sale Proceeds for the shares sold on 1st Dec. 2020

| No of shares sold | 7,000 Shares |
| :--- | :--- |
| Sale price per share | ${f714706ed-5961-40a2-8ab7-a5f690ad8d9c} 18,20,000$ |
| Less: Brokerage @ $1 \%$ | ${fbf7fc60a-5b2d-42ee-9123-39f57c6977d7}} 18,01,800$ |

9. Profit on sale of shares on 1st Dec. 2020

| Sales Proceeds | ${f7dda2727-d28f-48b4-8473-5a36d81e780d} 10,87,000$ |
| :--- | :--- |
| Profit on sale of shares | Sales Proceeds - Average Cost |
|  | $={f4501077c-81f8-43e3-8158-2cfd4dc04c57} 10,87,000$ |
|  | $=` 7,14,800$ |

## 10. Computation of Amount of Interim Dividend

| No of shares held | $8,000+7,000+6,000+2,100-7,000$ |
| :--- | :--- |
|  | $=16,100$ |
| Dividend per share | ${fd90a2522-bbff-4427-9dc3-9d50a9bea7f6} 3$ per share |
|  | $=` 48,300$ |

## 11. Valuation of Shares as on 31 March 2021

| Cost of Shares | $(15,20,000+16,26,100+4,83,000-42,000) / 23,100 \times 16,100$ |
| :--- | :--- |
|  | $=25,00,100$ |
| Market Value of Shares | ${f54164200-a309-4680-8a05-d431e1033b79} 41,86,000$ |

Closing stock of equity shares has been value at ` $25,00,100$ i.e. cost being lower than its market value.
(ii) Profit \& Loss Account (Extract)

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

For the period 01 April 2020 to 31 March 2021

| Particulars | Amount (₹) | Particulars | Amount (₹) |
| :---: | ---: | :--- | ---: |
| To Balance c/d $12,70,600$ | By Investment in 8\% Corporate <br> Bonds Account (Profit on sale of <br> bonds) | $1,76,000$ |  |
|  |  | By Investment in 8\% Corporate <br> Bonds Account (Interest on bonds) <br> By Sale of Right Shares | $2,16,000$ |
|  |  | By Investment in Equity Shares of G <br> Ltd (Profit on sale of shares) <br> By Investment in Equity Shares of G <br> Ltd (Dividend Income) | $7,14,800$ |

(iii) As per AS 13, when investments are classified from Current Investments to Long term Investments, transfer is made at Cost and Fair value, whichever is less (as on the date of transfer). So, in the given case valuation shall be done as follows:
Date of reclassification/transfer - 15 May 2021
Per Unit Cost of 16,100 shares held -`\(25,00,100 / 16,100\) shares -` 155.29
Market Price/Fair Value per share - `180 As the cost per unit is lower than its fair value, the shares are to be transferred at its cost i.e., at` 155.29 per share on 15 May 2021

## Note:

1. In the eight last line of the question, investment in equity shares of $G$ Ltd. was wrongly printed as $Z$ Ltd. in the question paper. In the above solution, it has been considered as investment in G Ltd. If considered as Investment in equity shares in $Z$ Ltd. (some other investment and not investment in G Ltd.), then the cost of the investment for shares in Z Ltd. will not be available.
2. The entire amount of sale proceeds from rights has been credited to Profit and Loss account in the above solution. However, the sale proceeds of rights in respect of 7,000 shares (purchased cum right on 1.5.20) can be applied to reduce the carrying amount of such investments (without crediting it to profit and loss account) considering that the value of these shares has reduced after becoming their ex-right. In that case, `22,500 ( $67,500 \mathrm{X} 7 / 21$ ) will be applied to reduce the carrying amount of investment and ${ }^{4} 45,000$ will be credited to profit and loss account.

## Question 3

(a) Manohar of Mohali has a branch at Noida to which the goods are supplied from Mohali but the cost thereof is not recorded in the Head Office books. On 31st March, 2020 the Branch Balance Sheet was as follows:

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

| Liabilities | $₹$ | Assets | $₹$ |
| :--- | ---: | :--- | ---: |
| Creditors Balance | 62,000 | Debtors Balance | $2,24,000$ |
| Head Office | $1,88,000$ | Building Extension A/c |  |
|  |  | Closed by transfer to H.O. A/c | - |
|  | $2,50,000$ | Cash at Bank | $\underline{26,000}$ |
|  |  | $2,50,000$ |  |

During the six months ending on 30-09-2020, the following transactions took place at Noida:

|  | $₹$ |  | ₹ |
| :---: | :---: | :---: | :---: |
| Sales | 2,78,000 | Manager's salary | 16,400 |
| Purchases | 64,500 | Collections from debtors | 2,57,000 |
| Wages Paid | 24,000 | Discounts allowed | 16,000 |
| Salaries (inclusive of advance of ₹ 5,000 ) | 15,600 | Discount earned | 4,600 |
| General Expenses | 7,800 | Cash paid to creditors | 88,500 |
| Fire Insurance (Paid for one year) | 11,200 | Building Account (further payment) | 14,000 |
| Remittance to H.O. | 52,900 | Cash in Hand | 5,600 |
|  |  | Cash at Bank | 47,000 |

Set out the Head Office Account in Noida Books and the Branch Balance Sheet as on 30.09.2020. Also give journal entries in the Noida books.

## ANSWER

Journal Entries in the Books of Noida Branch

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

| Particulars |  | Debit <br> (₹) | Credit <br> (₹) |
| :---: | :---: | :---: | :---: |
| Salary Advance A/c <br> To Salaries A/c <br> (Being the amount paid as advance adjusted by debit to Salary Advance A/c) | Dr. | 5,000 | 5,000 |
| Prepaid Insurance A/c (11,200 X 6/12) <br> To Fire Insurance A/c <br> (Being the six months premium transferred to the Prepaid Insurance A/c) | Dr. | 5,600 | 5,600 |
| Head Office A/c <br> To Purchases A/c <br> To Wages A/c <br> To Salaries A/c ( $15,600-5,000$ ) <br> To General Expenses A/c <br> To Fire Insurance A/c (11,200 X 6/12) <br> To Manager's Salary A/c <br> To Discount Allowed A/c <br> (Being the transfer of various revenue accounts to the HO $\mathrm{A} / \mathrm{c}$ for closing the accounts) | Dr. | 1,44,900 | $\begin{array}{r} 64,500 \\ 24,000 \\ 10,600 \\ 7,800 \\ 5,600 \\ 16,400 \\ 16,000 \end{array}$ |
| Sales A/c <br> Discount Earned A/c <br> To Head Office A/c <br> (Being the transfer of various revenue accounts to HO ) | Dr. | $2,78,000$ 4,600 | 2,82,600 |
| Head Office A/c <br> To Building A/c <br> (Being the transfer of amounts spent on building extension to $\mathrm{HO} \mathrm{A} / \mathrm{c}$ ) | Dr. | 14,000 | 14,000 |

Head Office Account

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

| 2020 | Particulars | Amount | 2020 | Particulars | Amount (₹) |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Sept 30 | To Cash Remittance <br> To Sundries* (Revenue) | 52,900 | April 1 | By Balance b/d <br> By Sundries* (Revenue) | 1,88,000 |
|  |  | 1,44,900 |  |  | 2,82,600 |
|  | To Building A/c <br> To Balance c/d | 14,000 |  |  |  |
|  |  | 2,58,800 |  |  |  |
|  |  | 4,70,600 |  | Total | 4,70,600 |

* Instead of using Sundries (Revenue) A/c, the concerned revenue accounts can be posted in the ledger. Balance Sheet of Noida Branch
As at 30th Sept 2020

| Liabilities | Amount <br> (₹) | Assets | Amount <br> (₹) |
| :--- | ---: | :--- | ---: |
| Creditors | 33,400 | Debtors | $2,29,000$ |
| Head Office A/c | $2,58,800$ | Salary Advance | 5,000 |
|  |  | Prepaid Insurance | 5,600 |
|  |  | Building Extension A/c transferred to HO |  |
|  |  | Cash in Hand | 5,600 |
|  |  | Cash at Bank |  |
|  |  |  | Total |
|  |  |  | $2,92,200$ |

## Working Notes

Cash and Bank Account

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

| Particulars | Amount $\qquad$ | Particulars | Amount <br> (₹) |
| :---: | :---: | :---: | :---: |
| To Balance b/d | 26,000 | By Wages | 24,000 |
| To Collection from debtors | 2,57,000 | By Salaries | 15,600 |
|  |  | By Insurance | 11,200 |
|  |  | By General Expenses | 7,800 |
|  |  | By HO A/c | 52,900 |
|  |  | By Manager's Salary | 16,400 |
|  |  | By Creditors | 88,500 |
|  |  | By Building A/c | 14,000 |
|  |  | By Balance c/d |  |
|  |  | - Cash in Hand | 5,600 |
|  |  | - Cash at bank | 47,000 |
| Total | 2,83,000 | Total | 2,83,000 |

## Debtors Account

| Particulars | Amount (₹) | Particulars | Amount (₹) |  |
| :--- | ---: | ---: | :--- | ---: |
| To Balance b/d |  | $2,24,000$ | By Cash Collection | $2,57,000$ |
| To Sales A/c | $2,78,000$ | By Discount (Allowed) | 16,000 |  |
|  |  |  | By Balance c/d | $2,29,000$ |
|  |  |  |  | Total |
|  |  |  | $5,02,000$ |  |

## Creditors Account

| Particulars | Amount (₹) | Particulars | Amount (₹) |
| :---: | :---: | :---: | :---: |
| To Cash A/c | 88,500 | By Balance b/d | 62,000 |
| To Discount (Earned) | 4,600 | By Purchases | 64,500 |
| To Balance c/d | 33,400 | Total |  |
| Total | 1,26,500 |  | 1,26,500 |

Note:

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Since the date of payment of fire insurance has not been mentioned in the question, it is assumed that it was paid on 01 April 2020. Alternative answer considering otherwise also possible.
(b) Mr. Arun runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2020 was as follows :

| Liabilities | $\boldsymbol{₹}$ | Assets | $₹$ |
| :--- | ---: | :--- | ---: |
| Capital A/c | $5,05,000$ | Furniture | 50,000 |
| Creditors | $1,02,500$ | Closing Stock | $3,50,000$ |
|  |  | Debtors | $1,25,000$ |
|  |  | Cash in Hand | 35,000 |
|  | Cash at Bank | 47,500 |  |
|  |  | $6,07,500$ |  |

You are furnished with following information :
(1) His sales, for the year ended 31st March, 2021 were 20\% higher than the sales of previous year, out of which $20 \%$ sales was cash sales.
Total Sales during the year 2019-20 were `\(\mathbf{6 , 2 5 , 0 0 0}\) (2) Payments for all the purchases were made by cheques only. (3) Goods were sold for cash and credit both. Credit customers pay by cheques only. (4) Deprecation on furniture is to be charged \(10 \%\) p.a. (5) Mr. Arun sent to the bank the collection of the month at the last date of each month after paying salary of` 2,500 to the clerk, office expenses `1,500 and personal expenses` 625 .
Analysis of bank pass book for the year ending 31st March, 2021 disclosed the following:

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|  | $₹$ |
| :--- | ---: |
| Payment to creditors | $3,75,000$ |
| Payment to rent up to 31st March, 2021 | 20,000 |
| Cash deposited into bank during the year | $1,00,000$ |

The following are the balances on 31st March, 2021.

|  | $₹$ |
| :--- | ---: |
| Stock | $2,00,000$ |
| Debtors | $1,50,000$ |
| Creditors for goods | $1,82,500$ |

On the evening of 31st March, 2021, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2021 and Balance Sheet as on that date. All the working should form part of the answer.

## Answer

In the books of Mr. Arun
Trading and Profit and Loss Account for the Year Ended 31st March 2021

| Particulars | Amount | Particulars | Amount (₹) |
| :---: | :---: | :---: | :---: |
| To Opening Stock | 3,50,000 | By Sales (W.N. 3) |  |
| To Purchases (W.N.1) | 4,55,000 | Credit | 6,00,000 |
| To Gross Profit (b.f.) | 1,45,000 | Cash | 1,50,000 |
|  |  | By Closing Stock | 2,00,000 |
| Total | 9,50,000 | Total | 9,50,000 |
| To Salary ( $₹ 2,500 \times 12$ ) | 30,000 | By Gross Profit | 1,45,000 |
| To Rent | 20,000 |  |  |
| To Office Expenses (₹ $1,500 \times 12$ ) | 18,000 |  |  |
| To Loss of Cash (W.N.6) | 29,500 |  |  |
| To Depreciation on furniture | 5,000 |  |  |
| To Net Profit (b.f.) | 42,500 |  |  |
| Total | 1,45,000 | Total | 1,45,000 |

## Balance Sheet

As on 31st March 2021

| Liabilities |  | Amount <br> $(₹)$ | Assets | Amount <br> $(₹)$ |  |
| :--- | ---: | ---: | :--- | ---: | ---: |
| Arun's Capital | $5,05,000$ |  | Furniture | 50,000 |  |
| Add: Profit | 42,500 |  | Less: Depreciation | $(5,000)$ | 45,000 |
| Less: Drawings | $\underline{(7,500)}$ | $5,40,000$ | Stock |  | $2,00,000$ |
| $(₹ 625 \times 12)$ |  |  | Debtors |  | $1,50,000$ |
| Creditors |  | $1,82,500$ | Cash at bank |  | $3,27,500$ |
|  |  |  |  | Total | $7,22,500$ |

## Working Notes:

(1) Calculation of Purchases

## Creditors Account

| Particulars |  | Amount (₹) | Particulars | Amount (₹) |
| :--- | ---: | ---: | :--- | ---: |
| To Bank A/c |  | $3,75,000$ | By Balance b/d | $1,02,500$ |
| To Balance c/d |  | $1,82,500$ | By Purchases (Bal Fig) | $4,55,000$ |
|  | Total | $5,57,500$ |  | $5,57,500$ |

(2) Calculation of Total Sales

| Particulars | Amount (₹) |
| :--- | ---: |
| Sales for the year 2019-20 | $6,25,000$ |
| Add: 20\% increase | $1,25,000$ |
| Total sales for the year 2020-21 | $7,50,000$ |

(3) Calculation of Credit Sales

| Particulars | Amount (₹) |
| :--- | ---: |
| Total Sales | $7,50,000$ |
| Less: Cash sales (20\% of total sales) | $(1,50,000)$ |
| Credit sales | $6,00,000$ |

(4) Calculation of cash collected from debtors

Debtors Account

| Particulars | (₹) | Particulars | (₹) |  |
| :--- | ---: | ---: | :--- | ---: |
| To Balance b/d |  | $1,25,000$ | By Bank A/c (Bal Fig) | $5,75,000$ |
| To Sales A/c |  | $6,00,000$ | By Balance c/d | $1,50,000$ |
|  |  |  |  | $7,25,000$ |
|  |  |  | Total | $7,25,000$ |

(5) Calculation of closing balance of cash at bank

Bank Account

| Particulars | (₹) | Particulars | (₹) |  |
| :--- | ---: | ---: | :--- | ---: |
| To Balance b/d | 47,500 | By Creditors A/c | $3,75,000$ |  |
| To Debtors A/c | $5,75,000$ | By Rent A/c | 20,000 |  |
| To Cash A/c | F | $1,00,000$ | By Balance c/d (b.f) | $3,27,500$ |
|  |  |  | $7,22,500$ |  |

(6) Calculation of the amount of cash defalcated by the cashier

| Particulars | Amount (₹) |
| :--- | ---: |
| Cash Balance as on 1st April 2020 | 35,000 |
| Add: Cash sales during the year | $1,50,000$ |
| Less: Salary | $(30,000)$ |
| Office Expenses | $(18,000)$ |
| Drawings of Arun | $(7,500)$ |
| Cash deposited into bank during the year | $(1,00,000)$ |
| Cash Balance as on 31 March 2021 (defalcated by the cashier) | 29,500 |

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Question 4
The following is the Trial Balance of H Ltd., as on 31st March, 2021:

|  | Dr. | Cr. |
| :--- | ---: | ---: |
| Equity Capital (Shares of ₹ 100 each) |  | $8,05,000$ |
| $5,000,6 \%$ preference shares of ₹ 100 each |  | $5,00,000$ |
| 9\% Debentures |  | $4,00,000$ | | General Reserve |  | $40,00,000$ |
| :--- | ---: | ---: |
| Profit \& Loss A/c (of previous year) |  | 72,000 |
| Sales |  | $60,00,000$ |
| Trade Payables |  | $10,40,000$ |
| Provision for Depreciation on Plant \& Machinery | $24,00,000$ | $1,72,000$ |
| Suspense Account | $7,70,000$ | 40,000 |
| Land at cost | $19,60,000$ |  |
| Plant \& Machinery at cost | $9,50,000$ |  |
| Trade Receivables | $2,30,900$ |  |
| Inventories (31-03-2020*) | $22,32,100$ |  |
| Bank | $15,00,000$ |  |
| Adjusted Purchases | $3,00,000$ |  |
| Factory Expenses | $14,00,000$ |  |
| Administration Expenses | 36,000 |  |
| Selling Expenses | $12,50,000$ |  |
| Debenture Interest | $1,30,29,000$ | $1,30,29,000$ |
| Goodwill |  |  |

Additional Information:
(i) The authorised share capital of the company is :
$5,000,6 \%$ preference shares of `100 each 5,00,000 10,000 , equity shares of` 100 each $10,00,000$
Issued equity capital as on 1st April 2020 stood at ${ }^{`} \mathbf{7 , 2 0 , 0 0 0}$, that is 6,000 shares fully paid and 2,000 shares of `60 paid. The directors made a call of` 40 per share on 1st October 2020. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ ` 90 per share as fully paid.

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(ii) On 31st March 2021, the Directors declared a dividend of 5\% on equity shares, transferring any amount that may be required from General Reserve. Ignore Taxation.
(iii) The company on the advice of independent valuer wishes to revalue the land at ${ }^{`} 36,00,000$.
(iv) Suspense account of `40,000 represents amount received for the sale of some of the machinery on 1-4-2020. The cost of the machinery was` $1,00,000$ and the accumulated depreciation thereon being ` 30,000.
(v) Depreciation is to be provided on plant and machinery at $10 \%$ on cost.
(vi) Amortize 1/5th of Goodwill.

You are required to prepare H Limited's Balance Sheet as on 31-3-2021 and Statement of Profit and Loss with notes to accounts for the year ended 31-3-2021 as per Schedule III of the Companies Act, 2013. Ignore previous years' figures \& taxation. (20 Marks)

Answer
H Ltd

Balance Sheet as at 31st March 2021

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

| Particulars |  | Note No | Amount in ₹ |
| :---: | :---: | :---: | :---: |
| Equity and Liabilities |  |  |  |
| I. Shareholders' Funds |  |  |  |
| a. Share Capital |  | 1 | 13,00,000 |
| b. Reserves and Surplus |  | 2 | 53,91,900 |
| II. Non-Current Liabilities |  |  |  |
| a. Long Term Borrowings |  | 3 | 4,00,000 |
| III. Current Liabilities |  |  |  |
| a. Trade Payables |  | 4 | 10,40,000 |
| b. Other Current Liabilities |  | 5 | 70,000 |
|  | Total |  | 82,01,900 |
| Assets |  |  |  |
| I. Non-Current Assets |  |  |  |
| a. Property, Plant and Equipment |  | 6 | 40,61,000 |
| b. Intangible Assets |  | 7 | 10,00,000 |
| II. Current Assets |  |  |  |
| a. Inventories |  |  | 9,50,000 |
| b. Trade Receivables |  |  | 19,60,000 |
| c. Cash and Cash equivalents |  |  | 2,30,900 |
|  | Total |  | 82,01,900 |

Statement of Profit and Loss for the year ended 31st March 2021

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## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0



## CA Ravi Agarwal's

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Selling Expenses<br>Administrative Expenses<br>Loss on sale of Plant and Machinery Book Value (1,00,000-30,000) Less: Sale Value



## Note

1. The inventories (31.3.20) amounting `\(9,50,000\) (given in the trial balance of the question) should have been as closing inventory i.e. as on 31.3 .21 . In the above solution, this inventory has been considered as closing inventory i.e. for 31.3.21. If this is considered as inventory of 31.3.20, the closing inventory (as on 31.3.21) will not be available for the balance sheet as on 31.3.21 and in that case, the balance sheet will not tally without using suspense account amounting` $9,50,000$.
2. The financial statements given in the above answer include adjustment for dividend declared on 31st March, 2021, strictly, as per the information given in the question. However, practically dividends are declared in the annual general meetings which take place after the reporting date.

## Question 5

(a) The firm, M/s K Creations has two Departments, Dyed fabric and Readymade garments.

Readymade garments are made by the firm itself. Both dyed fabric and readymade garments have independent market. Some of readymade garment department's requirement is supplied by Dyed Fabric Department at its usual Selling Price.
From the following figures, prepare Departmental Trading and Profit \& Loss Account for the year ended 31st March 2021.

| Particulars | Dyed Fabric Department | Readymade garments department |
| :--- | :--- | :--- |
| Opening stock as on April 1, 2020 | $5,40,000$ | $15,20,000$ |
| Purchases (excluding inter <br> department transfers) | $20,12,080$ | $1,50,00,000$ |
| Sales (excluding inter department <br> transfers) | $31,06,000$ | $3,12,50,000$ |
| Transfer to Readymade garment | $5,00,000$ | - |
| Direct wages | $3,00,000$ | $67,30,000$ |
| Direct expenses | $1,00,000$ | $19,50,000$ |
| Plant and Equipment for <br> dyeing/stitching readymade <br> garments (WDV as on April 1, <br> 2020) | $5,00,000$ | $15,00,000$ |
| Rent and warehousing | $4,50,000$ | $12,00,000$ |
| Stock as on March 31st 2021 | $6,00,000$ | $22,50,000$ |

The following further information are available for necessary consideration:

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(i) The Stock in Readymade garments department may be considered as consisting of 60\% of dyed fabric and 40\% of Other Expenses.
(ii) The Dyed Fabric Department earned a Gross Profit @ 30\% in 2019-2020.
(iii) On the plant and equipment, depreciation @ 20\% p.a. to be provided.
(iv) The following expenses incurred for both the departments were not apportioned between the departments:
(a) Salaries 2,70,000
(b) Advertisement expenses 90,000
(c) General expenses $8,00,000$
(v) Salaries in 1:2 ratio, Advertisement expenses in the turnover ratio and General expenses in 1:3 ratio are to be apportioned between the Dyed Fabric Department and Readymade Department respectively. (10 Marks)

## ANSWER

(a) M/s K Creations

Departmental Trading and Profit \& Loss Account
For the Year Ended 31st March 2021

| Particulars | Dyed Fabric Department | Readymade Garments Department (₹) | Total $(₹)$ | Particulars | Dyed Fabric Department | Readymade Garments Department | Total (₹) |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To Opening Stock | 5,40,000 | 15,20,000 | 20,60,000 | By Sales | 31,06,000 | 3,12,50,000 | 3,43,56,000 |
| To Purchases | 20,12,080 | 1,50,00,000 | 1,70,12,080 | By Transfer to <br> Readymade Garments | 5,00,000 |  | 5,00,000 |
| To Transfer from Dyed Fabric Department |  | 5,00,000 | 5,00,000 | By Closing Stock | 6,00,000 | 22,50,000 | 28,50,000 |
| To Direct Wages | 3,00,000 | 67,30,000 | 70,30,000 |  |  |  |  |
| To Direct Expenses | 1,00,000 | 19,50,000 | 20,50,000 |  |  |  |  |
| To Depreciation* | 1,00,000 | 3,00,000 | 4,00,000 |  |  |  |  |
| To Gross Profit | 11,53,920 | 75,00,000 | 86,53,920 |  |  |  |  |
| Total | 42,06,000 | 3,35,00,000 | 3,77,06,000 | Total | 42,06,000 | 3,35,00,000 | 3,77,06,000 |
| To Rent and Warehousing | 4,50,000 | 12,00,000 | 16,50,000 | By Gross Profit | 11,53,920 | 75,00,000 | 86,53,920 |
| To Salaries | 90,000 | 1,80,000 | 2,70,000 |  |  |  |  |
| To Advertisement Expenses | 8,137 | 81,863 | 90,000 |  |  |  |  |
| To General Expenses | 2,00,000 | 6,00,000 | 8,00,000 |  |  |  |  |
| To Net Profit | 4,05,783 | 54,38,137 | 58,43,920 |  |  |  |  |
| Total | 11,53,920 | 75,00,000 | 86,53,920 | Total | 11,53,920 | 75,00,000 | 86,53,920 |

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

Profit and Loss Account (Combined)

| Particulars | Amt (₹) | Particulars | Amt (₹) |  |
| :--- | ---: | :--- | :--- | ---: |
| To Unrealized Profit (WN) | $1,58,400$ | By Net Profit |  | $58,43,920$ |
| To General Net Profit | $56,85,520$ |  |  |  |
|  | $58,43,920$ |  | Total | $58,43,920$ |

## Calculation of Stock Reserve

Rate of Gross Profit of Dyed Fabric Department for the year 2020-21
$=11,53,920 /(31,06,000+5,00,000) \times 100=32 \%$
Closing stock of Dyed Fabric in Readymade Garments Department
$=22,50,000 \times 60 \%=` 13,50,000$
Stock reserve required for unrealized profit @ 32\% on closing stock $=13,50,000 \times 32 \%=` 4,32,000$
Stock reserve for unrealized profit included in opening stock of Readymade Garments Department = $15,20,000 \times 60 \% \times 30 \%=` 2,73,600$
Additional stock reserve required $=` 4,32,000-` 2,73,600=` 1,58,400$
(b) AB Limited (a listed company) recently made a public issue in respect of which the following information is available:
(i) No. of partly convertible $8 \%$ debentures issued 3,00,000; face value and issue price`100 per debenture. (ii) Convertible portion per debenture- 60\%, date of conversion- on expiry of 7 months from the date of closing of issue. (iii) Date of closure of subscription lists 1-5-2020, date of allotment 1-6-2020, rate of interest on debenture \(8 \%\) payable from the date of allotment, market value of equity share as on date of conversion` 60 (Face Value `10).
(iv) Underwriting Commission 1\%
(v) No. of debentures applied for 2,50,000.
(vi) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2021 (including cash and bank entries). (10 Marks)

Answer

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## Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 2021
On `1,20,00,000 for 6 months @ \(8 \%=` 4,80,000\)
On ` 1,80,00,000 for 2 months @ \(8 \%=` 2,40,000\)
`7,20,000

## Question 6

(a) A trader commenced business on April 1, 2020 with `1,20,000 represented by 6,000 units of a certain product at` 20 per unit. During the year 2020-21 he sold these units at `\(30 /\) - per unit and had withdrawn`60,000. The price of the product at the end of financial year was `25/- per unit. Compute retained profit of the trader under the concept of physical capital maintenance at current cost. Also state, whether answer would be different if the trader had not withdrawn any amount.

## ANSWER

## (a) Physical Capital Maintenance at Current Cost

In the given case, the specific price index applicable to the product is 125 (25/20X100).
Current cost of opening stock $=(` 1,20,000 / 100) \times 125$ Or 6,000 units x $25=` 1,50,000$
Current cost of closing cash = `1,20,000 (` $1,80,000-` 60,000)$
Opening equity at closing current costs = `1,50,000 Closing equity at closing current costs \(=` 1,20,000\)
Retained Profit $=` 1,20,000-` 1,50,000=(-) ` 30,000$
The negative retained profit indicates that the trader has failed to maintain his capital. The available fund of $1,20,000$ is not sufficient to buy 6,000 units again at increased price of ' 25 per unit. The drawings should have been restricted to ` 30,000 (` 60,000 - ` 30,000). If the trader had not withdrawn any amount, then the answer would have been as below: Current cost of opening stock \(=` 1,80,000\)
Opening equity at closing current costs $=` 1,50,000$
Retained Profit = ` \(1,80,000-` 1,50,000=`30,000\) If the trader had not withdrawn any amount, then the retained profit would have been` 30,000 .
(b) On 13th Jan, 2021 fire occurred in the premises of Mr. X, a cloth merchant. The goods were totally destroyed. From the books of account, for the period 01-04-2020 to the date of fire the following particulars were available:

| Particulars | $\checkmark$ |
| :--- | :--- |
| Stock as on 01-04-2020 | 57,000 |
| Purchases | $3,05,000$ |
| Manufacturing Expenses | 60,000 |
| Selling Expenses | 24,200 |
| Sales | $4,98,000$ |

At the time of valuing stock as on 31st March, 2020, a sum of ` 7,000 was written off on a particular item, which was originally purchased for \({ }^{`} 20,000\) and was sold during the year for ${ }^{`} 18,000$. Barring

## CA Ravi Agarwal's

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the transaction relating to this item, the gross profit earned during the period was $\mathbf{2 5 \%}$ on sales. Mr. X has insured his stock for ` 40,000 . Compute the amount of the claim.

## ANSWER

Computation of claim for loss of stock
Memorandum Trading Account as on 13.01.2021

| Particulars | Normal | Abnormal | Total | Particulars | Normal | Abnormal | Total |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To Opening Stock | 44,000 | 13,000 | 57,000 | By Sales | 4,80,000 | 18,000 | 4,98,000 |
| To Purchases | 3,05,000 |  | 3,05,000 | By Closing Stock | 49,000 |  | 49,000 |
| To Manufacturing Expenses | 60,000 |  | 60,000 |  |  |  |  |
| To Gross Profit | 1,20,000 | 5,000 | 1,25,000 |  |  |  |  |
| Total | 5,29,000 | 18,000 | 5,47,000 | Total | 5,29,000 | 18,000 | 5,47,000 |

Insurance policy was for `40,000 as such goods are under-insured. The amount of claim should be restricted to the policy amount, ie.` 40,000 .
(c) An Engineer purchased a compressing machine on hire purchase system. As per the terms he is required to pay `\(1,40,000\) down,` $1,06,000$ at the end of first year, `98,000 at the end of the second year` 87,000 at the end of the third year and ` 55,000 at the end of fourth year. Interest charged @ $12 \%$ p.a. You are required to calculate total cash price of the machine and the interest paid with each installment.

## ANSWER

Ratio of interest and amount due $=\underline{\text { Rate }}$ of interest $=\underline{12}$
$100+$ Rate of interest 112

| No of instalments | Instalment <br> amount <br> $(₹)$ | Amount due at the <br> time of instalment <br> $(₹)$ | Interest <br> $(₹)$ | Principal due at <br> the beginning <br> $(₹)$ |
| :---: | :---: | :---: | :---: | :---: |
| $(1)$ |  | $(2)$ | $(3)$ | $(4)$ |
| $4^{\text {th }}$ | 55,000 | 55,000 | 5,893 | 49,107 |
| $3^{\text {rd }}$ | 87,000 | $1,36,107$ | 14,583 | $1,21,524$ |
| $2^{\text {nd }}$ | 98,000 | $2,19,524$ | 23,520 | $1,96,004$ |
| 1 st | $1,06,000$ | $3,02,004$ | 32,358 | $2,69,646$ |

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

Total Cash Price $=` 1,40,000+` 2,69,646=` 4,09,646$
(d) S. Ltd. was incorporated on 30th November 2020 to take over the running business of proprietorship firm of Mr. S. The various expenses debited to the profit and loss Account for the year 2020-21 included:
(i) Directors fees
(ii) Preliminary expenses written off
(iii) Salaries and general expenses
(iv) Statutory Audit fees
(v) Tax Audit fees u/s 44 AB of the Income Tax Act, 1961
(vi) Commission to travelling agents
(vii) Sale promotion expenses
(viii) Advertisement expenses
(ix) Rent expenses
(x) Bad debts

You are required to determine the basis of apportionment of above expenses between pre incorporation and post incorporation periods.

ANSWER

| No. | Particulars | Basis of apportionment |
| :--- | :--- | :--- |
| (i) | Directors Fees | Charge to Post incorporation period |
| (ii) | Preliminary Expenses written off | Charge to Post incorporation period |
| (iii) | Salaries and general expenses | Time ratio |
| (iv) | Statutory Audit Fees | Charge to Post incorporation period |
| (v) | Tax Audit Fees u/s 44 AB of the Income Tax Act, <br> 1961 | On the basis of sales /turnover ratio in the <br> respective periods |
| (vi) | Commission to travel agents | On the basis of sales / turnover ratio in the <br> respective periods |
| (vii) | Sales Promotion expenses | On the basis of sales / turnover ratio in the <br> respective periods |
| (viii) | Advertisement Expenses | On the basis of sales / turnover ratio in the <br> respective periods |
| (ix) | Rent Expenses | Time Ratio |
| (x) | Bad Debts | On the basis of sales / turnover ratio in the <br> respective periods |

(e) Following is the extract of the Balance Sheet of K Ltd (listed company) as at 31st March, 2020

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

| Authorized capital: | ₹ |
| :--- | ---: |
| $3,00,000$ Equity shares of ₹ 10 each | $\underline{30,00,000}$ |
| Issued and Subscribed capital: | $\underline{30,00,000}$ |
| 2,00,000 Equity shares of ₹ 10 each, ₹ 8 paid up | $16,00,000$ |
| Reserves and surplus: |  |
| General Reserve | $3,60,000$ |
| Capital Redemption Reserve | $1,20,000$ |
| Securities premium (not realised in cash) | 75,000 |
| Profit and Loss Account | $6,00,000$ |

On 1st April, 2020, the Company has made final call @` 2 each on 2,00,000 equity shares. The call money was received by 25th April, 2020. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.
Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue. (4 Parts x 5 Marks = 20 Marks)

Answer
Journal Entries

| Date | Particulars | ₹ | ₹ |
| :---: | :---: | :---: | :---: |
| 1.04.2020 | Equity Share Final Call A/c <br> To Equity Share Capital A/c <br> (Being final call of ₹ 2 - per share on $2,00,000$ equity shares due as per Board's resolution dated ...........) | $4,00,000$ | 4,00,000 |
| 25.04.2020 | Bank A/c <br> Dr. <br> To Equity Share Final Call A/c <br> (Final Call money on $2,00,000$ equity shares received) | $\begin{array}{r} 4,00,000 \\ \\ 1,20,000 \\ 3,60,000 \\ 20,000 \end{array}$ | 4,00,000 |

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

|  | To Bonus to shareholders <br> (Being provision for bonus shares at one share <br> for every four shares held as per Board's <br> resolution dated.........)* |  | $5,00,000$ |
| :--- | :--- | :--- | :--- |
|  | Bonus to shareholders <br> To Equity Share Capital A/c <br> (Being issue of bonus shares)$\quad$ Dr. | $5,00,000$ | $5,00,000$ |

*Any other logical method for utilization of reserves may be followed as per the Companies Act, 2013.

Extract of Balance Sheet

| Authorized Capital | ₹ |
| :--- | ---: |
| $3,00,000$ Equity shares of ₹ 10/- each | $\underline{30,00,000}$ |
| Issued and Subscribed Capital | $25,00,000$ |
| $2,50,000$ Equity shares of ₹ $10 /$ - each, fully paid |  |
| (Out of the above 50,000 Equity shares ₹10/- each were issued by way |  |
| of bonus shares) |  |
| Reserves and Surplus | 75,000 |
| Securities premium (not realized in cash) | $5,80,000$ |

Note: As per SEBI regulations, securities premium should be realized in cash, whereas under the Companies Act, 2013 there is no such requirement. In accordance with Section 52, securities premium may arise on account of issue of shares other than by way of cash. Thus, for unlisted companies, securities premium (not realized in cash) may be used for issue of bonus shares, whereas the same cannot be used in case of listed companies.

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

## MTP-I- NOV 2021

1. (a) Om Ltd. purchased an item of property, plant and equipment for US \$ 50 lakh on 01.04 .2020 and the same was fully financed by the foreign currency loan [US \$] repayable in five equal instalments annually. (Exchange rate at the time of purchase was 1 US $\$={ }^{`} 60$ ]. As on 31.03.2021 the first instalment was paid when 1 US $\$$ fetched ` 62.00 . The entire loss on exchange was included in cost of goods sold by the accountant. Om Ltd. provides depreciation on an item of property, plant and equipment at $20 \%$ on WDV basis and wants to exercise the option to adjust the cost of asset for exchange difference arising out of loan restatement and payment.
You are required to calculate the amount of exchange loss, its treatment and depreciation on this item of property, plant and equipment.
ANSWER

Exchange differences arising on restatement or repayment of liabilities incurred for the purpose of acquiring an item of property, plant and equipment should be adjusted in the carrying amount of the respective item of property, plant and equipment as Om Ltd. has exercised the option and it is long term foreign currency monetary item. Thus, the entire exchange loss due to variation of `20 lakh on 31.03 .2021 on payment of US \(\$\) 10 lakh, should be added to the carrying amount of an item of property, plant and equipment and not to the cost of goods sold. Further, depreciation on the unamortized depreciable amount should also be provided. Calculation of Exchange loss: Foreign currency loan (in \()=(50\) lakh \$ x` 60) = `3,000 lakh Exchange loss on outstanding loan on 31.03.2021 =` 40 lakh US \$ $x(62.00-60.00)=` 80$ lakh.
So, `80 lakh should also be added to cost of an item of property, plant and equipment with corresponding credit to outstanding loan in addition to` 20 lakh on account of exchange loss on payment of instalment. The total cost of an item of property, plant and equipment to be increased by ` 100 lakh. Total depreciation to be provided for the year 2020-2021 \(=20 \%\) of ( \(` 3,000\) lakh +100 lakh $)=` 620$ lakh.
(b) From the following information provided by XYZ Limited you are required to compute the closing inventory:

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

Raw Material P

Closing balance

Cost price including GST 250

Freight inward 30
Handling charges 15
Replacement cost 180
Finished goods Q
Closing balance

Material consumed 250
Direct labour 70
Direct overhead 30

Total fixed overhead for the year was `\(3,00,000\) on a normal capacity of 30,000 units while actual production has been of \(\mathbf{2 5 , 0 0 0}\) units. Calculate the value of closing stock, when (i) Net realizable value of the finished good \(Q\) is` 450 per unit.
(ii) Net Realizable value of the Finished Good $Q$ is ` 340 per unit.

## ANSWER

(i) When Net Realizable Value of the Finished Good Q is ` 450 per unit

Value of Closing Stock:

|  | Valuation <br> Base | Qty. | Rate <br> (₹) | Amount <br> (₹) |
| :--- | :--- | :---: | ---: | ---: |
| Raw Material P | Cost | 600 | 275 | $1,65,000$ |
| Finished Good Q | Cost | 1,500 | 360 | $\underline{5,40,000}$ |
| Total value of closing stock |  |  |  | $\underline{7,05,000}$ |

(ii) When Net Realizable Value of the Finished Good $\mathbf{Q}$ is ` $\mathbf{3 4 0}$ per unit

Since NRV of finished goods Q is less than its cost i.e. ` 360 (Refer W.N.), raw material P is to be valued at replacement cost and finished goods is to be valued at NRV.
Value of Closing Stock:

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

|  | Valuation Base | Qty. | Rate (₹) | Amount (₹) |
| :--- | :--- | :--- | ---: | ---: |
| Raw material P | Replacement cost | 600 | 180 | $1,08,000$ |
| Finished good Q | Net Realisable Value | 1,500 | 340 | $\underline{5,10,000}$ |
| Total value of closing |  |  |  | $\underline{6,18,000}$ |
| stock |  |  |  |  |

Working Note:
Statement showing calculation of cost of raw material $P$ and finished $\operatorname{good} Q$

| Raw Material P | $₹$ |
| :--- | ---: |
| Cost Price (250-20) | 230 |
| Add: Freight Inward | 30 |
| $\quad$ Handling charges | $\underline{15}$ |
| Cost | $\underline{275}$ |
| Finished Goods Q | $\mathbf{F}$ |
| Materials consumed | 250 |
| Direct Labour | 70 |
| Variable overheads | 30 |
| Fixed overheads ( $₹ 3,00,000 / 30,000$ units) | $\underline{10}$ |

(c) U Limited has obtained a term loan of `620 lacs for a complete renovation and modernization of its Factory on 1st April, 2020. Plant and Machinery was acquired under the modernization scheme and installation was completed on 30th April, 2021. An expenditure of` 564 lacs was incurred on this Plant and Machinery and the balance loan of `56 lacs has been used for working capital purposes. The company has paid total interest of` 68.20 lacs during financial year 20202021 on the above loan. The accountant seeks your advice how to account for the interest paid in the books of accounts. Will your answer be different, if the whole process of renovation and modernization gets completed by 28th February, 2021?

## ANSWER

Borrowing Cost: As per AS 16 'Borrowing Costs', borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred. Borrowing costs should be expensed except where they are directly attributable to acquisition, construction or production of qualifying asset.

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

Qualifying Asset: A qualifying asset is an asset that necessarily takes a substantial period of time (ordinarily, a period of twelve months unless a shorter or longer period can be justified on the basis of the facts and circumstances of the case) to get ready for its intended use or sale.
(i) When construction of asset completed on 30 th April, 2021

The treatment for total borrowing cost of ` 68.20 lakhs will be as follows:

| Purpose | Nature | Interest to be <br> capitalized | Interest to be <br> charged to profit <br> and loss account <br> ₹ in lakhs |
| :--- | :--- | ---: | ---: |
| Flant in lakhs |  |  |  |
| under machinery <br> and <br> scheme <br> Modernization <br> renovation | Qualifying asset <br> Working Capital | Not a qualifying <br> asset | $=62.20 \times(564 / 620)]$ |

(ii) When construction of assets is completed by 28th February, 2019

In this scenario, when the process of renovation gets completed in less than 12 months, the plant and machinery will not be considered as qualifying assets (until and unless the entity specifically considers that the asset took substantial period of time for completing their construction) and the whole of interest will be required to be charged off / expensed off to Profit and loss account.
(d) From the following information, prepare the Cash Flow from Financing activities as per AS 3 'Cash Flow Statements' as the accountant of XYZ Limited is not able to decide and seeks your advice:
(i) Received ` \(4,00,000\) as redemption of short-term deposit (ii) Proceeds of \({ }^{`} 20,00,000\) from issuance of equity share capital
(iii) Received interest of `70,000 on Govt. bonds. (iv) An amount of` 13,00,000 incurred for purchase of goodwill
(v) Proceeds of `\(5,00,000\) from sale of patent. (vi) Proceeds of` $12,00,000$ from long term borrowing.
(vii) Amount paid for redemption of debentures of `22,00,000 (viii) Underwriting commission of ` 40,000 paid on issue of equity share capital
(ix) Interest of ` 1,44,000 paid on long-term borrowing.

## ANSWER <br> Statement showing Cash Flow from Financing Activities

|  |  | ₹ |
| :---: | :---: | :---: |
| Cash inflow from financing activity |  |  |
| Proceeds from issuance of equity share capital | 20,00,000 |  |
| Proceeds from long term borrowings | 12,00,000 |  |
| Total cash inflow from financing activity |  | 32,00,000 |
| Less: Cash outflow from financing activity |  |  |
| Amount paid for redemption of debentures | 22,00,000 |  |
| Underwriting commission paid | 40,000 |  |
| Interest paid on long-term borrowings | 1,44,000 | (23,84,000) |
| Net cash inflow from financing activity |  | 8,16,000 |

2. (a) On 31st March, 2021, Morya Ltd. provides the following ledger balances:

| 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 |  | $26,30,000$ |
| Hypothecation of Land) |  | $22,50,000$ |

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

| Short Term Borrowings |  | $4,60,000$ |
| :--- | ---: | ---: |
| Inventories: Finished goods | $45,00,000$ |  |
| Raw materials | $13,00,000$ |  |
| Trade Receivables | $17,50,000$ |  |
| Advances: Short Term | $3,75,000$ |  |
| Trade Payables |  | $8,13,000$ |
| Provision for Taxation |  | $3,80,000$ |
| Cash in Hand | 70,000 |  |
| Balances with Banks | $3,44,000$ |  |
| Total | $1,75,54,000$ | $1,75,54,000$ |

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:

\begin{tabular}{|l|l|}
\hline Building \& \(` 32,00,000\) \\
\hline Plant and Machinery \& \(` 30,00,000\) \\
\hline Furniture and Fixture \& \(`\)\begin{tabular}{l} 
\\
\\
\hline
\end{tabular} \\
\hline
\end{tabular}
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) include:
\begin{tabular}{|l|c|}
\hline Loan taken from Nixes Bank \& \(` 13,80,000\) \\
\hline (Amount repayable within one year \& \(` 4,80,000)\) \\
\hline Loan taken from Directors \& \begin{tabular}{l}
\(8,50,000\) \\
\hline
\end{tabular} \(\mathbf{~}\)
\end{tabular}
(8) Bills Receivable for ` \(1,60,000\) maturing on 15th June, 2021 has been discounted.
(9) Short term borrowings include:
\begin{tabular}{|l|l|}
\hline Loan from Naya bank \& \(` 1,16,000\) (Secured) \\
\hline Loan from directors \& \(` 48,000\) \\
\hline
\end{tabular}
(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)

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

You are required to prepare the Balance Sheet of the Company as at March 31st 2021 as required under Schedule III of the Companies Act, 2013. Ignore previous year figures.

ANSWER

Morya Ltd.
Balance Sheet as at 31st March, 2021

|  | Particulars | Notes | Figures at the end of current reporting period (₹) |
| :---: | :---: | :---: | :---: |
| Equity and Liabilities |  |  |  |
| $\begin{array}{lll}1 & \\ & & \\ & \\ & \text { b }\end{array}$ | Shareholders' funds |  |  |
|  | Share capital | 1 | 79,85,000 |
|  | Reserves and Surplus | 2 | 30,21,000 |
| 2 a | Non-current liabilities |  |  |
|  | Long-term borrowings | 3 | 42,66,000 |
| $\begin{array}{lll}3 & \\ & & \\ & & \\ & b \\ & & c \\ & & \\ & & \end{array}$ | Current liabilities |  |  |
|  | Short-term borrowings | 4 | 4,60,000 |
|  | Trade Payables |  | 8,13,000 |
|  | Other current liabilities | 5 | 6,14,000 |
|  | Short-term provisions | 6 | 3,80,000 |
|  | Total |  | 1,75,39,000 |
| Assets |  |  |  |
| 1 | Non-current assets |  |  |
| A | PPE | 7 | 92,00,000 |
| $2 \begin{array}{rr} \\ & \\ & \text { A } \\ \\ B \\ \text { C } \\ & \text { D }\end{array}$ | Current assets |  |  |
|  | Inventories | 8 | 58,00,000 |
|  | Trade receivables | 9 | 17,50,000 |
|  | Cash and cash equivalents | 10 | 4,14,000 |
|  | Short-term loans and advances |  | 3,75,000 |
|  | Total |  | 1,75,39,000 |

Notes to accounts

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



## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0



Note: There is a Contingent Liability amounting ` $1,60,000$
(b) A Ltd. gives the following information the year ended 31st March, 2021:

|  | ' |
| :--- | :--- |
| Gross profit | $42,00,000$ |
| Administrative, Selling and distribution expenses | $8,22,540$ |
| Directors' fees | $1,34,780$ |
| Interest on debentures | 31,240 |
| Managerial remuneration | $2,85,350$ |
| Depreciation on Property, plant and equipment (PPE) | $5,22,540$ |

Depreciation on PPE as per Schedule II of the Companies Act, 2013 was ` $5,75,345$. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013. (16 + $4=20$ Marks)

ANSWER

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

|  | $₹$ | $₹$ |
| :--- | ---: | ---: |
| Gross profit |  | $42,00,000$ |
| Less: Administrative, selling and distribution expenses | $8,22,540$ |  |
| Director's fees | $1,34,780$ |  |
| Interest on debentures | 31,240 |  |
| Depreciation on PPE as per Schedule II | $5,75,345$ | $(15,63,905)$ |
| Profit u/s 198 |  | $26,36,095$ |

Maximum Managerial remuneration under Companies Act, 2013=11\% of ${ }^{`} 26,36,095={ }^{`} 2,89,970$
3. (a) M/s Shyam, a proprietorship firm runs a business of stationary items. It provides you the following information relating to assets and liabilities:

| 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:

| $(1)$ | 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 |

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

| $(13)$ | Cash withdrawn from bank | 9,000 |
| :--- | :--- | :--- |
| $(14)$ | Payments to creditors by cheque | 60,000 |

No fixed assets were sold during the year. Any difference in cash account to be considered as cash sales.
You are required to prepare Trading and Profit \& Loss Account for the year ended 31.03.2020 and the Balance Sheet as at 31.03.2020 from the given information.

ANSWER
In the books of M/s Shyam
Trading and Profit and Loss Account
for the year ended 31st March, 2020

|  |  | ₹ | ₹ |  |  | ₹ | ₹ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Opening stock <br> Purchases: |  | 10,000 |  | Sales: <br> Cash | 500 |  |
|  | Cash | 1,000 |  |  | Credit | 71,500 |  |
|  | Credit (W.N. 3) | 56,100 |  |  | Less: Returns | (1,450) | 70,550 |
|  |  | 57,100 |  | By | Closing stock |  | 12,000 |
|  | Less: Returns | (400) | 56,700 |  |  |  |  |
| To | Gross Profit c/d |  | 15,850 |  |  |  |  |
|  |  |  | 82,550 |  |  |  | 82,550 |
| To | Discount allowed |  | 4,000 | By | Gross profit b/d |  | 15,850 |
| To | Bad debts |  | 500 | By | Discount received |  | 700 |
| To | General expenses | .N. 5) | 9,200 | By | Net Loss (balancing fig.) |  | 150 |
| To | Depreciation (W.N. |  | 3.000 |  |  |  |  |
|  |  |  | 16.700 |  |  |  | 16,700 |

Balance Sheet as at 31st March, 2020

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

| Liabilities |  | ₹ | Assets |  | ₹ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Capital (W.N. 1) | 39,850 |  | Fixed Assets | 12,000 |  |
| Less: Net loss | 150 |  | Add: New asset | 4,000 |  |
|  | 39,700 |  |  | 16,000 |  |
| Less: Drawings | (500) | 39,200 | Less: Depreciation | (3,000) | 13,000 |
| Sundry creditors |  | 15,000 | Stock in trade |  | 12,000 |
| Expenses outstanding |  | 800 | $\begin{aligned} & \text { Sundry } \quad \text { debtors } \\ & \text { (W.N. 2) } \end{aligned}$ |  | 18,000 |
|  |  |  | Cash in hand |  | 2,000 |
|  |  |  | Cash in Bank |  | 10,000 |
|  |  | 55,000 |  |  | 55,000 |

## Working Notes:

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

| Liabilities | $₹$ | Assets | $₹$ |
| :--- | ---: | :--- | ---: |
| 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 | $\underline{2,500}$ |
|  | $\underline{60,450}$ |  | $\underline{60,450}$ |

(2) Sundry Debtors Account

|  |  | ₹ |  |  | ₹ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| To Balance b/d <br> (bal. fig) <br> To Sales <br>  <br>  <br>  <br>  <br>  $\mathbf{7 2 , 0 0 0 - 5 0 0 )}$ |  | 28,450 |  | Cash | 76,000 |
|  |  | 71,500 |  | Discount | 4,000 |
|  |  |  |  | Returns (sales) | 1,450 |
|  |  |  |  | Bad debts | 500 |
|  |  |  |  | Balance c/d (given) | 18,000 |
|  |  | $\underline{99,950}$ |  |  | 99,950 |

3) Sundry Creditors Account

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

|  | ₹ |  | ₹ |
| :---: | :---: | :---: | :---: |
| 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) | 15,000 |  |  |
|  | 76,100 |  | 76,100 |

(4) Depreciation on Fixed Assets

|  | $₹$ |
| :--- | ---: |
| Opening balance of fixed assets | 12,000 |
| Add: Additions | $\underline{4,000}$ |
|  | 16,000 |
| Less: Closing balance of fixed assets | $\underline{(13,000)}$ |
| Depreciation | $\underline{3,000}$ |

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

| Expenses (in cash) | 9,000 |
| :--- | ---: |
| Add: Outstanding of 2020 | $\underline{800}$ |
|  | 9,800 |
| Less: Outstanding of 2019 | $\underline{600}$ |

## (6) Cash and Bank Account

|  | Cash | Bank |  | Cash | Bank |
| :--- | ---: | ---: | :--- | ---: | ---: |
|  | $₹$ | $₹$ |  | $₹$ | $₹$ |
| To Balance b/d | 7,500 | 2,500 | By Purchases | 1,000 | - |

\begin{tabular}{|c|c|c|c|c|c|}
\hline \multirow[t]{2}{*}{\begin{tabular}{l}
To Debtors \\
To Bank (C) \\
To Cash (C) \\
To Sales (balancing figure considered as cash sales)
\end{tabular}} \& \[
\begin{array}{r}
- \\
9,000 \\
- \\
500
\end{array}
\] \& 76,000 \& \begin{tabular}{l}
By Expenses \\
By Fixed Asset \\
By Drawings \\
By Creditors \\
By Cash (C) \\
By Bank (C)
\end{tabular} \& 9,000

5,000 \& 4,000
500
60,000
9,000 <br>
\hline \& 17.000 \& 83.500 \& By Balanc \& \& 10.000
83.500 <br>
\hline
\end{tabular}

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

(b) From the following details of Western Branch Office of $\mathrm{M} / \mathrm{s}$. Alpha for the year ending 31st March, 2020, ascertain branch stock reserve in respect of unrealized profit in opening stock and closing stock:
(i) Goods are sent to the branch at invoice price and branch also maintains stock at the same price.
(ii) Sale price is cost plus $40 \%$.
(iii) Invoice price is cost plus $15 \%$.
(iv) Other information from accounts of branch:

| Opening Stock as on 01-04-2019 | $3,45,000$ |
| :--- | :--- |
| Goods sent during the year by Head Office to Branch | $16,10,000$ |
| Sales during the year | $21,00,000$ |
| Expenses incurred at the branch | 45,000 |

## ANSWER

Branch Stock Reserve in respect of unrealized profit
on opening stock $=` 3,45,000 \times(15 / 115)=` 45,000$
on closing stock $=` 2,30,000 \times(15 / 115)=` 30,000$
Working Note:

| Cost Price | 100 |
| :--- | ---: |
| Invoice Price | 115 |
| Sale Price | 140 |
| Calculation of closing stock at invoice price | $₹$ |
| Opening stock at invoice price | $3,45,000$ |
| Goods received during the year at invoice price | $\underline{16,10,000}$ |
|  | $19,55,000$ |
| Less: Cost of goods sold at invoice price [21,00,000 X(115/140)] | $\frac{(17,25,000)}{2,30,000}$ |

4. (a) Ram, Sham and Mahaan sons of Prabhu Dyal are running Punya Hotel in Chennai. Ram is heading Room division (A), Sham is heading banquet division (B) and Mahaan is heading Restaurant division (C). Each of the three brothers would receive $60 \%$ of the profits, if any, of the department of which he was incharge and remaining combined profits would be shared in 2:2:1

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ratio. The following is the Trading and Profit and Loss Account of the firm for the year ended March 31,2021:

|  | (₹) | (₹) |  | (₹) | (₹) |
| :---: | :---: | :---: | :---: | :---: | :---: |
| To Opening Stock: |  |  | By Sales: |  |  |
| Room (A) | 25,650 |  | Room (A) | 2,70,000 |  |
| Banquet (B) | 18,000 |  | Banquet (B) | 1,65,000 |  |
| Restaurant (C) | 19,500 | 63,150 | Restaurant (C) | 86,700 | 5,21,700 |
| To Purchases: |  |  | By Discount |  | 1,650 |
| Room (A) | 2,35,000 |  | received |  | 1,650 |
| Banquet (B) | 1,56,000 |  | By Closing Stock: |  |  |
| Restaurant (C) | 84,200 | 4,75,200 | Room (A) | 55,300 |  |
| To Salaries | 34,400 |  | Banquet (B) | 31,800 |  |
| To Royalties | 8,000 |  | Restaurant (C) | 42,500 | 1,29,600 |
| To Parking fee \& car washing charges | 9,600 |  |  |  |  |
| To Discount allowed | 2,500 |  |  |  |  |
| To Misc. Exp. | 7,000 |  |  |  |  |
| To Depreciation | 1,160 | 62,660 |  |  |  |
| To Net Profit |  | 51,940 |  |  |  |
| Total |  | 6,52,950 | Total |  | $\underline{6,52,950}$ |

Prepare: (I) Departmental Trading and Profit and Loss Account alongwith combined Profit \& Loss account and (II) Profit and Loss Appropriation Account after incorporating the following information:
(i) Closing stock of Dept. B includes goods amounting `3,500 being transferred from Dept. A (ii) Stock value` 9,300 and other goods of the value of ${ }^{`} 1,500$ were transferred at selling price by Departments A and C respectively to Department B.
(iii) The details of salaries were as follows:
(1) Admin Office 60\%, Pantry 40\%
(2) Allocate Admin Office in the proportion of 3: 2:1 among the Departments A, B, C
(3) Distribute Pantry expenses equally among the Department A and B.
(iv) The parking fee is ` 500 per month which is to be divided equally between Departments A, B \& C.
(v) All other expenses are to be allocated in ratio of 2:2:1.
(vi) Discounts received are to be credited to the three Departments as follows:

A : `650; B :` 600; C : ` 400.
(vii) The opening stock of Department B does not include any goods transferred from other departments and closing stock of Department B does not include any stock transferred from Department C.

## CA Ravi Agarwal's

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## ANSWER

Ram, Sham and Mahaan
Departmental Trading and Profit \& Loss Account for the year ended 31-3-2021

|  |  | A | B | C |  |  | A | B | C |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To | Opening Stock | 25,650 | 18,000 | 19,500 | By | Sales | 2,70,000 | 1,65,000 | 86,700 |
| To | Purchases | 2,35,000 | 1,56,000 | 84,200 | By | Transfer | 9,300 |  | 1,500 |
| To | Transfer |  | 10,800 |  | By | Closing Stock | 55,300 | 31,800 | 42,500 |
| To | Gross profit c/d | 73,950 | 12,000 | 27,000 |  |  |  |  |  |
|  |  | 3,34,600 | 1,96,800 | 1,30,700 |  |  | 3,34,600 | 1,96,800 | 1,30,700 |
| To | Salaries: |  |  |  | By | Gross profit b/d | 73,950 | 12,000 | 27,000 |
|  | Admin | 10,320 | 6,880 | 3,440 | By | Discount <br> Received | 650 | 600 | 400 |
| To | Royalty | 3,200 | 3,200 | 1,600 | By | Net loss | - | 12,064 |  |
| To | Parking | 2,000 | 2,000 | 2,000 |  |  |  |  |  |
| To | Salaries: Pantry | 6,880 | 6,880 |  |  |  |  |  |  |
| To | Car wash | 1,440 | 1,440 | 720 |  |  |  |  |  |
| To | Discount Allowed | 1,000 | 1,000 | 500 |  |  |  |  |  |
| To | Misc Expenses | 2,800 | 2,800 | 1,400 |  |  |  |  |  |
| $\begin{aligned} & \text { To } \\ & \text { To } \end{aligned}$ | Depreciation | 464 | 464 | 232 |  |  |  |  |  |
|  | Net Profit c/d | 46,496 | - | 17,508 |  |  |  |  |  |
|  |  | 74,600 | 24,664 | 27,400 |  |  | 74,600 | 24,664 | 27,400 |

Note: Gross profit of Department A is $26.48 \%$ (approx.) of Sales price (including transfer to Department C) $73,950 /(2,70,000+9,300)$.There is some unrealized profit only on inter departmental stock $26.48 \%$ of `3,500 is as stock reserve i.e.` 927 . This will be debited to Profit and Loss (combined) Account.
Profit and Loss Account (combined)

## CA Ravi Agcrwal's <br> CA INTER ACCOUNTING COMPILER 4.0

|  |  | $₹$ |  | $₹$ |
| :--- | :--- | ---: | :--- | ---: |
| To | Stock Reserve (See Note) | 927 | By | Net Profit transferred from |, 64,004

Profit and Loss Appropriation Account

|  |  |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- |
| To | Ram: $60 \%$ of Profit of Deptt. A |  | 27,898 | By Profit transfer | 51,013 |
| To | Mahaan: $60 \%$ of Profit of Deptt. C |  | 10,505 |  |  |
| To | Share in Combined profits |  |  |  |  |
|  | Ram | 5,044 |  |  |  |
|  | Sham | 5,044 |  |  |  |
|  | Mahaan | $\underline{2,522}$ | 12,610 |  |  |
|  |  | $\underline{51,013}$ | $\underline{51,013}$ |  |  |

Working Note:
Calculation of combined profit

| Ram | 46,496 |
| :--- | ---: |
| Mahaan | 17,508 |
| Sham | $\underline{(12,064)}$ |
| Total | 51,940 |
| Less: Ram share | $(27,898)$ |
| Less: Mahaan share | $(10,505)$ |
| Less: stock reserve | $\underline{(927)}$ |
| Remaining profit | $\underline{12,610}$ |

(b) The capital structure of Beta Ltd. consists of 20,000 Equity Shares of `10 each fully paid up and \(1,0008 \%\) Redeemable Preference Shares of` 100 each fully paid up (issued on 1.4.2019). Undistributed reserve and surplus stood on 31.3.21 as: General Reserve `80,000; Profit and Loss Account ` 20,000 ; Investment Allowance Reserve is `10,000 out of which` 5,000 is not ascertained as free reserve; Cash at bank amounted to `98,000. Preference shares are redeemed at a Premium of 10\% on 31.3.21 and for the purpose of redemption, the directors make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of ` 20,000 shall be retained in general reserve and which should not be utilised.

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

You are required to give Journal Entries to give effect to the above arrangements and show how the relevant items will appear in the Balance Sheet of the company after the redemption is carried out. (12 + 8 = 20 Marks)

ANSWER
In the books of Beta Ltd.
Journal Entries

| Date | Particulars |  | Dr. (₹) | Cr. (₹) |
| :---: | :---: | :---: | :---: | :---: |
|  | Bank A/c <br> To Equity Share Capital A/c <br> (Being the issue of 2,500 Equity Shares of ₹ 10 each at par, as per Board's Resolution No.....dated.......) | Dr. | 25,000 | 25,000 |
|  | 8\% Redeemable Preference Share Capital A/c | Dr. | 1,00,000 | 1,10,000 |
|  | Premium on Redemption of Preference Shares A/c <br> To Preference Shareholders A/c <br> (Being the amount paid on redemption transferred to Preference Shareholders Account) | Dr. | 10,000 |  |
|  | Preference Shareholders A/c <br> To Bank A/c <br> (Being the amount paid on redemption of preference shares) | Dr. | 1,10,000 | 1,10,000 |
|  | Profit \& Loss A/c <br> To Premium on Redemption of Preference Shares A/c <br> (Being the premium payable on redemption is adjusted against Profit \& Loss Account) | Dr. | 10,000 | 10,000 |
|  | General Reserve A/c | Dr. | 60,000 | 75,000 |
|  | Profit \& Loss A/c | Dr. | 10,000 |  |
|  | Investment Allowance Reserve A/c | Dr. | 5,000 |  |
|  | (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act) |  |  |  |

Balance Sheet as on $\qquad$ [Extracts]


## Notes to accounts

1. Share Capital

22,500 Equity shares $(20,000+2,500)$ of $₹ 10$ each fully paid up
2,25,000
2. Reserves and Surplus

General Reserve 20,000
Capital Redemption Reserve 75,000
Investment Allowance Reserve

| 5,000 |
| ---: |

Working Note:
No of Shares to be issued for redemption of Preference Shares:
Face value of shares redeemed
₹ $1,00,000$
Less: Profit available for distribution as dividend:
General Reserve : ₹ $(80,000-20,000)$
₹ 60,000
Profit and Loss (20,000 - 10,000 set aside for adjusting premium payable on redemption of
preference shares)
Investment Allowance Reserve: (₹ $10,000-5,000$ )
₹ 10,000
₹ 5,000 (₹ 75,000 ) ₹ 25,000
5. (a) On 27th July, 2021, a fire occurred in the godown of M/s. Vijay Exports and most of the stocks were destroyed. However goods costing `5,000 could be salvaged. Their fire fighting expenses were amounting to`1,300.

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

From the salvaged accounting records, the following information is available relating to the period from 1.4.2021 to 27.7.2021:

| 1. | Stock as per balance sheet as on 31.3.2021 | 63,000 |
| :---: | :---: | :---: |
| 2. | Purchases (including purchase of machinery costing `10,000 & 2,92,000 \\ \hline 3. & Wages (including wages paid for installation of machinery` 3,000 ) | 53,000 |
| 4. | Sales (including goods sold on approval basis amounting to ` 40,000 . No approval has been received in respect of 1/4th of the goods sold on approval) | 4,12,300 |
| 5. | Cost of goods distributed as free sample | 2,000 |

Other Information:
(i) While valuing the stock on $31.3 .2021, ~ ` 1,000$ had been written off in respect of certain slow moving items costing `4,000. A portion of these goods were sold in June, 2021 at a loss of` 700 on original cost of `3,000 . The remainder of these stocks is now estimated to be worth its original cost. (ii) Past record shows the normal gross profit rate is \(20 \%\). (iii) The insurance company also admitted fire fighting expenses as part of insurance policy. The Company had taken the fire insurance policy of` 55,000 with the average clause.
Compute the amount of claim of stock destroyed by fire, to be lodged to the Insurance Company. Also prepare Memorandum Trading Account for the period 1.4.2021 to 27.7.2021 for normal and abnormal items.

## ANSWER

Memorandum Trading Account for the period 1st April, 2021 to 27th July, 2021

\begin{tabular}{|c|c|c|c|c|c|c|c|}
\hline \& Normal Items ₹ \& Abnormal Items ₹ \& Total \& \& Normal Items ₹ \& Abnormal Items ₹ \& Total

₹ <br>

\hline | To Opening stock |
| :--- |
| (W.N.5) | \& 60,000 \& 4,000 \& 64,000 \& | By Sales |
| :--- |
| (W.N. 3) | \& 4,00,000 \& 2,300 \& 4,02,300 <br>

\hline To Purchases ( W.N. 1) \& 2,80,000 \& \& 2,80,000 \& By Loss \& \& 700 \& 700 <br>

\hline | To Wages |
| :--- |
| (W.N. 4) | \& 50,000 \& - \& 50,000 \& By Goods on Approval ( W.N. 2) \& 8,000 \& - \& 8,000 <br>

\hline To Gross profit \& 80,000 \& - \& 80,000 \& By Closing stock (Bal. fig.) \& 62,000 \& 1,000 \& 63,000 <br>
\hline \& 4,70,000 \& 4,000 \& 4,74,000 \& \& 4,70,000 \& 4,000 \& 4,74,000 <br>
\hline
\end{tabular}

Statement of Claim for Loss of Stock

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

|  | $₹$ |
| :--- | ---: |
| Book value of stock as on 27th July, 2021 | 62,000 |
| Add: Abnormal Stock | 1,000 |
| Less: Stock salvaged | $\underline{(5,000)}$ |
| Loss of stock | 58,000 |
| Add: Fire fighting expenses | $\underline{1,300}$ |
| Total Loss | $\underline{59,300}$ |

Amount of claim to be lodged with insurance company

```
\(=\) Loss \(x\) Policy value
Value of stock on the date of fire
\(=₹ 59,300 \times(55,000 / 63,000)=₹ 51,770\) (rounded off)
```

Working Notes:

1. Calculation of Adjusted Purchases

|  | $₹$ |
| :--- | ---: |
| Purchases | $2,92,000$ |
| Less: Purchase of Machinery | $(10,000)$ |
| Less: Free samples | $\underline{(2,000)}$ |
| Adjusted purchases | $\underline{2,80,000}$ |

## 2. Calculation of Goods with Customers

Approval for sale has not been received $=` 40,000 \times 1 / 4=` 10,000$.
Hence, these should be valued at cost i.e. ( ${ }^{`} 10,000-20 \%$ of ${ }^{`} 10,000$ ) $=` 8,000$

## 3. Calculation of Actual Sales

Total Sales shown
Less: Approval for sale not received ( $1 / 4 \mathrm{X} ₹ 40,000$ )
Actual Sales
₹ $4,12,300$
$₹ \quad 10,000$
₹ $4,02,300$
4. Calculation of Wages

Total Wages
₹ 53,000
Less: Wages for installation of machinery
$₹ 3,000$
₹ 50,000

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

## 5. Value of Opening Stock

Original cost of stock as on 31st March,2021
$=` 63,000+1,000$ (Amount written off)
$=` 64,000$.
(b) On 1st April, 2019, Mr. Vijay had 30,000 Equity shares in X Ltd. (the company) at a book value of `4,50,000 (Face Value ` 10 per share). On 22nd June, 2019, he purchased another 5000 shares of the same company for ${ }^{`} 80,000$. The Directors of $X$ Ltd. announced a bonus of equity shares in the ratio of one share for seven shares held on 10th August, 2019.
On 31st August, 2019 the Company made a right issue in the ratio of three shares for every eight shares held, on payment of `15 per share. Due date for the payment was 30th September, 2019, Mr. Vijay subscribed to 2/3rd of the right shares and sold the remaining of his entitlement to Viru for a consideration of ' 2 per share. On 31stOctober, 2019, Vijay received dividends from X Ltd. @ 20\% for the year ended 31st March, 2019. Dividend for the shares acquired by him on 22ndJune,2019 to be adjusted against the cost of purchase. On 15th November, 2019 Vijay sold 20,000 Equity shares at a premium of` 5 per share. You are required to prepare Investment Account in the books of Mr. Vijay for the year ended 31st March, 2020 assuming the shares are being valued at average cost.

## ANSWER

Books of Vijay
Investment Account
(Scrip: Equity Shares in X Ltd.)

|  |  | No. | Amount |  |  | No. | Amount |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | ₹ |  |  |  | ₹ |
| 1.4.2019 | To Bal b/d | 30,000 | 4,50,000 | 31.10.2019 | By Bank | - | 10,000 |
| 22.6.2019 | To Bank | 5,000 | 80,000 |  | (dividend |  |  |
| 10.8.2019 | To Bonus | 5,000 |  |  | on shares |  |  |
| 30.9.2019 | To Bank (Rights Shares) | 10,000 | 1,50,000 |  | acquired on <br> 22/6/2019) |  |  |
| 15.11.2019 | To Profit <br> (on sale of shares) |  | 32,000 | 15.11.2019 | By Bank <br> (Sale of shares) | 20,000 | 3,00,000 |
|  |  |  |  | 31.3.2020 | By Bal. c/d | 30,000 | 4,02,000 |
|  |  | 50,000 | $\underline{7,12,000}$ |  |  | 50,000 | $\underline{7,12,000}$ |

Working Notes:
(1) Bonus Shares $=(30,000+5,000) / 7=5,000$ shares

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(2) Right Shares $=\frac{(30,000+5,000+5,000)}{8} \times 3=15,000$ shares
(3) Rights shares sold $=15,000 \times 1 / 3=5,000$ shares
(4) Dividend received $=30,000 \times 10 \times 20 \%=` 60,000$ will be taken to P\&L statement
(5) Dividend on shares purchased on $22.6 .2019=5,000 \times 10 \times 20 \%=` 10,000$ is adjusted to Investment $\mathrm{A} / \mathrm{c}$
(6) Profit on sale of 20,000 shares
= Sales proceeds - Average cost
Sales proceeds $=` 3,00,000$

$$
\text { Average cost }=\frac{(4,50,000+80,000+1,50,000-10,000)}{50,000} \times 20,000=₹ 2,68,000
$$

Profit $=` 3,00,000-` 2,68,000=` 32,000$.
(7) Cost of shares on 31.3.2020

$$
\frac{(4,50,000+80,000+1,50,000-10,000)}{50,000} \times 30,000=₹ 4,02,000
$$

(8) Sale of rights amounting ` 10,000 (` $2 \times 5,000$ shares) will not be shown in investment $\mathrm{A} / \mathrm{c}$ but will directly be taken to P \& L statement.
(c) Nidhi Ltd. invested in the shares of another company on 1st May 2019 at a cost of `3,00,000 with the intention of holding for more than a year. The published accounts of Nidhi Ltd. received in March, 2021 reveals that the company has incurred cash losses with decline in market share and investment of Nidhi Ltd. may not fetch more than` 45,000 . How you will deal with the above in the financial statements of the Paridhi Electronics Ltd. as on 31.3.21 with reference to AS-13? (8+8+4 = $\mathbf{2 0}$ Marks)

## ANSWER

As per AS 13, "Accounting for Investments" Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.
On this basis, the facts of the case given in the question clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares to `45,000 in the financial statements for the year ended 31st March, 2021 and charge the difference of loss of` $2,55,000$ to profit and loss account.
6. (a) Jai Ltd purchased a machine on hire purchase basis from KM Ltd. on the following terms:
(a) Cash price ${ }^{`} 1,20,000$.

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(b) Down payment at the time of signing the agreement on 1-1-2016, `32,433 . (c) 5 annual instalments of` 23,100 , the first to commence at the end of twelve months from the date of down payment.
(d) Rate of interest is $10 \%$ p.a.

Your are required to calculate the total interest and interest included in each instalment.

## ANSWER

Calculation of interest

|  | Total (₹) | Interest in each instalment <br> (1) | Cash price in each instalment <br> (2) |
| :---: | :---: | :---: | :---: |
| Cash Price | 1,20,000 |  |  |
| Less: Down Payment | $(32,433)$ | Nil | ₹ 32,433 |
| Balance due after down payment | 87,567 |  |  |
| Interest/Cash Price of $1^{\text {st }}$ instalment | - | $\begin{gathered} ₹ 87,567 \times 10 / 100= \\ 8,757 \end{gathered}$ | $\begin{array}{r} \text { ₹ } 23,100- \\ ₹ 8,757= \\ \text { ₹ } 14,343 \end{array}$ |
| Less: Cash price of $1^{\text {st }}$ instalment | (14,343) |  |  |
| Balance due after $1^{\text {st }}$ instalment | 73,224 |  |  |
| Interest/cash price of 2nd instalment | - | $\begin{gathered} ₹ 73,224 \times 10 / 100= \\ ₹ 7322 \end{gathered}$ | $\begin{aligned} & ₹ 23,100- \\ & ₹ 7,322= \\ & ₹ 15,778 \end{aligned}$ |
| Less: Cash price of $2^{\text {nd }}$ instalment | $(15,778)$ |  |  |
| Balance due after $2^{\text {nd }}$ instalment | 57,446 |  |  |
| Interest/Cash price of $3^{\text {rd }}$ instalment | - | $\begin{gathered} ₹ 57,446 \times 10 / 100= \\ ₹ 5745 \end{gathered}$ | $\begin{aligned} & \text { ₹ } 23,100- \\ & \text { ₹ } 5745= \\ & \text { ₹ } 17,355 \end{aligned}$ |
| Less: Cash price of 3 ${ }^{\text {rd }}$ instalment | (17,355) |  |  |
| Balance due after $3^{\text {rd }}$ instalment | 40,091 |  |  |
| Interest/Cash price of $4^{\text {th }}$ instalment | - | $\begin{gathered} ₹ 40,091 \times 10 / 100= \\ ₹ 4.009 \end{gathered}$ | $\begin{aligned} & \text { ₹ } 23,100- \\ & \text { ₹ } 4,009= \\ & \text { ₹ } 19,091 \end{aligned}$ |
| Less: Cash price of $4^{\text {m }}$ instalment | (19,091) |  |  |
| Balance due after $4^{\text {th }}$ instalment | 21,000 |  |  |
| Interest/Cash price of $5^{\text {th }}$ instalment | - | $\begin{gathered} ₹ 21,000 \times 10 / 100= \\ ₹ 2,100 \end{gathered}$ | $\begin{array}{r} ₹ 23,100- \\ ₹ 2,100=21,000 \end{array}$ |
| Less: Cash price of $5^{\text {th }}$ instalment | $(21,000)$ |  |  |
| Total | Nil | ₹ 27,933 | ₹1,20,000 |

Total interest can also be calculated as follow:
(Down payment + instalments) - Cash Price $=`[32,433+(23,100 \times 5)]-` 1,20,000=` 27,933$
(b) Aman Ltd. has issued $2,000,12 \%$ convertible debentures of `100 each redeemable after a period of five years. According to the terms \& conditions of the issue, these debentures were redeemable at a premium of \(5 \%\). The debenture holders also had the option at the time of redemption to convert \(20 \%\) of their holdings into equity shares of` 10 each at a price of `20 per share and balance in cash. Debenture holders amounting` 40,000 opted to get their debentures converted into equity shares as per terms of the issue.
You are required to calculate the number of shares issued and cash paid for redemption of `40,000 debenture holders and also pass journal entry for conversion and redemption of debentures.

ANSWER
Calculation of number of shares issued

|  | Number of <br> debentures |
| :--- | ---: |
| Debenture holders opted for conversion $(40,000 / 100)$ | $\underline{400}$ |
| Option for conversion | $20 \%$ |
| Number of debentures to be converted (20\% of 400) | 80 |

| Redemption value of 80 debentures at a premium of $5 \%[80 \times(100+5)]$ | ${fd83a5afb-aafc-477e-8465-b1e4298053fc} 8,400 / ` 20]$ | 420 shares |
| :--- | :--- | :---: |

Journal Entry

| Debentures A/c | Dr. | 40,000 |  |
| :--- | ---: | ---: | ---: |
| Premium on redemption A/c | Dr. | 2,000 |  |
| To Debenture holders A/c |  |  | 42,000 |
| (Being amount due to debenture holders at redemption) |  |  |  |
| Debenture holders A/c | Dr. | 42,000 |  |
| To Equity Share capital A/c |  |  | 4,200 |
| To Securities premium A/c | Dr. |  | 4,200 |
| To Cash A/c |  |  | 33,600 |
| (Discharge of amount due to Debenture holders) |  |  |  |

OR
Following is the extract of the Balance Sheet of ABC Ltd. as at 31st March, 2021:

|  | ₹ |
| :--- | ---: |
| Authorised capital: |  |
| 45,000 12\% Preference shares of ₹ 10 each | $4,50,000$ |
| $6,00,000$ Equity shares of ₹ 10 each | $\underline{60,00,000}$ |
|  | $\underline{64,50,000}$ |
| Issued and Subscribed capital: |  |
| 36,000 12\% Preference shares of ₹ 10 each fully paid | $3,60,000$ |
| $4,05,000$ Equity shares of ₹ 10 each, ₹ 8 paid up | $32,40,000$ |
| Reserves and surplus: | $5,40,000$ |
| General Reserve | $1,80,000$ |
| Capital Redemption Reserve | $1,12,500$ |
| Securities premium (collected in cash) | $9,00,000$ |

On 1st April, 2021, the Company has made final call @ ` 2 each on 4,05,000 equity shares. The call money was received by 20th April, 2021. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.
You are required to give necessary journal entries in the books of the ABC Ltd. and prepare the relevant extract of the balance sheet as on 30th April, 2021 after bonus issue.

ANSWER
Journal Entries in the books of ABC Ltd.

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|  |  |  | ₹ | ₹ |
| :---: | :---: | :---: | :---: | :---: |
| 1-4-2021 | Equity share final call $\mathrm{A} / \mathrm{c}$ <br> To Equity share capital A/c <br> (For final calls of ₹ 2 per share on $4,05,000$ equity shares due as per Board's Resolution dated....) | Dr. | 8,10,000 | 8,10,000 |
|  | Bank A/c <br> To Equity share final call $\mathrm{A} / \mathrm{c}$ <br> (For final call money on $4,05,000$ equity shares received) |  | 8,10,000 | 8,10,000 |
|  | Securities Premium A/c | Dr. | 1,12,500 |  |
|  | Capital redemption reserve A/c <br> General Reserve A/c <br> Profit and Loss A/c (b.f.) <br> To Bonus to shareholders A/c <br> (For making provision for bonus issue of one share for every four shares held) | $\begin{gathered} \mathrm{Dr} \\ \mathrm{Dr} \\ \mathrm{Dr} . \end{gathered}$ | $\begin{aligned} & 1,80,000 \\ & 5,40,000 \\ & 1,80,000 \end{aligned}$ | 10,12,500 |
|  | Bonus to shareholders $\mathrm{A} / \mathrm{c}$ <br> To Equity share capital A/c (For issue of bonus shares) | Dr. | 10,12,500 | 10,12,500 |

Extract of Balance Sheet as at $\mathbf{3 0}_{\text {th }}$ April, 2021 (after bonus issue)

|  | ₹ |
| :--- | ---: |
| Authorized Capital | $4,50,000$ |
| $45,00012 \%$ Preference shares of ₹ 10 each | $\underline{60,00,000}$ |
| $6,00,000$ Equity shares of ₹ 10 each | $3,60,000$ |
| Issued and subscribed capital | $50,62,500$ |
| $36,00012 \%$ Preference shares of ₹ 10 each, fully paid |  |
| $5,06,250$ Equity shares of ₹ 10 each, fully paid |  |
| (Out of the above, 1,01,250 equity shares @ ₹ 10 each were issued by way of bonus |  |
| shares) | $7,20,000$ |

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

(c) Darshan Ltd. purchased a Machinery on 1st April, 2016 for ${ }^{`} 130$ lakhs (Useful life is 4 years).

Government grant received is `40 lakhs for the purchase of above Machinery. Salvage value at the end of useful life is estimated at` 60 lakhs.
Darshan Ltd. decides to treat the grant as deferred income.
Your are required to calculate the amount of depreciation and grant to be recognized in profit \& loss account for the year ending 31st March, 2017,31st March, 2018, 31st March, 2019 \& 31st March, 2020.
Darshan Ltd. follows straight line method for charging depreciation.

## ANSWER

As per 12 "Accounting for government grants", grants related to depreciable assets, if treated as deferred income are recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.
Amount of depreciation and grant to be recognized in the profit and loss account each year Depreciation per year:

|  | ₹in lakhs |
| :--- | ---: |
| Cost of the Asset | 130 |
| Less: Salvage value | $\frac{(60)}{}$ |
|  | 70 |
| Depreciation per year (70lakhs / 4) | 17.50 |

17.50 Lakhs depreciation will be recognized for the year ending 31st March, 2017, 31st March, 2018, 31st March, 2019 and 31st March, 2020.
Amount of grant recognized in Profit and Loss account each year:
40 lakhs /4 years = `10 Lakhs for the year ending 31st March, 2017, 31st March, 2018, 31st March, 2019 and 31st March, 2020. (d) Lotus Ltd. was incorporated on 1st July, 2019 to acquire a running business of Feel goods with effect from 1st April, 2019. During the year 2019-20, the total sales were`48,00,000 of which `\(9,60,000\) were for the first six months. The Gross profit of the company` $7,81,600$. The expenses debited to the Profit \& Loss statement included:
(i) Director's fees `60,000 (ii) Bad debts` 14,400
(iii) Advertising `48,000 (under a contract amounting to` 4,000 per month)
(iv) Salaries and General Expenses `2,56,000 (v) Preliminary Expenses written off ` 20,000
(vi) Donation to a political party given by the company ` 20,000 .

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2020.
ANSWER

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

| Particulars | Total <br> Amount | Basis of <br> Allocation | Pre- <br> incorporation | Post- <br> incorporation |
| :--- | ---: | :--- | ---: | ---: |
| Gross Profit | $7,81,600$ | Sales | 78,160 | $7,03,440$ |
| Less: Directors' fee | 60,000 | Post |  | 60,000 |
| Bad debts | 14,400 | Sales | 1,440 | 12,960 |
| Advertising | 48,000 | Time | 12,000 | 36,000 |
| Salaries \& general expenses | $2,56,000$ | Time | 64,000 | $1,92,000$ |
| Preliminary expenses | 20,000 | Post |  | 20,000 |
| Donation to Political Party | 20,000 | Post |  | 20,000 |
| Net Profit | $3,63,200$ |  |  | $3,62,480$ |

Working Notes:

1. Sales ratio

| Particulars | ` |
| :--- | :--- |
| Sales for period up to $30.06 .2019(9,60,000 \times 3 / 6)$ | $4,80,000$ |
| Sales for period from 01.07 .2019 to $31.03 .2020(48,00,000-4,80,000)$ | $43,20,000$ |

Thus, Sales Ratio =1:9
2. Time ratio

1st April, 2019 to 30 June, 2019: 1st July, 2019 to 31st March, 2020
= 3 months: 9 months $=1: 3$
Thus, Time Ratio is $1: 3$

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

## MTP- II NOV 2021

1. (a) ABC Limited has started construction of an asset on 1st December, 2020, which continues till 31st March, 2021 (and is expected to go beyond a year). The entity has not taken any specific borrowings to finance the construction of the asset but has incurred finance costs on its general borrowings during the construction period. The directly attributable expenditure at the beginning of the month on this asset was `10 lakh in December 2020 and` 4 lakh in each of the months of January to March 2021. At the beginning of the year, the entity had taken Inter Corporate Deposits of `20 lakh at \(9 \%\) rate of interest and had an overdraft of` 4 lakh, which increased to ` 8 lakh on 1 st March, 2021. Interest was paid on the overdraft at 10\% until 1st January, 2021 and then the rate was increased to $12 \%$. You are required to calculate the annual capitalization rate for computation of borrowing cost in accordance with AS 16 'Borrowing Costs'.

## ANSWER

Calculation of capitalization rate on borrowings other than specific borrowings

| Nature of general borrowings | Period of outstanding balance | Amount of loan ( 7 ) | Rate of interest p.a. | Weighted average amount of interest |
| :---: | :---: | :---: | :---: | :---: |
|  | a | b | c | $d=[(b \times c) \times(a / 12)]$ |
| 9\% Debentures | 12 months | 20,00,000 | 9\% | 1,80,000 |
| Bank overdraft | 9 months | 4,00,000 | 10\% | 30,000 |
|  | 2 months | 4,00,000 | 12\% | 8,000 |
|  | 1 month | 8,00,000 | 12\% | 8,000 |
|  |  | 36,00,000 |  | 2,26,000 |

Weighted average cost of borrowings
$=\{20,00,000 \times(12 / 12)\}+\{4,00,000 \times(11 / 12)\}+\{8,00,000 \times(1 / 12)\}=24,33,334$
Capitalisation rate $=[($ Weighted average amount of interest / Weighted average of general borrowings) $\times$ 100]
$=[(2,26,000 / 24,33,334) \times 100]=9.29 \%$ p.a.
(b) In the books of Rani Ltd., closing inventory as on 31.03 .2020 amounts to `1,75,000 (valued on the basis of FIFO method). The Company decides to change from FIFO method to weighted average method for ascertaining the costs of inventory from the year 2019-20. On the basis of weighted

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0
average method, closing inventory as on 31.03 .2020 amounts to `\(1,59,000\). Realizable value of the inventory as on \(\mathbf{3 1 . 0 3 . 2 0 2 0}\) amounts to` $2,07,000$. Discuss disclosure requirements of change in accounting policy as per AS 1.


#### Abstract

ANSWER

As per AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus Rani Ltd. should disclose the change in valuation method of inventory and its effect on financial statements. The company may disclose the change in accounting policy in the following manner: "The company values its inventory at lower of cost and net realizable value. Since net realizable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost. In the present year i.e. 2019-20, the company has changed to weighted average method, which better reflects the consumption pattern of inventory, for ascertaining inventory costs from the earlier practice of using FIFO for the purpose. The change in policy has reduced current profit and value of inventory by `16,000 (1,75,000-1,59,000)." (c) Caseworker Limited received a specific grant of` 6 crore for acquiring the plant of `30 crore during financial year 2015-2016 having useful life of 10 years. During the financial year 2020-2021, due to non-compliance of conditions laid down for the grant of` 6 crore, the company had to refund the grant to the Government. What should be the treatment of the refund if grant was deducted from the cost of the plant during financial year 2015-2016? Assume depreciation is charged on fixed assets as per Straight Line Method.


## ANSWER

As per AS 12, the amount refundable in respect of grant related to specific fixed assets should be recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.
Where grant was deducted from the cost of the asset, initial value of the plant after deduction of grant amount of $` 6$ crore would have been $=` 30$ crore $-` 6$ crore $=` 24$ crore.
Carrying value of the plant after 5 years on $1.4 .2020=[(` 24$ crore / 10 years) x 5 years] = `12 crore. Annual depreciation charge would be` 2.4 crore.
On refund of grant to the Government, the book value of the plant shall be increased by `6 crore i.e.` 12 crore $+` 6$ crore $=` 18$ crore. The increased cost of `18 crore of the plant should be amortised prospectively over remaining 5 years of useful residual life. Depreciation charge in the year 2020-2021 would be` 18 crore / 5 years $=` 3.6$ crore instead of earlier ` 2.4 crore.
(d) Arush Ltd. is installing a new plant in its factory. It provides you the following information:

\begin{tabular}{|l|c|}
\hline Cost of the plant (cost as per supplier's invoice) \& $` 31,25,000$ <br>

\hline | Estimated dismantling costs to be incurred |
| :--- |
| after 5 years | \& |  |
| :---: |
| In0,000 |
| Initial delivery and handling costs | <br>


\hline Cost of site preparation \& |  |
| :---: |, 55,000 <br>


\hline | Consultants used for advice on the acquisition |
| :--- |
| of the plant | \& |  |
| :---: |, 50,000 <br>

\hline
\end{tabular}

You are required to advise Arush Ltd. on the costs that can be capitalised for plant in accordance with AS 10 'Property, Plant and Equipment'. (4 Parts x 5 Marks= 20 Marks)

## ANSWER

According to AS 10 'Property, Plant and Equipment', following costs will be capitalized by Arush Ltd.:

|  | $₹$ |
| :--- | ---: |
| Cost of the plant | $31,25,000$ |
| Initial delivery and handling costs | $1,85,000$ |
| Cost of site preparation | $4,50,000$ |
| Consultants' fee | $6,50,000$ |
| Estimated dismantling costs to be incurred after 5 years | $\underline{2,50,000}$ |
| Total cost of Plant | $\underline{46,60,000}$ |

2. (a) The following figures have been extracted from the books of Manan Limited for the year ended on 31.3.2020. You are required to prepare the 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 `30 lakhs : (a) Depreciation on Property, Plant \& Equipment` 7.50 lakhs.
(b) Discount on issue of Debentures written off ` 45,000 .

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

(c) Interest on Debentures paid `\(5,25,000\). (d) Book value of investments` 4.50 lakhs (Sale of Investments for `\(4,80,000\) ). (e) Interest received on investments`90,000.
(ii) Compensation received $1,35,000$ by the company in a suit filed.
(iii) Income tax paid during the year ${ }^{`} 15,75,000$.
(iv) 22,500, 10\% preference shares of `100 each were redeemed on 02-04-2019 at a premium of 5\%. (v) Further the company issued 75,000 equity shares of`10 each at a premium of $20 \%$ on 30.3.2020 (Out of 75,000 equity shares, 25,000 equity shares were issued to a supplier of machinery)
(vi) Dividend for FY 2018-19 on preference shares were paid at the time of redemption.
(vii) Dividend on Equity shares paid on 31.01.2020 for the year 2018-2019 `7.50 lakhs and interim dividend paid` 2.50 lakhs for the year 2019-2020.
(viii) Land was purchased on 02.4 .2019 for `\(3,00,000\) for which the company issued 22,000 equity shares of` 10 each at a premium of $20 \%$ to the land owner and balance in cash as consideration. (ix) Current assets and current liabilities in the beginning and at the end of the years were as detailed below:

|  | As on 01.04.2019 | As on 31.3.2020 |
| :--- | ---: | ---: |
|  | $₹$ | $₹$ |
| Inventory | $18,00,000$ | $19,77,000$ |
| Trade receivables | $3,87,000$ | $3,79,650$ |
| Cash in hand | $3,94,450$ | 16,950 |
| Trade payables | $3,16,500$ | $3,16,950$ |
| Outstanding expenses | $1,12,500$ | $1,22,700$ |

## ANSWER

## Manan Ltd.

Cash Flow Statement
for the year ended 31st March, 2020

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

|  | $₹$ | $₹$ |
| :---: | :---: | :---: |
| Cash flow from Operating Activities |  |  |
| Net profit before income tax and extraordinary items: |  | 30,00,000 |
| Adjustments for: |  |  |
| Depreciation on Property, plant and equipment | 7,50,000 |  |
| Discount on issue of debentures | 45,000 |  |
| Interest on debentures paid | 5,25,000 |  |
| Interest on investments received | $(90,000)$ |  |
| Profit on sale of investments | $(30,000)$ | 12,00,000 |
| Operating profit before working capital changes |  | 42,00,000 |
| Adjustments for: |  |  |
| Increase in inventory | $(1,77,000)$ |  |
| Decrease in trade receivable | 7,350 |  |
| Increase in trade payables | 450 |  |
| Increase in outstanding expenses | 10,200 | $(1,59,000)$ |
| Cash generated from operations |  | 40,41,000 |
| Income tax paid |  | (15,75,000) |
| Cash flow from ordinary items |  | 24,66,000 |
| Cash flow from extraordinary items: |  |  |
| Compensation received in a suit filed |  | 1,35,000 |
| Net cash flow from operating activities |  | 26,01,000 |
| Cash flow from Investing Activities; |  |  |
| Sale proceeds of investments | 4,80,000 |  |
| Interest received on investments | 90,000 |  |
| Purchase of land ( $3,00,000$ less 2,64,000) | $(36,000)$ |  |
| Net cash flow from investing activities |  | 5,34,000 |
| Cash flow from Financing Activities |  |  |
| Proceeds of issue of equity shares at 20\% premium | 6,00,000 |  |
| Redemption of preference shares at 5\% premium | $(23,62,500)$ |  |
| Preference dividend paid | $(2,25,000)$ |  |
| Interest on debentures paid | $(5,25,000)$ |  |
| Dividend paid (7,50,000 + 2,50,000) | (10,00,000) |  |
| Net cash used in financing activities |  | $(35,12,500)$ |
| Net decrease in cash and cash equivalents during the year |  | $(3,77,500)$ |
| Add: Cash and cash equivalents as on 31.3.2019 |  | 3,94,450 |
| Cash and cash equivalents as on 31.3.2020 |  | 16,950 |

(b) From the following information, prepare extract of Balance Sheet of A Limited along with notes making necessary compliance of Schedule III to the Companies Act, 2013:

|  | Amount (₹) |
| :---: | :---: |
| Loan Funds |  |
| (a) Secured Loans | 18,12,000 |
| (b) Unsecured Loan - Short term from bank | 2,25,000 |
| Other information is as under: |  |
| Secured Loans |  |
| Term Loans from: |  |
| Banks | 8,95,000 |
| Others | 9,17,000 |
|  | 18,12,000 |
| Current Maturities of long-term loan from Bank | 1,24,000 |
| Current Maturities of long- term loan from Others | 85,000 |

There was no interest accrued / due as at the end of the year. Current maturities of long-term loans amounting `2,09,000 is included in the value of secured loans of `18,12,000.

ANSWER
Extract of Balance Sheet of A Ltd.

| Particulars | Note No | Amount |
| :--- | :---: | ---: |
| Non - Current Liabilities |  |  |
| $\quad$ Long term borrowings | 1 | $16,03,000$ |
| Current Liabilities | 2 |  |
| Short term borrowings | 3 | $2,25,000$ |
| Other current liabilities | $2,09,000$ |  |

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

## Notes to Accounts

1. Long-Term Borrowings

Term loans - Secured

- From banks 8,95,000
- From other parties

9,17,000
18,12,000
Less: Current maturities of long-term debt (Refer Note 3)
$(2,09,000)$
16,03,000
2. Short-Term Borrowings
(Unsecured loan)

- from bank

2,25,000
3. Other Current Liabilities

Current maturities of long-term debt

|  |
| ---: |
| $8,95,000$ |
| $9,17,000$ |
| $18,12,000$ |
| $\frac{(2,09,000)}{16,03,000}$ |
|  |
| $2,25,000$ |
| $1,24,000$ |
| 85,000 |
| $2,09,000$ |

(c) The following information of Gaurav Ltd. was obtained on 31st March, 2021:

|  | ₹ |
| :--- | ---: |
| Authorized capital: | $90,00,000$ |
| $90,000,14 \%$ preference shares of ₹ 100 | $9,00,00,000$ |
| $9,00,000$ Equity shares of ₹ 100 each | $9,90,00,000$ |
|  |  |
| Issued and subscribed capital: | $67,50,000$ |
| $67,500,14 \%$ preference shares of ₹ 100 each fully paid | $4,32,00,000$ |
| $5,40,000$ Equity shares of ₹ 100 each, ₹ 80 paid-up | $90,00,000$ |
| Share suspense account | $8,77,500$ |
| Reserves and surplus: | $2,25,000$ |
| Capital reserves (₹ 6,75,000 is revaluation reserve) | $2,92,50,000$ |
| Securities premium | $16,65,000$ |
| Secured loans: | $5,92,500$ |
| $15 \%$ Debentures | $15,52,500$ |
| Unsecured loans: | $3,37,50,000$ |
| Public deposits | $68,62,500$ |
| Cash credit loan from SBI (short term) |  |
| Current Liabilities: |  |
| Trade Payables |  |
| Assets: |  |
| Investment in shares, debentures, etc. |  |
| Profit and Loss account (Dr. balance) |  |

## 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 if Gaurav Ltd.is a non-investment company? (10+5+5 = 20 Marks) ANSWER
Computation of effective capital: Where Gaurav Ltd.is a non-investment company

| Paid-up share capital - |  |  |
| :--- | :--- | :---: |
| $67,500,14 \%$ Preference shares | $6,50,000$ |  |
| $5,40,000$ Equity shares | $2,02,500$ |  |
| Capital reserves | $2,25,000$ |  |
| Securities premium | $2,92,50,000$ |  |
| 15\% Debentures | $16,65,000$ |  |
| Public Deposits | $8,12,92,500$ |  |
| (A) | $3,37,50,000$ |  |
| Investments | $68,62,500$ |  |
| Profit and Loss account (Dr. balance) | $4,06,12,500$ |  |
| (B) | $4,06,80,000$ |  |
| Effective capital (A-B) |  |  |

3. (a) The following is the Balance Sheet of Manish and Suresh as on 1st April, 2020:

| Equity and Liabilities | $₹$ | Assets | $₹$ |
| :--- | ---: | :--- | ---: |
| Capital Accounts: |  | Building | $1,00,000$ |
| Manish | $1,50,000$ | Machinery | 65,000 |
| Suresh | 75,000 | Stock | 40,000 |
| Creditors for goods | 30,000 | Debtors | 50,000 |
| Creditors for expenses | 25,000 | Bank | 25,000 |
|  | $\underline{2,80,000}$ |  | $\underline{2,80,000}$ |

They give you the following additional information:
(i) Creditors' Velocity 1.5 month \& Debtors' Velocity 2 months. Here velocity indicates the no. of times the creditors and debtors are turned over a year.
(ii) Stock level is maintained uniformly in value throughout all over the year.
(iii) Depreciation on machinery is charged @ 10\%, Depreciation on building @ 5\% in the current year.
(iv) Cost price will go up $15 \%$ as compared to last year and also sales in the current year will increase by $25 \%$ in volume.
(v) Rate of gross profit remains the same.

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

(vi) Business Expenditures are `50,000 for the year. All expenditures are paid off in cash.
(vii) Closing stock is to be valued on LIFO Basis.
(viii) All sales and purchases are on credit basis and there are no cash purchases and sales.

You are required to prepare Trading, Profit and Loss Account, Trade Debtors Account and Trade
Creditors Account for the year ending 31.03.2021.

ANSWER
Trading and Profit and Loss account for the year ending 31st March, 2021

| Particulars |  |  | ₹ |  | culars | $₹$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To Opening Stock <br> To Purchases (Working Note) <br> To Gross Profit c/d (20\% on sales) |  |  | 40,000 | By | Sales | 4,31,250 |
|  |  |  | 3,45,000 | By | Closing Stock | 40,000 |
|  |  |  | 86,250 |  |  |  |
|  |  |  | 4,71,250 |  |  | 4,71,250 |
|  | Business Expenses |  | 50,000 | By | Gross Profit b/d | 86,250 |
|  | Depreciation |  |  |  |  |  |
|  | Machinery | 6,500 |  |  |  |  |
|  | Building | 5,000 | 11,500 |  |  |  |
|  | Net profit |  | 24,750 |  |  | - |
|  |  |  | 86,250 |  |  | 86,250 |

Trade Debtors Account

| Particulars | ₹ |  | Particulars | ₹ |
| :---: | :---: | :---: | :---: | :---: |
| To Balance b/d | 50,000 | By | al.fig.) | 4,09,375 |

To Sales $\left|\begin{array}{|l|r|r|}\underline{4,31,250} \\ \underline{4,81,250}\end{array}\right|$ By Balance c/d $(1 / 6$ of $4,31,250)|\underline{71,875}|$

Trade Creditors Account


## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

Working Note:

|  |  | ₹ |
| ---: | :--- | ---: |
| (i) | Calculation of Rate of Gross Profit earned during previous year |  |
| A | Sales during previous year (₹ 50,000 x 12/2) | $3,00,000$ |
| B | Purchases (₹ 30,000 x 12/1.5) | $2,40,000$ |
| C | Cost of Goods Sold (₹ 40,000 + ₹ 2,40,000 - ₹ 40,000) | $2,40,000$ |
| D | Gross Profit (A-C) | 60,000 |
| E | ₹ 60,000 |  |
|  | Rate of Gross Profit $\frac{\text { ₹ 3,00,000 }}{} \times 100$ |  |
| (ii) | Calculation of sales and Purchases during current year |  |
| A | Cost of goods sold during previous year | $2,40,000$ |
| B | Add: Increases in volume @ 25 \% | $\underline{60,000}$ |
|  |  | $3,00,000$ |
| C | Add: Increase in cost @ 15\% | $\underline{45,000}$ |
| D | Cost of Goods Sold during Current Year | $3,45,000$ |
| E | Add: Gross profit @ 25\% on cost (20\% on sales) | $\underline{86,250}$ |
| F | Sales for current year [D+E] | $\underline{4,31,250}$ |

(b) Pass necessary Journal entries in the books of an independent Branch of a Company, wherever required, to rectify or adjust the following:
(i) Branch incurred travelling expenses of `4,000 on behalf of other Branches, but not recorded in the books of Branch. (ii) Goods dispatched by the Head office amounting to` 8,000 , but not received by the Branch till date of reconciliation. The Goods have been received subsequently.
(iii) Provision for doubtful debts, whose accounts are kept by the Head Office, not provided earlier for ${ }^{2} 2,000$.
(iv) Branch paid `2,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.

ANSWER

Journal Entries in Books of Branch

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

|  |  | Amount in ₹ |  |
| :---: | :---: | :---: | :---: |
|  |  | Dr. | Cr . |
| (i) | Head Office Account <br> To Cash Account <br> (Being expenditure incurred on account of other branch, now recorded in books) | 4,000 | 4,000 |
| (ii) | Goods -in- transit Account <br> To Head Office Account <br> (Being goods sent by Head Office still in-transit) | 8,000 | 8,000 |
| (iii) | Provision for Doubtful Debts A/c <br> To Head Office Account <br> (Being the provision for doubtful debts not provided earlier, now provided for) | 2,000 | 2,000 |
| (iv) | Head Office Account <br> To Salaries Account | 2,000 | 2,000 |
|  | (Being rectification of salary paid on behalf of Head Office) |  |  |

4. (a) Following is the Trial Balance of Mr. Mohan as on 31.03.2021:

|  | Particulars | Debit (₹) | Credit (₹) |
| :--- | :--- | ---: | ---: |
| Capital Account |  |  | 40,000 |
| Drawing Account |  | 1,500 |  |
| Opening Stock | Department A | 8,500 |  |
|  | Department B | 5,700 |  |
| Purchases | Department C | 1,200 |  |
|  | Department A | 22,000 |  |
|  | Department B | 17,000 |  |
|  | Department C | 8,000 |  |
|  | Department A |  | 54,000 |
|  | Department B |  | 33,000 |

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



You are required to prepare Department Trading, Profit and Loss Account and the Balance Sheet taking into account the following adjustments:
(a) Outstanding Wages: Department B-`150, Department C -` 50.
(b) Depreciate Plant and Machinery and Motor Vehicles at the rate of 10\%.
(c) Each Department shall share all expenses in proportion to their sales.
(d) Closing Stock: Department A - `3,500, Department B - `2,000, Department C - `1,500.

ANSWER
Trading and Profit and Loss Account for the year ended on 31st Match, 2021

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

| Particulars | A ( $)^{\text {) }}$ | $B(\%)$ | C (\%) | Particulars | A ( $)^{\text {) }}$ | $B$ ( ${ }^{\text {\% }}$ ) | $C$ ( ${ }^{\text {\% }}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To Opening Stock | 8,500 | 5,700 | 1,200 | By Sales less Sales returns | 50,000 | 30,000 | 20,000 |
| To Purchases | 22,000 | 17,000 | 8,000 | By Closing Stock | 3,500 | 2,000 | 1,500 |
| To Freight \& carriage | 1,400 | 800 | 200 |  |  |  |  |
| To Wages | 800 | 700 | 200 |  |  |  |  |
| To Gross profit | $\underline{20,800}$ | $\underline{7,800}$ | 11,900 |  |  |  |  |
|  | 53,500 | 32,000 | 21,500 |  | 53,500 | 32,000 | 21,500 |
| To Salaries | 2,250 | 1,350 | 900 | By Gross Profit | 20,800 | 7,800 | 11,900 |
| To Power \& Water | 600 | 360 | 240 | By Net Loss | - | 465 | - |
| To Telephone Charges | 1,050 | 630 | 420 |  |  |  |  |
| To Bad Debts | 375 | 225 | 150 |  |  |  |  |
| To Rent \& Taxes | 3,000 | 1,800 | 1,200 |  |  |  |  |
| To Insurance | 750 | 450 | 300 |  |  |  |  |
| To Printing \& Stationery | 1,000 | 600 | 400 |  |  |  |  |
| To Advertising | 1,750 | 1,050 | 700 |  |  |  |  |
| To Depreciation $(2,000+4,000)$ | 3,000 | 1,800 | 1,200 |  |  |  |  |
| To Net Profit | 7,025 |  | 6,390 |  |  |  |  |
|  | $\underline{20,800}$ | 8,265 | $\underline{11,900}$ |  | $\underline{20,800}$ | 8,265 | 11.900 |

Balance Sheet as at 31.03.2021

## CA Ravi Agcrwal's <br> CA INTER ACCOUNTING COMPILER 4.0

| Liabilities | ₹ |  | Assets <br> Furniture \& Fixtures Plant \& Machinery | $₹$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Capital A/c | $\begin{aligned} & 40,000 \\ & 13,415 \\ & \hline \end{aligned}$ |  |  |  | 4,600 |
| $\begin{array}{\|lll} \text { Add: } & \text { Net } & \text { Profit } \\ & \text { (₹ } 7,025+₹ \\ & 6,390) \end{array}$ |  |  | Plant \& Machinery | 20,000 |  |
|  | 53,415 |  | Less: Depreciation | $\underline{2.000}$ | 18,000 |
| Less: Net loss in Dept B | 465 |  | Motor Vehicles | 40,000 |  |
|  | 52,950 |  | Less: Depreciation | 4,000 | 36,000 |
| Less: Drawings | 1,500 | 51,450 | Sundry Debtors |  | 12,200 |
| Sundry Creditors |  | 15,000 | Cash in hand |  | 850 |
| Bank Overdraft |  | 12,000 | Closing Stock |  | 7,000 |
| Wages Outstanding |  | 200 |  |  |  |
|  |  | 78,650 |  |  | 78,650 |

(b) The Capital structure of a company BK Ltd. consists of 30,000 Equity Shares of `10 each fully paid up and 2,000 9\% Redeemable Preference Shares of` 100 each fully paid up as on 31.03.2020. the other particulars as at 31.03.2020 are as follows:

|  | Amount (₹) |
| :--- | ---: |
| General Reserve | $1,20,000$ |
| Profit \&Loss Account | 60,000 |
| Investment Allowance Reserve (not free for distribution as | 15,000 |
| dividend) | $1,95,000$ |
| Cash at bank |  |

Preference Shares are to be redeemed at a premium of $10 \%$. For the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve \& surplus, subject to the conditions that a sum of `40,000 shall be retained in General Reserve and which should not be utilized. Company also sold investment of 4500 Equity Shares in G Ltd., costing`45,000 at ` 9 per share.
You are required to pass Journal entries to give effect to the above arrangements.

ANSWER

Journal Entries


## Working Note:

Number of Shares to be issued for redemption of Preference Shares:
Face value of shares redeemed $` 2,00,000$
Less: Profit available for distribution as dividend:
General Reserve: `\((1,20,000-40,000)\)` 80,000

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

Profit and Loss (60,000 less 20,000 set aside for adjusting premium payable on redemption of
Pref. shares less 4,500 loss on sale of investments) `35,500 (1,15,500) 84,500. Therefore, No. of shares to be issued \(=84,500 / 10=8,450\) shares. 5. (a) A Fire occurred in the premises of \(M / s \quad B \& C o\). on 30th September, 2019. The firm had taken an insurance policy for` $1,20,000$ which was subject to an average clause. Following particulars were ascertained from the available records for the period from 1st April, 2018 to 30th September, 2019:

|  | Amount <br> $(₹)$ |
| :--- | ---: |
| Stock at cost on 1-04-2018 | $2,11,000$ |
| Stock at cost on 31-03-2019 (after adjustment of written off amount in respect <br> of slow-moving item) <br> Purchases during 2018-19 | $2,52,000$ |
| Wages during 2018-19 | $6,55,000$ |
| Sales during 2018-19 | 82,000 |
| Purchases from 01-04-2019 to 30-09-2019 (including purchase of machinery | $8,60,000$ |
| costing ₹ 58,000) | $4,48,000$ |
| Wages from 01-04-2019 to 30-09-2019 (including wages for installation of | 85,000 |
| machinery costing ₹ 7,000) | $6,02,000$ |
| Sales from 01-04-2019 to 30-09-2019 | 52,000 |
| Sale value of goods drawn by partners (1-4-19 to 30-9-19) | 44,800 |
| Cost of Goods sent to consignee on 18 ${ }^{\text {th }}$ September, 2019 lying unsold with |  |
| them | 8,500 |

While valuing the Stock at 31st March, 2019, ` 8,000 were written off in respect of a slow moving item, cost of which was` 12,000 . A portion of these goods was sold at a loss of ${ }^{`} 4,000$ on the

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

original cost of `9,000 . The remainder of the stock is estimated to be worth the original cost. The value of Goods salvaged was estimated at` 35,000 .

You are required to ascertain the amount of claim to be lodged with the Insurance Company for the loss of stock.

## ANSWER

Memorandum Trading Account
for the period 1st April, 2019 to 30th September, 2019

\begin{tabular}{|c|c|c|c|c|c|c|c|}
\hline \& Normal Items ₹ \& Abnormal Items \& Total \& \& Normal Items ₹ \& Abnormal Items \& Total

$\%$ <br>
\hline To Opening stock \& 2,48,000 \& 12,000 \& 2,60,000 \& By Sales \& 5,97,000 \& 5,000 \& 6,02,000 <br>

\hline | To |
| :--- |
| Purchases |
| (W.N. 2) | \& 3,39,900 \& - \& 3,39,900 \& By Goods sent to consignee \& 44,800 \& - \& 44,800 <br>

\hline $$
\begin{aligned}
& \text { To Wages } \\
& (85,000- \\
& 7,000)
\end{aligned}
$$ \& 78,000 \& - \& 78,000 \& By Loss \& - \& 4,000 \& 4,000 <br>

\hline | To Gross profit |
| :--- |
| @20\% | \& 1,19,400 \& - \& 1,19,400 \& By Closing stock (Bal. fig.) \& 1,43,500 \& 3,000 \& 1,46,500 <br>

\hline \& 7,85,300 \& 12,000 \& 7,97,300 \& \& 7,85,300 \& 12,000 \& 7,97,300 <br>
\hline
\end{tabular}

Statement of Claim for Loss of Stock

|  | ₹ |
| :--- | ---: |
| Book value of stock as on 30.9 .2019 | $1,46,500$ |
| Less: Stock salvaged | $(35,000)$ |
| Loss of stock | $1,11,500$ |

Amount of claim to be lodged with insurance company

$$
\begin{aligned}
& =\text { Loss of stock } x \frac{\text { Policy value }}{\text { Value of stock on the date of fire }} \\
& =₹ 1,11,500 \times 1,20,000 / 1,46,500=₹ 91,331 \text { (approx.) }
\end{aligned}
$$

## Working Notes:

1. Rate of gross profit for the year ended 31st March, 2019

Trading Account for the year ended 31st March, 2019

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

|  | $₹$ |  | $₹$ |
| :--- | ---: | :--- | ---: |
| To Opening Stock | $2,11,000$ | By Sales | $8,60,000$ |
| To Purchases | $6,55,000$ | By Closing stock 2,52,000 |  |
|  |  | Add: written off $\underline{8,000}$ |  |
| To Wages | 82,000 |  | $2,60,000$ |
| To Gross Profit (b.f.) | $1,72,000$ |  |  |
|  | $11,20,000$ |  | $11,20,000$ |

Rate of Gross Profit in 2018-19
$\frac{\text { Gross Profit }}{\text { Sales }} \times 100$
$=1,72,000 \times 100 / 8,60,000=20 \%$
2. Calculation of Adjusted Purchases

|  | ₹ |
| :--- | ---: |
| Purchases $(4,48,000-58,000)$ | $3,90,000$ |
| Less: Drawings [52,000-(20\% of 52,000)] | $(41,600)$ |
| $\quad$ Free samples | $\underline{(8,500)}$ |
| Adjusted purchases | $\underline{3,39,900}$ |

(b) Alpha Ltd. purchased 5,000, 13.5\% Debentures of Face Value of `100 each of Pergot Ltd. on 1st May 2020 @` 105 on cum interest basis. The interest on these instruments is payable on 31st \& 30th of March \& September respectively. On August 1st 2020 the company again purchased 2,500 of such debentures @ `102.50 each on cum interest basis. On October 1st, 2020 the company sold 2,000 Debentures @` 103 each on ex-interest basis. The market value of the debentures as at the close of the year was `106. You are required to prepare the Investment in Debentures Account in the books of Alpha Ltd. for the year ended 31st Dec. 2020 on Average Cost Basis. (12 + 8=20 Marks)

ANSWER
Investment in 13.5\% Debentures in Pergot Ltd. Account
(Interest payable on 31st March \& 30th September)

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

| Date | Particulars | Nominal | Interest | Amount | Date | Particulars | Nominal | Interest | Amount |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 2020 |  | ₹ | ₹ | ₹ | 2020 |  | ₹ | ₹ | ₹ |
| May 1 | To Bank | 5,00,000 | 5,625 | 5,19,375 | Sept. 30 | By Bank <br> ( 6 months Int) |  | 50,625 |  |
| Aug. 1 | To Bank | 2,50,000 | 11,250 | 2,45,000 | Oct. 1 | By Bank | 2,00,000 |  | 2,06,000 |
| Oct. 1 | To P\&L A/c |  |  | 2,167 |  |  |  |  |  |
| Dec. 31 | To P\&L A/c |  | 52,313 |  |  |  |  |  |  |
|  |  |  |  |  | Dec. 31 | By Balance c/d |  |  |  |
|  |  |  |  |  |  |  | 5,50,000 | 18,563 | $\underline{5,60,542}$ |
|  |  | 7,50,000 | 69,188 | 7,66,542 |  |  | 7,50,000 | 69,188 | 7,66,542 |

Note: Cost being lower than Market Value the debentures are carried forward at Cost.

## Working Notes:

1. Interest paid on ` \(5,00,000\) purchased on May 1 st, 2020 for the month of April 2020, as part of purchase price: \(5,00,000 \times 13.5 \% \times 1 / 12=` 5,625\)
2. Interest received on 30 th Sept. 2020

On `\(5,00,000=5,00,000 \times 13.5 \% \times 1 / 2=33,750\) On` $2,50,000=2,50,000 \times 13.5 \% \times 1 / 2=16,875$
Total `50,625 3. Interest paid on ` $2,50,000$ purchased on Aug. 1 st 2020 for April 2020 to July 2020 as part of purchase price:
'2,50,000 x $13.5 \% \times 4 / 12=` 11,250$
4. Loss on Sale of Debentures

Cost of acquisition
(`5,19,375 +`2,45,000) x `2,00,000/` $7,50,000=2,03,833$
Less: Sale Price ( $2,000 \times$ ` 103 ) \(=2,06,000\) Profit on sale \(=` 2,167\)
5. Cost of Balance Debentures
( $5,19,375$ + `\(2,45,000\) ) x` $5,50,000 / ` 7,50,000=` 5,60,542$
6. Interest on Closing Debentures for period Oct.-Dec. 2020 carried forward (accrued interest)
$5,50,000 \times 13.5 \% \times 3 / 12=` 18,563$ (rounded off)
6. (a) "Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements." Discuss and explain the benefits of Accounting Standards.

## ANSWER

Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. Accounting Standards provide a set of standard accounting policies, valuation norms and disclosure requirements. Accounting standards aim at improving the quality of financial reporting by promoting comparability, consistency and transparency, in the interests of users of financial statements.
The following are the benefits of Accounting Standards:
(i) Standardization of alternative accounting treatments: Accounting Standards reduce to a reasonable extent confusing variations in the accounting treatment followed for the purpose of preparation of financial statements.

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0
(ii) Requirements for additional disclosures: There are certain areas where important is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.
(iii) Comparability of financial statements: The application of accounting standards would facilitate comparison of financial statements of different companies situated in India and facilitate comparison, to a limited extent, of financial statements of companies situated in different parts of the world. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in Accounting Standards adopted in different countries.

## OR

"Explain "monetary item" as per Accounting Standard 11. How are foreign currency monetary items to be recognized at each Balance Sheet date? Classify the following as monetary or nonmonetary item:
(i) Share Capital
(ii) Trade Receivables
(iii) Investments
(iv) Fixed Assets.

## ANSWER

As per AS 11' The Effects of Changes in Foreign Exchange Rates', Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.
Foreign currency monetary items should be reported using the closing rate at each balance sheet date. However, in certain circumstances, the closing rate may not reflect with reasonable accuracy the amount in reporting currency that is likely to be realised from, or required to disburse, a foreign currency monetary item at the balance sheet date. In such circumstances, the relevant monetary item should be reported in the reporting currency at the amount which is likely to be realised from or required to disburse, such item at the balance sheet date.

| Share capital | Non-monetary |
| :--- | :--- |
| Trade receivables | Monetary |
| Investments | Non-monetary |
| Fixed assets | Non-monetary |

(b) The following particulars relate to hire purchase transactions:
(a) $X$ purchased three cars from $Y$ on hire purchase basis, the cash price of each car being `2,00,000. (b) The hire purchaser charged depreciation @ 20\% on diminishing balance method. (c) Two cars were seized by on hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30\% depreciation charged under it diminishing balance method. (d) The hire vendor spent`10,000 on repairs of the cars and then sold them for a total amount of 1,70,000.
You are required to compute:
(i) Agreed value of two cars taken back by the hire vendor.

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

(ii) Book value of car left with the hire purchaser.
(iii) Profit or loss to hire purchaser on two cars taken back by their hire vendor.
(iv) Profit or loss of cars repossessed, when sold by the hire vendor.

ANSWER

|  |  | F |
| :---: | :---: | :---: |
| (i) | Price of two cars = ₹ 2,00,000 $\times 2$ | 4,00,000 |
|  | Less: Depreciation for the first year @ 30\% | 1,20,000 |
|  |  | 2,80,000 |
|  | Less: Depreciation for the second year $=₹ 2,80,000 \times \frac{30}{100}$ | 84,000 |
|  | Agreed value of two cars taken back by the hire vendor | 1,96,000 |
| (ii) | Cash purchase price of one car | 2,00,000 |
|  | Less: Depreciation on ₹ 2,00,000 @20\% for the first year | 40,000 |
|  | Written drown value at the end of first year | 1,60,000 |
|  | Less: Depreciation on ₹ 1,60,000 @ 20\% for the second year | 32,000 |
|  | Book value of car left with the hire purchaser | 1,28,000 |
| (iii) | Book value of one car as calculated in working note (ii) above | 1,28,000 |
|  | Book value of Two cars = ₹ 1,28,000 $\times 2$ | 2,56,000 |
|  | Value at which the two cars were taken back, calculated in working note (i) above | 1,96,000 |
|  | Hence, loss on cars taken back = ₹ 2,56,000-₹ 1,96,000= | ₹ 60,000 |
| (iv) | Sale proceeds of cars repossessed | 1,70,000 |
|  | Less: Value at which cars were taken back ₹ $1,96,000$ |  |
|  | Repair $\quad ₹ \underline{10,000}$ | $\underline{2,06,000}$ |
|  | Loss on resale | 36,000 |

(c) The Business carried on by Kamal under the name " K " was taken over as a running business with effect from 1st April, 2020 by Sanjana Ltd., which was incorporated on 1st July, 2020. 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, 2021 were available.

## CA Ravi Agarwal's <br> CA INTER ACCOUNTING COMPILER 4.0

|  | $₹$ | $₹$ |
| :--- | ---: | ---: |
| Sales: Company period | 40,000 |  |
| Prior period | 10,000 | 50,000 |
| Selling Expenses | 3,500 |  |
| Preliminary Expenses written off | 1,200 |  |
| Salaries | 3,600 |  |
| Directors' Fees | 1,200 |  |
| Interest on Capital (Up to 30.6.2020) | 700 |  |
| Depreciation | 2,800 |  |
| Rent | 4,800 |  |
| Purchases | 25,000 |  |
| Carriage Inwards | $\underline{1,019}$ | $\underline{43,819}$ |
| Net Profit | $\underline{6,181}$ |  |

The purchase price (including carriage inwards) for the post-incorporation period had increased by 10 percent as compared to pre-incorporation period. No stocks were carried either at the beginning or at the end.
You are required to prepare a statement showing the amount of pre and post incorporation period profits stating the basis of allocation of expenses.

## ANSWER

Statement showing the calculation of profits/losses for pre incorporation and Post incorporation period profits of Sanjana Ltd. for year ended 31.3.2021

| Particulars | Basis | Pre | Post |
| :--- | ---: | ---: | ---: |
|  |  | $₹$ | $₹$ |
| Sales (given) |  | 10,000 | 40,000 |
| Less: Purchases | $1: 3.3$ | 5,814 | 19,186 |
| $\quad$ Carriage Inwards | $1: 3.3$ | $\underline{237}$ | $\underline{782}$ |
| Gross Profit (i) |  | $\underline{3.949}$ | $\underline{20,032}$ |
| Less: Selling Expenses | $1: 4$ | 700 | 2,800 |
| $\quad$ Preliminary Expenses | $1: 3$ |  | 900 |
| $\quad$ Salaries |  |  | 2,700 |
| $\quad$ Director Fees |  | 700 | 1,200 |
| $\quad$ Interest on capital | $1: 3$ | 700 | 2,100 |
| $\quad$ Depreciation | $1: 3$ | $\underline{1,200}$ | $\underline{3,600}$ |
| $\quad$ Rent |  | $\underline{4,200}$ | $\underline{13,600}$ |
| Total of Expenses(ii) |  | $(251)$ | 6,432 |

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

## 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 : $9 \therefore$
But purchase price was $10 \%$ higher in the company period
Ratio is $3: 9+10 \%=3: 9.9=1: 3.3 . \therefore$
(d) Z Bank has classified its total investment on 31-3-2021 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI Guidelines. 'Held to maturity' investments are carried at acquisition cost less amortized amount. 'Available for sale' investments are carried at marked to market. 'Held for trading' investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored. You are required to comment whether the policy of the bank is in accordance with AS 13?

## ANSWER

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

## CA RAVI AGARWAL'S MENTORING PROGRAM

 CA FINAL I INTER I IPCC I FOUNDATION

## GETTING A RANK IS NO MORE A DREAM

\author{

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 <br> CA RAVI AGARWAL'S MENTORING <br>  <br> MAKE YOUR DREAM OF RANK COME TRUE}


[^0]:    Investment in Equity Shares of G Ltd
    For the period 1st April 2020 to 31 March 2021

