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

| Interest for pre-incorporation period | 2,800 |  |
| :--- | ---: | ---: |
| Interest for post incorporation period i.e. for |  | 1,400 |
| August, 2016\& September, 2016 |  |  |

## Depreciation

|  | Pre <br> Rs. | Post <br> Rs. |  |
| :--- | ---: | ---: | ---: |
| Total depreciation <br> Less: Depreciation exclusively for post incorporation <br> period | $\underline{600}$ |  | 600 |
| Depreciation for pre-incorporation period | $\underline{9,000}$ |  |  |
| Depreciation for post incorporation period |  | 3,000 |  |
|  |  | $\underline{3,000}$ | $\underline{6,600}$ |

## QUESTION 25 (MTP MAY 20) (PAST PAPER NOVEMBER 18)

Sun Limited took over the running business of a partnership firm M/s A \& N Brothers with effect from $1^{\text {st }}$ April, 2019. The company was incorporated on $1^{\text {st }}$ September,2019. The following profit and loss account has been prepared for the year ended $31^{\text {st }}$ March, 2020.

| Particulars | Rs. | Particulars | Rs. |
| :--- | ---: | :--- | ---: |
| To salaries | $1,33,000$ | By Gross Profit b/d | $7,50,000$ |
| To rent | 96,000 |  |  |
| To carriage outward | 75,000 |  |  |
| To audit fees | 12,000 |  |  |
| To travelling expenses | 66,000 |  |  |

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

| To commission on sales | 48,000 |  |
| :--- | ---: | ---: |
| To printing and stationery | 24,000 |  |
| To electricity charges | 30,000 |  |
| To depreciation | 80,000 |  |
| To advertising expenses | 24,000 |  |
| To preliminary expenses | 9,000 |  |
| To Managing Director's remuneration | 8,000 |  |
| To Net Profit c/d | $\underline{1,45,000}$ |  |
|  | $\underline{7,50,000}$ |  |

Additional Information :

1. Trend of sales during April, 2019 to March, 2020 was as under:

| April, May | Rs. 85,000 per month |
| :--- | :--- |
| June, July | Rs. 1,05,000 per month |
| August, September | Rs. 1,20,000 per month |
| October, November | Rs. 1,40,000 per month |
| December onwards | Rs.1,50,000 per month |

2. Sun Limited took over a machine worth Rs. $7,20,000$ from A \& N Brothers and purchased a new machine on 1st February, 2020 for Rs. 4,80,000. The company decides to provide depreciation @ 10\%p.a.
3. The company occupied additional pace from $1^{\text {st }}$ October, 2019 @ rent of Rs. 6,000 per month.
4. Out of travelling expenses, Rs. 30,000 were incurred by offices staff while remaining expenses were incurred by sales men.
5. Audit fees pertains to the company.
6. Salaries were doubled from the date of incorporation.

You are required to prepare a statement apportioning the expenses between pre and post incorporation periods and calculate the profit/(loss) for such periods.
ANSWER:
Statement showing calculation of profits For pre and post incorporation periods for the year ended 31.3.2020

| Particulars | Pre-incorporation period | Post-incorporation period |
| :--- | ---: | ---: |
|  | Rs. | Rs. |
| Gross profit (1:2) | $2,50,000$ | $5,00,000$ |
| Less: Salaries (5:14) | 35,000 | 98,000 |
| Carriage outward (1:2) | 25,000 | 50,000 |
| Audit fee | - | 12,000 |
| Travelling expenses (W.N.3) | 24,500 | 41,500 |

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

| Commission on sales (1:2) | 16,000 |  |
| :--- | ---: | ---: |
| Printing \&stationary (5:7) | 10,000 |  |
| Rent (office building) (W.N.4) | 25,000 |  |
| Electricity charges (5:7) | 12,500 | 14,000 |
| Depreciation | 30,000 | 71,000 |
| Advertisement (1:2) | 8,000 | 17,500 |
| Preliminary expenses | - | 50,000 |
| MD remuneration | - | 16,000 |
| Pre-incorporation profit (Bal. Fig.) | $\underline{64,000}$ |  |
| Net profit (Bal. Fig.) | $\underline{-}$ | $\underline{8,000}$ |

## Working Notes:

1. Time Ratio

Pre incorporation period $=1{ }^{\text {st }}$ April,2019to31 ${ }^{\text {st }}$ August,2019i.e.5months
Postincorporationperiodis7monthsandTimeratiois5:7.
2. Sales ratio

| April | 85,000 |
| :--- | ---: |
| May | 85,000 |
| June | $1,05,000$ |
| July | $1,05,000$ |
| August | $\underline{1,20,000}$ |
|  | $\underline{5,00,000}$ |
| September | $1,20,000$ |
| Oct \& Nov. | $2,80,000$ |
| Dec. to March $(1,50,000 \times 4)$ | $\underline{6,00,000}$ |

$5,00,000: 10,00,000=1: 2$
3. Travelling expenses

|  | Rs. | Rs. |
| :--- | ---: | ---: |
|  | Pre-incorporation | Post- incorporation |
| 30,000 office staff (5:7) | 12,500 | 17,500 |
| 36,000 sales (1:2) | $\underline{12,000}$ | $\underline{24,000}$ |

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

Rent

|  | Rs. |
| :--- | ---: |
| Rent for additional space Rs. $(6,000 \times 6)$ | 36,000 |
| Remaining rent Rs. $(96,000-36,000)$ | 60,000 |
| Pre-incorporation period $(5 / 12$ of 60,000$)$ | 25,000 |
| Post- incorporation period Rs.35,000 + Rs.36,000 | 71,000 |

4. Salaries

Supposexforamonthinpre-incorporationperiodthensalariesforpre-incorporationperiod $=5 x$ salaries for post- incorporation period $=2 x \times 7=14 x$ ie. Ratio $=5: 14$
5. Depreciation

| Rs. | Rs. <br> Pre-incorporation | Post-incorporation |
| :---: | :---: | :---: |
| Total depreciation 80,000 |  |  |
| Less: Depreciation exclusively for post incorporation period ( $4,80,000 \times 10 \% \times 2 / 12$ ) |  | 8,000 |
| Depreciation for pre-incorporation period (Rs.72,000 x5/12) | 30,000 | 42,000 |
| Depreciation for post incorporation period (Rs.72,000 x7/12) | 30,000 | 50,000 |

## QUESTION 26 (MTP OCTOBER 20)

The partners of Ojasvi Enterprises decided to convert the partnership firm into a Private Limited Company Tejasvi (P) Ltd. with effect from 1st January, 2019. However, company could be incorporated only on $1^{\text {st }}$ June, 2019. The business was continued on behalf of the company and the consideration of Rs. 6,00,000 was settled on that day along with interest @ $12 \%$ per annum. The company availed loan of Rs. 9,00,000 @ 10\% per annum on $1^{\text {st }}$ June, 2019 to pay purchase

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

consideration and for working capital. The company closed its accounts for the first time on 31 ${ }^{\text {st }}$ March, 2020 and presents you the following summarized profit and loss account:

|  | Rs. | Rs. |
| :--- | ---: | ---: |
| Sales |  | $19,80,00$ |
| Cost of goods sold | $11,88,000$ | 0 |
| Discount to dealers | 46,200 |  |
| Directors' remuneration | 60,000 |  |
| Salaries | 90,000 |  |
| Rent | $1,35,000$ |  |
| Interest | $1,05,000$ |  |
| Depreciation | 30,000 |  |
| Office expenses | $1,05,000$ |  |
| Preliminary expenses (to be written off in first year | 15,000 |  |
| itself) |  | $\underline{17,74,200}$ |
| Profit |  | $\underline{2,05,800}$ |

Sales from June, 2019 to December, 2019 were $21 / 2$ times of the average sales, which further increased to $3 ½$ times in January to March quarter, 2019. The company recruited additional work force to expand the business. The salaries from July, 2019 doubled. The company also acquired additional showroom at monthly rent of Rs. 10,000 from July, 2019.

You are required to prepare a statement showing apportionment of cost and revenue between pre - incorporation and post-incorporation periods.
ANSWER:
Tejasvi (P)Limited
Statement showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods

|  | Pre. inc. <br> (5months) <br> (Rs.) | Post inc. <br> (10months) <br> (Rs.) |
| :--- | ---: | ---: |
| Sales (W.N.1) | $3,00,000$ | $16,80,000$ |
| Less: Cost of sales | $1,80,000$ | $10,08,000$ |
| Discount to dealers | 7,000 | 39,200 |
| Directors' remuneration | - | 60,000 |
| Salaries (W.N.2) | 18,750 | 71,250 |
| Rent (W.N.3) | 15,000 | $1,20,000$ |
| Interest (W.N.4) | 30,000 | 75,000 |
| Depreciation | 10,000 | 20,000 |
| Office expenses | 35,000 | 70,000 |


| Preliminary expenses |  | $\underline{15,000}$ |
| :--- | ---: | ---: |
|  | $\underline{4,250}$ | $\underline{2,01,550}$ |

## Working Notes:

1. Calculation of sales ratio

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

$$
\text { Average Sales(Pre-incorporation) }=x X 5=5 x \text { Sales }
$$

(Post incorporation) from June to December, $2019=21 / 2 x$ X

$$
\begin{aligned}
7=17.5 x \text { From January toMarch }, & 2020=3 ½ x X 3 \\
& =\underline{10.5 x} \text { TotalSales }
\end{aligned}
$$

Sales ratio of pre-incorporation \& post incorporation is $5 \mathrm{x}: 28 \mathrm{x}$

## 2. Calculation of ratio for salaries

Let the average salary be $x$
Pre-incorporation salary $=\mathrm{xX5}=5 \mathrm{x}$ Post
incorporation salary
June,2019 $=$ x
July,2019 toMarch,2020 = $\underline{x \times 9 \times 2}=\underline{18 x}$
19x
Ratio is $5: 19$
3. Calculation of Rent Rs.

Total rent 1,35,000
Less: Additional rent for 9 months @ Rs.10,000p.m. 90,000
Rent of old premises apportioned in time ratio $4 \underline{45,000}$
Apportionment Pre Inc. Post Inc.
Old premises rent 15,000 30,000
Additional Rent $\quad$ 90,000
15,000 $\quad 1,20,000$

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## QUESTION 27 (PAST PAPER MAY 18)

The promotors of Shiva Ltd. took over on behalf of the company a running business with effect from $1^{\text {st }}$ April 2017. The company got incorporated on $1^{\text {st }}$ August 2017. The annual accounts were made up to $31^{\text {st }}$ March, 2018 which revealed that the sales for the whole year totalled Rs. 2400 lakhs out of which sales till 31 ${ }^{\text {st }}$ July, 2017 were for Rs. 600 lakhs. Gross profit ratio was20\%.

The expenses from $1^{\text {st }}$ April 2017, till 31 ${ }^{\text {st }}$ March, 2018 were as follows:

| Particulars | Rs. in lakhs |
| :--- | ---: |
| Salaries | 75 |
| Rent, Rates and Insurance | 30 |
| Sundry Office Expenses | 72 |
| Traveller's Commission | 20 |
| Discount allowed | 16 |
| Bad Debts | 8 |
| Directors' Fee | 30 |
| Tax Audit Fee | 16 |
| Depreciation on Tangible Assets | 15 |
| Debenture Interest | 14 |

Prepare a statement showing the calculation of profits for the pre-incorporation and Post incorporation
periods.
ANSWER:

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

| Particulars | Total <br> Amou <br> nt | Basisof <br> Allocati <br> on | Pre- <br> incorporat <br> ion | Post- <br> incorporati <br> on |
| :--- | ---: | :--- | :--- | :--- |
|  | (Rs. <br> in |  | (Rs. in <br> lakhs) | (Rs. in <br> lakhs) |
| lakhs) |  |  |  |  |
| Gross Profit (20\% of Rs. 2,400) | 480 | Sales | 120 | 360 |
| Less: Salaries | 75 | Time | 25 | 50 |
| $\quad$ Rent, rates and Insurance | 30 | Time | 10 | 20 |
| Sundry office expenses | 72 | Time | 24 | 48 |

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

| Travellers' commission | 20 | Sales | 5 | 15 |
| :--- | ---: | :--- | ---: | ---: |
| Discount allowed | 16 | Sales | 4 | 12 |
| Bad debts | 8 | Sales | 2 | 6 |
| Directors' fee | 30 | Post | - | 30 |
| Tax Audit Fees* | 16 | Sales | 4 | 12 |
| Depreciation on | 15 | Time | 5 | 10 |
| tangible |  |  |  |  |
| assets | $\underline{14}$ | Post | $\underline{-}$ | $\underline{14}$ |
| Debenture interest | $\underline{184}$ |  |  |  |
| Net profit |  | $\underline{143}$ |  |  |

* Tax Audit Fees allocated in the ratio of sales.

Thus, pre-incorporation profits is Rs. 41 lakhs and post- incorporation profit is Rs. 143 lakhs.

## Working Notes:

1. Sales ratio

|  | (Rs. in lakh) |
| :--- | :--- |
| Sales for the whole year | 2400 |
| Sales up to 31st July, 2017 | $\underline{600}$ |
| Therefore, sales for the period from 1 | st August, 2017 to |
| 31,800 | $\underline{\text { st }}$ March, 2018 |

Thus, sale ratio $=600: 1800=1: 3$
2. Time ratio
$1^{\text {st }}$ April, 2017 to 31 ${ }^{\text {st }}$ July, 2017 : $1^{\text {st }}$ August, 2017 to 31st March, 2018
$=4$ months: 8 months $=1: 2$, Thus, time ratio is 1:2.

## QUESTION 28 (PAST PAPER NOVEMBER 19)

The partners of C\&G decided to convert their existing partnership business into a private limited called CG trading Pvt. Ltd. with effect from1.7.2018.

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The same books of accounts were continued by the company which closed its accounts for the first term on31.3.2019.

The summarized profit \& loss account for the year ended 31.3.2019 is below:

| Particulars | Rs. in lakhs | Rs. in <br> lakhs |
| :--- | ---: | ---: |
| Turnover | 245.00 |  |
| Interest on investments | $\underline{6.00}$ | 251.00 |
| Less: Cost of goods sold | 3.32 |  |
| Advertisement | 7.50 |  |
| Sales Commission | 18.00 |  |
| Salaries | 6.00 |  |
| Managing Director's Remuneration | 2.00 |  |
| Interest on Debentures | 5.50 |  |
| Rent | 1.15 |  |
| Bad debt | 1.00 |  |
| Underwriting Commission | 3.00 |  |
| Audit fees | 1.00 |  |
| Loss on sale of Investments | 4.00 | 176.47 |
| Depreciation |  | 74.53 |

The following additional information was provided :
(i) Theaveragemonthlysalesdoubledfrom1.7.2018,GPratiowasconstant.
(ii) All investments were sold on31.5.2018.
(iii) Average monthly salaries doubled from1.10.2018.
(iv) The company occupied additional space from 1.7.2018 for which rent of Rs. 20,000 per month was incurred.
(v) Bad debts recovered amounting to Rs. 60,000 for a sale made in 2016-17 has been deducted from bad debts mentioned above.
(vi) Audit fees pertains to the company.

Prepare a statement apportioning the expenses between pre and post incorporation periods and calculate the profit / loss for such periods.

## ANSWER:

C G Trading Private Limited

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

Statement showing calculation of Profit/Loss for Pre and Post Incorporation Periods

|  | Ratio | Total | Pr <br> e <br> Incorporat ion | Pos <br> t <br> Incorporat ion |
| :---: | :---: | :---: | :---: | :---: |
| Sales | 1:6 | 245.00 | 35.00 | 210.00 |
| Interest on Investments | Pre | 6.00 | 6.00 | - |
| Bad debts recovered | Pre | 0.60 | 0.60 |  |
|  |  | $\underline{251.6}$ | $\underline{41.60}$ | $\underline{210.00}$ |
| Cost of goods sold | 1:6 | 124.32 | 17.76 | 106.56 |
| Advertisement | 1:6 | 3.50 | 0.50 | 3.00 |
| Sales commission | 1:6 | 7.00 | 1.00 | 6.00 |
| Salary (W.N.3) | 1:5 | 18.00 | 3.00 | 15.00 |
| Managing director's | Post | 6.00 | - | 6.00 |
| remuneration | Post | 2.00 | - | 2.00 |
| Interest on |  | 5.50 |  | 4.57 |
| Debentures Rent | 1:6 | 1.75 | 0.9 | 1.50 |
| (W.N.4) | Post | 1.00 | 3 | 1.00 |
| Bad debts (1.15 + 0.6) | Post | 3.00 | 0.25 | 3.00 |
| Underwriting | Pre | 1.00 | - | - |
| commission Audit fees | 1:3 | 4.00 | - | 3.00 |
| Loss on sale of Investment |  |  | - |  |
| Depreciation |  |  | 1.0 |  |
|  |  |  | 0 |  |
|  |  |  | 1.00 |  |
| (ii) |  | $\underline{177.07}$ | $\underline{25.44}$ | 151.63 |
| Net Profit [(i) - (ii)] |  | 74.53 | $\underline{16.16}$ | 58.37 |

## Working Notes:

## 1. Calculation of Sales Ratio

Let the average sales per month be $x$
Total sales from 01.04.2018 to 30.06.2018 will be $3 x$

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Average sales per month from 01.07.2018 to 31.03 .2019 will be $2 x$
Total sales from 01.07.2018 to 31.03.2019 will be $2 x \times 9=18 x$ Ratio of Sales will be $3 x: 18 x$ i.e. 3:18 or 1:6

## 2. Calculation of time Ratio

3 Months: 9 Months i.e. 1:3

## 3. Apportionment of Salary

Let the salary per month from 01.04.2018 to 30.09.2018 is $x$ Salary per month from 01.10.2018 to 31.03 .2019 will be $2 x$ Hence, pre incorporation salary (01.04.2018to30.06.2018) $=3 x$

Post incorporation salary from 01.07.2018 to $31.03 .2019=(3 x+12 x)$ i.e. $15 x$
Ratio for division $3 x$ : 15 x or 1 : 5
4. Apportionment of Rent Rs. In Lakhs Total Rent
5.50

| Less: additional rent from 1.7 .2018 to | $\underline{1.80}$ |  |
| :--- | :---: | :---: |
| 31.3 .2019 | $\underline{3.70}$ | Post |
| Rent of old premises for 12 months | Pre | 2.77 |
|  | 0.93 | $\underline{1.80}$ |
| Apportionment in time ratio | $\underline{-}$ | $\underline{4.57}$ |
| Add: Rent for new space | $\underline{0.93}$ |  |
| Total |  |  |

## QUESTION 29 (RTP JULY 21) (MTP MAY 2018)

Megha Ltd. was incorporated on 1.7.2020 to take over the running business of M/s Happy from 1.4.2020. The accounts of the company were closed on 31.3.2021.

The average monthly sales during the first three months of the year (2020-21) was twice the average monthly sales during each of the remaining nine months.
You are required to compute time ratio and sales ratio for pre and post incorporation periods.

## ANSWER:

Time ratio:
Pre-incorporation period (1.4.2020 to 1.7.2020) $=3$ months

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Post incorporation period (1.7.2020 to 31.3.2021) $=9$ months
Time ratio $=3: 9$ or $1: 3$

## Sales ratio:

Average monthly sale before incorporation was twice the average sale per month of the post incorporation period. If weightage for each post -incorporation month is $x$, then

Weighted sales ratio $=3 \cdot 2 x: 9 \cdot 1 x=6 x: 9 x$ or $2: 3$

## QUESTION 30 (PAST EXAM MAY 19)

Tarun Ltd. was incorporated on 1st July, 2018 to acquire a running business of Vinay Sons with effect from 1st April, 2018. During the year 2018-19, the total sales were ₹ $12,00,000$ of which ₹ $\mathbf{2 , 4 0 , 0 0 0}$ were for the first six months. The Gross Profit for the year is $₹ 4,15,000$. The expenses debited to the Profit and Loss account included:
(i) Director's fees ₹ $\mathbf{2 5 , 0 0 0}$
(ii) Bad Debts ₹ 6,500
(iii) Advertising ₹ 18,000 (under a contract amounting to ₹ 1,500 per month)
(iv) Company Audit Fees ₹ 15,000
(v) Tax Audit Fees ₹ 10,000
(1) Prepare a statement showing pre-incorporation and post incorporation profit for the year ended 31st March, 2019.
(2) Explain how profits are to be treated.

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

For the year ended 31 ${ }^{\text {st }}$ March, 2019

| Particulars | Total Amount | Basis of Allocation | incorporation | Postincorporation |
| :---: | :---: | :---: | :---: | :---: |
| Gross Profit | 4,15,000 | Sales (1:9) | 41,500 | 373,500 |
| Less: Directors' fee | 25,000 | Post |  | 25.000 |
| Bad debts | 6,500 | Sales (1.9) | 650 | 5850 |
| Adverfising | 18,000 | Tïme(1:3) | 4,500 | 13,500 |
| Company Audit Fees | 15,000 | Post |  | 15,000 |
| TaxAudit Fee | 10,000 | Sales (1.9) | $11_{2} 000$ | 98000 |
| Net Profit | 3,40,500 |  | 35,350 | 305.150 |

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Pre-incorporation profits to be transferred to capital reserve and post-incorporation profit to be transferred to profit \& Loss A/c.

## Working Notes:

(i) Sales ratio

| Particulars | $₹$ |
| :--- | :--- |
| Sales for period up to $30.06 .2018(2,40,000 \times 3 / 6)$ | $1,20,000$ |
| Sales for period from 01.07 .2018 to $31.03 .2019(12,00,000-1,20,000)$ | $10,80,000$ |

Thus, Sales Ratio = 1 : 9 (1,20,000 : 10,80,000)

## (ii) Time ratio

1st April, 2018 to 30 June, 2018: 1st July, 2018 to 31st March, 2019
= 3 months: 9 months = $1: 3$
Thus, Time Ratio is $1: 3$

## QUESTION 31 (PAST EXAM NOV 20)

Moon Ltd. was incorporated on 1st August, 2019 to take over the running business of a partnership firm w.e.f. 1st April, 2019. The summarized Profit \& Loss Account for the year ended 31st March, 2020 is as under:

|  |  | Amount ( $\left.{ }^{( }\right)$ |
| :---: | :---: | :---: |
| Gross Profit |  | 6,30,000 |
| Less: Salanjes | 1,56,000 |  |
| Rent, Rates \& Taxes | 72,000 |  |
| Commission on sales | 40,600 |  |
| Depreciation | 60,000 |  |
| Inferest on Debentures | 36,000 |  |
| Director's fees | 24,000 |  |
| Advertisement | 48,000 | 4,36,600 |
| NetProfit for the year |  | 1,93,400 |

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

Moon Ltd. initiated an advertising campaign which resulted in increase of monthly sales by $\mathbf{2 5 \%}$ post incorporation.

You are required to prepare a statement showing the profit for the year between preincorporation and post-incorporation. Also, explain how these profits are to be treated in the accounts?

## ANSWER

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

| Particulars | Total Amount | Basis of Allocation | $\begin{array}{r} \text { Pre- } \\ \text { incorporation } \end{array}$ | Post incorporation |
| :---: | :---: | :---: | :---: | :---: |
|  | \% |  | F | ? |
| Gross Profit (W.N.2) | 6,30,000 | 2.5 (sales) | $1{ }_{3} 80,000$ | 4,50,000 |
| Less: Salaries | 1,56,000 | Time | (52,000) | $(1,04,000)$ |
| Rent, rates and taxes | 72,000 | Time | (24,000) | $(48,000)$ |
| Commission on sales | 40,600 | 2.5 (sales) | (11,600) | (29,000) |
| Depreciation | 60,000 | Time | (20,000) | $(40,000)$ |
| Interest on debentures | 36,000 | Post |  | $(36,000)$ |
| Directors' fee | 24,000 | Post |  | (24,000) |
| Adverfisement | 48,000 | Post |  | $(48,000)$ |
| Net profit |  |  | 72,400 | 1.21.000 |

Pre-incorporation profit will be transferred to Capital Reserve.
Post-incorporation profit will be transferred to Profit \& Loss Account.

## Working Notes:

## 1. Sales ratio

Let the monthly sales for first 4 months (i.e. from 1.4.2019 to 31.7.2019) be $=x$ Then, sales for 4 months $=4 \mathrm{x}$
Monthly sales for next 8 months (1st August, 2019 to $31_{\text {st }}$ March, 2020)
$=x+25 \%$ of $x=1.25 x$ Then, sales for next 8 months $=1.25 x \times 8=10 x$
Total sales for the year $=4 x+10 x=14 x$. Hence Sales Ratio $=4 x: 10 x$ i.e. 2:5

## 2. Time ratio

1st April, 2019 to 31st July, 2019 : 1 st August, 2019 to 31st March, 2020
= 4 months: 8 months $=1: 2$. Thus, time ratio is $1: 2$.

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

QUESTION 32 (PAST EXAM JAN 21)
The following is the Draft Profit \& Loss A/c of Brown Ltd. the year ended 31st March,2020:

|  | Amount <br> ( ₹) |  | Amount <br> ( ₹) |
| :--- | ---: | :--- | ---: |
| To Administrative expenses | $4_{z} 99_{2} 200$ | By Balance b/d | $6,27_{x} 550$ |
| To Advertisement | $1_{z} 18,200$ | By Balance from |  |
| To Commission on sales | 95,225 | Trading A/c | $38,15,890$ |
| To Director's Fees | $1_{z} 35,940$ | By Subsidies |  |
| To Interest on debentures | 28,460 | received from Govt. | $2,50,000$ |
| To Managerial remuneration | $2,75,550$ | By Profit on sale of | 20,000 |
| To Depreciation on fixed assets | $4_{z} 82,565$ |  |  |


| To Provision for Taxation | $11,50,200$ |  |  |
| :--- | ---: | ---: | ---: |
| To General Reserve | $4,50,000$ |  |  |
| To Investment Revaluation Reserve | 52,800 |  |  |
| To Balance c/d | $\underline{14,25,300}$ |  |  |
|  | $47,13,440$ |  | $43_{s} 13,440$ |

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was $₹ 5,15,675$. You are required to calculate the maximum limit of managerial remuneration as per Companies Act, 2013

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

|  | $₹$ | $₹$ |
| :--- | ---: | ---: |
| Balance from Trading A/c |  | $38,15,890$ |
| Add: Subsidies received from Government |  | $2,50,000$ |
|  |  | $40,65,890$ |
| Less: Administrative, selling and distribution expenses | $1,12,625$ |  |
| $(4,99,200+1,18,200+95,225)$ |  |  |
| $\quad$ Director's fees | $1,35,940$ |  |
| $\quad$ Interest on debentures | 28,460 |  |
| $\quad$ Depreciation on fixed assets as per Schedule II | $\underline{5,15,675}$ | $\underline{(13,92,700)}$ |
| Profit u/s 198 |  | $26,73,190$ |

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

Maximum Managerial remuneration under Companies Act, 2013=11\% of ₹ 26,73,190 = ₹ $2,94,051$ (rounded off).

Note:

1. Investment Revaluation reserve not to be deducted for calculation of profit under section 198;
2. Profit on sale of forfeited shares not to added for calculation of profit under section 198.
*Alternative presentation of the above answer also possible by starting from Net profit as per Profit and Loss Account.

## QUESTION 33 (MTP NOV 18)

Under what circumstances, a partner may be called upon to pay the liabilities of LLP. Explain in brief.

## ANSWER

Under section 27 (3) of the LLP Act, 2008, any obligation of the LLP arising out of a contract or otherwise will be the sole obligation of the LLP. The partners of an LLP in the normal course of business are not liable for the debts of the LLP. However, under section 28 (2) of the LLP Act, 2008, a partner will be liable for his own wrongful acts or commissions, but will not be liable for the wrongful acts or commissions of other partners of the LLP.

## Chapter 6 Accounting for Bonus issue and Right Issue

## QUESTION 1 (STUDY MATERIAL)

Which of the following cannot be used for issue of bonus shares as per the Companies Act?
(a) Securities premium account
(b) Revaluation reserve
(c) Capital redemption reserve

Answer: (b)

## QUESTION 2 (STUDY MATERIAL)

Which of the following statements is true with regard to declaring and issuing of Bonus Shares?
(a) Assets are transferred from the company to the shareholders.
(b) Bonus shares may be issued to convertible debenture holders at the time of conversion of such debentures into shares.
(c) Both (a) and(b).

Answer: (b)

## QUESTION 3 (STUDY MATERIAL)

Which of the following is true in case of bonus issue ?
(a) Convertible debenture holder will get bonus shares in same proportion as to the existing shareholders
(b) Bonus shares may be issued to convertible debentures holders at the time of conversion of such debentures into shares
(c) Both (a) and (b)

Answer: (c)

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

QUESTION 4 (STUDY MATERIAL)
Bonus issue is also known as
(a) Scrip issue.
(b) Capitalisation issue.
(c) Both (a) and (b).

Answer: (c)

## QUESTION 5 (STUDY MATERIAL)

The bonus issue is not made unless
(a) Partly paid shares are made fully paid-up.
(b) It is provided in its articles of association
(c) Both (a) and(b).

Answer: (c)

## QUESTION 6 (STUDY MATERIAL)

In case of further issue of shares, the right to renounce the shares in favour of a third-party
(a) Must include a right exercisable by the person concerned to renounce the shares;
(b) Should include a right exercisable by the person concerned to renounce the shares;
(c) Is deemed to include a right exercisable by the person concerned to renounce the shares (subject to the provisions under the articles of the company).
Answer: (c)

## QUESTION 7 (STUDY MATERIAL)

A company's share's face value is Rs.10, book value is Rs.20, Right issue price is Rs. 30 and Market price is Rs.40, while recording the issue of right share, the securities premium will be credited with
(a) Rs. 10
(b) Rs. 20
(c) Rs. 30

Answer: (b)

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

## QUESTION 8 (STUDY MATERIAL)

A.Right shares enable existing shareholders to maintain their proportional holding in the company.
B. Right share issue does not cause dilution in the market value of the shares.

Which of the option is correct
(a) A-Correct; B Correct
(b) A - Incorrect; B Correct
(c) A Correct; B -Incorrect

Answer: (c)

## QUESTION 9 (STUDY MATERIAL)

Right shares are normally offered at a price $\qquad$ the cum-right value of the share, causing dilution in its value post-right issue
(a) More than.
(b) Less than.
(c) Equal

Answer: (b)

QUESTION 10 (STUDY MATERIAL)
Rights issue of shares results in $\qquad$ of market value of per share in comparison to market price before rights issue.
(a) Increase.
(b) Decrease.
(c) No change.

Answer: (b)

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

## QUESTION 11 (STUDY MATERIAL)

Ex-Rights price can be calculated by which of these formulas?
(a) (Cum rights value of the existing shares + Rights share issue proceeds)/ (existing number of shares + No. of right shares).
(b) (Cum rights value of the existing shares + Rights share issue proceeds) $X$ (existing number of shares + No. of right shares).
(c) (Cum rights value of the existing shares - Rights share issue proceeds)/ (existing number of shares - No. of right shares).

Answer: (a)

## QUESTION 12 (STUDY MATERIAL)

Issued share capital including issue of rights shares and bonus shares should be $\qquad$ Authorised capital.
(a) More than.
(b) Less than.
(c) Less than or equal to.

Answer: (c)

## QUESTION 13 (STUDY MATERIAL)

Earnings per share $\qquad$ after a bonus issue
(a) Increases.
(b) Decreases.
(c) Remains constant.

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Answer: (b)

## QUESTION 14(STUDY MATERIAL)

What is meant by Bonus issue? Explain its related provisions as per the Companies Act,2013.

## ANSWER:

Bonus Issue means an offer of free additional shares to existing shareholders. A company may decide to distribute further shares as an alternative to increase the dividend pay-out.

## QUESTION 15(STUDY MATERIAL)

Explain the financial effects of a further issue of equity shares on the market value of the share. ANSWER:
The financial position of a business is contained in the balance sheet. Further issue of shares increases the amount of share capital as well as the liquid resources (Bank). The amount of share capital issued is the product of further number of shares issued multiplied by issue price. The issue price may be higher than the face value (issue at a premium).

## QUESTION 16 (STUDY MATERIAL)

What are the advantages and disadvantages of a rights issue?
ANSWER:
Rights issue is an issue of rights to a company's existing shareholders that entitles them to buy additional shares directly from the company in proportion to their existing holdings, within a fixed time period

## QUESTION 17 (STUDY MATERIAL)

What is meant by renunciation of rights shares by existing shareholder?

## ANSWER:

In a situation where existing shareholder does not intend to subscribe to the rights issue of a company, he may give up his right in favour of another person for a consideration. Such giving up of rights is called renunciation of rights.

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CA INTER ACCOUNTING COMPILER 4.0

## QUESTION (STUDY MATERIAL)

Pass Journal Entries in the following circumstances:
(i) A Limited company with subscribed capital of ₹ $5,00,000$ consisting of 50,000 Equity shares of $₹$ 10 each; called up capital ₹ 7.50 per share. A bonus of ₹ $1,25,000$ declared out of General Reserve to be applied in making the existing shares fully paid up.
(ii) A Limited company having fully paid up capital of ₹ 50,00,000 consisting of Equity shares of ₹ 10 each, had General Reserve of ₹ $9,00,000$. It was resolved to capitalize ₹ $5,00,000$ out of General Reserve by issuing $\mathbf{5 0 , 0 0 0}$ fully paid bonus shares of ₹ 10 each, each shareholder to get one such share for every ten shares held by him in the company.

## Solution

## Journal Entries

|  | $₹$ | $₹$ |
| :--- | :--- | :--- |
| (i) General Reserve A/c Dr. | $1,25,000$ |  |
| To Bonus to shareholders A/c |  | $1,25,000$ |
| (For making provision of bonus issue) |  |  |
| Share Final Call A/c | $1,25,000$ |  |
| To Equity share capital A/c |  | $1,25,000$ |
| (For final calls of ₹ 2.5 per share on 50,000 equity <br> shares due as per Board's Resolution dated....) |  |  |
| Bonus to shareholders A/c | $1,25,000$ |  |
| To Share Final Call A/c |  | $1,25,000$ |
| (For bonus money applied for call) |  |  |
| (ii) General Reserve A/c | $5,00,000$ |  |
| To Bonus to shareholders A/c |  | $5,00,000$ |
| (For making provision of bonus issue) |  |  |
| Bonus to shareholders A/c | $5,00,000$ |  |
| To Equity share capital A/c |  | $5,00,000$ |
| (For issue of 50,000 bonus shares at ₹ 10) |  |  |

## QUESTION 10 (STUDY MATERIAL)

Explain the financial effects of a further issue of equity shares on the market value of the share.

## ANSWER:

The financial position of a business is contained in the balance sheet. Further issue if shares increase the amount of share capital as well as the liquid resource (Bank). The amount is share capital issued
is the product of further number of shares issued multiplied by issued price. The issue price may be higher than the face value (issue at a premium).

## QUESTION 11 (STUDY MATERIAL)

What are the advantages and disadvantages of a rights issue?

## ANSWER:

Rights issue is an issue of rights to a company's existing shareholders that entitles them to buy additional shares directly from the company in proportion to their existing holdings, within a fixed time period. For advantages and disadvantages of right issue,

## QUESTION 12 (STUDY MATERIAL)

Following items appear in the trial balance of Bharat Ltd. (a listed company) as on $31^{\text {st }}$ March,20X1:

|  | Rs. |
| :--- | ---: |
| 40,000 Equity shares of Rs.10 each | $4,00,000$ |
| Capital Redemption Reserve | 55,000 |
| Securities Premium (collected in cash) | 30,000 |
| General Reserve | $1,05,000$ |
| Surplus i.e. credit balance of Profit and Loss Account | 50,000 |

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 4 shares held and for this purpose, it decided that there should be the minimum reduction in free reserves. Pass necessary journal entries.

Journal Entries in the books of Bharat Ltd.

|  |  | Dr. | Cr. |
| :--- | ---: | ---: | ---: |
|  |  | Rs. | Rs. |
| Capital Redemption Reserve A/c | Dr. | 55,000 |  |
| Securities Premium A/c | Dr. | 30,000 |  |
| General Reserve A/c (b.f.) | Dr. | 15,000 |  |
| To Bonus to Shareholders A/c |  |  | $1,00,000$ |


| (Bonus issue of one share for every four shares held, <br> by utilising various reserves as per Board's <br> resolution dated......) |  |  |  |
| :--- | :--- | :--- | :--- |
| Bonus to Shareholders A/c <br> To Equity Share Capital A/c | Dr. | $1,00,000$ |  |
| (Capitalisation of profit) |  |  | $1,00,000$ |

## QUESTION 13 (STUDY MATERIAL)

Following is the extract of the Balance Sheet of Solid Ltd. as at 31st March, 20X1:

|  |  |
| :--- | ---: |
| Authorised capital : | Rs. |
| $10,00012 \%$ Preference shares of Rs.10each | $1,00,000$ |
| $1,00,000$ Equity shares of Rs.10 each | $\underline{11,00,000}$ |
|  |  |
| Issued and Subscribed capital: | 80,000 |
| 8,000 12\% Preference shares of Rs.10 each fully paid | $7,20,000$ |
| 90,000 Equity shares of Rs.10 each, Rs.8 paid up | $1,60,000$ |
| Reserves and Surplus : | 35,000 |
| General reserve | 20,000 |
| Revaluation reserve | $2,05,000$ |
| Securities premium (collected in cash) | $5,00,000$ |
| Profit and Loss Account |  |
| Secured Loan: |  |
| 12\% Debentures @ Rs.100 each |  |

On 1st April, 20X1 the Company has made final call @ Rs. 2 each on 90,000 equity shares. The call money was received by 20th April, 20X1. Thereafter the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held. Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue assuming that the company has passed necessary resolution at its general body meeting for increasing the authorised capital.

## Solid Ltd.

## Journal Entries

|  |  | Dr. | Cr. |  |
| :--- | :--- | ---: | ---: | ---: |
| 20X1 |  |  | Rs. | Rs. |
| April 1 | Equity Share Final Call A/c | Dr. | $1,80,000$ |  |

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

| April 20 | To Equity Share Capital A/c <br> (Final call of Rs. 2 per share on 90,000 equity shares due as per Board's Resolution dated) | Dr. | 1,80,000 | 1,80,000 |
| :---: | :---: | :---: | :---: | :---: |
|  | Bank A/c <br> To Equity Share Final Call A/c <br> (Final Call money on 90,000 equity shares received) |  |  | 1,80,000 |
|  | Securities Premium A/c <br> General Reserve A/C <br> Profit and Loss $A / c$ (b.f.) <br> To Bonus to Shareholders A/c <br> (Bonus issue @ one share for every four shares held by utilizing various reserves as per Board's Resolution dated...) | Dr. <br> Dr. <br> Dr. | $\begin{array}{r} 20,000 \\ 1,60,000 \\ 45,000 \end{array}$ | 2,25,000 |
| April 20 | Bonus to Shareholders A/c <br> To Equity Share Capital A/c <br> (Capitalisation of profit) | Dr. | 2,25,000 | 2,25,000 |

Balance Sheet (Extract) as on 30th April, 20X1 (after bonus issue)

|  |  | Particulars | Notes | Amount (Rs.) |
| :---: | :---: | :---: | :---: | :---: |
| 1 | a | Equity and Liabilities |  |  |
|  |  | Shareholders' funds |  |  |
|  |  | Share capital | 1 | 12,05,000 |
|  |  | Reserves and Surplus | 2 | 1,95,000 |
| 2 | a | Non-current liabilities |  |  |
|  |  | Long-term borrowings | 3 | 5,00,000 |
|  |  |  |  | 19,00,000 |

Notes to Accounts

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

1 Share Capital
Equity share capital
Authorised share capital
1,12,500 Equity shares of Rs. 10 each
Issued, subscribed and fully paid share capital
1,12,500 Equity shares of Rs. 10 each, fully paid (Out of above, 22,500 equity shares @ Rs. 10 each were issued by way of bonus)
(A)

Preference share capital
Authorised share capital
10,000 12\% Preference shares of Rs. 10 each
Issued, subscribed and fully paid share capital
8,000 12\% Preference shares of Rs.10each
11,25,000

11,25,000

Total (A + B)
2 Reserves and Surplus
Revaluation Reserve
Securities Premium
20,000
Less: Utilised for bonus issue
General reserve
Less: Utilised for bonus issue
Profit \& Loss Account
Less: Utilised for bonus issue
3
Total
Long-term borrowings
Secured
12\% Debentures @ Rs. 100 each


The authorised capital has been increased by sufficient number of shares. (11,25,000 -10,00,000)

Note: It has to be ensured that the authorized capital after bonus issue should not be less than the issued share capital (including bonus issue) in all the practical problems. The authorized capital may either be increased by the amount of bonus issue or the value of additional shares [bonus issue less unused authorized capital (excess of authorized capital in comparison to the issued shares before bonusissue)].

## QUESTION 14 (STUDY MATERIAL)

Following is the extract of the Balance Sheet of Preet Ltd. as at 31 ${ }^{\text {st }}$ March, 20x1

| Authorised capital: | Rs. |
| :--- | ---: |
| 15,000 12\% Preference shares of Rs. 10 each | $1,50,000$ |
| $1,50,000$ Equity shares of Rs. 10 each | $\underline{15,00,000}$ |
|  | $\underline{16,50,000}$ |
| Issued and Subscribed capital: | $1,20,000$ |
| $12,00012 \%$ Preference shares of Rs.10 each fully paid | $10,80,000$ |
| $1,35,000$ Equity shares of Rs.10 each, Rs.8 paid up | $1,80,000$ |
| Reserves and surplus: | 60,000 |
| General Reserve | 37,500 |
| Capital Redemption Reserve | $3,00,000$ |
| Securities premium (collected in cash) |  |
| Profit and Loss Account |  |

On $1^{\text {st }}$ April, 20X1, the Company has made final call @ Rs. 2 each on $1,35,000$ equity shares. The call money was received by $20^{\text {th }}$ April, 20X1. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on $30^{\text {th }}$ April, 20X1 after bonus issue.

Journal Entries in the books of Preet Ltd.


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



Extract of Balance Sheet as at $30^{\text {th }}$ April, 20X1 (after bonus issue)

|  | Rs. |
| :--- | ---: |
| Authorised Capital |  |
| $15,00012 \%$ Preference shares of Rs. 10 each | $1,50,000$ |
| $1,83,750$ Equity shares of Rs. 10 each (refer working note below) | $\underline{18,37,500}$ |
| Issued and subscribed capital | $1,20,000$ |
| $12,00012 \%$ Preference shares of Rs.10 each, fully paid | $16,87,500$ |
| $1,68,750$ Equity shares of Rs.10 each, fully paid |  |
| (Out of above, 33,750 equity shares @ Rs. 10 each were issued by |  |
| way of bonus) |  |
|   <br> Reserves and surplus $2,40,000$ |  |

## Working Note:

The authorised capital should be increased as per details given below:

Existing authorised Equity share capital 15,00,000

Add: Issue of bonus shares to equity shareholders

QUESTION 15 (STUDY MATERIAL) (MTP MAY 18)
Following items appear in the Trial Balance of Saral Ltd. as on 31st March, 20X1:

| Particulars | Amount |
| :--- | ---: |
| 4,500 Equity Shares of ₹ 100 each | $4,50,000$ |
| Securities Premium(collected in cash) | 40,000 |
| Capital Redemption Reserve | 70,000 |
| General Reserve | $1,05,000$ |
| Profit and Loss Account (Cr. Balance) | 65,000 |

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books Saral Ltd.
ANSWER:

| Capital Redemption Reserve A/c | Dr. | 70,000 |  |
| :---: | :---: | :---: | :---: |
| Securities PremiumA/c | Dr. | 40,000 |  |
| General Reserve A/c(b.f.) | Dr. | 40,000 |  |
| To Bonus to Shareholders |  |  | 1,50,000 |
| (Being issue of bonus shares by utilisation |  |  |  |
| Reserves, as per resolution dated .......) |  |  |  |
| Bonus to Shareholders A/c |  |  |  |
| Dr. 1,50,000 |  |  |  |
| To Equity Share Capital |  |  | 1,50,000 |
| (Being capitalisation of Profit) |  |  |  |

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

## QUESTION 16 (STUDY MATERIAL)

The following notes pertain to Brite Ltd.'s Balance Sheet as on 31st March, 20X1:

| Notes | ₹ in Lakhs |
| :---: | :---: |
| (1) Share Capital |  |
| Authorised: |  |
| 20 crore shares of ₹ 10 each | 20,000 |
| Issued and Subscribed : |  |
| 10 crore Equity Shares of ₹ 10 each | 10,000 |
| 2 crore 11\% Cumulative Preference Shares of ₹ 10 each | 2,000 |
| Total | 12,000 |
| Called and paid up: |  |
| 10 crore Equity Shares of ₹ 10 each, ₹ 8 per share called and paid up | 8,000 |
| 2 crore 11\% Cumulative Preference Shares of ₹ 10 each, |  |
| fully called and paid up | 2,000 |
| Total | 10,000 |
| (2) Reserves and Surplus: |  |
| Capital Redemption Reserve | 1,485 |
| Securities Premium (collected in cash) | 2,000 |
| General Reserve | 1,040 |
| Surplus i.e. credit balance of Profit \& Loss Account | 273 |
| Total | 4,798 |

On 2nd April 20X1, the company made the final call on equity shares @ ₹2 per share. The entire money was received in the month of April, 20X1.
On 1st June 20X1, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held. Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares.

Journal Entries in the books of Brite Ltd.

| 20X1 |  | Dr. | Cr. |
| :---: | :---: | ---: | ---: |
|  |  | ₹ in lakhs | ₹ in lakhs |
| April 2 | Equity Share Final Call A/c <br> To Equity Share Capital A/c | Dr. | 2,000 |
|  |  |  | 2,000 |

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

June 1

| (Final call of ₹ 2 per share on 10 cro quity shares made due) | r | 2,000 | 2,000 |
| :---: | :---: | :---: | :---: |
| Bank A/c | Dr. |  |  |
| To Equity Share Final Call A/c |  |  |  |
| (Final call money on 10 crore equity shares received) |  |  |  |
| Capital Redemption Reserve A/c | Dr. | 1,485 |  |
| Securities Premium A/c | Dr. | 2,000 |  |
| General Reserve A/c (b.f.) | Dr. | 515 |  |
| To Bonus to Shareholders A/c |  |  | 4,000 |
| (Bonus issue of two shares for every |  | 4,000 |  |
| five shares held, by utilising various eserves as per Board's |  |  |  |
| resolution dated.......) | Dr. |  |  |
| Bonus to Shareholders A/c |  |  |  |
| To Equity Share Capital A/c |  |  | 4,000 |
| (Capitalisation of profit) |  |  |  |

Notes to Accounts

|  |  | ₹ in lakhs |
| :--- | :--- | :--- | :---: |
| 1. | Share Capital <br> Authorised share capital <br> 20 crore shares of ₹ 10 each <br> Issued, subscribed and fully paid up share capital <br> 14 crore Equity shares of ₹ 10 each, fully paid <br> up <br> (Out of the above, 4 crore equity shares @ ₹ 10 <br> each were issued by way of bonus) <br> 2 crore, $11 \%$ Cumulative Preference share <br> capital of ₹ 10 each, fully paid up | 20,000 |
| 2. | Reserves and Surplus <br> Capital Redemption reserve | 14,000 |


|  | Less: Utilised for bonus issue | $(1,485$ |
| :--- | ---: | ---: |
|  | 2,000 | - |
| Securities Premium | $(2,000)$ | - |
| Less: Utilised for bonus issue | 1,040 |  |
| General Reserve | $(515)$ | 525 |
| Less: Utilised for bonus issue |  | 273 |
|  |  | 798 |
|  |  |  |
| Turplus (Profit and Loss Account) |  |  |

## QUESTION 17 (STUDY MATERIAL)

FollowingistheextractoftheBalanceSheetofManojLtd.asat31 ${ }^{\text {st }}$ March, 20X1

| Authorised capital: | $₹$ |
| :--- | :--- |
| $30,00012 \%$ Preference shares of ₹ 10 each | $3,00,000$ |
| $3,00,000$ Equity shares of ₹ 10 each | $30,00,000$ |
| $33,00,000$ |  |
| Issued and Subscribed capital: | $2,40,000$ |
| $24,00012 \%$ Preference shares of ₹ 10 each fully paid | $21,60,000$ |
| $2,70,000$ Equity shares of ₹ 10 each, ₹ 8 paid up |  |
| Reserves and surplus: | $3,60,000$ |
| General Reserve | $1,20,000$ |
| Capital Redemption Reserve | 75,000 |
| Securities premium (collected in cash) | $6,00,000$ |
| Profit and Loss Account |  |

On $1^{\text {st }}$ April, 20X1, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by $20^{\text {th }}$ April, 20X1. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on $30^{\text {th }}$ April, 20X1 after bonus issue.

Journal Entries in the books of Manoj Ltd.

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



## QUESTION 18 (STUDY MATERIAL)

A company has decided to increase its existing share capital by making rights issue to its existing shareholders. The company is offering one new share for every two shares held by the shareholder. The market value of the share is ₹ $\mathbf{2 4 0}$ and the company is offering one share of ₹ $\mathbf{1 2 0}$ each. Calculate the value of a right. What should be the ex-right market price of a share?

## ANSWER:

Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing Number of shares + No. of right shares)

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0
= (₹ $240 \times 2$ Shares + ₹ $120 \times 1$ Share) / ( $2+1$ ) Shares
= ₹ 600 / 3 shares $=₹ 200$ per share.

Value of right = Cum-right value of the share - Ex-right value of the share
= ₹ 240 - ₹ 200 = ₹ 40 per share.

Hence, any one desirous of having a confirmed allotment of one share from the company at ₹ 120 will have to pay ₹ 80 ( 2 shares $x$ ₹ 40 ) to an existing shareholder holding 2 shares and willing to renounce his right of buying one share in favour of that person.

## QUESTION 19 (STUDY MATERIAL)

A Ltd company having share capital of 25,000 equity shares of ₹ 10 each decides to issue rights share at the ratio of 1 for every 4 shares held at par value. Assuming all the share folders accepted the rights issue and all money was duly received, pass journal entries in the books of the company.

ANSWER:
Journal Entry in the books of A Ltd.

| $₹$ |  |  |
| :--- | :--- | :--- |
| Bank A/c | Dr. | 62,500 |
| To Equity share capital A/c | 62,500 |  |
| (For rights share issued at par value in the ratio of 1:4 equity <br> shares due as per Board's Resolution dated....) |  |  |

## Working Note:

Number of Rights shares to be issued $-25,000 / 4 \times 1=6,250$ shares

## QUESTION 20 (STUDY MATERIAL)

Following notes pertain to the Balance Sheet of Mars Company Limited as at 31st March 20X1:

| Authorised capital: |  |
| :--- | :--- |
| $50,00012 \%$ Preference shares of ₹ 10 each | $5,00,000$ |
| $5,00,000$ Equity shares of ₹ 10 each | $50,00,000$ |
| 55,00,000 |  |
| Issued and Subscribed capital: |  |
| 50,000 <br> paid | $5,00,000$ |

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

| 4,00,000 Equity shares of ₹ 10 each, ₹ 8 paid up | $32,00,000$ |  |
| :--- | :--- | :---: |
| Reserves and surplus: | $1,60,000$ |  |
| General Reserve | $2,40,000$ |  |
| Capital Redemption Reserve | $2,75,000$ |  |
| Securities premium (collected in cash) | $1,00,000$ |  |
| Revaluation Reserve | $16,00,000$ |  |
| Profit and Loss Account |  |  |

On 1st April, 20X1, the Company has made final call @ R₹ 2 each on 4,00,000 equity shares. The call money was received by 25th April, 20X1. Thereafter, on 1st May 20X1 the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held, it decided that there should be minimum reduction in free reserves.

On 1st June 20X1, the Company issued Rights shares at the rate of two shares for every five shares held on that date at issue price of ₹ $\mathbf{1 2}$ per share. All the rights shares were accepted by the existing shareholders and the money was duly received by 20th June 20X1. Show necessary journal entries in the books of the company for bonus issue and rights issue.

Extract of Balance Sheet as at $30^{\text {th }}$ April, 20X1 (after bonus issue)

| Authorised Capital |  |  |
| :--- | :--- | :--- |
| 30,000 12\% Preference shares of ₹10 each |  | $3,00,000$ |
| $3,37,500$ Equity shares of ₹10 each (refer W.N.) |  | $33,75,000$ |
| Issued and subscribed capital |  |  |
| 24,000 12\% Preference shares of ₹10 each, fully |  | $2,40,000$ |
| paid | 3,37,500 Equity shares of ₹10 each, fully paid |  |
| (Out of the above, 67,500 equity shares @ ₹10 each |  | $33,75,000$ |
| were issued by way of bonus shares) |  |  |
| Reserves and surplus |  |  |
| Capital Redemption Reserve | $1,20,000$ | NIL |
| Less: Utilised for bonus issue | $(1,20,000)$ | NIL |
| Securities premium | 75,000 | NIL |
| Less: Utilised for bonus issue | $(75,000)$ | $4,80,000$ |
| General Reserve | $3,60,000$ |  |
| Less: Utilised for bonus issue | $(3,60,000)$ |  |
| Profit and Loss Account | $6,00,000$ |  |
| Less: Utilised for bonus issue | $(1,20,000)$ |  |

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

| Working Note: |  |
| :--- | ---: |
| 1. Number of bonus shares to be issued- 2,70,000/4 X1= 67,500 shares |  |
| The authorised capital should be increased as per details given below: | $₹$ |
| Existing authorised Equity share capital | $30,00,000$ |
| Add: Issue of bonus shares to equity shareholders | $\underline{6,75,000}$ |
|  | $\underline{36,75,000}$ |

## ANSWER:

Journal Entries in the books of Mars Ltd.

| 20X1 |  | Dr. | Cr. |
| :---: | :---: | :---: | :---: |
|  |  | ₹ | ₹ |
| April 1 | Equity Share Final Call A/c Dr. | 8,00,000 |  |
|  | To Equity Share Capital A/c |  | 8,00,000 |
|  | (Final call of ₹ 2 per share on 4,00,000 equity shares made due) |  |  |
| April 25 | Bank A/c Dr. | 8,00,000 |  |
|  | To Equity Share Final Call A/c |  | 8,00,000 |
|  | (Final call money on equity shares received) |  |  |
| May 1 | Capital Redemption Reserve A/c Dr. | 2,40,000 |  |
|  | Securities Premium A/c Dr. | 2,75,000 |  |
|  | General Reserve A/c Dr. | 1,60,000 |  |
|  | Profit and Loss A/c Dr. | 3,25,000 |  |
|  | To Bonus to Shareholders A/c |  | 10,00,000 |
|  | (Bonus issue of one shares for every four shares held, by utilising various reserves as per Board's resolution dated.......) |  |  |
|  | Bonus to Shareholders A/c Dr. | 10,00,000 |  |
|  | To Equity Share Capital A/c |  | 10,00,000 |
|  | (Capitalisation of profit) |  |  |
| June 20 | Bank A/c Dr. <br> To Securities Premium A/c <br> To Equity Share Capital A/c <br> (Being Rights issue of 2 shares for every 5 shares held as per board resolution dated $\qquad$ | 24,00,000 | $\begin{array}{\|l} \hline 4,00,000 \\ 20,00,000 \end{array}$ |

## QUESTION 21 (RTP MAY 18) (RTP NOV 20)

Omega company offers new shares of Rs. 100 each at $25 \%$ premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is Rs.200.

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

You are required to calculate the (i) Ex-right value of a share; (ii) Value of a right share?
ANSWER:

## Ex-right value of the shares

$=$ (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares+ No. of right shares)
= (Rs. 200 X 5 Shares + Rs. 125 X 1 Share) / (5 + 1) Shares
= Rs. 1,125 / 6 shares $=$ Rs. 187.50 per share.
Value of right = Cum-right value of the share-Ex-right value of the share
$=\quad$ Rs. $200-$ Rs. $187.50=$ Rs. 12.50 per share.

## QUESTION 22 (RTP NOVEMBER 18)

Zeta Ltd. has decided to increase its existing share capital by making rights issue to its existing shareholders. Zeta Ltd. is offering one new share for every two shares held by the shareholder. The market value of the share is Rs. 360 and the company is offering one share of Rs. 180 each. Calculate the value of a right. What should be the ex-right market price of ashare?

ANSWER:

Ex-right value of the shares =
(Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + Rights No. of shares) $=($ Rs $.360 \times 2$ Shares + Rs. $180 \times 1$ Share) $/(2+1)$ Shares

$$
=\quad \text { Rs. } 900 / 3 \text { shares }=\text { Rs. } 300 \text { per share } .
$$

Value of right $=$ Cum-right value of the share-Ex-right value of the share

$$
=\text { Rs. } 360-\text { Rs. } 300=\text { Rs. } 60 \text { per share. }
$$

Hence, any one desirous of having a confirmed allotment of one share from the company at Rs. 180 will have to pay Rs. 120 (2 shares x Rs.60) to an existing shareholder holding 2 sharesandwillingtorenouncehisrightofbuyingoneshareinfavourofthatperson.

## QUESTION 23 (RTP MAY 19) (RTP NOV 18)

Following is the extract of the Balance Sheet of Xeta Ltd. as at $31^{\text {st }}$ March, 2017

|  | Rs. |
| :--- | ---: |
| Authorised capital: |  |
| $50,00012 \%$ Preference shares of Rs. 10 each | $5,00,000$ |
| $4,00,000$ Equity shares of Rs. 10 each | $\underline{40,00,000}$ |

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

|  | $\underline{45,00,000}$ |
| :--- | ---: |
| Issued and Subscribed capital: |  |
| $24,00012 \%$ Preference shares of Rs. 10 each fully paid | $2,40,000$ |
| $2,70,000$ Equity shares of Rs. 10 each, Rs.8 paid up | $21,60,000$ |
| Reserves and surplus: |  |
| General Reserve | $3,60,000$ |
| Securities premium | $1,00,000$ |
| Profit and Loss Account | $6,00,000$ |

On $1^{\text {st }}$ April, 2017, the Company has made final call @ Rs. 2 each on 2,70,000 equity shares. The call money was received by $20^{\text {th }}$ April, 2017. Thereafter, the company decided to capitalizeitsreservesbywayofbonusattherateofoneshareforeveryfoursharesheld.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30 ${ }^{\text {th }}$ April, 2017 after bonus issue.
ANSWER:

## Journal Entries in the books of Xeta Ltd.

|  |  | Rs. | Rs. |
| :---: | :---: | :---: | :---: |
| 1-4-2017 | Equity share final call $\mathrm{A} / \mathrm{c}$ <br> To Equity share capital A/c <br> (For final calls of Rs. 2 per share on 2,70,000 equity shares due as per Board's Resolution dated....) | 5,40,000 | 5,40,000 |
| $\begin{array}{\|l} 20-4- \\ 2017 \end{array}$ | Bank A/c <br> To Equity share final call $\mathrm{A} / \mathrm{c}$ (For final call money on 2,70,000 equity shares received) | 5,40,000 | 5,40,000 |
|  | Securities Premium A/c | 1,00,000 |  |
|  | General Reserve A/c | 3,60,000 |  |
|  | Profit and Loss A/c | 2,15,000 |  |
|  | To Bonus to shareholders A/c <br> (For making provision for bonus issue of one share for every four shares held) |  | 6,75,000 |
|  | Bonus to shareholders A/C | 6,75,000 |  |


| To Equity share capital A/c <br> (For issue of bonus shares) | $6,75,000$ |
| :--- | :---: | :---: |

Extract of Balance Sheet as at $30^{\text {th }}$ April, 2017 (after bonus issue)

|  | Rs. |
| :--- | ---: |
| Authorised Capital |  |
| $50,00012 \%$ Preference shares of Rs. 10 each | $5,00,000$ |
| $4,00,000$ Equity shares of Rs. 10 each | $\frac{40,00,00}{}$ |
|  | $\underline{0}$ |
| Issued and subscribed capital | $2,40,000$ |
| $24,00012 \%$ Preference shares of Rs.10 each, fully paid | $33,75,00$ |
| $3,37,500$ Equity shares of Rs.10 each, fully paid | 0 |
|  |  |
| (Outofabove,67,500equityshares@Rs.10eachwereissuedbyway |  |
| ofbonus) |  |
| Reserves and surplus | $3,85,000$ |

## QUESTION 24 (RTP MAY 19)

A company offers new shares of Rs. 100 each at $25 \%$ premium to existing shareholders on one for four basis. The cum-right market price of a share is Rs.150. Calculate the value of aright.

## ANSWER:

Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares Issue Price)/(Existing Number of shares + Rights Number of shares)

$$
\begin{aligned}
& =(\text { Rs. } 150 \times 4 \text { Shares }+ \text { Rs } .125 \times 1 \text { Share }) /(4+1) \text { Shares } \\
& =\text { Rs. } 725 / 5 \text { shares }=\text { Rs } .145 \text { per share. }
\end{aligned}
$$

Value of right = Cum-right value of the share - Ex-right value of the share

$$
\text { = Rs. } 150 \text { - Rs. } 145 \text { = Rs. } 5 \text { per share. }
$$

## QUESTION 25 (RTP NOVEMBER 19) (RTP MAY 18)

Following is the extract of the Balance Sheet of Manoj Ltd. as at 31 ${ }^{\text {st }}$ March,20X1
$\square$

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

| Authorised capital: |  |
| :--- | ---: |
| 30,000 12\% Preference shares of Rs. 10 each | $3,00,000$ |
| $4,00,000$ Equity shares of Rs. 10 each | $\underline{43,00,000}$ |
|  |  |
| Issued and Subscribed capital: | $2,40,000$ |
| 24,000 12\% Preference shares of Rs.10 each fully paid | $21,60,000$ |
| $2,70,000$ Equity shares of Rs. 10 each, Rs. 8 paid up |  |
| Reserves and surplus: | $3,60,000$ |
| General Reserve | $1,20,000$ |
| Capital Redemption Reserve | 75,000 |
| Securities premium (collected in cash) | $6,00,000$ |

On $1^{\text {st }}$ April, 20X1, the Company has made final call @ Rs. 2 each on 2,70,000 equity shares. The call money was received by $20^{\text {th }}$ April, 20X1. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the relevant extract of the balance sheet as on $30^{\text {th }}$ April, 20X1 after bonus issue.

## ANSWER:

Journal Entries in the books of Manoj Ltd.

|  |  | Rs. | Rs. |
| :---: | :---: | :---: | :---: |
| 1-4-20X1 | Equity share final call $\mathrm{A} / \mathrm{c}$ | 5,40,000 | 5,40,00 |
|  |  |  |  |
|  | To Equity share capital A/c |  |  |
|  | (For final calls of Rs. 2 per share on $2,70,000$ equity shares due as per Board's Resolution dated....) |  |  |
| 20-4- | Bank A/c Dr. | 5,40,000 |  |
| 20X1 | To Equity share final call $\mathrm{A} / \mathrm{c}$ |  | 5,40,00 |

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



Extract of Balance Sheet as at $30^{\text {th }}$ April, 20X1 (after bonus issue)

|  | Rs. |
| :--- | ---: |
| Authorized Capital |  |
| $30,00012 \%$ Preference shares of Rs. 10 each | $40,00,000$ |
| $4,00,000$ Equity shares of Rs. 10 each |  |
| Issued and subscribed capital | $2,40,000$ |
| $24,00012 \%$ Preference shares of Rs.10 each, fully paid | $33,75,000$ |
| $3,37,500$ Equity shares of Rs.10 each, fully paid |  |
| (Out of the above, 67,500 equity shares @ Rs.10 each were |  |
| issued by way of bonus shares) | $4,80,000$ |

## QUESTION 26 (RTP NOVEMBER 19)

Omega company offers new shares of Rs. 100 each at $20 \%$ premium to existing shareholders on the basis of one for four shares. The cum-right market price of a share is Rs.190.

You are required to calculate the Value of a right share.

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

## ANSWER:

Value of right share=Cum-right value of the share - Ex-right value of the share (as computed in Working Note)

$$
=\text { Rs. } 190 \text { - Rs. } 176 \text { = Rs. } 14 \text { per share. }
$$

## Working Note:

## Ex-right value of the shares

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

## QUESTION 27 (RTP MAY 20)

The following is the summarised Balance Sheet of Bumbum Limited as at 31st March,2019:

|  | Rs. |
| :--- | ---: |
| Sources of funds |  |
| Authorized capital |  |
| 50,000 Equity shares of Rs. 10 each |  |
| 10,000 Preference shares of Rs.100 each (8\% |  |
| redeemable) | $\underline{15,00,000}$ |
|  |  |
| Issued, subscribed and paid up |  |
| 30,000 Equity shares of Rs.10 each | $5,00,000$ |
| 5,000, 8\%Redeemable Preference shares of Rs.100 |  |
| $\quad$ each |  |
| Reserves \& Surplus | $6,00,000$ |
| Securities Premium | $6,50,000$ |
| General Reserve | 40,000 |
| Profit \& Loss A/c | $\underline{4,20,000}$ |
| Trade payables | $\underline{25,10,000}$ |
|  |  |
| Application of funds | $7,80,000$ |

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

| Investments (market value Rs.5,80,000) | $4,90,000$ |
| :--- | ---: |
| Deferred Tax Assets | $3,40,000$ |
| Trade receivables | $\underline{6,20,000}$ |
| Cash \& Bank balance | $\underline{2,80,000}$ |

In Annual General Meeting held on 20 th June, 2019 the company passed the following resolutions:
(i) To split equity share of Rs. 10 each into 5 equity shares of Rs. 2 each from $1^{\text {st }}$ July,2019.
(ii) To redeem 8\% preference shares at a premium of5\%.
(iii) To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On $10^{\text {th }}$ July, 2019 investments were sold for Rs.5,55,000 and preference shares were redeemed.
The bonus issue was concluded by $12^{\text {th }}$ September, 2019
You are required to journalize the above transactions including cash transactions and prepare Balance Sheet as at $30^{\text {th }}$ September, 2019. All working notes should form part of your answer.

## ANSWER:

## Bumbum Limited <br> Journal Entries

| 2019 |  | Dr. (Rs.) | Cr . (Rs.) |
| :---: | :---: | :---: | :---: |
| July 1 | Equity Share Capital A/c (Rs.10each) Dr. <br> To Equity share capital A/c (Rs. 2 each) <br> (Being equity share of Rs. 10 each splitted into 5 equity shares of Rs. 2 each) \{1,50,000 $\times 2\}$ | $\begin{aligned} & 3,00,00 \\ & 0 \end{aligned}$ | $\begin{aligned} & 3,00,00 \\ & 0 \end{aligned}$ |
| July 10 | Cash \& Bank balance A/c <br> To Investment A/c <br> To Profit \& Loss A/c <br> (Being investment sold out and profit on sale credited to Profit \& Loss A/c) | 5,55,000 | $\begin{array}{\|r\|} \hline 4,90,000 \\ 65,000 \end{array}$ |
| July 10 | 8\% Redeemable preference share capital A/c | 5,00,000 |  |

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

|  | Premium on redemption of preference share A/c Dr. <br> To Preference shareholders A/c <br> (Being amount payable to preference share holders on redemption) | 25,000 | 5,25,000 |
| :---: | :---: | :---: | :---: |
| July 10 | Preference shareholders A/c <br> To Cash \& bank A/c <br> (Being amount paid to preference shareholders) | 5,25,000 | 5,25,000 |
| July 10 | General reserve A/c <br> To Capital redemption reserve $\mathrm{A} / \mathrm{C}$ <br> (Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law) | 5,00,000 | 5,00,000 |
| Sept. 12 | Capital Redemption Reserve A/c <br> To Bonus to shareholders A/c <br> (Being balance in capital redemption reserve capitalized to issue bonus shares) | 1,00,000 | 1,00,000 |
| Sept. 12 | Bonus to shareholders A/c <br> To Equity share capital A/c <br> (Being 50,000 fully paid equity shares of Rs. 2 each issued as bonus in ratio of 1 share for every 3 shares held) | 1,00,000 | 1,00,000 |
| Sept. 30 | Securities Premium A/c <br> To Premium on redemption of preference shares A/c <br> (Being premium on preference shares adjusted from securities premium account) | 25,000 | 25,000 |

Balance Sheet as at 30th September,2019

|  | Particulars | Note <br> s | ₹ |
| :---: | :---: | :---: | :---: |
| Equity and Liabilities <br> Shareholders' funds |  |  |  |
|  | aShare capital | 1 | $4,00,000$ |

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



## Notes to accounts

| 1 | Share Capital | Rs. | Rs. |
| :---: | :---: | :---: | :---: |
| 2 | Authorized share capital |  |  |
|  | 2,50,000 Equity shares of Rs. 2 each | 5,00,000 |  |
|  | 10,000 8\% Preference shares of Rs. 100 each | 10,00,000 | 15,00,000 |
|  | Issued, subscribed and paid up |  |  |
|  | 2,00,000 Equity shares of Rs. 2 each |  | 4,00,000 |
|  | Reserves and Surplus |  |  |
|  | Securities Premium A/c |  |  |
|  | Balance as per balance sheet | 6,00,000 |  |
|  | Less: Adjustment for premium on preference Shares | $(25,000)$ |  |
|  | Balance |  | 5,75,000 |
|  | Capital Redemption Reserve (5,00,0001,00,000) |  | 4,00,000 |
|  | General Reserve (6,50,000-5,00,000) |  | 1,50,000 |
|  | Profit \& Loss A/c | 40,000 |  |
|  | Add: Profit on sale of investment | 65,000 | 1,05,000 |
|  | Total |  | 12,30,000 |

## Working Notes:

Rs.

1. Redemption of preference shares

5,000 Preference shares of Rs. 100 each
5,00,000

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

|  | Premium on redemption @ 5\% | 25,000 |
| :---: | :---: | :---: |
|  | Amount Payable | 5,25,000 |
| 2. | Issue of Bonus Shares |  |
|  | Existing equity shares after split ( $30,000 \times 5$ ) | 1,50,000 shares |
|  | Bonus shares ( 1 share for every 3 shares held) to be issued | 50,000 shares |
| 3. | Cash and Bank Balance |  |
|  | Balance as per balance sheet | 2,80,000 |
|  | Add: Realization on sale of investment | 5,55,000 |
|  |  | 8,35,000 |
|  | Less: Paid to preference share holders | $(5,25,000)$ |
|  | Balance | 3,10,000 |

## QUESTION 28 (RTP MAY 20)

Zeta Ltd. has decided to increase its existing share capital by making rights issue to its existing shareholders. Zeta Ltd. is offering one new share for every two shares held by the shareholder. The market value of the share is Rs. 360 and the company is offering one share of Rs. 180 each. Calculate the value of a right. What should be the ex-right market price of a share?

## ANSWER:

Ex-right value of the shares =
(Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + Rights No. of shares) $=($ Rs. $360 \times 2$ Shares + Rs. $180 \times 1$ Share) $/(2+1)$ Shares

$$
=\quad \text { Rs. } 900 \text { / } 3 \text { shares = Rs. } 300 \text { per share } .
$$

Value of right
$=$ Cum-right value of the share-Ex-right value of the share $=$ Rs. $360-$ Rs. $300=$ Rs. 60 per share.

Hence, any one desirous of having a confirmed allotment of one share from the company at Rs. 180 will have to pay Rs. 120 (2 shares x Rs.60) to an existing shareholder holding 2 sharesandwillingtorenouncehisrightofbuyingoneshareinfavourofthatperson.

## QUESTION 29 (RTP NOVEMBER 20)

Following is the extract of the Balance Sheet of Madhu Ltd.as at 31 ${ }^{\text {st }}$ March,2020

|  | Rs. |
| :--- | ---: |
| Authorized capital: |  |
| 45,000 12\% Preference shares of Rs.10 each | $4,50,000$ |

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

| 6,00,000 Equity shares of Rs. 10 each | $60,00,000$ |
| :--- | ---: |
|  | $\underline{64,50,000}$ |
| Issued and Subscribed capital: | $3,60,000$ |
| 36,000 12\% Preference shares of Rs. 10 each fully paid | $32,40,000$ |
| $4,05,000$ Equity shares of Rs. 10 each, Rs. 8 paid up |  |
| 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, 2020, the Company has made final call @ Rs. 2 each on 4,05,000 equity shares. The call money was received by $20^{\text {th }}$ 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 by utilizing the balance of profit and loss account to the minimum extent.

You are required to prepare necessary journal entries in the books of the company and prepare the relevant extract of the balance sheet as on $30^{\text {th }}$ April, 2020 after bonus issue.

## ANSWER:

Journal Entries in the books of Madhu Ltd.

|  |  |  | Rs. | Rs. |
| :---: | :---: | :---: | :---: | :---: |
| 1-4-2020 | Equity share final call $\mathrm{A} / \mathrm{c}$ <br> To Equity share capital A/c <br> (For final calls of Rs. 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 |
|  | Securities Premium A/c <br> Capital redemption reserve $\mathrm{A} / \mathrm{c}$ <br> General Reserve A/c <br> Profit and Loss A/c (b.f.) | Dr. <br> Dr. <br> Dr. <br> Dr. | $\begin{aligned} & 1,12,500 \\ & 1,80,000 \\ & 5,40,000 \\ & 1,80,000 \end{aligned}$ |  |

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

|  | To Bonus to shareholders <br> A/c <br> (For making provision for bonus <br> issue of one share for every four <br> shares held) | Dr. | $10,12,500$ |
| :--- | :--- | :--- | :--- |$\quad 10,500 \mid$

Extract of Balance Sheet as at $30^{\text {th }}$ April, 2020 (after bonus issue)

|  | Rs. |
| :--- | ---: |
| Authorized Capital |  |
| 45,000 12\% Preference shares of Rs.10 each | $4,50,000$ |
| $6,00,000$ Equity shares of Rs.10 each |  |
| Issued and subscribed capital | $3,60,000$ |
| 36,000 12\% Preference shares of Rs.Rs.10 each, fully paid | $50,62,500$ |
| $5,06,250$ Equity shares of Rs.10 each, fully paid |  |
| (Out of the above, 1,01,250 equity shares @ Rs.10 each were |  |
| issued by way of bonus shares) |  |
| Reserves and surplus | $7,20,000$ |

## QUESTION 30 (RTP NOVEMBER 20)

Omega company offers new shares of Rs. 100 each at $25 \%$ premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is Rs.200.

You are required to calculate the (i) Ex-right value of a share; (ii) Value of a right share? ANSWER:

## Ex-right value of the shares

$=$ (Cum-right value of the existing shares + Rights shares $x$ Issue Price) / (Existing No. of shares + No. of right shares) $=($ Rs. 200 X 5 Shares + Rs. 125 X 1 Share) / (5 + 1) Shares = Rs.1,125 / 6 shares $=$ Rs.187.50 per share.
Value of right = Cum-right value of the share - Ex-right value of the share

$$
=\quad \text { Rs. } 200-\text { Rs. } 187.50=\text { Rs. } 12.50 \text { per share. }
$$

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

## QUESTION 31 (MTP OCTOBER 18)(MTP OCTOBER 19)

Following items appear in the Trial Balance of Beta Ltd. as on 31 ${ }^{\text {st }}$ March, 2017:

| Particulars | Amount |
| :--- | ---: |
| 3,000 Equity Shares of Rs. 100 each | $3,00,000$ |
| Securities Premium (collected in cash) | 40,000 |
| Capital Redemption Reserve | 30,000 |
| General Reserve | $1,00,000$ |

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books of Beta Ltd.
ANSWER:
Capital Redemption Reserve A/c Dr.30,000 Securities
Premium A/c
Dr.40,000
General Reserve A/c
Dr. 30,000

To Bonus to Shareholders 1,00,000
(Being issue of bonus shares by utilization of various
Reserves, as per resolution dated .......)
Bonus to Shareholders A/c Dr. 1,00,000
To Equity Share Capital
1,00,000
(Being capitalization of Profit)

## QUESTION 32 (MTP MAY 20)

A Limited company with subscribed capital of Rs.5,00,000 consisting of 50,000 Equity shares of Rs. 10 each; called up capital Rs. 7.50 per share. A bonus of Rs.1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up. You are required to pass necessary Journal Entries (with narration) for this issue of bonus shares.

## ANSWER:

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

Journal Entries

|  |  | Rs. | Rs. |
| :--- | ---: | ---: | ---: |
| General Reserve A/c | Dr. | $1,25,000$ |  |
| $\quad$ To Bonus to shareholders A/c |  |  |  |
| (For making provision of bonus issue) |  |  | $1,25,000$ |
| Share Final Call A/c |  |  |  |
| To Equity share capital A/c <br> (For final calls of Rs. 2.5 per share on 50,000 equity <br> shares due as per Board's Resolution dated....) |  |  | $1,25,000$ |
| Bonus to shareholders A/c <br> To Share Final Call A/c | Dr. | $1,25,000$ |  |
| (For adjusting Final Call A/c against bonus issue) |  |  |  |

## QUESTION 33 (PAST PAPER MAY 18)

Following are the balances appear in the trial balance of Arya Ltd. as at 31st March. 2018.
Issued and Subscribed Capital:

|  | Rs. |
| :--- | ---: |
| 10,$000 ; 10 \%$ Preference Shares of Rs. 10 each fully | $1,00,000$ |
| paid |  |
| $1,00,000$ Equity Shares of Rs. 10 each Rs. 8 paid up | $8,00,000$ |
| Reserves and Surplus: |  |
| General Reserve | $2,40,000$ |
| Securities Premium (collected in cash) | 25,000 |
| Profit and Loss Account | $1,20,000$ |

On 1 ${ }^{\text {st }}$ April, 2018 the company has made final call @ ₹ 2 each on 1 nn non Fruitv Sharec. The rall money was received by $15^{\text {th }}$ April, 2018. Thereafter the company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 5 shares held and for this purpose, it decided that there should be minimum reduction in free reserves. Pass Journal entries.

ANSWER:

Arya Ltd.
Journal Entries


Note: Profit and Loss Account balance may also be utilized along with General Reserve for the purpose of issue of Bonus shares.

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

## QUESTION 34 (PAST PAPER NOVEMBER 19)

Following is the extract of Balance Sheet of Prem Ltd. as at $31^{\text {st }}$ March, 2018:

|  | Rs. |
| :--- | ---: |
| Authorized capital: |  |
| $3,00,000$ equity shares of Rs. 10 each | $30,00,000$ |
| 25,000,10\% preference shares of Rs.10 each | $2,50,000$ |
| Issued and subscribed capital: | $32,50,000$ |
| 2,70,000 equity shares of Rs. 10 each fully paid up |  |
| 24,000, 10\% preference shares of Rs. 10 each fully paid up | $27,00,000$ |
| Reserves and surplus: | $29,40,000$ |
| General reserve |  |
| Capital redemption reserve | $3,60,000$ |
| Securities premium (collected in cash) | $1,20,000$ |
| Profit and loss account | 75,000 |
|  | $6,00,000$ |
|  | $11,55,000$ |

On $1^{\text {st }}$ April, 2018, the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet after bonus issue.
ANSWER:

Prem Ltd.
Journal Entries

|  |  |  | Dr. | Cr. |
| :---: | :---: | :---: | :---: | :---: |
| April 1 | Capital Redemption Reserve A/c | Dr | 1,20,000 |  |
|  | Securities Premium A/c | Dr | 75,000 |  |
|  | General Reserve A/c | Dr | 3,60,000 |  |
|  | Profit and Loss A/c (b.f.) | Dr | 5,25,000 |  |

$\square$ To Bonus to Equity Shareholders|
$|10,80,000|$

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

|  | A/c <br> (Bonus issue @ two shares for every <br> five shares held by utilizing various <br> reserves as <br> per Board's Resolution dated...) |  |  |
| :--- | :--- | :--- | :--- |
| Bonus to Shareholders A/c <br> To Equity Share Capital A/c <br> (Issue of bonus shares) | Dr | $10,80,000$ |  |

Balance Sheet (Extract) as on $1^{\text {st }}$ April, 2018 (after bonus issue)

|  |  | Particula <br> rs | Note <br> s | Amount (Rs.) |
| :--- | :--- | :--- | :---: | ---: |
| 1 |  | Equity and Liabilities <br>  | Shareholders' funds <br> a | Share capital |
|  | b | Reserves and Surplus |  |  |

Notes to Accounts

| 1 | Share Capital | (Rs.) |
| :---: | :---: | :---: |
|  | Authorized share capital: |  |
|  | 3,78,000* Equity shares of Rs. 10 each | 37,80,000 |
|  |  | * |
|  | 25,000 10\% Preference shares of Rs. 10 each | 2,50,000 |
|  | Total | 40,30,000 |
|  | Issued, subscribed and fully paid share capital: |  |
|  | $3,78,000$ Equity shares of Rs. 10 each, fully paid (Out of above, 1,08,000 equity shares @ Rs. 10 each were issued by way of bonus) | 37,80,000 |
|  | 24,000 10\% Preference shares of Rs. 10 each | 2,40,000 |
| 2 | Total | 40,20,000 |

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

| Reserves and Surplus |  |  |
| :---: | :---: | :---: |
| Capital Redemption Reserve | 1,20,000 | Ni |
| Less: Utilized | 1,20,000 |  |
| Securities Premium | 75,000 |  |
| Less: Utilised for bonus issue | $(75,000)$ | Ni |
| General reserve | 3,60,000 |  |
| Less: Utilised for bonus issue | (3,60,000) | Ni |
| Profit \& Loss Account | 6,00,000 |  |
| Less: Utilised for bonus issue | (5,25,000) | 75,000 |
|  |  | 75,000 |

Note: *Authorized capital has been increased by the minimum required amount i.e.Rs.7,80,000 $(37,80,000-30,00,000)$ in the above solution.

## QUESTION 35 (RTP JULY 21)

Following is the information of Umesh Ltd. as at 31st March, 2021:

| Authorized capital: <br> $30,000 ~ 12 \%$ Preference shares of ₹ 10 each | $3,00,000$ |
| :--- | :--- |
| $4,00,000$ Equity shares of ₹ 10 each | $40,00,000$ |
|  | $43,00,000$ |
| Issued and Subscribed capital: |  |
| $24,000 ~ 12 \% ~ P r e f e r e n c e ~ s h a r e s ~ o f ~ ₹ ~$ <br> paid | $2,40,000$ |
| $3,00,000$ equity shares of ₹ 10 each, ₹ 8 paid up | $24,00,000$ |
| Reserves and surplus: | $3,60,000$ |
| General Reserve | $1,20,000$ |
| Capital Redemption Reserve | 75,000 |
| Securities premium (collected in cash) | $6,00,000$ |
| Profit and Loss Account |  |

On 1st April, 2021, the Company has made final call @ ₹ 2 each on $3,00,000$ 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 prepare necessary journal entries in the books of the company.

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

## ANSWER

Journal Entries in the books of Umesh Ltd.


## QUESTION 36 (RTP JULY 21)

Beta Ltd. having share capital of 20,000 equity shares of ₹10 each decides to issue rights share at the ratio of 1 for every 8 shares held at par value. Assuming all the share holders accepted the rights issue and all money was duly received, pass journal entry in the books of the company.

## ANSWER

|  |  | $₹$ | $₹$ |
| :--- | ---: | ---: | ---: |
| Bank Alc <br> To Equity share capital A/c <br> (For rights share issued at par value in the ratio of 1:8 <br> equity shares due as per Board's Resolution dated...) | Dr. | 25,000 |  |

## Working Note:

Number of Rights shares to be issued- $20,000 / 8 \times 1=2,500$ shares

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

## QUESTION 37 (RTP JULY 21)

Omega Ltd. offers new shares of ₹ 100 each at $25 \%$ premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is ₹ 200 . You are required to calculate the (i) Ex-right value of a share; (ii) Value of a right share?

ANSWER

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) $=(₹ 200 \times 5$ Shares $+₹ 125$ X 1 Share)/(5+1) Shares $=₹ 1,125 / 6$ shares $=₹ 187.50$ per share .

Value of right = Cum-right value of the share - Ex-right value of the share
$=₹ 200-₹ 187.50=₹ 12.50$ per share .

## QUESTION 38 (PAST EXAM JAN 21)

Following items appear in the Trail Balance of Star Ltd. as on 31st March, 2019:

| Particulars | $₹$ |
| :--- | ---: |
| 80,000 Equity shares of ₹10 each, ₹ 8 paid-up | $6,40,000$ |
| Capital Reserve (including ₹45,000 being profit on sale of Machinery) | $1,10,000$ |
| Revaluation Reserve | 80,000 |
| Capital Redemption Reserve | 75,000 |
| Securities Premium | 60,000 |
| General Reserve | $2,10,000$ |
| Profit \& Loss Account (Cr. Balance) | $1,00,009$ |

On 1st April,2019, the Company has made final call on Equity shares @₹ 2 per share.
The entire money was received in the month of April, 2019. On 1st June, 2019, the Company decided to issue to Equity shareholders bonus shares at the rate of $\mathbf{2}$ shares for every 5 shares held and for this purpose, it was decided that there should be minimum reduction in free reserves. Pass necessary journal entries in the Books of Star Ltd.

## ANSWER

Journal Entries in the books of Star Ltd.

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

\begin{tabular}{|c|c|c|c|c|}
\hline \multirow[t]{2}{*}{2019} \& \multicolumn{2}{|l|}{\multirow[t]{2}{*}{}} \& Dr. \& Cr . <br>
\hline \& \& \& ₹ \& ₹ <br>
\hline \multirow[t]{2}{*}{April 1

June 1} \& | Equity Share Final Call A/c |
| :--- |
| To Equity Share Capital Acc |
| (Final call of ₹ 2 per share on 80,000 equity shares made due) | \& Dr. \& 1,60,000 \& 1,60,000 <br>

\hline \& | Bank A/c |
| :--- |
| To Equity Share Final Call A/c |
| (Final call money on 80,000 equity shares received) | \& Dr. \& 1,60,000 \& 1,60,000 <br>


\hline \multirow[t]{2}{*}{June 1} \& | Capital Redemption Reserve A/c |
| :--- |
| Capital Reserve |
| Securities Premium A/c |
| General Reserve A/c (b.f.) |
| To Bonus to Shareholders A/c |
| (Bonus issue of two shares for every five shares held, by utilizing various reserves as per Board's resolution dated. $\qquad$ | \& | Dr. |
| :--- |
| Dr. |
| Dr. |
| Dr. | \& \[

$$
\begin{array}{r}
75,000 \\
45,000^{*} \\
60,000 \\
1,40,000^{* *}
\end{array}
$$
\] \& 3,20,000 <br>

\hline \& | Bonus to Shareholders A/c |
| :--- |
| To Equity Share Capital Acc (Capitalization of profit) | \& Dr. \& 3,20,000 \& 3,20,000 <br>

\hline
\end{tabular}

* considering it as free reserve as it has been realized.
** Alternatively, different combination of profit and loss balance and general reserve may also be used.


## Chapter 7 Redemption of Preference shares

## QUESTION 1 (STUDY MATERIAL)

Securities premium cannot be used to .
(a) Issue bonus shares
(b) Redeem preference shares
(c) Write-off preliminary expenses

Answer: (b)

## QUESTION 2 (STUDY MATERIAL)

S Ltd. issued 2,000, 10\% Preference shares of Rs. 100 each at par on 1.4.20X1, which are redeemable at a premium of $10 \%$. For the purpose of redemption, the company issued 1,500 Equity Shares of Rs. 100 each at a premium of $20 \%$ per share. At the time of redemption of Preference Shares, the amount to be transferred by the company to the Capital Redemption Reserve Account=?
(a) Rs. 5,00,000
(b) Rs. 4,00,000
(c) Rs. 2,00,000

Answer: (a)

## QUESTION 3 (STUDY MATERIAL)

Which of the following cannot be used for the purpose of creation of capital redemption reserve account?
(a) Profit and loss account (credit balance)
(b) General reserve account

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(c) Unclaimed dividend account

Answer: (c)

## QUESTION 4 (STUDY MATERIAL)

According to Section 52 of the Companies Act, 2013, the amount in the Securities Premium A/c cannot be used for the purpose of
(a) Issue of fully paid bonus shares
(b) Writing off losses of the company
(c) For purchase of own securities

Answer: (b)

## QUESTION 5 (STUDY MATERIAL)

Which of the following can be utilized for redemption of preference shares?
(a) The proceeds of fresh issue of equity shares
(b) The proceeds of issue of debentures
(c) The proceeds of issue of fixed deposits

Answer: (a)

## QUESTION 6 (STUDY MATERIAL)

Which of the following statements is True?
(a) Capital redemption reserve cannot be used for writing off miscellaneous expenses and losses
(b) Capital profit realized in cash cannot be used for payment of dividend
(c) Reserves created by revaluation of fixed assets are not permitted to be capitalized

Answer: (a)

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## QUESTION 7 (STUDY MATERIAL)

Which of the following accounts can be used for transfer to capital redemption reserve account?
(a) General reserve account
(b) Forfeited shares account
(c) Profit prior to incorporation

Answer: (a)

## QUESTION 8 (STUDY MATERIAL)

Preference shares amounting to Rs.2,00,000 (already issued on 1.4.20X1) are redeemed at a premium of $5 \%$, by issue of shares amounting to Rs.1,00,000 at a premium of $10 \%$. The amount to be transferred to capital redemption reserve =?
(a) Rs.1,05,000
(b) Rs.1,00,000
(c) Rs.2,00,000

Answer: (b)

## QUESTION 9 (STUDY MATERIAL)

A company who prepares financial statements in compliance with Accounting Standards under Section 133 of the Companies Act, 2013, it cannot utilize securities premium for the purpose of
(a) Purchase of its own shares or other securities
(b) To write off discount allowed on any of securities or debentures of the company
(c) To provide for premium on the redemption of Redeemable Preference shares of the Company.

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Answer: (c)

## QUESTION 10 (STUDY MATERIAL)

When shares are redeemed by utilising distributable profit, an amount equal to the face value of shares redeemed is transferred to $\qquad$ account by debiting the distributable profit.
(a) Capital replacement Reserve.
(b) Capital Redemption Reserve.
(c) Capital Reserve.

Answer: (b)

## QUESTION 9 (STUDY MATERIAL)

What is the purpose of issuing redeemable preference shares?

## ANSWER.

A company may issue redeemable preference shares because of the following:

1. It is a proper way of raising finance in a dull primary market.
2. A company may face difficulty in raising share capital, as its shares are not traded on the stock exchange. Potential investors, hesitant in putting money into shares that cannot easily be sold, may be encouraged to invest if the shares are redeemable by the company.
3. The preference shares may be redeemed when there is a surplus of capital and the surplus funds cannot be utilised in the business for profit able use.

In India, the issue and redemption of preference shares is governed by Section 55 of the Companies Act, 2013.

## QUESTION 10 (STUDY MATERIAL)

What are the provisions of the Companies Act, 2013 related with redemption of preference shares? Explain in brief.

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## ANSWER.

A company limited by shares if so authorised by its Articles, may issue preference shares which at the option of the company, are liable to be redeemed within a period, normally not exceeding 20 years from the date of their issue. It should be noted that:
(a) no shares can be redeemed except out of profit of the company which would otherwise be available for dividend or out of proceeds of fresh issue of shares made for the purpose of redemption;
(b) no such shares can be redeemed unless they are fully paid;
(c) (i) in case of such class of companies, as may be prescribed and whose financial statement comply with the accounting standards prescribed for such class of companies under Section 133 , the premium, if any, payable on redemption shall be provided for out of the profits of the company, before the shares are redeemed:

Provided also that premium, if any, payable on redemption of any preference shares issued on or before the commencement of this Act by any such company shall be provided for out of the profits of the company or out of the company's securities premium account, before such shares are redeemed.
(ii) in case of other companies (not falling under (i) above), the premium, if any payable on redemption shall be provided for out of the profits of the company or out of the company's securities premium account, before such shares are redeemed.
(d) where any such shares are proposed to be redeemed out of the profits of the company, there shall, out of profits which would otherwise have been available for dividends, be transferred to a reserve account to be called

Capital Redemption Reserve Account, a sum equal to the nominal amount of the shares redeemed; and the provisions of the Act relating to the reduction of the share capital of a company shall, except as provided in the Section, apply as if the Capital Redemption Reserve (CRR) Account were the paid-up share capital of the company. The utilisation of CRR Account is further restricted to issuance of fully paid-up bonus shares only.

## QUESTION 11 (STUDY MATERIAL)

Hinduja Company Ltd. had 5,000, 8\% Redeemable Preference Shares of ₹100 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹10 each fully paid up at par. You are required to pass necessary Journal Entries including cash transactions in the booksof the company.

In the books of Hinduja Company Ltd.
Journal Entries

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

| Date | Particulars |  | Dr. (F) | Cr. (F) |
| :---: | :---: | :---: | :---: | :---: |
|  | Bank A/c <br> To Equity Share Capital A/c <br> (Being the issue of 50,000 Equity Shares of ₹10 each at par for the purpose of redemption of preference shares, as per Board Resolution No ........dated ) | Dr. | 5,00,000 | 5,00,000 |
|  | 8\% Redeemable Preference Share Capital <br> A/c <br> To Preference Shareholders A/c <br> (Being the amount payable on redemption of preference shares transferred to Preference Shareholders Account) | Dr. | 5,00,000 | 5,00,000 |
|  | Preference Shareholders A/c <br> To Bank A/c <br> (Being the amount paid on redemption of preference shares) | Dr. | 5,00,000 | 5,00,000 |

## QUESTION 12 (STUDY MATERIAL)

C Ltd. had 10,000, 10\% Redeemable Preference Shares of $₹ 100$ each, fully paid up. The company decided to redeem these preference shares at par, by issue of sufficient number of equity shares of ₹10 each at a premium of ₹2 per share as fully paid up. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

In the books of C Ltd.

## Journal Entries

| Date | Particulars |  | Dr. (₹) | Cr. (₹) |
| :--- | :--- | :--- | :--- | :--- |
|  | Bank A/c <br> To Equity Share Capital A/c <br> To Securities Premium A/c <br> (Being the issue of 1,00,000 Equity <br> Shares of ₹10 each at a premium of ₹2 <br> per share as per Board's Resolution <br> No.... dated)$10 \%$ Redeemable Preference Share <br> Capital A/c <br> To Preference Shareholders A/c | Dr. | 12,00,000 | 10,00,000 |

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

| (Being the amount payable on <br> redemption of preference shares <br> transferred to Preference Shareholders <br> A/c) |  |  |  |
| :--- | :--- | :--- | :--- | :--- |
| Preference Shareholders A/c <br> To Bank A/c <br> (Being the amount paid on redemption <br> of preference shares) | Dr. | 10,00,000 | $10,00,000$ |

Note: Amount required for redemption is Rs.10,00,000. Therefore, face value of equity shares to be issued for this purpose must be equal to Rs.10,00,000. Premium received on new issue cannot be used to finance the redemption.

## QUESTION 13 (STUDY MATERIAL)

G India Ltd. had 9,000 10\% redeemable Preference Shares of Rs. 10 each, fully paid-up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of Rs. 9 each fully paid-up.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

## In the books of G India Limited

Journal

| Date | Particulars |  | Dr. <br> (Rs.) | Cr. (Rs.) |
| :--- | :--- | :---: | :---: | :---: |
|  | Bank A/c <br> To Equity Share Capital A/c <br> (Being the issue of 10,000 Equity Shares of <br> Rs.9 each at par, as per Board's Resolution <br> No......Dated....) |  | Dr. | 90,000 |
| 10\% Redeemable Preference Shares <br> Capital A/c <br> To Preference Shareholders A/c | Dr. | 90,000 | 90,000 |  |
| (Being the amount payable on redemption <br> of preference shares transferred to <br> Preference Shareholders A/c) |  | 90,000 |  |  |
|  | Preference Shareholders A/c <br> To Bank A/c | Dr. | 90,000 | 90,000 |

(Being the amount paid on redemption of preference shares)

QUESTION 14 (STUDY MATERIAL) (MTP MAY 18) (MTP MAY19)
The Board of Directors of a Company decide to issue minimum number of equity shares of Rs. 9 to redeem Rs.5,00,000 preference shares. The maximum amount of divisible profits available for redemption is Rs.3,00,000. Calculate the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of Rs.50only.

ANSWER:

| Nominal value of preference shares | Rs.5,00,000 |
| :--- | :--- |
| Maximum possible redemption out of profits | Rs.3,00,000 |
| Minimum proceeds of fresh issue | Rs.5,00,000-3,00,000 |
|  | $=$ Rs.2,00,000 |
| Proceed of one share | $=$ Rs. 9 |
| Minimum number of shares | $=2,00,000 / 9=22,222.22$ shares |

As fractional shares are not permitted, the minimum number of shares to be issued is 22,223shares.

If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 22,250 . Hence, minimum number of shares to be issued in such a case is 22,250 shares.

## QUESTION 15 (STUDY MATERIAL)

The Balance Sheet of X Ltd. as on 31st March, 20X3 is as follows:

|  | Particulars | Rs. |
| :--- | :--- | ---: |
|  | EQUITY AND LIABILITIES |  |
| 1. | Shareholders' funds |  |
|  | a Share capital | $2,90,000$ |
|  | b Reserves and Surplus | 48,000 |
| 2. | Current liabilities |  |

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The share capital of the company consists of Rs. 50 each equity shares of Rs.2,25,000 and Rs. 100 each Preference shares of Rs.65,000(issued on 1.4.20X1). Reserves and Surplus comprises Profit and Loss Account only.

In order to facilitate the redemption of preference shares at a premium of $10 \%$, the Company decided:
(a) to sell all the investments forRs.15,000.
(b) to finance part of redemption from company funds, subject to, leaving a bank balance ofRs.12,000.
(c) to issue minimum equity share of Rs. 60 each share to raise the balance of funds required.

You are required to pass:
The necessary Journal Entries to record the above transactions and prepare the balance sheet as on completion of the above transactions.

Journal

| Date | Particulars |  | Dr. (Rs.) | Cr. (Rs.) |
| :--- | :--- | ---: | ---: | ---: |
|  | Bank A/c <br> To Share Application A/c <br> (For application money received on <br> 625 shares @ Rs.60 per share) | Dr. | 37,500 | 37,500 |
|  | Share Application A/c <br> To Equity Share Capital A/c <br> (For disposition of application money <br> received)Preference Share Capital A/c <br> Premium on Redemption of | Dr. | 37,500 | 37,500 |

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

|  | Preference Shares A/c <br> To Preference Shareholders A/c <br> (For amount payable on redemption of <br> preference shares) | Dr. | 6,500 | 71,500 |
| :--- | :--- | :--- | :--- | :--- |
| Profit and Loss A/c* <br> To Premium on Redemption of <br> Preference Shares A/c <br> (For writing off premium on <br> redemption out of profits) | Dr. | 6,500 | 6,500 |  |


| Bank A/c <br> Profit and Loss $A / c$ (loss on sale)A/c <br> To Investment A/c <br> (For sale of investments at a loss of Rs.3,500) | Dr. Dr. | $\begin{array}{r} 15,000 \\ 3,500 \end{array}$ | 18,500 |
| :---: | :---: | :---: | :---: |
| Profit and Loss A/c <br> To Capital Redemption Reserve A/c <br> (For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds (face value of equity shares) i.e., Rs.65,000 - Rs.31,250) | Dr. | 33,750 | 33,750 |
| Preference Shareholders A/c <br> To Bank A/c <br> (For payment of preference shareholders) | Dr. | 71,500 | 71,500 |

## Balance Sheet (after redemption)

|  | Particulars | Notes No. | Rs. |
| :--- | :--- | :---: | :---: |
| 1. | EQUITY AND LIABILITIES <br> Shareholders' funds <br> a) Share capital <br> b) Reserves and Surplus |  |  |
| 2. | Current liabilities <br> Trade Payables | 1 | $2,62,500$ |

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

|  | Total |  |  |
| :--- | :--- | :--- | ---: |
| 1. | ASSETS <br> PPE |  | Tangible asset <br> 2. <br> Current Assets <br> Cash and cash equivalents (bank) <br> Total |

## Notes to accounts

|  |  |  | Rs. |
| :--- | :--- | ---: | ---: |
| 1. | Share Capital | Equity share capital $(2,25,000+37,500)$ |  |
|  |  |  |  |
| 2. | Reserves and Surplus | $2,62,500$ |  |
|  | Capital Redemption Reserve |  | 33,750 |
|  | Profit and Loss Account $(48,000-6,500-3,500-33,750)$ |  | 4,250 |
|  |  | 38,000 |  |
| 3. | Cash and cash equivalents |  | 12,000 |
|  | Balances with banks $(31,000+37,500+15,000-71,500)$ |  |  |

Working Note:
Calculation of Number of Shares:
Rs.
Amount payable on redemption
71,500
Less: Sale price of investment
$(15,000)$
56,500
Less: Available bank balance (31,000-12,000)
$(19,000)$
Funds from fresh issue
37,500
TNo. of shares $=37,500 / 60=625$ shares

## QUESTION 16 (STUDY MATERIAL)

The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 20X1.

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

Share capital: 40,000 Equity shares of Rs. 10 each fully paid - Rs.4,00,000; 1,000 10\% Redeemable preference shares of Rs. 100 each fully paid - Rs.1,00,000.

Reserve \&Surplus: Capital reserve - Rs.50,000; Securities premium - Rs.50,000; General reserve -Rs.75,000; Profit and Loss Account - Rs.35,000

On 1st January 20X2, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

In the books of ABC Limited
Journal Entries

| Date | Particulars |  | Dr. (Rs.) | Cr. (Rs.) |
| :---: | :---: | :---: | :---: | :---: |
| $\begin{aligned} & 20 \times 2 \\ & \text { Jan } 1 \end{aligned}$ | 10\% Redeemable Preference Share Capital/c <br> To Preference Shareholders A/c <br> (Being the amount payable on redemption transferred to Preference Shareholders Account) | Dr. | 1,00,000 | 1,00,000 |
|  | Preference Shareholders A/c <br> To Bank A/c <br> (Being the amount paid on redemption of preference shares) <br> General Reserve A/c <br> Profit \& Loss A/c <br> To Capital Redemption Reserve $A / C$ <br> (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act) | Dr. | $1,00,000$ $\begin{aligned} & 75,000 \\ & 25,000 \end{aligned}$ | $\begin{aligned} & 1,00,000 \\ & 1,00,000 \end{aligned}$ |

## QUESTION 17 (STUDY MATERIAL)

C Limited had 3,000, 12\% Redeemable Preference Shares of Rs. 100 each, fully paid up.Thecompanyhadtoredeemthesesharesatapremiumof10\%.

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

It was decided by the company to issue the following:
(i) 25,000 Equity Shares of Rs. 10 each at par,
(ii) 1,000 14\% Debentures of Rs.100each.

The issue was fully subscribed and all amounts were received in full. The payment was duly made. The company had sufficient profits. Show Journal Entries in the books of the company.

## In the books of C Limited

Journal Entries


## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

| Profit \& Loss A/c <br> To Capital Redemption Reserve A/c <br> (Being the amount transferred to Capital <br> Redemption Reserve Account as per the <br> requirement of the Act) | Dr. | 50,000 | 50,000 |
| :--- | :--- | :--- | :--- |

## Working Note:

## Amount to be transferred to Capital Redemption Reserve Account

| Face value of shares to be redeemed | $3,00,000$ |
| :--- | ---: |
| Less: Proceeds from new issue | $\underline{(2,50,000)}$ |
| Total Balance | $\underline{50,000}$ |

## QUESTION 18 (STUDY MATERIAL) (PAST EXAM JAN 21) (MTP MAY 2020)

The capital structure of a company consists of 20,000 Equity Shares of Rs. 10 each fully paid up and 1,000 8\% Redeemable Preference Shares of Rs. 100 each fully paid up (issued on1.4.20X1).

Undistributed reserve and surplus stood as: General Reserve Rs.80,000; Profit and Loss Account Rs.20,000; Investment Allowance Reserve out of which Rs.5,000, (not free for distribution as dividend) Rs.10,000; Securities Premium Rs.2,000, Cash at bank amounted to Rs.98,000. Preference shares are to be redeemed at a Premium of $10 \%$ and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of Rs.20,000 shall be retained in general reserve and which should not be utilised.

Pass Journal Entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out.

In the books of $\qquad$
Journal Entries

| Date | Particulars |  | Dr. (Rs.) | Cr. (Rs.) |
| :--- | :--- | :--- | ---: | ---: |
|  | Bank A/c | Dr. | 25,000 |  |

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

| To Equity Share Capital A/c <br> (Being the issue of 2,500 Equity Shares of Rs. 10 each at a premium of Re. 1 per share as per Board's Resolution No.....dated.......) |  |  | 25,000 |
| :---: | :---: | :---: | :---: |
| 8\% Redeemable Preference Share Capital A/c <br> 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. | $\begin{array}{r} 1,00,000 \\ 10,000 \end{array}$ | 1,10,000 |
| 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/c <br> (Being the premium payable on redemption is adjusted against Profit \& Loss Account) | Dr. | 10,000 | 10,000 |
| General Reserve A/c <br> Profit \& Loss A/c <br> Investment Allowance Reserve A/c <br> To Capital Redemption Reserve A/c <br> (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act) | Dr. Dr. Dr. | $\begin{array}{r} 60,000 \\ 10,000 \\ 5,000 \end{array}$ | 75,000 |

Balance Sheet as on $\qquad$ [Extracts]


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



## Notes to accounts

| 1. | Share Capital <br> 22,500 Equity shares $(20,000+2,500)$ of Rs. 10 each fully paid up | 2,25,000 |
| :---: | :---: | :---: |
| 2. | Reserves and Surplus |  |
|  | General Reserve | 20,000 |
|  | Securities Premium | 2,000 |
|  | Capital Redemption Reserve | 75,000 |
|  | Investment Allowance Reserve | 5,000 |
|  |  | 1,02,000 |

## Working Note:

No 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.(80,000-20,000)
Rs.60,000
Profit and Loss (20,000-10,000 set aside for adjusting premium payable on redemption of preference shares)

Rs.10,000
Investment Allowance Reserve: (Rs.10,000-5,000)
Rs.5,000
(Rs.75,000)
Rs.25,000
Therefore, No. of shares to be issued $=25,000 /$ Rs. $10=2,500$ shares.

## QUESTION 19 (STUDY MATERIAL)

The Balance Sheet of XYZ as at 31st December, 20X1
inter alia includes the following:

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

50,000, 8\% Preference Shares of Rs. 100 each, Rs. 70 paid up
1,00,000 Equity Shares of Rs. 100 each fully paid up
Securities Premium
Capital Redemption Reserve
General Reserve

Rs.
35,00,000
1,00,00,000
5,00,000
20,00,000
50,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 20X2 at $\mathbf{5 \%}$ premium. In order to finance the redemption, the company makes a rights issue of 50,000 equity shares of Rs. 100 each at Rs. 110 per share, Rs. 20 being payable on application, Rs. 35 (including premium) on allotment and the balance on 1st January, 20X3. The issue was fully subscribed and allotment made on 1st March, 20X2. The money due on allotment were received by 31st March, 20X2. The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act,2013.

You are asked to pass the necessary Journal Entries and show the relevant extracts from the balance sheet as on 31st March, 20X2 with the corresponding figures as on 31st December, 20X1.

Journal Entries

|  |  | Rs. | Rs. |
| :---: | :---: | :---: | :---: |
| 8\% Preference Share Final Call A/c <br> To 8\% Preference Share Capital A/c <br> (For final call made on preference shares @ Rs. 30 each to make them fully paid up) | Dr. | 15,00,000 | 15,00,000 |
| Bank A/c <br> To 8\% Preference Share Final Call A/c <br> (For receipt of final call money on preference shares) | Dr. | 15,00,000 | 15,00,000 |
| Bank A/c <br> To Equity Share Application A/c <br> (For receipt of application money on 50,000 equity shares @ Rs. 20 per share) | Dr. | 10,00,000 | 10,00,000 |
| Equity Share Application A/c <br> To Equity Share Capital A/c <br> (For capitalisation of application money received) | Dr. | 10,00,000 | 10,00,000 |
| $\begin{aligned} & \text { Equity Share Allotment A/c } \\ & \text { To Equity Share Capital A/c } \\ & \text { To Securities Premium A/c } \end{aligned}$ | Dr. | 17,50,000 | $\begin{array}{r} 12,50,000 \\ 5,00,000 \end{array}$ |

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

```
(For allotment money due on 50,000 equity shares @ Rs. 35 per share including a premium ofRs.
10 per share)
```

| ```Bank A/c To Equity Share Allotment A/c (For receipt of allotment money on equity shares)``` | Dr. | 17,50,000 | 17,50,000 |
| :---: | :---: | :---: | :---: |
| 8\% Preference Share Capital A/c <br> Premium on Redemption of Preference Shares A/c <br> To Preference Shareholders A/c <br> (For amount payable to preference shareholders on redemption at 5\% premium) | Dr. Dr. | 50,00,000 | 52,50,000 |
| General Reserve A/c <br> To Premium on Redemption A/c <br> (For writing off premium on redemption of preference shares) | Dr. | 2,50,000 | 2,50,000 |
| General Reserve A/c <br> To Capital Redemption Reserve A/c <br> (For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 50,00,000-10,00,000-12,50,000) | Dr. | 27,50,000 | 27,50,000 |
| Preference Shareholders A/c <br> To Bank A/c <br> (For amount paid to preference shareholders) | Dr. | 52,50,000 | 52,50,000 |

Balance Sheet (extracts)

|  | Particulars | Notes <br> No. | As at <br> $\mathbf{3 1 . 3 . 2 0 \times 2}$ | As at <br> $\mathbf{3 1 . 1 2 . 2 0 \times 1}$ |
| :--- | :--- | :---: | :---: | :---: |
| 1. <br> EQUITY AND LIABILITIES <br> Shareholders' funds <br> a) Share capital <br> b) Reserves and Surplus |  | Rs. | Rs. |  |
|  | 1 | $1,22,50,000$ | $1,35,00,000$ |  |

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

Notes to accounts

|  |  | $\begin{gathered} \text { As at } \\ 31.3 .20 \times 2 \end{gathered}$ | $\begin{gathered} \text { As at } \\ 31.12 .20 \times 1 \end{gathered}$ |
| :---: | :---: | :---: | :---: |
| 1. | Share Capital <br> Issued, Subscribed and Paid up: <br> 1,00,000 Equity shares of Rs. 100 each fully paid up <br> 50,000 Equity shares of Rs. 100 each Rs. 45 paid up | $\begin{array}{r} 1,00,00,000 \\ 22,50,000 \end{array}$ | 1,00,00,000 |
| 2. | 50,000, 8\% Preference shares of Rs. 100 each, Rs. 70 called up | 1,22,50,000 | 35,00,000 |
|  | Reserves and Surplus |  |  |
|  | Capital Redemption Reserve ```Securities Premium (5,00,000 + 5,00,000)``` | $\begin{aligned} & 47,50,000 \\ & 10,00,000 \end{aligned}$ | $\begin{array}{r} 20,00,000 \\ 5,00,000 \end{array}$ |
|  | General Reserve | 20,00,000 | 50,00,000 |
|  |  | 77,50,000 | 75,00,000 |

## QUESTION 20 (STUDY MATERIAL)

With the help of the details in Illustration 9 above and further assuming that the Preference Shareholders holding 2,000 shares fail to make the payment for the Final Call made under Section 55, you are asked to pass the necessary Journal Entries and show the relevant extracts from the balance sheet as on 31st March, 20X2 with the corresponding figures as on 31st December, $20 X 1$ assuming that the shares in default are forfeited after giving proper notices.

## Solution

Journal Entries

|  |  | Rs. | Rs. |
| :--- | :--- | ---: | ---: | ---: |
| $8 \%$ Preference Share Final Call A/c <br> To 8\% Preference Share Capital A/c <br> (For final call made on preference shares @ Rs.30 <br> each to make them fully paid up) | Dr. | $15,00,000$ |  |
| Bank A/c | Dr. | $14,40,000$ | $15,00,000$ |

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

| Calls in Arrear A/c <br> To 8\% Preference Share Final Call A/c <br> (For receipt of final call money on preference shares) |  | 60,000 | 15,00,000 |
| :---: | :---: | :---: | :---: |
| Preference Share Capital A/c (2000 X`100) \\ To Calls in Arrears A/c (2000 X `30) <br> To Shares Forefeited A/c (2000 X`70) <br> (For Shares Forefeited after shareholders fail to pay the Final Call) | Dr. | 2,00,000 | $\left\lvert\, \begin{aligned} & 60,000 \\ & 1,40,000 \end{aligned}\right.$ |
| ```Bank A/c To Equity Share Application A/c (For receipt of application money on 50,000 equity shares @ Rs. }20\mathrm{ per share)``` | Dr. | 10,00,000 | 10,00,000 |
| Equity Share Application A/c <br> To Equity Share Capital A/c <br> (For capitalisation of application money received) | Dr. | 10,00,000 | 10,00,000 |
| ```Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (For allotment money due on 50,000 equity shares @ Rs. }35\mathrm{ per share including a premium ofRs. 10 per share)``` | Dr. | 17,50,000 | $\begin{array}{r} 12,50,000 \\ 5,00,000 \end{array}$ |
| ```Bank A/c To Equity Share Allotment \(\mathrm{A} / \mathrm{c}\) (For receipt of allotment money on equity shares)``` | Dr. | 17,50,000 | 17,50,000 |
| General Reserve A/c <br> To Capital Redemption Reserve A/c <br> (For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 50,00,000-10,00,000-12,50,000) | Dr. | 25,50,000 | 25,50,000 |
| 8\% Preference Share Capital A/c <br> Premium on Redemption of Preference Shares A/c <br> To Preference Shareholders A/c <br> (For amount payable to preference shareholders on redemption at 5\% premium) |  | $\begin{aligned} & 48,00,000 \\ & 2,40,000 \end{aligned}$ | 50,40,000 |
| ```Preference Shareholders A/c To Bank A/c (For amount paid to preference shareholders) General Reserve A/c To Premium on Redemption A/c (For writing off premium on redemption of preference shares)``` | Dr. | 50,40,000 $2,40,000$ | 50,40,000 |

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

## Balance Sheet (extracts)

|  | Particulars | Notes <br> No. | As at <br> $\mathbf{3 1 . 3 . 2 0 X 2}$ | As at <br> $\mathbf{3 1 . 1 2 . 2 0 X 1}$ |
| :--- | :--- | :---: | :---: | :---: |
| 1.EQUITY AND LIABILITIES <br> Shareholders' funds <br> a) Share capital <br> b) Reserves and Surplus | 1 | Rs. | Rs. |  |
|  | ASSETS |  |  |  |
| 1.ASSETS <br> Current Assets <br> a) Cash \& Cash equivalents | $23,90,000$ | $1,35,00,000$ |  |  |

Notes to accounts

|  |  | $\begin{gathered} \text { As at } \\ 31.3 .20 \times 2 \end{gathered}$ | $\begin{gathered} \text { As at } \\ 31.12 .20 \times 1 \end{gathered}$ |
| :---: | :---: | :---: | :---: |
| 1. | Share Capital <br> Issued, Subscribed and Paid up: <br> 1,00,000 Equity shares of Rs. 100 each fully paid up <br> 50,000 Equity shares of Rs. 100 each Rs. 45 paid up | $\begin{array}{r} 1,00,00,000 \\ 22,50,000 \end{array}$ | 1,00,00,000 |
| 2. | 50,000, 8\% Preference shares of Rs. 100 each, Rs. 70 called up Shares Forfeited | 1,40,000 | 35,00,000 |
|  | Reserves and Surplus | 1,22,50,000 | 1,35,00,000 |
|  |  |  |  |
|  | Capital Redemption Reserve ```Securities Premium (5,00,000 + 5,00,000)``` | $\begin{aligned} & 45,50,000 \\ & 10,00,000 \end{aligned}$ | $\begin{array}{r} 20,00,000 \\ 5,00,000 \end{array}$ |
|  | General Reserve | 22,10,000 | 50,00,000 |
|  |  | 77,60,000 | 75,00,000 |

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

|  | Cash \& Cash Equivalents <br> Bank | $6,50,000$ | $15,00,000$ |
| :--- | :--- | ---: | ---: |

## QUESTION 20 (STUDY MATERIAL)

The books of B Ltd. showed the following balance on 31st December, 20X3:
30,000 Equity Shares of Rs. 10 each fully paid; 18,000 12\% Redeemable Preference Shares of Rs. 10 each fully paid; 4,000 10\% Redeemable Preference Shares of Rs. 10 each, Rs. 8 paid up (all shares issued on 1st April, 20X2).

Undistributed Reserve and Surplus stood as: Profit and Loss Account Rs.80,000; General Reserve Rs. 1,20,000; Security Premium Account Rs. 15,000 and Capital Reserve Rs. 21,000/

For Redemption 3000 equity shares ofRs.10eachareissuedat10\%premium.At the same time, Preference shares are redeemed on $1^{\text {st }}$ January $20 X 4$ at a premium of Rs. 2 per share. The whereabouts of the holders of 100 shares of Rs. 10 each fully paid are not known.

A bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account. However, equity shares, issued for redemption are not eligible for bonus.

Show the necessary Journal Entries to record the transactions.

Answer:
In the books of B Limited
Journal Entries

| Date | Particulars |  | Dr. (Rs.) | Cr. (Rs.) |
| :---: | :---: | :---: | :---: | :---: |
| 20X1 | 12\% Redeemable Preference Share Capital A/c | Dr. | 1,80,000 |  |
| Jan 1 | Premium on Redemption of Preference Shares A/c | Dr. | 36,000 | 2,16,000 |
| - | (Being the amount payable on redemption of 18,000 12\% Redeemable Preference Shares transferred to Shareholders Account) | Dr. |  |  |
|  | Preference Shareholders A/c |  | 2,14,800 |  |

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



## Working Note:

1. Partly paid-up preference shares cannot be redeemed.
2. Amount to be Transferred to Capital Redemption Reserve Account

Face value of share to be redeemed
Rs.1,80,000
Less: Proceeds from fresh issue(excluding premium)
(Rs.30,000)
Rs. 1,50,000
3. No bonus shares on 3,000 equity shares issued for redemption.

## QUESTION 21 (STUDY MATERIAL)

The following is the summarised Balance Sheet of Bumbum Limited as at 31 $^{\text {st }}$ March,20X1:

|  | $₹$ |
| :---: | :---: |
| Sources of funds <br> Authorized capital <br> 50,000 Equity shares of $₹ 10$ each <br> 10,000 Preference shares of ₹ 100 each ( $8 \%$ redeemable) <br> Issued, subscribed and paid up | $\begin{array}{r} 5,00,000 \\ 10,00,000 \\ \hline 15,00,000 \\ \hline \end{array}$ |
| 5,000, 8\% Redeemable Preference shares of ₹ 100 each | 5,00,000 |
| 8,00,000 |  |
| Reserves \& Surplus: |  |
| Securities Premium | 6,00,000 |
| General Reserve | 6,50,000 |
| Profit \& Loss A/c | 40,000 |
| 12,90,000 |  |
| 2,500, 9\% Debentures of ₹ 100 each | 2,50,000 |
| Trade payables | 1,70,000 |
| Property, Plant and Equipment (net) | 7,80,000 |
| Investments (market value ₹ 5,80,000) | 4,90,000 |
| Deferred Tax Assets | 3,40,000 |
| Trade receivables | 6,20,000 |
| Cash \& Bank balance | 2,80,000 |

In Annual General Meeting held on $20^{\text {th }}$ June, 20X1 the company passedthe following resolutions:
(i) To split equity share of Rs. 10 each into 5 equity shares of Rs. 2 each from $1^{\text {st }}$ July.
(ii) To redeem $8 \%$ preference shares at a premium of5\%.

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0
(iii) To redeem 9\% Debentures by making offer to debenture holders to convert their holdings into equity shares at Rs. 10 per share or accept cash on redemption.
(iv) To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On $10^{\text {th }}$ July, $20 \times 1$ investments were sold for Rs.5,55,000 and preference shares were redeemed.

40\% of Debenture holders exercised their option to accept cash and their claims were settled on $1^{\text {st }}$ August, 20X1.

The company fixed $5^{\text {th }}$ September, 20X1 as record date and bonus issue was concluded by $12^{\text {th }}$ September, 20X1
You are requested to journalize the above transactions including cash transactions and prepare Balance Sheet as at $30^{\text {th }}$ September, 20X1. All working notes should form part of your answer.

## Bumbum Limited

Journal Entries

| 20X1 |  | Dr. (Rs.) | Cr. (Rs.) |
| :---: | :---: | :---: | :---: |
| July 1 | Equity Share Capital A/c (Rs.10each) <br> To Equity share capital A/c (Rs. 2 each) <br> (Being equity share of Rs. 10 each splitted into 5 equity shares of Rs. 2 each) \{1,50,000 $\times 2\}$ | 3,00,000 | 3,00,000 |
| July 10 | Cash \&Bank balance A/c <br> To Investment A/c <br> To Profit \& Loss A/c <br> (Being investment sold out and profit on sale credited to Profit \& Loss A/c) | 5,55,000 | $\begin{array}{r} 4,90,000 \\ 65,000 \end{array}$ |
| July 10 | 8\% Redeemable preference share capital A/c Dr. Premium on redemption of pref. share $A / c \quad$ Dr. <br> To Preference shareholders A/c <br> (Being amount payable to preference share holders on redemption) (refer W.N.1) | $\begin{array}{r} 5,00,000 \\ 25,000 \end{array}$ | 5,25,000 |
| July 10 | Preference shareholders A/c <br> To Cash \& bank A/c <br> (Being amount paid to preference shareholders) | 5,25,000 | 5,25,000 |
| July10 | General reserve A/c Dr. | 5,00,000 |  |

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| Aug 1 | To Capital redemption reserve $\mathrm{A} / \mathrm{c}$ <br> (Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law) | 5,00,000 |  |
| :---: | :---: | :---: | :---: |
|  |  | $\begin{array}{r} 2,50,000 \\ 7,500 \end{array}$ |  |
|  | To Debenture holders A/c (Being amount payable to debenture holders along with interest payable) | 2,57,500 | 2,57,500 |
| Aug. 1 | Debenture holders A/c <br> To Cash \&bank A/c (1,00,000 +7,500) <br> To Equity share capital A/c ( $15,000 \times 2$ ) |  | $\begin{array}{r} 1,07,500 \\ 30,000 \end{array}$ |
|  | To Securities premium A/c $(15,000 \times 8)$ <br> (Being claims of debenture holders satisfied) (referW.N.2) |  | 1,20,000 |
| Sept. 5 | Capital Redemption Reserve A/c <br> To Bonus to shareholders A/c <br> (Being balance in capital redemption reserve capitalized to issue bonus shares) (refer W.N.3) | 1,10,000 | 1,10,000 |
| Sept. 30 | Bonus to shareholders A/c <br> To Equity share capital A/c <br> (Being 55,000 fully paid equity shares of Rs. 2 each issued as bonus in ratio of 1 share for every 3 shares held) | 25,000 | 1,10,000 |
|  | General Reserve A/c <br> To Premium on redemption of preference shares A/c <br> (Being premium on preference shares adjusted from general reserve) |  | 25,000 |
| Sept. 30 | Profit \& Loss A/c <br> To Interest on debentures $\mathrm{A} / \mathrm{C}$ <br> (Being interest on debentures transferred to Profit and Loss Account) | 7,500 | 7,500 |

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

Balance Sheet as at $30^{\text {th }}$ September, 20X1


Notes to accounts

|  |  | Rs. | Rs. |
| :---: | :---: | :---: | :---: |
| 1 | Share Capital <br> Authorized share capital <br> 2,50,000 Equity shares of Rs. 2 each <br> 10,000 Preference shares of Rs. 100 each | $\begin{array}{r} \text { 5,00,000 } \\ 10,00,000 \end{array}$ | 15,00,000 |
|  | Issued, subscribed and paid up <br> 2,20,000 Equity shares of Rs. 2 each $[(30,000 \times 5)+15,000+55,000]$ |  | 4,40,000 |

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



Working Notes:

| 1. Redemption of preference share: |  |
| :--- | :--- |
| 5,000 Preference shares of ₹ 100 <br> each | $5,00,000$ |
| Premium on redemption @ $5 \%$ | 25,000 |
| Amount Payable | $5,25,000$ |


| 2. Redemption of Debentures |  |
| :--- | :--- |
| 2,500 Debentures of ₹100 each | $2,50,000$ |
| Less: Cash option exercised by $40 \%$ <br> holders | $(1,00,000)$ |
| Conversion option exercised by <br> remaining $60 \%$ | $1,50,000$ |
| Equity shares issued on conversion $=\mathbf{= 1 5 , 0 0 0}$ shares 1,50,000 10 |  |
| 3. Issue of Bonus Shares |  |
| Existing equity shares after split <br> (30,000 x 5) | $1,50,000$ shares |
| Equity shares issued on conversion | 15,000 shares |
| Equity shares entitled for bonus | $1,65,000$ shares |
| Bonus shares (1 share for every 3 <br> shares held) to be issued | 55,000 shares |
| 4. Cash and Bank Balance | $2,80,000$ |
| Balance as per balance sheet | $5,55,000$ |
| Add: Realization on sale of <br> investment |  |

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

| $8,35,000$ |  |
| :--- | :---: |
| Less: Paid to preference share <br> holders | $(5,25,000)$ |
| Paid to Debenture holders $(7,500+$ <br> $1,00,000)$ | $(1,07,500)$ |
| Balance <br> 5. Interest of ₹7,500 paid to <br> debenture holders have been debited <br> to Profit \& Loss Account. | $2,02,500$ |

## QUESTION 22 (STUDY MATERIAL)

The following is the summarized Balance Sheet of Trinity Ltd. as at 31.3.20X1:

| Property, Plant and Equipment: |  |
| :---: | :---: |
| Gross Block | 3,00,000 |
| Less: Depreciation | 1,00,000 |
| 2,00,000 |  |
| Investments | 1,00,000 |
| Inventory | 45,000 |
| Trade receivables | 25,000 |
| Cash and Bank Balances | 50,000 |
| Share Capital: |  |
| Authorised: |  |
| 10,000 10\% Redeemable Preference Shares of ₹ 10 each | 1,00,000 |
| 90,000 Equity Shares of ₹10 each | 9,00,000 |
| Issued, Subscribed and Paid-up Capital: |  |
| 10,000 10\% Redeemable Preference Shares of ₹ 10 each | 1,00,000 |
| 10,000 Equity Shares of ₹ 10 each | 1,00,000 |
| Reserves and Surplus: |  |
| General Reserve | 1,20,000 |
| Securities Premium | 70,000 |
| Profit and Loss A/c | 18,500 |
| Current Liabilities and Provisions | 11,500 |

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

For the year ended 31.3.20X2, the company made a net profit of Rs.35,000 after providing Rs.20,000 depreciation.
The following additional information is available with regard to company's operation:

1. Thepreferencedividendfortheyearended31.3.20X2waspaid.
2. Except cash and bank balances other current assets and current liabilities as on 31.3.20×2, was the same as on31.3.20X1.
3. The company redeemed the preference shares at a premium of $10 \%$.
4. The company issued bonus shares in the ratio of one share for every equity share held as on31.3.20X2.
5. To meet the cash requirements of redemption, the company sold investments.
6. Investments were sold at $90 \%$ of cost on31.3.20X2.

You are required to prepare necessary journal entries to record redemption and issue of bonus shares.

Journal Entries in the books of Trinity Ltd.


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

| Bank A/c <br> Profit and Loss A/c <br> To Investments <br> (Being amount realised on sale of Investments and | Dr. Dr. | $\begin{aligned} & 90,000 \\ & 10,000 \end{aligned}$ | 1,00,000 |
| :---: | :---: | :---: | :---: |
| loss thereon adjusted) | Dr. | 1,10,000 | $\begin{gathered} 1,10,00 \\ 0 \end{gathered}$ |
| Preference shareholders A/c <br> To Bank <br> (Being payment made to preference shareholders) |  |  |  |
| Capital Redemption Reserve A/c <br> To Bonus to Shareholders <br> (Amount adjusted for issuing bonus share in the ratio of 1 :1) | Dr. | 1,00,000 | $\begin{gathered} 1,00,00 \\ 0 \end{gathered}$ |
| Bonus to Shareholders A/c <br> To Equity Share Capital <br> (Balance on former account transferred to latter) | Dr. | 1,00,000 | $\begin{gathered} 1,00,00 \\ 0 \end{gathered}$ |

## QUESTION 23 (RTP MAY 18)

The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 20X1:
Share capital: 50,000 Equity shares of Rs. 10 each fully paid - Rs.5,00,000; 1,500 10\% Redeemable preference shares of Rs. 100 each fully paid - Rs.1,50,000.

Reserve \& Surplus: Capital reserve - Rs.1,00,000; General reserve -Rs. 1,00,000; Profit and Loss Account-Rs.75,000.

On 1st January 20X2, the Board of Directors decided to redeem the preference shares at premium of $10 \%$ by utilization of reserves.

You are required to prepare necessary Journal Entries including cash transactions in the books of the company.

## ANSWER:

In the books of ABC Limited Journal Entries


Note: Capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

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

## QUESTION 24 (RTP NOVEMBER 18)

The following are the extracts from the Balance Sheet of Meera Ltd. as on 31 ${ }^{\text {st }}$ December,2017.

Share capital: 60,000 Equity shares of Rs. 10 each fully paid - Rs.6,00,000; 1,500 10\% Redeemable preference shares of Rs. 100 each fully paid - Rs.1,50,000.
Reserve \&Surplus: Capital reserve - Rs.75,000; Securities premium - Rs.75,000; General reserve Rs.1,12,500; Profit and Loss Account - Rs.62,500

On 1 ${ }^{\text {st }}$ January 2018, the Board of Directors decided to redeem the preference shares at premium of $10 \%$ by utilisation of reserve.

You are required to prepare necessary Journal Entries including cash transactions in the books of the company.

In the books of Meera Limited Journal Entries

| Date <br> 2018 | Particulars |  | Dr. <br> (Rs.) | Cr. <br> (Rs.) |
| :--- | :--- | :--- | :--- | :--- |
| Jan 1 | $10 \%$ Redeemable Preference Share Capital <br> A/c <br> Premium on Redemption of Pref. shares <br> To Preference Shareholders A/c <br> (Being the amount payable on redemption <br> transferred to Preference Shareholders <br> Account) | Dr. | $1,50,000$ | Dr. |

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

Note: Securities premium and capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

## QUESTION 25 (RTP MAY 19)

The capital structure of a AP Ltd. consists of 20,000 Equity Shares of Rs. 10 each fully paid up and 1,000 8\% Redeemable Preference Shares of Rs. 100 each fully paid up (issued on 1.4.20X1).

Undistributed reserve and surplus stood as: General Reserve Rs.80,000; Profit and Loss Account Rs.20,000; Investment Allowance Reserve out of which Rs.5,000, (not free for distribution as dividend) Rs.10,000; Cash at bank amounted to Rs.98,000. Preference shares are to be redeemed at a Premium of $10 \%$ and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of Rs. 20,000 shall be retained in general reserve and which should not be utilised.

PassJournalEntriestogiveeffecttotheabovearrangementsandalsoshowhowtherelevant items will appear in the Balance Sheet of the company after the redemption carried out.

## ANSWER:

In the books of AP Ltd.

Journal Entries

| Date | Particulars |  | Dr. (Rs.) | Cr. (Rs.) |
| :--- | :--- | ---: | ---: | ---: |
|  | Bank A/c <br> To Equity Share Capital A/c <br> (Being the issue of 2,500 Equity Shares of <br> Rs.10 each at par, as per Board's <br> Resolution No....dated......) |  |  |  |
| $8 \%$ Redeemable Preference Share Capital <br> A/c | Dr. | $1,00,000$ | 25,000 |  |
| Premium on Redemption of Preference <br> Shares A/c <br> To Preference Shareholders A/c | Dr. | 10,000 |  |  |
| (Being the amount paid on redemption <br> transferred to Preference Shareholders <br> Account) |  |  |  |  |
| Preference Shareholders A/c <br> To Bank A/c | Dr. | $1,10,000$ | $1,10,000$ |  |
| (Being the amount paid on redemption of <br> preference shares) <br> Profit \& Loss A/c | Dr. | 10,000 |  |  |

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

| To Premium on Redemption of Preference Shares A/c <br> (Being the premium payable on redemption is adjusted against Profit \& Loss Account) <br> General Reserve A/c <br> Profit \& Loss A/c <br> Investment Allowance Reserve A/c <br> To Capital Redemption Reserve A/c <br> (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act) | Dr. <br> Dr. <br> Dr. | $\begin{array}{r} 60,000 \\ 10,000 \\ 5,000 \end{array}$ | $\begin{aligned} & 10,000 \\ & 75,000 \end{aligned}$ |
| :---: | :---: | :---: | :---: |

Balance Sheet as on $\qquad$ [Extracts]


## Notes to accounts

1. Share Capital

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

| General Reserve | 20,000 |
| :--- | ---: |
| Capital Redemption Reserve | 75,000 |
| Investment Allowance Reserve | 5,000 |
|  | $1,00,000$ |

## Working Note:

No of Shares to be issued for redemption of Preference Shares:
Face value of shares redeemed Rs.1,00,000

Less: Profit available for distribution as dividend:

$$
\begin{array}{ll}
\text { General Reserve:Rs.(80,000-20,000) } & \text { Rs.60,000 Profit and } \\
\text { Loss (20,000 - 10,000 set aside for } & \\
\text { adjusting premium payable on redemption of } & \\
\text { preference shares) } & \text { Rs.10,000 } \\
\text { Investment Allowance Reserve:(Rs.10,000-5,000) } & \frac{\text { Rs.5,000 (Rs.75,000) }}{\text { Rs.25,000 }}
\end{array}
$$

Therefore, No. of shares to be issued $=25,000 /$ ss. $10=2,500$ shares .

## QUESTION 26 (RTP NOVEMBER 19)

The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 20X1:
Share capital: 50,000 Equity shares of Rs. 10 each fully paid - Rs.5,00,000; 2,000 10\% Redeemable preference shares of Rs. 100 each fully paid - Rs.2,00,000.

Reserve \& Surplus: Capital reserve - Rs.2,00,000; General reserve -Rs.2,00,000; Profit and Loss Account -Rs.75,000.

On 1st January 20X2, the Board of Directors decided to redeem the preference shares at premium of $5 \%$ by utilization of reserves.
You are required to prepare necessary Journal Entries including cash transactions in the books of the company.

In the books of ABC Limited Journal Entries

| Date <br> $20 x$ <br> 2 | Particular <br> s | Dr. <br> (Rs.) | Cr. (Rs.) |
| :---: | :--- | :--- | :--- | :--- |
| Jan 1 | $10 \%$ Redeemable Preference Share <br> Capital/c | Dr. | $2,00,000$ |
| Premium on Redemption of Preference |  |  |  |
| Shares |  |  |  |
| To Preference Shareholders A/c |  |  |  |

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

| (Being the amount payable on redemption transferred to Preference Shareholders Account) | Dr. | 2,10,000 | 2,10,000 |
| :---: | :---: | :---: | :---: |
| Preference Shareholders A/c <br> To Bank A/c <br> (Being the amount paid on redemption of preference shares) |  |  |  |
| General Reserve A/c <br> To Capital Redemption Reserve A/c <br> (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act) | Dr. | 2,00,000 | 2,00,000 |
| Profit \& Loss A/c <br> To Premium on Redemption of Preference Shares $A / c$ <br> (Being premium on redemption charged to Profit and Loss A/c) | Dr. | 10,000 | 10,000 |

Note: Capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

## QUESTION 27 (RTP MAY 20)

The capital structure of Chand Ltd. consists of 20,000 Equity Shares of Rs. 10 each fully paid up and 1,000 8\% Redeemable Preference Shares of Rs. 100 each fully paid up (issued on 1.4.20X1).

Undistributed reserve and surplus stood as: General Reserve Rs.80,000; Profit and Loss Account Rs.20,000; Investment Allowance Reserve is Rs.10,000 out of which Rs.5,000 is not free for distribution as dividend; Cash at bank amounted to Rs.98,000. Preference shares are to be redeemed at a Premium of $10 \%$ and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve and surplus, subject to the conditions that a sum of Rs.20,000 shall be retained in general reserve and which should not be utilized.

Pass Journal Entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out.

## Journal Entries


$\qquad$ [Extracts]

|  |  | Particulars |  | Notes No. | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1. |  | EQUITY AND LIABILITIES |  |  |  |
|  | Shareholders' funds |  |  |  |  |
|  | A | Share capital |  | 1 | 2,25,000 |
|  | B | Reserves and Surplus |  | 2 | 1,02,000 |
|  |  |  | Total |  | ? |
|  |  | SSETS |  |  |  |
| 2. | Current Assets |  |  |  |  |
|  | Cash and cash equivalents$\begin{aligned} & (98,000+25,000- \\ & 1,10,000) \end{aligned}$ |  |  |  | 13,000 |
|  |  |  |  |  |  |
|  |  |  | Total |  | ? |

## Notes to accounts

1. Share Capital

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

General Reserve 20,000
Capital Redemption Reserve
75,000
Investment Allowance Reserve
5,000
1,00,000

## Working Note:

No of Shares to be issued for redemption of Preference Shares:
Face value of shares redeemed Rs.1,00,000

Less: Profit available for distribution as dividend:
General Reserve:Rs.(80,000-20,000)
Rs.60,000 Profit and
Loss (20,000 - 10,000 set aside for adjusting premium payable on redemption of
preference shares)
Rs.10,000
Investment Allowance Reserve:(Rs.10,000-5,000)
Rs.5,000 (Rs.75,000)
Rs.25,000
Therefore, No. of shares to be issued $=25,000 /$ Rs. $10=2,500$ shares.

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

## QUESTION 28 (RTP NOVEMBER 20)

The following are the extracts from the Balance Sheet of Hari Ltd. as on 31st March,2020:
Share capital: 75,000 Equity shares of Rs. 10 each fully paid - Rs.7,50,000; 2,250 10\% Redeemable preference shares of Rs. 100 each fully paid - Rs.2,25,000.

Reserve \& Surplus: Capital reserve - Rs.1,50,000; General reserve -Rs.1,50,000; Profit and Loss Account - Rs.1,12,500.

On 1st April 2020, the Board of Directors decided to redeem the preference shares at premium of $10 \%$ by utilization of reserves.

You are required to prepare necessary Journal Entries including cash transactions in the books of the company.

In the books of Hari Limited Journal Entries

\begin{tabular}{|c|c|c|c|c|}
\hline \[
\begin{aligned}
\& \text { Date } \\
\& 2020
\end{aligned}
\] \& \begin{tabular}{l}
Particular \\
s
\end{tabular} \& \& Dr. (Rs.) \& Cr. (Rs.) \\
\hline \multirow[t]{4}{*}{April 1} \& \begin{tabular}{l}
10\% Redeemable Preference Share Capital A/c \\
Premium on Redemption of Preference \\
Shares \\
To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)
\end{tabular} \& Dr. \& 2,25,000 \& 2,47,500 \\
\hline \& \begin{tabular}{l}
Preference Shareholders A/c \\
To Bank A/c \\
(Being the amount paid on redemption of preference shares)
\end{tabular} \& Dr. \& 2,47,500 \& 2,47,500 \\
\hline \& General Reserve A/c \& Dr. \& 1,50,000 \& \\
\hline \& \begin{tabular}{l}
Profit \& Loss A/c \\
To Capital Redemption Reserve A/c \\
(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act) \(\qquad\)
\end{tabular} \& Dr. \& 75,000

22,500 \& 2,25,000 <br>
\hline
\end{tabular}

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

$$
\begin{gathered}
\text { To Premium on Redemption } \\
\text { of Preference Shares A/c } \\
\text { (Being premium on redemption } \\
\text { charged to Profit and Loss A/c) }
\end{gathered}
$$

Note: Capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

## QUESTION 29 (MTP OCTOBER 19)

The Board of Directors of a Company decide to issue minimum number of equity shares of Rs. 9 to redeem Rs. 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is Rs.3,00,000.

Calculate the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of Rs.50only.

ANSWER:

Nominal value of preference shares
Rs.5,00,000
Maximum possible redemption out of profits
Rs.3,00,000

Minimum proceeds of fresh issue
Rs.5,00,000-3,00,000 =Rs.2,00,000
Proceeds of one share
=Rs. 9
Minimum number of shares $=2,00,000 / 9=22,222.22$ shares
As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shares.

If shares are to be issued in multiples of 50 , then the next higher figure which is a multiple of 50 is 22,250 . Hence, minimum number of shares to be issued in such a case is 22,250 shares.

## QUESTION 30 (MTP OCTOBER 20) (MTP NOV18)

ThefollowingaretheextractsfromtheBalanceSheetofABCLtd.ason31stMarch,2020.
Share capital: 40,000 Equity shares of Rs. 10 each fully paid - Rs. 4,00,000; 1,000 10\% Redeemable preference shares of Rs. 100 each fully paid - Rs. 1,00,000.
Reserve \&Surplus: Capital reserve - Rs. 50,000; Securities premium - Rs.50,000; General reserve
Rs. 75,000; Profit and Loss Account - Rs.35,000

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

On 1st April 2020, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

## ANSWER:

In the books of ABC Limited Journal Entries

| Date | Particulars |  | Dr. (Rs.) | Cr. (Rs.) |
| :---: | :---: | :---: | :---: | :---: |
| 2020 <br> April 1 |  | Dr. | 1,00,000 | 1,00,000 |
|  | 10\% Redeemable Preference Share Capital A/c <br> To Preference Shareholders A/c |  |  |  |
|  | (Being the amount payable on redemption transferred to Preference Shareholders Account) |  |  |  |
|  | Preference Shareholders A/c <br> To Bank A/c | Dr. | 1,00,000 | 1,00,000 |
|  | (Being the amount paid on redemption of preference shares) |  |  |  |
|  | General Reserve A/c | Dr. <br> Dr. | 75,000 | 1,00,000 |
|  | Profit \& Loss A/c |  | 25,000 |  |
|  | To Capital Redemption Reserve A/c (Being the amount transferred to |  |  |  |
|  | Capital Redemption Reserve Account as per the requirement of the Act) |  |  |  |

Note: Securities premium and capital reserve cannot be utilised for transfer to Capital Redemption Reserve.

## QUESTION 31 (PAST PAPER MAY 18)

Dheeraj Limited had 5,000, 10\% Redeemable Preference Shares of Rs. 100 each, fully paidup.Thecompanyhadtoredeemthesesharesatapremiumof10\%.

It was decided by the company to issue the following:
(i) 40,000 Equity Shares of Rs. 10 each at par
(ii) 2,000 12\% Debentures of Rs. 100each.

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

The issue was fully subscribed and all accounts were received in full. The payment was duly made. The company had sufficient profits. Show journal entries in the books of the company.

ANSWER:
In the books of Dheeraj Limited Journal Entries


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

## QUESTION 32 (PAST PAPER MAY 19)

The Summarized Balance Sheet of Clean Ltd. as on 31st March, 2019 is as follows:

| Particulars | (Rs.) |
| :---: | :---: |
| EQUITY AND LIABILITIES |  |
| 1. Shareholder's funds: |  |
| (a) Share Capital | 5,80,000 |
| (b) Reserves and Surplus | 96,000 |
| 2. Current Liabilities: |  |
| Trade Payables | 1,13,000 |
| Total | 7,89,000 |
| ASSETS: |  |
| 1. Non-Current Assets |  |
| (a) Property, Plant and Equipment |  |
| Tangible Assets | 6,90,000 |
| (b) Non-current investments | 37,000 |
| 2. Current Assets |  |
| Cash and cash equivalents (Bank) | 62,000 |
| Total | 7,89,000 |

The Share Capital of the company consists of Rs. 50 each Equity shares of Rs. 4,50,000and Rs. 100 each $8 \%$ Redeemable Preference Shares of Rs. 1,30,000 (issued on 1.4.2017). Reserves and Surplus comprises statement of profit and loss only.
In order to facilitate the redemption of preference shares at a premium of 10\%, the Company decided:
(a) to sell all the investments for Rs. 30,000.
(b) to finance part of redemption from company funds, subject to, leaving a Bank balance of Rs. 24,000.
(c) to issue minimum equity share of Rs. 50 each at a premium of Rs. 10 per share to raise the balance of funds required.

You are required to
(1) Pass Journal Entries to record the above transactions.
(2) Prepare Balance Sheet after completion of the above transactions.

## ANSWER:

Journal Entries

|  | Particulars |  | Dr. (Rs.) | Cr. (Rs.) |
| :---: | :---: | :---: | :---: | :---: |
| 1 | Bank A/c <br> To Share Application A/c <br> (For application money received on 1,250 shares @ Rs. 60 per share) | Dr. | 75,000 | 75,000 |
| 2 | Share Application A/c <br> To Equity Share Capital A/c <br> To Securities Premium A/c <br> (For disposition of application money received) | Dr. | 75,000 | 62,500 12,500 |
| 3 | Preference Share Capital A/c <br> Premium on Redemption of Preference Shares A/c <br> To Preference Shareholders A/c <br> (For amount payable on redemption of preference shares) | Dr. Dr | $\begin{array}{r} 1,30,000 \\ 13,000 \end{array}$ | 1,43,000 |
| 4 | Profit and Loss A/c <br> To Premium on Redemption of Preference SharesA/c <br> (For writing off premium on redemption out of profits) | Dr. | 13,000 | 13,000 |
| 5 | Bank A/c <br> Profit and Loss A/c (loss on sale) A/c <br> To Investment A/c <br> (For sale of investments at a loss of Rs. 3,500 ) | Dr Dr | $\begin{array}{r} 30,000 \\ 7,000 \end{array}$ | 37,000 |
| 6 | Preference Shareholders A/c To Bank (Being amount paid to Preference shareholders) | Dr. | 1,43,000 | 1,43,000 |
| 7 | Profit and Loss A/c <br> To Capital Redemption Reserve $A / C$ <br> (For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds (face value of equity shares) i.e., Rs. 1,30,000-Rs.62,500) | Dr. | 67,500 | 67,500 |

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

Balance Sheet of Clean Ltd. (after redemption)

|  | $\begin{aligned} & \text { Particula } \\ & \text { rs } \end{aligned}$ | Notes No. | Rs. |
| :---: | :---: | :---: | :---: |
| 1. | EQUITY AND LIABILITIES |  |  |
|  | Shareholders' funds |  |  |
|  | a) Share capital | 1 | 5,12,500 |
|  | b) Reserves and Surplus | 2 | 88,500 |
| 2. | Current liabilities |  |  |
|  | Trade Payables |  | 1,13,000 |
|  | Total |  | 7,14,000 |
|  | ASSETS |  |  |
| 1. | Non-Current Assets |  |  |
|  | Property Plant and Equipments Tangible asset |  | 6,90,000 |
| 2. | Current Assets |  |  |
|  | Cash and cash equivalents (bank) | 3 | 24,000 |
|  | Total |  | 7,14,000 |

## Notes to accounts

|  |  | Rs. |
| :--- | :--- | ---: |
| 1. | Share Capital |  |
| 2. | Equity share capital Rs. $(4,50,000+62,500)$ | $5,12,500$ |
| Reserves and Surplus |  |  |
| Capital Redemption Reserve |  |  |
| Profit and Loss Account Rs. $(96,000-13,000-7,000-$ | 67,500 |  |
| $67,500)$ |  |  |
| Security Premium | 8,500 |  |
| 3. | Cash and cash equivalents <br> Balances with banks Rs. $(62,000+75,000+30,000-$ <br> $1,43,000)$ | 12,500 |
|  |  | 88,500 |

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| Working Note: | Rs. |
| :--- | ---: |
| Calculation of Number of Shares: | $1,43,000$ |
| Amount payable on redemption $(1,30,000+10 \%$ | $(30,000)$ |
| Premium) | $1,13,000$ |
| Less: Sale price of investment | $\underline{(38,000)}$ <br>  <br> Less: Available bank balance (62,000 - 24,000) <br> Funds required from fresh issue <br> No. of shares $=75,000 / 60$ |

## QUESTION 33 (RTP JULY 21)

ABC Ltd. provides you the following information as on 31st March, 2021:

Share capital:
50,000 Equity shares of ₹ 10 each fully paid - ₹ $5,00,000$;
1,500 10\% Redeemable preference shares of ₹100 each fully paid - ₹ 1,50,000.

Reserve \& Surplus:
Capital reserve - ₹ $1,00,000 ;$
General reserve -₹ 80,000;
Profit and Loss Account - ₹95,000.
On 1st April 2021, the Board of Directors decided to redeem the preference shares at premium of $10 \%$ by utilization of reserves.

You are required to prepare necessary Journal Entries including cash transactions in the books of the company

ANSWER:
In the books of ABC Limited Journal Entries

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| $\begin{gathered} \text { Date } \\ 2021 \end{gathered}$ | Particulars |  | Dr. (₹) | Cr. (₹) |
| :---: | :---: | :---: | :---: | :---: |
| April 1 | 10\% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares <br> To Preference Shareholders A/c <br> (Being the amount payable on redemption transferred to Preference Shareholders Account) | Dr. | $\begin{array}{r} 1,50,000 \\ 15,000 \end{array}$ | 1,65,000 |
|  | Preference Shareholders A/c <br> To Bank A/c <br> (Being the amount paid on redemption of preference shares) | Dr. | 1,65,000 | 1,65,000 |
|  | General Reserve A/c <br> Profit \& Loss A/c <br> To Capital Redemption Reserve A/c <br> (Being the amount transferred to Capital <br> Redemption Reserve Account as per the | DrDr. | $\begin{aligned} & 80,000 \\ & 70,000 \end{aligned}$ | 1,50,000 |
|  | requirement of the Act) | Dr. | 15,000 |  |
|  | Profit \& Loss A/c <br> To Premium on Redemption of Preference Shares A/c <br> (Being premium on redemption charged to Profit and Loss A/c) |  |  | 15,000 |

Note: Capital reserve cannot be utilized for transfer to Capital Redemption Reserve.
QUESTION 34 (PAST EXAM NOV 18)
Explain the conditions when a company should issue new equity shares for redemption of the preference shares. Also discuss the advantages and disadvantages of redemption of preference shares by issue of equity shares.

## ANSWER

A company may prefer issue of new equity shares in the following situations:
(a) When the company realizes that the capital is needed permanently and it makes more sense to issue Equity Shares in place of Redeemable Preference Shares which carry a fixed rate of dividend.
(b) When the balance of profit, which would otherwise be available for dividend, is insufficient.
(c) When the liquidity position of the company is not good enough.

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Advantages of redemption of preference shares by issue of fresh equity shares
(1) No cash outflow of money is required - now or later.
(2) New equity shares may be valued at a premium.
(3) Shareholders retain their equity interest.

Disadvantages of redemption of preference shares by issue of fresh equity shares
(1) There will be dilution of future earnings;
(2) Share-holding in the company is changed.

## QUESTION 35 (PAST EXAM NOV 20)

The Books of Arpit Ltd. shows the following Balances as on 31st December, 2019:

|  | Amount (₹) |
| :--- | :--- |
| $6,00,000$ Equity shares of ₹ 10 each fully paid up | $60,00,000$ |
| $30,000,10 \%$ Preference shares of ₹ 100 each, ₹ 80 paid up | $24,00,000$ |
| Securities Premium | $6,00,000$ |
| Capital Redemption Reserve | $18,00,000$ |
| General Reserve | $35,00,000$ |

Under the terms of issue, the Preference Shares are redeemable on 31st March, 2020 at a premium of $10 \%$. In order to finance the redemption, the Board of Directors decided to make a fresh issue of 1,50,000 Equity shares of ₹10 each at a premium of 20\%, ₹ 2 being payable on application, ₹ 7 (including premium) on allotment and the balance on 1st January, 2021.

The issue was fully subscribed and allotment made on 1st March, 2020. The money due on allotment was received by 20th March, 2020.

The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

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You are required to pass the necessary Journal Entries and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out on 31st March, 2020.

## ANSWER

## Journal Entries

|  |  |  | $₹$ | $₹$ |
| :--- | :--- | ---: | ---: | ---: |
| 1 | $10 \%$ Preference Share Final Call Alc <br> To 10\% Preference Share Capital A/c <br> (For final call made on preference shares @ ₹ 20 <br> each to make them fully paid up) | Dr. | $6,00,000$ |  |


| 2 | Bank Alc <br> To 10\% Preference Share Final Call Alc <br> (For receipt of final call money on preference shares) | Dr | 6,00,000 | 6,00,000 |
| :---: | :---: | :---: | :---: | :---: |
| 3 | Bank Alc <br> To Equity Share Application Alo <br> (For receipt of application money on $1,50,000$ equity shares @ ₹ 2 per share) | $\mathrm{Dr}_{\text {c }}$ | 3000000 | 3,00,000 |
| 4 | Equity Share Application A/c <br> To Equity Share Capital Alo <br> (For capitalization of application money received) | Dre | 3000000 | 3,00,000 |
| 5 | Equity Share Allotment Alc <br> To Equity Share Capital Alc <br> To Securities Premium A/c <br> (For allotment money due on $1,50,000$ equity shares @ ₹ 7 per share including a premium of ₹ 2 per share) | Dre | 10,50,000 | $\begin{aligned} & 7,50,000 \\ & 3,00,000 \end{aligned}$ |
| 6 | Bank A/c <br> To Equity Share Allotment Alc <br> (For receipt of allotment money on equity shares) | Dre | 10,50,000 | 10,50,000 |

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Notes to Accounts:

|  |  | $\begin{gathered} \text { As at } \\ 31.3 .2020 \end{gathered}$ | $\begin{gathered} \text { As at } \\ 31.12 .2019 \end{gathered}$ |
| :---: | :---: | :---: | :---: |
| 1. | Share Capital Issued Subscribed and Paild up: |  |  |
|  | 6,00,000 Equity shares of ₹ 10 each fully paid up | 60,00,000 | 60,00,000 |
|  | 1,50,000 Equity shares of ₹ 10 each ₹ 7 paid up | 10,50,000 |  |
|  | $30,000,10 \%$ Preference shares of ₹ 100 each. |  | 24,00,000 |
|  |  | 70,50,000 | 84,00,000 |
| 2. | Reserves and Surplus |  |  |
|  | Capital Redemption Reserve | 37,50,000 | 18,00,000 |
|  | Securities Premium | 9,00,000 | 6,00,000 |
|  | General Reserve | 12,50,000 | 35,00,000 |
|  |  | 59,00,000 | 59,00,000 |

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## Note:

1. Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and comply with the Accounting Standards prescribed for them.
2. Amount received (excluding premium) on fresh issue of shares till the date of redemption should be considered for calculation of proceeds of fresh issue of shares. Thus, proceeds of fresh issue of shares are $₹ 10,50,000$ ( $₹ 3,00,000$ application money plus ₹ $7,50,000$ received on allotment towards share capital) and balance ₹ $19,50,000$ to taken from general reserve account.

## Chapter 8 Redemption of Debentures

## QUESTION 1 (STUDY MATERIAL)

Which of the following statements is true?
(a) A debenture holder is an owner of the company.
(b) A debenture holder can get his money back only on the liquidation of the company.
(c) A debenture issued at a discount can be redeemed at a premium.

Answer: (c)

QUESTION 2 (STUDY MATERIAL)
Which of the following statements is false?
(a) Debentures can be redeemed by payment in lump sum at the end of a specified period.
(b) Debentures cannot be redeemed during the life time of the company.
(c) Debentures can be redeemed by payments in annual instalments

Answer: (b)

## QUESTION 3 (STUDY MATERIAL)

For debentures issued by unlisted companies (other than AIFIs, Banking companies, NBFCs and HFCs), Debentures Redemption reserve will be considered adequate if it is:
(a) 25\%ofthevalueofdebenturesissuedthroughpublicissue.
(b) 10\%ofthevalueofdebenturesissuedthroughpublicissue.
(c) $0 \%$ of the value of debentures issued through public issue.

Answer: (b)

QUESTION 4 (STUDY MATERIAL)
At the time of cancellation of own debentures, the account credited will be

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(a) Debentures account.
(b) Own debentures account.
(c) Bank account.

Answer: (b)

## QUESTION 5 (STUDY MATERIAL)

A company has issued $6 \%$ debentures for $₹ 10,00,000$, interest being payable on 31st March and 30th September. The company purchases ₹ 10,000 debentures at ₹ 96 (ex-interest) on 1st August 20X1. These debentures were cancelled on same date. The amount of Profit/loss on cancellation of debentures will be
(a) Profit of ₹ 600.
(b) Profit of ₹ 400.
(c) Loss of ₹ 400

Answer: (b)

## QUESTION 6(STUDY MATERIAL)

What is meant by redemption of debentures? Explain.
Answer:
Debentures are usually redeemable i.e. either redeemed in cash or convertible after a time period.

Redeemable debentures may be redeemed:
> after a fixed number of years; or
> any time after ascertain number of years has elapsed since their issue; or
> on giving a specified notice; or
> by annual drawing.

## QUESTION 7(STUDY MATERIAL)

Write short note on Debenture Redemption Reserve.

Answer:

A company issuing a debenture may be required to issue a debenture redemption reserve account out of the profits available for distribution of dividend and amounts credited to such account cannot be utilised by the company except for redemption of debentures. Such an arrangement would ensure that the company will have sufficient liquid funds for the redemption of debentures at the time they fall due for payment

## QUESTION 8(STUDY MATERIAL)

On January 1, Rama Ltd. (listed company), had 500 Debentures of Rs. 100 each outstanding in its books carrying interest at 6\% per annum. In accordance with the regulatory requirements, the directors of the company acquired debentures from the open market for immediate cancellation as follows:

March1 Rs.5,000 at Rs. 98.00 (cum interest)
Aug. 1 Rs.10,000 at Rs.100.25 (cum interest)

Dec. 15 Rs.2,500 at Rs.98.50 (ex-interest)

Debentureinterestispayablehalf-yearly,on30thJuneand31stDec.

Show ledger accounts of Debentures and Debenture interest for the first year, ignoring income-tax.

6\% Debentures Account
1st Half Year

|  |  |  | Rs. | Rs. |  |  | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Mar. 1 |  | Bank-Debentures <br> Purchased [(5,000 x 98/ 100) - 50] | 4,850 |  | Jan. 1 | $\begin{array}{ll} \text { By } & \begin{array}{l} \text { Balance } \\ \text { b/d } \end{array} \end{array}$ | 50,000 |
|  |  | Profit \& Loss on |  |  |  |  |  |

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Debenture Interest Account

|  |  | Rs. |  |  | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Mar. 1 | To Bank-Interest for 2 months <br> on Rs. 5,000 <br> Debentures @ 6\% <br> To Debenture-holders (Interest) A/c (45,000 x $6 \% \times 6 / 12$ ) |  | $\begin{aligned} & \hline \text { June } \\ & 30 \end{aligned}$ | By Profit \& Loss A/c | 1,400 |
|  |  | 50 |  |  |  |
| June$30$ |  | 1,350 |  |  |  |
|  |  | 1,400 |  |  | 1,400 |

2nd Half Year

6\% Debentures Account


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Debenture Interest Account

|  |  |  | Rs. |  |  | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Aug. 1 | To Bank - Interest for one month on Rs.10,000 @ 6\% |  | 50.00 | Dec. | By P \& L Account | 1,093.75 |
| Dec. 15 | $\begin{array}{\|ll} \text { To } & \text { Bank }(2,500 \times 6 \% \\ & \times 5.5 / 12) \\ \text { To } & \text { Debenture } \\ & \text { holders }(32,500 \times \\ & 6 \% \times 6 / 12) \end{array}$ |  | 68.75 |  |  |  |
| Dec. 31 |  |  | 975.00 |  |  |  |
|  |  |  | 1,093.75 |  |  | 1,093.75 |

## QUESTION 9(STUDY MATERIAL)

The following balances appeared in the books of a company (unlisted company other than AIFI, Banking company, NBFC and HFC) as on December 31, 20X1: 6\% Mortgage 10,000 debentures of Rs. 100 each; Debenture Redemption Reserve (for redemption of debentures) Rs.50,000; Investments in deposits with a scheduled bank, free from any charge or lien Rs.1,50,000 at interest 4\% p.a. receivable on 31 ${ }^{\text {st }}$ December every year. Bank balance with the company is Rs.9,00,000.

TheInterestondebentureshadbeenpaiduptoDecember31,20X1.
On February 28, 20X2, the investments were realised at par and the debentures were paid off at 101, together with accrued interest.

Write up the concerned ledger accounts (excluding bank transactions). Ignore taxation.
6\% Mortgage Debentures Account

| $\mathbf{2 0 X 2}$ |  |  | Rs. | 20X2 |  |  |
| :--- | ---: | :--- | ---: | :--- | :--- | ---: |
| Feb. <br> $\mathbf{2 8}$ | ToDebenture- <br> holders A/c | $10,00,000$ | Jan. <br> 1 | By | Balance b/d | $10,00,000$ |

Premium on Redemption of Debentures Account

| $\mathbf{2 0 X 2}$ |  |  | Rs. | 20X2 |  |  | Rs. |
| :--- | ---: | :--- | ---: | ---: | :--- | :--- | ---: |
| Feb. <br> $\mathbf{2 8}$ | To | Debenture- <br> holders A/c | 10,000 | Feb. <br> 28 | By | Profit and <br> loss A/c | 10,000 |

Debentures Redemption Reserve Investment Account

| 20X2 |  |  | Rs. | 20X2 |  |
| :--- | ---: | ---: | ---: | :--- | ---: |
| Jan. 1 | To Balance b/d | $1,50,000$ | Feb. <br> 28 | By Bank | $1,50,000$ |

Debenture Interest Account

| 20X2 |  |  | Rs. | 20X2 |  |  |  |
| :--- | ---: | :--- | ---: | :--- | :--- | :--- | ---: |
| Feb. <br> $\mathbf{2 8}$ | To Bank (10,000 x <br> $100 \times 6 \% \times 2 / 12)$  | 10,000 | Feb. 28 | By | Profit |  | 10,000 |

Bank A/c


Debenture Redemption Reserve Account

| 20X2 | Rs. | 20X2 |  | Rs. |
| :--- | ---: | ---: | :--- | ---: |
| Feb |  | Jan.1 | By Balance b/d | 50,000 |

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| 28 | To | General Reservenote | 1,00,000 | Jan. 1 | By Profit \& Loss (b/f) | 50,000 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | 1,00,000 |  |  | 1,00,000 |

## QUESTION 10(STUDY MATERIAL)

Sencom Limited (listed company) issued Rs.1,50,000 5\% Debentures on $30^{\text {th }}$ September 20X0 on which interest is payable half yearly on 31st March and 30th September. The company has power to purchase debentures in the open market for cancellation thereof. The following purchases were made during the year ended31st December, 20X2 and the cancellation were made on the same date. On 31 December 20X0, investments made for the purpose of redemption were Rs.22,500.

1st March 20X2 - Rs.25,000 nominal value purchased for Rs.24,725 ex-interest.
1st September 20X2-Rs.20,000 nominal value purchased for Rs.20,125 cum-interest. You are required to draw up the following accounts up to the date of cancellation:
(i) Debentures Account; and
(ii) Own Debenture (Investment) Account. Ignore taxation.

Sencom Limited Debenture
Account

| 20X2 |  | Rs. | 20X2 |  | Rs. |
| :--- | :--- | ---: | :--- | :--- | ---: |
| Mar 1 | To Own Debentures | 24,725 | Jan 1 | By Balance <br> b/d | $1,50,000$ |
| Mar 1 | To Profit on cancellation <br> (25,000-24,725) | 275 |  |  |  |
| Sep 1 | To Own Debentures <br> (Note3) <br> To Profit on cancellation | 19,708 |  |  |  |
| Sep 1 | 292 |  |  |  |  |

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| Dec 31 | $(20,000-19,708)$ <br> Balance c/d | $1,05,000$ |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- |
|  |  | $1,50,000$ |  |  | $1,50,000$ |

Own Debenture (Investment) Account

|  |  | Nominal Cost Rs. | Interest <br> Rs. | Cost <br> Rs. |  |  | Nominal Cost Rs. | Interest <br> Rs. | Cost <br> Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 20×2 |  |  |  |  | $20 \times 2$ |  |  |  |  |
| Mar 1 <br> Sep 1 | To Bank (W.N. 1) <br> To Bank (W.N. 2 \& 3) | $\begin{aligned} & 25,000 \\ & 20,000 \end{aligned}$ | $\begin{aligned} & 521 \\ & 417 \end{aligned}$ | $\begin{gathered} 24,725 \\ 19,708 \end{gathered}$ | Mar 1 <br> Sep 1 <br> Dec. 31 | By Debentures A/c <br> By Debentures A/c <br> By P\&L A/c | $\begin{aligned} & 25,000 \\ & 20,000 \end{aligned}$ | $938$ | $\begin{gathered} 24,725 \\ 19,708 \end{gathered}$ |
|  |  | 45,000 | 938 | 44,433 |  |  | 45,000 | 938 | 44,433 |

Working notes:

1. $25,000 \times 5 \% \times 5 / 12=521$
2. $20,000 \times 5 \% \times 5 / 12=417$
3. $20,125-417=19,708$

## QUESTION 11(STUDY MATERIAL)

The following balances appeared in the books of Paradise Ltd (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 1-4-20X1:
(i) 12 \% Debentures Rs.7,50,000
(ii) Balance of DRR Rs.25,000
(iii) DRR Investment 1,12,500 represented by 10\% Rs.1,125 Secured Bonds of the Government of India of Rs.100each.

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Annual contribution to the DRR was made on 31st March every year. On 31-3-20X2, balance at bank was Rs.7,50,000 before receipt of interest. The investment were realised at par for redemption of debentures at a premium of $10 \%$ on the above date.

You are required to prepare the following accounts for the year ended 31st March, 20X2:
(1) Debentures Account
(2) DRR Account
(3) DRR Investment Account
(4) Bank Account
(5) Debenture Holders Account.
1.

12\% Debentures Account

| Date | Particulars | Rs. | Date | Particulars | Rs. |
| :--- | :--- | ---: | :--- | :--- | ---: |
| $31^{\text {st }}$ March, <br> $20 \times 2$ | To Debenture <br> holders A/c | $\underline{7,50,000}$ | $1^{\text {st }}$ April, <br> 20X1 | By Balance b/d | $\underline{7,50,000}$ |

2. 

DRR Account

| Date | Particulars | Rs. | Date | Particulars | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| $31^{\text {st }}$ <br> March, 20X2 | To General reserve A/c (Refer Note 1) |  | $\begin{array}{ll} 1^{\text {st }} & \\ & \text { April } \\ , 20 \times 1 & \\ 1^{\text {st }} & \\ & \text { April } \\ 20 \times 1 \end{array}$ | By Balance b/d <br> By Profit and loss A/c (Refer Note 1) | 25,000 |
|  |  |  |  |  |  |
|  |  | $\begin{aligned} & 75,00 \\ & 0 \end{aligned}$ |  |  | 50,000 |
|  |  | 75,000 |  |  | 75,000 |

3. $10 \%$ Secured Bonds of Govt. (DRR Investment) A/c

|  |  | Rs. |  |  | Rs. |
| ---: | ---: | ---: | ---: | ---: | ---: |
| $1^{\text {st }}$ April, 20X1 | To Balance b/d | $1,12,500$ | 31 $1^{\text {st }}$ March, 20X2 | By Bank A/c | $1,12,500$ |
|  |  |  |  |  |  |
|  |  | $1,12,500$ |  | 12,500 |  |


|  |  | Rs. |  |  | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| $31^{\text {st }}$ <br> March, 20X2 | To Balance b/d <br> To Interest on DRR Investment $(1,12,500 \times 10 \%)$ <br> To DRR Investment A/c | 7,50,000 | $31^{\text {st }}$ <br> March, 20X2 | By Debenture holders A/c | 8,25,000 |
|  |  | 11,250 |  |  |  |
|  |  |  |  |  |  |
|  |  | 1,12,500 |  | By Balance c/d | 48,750 |
|  |  | 8,73,750 |  |  | 8,73,750 |

5. 

Debenture holders A/c

|  |  | Rs. |  |  | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| $\begin{array}{\|l} \hline 31^{\text {st }} \\ \text { March, 20X2 } \end{array}$ | To Bank A/c | 8,25,000 | $\begin{aligned} & 31^{\text {st }} \\ & \text { March, 20X2 } \end{aligned}$ | By 12\% Debentures | 7,50,000 |
|  |  |  |  | By Premium on redemption of debentures |  |
|  |  |  |  | (7,50,000 $\times 10 \%)$ | 75,000 |
|  |  |  |  | (10\%) |  |
|  |  | 8,25,000 |  |  | 8,25,000 |

Note 1 -
Calculation of DRR before redemption $=10 \%$ of Rs.7,50,000 $=75,000$ Available balance $=$ Rs. 25,000 DRR required $=75,000-25,000=$ Rs.50,000.

## QUESTION 12(STUDY MATERIAL)

The Summarized Balance Sheet of BEE Co. Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 31st March, 20X1 is as under:

| Liabilities | Rs. | Assets | Rs. |
| :--- | ---: | :--- | ---: |
| Share Capital: |  | Freehold property | $1,15,000$ |
| Authorised: |  | Stock | $1,35,000$ |
| 30,000 Equity Shares of Rs.10 each | $\underline{3,00,000}$ | Trade receivables | 75,000 |
| Issued and Subscribed: |  | Cash | 30,000 |
| 20,000 Equity Shares of Rs.10 each |  | Balance at Bank | $2,00,000$ |
| fully paid | $2,00,000$ |  |  |
| Profit and Loss Account | $1,20,000$ |  |  |
| $12 \%$ Debentures | $1,20,000$ |  |  |
| Trade payables | $\underline{1,15,000}$ |  | $\mathbf{5 , 5 5 , 0 0 0}$ |

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At the Annual General Meeting, it was resolved:
(a) To give existing shareholders the option to purchase one Rs. 10 share at Rs. 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.
(b) To issue one bonus share for every five shares held.
(c) To repay the debentures at a premium of3\%.

Give the necessary journal entries and the company's Balance Sheet after these transactions are completed.

Journal of BEE Co. Ltd.

|  | Dr. Rs. | Cr. Rs. |
| :---: | :---: | :---: |
| Bank A/c <br> To Equity Shareholders A/c <br> (Application money received on 5,000 shares @ Rs. 15 per share to be issued as rights shares in the ratio of 1:4) | 75,000 | 75,000 |
| Equity Shareholders A/c <br> To Equity Share Capital A/c <br> To Securities Premium A/c <br> (Share application money on 5,000 shares @ Rs. 10 per share transferred to Share Capital Account, and Rs. 5 per share to Securities Premium Account vide Board's Resolution dated...) | 75,000 | 50,000 25,000 |
| Securities Premium A/c <br> Profit \& Loss A/c <br> To Bonus to Shareholders A/c <br> (Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated...) | 25,000 25,000 | 50,000 |
| Bonus to Shareholders A/c <br> To Equity Share Capital A/c <br> (Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated...) | 50,000 | 50,000 |
| Profit and Loss A/c <br> To Debenture Redemption Reserve (for DRR created $10 \% \times 1,20,000$ ) | 12,000 | 12,000 |

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| Debenture Redemption Reserve Investment A/c To Bank A/c (for DRR Investment created $15 \% \times 1,20,000$ ) | Dr. | 18,000 | 18,000 |
| :---: | :---: | :---: | :---: |
| 12\% Debentures A/c <br> Premium Payable on Redemption A/c @ 3\% <br> To Debenture holders A/c <br> (Amount payable to debentures holders) | Dr. Dr. | $1,20,000$ 3,600 | 1,23,600 |
| Profit and loss A/c <br> To Premium Payable on Redemption $A / C$ (Premium payable on redemption of debentures charged to Profit \& Loss A/c) | Dr. | 3,600 | 3,600 |
| Debenture Redemption Reserve A/c <br> To General Reserve <br> (for DRR transferred to general reserve) | Dr. | 12,000 | 12,000 |
| Debenture Redemption Reserve Investment A/c To Bank (for DRR Investment realised) | Dr. | 18,000 | 18,000 |
| Debenture holders A/c <br> To Bank A/c <br> (Amount paid to debenture holders on redemption) | Dr. | 1,23,600 | 1,23,600 |

Balance Sheet of BEE Co. Ltd. As on..........(after completion of transactions)


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| (i) Tangible Assets |  | 3 | $1,15,000$ |
| :--- | ---: | ---: | ---: |
| (2) Current assets |  |  |  |
| (a) Inventories |  |  | $1,35,000$ |
| (b) Trade receivables |  | 75,000 |  |
| (c) Cash and bank balances | Total |  | $1,81,400$ |
|  |  | $5,06,400$ |  |

Notes to Accounts

|  |  |  | Rs. |
| :---: | :---: | :---: | :---: |
| 1. | Share Capital |  |  |
|  | 30,000 shares of Rs. 10 each fully paid (5,000 shares of Rs. 10 each, fully paid issued as bonus shares out of securities premium and P\&L Account) |  | 3,00,000 |
|  | Reserve and Surplus |  |  |
|  | Profit \& Loss Account | 1,20,000 |  |
|  | Less: Premium on redemption of debenture | $(3,600)$ |  |
|  | Less: Utilisation for issue of bonus shares | $(25,000)$ |  |
|  | Less: DRR created | $(12,000)$ |  |
|  |  | 79,400 |  |
|  | General Reserve | 12,000 | 91,400 |
| 3. | Tangible assets |  |  |
|  | Freehold property |  | 1,15,000 |
| 4. | Cash and bank balances |  |  |
|  | Cash at bank (2,00,000 + 75,000-1,23,600) | 1,51,400 |  |
|  | Cash in hand | 30,000 | 1,81,400 |

## QUESTION 13(STUDY MATERIAL)

The summarised Balance Sheet of Convertible Limited (unlisted company other than AIFI, Banking company, NBFC and HFC), as on 30th June, 20X1, stood as follows:

## Liabilities

Share Capital: 5,00,000 equity shares of Rs. 10 each fully paid General Reserve

Profit And loss A/c

Rs.
50,00,000
90,00,000
10,00,000

| Debenture Redemption Reserve | $10,00,000$ |
| :--- | ---: |
| $13.5 \%$ Convertible Debentures, 1,00,000 Debentures of Rs. 100 | $1,00,00,000$ |
| each |  |
| Other loans | $65,00,000$ |
| Current Liabilities and Provisions | $\underline{1,25,00,000}$ |
|  | $\underline{4,50,00,000}$ |

Assets :

| Fixed Assets (at cost less depreciation) | $1,60,00,000$ |
| :--- | ---: |
| Debenture Redemption Reserve Investments | $\mathbf{1 5 , 0 0 , 0 0 0}$ |
| Cash and bank Balances | $\mathbf{7 5 , 0 0 , 0 0 0}$ |
| Other Current Assets | $\underline{\mathbf{2 , 0 0 , 0 0}, 000}$ |
|  | $\underline{4,50,00,000}$ |

The debentures are due for redemption on 1st July, 20X1. The terms of issue of debentures provided that they were redeemable at a premium of $5 \%$ and also conferred option to the debenture holders to convert $\mathbf{2 0 \%}$ of their holdings into equity shares at a predetermined price of Rs.15.75 per share and the payment in cash.

Assuming that:
(i) except for 100 debenture holders holding totally 25,000 debentures, the rest of them exercised the option for maximum conversion.
(ii) the investments were realised at par on sale; and
(iii) all the transactions are put through, without any lag,on1stJuly,20X1.

Redraft the balance sheet of the company as on 1st July, 20X1 after giving effect to the redemption. Show your calculations in respect of the number of equity shares to be allotted and the necessary cash payment.

Convertible Limited Balance Sheet as on July 1,20X1

| Particulars | Note No | Figures as at the <br> end of current <br> reporting period |
| :--- | :---: | ---: |
| I. Equity and Liabilities |  | Rs. |
| (1) Shareholder's Funds | 1 |  |
| (a) Share Capital | 2 | $60,00,000$ |
| (b) Reserves and Surplus | $1,10,75,000$ |  |

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(2) Non-Current Liabilities
(a) Long-term borrowings -Unsecured Loans
(3) Current Liabilities
(a) Short-term provisions

1,25,00,000
3,60,75,000
II. Assets
(1) Non-current assets
(a) Property, Plant \& Equipment
(i) Tangible assets
(2) Current assets
(a) Cash and bank balances (Refer WN (iii))

75,000
(b) Other current assets


Total

Total
1,60,00,000

2,00,00,000
3,60,75,000

## Notes to Accounts



## Working Notes :

(i) Calculation of number of shares to be allotted:

Total number of debentures

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Less: Number of debentures for which debenture holders
did not opt for conversion
$(25,000)$
75,000
$20 \%$ of 75,000 = 15,000
Redemption value of 15,000 debentures $(15,000 \times 105)$
Rs.15,75,000 Number of Equity

Rs.
1,00,000
(15,000)Balance 85,000
(iii) Redemption Cash and Bank Balance:

| Balance before redemption | $75,00,000$ |
| :---: | :--- |
| Add : Proceeds of investments sold | $\underline{15,00,000}$ |
| $90,00,000$ |  |

Less : Cash paid to debenture holders
$(89,25,000) 75,000$
n value of 85,000 debentures $(85,000 \times$ Rs.105) Rs.89,25,000

## QUESTION 14(RTP NOVEMBER 18)

The summarized Balance Sheet of Spices Ltd. As on 31 ${ }^{\text {st }}$ March, 2018 read as under:

|  | Rs. |
| :--- | ---: |
| Liabilities: |  |
| Share Capital: 9,000 equity shares of Rs.10 each, fully paid | 90,000 |
| up |  |
| General Reserve | 38,000 |
| Debenture Redemption Reserve | 35,000 |
| $12 \%$ Convertible Debentures : 1,200 Debentures of Rs.50 | 60,000 |
| each |  |
| Unsecured Loans | 28,000 |
| Short term borrowings | 19,000 |

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

| Assets: | 2,70,000 |
| :---: | :---: |
|  |  |
| Fixed Assets (at cost less depreciation) | 72,000 |
| Debenture Redemption Reserve Investments | 34,000 |
| Cash and Bank Balances | 86,000 |
| Other Current Assets | 78,000 |
|  | 2,70,000 |

The debentures are due for redemption on $1^{\text {st }}$ April, 2018. The terms of issue of debentures provided that they were redeemable at a premium $10 \%$ and also conferred option to the debenture holders to convert $40 \%$ of their holding into equity shares at a predetermined price of Rs. 11 per share and the balance payment in cash. Assuming that:
(iii) Except for debenture holders holding 200 debentures in aggregate, rest of them exercised the option for maximum conversion,
(iv) The investments realized Rs.56,000 on sale,
(v) All the transactions were taken place on 1st April, 2018
(vi) PremiumonredemptionofdebenturesistobeadjustedagainstGeneral Reserve.

You are required to
(a) Redraft the Balance Sheet of Spices Ltd. as on 01.04.2018 after giving effect to the redemption.
(b) Show your calculations in respect of the number of equity shares to be allotted and the cash payment necessary.

## ANSWER:

Spices Ltd.
Balance Sheet as on 01.04.2018

| Particulars | Note <br> No. | Figures as at <br> the end of <br> current <br> reporting <br> period |
| :--- | :---: | :---: |
| I. Equity and Liabilities |  |  |
| (1) Shareholder's Funds |  |  |
| (a) Share Capital <br> (b) Reserves and Surplus <br> (2) Non-Current Liabilities <br> (a) Long-term borrowings - Unsecured <br> Loans | 1 |  |

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

(3) Current Liabilities
(a) Short-term borrowings
II. Assets
(1) Non-current assets
(a) Fixed assets
(i) Tangible assets
(2) Current assets
(a) Cash and cash equivalents
(b) Other current assets

| Total | 19,000 |
| :---: | :---: |
|  | 2,48,000 |
|  | 72,000 |
|  | 98,000 |
|  | 78,000 |
| Total | 2,48,000 |

## Notes to Accounts

$\left.\begin{array}{|ll|r|r|}\hline & & & \text { Rs. } \\ \hline \mathbf{1} & \text { Share Capital } & & \\ & \text { 11,000 Equity Shares of Rs.10 each } & & \\ & \text { (Out of above, } 2000 \text { shares issued to } \\ \text { debentures holders who opted for conversion } \\ \text { into shares) }\end{array}\right)$

Working Notes:

| (i) Calculation of number of shares to be allotted |  | $₹$ |
| :--- | ---: | ---: |
| Total number of debentures | 1,200 |  |
| Less: Number of debentures not opting for | $\underline{(200)}$ |  |
| conversion | 1,000 |  |
|  | 400 |  |
| $40 \%$ of 1,000 | ₹ 22,000 |  |
| Redemption value of 400 debentures (400 x <br> ₹55) |  |  |


| Number of Equity Shares to be allotted 22,000/11= | of ₹ 10 e |
| :--- | :---: |
| 2,000 shares |  |
| (ii) Calculation of cash to be paid |  |
| $\quad$Number of debentures | 1,200 <br> Less: Number of debentures to be converted into <br> equity shares |

Redemption value of 800 debentures ( $800 \times$ Rs.55) Rs.44,000

## (iii) Cash and Bank Balance Rs.

Balance before redemption 86,000

Add: Proceeds of investments sold
56,000
1,42,000
Less: Cash paid to debenture holders
98,000

## Practical Questions

## Question 1

A company had issued $20,000,13 \%$ debentures of $₹ 100$ each on 1st April, 20X1. The debentures are due for redemption on 1st July, 20X2. The terms of issue of debentures provided that they were redeemable at a premium of $5 \%$ and also conferred option to the debenture holders to convert $20 \%$ of their holding into equity shares (Nominal value ₹ 10 ) at a price of $₹ 15$ per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders exercising the option to the maximum.

ANSWER 1
Calculation of number of equity shares to be allotted

| Number of debentures |  |
| :--- | :--- |
| Total number of debentures | 20,000 |
| Less: Debenture holders not opted <br> for conversion | $(2,500)$ |
| Debenture holders opted for <br> conversion | 17,500 |
| Option for conversion | $20 \%$ |
| Number of debentures to be <br> converted (20\% of 17,500) | 3,500 |
| Redemption value of 3,500 | $₹ 3,67,500$ |

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| debentures at a premium of $5 \%$ <br> $[3,500 \times(100+5)]$ |  |
| :--- | :--- |
| Equity shares of ₹ 10 each issued on conversion |  |
| $[₹ 3,67,500 / ₹ 15]$ | 24,500 shares |

## Question 2

Libra Limited (a listed company) recently made a public issue in respect of which the following information is available:
(a) No. of partly convertible debentures issued- 2,00,000; face value and issue price-₹ 100 per debenture.
(b) Convertible portion per debenture- 60\%, date of conversion- on expiry of 6 months from the date of closing of issue.
(c) Date of closure of subscription lists- 1.5.20X1, date of allotment- 1.6.20X1, rate of interest on debenture- $15 \%$ payable from the date of allotment, value of equity share for the purpose of conversion- ₹ 60 (Face Value ₹ 10).
(d) Underwriting Commission- 2\%.
(e) No. of debentures applied for- 1,50,000.
(f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 20X2 (including cash and bank entries).

ANSWER 2
Journal Entries in the books of Libra Ltd. Journal Entries

| Date | Particulars | Amount Dr. | Amount Cr. |
| :--- | :--- | :--- | :--- |
|  |  | $₹$ | $₹$ |
| $1.5 .20 \times 1$ | Bank A/c Dr. | $1,50,00,000$ |  |
|  | To Debenture Application A/c |  | $1,50,00,000$ |
|  | (Application money received on 1,50,000 <br> debentures @ ₹ 100 each) |  |  |
| $1.6 .20 \times 1$ | Debenture Application A/c Dr. | $1,50,00,000$ |  |
|  | Underwriters A/c Dr. | $50,00,000$ |  |
|  | To 15\% Debentures A/c |  | $2,00,00,000$ |

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|  | (Allotment of 1,50,000 debentures to applicants <br> and 50,000 debentures to underwriters) |  |  |
| :--- | :--- | :--- | :--- |
|  | Underwriting Commission Dr. | $4,00,000$ |  |
|  | To Underwriters A/c |  | $4,00,000$ |
|  | (Commission payable to underwriters @ 2\% on ₹ <br> $2,00,00,000$ ) |  |  |
|  | Bank A/c Dr. | $46,00,000$ |  |
|  | To Underwriters A/c |  | $46,00,000$ |
|  | (Amount received from underwriters in <br> settlement of account) | $12,00,000$ |  |
|  | Debenture Redemption Investment A/c Dr. <br> To Bank A/c <br> (200,000 X 100 x 15\% X 40\%) <br> (Being Investments made for redemption <br> purpose) | $12,00,000$ |  |

## Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 20X2
On ₹ $80,00,000$ for 6 months @ $15 \%=₹ 6,00,000$
On ₹ 1,20,00,000 for 1 months @ 15\% = ₹ 1,50,000
₹7,50,000

## Question 3

YZ Ltd (an unlisted company other than AIFI, Banking company, NBFC and HFC) had 16,000, 12\% debentures of ₹ 100 each outstanding as on 1st April, 20X1, redeemable on 31st March, 20X2. On 1 April 20X1, the following balances appeared in the books of accounts- Investment in 2,000 9\% secured Govt. bonds of $₹ 100$ each. DRR is $₹ 1,00,000$. Interest on investments is received yearly at the end of financial year.
2,000 own debentures were purchased on 31st March 20X2 at an average price of ₹ 99 and cancelled on the same date.
On 30 March 20X2, the investments were realised at par and the debentures were redeemed on 31st March, 20X2. You are required to write up the following accounts for the year ended 31st March 20X2:
(1) 12\% Debentures Account
(2) Debenture Redemption Reserve Account
(3) Debenture Redemption Investments Account.

ANSWER 3

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

## 12\% Debentures Account

| Date | Particulars | $₹$ | Date | Particulars | $₹$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| 31st March, 20X2 <br> 31st March, 20X2 | To Own Debentures A/c <br> To Profit on cancellation | $1,98,000$ <br> 2,000 | 1st April, 20X1 | By Balance b/d | $16,00,000$ |
| 31st March, 20X2 | To Bank A/c | $14,00,00$ <br> 0 |  |  |  |
|  |  | $16,00,00$ <br> 0 |  |  |  |

Debenture Redemption Reserve Account

| Date | Particulars | $₹$ | Date | Particulars | $₹$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| 1st April, 20X1 | By Balance b/d |  |  | $1,00,000$ |  |
| 31st March, <br> 20X2 | To General <br> Reserve A/c | $1,60,000$ | 1st <br> April, <br> $20 \times 1$ | By Profit and loss <br> A/c $[(16,00,000$ X <br> $10 \%)-1,00,000]$ | 60,000 |
|  |  | $1,60,000$ |  |  | $1,60,000$ |

Debenture Redemption Investments $A / c$

| Date | Particulars | Amount | Date | Particulars | Amount |
| :--- | :--- | :--- | :--- | :--- | :--- |
| 1st April | To Balance | $2,00,000$ | 30 th March | By Bank A/c | 30,000 |
| 20X1 | b/d | 40,000 | $20 \times 2$ | $(2,000 \times 100 \times 15 \%)$ | $2,10,000$ |
| 1st April | To Bank A/c |  | 30th March <br> 20X1 <br> (Refer <br> Working <br> Note 1) |  |  |
|  |  |  | (Refer Working Note <br> 2) By Bank A/c <br> (Refer Working Note <br> 3) |  |  |
|  |  | $2,40,000$ |  |  | $2,40,000$ |

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## Working Note 1:

Additional investment in Debenture Redemption Investment A/c on 1 April 20X1
The company would be required to invest an amount equivalent to $15 \%$ of the value of the debentures in specified investments which would be equivalent to:
= Total No of debentures X Face value per debenture X $15 \%$
= 16,000 X $100 \times 15 \%$
= ₹ $2,40,000 /-$
The company has already invested in specified investments i.e. $9 \%$ Govt bonds for an amount of ₹ $2,00,000$ as per the information given in the question.

The balance amount of ₹ 40,000 (i.e. ₹ $2,40,000$ less ₹ $2,00,000$ ) would be invested by the company on 1 April 20X1.

## Working Note 2:

Redemption of Debenture Redemption Investments on $\mathbf{3 0}$ March 20X2 amounting to ₹ 30,000
Since the company purchased 2,000 own debentures on 31 March 20X2, the company would also realize the investments of $15 \%$ corresponding to these debentures for which computation is as follows:
= No of own debentures to be bought $X$ Face value per debenture $\times 15 \%$
$=2,000 \times 100 \times 15 \%$
= ₹ $30,000 /-$

## Working Note 3:

Redemption of Debenture Redemption Investments on 30 March 20X2 amounting to ₹ 2,10,000
The remaining debentures i.e. total debentures less own debentures would be redeemed on 31 March 20X2 and hence the company would also realize the balance investments of 15\% corresponding to these debentures for which computation is as follows:
$=$ (Total no of debentures - No of own debentures) X Face value per debenture X $15 \%$
$=(16,000-2,000) \times 100 \times 15 \%$
= ₹ $2,10,000 /-$

## Question 4

On 1st April, 20X1, in MK Ltd.'s (unlisted company other than AIFI, Banking company, NBFC and HFC) ledger, $9 \%$ debentures appeared with an opening balance of `\(50,00,000\) divided into 50,000 fully paid debentures of` 100 each issued at par.
Interest on debentures was paid half-yearly on 30th of September and 31st March every year. On 31.5.20X1, the company purchased 8,000 debentures of its own @ ` 98 (ex-interest) per debenture. On same day, it cancelled the debentures acquired.
You are required to prepare necessary ledger accounts (excluding Bank A/c).
ANSWER

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MK Ltd.'s Ledger
(i) Debentures Account
$\left.\begin{array}{|l|l|r|l|l|r|}\hline & & \text { F } & & & ₹ \\ \hline \text { 31.5.X1 } & \begin{array}{l}\text { To Own } \\ \text { 3ebentures } \\ \text { 31.5.X1 }\end{array} & \begin{array}{l}\text { (8,000 X ₹98) } \\ \text { To Profit on } \\ \text { cancellation }\end{array} & 16,000\end{array}\right)$
(ii) Interest on Debentures Account

|  |  |  | $₹$ |  |  |  | $₹$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| $31.5 . \times 1$ | To | Bank (Interest for 2 months on 8,000 debentures) <br> (Refer Working Note) | 12,000 | $31.3 . \times 2$ | By | Profit <br> and Loss <br> A/c (b.f.) | 3,90,000 |
| 30.9. $\times 1$ | To | Bank (Interest for 6 months on 42,000 debentures) <br> (Refer Working Note) | 1,89,000 |  |  |  |  |
| $31.3 . \times 2$ | To | Bank (Interest for 6 months on 42,000 debentures) | 1,89,000 |  |  |  |  |
|  |  |  | 3,90,000 |  |  |  | 3,90,000 |

(iii) Debentures Redemption Reserve $A / C$

| Date | Particulars | Amount | Date | Particulars | Amount |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 31 <br> May $20 \times 1$ | By <br> General <br> Reserve $\begin{aligned} & (8,000 \times 100 \times \\ & 10 \%) \end{aligned}$ | 80,000 | $\begin{aligned} & 1 \\ & \text { April } \\ & 20 \times 1 \end{aligned}$ | To Profit \& Loss A/C <br> $(50,000 \times 100 \times$ 10\%) | 5,00,000 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| $\begin{aligned} & 31 \\ & \text { March } \\ & 20 \times 2 \end{aligned}$ | By Balance c/d | 4,20,000 |  |  |  |
|  |  |  |  |  |  |
|  |  | 5,00,000 |  |  | 5,00,000 |

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CA INTER ACCOUNTING COMPILER 4.0
(iv)

Debentures Redemption Reserve Investments A/c

| Date | Particulars | Amount | Date | Particulars | Amount |
| :---: | :---: | :---: | :---: | :---: | :---: |
| $\begin{aligned} & 1 \text { April } \\ & 20 \times 1 \end{aligned}$ | To Bank A/c | 7,50,000 | $\begin{array}{\|l\|} \hline 30 \\ \text { May } \\ 20 X 1 \\ 31 \\ \text { March } \\ 20 X 2 \end{array}$ | By Bank A/c $\begin{aligned} & (8,000 \times 100 \times \\ & 15 \%) \end{aligned}$ <br> To Balance b/d | 1,20,000 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  | 6,30,000 |
|  |  |  |  |  |  |
|  |  | 7,50,000 |  |  | 7,50,000 |

Working Note:

|  |  |  | $₹$ |
| :--- | :--- | ---: | ---: |
| 31.5. X1 | Acquired 8,000 Debentures @ 98 per debenture <br> (ex-interest) |  |  |
| 31.5.X1 | Purchase price of debenture $(8,000 \times ₹ 98)$ <br> 30.9. X1 | Interest for 2 months [₹ $8,00,000 \times 9 \% \times 2 / 12]$ <br> ₹ $42,00,000 \times 9 \% \times 1 / 2$ | $=$ |
| 12,000 |  |  |  |

## QUESTION 15 (RTP MAY 19) (RTP MAY 18)

On 1st January, 2008 Raman Ltd. allotted 20,000 9\% Debentures of Rs. 100 each at par, the total amount having been received along with applications.
(i) On $1^{\text {st }}$ January, 2010 the Company purchased in the open market 2,000 of its own debentures @ Rs. 101 each and cancelled them immediately.
(ii) On 1 ${ }^{\text {st }}$ January, 2013 the company redeemed at par debentures for Rs.6,00,000 by draw of a lot.
(iii) On1 ${ }^{\text {st }}$ January, 2014thecompanypurchaseddebentures ofthefacevalueof Rs. $4,00,000$ for $3,95,600$ in the open market, held them as investments for one year and then cancelled them.
(iv) Finally, as per resolution of the board of directors, the remaining debentures were redeemed at a premium of $2 \%$ on $1^{\text {st }}$ January, 2018 when Securities Premium Account in the company's ledger showed a balance ofRs.60,000.

Pass journal entries for the above mentioned transactions ignoring debenture redemption reserve, debenture - interest and interest on own' debentures.
ANSWER:
Journal

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

|  |  | (Rs.) Dr. | (Rs.) Cr. |
| :---: | :---: | :---: | :---: |
| 2008 Jan 1 | Bank <br> To 9\% Debenture Applications \& Allotment Account (Being application money on 20,000 debentures @ Rs. 100 per debenture received) | 20,00,000 | 20,00,000 |
|  | 9\% Debentures Applications \& Allotment Account Dr. <br> To 9\% Debentures Account <br> (Being allotment of 20,000 9\% Debentures of Rs. 100 each at par) | 10,00,000 | 20,00,000 |
| (i) 2010 Jan. 1 | 9\%DebentureAccount <br> Loss on Redemption of Debentures Account Dr. <br> To Bank <br> (Being redemption of 2,000 9\% Debentures of Rs. 100 each by purchase in the open market @ Rs.101each) | $\begin{array}{\|r\|} \hline 2,00,000 \\ 2,000 \end{array}$ | 2,02,000 |
| " " | Profit \& Loss Account/Securities Premium <br> Account <br> To Loss on Redemption of Debentures Account <br> (Being loss on redemption of debentures being written off by transfer to Profit and Loss Account or Securities Premium Account) | 2,000 | 2,000 |
| $\begin{array}{\|ll\|} \hline \text { (ii) } 2013 & \\ \text { Jan. } & 1 \\ \hline \end{array}$ | 9\%DebenturesAccount <br> To Sundry Debenture holders <br> (Being Amount payable to debenture holders on redemption debentures for Rs.6,00,000 at par by draw of a lot) | 6,00,000 | 6,00,000 |
| " | Sundry Debenture holders <br> To Bank <br> (Being Payment made to sundry debenture holders for redeeming debentures of Rs.6,00,000 at par) | 6,00,000 | 6,00,000 |
| $\begin{array}{\|ll\|} \hline \text { (iii) } 2014 \\ \text { Jan. } & 1 \end{array}$ | Own Debentures <br> To Bank <br> (Being purchase of own debentures of the face value of | 3,95,600 | 3,95,600 |

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|  | Rs.4,00,000 for Rs.3,95,600) |  |  |
| :--- | :--- | ---: | ---: |
| 2015 | 9\%Debentures <br> To Own Debentures <br> To Profit on Cancellation of Own <br> Debentures Account | $4,00,000$ | $3,95,600$ |
| (Being Cancellation of own debentures of the |  |  |  |
| face value of |  |  |  |
| Rs.4,00,000 purchased last year for |  |  |  |
| Rs.3,95,600) |  |  |  |$\quad$| " |
| :--- |

QUESTION 16 (RTP NOVEMBER 19) (PAST EXAM JAN 21)
Omega Limited (a manufacturing company) recently made a public issue in respect of which the following information is available:
(a) No. of partly convertible debentures issued- 2,00,000; face value and issue price-

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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 3110.20X1.
(c) Date of closure of subscription lists- 1.5.20X1, date of allotment- 1.6.20X1, rate of interest on debenture- $15 \%$ payable from the date of allotment, value of equity share for the purpose of conversion- Rs. 60 (Face Value Rs.10).
(d) Underwriting Commission-2\%.
(e) Number of debentures applied for -1,50,000.
(f) Interest payable on debentures half-yearly on 30th September and 31stMarch.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 20X2 (including cash and bank entries).

## ANSWER:

Journal Entries in the books of Omega Ltd. Journal Entries

| Date | Particulars | Amount Dr. | Amount Cr. |
| :---: | :---: | :---: | :---: |
| 1.5.20×1 | Bank A/c <br> To Debenture Application A/c <br> (Application money received on 1,50,000 debentures @ ₹ 100 each) | 1,50,00,000 | 1,50,00,000 |
|  | Debenture Application A/c Underwriters A/c <br> To 15\% Debentures A/c <br> (Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters) | $\begin{array}{r} 1,50,00,000 \\ 50,00,000 \end{array}$ | 2,00,00,000 |
|  | Underwriting Commission <br> To Underwriters A/c <br> (Commission payable to underwriters @ $2 \%$ on ₹ $2,00,00,000$ ) | 4,00,000 | 4,00,000 |
|  | Bank A/c <br> To Underwriters A/c | 46,00,000 | 46,00,000 |

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| 01.06.20X1 | (Amount received from underwriters in settlement of account) | 20,00,000 | 20,00,000 |
| :---: | :---: | :---: | :---: |
|  | Profit \& Loss A/c <br> To Debenture Redemption Reserve $A / c$ Dr. $\text { (200,000 X } 100 \text { X 25\% X 40\%) }$ <br> (Being Debenture Redemption Reserve created onnon-convertible debentures) |  |  |
|  | Debenture Redemption Reserve |  |  |
|  |  | 12,00,000 | 12,00,000 |
| 30.9.20x1 | Debenture Interest A/c Dr <br> $\quad$ To Bank A/c $\cdot$ <br> (Interest paid on debentures for 4 months  <br> $@ 15 \%$ on ₹ $2,00,00,000$ )  | 10,00,000 | 10,00,000 |
| 31.10.20X1 | 15\% Debentures A/c <br> To Equity Share Capital A/c <br> To Securities Premium A/c <br> (Conversion of $60 \%$ of debentures into shares of Rs. 60 each with a face value of Rs.10) | 1,20,00,000 | $\begin{array}{r} 20,00,000 \\ 1,00,00,0000 \end{array}$ |
| 31.3.20X2 | Debenture Interest A/c <br> To Bank A/c <br> (Interest paid on debentures for the half year) (refer working note below) | 7,50,000 | 7,50,000 |

## Working Note :

Calculation of Debenture Interest for the half year ended 31st March, 20X2
On Rs.80,00,000 for 6 months@15\% = Rs.6,00,000

On Rs.1,20,00,000 for 1 months@15\% = Rs.1,50,000
Rs.7,50,000

## QUESTION 17 (RTP MAY 20)

ThefollowingbalancesappearedinthebooksofLakshyaLtd.ason1-4-20X1:
(i) 10 \% Debentures Rs.37,50,000

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(ii) Balance of DRR Rs.1,25,000
(iii) DRR Investment 5,62,500 represented by $10 \%$ Rs.5,625 Secured Bonds of the Government of India of Rs.100each.

Annual contribution to the DRR was made on 31st March every year. On 31-3-20X2, balance at bank was Rs. $37,50,000$ before receipt of interest. Interest on Debentures had already been paid. The investment were realized at par for redemption of debentures at a premium of $10 \%$ on the above date.

Lakshya Ltd. is an unlisted company (other than AIFI, Banking company, NBFC and HFC). You are required to prepare Debenture Redemption Reserve Account, Debenture Redemption Reserve Investment Account and Bank Account in the books of Lakshya Ltd. for the year ended 31st March, $20 \times 2$.
ANSWER:
Debenture Redemption Reserve Account

| Date | Particulars | Rs. | Date | Particulars | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 31st <br> March, 20X2 | To General <br> reserve A/c <br> note 1 <br> (Refer  <br> Note1)  | $\begin{gathered} 3,75,000 \\ -\quad 3,75,000 \end{gathered}$ | $1^{\text {st }}$ April, <br> 20X1 <br> $1^{\text {st }}$ April, <br> 20X1 | By Balance b/d <br> By Profit and loss A/c (Refer Note 1) | $\begin{aligned} & 1,25,000 \\ & \frac{2,50,000}{} \\ & 3,75,000 \end{aligned}$ |

10\% Secured Bonds of Govt. (DRR Investment) A/c

|  |  | Rs. |  |  | Rs. |
| :--- | :--- | ---: | :--- | :--- | ---: |
| $1^{\text {st }}$ April, <br> $20 X 1$ | To Balance <br> b/d | $\underline{5,62,500}$ | $31^{\text {st }}$ March, <br> $20 X 2$ | By Bank <br> A/c | $\underline{5,62,500}$ |

Bank Account

|  |  | Rs. |  |  | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| $31^{\text {st }}$ | To Balance b/d | 37,50,000 | $31^{s t}$ | By Debenture | 41,25,000 |
| March, 20X2 | To Intereston | 56,250 | March, 20X2 | holders A/c |  |
|  | DRR Investment |  | 20X2 | (110\% of |  |
|  |  |  |  | 37,50,000) |  |
|  | (5,62,500X 10\%) |  |  |  |  |
|  | To DRR |  |  | By Balance c/d | 2,43,750 |

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|  | Investment A/c | $5,62,500$ <br> $43,68,750$ |  |
| :--- | ---: | ---: | :--- |

## Working note -

Calculation of DRR before redemption $=10 \%$ of Rs. $37,50,000=3,75,000$ Available
balance = Rs.1,25,000
DRR required =3,75,000-1,25,000 = Rs.2,50,000.

## QUESTION 18 (RTP NOVEMBER 20) (MTP MAY 20)

XYZ Ltd. has issued 1,000, 12\% convertible debentures of Rs. 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 Rs. 10 each at a price of Rs. 20 per share and balance in cash. Debenture holders amounting Rs.20,000 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 Rs.20,000 debenture holders.

ANSWER

|  | Number of <br> debentures |
| :--- | ---: |
| Debenture holders opted for conversion (20,000 | $\underline{200}$ |
| 100$)$ | $20 \%$ |
| Option for conversion | 40 |
| Number of debentures to be converted (20\% of <br> $200)$ |  |

Redemption value of 40 debentures at a premium
Rs.4,200
of 5\% [40 x (100+5)]
Equity shares of Rs. 10 each issued on conversion
[Rs.4,200/Rs. 20 ] 210 shares
Calculation of cash to be paid :
Rs.
Number of debentures 200
Less: number of debentures to be converted into (40) equity shares

Redemption value of 160 debentures ( $160 \times$ Rs.105) ie. Rs. 16,800 .

QUESTION 19 (PAST PAPER MAY 18)

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GurudevLimitedpurchasesforimmediatecancellation6,000ofitsown12\%debenturesof Rs. 100 each on $1^{\text {st }}$ November, 2017. The dates of interest being $31^{\text {st }}$ March, and $30^{\text {th }}$ September. Pass necessary journal entries relating to the cancellation if:
(i) Debentures are purchased at Rs. 98 ex-interest.
(ii) Debentures are purchased at Rs. 98cum-interest.

## ANSWER:

In the books of Gurudev Ltd.

## Journal Entries

(i) In case of ex-interest

| Date | Particulars |  | Rs. | Rs. |
| :---: | :---: | :---: | :---: | :---: |
| 1.11.2017 | ```Own Debentures A/c Debentures Interest A/c \([6,000 \times 100 \times 12 \% \times\) (1/12)] To Bank A/c (Purchase of 6,000 Debentures @ 98 ex interest for immediate cancellation)``` | $\begin{gathered} \mathrm{Dr} \\ \cdot \\ \mathrm{Dr} \end{gathered}$ | 5,88,000 <br> 6,000 | 5,94,000 |
| 1.11.17 | 12\% Debentures A/c | Dr | 6,00,000 |  |
| (ii) In case | To Own Debentures A/c <br> To Capital reserve A/c (Profit on cancellation of debentures) <br> (Being profit on cancellation of 6,000 Debentures transferred <br> to capital reserve <br> account) <br> of cum interest |  |  | $\begin{array}{r} \hline 5,88,000 \\ 12,000 \end{array}$ |
| 1.11.17 | Own Debenture A/c <br> Debenture Interest Account <br> A/c [6,000 x100 x12\% x <br> (1/12)] <br> To Bank A/c <br> (Being 6,000 debentures purchased @ <br> Rs. 98 cum interest for immediate <br> cancellation) | Dr. <br> Dr. | $\begin{array}{\|r\|} \hline 5,82,000 \\ 6,000 \\ \hline \end{array}$ | 5,88,000 |
| 1.11.17 | 12\% Debenture A/c <br> To Own Debentures A/c <br> To Capital reserve A/c (Profit | Dr. | $\begin{aligned} & \text { 6,00,00 } \\ & 0 \end{aligned}$ | $\begin{array}{r} 5,82,000 \\ 18,000 \end{array}$ |

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|  | on cancellation ofdebentures) |
| :--- | :--- |
| (Being profit on cancellation of |  |
| 6,000 Debentures transferred |  |
| to capital reserve |  |
| account) |  |$| . \quad . \quad$.

## QUESTION 20

## (PAST PAPER NOVEMBER 18)

Explain the conditions when a company should issue new equity shares for redemption of the preference shares. Also discuss the advantages and disadvantages of redemption of preference shares by issue of equity shares.

## ANSWER

A company may prefer issue of new equity shares in the following situations:
(a) When the company realizes that the capital is needed permanently and it makes more sense to issue Equity Shares in place of Redeemable Preference Shares which carry a fixed rate of dividend.
(b) When the balance of profit, which would otherwise be available for dividend, is insufficient.
(c) When the liquidity position of the company is not good enough.

Advantages of redemption of preference shares by issue of fresh equity shares
(1) No cash outflow of money is required - now or later.
(2) New equity shares may be valued at premium.
(3) Shareholders retain their equity interest.

Disadvantages of redemption of preference shares by issue of fresh equity shares
(1) There will be dilution of future earnings;
(2) Share-holding in the company is changed.

## QUESTION 21 (PAST PAPER NOVEMBER 19)

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A company had issued $40,000,12 \%$ debentures of Rs. 100 each on $1^{\text {st }}$ April, 2015. The debentures are due for redemption on $1^{\text {st }}$ March, 2019. The terms of issue of debentures provided that they were redeemable at a premium of $5 \%$ and also conferred option to the debenture holders to convert 20\% of their holding into equity shares (nominal value Rs. 10) at a predetermined price of Rs. 15 per share and the payment in cash. 50 debentures holders holding totally 5,000 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders and the amount to be paid in cash on redemption.

ANSWER:
Calculation of number of equity shares to be allotted

|  | Number of <br> debentures |
| :--- | ---: |
| Total number of debentures | 40,000 |
| Less: Debenture holders not opted for conversion | $(5,000)$ |
| Debenture holders opted for conversion | 35,000 |
| Option for conversion | $20 \%$ |
| Number of debentures to be converted (20\% of | 7,000 |
| $35,000)$ |  |

Redemption value of 7,000 debentures at a
premium of 5\% [7,000 x (100+5)]
Rs.7,35,000
Equity shares of Rs. 10 each issued to debenture holders on redemption
[Rs.7,35,000/ Rs.15] 49,000 shares
Amount of cash to be paid
Amount to be paid into cash [42,00,000 (40,000 x Rs. 105 ) Rs.34,65,000

- 7,35,000] on redemption


## QUESTION 22 (RTP JULY 21) (PAST EXAM NOV 20)

The following balances appeared in the books of Omega Ltd. as on 1-4-2020:
(i) 10 \% Debentures ₹ 75,00,000
(ii) Balance of DRR ₹ $2,50,000$
(iii) DRR Investment ₹ $11, \mathbf{2 5 , 0 0 0}$ represented by $10 \%$ ₹ 11,250 Secured Bonds of the Government of India of ₹ 100 each.

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Annual contribution to the DRR was made as per the requirement. On 31-3-2021, balance at bank was ₹ $\mathbf{8 0}, \mathbf{0 0}, \mathbf{0 0 0}$ before receipt of interest. Interest on Debentures had already been paid. The investments were realized at par for redemption of debentures at a premium of $10 \%$ on the above date.
Omega Ltd. is an unlisted company (other than AIFI, Banking company, NBFC and HFC). You are required to prepare Debenture Redemption Reserve Account, Debenture Redemption Reserve Investment Account and Bank Account in the books of Omega Ltd. for the year ended 31st March, 2021

ANSWER:
Debenture Redemption Reserve Account

| Date | Particulars | ₹ | Date | Particulars | ₹ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 31\# March, 2021 | To General <br> reserve Alc <br> (Refer Note) | $7{ }_{3} 50,000$ |  | By Balance b/d | 2,50,000 |
|  |  |  |  | By Profit and loss A/C (Refer Note 1) | $\underline{5.00 .000}$ |
|  |  | 7,50,000 |  |  | 7,50,000 |

10\% Secured Bonds of Govt. (DRR Investment) A/c

|  |  | ₹ |  |  | ₹ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1sid April 2020 | To Balance b/d | 11,25,000 | 31at March, 2021 | By Bank A/c | 11,25,000 |
|  |  | 11,25,000 |  |  | 11,25,000 |

## Bank Account

|  |  | ₹ |  |  | ₹ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| $\begin{array}{\|l\|} \hline 31 \text { \#\# March } \\ \hline 2021 \\ \hline \end{array}$ | To Balance bld <br> To Interest on DRR Investment <br> (11,25,000X 10\%) <br> To DRR <br> Investment A/C | $\begin{array}{r} 80,00,000 \\ 1,12,500 \\ \\ \\ \frac{11,25,000}{92,37,500} \end{array}$ | 31琹 March 2021 | By Debenture holders A/c <br> ( $110 \%$ of $75,00,000$ ) <br> By Balance old | $\begin{gathered} 82,50,000 \\ \underline{9,87,500} \\ 92,37,500 \end{gathered}$ |

## Working note -

Calculation of DRR before redemption $=10 \%$ of $₹ 75,00,000=7,50,000$ Available balance $=₹ 2,50,000$
DRR required $=7,50,000-2,50,000=₹ 5,00,000$.

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## QUESTION 23 (MTP MAY 18)

$L, M$ and $N$ share profits and losses in the ratio of 5:3:2. Their firm was dissolved due to misconduct of M and their balance sheet on that date was as under:
Balance Sheet as at 31-3-2016

| Liabiities |  | $₹$ | Assets | $₹$ |
| :--- | ---: | ---: | :--- | ---: |
| Capital Accounts: |  |  | Land and Building | $2,00,000$ |
| L | $3,00,000$ |  | Plants | $2,00,000$ |
| M | $2,00,000$ |  | Trade receivables | $1,00,000$ |
| N | $\underline{1,00,000}$ | $6,00,000$ | Inventories | $1,50,000$ |
| Current Accounts: |  |  | Cash | $1,00,000$ |
| L | 50,000 |  | Current Account: |  |
| M | 30,000 | 80,000 |  | N |

The whole business of the firm was sold to Preet Limited, on that day on the following terms: (i) Preet Limited will issue the following securities in consideration for transfer of business: 10,000 equity shares @ ₹ 15 each, 15,000 preference shares @ ₹ 15 each; and 20,000 debentures @ ₹ 14.725.
(ii) The agreed value of assets and liabilities of partnership firm are as follows:

Land \& Building - ₹ 3,00,000, Plants - ₹ 1,50,000, Inventory - ₹ 1,40,000, Trade Receivable - ₹ 97,500, and Trade Payable - ₹ 1,18,000.

It was mutually decided that preference shares and debentures will be distributed in profit sharing ratio and cash brought in by the partner (if any) will be shared equally by the remaining partners before distribution of equity shares. Equity shares are distributed on residual basis at the end.

You are required to prepare Realization Account, Cash Account, Partners' Current and Capital Accounts at the time of closing close the books of the firm.

## ANSWER

Realization Account

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|  | $₹$ | $₹$ |  | $₹$ |
| :---: | :---: | :---: | :---: | :---: |
| To Land \& Building |  | 2,00,000 | By Trade Payables | 1,20,000 |
| To. Plant |  | 2,00,000 | By Preet Limited (W.N.1) | 6,69,500 |
| Tolinventories |  | 1,50,000 |  |  |
| To Trade Receivable |  | 1,00,000 |  |  |
| To Cash |  | 1,00,000 |  |  |
| To Profit transferred to Capital Alc: |  |  |  |  |
| L | 19,750 |  |  |  |
| M | 11,850 |  |  |  |
| N | 7.900 | 39,500 |  |  |
|  |  | 7, 89,500 |  | 7, 89,500 |

Cash Account

|  | ₹ |  | ₹ |
| :---: | :---: | :---: | :---: |
| To N's Capital A/c | 46,000 | By L's Capital A/c <br> By Ms Capital A/c | 23,000 |
|  |  |  | 23,000 |
|  | 46,000 |  | 46,000 |

Partners" Current Accounts

|  | $L$ | $M$ | $N$ |  | $L$ | $M$ | $N$ |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
|  | $F$ | $F$ | $F$ |  | $F$ | $F$ | $F$ |
| To Balance b/d | - |  | 50,000 | By Balance b/d | 50,000 | 30,000 | - |
| ToL's Capital Alc | 69,750 |  |  | By Realisation A/c | 19,750 | 11,850 | 7,900 |
| To Ms Capital A/c |  | 41,850 |  | By N's Capital A/c |  |  | 42,100 |
|  |  | 69,750 | 41,850 | 50,000 |  | 69,750 | 41,850 |
|  | 50,000 |  |  |  |  |  |  |

Partners" Capital Accounts

|  | \% | $M$ $F$ | $N$ $F$ |  | \% | $M$ $₹$ | $N$ $F$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To Ns Current Alc | - | - | 42,100 | By Balance b/d | 3,00,000 | 2,00,000 | 1800,000 |
| To Preference Shares in Preet Ltd. Alc | 1,12,500 | 67,500 | 45,000 | By L's Current Alc | 69,750 |  |  |
| To Debentures Alc | 1,47, 250 | 88,350 | 58,900 | By Ms Current Alc |  | 41,850 |  |
| To Cash A/c | 23,000 | 23,000 | - | By Cash Alc (bal. fig.) |  |  | 46,000 |
| To Equity Shares A/c | 87,000 | 63,000 | - |  |  |  |  |
|  | 3,69,750 | $2,41,850$ | 1,46,000 |  | $33_{2} 69750$ | 2,418850 | 1,46,000 |

## Working Notes:

## 1. Calculation of Purchase consideration

Net Payment Method

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|  |  | $₹$ |
| :--- | :--- | ---: |
| Equity Shares | $=10,000 @$ ₹ 15 | $1,50,000$ |
| Preference Shares | $=15,000$ @ ₹ 15 | $2,25,000$ |
| Debentures | $=20,000 @$ ₹ 14.725 | $\underline{2,94,500}$ |

2. As whole business of the firm was sold to Preet Limited, cash balance of the firm ₹ $1,00,000$ is also transferred to realization account. Cash brought in by N equal to Dr. balance appearing in his account, after distribution of preference shares and debentures in profit sharing ratio would be shared by $L$ and $M$ equally. The balance amount payable to $L$ and $M$ would be settled by transfer of equity shares in Preet Company.

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## CHAPTER 9 Investment Accounts

## QUESTION 1 (STUDY MATERIAL)

The cost of Right shares is
(a) added to the cost of investments.
(b) subtracted from the cost of investments.
(c) no treatment is required.

Answer: (a)

## QUESTION 2 (STUDY MATERIAL)

Long term investments are carried at
(a) fair value.
(b) cost less 'other than temporary 'decline.
(c) Cost and market value whichever is less

Answer: (b)

## QUESTION 3 (STUDY MATERIAL)

Current investments are carried at
(a) Fair value.
(b) cost
(c) Cost and fair value, whichever is less.

Answer: (c)

## QUESTION 4 (STUDY MATERIAL)

A Ltd. acquired 2,000 equity shares of Omega Ltd. on cum-right basis at ₹ 75 per share.
Subsequently, omega Ltd. made a right issue of 1:1 at ₹60 per share, which was subscribed for by A. Total cost of investments at the year-end will be

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(a) 2,70,000.
(b) $1,50,000$.
(c) 1,20,000.

Answer: (a)

## QUESTION 5 (STUDY MATERIAL)

Cost of investment includes
(a) Purchase costs.
(b) Brokerage and Stamp duty paid
(c) Both (a) and(b).

Answer: (c)

## QUESTION 6 (STUDY MATERIAL)

A current investment is an investment
(a) That is readily realisable.
(b) That is intended to be held for not more than one year from the date on which such investment is made.
(c) Both (a) and(b)

Answer: (c)

## QUESTION 7 (STUDY MATERIAL)

All the following are fixed income bearing securities except
(a) Debentures.
(b) Equity shares.
(c) Govt. Bonds.

Answer: (b)

## QUESTION 8 (STUDY MATERIAL)

If there is 'other than temporary' decline in the value of a long term investment then
(a) Carrying amount is reduced to recognise the decline.
(b) The reduction in carrying amount is charged to profit and loss account.
(c) Both (a) and(b).

Answer: (c)

## QUESTION 9 (STUDY MATERIAL)

If investment is acquired by issue of shares, the acquisition cost of investment is
(a) Amount paid for acquisition.
(b) Fair value of securities issued.
(c) Market price of securities.

Answer: (b)

## QUESTION 10 (STUDY MATERIAL)

When long-term investments are reclassified as current investments, current investments are valuedat
(a) Cost
(b) Carrying amount
(c) Lower of Cost and Carrying amount.

Answer: (c)

## QUESTION 11(STUDY MATERIAL)

Violet Ltd. held shares in Omega Co. from 01.04.20X1 onwards as investment for long term purpose. Now it wants to reclassify investment of cost of ₹ $\mathbf{5 0 , 0 0 0}$ out of these shares as current investments having carrying value of ₹ 45000. The fair value on date of transfer is ₹ 48,000. These reclassified shares would be valued on date of transfer at
(a) ₹ 50000
(b) ₹ 48000
(c) ₹ 45000 .

Answer: (c)

## QUESTION 12 (STUDY MATERIAL)

Mr. X acquires 200 shares of a company on cum-right basis for $₹ \mathbf{6 0 , 0 0 0}$. He subsequently receives an offer of right to acquire fresh shares in the company in the proportion of 1:1 at ₹ 105 each. He does not subscribe but sells the rights for ₹ 5,000. The market value of the shares after their becoming ex-rights has also gone down. It would be appropriate to
(a) Credit ₹ 5,000 to Profit and Loss account.
(b) Reduce the carrying amount of investment by ₹ 5,000 .
(c) Add ₹ 5,000 to the carrying amount of investment.

Answer: (b)

## QUESTION 13 (STUDY MATERIAL)

How will you classify the investments as per AS 13 ? Explain in Brief.

## ANSWER:

The investments are classified into two categories as per AS 13, viz., Current Investments and Longterm Investments. A current Investment is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made. The carrying amount for current investments is the lower of cost and fair value. Any reduction to fair value and any reversals of such reductions are included in the statement of profit and loss. A longterm investment is an investment other than a current investment. Long term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long term investment, the carrying amount is reduced to recognise the decline. The reduction in carrying amount is charged to the statement of profit and loss.

## QUESTION 14 (STUDY MATERIAL)

Whether the accounting treatment 'at cost' under the head 'Long Term Investments' without providing for any diminution in value is correct and in accordance with the provisions of AS 13 . If not, what should have been the accounting treatment in such a situation? Explain in brief. ANSWER

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The accounting treatment 'at cost' under the head 'Long Term Investment' in the financial statements of the company without providing for any diminution in value is correct and is in accordance with the provisions of AS 13 provided that there is no decline, other than temporary, in the value of investment. If the decline in the value of investment is, other than temporary, compared to the time when the shares were purchased, provision is required to be made.

## QUESTION 15 (STUDY MATERIAL)

In 20X1, M/s. Wye Ltd. issued 12\% fully paid debentures of ₹ 100 each, interest being payable half yearly on 30th September and $31^{\text {st }}$ March of every accounting year.

On 1st December, 20X2, M/s. Bull \&Bear purchased 10,000 of these debentures at ₹ 101 cuminterest price, also paying brokerage @ 1\% of cum-interest amount of the purchase. On 1st March, 20X3 the firm sold all of these debentures at ₹ 106 cum-interest price, again paying brokerage @ $1 \%$ of cum-interest amount. Prepare Investment Account in the books of $\mathrm{M} / \mathrm{s}$. Bull \&Bear for the period $1^{\text {st }}$ December, 20X2 to $1^{\text {st }}$ March,20X3.

> In the books of M/s Bull \& Bear
> Investment Account
> for the period from $1^{\text {st }}$ December 20X2 to $1^{\text {st }}$ March, 20X3
> (Scrip: $12 \%$ Debentures of $\mathrm{M} / \mathrm{s}$. Wye Ltd.)


[^0]i.e., interest for three months- $1^{\text {st }}$ December, 20X2 to 28 February, 20X3).

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## Working Notes:

1. Cost of $12 \%$ debentures purchased on1.12.20X2

Cost Value (10,000 बन₹ 101)
$=10,10,000$
Add: Brokerage (1\% of ₹10,10,000)
Less: Cum Interest ( $10,000 \times 100 \times 12 \% \times 2 / 12$ )
$=\quad 10,100$

Total
$=(20,000)$
$=10,00,100$
2. Sale proceeds of $12 \%$ debentures sold ₹

Sales Price (10,000 国₹ 106) = 10,60,000
Less: Brokerage ( $1 \%$ of ₹ $10,60,000$ ) $=(10,600)$
Less: Cum Interest $(10,000 \times 100 \times 12 \% \times 5 / 12)=(50,000)$
Total $=9$ 9,99,400

## QUESTION 16 (STUDY MATERIAL)

On 1.4.20X1, Mr. Krishna Murty purchased 1,000 equity shares of Rs. 100 each in TELCO Ltd. @ Rs. 120 each from a Broker, who charged $2 \%$ brokerage. He incurred 50 paise per Rs. 100 as cost of shares transfer stamps. On 31.1.20X2, Bonus was declared in the ratio of1:2. Before and after the record date of bonus shares, the shares were quoted at Rs. 175 per share and Rs 90 per share respectively. On 31.3.20X2, Mr. Krishna Murty sold bonus shares to a Broker, who charged 2\% brokerage.

Show the Investment Account in the books of Mr. Krishna Murty, who held the shares as Current assets and closing value of investments shall be made at Cost or Market value whichever is lower.

ANSWER:
In the books of Mr. Krishna Murty
Investment Account
for the year ended 31st March, 20X2
(Scrip: Equity Shares of TELCO Ltd.)


## Working Notes:

1. Cost of equity shares purchased on $1.4 .20 \mathrm{X} 1=(1,000$ RRs.120 $)+(2 \%$ of Rs. $1,20,000$ ) + ( $1 / 2 \%$ of Rs. $1,20,000$ ) = Rs. $1,23,000$
2. Sale proceeds of equity shares (bonus) sold on 31st March, 20X2=(500 (2Rs.90) - (2\% of Rs.45,000) = Rs.44,100.
3. Profit on sale of bonus shares on 31st March,20X2
= Sales proceeds - Average cost

Sales proceeds
Average cost
Profit

$$
\begin{aligned}
& =\text { Rs. } 44,100 \\
& =\text { Rs. }(1,23,000 / 1,50,000) \times 50,000=\text { Rs. } 41,000 \\
& =\text { Rs. } 44,100-\text { Rs. } 41,000=\text { Rs. } 3,100 .
\end{aligned}
$$

4. Valuation of equity shares on 31st March, 20X2

Cost=(Rs.1,23,000/1,50,000)x1,00,000=Rs.82,000 Market Value=1,000shares×Rs.90=Rs.90,000 Closing balance has been valued at Rs.82,000 being lower than the market value.
5. Bonus shares do not have any cost.

## QUESTION 17 (STUDY MATERIAL)

Mr. X purchased 500 equity shares of Rs. 100 each in Omega Co. Ltd. for Rs. 62,500 inclusive of brokerage and stamp duty. Some years later the company resolved to capitalise its profits and to issue to the holders of equity shares, one equity bonus share for every share held by them. Prior to

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capitalisation, the shares of Omega Co. Ltd. were quoted at Rs. 175 per share. After the capitalisation, the shares were quoted at Rs. 92.50 per share. Mr. X. sold the bonus shares and received at Rs. 90 per share.

Prepare the Investment Account in X's books on average cost basis.
In the books of A Investment Account
[Scrip: Equity shares in Omega Co. Ltd.]

| Particulars | Nomina I Value Rs. | Cost <br> Rs. | Particulars | Nomina I Value Rs. | Cost |
| :---: | :---: | :---: | :---: | :---: | :---: |
| To Cash | 50,000 | 62,500 | By Cash - Sale (500 x 90) <br> By Balance c/d (W.N. <br> 3) | 50,000 | 45,000 |
| To Bonus shares (W.N.1) <br> To P \& L A/c (W.N. 2) | 50,000 | 13,750 |  | 50,000 | 31,250 |
|  | 1,00,000 | 76,250 |  | 1,00,000 | 76,250 |
| To Balance b/d | 50,000 | 31,250 |  |  |  |

## Working Notes:

1. Bonus shares do not have any cost.
2. Profit on sale of bonus shares = Sales proceeds - Average cost

| Sales proceeds | $=$ Rs. 45,000 |
| :--- | :--- |
| Average cost | $=$ Rs. 31,250 |

3. Valuation of Closing Balance of Shares at the end of year

The total cost of 1,000 share including bonus isRs.62,500
Therefore, cost of 500 shares (carried forward) is Rs. 31,250
Market price of 500 shares $=92.50 \times 500=$ Rs. 46,250
Cost being lower than the market price, therefore shares is carried forward at cost.

## QUESTION 18 (STUDY MATERIAL)

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On 01-04-20X1, Mr. T. Shekharan purchased 5,000 equity shares of Rs. 100 each in V Ltd. @ Rs. 120 each from a broker, who charged $2 \%$ brokerage. He incurred 50 paisa per Rs. 100 as cost of shares transfer stamps. On 31-01-20X2 bonus was declared in the ratio of1:2.Before and after the record date of bonus shares, the shares were quoted at Rs. 175 per share and Rs. 90 per share respectively. On 31-03-20X2, Mr. T. Shekharan sold bonus shares to a broker, who charged 2\% brokerage.

Show the Investment Account in the books of T. Shekharan, who held the shares as Current Assets and closing value of investments shall be made at cost or market value whichever is lower

ANSWER:
In the books of T. Shekharan Investment Account for the year ended 31st March, 20X2
(Script: Equity Shares of V Ltd.)

| Date | Particulars |  | Nominal Value (Rs.) | Cost <br> (Rs.) | Date | Particul ars | Nominal Value (Rs.) | Cost <br> (Rs.) |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| $1.4 .20 \times 1$ <br>  <br>  <br> $31.1 .20 \times 2$ <br> $31.3 .20 \times 2$ | To <br> To To | $\begin{aligned} & \hline \text { Bank } \\ & \text { A/ } \\ & \text { c (W.N.1) } \end{aligned}$ | 5,00,000 | 6,15,000 | $\begin{gathered} 31.3 .20 \times 2 \\ 31.3 .20 \times 2 \end{gathered}$ | Bank A/c <br> (W.N.2) | 2,50,000 | 2,20,500 |
|  |  | Bonus <br> shares <br> Profit and Loss | 2,50,000 |  |  | Balance c/d <br> (W.N.4) | 5,00,000 | 4,10,000 |
|  |  | $\begin{array}{r} \text { A/ } \\ \mathrm{c}(\mathrm{~W} . \mathrm{N} .3) \end{array}$ |  | 15,500 |  |  |  |  |
|  |  |  | 7,50,000 | 6,30,500 |  |  | 7,50,000 | 6,30,500 |

## .Working Notes:

1. Cost of equity shares purchased on $1^{\text {st }}$ April,20X1
= Cost + Brokerage + Cost of transfer stamps
$=(5,000$ @Rs.120) + (2\% of Rs.6,00,000) + (1⁄2\% of Rs.6,00,000)
= Rs.6,15,000
2. Sale proceeds of equity shares sold on $31^{\text {st }}$ March, $20 X 2$
= Sale price - Brokerage

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$$
\begin{aligned}
& =(2,500 \text { Rs. } 90)-(2 \% \text { of Rs. } 2,25,000) \\
& =\text { Rs. } 2,20,500
\end{aligned}
$$

3. Profit on sale of bonus shares
= Sales proceeds - Average cost

Sales proceeds $=$ Rs.2,20,500

$$
\begin{array}{ll}
\text { Average cost } & =\text { Rs. }(6,15,000 / 7,50,000) \times 2,50,000=\text { Rs. } 2,05,000 \\
\text { Profit } & =\text { Rs. } 2,20,500-\text { Rs. } 2,05,000=\text { Rs. } 15,500 .
\end{array}
$$

4. Valuation of equity shares on $31^{\text {st }}$ March, 20X2

Cost $=$ Rs.[6,15,000 $05,00,000 / 7,50,000]=$ Rs. $4,10,000$, i.e., Rs. 82 per share Market Value $=5,000$ shares $\times$ Rs. $90=$ Rs. $4,50,000$
Closing stock of equity shares has been valued at Rs.4,10,000 i.e. cost being lower than the market value.

## QUESTION 19 (STUDY MATERIAL)

On $1^{\text {st }}$ April, 20X1, Rajat has 50,000 equity shares of $P$ Ltd. at a book value of Rs. 15 per share (nominal value Rs. 10 each). He provides you the further information:
(1) On $20^{\text {th }}$ June, $20 \times 1$ he purchased another 10,000 shares of P Ltd. at Rs. 16 per share.
(2) On1 ${ }^{\text {st }}$ August,20X1,PLtd.issuedoneequitybonusshareforeverysixshares held by the shareholders.
(3) On $31^{\text {st }}$ October, 20X1, the directors of $P$ Ltd. announced a right issue which entitles the holders to subscribe three shares for every seven shares at Rs. 15 per share. Shareholders can transfer their rights in full or inpart.

Rajat sold 1/3 ${ }^{\text {rd }}$ of entitlement to Umang for a consideration of Rs. 2 per share and subscribed the rest on $5^{\text {th }}$ November, 20X1.

You are required to prepare Investment A/c in the books of Rajat for the year ending $3^{\text {st }}$ March, 20X2.

## ANSWER:

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| Date | Particulars | No. of share s | Amount (Rs.) | Date | Particulars | No. of shares | Amount (Rs.) |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 1.4.X1 | To Balance b/d | 50,000 | 7,50,000 | $\begin{array}{r} 31.3 . X \\ 2 \end{array}$ | By Balance c/d | 90,000 | 12,10,000 |
| 20.6.X1 | To Bank A/c | 10,000 | 1,60,000 |  | (Bal. fig.) |  |  |
| 1.8.X1 | ToBonus issue (W.N.1) | 10,000 |  |  |  |  |  |
| 5.11.X1 | To Bank A/c (right shares) (W.N.4) | 20,000 | 3,00,000 |  |  |  |  |
|  |  | 90,000 | 12,10,000 |  |  | 90,000 | 12,10,000 |

## Working Notes:

Bonus shares $=10,000$ shares
Right shares $=30,000$ shares

Sale of rights = Rs.20,000 to be credited to statement of profit and loss
Rights subscribed = Rs.3,00,000

## QUESTION 20 (STUDY MATERIAL)

On 1.4.20X1, Sundar had 25,000 equity shares of ' $X$ ' Ltd. at a book value of Rs. 15 per share (Nominal value Rs.10). On 20.6.20X1, he purchased another 5,000 shares of the company at Rs. 16 per share. The directors of ' $X$ ' Ltd. announced a bonus and rights issue. No dividend was payable on these issues. The terms of the issue are as follows:

Bonus basis 1:6 (Date16.8.20X1).
Rights basis 3:7 (Date 31.8.20X1) Price Rs. 15 per share. Due date for payment30.9.20X1.
Shareholders were entitled to transfer their rights in full or in part. Accordingly, Sundar sold $33.33 \%$ of his entitlement to Sekhar for a consideration of Rs. 2 per share.

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Dividends: Dividends for the year ended 31.3.20X1 at the rate of 20\% were declared by X Ltd. and received by Sundar on 31.10.20X1. Dividends for shares acquired by him on 20.6.20X1 are to be adjusted against the cost of purchase.

On 15.11.20X1, Sundar sold 25,000 equity shares at a premium of Rs. 5 per share. You are required to prepare in the books of Sundar.

1. Investment Account
2. Profit \& Loss Account.

For your exercise, assume that the books are closed on 31.12.20X1and shares are valued at average cost.

## ANSWER:

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

|  |  | No. | Amount Rs. |  |  | No. | Amount Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 1.4.20X1 | To Bal b/d | 25,000 | 3,75,000 | 31.10.20X1 | By Bank (dividend on shares acquired on 20/6/20×1) (W.N.4) | - | 10,000 |
| 20.6.20X1 | To Bank | 5,000 | 80,000 |  |  |  |  |
| 16.8.20X1 | To Bonus (W.N.1) | 5,000 |  |  |  |  |  |
| 30.9.20X1 | To Bank <br> (Rights <br> Shares) <br> (W.N.3) | 10,000 | 1,50,000 |  |  |  |  |
| $\begin{aligned} & \text { 15.11.20X } \\ & 1 \end{aligned}$ | To <br> Profi <br> t (on sale of shares) |  | 44,444 | 15.11.20x1 | By Bank | 25,000 | 3,75,000 |
|  |  |  |  | 31.12.20x1 | (Sale of shares) <br> By Bal. c/d <br> (W.N.6) | 20,000 | 2,64,444 |
|  |  | $\begin{aligned} & 45,00 \\ & 0 \end{aligned}$ | 6,49,444 |  |  | 45,000 | 6,49,444 |

## Profit and Loss Account (An extract)

| To Balance c/d | $1,04,44$ | By Profit transferred | 44,444 |
| :--- | :--- | :--- | ---: |
|  | 4 | By Sale of rights (W.N.3) | 10,000 |
|  |  | By Dividend (W.N.4) | $\underline{50,000}$ |
|  | $\overline{1,04,44}$ |  | $1,04,444$ |

## Working Notes:

1. Bonus Shares $=5,000$ shares
2. Right Shares $=15,000$ shares
3. Right shares renounced $=15,000 \times 1 / 3=5,000$ shares

Sale of right shares $=5,000 \times 2=$ Rs. 10,000
Right shares subscribed $=15,000-5,000=10,000$ shares
Amount paid for subscription of right shares $=10,000 \times 15=$ Rs.1,50,000
4. Dividend received $=25,000$ (sharesason $1^{\text {st }}$ April $20 X 1$ ) $\times 10 \times 20 \%=$ Rs. 50,000

Dividend on shares purchased on $20.6 .20 \mathrm{X} 1=5,000 \times 10 \times 20 \%=$ Rs. 10,000 is adjusted to Investment A/c
5. Profit on sale of 25,000 shares

Sales proceeds

> = Sales proceeds - Average cost

Average cost
= Rs.3,75,000

Profit
=Rs.3,30,556
=Rs.3,75,000- Rs.3,30,556= Rs.44,444.
6. Cost of shares on31.12.20X1 = Rs. 2.64.444

## QUESTION 21(STUDY MATERIAL)

On 1st January 20X1, Singh had 20,000 equity shares in X Ltd. Nominal value of the shares was Rs. 10 each but their book value was Rs. 16 per share. On 1st June 20X1, Singh purchased 5,000 more equity shares in the company at a premium of Rs. 4 per share.

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On 30th June, 20X1, the directors of X Ltd. announced a bonus and rights issue. Bonus was declared at the rate of one equity share for every five shares held and these shares were received on 2nd August, 20X1.

The terms of the rights issue were:
(a) Rights shares to be issued to the existing holders on 10th August,20X1.
(b) Rights issue would entitle the holders to subscribe to additional equity shares in the Company at the rate of one share per every three held at Rs. 15 per share-the whole sum being payable by 30th September,20X1.
(c) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.
(d) Singh exercised his option under the issue for $50 \%$ of his entitlements and the balance of rights he sold to Ananth for a consideration of Rs. 1.50 per share.
(e) Dividends for the year ended 31st March, 20X1, at the rate of $15 \%$ were declared by the Company and received by Singh on 20th October,20X1.
(f) On 1st November, 20X1, Singh sold 20,000 equity shares at a premium of Rs. 3 per share.

The market price of share on 31-12-20X1 was Rs.14. Show the Investment Account as it would appear in Singh's books on 31-12-20X1 and the value of shares held on that date.

Answer:

Investment Account-Equity Shares in X Ltd.

| Date |  | No. of <br> shares | Dividend | Amount | Dat <br> $\boldsymbol{e}$ |  | No. of <br> shares | Dividend | Amount |
| :--- | ---: | ---: | ---: | ---: | :--- | :--- | ---: | ---: | ---: |
| 20X1 <br> Jan. 1 | To Bal.b/d | 20,000 | Rs. | Rs. | Rs. <br> $20 X 1$ | Rs. <br> Oct. <br> 20 | By | Bank |  |

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## Working Notes:

1. Right shares

No. of right shares issued $=(20,000+5,000+5,000) / 3=10,000$ shares No. of right shares subscribed
$=10,000 \times 50 \%=5,000$ shares
Amount of right shares issued $=5,000 \times 15=$ Rs. 75,000
No. of right shares sold $=10,000-5,000=5,000$ shares
Sale of right shares $=5,000 \times 1.5=$ Rs. 7,500 to be credited to statement of profit and loss

## 2. Cost of shares sold - Amount paid for 35,000shares

|  | Rs. |
| :--- | ---: |
| (Rs.3,20,000 + Rs.70,000 + Rs.75,000) | $4,65,000$ |
| Less: Dividend on shares purchased on June 1 (since the dividend | $(7,500)$ |
| pertains to the year ended $31^{\text {st }}$ March, 20x1, i.e., the pre- |  |
| acquisition period) |  |
| Cost of 35,000 shares |  |
| Cost of 20,000 shares (Average cost basis) | $4,57,500$ |

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| Sale proceeds | $2,60,000$ |
| :--- | ---: |
| Loss on sale | 1,429 |

## 3. Value of investment at the end of theyear

Assuming investment as current investment, closing balance will be valued based on lower of cost or net realisable value.

Here, Net realisable value is Rs. 14 per share i.e. 15,000 shares $\times$ Rs.13= Rs.2,10,000 and cost = Rs.1,96,071. Therefore, value of investment at the end of the year will be Rs.1,96,071.

## QUESTION 22 (STUDY MATERIAL)

The following transactions of Nidhi took place during the year ended 31st March 20X2:

| 1st April | Purchased Rs.12,00,000, 8\% bonds at Rs.80.50 cum-interest. <br> Interest is payable on 1st November and 1stMay. |
| :--- | :--- |
| 12th April | Purchased 1,00,000 equity shares of Rs.10 each in X Ltd. for <br> Rs.40,00,000 |
| 1st May | Received half-year's interest on 8\% bonds. <br> X Ltd. made a bonus issue of three equity shares for every two <br> 15th May |
| 1st October | Sold Rs.3,00,000, 8\% bonds at Rs.81 ex-interest. <br> 1st November |
| 1st December | Received half-year's bond interest. <br> Received 18\% interim dividend on equity shares (including <br> bonus shares) in X Ltd. |

Prepare the relevant investment account in the books of Nidhi for the year ended 31st March,20X2.

In the books of Nidhi 8\% Bonds Account [Interest Payable: 1st November \& 1st May]

| Date | Particulars | Nominal <br> Value (Rs.) $)$ | Interest <br> (Rs.) | Cost <br> (Rs.) | Date | Particul <br> ars | Nominal <br> Value (Rs.) | Interest <br> (Rs.) | Cost <br> (Rs.) |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| $1.4 .20 \times 1$ | To Bank A/c | $12,00,000$ | 40,000 | $9,26,00$ | $1.5 .20 \times 1$ | By Bank <br> A/c | - | 48,000 | - |

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| $1.10 .20 \times 1$ $31.3 .20 \times 2$ | (W.N.1) <br> To Profit \& Loss A/c (W.N 6) <br> To Profit \& Loss A/c |  | 84,000 | 11,500 | $\begin{aligned} & 1.10 .20 \mathrm{X} \\ & 1 \\ & 1.11 .20 \mathrm{X} \\ & 1 \\ & \\ & 31.3 .20 \mathrm{X} \\ & 2 \end{aligned}$ | $(12,00,0$ <br> 00 x <br> $8 \% \mathrm{x}$ <br> $6 / 12)$ <br> By Bank <br> A/c <br> (W.N2) <br> By Bank <br> A/c <br> (W.N3) <br> By <br> Balance c/d <br> (W.N.4) | 3,00,000 9,00,000 | $\begin{aligned} & 10,000 \\ & 36,000 \\ & 30,000 \end{aligned}$ | $\begin{array}{r} 2,43,000 \\ - \\ 6,94,500 \end{array}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | 12,00,000 | 1,24,000 | 9,37,500 |  |  | 12,00,000 | 1,24,000 | 9,37,500 |

Investment in Equity Shares of X Ltd. Account

| Date | Particulars | No. | Dividend (Rs.) | $\begin{aligned} & \text { Cost } \\ & \text { (Rs.) } \end{aligned}$ | $\begin{aligned} & D a t \\ & e \end{aligned}$ | Particulars | No. | Dividend (Rs.) | Cost (Rs.) |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 12.4.20X1 | To Bank A/c | 1,00,000 |  | $\left\|\begin{array}{r} 40,00,00 \\ 0 \end{array}\right\|$ | $\left\|\begin{array}{l} 15.5 \\ 20 \times 1 \end{array}\right\|$ | By Bank A/c | 1,25,000 | 2,25,000 | 25,00,00 |
| 15.5.20X1 | To Bonus Issue | 1,50,000 | 2,25,000 |  | $\begin{aligned} & 1.12 . \\ & 20 \times 1 \end{aligned}$ | By Bank A/c (W.N.7) |  |  |  |
| 31.3.20X2 | To Profit \&Loss A/c (W.N 5) |  |  | 5,00,000 | $\begin{aligned} & 31.3 . \\ & 20 \times 2 \end{aligned}$ | By Balance <br> c/d (W.N.8) | 1,25,000 |  | 20,00,00 |
|  |  | 2,50,000 | 2,25,000 | 45,00,00 |  |  | 2,50,000 | 2,25,000 | 45,00,00 |

## Working Notes:

## 1. Cost of investment purchased on $1^{\text {st }}$ April,20X1

12,000, 8\% bonds were purchased @ Rs. 80.50 cum-interest. Total amount paid 12,000 bonds $x$ Rs. $80.50=9,66,000$ which includes accrued interest for 5 months,i.e., $1^{\text {st }}$ November, $20 X X t o 311^{\text {stt }}$ March,20X1.Accruedinterestwillbe Rs. $12,00,000 \times 8 / 100 \times 5 / 12=$ Rs.40,000. Therefore, cost of investment purchased = Rs.9,66,000-40,000 = Rs.9,26,000.

Note: It has been assumed that the nominal value of a bond is Rs. 100 .

## CA Ravi Agarwal's

 CA INTER ACCOUNTING COMPILER 4.02. Sale of bonds on $1^{\text {st }}$ October, 20X1

3,000 bonds were sold@ Rs. 81 ex-interest, i.e., Total amount received $=3,000 \times 81+$ accrued interest for 5 months =Rs.2,43,000 +Rs.10,000 (3,00,000 $\times 8 / 100 \times 5 / 12)$

## 3. Interest received on $1^{\text {st }}$ November, 20X1

Interest will be received for 9,000 bonds @ 8\% for 6 months, i.e., Rs.9,00,000 x 8/100x1/2 = Rs.36,000.

## 4. Cost of bonds on31.3.20X1

Cost of bonds on $31.3 .20 \times 1$ will be Rs.9,26,000/ $12,000 \times 9,000=$ Rs.6,94,500.
Interest accrued on bonds on 31.3.20X1 $=9,00,000 \times 8 \% \times 5 / 12=$ Rs.30,000

## 5. Profit on sale of bonus shares

Cost per share after bonus = Rs.40,00,000/2,50,000 = Rs. 16 (average cost method being followed)
Profit per share sold (Rs. 20 - Rs.16) = Rs. 4.
Therefore, total profit on sale of 1,25,000 shares $=$ Rs. $4 \times 1,25,000=$ Rs.5,00,000.
6. Profit on sale of bonds

| Sale value | $=2,43,000$ |
| :--- | :--- |
| Cost of Rs. $3,00,0008 \%$ bonds $=9,26,000 / 12,00,000 \times 3,00,000$ | $=$$2,31,500$ <br> Profit |

Rs.
Sale value $=2,43,000$
Cost of Rs.3,00,0008\% bonds $=9,26,000 / 12,00,000 \times 3,00,000=$
$=\quad 11,500$
7. Dividend on equity shares $=1,25,000 \times 10 \times 18 \%=$ Rs. $2,25,000$

## 8. Value of equity at end of year

Cost per share after bonus = Rs. 16 Number of shares $=1,25,000$
Value of equity at end of year $=1,25,000 \times 16=$ Rs. $20,00,000$

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

## QUESTION 23(STUDY MATERIAL)

Smart Investments made the following investments in the year 20X1-X2:
12\% State Government Bonds having nominal value Rs. 100

| Date | Particulars |
| :---: | :--- |
| $01.04 .20 \times 1$ | Opening Balance (1200 bonds) book value of Rs.126,000 |
| $02.05 .20 \times 1$ | Purchased 2,000 bonds @ Rs.100 cum interest |
| $30.09 .20 \times 1$ | Sold 1,500 bonds at Rs.105 ex interest |

Interest on the bonds is received on $30^{\text {th }}$ June and $31^{\text {st }}$ Dec. each year.

| Equity Shares of X Ltd. |  |
| :---: | :---: |
| 15.04.20X1 | Purchased 5,000 equity shares @ Rs. 200 on cum right basis |
|  | Brokerage of $1 \%$ was paid in addition (Nominal Value of shares Rs.10) |
| 03.06.20X1 | The company announced a bonus issue of 2 shares for every 5 shares held. |
| 16.08.20X1 | The company made a rights issue of 1 share for every 7 shares held at Rs. 250 per share. |
|  | The entire money was payable by 31.08.20X1. |
| 22.8.20X1 | Rights to the extent of $20 \%$ was sold @ Rs. 60 . The remaining rights were subscribed. |
| 02.09.20X1 | Dividend@15\%fortheyearended31.03.20X1 received on16.09.20X1 |
| 15.12.20X1 | Sold 3,000 shares @ Rs.300. Brokerage of 1\% was incurred extra. |
| 15.01.20X2 | Received interim dividend @ 10\% for the year 20X1 -X2 |
| 31.03.20X2 | The shares were quoted in the stock exchange @ Rs. 220 |

Prepare Investment Accounts in the books of Smart Investments. Assume that the average cost method is followed.

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

In the books of Smart Investments
12\% Govt. Bonds for the year ended 31 ${ }^{\text {st }}$ March, 20X2

| Date | Particulars | Nos. | Interes <br> $t$ | Amount | Date | Particulars | Nos | Interest | Amount |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 1.4.X1 | To Opening balance b/d <br> (W.N.7) | 1,200 | $3,600$ | $1,26,000$ | 30.6. X 1 | Bank A/c (Interest) (3,200 x 100 x $12 \%$ x 6/12) |  | 19,200 | - |
| 2.5.X1 | $\begin{aligned} \text { To } & \text { Bank } \\ & \\ & \text { A } \\ & \text { (W.N.8) } \end{aligned}$ | 2,000 | 8,000 | 1,92,000 | 30.9.X1 | Bank A/c <br>  <br> W.N.9) | $\begin{aligned} & 1,50 \\ & 0 \end{aligned}$ | 4,500 | 1,57,500 |
| 30.9.X1 | $\begin{aligned} \text { To } & \text { P \& L } \\ & \text { A/c } \\ & \text { (Profit } \\ & \text { on Sale) } \\ & \text { (W.N.1) } \end{aligned}$ |  |  | 8,437.50 | 31.12.X1 | $\begin{aligned} & \text { Bank A/c } \\ & \text { (Interest) } \\ & (1,700 \\ & \text { x100 } \\ & \text { x } 12 \% \text { x } \\ & 6 / 12 \text { ) } \end{aligned}$ |  | 10,200 |  |
| 31.3.X2 | $\begin{array}{\|ll} \text { To } & \text { P \& L } \\ & \text { A/c } \\ & \text { (Interest } \end{array}$ |  | 27,400 |  | 31.3.x2 | Bal. c/d <br>  <br> W.N.10) | $\begin{aligned} & 1,70 \\ & 0 \end{aligned}$ | 5,100 | 1,68,937.50 |
|  |  | 3,200 | 39,000 | 3,26,437.50 |  |  | $\begin{aligned} & 3,2 \\ & 00 \\ & \hline \end{aligned}$ | 39,000 | 3,26,437.50 |

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

Investments in Equity shares of $X$ Ltd. for year ended 31.3.20X2


## CA Ravi Agarwal's

 CA INTER ACCOUNTING COMPILER 4.0
## Working Notes:

1. Profit on sale of bonds on30.9.X1
= Sales proceeds -
Average cost Sales proceeds = Rs.1,57,500
(i.e., 1,500 x105)

Average cost = Rs.[(1,26,000+1,92,000)
[1,500/3,200] = 1,49,062.50 Profit = 1,57,500-
Rs.1,49,062.50=Rs.8,437.50
2. Valuation of bonds on $31^{\text {st }}$ March,20X2

Cost $=$ Rs. $3,18,000 / 3,200 \times 1,700=1,68,937.50$
3. Cost of equity shares purchased on15/4/20X1
$=$ Cost + Brokerage
$=(5,000$ ?Rs. 200$)+1 \%$ of (5,000 @Rs. 200$)$
$=$ Rs. $10,10,000$
4. Sale proceeds of equity shares on15/12/20X1
$=$ Sale price - Brokerage
$=(3,000$ @Rs. 300$)-1 \%$ of $(3,000$ ?Rs. 300$)=$ Rs. $8,91,000$
5. Profit on sale of shares on15/12/20X1

> = Sales proceeds - Average cost

Sales proceeds = Rs.8,91,000
Average cost $\quad=$ Rs. $[(10,10,000+2,00,000-7,500)$ [3,000/7,800]
$=$ Rs. $[12,02,500$ [3,000/7,800] $=4,62,500$
Profit
=Rs.8,91,000-Rs.4,62,500=Rs.4,28,500.
6. Valuation of equity shares on $31^{\text {st }}$ March,20X2

| Cost | $=$ Rs. $[12,02,500$ ? $4,800 / 7,800]=$ Rs. $7,40,000$ |
| :--- | :--- |
| Market Value | $=4,800$ shares $\times$ Rs. $220=$ Rs. $10,56,000$ |

Closing stock of equity shares has been valued at Rs.7,40,000 i.e. cost being lower than the market value.
7. Interest accrued on opening balance of bonds $=1,200 \times 100 \times 12 \% \times 3 / 12$

$$
=\text { Rs.3,600 }
$$

8. Interest element in bonds purchased on02.05.20X1

$$
=2,000 \times 100 \times 12 \% \times 4 / 12=\text { Rs. } 8,000
$$

Cost of investment (amount in investment column)

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

$$
=(2,000 \times 100)-8,000=\text { Rs.1,92,000 }
$$

9. Interest element in bonds sold on30.09.20X1

$$
=1,500 \times 100 \times 12 \% \times 3 / 12=\text { Rs.4,500 }
$$

10. Interest accrued on closing balance of bonds

$$
=1,700 \times 100 \times 12 \% \times 3 / 12=\text { Rs.5,100 }
$$

11. Right shares

No. of right shares issued
of right share ssold
Proceeds from sale o fright shares statement of profit and loss

No. of right shares subscribed $\quad=1,000-200=800$ shares
Amount of right shares subscribed $=800 \times 250=$ Rs.2,00,000
12. Amount of interim dividend $=(5,000+2,000+800-3,000) \times 10 \times 10 \%$

$$
=\text { Rs. } 4,800
$$

## Note:

1. It is presumed that no dividend is received on bonus shares as bonus shares are declared on 3.6.20X1 and dividend pertains to the year ended 31.03.20X1.
2. The amount of dividend for the period, for which shares were not held by the investor, has been treated as capital receipt.

## QUESTION 24 (STUDY MATERIAL)

Mr. Brown has made following transactions during the financial year 20X1-X2:
Date Particulars
01.05.20X1 Purchased24,00012\%BondsofRs.100eachatRs.84cum-interest.

Interest is payable on 30th September and 31st March every year.
15.06.20X1 Purchased1,50,000 equity shares of Rs. 10 each in Alpha Limited for

Rs. 25 each through a broker, who charged brokerage @ 2\%.

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

10.07.20X1 Purchased 60,000 equity shares of Rs. 10 each in Beeta Limited for Rs. 44 each through a broker, who charged brokerage@2\%.
14.10.20X1 Alpha Limited made a bonus issue of two shares for every three shares held.
31.10.20X1 Sold 80,000 shares in Alpha Limited for Rs.22each.
01.01.20X2 Received 15\% interim dividend on equity shares of Alpha Limited. 15.01.20X2 Beeta Limited made a right issue of one equity share for every four shares held at Rs. 5 per share. Mr. Brown exercised his option for $40 \%$ of his entitlements and sold the balance rights in the market at Rs.2.25 per share. 01.03.20X2 Sold 15,000 12\% Bonds at Rs. 90 ex-interest.
15.03.20X2 Received 18\% interim dividend on equity shares of Beeta Limited. Interest on $12 \%$ Bonds was duly received on due dates.

Prepare separate investment account for $12 \%$ Bonds, Equity Shares of Alpha Limited and Equity Shares of Beeta Limited in the books of Mr. Brown for the year ended on 31st March,20X2.

Answer:
In the books of Mr. Brown
12\% Bonds for the year ended 31 ${ }^{\text {st }}$ March, 20X2

| Date | Particula rs | No. | Inco me Rs. |  | Date | Particul ars | No. | Inco me Rs. |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 20X1 <br> May, 1 | To Bank <br> A/c <br> (W.N.7) | $\begin{array}{r} 24,00 \\ 0 \end{array}$ | 24,000 | $\begin{gathered} 19,92, \\ 000 \end{gathered}$ | $\begin{aligned} & 20 \times 1 \\ & \text { Sept. } \\ & 30 \end{aligned}$ | $\begin{array}{\|l\|} \hline \text { By Bank- } \\ \text { Interest } \\ (24,000 \\ x \\ 100 x \\ 12 \% \\ x 6 / 12) \end{array}$ | - | $\begin{array}{r} 1,44,0 \\ 00 \end{array}$ |  |

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



Investment in Equity shares of Alpha Ltd. for the year ended 31 ${ }^{\text {st }}$
March, 20X2


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

|  | 0/3 <br> x2) <br> To P \& L <br> A/c <br> (W.N. 3 ) |  |  |  | $\begin{aligned} & \text { c/d } \\ & \text { (W.N. } \\ & \text { 4) } \end{aligned}$ |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| $20 \times 2$ | To P \& L A/c |  | $\begin{gathered} 2,55,0 \\ 00 \\ \hline \end{gathered}$ |  |  |  |  |  |
|  |  | $\begin{aligned} & 2,50,0 \\ & 00 \end{aligned}$ | $\begin{array}{\|c\|} \hline 2,55,0 \\ 00 \end{array}$ | $\begin{aligned} & 43,61, \\ & 000 \end{aligned}$ |  | $\begin{aligned} & 2,50,0 \\ & 00 \end{aligned}$ | $\begin{aligned} & 2,55,0 \\ & 00 \end{aligned}$ | 43,61,000 |

Investment in Equity shares of Beeta Ltd. for the year ended 31 ${ }^{\text {st }}$
March, 20X2


## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0


## Working Notes:

1. Profit on sale of $12 \%$ Bond

| Sales price | Rs. $13,50,000$ <br> Less: Cost of bond sold $=$$19,92,000$ <br> 24,000$\times 15,000$ <br> (Rs.12,45,000) |
| :--- | ---: |
| Profit on sale | $\underline{R s .1,05,000}$ |

2. Closing balance as on 31.3.20X2 of 12 \%Bond

$$
\frac{19,92,000}{24,000} \times 9,000=\text { Rs. } 7,47,000
$$

3. Profit on sale of equity shares of AlphaLtd.

| Sales price <br> Less: Cost of bond sold $=\frac{38,25,000}{2,50,000} \times 80,000$ <br> Profit on saleRs. $17,60,000$ <br> (Rs. $12,24,000$ ) |
| :--- | ---: |
| Rs.5,36,000 |

4. Closing balance as on 31.3.20X2 of equity shares of AlphaLtd.
= Rs.26,01,000
5. Calculation of right shares subscribed by Beeta Ltd.

Right Shares $=15,000$ shares
Shares subscribed by Mr. Brown $=15,000 \times 40 \%=6,000$ shares
Value of right shares subscribed = 6,000 shares @ Rs. 5 per share = Rs.30,000
6. Calculation of sale of right entitlement by BeetaLtd.

No. of right shares sold $=15,000-6,000=9,000$ shares
Sale value of right $=9,000$ shares $\times$ Rs. 2.25 per share $=$ Rs. 20,250
Note: As per para 13 of AS 13, sale proceeds of rights is to be credited to P \& LA/c.
7. Purchase of bonds on01.05.20X1

Interest element in purchase of bonds $=24,000 \times 100 \times 12 \% \times$
$1 / 12=$ Rs. 24,000 Investment element in purchase of bonds $=$
$(24,000 \times 84)-24,000=$
Rs. $19,92,000$
8. Sale of bonds on01.03.20X2

Interest element in purchase of bonds $=15,000 \times 100 \times 12 \% \times$ 5/12 = Rs.75,000 Investment element in purchase of bonds = 15,000 x 90 = Rs.13,50,000

## PRACTICAL QUESTIONS

## QUESTION 25

A Limited purchased 5,000 equity shares (nominal value ₹ 100 each) of Allianz Limited for ₹ 105 each on 1st April, 20X1. The shares were quoted cum dividend. On 15th May, 20X1, Allianz Limited declared \& paid dividend of 2\% for year ended 31st March, 20X1. On 30th June, 20X1 Allianz Limited issued bonus shares in ratio of 1:5. On 1st October, 20X1 Allianz Limited issued rights share in the ratio of 1:12 @ 45 per share. A Limited subscribed to half of the rights issue and the balance was sold at ₹ 5 per right entitlement. The company declared interim dividend of 1\% on 30th November, 20X1. Right shares were not entitled to dividend. The company sold 3,000 shares on 31st December, 20X1 at ₹ 95 per share. The company A Ltd. incurred 2\% as brokerage while buying and selling shares.
You are required to prepare Investment Account in books of A Ltd for the year ended 31st March, $20 \times 2$.

ANSWER

> In the books of A Ltd.
> Investment in equity shares of Allianz Ltd. for the year ended 31st March, 20X2

| Date | Particulars | No. | Income <br> $₹$ | Amoun <br> $\boldsymbol{t} ₹$ | Date | Particulars | No. | Inco <br> $\boldsymbol{m} \boldsymbol{e}^{₹}$ | Amoun <br> $\boldsymbol{t} ₹$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| 20X1 April <br> 1 | To Bank <br> A/c <br> (W.N.1) | 5,000 | - | $5,35,50$ <br> 0 | 20X1 May <br> 15 | By Bank <br> A/c <br> (dividend) <br> (W.N.6) | - | - | 10,000 |
| June 30 |  | To |  | 1,000 |  | - |  | - |  |

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

|  |  | Bonus <br> Issue <br> (W.N 2) |  |  |  |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Oct. 1 | To Bank <br> A/c (W.N. <br> 3) | 250 | - | 11,250 | Nov. 30 | By Bank <br> A/c <br> (Interim <br> dividend) <br> (W.N.7) | - | 6,00 <br> 0 | - |


| Dec.31 | To P \& L <br> A/c (W.N. <br> 5 ) | - | - | 21,660 | Dec. <br> 31 | By Bank A/c <br> (W.N. 5) | 3,00 <br> 0 | - | $2,79,3$ <br> 00 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| 20X2 <br> March 31 | To P \& L <br> A/c (b.f.) | - | 6,000 | - | $20 X 2$ <br> March <br> 31 | By Balance <br> c/d (W.N. 7) | 3,25 <br> 0 | - | $2,79,1$ <br> 10 |
|  |  | 6,250 | 6,000 | $5,68,41$ <br> 0 |  |  | 6,25 <br> 0 | 6,000 | $5,68,4$ <br> 10 |

## Question 26

Mr. X acquires 200 shares of a company on cum-right basis for $₹ 70,000$. He subsequently receives an offer of right to acquire fresh shares in the company in the proportion of $1: 1$ at $₹ 107$ each. He does not subscribe but sells all the rights for $₹ \mathbf{1 2 , 0 0 0}$. The market value of the shares after their becoming ex-rights has also gone down to ₹ $\mathbf{6 0 , 0 0 0}$. What should be the accounting treatment in this case?

## Answer

As per AS 13, where the investments are acquired on cum-right basis and the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, it may be appropriate to apply the sale proceeds of rights to reduce the carrying amount of such investments to the market value. In this case, the amount of the ex-right market value of 200 shares bought by X immediately after the declaration of rights falls to ₹60,000. In this case, out of sale proceeds of ₹ 12,000 , ₹ 10,000 may be applied to reduce the carrying amount to bring it to the market value and ₹ 2,000 would be credited to the profit and loss account.

## Question 27

On 1st April, 20X1, XY Ltd. has 15,000 equity shares of ABC Ltd. at a book value of ₹ 15 per share (nominal value ₹ 10 per share). On 1st June, 20X1, XY Ltd. acquired 5,000 equity shares of ABC Ltd. for ₹ $1,00,000$. ABC Ltd. announced a bonus and right issue.
(1) Bonus was declared, at the rate of one equity share for every five shares held, on 1st July 20X1.

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0
(2) Right shares are to be issued to the existing shareholders on 1st September 20X1. The company will issue one right share for every 6 shares at $20 \%$ premium. No dividend was payable on these shares.
(3) Dividend for the year ended 31.3.20X1 were declared by ABC Ltd. @ 20\%, which was received by XY Ltd. on 31st October 20X1.

XY Ltd.
(i) Took up half the right issue.
(ii) Sold the remaining rights for ₹ 8 per share.
(iii) Sold half of its shareholdings on 1st January 20X2 at ₹ 16.50 per share. Brokerage being $1 \%$. You are required to prepare Investment account of XY Ltd. for the year ended 31st March 20X2 assuming the shares are being valued at average cost.

## Answer

In the books of XY Ltd.
Investment in equity shares of ABC Ltd. for the year ended 31st March, 20X2

| Date | Particulars | No. | Income ₹ | Amount ₹ | Date | Particulars | No. | $\begin{aligned} & \text { Inco } \\ & \text { me } \\ & ₹ \end{aligned}$ | $\begin{aligned} & \text { Amq } \\ & ₹ \end{aligned}$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| $\begin{aligned} & \text { 20X1 } \\ & \text { April } 1 \end{aligned}$ | To Balance b/d | $\begin{aligned} & 15,00 \\ & 0 \end{aligned}$ | - | 2,25,000 | $\begin{array}{\|l\|} \hline 20 X 1 \\ \text { Oct. } 31 \end{array}$ | By Bank A/c <br> (W.N. 5) | - | $\begin{aligned} & 30,0 \\ & 00 \\ & \hline \end{aligned}$ | 10,0 | 0 |
| June 1 | To Bank A/c | 5,000 | -- | 1,00,000 | $\begin{array}{\|l\|} \hline 20 \times 2 \\ \text { Jan. } 1 \end{array}$ | By Bank A/c (W.N.4) | 13,000 | - | 2,12 | 355 |
| July 1 | To Bonus Issue (W.N. 1) | 4,000 | - | - | March $31$ | By Balance c/d (W.N. 6) | 13,000 | - | 1,69 |  |
| Sept. 1 | $\begin{aligned} & \text { To Bank A/c } \\ & \text { (W.N. 2) } \\ & \hline \end{aligned}$ | 2,000 | - | 24,000 |  |  |  |  |  | in |
| $\begin{aligned} & 20 X 2 \text { Jan } \\ & 1 \end{aligned}$ | To P \& LA/c (W.N. 4) | - | - | 42,855 |  |  |  |  |  |  |
| "20X2 <br> March 31 | To P \& L A/c | - | 30,000 | - |  |  |  |  |  |  |
|  |  | $\begin{array}{\|l\|} \hline 26,00 \\ 0 \end{array}$ | 30,000 | 3,91,855 |  |  | 26,000 | $\begin{aligned} & 30,0 \\ & 00 \end{aligned}$ | 3,91 | 855 |

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

## Working Notes:

1. Calculation of no. of bonus shares issued

Bonus Shares $=\frac{15,000 \text { shares }+5,000 \text { shares }}{5} \times 1=4,000$ shares
2. Calculation of right shares subscribed

Right Shares $=\frac{15,000 \text { shares }+5,000 \text { shares }+4,000 \text { shares }}{6}=4,000$ shares
Shares subscribed by XY Ltd. $=\frac{4,000}{2}=2,000$ shares
Value of right shares subscribed $=2 ; 000$ shares $@ ₹ 12$ per share $=₹ 24,000$
3. Calculation of sale of right entitlement

2,000 shares $\mathrm{x} ₹ 8$ per share $=₹ 16,000$
Amount received from sale of rights will be credited to statement of profit and loss.
4. Calculation of profit on sale of shares

Total holding $=15,000$ shares original

> | 5,000 shares purchased |
| :--- |
| 4,000 shares bonus |
| 2,000 shares right shares |
| 26,000 shares |

$50 \%$ of the holdings were sold

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

i.e. 13,000 shares $(26,000 \times 1 / 2)$ were sold.

Cost of total holdings of 26,000 shares (on average basis)

$$
\begin{aligned}
& =₹ 2,25,000+₹ 1,00,000+₹ 24,000-₹ 10,000 \\
& =₹ 3,39,000
\end{aligned}
$$

Average cost of 13,000 shares would be

$$
=\frac{3,39,000}{26,000} \times 13,000=₹ 1,69,500
$$

Sale proceeds of 13,000 shares ( $13,000 \times ₹ 16.50$ ) $2,14,500$

Less: 1\% Brokerage
( 2,145 )
2,12,355
Less: Cost of 13,000 shares $(1,69,500)$

Profit on sale
5. Dividend received on investment held as on 1st April, 20X1
= 15,000 shares $\mathrm{x} ₹ 10 \times 20 \%$
$=$ ₹ 30,000 will be transferred to Profit and Loss A/c
Dividend received on shares purchased on 1st June, 20X1
$=5,000$ shares $\times ₹ 10 \times 20 \%=₹ 10,000$ will be adjusted to Investment A/c
Note: It is presumed that no dividend is received on bonus shares as bonus shares are declared on 1st July, 20X1 and dividend pertains to the year ended 31.3.20X1.
6. Calculation of closing value of shares (on average basis) as on 31st March, 20X2
$3,39,000 \times 13,000 / 26,000=₹ 1,69,500$

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

Question 28
The following information is presented by Mr. Z (a stock broker), relating to his holding in 9\% Central Government Bonds.

| Opening balance (nominal value) <br> $₹ 1,20,000$, Cost ₹ $1,18,000$ <br> (Nominal value of each unit is ₹ <br> 100 ). $1.3 .20 \times 1$ | Purchased 200 units, ex-interest <br> at ₹ 98. |
| :--- | :--- |
| $1.7 .20 \times 1$ | Sold 500 units, ex-interest out of <br> original holding at ₹ 100. |
| $1.10 .20 \times 1$ | Purchased 150 units at ₹ 98, cum <br> interest. |
| $1.11 .20 \times 1$ | Sold 300 units, ex-interest at ₹ 99 <br> out of original holdings. |

Interest dates are 30th September and 31st March. Mr. Z closes his books every 31st December. Show the investment account as it would appear in his books. Mr. Z follows FIFO method ANSWER 3

In the Books of Mr. Z
9\% Central Government Bonds (Investment) Account

| Particulars |  | Nominal Value | Interest | Principal | Particulars |  | Nominal Value | Interest | Principal |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| $20 \times 1$ |  | ₹ | $₹$ | $₹$ | $20 \times 1$ |  | F | $₹$ | ₹ |
| Jan. 1 | To Balance b/d (W.N.1) | 1,20,000 | 2,700 | 1,18,000 | Mar. <br> 31 | By Bank A/c (W.N.3) | - | 6,300 |  |
| March <br> 1 | $\begin{gathered} \text { To Bank A/c } \\ \text { (W.N.2) } \end{gathered}$ | 20,000 | 750 | 19,600 | July 1 | By Bank A/c (W.N.4) | 50,000 | 1,125 | 50,000 |
| July 1 | To P\&L A/c (W.N.5) |  |  | 833 | Sept. $30$ | By Bank A/c (W.N.6) | - | 4,050 |  |
| Oct. 1 | $\begin{array}{\|r} \text { To Bank A/c } \\ (150 \times 98) \end{array}$ | 15,000 | - | 14,700 | Nov. <br> 1 | By Bank A/c (W.N.7) | 30,000 | 225 | 29,700 |
| Nov. 1 | To P\&L A/c (W.N.8) |  | - | 200 | Dec. | By Balance <br> c/d (W.N. 9 <br> \& W.N.10)  | 75,000 | 1,688 | 73,633 |
| Dec. <br> 31 | $\begin{aligned} & \text { To P\&L A/c } \\ & \text { (b.f.) } \end{aligned}$ |  | 9,938 |  |  |  |  |  |  |
|  |  | 1,55,000 | 13,388 | 1,53,333 |  |  | 1,55,000 | 13,388 | 1,53,333 |

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

## Working Note:

1. Interest element in opening balance of bonds $=1,20,000 \times 9 \% \times 3 / 12=₹ 2,700$
2. Purchase of bonds on 1. 3.20X1

Interest element in purchase of bonds $=200 \times 100 \times 9 \% \times 5 / 12=₹ 750$
Investment element in purchase of bonds $=200 \times 98=₹ 19,600$
3. Interest for half-year ended 31 March $=1,400 \times 100 \times 9 \% \times 6 / 12=₹ 6,300$

## 4. Sale of bonds on 1.7.20X1

Interest element $=500 \times 100 \times 9 \% \times 3 / 12=₹ 1,125$
Investment element $=500 \times 100=₹ 50,000$

## 5. Profit on sale of bonds on 1.7.20X1

Cost of bonds $=(1,18,000 / 1,200) \times 500=₹ 49,167$
Sale proceeds = ₹ 50,000
Profit element = ₹ 833
6. Interest for half-year ended 30 September
$=900 \times 100 \times 9 \% \times 6 / 12=₹ 4,050$

## 7. Sale of bonds on 1.11.20X1

Interest element $=300 \times 100 \times 9 \% \times 1 / 12=₹ 225$
Investment element $=300 \times 99=₹ 29,700$

## 8. Profit on sale of bonds on 1.11.20X1

Cost of bonds $=(1,18,000 / 1,200) \times 300=₹ 29,500$
Sale proceeds = ₹ 29,700
Profit element = ₹ 200

## 9. Closing value of investment

| Calculation of closing balance: | Nominal value | $₹$ |  |
| :--- | :--- | :--- | :--- |
| Bonds in hand remained in hand at <br> 31st December 20X1 |  |  |  |
| From original holding <br> $(1,20,000-50,000-30,000)=$ | 40,000 | $40,000 /$ <br> $1,20,000 \times$ <br> $1,18,000$ | 39,333 |
| Purchased on 1st March | 20,000 |  | 19,600 |
| Purchased on 1st October | 15,000 |  | 14,700 |
| 75,000 |  |  | 73,633 |

10. Interest element in closing balance of bonds $=750 \times 100 \times 9 \% \times 3 / 12=₹ 1,688$

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

## Question 29

Mr. Purohit furnishes the following details relating to his holding in 8\% Debentures (₹ 100 each) of P Ltd., held as Current assets:

| $1.4 .20 \times 1$ | Opening balance - Nominal value ₹ <br> $1,20,000$, Cost ₹ $1,18,000$ |
| :--- | :--- |
| $1.7 .20 \times 1$ | 100 Debentures purchased ex- <br> interest at ₹ 98 |
| $1.10 .20 \times 1$ | Sold 200 Debentures ex-interest at <br> ₹ 100 |
| $1.1 .20 \times 2$ | Purchased 50 Debentures at ₹ 98 <br> ex-interest |
| $1.2 .20 \times 2$ | Sold 200 Debentures ex-interest at <br> ₹99 |

Mr. Purohit closes his books on 31.3.20X2. Brokerage at $1 \%$ is to be paid for each transaction (at ex-interest price). Show Investment account as it would appear in his books. Assume FIFO method. Market value of 8\% Debentures of $P$ Limited on 31.3.20X2 is ₹ 99 .

## ANSWER

Investment A/c of Mr. Purohit
for the year ending on 31-3-20X2
(Scrip: 8\% Debentures of P Limited)
(Interest Payable on 30th September and 31st March)

| Date | Particulars | Nominal Value | Interest | Cost | Date | Particulars | Nominal Value | Interest | Cost |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | , | ? |  |  |  | \% | \% |
| 1.4.20×1 | To Balance b/d | 1,20,000 |  | 1,18,000 | 30.9.20×1 | $\begin{aligned} & \text { By Bank ( } 1,300 \times \\ & 100 \times 8 \% \times 6 / 12) \end{aligned}$ | - | 5,200 |  |
| 1.7.20×1 | To Bank (exInterest) (W.N.1) | 10,000 | 200 | 9,898 | 1.10.20×1 | By Bank (W.N.4) | 20,000 | - | 19,800 |
| 1.10.20X1 | To Profit \& Loss A/c (W.N.4) |  |  | 133 | 1.2.20×2 | By Bank (exInterest) (W.N.5) | 20,000 | 533 | 19,602 |
| 1.1.20×2 | To Bank (exInterest) (W.N.2) | 5,000 | 100 | 4,949 | 1.2.20×2 | By Profit \& Loss A/c (W.N.5) |  |  | 64 |
| 31.3.20X2 | To Profit \& Loss A/c (Bal. fig.) | - | 9,233 |  | 31.3.20X2 | By Bank (950 x 100 x $8 \% \times 6 / 12$ ) | - | 3,800 |  |
|  |  |  |  |  | 31.3.20X2 | By Balance $\mathrm{c} / \mathrm{d}$ (W.N.3) | 95,000 | - | 93,514 |
|  |  | 1,35,000 | 9,533 | 1,32,980 |  |  | 1,35,000 | 9,533 | 1,32,980 |

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

## Working Notes:

## 1. Purchase of debentures on 1.7.20X1

Interest element $=100 \times 100 \times 8 \% \times 3 / 12=₹ 200$
Investment element $=(100 \times 98)+[1 \%(100 \times 98)]=₹ 9,898$

## 2. Purchase of debentures on 1.1.20×2

Interest element $=50 \times 100 \times 8 \% \times 3 / 12=₹ 100$
Investment element $=\{(50 \times 98)+[1 \%(50 \times 98)]\}=₹ 4,949$
3. Valuation of closing balance as on 31.3.20X2:

Market value of 950 Debentures at ₹ $99=₹ 94,050$

| 800 Debentures cost $=\left(\frac{1,18,000}{1,20,000} \times 80,000\right)=$ | 78,667 |
| :--- | :--- | :--- |
| 100 Debentures cost $=$ | 9,898 |
| 50 Debentures cost $=$ | $\underline{4,949}$ |
|  | $\underline{93,514}$ |

Value at the end $=$ ₹ $93,514_{x}$ i.e. $\mathrm{e}_{,}$whichever is less
4. Profit on sale of debentures as on 1.10.20X1

|  | $₹$ |
| :--- | ---: |
| Sales price of debentures $(200 \times ₹ 100)$ | 20,000 |
| Less: Brokerage @ 1\% | $\underline{(200)}$ |
| Less: Cost of Debentures $\left(\frac{1,18,000}{1,20,000} \times 20,000\right)=$ | $(19,667)$ |
|  | 133 |

## 5. Loss on sale of debentures as on 1.2.20X2

|  | ₹ |
| :---: | :---: |
| Sales price of debentures (200 x ₹ 99) Less: Brokerage @ 1\% | 19,800 |
|  | (198) |
|  | 19,602 |
| Less: Cost of Debentures $\left(\frac{1,18,000}{1,20,000} \times 20,000\right)=$ <br> Loss on sale <br> Interest element in sale of investment $=200 \times 100 \times 8 \% \times 4 / 12$ | $(19,666)$ |
|  | 64 |
|  | ₹ 533 |

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

## Question 30

On 1st April, 20X1, Mr. Vijay had 30,000 Equity shares in X Ltd. at a book value of ₹ 4,50,000 (Face Value ₹ 10 per share). On 22nd June, 20X1, 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, 20X1.

On 31st August, 20X1 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, 20X1, 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 31st October, 20X1, Vijay received dividends from X Ltd. @ 20\% for the year ended 31st March, 20X1. Dividend for the shares acquired by him on 22nd June, 20X1 to be adjusted against the cost of purchase.
On 15th November, 20X1 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, 20X2 assuming the shares are being valued at average cost.

## ANSWER

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

|  |  | No. | Amount |  |  | No. | Amount |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | F |  |  |  | F |
| 1.4.20×1 | To Bal b/d | 30,000 | 4,50,000 | 31.10.20X1 | By Bank (dividend | - | 10,000 |
| 22.6.20X1 | To Bank | 5,000 | 80,000 |  | on shares acquired on 22.6.20X1) |  |  |
| 10.8.20X1 | To Bonus | 5,000 | - |  |  |  |  |
| 30.9.20X1 | To Bank (Rights Shares) | 10,000 | 1,50,000 |  |  |  |  |
| 15.11.20X1 | $\left\|\begin{array}{l} \text { To P\&L A/c } \\ \text { (Profit } \end{array}\right\|$ |  | 32,000 | 15.11.20X1 | By Bank | 20,000 | 3,00,000 |
|  | on sale of shares) |  |  | $31.3 .20 \times 2$ | $\left\|\begin{array}{l} \text { (Sale } \quad \text { of } \\ \text { shares) } \\ \text { By Bal. } \mathrm{c} / \mathrm{d} \end{array}\right\|$ |  |  |
|  |  |  |  |  |  | 30,000 | 4,02,000 |
|  |  | 50,000 | 7,12,000 |  |  | 50,000 | 7,12,000 |

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

## Working Notes:

(1) Bonus Shares $=(30,000+5,000) / 7=5{ }_{x}, 000$ shares
(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 $22.6 .20 \times 1=5,000 \times 10 \times 20 \%=₹ 10,000$ is adjusted to Investment A/c
(6) Profit on sale of $\mathbf{2 0 , 0 0 0}$ shares
$=$ Sales proceeds - Average cost
Sales proceeds $=₹ 3,00,000$
Average cost $=\frac{(4,50,000+80,000+1,50,000-10,000)}{50,000} \times 20,000=₹ 2,68,000$
Profit $=₹ 3,00,000-₹ 2_{s} 68_{s} 000=₹ 32,000$.
(7) Cost of shares on $31.3 .20 \times 2$
$\frac{(4,50,000+80,000+1,50,000-10,000)}{50,000} \times 30,000=₹ 4,02_{x} 000$
(8) Sale of rights amounting $₹ 10,000$ ( $₹ 2 \times 5,000$ shares) will not be shown in investment $A / c$ but will directly be taken to $P \& L$ statement.

QUESTION 31 (RTP MAY 18)

Alpha Ltd. purchased 5,000, 13.5\% Debentures of Face Value of Rs. 100 each of Pergot Ltd. on $1^{\text {st }}$ May 2017 @ Rs. 105 on cum interest basis. The interest on these instruments is payable on 31st\&30th of March \&September respectively. On August 1st 2017 the company again purchased 2,500 of such debentures @ Rs. 102.50 each on cum interest basis. On October 1st, 2017 the company sold 2,000 Debentures @ Rs. 103 each on ex- interest basis. The market value of the debentures as at the close of the year was Rs.106. You are required to prepare the Investment in Debentures Account in the books of Alpha Ltd. for the year ended 31st Dec. 2017 on Average CostBasis.

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

## ANSWER:

## Books of AlphaLtd.

Investment in 13.5\% Debentures in Pergo Ltd. Account
(Interest payable on $\mathbf{3 1}{ }^{\text {st }}$ March $\& \mathbf{3 0}^{\text {th }}$ September)

| Date | Particulars | Nominal | Interest | Amount | Date | Particulars | Nominal | Interest | Amount |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 2017 |  | Rs. | Rs. | Rs. | 2017 |  | Rs. | Rs. | Rs. |
| May 1 | To Bank | 5,00,000 | 5,625 | 5,19,375 | Sept. 30 | By Bank (6 months Int) |  | 50,625 |  |
| Aug. 1 Oct. 1 | To Bank <br> To P\&L A/c | 2,50,000 | 11,250 | $\begin{gathered} 2,45,000 \\ 2,167 \end{gathered}$ | Oct. 1 | By Bank | 2,00,000 |  | 2,06 000 |
| Dec. 31 | To P\&LA/c |  | 52,313 |  |  |  |  |  |  |
|  |  |  |  |  | Dec. 31 | By Balance c/d | 5,50,000 | 18,563 | 5,60,542 |
|  |  | 7,50,000 | 69,188 | 7,66,542 |  |  | 7,50,000 | 69,188 | 7,66 542 |

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

1. Interest paid on Rs.5,00,000 purchased on May $1^{\text {st }}, 2017$ for the month of April 2017, as part of purchase price: 5,00,000 x $13.5 \% \times 1 / 12=$ Rs.5,625
2. Interest received on $30^{\text {th }}$ Sept. 2017

$$
\begin{aligned}
& \text { On Rs. } 5,00,000=5,00,000 \times 13.5 \% \times 1 / 2=33,750 \\
& \text { On Rs. } 2,50,000=2,50,000 \times 13.5 \% \times 1 / 2=\underline{16,875} \\
& \text { Total }
\end{aligned}
$$

3. Interest paid on Rs.2,50,000 purchased on Aug. $1^{\text {st }} 2017$ for April 2017 to July 2017 as part of purchase price:
$2,50,000 \times 13.5 \% \times 4 / 12=$ Rs. 11,250
4. Loss on Sale of Debentures Cost of
acquisition

$$
\begin{aligned}
& \text { (Rs.5,19,375 + Rs.2,45,000) } \times \text { Rs.2,00,000/Rs. } 7,50,000=2,03,833 \\
& \begin{aligned}
\text { Less: Sale Price }(2,000 \times 103) & =\underline{2,06,000} \\
\text { Profit on sale } & =\underline{\text { Rs. } 2,167}
\end{aligned}
\end{aligned}
$$

5. Cost of BalanceDebentures
(Rs.5,19,375 + Rs.2,45,000) x Rs.5,50,000/Rs.7,50,000 = Rs.5,60,542

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

6. Interest on Closing Debentures for period Oct.-Dec. 2017 carried forward (accrued interest)

Rs. $5,50,000 \times 13.5 \% \times 3 / 12=$ Rs. 18,563

## QUESTION 32 (RTP NOVEMBER 18)

Akash Ltd. had 4,000 equity share of $X$ Limited, at a book value of Rs. 15 per share (face value of Rs. 10 each) on $1^{\text {st }}$ April 2017. On $1^{\text {st }}$ September 2017, Akash Ltd. acquired 1,000 equity shares of $X$ Limited at a premium of Rs. 4 per share. X Limited announced a bonus and right issue for existing shareholders.

The terms of bonus and right issue were -
(1) Bonus was declared, at the rate of two equity shares for every five equity shares held on 30th September,2017.
(2) Right shares are to be issued to the existing shareholders on $1^{\text {st }}$ December, 2017. The company issued two right shares for every seven shares held at $\mathbf{2 5 \%}$ premium. No dividend was payable on these shares. The whole sum being payable by 31st December,2017.
(3) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.
(4) Akash Ltd. exercised its option under the issue for $50 \%$ of its entitlements and sold the remaining rights for Rs. 8 per share.
(5) Dividend for the year ended $31^{\text {st }}$ March 2017, at the rate of $20 \%$ was declared by the company and received by Akash Ltd., on 20th January2018.
(6) On 1st February 2018, Akash Ltd., sold half of its shareholdings at a premium of Rs. 4 per share.
(7) The market price of share on 31.03.2018 was Rs. 13 per share. You are required to prepare the Investment Account of Akash Ltd. for the year ended $31^{\text {st }}$ March, 2018 and determine the value of share held on that date assuming the investment as current investment. Consider average cost basis for ascertainment of cost for equity share sold.

Answer:

## Investment Account-Equity Shares in XLtd.

| Date | No. <br> of <br> share <br> $s$ | Divide <br> $n d$ | Amou Date <br> $n t$ |  | No. of <br> shares | Dividend | Amount |
| :--- | :--- | :--- | ---: | ---: | :--- | :--- | :--- | :--- | :--- |

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

|  |  |  | Rs. | Rs. |  |  |  | Rs. | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 2017 |  |  |  |  | 2018 |  |  |  |  |
| April 1 | To Balance b/d | 4,000 |  | 60,000 | Jan. 20 | By Bank (dividend) |  | 8,000 | 2,000 |
| Sept 1 | To Bank | 1,000 |  | 14,000 | Feb. 1 | By Bank | 4,000 |  | 56,000 |
| Sept. 30 | To Bonus Issue | 2,000 |  | $-1$ | Mar. 31 | By Balance c/d | 4,000 |  | 42,250 |
| Dec. 1 | To Bank (Right) | 1,000 |  | 12,500 |  |  |  |  |  |
| 2018 |  |  |  |  |  |  |  |  |  |
| Feb. 1 | To Profit \&LossA/c |  |  | $\begin{aligned} & 13,7 \\ & 50 \end{aligned}$ |  |  |  |  |  |
| Mar. 31 | To Profit \& Loss A/c (Dividend income) |  | $\begin{aligned} & 8,0 \\ & 00 \end{aligned}$ |  |  |  |  |  |  |
|  |  | 8,000 | $\underline{8,0}$ $\underline{00}$ | $\frac{1,00,2}{50}$ |  |  | 8,000 | $\frac{8,00}{\underline{0}}$ | 1,00,250 |
| April. 1 | To Balance b/d | 4,000 |  | $\begin{aligned} & 42,2 \\ & 50 \end{aligned}$ |  |  |  |  |  |

## Working Notes:

1. Cost of shares sold - Amount paid for 8,000shares

|  | Rs. |
| :--- | ---: |
| (Rs.60,000 + Rs.14,000 + Rs.12,500) | 86,500 |
| Less: Dividend on shares purchased on 1 ${ }^{\text {st }}$ Sept, 2017 | $\underline{(2,000)}$ |
| Cost of 8,000 shares | $\underline{84,500}$ |
| Cost of 4,000 shares (Average cost basis*) | 42,250 |
| Sale proceeds (4,000 shares @ 14/-) | $\underline{56,000}$ |
| Profit on sale | $\underline{13,750}$ |

* For ascertainment of cost for equity shares sold, average cost basis has been applied.

2. Value of investment at the end of the year

Closing balance will be valued based on lower of cost (Rs.42,250) or net realizable value (Rs. $13 \times 4,000$ ). Thus investment will be valued at Rs.42,250.
3. Calculation of sale of right entitlement

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

1,000 shares $\times$ Rs. 8 per share $=$ Rs. 8,000
Amount received from sale of rights will be credited to $P$ \& LA/c as per AS 13 'Accounting for Investments'.
4. Dividend received on investment held as on 1st April, 2017

$$
\begin{aligned}
& =4,000 \text { shares } \times \text { Rs. } 10 \times 20 \% \\
& =\text { Rs. } 8,000 \text { willbetransferredtoProfitandLossA/c }
\end{aligned}
$$

5. Dividend received on shares purchased on 1st Sep. 2017
$=1,000$ shares $\times$ Rs. $10 \times 20 \%=$ Rs. 2,000 will be adjusted to Investment A/c
Note: It is presumed that no dividend is received on bonus shares as bonus shares aredeclaredon30th Sept.,2017anddividendpertainstotheyearended31.3.2017.

## QUESTION 33 (RTP MAY 19)

A Ltd. purchased on $1^{\text {st }}$ April, 2018 8\% convertible debenture in C Ltd. of face valueofRs.2,00,000 @ Rs.108. On 1st July, 2018 A Ltd. purchased another Rs.1,00,000 debenture @ Rs. 112 cuminterest.

On $1^{\text {st }}$ October, 2018 Rs. 80,000 debenture was sold @ Rs.105. On $1^{\text {st }}$ December, 2018, C Ltd. give option for conversion of $8 \%$ convertible debentures into equity share of Rs. 10 each. A Ltd. receive 5,000 equity share in C Ltd. in conversion of $25 \%$ debenture held on that date. The market price of debenture and equity share in C Ltd. at the end of year 2018is Rs. 110 and Rs. 15 respectively.

Interest on debenture is payable each year on 31st March, and 30th September.
The accounting year of A Ltd. is calendar year.
Prepare investment account in the books of A Ltd. on average cost basis.

## Answer:

Investment Account for the year ending on 31st December, 2018 Scrip : 8\% Convertible Debentures in CLtd. [Interest Payable on $31^{\text {st }}$ March and $30^{\text {th }}$ September]

| Date | Particulars | Nomin al value (Rs.) | Intere <br> st (Rs.) | $\begin{gathered} \text { Cos } \\ t \\ (R \\ s .) \end{gathered}$ | Date | Particulars | Nomi nal Value (Rs.) | Intere st (Rs.) | ost <br> (Rs.) |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |

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

| 1.4.18 | To Bank A/c | 2,00,00 | - | 2,16,00 | $\begin{array}{\|l\|} \hline 30.09 \\ 18 \end{array}$ | By Bank A/c |  | 12,000 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 1.7.18 | To Bank A/ (W.N.1) c | $\begin{array}{r} 1,00,00 \\ 0 \end{array}$ | 2,000 | $\begin{array}{r} 1,10,00 \\ 0 \end{array}$ |  | $\begin{aligned} & \text { [Rs.3,00,000 x 8\% } \\ & \times(6 / 12] \end{aligned}$ |  |  |  |
| $\begin{aligned} & 31.12 . \\ & 1 \\ & 8 \end{aligned}$ | To P \& L A/c | - | 14,03 3 | - | $\begin{array}{\|l} 1.10 .1 \\ 8 \end{array}$ | By Bank A/c | 80,00 0 |  | 84,000 |
|  | [Interest] |  |  |  | $\begin{array}{\|l} 1.10 .1 \\ 8 \end{array}$ | By P\&LA/c (loss) (W. N.1) |  |  | 2,933 |
|  |  |  |  |  | $\begin{array}{\|l} 1.12 .1 \\ 8 \end{array}$ | ```By Bank A/c (Accrued interest) (Rs.55,000 x .08x 2/12)``` |  | 733 |  |
|  |  |  |  |  | $\begin{array}{\|l} 1.12 .1 \\ 8 \end{array}$ | By Equity shares in CLtd. <br> (W.N. 3 and4) | $\begin{array}{r} 55,00 \\ 0 \end{array}$ |  | 59,767 |
|  |  |  |  |  | $\begin{array}{\|l} 31.12 \\ 18 \end{array}$ | By Balance c/d (W.N.5) | $\frac{1,65,0}{\underline{00}}$ | 3,300 | $\frac{1,79,3}{\underline{00}}$ |
|  |  | 3,00,00 | $\underline{16,03}$ | 3,26,00 |  |  | 3,00,0 | 16,033 | $3,26,0$ $\underline{00}$ |

## SCRIP: Equity Shares in C LTD.

| Date | Particulars | Cost <br> (Rs.) | Date | Particulars | Cost <br> (Rs.) |
| :--- | :--- | ---: | :--- | :--- | ---: |
| 1.12 .18 | To $8 \%$ <br> debentures | $\underline{59,767}$ | 31.12 .18 | By balance <br> c/d | $\underline{59,767}$ |

## Working Notes:

(i) Cost of Debenture purchased on $1^{\text {st }}$ July $=$ Rs.1,12,000 - Rs.2,000 (Interest)
= Rs.1,10,000
(ii) Cost of Debentures sold on $1^{\text {st }}$ Oct.
$=($ Rs. $2,16,000+$ Rs. $1,10,000) \mathrm{x}$
80,000/3,00,000
$=$ Rs.86,933
(iii) Loss on sale of Debentures $=$ Rs. $86,933-$ Rs. $84,000=$ Rs.2,933 Nominal
value of debentures converted into equity shares = Rs.55,000
[(Rs.3,00,000-80,000) x.25]

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

Interest received before the conversion of debentures
Interest on $25 \%$ of total debentures $=55,000 \times 8 \% \times 2 / 12=733$
(iv) Cost of Debentures converted $=($ Rs.2,16,000 + Rs.1,10,000 $) \times 55,000 / 3,00,000$
= Rs.59,767
(v) Cost of closing balance of Debentures $=($ Rs.2,16,000 + Rs.1,10,000 $) x$

$$
\begin{aligned}
& 1,65,000 / 3,00,000 \\
= & \text { Rs.1,79,300 }
\end{aligned}
$$

(vii) Closing balance of Debentures has been valued at cost.
(viii) 5,000 equity Shares in C Ltd. will be valued at cost of Rs.59,767 being lower than the market value Rs. 75,000 (Rs. $15 \times 5,000$ )

Note: It is assumed that interest on debentures, which are converted into cash, has been received at the time of conversion.

## QUESTION 34 (RTP NOVEMBER 19)

A Pvt. Ltd. follows the calendar year for accounting purposes. The companypurchased 5,000 (nos.) 13.5\% Convertible Debentures of Face Value of Rs. 100 each of P Ltd. on 1 ${ }^{\text {st }}$ May 2018 @ Rs. 105 on cum interest basis. The interest on these instruments is payable on 31st March \& 30 ${ }^{\text {th }}$ September respectively. On August $1^{\text {st }} 2018$ the company again purchased 2,500 of such debentures @ Rs. 102.50 each on cum interest basis. On $1^{\text {st }}$ October, 2018 the company sold 2,000 Debentures @ Rs. 103 each. On 31st December, 2018 the company received 10,000 equity shares of Rs. 10 each in P Ltd. on conversion of 20\% of its holdings. Interest for 3 months on converted debentures was also received on 31.12.2018. The market value of the debentures and equity shares as at the close of the year were Rs. 106 and Rs. 9 respectively. Prepare the Debenture Investment Account \& Equity Shares Investment Account in the books of A Pvt. Ltd. for the year 2018 on Average Cost Basis.

Answer:

## Books of A Pvt. Ltd.

Investment in 13.5\% Convertible Debentures in P Ltd. Account
(Interest payable 31 ${ }^{\text {st }}$ March \& $30^{\text {th }}$ September)

| Date | Particulars | Nominal | Interest | Amount | Date | Particulars | Nominal | Interest | Amount |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | Rs. | Rs. | Rs. |  |  | Rs. | Rs. | Rs. |
| 2018 |  |  |  |  | 2018 |  |  |  |  |
| May 1 | To Bank | 5,00,000 | 5,625 | 5,19,375 | Sept. 30 | By Bank (6 months Int) |  | 50,625 |  |
| Aug. 1 | To Bank | 2,50,000 | 11,250 | 2,45,000 | Oct. 1 | By Bank | 2,00,000 |  | 2,06,000 |
| Oct. 1 | To P\&L A/c |  |  | 2,167 |  |  |  |  |  |
| Dec. 31 | To P\&L A/c |  | 52,313 |  | Dec. 31 | By Equity share | 1,10,000 |  | 1,12,108 |
|  |  |  |  |  | Dec. 31 | By Bank (See note1) |  | 3,713 |  |
|  |  |  | - |  | Dec. 31 | By Balance <br> c/d | 4,40,000 | 14,850 | 4,48,434 |
|  |  | 7,50,000 | 69,188 | 7,66,542 |  |  | 7,50,000 | 69,188 | 7,66,542 |

Note1: Rs.3,713 received on 31.12 .2018 represents interest on the debentures converted till date of conversion.

Note2: Cost being lower than Market Value the debentures are carried forward at Cost.
Investment in Equity shares in P Ltd. Account

| Date | Particulars | Nominal | Amount | Date | Particulars | Nominal | Amount |
| :--- | ---: | ---: | ---: | :--- | :--- | ---: | ---: |
| 2018 |  | Rs. | Rs. |  |  | Rs. | Rs. |
| Dec 31 | To $13.5 \%$ <br> Deb. | $1,00,000$ | $1,12,108$ | 2018 <br> Dec.31 | By P\&L A/c |  |  |

Note 1: Cost being higher than Market Value the shares are carried forward at Market Value.
Working Notes:

1. Interest paid on Rs.5,00,000 purchased on May $1^{\text {st }}, 2018$ for the month of April 2018, as part of purchase price: 5,00,000 $\times 13.5 \% \times 1 / 12=$ Rs.5,625
2. Interest received on $30^{\text {th }}$ Sept. 2018
On Rs.5,00,000 = 5,00,000 x 13.5\% x 1⁄2 =33,750

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 CA INTER ACCOUNTING COMPILER 4.0On Rs.2,50,000 $=2,50,000 \times 13.5 \% \times 1 / 2=\underline{16,875}$
Total
Rs. 5 0,625
3. Interest paid on Rs. $2,50,000$ purchased on Aug. $1^{\text {st }} 2018$ for April 2018 to July 2018 as part of purchase price:
$2,50,000 \times 13.5 \% \times 4 / 12=$ Rs. 11,250
4. Loss on Sale of Debentures Cost of
acquisition
(Rs.5,19,375 + Rs.2,45,000) x Rs.2,00,000/Rs.7,50,000 = 2,03,833
Less: Sale Price $(2,000 \times 103)=\underline{2,06,000}$
Profit on sale $=$ Rs.2,167
5. Interest on 1,100 Debentures (being those converted) for 3 months i.e. Oct-Dec. 2018
$1,10,000 \times 13.5 \% \times 3 / 12=$ Rs.3,713
6. Cost of Debentures converted to Equity Shares
(Rs.5,19,375 + Rs.2,45,000) $\times 1,10,000 / 7,50,000=$ Rs. 1, 12,108
7. Cost of Balance Debentures
(Rs.5,19,375 + Rs.2,45,000) x Rs.4,40,000/Rs.7,50,000 = Rs.4,48,434
8. Interest on Closing Debentures for period Oct.- Dec. 2018 carried forward (accrued interest) Rs. $4,40,000 \times 13.5 \% \times 3 / 12=$ Rs. 14,850

## QUESTION (RTP MAY 20)

Meera carried out the following transactions in the shares of Kumar Ltd.:
(1) $\mathrm{On} 1^{\text {st }}$ April,2019shepurchased40,000equitysharesofRs.1eachfullypaidupfor Rs.60,000.
(2) On 15th May 2019, Meera sold 8,000 shares for Rs.15,200.
(3) At a meeting on $15^{\text {th }}$ June 2019, the company decided:
(i) To make a bonus issue of one fully paid up share for every four shares held on 1st June 2019,and

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

(ii) To give its members the right to apply for one share for every five shares held on 1st June 2019 at a price of Rs. 1.50 per share of which 75 paise is payable on or before 15th July 2019 and the balance, 75 paise per share, on or before 15th September,2019.

The shares issued under (i) and (ii) were not to rank for dividend for the year ending 31 st December 2019.
(a) Meera received her bonus shares and took up 4,000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on $30^{\text {th }}$ September 2019.
(b) On 15th March 2020, she received interim dividend from Kumar Ltd. of 15 per cent in respect of the current financial year.
(c) On 30 ${ }^{\text {th }}$ March 2020, she received Rs.28,000 from the sale of 20,000 shares.

You are required to record these transactions in the Investment Account in Meera's books for the year ended 31 ${ }^{\text {st }}$ March 2020 transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis. Expenses and tax to be ignored.

## QUESTION 36 (RTP NOVEMBER 20) (MTP MAY 19)

In 2018, Royal Ltd. issued 12\% fully paid debentures of Rs. 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year. On 1st December, 2019, $\mathrm{M} / \mathrm{s}$. Kumar purchased 10,000 of these debentures at Rs. 101 (cum-interest) price. On 1st March, 2020 the firm sold all of these debentures at Rs. 106 (cum-interest) price.

You are required to prepare Investment (Debentures) Account in the books of $\mathrm{M} / \mathrm{s}$. Kumar for the period 1st December, 2019 to 1st March, 2020.
Answer:
Investment Account in the books of $\mathrm{M} / \mathrm{s}$ Kumar for the period from $1^{\text {st }}$ December 2019 to $1^{\text {st }}$ March, 2020 (Scrip: 12\% Debentures of Royal Ltd.)

| Date | Particulars | Nomin Inte al rest <br> Value <br> (Rs.) | $\begin{aligned} & \text { Cost } \\ & \text { (Rs.) } \end{aligned}$ | Date | Particulars | Nominal Value (Rs.) | Interest | Cost (Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |

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Rs.

## Working Notes:

(i) Cost of $12 \%$ debentures purchased on1.12.2019

Cost Value (10,000 ?Rs.101)
Less: Interest (10,000 x $100 \times 12 \% \times 2 / 12)$
Total
(ii) Saleproceedsof12\%debenturessoldon1stMarch,2020

Sales Price (10,000 ?Rs.106)

Less: Interest (10,000 x $100 \times 12 \% \times 5 / 12)$
Total
$=10,10,000$
$=\underline{(20,000)}$
$=$ 9,90,000
Rs.
$=10,60,00$
0
$=(50,000)$
$=10,10,000$

## QUESTION 37 (MTP AUG 18)

How you will deal with following in the financial statements of the Paridhi Electronics Ltd. Ason 31.3.18 with reference to AS-13?
(i) Paridhi Electronics Ltd. invested in the shares of another unlised company on 1st May 2014 at a cost of Rs. 3,00,000 with the intention of holding more than a year. The published accounts of unlisted company received in January, 2018 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics Ltd. may not fetch more than Rs. 45,000.
(ii) Also Paridhi Electronics Ltd. has current investment (X Ltd.'s shares) purchased for Rs. 5 lakhs, which the company want to reclassify as long term investment. The market value of these investments as on date of Balance Sheet was Rs. 2.5lakhs.

## ANSWER:

(i) 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

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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,theinvestee'sassetsandresultsandtheexpectedcashflowsfromtheinvestment

On this basis, the facts of the case given in the question clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares to Rs. 45,000 in the financial statements for the year ended 31st March, 2018 and charge the difference of loss of Rs. 2,55,000 to profit and loss account.
(ii) As per AS 13 'Accounting for Investments', where investments are reclassified from current to long-term, transfers are made at the lower of cost or fair value at the date of transfer. In the given case, the market value of the investment (X Ltd. shares) is Rs. 2.50 lakhs, which is lower than its cost i.e. Rs. 5 lakhs. Therefore, the transfer to long term investments should be made at cost of Rs. 2.50 lakhs. The loss of Rs. 2.50 lakhs should be charged to profit and lossaccount.

## QUESTION 38 (MTP OCTOBER 18)

Meera carried out the following transactions in the shares of Kumar Ltd.:
(1) On $1^{\text {st }}$ April, 2017 she purchased 40,000 equity shares of Re. 1 each fully paid up for Rs.60,000.
(2) On 15th May 2017, Meera sold 8,000 shares for Rs.15,200.
(3) At a meeting on $15^{\text {th }}$ June 2017, the company decided:
(i) To make a bonus issue of one fully paid up share for every four shares held on $1^{\text {st }}$ June 2017, and
(ii) To give its members the right to apply for one share for every five shares held on 1st June 2017 at a price of Rs. 1.50 per share of which 75 paise is payable on or before 15th July 2017 and the balance, 75 paise per share, on or before 15th September,2017.

The shares issued under (i) and (ii) were not to rank for dividend for the year ending $31^{\text {st }}$ December2017.
(a) Meera received her bonus shares and took up 4,000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paiseper share; the proceeds were received on $30^{\text {th }}$ September2017.
(b) On 15th March 2018, she received a dividend from Kumar Ltd. of 15 per cent in respect of the year ended 31st Dec2017.
(c) On30th ${ }_{\text {March }}$,2018shereceivedRs.28,000fromthesaleof20,000shares.

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

You are required to record these transactions in the Investment Account in Meera's books for the year ended 31st March 2018 transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis.

Expenses and tax to be ignored.

## ANSWER:

In the books of Meera Investment Account (Shares in Kumar Limited)

| Date | Particulars | No. of Shares | Income | Amount | Date | Particulars | No. of Shares | Income | Amount |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 2017 |  |  | Rs. | Rs. | 2017 |  |  | Rs. | Rs. |
| April <br> 1 <br> May | To Bank <br> (Purchases) <br> To Profit \& Loss A/c (W.N.1) | 40,000 |  | 60,000 3,200 | May | Bank (Sale) | 8,000 |  | 15,200 |
| June <br> July | $\begin{array}{\|l\|} \hline \text { To Bonus } \\ \text { Issue } \\ \text { To Bank (@ } \\ 75 \text { p. paid } \\ \text { on 4,000 } \\ \text { shares) } \end{array}$ | $\begin{aligned} & 8,000 \\ & 4,000 \end{aligned}$ | - - | Nil 3,000 | \|2018 <br> Mar. 15 | Bank <br> (Dividend <br> @ 15\% on <br> Rs. 32,000) |  | 4,800 | - |
| Sept. | ```To Bank (@ 75 p. paid on 4,000 shares)``` |  | - | 3,000 | Mar. 30 | Bank (Sale) | 20,000 |  | 28,000 |
| $\begin{aligned} & 2018 \\ & \mathrm{Ma} \\ & \mathrm{r} . \end{aligned}$ | To Profit \& Loss A/c (W.N.2) |  |  | 3,455 | Mar. 31 | Balance c/d | 24,000 |  | 29,455 |
|  | To Profit \& Loss A/c |  | 4,800 |  |  |  |  |  |  |
|  |  | 52,000 | 4,800 | 72,655 |  |  | 52,000 | 4,800 | 72,655 |

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

## Working Notes:

(1)
Profit on Sale on $\mathbf{1 5 - 5 - 2 0 1 7 : ~}$
Cost of 8,000 shares @ Rs.1.50
Less: Sales price
Profit

Rs. 12,000
Rs. 15,200

Rs. 3,200

## QUESTION 39 (MTP MARCH 19)

In 2015, Royal Ltd. issued 12\% fully paid debentures of Rs. 100 each, interest being payable half yearly on 30th September and $31^{\text {st }}$ March of every accounting year.
On 1st December, 2016, M/s. Kumar purchased 10,000 of these debentures at Rs. 101 cum-interest price, also paying brokerage @ 1\% of cum-interest amount of the purchase. On 1st March, 2017 the firm sold all of these debentures at Rs. 106 cum-interest price, again paying brokerage @ $1 \%$ of cum-interest amount. Prepare Investment Account in the books of $\mathrm{M} / \mathrm{s}$.
Kumar for the period $1^{\text {st }}$ December, 2016 to $1^{\text {st }}$ March, 2017.

## ANSWER:

In the books of M/s Kumar Investment Account for the period from 1 ${ }^{\text {st }}$ December 2016 to $1^{\text {st }}$ March, 2017
(Scrip: 12\% Debentures of Royal Ltd.)

| Date | Particulars | Nomi nal Val ue (Rs .) | Intere $s t$ | $\begin{aligned} & \text { Co } \\ & s t \\ & \text { (Rs. } \\ & \text { ) } \end{aligned}$ | Date | Particul <br> ars | Nomin al <br> Val ue (Rs .) | Intere st | $\begin{aligned} & \text { Co } \\ & \text { st } \\ & \text { (Rs. } \\ & \text { ) } \end{aligned}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| $\left\lvert\, \begin{aligned} & 1.12 .20 \\ & 16 \end{aligned}\right.$ | To Bank <br> A/c <br> (W.N. <br> 1) | $\begin{array}{r} 10,00,0 \\ 00 \end{array}$ | $\begin{array}{r} 20,00 \\ 0 \end{array}$ | $\left\lvert\, \begin{aligned} & 10,00,1 \\ & 00 \end{aligned}\right.$ | $\left.\begin{array}{\|c\|} 1.03 .20 \\ 17 \end{array} \right\rvert\,$ | By Bank <br> A/c <br> (W.N.2) | $\left\lvert\, \begin{aligned} & 10,00,0 \\ & 00 \end{aligned}\right.$ | $\begin{array}{\|l\|} \hline 50,0 \\ 00 \end{array}$ | $\left\|\begin{array}{r} 9,99,40 \\ 0 \end{array}\right\|$ |
| $\left\lvert\, \begin{aligned} & 1.3 .201 \\ & 7 \end{aligned}\right.$ | To Profit \& loss A/c |  | $\begin{array}{r} 30,00 \\ 0 \end{array}$ |  | $\begin{array}{\|c} 1.3 .201 \\ 7 \end{array}$ | By Profit <br> \& loss <br> A/c |  |  | 700 |
|  |  | $\begin{array}{r} 10,00,0 \\ 00 \\ \hline \end{array}$ | $\begin{array}{r} 50,00 \\ 0 \\ \hline \end{array}$ | $\begin{array}{\|l\|} \hline 10,00,1 \\ 00 \end{array}$ |  |  | $\begin{array}{\|l\|} 10,00,0 \\ 00 \\ \hline \end{array}$ | $\begin{array}{r} 50,00 \\ 0 \\ \hline \end{array}$ | $\begin{array}{r} 10,00,1 \\ 00 \\ \hline \end{array}$ |

Working Notes:
Rs.

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

$$
\begin{array}{ll}
\text { (i) Cost of } 12 \% \text { debentures purchased } \\
\text { on1.12.2016 } & \\
\quad \text { Cost Value }(10,000 \text { RRs.101) } & =10,10,000 \\
\quad \text { Add: Brokerage }(1 \% \text { of Rs. } 10,10,000) & =10,100 \\
\quad \text { Less: Cum Interest }(10,000 \times 100 \times 12 \% \times 2 / 12) & =\frac{(20,000)}{10,00,100}
\end{array}
$$

(iii) Sale proceeds of $12 \%$ debentures sold on 1stMarch,2017

$$
\begin{aligned}
& \text { Rs. Sales } \\
& =\quad 10,60,000 \\
& =\quad(10,600) \\
& =\quad(50,000)
\end{aligned}
$$

Price(10,000]Rs.106)
Less: Brokerage ( $1 \%$ of Rs.10,60,000)
Less: Cum Interest ( $10,000 \times 100 \times 12 \% \times$
5/12)
Total $=$ 9,99,400

## QUESTION 40 (MTP APRIL 19)

Gopal holds 2,000, 15\% Debentures of Rs. 100 each in Ritu Industries Ltd. as on April 1, 2018 at a cost of Rs. 2,10,000. Interest is payable on June, 30 and December, 31 each year. On May 1, 2018, 1,000 debentures are purchased cum-interest at Rs. 1,07,000. OnNovember 1, 2018, 1,200 debentures are sold ex-interest at Rs. 1,14,600. On November 30, 2018, 800 debentures are purchased ex-interest at Rs. 76,800. On December 31, 2018, 800 debentures are sold cum-interest for Rs. 1,10,000. You are required to prepare the Investment Account showing value of holdings on March 31, 2019 at cost, using FIFO Method.

ANSWER:
Investment Account of Gopal
For the year ended31.3.2019
(Script: 15\% Debentures in Ritu Industries Ltd.)
(Interest payable on 30th June and $31^{\text {st }}$ December)

| Date | Particula <br> rs | Nomin <br> al <br> Value <br> Rs. | Interes <br> t Rs. | Cost <br> Rs. | Dat <br> e | Particulars | Nominal <br> Value <br> Rs. | Inter <br> est <br> Rs. | Cost <br> Rs. |
| :--- | :--- | ---: | ---: | ---: | :--- | :--- | :--- | :--- | ---: |
| 1.04 .1 <br> 8 | To <br> Balance <br> A/c | $2,00,0$ | 7,500 | $2,10,000$ | 30.0 | By Bank <br> A/c |  | $-22,500$ |  |

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

| $\left\lvert\, \begin{aligned} & 1.05 .1 \\ & 8 \end{aligned}\right.$ | To Bank A/c | $\left\|\begin{array}{r} 1,00,0 \\ 00 \end{array}\right\|$ | 5,000 | 1,02,000 | $\left\lvert\, \begin{aligned} & 1.11 \\ & .18 \end{aligned}\right.$ | By Bank A/c | 1,20,000 | 6,000 | 1,14,600 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| $\begin{aligned} & 30.11 . \\ & 18 \end{aligned}$ | $\begin{aligned} & \text { To Bank } \\ & \text { A/c } \end{aligned}$ | 80,000 | 5,000 | 76,800 | $\begin{array}{\|l} 1.11 \\ .18 \end{array}$ | By Profit \& Loss A/c |  |  | 11,400 |
| $\begin{aligned} & 31.12 . \\ & 18 \end{aligned}$ | To Profit \& Loss A/c |  |  | 20,000 | $\begin{aligned} & 31.1 \\ & 2.18 \end{aligned}$ | By Bank A/c | 80,000 | 6,000 | 1,04,000 |
| $\begin{aligned} & 31.03 . \\ & 19 \end{aligned}$ | To Profit \& Loss A/c |  | 37,250 |  | $\begin{array}{\|l\|l} 31.1 \\ 2.18 \end{array}$ | By Bank A/c |  | 13,500 |  |
|  | (Bal. fig.) |  |  |  | $\begin{array}{\|l} \hline 31.1 \\ 2.18 \\ 31.3 \\ .19 \\ \hline \end{array}$ | By Bank <br> A/c <br> By Bal. c/d | 1,80,000 | 6,750 | 1,78,800 |
|  |  | $\begin{array}{\|r\|} \hline 3,80,0 \\ 00 \\ \hline \end{array}$ | 54,750 | 4,08,800 |  |  | 3,80,000 | 54,750 | 4,08,800 |

## QUESTION 41 (MTP OBTOBER 19)

Akash Ltd. Had 4,000 equity share of $X$ Limited, at a book value of Rs. 15 per share (face value of Rs. 10 each) on $1^{\text {st }}$ April 2018. On $1^{\text {st }}$ September 2018, Akash Ltd. Acquired 1,000 equity shares of $X$ Limited at a premium of Rs. 4 per share. X Limited announced a bonus and right issue for existing shareholders.

The terms of bonus and right issue were-
(1) Bonuswasdeclared,attherateoftwoequitysharesforeveryfiveequitysharesheldon30t h

September, 2018.
(2) Right shares are to be issued to the existing shareholders on $1^{\text {st }}$ December, 2018. The company issued two right shares for every seven shares held at $25 \%$ premium. No dividend, waspayableontheseshares.Thewholesumbeingpayableby31 ${ }^{\text {st }}$ December,2018.
(3) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.
(4) Akash Ltd. exercised its option under the issue for $50 \%$ of its entitlements and sold the remaining rights for Rs. 8 per share.
(5) Dividend for the year ended $31^{\text {st }}$ March 2018, at the rate of $20 \%$ was declared by the company and received by Akash Ltd., on $20^{\text {th }}$ January2019.
(6) On $1^{\text {st }}$ February 2019, Akash Ltd., sold half of its share holdings at a premium of Rs. 4 per share.
(7) Themarketpriceofshareon31.03.2019wasRs.13pershare.

You are required to prepare the Investment Account of Akash Ltd. for the year ended $31{ }^{\text {st }}$ March, 2019 and determine the value of shares held on that date assuming the investment as current investment.
ANSWER: Investment Account-Equity Shares in X Ltd.

| Date | No. of shares | Dividend | Amount Date |  | No. of shares | Dividend | Amount |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | $R s$. | $R s$. |  |  | $R s$. | $R s$. |



## CA Ravi Agarwal's

 CA INTER ACCOUNTING COMPILER 4.0
## Working Notes:

1. Cost of shares sold - Amount paid for 8,000shares

|  | Rs. |
| :--- | ---: |
| (Rs. 60,000 + Rs. 14,000 + Rs. 12,500) | 86,500 |
| Less: Dividend on shares purchased on 1 ${ }^{\text {st }}$ Sept, | $\underline{(2,000)}$ |
| 2018 |  |
| Cost of 8,000 shares | $\underline{84,500}$ |
| Cost of 4,000 shares (Average cost basis*) | 42,250 |
| Sale proceeds (4,000 shares @ 14/-) | $\underline{56,000}$ |
| Profit on sale | $\underline{13,750}$ |

* For ascertainment of cost for equity shares sold, average cost basis has been applied.

2. Value of investment at the end of the year

Closing balance will be valued based on lower of cost (Rs. 42,250 ) or net realizable value (Rs. $13 \times 4,000$ ). Thus investment will be valued at Rs. 42,250 .
3. Calculation of sale of right entitlement

1,000 shares $\times$ Rs. 8 per share $=$ Rs. 8,000

Amount received from sale of rights will be credited to $P$ \& LA/c as per AS 13 'Accounting for Investments'.
4. Dividend received on investment held as on 1st April, 2018

$$
\begin{aligned}
& =4,000 \text { shares } \times \text { Rs. } 10 \times 20 \% \\
& =\text { Rs. } 8,000 \text { will be transferred to Profit and Loss A/c }
\end{aligned}
$$

5. Dividend received on shares purchased on 1stSep. 2018
$=1,000$ shares $\times$ Rs. $10 \times 20 \%=$ Rs. 2,000 will be adjusted to Investment A/c
Note: It is presumed that no dividend is received on bonus shares as bonus shares are declaredon30th Sept., 2018 and dividend pertains to theyear ended 31.3.2018.

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

## QUESTION 42 (MTP OCTOBER 20) (PAST PAPER MAY 18)

Vijay entered into the following transactions of purchase and sale of equity shares of JP Power Ltd. The shares have paid up value of Rs. 10 per share.

| Date | No. of Shares | Terms |
| :--- | :---: | :--- |
| 01.01 .2019 | 600 | Buy @ Rs. 20 per share |
| 15.03 .2019 | 900 | Buy @ Rs. 25 per share |
| 20.05 .2019 | 1000 | Buy @ Rs. 23 per share |
| 25.07 .2019 | 2500 | Bonus Shares received |
| 20.12 .2019 | 1500 | Sale @ Rs. 22 per share |
| 01.02 .2020 | 1000 | Sale @ Rs. 24 per share |

Addition information:
(1) On 15.09.2019 dividend @ Rs. 3 per share was received for the year ended 31.03.2019. (2) On 12.11.2019 company made a right issue of equity shares in the ratio of one share for
five shares held on payment of Rs. 20 per share. He subscribed to $60 \%$ of the shares and renounced the remaining shares on receipt of Rs. 3 per share.
(3) Shares are to be valued on weighted average cost basis.

You are required to prepare Investment Account for the year ended 31.03.2019 and31.03.2020.

ANSWER:
Investment in Equity shares of JP PowerLtd.

| Date | Particulars | No. | $$ | $\begin{gathered} \hline \text { Amoun } \\ t \\ \\ \hline \end{gathered}$ | Date | Particulars | No. | $$ | $\begin{array}{r} \hline \text { Amoun } \\ t \\ \hline \end{array}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 1.1.19 | To Bank A/c | 600 |  | 12,000 | 31.3.19 | By Balance <br> c/d | 1,500 |  | 34,500 |
| 15.3.19 | To Bank A/c | 900 |  | 22,500 |  |  |  |  |  |
|  |  | 1,500 |  | 34,500 |  |  | 1,500 | 4,500 | 34,500 |
| 1.4.19 | To Balance b/d | 1,500 |  | 34,500 | 15.9.19 | By Bank dividend |  |  | 3,000 |
| 20.5.19 | To Bank A/c | 1,000 |  | 23,000 | 20.12.19 | By Bank | 1,500 |  | 33,000 |
| 25.7.19 | To Bonus shares | 2,500 |  |  | 1.2.20 | By Bank | 1,000 |  | 24,000 |
| 12.11.19 | To Bank A/c | 600 |  | 12,000 | 31.3.20 | By Balance c/d | 3,100 |  | $36,812.5$ 0 |
| 20.12.19 | To P\& LA/c (profit onsale) |  |  | 15,187.5 |  |  |  |  |  |

CA Ravi Agarwal's
CA INTER ACCOUNTING COMPILER 4.0

| $\begin{aligned} & 1.2 .20 \\ & 31.3 .20 \end{aligned}$ | To P\& LA/c (profit on sale) <br> To P \& L A/c (dividend) |  | $4,500$ | $\begin{array}{r} 0 \\ 12,125 \end{array}$ |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | 5,600 | 4,500 | $\begin{array}{r} 96,812.5 \\ 0 \end{array}$ | 5,600 | 4,500 | $\begin{array}{r} 96,812.5 \\ 0 \end{array}$ |

## Working Notes:

1. Calculation of Weighted average cost of equity shares

600 shares purchased at Rs.12,000
900 shares purchased at Rs.22,500
1,000 shares purchased at Rs. 23,000
2,500 shares at nil cost
600 right shares purchased at Rs. 12,000
Total cost of 5,600 shares is Rs. 66,500 [Rs. 69,500 less Rs. 3,000 (pre-acquisition dividend received on 1,000 shares purchased on 20.5.19].
Hence, weighted average cost per share will be considered as Rs. 11.875 per share (66,500/5,600).
2. It has been considered that no dividend was received on bonus shares as the dividend pertains to the year ended $31^{\text {st }}$ March, 2019.
3. Calculation of right shares subscribed by Vijay

Right Shares (considering that right shares have been granted on Bonus shares also) = 5,000/5 x $1=1,000$ shares

Shares subscribed $=1,000 \times 60 \%=600$ shares
Value of right shares subscribed $=600$ shares @ Rs. 20 per share = Rs. 12,000
Calculation of sale of right renouncement
No. of right shares sold $=1,000 \times 40 \%=400$ shares
Sale value of right $=400$ shares $\times$ Rs. 3 per share $=$ Rs. 1,200
Note: As per para 13 of AS 13, sale proceeds of rights is to be credited to P \& L A/c.
4. Profit on sale of equity shares

As on 20.12.19
Sales price (1,500 shares atRs.22)

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

Less: Cost of shares sold (1,500 x Rs.11.875)
Profit on sale
As on 1. 2.20
Sales price (1,000 shares atRs.24) 24,000
Less: Cost of shares sold (1,000 x Rs.11.875)
Profit on sale $(\underline{17,812.50)}$ $15,187.50$

Balance of 3,100 shares as on 31.3 .20 will be valued at Rs. $36,812.50$ (at rate of Rs. 11.875 per share)

## QUESTION 43 (PAST PAPER NOVEMBER 19)

Mr. Harsh provides the following details relating to his holding in 10\% debentures (face value of Rs. 100 each) of Exe Ltd. held as current assets:

| 1.4.2018 | opening balance - 12,500 debentures, cost Rs. <br> $12,25,000$ |
| :--- | :--- |
| 1.6.2018 | purchased 9,000 debentures@ Rs. 98 each ex- <br> interest |
| 1.11.2018 | purchased 12,000 debentures @ Rs. 115 each <br> cum interest |
| 31.1 .2019 | sold 13,500 debentures@ Rs. 110 each cum- <br> interest |
| 31.3 .2019 | Market value of debentures @ Rs. 115 each |

Due dates of interest are $30^{\text {th }}$ June and $31^{\text {st }}$ December.
Brokerage at $1 \%$ is to be paid for each transaction. Mr. Harsh closes his books on 31.3.2019. Show investment account as it would appear in his books assuming FIFO method is followed.

## CA Ravi Agarwal's

 CA INTER ACCOUNTING COMPILER 4.0
## ANSWER:

Investment Account of Mr. Harsh
for the year ending on31-3-2019
(Scrip: 10\% Debentures of Exe Limited) (Interest Payable on $30^{\text {th }}$ June and $31^{\text {st }}$ December)

| Date | Particulars | Nominal Value Rs. | Interes t Rs. | Cost <br> Rs. | Date | Particulars | Nominal Value Rs. | Interes $\begin{array}{r} \mathrm{t} \\ \mathrm{Rs} . \end{array}$ | Cost Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 1.4.18 | To Balance b/d | 12,50,000 | 31,250 | 12,25,00 | $\begin{aligned} & 30.6 .1 \\ & 8 \end{aligned}$ | $\begin{aligned} & \text { By Bank } \\ & 21,500 \times 100 \\ & \times 10 \% \times 1 / 2 \end{aligned}$ |  | 1,07,50 |  |
| 1.6.18 | To Bank (ex-Interest) (W.N.1) | 9,00,000 | 37,500 | 8,90,820 | $\left\lvert\, \begin{aligned} & 31.12 .1 \\ & 9 \end{aligned}\right.$ | $\begin{aligned} & \text { By Bank } \\ & 33,500 x \\ & 100 \times 10 \% x \\ & 1 / 2 \end{aligned}$ |  | $1,67,50$ 0 |  |
| $\begin{aligned} & 1.11 .1 \\ & 8 \end{aligned}$ | To Bank (cumInterest) (W.N.2) | 12,00,000 | 40,000 | 13,53,80 | $\begin{aligned} & 31.1 .1 \\ & 9 \end{aligned}$ | By Bank (W.N.3) | 13,50,000 | 11,250 | $\begin{array}{r} 14,58,90 \\ 0 \end{array}$ |
| $\begin{aligned} & 31.1 .1 \\ & 9 \end{aligned}$ | To Profit \& Loss A/c (W.N.3) |  |  | 1,34,920 | $\begin{aligned} & 31.3 .1 \\ & 9 \end{aligned}$ | By Balance c/d (W.N.4) | 20,00,000 | 50,000 | $\begin{array}{r} 21,45,64 \\ 0 \end{array}$ |
| $\begin{aligned} & 31.3 .1 \\ & 9 \end{aligned}$ | To Profit \& Loss A/c <br> (Bal. fig.) |  | $\begin{array}{\|r} 2,27,50 \\ 0 \end{array}$ |  |  |  |  |  |  |
|  |  | 33,50,000 | $\begin{array}{\|r\|} \hline 3,36,25 \\ 0 \end{array}$ | 36,04,54 |  |  | 33,50,000 | $\begin{array}{r} 3,36,25 \\ 0 \end{array}$ | $\begin{array}{r} 36,04,54 \\ \hline \end{array}$ |

## Working Notes:

1. Purchase of debentures on1.6.18

Interest element $=9,000 \times 100 \times 10 \% \times 5 / 12=$ Rs. 37,500
Investment element $=(9,000 \times 98)+[1 \%(9,000 \times 98)]=$ Rs. $8,90,820$
2. Purchase of debentures on1.11.2018

Interest element $=12,000 \times 100 \times 10 \% \times 4 / 12=$ Rs. 40,000
Investment element $=12,000 \times 115$ X 101\% less $40,000=$ Rs.13,53,800

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3. Profit on sale of debentures as on31.1.19

|  | Rs. |
| :--- | ---: |
| Sales price of debentures (13,500 x Rs. 110) | $14,85,000$ |
| Less: Brokerage @ 1\% | $\frac{(14,850)}{14,70,150}$ |
| Less: Interest (1,35,000/ 12) | $\frac{(11,250)}{}$ |
| Less: Cost of Debentures [(12,25,000 + (890820 X | $14,58,900$ |
| $1,00,000 / 9,00,000)]$ | $\frac{(13,23,980}{1}$ |
| Profit on sale | $1,34,920$ |

4. Valuation of closing balance as on31.3.2019:

Market value of 20,000 Debentures at Rs. $115=$ Rs. 23,00,000
Cost of 8,000Debentures $=8,90,820 / 9,000 \times 8,000=7,91,840$
12,000Debentures $=\quad 13,53,800$

Total
$21,45,640$
Value at the end is Rs. $21,45,640$, i.e., which is less than market value of Rs. $23,00,000$.

## QUESTION 44 (RTP JULY 21)

On 1st April, 2019 Mr. Shyam had an opening balance of 1000 equity shares of $X$ Ltd ₹ 1,20,000 (face value ₹100 each).
On 5.04.2019 he further purchased 200 cum-right shares for ₹ 135 each. On 8.04.2019 the director of $X$ Ltd announced right issue in the ratio of 1:6.
Mr. Shyam waived off $100 \%$ of his entitlement of right issue in the favour of Mr. Rahul at the rate of ₹ 20 each.

All the shares held by Shyam had been acquired on cum right basis and the total market price (exright) of all these shares after the declaration of rights got reduced by ₹ 3,400.

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On 10.10.2019 Shyam sold 350 shares for ₹ 140 each.
31.03.2020 The market price of each share is ₹ 125 each.

You are required to prepare the Investment account in the books of Mr. Shyam for the year ended 31.03.2020 assuming that the shares are being valued at average cost.

## ANSWER

In the books of Mr. Shyam
for the year ending on 31-3-2020
(Scrip: Equity Shares of X Limited)

| Date | Particulars | Qty | Amount | Date | Particulars | Qty | Amount |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 1.4 .2019 | To Balance bld | 1000 | 1,20,000 | 8.04 .2019 | By Bank Alc (W.N.1) |  | 3,400 |
| 5.04.2019 | $\begin{array}{lr} \text { To } & \text { Bank } \\ (200 x & \text { ₹ } 135) \end{array}$ | 200 | 27,000 | 10.10.2019 | By Bank A/c $\text { (350x ₹ } 140)$ | 350 | 49.000 |
| 10.10 .2019 |  <br> Loss A/c <br> (W.N.2) |  | $7{ }^{1} 117$ | 31.3 .2020 | By Balance old (W.N.3) | 850 | $1{ }_{1} 01,717$ |
|  |  | 1200 | $1{ }_{1} 54,117$ |  |  | 1200 | $1,54{ }_{2} 117$ |

## Working Notes:

1. Sale of Rights ₹ 4,000

The market price of all shares of X Ltd after shares becoming ex-rights has been reduced by ₹ 3,400 In this case out of sale proceeds of ₹4,000; ₹ 3,400 may be applied to reduce the carrying amount to the market value and ₹ 600 would be credited to the profit and loss account.

## 2. Profit on sale of 350 shares

| Sale price of 350 shares (350 shares X 140 each) | $₹ 49,000$ |
| :--- | :--- |
| Less: Cost of 350 shares [(1,20,000+27,000-3,400) X350]/1200 | $₹ 41,883$ |
| Profit | $₹ 7,117$ |

3. Valuation of 850 shares as on $\mathbf{3 1 . 0 3 . 2 0 2 0}$

| Particulars | Amount |
| :--- | :--- |
| Cost price of 850 shares <br> $[(1,20,000+27,000-3,400) \times 850 / 1,200]$ | ₹ $1,01,717$ |
| Fair Value as on 31.03.2020 [850 X ₹ 125 each $]$ | $₹ 1,06,250$ |
| Cost price or fair value whichever is less | $₹ 1,01,717$ |

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## QUESTION 44 (PAST EXAM JAN 21) (PAST EXAM MAY 19)

On 15th June, 2018, Y limited wants to re-classify its investments in accordance with AS 13 (revised). Decide and state the amount of transfer, based on the following information:
(1) A portion of long term investments purchased on 1st March, 2017 are to be re-classified as current investments. The original cost of these investments was ₹ 14 lakhs but had been written down by ₹ 2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15th June, 2018 was ₹ 11 lakhs.
(2) Another portion of long term investments purchased on 15th January, 2017 are to be reclassified as current investments. The original cost of these investments was ₹ 7 lakhs but had been written down to ₹ 5 lakhs (to recognize 'other than temporary' decline in value). The fair value of these investments on 15th June, 2018 was ₹ 4.5 lakhs.
(3) A portion of current investments purchased on 15th March, 2018 for ₹ 7 lakhs are to be reclassified as long term investments, as the company has decided to retain them. The market value of these investments on 31st March, 2018 was ₹ 6 lakhs and fair value on 15th June 2018 was ₹ 8.5 lakhs,
(4) Another portion of current investments purchased on 7th December, 2017 for ₹ 4 lakhs are to be re-classified as long term investments. The market value of these investments was:
on 31st March, 2018 ₹ 3.5 lakhs
on 15th June, 2018 ₹ 3.8 lakhs

## ANSWER

As per AS 13 (Revised) 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer; and where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer.
Accordingly, the re-classification will be done on the following basis:
(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 12 lakhs in the books.
(ii) In this case also, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 5 lakhs in the books.
(iii) In this case, reclassification of current investment into long-term investments will be made at ₹ 7 lakhs as cost is less than its fair value of ₹ 8.5 lakhs on the date of transfer

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

## QUESTION 45 (MTP MAY 2020)

The Investment portfolio of XYZ Ltd. as on 31.03.2020 consisted of the following:

|  |  | (Rs. in lacs) |  |  |
| :--- | :--- | :--- | ---: | ---: |
|  | Current Investments |  | Cost | Fair Value as on 31.03.2020 |
| (1) | 1000 Equity Shares of A Ltd. |  | 5 | 7 |
| (2) | 500 Equity Shares of B Ltd. |  | 10 | 15 |
| (3) | 1000 Equity Shares of C Ltd. |  | 15 | $\underline{12}$ |
|  |  | Total | $\underline{30}$ | $\underline{34}$ |

Give your comments on the following:
(i) The company wants to value the above portfolio at Rs. 30 lakhs being lower of cost or fair market value.
(ii) Company wants to transfer 1000 Equity Shares of C Ltd. from current investments to long term investments on 31.03.2020 at cost of Rs. 15 lakhs.

## ANSWER

As per AS 13 "Accounting for Investments", Valuation of current investments on overall (or global) basis is not considered appropriate. Sometimes, the concern of an enterprise may be with the value of a category of related current investments and not with each individual investment, and accordingly the investments may be carried at the lower of cost and fair value computed categorywise (i.e. equity shares, preference shares, convertible debentures, etc.). However, the more prudent and appropriate method is to carry investments individually at the lower of cost and fair value.
(i) Hence the company has to value the current investment at Rs. 27 Lacs (A Ltd. shares at Rs. 5 lacs; B Ltd. shares at Rs. 10 lacs and C Ltd. shares at Rs. 12 lacs). The company's decision to value the portfolio at Rs. 30 lacs is not appropriate.
(ii) Moreover, where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.

Hence, the company has to make transfer of 1,000 equity shares of $C$ Ltd. at Rs. 12 lacs (fair value) and not Rs. 15 lacs (cost) as the fair value is less than cost.

## QUESTION 46 (PAST EXAM NOV 18)

Following transactions of Nisha took place during the financial year 2017-18:

| 1st April, 2017 | Purchased ₹ 9,000 8\% bonds of ₹ 100 each at ₹ 80.50 <br> cum-interest. Interest is payable on 1st November and <br> 1st May. |
| :--- | :--- |
| 1st May, 2017 | Received half year's interest on 8\% bonds. |
| 10 July, 2017 | Purchased 12,000 equity shares of ₹ 10 each in Moon <br> Limited for ₹ 44 each through a broker, who charged <br> brokerage @ 2\%. |
| 1st October 2017 | Sold 2,250 8\% bonds at ₹ 81 Ex-interest. |
| 1st November, 2017 | Received half year's interest on 8\% bonds. |
| 15th January, 2018 | Moon Limited made a rights issue of one equity share for <br> every four Equity shares held at ₹ 5 per share. Nisha <br> exercised the option for 40\% of her entitlements and sold <br> the balance rights in the market at ₹ 2.25 per share. |
| 15th March, 2018 | Received 18\% interim dividend on equity shares of Moon <br> Limited. |

Prepare separate investment account for $8 \%$ bonds and equity shares of Moon Limited in the books of Nisha for the year ended on 31st March, 2018. Assume that the average cost method is followed

## ANSWER

In the books of Nisha
8\% Bonds for the year ended 31st March, 2018

| Date | Particulars | No. | Income <br> $₹$ | Amount <br> $₹$ | Date | Particulars | No. | Income <br> $₹$ | Amount <br> $₹$ |
| :--- | :--- | ---: | ---: | ---: | :--- | :--- | ---: | ---: | ---: |
| 2017 <br> 1 April, | To Bank Alc | 9 | 9000 | 30,000 | $6,94,500$ | 1 May <br> 2017 | By Bank-Interest | - | 36,000 |

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| $\begin{array}{\|l} \hline \text { Oct 1 } \\ 2018 \\ \text { March } \\ 31 \end{array}$ | To P \& LA/c (W.N.1) <br> To P \& LA/c |  | $40,500$ | $8,625$ | 1 Oct <br> 2017 <br> 1 Nov. <br> 2018 <br> 2018 <br> Mar. 31 | By Bank A/c <br> By Bank-Interest <br> By Balance old (W.N.2) | $2,250$ | $\begin{gathered} 7,500 \\ 27,000 \end{gathered}$ | 1,82,250 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | 9.000 | 70.500 | 7.03,125 |  |  | 9.000 | $\underline{70.500}$ | 7.03.125 |

Investment in Equity shares of Moon Ltd. for the year ended 31 ${ }^{\text {st }}$ March, 2018

| Date | Particulars | No. | $\begin{array}{\|r\|} \hline \text { Income } \\ ₹ \end{array}$ | Amount | Date | Particulars | No. | Income $₹$ | Amount |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 2017 <br> July 10 | $\begin{array}{\|c} \hline \text { To Bank } \\ \text { A/c } \end{array}$ | 12,000 | -- | 5,38,560 | $\begin{aligned} & 2018 \\ & \text { March } \\ & 15 \end{aligned}$ | By Bank dividend | - | 23.760 |  |
| $\begin{array}{\|l\|} \hline 2018 \\ \text { Jan. } 15 \end{array}$ | To Bank A/c (WN. 3) | 1,200 | - | 6,000 | March $31$ | $\begin{gathered} \text { By Balance } \\ \text { dd } \\ \text { (bal. fig.) } \end{gathered}$ | 13,200 |  | 5,44,560 |
| March 31 | To P \& L A/c | $\xrightarrow{-}$ | $\begin{aligned} & \underline{23.760} \\ & \underline{23.760} \\ & \hline \end{aligned}$ | 5.44.560 |  |  | $13,200$ | $\underline{23.760}$ | 5,44,560 |

* Considering that dividend was received on right shares also.


## Working Notes:

## 1. Profit on sale of $\mathbf{8 \%}$ Bonds

Sales price ₹ $1,82,250$
Less: Cost of bond sold $=6,94,500 / 9,000 \times 2,250$ ( $₹ 1,73,625$ )
Profit on sale ₹ 8,625
2. Closing balance as on $\mathbf{3 1 . 3 . 2 0 1 8}$ of $\mathbf{8} \%$ Bonds

6,94,500/9,000 x 6,750=₹ 5,20,875

## 3. Calculation of right shares subscribed by Moon Ltd.

Right Shares $=12,000 / 4 \times 1=3,000$ shares
Shares subscribed by Nisha $=3,000 \times 40 \%=1,200$ shares
Value of right shares subscribed $=1,200$ shares @ ₹ 5 per share $=₹ 6,000$

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## 4. Calculation of sale of right entitlement by Moon Ltd.

No. of right shares sold $=3,000-1,200=1,800$ rights for ₹ 4,050
Note: As per para 13 of AS 13, sale proceeds of rights are to be credited to P \& L A/c.

## QUESTION 47 (PAST EXAM NOV 20)

A Limited invested in the shares of XYZ Ltd. on 1st December, 2019 at a cost of ₹ 50,000 . Out of these shares, ₹ $\mathbf{2 5 , 0 0 0}$ shares were purchased with an intention to hold for 6 months and ₹ 25,000 shares were purchased with an intention to hold as long-term Investment.

A Limited also earlier purchased Gold of ₹ 1,00,000 and Silver of ₹ 30,00,000 on 1st April, 2019. Market value as on 31st March, 2020 of above investments are as follows:

Shares ₹ 47,500 (Decline in the value of shares is temporary.)
Gold ₹ 1,80,000
Silver ₹ 30,55,000
How above investments will be shown in the books of accounts of M/s A Limited for the year ended 31st March, 2020 as per the provisions of AS 13 (Revised)?

## ANSWER

As per AS 13 (Revised) 'Accounting for Investments, for investment in shares - if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value.
In the given case ₹ 25,000 shares held as current investment will be carried in the books at ₹ 23,750 (₹ $47,500 / 2$ ).

If equity shares are acquired with an intention to hold for long term period (more than one year), then should be considered as long-term investment to be shown at cost in the Balance Sheet of the company. However, provision for diminution should be made to recognize a decline, if other than temporary, in the value of the investments. Hence, ₹ 25,000 shares held as long-term investment will be carried in the books at ₹ 25,000 .
Gold and silver are generally purchased with an intention to hold them for long term period (more than one year) until and unless given otherwise.

Hence, the investment in Gold and Silver (purchased on 1st March, 2019) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2020. Thus Gold at ₹ $1,00,000$ and Silver at ₹ $30,00,000$ respectively will be shown in the books.

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## Chapter 10 Insurance claims for loss of stock and loss of profit

## QUESTION 1 (STUDYMATERIAL)

Goods costing Rs.1,00,000 were insured for Rs.50,000. Out of these goods, $3 / 4$ are destroyed by fire. The amount of claim with average clause will be
(a) Rs.37,500.
(b) Rs.50,000.
(c) Rs.75,000.

Answer: (a)

## QUESTION 2 (STUDYMATERIAL)

Fire insurance claim will be limited to the
(a) actual loss suffered even though the insured value of the goods may be higher.
(b) proportion of the loss as the insured value bears to the total cost.
(c) both (a) and(b).

Answer: (c)

## QUESTION 3 (STUDYMATERIAL)

The Loss of Profit Policy normally covers the following items:
(a) Loss of net profit and Standing charges.
(b) Any increased cost of working e.g., renting of temporary premises.
(c) Both (a) and(b).

Answer: (c)

## QUESTION 4 (STUDYMATERIAL)

A plant worth Rs.40,000 has been insured for Rs.30,000, the loss on account of fire is Rs.25,000. the insurance company will bear the loss to the extent of
(a) Rs.18,750.
(b) Rs.25,000.
(c) Rs.30,000.

Answer: (a)

## QUESTION 5 (STUDYMATERIAL)

If the policy is without average clause, a claim for loss of profit will be
(a) Sum Insured'
(b) Higher of actual loss and sum insured
(c) Lower of actual loss and sum insured

Answer: (c)

## QUESTION 6 (STUDYMATERIAL)

## Standard turnover is

(a) Turnover during the last 12 months immediately before damage.
(b) Turnover during that period in 12 months immediately before damage which corresponds with indemnity period.
(c) Turnover during the last accounting period immediately before damage.

Answer: (b)

## QUESTION 7 (STUDYMATERIAL)

Gross profit can be calculated as
(a) Net profit +Insured standing charges.
(b) Net profit - Insured standing charges.

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(c) Net profit + standing charges.

Answer: (a)

## QUESTION 8 (STUDYMATERIAL)

The cost of salvaged stock must be
(a) Credited to trading account
(b) Debited tp salvaged stock account
(c) Both (a) and (b)

Answer: (c)

## QUESTION 9 (STUDYMATERIAL)

Amount of indemnity payable is
(a) Gross Profit lost - Claim for increased cost of working Capital - Saving in Insured standing Charges.
(b) Gross Profit lost- Claim for increased cost of working Capital + Saving in Insured standing Charges.
(c) Gross Profit Lost +Claim for increased cost of working Capital - Saving in Insured standing Charges.
Answer: (c)

## QUESTION 10 (STUDYMATERIAL)

Short Sales for the purposes of Loss of Profit Policy shall be:
(a) Adjusted Annual Turnover - Annual Turnover
(b) Adjusted Annual Turnover - Adjusted Standard Turnover
(c) Adjusted Standard Turnover - Actual Turnover

Answer: (c)

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## QUESTION 9 (STUDYMATERIAL)

Amount of indemnity payable is
(a) Gross Profit lost - Claim for increased cost of working Capital - Saving in Insured standing Charges.
(b) Gross Profit lost- Claim for increased cost of working Capital + Saving in Insured standing Charges.
(c) Gross Profit Lost +Claim for increased cost of working Capital - Saving in Insured standing Charges.

Answer: (c)

QUESTION 10 (STUDYMATERIAL)
Short Sales for the purposes of Loss of Profit Policy shall be:
(a) Adjusted Annual Turnover - Annual Turnover
(b) Adjusted Annual Turnover - Adjusted Standard Turnover
(c) Adjusted Standard Turnover - Actual Turnover

Answer: (c)

## QUESTION 11 (STUDYMATERIAL)

Explain the significance of 'Average Clause' in a fire insurance policy.
In order to discourage under-insurance, fire insurance policies often include an average clause

## ANSWER:.

The effect of these clause is that if the insured value of the subject matter concerned is less than the total cost then the average clause will apply, that is, the loss will be limited to that proportion of the loss as the insured value bears to the total cost.

The actual claim amount would therefore be determined by the following formula :
Claim = (Insured Value/Total Cost) X Loss Suffered

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## QUESTION 12 (STUDYMATERIAL)

Define the following terms:
(i) Indemnity Period;
(ii) Standard Turnover

## ANSWER:

Indemnity period is the period beginning with the occurrence of the damage and ending not later than twelvemonths.

Standard Turnover is the turnover during that period in the twelve months immediately before the date of damage which corresponds with the Indemnity Period.

## QUESTION 13 (STUDYMATERIAL)

From the following information, ascertain the value of stock as on $31^{\text {st }}$ March, 20X2:

|  | Rs. |
| :--- | ---: |
| Stock as on 01-04-20X1 | 28,500 |
| Purchases | $1,52,500$ |
| Manufacturing Expenses | 30,000 |
| Selling Expenses | 12,100 |
| Administration Expenses | 6,000 |
| Financial Expenses | 4,300 |
| Sales | $2,49,000$ |

At the time of valuing stock as on 31st March, 20X1, a sum of Rs.3,500 was written off on a particular item, which was originally purchased for Rs.10,000 and was sold during the year for Rs.9,000. Barring the transaction relating to this item, the gross profit earned during the year was $20 \%$ on sales.

Statement showing valuation of stock as on 31.3.20X2

|  | Rs. | Rs. |
| :--- | ---: | ---: |
| Stock as on 01.04.20X1 <br> Less: Book value of abnormal stock <br> (Rs.10,000 - Rs.3,500) | 28,500 |  |
| Add: Purchases | $\underline{6,500}$ | 22,000 |
| $\quad$ Manufacturing expenses |  | $1,52,500$ |
| Less: Cost of Sales: |  | 20,000 |


| Sales | $2,49,000$ |  |
| :--- | ---: | ---: |
| Less: Sale of abnormal stock | $(9,000)$ |  |
|  | $2,40,000$ |  |
| Less: Gross profit @ 20\% | $\underline{.(48,000)}$ | $\underline{(1,92,000)}$ |
| Value of Stock as on 31 ${ }^{\text {st }}$ March, 20X2 | $\underline{12,500}$ |  |

## QUESTION 14 (STUDYMATERIAL)

Mr. A prepares accounts on $30^{\text {th }}$ September each year, but on $31^{\text {st }}$ December, $20 \times 1$ fire destroyed the greater part of his stock. Following information was collected from his book:

|  | Rs. |
| :--- | ---: |
| Stock as on 1.10.20X1 | 29,700 |
| Purchases from 1.10.20X1 to 31.12.20X1 | 75,000 |
| Wages from 1.10.20X1 to 31.12.20X1 | 33,000 |
| Sales from 1.10.20X1 to 31.12.20×1 | $1,40,000$ |

The rate of gross profit is $33.33 \%$ on cost. Stock to the value of Rs.3,000 was salvaged. Insurance policy was for Rs.25,000 and claim was subject to average clause.

Additional information:
(i) Stock at the beginning was calculated at $10 \%$ less than cost.
(ii) A plant was installed by firm's own worker. He was paid Rs.500, which was included in wages.
(iii) Purchases include the purchase of the plant for Rs.5,000 You are required to calculate the claim for the loss of stock.

Computation of claim for loss of stock:

|  | Rs. |
| :--- | ---: |
| Stock on the date of fire i.e. 31.12.20X1(Refer working note) | 30,500 |
| Less: Salvaged stock | $(3,000)$ |
| Loss of stock | 27,500 |

[^1]
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## Working Note:

Memorandum trading account can be prepared for the period from 1.10.20X1 to 31.12.20X1 to compute the value of stock on 31.12.20X1.

Memorandum Trading Account
for period from 1.10.20X1 to 31.12.20X1

|  | Rs. | Rs. |  | Rs. |
| :---: | :---: | :---: | :---: | :---: |
| To Opening stock (Rs.29,700 x100/90) <br> To Purchases Less: Cost of plant To Wages Less: Wages paid for plant To Gross profit (33.33\% on cost or $25 \%$ on sales) | $\begin{array}{\|r\|} 75,000 \\ (5,000) \\ \hline 33,000 \\ (500) \end{array}$ | $\begin{aligned} & 33,000 \\ & 70,000 \\ & 32,500 \\ & 35,000 \end{aligned}$ | By Sales <br> By Closing stock (bal.fig.) | $\begin{array}{r} 1,40,000 \\ 30,500 \end{array}$ |
|  |  | 1,70,500 |  | 1,70,500 |

## QUESTION 15 (STUDYMATERIAL)

On 20 ${ }^{\text {th }}$ October, 20X1, the godown and business premises of Aman Ltd. Were affected by fire. From the salvaged accounting records, the following information is available:

|  | Rs. |
| :--- | ---: |
| Stock of goods @ 10\% lower than cost as on 31 ${ }^{\text {st }}$ March, 20X1 | $2,16,000$ |
| Purchases less returns (1.4.20X1 to 20.10.20X1) | $2,80,000$ |
| Sales less returns (1.4.20X1 to 20.10.20X1) | $6,20,000$ |

Additional information:
(1) Sales upto $20^{\text {th }}$ October, $20 \times 1$ includes Rs. 80,000 for which goods had not been dispatched.

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(2) Purchases upto $20^{\text {th }}$ October, 20X1 did not include Rs. 40,000 for which purchase invoices had not been received from suppliers, though goods have been received in Godown.
(3) Past records show the gross profit rate of $25 \%$.
(4) The value of goods salvaged from fire Rs.31,000.
(5) Aman Ltd. has insured their stock for Rs.1,00,000.

Compute the amount of claim to be lodged to the insurance company.
Memorandum Trading A/c
(1.4.20X1 to 20.10.20X1)
$\left.\begin{array}{|l|r|l|r|}\hline \text { Particulars } & \text { (Rs.) } & \text { Particulars } & \text { (Rs.) } \\ \hline \begin{array}{l}\text { To Opening stock } \\ \text { (Refer W.N.) }\end{array} & 2,40,000 & \begin{array}{l}\text { By Sales } \\ \text { (Rs.6,20,000 - }\end{array} & 5,40,000 \\ \text { Rs.80,000) }\end{array}\right)$

* It is assumed that gross profit is provided as a percentage of sales

|  | Rs. |
| :--- | ---: |
| Stock on the date of fire (i.e. on20.10.20X1) | $1,55,000$ |
| Less: Stock salvaged | $\underline{(31,000)}$ |
| Stock destroyed by fire | $\underline{1,24,000}$ |

Insurance claim=1,24,000/1,55,000 X 1,00,000
= Rs. 80,000

## QUESTION 16 (STUDYMATERIAL)

On 12th June, 20X2 fire occurred in the premises of N.R. Patel, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being Rs.11,200. In addition, some stock was salvaged in a damaged condition and its value in that condition was agreed at Rs.10,500. From the books of account, the following particulars were available.

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1. His stock at the close of account on December 31, $20 X 1$ was valued at Rs.83,500.
2. His purchases from 1-1-20X2 to 12-6-20X2 amounted to Rs.1,12,000 and his sales during that period amounted to Rs.1,54,000.

On the basis of his accounts for the past three years it appears that he earns on an average a gross profit of $30 \%$ of sales.

Patel has insured his stock for Rs.60,000. Compute the amount of the claim.
Computation of claim for loss of stock

|  | Rs. | Rs. |
| :---: | :---: | :---: |
| Opening Stock on 1-1-20X2 |  | 83,500 |
| Add : Purchases during the period |  | 1,12,000 |
|  |  | 1,95,500 |
| Less: $\quad$ Sales during the period | 1,54,000 |  |
| Gross Profit thereon | 46,200 | $(1,07,800)$ |
|  |  | 87,700 |
| Less: Stock Salvaged | 11,200 |  |
| Agreed value of damage Stock | 10,500 | $(21,700)$ |
|  |  | 66,000 |
| $\begin{gathered} \text { Amount of Claim }=\begin{array}{c} 60,000 \\ 87,700 \end{array} \\ 86000=\text { Rs. } 45,154 \\ \hline \end{gathered}$ |  |  |

## QUESTION 17 (STUDYMATERIAL)

On 1st April, 20X2 the stock of Shri Ramesh was destroyed by fire but sufficient records were saved from which following particulars were ascertained:

|  | Rs. |
| :--- | ---: |
| Stock at cost-1st January, 20X1 | 73,500 |
| Stock at cost-31st December, 20X1 | 79,600 |
| Purchases-year ended 31st December,20X1 | $3,98,000$ |
| Sales-year ended 31st December, 20X1 | $4,87,000$ |
| Purchases-1-1-201X2 to 31-3-20X2 | $1,62,000$ |
| Sales-1-1-20X2 to 31-3-20X2 | $2,31,200$ |

In valuing the stock for the Balance Sheet at 31st December, 20X1 Rs.2,300 had been written off on certain stock which was a poor selling line having the cost Rs.6,900. A portion of these goods were sold in March, 20X2 at loss of Rs. 250 on original cost of Rs.3450. The remainder of this stock

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was now estimated to be worth its original cost. Subject to the above exception, gross profit had remained at a uniform rate throughout the year.

The value of stock salvaged was Rs.5,800. The policy was for Rs. 50,000 and was subject to the average clause. Workout the amount of the claim of loss by fire.

Shri Ramesh Trading Account for 20X1
(to determine the rate of gross profit)

|  |  | Rs. |  |  | Rs. | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To <br> To <br> To | Opening Stock <br> Purchases | 73,500 | $\begin{aligned} & \mathrm{By} \\ & \mathrm{By} \end{aligned}$ | Sales A/c <br> Closing Stock: <br> As valued <br> Add : Amount written off to restore stock to full cost |  | 4,87,000 |
|  |  | 3,98,000 |  |  |  |  |
|  | Gross Profit (b.f.) | 97,400 |  |  | 79,600 |  |
|  |  |  |  |  | 2,300 | 81,900 |
|  |  | 5,68,900 |  |  |  | 5,68,900 |

Memorandum Trading Account upto March 31, 20X2

|  | Normal items Rs. | Abnormal items Rs. | Total Rs. |  | Normal <br> Rs. | Abnormal items Rs. | Total items Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To Opening Stock | 75,000 | 6,900* | 81,900 | $\begin{aligned} & \text { By Sales By } \\ & \text { Loss } \end{aligned}$ | $2,28,000$ | $\begin{array}{r} 3,200 \\ 250 \end{array}$ | $\begin{array}{r} 2,31,200 \\ 250 \end{array}$ |
| To Purchases <br> To Gross <br> Profit (20\% on | 1,62,000 | - | $1,62,000$ | By Closing Stock (bal. fig.) | 54,600 | 3,450** | 58,050 |
| $28000)^{\text {Rs. }}$ | 45,600 | - | 45,600 |  |  |  |  |
|  | 2,82,600 | 6,900 | 2,89,500 |  | 2,82,600 | 6,900 | 2,89,500 |

* at cost, book value is Rs.4,600
** Book value will also be restored for remaining unsold abnormal stock since the remainder of this stock was now estimated to be worth its original cost.


## QUESTION 18 (STUDYMATERIAL)

On 19th May, 20X2, the premises of Shri Garib Das were destroyed by fire, but sufficient records were saved, wherefrom the following particulars were ascertained:

|  | Rs. |
| :--- | ---: |
| Stock at cost on 1.1.20X1 | 36,750 |
| Stock at cost on 31.12.20X1 | 39,800 |
| Purchases less returns during 20X1 | $1,99,000$ |
| Sales less return during 20X1 | $2,43,500$ |
| Purchases less returns during 1.1.20X2 to 19.5.20X2 | 81,000 |
| Sales less returns during 1.1.20×2 to 19.5.20X2 | $1,15,600$ |

In valuing the stock for the balance Sheet as at 31st December, 20X1, Rs.1,150 had been written off on certain stock which was a poor selling line having the cost Rs.3,450. A portion of these goods were sold in March, 20X2 at a loss of Rs. 125 on original cost of Rs.1,725. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exceptions, gross profit has remained at a uniform rate throughout. The stock salvaged was Rs.2,900.

Show the amount of the claim of stock destroyed by fire. Memorandum Trading Account to be prepared for the period from 1-1-20X2 to 19-5-20X2 for normal and abnormal items.

## Shri Garib Das

Trading Account for the year ended on 31 ${ }^{\text {st }}$ December, 20X1

|  |  | Rs. |  |  | Rs. | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To | Opening Stock <br> Purchases | 36,750 | $\begin{aligned} & \mathrm{By} \\ & \mathrm{By} \end{aligned}$ | Sales A/c <br> Closing Stock: <br> As valued |  | 2,43,500 |
| To |  | 1,99,000 |  |  |  |  |
| To | Gross Profit(b.f.) | 48,700 |  |  | 39,800 |  |
|  |  |  |  | Add: Amount |  |  |
|  |  |  |  | written off to |  |  |
|  |  |  |  | restore stock to | 1,150 | 40,950 |
|  |  | 2,84,450 |  |  |  | 2,84,450 |

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Memorandum Trading Account upto 19, May, 20X2

|  | Normal items Rs. | Abnormal items Rs. | Total <br> Rs. |  | Normal <br> Rs. | Abnormal items Rs. | Total items Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To Opening Stock | 37,500 | 3,450* | 40,950 | By Sales | 1,14,000 | 1,600 | 1,15,600 |
| To Purchases To Gross | 81,000 | - | 81,000 | By Loss By Closing | - | 125 | 125 |
| Profit (20\% on Rs.1,14,000) | 22,800 | - | 22,800 | Stock (bal. fig.) | 27,300 | 1,725** | 29,025 |
|  | 1,41,300 | 3,450 | 1,44,750 |  | 1,41,300 | 3,450 | 1,44,750 |

*at cost, book value is Rs.2,300.
** Book value will also be restored for remaining unsold abnormal stock since the remainder of this stock was now estimated to be worth its original cost.

Calculation of insurance claim

Value of Stock on 19th May, 20X2
29,025
Less : Salvage
$(2,900)$
Loss of stock
26,125
Therefore, insurance claim will be for Rs 26,125 only.

## QUESTION 19 (STUDYMATERIAL)

On $30^{\text {th }}$ March, 20X2 fire occurred in the premises of $\mathrm{M} / \mathrm{s}$ Suraj Brothers. The concern had taken an insurance policy of Rs.60,000 which was subject to the average clause. From the books of accounts, the following particulars are available relating to the period $1^{\text {st }}$ January to $30^{\text {th }}$ March20X2.
(1) Stock as per Balance Sheet at $\mathbf{3 1}^{\text {st }}$ December, 20X1, Rs.95,600.

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(2) Purchases (including purchase of machinery costing Rs.30,000) Rs.1,70,000
(3) Wages (including wages Rs.3,000 for installation of machinery) Rs.50,000.
(4) Sales (including goods sold on approval basis amounting to Rs.49,500) Rs.2,75,000. No approval has been received in respect of $2 / 3^{\text {rd }}$ of the goods sold on approval.
(5) Theaveragerateofgrossprofitis $20 \%$ ofsales.
(6) The value of the salvaged goods was Rs.12,300.

You are required to compute the amount of the claim to be lodged to the insurance company.
Computation of claim for loss of stock

|  | Rs. |
| :--- | ---: |
| Stock on the date of fire i.e. on $30^{\text {th }}$ March, 20X2(W.N.1) | 62,600 |
| Less: Value of salvaged stock | $(12,300)$ |
| Loss of stock | $\frac{50,300}{48,211}$ |
| Amount of claim | (approx.) |
|  |  |

A claim of Rs.48,211 (approx.) should be lodged by M/s Suraj Brothers to the insurance company.
Working Notes:

1. Calculation of closing stock as on $30^{\text {th }}$ March, 2012

Memorandum Trading Account for (from $1^{\text {st }}$ January, 20X2 to $30^{\text {th }}$ March, 20X2)

| Particulars | Amount (Rs.) | Particulars | Amount (Rs.) |
| :---: | :---: | :---: | :---: |
| To Opening stock | 95,600 | By Sales (W.N.3) | 2,42,000 |
| To Purchases $(1,70,000-30,000)$ | 1,40,000 | By Goods with customers (for approval) (W.N.2) | 26,400* |
| To Wages $(50,000-3,000)$ | 47,000 | By Closing stock (Bal. fig.) | 62,600 |
| To Gross profit (20\% on sales) | 48,400 |  |  |
|  | 3,31,000 |  | 3,31,000 |

* For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the concern and, hence, there was no loss of such stock.


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2. Calculation of goods with customers

Since no approval for sale has been received for the goods of Rs.33,000 (i.e. 2/3 of Rs. 49,500 ) hence, these should be valued at cost i.e. Rs. $33,000-20 \%$ of Rs. $33,000=$ Rs. 26,400 .
3. Calculation of actual sales

Total sales - Sale of goods on approval $\left(2 / 3^{\text {rd }}\right)=$ Rs. $2,75,000-$ Rs. $33,000=$ Rs.2,42,000.

## QUESTION 20 (STUDYMATERIAL)

The premises of XY Limited were partially destroyed by fire on 1st March, 20X2 and as a result, the business was practically disorganized upto 31st August, 20X2. The company is insured under a loss of profits policy for Rs.1,65,000 having an indemnity period of 6 months.

From the following information, prepare a claim under the policy:
(i) Actual turnover during the period of dislocation

Rs.
(1-3-20X2 to 31-8-20X2)
(ii) Turnover for the corresponding period (dislocation) in the $\mathbf{1 2}$ months immediately before the fire
(1-3-20X1 to 31-8-20X1)
(iii) Turnover for the 12 months immediately preceding the fire (1-3-20X1 to28-2-20X2)
6,00,000
(iv) Net profit for the last financial year 90,000
(v) Insured standing charges for the last financial year 60,000
(vi) Uninsured standing charges 5,000
(vii) Turnover for the last financial year

5,00,000

Due to substantial increase in trade, before and up to the time of the fire, it was agreed that an adjustment of $10 \%$ should be made in respect of the upward trend in turnover. The company incurred additional expenses amounting to Rs.9,300 immediately after the fire and but for this expenditure, the turnover during the period of dislocation would have been only Rs.55,000. There was also asavingduring the indemnity period of Rs.2,700 in insured standing charges as a result of the fire.

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Computation of loss of profit Insurance claim

|  |  | Rs. |
| :--- | :--- | ---: |
| (1) | Rate of gross profit: |  |
|  | Net profit for the last financial year | 90,000 |
|  | Add: Insured standing charges | $\frac{60,000}{1,50,000}$ |
|  | Turnover for the last financial year | $5,00,000$ |
|  | Short sales: |  |
|  | Standard Turnover |  |
|  | Add: 10\% increasing trend | $2,40,000$ |
|  | Less: Turnover during the dislocation period (which is at | 24,000 |
| par with the indemnity period of 6 months) | $2,64,000$ |  |
|  | Annual (Adjusted) Turnover: | $(80,000)$ |
| Annual Turnover (1-3-20X1 to 23-2-20X2) | $1,84,000$ |  |
| Add: 10\% increasing trend |  |  |
|  |  | $6,00,000$ |
|  |  | 60,000 |

Note: Assumed that trend adjustment is required on total amount of annual turnover. However, part of the annual turnover represents trend adjusted figure. Alternatively, the students may ignore trend and take simply annual turnover. The claim would be Rs.55,000 which is more than the claim computed in Para (5). So the Insurance Company would insist on trend adjusted on annual turnover.

## QUESTION 21 (STUDYMATERIAL)

Sony Ltd.'s. Trading and profit and loss account for the year ended $31^{\text {st }}$ December, 20X1 were as follows:

Trading and Profit and Loss Account for the year ended 31.12.20X1

|  |  | Rs. |  |  | Rs. |
| :--- | :--- | ---: | :--- | :--- | ---: |
| To | Opening stock | 20,000 | By | Sales | $10,00,000$ |
| To | Purchases | $6,50,000$ | By | Closing stock | 90,000 |

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| To | Manufacturing expenses Gross profit | $\begin{aligned} & 1,70,000 \\ & 2,50,000 \end{aligned}$ | By | Gross profit |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| To |  | 10,90,000 |  |  | 10,90,000 |
|  | Administrative expenses | 80,000 |  |  | 2,50,000 |
| To <br> To <br> To | Selling expenses <br> Finance charges <br> Net profit | 20,000 |  |  |  |
|  |  | 1,00,000 |  |  |  |
|  |  | 50,000 |  |  |  |
|  |  | 2,50,000 |  |  | 2,50,000 |

The company had taken out a fire policy for Rs.3,00,000 and a loss of profits policy for Rs.1,00,000 having an indemnity period of 6 months. A fire occurred on 1.4.20X2 at the premises and the entire stock were gutted with nil salvage value. The net quarter sales i.e. 1.4.20X2 to 30.6.20X2 was severely affected. The following are the other information:

Sales during the period Purchases during the period Manufacturing expenses
Sales during the period Standing charges insured Actual expense incurred after fire

2,50,000
3,00,000
70,000
87,500
50,000
60,000

The general trend of the industry shows an increase of sales by $15 \%$ and decrease in GP by 5\% due to increased cost.

Ascertain the claim for stock and loss of profit.
Calculation of loss of stock:
Sony Ltd.
Trading A/c
for the period 1.1.20X2 to 31.3.20X2

|  | Rs. |  | Rs. |
| :--- | ---: | :--- | ---: |
| To Opening stock | 90,000 | By Sales | $2,50,000$ |
| To Purchases | $3,00,000$ | By Closing stock | $2,60,000$ |
| To Manufacturing expenses | 70,000 | (balancing figure) |  |
| To Gross profit (20\% of | 50,000 |  |  |


| Rs.2,50,000) (W.N.3) |  |  |  |
| :--- | ---: | :--- | ---: |
|  | $5,10,000$ |  |  |
|  |  |  | Rs. |
| Stock destroyed by fire |  |  | $2,60,000$ |
| Amount of fire policy |  |  | $3,00,000$ |

As the value of stock destroyed by fire is less than the policy value, the entire claim will beadmitted.

Calculation of loss of profit
Computation of short sales:

|  | Rs. |  |
| :--- | ---: | ---: |
| Average sales for the period 1.4.20X1 to 30.6.20X1 | $2,60,870$ |  |
| (W.N.1) (Rs.7,82,610/3) |  |  |
| Add: Increasing trend of sales (15\%) | 39,130 | (Approx.) |
|  | $3,00,000$ |  |
| Less: Sales during the period 1.4.20X2 to 30.6.20×2 | 87,500 |  |
| Short sales | $2,12,500$ |  |

Computation of G.P. Ratio:
Grossprofitratio $==($ Rs. $50,000+$ Rs. 50,000 $) /$ Rs. $10,00,000 \times 100=$
10\%
Less: Decreasing trend inG.P.
5\%
5\%
Loss of profit $=5 \%$ of Rs. $2,12,500=$ Rs. 10,625
Amount allowable in respect of additional expenses:
Least of the following:-
(i) Actual expenditure

Rs.60,000
(ii) G.P. on sales generated by additional expenses 5\% ofRs.87,500
(assumed that entire sales during disturbed period is due to additional Expenses

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G.P. on annual turnover: Adjusted annual turnover:

|  | Rs. |
| :--- | ---: |
| Average turnover for the period 1.4.20X1 to 31.12.20X1 (W.N.1) | $7,82,610$ |
| Turnover for the period 1.1.20X2 to 31.3.20X2 | $2,50,000$ |
| Add: Increase in trend (15\% of Rs.7,82,610) (W.N.2) | $10,32,610$ |
| Gross profit on annual turnover (5\% of Rs.11,50,000) | $1,17,390$ |
|  | $11,50,000$ |

As the gross profit on annual turnover (Rs.57,500) is less than policy value (Rs.1,00,000), average clause is not applicable.

Insurance claim to be submitted:

|  | Rs. |
| :--- | ---: |
| Loss of stock | $2,60,000$ |
| Loss of profit | 10,625 |
| Additional expenses | 4,375 |
| $2,75,000$ |  |

Note: According to the given information standing charges include administrative expenses (Rs. 80,000 ) and finance charges (Rs.1,00,000). Insured standing charges being Rs.50,000, uninsured standing charges would be Rs.1,30,000.

Working Note:

| 1. | Break up of sales for the year20X1: <br> Sales of the first quarter of 20X1 | Rs. |
| :--- | :--- | :--- |

* Sales for the first quarter of 20X1 is computed on the basis of sales of the first quarter of 20X2.

2. The increase in trend of sales has been applied to the sales of $20 X 1$ only, as thesalesfigureofthefirstquarterof20X2wasalreadytrendadjusted.
3. Rate of gross profit in20X1
$=$ Gross profit/Sales $\times 100=2,50,000 / 10,00,000 \times 100=25 \%$
In 20X2, gross profit had declined by 5\% due to increased cost, hence, the rate of gross profit for loss of stock is taken at20\%.

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## QUESTION 22 (STUDYMATERIAL)

From the following particulars, you are required to calculate the amount of claim for Buildwell Ltd., whose business premises was partly destroyed by fire:

Sum insured (from 31 ${ }^{\text {st }}$ December20X1) Rs.4,00,000
Period of indemnity 12months

Date of damage
$1^{\text {st }}$ January, 20X2

Date on which disruption of business ceased
$31^{\text {st }}$ October,20X2
The subject matter of the policy was gross profit but only net profit and insured standing charges are included.

The books of account revealed:
(a) The gross profit for the financial year 20X1 was Rs.3,60,000.
(b) The actual turnover for financial year 20X1 was Rs.12,00,000 which was also the turnover in this case.
(c) The turnover for the period 1st January to 31st October, in the year preceding the loss, was Rs. $10,00,000$.

During dislocation of the position, it was learnt that in November-December 20X1, there has been an upward trend in business done (compared with the figure of the previous years) and it was stated that had the loss not occurred, the trading resultsfor20X2wouldhavebeenbetterthanthoseofthepreviousyears.

The Insurance company official appointed to assess the loss accepted this view and adjustments were made to the pre-damaged figures to bring them up to the estimated amounts which would have resulted in20X2.

The pre-damaged figures together with agreed adjustments were:

| Period | Pre-damaged <br> figures | Adjustment to <br> Be added | Adjusted <br> standard <br> turnover |
| :--- | ---: | ---: | :---: |
|  | Rs. | Rs. | Rs. |
| January | 90,000 | 10,000 | $1,00,000$ |
| Feb. to October | $9,10,000$ | 50,000 | $9,60,000$ |
| November to December | $2,00,000$ | 10,000 | $2,10,000$ |


|  | $12,00,000$ | 70,000 | $12,70,000$ |
| :--- | ---: | ---: | ---: |
| Gross Profit | $3,60,000$ | 46,400 | $4,06,400$ |

Rate of Gross Profit 30\% (actual for 20X1), 32\% (adjusted for 20X2). Increased cost of working amounted to Rs.1,80,000.

There was a clause in the policy relating to savings in insured standard charges during the indemnity period and this amounted to Rs.28,000.

Standing Charges not covered by insurance amounted to Rs.20,000 p.a. The annual turnover for January was nil and for the period February to October20X2 Rs.8,00,000

1. Short sales

| Period | Adjusted Standard <br> Turnover | Actual <br> Turnover | Shortage |
| :--- | ---: | ---: | ---: |
|  | Rs. | Rs. | Rs. |
| January | $1,00,000$ | - | $1,00,000$ |
| Feb. to October | $9,60,000$ | $8,00,000$ | $1,60,000$ |
|  | $10,60,000$ | $8,00,000$ | $2,60,000$ |

2. Gross profit ratio for the purpose of insurance claim on loss of profit

Gross profit - Insured Standing Charges - Uninsured standing charges = Net profit
Gross profit - Uninsured standing charges $=$ Net profit + Insured Standing Charges
$=4,06,400-20,000=3,86,400$
$=$ Rs. 3,86,000/Rs.12,70,000 X 100
=30.425\%
3. Amount allowable in respect of additional expenses

Least of the following:
(i) Actual expenses=
1,80,000
(ii) Grossprofitonsalesduring10monthsperiod $=8,00,000 \times 30.425 \%=2,43,400$
(iii) $3,86,400 /(3,86,000+20,000) \times 1,80,000$
=Rs. 1,71,142 (approx.)
Least i.e. $=$ Rs.1,71,142 is admissible.
4. Amount of Claim

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On the amount of final claim, the average clause will not apply since the amount of the policy Rs.4,00,000 is higher than gross profit on annual adjusted turnover Rs.3,86,400.

Therefore, insurance claim will be Rs.2,22,247.

## Practical Questions (STUDY MATERIAL)

## Question 23

On 15th December, 20X1, a fire occurred in the premises of M/s. OM Exports. Most of the stocks were destroyed. Cost of stock salvaged being ₹ $1,40,000$. From the books of account, the following particulars were available:
(i) Stock at the close of account on 31st March, 20X1 was valued at ₹ 9,40,000.
(ii) Purchases from 01-04-20X1 to 15-12-20X1 amounted to ₹ 13,20,000 and the sales during that period amounted to ₹ $20,25,000$.
On the basis of his accounts for the past three years, it appears that average gross profit ratio is 20\% on
sales.
Compute the amount of the claim, if the stock were insured for ₹ $4,00,000$.
ANSWER

Memorandum Trading Account
For the period 01.04.20X1 to 15.12.20X1

| Particulars | $₹$ | Particulars | $₹$ |
| :--- | :--- | :--- | :--- |
| To Opening stock | $9,40,000$ | By Sales | $20,25,000$ |
| To Purchases | $13,20,000$ | By Closing Stock | $6,40,000$ |
| To Gross Profit <br> @20\% | $4,05,000$ | (Bal. figure) |  |
| $26,65,000$ |  | $26,65,000$ |  |

## Statement of Claim

| Estimated value of Stock as at date of <br> fire | $6,40,000$ |
| :--- | :--- |
| Less: Value of Salvaged Stock | $1,40,000$ |
| Estimated Value of Stock lost by fire | $5,00,000$ |

As the value of stock is more than insured value, amount of claim would be subject to average clause.
Amount of Claim $=$ Amount of Policy $\times$ Actual Loss of Stock / Value of Stock
Amount of Claim $=4,00,000 \times 5,00,000 / 6,40,000=₹ 3,12,500$

## Question 24

On 29th August, 20X2, the godown of a trader caught fire and a large part of the stock of goods was destroyed. However, goods costing ₹ 1,08,000 could be salvaged incurring fire fighting expenses amounting to ₹ 4,700 .

The trader provides you the following additional information:

| Cost of stock on 1st April, 20X1 | $7,10,500$ |
| :--- | :--- |
| Cost of stock on 31st March, 20X2 | $7,90,100$ |
| Purchases during the year ended 31st March, 20X2 | $56,79,600$ |
| Purchases from 1st April, 20X2 to the date of fire | $33,10,700$ |
| Cost of goods distributed as samples for advertising from <br> 1st April, 20X2 to the date of fire | 41,000 |
| Cost of goods withdrawn by trader for personal use from <br> 1st April, 20X2 to the date of fire | 2,000 |
| Sales for the year ended 31st March, 20X2 | $80,00,000$ |
| Sales from 1st April, 20X2 to the date of fire | $45,36,000$ |

The insurance company also admitted firefighting expenses. The trader had taken the fire insurance policy for ₹ 9,00,000 with an average clause.

Calculate the amount of the claim that will be admitted by the insurance company.

Answer 24
Memorandum Trading Account for the period
1st April, 20X2 to 29th August 20X2

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|  |  | F |  | ₹ |
| :---: | :---: | :---: | :---: | :---: |
| To Opening Stock |  | 7,90,100 | By Sales | 45,36,000 |
| To Purchases | 33,10,700 |  | By Closing stock (Bal. fig.) | 8,82,600 |
| Less: Advertisement Drawings | $\begin{array}{r} (41,000) \\ (2,000) \end{array}$ | 32,67,700 |  |  |
| $\begin{gathered} \text { To Gross Profit }[30 \% \\ \text { of Sales - Refer } \\ \text { Working Note] } \end{gathered}$ |  | 13,60,800 |  |  |
|  |  | 54,18,600 |  | 54,18,600 |

## Statement of Insurance Claim

| Value of stock destroyed by fire | $8,82,600$ |
| :--- | :--- |
| Less: Salvaged Stock | $(1,08,000)$ |
| Add: Fire Fighting Expenses | 4,700 |
| Insurance Claim | $7,79,300$ |

Note: Since policy amount is more than claim amount, average clause will not apply. Therefore, claim amount of ₹ $7,79,300$ will be admitted by the Insurance Company.

## Working Note:

Trading Account for the year ended 31st March, 20X2

| To Opening Stock | $7,10,500$ | By Sales | $80,00,000$ |
| :--- | :--- | :--- | :--- |
| To Purchases | $56,79,600$ | By Closing stock | $7,90,100$ |
| To Gross Profit <br> (b.f.) | $24,00,000$ |  |  |
|  | $87,90,100$ |  | $87,90,100$ |

## Rate of Gross Profit in 20X1-X2

$$
\frac{\text { Gross Profit }}{\text { Sales }} \times 100=\frac{24,00,000}{80,00,000} \times 100=30 \%
$$

## Question 25

A fire occurred in the premises of $\mathrm{M} / \mathrm{s}$. Fireproof Co. on 31st August, 20X1. From the following particulars relating to the period from 1st April, 20X1 to 31st August, 20X1, you are requested to ascertain the amount of claim to be filed with the insurance company for the loss of stock. The concern had taken an insurance policy for ₹ 60,000 which is subject to an average clause.

| (i) | Stock as per Balance Sheet at 31-03-20X1 | 99,000 |
| :--- | :--- | :--- |
| (ii) | Purchases | $1,70,000$ |
| (iii) | Wages (including wages for the installation of a machine ₹ 3,000) | 50,000 |
| (iv) | Sales | $2,42,000$ |
| (v) | Sale value of goods drawn by partners | 15,000 |
| (vi) | Cost of goods sent to consignee on 16th August, 20X1, lying unsold with <br> them | 16,500 |
| (vii) | Cost of goods distributed as free samples | 1,500 |

While valuing the stock at 31st March, 20X1, ₹ 1,000 were written off in respect of a slow moving item. The cost of which was ₹ 5,000 . A portion of these goods were sold at a loss of ₹ 500 on the original cost of ₹ 2,500 . The remainder of the stock is now estimated to be worth the original cost. The value of goods salvaged was estimated at ₹ $\mathbf{2 0 , 0 0 0}$. The average rate of gross profit was 20\% throughout.

Answer

Memorandum Trading Account for the period 1st April, 20X1 to 31st August, 20X1

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|  | Normal Items | Abnormal Items | Total |  | Normal Items | Abnormal Items | Total |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To Opening stock | 95,000 | 5,000 | 1,00,000* | By Sales | 2,40,000 | 2,000 | 2,42,000 |
| To Purchases <br> (Refer W.N.) | 1,56,500 | - | 1,56,500 | By Goods sent to consignee | 16,500 | - | 16,500** |
| To Wages $(50,000-3,000)$ | 47,000 | - | 47,000 | By Loss | - | 500 | 500 |
| To Gross profit <br> @ 20\% | 48,000 | - | 48,000 | $\begin{aligned} & \text { By Closing } \\ & \text { stock } \\ & \text { (Bal.fig.) } \end{aligned}$ | 90,000 | 2,500 | 92,500 |
|  | 3,46,500 | 5,000 | 3,51,500 |  | 3,46,500 | 5,000 | 3,51,500 |

* 99,000 + 1,000
** For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the concern and, hence, there was no loss of such stock.

Statement of Claim for Loss of Stock

| Book value of stock as on 31.08.20X1 | 92,500 |
| :--- | :--- |
| Less: Stock salvaged | $(20,000)$ |
| Loss of stock | 72,500 |

Amount of claim to be lodged with insurance company

$$
\begin{aligned}
& =\text { Loss of stock } \times \frac{\text { Policy value }}{\text { Value of stock on the date of fire }} \\
& =₹ 72,500 \times \frac{60,000}{92,500}=₹ 47,027
\end{aligned}
$$

## Working Note: <br> Calculation of Adjusted Purchases

| Purchases | $1,70,000$ |
| :--- | :--- |
| Less: Drawings $[15,000-(20 \% \times 15,000)]$ | $(12,000)$ |
| Free samples | $(1,500)$ |
| Adjusted purchases | $1,56,500$ |

## Question 26

A fire occurred in the premises of $\mathrm{M} / \mathrm{s}$. Kailash \& Co. on 30th September 20X1. From the following particulars relating to the period from 1st April 20X1 to 30th September 20X1, you are required to ascertain the amount of claim to be filed with the Insurance Company for the loss of Stock. The company has taken an Insurance policy for ₹ 75,000 which is subject to average clause. The value of goods salvaged was estimated at ₹ $\mathbf{2 7 , 0 0 0}$. The average rate of Gross Profit was $\mathbf{2 0 \%}$ throughout the period.

|  | Particulars | Amount in ₹ |
| :--- | :--- | :--- |
| (i) | Opening Stock | $1,20,000$ |
| (ii) | Purchase made | $2,40,000$ |
| (iii) | Wages paid (including wages for the installation of a <br> machine ₹ 5,000) | 75,000 |
| (iv) | Sales | $3,10,000$ |
| (v) | Goods taken by the Proprietor (Sale Value) | 25,000 |
| (vi) | Cost of goods sent to Consignee on 20th September <br> $20 \times 1$, lying unsold with them | 18,000 |
| (vii) | Free Samples distributed-Cost | 2,500 |

Answer
Memorandum Trading Account for the period 1st April, 20X1 to 30th Sept. 20X1

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|  |  | F |  | ₹ |
| :---: | :---: | :---: | :---: | :---: |
| To Opening Stock | 2,40,000 | 1,20,000 | By Sales | 3,10,000 |
| To Purchases |  |  | By Consignment stock <br> By Closing Stock (Bal. fig.) | 18,000* |
| Less: Advertisement | $(2,500)$ |  |  | 1,41,500 |
| Cost of goods taken by proprietor | $(20,000)$ | 2,17,500 |  |  |
| To Wages $(75,000-5,000)$ |  | 70,000 |  |  |
| To Gross Profit [20\% of Sales) |  | 62,000 |  |  |
|  |  | 4,69,500 |  | 4,69,500 |

* For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the concern and, hence, there was no loss of such stock.

Statement of Insurance Claim

| Value of stock destroyed by fire | $1,41,500$ |
| :--- | :--- |
| Less: Salvaged Stock | $(27,000)$ |
| Insurance Claim | $1,14,500$ |

Note: Since policy amount is less than claim amount, average clause will apply. Therefore, claim amount will be computed by applying the formula

Claim $=$ Insured value $\times$ Loss suffered / Total cost
Claim amount $=₹ 60,689(1,14,500 \times 75,000 / 1,41,500)$

## Question 27

On 2.6.20X2, there occurred a fire in the warehouse of Mr. Jack and his total stock was destroyed by fire. However, following information could be obtained from the records saved:

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Stock at cost on 1.4.20X1 5,40,000
Stock at 90\% of cost on 31.3.20X2 6,48,000
Purchases for the year ended 31.3.20X2 25,80,000
Sales for the year ended 31.3.20X2 36,00,000
Purchases from 1.4.20X2 to 2.6.20X2 9,00,000
Sales from 1.4.20X2 to 2.6.20X2 19,20,000

Sales up to 2.6.20X2 includes $₹ 3,00,000$ (invoice price) being the goods not dispatched to the customers. Purchases up to $\mathbf{2 . 6 . 2 0 X}$ includes a machinery acquired for $₹ 60,000$. However, it does not include goods worth ₹ $1, \mathbf{2 0 , 0 0 0}$ 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 ₹ $4,80,000$ and it is subject to average clause.
You are required to ascertain the amount of claim for loss of stock applying average clause.

## Answer

In the books of Mr Jack
Trading Account for the year ended 31st March 20X2

|  | $\boldsymbol{₹}$ |  | ₹ |
| :--- | ---: | :--- | ---: |
| To Opening stock | $5,40,000$ | By Sales | $36,00,000$ |
| To Purchases | $25,80,000$ | By Closing Stock (at cost) | $7,20,000$ |
| To Gross Profit | $\mathbf{1 2 , 0 0 , 0 0 0}$ | $648000 / 90 \%$ | $43,20,000$ |

Thus, the GP ratio $=12,00,000 / 36,00,000=33.33 \%$

## Memorandum Trading Account

for the period 1st April 20X2 to 2nd June 20X2

|  | ₹ |  | ₹ |
| :---: | :---: | :---: | :---: |
| To Opening stock | 7,20,000 | By Sales <br> 19,20,000 <br> Less: good sold but not despatched $\quad(3,00,000)$ <br> By Closing Stock (balancing figure) |  |
| To Purchases $\quad 9,00,000$ Less: Machinery $(60,000)$ |  |  | 16,20,000 |
| Add: Good received but not invoiced $\quad 1,20,000$ |  |  | 6,00,000 |
| To Gross Profit (33.33\%) | 5,40,000 |  |  |
|  | 22,20,000 |  | 22,20,000 |

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

Insurance Cover = ₹ 4,80,000 and amount of loss of stock = ₹6,00,000. Thus, the insurance claim admissible shall be maximum up to ₹ $4,80,000$.

Question 28
On account of a fire on 15th June, 20X2 in the business house of a company, the working remained disturbed upto 15th December 20X2 as a result of which it was not possible to affect any sales. The company had taken out an insurance policy with an average clause against consequential losses for ₹ $1,40,000$ and a period of 7 months has been agreed upon as indemnity period. An increase of $\mathbf{2 5 \%}$ was marked in the current year's sales as compared to the last year. The company incurred an additional expenditure of $₹ 12,000$ to make sales possible and made a saving of $₹ \mathbf{2 , 0 0 0}$ in the insured standing charges. Compute the amount of claim admissible for the loss of profit.

| Actual sales from 15th June, 20X2 to 15th Dec, <br> $20 \times 2$ | 70,000 |
| :--- | :--- |
| Sales from 15th June 20X1 to 15th Dec 20X1 | $2,40,000$ |
| Net profit for last financial year | 80,000 |
| Insured standing charges for the last financial <br> year | 70,000 |
| Total standing charges for the last financial year | $1,20,000$ |
| Turnover for the last financial year | $6,00,000$ |
| Turnover for one year : 16th June 20X1 to 15th <br> June 20X2 | $5,60,000$ |

## ANSWER

## (1) Calculation of short sales:

| Sales for the period $15.6 .20 \times 1$ to <br> $15.12 .20 \times 1$ | $2,40,000$ |
| :--- | :---: |
| Add: $25 \%$ increase in sales | $-60,000$ |
| Estimated sales in current year | $3,00,000$ |
| Less: Actual sales from 15.6.20X2 to <br> $15.12 .20 \times 2$ | $(70,000)$ |
| Short sales | $2,30,000$ |

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0
(2) Calculation of gross profit:

$$
\begin{aligned}
\text { Gross profit } & =\frac{\text { Net profit }+ \text { Insured standing charges }}{\text { Turnover }} \times 100 \\
& =\frac{₹ 80,000+₹ 70,000}{₹ 6,00,000} \times 100 \\
& =\frac{₹ 1,50,000}{₹ 6,00,000} \times 100 \\
& =25 \%
\end{aligned}
$$

(3) Calculation of loss of profit:
₹ $2,30,000 \times 25 \%=₹ 57,500$
(4) Calculation of claim for increased cost of working:

Least of the following:
(i) Actual expense $=₹ 12,000$
(iii) Expenditure $x$ $\qquad$
$₹ 12,000 \times \frac{(25 / 100) \times ₹ 7,00,000}{[(25 / 100) \times ₹ 7,00,000]+₹ 50,000}=₹ 9,333$ approx.

Where,

| Adjusted turnover | $₹$ |
| :--- | :--- |
| Turnover from 16.06.20X1 <br> to $15.06 .20 \times 2$ | $5,60,000$ |
| Add: $25 \%$ increase | $1,40,000$ |
|  | $7,00,000$ |

(iii) Gross profit on sales generated due to additional expenditure $=$ $25 \%$ x ₹ 70,000 = ₹ 17,500.
$₹ 9,333$ being the least, shall be the increased cost of working.

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(5) Calculation of total loss of profit

|  | $₹$ |
| :--- | ---: |
| Loss of profit | 57,500 |
| Add: Increased cost of working | 9,333 |
|  | 66,833 |
|  |  |
|  | $(2,000)$ |

(6) Calculation of insurable amount:

Adjusted turnover x G.P. rate
$=₹ 7,00,000 \times 25 \%=₹ 1,75,000$
(7) Total claim for consequential loss of profit - Due to Average Clause
$=\frac{\text { Insured amount }}{\text { Insurable amount }} \times$ Total loss of profit
$=\frac{₹ 1,40,000}{₹ 1,75,000} \times ₹ 64,833=₹ 51,866.40$

## Question 29

From the following information, compute the amount of claim under loss of profit policy:
(i) Indemnity period 13 months
(ii) Sum insured` \(2,00,000\) (iii) Turnover, last financial year ended Dec. 31, 20X1` 12,00,000.
(iv) Gross Profit, i.e., Net profit plus insured standing charges, `2,40,000 giving a gross profit rate of 20\%. (v) Net profit plus all standing charges,`2,90,000 i.e., 50,000 of the standing charges are not insured.
(vi) Fire occurs on 31st March, 20X2, and affects business for 6 months.
(vii) Turnover for 12 months ended 31st March, 20X2, ` 11,70,000.
(viii) Turnover: 1-4-20X1 to 30-9-20X1 5,00,000

1-4-20X2 to 30-9-20X2 3,00,000
Reduction in turnover 2,00,000
(ix) Sales amounting ` 1,60,000 generated in period 1.4.20X2 to 30.9.20X2 by incurring additional expenses of` 30,000.
(x) Saving in insured standing charges in the indemnity period` 10,000.

## ANSWER

The claim in respect of profit will be calculated as follows:

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0
(a) Short Sales: ₹

Turnover 1-4-20X1 to 30-9-20X1 5,00,000
Less: Turnover 1-4-20X2 to 30-9-20X2
$(3,00,000)$
Reduction in turnover
$2,00,000$
Down-trend: ₹
Quarterly sales in $20 \times 1\left[\frac{₹ 12,00,000}{12} \times 3\right] \quad 3,00,000$
Sales of first quarter in 20X2: ₹ 11,70,000-[ ₹ $12,00,000 ~ 12 ~ \times 9] \quad$ 2,70,000
(Jan-Mar 20X2)
30,000

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

Adjusted Annual Turnover:
Sales for the period 1-4-20X1 to 31-12-20X1
$(11,70,000-2,70,000) \quad 9,00,000$
Add: Sales from 1-1-20X2 to 31-3-20X2
(b) Gross Claim: Gross Profit @ 20\% on short sales (₹ $2,00,000$ ) 40,000

$$
\text { Add: Claim for increase in cost of working (see below) } \begin{array}{ll}
\underline{24,718} \\
64,718
\end{array}
$$

Less: Saving in insured standing charges

Claim for increased cost of working is subject to two tests
(i) Increased cost of working $\times \frac{\text { G.P. on Adjusted Annual Turnover }}{\text { G.P. as above }+ \text { Uninsured Standing Charges }}$
$=₹ 30,000 \times \frac{₹ 11,70,000 \times \frac{20}{100}}{₹ 11,70,000 \times \frac{20}{100}+₹ 50,000}=₹ 24,718$.
(ii) Gross Profit on sales generated by increased cost of workings
$=1,60,000 \times \frac{20}{100}=₹ 32,000$
Lower of the two, i.e., ₹ 24,718 is allowable
(c) Application of average clause: ₹

Gross Profit on adjusted annual turnover, $20 \%$ on $₹ 11,70,000$ 2,34,000
Sum insured 2,00,000
Hence claim limited to $54,718 \times \frac{₹ 2,00,000}{₹ 2,34,000}$

Question 28
A fire occurred on 1st February, 20X2, in the premises of Pioneer Ltd., a retail store and business was partially disorganized upto 30th June, 20X2. The company was insured under a loss of profits for` $1,25,000$ with a six months period indemnity.
From the following information, compute the amount of claim under the loss of profit policy assuming entire sales during interrupted period was due to additional expenses.

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

Actual turnover from 1st February to 30th June, 20X2 80,000
Turnover from 1st February to 30th June, 20X1 2,00,000
Turnover from 1st February, $20 X 1$ to 31st January, 20X2 4,50,000
Net Profit for last financial year 70,000
Insured standing charges for last financial year 56,000
Total standing charges for last financial year 64,000
Turnover for the last financial year 4,20,000
The company incurred additional expenses amounting to ` 6,700 which reduced the loss in turnover. There was also a saving during the indemnity period of` 2,450 in the insured standing charges as a result of the fire.
There had been a considerable increase in trade since the date of the last annual accounts and it has been agreed that an adjustment of $15 \%$ be made in respect of the upward trend in turnover.

## Solution

Computation of the amount of claim for the loss of profit

## Reduction in turnover

Standard Turnover from 1st Feb. 20X1 to 30th June, 20X1
Add: 15\% expected increase
30,000
Adjusted Standard Turnover
Less: Actual Turnover from 1st Feb., 20X2 to 30th June, 20X2
Short Sales
Gross Profit on reduction in turnover @ 30\% on ₹ 1,50,000
(see working note 1)
Add: Claim for Additional Expenses being Lower of
(i) Actual $=₹ 6,700$
(ii) Additional Exp. $x \frac{\text { G.P. on Adjusted Annual Turnover }}{\text { G.P. as above }+ \text { Uninsured Standing Charges }}$

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

$6,700 \times \frac{1,55,250}{1,63,250}=6,372$
(iii) G.P. on sales generated by additional expenses
$-80,000 \times 30 \%=24,000$
Therefore, lower of above is

Less: Saving in Insured Standing Charges $(\underline{2,450)}$
Amount of claim before Application of Average Clause $\underline{48,922}$
Application of Average Clause:
$\frac{\text { Amount of Policy }}{\text { G.P. on Annual Turnover }} \times$ Amount of Claim
$=\frac{1,25,000}{1,55,250} \times 48,922$
Amount of claim under the policy $=₹ 39,390$

## Working Notes:

(i) Rate of Gross Profit for last Financial Year:

Gross Profit:
Net Profit 70,000
Add: Insured Standing Charges ..... 56,000

Turnover for the last financial year
Rate of Gross Profit $=\frac{1,26,000}{4,20,000} \times 100=30 \%$
(ii) Annual Turnover (adjusted):

Turnover from 1st Feb., 20X1 to 31st January, 20X2 4,50,000
Add: 15\% expected increase 67,500

Gross Profit on ₹ $5,17,500$ @ $30 \% 1,55,250$
Standing charges not Insured (64,000-56,000) 8,000

Gross Profit plus non-insured standing charges
$1,63,250$

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

Question 29

Monalisa \& Co. runs plastic goods shop. Following details are available from quarterly sales tax return filed.

| Sales | $20 X 1$ | $20 \times 2$ | $20 \times 3$ | $20 \times 4$ |
| :--- | :--- | :--- | :--- | :--- |
| $₹$ | $₹$ | $₹$ | $₹$ |  |
| From 1st January to 31st March | $1,80,000$ | $1,70,000$ | $2,05,950$ | $1,62,000$ |
| From 1st April to 30th June | $1,28,000$ | $1,86,000$ | $1,93,000$ | $\mathbf{2 , 2 1 , 0 0 0}$ |
| From 1st July to 30th September | $\mathbf{1 , 5 3 , 0 0 0}$ | $\mathbf{2 , 1 0 , 0 0 0}$ | $\mathbf{2 , 3 1 , 0 0 0}$ | $\mathbf{1 , 7 5 , 0 0 0}$ |
| From 1st October to 31st December | $1,59,000$ | $1,47,000$ | $1,90,000$ | $1,48,000$ |
| Total | $6,20,000$ | $7,13,000$ | $8,19,950$ | $7,06,000$ |

## Period ₹

Sales from 16-09-20X3 to 30-09-20X3 34,000
Sales from 16-09-20X4 to 30-09-20X4 Nil
Sales from 16-12-20X3 to 31-12-20X3 60,000
Sales from 16-12-20X4 to 31-12-20X4 20,000

A loss of profit policy was taken for ₹ 1,00,000. Fire occurred on 15th September, 20X4. Indemnity period was for 3 months. Net Profit was ₹ 1,20,000 and standing charges (all insured) amounted to ₹ 43,990 for year ending 31st December, 20X3.

Determine the Insurance Claim.

Answer

## (1) Gross profit ratio ₹

Net profit in year 20X3
1,20,000
Add: Insured standing charges
43,990
Gross profit
1,63,990

Ratio of gross profit $=1,63,990 / 8,19,950=20 \%$

## (2) Calculation of Short sales

Indemnity period: 16.9.20X4 to 15.12.X4
Standard sales to be calculated on basis of corresponding period of year 20X3

Sales for period 16.9.20X3 to 30.9.X3
Sales for period 1.10.20X3 to 15.12.20X3 (Note 1)

34,000
1,30,000

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

Sales for period 16.9.20X3 to 15.12.20X3
1,64,000
Add: upward trend in sales (15\%) (Note 2)
Standard Sales (adjusted)
24,600

Actual sales of disorganized period
Calculation of sales from 16.9.X4 to 15.12.X4

Sales for period 16.9.X4 to 30.9.X4
Sales for 1.10.X4 to 15.12.X4 (₹ $1,48,000$ - ₹ 20,000 )
Actual Sales
Short Sales (₹ 1,88,600-₹ 1,28,000)

Nil
1,28,000
1,28,000
60,600

## (3) Loss of gross profit

Short sales x gross profit ratio $=60,600 \times 20 \% 12,120$

## (4) Application of average clause

$$
\begin{aligned}
\text { Net claim } & =\text { Gross claim } \times \frac{\text { policy value }}{\text { gross profit onannual }} \\
& =12,120 \times \frac{1,00,000}{1,63,120(\mathrm{W.N.} 3)}
\end{aligned}
$$

Amount of claim $=₹ 7,430$

## Working Notes:

1. Sales for period 1.10.X3 to 15.12.X3 ₹ Sales for 1.10.X3 to 31.12.X3 (given)
Sales for 16.12.X3 to 31.12. X3 (given)
Sales for period 1.10.X3 to 15.12.X3

$$
\begin{array}{r}
1,90,000 \\
60,000 \\
1,30,000
\end{array}
$$

2. Calculation of upward trend in sales

Total sales in year 20×1 = ₹ $6,20,000$

Increase in sales in year 20X2 as compared to 20X1 = ₹ 93,000

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0
$\%$ increase $=\frac{93,000(7,13,000-6,20,000)}{6,20,000}=15 \%$
Increase in sales in year 20X3 as compared to year 20X2
$\%$ increase $=\frac{1,06,950(8,19,950-7,13,000)}{7,13,000}=15 \%$
Thus annual percentage increase trend is of 15\%.
3. Gross profit on annual turnover ₹

Sales from 16.9.X3 to $30.9 . \times 3$ (adjusted)( $34,000 \times 1.15$ )
39,100
1.10.X3 to 31.12.X3(adjusted) (1,90,000 x1.15)
1.1.X4 to 31.3.X4

2,18,500
1.4. X 4 to 30.6 . X 4

1,62,000
1.7.20X4 to 15.9.20X4 (1,75,000 - Nil)

2,21,000

Sales for 12 months just before date of fire
1,75,000

Gross profit on adjusted annual sales @ 20\%
8,15,600
1,63,120

## QUESTION 30 (RTP MAY 18)

The premises of Anmol Ltd. caught fire on $22^{\text {nd }}$ January 2017, and the stock was damaged. The firm makes account up to $31^{\text {st }}$ March each year. On 31 ${ }^{\text {st }}$ March, 2016 the stock at cost was Rs.6,63,600 as against Rs.4,81,100 on 31st March, 2015.

Purchases from $1^{\text {st }}$ April, 2016 to the date of fire were Rs. $17,41,350$ as against Rs. $22,62,500$ for the full year 2015-16 and the corresponding sales figures were Rs.24,58,500 and Rs.26,00,000 respectively. You are given the following further information:
(i) In July, 2016, goods costing Rs.50,000 were given away for advertising purposes, no entries being made in the books.
(ii) During 2016-17, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged Rs. 1,000 per week from $1^{\text {st }}$ April, 2016 until the clerk was dismissed on $18^{\text {th }}$ August,2016.
(iii) The rate of gross profit is constant.

You are required to calculate the value of stock in hand on the date of fire with the help of above information.

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

## ANSWER:

## Ascertainment of rate of gross profit for the year 2015-16 Trading A/c for the year ended31-3-2016

|  | Rs. |  | Rs. |
| :--- | ---: | :--- | ---: |
| To Opening stock | $4,81,100$ | By Sales | $26,00,000$ |
| To Purchases | $22,62,500$ | By Closing stock | $6,63,600$ |
| To Gross profit | $5,20,000$ |  |  |
|  | $32,63,600$ |  | $32,63,600$ |

Memorandum Trading A/c for the period from 1-4-2016 to 22-01-2017

|  | Rs. | Rs. |  | Rs. |  | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To Opening stock <br> To Purchases Less: Goods used for advertisement <br> To Gross profit (20\% of Rs.24,78,500) | $\begin{array}{r} 17,41,350 \\ (50,000) \\ \hline \end{array}$ | 6,63,600 | By Sales <br> Add: Unrecorded cash <br> sales (W.N.) <br> By Closing stock | $\begin{gathered} 24,58,500 \\ \underline{20,000} \\ \hline \end{gathered}$ |  |  |
|  |  | 16,91,350 |  |  | 24,78 3,72 | 500 |
|  |  | 4,95,700 |  |  |  |  |
|  |  | 28,50,650 |  |  | 28,50 | 650 |

Estimated stock in hand on the date of fire was Rs.3, 72,150.

## Working Note:

Cash sales defalcated by the Accountant:
Defalcation period $=1.4 .2016$ to 18.8.2016= 140 days
Since, 140 days $/ 7$ weeks $=20$ weeks
Therefore, amount of defalcation $=20$ weeks $\times$ Rs.1,000 $=$ Rs. $20,000$.

## QUESTION 31 (RTP NOVEMBER 18)

On 27th July, 2017, a fire occurred in the godown of M/s. Vijay Exports and most of the stocks were destroyed. However goods costing Rs.5,000 could be salvaged. Their fire fighting expenses were amounting to Rs.1,300.

From the salvaged accounting records, the following information is available relating to the period from 14.2017 to 27.7.2017:

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

1. Stock as per balance sheet as on 31.3.2017
2. Purchases (including purchase of machinery costing Rs.10,000
3. Wages (including wages paid for installation of machinery Rs.3,000)
4. Sales (including goods sold on approval basis amounting to

Rs.40,000. No approval has been received in respect of $1 / 4^{\text {th }}$ of the goods sold on approval)
5. Cost of goods distributed as free sample

Rs.63,000
Rs.2,92,000
Rs.53,000

Rs.4,12,300
Rs,4,12,300

Rs.2,000

Other Information:
(i) While valuing the stock on 31.3.2017, Rs.1,000 had been written off in respect of certain slow moving items costing Rs.4,000. A portion of these goods were sold in June, 2017 at a loss of Rs. 700 on original cost of Rs.3,000. The remainder of these stocks is now estimated to be worth its original cost.
(ii) Past record shows the normal gross profit rate is $\mathbf{2 0 \%}$.
(iii) Theinsurancecompanyalsoadmittedfirefightingexpenses.TheCompanyhadtaken the fire insurance policy of Rs.55,000 with the average clause.

You are required to compute the amount of claim of stock destroyed by fire, to be lodged to the Insurance Company. Also prepare Memorandum Trading Account for the period 1.4.2017 to 27.7.2017 for normal and abnormal items.

Answer:
Memorandum Trading Account for the period 1st April, 2017 to 27th July, 2017

|  | Normal Items Rs. | Abnormal Items Rs. | Total <br> Rs. |  | Normal Items Rs. | Abnormal Items Rs. | Total Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To Opening stock (W.N.5) | 60,000 | 4,000 | 64,000 | By Sales (W.N. 3) | 4,00,000 | 2,300 | 4,02,300 |
| To Purchases ( W.N. 1) | 2,80,000 | - | 2,80,000 | By Loss | - | 700 | 700 |
| To Wages (W.N. 4) | 50,000 | - | 50,000 | By Goods on Approval ( W.N. 2) | 8,000 | - | 8,000 |

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

| To Gross profit <br> @20\% | 80,000 | - | 80,000 | By Closing stock <br> (Bal. fig.) | 62,000 | 1,000 | 63,000 |
| :---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
|  | $4,70,000$ | 4,000 | $4,74,000$ |  | $4,70,000$ | 4,000 | $4,74,000$ |

## Statement of Claim for Loss of Stock

|  | Rs. |
| :--- | ---: |
| Book value of stock as on 27th July, 2017 | 62,000 |
| Add: Abnormal Stock | 1,000 |
| Less: Stock salvaged | $\underline{(5,000)}$ |
| Loss of stock | 58,000 |
| Add: Firefighting expenses | $\underline{1,300}$ |
| Total Loss | $\underline{\underline{9,300}}$ |

Amount of claim to be lodged with insurance company
=Loss
Policy value
Value of stock on the date of fire
$=$ Rs. $59,300 \times(55,000 / 63,000)=$ Rs. 51,770 (rounded off)

## Working Notes:

1. Calculation of Adjusted Purchases

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

2. Calculation of Goods with Customers

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

$$
\text { = Rs.8, } 000
$$

## 3. Calculation of Actual Sales

Total Sales
Rs.4,12,300
Less: Approval for sale not received ( $1 / 4 \times$ Rs.40,000) Rs.
10,000ActualSales
Rs.4,02,300
4. Calculation of Wages

Total Wages
Less: Wages for installation of machinery Rs.53,000

Rs.3,000
Rs.50,000
5. Value of Opening Stock

Original cost of stock as on 31st March, 2018

$$
\begin{aligned}
& =\text { Rs. } 63,000+1,000 \text { (Amount written off) } \\
& =\text { Rs. } 64,000 .
\end{aligned}
$$

## QUESTION 32 (RTP MAY 19)

A fire engulfed the premises of a business of M/s Preet on the morning of 1st July 2018. The building, equipment and stock were destroyed and the salvage recorded the following:

Building-Rs.4, 000; Equipment-Rs.2, 500;Stock-Rs.20,000. The following other information was obtained from the records saved for the period from $1^{\text {st }}$ January to $30^{\text {th }}$ June 2018:

|  | Rs. |
| :--- | ---: |
| Sales | $11,50,000$ |
| Sales Returns | 40,000 |
| Purchases | $9,50,000$ |
| Purchases Returns | 12,500 |
| Cartage inward | 17,500 |
| Wages | 7,500 |
| Stock in hand on 31st December, 2017 | $1,50,000$ |
| Building (value on 31 ${ }^{\text {st }}$ December, 2017) | $3,75,000$ |
| Equipment (value on 31 ${ }^{\text {st }}$ December, 2017) | 75,000 |

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

Depreciation provision till 31 ${ }^{\text {st }}$ December, 2017 on:
Building
1,25,000
Equipment
No depreciation has been provided since December 31st 2017. The latest rate of depreciationis5\%p.a.onbuildingand15\%p.a.onequipmentbystraightlinemethod.

Normally business makes a profit of $25 \%$ on net sales. You are required to prepare the statement of claim for submission to the Insurance Company.
Answer:

Memorandum Trading Account for the Period from 1.1.2018 to30.6.2018

|  | Rs. |  |  | Rs. |
| :---: | :---: | :---: | :---: | :---: |
| To Opening Stock (1.1.2018) | 1,50,000 | By Sales | 11,50,000 |  |
| To Purchases $9,50,000$ <br> Less: Returns $\underline{(12,500)}$ | 9,37,500 | Less: <br> Sales <br> Returns | (40,000) | 11,10,000 |
| To Cartage Inwards | 17,500 | By Closing Stock |  | 2,80,000 |
| To Wages | 7,500 | (Bal. Fig.) |  |  |
| To Gross Profit | 2,77,500 |  |  |  |
|  | 13,90,000 |  |  | 13,90,000 |

Stock Destroyed Account

|  | Rs. |  | Rs. |
| :--- | ---: | :--- | ---: |
| To Trading Account | $2,80,000$ | By Stock Salvaged <br> Account By Balance <br> c/d (For Claim) | 20,000 |
|  | $2,80,000$ | $2,80,000$ |  |
|  |  |  |  |

Statement of Claim

| Items | Cost <br> (Rs.) | Depreciation <br> (Rs.) | Salvage <br> (Rs.) | Claim <br> (Rs.) |
| :--- | :---: | :---: | :---: | ---: |
| A | $B$ | $C$ |  | $(E=B-C-D)$ |
| Stock | $2,80,000$ |  | 20,000 | $2,60,000$ |
| Buildings | $3,75,000$ | $1,25,000+9,375$ | 4,000 | $2,36,625$ |
| Equipment | 75,000 | $22,500+5,625$ | 2,500 | 44,375 |
|  |  |  |  | $5,41,000$ |

## QUESTION 33 (RTP NOVEMBER 19)

On 2.6.2019 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the records saved:

|  | Rs. |
| :--- | ---: |
| Stock at cost on 1.4.2018 | $1,35,000$ |
| Stock at 90\% of cost on 31.3.2019 | $1,62,000$ |
| Purchases for the year ended 31.3.2019 | $6,45,000$ |
| Sales for the year ended 31.3.2019 | $9,00,000$ |
| Purchases from 1.4.2019 to 2.6.2019 | $2,25,000$ |
| Sales from 1.4.2019 to 2.6.2019 | $4,80,000$ |

Sales up to 2.6.2019 includes Rs.75, 000 being the goods not dispatched to the customers. The sales (invoice) price is Rs.75, 000.

Purchases up to 2.6.2019 includes a machinery acquired for Rs.15, 000.
Purchases up to 2.6.2019 does not include goods worth Rs.30, 000received 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, 20,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock.
Answer:

## In the books of Mr. Black

Trading Account for the year ended 31.3.2019

|  | Rs. |  | Rs. |
| :--- | ---: | :--- | ---: |
| To Opening Stock | $1,35,000$ | By Sales | $9,00,000$ |
| To Purchases | $6,45,000$ | By Closing Stock at cost | $1,80,000$ |
| To Gross Profit | $3,00,000$ |  |  |
|  |  |  | $\underline{10,80,000}$ |
|  |  | $\underline{10,000}$ |  |

## Memorandum Trading A/c

for the period from 1.4.2019 to 02.06.2019


## QUESTION 34 (RTP MAY 20)

A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

## Rs.

Turnover in last financial year
36, 00,000Standing
charges in last financial year
7, 20,000
Net profit earned in last year was $10 \%$ of turnover and the same trend expected in subsequent year.

Increase in turnover expected 25\%.
To achieve additional sales, trader has to incur additional expenditure of Rs.50, 000.

## Answer:

## 1. Calculation of Gross Profit

Gross Profit $=(3,60,000+7,20,000) / 36,00,000$
$=30 \%$

Calculation of policy amount to cover loss of profit

|  | Rs. |
| :--- | ---: |
| Turnover in the last financial year | $36,00,000$ |
| Add: 25\% increase in turnover | $\underline{9,00,000}$ |
|  | $\underline{45,00,000}$ |
| Gross profit on increased turnover | $13,50,000$ |
| Add: Additional standing charges | $\underline{50,000}$ |
| Policy Amount | $\underline{00,000}$ |

Therefore, the trader should go in for a loss of profit policy of Rs.14,00,000.

## QUESTION 35 (RTP NOVEMBER 20)

Shyam's godown caught fire on 29th August, 2020, and a large part of the stock of goods was destroyed. However, goods costing Rs.54,000 could be salvaged. The trader provides you the following additional information:

|  | Rs. |
| :--- | ---: |
| Cost of stock on 1st April, 2019 | $3,55,250$ |
| Cost of stock on 31st March, 2020 | $3,95,050$ |
| Purchases during the year ended 31st March, 2020 | $28,39,800$ |
| Purchases from 1st April, 2020 to the date of fire | $16,55,350$ |
| Cost of goods distributed as samples for advertising from 1st | 20,500 |
| April, 2020 to the date of fire |  |
| Cost of goods withdrawn by trader for personal use from 1st |  |
| April, 2020 |  |
| to the date of fire | 1,000 |
| Sales for the year ended 31st March, 2020 | $40,00,000$ |
| Sales from 1st April, 2020 to the date of fire | $22,68,00$ |
|  | 0 |

Shyam had taken the fire insurance policy for Rs.2,50,000 with an average clause.
Calculate the amount of the claim that will be admitted by the insurance company. Consider that the rate of gross profit up to date of fire is same as that of previous accounting year.

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

## Answer:

Memorandum Trading Account
for the period 1 ${ }^{\text {st }}$ April, 2020 to 29th August2020

|  |  | Rs. | Rs. |  |
| :---: | ---: | ---: | :--- | ---: |
| To Opening Stock | $16,55,350$ | $3,95,050$ | Sales | $22,68,000$ |
| To Purchases |  |  | Closing stock (Bal. fig.) | $4,41,300$ |
| Less: <br> Advertisement <br> Drawings | $(20,500)$ |  |  |  |
| To Gross Profit [30\% <br> of Sales] [W N] |  | $\underline{6,80,400}$ |  | $\underline{27,33,850}$ |
|  | $\underline{27,09,300}$ |  |  |  |

Statement of Insurance Claim

|  | Rs. |
| :--- | ---: |
| Value of stock on date of fire | $4,41,300$ |
| Less: Salvaged Stock | $\underline{(54,000)}$ |
| stock destroyed | $\underline{3,87,300}$ |

## Application of Average Clause

Amount of Insurance claim= Rs.3, $87,300 / 4,41,300 \times 2,50,000=$ Rs.2,19,409 (rounded off)

## Working Note:

Trading Account for the year ended $31^{\text {st }}$ March, 2020

|  | Rs. |  | Rs. |
| :--- | ---: | :--- | ---: |
| To Opening Stock | $3,55,250$ | By Sales | $40,00,000$ |
| To Purchases | $28,39,800$ | By Closing stock | $3,95,050$ |
| To Gross Profit | $\underline{12,00,000}$ |  |  |
|  | $\underline{43,95,050}$ |  | $43,95,050$ |

Rate of Gross Profit in 2019-2020

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

Gross Profit/sales $100=12,00,000 / 40,00,000 \times 100=30 \%$

## QUESTION 36 (MTP APRIL 19) (RTP JULY 21)

Shyam's godown caught fire on 29th August, 2016, and a large part of the stock of goods was destroyed. However, goods costing Rs. 54,000 could be salvaged incurring fire fighting expenses amounting to Rs. 2,350. The trader provides you the following additional information:

|  | Rs. |
| :--- | ---: |
| Cost of stock on 1st April, 2015 | $3,55,250$ |
| Cost of stock on 31st March, 2016 | $3,95,050$ |
| Purchases during the year ended 31st March, 2016 | $28,39,800$ |
| Purchases from 1st April, 2016 to the date of fire | $16,55,350$ |
| Cost of goods distributed as samples for advertising from 1st | 20,500 |
| April, 2016 to the date of fire |  |
| Cost of goods withdrawn by trader for personal use from 1st |  |
| April, 2016 | 1,000 |
| to the date of fire | $40,00,000$ |
| Sales for the year ended 31st March, 2016 | $22,68,000$ |
| Sales from 1st April, 2016 to the date of fire |  |

The insurance company also admitted firefighting expenses. Shyam had taken the fire insurance policy for Rs. 4,50,000 with an average clause.

Calculate the amount of the claim that will be admitted by the insurance company. ANSWER:

Memorandum Trading Account For the period1 ${ }^{\text {st }}$ April,2016 to 29th August2016


| ToGross Profit <br> [30\% of <br> Sales] [W N] | $\underline{6,80,400}$ |  |
| :--- | :--- | ---: | ---: |
|  |  | $\underline{27,09,300}$ |$| \quad$|  |
| :---: |

## Statement of Insurance Claim

|  | Rs. |
| :--- | ---: |
| Value of stock destroyed by fire | $4,41,300$ |
| Less: Salvaged Stock | $(54,000)$ |
| Add: Fire Fighting Expenses | $\underline{2,350}$ |
| Insurance Claim | $\underline{3,89,650}$ |

Note: Since policy amount is more than claim amount, average clause will not apply. Therefore, claim amount of Rs. 3,89,650 will be admitted by the Insurance Company.

## Working Note:

Trading Account for the year ended 31st March, 2016

|  | Rs. |  | Rs. |
| :--- | ---: | :--- | ---: |
| To Opening Stock | $3,55,250$ | By Sales | $40,00,000$ |
| To Purchases | $28,39,800$ | By Closing stock | $3,95,050$ |
| To Gross Profit | $\underline{12,00,000}$ |  |  |
|  | $\underline{43,95,050}$ |  | $\underline{43,95,050}$ |

## QUESTION 37 (MTP MAY 20) (PAST PAPER NOVEMBER 18)

A fire engulfed the premises of a business of $M / S$ Kite in the morning, of $1^{\text {st }}$ October, 2019. The entire stock was destroyed except, stock salvaged of Rs.50,000. Insurance Policy was for Rs. 5,00,000 with average clause.

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

The following information was obtained from the records saved for the period from $1^{\text {st }}$ April to 30th September,2019:

|  | Rs. |
| :--- | ---: |
| Sales | $27,75,000$ |
| Purchases | $18,75,000$ |
| Carriage inward | 35,000 |
| Carriage outward | 20,000 |
| Wages | 40,000 |
| Salaries | 50,000 |
| Stock in hand on 31st March, 2019 | $3,50,000$ |

## Additional Information:

(1) Sales upto 30th September, 2019, includes Rs. 75,000 for which goods had not been dispatched.
(2) On1 ${ }^{\text {st }}$ June, 2019, goods worth Rs. 1,98,000 sold to Hari on approval basis which was included in sales but no approval has been received in respect of $2 / 3^{\text {rd }}$ of the goods sold to him till $30^{\text {th }}$ September,2019.
(3) Purchases upto $30^{\text {th }}$ September, 2019 did not include Rs. 1,00,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown.
(4) Past records show the gross profitrateof $25 \%$ onsales.

You are required to prepare the statement of claim for loss of stock for submission to the Insurance Company.

## ANSWER:

Computation of claim for loss of stock

|  | Rs. |
| :--- | ---: |
| Stock on the date of fire (i.e. on 1.10.2019) | $3,75,000$ |
| Less: Stock salvaged | $\underline{(50,000)}$ |
| Stock destroyed by fire (Loss of stock) | $\underline{3,25,000}$ |

Insurance claim = Rs. 3,25,000
(Average clause is not applicable as insurance policy amount (Rs.5,00,000) is more than the value of closing stock ie. Rs.3,75,000)

Memorandum Trading A/c (1.4.19 to 30.9.19)

| Particulars | (Rs.) | Particulars | (Rs.) |
| :--- | ---: | :--- | ---: |
| To Opening stock | $3,50,000$ | By Sales | $25,68,000$ |
|  | $19,75,000$ | By Goods with | 99,000 |

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

| To Purchases |  | lustomers* <br> (for approval) (W.N.1) |  |
| :--- | ---: | :--- | ---: |
| (Rs. 18,75,000+Rs. 1,00,000) | 35,000 | By Closing stock (bal. fig.) | $3,75,000$ |
| To Carriage inward | 40,000 |  |  |
| To Wages | $\underline{6,42,000}$ |  |  |
| To Gross profit | $\underline{30,42,000}$ |  | $\underline{30,42,000}$ |

*For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the entity and, hence, there was no loss of suchstock.

## Working Notes:

## 1. Calculation of goods with customers

Since no approval for sale has been received for the goods of Rs. 1,32,000 (i.e. 2/3 of Rs.1,98,000)hence,theseshouldbevaluedatcosti.e.Rs.1,32,000-25\%ofRs.1,32,000 = Rs. 99,000.
2. Calculation of actual sales

Total sales- Goods not dispatched- Sale of goods on approval $\left(2 / 3^{\text {rd }}\right)=$ Sales(Rs.27,75,000-75,000-Rs.1,32,000)=Rs.25,68,000

## QUESTION 38 (MTP OCTOBER 20)

A fire occurred in the premises of $\mathrm{M} / \mathrm{s}$. Fireproof on $31^{\text {st }}$ August, 2020. From the following particulars relating to the period from $1^{\text {st }}$ April, 2020 to $31^{\text {st }}$ August, 2020, you are requested to ascertain the amount of claim to be filed with the insurance company for the loss of stock. The concern had taken an insurance policy for Rs. 60,000 which is subject to an average clause.

|  |  | Rs. |
| :--- | :--- | ---: |
| (i) | Stock as per Balance Sheet at 31-03-2020 | 99,000 |
| (ii) | Purchases | $1,70,000$ |
| (iii) | Wages (including wages for the installation of a machine Rs. | 50,000 |
|  | 3,000 ) |  |
| (iv) | Sales | $2,42,000$ |
| (v) | Sale value of goods drawn by partners | 15,000 |
| (vi) | Cost of goods sent to consignee on 16th August, 2020, lying | 16,500 |
|  | unsold with them |  |
| (vii) | Cost of goods distributed as free samples | 1,500 |

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

While valuing the stock at $31^{\text {st }}$ March, 2020, Rs. 1,000 were written off in respect of a slow moving item. The cost of which was Rs. 5,000. A portion of these goods were sold at a loss of
Rs. 500 on the original cost of Rs. 2,500. The remainder of the stock is now estimated to be worth the original cost. The value of goods salvaged was estimated at Rs. 20,000. The average rate of gross profit was $\mathbf{2 0 \%}$ (on sales)throughout.

## ANSWER:

Memorandum Trading Account
for the period $1^{\text {st }}$ April, 2020 to $\mathbf{3 1}^{\text {st }}$ August, 2020

|  | Normal Items Rs. | Abnormal Items Rs. | Total <br> Rs. |  | Normal Items Rs. | Abnormal Items Rs. |  | Total Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To Opening stock | 95,000 | 5,000 | 1,00,000 | By Sales | 2,40,000 | 2,000 | 2,42 | 000 |
| To Purchases (Refer W.N.) | 1,56,500 | - | 1,56,500 | By Goods sent to consignee | 16,500 |  | 16 | 500 |
| To Wages | 47,000 | - | 47,000 | By Loss | - | 500 |  | 500 |
| To Gross profit <br> @ 20\% | 48,000 | - | 48,000 | By Closing stock (Bal.fig.) | 90,000 | 2,500 | 92 | 500 |
|  | 3,46,500 | 5,000 | 3,51,500 |  | 3,46,500 | 5,000 | 3,51 | 500 |

Statement of Claim for Loss of Stock

|  | Rs. |
| :--- | ---: |
| Book value of stock as on 31.08 .2020 | 92,500 |
| Less: Stock salvaged | $\underline{(20,000)}$ |
| Loss of stock | $\underline{72,500}$ |

## Working Note:

## Calculation of Adjusted Purchases

|  | Rs. |
| :--- | ---: |
| Purchases | $1,70,000$ |

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| Less: Drawings | $(12,000)$ |
| :--- | ---: |
| Free samples | $\underline{(1,500)}$ |
| Adjusted purchases | $\underline{1,56,500}$ |

## QUESTION 39 (PAST PAPER MAY 18)

On 30 ${ }^{\text {th }}$ March, 2018 fire occurred in the premises of $\mathrm{M} / \mathrm{s}$ Alok \& Co. The concern had taken an insurance policy of ₹ $1,20,000$ which was subject to the average clause. From the books of accounts the following particulars are available relating to the period $1^{\text {st }}$ January to $30^{\text {th }}$ March,2018:

| (i) | Stock as per Balance Sheet at 31st December, 2017 | Rs. 1,91,200 |
| :--- | :--- | :--- |
| (ii) | Purchases (including purchase of machinery costing Rs. 60,000) | Rs. 3,40,000 |
| (iii) | Wages (including wages Rs. 6,000 for installation of machinery) | Rs. 1,00,000 |
| (iv) | Sales (including goods sold on approval basis amounting to <br>  <br>  <br> Rs. 99,000) | Rs. 5,50,000 |

No approval has been received in respect of $2 / 3$ rd of the goods sold on approval.
(v) The average rate of gross profit is $20 \%$ of sales.
(vi) The value of the salvaged goods was Rs.24,600

You are required to compute the amount of the claim to be lodged to the Insurance Company.
ANSWER:

## Computation of claim for loss of stock

|  | Rs. |
| :--- | ---: |
| Stock on the date of fire i.e. on 30th March, 2018 (W.N.1) | $1,25,200$ |
| Less: Value of salvaged stock | $\underline{(24,600)}$ |
| Loss of stock | $1,00,600$ <br> Amount of claim= <br>  <br> (approx.) |

A claim of Rs. 96,422 (approx.) should be lodged by M/s Alok\& Co. to the insurance company.

## CA Ravi Agarwal's

 CA INTER ACCOUNTING COMPILER 4.0
## Working Notes:

1. Calculation of closing stock as on $\mathbf{3 0}$ th March, 2018 Memorandum Trading Account for
(from $1^{\text {st }}$ January, 2018 to $30^{\text {th }}$ March, 2018)

| Particulars | Amount <br> (Rs.) | Particulars | Amount <br> (Rs.) |
| :--- | ---: | :--- | ---: |
| To Opening stock <br> To Purchases <br> $3,40,000-$ <br> $60,000)$ | $1,91,200$ | By Sales (W.N.3) <br> ByGoods with <br> customers (for <br> approval)(W.N.2) <br> To Wages <br> (1,00,000- <br> $6,000)$ <br> To Gross profit <br> (20\% on <br> sales) <br> By Closing stock (Bal. fig.) | $1,80,000$ |

* For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the concern and, hence, there was no loss of suchstock.


## 2. Calculation of goods with customers

Since no approval for sale has been received for the goods of Rs. 66,000 (i.e. 2/3of
Rs. 99,000 ) hence, these should be valued at cost i.e. Rs. $66,000-20 \%$ of Rs. 66,000=

Rs. 52,800.
3. Calculation of actual sales

Total sales - Sale of goods on approval $\left(2 / 3^{\text {rd }}\right)=$ Rs. $5,50,000-$ Rs. $66,000=$
Rs. 4,84,000.

## QUESTION 40 (PAST PAPER MAY 19) (PAST PAPER JAN 21)

A fire occurred in the premises of $\mathrm{M} / \mathrm{s}$ Bright on $25^{\text {th }}$ May, 2017. As a result of fire, sales were adversely affected up to $30^{\text {th }}$ September, 2017. The firm had taken Loss of profit policy (with an average clause) for Rs. 3,50,000 having indemnity period of 5 months. There is an upward trend of $10 \%$ in sales.

The firm incurred an additional expenditure of Rs.30,000 to maintain the sales. There was a saving of Rs.5,000 in the insured standing charges.

| Actual turnover from 25th May, 2017 to 30 th | Rs. 1,75,000 |
| :--- | ---: |
| September, 2017 |  |
| Turnover from $25^{\text {th }}$ May, 2016 to 30th September, 2016 | Rs. 6,00,000 |
| Net profit for last financial year | Rs. 2,00,000 |
| Insured standing charges for the last financial year | Rs. 1,75,000 |
| Total standing charges for the last financial year | Rs. 3,00,000 |
| Turnover for the last financial year | Rs. 15,00,000 |
| Turnover for one year from 25th May, 2016 to 24th May, | Rs. 14,00,000 |
| 2017 |  |

You are required to calculate the loss of profit claim amount, assuming that entire sales during the interrupted period was due to additional expenses.

ANSWER:
Computation of the amount of claim for the loss of profit

|  | Reduction in turnover | Rs. |
| :---: | :---: | :---: |
|  | Turnover from 25 ${ }^{\text {th }}$ May, 2016 to 30 ${ }^{\text {th }}$ September, 2016 | 6,00,000 |
|  | Add: 10\% expected increase | 60,000 |
|  |  | 6,60,000 |
|  | Less: Actual Turnover from 25 ${ }^{\text {th }}$ May, 2017 to 30th | (1,75,000) |
|  | September, 2017 |  |
|  | Short Sales | 4,85,000 |
|  | Calculation of loss of Profit |  |
|  | Gross Profit on reduction in turnover @ 25\% on Rs. | 1,21,250 |
|  | 4,85,000 |  |

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

(see working note 1)
Add: Additional Expenses
Lower of
(i) Actual=

Rs.30,000
(iii) Additional Exp. X G.P. on Adjusted Annual Turnover/(G.P. as above + Uninsured Standing Charges)
$30,000 \times[3,85,000 /(3,85,000+1,25,000)]=$ Rs.22,647
(iii) G.P. on sales generated by additional expenses

## $175000 \times 25 \%=$

 Rs.43,750It is given that entire sales during the interrupted period was due to additional expenses.
(iv)

| Therefore, lower of above is (i, ii \& iii) | Rs. 22,647 |
| :--- | ---: |
|  | $1,43,897$ |
| Less: Saving in Insured Standing | $(5,000)$ |
| Charges |  |
| Amount of claim before application of Clause | $\underline{1,38,897}$ |
| Average |  |

## Working Notes:

## 1. Rate of Gross Profit for last Financial Year:

Net Profit for last financial year 2,00,000
Add: Insured Standing Charges
1,75,000
Gross Profit
3,75,000
Turnover for the last financial year
15,00,000

Rate of Gross Profit $=25 \%$

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

## 2. Annual Turnover (adjusted):

Turnover from 25 May, 2016 to 24 May, 2017 14,00,00

Add: 10\% expected increase
1,40,000 15,40,00 O
Gross Profit on Rs. 15,40,000 @ 25\%
Standing charges not Insured (3,00,000 1,75,000)
Gross profit + Uninsured standing charges

3,85,000
1,25,000

5,10,000

## QUESTION 41 (PAST PAPER NOVEMBER 19)

A fire occurred in the premises of $\mathrm{M} / \mathrm{s}$ Kirti \& Co. on $15^{\text {th }}$ December, 2018. The working remained disturbed upto $15^{\text {th }}$ March, 2019 as a result of which sales got adversely affected. The firm had taken out an insurance policy with an average clause against consequential losses for Rs.2,50,000.

Following details are available from the quarterly sales tax return filed/GST return filed:

| Sales | $\begin{array}{r} 2015-16 \\ \text { (Rs.) } \end{array}$ | $\begin{array}{r} 2016-17 \\ \text { (Rs.) } \end{array}$ | $\begin{array}{\|r\|} \hline 2017-18 \\ \text { (Rs.) } \end{array}$ | $\begin{array}{r} 2018-19 \\ \text { (Rs.) } \end{array}$ |
| :---: | :---: | :---: | :---: | :---: |
| From $1^{\text {st }}$ April to $30{ }^{\text {th }}$ June | 3,80,000 | 3,15,000 | $\begin{gathered} 4,11,90 \\ 0 \end{gathered}$ | 3,24,000 |
| From $1^{\text {st }}$ July to 30th September | 1,86,000 | 3,92,000 | $\begin{gathered} 3,86,00 \\ 0 \end{gathered}$ | 4,42,000 |
| From $1^{\text {st }}$ October to $31^{\text {st }}$ December | 3,86,000 | 4,00,000 | $\begin{gathered} 4,62,00 \\ 0 \end{gathered}$ | 3,50,000 |
| From $1^{\text {st }}$ January to $31^{\text {st }}$ March | 2,88,000 | 3,19,000 | $\begin{gathered} 3,80,00 \\ 0 \\ \hline \end{gathered}$ | 2,96,000 |
| Total | 12,40,000 | 14,26,000 | $\begin{gathered} 16,39,9 \\ 00 \end{gathered}$ | $\begin{array}{\|r} 14,12,00 \\ 0 \end{array}$ |

A period of 3 months (i.e. from 16-12-2018 to 15-3-2019) has been agreed upon as indemnity period.

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

Sales from 16-12-2017 to 31-12-2017 68,000
Sales from 16-12-2018 to 31-12-2018 Nil
Sales from 16-03-2018 to 31-03-2018 1,20,00 0
Sales from 16~03-2019 to 31-03-2019 40,000

Net profit was Rs. 2,50,000 and standing charges (all insured) amounted to Rs. 77,980 for the year ending 31 ${ }^{\text {st }}$ March, 2018.
You are required to calculate the loss of profit claim amount.

## ANSWER:

| Gross profit ratio | Rs. |
| :--- | ---: |
| Net profit for theyear2017-18 | $2,50,000$ |
| Add: Insured standing charges | $\underline{77,980}$ |
| Ratio of Gross profit =20\% | $\underline{3,27,980}$ |
| Calculation of Short sales |  |

Indemnity period: 16.12 .2018 to 15.3 .19
Standard sales to be calculated on basis of corresponding period of year 2017-18

Rs.
Sales for period 16.12.2017 to 31.12.17
68,000
Sales for period 1.1.2018 to 15.3.2018 (Note 1)
Sales for period 16.12.2017 to 15.3.2018
Add: upward trend in sales (15\%) (Note 2)
2,60,000
3,28,000
49,200
Standard Sales (adjusted)
3,77,200
Actual sales of disorganized period
Calculation of sales from 16.12 .18 to 15.3.19
Sales for period 16.12.18 to 31.12.18
Sales for 1.1.19 to 15.3.19 (Rs. 2,96,000 - Rs. 40,000)
Actual Sales
Short Sales (Rs. 3,77,200-Rs.2,56,000)

## Loss of gross profit

Short sales x gross profit ratio=1,21,200×20\%

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

## Application of average clause

Net claim $=$ Gross claim $\times$ (policy value / gross profit on annual turnover)

## Amount of loss of profit claim = Rs.18,575

Working Notes:

1. Sales for period 1.1.18 to15.3.18

Rs.
Sales for 1 Jan. to 31 March (2017-18) (given)
3,80,000
Less: Sales for 16.3.18 to 31.3.18 (given)
(1,20,000

Sales for period 1.1.18 to 15.3.18
2,60,000
2. Calculation of upward trend in sales

Total sales inyear2015-16 = Rs. 12,40,00
Increase in sales in year 2016-17 as compared to 2015-16 Rs. 1,86,000
\% increase = 15\%
Increase in sales in year 2017-18 as compared to year 2016-17
\% increase = 15\%
Thus annual percentage increase trend is of $15 \%$

## 3. Gross profit on annual turnover

Sales from 16.12 .17 to 30.12 .17 (adjusted) $(68,000 \mathrm{x}$
Rs.
78,200 1.15)
1.1.18 to 31.3 .18 (adjusted) $(3,80,000 \times 1.15)$

4,37,000
1.4.18 to 30.6 .18
1.7.18 to 30.9 .18
1.10.18 to 15.12 .18 (3,50,000 - Nil)

Sales for 12 months just before date of fire* Gross profit on adjusted annual sales @ 20\%

3,24,000
4,42,000
3,50,000
16,31,200
3,26,240

NOTE*: Alternatively, the annual adjusted turnover may be computed as Rs.17,98,000 (Rs. $15,64,000 \times 1.15$ ) considering the annual $\%$ increase trend for the entire period of last 12 months preceding to the date of fire. In that case, the gross profit on adjusted annual sales @ $20 \%$ will be computed as Rs. 3,59,720 and net claim will be computed accordingly.

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

## QUESTION 42 (PAST PAPER NOVEMBER 20)

A Fire occurred in the premises of M/s B \& Co. 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 (₹) |
| :--- | :--- |
| Stock at cost on 1-04-2018 | $2,11,000$ |
| Stock at cost on 31-03-2019 | $2,52,000$ |
| Purchases during 2018-19 | $6,55,000$ |
| Wages during 2018-19 | 82,000 |
| Sales during 2018-19 | $8,60,000$ |
| Purchases from 01-04-2019 to 30-09-2019 (including purchase of <br> machinery costing ₹ 58,000) | $4,48,000$ |
| Wages from 01-04-2019 to 30-09-2019 (including wages for installation <br> of machinery costing ₹ 7,000) | 85,000 |
| Sales from 01-04-2019 to 30-09-2019 | $6,02,000$ |
| Sale value of goods drawn by partners (1-4-19 to 30-9-19) | 52,000 |
| Cost of Goods sent to consignee on 18th September, 2019 lying unsold <br> with them | 44,800 |
| Cost of Goods distributed as free samples(1-4-19 to 30-9-19) | 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 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 \& Tota \& \& Normal Items ₹ \& Abnormal Items \& Total

₹ <br>
\hline To Opening stock \& 2,48,000 \& 12,000 \& 2,60,000 \& By Sales \& 59,97000 \& 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
\end{tabular}

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

| $\begin{aligned} & \text { To Wages } \\ & (85,000- \\ & 7,000) \end{aligned}$ | 78,000 |  | 78,000 | By Loss |  | 4,000 | 4,000 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To Gross profit @20\% | 1,19,400 |  | 1,19,400 | By Closing stock (Bal. fig.) | 1,43,500 | 3,000 | 1,46,500 |
|  | 7,85,300 | 12,000 | 7,97,300 |  | 7,85,300 | 12,000 | 7,97,300 |

Statement of Claim for Loss of Stock

|  | ₹ |
| :--- | ---: |
| Book value of stock as on 30.92019 | $1_{s} 46,500$ |
| Less: Stock salvaged | $(35,000)$ |
| Loss of stock | $1_{x} 11_{i} 500$ |

Amount of claỉm to be lodged with insurance company

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

Working Notes:

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

|  | $\xi$ |  | $₹$ |
| :--- | ---: | :--- | ---: |
| To Opening Stock | $2,11,000$ | By Sales | $8,60,000$ |
| To Purchases | $6,55,000$ | By Closing stock 2,52,000 |  |
| To Wages |  | Add: written off 8,000 |  |
|  | 82,000 |  | $2,60,000$ |
|  | $1,72,000$ |  |  |
|  | $11,20,000$ |  | $11,20,000$ |

Rate of Gross Profit in 2018-19

$$
\begin{aligned}
& \frac{\text { Gross Profit }}{\text { Sales }} \times 100 \\
& =1_{x} 72,000 \times \quad 100 / 8,60,000=20 \%
\end{aligned}
$$

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## 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 | $\underline{3,39,900}$ |

Note: The answer has been given considering that the value of stock (at cost) on 31.3.19 amounting ₹ $2,52,000$ is after adjustment of written off amount in respect of slow-moving item.

## QUESTION 43 (PAST PAPER JAN 21)

A Fire occurred in the premises of M/S MJ \& Co., on 31st December, 2019. From the following particulars related to the period from 1st April 2019 to 31st December 2019, you are required to ascertain the amount of claim to be filed with the insurance policy for ₹ $1,00,000$ which is subject to average clause. The value of goods salvaged was
estimated at ₹ 31,000 . The average rate of gross profit was $20 \%$ throughout the period

|  | Particulars | Amount (\%) |
| :---: | :---: | :---: |
| (i) | Opening stock as on $1^{\text {st }}$ April 2019 | 1,50,000 |
| (ii) | Purchases during the year | $4,20,000$ |
| (iii) | Goods withdrawn by the proprietor for his self-use at Sales Value | 10,000 |
| (iv) | Goods distributed as charity at cost | 4,000 |
| (v) | Purchases include ₹ 5,000 of Tools purchased, these tools should have been capitalized. |  |
| (vi) | Wages (include wages paid for the installation of machinery ₹6,000) | 90,000 |
| (vii) | Sales during the year | 6,10,000 |
| (viii) | Cost of goods sent to consignee on ${ }^{\text {st }}$ November, 2019, lying unsold with the consignee. | 25,000 |
| (ix) | Sales Return | 10,009 |

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## ANSWER

Memorandum Trading Account for the period 1st April, 2019 to 31st Dec 2019

|  |  | ₹ |  | $₹$ |
| :---: | :---: | :---: | :---: | :---: |
| To Opening Stock |  | 1,50,000 | By Sales $(6,10,000-10,000)$ <br> By Consignment stock By Closing Stock (Bal. fig.) | $\begin{array}{r} 6,00,000 \\ 25,000 \\ 1,32,000 \end{array}$ |
| To Purchases | 4,20,000 |  |  |  |
| Less: Tools purchased | $(5,000)$ |  |  |  |
| Goods distributed as Charity | $(4,000)$ |  |  |  |
| Cost of goods taken by proprietor | (8,000) |  |  |  |
|  |  | 4,03,000 |  |  |
| To Wages ( $90,000-6,000$ ) |  | 84,000 |  |  |
| To Gross Profit [20\% of Sales) |  | 1,20,000 |  |  |
|  |  | 7, 578000 |  | 7,57,000 |

* For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the concern and, hence, there was no loss of such stock.


## Statement of Insurance Claim

|  | $₹$ |
| :--- | ---: |
| Value of stock destroyed by fire | $1,32,000$ |
| Less: Salvaged Stock | $(31,000)$ |
| Loss of stock | $1,01,000$ |

## Note:

Since policy amount is less than value of stock on date of fire, average clause will apply. Therefore, claim amount will be computed by applying the formula:

Claîm $=\frac{\text { Insured value }}{\text { Total cost }} \times$ Loss suffered
Claim amount = ₹ $1,01,000 / 1,32,000 \times 1,00,000=₹ 76,515$ (Rounded off)

NOTE: The average rate of $20 \%$ has been given in the question. In the above solution, Gross Profit is calculated @ 20\% on sales. Alternative answer considering Gross Profit of $20 \%$ is also possible

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## QUESTION 44 (MTP MAY 19)

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


#### Abstract

ANSWER

As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date. A debtor for Rs. 20,00,000 suffered heavy loss due to earthquake in the last week of February, 2016 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in April, 2016 (after the balance sheet date) is only an additional information related to the condition existing on the balance sheet date. Accordingly, full provision for bad debts amounting Rs. 20,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31 st March 2016. Since the company has already made $5 \%$ provision of its total debtors, additional provision amounting Rs. 19,00,000 shall be made (20,00,000 x 95\%).


## Chapter 11 Hire Purchase \& Installment

## Sale Transaction

## QUESTION 1 (STUDY MATERIAL)

The amount paid at the time of entering the hire-purchase transaction for the goods purchased is known as
(a) Cash price
(b) Down payment
(c) First installment

Answer: (b)

## QUESTION 2 (STUDY MATERIAL)

Total interest on hire purchased goods is the difference between
(a) Hire purchase price and cash price
(b) Hire purchase price and down payment
(c) Cash price and first installment

Answer: (a)

QUESTION 3 (STUDY MATERIAL)
Depreciation on higher purchase asset is claimed by
(a) Hire vendor
(b) Hire purchaser
(c) Either the hire vendor or the hire purchaser as per the agreement between them Answer: (b)

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## QUESTION 4 (STUDY MATERIAL)

Under installment payment system ownership of goods
(a) is transferred at the time of payment of last installment
(b) is not transferred
(c) is transferred at the time of signing the contract.

Answer: (c)

## QUESTION 5 (STUDY MATERIAL)

The hire purchaser records the asset at its
(a) Hire purchase price
(b) Amount paid to the vendor till date
(c) Cash price

Answer: (c)

## QUESTION 6 (STUDY MATERIAL)

The ownership of goods purchased under hire purchase is transferred only when
(a) Down payment is paid
(b) Outstanding balance is paid in full.
(c) Cash price and first installment is paid

Answer: (b)

## QUESTION 7 (STUDY MATERIAL)

Hire purchase price is
(a) Cash price
(b) Interest on unpaid installments.

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(c) Both (a) and(b).

Answer: (c)

## QUESTION 8 (STUDY MATERIAL)

Which method of recording Hire purchase transactions is not used in Hire vendor's books?
(a) Sales method
(b) Interest suspense method.
(c) Cash price method.

Answer: (c)

## QUESTION 9 (STUDY MATERIAL)

The balance of the Interest Suspense Account is shown in the Balance Sheet of vendor as
(a) Addition to Hire Purchase Debtors.
(b) Deduction from balance of Hire Purchase Debtors.
(c) Deduction from balance of Hire Purchase Creditors.

Answer: (b)

## QUESTION 10 (STUDY MATERIAL)

What is meant by Hire purchase transactions? What are the specific features of hire purchase transactions?

ANSWER:
Under the Hire Purchase System, the Hire Purchaser gets possession of the goods at the outset and can use it, while paying for it in installments over a specified period of time as per the agreement. However, the ownership of the goods remains with the Hire Vendor until the hire purchaser has paid all the installments. For specific features of such transactions

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## QUESTION 11(STUDY MATERIAL)

What are the differences between Hire Purchase and Instalment System?

## ANSWER:

Hire Purchase is an agreement of hiring the asset whereas Installment sale is an agreement of sale. The title to goods passes on last payment in the hire purchase transaction but the title to goods passes immediately in the case of installment sale. The hirer may return goods without further payment except for accrued installments in hire purchase transaction but in case of installment sale, goods are not returnable unless seller defaults.

## QUESTION 12 (STUDY MATERIAL)

Describe in brief the methods of recording Hire purchase transactions in the books of Hire vendor. ANSWER 12
There are two methods of recording hire purchase transactions in the books of the hire vendor. The method for recording transactions is selected according to the type and value of goods sold, volume of transactions, the length of the period of purchase, etc. These methods are: Sales Method and Interest Suspense Method. For details of these methods, refer Para 7.2 of the chapter.

## QUESTION 13 (STUDY MATERIAL)

Describe in brief the methods of recording Hire purchase transactions in the books of Hire purchaser.

ANSWER
There are two methods of recording hire purchase transactions in the books of the hire purchaser. The method for recording transactions is selected according to accounting policy. These methods are: Cash Price Method and Interest Suspense Method. For details of these methods, refer Para 7.1 of the chapter.

QUESTION 14 (STUDY MATERIAL) (RTP JULY 21)
What is meant by repossession. What is the treatment in the books of Hire Purchaser?
ANSWER:

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Repossession is the Right of the Seller to take back the goods sold from the Hire purchaser in case of any default by the Hire purchaser and can sell the goods after reconditioning to any other person. For details, refer para 8 of the chapter.

## QUESTION 15(STUDY MATERIAL)

Asha purchased a truck on hire purchase system. As per terms he is required to pay Rs.70,000 down, Rs.53,000 at the end of first year, Rs.49,000 at the end of second year and Rs.55,000 at the end of third year. Interest is charged @ 10\% p.a.

You are required to calculate the total cash price of the truck and the interest paid with each instalment.

1. Ratio of interest and amount due $=10 /(100+10)=10 / 110=1 / 11$
2. Calculation of Interest and Cash Price

| No. of <br> instalments | Amount due at <br> the time of <br> instalment | Interest | Cash price |
| :---: | :---: | :---: | :---: |
| [1] | [2] | [3] | [4] |
| $3^{\text {rd }}$ | 55,000 | $1 / 11$ of Rs. $55,000=$ Rs.5,000 | 50,000 |
| $2^{\text {n }}$ | $* 99,000$ | $1 / 11$ of Rs. $99,000=$ Rs. 9,000 | 90,000 |
| d $_{1^{\text {st }}}$ | $* * 1,43,000$ | 1/11of Rs. $1,43,000=$ <br> Rs. 13,000 | $1,30,000$ |

Total cash price $=$ Rs. 1,30,000+70,000 (down payment) =Rs. 2,00,000.
*Rs. $50,000+2^{\text {nd }}$ instalment of Rs. $49,000=$ Rs. 99,000 .
** Rs. $90,000+1^{\text {st }}$ instalment of Rs. 53,000 = Rs.1,43,000.

## QUESTION 15(STUDY MATERIAL)

## Practical Questions (STUDY MATERIAL)

## Question 16

On 1st April, 20X1, Fastrack Motors Co. sells a truck on hire purchase basis to Teja Transport Co. for a total hire purchase price of $₹ 9,00,000$ payable as to $₹ 2,40,000$ as down payment and the balance in three equal annual instalments of ₹ 2,20,000 each payable on 31st March 20X2, 20X3 and 20X4. The hire vendor charges interest @ 10\% per annum.

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You are required to ascertain the cash price of the truck for Teja Transport Co. Calculations may be made to the nearest rupee.

ANSWER
Ratio of interest and amount due $=\frac{\text { Rateofinterest }}{100+\text { Rateofinterest }}=\frac{10}{110}=1 / 11$

There is no interest element in the down payment as it is paid on the date of the transaction. Instalments paid after certain period includes interest portion also. Therefore, to ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

Calculation of Interest and Cash Price

| No. of <br> instalments | Amount due at the <br> time of instalment | Interest | Cumulative <br> Cash price |
| :---: | :---: | :---: | ---: |
| [2] | $2,20,000$ | $[3]$ | $(\mathbf{2 - 3}=[4]$ |
| $3^{\text {rd }}$ | $1 / 11$ of $₹ 2,20,000=$ <br> ₹ 20,000 | $2,00,000$ |  |
| $2^{\text {nd }}$ | $4,20,000$ [W.N.1] | $1 / 11$ of $₹ 4,20,000=$ <br> ₹ 38,182 | $3,81,818$ |
| $1^{\text {st }}$ | $6,01,818$ [W.N.2] | $1 / 11$ of $₹ 6,01,818=$ <br> $₹ 54,711$ | $5,47,107$ |

Total cash price $=$ ₹ 5,47,107+ 2,40,000 (down payment) $=₹ 7,87,107$.
Working Notes:

1. ₹ $2,00,000+2$ nd instalment of $₹ 2,20,000=₹ 4,20,000$.
2. ₹ $3,81,818+1$ st instalment of ₹ $2,20,000=₹ 6,01,818$.

Question 17
M/s. Kodak Enterprises purchased a generator on hire purchase from M/s. Sanctum Ltd. on 1st April, 20X1. The hire purchase price was ₹48,000. Down payment was $₹ 12,000$ and the balance is payable in 3 annual instalments of ₹ 12,000 each payable at the end of each financial year. Interest is payable @ $8 \%$ p.a. and is included in the annual payment of ₹ 12,000 .
Depreciation at $10 \%$ p.a. is to be written off using the straight-line method.

You are required to:
(i) calculate the cash price of the generator and the interest paid on each instalment.

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(ii) pass relevant journal entries in the books of M/s. Kodam Enterprises from 1st April, 20X1 to 31st March, 20X2 following the interest suspense method.

Answer

## (i) Calculation of Interest and Cash Price

Ratio of interest and amount due $=8 /(100+$ rate of interest $)$ i.e. 8/108
To ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

| No. of <br> instalments | Amount due at <br> the time of <br> instalment | Interest | Cumulative Cash price |
| :--- | :--- | :--- | :--- |
| $[1]$ | $[2]$ | $[3]$ | (2-3) $=$ [4] |
| 3rd | 12,000 | $8 / 108$ of ₹ $12,000=₹ 889$ | 11,111 |
| 2nd | 23,111 [W.N.1] | $8 / 108$ of ₹ $23,111=₹ 1,712$ | 21,399 |
| 1st | 33,399 [W.N.2] | $8 / 108$ of ₹ $33,399=₹ 2,474$ | 30,925 |

Total cash price = ₹ 30,925 + ₹ 12,000 (down payment) =₹ 42,925
Working Notes:

1. ₹ $11,111+2$ nd instalment of $₹ 12,000=₹ 23,111$
2. ₹ $21,399+1$ st instalment of $₹ 12,000=₹ 33,399$
(ii) Journal Entries in the books of M/s Kodam Enterprises

| 1.4.20X1 |  |  | ₹ | ₹ |
| :---: | :---: | :---: | :---: | :---: |
| 1. | Generator Account <br> To Sanctum Ltd. Account <br> (Asset acquired on hire purchase) | Dr. [Full cash price] | 42,925 | 42,925 |
| 2. | H.P. Interest Suspense Account | Dr. [Total interest] | 5,075 |  |

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\begin{tabular}{|c|c|c|c|c|}
\hline \multirow[b]{2}{*}{|cher 3.} \& To Sanctum Ltd.
Account
(For total interest
payment, due) \& \multirow[b]{2}{*}{Dr.} \& \multirow[b]{2}{*}{12,000} \& \multirow[t]{2}{*}{5,075

12,000} <br>

\hline \& | Sanctum Ltd. Account |
| :--- |
| To Bank Account |
| (When down payment is made) | \& \& \& <br>

\hline $31.3 .20 \times 2$

4. \& | Interest Account |
| :--- |
| To H.P. Interest Suspense Account |
| (For Interest of the year) | \& Dr. \& 2,474 \& \[

2,474
\] <br>

\hline 5. \& | Sanctum Ltd. Account |
| :--- |
| To Bank Account |
| (Being instalment paid) | \& Dr. \& 12,000 \& 12,000 <br>


\hline 6. \& | Depreciation Account |
| :--- |
| To Generator Account (Being depreciation charged on the asset @ 10\%) | \& Dr. [Calculated on cash price i.e. 10\% of ₹ 42,925 ] \& 4,292.50 \& \[

4,292.50
\] <br>

\hline 7. \& | Profit and Loss Account |
| :--- |
| To Interest Account |
| To Depreciation Account |
| (For closing interest and depreciation account) | \& Dr. \& 6,766.50 \& \[

\left|$$
\begin{array}{l}
4,292.50 \\
2,474.00
\end{array}
$$\right|
\] <br>

\hline
\end{tabular}

## Question 18

Lucky bought 2 tractors from Happy on 1-10-20X1 on the following terms:
Down payment 5,00,000
1st instalment at the end of first year 2,65,000
2nd instalment at the end of 2nd year 2,45,000

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3rd instalment at the end of 3rd year 2,75,000
Interest is charged at 10\% p.a.

Lucky provides depreciation @ 20\% on the diminishing balances.
On 30-9-20X4 Lucky failed to pay the 3rd instalment upon which Happy repossessed 1 tractor. Happy agreed to leave one tractor with Lucky and adjusted the value of the tractor against the amount due. The tractor taken over was valued on the basis of 30\% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Lucky after 3 months with interest @ $18 \%$ p.a.

You are required to:
(1) Calculate the cash price of the tractors and the interest paid with each instalment.
(2) Prepare Tractor Account and Happy Account in the books of Lucky assuming that books are closed on September 30 every year. Figures may be rounded off to the nearest rupee

## Answer

(i) Calculation of Interest and Cash Price

| No. of <br> instalments | Outstanding <br> balance at the <br> end after the <br> payment of <br> instalment | Amount due <br> at the time of <br> instalment | Outstanding <br> balance at the <br> end before the <br> payment of <br> instalment | Interest | Outstanding <br> balance at the <br> beginning |
| :--- | :--- | :--- | :--- | :--- | :--- |
| $[1]$ | $[2]$ | $[3]$ | $[4]=2+3$ | $[5]=4 \boldsymbol{x}$ <br> $10 / 110$ | $[6]=4-5$ |
| 3rd | - | $2,75,000$ | $2,75,000$ | 25,000 | $2,50,000$ |
| 2nd | $2,50,000$ | $2,45,000$ | $4,95,000$ | 45,000 | $4,50,000$ |
| 1st | $4,50,000$ | $2,65,000$ | $7,15,000$ | 65,000 | $6,50,000$ |

Total cash price $=₹ 6,50,000+5,00,000$ (down payment) $=₹$ 11,50,000.
(ii) In the books of Lucky

Tractors Account

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| Date | Particulars | F | Date | Particulars | \% |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1.10.20X1 | To Happy a/c | 11,50,000 | 30.9.20X2 | By Depreciation A/c Balance c/d | 2,30,000 |
|  |  |  |  |  | 9,20,000 |
|  |  | 11,50,000 |  | By Depreciation A/c Balance c/d | 11,50,000 |
| 1.10.20X2 | To Balance b/d | 9,20,000 | 30.9.20X3 |  | 1,84,000 |
|  |  |  |  |  | 7,36,000 |
|  |  | 9,20,000 |  |  | 9,20,000 |
| 1.10.20×3 | To Balance b/d | 7,36,000 | 30.9.20×4 | By Depreciation A/c <br> By Happy a/c (Value of 1 Tractor taken over after depreciation for 3 years @30\% p.a.) $\{5,75,000-$ $(1,72,500+1,20,750+84,525)\}$ By Loss transferred to Profit and Loss $\mathrm{a} / \mathrm{c}$ on surrender (Bal. fig.) or (2,94,4001,97,225) <br> By Balance $\mathrm{c} / \mathrm{d}$ <br> $1 / 2(7,36,000-1,47,200$ <br> $=5,88,800$ ) | 1,47,200 |
|  |  |  |  |  |  |
|  |  |  |  |  | 1,97,225 |
|  |  |  |  |  | 97,175 |
|  |  |  |  |  | 2,94,400 |
|  |  | 7,36,000 |  |  | 7,36,000 |

## Happy Account

| Date | Particulars | $₹$ | Date | Particulars | $₹$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1.10.X1 | To Bank (down payment) <br> To Bank ( $1^{\text {st }}$ Instalment) | 5,00,000 | $\begin{aligned} & \text { 1.10.X1 } \\ & \text { 30.9.X2 } \end{aligned}$ | By Tractors a/c <br> By Interest a/c | $\begin{array}{r} 11,50,000 \\ 65,000 \end{array}$ |
|  |  | 2,65,000 |  |  |  |
| 30.9.x2 | To Balance c/d | 4,50,000 |  | By Interest $a / c$ | $65,000$ |
|  |  | 12,15,000 | $\begin{aligned} & \text { 1.10.X2 } \\ & \text { 30.9.x3 } \end{aligned}$ |  | 12,15,000 |
| 30.9.X3 | To Bank (2 $2^{\text {nd }}$ Instalment) <br> To Balance c/d | 2,45,000 |  | By Balance b/d By Interest $a / c$ | 4,50,000 |
|  |  | 2,50,000 |  |  | 45,000 |
| 30.9.X4 | To Balance c/d | 4,95,000 | $\begin{aligned} & \text { 1.10.X3 } \\ & \text { 30.9.X4 } \end{aligned}$ | By Balance b/d <br> By Interest $a / c$ | 4,95,000 |
|  | To Tractor a/c | 1,97,225 |  |  | 2,50,000 |
|  | To Balance c/d (b.f.) | 77,775 |  |  | 25,000 |
|  |  | 2,75,000 | $\left.\begin{gathered} 1.10 . \times 4 \\ 31.12 . \times 4 \end{gathered} \right\rvert\,$ |  | 2,75,000 |
| 31.12.X4 | To Bank (Amount settled after 3 months) | 81,275 |  | By Balance b/d <br> By Interest $a / c$ <br> (@ 18\% on bal.) <br> (77,775×3/12×18/ <br> 100) | 77,775 |
|  |  |  |  |  | 3,500 |
|  |  |  |  |  |  |
|  |  | 81,275 |  |  | 81,275 |

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## QUESTION 19(STUDY MATERIAL)

A acquired on 1st January, 20X1 a machine under a Hire-Purchase agreement which provides for 5 half-yearly instalments of Rs.6,000 each, the first instalment being due on 1st July, 20X1. Assuming that the applicable rate of interest is 10 per cent per annum, calculate the cash value of the machine. All working should form part of the answer.

Statement showing cash value of the machine acquired on hire-purchase basis

|  | Instalment <br> Amount | Interest @ 5\% half <br> yearly (10\% p.a.) <br> = 5/105 = 1/21 <br> (in each | Principal Amount <br> (in each <br> instalment) |
| :--- | ---: | :---: | :---: |
| instalment) |  |  |  |

The cash purchase price of machinery is Rs. 25,977.

QUESTION 20 (STUDY MATERIAL)

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On 1st April, 20X1 a manufacturing company buys on Hire-purchase system a machinery for Rs.90,000, payable by three equal annual instalments combining principal and interest, the rate of interest was $5 \%$ per annum. Calculate the amount of cash price and interest. Assume that the present value of an annuity of one rupee for three years at 5\% interest is Rs.2.723.

Calculation of Cash Price - The present value of an annuity of Re. 1 paid for 3 year @ 5\% = Rs. 2.723. Hence, the present value of Rs. 30,000 for 3 years $=2.723 \times 30,000=$ Rs. 81,690 .Thus, Cash Price will be computed as Rs. 81,690.

Cash price may also be calculated using the annuity formula discussed above:
Cash price $=30,000 \times\left[(1+0.05)^{3}-1\right] / 0.05(1+0.05)^{3}=$ Rs. 81697.
Note- The difference in cash price of Rs. 7 is on account of approximation.

## QUESTION 21 (STUDY MATERIAL) (PAST EXAM JAN 21)

Om Ltd. purchased a machine on hire purchase basis from Kumar Machinery Co. Ltd. on the following
terms:
(a) Cash price Rs.80,000
(b) Downpaymentathetimeofsigningtheagreementon1.1.20X1Rs.21,622.
(c) 5 annual instalments of Rs. 15,400 , the first to commence at the end of twelve months from the date of down
(d) payment.
(e) Rate of interest is $10 \%$ p.a.

You are required to calculate the total interest and interest included in cash instalment.

Calculation of
interest

|  | Total <br> (Rs. | Interest in each <br> instalment(1) | Cash price in <br> each instalment <br> (2) |
| :--- | ---: | :--- | :--- |
| Cash Price |  |  |  |
| Less: Down Payment <br> Balance due after down <br> payment | 80,000 <br> $(21,622)$ | Nil | Rs.21,622 |

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| Interest/Cash Price of $1^{\text {stinstalment }}$ | - | $\begin{aligned} & \text { Rs. } \\ & 58,378 \\ & \times 10 / 100= \\ & \text { Rs.5,838 } \end{aligned}$ | $\begin{array}{r} \text { Rs. } 15,400- \\ \text { Rs. } 5,838=\text { Rs. } 9,562 \end{array}$ |
| :---: | :---: | :---: | :---: |
| Less: Cash price of $1^{\text {st }}$ instalment | $(9,562)$ |  |  |
| Balance $\begin{aligned} & \text { due after } \\ & 1^{\text {stinstalment }}\end{aligned}$ | 48,816 |  |  |
| Interest/cash price of $2^{\text {ndinstalment }}$ | - | $\begin{gathered} \text { Rs. } 48,816 \times \\ 10 / 100= \\ \text { Rs. } 4,882 \end{gathered}$ | Rs.15,400- <br> Rs.4,882= <br> Rs.10,518 |
| Less: Cash price of $2^{\text {ndinstalment }}$ | $(10,518)$ |  |  |
| Balance due after $2^{\text {ndinstalment }}$ | 38,298 |  |  |
| Interest/Cash price of $3^{\text {rdinstalment }}$ | - | $\begin{gathered} \text { Rs. } 38,298 \mathrm{x} \\ 10 / 100= \\ \text { Rs.3,830 } \end{gathered}$ | $\begin{gathered} \text { Rs. } 15,400- \\ \text { Rs.3,830 }= \\ \text { Rs. } 11,570 \end{gathered}$ |
| Less: Cash price of $3^{\text {rd }}$ instalment | $(11,570)$ |  |  |
| Balance due after $3^{\text {rdinstalment }}$ | 26,728 |  |  |
| Interest/Cash price of $4^{\text {th }}$ | - | Rs.26,728 | Rs.15,400 - |
| instalment |  | $\begin{gathered} \mathrm{x} 10 / 100= \\ \text { Rs. } 2,672 \end{gathered}$ | $\begin{array}{r} \text { Rs. } 2,672= \\ \text { Rs. } 12,728 \end{array}$ |
| Less: Cash price of $4^{\text {th }}$ instalment | $(12,728)$ |  |  |
| Balance due after $4^{\text {thinstalment }}$ | 14,000 |  |  |
| Interest/Cash price of $5^{\text {th }}$ instalment | - | $\begin{aligned} & \text { Rs. } 14,00 \\ & 0 \times 10 / 100 \\ & = \\ & \text { Rs. } 1,400 \end{aligned}$ | $\begin{array}{r} \text { Rs. } 15400- \\ \text { Rs. } 1,400=14,000 \end{array}$ |
| Less: Cash price of $5^{\text {th }}$ instalment | (14,000) |  |  |
| Total | Nil | Rs.18,622 | Rs.80,000 |

Total interest can also be calculated as follow:
(Down payment + instalments) - Cash Price = Rs. [21,622 +(15400 x 5)] - Rs. 80,000 =Rs. 18,622

## QUESTION 22(STUDY MATERIAL)

Happy Valley Florists Ltd. acquired a delivery van on hire purchase on 01.04.20X1 from Ganesh Enterprises. The terms were as follows:

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| Particulars | Amount (Rs.) |
| :--- | ---: |
| Hire Purchase Price | 180,000 |
| Down Payment | 30,000 |
| $1^{\text {st }}$ installment payable after 1 year | 50,000 |
| $2^{\text {nd }}$ installment after 2 years | 50,000 |
| $3^{\text {rd }}$ installment after 3 years | 30,000 |
| $4^{\text {th }}$ installment after 4 years | 20,000 |

Cash price of van Rs.150,000 You are required to calculate Total Interest and Interest included in each instalment.

Solution:
Calculation of total Interest and Interest included in each installment

| Hire Purchase Price(HPP) | $=$ Down Payment + instalments |
| :--- | :--- |
|  | $=30,000+50,000+50,000+30,000+20,000=1,80,000$ |
| Total Interest | $=1,80,000-1,50,000=30,000$ |

Computation of IRR (considering two guessed rates of 6\% and 12\%)

| Year | Cash Flow | DF @6\% | PV | DF @12\% | PV |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 0 | 30,000 | 1.00 | 30,000 | 1.00 | 30,000 |
| 1 | 50,000 | 0.94 | 47,000 | 0.89 | 44,500 |
| 2 | 50,000 | 0.89 | 44,500 | 0.80 | 40,000 |
| 3 | 30,000 | 0.84 | 25,200 | 0.71 | 21,300 |
| 4 | 20,000 | 0.79 | 15,800 | 0.64 | 12,800 |
|  |  | NPV | $1,62,500$ | NPV | $1,48,600$ |

Interest rate implicit on lease is computed below by interpolation:

Interest rate implicit on lease $=6 \%+12,500 / 13,900 \times 12-6=11.39 \%$

Thus, repayment schedule and interest would be asunder:

| Installment <br> no. | Principal <br> at <br> beginning | Interest <br> included in <br> each <br> installment | Gross <br> amount | Installment | Principle <br> at end |
| :---: | :---: | :---: | :---: | ---: | ---: |
| Cash down | $1,50,000$ |  | $1,50,000$ | 30,000 | $1,20,000$ |

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| 1 | $1,20,000$ | 13,668 | $1,33,668$ | 50,000 | 83,668 |
| :--- | ---: | ---: | ---: | ---: | ---: |
| 2 | 83,668 | 9,530 | 93,198 | 50,000 | 43,198 |
| 3 | 43,198 | 4,920 | 48,118 | 30,000 | 18,118 |
| 4 | 18,118 | 2,064 | 20,182 | 20,000 | $182^{*}$ |

## QUESTION 23(STUDY MATERIAL)

On January 1, 20X1 HP M/s acquired a Pick-up Van on hire purchase from FM M/s. The terms of the contract were as follows:
(a) The cash price of the van was Rs.1,00,000.
(b) Rs.40,000 were to be paid on signing of the contract.
(c) ThebalancewastobepaidinannualinstalmentsofRs.20,000plusinterest.
(d) Interest chargeable on the outstanding balance was 6\%p.a.
(e) Depreciation at $10 \%$ p.a. is to be written-off using the straight-line method.

You are required to:
(a) Give Journal Entries and show the relevant accounts in the books of HP M/s from January 1, 20X1 to December 31, 20X3;and
(b) Show the relevant items in the Balance Sheet of the purchaser as on December 31, 20X1 to20X3.

In the books of HP M/s Journal Entries


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| " | FM M/s A/c (Rs. 20,000+Rs.3,600) <br> To Bank A/c <br> (Being the payment of $1^{\text {st }}$ instalment along with interest) | Dr. | 10,000 | 23,600 |
| :---: | :---: | :---: | :---: | :---: |
|  | Depreciation A/c <br> To Pick-up Van A/c <br> (Being the depreciation charged @ 10\% <br> p.a. on Rs.1,00,000) |  |  | 10,000 |
| $\begin{aligned} & \text { 20X2 } \\ & \text { Dec. } 31 \end{aligned}$ | Profit \& Loss A/c <br> To Depreciation $A / c$ <br> To Interest A/c <br> (Being the depreciation and interest transferred to Profit and Loss Account) | Dr. | 13,600 | 10,000 3,600 |
|  | Interest A/c <br> To FM M/s A/c <br> (Being the interest payable @ 6\% on Rs. $40,000)$ |  | 2,400 | 2,400 |
|  | $\begin{aligned} & \text { FM M/s A/c (Rs. } 20,000+\text { Rs. } 2,400 \text { ) } \\ & \quad \text { To Bank A/c } \\ & \text { (Being the payment of } 2^{\text {nd }} \text { instalment along } \\ & \text { with interest) } \end{aligned}$ | Dr. | 22,400 | 22,400 |
|  | ```Depreciation A/c To Pick-up Van A/c (Being the depreciation charged @ 10% p.a.)``` | Dr. | 10,000 | 10,000 |
|  | Profit \& Loss A/c <br> To Depreciation A/c <br> To Interest A/c <br> (Being the depreciation and interest charged to Profit and Loss <br> Account) | Dr. | 12,400 | $\begin{array}{r} 10,000 \\ 2,400 \end{array}$ |
| $20 \times 3$ <br> Dec. 31 | ```Interest A/c To FM M/s A/c (Being the interest payable @ 6% on Rs. 20,000)``` | Dr. | 1,200 | 1,200 |
|  | FM M/s A/c (Rs. 20,000 + Rs.1,200) <br> To Bank A/c <br> (Being the payment of final instalment along with interest) | Dr. | 21,200 | 21,200 |
|  | Depreciation A/c | Dr. | 10,000 |  |

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| To Pick-up Van A/c <br> (Being the depreciation charged @ 10\% <br> p.a. on Rs.1,00,000) |  | 10,000 |  |
| :--- | :--- | :--- | ---: |
| Profit \& Loss A/c <br> To Depreciation A/c <br> To Interest A/c | Dr. | 11,200 | 10,000 |
| (Being the interest and depreciation <br> charged to Profit and Loss Account) | 1,200 |  |  |

Ledgers in the books of HP M/s Pick-up Van Account

| Date |  | Particulars | Rs. | Date |  | Particulars | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 1.1.20X1 | To | FM M/s A/c | $\begin{aligned} & 1,00,00 \\ & 0 \end{aligned}$ | $\left\|\begin{array}{c} 31.12 .20 \times 1 \\ 31.12 .20 \times 1 \end{array}\right\|$ | $\begin{aligned} & \mathrm{By} \\ & \mathrm{By} \end{aligned}$ | Depreciation <br> A/c <br> Balance c/d | 10,000 |
|  |  |  |  |  |  |  | 90,000 |
|  |  |  | 1,00,000 |  |  |  | 1,00,000 |
| 1.1.20X2 | To | Balance b/d | $\begin{aligned} & 90,00 \\ & 0 \end{aligned}$ | 31.12.20x2 | By | Depreciation A/c <br> Balance c/d | 10,000 |
|  |  |  |  | 31.12.20X2 | By |  | 80,000 |
|  |  |  | 90,000 |  |  |  | 90,000 |
| 1.1.20X3 | To | Balance b/d | $\begin{aligned} & 80,00 \\ & 0 \end{aligned}$ | $\begin{aligned} & 31.12 .20 \times 3 \\ & 31.12 .20 \times 3 \end{aligned}$ | By | Depreciation A/c Balance c/d | 10,000 |
|  |  |  |  |  | By |  | 70,000 |
|  |  |  | 80,000 |  |  |  | 80,000 |

FM M/s Account


| $31.12 .20 X$ <br> 3 | To Bank A/c | 21,20 <br> 0 | $1.1 .20 \times 3$ | By | Balance b/d | 20,000 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| 3 | $31.12 .20 X$ | By | Interest A/c | 1,200 |  |  |
|  | 21,200 |  |  | 21,200 |  |  |

Depreciation
Account

| Date | Particulars | Rs. | Date | Particulars | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 31.12.20X1 | To Pick-up Van A/c | 10,000 | $31.12 .20 \times 1$ | By Profit \& Loss A/c | 10,000 |
| $31.12 .20 \times 2$ | To Pick-up Van A/c | 10,000 | $31.12 .20 \times 2$ | By Profit \& Loss A/c | 10,000 |
| $31.12 .20 \times 3$ | To Pick-up Van A/c | 10,000 | $31.12 .20 \times 3$ | By Profit \& Loss A/c | 10,000 |

Interest Account

| Date | Particulars | Rs. | Date | Particulars | Rs. |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 31.12.20X1 | To | FM M/s A/c | 3,600 | 31.12.20X1 | By Profit \& Loss A/c | 3,600 |
| 31.12.20X2 | To | FM M/s A/c | 2,400 | 31.12.20×2 | By Profit \& Loss A/c | 2,400 |
| 31.12.20X3 | To | FM M/s A/c | 1,200 | 31.12.20X3 | By Profit \& Loss A/c | 1,200 |

Balance Sheet Of
HPM
/sasat31stDecember,20X1

| Liabilities | Rs. | Assets | Rs. |
| :--- | ---: | :--- | ---: |
| FM M/s | 40,000 | Pick-up Van | 90,000 |

Balance Sheet of HPM/sasat31stDecember,20X2

| Liabilities | Rs. | Assets | Rs. |
| :--- | ---: | :--- | ---: |
| FM M/s | 20,000 | Pick-up Van | 80,000 |

Balance Sheet of HP M/s as at 31st December,20X3

| Liabilities | Rs. | Assets | Rs. |
| :--- | ---: | :--- | ---: |
|  |  | Pick-up Van | 70,000 |

Interest suspense method

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Under this method, at the time of transfer of possession of asset, the total interest unaccrued is transferred to interest suspense account. At later years, as and when interest becomes due, interest account is debited and interest suspense account is credited.

Journal Entries

1. When the asset is acquired on hire purchase

| Asset Account | Dr. [Full cash price] |
| :--- | :--- |

To Hire Vendor Account
2. For total interest payment H.P. Interest Suspense Account

To Hire Vendor Account
3. When down payment is made Hire Vendor Account

To Bank Account
4. For Interest of the relevant period Interest Account
To H.P. Interest Suspense Account
Dr. [Interest of the relevant period]
5. When an instalment is paid Hire Vendor Account

To Bank Account
6. When depreciation is charged on the asset Depreciation Account

To Asset Account
7. For closing interest and depreciation account

Profit and Loss Account
To Interest Account
To Depreciation Account

## QUESTION 24(STUDY MATERIAL)

In QUESTION 15assume that the hire purchaser adopted the interest suspense method for recording his hire purchase transactions. On this basis, prepare H.P. Interest Suspense Account, Interest Account and FM M/s Accounts and Balance Sheets in the books of hire purchaser.
H.P. Interest Suspense Account

| Date | Particulars | Rs. | Date | Particulars | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1.1.20X1 | To FM M/s A/c (W.N.) | 7,200 | 31.12.20X1 | By Interest A/c | 3,600 |
|  |  |  | 31.12.20×1 | By Balance c/d | 3,600 |
|  |  | 7,200 |  |  | 7,200 |
| 1.1.20×2 | To Balance b/d | 3,600 | 31.12.20×2 | By Interest A/c | 2,400 |
|  |  |  | 31.12.20X2 | By Balance c/d | 1,200 |
|  |  | 3,600 |  |  | 3,600 |
| 1.1.20×3 | To Balance b/d | 1,200 | 31.12.20X3 | By Interest A/c | 1,200 |

Interest Account

| Date | Particulars | Rs. | Date | Particulars | Rs. |  |
| :--- | :--- | :--- | ---: | ---: | :--- | :---: |
| $\mathbf{3 1 . 1 2 . 2 0 X 1}$ | To <br> A/c | H.P. | Interest Suspense | 3,600 | $31.12 .20 \times 1$ | By Profit \& Loss <br> A/c |
| $\mathbf{3 1 . 1 2 . 2 0 X 2}$ | To <br> a/c | H.P. | Interest Suspense | $\mathbf{2 , 4 0 0}$ | $31.12 .20 \times 2$ | By Profit \& Loss <br> A/c |
| $\mathbf{3 1 . 1 2 . 2 0 X 3}$ | To <br> A/c | H.P. | Interest Suspense | $\mathbf{1 , 2 0 0}$ | $\mathbf{3 1 . 1 2 . 2 0 X 3}$ | By Profit \& Loss <br> A/c |
|  |  | $\mathbf{1 , 2 0 0}$ |  |  |  |  |

FM M/s Account

| Date | Particulars | Rs. | Date | Particulars | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1.1.20X1 | To Bank A/c | 40,000 | 1.1.20X1 | By Pick-up Van A/c | 1,00,000 |
| $\begin{aligned} & \text { 31.12.20X } \\ & 1 \end{aligned}$ | To Bank A/c | 23,600 | 1.1.20X1 | By H.P. Interest Suspense A/c | 7,200 |
| 31.12.20X | To Balance c/d | 43,600 |  |  |  |
|  |  | 1,07,200 |  |  | 1,07,200 |
| $\begin{aligned} & \text { 31.12.20x } \\ & 2 \end{aligned}$ | To Bank A/c | 22,400 | 1.1.20X2 | By Balance b/d | 43,600 |
| $\begin{aligned} & \text { 31.12.20x } \\ & 2 \end{aligned}$ | To Balance c/d | 21,200 |  |  |  |
|  |  | 43,600 |  |  | 43,600 |
| $\begin{aligned} & \text { 31.12.20x } \\ & 3 \end{aligned}$ | To Bank A/c | 21,200 | 1.1.20X3 | By Balance b/d | 21,200 |

Balance Sheet of HPM/sasat31stDecember,20X1
\(\left.\begin{array}{|l|r|r|l|l|r|}\hline Liabilities \& Rs. \& Assets \& Rs. <br>
\hline FM M/s \& 43,600 \& 40,000 \& Pick-up Van \& 1,00,00 <br>

0\end{array}\right)\) 90,000 \begin{tabular}{l}
Less: H.P. Interest <br>

| Less: |
| :--- |
| Suspense | <br>

\hline
\end{tabular}

Balance Sheet of HPM/sasat31stDecember,20X2


Balance Sheet of HPM/sasat31stDecember,20X3

| Liabilities | Rs. |  | Assets |  | Rs. |
| :--- | ---: | ---: | :--- | ---: | ---: |
|  |  |  | Pick-up Van | 80,000 |  |
|  |  |  | Less: Depreciation | $(10,000)$ | 70,000 |

## Working Note:

Total Interest $=$ Rs. 3,600 + Rs. 2,400 + Rs. 1,200 = Rs. 7,200.

## QUESTION 25(STUDY MATERIAL)

X Ltd. purchased 3 milk vans from Super Motors costing Rs.75,000 each on hire purchase system. Payment was to be made: Rs.45,000 down and the remainder in 3 equal instalments together with interest @ 9\%. X Ltd. writes off depreciation @ 20\% on the diminishing balance. It paid the instalment at the end of the 1st year but could not pay the next. Super Motor agreed to leave one milk van with the purchaser, adjusting the value of the other two milk vans against the amount due. The milk vans were valued on the basis of $30 \%$ depreciation annually on written down value basis. X Ltd. settled theseller's dues after three months.

You are required to give necessary journal entries and the relevant accounts in the books of X Ltd.
In the Books of X Ltd.

Journal Entries

|  |  | Dr. (Rs.) | Cr. (Rs.) |
| :---: | :---: | :---: | :---: |
| I Year <br> Milk Vans purchased: <br> Milk VansA/c <br> To Vendor A/c |  | 2,25,000 | 2,25,000 |
| On down payment: Vendor A/c To Bank | Dr. | 45,000 | 45,000 |
| I Year end Interest A/c (Rs. 1,80,000 @ 9\%) To Vendor A/c | Dr. | 16,200 | 16,200 |
| Vendor A/c <br> To Bank A/c $(60,000+16,200)$ | Dr. | 76,200 | 76,200 |
| Depreciation @ 20\% <br> Depreciation A/c <br> To Milk Vans A/c | Dr. | 45,000 | 45,000 |
| Profit \& Loss A/c <br> To Depreciation <br> To interest A/c | Dr. | 61,200 | $\begin{aligned} & 45,000 \\ & 16,200 \end{aligned}$ |
| II Year end <br> Depreciation @ 20\% <br> Depreciation A/c <br> To Milk Vans A/c | Dr. | 36,000 | 36,000 |
| ```Interest A/c (1,20,000 @ 9%) To Vendor A/c For Loss in Repossession: Super Motors A/c (1,50,000-45,000-31,500) Profit/Loss A/c (b.f.)``` | Dr. | $\begin{aligned} & 10,800 \\ & \\ & 73,500 \\ & 22,500 \end{aligned}$ | 10,800 |
| To Milk Vans A/c [(2,25,000-45,000 $-36,000) \times 2 / 3$ ] |  |  | 96,000 |
| IIIrd Year Depreciation <br> Depreciation A/c (48,000 x 20\%) <br> To Milk Vans A/c | Dr. | 9,600 | 9,600 |
| Settlement of $A / c s$ <br> Vendor A/c <br> To Bank | Dr. | 57,300 | 57,300 |

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Milk Vans Account

| Year |  | Rs. | Year |  | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1 | To Super Motors A/c | 2,25,000 | 1 end | By Depreciation A/c | 45,000 |
|  |  |  | " | By Balance c/d | 1,80,000 |
|  |  | 2,25,000 |  |  | 2,25,000 |
| 2 | To Balance b/d | 1,80,000 | 2 end | By Depreciation | 36,000 |
|  |  |  |  | By Super Motors (value of 2 vans after depreciation for2 years @ 30\%) <br> By P \& L A/c <br> (balancing figure) <br> By Balance c/d (one van less deprecitation for 2 years) @ 20\% | 73,500 |
|  |  |  |  |  | 22,500 |
|  |  |  |  |  | 48,000 |
|  |  | 1,80,000 |  |  | 1,80,000 |

Super Motors Account

| Year |  | Rs. | Year |  | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1 | To Bank A/c | 45,000 | 1 | By Milk Vans A/c <br> By Interest @ 9\% on Rs. 1,80,000 | 2,25,000 |
|  | To Bank A/c | 76,200 |  |  |  |
|  |  |  |  |  | 16,200 |
|  | To Balance c/d | 1,20,000 |  |  |  |
|  |  | 2,41,200 |  |  | 2,41,200 |
| 2 | To Milk Van A/c To Balance c/d | 73,500 | 2 | By Balance b/d <br> By Interest A/c | 1,20,000 |
|  |  | 57,300 |  |  | 10,800 |
|  |  | 1,30,800 |  |  | 1,30,800 |
| 3 | To Bank A/c | 57,300 | 3 | By Balance b/d | 57,300 |

## QUESTION 26(STUDY MATERIAL)

A firm acquired two tractors under hire purchase agreements, details of which were asfollows:

| Date of Purchase | Tractor A <br> 1st April, <br> 20X1(Rs.) | Tractor B <br> 1st Oct., <br> 20X1(Rs. <br> 1 |
| :--- | ---: | ---: |
| Cash price | 14,000 | 19,000 |

Both agreements provided for payment to be made in twenty-four monthly instalments (of Rs. 600 each for Tractor A and Rs. 800 each for Tractor B), commencing on the last day of the month following purchase, all instalments being paid on due dates.

On 30th June, 20X2, Tractor B was completely destroyed by fire. In full settlement, on 10th July, 20X2 an insurance company paid Rs.15,000 under a comprehensive policy. Any balance on the hire purchase company's account in respect of these transactions was to be written off.

The firm prepared accounts annually to 31st December and provided depreciation on tractors on a straight-line basis at a rate of $\mathbf{2 0}$ per cent per annum rounded off to nearest ten rupees, apportioned as from the date of purchase and up to the date of disposal.

You are required to record these transactions in the following accounts, carrying down the balances on 31st December, 20X1 and 31stDecember, 20X2:
(a) Tractors on hire purchase.
(b) Provision for depreciation of tractors.
(c) Disposal of tractors.

Hire Purchase accounts in the buyer's books
(a) Tractors on Hire Purchase Account


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(a) Provision for Depreciation of Tractors Account

| 20X1 |  | Rs. | 20X1 |  |  | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Dec. 31 | To Balance c/d | 3,050 | Dec. 31 | By P \& LA/c: <br> Tractor A <br> Tractor B |  |  |
|  |  |  |  |  | 2,100* |  |
|  |  |  |  |  | 950** | 3,050 |
|  |  | 3,050 |  |  |  | 3,050 |

* $14,000 \times 20 \% \times 9 / 12=2,100$
** $19,000 \times 20 \% \times 3 / 12=950$


| 20X2 |  |  | Rs. | 20X2 |  |  | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| June30 |  | Tractors on hire purchase Tractor B | 19,000 | June <br> 30 |  | Provision for Depn. of Tractors A/c | 2,850 |
|  |  |  |  | July 10 |  | Cash : Insurance | 15,000 |
|  |  |  |  | Dec. <br> 31 |  | $\begin{aligned} & \text { P \& LA/c : Loss } \\ & \text { (b.f.) } \end{aligned}$ | 1,150 |
|  |  |  | 19,000 |  |  |  | 19,000 |

## QUESTION 27(STUDY MATERIAL)

A machinery is sold on hire purchase. The terms of payment is four annual instalments of Rs.6,000 at the end of each year commencing from the date of agreement. Interest is charged @ 20\% and is included in the annual payment of Rs.6,000.

Show Machinery Account and Hire Vendor Account in the books of the purchaser who defaulted in the payment of the third yearly payment whereupon the vendor re-possessed the machinery. The purchaser provides depreciation on the machinery @10\% per annum on WDV basis .All workings should form part of your answers.

Machinery
Account

|  |  | Rs. |  |  | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| I Yr. | To Hire Vendor A/c (W.N.) | 15,533 | I Yr. | By Depreciation A/c <br> By Balance c/d | 1,553 |
|  |  |  |  |  | 13,980 |
|  |  | 15,533 |  |  | 15,533 |
| II Yr. | To Balance b/d | 13,980 | II Yr. | By Depreciation A/c* <br> By Balance c/d | 1,398 |
|  |  |  |  |  | 12,582 |
|  |  | 13,980 |  |  | 13,980 |
| III Yr. | To Balance b/d | 12,582 | III Yr. | By Depreciation A/c* | 1,258 |
|  |  |  |  | By Hire Vendor | 11,000 |
|  |  |  |  | By Profit \& Loss A/c | 324 |

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|  |  | (Loss on <br> Surrender) <br> (bal.fig.) |  |
| :--- | :--- | :--- | :--- | :--- | :--- |
|  | 12,582 |  | 12,582 |

*Depreciation has been directly credited to the Machinery Account; it could have been accumulated in provision for depreciation account.

Hire Vendor Account

|  |  | Rs. |  |  | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| I Yr. | To Bank A/c <br> To Balance c/d | 6,000 | I Yr. | By Machinery A/c <br> By Interest A/c | 15,533 |
|  |  | 12,639 |  |  | 3,106 |
|  |  | 18,639 |  |  | 18,639 |
| II Yr. | To Bank A/c <br> To Balance c/d | 6,000 | II Yr. | By Balance b/d <br> By Interest A/c | 12,639 |
|  |  | 9,167 |  |  | 2,528 |
|  |  | 15,167 |  |  | 15,167 |
| III Yr. | To Machinery A/c (transfer) | 11,000 | III Yr. | By Balance b/d <br> By Interest A/c | 9,167 |
|  |  |  |  |  | 1,833 |
|  |  | 11,000 |  |  | 11,000 |

Note: Alternatively, total interest could have been debited to Interest Suspense A/c and credited to Hire Vendor A/c with consequential changes.

Working Notes:

|  |  | Instalment Amount | Interest | Principal |
| :---: | :---: | :---: | :---: | :---: |
| 4th Instalment Interest | $6,000 x^{20} 120$ | 6,000 | $\begin{array}{r} \text { Rs. } \\ 1,000 \end{array}$ | $\begin{array}{r} \text { Rs. } \\ 5,000 \end{array}$ |
|  |  | 1,000 |  |  |
|  |  | 5,000 |  |  |
| Add : 3rd Instalment | $11,000 \times{ }_{120}^{20}$ | 6,000 |  |  |
|  |  | 11,000 |  |  |
| Interest |  | 1,833 | 1,833 | 4,167 |
| Add : 2nd Instalment | $15,167 x_{120}^{20}$ | 9,167 | 2,528 | 3,472 |
|  |  | 6,000 |  |  |
|  |  | 15,167 |  |  |
| Interest |  | 2,528 |  |  |
|  |  | 12,639 |  |  |


| Add : Ist Instalment |  | 6,000 |  |  |
| :--- | ---: | ---: | ---: | ---: |
|  |  | 18,639 |  |  |
|  |  | 20 | 3,106 | 3,106 |

## QUESTION 28(STUDY MATERIAL)

X Transport Ltd. purchased from Delhi Motors 3 Tempos costing Rs.50,000 each on the hire purchase system on 1-1-20X1. Payment was to be made Rs.30,000 down and the remainder in 3 equal annual instalments payable on 31-12-20X1, 31-12-20X2 and 31-12-20X3 together with interest @ $9 \%$. X Transport Ltd. write off depreciation at the rate of $20 \%$ on the diminishing balance. It paid the instalment due at the end of the first year i.e. 31-12-20X1 but could not pay the next on 31-12-20X2. Delhi Motors agreed to leave one Tempo with the purchaser on 1-1-20X3 adjusting the value of the other 2 Tempos against the amount due on 31-12-20X2. The Tempos were valued on the basis of $30 \%$ depreciation annually. Show the necessary accounts in the books of X Transport Ltd. for the years 20X1, 20X2 and20X3.

## X Transport Ltd. Tempo Account

| 20X1 |  | Rs. | 20X1 |  | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Jan. 1 | To Delhi Motors | 1,50,000 | Dec. 31 | Depreciation A/c:20 <br> \% on1,50,000 <br> Balance c/d | 30,000 <br> 1,20,000 |
|  |  | 1,50,000 |  |  | 1,50,000 |
| $\begin{aligned} & 20 \times 2 \\ & \text { Jan } 1 . \end{aligned}$ | To Balance b/d | 1,20,000 | $\begin{aligned} & 20 \times 2 \\ & \text { Dec. } 31 . \end{aligned}$ | By Depreciation A/c <br> By Delhi Motors A/c (Value of 2 tempos taken away) <br> By Profit and Loss A/c [(96,000 x 2/3) - 49,000] | $\begin{aligned} & 24,000 \\ & 49,000 \\ & 15,000 \end{aligned}$ |

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Delhi Motors
Account

| 20X1 |  |  | Rs. | 20x1 | Rs. |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Jan. 1 | To | Bank <br> (Dow <br> n Payment) | 30,000 | Jan. 1 | By | Tempos A/c | 1,50,000 |
| Dec. 31 | To | Bank | 50,800 | Dec. 31 | By | Interest (9\% on Rs. 1,20,000) | 10,800 |
|  | To | Balance c/d | 80,000 |  |  |  |  |
|  |  |  | 1,60,800 |  |  |  | 1,60,800 |
|  |  |  |  |  |  |  |  |
| Jan. 1 | To | Tempo <br> Balance c/d | 49,000 | Jan. 1 <br> Dec. 31 | $\begin{aligned} & \mathrm{By} \\ & \mathrm{By} \end{aligned}$ | Balance b/d | 80,000 |
| Dec. 31 |  |  | 38,200 |  |  | Interest (9\% |  |
|  | To | Balance c/d |  |  |  | on Rs. 80,000 ) | 7,200 |
|  |  |  | 87,200 |  |  |  | 87,200 |
| $20 \times 3$ <br> Dec. 31 | To | Bank | $\begin{array}{r} \text { Rs. } \\ 41,638 \end{array}$ | $\begin{aligned} & 20 \times 3 \\ & \text { Jan. } 1 \end{aligned}$ | By | Balance b/d | $\begin{array}{r} \text { Rs. } \\ 38,200 \end{array}$ |
|  |  |  |  | Dec. 31 | By | Interest (9\% on Rs. 38,200) | 3,438 |
|  |  |  | 41,638 |  |  |  | 41,638 |

## Working Notes :

(1) Value of a Tempo left with the buyer:

Rs.
Cost
50,000

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Depreciation @ 20\% p.a. under WDV method for
2 years [i.e. Rs. 10,000 + Rs.8,000]
Value of the Tempo left with the buyer at the end of 2nd year
32,000
(2) Value of Tempos taken away by the seller:

No. of tempos Two

|  | Rs. |
| :--- | ---: |
| Cost Rs. $50,000 \times 2=$ | $1,00,000$ |
| Depreciation @ 30\% |  |
| Under WDV method for 2 years [i.e. Rs. 30,000 + Rs.21,000 ] | $\underline{(51,000)}$ |
| Value of tempos taken away at the end of 2nd year | $\underline{49,000}$ |

## QUESTION 29 (RTP MAY 19)

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

You are required to compute:
(vi) Agreed value of two cars taken back by the hire vendor.
(vii) Book value of car left with the hire purchaser.
(viii) Profit or loss to hire purchaser on two cars taken back by their hire vendor.
(ix) Profit or loss of cars repossessed, when sold by the hirevendor.

## Answer:

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| (i) |  | Rs. |
| :---: | :---: | :---: |
|  | Price of two cars = Rs.2,00,000 x2 | 4,00,000 |
|  | Less: Depreciation for the first year @ 30\% | 1,20,000 |
|  |  | 2,80,000 |
|  | Less: Depreciation for the second year $=$ Rs.2, $80,000 \mathrm{x}$ 30 | 84,000 |
|  | 100 |  |
|  | Agreed value of two cars taken back by the hire vendor | 1,96,000 |
| (ii) | Cash purchase price of one ca | 2,00,000 |
|  | Less: Depreciation on Rs.2,00,000 @ $20 \%$ for the first year | 40,000 |
|  | Written drown value at the end of first year | 1,60,000 |
|  | Less: Depreciation on Rs.1,60,000 @ 20\% for the second year | 32,000 |
|  | Book value of car left with the hire purchaser | 1,28,000 |
|  | Book value of one car as calculate din working (ii)above | 1,28,000 |
| (iv) | Book value of Two cars $=$ Rs. $1,28,000 \times 2$ | 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 $=$ Rs.2,56,000 Rs. $1,96,000=$ | Rs.60,000 |
|  | Sale proceeds of | 1,70,000 |
|  | Less: Value at which cars were taken back Rs.1,96,000 |  |
|  | Repair Rs. 10,000 | 2,06,000 |
|  | Loss on resale | 36,000 |

## QUESTION 30 (RTP NOVEMBER 19) (RTP MAY 18)

Amandeep bought 2 cars from 'Fair Value Motors Pvt. Ltd. on 1.4.2016 on the following terms (for both cars):

```
Down payment
6,00,000
\({ }_{1}\) st Installment at the end of
4,20,000
first year
\(2^{\text {nd }}\) Installment at the end of \(4,90,000\)
\(2^{\text {nd }}\) year
\(3^{\text {rd }}\) Installment at the end of \(3^{\text {rd }}\) year 5,50,000 Interest
```

is charged at 10\%p.a.
Amandeep provides depreciation @ 25\% on the diminishing balances.
On 31.3.2019 Amandeep failed to pay the $3^{\text {rd }}$ installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Amandeep agreed to leave one car with Fair Value Motors Pvt. Ltd. and adjusted the value of the car against the amount due. The car taken over was valued on the basis of 40\% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Amandeep after 3 months with interest @ 20\% p.a. You are required to:
(i) Calculate the cash price of the cars and the interest paid with each installment.
(ii) Prepare Cars Account in the books of Amandeep assuming books are closed on March 31, every year.

Figures may be rounded off to the nearest rupee.
Answer:
(i) Calculation of Interest and Cash Price

| No. of <br> installments | Outstanding <br> balance at <br> the end after <br> the payment <br> of installment | Amount <br> due at the <br> time of <br> installment | Outstanding <br> balance at the <br> end before the <br> payment of <br> Installment | Interest | Outstanding <br> balance at <br> the beginning |
| :---: | :---: | :--- | :--- | :--- | :--- |
| $[1]$ | $[2]$ | $[3]$ | $[4]=2+3$ | $[5]=4 x$ | $[6] 4-5$ |
| $3^{\text {rd }}$ | - | $5,50,000$ | $5,50,000$ | 50,000 | $5,00,000$ |
| $2^{\text {nd }}$ | $5,00,000$ | $4,90,000$ | $9,90,000$ | 90,000 | $9,00,000$ |
| $1^{\text {st }}$ | $9,00,000$ | $4,20,000$ | $13,20,000$ | $1,20,000$ | $12,00,000$ |

Total cash price $=$ Rs.12,00,000+6,00,000 (down payment) $=$ Rs.18,00,000.
In the books of Amandeep Cars Account

| Date | Particulars | Rs. | Date | Particulars | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1.4.2016 | To Fair Value Motors A/c | 18,00,000 | 31.3.2017 | By Depreciation A/c <br> By Balance c/d | 4,50,000 |
|  |  |  |  |  | 13,50,000 |
|  |  | 18,00,000 |  |  | 18,00,000 |
| 1.4.2017 | To Balance b/d | 13,50,000 | 31.3.2018 | By Depreciation A/c | 3,37,500 |
|  |  |  |  | By Balance c/d | 10,12,500 |
|  |  | 13,50,000 |  |  | 13,50,000 |
| 1.4.2018 | To Balance b/d | 10,12,500 | 31.3.2019 | By Depreciation A/c | 2,53,125 |

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|  |  | By Fair Value Motors A/C (Value of 1 Car taken over after depreciation for3 years $\begin{aligned} & 40 \% \text { p.a.) [9,00,000 - } \\ & (3,60,000+2,16,000+1,29,600)] \end{aligned}$ <br> By Loss on surrender transfer red to Profit and Loss/c (Bal. fig.) <br> By Balance c/d $1 / 2(10,12,500-2,53,125)$ | $\begin{aligned} & 1,94,400 \\ & 1,85,288 \\ & 3,79,687 \end{aligned}$ |
| :---: | :---: | :---: | :---: |
|  | 10,12,500 |  | 10,12,500 |

## QUESTION 31 (RTP MAY 20)

On January 1, 20X1 Kasturi Ltd. acquired a Pick-up Van on hire purchase from Shorya Ltd. The terms of the contract were as follows:
(a) The cash price of the van was Rs. 25,000 .
(b) Rs. 10,000 were to be paid on signing of the contract.
(c) The balance was to be paid in annual instalments of Rs.5,000 plus interest.
(d) Interest chargeable on the outstanding balance was 6\%p.a.
(e) Depreciationat10\%p.a.istobewritten-offusingthestraight-linemethod.

You are required to show the Van account \&Shorya Ltd. account in the books of Kasturi Ltd. from January 1, 20X1 to December 31,20X3.
Answer:
Ledger Accounts in the books of Kasturi Van Account

| Date | Particulars |  | Rs. | Date |  | Particulars | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 1.1.20X1 | To | Shorya Ltd. | 25,000 | 31.12.20X1 | By | Depreciation A/c | 2,500 |
|  |  |  |  | 31.12.20X1 | By | Balance c/d | 22,500 |
|  |  |  | 25,000 |  |  |  | 25,000 |
| 1.1.20×2 | To | Balance b/d | 22,500 | 31.12.20X2 | By | Depreciation A/c | 2,500 |
|  |  |  |  | 31.12.20X2 | By | Balance c/d | 20,000 |
|  |  |  | 22,500 |  |  |  | 22,500 |
| 1.1.20X3 | To | Balance b/d | 20,000 | 31.12.20X3 | By | Depreciation A/c | 2,500 |
|  |  |  |  | 31.12.20×3 | By | Balance c/d | 17,500 |
|  |  |  | 20,000 |  |  |  | 20,000 |

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Shorya Ltd. Account

| Date |  | Particulars | Rs. | Date |  | Particulars | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 1.1.20X1 | To | Bank A/c | 10,000 | $\begin{aligned} & \text { 1.1.20X1 } \\ & 31.12 .20 \times 1 \end{aligned}$ | $\begin{aligned} & \text { By } \\ & \text { By } \end{aligned}$ | Van A/c <br> Interest A/c | 25,000 |
| 31.12.20×1 | To | Bank A/c | 5,900 |  |  |  | 900 |
| 31.12.20X1 | To | Balance c/d | 10,000 |  |  |  |  |
|  |  |  | 25,900 |  |  |  | 25,900 |
| $\begin{aligned} & 31.12 .20 \times 2 \\ & 31.12 .20 \times 2 \end{aligned}$ | $\begin{aligned} & \text { To } \\ & \text { To } \end{aligned}$ | Bank A/c <br> Balance c/d | 5,600 | 1.1.20×2 | By | Balance b/d | 10,000 |
|  |  |  | 5,000 | 31.12.20X2 | By | Interest A/c | 600 |
|  |  |  | 10,600 |  |  |  | 10,600 |
| 31.12.20X3 | To | Bank A/c | 5,300 | $\begin{aligned} & \text { 1.1.20X3 } \\ & 31.12 .20 \times 3 \end{aligned}$ | $\begin{aligned} & \mathrm{By} \\ & \mathrm{By} \end{aligned}$ | Balance b/d Interest A/c | 5,000 |
|  |  |  |  |  |  |  | 300 |
|  |  |  | 5,300 |  |  |  | 5,300 |

## QUESTION 32 (RTP NOVEMBER 20) (RTP NOVEMBER 18)

$X$ purchased three cars from Y on hire purchase basis, the cash price of each car being Rs.2,00,000. The hire purchaser charged depreciation @ 20\% on diminishing balance method. 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 diminishing balance method. The hire vendor spent Rs.10,000 on repairs of the cars and then sold them for a total amount of Rs.1,70,000.

You are required to compute: (i) Agreed value of two cars taken back by the hire vendor and book value of car left with the hire purchaser and (ii) Profit or loss to hire purchaser on two cars taken back by the hire vendor.

|  |  | Rs. |
| :--- | :--- | ---: |
| (i) | Price of two cars = Rs.2,00,000 x 2 | $4,00,000$ |
|  | Less: Depreciation for the first year @ 30\% | $\frac{1,20,000}{2,80,000}$ |
|  | Less: Depreciation for the second year = Rs.2, 80,000 x <br> 30 | 84,000 |
| Agreed value of two cars taken back by the hire <br> vendor <br> Cash purchase price of one car <br> Less: Depreciation on Rs.2,00,000 @20\% for the first <br> year | $\underline{100,96,000}$ |  |

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| (ii) | Written drown value at the end of first year | 1,60,000 |
| :---: | :---: | :---: |
|  | Less: Depreciation on Rs.1,60,000 @ 20\% for the second year | 32,000 |
|  | Book value of car left with the hire purchaser | 1,28,000 |
|  | Book value of one car as calculated above | 1,28,000 |
|  | Book value of Two cars = Rs.1, $28,000 \times 2$ | 2,56,000 |
|  | Value at which the two cars were taken back, calculated in (i) above | 1,96,000 |
|  | Hence, loss to hire purchaser on cars taken back by hire vendor $=\text { Rs.2,56,000 - Rs.1,96,000 = }$ | Rs.60,000 |

## QUESTION 33(MTP OCTOBER 18) (MTP APRIL 19)

Krishan bought 2 cars from 'Fair Value Motors Pvt. Ltd. on 1.4.2015 on the following terms
(for both cars):
Down payment
$1^{\text {st }}$ Installment at the end of first year $2^{\text {nd }}$ Installment at the end of $2^{\text {nd }}$ year
$3^{\text {rd }}$ Installment at the end of $3^{\text {rd }}$ year

Rs.
6,00,000
4,20,000
4,90,000
5,50,000 Interest is charged at 10\% p.a.

Krishan provides depreciation @ 25\% on the diminishing balances.
On 31.3.2018 Krishan failed to pay the $3^{\text {rd }}$ installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Krishan agreed to leave one car with Fair Value Motors Pvt. Ltd. and adjusted the value of the car against the amount due. The car taken over was valued on the basis of $40 \%$ depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Krishan after 3 months with interest @ 20\%p.a.

You are required to:
Calculate the cash price of the cars and the interest paid with each instalment.
Prepare Car Account in the books of Krishan assuming books are closed on March 31, every year. Figures may be rounded off to the nearest rupee.

[^2]| No. of <br> installments | Outstanding <br> balance at the end <br> after the payment <br> of installment | Amount due <br> at the time of <br> installment | Outstanding <br> balance at the <br> end before the <br> payment of <br> installment | Interest | Outstanding <br> balance at the <br> beginning |
| :---: | :---: | :---: | :---: | :---: | :--- |
| $[1]$ | $[2]$ | $[3]$ | $[4]=2+3$ | $[5]=4 x$ <br> $10 / 110$ | $[6]=4-5$ |
| $3^{\text {rd }}$ | - | $5,50,000$ | $5,50,000$ | 50,000 | $5,00,000$ |
| $2^{\text {nd }}$ | $5,00,000$ | $4,90,000$ | $9,90,000$ | 90,000 | $9,00,000$ |
| $1^{\text {st }}$ | $9,00,000$ | $4,20,000$ | $13,20,000$ | $1,20,000$ | $12,00,000$ |

Total cash price $=$ Rs. $12,00,000+6,00,000$ (down payment) $=$ Rs. 18,00,000.

Cars Account in the books of Krishan

| Date | Particulars | Rs. | Date | Particulars | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1.4.2015 | To Fair Value Motors A/c | 18,00,000 | 31.3.2016 | By Depreciation A/c By Balance c/d | $\begin{array}{r} \text { 4,50,000 } \\ 13,50,000 \\ \hline \end{array}$ |
|  |  | 18,00,000 |  |  | 18,00,000 |
| 1.4.2016 | To Balance b/d | 13,50,000 | 31.3.2017 | By Depreciation A/c | 3,37,500 |
|  |  |  |  | By Balance c/d | 10,12,500 |
|  |  | 13,50,000 |  |  | 13,50,000 |
| 1.4.2017 | To Balance b/d | 10,12,500 | 31.3.2018 | By Depreciation A/c | 2,53,125 |
|  |  |  |  | By Fair Value Motors A/c (Value of 1 <br> Car taken over after depreciation for 3 years <br> 40\% <br> p.a.) $[9,00,000-(3,60,000$ <br> $+2,16,000+1,29,600)]$ | 1,94,400 |
|  |  |  |  | By Loss transferred to Profit and Loss A/c on surrender (Bal.fig.) <br> By Balance $\mathrm{c} / \mathrm{d}$ $1 / 2(10,12,500-2,53,125)$ | $1,85,288$ $3,79,687$ |
|  |  | 10,12,500 |  |  | 10,12,500 |

## QUESTION 34 (MTP MAY 20)

$\mathrm{M} / \mathrm{s}$. Kodam Enterprises purchased a generator on hire purchase from M/s. Sanctum Ltd. On $1^{\text {st }} \mathrm{April}$, 2019. The hire purchase price was Rs. 48,000 . Down payment was Rs. 12,000 and the balance is payable in 3 annual instalments of Rs.12,000 each payable at the end of each financial year. Interest is payable @ 8\% p.a. and is included in the annual payment of Rs. 12,000 . Depreciation at $10 \%$ p.a. is to be written

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off using the straight-line method. You are required to calculate the cash price of the generator and the interest paid one ach instalment.

## ANSWER:

Calculation of Interest and Cash Price
Ratio of interest and amount due $=8 /(100+$ rate of interest $)$ i.e. $8 / 108$
To ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

| No. of instalments | Amount due at the time of instalment | Interest | Cumulative Cash price |
| :---: | :---: | :---: | :---: |
| [1] | [2] | [3] | (2-3) $=[4]$ |
| $3^{\text {rd }} 2^{\text {nd }}$ | 12,000 | 8/108ofRs.12,000=Rs. 889 | 11,111 |
| $1^{\text {st }}$ | 23,111[W.N.1] | 8/108 of Rs. $23,111=$ Rs. 1,712 | 21,399 |
|  | 33,399[W.N.2] | $\text { 8/108ofRs.33,399=Rs. } \frac{2,474}{5,075}$ | 30,925 |

Total cash price=Rs.30,925+Rs.12,000(down payment)=Rs.42,925

## Working Notes:

1 .Rs. 11,111+ 2nd instalment of Rs. 12,000= Rs.23,111
2. Rs. $21,399+1^{\text {st }}$ instalment of Rs. $12,000=$ Rs. 33,399

## QUESTION 35 (MTP OCTOBER 20)

On $1^{\text {st }}$ April, 2017, X Ltd. sells a Trucks on hire purchase basis to Transporters \& Co. for a total purchase price of Rs. $18,00,000$ payable as to Rs. $4,80,000$ as down payment and the balance in three equal annual instalments of Rs. 4,40,000 each payable on 31st March 2018, 2019 and 2020.

The hire vendor charges interest @ 10\% per annum.
You are required to ascertain the cash price of the truck for Transporters \&Co. Calculations may be made to the nearest rupee.

## ANSWER:

There is no interest element in the down payment as it is paid on the date of the transaction. Instalments paid after certain period includes interest portion also. Therefore, to ascertain cash

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price, interest will be calculated from last instalment to first instalment as follows: Calculation of Interest and Cash Price

| No. of instalments | Amount due at the time of instalment | Interest | Cumulativ e Cash price |
| :---: | :---: | :---: | :---: |
| [1] | [2] | [3] | $(2-3)=[4]$ |
| 3 rd | $\begin{gathered} 4,40,00 \\ 0 \end{gathered}$ | $\begin{aligned} & 1 / 11 \text { of Rs. } 4,40,000 \\ & =\text { Rs. } 40,000 \end{aligned}$ | 4,00,000 |
| $2^{\text {nd }}$ | $\begin{gathered} 8,40,00 \\ 0 \end{gathered}$ | $\begin{gathered} 1 / 11 \text { of Rs. } 8,40,000= \\ \text { Rs. } 76,364 \end{gathered}$ | 7,63,636 |
| $1^{\text {st }}$ | $\begin{gathered} 12,03,6 \\ 36 \end{gathered}$ | $\begin{gathered} \text { 1/11of Rs. } 12,03,636= \\ \text { Rs. } 1,09,421 \end{gathered}$ | 10,94,215 |

Total cash price $=$ Rs. 10,94,215 $+4,80,000$ (down payment) $=$ Rs.15,74,215

## QUESTION 36 (PAST PAPER MAY 19) (PAST PAPER JAN 21)

M/s Amar bought six Scooters from M/s Bhanu on 1 ${ }^{\text {st }}$ April, 2015 on the following terms:

| Down payment | Rs. | 3,00,000 |
| :--- | :--- | :--- |
| $1^{\text {st }}$ instalment payable at the end of 1 ${ }^{\text {st }}$ | Rs. | 1,59,000 |
| year |  |  |
| 2nd instalment payable at the end of 2nd <br> year | Rs. | $1,47,000$ |
| $3^{\text {rd }}$ instalment payable at the end of 3rd year | Rs. | $1,65,000$ |
| Interest is charged at the rate of 10\% per <br> annum. |  |  |

$\mathrm{M} / \mathrm{s}$ Amar provides depreciation @ 20\% per annum on the diminishing balance method.
On 31st March, 2018 M/s Amar failed to pay the $3^{\text {rd }}$ instalment upon which M/s Bhanu repossessed two Scooters. M/s Bhanu agreed to leave the other four Scooters with M/s Amar and adjusted the value of the repossessed Scooters against the amount due. The Scooters taken over were valued on the basis of $30 \%$ depreciation per annum on written down value. The balance amount remaining in the vendor's account after the above adjustment was paid by $\mathrm{M} / \mathrm{s}$ Amar after 5 months with interest@ 15\% perannum.
$\mathrm{M} / \mathrm{s}$ Bhanu incurred repairing expenses of Rs.15,000 on repossessed scooters and sold scooters for Rs.1,05,000 on 25 ${ }^{\text {th }}$ April, 2018.

You are required to :
(1) Calculate the cash price of the Scooters and the interest paid with each installment.
(2) Prepare Scooters Account and $M / s$ Bhanu Account in the books of $M / s A m a r$.
(3) Prepare Goods Repossessed Account in the books of M/s Bhanu.

## ANSWER:

(i) Calculation of Interest and Cash Price
$\left.\begin{array}{|c|c|l|l|l|c|}\hline \begin{array}{c}\text { No. of } \\ \text { installments }\end{array} & \begin{array}{c}\text { Outstandi } \\ \text { ng } \\ \text { balance } \\ \text { at the } \\ \text { end after } \\ \text { the } \\ \text { payment } \\ \text { of } \\ \text { installme } \\ n t\end{array} & \begin{array}{l}\text { Amount } \\ \text { due at the } \\ \text { time of } \\ \text { installment }\end{array} & \begin{array}{c}\text { Outstanding } \\ \text { balance at the } \\ \text { end before the } \\ \text { payment of } \\ \text { installment }\end{array} & \text { Interest } & \begin{array}{c}\text { Outstanding } \\ \text { balance at } \\ \text { the }\end{array} \\ \text { beginning }\end{array}\right]$
(ii) In the books of M/sAmar

Scooters Account

| Date | Particulars | Rs. | Date | Particulars | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1.4.2015 | To Bhanu A/c | 6,90,000 | 31.3.2016 | By Depreciation A/c <br> By Balance c/d | 1,38,000 |
|  |  |  |  |  | 5,52,000 |
|  |  | 6,90,000 |  |  | 6,90,000 |
| 1.4.2016 | To Balance b/d | 5,52,000 | 31.3.2017 | By Depreciation A/c | 1,10,400 |
|  |  |  |  | Balance c/d | 4,41,600 |
|  |  | 5,52,000 |  |  | 5,52,000 |
| 1.4.2017 | To Balance b/d | 4,41,600 | 31.3.2018 | By Depreciation A/c | 88,320 |

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|  |  | By M/s Bhanu a/c (Value of 2 Scooters taken over) <br> By Profit and Loss A/c (Bal. fig.) <br> By Balance c/d | $\begin{array}{r} 78,890 \\ 38,870 \\ 2,35,520 \end{array}$ |
| :---: | :---: | :---: | :---: |
|  | 4,41,600 |  | 4,41,600 |

(iii)

M/s Bhanu Account
(iv)

| Date | Particulars | Rs. | Date | Particulars | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1.4.15 | To Bank (down payment) | 3,00,000 | $\begin{gathered} 1.4 .15 \\ 31.3 .16 \end{gathered}$ | By Scooters A/c By <br> Interest A/c | $\begin{array}{r} 6,90,000 \\ 39,000 \end{array}$ |
| 31.3.16 | To Bank(1st Installment) To Balance c/d | $\begin{aligned} & 1,59,000 \\ & 2,70,000 \end{aligned}$ |  |  |  |
|  |  | 7,29,000 |  |  | 7,29,000 |
| 31.3.17 | To Bank (2nd Installment) <br> To Balance c/d | $1,47,000$ $1,50,000$ | $\begin{aligned} & 1.4 .2016 \\ & 31.3 .2017 \end{aligned}$ | By Balance b/d By Interest A/c | $\begin{array}{r} 2,70,000 \\ 27,000 \end{array}$ |
|  |  | 2,97,000 |  |  | 2,97,000 |
| 31.3.18 | To Scooter A/c <br> To Balance c/d (b.f.) | 78,890 | 1.4.2017 | By Balance b/d By | 1,50,000 |
|  |  | 86,110 | 31.3.2018 |  | 15,000 |
|  |  | 1,65,000 |  |  | 1,65,000 |
| 31.8.18 | To Bank (Amount settled after 5 months) | 91,492 | 1.4.2018 | By Balance b/d | 86,110 |
|  |  |  | 31.8.2018 | By Interest A/c (@ 15 \% on bal.) | 5,382 |
|  |  |  |  | $(86,110 \times 5 / 12 \times 15 / 100)$ |  |
|  |  | 91,492 |  |  | 91,492 |

(v)

In the Books of M/s Bhanu

Goods Repossessed/c

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| Date | Particulars | Rs. | Date | Particulars | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 31.3.18 | To Amar A/c | 78,890 | $\begin{aligned} & 31.3 .2018 \\ & 25.4 .2018 \end{aligned}$ | By Balance c/d <br> By Bank (Sale) | 78,890 |
|  |  | 78,890 |  |  | 78,890 |
| 1.04.2018 | To Balance b/d | 78,890 |  |  | 1,05,000 |
| 25.4.2018 | To Repair A/c | 15,000 |  |  |  |
| 25.4.2018 | To Profit \& Loss A/c | 11,110 |  |  |  |
|  |  | 1,05,000 |  |  | 1,05,000 |

## Working Note:

## Value of Scooters taken over

|  | Rs. |
| :--- | ---: |
| 2 Scooters $(6,90,000 / 6 \times 2)$ | $2,30,000$ |
| Depreciation @ 30\% WDV for 3 |  |
| years $(69,000+48,300+33,810)$ | $\underline{(1,51,110)}$ |

QUESTION 37 (RTP JULY 21)

On 1st April 2018 M/s KMR acquired a machine on hire purchase from M/s PQR on the following terms:
(1) Cash price of the machine was $₹ 2,40,000$.
(2) The down payment at the time of signing the contract was ₹ 96,000 .
(3) The balance amount is to be paid in 3 equal annual instalments plus interest.
(4) Interest is chargeable @ 8\% p.a.

On this basis prepare the H.P. Interest Suspense Account and Account of M/s PQR in the books of the purchaser for the period of hire purchase

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## ANSWER

In the books of M/s KMR (purchaser)
H.P. Interest Suspense Account

| Date | Particulars | $₹$ | Date | Particulars | ₹ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1.4.18 | To M/s PQR A/c (W.N.) | 23,040 | 31.3.19 | By Interest A/c | 11,520 |
|  |  |  | 31.3.19 | By Balance c/d | 11,520 |
|  |  | 23,040 |  |  | 23,040 |
| 1.4.19 | To Balance b/d | 11,520 | 31.3 .20 | By Interest A/c | 7,680 |
|  |  |  | 31.3 .20 | By Balance c/d | 3,840 |
|  |  | 11,520 |  |  | 11,520 |
| 1.4.20 | To Balance b/d | 3,840 | 31.3.21 | By Interest A/c | 3,840 |

M/s PQR Account

| Date | Particulars | ₹ | Date | Particulars | ₹ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1.4.18 | To Bank/Cash A/c | 96,000 | 1.4.18 | By Machine A/c | 2,40,000 |
| 31.3.19 | To Bank/Cash A/c | 59,520 | 1.4.18 | By H.P. Interest Suspense A/c | 23,040 |
| 31.3 .18 | To Balance c/d | 1,07,520 |  |  |  |
|  |  | 2,63,040 |  |  | $\underline{2,63,040}$ |
| 31.3 .20 | To Bank/Cash A/c | 55,680 | 1.4.19 | By Balance b/d | 1,07,520 |
| 31.3 .20 | To Balance c/d | 51,840 |  |  |  |
|  |  | 1.07,520 |  |  | $1.07,520$ |
| 31.3.21 | To Bank/Cash A/c | 51,840 | 1.4.20 | By Balance b/d | 51,840 |

## Working Note:

Cash Price 2,40,000
Down Payment 96,000
1,44,000
₹ $1,44,000$ to be paid in 3 installments ie. ₹ 48,000 plus interest
Total interest =₹ $11,520+₹ 7,680+₹ 3,840=₹ 23,040$

## QUESTION 38 (PAST EXAM NOV 20)

On 1st April, 2017, Mr. Nilesh acquired a Tractor on Hire purchase from Raj Ltd. The terms of contract were as follows:
(i) The Cash price of the Tractor was ₹ 11,50,000.
(ii) ₹ $\mathbf{2 , 5 0 , 0 0 0}$ were to be paid as down payment on the date of purchase.
(iii) The Balance was to be paid in annual instalments of $₹ 3,00,000$ plus interest at the end of the year.
(iv) Interest chargeable on the outstanding balance was 8\% p.a.
(v) Depreciation @ 10\% p.a. is to be charged using straight line method.

Mr. Nilesh adopted the Interest Suspense method for recording his Hire purchase transactions.

You are required to :
Prepare the Tractor account, Interest Suspense account and Raj Ltd.'s account in the books of Mr. Nilesh for the period of hire purchase.

ANSWER
Tractor Account

| Date | Particulars | ₹ | Date | Particulars | F |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1.4 .2017 | To Raj | 11,50,000 | 31.3 .2018 | By Dep. | 1,15,000 |
|  |  |  |  | By Balance old | 10,35,000 |
|  |  | 11,50,000 |  |  | 11,50,000 |
| 1.4 .2018 | To Balance bld | 10,35,000 | 31.32019 | By Dep. | 1,15,000 |
|  |  |  |  | By Balance old | 9,20,000 |
|  |  | 10,35,000 |  |  | 10,35,000 |
| 1.4 .2019 | To balance b/d | 9,20,000 | 31.32020 | By Dep. | 1,15,000 |
|  |  |  |  | By Balance old | 8,05,000 |
|  |  | 9,20,000 |  |  | $\underline{9,20,000}$ |

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H.P. Interest Suspense Account

| Date | Particulars | ₹ | Date | Particulars | F |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1.4 .2017 | To Raj Ltd. Alc (W.N.) | $1,44,000$ | 31.3 .2018 | By Interest A/c | 72,000 |
|  |  |  | 31.3 .2018 | By Balance old | 72,000 |
|  |  | 1,44,000 |  |  | 1,44,000 |
| 1.4 .2018 | To Balance b/d | 72,000 | 31.3 .2019 | By Interest A/c | 48,000 |
|  |  |  | 31.3 .2019 | By Balance old | 24,000 |
|  |  | $\underline{72,000}$ |  |  | 72,000 |
| 1.4 .2019 | To Balance b/d | 24,000 | 31.3 .2020 | By Interest A/c | 24,000 |

Total Interest $=₹ 72,000+₹ 48,000+₹ 24,000=₹ 1,44,000$
Raj Ltd. Account

| Date | Particulars | F | Date | Particulars | F |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1.4 .2017 | To Bank Ac | 2,50,000 | 1.4 .2017 | By Tractor A/c | 11,50,000 |
| 31.32018 | To Bank Alc | 3,72,000 |  | By H.P. Interest Suspense A/c | $1.44,000$ |
|  | To Balance old | 6,72,000 |  |  |  |
|  |  | 12,94,000 |  |  | 12,94,000 |
| 31.32019 | To Bank A/c To Balance c/d | 3,48,000 | 1.4 .2018 | By Balance b/d | 6,72,000 |
|  |  | 3,24,000 |  |  |  |
|  |  | 6,72,000 |  |  | 6,72,000 |
| 31.32020 | To Bank Ace | 3,24,000 | 1.4 .2019 | By Balance b/d | $3.24,000$ |

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

## Chapter 12 Departmental Accounts

## QUESTION 1 (STUDY MATERIAL)

Departmental accounting helps in
(a) Evaluation of trading results of each department separately.
(b) Effective planning and control on each department.
(c) Both (a) and (b)

Answer: (c)

## QUESTION 2 (STUDY MATERIAL)

Selling commission expense is apportioned among departments in the proportion of
(a) Average stock carried by each department.
(b) Number of units sold by each department.
(c) Sales of each department

Answer: (c)

## QUESTION 3(STUDY MATERIAL)

If Department A transfers goods to Department B at a price of $50 \%$ above cost what will be the amount of stock reserve of unsold stock worth Rs. 9,000 of Department B
(a) Rs. 3,000
(b) Rs. 4,500
(c) Rs. 1,500

Answer: (a)

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

## QUESTION 4 (STUDY MATERIAL)

Goods and services may be charged by one department to another on
(a) Market price.
(b) Cost plus agreed percentage of profit.
(c) Both (a) and(b)

Answer: (c)

## QUESTION 5 (STUDY MATERIAL)

Administrative expenses are apportioned among various departments on basis of
(a) Time spent by employees in each department.
(b) Value of assets of each department.
(c) Sales of each department.

Answer: (a)

## QUESTION 6 (STUDY MATERIAL)

Depreciation on assets is apportioned among various departments on basis of
(a) Value of assets of each department.
(b) Purchases of each department.
(c) Sales of each department.

Answer: (a)

## QUESTION 7 (STUDY MATERIAL)

Expense of rent is apportioned among various departments on basis of
(a) Sales of each department.
(b) Floor area occupied by each department.
(c) Either (a) or(b).

Answer: (b)

## QUESTION 8 (STUDY MATERIAL)

When profit is added in inter-departmental transfers, unrealised profit included in the closing stock at the year end (before preparing final accounts) is eliminated by
(a) Creating an appropriate stock reserve.
(b) Debiting the combined profit and loss account.
(c) Both (a) and(b).

Answer: (c)

## QUESTION 9 (STUDY MATERIAL)

If an organisation is interest profit, then
(a) Accounts of all departments are kept in one book only.
(b) Separate set of books are kept for each department.
(c) Departments transfer goods to each other for further processing.

Answer: (b)

## QUESTION 10 (STUDY MATERIAL)

$\mathrm{M} / \mathrm{s}$ XYZ is a departmental Store having 2 departments $A$ and $B . M / s$ XYZ paid ₹ 4,00,000/- towards interest on loan (loan taken for the business). Please advise the basis of allocation of interest expenses between the departments.
(a) Allocated on basis of Sales of each department.
(b) Allocated on basis of value of assets of each department.
(c) Not allocated to individual department, recognized in the combined Profit and Loss account.

Answer: (c)

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

QUESTION 11 (STUDY MATERIAL)
Which of the following is not the one of the basis generally used by departments to make the interdepartmental transfer of goods?
(a) Cost
(b) Cost plus \% of profit
(c) Variable Cost

Answer: (c)

## QUESTION 12 (STUDY MATERIAL)

Which of the following expenses may not be proportioned amongst the departments using any suitable basis?
(a) Carriage Inward
(b) Profit on Sale of Investments
(c) Labour welfare expenses

Answer: (b)

QUESTION 13 (STUDY MATERIAL)
Explain the significance of having departmental accounts for a business entity.
The main advantages of departmental accounting are:
(i) Evaluation of performance;
(ii) Growth potential of each department
(iii) Justification of capital outlay;
(iv) Judgement of efficiency and
(v) Planning and control.

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## QUESTION 14 (STUDY MATERIAL)

How will you allocate the following expenses among different departments?
(i) Rent, rates and taxes, repairs and maintenance, insurance of building.
(ii) Lighting and Heating expenses (e.g. energy expenses)
(iii) Selling expenses.

| S. <br> No. | Expenses | Basis |
| :--- | :--- | :--- |
| 1. | Rent, rates and taxes, repairs and <br> maintenance, insurance of building | Floor area occupied by each department (if given) <br> other wise on time basis |
| 2. | Lighting and Heating | Consumption of energy by each |
| $\ldots$ | expenses (e.g., energy expenses) | department |
| 3. | Selling expenses | Sales of each department |

## QUESTION 15 (STUDY MATERIAL)

Department X sells goods to Department Y at a profit of $25 \%$ on cost and to Department $Z$ at $10 \%$ profit on cost. Department $Y$ sells goods to $X$ and $Z$ at a profit of $15 \%$ and $20 \%$ on sales, respectively. Department $Z$ charges $20 \%$ and $25 \%$ profit on cost to Department $X$ and $Y$, respectively.
Department Managers are entitled to $10 \%$ commission on net profit subject to unrealized profit on departmental sales being eliminated. Departmental profits after charging Managers' Commission but before adjustment of unrealised profit are as under:

| Department X | 36,000 |
| :--- | :--- |
| Department Y | 27,000 |
| Department Z | 18,000 |

Stock lying at different departments at the end of the year is as under:

|  | Dept. X | Dept. Y | Dept. Z |
| :--- | :---: | :---: | :---: |
|  | $₹$ | $₹$ | $₹$ |
| Transfer from Department $X$ | - | 15,000 | 11,000 |
| Transfer from Department $Y$ | 14,000 | - | 12,000 |
| Transfer from Department Z | 6,000 | 5,000 | - |

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Find out the correct departmental Profits after charging Managers' commission Answer:

Calculation of correct Profit

|  | Department | Department | Department |
| :---: | :---: | :---: | :---: |
|  | Rs. | Rs. | Rs. |
| Protit after charging managers' commission | 36,000 | 27,000 | 18,000 |
| Add back: Managers' commission (1/9) | 4,000 | 3,000 | 2,000 |
|  | 40,000 | 30,000 | 20,000 |
| (Working Note) | (4,000) | (4,500) | $(2,000)$ |
|  | 36,000 | 25,500 | 18,000 |
| Less : Commission for Department Manager @ 10\% |  |  |  |
| Departmental Profits after | $\begin{array}{r} \frac{(3,600)}{32,400} \\ \hline \underline{3} \end{array}$ | $\frac{(2,550)}{\underline{22,950}}$ | $\frac{(1,800)}{16,200}$ |

## Working Note :

Stock lying with

|  | Dept. X | Dept. $\boldsymbol{Y}$ | Dept. Z | Total |
| :--- | ---: | ---: | ---: | ---: |
|  | Rs. | Rs. | Rs. | Rs. |
| Unrealised |  |  |  |  |
| Profit of: |  |  |  |  |
| Department X |  | $1 / 5 \times 15,000=3,000$ | $1 / 11 \times 11,000=1,000$ | 4,000 |
|  |  |  | $0.20 \times 12,000=2,400$ | 4,500 |
| Department Y | $0.15 \times 14,000$ |  |  |  |
|  | $=2,100$ |  |  | 2,000 |
| Department Z | $1 / 6 \times 6,000$ | $1 / 5 \times 5,000=1,000$ |  |  |
|  | $=1,000$ |  |  |  |

## QUESTION 16 (STUDY MATERIAL)

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Department R sells goods to Department S at a profit of 25\% on cost and Department T at 10\% profit on cost. Department S sells goods to R and T at a profit of $15 \%$ and $20 \%$ on sales respectively. Department T charges $20 \%$ and $25 \%$ profit on cost to Department R and Srespectively.

Department managers are entitled to $10 \%$ commission on net profit subject to unrealized profit on departmental sales being eliminated. Departmental profits after charging manager's commission, but before adjustment of unrealized profit are as under:

| Department | R | $\mathbf{5 4 , 0 0 0}$ |
| :--- | :--- | :--- |
| Department | S | 40,500 |
| Department | T | 27,000 |

Stock lying at different departments at the end of the year is as under:
Deptt. R Deptt S Deptt T

| Transfer from Department R | - | 22,500 | 16,500 |
| :--- | :---: | :---: | :---: |
| Transfer from Department S | 21,000 | - | 18,000 |
| Transfer from Department T | 9,000 | 7,500 | - |

## Answer:

Correct departmental profits

|  | Departments |  |  |
| :--- | ---: | ---: | ---: |
|  | $R$ | $\boldsymbol{S}$ | $\boldsymbol{T}$ |
|  | $R$ | $\boldsymbol{R}$ | $\boldsymbol{R}$ |
|  | $\mathbf{R}$ | $\boldsymbol{s}$. | $\boldsymbol{s}$. |
| Profit before adjustment of unrealized profits | 54,000 | 40,500 | 27,000 |
| Add : Managerial commission (1/9) | $\underline{6,000}$ | $\underline{4,500}$ | $\underline{3,000}$ |
|  | 60,000 | 45,000 | 30,000 |
| Less: Unrealized profit on stock (Refer W.N.) | $\underline{(6,000)}$ | $\underline{6,750)}$ | $\underline{(3,000)}$ |
|  | $\underline{54,000}$ | 38,250 | 27,000 |
| Less: Managers' commission @ 10\% | $\underline{(5,400)}$ | $\underline{(3,825)}$ | $\underline{(2,700)}$ |
| Profit after adjustment of unrealized profits | $\underline{48,600}$ | $\underline{34,425}$ | $\underline{24,300}$ |

## Working Notes:

## Value of unrealised profit

|  | Rs. |
| :---: | :---: |
| Transfer by department $\mathbf{R}$ to |  |
| S department ( 22,500 [25/125) = 4,500 | 00 |
| T department (16,500 $10 / 110$ ) = 1,500 | ,000 |
| Transfer by department S to |  |
| $R$ department (21,000 ${ }^{\text {P 15/100 }}$ ) $=3,150$ |  |
| T department ( 18,000 [⿴囗 $20 / 100$ ) $=\underline{3,600}$ | 6,750 |
| Transfer by department $\mathbf{T}$ to |  |
| R department (9,000 ${ }^{\text {a 20/120 }}$ ) $=1,500$ |  |
| S department (7,500 [] 25/125) $=1,500$ | 3,000 |

## QUESTION 17 (STUDY MATERIAL)

Marti's Ltd. has several departments. Goods supplied to each department are debited to a Memorandum Departmental Stock Account at cost, plus a fixed percentage (mark-up) to give the normal selling price. The mark-up is credited to a memorandum departmental 'Mark-up account', any reduction in selling prices (mark- down) will require adjustment in the stock account and in mark-up account. The mark up for Department A for the last three years has been 25\%. Figures relevant to Department A for the year ended 31st March, 20X2 were as follows:

Opening stock as on 1st April, 20X1,at cost
cost
Sales Rs.3,00,000
It is further ascertained that:

1. Shortage of stock found in the year ending 31.03.20X2, costing Rs. 1,000 were written off
2. Opening stock on 01.04.20X1 including goods costing Rs. 6,000 had been sold during the year and bad been marked down in the selling price by Rs. 600. The remaining stock had been sold during the year.
3. Goods purchased during the year were marked down by Rs. 1,200 from a cost of Rs.15,000. Marked-down stock costing Rs.5,000 remained unsold on 31.03.20X2.
4. The departmental closing stock is to be valued at cost subject to adjustment for mark-up and mark-down.

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

You are required to prepare:
(i) A Departmental Trading Account for Department A for the year ended 31st March, 20X2 in the books of Head Office.
(ii) A Memorandum Stock Account for the year.
(iii)A Memorandum Markup Account for the year

## Answer:

## Department Trading Account

For the year ending on 31.03.20X2
In the books of Head Office

| Particulars | Rs. | Particulars | Rs. |
| :--- | ---: | :--- | ---: |
| To Opening Stock | 65,000 | By Sales | $3,00,000$ |
| To Purchases | $2,00,000$ | By Shortage | 1,000 |
| To Gross Profit c/d (b.f.) | $\underline{58,880}$ | By Closing Stock | $\underline{22,880}$ |
|  | $\underline{3,23,880}$ |  | $\underline{3,23,880}$ |

Memorandum stock account (for Department A) (at selling price)

| Particulars | Rs. | Particulars | Rs. |
| :---: | :---: | :---: | :---: |
| $\begin{aligned} & \text { To Balance b/d } \\ & \text { (Rs. } 65,000+25 \% \text { of } \quad \text { Rs. } \\ & 65,000 \text { ) } \end{aligned}$ | 81,250 | By Profit \& Loss A/c (Cost of Shortage) | 1,000 |
| To Purchases$\begin{aligned} & \text { (Rs. 2,00,000 + 25\% of } \\ & \text { Rs. } 2,00,000 \text { ) } \end{aligned}$ | 2,50,000 | By Memorandum Departmental Mark up A/c (Load on Shortage) (Rs.1,000 x 25\%) | 250 |
|  |  | By Memorandum Departmental Mark-up A/c (Mark-down on Current Purchases) <br> By Debtors A/c (Sales) <br> By Memorandum Departmental Mark-up A/c <br> (Mark Down on Opening Stock) | $\begin{array}{r} 1,200 \\ 3,00,000 \\ 600 \end{array}$ |
|  | 3,31,250 |  | 3,31,250 |


| Particulars | Rs. | Particulars | Rs. |
| :---: | :---: | :---: | :---: |
| To Memorandum Departmental Stock A/c (Rs.1,000 $\times 25 / 100$ ) | 250 | By Balance b/d $\text { (Rs. } 81,250 \times 25 / 125 \text { ) }$ | 16,250 |
| To Memorandum Departmental Stock A/c | 1,200 | By Memorandum <br> Departmental Stock A/c | 50,000 |
| To Memorandum Departmental Stock A/c | 600 | (Rs.2,50,000 $\times 25 / 125$ ) |  |
| To Gross Profit transferred to Profit \& Loss A/c | 58,880 |  |  |
| To Balance c/d [(Rs. 28,200 + $\text { 400*) x 25/125 - Rs. } 400 \text { ] }$ | 5,320 |  |  |
|  | 66,250 |  | 66,250 |

*[Rs.1,200 $\times 5,000 / 15,000]=$ Rs. 400

Working Notes:
(i) Calculation of Cost of Sales
(ii)

|  |  | Rs. |
| :---: | :---: | :---: |
| A | Sales as per Books | 3,00,000 |
| B | Add: Mark-down in opening stock (given) | 600 |
| C | Add: mark-down in sales out of current Purchases (Rs.1,200 x 10,000/15,000) | 800 |
| D | Value of sales if there was no mark-down ( $\mathrm{A}+\mathrm{B}+\mathrm{C}$ ) | 3,01,40 |
| E | Less: Gross Profit $(25 / 125$ of Rs. $3,01,400$ ) subject to Mark Down (Rs. 600 + Rs.800) | 0 |
| F | Cost of sales (D-E) | $(60,280)$ |
|  |  | 2,41,120 |

(iii) Calculation of Closing Stock

|  |  | Rs. |
| :--- | :--- | ---: |
| A | Opening Stock | 65,000 |
| B | Add: Purchases | $2,00,000$ |
| C | Less: Cost of Sales | $(2,41,120)$ |
| D | Less: Shortage | $\underline{(1,000)}$ |
| E | Closing Stock (A+B-C-D) | 22,880 |

Note: It has been assumed that mark up (given in question) is determined as a percentage of cost.

## QUESTION 18 (STUDY MATERIAL)

Goods are transferred from Department $P$ to Department $Q$ at a price $50 \%$ above cost. If closing stock of Department $Q$ is Rs.27,000, compute the amount of stock reserve.

|  | Rs. |
| :--- | ---: |
| Closing Stock of Department Q <br> Goods send by Department P to Department Q at a price 50\% above <br> cost | 27,000 |
| Hence profit of Department P included in the stock will be - | 9,000 |
| Amount of the Stock Reserve will be Rs.9,000. |  |

## Working Note:

Dept $P$ transfers goods to Dept $Q$ at a profit of $50 \%$ of cost. Hence, if cost is Rs. $100 /-$ the profit $=$ Rs. 50 and Transfer Price = Rs. 150. Therefore, the profit of Dept P included in the stock value of Dept Q is one - third of the sale value

## QUESTION 19 (STUDY MATERIAL)

Z Ltd. has three departments and submits the following information for the year ending on $31^{\text {st }}$ March, 20X1:

|  | A | B | C | Total (Rs.) |
| :--- | ---: | ---: | ---: | ---: |
| Purchases (units) | 6,000 | 12,000 | 14,400 |  |
| Purchases |  |  |  | $6,00,000$ |
| (Amount) Sales | 6,120 | 11,520 | 14,976 |  |
| (Units) | 40 | 45 | 50 |  |
| Selling Price (per unit) Rs. | 600 | 960 | 36 |  |
| Closing Stock (Units) |  |  |  |  |

You are required to prepare departmental trading account of $Z$ Ltd., assuming that the rate of profit on sales is uniform in each case.

Departmental Trading Account for the year ended on 31 ${ }^{\text {st }}$ March, 20X1

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



## Working Notes:

(1) Profit Margin Ratio

(2) Statement showing department-wise per unit Cost and Purchase Cost

|  | A | B | C |
| :--- | ---: | ---: | ---: |
|  | Rs. | Rs. | Rs. |
| Selling Price (Per unit) (Rs.) | 40 | 45 | 50 |
| Less: Profit Margin @ 60\% (Rs.) Profit | $\underline{(24)}$ | $\underline{(27)}$ | $\underline{(30)}$ |
| Margin is uniform for all depts. at $60 \%$ |  |  |  |

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| Purchase price per unit (Rs.) |  | $\underline{16}$ | $\underline{18}$ | $\underline{20}$ |  |
| :--- | :--- | :--- | ---: | ---: | ---: |
| Number of units purchased |  |  | 6,000 | 12,000 | 14,400 |
| (Purchase cost per unit <br> purchased) | $x$ Units | 96,000 | $2,16,000$ | $2,88,000$ |  |

(3) Statement showing calculation of department-wise Opening Stock (in Units)

|  | A | B | C |
| :--- | ---: | ---: | ---: |
| Sales (Units) | 6,120 | 11,520 | 14,976 |
| Add: Closing Stock (Units) | $\boxed{600}$ | $\frac{960}{12,480}$ | $\frac{36}{15,012}$ |
|  | 6,720 | $\underline{(6,000)}$ | $\underline{(12,000)}$ |
| Less: Purchases (units) | $\underline{720}$ | $\underline{480}$ | $\underline{614,400)}$ |
| Opening Stock (Units) |  |  |  |

(4) Statement showing department-wise cost of Opening Stock and Closing Stock

|  |  | A | B | C |
| :---: | :---: | :---: | :---: | :---: |
| Cost of Opening Stock (Rs.) |  | $720 \times 16$ | $480 \times 18$ | $612 \times 20$ |
|  | Rs. | 11,520 | 8,640 | 12,240 |
| Cost of Closing Stock |  | $600 \times 16$ | $960 \times 18$ | $36 \times 20$ |
|  | Rs. | 9,600 | 17,280 | 720 |

## QUESTION 20 (STUDY MATERIAL)

Brahma Limited has three departments and submits the following information for the year ending on 31st March, 20X1:

| Particulars | A | B | C | Total <br> (Rs.) |
| :--- | ---: | ---: | ---: | :---: |
| Purchases (units) | 5,000 | 10,000 | 15,000 |  |
| Purchases (Amount) |  |  |  | $8,40,000$ |
| Sales (units) | 4,200 | 9,800 | 15,300 |  |
| Selling price (Rs. per unit) | 40 | 45 | 50 |  |
| Closing Stock (Units) | 400 | 600 | 700 |  |

You are required to prepare departmental trading account of Brahma Limited assuming that the rate of profit on sales is uniform in each case.

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

Departmental Trading Account for the year ended 31 ${ }^{\text {st }}$ March, 20X1

| Particulars | A | B | C | Particulars | A | B | C |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To Opening Stock (W.N.4) | Rs. 14,400 | Rs. 10,800 | Rs. 30,000 | $\begin{aligned} & \text { By Sales } \\ & \begin{array}{l} \text { A-5,200 x40 } \\ \text { B-9,800 x } \end{array} \end{aligned}$ | Rs. 2,08,00 0 | Rs. | 7,65,000 |
|  |  |  |  | $15,300 \times 50$ <br> By Closing stock | 9,600 | 16,200 | 21,000 |
| To Purchases <br> (W.N.2) | 1,20,000 | 2,70,000 | 4,50,000 | (W.N.4) |  |  |  |
| To Gross profit | 83,200 | 1,76,400 | 3,06,000 |  |  |  |  |
|  | 2,17,600 | 4,57,200 | 7,86,000 |  | 2,17,60 | 4,57,20 | 7,86,000 |

## Working Notes:

1. Profit Margin Ratio

| Selling price of units purchased: |  | Rs. |
| :--- | :--- | ---: |
| Department A | (5,000 units $\times$ Rs. 40) | $2,00,000$ |
| Department B | (10,000 units $\times$ Rs. 45) | $4,50,000$ |
| Department C | (15,000 units $\times$ Rs. 50$)$ | $7,50,000$ |
| Total selling price of purchased units | $14,00,000$ |  |
| Less: Purchases | $(8,40,000)$ |  |
| Gross profit | $\mathbf{5 , 6 0 , 0 0 0}$ |  |

2. Statement showing department-wise per unit cost and purchase cost

| Particulars | A | B | C |
| :--- | :---: | :---: | :---: |
| Selling price per unit (Rs.) | 40 | 45 | 50 |
| Less: Profit margin @ 40\% (Rs.) Profit | $(16)$ | $(18)$ | $(20)$ |
| margin is uniform for all depts. |  |  |  |
| Purchase price per unit (Rs.) | 24 | 27 | 30 |
| No. of units purchased | 5,000 | 10,000 | 15,000 |
| Purchases (purchase cost per unit x <br> units purchased) | $1,20,00$ | $2,70,000$ | $4,50,000$ |

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0
3. Statement showing calculation of department-wise Opening Stock (in units)

| Particulars | A | B | C |
| :--- | :---: | :---: | :---: |
| Sales (Units) | 5,200 | 9,800 | 15,300 |
| Add: Closing Stock (Units) | 400 | 600 | 700 |
|  | 5,600 | 10,400 | 16,000 |
| Less: Purchases (Units) | $(5,000)$ | $(10,000)$ | $(15,000)$ |
| Opening Stock (Units) | 600 | 400 | 1,000 |

4. Statement showing department-wise cost of Opening and Closing Stock

| Particulars | A | B | C |
| :--- | :---: | :---: | :---: |
| Cost of Opening Stock (Rs.) | $600 \times 24$ | $400 \times 27$ | $1,000 \times 30$ |
|  | 14,400 | 10,800 | 30,000 |
| Cost of Closing Stock (Rs.) | $400 \times 24$ | $600 \times 27$ | $700 \times 30$ |
|  | 9,600 | 16,200 | 21,000 |

## QUESTION 21 (STUDY MATERIAL)

$\mathrm{M} / \mathrm{s}$ Omega is a departmental store having three departments $\mathrm{X}, \mathrm{Y}$ and Z . The information regarding three departments for the year ended $31^{\text {st }}$ March, 20X1 are given below:

|  | X | Y | Z |
| :--- | ---: | ---: | ---: |
|  | Rs. | Rs. | Rs. |
| Opening Stock | 36,000 | 24,000 | 20,000 |
| Purchases | $1,32,000$ | 88,000 | 44,000 |
| Debtors at end | 15,000 | 10,000 | 10,000 |
| Sales | $1,80,000$ | $1,35,000$ | 90,000 |
| Closing stock | 45,000 | 17,500 | 21,000 |
| Value of furniture in each department | 20,000 | 20,000 | 10,000 |
| Floor space occupied by each department (in | 3,000 | 2,500 | 2,000 |
| sq. ft.) |  |  |  |
| Number of employees in each Department | 25 | 20 | 15 |
| Electricity consumed by each department (in | 300 | 200 | 100 |
| units) |  |  |  |

The balances of other revenue items in the books for the year are given below:

|  | Amount <br> (Rs.) |
| :--- | ---: |
| Carriage inwards | 3,000 |

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

| Carriage outwards | 2,700 |
| :--- | ---: |
| Salaries | 48,000 |
| 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 |

You are required to prepare Departmental Trading and Profit and Loss Account for the year ended 31 ${ }^{\text {st }}$ March, 20X1 after providing provision for Bad Debts at 5\%.

## In the Books of M/s Omega Departmental Trading and Profit and Loss Account for the year ended 31 ${ }^{\text {st }}$ March, 20X1

| Particulars | Deptt.X | Deptt. $Y$ | Deptt. $Z$ | Total | Particulars | Deptt.X | Deptt.Y | Deptt.Z | Total |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Rs. | Rs. | Rs. | Rs. |  | Rs. | Rs. | Rs. | Rs. |
| To Stock (opening) | 36,000 | 24,000 | 20,000 | 80,000 | By Sales | 1,80,00 0 | 1,35,000 | 90,000 | 4,05,00 |
| To Purchases | $\begin{array}{r} 1,32,00 \\ 0 \end{array}$ | 88,000 | 44,000 | $\begin{array}{r} 2,64,00 \\ 0 \end{array}$ | By Stock (closing) | 45,000 | 17,500 | 21,000 | 83,500 |
| To Carriage | 1,500 | 1,000 | 500 | 3,000 |  |  |  |  |  |
| Inwards |  |  |  |  |  |  |  |  |  |
| To Gross Profit | 55,500 | 39,500 | 46,500 | $\begin{array}{r} 1,41,50 \\ 0 \end{array}$ |  |  |  |  |  |
| (b.f.) |  |  |  |  |  |  |  |  |  |
|  | 2,25,00 | 1,52,50 | 1,11,00 | 4,88,50 |  | 2,25,00 | 1,52,500 | 1,11,00 | 4,88,50 |
| To Carriage | 1,200 | 900 | 600 | 2,700 | By Gross Profit | 55,500 | 39,500 | 46,500 | $\begin{array}{r} 1,41,50 \\ 0 \end{array}$ |
| Outwards |  |  |  |  | b/d |  |  |  |  |
| To Electricity | 1,500 | 1,000 | 500 | 3,000 | By Discount received | 900 | 600 | 300 | 1,800 |
| To Salaries | 20,000 | 16,000 | 12,000 | 48,000 |  |  |  |  |  |
| To | 1,200 | 900 | 600 | 2,700 |  |  |  |  |  |
| Advertisement |  |  |  |  |  |  |  |  |  |
| To Discount allowed | 1,000 | 750 | 500 | 2,250 |  |  |  |  |  |
| To Rent, Rates | 3,000 | 2,500 | 2,000 | 7,500 |  |  |  |  |  |
| Taxes |  |  |  |  |  |  |  |  |  |

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| To <br> Depreciation To Provision for Bad Debts <br> @ 5\% debtors <br> To Labour welfare expenses | $\begin{array}{r} 400 \\ 750 \\ \\ 1,000 \\ 26,35 \end{array}$ | 400 <br> 500 <br> 800 | 200 <br> 500 <br> 600 | $\begin{aligned} & 1,000 \\ & 1,750 \\ & 2,400 \end{aligned}$ |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To Net Profit (b.f.) | $\begin{aligned} & \frac{26,35}{0} \\ & \frac{0}{56,40} \\ & 0 \end{aligned}$ | $\begin{aligned} & \frac{16,35}{0} \\ & \frac{0}{40,10} \\ & 0 \\ & \hline \end{aligned}$ | $\begin{aligned} & \frac{29,3}{00} \\ & \frac{00}{46,8} \\ & 00 \end{aligned}$ | $\begin{array}{r} \frac{72,000}{1,43,3} \\ 00 \end{array}$ | 56,400 | 40,100 | 46,800 | $\begin{array}{r} 1,43,30 \\ 0 \end{array}$ |

## Working Note:

## Basis of allocation of expenses

Carriage inwards
Carriage outwards
Salaries
Advertisement
Discount allowed
Discount received
Rent, Rates and Taxes
Depreciation on furniture
Labour welfare expenses
Electricity expense
Provision for bad debts

Purchases (3:2:1)
Turnover (4:3:2)
No. of Employees (5:4:3)
Turnover (4:3:2)
Turnover (4:3:2)
Purchases (3:2:1)
Floor Space occupied (6:5:4)
Value of furniture (2:2:1)
No. of Employees (5:4:3)
Units consumed (3:2:1)
Debtors balances (3:2:2)

## QUESTION 22 (STUDY MATERIAL)

M/s X has two departments, A and B. From the following particulars prepare the consolidated Trading Account and Departmental Trading Account for the year ending 31st December, 20X1:

| $A$ | $B$ |
| ---: | ---: |
| $R s$. | $R s$. |

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

Opening Stock [consisting of purchased goods -at cost)]

Purchases
Sales
Wages
Carriage
Closing Stock:
(i) Purchased goods
(ii) Finished goods

Purchased goods transferred:
by B to $A$
by $A$ to $B$
Finished goods transferred:
by $A$ to $B$
by $B$ to $A$
35,000
40,000

Return of finished goods:
by $A$ to $B$
10,000
by $B$ to $A$ 7,000

You are informed that purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 20\% of the finished stock (closing) at each department represented finished goods received from the other department.

M/s X
Departmental Trading A/c for the year ending 31st December, 20X1

|  |  | Deptt. A. | Deptt. B |  |  | Deptt. A | Deptt. B |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | Rs. | Rs. |  |  | Rs. | Rs. |
| To | Stock | 20,000 | 12,000 | By | Sales | 1,40,00 | 1,12,00 |
|  |  |  |  |  |  | 0 | 0 |
| To | Purchases | 92,000 | 68,000 | By | Purchased Goods transferred | 8,000 | 10,000 |
| To | Wages | 12,000 | 8,000 | By | Finished goods transferred | 35,000 | 40,000 |
| To | Carriage | 2,000 | 2,000 |  | Return of finished Goods | 10,000 | 7,000 |
| To | Purchased |  |  | By | Closing Stock: |  |  |



Consolidated Trading Account for the year ending 31st December, 20X1

|  |  | Rs. |  |  | Rs. |
| :--- | :--- | ---: | :--- | :--- | ---: |
| To | Opening Stock | 32,000 | By | Sales | $2,52,000$ |
| To | Purchases | $1,60,000$ | By | Closing Stock: |  |
| To | Wages | 20,000 |  | Purchased Goods | 10,500 |
| To | Carriage | 4,000 |  | Finished Goods | 38,000 |
| To | Stock Reserve | 2,196 |  |  |  |
| To | Gross Profit c/d | 82,304 |  |  |  |
|  |  | $3,00,500$ |  |  | $3,00,500$ |

Working note:

|  | Deptt. A | Deptt. B |
| :--- | ---: | ---: |
| Sale | $1,40,000$ | $1,12,000$ |
| Add : Transfer | $\underline{35,000}$ | $\underline{40,000}$ |
|  | $1,75,000$ | $1,52,000$ |
| Less: Returns | $\underline{(, 000)}$ | $\underline{(10,000)}$ |
| Net Sales plus Transfer | $\underline{1,68,000}$ | $\underline{1,42,000}$ |

Closing Stock out of transfer
2,800
4,800
(20\% of closing stock)
Unrealized Profit $\quad 4,800 \times 32.394 \%=1,555 \quad 2,800 \times 22.916 \%=641$

QUESTION 23 (STUDY MATERIAL)

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

Department P sells goods to Department $S$ at a profit of $25 \%$ on cost and to Department Q at a profit of $15 \%$ on cost. Department $S$ sells goods to $P$ and $Q$ at a profit of $\mathbf{2 0 \%}$ and $\mathbf{3 0 \%}$ on sales respectively. Department $Q$ sells goods to $P$ and $S$ at $20 \%$ and $10 \%$ profit on cost respectively.

Departmental Managers are entitled to $10 \%$ commission on net profit subject to unrealised profit on departmental sales being eliminated. Departmental profits after charging Manager's commission, but before adjustment of unrealised profits are as below:

|  | Rs. |
| :--- | ---: |
| Department P | 90,000 |
| Department S | 60,000 |
| Department Q | 45,000 |

Stock lying at different Departments at the end of the year is as below:

|  |  |  |  |
| :--- | :---: | :---: | :---: |
|  | Figures in Rs. |  |  |
|  | $\boldsymbol{P}$ | $\boldsymbol{S}$ | $\boldsymbol{Q}$ |
| Transfer from P | - | 18,000 | 14,000 |
| Transfer from S | 48,000 | - | 38,000 |
| Transfer from Q | 12,000 | 8,000 | - |

Find out correct Departmental Profits after charging Managers' Commission.
Calculation of correct Departmental Profits

|  | Department <br> P(Rs.) | Department <br> S(Rs.) | Department <br> Q(Rs.) |
| :--- | ---: | ---: | ---: |
| Profit after charging Manager's <br> Commission | 90,000 | 60,000 | 45,000 |
| Add: Manager's Commission (1/9) | 10,000 | 6,667 | 5,000 |
|  | $1,00,000$ | 66,667 | 50,000 |
| Less: Unrealised profit on Stock | $(5,426)$ | $(21,000)$ | $(2,727)$ |
| (WN) |  |  |  |
| Profit Before Manager's <br> Commission | 94,574 | 45,667 | 47,273 |
| Less: Manager's Commission 10\% | $(9,457)$ | $(4,567)$ | $(4,727)$ |
| Correct Profit after Manager's <br> Commission | 85,117 | 41,100 | 42,546 |

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

## Working Notes:

|  | Department $\mathbf{P}$ (Rs.) | Department S (Rs.) | Department Q (Rs.) | Total (Rs.) |
| :---: | :---: | :---: | :---: | :---: |
| Unrealised Profit of: Department P | - | $\begin{array}{r} 25 / 125 \times 18,000 \\ =3,600 \end{array}$ | $\begin{array}{r} 15 / 115 \times 14,000 \\ =1,826 \end{array}$ | 5,426 |
|  |  |  |  |  |
|  |  |  |  |  |
| Department S | $\begin{array}{r} 20 / 100 \times 48,000 \\ =9,600 \end{array}$ | - | $\begin{array}{r} 30 / 100 \times 38,000 \\ =11,400 \end{array}$ | 21,000 |
|  |  |  |  |  |
| Department Q | 20/120X12,000 | 10/110X8,000 |  | 2,727 |
|  | =2,000 | $=727$ |  |  |

## QUESTION 24 (STUDY MATERIAL)

M/s. Suman Enterprises has two Departments, Finished Leather and Shoes. Shoes are made by the Firm itself out of leather supplied by Leather Department at its usual selling price. From the following figures, prepare Departmental Trading and Profit \& Loss Account for the year ended 31st March, 20X3:

|  | Finished Leather Department (Rs.) | Shoes Department <br> (Rs.) |
| :---: | :---: | :---: |
| Opening Stock (As <br>  on 01.04.20×2) | 30,20,000 | 4,30,000 |
| Purchases | 1,50,00,000 | 2,60,000 |
| Sales | 1,80,00,000 | 45,20,000 |
| Transfer to Shoes Department | 30,00,000 | - |
| Manufacturing Expenses | - | 5,00,000 |
| Selling Expenses | 1,50,000 | 60,000 |
| Rent and Warehousing | 5,00,000 | 3,00,000 |
| Stock on 31.03.20X3 | 12,20,000 | 5,00,000 |

The following further information are available for necessary consideration:
(i) The stock in Shoes Department may be considered as consisting of 75\% of Leather and 25\% of other expenses.
(ii) The Finished Leather Department earned a Gross Profit @ 15\% in20X1-X2.

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

(iii) General expenses of the business as a whole amount to ₹8,50,000.

Departmental Trading and Profit and Loss Account for the year ended 31st March, 20X3

| Particulars | Finished leather | Shoes | Total <br> (₹) | Particulars | Finished leather | Shoes | Total <br> (₹) |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To Opening stock | 30,20,000 | 4,30,000 | 34,50,000 | By Sales | $\begin{array}{\|r\|} \hline 1,80,00,00 \\ 0 \end{array}$ | 45,20,000 | $\begin{gathered} 2,25,20,00 \\ 0 \end{gathered}$ |
| To Purchases | 1,50,00,000 | 2,60,000 | $\begin{array}{r} 1,52,60,00 \\ 0 \end{array}$ | By Transfer to shoes Deptt. | $30,00,000$ |  | $\begin{gathered} 30,00,00 \\ 0 \end{gathered}$ |
| To Transfer from Leather Department |  | 30,00,000 | 30,00,000 | By Closing <br> stock | 12,20,000 | 5,00,000 | $\begin{gathered} 17,20,00 \\ 0 \end{gathered}$ |
| To |  | 5,00,000 | 5,00,000 |  |  |  |  |
| Manufacturing expenses <br> To Gross profit | 42,00,000 | 8,30,000 | 50,30,000 |  |  |  |  |
|  | 2,22,20,000 | 50,20,000 | 2,72,40,00 0 |  | 2,22,20,00 | 50,20,000 | $\begin{gathered} 2,72,40,00 \\ 0 \end{gathered}$ |
| To Selling expenses | 1,50,000 | 60,000 | 2,10,000 | By Gross profit b/d | $\begin{aligned} & 42,00,00 \\ & 0 \end{aligned}$ | $\begin{aligned} & 8,30,00 \\ & 0 \end{aligned}$ | $\begin{aligned} & 50,30,00 \\ & 0 \end{aligned}$ |
| To Rent <br> \&warehous | 5,00,000 | $\begin{aligned} & 3,00,00 \\ & 0 \end{aligned}$ | 8,00,000 |  |  |  |  |
| ing | $\begin{aligned} & 35,50,00 \\ & 0 \end{aligned}$ |  | $\begin{aligned} & 40,20,00 \\ & 0 \end{aligned}$ |  |  |  |  |
| To Net profit |  | 0 |  |  |  |  |  |
|  | 42,00,000 | 8,30,000 | 50,30,000 |  | 42,00,000 | 8,30,000 | $\begin{gathered} 50,30,00 \\ 0 \end{gathered}$ |

General Profit and Loss Account

| Particulars | Amount <br> (₹) | Particulars | Amount <br> (₹) |
| :--- | ---: | :--- | :---: |
| To General expenses $8,50,000$ <br> To Unrealized profit  <br> (Refer W.N.)  | By Net profit | $40,20,000$ |  |
| To General net profit <br> (Bal. fig.) | $31,43,375$ |  |  |

## Working Note:

## Calculation of Stock Reserve

Rate of Gross Profit of Finished leather Department, for the year 20X2-X3

$$
=\frac{\text { Gross Profit }}{\text { Total Sales }} \times 100=[(42,00,000) /(1,80,00,000+30,00,000)] \times 100=20 \%
$$

Closing Stock of Finished leather in Shoes Department $=75 \%$ i.e. ₹

$$
5,00,000 \times 75 \% \text { = ₹ 3,75,000 }
$$

Stock Reserve required for unrealized profit @ 20\% on closing stock
₹ 3,75,000 x 20\% = ₹75,000

Stock reserve for unrealized profit included in opening stock of Shoes dept. @ 15\% i.e.
(₹ $4,30,000 \times 75 \% \times 15 \%)=₹ 48,375$
Additional Stock Reserve required during the year = ₹75,000 - ₹ $48,375=$
₹ 26,625

## QUESTION 25 (STUDY MATERIAL)

Gram Udyog, a retail store, has two departments, 'Khadi and Silks' for each of which stock account and memorandum 'mark up' accounts are kept. All the goods supplied to each department are debited to the stock account at cost plus a 'mark up', which together make-up the selling-price of the goods and in the account of the sale proceeds of the goods are credited. The amount of 'mark-up' is credited to the Departmental Mark up Account. If the selling price of any goods is reduced below its normal selling price, the reduction 'marked down' is adjusted both in the Stock Account and the Departmental 'Mark up' Account. The rate of 'Mark up' for Khadi Department is $\mathbf{3 3 - 1 / 3 \%}$ of the cost and for Silks Department it is $50 \%$ of the cost.

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

The following figures have been taken from the books for the year ended December 31,20X1:

$$
\begin{array}{ll}
\text { Khadi Deptt. } & \text { Silks } \\
& \text { Deptt. }
\end{array}
$$

Stock as on January 1st at cost
Purchases
Sales

10,500
75,900
95,600
₹
18,600
93,400
1,25,000
(1) The stock of Khadi on January 1, 20X1 included goods the selling price of which had been marked down by ₹ 1,260 . These goods were sold during the year at the reduced prices.
(2) Certain stock of the value of ₹ 6,900 purchased for the Khadi Department were later in the year transferred to the Silks department and sold for ₹ 10,350 . As a result though cost of the goods is included in the Khadi Department the sale proceeds have been credited to the Silks Department.
(3) During the year 20X1 to promote sales the goods were marked down as follows: Cost Marked down

|  | Rs. | Rs. |
| :--- | ---: | ---: |
| Khadi | 5,600 | 360 |
| Silk | 10,000 | 2,000 |

All the goods marked down, were sold except Silks of the value of Rs.5,000 marked down by Rs.1,000.
(4) At the time of stock-taking on December 31, 20X1 it was discovered that Khadi cloth of the cost of Rs. 390 was missing and it was decided that the amount be written off.

You are required to prepare for both the departments for the year 20X1.
(a) The Memorandum Stock Account; and
(b) The Memorandum Mark up Account.

## ANSWER:

Silk Stock Account

| 20X1 |  | Rs. | 20X1 | Rs. |
| :--- | ---: | ---: | :--- | ---: |
| To Balance b/d |  |  | By Sales A/c | $1,25,000$ |
| To Cost | 18,600 |  | By Mark-up A/c | 2,000 |
| $\quad$ Mark-up @50\% | $\underline{9,300}$ | 27,900 | By Balance c/d (b.f.) | 51,350 |
| To Purchases | 93,400 |  |  |  |
| $\quad$ Mark-up @50\% | $\underline{46,700}$ | $1,40,100$ |  |  |

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| To Khadi A/c | 6,900 |  |  |  |
| :---: | ---: | ---: | ---: | ---: |
| Mark-up@50\% | 3,450 | 10,350 |  |  |
|  |  | $1,78,350$ |  | $1,78,350$ |

Silk Mark-up Account

| $20 X 1$ | Rs. | 20X1 | Rs. |
| :--- | ---: | :--- | ---: |
| To Stock A/c | 2,000 | By Balance b/d | 9,300 |
| To Profit \& Loss A/c (b.f.) | 41,000 | By Stock A/c | 46,700 |
| To Balance c/d [(1/3* of \{51,350 + | 16,450 | By Stock A/c | 3,450 |
| $1,000\}$ )- 1,000] |  |  |  |
|  | 59,450 |  | 59,450 |

* $1 / 2$ on cost is equal to $1 / 3$ on sales


## Working Notes:

Verification of Profit

| Sales | $1,25,000$ |
| :--- | ---: |
| Add : Mark down in goods sold | $\frac{1,000}{1,26,000}$ |
| Gross Profit 1/3 | 42,000 |
| Less : Mark down | $\underline{(1,000)}$ |
| Gross profit as per books | $\mathbf{4 1 , 0 0 0}$ |

Khadi Stock Account


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\# [(10,500 x 33-1/3\%) - 1,260] = Rs.2,240

## Khadi Mark-up Account



## Working Note:

| Verification of Profit | Rs. |
| :--- | ---: |
| Sales as per books | 95,600 |
| Add : Mark-down(1,260+360) | $\underline{1,620}$ |
|  | $\underline{97,220}$ |
| Gross Profit on fixed selling price @ 25\% onRs.97,220 | 24,305 |
| Less : Mark down | $\underline{(1,620)}$ |
|  | $\underline{22,685}$ |

QUESTION 26 (RTP MAY 18) (MTP NOV18)
Following is the Trial Balance of Mr. Mohan as on31.03.2017:

|  | Particulars | Debit (Rs.) | Credit (Rs.) |
| :--- | :--- | ---: | ---: |
| Capital Account |  |  | 40,000 |
| Drawing Account |  | 1,500 |  |
| Opening Stock | Department A | 8,500 |  |
|  | Department B | 5,700 |  |

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

| Purchases | Department C <br> Department A <br> Department B <br> Department C | $\begin{array}{r} 1,200 \\ 22,000 \\ 17,000 \\ 8,000 \end{array}$ |  |
| :---: | :---: | :---: | :---: |
| Sales | Department A <br> Department B <br> Department C |  | $\begin{aligned} & 54,000 \\ & 33,000 \\ & 21,000 \end{aligned}$ |
| Sales Returns | Department A <br> Department B <br> Department C | 4,000 3,000 1,000 |  |
| Freight and Carriage | Department A <br> Department B <br> Department C | 1,400 800 200 |  |
| Furniture and fixtures |  | 4,600 |  |
| Plant and Machinery |  | 20,000 |  |
| Motor Vehicles |  | 40,000 |  |
| Sundry Debtors |  | 12,200 |  |
| Sundry Creditors |  |  | 15,000 |
| Salaries |  | 4,500 |  |
| Power and water |  | 1,200 |  |
| Telephone charges |  | 2,100 |  |
| Bad Debts |  | 750 |  |
| Rent and taxes |  | 6,000 |  |
| Insurance |  | 1,500 |  |
| Wages | Department A | 800 |  |
|  | Department B | 550 |  |
|  | Department C | 150 |  |
| Printing and Stationeries |  | 2,000 |  |
| Advertising |  | 3,500 |  |
| Bank Overdraft |  |  | 12,000 |
| Cash in hand |  | 850 |  |
|  |  | 1,75,000 | 1,75,000 |

You are required to prepare Department Trading, Profit and Loss Account and the Balance Sheet taking into account the following adjustments:
(a) Outstanding Wages: Department B- Rs.150, Department C - Rs.50.
(b) DepreciatePlantandMachineryandMotorVehiclesattherateof10\%.

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(c) Each Department shall share all expenses in proportion to their sales.
(d) Closing Stock: Department A - Rs.3,500, Department B - Rs.2,000, Department C - Rs.1,500.
ANSWER:
Trading and Profit and Loss Account
for the year ended on 31 ${ }^{\text {st }}$ Match, 2017


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



Balance Sheet as at 31.03.2017

| Liabilities | Rs. |  | Assets | Rs. |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Capital A/c | 40,000 |  | Furniture \& Fixtures |  | 4,600 |
| Add: Net |  |  | Plant \& | 20,000 |  |
| Profit | 13,415 |  | Machinery |  |  |
| $\begin{aligned} & \text { (Rs.7,025 + } \\ & \text { Rs.6,390) } \end{aligned}$ |  |  |  |  |  |
|  | 53,415 |  | Less: Depreciation | 2,000 | 18,000 |
| Less: Net loss in Dept | 465 |  | Motor Vehicles | 40,000 |  |
|  | 52,950 |  | Less: Depreciation |  | 36,000 |
| Less: Drawings |  | 51,450 | Sundry Debtors | 4,000 | 12,200 |
| Sundry Creditors | 1,500 | 15,000 | Cash in hand |  | 850 |
| Bank Overdraft |  | 12,000 | Closing Stock |  | 7,000 |
| Wages Outstanding |  | $\underline{200}$ |  |  |  |
|  |  | 78,650 |  |  | 78,650 |

Note: All expenses have been allocated among departments in proportion of their sales in the solution as per the specific requirement of the question.

## QUESTION 27 (RTP MAY 19) (RTP NOV 18)

The following balances were extracted from the books of $\mathrm{M} / \mathrm{s}$ Division. You are required to prepare Departmental Trading Account and Profit and Loss account for the year ended 31st December, 2018 after adjusting the unrealized department profits if any.

|  | Deptt. A | Deptt. B |
| :--- | ---: | ---: |
|  | Rs. | Rs. |
| Opening Stock | 50,000 | 40,000 |
| Purchases | $6,50,000$ | $9,10,000$ |
| Sales | $10,00,000$ | $15,00,000$ |

General expenses incurred for both the departments were Rs.1,25,000 and you are also supplied with the following information: (a) Closing stock of Department A

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Rs.1,00,000 including goods from Department B for Rs.20,000 at cost of Department A. (b) Closing stock of Department B Rs.2,00,000 including goods from Department A forRs.30,000 at cost to Department B. (c) Opening stock of Department A and Department B include goods of the value of Rs.10,000 and Rs.15,000 taken from Department B and Department A respectively at cost to transferee departments. (d) The rate of gross profit is uniform from year to year.
Answer:

## Departmental Trading and Loss Account of $\mathrm{M} / \mathrm{s}$ Division

For the year ended 31 ${ }^{\text {st }}$ December, 2018

|  | Deptt. A | Deptt. B |  | Deptt. A | Deptt. B |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Rs. | Rs. |  | Rs. | Rs. |
| To Opening stock | 50,000 | 40,000 | By Sales | 10,00,000 | 15,00, 000 |
| To Purchases To Gross | 6,50,000 | 9,10,000 | By Closing stock |  |  |
| profit | 4,00,000 | 7,50,000 |  | 1,00,000 | 2,00, 000 |
|  | 11,00,000 | 17,00,000 |  | 11,00,000 | 17,00,000 |
| To General Expenses (in ratio of sales) | 50,000 | 75,000 | By Gross profit | 4,00,000 | 7,50,000 |
| To Profit ts/f to general profit | 3,50,000 | 6,75,000 |  |  |  |
|  | 4,00,000 | 7,50,000 |  | 4,00,000 | 7,50, 000 |

General Profit and Loss Account

|  | Rs. |  | Rs. |
| :--- | ---: | ---: | ---: |
| To Stock reserve required (additional: |  | By Profit from: |  |
| $\quad$ Stock in Deptt. A |  | Deptt. A | $3,50,000$ |
| 50\% of (Rs.20,000 - Rs.10,000) (W.N.1) | 5,000 | Deptt. B | $6,75,000$ |
| Stock in Deptt. B |  |  |  |
| $40 \%$ of (Rs.30,000 - Rs.15,000) (W.N.2) | 6,000 |  |  |
| To Net Profit | $\underline{10,14,000}$ |  |  |
|  | $\underline{10,25,000}$ |  | $\underline{10,25,000}$ |

## Working Notes:

3. Stock of department A will be adjusted according to the rate applicable to department
$B=[(7,50,000 \div 15,00,000) \times 100]=50 \%$

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4. Stock of department B will be adjusted according to the rate applicable to department $A=[(4,00,000 \div 10,00,000) \times 100]=40 \%$

## QUESTION 28 (RTP NOVEMBER 19)

A firm has two departments--Sawmill and Furniture. Furniture is made with wood supplied by the Sawmill department at its usual selling price. From the following figures prepare Departmental Trading and Profit and Loss Account for the year2018:

|  | Sawmill <br> Rs. | Furniture <br> Rs. <br> Opening Stock on 1st January, 2018$r \mathbf{1 , 5 0 , 0 0 0}$ |
| :--- | ---: | ---: |
| Sales | 25,000 |  |
| Purchases | $12,00,000$ | $2,00,000$ |
| Supply to Furniture Department | $1,50,000$ | 7,500 |
| Selling expenses | 10,000 | -- |
| Wages | 30,000 | 10,000 |
| Closing Stock on 31st December, 2018 | $1,00,000$ | 30,000 |

The value of stocks in the furniture department consist of $75 \%$ wood and $25 \%$ other expenses. The Sawmill Department earned Gross Profit at 15 \% on sales in 2017. General expenses of the business as a whole came to Rs.55,000. The firm adopts FIFO method for assigning costs to inventories.
Answer:
Departmental Trading and Profit and Loss Account

| Particulars | Sawmill | Furnitur | Particulars | Sawmil I | Furniture |
| :---: | :---: | :---: | :---: | :---: | :---: |
| To Opening stock | 1,50,000 | 25,000 | By Sales | $\begin{gathered} 12,00,0 \\ 00 \end{gathered}$ | 2,00,000 |
| To Purchase | 10,00,000 | 7,500 | By Transfer to furniture department | $\begin{gathered} 1,50,00 \\ 0 \end{gathered}$ |  |
| To Wages | 30,000 | 10,000 | By Closing stock | $\begin{gathered} 1,00,00 \\ 0 \end{gathered}$ | 30,000 |
| To Transfer from saw mill <br> To Gross profit | 2,70,000 | $\begin{array}{r}1,50,000 \\ 37,500 \\ \hline\end{array}$ |  |  |  |
|  | 14,50,000 | 2,30,000 |  | 14,50,0 | 2,30,000 |
|  |  |  |  | $\underline{00}$ |  |

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

| To Selling <br> expenses <br> To Net Profit | 10,000 | 3,000 | By Gross <br> profit | $2,70,00$ | 37,500 |
| :--- | ---: | ---: | :--- | :---: | :---: |
| 0 | $\underline{2,70,000}$ | $\underline{34,500}$ | $\underline{37,500}$ |  |  |
|  |  |  | $\underline{2,70,00}$ | $\underline{37,500}$ |  |

General Profit \& Loss Account

| Particulars | Amount | Particulars | Amount |
| :--- | ---: | :--- | ---: |
| To General Expenses | 55,000 | By Net Profit from |  |
| To Stock reserve (WN- | 4,500 | Saw Mill | $2,60,000$ |
| 2) |  |  |  |
| To Net Profit | $2,37,813$ | Furniture <br> By stock reserve (opening | 24,500 |
|  |  | 2,813 |  |
|  | WN-1) |  |  |

## Working Notes

1. Calculation of Stock Reserve(opening)
$25,000 \times 75 \%$ wood $\times 15 \%=$ Rs. 2,813
2. Calculation of closing stock reserve

Gross profit Rate of Saw Mill of 2018
$2,70,000 /(12,00,000+1,50,000) \times 100=20 \%$
30,000x 75\% x 20\% = Rs.4,500

## QUESTION 29 (RTP MAY 20)

There is transfer/sale among the three departments as below:
Department $X$ sells goods to Department $Y$ at a profit of $25 \%$ on cost and to Department $Z$ at 20\% profit on cost.

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Department $Y$ sells goods to $X$ and $Z$ at a profit of $15 \%$ and $20 \%$ on sales respectively.
Department $Z$ charges $\mathbf{2 0 \%}$ and $25 \%$ profit on cost to Departments $X$ and $Y$ respectively.
Department Managers are entitled to $10 \%$ commission on net profit subject to realised profit on departmental sales being eliminated.

Departmental profits after charging Managers' commission, but before adjustment of Unrealised profit are as under:

|  | Rs. |
| :--- | ---: |
| Department X | $1,80,000$ |
| Department Y | $1,35,000$ |
| Department Z | 90,000 |

Stocks lying at different Departments at the end of the year are as under:

|  | Dept. X | Dept. Y | Dept. Z |
| :--- | ---: | ---: | ---: |
| Transfer from Department X | - | 75,000 | 57,000 |
| Transfer from Department Y | 70,000 | - | 60,000 |
| Transfer from Department Z | 30,000 | 25,000 | - |

## Answer:

Calculation of Correct Profit

|  | Department | Department | Department Z |
| :---: | :---: | :---: | :---: |
|  | Rs. | Rs. | Rs. |
| Profit after charging managers' commission | 1,80,000 | 1,35,000 | 90,000 |
| Add back: Managers' commission (1/9) | 20,000 | 15,000 | 10,000 |
|  | 2,00,000 | 1,50,000 | 1,00,000 |
| Less: Unrealized profit on stock (W.N.) | $(24,500)$ | $(22,500)$ | $(10,000)$ |
| Profit before Manager's commission | 1,75,500 | 1,27,500 | 90,000 |
| Less: Commission for Department |  |  |  |
| Manager @ 10\% | (17,550) | $(12,750)$ | $(9,000)$ |
| Departmental Profits after manager's commission | 1,57,950 | 1,14,750 | 81,000 |

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

## Working Note:

Stock lying with

|  | Dept. X | Dept. Y | Dept. Z | Total |
| :---: | :---: | :---: | :---: | :---: |
|  | Rs. | Rs. | Rs. | Rs. |
| Unrealized Profit of: Department X |  | $\begin{array}{r} 1 / 5 \times 75,000 \\ =15,000 \end{array}$ | $\begin{array}{r} 20 / 120 \times 57,000 \\ =9,500 \end{array}$ | 24,500 |
| Department Y | $\begin{array}{r} 0.15 \times 70,000 \\ =10,500 \end{array}$ |  | $\begin{array}{r} 0.20 \times 60,000 \\ =12,000 \end{array}$ | 22,500 |
| Department Z | $\begin{array}{r} 20 / 120 \times 30,000 \\ =5,000 \end{array}$ | $\begin{array}{r} 25 / 125 \times 25,000 \\ =5,000 \end{array}$ |  | 10,000 |

## QUESTION 30 (RTP NOVEMBER 20)

Department $X$ sells goods to Department $Y$ at a profit of $50 \%$ on cost and to Department $Z$ at $\mathbf{2 0 \%}$ on cost. Department $Y$ sells goods to Department $X$ and $Z$ at a profit of $\mathbf{2 5 \%}$ and $\mathbf{1 5 \%}$ respectively on sales. Department $Z$ charges $30 \%$ profit on cost to Department $X$ and $40 \%$ profit on sale to Y .

Stocks lying at different departments at the end of the year are as under:

|  | Dept. X | Dept. Y | Dept. Z |
| :--- | :---: | :---: | :---: |
|  | Rs. | Rs. | Rs. |
| Transfer from Department X |  | 75,000 | 48,000 |
| Transfer from Department Y | 50,000 |  | 82,000 |
| Transfer from Department Z | 52,000 | 56,000 |  |

Calculate the unrealized profit of each department and also total unrealized profit. Answer:
9. Calculation of unrealized profit of each department and total unrealized profit

|  | Dept. X | Dept. Y | Dept. Z | Total |
| ---: | ---: | ---: | ---: | ---: |
|  | Rs. | Rs. | Rs. | Rs. |
| Unrealized Profit of: |  |  |  |  |

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| Department X |  | 75,000 x50/150 | 48,000 $\times 20 / 120$ | 33,000 |
| :---: | :---: | :---: | :---: | :---: |
|  |  | =25,000 | =8,000 |  |
| Department Y | $50,000 \times .25$ $=12,500$ |  | $\begin{array}{r} 82,000 \times .15 \\ =12,300 \end{array}$ | 24,800 |
| Department Z | 52,000 $\times 30 / 130$ | 56,000 x40/100 |  |  |
|  | = 12,000 | =22,400 |  | $\begin{aligned} & \underline{34,400} \\ & \underline{92,200} \end{aligned}$ |

## QUESTION 31 (MTP OCTOBER 19)

M \& S Co. of agra has a branch in Canberra, Australia (as an integral foreign operation of M\& S Co.). At the end of 31st March 2019, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.

|  | Luck now office (Rs. In thousand) |  | Canberra <br> Branch (Aust. <br> Dollars in thousand) |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Dr. | Cr. | Dr. | Cr . |
| Capital |  | 2,000 |  |  |
| Reserves \& Surplus |  | 1,000 |  |  |
| Land | 500 |  |  |  |
| Buildings (Cost) | 1,000 |  |  |  |
| Buildings Dep. Reserves |  | 200 |  |  |
| Plant and Machinery (Cost) Plant and Machinery Dep. | 2,500 |  | 200 |  |
| Reserves |  | 600 |  | 130 |
| Debtors/Creditors | 280 | 200 | 60 | 30 |
| Stock as on 1-4-2018 | 100 |  | 20 |  |
| Branch Stock Reserve |  | 4 |  |  |
| Cash \& Bank Balances | 10 |  | 10 |  |
| Purchases/Sales | 240 | 520 | 20 | 123 |
| Goods sent to Branch |  | 100 | 5 |  |
| Managing Partner's Salary | 30 |  |  |  |
| Wages and Salary | 75 |  | 45 |  |
| Rent |  |  | 12 |  |
| Office Expenses | 25 |  | 18 |  |
| Commission Receipts |  | 256 |  | 100 |


| Branch/HO Current Account | 120 |  |  | 7 |
| :--- | ---: | ---: | ---: | ---: |
|  | 4,880 | 4,880 | 390 | 390 |

The following information is also available:
(i) Stock as at 31 ${ }^{\text {st }}$ March, 2019

LucknowRs.1,50,000
Canberra A\$ 3125 (all stock are out of purchases made at Abroad)
(ii) HeadOfficealwayssentgoodstotheBranchatcostplus25\%
(iii) Provision is to be made for doubtful debts at5\%
(iv) Depreciation is to be provided on Buildings at 10\% and on Plant and Machinery at $20 \%$ on written down value.

You are required to:
(1) ConverttheBranchTrialBalanceintorupeesbyusingthefollowingexchangerates:

| Opening rate | 1 A $\$=R s .50$ |
| :--- | :--- |
| Closing rate | 1 A $\$=$ Rs. 53 |
| Average rate | 1 A $\$=$ Rs. 51.00 |
| For Fixed Assets | 1 A $\$=$ Rs. 46.00 |

(2) Prepare Trading and Profit and Loss Account for the year ended 31st March 2019 showing to the extent possible H.O. results and Branch results separately.

## ANSWER:

M \& S Co. Ltd.
Canberra, Australia Branch Trial Balance As on 31st March 2019

|  | (\$ 'thousands) |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Dr. | Cr . | Conversio <br> rate per \$ | Dr. | Cr . |
| Plant \& Machinery (cost) <br> Plant \& Machinery Dep. <br> Reserve | 200 | 130 | $\begin{aligned} & \text { Rs. } 46 \\ & \text { Rs. } 46 \end{aligned}$ | 9,200 | 5,980 |
| Trade receivable/payable | 60 | 30 | Rs. 53 | 3,180 | 1,590 |
| Stock (1.4.2018) | 20 |  | Rs. 50 | 1,000 |  |

## CA Ravi Agarwal's

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| Cash \& Bank Balances | 10 |  | Rs. 53 | 530 |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Purchase / Sales | 20 | 123 | Rs. 51 | 1,020 | 6,273 |
| Goods received from H.O. | 5 |  | Actual | 100 |  |
| Wages \& Salaries | 45 |  | Rs. 51 | 2,295 |  |
| Rent | 12 |  | Rs. 51 | 612 |  |
| Office expenses | 18 |  | Rs. 51 | 918 |  |
| Commission Receipts |  | 100 | Rs. 51 |  | 5,100 |
| H.O. Current A/c |  | 7 | Actual |  | 120 |
|  |  |  |  | 18,855 | 19,063 |
| Foreign Exchange Loss (bal. fig.) |  |  |  | 208 |  |
|  |  |  |  |  |  |
|  | 390 | 390 |  | 19,063 | 19,063 |
| Closing stock | 3.125 |  | 53 | 165.625 |  |

Trading and Profit \& Loss Account for the year ended 31st March, 2019


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

| 's Salary |  |  |  |
| :---: | ---: | ---: | ---: |
| To Exchange Loss |  |  | 208.000 | By | Branch stock |
| :--- |
| reserve |


|  |  |  |  |
| :--- | :--- | :--- | :--- |
|  |  |  |  |
|  |  |  |  |
|  |  | 4,900 |  |
|  |  | .625 |  |

## Working Note:

Calculation of Depreciation

|  |  | Branch <br> Rs. '000 |
| :---: | :---: | :---: |
| Building - Cost | 1,000 |  |
| Less: Dep. Reserve | (200) |  |
|  | 800 |  |
| Depreciation @ 10\% (A) | 80 |  |
| Plant \& Machinery Cost | 2,500 | 9,200 |
| Less: Dep. Reserve | (600) | $(5,980)$ |
|  | 1,900 | 3,220 |
| Depreciation @ 20\% (B) | 380 | 644 |
| Total Depreciation ( $\mathrm{A}+\mathrm{B}$ ) | 460 | 644 |

Note: As the closing stock of Branch does not consist any stock transferred from M\&S Co., there is no need to create closing stock reserve. But the opening branch stock reserve has to be reversed in the P\&LA/c.

## QUESTION 32 (MTP OCTOBER 20)

The following balances were extracted from the books of Beta. You are required to prepare Departmental Trading Account and general Profit \&Loss Account for the year ended 31st March,2020:

| Particulars | Deptt. Deptt. <br> B <br>  Rs. |  |
| :--- | ---: | ---: |
|  | Rs. |  |
| Opening Stock | $3,00,000$ | $2,40,000$ |
| Purchases | $39,00,000$ | $54,60,000$ |
| Sales | $60,00,000$ | $90,00,000$ |

General expenses incurred for both the Departments were Rs. 7,50,000 and you are also supplied with the following information:

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

(i) Closing stock of Department A Rs. 6,00,000 including goods from Department B for Rs. 1,20,000 at cost to department A.
(ii) Closing stock of Department B Rs.12,00,000 including goods from Department A for Rs.1,80,000 at cost to DepartmentB.
(iii) Opening stock of Department A and Department B include goods of the value of Rs.60,000 and
Rs. 90,000 taken from Department B and Department A respectively at cost to transferee departments.
(iv) The gross profit is uniform from year to year.

ANSWER:

Departmental Trading Account for the yearendedon31st March, 2020

| Particulars | A | B | Particulars | A | B |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Rs. | Rs. |  | Rs. | Rs. |
| To Opening Stock | $3,00,000$ | 2,40,000 | By Sales | $\left.\begin{array}{r} 60,00,00 \\ 0 \end{array} \right\rvert\,$ | 90,00,000 |
| To Purchases To Gross Profit | $\begin{array}{\|r} 39,00,00 \\ 0 \\ 24,00,00 \\ \hline \underline{0} \\ \hline \end{array}$ | $\begin{aligned} & 54,60,000 \\ & 45,00,000 \end{aligned}$ | By Closing Stock | 6,00,000 | 12,00,000 |
|  | 66,00,00 | 1,02,00,0 |  | 66,00,00 | 1,02,00,0 |

General profit and loss account of Beta for the year ended on 31 st March, 2020

| Particulars | Amount | Particulars | Amount |
| :---: | :---: | :---: | :---: |
|  | Rs. |  | Rs. |
| To General expenses | 7,50,000 | B Stock reserve (opening y stock) | 30,000 |
| To Stock reserve (Closing Stock) |  | Dept. A |  |
| Dept. A | 60,000 | Dept. B | 36,000 |
| Dept. B | 72,000 | B Gross Profit |  |
|  |  | Y |  |
| To Net Profit | 60,84,000 | Dept. A | 24,00,000 |
|  |  | Dept. B | 45,00,000 |
|  | 69,66,000 |  | 69,66,000 |

Working Notes:

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

|  | Dept. A | Dept. B |
| :--- | ---: | ---: |
| Percentage of Profit | $24,00,000 / 60,00,000 \times 100=$ | $45,00,000 / 90,00,000 \times$ |
|  | $400=$ |  |
|  | $60,000 \times 50 \%=30,000$ | $90,000 \times 40 \%=36,000$ |
|  |  | $50 \%$ |
| Opening Stock |  |  |
| reserve |  |  |
| Closing Stock reserve |  |  |

## QUESTION 33 (PAST PAPER MAY 18)

M/s. Delta is a Departmental Store having three departments $X, Y$ and $Z$. The information regarding three departments for the year ended 31st March, 2018 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 | 1,500 | 1,250 | 1,000 |
| sq. ft.) | 25 | 20 | 15 |
| Number of employees in each <br> Department |  |  |  |
| Electricity consumed by each | 300 | 200 | 100 |
| Department (in units) |  |  |  |

Additional Information:

|  | Amount <br> (Rs.) |
| :--- | ---: |
| Carriage inwards | 1,500 |
| Carriage outwards | 2,700 |
| Salaries | 24,000 |
| Advertisement | 2,700 |
| Discount allowed | 2,250 |
| Discount received | 1,800 |

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

| Rent, Rates and Taxes | 7,500 |
| :--- | :--- |
| Depreciation on furniture | 1,000 |
| Electricity Expenses | 3,000 |
| Labour welfare expenses | 2,400 |

PrepareDepartmentalTradingandProfit\&LossAccountfortheyearended 31 ${ }^{\text {st }}$ March, 2018 after providing provision for Bad Debts at 5\%.
ANSWER:

## In the Books of M/sDelta <br> Departmental Trading and Profit and Loss Account

for the year ended 31 ${ }^{\text {st }}$ March, 2018

| Particulars | Deptt. <br> $X$ | Deptt.Y | Deptt. Z | Total | Particulars | Deptt. <br> $x$ | Deptt.Y | Deptt.Z | Total |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Rs. | Rs. | Rs. | Rs. |  | Rs. | Rs. | Rs. | Rs. |
| To Stock(opening) | $\begin{array}{r} 18,00 \\ 0 \end{array}$ | 12,000 | $\begin{array}{r} 10,00 \\ 0 \end{array}$ | 40,000 | By Sales | 90,000 | 67,500 | 45,000 | $\begin{array}{\|r\|} \hline 2,02,50 \\ 0 \end{array}$ |
| To Purchases | 66,00 | 44,000 | $\begin{array}{r} 22,00 \\ 0 \end{array}$ | $\begin{array}{r} 1,32,00 \\ 0 \end{array}$ | By Stock (closing) | 22,500 | 8,750 | 10,500 | 41,750 |
| To Carriage Inwards | 750 | 500 | 250 | 1,500 |  |  |  |  |  |
| To Gross Profit c/d(b.f.) | $\begin{array}{r} 27,75 \\ 0 \\ \hline \end{array}$ | 19,750 | $\begin{array}{r} 23,25 \\ 0 \\ \hline \end{array}$ | 70,750 |  |  |  |  |  |
|  | $\begin{array}{r} 1,12,5 \\ 00 \\ \hline \end{array}$ | 76,250 | 55,50 | 2,44,25 |  | $1,12,5$ 00 | 76,250 | 55,500 | 2,44,25 |
| To Carriage Outwards | 1,200 | 900 | 600 | 2,700 | By Gross Profit b/d | 27,750 | 19,750 | 23,250 | 70,750 |
| To Electricity | 1,500 | 1,000 | 500 | 3,000 | By Discount received | 900 | 600 | 300 | 1,800 |
| To Salaries | $\begin{array}{r} 10,00 \\ 0 \end{array}$ | 8,000 | 6,000 | 24,000 |  |  |  |  |  |
| To Advertisement | 1,200 | 900 | 600 | 2,700 |  |  |  |  |  |
| To Discount allowed | 1,000 | 750 | 500 | 2,250 |  |  |  |  |  |
| To Rent, Rates and Taxes | 3,000 | 2,500 | 2,000 | 7,500 |  |  |  |  |  |
| To Depreciation | 400 | 400 | 200 | 1,000 |  |  |  |  |  |
| To Provision for Bad Debts @ 5\% of debtors | 375 | 250 | 250 | 875 |  |  |  |  |  |
| To Labour welfare expenses | 1,000 | 800 | 600 | 2,400 |  |  |  |  |  |
| To Net Profit(b.f.) | 8,975 | 4,850 | 12,30 | 26,125 |  |  |  |  |  |

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



|  |  |  |  |
| :--- | :--- | :--- | :--- |
| 28,650 | 20,350 | 23,550 | 72,550 |
|  |  |  |  |

## Working Note:

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

## QUESTION 34 (PAST PAPER NOVEMBER 18)

Axe Limited has four departments, A, B, C and D. Department A sells goods to other departments at a profit of $25 \%$ on cost. Department B sells goods to other department at a profit of $30 \%$ on sales. Department C sells goods to other departments at a profit of $10 \%$ on cost, Department $D$ sells goods to other departments at a profit of $15 \%$ on sales.

Stock lying at different departments at the year-end was as follows:

|  | Departme <br> nt | Departme <br> nt | Departme <br> nt | Departme <br> nt |
| :--- | ---: | ---: | ---: | ---: |
| C |  |  |  |  |

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

| Transfer from | 33,000 | 22,000 | - | - |
| :--- | ---: | ---: | ---: | ---: |
| Department C | 40,000 | 10,000 | 65,000 | - |
| Transfer from <br> Department D |  |  |  |  |

Departmental managers are entitled to $10 \%$ commission on net profit subject to unrealized profit on departmental sales being eliminated.

Departmental profits after charging manager's commission, but before adjustment of unrealized profit are as under:

|  | Rs. |
| :--- | ---: |
| Department A | $2,25,000$ |
| Department B | $3,37,500$ |
| Department C | $1,80,000$ |
| Department D | $4,50,000$ |

Calculate the correct departmental profits after charging Manager's commission. ANSWER:

Calculation of correct departmental Profits

|  | Departme $n t$ $A$ | Departme nt B | Departme nt C | Departme nt D |
| :---: | :---: | :---: | :---: | :---: |
|  | Rs. | Rs. | Rs. | Rs. |
| Profit after charging managers' commission | 2,25,000 | 3,37,500 | 1,80,000 | 4,50,000 |
| Add back: <br> Managers' commission (1/9) | 25,000 | 37,500 | 20,000 | 50,000 |
|  | 2,50,000 | 3,75,000 | 2,00,000 | 5,00,000 |
| Less: Unrealized profit on stock (Working Note) | 31,000 | 37,500 | 5,000 | 17,250 |
| Profit before <br> Manager's commission | 2,19,000 | 3,37,500 | 1,95,000 | 4,82,750 |
| Less: Commission for Department Manager @ 10\% | 21,900 | 33,750 | 19,500 | 48,275 |

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

| Correct Departmental <br> Profits after manager's <br> commission |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- |

Working Note :

## Stock lying with

|  | Dept. A | Dept. B | Dept. C | Dept. <br> D | Total |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Rs. | Rs. | Rs. |  | Rs. |
| Unrealized Profit of: |  |  |  |  |  |
|  |  |  |  |  |  |
| Department A |  | 45,000 | 50,000x | 60,000 | 31,000 |
|  |  | $\times 25 / 125$ | 25/125 | $\times 25 / 125$ |  |
|  |  | = 9,000 | =10,000 | =12,000 |  |
|  | 50,000 x0.3 |  |  |  |  |
| Department B | = 15,000 |  |  | 75,000 x0.3 | 37,500 |
|  |  |  |  | $=22,500$ |  |
| Department C | $33,000 \times 10 / 1$ | 22,000×10/1 |  |  | 5,000 |
|  | $10$ | $10$ |  |  |  |
|  | = 3,000 | = 2,000 | 65,000x |  |  |
| Department D | 40,000 | 10,000 | 0.15 |  | 17,250 |
|  | x0.15 | x0.15 | =9,750 |  |  |
|  | = 6,000 | = 1,500 |  |  |  |

## QUESTION 35 (PAST PAPER NOVEMBER 19)

ABC Ltd. has several departments. Goods supplied to each department are debited to a Memorandum Departmental Stock Account at cost plus a fixed percentage (mark-up) to give the normal selling price. The amount of mark-up is credited to a Memorandum Departmental Markup account. If the selling price of goods is reduced below its normal selling prices, the reduction (mark-down) will require adjustment both in the stock account and the mark-up account. The mark-up for department $X$ for the last three years has been $20 \%$. Figures relevant to department $\mathbf{X}$ for the year ended 31 st March, 2019 were as follows:

Stock as on $1^{\text {st }}$ April, 2018,atcost
Purchases at cost
Sales

Rs.1,50,000
Rs.4,30,000
Rs.6,50,000

It is further ascertained that:
(1) Shortage of stock found in the year ending 31.3.2019, costing Rs. 4,000 was written off.

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(2) Opening stock on 1.4.2018 including goods costing Rs. 12,000 had been sold during the year and had been marked-down in the selling price by Rs. 1,600. The remaining stock had been sold during the year.
(3) Goods purchased during the year were marked down by Rs. 3,600 from a cost of Rs. 30,000. Marked-down stock costing Rs. 10,000 remained unsold on 31.3.2019.
(4) The departmental closing stock is to be valued at cost subject to adjustment for mark- up and mark-down.

You are required to prepare for the year ended 31st March, 2019 :
(i) Departmental Trading Account for department $X$ for the year ended 31st March, 2019 in the books of head office.
(ii) Memorandum Stock Account for the year ended 31st March,2019.
(iii) Memorandum Mark-Up account for the year ended 31 ${ }^{\text {st }}$ March,2019.

## ANSWER:

## (i) Department Trading Account for Department X For the year ending on31.03.2019 <br> In the books of Head Office

| Particulars | Rs. | Particulars | Rs. |
| :--- | ---: | :--- | ---: |
| To Opening Stock | $1,50,000$ | By Sales | $6,50,000$ |
| To Purchases | $4,30,000$ | By Shortage | 4,000 |
| To Gross Profit | $1,05,000$ | By Closing Stock | 31,000 |
| c/d |  |  | $6,85,000$ |
|  | $6,85,000$ |  |  |

(ii) Memorandum Stock Account (for Department X) (at sellingprice)

| Particulars | Rs. | Particulars | Rs. |
| :---: | :---: | :---: | :---: |
| To Balance b/d | 1,80,00 | By Profit \& Loss | 4,000 |
| (Rs. 1,50,000+20\% |  | A/c (Cost of |  |
| of Rs. 1,50,000) |  | Shortage) |  |
| To Purchases | 5,16,00 | By Memorandum | 800 |
| (Rs. 4,30,000 + | 0 | Departmental Mark up |  |
| 20\% of |  | A/c (Load on Shortage) |  |
| Rs.4,30,000) |  | (Rs.4,000 x 20\%) |  |

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


(iii) Memorandum Departmental Mark-up Account

| Particulars | Rs. | Particulars | Rs. |
| :--- | ---: | :--- | ---: |
| To Memorandum <br> Departmental Stock <br> A/c (Rs.4,000 x <br> 20/100) | 800 | By Balance b/d <br> (Rs.1,80,000 x <br> To Memorandum <br> Departmental Stock <br> A/c | 3,600 |

*[Rs. 3,600 $\times 10,000 / 30,000]=$ Rs. 1,200. Alternatively, this adjustment of Rs. 1,200 may be routed
through Memorandum Stock Account.

## Working Notes:

(i) Calculation of Cost of Sales

|  |  | Rs. |
| :---: | :---: | :---: |
| A | Sales as per Books | 6,50,000 |
| B | Add: Mark-down in opening stock (given) | 1,600 |
| C | Add: mark-down in sales out of current <br> Purchases (Rs.3,600 x 20,000 /30,000) | 2,400 |
| D | Value of sales if there was no mark-down ( $\mathrm{A}+\mathrm{B}+\mathrm{C}$ ) | 6,54,000 |
| E | Less: Gross Profit (20/120 of Rs. $6,54,000$ ) subject to Mark Down | (1,09,000 |
| F | Cost of sales (D-E) | 5,45,000 |

(ii) Calculation of Closing Stock

|  |  | Rs. |
| :--- | :--- | ---: |
| A | Opening Stock | $1,50,000$ |
| B | Add: Purchases | $4,30,000$ |
| C | Less: Cost of Sales | $(5,45,000$ |
|  |  | $)$ |
| D | Less: Shortage | $(4,000)$ |
| E | Closing Stock (A+B-C-D) | 31,000 |

## QUESTION 36 (study material) (PAST EXAM NOV20)

Department A sells goods to Department B at a profit of $50 \%$ on cost and to Department C at 20\% on cost. Department B sells goods to A and C at a profit of $25 \%$ and $15 \%$ respectively on sales. Department C charges $30 \%$ and $40 \%$ profit on cost to Department A and B respectively. Stock lying at different departments at the end of the year are as under:

|  | Department A ₹ | Department B ₹ | Department C ₹ |
| :--- | :--- | :--- | :--- |
| Transfer from Department A | - | 45,000 | 42,000 |
| Transfer from Department B | 40,000 | - | 72,000 |
| Transfer from Department C | 39,000 | 42,000 | - |

Calculate the unrealised profit of each department and also total unrealised profit.
ANSWER:
Calculation of unrealised profit of each department and total unrealised profit

|  | Dept. A | Dept. B | Dept. C | Total |
| :--- | ---: | ---: | ---: | ---: |
|  | $F$ | $F$ | $F$ | $₹$ |
| Unrealised Profit |  |  |  |  |
| of: |  |  |  |  |
| Department A |  | $45,000 \times 50 / 150$ | $42,000 \times 20 / 120$ |  |
|  | $=15,000$ | $=7,000$ | 22,000 |  |
| Department B | $40,000 \times .25$ |  | $72,000 \times .15$ |  |
|  | $=10,000$ |  |  |  |
| Department C | $39,000 \times 30 / 130$ | $42,000 \times 40 / 140$ |  | 20,800 |
|  | $=9,000$ | $=12,000$ |  | $\underline{21,000}$ |
|  |  |  | $\underline{63,800}$ |  |

QUESTION 37 ( RTP JULY 21)
Below balances are taken from the records of $\mathrm{M} / \mathrm{s}$ Big Shopping Complex for the year ended 31st March, 2020

| Details | Department P (₹) | Department Q (₹) |
| :--- | :--- | :--- |
| Opening Stock | $1,00,000$ | 80,000 |
| Purchases | $13,00,000$ | $18,20,000$ |
| Sales | $\mathbf{2 0 , 0 0 , 0 0 0}$ | $\mathbf{3 0 , 0 0 , 0 0 0}$ |

- Closing stock of Department $P$ was ₹ $2,00,000$ including goods transferred from Department $Q$ for ₹ 40,000.
- Closing stock of Department Q was ₹ 4,00,000 including goods transferred from Department P for ₹ 60,000 .

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- Assume that above transfer amounts are cost to the transferee departments and the rate of gross profit is uniform from year to year.
- Total selling expenses incurred were ₹ 2,50,000 for both the departments.

From the above information, prepare Departmental Trading Account and Profit \& Loss Account for the year ended 31st March 2020, after adjusting the unrealized departmental profits, if any.

## ANSWER

Departmental Trading and Profit \& Loss A/c for M/s Big Shopping Complex For the year ended 31st March 2020

| Details | Deptt. P (₹) $\qquad$ | Deptt. Q $\qquad$ | Details | Deptt. P $\qquad$ (₹) | Deptt. Q $\qquad$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| To Opening Stock | 1,00,000 | 80,000 | By Sales | 20,00,000 | 30,00,000 |
| To Purchases | 13,00,000 | 18,20,000 |  | 2,00,000 | 4,00,000 |
| To Gross Profit | 8,00,000 | 15,00,000 | $\begin{array}{ll} \hline \hline \text { By } & \text { Closing } \\ \text { Stock } & \end{array}$ |  |  |
| To Selling Exp (in ratio of sales) To Profit transferred to General P\&L A/c | 22,00,000 | 34,00,000 | By Gross Profit | 22,00,000 | 34,00,000 |
|  | 1,00,000 | 1,50,000 |  | 8,00,000 | 15,00,000 |
|  | 7,00,000 | 13,50,000 |  |  |  |
|  | 8,00,000 | 15,00,000 |  | 8,00,000 | 15,00,000 |

## General Profit and Loss A/c for M/s Big Shopping Complex For the year ended 31st March 2020

| Details | Amount (₹) | Details | Amount (₹) |
| :--- | ---: | :--- | ---: |
| To Stock Reserve |  | By Profit transferred from |  |
| Deptt. P WN 1 \& 2 |  | Deptt. P | $7,00,000$ |
| $50 \% \times(40,000-20,000)$ | 10,000 | Deptt. Q | $13,50,000$ |
| Deptt. Q WN 1 \& 3 |  |  |  |
| 40\% x (60,000 - 30,000) | 12,000 |  |  |
| To Net Profit | $20,28,000$ |  | $20,50,000$ |
|  | $20,50,000$ |  |  |

Working Notes:

1. Gross Profit Ratios are: Deptt. $P=8,00,000 / 20,00,000=40 \%$ and of Deptt. $Q=15,00,000 /$ $30,00,000=50 \%$.

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

2. Stock Reserve for Deptt. P shall be adjusted as per the gross profit ratio of Deptt. Q i.e. 50\% (On Closing Stock - Opening Stock)
3. Stock Reserve for Deptt. Q shall be adjusted as per the gross profit ratio of Deptt. P i.e. 40\% (On Closing Stock - Opening Stock)

## QUESTION 37 (PAST EXAM JAN 21)

XYZ Garage consists of 3 departments: Spares, Service and Repairs, each department being managed by a departmental manager whose commission was respectively $5 \%, 10 \%$ and $10 \%$ of the respective departmental profit subject to a minimum of ₹5,000 in each case. Inter departmental transfers take place at a "loaded" price as follows:

From Spares to Service 5\% above cost
From Spares to Repairs 10\% above cost
From Spares to Service 10\% above cost
In respect of the year ended March 31st 2019 the firm had already prepared and closed the departmental trading and profit and loss account. Subsequently it was discovered that the closing stocks of department had included inter-departmentally transferred goods at "loaded" price instead of the correct cost price.
From the following information, you are required to prepare a statement re-computing the departmental profit or loss:

|  | Spares | Service | Repairs |
| :--- | ---: | ---: | ---: |
|  | $₹$ | $₹$ | $₹$ |
| Final Net ProfitlLoss (after | 38,000 | 50,400 | 72,000 |
| charging commission) | (Loss) | (Profit) | (Profit) |
| Inter-departmental transfers |  | 65,000 | 4,202 |
| Included at "loaded" price in |  | $(21,000$ from | (from Spares) |
| the departmental stocks |  | Spares and 44,000 <br> from Repairs) |  |

## ANSWER

## Calculation of correct Departmental Profits or Losses

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|  | Department <br> Spares (₹) | Department <br> Service (₹) | Department <br> Repair (₹) |
| :--- | ---: | ---: | ---: |
| Profit after charging Manager's <br> Commission | $(38,000)$ | 50,400 | 72,000 |
| Add:Manager's Commission (1/9) | $5,000($ Minimum $)$ | 5,600 | 8,000 |
|  | $(33,000)$ | 56,000 | 80,000 |
| Less: Unrealized profiton Stock (WN) | $(1,382)$ |  | $(4,000)$ |
| Profit Before Manager's Commission | $(34,382)$ | 56,000 | 76,000 |
| Less: Manager's Commission 10\% | $(5,000)$ | $(5,600)$ | $(7,600)$ |
| Correct Profit after Manager's | $(39,382)$ | 50,400 | 68,400 |
| Commission |  |  |  |

Working Note:

|  | Department <br> Spares $(₹)$ | Department <br> Service $(₹)$ | Department Repair <br> $(₹)$ | Total <br> $(₹)$ |
| :--- | ---: | ---: | ---: | ---: |
| Unrealized Profit of: |  |  |  |  |
| Department Spares |  | $21,000 \times 5 / 105$ <br> $=1,000$ | $4202 \times 10 / 110=382$ | 1,382 |
| Department Repair |  | $44000 \times 10 / 110$ <br> $=4000$ |  | 4,000 |

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## Chapter 13 Accounting for Branches

## including foreign Branch

## QUESTION 1 (STUDY MATERIAL)

If goods are invoiced to branches at cost, trading results of branch can be ascertained by
(a) Debtors method.
(b) Stock and debtors method.
(c) Either (a) or(b).

Answer: (c)

## QUESTION 2 (STUDY MATERIAL)

Under branch trading and profit loss account method
(a) H.O prepares profit and loss account.
(b) Each branch is treated separate entity.
(c) Both (a) and (b).

Answer: (c)

## QUESTION 3 (STUDY MATERIAL)

Goods may be invoiced to branch at
(a) Cost or Selling Price
(b) Wholesale price
(c) Both (a) and (b)

Answer: (c)

## QUESTION 4 (STUDY MATERIAL)

Under debtors method, opening balance of debtors is
(a) Debited to branch account.
(b) Credited to branch account.

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(c) Debited to $\mathrm{H} . \mathrm{O}$ account.

Answer: (a)

## QUESTION 5 (STUDY MATERIAL)

Cost of goods returned by branch will have the following effect
(a) Goods sent to branch account will be debited.
(b) Branch stock account will be credited.
(c) Both (a) and(b).

Answer: (c)

## QUESTION 6 (STUDY MATERIAL)

Assets and liabilities of a non-integral foreign operation should be converted at
(a) Closing exchange rate.
(b) Average exchange rate.
(c) Opening exchange rate.

Answer: (a)

## QUESTION7 (STUDY MATERIAL)

All of the following are examples of monetary assets except:
(a) Trade Payables
(b) Inventories
(c) Trade Receivables

Answer: (b)

## QUESTION 8 (STUDY MATERIAL)

If asset of an integral foreign operation is carried at cost, cost and depreciation of tangible fixed assets is translated to
(a) Average exchange rate.

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(b) Closing exchange rate.
(c) Exchange rate at the date of purchase of asset.

Answer: (c)

## QUESTION 9 (STUDY MATERIAL)

Incomes and expenses of a NFO is translated at
(a) Average rate that approximates the actual exchange rates.
(b) Exchange rate at the date of transaction.
(c) Either (a) or(b)

Answer: (c)

## QUESTION 10 (STUDY MATERIAL)

AS 11 classifies foreign branches are classifiedas
(a) Autonomous branches and non-autonomous branches.
(b) Uncontrolled and fully controlled branches.
(c) Integral and non-integral foreign operations.

Answer: (c)

## QUESTION 11 (STUDY MATERIAL)

Why goods are marked on invoice price by the head office while sending goods to the branch?
Goods are marked on invoice price to achieve the following objectives:
(i) To keep secret from the branch manager, the cost price of the goods and profit made, so that the branch manager may not start a rival and competitive business with the concern; and
(ii) To have effective control on stock i.e. stock at any time must be equal to opening stock plus goods received from head office minus sales made at branch.
(iii) To dictate pricing policy to its branches, as well as save work at branch because prices have already been decided.

## QUESTION 12 (STUDY MATERIAL)

Differentiate Branch Accounts with Departmental accounts.

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## QUESTION 13 (STUDY MATERIAL)

Goods worth Rs.50,000 sent by head office but the branch has received till the closing date goods for worth Rs.40,000 only. Give journal entry in the books of H.O. and branch for goods in transit.

## Journal entry in the books of Head Office No entry <br> Journal entry in the books of Branch

|  | Dr. | 10,000 |  |
| :--- | ---: | ---: | ---: |
| Goods-in-transit account <br> To Head Office account <br> (Being goods sent by head office is still in transit) |  |  | 10,000 |

## QUESTION14 (STUDY MATERIAL)

Alphs having head office in Mumbai has a branch in Nagpur. The branch at Nagpur is an independent branch maintaining separate books of account. On 31.3.20X1 it was found that the goods dispatched by the head office for Rs. 2,00,000 was received by the branch only to the extent of Rs. 1,50,000. The balance goods are in transit. What is the accounting entry to be passed by the branch for recording the goods in transit in its books?

Nagpur branch must include the inventory in its books as goods in transit.
The following journal entry must be made by the branch:
Goods in transit A/c Dr. 50,000
To Head office A/c 50,000
[Being Goods sent by Head office is still in transit on the closing date]

## QUESTION 15 (STUDY MATERIAL)

Show adjustment journal entry in the books of head office at the end of April, 20X1 for incorporation of inter-branch transactions assuming that only head office maintains different branch accounts in its books.
A. Delhi branch:

1. Received goods from Mumbai - Rs.35,000 and Rs.15,000 from Kolkata.
2. Sent goods to Chennai - Rs.25,000, Kolkata - Rs.20,000.
3. Bill Receivable received - Rs.20,000 from Chennai.
4. Acceptances sent to Mumbai - Rs.25,000, Kolkata - Rs.10,000.
B. Mumbai Branch (apart from the above):
5. Received goods from Kolkata - Rs.15,000, Delhi - Rs.20,000.
6. Cash sent to Delhi - Rs.15,000, Kolkata - Rs.7,000.
C. Chennai Branch (apart from the above):
7. Received goods from Kolkata - Rs.30,000.
8. Acceptances and Cash sent to Kolkata - Rs.20,000 and Rs.10,000 respectively.
D. Kolkata Branch (apart from the above):
9. Sent goods to Chennai - Rs.35,000.
10. Paid cash to Chennai -Rs.15,000.

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11. Acceptances sent to Chennai -Rs.15,000.

Journal entry in the books of Head Office

| Date | Particulars | Dr. | Cr. |  |
| :--- | :--- | :--- | ---: | ---: |
|  |  | F | ₹ |  |
| 30th April, | Mumbai Branch Account |  | Dr. |  |
| 20X1 |  | Dr. | 70,000 |  |
|  | Chennai Branch Account |  |  | 15,000 |
|  | To Delhi Branch Account |  |  | 58,000 |

(Being adjustment entry passed by head office
in respect of inter-branch transactions for the month of April, 20X1)

## QUESTION 16 (STUDY MATERIAL) (PAST EXAM JAN 21)

Give Journal Entries in the books of Branch A to rectify or adjust the following:

1. Head Office expenses Rs. 3,500 allocated to the Branch, but not recorded in the Branch Books.
2. Depreciation of branch assets, whose accounts are kept by the Head Office not provided earlier for Rs.1,500
3. Branch paid 2,000 as salary to H.O. Inspector but the amount paid has been debited to branch to salaries account.
4. H.O. collected Rs. 10,000 directly from a customer on behalf of the Branch, but no intimation to this effect has been received by the Branch.
5. A remittance of Rs. 15,000 sent by the Branch has not yet been received by the Head Office.
6. BranchAincurredadvertisementexpensesofRs.3,000 on behalf of Branch B.

Books of Branch A
Journal Entries

|  | Particulars | Dr. <br> Amount <br> Rs. | Cr. <br> Amount <br> Rs. |  |
| :---: | :--- | ---: | ---: | ---: |
| (i) | Expenses account <br> To Head office account | Dr. | 3,500 |  |
|  |  |  |  | 3,500 |



Note: Entry (vi) Inter branch transactions are routed through Head Office.

## QUESTION 17 (STUDY MATERIAL)

Widespread invoices goods to its branch at cost plus $20 \%$. The branch sells goods for cash as well as on credit. The branch meets its expenses out of cash collected from its debtors and cash sales and remits the balance of cash to head office after withholding Rs.10,000 necessary for meeting immediate requirements of cash. On 31st March, 20X1 the assets at the branch were as follows:

|  | Rs.('000) |
| :--- | ---: |
| Cash in Hand | 10 |
| Trade Debtors | 384 |
| Stock, at Invoice Price | 1,080 |
| Furniture and Fittings | 500 |

During the accounting year ended 31st March, 20X2 the invoice price of goods dispatched by the head office to the branch amounted to Rs. 1 crore 32 lakhs. Out of the goods received by it, the branch sent back to head office goods invoiced at Rs.72,000. Other transactions at the branch during the year were as follows:

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|  | (Rs. ${ }^{\prime} 000$ ) |
| :--- | ---: |
| Cash Sales | 9,700 |
| Credit Sales | 3,140 |
| Cash collected by Branch from Credit Customers | 2,842 |
| Cash Discount allowed to Debtors | 58 |
| Returns by Customers | 102 |
| Bad Debts written off | 37 |
| Expenses paid by Branch | 842 |

On 1st January, 20X2 the branch purchased new furniture for Rs. 1,00,000 for which payment was made by head office through a cheque.

On 31st March, 20X2 branch expenses amounting to Rs.6,000 were outstanding and cash in hand was again Rs.10,000. Furniture is subject to depreciation @ $16 \%$ per annum on diminishing balance method.
Prepare Branch Account in the books of head office for the year ended 31st March,20X2.
Answer:

## In the Head Office Books Branch Account for the year ended 31st March, 20X2



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| To Net profit transferred to General P/L account | 1,096 |  | Bank A/c (Remittance from branch to H.O.) (W.N.5) | 11,700 |
| :---: | :---: | :---: | :---: | :---: |
|  |  | By | Balance c/d |  |
|  |  |  | Cash in hand | 10 |
| To Balance c/d Outstanding expenses | 6 |  | Trade debtors (W.N.3) | 485 |
|  |  |  | Stock (W.N.1) | 1,470 |
|  |  |  | Furniture and fittings (W.N.4) | 516 |
|  | 16,621 |  |  | 16,621 |

## Working Notes:

1. Invoice price and cost
Let cost be
100

So, invoice price 120
Loading 20

Loading: Invoice price $\quad=20: 120=1: 6$
2. Invoice price of closing stock in branch

Branch Stock Account

|  | Rs.'000 |  | Rs.'000 |
| :--- | ---: | :--- | ---: |
| To Balance b/d | 1,080 | By Goods sent to branch | 72 |
| To Goods sent to branch | 13,200 | By Branch Cash | 9,700 |
| To Branch debtors | 102 | By Branch debtors | 3,140 |
|  |  | By Balance c/d | 1,470 |
|  | 14,382 |  | 14,382 |

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3. Closing balance of furniture and fittings

Branch Furniture and Fittings Account

|  | Rs.'000 |  | Rs.'000 |
| :--- | ---: | :--- | ---: |
| To Balance b/d | 500 | By <br> $[(500 \times 16 \%)+(100 \times 16 \% \times 3 / 12)]$ | 84 |
|  | 100 | Dy Balance c/d |  |
|  | 600 |  | 516 |
|  |  |  | 600 |

Note: Since the new furniture was purchased on $1^{\text {st }}$ Jan $20 \times 2$ depreciation will be for 3 months.
4. Remittance by branch to head office

Branch Cash Account

|  | Rs.'000 |  | Rs.'000 |
| :--- | ---: | :--- | ---: |
| To Balance b/d | 10 | By Branch expenses | 842 |
| To Branch stock | 9,700 | By Remittances to H.O. <br> (b.f) | 11,700 |
| To Branch debtors | $\underline{2,842}$ | By Balance b/d | $\underline{10}$ |
|  | $\underline{12,552}$ |  | $\underline{12,552}$ |

## QUESTION 18 (STUDY MATERIAL)

On 31st March, 20X2 Kanpur Branch submits the following Trial Balance to its Head Office at Lucknow:

| Debit Balances | Rs.in lacs |
| :--- | ---: |
| Furniture and Equipment | 18 |
| Depreciation on furniture | 2 |
| Salaries | 25 |
| Rent | 10 |
| Advertising | 6 |
| telephone, Postage and Stationery | 3 |
| Sundry Office Expenses | 1 |
| Stock on 1st April, 20X1 | 60 |
| Goods Received from Head Office | 288 |
| Debtors | 20 |
| Cash at bank and in hand | 8 |
| Carriage Inwards | 7 |

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|  | 448 |
| :--- | ---: |
| Credit Balances |  |
| Outstanding Expenses | 3 |
| Goods Returned to Head Office | 5 |
| Sales | 360 |
| Head Office | 80 |

## Additional Information:

Stock on 31 ${ }^{\text {st }}$ March, 20X2 was valued at Rs. 62 lacs. On 29th March, 20X2 the Head Office dispatched goods costing Rs. 10,00,000 to its branch. Branch did not receive these goods before $1^{\text {st }}$ April, 20X2. Hence the goods received from the head office does not include these goods. Also the head office has charged the branch Rs. 1 lac for centralized service for which the branch has not passed the entry.

You are required to:
(i) Pass Journal Entries in the books of the Branch to make the necessary adjustments
(ii) Prepare Final Accounts of the Branch including Balance Sheet, and
(iii) Pass Journal Entries in the books of the Head Office to incorporate the whole of the Branch Trial Balance.

## ANSWER:

Books of Branch
Journal Entries

|  |  | (Rs.in lacs) |  |
| :---: | :---: | :---: | :---: |
|  |  | Dr. | Cr. |
| Goods in Transit A/c | Dr. | 10 |  |
| To Head Office A/c |  |  | 10 |
| (Goods dispatched by head office but not received by branch before 1st April,20X2) |  |  |  |
| Expenses A/c | Dr. | 1 |  |
| To Head Office A/c |  |  | 1 |
| (Amount charged by head office for centralized services) |  |  |  |

(ii) Trading and Profit \&Loss Account of the Branch
for the year ended 31st March, 20X2

|  | $₹$ in lacs |  | ₹ in lacs |
| :---: | :---: | :---: | :---: |
| To Opening Stock | 60 | By Sales | 360 |
| To Goods received from |  | By Closing Stock including transit | 72 |
| Head Office <br> $288+10$ <br> Less: Returns | 293 |  |  |
| To Carriage Inwards | 7 |  |  |
| To Gross Profit c/d | 72 |  |  |
|  | 432 |  | 432 |
| To Salaries | 25 | By Gross Profit b/d | 72 |
| To Depreciation on Furniture | 2 |  |  |
| To Rent | 10 |  |  |
| To Advertising | 6 |  |  |
| To Telephone, Postage \& Stationery | 3 |  |  |
| To Sundry Office Expenses | 1 |  |  |
| To Head Office Expenses (centralised services) | 1 |  |  |
| To Net Profit Transferred to |  |  |  |
| Head Office A/c | 24 |  |  |
|  | 72 |  | 72 |

Balance Sheet as on 31st March, 20X2

| Liabilities | Rs.in lacs |  | Assets | Rs.in lacs |  |
| :--- | :---: | :--- | ---: | ---: | :---: |
| Head Office | 80 |  <br> Equipment <br> Add : Goods in <br> transit | 10 | 20 |  |
| Head Office <br> Expenses <br> Net Profit | $\underline{24}$ | Stopreciation in hand | $\underline{(2)}$ | 18 |  |

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| Outstanding <br> Expenses | 115 <br> 3 | Debtors <br> Cash at bank and in <br> hand | 20 |
| :--- | ---: | ---: | :--- | ---: | ---: |
|  | 118 |  | 118 |

(ii) Books of HeadOffice

## Journal Entries



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## QUESTION 19 (STUDY MATERIAL)

The Washington branch of XYZ Mumbai sent the following trial balance as on 31st
December,20X1:

|  | $\$$ | $\$$ |
| :--- | ---: | ---: |
| Head office A/c | - | 22,800 |
| Sales | - | 84,000 |
| Debtors and creditors | 4,800 | 3,400 |
| Machinery | 24,000 | - |
| Cash at bank | 1,200 | - |
| Stock, 1 January, 20X1 | 11,200 | - |
| Goods from H.O. | 64,000 | - |
| Expenses | 5,000 | - |
|  | $1,10,200$ | $1,10,200$ |

In the books of head office, the Branch $\mathrm{A} / \mathrm{c}$ stood as follows:

| Washington Branch A/c |  |  |  |  |  |  |
| :--- | :--- | ---: | ---: | :--- | ---: | :---: |
|  |  | Rs. |  |  | Rs. |  |
| To | Balance b/d | $8,10,000$ | By | Cash | $28,76,000$ |  |
| To | Goods sent to | $\underline{29,26,000}$ | By | Balance c/d | $\underline{8,60,000}$ |  |
|  | branch |  |  |  |  |  |
|  |  | $\underline{37,36,000}$ |  |  | $\underline{37,36,000}$ |  |

Goods are sent to the branch at cost plus $10 \%$ and the branch sells goods at invoice price plus $25 \%$. Machinery was acquired on $31^{\text {st }}$ January, 2007, when $\$ 1.00=$ Rs. 40 .

Rates of exchange were:

| $1^{\text {St }}$ January, 20X1 | $\$ 1.00$ | $=$ | Rs. 46 |
| :--- | :--- | :--- | :--- |
| $31^{\text {st }}$ December, 20X1 | $\$ 1.00$ | $=$ | Rs. 48 |
| Average | $\$ 1.00$ | $=$ | Rs. 47 |

Machinery is depreciated @ 10\% and the branch manager is entitled to a commission of 5\% on the profits of the branch.

You are required to:
(i) Prepare the Branch Trading \&Profit \& Loss A/c in dollars.
(ii) Convert the Trial Balance of branch into Indian currency and prepare Branch Trading \&Profit and Loss $A / c$ and the Branch $A / c$ in the books of head office.

## ANSWER:

## In the Books of Head Office Branch Trading and Profit \& Loss A/c (in Dollars)

 for the year ended 31 ${ }^{\text {st }}$ December, 20X1|  | Particulars | \$ |  | Particulars | \$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| To | Opening stock | 11,200 | By | Sales | 84,000 |
| To | Goods from H.O. | 64,000 | By | Closing stock (W.N.2) | 8,000 |
| To | Gross profit c/d | 16,800 | By | Gross profit b/d |  |
|  |  | 92,000 |  |  | 92,000 |
| To | Expenses | 5,000 |  |  | 16,800 |
| To | Depreciation (24,000 $\times 10 \%$ ) | 2,400 |  |  |  |
| To | Manager's commission (W.N.1) | 470 |  |  |  |
| To | Net profit c/d | 8,930 |  |  |  |
|  |  | 16,800 |  |  | 16,800 |

(a) Converted Branch Trial Balance (into Indian Currency)
(b)

| Particulars | Rate per \$ | Dr. (Rs.) | Cr. (Rs.) |
| :--- | :---: | ---: | ---: |
| Machinery | 40 | $9,60,000$ | - |
| Stock January 1, 20X1 | 46 | $5,15,200$ | - |
| Goods from head office | Actual | $29,26,000$ | - |
| Sales | 47 | - | $39,48,000$ |
| Expenses | 47 | $2,35,000$ | - |
| Debtors \& creditors | 48 | $2,30,400$ | $1,63,200$ |
| Cash at bank | 48 | 57,600 | - |
| Head office A/c | Actual | - | $8,60,000$ |
| Difference in exchange rate (b.f.) |  | 47,000 | - |
|  |  | $49,71,200$ | $49,71,200$ |
| Closing stock \$ 8,000 (W.N. 2) | 48 |  | Rs.3,84,000 |

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(c) Bfanch Trading and Profit \&Loss A/c for the year ended 31 ${ }^{\text {st }}$ December, 20X1

| To | ₹ |  |  |  | ₹ |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Opening stock | 5,15,200 | By | Sales | 39,48,000 |
| To | Goods from head office | 29,26,000 | By | Closing stock (W.N.2) | 3,84,000 |
| To | Gross profit c/d | 8,90,800 |  |  |  |
|  |  | 43,32,000 |  |  | 43,32,000 |
| To | Expenses | 2,35,000 | By | Gross profit b/d | 8,90,800 |
| To | $\begin{aligned} & \text { Depreciation @ 10\% } \\ & \text { on ₹ 9,60,000 } \end{aligned}$ | 96,000 |  |  |  |
| To | Exchange difference | 47,000 |  |  |  |
| To | Manager's commission (W.N.1) | 22,560 |  |  |  |
| To | Net Protit c/d | 4,90,240 |  |  |  |
|  |  | 8,90,800 |  |  | 8,90,800 |

(d) Branch Account

|  |  | Rs. |  |  | Rs. |  |
| :--- | :--- | ---: | :--- | :--- | ---: | ---: |
| To | Balance b/d | $8,60,000$ | By | Machinery | $9,60,000$ |  |
| To | Net profit | $4,90,240$ |  | Less: |  |  |
| To | Creditors | $1,63,200$ |  | Depreciation | $(96,000)$ | $8,64,000$ |
| To | Outstanding |  | By | Closing stock |  | $3,84,000$ |
|  | commission | 22,560 | By | Debtors |  | $2,30,400$ |
|  |  | By | Cash at bank | 57,600 |  |  |
|  |  | $15,36,000$ |  |  | $15,36,000$ |  |

## Working Notes:

1. Calculation of manager's commission @ $5 \%$ on profit

| i. | $5 \%$ of \$[16,800-(5,000 + 2,400)] |
| :---: | :---: |
| Or | $5 \% \times \$ 9,400=\$ 470$ |
| Manager's commission in Rupees = \$ 470 فRs. $48=$ Rs. 22,560 |  |

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0
2. Galculation of closing stock

|  | $\$$ |
| :--- | ---: |
| Opening stock | 11,200 |
| Add: Goods from head office | $\underline{64,000}$ |
| Less: Cost of goods sold (at invoice price) |  |
| i.e. ${ }^{100}$ 125 184,000 | $\underline{(67,200)}$ |
| Closing stock | $\underline{8,000}$ |
| Closing stock in Rupees $=\$ 8,000 \times$ Rs. $48=$ Rs.3,84,000. |  |

Note: Manager is entitled to commission on profits earned at the end of the year.
QUESTION 20 (STUDY MATERIAL)
Buckingham Bros, Bombay have a branch at Nagpur. They send goods at cost to their branch at Nagpur. However, direct purchases are also made by the branch for which payments are made at head office. All the daily collections are transferred from the branch to the head office.

From the following, prepare Nagpur branch account in the books of head office by Debtors method:

|  | $₹$ |  | $₹$ |
| :--- | ---: | :--- | ---: |
| Opening balance (1-1-20X1) | 2,000 | Bad Debts | 1,000 |
| Imprest Cash | 25,000 | Discount to Customers | 2,000 |
| Sundry Debtors | 24,000 | Remittances to H.O. | $1,65,000$ |
| Stock: Transferred from H.O. | 16,000 | (recd. by H.O.) |  |
| Direct Purchases | 45,000 | remittances to H.O. |  |
| Cash Sales | $1,30,000$ | (not recd. by H.O. so far) | 5,000 |
| Credit Sales | 45,000 | Branch Exp. directly paid <br> by H.O. | 30,000 |
| Direct Purchases | 3,000 | Closing Balance (31-12- <br> 20X1) |  |
| Returns from Customers | 60,000 | Stock: Direct Purchase | 10,000 |
| Goods sent to branch from | 4,000 | Transfer from H.O. | 15,000 |
| H.O. |  |  |  |
| Transfer from H.O. for Petty |  |  |  |

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CA INTER ACCOUNTING COMPILER 4.0

| Cash expenses | Debtors | $?$ |
| :--- | ---: | :--- | ---: |
|  | Imprest Cash | $?$ |
| Petty Cash expenses | 4,000 |  |

In the Books of Buckingham Bros, Bombay Nagpur Branch Account

|  | Rs. |  |  | Rs |
| :---: | :---: | :---: | :---: | :---: |
| ToOpening Branch <br> Assets  |  | By Bank- <br> Remittances received from branch |  |  |
| Stock $(24,000+16,000)$ | 40,000 | Cash Sales | 45,000 |  |
| Debtors | 25,000 | Cash from Debtors | 1,20,000 |  |
| Imprest Cash | 2,000 | Cash from Debtors in transit | 5,000 | 1,70,000 |
| To Goods sent to Branch A/c | 60,000 | By Stock: <br> Transfer from |  | 15,000 |
| $\begin{array}{ll}\text { To } & \begin{array}{ll}\text { Creditors } \\ & \text { Purchases) }\end{array} \text { (Direct }\end{array}$ | 45,000 | H.O. |  |  |
| To Bank (Sundryexp.) | 30,000 | Direct Purchase |  | 10,000 |
| To Bank (Petty cash | 4,000 | By Sundry Debtors (W.N.2) |  | 24,000 |
| To Net Profit transferred to General Profit \& Loss A/c | 15,000 | By $\begin{aligned} & \text { Imprest } \\ & \text { (W.N. 3) }\end{aligned}$ Cash |  | 2,000 |
|  | 2,21,000 |  |  | 2,21,000 |

Working Notes:
(1) Collections from debtors:

|  | Rs. |
| :--- | ---: |
| Total remittances (Rs.1,65,000 + Rs.5,000) | $1,70,000$ |
| Less: Cash sales | $(45,000)$ |
|  | $1,25,000$ |

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

(1) Calculation of Sundry Debtors closing Balance:

|  | Rs. |
| :--- | ---: |
| Opening Balance | 25,000 |
| Add: Credit Sales | $1,30,000$ |
| Less: Returns, Discount, Bad debts \& collections $(3,000+2,000+$ | $1,55,000$ |
| $1,000+1,25,000)$ | $(1,31,000)$ |
| Closing balance | 24,000 |

(1) Calculation of closing balance of Imprest Cash

|  | Rs. |
| :--- | ---: |
| Opening Balance | 2,000 |
| Add: Transfer from H.O. | 4,000 |
|  | 6,000 |
| Less: Expenses | $(4,000)$ |
| Closing balance | 2,000 |

## QUESTION 21 (STUDY MATERIAL)

From the information given in the illustration 1, prepare Nagpur Branch Trading and Profit and Loss Account in the books of head office.

Buckingham Bros. Bombay Nagpur Branch-Trading and Profit and Loss Account for the year ending 31st December,20X1

|  |  | Rs. |  |  | Rs. | Rs. |
| :--- | :--- | ---: | :--- | :--- | ---: | ---: |
| To | Opening Stock | 40,000 | By | Sales |  |  |
| To | Goods transferred | 60,000 |  | Cash | 45,000 |  |
|  | from Head Office |  |  | Credit sales | $1,30,000$ |  |
| To | Purchases | 45,000 |  |  | $1,75,000$ |  |
| To | Gross Profit c/d | 52,000 |  | Less: Returns | $(3,000)$ | $1,72,000$ |
|  |  |  | By | Closing Stock |  | 25,000 |

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

| To | Expenses | 1,97,000 | By | Gross Profit b/d | - $1,97,000 \mid$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | 30,000 |  |  | 52,000 |
| To | Discounts | 2,000 |  |  |  |
| To | Bad Debts | 1,000 |  |  |  |
| To | Petty Cash Expenses | 4,000 |  |  |  |
| To | Net Profit transferred | 15,000 |  |  |  |
|  |  | 52,000 |  |  | 52,000 |

## QUESTION 22(STUDY MATERIAL)

The Bombay Traders invoiced goods to its Delhi branch at cost. Head Office paid all the branch expenses from its bank account, except petty cash expenses which were met by the Branch. All the cash collected by the branch was banked on the same day to the credit of the Head Office. The following is a summary of the transactions enteredintoatthebranchduringtheyearendedDecember31,20X1.

|  | Rs. |  | Rs. |
| :--- | ---: | :--- | ---: |
| Balances as on 1.1.20X1: |  |  |  |
| $\quad$ Stock | 7,000 | Bad Debts | 600 |
| Debtors | 12,600 | Goods returned by customers | 500 |
| $\quad$ Petty Cash, | 200 | Salaries \& Wages | 6,200 |
| Goods sent from H.O. | 26,000 | Rent \& Rates | 1,200 |
| Goods returned to H.O. | 1,000 | Sundry Expenses | 800 |
| $\quad$ Cash Sales | 17,500 | Cash received from Sundry | 28,500 |
| $\quad$ Credit Sales | 28,400 | Debtors |  |
| Allowances to customers | 200 | Balances as on 31.12.20X1: | 6,500 |
| Discount to customers | 1,400 | Stock | 9,800 |
|  |  | Debtors | 100 |

Prepare: (a) Branch Account (Debtors Method), (b) Branch Stock Account, Branch Profit \&Loss Account, Branch Debtors and Branch Expenses Account by adopting the Stock and Debtors Method and (c) Branch Trading and Profit \&Loss Account to prove the results as disclosed by the Branch Account.
(a) Debtors Method

## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

Delhi Branch Account

(a) Stock and Debtors Method

## Branch Stock Account

\begin{tabular}{|c|c|c|c|c|c|c|c|}
\hline 20X1 \& \& Rs. \& 20X1 \& \& \& Rs. \& Rs. <br>
\hline Jan. 1 \& To Stock \& 7,000 \& \multirow[t]{9}{*}{Dec. 31} \& \multirow[t]{4}{*}{By Sales:
Cash
Credit

Less:

Return} \& \multirow{9}{*}{$$
\begin{array}{r}
28,400 \\
(500)
\end{array}
$$} \& \multirow{9}{*}{\[

$$
\begin{aligned}
& 17,500 \\
& 27,900
\end{aligned}
$$

\]} \& \multirow[b]{6}{*}{\[

$$
\begin{gathered}
45,400 \\
1,000
\end{gathered}
$$
\]} <br>

\hline Dec. \& To Goods Sent \& 26,000 \& \& \& \& \& <br>
\hline \multirow[t]{4}{*}{31} \& to \& \& \& \& \& \& <br>

\hline \& | Branc |
| :--- |
| h A/c | \& 19,900 \& \& \& \& \& <br>


\hline \& \multirow[t]{2}{*}{To Branch P\&LA/c} \& \& \& \multirow[t]{2}{*}{| Return |
| :--- |
| By Goods sent to Branc |} \& \& \& <br>

\hline \& \& \& \& \& \& \& <br>

\hline $$
20 \times 2
$$ \& \multirow{3}{*}{To Balanceb/d} \& \& \& A/c Return \& \& \& \multirow[t]{3}{*}{52,900} <br>

\hline \& \& 52,900 \& \& By Balance \& \& \& <br>
\hline \& \& 6,500 \& \& c/d (Stock) \& \& \& <br>
\hline
\end{tabular}

Delhi Branch Debtors Account

| 20X1 |  |  | Rs. | 20x1 |  |  | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Jan. 1 | To Balance b/d <br> To Sales |  | 12,600 | Dec. 31 | By Cash <br> By Returns <br> By Allowances <br> By Discounts <br> By Bad debts <br> By Balance c/d |  | 28,500 |
| Dec. 31 |  |  | 28,400 |  |  |  | 500 |
|  |  |  |  |  |  |  | 200 |
|  |  |  |  |  |  |  | 1,400 |
|  |  |  |  |  |  |  | 600 |
|  |  |  |  |  |  |  | 9,800 |
|  |  |  | 41,000 |  |  |  | 41,000 |
| $20 \times 2$ Jan. 1 | To | Balance b/d | 9,800 |  |  |  |  |

Delhi Branch Expenses Account


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



Delhi Branch Profit \& Loss Account

| 20X1 |  | Rs. | 20X1 |  | Rs. |
| :--- | ---: | ---: | ---: | ---: | ---: |
| Dec. 31 | To Branch Exp. A/c | 10,500 | Dec. 31 | By Gross Profit <br> b/d | 19,900 |
|  | To Net Profit to <br> General P \&LA/c | 9,400 |  |  |  |
|  |  | 19,900 |  | 19,900 |  |

(a) Branch Trading and Profit and Loss Account


## CA Ravi Agarwal's

CA INTER ACCOUNTING COMPILER 4.0

| To | Bad Debts |
| :--- | ---: |
| To | Net Profit |
|  |  |
| , 400 |  |
|  | 19,900 |
|  |  |

## QUESTION 23(STUDY MATERIAL)

Harrison of Chennai has a branch at New Delhi to which goods are sent @ $20 \%$ above cost. The branch makes both cash and credit sales. Branch expenses are met partly from H.O. and partly by the branch. The statement of expenses incurred by the branch every month is sent to head office for recording.

Following further details are given for the year ended 31st December, 20X1:

|  |  |  | Rs. |
| :---: | :---: | :---: | :---: |
| Cost of goods sent to Branch at cost |  |  | 2,00,000 |
| Goods received by Branch till 31-12-20X1 at invoice price |  |  | 2,20,000 |
| Credit Sales for the year @ invoice price |  |  | 1,65,000 |
| Cash Sales for the year @ invoice price |  |  | 59,000 |
| Cash Remitted to head office |  |  | 2,22,500 |
| Expenses paid by H.O. |  |  | 12,000 |
| Bad Debts written off |  |  | 750 |
| Balances as on | 1-1-20X1 |  | 31-12-20X1 |
|  | Rs. |  | Rs. |
| Stock | 25,000 (Cost) |  | voice price) |
| Debtors | 32,750 |  | 26,000 |
| Cash in Hand | 5,000 |  | 2,500 |

Show necessary ledger accounts in the books of the head office and determine the Profit and Loss of the Branch for the year ended 31st December, 20X1.

Books of Harrison Branch
Stock Account

|  | Rs. |  | Rs. |
| :--- | ---: | :--- | ---: |
| To Balance b/d | 30,000 | By Branch Debtors | $1,65,000$ |
| To Goods Sent to Branch A/c | $2,40,000$ | By Branch Bank | 59,000 |
| To Branch Adjustment A/c | 2,000 | By Balance c/d <br> (Excess of sale |  |
| Goods in Transit |  |  |  |
| over invoice price) |  | (Rs.2,40,000 - | 20,000 |



Branch Cash Account

|  | Rs. |  | Rs. |
| :--- | ---: | :--- | ---: |
| To Balance b/d | 5,000 | By Bank Remit to H.O. | $2,22,500$ |
| To Branch Stock | 59,000 | By Branch profit \& loss A/c |  |
| To Bank (as per contra) | 12,000 | 12,000 |  |
| To Branch Debtors | $1,71,000$ | (exp. paid by H.O.) <br> By Branch profit \& loss A/c <br> [Bal. fig. (exp. paid by <br> Branch)] <br> By Balance c/d | 10,000 |
|  | $2,47,000$ |  | 2,500 |
|  |  |  | $2,47,000$ |

Branch Adjustment Account

|  | Rs. |  | Rs. |
| :--- | ---: | :--- | ---: |
| To Stock Reserve (on closing |  | By Stock Reserve opening | 5,000 |
| stock (48,000 $\times 1 / 6)$ | 8,000 | (25000 $\times 20 \%)$ |  |
| To Gross Profit c/d | 39,000 | By Goods sent to Branch A/c | 40,000 |
|  |  | By Branch Stock A/c | 2,000 |
|  | 47,000 |  | 47,000 |

Branch Profit and Loss Account

|  | Rs. |  | Rs. |
| :---: | ---: | :--- | ---: |
| To Branch Expenses (paid by <br> HO: Rs.12,000 and paid by <br> Branch Rs.10,000) | 22,000 | By Gross Profit b/d | 39,000 |
| To Branch Debtors-Bad debts | 750 |  |  |
|  |  |  |  |


| To Net Profit | 16,250 |
| :--- | ---: |
|  | 39,000 |
|  | 39,000 |

Goods Sent to Branch Account

|  | Rs. |  | Rs. |
| :--- | ---: | :--- | ---: |
| To Branch Adjustment A/c | 40,000 | By Branch to Stock A/c | $2,40,000$ |
| To Purchase A/c-Transfer | $2,00,000$ |  |  |
|  | $2,40,000$ |  | $2,40,000$ |

## QUESTION 24 (STUDY MATERIAL)

Take figures from QUESTION 22 and prepare branch account following debtors' method.
Books of Harrison New Delhi Branch Account

|  | Rs. |  | Rs. |
| :---: | :---: | :---: | :---: |
| To Balance b/d |  | By Balance b/d |  |
| Stock | 30,000 | Stock Reserve | 5,000 |
| Debtors | 32,750 | By Goods Sent to Branch A/c | 40,000 |
| Cash | 5,000 | By Bank-Remittance |  |
| $\begin{aligned} & \text { To Goods Sent to Branch A/c } \\ & (2,00,000+20 \% \text { of } \\ & 2,00,000) \end{aligned}$ | 2,40,000 | received from the Branch: |  |
| To Bank (Exp. paid by H.O.) | 12,000 | Cash sales 59,000 |  |
| To Net Profit Transferred to H.O. Profit and Loss A/c | 16,250 | Debtors Collection1,63,500 <br> (W.N.1) <br> (Net of expense) | 2,22,500 |
| To Balance c/d (Stock reserve on closing stock) | 8,000 | By Balance c/d <br> Stock (including Transit) <br> (W.N.2) | 48,000 |
|  |  | Debtors | 26,000 |
|  |  | Cash | 2,500 |
|  | 3,44,000 |  | 3,44,000 |

Working Notes

1. Collection from debtors $=$ Total collection - Cash sales

$$
=2,22,500-59,000=1,63,500
$$

2. Closing stock $=$ Stock at branch + Goods sent by H.O. - Goods received by Branch

$$
=28,000+2,40,000-2,20,000=48,000
$$

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

## QUESTION 25 (STUDY MATERIAL)

Following is the information of the Jammu branch of Best New Delhi for the year ending
31 ${ }^{\text {st }}$ March, 20X2 from the following:
(1) Goods are invoiced to the branch at cost plus20\%.
(2) The sale price is cost plus50\%.
(3) Other information:

Rs.

| Stock as on 01.04.20X1(invoice price) | $2,20,000$ |
| :--- | ---: |
| Goods sent during the year(invoice price) | $11,00,000$ |
| Sales during the year | $12,00,000$ |

Expenses incurred at the branch
45,000
Ascertain
(i) the profit earned by the branch during the year.
(ii) branch stock reserve in respect of unrealized profit.

ANSWER:
(i) Calculation of profit earned by the branch

In the books of Jammu Branch Trading Account and Profit and Loss Account

| Particulars | Amount | Particulars | Amount |
| :--- | ---: | :--- | ---: |
|  | Rs. |  | Rs. |
| To Opening stock | $2,20,000$ | By Sales | $12,00,000$ |
| To Goods received by Head | $11,00,000$ | By Closing stock (Refer | $3,60,000$ |
| office |  | W.N.) |  |
| To Expenses | 45,000 |  |  |
| To Net profit | $\underline{1,95,000}$ |  | $\overline{15,60,000}$ |

(ii) Stock reserve in respect of unrealized profit
$=$ Rs.3,60,000 x (20/120) = Rs.60,000


[^0]:    * This represents income for $\mathrm{M} / \mathrm{s}$. Bull \& Bear for the period $1^{\text {st }}$ December, 20X2 to $1^{\text {st }}$ March, 20X3,

[^1]:    Amount of claim
    = Rs. 25,000/Rs. 30,500 * Rs. 27,500
    $=$ Rs. 22,541.

[^2]:    ANSWER:

    Calculation of Interest and Cash Price

[^3]:    - Opening stock of Department P included goods for ₹ 20,000 transferred from Department Q and Opening stock of Department Q included goods for ₹ 30,000 transferred from Department P.

