Working Note:

	Rs.	
Cost Price	100	
Invoice Price	120	
Sale Price	150	
Calculation of closing stock at invoice price	Rs.	
Opening stock at invoice price	2,20,000	
Goods received during the year at invoice	11,00,000	
price		[12,00,000 x (120/150)]
	13,20,000	, , , , , , , , , , , , , , , , , , , ,
Less: Cost of goods sold at invoice price	(9,60,000)	
Closing stock	3,60,000	

QUESTION 26 (STUDY MATERIAL)

Sell Well who carried on a retail business opened a branch X on January 1st, 20X1 where all sales were on credit basis. All goods required by the branch were supplied from the Head Office and were invoiced to the branch at 10% above cost.

The following were the transactions:

	Jan. 20X1	Feb. 20X1	March 20X1
	Rs.	Rs.	Rs.
Goods sent to Branch (Purchase Price)	40,000	50,000	60,000
Sales as shown by the branch monthly report	38,000	42,000	55,000
Cash received from Debtors and remitted to H.O.	20,000	51,000	35,000
Returns to H.O. (Invoice price to Branch)	1,200	600	2,400

The stock of goods held by the branch on March 31, 20X1 amounted to Rs.53,400 at invoice to branch.

Record these transactions in the Head Office books, showing balances as on 31st March, 20X1 and the branch gross profit for the three months ended on that date.

All workings should form part of your solution.

Books of Sell Well Branch Account

	Rs.			Rs.
To Goods sent to Branch A/c		By Cash-collected from debtors		1,06,000
[\frac{110}{100} \times 1,50,000]	1,65,000	By Goods sent to Branch-returns		4,200
To Stock Reserve (W.N.2)	4,855	By Goods sent to Branch (W.N.1)		14,618
To Profit	37,363	By Balance c/d		
(bal.		Stock	53,400	
) transferred to General Profit		Debtors	29,000	82,400
&LossA/c				
	2,07,218			2,07,218

Memorandum Branch Debtors Account

	Rs.		Rs.
To Balance b/d	_	By Cash/Bank	1,06,000
To Sales	1,35,000	By Balance c/d	29,000
	1,35,000		1,35,000

Goods Sent to Branch Account

	Rs.		Rs.
To Branch A/c (Returns)	4,200	By Branch A/c	1,65,000
To Branch A/c (Loading) (W.N.1)	14,618		
To Purchases A/c	1,46,182		
	1,65,000		1,65,000

Working Notes:

1. Loading on Goods sent to Branch = 1/11 of (Rs.1,65,000 – Rs.4,200) = Rs.14,618

2. Stock Reserve= 1/11 of 53,400 = Rs.4,855

QUESTION 27 (STUDY MATERIAL)

Hindustan Industries Mumbai has a branch in Cochin to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch Expenses are paid direct from head office, and the Branch has to remit all cash received into the Head Office Bank Account.

From the following details, relating to calendar year 20X1, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit. Branch does not maintain any books of account, but sends weekly returns to the Head Office:

	Rs.
Goods received from Head Office at invoice price	6,00,000
Returns to Head Office at invoice price	12,000
Stock at Cochin as on 1st Jan., 20X1	60,000
Sales in the year- Cash	2,00,000
Credit	3,60,000
Sundry Debtors at Cochin as on 1st Jan.20X1	72,000
Cash received from Debtors	3,20,000
Discount allowed to Debtors	6,000
Bad debts in the year	4,000
Sales returns at Cochin Branch	8,000
Rent, Rates, Taxes at Branch	18,000
Salaries, Wages, Bonus at Branch	60,000
Office Expenses	6,000
Stock at Branch on 31st Dec. 20X1 at invoice price	1,20,000

Prepare Branch accounts in books of head office by Stock and debtors method.

Books of Hindustan Industries, Mumbai Cochin Branch Stock Account

	Rs.		Rs.
To Balance b/d	60,000	By Bank A/c (Cash sales)	2,00,000
To Goods sent to Branch A/c	6,00,000	By Branch Debtors (Cr. sales)	3,60,000
To Branch Debtors A/c		By Goods sent to Branch	
(sales return)	8,000	(Returns to H.O.)	12,000

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To Branch	Р	&	L	A/c	24,000	By Balance	c/d	(closing	1,20,000
(surplus)					stock)			
					6,92,000				6,92,000

Cochin Branch Stock Adjustment Account

	Rs.		Rs.
To Goods sent to Branch A/c (1/5 of Rs.12,000) (on returns)	2,400	By Balance b/d (1/5 of Rs.60,000)	12,000
To Branch P & L A/c (Profit on sale at invoice price)	1,05,600	By Goods sent to Branch A/c (1/5 of Rs.6,00,000)	1,20,000
To Balance c/d (1/5 ofRs. 1,20,000)	24,000		
	1,32,000		1,32,000

Goods Sent to Branch Account

	Rs.		Rs.
To Cochin Branch Stock Adjustment/c	1,20,000	By Cochin Branch Stock A/c	6,00,000
To Cochin Branch Stock A/c (Returns)	12,000	By Cochin Branch Stock Adj. A/c	2,400
To Purchases A/c	4,70,400		
	6,02,400		6,02,400

Branch Debtors Account

	Rs.			Rs.
To Balance b/d	72,000	By Bank		3,20,000
To Branch Stock A/c	3,60,000	By Branch P & L A/c		
		Discount	6,000	
		Bad Debts	<u>4,000</u>	10,000
		By Branch Stock		8,000
		(Sales Returns.)		
		By Balance c/d		94,000
	4,32,000			4,32,000

Branch Expenses Account

	Rs.		Rs.
To Bank A/c (Rent, Rates & Taxes)	18,000	By Branch Profit & Loss A/c (Transfer)	84,000
To Bank A/c (Salaries &Wages)	60,000		
To Bank A/c (office exp.)	6,000		
	84,000		84,000

Branch Profit & Loss Account for the year ending 31st Dec. 20X1

	Rs.				Rs.
To Branch Expenses A/c	84,000	By Branch	Stock	Adj.	1,05,600
(60,000+6,000+18,000)		A/c			
Discount 6,000		By Branch	stock	A/c	24,000
Bad debts		(Sale over invoice			
<u>4,000</u> T	10,000	price)			
o Net Profit transferred to	35,600				
Profit & Loss A/c	33,000				
	1,29,600				1,29,600

QUESTION 28 (STUDY MATERIAL)

Arnold of Delhi, trades in Ghee and Oil. It has a branch at Lucknow. He dispatches25 tins of Oil @ Rs.1,000 per tin and 15 tins of Ghee @ Rs.1,500 per tin on 1st of every month. The branch which incurs some expenditure is met out of its collections; this is in addition to expenditure directly paid by Head Office.

Following are the other details:

		Delhi	Lucknow
		Rs.	Rs.
Purchases	Ghee	14,75,000	-
	Oil	29,32,000	-
Direct expenses		3,83,275	-
Expenses paid by H.O.		-	14,250
Sales	Ghee	18,46,350	3,42,750
	Oil	27,41,250	3,15,730

Collection during the year (including Cash	-	6,47,330
Sales)		
Remittance by Branch to Head Office	-	6,13,250

	(Delhi)	
Balance as on:	1-1-20X1 31-12-20X	
Stock: Ghee	1,50,000	3,12,500
Oil	3,50,000	4,17,250
Debtors	7,32,750	-
Cash on Hand	70,520	55,250
Furniture & Fittings	21,500	19,350
Plant/Machinery	3,07,250	7,73,500

	(Lucknow)	
Balance as on:	1-1-20X1 31-12-20X	
Stock: Ghee	17,000	13,250
Oil	27,000	44,750
Debtors	75,750	?
Cash on Hand	7,540	12,350
Furniture & Fittings	6,250	5,625
Plant/Machinery	-	

Addition to Plant/Machinery on 1-1-20X1 Rs.6,02,750.

Rate of Depreciation: Furniture / Fittings @ 10% and Plant / Machinery @ 15% (already adjusted in the above figures).

The Branch Manager is entitled to 10% commission after charging such commission whereas, the General Manager is entitled to 10% commission on overall company profits after charging such commission. General Manager is also entitled to a salary of Rs.2,000 p.m. General expenses incurred by H.O. Rs.24,000.

Prepare Branch Account in the head office books and also prepare the Arnold's Trading and Profit and Loss A/c (excluding branch transactions).

In the books of Arnold Lucknow Branch Account

		Rs.			Rs.
То	Balance b/d		By Bank	(Remittance to H.O.)	6,13,250

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CA Ravi Agarwal's CA INTER ACCOUNTING COMPILER 4.0

	Opening stock:		By Balance c/d	
	Ghee	17,000	Closing stock:	
	Oil	27,000	Ghee	13,250
	Debtors	75,750	Oil	44,750
	Cash on hand	7,540	Debtors (W.N. 1)	86,900
	Furniture & fittings	6,250	Cash on hand (W.N. 2)	12,350
То	Goods sent to Branch		Furniture & fittings	5,625
	A/c			
	Ghee (15 x 1500 x 12)	2,70,000		
	Oil (25 x 1000 x 12)	3,00,000		
То	Bank (Expenses paid by H.O.)	14,250		
То	Branch Manager			
	commission	г 202		
То	(Rs.58,335 × 1/11) Net Profit transferred	5,303		
То		52.022		
	to General P & L A/c	53,032		
		7,76,125		

Arnold Trading and Profit and Loss account for the year ended 31st December, 20X1 (Excluding branch transactions)

	Rs.		Rs.
To Opening Stock:		By Sales:	
Ghee	1,50,000	Ghee	18,46,350
Oil	3,50,000	Oil	27,41,250
To Purchases:		By Closing Stock:	
Ghee 14,75,00	0	Ghee	3,12,500
Less: Goods sent		Oil	4,17,250
to Branch (<u>2,70,00</u>)	<u>o)</u> 12,05,000		
Oil 29,32,00	0		

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CA Ravi Agarwal's CA INTER ACCOUNTING COMPILER 4.0

Less: Goods sent			
to Branch (<u>3,00,000)</u>	26,32,000		
To Direct Expenses	3,83,275		
To Gross Profit	5,97,075		
	53,17,350		53,17,350
To Manager's Salary	24,000	By Gross Profit	5,97,075
To General Expenses	24,000	By Branch Profit	53,032
		transferred	
To Depreciation			
Furniture@10% 2,150			
Plant & Machinery			
@ 15% (W.N.3) 1,36,500	1,38,650		
To General Manager's			
Commission @10%	42,132		
(i.e., 4,63,457 × 1/11)	-		
To Net profit	4,21,325		
	6,50,107		6,50,107

Working Notes:

(1) Debtors Account

	Rs.		Rs.
To Balance b/d	75,750	By Cash Collections	6,47,330
To Sales made during		By Balance c/d	86,900
the year:			
Ghee	3,42,750		
Oil	3,15,730		
	7,34,230		7,34,230

(2) Branch Cash Account

	Rs.		Rs.
To Balance b/d	7,540	By Remittance	6,13,250
To Collections	6,47,330	By Exp. (Balance fig.)	29,270
		By Balance c/d	12,350
	6,54,870		6,54,870

(3) Depreciation on Plant & Machinery

3,07,250 x 15% + 6,02,750 x 15%

QUESTION 29 (STUDY MATERIAL)

M/s Rahul operates a number of retail outlets to which goods are invoiced at wholesale price which is cost plus 25%. These outlets sell the goods at the retail price which is wholesale price plus20%.

Following is the information regarding one of the outlets for the year ended 31.3.20X2:

	Rs.
Stock at the outlet 1.4.20X1	30,000
Goods invoiced to the outlet during the year	3,24,000
Gross profit made by the outlet	60,000
Goods lost by fire	?
Expenses of the outlet for the year	20,000
Stock at the outlet 31.3.20X2	36,000

You are required to prepare the following accounts in the books of Rahul Limited for the year ended 31.3.20X2:

- (a) Outlet Stock Account.
- (b) Outlet Profit & Loss Account.
- (c) Stock Reserve Account.

Outlet Stock Account

	Rs.		Rs.
To Balance b/d	30,000	By Sales (Working Note 1)	3,60,000
To Goods sent to outlet	3,24,000	By Goods lost by fire (b.f.)	18,000
To Gross Profit c/d	60,000	By Balance c/d	36,000
	4,14,000		4,14,000

Outlet Profit & Loss Account

	Rs.		Rs.
To Expenses	20,000	By Gross Profit b/d	60,000
To Goods lost by fire (W.N. 2)	18,000		

To Profit transferred	22,000	
	60,000	60,000

Stock Reserve Account

	Rs.		Rs.
To HO P & L A/c –Transfer	6,000	By Balance b/d	6,000
To Balance c/d (Stock Res. required)	7,200	By HO P&L A/c (W.N. 3)	7,200
	13,200		13,200

QUESTION 30 (STUDY MATERIAL)

Messrs Ramchand &Co., Hyderabad have a branch in Delhi. The Delhi Branch deals not only in the goods from Head Office but also buys some auxiliary goods and deals in them. They, however, do not prepare any Profit &Loss Account but close all accounts to the Head Office at the end of the year and open them afresh on the basis of advice from their Head Office. The fixed assets accounts are also maintained at the HeadOffice.

The goods from the Head Office are invoiced at selling prices to give a profit of 20 per cent on the sale price. The goods sent from the branch to Head Office are at cost. From the following prepare Branch Trading and Profit &Loss Account and Branch Assets Account in the Head Office Books.

Trial Balance of the Delhi Branch as on31-12-20X1

Debit	Rs.	Credit	Rs.
Head office opening balance	15,000	Sales	1,00,000
on 1-1-20X1			
Goods from H.O.	50,000	Goods to H.O.	3,000
Purchases	20,000	Head Office Current A/c	15,000
Opening Stock		Sundry Creditors	3,000
(H.O. supplies goods at	4,000		
invoice prices)			
Opening Stock of other goods	500		
Salaries	7,000		
Rent	3,000		
Office expenditure	2,000		
Cash on Hand	500		

Cash at Bank	4,000	
Sundry Debtors	15,000	
	1,21,00	1,21,000
	0	

The Branch balances as on 1st January, 20X1, were as under: Furniture Rs.5,000; Sundry Debtors Rs.9,500; Cash Rs.1,000, Creditors Rs.30,000. The closing stock at branch of the head office goods at invoice price is Rs.3,000 and that of purchased goods at cost is Rs.1,000. Depreciation is to be provided at 10 per cent on branch assets.

Delhi Branch Trading and Profit & Loss Account for the year ended 31st Dec.,20X1

					Rs.						Rs.
То	Opening S	tock:				Ву	Sales			1,00,0	00
	Head	office	3,200			Ву	Goods	from		3,0	00
	Goods						Branch				
	(4,000 x 80	0%)				Ву	Closing Sto	ock :			
	Others		500		3,700			Office	2,400		
							goods				
							(3,000 x 80)%)			
То	Goods	to		4	0,000		Others		1,000	3,4	00
	Branch	2024									
	(50,000 x	,									
То	Purchases			ŀ	0,000						
То	Gross Prof	it c/d		4	2,700						
				1,0	6,400					1,06,4	00
То	Salaries				7,000	Ву	Gross prof	it b/d		42,7	00
То	Rent				3,000						
Office			2,00	00							
Expense	es		ĺ								
Dep.											

	Office	2,000		
То	Expenses Dep. furniture 10% on @	500		
То	Net profit	30,200		
		42,700	_	42,700

Branch (Fixed) Assets Account (In Head Office Books)

Working Notes:

20X1			Rs.	20X1			Rs.
Jan. 1	То	Balance b/d	5,000	Dec. 31	Ву	Delhi Branch A/c (Depreciation)	500
					Ву	Balance c/d	4,500
			5,000				5,000
20X2							
Jan. 1	То	Balance b/d	4,500				

Cash/Bank Account (Branch Books)

		Rs.	Rs.			Rs.
То	Balance b/d		1,000	Ву	Salaries	7,000
То	Cash Receive Debtors**	d from	94,500	Ву	Rent	3,000
				Ву	Office Exp.	2,000
				Ву	Creditors*	47,000
				Ву	Head Office (Balancing fig.)	32,000
				Ву	Cash Balance	500
				Ву	Bank Balance	4,000
			95,500			95,500

Rs.30,000 + Rs.20,000 - Rs.3,000 = Rs.47,000.

Rs.9,500 + Rs.1,00,000 - Rs.15,000 = Rs.94,500

Trial Balance of Delhi Branch as on 1-1-20X1

		Dr.	Cr.
		Rs.	Rs.
Debtors		9,500	
Cash		1,000	
Stock H.O. Goods	4,000		

^{*}Opening Balance + Purchases – Closing balance=Payment

^{**} Opening Balance + Sales – Closing balance = Received

Others	500	4,500	20.000
Creditors			30,000
Head Office Account		15,000	
		30,000	30,000

Head Office Account

	Rs.		Rs.
To Balance (transfer)	15,000	By Goods from Head	50,000
		Office	
To Cash	32,000		
To Goods sent	<u>3,000</u>		
	50,000		50,000

Credit balance in Head Office Account before this transfer will be Rs.15,000 credit.

Note: Furniture A/c is maintained in Head office books; it is not a part of either opening or closing balance.

QUESTION 31 (STUDY MATERIAL)

Ring Bell Ltd. Delhi has a Branch at Bombay where a separate set of books is used. The following is the trial balance extracted on 31st December, 20X1.

Head Office Trial Balance

	Rs.	Rs.
Share Capital (Authorised: 10,000 Equity Shares of Rs.100 each):		
Issued: 8,000 Equity Shares		8,00,000
Profit & Loss Account - 1-1-20X1		25,310
General Reserve		1,00,000
Fixed Assets	5,30,000	
Stock	2,22,470	
Debtors and Creditors	50,500	21,900
Profit for 20X1		52,200
Cash Balance	62,730	

Branch Current Account	1,33,710	
	9,99,410	9,99,410

Branch Trial Balance

	Rs.	Rs.
Fixed Assets	95,000	
Profit for 20X1		31,700
Stock	50,460	
Debtors and Creditors	19,100	10,400
Cash Balance	6,550	
Head Office Current Account		1,29,010
	1,71,110	1,71,110

The difference between the balances of the Current Account in the two sets of books is accounted for as follows:

- (a) Cash remitted by the Branch on 31st December, 20X1, but received by the Head Office on 1st January 20X2 Rs.3,000.
- (b) Stock stolen in transit from Head Office and charged to Branch by the Head Office, but not credited to Head Office in the Branch books as the Branch Manager declined to admit any liability (not covered by insurance)-Rs.1,700.

Give the Branch Current Account in Head Office books after incorporating Branch Trial Balance through journal.

ANSWER: The Branch Current Account in the Head Office Books and Head Office Current Account in the Branch Books do not show the same balances. Therefore, in order to reconcile them, the following journal entries will be passed in the Head Office books:

Journal Entries

		Dr.	Cr.
20X1		Rs.	Rs.
Dec., 31	Cash in Transit A/c Dr.	3,000	
	To Branch Current A/c		3,000
	(Cash sent by the Branch on 31st Dec., 20X1		
	but received at H.O. on 1st Jan.,20X2)		
	Loss by theft A/c Dr.	1,700	
	To Branch Current A/c		1,700
	(Stock lost in transit from H.O. to Branch)		

In order to incorporate, in the H.O. books, the given Branch trial balance which has been drawn up after preparing the Branch Profit &Loss Account, the following journal entries will

benecessary:

Journal Entries

20X1			Rs.	Rs.
Dec. 31	Branch Current Account	Dr.	31,700	
	To Profit & Loss Account			31,700
	(Branch Profit for the year)	_		
	Branch Fixed Assets	Dr.	95,000	
	Branch Stock	Dr.	50,460	
	Branch Debtors	Dr.	19,100	
	Branch Cash	Dr.	6,550	
	To Branch Current Account			1,71,110
	(Branch assets brought into H.O. Books)			
	Branch Current A/c	Dr.	10,400	
	To Branch Creditors			10,400
	(Branch creditors brought Books)			

Branch Current Account

	Rs.		Rs.
To Balance b/d	1,33,710	By Cash in transit	3,000
To Profit & Loss A/c	31,700	By Loss of theft	1,700
To Branch Creditors	10,400	By Sundry Branch Assets	1,71,110
	1,75,810		1,75,810

Profit and Loss Account for 20X1

	Rs.			Rs.
To Loss by Theft	1,700	By Balance b/d		25,310
To Balance c/d	1,07,510	By Year's Profit :	H.O.	52,200
			Branch	31,700
	1,09,210			1,09,210

QUESTION 32 (STUDY MATERIAL)

KP manufactures a range of goods which it sells to wholesale customers only from its head office. In addition, the H.O. transfers goods to a newly opened branch at factory cost plus 15%. The branch then sells these goods to the general public on only cash basis.

The selling price to wholesale customers is designed to give a factory profit which amounts to 30% of the sales value. The selling price to the general public is designed to give a gross margin (i.e., selling price less cost of goods from H.O.) of 30% of the sales value.

KP operates from rented premises and leases all other types of fixed assets. The rent and hire charges for these are included in the overhead costs shown in the trial balances.

From the information given below, you are required to prepare for the year ended 31st Dec., 20X1 in columnar form.

AProfit&Lossaccountfor(i)H.O.(ii)thebranch(iii)theentirebusiness. (a)

(b) Balance Sheet as on 31st Dec., 20X1 for the entire business.

	H.	0.	Branch		
	Rs.	Rs. Rs.		Rs.	
Raw materials purchased	35,000				
Direct wages	1,08,500				
Factory overheads	39,000				
Stock on 1-1-20X1					
Raw materials	1,800				
Finished goods	13,000		9,200		
Debtors	37,000				
Cash	22,000		1,000		
Administrative Salaries	13,900		4,000		
Salesmen Salaries	22,500		6,200		
Other administrative &					
selling overheads	12,500		2,300		
Inter-unit accounts	5,000			2,000	
Capital		50,000			
Sundry Creditors		13,000			
Provision for unrealized profit in		1,200			
stock					
Sales		2,00,000		65,200	
Goods sent to Branch		46,000			

Goods received from H.O.			44,500	
	3,10,200	3,10,200	67,200	67,200

Notes:

- On 28th Dec., 20X1 the branch remitted Rs.1,500 to the H.O. and this has not yet been recorded in the H.O. books. Also on the same date, the H.O dispatched goods to the branch invoiced at Rs.1,500 and these too have not yet been entered into the branch books. It is the company's policy to adjust items in transit in the books of the recipient.
- *(*2*)* ThestockofrawmaterialsheldattheH.O.on31stDec.,20X1 was valued at Rs.2,300.
- (3) You are advised that:
 - There were no stock losses incurred at the H.O or at the branch.
 - it is KP's practice to value finished goods stock at the H.O. at factory cost.
 - there were no opening or closing stock of work-in-progress.
- (4) Branch employees are entitled to a bonus of Rs.156 under a bilateral agreement.

In the books of KP Trading and Profit & Loss Account for the year ended 31st Dec., 20X1

	н.о.	Branch	Total		H.O.	Branch	Total
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Material consumed (W.N.1)	34,500	-	34,500	By Sales	2,00,000	65,200	2,65,20
To Wages To Factory Overheads	1,08,500 39,000	-	1,08,500 39,000	By Goods Sent to Branch	46,000	-	-
To Opening stock of finished goods	13,000	9,200	22,200	By Closing stock including transit	15,000	9,560	24,560

				(W.N.2)			
				(00.10.2)			
To Goods		46,000					
from H.O.		·					
To Gross	66,000	19,560	85,560				
Profit c/d							
(W.N.3)							
	2,61,000	74,760	2,89,760		2,61,000	74,760	2,89,76
							0
To Admn.	13,900	4,000	17,900	By Gross	66,000	19,560	85,560
Salaries				Profit b/d			
To Salesmen	22,500	6,200	28,700				
Salaries							
To Other							
Admn. &	12,500	2,300	14,800				
selling							
Overheads							
To Stock	47	-	47				
Reserve							
(W.N.4)							
To Bonus to	-	156	156				
Staff							
To Net Profit	17,053	6,904	23,957				
	66,000	19,560	85,560		66,00	19,56	85,56
					0	0	0

Balance Sheet as on 31st Dec., 20X1

			Н.О.	Branch	Total		н.о.	Branc h	Total
		Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Capital Profit:	H.O.	17.052	50,000	-	50,000	Fixed Assets		-	-
Profit:	п.О.	17,053				Current Assets:			
	Branch	6,904	23,957		23,957	Raw material	2,300		2,300

Trade				Finished			
Creditors	13,000		13,000	Goods	15,000	9,560	23,31 3*
Bonus		156	156	(Less			
Payable				Sto			
				ck Res.)			
H.O.				Debtors	37,000	-	37,00
Account*		10,404					0
Stock	_			Cash	23,500	1,000	24,50
Reserve	1,247			(including			0
(W.N.4)				transit			
				item)			
				Branch A/c	10,404		
	88,204	10,560	87,113		88,204	10,560	87,11
							3

^{*9,560 × 100/115} *i.e.*, (8,313 + 15,000) = Rs.23,313

Working Notes:

(1) Material Consumed

Opening raw material + Raw Material Purchased - Closing raw material

- Closing stock at head office (2)
 - Calculation of total factor cost = Material consumed + Wages + Factory overhead = 34,500 + 1,08,500 + 39,000 = 1,95,000
 - Cost (factory cost) of goods sold = Sales Gross profit $= 2,00,000 - 2,00,000 \times 70\% = 1,40,000$
 - Stock transferred to branch = $46,000 \times 100/115 = 40,000$ (c)
 - Closing stock=1,95,000-1,40,000-40,000=15,000
- (3) Gross profit of Branch = Sales x Gross profit ratio = 65,200 x 30% =19,560
- Closing stock reserve = $9,560 \times 15/115 = 1,246$ (4)

Charge to profit and loss=1,247-1,200=47

^{**} (5,000 + 6,904) - 1500 = Rs.10,404.

QUESTION 33 (STUDY MATERIAL)

AFFIX of Kolkata has a branch at Delhi to which the goods are supplied from Kolkata but the cost thereof is not recorded in the Head Office books. On 31st March, 20X1 the Branch Balance Sheet was as follows:

Liabilities	Rs.	Assets	Rs.
Creditors Balance	40,000	Debtors Balance	2,00,000
Head Office	1,68,000	Building Extension A/c closed by transfer to H.O. A/c	_
		Cash at Bank	8,000
	2,08,000		2,08,000

During the six months ending on 30-9-20X1, the following transactions took place at Delhi.

	Rs.		Rs.
Sales	2,40,000	Manager's Salary	4,800
Purchases	48,000	Collections from Debtors	1,60,000
Wages paid	20,000	Discounts allowed	8,000
Salaries (inclusive of advance		Discount earned	1,200
of Rs.2,000)	6,400	Cash paid to Creditors	60,000
General Expenses	1,600	Building Account (further payment)	4,000
Fire Insurance (paid for one year)	3,200	Cash in Hand	1,600
Remittance to H.O.	38,400	Cash at Bank	28,000

Set out the Head Office Account in Delhi books and the Branch Balance Sheet as on 30-9-20X1. Also give journal entries in the Delhi books.

Journal Entries

20X1		Dr.	Cr.
30 Sept.		Rs.	Rs.
Salary Advance A/c	Dr.	2,000	
To Salaries A/c			2,000
(The amount paid as advance adjusted by debit to			
Salary Advance Account)			
Prepared Insurance A/c (3,200 x 6/12)	Dr.	1,600	

To Fire Insurance A/c			1,600
(Six months premium transferred to the Prepaid			
Insurance A/c)			
Head Office Account	Dr.	88,400	
To Purchases A/c			48,000
To Wages A/c			20,000
To Salaries A/c (6,400 – 2,000)			4,400
To General Expenses A/c			1,600
To Fire Insurance A/c (3,200 x 6/12)			1,600
To Manager's Salary A/c			4,800
To Discount Allowed A/c			8,000
(Transfer of various revenue accounts (Dr.) to the			
H.O. Account for closing the accounts)	_		
Sales Accounts	Dr.	2,40,000	
Discount Earned A/c	Dr.	1,200	
To Head Office A/c			2,41,200
[Revenue accounts (Cr.) transferred to H.O.]	<u>_</u>		
Head Office Account	Dr.	4,000	
To Building Account			4,000
(Transfer of amounts spent on building extension to			
H.O. A/c)			

Head Office Account

20X1		Rs.	20X1		Rs.
Sep. 30	To Cash-remittance	38,400	April 1	By Balance b/d	1,68,000
	To Sundries (Revenue A/c)	88,400	Sep. 30	By Sundries (Revenue A/c)	2,41,200
	To Building A/c	4,000			
	To Balanced c/d	2,78,400			
		4,09,200			4,09,200

Balance Sheet of Delhi Branch as on Sept. 30,20X1

Liabilities	Rs.	Assets	Rs.
Creditors Balances	26,800	Debtors Balances	2,72,000
Head Office Account	2,78,400	Salary Advance	2,000
		Prepaid Insurance	1,600

	Building Extension A/c	
	transferred to H.O.	_
	Cash in Hand	1,600
	Cash at Bank	28,000
3,05,200		3,05,200

Cash and Bank Account

			Rs.				Rs.
То	Balance b/d		8,000	Ву	Wages		20,000
То	Collection Debtors	from	1,60,000	Ву	Salaries		6,400
				Ву	Insurance		3,200
				Ву	General Exp.		1,600
				Ву	H.O. A/c		38,400
				Ву	Manager's Salary		4,800
				Ву	Creditors		60,000
				Ву	Building A/c		4,000
				Ву	Balance c/d		
				Ву	Cash in Hand	1,600	
				Ву	Cash at Bank	<u>28,000</u>	29,600
			1,68,000				1,68,000

Debtors Account

	Rs.		Rs.
To Balance b/d	2,00,000	By Cash Collection	1,60,000
To Sales	2,40,000	By Discount (allowed)	8,000
		By Balance c/d	2,72,000
	4,40,000		4,40,000
To Balance b/d	2,72,000		

Creditors Account

	Rs.		Rs.
To Cash	60,000	By Balance b/d	40,000
To Discount (earned)	1,200	By Purchases	48,000
To Balance c/d	26,800		
	88,000		88,000
		By Balance b/d	26,800

QUESTION 34 (STUDY MATERIAL)

The following Trial balances as at 31st December, 20X1 have been extracted from the books of Major Ltd. and its branch at a stage where the only adjustments requiring to be made prior to the preparation of a Balance Sheet for the undertaking as a whole.

	Head Of	Head Office		Branch	
	Dr.	Cr.	Dr.	Cr.	
	Rs.	Rs.	Rs.	Rs.	
Share Capital		1,50,000			
Fixed Assets	75,125		18,901		
Current Assets	1,21,809		23,715	(Note 3)	
Current Liabilities		34,567		9,721	
Stock Reserve, 1st Jan., 20X1					
(Note 2)		693			
Revenue Account		43,210		10,250	
Branch Account	31,536				
Head Office Account				22,645	
	2,28,470	2,28,470	42,616	42,616	

You are required to record the following in the appropriate ledger accounts in both sets of books:

Notes:

- 1. Goods transferred from Head Office to the Branch are invoiced at cost plus 10% and both Revenue Accounts have been prepared on the basis of the prices charged.
- 2. RelatingtotheHeadOfficegoodsheldbytheBranchon1stJanuary,20X1.
- 3. Includes goods received from Head Office at invoice price Rs.4,565.
- 4. Goods invoiced by Head Office to Branch at Rs.3,641 were in transit at 31st December, 20X1, as was also a remittance of Rs.3,500 from the Branch.
- 5. At 31st December, 20X1, the following transactions were reflected in the Head Office books but unrecorded in the Branch books.

The purchase price of lorry, Rs.2,500, which reached the Branch on December 25th; a sum received on December 30, 20X1 from one of the Branch debtors, Rs.750.

H.O. Books Branch Account

20X1 Rs. 20X1	Rs.	l
---------------	-----	---

Dec. 31	To Balance b/d	31,536	Dec. 31	By Cash in transit	3,500
				By Balance b/d	28,036
		31,536			31,536

Cash in transit Account

20X1			Rs.	20X1			Rs.
Dec. 31	То	Branch A/c	3,500	Dec. 31	Ву	Balance c/d	3,500

Stock Reserve Account

20X1		Rs.	20X1		Rs.
Dec. 31	To Balance c/d	746	Jan. 1	By Balance c/d	693
	(4,565+3,641) x 10/110			By Revenue A/c (b.f.)	53
		746			746

Revenue Account

20X1		Rs.	20X1		Rs.
Dec. 31	To Stock Reserve	53	Dec. 31	By Balance b/d	43,210
	To Balance c/d	43,157			
		43,210			43,210

Branch Books Head Office Account

20X1		Rs.	20X1		Rs.
Dec. 31	To Current Assets	750	Dec. 31	By Balance b/d	22,645
	To (Debtors)	28,036		By Goods in transit	3,641
	Balance c/d			By Motor Vehicle	2,500
		28,786			28,786

Goods in Transit Account

20X1		Rs.	20X1		Rs.
Dec. 31	To Head Office	3,641	Dec. 31	By Balance c/d	3,641

Motor Vehicle Account

20X1 Rs. 20X1	Rs.
-----------------------------	-----

Dec. 31

Sundry Current Assets A/c

20X1		Rs.	20X1		Rs.
Dec. 31	To Balance b/d	23,715	Dec. 31	By H.O. (Remittance	750
				by Debtor)	
				By Balance c/d	22,965
		23,715			23,715

QUESTION 35 (STUDY MATERIAL) (MTP NOV18)

To Head Office

On 31St December, 20X2 the following balances appeared in the books of Chennai Branch of an **English firm having its HO office in New York:**

	Amount in Rs.	Amount in Rs.
Stock on 1st Jan., 20X2	2,34,000	
Purchases and Sales	15,62,500	23,43,750
Debtors and Creditors	7,65,000	5,10,000
Bills Receivable and Payable	2,04,000	1,78,500
Salaries and Wages	1,00,000	-
Rent, Rates and Taxes	1,06,250	-
Furniture	91,000	-

Bank A/c	5,68,650	
New York Account	-	5,99,150
	36,31,400	36,31,400

Stock on 31St December, 20X2 was Rs.6,37,500. Branch account in New York books showed a debit balance of \$13,400on 31st December, 20X2 and Furniture appeared in the Head Office books at \$ 1,750.

The rate of exchange for 1 \$ on 31st December, 20X1 was Rs.52 and on 31st December, 20X2 was Rs.51. The average rate for the year was Rs.50.

Prepare in the Head Office books the Profit and Loss a/c and the Balance Sheet of the Branch assuming integral foreign operation.

In the books of English Firm

(Head Office in New York) **Chennai Branch Profit and Loss Account** for the year ended 31st December, 20X2

	\$		\$
To Opening stock	4,500	By Sales	46,875
To Purchases	31,250	By Closing stock	12,500
To Gross profit c/d	23,625	(6,37,500 / 51)	
	59,375		59,375
To Salaries	2,000	By Gross profit b/d	23,625
To Rent, rates and taxes	2,125		
To Exchange translation loss	2,000		
To Net Profit c/d	17,500		
	23,625		23,625

Balance Sheet of Chennai Branch as on 31st December, 20X2

Liabilities	\$	\$	Assets	\$
Head Office A/c	13,400		Furniture	1,750
Add : Net profit	17,500	30,900	Closing Stock	12,500
Trade creditors		10,000	Trade Debtors	15,000
Bills Payable		3,500	Bills Receivable	4,000
			Cash at bank	11,150
		44,400		44,400

Working Note:

Calculation of Exchange Translation Loss Chennai Branch Trial Balance (converted in \$) as on 31st December, 20X2

	Dr.	Cr.	Conversion	Dr.	Cr.
	Rs.	Rs.	Rate	(\$)	(\$)
Stock on 1st Jan., 20X2	2,34,000		52	4,500	
Purchases & Sales	15,62,500	23,43,750	50	31,250	46,875
Debtors & creditors	7,65,000	5,10,000	51	15,000	10,000

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Bills Receivable and Bills Payable	2,04,000	1,78,500	51	4,000	3,500
Salaries and wages	1,00,000		50	2,000	
Rent, Rates and Taxes	1,06,250		50	2,125	
Furniture	91,000			1,750	
Bank A/c	5,68,650		51	11,150	
New York Account		5,99,150			13,400
Exchange translation					
loss (bal.fig.)				2,000	
	36,31,400	36,31,400		73,775	73,775

QUESTION 36 (STUDY MATERIAL)

S & M Ltd., Bombay, have a branch in Sydney, Australia. Sydney branch is an integral foreign operation of S & M Ltd.

At the end of 31st March, 20X2, the following ledger balances have been extracted from the books of the Bombay Office and the Sydney Office:

	Bombay (Rs. thousands)		Sydne (Austr do thousand	llars
	Debit	Credit	Debit	Credit
Share Capital	_	2,000	_	_
Reserves & Surplus	_	1,000	_	_
Land	500	_	_	_
Buildings (Cost)	1,000	_	_	_
Buildings Dep. Reserve	_	200	_	_
Plant & Machinery (Cost)	2,500	_	200	_
Plant & Machinery Dep. Reserve	_	600	_	130
Debtors / Creditors	280	200	60	30
Stock (1.4.20X1)	100	_	20	_
Branch Stock Reserve	_	4	_	_
Cash & Bank Balances	10	_	10	_
Purchases / Sales	240	520	20	123
Goods sent to Branch	_	100	5	_
Managing Director's salary	30	_	_	_
Wages & Salaries	75	_	45	_
Rent	_	_	12	_

Office Expenses	25	-	18	_
Commission Receipts	_	256	_	100
Branch / H.O. Current A/c	120	_	_	7
	4,880	4,880	390	390

The following information is also available:

(1) Stock as at 31.3.20X2: Bombay Rs.1,50,000 Sydney A \$3,125 You are required to convert the Sydney Branch Trial Balance into rupees; (use the following rates of exchange:

Opening rate A \$ = Rs.20

Closing rate A \$ = Rs.24

Average rate A \$ = Rs.22

For Fixed Assets A \$ = Rs.18).

Sydney Branch Trial Balance (in Rupees)

As on 31st March, 20X2

Conversion	rate per A\$	Dr.	Cr.
Plant & Machinery (cost)	Rs.18	36,00	
Plant & Machinery Dep. Reserve	Rs.18		23,40
Debtors / Creditors	Rs.24	14,40	7,20
Stock (1.4.20X1)	Rs.20	4,00	
Cash & Bank Balances	Rs.24	2,40	
Purchase / Sales	Rs.22	4,40	27,06
Goods received from H.O.	_	1,00	

Wages & Salaries	Rs.22	9,90	
Rent	Rs.22	2,64	
Office expenses	Rs.22	3,96	
Commission Receipts	Rs.22		22,00
H.O. Current A/c			1,20
		78,70	80,86
Exchange loss (balancing figure)		2,16	
		80,86	80,86

QUESTION 37 (STUDY MATERIAL)

M/s Carlin has head office at New York (U.S.A.) and branch at Mumbai (India). Mumbai branch is an integral foreign operation of Carlin & Co.

Mumbai branch furnishes you with its trial balance as on 31st March, 20X2 and the additional information given thereafter:

	Dr.	Cr.
	Rupees in	thousands
Stock on 1st April, 20X1	300	_
Purchases and sales	800	1,200
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Wages and salaries	560	_
Rent, rates and taxes	360	_
Sundry charges	160	_
Computers	240	
Bank balance	420	_
New York office a/c	_	1,620
	3,360	3,360

Additional information:

- Computers were acquired from a remittance of US \$ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.
- Unsold stock of Mumbai branch was worth Rs.4,20,000 on 31st March, 20X2. (b)
- (c) The rates of exchange may be taken as follows:
 - on 1.4.20X1 @ Rs.40 per US\$
 - on 31.3.20X2 @ Rs.42 per US\$
 - average exchange rate for the year @ Rs.41 per US\$
 - conversion in \$ shall be made upto two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 20X2 and the balance sheet as on that date of Mumbai branch as would appear in the books of New York head office of Carlin &Co. You are informed that Mumbai branch account balance US 39609.18 showed debit of on 31.3.20X2inNewYorkbooksandtherewerenoitemspendingreconciliation.

M/s Carlin Mumbai Branch Trial Balance in (US \$) as on 31st March, 20X2

	Conversion	Dr.	Cr.
	rate per US \$	US\$	US\$
	(Rs.)		
Stock on 1.4.X1	40	7,500.00	_
Purchases and sales	41	19,512.20	29,268.29
Sundry debtors and creditors	42	9,523.81	7,142.86
Bills of exchange	42	2,857.14	5,714.29
Wages and salaries	41	13,658.54	_
Rent, rates and taxes	41	8,780.49	_
Sundry charges	41	3,902.44	_
Computers	_	6,000.00	_
Bank balance	42	10,000.00	_
New York office A/c	_	_	39,609.18
		81,734.62	81,734.62

Trading and Profit & Loss Account for the year ended 31st March, 20X2

	US \$		US \$
To Opening Stock	7,500.00	By Sales	29,268.29
To Purchases	19,512.20	By Closing stock (4,20,000/42)	10,000.00
To Wages and salaries	13,658.54	By Gross Loss c/d	1,402.45
	40,670.74		40,670.74
To Gross Loss b/d	1,402.45	By Net Loss	17,685.38
To Rent, rates and taxes	8,780.49		
To Sundry charges	3,902.44		
To Depreciation on computers $(US $ 6,000 \times 0.6)$	3,600.00		
	17,685.38		17,685.38

Balance Sheet of Mumbai Branch as on 31st March, 20X2

Liabiliti	ies		US \$	Assets	US \$	US\$
New	York	39,609.18		Computers	6,000.00	
Office A	4/c					

Less : Net			Less:		
Loss	(17,685.38)	21,923.80	Depreciation	(3,600.00)	2,400.00
Sundry creditors		7,142.86	Closing stock		10,000.00
Bills payable		5,714.29	Sundry debtors		9,523.81
			Bank balance		10,000.00
			Bills		2,857.14
			receivable		
		34,780.95			34,780.95

QUESTION 38 (RTP MAY 18) (RTP JULY21)

Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit atsellingpriceisconstantat25percentthroughouttheyearto31stMarch,2017.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal in 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch in head office.

The following details for the year ended 31st March, 2017 are given as follows:

ing details for the year chaca 31 March, 2017 are given as follows:					
	Rs.		Rs.		
Opening Stock (at cost)	74,736	Chargeable expenses	49,120		
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,328		
Sales	3,61,280				
Manager's commission paid on account	2,400				

From the above details, you are required to calculate the commission due to manager for the year ended 31st March, 2017.

ANSWER:

Step 1: Calculation of Deficiency

Branch stock account (at invoice price)

Particulars	Rs.	Particulars	Rs.
To Opening Stock (Rs.74,736		By Sales	3,61,280
+ 1/3 of Rs.74,736)	99,648		

To Goods sent to Branch A/c (Rs.2,89,680 + 1/3 of Rs.2,89,680)	3,86,240	By Closing Stock	1,23,328
	4,85,888	By Deficiency at sale price [Balancing figure]	1,280 4,85,888

Step 2: Calculation of Net Profit before Commission

Branch account

Particulars	Rs.	Particulars	Rs.
To Opening [Rs.74,736 + 1/3	99,648	By Sales	3,61,280
of _			
Rs.74,736]			
To Gross sent to Branch	3,86,240	By Closing Stock	1,23,328
A/c (Rs. 2,89,680			
+ 1/3			
of			
Rs.2,89,680)			
To Expenses	49,120	By Stock Reserve A/c	24,912
To Stock Reserve	30,832	By goods sent to	96,560
A/c (Rs.1,23,328		Branch A/c	
x25/100]			
To Net Profit – subject to			
manager's commission	40,240		
	6,06,080		6,06,080

Step 3: Calculation of Commission still due to manager

		Rs.
Α	Calculation at 10% profit before charging his commission [Rs.40,240 x 10/100]	4,024
В	Less: 25% of cost of deficiency in stock (25% of (75% of Rs.1,280)	(240)
С	Commission for the year [A-B]	3,784
D	Less: Paid on account	(2,400)
Ε	Balance due (C-D)	1,384

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QUESTION 39 (RTP NOVEMBER 18)

Pass necessary Journal entries in the books of an independent Branch of M/s TPL Sons, wherever required, to rectify or adjust the following transactions:

- (i) Branch paid Rs.5,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.
- (ii) A remittance of Rs.1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.
- (iii) Branchassetsaccountsretainedatheadoffice, depreciation charged for the year Rs.15,000 not recorded by Branch.
- (iv) Head Office expenses Rs.75,000 allocated to the Branch, but not yet been recorded by the Branch.
- (v) Head Office collected Rs.60,000 directly from a Branch Customer. The intimation of the fact has not been received by the Branch.
- (vi) Goods dispatched by the Head office amounting to Rs.50,000, but not received by the Branch till date of reconciliation.
- (vii) Branch incurred advertisement expenses of Rs.10,000 on behalf of other Branches, but not recorded in the books of Branch.
- (viii) Head office made payment of Rs.16,000 for purchase of goods by branch, but not recorded in branch books.

ANSWER:

Books of Branch Journal Entries

			Amounts.	
			Dr.	Cr.
(i)	Head Office	Dr.	5,000	
	Account To			5,000
	Salaries Account			
	(Being rectification of salary paid on behalf			
	of Head Office)	_		
(ii)	No entry in Branch Books is required.			
(iii)	Depreciation A/c	Dr.	15,000	

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	To Head Office Account			15,000
	(Being depreciation of assets accounted for)			
(iv)	Expenses Account	Dr.	75,000	
	To Head Office Account			75,000
	(Being allocated expenses of Head Office recorded)	_		
(v)	Head Office	Dr.	60,000	
	Account To			60,000
	Debtors Account			
	(Being adjustment entry for collection from Branch Debtors directly by Head Office)	_		
(vi)	Goods in-transit	Dr.	50,000	
	Account To Head			50,000
	Office Account			
	(Being goods sent by Head Office still intransit)	_		
(vii)	Head Office Account	Dr.	10,000	
	To expenses Account			10,000
	(Being expenditure incurred, wrongly recorded in books)			
(vii)	Purchases account A/c	Dr.	16,000	
	To Head Office			16,000
	Account (Being			
	purchases booked)			

QUESTION 40 (RTP MAY 19)

M/s ABC & Co. has head office at New York (U.S.A.) and branch in Bangalore (India). Bangalore branch is an integral foreign operation of ABC & Co.

Bangalore branch furnishes you with its trial balance as on 31st March, 2018 and the additional information given thereafter:

	Dr.	Cr.
	(Rupe	es in thousands)
Stock on 1 St April, 2017	300	
Purchases and Sales	800	1,200
Sundry Debtors & Creditors	400	300

Bills of Exchange	120	240
Wages & Salaries	560	-
Rent, Rates & Taxes	360	-
Sundry Charges	160	-
Computers	240	-
Bank Balance	420	-
New York Office A/c		<u>1,620</u>
	3,360	3,360

Additional Information:

- (a) Computers were acquired from a remittance of US \$ 6,000 received from New York headofficeandpaidtothesuppliers. Depreciate computers at 60% for the year.
- (b) Unsold stock of Bangalore branch was worth Rs.4,20,000 on 31st March,2018.
- (c) The rates of exchange may be taken as follows:
 - On 01.04.2017 @ Rs.55 per US\$
 - On 31.03.2018 @ Rs.60 per US\$
 - Average exchange rate for the year @ Rs.58 perUS \$
 - Conversion in \$ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2018 and the balance sheet as on that date of Bangalore branch as would appear in the books of New York head office of ABC & Co. You are informed that Bangalore branch account showed a debit balance of US \$ 29845.35 on 31.3.2018 in New York books and there were no items pending reconciliation.

Answer:

M/s ABC &Co. Bangalore Branch Trial Balance in (US \$)

As on 31st March, 2018

	Conversion	Dr.	Cr.
	rate per US \$	US\$	US \$
	(R		
	s.)		
Stock on 1.4.17	55	5,454.55	_
Purchases and sales	58	13,793.10	20,689.66
Sundry debtors and creditors	60	6,666.67	5,000.00

Bills of exchange	60	2,000.00	4,000.00
Wages and salaries	58	9,655.17	-
Rent, rates and taxes	58	6,206.90	_
Sundry charges	58	2,758.62	_
Computers	_	6,000.00	_
Bank balance	60	7,000.00	_
New York office A/c	_	-	29,845.35
		59,535.01	59,535.01

Trading and Profit & Loss Account for the

year ended 31st March, 2018

	US \$		US\$
To Opening Stock	5,454.55	By Sales	20,689.66
To Purchases	13,793.10	By Closing	7,000.00
To Wages and salaries	9,655.17	stock (₹4,20,000/6 0)	
		By Gross Loss c/d	1,213.16
	28,902.82		28,902.82
To Gross Loss b/d	1,213.16	By Net Loss	13,778.68
To Rent, rates and taxes	6,206.90		
To Sundry charges	2,758.62		
To Depreciation on	3,600.00		
computers			
(US \$ 6,000 × 0.6)			
	13,778.68		13,778.68

Balance Sheet of Bangalore Branch as on

31st March, 2018

Liabilities		US \$	Assets	US \$	US \$
New York Office A/c	29,845.35		Computers	6,000.00	
Less: Net Loss	(13,778.68)	16,066.67	<i>Less:</i> Depreciation	(3,600.00)	2,400.00
Sundry creditors		5,000.00	Closing stock		7,000.00
Bills payable		4,000.00	Sundry		6,666.67
			debtors		

	Bills receivable Bank balance	2,000.00 7,000.00
25,066.67		25,066.67

QUESTION 41 (RTP NOVEMBER 19)

From the following particulars relating to Pune branch for the year ending December 31, 2018, prepare Branch Account in the books of Head office.

		Rs.
Stock at Branch on January 1, 2018		10,000
Branch Debtors on January 1, 2018		4,000
Branch Debtors on Dec. 31, 2018		4,900
Petty cash at branch on January 1, 2018		500
Furniture at branch on January 1, 2018		2,000
Prepaid fire insurance premium on January 1, 2018		150
Salaries outstanding at branch on January 1, 2018		100
Good sent to Branch during the year		80,000
Cash Sales during the year		1,30,000
Credit Sales during the year		40,000
Cash received from debtors		35,000
Cash paid by the branch debtors directly to the		2,000
Head Office		
Discount allowed to debtors		100
Cash sent to branch for Expenses:		
Rent	2,000	
Salaries	2,400	
Petty Cash	1,000	
Annual Insurance up to March 31, 2019	600	6,000
Goods returned by the Branch		1,000
Goods returned by the debtors		2,000
Stock on December 31,2018		5000
Petty Cash spent by branch		850
Provide depreciation on furniture 10% p.a.		

Goods costing Rs.1,200 were destroyed due to fire and a sum of Rs.1,000 was received from the **Insurance Company.**

Answer:

Pune Branch Account

Particulars	Tien Accoun	Rs.	Particulars	Rs.	Rs.
To Opening Balance			By Opening Balance:		
Stock		10,000			100
Debtors		4,000	By Remittances:		
Petty Cash		500	Cash sales	1,30,00 0	
Furniture		2,000	Cash received from debtors	35,000	
Prepaid Insurance		150	Cash paid by debtors directly to H.O.	2,000	
To Goods sen Branch		80,000	Received fr	<u>1,00</u> <u>0</u>	1,68,000
Accour	nt		om Insurance Company		
To Bank (expenses)			By Goods sent to branch		1,000
Rent	2,000		(return of goods by		
Salaries	2,400		the branch to H.O.)		
Petty Cash	1,000		By Closing Balances:		
Insurance	<u>60</u>	6,000			5,000
To Net Profit	<u>0</u>	78,950	Petty Cash		650
			Debtors		4,900
			Furniture (2,000		1,800
			10% depreciation)		450
			Prepaid insurance (1/4 x Rs.600)		150
		1,81,600			1,81,600

Working Note:

Calculation of petty cash balance at the end:	Rs.
Opening balance	500
Add: Cash received form the Head Office	<u>1,000</u>
Total Cash with branch	1,500
Less: Spent by the branch	<u>850</u>
Closing balance	<u>650</u>

QUESTION 42 (RTP MAY 20)

On 31st March, 2019 Chennai 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, 2018	60
Goods Received from Head Office	288
Debtors	20
Cash at bank and in hand	8
Carriage Inwards	
	448
Credit Balances	
Outstanding Expenses	3
Goods Returned to Head Office	5
Sales	360
Head Office	<u>80</u>
	448

Additional Information:

Stock on 31st March, 2019 was valued at Rs.62 lacs. On 29th March, 2019 the Head Office dispatched goods costing Rs.10 lacs to its branch. Branch did not receive these goods before 1st April, 2019. Hence, the figure of goods received from Head Office does not include these goods. Also the head office has charged the branch Rs.1 lac for centralized services for which the branch has not passed the entry.

You are required to :(i) pass Journal Entries in the books of the Branch to make the necessary

adjustments and (ii) prepare Final Accounts of the Branch including Balance Sheet.

Answer:

(i) 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 1 st April, 2019)			
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,2019

		₹ in lacs		₹ in lacs
To Opening Stock		60	By Sales	360
To Goods received from			By Closing Stock	62
HeadOffice	288			
Less: Returns	<u>(5)</u>	283		
To Carriage Inwards		7		
To Gross Profit c/d		<u>72</u>		
		<u>422</u>		<u>422</u>
To Salaries		25	By Gross Profit b/d	72
To Depreciation on Furnit	ture	2		
To Rent		10		
To Advertising		6		
To Telephone, Postage & Stationery		3		
To Sundry Office Expense	S	1		
To Head Office Expenses		1		
To Net Profit Transferred	to			
Head Office A/c		<u>24</u>		
		<u>72</u>		
				72

Balance Sheet as on 31st March, 2019

Liabilities	Rs.in Lacs		Assets	Rs.in Lacs	
Head Office	80		Furniture & Equipment	20	
Add: Goods in transit	10		Less: Depreciation	<u>(2)</u>	18
Head Office Expenses	1		Stock in hand		62
Net Profit	<u>24</u>	115	Goods in Transit		10
Outstanding		3	Debtors		20
Expenses		_	Cash at bank and in hand		8
		<u>118</u>			<u>118</u>

QUESTION 43 (RTP NOVEMBER 20)

M & S Co. of Lucknow has an integral foreign branch in Canberra, Australia. At the end of 31st March 2020, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra branch.

	offic	know ce (Rs. In usand)	Canberra Branch (Aust. Dollars in thousand)		
	Dr.	Cr.	Dr.	Cr.	
Capital		1,500			
Reserves & Surplus		1,500			
Land	500				
Buildings (Cost)	1,000				
Buildings - Accumulated		200			
Dep.					
Plant and Machinery (Cost)	2,500		200		
Plant and Machinery -					
Accumulated Dep.		600		130	
Debtors/Creditors	280	200	60	30	
Stock as on 1- 4-2019	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 Salaries	75		45		

Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	4,880	4,880	390	390

You are required to convert the Branch Trial Balance given above into rupees by using the following exchange rates:

Answer:

M & S Co.Ltd. Canberra, Australia Branch Trial Balance As on 31st March 2020

/A (/							
	(:	\$ 'tho	usands)		(Rs.		
					'thousands)		
	Dr.	Cr.	Conversio	Dr.	Cr.		
			n rate				
			per \$				
Plant & Machinery (cost)	200		Rs.46	9,200			
Plant &		130	Rs.46		5,980		
Machinery							
(Accumulated Dep.)							
Debtors/Creditors	60	30	Rs.53	3,180	1,590		
Stock (1.4.2019)	20		Rs.50	1,000			
Cash & Bank Balances	10		Rs.53	530			
Purchase / Sales	20	123	Rs.51	1,020	6,273		
Goods received from H.O.	5		Actual	100			
Wages & Salaries	45		Rs.51	2,295			
Rent	12		Rs.51	612			
Office expenses	18		Rs.51	918			
Commission Receipts		100	Rs.51		5,100		
H.O. Current A/c		7	Actual		120		
				18,855	19,063		

Foreign Exchange Loss (bal. fig.)			208	
	390	<u>390</u>	19,063	<u>19,063</u>

QUESTION 44 (MTP OCTOBER 19)

The following balances were extracted from the books of Beta. You are required to prepare Departmental Trading Account and general Profit &Loss Account for the year ended 31st December,2018:

Particula	Deptt. A	Deptt. B
rs	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:

- (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.

The gross profit is uniform from year to year.

ANSWER:

 $Departmental Trading Account for the year ended on 31 {}^{st} December, 2018$

Pa	rticulars	А	В	Particulars	Α	В
		Rs.	Rs.		Rs.	Rs.
То	Opening Stock	3,00,000	2,40,000	Sales	60,00,000	90,00,000
То	Purchases	39,00,000	54,60,000	Closing Stock	6,00,000	12,00,000

To Gross Prof	t <u>24,00,000</u>	45,00,000		
	66,00,000	1,02,00,000	66,00,000	1,02,00,00

General profit and loss account of Beta for the year ended on 31st December, 2018

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To General	7,50,000	By Stock reserve (opening stock)	
expenses [?]			
To Stock reserve		Dept. A	30,000
(Closing Stock)			
Dept. A	60,000	Dept. B	36,000
Dept. B	72,000	By Gross Profit	
To Net Profit	60,84,000	Dept. A	24,00,000
		Dept. B	45,00,000
	69,66,000		69,66,000

Working Notes:

		Dept. A	Dept. B
1.	Percentage of Profit	24,00,000/60,00,000 x	45,00,000/90,00,000 x
		100	100
		40%	50%
2.	Opening Stock	60,000 x 50% = 30,000	90,000 X 40% = 36,000
	reserve		
3.	Closing Stock reserve	1,20,000 x 50%=60,000	1,80,000 x 40% = 72,000

QUESTION 45 (MTP OCTOBER 20)

L Ltd. has its head office at Mumbai and two branches at Pune and Goa. The branches purchase goods independently. Pune branch makes a profit of one third on cost and Goa branch makes a profit of 20% on sales. Goods are also supplied by one branch to another at the respective sales price. From the following particulars, prepare the Trading and Profit and Loss Account of Pune branch and find out the profit or loss made by it considering the reserve for Unrealised profits:

Particula	Pune Branch	Goa Branch
rs	Rs.	Rs.
Opening Stock	40,000	30,000

Purchases (Including Inter Branch transfers) Sales	2,00,000 2,80,000	2,50,000 2,95,625
Chargeable Expenses Closing Stock	15,000 30,000	27,500 43,500
Office and Administration Expenses Selling and Distribution Expenses	13,250 15,000	7,000 10,000

Information:

- (i) Opening stock at Pune Branch includes goods of Rs. 10,000 (invoice price) taken from Goa Branch,
- (ii) Opening stock at Goa Branch includes goods of invoice price Rs. 17,000 taken from Pune Branch,
- (iii) The Pune Branch sales includes transfer of goods to Goa Branch at selling price Rs. 20,000 (iv) The sales of Goa Branch include transfer of goods to Pune Branch at selling price Rs.15,000.
- (iv) Closing stock at Pune Branch includes goods received from Goa Branch (invoice price Rs. 5,000.
- (v) Closing stock at Goa Branch includes goods of Rs. 4,000 (invoice price).

ANSWER:

Pune Branch Trading and Profit and Loss Account

	Pune Branch Trading and Profit and Loss Account				
	Particula	Rs.		Particula	Rs.
	rs			rs	
То	Opening Stock (including Rs.10,000 from Goa Branch)	40,000	Ву	Sales (including Rs.20,000 to Goa Branch)	2,80,000
То	Purchases	2,00,000	Ву	Closing Stock (including Rs.5,000 from Goa Branch)	30,000
То	Chargeable Expenses	15,000			
То	Gross Profit c/d (before	FF 000			
	making adjustment for Unrealised profit)	55,000			
		3,10,000			3,10,000
То	Stock Reserve (for Unrealised profit in Closing Stock lying at Goa Branch) (Rs.4,000 x 25/100)	1,000	Ву	Gross Profit b/d	55,000
То	Office & Adm. Expenses	13,250	Ву	Stock Reserve (for Unrealised profit in	4,250

То	Selling & Distribution Expenses To Net Profit	15,000 <u>30,000</u>	Opening Stock lying at Goa Branch) (Rs.17,000 x 25/100)	
		59,250		59,250

QUESTION 46 (MTP OCTOBER 20)

Ganesh Ltd. has head office at Delhi (India) and branch at New York. New York branch is an integral foreign operation of Ganesh Ltd. New York branch furnishes you with its trial balance as on 31St March, 2020 and the additional information given thereafter:

	Dr. (\$)	Cr. (\$)
Stock on 1st April, 2019	300	_
Purchases and sales	800	1,500
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Sundry expenses	1,080	_
Bank balance	420	_
Delhi office A/c	_	1,080
	3,120	3,120

The rates of exchange may be taken as follows:

- > on 1.4.2019 @ Rs. 40 per US\$
- > on 31.3.2020 @ Rs. 42 per US\$
- average exchange rate for the year @ Rs. 41 per US\$.

New York branch account showed a debit balance of Rs. 44,380 on 31.3.2020 in Delhi books and there were no items pending reconciliation.

You are asked to prepare trial balance of New York in Rs. in the books of Ganesh Ltd.

ANSWER:

In the books of Ganesh Ltd. New York Branch Trial Balance in (Rs.) as on 31st March, 2020

	Conversion rate per US	Dr.	Cr.
	\$		
	(Rs.)	Rs.	Rs.
Stock on 1.4.19	40	12,00	
		0	
Purchases and sales	41	32,80	61,50
		0	0
Sundry debtors and creditors	42	16,80	12,60
		0	0
Bills of exchange	42	5,040	10,080
Sundry expenses	41	44,280	
Bank balance	42	17,640	
Delhi office A/c	_		44,380
		1,28,560	1,28,560

QUESTION 47 (PAST PAPER MAY 18)

Ayan Ltd. Invoices goods to its branch at cost plus 33.33%. From the following particulars prepare Branch Stock Account, Branch Stock Adjustment Account and Branch Profit and Loss Account as they would appear in the books of head office.

	Rs.
Stock at commencement at Branch at invoice Price	3,60,000
Stock at close at Branch at Invoice Price	2,88,000
Goods sent to Branch during the year at invoice price (including goods invoiced at Rs. 48,000 to Branch on 31.03.2018 but not received by Branch before close of the year).	24,00,000
Return of goods to head office (invoice Price)	1,20,000
Credit Sales at Branch	1,20,000
Invoice value of goods pilfered	24,000
Normal loss at Branch due to wastage and deterioration of stock (at invoice price)	36,000
Cash Sales at Branch	21,60,000

Ayan closes its books on 31st March,2018.

ANSWER:

In the books of HeadOffice **Branch Stock Account**

Par	ticulars	Rs.	Par	ticulars	Rs.
То	Balance b/d	3,60,000	Ву	Bank A/c (cash Sales)	21,60,00
То	Goods sent to Branch A/c	24,00,00	Ву	Branch Debtors A/c (Credit Sales)	1,20,000
То	Branch Adjustment A/c – balancing fig.	36,000	Ву	Goods sent to Branch A/c (Returns to H.O.)	1,20,000
	(Surplus)***		Ву	Branch Adjustment A/c* (Rs. 24,000 x25/100)	6,000
			Ву	Branch P&L A/c *	18,000
				(Cost of Abnormal Loss)	
			Ву	Branch Adjustment A/c** (Invoice price of normal loss)	36,000
			Ву	Balance c/d:	
				In .	2,88,00
				hand	0 48,00
				In transit	<u>48,00</u>
		27,96,00 0		crunsic	27,96,00 0

^{*}Alternatively, combined posting for the amount of Rs. 24,000 may be passed through Goods pilfered account.

Branch Stock Adjustment Account

F	Particulars	Rs.	Particulars	(Rs.)
То	Branch Stock A/	6,000	By Stock Reserve A/c	90,000
	(Loading c		(Rs. 3,60,000 x 25/100)	
	Abnormal o			

^{**} Alternatively, it may first be transferred to normal Loss account which may ultimately be closed by transfer to Branch Adjustment account. The final amount of net profit will however remain same.

^{***} It has been considered that the surplus may be due to sale of goods by branch at price higher than invoice price.

	Loss)	n				
То	Branch Stock (Normal Loss)	·	36,000	Ву	Goods Sent to Branch A/c (Rs. 24,00,000 – Rs. 1,20,000) x 25/100	5,70,000
A/c (itock Reserve Rs. ,000x25/100) Gross Profit t/ P & L A/c	f to	84,000 5,70,000	Ву	Branch Stock A/c (Surplus)	36,000
			6,96,000			6,96,000

Branch Profit and Loss Account

Par	Particulars Rs.		Particulars		Rs.
То	Branch Stock A/c (Cost of Abnormal Loss)	18,000	Ву	Branch Adjustment A/c (Gross Profit)	5,70,000
То	Net Profit t/f to General P & LA/c	5,52,00 0 			
		_ 5,70,000			5,70,000

QUESTION 48 (PAST PAPER MAY 19)

M/s Rani & Co. has head office at Singapore and branch at Delhi (India). Delhi branch is an integral foreign operation of M/s Rani & Co. Delhi branch furnishes you with its Trial Balance as on 31st March, 2019 and the additional information thereafter:

	Dr.	Cr.
	Rupees in thou	usands
Stock on 1 st April, 2018	600	-
Purchases and Sales	1,600	2,400
Sundry Debtors and Creditors	800	600
Bills of Exchange	240	480
Wages	1,120	-

Rent, rates and taxes	720	-
Sundry Expenses	320	-
Computers	600	-
Bank Balance	520	-
Singapore Office A/c		<u>3,040</u>
Total	6,520	6,520

Additional information:

- (a) Computers were acquired from a remittance of Singapore dollar 12,000 received from Singapore Head Office and paid to the suppliers. Depreciate Computers at the rate of 40% for the year.
- (b) Closing Stock of Delhi branch was Rs. 15,60,000 on 31st March,2019.
- (c) The Rates of Exchange may be taken as follows:
 - (i) on 1.4.2018 @ Rs. 50 per Singapore Dollar
 - (ii) on 31.3.2019 @ Rs. 52 per Singapore Dollar
 - (iii) Average Exchange Rate for the year @ Rs. 51 per Singapore Dollar.
 - (iv) Conversion in Singapore Dollar shall be made up to two decimal accuracy.
- (d) Delhi Branch Account showed a debit balance of Singapore Dollar 59,897.43 on 31.3.2019 in the Head office books and there were no items pending for reconciliation.

In the books of Head office you are required to prepare:

- 1. Revenue statement for the year ended 31st March, 2019 (in Singapore Dollar)
- 2. Balance Sheet as on that date. (in Singapore Dollar)

ANSWER:

Revenue Statement

for the year ended 31st March, 2019

	Singapore dollar		Singapore dollar
To Opening Stock	12,000.00	By Sales	47,058.82
To Purchases	31,372.55	By Closing stock	30,000.00
To Wages	21,960.78	(15,60,000/5	
		2)	
To Gross profit b/d	11,725.49		

To Rent, rates and taxes	77,058.82 14,117.65	By Gross profit	77,058.82 11,725.49
To Sundry Expenses To Depreciation on	6,274.51	By Net loss b/d	13,466.67
computers (Singapore dollar 12,000 × 0.4)	<u>4,800.00</u>		
	25,192.16		25,192.16

Balance Sheet of Delhi Branch as on 31st March, 2019

Liabilities		Singapore dollar	Assets	Singapore dollar	Singapore dollar
Singapore Office A/c	59,897.43		Computers	12,000.00	
Less: Net Loss	(13,466.67)	46,430.76	<i>Less:</i> Depreciation	(4,800.00)	7,200.00
Sundry creditors		11,538.46	Closing stock		30,000.00
Bills payable		9,230.77	Sundry debtors		15,384.61
			Bank balance		10,000.00
			Bills		4,615.38
			receivable		
		67,199.99			67,199.99

Working Note:

M/s Rani & Co.

Delhi Branch Trial Balance in (Singapore \$) as on

31st March, 2019

	Conversion	Dr.	Cr.
	rate per	Singapore	Singapore
	Singapore	dollar	dollar
	dollar		

0

CA Ravi Agarwal's CA INTER ACCOUNTING COMPILER 4.0

			(Rs.)		
Stock on 1.4.18	6,00,000.00		50	12,000.00	_
Purchases and sales	16,00,000.00	24,00,000.00	51	31,372.55	47,058.82
Sundry Debtors and	8,00,000.00	6,00,000.00	52	15,384.61	11,538.46
Creditors					
Bills of exchange	2,40,000.00	4,80,000.00	52	4,615.38	9,230.77
Wages	11,20,000.00		51	21,960.78	-
Rent, rates and	7,20,000.00		51	14,117.65	-
taxes					
Sundry Expenses	3,20,000.00		51	6,274.51	-
Computers	6,00,000.00		_	12,000.00	_
Bank balance	5,20,000.00		52	10,000.00	_
Singapore office			1		59,897.43
A/c					
				1,27,725.48	1,27,725.48

QUESTION 49 (MTP MAY 19)

XYZ is having its Branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses which are met by the Branch Manager. From the following particulars, you are required to prepare branch account in the books of Head Office

	(Rs.)		(Rs.)
Stock on 1st April 2017	30,000	Discountallowed to	
(invoice price)		debtors	160
Sundry Debtors on 1st April, 2017	18,000	Expenses paid by head office:	
Cash in hand as on 1st April, 2017	-	Rent	1,800
Office furniture on 1st April, 2017	3,000	Salary	3,200
Goods invoiced from the head office		Stationery & Printing	800
(invoice price)	1,60,000		
Goods returned to Head Office (invoice price)	2,000	Petty expenses paid by the branch	600
Goods returned by debtors	960	Depreciation to be provided on branch	
Cash received from debtors	60,000	furniture at 10% p.a.	
Cash Sales	1,00,000	Stock on 31st March, 2018	
Creditsales	60,000	(at invoice price)	28,000

ANSWER

In the books of Head Office - XYZ Kolkata Branch Account (at invoice)

	D-		D-
	Rs.		Rs.
To Balance b/d		By Stock reserve (opening)	6,000
Stock	30,000	By Remittances:	
Debtors	18,000	Cash Sales 1,00,000	
Furniture	3,000	Cash from Debtors 60,000	
To Goods sent to		Less: Petty expenses (600)	1,59,400
branch	1,60,000	By Goods sent to branch (loading)	32,000
To Goods returned by	400	By Goods returned by	
branch (loading)		branch (Return to H.O.)	2,000
To Bank (expenses		By Balance c/d	
paid by H.O.)		Stock	28,000
Rent 1,800		Debtors	16,880
Salary 3,200		Furniture (3,000-300)	2,700
Stationary &			
printing 800	5,800		
To Stock reserve (closing)	5,600		
To Profit transferred to			
General Profit & Loss A/c	24,180		
	2,46,980		2,46,980

Debtors Account

	Rs.		Rs.
To Balance b/d	18,000	By Cash account	60,000
To Sales account (credit)	60,000	By Sales return account	960
		By Discount allowed account	160
		By Balance c/d	16,880
	78,000		78,000

Note: In the absence of opening cash balance, remittance to Head Office has been made after payment of petty expenses

QUESTION 50 (MTP MAY 20)

From the following details of Western Branch Office of M/s. XYZ Corp. for the year ending 31st March, 2020, ascertain branch stock reserve in respect of unrealized profit in opening stock and closing stock:

- (i) Goods are sent to the branch at invoice price and branch also maintains stock at the same price.
- (ii) Sale price is cost plus 40%.

- (iii) Invoice price is cost plus 15%.
- (iv) Other information from accounts of branch:

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

ANSWER

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

Working Note

Cost Price	100
Invoice Price	115
Sale Price	140
Calculation of closing stock at invoice price	Rs.
Opening stock at invoice price	3,45,000
Goods received during the year at invoice price	16,10,000
	19,55,000
Less: Cost of goods sold at invoice price [21,00,000 X (115/140)]	(17,25,000)
Closing stock	2,30,000

QUESTION 51 (PAST EXAM NOV 19)

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

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

- (i) Fixed assets were purchased on 1st April, 2015.
- (ii) Depreciation at 10% p.a. is to be charged on fixed assets on straight line method. •
- (iii) Closing inventory at branch is \$ 700 as on 31-3-2019.
- (iv) Goods received from Head Office (HO) were recorded at ₹ 1,85,500 in HO books.
- (v) Remittances to HO were recorded at ₹ 1,62,000 in HO books.
- (vi) HO account is recorded in HO books at ₹ 2,84,500.
- (vii) Exchange rates of US Dollar at different dates can be taken as: 1-4-2015 ₹ 63
 1-4-2018 ₹ 65 and
 31-3-2019 ₹ 67

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

ANSWER

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

Particulars	\$ (Dr.)	\$ (Cr.)	Conversion Basis	Rate	₹ (Dr.)	₹ (Cr.)
Fixed Assets	8,000		Transaction Date Rate	63	5,04,000	
Opening Inventory	800		Opening Rate	65	52,000	
Goods Received from HO	2,800		Actuals		1,85,500	
Sales		24,050	Average Rate	66		15,87,300
Purchases	11,800		Average Rate	66	7,78,800	
Expenses	1,800		Average Rate	66	1,18,800	
Cash	700		Closing Rate	67	46,900	
Remittance to HO	2,450		Actuals		1,62,000	
HO Account		4,300	Actuals			2,84,500
Exchange Rate Difference			Balancing Figure		23,800	
	28,350	28,350			18,71,800	18,71,800
Closing Stock	700		Closing Rate	67	46,900	
Depreciation	800		Fixed Asset Rate	63	50,400	

Chapter 14 Accounting from Incomplete Record

QUESTION 1(STUDY MATERIAL)

In case of net worth method, profit is determinedly

- (a) Preparing a trading and profit and loss account.
- (b) Comparing the capital in the beginning with the capital at the end of the accounting period.
- (c) Comparing the net assets in the beginning with the net assets at the end of the accounting period.

Answer: (b)

QUESTION 2 (STUDY MATERIAL)

Single entry system can be followed by

- (a) Small firms.
- (b) Joint Stock Companies
- (c) Co-operative societies.

Answer: (a)

QUESTION 3 (STUDY MATERIAL)

Closing capital is calculated as

- (a) Opening capital +Additional capital-Drawings.
- (b) Opening capital +Additional capital -Drawings +Profit.
- (c) Opening capital +Additional capital +Drawings -Profit.

Answer: (b)

QUESTION 4 (STUDY MATERIAL)

Under single entry system, only personal accounts are kept and in some cases

- (a) Cash book is maintained;
- (b) Fixed assets' accounts are maintained;
- (c) Liabilities' accounts are maintained.

Answer: (a)

QUESTION 5 (STUDY MATERIAL)

The closing capital of Mr. Bason 31.3.2016 was Rs. 4,00,000. On 1.4.2015 his capital was Rs. 3,50,000. His net profit for the year ended 31.3.2016was Rs.1,00,000. He introduced Rs. 30,000 as additional capital in February, 2016. Find out the amount drawn by Mr. B for his domestic expense.

- (a) Rs. 1,00,000
- (b) Rs.80,000;
- (c) Rs.1,20,000;

Answer: (b)

QUESTION 6 (STUDY MATERIAL)

What is meant by Single entry System? What are the types of procedures adopted for this system?

ANSWER:

Single entry system is an inaccurate and unsystematic method of recording business transactions. The procedures adopted are: Pure single entry; Simple entry and Queasy single entry. For details, Refer Para 1 and 2 of the chapter.

Practical Questions

Question1

A company sold 20% of the goods on cash basis and the balance on credit basis. Debtors are allowed 1½ month's credit and their balance as on 31.03.20X1 is `1,25,000. Assume that the sale is uniform throughout the year. Calculate the credit sales and total sales of the company for the year ended 31.03.20X2.

ANSWER

Calculation of Credit Sales and Total sales

Credit Sales for the year ended 20X1-X2 = Debtors x
$$\frac{12 \text{ months}}{1.5 \text{ months}}$$

= $₹1,25,000 \text{ x} \frac{12 \text{ months}}{1.5 \text{ months}}$
= $₹10,00,000$
Total sales for the year ended 20X1-X2 = Credit sales x $\frac{100\%}{80\%}$
= $₹10,00,000 \text{ x} \frac{100\%}{80\%}$
= $₹12,50,000$

Question 2

The following is the Balance Sheet of the retail business of Sri Srinivas as at 31st December, 20X1:

Liabilities	`	Assets	*
Sri Srinivas's capital	1,00,000	Furniture	10,000
Liabilities for goods	20,500	Stock	70,000
Rent	1,000	Debtors	25,000
		Cash at	14,500
		bank	
		Cash in	2,000
		hand	
	1,21,500		1,21,50
			0

You are furnished with the following information:

- (1) Sri Srinivas sells his goods at a profit of 20% on sales.
- (2) Goods are sold for cash and credit. Credit customers pay by cheques only.
- (3) Payments for purchases are always made by cheques.
- (4) It is the practice of Sri Srinivas to send to the bank every weekend the collections of the week after paying every week, salary of `300 to the clerk, Sundry expenses of `50 and personal expenses `100.

Analysis of the Bank Pass–Book for the 13 weeks period ending 31st March, 20X2 disclosed the following:

	₹
Payments to creditors	75,000
Payments of rent up to 31.3.20X2	4,000
Amounts deposited into the bank	1,25,000
(include ₹ 30,000 received from debtors by cheques)	
The following are the balances on 31st March, 20X2:	₹
Stock	40,000
Debtors	30,000
Creditors for goods	36,500

On the evening of 31st March, 20X2 the Cashier absconded with the available cash in the cash box. There was no cash deposit in the week ended on that date.

You are required to prepare a statement showing the amount of cash defalcated by the Cashier and also a Profit and Loss Account for the period ended 31st March, 20X2 and a Balance Sheet as on that date.

ANSWER

Statement showing the amount of cash defalcated by the Cashier

	₹	₹
Cash balance as on 1.1.20X2	2,000	
Add: Cash sales (W.N.2 and W.N.4)	1,16,250	1,18,250
Less: Salary to clerk (₹ 300 × 13)	3,900	
Sundry expenses (₹ 50 × 13)	650	
Drawings of Sri Srinivas (₹ 100 × 13)	1,300	
Deposit into bank (₹ 1,25,000 – ₹ 30,000)	95,000	(1,00,850)
Cash balance as on 31.3.20X2 (defalcated by cashier)		17,400

Trading and Profit and Loss Account of Sri Srinivas for the 13 week period ended 31st March, 20X2

	₹		₹	₹
To Opening stock	70,000	By Sales :		
To Purchases	91,000	Cash (W.N.2 and W.N.4)	1,16,250	
To Gross Profit c/d	30,250	Credit (W.N.3)	<u>35,000</u>	1,51,250
		By Closing stock		40,000
	191,250			1,91,250
To Salaries (300 x 13)	3,900	By Gross profit b/d		30,250
To Rent (₹ 4,000 – ₹ 1,000)	3,000			
To Sundry Expenses (50 x 13)	650			
To Loss of cash by theft	17,400			
To Net Profit (b.f.)	5,300			
	30,250			30,250

Balance Sheet of Sri Srinivas as on 31st March, 20X2

as on sist marcin, .				
Liabilities		₹	Assets	₹
Capital as on 1.1.20X2	1,00,000		Furniture	10,000
Add: Profit	<u>5,300</u>		Stock	40,000
	1,05,300		Debtors	30,000
Less: Drawings	(1,300)	1,04,000	Cash at bank	60,500
Liabilities for		36,500		
goods				
		1,40,500		1,40,500

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Working Notes:

(1) Purchases

Creditors Account

		₹	₹
To Bank A/c	75,000	By Balance b/d	20,500
To Balance c/d	36,500	By Purchases A/c (Bal. fig.)	91,000
	1,11,500		1,11,500

(2) Total sales

	₹
Opening stock	70,000
Add: Purchases	91,000
	1,61,000
Less: Closing stock	(40,000)
Cost of goods sold	1,21,000
Add: Gross profit @ 25% on cost	30,250
Total Sales	1,51,250

(3) Credit Sales

Debtors Account

	₹		₹
To Balance b/d	25,000	By Bank A/c	30,000
To Sales A/c (Bal. fig.)	35,000	By Balance c/d	30,000
	60,000		60,000

(4) Cash Sales

	₹
Total sales	1,51,250
Less: Credit Sales	(35,000)
Cash sales	1,16,250

(5) Bank balance as on 31.3.20X2

	₹		₹
To Balance b/d	14,500	By Creditors A/c	75,000
To Debtors A/c	30,000	By Rent A/c	4,000
To Cash A/c (1,25,000 – 30,000)	95,000	By Balance c/d (b.f.)	60,500
	1,39,500		1,39,500

Notes:

- 1. All purchases are taken on credit basis.
- 2. In the absence of information about the rate of depreciation, no depreciation has been charged on furniture.
- 3. The amount defalcated by the cashier may be treated as recoverable from him. In that case, ` 17,400 may be shown as sundry advances on assets side in the Balance Sheet and net profit for the 13 week period ending 31st March, 20X2 would amount ` 22,700.

Question 3

Mr. A runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 20X1 was as follows:

Liabilities	₹	Assets	₹
A's capital a/c	4,04,000	Furniture	40,000
Creditors	82,000	Stock	2,80,000
		Debtors	1,00,000
		Cash in hand	28,000
		Cash at bank	38,000
	4,86,000		4,86,000

You are furnished with the following information:

(1) His sales, for the year ended 31st March, 20X2 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.

Total sales during the year 20X0-X1 were `5,00,000.

- (2) Payments for all the purchases were made by cheques only.
- (3) Goods were sold for cash and credit both. Credit customers pay be cheques only.
- (4) Deprecation on furniture is to be charged 10% p.a.
- (5) Mr. A sent to the bank the collection of the month at the last date of the each month after paying salary of `2,000 to the clerk, office expenses `1,200 and personal expenses `500. Analysis of bank pass book for the year ending 31st March 20X2 disclosed the following:

	₹
Payment to creditors	3,00,000
Payment of rent up to 31st March, 20X2	16,000
Cash deposited into the bank during the year	80,000

The following are the balances on 31st March, 20X2:

	₹
Stock	1,60,000
Debtors	1,20,000
Creditors for goods	1,46,000

On the evening of 31st March 20X2, the cashier absconded with the available cash in the cash

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 20X2 and Balance Sheet as on that date. All the workings should form part of the answer. ANSWER

In the books of Mr. A

Trading and Profit and Loss Account for the year ending 31st March 20X2

Particulars	₹	Particulars	₹
To Opening stock	2,80,000	By Sales (W.N. 3)	
To Purchases (W.N. 1)	3,64,000	Credit 4,80,000	
To Gross profit (b.f.)	1,16,000	Cash <u>1,20,000</u>	6,00,000
		By Closing stock	1,60,000
	7,60,000		7,60,000
To Salary (2,000 x 12)	24,000	By Gross profit	1,16,000
To Rent	16,000		
To Office expenses (1,200 x 12)	14,400		
To Loss of cash (W.N. 6)	23,600		
To Depreciation on furniture	4,000		
To Net Profit (b.f.)	34,000		
	1,16,000		1,16,000

Balance Sheet as on 31st March, 20X2

Liabilities		₹	Assets	₹
A's Capital	4,04,000		Furniture 40,000	
Add: Net Profit	34,000		Less: Depreciation (4,000)	36,000
Less: Drawings			Stock	1,60,000
(500 x 12)	(6,000)	4,32,000		
Creditors		1,46,000	Debtors	1,20,000
			Cash at bank	2,62,000
		5,78,000		5,78,000

Working Notes:

(1) Calculation of purchases

Creditors Account

Particulars	₹	Particulars	₹
To Bank A/c	3,00,000	By Balance b/d	82,000
To Balance c/d	1,46,000	By Purchases (Bal. fig.)	3,64,000
	4,46,000		4,46,000

(2) Calculation of total sales

	₹
Sales for the year 20X0-X1	5,00,000
Add: 20% increase	1,00,000
Total sales for the year 20X1-X2	6,00,000

(3) Calculation of credit sales

	₹
Total sales	6,00,000
Less: Cash sales (20% of total sales)	(1,20,000)
	4,80,000

(4) Calculation of cash collected from debtors

Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	By Bank A/c (Bal. fig.)	4,60,000
To Sales A/c	4,80,000	By Balance c/d	1,20,000
	5,80,000		5,80,000

(5) Calculation of closing balance of cash at bank

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	38,000	By Creditors A/c	3,00,000
To Debtors A/c	4,60,000	By Rent A/c	16,000

To Cash A/c	80,000	By Balance c/d (b.f.)	2,62,000
	5,78,000		5,78,000

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

		₹
Cash balance as on 1st April 20X1		28,000
Add: Cash sales during the year		1,20,000
		1,48,000
Less: Salary (₹2,000x12)	24,000	
Office expenses (₹1,200 x 12)	14,400	
Drawings of A (₹500x12)	6,000	
Cash deposited into bank during the year	80,000	(1,24,400)
Cash balance as on 31st March 20X2 (defalcated by		23,600
the cashier)		

Question 4
Mr. Anil, a trader keeps his books of account under single entry system. On 31st March, 20X1 his statement of affairs stood as follows:

Liabilities	₹	Assets	₹
Trade Creditors	5,80,000	Furniture, Fixtures and Fittings	1,00,000
Bills Payable	1,25,000	Stock	6,10,000
Outstanding Expenses	45,000	Trade Debtors	1,48,000
Capital Account	2,50,000	Bills Receivable	60,000
		Unexpired Insurance	2,000
		Cash in Hand and at Bank	80,000
	10,00,000		10,00,000

The following was the summary of Cash-book for the year ended 31st March, 20X2:

Receipts	₹	Payments	₹
Cash in Hand and at Bank		Payments to Trade	75,07,000
on		Creditors	
1st April, 20X1	80,000	Payments for Bills payable	8,15,000
Cash Sales	73,80,000	Sundry Expenses paid	6,20,700
Receipts from Trade Debtors	15,10,000	Drawings	2,40,000
Receipts for Bills Receivable	3,40,000	Cash in Hand and at Bank	
		on 31st March, 20X2	1,27,300
	93,10,000		93,10,000

Discount allowed to trade debtors and received from trade creditors amounted to `36,000 and ` 28,000 respectively. Bills endorsed amounted to ` 15,000. Annual Fire Insurance premium of ` 6,000 was paid every year on 1st August for the renewal of the policy. Furniture, fixtures and fittings were subject to depreciation @ 15% per annum on diminishing balance method. You are also informed about the following balances as on 31st March, 20X2:

	₹
Stock	6,50,000
Trade Debtors	1,52,000
Bills Receivable	75,000
Bills Payable	1,40,000
Outstanding Expenses	5,000

The trader maintains a steady gross profit ratio of 10% on sales. Prepare Trading and Profit and Loss Account for the year ended 31st March, 20X2 and Balance Sheet as at that date.

ANSWER

In the books of Mr. Anil **Trading and Profit and Loss Account** for the year ended 31st March, 20X2

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		₹			₹
То	Opening Stock	6,10,000	By Sales		
То	Purchases	84,10,000	Cash	73,80,000	
	(W.N. 3)				
То	Gross profit c/d	9,30,000	Credit (W.N. 2)	19,20,000	93,00,000
	(10% of 93,00,000)		By Closing stock		6,50,000
		99,50,000			99,50,000
То	Sundry expenses	5,80,700	By Gross profit		9,30,000
	(W.N. 6)		b/d		
То	Discount allowed	36,000	By Discount		28,000
			received		
То	Depreciation	15,000			
	(15% ₹ 1,00,000)				
То	Net Profit (b.f.)	3,26,300			
		9,58,000			9,58,000

Balance Sheet as at 31st March, 20X2

balance sneet as at 31st March, 20X2					
Liabilities		Amount	Assets	Amount	
		₹		₹	
Capital			Furniture & 1,00,000 Fittings		
Opening balance	2,50,000		Less: Dep. (15,000)	85,000	
Less: Drawing	(2,40,000)		Stock	6,50,000	
	10,000		Trade Debtors	1,52,000	
Add: Net profit for			Bills receivable	75,000	
the years	3,26,300	3,36,300			
Bills payable		1,40,000	Unexpired insurance	2,000	
Trade creditors		6,10,000	Cash in hand & at bank	1,27,300	
Outstanding		5,000			
expenses					
		10,91,300		10,91,300	

Working Notes:

Bills Receivable Account

	₹		₹
To Balance b/d	60,000	By Cash	3,40,000
To Trade debtors (b.f.)	3,70,000	By Trade creditors (Bills endorsed)	15,000
		By Balance c/d	75,000
	4,30,000		4,30,000

2. Trade Debtors Account

	₹		₹
To Balance b/d	1,48,000	By Cash/Bank	15,10,000
To Credit sales	19,20,000	By Discount allowed	36,000
(Bal. fig.)		By Bills receivable	3,70,000
		By Balance c/d	1,52,000
	20,68,000		20,68,000

3. Memorandum Trading Account

	₹		₹
To Opening stock	6,10,000	By Sales	93,00,000
To Purchases (Balancing figure)	84,10,000	By Closing stock	6,50,000
To Gross Profit (10% on sales)	9,30,000		
	99,50,000		99,50,000

4. Bills Payable Account

	₹		₹
To Cash/Bank	8,15,000	By Balance b/d	1,25,000
To Balance c/d	1,40,000	By Creditors (balancing figure)	8,30,000
	9,55,000		9,55,000

5. Trade Creditors Account

	₹		₹
To Cash/Bank	75,07,000	By Balance b/d	5,80,000
To Discount received	28,000	By Purchases (as calculated	84,10,000
To Bills receivable	15,000	in W.N. 3)	
To Bills payable	8,30,000		
To Balance c/d			
(balancing figure)	6,10,000		
	89,90,000		89,90,000

6. Computation of sundry expenses to be charged to Profit & Loss A/c

	₹
Sundry expenses paid (as per cash book)	6,20,700
Add: Prepaid expenses as on 31–3–20X1	2,000
	6,22,700
Less: Outstanding expenses as on 31–3–20X1	(45,000)
	5,77,700

Add: Outstanding expenses as on 31–3–20X2	5,000
	5,82,700
Less: Prepaid expenses as on 31–3–20X2 (Insurance paid till July, 20X2) (6,000 x 4/12)	(2,000)
	5,80,700

Question 5 The following is the Balance Sheet of a Tony Pharma as on 31st March, 20X1:

	₹		₹	
Capital	10,00,000	Fixed Assets	4,00,000	
Creditors (Trade)	1,40,000	Stock	3,00,000	
Profit & Loss A/c	60,000	Debtors	1,50,000	
		Cash & Bank	3,50,000	
	12,00,000		12,00,000	

The management estimates the purchases and sales for the year ended 31st March, 20X2 as under:

	Up to 28.2.20X2	March 20X2
	₹	₹
Purchases	14,10,000	1,10,000
Sales	19,20,000	2,00,000

It was decided to invest ` 1,00,000 in purchases of fixed assets, which are depreciated @ 10% on cost.

The time lag for payment to Trade Creditors for purchase and receipt from Sales is one month. The business earns a gross profit of 30% on turnover. The expenses against gross profit amount to 10% of the turnover. The amount of depreciation is not included in these expenses. Draft a Balance Sheet as at 31st March, 20X2 assuming that creditors are all Trade Creditors for purchases and debtors for sales and there is no other item of current assets and liabilities apart from stock and cash and bank balances. Assume that all sales and purchases are on credit basis.

ANSWER

In the books of Tony Pharma Projected Balance Sheet as on 31st March, 20X2

	₹		₹
Capital	10,00,000	Fixed Assets 4,00,000	
Profit & Loss Account		Additions <u>1,00,000</u>	
as on 1st April, 20X1 60,000		5,00,000	
Add: Profit for the year		Less: Dep.	
<u>3,74,000</u>	4,34,000	@ 10% <u>(50,000)</u>	4,50,000
Creditors (Trade)	1,10,000	Stock in trade	3,36,000
		Sundry Debtors	2,00,000
		Cash & Bank Balances	5,58,000
		(working note)	
	15,44,000		15,44,000

Working Notes:

 Projected Trading and Profit and Loss Account for the year ended 31st March, 20X2

	₹		₹
To Opening Stock	3,00,000	By Sales	21,20,000
To Purchases	15,20,000	By Closing Stock (balancing figure)	3,36,000
To Gross Profit c/d (30% on sales)	6,36,000		
	24,56,000		24,56,000

To Sundry Expenses (10% on sales)	2,12,000	By Gross Profit b/d	6,36,000
To Depreciation	50,000		
To Net Profit (b.f.)	3,74,000		
	6,36,000		6,36,000

Cash and Bank Account 1st April, 20X1 to 31st March, 20X2

		₹		₹
То	Balance b/d	3,50,000	By Sundry Creditors	15,50,000
То	Sundry Debtors	20,70,000	(₹ 1,40,000+₹ 14,10,000)	
	(₹ 1,50,000+₹ 19,20,000)		By Expenses	2,12,000
			By Fixed Assets	1,00,000
			By Balance c/d (b.f.)	5,58,000
		24,20,000		24,20,000

QUESTION 7 (STUDY MATERIAL)

Assets and Liabilities of Mr. X as on 31-12-2015 and 31-12-2016 are as follows:

	31-12-2015	31-12-2016
	Rs.	Rs.
Assets		
Building	1,00,000	?
Furniture	50,000	?
Inventory	1,20,000	2,70,000
Sundry debtors	40,000	90,000
Cash at bank	70,000	85,000
Cash in hand	1,200	3,200
Liabilities		
Loans	1,00,000	80,000
Sundry creditors	40,000	70,000

Decided to depreciate building by 2.5% and furniture by 10%. One Life Insurance Policy of the Proprietor was matured during the period and the amount Rs.40,000 is retained in the business. Proprietor took @ Rs.2,000 p.m. for meeting family expenses.

Prepare Statement of Affairs.

Statement of Affairs

as on 31-12-2015 & 31-12-2016

Liabilities	31-12-15	31-12-16	Assets	31-12-15	31-12-16
	Rs.	Rs.		Rs.	Rs.
Capital	2,41,200	4,40,700	Building	1,00,000	97,500
(Bal. Fig.)			Furniture	50,000	45,000
Loans	1,00,000	80,000	Inventory	1,20,000	2,70,000
Sundry creditors	40,000	70,000	Sundry debtors	40,000	90,000
			Cash at bank	70,000	85,000
			Cash in hand	1,200	3,200
	3,81,200	5,90,700		3,81,200	5,90,700

QUESTION 8 (STUDY MATERIAL)

Take figures given in QUESTION 7. Find out profit of Mr. X.

Determination of Profit by applying the method of the capital comparison

	Rs.
Capital Balance as on 31-12-2016	4,40,700
Less: Fresh capital introduced	(40,000)
	4,00,700
Add: Drawings (Rs.2000 × 12)	24,000
	4,24,700
Less: Capital Balance as on 31-12-2015	(2,41,200)
Profit	1,83,500

Note:

- Closing capital is increased due to fresh capital introduction, so it is deducted.
- Closing capital was reduced due to withdrawal by proprietor; so it is added back.

QUESTION 9 (STUDY MATERIAL)

A and B are in Partnership having Profit sharing ratio 2:1. The following information is available about their assets and liabilities:

	31-3-2016	31-3-2017
	Rs.	Rs.
Furniture	1,20,000	?
Advances	70,000	50,000
Creditors	32,000	30,000
Debtors	40,000	45,000
Inventory	60,000	74,750
Loan	80,000	_
Cash at Bank	50,000	1,40,000

The partners are entitled to salary @ Rs.2,000 p.m. They contributed proportionate capital. Interest is paid @ 6% on capital and charged @ 10% on drawings.

Drawings of A and B

	Α	В
	Rs.	Rs.
April 30	2,000	_
May 31	_	2000
June 30	4,000	_
Sept. 30	_	6,000
Dec. 31	2,000	_
Feb. 28	_	8,000

On 30th June, they took C as 1/3rd partner who contributed Rs.75,000. C is entitled to share of 9 months' profit. The new profit ratio becomes 1:1:1. A withdrew his proportionate share. Depreciate furniture @ 10% p.a., new purchases Rs.10,000 may be depreciated for 1/4th of a year.

Current account as on 31-3-2016: A Rs.5,000 (Cr.), B Rs.2,000 (Dr.)

Prepare Statement of Profit, Current Accounts of partners and Statement of Affairs as on 31-3-2017.

Statement of Affairs
As on 31-3-2016and 31-3-2017

Liabilities	31-3-2016	31-3-2017	Assets	31-3-2016	31-3-2017
	Rs.	Rs.		Rs.	Rs.
Capital A/c's			Furniture	1,20,000	1,17,750
Α	1,50,000	75,000	Advances	70,000	50,000

В	75,000	75,000	Inventory	60,000	74,750
С	_	75,000	Debtors	40,000	45,000
Loan	80,000	_	Cash at bank	50,000	1,40,000
Creditors	32,000	30,000	Current A/c B	2,000	_
Current A/c's					
Α	5,000	74,036*			
В	_	48,322*			
С		50,142*			
	3,42,000	4,27,500		3,42,000	4,27,500

^{*}See current A/cs.

Notes:

(i)	Depreciation on Furniture	
	10% on Rs.1,20,000	12,000
	10% on Rs.10,000 for 1/4 year	250
		12,250
(ii)	Furniture as on 31-3-2016	
	Balance as on 31-3-2016	1,20,000
	Add: new purchase	10,000
		1,30,000
	Less: Depreciation	(12,250)
		1,17,750
(iii)	Total of Current Accounts as on 31-3-2017	
	Total of Assets (1,17,750 + 50,000 + 74,750 + 45,000 +	4,27,500
	1,40,000)	
	Less: Fixed Capital (75,000 + 75,000 + 75,000) + Liabilities	(2,55,000)
	(30,000)	
		1,72,500

This is after adding salary, interest on capital and deducting drawings and interest on drawings.

(iv)	Inte	Interest on Capital:				
	A :	on	1,50,000	@ 6% for 3 months	2,250	
		on	75,000	@ 6% for 9 months	3,375	
					5,625	

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	B:	on	75,000	@ 6% for 1 year	4,500
	C :	on	75,000	@ 6% for 9 months	3,375
					7,875
(v)	Inter	rest on	Drawings :		
	A :	on	2,000	@ 10% for 11 months	183
		on	4,000	@ 10% for 9 months	300
		on	2,000	@ 10% for 3 months	50
					533
	В:	on	2,000	@ 10% for 10 months	167
		on	6,000	@ 10% for 6 months	300
		on	8,000	@ 10% for 1 month	67
					534

Allocation of Profit	Rs.1,15,067	
3 months Profit	Rs.28,767	
9 months Profit	Rs.86,300	
A: 2/3 × Rs.28,767 + 1/3 ×Rs.86,300		= Rs.47,944
B: 1/3 × Rs.1,15,067		= Rs.38,356
C: 1/3 × Rs.86,300		= Rs.28,767
		Rs.1,15,067

Current Accounts

		Α	В	С		Α	В	С
То	Balance b/d	_	2,000	_	By Balance b/d	5,000	_	
То	Drawings	8,000	16,000	_	By Salary	24,000	24,000	18,000
То	Interest				By Interest on			
	0	533	534	_	capital	5,625	4,500	3,375
	n drawings							
То	Balance	74,036	48,322	50,142	By Share of	47,944	38,356	28,767
	c/				Profit			
	d (b.f.)							
		82,569	66,856	50,142		82,569	66,856	50,142

Statement of Profit

	Rs.
Current Account Balances as on 31-3-2017	1,72,500
Less: Salary A Rs.2,000 ×12 = 24,	000

	B Rs.2,000 × 12		=	24,000		
	C Rs.2,000 × 9		=	<u>18,000</u>		(66,000)
Less: Interes	t on Capital	Α		5,625		
		В		4,500		
		С		<u>3,375</u>		(13,500)
Add: Drawin	gs	Α		8,000		
		В		<u>16,000</u>		24,000
Add: Interes	t on Drawings	Α		533		
		В		<u>534</u>		1,067
						1,18,067
Less: Current A/c Balances as on 31-3-2016(Rs.5,000 – Rs.2,000)						(3,000)
						1,15,067

QUESTION 10 (STUDY MATERIAL)

The Income Tax Officer, on assessing the income of Shri Moti for the financial years 2015-2016 and 2016-2017 feels that Shri Moti has not disclosed the full income. He gives you the following particulars of assets and liabilities of Shri Moti as on 1st April, 2015 and 1st April, 2017.

			Rs.
1-4-2015	Assets	: Cash in hand	25,500
		Inventory	56,000
		Sundry debtors	41,500
		Land and Building	1,90,000
		Wife's Jewellery	75,000
	Liabilities	: Owing to Moti's Brother	40,000
		Sundry creditors	35,000
1-4-2017	Assets	: Cash in hand	16,000
		Inventory	91,500
		Sundry debtors	52,500
		Land and Building	1,90,000
		Motor	1,25,000
		Car	
		Wife's Jewellery	1,25,000
		Loan to Moti's Brother	20,000
	Liabilities	: Sundry creditors	55,000

During the two years the domestic expenditure was Rs.4,000 p.m. The declared income of the financial years were Rs.1,05,000 for 2015-2016and Rs.1,23,000 for 2016-2017respectively.

State whether the Income-tax Officer's contention is correct. Explain by giving your workings.

Capital Account of Shri Moti

		1-4-2015		1-4-2017
	Rs.	Rs.	Rs.	Rs.
Assets				
Cash in hand		25,500		16,000
Inventory		56,000		91,500
Sundry debtors		41,500		52,500
Land & Building		1,90,000		1,90,000
Wife's Jewellery		75,000		1,25,000
Motor Car		_		1,25,000
Loan to Moti's Brother		_		<u>20,000</u>
		3,88,000		6,20,000
Liabilities:	40.000			
Owing to Moti's Brother	40,000		_	
Sundry creditors	35,000	75,000	55,000	55,000
Capital		3,13,000		5,65,000
Income during the two years:				
Capital as on 1-4-2017				5,65,000
Add: Drawings – Domestic Expe	nses for the	two years(R	s.4,000 ×	96,000
24months)				
				<u>6,61,000</u>
Less: Capital as on 1-4-2015	(3,13,000)			
Income earned in 2015-2016and		3,48,000		
Income declared (Rs.1,05,000 +	Rs.1,23,000			2,28,000
Suppressed Income				1,20,000

QUESTION 11 (STUDY MATERIAL)

The following information relates to the business of Mr. Shiv Kumar, who requests you to prepare a Trading and Profit &Loss Account for the year ended 31st March, 2017 and a Balance Sheet as on that date:

(a)

	Balanceason3	Balanceason3
	1stMarch,	1stMarch,
	2016	2017
	Rs.	Rs.
Building	3,20,000	3,60,000
Furniture	60,000	68,000
Motorcar	80,000	80,000
Inventory's	?	40,000
Bills payable	28,000	16,000
Cash and bank balances	1,80,000	1,04,000
Sundry debtors	1,60,000	?
Bills receivable	32,000	28,000
Sundry creditors	1,20,000	?

(b) Cash transactions during the year included the following besides certain other items:

	Rs.		Rs.
Sale of old papers and		Cash purchases	48,000
miscellaneous income	20,000	Payment to creditors	1,84,000
Miscellaneous Trade		Cash sales	80,000
expenses	80,000		
(including salariesetc.)			
Collection from debtors	2,00,000		

(c) Other information:

- Bills receivable drawn during the year amount to Rs.20,000 and Bills payable accepted Rs.16,000.
- Some items of old furniture, whose written down value on 31st March, 2016was Rs.20,000 was sold on 30th September, 2016for Rs.8,000. Depreciation is to be provided on Building and Furniture @ 10% p.a. and on Motorcar @ 20% p.a. Depreciation on sale of furniture to be provided for 6 months and for additions to Building for whole year.
- Of the Debtors, a sum of Rs.8,000 should be written off as Bad Debtandareservefordoubtfuldebtsistobeprovided@2%.

- Mr. Shivkumar has been maintaining a steady gross profit rate of 30% on turnover.
- Outstanding salary on 31st March, 2016was Rs.8,000 and on 31st March, 2017was Rs.10,000. On 31st March, 2016, Profit and Loss Account had a credit balance of Rs.40,000.
- 20% of total sales and total purchases are to be treated as for cash.
- Additions in Furniture Account took place in the beginning of the year and there was no opening provision for doubtful debts.

Trading and Profit and Loss Account of Mr. Shiv Kumar

for the year ended 31st March, 2017

	-	Rs.			Rs.
То	Opening inventory (balancing figure)	80,000	Ву	Sales (3,20,000 x 100/80) Closing inventory	4,00,000 40,000
То	Purchases (1,92,000 x100/80)	2,40,000		g ,	
То	Gross profit c/d @ 30% on sales	1,20,000			
		4,40,000			4,40,000
То	Miscellaneous expenses (Rs.80,000 – Rs.8,000 + Rs.10,000)	82,000	By By	Gross profit b/d Miscellaneous receipts Net loss transferred to	1,20,000 20,000 25,840
То	Depreciation: Building Rs.36,000 FurnitureRs.7,800 (Rs.6,800 + Rs.1,000)			Capital A/c (b.f.)	
	MotorCar Rs. <u>16,000</u>	59,800			
	Loss on sale of furniture	11,000			
То	Bad debts	8,000			
То	Provision for doubtful debts	5,040			
		1,65,840			1,65,840

Balance Sheet of Mr. Shivkumar

as on 31st March, 2017

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital as on 1 st		7,16,000	Building	3,20,000	
April, 2016			Add: Addition	40,000	
•			during the year		
Profit and Loss			Less: Provision for	3,60,000	2 24 000
A/c	40,000		depreciation	(36,000)	3,24,000
Opening balance					
Less: Loss for the			Furniture	60,000	
year	(25,840)	14,160	Less: Sold during		
Sundry creditors		1,12,000	the year	(20,000)	
Bills payable		16,000		40,000	
Outstanding		10,000	Add: Addition		
salary			during the year	28,000	
				68,000	
			Less: Depreciation	(6,800)	61,200
			Motor car (at	80,000	
			cost)		
			Less: Depreciation	(16,000)	64,000
			Inventory in trade		40,000
			Sundry debtors	2,52,000	
			Less: Provision for		
			doubtful debts	/= 0.55	0.46.555
			@2%	(5,040)	2,46,960
			Bills receivable		28,000
			Cash in hand and a	t bank	1,04,000
		8,68,160			8,68,160

Working Notes:

(i) Sundry Debtors Account

		Rs.			Rs.
То	Balance b/d	1,60,000	Ву	Cash/Bank A/c	2,00,000
То	Sales A/c (credit) ¹	3,20,000	Ву	Bills Receivable A/c	20,000
			Ву	Bad debts A/c	8,000
			Ву	Balance c/d (bal. fig.)	2,52,000
		4,80,000			4,80,000

(ii) Sundry Creditors Account

_						
		Rs.			Rs.	
То	Cash/Bank A/c	1,84,000	Ву	Balance b/d	1,20,000	
То	Bills Payable A/c	16,000	Ву	Purchases A/c ²	1,92,000	
То	Balance c/d					
	(bal. fig.)	1,12,000				
		3,12,000			3,12,000	

(iii) Bills Receivable Account

		Rs.			Rs.
То	Balance b/d	32,000	Ву	Cash/ Bank A/c(bal. fig.)	24,000
То	Sundry Debtors A/c	20,000	Ву	Balance c/d	28,000
		52,000			52,000

(iv) Bills Payable Account

		Rs.			Rs.
То	Cash/Bank A/c (bal. fig.)	28,000	Ву	Balance b/d	28,000
То	Balance c/d	16,000	Ву	Sundry Creditors A/c	16,000
		44,000			44,000

(v) Furniture Account

	`			*
To Balance b/d	60,000	Ву	Bank/Cash A/c	8,000
To Bank A/c (b.f.)	28,000	Ву	Depreciation A/c (on furniture sold)	1,000
		Ву	Profit and loss A/c (loss on sale) (20,000 – 1,000 – 8,000)	11,000
		Ву	Depreciation A/c (68,000 x 10%)	6,800
		Ву	Balance c/d (68,000 - 6,800)	61,200
	88,000			88,000

(vi) Cash/Bank Account

		Rs.			Rs.
То	Balance b/d	1,80,000	Ву	Misc. trade expenses A/c	80,000
То	Miscellaneous receipts A/c	20,000	Ву	Purchases A/c	48,000
То	Sundry debtors A/c	2,00,000	Ву	Furniture A/c	28,000
То	Sales A/c	80,000	Ву	Sundry creditors A/c	1,84,000
То	Furniture A/c (sale)	8,000	Ву	Bills payable A/c	28,000
То	Bills receivable A/c	24,000	Ву	Building A/c (3,60,000 –	40,000
				3,20,000)	
			Ву	Balance c/d	1,04,000
		5,12,000			5,12,000

Opening Balance Sheet of Mr. Shivkumar as on 31st March, 2016

Liabilit	ties	Rs.	Assets	Rs.
Capita	l (balancing figure)	7,16,000	Building	3,20,000
Profit a	and loss A/c	40,000	Furniture	60,000
Sundry	/ Creditors	1,20,000	Motor car	80,000
Bills Pa	ayable	28,000	Inventory in trade	80,000
Outsta	inding salary	8,000	Sundry Debtors	1,60,000
			Bills Receivable	32,000
			Cash in hand and at	
			bank	1,80,000
		9,12,000		9,12,000

QUESTION 12 (STUDY MATERIAL)

A. Adamjee keeps his books on single entry basis. The analysis of the cash book for the year ended on 31st December, 2016 is given below:

Receipts	Rs.	Payments	Rs.
Bank Balance as on 1st January, 2016	2,800	Payments to Sundry creditors	35,000
Received from Sundry Debtors	48,000	Salaries	6,500
Cash Sales	11,000	General expenses	2,500
Capital brought during the year	6,000	Rent and Taxes	1,500
Interest on Investments	200	Drawings	3,600
		Cash purchases	12,000
		Balance at Bank on 31st Dec., 2016	6,400
		Cash in hand on 31st	
		Dec.,2016	<u>500</u>
	<u>68,000</u>		<u>68,000</u>

Particulars of other assets and liabilities are as follows:

	1stJanuary, 2016	31stDecember, 2016
Sundry debtors	14,500	17,600
Sundry creditors	5,800	7,900
Machinery	7,500	7,500
Furniture	1,200	1,200
Inventory	3,900	5,700
Investments	5,000	5,000

Prepare final accounts for the year ending 31st December, 2016 after providing depreciation at 10 per cent on machinery and furniture and Rs.800 against doubtful debts.

A. Adamjee
Trading and Profit & Loss Account for the year ended 31-12-2016

	Rs.	Rs.		Rs.
To Opening Inventory		3,900	By Sales	62,100
To Purchases		49,100	By Closing Inventory	5,700
To Gross profit c/d (b.f.)		14,800		
		67,800		67,800
To Salaries		6,500	By Gross Profit b/d	14,800
To Rent and Taxes		1,500	By Interest on	200
			investment	
To General expenses		2,500		
To Depreciation :				
Machinery @ 10%	750			
Furniture @ 10%	120	870		
To Provision for doubtful		800		
debts				
To Balance being profit				
carried to Capital A/c (b.f.)		2,830		
		15,000		15,000

Balance Sheet as on 31st December, 2016

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
A. Adamjee's Capital			Machinery	7,500	
on 1st January, 2016	29,100		Less: Depreciation	(750)	6,750
Add: Fresh Capital	6,000		Furniture	1,200	
Add: Profit for the	<u>2,830</u>		Less: Depreciation	(120)	1,080
year					
	37,930				
Less: Drawings	(3,600)	34,330	Inventory-in-trade		5,700
			Sundry debtors	17,600	
Sundry creditors		7,900	Less: Provision for		
			Doubtful debts	(800)	16,800
			Investment		5,000
			Cash at bank		6,400
			Cash in hand		500
		42,230			42,230

Working Notes:

1. Balance sheet of A. Adamjee as on1-1-2016

	Rs.		Rs.
Sundry creditors	5,800	Machinery	7,500
A. Adamjee's capital	29,100	Furniture	1,200
(balancing figure)		Inventory	3,900
		Sundry debtors	14,500
		Investments	5,000
		Bank balance (from Cash	2,800
		statement)	
	34,900		34,900

2. Ledger Accounts

A. Adamjee's Capital Account

		Rs.			Rs.
Dec. 31	To Drawings	3,600	Jan. 1	By Balance	29,100
Dec. 31	To Balance c/d (b.f.)	31,500	Dec. 31	By Cash	6,000
		35,100			35,100

Sales Account

		Rs.			Rs.
Dec. 31	To Trading A/c(b.f.)	62,100	Dec. 31	By Cash	11,000
			Dec. 31	By Total Debtors Account	51,100
		62,100			62,100

Total Debtors Account

		Rs.			Rs.
Jan. 1	To Balance b/d	14,500	Dec. 31	By Cash	48,000
Dec. 31	To Credit sales	51,100	Dec. 31	By Balance c/d	17,600
	(Balancing figure)				

		65,600		65,600
Jan. 1	To Balance b/d	17,600		

Purchases Account

		Rs.			Rs.
Dec. 31	To Cash A/c	12,000	Dec. 31	By Trading Account(b.f.)	49,100
	To Total Creditors A/c	37,100			
		49,100			49,100

Total Creditors Account

		Rs.			Rs.
Dec. 31	To Cash	35,000	Jan. 1	By Balance b/d	5,800
Dec. 31	To Balance b/d	7,900	Dec. 31	By Credit Purchases (Balancing figure)	37,100
		42,900			42,900

QUESTION 13 (STUDY MATERIAL)

From the following data, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2017and a Balance Sheet as at that date. All workings should form part of your answer.

Assets and Liabilities	As on1st April 2016	As on31st March 2017
	Rs.	Rs.
Creditors	15,770	12,400
Sundry expenses outstanding	600	330
Sundry Assets	11,610	12,040
Inventory in trade	8,040	11,120
Cash in hand and at bank	6,960	8,080
Trade debtors	?	17,870
Details relating to transactions in the		
year:		
Cash and discount credited to debtors		64,000
Sales return		1,450
Bad debts		420

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Sales (cash and credit)	71,810
Discount allowed by trade creditors	700
Purchase returns	400
Additional capital-paid into Bank	8,500
Realisations from debtors-paid into	62,500
Bank	
Cash purchases	1,030
Cash expenses	9,570
Paid by cheque for	430
machinery purchased	
Household expenses drawn from Bank	3,180
Cash paid into Bank	5,000
Cash drawn from Bank	9,240
Cash in hand on 31-3-2017	1,200
Cheques issued to trade creditors	60,270

Trading and Profit & Loss Account for the year ending 31st March, 2017

	Rs.	Rs.		Rs.	Rs.
To Opening Inventory		8,040	By Sales		
			Cash	4,600	
To Purchases (58,000 +	59,030		Credit	67,210	
1,030)					
Less: Returns	(400)	58,630		71,810	
To Gross profit c/d (b.f.)		14,810	Less: Returns	(1,450)	70,360
			By Closing		
			inventory		11,120
		81,480			81,480
To Sundry expenses		9,300	By Gross profit		14,810
(W.N.(v))			b/d		
To Discount		1,500	By Discount		700
To Bad Debts		420			
To Net Profit transfer to					
Capital (b.f.)		4,290			
		15,510			15,510

Balance Sheet of M/s

as on 31st March, 2017

Liabilities	Rs.	Rs.	Assets	Rs.
Capital			Sundry assets	12,040
Opening balance	26,770		Inventory in trade	11,120
Add: Addition	8,500		Sundry debtors	17,870
Net Profit	4,290		Cash in hand & at	8,080
			bank	
	39,560			
Less: Drawings	(3,180)	36,380		
Sundry creditors		12,400		
Outstanding expenses		330		
		49,110		49,110

Working Notes:

(i) Cash sales

Combined Cash & Bank Account

	Rs.		Rs.
To Balance b/d	6,960	By Sundry creditors	60,270
To Sundries (Contra)	5,000	By Sundries (Contra)	5,000
To Sundries (Contra)	9,240	By Sundries (Contra)	9,240
To Sundry debtors	62,500	By Drawings	3,180
To Capital A/c	8,500	By Machinery	430
To Sales (Cash Sales-Balancing	4,600	By Sundry expenses	9,570
Figure)			
		By Purchases	1,030
		By Balance c/d	8,080
	96,800		96,800

(ii) **Total Debtors Account**

	Rs.		Rs.
To Balance b/d	16,530	By Bank	62,500
(Balancing figure)		By Discount(64,000 - 62,500)	1,500
To Sales (71,810–4,600 ³)	67,210	By Return Inward	1,450
		By Bad Debts	420
		By Balance c/d	17,870
	83,740		83,740

(iii) **Total Creditors Account**

	Rs.		Rs.
To Bank	60,270	By Balance b/d	15,770
To Discount	700	By Purchases	58,000
To Return Outward	400	(Balancing figure)	
To Balance c/d	12,400		
	73,770		73,770

(iv) Balance Sheet as on 1st April,2016

Liabilities	Rs.	Assets	Rs.
Capital (balancing figure)	26,770	Sundry Assets	11,610
Sundry Creditors	15,770	Inventory in Trade	8,040
Outstanding Expenses	600	Sundry Debtors (from total debtors A/c)	16,530
		Cash in hand & at bank	6,960
	43,140		43,140

(v)

Expenses paid in Cash	9,570
Add: Outstanding on 31-3-2017	330
	9,900
Less: Outstanding on 1-4-2016	(600)
	9,300

Due to lack of information, depreciation has not been provided on fixed assets. (vi)

QUESTION14 (STUDY MATERIAL)

Mr. Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

	31-12-2015	31-12-2016
Sundry debtors	70,000	92,000
Bills receivable	15,000	6,000
Bills payable	12,000	14,000
Sundry creditors	40,000	56,000
Inventory	1,10,000	1,90,000
Bank	90,000	87,000
Cash	5,200	5,300

Summary of cash transactions during the year 2016:

- (i) Depositedtobankafterpaymentofshopexpenses@Rs.600p.m.,salary@Rs.9, 200 p.m. and personal expenses @Rs.1,400 p.m. Rs.7,62,750.
- (ii) Withdrawals Rs.1, 21,000.
- (iii) CashpaymenttosuppliersRs.77, 200 for supplies and Rs.25,000 for furniture.
- (iv) Cheques collected from customers but dishonoured Rs.5,700.
- (v) Bills accepted by customers Rs.40,000.
- (vi) Bills endorsed Rs.10,000.
- (vii) Bills discounted Rs.20,000, discount Rs.750.
- (viii) Bills matured and duly collected Rs.16,000.
- (ix) Bills accepted Rs.24,000.
- (x) Paid suppliers by cheque Rs.3,20,000.
- (xi) Received Rs.20,000 on maturity of one LIC policy of the proprietor by cheque.
- (xii) RentreceivedRs.14,000 by cheque for the premises owned by proprietor.
- (xiii) A building was purchased on 30-11-2016 for opening a branch for Rs.3,50,000 and some expenses were incurred on this building, details of which are not maintained.
- (xiv) Electricity and telephone bills paid by cash Rs.18,700, dueRs.2,200.

Other transactions:

(i) Claim against the firm for damage Rs.1,55,000 is under legal dispute. Legal expenses Rs.17,000. The firm anticipates defeat in the suit.

- Goods returned to suppliers Rs.4,200.
- (iii) Goods returned by customers Rs.1,200.
- (iv) Discount offered by suppliers Rs.2,700.
- Discount offered to the customers Rs.2,400. (v)
- (vi) The business is carried on at the rented premises for an annual rent of Rs.20,000 which is outstanding at the yearend.

Prepare Trading and Profit & Loss Account of Mr. Anup for the year ended 31-12-2016 and Balance Sheet as on that date.

Trading and Profit & Loss Account of Mr. Anup

for the year ended 31-12-2016

	Rs.	Rs.		Rs.	Rs.	
To Opening		1,10,000	By Sales	9,59,750		
Inventory						
To Purchases	4,54,100		Less: Sales			
			Return	(1,200)	9,58,550	
Less: Purchases			By Closing		1,90,000	
Return	(4,200)	4,49,900	Inventory			
To Gross Profit (b.f.)		5,88,650				
		11,48,550			11,48,550	
To salary (9,200 x		1,10,400	By Gross Profit		5,88,650	
12)						
To Electricity & Tel.			By Discount		2,700	
Charges (18,700 +		20,900				
2,200)						
To Legal expenses		17,000				
To Discount (2,400		3,150				
+ 750)						
To Shop exp. (600 x		7,200				
12)						
To Provision for		1,55,000				
claims for damages						
To Shop Rent		20,000				
To Net Profit (b.f.)		2,57,700				
		5,91,350			5,91,350	

Balance-Sheet as on 31-12-2016

Liabilities	Rs.		Assets	Rs.
Capital A/c (W.N.vi)	2,38,200		Building (from	3,72,000
			summary cash	
			and bank A/c)	
Add: Fresh capital introduced			Furniture	25,000
Maturity value from LIC	20,000		Inventory	1,90,000
Rent	14,000		Sundry debtors	92,000
Add: Net Profit	2,57,700		Bills receivable	6,000
	5,29,900		Cash at Bank	87,000
Less: Drawing(14,00 x12)	(16,800)	5,13,100	Cash in Hand	5,300
Rent outstanding		20,000		
Sundry creditors		56,000		
Bills Payable		14,000		
Outstanding expenses				
Legal Exp.	17,000			
Electricity &				
Telephone charges	2,200	19,200		
Provision for claims for		1,55,000		
damages				
		7,77,300		7,77,300

Working Notes:

Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	70,000	By Bill Receivable A/c	
To Bill receivable A/c-Bills dishonoured	3,000	Bills accepted by customers	40,000
To Bank A/c-Cheque dishonoured	5,700	By Bank A/c - Cheque received	5,700
To Credit sales (Balancing Figure)	9,59,750	By Cash (from summary cash and bank account)	8,97,150
		By Return inward A/c	1,200
		By Discount A/c	2,400
		By Balance c/d	92,000
	10,38,450		10,38,450

Bills Receivable Account

	Rs.		Rs.
To Balance b/d	15,000	By Sundry creditors A/c	
To Sundry Debtors A/c	40,000	(Bills endorsed)	10,000
(Bills accepted)		By Bank A/c (20,000 – 750)	19,250
		By Discount A/c(Bills discounted)	750
		By Bank	
		Bills collected on maturity	16,000
		By Sundry debtors	
		Bills dishonoured (Bal. Fig)	3,000
		By Balance c/d	6,000
	55,000		55,000

Sundry Creditors Account

	Rs.		Rs.
To Bank	3,20,000	By Balance c/d	40,000
To Cash	77,200	By Credit purchase	
To Bill Payable A/c	24,000	(Balancing figure)	4,54,100
To Bill Receivable A/c	10,000		
To Return Outward A/c	4,200		
To Discount Received A/c	2,700		
To Balance b/d	56,000		
	4,94,100		4,94,100

Bills Payable A/c

	Rs.		Rs.
To Bank A/c (Balance figure)	22,000	By Balance b/d	12,000
To Balance c/d	14,000	By Sundry creditors A/c	
		Bills accepted	24,000
	36,000		36,000

Summary Cash and BankA/c

Summary Cash and Bankare					
	Cash	Bank		Cash	Bank
	Rs.	Rs.		Rs.	Rs.
To Balance b/d	5,200	90,000	By Bank	7,62,750	
To Sundry debtors (Bal. Fig)	8,97,150		By Cash By Shop exp. (600 x 12)	7,200	1,21,000
To Cash		7,62,750	By salary (9,200 x 12)	1,10,400	
To Bank	1,21,000		By Drawing A/c (1,400 x 12)	16,800	
			By Bills Payable		22,000
To S. Debtors		5,700	By Sundr y creditors	77,200	3,20,000
To Bills receivable		19,250	By Furniture	25,000	
To Bills receivable		16,000	By	_5,555	5,700
			Sundr y Debtors		
To Capital (maturity value of LIC policy)		20,000	By Electricity & Tel. Charges	18,700	
To Capital (Rent received)		14,000	By Building (Bal. fig)		3,72,000
			By Balance c/d	5,300	87,000
	10,23,350	9,27,700		10,23,350	9,27,700

Statement of Affairs as on31-12-2015

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	40,000	Inventory	1,10,000
Bills Payable	12,000	Debtors	70,000
Capital (Balancing figure)	2,38,200	Bills receivable	15,000
		Cash at Bank	90,000
		Cash in Hand	5,200
	2,90,200		2,90,200

QUESTION 15 (STUDY MATERIAL)

Ms. Rashmi furnishes you with the following information relating to her business:

(a) Assets and liabilities as on

1.1.2016 31.12.2016

	Rs.	Rs.
Furniture (w.d.v)	12,000	12,700
Inventory at cost	16,000	14,000
Sundry Debtors	32,000	?
Sundry Creditors	22,000	30,000
Prepaid expenses	1,200	1,400
Unpaid expenses	4,000	3,600
Cash in hand and at bank	2,400	1,250

(b) Receipts and payments during2016:

Collections from debtors, after allowing discount of Rs.3,000 amountedtoRs.1,17,000.

Collections on discounting of bills of exchange, after deduction of discount of Rs.250 by the bank, totalled to Rs.12,250.

Creditors of Rs.80,000 were paid Rs.78,400 in full settlement of their dues. Payment for freight inwards Rs.6,000.

Amount withdrawn for personal use Rs.14,000. Payment for office furniture Rs.2,000.

Investment carrying annual interest of 4% were purchased at Rs.192 (face value Rs.200) on 1st July, 2016and payment made there for. Expenses including salaries paid Rs.29,000.

Miscellaneous receipts Rs.1,000.

- (c) Bills of exchange drawn on and accepted by customers during the year amounted to Rs.20,000. Of these, bills of exchange of Rs.4,000 were endorsed in favourofcreditors. An endorsed billof exchange of Rs.800 was dishonoured.
- (d) Goods costing Rs.1,800 were used as advertising materials.
- (e) Goodsareinvariablysoldtoshowagrossprofitof33-1/3%onsales.
- (f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by Ms. Rashmi.
- (g) Provide at 2.5% for doubtful debts on closing debtors.

Rashmi asks you to prepare trading and profit and loss account for the year ended 31st December, 2016and the balance sheet as on that date.

Trading and Profit and Loss Account of Ms. Rashmi for the year ended 31st December,2016

		Do	•	Do
		Rs.		Rs.
To Opening Inventory		16,000	By Sales (W.N.3)	1,46,100
To Purchases (W.N.2)	91,200		By Closing inventory	14,000
Less: For advertising	(1,800)	89,400		
To Freight inwards		6,000		
To Gross profit c/d @		48,700		
33-1/3%				
		1,60,100		1,60,100
To Sundry expenses		28,400	By Gross profit b/d	48,700
(W.N.6)				
To Advertisement		1,800	By Interest on	4
To Discount allowed			investment (200 x	
			4/100 x½)	
Debtors	3,000		By Discount received	1,600
Bills Receivable	250	3,250	By Miscellaneous income	1,000
To Depreciation on		1,300		
furniture (12,000 +				
2,000 – 12,700)				
To Provision for		972		
doubtful debts				
To Net Profit (b.f.)		15,582		
		51,304		51,304

Balance Sheet as on 31st December, 2016

Liabilities	Amount		Assets		Amount
	Rs.	Rs.		Rs.	Rs.
Capital as on	37,600		Furniture	12,000	
1.1.2016 (W.N.1)			(w.d.v.		
) Additions during the		
Less: Drawings	(15,808)		Year	2,000	
	21,792		Less: Depreciation	(1,300)	12,700
			(b.f.)		
Add: Net Profit	15,582	37,374	Investment		192

Sundry creditors	30,000	Interest accrued (200 x 4% x 6/12)		4
Outstanding expenses	3,600	Closing Inventory Sundry debtors	38,900	14,000
		Less: Provision for		
		doubtful debts @ 2.5%	972	37,928
		Bills receivable (W.N.7)		3,500
		Cash in hand and at		
		bank		1,250
		Prepaid expenses		1,400
	70,974			70,974

Working Notes:

Capital on 1st January, 2016

Balance Sheet As On 1st January, 2016

Liabilities	Rs.	Assets	Rs.
Capital (Bal. fig.)	37,600	Furniture (w.d.v.)	12,000
Creditors	22,000	Inventory at cost	16,000
Outstanding expenses	4,000	Sundry debtors	32,000
		Cash in hand and at bank	2,400
		Prepaid expenses	1,200
	63,600		63,600

Purchases made during the year

Sundry Creditors Account

	Rs.		Rs.
To Cash and bank A/c	78,400	By Balance b/d	22,000
To Discount received A/c (80,000 –78,400)	1,600	By Sundry debtors A/c	800
To Bills Receivable A/c	4,000	By Purchases A/c	91,200
To Balance c/d	30,000	(Balancing figure)	
	1,14,000		1,14,000

Sales made during the year

		Rs.
Opening inventory		16,000
Purchases	91,200	
Less: For advertising	(1,800)	89,400
Freight inwards		6,000
		1,11,400
Less: Closing inventory		(14,000)
Cost of goods sold		97,400
Add: Gross profit (@ 50% on cost)		48,700
		1,46,100

Debtors on 31st December,2016

Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	32,000	By Cash and bank A/c	1,17,000
To Sales A/c (W.N.3)	1,46,100	By Discount allowed A/c	3,000
To Sundry creditors A/c		By Bills receivable A/c	20,000
(bill dishonoured)	800	By Balance c/d (Bal. fig.)	38,900
	1,78,900		1,78,900

Additional drawings by Ms. Rashmi

Cash and Bank Account

	Rs.		Rs.
To Balance b/d	2,400	By Freight inwards A/c	6,000
To Sundry debtors A/c	1,17,000	By Furniture A/c	2,000
To Bills Receivable A/c	12,250	By Investment A/c	192
To Miscellaneous income A/c	1,000	By Expenses A/c	29,000
		By Creditors A/c	78,400
		By Drawings A/c	15,808
		[Rs.14,000 + Rs.1,808	
		(b.f.)	
		(Additional drawings)]	
		By Balance c/d	1,250
	1,32,650		1,32,650

Amount of expenses debited to Profit and Loss A/c

Sundry Expenses Account

	Rs.		Rs.
To Prepaid expenses A/c	1,200	By Outstanding expenses A/c	4,000
(on 1.1.2016)		(on 1.1.2014)	
To Bank A/c	29,000	By Profit and Loss A/c	
To Outstanding expenses A/c (on 31.12.2016)	3,600	(Balancing figure)	28,400
		By Prepaid expenses A/c	1,400
	33,800		33,800

Bills Receivable on 31st December,2016

Bills Receivable Account

	Rs.		Rs.
To Debtors A/c	20,000	By Creditors A/c	4,000
		By Bank A/c	12,250
		By Discount on bills receivable A/c	250
		By Balance c/d (Balancing figure)	3,500
	20,000		20,000

QUESTION 16 (RTP NOVEMBER 18)

The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and Profit & Loss A/c for the year ended 31st March, 2017 and a Balance Sheet as on that date.

(a) Assets and Liabilities as on:

Assets and Elabilities as on.		
		in Rs.
	1.4.2016	31.3.2017
Furniture	60,000	63,500
Inventory	80,000	70,000
Sundry Debtors	1,60,000	?
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000

Cash in Hand & Bank Balance	12,000	26,250
-----------------------------	--------	--------

- (b) Cash transaction during the year:
 - Collection from Debtors, after allowing discount of Rs.15,000 amounted to Rs.5,85,000.
 - (ii) CollectionondiscountingofBillsofExchange,afterdeductionofdiscountof Rs.1,250 by bank, totalled to Rs.61,250.
 - (iii) Creditors of Rs.4,00,000 were paid Rs.3,92,000 in full settlement of their dues.
 - (iv) Payment of Freight inward of Rs.30,000.
 - (v) Amount withdrawn for personal use Rs.70,000.
 - (vi) Payment for office furniture Rs.10,000.
 - (vii) Investment carrying annual interest of 6% were purchased at Rs.95 (200 shares, face value Rs.100 each) on 1st October 2016 and payment made thereof.
 - (viii) Expenses including salaries paid Rs.95,000.
 - (ix) Miscellaneous receipt of Rs.5,000.
- (c) Billsofexchangedrawnonandacceptedbycustomersduringtheyearamountedto Rs.1,00,000. Of these, bills of exchange of Rs.20,000 were endorsed in favour of creditors. An endorsed bill of exchange of Rs.4,000 was dishonoured.
- (d) Goods costing Rs.9,000 were used as advertising material.
- (e) Goodsareinvariablysoldtoshowagrossprofitof20%onsales.
- (f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC enterprises.
- (g) Provide at 2% for doubtful debts on closing debtors.

ANSWER:

Trading and Profit and Loss Account of ABC enterprise for the year ended 31st March.2017

		Rs.			Rs.
To Opening Inventory		80,000	Ву	Sales	6,08,750
To Purchases	4,56,000		Ву	Closing inventory	70,000
Less: For advertising	(9,000)	4,47,000			
To Freight inwards		30,000			
To Gross profit/d		1,21,750			
		6,78,750			<u>6,78,750</u>
To Sundry		92,000	Ву	Gross profit b/d	1,21,750

ехр	enses				
То	Advertisement		9,000	By Interest on	600
				investment	
То	Discount			(20,000 x 6/100 x ½)	
allo	wed-				
	Debtors	15,000		By Discount received	8,000
	Bills Receivable	<u>1,250</u>	16,250	By Miscellaneous	5,000
				income	
То	Depreciation		6,500		
	0				
	n furniture				
То	Provision for		1,455		
	doubtful debts				
То	Net profit		10,145		
			<u>1,35,350</u>		<u>135,350</u>

Balance Sheet as on 31st March, 2017

Liabilities	Amount		Assets		Amount
	Rs.	Rs.		Rs.	Rs.
Capital as on 1.4.2016	1,88,000		Furniture(w.d.v.) Additions during the	60,000	
Less: Drawings	(91,000)		Year	10,000	
	97,000		Less: Depreciation	<u>(6,500)</u>	63,500
Add: Net Profit	10,145	1,07,145	Investment (200 x 95)		19,000
Sundry creditors		1,50,000	Interest accrued		600
Outstanding expenses		18,000	Closing inventory Sundry debtors	72,750	70,000
			Less: Provision for		
			doubtful debts	<u>1,455</u>	71,295
			Bills receivable		17,500
			Cash in hand and at bank		26,250
			Prepaid expenses		7,000

			2,75,145
	<u>2,75,145</u>		

Working Notes:

1. Capital on 1st April, 2016

Balance Sheet as on 1St April,2016

Liabilities	Rs.	Assets	Rs.
Capital (Bal.fig.)	1,88,000	Furniture (w.d.v.)	60,000
Creditors	1,10,000	Closing Inventory	80,000
Outstanding expenses	20,000	Sundry debtors	1,60,000
		Cash in hand and at bank	12,000
		Prepaid expenses	6,000
	3,18,000		<u>3,18,000</u>

2. Purchases made during the year

Sundry Creditors Account

	Rs.		Rs.
To Cash and bank A/c	3,92,000	By Balance b/d	1,10,000
To Discount received A/c	8,000	By Sundry debtors A/c	4,000
To Bills Receivable A/c	20,000	By Purchases A/c	4,56,000
To Balance c/d	<u>1,50,000</u>	(Balancing figure)	
	5,70,000		5,70,000

3. Sales made during the year

		Rs.
Opening inventory		80,000
Purchases	4,56,00	
	0	
Less: For advertising		4,47,000
Freight inwards	<u>(9,000)</u>	30,000
		5,57,000
Less: Closing inventory		(70,000)
Cost of goods sold		4,87,000
Add: Gross profit (25% on cost)		<u>1,21,750</u>
		<u>6,08,750</u>

4. Debtors on 31st March, 2017 Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	1,60,000	By Cash and bank A/c	5,85,00
			0
To Sales A/c	6,08,750	By Discount allowed A/c	15,000
To Sundry creditors		By Bills receivable A/c	1,00,00
A/c			0
(bill dishonoured)	4,000	By Balance c/d (Bal. fig.)	72,750
	7,72,750		<u>7,72,75</u>
			<u>0</u>

5. Additional drawings by proprietors of ABC enterprises

Cash and Bank Account

	Rs.		Rs.
To Balance b/d	12,000	By Freight inwards A/c	30,000
To Sundry debtors A/c	5,85,000	By Furniture A/c	10,000
To Bills Receivable A/c	61,250	By Investment A/c	19,000
To Miscellaneous income	5,000	By Expenses A/c	95,000
A/c			
		By Creditors A/c	3,92,000
		By Drawings A/c	
		[Rs.70,000 +	91,000
		Rs.21,000)	
		(Additional drawings)]	
		By Balance c/d	<u>26,250</u>
	6,63,250		6,63,250

6. Amount of expenses debited to Profit and Loss A/c

Sundry Expenses Account

	Rs.		Rs.
To Prepaid expenses A/c	6,000	By Outstanding expenses A/c	20,000
(on 1.4.2016) To Bank A/c	95,000	(on 1.4.2016) By Profit and Loss A/c (Balancing figure)	92,000

To Outstanding expenses A/c	18,000	By Prepaid expenses A/c (on 31.3.17)	7,000
(on31.3.2017)	1,19,000	, ,	1,19,000

7. Bills Receivable on 31st March, 2017 Bills Receivable Account

	Rs.		Rs.
To Debtors	1,00,00	By Creditors A/c	20,000
A/c	0	By Bank A/c	61,250
		By Discount on bills receivable A/c	1,250
		By Balance c/d (Balancing figure)	17,500
	1,00,000		1,00,000

Note: All sales and purchases are assumed to be on credit basis.

QUESTION 17 (RTP MAY 19)

From the following information in respect of Mr. Preet, prepare Trading and Profit and Loss Account for the year ended 31st March,2018 and a Balance Sheet as at that date:

		31-03-2017	31-03-2018
(1)	Liabilities and Assets	Rs.	Rs.
	Stock in trade	1,60,000	1,40,000
	Debtors for sales	3,20,000	?
	Bills receivable	-	?
	Creditors for purchases	2,20,000	3,00,000
	Furniture at written down value	1,20,000	1,27,000
	Expenses outstanding	40,000	36,000
	Prepaid expenses	12,000	14,000
	Cash on hand	4,000	3,000
	Bank Balance	20,000	1,500
(2)	Receipts and Payments during 2017-2018:		
	Collections from Debtors		
	(after allowing 2-1/2% discount)		11,70,000

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ĺ	Payments to Creditors	
	(after receiving 2% discount)	7,84,000
	Proceeds of Bills receivable discounted at 2%)	1,22,500
	Proprietor's drawings	1,40,000
	Purchase of furniture on 30.09.2017	20,000
	12% Government securities purchased on 1-10-2017	2,00,000
	Expenses	3,50,000
	Miscellaneous Income	10,000

- (3) Sales are effected so as to realize a gross profit of 50% on the cost.
- (4) Capital introduced during the year by the proprietor by cheques was omitted to be recorded in the Cash Book, though the bank balance on 31st March, 2018 (as shown above), is after taking the same into account.
- (5) Purchases and Sales are made only on credit.
- (6) During the year, Bills Receivable of Rs.2,00,000 were drawn on debtors. out of these, Bills amount to Rs.40,000 were endorsed in favour of creditors. Out of this latter amount, a Bill for Rs.8,000 was dishonoured by the debtor.

Answer:

Trading and Profit and Loss Account of Mr. Preet for the year ended 31st March,2018

		Amount			Amount
		Rs.			Rs.
То	Opening stock	1,60,000	Ву	Sales	13,98,000
То	Purchases (W.N.5)	9,12,000	Ву	Closing stock	1,40,000
То	Gross profit c/d (Bal.fig.)	4,66,000			
		<u>15,38,000</u>			<u>15,38,000</u>
То	Expenses (W.N.7)	3,44,000	Ву	Gross profit b/d	4,66,000
То	Discount	32,500	Ву	Discount	16,000
allow				receive	
ed (W.N.9)				d (W.N.10)	
То	Depreciation	13,000	Ву	Interest on	12,000
	0			Govt.	
	n furniture(W.N.1)			Securities(W.N.8)	

To Net profit	<u>1,14,500</u>	Ву	Miscellaneous	<u>10,000</u>
			income	
	<u>5,04,000</u>			<u>5,04,000</u>

Balance Sheet of Mr. Preet as on 31st March, 2018

Liabilities		Amount Rs.	Assets	Amount Rs.
		ns.		
Capital (W.N.6)	3,76,000		Furniture	1,27,000
Add: Additional	1,72,000		12%	2,00,000
capital			Governme	
			nt	
(W.N.2)			Securities	
			Accrued interest on	
			Govt.	
Add: Profit during	1,14,500		securities (W.N.8)	12,000
the year				
	6,62,500		Debtors (W.N.3)	3,26,000
Less: Drawings	(1,40,000)		Bills Receivable	35,000
			(W.N.4)	
Creditors			Stock	1,40,000
Outstanding			Prepaid expenses	14,000
expenses				
			Cash on hand	3,000
			Bank balance	1,
				500
				8,58,500

Working Notes:

Furniture account

		Rs.			Rs.
То	Balance b/d	1,20,000	Ву	Depreciation (bal.fig.)	13,000
То	Bank	<u>20,000</u>	Ву	Balance c/d	<u>1,27,000</u>
		1,40,000			1,40,000

Cash and Bank account

		Rs.			Rs.
То	Balance b/d		Ву	Creditors	7,84,000
	Cash	4,000	Ву	Drawings	1,40,000
	Bank	20,000	Ву	Furniture	20,000
То	Debtors	11,70,00 0	Ву	12% Govt. securities	2,00,000
То	Bill Receivable	1,22,500	Ву	Expenses	3,50,000
То	Miscellaneous income	10,000	Ву	Balance c/d	
То	Additional Capit	1,72,000		Cash	3,000
	al (bal. fig.)			Bank	1,500
		14,98,50			14,98,500
		<u>0</u>			

Debtors account

	Descent account				
		Rs.			Rs.
То	Balance b/d	3,20,000	Ву	Cash and Bank	11,70,000
То	Creditors	8,000	Ву	Discount	30,000
	(Bill				
	s receivable				
	dishonoured)				
То	Sales (W.N.11)	13,98,000	Ву	Bills Receivable	2,00,000
			Ву	Balance c/d (bal.	3,26,000
				fig.)	
		17,26,000			17,26,000

Bills Receivable account

		Rs.		Rs.
То	Debtors	2,00,000	Bank	1,22,500
			Discount	2,500
			Creditors	40,000
			Balance c/d (bal. fig.)	35,000
		2,00,000		2,00,000

Creditors account

		Rs.			Rs.
То	Bank	7,84,000	Ву	Balance b/d	2,20,000
То	Discount	16,000	Ву	Debtors (Bills receivable dishonoured)	8,000
To To	Bills receivable Balance c/d	40,000 <u>3,00,000</u>	Ву	Purchases (bal. fig.)	9,12,000
		11,40,000			11,40,000

Balance Sheet as on 1st April,2017

Liabilities	Rs.	Assets	Rs.
Creditors	2,20,000	Furniture	1,20,000
Outstanding expenses	40,000	Debtors	3,20,000
Capital (balancing	3,76,000	Stock	1,60,000
figure)			
		Prepaid expenses	12,000
		Cash	4,000
		Bank balance	20,000
	6,36,000		6,36,000

Expenses incurred during the year

		Rs.
Expenses paid during the year		3,50,000
Add: Outstanding expenses as on	36,000	
31.3.2018		
Prepaid expenses as on 31.3.2017	<u>12,000</u>	48,000
		3,98,000
Less: Outstanding expenses as on	40,000	
31.3.2017		
Prepaid expenses as on 31.3.2018	<u>14,000</u>	<u>(54,000)</u>
Expenses incurred during the year		<u>3,44,000</u>

Interest on Government securities

2,00,000 x 12% x 6/12= Rs.12,000

Interest on Government securities receivables for 6 months = Rs.12,000

Discount allowed

	Rs.
Discount to Debtors	30,000
Discount on Bills Receivable	2,500
	<u>32,500</u>

Discount received

	Rs.
Discount to Creditors	16,000

Credit sales

Cost of Goods sold = Opening stock + Net purchases – Closing stock

$$= Rs.1,60,000 + Rs.9,12,000 - Rs.1,40,000$$

= Rs.9,32,000

Sale price = Rs.9,32,000 + 50% of 9,32,000 = Rs.13,98,000

QUESTION 18 (RTP NOVEMBER 19)

Following is the incomplete information of Jyoti shikha Traders:

The following balances are available as on 31.03.2018 and 31.03.2019.

Balances	31.03.2018	31.03.2019
Land and Building	5,00,000	5,00,000
Plant and Machinery	2,20,000	3,30,000
Office equipment	1,05,000	85,000
Debtors (before charging for Bad debts)	?	2,25,000
Creditors for purchases	95,000	?
Creditors for office expenses	20,000	15,000

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Stock	?	65,000
Long term loan from SBI @ 12%.	1,60,000	100,000
Bank	25,000	?
Other Information		In Rs.
Collection from debtors		9,25,000
Payment to creditors for purchases		5,25,000
Payment of office expenses (excluding loan)	interest on	42,000
Salary paid		32,000
Selling expenses		15,000
Cash sales		2,50,000
Credit sales (80% of total sales)		
Credit purchases	5,40,000	
Cash purchases (40% of total purchases		
GP Margin at cost plus 25%		
Discount Allowed		5,500
Discount Received		4,500
Bad debts (2% of closing debtors)		
Depreciation to be provided as follows		
Land and Building	5%	
Plant and Machinery	10%	
Office Equipment		15%

Other adjustments:

- (i) On 01.10.18 they sold machine having Book Value Rs.40,000 (as on 31.03.2018) at a loss of Rs.15,000. New machine was purchased on01.01.2019.
- (ii) Office equipment was sold at its book value on01.04.2018.
- (iii) Loan was partly repaid on 31.03.19 together with interest for the year.

You are required to prepare Trading, Profit & Loss Account and Balance Sheet as on 31.03.2019.

Answer:

In the Books of Jyotishikha Traders Trading Account

for the year ended31.03.2019

	Particulars	Rs.		Particulars	Rs.
То	Opening Stock A/c (Bal. fig.)	1,65,000	Ву	Sales (W.N.1)	12,50,00 0
To To	Purchases (W.N.2) Gross profit	9,00,000	Ву	Closing Stock	65,000
	(12,50,000x25/125)	2,50,000			
		13,15,00 0			13,15,00 0

Profit and Loss Account for the year ended 31.03.2019

	Particulars		Rs.		Particulars	Rs.
То	Discount		5,500	Ву	Gross profit	2,50,000
То	Salaries Expenses	32,000		Ву	Discount	4,500
То	Office expenses (W.N.3)	37,000				
То	Selling expenses	<u>15,000</u>	84,000			
То	Interest on loan (12% on Rs.1,60,000)		19,200			
То	Bad debts (2% of Rs.2,25	,000)	4,500			
То	Loss on sale of Machiner	У	15,000			
То	Depreciation:					
	Land & Building	25,000				
	Plant &Machinery (W.N 4b)	23,750				
	Office Equipment (W.N. 5)	12,750	61,500			
То	Net profit after tax		64,800			
			2,54,500			2,54,500

Balance sheet as on 31.3.2019

Liabilities	Rs.	Rs.	Assets	Rs.
Capital (W.N. 6)	8,95,50 0	9,60,300	Land and Building (5,00,000- 25,000)	4,75,000
Add: Net Profit	64,800		Plant and Machinery (W.N.4a)	3,08,250
Creditors for Purchases (W.N. 8)		1,05,500	(3,30,000-21,750) Office Equipment (85,000- 12,750)	72,250
Outstanding expenses Loan from SBI		15,000 1,00,000	Debtors less Bad debts (W.N. 7) Stock	2,20,500 65,000
		11,80,800	Bank Balance (W.N. 9)	39,800 11,80,800

Working Notes:

Calculation of Total Sales

	Rs.
Cash Sales	2,50,000
Credit Sales (80% of total sales)	
Cash Sales (20% of total sales)	
Thus total Sales (250000 x 100/20)	12,50,000
Credit Sales (1250000 x 80/100)	10,00,000

Calculation of Total Purchases

	Rs.
Credit Purchases	5,40,000
Cash Purchases (40% of total purchases)	
Credit Purchases (60% of total purchases)	
Thus total Purchases (5,40,000 x 100/60)	9,00,000

Cash Purchases 9,00,000 x 40/100)

3,60,000

Office Expenses Account

	Rs.		Rs.
To Bank A/c	42,000	By Balance b/d	20,000
To Balance c/d	15,000	By Profit & loss A/c	37,000
	57,000		57,000

(a) **Plant and Machinery Account**

		Rs.		Rs.
То	Opening balance	2,20,000	By Sale	40,000
То	Purchases	<u>1,50,000</u>	By Closing Balance	3,30,000
		<u>3,70,000</u>		<u>3,70,000</u>

(b) Depreciation calculations on Plant & Machinery

		Rs.
Depreciation	1,80,000 x 10% (for full year)	18,000
on		
	1,50,000 x 10% x 3/12 (for 3 months)	3,750
	40,000 x 10% x 6/12 (for 6 months)	2,000
		<u>23,750</u>

(c) Sale of Machinery Account

	Amount (Rs.)		Amount (Rs.)
To Plant &	40,000	By Depreciation	2,000
Machinery		By Profit and Loss A/c	15,000
		By Bank	<u>23,000</u>
	<u>40,000</u>		40,000

Depreciation calculations on Office Equipments

	Rs.
Opening Balance	1,05,000
Less: Closing Balance	<u>85,000</u>
Sale of Office Equipment	20,000
Balance of Office Equipment after sale	<u>85,000</u>
Depreciation @15%	<u>12,750</u>

Opening Balance Sheet as on31.03.2018

	Rs.		Rs.
Creditors	95,000	Land & Building	5,00,000
Creditor for Exp.	20,000	Plant & Machinery	2,20,000
Loan	1,60,000	Office Equipment	1,05,000
Capital (Bal. fig.)	8,95,500	Debtors	1,55,500
		Stock	1,65,000
		Bank	25,000
	11,70,500		11,70,500

Sundry Debtors A/c

		Rs.			Rs.
То	Balance b/d	1,55,500	Ву	Bank	9,25,000
То	Sales	10,00,000	Ву	Discount	5,500
			Ву	Bad debts	4,500
			Ву	Bal. c/d	2,20,500
		11,55,500			11,55,500

Sundry Creditors A/c

		Rs.			Rs.
То	Bank	5,25,000	Ву	Balance b/d	95,000
То	Discount	4,500	Ву	Purchases	5,40,000
То	Balance c/d	1,05,500			
		6,35,000			6,35,000

Bank Account

		Rs.			Rs.
То	Balance b/d	25,000	Ву	Creditors	5,25,000
То	Debtors	9,25,000	Ву	Office Expenses	42,000
То	Cash Sales	2,50,000	Ву	Salary Expense	32,000
То	Sale of Machinery (W.N. 4c)	23,000	Ву	Selling Expenses	15,000

То	Sale of equipment	20,000	Ву	Purchases (cash)	3,60,000
	счиртст		Ву	Purchase of Machinery	1,50,000
			Ву	Bank Loan & Interest	79,200
			Ву	Balance c/d	39,800
		12,43,000			12,43,000

QUESTION 19 (RTP MAY 20)

The books of account of Mr. Maan of Mumbai is showed the following figures:

	31.3.2018	31.3.2019
	Rs.	Rs.
Furniture & fixtures	2,60,000	2,34,000
Stock	2,45,000	3,20,000
Debtors	1,25,000	?
Cash in hand & bank	1,10,000	?
Creditors	1,35,000	1,90,000
Bills payable	70,000	80,000
Outstanding salaries	19,000	20,000

An analysis of the cash book revealed the following:

,	Rs.
Cash sales	16,20,000
Collection from debtors	10,58,000
Discount allowed to debtors	20,000
Cash purchases	6,15,000
Payment to creditors	9,73,000
Discount received from creditors	32,000
Payment for bills payable	4,30,000
Drawings for domestic expenses	1,20,000
Salaries paid	2,36,000
Rent paid	1,32,000
Sundry trade expenses	81,000

Depreciation is provided on furniture & fixtures @10% p.a. on diminishing balance method. Mr. Maan maintains a steady gross profit rate of 25% on sales.

You are required to prepare Trading and Profit and Loss account for the year ended 31st March, 2019 and Balance Sheet as on that date.

Answer:

Trading &Profit and Loss Account In the books of Mr. Maan for the year ended 31st March,2019

	Particulars	Amount		Particulars	Amount
		Rs.			Rs.
То	Opening stock	2,45,000	Ву	Sales:	
То	Purchases:			Cash	16,20,000
	Cash	6,15,000		Credit (W.N.3)	11,00,000
	Credit (W.N. 2)	15,00,000	Ву	Closing stock	3,20,000
То	Gross profit c/d	<u>6,80,000</u>			
		30,40,000			30,40,000
То	Salaries (W.N.5)	2,37,000	Ву	Gross profit b/d	6,80,000
То	Rent	1,32,000	Ву	Discount	32,000
				received	
То	Sundry trade expenses	81,000			
То	Discount allowed	20,000			
То	Depreciation on				
	furniture & fixtures	26,000			
То	Net profit	2,16,000			
		7,12,000			7,12,000

Balance Sheet

as at 31st March, 2019

Liabilities		Amount		Amount
		Rs.		Rs.
Capital			Fixed assets	
Opening balance	5,16,000		Furniture &	2,34,000
(W.N.7)			fixtures	
Add: Net profit	<u>2,16,000</u>		Current assets:	
	7,32,000		Stock	3,20,000
Less: Drawings	1,20,000	6,12,000	Debtors (W.N.4)	1,47,000
Current liabilities & pro	ovisions:		Cash & bank	2,01,000
			(W.N.6)	

Creditors	1,90,000	
Bills payable	80,000	
Outstanding salaries	20,000	
	9,02,000	9,02,000

Working Notes:

Bills Payable Account

		Rs.			Rs.
То	Cash/Bank	4,30,000	Ву	Balance b/d	70,000
То	Balance c/d	80,000	Ву	Trade creditors (Bal.	4,40,000
				fig.)	
		<u>5,10,000</u>			5,10,000

Creditors Account

erealtors Account						
			Rs.			Rs.
То	Cash/Bank		9,73,000	Ву	Balance b/d	1,35,000
То	Bills payab	le	4,40,000	Ву	Credit	15,00,00
	A/c (V	V.N.1)			purchas	0
					es (Bal.fig.)	
То	Discount red	eived	32,000			
То	Balance c/d		<u>1,90,000</u>			
			16,35,00			16,35,00
			<u>0</u>			<u>0</u>

Calculation of credit sales

	Rs.
Opening stock	2,45,000
Add: Purchases	
Cash purchases 6,15,000	
Credit purchases <u>15,00,000</u>	<u>21,15,00</u>
	<u>0</u>
	23,60,000
Less: Closing Stock	<u>3,20,000</u>
Cost of goods sold	20,40,000

Gross profit ratio on sales	25%
Total sales	27,20,000
Less: Cash sales	<u>16,20,000</u>
Credit sales	11,00,000

Debtors Account

		Rs.			Rs.
То	Balance b/d	1,25,000	Ву	Cash/Bank	10,58,00 0
То	Credit sale	11,00,000	Ву	Discount allowed	20,000
	s (W.N.3)		Ву	Balance c/d (Bal. fig.)	1,47,000
		12,25,000			12,25,00 0

Salaries

	Rs.
Salaries paid during the year	2,36,000
Add: Outstanding salaries as on 31.3.2019	20,000
	2,56,000
Less: Outstanding salaries as on31.03.2018	19,000
	2,37,000

Cash / Bank Account

		Rs.			Rs.
То	Balance b/d	1,10,000	Ву	Cash purchases	6,15,000
То	Cash sales	16,20,000	Ву	Creditors	9,73,000
То	Debtors	10,58,000	Ву	Bills payable	4,30,000
			Ву	Drawings	1,20,000
			Ву	Salaries	2,36,000
			Ву	Rent	1,32,000
			Ву	Sundry trade	81,000
				expenses	
			Ву	Balance c/d	2,01,000
		<u>27,88,000</u>			<u>27,88,000</u>

Balance Sheet as at 31st March,2018

	Rs.		Rs.
Creditors	1,35,000	Furniture & fixtures	2,60,000
Bills payable	70,000	Stock	2,45,000
Outstanding salaries	19,000	Debtors	1,25,000
Capital (Bal. fig.)	<u>5,16,000</u>	Cash & bank	<u>1,10,000</u>
	7,40,000		7,40,000

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

The following is the Balance Sheet of Manish and Suresh as on1 st April, 2019:

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Building	1,00,000
Manish	1,50,000	Machinery	65,000
Suresh	75,000	Stock	40,000
Creditors for goods	30,000	Debtors	50,000
Creditors for expenses	25,000	Bank	25,000
	2,80,000		2,80,000

They give you the following additional information:

- (i) Salesandpurchasesfortheyearended31stMarch,2019wereRs.3,00,000andRs. 2,40,000 respectively.
- (ii) Stock level is maintained uniformly in value throughout all over the year.
- (iii) Depreciation on machinery is charged @ 10%, Depreciation on building @ 5% in the current year.
- (iv) Salesinthecurrentyearwillincreaseby43.75%involume.
- (v) Rate of gross profit remains the same.
- (vi) Business Expenditures are Rs.50,000 for the year and all expenditures are paid in cash.
- (vii) All sales and purchases are on credit basis and there are no cash purchases and sales.

You are required to prepare Trading and Profit and Loss Account for the year ended 31.03.2020.

Answer:

TradingandProfitandLossaccountfortheyearending31stMarch,2020

Par	ticulars		Rs.	Par	ticulars	Rs.
То	Opening Stock		40,000	Ву	Sales	4,31,250
То	Purchases		3,45,000	Ву	Closing Stock	40,000
То	To Gross Profit c/d (20% on sales)		86,250			
			4,71,250			4,71,250
То	Business Expenses	S	50,000	Ву	Gross Profit b/d	86,250
То	Depreciation on:					
	Machinery	6,500				
	Building	<u>5,000</u>	11,500			
То	Net profit		<u>24,750</u>			
			<u>86,250</u>			<u>86,250</u>

Working Note:

		5
		Rs.
(i)	Calculation of Rate of Gross Profit earned during	
	previous year	
Α	Sales during previous year	3,00,000
В	Purchases	2,40,000
С	Cost of Goods Sold (Rs.40,000 + Rs.2,40,000 -	2,40,000
D	Rs.40,000) Gross Profit (A-C)	60,000
Е	Rate of Gross Profit	20%
(ii) A B C D	Calculation of sales during current year Cost of goods sold during previous year Add: Increases in volume @ 43.75 % Cost of goods sold during Current Year Add: Gross profit @ 25% on cost (20% on sales)	Rs. 2,40,000 <u>1,05,000</u> 3,45,000 <u>86,250</u> <u>4,31,250</u>
	Sales for current year [C+D]	

The premises of Anmol Ltd. caught fire on 22nd January 2017, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2016 the stock at cost was Rs. 6,63,600 as against Rs. 4,81,100 on 31st March,2015.

Purchases from 1st April, 2016 to the date of fire were Rs. 17,41,350 as against Rs. 22,62,500 for the full year 2015-16 and the corresponding sales figures were Rs. 24,58,500 and Rs. 26,00,000 respectively. You are given the following further information:

- (i) In July, 2016, goods costing Rs. 50,000 were given away for advertising purposes, no entries being made in the books.
- (ii) During 2016-17, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged Rs. 1,000 per week from 1st April, 2016 until the clerk was dismissed on 18th August,2016.
- (iii) The rate of gross profit is constant.

From the above information calculate the stock in hand on the date of fire.

ANSWER:

Ascertainment of rate of gross profit for the year 2015-16

Trading A/c for the year ended 31-3-2016

	Rs.		Rs.
To Opening stock	4,81,100	By Sales	26,00,000
To Purchases	22,62,500	By Closing stock	6,63,600
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		6,63,600	By Sales	24,58,500	
To Purchases	17,41,350		Add: Unrecorded	20,000	24,78,500
Less: Goods used for			cash sales (W.N.)		
advertisement	<u>(50,000)</u>	16,91,350	By Closing stock		3,72,150
To Gross profit (20%		4,95,700			
of Rs.24,78,500)					
		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 = $20 \text{ weeks} \times \text{Rs. } 1,000 = \text{Rs. } 20,000.$

QUESTION 22 (MTP APRIL 19)

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

You are required to compute the amount of depreciation for each year, if company charges depreciation on Straight Line basis.

ANSWER:

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

QUESTION 23 (MTP MAY 20) (PAST PAPER NOVEMBER 18)

Aman, a readymade garment trader, keeps his books of account under single entry system. On the closing date, i.e. on 31st March, 2019 his statement of affairs stood as follows:

Liabilities	Amount Rs.	Assets	Amount Rs.
Aman's capital	4,80,000	Building	3,25,000
Loan	1,50,000	Furniture	50,000
Creditors	3,10,000	Motor car	90,000

	Stock	2,00,000
	Debtors Cook in board	1,70,000
	Cash in hand Cash at bank	20,000 85,000
9,40,000		9,40,000

Riots occurred and a fire broke out on the evening of 31st March, 2020, destroying the books of accounts. On that day, the cashier had absconded with the available cash. You are furnished with the following information:

- 1. Sales for the year ended 31st March, 2020 were 20% higher than the previous year's sales, out of which, 20% sales were for cash. He always sells his goods at cost plus 25%. There were no cash purchases.
- 2. Collection from debtors amounted to Rs.14,00,000 out of which Rs.3,50,000 was received in cash. Balance of Creditors as on 31st March, 2020 was Rs.4,75,000.
- 3. Business expenses amounted to Rs.2,00,000, of which Rs.50,000 were outstanding on 31st March, 2020 and Rs. 60,000 paid by cheques.
- 4. Gross profit as per last year's audited accounts was Rs.3,00,000.
- 5. Provide depreciation on building and furniture at 5% each and motor car at 20%.
- 6. His private records and the Bank Pass Book disclosed the following transactions for the year 2019-20:

	Rs.
Payment to creditors (paid by cheques)	13,75,000
Personal drawings (paid by cheques)	75,000
Repairs (paid by cash)	10,000
Travelling expenses (paid by cash)	15,000
Cash deposited in bank	7,15,000
Cash withdrawn from bank	1,20,000

- 7. Stock level was maintained at Rs.3,00,000 all through out the year.
- 8. The amount defalcated by the cashier is to be written off to the Profit and Loss Account.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2020 and Balance Sheet as on that date of Aman. All the workings should form part of the answer.

ANSWER:

0

Trading and Profit and Loss Account of Aman for the year ended 31st March, 2020

		Rs.			Rs.
То	Opening Stock	2,00,000	Ву	Sales	18,00,000
То	Purchases (Bal. fig.)	15,40,000	Ву	Closing Stock	3,00,000
То	Gross Profit c/d	<u>3,60,000</u>			
		21,00,000			21,00,000
То	Business Expenses	2,00,000	Ву	Gross Profit b/d	3,60,000
То	Repairs	10,000			
То	Depreciation:				
	Building 16,250				
	Machinery 2,500				
	MotorCar 18,000	36,750			
То	Travelling Expenses	15,000			
То	Loss by theft (cash defalcated)	20,000			
То	Net Profit	<u>78,250</u>			
		<u>3,60,000</u>			<u>3,60,000</u>

Balance Sheet of Aman as at 31StMarch, 2020

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	4,80,0000		Building	3,25,000	
Add:			Less: Depreciation	(16,250)	3,08,750
Net Profit	78,250		Furniture	50,000	
Drawings	<u>(75,000)</u>	4,83,250	Less: Depreciation	(2,500)	47,500
Loan		1,50,000	Motor car	90,000	
			Less: Depreciation	(18,000)	72,000
Sundry Creditors		4,75,000	Stock in Trade		3,00,000
Outstanding			Sundry Debtors		2,10,000
business Expenses		<u>50,000</u>	Bank Balance		<u>2,20,000</u>
		<u>11,58,250</u>			11,58,250

Working Notes:

Cash and Bank Account 1.

	Particulars	Cash	Bank		Particulars	Cash	Bank
То	Balance	20,000	85,000	Ву	Payment to Creditors	1	13,75,000
То	b/d Collection from	3,50,000	10,50,000	Ву	Business Expenses	90,000	60,000
То	Debtors Sales (18,00,000	3,60,000	-	Ву	Repairs	10,000	-
	x 20%)			Ву	Cash (C) (withdrawal)		
То	Cash (C)	-	7,15,000	Ву	Bank (C)		1,20,000
				Ву	Travelling Expenses	7,15,000	
То	Bank (C)	1,20,000	-	Ву	Private Drawings	15,000	-
				Ву	Balance c/d	-	75,000
				Ву	Cash defalcated (balancing fig.)	20,000	<u>2,20,000</u>
		8,50,000	18,50,000			<u>8,50,000</u>	18,50,000

Calculation of sales during 2019-20

Rs.

Gross profit (last year i.e. for year ended 31.3.2019	3,00,000
Goods sold at cost plus 25% i.e. 20% of sales	15,00,000
Sales for 2018-19(3,00,000/0.2)	
Sales for 2019-20 (15,00,000 x 1.2)	18,00,000
Credit sales for 2019-20	14,40,000
	(80% of 18,00,000)

3. **Debtors Account**

То	Bal. b/d.	1,70,000	Ву	Cash	3,50,000
То	Sales (18,00,000 x 80%)	14,40,000	Ву	Bank	10,50,000
			Ву	Bal. c/d	<u>2,10,000</u>
		<u>16,10,000</u>			<u>16,10,000</u>

Creditors Account 4.

То	Bank	13,75,000	Ву	Bal. b/d	3,10,000
То	Bal. c/d	4,75,000	Ву	Purchases	15,40,000
		18,50,000			18,50,000

QUESTION 24 (MTP OCTOBER 20)

Entity A carried plant and machinery in its books at Rs. 2,00,000 which were destroyed in a fire. These machines were insured 'New for old' and were replaced by the insurance company with new machines of fair value Rs. 20,00,000. The old destroyed machines were acquired by the insurance company and the company did not receive any cash compensation. State, how Entity A should account for the same?

ANSWER:

Entity A should account for a loss in the Statement of Profit and Loss on de-recognition of the carrying value of plant and machinery in accordance with AS 10 on Property, Plant and Equipment. Entity A should separately recognize a receivable and a gain in the income statement resulting from the insurance proceeds once receipt is virtually certain. The receivable should be measured at the fair value of assets provided by the insurer.

QUESTION 25 (MTP OCTOBER 20) (RTP JULY 21) (MTP MAY 18)

Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained Rs.10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	As on 1.4.2019	As on 31.3.2020
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000

Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?
Ram's capital	3,00,000	

Analysis of his bank pass book reveals the following information:

(a) Payment to creditors Rs.7,00,000

(b) Payment for business expenses Rs.1,20,000

(c) Receipts from debtors Rs.7,50,000

(d) Loan from Laxman Rs. 1,00,000 taken on 1.10.2019 at 10% perannum

(e) Cash deposited in the bank Rs.1,00,000

He informs you that he paid creditors for goods Rs. 20,000 in cash and salaries Rs. 40,000 in cash. He has drawn Rs. 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales.

You are required to prepare:

- (i) Trading and Profit and Loss Account for the year ended 31.3.2020.
- (ii) Balance Sheet as at 31St March,2020.

ANSWER:

Trading and Profit and Loss Account

for the year ended 31st March,2020

		Rs.				Rs.
То	Opening stock	2,80,000	Ву	Sales		
То	Purchases	7,70,000		Cash	2,40,000	
То	Gross Profit @ 25%	3,10,000		Credit	10,00,000	12,40,000
			Ву	Closing St	cock (bal.fig.)	1,20,000
		13,60,000				13,60,000
То	Salaries	40,000	Ву	Gross Pro	fit	3,10,000
То	Business expenses	1,20,000				
То	Interest on loan	5,000				
	(10% of 1,00,000 x					
	6/12)					
То	Net Profit	<u>1,45,000</u>				
		<u>3,10,000</u>				3,10,000

Balance Sheet as at 31st March, 2020

Liabilities	Rs.	Rs.	Assets	Rs.
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	1,45,000		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000
Less: Drawings	(80,000)	3,65,000		
Loan from Laxman (including interest due)		1,05,000		
Sundry Creditors		90,000		
		5,60,000		5,60,000

Working Notes:

1.

Sundry Debtors Account

		Rs.			Rs.
То	Balance b/d	1,00,000	Ву	Bank A/c	7,50,000
То	Credit sales (Bal. fig)	10,00,000	Ву	Balance c/d	3,50,000
		11,00,000			11,00,000

2.

Sundry Creditors Account

		Rs.			Rs.
То	Bank A/c	7,00,000	Ву	Balance b/d	40,000
То	Cash A/c	20,000	Ву	Purchases (Bal. fig.)	7,70,000
То	Balance c/d	90,000			
		8,10,000			8,10,000

3.

Cash and Bank Account

		Cash	Bank			Cash	Bank
		Rs.	Rs.			Rs.	Rs.
То	Balance b/d	10,000		Ву	Balance b/d		50,000
То	Sales (bal. fig)	2,40,000		Ву	Bank A/c (C)	1,00,000	

То	Cash (C)		1,00,0	Ву	Salaries	40,000	
			00				
То	Debtors		7,50,0	Ву	Creditors	20,000	7,00,000
			00				
То	Laxman's		1,00,0	Ву	Drawin	80,000	
	loan		00	Ву	gs		
					Busines		
					S		
					expenses		1,20,000
		2	<u>9,50,</u>	Ву	Balance c/d	<u>10,000</u>	80,000
		<u>,50,000</u>	000			<u>2,50,000</u>	<u>9,50,000</u>

QUESTION 26 (PAST PAPER MAY 19)

The following balances appeared in the books of M/s Sunshine Traders:

	Ason	Ason
	31-03-	31-03-
	2018	2019
	(Rs.)	(Rs.)
Land and Building	2,50,000	2,50,000
Plant and Machinery	1,10,000	1,65,000
Office Equipment	52,500	42,500
Sundry Debtors	77,750	1,10,250
Creditors for Purchases	47,500	?
Provision for office expenses	10,000	7,500
Stock	?	32,500
Long Term loan from ABC Bank @ 10% per	62,500	50,000
annum		
Bank	12,500	?
Capital	4,65,250	?

Other information was as follows:

	In (Rs.)
- Collection from Sundry Debtors	4,62,500
- Payments to Creditors for Purchases	2,62,500
- Payment of office Expenses	21,000
- Salary paid	16,000
- Selling Expenses paid	7,500
- Total sales	6,25,000

Credit sales (80% of Total sales)	
- Credit Purchases	2,70,000
Cash Purchases (40% of Total Purchases)	
- Gross Profit Margin was 25% on cost	
- Discount Allowed	2,750
- Discount Received	2,250
- Bad debts	2,250

- Depreciation to be provided as follows:

Land and Building - 5% per annum

Plant and Machinery - 10% per annum

Office Equipment - 15% Per annum

- On 01.10.2018 the firm sold machine having book value, Rs.20,000 (as on 31.03.2018) at a loss of Rs. 7,500. New machine was purchased on 01.01.2019.
- Office equipment was sold at its book value on01.04.2018.
- Loan was partly repaid on 31.03.2019 together with interest for the year.

You are required to prepare:

- (i) Trading and Profit & Loss account for the year ended 31st March,2019.
- (ii) Balance Sheet as on 31st March2019.

ANSWER:

(a) Trading and Profit and Loss A/c for the year ended31.3.2019

			Rs.				Rs.
To Opening			82,500	Sales-	Cash	1,25,000	
	stoc			(W.N.1)			
k (Balancing fi	gure)						
To Purchases-Cas	sh	1,80,000		Credit		5,00,000	6,25,000
Credit (W.N	.1)	2,70,000	4,50,000	Closing s	tock		32,500
				1			
To Gross profit c,	/d		<u>1,25,000</u>				
			<u>6,57,500</u>				6,57,500
To Loss on sale o	f		7,500	Gross pr	ofit b/d		1,25,000
					-		
Machine				Discount	t		

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To Depreciation			received	2,250
Land & Building	12,500			
Plant & Machinery	11,875			
Office Equipment	<u>6,375</u>	30,750		
To Expenses paid				
Salary	16,000			
Selling Expenses	7,500			
Office Expenses	18,500	42,000		
To Bed debt		2,250		
To Discount allowed		2,750		
To Interest on loan		6,250		
To Net profit		35,750		
		<u>1,27,250</u>		<u>1,27,250</u>

Balance Sheet as on 31-3-2019

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

Working Notes:

1. Calculation of Sales and Purchases

Total sales = Rs.6,25,000

Cash sales = 20% of total sales(6,25,000)= Rs.1,25,000

Credit sales = 80% of total sales=(6,25,000) Rs.5,00,000

GrossProfit25%oncost=6,25,000* 25/125 = Rs.1,25,000

Credit purchases = Rs.2,70,000

Credit purchases = 60% of total purchases Cash

purchases = 40% of total purchases

Cash purchases = 4,50,000 - 2,70,000 = Rs. 1,80,000

2.

Plant & Machinery

		Rs.			Rs.
То	Balance b/d	1,10,00 0	Ву	Sale of Machinery A/c	20,000
То	Cash-purchase (Bal. Fig.)	75,000	Ву	Balance c/d	1,65,00 <u>0</u>
		<u>1,85,00</u>			<u>1,85,00</u>
		<u>0</u>			<u>0</u>

Depreciation on Plant & Machinery:

@ 10% p.a. on Rs.20,000 for 6 months	=	1,000
@ 10% p.a. on Rs. 90,000 (i.e. Rs. 1,10,000 – Rs. 20,000)	=	9,000
@ 10% p.a. on Rs. 75,000 for 3 months (i.e. during the year)	=	<u>1,875</u>
		<u>11,875</u>

Sale of Machinery Account

To Plant and Machinery	20,000	By Depreciation (20,000 x 10% x1/2	1000
	<u> </u>	By Profit and Loss A/c By Bank (Balancing figure)	7,500 <u>11,500</u>
	20,000		20,000

Creditors Account

		Rs.			Rs.
То	Cash	2,62,500	Ву	Balance b/d	47,500
То	Discount received	2,250	Ву	Credit purchases (W.N.2)	2,70,000
То	Balance c/d (Bal. Fig.)	<u>52,750</u>			
		3,17,500			3,17,500

Debtors Account

		Rs.			Rs.
То	Balance b/d (Given)	77,750	Ву	Cash	4,62,500
То	Sales (Credit)	5,00,000	Ву	Discount allowed	2,750
			Ву	Bad debts	2,250
			Ву	Balance c/d	1,10,250
		5,77,750			5,77,750

Provision for Office Expenses Account

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

3. **Bank Account**

		Rs.				Rs.
То	Balance b/d	12,500	Ву	Creditors		2,62,500
То	Debtors	4,62,500	Ву	Purchases		1,80,000
То	Office	10,000	Ву	Expenses	\	44,500
	Equipme			Rs. (16,000 + 7,500 +		
	nt (sales)			21,000)		
То	Cash sales (W.N.1)	1,25,000	Ву	Bank loan paid		18,750
То	Machine sold	11,500	Ву	Machine purchased		75,000
				(W.N.4)		
			Ву	Balance c/d (Bal. Fig.)		40,750
		6,21,500				6,21,500

Office Equipment Account

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

QUESTION 27 (PAST PAPER MAY 19) (PASTE EXAM NOV20)

(a) Summarized Balance Sheet of Cloth Trader as on 31.03.2017 is given below:

Liabilities	Amount	Assets	Amount
	(Rs.)		(Rs.)
Proprietor's Capital	3,00,000	Fixed Assets	3,60,000

Profit & Loss Account	1,25,000	Closing Stock	1,50,000
10% Loan Account	2,10,000	Sundry Debtors	1,00,000
Sundry Creditors	50,000	Deferred Expenses	50,000
		Cash & Bank	25,000
	6,85,00		6,85,000
	0		

Additional Information is as follows:

- (1) The remaining life of fixed assets is 8 years. The pattern of use of the asset is even. The net realisable value of fixed assets on 31.03.2018 was Rs.3,25,000.
- (2) Purchases and Sales in 2017-18 amounted to Rs. 22,50,000 and Rs. 27,50,000 respectively.
- (3) The cost and net realizable value of stock on 31.03.2018 were Rs. 2,00,000 and Rs. 2,50,000 respectively.
- (4) Expenses for the year amounted to Rs.78,000.
- (5) Deferred Expenses are amortized equally over 5 years.
- (6) Sundry Debtors on 31.03.2018 are Rs. 1,50,000 of which Rs. 5,000 is doubtful. Collection of another Rs. 25,000 depends on successful re-installation of certain product supplied to the customer;
- (7) Closing Sundry Creditors are Rs. 75,000, likely to be settled at 10% discount.
- (8) Cash balance as on 31.03.2018 is Rs.4,22,000.
- (9) There is an early repayment penalty for the loan of Rs. 25,000.

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

- (1) Profit & Loss Account for the year 2017-18.
- (2) Balance Sheet as on 31st March,2018.

ANSWER:

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

Particula	Amount	Particulars	Amount
rs			
	Rs.		Rs.
To Opening Stock	1,50,000	By Sales	27,50,000
To Purchases	22,50,000	By Closing Stock	2,50,000
To Expenses*	78,000	By Trade payables	7,500
To Depreciation	35,000		

To Provision for doubtful debts	30,000	
To Deferred cost	50,000	
To Loan penalty	25,000	
To Net Profit (b.f.)	3,89,500	
	30,07,500	30,07,500

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

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

^{*}Assumed that Rs. 78,000 includes interest on 10% loan amount for the year.

QUESTION 28 (PAST PAPER NOVEMBER 19)

Archana Enterprises maintain their books of accounts under single entry system. The Balance-Sheet as on 31st March, 2018 was as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital A/c	6,75,000	Furniture & fixtures	1,50,000
Trade creditors	7,57,500	Stock	9,15,000
Outstanding	67,500	Trade debtors	3,12,000

expenses			
		Prepaid insurance	3,000
		Cash in hand & at	1,20,000
	15,00,000	bank	15,00,000

The following was the summary of cash and bank book for the year ended 31st March, 2019:

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Cash in hand & at	1,20,000	Payment to trade	1,24,83,000
Bank on 1 st April, 2018		creditors	
Cash sales	1,10,70,000	Sundry expenses paid	9,31,050
Receipts from trade debtors	27,75,000	Drawings	3,60,000
		Cash in hand & at Bank on	
		31 st March, 2019	<u>1,90,950</u>
	1,39,65,000		1,39,65,000

Additional Information:

- (i) Discount allowed to trade debtors and received from trade creditors amounted to Rs. 54,000 and Rs. 42,500 respectively (for the year ended 31st March, 2019).
- (ii) Annual fire insurance premium of Rs. 9,000 was paid every year on 1st August for the renewal of the policy.
- (iii) Furniture &fixtures were subject to depreciation @ 15% p.a. on diminishing balance method.
- (iv) The following are the balances as on 31st March, 2019: Stock

Rs.9,75,000

Trade debtors Rs.3,43,000
Outstanding expenses Rs. 55,200

(v) Grossprofitratioof10%onsalesismaintainedthroughouttheyear.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2019, and Balance Sheet as on that date.

ANSWER:

Trading and Profit and Loss Account of Archana Enterprises for the year ended 31st March, 2019

	Rs.			Rs.
To Opening Stock	9,15,000	By Sales		
To Purchases (W.N. 2)	125,97,000	Cash	110,70,000	
To Gross profit c/d	13,93,000	Credit	28,60,000	139,30,000
(10% of 139,30,000)		(W.N. 1) By Closing stock		9,75,000
	149,05,000			149,05,000
To Sundry expenses (W.N. 4)	9,18,750	By Gross profit b/d		13,93,000
To Discount allowed	54,000	By Discount received		42,500
To Depreciation	22,500			
(15% Rs.1,50,000)				
To Net Profit (b.f.)	4,40,250			
	14,35,500			14,35,500

Balance Sheet of Archana Enterprises as at 31st March, 2019

Liabilities		Amount	Assets	Amount
		Rs.		Rs.
Capital			Furniture & 1,50,000 Fittings	
Opening balance	6,75,000		Less: (22,500) Depreciation	1,27,500
Less: Drawing	(3,60,000)		Stock	9,75,000
	3,15,000		Trade Debtors	3,43,000
Add: Net profit for the years	4,40,250	7,55,250	Unexpired insurance	3,000
Trade creditors		8,29,000	Cash in hand & at bank	1,90,950

(W.N. 3)		
Outstanding expenses	55,200	
	16,39,450	16,39,450

Working Notes:

1. **Trade Debtors Account**

	Rs.		Rs.
To Balance b/d	3,12,000	By Cash/Bank	27,75,000
To Credit sales	28,60,000	By Discount allowed	54,000
(Bal. fig.)		By Balance c/d	3,43,000
	31,72,000		31,72,000

Memorandum Trading Account

Welliorandum Trading Account					
	Rs.		Rs.		
To Opening stock	9,15,000	By Sales	139,30,000		
To Purchases (Balancing figure)	125,97,000	By Closing stock	9,75,000		
To Gross Profit (10% on sales)	13,93,000				
	149,05,000		149,05,000		

2. **Trade Creditors Account**

	Rs.		Rs.
To Cash/Bank	124,83,000	By Balance b/d	7,57,500
To Discount received To Balance c/d (balancing	42,500 8,29,000	By Purchases (as calculated in W.N. 2)	125,97,000
figure)	133,54,500		133,54,500

Computation of sundry expenses to be charged to Profit & Loss A/c

	Rs.
Sundry expenses paid (as per cash and Bank book)	9,31,050
Add: Prepaid expenses as on 31–3–2018	3,000
	9,34,050
Less: Outstanding expenses as on 31–3–2018	(67,500)
	8,66,550
Add: Outstanding expenses as on 31–3–2019	55,200
	9,21,750
Less: Prepaid expenses as on 31–3–2019 (Insurance paid till July, 2019)	
(9,000 x 4/12)	(3,000)
	9,18,750

QUESTION 29 (PAST PAPER JAN 21)

Give Journal Entries in the books of Branch to rectify or adjust the following:

- (1) Branch paid ₹ 5,000 as salary to H.O supervisor, but the amount paid by branch has been debited to salary account in the books of branch.
- (2) Asset Purchased by branch for ₹ 25,000, but the Asset account was retained in H.O Books.
- (3) A remittance of ₹8,000 sent by the branch has not been received by H.O.
- (4) H.O collected ₹ 25,000 directly from the customer of Branch but fails to give the intimation to
- (5) Remittance of funds by H.O to branch ₹5,000 not entered in branch books

ANSWER

Journal Entries in Books of Branch A

	Particulars		Dr.	Cr.
			Amount	Amount
			₹	₹
(i)	Head office account	Dr.	5,000	
	To Salaries account			5,000
	(Being the rectification of salary paid on behalf			
	of H.O.)			
(ii)	Head office account	Dr.	25,000	
	To Bank / Liability A/c			25,000
	(Being Asset purchased by branch but Asset account retained at head office books)			
(iii)	No Entry in Branch Books			
(iv)	Head office account	Dr.	25,000	
	To Debtors account			25,000
	(Being the amount of branch debtors collected			
	by H.O.)			
(v)	Bank A/c	Dr.	5,000	
	To Head Office			5,000
	(Remittance of Funds by H.O. to Branch)			

MTP -I JULY 21

- 1. (a) HIL Ltd. was making provision for non-moving stocks based on no issues having occurred for the last 12 months upto 31.03.2019. The company now wants to change it and make provision based on technical evaluation during the year ending 31.03.2020. Total value of stock on 31.3.20 is Rs. 120 lakhs. Provision required based on technical evaluation amounts Rs. 3.00 lakhs. However, provision required based on 12 months (no issues) is Rs. 4.00 lakhs. You are required to discuss the following points in the light of Accounting Standard (AS)-1:
- (i) Does this amount to change in accounting policy?
- (ii) Can the company change the method of accounting?
- (iii) Explain how it will be disclosed in the annual accounts of HIL Ltd. for the year 2019-20.

ANSWER

The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made but the basis for making provision will not constitute accounting policy. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made. In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from Rs. 4 lakhs to Rs. 3 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of HIL Ltd. for the year 2019-20 in the following manner:

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

(b) Viva Ltd. received a specific grant of Rs. 30 lakhs for acquiring the plant of Rs. 150 lakhs during 2016-17 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet and was not deducted from the cost of plant. During 2019-20, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was Rs. 21 lakhs and written down value of plant was Rs. 105 lakhs. What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2019-20 in profit and loss account?

ANSWER

As per AS-12, 'Accounting for Government Grants', "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement. In this case the grant refunded is Rs. 30 lakhs and balance in deferred income is Rs. 21 lakhs, Rs. 9 lakhs shall be charged to the profit and loss account for the year 2019-20. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years.

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

Management has prepared the following budget for this period – Salaries of the staff engaged in preparation of restaurant before its opening Rs. 7,50,000 Construction and remodelling cost of restaurant Rs. 30,00,000 Explain the treatment of these expenditures as per the provisions of AS 10 "Property, Plant and Equipment".

ANSWER

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

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

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

(d) In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting in wastage of 300 MT. Cost per MT of input is Rs. 1,000. The entire quantity of waste and finished output is in stock at the year end. State with reference to Accounting Standard, how will you value the inventories in this case? What will be treatment for normal and abnormal waste? (4 parts x 5 Marks = 20 Marks)

ANSWER

As per para 13 of AS 2 (Revised), abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred.

In this case, normal waste is 250 MT and abnormal waste is 50 MT. The cost of 250 MT will be included in determining the cost of inventories (finished goods) at the year end. The cost of abnormal waste (50 MT x 1,052.6315 = Rs. 52,632) will be charged to the profit and loss statement. Cost per MT (Normal Quantity of $4,750 \, \text{MT}$) = $50,00,000 \, / \, 4,750 = Rs. \, 1,052.6315$

Total value of inventory = 4,700 MT x Rs. 1,052.6315 = Rs. 49,47,368

- 2. (a) On 1st April, 2019, Rajat has 50,000 equity shares of P Ltd. at a book value of Rs. 15 per share (face value Rs. 10 each). He provides you the further information:
- (1) On 20th June, 2019 he purchased another 10,000 shares of P Ltd. at Rs. 16 per share.
- (2) On 1st August, 2019, P Ltd. issued one equity bonus share for every six shares held by the shareholders.
- (3) On 31st October, 2019, 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 in part.

Rajat sold 1/3rd of entitlement to Umang for a consideration of Rs. 2 per share and subscribed the rest on 5th November, 2019.

You are required to prepare Investment A/c in the books of Rajat for the year ending 31st March, 2020.

ANSWER

a) In the books of Rajat Investment Account (Equity shares in P Ltd.)

Date	Particulars	No. of shares	Amount (Rs.)	Date	Particulars	No. of shares	Amount (Rs.)
1.4.19	To Balance b/d	50,000	7,50,000	31.3.20	By Balance c/d	90,000	12,10,000
20.6.19	To Bank A/c	10,000	1,60,000		(Bal. fig.)		
1.8.19	To Bonus issue (W.N.1)	10,000	-				
5.11.19	To Bank A/c (right shares) (W.N.4)	20,000	3,00,000				
	(11.11.4)	90,000	12,10,000			90,000	12,10,000

Working Notes:

(1) Bonus shares
$$=\frac{50,000+10,000}{6}=10,000 \text{ shares}$$

(2) Right shares =
$$\frac{50,000 + 10,000 + 10,000}{7} \times 3 = 30,000 \text{ shares}$$

- (3) Sale of rights = $30,000 \text{ shares} \times \frac{1}{3} \times \text{ Rs. } 2 = \text{Rs. } 20,000 \text{ to be credited to P & L A/c as per AS 13.}$
- (4) Rights subscribed = $30,000 \text{ shares} \times \frac{2}{3} \times ₹ 15 = \text{Rs. } 3,00,000$
- (b) A fire engulfed the premises of a business of M/s Kite in the morning, of 1st 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.

Stock in hand on 31st March, 2019 Rs. 3,50,000

The following information was obtained from the records saved for the period from 1st April to 30th September, 2019:

Sales	27,75,000
Purchases	18,75,000
Carriage inward	35,000
Carriage outward	20,000
Wages	40,000
Salaries	50,000

Additional Information:

(1) Sales upto 30th September, 2019, includes Rs. 75,000 for which goods had not been dispatched.

- (2) On 1stJune, 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 2/3rd of the goods sold to him till 30th September, 2019.
- (3) Purchases upto 30th 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 profit rate of 25% on sales.

You are required to prepare the statement of claim for loss of stock for submission to the **Insurance Company.**

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	(50,000)
Stock destroyed by fire (Loss of stock)	3,25,000

Insurance claim amount=

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
To Purchases		By Goods with customers*	99,000
(Rs. 18,75,000+Rs. 1,00,000)		(for approval) (W.N.1)	

To Carriage inward	35,000	By Closing stock (bal. fig.)	3,75,000
To Wages	40,000		
To Gross profit			
(Rs. 25,68,000 x 25%)	6,42,000		
	30,42,000		30,42,000

^{*} For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the entity and, hence, there was no loss of such stock.

Working Notes:

1. Calculation of goods with customers

Since no approval for sale has been received for the goods of Rs. 1,32,000 (i.e. 2/3 of Rs. 1,98,000) hence, these should be valued at cost i.e. Rs. 1,32,000 - 25% of Rs. 1,32,000 = Rs. 99,000.

2. Calculation of actual sales

Total sales – Goods not dispatched- Sale of goods on approval $(2/3_{rd})$ = Sales (Rs. 27,75,000 –75,000 – Rs.1,32,000) = Rs. 25,68,000

(c) Identify four differences between Hire Purchase and Installment Payment agreement.

ANSWER

Statement showing differences between Hire Purchase and Installment System

	Basis of Distinction	Hire Purchase	Installment System
1.	Governing Act	It is governed by Hire Purchase	It is governed by the Sale of
		Act,1972.	Goods Act, 1930.
2.	Nature of Contract	It is an agreement of hiring.	It is an agreement of sale.

3.	Passing of Title (ownership)	The title to goods passes on last payment.	The title to goods passes immediately as in the case of usual sale.
4.	Right to Return goods	The hirer may return goods without further payment except for accrued installments.	Unless seller defaults, goods are not returnable.
5.	Seller's right to repossess	The seller may take possession of the goods if hirer is in default.	The seller can sue for price if the buyer is in default. He cannot take possession of the goods.
6.	Right of Disposal	Hirer cannot hire out, sell, pledge or assign entitling transferee to retain possession as against the hire vendor.	The buyer may dispose off the goods and give good title to the bonafide purchaser.
7.	Responsibility for Risk of Loss	The hirer is not responsible for risk of loss of goods if he has taken reasonable precaution because the ownership has not yet transferred.	The buyer is responsible for risk of loss of goods because of the ownership has transferred.
8.	Name of Parties involved	The parties involved are called Hirer and Hire vendor.	The parties involved are called buyer and seller.
9.	Component other than cash price.	Component other than Cash Price included in installment is called Hire charges.	Component other than Cash Price included in Installment is called Interest.

3. (a) Moon Star has a branch at Virginia (USA). The Branch is a non-integral foreign operation of the Moon Star. The trial balance of the Branch as at 31st March, 2020 is as follows:

Particulars		US \$
	Dr.	Cr.
Office equipments	48,000	
Furniture and Fixtures	3,200	
Stock (April 1, 2019)	22,400	
Purchases	96,000	
Sales		1,66,400
Goods sent from H.O	32,000	
Salaries	3,200	
Carriage inward	400	
Rent, Rates & Taxes	800	
Insurance	400	
Trade Expenses	400	
Head Office Account		45,600
Sundry Debtors	9,600	
Sundry Creditors		6,800
Cash at Bank	2,000	
Cash in Hand	400	
	2,18,800	2,18,800

The following further information is given:

- (1) Salaries outstanding \$ 400.
- (2) Depreciate office equipment and furniture & fixtures @10% p.a. at written down value.
- (3) The Head Office sent goods to Branch for Rs.15,80,000.
- (4) The Head Office shows an amount of Rs. 20,50,000 due from Branch.
- (5) Stock on 31st March, 2020 -\$21,500.
- (6) There were no transit items either at the start or at the end of the year.
- (7) On April 1, 2018 when the fixed assets were purchased the rate of exchange was Rs. 43 to one \$. On April 1, 2019, the rate was 47 per \$. On March 31, 2020 the rate was Rs. 50 per \$. Average rate during the year was Rs. 45 to one \$.

Prepare Trial balance incorporating adjustments given converting dollars into rupees and Trading, Profit and Loss Account for the year ended 31st March, 2020 of the Branch as would appear in the books of Moon Star for the purpose of incorporating in the main Balance Sheet.

ANSWER

In the books of Moon Star Trial Balance (in Rupees) of Virginia (USA) Branch as on 31st March, 2020

		· marci	,		
	Dr.	Cr.	Conversion	Dr.	Cr.
	US\$	US \$	rate	Rs.	Rs.
Office Equipment	43,200		50	21,60,000	
Depreciation on Office Equipment	4,800		50	2,40,000	
Furniture and fixtures	2,880		50	1,44,000	
Depreciation on furniture and fixtures	320		50	16,000	
Stock (1st April, 2019)	22,400		47	10,52,800	
Purchases	96,000		45	43,20,000	
Sales		1,66,400	45		74,88,000
Goods sent from H.O.	32,000			15,80,000	
Carriage inward	400		45	18,000	
Salaries (3,200+400)	3,600		45	1,62,000	
Outstanding salaries		400	50		20,000
Rent, rates and taxes	800		45	36,000	
Insurance	400		45	18,000	
Trade expenses	400		45	18,000	
Head Office A/c		45,600			20,50,000
Trade debtors	9,600		50	4,80,000	
Trade creditors		6,800	50		3,40,000
Cash at bank	2,000		50	1,00,000	
Cash in hand	400		50	20,000	
Exchange gain (bal. fig.)					4,66,800
	2,19,200	2,19,200		1,03,64,800	1,03,64,800

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CA Ravi Agarwal's CA INTER ACCOUNTING COMPILER 4.0

Trading and Profit and Loss Account of Virginia Branch for the year ended 31st March, 2020

	Rs.		Rs.
To Opening stock	10,52,800	By Sales	74,88,000
To Purchases	43,20,000	By Closing stock	10,75,000
To Goods from Head Office	15,80,000	(21,500 US \$ × 50)	
To Carriage inward	18,000		
To Gross profit c/d	15,92,200		
	85,63,000		85,63,000
To Salaries	1,62,000	By Gross profit b/d	15,92,200
To Rent, rates and taxes	36,000		
To Insurance	18,000		
To Trade expenses	18,000		
To Depreciation on office equipment	2,40,000		
To Depreciation on furniture and fixtures	16,000		
To Net Profit c/d	11,02,200		
	15,92,200		15,92,200

(b) Archana Enterprises maintain their books of accounts under single entry system. The Balance-Sheet as on 31st March, 2018 was as follows:

Linking	Amount (Dal)	Access	Amount (De)
Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital A/c	6,75,000	Furniture & fixtures	1,50,000
Trade creditors	7,57,500	Stock	9,15,000
Outstanding expenses	67,500	Trade debtors	3,12,000
		Prepaid insurance	3,000
		Cash in hand & at bank	1,20,000
	15,00,000		15,00,000

The following was the summary of cash and bank book for the year ended 31st March, 2019:

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Cash in hand & at Bank on 1st April, 2018	1,20,000	Payment to trade creditors	1,24,83,000
Cash sales	1,10,70,000	Sundry expenses paid	9,31,050
Receipts from trade debtors	27,75,000	Drawings	3,60,000
		Cash in hand & at Bank on	
		31st March, 2019	1,90,950
	1,39,65,000		1,39,65,000

Additional Information:

- (i) Discount allowed to trade debtors and received from trade creditors amounted to Rs. 54,000 and Rs. 42,500 respectively (for the year ended 31st March, 2019).
- (ii) Annual fire insurance premium of Rs. 9,000 was paid every year on 1st August for the renewal of the policy.
- (iii) Furniture & fixtures were subject to depreciation @ 15% p.a. on diminishing balance method.
- (iv) The following are the balances as on 31st March, 2019:

Stock Rs. 9,75,000

Trade debtors Rs. 3,43,000

Outstanding expenses Rs. 55,200

(v) Gross profit ratio of 10% on sales is maintained throughout the year.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2019, and Balance Sheet as on that date. (8 + 12 = 20 Marks)

ANSWER

9

CA Ravi Agarwal's CA INTER ACCOUNTING COMPILER 4.0

Trading and Profit and Loss Account of Archana Enterprises for the year ended 31st March, 2019

		Rs.			Rs.
То	Opening Stock	9,15,000	By Sales		
То	Purchases (W.N. 2)	125,97,000	Cash	110,70,000	
То	Gross profit c/d	13,93,000	Credit (W.N. 1)	28,60,000	139,30,000
	(10% of 139,30,000)		By Closing stock		9,75,000
		149,05,000			149,05,000
То	Sundry expenses (W.N. 4)	9,18,750	By Gross profit b/d		13,93,000
То	Discount allowed	54,000	By Discount received		42,500
То	Depreciation	22,500			
	(15% Rs. 1,50,000)				
То	Net Profit (b.f.)	4,40,250			
		14,35,500			14,35,500

Balance Sheet of Archana Enterprises as at 31st March, 2019

			•	
Liabilities		Amount	Assets	Amount
		Rs.		Rs.
Capital			Furniture & Fittings 1,50,000	
Opening balance	6,75,000		Less: Depreciation (22,500)	1,27,500
Less: Drawing	(3,60,000)		Stock	9,75,000
	3,15,000		Trade Debtors	3,43,000
Add: Net profit			Unexpired insurance	3,000
for the years	4,40,250	7,55,250		
Trade creditors (W.N. 3)		8,29,000	Cash in hand & at bank	1,90,950
Outstanding expenses		55,200		
-				
		16,39,450		16,39,450

Working Notes:

Trade Debtors Account

	Rs.		Rs.
To Balance b/d	3,12,000	By Cash/Bank	27,75,000
To Credit sales	28,60,000	By Discount allowed	54,000
(Bal. fig.)		By Balance c/d	3,43,000
	31,72,000		31,72,000

Memorandum Trading Account

	Rs.		Rs.
To Opening stock	9,15,000	By Sales	139,30,000
To Purchases (Balancing figure)	125,97,000	By Closing stock	9,75,000
To Gross Profit (10% on sales)	13,93,000		
	149,05,000		149,05,000

Trade Creditors Account

	Rs.		Rs.
To Cash/Bank	124,83,000	By Balance b/d	7,57,500
To Discount received	42,500	By Purchases (as calculated	125,97,000
To Balance c/d		in W.N. 2)	
(balancing figure)	8,29,000		
	133,54,500		133,54,500

Computation of sundry expenses to be charged to Profit & Loss A/c

	Rs.
Sundry expenses paid (as per cash and Bank book)	9,31,050
Add: Prepaid expenses as on 31–3–2018	3,000
	9,34,050
Less: Outstanding expenses as on 31–3–2018	(67,500)
	8,66,550
Add: Outstanding expenses as on 31–3–2019	55,200
	9,21,750
Less: Prepaid expenses as on 31-3-2019 (Insurance paid till July,	
2019) (9,000 x 4/12)	(3,000)
	9,18,750

4. (a) The following balances were extracted from the books of Beta. You are required to prepare Departmental Trading Account and General Profit & Loss Account for the year ended 31st December, 2020:

Particulars	Deptt. A	Deptt. B	
	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:

- (i) Closing stock of Department A Rs. 6,00,000 including goods from Department B for Rs. 1,20,000 at cost to Department A.
- (ii) Closing stock of Department B Rs. 12,00,000 including goods from Department A for Rs. 1,80,000 at cost to Department B.
- (iii) Opening stock of Department A and Department B include goods of the value of Rs. 60,000 and Rs. 90,000 taken from Department B and Department A respectively at cost to transferee departments.
- (iv) The gross profit is uniform from year to year.

ANSWER

(a) Departmental Trading Account for the year ended on 31st December, 2020

Particulars	А	В	Particulars	А	В
	Rs.	Rs.		Rs.	Rs.
To Opening Stock	3,00,000	2,40,000	By Sales	60,00,000	90,00,000
To Purchases	39,00,000	54,60,000	By Closing Stock	6,00,000	12,00,000

To Gross Profit	24,00,000	45,00,000		
	66,00,000	1,02,00,000	66,00,000	1,02,00,000

General profit and loss account of Beta for the year ended on 31st December, 2020

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To General expenses*	7,50,000	By Stock reserve (opening stock)	
To Stock reserve (Closing Stock)		Dept. A	30,000
Dept. A	60,000	Dept. B	36,000
Dept. B	72,000	By Gross Profit	
To Net Profit	60,84,000	Dept. A	24,00,000
		Dept. B	45,00,000
	69,66,000		69,66,000

Working Notes:

		Dept. A	Dept. B
1.	Percentage of Profit	24,00,000/60,00,000 x 100	45,00,000/90,00,000 x 100
		40%	50%
2.	Opening Stock reserve	60,000 x 50% = 30,000	90,000 X 40% = 36,000
3.	Closing Stock reserve	1,20,000 x 50%=60,000	1,80,000 x 40% = 72,000

(b) The capital structure of 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.

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 ascertained as free reserve; 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 reserves and surplus, subject to the condition that a sum of Rs. 20,000 shall be retained in general reserve which should not be utilized.

You are required to 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 is carried out.

ANSWER

0

CA Ravi Agarwal's CA INTER ACCOUNTING COMPILER 4.0

Journal Entries in the books of AP Ltd.

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	Dr.	25,000	
	To Equity Share Capital A/c			25,000
	(Being the issue of 2,500 Equity Shares of Rs. 10 each at par, as per Board's Resolution Nodated)			
	8% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	10,000	
	To Preference Shareholders A/c			1,10,000
	(Being the amount paid on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,10,000	
	To Bank A/c			1,10,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	10,000	
	To Premium on Redemption of Preference Shares A/c			10,000
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)			
	General Reserve A/c	Dr.	60,000	
	Profit & Loss A/c	Dr.	10,000	
	Investment Allowance Reserve A/c	Dr.	5,000	
	To Capital Redemption Reserve A/c			75,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Balance Sheet as at[Extracts]

		Particulars		Notes No.	Rs.
		EQUITY AND LIABILITIES			
1.	Sh	areholders' funds			
	а	Share capital		1	2,25,000
	b	Reserves and Surplus		2	1,00,000
			Total		?
	AS	SETS			
2.	Cu	rrent Assets			
		Cash and cash equivalents			13,000
		(98,000 + 25,000 - 1,10,000)			
			Total		?

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

Notes to accounts

1.	Share Capital	
	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
	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:

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.

5. (a) From the following particulars furnished by Alpha Ltd., prepare the Balance Sheet as on 31st March 2020 as required by Part I, Schedule III of the Companies Act, 2013.

Particulars			Debit Rs.	Credit Rs.
Equity Share Capital (Face value of			50,00,000	
Call in Arrears			5,000	
Building			27,50,000	
Plant & Machinery			26,25,000	
Furniture			2,50,000	
General Reserve				10,50,000
Loan from State Financial Corpora	tion			7,50,000
Inventory:				
Raw Materials		2,50,000		
Finished Goods		10,00,000	12,50,000	
Provision for Taxation				6,40,000
Trade receivables			10,00,000	
Short term Advances			2,13,500	
Profit & Loss Account				4,33,500
Cash in Hand			1,50,000	
Cash at Bank			12,35,000	
Unsecured Loan				6,05,000
Trade payables (for Goods and Ex	penses)			8,00,000
Loans & advances from related pa	rties			2,00,000

The following additional information is also provided:

- (i) 10,000 Equity shares were issued for consideration other than cash.
- (ii) Trade receivables of Rs. 2,60,000 are due for more than 6 months.
- (iii) The cost of the Assets were:

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

- (iv) The balance of Rs. 7,50,000 in the Loan Account with State Finance Corporation is inclusive of Rs. 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.
- (v) Balance at Bank includes Rs. 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.
- (vi) Transfer Rs. 20,000 to general reserve as proposed by Board of directors.

ANSWER

Alpha Ltd.

Balance Sheet as at 31st March, 2020

		Particulars		Notes	Rs.
		Equity and Liabilities			
1		Shareholders' funds			
	а	Share capital		1	49,95,000
	b	Reserves and Surplus		2	14,83,500
2		Non-current liabilities			
		Long-term borrowings		3	13,17,500
3		Current liabilities			
	а	Trade Payables			8,00,000
	b	Other current liabilities		4	37,500
	С	Short-term provisions		5	6,40,000
	d	Short-term borrowings			2,00,000
			Total		94,73,500
		Assets			
1		Non-current assets			
		Property, Plant & equipment		6	56,25,000
2		Current assets			
	а	Inventories		7	12,50,000
	b	Trade receivables		8	10,00,000
	С	Cash and bank balances		9	13,85,000
	d	Short-term loans and advances			2,13,500
			Total		94,73,500

Notes to accounts

			Rs.
1	Share Capital		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of Rs. 100 each		
	(of the above 10,000 shares have been issued for consideration other than cash)	50,00,000	
	Less: Calls in arrears	(5,000)	49,95,000
	Total		49,95,000
2	Reserves and Surplus		
	General Reserve	10,50,000	
	Add: current year transfer	20,000	10,70,000

I	Profit & Loss balance					
	Profit for the year				4,33,500	
	Less: Appropriation	ns:			,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	
	Transfer to G		erve		(20,000)	
						4,13,500
						14,83,500
3	Long-term borrowings					
	Secured Term Loan					
	State Financial Corporation	Loan (7,5	0,000-37,500)		
	(Secured by hypothecation	of Plant an	nd Machinery)		7,12,500
	Unsecured Loan					6,05,000
				Total		13,17,500
4	Other current liabilities					
	Interest accrued but not due	on loans	(SFC)			37,500
5	Short-term provisions					
	Provision for taxation					6,40,000
6	Property, plant and Equip	ment				
	Land and Building				30,00,000	
	Less: Depreciation				(2,50,000) (b.f.)	27,50,000
	Plant & Machinery				35,00,000	
	,				(8,75,000)	26,25,000
	Less: Depreciation				(b.f.)	
	Furniture & Fittings				3,12,500	
	Less: Depreciation				(62,500) (b.f.)	2,50,000
				Total		56,25,000
7	Inventories					
	Raw Materials					2,50,000
	Finished goods					10,00,000
	T			Total		12,50,000
8	Trade receivables	oo odia a si	v month-			0.60.000
	Outstanding for a period ex Other Amounts	ceeding six	x months			2,60,000 7.40.000
	Other Amounts			Total		
9	Cash and bank balances			Total		10,00,000
	Cash and cash equivalents					
	Cash at bank					
	with Scheduled Banks				12,25,000	
\	with others (Omega Bank L	td.)			10,000	12,35,000
	Cash in hand	,				1,50,000
	Other bank balances					Nil
	Outer built builting			Total		
				TOTAL		13,85,000

(b) 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 and also pass journal entry for conversion and redemption of debentures. (15+5=20 Marks)

ANSWER

			Numbe	er of debentur	es
Debenture holders opted for conversion (20,000	200		00		
Option for conversion			20%		
Number of debentures to be converted (20% of	200)		40		
Redemption value of 40 debentures at a premiu	m of 5% [40 x (100-	+5)]		Rs. 4,2	00
Equity shares of Rs. 10 each issued on convers	sion				
[Rs. 4,200/ Rs. 20]				210 shar	es
Calculation of cash to be paid :				Rs.	
Number of debentures				200	
Less: number of debentures to be converted in	nto equity shares		(4 <u>0)</u>		
			_	160	
Redemption value of 160 debentures (160 \times R	s. 105)			Rs. 16	,800
Journal E	intry				
Debentures A/c	Dr.	. 2	20,000		
Premium on redemption A/c	Dr.		1,000		
To Debenture holders A/c				21,000	
(Being amount due to debenture holders at rede	emption)				
Debenture holders A/c	Dr.	. 1	21,000		
To Equity Share capital A/c				2,100	
To Securities premium A/c	Dr.			2,100	
To Cash A/c				16,800	
(Discharge of amount due to Debenture holders)				

6. (a) Omega Limited has borrowed a sum of US \$ 10,00,000 at the beginning of Financial Year 2019-20 for its residential project at 4 %. The interest is payable at the end of the Financial Year. At the time of availment of loan exchange rate was Rs. 56 per US \$ and the rate as on 31st March, 2020 was Rs. 62 per US \$. If Omega Limited had borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%.

You are required to compute Borrowing Cost and exchange difference for the year ending 31st March, 2020 as per applicable Accounting Standards.

ANSWER

- (i) Interest for the period 2019-20 = US \$ 10 lakhs x 4% × Rs. 62 per US\$ = Rs. 24.80 lakhs
- (ii) Increase in the liability towards the principal amount = $US $ 10 \text{ lakhs} \times \text{Rs.} (62 56) = \text{Rs.} 60 \text{ lakhs}$
- (iii) Interest that would have resulted if the loan was taken in Indian currency = $US $ 10 \text{ lakhs} \times \text{Rs.} 56 \times 10.5\% = \text{Rs.} 58.80 \text{ lakhs}$
- (iv) Difference between interest on local currency borrowing and foreign currency borrowing = Rs. 58.80 lakhs Rs. 24.80 lakhs = Rs. 34 lakhs

Therefore, out of Rs. 60 lakhs increase in the liability towards principal amount, only Rs. 34 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be Rs. 58.80 lakhs being the aggregate of interest of Rs. 24.80 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of Rs. 34 lakhs.

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

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

Balance Sheet (Extract) as on 31st March, 2020

Liabilities	Rs.
Issued and subscribed capital:	
20,000,14% preference shares of Rs. 100 each fully paid	20,00,000
1,20,000 Equity shares of Rs. 100 each, Rs. 80 paid-up	96,00,000
Capital reserves (Rs. 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Unsecured loans: Public deposits repayable after one year	3,70,000
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,00,000

You are required to compute Effective Capital as per the provisions of Schedule V to Companies Act, 2013.

ANSWER

Computation of effective capital:

		Rs.
Paid-up share capital-		
20,000, 14% Preference shares		20,00,000
1,20,000 Equity shares		96,00,000
Capital reserves (excluding revaluation reserve)		45,000
Securities premium		50,000
15% Debentures		65,00,000
Public Deposits		3,70,000
	(A)	1,85,65,000
Investments		75,00,000
Profit and Loss account (Dr. balance)		15,00,000
	(B)	90,00,000
Effective capital	(A-B)	95,65,000

OR

Following items appear in the Trial Balance of Hello Ltd. as on 31st March, 2020

Particulars	Amount
9,000 Equity Shares of Rs.100 each	9,00,000
Securities Premium	80,000
Capital Redemption Reserve	1,40,000
General Reserve	2,10,000
Profit and Loss Account (Cr. Balance)	90,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. You are required to give the necessary Journal Entries in the books Hello Ltd.

ANSWER

Capital Redemption Reserve A/c Dr. 1,40,000
Securities Premium A/c (considered to be realized in cash) Dr. 80,000
General Reserve A/c (balancing figure) Dr. 80,000

To Bonus to Shareholders 3,00,000

(Being issue of bonus shares by utilization of various

Reserves, as per resolution dated)

Bonus to Shareholders A/c Dr. 3,00,000

To Equity Share Capital 3,00,000

(Being capitalization of Profit)

(c) Prepare cash flow from investing activities as per AS 3 of M/s Subham Creative Limited for year ended 31.3.2019.

Particulars	Amount (Rs.)
Machinery acquired by issue of shares at face value	2,00,000
Claim received for loss of machinery in earthquake	55,000
Unsecured loans given to associates	5,00,000
Interest on loan received from associate company	70,000
Pre-acquisition dividend received on investment made	52,600
Debenture interest paid	1,45,200
Term loan repaid	4,50,000
Interest received on investment (TDS of Rs. 8,200 was deducted on the above interest)	73,800
Book value of plant & machinery sold (loss incurred Rs. 9,600)	90,000

ANSWER

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

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

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

ANSWER

The Framework for Recognition and Presentation of Financial statements recognizes four alternative measurement bases for the purpose of determining the value at which an element can be recognized in the balance sheet or statement of profit and loss.

These bases are:

- (i)Historical Cost;
- (ii)Current cost
- (iii) Realizable (Settlement) Value and
- (iv) Present Value.

A brief explanation of each measurement basis is as follows:

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

(e) M/s. Kodam Enterprises purchased a generator on hire purchase from M/s. Sanctum Ltd. on 1stApril, 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 off using the straight line method.

You are required to calculate the cash price of the generator and the interest paid on each 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]
3rd	12,000	8/108 of Rs.12,000 =Rs. 889	11,111
2nd	23,111 [W.N.1]	8/108 of Rs. 23,111 = Rs.1,712	21,399
1st	33,399 [W.N.2]	8/108 of Rs.33,399 = Rs.2,474	30,925
		5,075	

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+ 1st instalment of Rs. 12,000= Rs. 33,399

MTP-II JULY 2021

1. (a) (i) "In determining the cost of inventories, it is appropriate to exclude certain costs and recognize them as expenses in the period in which they are incurred". Provide examples of such costs as per AS 2 'Valuation of Inventories'.

ANSWER

- (i) As per AS 2 'Valuation of Inventories', certain costs are excluded from the cost of the inventories and are recognized as expenses in the period in which incurred. Examples of such costs are:
- (a) abnormal amount of wasted materials, labour, or other production costs;
- (b) storage costs, unless those costs are necessary in the production process prior to a further production stage;
- (c) administrative overheads that do not contribute to bringing the inventories to their present location and condition; and
- (d) selling and distribution costs
- (ii) X Limited purchased goods at the cost of Rs. 40 lakhs in October, 2020. Till March, 2021, 75% of the stocks were sold. The company wants to disclose closing stock at Rs. 10 lakhs. The expected sale value is Rs. 11 lakhs and a commission at 10% on sale is payable to the agent. Advise, what is the correct value of closing stock to be disclosed as at 31.3.2021.

As per AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value. In this case, the cost of inventory is Rs. 10 lakhs. The net realizable value is 11,00,000 2 90% = Rs. 9,90,000. So, the stock should be valued at Rs. 9,90,000.

(b) Ram Ltd. purchased machinery for Rs. 80 lakhs (useful life 4 years and residual value Rs. 8 lakhs). Government grant received was Rs. 32 lakhs. The grant had to be refunded at the beginning of third year. Show the Journal Entry to be passed at the time of refund of grant and the value of the fixed assets in the third year and the amount of depreciation for remaining two years, if the grant had been credited to Deferred Grant A/c.

ANSWER

As per AS 12 'Accounting for Government Grants,' income from Deferred Grant Account is allocated to Profit and Loss account usually over the periods and in the proportions in which depreciation on related assets is charged. Accordingly, in the first two years (Rs. 32 lakhs /4 years) = Rs. 8 lakhs x 2 years= Rs. 16 lakhs will be credited to Profit and Loss Account and Rs. 16 lakhs will be the balance of Deferred Grant Account after two years. Therefore, on refund of grant, following entry will be passed:

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

(c) Mohan Ltd. has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site. The details of the incremental costs which will be incurred are: Setup costs of Rs. 5,00,000 to install machinery in the new location; Rent of Rs. 15,00,000; Removal costs of Rs. 3,00,000 to

transport the machinery from the old location to the temporary location.

Mohan Ltd. wants to seek your guidance as whether these costs can be capitalized into the cost of the new building. You are required to advise in line with AS 10 "Property, Plant and Equipment".

ANSWER

Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired. These costs are not be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The costs to be incurred by the company are in the nature of costs of reducing or reorganizing the operations of the accompany. These costs do not meet that requirement of AS 10 "Property, Plant and Equipment" and cannot, therefore, be capitalized.

- (d) State whether the following statements are 'True' or 'False' in line with the provisions of AS 1. Also give reason for your answer.
- (i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
- (ii) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
- (iii) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
- (iv) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.
- (v) There is no single list of accounting policies which are applicable to all circumstances.

ANSWER

- (i) False; As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.
- (ii) False; As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
- (iii) True; To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed at one place.

- (iv) False; Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- (v) True; As per AS 1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.
- 2. (a) A Ltd. purchased on 1st April, 2020 8% convertible debenture in C Ltd. of face value of Rs. 2,00,000 @ Rs. 108. On 1st July, 2020 A Ltd. purchased another Rs. 1,00,000 debentures @ Rs. 112 cum interest. On 1st October, 2020 Rs. 80,000 debentures were sold @ Rs. 105. On 1st December, 2020, C Ltd. give option for conversion of 8% convertible debentures into equity share of Rs. 10 each. A Ltd. received 5,000 equity shares in C Ltd. in conversion of 25% debentures held on that date. The market price of debenture and equity share in C Ltd. on 31st December, 2020 is Rs. 110 and Rs. 15 respectively. Interest on debenture is payable each year on 31st March, and 30th September. Prepare investment account in the books of A Ltd. on average cost basis for the accounting year ended 31st December, 2020.

ANSWER

Investment Account for the year ending on 31st December, 2020 Scrip: 8% Convertible Debentures in C Ltd. [Interest Payable on 31st March and 30th September]

	<u>-</u>								
Date	Particulars	Nominal	Interest	Cost Rs.	Date	Particulars	Nominal	Interest	Cost
		value Rs.	Rs.				Value (Rs.)	(Rs.	(Rs.)
1.4.20	To Bank A/c	2,00,000	-	2,16,000	30.09.20	By Bank A/c	-	12,000	-
1.7.20	To Bank A/c	1,00,000	2,000	1,10,000		[Rs.3,00,000 x 8%			
	(W.N.1)					x (6/12]			
31.12.20	To P & L A/c		14,033	-	1.10.20	By Bank A/c	80,000		84,000
	[interest]				1.10.20	By P & L A/c (loss)			2,933
						(W.N.3)			
					1.12.20	By Bank A/c (Accrued		733	
						interest)			
						(Rs. 55,000 x .08 x 2/12)			
					1.12.20	By Equity shares in C Ltd.	55,000		59,767
						(W.N. 3 and 4)			
					31.12.20	By Balance c/d			
						(W.N.5)	1,65,000	3,300	1,79,300
		3,00,000	16,033	3,26,000			3,00,000	16,033	3,26,000

SCRIP: Equity Shares in C LTD.

Date	Particulars	Cost (Rs.)	Date	Particulars	Cost (Rs.)
1.12.20	To 8 % debentures	59,767	31.12.20	By balance c/d	59,767

Working Notes:

- (i) Cost of Debenture purchased on 1st July = Rs.1,12,000 Rs.2,000 (Interest) = Rs.1,10,000
- (ii) Cost of Debentures sold on 1st Oct. = (Rs.2,16,000 + Rs.1,10,000) x 80,000/3,00,000 = Rs. 86,933
- (iii) Loss on sale of Debentures = Rs. 86,933 Rs.84,000 = Rs.2,933 Nominal value of debentures converted into equity shares =Rs. 55,000 [(Rs. 3,00,000 80,000) x.25] Interest received before the conversion of debentures Interest on 25% of total debentures = $55,000 \times 8\% \times 2/12 = 733$
- (iv) Cost of Debentures converted = (Rs. 2,16,000 + Rs.1,10,000) x 55,000/3,00,000 = Rs. 59,767
- (v) Cost of closing balance of Debentures = (Rs. 2,16,000 + Rs.1,10,000) x 1,65,000 / 3,00,000 = Rs. 1,79,300
- (vii) Closing balance of Debentures has been valued at cost.
- (viii) 5,000 equity Shares in C Ltd. will be valued at cost of Rs. 59,767 being lower than the market value Rs. 75,000 (Rs. 15 x5,000)

Note: It is assumed that interest on debentures, which are converted into cash, has been received at the time of conversion.

(b) A fire engulfed the premises of a business of M/s Preet on the morning of 1st July 2020. The building, equipment and stock were destroyed and the salvage recorded the following:

Building – Rs. 4,000; Equipment – Rs. 2,500; Stock – Rs. 20,000. The following other information was obtained from the records saved for the period from 1st January to 30th June 2020:

	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, 2019	1,50,000
Building (value on 31st December, 2019)	3,75,000
Equipment (value on 31st December, 2019)	75,000
Depreciation provided till 31st December, 2019 on:	
Building	1,25,000
Equipment	22,500

No depreciation has been provided after December 31st 2019. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method.

Normally business makes a profit of 25% on net sales. You are required to prepare the statement of claim for submission to the Insurance Company.

ANSWER

Memorandum Trading Account for the Period from 1.1.2020 to 30.6.2020

		Rs.			Rs.
To Opening Stock (1.1.2020)		1,50,000	By Sales	11,50,000	
To Purchases Less: Returns	9,50,000 (12,500)	9,37,500	Less: Sales 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 (25% of Rs. 11,10,000)		2,77,500			
		13,90,000			13,90,000

Stock Destroyed Account

		Rs.		Rs.
То	Trading Account	2,80,000	By Stock Salvaged Account	20,000
			By Balance c/d (For Claim)	2,60,000
		2,80,000		2,80,000

Statement of Claim

Items	Cost	Depreciation	Salvage	Claim
	(Rs.)	(Rs.)	(Rs.)	(Rs.)
Α	В	С	D	(E=B-C-D)
Stock	2,80,000		20,000	2,60,000
Buildings	3,75,000	1,25,000 + 9,375	4,000	2,36,625
Equipment	75,000	22,500 + 5,625	2,500	44,375
				5,41,000

(c) A acquired on 1st January, 2020 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, 2020. 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. (8 + 8 + 4 = 20 Marks)

ANSWER

Statement showing cash value of the machine acquired on hire-purchase basis

	Insta	alment	Interest (@ 5% half	Principal Amount
	Amount		yearly (10 5/105 = 1	0% p.a.) = /21)	(in each instalment)
			(in each i	nstalment)	
		Rs.		Rs.	Rs.
5th Instalment		6,000		286	5,714
Less: Interest		(286)			
		5,714			
Add: 4th Instalment		6,000			
		11,714		558	5,442
Less: Interest		(558)			(11,156-5,714)
		11,156			
Add: 3rd instalment		6,000			
		17,156		817	5,183
Less: Interest		(817)			(16,339-11,156)
		16,339			
Add: 2nd instalment		6,000			
		22,339		1,063	4,937
Less: Interest		(1,063)			(21,276-16,339)
		21,276			
Add: 1st instalment		6,000			
		27,276		1,299	4,701
Less: Interest		(1,299)			(25,977-21,276)
		25,977		4,023	25,977

The cash purchase price of machinery is Rs. 25,977.

3. (a) DM Delhi has a branch in London which is an integral foreign operation of DM. At the end of the

year 31st March, 2021, the branch furnishes the following trial balance in U.K. Pound:

Particulars	£	£
	Dr.	Cr.
Fixed assets (Acquired on 1st April, 2017)	24,000	
Stock as on 1st April, 2020	11,200	
Goods from head Office	64,000	
Expenses	4,800	
Debtors	4,800	
Creditors		3,200
Cash at bank	1,200	
Head Office Account		22,800
Purchases	12,000	
Sales		96,000
	<u>1,22,000</u>	1,22,000

In head office books, the branch account stood as shown below:

London Branch A/c

Particulars	Amount Rs.	Particulars	Amount Rs.
To Balance b/d To Goods sent to branch	20,10,000 49,26,000 69,36,000	By Bank A/c By Balance c/d	52,16,000 17,20,000 69,36,000

The following further information is given:

- (a) Fixed assets are to be depreciated @ 10% p.a. on WDV.
- (b) On 31st March, 2021: Expenses outstanding - £ 400 Prepaid expenses - £ 200 Closing stock - £ 8,000
- (c) Rate of Exchange:

1st April, 2017 - Rs. 70 to £ 1

1st April, 2020 - Rs. 76 to £ 1

31st March, 2021 - Rs. 77 to £ 1

Average - Rs. 75 to £ 1

You are required to prepare: (1) Trial balance, incorporating adjustments of outstanding and prepaid expenses, converting U.K. pound into Indian rupees; and (2) Trading and profit and loss account for the year ended 31st March, 2021 of London branch as would appear in the books of Delhi head office of DM.

ANSWER

Trial Balance of London Branch as on 31st March, 2021

Particulars	U.K.	Rate Per	Dr. (Rs.)	Cr. (Rs.)
	Pound	U.K. Pound		
Fixed Assets	24,000	70	16,80,000	
Stock (as on 1st April, 2020)	11,200	76	8,51,200	
Goods from Head Office	64,000	-	49,26,000	
Sales	96,000	75		72,00,000
Purchases	12,000	75	9,00,000	
Expenses (4,800 + 400 - 200)	5,000	75	3,75,000	
Debtors	4,800	77	3,69,600	
Creditors	3,200	77		2,46,400
Outstanding Expenses	400	77		30,800
Prepaid expenses	200	77	15,400	
Cash at Bank	1,200	77	92,400	
Head office Account		-		17,20,000
Difference in Exchange				12,400
			92,09,600	92,09,600

Closing stock will be $(8,000 \times 77) = \text{Rs.} 6,16,000$

Trading and Profit & Loss A/c for the year ended 31st March, 2021

	Particulars	Amount (Rs.)		Particulars		Amount (Rs.)
То	Opening Stock	8,51,200	Ву	Sales		72,00,000
То	Purchases	9,00,000	Ву	Closing Stock		6,16,000
То	Goods from H.O.	49,26,000				
То	Gross Profit	11,38,800				
		78,16,000				78,16,000
То	Expenses	3,75,000	Ву	Gross Profit		11,38,800
То	Depreciation	1,68,000	Ву	Profit due Exchange	to	
То	Net Profit	6,08,200		difference		12,400
		11,51,200				11,51,200

Working Note:

Since London Branch is an integral foreign operation. Hence, (1) Fixed assets (cost and depreciation) are translated using the exchange rate at the date of purchase of the assets. (2) Exchange difference arising on translation of the financial statement is charged to Profit and Loss Account.

Liabilities	Rs.	Assets	Rs.
Capital Account	48,000	Building	32,500
Loan	15,000	Furniture	5,000
Creditor	31,000	Motor car	9,000
		Stock	20,000
		Debtors	17,000
		Cash in hand	2,000
		Cash at bank	<u>8,500</u>
	94,000		94,000

A riot occurred on the night of 31st March, 2021 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

- (a) His sales for the year ended 31st March, 2021 were 20% higher than the previous year's sales. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2021 were for cash. There were no cash purchases.
- (b) On 1st April, 2020 the stock level was raised to Rs. 30,000 and stock was maintained at this new level all throughout the year.
- (c) Collection from debtors amounted to Rs. 1,40,000 of which Rs. 35,000 was received in cash, Business expenses amounted to Rs. 20,000 of which Rs. 5,000 was outstanding on 31st March, 2021 and Rs. 6,000 was paid by cheques.
- (d) Analysis of the Pass Book revealed the Payment to Creditors Rs. 1,37,500, Personal Drawing Rs. 7,500, Cash deposited in Bank Rs. 71,500, and Cash withdrawn from Bank Rs. 12,000.
- (e) Gross profit as per last year's audited accounts was Rs. 30,000.
- (f) Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.
- (g) The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st

March, 2021 and Balance Sheet as on that date.

ANSWER

Trading and Profit and Loss Account for the year ending on 31st March, 2021

Particulars		Rs.	Particulars	Rs.
To Opening Stock		20,000	By Sales	1,80,000
To Purchases (bal.fig.)		1,54,000	By Closing Stock	30,000
To Gross Profit c/d (@20% on sales)		36,000		2,10,000
		2,10,000		
To Sundry Business Expenses		20,000	By Gross Profit b/d	36,000
To Depreciation:				
Building	1,625			
Furniture	250			
Motor	1,800	3,675		
To Net profit transferred to Capital A/c		12,325		
		36,000		36,000

Balance Sheet as at 31st March, 2021

Liabilities		Rs.	Assets		Rs.
Capital Account:			Building	32,500	
Opening Balance	48,000		Less: Depreciation	(1,625)	30,875
Add: Net profit	12,325		Furniture	5,000	
	60,325		Less: Depreciation	(250)	4,750
Less: Drawings	(7,500)	52,825	Motor Car	9,000	
Loan		15,000	Less: Depreciation	(1,800)	7,200
Sundry Creditors		47,500	Stock in trade		30,000
Outstanding Expenses		5,000	Sundry Debtors		21,000
			Cash at Bank		22,000
			Sundry Advances (Amount recoverable		
			from Cashier)		4,500
		1,20,325			1,20,325

Working Notes:

Total Debtors Account (i)

Particulars	Rs.	Particulars	Rs.
To Balance b/d	17,000	By Bank (Rs. 1,40,000 - Rs. 35,000)	1,05,000
To Sales (80% of Rs. 1,80,000)	1,44,000	By Cash A/c	35,000
		By Balance c/d	21,000
	1,61,000		1,61,000

(ii)

Total Creditors Account

Particulars	Rs.	Particulars	Rs.
To Bank	1,37,500	By Balance b/d	31,000
To Balance c/d	47,500	By Purchases	1,54,000
	1,85,000		1,85,000

(iii)

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Particulars	Cash Rs.	Bank Rs.	Particulars	Cash Rs.	Bank Rs.
To Balance b/d	2,000	8,500	By Business Expenses	9,000	6,000
To Sales	36,000	-	By Drawings	-	7,500
To Sundry Debtors	35,000	1,05,000	By Sundry Creditors	-	1,37,500
To Cash (Contra)	-	71,500	By Bank (Contra)	71,500	-
To Bank (Contra)	12,000		By Cash (Contra)	-	12,000
			By Defalcation (Bal fig.)	4,500	-
			By Balance c/d (Bal fig.)		22,000
	85,000	1,85,000		<u>85,000</u>	1,85,000

- (iv) Last year's Total Sales = Gross Profit x 100/20 = Rs. 30,000 x 100/20 = Rs. 1,50,000
- (v) Current year's Total Sales = Rs. 1,50,000+ 20% of Rs. 1,50,000= Rs. 1,80,000
- (vi) Current year's Credit Sales = Rs. 1,80,000 x 80%= Rs. 1,44,000
- (vii) Cost of Goods Sold = Sales G.P. = Rs.1,80,000 Rs. 36,000 = Rs. 1,44,000
- (viii) Purchases = Cost of Goods Sold + Closing Stock Opening Stock
- = Rs. 1,44,000 + Rs. 30,000 Rs. 20,000 = Rs. 1,54,000

4. (a) X Ltd has three departments A, B and C. From the particulars given below compute: (i) the values of stock as on 31st Dec. 2020 and (ii) the departmental results showing actual amount of gross profit.

	А	В	С
	Rs.	Rs.	Rs.
Stock (on 1.1. 2020)	24,000	36,000	12,000
Purchases	1,46,000	1,24,000	48,000
Actual sales	1,72,500	1,59,400	74,600
Gross Profit on normal selling price	20%	25%	33 1/3%

During the year ended 31st Dec. 2020, certain items were sold at discount and these discounts

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were reflected in the value of sales shown above. The items sold at discount were

	Α	В	С
	Rs.	Rs.	Rs.
Sales at normal price	10,000	3,000	1,000
Sales at actual price	7,500	2,400	600

ANSWER

(a) Calculation of Departmental Results (Actual Gross Profit)

	A (Rs.)	B (Rs.)	C (Rs.)
Actual Sales	1,72,500	1,59,400	74,600
Add back: Discount (Refer W.N.)	2,500	600	400
Normal sales	1,75,000	1,60,000	75,000
Gross profit % on normal sales	20%	25%	33.33%
Normal gross profit	35,000	40,000	25,000
Less: Discount	(2,500)	(600)	(400)
Actual gross profit	32,500	39,400	24,600

Computation of value of stock as on 31st Dec. 2020

Departments	Α	В	С
	Rs.	Rs.	Rs.
Stock (on 1.1. 2020)	24,000	36,000	12,000
Add: Purchases	1,46,000	1,24,000	48,000
	1,70,000	1,60,000	60,000
Add: Actual gross profit	32,500	39,400	24,600
	2,02,500	1,99,400	84,600
Less: Actual Sales	(1,72,500)	(1,59,400)	(74,600)
Closing stock as on 31.12.2020 (bal.fig.)	30,000	40,000	10,000

Working Note:

Calculation of discount on sales:

Departments	Α	В	С
	Rs.	Rs.	Rs.
Sales at normal price	10,000	3,000	1,000
Less: Sales at actual price	(7,500)	(2,400)	(600)
	2,500	600	400

- (b) Surya 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- 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.
- (c) Date of closure of subscription lists- 1.5.2020, date of allotment- 1.6.2020, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- Rs. 60 (Face Value Rs. 10).
- (d) Underwriting Commission- 2%.
- (e) 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, 2021 (including cash and bank entries).

ANSWER

Journal Entries

Date	Particulars		Amount Dr.	Amount Cr.
			Rs.	Rs.
1.5.2020	Bank A/c	Dr.	1,50,00,000	
	To Debenture Application A/c			1,50,00,000
	(Application money received on 1,50,000 debentures @ Rs. 100 each)			
1.6.2020	Debenture Application A/c	Dr.	1,50,00,000	
	Underwriters A/c	Dr.	50,00,000	
	To 15% Debentures A/c			2,00,00,000
	(Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)			
	Underwriting Commission	Dr.	4,00,000	

	To Underwriters A/c			4,00,000
	(Commission payable to underwriters @ 2% on Rs. 2,00,00,000)			
	Bank A/c	Dr.	46,00,000	
	To Underwriters A/c			46,00,000
	(Amount received from underwriters in settlement of account)			
01.06.2020	Debenture Redemption Investment A/c	Dr.	12,00,000	
	To Bank A/c			12,00,000
	(200,000 X 100 x 15% X 40%)			12,00,000
	(Being Investments made for redemption purpose)			
30.9.2020	Debenture Interest A/c	Dr.	10,00,000	
	To Bank A/c			10,00,000
	(Interest paid on debentures for 4 months @ 15% on Rs. 2,00,00,000)			
31.10.2020	15% Debentures A/c	Dr.	1,20,00,000	
	To Equity Share Capital A/c			20,00,000
	To Securities Premium A/c			1,00,00,0000
	(Conversion of 60% of debentures into shares of Rs. 60 each with a face value of Rs. 10)			
31.3.2021	Debenture Interest A/c	Dr.	7,50,000	
	To Bank A/c			7,50,000
	(Interest paid on debentures for the half year)			
	(Refer working note below)			

Working Note:

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

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

(c) Manu Ltd. gives the following information as at 31st March, 2021:

	Rs.
Issued and Subscribed capital:	
24,000 12% Preference shares of Rs. 10 each fully paid	2,40,000
2,70,000 Equity shares of Rs. 10 each, Rs. 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2021, the Company has made final call @ Rs. 2 each on 2,70,000 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 on 30th April, 2021 for these transactions.

ANSWER

Journal Entries

			Rs.	Rs.
1-4-2021	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of Rs. 2 per share on 2,70,000 equity shares due as per Board's Resolution dated)			
20-4-2021	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital redemption reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

5. (a) You are required to prepare a Balance Sheet as at 31st March 2020, as per Schedule III of the Companies Act, 2013, from the following information of Mehar Ltd.:

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

Additional Information: -

- 1. Share Capital consists of-
- (a) 1,20,000 Equity Shares of Rs. 100 each fully paid up.
- (b) 40,000, 10% Redeemable Preference Shares of Rs. 100 each fully paid up.
- 2. Write off the amount of Miscellaneous Expenses in full, amounting Rs. 2,32,000.

ANSWER

(a) Balance Sheet of Mehar Ltd. as at 31st March, 2020

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		Note	Rs.
1	EQUITY AND LIABILITIES:		
(1)	(a) Share Capital	1	1,60,00,000
	(b) Reserves and Surplus	2	110,68,000
(2)	Non-current Liabilities		
	Long term Borrowings-		40,00,000
	Terms Loans (Secured)		
(3)	Current Liabilities		
	(a) Trade Payables		45,80,000
	(b) Other current liabilities	3	8,00,000
	(c) Short-term Provisions (Provision for taxation)		10,20,000
	Total		3,74,68,000
II	ASSETS		
(1)	Non-current Assets		
	(a) Property, Plant and Equipment	4	214,00,000
	(b) Non- current Investments		9,00,000
(2)	Current Assets:		
	(a) Inventories	5	48,00,000
	(b) Trade Receivables	6	48,20,000
	(c) Cash and Cash Equivalents		38,40,000
	(d) Short-term Loans and Advances	7	17,08,000
	Total		3,74,68,000

Notes to accounts

			(Rs.)
1.	Share Capital		
	Authorized, issued, subscribed & called up		
	1,20,000, Equity Shares of Rs. 100 each	1,20,00,000	
	40,000 10% Redeemable Preference Shares of 100 each	40,00,000	1,60,00,000
2.	Reserves and Surplus		
	Securities Premium Account	19,00,000	
	General reserve	62,00,000	
	Profit & Loss Balance		
	Opening balance -		

CA Ravi Agarwal's CA INTER ACCOUNTING COMPILER 4.0

	Profit for the period	32,00,000		
	Less: Miscellaneous Expenditure			
	written off	(2,32,000)	29,68,000	110,68,000
3.	Other current liabilities			
	Loan from other parties			8,00,000
4.	Property, plant and equipment			
	Plant and Machinery (WDV)			214,00,000
5.	Inventories			
	Finished Goods		30,00,000	
	Stores		16,00,000	
	Loose Tools		2,00,000	48,00,000
6.	Trade Receivables			
	Trade receivables		49,00,000	
	Less: Provision for Doubtful Debts		(80,000)	48,20,000
7.	Short term loans & Advances			
	Staff Advances*		2,20,000	
	Other Advances*		14,88,000	17,08,000

(b) Sneha Ltd. was incorporated on 1st July, 2019 to acquire a running business of Atul Sons with effect from 1st April, 2019.

During the year 2019-20, the total sales were Rs. 24,00,000 of which Rs. 4,80,000 were for the first six months. The Gross profit of the company for the year was Rs. 3,90,800. The expenses charged to the Statement of Profit & Loss Account included the following:

- (i) Director's fees Rs. 30,000
- (ii) Bad debts Rs. 7,200
- (iii) Advertising Rs. 24,000 (under a contract amounting to Rs. 2,000 per month)
- (iv) Salaries and General Expenses Rs. 1,28,000
- (v) Preliminary Expenses written off Rs. 10,000
- (vi) Donation to a political party given by the company Rs. 10,000.

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2020. (14+6=20 Marks)

ANSWER

CA Ravi Agarwal's

Statement showing the calculation of Profits for the pre-incorporation and post incorporation periods for the year ended 31st March, 2020

Particulars	Total	Allocation	Pre-	Post-
		basis	incorporation	incorporation
			Rs.	Rs.
Gross Profit	3,90,800	Sales	39,080	3,51,720
Less: Directors' fee	30,000	Post		30,000
Bad debts	7,200	Sales	720	6,480
Advertising	24,000	Time	6,000	18,000
Salaries & general	1,28,000	Time	32,000	96,000
expenses				
Preliminary expenses	10,000	Post		10,000
Donation to Political	10,000	Post		10,000
Party				
Net Profit	1,81,600			1,81,240
Pre-incorporation profit transferred			360	
to Capital Reserve				

Working Notes:

1. Sales ratio

Particulars	Rs.
Sales for period up to 30.06.2019 (4,80,000 X 3/6)	2,40,000
Sales for period from 01.07.2019 to 31.03.2020 (24,00,000 - 2,40,000)	21,60,000

Thus, Sales Ratio = 1:9

2. Time ratio

1st April, 2019 to 30 June, 2019: 1st July, 2019 to 31st March, 2020

= 3 months: 9 months = 1: 3 Thus, Time Ratio is 1: 3

6. (a) A company incorporated in June 2020, has setup a factory within a period of 8 months with borrowed funds. The construction period of the assets had reduced drastically due to usage of technical innovations by the company and the company is able to justify the reasons for the same. Whether interest on borrowings for the period prior to the date of setting up the factory should be capitalized although it has taken less than 12 months for the assets to get ready for use. You are required to comment on the necessary treatment with reference to AS 16.

ANSWER

As per AS 16 'Borrowing Costs', a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Further, the standard states that what constitutes a substantial period of time primarily depends on the facts and circumstances of each case. However, ordinarily, a period of twelve months is considered as substantial period of time

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unless a shorter or longer period can be justified on the basis of facts and circumstances of the case. In estimating the period, time which an asset takes, technologically and commercially, to get it ready for its intended use or sale is considered. It may be implied that there is a rebuttable presumption that a 12 months period constitutes substantial period of time.

Under present circumstances where construction period has reduced drastically due to technical innovation, the 12 months period should at best be looked at as a benchmark and not as a conclusive yardstick. It may so happen that an asset under normal circumstances may take more than 12 months to complete. However, an enterprise that completes the asset in 8 months should not be penalized for its efficiency by denying it interest capitalization and vice versa. The substantial period criteria ensures that enterprises do not spend a lot of time and effort capturing immaterial interest cost for purposes of capitalization. Therefore, if the factory is constructed in 8 months then it shall be considered as a qualifying

asset. The interest on borrowings for the same shall be capitalised although it has taken less than 12 months for the asset to get ready to use.

(b) XYZ Ltd. proposes to declare 10% dividend out of General Reserves due to inadequacy of profits in the year ending 31-03-2020.

From the following particulars ascertain the amount that can be utilized from general reserves, according to the Companies Rules, 2014: (Rs.) 8,00,000 Equity Shares of Rs. 10 each fully paid up 80,00,000 General Reserves 25,00,000 Revaluation Reserves 6,50,000 Net profit for the year 1,42,500

Average rate of dividend during the last five years has been 12%.

ANSWER

Amount that can be drawn from reserves for (10% dividend on Rs. 80,00,000 i.e. Rs. 8,00,000)

Profits available

Current year profit Rs. 1,42,500 Amount which can be utilized from reserves (Rs. 8,00,000 – 1,42,500) Rs. 6,57,500

Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 2014:

Condition I

Since 10% is lower than the average rate of dividend (12%), 10% dividend can be declared.

Condition II

Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital plus free reserves ie. Rs. 10,50,000 [10% of (80,00,000 + 25,00,000)]

Condition III

The balance of reserves after drawl Rs. 18,42,500 (Rs. 25,00,000 - Rs. 6,57,500) should not fall below 15 % of its paid up capital ie. Rs. 12,00,000 (15% of Rs. 80,00,000) Since all the three conditions are satisfied, the company can withdraw Rs. 6,57,500 from accumulated reserve (as per Declaration and Payment of Dividend Rules, 2014).

OR

X Ltd. (a non-investment company) provides the following information as on 31st March, 2020 was obtained:

	Rs.
Issued and subscribed capital:	
15,000, 14% preference shares of Rs. 100 each fully paid	15,00,000
1,20,000 Equity shares of Rs. 100 each, Rs. 80 paid-up	96,00,000
Capital reserves (Rs. 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,25,000

You are required to compute Effective Capital as per the provisions of Schedule V to the Companies Act, 2013.

ANSWER

Computation of Effective Capital

		Rs.
Paid-up share capital-		
15,000, 14% Preference shares		15,00,000
1,20,000 Equity shares		96,00,000
Capital reserves (excluding revaluation reserve)		45,000
Securities premium		50,000
15% Debentures		65,00,000
	(A)	1,76,95,000
Investments		75,00,000
Profit and Loss account (Dr. balance)		15,25,000
	(B)	90,25,000
Effective capital	(A-B)	86,70,000

(c) Following is the cash flow abstract of Alpha Ltd. for the year ended 31st March, 2021: **Cash Flow (Abstract)**

Inflows	Rs.	Outflows	Rs.
Opening cash and bank balance	80,000	Payment for Account Payables	90,000
Share capital – shares issued	5,00,000	Salaries and wages	25,000
Collection from Trade		Payment of overheads	15,000
Receivables	3,50,000	Machinery acquired	4,00,000
		Debentures redeemed	50,000
Sale of Machinery	70,000	Bank loan repaid	2,50,000
		Tax paid	1,55,000
		Closing cash and bank balance	<u>15,000</u>
	10,00,000		10,00,000

Prepare Cash Flow Statement for the year ended 31st March, 2021 in accordance with AS 3.

ANSWER

Cash Flow Statement for the year ended 31.3.2021

<u>S</u>		
	Rs.	Rs.
Cash flow from operating activities		
Cash received on account of trade receivables	3,50,000	
Cash paid on account of trade payables	(90,000)	
Cash paid to employees (salaries and wages)	(25,000)	
Other cash payments (overheads)	(15,000)	
Cash generated from operations	2,20,000	
Income tax paid	(1,55,000)	
Net cash generated from operating activities		65,000
Cash flow from investing activities		
Payment for purchase of machinery	(4,00,000)	
Proceeds from sale of machinery	70,000	
Net cash used in investment activities		(3,30,000)
Cash flow from financing activities		
Proceeds from issue of share capital	5,00,000	
Bank loan repaid	(2,50,000)	
Debentures redeemed	(50,000)	
Net cash used in financing activities		2,00,000
Net decrease in cash and cash equivalents		(65,000)
Cash and cash equivalents at the beginning of the year		80,000
Cash and cash equivalents at the end of the year		15,000

- (d) Opening Balance Sheet of Mr. A is showing the aggregate value of assets, liabilities and equity Rs. 8 lakh, Rs. 3 lakh and Rs. 5 lakh respectively. During accounting period, Mr. A has the following transactions:
- (1) Earned 10% dividend on 2,000 equity shares held of Rs. 100 each
- (2) Paid Rs. 50,000 to creditors for settlement of Rs. 70,000
- (3) Rent of the premises is outstanding Rs. 10,000
- (4) Mr. A withdrew Rs. 9,000 for his personal use.

You are required to show the effect of above transactions on Balance Sheet in the form of Assets - Liabilities = Equity after each transaction.

ANSWER

Effects of each transaction on Balance sheet of the trader is shown below:

Transactions		Assets Rs. lakh	_	Liabilities Rs. lakh	=	Equity Rs. lakh
Open	ing	8.00	-	3.00	=	5.00
(1)	Dividend earned	8.20	-	3.00	=	5.20
(2)	Settlement of Creditors	7.70	-	2.30	=	5.40
(3)	Rent Outstanding	7.70	-	2.40	=	5.30
(4)	Drawings	7.61	-	2.40	=	5.21

RTP- NOV 2021

1. Om Ltd. has the Authorised Capital of Rs. 15,00,000 consisting of 6,000 6% Redeemable Preference shares of Rs. 100 each and 90,000 equity Shares of Rs.10 each. The following was the Trial Balance of the Company as on 31st March, 2021:

Particulars	Dr.	Cr.
Investment in shares at cost (non-current investment)	1,50,000	
Purchases	14,71,500	
Selling expenses	2,37,300	
Inventory as at the beginning of the year	4,35,600	
Salaries and wages (included Rs. 30,000 being Director's	1,56,000	
Remuneration)		
Cash on hand	84,000	
Bills receivable	1,24,500	
Interest on Bank overdraft	29,400	
Interest on debentures upto 30th Sep (1st half year)	11,250	
Trade receivables and trade payables	1,50,300	2,63,550
Freehold property at cost	10,50,000	
Furniture at cost less depreciation of Rs. 45,000	1,05,000	
6% Redeemable Preference share capital		6,00,000
Equity share capital fully paid up		6,00,000
5% mortgage debentures secured on freehold properties		4,50,000
Dividends		12,750
Profit and Loss A/c (opening balance)		85,500
Sales (Net)		20,11,050
Bank overdraft (secured by hypothecation of stocks and receivables)		4,50,000
Technical knowhow fees (cost paid during the year)	4,50,000	
Audit fees	18,000	
Total	44,72,850	44,72,850

Other Information:

- 1. Closing Stock was valued at Rs. 4,27,500.
- 2. Purchases include Rs. 15,000 worth of goods and articles distributed among valued customers.
- 3. Salaries and Wages include Rs. 6,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".

- 4. Bills Receivable include Rs. 4,500 being dishonoured bills. 50% of which had been considered irrecoverable.
- 5. Bills Receivable of Rs. 6,000 maturing after 31st March were discounted.
- 6. Depreciation on Furniture to be charged at 10% on Written Down Value.
- 7. Interest on Debentures for the half year ending on 31st March was due on that date.
- 8. Technical Knowhow Fees is to be written off over a period of 10 years.
- 9. Trade receivables include Rs. 18,000 due for more than six months.

You are required to prepare the Balance Sheet as at 31st March, 2021 and Statement of Profit and Loss for the year ended 31st March, 2021 as per Schedule III to the Companies Act, 2013 after taking into account the above information. Ignore taxation. ANSWER

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

		Note	(₹)
1	Equity and Liabilities		
(1)	Shareholders' funds:		
	(a) Share capital	1	12,00,000
	(b) Reserves and surplus	2	1,14,150
(2)	Non-current liabilities:		
	Long term borrowings	3	4,50,000
(3)	Current liabilities:		
	(a) Short term borrowings	4	4,50,000
	(b) Trade payables		2,63,550
	(c) Other current liabilities	5	11,250
	Total		24,88,950
II	ASSETS		
(1)	Non- Current Assets:		
	(a) Property, plant and equipment	6	11,49,900
	(b) Intangible assets	7	4,05,000
	(c) Non-current investments (Shares at cost)		1,50,000
(2)	Current Assets:		
	(a) Inventories		4,27,500
	(b) Trade receivables	8	2,72,550
	(c) Cash and Cash equivalents - Cash on hand		84,000
	Total		24,88,950

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

		Particulars	Note	₹
I		Revenue from Operations		20,11,050
Ш		Other income (Dividend income)		12,750
Ш	ı	Total Revenue (I &+ II)		20,23,800
I۱	/	Expenses:		
		(a) Purchases of Inventory (14,71,500 – Advertisement Expenses 15,000)		14,56,500
		(b) Changes in Inventories of finished Goods / Work in progress & inventory (4,35,600 – 4,27,500)		8,100
		(c) Employee Benefits expense	9	1,20,000
		(d) Finance costs	10	51,900
		(e) Depreciation & Amortization Expenses [10% of (1,05,000 + 6,000)]		11,100
		(f) Other Expenses	_11_	3,47,550
		Total Expenses		19,95,150
٧	/	Profit before exceptional, extraordinary items and tax		28,650
٧	/1	Exceptional items		-
٧	/11	Profit before extra-ordinary items and tax		28,650
٧	/111	Extraordinary items		-
D	X	Profit before tax		28,650

Notes to accounts

1. Share Capital Authorized capital: 90,000 Equity Shares of ₹ 10 each. 6,000 6% Preference shares of ₹ 100 each Issued, subscribed & called up: 60,000, Equity Shares of ₹ 10 each 6,000 6% Redeemable Preference Shares of 100 each 6,000 6% Redeemable Preference Shares of 100 each 6,000 6% Redeemable Preference Shares of 100 each 2. Reserves and Surplus Balance as on 1st April, 2020 Add: Surplus for current year Balance as on 31st March, 2021 3. Long Term Borrowings 5% Mortgage Debentures (Secured against Freehold Properties) 4. Short Term Borrowings Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables) 5. Other Current liabilities Interest due on Borrowings (5% Debentures) 6. Property, plant and equipment Furniture Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance Add: Depreciation 1,05,000 45,000				(₹)
90,000 Equity Shares of ₹ 10 each. 6,000 6% Preference shares of ₹ 100 each Issued, subscribed & called up: 60,000, Equity Shares of ₹ 10 each 6,000 6% Redeemable Preference Shares of 100 each 6,000 6% Redeemable Preference Shares of 100 each 6,000,000 2. Reserves and Surplus Balance as on 1st April, 2020 Add: Surplus for current year Balance as on 31st March, 2021 3. Long Term Borrowings 5% Mortgage Debentures (Secured against Freehold Properties) 4. Short Term Borrowings Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables) 5. Other Current liabilities Interest due on Borrowings (5% Debentures) 6. Property, plant and equipment Furniture Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 1,05,000	1.	Share Capital		
6,000 6% Preference shares of ₹ 100 each Issued, subscribed & called up: 60,000, Equity Shares of ₹ 10 each 6,000 6% Redeemable Preference Shares of 100 each 6,000 6% Redeemable Preference Shares of 100 each 2. Reserves and Surplus Balance as on 1st April, 2020 Add: Surplus for current year Balance as on 31st March, 2021 3. Long Term Borrowings 5% Mortgage Debentures (Secured against Freehold Properties) 4. Short Term Borrowings Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables) 5. Other Current liabilities Interest due on Borrowings (5% Debentures) 6. Property, plant and equipment Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 1,05,000		Authorized capital:		
Issued, subscribed & called up: 60,000, Equity Shares of ₹ 10 each 6,000 6% Redeemable Preference Shares of 100 each 6,000,000 2. Reserves and Surplus Balance as on 1st April, 2020 Add: Surplus for current year Balance as on 31st March, 2021 3. Long Term Borrowings 5% Mortgage Debentures (Secured against Freehold Properties) 4. Short Term Borrowings Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables) 5. Other Current liabilities Interest due on Borrowings (5% Debentures) 6. Property, plant and equipment Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 1.05,000		90,000 Equity Shares of ₹ 10 each.	9,00,000	
60,000, Equity Shares of ₹ 10 each 6,000 6% Redeemable Preference Shares of 100 each 6,000,000 2. Reserves and Surplus Balance as on 1st April, 2020 Add: Surplus for current year Balance as on 31st March, 2021 3. Long Term Borrowings 5% Mortgage Debentures (Secured against Freehold Properties) 4. Short Term Borrowings Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables) 5. Other Current liabilities Interest due on Borrowings (5% Debentures) 6. Property, plant and equipment Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 6,00,000 12,00,000 12,00,000 4,50,000 4,50,000 11,250		6,000 6% Preference shares of ₹ 100 each	6,00,000	
6,000 6% Redeemable Preference Shares of 100 each 12,00,000 2. Reserves and Surplus Balance as on 1st April, 2020 Add: Surplus for current year Balance as on 31st March, 2021 3. Long Term Borrowings 5% Mortgage Debentures (Secured against Freehold Properties) 4. Short Term Borrowings Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables) 5. Other Current liabilities Interest due on Borrowings (5% Debentures) 6. Property, plant and equipment Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 10,000 12,00,000 12,00,000 4,50,000 4,50,000 11,250		Issued, subscribed & called up:		
2. Reserves and Surplus Balance as on 1st April, 2020 Add: Surplus for current year Balance as on 31st March, 2021 3. Long Term Borrowings 5% Mortgage Debentures (Secured against Freehold Properties) 4. Short Term Borrowings Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables) 5. Other Current liabilities Interest due on Borrowings (5% Debentures) 6. Property, plant and equipment Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 1.05,000		60,000, Equity Shares of ₹ 10 each	6,00,000	
2. Reserves and Surplus Balance as on 1st April, 2020 Add: Surplus for current year Balance as on 31st March, 2021 3. Long Term Borrowings 5% Mortgage Debentures (Secured against Freehold Properties) 4. Short Term Borrowings Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables) 5. Other Current liabilities Interest due on Borrowings (5% Debentures) 6. Property, plant and equipment Furniture Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 85,500 4,50,000 4,50,000 4,50,000 11,250		6,000 6% Redeemable Preference Shares of 100 each	6,00,000	
Balance as on 1st April, 2020 Add: Surplus for current year Balance as on 31st March, 2021 3. Long Term Borrowings 5% Mortgage Debentures (Secured against Freehold Properties) 4. Short Term Borrowings Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables) 5. Other Current liabilities Interest due on Borrowings (5% Debentures) 6. Property, plant and equipment Furniture Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 1,05,000				12,00,000
Add: Surplus for current year Balance as on 31st March, 2021 1.14.150 Long Term Borrowings 5% Mortgage Debentures (Secured against Freehold Properties) Short Term Borrowings Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables) Other Current liabilities Interest due on Borrowings (5% Debentures) Property, plant and equipment Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 1,05,000	2.	Reserves and Surplus		
Balance as on 31st March, 2021 3. Long Term Borrowings 5% Mortgage Debentures (Secured against Freehold Properties) 4. Short Term Borrowings Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables) 5. Other Current liabilities Interest due on Borrowings (5% Debentures) 6. Property, plant and equipment Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 1.14.150 4,50,000 4,50,000 11,250		Balance as on 1st April, 2020	85,500	
3. Long Term Borrowings 5% Mortgage Debentures (Secured against Freehold Properties) 4. Short Term Borrowings Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables) 5. Other Current liabilities Interest due on Borrowings (5% Debentures) 6. Property, plant and equipment Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 1,05,000		Add: Surplus for current year	28,650	
5% Mortgage Debentures (Secured against Freehold Properties) 4. Short Term Borrowings Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables) 5. Other Current liabilities Interest due on Borrowings (5% Debentures) 6. Property, plant and equipment Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 4,50,000 4,50,000 4,50,000		Balance as on 31st March, 2021		<u>1,14,150</u>
Properties) 4. Short Term Borrowings Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables) 5. Other Current liabilities Interest due on Borrowings (5% Debentures) 6. Property, plant and equipment Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 1,05,000	3.	Long Term Borrowings		
Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables) 5. Other Current liabilities Interest due on Borrowings (5% Debentures) 6. Property, plant and equipment Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 4,50,000 4,50,000				4,50,000
Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables) 5. Other Current liabilities Interest due on Borrowings (5% Debentures) 6. Property, plant and equipment Furniture Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 1,05,000	4.	Short Term Borrowings		
Interest due on Borrowings (5% Debentures) 6. Property, plant and equipment Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 1,05,000		Overdraft from Banks (Secured by Hypothecation of		4,50,000
6. Property, plant and equipment Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 1,05,000	5.	Other Current liabilities		
Furniture Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 1,05,000		Interest due on Borrowings (5% Debentures)		11,250
Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance 1,05,000	6.	Property, plant and equipment		
given in Trial Balance 1,05,000		Furniture		
Add: Depreciation 45,000			1,05,000	
		Add: Depreciation	<u>45,000</u>	

	Cost of Furniture	1,50,000	
	Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages	6,000	
	Total Gross block of Furniture A/c	6,000 1,56,000	
	Accumulated Depreciation Account: Opening Balance-given in Trial Balance 45,000		
	Depreciation for the year: On Opening WDV at 10% i.e. (10% x 1,05,000) 10,500		
	On additional purchase during the year at 10% i.e. (10% x 6,000) 600		
	Less: Accumulated Depreciation	56,100	99,900
	Freehold property (at cost)		10,50,000
			11,49,900
7.	Intangible Assets		
	Technical knowhow	4,50,000	
	Less: Written off	45,000	4,05,000
8.	Trade Receivables		
	Sundry Debtors (a) Debt outstanding due more than six months	18,000	
	(b) Other Debts (refer Working Note)	1,34,550	
	Bills Receivable (1,24,500 -4,500)	1,20,000	2,72,550
9.	Employee benefit expenses		
	Salaries & Wages	1,56,000	
	Less: Wages incurred for installation of electrical fittings to be capitalised	6,000	
	Less: Directors' Remuneration shown separately	30,000	
	Balance amount		1,20,000
10.	Finance Costs		
	Interest on bank overdraft	29,400	
	Interest on debentures	22,500	
			51,900
11.	Other Expenses		
	Payment to the auditors	18,000	
	Director's remuneration	30,000	
	Selling expenses	2,37,300	
	Technical knowhow written of (4,50,000/10)	45,000	
	Advertisement (Goods and Articles Distributed)	15,000	
	Bad Debts (4,500 x 50%)	<u>2,250</u>	3,47,550

Working Note:

Calculation of Sundry Debtors-Other Debts

Sundry Debtors as given in Trial Balance	1,50,300
Add Back: Bills Receivables Dishonoured	4,500
	1,54,800
Less: Bad Debts written off – 50% Rs. 4,500	(2,250)
Adjusted Sundry Debtors	1,52,550
Less: Debts due for more than 6 months (as per information given)	(18,000)
Total of other Debtors i.e. Debtors outstanding for less than 6 months	1,34,550

2. (a) Star Ltd. gives the following information the year ended 31st March, 2021:

Gross profit	60,38,048
Subsidies received from Govt.	4,10,888
Administrative, Selling and distribution expenses	12,33,813
Directors' fees	2,02,170
Interest on debentures	46,860
Managerial remuneration	4,28,025
Depreciation on Property, plant and equipment (PPE)	7,83,815
Provision for Taxation	18,63,750
Transfer to General Reserve	6,00,000
Transfer to Investment Revaluation Reserve	18,750

Depreciation on PPE as per Schedule II of the Companies Act, 2013 was Rs. 8,63,018 You are required to calculate the maximum amount of the managerial remuneration as allowed as per Companies Act, 2013.

ANSWER

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

	₹	₹
Gross profit		60,38,048
Add: Subsidies received from Government		4,10,888
		64,48,936
Less: Administrative, selling and distribution expenses	12,33,813	
Director's fees	2,02,170	
Interest on debentures	46,860	
Depreciation on PPE as per Schedule II	8,63,018	(23,45,861)
Profit u/s 198		41,03,075

Maximum Managerial remuneration under Companies Act, 2013= 11% of Rs. 41,03,075 = Rs. 4,51,338

- (b) State under which head these accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:
- (i) Share application money received in excess of issued share capital.
- (ii) Share option outstanding account.
- (iii) Unpaid matured debenture and interest accrued thereon.
- (iv) Uncalled liability on shares and other partly paid investments.
- (v) Calls unpaid.

ANSWER

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

Cash Flow Statement

- 3 On the basis of the following information prepare a Cash Flow Statement for the year ended 31st March, 2021 (Using direct method):
- (i) Total sales for the year were Rs. 597 crores out of which cash sales amounted to Rs. 393 crores.
- (ii) Receipts from credit customers during the year, totalled Rs. 201 crores.
- (iii) Purchases for the year amounted to Rs. 330 crores out of which credit purchases were 80%.

Balance in creditors as on 1.4.2020 Rs. 126 crores 31.3.2021 Rs. 138 crores

- (iv) Suppliers of other consumables and services were paid Rs. 28.5 crores in cash.
- (v) Employees of the enterprises were paid 30 crores in cash.
- (vi) Fully paid preference shares of the face value of Rs. 48 crores were redeemed. Equity shares of the face value of Rs. 30 crores were allotted as fully paid up at premium of 20%.
- (vii) Debentures of Rs. 30 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.
- (viii) Rs. 39 crores were paid by way of income tax.
- (ix) A new machinery costing Rs. 15 was purchased.
- (x) Investment costing Rs. 27 cores were sold at a loss of Rs. 3 crores.
- (xi) Dividends totalling Rs. 22.5 crores was also paid.
- (xii) Debenture interest amounting Rs. 3 crore was paid.
- (xiii) On 31st March 2020, Balance with Bank and Cash on hand totalled Rs. 3 crores.