## ACCOUNTS (Part 2)

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## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

## Topic - 1 BONUS AND RIGHT ISSUE

## Question I (RTP Nov 18 \& May 20)

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

## SOLUTION

Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares $x$ Issue Price) / (Existing Number of shares + Number of Right shares)
$=(R s 360 \times 2$ Shares + Rs $180 \times 1$ Share $) /(2+1)$ Shares
$=$ Rs $900 / 3$ shares $=$ Rs 300 per share .
Value of right $\quad$ Cum-right value of the share - Ex-right value of the share

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

Hence, any one desirous of having a confirmed allotment of one share from the company at Rs 180 will have to pay Rs 120 ( 2 shares $\times$ Rs 60) to an existing shareholder holding 2 shares and will into renounce his right of buying one share in favour of that person.

## Question 2 (RTP May 20)

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

|  | Rs |
| :--- | :---: |
| Sources of funds <br> Authorized capital |  |
| 10,000 Equity shares of Rs 10 each | $5,00,000$ |
|  | $10,00,000$ |
| Issued, subscribed and paid up | $15,00,000$ |
| 30,000 Equity shares of Rs 10 each |  |
| $5,000,8 \%$ Redeemable Preference shares of Rs 100 each | $3,00,000$ |
| Reserves \& Surplus | $5,00,000$ |
| Securities Premium |  |
| General Reserve | $6,00,000$ |
| Profit \& Loss A/c | $6,50,000$ |
| Trade payables | 40,000 |
| Application of funds | $4,20,000$ |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

| PPE (net) | $7,80,000$ |
| :--- | :--- |
| Investments (market value Rs 5,80,000) | $4,90,000$ |
| Deferred Tax Assets | $3,40,000$ |
| Trade receivables | $6,20,000$ |
| Cash \& Bank balance | $2,80,000$ |
|  | $25,10,000$ |

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

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

## SOLUTION

## Bumbum Limited <br> Journal Entries

| 2019 |  | Dr. (Rs) | Cr. (Rs) |
| :---: | :---: | :---: | :---: |
| July 1 | Equity Share Capital A/c (Rs. 10 each) Dr. | 3,00,000 | 3,00,000 |
|  | To Equity share capital A/c (Rs 2 each) |  |  |
|  | (Being equity share of Rs 10 each splitted into 5 equity shares of Rs 2 each) \{1,50,000 $\times 2\}$ |  |  |
| July 10 | Cash \& Bank balance A/c Dr. | 5,55,000 |  |
|  | To Investment A/C |  | 4,90,000 |
|  | To Profit \& Loss A/C |  | 65,000 |
|  | (Being investment sold out and profit on sale credited to Profit \& Loss A/c) |  |  |
| July 10 | $8 \%$ Red. pref. sh. capital A/c Dr. | 5,00,000 |  |
|  | Premium on red. of pref. sh. A/c Dr. | 25,000 |  |
|  | To Preference shareholders A/c |  | 5,25,000 |
|  | (Being amount payable to preference share holders on redemption) |  |  |
| July 10 | Preference shareholders A/c Dr. | 5,25,000 |  |
|  | To Cash \& bank A/c |  | 5,25,000 |
|  | (Being amount paid to preference shareholders) |  |  |
| July 10 | General reserve A/C Dr. | 5,00,000 |  |
|  | To Capital redemption reserve A/C |  | 5,00,000 |
|  | (Being amount equal to nominal value of preference |  |  |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)



Balance Sheet as at 30th September, 2019

| Particulars |  | Notes | Rs |
| :--- | :--- | :---: | :---: |
|  | Equity and Liabilities |  |  |
| $\mathbf{1}$ | Shareholders' funds |  |  |
| $a$ | Share capital | 1 | $4,00,000$ |
| $b$ | Reserves and Surplus | 2 | $12,30,000$ |
| 2 | Current liabilities |  |  |
| a | Trade Payables |  | $4,20,000$ |
|  | Total |  | $20,50,000$ |
|  | Assets |  |  |
| 1 | Non-current assets |  | 7, |
| a | PPE |  | $3,80,000$ |
| $b$ | Deferred tax asset |  |  |
| 2 | Current assets |  | $6,20,000$ |
|  | Trade receivables |  | $3,10,000$ |
|  | Cash and cash equivalents |  | $20,50,000$ |
|  | Total |  |  |

Notes to accounts

| 1 | Share Capital | Rs | Rs |
| :---: | :--- | :---: | :---: |
|  | Authorized share capital |  |  |
|  | $2,50,000$ Equity shares of Rs 2 each | $5,00,000$ |  |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

| 2 | 10,000 8\% Preference shares of Rs100 each | 10,00,000 | 15,00,000 |
| :---: | :---: | :---: | :---: |
|  | Issued, subscribed and paid up |  |  |
|  | 2,00,000 Equity shares of Rs. 2 each |  | 4,00,000 |
|  | Reserves and Surplus |  |  |
|  | Securities Premium A/c |  |  |
|  | Balance as per balance sheet | 6,00,000 |  |
|  | Less: Adjustment for premium on preference Shares | $(25,000)$ |  |
|  | Balance |  | 5,75,000 |
|  | Capital Redemption Reserve ( $5,00,000-1,00,000$ ) |  | 4,00,000 |
|  | General Reserve (6,50,000 - 5,00,000) |  | 1,50,000 |
|  | Profit \& Loss A/C | 40,000 | 1,05,000 |
|  | Add: Profit on sale of investment | 65,000 |  |
|  | Total |  | 12,30,000 |

Working Notes:

|  |  |
| :--- | ---: |
| 1. Redemption of preference shares | Rs |
| S,000 Preference shares of Rs 100 each | $5,00,000$ |
| Premium on redemption @ $5 \%$ | 25,000 |
| Amount Payable | $5,25,000$ |
| 2. Issue of Bonus Shares | $1,50,000$ shares |
| Existing equity shares after split (30,000 x 5) | 50,000 shares |
| Bonus shares (I share for every 3 shares held) to be issued |  |
| 3. Cash and Bank Balance | $2,80,000$ |
| Balance as per balance sheet | $5,55,000$ |
| Add: Realization on sale of investment | $8,35,000$ |
|  | $(5,25,000)$ |
| Less: Paid to preference share holders | $3,10,000$ |
| Balance |  |

## Question 3 (RTP Nov 20)

Following is the extract of the Balance Sheet of Madhu Ltd. as at 31stMarch,2020

|  | Rs. |
| :--- | ---: |
| Authorized capital: <br> $45,000 ~ 12 \% ~ P r e f e r e n c e ~ s h a r e s ~ o f ~ R s .10 ~ e a c h ~$ | $4,50,000$ |
| $6,00,000$ Equity shares of Rs.10 each | $60,00,000$ |
|  | $64,50,000$ |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

| Issued and Subscribed capital: |  |
| :--- | ---: |
| $36,000 \quad 12 \%$ Preference shares of Rs.10 each fully paid | $3,60,000$ |
| $4,05,000$ Equity shares of Rs. 10 each, Rs. 8 paid up | $32,40,000$ |
| Reserves and surplus: |  |
| General Reserve | $5,40,000$ |
| Capital Redemption Reserve | $1,80,000$ |
| Securities premium (collected in cash) | $1,12,500$ |
| Profit and Loss Account | $9,00,000$ |

On IstApril, 2020, the Company has made final call @ Rs. 2 each on 4,05,000 equity shares. The call money was received by 20thApril, 2020. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held by utilizing the balance of profit and loss account to the minimum extent.

You are required to prepare necessary journal entries in the books of the company and prepare the relevant extract of the balance sheet as on 30thApril, 2020 after bonus issue.

## SOLUTION

Journal Entries in the books of Madhu Ltd.

|  |  |  | Rs. | Rs. |
| :--- | :--- | ---: | ---: | ---: |
| $1-4-2020$ | Equity share final call A/c | Dr. | $8,10,000$ |  |
|  | To Equity share capital A/c |  |  | $8,10,000$ |
|  | (For final calls of Rs.2 per share on <br> 4,05,000 equity shares due as per Board's <br> Resolution dated....) |  |  |  |
| $20-4-2020$ | Bank A/c | Dr. | $8,10,000$ |  |
|  | To Equity share final call A/c |  |  | $8,10,000$ |
|  | (For final call money on 4,05,000 equity <br> shares received) |  |  |  |
|  | Securities Premium A/c | Dr. | $1,12,500$ |  |
|  | Capital redemption reserve A/c | Dr. | $1,80,000$ |  |
|  | General Reserve A/c | Dr. | $5,40,000$ |  |
|  | Profit and Loss A/c (b.f.) | Dr. | $1,80,000$ |  |
|  | To Bonus to shareholders A/c |  |  | $10,12,500$ |
|  | (For making provision for bonus issue of one <br> share for every four shares held) <br> Bonus to shareholders A/c |  |  |  |
|  | To Equity share capital A/c | Dr. | $10,12,500$ |  |
|  | (For issue of bonus shares) |  |  | $10,12,500$ |

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

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

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

## Question 4 (ICAI Module)

The following is the summarized Balance Sheet of Trinity Ltd. as at 31.3.2014:

| Liabilities | Amount | Assets | Amount |
| :--- | :--- | :--- | :---: |
| Share Capital (A) |  | Fixed Assets |  |
| Authorised |  | Gross Block | $3,00,000$ |
| 10,000 10\% Redeemable Preference |  | Less: Depreciation | $1,00,000$ |
| Shares of Rs. 10 each | $1,00,000$ |  | $1,00,000$ |
| 90,000 Equity Shares of Rs.10 each | $9,00,000$ | Investments | $1,00,000$ |
|  | $10,00,000$ |  |  |
| Issued, Subscribed and Paid-up <br> Capital |  | Current Assets and Loans <br> and Advances |  |
| 10,000 10\% Redeemable Preference |  | Inventory | 45,000 |
| Shares of Rs. 10 each | $1,00,000$ | Trade receivables | 25,000 |
| 10,000 Equity Shares of Rs. 10 each | $1,00,000$ | Cash and Bank Balances | 50,000 |
|  | $2,00,000$ |  |  |
| Reserves and Surplus (B) | 120000 |  | $4,20,000$ |
| General reserve | 70000 |  |  |
| Securities Premium | 18,500 |  |  |
| Profit and Loss A/c | $2,08,500$ |  |  |
|  | 11,500 |  |  |
| Current Liabilities and Provision (C) | $4,20,000$ | Total |  |
| Total (A + B +C) |  |  |  |

For the year ended 31.3. 2015, the company made a net profit of Rs. 35,000 after providing 20,000 depreciation. The following additional information is available with regard to company's operation:
I. The preference dividend for the year ended 31.3. 2015 was paid.
2. Except cash and bank balances other current assets and current liabilities as on 31.3.2015, was the same

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

ason31.3.2014.
3. The company redeemed the preference shares at a premium of $10 \%$.
4. The company issued bonus shares in the ratio of one share for every equity share held as on 31.3.2015.
5. To meet the cash requirements of redemption, the company sold investments.
6. Investments were sold at $90 \%$ of coston31.3.2015.

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

## SOLUTION

Journal Entries in the Books of Trinity Ltd.

| Particulars | Debit | Credit |
| :---: | :---: | :---: |
| Securities Premium A/c <br> To Premium on Redemption of Preference shares <br> (Being amount of premium payable on redemption of preference shares) | 10,000 | 10,000 |
| $10 \%$ Redeemable Preference Capital $\qquad$ <br> Premium on redemption of Preference Shares <br> To Preference Shareholders <br> (Being the amount payable to preference shareholders on redemption) | $\begin{gathered} 1,00,000 \\ 10,000 \end{gathered}$ | 1,10,000 |
| General Reserve A/c <br> To Capital Redemption Reserve <br> (Being transfer to the latter account on redemption of shares) | 1,00,000 | 1,00,000 |
| Bank A/C <br> Profit and Loss A/c <br> To Investments <br> (Being amount realised on sale of Investments \&loss thereon adjusted) | $\begin{aligned} & 90,000 \\ & 10,000 \end{aligned}$ | 1,00,000 |
| Preference shareholders A/C <br> To Bank A/c | 1,10,000 | 1,10,000 |
| (Being payment made to preference shareholders) |  |  |
| Capital Redemption Reserve A/C <br> To Bonus to Shareholders A/c <br> (Amount adjusted for issuing bonus share in the ratio of 1: 1) | 1,00,000 | 1,00,000 |
| Bonus to Shareholders A/c <br> To Equity Share Capital A/C <br> (Balance on former account transferred to latter) | 1,00,000 | 1,00,000 |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

## Topic - 2

## Pre and post incorporation

## Question 5 (RTP May 18 \& Also in MTP April 19, May 21)

The Business carried on by Kamal under the name " $K$ " was taken over as a running business with effect from Ist April, 2016 by Sanjana Ltd., which was incorporated on Ist July, 2016. The same set of books was continued since there was no change in the type of business and the following particulars of profits for the year ended 31st March, 2017 were available.

|  | Rs | Rs |
| :--- | :---: | :---: |
| Sales: Company period | 40,000 |  |
| Prior period | 10,000 | 50,000 |
| Selling Expenses | 3,500 |  |
| Preliminary Expenses written off | 1,200 |  |
| Salaries | 3,600 |  |
| Directors' Fees | 1,200 |  |
| Interest on Capital (Upto 30.6.2016) | 700 |  |
| Depreciation | 2,800 |  |
| Rent | 4,800 |  |
| Purchases Company Period | 25,000 |  |
| Carriage Inwards | 1,019 | 43,819 |
| Net Profit |  | 6,181 |

The purchase price (including carriage inwards) for the post -incorporation period had increased by 10 percent as compared to pre-incorporation period. No stocks were carried either at the beginning or at the end.

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

## SOLUTION

Statement showing the calculation of profits/losses for pre incorporation and Post incorporation period profits of Sanjana Ltd. for the year ended 31st March, 2017

| Particulars | Basis | Pre Rs | Post Rs |
| :--- | :--- | :--- | :--- |
| Sales (given) |  | 10,000 | 40,000 |
| Less Purchases | $1: 3.3$ | 5,814 | 19,186 |
| Carriage Inwards | $1: 3.3$ | 237 | 782 |
| Gross Profit (i) |  | 3,949 | 20,032 |
| Less Selling Expenses | $1: 4$ | 700 | 2,800 |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

| Preliminary Exp |  | - | 1,200 |
| :--- | :--- | :--- | :--- |
| Salaries | $1: 3$ | 900 | 2,700 |
| Directors Fees |  | - | 1,200 |
| Interest on Capital | $1: 3$ | 700 | - |
| Depreciation | $1: 3$ | 700 | 2,100 |
| Rent |  | 1,200 | 3,600 |
| Total Expenses (ii) | 4,200 | 13,600 |  |
| Capital Loss/Net Profit (i-ii) |  | $(251)$ | 6,432 |

## Working Notes:

1: Sales Ratio $=10,000: 40,000=1: 4$
2: Time Ratio $=3: 9=1: 3$
3: Purchase Price Ratio
Therefore Ratio is $3: 9$
But purchase price was $10 \%$ higher in the company period
Ratio is $3: 9+10 \%$
3:9.9 $=1: 3.3$.

## Question 6 (RTP May20)

The partners of Shri Enterprises decided to convert the partnership firm into a Private Limited Company Shreya (P) Ltd. with effect from Ist January, 2018. However, company could be incorporated only on Ist June, 2018. The business was continued on behalf of the company and the consideration of Rs. 6,00,000 was settled on that day along with interest @ $12 \%$ per annum. The company availed loan of Rs.9,00,000 @ $10 \%$ per annum on Ist June, 2018 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2019 and presents you the following summarized profit and loss account:

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

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

Sales from June, 2018 to December, 2018 were $21 / 2$ times of the average sales, which further increased to $31 / 2$ times in January to March quarter, 2019. The company recruited additional work force to expand the business. The salaries from July, 2018 doubled. The company also acquired additional showroom at monthly rent of Rs10,000 from July, 2018.
You are required to prepare a Profit and Loss Account showing apportionment of cost and revenue between preincorporation and post-incorporation periods.

## SOLUTION

## Shreya (P) Limited

## Profit and Loss Account

for 15 months ended 31st March, 2019


## Working Notes:

1. Calculation of sales ratio:

Let the average sales per month in pre-incorporation period be $x$
Average Sales (Pre-incorporation)
Sales (Post incorporation) from June to December, $2018=21 / 2 \times \times 7=17.5 \times$
From January to March, $2019=31 / 2 \times 3=3=10.5 \times$

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

Total Sales
Sales ratio of pre-incorporation \& post incorporation is $5 x: 28 x$
28.0x
2. Calculation of ratio for salaries

Let the average salary be $x$
Pre-incorporation salary $=x \times 5=5 x$
Post incorporation salary
June, $2018=x$
July 18 to March, $2019=x \times 9 \times 2=18 x$
$19 x$
Ratio is $5: 19$
3. Calculation of Rent

Total rent
Less: Additional rent for 9 months @ Rs10,000 p.m.
Rent of old premises apportioned in time ratio
Apportionment
Old premises rent
Pre Inc.
15,000
Additional Rent

## 15,000

## Rs

1,35,000
90,000
45,000
Post Inc.
30,000
90,000
1,20,000
4. Calculation of interest

Pre-incorporation period from January, 2018 to May, 2018
$\frac{6,00,000 \times 12 \times 5}{100 \times 12}=$ Rs 30,000

Post incorporation period from June, 2018 to March, 2019
$\frac{9,00,000 \times 10 \times 10}{100 \times 12}=$
Rs75,000
RsI,05,000

## Question 7 (EXAM Nov18-12 Marks)

Sun Limited took over the running business of a partnership firm M/s A \& N Brothers with effect from Ist April, 2017. The company was incorporated on Ist September, 2017. The following profit and loss account has been prepared for the year ended 31st March, 2018.

| Particulars | Rs | Particulars | Rs |
| :--- | :--- | :--- | :--- |
| To salaries | $1,33,000$ | By Gross Profit b/d | $7,50,000$ |
| To rent | 96,000 |  |  |
| To carriage outward | 75,000 |  |  |
| To audit fees | 12,000 |  |  |
| To travelling expenses | 66,000 |  |  |
| To commission on sales | 48,000 |  |  |
| To printing and stationery | 24,000 |  |  |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

| To electricity charges | 30,000 |  |  |
| :--- | :--- | :--- | :--- |
| To depreciation | 80,000 |  |  |
| To advertising expenses | 24,000 |  |  |
| To preliminary expenses | 9,000 |  |  |
| To Managing Director's remuneration | 8,000 |  |  |
| To Net Profit c/d | $1,45,000$ |  | $\mathbf{7 , 5 0 , 0 0 0}$ |
|  | $7,50,000$ |  |  |

## Additional Information:

1. Trend of sales during April, 2017 to March, 2018 was as under:

| April, May | Rs 85,000 per month |
| :--- | :--- |
| June, July | Rs 1,05,000 per month |
| August, September | Rs 1,20,000 per month |
| October, November | Rs 1,40,000 per month |
| December onwards | Rs1,50,000 per month |

2. Sun Limited took over a machine worth Rs $7,20,000$ from A\&N Brothers and purchased a new machine on Ist February, 2018 for Rs $4,80,000$. The company decides to provide depreciation @ $10 \%$ p.a.
3. The company occupied additional space from Ist October, 2017 @ rent of Rs6,000 per month.
4. Out of travelling expenses, Rs 30,000 were incurred by office staff while remaining expenses were incurred by salesmen.
5. Audit fees pertain to the company.
6. Salaries were doubled from the date of incorporation.

You are required to prepare a statement apportioning the expenses between pre and post incorporation periods and calculate the profit/(loss) for such periods.

## SOLUTION

Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.2018

| Particulars | Pre-incorporation <br> period | Post- incorporation <br> period |
| :--- | :---: | :---: |
|  | Rs | Rs |$|$| Gross profit (1:2) | $2,50,000$ | 98,000 |
| :--- | :---: | :---: |
| Less: Salaries (5:14) | 35,000 | 50,000 |
| Carriage outward (1:2) | 25,000 | 12,000 |
| Audit fee | - | 41,500 |
| Travelling expenses (W.N.3) | 24,500 | 32,000 |
| Commission on sales (1:2) | 16,000 | 14,000 |
| Printing \& stationary (5:7) | 10,000 | 71,000 |
| Rent (office building) (W.N.4) | 25,000 | 17,500 |
| Electricity charges (5:7) | 12,500 | 50,000 |
| Depreciation | 30,000 |  |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

| Advertisement (1:2) | 8,000 | 16,000 |
| :--- | :---: | :---: |
| Preliminary expenses | - | 9,000 |
| MD remuneration | $\ldots-\ldots-$ | 8,000 |
| Pre-incorporation profit - ts/f to Capital <br> reserve (Bal. Fig.) | 64,000 | - |
| Net profit (Bal. Fig.) | - | 81,000 |

## Working Notes:

I. Time Ratio

Pre incorporation period $=1$ st April, 2017 to 31 st August, 2017 i.e. 5 months
Post incorporation period is 7 months
Time ratio is $5: 7$.
2. Sales ratio

| April | 85,000 |
| :--- | :---: |
| May | 85,000 |
| June | $1,05,000$ |
| July | $1,05,000$ |
| August | $1,20,000$ |
|  | $5,00,000$ |
| September | $1,20,000$ |
| Oct \& Nov. | $2,80,000$ |
| Dec. to March $(1,50,000 \times 4)$ | $6,00,000$ |
|  | $10,00,000$ |

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

|  | Rs | Rs |
| :--- | :---: | :---: |
|  | Pre-incorporation | Post- incorporation |
| 30,000 office staff $(5: 7)$ | 12,500 | 17,500 |
| 36,000 sales (1:2) | 12,000 | 24,000 |
|  | 24,500 | 41,500 |

2. Rent

|  | Rs |
| :--- | :---: |
| Rent for additional space Rs $(6,000 \times 6)$ | 36,000 |
| Remaining rent Rs $(96,000-36,000)$ | 60,000 |
| Pre-incorporation period $(5 / 12$ of 60,000$)$ | 25,000 |
| Post- incorporation period Rs35,000 + Rs36,000 | 71,000 |

3. Salaries

Suppose $x$ for a month in pre-incorporation period then salaries for pre-incorporation period $=5 x$ salaries for post- incorporation period $=2 x \times 7=14 x$

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

$$
\text { Ratio }=5: 14
$$

4. Depreciation

|  | Rs | Rs |
| :--- | :---: | :---: |
|  | Pre- <br> incorporation | Post- <br> incorporation |
| Total depreciation 80,000 |  | 8,000 |
| Less: Depreciation exclusively for post <br> incorporation period <br> (Rs4, 80,000 $\times 10 \times 2 / 12$ ) 8,000 |  |  |
| 72,000 |  |  |
| Depreciation for pre-incorporation period <br> (Rs $72,000 \times 5 / 12$ ) | 30,000 |  |
| Depreciation for post incorporation period <br> (Rs $72,000 \times 7 / 12$ ) |  | 52,000 |

## Question 8 (Nov. 19 - 10 Marks)

The partners of C\&G decided to convert their existing partnership business into a private limited called CG trading Pvt. Ltd. with effect froml.7.2018.
The same books of accounts were continued by the company which closed its accounts for the first term on 31.3.2019.

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

| Particulars | Rs in lakhs | Rs in lakhs |
| :--- | :---: | :---: |
| Turnover | 245.00 |  |
| Interest on investments | 6.00 | 251.00 |
| Less: Cost of goods sold | 124.32 |  |
| Advertisement | 3.50 |  |
| Sales Commission | 7.00 |  |
| Salaries | 18.00 |  |
| Managing Director's Remuneration | 6.00 |  |
| Interest on Debentures | 2.00 |  |
| Rent | 5.50 |  |
| Bad debt | 1.15 |  |
| Underwriting Commission | 1.00 |  |
| Audit fees | 3.00 |  |
| Loss on sale of Investments | 1.00 |  |
| Depreciation | 4.00 | 176.47 |
|  |  | 74.53 |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

The following additional information was provided:
(i) The average monthly sales doubled from 1.7.2018, GP ratio was constant.
(ii) All investments were sold on 31.5.2018.
(iii) Average monthly salaries doubled froml.10.2018.
(iv) The company occupied additional space from 1.7.2018 for which rent of Rs20,000 per month was incurred.
(v) Bad debts recovered amounting to Rs60,000 for a sale made in 2016-17 has been deducted from bad debts mentioned above.
(vi) Audit fees pertains to the company.

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

## SOLUTION

## C G Trading Private Limited <br> Statement showing calculation of Profit/Loss for Pre and Post Incorporation Periods

Rs In lakhs

|  | Ratio | Total | PreIncorporation | PostIncorporation |
| :---: | :---: | :---: | :---: | :---: |
| Sales | 1:6 | 245.00 | 35.00 | 210.00 |
| Interest on Investments | Pre | 6.00 | 6.00 | - |
| Bad debts recovered | Pre | 0.60 | 0.60 | - |
| (i) |  | 251.6 | 41.60 | 210.00 |
| Cost of goods sold | 1:6 | 124.32 | 17.76 | 106.56 |
| Advertisement | 1:6 | 3.50 | 0.50 | 3.00 |
| Sales commission | 1:6 | 7.00 | 1.00 | 6.00 |
| Salary (W.N.3) | 1:5 | 18.00 | 3.00 | 15.00 |
| Managing director's remuneration | Post | 6.00 |  | 6.00 |
| Interest on Debentures | Post | 2.00 |  | 2.00 |
| Rent (W.N.4) |  | 5.50 | 0.93 | 4.57 |
| Bad debts (1.15 + 0.6) Underwriting | 1:6 | 1.75 |  | 1.50 |
| commission | Post | 1.00 | 0.25 | 1.00 |
| Audit fees | Post Pre | 3.00 | - | 3.00 |
| Loss on sale of Investment | 1:3 | 1.00 | $-1.00$ | - |
| Depreciation |  | 4.00 | 1.00 | 3.00 |
| (ii) |  | 177.07 | 25.44 | 151.63 |
| Net Profit [(i) - (ii)] |  | 74.53 | 16.16 | 58.37 |

## Working Notes:

I. Calculation of Sales Ratio

Let the average sales per month be $x$
Total sales from 01.04.2018 to 30.06 .2018 will be $3 x$

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

Average sales per month from 01.07.2018 to 31.03 .2019 will be $2 x$ Total sales from 01.07.2018 to 31.03 .2019 will be $2 \times \times 9=18 \times$ RatioofSaleswillbe3x:18xi.e.3:18orl:6
2. Calculation of time Ratio

3 Months: 9 Months i.e. 1:3
3. Apportionment of Salary

Let the salary per month from 01.04.2018 to 30.09 .2018 is $x$ Salary per month from 01.10.2018 to 31.03.2019 will be $2 x$ Hence, pre incorporation salary ( 01.04 .2018 to 30.06 .2018 ) $=3 x$
Post incorporation salary from 01.07 .2018 to $31.03 .2019=(3 x+12 x)$ i.e. $15 x$ Ratio for division $3 x: 15 x$ or $1: 5$
4. Apportionment of Rent Rs In Lakhs

| Total Rent |  | 5.50 |
| :--- | :--- | :--- |
| Less: additional rent from 1.7.2018 to 31.3.2019 1.80 <br>   <br> Rent of old premises for 12 months 3.70 <br>   <br>  Pre Post |  |  |
| Apportionment in time ratio | 0.93 | 2.77 |
| Add: Rent for new space | - | 1.80 |
| Total | 0.93 | 4.57 |

## Question 9 (ICAI Module)

A firm M/s. Alag, which was carrying on business from IstJuly, 2013 gets itself incorporated as a company on Ist November, 2013. The first accounts are drawn up to 31st March 2014. The gross profit for the period is Rs.56,000. The general expenses are Rs.14,220; Director's fee Rs. 12,000 p.a.; Incorporation expenses Rs.1,500. Rent up to 31 st December was Rs.I,200 p.a. after which it is increased toRs. 3,000 p.a. Salary of the manager, who upon incorporation of the company was made a director, is Rs.6,000 p.a. His remuneration thereafter is included in the above figure of fee to the directors.
Give Statement showing pre- and post-incorporation profit. The net sales are Rs. $8,20,000$, the monthly average of which for the first four months is one-half of that of the remaining period. The company earned a uniform profit. Interest and tax maybe ignored.

## SOLUTION

Statement showing pre- and post-incorporation profits

| Particulars | Basis | Pre | Post | Total |
| :--- | :---: | :---: | :---: | :---: |
| Gross Profit | Sales ratio | 16,000 | 40,000 | 56,000 |
| Less: General expenses | Time ratio | 6,320 | 7,900 | 14,220 |
| Directors' fee | Actual | - | 5,000 | 5,000 |
| Formation expenses | Actual | - | 1,500 | 1,500 |
| Rent (600 + 750) | W.N. 2 | 400 | 950 | 1,350 |
| Manager's salary | Actual | 2,000 | - | 2,000 |
| Net Profit transferred to: |  |  |  |  |
| Capital Reserve |  | 7,280 | - | - |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

| $P \& \& A / C$ | - | - | 24,650 | 31,930 |
| :--- | :--- | :--- | :--- | :--- |

## Working Notes:

I. Calculation of sales ratio

Let the average monthly sales of first four months $=100$ and next five months $=200$
Total sales of first four months $=100 \times 4=400$ and Total sales of next five months $=200 \times 5$
$=1,000$ The ratio of sales $=400: 1,000=2: 5$
2. Rent

Till 31st December, 2013 , rent was Rs.1,200 p.a. i.e., Rs. 100 p.m.
So, Pre-incorporation rent $=$ Rs. $100 \times 4$ months $=$ Rs. 400
Post-incorporation rent $=(R s .100 \times 2$ months $)+(R s .250 \times 3$ months $)=R s .950$
3. Time ratio

Pre-incorporation period $=1$ stJuly, 2013 to 31stOct. $2013=4$ months Post -incorporation
$=1^{5 t}$ November 2013 to 31st March $2014=5$ months
$=4$ months: 5 months Thus, time ratio is $4: 5$

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

## Topic - 3

## REDEMPTION OF PREFERENCE SHARES

## Question 10 (Nov18)

The following are the extracts from the Balance Sheet of Meera Ltd. as on 31stDecember,2017.
Share capital: 60,000 Equity shares of Rs10 each fully paid - Rs 6,00,000; 1,500 $10 \%$ Redeemable preference shares of Rs 100 each fully paid - Rs 1,50,000.
Reserve \&Surplus: Capital reserve - Rs 75,000; Securities premium - Rs 75,000; General reserve - Rs I,12,500; Profit and Loss Account - Rs62,500
On IstJanuary 2018, the Board of Directors decided to redeem the preference shares at premium of $10 \%$ by utilization of reserve.

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

## SOLUTION

In the books of Meera Limited Journal Entries

| Date | Particulars |  | Dr. (Rs) | Cr. (Rs) |
| :---: | :---: | :---: | :---: | :---: |
| 2018 |  |  |  |  |
| Jan 1 | 10\% Redeemable Preference Share Capital A/c | Dr. | 1,50,000 |  |
|  | Premium on Redemption of Pref. shares | Dr. | 15,000 |  |
|  | To Preference Shareholders A/C |  |  | 1,65,000 |
|  | (Being the amount payable on redemption transferred to Preference Shareholders Account) |  |  |  |
|  | Preference Shareholders A/c | Dr. | 1,65,000 |  |
|  | To Bank A/C |  |  | 1,65,000 |
|  | (Being the amount paid on redemption of preference shares) |  |  |  |
|  | Profit \& Loss A/c | Dr. | 15,000 |  |
|  | To Premium on Redemption of Pref. Shares |  |  | 15,000 |
|  | (Being adjustment of premium on redemption) |  |  |  |
|  | General Reserve A/C | Dr. | 1,12,500 |  |
|  | Profit \& Loss A/c | Dr. | 37,500 |  |
|  | To Capital Redemption Reserve A/C |  |  | 1,50,000 |
|  | (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act) |  |  |  |

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

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

## Question II (EXAM May19 - 10 Marks)

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

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

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

## SOLUTION

Journal Entries

|  | Particulars |  | Dr. <br> (Rs.) | (r. <br> (Rs.) |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :---: | :---: | :---: | :---: |
| 1 | Bank A/c | Dr. | 75,000 |  |  |  |  |  |
|  | To Share Application A/c |  |  |  |  |  |  |  | 75,000 |
|  | (For application money received on 1,250 <br> shares@Rs.60 per share) |  |  |  |  |  |  |  |
| 2 | Share Application A/c | Dr. | 75,000 |  |  |  |  |  |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

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

Balance Sheet of Clean Ltd. (after redemption)

|  | Particulars | Notes No. |  |
| :--- | :--- | :--- | :--- |
|  | EQUITY AND LIABILITIES |  |  |
| I. | Shareholders' funds |  |  |
|  | a) | Share capital | 1 |
|  | b) | Reserves and Surplus | 2 |
| 2. | Current liabilities |  | $88,12,500$ |
|  | Trade Payables |  |  |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

|  | Total |  | $7,14,000$ |  |
| :--- | :--- | :--- | :--- | :--- |
|  | ASSETS |  |  |  |
| I. | Non-Current Assets |  |  |  |
|  |  | Property Plant and Equipments |  |  |
|  |  | Tangible asset |  | $6,90,000$ |
| 2. | Current Assets | 3 | 24,000 |  |
|  | Cash and cash equivalents(bank) |  | $7,14,000$ |  |
|  |  | Total |  |  |

## Notes to accounts

|  |  | Rs. |
| :---: | :---: | :---: |
| I. | Share Capital |  |
|  | Equity share capital Rs. $(4,50,000+62,500)$ | 5,12,500 |
| 2. | Reserves and Surplus |  |
|  | Capital Redemption Reserve | 67,500 |
|  | Profit and Loss Account Rs. $(96,000-13,000-7,000$ 67,500) | 8,500 |
|  | Security Premium | 12,500 |
| 3. | Cash and cash equivalents | 88,500 |
|  | Balances with banks Rs. $(62,000+75,000+30,000-$ 1,43,000) | $24,000$ |

Working Note:
Calculation of Number of Shares: Rs.
Amount payable on redemption (1,30,000 $+10 \%$ Premium) 1,43,000
Less: Sale price of investment
$(30,000)$
1,13,000
Less: Available bank balance (62,000-24,000)
$(38,000)$
Funds required from fresh issue
75,000
No. of shares $=75,000 / 60=1,250$ shares

## Question 12 (EXAM Nov 20-12 Marks)

The books of Arpit Ltd. shows the following balances as on 31st December 2019:

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

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

Under the terms of issue, the Preference Shares are redeemable on 31st March 2020 at a premium of $10 \%$. In order to finance the redemption, the board of directors decided to make a fresh issue of 1,50,000 Equity Shares of Rs. 10 each at a premium of $20 \%$, Rs. 2 being payable on application, Rs. 7 (including premium) on allotment and the balance on Ist January, 2021. The issue was fully subscribed and allotment made on Ist March 2020. The money due on allotment was received by 20th March 2020.
The preference shares were redeemed after fulfilling the necessary conditions of section 55 of the Companies Act 2013.

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

## SOLUTION

## Journal Entries

|  |  |  | Rs. | Rs. |
| :---: | :---: | :---: | :---: | :---: |
| 1 | 10\% Preference Share Final Call A/C <br> To 10\% Preference Share Capital A/c (For final call made on preference shares @ Rs. 20 each to make them fully paid-up) | Dr. | 6,00,000 | 6,00,000 |
| 2 | Bank A/C <br> To 10\% Preference Share Final Call A/c <br> (For receipt of final call money on preference shares) | Dr. | 6,00,000 | 6,00,000 |
| 3 | Bank A/c <br> To Equity Share Application A/C <br> (For receipt of application money on 1,50,000 equity shares @ Rs. 2 per share) | Dr. | 3,00,000 | 3,00,000 |
| 4 | Equity Share Application A/C <br> To Equity Share Capital A/c <br> (For capitalization of application money received) | Dr. | 3,00,000 | 3,00,000 |
| 5 | Equity Share Allotment A/c <br> To Equity Share Capital A/c <br> To Securities Premium A/c <br> (For allotment money due on 1,50,000 equity shares @ Rs.7 per share including a premium of Rs. 2 per share) | Dr. | 10,50,000 | $7,50,000$ $3,00,000$ |
| 6 | Bank A/c <br> To Equity Share Allotment A/C <br> (For receipt of allotment money on equity shares) | Dr. | 10,50,000 | 10,50,000 |
| 7 | 10\% Preference Share Capital A/C <br> Premium on Redemption of Preference Shares A/c <br> To Preference Shareholders A/C <br> (For amount payable to preference shareholders on redemption | $\begin{aligned} & \text { Dr. } \\ & \text { Dr. } \end{aligned}$ | $\begin{array}{r} 30,00,000 \\ 3,00,000 \end{array}$ | 33,00,000 |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

| 8 | at $10 \%$ premium) | Dr. | 3,00,000 | 3,00,000 |
| :---: | :---: | :---: | :---: | :---: |
|  | General Reserve A/C <br> To Premium on Redemption A/C <br> (Writing off premium on redemption of preference shares) |  |  |  |
| 9 | General Reserve A/C <br> To Capital Redemption Reserve A/C <br> (For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e.,30,00,000-3,00,0007,50,000) | Dr. | 19,50,000 | 19,50,000 |
| 10 | Preference Shareholders A/c <br> To Bank A/C <br> (For amount paid to preference shareholders) | Dr. | 33,00,000 | 33,00,000 |

Balance Sheet (extracts)

|  |  | Particulars | Notes <br> No. | As at 31.3.2020 | As at 31.12.2019 |
| :--- | :--- | :--- | :---: | :---: | :---: |
|  |  |  |  | Rs. | Rs. |
| EQUITY ANDLIABILITIES  <br> Share holders' funds  <br>  a) Share capital | 1 |  |  |  |  |
|  | b) | Reserves and Surplus | 2 | $50,50,000$ | $84,00,000$ |

## Notes to Accounts:



## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

## Note:

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

## Question 13 (ICAI Module)

The Balance Sheet of $X \mathrm{Ltd}$, as on 31stMarch, $20 \times 3$ is as follows:

|  | Particulars | Rs |  |  |
| :--- | :--- | :---: | :---: | :---: |
|  | EQUITY AND LIABILITIES |  |  |  |
| I. | Shareholders' funds |  |  |  |
|  | Share capital | $2,90,000$ |  |  |
|  | Reserves and Surplus | 48,000 |  |  |
| 2. | Current liabilities |  |  |  |
|  | Trade Payables |  |  |  |
|  | Total |  |  | $3,94,500$ |
|  | ASSETS |  |  |  |
| 1. | PPE |  |  |  |
|  | Tangible asset | $3,45,000$ |  |  |
|  | Non-current investments | 18,500 |  |  |
| 2. | Current Assets |  |  |  |
|  | Cash and cash equivalents (bank) | 31,000 |  |  |
|  | Total |  |  |  |

The share capital of the company consists of Rs 50 each equity shares of Rs 2,25,000 and Rs 100 each Preference shares of Rs 65,000(issued on 1.4.20X1). Reserves and Surplus comprises Profit and Loss Account only. In order to facilitate the redemption of preference shares at a premium of $10 \%$, the Company decided:
(a) to sell all the investments for Rs 15,000.
(b) to finance part of redemption from company funds, subject to, leaving a bank balance of Rs 12,000.
(c) to issue minimum equity share of Rs 60 each share to raise the balance of funds required.

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

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

## SOLUTION

## Journal

In the books of X Ltd

| Particulars | Dr. (Rs) | Cr. (Rs) |
| :---: | :---: | :---: |
| Bank A/C <br> To Share Application A/C <br> (For application money received on 625 shares @ Rs 60 per share) | 37,500 | 37,500 |
| Share Application A/C <br> To Equity Share Capital A/C <br> (For disposition of application money received) | 37,500 | 37,500 |
| Preference Share Capital A/c <br> Premium on Redemption of Preference Shares A/C <br> To Preference Shareholders A/C <br> (For amount payable on redemption of preference shares) | $\begin{gathered} 65,000 \\ 6,500 \end{gathered}$ | 71,500 |
| Profit and Loss A/C <br> To Premium on Redemption of Preference Shares A/c (For writing off premium on redemption out of profits) | 6,500 | 6,500 |
| Bank A/C <br> Profit and Loss A/c (loss on sale) A/c <br> To Investment A/c <br> (For sale of investments at a loss of Rs 3,500) | $\begin{aligned} & 15,000 \\ & 3,500 \end{aligned}$ | 18,500 |
| Profit and Loss A/c <br> To Capital Redemption Reserve A/C <br> (For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds (face value of equity shares) i.e., Rs 65,000 - Rs 31,250) | 33,750 | 33,750 |
| Preference Share holders A/c <br> To Bank A/C <br> (For payment of preference shareholders) | 71,500 | 71,500 |

## Question 14 (ICAI Module)

The following is the summarised Balance Sheet of Bumbum Limited as at 31stMarch, 20XI:

| Particulars | Rs |
| :---: | :---: |
| Sources of funds Authorized capital |  |
| 50,000 Equity shares of Rs 10 each | $5,00,000$ |
| 10,000 Preference shares of Rs 100 each ( $8 \%$ redeemable) | $10,00,000$ |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

|  | $15,00,000$ |
| :--- | :---: |
| Issued, subscribed and paid up |  |
| 30,000 Equity shares of Rs 10 each | $3,00,000$ |
| $5,000,8 \%$ Redeemable Preference shares of Rs 100 each | $5,00,000$ |
| Reserves \& Surplus |  |
| Securities Premium | $6,00,000$ |
| General Reserve | $6,50,000$ |
| Profit \& Loss A/c | 40,000 |
| 2,500, 9\% Debentures of Rs 100 each | $2,50,000$ |
| Trade payables | $1,70,000$ |
|  | $25,10,000$ |
| Application of funds |  |
| Fixed Assets (net) | $7,80,000$ |
| Investments (market value Rs 5,80,000) | $4,90,000$ |
| Deferred Tax Assets | $3,40,000$ |
| Trade receivables | $6,20,000$ |
| Cash \& Bank balance | $2,80,000$ |
|  | $25,10,000$ |

In Annual General Meeting held on 20thJune, 20XI the company passed the following resolutions:

- To split equity share of Rs 10 each into 5 equity shares of Rs 2 each from Ist July.
- To redeem $8 \%$ preference shares at a premium of $5 \%$.
- To redeem $9 \%$ Debentures by making offer to debenture holders to convert their holdings into equity shares at Rs 10 per share or accept cash on redemption.
- To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On 10thJuly, 20XI investments were sold for Rs 5,55,000 and preference shares were redeemed.
$40 \%$ of Debenture holders exercised their option to accept cash and their claims were settled on IstAugust, 20XI.
The company fixed SthSeptember, 20XI as record date and bonus issue was concluded by 12thSeptember, 20XI You are requested to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30thSeptember, 20XI. All working notes should form part of your answer.

## SOLUTION

## Bumbum Limited Journal Entries

| 20XI | Particulars | Dr. (Rs) | Cr. (Rs) |
| :---: | :---: | :---: | :---: |
| July 1 | Equity Share Capital A/c (Rs10each) <br> To Equity share capital A/c (Rs 2 each) <br> (Being equity share of Rs 10 each splitted into S equity shares of Rs <br> 2 each) $\{1,50,000 \times 2\}$ | $3,00,000$ | $3,00,000$ |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

| July 10 | Cash \& Bank balance A/C <br> To Investment A/C <br> To Profit \& Loss A/C <br> (Being investment sold out and profit on sale credited to Profit \& Loss A/C) | 5,55,000 | $\begin{gathered} 4,90,000 \\ 65,000 \end{gathered}$ |
| :---: | :---: | :---: | :---: |
| July 10 | 8\% Redeemable preference share capital A/C <br> Premium on redemption of pref. share A/C <br> To Preference shareholders A/c | $\begin{gathered} 5,00,000 \\ 25,000 \end{gathered}$ | 5,25,000 |
|  | (Being amount payable to preference shareholders on redemption) (refer W.N.I) |  |  |
| July 10 | Preference share holders A/C <br> To Cash \& bank A/C <br> (Being amount paid to preference shareholders) | 5,25,000 | 5,25,000 |
| July 10 | General reserve A/C <br> To Capital redemption reserve A/C <br> (Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law) | 5,00,000 | 5,00,000 |
| Aug 1 | 9\% Debentures A/c <br> Interest on debentures $A / c(2,50,000 \times 9 \% \times 4 / 12)$ <br> To Debenture holder's A/C <br> (Being amount payable to debenture holders along with interest payable) | $\begin{gathered} 2,50,000 \\ 7,500 \end{gathered}$ | 2,57,500 |
| Aug. 1 | Debenture holder's A/C <br> To Cash \& bank A/c ( $1,00,000+7,500$ ) To Equity share capital A/c ( $15,000 \times 2$ ) To Securities premium $A / C(15,000 \times 8)$ <br> (Being claims of debenture holders satisfied) (refer W.N.2) | 2,57,500 |  |
| Sept. 5 | Capital Redemption Reserve A/C <br> To Bonus to shareholders A/C <br> (Being balance in capital redemption reserve capitalized to issue bonus shares) (refer W.N.3) | 1,10,000 | 1,10,000 |
| Sept. 12 | Bonus to shareholders A/C <br> To Equity share capital A/c <br> (Being 5S,000 fully paid equity shares of Rs 2 each issued as bonus in ratio of I share for every 3 shares held) | 1,10,000 | 1,10,000 |
| Sept. 30 | General Reserve A/C <br> To Premium on redemption of preference shares A/c <br> (Being premium on preference shares adjusted from general reserve) | 25,000 | 25,000 |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

Sept. 30 Profit \&Loss A/C

```
To Interest on debentures A/C
(Being interest on debentures transferred to Profit and Loss
Account)
```

Balance Sheet as at 30thSeptember, 20XI

|  | Particulars | Notes | Rs |
| :---: | :--- | :---: | :---: |
|  | Equity and Liabilities |  |  |
| $\mathbf{1}$ | Shareholders' funds |  |  |
| a | Share capital | 1 | $4,40,000$ |
| b | Reserves and Surplus | 2 | $13,32,500$ |
| $\mathbf{2}$ | Current liabilities |  |  |
| a | Trade Payables |  | $1,70,000$ |
|  | Total |  | $19,42,500$ |
|  | Assets |  |  |
| $\mathbf{1}$ | Non-current assets |  |  |
| a | Property, Plant and Equipment |  | $7,80,000$ |
|  | Tangible assets |  | $3,40,000$ |
| b | Deferred tax asset |  | $6,20,000$ |
| $\mathbf{2}$ | Current assets |  | $2,02,500$ |
|  | Trade receivables | $19,42,500$ |  |
|  | Cash and bank balances (W.N.4) |  |  |
|  | Total |  |  |

Notes to accounts

|  | Particulars | Rs |  |
| :---: | :---: | :---: | :---: |
| 1 | Share Capital |  |  |
|  | Authorized share capital |  |  |
|  | 2,50,000 Equity shares of Rs 2 each | 5,00,000 |  |
|  | 10,000 Preference shares of Rs100 each | 10,00,000 | 15,00,000 |
|  | Issued, subscribed and paid up |  |  |
|  | 2,20,000 Equity shares of Rs 2 each $[(30,000 \times 5)+15,000+55,000]$ |  | 4,40,000 |
| 2 | Reserves and Surplus |  |  |
|  | Securities Premium A/C |  |  |
|  | Balance as per balance sheet | 6,00,000 |  |
|  | Add: Premium on equity shares issued on conversion of debentures $(15,000 \times 8)$ | 1,20,000 |  |
|  | Balance |  | 7,20,000 |
|  | Capital Redemption Reserve ( $5,00,000-1,10,000$ ) |  | 3,90,000 |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

|  | General Reserve (6,50,000-5,00,000-25,000) |  | $1,25,000$ |
| :--- | :--- | :---: | :---: |
|  | Profit \& Loss A/c | 40,000 |  |
|  | Add: Profit on sale of investment | 65,000 |  |
|  | Less: Interest on debentures | $(7,500)$ | 97,500 |
|  | Total |  | $13,32,500$ |

## Working Notes:

| Rs |  |
| :---: | :---: |
| 1. Redemption of preference share: |  |
| 5,000 Preference shares of Rs. 100 each | 5,00,000 |
| Premium on redemption @ 5\% | 25,000 |
| Amount Payable | 5,25,000 |
| 2. Redemption of Debentures |  |
| 2,500 Debentures of Rs 100 each | 2,50,000 |
| Less: Cash option exercised by $40 \%$ holders | (1,00,000) |
| Conversion option exercised by remaining $60 \%$ | 1,50,000 |
| Equity shares issued on conversion $=1,50,000=15,000$ shares 10 |  |
| 3. Issue of Bonus Shares |  |
| Existing equity shares after split ( $30,000 \times 5$ ) | 1,50,000 shares |
| Equity shares issued on conversion | 15,000 shares |
| Equity shares entitled for bonus | 1,65,000 shares |
| Bonus shares (1 share for every 3 shares held) to be issued | 55,000 shares |
| 4. Cash and Bank Balance |  |
| Balance as per balance sheet | 2,80,000 |
| Add: Realization on sale of investment | 5,55,000 |
|  | 8,35,000 |
| Less: Paid to preference share holders | ( $5,25,000$ ) |
| Paid to Debenture holders ( $7,500+1,00,000$ ) | (1,07,500) |
| Balance | 2,02,500 |

5. Interest of Rs 7,500 paid to debenture holders have been debited to Profit \& Loss Account.

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

## Topic - 4 <br> INSURANCE CLAIMS

## Question 15 (RTP - NOV. 18) - LOSS OF STOCK

On 27thJuly, 2017, a fire occurred in the godown of M/s. Vijay Exports and most of the stocks were destroyed. However goods costing Rs 5,000 could be salvaged. Their fire fighting expenses were amounting to Rsl,300.
From the salvaged accounting records, the following information is available relating to the period from 14.2017 to 27.7.2017:

| 1. | Stock as per balance sheet as on 31.3.2017 | Rs 63,000 |
| :---: | :---: | :---: |
| 2. | Purchases (including purchase of machinery costing Rs 10,000 | Rs 2,92,000 |
| 3. | Wages (including wages paid for installation of machinery <br> Rs 3,000) | Rs 53,000 |
| 4. | Sales (including goods sold on approval basis amounting to <br> Rs 40,000. No approval has been received in respect of $1 / 4$ thof the <br> goods sold on approval) | Rs 4,12,300 |
| 5. | Cost of goods distributed as free sample | Rs 2,000 |

## Other Information:

(i) While valuing the stock on 31.3 .2017 , Rs 1,000 had been written off in respect of certain slow moving items costing Rs 4,000. A portion of these goods were sold in June, 2017 at a loss of Rs 700 on original cost of Rs 3,000 . The remainder of these stocks is now estimated to be worth its original cost.
(ii) Past record shows the normal gross profit rate is $20 \%$.
(iii) The insurance company also admitted fire fighting expenses. The Company had taken the fire insurance policy of Rs 55,000 with the average clause.
You are required to compute the amount of claim of stock destroyed by fire, to be lodged to the Insurance Company. Also prepare Memorandum Trading Account for the period 1.4.2017 to 27.7.2017 for normal and abnormal items.

## SOLUTION

Memorandum Trading Account for the period IstApril, 2017 to 27thJuly, 2017

|  | Normal Items | Abnormal <br> Items | Total |  | Normal Items | Abnormal Items | Total |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Rs | Rs | Rs |  | Rs | Rs | Rs |
| To Opening stock (W.N.S) | 60,000 | 4,000 | 64,000 | By Sales (W.N. 3) | 4,00,000 | 2,300 | 4,02,300 |
| To Purchases ( W.N. I) | 2,80,000 | - | 2,80,000 | By Loss | - | 700 | 700 |
| To Wages (W.N. 4) | 50,000 | - | 50,000 | By Goods on <br> Approval <br> (W.N. 2) | 8,000 | - | 8,000 |
| To Gross profit @20\% | 80,000 | - | 80,000 | By Closing stock | 62,000 | 1,000 | 63,000 |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

|  |  |  |  | (Bal. fig.) |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
|  | $4,70,000$ | 4,000 | $4,74,000$ |  | $4,70,000$ | 4,000 | $4,74,000$ |

## Statement of Claim for Loss of Stock

|  | Rs |
| :--- | :---: |
| Book value of stock as on 27th July, 2017 | 62,000 |
| Add: Abnormal Stock | 1,000 |
| Less: Stock salvaged | $(5,000)$ |
| Loss of stock | 58,000 |
| Add: Fire fighting expenses | 1,300 |
| Total Loss | 59,300 |

Amount of claim to be lodged with insurance company
$=$ Loss $x$
Policy value
Value of stock on the date of fire
$=$ Rs $59,300 \times(55,000 / 63,000)=$ Rs 51,770 (rounded off)

## Working Notes:

I. Calculation of Adjusted Purchases

|  | Rs |
| :--- | :---: |
| Purchases | $2,92,000$ |
| Less: Purchase of Machinery | $(10,000)$ |
| Less: Free samples | $(2,000)$ |
| Adjusted purchases | $2,80,000$ |

## 2. Calculation of Goods with Customers

Approval for sale has not been received $=R s 40,000 \times 1 / 4=R s 10,000$.
Hence, these should be valued at cost i.e. (Rs 10,000-20\% of Rs 10,000)
$=$ Rs 8,000
3. Calculation of Actual Sales

Total Sales
Less: Approval for sale not received ( $1 / 4 \times$ Rs. 40,000 )
Actual Sales

Rs. 4, 12,300
Rs. 10,000
Rs. 4,02,300

## 4. Calculation of Wages

Total Wages
Rs. 53,000
Less: Wages for installation of machinery
Rs. 3,000
Rs. 50,000

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

## 5. Value of Opening Stock

Original cost of stock as on 31 st March, $2018=$ Rs. $63,000+1,000$ (Amount written off) $=$ Rs. 64,000 .

## Question 16 (RTP - MAY20) LOSS OF PROFIT

A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

|  | $R s$ |
| :--- | :--- |
| Turnover in last financial year | $36,00,000$ |
| Standing charges in last financial year | $7,20,000$ |

Net profit earned in last year was $10 \%$ of turnover and the same trend expected in subsequent year. Increase in turnover expected $25 \%$.
To achieve additional sales, trader has to incur additional expenditure of Rs. 50,000.

## SOLUTION

(a) Calculation of Gross Profit

Gross Profit $=\frac{\text { Net Profit }+ \text { Standing CDarges }}{\text { turnover }} \times 100$
$=(3,60,000+7,20,000) / 36,00,000=30 \%$
(b) Calculation of policy amount to cover loss of profit

|  | Rs |
| :--- | :---: |
| Turnover in the last financial year | $36,00,000$ |
| Add: $25 \%$ increase in turnover | $9,00,000$ |
|  | $45,00,000$ |
| Gross profit on increased turnover | $13,50,000$ |
| Add: Additional standing charges | 50,000 |
| Policy Amount | $14,00,000$ |

Therefore, the trader should go in for a loss of profit policy of Rs 14,00,000.

## Question 17 (EXAM MAYI9 - 10 MARKS) - LOSS OF PROFIT

A fire occurred in the premises of $\mathrm{M} / \mathrm{s}$ Bright on 25th May, 2017. As a result of fire, sales were adversely affected up to 30th September, 2017. The firm had taken Loss of profit policy (with an average clause) for Rs.3,50,000 having indemnity period of 5 months. There is an upward trend of $10 \%$ in sales.
The firm incurred an additional expenditure of Rs,30,000 to maintain the sales.
There was a saving of Rs.5,000 in the insured standing charges.

| Actual turnover from 25th May, 2017 to 30th September, 2017 | Rs. 1,75,000 |
| :--- | :--- |
| Turnover from 25th May, 2016 to 30th September, 2016 | Rs. 6,00,000 |
| Net profit for last financial year | Rs. 2,00,000 |
| Insured standing charges for the last financial year | Rs. 1,75,000 |
| Total standing charges for the last financial year | Rs. 3,00,000 |
| Turnover for the last financial year | Rs. 15,00,000 |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

Turnover for one year from 25th May, 2016 to 24th May, 2017 Rs. 14,00,000
You are required to calculate the loss of profit claim amount, assuming that entire sales during the interrupted period was due to additional expenses.

## SOLUTION

Computation of the amount of claim for the loss of profit

1. Reduction in turnover

## Rs.

Turnover from 25th May, 2016 to 30th September, 2016
6,00,000
Add: $10 \%$ expected increase

Less: Actual Turnover from 25th May, 2017 to 30th September, 2017

## 2. Calculation of loss of Profit

Gross Profit on reduction in turnover @ $25 \%$ on Rs.4, 85,000
$1,21,250$
(see working note 1)
Add: Additional Expenses
Lower of
(i) Actual $=$ Rs. 30,000
(ii) G.P. on Adjusted Annual Turnover Additional Exp. x G.P. as above + Uninsured Standing Charges $30,000 \times[3,85,000 /(3,85,000+1,25,000)]=$ Rs. 22,647
(iii) G.P. on sales generated by additional expenses
$175000 \times 25 \%=$ Rs. 43,750
It is given that entire sales during the interrupted period was due to additional expenses.
Therefore, lower of above is (i, ii \& iii) Rs.22,647
Less: Saving in Insured Standing Charges
1,43,897
$(5,000)$
Amount of claim before application of Average Clause
$1,38,897$

## 3. Application of Average Clause:

Amount of Policy $\times$ Amount of Claim G.P. on Annual Turnover
$(3,50,00013,85,000) \times 1,38,897$
Amount of claim under the policy

## Working Notes:

1. Rate of Gross Profit for last Financial Year:

Rs.
Net Profit for last financial year
2,00,000
Add: Insured Standing Charges
1,75,000
Gross Profit
Turnover for the last financial year
3,75,000

Rate of Gross Profit $==25 \% 3,75,000 \times 10015,00,000$
15,00,000
$=$ Rs. $1,26,270$
$=$ Rs.1,26,270

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

2. Annual Turnover (adjusted):

Turnover from 25 May, 2016 to 24 May, 2017
Add: $10 \%$ expected increase
$14,00,000$
$1,40,000$
$15,40,000$

3,85,000
1,25,000
5,10,000

## Question 18 (EXAM Nov 19 - 10 Marks) - LOSS OF PROFIT

A fire occurred in the premises of $\mathrm{M} / \mathrm{s}$ Kirti \& Co. on ISthDecember, 2018. The working remained disturbed uptolSthMarch, 2019 as a result of which sales got adversely affected. The firm had taken out an insurance policy with an average clause against consequential losses for Rs $2,50,000$.
Following details are available from the quarterly sales tax return filed/GST return filed:

| Sales | $2015-16$ <br> $(R s)$ | 2016-17 <br> (Rs) | 2017-18 <br> (Rs) | 2018-19 <br> (Rs) |
| :--- | :---: | :---: | :---: | :---: |
| From IstApril to 30thJune | $3,80,000$ | $3,15,000$ | $4,11,900$ | $3,24,000$ |
| From IstJuly to 30thSeptember | $1,86,000$ | $3,92,000$ | $3,86,000$ | $4,42,000$ |
| From IstOctober to 31stDecember | $3,86,000$ | $4,00,000$ | $4,62,000$ | $3,50,000$ |
| From IstJanuary to 31stMarch | $2,88,000$ | $3,19,000$ | $3,80,000$ | $2,96,000$ |
| Total | $12,40,000$ | $14,26,000$ | $16,39,900$ | $14,12,000$ |

A period of 3 months (i.e. from 16-12-2018 to 15-3-2019) has been agreed upon as indemnity period.

| Sales from 16-12-2017 to 31-12-2017 | 68,000 |
| :--- | :--- |
| Sales from 16-12-2018 to 31-12-2018 | Nil |
| Sales from 16-03-2018 to 31-03-2018 | $1,20,000$ |
| Sales from 16~03-2019 to 31-03-2019 | 40,000 |

Net profit was Rs 2,50,000 and standing charges (all insured) amounted to Rs 77,980 for the year ending 315t March, 2018.
You are required to calculate the loss of profit claim amount.

## SOLUTION

## (a) Gross profit ratio

Net profit for theyear2017-18
Add: Insured standing charges
Ratio of Gross profit $=\frac{3,27,980}{16,39,900}=20 \%$
Calculation of Short sales
Indemnity period: 16.12.2018 to 15.3.19
Standard sales to be calculated on basis of corresponding period of year 2017-18

|  | Rs |
| :--- | :--- |
| Sales for period 16.12.2017 to 31.12.17 | 68,000 |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

| Sales for period I.1.2018 to 15.3.2018 (Note 1) | $2,60,000$ |
| :--- | :--- |
| Sales for period 16.12.2017 to 15.3.2018 | $3,28,000$ |
| Add: upward trend in sales (15\%) (Note 2) | 49,200 |
| Standard Sales (adjusted) | $3,77,200$ |
| Actual sales of disorganized period |  |
| Calculation of sales from 16.12.18 to 15.3.19 | Nil |
| Sales for period 16.12.18 to 31.12.18 | $2,56,000$ |
| Sales for 1.1.19 to 15.3.19 (Rs 2,96,000 - Rs 40,000) | $2,56,000$ |
| Actual Sales | $1,21,200$ |
| Short Sales (Rs 3,77,200 - Rs 2,56,000) |  |

Loss of gross profit
Short sales $\times$ gross profit ratio $=1,21,200 \times 20 \%=24,240$
Application of average clause
$\begin{aligned} \text { Net claim } & =\text { Gross claim } \times \frac{\text { Policy value }}{\text { Gross pofit on annual turnover }} \\ & =24,240 \times \frac{2,50,000}{3,26}\end{aligned}$

$$
=24,240 \times \frac{2,50,000}{3,26,240(W . N .3)}
$$

Amount of loss of profit claim $=$ Rs 18,575
Working Notes:

| 1. Sales for period I.1.18 to15.3.18 |  | Rs |
| :--- | :--- | :--- |
| Sales for I Jan. to 31 March (2017-18) (given) |  | $3,80,000$ |
| Less: Sales for 16.3.18 to 31.3.18 (given) |  | $(1,20,000)$ |
| Sales for period 1.1.18 to 15.3.18 | $2,60,000$ |  |
| Calculation of upward trend in sales |  |  |
| 2. $\quad$ Total sales in year 2015-16 | $=$ | $12,40,000$ |
| Increase in sales in year 2016-17 as compared to 2015-16 $=$ | Rs | $1,86,000$ |

$\%$ increase $=\frac{1,86,000(14,26,000-12,40,000)}{12,40,000}=15 \%$
Increase in sales in year 2017-18 as compared to year 2016-17
$\%$ increase $=\frac{2,13,900(16,39,900-14,26,000)}{14,26,000}=15 \%$
Thus annual percentage increase trend is of $15 \%$

| 3. | Gross profit on annual turnover | Rs |
| :--- | :--- | :--- |
| Sales from 16.12.17 to 30.12 .17 (adjusted) $(68,000 \times 1.15)$ | 78,200 |  |
| 1.1.18 to 31.3 .18 (adjusted) $(3,80,000 \times 1.15)$ | $4,37,000$ |  |
| 1.4 .18 to 30.6 .18 | $3,24,000$ |  |
| 1.7 .18 to 30.9 .18 | $4,42,000$ |  |
| 1.10 .18 to 15.12 .18 (3,50,000 - Nil) | $3,50,000$ |  |
| Sales for 12 months just before date of fire ${ }^{*}$ | $16,31,200$ |  |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

Gross profit on adjusted annual sales @ 20\%

$$
3,26,240
$$

NOTE: Alternatively, the annual adjusted turnover may be computed as Rs $17,98,000$ (Rs $15,64,000 \times 1.15$ ) considering the annual $\%$ increase trend for the entire period of last 12 months preceding to the date of fire. In that case, the gross profit on adjusted annual sales @ $20 \%$ will be computed as Rs. 3,59,720 and net claim will be computed accordingly.

## Question 19 (ICAI Module)

On 19thMay, 20X2, the premises of Shri Garib Das were destroyed by fire, but sufficient records were saved, wherefrom the following particulars were ascertained:

| Particulars | Amount Rs. |
| :--- | :---: |
| Stock at cost on 1.1.20X1 | 36,750 |
| Stock at cost on 31.12.20X1 | 39,800 |
| Purchases less returns during 20X1 | $1,99,000$ |
| Sales less return during 20XI | $2,43,500$ |
| Purchases less returns during 1.1.20X2 to 19.5.20X2 | 81,000 |
| Sales less returns during I.1.20X2 to 19.5.20X2 | $1,15,600$ |

In valuing the stock for the balance Sheet as at 31stDecember, 20XI, Rs. 1,150 had been written off on certain stock which was a poor selling line having the costRs.3,450. A portion of these goods were sold in March, 20X2 at a loss of Rs. 125 on original cost of Rs.1,725. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exceptions, gross profit has remained at a uniform rate throughout. The stock salvaged was Rs.2,900.
Show the amount of the claim of stock destroyed by fire. Memorandum Trading Account to be prepared for the period from $1-1-20 \times 2$ to 19-5-20×2 for normal and abnormal items.

## SOLUTION

## Shri Garib Das

Trading Account for the year ended on 31stDecember, 20XI

| Particulars | Amount Rs. | Particulars | Amount Rs. | Amount Rs. |
| :---: | :---: | :---: | :---: | :---: |
| To Opening Stock | 36,750 | By Sales A/C |  | 2,43,500 |
| To Purchases | 1,99,000 | By Closing Stock: As valued Add: Amount written off to restore stock to full cost | $\begin{aligned} & 39,800 \\ & 1,150 \end{aligned}$ | 40,950 |
| To Gross Profit (b.f.) | 48,700 |  |  |  |
|  | 2,84,450 |  |  | 2,84,450 |

The normal rate of gross profit to sales is $=48,700 / 2,43,500 * 100=20 \%$

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

* at cost, book value is Rs.2,300.
** Book value will also be restored for remaining unsold abnormal stock since the remainder of this stock was now estimated to be worth its original cost.
Calculation of Insurance Claim

| Value of Stock on 19th May, 20X2 | 29,025 |
| :--- | :---: |
| Less: Salvage | $(2,900)$ |
| Loss of stock | 26,125 |
| Therefore, insurance claim will be for | 26,125 only. |

## Question 20 (ICAI Module)

From the following particulars, you are required to calculate the amount of claim for Buildwell Ltd., whose business premises was partly destroyed by fire:

| Sum insured (from 31stDecember20XI) | $4,00,000$ |
| :--- | :---: |
| Period of indemnity | 12months |
| Date of damage | 1stJanuary,20×2 |
| Date on which disruption of business ceased | 31stOctober,20×2 |

The subject matter of the policy was gross profit but only net profit and insured standing charges are included. The books of account revealed:
(a) The gross profit for the financial year 20XI was Rs.3,60,000.
(b) The actual turnover for financial year 20XI was Rs.12,00,000 which was also the turnover in this case.
(c) The turnover for the period Ist January to 31st October, in the year preceding the loss, was Rs. $10,00,000$.

During dislocation of the position, it was learnt that in November-December 20XI, there has been an upward trend in business done (compared with the figure of the previous years) and it was stated that had the loss not occurred, the trading resultsfor20X2wouldhavebeenbetterthanthoseofthepreviousyears.
The Insurance company official appointed to assess the loss accepted this view and adjustments were made to the pre-damaged figures to bring them up to the estimated amounts which would have resulted in 20X2.
The pre-damaged figures together with agreed adjustments were:

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

| Period | Pre-damaged <br> figures | Adjustment to <br> Be added | Adjusted standard <br> turnover |
| :--- | :---: | :---: | :---: |
| January | 90,000 | 10,000 | $1,00,000$ |
| Feb. to October | $9,10,000$ | 50,000 | $9,60,000$ |
| November to December | $2,00,000$ | 10,000 | $2,10,000$ |
|  | $12,00,000$ | 70,000 | $12,70,000$ |
| Gross Profit | $3,60,000$ | 46,400 | $4,06,400$ |

Rate of Gross Profit 30\% (actual for 20X1), 32\% (adjusted for 20X2). Increased cost of working amounted to Rs.1,80,000.

There was a clause in the policy relating to savings in insured standard charges during the indemnity period and this amounted to Rs.28,000.
Standing Charges not covered by insurance amounted to Rs.20,000 p.a. The annual turnover for January was nil and for the period February to October20X2Rs.8,00,000.

## SOLUTION

1. Short sales

| Period | Adjusted Standard <br> Turnover | Actual Turnover | Shortage |
| :---: | :---: | :---: | :---: |
| January | $1,00,000$ | - | $1,00,000$ |
| Feb. to October | $9,60,000$ | $8,00,000$ | $1,60,000$ |
|  | $10,60,000$ | $8,00,000$ | $2,60,000$ |

2. Gross profit ratio for the purpose of insurance claim on loss of profit

Gross profit - Insured Standing Charges - Uninsured standing charges = Net profit

$$
\begin{aligned}
& \text { Gross profit - Uninsured standing charges = Net profit + Insured Standing Charges } \\
& =4,06,400-20,000=3,86,400 \\
& =3,86,400 / 12,70,000^{*} 100=30.425 \%
\end{aligned}
$$

3. Amount allowable in respect of additional expenses

Least of the following:
(i) Actual expenses $=1,80,000$
(ii) GrossprofitonsalesduringlOmonthsperiod $=8,00,000 \times 30.425 \%=2,43,400$
(iii) Additional exp.*G.P. on Adjusted Annual Turnover/ Gross Profit on Annual Adjusted Turnover + Uninsured Standing Charges
$=1,80,000 * 3,86,40013,86,400+20,000=1,71,142$
Least i.e., $=$ Rs. $1,71,142$ is admissible.
4. Amount of Claim

| Gross profit on short sales $=$ Rs. $2,60,000 \times 30.425 \%$ | 79,105 |
| :--- | :---: |
| Add: Amount allowable in respect of additional expense | $1,71,142$ |
|  | $2,50,247$ |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

| Less: Savings in Insured Standing Charges | $(28,000)$ |
| :--- | :--- |
|  | $2,22,247$ |

On the amount of final claim, the average clause will not apply since the amount of the policy Rs.4,00,000 is higher than gross profit on annual adjusted turnover Rs. 3,86,400.
Therefore, insurance claim will be Rs. 2,22,247.

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

## Topic - 5

## HIRE PURCHASE

## Question 21 (RTP Mayl8 \& Nov19 MTP - March/April 19)

Srikumar bought 2 cars from 'Fair Value Motors Pvt. Ltd. on 1.4.2014 on the following terms (for both cars):

| Down payment | $6,00,000$ |
| :--- | :--- |
| Ist Installment at the end of first year | $4,20,000$ |
| 2nd Installment at the end of 2nd year | $4,90,000$ |
| 3rd Installment at the end of 3rd year | $5,50,000$ |
| Interest is charged at 10\% p.a. |  |

Srikumar provides depreciation @ $25 \%$ on the diminishing balances.
On 31.3.2017 Srikumar failed to pay the 3rd installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed I car. Srikumar agreed to leave one car with Fair Value Motors Pvt. Ltd. and adjusted the value of the car against the amount due. The car taken over was valued on the basis of $40 \%$ depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Srikumar after 3 months with interest @ 20\% p.a.
You are required to:
(i) Calculate the cash price of the cars and the interest paid with each installment.
(ii) Prepare Cars Account in the books of Srikumar assuming books are closed on March 31, every year.

Figures may be rounded off to the nearest rupee.

## SOLUTION

Calculation of Interest and Cash Price

| No. of <br> installments | Outstanding <br> balance at the <br> end after the <br> payment of <br> installment | Amount due <br> at the time <br> of <br> installment | Outstanding <br> balance at the end <br> before the <br> payment of <br> installment | Interest | Outstanding <br> balance at <br> the <br> beginning |
| :---: | :---: | :---: | :---: | :---: | :---: |
| [1] | [2] | [3] | [4] | $[5]=4 x$ <br> 10110 | [6]4-5 |
| 3rd | - | $5,50,000$ | $5,50,000$ | 50,000 | $5,00,000$ |
| 2nd | $5,00,000$ | $4,90,000$ | $9,90,000$ | 90,000 | $9,00,000$ |
| Ist | $9,00,000$ | $4,20,000$ | $13,20,000$ | $1,20,000$ | $12,00,000$ |

Total cash price $=$ Rs $12,00,000+6,00,000$ (down payment) $=$ Rs $18,00,000$.
In the books of Srikumar
Cars Account

| Date | Particulars | Rs | Date | Particulars | Rs |
| :--- | :--- | :--- | :--- | :--- | :--- |
| 1.4 .2014 | To Fair Value | $18,00,000$ | 31.3 .2015 | By Depreciation A/c <br> By Balance c/d | $4,50,000$ <br>  Motors A/c |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

|  |  | 18,00,000 |  |  | 18,00,000 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1.4.2015 | To Balance b/d | 13,50,000 | 31.3.2016 | By Depreciation A/C | 3,37,500 |
|  |  |  |  | By Balance c/d | 10,12,500 |
|  |  | 13,50,000 |  |  | 13,50,000 |
| 1.4.2016 | To Balance b/d | 10,12,500 | 31.3.2017 | By Depreciation A/C | 2,53,125 |
|  |  |  |  | By Fair Value Motors A/c (Value of 1 Car taken over after depreciation for 3 years @ 40\% p.a.) [9,00,000 - (3,60,000 $+2,16,000+$ 1,29,600)] | 1,94,400 |
|  |  |  |  | By Loss transferred to Profit and Loss Alc on surrender (Bal. fig.) | 1,85,288 |
|  |  |  |  | By Balance c/d $\begin{array}{ll} 1 / 2 & (10,12,500- \\ 2,53,125) \end{array}$ | 3,79,687 |
|  |  | 10,12,500 |  |  | 10,12,500 |

## Question 22 (RTP May21)

(a) What is meant by repossession? What is the treatment for repossession in the books of Hire Purchaser?
(b) On Ist April $2018 \mathrm{M} / \mathrm{s} K M R$ acquired a machine on hire purchase from $\mathrm{M} / \mathrm{s} P Q R$ on the following terms:

1) Cash price of the machine was Rs. $2,40,000$.
2) The down payment at the time of signing the contract was Rs. 96,000 .
3) The balance amount is to be paid in 3 equal annual installments plus interest.
4) Interest is chargeable @ $8 \%$ p.a.

On this basis prepare the H.P. Interest Suspense Account and Account of M/s PQR in the books of the purchaser for the period of hire purchase.

## SOLUTION

a) Repossession is the Right of the Seller to take back the goods sold from the Hire purchaser in case of any default by the Hire purchaser and can sell the goods after reconditioning to any other person. The hire purchaser closes the Hire Vendor's Account by transferring the balance of Hire Vendor Account to Hire Purchase Asset and then finding the profit and loss on repossession in Asset Account.

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

b)

In the books of M/s KMR (purchaser)
H.P. Interest Suspense Account

| Date | Particulars | Rs. | Date | Particulars | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1.4 .18 | To M/s PQR A/c <br> (W.N.) | 23,040 | 31.3 .19 | By Interest A/c | 11,520 |
|  |  |  | 31.3 .19 | By Balance c/d | 11,520 |
|  |  | 23,040 |  |  | 23,040 |
| 1.4 .19 | To Balance b/d | 11,520 | 31.3 .20 | By Interest A/c | 7,680 |
| 31.3 .20 | To Balance c/d | 3,840 | 31.3 .21 | By Interest A/c | 3,840 |

M/s PQR Account

| Date | Particulars | Rs. | Date | Particulars | Rs. |
| :---: | :---: | :---: | :---: | :--- | :---: |
| 1.4 .18 | To Bank/Cash A/c | 96,000 | 1.4 .18 | By Machine A/c | $2,40,000$ |
| 31.3 .19 | To Bank/Cash A/c | 59,520 | 1.4 .18 | By H.P. Interest | 23,040 |
| 31.3 .19 | To Balance c/d | $1,07,520$ |  | Suspense A/c |  |
|  |  | $2,63,040$ |  |  | $2,63,040$ |
|  |  |  |  | By Balance b/d | $1,07,520$ |
| 31.3 .20 | To Bank/Cash A/c | 55,680 |  |  |  |
| 31.3 .20 | To Balance c/d | 51,840 |  |  | 51,840 |
| 31.3 .21 | To Bank/Cash A/c | 51,840 | 1.4 .20 | By Balance b/d |  |

## Working Note:

| Cash Price | $2,40,000$ |
| :--- | :--- |
| Down Payment | 96,000 |
|  | $1,44,000$ |

Rs. 1,44,000 to be paid in 3 instalments i.e. Rs. 48,000 plus interest
Total interest $=$ Rs. $11,520+$ Rs. $7,680+$ Rs. $3,840=$ Rs. 23,040

## Question 23 (ICAI Module)

Lucky bought 2 tractors from Happy on 1-10-20XI on the following terms:

| Down payment | $5,00,000$ |
| :--- | :--- |
| Istinstallment at the end of Ist year | $2,65,000$ |
| 2ndinstallment at the end of 2ndyear | $2,45,000$ |
| 3rdinstallment at the end of3rdyear | $2,75,000$ |

Interest is charged at $10 \%$ p.a.
Lucky provides depreciation @ $20 \%$ on the diminishing balances.
On 30-9-20X4 Lucky failed to pay the 3rdinstallment upon which Happy repossessed I tractor. Happy agreed

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

to leave one tractor with Lucky and adjusted the value of the tractor against the amount due. The tractor taken over was valued on the basis of $30 \%$ depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Lucky after 3 months with interest @18\% p.a.
You are required to:
(1) Calculate the cash price of the tractors and the interest paid with each installment.
(2) Prepare tractor account and happy account in the books of lucky assuming that books are closed on September 30 every year. Figures may be rounded off to the nearest rupee

## Solution

(i)

Calculation of Interest and Cash Price

| No. of <br> installments <br> (the end after <br> the payment <br> of <br> balance at <br> installment | Outstanding <br> installment <br> of time | Amount due <br> at | Outstanding <br> balance at the <br> end before the <br> payment of <br> installment | Interest | Outstanding <br> balance at <br> the <br> beginning |
| :---: | :---: | :---: | :---: | :---: | :---: |
| [1] | [3] | $[4]=2+3$ | $[5]=4 \times$ <br> 10110 | [6]=4-5 |  |
| 3rd | - | $2,75,000$ | $2,75,000$ | 25,000 | $2,50,000$ |
| 2nd | $2,50,000$ | $2,45,000$ | $4,95,000$ | 45,000 | $4,50,000$ |
| Ist | $4,50,000$ | $2,65,000$ | $7,15,000$ | 65,000 | $6,50,000$ |

Total cash price $=$ Rs. $6,50,000+5,00,000($ down payment $)=$ Rs. $11,50,000$.
(ii)

In the books of Lucky Tractors Account

| Date | Particulars | Rs. | Date | Particulars | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1.10.20×1 | $\begin{array}{ll} \text { To } & \text { Happy } \\ \text { a/c } & \end{array}$ | 11,50,000 | 30.9.20×2 | By Depreciation A/c | 2,30,000 |
|  |  |  |  | Balance c/d | 9,20,000 |
|  |  | 11,50,000 |  |  | 11,50,000 |
| 1.10.20×2 | To Balance b/d | 9,20,000 | 30.9.20×3 | By Depreciation A/C | 1,84,000 |
|  |  |  |  | Balance c/d | 7,36,000 |
|  |  | 9,20,000 |  |  | 9,20,000 |
| $1.10 .20 \times 3$ | To Balance b/d | 7,36,000 | 30.9.20×4 | By Depreciation A/c | 1,47,200 |
|  |  |  |  | By Happy a/c (Value of 1 Tractor taken over after depreciation for 3 years @30\%p.a.)\{5,75,000- |  |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)



Happy Account

| Date | Particulars | Rs. | Date | Particulars | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| I.10.XI | Bank (down payment) | 5,00,000 | I.10.XI | By Tractors a/c | 11,50,000 |
| 30.9. $\times 2$ | To Bank (Istlnstallment) | 2,65,000 | 30.9. $\times 2$ | By Interest a/c | 65,000 |
|  | Balance c/d | 4,50,000 |  |  |  |
|  |  | 12,15,000 |  |  | 12,15,000 |
| 30.9. $\times 3$ | To Bank (2nd Installment) | 2,45,000 | $\begin{aligned} & 1.10 . \times 2 \\ & 30.9 . \times 3 \end{aligned}$ | By Balance b/d | 4,50,000 |
|  | To Balance c/d | 2,50,000 |  | By Interest a/c | 45,000 |
|  |  | 4,95,000 |  |  | 4,95,000 |
|  |  |  |  |  |  |
| 30.9. $\times 4$ | To Tractor a/c | 1,97,225 | 1.10. $\times 3$ | By Balance b/d | 2,50,000 |
|  | $\begin{aligned} & \text { To Balance c/d } \\ & \text { (b.f.) } \end{aligned}$ | 77,775 | 30.9. $\times 4$ | By Interest a/c | 25,000 |
|  |  | 2,75,000 |  |  | 2,75,000 |
| $31.12 . \times 4$ | To Bank | 81,275 | $1.10 . \times 4$ | By Balance b/d | 77,775 |
|  | (Amount settled after 3 months) |  | $31.12 . \times 4$ | By Interest a/c@@ $18 \%$ on bal.) (77,775×3/12×18) <br> 100) | 3,500 |
|  |  | 81,275 |  |  | 81,275 |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

## Topic - 6 <br> INCOMPLETE RECORDS

## Question 24 (RTP May 2018, Nov 20)

The following is the Balance Sheet of Manish and Suresh as on Ist April, 2016:

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

They give you the following additional information:
(i) Creditors' VelocityRs. 1.5 month \& Debtors' Velocity* 2 months.
(ii) Stock level is maintained uniformly in value throughout all over the year.
(iii) Depreciation on machinery is charged @ $10 \%$, Depreciation on building @ $5 \%$ in the current year.
(iv) Cost price will go up $15 \%$ as compared to last year and also sales in the current year will increase by $25 \%$ in volume.
(v) Rate of gross profit remains the same.
(vi) Business Expenditures are Rs50,000 for the year. All expenditures are paid off in cash.
(vii) Closing stock is to be valued on LIFO Basis.
(viii) All sales and purchases are on credit basis and there are no cash purchases and sales.

You are required to prepare Trading, Profit and Loss Account, Trade Debtors Account and Trade Creditors Account for the year ending 31.03.2017.

## SOLUTION

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

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

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

|  | 86,250 |  | 86,250 |
| :--- | :--- | :--- | :--- |

Trade Debtors Account

| Particulars | Rs | Particulars | Rs |
| :--- | :---: | :--- | :---: |
| To Balance b/d | 50,000 | By Bank (bal.fig.) | $4,09,375$ |
| To Sales | $4,31,250$ | By Balance c/d (1/6 of 4,31,250) | 71,875 |
|  | $4,81,250$ |  | $4,81,250$ |

Trade Creditors Account

| Particulars | Rs | Particulars | Rs |
| :--- | :---: | :--- | :---: |
| To Bank (Balancing figure) | $3,31,875$ | By Balancing b/d | 30,000 |
| To Balance c/d/ (1/8 of <br> Rs $3,45,000$ ) | 43,125 | By Purchases | $3,45,000$ |
|  | $3,75,000$ |  | $3,75,000$ |

## Working Note:

| Rs. |  | Rs. |  |
| :--- | :--- | :---: | :---: |
| (i) | Calculation of Rate of Gross Profit earned during <br> previous year |  |  |
| A | Sales during previous year (Rs50,000 x 12/2) | $3,00,000$ |  |
| B | Purchases (Rs30,000 x 12/I.5) | $2,40,000$ |  |
| C | Cost of Goods Sold (Rs40,000 + Rs2,40,000 - <br> Rs 40,000$)$ | $2,40,000$ |  |
| D | Gross Profit (A-C) | 60,000 |  |
| E | Rate of Gross Profit Rs60,000 $\div 3,00,000 \times 100$ | $20 \%$ |  |
| (ii) | Calculation of sales and Purchases during current year | Rs |  |
| A | Cost of goods sold during previous year | $2,40,000$ |  |
| B | Add: Increases in volume @ 25 \% | 60,000 |  |
|  | $3,00,000$ |  |  |
| C | Add: Increase in cost @ 15\% | 45,000 |  |
| D | Cost of Goods Sold during Current Year | $3,45,000$ |  |
| E | Add: Gross profit @ 25\% on cost (20\% on sales) | 86,250 |  |
| F | Sales for current year [D+E] | $4,31,250$ |  |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

## Question 25 (MTP April 2019)

The following is the Balance Sheet of Chirag as on 31st March, 201S:

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

A riot occurred on the night of 31st March, 2016 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:
(a) His sales for the year ended 31st March, 2016 were $20 \%$ higher than the previous year's. He always sells his goods at cost plus 25\%; 20\% of the total sales for the year ended 31st March, 2016 were for cash. There were no cash purchases
(b) On Ist April, 2015 the stock level was raised to Rs. 30,000 and stock was maintained at this new level all throughout the year.
(c) Collection from debtors amounted to Rs. 1,40,000 of which Rs. 35,000 was received in cash, Business expenses amounted to Rs. 20,000 of which Rs. 5,000 was outstanding on 31st March, 2016 and Rs. 6,000 was paid by cheques.
(d) Analysis of the Pass Book revealed the Payment to Creditors Rs. 1,37,500, Personal Drawing Rs. 7,500, Cash deposited in Bank Rs. 71,500, and Cash withdrawn from Bank Rs. 12,000.
(e) Gross profit as per last year's audited accounts was Rs, 30,000.
(f) Provide depreciation on Building and Furniture at $5 \%$ and Motor Car at $20 \%$.
(g) The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2016 and Balance Sheet as on that date.

## SOLUTION

Trading and Profit and Loss Account For the year ending on 31stMarch,2016

| Particulars |  | Rs. | Particulars | Rs. |
| :--- | :---: | :---: | :--- | :---: |
| To Opening Stock |  | 20,000 | By Sales | $1,80,000$ |
| To Purchases (bal.fig.); |  | $1,54,000$ | By Closing Stock | 30,000 |
| To Gross Profit c/d (@20\% on <br> sales) |  | 36,000 |  |  |
|  |  | $2,10,000$ |  | $2,10,000$ |
| To Sundry Business Expenses |  | 20,000 | By Gross Profit b/d | 36,000 |
| To Depreciation on Building | 1,625 |  |  |  |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

| Furniture | 250 |  |  |  |
| :--- | :---: | :---: | :---: | :---: |
| Motor | 1,800 | 3,675 |  |  |
| To Net profit transferred to Capital <br> A/c |  | 12,325 |  |  |
|  |  | 36,000 |  | 36,000 |

Balance Sheet as at 31stMarch, 2016

| Liabilities |  | Rs. | Assets |  | Rs. |
| :--- | :---: | :---: | :--- | :---: | :---: |
| Capital Account: |  |  | Building | 32,500 |  |
| Opening Balance | 48,000 |  | Less: Depreciation | $(1,625)$ | 30,875 |
| Add: Net profit | 12,325 |  | Furniture | 5,000 |  |
|  | 60,325 |  | Less: Depreciation | $(250)$ | 4,750 |
| Less: Drawings | $(7,500)$ | 52,825 | Motor Car | 9,000 |  |
| Loan |  | 15,000 | Less: Depreciation | $(1,800)$ | 7,200 |
| Sundry Creditors |  | 47,500 | Stock in trade |  | 30,000 |
| Outstanding Expenses |  | 5,000 | Sundry Debtors |  | 21,000 |
|  |  |  | Cash at Bank |  | 22,000 |
|  |  |  | Sundry Advances |  |  |
|  |  |  | (Amount recoverable |  |  |
|  |  |  | from Cashier) |  | 4,500 |
|  |  | $\mathbf{1 , 2 0 , 3 2 5}$ |  | $1,20,325$ |  |

## Working Notes:

(i) Total Debtors Account

| Particulars | Rs. | Particulars | Rs. |
| :--- | :---: | :--- | :---: |
| To Balance b/d | 17,000 | By Bank (Rs. 1,40,000 - Rs. <br> $35,000)$ | $1,05,000$ |
| To Sales (80\% of <br> 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 | $1,54,000$ |
|  | $1,85,000$ |  | $1,85,000$ |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

(iii) Cash Book

| Particulars | Cash Rs. | Bank Rs. | Particulars | Cash Rs. | Bank Rs. |
| :--- | :---: | :---: | :--- | :---: | :---: |
| To Balance b/d | 2,000 | 8,500 | By Business Expenses | 9,000 | 6,000 |
| To Sales | 36,000 | - | By Drawings | - | 7,500 |
| To Sundry Debtors | 35,000 | $1,05,000$ | By Sundry Creditors | - | $1,37,500$ |
| To Cash (Contra) To |  |  |  |  |  |
| Bank (Contra) | - | 71,500 | By Bank (Contra) <br> By Cash (Contra) <br> By Defalcation (Bal fig.) <br> By Balance cld (Bal fig.) | 4,500 | - |
|  | 12,000 |  |  | - |  |

(iv) Lastyear'sTotalSales $=$ GrossProfitx $100120=$ Rs. $30,000 \times 100 / 20=$ Rs. $1,50,000$
(v) Current year's Total Sales=Rs.1, $50,000+20 \%$ ofRs. $1,50,000=$ Rs. $1,80,000$
(vi) Current year's Credit Sales $=$ Rs. $1,80,000 \times 80 \%=$ 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. $1,54,000$

## QUESTION 26 (EXAM Nov 2019)

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 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 31stMarch, 2019:

| Receipts | Amount (Rs) | Payments | Amount (Rs) |
| :--- | :---: | :--- | :---: |
| Cash in hand \& at Bank on <br> 1stApril, 2018 | $1,20,000$ | Payment to trade <br> 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 | Cash in hand \& at Bank <br> on 31stMarch, 2019 |
|  | $1,39,65,000$ |  | $1,90,950$ |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

## 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 31stMarch, 2019).
(ii) Annual fire insurance premium of Rs 9,000 was paid every year on IstAugust 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 31stMarch, 2019:

| $\quad$ 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 31stMarch, 2019, and Balance Sheet as on that date.

## SOLUTION

## 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 (W.N. I) | $28,60,000$ | $139,30,000$ |
|  | (10\% of 139,30,000) |  | By Closing stock |  | $9,75,000$ |
|  |  | $149,05,000$ |  |  | $149,05,000$ |
| To | Sundry expenses (W.N. 4) | $9,18,750$ | By Gross profit b/d |  | $13,93,000$ |
| To | Discount allowed | 54,000 | By <br> By <br> received | Discount |  |
| To | Depreciation | 22,500 |  | 42,500 |  |
|  | (IS\% Rs 1,50,000) |  |  |  |  |
| To | Net Profit (b.f.) | $4,40,250$ |  |  |  |
|  |  | $14,35,500$ |  |  |  |

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

| Liabilities |  | Amount | Assets | Amount |
| :--- | :--- | :--- | :--- | :---: |
|  |  | Rs |  | Rs |
| Capital |  | Furniture <br> Fittings | \& $1,50,000$ |  |
| Opening balance | $6,75,000$ |  | Less: Depreciation (22,500) | $1,27,500$ |
| Less: Drawing | $(3,60,000)$ |  | Stock |  |
|  | $3,15,000$ |  | Trade Debtors |  |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

| Add: Net profit for the <br> years | $4,40,250$ | $7,55,250$ | Unexpired <br> insurance | 3,000 |
| :--- | :---: | :---: | :--- | :---: | :---: |
| Trade creditors (W.N. 3) |  | $8,29,000$ | Cash in hand \& at bank | $1,90,950$ |
| Outstanding expenses |  | 55,200 |  |  |
|  |  | $16,39,450$ |  | $16,39,450$ |

## Working Notes:

1. Trade Debtors Account

|  | 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 | $3,43,000$ |
|  | $31,72,000$ |  | $31,72,000$ |

2. 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) | $13,93,000$ |  |  |
|  | $149,05,000$ |  | $149,05,000$ |

3. 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) | $8,29,000$ |  |  |
|  | $133,54,500$ |  | $133,54,500$ |

4. 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 |
| Less: Prepaid expenses as on 31-3-2019 (Insurance paid till | $9,21,750$ |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

| July, 2019 $(9,000 \times 4 / 12)$ | $(3,000)$ |
| :--- | :--- |
|  | $9,18,750$ |

## Question 27 (EXAM Nov. 21 - 10 Marks)

M/s Rohan\& Sons runs a business of electrical goods on wholesale basis. The books of Accounts are closed on 31st March every year. The Balance Sheet as on 31st March 2019 is as follows:

| Liabilities | Rs. | Assets | Rs. |
| :--- | :--- | :--- | :--- |
| Capital | $12,50,000$ | Fixed Assets | $6,50,000$ |
| Trade Creditors | $1,90,000$ | Closing Stock | $3,75,000$ |
| Profit \& Loss A/c | $1,45,000$ | Trade Debtors | $3,65,000$ |
|  |  | Cash \& Bank | $1,95,000$ |
|  | $15,85,000$ |  | $15,85,000$ |

The management estimates the purchase \& sales for the year ended 31st March 2020 as under:

| Particulars | Upto 31.01.2020 | February 2020 | March 2020 |
| :--- | :--- | :--- | :--- |
| Purchases | $16,20,000$ | $1,40,000$ | $1,25,000$ |
| Sales | $20,75,000$ | $2,10,000$ | $1,75,000$ |

All sales and purchases are on credit basis. It was decided to invest Rs. 1,50,000 in purchase of Fixed Assets, which are depreciated @10\% on book value. A fixed asset of book value as on 01.04 .2019, Rs. 60,000 was sold for Rs. 56,000 on 31st March 2020.
The time lag for payment to Trade Creditors for purchases is one month and receipt from trade debtors for sales is 2 months. The business earns a gross profit of $25 \%$ on Turnover. The expenses against gross profit amounts to $15 \%$ of the turnover. The amount of depreciation is not included in these expenses.
Prepare Trading \& Profit \& Loss account for the year ending 31st March 2020 and draft a Balance Sheet as at 31st March 2020 assuming that creditors are all trade creditors for purchases and debtors are all trade debtors for sales and there is no other current assets and liabilities apart from stock and cash and bank balances. Also prepare Cash \& Bank Account and Fixed Assets Account for the year ending 31st March 2020.

## SOLUTION

## Trading and Profit and Loss Account of M/s Rohan \& Sons <br> fortheyearended31stMarch, 2020

|  | Rs. |  | Rs. |
| :--- | ---: | :--- | ---: |
| To Opening stock | $3,75,000$ | By Sales | $24,60,000$ |
| To Purchases | $18,85,000$ | By Closing stock | $4,15,000$ |
| To Gross Profit c/d(25\%) | $6,15,000$ | (Balancing Figure) |  |
| To Depreciation | $28,75,000$ |  | $28,75,000$ |
| To Expenses(15\% of Rs.24,60,000) | 80,000 | By Gross profit b/d | $6,15,000$ |
|  | $3,69,000$ | By Profit on sale of Fixed assets | 2,000 |
| To Net Profit (b.f.) | $1,68,000$ |  |  |
|  | $6,17,000$ |  | $\mathbf{6 , 1 7 , 0 0 0}$ |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

Balance Sheet of M/s Rohan Sons as on 31st March, 2020
\(\left.\begin{array}{|l|r|l|r|}\hline Liabilities \& \& Assets \& Rs. <br>
\hline Capital \& 12,50,000 \& Fixed assets (less \& 6,66,000 <br>

Profit \& Loss \& 3,13,000 \& Dep.) \& Stock\end{array}\right]\)|  |
| :--- |
| A/c(1,45,000+1,68,000) |

Cash and Bank Account

| To Bal. b/d | $1,95,000$ | By Creditors <br> $(1,90,000+16,20,000+1,40,000)$ | $19,50,000$ |
| :--- | ---: | :--- | ---: |
| To Debtors | $24,40,000$ | By Expenses | $3,69,000$ |
| $(3,65,000+20,75,000)$ | 56,000 | By Fixed assets |  |
| To Fixed assets | By Bal. c/d | $1,50,000$ |  |
|  | $26,91,000$ |  | $2,22,000$ |
|  |  | $26,91,000$ |  |

Fixed Assets Account

| To Bal. b/d | $6,50,000$ | By Cash | 56,000 |
| :--- | ---: | :--- | ---: |
| To Profit on sale of Fixed asset | 2,000 | By Depreciation on sold fixed <br> asset <br> By Depreciation <br>  <br> (59,000+15,000) | 6,000 |
| To Bank A/c | $1,50,000$ | By Bal.c/d | 74,000 |
|  | $8,02,000$ |  | $6,66,000$ |
|  |  | $8,02,000$ |  |

## QUESTION 28 (ICAI Module)

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

|  | 31-12-2015 | 31-12-2016 |
| :--- | :---: | :---: |
| 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 |  |  |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

| 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.
Find out profit of Mr. X.

## SOLUTION

## 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. $2000 \times 12$ ) | 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 29 (ICAI Module)

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

| Assets and liabilities as on | I.1.2016 <br> Rs. | 31.12.2016 <br> 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 during 2016:

- Collections from debtors, after allowing discount of Rs.3,000 amounted to Rs. 1,17,000.
- Collections on discounting of bills of exchange, after deduction of discount ofRs. 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


## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

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 Ist July, 2016 and 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 favour of creditors. An endorsed bill of exchange of Rs. 800 was dishonored.
d. Goods costing Rs.1,800 were used as advertising materials.
e. Goods are in variably sold to show a gross profit of $33-1 / 3 \%$ on sales.
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.

## SOLUTION

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

|  |  | 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 cld @ 33-1/3\% |  | 48,700 |  |  |
|  |  | 1,60,100 |  | 1,60,100 |
| To Sundry expenses <br> (W.N.6) |  | 28,400 | By Gross profit b/d | 48,700 |
| To Advertisement |  | 1,800 | By Interest on investment ( $200 \times 4 / 100 \times 1 / 2$ ) | 4 |
| To Discount allowed |  |  | By Discount received | 1,600 |
| Debtors | 3,000 |  | By Miscellaneous income | 1,000 |
| Bills Receivable | 250 | 3,250 |  |  |
| Depreciation on furniture $\left(\begin{array}{l} (12,000+2,000 \\ 12,700) \end{array}\right.$ |  | 1,300 |  |  |
| Provision for doubtful debts |  | 972 |  |  |
| To Net Profit (b.f.) |  | 15,582 |  |  |
|  |  | 51,304 |  | 51,304 |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

Balance Sheet as on 31stDecember, 2016

| Liabilities | Amount |  | Assets |  | Amount |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Rs. | Rs. |  | Rs. | Rs. |
| Capital as on 1.1 .2016 (W.N.I) | 37,600 |  | Furniture (w.d.v.) <br> Additions during the Year <br> Less: Depreciation (b.f.) | $\begin{gathered} 12,000 \\ 2,000 \\ (1,300) \end{gathered}$ | 12,700 |
| Less: Drawings | $(15,808)$ |  | Investment |  | 192 |
|  | 21,792 |  | Interest accrued (200 $\times 4 \% \times 6 / 12)$ |  | 4 |
| Add: Net Profit | 15,582 | 37,374 | Closing Inventory |  | 14,000 |
| Sundry creditors |  | 30,000 | Sundry debtors <br> Less: Provision for <br> doubtful debts @ $2.5 \%$ | $\begin{gathered} 38,900 \\ 972 \end{gathered}$ | 37,928 |
| Outstanding expenses |  | 3,600 | 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:

(1) Capital on IstJanuary,2016

Balance Sheet as on IstJanuary, 2016

| Liabilities | Rs. | Assets | Rs. |
| :--- | :---: | :--- | :---: |
| Capital (Bal.fig.) | 37,600 | Furniture (w.d.v.) | 12,000 |
| Creditors | 22,000 | lnventory at cost | 16,000 |
| Outstanding expenses | 4,000 | Sundry debtors | 32,000 |
|  |  | Cash in hand and at bank | 2,400 |
|  |  | Prepaid expenses | 1,200 |
|  | $\mathbf{6 3 , 6 0 0}$ |  | 63,600 |

(2) 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 | 1,600 | By Sundry debtors A/c | 800 |
| $(80,000-78,400)$ |  |  |  |
| To Bills Receivable A/c | 4,000 | By Purchases A/c | 91,200 |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

| To Balance c/d | 30,000 | (Balancing figure) |  |
| :--- | :---: | :---: | :---: |
|  | $1,14,000$ |  | $1,14,000$ |

(3) 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 (@ s0\% on cost) |  | 48,700 |
|  |  | $1,46,100$ |

(4) 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 dishonored) | 800 | By Balance c/d (Bal. fig.) | 38,900 |
|  |  |  | $1,78,900$ |

(5) 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 |  |
|  | $1,32,650$ |  | $1,32,650$ |

## CA INTER ACCOUNTS (IMP QUESTIONS FOR EXAM)

(6) Amount of expenses debited to Profit and Loss A/C

Sundry Expenses Account

\begin{tabular}{|c|c|c|c|}
\hline \& Rs. \& \& Rs. \\
\hline \multirow[t]{2}{*}{\begin{tabular}{l}
To Prepaid expenses A/C \\
(on I.1.2016) \\
To Bank A/c \\
To Outstanding expenses A/C (on 31.12.2016)
\end{tabular}} \& 1,200

29,000

3,600 \& | By Outstanding expenses A/C (on 1.1.2014) |
| :--- |
| By Profit and Loss A/C (Balancing figure) |
| By Prepaid expenses A/C | \& \[

$$
\begin{aligned}
& 4,000 \\
& 28,400 \\
& 1,400
\end{aligned}
$$
\] <br>

\hline \& 33,800 \& \& 33,800 <br>
\hline
\end{tabular}

(7) Bills Receivable on 31stDecember, 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 |

