# TOPIC 1

# FINANCIAL STATEMENT OF COMPANIES

## Question 1 (ICAI Module)

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

Balance Sheet (Extract) as on 31stMarch, 20X1

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

Share suspense account represents application money received on shares, the allotment of which is not yet made. You are required to compute effective capital as per the provisions of Schedule V. Would your answer differ if Star Ltd. is an investment company?

## SOLUTION

**Computation of effective capital:**

| | **Where Star Ltd. Is a non-investment company Rs** | **Where Star Ltd. is an investment company Rs** |
|---|---|---|
| Paid-up share capital — | | |

| | | |
|---|---|---|
| 45,000, 14% Preference shares | 45,00,000 | 45,00,000 |
| 3,60,000 Equity shares | 2,88,00,000 | 2,88,00,000 |
| Capital reserves (5,85,000 – 4,50,000) | 1,35,000 | 1,35,000 |
| Securities premium | 1,50,000 | 1,50,000 |
| 15% Debentures | 1,95,00,000 | 1,95,00,000 |
| Public Deposits | 11,10,000 | 11,10,000 |
| (A) | 5,41,95,000 | 5,41,95,000 |
| Investments | 2,25,00,000 | — |
| Profit and Loss account (Dr. balance) | 45,75,000 | 45,75,000 |
| (B) | 2,70,75,000 | 45,75,000 |
| Effective capital (A–B) | 2,71,20,000 | 4,96,20,000 |

## Question 2 (ICAI Module)

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

| **Particulars** | **Rs** | **Particulars** | **Rs** |
|---|---|---|---|
| Buildings | 5,80,000 | Sales | 10,40,000 |
| Machinery | 2,00,000 | Outstanding Expenses | 4,000 |
| Closing Stock | 1,80,000 | Provision for Doubtful | 6,000 |
| Loose Tools | 46,000 | Debts (1-4-20X1) | |
| Purchases (Adjusted) | 4,20,000 | Equity Share Capital | 4,00,000 |
| Salaries | 1,20,000 | General Reserve | 80,000 |
| Directors' Fees | 20,000 | Profit and Loss A/c | 50,000 |
| Rent | 52,000 | (1-4-20X1) | |
| Depreciation | 40,000 | Creditors | 1,84,000 |
| Bad Debts | 12,000 | Provision for depreciation: | |
| Investment | 2,40,000 | On Building 1,00,000 | |
| Interest accrued on investment | 4,000 | On Machinery 1,10,000 | 2,10,000 |
| Debenture Interest | 56,000 | 14% Debentures | 4,00,000 |
| Advance Tax | 1,20,000 | Interest on Debentures | 28,000 |
| Sundry expenses | 36,000 | accrued but not due | |
| Debtors | 2,50,000 | Interest on Investments | 24,000 |
| Bank | 60,000 | Unclaimed dividend | 10,000 |
| | **24,36,000** | | **24,36,000** |

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

(a) Closing stock is more than opening stock by Rs 1,60,000;

(b) Provide to doubtful debts @ 4% on Debtors

(c) Make a provision for income tax @30%.

(d) Depreciation expense included depreciation of Rs 16,000 on Building and that of Rs 24,000 on Machinery.

(e) The directors declared a dividend @ 25% and transfer to General Reserve @ 10%.

Bills Discounted but not yet matured Rs 20,000.

## SOLUTION

**Ring Ltd.**

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

| Particulars | | Note No. | (Rs in lacs) |
|---|---|---|---|
| I | Revenue from operations | | 10,40,000 |
| II | Other income (interest on investment) | | 24,000 |
| III | Total Revenue [I + II] | | 10,64,000 |
| IV | Expenses: | | |
| Cost of purchase [4,20,000+ 1,60,000] | | | 5,80,000 |
| Changes in inventories [20,000-1,80,000] | | | (1,60,000) |
| Employee Benefits Expense | | | 1,20,000 |
| Depreciation and Amortisation Expenses | | | 40,000 |
| Other Expenses | | 8 | 1,24,000 |
| Total Expenses | | | 7,60,000 |
| V | Profit before Tax (III-IV) | | 3,04,000 |
| VI | Tax Expenses @ 30% | | (91,200) |
| VII | Profit for the period | | 2,12,800 |

**Balance Sheet of Ring Ltd. as at 31stMarch, 20X2**

| Particulars | | Note No. | Rs |
|---|---|---|---|
| **I** | **EQUITY AND LIABILITIES** | | |
| **(1)** | **Shareholders' Funds** | | |
| (a) Share Capital | | 1 | 4,00,000 |
| (b) Reserves and Surplus | | 2 | 2,22,442 |
| **(2)** | **Non-Current Liabilities** | | |
| (a) Long-term Borrowings (14% debentures) | | | 4,00,000 |
| **(3)** | **Current Liabilities** | | |
| (a) Trade Receivable (Sundry Creditors) | | | 1,84,000 |
| (b) Other Current Liabilities | | 3 | 1,62,358 |
| (c) Short-Term Provisions | | 4 | 91,200 |
| | **Total** | | **14,60,000** |
| **II** | **ASSETS** | | |
| **(1)** | **Non-Current Assets** | | |
| (a) PPE | | | |

| | | |
|---|---|---|
| (i) Tangible Assets | 5 | 5,70,000 |
| (b) Non-current Investments | | 2,40,000 |
| **(2) Current Assets** | | |
| (a) Inventories | 6 | 2,26,000 |
| (b) Trade Receivables | 7 | 2,40,000 |
| (c) Cash and bank balances | | 60,000 |
| (d) Short Term Loans and Advances (Advance Payment of Tax) | | 1,20,000 |
| (e) Other Current Assets | | 4,000 |
| (Interest accrued on investments) | | |
| **Total** | | **14,60,000** |

Note: There is a Contingent Liability for bills discounted but not yet matured amounting Rs20,000.

**Notes to Accounts:**

| | | | |
|---|---|---|---|
| **1 Share Capital** | | | |
| Authorised Capital | | | |
| 10,000 Equity Shares of Rs 100 each | | | 10,00,000 |
| Issued Capital | | | |
| 4,000 Equity Shares of Rs 100 each | | | 4,00,000 |
| Subscribed Capital and fully paid | | | |
| 4,000 Equity Shares of RS 100 each | | | 4,00,000 |
| | | | 4,00,000 |
| **2. Reserve and Surplus** | | | |
| General Reserve [Rs 80,000 + RS 21,280] | | | 1,01,280 |
| Balance of Statement of Profit & Loss Account 50,000 | | | |
| Opening Balance | 2,12,800 | | |
| Add: Profit for the period | 2,62,800 | | |
| | | | |
| Appropriations | | | |
| Transfer to General Reserve@10%(21,280) | | | |
| Equity Divided Receivable [25% of Rs 4,00,000] (1,00,000) | | | |
| Dividend Distribution Tax (W. N.1) | | (20,358) | 1,21,162 |
| | | | **2,22,442** |
| **3. Other Current Liabilities** | | | |
| Unclaimed Dividend | | | 10,000 |
| Outstanding Expenses | | | 4,000 |
| Interest accrued on Debentures | | | 28,000 |
| Equity Dividend Receivable | | 1,00,000 | |
| Dividend Distribution Tax | | 20,358 | 1,20,358 |

| | | | |
|---|---|---|---|
| | | | **1,62,358** |
| **4.** | **Short-Term Provision** | | |
| Provision for Tax | | | 91,200 |
| **5** | **Tangible Assets** | | |
| Buildings | | 5,80,000 | |
| Less: Provision for Depreciation | | 1,00,000 | 4,80,000 |
| Plant and Equipment | | 2,00,000 | |
| Less: Provision for Depreciation | | 1,10,000 | 90,000 |
| | | | 5,70,000 |
| **6** | **Inventories** | | |
| Closing Stock of Finished Goods | | 1,80,000 | |
| Loose Tools | | 46,000 | 2,26,000 |
| **7** | **Trade Receivables** | | |
| Sundry Debtors | | 2,50,000 | |
| Less: Provision for Doubtful Debts | | (10,000) | 2,40,000 |
| **8.** | **Other Expenses** | | |
| Rent | | | 52,000 |
| Directors' Fees | | | 20,000 |
| Bad Debts | | | 12,000 |
| Provision for Doubtful Debts (4% of Rs 2,50,000 less Rs 6,000)<br>Sundry Expenses | | | 4,000<br>36,000 |
| | | | **1,24,000** |

**Working Note**

**Calculation of Dividend distribution tax**

| **Particulars** | **Rs** |
|---|---|
| (i) Grossing-up of dividend | |
| Dividend distributed by Ring Ltd. 25% of 4,00,000 | 1,00,000 |
| Add: Increase for the purpose of grossing up of dividend | 17,647 |
| [1,00,000 x (15/(100-15)] | |
| Gross dividend | 1,17,647 |
| (ii) Dividend distribution tax @ 17.304% of Rs 1,17,647 | 20,358 |

## Question 3 (ICAI Module)

You are required to prepare a Statement of Profit and Loss and Balance Sheet from the following Trial Balance extracted from the books of the International Hotels Ltd., on 31stMarch, 20X2:

| | **Dr.** | **Cr.** |
|---|---|---|
| | **Rs** | **Rs** |
| Authorised Capital-divided into 5,000 6% Preference Shares | | 15,00,000 |

| | | |
|---|---|---|
| of Rs 100 each and 10,000 equity Shares of Rs 100 each | | |
| **Subscribed Capital -** | | |
| 5,000 6% Preference Shares of Rs 100 each | | 5,00,000 |
| Equity Capital | | 8,05,000 |
| Purchases - Wines, Cigarettes, Cigars, etc. | 45,800 | |
| - Foodstuffs | 36,200 | |
| Wages and Salaries | 28,300 | |
| Rent, Rates and Taxes | 8,900 | |
| Laundry | | 750 |
| Sales - Wines, Cigarettes, Cigars, etc. | | 68,400 |
| - Food | | 57,600 |
| Coal and Firewood | 3,290 | |
| Carriage and Cooliage | 810 | |
| Sundry Expenses | 5,840 | |
| Advertising | 8,360 | |
| Repairs | 4,250 | |
| Rent of Rooms | | 48,000 |
| Billiard | | 5,700 |
| Miscellaneous Receipts | | 2,800 |
| Discount received | | 3,300 |
| Transfer fees | | 700 |
| Freehold Land and Building | 8,50,000 | |
| Furniture and Fittings | 86,300 | |
| Inventory on hand, 1st April, 20X1 | | |
| Wines, Cigarettes. Cigars, etc. | 12,800 | |
| Foodstuffs | 5,260 | |
| Cash in hand | 2,200 | |
| Cash with Bankers | 76,380 | |
| Preliminary and formation expenses | 8,000 | |
| 2,000 Debentures of Rs 100 each (6%) | | 2,00,000 |
| Profit and Loss Account | | 41,500 |
| Trade payables | | 42,000 |
| Trade receivables | 19,260 | |
| Investments | 2,72,300 | |
| Goodwill at cost | 5,00,000 | |
| General Reserve | | 2,00,000 |
| | 19,75,000 | 19,75,000 |
| Wages and Salaries Outstanding | 1,280 | |

| | | |
|---|---|---|
| Inventory on 31st March, 20X2 | | |
| Wines, Cigarettes and Cigars, etc. | 22,500 | |
| Foodstuffs | 16,400 | |

Depreciation: Furniture and Fittings @ 5% p.a.: Land and Building @ 2% p.a.

The Equity capital on 1stApril, 20X1 stood at Rs 7,20,000, that is 6,000 shares fully paid and 2,000 shares Rs 60 paid. The directors made a call of Rs 40 per share on 1stOctober 20X1. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ Rs 90 per share as fully paid. The Directors declare a dividend of 8% on equity shares, transferring any amount that may be required from General Reserve. Ignore Taxation.

## SOLUTION

Statement of Profit and Loss of International Hotels Ltd.
for the year ended 31stMarch, 20X2

| | Particulars | Notes | Amount |
|---|---|---|---|
| I. | Revenue from operations | 10 | 1,83,200 |
| II. | Other income (Discount received) | | 3,300 |
| III. | Total Revenue (I + II) | | 1,86,500 |
| **IV.** | **Expenses:** | | |
| | Cost of materials consumed | 11 | 25,060 |
| | Purchases of Inventory-in-Trade | 12 | 45,800 |
| | Changes in inventories of finished goodswork-in-progress and Inventory-in-Trade | 13 | (9,700) |
| | Employee benefits expense | 14 | 29,580 |
| | Other operating expenses | 15 | 18,000 |
| | Selling and administrative expenses | 16 | 14,200 |
| | Finance costs | 17 | 12,000 |
| | Depreciation and amortisation expense | 18 | 21,315 |
| | Other expenses | 9 | 8,000 |
| | Total expenses | | 1,64,255 |
| **V.** | **Profit (Loss) for the period (III - IV)** | | **22,245** |

**Balance Sheet of International Hotels Ltd. as on 31st March, 20X2**

| Particulars | | | Note No | Rs |
|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | |
| **1** | **Shareholders' funds** | | | |
| | a | Share capital | 1 | 13,00,000 |
| | b | Reserves and Surplus | 2 | 1,74,745 |
| **2** | **Non-current liabilities** | | | |

| | | | | | |
|---|---|---|---|---|---|
| | a | Long-term borrowings | | 3 | 2,00,000 |
| **3** | **Current liabilities** | | | | |
| | a | Trade Receivables | | 4 | 42,000 |
| | b | Other current liabilities | | 5 | 1,07,280 |
| | | | **Total** | | **18,24,025** |
| **ASSETS** | | | | | |
| **1** | **Non-current assets** | | | | |
| | a | PPE | | | |
| | | I | Tangible assets | 6 | 9,14,985 |
| | | II | Intangible assets (Goodwill) | | 5,00,000 |
| | B | Non-current investments | | | 2,72,300 |
| **2** | **Current assets** | | | | |
| | A | Inventories | | 7 | 38,900 |
| | B | Trade receivables | | | 19,260 |
| | C | Cash and bank balances | | 8 | 78,580 |
| | | | **Total** | | **18,24,025** |

**Notes to accounts**

| | | | **Rs** |
|---|---|---|---|
| **1** | **Share Capital** | | |
| | Equity share capital | | |
| | Authorised | | |
| | 10,000 Equity shares of Rs 100 each | | 10,00,000 |
| | Issued & subscribed | | |
| | 8,000 Equity Shares of Rs 100 each | | 8,00,000 |
| | **Preference share capital** | | |
| | **Authorised** | | |
| | 5,000 6% Preference shares of Rs 100 each | | 5,00,000 |
| | **Issued & subscribed** | | |
| | 5,000 6% Preference shares of Rs 100 each | | 5,00,000 |
| | **Total** | | **13,00,000** |
| **2** | **Reserves and Surplus** | | |
| | Capital reserve [100 x (90 – 40)] | | 5,000 |
| | General reserve | 2,00,000 | |
| | Less: Amount used to pay dividend | (30,255) | 1,69,745 |
| | Surplus (Profit & Loss A/c) | 22,245 | |
| | Add: Balance from previous year | 41,500 | |
| | Transfer from General Reserve (94,000 –41,500) | 30,255 | |
| | Appropriations | (94,000) | |

| | | | |
|---|---|---|---|
| | Dividend declared | | - |
| | Profit (Loss) carried forward to Balance Sheet | 0 | 0 |
| | **Total** | | **1,74,745** |
| **3** | **Long-term borrowings** | | |
| | Secured | | |
| | 6% Debentures | | 2,00,000 |
| | **Total** | | **2,00,000** |
| **4** | **Trade Receivables** | | **42,000** |
| **5** | **Other current liabilities** | | |
| | Wages and Salaries Outstanding | 1,280 | |
| | Interest on debentures dividend Receivable | 12,000 | 13,280 |
| | Preference Dividend (5,00,000 x 6%) | | 30,000 |
| | Equity Dividend (8,00,000 x 8%) | | 64,000 |
| | **Total** | | **1,07,280** |
| **6** | **Tangible assets** | | |
| | Freehold land & Buildings | 8,50,000 | |
| | Less: Depreciation | (17,000) | 8,33,000 |
| | Furniture and Fittings | 86,300 | |
| | Less: Depreciation | (4,315) | 81,985 |
| | **Total** | | **9,14,985** |
| **7** | **Inventories** | | |
| | Wines, Cigarettes & Cigars, etc. | | 22,500 |
| | Foodstuffs | | 16,400 |
| | **Total** | | **38,900** |
| **8** | **Cash and cash equivalents** | | |
| | Cash at bank | | 76,380 |
| | Cash in hand<br>Other bank balances | | 2,200<br>Nil |
| | **Total** | | **78,580** |
| **9** | **Other expenses** | | |
| | Preliminary Expenses | | 8,000 |
| | **Total** | | **8,000** |
| **10** | **Revenue from operations** | | |
| | Sale of products | | |
| | Wines, Cigarettes, Cigars etc. | 68,400 | |
| | Food | 57,600 | 1,26,000 |
| | Sale of services | | |
| | Room Rent | 48,000 | |

| | | | |
|---|---|---|---|
| | Billiards | 5,700 | |
| | Transfer fees | 700 | |
| | Miscellaneous Receipts | 2,800 | |
| | | | 57,200 |
| | **Total** | | **1,83,200** |
| 11 | **Cost of materials consumed** | | |
| | Opening Inventory | 5,260 | |
| | Add: Purchases during the year | 36,200 | |
| | Less: Closing Inventory | (16,400) | 25,060 |
| | Total | | 25,060 |
| 12 | **Purchases of Inventory-in-Trade** | | |
| | Wines, Cigarettes etc. | | 45,800 |
| | **Total** | | **45,800** |
| 13 | **Changes in inventories of finished goods work-in-progress and Inventory-in-Trade** | | |
| | Wines, Cigarettes etc. | | |
| | Opening Inventory | 12,800 | |
| | Less: Closing Inventory | (22,500) | (9,700) |
| | **Total** | | **(9,700)** |
| 14 | **Employee benefits expense** | | **29,580** |
| | Wages and Salaries | 28,300 | |
| | Add: Wages and Salaries Outstanding | 1,280 | |
| | **Total** | | **29,580** |
| 15 | **Other operating expenses** | | |
| | Rent, Rates and Taxes | | 8,900 |
| | Coal and Firewood | | 3,290 |
| | Laundry | | 750 |
| | Carriage and Cooliage | | 810 |
| | Repairs | | 4,250 |
| | **Total** | | **18,000** |
| 16 | **Selling and administrative expenses** | | |
| | Advertising | | 8,360 |
| | Sundry Expenses | | 5,840 |
| | **Total** | | **14,200** |
| 17 | **Finance costs** | | **12,000** |
| | Interest on Debentures (2,00,000 x 6%) | | |
| | **Total** | | **12,000** |
| 18 | **Depreciation and amortisation expense** | | **21,315** |

| | | | |
|---|---|---|---|
| | Land and Buildings (8,50,000 x 2%) | 17,000 | |
| | Furniture & Fittings (86,300 x 5%) | 4,315 | |
| | **Total** | | **21,315** |

## Question 4 (RTP May 19)

Shweta Ltd. has the Authorised Capital of Rs. 15,00,000 consisting of 6,000 6% Preference shares of Rs. 100 each and 90,000 equity Shares of Rs. 10 each. The following was the Trial Balance of the Company as on 31st March, 2018:

| **Particulars** | **Dr.** | **Cr.** |
|---|---|---|
| Investment in Shares at cost | 1,50,000 | |
| Purchases | 14,71,500 | |
| Selling Expenses | 2,37,300 | |
| Inventory as at the beginning of the year | 4,35,600 | |
| Salaries and Wages | 1,56,000 | |
| Cash on Hand | 36,000 | |
| Interim Preference dividend for the half year to 30th September | 18,000 | |
| Bills Receivable | 1,24,500 | |
| Interest on Bank overdraft | 29,400 | |
| Interest on Debentures up to 30th Sep (1st half year) | 11,250 | |
| Debtors | | |
| Trade payables | 1,50,300 | |
| Freehold property at cost | | 2,63,550 |
| Furniture at cost less depreciation of Rs 45,000 | 10,50,000 | |
| 6% Preference share capital | 1,05,000 | |
| Equity share capital fully paid up | | 6,00,000 |
| 5% mortgage debentures secured on Freehold properties | | 6,00,000 |
| Income tax paid in advance for the current year | | |
| Dividends | | 4,50,000 |
| Profit and Loss A/c (opening balance) | 30,000 | |
| Sales (Net) | | 12,750 |
| Bank overdraft secured by hypothecation of stocks and | | 85,500 |
| receivables | | 20,11,050 |
| Technical knowhow fees at cost paid during the year | | |
| | 4,50,000 | 4,50,000 |
| Audit fees | 18,000 | |
| **Total** | **44,72,850** | **44,72,850** |

You are required to prepare the Profit and Loss Statement for the year ended 31st March, 2018 and the Balance Sheet as on 31st March, 2018 as per Schedule III of the Companies Act, 2013 after taking into account the following –

Closing Stock was valued at Rs. 4,27,500.

Purchases include Rs. 15,000 worth of goods and articles distributed among valued customers.

Salaries and Wages include Rs. 6,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".

Bills Receivable includes. 4.500 being dishonoured bills. 50% of which had been considered irrecoverable.

Bills Receivable of Rs. 6,000 maturing after 31st March were discounted.

Depreciation on Furniture to be charged at 10% on Written Down Value.

Investment in shares is to be treated as non-current investments.

Interest on Debentures for the half year ending on 31st March was due on that date.

Provide Provision for taxation Rs. 12,000.

Technical Knowhow Fees is to be written off over a period of 10 years.

Salaries and Wages include Rs. 30,000 being Director's Remuneration.

Trade receivables include Rs. 18,000 due for more than six months.

## SOLUTION

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

| | Particulars | Note | Rs |
|---|---|---|---|
| I | Revenue from Operations | | 20,11,050 |
| II | Other income (Divided income) | | 12,750 |
| III | Total Revenue (I &+ II) | | 20,23,800 |
| **IV** | **Expenses:** | | |
| | (a) Purchases (14,71,500 – Advertisement Expenses 15,000) | | 14,56,500 |
| | (b) Changes in Inventories of finished Goods / Work in progress (4,35,600 – 4,27,500) | | 8,100 |
| | (c) Employee Benefits expense | 9 | 1,20,000 |
| | (d) Finance costs | 10 | 51,900 |
| | (e) Depreciation & Amortization Expenses [10% of (1,05,000 + 6,000)] | | 11,100 |
| | (f) Other Expenses | 11 | 3,47,550 |
| | Total Expenses | | 19,95,150 |
| V | Profit before exceptional, extraordinary items and tax (III-IV) | | 28,650 |
| VI | Exceptional items | | - |
| VII | Profit before extra ordinary items and tax (V-IV) | | 28,650 |
| VIII | Extraordinary items | | - |

| | | | |
|---|---|---|---|
| IX | Profit before tax (VII-VIII) | | 28,650 |
| X | Tax expense:<br>Current Tax | | 12,000 |
| **XI** | **Profit/Loss for the period (after tax)** | | **16,650** |

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

| **Particulars as on 31st March** | **Note** | |
|---|---|---|
| **I** | | |
| **(1) Shareholders' funds:** | | |
| (a) Share capital | 1 | 12,00,000 |
| (b) Reserves and surplus | 2 | 66,150 |
| **(2) Non current liabilities:** | | |
| Long term borrowings | 3 | 4,50,000 |
| (3) Current liabilities: | | |
| (a) Short term borrowings | 4 | 4,50,000 |
| (b) Trade payables | | 2,63,550 |
| (c) Other current liabilities | 5 | 29,250 |
| **Total** | | **24,58,950** |
| **II** | | |
| **ASSETS** | | |
| **(1) Non-current Assets** | | |
| (a) Property, Plant & Equipment | | |
| (i) Tangible assets | 6 | 11,49,900 |
| (ii) Intangible assets | 7 | 4,05,000 |
| (b) Non current investments (Shares at cost) | | 1,50,000 |
| Current Assets: | | |
| (a) Inventories | | 4,27,500 |
| (b) Trade receivables | | 2,72,550 |
| (c) Cash and Cash equivalents – Cash on hand | 8 | 36,000 |
| (d) Short term loans and advances –Income tax (paid 30,000-Provision 12,000) | | 18,000 |
| **Total** | | **24,58,950** |

**Note:** There is a Contingent liability for Bills receivable discounted with Bank Rs6,000.

**Notes to accounts**

| | | | |
|---|---|---|---|
| | | | **(Rs )** |
| **1.** | **Share Capital** | | |
| | **Authorized** | | |
| | 90,000 Equity Shares of Rs10 each | 9,00,000 | |

| | | | |
|---|---|---|---|
| | 6,000 6% Preference shares of Rs100 each | 6,00,000 | 15,00,000 |
| | Issued, subscribed & called up | | |
| | 60,000, Equity Shares of Rs10 each | 6,00,000 | |
| | 6,000 6% Redeemable Preference Shares of 100 each | 6,00,000 | 12,00,000 |
| **2.** | **Reserves and Surplus** | | |
| | Balance as on 1st April, 2017 | 85,500 | |
| | Add: Surplus for current year | 16,650 | 1,02,150 |
| | Less: Preference Dividend | | 36,000 |
| | Balance as on 31st March, 2018 | | 66,150 |
| **3.** | **Long Term Borrowings** | | |
| | 5% Mortgage Debentures (Secured against Freehold Properties) | | 4,50,000 |
| **4.** | **Short Term Borrowings** | | |
| | Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables) | | 4,50,000 |
| **5.** | **Other Current liabilities** | | |
| | Interest Accrued and due on Borrowings (5% Debentures) | 11,250 | |
| | Unpaid Preference Dividends | 18,000 | 29,250 |
| **6.** | **Tangible Fixed assets** | | |
| | Furniture | | |
| | Furniture at Cost Less depreciation Rs45,000 (as given in Trial Balance | 1,05,000 | |
| | Add: Depreciation | 45,000 | |
| | Cost of Furniture | 1,50,000 | |
| | Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages | 6,000 | |
| | Total Gross block of Furniture A/c | 1,56,000 | |
| | Accumulated Depreciation Account: Opening Balance-given in Trial Balance 45,000 | | |
| | Depreciation for the year:<br>On Opening WDV at 10% i.e. (10% x 1,05,000) 10,500 | | |
| | On additional purchase during the year at 10% i.e. (10% x 6,000) 600 | | |
| | Less: Accumulated Depreciation | 56,100 | 99,900 |

| | | | |
|---|---|---|---|
| | Freehold property (at cost) | | 10,50,000 |
| | | | 11,49,900 |
| **7.** | **Intangible Fixed Assets** | | |
| | Technical knowhow | 4,50,000 | |
| | Less: Written off | 45,000 | 4,05,000 |
| **8.** | **Trade Receivables** | | |
| | Sundry Debtors (a) Debt outstanding for more than six months | 18,000 | |
| | (b) Other Debts (refer Working Note) | 1,34,550 | |
| | Bills Receivable (1,24,500 -4,500) | 1,20,000 | 2,72,550 |
| **9.** | **Employee benefit expenses** | | |
| | Amount as per Trial Balance | 1,56,000 | |
| | Less: Wages incurred for installation of electrical fittings to be capitalised | 6,000 | |
| | Less: Directors' Remuneration shown separately | 30,000 | |
| | Balance amount | | 1,20,000 |
| **10.** | **Finance Costs** | | |
| | Interest on bank overdraft | 29,400 | |
| | Interest on debentures | 22,500 | 51,900 |
| **11.** | **Other Expenses** | | |
| | Payment to the auditors | 18,000 | |
| | Director's remuneration | 30,000 | |
| | Selling expenses | 2,37,300 | |
| | Technical knowhow written of (4,50,000/10) | 45,000 | |
| | Advertisement (Goods and Articles Distributed) | 15,000 | |
| | Bad Debts (4,500 x50%) | 2,250 | 3,47,550 |

| **Working Note Calculation of Sundry Debtors-Other Debts** | |
|---|---|
| Sundry Debtors as given in Trial Balance | 1,50,300 |
| Add Back: Bills Receivables Dishonoured | 4,500<br>1,54,800 |
| | |
| Less: Bad Debts written off – 50% Rs4,500 | (2,250) |
| Adjusted Sundry Debtors | 1,52,550 |
| Less: Debts due for more than 6 months (as per information given) | (18,000) |
| Total of other Debtors i.e. Debtors outstanding for less than 6 months | 1,34,550 |

## Question 5 (MTP May 20)

On 31st March, 2020, SR Ltd. provides the following ledger balances after preparing its Profit &Loss Account for the year ended 31st March, 2020.

| Particulars | Amount (Rs.) | |
|---|---|---|
| | Debit | Credit |
| Equity Share Capital, fully paid shares of Rs. 50 each | | 80,00,000 |
| Calls in arrear | 15,000 | |
| Land | 25,00,000 | |
| Buildings | 30,00,000 | |
| Plant & Machinery | 24,00,000 | |
| Furniture &Fixture | 13,00,000 | |
| Securities Premium | | 15,00,000 |
| General Reserve | | 9,41,000 |
| Profit & Loss Account | | 5,80,000 |
| Loan from Public Finance Corporation (Secured by Hypothecation of Land) | | 26,30,000 |
| Other Long Term Loans | | 22,50,000 |
| Short Term Borrowings | | 4,60,000 |
| Inventories: Finished goods | 45,00,000 | |
| Raw materials | 13,00,000 | |
| Trade Receivables | 17,50,000 | |
| Advances: Short Term | 3,75,000 | |
| Trade Payables | | 8,13,000 |
| Provision for Taxation | | 3,80,000 |
| Dividend payable | | 70,000 |
| Cash in Hand | 70,000 | |
| Balances with Banks | 4,14,000 | |
| **Total** | **1,76,24,000** | **1,76,24,000** |

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

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

The cost of assets were:

| | |
|---|---|
| Building | Rs. 32,00,000 |
| Plant and Machinery | Rs. 30,00,000 |
| Furniture and Fixture | Rs. 16,50,000 |

(1) Trade Receivables for Rs. 4,86,000 due for more than 6 months.

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

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

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

(5) Other long-term loans (unsecured) include:

| | |
|---|---|
| Loan taken from Nixes Bank | Rs 13,80,000 |
| (amount repayable within one year) | Rs 4,80,000 |
| Loan taken from Directors | Rs 8,50,000 |

(6) Bills Receivable for Rs. 1,60,000 maturing on 15th June, 2020 has been discounted.

(7) Short term borrowings include:

| | |
|---|---|
| Loan from Naya Bank | Rs1,16,000 (Secured) |
| Laon from directors | Rs 48,000 |

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

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

You are required to prepare the Balance Sheet of the Company as on March 31st 2020 as required under Part – I of Schedule III of the Companies Act, 2013. Ignore previous year figures.

## SOLUTION

**SR Ltd.**

**Balance Sheet as on 31st March, 2020**

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

**Notes to accounts**

| | | | Rs. |
|---|---|---|---|
| **1.** | **Share Capital** | | |
| | Equity share capital | | |
| | Issued, subscribed and called up | | |
| | 1,60,000 Equity Shares of Rs. 50 each (Out of the above 50,000 Shares have been issued for consideration other than cash) | 80,00,000 | |
| | Less: Calls in arrears | (15,000) | **79,85,000** |
| **2.** | **Reserves and Surplus** | | |
| | General Reserve | 9,41,000 | |
| | Add: Transferred from Profit and loss account | 35,000 | 9,76,000 |

| | | | |
|---|---|---|---|
| | Securities premium | | 15,00,000 |
| | Surplus (Profit & Loss A/c) | 5,80,000 | |
| | Less: Appropriation to General Reserve (proposed) | (35,000) | 5,45,000 |
| | | | **30,21,000** |
| | | | |
| **3.** | **Long-term borrowings** | | |
| | Secured: Term Loans | | 24,96,000 |
| | Loan from Public Finance Corporation [repayable after 3 years (Rs.26,30,000- Rs. 1,34,000 for interest accrued but not due)] | | |
| | Secured by hypothecation of land | | |
| | Unsecured | | |
| | Bank Loan (Nixes bank) 9,00,000 | | |
| | (Rs. 13,80,000 - Rs.4,80,000repayable within 1 year) | | |
| | Loan from Directors 8,50,000 | | |
| | Others 20,000 | | 17,70,000 |
| | **Total** | | **42,66,000** |
| **4.** | **Short-term borrowings** | | |
| | Loan from Naya bank (Secured) | 1,16,000 | |
| | Loan from Directors | 48,000 | |
| | Others | 2,96,000 | **4,60,000** |
| **5.** | **Other current liabilities** | | |
| | Loan from Nixes bank repayable within one year | 4,80,000 | |
| | Dividend payable | 70,000 | |
| | Interest accrued but not due on borrowings | 1,34,000 | **6,84,000** |
| **6.** | **Short-term provisions** | | |
| | Provision for taxation | | **3,80,000** |
| **7.** | **PPE** | | |
| | Land | | 25,00,000 |
| | Buildings | 32,00,000 | 30,00,000 |
| | Less: Depreciation | (2,00,000) | |
| | Plant & Machinery | 30,00,000 | 24,00,000 |
| | Less: Depreciation | (6,00,000) | |
| | Furniture &Fittings | 16,50,000 | 13,00,000 |
| | Less: Depreciation | (3,50,000) | |
| | **Total** | | **92,00,000** |
| **8.** | **Inventories** | | |
| | Raw Material | 13,00,000 | |
| | Finished goods Loose tools | 40,00,000 | |

| | | | | |
|---|---|---|---|---|
| | | | 5,00,000 | **58,00,000** |
| 9. | Trade receivables | | | |
| | Outstanding for a period exceeding six months | | | |
| | Others | | | 4,86,000 |
| | | | | 12,64,000 |
| | | **Total** | | 17,50,000 |
| **10.** | **Cash and cash equivalents** | | | |
| | Balances with banks | | | |
| | with Scheduled Banks | | 3,58,000 | |
| | with others banks | | 56,000 | 4,14,000 |
| | Cash in hand | | | 70,000 |
| | | **Total** | | **4,84,000** |

Note: There is a Contingent Liability amounting Rs. 1,60,000

# TOPIC 2
# REDEMPTION OF DEBENTURES

## Question 6 (ICAI Module)

Sencom Limited issued Rs. 1,50,000 5% Debentures on 30th September 20X0 on which interest is payable half yearly on 31stMarch and 30th September. The company has power to purchase debentures in the open market for cancellation thereof. The following purchases were made during the year ended 31stDecember, 20X2 and the cancellation were made on the same date. On 31stDecember 20X0, balance in the DRR of the company was Rs25,000 and investments made for the purpose of redemption were Rs20,000.

1stMarch 20X2 –Rs25,000 nominal value purchased for Rs24,725 ex-interest.

1stSeptember 20X2 –Rs20,000 nominal value purchased for Rs20,125 cum-interest.

You are required to draw up the following accounts up to the date of cancellation:

(i) Debentures Account; and

(ii) Own Debenture (Investment) Account.

Ignore taxation.

## SOLUTION

**Sencom Limited Debenture Account**

| 20X2 | Particulars | Rs | 20X2 | Particulars | Rs |
|---|---|---|---|---|---|
| Mar 1 | To Own Debentures | 24,725 | Jan 1 | By Balance b/d | 1,50,000 |
| Mar 1 | To Profit on cancellation (25,000-24,725) | 275 | | | |
| Sep 1 | To Own Debentures (Note 3) | 19,708 | | | |
| Sep 1 | To Profit on cancellation (20,000-19,708) | 292 | | | |
| Dec 31 | Balance c/d | 1,05,000 | | | |
| | | **1,50,000** | | | **1,50,000** |

**Own Debenture (Investment) Account**

| Date | Particulars | Nominal Cost Rs | Interest Rs | Cost Rs | Date | Particulars | Nominal Cost Rs | Interest Rs | Cost Rs |
|---|---|---|---|---|---|---|---|---|---|
| **20X2** | | | | | **20X2** | | | | |
| Mar 1 | To Bank (W.N. 1) | 25,000 | 521 | 24,725 | Mar 1 | By Debentures A/c | 25,000 | - | 24,725 |
| Sep 1 | To Bank (W.N. 2 & 3) | 20,000 | 417 | 19,708 | Sep 1 | By Debentures A/c | 20,000 | - | 19,708 |
| | | | | | Dec. 31 | By P&L A/c | | 938 | |
| | | **45,000** | **938** | **44,433** | | | **45,000** | **938** | **44,433** |

Working notes:

1. 25,000 x 5% x 5/12 =521
2. 20,000 x 5% x 5/12 =417
3. 20,125 – 417 = 19,708

## Question 7 (ICAI Module)

The following balances appeared in the books of Paradise Ltd as on 1-4-20X1:

- 12 % Debentures Rs7,50,000
- Balance of DRR Rs25,000
- DRR Investment 1,12,500 represented by 10%, 1,125 Secured Bonds of the Government of India of Rs100 each.

Annual contribution to the DRR was made on 31stMarch every year. On 31-3-20X2, balance at bank was Rs7,50,000 before receipt of interest. The investment were realised at par for redemption of debentures at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended 31st March, 20X2:

(1) Debentures Account
(2) DRR Account
(3) DRR Investment Account
(4) Bank Account
Debenture Holders Account.

## SOLUTION

**1. 12% Debentures Account**

| Date | Particulars | Rs | Date | Particulars | Rs |
|---|---|---|---|---|---|
| 31stMarch, 20X2 | To Debenture holder's A/c | 7,50,000 | 1stApril, 20X1 | By Balance b/d | 7,50,000 |
| | | **7,50,000** | | | **7,50,000** |

**2. DRR Account**

| Date | Particulars | Rs | Date | Particulars | Rs |
|---|---|---|---|---|---|
| 1st April, 20X1 | | | | By Balance b/d | 25,000 |
| 31st March, 20X2 | To General reserve A/c note 1 | 75,000 | 1st April, 20X1 | By Profit and loss A/c (Refer Note1) | 50,000 |
| | | **1,87,500** | | | **1,87,500** |

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

| Date | Particulars | Rs | Date | Particulars | Rs |
|---|---|---|---|---|---|
| 1st April, 20X1 | To Balance b/d | 1,12,500 | 31st March, 20X2 | By Bank A/c | 1,12,500 |
| | | **1,12,500** | | | **1,12,500** |

**4. Bank A/c**

| Date | Particulars | Rs | Date | Particulars | Rs |
|---|---|---|---|---|---|
| 31st March, | To Balance b/d | 7,50,000 | 31st March | By 12% Debenture | 8,25,000 |
| 20X2 | To Interest on DRR Investment | 11,250 | | | |
| 20X2 | To DRR Investment A/c | 1,12,500 | | By Balance c/d | 48,750 |
| | | **8,73,750** | | | **8,73,750** |

**5. Debenture holder's A/c**

| Date | Particulars | Rs | Date | Particulars | Rs |
|---|---|---|---|---|---|
| 31st March, 20X2 | To Bank A/c | 8,25,000 | 31st March, 20X2 | By 12% Debentures<br>By Premium on redemption of debentures @ 10% | 7,50,000<br>75,000 |
| | | **8,25,000** | | | **8,25,000** |

**Note 1 –**

Calculation of DRR before redemption = 10% of Rs. 7,50,000 = 75,000

Available balance = Rs. 25,000

DRR required = 75,000 – 25,000 = Rs. 50,000.

## Question 8 (ICAI Module)

On 1stApril, 20X1, in MK Ltd.'s ledger 9% debentures appeared with a opening balance of Rs50,00,000 divided into 50,000 fully paid debentures of Rs100 each issued at par.

Interest on debentures was paid half-yearly on 30th of September and 31st March every year.

On 31.5.20X1, the company purchased 8,000 debentures of its own @ Rs98 (ex-interest) per debenture.

On same day it cancelled the debentures acquired.

You are required to prepare necessary ledger accounts (excluding bank A/c).

## SOLUTION

MK Ltd.'s Ledger

**(i) Debentures Account**

| Date | Particulars | Rs | Date | Particulars | Rs |
|---|---|---|---|---|---|
| 31.5.X1 | To Own Debentures (8,000 X 98) | 7,84,000 | 1.4.X1 | By balance b/d | 50,00,000 |
| 31.5.X1 | To Profit on cancellation | 16,000 | | | |
| 31.3.X2 | To balance c/d | 42,00,000 | | | |

| | | | | | |
|---|---|---|---|---|---|
| | | **50,00,000** | | | **50,00,000** |

**(ii) Interest on Debentures Account**

| Date | Particulars | Rs | Date | Particulars | Rs |
|---|---|---|---|---|---|
| 31.5.X1 | To Bank (Interest for2 months on 8,000 debentures) | 12,000 | 31.3.X2 | By Profit and Loss A/c(b.f.) | 3,90,000 |
| 30.9.X1 | To Bank (Interest for6 months on 42,000 debentures) | 1,89,000 | | | |
| 31.3.X2 | To Bank (Interest for6 months on 42,000 debentures) | 1,89,000 | | | |
| | | **3,90,000** | | | **3,90,000** |

**(iii) Debentures Redemption Reserve A/c**

| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| 31 may 20X1 | By General Reserve (8,000 × 100 × 25%) | 80,000 | 1 April 20X1 | To Profit & Loss A/c | 5,00,000 |
| 31 March 20X2 | By Balanced c/d | 4,20,000 | | | |
| | | **5,00,000** | | | **5,00,000** |

**(iv) Debentures Redemption Investments A/c**

| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| 1 April 20X1 | To Bank A/c | 7,50,000 | 30 May 20X1 | By Bank A/c (8000 × 100 × 15% | 1,20,000 |
| | | | 31 March 20X2 | To Balance C/d | 6,30,000 |
| | | **7,50,000** | | | **7,50,000** |

**Working Note:**

| | | |
|---|---|---|
| 31.5. X1 | Acquired 8,000 Debentures @ 98 per debenture (ex-interest)<br>Purchase price of debenture (8,000 × Rs98) = | 7,84,000 |
| 31.5.X1 | Interest for 2 months [Rs8,00,000 × 9% × 2/12] = | 12,000 |
| 30.9. X1 | Interest on other debentures | |
| | Rs42,00,000 × 9% × ½ = | 1,89,000 |

## Question 9 (Nov 18)

The summarized Balance Sheet of Spices Ltd. As on 31st March, 2018 read as under:

| | Rs |
|---|---|
| **Liabilities:** | |
| Share Capital: 9,000 equity shares of Rs 10 each, fully paid up | 90,000 |
| General Reserve | 38,000 |
| Debenture Redemption Reserve | 35,000 |
| 12% Convertible Debentures : 1,200 Debentures of Rs 50 each | 60,000 |
| Unsecured Loans | 28,000 |
| Short term borrowings | 19,000 |
| | **2,70,000** |
| **Assets:** | |
| Fixed Assets (at cost less depreciation) | 72,000 |
| Debenture Redemption Reserve Investments | 34,000 |
| Cash and Bank Balances | 86,000 |
| Other Current Assets | 78,000 |
| | **2,70,000** |

The debentures are due for redemption on 1stApril, 2018. The terms of issue of debentures provided that they were redeemable at a premium 10% and also conferred option to the debenture holders to convert 40% of their holding into equity shares at a predetermined price of Rs 11 per share and the balance payment in cash.

Assuming that:

(i) Except for debenture holders holding 200 debentures in aggregate, rest of them exercised the option for maximum conversion,

(ii) The investments realized Rs56,000 on sale,

(iii) All the transactions were taken place on 1st April,2018

(iv) Premium on redemption of debentures is to be adjusted against General Reserve.

You are required to

(a) Redraft the Balance Sheet of Spices Ltd. as on 01.04.2018 after giving effect to the redemption.

Show your calculations in respect of the number of equity shares to be allotted and the cash payment necessary.

## SOLUTION

**Spices Ltd.**

**Balance Sheet as on 01.04.2018**

| Particulars | Note No. | Figures as at the end of current reporting period |
|---|---|---|
| **I. Equity and Liabilities** | | |
| (1) Shareholder's Funds | | |
| (a) Share Capital | 1 | 1,10,000 |
| (b) Reserves and Surplus | 2 | 91,000 |

| | | | |
|---|---|---|---|
| **(2) Non-Current Liabilities** | | | |
| (a) Long-term borrowings – Unsecured Loans | | | 28,000 |
| (3) | Current Liabilities | | |
| (a) Short-term borrowings | | | 19,000 |
| **Total** | | | **2,48,000** |
| **II. Assets** | | | |
| **(1)** | **Non-current assets** | | |
| (a) Fixed assets | | | |
| (i) Tangible assets | | | 72,000 |
| **(2)** | **Current assets** | | |
| (a) Cash and cash equivalents | | | 98,000 |
| (b) Other current assets | | | 78,000 |
| **Total** | | | **2,48,000** |

**Notes to Accounts**

| | | | Rs |
|---|---|---|---|
| 1 | **Share Capital** | | 1,10,000 |
| | 11,000 Equity Shares of Rs 10 each | | |
| | (Out of above, 2000 shares issued to debentures holders who opted for conversion into shares) | | |
| 2 | **Reserve and Surplus** | | |
| | General Reserve | 38,000 | |
| | Add: Debenture Redemption Reserve transfer | 35,000 | |
| | | 73,000 | |
| | Add: Profit on sale of investments | 22,000 | |
| | | 95,000 | |
| Less: Premium on redemption of debentures (1,200 x Rs5) | | (6,000) | 89,000 |
| Securities Premium Account (2,000 x Rs 1) | | | 2,000 |
| | | | **91,000** |

**Working Notes:**

| | | |
|---|---|---|
| (i) Calculation of number of shares to be allotted<br>Total number of debentures | 1,200 | Rs |
| Less: Number of debentures not opting for conversion | (200) | |
| | 1,000 | |
| 40% of 1,000 | 400 | |
| Redemption value of 400 debentures (400 x Rs 55) | Rs 22,000 | |
| Number of Equity Shares to be allotted 22,000/11 = 2,000 shares<br>(ii) Calculation of cash to be paid | | of Rs 10each<br>Rs |
| Number of debentures | | 1,200 |
| Less: Number of debentures to be converted into equity shares | | (400) |
| | | 800 |

Redemption value of 800 debentures (800 × Rs 55) Rs 44,000

| | |
|---|---|
| **(iii) Cash and Bank Balance** | **Rs** |
| **Balance before redemption** | **86,000** |
| Add: Proceeds of investments sold | 56,000 |
| | 1,42,000 |
| Less: Cash paid to debenture holders | (44,000) |
| | 98,000 |

## Question 10 (EXAM May 18 – 5 MARKS)

A Company had issued 1,000 12% debentures of Rs. 100 each redeemable at the company's option at the end of 10 years at par or prior to that by purchase in open market or at Rs. 102 after giving 6 months notice. On 31st December, 2016, the accounts of the company showed the following balances:

Debenture redemption fund Rs. 53,500 represented by 10% Govt. Loan of a nominal value of Rs. 42,800 purchased at an average price of Rs. 101 and Rs. 10,272 un-invested cash in hand.

On 1st January 2017, the company purchased Rs. 11,000 of its own debentures at a cost of Rs. 10,272.

On 30th June, 2017, the company gave a six months notice to the holders of Rs. 40,000 debentures and on 31st December, 2017 carried out the redemption by sale of Rs. 40,800 worth of Govt. Loan at par and also cancelled the own debentures held by it.

Prepare ledger account of Debenture Redemption Fund Account and Debenture Redemption Fund Investment Account for the year ended 31.12.2017, assuming that, interest on company debentures & Govt. loan was payable on 31st December every year.

## SOLUTION

**(1) Since this chapter has been amended twice in the past, the below solution is not as per amendment, so where ever required we have to change the solution:**

**(2) Debenture Redemption Fund Account**

| Date | Particulars | Rs | Date | Particulars | Rs |
|---|---|---|---|---|---|
| 31.12.17 | To Debenture Redemption Fund Investment A/c | 408 | 1.1.17 | By Balance b/d | 53,500 |
| | To Premium on redemption of debentures | 800 | 31.12.17 | By interest on DRFI (10% of Rs42,800) | 4,280 |
| | To Balance c/d | 57,892 | | By interest on own debentures (i.e. 12% on Rs11,000) | 1,320 |
| | | 59,100 | | | 59,100 |
| | | 1.1.18 | | To Balance b/d | 57,892 |

**(3) Debenture Redemption Fund Investment Account**

| | | Rs | | | Rs |
|---|---|---|---|---|---|
| 1.1.17 | To Balance b/d (428 x Rs 101) | 43,228 | 31.12.17 | By Bank A/c | 40,800 |
| | | | | By Debenture redemption Fund (1% of Rs40,800) By 12% Debentures | 408<br>11,000 |
| 1.1.17<br>31.12.17 | To Bank<br>To capital Reserve (Profit on cancellation of Debentures) | 10,272 728 | | By Balance c/d | 2,020 |
| <br>1.1.18 | <br>To Balance b/d | **54,228**<br>2, 020 | | | **54,228** |

# TOPIC 3

# CASH FLOW STATEMENT

## Question 11 (ICAI Module)

Classify the following activities as

(a) Operating Activities,

(b) Investing Activities,

(c) Financing Activities

(d) Cash Equivalents.

(a) Purchase of Machinery.

(b) Proceeds from issuance of equity share capital

(c) Cash Sales.

(d) Proceeds from long-term borrowings.

(e) Proceeds from Trade receivables.

(f) Cash receipts from Trade receivables.

(g) Trading Commission received.

(h) Purchase of investment.

(i) Redemption of Preference Shares.

(j) Cash Purchases.

(k) Proceeds from sale of investment

(l) Purchase of goodwill.

(m) Cash paid to suppliers.

(n) Interim Dividend paid on equity shares.

(o) Wages and salaries paid.

(p) Proceed from sale of patents.

(q) Interest received on debentures held as investment.

(r) Interest paid on Long-term borrowings.

(s) Office and Administration Expenses paid

(t) Manufacturing Overheads paid.

(u) Dividend received on shares held as investments.

(v) Rent Received on property held as investment.

(w) Selling and distribution expense paid.

(x) Income tax paid

(y) Dividend paid on Preference shares.

(z) Underwritings Commission paid.

(aa) Rent paid.

(bb) Brokerage paid on purchase of investments.

(cc) Bank Overdraft

(dd) Cash Credit

(ee) Short-term Deposits

(ff) Marketable Securities

(gg) Refund of Income Tax received.

## SOLUTION

(a) Operating Activities: c, e, f, g, j, m, o, s, t, w, x, aa & gg.

(b) Investing Activities: a, h, k, l, p, q, u, v, bb & ee.

(c) Financing Activities: b, d, i, n, r, y, z, cc & dd.

(d) Cash Equivalent: ff.

## Question 12 (ICAI Module)

Classify the following activities as per AS 3 Cash Flow Statement:

(i) Interest paid by financial enterprise

(ii) Tax deducted at source on interest received from subsidiary company

(iii) Deposit with Bank for a term of two years

(iv) Insurance claim received towards loss of machinery by fire

(v) Bad debts written off

## SOLUTION

(i) Interest paid by financial enterprise
Cash flows from operating activities

(ii) TDS on interest received from subsidiary company
Cash flows from investing activities

(iii) Deposit with bank for a term of two years
Cash flows from investing activities

(iv) Insurance claim received against loss of fixed asset by fire
Extraordinary item to be shown as a separate heading under 'Cash flow from investing activities'

(v) Bad debts written off

It is a non-cash item which is adjusted from net profit/loss under indirect method, to arrive at net cash flow from operating activity.

## Question 13 (ICAI Module)

The balance sheets of Sun Ltd. for the years ended 31stMarch 20X1and 20X0 were summarised as:

| | 20X1 | 20X0 |
|---|---|---|
| | Rs | Rs |
| Equity Share Capital | 60,000 | 50,000 |
| **Reserves:** | | |
| Profit and Loss Account | 5,000 | 4,000 |
| **Current Liabilities:** | | |
| Trade payables | 4,000 | 2,500 |
| Other Current Liabilities | - | 1,000 |
| Taxation | 1,500 | 1,000 |
| **Total** | **70,500** | **58,500** |
| **Fixed Assets (at W.D.V.)** | | |
| Premises | 10,000 | 10,000 |
| Fixtures | 17,000 | 11,000 |
| Vehicles | 12,500 | 8,000 |
| Short-term investments | 2,000 | 1,000 |
| **Current Assets** | | |
| Inventory | 17,000 | 14,000 |
| Trade receivables | 8,000 | 6,000 |
| Bank and Cash | 4,000 | 8,500 |
| **Total** | **70,500** | **58,500** |

**Notes to accounts**

| | | 20X1 (Rs.) | 20X0 (Rs.) |
|---|---|---|---|
| 1 | **Share Capital** | | |
| | Equity Shares of Rs.10 each | 60,000 | 50,000 |
| 2 | **Reserve & surplus** | | |
| | Profit and Loss Account | 5,000 | 4,000 |
| 3 | **Other current liabilities** | | |
| | Dividend Payable | - | 1,000 |
| 4 | **Property, plant and equipment (at WDV)** | | |
| | Building | 10,000 | 10,000 |
| | Fixtures | 17,000 | 11,000 |
| | Vehicles | 12,500 | 8,000 |
| | **Total** | **39,500** | **29,000** |
| 5 | **Cash and cash equivalents** | | |
| | Cash and Bank | 4,000 | 8,500 |

The profit and loss account for the year ended 31stMarch, 20X1disclosed

| | |
|---|---|
| Profit before tax | 4,500 |
| Taxation | (1,500) |
| Profit after tax | 3,000 |
| Declared dividends | (2,000) |
| Retained profit | 1,000 |

Further information is available

| | Fixtures | Vehicles |
|---|---|---|
| | Rs | Rs |
| Depreciation for year | 1,000 | 2,500 |
| Disposals: | | |
| Proceeds on disposal | — | 1,700 |
| Written down value | — | (1,000) |
| Profit on disposal | | 700 |

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

**Solution**

**Sun Ltd.**

**Cash Flow Statement**

**for the year ended 31st March, 20X1**

| **Particulars** | **Rs** | **Rs** |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net Profit before taxation | 4,500 | |
| Adjustments for: | | |
| Depreciation | 3,500 | |
| Profit on sale of vehicles (1,700 – 1,000) | (700) | |
| Operating profit before working capital changes | 7,300 | |
| Increase in Trade receivables | (2,000) | |
| Increase in inventories | (3,000) | |
| Increase in Trade payables | 1,500 | |
| Cash generated from operations | 3,800 | |
| Income taxes paid (W.N.1) | (1,000) | |
| Net cash generated from operating activities | | 2,800 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Sale of vehicles | 1,700 | |
| Purchase of vehicles (W.N.3) | (8,000) | |
| Purchase of fixtures (W.N.3) | (7,000) | |
| Net cash used in investing activities | | (14,300) |

| | | |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issue of shares for cash | 10,000 | |
| Dividends paid (W.N.2) | (3,000) | |
| Net cash from financing activities | | 7,000 |
| Net decrease in cash and cash equivalents | | (4,500) |
| Cash and cash equivalents at beginning of period (See Note) | | 8,500 |
| Cash and cash equivalents at end of period (See Note) | | 4,000 |
| Note to the Cash Flow Statement | | |
| Cash and Cash Equivalents | 31.3.20X1 | 31.3.20X0 |
| Bank and Cash | 4,000 | 8,500 |
| **Cash and cash equivalents** | **4,000** | **8,500** |

**Working Notes:**

| | **Particulars** | **Rs** | **Rs** |
|---|---|---|---|
| **1.** | **Income taxes paid** | | |
| | Income tax expense for the year | | 1,500 |
| | Add: Income tax liability at the beginning of the year | | 1,000 |
| | | | 2,500 |
| | Less: Income tax liability at the end of the year | | (1,500) |
| | | | **1,000** |
| **2.** | **Dividend paid** | | |
| | Declared dividend for the year | | 2,000 |
| | Add: Amount payable at the beginning of the year | | 1,000 |
| | | | 3,000 |
| | Less: Amount payable at the end of the year | | - |
| | | | **3,000** |
| **3.** | **Fixed assets acquisitions** | | |
| | | **Fixtures** | **Vehicles** |
| | | **Rs** | **Rs** |
| | W.D.V. at 31.3.20X1 | 17,000 | 12,500 |
| | Add back: | | |
| | Depreciation for the year | 1,000 | 2,500 |
| | Disposals | — | 1,000 |
| | | 18,000 | 16,000 |
| | Less: W.D.V. at 31.12.20X0 | (11,000) | (8,000) |
| | Acquisitions during20X0-20X1 | 7,000 | 8,000 |

Note: Current investments may not be readily convertible to a known amount of cash and may not be subject to *an insignificant risk of changes in value as per the requirements of AS 3 and hence those have been considered as investing activities.*

## Question 14 (ICAI Module)

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

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

| **Particulars** | **Rs in lakhs** |
|---|---|
| **Revenue:** | |
| Sales | 4,150 |
| Interest and dividend | 100 |
| Stock adjustment | 20 |
| **Total (A)** | **4,270** |
| **Expenditure:** | |
| Purchases | 2,400 |
| Wages and salaries | 800 |
| Other expenses | 200 |
| Interest | 60 |
| Depreciation | 100 |
| **Total (B)** | **3,560** |
| **Profit before tax (A – B)** | **710** |
| Tax provision | 200 |
| Profit after tax | 510 |
| Balance of Profit and Loss account brought forward | 50 |
| **Profit available for distribution (C)** | **560** |
| Appropriations: | |
| Transfer to general reserve | 200 |
| Declared dividend (including CDT) | 330 |
| **Total (D)** | **530** |
| **Balance (C – D)** | **30** |

| **Relevant Balance Sheet information** | **31.3.20X1** | **31.3.20X0** |
|---|---|---|
| | **Rs in lakhs** | **Rs in lakhs** |
| Trade receivables | 400 | 250 |
| Inventories | 200 | 180 |
| Trade payables | 250 | 230 |
| Outstanding wages | 50 | 40 |
| Outstanding expenses | 20 | 10 |

| | | |
|---|---|---|
| Advance tax | 195 | 180 |
| Tax provision | 200 | 180 |

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

## SOLUTION

**By direct method**

**Computation of Cash Flow from Operating Activities**

| **Particulars** | **Rs in lakhs** | **Rs in lakhs** |
|---|---|---|
| **Cash Receipts:** | | |
| Cash sales and collection from Trade receivables | | |
| Sales + Opening Trade receivables – Closing Trade receivables (A) | 4,150+250-400 | 4,000 |
| Cash payments: | | |
| Cash purchases & payment to Trade payables Purchases + Opening Trade payables – Closing Trade payables | 2,400+230-250 | 2,380 |
| Wages and salaries paid | 800+40-50 | 790 |
| Cash expenses | 200+10–20 | 190 |
| Taxes paid – Advance tax | | 195 |
| (B) | | 3,555 |
| Cash flow from operating activities (A – B) | | 445 |

**By Indirect Method**

**Computation of Cash Flow from Operating Activities**

| | **Rs in lakhs** | **Rs in lakhs** |
|---|---|---|
| By Indirect method | | |
| Profit before tax | | 710 |
| Add: Non-cash items: Depreciation | | 100 |
| Add: Interest: Financing cash outflow | | 60 |
| Less: Interest and Dividend: Investment cash inflow | | (100) |
| Less: Tax paid | | (195) |
| Working capital adjustments | | |
| Trade receivables | 250-400=(150) | |
| Inventories | 180-200= (20) | |
| Trade payables | 250-230 =20 | |
| Outstanding wages | 50-40=10 | |
| Outstanding expenses | 20-10 =10 | (130) |
| Cash flow from operating activities | | 445 |

## Question 15 (ICAI Module)

*From the following Balance Sheet &information, prepare Cash Flow Statement of Ryan Ltd. by Indirect method for the year ended 31stMarch, 20X1:*

**Balance Sheet**

| | 31stMarch, 20X1 | 31stMarch, 20X0 |
|---|---|---|
| **Liabilities** | | |
| Equity Share Capital | 6,00,000 | 5,00,000 |
| 10% Redeemable Preference Share Capital | – | 2,00,000 |
| Capital Redemption Reserve | 1,00,000 | – |
| Capital Reserve | 1,00,000 | – |
| General Reserve | 1,00,000 | 2,50,000 |
| Profit and Loss Account | 70,000 | 50,000 |
| 9% Debentures | 2,00,000 | – |
| Trade payables | 1,15,000 | 1,10,000 |
| Liabilities for Expenses | 30,000 | 20,000 |
| Provision for Taxation | 95,000 | 60,000 |
| Dividend payable | 90,000 | 60,000 |
| | **15,00,000** | **12,50,000** |
| | **31st March,20X1** | **31st March,20X0** |
| **Assets** | | |
| Land and Building | 1,50,000 | 2,00,000 |
| Plant and Machinery | 7,65,000 | 5,00,000 |
| Investments | 50,000 | 80,000 |
| Inventory | 95,000 | 90,000 |
| Trade receivables | 2,50,000 | 2,25,000 |
| Cash and Bank | 65,000 | 90,000 |
| Voluntary Separation Payments | 1,25,000 | 65,000 |
| | **15,00,000** | **12,50,000** |

**Additional Information:**

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

(ii) On 1stApril, 20X0 a plant was sold for Rs 90,000 (Original Cost – Rs 70,000 and W.D.V. – Rs 50,000) and Debentures worth Rs1 lakh was issued at par as part consideration for plant of Rs4.5 lakhs acquired.

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

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

(v) Directors have declared 15% dividend for the current year.

(vi) Voluntary separation cost of Rs 50,000 was adjusted against General Reserve.

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

Depreciation @ 15% has been written off from Plant account but no depreciation has been charged on Land and Building.

## SOLUTION

**Cash Flow Statement of Ryan Limited**

**For the year ended 31st March,20X1**

| Particulars | Rs | |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Net Profit before taxation (W.N.1) | 2,45,000 | |
| Adjustment for | | |
| Depreciation (W.N.3) | 1,35,000 | |
| Profit on sale of plant (W.N.3) | (40,000) | |
| Profit on sale of investments (W.N.3) | (20,000) | |
| Interest on debentures (W.N.4) | 18,000 | |
| Operating profit before working capital changes | 3,38,000 | |
| Increase in inventory | (5,000) | |
| Increase in trade receivables | (25,000) | |
| Increase in Trade payables | 5,000 | |
| Increase in accrued liabilities | 10,000 | |
| Cash generated from operations | 3,23,000 | |
| Income taxes paid (W.N.8) | (1,00,000) | |
| | 2,23,000 | |
| Voluntary separation payments (W.N.9) | (1,10,000) | |
| Net cash generated from operating activities | | 1,13,000 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Proceeds from sale of land (W.N.2) | 1,50,000 | |
| Proceeds from sale of plant (W.N.3) | 90,000 | |
| Proceeds from sale of investments (W.N.4) | 70,000 | |
| Purchase of plant (W.N.3) | (3,50,000) | |
| Purchase of investments (W.N.4) | (25,000) | |
| Pre-acquisition dividend received (W.N.4) | 5,000 | |
| Net cash used in investing activities | | (60,000) |
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Proceeds from issue of equity shares (6,00,000 – 5,00,000) | 1,00,000 | |
| Proceeds from issue of debentures (2,00,000 – 1,00,000) | 1,00,000 | |

| | | |
|---|---|---|
| Redemption of preference shares | (2,00,000) | |
| Dividends paid | (60,000) | |
| Interest paid on debentures | (18,000) | |
| Net cash used in financing activities | | (78,000) |
| Net decrease in cash and cash equivalents | | (25,000) |
| Cash and cash equivalents at the beginning of the year | | 90,000 |
| Cash and Cash equivalents at the end of the year | | 65,000 |

**Working Notes:**

**1. Net Profit before taxation**

| Particulars | Rs |
|---|---|
| Net profit before taxation | |
| Retained profit | 70,000 |
| Less: Balance as on 31.3.20X0 | (50,000) |
| | 20,000 |
| Provision for taxation | 1,35,000 |
| Dividend payable | 90,000 |
| Net Profit before taxation | 2,45,000 |

**2. Land and Building Account**

| | Particulars | Rs | | Particulars | Rs |
|---|---|---|---|---|---|
| To | Balance b/d | 2,00,000 | By | Cash (Sale) | 1,50,000 |
| To | Capital reserve (Profit on sale) | 30,000 | By | Balance c/d | 1,50,000 |
| To | Capital reserve (Revaluation profit) | 70,000 | | | |
| | | **3,00,000** | | | **3,00,000** |

**3. Plant and Machinery Account**

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

**4. Investments Account**

| Particulars | Rs | Particulars | Rs |
|---|---|---|---|
| To Balance b/d | 80,000 | By Cash (Sale) | 70,000 |

| | | | |
|---|---|---|---|
| To Profit and loss account | 20,000 | By Dividend(Pre acquisition) | 5,000 |
| To Bank (Balancing figure) | 25,000 | | |
| | | To Balance C/d | 50000 |
| | **125000** | | **125000** |

**5. Capital Reserve Account**

| Particulars | Rs | Particulars | Rs |
|---|---|---|---|
| To Balance c/d | 1,00,000 | By Profit on sale of land | 30,000 |
| | | By Profit on revaluation of land | 70,000 |
| | **1,00,000** | | **1,00,000** |

**6. General Reserve Account**

| Particulars | Rs | Particulars | Rs |
|---|---|---|---|
| To Voluntary separation cost | 50,000 | By Balance b/d | 2,50,000 |
| To Capital redemption Reserve | 1,00,000 | | |
| To Balance c/d | 1000000 | | |
| | **2,50,000** | | **2,50,000** |

**7. Dividend payable Account**

| Particulars | | Rs | Particulars | | Rs |
|---|---|---|---|---|---|
| To | Bank (Balancing figure) | 60,000 | By | Balance b/d | 60,000 |
| To | Balance c/d | 90,000 | By | Profit & loss account | 90,000 |
| | | **1,50,000** | | | **1,50,000** |

**8. Provision for Taxation Account**

| Particulars | Rs | Particulars | Rs |
|---|---|---|---|
| To Bank (Balancing figure) | 1,00,000 | By balance b/d | 60,000 |
| To Balance c/d | 95,000 | By Profit & loss account | 1,35,000 |
| | **1,95,000** | | **1,95,000** |

**9. Voluntary Separation Payments Account**

| Particulars | Rs | Particulars | Rs |
|---|---|---|---|
| To Balance b/d | 65,000 | By General reserve | 50,000 |

| | | | |
|---|---|---|---|
| To Bank (Balancing figure) | 1,10,000 | By Balance c/d | 1,25,000 |
| | **1,75,000** | | **1,75,000** |

## QUESTION 16 (RTP May 18)

A company provides you the following information:

(i) Total sales for the year were Rs. 398 crores out of which cash sales amounted to Rs. 262 crores.

(ii) Receipts from credit customers during the year, aggregated Rs. 134 crores.

(iii) Purchases for the year amounted to Rs. 220 crores out of which credit purchase was 80%.
Balance in creditors as on
1.4.2016 Rs. 84 crores
31.3.2017 Rs. 92 crores

(iv) Suppliers of other consumables and services were paid Rs. 19 crores in cash.

(v) Employees of the enterprises were paid 20 crores in cash.

(vi) Fully paid preference shares of the face value of Rs. 32 crores were redeemed. Equity shares of the face value of Rs. 20 crores were allotted as fully paid up at premium of 20%.

(vii) Debentures of Rs. 20 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.

(viii) Rs26 crores were paid by way of income tax.

(ix) A new machinery costing Rs. 25 crores was purchased in part exchange of old machinery. The book value of the old machinery was Rs. 13 crores. Through the negotiations, the vendor agreed to take over the old machinery at a higher value of Rs. 15 crores. The balance was paid in cash to the vendor.

(x) Investment costing Rs. 18 cores were sold at a loss of Rs. 2 crores.

(xi) Dividends amounting Rs. 15 crores (including dividend distribution tax of Rs. 2.7 crores) was also paid.

(xii) Debenture interest amounting Rs. 2 crore was paid.

(xiii) On 31st March 2016, Balance with Bank and Cash on hand was Rs. 2 crores.

On the basis of the above information, you are required to prepare a Cash Flow Statement for the year ended 31st March, 2017 (Using direct method).

## SOLUTION

**Cash flow statement (using direct method) for the year ended 31st March, 2017**

| | (Rs. in crores) | (Rs. in crores) |
|---|---|---|
| Cash flow from operating activities | | |
| Cash sales | 262 | |
| Cash collected from credit customers | 134 | |
| Less: Cash paid to suppliers for goods & services and to employees | | |
| (Refer Working Note) | (251) | |
| Cash from operations | 145 | |
| Less: Income tax paid | (26) | |
| Net cash generated from operating activities | | 119 |
| | | |
| Cash flow from investing activities | | |
| Net Payment for purchase of Machine (25 – 15) | (10) | |
| Proceeds from sale of investments | 16 | |
| Net cash used in investing activities | | 6 |
| | | |
| Cash flow from financing activities | | |
| Redemption of Preference shares | (32) | |
| Proceeds from issue of Equity shares | 24 | |
| Debenture interest paid | (2) | |
| Dividend Paid | (15) | |
| Net cash used in financing activities | | (25) |
| | | |
| Net increase in cash and cash equivalents | | 100 |
| Add: Cash and cash equivalents as on 1.04.2016 | | 2 |
| Cash and cash equivalents as on 31.3.2017 | | 102 |

**Working Note:**

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

| | (Rs. in crores) |
|---|---|
| Opening Balance in creditors Account | 84 |
| Add: Purchases (220x .8) | 176 |
| Total | 260 |
| Less: Closing balance in Creditors Account | 92 |
| Cash paid to suppliers of goods | 168 |
| Add: Cash purchases (220x .2) | 44 |
| Total cash paid for purchases to suppliers (a) | 212 |

| | |
|---|---|
| Add: Cash paid to suppliers of other consumables and services (b) | 19 |
| Add: Payment to employees (c) | 20 |
| Total cash paid to suppliers of goods & services and to employees [(a)+ (b) + (c)] | 251 |

## QUESTION 17 (RTP Nov 19)

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

Balance Sheets

| | Particulars | Note | 31.03.2019 (Rs.) | 31.03.2018 (Rs.) |
|---|---|---|---|---|
| I | **EQUITY AND LIABILITIES** | | | |
| | (1) Shareholder's Funds | | | |
| | (a) Share Capital | 1 | 3,50,000 | 3,00,000 |
| | (b) Reserves and Surplus | 2 | 82,000 | 38,000 |
| | (2) Non-Current Liabilities | | | |
| | (3) Current Liabilities | | | |
| | (a) Trade Payables | | 65,000 | 44,000 |
| | (b) Other Current Liabilities | 3 | 37,000 | 27,000 |
| II | (c) Short term Provisions (provision for tax) | 4 | 32,000 | 28,000 |
| | **Total** | | **5,66,000** | **4,37,000** |
| | **ASSETS** | | | |
| | (1) Non-current Assets | | | |
| | (a) Tangible Assets | | 2,66,000 | 1,90,000 |
| | (b) Intangible Assets (Goodwill) | | 47,000 | 60,000 |
| | Non-Current Investments | | 35,000 | 10,000 |
| | (2) Current Assets | | | |
| | (a) Inventories | | 78,000 | 85,000 |
| | (b) Trade Receivables | | 1,08,000 | 75,000 |
| | (c) Cash & Cash Equivalents | | 32,000 | 17,000 |
| | **Total** | | **5,66,000** | **4,37,000** |

**Note 1: Share Capital**

| Particulars | 31.03.2019 (Rs.) | 31.03.2018 (Rs.) |
|---|---|---|
| Equity Share Capital | 2,50,000 | 1,50,000 |
| 8% Preference Share Capital | 1,00,000 | 1,50,000 |
| **Total** | **3,50,000** | **3,00,000** |

**Note 2: Reserves and Surplus**

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

**Note 3: Current Liabilities**

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

**Note 4: Tangible Assets**

| Particulars | 31.03.2019 (Rs.) | 31.03.2018 (Rs.) |
|---|---|---|
| Land & Building | 75,000 | 1,00,000 |
| Machinery | 1,91,000 | 90,000 |
| **Total** | **2,66,000** | **1,90,000** |

**Additional Information:**

(i) Rs.18,000 depreciation for the year has been written off on plant and machinery and no depreciation has been charged on Land and Building.

(ii) A piece of land has been sold out for Rs. 50,000 and the balance has been revalued, profit on such sale and revaluation being transferred to capital reserve. There is no other entry in Capital Reserve Account.

(iii) A plant was sold for Rs. 12,000 WDV being Rs. 15,000 on the date of sale (after charging depreciation).

(iv) Dividend received amounted to Rs. 2,100 which included pre-acquisition dividend of Rs. 600.

(v) An interim dividend of Rs. 10,000 including Dividend Distribution Tax has been paid.

(vi) Non-current investments given in the balance sheet represents investment in shares of other companies.

Amount of provision for tax existing on 31.3.2018 was paid during the year 2018-19.

## SOLUTION

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

| | | Particulars | Rs. | Rs. |
|---|---|---|---|---|
| I | | Cash Flow from Operating Activities | | |
| | A. | Closing balance as per Profit and Loss Account | | 27,000 |
| | | Less: Opening balance as per Profit and Loss Account | | (18,000) |
| | | Add: Dividend declared during the year | | 37,000 |
| | | Add: Interim dividend paid during the year | | 10,000 |
| | | Add: Transfer to reserve | | 10,000 |
| | | Add: Provision for Tax | | 32,000 |
| | B. | Net profit before taxation and extra-ordinary item | | 98,000 |
| | C. | Add: Items to be added | | |
| | | Depreciation | | |
| | | Loss on sale of Plant | | |

| | | | | |
|---|---|---|---|---|
| | | Goodwill written off | | 34,000 |
| | D. | Less: Dividend Income | 18,000 | (1,500) |
| | E. | Operating profit before working capital changes<br>[B + C - D] | 3,000<br>13,000 | 1,30,500 |
| | F. | Add: Decrease in Current Assets and Increase in Current Liabilities | | |
| | | Decrease in Inventories | | |
| | | Increase in Trade Payables | | 28,000 |
| | G. | Less: Increase in Trade Receivables | | (33,000) |
| | H | Cash generated from operations (E+F-G) | | 1,25,500 |
| | I | Less: Income taxes paid | | (28,000) |
| | J | Net Cash from (used in) operating activities | 7,000 | 97,500 |
| II. | | Cash Flows from investing activities: | 21,000 | |
| | | Purchase of Plant | | (1,34,000) |
| | | Sale of Land | | 50,000 |
| | | Sale of plant | | 12,000 |
| | | Purchase of investments | | (25,600) |
| | | Dividend Received | | 2,100 |
| | | Net cash used in investing activities | | (95,500) |
| III. | | Cash Flows from Financing Activities: | | |
| | | Proceeds from issue of equity share capital | | 1,00,000 |
| | | Redemption of preference shares | | (50,000) |
| | | Interim Dividend (inclusive of DDT) paid | | (10,000) |
| | | Final dividend (inclusive of DDT) paid | | (27,000) |
| | | Net cash from financing activities | | 13,000 |
| IV. | | Net increase in cash and cash equivalents (I+II+III) | | 15,000 |
| V. | | Cash and cash equivalents at beginning of period | | 17,000 |
| **VI.** | | **Cash and cash equivalents at end of period (IV+V)** | | **32,000** |

**Land and Building Account**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Balance b/d | 1,00,000 | By Bank A/c (Sale) | 50,000 |
| To Capital Reserve A/c<br>(Profit on sale / revaluation) | 25,000 | By Balance c/d | 75,000 |
| | **1,25,000** | | **1,25,000** |

**Plant and Machinery Account**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Balance b/d | 90,000 | By Depreciation A/c | 18,000 |
| To Bank A/c (Purchase) | 1,34,000 | By Bank A/c (sale) | 12,000 |
| | | By Profit and Loss A/c (Loss on sale) | 3,000 |
| | | By Balance c/d | 1,91,000 |
| | **2,24,000** | | **2,24,000** |

**Investments Account**

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

## QUESTION 18 (EXAM May 19 – 10 MARKS)

The following information was extracted from the books of S Ltd. for the year ended 31.03.2020.

**(1)** Net profit before taking into account income tax and after taking into account the following items was Rs. 30 Lakhs

(a) Depreciation on Property, Plant and Equipment Rs. 7,00,000

(b) Discount on issue of debentures written off Rs. 45,000

(c) Interest on debentures paid Rs. 4,35,000

(d) Investment of Book value Rs. 3,50,000 sold for 3,75,000

(e) Interest received on investments Rs.70,000

**(2)** Income tax paid during the year Rs.12,80,000

**(3)** The company issued 60,000 equity shares of Rs. 10 each at a premium of 20% on 10.04.2019

**(4)** 20,000 9% Preference Shares of Rs. 100 were redeemed on 31st March 2020 at a premium of 5%

**(5)** Dividend paid during the year amounted to Rs. 11,00,000 (Including dividend distribution tax)

**(6)** A new plant costing 7 Lakhs was purchased in part exchange of an old plant on 1st January 2020. The book value of the old plant was Rs. 8 Lakhs but the vendor took over the old plant at a value of Rs. 6 Lakhs only. The balance amount was paid to vendor through cheque on 30th March 2020.

**(7)** Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The inventory according to books on 31.03.2020 was 14,76,000.

The Inventory on 31.03.2019 was correctly valued at Rs. 13,50,000

**(8)** Current assets and current liabilities in the beginning and at the end of the years 2019-2020 were as:

| | **As on 01.04.2019** | **As on 31.03.2020** |
|---|---|---|
| | **Rs.** | **Rs.** |
| Inventory | 13,50,000 | 14,76,000 |
| Trade Receivables | 3,27,000 | 3,13,200 |
| Cash in Hand | 2,40,700 | 3,70,500 |
| Trade payables | 2,84,700 | 2,87,300 |
| Outstanding expenses | 97,000 | 1,01,400 |

You are required to prepare a Cash Flow Statement for the year ended 31st March 2020 as per AS 3 (revised) using the indirect method.

## SOLUTION

**S Ltd.**

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

| | | |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net profit before taxation* | | 30,00,000 |
| Adjustments for: | | |
| Depreciation on PPE | 7,00,000 | |
| Discount on debentures | 45,000 | |
| Profit on sale of investments | (25,000) | |
| Interest income on investments | (70,000) | |
| Interest on debentures | 4,35,000 | |
| Stock adjustment | 1,64,000 | |
| {14,76,000 less 16,40,000(14,76,000/90X100)} | | |
| Operating profit before working capital change | | 12,49,000 |
| Changes in working capital | | 42,49,000 |
| (Excluding cash and bank balance): | | |
| Less: Increase in inventory | (2,90,000) | |
| {16,40,000(14,76,000/90X100) less 13,50,000} | | |
| Add: Decrease in Trade receivables | 13,800 | |
| Increase in trade payables | 2,600 | |
| Increase in o/s expenses | 4,400 | (2,69,200) |
| Cash generated from operations | | 39,79,800 |
| Less: Income taxes paid | | (12,80,000) |
| **Net cash generated from operating activities** | | **26,99,800** |
| **Cash flows from investing activities** | | |
| Sale of investments | 3,75,000 | |
| Interest received | 70,000 | |

| | | |
|---|---|---|
| Payments for purchase of fixed assets (7,00,000 – 6,00,000) | (1,00,000) | |
| Net cash used in investing activities | | 3,45,000 |
| Cash flows from financing activities | | |
| Redemption of Preference shares | (21,00,000 | |
| Issue of shares | 7,20,000 | |
| Interest paid | (4,35,000) | |
| Dividend paid | (11,00,000) | |
| Net cash used in financing activities | | (29,15,000) |
| Net increase in cash | | 1,29,800 |
| Cash at beginning of the period | | 2,40,700 |
| **Cash at end of the period** | | **3,70,500** |

*Net profit given in the question is after considering only the items listed as information point (1) of the question; hence amount of loss on plant not added back

# TOPIC 4
# INVESTMENT ACCOUNTS

## RULES TO SOLVE QUESTIONS OF INVESTMENT ACCOUNTS

**RULE – 1:**
When same Shares or Debentures are purchased on different dates at different prices then we shall calculate average cost per share/debenture to calculate gain/loss on sale.

**RULE – 2:**
When investor gets bonus equity shares at free of cost, the quantity of shares would get increased. However, the carrying value of investments (Book Value) will not be Increased.
While selling the shares after getting bonus, the gain/loss shall be difference between Selling Price of Share and Average cost per Share.

**RULE – 3:**
When Investor is Eligible for Right Issue shares:
Then there are two possibilities.

**1)** If Investor Subscribes the Right Issue:
   a) Carrying Amount of Investment would get Increased by cost of acquisition.
   b) Quantity of Shares would also be Increased.
   c) Therefore, we need to calculate Weighted Average Cost per share after Right Issue.

OR

**2)** If Investors are not subscribing the Right Issue and Selling the Right:
   **A)** GENERAL RULE: Sale Proceeds are Transferred to Profit & Loss Account
      Bank A/c Dr.

To Profit & Loss Account

**B)** If Original shares were acquired at Cum Right Price & after the Right Issue, Market Price is Lower than above Cum Right Price (i.e., Cost) then treat the sale proceeds as recovery towards Cost and it will be Credited to Investment Account.

Bank A/c Dr.

To Investment A/c

Note: Two Conditions must be fulfilled:

1) Original Shares must have been Purchased @ Cum Right Basis.
2) Market Price per Share after the Right Issue must be lower than above Cum Right Price, (i.e., Cost of Original Shares).

**RULE – 4:**

Interest Income Shall always be Calculated on Time Proportion Basis (i.e., Month Wise)

But Dividend Income shall always be calculated on Annual Basis only unless it is Interim Dividend.

***RULE – 5:***

*If Annual Dividend is Declared and Paid then it must be calculated on the total no. of shares held on the date of receipt of Dividend (Except Bonus Issue and Right Issue Received in Current Year).*

*If Interim Dividend is Declared in current year in which Bonus & Right issue made and Dividend is Declared after Bonus and Right Issue then it shall be calculated on total share Held on the date of Dividend Including Bonus & Right.*

***RULE – 6:***

*Dividend received on Investment in Equity Shares*

1) *Pre-Acquisition dividend (It is of Pre-Acquisition Period)*
   *Reduce Investment because it is treated as recovery of cost*
   *Bank A/c Dr.*
   *To Investment A/c*
2) *Post-Acquisition dividend (It is of Post-Acquisition Period)*
   *Transfer to Profit and Loss Account*
   *Bank A/c Dr.*
   *To Profit & Loss A/c*

**RULE – 7:**

*Interest and Dividend shall always be calculated on Nominal value (Face Value) and Not on Cost Price.*

**RULE – 8:**

*If in any question Cum Interest price and Ex Interest price is given, we shall always record investment at Ex Interest Price. Because Ex Interest Price is real Market Price. We should record the Interest paid separately through Profit & Loss Account.*

**RULE – 9:**

*Brokerage paid at the time of Purchase shall be added to cost of Investment. Brokerage paid at the time of sale shall be deducted from sale proceeds.*

**RULE – 10:**

*We should always record the Investment (at the time of purchase) at Acquisition cost and Not at Face value.*

**RULE – 11:**

*Whenever the Pre-Acquisition dividend is received and credited to Investment account and then the shares are sold then to calculate Gain/Loss on sale, the average cost per share will be calculated after deducting the pre-acquisition dividend from cost.*

**RULE – 12:**

*To calculate Brokerage, we have to make calculation on Actual Cost always (Not on Face Value) if nothing is mentioned in Question.*

**RULE – 13:**

*In case of Debentures/Bonds, while sale of these securities to calculate Gain/Loss on sale Always compare Ex Interest Purchase with Ex Interest Sale after adjusting Brokerage if any.*

*Gain/Loss – [(Ex-interest sale value) – (Brokerage)] – [(Ex-interest purchase value) + (Brokerage)]*

## Question 19 (ICAI Module)

On 1.1.20X1, Sundar had 25,000 equity shares of 'X' Ltd. at a book value of Rs. 15 per share (Nominal value Rs. 10). On 20.6.20X1, he purchased another 5,000 shares of the company at Rs.16 per share. The directors of 'X' Ltd. announced a bonus and rights issue. No dividend was payable on these issues. The terms of the issue are as follows:

Bonus basis 1:6 (Date16.8.20X1)

Rights basis 3:7 (Date 31.8.20X1) Price Rs. 15 per share

Due date for payment30.9.20X1

Shareholders were entitled to transfer their rights in full or in part. Accordingly, Sundar sold 33.33% of his entitlement to Sekhar for a consideration of Rs.2 per share.

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

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

(1) Investment Account

(2) Profit & Loss Account.

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

## SOLUTION

**Books of Sundar**

**Investment Account**

**(Scrip: Equity Shares in X Ltd.)**

| Date | Particulars | No. | Amount | Date | Particulars | No. | Amount |
|---|---|---|---|---|---|---|---|
| 1.4.20X1 | To Bal b/d | 25,000 | 3,75,000 | 31.10.20X1 | By Bank (dividend on shares acquired on 20/6/20X1) (W.N.4) | — | 10,000 |
| 20.6.20X1 | To Bank | 5,000 | 80,000 | 15.11.20X1 | By Bank A/c (Sale of shares) | 25,000 | 3,75,000 |
| 16.8.20X1 | To Bonus (W.N.1) | 5,000 | — | | By Bal. c/d(W.N.6) | 20,000 | 2,64,444 |
| 30.9.20X1 | To Bank (Rights Shares) (W.N.3) | 10,000 | 1,50,000 | | | | |
| | | **45,000** | **6,49,444** | | | **45,000** | **6,49,444** |

**Profit and Loss Account (An extract)**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Balance c/d | 1,04,444 | By Profit transferred | 44,444 |
| | | By Sale of rights (W.N.3) | 10,000 |
| | | By Dividend (W.N.4) | 50,000 |
| | **1,04,444** | | **1,04,444** |

**Working Notes:**

**(1)** Bonus Shares = 25,000 + 5,000 / 6= 5,000 shares

**(2)** Right Shares =25,000 + 5,000 + 5,000 X 3 / 7 = 15,000shares.

**(3)** Right shares renounced = 15,000×1/3 = 5,000 shares

Sale of right shares = 5,000 x 2 = Rs.10,000

Right shares subscribed = 15,000 – 5,000 = 10,000 shares

Amount paid for subscription of right shares = 10,000 x 15 = Rs.1,50,000

**(4)** Dividend received =25,000(sharesason1stApril20X1)×10×20%=Rs.50,000

Dividend on shares purchased on 20.6.20X1 = 5,000×10×20% = Rs. 10,000 is adjusted to Investment A/c

**(5)** Profit on sale of 25,000 shares = Sales proceeds – Average cost

Sales proceeds = Rs.3,75,000

Average cost =(75,000 + 80,000 + 1,50,000 -10,000) X 25,000 /45,000 =3,30,556

Profit =Rs.3,75,000– Rs.3,30,556= Rs.44,444.

**(6)** Cost of shares on31.12.20X1 = (75,000 + 80,000 + 1,50,000 -10,000) X 25,000 / 20,000

= 2, 64,444

## Question 20 (ICAI Module)

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

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

The terms of the rights issue were:

(a) Rights shares to be issued to the existing holders on 10thAugust ,20X1.

(b) Rights issue would entitle the holders to subscribe to additional equity shares in the Company at the rate of one share per every three held at Rs. 15 per share-the whole sum being payable by 30thSeptember,20X1.

(c) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.

(d) Singh exercised his option under the issue for 50% of his entitlements and the balance of rights he sold to Ananth for a consideration of Rs. 1.50 per share.

(e) Dividends for the year ended 31stMarch, 20X1, at the rate of 15% were declared by the Company and received by Singh on 20th October, 20X1.

(f) On 1stNovember, 20X1, Singh sold 20,000 equity shares at a premium of Rs. 3 per share.

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

## SOLUTION

**Investment Account-Equity Shares in X Ltd.**

| Date 20X1 | | No. of shares | Dividend | Amount | Date 20X1 | | No. of shares | Dividend | Amount |
|---|---|---|---|---|---|---|---|---|---|
| 1 jan | To Bal b/d | 20,000 | - | 3,20,000 | Oct. 20 | By Bank (dividend) [20,000 x 10 x 15%] [5,000 x 10 x 15%] | | 30,000 | 7,500 |
| June 1 | To Bank | 5,000 | - | 70,000 | Nov. 1 | By Bank | 20,000 | | 2,60,000 |
| Aug. 2 | To Bonus Issue | 5,000 | | — | Nov. 1 | By P &L A/c (W.N.2) | | | 1,429 |
| Sep. 30 | To Bank (Right) (W.N.1) | 5,000 | - | 75,000 | Dec. 31 | By Balance c/d (W.N.3) | 15,000 | | 1,96,071 |
| Nov. 1 | To Profit & Loss A/c (Dividend income) | | 30,000 | | | | | | |
| | | **35,000** | **30,000** | **4,65,000** | | | **35,000** | **30,000** | **4,65,000** |
| Jan. 1, 20X2 | To Balance b/d | 15,000 | | 1,96,071 | | | | | |

**Working Notes:**

1. Right shares

   No. of right shares issued = (20,000 + 5,000 + 5,000)/ 3 = 10,000 shares

   No. of right shares subscribed = 10,000 x 50% = 5,000 shares

   Amount of right shares issued = 5,000 x 15 = Rs. 75,000

   No. of right shares sold = 10,000 – 5,000 = 5,000 shares

   Sale of right shares = 5,000 x 1.5 = Rs.7,500 to be credited to statement of profit and loss

2. **Cost of shares sold — Amount paid for 35,000shares**

| | Rs. |
|---|---|
| (Rs.3,20,000 + Rs.70,000 + Rs.75,000) | 4,65,000 |

| | |
|---|---|
| Less: Dividend on shares purchased on June 1 (since the dividend pertains to the year ended 31st March, 20x1, i.e., the pre-acquisition period) | (7,500) |
| Cost of 35,000 shares | 4,57,500 |
| Cost of 20,000 shares (Average cost basis) | 2,61,429 |
| Sale proceeds | 2,60,000 |
| Loss on sale | 1,429 |

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

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

Here, Net realisable value is Rs.14 per share i.e., 15,000 shares x Rs. 13= Rs. 2,10,000 and cost = 4,57,500 X 15,000 / 35,000 =1,96,071. Therefore, value of investment at the end of the year will be Rs.1,96,071.

## Question 21 (ICAI Module)

Mr. Brown has made following transactions during the financial year 20X1-X2:

| Date | **Particulars** |
|---|---|
| 01.05.20X1 | Purchased 24,000 12% Bonds of Rs. 100 each at Rs.84cum-interest. Interest is payable on 30th September and 31st March every year. |
| 15.06.20X1 | Purchased 1,50,000 equity shares of Rs. 10 each in Alpha Limited for Rs. 25 each through a broker, who charged brokerage @ 2%. |
| 10.07.20X1 | Purchased 60,000 equity shares of Rs. 10 each in Beeta Limited for Rs. 44 each through a broker, who charged brokerage@2%. |
| 14.10.20X1 | Alpha Limited made a bonus issue of two shares for every three shares held |
| 31.10.20X1 | Sold 80,000 shares in Alpha Limited for Rs. 22each. |
| 01.01.20X2 | Received 15% interim dividend on equity shares of Alpha Limited. |
| 15.01.20X2 | Beeta Limited made a right issue of one equity share for every four shares held at Rs. 5 per share. Mr. Brown exercised his option for 40% of his entitlements and sold the balance rights in the market at Rs. 2.25 per share. |
| 01.03.20X2 | Sold 15,000 12% Bonds at Rs. 90 ex-interest |
| 15.03.20X2 | Received 18% interim dividend on equity shares of Beeta Limited. Interest on 12% Bonds was duly received on due dates. |

Prepare separate investment account for 12% Bonds, Equity Shares of Alpha Limited and Equity Shares of Beeta Limited in the books of Mr. Brown for the year ended on 31stMarch,20X2.

## SOLUTION

**In the books of Mr. Brown**

**12% Bonds for the year ended 31st March 20X2**

| **Date** | **Particulars** | **No.** | **Income** | **Amount** | **Date** | **Particulars** | **No.** | **Income** | **Amount** |
|---|---|---|---|---|---|---|---|---|---|

| | | | Rs. | Rs. | | | | Rs. | Rs. |
|---|---|---|---|---|---|---|---|---|---|
| 20X1 May, 1 | To Bank A/c (W.N.7) | 24,000 | 24,000 | 19,92,000 | 20X1 Sept. 30 | By Bank-Interest (24,000 x 100 x 12% x 6/12) | - | 1,44,000 | |
| 20X2 March 1 | To P & L A/c (W.N.1) | - | - | 1,05,000 | 20X2 Mar. 1 | By Bank A/c (W.N.8) | 15,000 | 75,000 | 13,50,000 |
| 20X2 March 31 | To P & L A/c (b.f.) | | 2,49,000 | | 20X2 Mar. 31 | By Bank-Interest (9,000 x 100 x 12% x 6/12) | | 54,000 | |
| | | | | | | By Balance c/d (W.N.2) | 9,000 | - | 7,47,000 |
| | | **24,000** | **2,73,000** | **20,97,000** | | | **24,000** | **2,73,000** | **20,97,000** |

***Investment in Equity shares of Alpha Ltd. for the year ended 31stMarch, 20X2***

| Date | Particulars | No. | Income | Amount | Date | Particulars | No. | Income | Amount |
|---|---|---|---|---|---|---|---|---|---|
| | | | Rs. | Rs. | | | | Rs. | Rs. |
| 20X1 June 15 | To Bank A/c ([1,50,000 x 25] + [2% x (1,50,000 x 25)]) | 1,50,000 | -- | 38,25,000 | 20X1 Oct. 31 | By Bank A/c | 80,000 | - | 17,60,000 |
| Oct. 14 | To Bonus Issue (1,50,000/3 x2) | 1,00,000 | - | - | 20X2 Jan.1 | By Bank A/c –dividend (1,70,000 x10 x 15%) | | 2,55,000 | |
| 20X1Oct. 31 | To P & L A/c (W.N.3) | | | 5,36,000 | March | By Balance c/d(W.N.4) | 1,70,000 | - | 26,01,000 |
| 20X2 Mar. 31 | To P & L A/c | | 2,55,000 | | | | | | |
| | | **2,50,000** | **2,55,000** | **43,61,000** | | | **2,50,000** | **2,55,000** | **43,61,000** |

**Investment in Equity shares of Beeta Ltd. for the year ended 31stMarch, 20X2**

| Date | Particulars | No. | Income Rs. | Amount Rs. | Date | Particulars | No. | Income Rs. | Amount Rs. |
|---|---|---|---|---|---|---|---|---|---|
| 20X1 July 10 | To Bank A/c ([60,000 x 44] + [2% x (60,000 x 44)]) | 60,000 | -- | 26,92,800 | 20X2 Mar. 15 | By Bank – dividend [(60,000+ 6,000) x10 x 18%] | - | 1,18,800 | |
| 20X2 Jan. 15 | To Bank A/c (W.N. 5) | 6,000 | - | 30,000 | March 31 | By Balance c/d (bal. fig.) | 66,000 | - | 27,22,800 |
| March 31 | To P & L A/c | - | 1,18,800 | - | | | | | |
| | | **66,000** | **1,18,800** | **27,22,800** | | | **66,000** | **1,18,800** | **27,22,800** |

**Working Notes:**

1. Profit on sale of 12%Bond

| | |
|---|---|
| Sales price | Rs.13,50,000 |
| Less: Cost of bond sold =19,92,000X 15,000/ 24,000 | (Rs.12,45,000) |
| Profit on sale | Rs.1,05,000 |

2. **Closing balance as on 31.3.20X2 of 12 %Bond**

19,92,000X 9,000/ 24,000=Rs.7,47,000

3. **Profit on sale of equity shares of Alpha Ltd.**

| | |
|---|---|
| Sales price | Rs.17,60,000 |
| Less: Cost of bond sold = 38,25,000 X 80,000 / 2,50,000 | (Rs.12,24,000) |
| Profit on sale | Rs.5,36,000 |

4. **Closing balance as on 31.3.20X2 of equity shares of Alpha Ltd.**

$\frac{38,25,000}{2,50,000} \times 1,70,000 = Rs.\ 26,01,000$

5. **Calculation of right shares subscribed by Beeta Ltd.**

$$\text{RightShares} = \frac{60,000\text{shares}}{4}\text{x}1 = 15,000\text{shares}$$

***Shares subscribed by Mr. Brown = 15,000 x 40%= 6,000 shares***

*Value of right shares subscribed = 6,000 shares @ Rs.5 per share = Rs.30,000*

***6. Calculation of sale of right entitlement by Beeta Ltd.***

*No. of right shares sold = 15,000 - 6,000 = 9,000 shares*

*Sale value of right = 9,000 shares x Rs.2.25 per share = Rs.20,250*

*Note: As per para 13 of AS 13, sale proceeds of rights are to be credited to P & L A/c.*

***7. Purchase of bonds on01.05.20X1***

*Interest element in purchase of bonds = 24,000 x 100 x 12% x 1/12 = Rs. 24,000 Investment elements in purchase of bonds = (24,000 x 84) – 24,000 = Rs.19,92,000*

***8. Sale of bonds on01.03.20X2***

*Interest element in purchase of bonds = 15,000 x 100 x 12% x 5/12 = Rs.75,000 Investment elements in purchase of bonds = 15,000 x 90 = Rs.13,50,000*

## Question 22 (RTP Nov 18, MTP Nov 19)

*Akash Ltd. had 4,000 equity share of X Limited, at a book value of Rs. 15 per share (face value of Rs. 10 each) on 1st April 2017. On 1st September 2017, Akash Ltd. Acquired 1,000 equity shares of X Limited at a premium of Rs. 4 per share. X Limited announced a bonus and right issue for existing shareholders.*

*The terms of bonus and right issue were -*

*(1) Bonus was declared, at the rate of two equity shares for every five equity shares held on 30th September, 2017.*

*(2) Right shares are to be issued to the existing shareholders on 1st December, 2017. The company issued two right shares for every seven shares held at 25% premium. No dividend was payable on these shares. The whole sum being payable by 31st December, 2017.*

*(3) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.*

*(4) Akash Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for Rs 8 per share.*

*(5) Dividend for the year ended 31stMarch 2017, at the rate of 20% was declared by the company and received by Akash Ltd., on 20th January2018.*

*(6) On 1st February 2018, Akash Ltd., sold half of its shareholdings at a premium of Rs 4 per share.*

*(7) The market price of share on 31.03.2018 was Rs. 13 pershare.*

*You are required to prepare the Investment Account of Akash Ltd. for the year ended 31stMarch, 2018 and determine the value of share held on that date assuming the investment as current investment. Consider average cost basis for ascertainment of cost for equity share sold.*

## SOLUTION

**Investment Account-Equity Shares in X Ltd.**

| Date | | No. of shares | Dividend | Amount | Date | | No. of shares | Dividend | Amount |
|---|---|---|---|---|---|---|---|---|---|
| | | | Rs | Rs | | | | Rs | Rs |
| 2017 | | | | | 2018 | | | | |
| April 1 | To Balance b/d | 4,000 | - | 60,000 | Jan. 20 | By Bank (dividend) | | 8,000 | 2,000 |
| Sept 1 | To Bank | 1,000 | - | 14,000 | Feb. 1 | By Bank | 4,000 | | 56,000 |
| Sept.30 | To Bonus Issue | 2,000 | | — | Mar. 31 | By Balance c/d | 4,000 | | 42,250 |
| Dec.1 | To Bank (Right) | 1,000 | - | 12,500 | | | | | |
| 2018 | | | | | | | | | |
| Feb. 1 | Profit &Loss A/c | | | 13,750 | | | | | |
| Mar.31 | To Profit & Loss A/c (Dividend income) | | 8,000 | | | | | | |
| | | **8,000** | **8,000** | **1,00,250** | | | **8,000** | **8,000** | **1,00,250** |
| April. 1 | To Balance b/d | 4,000 | | 42,250 | | | | | |

**Working Notes:**

1. Cost of shares sold — Amount paid for 8,000shares

| | Rs |
|---|---|
| (Rs 60,000 + Rs 14,000 + Rs 12,500) | 86,500 |
| Less: Dividend on shares purchased on 1stSept, 2017 | (2,000) |
| Cost of 8,000 shares | 84,500 |
| Cost of 4,000 shares (Average cost basis*) | 42,250 |
| Sale proceeds (4,000 shares @ 14/-) | 56,000 |
| Profit on sale | 13,750 |

* For ascertainment of cost for equity shares sold, average cost basis has been applied.

2. **Value of investment at the end of the year**

Closing balance will be valued based on lower of cost (Rs 42,250) or net realizable value (Rs 13 x 4,000). Thus investment will be valued at Rs 42,250.

3. **Calculation of sale of right entitlement**

1,000 shares x Rs 8 per share = Rs 8,000

Amount received from sale of rights will be credited to P & L A/c as per AS 13 'Accounting for Investments'.

**4. Dividend received on investment held as on 1stApril,2017**

= 4,000 shares x Rs 10 x 20%

= Rs 8,000 will be transferred to Profit and Loss A/c

**5. Dividend received on shares purchased on 1stSep. 2017**

= 1,000 shares x Rs 10 x 20% = Rs 2,000 will be adjusted to Investment A/c

Note: It is presumed that no dividend is received on bonus shares as bonus shares are declared on 30thSept., 2017 and dividend pertains to the year ended31.3.2017.

## QUESTION 23 (RTP May 19)

A Ltd. purchased on 1st April, 2018 8% convertible debenture in C Ltd. of face value of Rs. 2,00,000 @ Rs. 108. On 1st July, 2018 A Ltd. purchased another Rs. 1,00,000 debenture @ Rs112 cum interest.

On 1st October, 2018 Rs. 80,000 debenture was sold @ Rs. 108. On 1st December, 2018, C Ltd. give option for conversion of 8% convertible debentures into equity share of Rs. 10 each. A Ltd. receive 5,000 equity share in C Ltd. in conversion of 25% debenture held on that date. The market price of debenture and equity share in C Ltd. at the end of year 2018 is Rs. 110 and Rs. 15 respectively.

Interest on debenture is payable each year on 31st March, and 30th September.

The accounting year of A Ltd. is calendar year.

Prepare investment account in the books of A Ltd. on average cost basis.

## SOLUTION

**Investment Account for the year ending on 31st December, 2018**

**Scrip: 8% Convertible Debentures in C Ltd.**

**[Interest Payable on 31st March and 30th September]**

| Date | Particulars | Nominal value (Rs) | Interest (Rs) | Cost (Rs) | Date | Particulars | Nominal Value (Rs) | interest (Rs) | Cost (Rs) |
|---|---|---|---|---|---|---|---|---|---|
| 1.4.18 | To bank A/c | 2,00,000 | 2,000 | 2,16,000 | 30.09.18 | By Bank A/c [Rs.3,00,000 x 8% x (6/12)] | | 12,000 | |
| 1.7.18 | To bank A/c (W.N.1) | 1,00,000 | 14,033 | 1,10,000 | 1.10.18 | By Bank A/c | 80,000 | | 84,000 |
| 31.12.18 | To P & L A/c [Interest] | 3,00,000 | 16,033 | 3,26,000 | 1.10.18 | By P&L A/c (loss) (W.N.1) | | | 2,933 |
| | | | | | 1.12.18 | By Bank A/c (Accrued | | 733 | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | interest) (Rs. 55,000 x 0.08x 2/12) | | | |
| | | | | | 1.12.18 | By Equity shares in C Ltd. (W.N. 3 and 4 | 55,000 | | 59,767 |
| | | | | | 1.12.18 | By Balance c/d (W.N.5) | 1,65,000 | 3,300 | 1,79,300 |
| | | **3,00,000** | **16,033** | **3,26,000** | | | **3,00,000** | **16,033** | **3,26,000** |

**SCRIP: Equity Shares in C LTD.**

| Date | Particulars | Cost (Rs) | Date | Particulars | Cost (Rs) |
|---|---|---|---|---|---|
| 1.12.18 | To 8 % debentures | 59,767 | 31.12.18 | By balance c/d | 59,767 |

**Working Notes:**

(i) Cost of Debenture purchased on 1st July = Rs1,12,000 – Rs2,000 (Interest)
= Rs 1,10,000

(ii) Cost of Debentures sold on 1st Oct.
= (Rs2,16,000 + Rs1,10,000) x 80,000/3,00,000 = Rs86,933

(iii) Loss on sale of Debentures = Rs86,933– Rs84,000 = Rs2,933
Nominal value of debentures converted into equity shares = Rs55,000
[(Rs3,00,000 – 80,000) x.25]
Interest received before the conversion of debentures
Interest on 25% of total debentures = 55,000 x 8% x 2/12 = 733

(iv) Cost of Debentures converted
= (Rs2,16,000 + Rs1,10,000) x 55,000/3,00,000
= Rs 59,767

(v) Cost of closing balance of Debentures
= (Rs2,16,000 + Rs1,10,000) x 1,65,000 / 3,00,000
= Rs 1,79,300

(vii) Closing balance of Debentures has been valued at cost being lower than the market value i.e. Rs1,81,500 (Rs1,65,000 @ Rs110) *(viii) 5,000 equity Shares in C Ltd. will be valued at cost of Rs59,767 being lower than the market value Rs75,000 (Rs15 x5,000)*

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

## QUESTION 24 (RTP – May 20) (MTP – May 18, Nov 18)

*Meera carried out the following transactions in the shares of Kumar Ltd.:*

(1) On 1st April, 2019 she purchased 40,000 equity shares of Rs1 each fully paid up for Rs60,000.
(2) On 15th May 2019, Meera sold 8,000 shares for Rs15,200.
(3) At a meeting on 15th June 2019, the company decided:
   (i) To make a bonus issue of one fully paid up share for every four shares held on 1st June 2019, and
   (ii) To give its members the right to apply for one share for every five shares held on 1st June 2019 at a price of Rs1.50 per share of which 75 paise is payable on or before 15th July 2019 and the balance, 75 paise per share, on or before 15th September, 2019.

The shares issued under (i) and (ii) were not to rank for dividend for the year ending 31st December 2019.

(a) Meera received her bonus shares and took up 4,000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30th September 2019.
(b) On 15th March 2020, she received a dividend from Kumar Ltd. of 15 per cent in respect of the year ended 31st Dec 2019.
(c) On 30th March 2020, she received Rs28,000 from the sale of 20,000 shares.

You are required to record these transactions in the Investment Account in Meera's books for the year ended 31st March 2020 transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis. Expenses and tax to be ignored

## SOLUTION

**Investment Account (Shares in Kumar Limited) in the books of Meera**

| Date | Particulars | No. of Shares | Income | Amount | Date | Particulars | No. of Shares | Income | Amount |
|---|---|---|---|---|---|---|---|---|---|
| 2019 | | | Rs | Rs | 2019 | | | Rs | Rs |
| April 1 | To Bank (Purchases) | 40,000 | - | 60,000 | May 15 | By Bank (Sale) | 8,000 | - | 15,200 |
| May 15 | To Profit & Loss A/c (W.N.1) | - | - | 3,200 | 2020 Mar. 15 | By Bank (Dividend @ 15% on Rs 32,000) | | 4,800 | - |
| June15 | To Bonus Issue | 8,000 | - | Nil | Mar.30 | By Bank (Sale) | 20,000 | - | 28,000 |
| July 15 | To Bank (@ 75 p. paid on 4,000 | 4,000 | - | 3,000 | Mar.31 | By Balance c/d* | 24,000 | - | 29,455 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | shares) | | | | | | | | |
| Sept. | To Bank (@ 75 p. paid on 4,000 shares) | - | - | 3,000 | | | | | |
| 2020 Mar.31 | To Profit & Loss A/c (W.N.2) | | | 3,455 | | | | | |
| | To Profit & Loss A/c | - | 4,800 | | | | | | |
| | | **52,000** | **4,800** | **72,655** | | | **52,000** | **4,800** | **72,655** |

*($\frac{24,000}{44,000} \times 54,000$)

**Working Notes:**

| | | | |
|---|---|---|---|
| (1) | Profit on Sale on 15-5-2019: | | |
| | Cost of 8,000 shares @ Rs.1.50 | Rs 12,000 | |
| | Less: Sales price | Rs 15,200 | |
| | Profit | | Rs 3,200 |
| (2) | Cost of 20,000 shares sold: | | |
| | Cost of 44,000 shares (48,000 + 6,000) | | Rs 54,000 |
| | Cost of 20,000shares ($\frac{\text{Rs } 54,000}{44,000 \text{ shares}} \times 20,000 \text{ shares}$) | | Rs 24,545 |
| | Profit on sale of 20,000 shares (Rs 28,000 – Rs 24,545) | | Rs 3,455 |

## Question 25 (MTP May 20)

The Investment portfolio of XYZ Ltd. As on 31.03.2020 consisted of the following:

| | | | | (Rs. in lacs) |
|---|---|---|---|---|
| | **Current Investments** | | **Cost** | **Fair Value as on 31.03.2020** |
| (1) | 1000 Equity Shares of A Ltd. 500 | | 5 | 7 |
| (2) | Equity Shares of B Ltd. 1000 | | 10 | 15 |
| (3) | Equity Shares of C Ltd. | | 15 | 12 |
| | | Total | **30** | **34** |

**Give your comments on the following:**

(i) The company wants to value the above portfolio at Rs. 30 lakhs being lower of cost or fair market value. Company wants to transfer 1000 Equity Shares of C Ltd. From current investments to long term investments on 31.03.2020 at cost of Rs. 15 lakhs.

## SOLUTION

As per AS 13 "Accounting for Investments", Valuation of current investments on overall (or global) basis is not considered appropriate. Sometimes, the concern of an enterprise may be with the value of a category of related current investments and not with each individual investment, and accordingly the investments may be carried at *the lower of cost and fair value computed category-wise (i.e. equity shares, preference shares, convertible debentures, etc.). However, the more prudent and appropriate method is to carry individually at the lower of cost and fair value.*

(i) *Hence the company has to value the current investment at Rs. 27 Lacs (A Ltd. shares at Rs. 5 lacs; B Ltd. shares at Rs. 10 lacs and C Ltd. shares at Rs. 12 lacs). The company's decision to value the portfolio at Rs. 30 lacs is not appropriate.*

(ii) *Moreover, where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.*

*Hence, the company has to make transfer of 1,000 equity shares of C Ltd. at Rs. 12 lacs (fair value) and not Rs. 15 lacs (cost) as the fair value is less than cost.*

## Question 26 (EXAM May 18) (MTP – Nov 20)

Mr. Vijay entered into the following transactions of purchase and sale of equity shares of JP Power Ltd. The shares have paid up value of Rs 10 per share.

| Date | No. of Shares | Terms |
|---|---|---|
| 01.01.2019 | 600 | Buy @ Rs. 20 per share |
| 15.03.2019 | 900 | Buy @ Rs. 25 per share |
| 20.05.2019 | 1000 | Buy @ Rs. 23 per share |
| 25.07.2019 | 2500 | Bonus Shares received |
| 20.12.2019 | 1500 | Sale @ Rs. 22 per share |
| 01.02.2020 | 1000 | Sale @ Rs. 24 per share |

**Addition information:**

(1) On 15.09.2016 dividend @ Rs 3 per share was received for the year ended 31.03.2016.

(2) On 12.11.2016 company made a right issue of equity shares in the ratio of one share for five shares held on payment of Rs 20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of the premium of Rs 3 per share.

(3) Shares are to be valued on weighted average cost basis.

You are required to prepare Investment Account for the year ended 31.03.2016 and 31.03.2017.

## SOLUTION

**Investment in Equity shares of JP Power Ltd.**

| Date | Particulars | No. | Dividend Rs. | Amount Rs. | Date | Particulars | No. | Dividend Rs. | Amount Rs. |
|---|---|---|---|---|---|---|---|---|---|
| 1.1.19 | To Bank A/c | 600 | | 12,000 | 31.3.19 | By Balance c/d | 1,500 | | 34,500 |
| 15.3.19 | To Bank A/c | 900 | | 22,500 | | | ---- | | ------ |
| | | 1,500 | | 34,500 | | | 1,500 | | 34,500 |
| 1.4.19 | To Balance b/d | 1,500 | | 34,500 | 15.9.19 | By Bank - dividend | | 4,500 | 3,000 |
| 20.5.19 | To Bank A/c | 1,000 | | 23,000 | 20.12.19 | By Bank | 1,500 | | 33,000 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 25.7.19 | To Bonus shares | 2,500 | | _ | 1.2.20 | By Bank | 1,000 | | 24,000 |
| 12.11.19 | To Bank A/c | 600 | | 12,000 | 31.3.20 | By Balance c/d | 3,100 | | 36,812.50 |
| 20.12.19 | To P& L A/c (profit on sale) | | | 15,187.50 | | | | | |
| 1.2.20 | To P& L A/c (profit on sale) | | 4,500 | 12,125 | | | | | |
| 31.3.20 | To P & L A/c (dividend) | | | | | | | | |
| | | **5,600** | **4,500** | **96,812.50** | | | **5,600** | **4,500** | **96,812.50** |

**Working Notes:**

1. Calculation of Weighted average cost of equity shares

   600 shares purchased at Rs.12,000

   900 shares purchased at Rs.22,500

   1,000 shares purchased at Rs.23,000 2,500 shares at nil cost

   600 right shares purchased at Rs.12,000

   Total cost of 5,600 shares is Rs.66,500 [Rs.69,500 less Rs.3,000 (pre-acquisition dividend received on 1,000 shares purchased on20.5.19].

   Hence, weighted average cost per share will be considered as Rs.11.875 per share (66,500/5,600).

2. It has been considered that no dividend was received on bonus shares as the dividend pertains to the year ended 31stMarch, 2019.

3. **Calculation of right shares subscribed by Vijay**

   Right Shares (considering that right shares have been granted on Bonus shares also) = 5,000/5 x 1= 1,000 shares

   Shares subscribed = 1,000 x 60%= 600 shares

   Value of right shares subscribed = 600 shares @ Rs.20 per share = Rs.12,000 Calculation of sale of right renouncement

   No. of right shares sold = 1,000 x 40% = 400 shares

   Sale value of right = 400 shares x Rs.3 per share = Rs.1,200

   Note: As per para 13 of AS 13, sale proceeds of rights is to be credited to P & L A/c.

4. **Profit on sale of equity shares**

   As on 20.12.19

   | | | |
   |---|---|---|
   | Sales price | (1,500 shares atRs.22) | 33,000.00 |
   | Less: Cost of shares sold (1,500 x Rs.11.875) | | (17,812.50) |
   | Profit on sale | | 15,187.50 |

   As on 1.2.20

| | | |
|---|---|---|
| Sales price | (1,000 shares atRs.24) | 24,000 |
| Less: Cost of shares sold (1,000 x Rs.11.875) | | (11,875) |
| Profit on sale | | 12,125 |

Balance of 3,100 shares as on 31.3.20 will be valued at Rs.36,812.50 (at rate of Rs.11.875 per share)

## Question 27 (EXAM May 2019)

On 15th June, 2018, Y limited wants to re-classify its investments in accordance with AS 13 (revised). Decide and state the amount of transfer, based on the following information:

1. A portion of long term investments purchased on 1st March, 2017 are to be re-classified as current investments. The original cost of these investments was Rs.14 lakhs but had been written down by Rs.2 lakhs (to recognise 'other than temporary decline in value). The market value of these investments on 15th June, 2018 was Rs.11 lakhs.
2. Another portion of long term investments purchased on 15th January, 2017 are to be re-classified as current investments. The original cost of these investments wasRs.7 lakhs but had been written down to Rs.5 lakhs (to recognize 'other than temporary' decline in value). The fair value of these investments on 15th June, 2018 was Rs.4.5 lakhs.
3. A portion of current investments purchased on 15th March, 2018 for Rs.7 lakhs are to be re-classified as long term investments, as the company has decided to retain them. The market value of these investments on 31st March, 2018 wasRs.6 lakhs and fair value on 15th June 2018 was Rs. 8.5 lakhs,
4. Another portion of current investments purchased on 7th December, 2017 for Rs.4 lakhs are to be re-classified as long term investments. The market value of these investments was:
   on 31st March, 2018 Rs.3.5 lakhs
   on 15th June, 2018 Rs.3.8 lakhs

## SOLUTION

As per AS 13 (Revised) 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer; and where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

1. In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs. 12 lakhs in the books.
2. In this case also, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs. 5 lakhs in the books.
3. In this case, reclassification of current investment into long-term investments will be made at Rs. 7 lakhs as cost is less than its fair value of Rs. 8.5 lakhs on the date of transfer.

(Rs.8,56,667 – Rs.2,00,000)

Considering that Rs.13,00,000 was debited to Building WIP A/c earlier.

In this case, market value (considered as fair value) is Rs.3.8 lakhs on the date of transfer which is lower than the cost of Rs.4 lakhs. The reclassification of current investment into long-term investments will be made at Rs.

3.8 lakhs.

# TOPIC 5

# ACCOUNTING FOR BRANCHES INCLUDING FOREIGN BRANCH

## ACCOUNTING FOR DEPENDENT BRANCHES

**Concept – 1:**

Normal Loss/wastage = Loss of stock which is already anticipated

Abnormal Loss/wastage = Loss of stock which was not anticipated earlier and which is over and above normal.

Treatment:

1) Normal loss:Credit side of trading account, only to find out correct gross profit.
2) Abnormal loss: Credit side of trading account, only to find out correct gross profit. And Debit side of Profit and loss account (actual cost) (Recognise the loss).

**Note:**

If nothing is mentioned in the question, we shall always assume that loss is of abnormal nature.

**Concept – 2:**

If any item like opening stock, closing stock, goods sent are given in question but price is not mentioned (i.e., which price is this Cost or Invoice Price) then always assume INVOICE PRICE

### 1. STOCK AND DEBTOR SYSTEM

Under this system, the HO maintains for every branch, Branch stock account, Branch debtor account, other Branch assets/liabilities accounts (individually), Branch expenses accounts (individually), Branch adjustment account and Branch profit & loss account.

Branch Stock Account:This account records the physical flow of goods between HO and branch at INVOICE PRICE. However, sales are recorded at selling price. The invoice price is the amount at which goods are transferred from HO to branch. The goods can also be transferred by HO to branch at cost to the HO.The basic relationship between the various components is as follows:

Cost to HO + Mark-up (Loading) = Invoice Price (Cost to branch)

Or Invoice Price - Mark-up (Loading) = Cost.

Branch Adjustment Account: This account is a nominal account and calculates the gross profit/loss by branch but is made in a different manner from the trading account. It basically records loading (i.e. difference of invoice price and cost) on opening stock, goods supplied, goods returned, closing stock etc.

Branch Profit & Loss Account: This account is a nominal account and calculates the net profit/loss earned by branch and is made in the same manner as usual profit and loss account.

*Branch Assets/Liabilities Account: These accounts are made in the usual manner according to the double entry system.*
*The various journal entries made under this system are as follows:*

*(1) For goods supplied to branch by the HO.*
*Branch Stock A/c Dr.*
*To Goods sent to branch A/c (with invoice price of goods sent)*

*(2) For goods returned by branch to HO.*
*Goods sent to branch A/c Dr.*
*To Branch stock A/c*

*(3) For goods returned by debtors to branch.*
*Branch stock A/c Dr.*
*To Branch debtors A/c*

*(4) For goods returned by credit customers (debtors) or cash customers direct to HO*
*Goods sent to branch A/c Dr.*
*To Branch debtors A/c/Cash A/c*

*(5) For cash sales made by branch.*
*Branch Cash/Bank A/c Dr. (With selling price)*
*To Branch stock A/c*

*(6) For credit sales made by branch.*
*Branch debtors A/c Dr. (With selling price)*
*To Branch stock A/c*
*To determine gross profit, the excess of invoice price of goods over cost of goods sent to branch is recorded at the time of goods sent. If goods remain unsold at the end of the year stock reserve is created. At the time of sale, the difference of sales price and invoice price of goods sold is recorded. Following six entries are passed for these purposes:*

*(7) For mark-up (or loading) on opening stock*
*Stock reserve A/c Dr.*
*To Branch adjustment A/c*

*(8) For mark-up (or loading) on closing stock.*
*Branch adjustment A/c Dr.*
*To Stock reserve A/c*

(9) For mark up on goods sent to branch

Goods sent to branch A/c Dr.
To Branch Adjustment A/c

(10) For mark up on goods received back (returned) by HO

Branch Adjustment A/c Dr.
To Goods sent to Branch A/c

(11) For goods sold at a price higher than Invoice Price

Branch Stock A/c Dr. (with excess of SP over IP)
To Branch Adjustment A/c

(12) For goods sold at a price lower than Invoice Price

Branch Adjustment A/c Dr. (with excess of IP over SP)
To Branch Stock A/c

(13) For Cash/Bank received from branch debtors by branch

Brach Cash/Bank A/c Dr.
To Branch Debtors A/c

(14) For remittance from HO to branch

Branch Cash/Bank A/c Dr.
To Cash/Bank A/c

(15) For remittance from branch to HO

Cash/Bank A/c Dr.
To Branch Cash/Bank A/c

(16) For shortage in branch stock which is considered normal

Branch Adjustment A/c Dr.
To Branch Stock A/c

(17) For shortage in branch stock which is considered abnormal

Branch Adjustment A/c Dr.(with loading on abnormal loss)
Branch P&L A/c Dr.(with cost of abnormal loss)
To Branch Stock A/c

(18) For closing goods sent to branch account

Goods sent to branch A/c Dr.
To Trading/Purchase A/c

***Golden Rules under Stock and Debtors Method:***

1) *Goods sent to branch accounts – shall always be shown at cost price.*
   *If it is not at cost (but any amount is at Invoice Price/Cost Price), then in the opposite side show the margin/markup which is over and above cost to make it at cost price. Such margin is known as "Branch Adjustment Account".*
2) *Branch stock account: shall always be shown at Invoice Price. If it is not at Invoice price (i.e., shown at other than Invoice Price) then on opposite side show the margin/markup to make it at Invoice price.*
3) *Under Branch Stock account, if closing stock is already recorded then while closing this account, if balancing figure appears on credit side then such balancing figure will be treated as shortage.*
   *Following Journal Entry is passed:*

| | | | |
|---|---|---|---|
| Branch Profit & Loss A/c | Dr. | Cost | |
| Branch Adjustment A/c | Dr. | Margin | |
| To Branch Stock A/c | | | Invoice Price |

4) *Opening stock and closing stock under branch stock account are shown at Invoice Price, therefore stock reserve (margin) shall be calculated shown under Branch Adjustment A/c*

*Under Branch Stock Account, if balancing figure appears on the debit side then it is to be treated as surplus (i.e., Goods sold to customer at above Issue Price) hence fully transferred to branch adjustment account.*

## ***Question 28 (ICAI Module)***

*RA-One Industries, invoices goods to its Noida branch with instruction to make credit sales at catalogue price which is + 50% and cash sales at invoice price which is cost + 20%. The following information is made available:*

| | |
|---|---|
| Opening balances: | |
| Branch Stock | 18,000 |
| Branch Debtor | 7,000 |
| Transactions during the year: | |
| Goods Received by Branch | 2,30,000 |
| Goods Returned by Branch | 8,000 |
| Credit Sales | 2,00,000 |
| Cash Sales | 27,000 |
| Goods Returned by Credit Customers to Branch | 1,050 |
| Goods Returned by Credit Customers Direct to HO | 3,000 |
| Goods Returned by Cash Customers Direct to HO | 7,200 |
| Closing balances: | |
| Branch Stock | 10,450 |
| Branch Debtor | 2,950 |
| Branch Cash | 25,000 |

Goods invoiced worth Rs. 10,000 were still in transit. Cash customers who returned goods direct to HO settled accounts to the extent of Rs. 6,000 only at accounting date. Prepare the necessary accounts in the books of RA-One Industries according to 'stock and debtor system'.

**(Answer: Gross Profit- Rs. 68,617/- and Net Profit- Rs. 32,459/-)**

## 2. DEBTORS SYSTEM

- Under this system, only one account known as 'Branch A/c' is maintained for every branch in the books of HO.
- Branch account is nominal account which calculates the profit/loss made by the branch.
- Under this system, entries are recorded assuming the Branch is the Debtor of HO.
- Here, only the transactions between HO and Branch are to be recorded (except one special transaction), i.e. any transaction between branch and outside party is to be ignored while preparing branch account.
- While preparing Branch A/c under this method, balances of various accounts such as stock a/c, debtor's a/c, cash a/c etc. may be missing and it is not possible to complete the Branch A/c without knowing such required missing figures.
- Such missing figures/balances can be found out with the help of 'Stock and Debtors' method and hence Stock and Debtors method is also prepared to complete the Branch A/c under Memorandum basis and only account prepared under double entry basis is the 'Branch A/c'.

The various journal entries made under this system are as follows:

(1) For goods supplied to branch from HO

Branch A/c Dr.
To Goods sent to branch A/c (with invoice price, if any)

(2) For goods returned by branch to HO

Goods sent to branch A/c Dr.
To Branch A/c (with invoice price, if any)

(3) For goods returned direct to HO (Special Transaction)

Credit Customers (Debtors):

Goods sent to branch A/c Dr.
To Branch A/c

Cash Customers:

Goods sent to branch A/c Dr. and Branch A/c Dr.
To Branch A/c To Cash A/c

(4) For remittance from HO to branch for expenses or for any purpose

Branch A/c Dr.
To Cash/Bank A/c

(5) For cash received by HO from branch
Cash/Bank A/c Dr.
To Branch A/c

(6)For recording opening assets and liabilities of Branch
Assets:
Branch A/c Dr.
To Branch Cash/Bank A/c
To Branch Debtors A/c
To Branch Stock A/c (at invoice price, if any)
To Branch Furniture A/c
Liabilities:
Outstanding Salary A/cDr.
Provision for BD A/c Dr.
To Branch A/c

(7) For recording closing assets and liabilities of Branch
(Reverse of above entries)

(8) To remove loading on opening stock and closing stock
Opening Stock:
Stock Reserve A/c Dr.
To Branch A/c
Closing Stock:
Branch A/c Dr.
To Stock Reserve A/c

## Question 29 (ICAI Module)

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

The following were the transactions:

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

The stock of goods held by the branch on March 31, 20X1 amounted to Rs. 53,400 at invoice to branch.
Record these transactions in the Head Office books, showing balances as on 31st March, 20X1 and the branch gross profit for the three months ended on that date.
All workings should form part of your solution.

## SOLUTION

**Books of Sell Well Branch Account**

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

**Memorandum Branch Debtors Account**

| | Rs. | | Rs. |
|---|---|---|---|
| To Balance b/d | — | By Cash/Bank | 1,06,000 |
| To Sales | 1,35,000 | By Balance c/d | 29,000 |
| | **1,35,000** | | **1,35,000** |

**Goods Sent to Branch Account**

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

**Working Notes:**

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

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

### 3. FINAL ACCOUNT SYSTEM (COST BASIS)

Under this system, the Profit/Loss of the branch is calculated by preparing the 'Trading and Profit & Loss account' in the usual manner. This account is prepared on the basis of cost to HO. If the figures are given at loaded price (cost + Markup), they need to be converted to the cost to HO. This account is prepared on Memorandum basis. Hence, this a/c is not a part of books of HO, it only helps to ascertain results of the branch. The main advantage in this method is that, it is easy to prepare and understand.

**Dr. Memorandum Trading and Profit & Loss A/c Cr.**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Opening Stock A/c | Cost | By Sales A/c | Sales Value |
| To Goods sent to Branch A/c | Cost | Less Sales Return | |
| Less goods returned to HO | | | |
| To Direct Purchases A/c | Cost | By Closing Stock | Cost |
| To Direct Expenses A/c | | | |
| To Gross Profit | | | |

## Question 30 (ICAI Module)

Kashi Cloth Mills opened a branch at Delhi on 1st April 2008. Goods invoiced to branch at selling price which was 125% of cost to HO.

The following are the particulars of the transactions relating to the branch during the year ended, 31st March, 2009:

| Particulars | Amount (in Rs.) |
|---|---|
| Goods sent to branch at cost to HO | 2808400/- |
| Sales: | |
| Cash Sales | 1250700/- |
| Credit Sales | 1774300/- |
| Cash collected from debtors | 1570000/- |
| Discount allowed to debtors | 15700/- |

| | |
|---|---|
| Return from debtors | 10000/- |
| Spoiled clothes in bales w/off at IP | 5000/- |
| Cheques sent to branch for following expenses: | |
| Rent | 72000/- |
| Salaries | 180000/- |
| Other expenses | 35000/- |

Prepare the necessary accounts as per Stock and 'Debtors Method' and 'Debtors Method'.

**(Answer: Net profit – Rs. 296300/-)**

### 4. FINAL ACCOUNT SYSTEM (WHOLESALE PRICE BASIS)

Under this system, the profit/loss made by branch is calculated by preparing the Trading and Profit & Loss account on Wholesale Price basis. This account is not made as a part of main accounting system and is prepared on Memorandum basis. Since the account is made on Wholesale price basis, following points are needed to be note as under:

(1) HO sends the goods to Branch at Wholesale price (known as Invoice price in earlier methods)
(2) The cost to branch is assumed to be Wholesale price while preparing the Trading a/c of branch.
(3) While preparing Trading a/c of branch on Wholesale price, all the amounts are shown at WP except sales figure and hence GP of branch will arise which is the difference between selling price and wholesale price (i.e., cost to branch).

As said in above point that Trading a/c of branch is prepared on WP, the opening as well closing stock of branch also shown at WP and hence from HO point of view Stock reserve i.e. unrealized profit (difference between WP and Cost) on both opening and closing stocks are to be calculated and shown in Profit & Loss a/c of HO.

## Question 31 (ICAI Module)

HO sends goods to branch at cost + 80%. Goods are sold to customers at cost + 100%. However, sales at HO are made at WP. From the following particulars, ascertain the profits made by the HO and Branch on wholesale price method:

| | Head Office | Branch |
|---|---|---|
| Opening Stock | 20,000 | - |
| Purchases | 2,00,000 | - |
| Goods sent to branch (WP/IP) | 90,000 | - |
| Sales | 2,70,000 | 90,000 |
| Expenses | 10,000 | 4,000 |

(Answer: Net profit of HO and Branch is 1,46,000/- and 5,000/- respectively and Stock reserve is 4,000/-)

## ACCOUNTING FOR INDEPENDENT BRANCHES

(1) In case of independent branches both branch as well as HO maintain their books.
(2) Since branch maintains their own books, it can independently calculate its result by preparing its own Trail balance, Trading a/c and P&L a/c, also it can make its own Balance Sheet.
(3) The accounts are prepared in usual manner and both HO and Branch maintain an account for each other in their own books. (i.e., branch a/c in HO books and HO a/c in branch books)
(4) There are certain transactions which need to be focused. These are as under:
(a) Inter-branch transactions
(b) Accounting for Fixed Assets of the branch
(c) Common expenses incurred by HO to be charged to the branch.

**INTER-BRANCH TRANSACTIONS:**

For accounting point of view, whenever transactions between branches occur, they are recorded in the books of HO/Branches as if they have been done through the HO. The following journal entries shall be made in the books of HO and branches:

**ACCOUNTING FOR FIXED ASSETS OF THE BRANCH:**

There may be two possibilities as follows:

(i) Account of FA maintained by Branch:

| Transactions | HO Books | Branch Books |
|---|---|---|
| Payment of FA made by branch | No Entry | FA a/c Dr.<br>To Cash/Bank a/c |
| Payment of FA made by HO | Branch a/c Dr.<br>To Cash/Bank a/c | FA a/c Dr.<br>To HO a/c |
| Payment for FA to be made by branch | No Entry | FA a/c Dr.<br>To Creditor for FA a/c |
| Depreciation on FA | No Entry | Depreciation a/c Dr.<br>To FA a/c |

(ii) Account of FA maintained by HO:

| **Transactions** | **HO Books** | **Branch Books** |
|---|---|---|
| Payment of FA made by branch | Branch FA a/c Dr.<br>To Branch a/c | HO a/c Dr.<br>To Cash/Bank a/c |
| Payment of FA made by HO | Branch FA a/c Dr. | No Entry |

| | | |
|---|---|---|
| | To Cash/Bank a/c | |
| Payment for FA to be made by branch | Branch FA a/c Dr.<br>To Branch a/c | HO a/c Dr.<br>To Creditor for FA a/c |
| Depreciation on FA | Branch a/c Dr.<br>To Branch FA a/c | Depreciation a/c Dr.<br>To HO a/c |

**COMMON HO EXPENSES CHARGED TO BRANCH:**

(1) The expenses which are incurred for the sole benefit of the HO are to be fully charged to HO Trading/P&L a/c.

(2) The expenses which are incurred for the sole benefit of Branch are to be fully charged to Branch Trading/P&L a/c.

(3) The expenses which are incurred for the benefit of both are needed to be allocated between HO and Branch in the ratio of benefit derived by both of them. Following accounting entries are made:

| HO BOOKS | BRANCH BOOKS |
|---|---|
| (1)<br>Expenses a/c Dr.<br>To Cash/Bank a/c<br>And<br>If the expenses a/c is not closed<br>Branch a/c Dr.<br>To Expenses a/c<br>(Proportionate share of branch)<br>(Or)<br>If expenses a/c is closed<br>Branch a/c Dr.<br>To Trading/P&L a/c<br>(Proportionate share of branch) | Expenses A/c Dr.<br>To HO A/c<br>(Proportionate Expenses of Branch) |

**RECONCILIATION OF HO AND BRANCH BALANCE:**

1. In case of independent branches, branch prepares its own Trail balance.
2. Hence, we need to incorporate the branch trail balance in the books of HO in order to ascertain the position of the group as a whole.
3. But before incorporation of branch TB in the books of HO, it is to be ensured that branch a/c in the books of HO and HO a/c in the books of branch should have equal and reciprocal balance.
4. If the both accounts in either books are not matched then they need to be reconciled before incorporating the branch Trail balance in HO books. Following are some CASES by which we can understand the reconciliation process:

**CASE 1**

*When disagreement in the two accounts is because of the transit items, it would mean that record of transaction in one set of books only. It can be corrected by recording the aspect in the set of books where it is still not recorded.*

***CASE 2***

*Disagreement in two accounts is because of items other than transit items.*

***INCORPORTATION OF BRANCH TRAIL BALANCE IN HO BOOKS***

*For incorporation of Branch Trial balance in the books of HO, following entries are needed to be made in the books of HO:*

1. *For incorporating branch profit/loss:*

   *Branch a/c Dr. (with the amount of Branch Profit)*

   *To Profit and Loss a/c*

   *Profit and Loss a/c Dr. (with the amount of Branch Loss)*

   *To Branch a/c*

2. *For incorporating the Assets of the branch:*

   *Branch Assets a/c Dr.*

   *To Branch a/c*

   *(all assets individually including transit items recorded by branch)*

3. *For incorporating the Liabilities of the branch:*

   *Branch a/c Dr.*

*To Branch Liabilities a/c (all liabilities individually excluding HO a/c )*

## ***Question 32 (ICAI Module)***

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

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

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

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

*(a) A Profit &Loss account for (i) H.O. (ii) the branch (iii) the entire business.*

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

| | H.O. | | Branch | |
|---|---|---|---|---|
| | Rs. | Rs. | Rs. | Rs. |
| Raw materials purchased | 35,000 | | | |
| Direct wages | 1,08,500 | | | |
| Factory overheads | 39,000 | | | |
| Stock on 1-1-20X1 | | | | |
| Raw materials | 1,800 | | | |
| Finished goods | 13,000 | | 9,200 | |
| Debtors | 37,000 | | | |
| Cash | 22,000 | | 1,000 | |
| Administrative Salaries | 13,900 | | 4,000 | |
| Salesmen Salaries | 22,500 | | 6,200 | |
| Other administrative & | | | | |
| selling overheads | 12,500 | | 2,300 | |
| Inter-unit accounts | 5,000 | | | 2,000 |
| Capital | | 50,000 | | |
| Sundry Creditors | | 13,000 | | |
| Provision for unrealized profit in stock | | 1,200 | | |
| Sales | | 2,00,000 | | 65,200 |
| Goods sent to Branch | | 46,000 | | |
| Goods received from H.O. | | | 44,500 | |
| | **3,10,200** | **3,10,200** | **67,200** | **67,200** |

**Notes:**

(1) On 28thDec., 20X1 the branch remitted Rs.1,500 to the H.O. and this has not yet been recorded in the H.O. books. Also, on the same date, the H.O. dispatched goods to the branch invoiced at Rs.1,500 and these too have not yet been entered into the branch books. It is the company's policy to adjust items in transit in the books of the recipient.

(2) ThestockofrawmaterialsheldattheH.O.on31stDec.,20X1 was valued at Rs.2,300.

(3) You are advised that:

- There were no stock losses incurred at the H.O. or at the branch.
- It is KP's practice to value finished goods stock at the H.O. at factory cost.
- There were no opening or closing stock of work-in-progress.

Branch employees are entitled to a bonus of Rs. 156 under a bilateral agreement.

## SOLUTION

**In the books of KP**

*Trading and Profit & Loss Account for the year ended 31stDec., 20X1*

| | H.O. Rs. | Branch Rs. | Total Rs. | | H.O. Rs. | Branch Rs. | Total Rs. |
|---|---|---|---|---|---|---|---|
| To Material consumed (W.N.1) | 34,500 | - | 34,500 | By Sales | 2,00,000 | 65,200 | 2,65,200 |
| To Wages | 1,08,500 | - | 1,08,500 | By Goods Sent to Branch | 46,000 | - | - |
| To Factory Overheads | 39,000 | - | 39,000 | | | | |
| To Opening stock of finished goods | 13,000 | 9,200 | 22,200 | By Closing stock including transit (W.N.2) | 15,000 | 9,560 | 24,560 |
| To Goods from H.O. | | 46,000 | | | | | |
| To Gross Profit c/d (W.N.3) | 66,000 | 19,560 | 85,560 | | | | |
| | **2,61,000** | **74,760** | **2,89,760** | | **2,61,000** | **74,760** | **2,89,760** |
| To Admn. Salaries | 13,900 | 4,000 | 17,900 | By Gross Profit b/d | 66,000 | 19,560 | 85,560 |
| To Salesmen Salaries | 22,500 | 6,200 | 28,700 | | | | |
| To Other Admn. & selling Overheads | 12,500 | 2,300 | 14,800 | | | | |
| To Stock Reserve (W.N.4) | 47 | - | 47 | | | | |
| To Bonus to Staff | - | 156 | 156 | | | | |
| **To Net Profit** | **17,053** | **6,904** | **23,957** | | | | |
| | **66,000** | **19,560** | **85,560** | | **66,000** | **19,560** | **85,560** |

**Balance Sheet as on 31st Dec., 20X1**

| | | Rs. | H.O. Rs. | Branch Rs. | Total Rs. | | H.O. Rs. | Branch Rs. | Total Rs. |
|---|---|---|---|---|---|---|---|---|---|
| Capital | | | 50,000 | - | 50,000 | Fixed Assets | - | - | - |
| Profit: | H.O. | 17,053 | | | | Current Assets: | | | |
| | Branch | 6,904 | 23,957 | | 23,957 | Raw material | 2,300 | | 2,300 |
| Trade Creditors | | | | | | Finished Goods | | | |
| | | | 13,000 | | 13,000 | | 15,000 | 9,560 | 23,313* |
| Bonus Payable | | | | 156 | 156 | (Less Stock Res.) | | | |
| H.O. Account* | | | | 10,404 | | Debtors | 37,000 | - | 37,000 |
| Stock Reserve (W.N.4) | | | 1,247 | | | Cash (including transit item) | 23,500 | 1,000 | 24,500 |
| | | | | | | Branch A/c | 10,404* | | |
| | | | 88,204 | 10,560 | 87,113 | | 88,204 | 10,560 | 87,113 |

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

** (5,000 + 6,904) – 1500 = Rs. 10,404.

**Working Notes:**

(1) Material Consumed

Opening raw material + Raw Material Purchased – Closing raw material

= 1,800 + 35,000 - 2,300 = 34,500

(2) Closing stock at head office

(a) Calculation of total factor cost = Material consumed + Wages + Factory overhead

= 34,500 + 1,08,500 + 39,000 = 1,95,000

(b) Cost (factory cost) of goods sold = Sales – Gross profit

= 2,00,000 – 2,00,000 x 70% = 1,40,000

(c) Stock transferred to branch = 46,000 x 100/115 = 40,000

(d) Closing stock=1,95,000–1,40,000–40,000=15,000

(3) Gross profit of Branch= Sales x Gross profitratio

= 65,200 x 30% =19,560

(4) Closing stock reserve= 9,560 x 15/115 = 1,246

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

**QUESTIONS ON FOREIGN BRANCH**

Please refer AS 11 for understanding the Accounting of Foreign Branch.

**Important points for Foreign branch:**

If question does not mention the nature of branch (i.e, Integral or Non-integral) then: -

Check whether separate conversion rate of Fixed assets is given or not?

i) If it is given separately: - Assume Integral

If it is not given separately: - Assume Non-integral

## Question 33 (ICAI Module)

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

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

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

**Additional information:**

(a) Computers were acquired from a remittance of US $ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.

(b) Unsold stock of Mumbai branch was worth Rs.4,20,000 on 31stMarch, 20X2.

(c) The rates of exchange may be taken as follows:

- on 1.4.20X1 @ Rs. 40 per US$
- on 31.3.20X2 @ Rs. 42 per US$
- average exchange rate for the year @Rs. 41 per US$
- conversion in $ shall be made upto two decimal accuracy.

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

NewYork books and there were no items pending reconciliation.

## SOLUTION

**M/s Carlin**

Mumbai Branch Trial Balance in (US $) as on 31stMarch, 20X2

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

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

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

**Balance Sheet of Mumbai Branch**
**as on 31stMarch, 20X2**

| Liabilities | | US $ | Assets | US $ | US $ |
|---|---|---|---|---|---|
| New York Office A/c | 39,609.18 | | Computers | 6,000.00 | |
| Less: Net Loss | (17,685.38) | 21,923.80 | Less: Depreciation | (3,600.00) | 2,400.00 |
| Sundry creditors | | 7,142.86 | Closing stock | | 10,000.00 |
| Bills payable | | 5,714.29 | Sundry debtors | | 9,523.81 |
| | | | Bank balance | | 10,000.00 |
| | | | Bills receivable | | 2,857.14 |
| | | **34,780.95** | | | **34,780.95** |

## Question 34 (ICAI Module)

Alpha having head office in Mumbai has a branch in Nagpur. The branch at Nagpur is an independent branch maintaining separate books of account. On 31.3.20X1, it was found that the goods dispatched by head office for Rs. 2,00,000 was received by the branch only to the extent of Rs. 1,50,000. The balance goods are in transit. What is the accounting entry to be passed by the branch for recording the goods in transit, in its books?

## SOLUTION

| | | | |
|---|---|---|---|
| Nagpur branch must include the inventory in its books as goods in transit. | | | |
| The following journal entry must be made by the branch: | | | |
| Goods in transit A/c | Dr. | 50,000 | |
| To Head office A/c | | | 50,000 |
| [Being Goods sent by Head office is still in transit on the closing date] | | | |

## Question 35 (RTP Nov 19) (Dependent Branch – Debtors Method)

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

| | Rs. |
|---|---|
| Stock at Branch on January 1, 2018 | 10,000 |
| Branch Debtors on January 1, 2018 | 4,000 |
| Branch Debtors on Dec. 31, 2018 | 4,900 |
| Petty cash at branch on January 1, 2018 | 500 |
| Furniture at branch on January 1, 2018 | 2,000 |
| Prepaid fire insurance premium on January 1, 2018 | 150 |
| Salaries outstanding at branch on January 1, 2018 | 100 |
| Good sent to Branch during the year | 80,000 |
| Cash Sales during the year | 1,30,000 |

| | | |
|---|---|---|
| Credit Sales during the year | | 40,000 |
| Cash received from debtors | | 35,000 |
| Cash paid by the branch debtors directly to the Head Office | | 2,000 |
| Discount allowed to debtors | | 100 |
| Cash sent to branch for Expenses: | | |
| Rent | 2,000 | |
| Salaries | 2,400 | |
| Petty Cash | 1,000 | |
| Annual Insurance up to March 31, 2019 | 600 | 6,000 |
| Goods returned by the Branch | | 1,000 |
| Goods returned by the debtors | | 2,000 |
| Stock on December 31,2018 | | 5000 |
| Petty Cash spent by branch | | 850 |
| Provide depreciation on furniture 10% p.a. | | |

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

## SOLUTION

**Pune Branch Account**

| Particulars | | Rs. | Particulars | Rs. | Rs. |
|---|---|---|---|---|---|
| To Opening Balance | | | By Opening Balance: | | |
| Stock | | 10,000 | Salaries outstanding | | 100 |
| Debtors | | 4,000 | By Remittances: | | |
| Petty Cash | | 500 | Cash sales | 1,30,000 | |
| Furniture | | 2,000 | Cash received from debtors | 35,000 | |
| Prepaid Insurance | | 150 | Cash paid by Debtors directly to H.O | 2,000 | |
| To Goods sent to Branch Account | | 80,000 | Received from Insurance Company | 1,000 | 1,68,000 |
| To Bank (expenses) | | | By Goods sent to branch | | 1,000 |
| Rent | 2,000 | | (return of goods by | | |
| Salaries | 2,400 | | the branch to H.O.) | | |
| Petty Cash | 1,000 | | By Closing Balances: | | |
| Insurance | 600 | 6,000 | Stock | | 5,000 |
| To Net Profit | | 78,950 | Petty Cash | | 650 |
| | | | Debtors | | 4,900 |
| | | | Furniture (2,000 – 10% depreciation) | | 1,800 |

| | | | | | |
|---|---|---|---|---|---|
| | | | Prepaid insurance (1/4 x Rs. 600) | | 150 |
| | | **1,81,600** | | | **1,81,600** |

**Working Note:**

| Calculation of petty cash balance at the end: | Rs. |
|---|---|
| Opening balance | 500 |
| Add: Cash received from the Head Office | 1,000 |
| Total Cash with branch | 1,500 |
| Less: Spent by the branch | 850 |
| Closing balance | 650 |

## Question 36 (MTP - Nov 19) (RTP - Nov 20) – (Foreign Branch)

M & S Co. of Lucknow has a Branch in Canberra, Australia (as an integral foreign operation of M & S Co.). At the end of 31st March 2019, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.

| | **Lucknow office (Rs. In thousands)** | | **Canberra Branch (Aust. Dollars in thousands)** | |
|---|---|---|---|---|
| | **Dr.** | **Cr.** | **Dr.** | **Cr.** |
| Capital | | 2,000 | | |
| Reserves & Surplus | | 1,000 | | |
| Land | 500 | | | |
| Buildings (Cost) | 1,000 | | | |
| Buildings Dep. Reserves | | 200 | | |
| Plant and Machinery (Cost) | 2,500 | | 200 | |
| Plant and Machinery Dep. | | | | |
| Reserves | | 600 | | 130 |
| Debtors/Creditors | 280 | 200 | 60 | 30 |
| Stock as on 1- 4-2018 | 100 | | 20 | |
| Branch Stock Reserve | | 4 | | |
| Cash & Bank Balances | 10 | | 10 | |
| Purchases/Sales | 240 | 520 | 20 | 123 |
| Goods sent to Branch | | 100 | 5 | |
| Managing Partner's Salary | 30 | | | |
| Wages and Salary | 75 | | 45 | |
| Rent | | | 12 | |
| Office Expenses | 25 | | 18 | |
| Commission Receipts | | 256 | | 100 |

| | | | | |
|---|---|---|---|---|
| Branch/HO Current Account | 120 | | | 7 |
| | **4,880** | **4,880** | **390** | **390** |

The following information is also available:

(i) Stock as at 31stMarch, 2019

Lucknow Rs. 1,50,000

Canberra A$ 3125 (all stock are out of purchases made at Abroad)

(ii) Head Office always sent goods to the Branch at cost plus 25%

(iii) Provision is to be made for doubtful debts at5%

(iv) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down value.

You are required to:

(I) Convert the Branch Trial Balance into rupees by using the following exchange rates:

| | |
|---|---|
| Opening rate | 1 A $ = Rs. 50 |
| Closing rate | 1 A $ = Rs. 53 |
| Average rate | 1 A $ = Rs. 51.00 |
| For Fixed Assets | 1 A $ = Rs. 46.00 |

Prepare Trading and Profit and Loss Account for the year ended 31st March 2019 showing to the extent possible H.O. results and Branch results separately.

## SOLUTION

**M & S Co. Ltd.**

**Canberra, Australia Branch Trial Balance As on 31st March 2019**

| | **($ 'thousands)** | | | | **(Rs.' thousands)** |
|---|---|---|---|---|---|
| | **Dr.** | **Cr.** | **Conversion rate per $** | **Dr.** | **Cr.** |
| Plant & Machinery (cost) | 200 | | Rs. 46 | 9,200 | |
| Plant & Machinery Dep. Reserve | | 130 | Rs. 46 | | 5,980 |
| Trade receivable/payable | 60 | 30 | Rs. 53 | 3,180 | 1,590 |
| Stock (1.4.2018) | 20 | | Rs. 50 | 1,000 | |
| Cash & Bank Balances | 10 | | Rs. 53 | 530 | |
| Purchase / Sales | 20 | 123 | Rs. 51 | 1,020 | 6,273 |
| Goods received from H.O. | 5 | | Actual | 100 | |
| Wages & Salaries | 45 | | Rs. 51 | 2,295 | |
| Rent | 12 | | Rs. 51 | 612 | |
| Office expenses | 18 | | Rs. 51 | 918 | |
| Commission Receipts | | 100 | Rs. 51 | | 5,100 |
| H.O. Current A/c | | 7 | Actual | | 120 |
| | | | | 18,855 | 19,063 |
| Foreign Exchange Loss (bal. fig.) | | | | 208 | |

| | | | | | |
|---|---|---|---|---|---|
| | 390 | 390 | | 19,063 | 19,063 |
| Closing stock | 3.125 | | 53 | 165.625 | |

**Trading and Profit & Loss Account for the year ended 31st March, 2019**

(Rs.'000)

| | | H.O. | Branch | Total | | | H.O. | Branch | Total |
|---|---|---|---|---|---|---|---|---|---|
| To | Opening Stock | 100 | 1,000.000 | 1,100.000 | By | Sales | 520 | 6,273.000 | 6,793.000 |
| To<br>To | Purchases<br>Goods received | 240 | 1,020.000 | 1,260.000 | By | Goods sent to Branch | 100 | – | 100.000 |
| | from Head Office | – | 100.000 | 100.000 | By | Closing Stock | 150 | 165.625 | 315.625 |
| To | Wages & Salaries | 75 | 2,295.000 | 2,370.000 | | | | | |
| To | Gross profit c/d | 355 | 2,023.625 | 2,378.625 | | | | | |
| | | 770 | 6,438.625 | 7,208.625 | | | 770 | 6,438.625 | 7,208.625 |
| To | Rent | – | 612.000 | 612.000 | By | Gross profit b/d | 355 | 2,023.625 | 2,378.625 |
| To<br>To | Office expenses<br>Provision for | 25 | 918.000 | 943.000 | By | Commission receipts | 256 | 5,100.000 | 5,356.000 |
| | doubtful debts @ 5% | 14 | 159.000 | 173.000 | | | | | |
| To | Depreciation (W. N.) | 460 | 644.000 | 1,104.000 | | | | | |
| To | Balance c/d | 112 | 4,790.625 | 4,902.625 | | | | | |
| | | 611 | 7,123.625 | 7,734.625 | | | 611 | 7,123.625 | 7,734.625 |
| To | Managing Partner's Salary | | | 30.000 | By | Balance b/d | | | 4,902.625 |
| To | Exchange Loss | | | 208.000 | By | Branch stock reserve | | | 4.000 |
| To | Balance c/d | | | 4,668.625 | | | | | |
| | | | | **4,906.625** | | | | | **4,906.625** |

**Working Note:**

**Calculation of Depreciation**

| | H.O Rs. '000 | Branch Rs. '000 |
|---|---|---|
| Building – Cost | 1,000 | |
| Less: Dep. Reserve | (200) | |
| | 800 | |
| Depreciation @ 10% (A) | 80 | |

| | | |
|---|---|---|
| Plant & Machinery Cost | 2,500 | 9,200 |
| Less: Dep. Reserve | (600) | (5,980) |
| | 1,900 | 3,220 |
| Depreciation @ 20% (B) | 380 | 644 |
| Total Depreciation (A+B) | 460 | 644 |

Note: As the closing stock of Branch does not consist any stock transferred from M&S Co., there is no need to create closing stock reserve. But the opening branch stock reserve has to be reversed in the P&LA/c.

# TOPIC 6
# DEPARTMENTAL ACCOUNTS

### ALLOCATION AND APPORTIONMENT OF EXPENSES

- Irrespective of the fact whether the departments are related or unrelated, the department-wise figures of sales, purchases, expenses incurred exclusively for a particular department are readily ascertained and allocated to those departments.
- However, common expenses incurred for the benefit of many departments are also to be taken into account to ascertain the overall profitability of the various departments.
- These common expenses need to be apportioned to the various departments on some equitable basis.
- The common expenses which cannot be conveniently apportioned to many departments should preferably be shown in the general profit and loss account e.g., debenture interest payable by the company, interest on loan, salary of general manager, managing director's salary etc.

Some of the common bases used for apportioning the common expense/incomes are summarized in the following table:

| S.No. | Item of income/expense | Commonly used basis for apportionment |
|---|---|---|
| 1. | Depreciation of assets, fire insurance, repair and maintenance expenses of assets etc. | Asset value of each department |
| 2. | Canteen expenses, common room expenses, medical expenses and other welfare expenses | Number of Employees in each department |
| 3. | Rent, rates, taxes, repairs and maintenance of 'building | Area of each department |
| 4. | Discount received, carriage inward etc. | Purchases of each department |
| 5. | Discount allowed, bad debts, carriage outward, salesmen salary and commission Packing and delivery expenses etc. | Sales (turnover) of each department |
| 6. | P.F. and E.S.I, contributions | Salaries of Each department |
| 7. | Lighting | Number of light points in each department or by separate meter (if installed) |
| 8. | Advertising | Turnover of Each department |

***IMPORTANT NOTES TO SOLVE THE QUESTIONS***

1) *Closing stock and Opening stock of transferee department may come from transferor department at COST or COST plus Profit Margin.*
2) *If goods are transferred at Original Cost only then no need to calculate unrealised profit (Stock Reserve).*
3) *If goods are transferred at Cost plus Margin by transferor department then SR (Unrealised profit) must be included in the Closing stock of Transferee department if some of the transferred goods are unsolved.*
4) *To find out the percentage of Margin earned by transferor on Stock Transfer: - Either question will provide percentage of profit or if percentage of profit is not given then we will assume that stock transfer is made at Normal Selling Price i.e., Gross Profit Percentage is to be calculated for transferor department.*
   *On opening stock, if gross profit percentage of last year is not given then, current year gross profit percentage is applied on opening stock also.*
5) *How much percentage of stock is included in opening and closing stock of transferee department which came from transferor department?*
   a) *Either Given in Question*
      *OR*
   b) *If not given, we will assume that stock of transferee contains Own Expense and Transferred goods in proportion of: -*
      i) *Total Own Expense during the year*
         *&*
      ii) *Total Transferred Goods during the year*

*If separate transfer values are not given in the question then we will assume that "Transfer to" is included in sales and "Transfer from" is included in purchase.*

## Question 37 (ICAI Module)

Z Ltd. has three departments and submits the following information for the year ending on 31st March, 20X1:

| | A | B | C | Total (Rs.) |
|---|---|---|---|---|
| Purchases (units) | 6,000 | 12,000 | 14,400 | |
| Purchases (Amount) | | | | 6,00,000 |
| Sales (Units) | 6,120 | 11,520 | 14,976 | |
| Selling Price (per unit) Rs. | 40 | 45 | 50 | |
| Closing Stock (Units) | 600 | 960 | 36 | |

You are required to prepare departmental trading account of Z Ltd., assuming that the rate of profit on sales is uniform in each case.

## SOLUTION

**Departmental Trading Account for the year ended on 31stMarch, 20X1**

| Particulars | | A | B | C | Particulars | | A | B | C |
|---|---|---|---|---|---|---|---|---|---|
| | | Rs. | Rs. | Rs. | | | Rs. | Rs. | Rs. |
| To | Opening Stock (W.N.4) | 11,520 | 8,640 | 12,240 | By | Sales<br>A- 6120 x 40<br>B- 11,520 x 45<br>C- 4,976 x 50<br>Closing Stock (W.N.4) | 2,44,800 | 5,18,400 | 7,48,800 |
| To | Purchases (W.N.2) | 96,000 | 2,16,000 | 2,88,000 | By | | 9,600 | 17,280 | 720 |
| To | Gross Profit (b.f.) | 1,46,880 | 3,11,040 | 4,49,280 | | | | | |
| | | **2,54,400** | **5,35,680** | **7,49,520** | | | **2,54,400** | **5,35,680** | **7,49,520** |

**Working Notes:**

(1) Profit Margin Ratio

| | **Selling price of unit purchased:** | | **Rs.** |
|---|---|---|---|
| | Department A | 6,000 x40 | 2,40,000 |
| | Department B | 12,000 x45 | 5,40,000 |
| | Department C | 14,400 x50 | 7,20,000 |
| | Total Selling Price | | 15,00,000 |
| | Less: Purchase (Cost)Value | | (6,00,000) |
| | Gross Profit | | 9,00,000 |
| | **Profit Margin Ratio = 9,00,000 x100 = 60%** | | **15,00,000** |

(2) Statement showing department-wise per unit Cost and PurchaseCost

| | A | B | C |
|---|---|---|---|
| | Rs. | Rs. | Rs. |
| Selling Price (Per unit) (Rs.) | 40 | 45 | 50 |
| Less: Profit Margin @ 60% (Rs.) Profit Margin is uniform for all depts at 60% | (24) | (27) | (30) |
| Purchase price per unit (Rs.) | 16 | 18 | 20 |
| Number of units purchased | 6,000 | 12,000 | 14,400 |
| (Purchase cost per unit x Units purchased) | 96,000 | 2,16,000 | 2,88,000 |

(3) Statement showing calculation of department-wise Opening Stock (in Units)

| | A | B | C |
|---|---|---|---|
| Sales (Units) | 6,120 | 11,520 | 14,976 |
| Add: Closing Stock (Units) | 600 | 960 | 36 |
| | 6,720 | 12,480 | 15,012 |
| Less: Purchases (units) | (6,000) | (12,000) | (14,400) |
| Opening Stock (Units) | 720 | 480 | 612 |

(4) Statement showing department-wise cost of Opening Stock and Closing Stock

| | A | B | C |
|---|---|---|---|
| Cost of Opening Stock (Rs.) | 720 x 16 | 480 x 18 | 612 x 20 |
| Rs. | 11,520 | 8,640 | 12,240 |
| Cost of Closing Stock | 600 x 16 | 960 x 18 | 36 x 20 |
| Rs. | 9,600 | 17,280 | 720 |

## Question 38 (ICAI Module)

Department P sells goods to Department S at a profit of 25% on cost and to Department Q at a profit of 15% on cost. Department S sells goods to P and Q at a profit of 20% and 30% on sales respectively. Department Q sells goods to P and S at 20% and 10% profit on cost respectively.

Departmental Managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated. Departmental profits after charging Manager's commission, but before adjustment of unrealised profits are as below:

| | Rs. |
|---|---|
| Department P | 90,000 |
| Department S | 60,000 |
| Department Q | 45,000 |

Stock lying at different Departments at the end of the year are as below:

| | | | Figures in Rs. |
|---|---|---|---|
| | DEPARTMENTS | | |
| | P | S | Q |
| Transfer from P | - | 18,000 | 14,000 |
| Transfer from S | 48,000 | - | 38,000 |
| Transfer from Q | 12,000 | 8,000 | - |

Find out correct Departmental Profits after charging Managers' Commission.

## SOLUTION

**Calculation of correct Departmental Profits**

| | Department P(Rs.) | Department S(Rs.) | Department Q(Rs.) |
|---|---|---|---|
| Profit after charging Manager's Commission | 90,000 | 60,000 | 45,000 |
| Add: Manager's Commission (1/9) | 10,000 | 6,667 | 5,000 |
| | 1,00,000 | 66,667 | 50,000 |
| Less: Unrealised profit on Stock (WN) | (5,426) | (21,000) | (2,727) |
| Profit Before Manager's Commission | 94,574 | 45,667 | 47,273 |
| Less: Manager's Commission 10% | (9,457) | (4,567) | (4,727) |
| Correct Profit after Manager's Commission | 85,117 | 41,100 | 42,546 |

**Working Notes:**

| | Department P (Rs.) | Department S (Rs.) | Department Q (Rs.) | Total (Rs.) |
|---|---|---|---|---|
| Unrealised Profit of: | | | | |
| Department P | - | 25/125X18,000 =3,600 | 15/115X14,000 =1,826 | 5,426 |
| Department S | 20/100X48,000 =9,600 | - | 30/100X38,000 =11,400 | 21,000 |
| Department Q | 20/120X12,000 =2,000 | 10/110X8,000 =727 | | 2,727 |

## Question 39 (ICAI Module)

Gram Udyog, a retail store, has two departments, 'Khadi and Silks' for each of which stock account and memorandum 'mark-up' accounts are kept. All the goods supplied to each department are debited to the stock account at cost plus a 'mark-up', which together make-up the selling-price of the goods and in the account of the sale proceeds of the goods are credited. The amount of 'mark-up' is credited to the Departmental Mark-up Account. If the selling price of any goods is reduced below its normal selling price, the reduction 'marked down' is adjusted both in the Stock Account and the Departmental 'Mark-up' Account. The rate of 'Mark-up' for Khadi Department is 33- 1/3% of the cost and for Silks Department it is 50% of the cost.

The following figures have been taken from the books for the year ended December 31,20X1:

| | Khadi Deptt. | Silks Deptt. |
|---|---|---|
| | Rs. | Rs. |
| Stock as on January 1stat cost | 10,500 | 18,600 |
| Purchases | 75,900 | 93,400 |
| Sales | 95,600 | 1,25,000 |

(1) The stock of Khadi on January 1, 20X1 included goods the selling price of which had been marked down by Rs.1,260. These goods were sold during the year at the reduced prices.

(2) Certain stock of the value of Rs.6,900 purchased for the Khadi Department were later in the year transferred to the Silks department and sold for Rs.10,350. As a result, though cost of the goods is included in the Khadi Department the sale proceeds have been credited to the Silks Department.

(3) During the year 20X1 to promote sales the goods were marked down as follows:

| | Cost (Rs.) | Marked Down (Rs.) |
|---|---|---|
| Khadi | 5,600 | 360 |
| Silk | 10,000 | 2,000 |

All the goods marked down, were sold except Silks of the value of Rs.5,000 marked down by Rs.1,000.

(4) At the time of stock-taking on December 31, 20X1 it was discovered that Khadi cloth of the cost of Rs.390 was missing and it was decided that the amount be written off.

You are required to prepare for both the departments for the year 20X1.

(a) The Memorandum Stock Account; and

(b) The Memorandum Mark-up Account.

## SOLUTION

**Silk Stock Account**

| 20X1 | | Rs. | 20X1 | Rs. |
|---|---|---|---|---|
| To Balance b/d | | | By Sales A/c | 1,25,000 |
| To Cost | 18,600 | | By Mark-up A/c | 2,000 |
| Mark-up @50% | 9,300 | 27,900 | By Balance c/d (b.f.) | 51,350 |
| To Purchases | 93,400 | | | |
| Mark-up @50% | 46,700 | 1,40,100 | | |
| To Khadi A/c | 6,900 | | | |
| Mark-up@50% | 3,450 | 10,350 | | |
| | | **1,78,350** | | **1,78,350** |

**Silk Mark-up Account**

| 20X1 | Rs. | 20X1 | Rs. |
|---|---|---|---|
| To Stock A/c | 2,000 | By Balance b/d | 9,300 |
| To Profit & Loss A/c (b.f.) | 41,000 | By Stock A/c | 46,700 |
| To Balance c/d [(1/3* of {51,350 + 1,000})- 1,000] | 16,450 | By Stock A/c | 3,450 |
| | **59,450** | | **59,450** |

* 1/2 on cost is equal to 1/3 on sales

**Working Notes:**

Verification of Profit

| | Rs. |
|---|---|
| Sales | 1,25,000 |
| Add: Mark down in goods sold | 1,000 |
| | 1,26,000 |
| Gross Profit 1/3 | 42,000 |
| Less: Mark down | (1,000) |
| Gross profit as per books | 41,000 |

**Khadi Stock Account**

| 20X1 | | | | 20X1 | | | |
|---|---|---|---|---|---|---|---|
| | To Balance b/d (10,500 + 2,2400) | | 12,740 | | By Sales | | |
| | | 75,900 | | | Mark-up A/c @33- 1/3% | 2,300 | 9,200 |
| | Mark-up @ 33- 1/3% | 25,300 | 1,01,200 | | By Loss of Stock A/c | 390 | |
| | | | | | Mark-up A/c @ 33- 1/3% | 130 | 520 |
| | | | | | By Mark-up A/c | | 360 |
| | | | | | By Balance | | 8,260 |
| | | | 1,13,940 | | | | 1,13,940 |

# [(10,500 x 33-1/3%) – 1,260] = Rs.2,240

**Khadi Mark-up Account**

| 20X1 | | | Rs. | 20X1 | | | Rs. |
|---|---|---|---|---|---|---|---|
| | To | Stock A/c (transfer) | 2,300 | | By | Balance b/d (3,500 – 1,260) | 2,240 |
| | To | Stock A/c (re-sale) | 130 | | | | |
| | To | Stock A/c (mark down) | 360 | | By | Stock A/c | 25,300 |
| | To | Profit & Loss A/c | 22,685 | | | | |
| | To | Balance (1/4 of Rs. 8,260) | 2,065 | | | | |
| | | | 27,540 | | | | 27,540 |

**Working Note:**

| | Rs. |
|---|---|
| Verification of Profit | 95,600 |
| Sales as per books | |
| Add: Mark-down (1,260+360) | 1,620 |
| | 97,220 |
| Gross Profit on fixed selling price @ 25% on Rs.97,220 | 24,305 |
| Less: Mark down | (1,620) |
| | 22,685 |

## Question 40 (ICAI Module)

A firm has two departments--Sawmill and Furniture. Furniture is made with wood supplied by the Sawmill department at its usual selling price. From the following figures prepare Departmental Trading and Profit and Loss Account for the year 20X2:

| | Sawmill | Furniture |
|---|---|---|
| | Rs. | Rs. |
| Opening Stock on1st January, 20X2 | 1,50,000 | 25,000 |
| Sales | 12,00,000 | 2,00,000 |
| Purchases | 10,00,000 | 7,500 |
| Supply to Furniture Department | 1,50,000 | -- |
| Selling expenses | 10,000 | 3,000 |
| Wages | 30,000 | 10,000 |
| Stock on 31stDecember, 20X2 | 1,00,000 | 30,000 |

The value of stocks in the furniture department consists of 75 per cent wood and 25 per cent other expenses. The Sawmill Department earned Gross Profit at 15 percent in 20X1. General expenses of the business as a whole came to Rs. 55,000.

## SOLUTION

**Department Trading and Profit and Loss Account**

| Particulars | Saw mill | Furniture | Particulars | Saw mill | Furniture |
|---|---|---|---|---|---|
| | Rs. | Rs. | | Rs. | Rs. |
| To opening stock | 1,50,000 | 25,000 | By sales | 12,00,000 | 2,00,000 |
| To purchase | 10,00,000 | 7,500 | By transfer to furniture dept. | 1,50,000 | |
| To wages | 30,000 | 10,000 | By Closing stock | 1,00,000 | 30,000 |
| To transfer from saw mill | - | 1,50,000 | | | |
| To gross profit | 2,70,000 | 37,500 | | | |
| | 14,50,000 | 2,30,000 | | 14,50,000 | 2,30,000 |
| To selling expenses | 10,000 | 3,000 | By Gross Profit | 2,70,000 | 37,500 |
| To Net Profit | 2,60,000 | 34,500 | | | |
| | **2,70,000** | **37,500** | | **2,70,000** | **37,500** |

**General Profit & Loss Account**

| Particulars | Amount Rs. | Particulars | Amount Rs. |
|---|---|---|---|
| ieneral Expenses | 55,000 | Net Profit from Saw Mill | 2,60,000 |
| | | iture | 34,500 |
| tock reserve (WN2) | 4,500 | stock reserve (opening WN-1) | 2,813 |
| Jet Profit | 2,37,813 | | |
| | **2,97,313** | | **2,97,313** |

**Working Notes:**

Calculation of Stock Reserve (opening), assuming FIFO

Rs. 25,000 X 75% wood X 15% = Rs. 2,813

Calculation of closing stock reserve

Gross Profit Rate of Saw Mill of 20X2:

Rs. 2,70,000 / (12,00,000 + 1,50,000) X 100 = 20%

Rs. 30,000 X 75% X 20% = Rs. 4,500