Oct' 21

JUNIOR CA

GROUP 1– ACCOUNTING COMPILER

(CA Intermediate)

Brief About Junior CA

Overview:

Junior CA community is being driven by the group of diversified professionals who are well versed in the field of Finance, Accounts, Strategy & Taxation. Our team has vast experience working with MNCs, consultancy and startups. Majority people are from the CA fraternity who help young professional aspirants to shape their career in a better way!!!

Our team supports students throughout their career journey by customized study planning, doubt solving with mentors, frequent exam support, career counselling & jobs.

Remember, our offerings are not limited to CA students.

About Compiler:

This Accounting compiler (Group-I) has been prepared to score excellent in CA intermediate exams. Compiler consist of last 6 attempts (from May'18 till Jan' 21) questions bank, chapter wise allocation of marks in the form of chart along with crisp content. Additionally, Question Bank of 6 attempts has been compiled Chapter-wise.

The Student is expected to solve the compiler's questions as it is very helpful to boost confidence and writing skill to clear CA Intermediate exams.

For any doubts or feedbacks, reach out to us on **juniorcaclub@gmail.com** or Visit our site **www.juniorca.com**

Acknowledgements:

CA Kaushal Soni | CA Hitesh Peswani | CA Purvi Kothari

Contact Us:

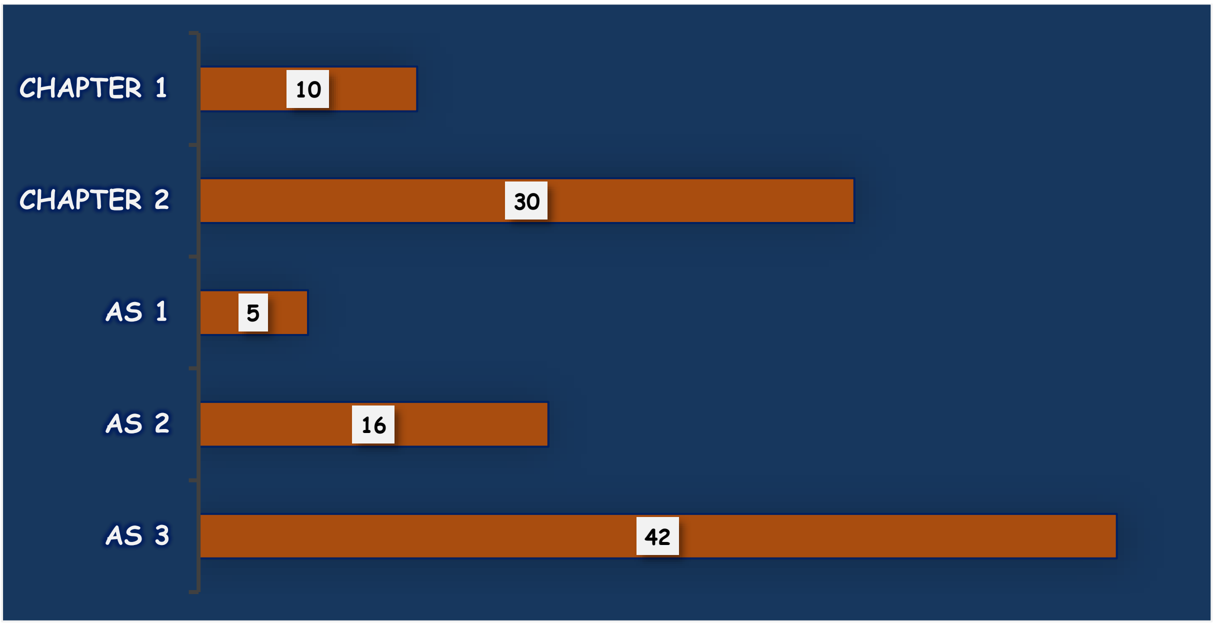
+91-9904304382

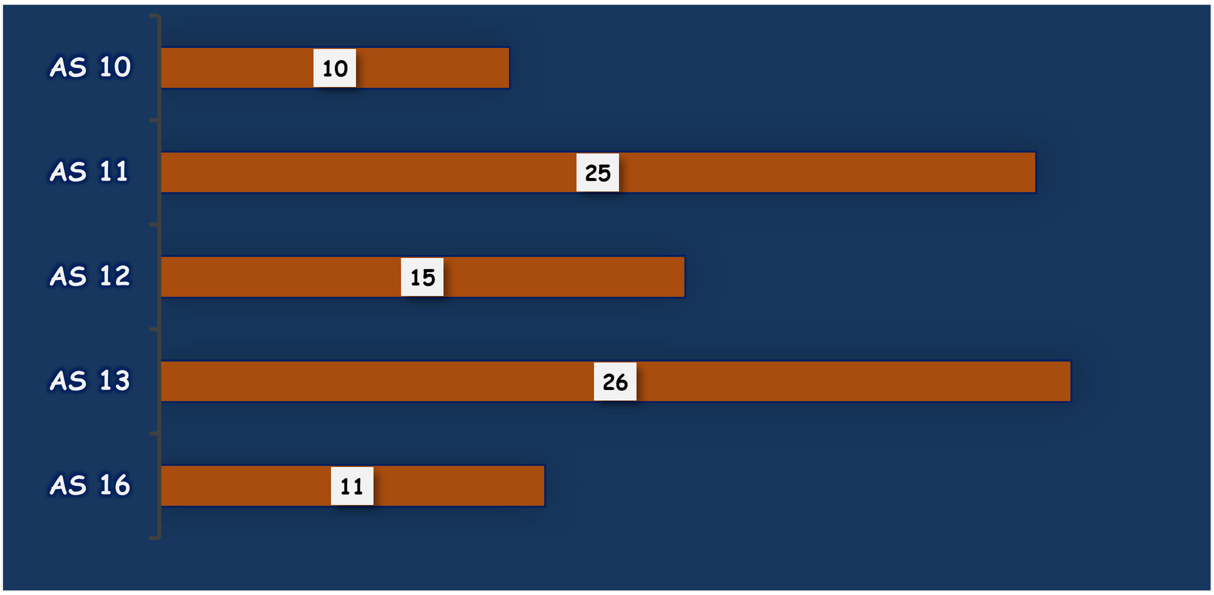
+91-9558592283

+91-7020987106

Best of Luck!

Marks Weightage (6 attempts till Jan 2021)





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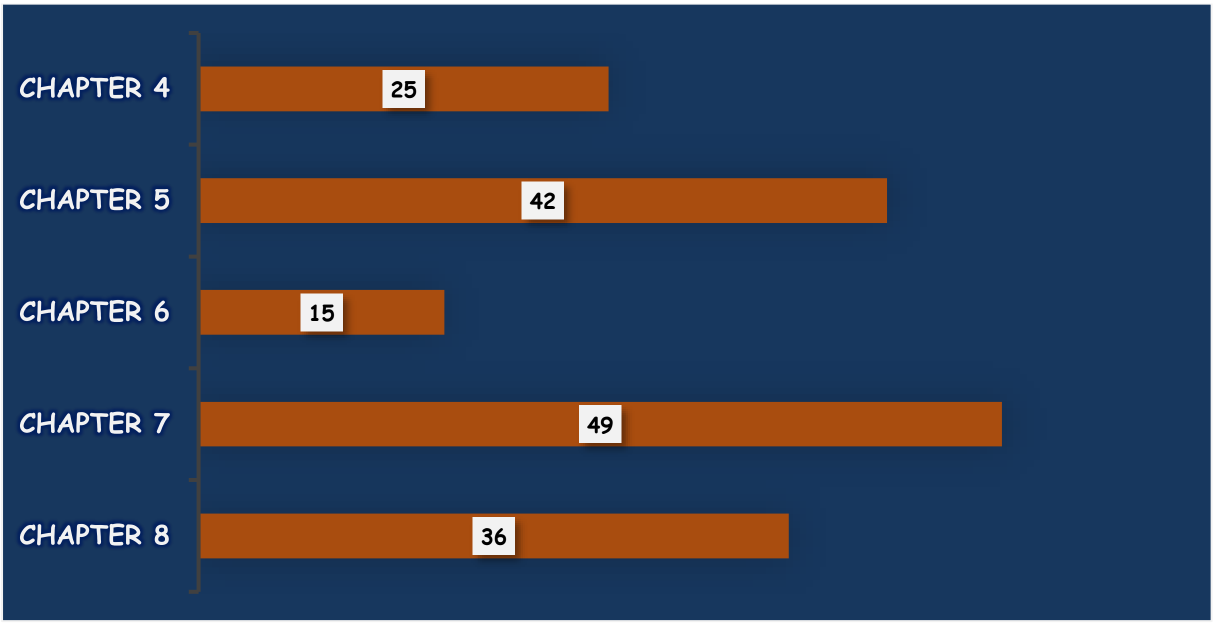

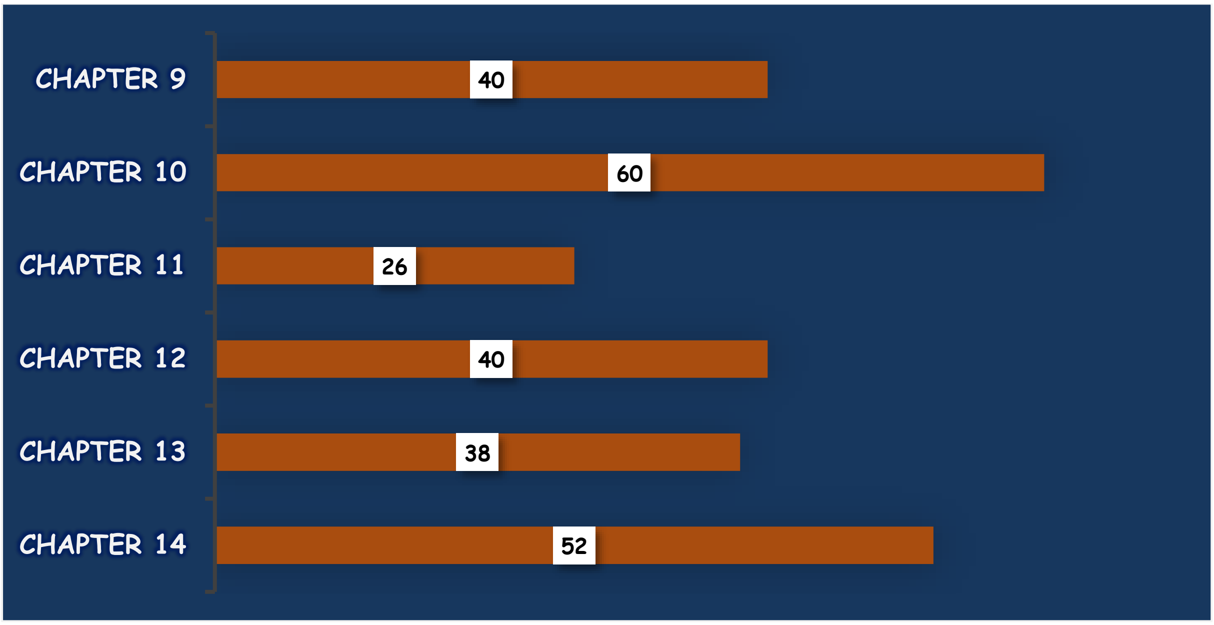

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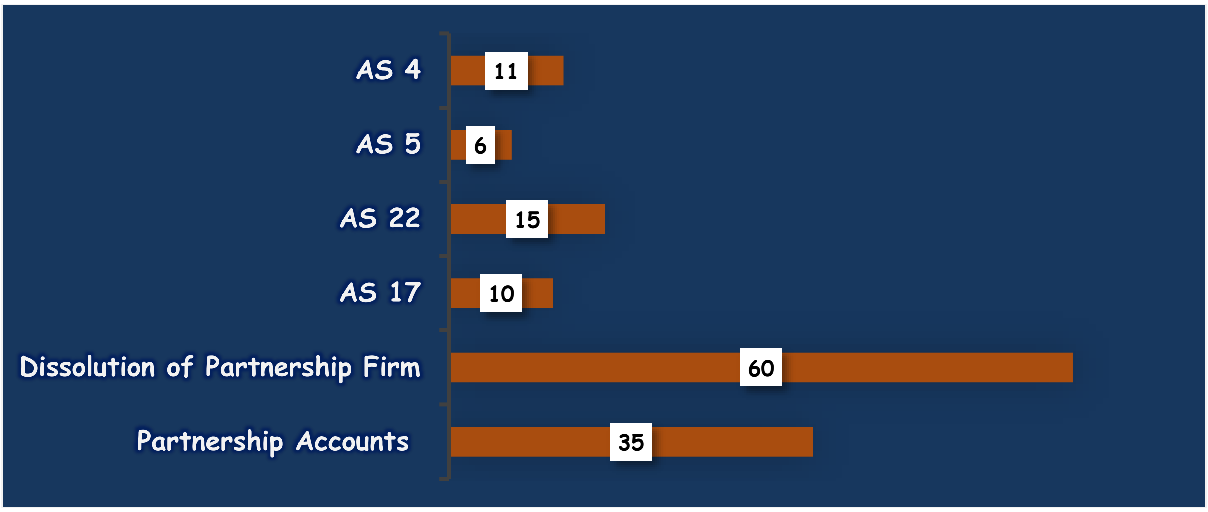

Note: Chapter reference is taken from Index provided below.

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CHAPTER 1 Introduction to Accounting Standards

Question 1
Nov 2018

Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. Discuss and explain the benefits of Accounting Standards.

Answer

Accounting Standards standardize diverse accounting policies with a view to eliminate the non- comparability of financial statements and improve the reliability of financial statements. Accounting Standards provide a set of standard accounting policies, valuation norms and disclosure requirements. Accounting standards aim at improving the quality of financial reporting by promoting comparability, consistency and transparency, in the interests of users of financial statements.

The following are the benefits of Accounting Standards:

(i) **Standardization of alternative accounting treatments**: Accounting Standards reduce to a reasonable extent confusing variation in the accounting treatment followed for the purpose of preparation of financial statements.

(ii) **Requirements for additional disclosures**: There are certain areas where important is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

(iii) **Comparability of financial statements**: The application of accounting standards would facilitate comparison of financial statements of different companies situated in India and facilitate comparison, to a limited extent, of financial statements of companies situated in different parts of the world. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in Accounting Standards adopted in different countries.

Question 2:
Jan 2021

List the Criteria for classification of non-corporate entities as level I Entities for the purpose of application of Accounting Standards as per The Institute of Chartered Accountants of India.

Answer

Criteria for classification of non-corporate entities as level 1 entities for purpose of application of Accounting Standards decided by the Institute of Chartered Accountants of India is given below:

Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

i. Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.
ii. Banks (including co-operative banks), financial institutions or entities carrying on insurance business.
iii. All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.
iv. All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year.
v. Holding and subsidiary entities of any one of the above.

CHAPTER 2

Framework for preparation and presentation of Financial Statements

Question 1:
May 2018

Explain main elements of Financial Statements.

Answer

The Framework for preparation and Presentation of financial statements classifies items of financial statements can be classified in five broad groups depending on their economic characteristics: Asset, Liability, Equity, Income/Gain and Expense/Loss.

Asset	Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise	
Liability	Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.	
Equity	Residual interest in the assets of an enterprise after deducting all its liabilities.	
Income/gain	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity Participants	
Expense/loss	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity other than those relating to distributions to equity participants.	
Permissible drawings to keep Capital intact		6,00,000 (18,00,000 – 12,00,000)

Question 2:
Nov – 2018

"One of the characteristics of the financial statement is neutrality." Do you agree with this statement? Explain in brief.

Answer

Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias. Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion based on the business results. Information contained in the financial statements must be free from bias. It should reflect a balanced view of the financial position of the company without attempting to present them in biased manner. Financial statements cannot be prepared with the purpose to influence certain division, i.e. they must be neutral.

Question 3:
Nov – 2019

The following extract of Balance Sheet of Prabhat Ltd. (Non-investment Company) was obtained:

Balance Sheet (Extract) as on 31st March, 2019

Liabilities	Rs.
Issued and subscribed capital:	
30,000, 12% preference shares of Rs.100 each (fully paid)	30,00,000
24,00,000 equity shares of Rs.10 each, Rs.8 paid up	1,92,00,000
Share suspense account	40,00,000
Reserves and Surplus:	
Securities premium	1,00,000
Capital reserves (Rs.3,00,000 is revaluation reserve)	3,90,000
Secured loans:	

Liabilities	Rs.
12% debentures	1,30,00,000
Unsecured loans:	
Public deposits	7,40,000
Current liabilities:	
Trade payables	6,90,000
Cash credit from SBI (short term)	9,30,000
Assets	**Rs.**
Investments in shares, debentures etc.	1,50,00,000
Profit & loss account (Dr. balance)	30,50,000

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 Prabhat Ltd. is an investment company?

Answer

Computation of effective capital

Description	Where Prabhat Ltd. Is a non-investment company Rs.	Where Prabhat Ltd. is an investment company Rs.
Paid up Share Capital		
30000 12% Preference Shares	30,00,000	30,00,000
24,00,000 Equity shares of Rs.8 paid Up	1,92,00,000	1,92,00,000
Capital reserves (3,90,000 – 3,00,000)	90,000	90,000
Securities premium	1,00,000	1,00,000
12% Debentures	1,30,00,000	1,30,00,000
Public Deposits	7,40,000	7,40,000

Description	Where Prabhat Ltd. Is a non-investment company Rs.	Where Prabhat Ltd. is an investment company Rs.
(A)	36,130,000	36,130,000
Investments	1,50,00,000	—
Profit and Loss account (Dr. balance)	30,50,000	30,50,000
(B)	1,80,50,000	30,50,000
Effective capital (A-B)	1,80,80,000	3,30,80,000

Question 4:
Nov 2020

What are the qualitative characteristics of the Financial Statements which improve the usefulness of the information furnished therein?

Answer

The qualitative characteristics are attributes that improve the usefulness of information provided in financial statements. Financial statements are required to show a true and fair view of the performance, financial position and cash flows of an enterprise. The framework for Preparation and Presentation of Financial Statements suggests that the financial statements should maintain the following four qualitative characteristics to improve the usefulness of the information furnished therein.

1. **Understandability**: The financial statements should present information in a manner as to be readily understandable by the users with reasonable knowledge of business and economic activities and accounting.

2. **Relevance:** The financial statements should contain relevant information only. Information, which is likely to influence the economic decisions by the users, is said to be relevant. Such information may help the users to evaluate past, present or future events or may help in confirming or correcting past evaluations. The relevance of a piece of information should be judged by its materiality. A piece of information is said to be material if its misstatement (i.e., omission or erroneous statement) can influence economic decisions of a user.

3. **Reliability:** To be useful, the information must be reliable; that is to say, they must be free from material error and bias. The information provided are not likely to be reliable unless transactions and events reported are faithfully represented. The reporting of transactions and events should be neutral, i.e. free from bias and be reported on the principle of 'substance over form'. The information in financial statements must be complete. Prudence should be exercised in reporting uncertain outcome of transactions or events.

4. **Comparability:** Comparison of financial statements is one of the most frequently used and most effective tools of financial analysis. The financial statements should permit both inter- firm and intra-firm comparison. One essential requirement of comparability is disclosure of financial effect of change in accounting policies.

Question 5:
Nov - 2020

Following is the balance sheet of M/s. S Traders as on 31st March, 2019:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital	1,50,000	Fixed Assets	1,05,000
11% Bank Loan	80,000	Closing Stock	76,000
Trade Payables	52,000	Debtors	68,000

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Profit & Loss A/c	56,000	Deferred Expenditure Cash & Bank	24,000 65,000
	3,38,000		**3,38,000**

Additional information:

1. Remaining life of Fixed Assets is 6 years with even use. The net realizable value of Fixed Assets as on 31st March, 2020 is Rs 90,000
2. Firm's sales & Purchases for the year ending 31st March, 2020 amounted to Rs 7,80,000 and Rs 6,25,000 respectively.
3. The cost & net realizable value of the stock as on 31st March, 2020 was Rs 60,000 and Rs 66,000 respectively.
4. General expenses (including interest on Loan) for the year 2019-20 were Rs 53,800
5. Deferred expenditure is normally amortized equally over 5 years starting from the financial year 2018-19 i.e. Rs 6,000 per year.
6. Debtors on 31st March, 2020 is Rs 65,000 of which Rs 5,000 is doubtful. Collection of another Rs 10,000 debtor depends on successful re-installation of certain products supplied to the customer.
7. Closing Trade payable Rs 48,000 which is likely to be settled at 5% discount.
8. There is a prepayment penalty of Rs 4,000 for bank loan outstanding.
9. Cash & Bank balances as on 31st March, 2020 is Rs 1,65,200.

Prepare Profit & Loss Account and Balance sheet for the year ended 31st March, 2020 assuming the firm is not a going concern

Answer

Profit and Loss Account of M/s S Traders for the year ended 31st March, 2020 (business is not a going concern)

Particulars	Rs.	Particulars	Rs.
To Opening Stock	76,000	By Sales	7,80,000

Particulars	Rs.	Particulars	Rs.
To Purchases	6,25,000	By Trade payables	2,400
To Depreciation (1,05,00 less 90,000)	15,000		
To Provision for doubtful debts	15,000		
To Deferred expenditure	24,000		
To Loan penalty	4,000		
To Net Profit (b.f.)	35,600		
	8,48,400		**8,48,400**

Balance Sheet M/s S Traders as on 31st March, 2020

Liabilities and Capital		Rs.	Assets	Rs.
Capital		1,50,000	Fixed assets	90,000
Profit & Loss A/c			Debtors	
opening balance	56,000		(65,000 less provision for doubtful debts Rs.15,000)	50,000
Profit earned during the Year	35,600	91,600	Closing stock	66,000
11% Loan		84,000	Cash & Bank balance	1,65,200
Trade payables		45,600		
		3,71,200		**3,71,200**

Question 6:
Jan – 2021

Explain how financial capital is maintained at historical cost? Kishor started a business on 1st April, 2019 with Rs.15,00,000 represented by 75,000 units of Rs.20 each. During the financial year ending on 31st March, 2020, he sold the entire stock for Rs.30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Kishore in the year 2019-20 if Financial Capital is maintained at historical cost.

Answer

Financial capital maintenance at historical cost: Under this convention, opening and closing assets are stated at respective historical costs to ascertain opening and closing equity. If retained profit is greater than or equals to zero, the capital is said to be maintained at historical costs. This means the business will have enough funds to replace its assets at historical costs. This is quite right as long as prices do not rise.

Maximum amount withdrawn by Kishore in year 2019-20 if Financial capital is maintained at historical cost.

Particulars	Financial Capital Maintenance at Historical Cost (Rs.)
Closing equity (₹ 30 x 75,000 units)	22,50,000 represented by cash
Opening equity	75,000 units x ₹ 20 = 15,00,000
Permissible drawings to keep Capital intact	7,50,000 (22,50,000 – 15,00,000)

Thus 7,50,000 is the maximum amount that can be withdrawn by Kishore in year 2019-20 if Financial capital is maintained at historical cost.

CHAPTER 2

Overview of Accounting Standards

AS 1 – Disclosure of Accounting Policies

Question 1:

Nov – 2018

HIL Ltd. was making provision for non-moving stocks based on no issues having occurred for the last 12 months up to 31.03.2017. The company now wants to make provision based on technical evaluation during the year ending 31.03.2018.

Total value of stock Rs.120 lakhs

Provision required based on technical evaluation
Rs.3.00 lakhs.

Provision required based on 12 months no
issues Rs.4.00 lakhs.

You are requested to discuss the following points in the light of Accounting Standard (AS)-1:

(i) Does this amount to change in accounting policy?

(ii) Can the company change the method of accounting?

Answer

The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made but the basis for making provision will not constitute accounting policy. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made.

In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from Rs.4 lakhs to Rs.3 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of HIL Ltd. for the year 2017-18 in the following manner:

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

AS 2 – Valuation of Inventory

Question 1:
May – 2019

Wooden Plywood Limited has a normal wastage of 5% in the production process. During the year 2017-18, the Company used 16,000 MT of Raw material costing Rs. 190 per MT. At the end of the year, 950 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books.

You are required to:

(1) Calculate the amount of abnormal loss.

(2) Explain the treatment of normal loss and abnormal loss. [In the context of AS-2 (Revised)

Answer

(i) As per AS 2 (Revised) 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognised as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

Amount of Abnormal Loss:

(ii) Material used 16,000 MT @ Rs.190 = Rs.30,40,000
Normal Loss (5% of 16,000 MT) 800 MT (included in calculation of cost of inventories)
Net quantity of material 15,200 MT

(iii) Abnormal Loss in quantity (950 800) 150 MT

(iv) Abnormal Loss Rs.30,000
[150 units @ Rs.200 (Rs.30,40,000/15,200)]

Amount of Rs.30,000 (Abnormal loss) will be charged to the Profit and Loss statement.

Question 2:
Nov – 2019

Mr. Rakshit gives the following information relating to items forming part of inventory as on 31st March, 2019. His factory produces product X using raw material A.

(i) 800 units of raw material A (purchased @ Rs.140 per unit). Replacement cost of raw material A as on 31st March, 2019 is Rs.190 per unit.

(ii) 650 units of partly finished goods in the process of producing X and cost incurred till date Rs.310 per unit. These units can be finished next year by incurring additional cost of Rs.50 per unit.

(iii) 1,800 units of finished product X and total cost incurred Rs.360 per unit.

Expected selling price of product X is Rs.350 per unit.

In the context of AS-2, determine how each item of inventory will be valued as on 31st March, 2019. Also, calculate the value of total inventory as on 31st March, 2019.

Answer

As per AS 2 (Revised) "Valuation of Inventories", materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at cost or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. In the given case, selling price of product X is Rs.350 and total cost per unit for production is Rs.360.
Hence the valuation will be done as under:

(i) 800 units of raw material will be valued at cost 140.

(ii) 650 units of partly finished goods will be valued at 300 per unit* i.e., lower of cost (Rs.310) or Net realizable value Rs.300 (Estimated selling price Rs.350 per unit less additional cost of Rs.50).

(iii) 1,800 units of finished product X will be valued at NRV of Rs.350 per unit since it is lower than cost Rs.360 of product X.

Valuation of Total Inventory as on 31.03.2019:

Particulars	Units	Cost (Rs.)	NRV / Replacement cost Rs.	Value = units x cost or NRV whichever is less (Rs.)	Rs.
Raw material A	800	140	190	1,12,000	(800 x 140)
Partly finished goods	650	310	300	1,95,000	(650 x 300)
Finished goods X	1,800	60	350	6,30,000	(1,800 x 350)
Value of Inventory				9,37,000	

*It has been assumed that the partly finished unit cannot be sold in semi-finished form and its NRV is zero without processing it further.

Question 3:
Jan – 2021

Mr. Jatin gives the following information relating to the items forming part of the inventory as on 31.03.2019. His enterprise produces product P using Raw Material X.

(i) 900 units of Raw Material X (purchases @ ₹ 100 per unit). Replacement cost of Raw Material X as on 3103.2019 is ₹ 80 per unit

(ii) 400 units of partly finished goods in the process of producing P. Cost incurred till date is ₹ 245 per unit. These units can be finished next year by incurring additional cost of ₹ 50 per unit.

(iii) 800 units of Finished goods P and total cost incurred is ₹ 295 per unit.

Expected selling price of product P is ₹280 per unit, subject to a payment of 5% brokerage on selling price.

Determine how each item of inventory will be valued as on 31.03.2019. Also calculate the value of total Inventory as on 31.03.2019.

Answer

As per AS 2 (Revised) "Valuation of Inventories", materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at cost or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. In the given case, selling price of product P is ₹ 266 and total cost per unit for production is 295.

Hence the valuation will be done as under:

(i) 900 units of raw material X will be written down to replacement cost as market value of finished product is less than its cost, hence valued at ₹ 80 per unit.

(ii) 400 units of partly finished goods will be valued at 216 per unit i.e., lower of cost (₹ 245) or Net realizable value ₹ 216 (Estimated selling price ₹ 266 per unit less additional cost of ₹ 50).

(iii) 800 units of finished product P will be valued at NRV of ₹ 266 per unit since it is lower than cost ₹ 295.

Valuation of Total Inventory as on 31.03.2019:

Description	Units	Cost (₹)	NRV/Replacement cost	Value = units x cost or NRV whichever is less (₹)
Raw material X	900	100	80	72,000
Partly finished goods	400	245	216	86,400
Finished goods P	800	295	266	2,12,800
Value of Inventory				3,71,200

AS 3 – Cash Flow Statements

Question 1:

May – 2018

Classify the following activities as

(i) Operating Activities, (ii) Investing activities, (iii) Financial activities and (iv) Cash Equivalents.

(1) Cash receipts from Trade Receivables

(2) Marketable Securities

(3) Purchase of investment

(4) Proceeds from long term borrowings

(5) Wages and Salaries paid

(6) Bank overdraft

(7) Purchase of Goodwill

(8) Interim dividend paid on equity shares

(9) Short term Deposits

(10) Underwriting commission paid

Answer

(a) **Operating Activities**: Items 1 and 5.

(b) **Investing Activities**: Items 3,7 and 9

(c) **Financing Activities**: Items 4,6,8 and 10

(d) Cash Equivalent: 2

Question 2:

May – 2019

The following information was provided by PQR Ltd. for the year ended 31st March, 2019:

(1) Gross Profit Ratio was 25% for the year, which amounts to Rs.3,75,000.

(2) Company sold goods for cash only.

(3) Opening inventory was lesser than closing inventory by Rs.25,000.

(4) Wages paid during the year Rs.5,55,000.

(5) Office expenses paid during the year Rs.35,000.

(6) Selling expenses paid during the year Rs.15,000.

(7) Dividend paid during the year Rs.40,000 (including dividend distribution tax).

(8) Bank Loan repaid during the year Rs.2,05,000 (included interest Rs.5,000)

(9) Trade Payables on 31st March, 2018 were Rs.50,000 and on 31st March, 2019 were Rs.35,000.

(10) Amount paid to Trade payables during the year Rs.6,10,000Income Tax paid during the year amounts to Rs.55,000

(Provision for taxation as on 31st March, 2019 Rs.30,000)·

(11) Investments of Rs.8,20,000 sold during the year at a profit of Rs.20,000.

(12) Depreciation on furniture amounts to Rs.40,000.

(13) Depreciation on other tangible assets amounts to Rs.20,000.

(14) Plant and Machinery purchased on 15th November, 2018 for Rs.3,50,000.

(15) On 31st March, 2019 Rs.2,00,000, 7% Debentures were issued at face value in an exchange for a plant.

(16) Cash and Cash equivalents on 31st March, 2018 Rs.2,25,000.

(A) Prepare cash flow statement for the year ended 31st March, 2019, using direct method.

(B) Calculate cash flow from operating activities, using indirect method.

Answer

(i) PQR Ltd.

Cash Flow Statement for the year ended 31st March, 2019

(Using direct method)

Particulars	Rs.	Rs.
Cash flows from Operating Activities		
Cash sales (Rs.3,75,000/25%)		15,00,000
Less: Cash payments for trade payables	(6,10,000)	
Wages Paid	(5,55,000)	
Office and selling expenses Rs.(35,000 + 15,000)	(50,000)	(12,15,000)
Cash generated from operations before taxes		2,85,000

Particulars	Rs.	Rs.
Income tax paid		(55,000)
Net cash generated from operating activities (A)		2,30,000
Cash flows from Investing activities		
Sale of investments Rs.(8,20,000 + 20,000)	8,40,000	
Payments for purchase of Plant & machinery	(3,50,000)	
Net cash used in investing activities (B)		4,90,000
Cash flows from financing activities		
Bank loan repayment (including interest)	(2,05,000)	
Dividend paid (including dividend distribution tax)	(40,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,75,000
Cash and cash equivalents at beginning of the period		2,25,000
Cash and cash equivalents at end of the period		7,00,000

(ii) Cash Flow from Operating Activities' by indirect method

Particulars	Rs.	Rs.
Net Profit for the year before tax and extraordinary items		2,80,000
Add: Non-Cash and Non-Operating Expenses:		
Depreciation		60,000
Interest Paid		5,000
Less: Non-Cash and Non-Operating Incomes:		
Profit on Sale of Investments		(20,000)
Net Profit after Adjustment for Non-Cash Items		3,25,000
Less: Decrease in trade payables	15,000	
Increase in inventory	25,000	(40,000)
Cash generated from operations before taxes		2,85,000

Working Note:

Calculation of net profit earned during the year

Particulars	Rs.	Rs.
Gross profit		3,75,000
Less: Office expenses, selling expenses	50,000	
Depreciation	60,000	
Interest paid		(1,15,000)
	5,000	2,60,000
Add: Profit on sale of investments		20,000
Net profit before tax		2,80,000

Question 3:

Nov – 2019

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

Particulars	Amount (Rs.)
Machinery acquired by issue of shares at face value	2,00,000
Claim received for loss of machinery in earthquake	55,000
Unsecured loans given to associates	5,00,000
Interest on loan received from associate company	70,000
Pre-acquisition dividend received on investment made	52,600
Debenture interest paid	1,45,200
Term loan repaid	4,50,000
Interest received on investment (TDS of Rs.8,200 was deducted on the above interest)	73,800
Purchased debentures of X Ltd., on. 1st December, 2018 which are redeemable within 3 months	3,00,000
Book value of plant & machinery sold (loss incurred Rs.9,600)	90,000

Answer

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

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

Note :

1. Debenture interest paid and Term Loan repaid are financing activities and therefore not considered for preparing cash flow from investing activities.
2. Machinery acquired by issue of shares does not amount to cash outflow, hence also not considered in the above cash flow statement.
3. The investments made in debentures are for short-term, it will be treated as 'cash equivalent' and will not be considered as outflow in cash flow statement.

Question 4:

Nov - 2020

The following figures have been extracted from the books of X Limited for the year ended on 31.3.2019. You are required to prepare a cash flow statement as per AS 3 using indirect method.

(i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was Rs.20 lakhs:

(ii)

(a) Depreciation on Property, Plant & Equipment Rs+.5 lakhs.

(b) Discount on issue of Debentures written off Rs.30,000.

(c) Interest on Debentures paid Rs.3,50,000.

(d) Book value of investments Rs.3 lakhs (Sale of Investments for Rs.3,20,000).

(e) Interest received on investments Rs.60,000.

(iii) Compensation received Rs.90,000 by the company in a suit filed.

(iv) Income tax paid during the year Rs.10,50,000.

(v) 15,000, 10% preference shares of Rs.100 each were redeemed on 31.3.2019 at a premium of 5%.

(vi) Further the company issued 50,000 equity shares of Rs.10 each at a premium of 20% on 2.4.2018.

(vii) Dividend on preference shares were paid at the time of redemption.

(viii) Dividend paid for the year 2017-2018 Rs.5 lakhs and interim dividend paid Rs.3 lakhs for the year 2018-2019.

(ix) Land was purchased on 2.4.2018 for Rs.2,40,000 for which the company issued 20,000 equity shares of Rs.10 each at a premium of 20% to the land owner as consideration.

(x) Current assets and current liabilities in the beginning and at the end of the years were as detailed below:

Particulars	As on 31.3.2018	As on 31.3.2019
	Rs.	Rs.
Inventory	12,00,000	13,18,000
Trade receivables	2,58,000	253,100
Cash in hand	1,96,300	35,300
Outstanding expenses	75,000	81,800

Answer

X Ltd

Cash Flow Statement For the year ended 31st March, 2019

Particulars	Rs.	Rs.
Cash flow from Operating Activities		

Particulars	Rs.	Rs.
Net profit before income tax and extraordinary items:		20,00,000
Adjustments for:		
Depreciation on PPE	5,00,000	
Discount on issue of debentures	30,000	
Interest on debentures paid	3,50,000	
Interest on investments received	(60,000)	
Profit on sale of investments	(20,000)	8,00,000
Operating profit before working capital changes		28,00,000
Adjustments for:		
Increase in inventory	(1,18,000)	
Decrease in trade receivable	4,900	
Increase in trade payables	300	
Increase in outstanding expenses	6,800	(1,06,000)
Cash generated from operations		26,94,000
Income tax paid		(10,50,000)
Cash flow from extraordinary items:		16,44,000
Compensation received in a suit filed		90,000
Net cash flow from operating activities		17,34,000
Cash flow from Investing Activities		
Sale proceeds of investments	3,20,000	
Interest received on investments	60,000	
Net cash flow from investing activities		3,80,000
Cash flow from Financing Activities		
Proceeds by issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(15,75,000)	
Preference dividend paid	(1,50,000)	
Interest on debentures paid	(3,50,000)	
Dividend paid (5,00,000 + 3,00,000)	(8,00,000)	
Net cash used in financing activities		22,75,000)
Net decrease in cash and cash equivalents during the year		(1,61,000)

Particulars	Rs.	Rs.
Add: Cash and cash equivalents as on 31.3.2018		1,96,300
Cash and cash equivalents as on 31.3.2019		35,300

Note: Purchase of land in exchange of equity shares (issued at 20% premium) has not been considered in the cash flow statement as it does not involve any cash transaction.

Question 5:
Jan – 2021

Following information was extracted from the books of S Ltd. for the year ended 31st March, 2020:

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

- (i) Depreciation on Property, Plant & Equipment Rs.7,00,000
- (ii) Discount on issue of debentures written off Rs.45,000.
- (iii) Interest on debentures paid Rs.4,35,000.
- (iv) Investment of Book value Rs.3,50,000 sold for Rs.3,75,000.
- (v) Interest received on Investments Rs.70,000.

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

(3) Company issued 60,000 Equity Shares of Rs.10 each at a premium of 20% on 10th April, 2019.

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

(5) Divided paid during the year amounted to Rs.11 Lakhs (including dividend distribution tax)

(6) A new Plant costing Rs.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 105. The inventory according to books on 31.03.2020 was Rs.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 year 2019-2020 were as:

	As on 1st April, 2019	As on 31st March, 2020
Inventory	13,50,000	14,76,000
Trade Receivables	3,27,000	3,13,200
Cash & Bank Balances	2,40,700	3,70,500
Trade Payables	2,84,700	2,87,300
Outstanding Expenses	97,000	1,04,400

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.

Answer

S Ltd.

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

Particulars	Rs.	Rs.
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 changes		12,49,000

Particulars	Rs.	Rs.
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.

AS 10 – Property, Plant and Equipment

Question 1
Nov – 2018

Neon Enterprise operates a major chain of restaurants located in different cities. The company has acquired a new restaurant located at Chandigarh. The new-restaurant requires significant renovation expenditure. Management expects that the renovations will last for 3 months during which the restaurant will be closed.
Management has prepared the following budget for this period – Salaries of the staff engaged in preparation of restaurant before its opening Rs.7,50,000 Construction and remodelling cost of restaurant Rs.30,00,000

Explain the treatment of these expenditures as per the provisions of AS 10 "Property, Plant and Equipment".

Answer

As per provisions of AS 10, any cost directly attributable to bring the assets to the location and conditions necessary for it to be capable of operating in the manner indicated by the management are called directly attributable costs and would be included in the costs of an item of PPE. Management of Neon Enterprise should capitalize the costs of construction and remodelling the restaurant, because they are necessary to bring the restaurant to the condition necessary for it to be capable of operating in the manner intended by management. The restaurant cannot be opened without incurring the construction and remodelling expenditure amounting Rs.30,00,000 and thus the expenditure should be considered part of the asset. However, the cost of salaries of staff engaged in preparation of restaurant Rs.7,50,000 before its opening are in the nature of operating expenditure that would be incurred if the restaurant was open and these costs are not necessary to bring the restaurant to the conditions necessary for it to be capable of operating in the manner intended by management. Hence, Rs.7,50,000 should be expensed.

Question 2:
Nov – 2020

A Ltd had following assets. Calculate depreciation for the year ending 31st March, 2020 for each asset as per AS 10 (Revised)

1. Machinery purchased for Rs 10 lakhs on 1st April, 2015 and residual value after useful life of 5 years, based on 2015 prices is Rs 10 lakhs.
2. Land for Rs 50 lakhs
3. A machinery is constructed for Rs 5,00,000 for its own use (useful life 10 years). Construction is completed on 1st April, 2019, but the company does not begin using the machine until 31st March, 2020.
4. Machinery purchased on 1st April, 2017 for Rs 50,000 with useful life of 5 years and residual value is Nil. On 1st April, 2019 management decided to use this asset for further 2 years only.

Answer

Computation of amount of depreciation as per AS 10

Sr no	Particular	Rs.
(i)	Machinery purchased on 1/4/15 for Rs. 10 lakhs (having residual value of Rs. 10 lakhs) Reason: The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost. Therefore, there is no depreciable amount and depreciation is correctly zero.	Nil
(ii)	Land (50 lakhs) (considered freehold) Reason: Land has an unlimited useful life and therefore, it is not depreciated.	Nil

Sr no	Particular	Rs.
(iii)	Machinery constructed for own use (Rs.5,00,000/10) Reason: The entity should begin charging depreciation from the date the machine is ready for use i.e. 1st April,2019. The fact that the machine was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation.	50,000
(iv)	Machinery having revised useful life Reason: The entity has charged depreciation using the straight-line method at Rs. 10,000 per annum i.e (50,000/5 years). On 1st April,2019 the asset's net book value is [50,000 – (10,000 x 2)] i.e. Rs. 30,000. The remaining useful life is 2 years as per revised estimate. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of 2 years. Consequently, it should charge depreciation for the next 2 years at Rs. 15,000 per annum i.e. (30,000 / 2 years).	15,000

AS 11 – The Effects of Changes in Foreign Exchange Rates

Question 1:

May – 2018

ABC Ltd. borrowed US $ 5,00,000 on 01/07/2017, which was repaid as on 31/07/2017. ABC Ltd. prepares financial statement ending on 31/03/2017. Rate of Exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under:

1/1/2017	1 US$ =	Rs.68.50
31/03/2017	1 US $ =	Rs.69.50
31/07/2017	1 US $ =	Rs.70.00

You are required to pass necessary journal entries in the books of ABC Ltd. as per AS

Answer

Date	Particulars		Rs. (Dr.)	Rs. (Cr.)
Jan. 01, 2017	Bank Account (5,00,000 x 68.50)	Dr.	342,50,000	
	To Foreign Loan Account			342,50,000
Mar. 31, 2017	Foreign Exchange Difference Account	Dr.	5,00,000	
	To Foreign Loan Account			5,00,000
	[5,00,000 x (69.50-68.50)]			
Jul. 31, 2017	Foreign Exchange Difference Account			
	[5,00,000 x (70-69.5)]	Dr.	2,50,000	
	Foreign Loan Account	Dr.	347,50,000	
	To Bank Account			350,00,000

Question 2:

Nov – 2018

(i) ABC Ltd. an Indian Company obtained long term loan from WWW private Ltd., a U.S. company amounting to Rs.30,00,000. It was recorded at US $1 = Rs.60.00, taking exchange rate prevailing at the date of transaction. The exchange rate on balance sheet date (31.03.2018) was US $1 = Rs.62.00.

(ii) Trade receivable includes amount receivable from Preksha Ltd.,Rs.10,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US $1 = Rs.59.00. The exchange rate on balance sheet date (31.03.2018) was US $1 = Rs.62.00.

You are required to calculate the amount of exchange difference and also explain the accounting treatment needed in the above two cases as per AS 11 in the books of ABC Ltd.

Answer

Amount of Exchange difference and its Accounting Treatment

	Long term Loan	Foreign Currency Rate	Rs.
(i)	Initial recognition US $ 50,000 (Rs.30,00,000/60)	1 US $ = Rs.60	30,00,000
	Rate on Balance sheet date	1 US $ = Rs.62	
	Exchange Difference Loss US$ 50,000 x Rs. (62-60)		1,00,000
	Treatment: Credit Loan A/c and Debit FCMITD A/c or Profit and Loss A/c by Rs.1,00,000 Trade receivables		
(ii)	Initial recognition US $ 16,949.152* (Rs.10,00,000/59)	1 US $ = Rs.59	10,00,000
	Rate on Balance sheet date	1 US $ = Rs.62	
	Exchange Difference Gain US $ 16,949.152* x Rs.(62-59)		50,847.456*
	Treatment: Credit Profit and Loss A/c by Rs.50,847.456* And Debit Trade Receivables		

Thus, Exchange Difference on Long term loan amounting Rs.1,00,000 may either be charged to Profit and Loss A/c or to Foreign Currency Monetary Item Translation Difference Account but exchange difference on trade receivables amounting Rs.50,847.456 is required to be transferred to Profit and Loss A/c.

Question 3:
Nov – 2018

AXE Limited purchased fixed assets costing $ 5,00,000 on 1st Jan. 2018 from an American company M/s M&M Limited. The amount was payable after 6 months. The company entered into a forward contract on 1st January 2018 for five months @ Rs.62.50 per dollar. The exchange rate per dollar was as follows:

On 1st January, 2018	Rs.60.75 per dollar
On 31st March, 2018	Rs.63.00 per dollar

You are required to state how the profit or loss on forward contract would be recognized in the books of AXE Limited for the year ending 2017-18, as per the provisions of AS 11.

Answer

As per AS 11 "The Effects of Changes in Foreign Exchange Rates", an enterprise may enter into a forward exchange contract to establish the amount of the reporting currency required, the premium or discount arising at the inception of such a forward exchange contract should be amortized as expenses or income over the life of the contract.

Forward Rate	Rs.62.50
Less: Spot Rate	(Rs.60.75)
Premium on Contract	= Rs.1.75
Contract Amount	US$ 5,00,000
Total Loss (5,00,000 x 1.75)	Rs.8,75,000

Contract period 5 months

3 months falling in the year 2017-18; therefore, loss to be recognized in 2017-18 (8,75,000/5) x 3 = Rs.5,25,000. Rest Rs.3,50,000 will be recognized in the following year 2018-19.

Question 4:
Nov – 2019

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

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

Fixed assets were purchased on 1st April, 2015.

(i) Depreciation at 10% p.a. is to be charged on fixed assets on straight line method.

(ii) Closing inventory at branch is $ 700 as on 31-3-2019.

(iii) Goods received from Head Office (HO) were recorded at ₹ 1,85,500 in HO books.

(iv) Remittances to HO were recorded at ₹ 1,62,000 in HO books.

(v) HO account is recorded in HO books at ₹ 2,84,500.

(vi) Exchange rates of US Dollar at different dates can be taken as :

1-4-2015	₹ 63
1-4-2018	₹ 65 and
31-3-2019	₹ 67

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

Answer

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

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

Question 5:

Jan – 2021

Explain briefly the accounting treatment needed in the following cases as per AS 11 as on 31.03.2020

(i) Debtors include amount due from Mr. S Rs.9,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US $ 1 = Rs.72.00

US $ 1 = Rs.73.50 on 31st March, 2020

US $ 1 = Rs.72.50 on 1st April, 2019

(ii) Long term loan taken on 1st April, 2019 from a U.S. company amounting to Rs.75,00,000. Rs.5,00,000 was repaid on 31st December, 2019, recorded at US $ 1 = Rs.70.50. Interest had been paid as and when debited by the US company.

US $ 1 = Rs.73.50 on 31st March, 2020

US $ 1 = Rs.72.50 on 31st April, 2019

Answer

As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or as expenses in the period in which they arise.

However, at the option of an entity, exchange differences arising on reporting of long term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a non-depreciable capital asset can be accumulated in a "Foreign Currency Monetary Item Translation Difference Account" in the enterprise's financial statements and amortized over the balance period of such long-term asset/ liability, by recognition as income or expense in each of such periods.

Particulars	Foreign Currency Rate	₹
Debtors		
Initial recognition US $12,500 (9,00,000/72)	1 US $ = ₹ 72	9,00,000
Rate on Balance sheet date Exchange Difference Gain US $ 12,500 X (73.50– 72)	1 US $ = ₹ 73.50	18,750
Treatment: Credit Profit and Loss A/c by ₹ 18,750 Long term Loan		

Particulars	Foreign Currency Rate	₹
Initial recognition US $ 1,03,448.28 (75,00,000/72.50)	1 US $ = ₹ 73.50	75,00,000
Rate on Balance sheet date Exchange Difference Loss after adjustment of exchange gain on repayment of ₹ 5,00,000 ₹ 67,987.48 [82,171.88 (US $ 96,356.08 X ₹ 73.5 less ₹ 70,00,000) less profit 14,184.40 [US $ 7,092.2 (5,00,000/70.5) X ₹ 2)] NET LOSS Treatment: Credit Loan A/c and Debit FCMITD A/C or Profit and Loss A/c by ₹ 67,987.48	1 US $ = ₹ 73.50	

Thus, Exchange Difference on Long term loan amounting ₹ 67,987.48 may either be charged to Profit and Loss A/c or to Foreign Currency Monetary Item Translation Difference Account but exchange difference on debtors amounting ₹ 18,750 is required to be transferred to Profit and Loss A/c.

NOTE 1: *Exchange Difference Loss (net of adjustment of exchange gain on repayment of ₹ 5,00,000) has been calculated in the above solution. Alternative considering otherwise also possible.

NOTE 2: Date of sales transaction of ₹ 9 lakhs has not been given in the question and hence it has been assumed that the transaction took place during the year ended 31 March 2020

AS 12 – Accounting for Government Grants

Question 1:

May – 2018

On 01.04.2014, XYZ Ltd. received Government grant of Rs.100 Lakhs for an acquisition of new machinery costing Rs.500 lakhs. The grant was received and credited to the cost of the assets. The life span of the machinery is 5 years. The machinery is depreciated at 20% on WDV method. The company had to refund the entire grant in 2nd April, 2017 due to non-fulfilment of certain conditions which was imposed by the government at the time of approval of grant.
How do you deal with the refund of grant to the Government in the books of XYZ Ltd., as per AS 12?

Answer

According to AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset (if the grant had been credited to the cost of fixed asset at the time of receipt of grant) should be recorded by increasing the book value of the asset, by the amount refundable. Where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

Date	Particulars	(Rs. in lakhs)
1st April, 2014	Acquisition cost of machinery (Rs.500 – Rs.100)	400
31st March, 2015	Less: Depreciation @ 20%	(80)
1st April, 2015	Book value	320.00
31st March, 2016	Less: Depreciation @ 20%	(64)
1st April, 2016	Book value	256.00
31st March, 2017	Less: Depreciation @ 20%	(51.20)
1st April, 2017	Book value	204.80
2nd April, 2017	Add: Refund of grant	100.00
	Revised book value	304.80

Depreciation @ 20% on the revised book value amounting Rs.304.80 lakhs is to be provided prospectively over the residual useful life of the asset.

Question 2:

Nov – 2020

On 1st April, 2016, Mac Ltd. received a government grant of Rs 60 lakhs for acquisition of machinery costing Rs 300 lakhs. The grant was credited to the cost of the Asset. The estimated useful life of the machinery is 10 years. The machinery is depreciated @10% on WDV basis. The company had to refund the grant in June 2019 due to non-compliance of certain conditions. How the refund of the grant is dealt with in the books of Mac Ltd. assuming that the company did not charge any depreciation for year 2019-20.

Pass necessary journal entries for the year 2019-20.

Answer

Date	Particulars	(in lakhs)
1st April, 2016	Acquisition cost of machinery	300.00
	Less: Government Grant	60.00
		240.00
31st March, 2017	Less: Depreciation @ 10%	(24.00)
1st April, 2017	Book value	216.00
31st March, 2018	Less: Depreciation @ 10%	(21.60)
1st April, 2018	Book value	194.40
31st March, 2019	Less: Depreciation @ 10%	(19.44)
1st April, 2019	Book value	174.96
	Less: Depreciation @10% for 2 months	(2.916)
1st June, 2019	Book value	172.044
Jun 2019	Add: Refund of grant*	60.00
	Revised book value	232.044

Depreciation @10% on the revised book value amounting to Rs.232.044 lakhs is to be provided prospectively over the residual useful life of the machinery.

*considered refund of grant at beginning of June month and depreciation for two months already
charged. Alternative answer considering otherwise also possible.

Journal Entries

Particulars	Rs.	Rs.
Machinery Account Dr.	60	
To Bank Account		60
(Being government grant on asset partly refunded which increased the cost of fixed asset)		
Depreciation Account Dr.	19.337	
To Machinery Account		19.337
Particulars	**Rs.**	**Rs.**
(Being depreciation charged on revised value of fixed asset prospectively for 10 months)		
Profit and Loss Account Dr.	22.253	
To Depreciation Account		22.253
(Being depreciation transferred to Profit and Loss Account amounting to Rs.(2.916 + 19.337=22.253)		

Question 3:
Jan – 2021

Darshan Ltd. purchased a Machinery on 1st April, 2016 for Rs.130 lakhs (Useful life is 4 years). Government grant received is Rs.40 lakhs for the purchase of above Machinery. Salvage value at the end of useful life is estimated at Rs.60 lakhs. Darshan Ltd. decides to treat the grant as deferred income.

You are required to calculate the amount of depreciation and grant to be recognized in profit & loss account for the year ending 31st March, 2017, 31st March, 2018, 31st March, 2019 & 31st March, 2020.
Darshan Ltd. follows straight line method for charging depreciation.

Answer

As per 12 “Accounting for government grants”, grants related to depreciable assets, if treated as deferred income are recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

Amount of depreciation and grant to be recognized in the profit and loss account each year Depreciation per year:

Particulars	Rs. (In lakhs)
Cost of the Asset	130
Less: Salvage value	(60)
Net value	70
Depreciation per year(70lakhs/4)	17.50

17.50 Lakhs depreciation will be recognized for the year ending 31st March, 2017, 31st March, 2018, 31st March, 2019 and 31st March, 2020.

Amount of grant recognized in Profit and Loss account each year :

40 lakhs /4 years = ₹ 10 Lakhs for the year ending 31st March, 2017, 31st March, 2018, 31st March, 2019 and 31st March, 2020.

AS 13 – Accounting for Investments

Question 1
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 recognize '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 was Rs.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 was Rs.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

Answer

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

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

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs.12 lakhs in the books.

(ii) In this case also, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs.5 lakhs in the books.

(iii) 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.

(iv) 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.

Question 2
Nov – 2020

A Limited invested in the shares of XYZ Ltd. on 1st Dec, 2019 at a cost of Rs 50,000. Out of these shares Rs 25,000 shares were purchased with an intention to hold for 6 months and Rs 25,000 shares were purchased with an intention to hold as long term investments. A Limited also earlier purchased gold of Rs 1,00,000 and silver of Rs 30,00,000 on 1st April, 2019. Market Value as on 31st March, 2020 of above investments are as follows.

Shares	Rs 47,500 (Decline in the value of shares is temporary)
Gold	Rs 1,80,000
Silver	Rs 30,55,000

How above investments will be shown in the books of accounts of M/s. A Limited for the year ended 31st March, 2020 as per the provisions of AS 13 (Revised)?

Answer

As per AS 13 (Revised) 'Accounting for Investments, for investment in shares – if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value. In the given case Rs. 25,000 shares held as current investment will be carried in the books at Rs.23,750 (Rs. 47,500/2).

If equity shares are acquired with an intention to hold for long term period (more than one year), then should be considered as long-term investment to be shown at cost in the Balance Sheet of the company. However, provision for diminution should be made to recognize a decline, if other than temporary, in the value of the investments. Hence, Rs. 25,000 shares held as long-term investment will be carried in the books at Rs. 25,000.

Gold and silver are generally purchased with an intention to hold them for long term period (more than one year) until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 1st March, 2019) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2020. Thus Gold at Rs. 1,00,000 and Silver at Rs. 30,00,000 respectively will be shown in the books.

Question 3
Jan – 2021

Kunal securities Ltd. wants to reclassify its investments in accordance with AS-13 (Revised). State the values, at which the investments have to be reclassified in the following cases:

(i) Long term investments in Company A, costing Rs.10.5 lakhs is to be re-classified as current investment. The company had reduced the value of these investments to Rs.9 lakhs to recognize a permanent decline in value. The fair value on the date of reclassification is Rs.9.3 lakhs.

(ii) Long term investment in Company B, costing Rs.14 lakhs is to be re-classified as current investment. The fair value on the date of reclassification is Rs.16 lakhs and book value is Rs.14 lakhs.

(iii) Current investment in Company C, costing Rs.12 lakhs is to be re-classified as long-term investment as the company wants to retain them. The market value on the date of reclassification is Rs.13.5 lakhs.

(iv) Current investment in Company D, costing Rs.18 lakhs is to be re-classified as long-term investment. The market value on the date of reclassification is Rs.16.5 lakhs.

Answer

(a) 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:

a) 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 ₹ 9 lakhs in the books.

b) The carrying / book value of the long-term investment is same as cost i.e.,14 lakhs. Hence this long-term investment will be reclassified as current investment at book value of ₹ 14 lakhs only.

c) In this case, reclassification of current investment into long-term investments will be made at ₹ 12 lakhs as cost are less than its market value of ₹ 13.5 lakhs.

d) Market value of the investment is ₹ 16.5 lakhs, which is lower than its cost i.e., ₹ 18 lakhs. Therefore, the transfer to long term investments should be done in the books at the market value i.e., ₹ 16.5 lakhs.

Question 8
Jan - 2021

P Ltd. had 8,000 equity shares of K Ltd., at a took value of Rs.15 per share (face value of Rs.10 each) on 1st April, 2019. On 1st September, 2019, P Ltd., acquired another 2,000 equity shares of K Ltd. at a premium of Rs.4 per share. K Ltd. announced a bonus and right issue for existing shareholders.

The term of bonus and right issue were:

(i) Bonus was declared at the rate of two equity shares of every five shares held on 30th September, 2019.

(ii) Right shares are to be issued to the existing shareholders on 1st December, 2019. The Company had issued two right shares for every 7 shares held at 25% premium on face value. No dividend was payable on these shares. The whole sum being payable by 31st December, 2019.

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

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

(v) Dividend for the year ended 31st March, 2019 at the rate of 20% was declared by K Ltd. and received by P Ltd. on 20th January, 2020.

(vi) On 1st February, 2020, P Ltd. sold half of its shareholdings at a premium of Rs.4 per share.

(vii) The market price of share on 31st March, 2020 was Rs.13 per share.

You are required to prepare the Investment account of P Ltd. for the year ended 31st March, 2020 and determine the value of shares held on the date, assuming the investment as current investment. Consider average cost basis for ascertainment of cost for equity share sold.

Answer

(a) Investment Account-Equity Shares in K Ltd.

Date	Particulars	No. of shares	Dividend	Amount	Date	Particulars	No. of shares	Dividend	Amount
1.4.19	To Bal. b/d	8,000	–	1,20,000	20.1.20	By Bank (dividend) [8,000 x 10 x 20%] and [2,000 x 10 x 20%]		16,000	4,000
1.9.19	To Bank	2,000	–	28,000	1.2.20	By Bank	8,000		1,12,000

Date	Particulars	No. of shares	Dividend	Amount	Date	Particulars	No. of shares	Dividend	Amount
30.9.19	To Bonus Issue	4,000	–	–					
31.12.19	To Bank (Right) (W.N.1)	2,000	–	25,000	31.3.20	By Balance c/d (W.N. 3)	8,000		84,500
20.1.20	To Profit & Loss A/c (Dividend income)		16,000						
1.2.20	To P& L A/c (profit on sale)			27,500					
	Total	**16,000**	**16,000**	**2,00,500**		**Total**	**16,000**	**16,000**	**2,00,500**

<u>Working Notes:</u>

1. **<u>Right shares</u>**

No. of right shares issued = (8,000 + 2,000 + 4,000)/ 7 X 2= 4,000

No. of right shares subscribed = 4,000 x 50% = 2,000 shares

Value of right shares issued = 2,000 x ₹12.50 = 25,000

No. of right shares sold = 2,000 shares

Sale of right shares = 2,000 x ₹ 8 = ₹ 16,000 to be credited to statement of profit and loss

2. Cost of shares sold — Amount paid for 16,000 shares

Particulars	Amount
(₹1,20,000 + ₹ 28,000 + ₹ 25,000)	1,73,000
Less: Dividend on shares purchased on Sept.1 (since the dividend pertains to the year ended 31st March, 2019, i.e., the pre-acquisition period)	(4,000)
Cost of 16,000 shares	1,69,000
Cost of 8,000 shares (Average cost basis)	84,500
Sale proceeds (8,000 X ₹14)	1,12,000
Profit on sale	27,500

3. Value of investment at the end of the year

Assuming investment as current investment, closing balance will be valued based on lower of cost or net realizable value. Here, Net realizable value is Rs. 13 per share i.e., 8,000 shares x Rs. 13 = Rs. 1,04,000 and cost = 84,500. Therefore, value of investment at the end of the year will be Rs. 84,500.

AS 16 – Borrowing Cost

Question 1
May – 2019

First Ltd. began construction of a new factory building on 1st April, 2017. It obtained Rs. 2,00,000 as a special loan to finance the construction of the factory building on 1st April, 2017 at an interest rate of 8% per annum. Further, expenditure on construction of the factory building was financed through other non-specific loans. Details of other outstanding non-specific loans were:

Amount (Rs.)	Rate of Interest per annum
4,00,000	9%
5,00,000	12%
3,00,000	14%

The expenditures that were made on the factory building construction were as follows:

Date	Amount (Rs.)
1st April, 2017	3,00,000
31st May, 2017	2,40,000
1st August, 2017	4,00,000
31st December, 2017	3,60,000

The construction of factory building was completed by 31st March, 2018. As per the provisions of AS 16, you are required to:

(1) Calculate the amount of interest to be capitalized.

(2) Pass Journal entry for capitalizing the cost and borrowing cost in respect of the factory building.

Answer

(i) Computation of average accumulated expenses

Particulars		Rs.
Rs.3,00,000 x 12 / 12	=	3,00,000
Rs.2,40,000 x 10 / 12	=	2,00,000
Rs.4,00,000 x 8 / 12	=	2,66,667
Rs.3,60,000 x 3 / 12	=	90,000
		8,56,667

(ii) Calculation of average interest rate other than for specific borrowings

Amount of loan (Rs.)	Rate of interest		Amount of interest (Rs.)
4,00,000	9%	=	36,000
5,00,000	12%	=	60,000
3,00,000	14%	=	42,000
			1,38,000
Weighted average rate of interest $\frac{1,38,000}{12,00,000} * 100$		=	11.5%

(iii) Amount of interest to be capitalized

Amount of loan (Rs.)		Amount of interest (Rs.)
Interest on average accumulated expenses:		
Specific borrowings (Rs.2,00,000 x 8%)	=	16,000
Non-specific borrowings (Rs.6,56,667* x 11.5%)	=	75,517
Amount of interest to be capitalized	=	91,517

(iv) Total expenses to be capitalized for building

Particulars	Rs.
Cost of building Rs.(3,00,000 + 2,40,000 + 4,00,000 + 3,60,000)	13,00,000
Add: Amount of interest to be capitalize	91,517
Total	**13,91,517**

(v) Journal Entry

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
31.3.2018	Building A/c	Dr.	13,91,517	
	To Building WIP** A/c			13,00,000
	To Borrowing costs A/c			91,517
	(Being amount of cost of building and borrowing cost thereon capitalised)			

Question 2
Nov – 2020

On 15th April, 2019 RBM Ltd obtained a Term loan from the Bank for Rs.320 lakhs to be utilized as under.

Particulars	Rs in Lakhs
Construction of factory shed	240
Purchase of machinery	30
Working capital	24
Purchase of vehicles	12
Advance for tools / cranes	8
Purchase of technical know how	6

In March, 2020 construction of shed was completed and machinery was installed. Total interest charged by the bank for the year ending 31st March, 2020 was Rs 40 lakhs. In the context of provisions of AS 16 – "Borrowing costs" show the treatment of interest and also explain the nature of Assets.

Answer

As per AS 16 A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Other investments and those inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired also are not qualifying assets. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be

capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred.
Construction of factory shed amounting Rs. 240 lakhs is qualifying asset in the given case. The interest for this amount during the year will be added to the cost of factory shed. All others (purchase of machinery, vehicles and technical know how, working capital, advance for tools/cranes) are non-qualifying assets and related borrowing cost will be charged to Profit and Loss statement. Qualifying Asset as per AS 16 (construction of a shed) = Rs. 240 lakhs

Borrowing cost to be capitalized = Rs. 40 lakhs x240/320 = Rs. 30 lakhs Interest to be debited to Profit or Loss account: Rs. (40 - 30) = Rs. 10 lakhs.
Note: Assumed that construction of factory shed completed on 31st March, 2020.

CHAPTER 4

Financial Statement of Companies

Question 1
May- 2019

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Proprietor's Capital	3,00,000	Fixed Assets	3,60,000
Profit & Loss Account	1,25,000	Closing Stock	1,50,000
10% Loan Account	2,10,000	Sundry Debtors	1,00,000
Sundry Creditors	50,000	Deferred Expenses	50,000
		Cash & Bank	25,000
	6,85,000		**6,85,000**

Additional Information is as follows:

(1) The remaining life of fixed assets is 8 years. The pattern of use of the asset is even. The net realisable value of fixed assets on 31.03.2018 was Rs.3,25,000.

(2) Purchases and Sales in 2017-18 amounted to Rs.22,50,000 and Rs.27,50,000 respectively.

(3) The cost and net realizable value of stock on 31.03.2018 were Rs.2,00,000 and Rs.2,50,000 respectively.

(4) Expenses for the year amounted to Rs.78,000.

(5) Deferred Expenses are amortized equally over 5 years.

(6) Sundry Debtors on 31.03.2018 are Rs.1,50,000 of which Rs.5,000 is doubtful. Collection of another Rs.25,000 depends on successful re-installation of certain product supplied to the customer;

(7) Closing Sundry Creditors are Rs.75,000, likely to be settled at 10% discount.

(8) Cash balance as on 31.03.2018 is Rs.4,22,000.

(9) There is an early repayment penalty for the loan of Rs.25,000.

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

(1) Profit & Loss Account for the year 2017-18.

(2) Balance Sheet as on 31st March, 2018.

Answer

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

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening Stock	1,50,000	By Sales	27,50,000
To Purchases	22,50,000	By Closing Stock	2,50,000
To Expenses*	78,000	By Trade payables	7,500
To Depreciation	35,000		
To Provision for	30,000		
To Deferred cost	50,000		
To Loan penalty	25,000		
To Net Profit (b.f.)	3,89,500		
	30,07,500		**30,07,500**

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

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

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

Question 2
Nov – 2019

From the following particulars furnished by the Prashant Ltd., prepare the Balance Sheet as at 31st March, 2019 as required by Schedule III of the Companies Act, 2013:

Particulars	Debit (Rs.)	Credit (Rs.)
Equity share capital (face value of Rs.10 each)		15,00,000

Particulars	Debit (Rs.)	Credit (Rs.)
Calls-in-arrears	5,000	
Land	5,50,000	
Building	4,85,000	
Plant & machinery	5,60,000	
General reserve		2,70,000
Loan from State Financial Corporation		2,10,000
Inventories	3,15,000	
Provision for taxation		72,000
Trade receivables	2,95,000	
Short-term loans & advances	58,500	
Profit & loss account		1,06,800
Cash in hand	37,300	
Cash at bank	2,85,000	
Unsecured loans		1,65,000
Trade Payable		2,67,000
Total	**25,90,800**	**25,90,800**

The following additional information is also provided:

(1) 10,000 equity shares were issued for consideration other than cash.

(2) Trade receivables of Rs.55,000 are due for more than six months.

(3) The cost of building and plant & machinery is Rs.5,50,000 and Rs.6,25,000 respectively.

(4) The loan from State Financial Corporation is secured by hypothecation of plant & machinery. The balance of Rs.2,10,000 in this account is inclusive of Rs.10,000 for interest accrued but not due.

(5) Balance at Bank included Rs.15,000 with Aakash Bank Ltd., which is not a scheduled bank.

Answer

Prashant Ltd.

Balance Sheet as on 31st March, 2019

Sr.		Particulars	Notes	Rs.
I		**Equity and Liabilities**		
	1	**Shareholders' funds**		
	(a)	Share capital	1	14,95,000
	(b)	Reserves and Surplus	2	3,76,800
	2	**Non-current liabilities**		
		Long-term borrowings	3	3,65,000
	3	**Current liabilities**		
	(a)	Trade Payables		2,67,000
	(b)	Other current liabilities	4	10,000
	(c)	Short-term provisions	5	72,000
		Total		**25,85,800**
II		**Assets**		
	1	**Non-current assets**		
		Property, Plant and Equipment	6	15,95,000
	2	**Current assets**		
	(a)	Inventories		3,15,000
	(b)	Trade receivables	7	2,95,000
	(c)	Cash and bank balances	8	3,22,300
	(d)	Short-term loans and advances		58,500
		Total		**25,85,800**

Notes to accounts:

Sr.	Particulars	Rs.	Rs.
1	Share Capital		
	Equity share capital		
	Issued & subscribed & fully paid up		
	1,50,000 Equity Shares of Rs.10 each		
	(of the above 10,000 shares have been issued for consideration other than cash)	15,00,000	14,95,000
	Less: Calls in arrears	(5,000)	

Sr.	Particulars	Rs.	Rs.
2	Reserves and Surplus		
	General Reserve		2,70,000
	Profit & Loss balance		1,06,800
	Total		**3,76,800**
3	Long-term borrowings		
	Secured		
	Loan from State Financial Corporation (2,10,000-10,000)		
	(Secured by hypothecation of Plant and Machinery)		2,00,000
	Unsecured Loan		1,65,000
	Total		**3,65,000**
4	Other current liabilities		
	Interest accrued but not due on loans (SFC)		10,000
5	Short-term provisions		
	Provision for taxation		72,000
6	Property, Plant & Equipment		
	Land		5,50,000
	Building	5,50,000	
	Less: Depreciation(b.f.)	(65,000)	4,85,000
	Plant & Machinery	6,25,000	
	Less: Depreciation (b.f.)	(65,000)	5,60,000
	Total		**15,95,000**
7	Trade receivables		
	Outstanding for a period exceeding six months		55,000
	Other Amounts		2,40,000
	Total		**2,95,000**
8	Cash and bank balances		
	Cash and cash equivalents		
	Cash at bank		2,85,000
	Cash in hand		37,300
	Other bank balances		Nil
	Total		**3,22,300**

Question 3

Nov – 2020

The following is the Draft Profit & Loss A/c of Harsha Ltd., the year ended 31st March, 20X1:

Particulars	Rs.	Particulars	Rs.
To Administrative, Selling and distribution expenses	41,12,710	Balance b/d	28,61,750
To Directors fees	6,73,900	Balance from Trading A/c	201,26,825
To Interest on debentures	1,56,200	Subsidies received from Govt.	13,69,625
To Managerial remuneration	14,26,750		
To Depreciation on fixed assets	26,12,715		
To Provision for Taxation	62,12,500		
To General Reserve	20,00,000		
To Investment Revaluation Reserve	62,500		
To Balance c/d	71,00,925		
	243,58,200		**243,58,200**

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was Rs. 28,76,725. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.

Answer

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

Particulars	Rs.	Rs.
Balance from Trading A/c		201,26,825
Add: Subsidies received from Government		13,69,625

Particulars	Rs.	Rs.
		214,96,450
Less: Administrative, selling and distribution expenses	41,12,710	
Director's fees	6,73,900	
Interest on debentures	1,56,200	
Depreciation on fixed assets as per Schedule II	28,76,725	(78,19,535)
Profit u/s 198		136,76,915

Question 4
Jan – 2021

The following is the Draft Profit & Loss A/c of Brown Ltd. the year ended 31st March, 2020:

Particulars	Amount	Particulars	Amount
	(Rs.)		**(Rs.)**
To Administrative expenses	4,99,200	By Balance B/d	6,27,550
To Advertisement	1,18,200	By Balance from Trading A/c.	38,15,890
To Commission on sales	95,225	By subsidies recd. From Govt.	2,50,000
To Directors Fees	1,35,940	By Profit on sale of forfeited shares	20,000
To Interest on debentures	28,460		
To Managerial remuneration	2,75,550		
To Depreciation on fixed assets	4,82,565		
To Provision of Taxation	11,50,200		
To General Reserve	4,50,000		

Particulars	Amount	Particulars	Amount
To Investment Revaluation Reserve	52,800		
To Balance c/d	14,25,300		
	47,13,440		**47,13,440**

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

Answer

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

Particulars	Amount	Amount
Balance from Trading A/c		38,15,890
Add: Subsidies received from Government		2,50,000
		40,65,890
Less: Administrative, selling and distribution expenses (4,99,200 + 1,18,200 + 95,225)	7,12,625	
Director's fees	1,35,940	
Interest on debentures	28,460	
Depreciation on fixed assets as per Schedule II	5,15,675	(13,92,700)
Profit u/s 198		26,73,190

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

Note:

1. Investment Revaluation reserve not to be deducted for calculation of profit under section 198;
2. Profit on sale of forfeited shares not to added for calculation of profit under section 198.

   *Alternative presentation of the above answer also possible by starting from Net profit as per Profit and Loss Account.

CHAPTER 5 Profit or loss prior to incorporation

Question 1
May - 2018

The promotors of Shiva Ltd. took over on behalf of the company a running business with effect from 1st April 2017. The company got incorporated on 1st August 2017. The annual accounts were made up to 31st March, 2018 which revealed that the sales for the whole year totalled Rs.2400 lakhs out of which sales till 31st July, 2017 were for Rs.600 lakhs. Gross profit ratio was 20%.

The expenses from 1st April 2017, till 31st March, 2018 were as follows:

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

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

Answer

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

Particulars	Total Amount (Rs.in lakhs)	Basis of Allocation	Pre-incorporation (Rs.in lakhs)	Post-incorporation (Rs.in lakhs)
Gross Profit (20% of Rs.2,400)	480	Sales	120	360
Less: Salaries	75	Time	25	50
Rent, rates and Insurance	30	Time	10	20
Sundry office expenses	72	Time	24	48
Travellers' commission	20	Sales	5	15
Discount allowed	16	Sales	4	12
Bad debts	8	Sales	2	6
Directors' fee	30	Post	-	30
Tax Audit Fees*	16	Sales	4	12
Depreciation on tangible Assets	15	Time	5	10
Debenture interest	14	Post	-	14
Net profit	184		41	143

* Tax Audit Fees allocated in the ratio of sales.

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

Working Notes:

1. **Sales ratio**

Particulars	(Rs.in lakh)
Sales for the whole year	2400
Sales up to 31st July, 2017	600
Therefore, sales for the period from 1st August, 2017 to 31st March, 2018	1,800

2. Time ratio

1st April, 2017 to 31st July, 2017: 1st August, 2017 to 31st March, 2018

= 4 months: 8 months = 1:2, Thus, time ratio is 1:2.

Question 2
Nov – 2018

Sun Limited took over the running business of a partnership firm M/s A & N Brothers with effect from 1st April, 2017. The company was incorporated on 1st September, 2017. The following profit and loss account has been prepared for the year ended 31st March, 2018.

Particulars	Amount	Particulars	Amount
To salaries	1,33,000	By Gross Profit b/d	7,50,000
To rent	96,000		
To carriage outward	75,000		
To audit fees	12,000		
To travelling expenses	66,000		
To commission on sales	48,000		
To printing and stationery	24,000		
To electricity charges	30,000		
To depreciation	80,000		
To advertising expenses	24,000		
To preliminary expenses	9,000		
To Managing Director's remuneration	8,000		
To Net Profit c/d	1,45,000		
	7,50,000		**7,50,000**

Additional Information:

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

April, May	Rs.85,000 per month
June, July	Rs.1,05,000 per month
August, September	Rs.1,20,000 per month

October, November	Rs.1,40,000 per month
December onwards	Rs.1,50,000 per month

2. Sun Limited took over a machine worth Rs.7,20,000 from A&N Brothers and purchased a new machine on 1st February, 2018 for Rs.4,80,000. The company decides to provide depreciation @ 10% p.a.
3. The company occupied additional space from 1st October, 2017 @ rent of Rs.6,000 per month.
4. Out of travelling expenses, Rs.30,000 were incurred by office staff while remaining expenses were incurred by salesmen.
5. Audit fees pertains to the company.
6. Salaries were doubled from the date of incorporation.

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

Answer

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

Particulars	Pre-incorporation period	Post- incorporation period
	Rs.	Rs.
Gross profit (1:2)	2,50,000	5,00,000
Less: Salaries (5:14)	35,000	98,000
Carriage outward (1:2)	25,000	50,000
Audit fee	-	12,000
Travelling expenses (W.N.3)	24,500	41,500
Commission on sales (1:2)	16,000	32,000
Printing & stationary (5:7)	10,000	14,000
Rent (office building) (W.N.4)	25,000	71,000
Electricity charges (5:7)	12,500	17,500
Depreciation	30,000	50,000
Advertisement (1:2)	8,000	16,000
Preliminary expenses	-	9,000

Particulars	Pre-incorporation period	Post- incorporation period
	Rs.	Rs.
MD remuneration	-	8,000
Pre-incorporation profit - ts/f to Capital reserve (Bal. Fig.)	64,000	-
Net profit (Bal. Fig.)	-	81,000

Working Notes:

1. **Time Ratio**

   Pre incorporation period = 1st April, 2017 to 31st August, 2017

   i.e. 5 months

   Post incorporation period is 7 months

   Time ratio is 5:7

2. **Sales ratio**

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

5,00,000:10,00,000 = 1:2

3. Travelling expenses

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

4. Rent

Particulars	Rs.
Rent for additional space Rs.(6,000 x 6)	36,000
Remaining rent Rs.(96,000 – 36,000)	60,000
Pre-incorporation period (5/12 of 60,000)	25,000
Post- incorporation period Rs.35,000 + Rs.36,000	71,000

5. Salaries

Suppose x for a month in pre- incorporation period then salaries for pre-incorporation period = 5x Salaries for post-incorporation period = 2X x 7=14x

Ratio = 5 : 14

6. Depreciation

Particulars		Pre-incorporation	Post-incorporation
Rs.		Rs.	Rs.
Total depreciation	80,000		
Less: Depreciation exclusively for Post incorporation period (Rs.4,80,000 x 10 x 2/12)	8,000		8,000
	72,000		
Depreciation for pre-incorporation period (Rs.72,000 x 5/12)		30,000	
Depreciation for post Incorporation period (Rs.72,000 x 7/12)			42,000
		30,000	50,000

Question 3
May – 2019

Tarun Ltd. was incorporated on 1st July, 2018 to acquire a running business of Vinay Sons with effect from 1st April, 2018. During the year 2018-19, the total sales were Rs.12,00,000 of which Rs.2,40,000 were for the first six months. The Gross Profit for the year is Rs.4,15,000. The expenses debited to the Profit and Loss account included:

(i) Director's fees Rs.25,000
(ii) Bad Debts Rs.6,500
(iii) Advertising Rs.18,000 (under a contract amounting to Rs.1,500 per month)
(iv) Company Audit Fees Rs.15,000
(v) Tax Audit Fees Rs.10,000

(1) Prepare a statement showing pre-incorporation and post incorporation profit for the year ended 31st March, 2019.
(2) Explain how profits are to be treated

Answer

Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods For the year ended 31st March, 2019

Particulars	Total Amount	Basis of Allocation	Pre-incorporation	Post-incorporation
Gross Profit	4,15,000	Sales (1:9)	41,500	3,73,500
Less: Directors' fee	25,000	Post		25,000
Bad debts	6,500	Sales (1:9)	650	5,850
Advertising	18,000	Time (1:3)	4,500	13,500
Company Audit Fees	15,000	Post		15,000
Tax Audit Fee	10,000	Sales (1:9)	1,000	9,000
Net Profit	3,40,500		35,350	3,05,150

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

Working Notes:

(i) Sales ratio

Particulars	Rs.
Sales for period up to 30.06.2018 (2,40,000 x 3/6)	1,20,000
Sales for period from 01.07.2018 to 31.03.2019 (12,00,000 – 1,20,000)	10,80,000

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

(ii) Time ratio

1st April, 2018 to 30 June, 2018: 1st July, 2018 to 31st March, 2019

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

Question 4
Nov – 2019

The partners of C&G decided to convert their existing partnership business into a private limited called CG trading Pvt. Ltd. with effect from 1.7.2018.

The same books of accounts were continued by the company which closed its accounts for the first term on 31.3.2019.

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

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

The following additional information was provided :

(i) The average monthly sales doubled from 1.7.2018, GP ratio was constant.

(ii) All investments were sold on 31.5.2018.

(iii) Average monthly salaries doubled from 1.10.2018.

(iv) The company occupied additional space from 1.7.2018 for which rent of Rs.20,000 per month was incurred.

(v) Bad debts recovered amounting to Rs.60,000 for a sale made in 2016-17 has been deducted from bad debts mentioned above.

(vi) Audit fees pertains to the company.

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

Answer

C G Trading Private Limited

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

Rs. In lakhs

Particulars	Ratio	Total	Pre Incorporation	Post Incorporation
Sales	1:6	245.00	35.00	210.00
Interest on Investments	Pre	6.00	6.00	-
Bad debts recovered	Pre	0.60	0.60	-
(i)		251.60	41.60	210.00
Cost of goods sold	1:6	124.32	17.76	106.56
Advertisement	1:6	3.50	0.50	3.00
Sales commission	1:6	7.00	1.00	6.00
Salary (W.N.3)	1:5	18.00	3.00	15.00
Managing director's remuneration	Post	6.00	-	6.00
Interest on Debentures	Post	2.00	-	2.00
Rent (W.N.4)		5.50	0.93	4.57
Bad debts (1.15 + 0.6)	1:6	1.75	0.25	1.50
Underwriting commission	Post	1.00	-	1.00
Audit fees	Post	3.00	-	3.00
Loss on sale of Investment	Pre	1.00	1.00	-
Depreciation	1:3	4.00	1.00	3.00
(ii)		177.07	25.44	151.63
Net Profit [(i) - (ii)]		74.53	16.16	58.37

Working Notes:

1. Calculation of Sales Ratio

   Let the average sales per month be x

   Total sales from 01.04.2018 to 30.06.2018 will be 3x

   Average sales per month from 01.07.2018 to 31.03.2019 will be 2x

   Total sales from 01.07.2018 to 31.03.2019 will be 2x X 9 =18x

   Ratio of Sales will be 3x: 18x i.e., 3:18 or 1:6

2. Calculation of time Ratio

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

3. Apportionment of Salary

   Let the salary per month from 01.04.2018 to 30.09.2018 is x

   Salary per month from 01.10.2018 to 31.03.2019 will be 2x

   Hence, pre incorporation salary (01.04.2018 to 30.06.2018) = 3x

   Post incorporation salary from 01.07.2018 to 31.03.2019 = (3x + 12x) i.e.,15x

   Ratio for division 3x: 15x or 1: 5

4.

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

Question 5
Nov – 2020

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

Particulars	Amount (Rs)	Amount (Rs.)
Gross Profit		6,30,000
Less : Expenses		
Salaries	1,56,000	
Rent, Rates and Taxes	72,000	
Commission on Sales	40,600	
Depreciation	60,000	
Interest on Debentures	36,000	
Directors Fees	24,000	
Advertisement	48,000	4,36,600
Net profit for the year		1,93,400

Moon Ltd. initiated an advertising campaign which resulted in increase of monthly sales by 25% post incorporation.

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

Answer

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

Particulars	Total Amount Rs.	Basis of Allocation	Pre-incorporation Rs.	Post-incorporation Rs.
Gross Profit (W.N.2)	6,30,000	2:5 (sales)	1,80,000	4,50,000
Less: Salaries	1,56,000	Time	(52,000)	(1,04,000)
Rent, rates and taxes	72,000	Time	(24,000)	(48,000)
Commission on sales	40,600	2:5 (sales)	(11,600)	(29,000)
Depreciation	60,000	Time	(20,000)	(40,000)
Interest on debentures	36,000	Post		(36,000)
Directors' fee	24,000	Post		(24,000)
Advertisement	48,000	Post		(48,000)
Net profit			72,400	1,21,000

Pre-incorporation profit will be transferred to Capital Reserve.

Post-incorporation profit will be transferred to Profit & Loss Account.

Working Notes:

1. **Sales ratio**

   Let the monthly sales for first 4 months (i.e. from 1.4.2019 to 31.7.2019) be = x Then, sales for 4 months = 4x

   Monthly sales for next 8 months (1st August, 2019 to 31st March, 2020) = x + 25% of x = 1.25x Then, sales for next 8 months = 1.25x · 8 = 10x

   Total sales for the year = 4x + 10x = 14x. Hence Sales Ratio = 4 x : 10x i.e. 2:5

2. **Time ratio**

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

CHAPTER 6

Accounting for Bonus and Right Issue

Question 1

May – 2018

Following are the balances appear in the trial balance of Arya Ltd. as at 31st March. 2018.

Issued and Subscribed Capital:

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

On 1st April, 2018 the company has made final call @ Rs. 2 each on 1,00,000 Equity Shares. The call money was received by 15th April, 2018. Thereafter the company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 5 shares held and for this purpose, it decided that there should be minimum reduction in free reserves. Pass Journal entries.

Arya Ltd.
Journal Entries

2018	Particulars	Dr. (Rs.)	Cr. (Rs.)
1-Apr	Equity Share Final Call A/c To Equity Share Capital A/c (Final call of Rs. 2 per share on 1,00,000 equity shares due as per Board's Resolution dated)	2,00,000	 2,00,000

2018	Particulars	Dr. (Rs.)	Cr. (Rs.)
15-Apr	Bank A/c To Equity Share Final Call A/c (Final Call money on 1,00,000 equity shares received)	2,00,000	 2,00,000
15-Apr	Securities Premium A/c General Reserve A/c* To Bonus to Shareholders A/c (Bonus issue @ one share for every 5 shares held by utilizing various reserves as per Board's Resolution dated...)	25,000 1,75,000	 2,00,000
15-Apr	Bonus to Shareholders A/c To Equity Share Capital A/c (Capitalization of profit)	2,00,000	 2,00,000

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

Question 2

Nov – 2019

Following is the extract of Balance Sheet of Prem Ltd. as at 31st March, 2018 :

Particulars	Rs.
Authorized capital:	
3,00,000 equity shares of Rs.10 each	30,00,000
25,000,10% preference shares of Rs.10 each	2,50,000
	32,50,000
Issued and subscribed capital:	27,00,000
2,70,000 equity shares of Rs.10 each fully paid up	2,40,000
24,000, 10% preference shares of Rs.10 each fully paid up	29,40,000
Reserves and surplus:	
General reserve	3,60,000

Particulars	Rs.
Capital redemption reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and loss account	6,00,000
	11,55,000

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

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

Answer

Prem Ltd. Journal Entries

			Dr.	Cr.
Apr.1	Capital Redemption Reserve A/c	Dr.	1,20,000	
	Securities Premium A/c	Dr.	75,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	5,25,000	
	To Bonus to Equity Shareholders A/c			10,80,000
	(Bonus issue @ two shares for every five shares held by utilizing various reserves as per Board's Resolution dated...)			
	Bonus to Shareholders A/c	Dr.	10,80,000	
	To Equity Share Capital A/c			10,80,000
	(Issue of bonus shares)			

Balance Sheet (Extract) as on 1st April, 2018 (after bonus issue)

		Particulars	Notes	Amount (Rs.)
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	40,20,000
	b	Reserves and Surplus	2	75,000

Notes to accounts :

			Rs.
1	**Share Capital**		
	Authorized share capital:		
	3,78,000* Equity shares of Rs.10 each		37,80,000*
	25,000 10% Preference shares of Rs.10 each		2,50,000
	Total		**40,30,000**
	Issued, subscribed and fully paid share capital:		
	3,78,000 Equity shares of Rs.10 each, fully paid		
	(Out of above, 1,08,000 equity shares @ Rs.10 each were issued by way of bonus)		37,80,000
	24,000 10% Preference shares of Rs.10 each		2,40,000
	Total		**40,20,000**
2	**Reserves and Surplus**		
	Capital Redemption Reserve	1,20,000	Nil
	Less: Utilized	1,20,000	
	Securities Premium	75,000	
	Less: Utilised for bonus issue	(75,000)	Nil
	General reserve	3,60,000	
	Less: Utilised for bonus issue	(3,60,000)	Nil
	Profit & Loss Account	6,00,000	
	Less: Utilised for bonus issue	(5,25,000)	75,000
	Total		**75,000**

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

Question 3

Jan – 2021

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

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

On 1st April, 2019, the Company has made final call on Equity shares @ Rs.2 per share. The entire money was received in the month of April, 2019.

On 1st June, 2019, the Company decided to issue to Equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it decided that there should be minimum reduction in free reserves.

Pass necessary journal entries in the Books of Star Ltd.

Answer

Journal Entries in the books of Star Ltd.

2019	Particulars		Dr.	Cr.
			₹	₹
April 1	Equity Share Final Call A/c	Dr.	1,60,000	
	To Equity Share Capital A/c			1,60,000
	(Final call of ₹ 2 per share on 80,000 equity shares made due)			
	Bank A/c	Dr.	1,60,000	
	To Equity Share Final Call A/c			1,60,000
	(Final call money on 80,000 equity shares received)			
June 1	Capital Redemption Reserve A/c	Dr.	75,000	
	Capital Reserve	Dr.	45,000*	
	Securities Premium A/c	Dr.	60,000	

2019	Particulars		Dr. ₹	Cr. ₹
	General Reserve A/c (b.f.) To Bonus to Shareholders A/c (Bonus issue of two shares for every five shares held, by utilizing various reserves as per Board's resolution dated…….)	Dr.	1,40,000**	 3,20,000
	Bonus to Shareholders A/c To Equity Share Capital A/c (Capitalization of profit)	Dr.	3,20,000	 3,20,000

*Considering it as free reserve as it has been realized.

**Alternatively, different combination of profit and loss balance and general reserve may also be used.

CHAPTER 7

Redemption of Preference Shares

Question 1:

May – 2018

Dheeraj Limited had 5,000, 10% Redeemable Preference Shares of Rs.100 each, fully paid up. The company had to redeem these shares at a premium of 10%. It was decided by the company to issue the following:

(i) 40,000 Equity Shares of Rs.10 each at par

(ii) 2,000 12% Debentures of Rs.100 each.

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

Answer

In the books of Dheeraj Limited

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	Being the issue of 40,000 equity shares of Rs.10 each at par as per Board's resolution No……dated…..)			
	Bank A/c	Dr.	2,00,000	
	To 12% Debenture A/c			2,00,000
	Being the issue of 2,000 Debentures of Rs.100 each as per Board's Resolution No…..dated……)			
	10% Redeemable Preference Share Capital A/c	Dr.	5,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	50,000	

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	To Preference Shareholders A/c			5,50,000
	Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	5,50,000	
	To Bank A/c			5,50,000
	Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	50,000	
	To Premium on Redemption of Preference Shares A/c			50,000
	Being the adjustment of premium on redemption against Profits & Loss Account)			
	Profit & Loss A/c	Dr.	1,00,000	
	To Capital Redemption Reserve A/c (Working Note)			1,00,000
	Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed	Rs.5,00,000
Less: Proceeds from new issue	(Rs.4,00,000)
Balance	Rs.1,00,000

Question 2:

Nov – 2018

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

Answer

A company may prefer issue of new equity shares in the following situations:

(a) When the company realizes that the capital is needed permanently and it makes more sense to issue Equity Shares in place of Redeemable Preference Shares which carry a fixed rate of dividend.

(b) When the balance of profit, which would otherwise be available for dividend, is insufficient.

(c) When the liquidity position of the company is not good enough.

Advantages of redemption of preference shares by issue of fresh equity shares

(1) No cash outflow of money is required – now or later.

(2) New equity shares may be valued at a premium.

(3) Shareholders retain their equity interest.

Disadvantages of redemption of preference shares by issue of fresh equity shares

(1) There will be dilution of future earnings;

(2) Share-holding in the company is changed.

Question 3:

May – 2019

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

		Particulars	Amount (Rs.)
I	EQUITY AND LIABILITIES		
	1	**Shareholders' funds**	
	(a)	Share capital	5,80,000
	(b)	Reserves and Surplus	96,000
	2	**Current Liabilities:**	
		Trade Payables	1,13,000
		Total	**7,89,000**
II	ASSETS		
	1	**Non-Current Assets**	
		Property, Plant and Equipment Tangible Assets	6,90,000
		Non-current investments	37,000
	2	**Current Assets**	

		Particulars	Amount (Rs.)
		Cash and cash equivalents (Bank)	62,000
		Total	**7,89,000**

The Share Capital of the company consists of Rs.50 each Equity shares of Rs.4,50,000 and Rs.100 each 8% Redeemable Preference Shares of Rs.1,30,000 (issued on 1.4.2017). Reserves and Surplus comprises statement of profit and loss only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

(a) to sell all the investments for Rs.30,000.

(b) to finance part of redemption from company funds, subject to, leaving a Bank balance of Rs.24,000.

(c) to issue minimum equity share of Rs.50 each at a premium of Rs.10 per share to raise the balance of funds required.

You are required to

(1) Pass Journal Entries to record the above transactions.

(2) Prepare Balance Sheet after completion of the above transaction

Answer

Journal Entries

	Particulars		Dr. (Rs.)	Cr. (Rs.)
1	Bank A/c	Dr.	75,000	
	To Share Application A/c			75,000
	(For application money received on 1,250 shares @ Rs.60 per share)			
2	Share Application A/c	Dr.	75,000	
	To Equity Share Capital A/c			62,500
	To Securities Premium A/c			12,500
	(For disposition of application money received)			
3	Preference Share Capital A/c	Dr.	1,30,000	
	Premium on Redemption of Preference Shares A/c	Dr.	13,000	
	To Preference Shareholders A/c			1,43,000
	(For amount payable on redemption of preference shares)			

	Particulars		Dr. (Rs.)	Cr. (Rs.)
4	Profit and Loss A/c	Dr.	13,000	
	To Premium on Redemption of Preference Shares A/c			13,000
	(For writing off premium on redemption out of profits)			
5	Bank A/c	Dr.	30,000	
	Profit and Loss A/c (loss on sale) A/c	Dr.	7,000	
	To Investment A/c			37,000
	(For sale of investments at a loss of Rs.3,500)			
6	Preference Shareholders A/c	Dr.	1,43,000	
	To Bank			1,43,000
	(Being amount paid to Preference shareholders)			
7	Profit and Loss A/c	Dr.	67,500	
	To Capital Redemption Reserve A/c			67,500
	(For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds (face value of equity shares) i.e., Rs.1,30,000 – Rs.62,500)			

Balance Sheet of Clean Ltd. (after redemption)

		Particulars	Notes	Amount (Rs.)
I	EQUITY AND LIABILITIES			
	1	**Shareholders' funds**		
	(a)	Share capital	1	5,12,500
	(b)	Reserves and Surplus	2	88,500
	2	**Current liabilities**		
		Trade Payable		1,13,000
		Total		**7,14,000**
II	ASSETS			
	1	**Non-Current Assets**		
		Property Plant and Equipments Tangible asset		6,90,000
	2	**Current Assets**	3	
		Cash and cash equivalents (bank)		**24,000**
		Total		**7,14,000**

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

Notes to accounts :

Working Note:

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

Question 3 :

Nov – 2020

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

	Amount (Rs.)
6,00,000 Equity shares of Rs 10 each fully paid	60,00,000
30,000, 10% preference shares of Rs 100 each Rs 80 paid up	24,00,000
Securities Premium	6,00,000
Capital Redemption Reserve	18,00,000
General Reserve	35,00,000

Under the terms of issue, the preference shares are redeemable on 31st March, 2020 at a premium of 10%. In order to finance the redemption, the board of directors decided to make fresh issue of Rs 1,50,000 equity shares of Rs 10 each at a premium of 20%, Rs 2 being payable on application, Rs 7 (including premium) on allotment and the balance on 1st jan, 2021. The issue was fully subscribed and allotment made on 1st March, 2020. The money due on allotment was received by 20th March, 2020.

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

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

Answer

Journal Entries

	Particulars	Rs.	Rs.
1	10% Preference Share Final Call A/c Dr.	6,00,000	
	To 10% Preference Share Capital A/c		6,00,000
	(For final call made on preference shares @ Rs. 20 each to make them fully paid up)		
2	Bank A/c Dr.	6,00,000	
	To 10% Preference Share Final Call A/c		6,00,000
	(For receipt of final call money on preference shares)		
3	Bank A/c Dr.	3,00,000	
	To Equity Share Application A/c		3,00,000
	(For receipt of application money on 1,50,000 equity shares @ Rs. 2 per share)		
4	Equity Share Application A/c Dr.	3,00,000	
	To Equity Share Capital A/c		3,00,000
	(For capitalization of application money received)		

	Particulars		Rs.	Rs.
5	Equity Share Allotment A/c	Dr.	10,50,000	
	To Equity Share Capital A/c			7,50,000
	To Securities Premium A/c			3,00,000
	(For allotment money due on 1,50,000 equity shares @ Rs. 7 per share including a premium of Rs. 2 per share)			
6	Bank A/c	Dr.	10,50,000	
	To Equity Share Allotment A/c			10,50,000
	(For receipt of allotment money on equity shares)			
7	10% Preference Share Capital A/c	Dr.	30,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	3,00,000	
	To Preference Shareholders A/c			33,00,000
	(For amount payable to preference shareholders on redemption at 10 % premium)			
8	General Reserve A/c	Dr.	3,00,000	
	To Premium on Redemption A/c			3,00,000
	(Writing off premium on redemption of preference shares)			
9	General Reserve A/c	Dr.	19,50,000	
	To Capital Redemption Reserve A/c			19,50,000
	(For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 30,00,000 – 3,00,000 – 7,50,000)			
10	Preference Shareholders A/c	Dr.	33,00,000	
	To Bank A/c			33,00,000
	(For amount paid to preference shareholders)			

Balance Sheet (extracts)

		Particulars	Notes No.	As at 31.3.2020	As at 31.12.2019
				Rs.	Rs.
1	EQUITY AND LIABILITIES Shareholders' funds				
	(a)	Share capital	1	70,50,000	84,00,000
	(b)	Reserves and Surplus	2	59,00,000	59,00,000

Notes to Accounts :

		As at 31.3.2020	As at 31.12.2019
1	**Share Capital**		
	Issued, Subscribed and Paid up:		
	6,00,000 Equity shares of Rs. 10 each fully paid up	60,00,000	60,00,000
	1,50,000 Equity shares of Rs.10 each Rs. 7 paid up	10,50,000	-
	30,000, 10% Preference shares of Rs. 100 each, Rs.80 paid up	-	24,00,000
		70,50,000	**84,00,000**
2	**Reserves and Surplus**		
	Capital Redemption Reserve	37,50,000	18,00,000
	Securities Premium	9,00,000	6,00,000
	General Reserve	12,50,000	35,00,000
		59,00,000	**59,00,000**

Note:

1. Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company

referred in the question is governed by Section 133 of the Companies Act, 2013 and comply with the Accounting Standards prescribed for them.

2. Amount received (excluding premium) on fresh issue of shares till the date of redemption should be considered for calculation of proceeds of fresh issue of shares. Thus, proceeds of fresh issue of shares are Rs.10,50,000 (Rs.3,00,000 application money plus Rs. 7,50,000 received on allotment towards share capital) and balance Rs. 19,50,000 to taken from general reserve account.

Question 5 :

Jan – 2021

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

Particulars	Amount (Rs.)
General Reserve	1,20,000
Profit & Loss Account	60,000
Investment Allowance Reserve (not free for distribution as divided)	15,000
Cash at bank	1,95,000

Preference Shares are to be redeemed at a premium of 10%. For the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve and surplus, subject to the conditions that a sum of Rs.40,000 shall be retained in General and which should not be utilized.

Company also sold investment of 4500 Equity Shares in G Ltd. costing Rs.45,000 at Rs.9 per share.

Pass Journal entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet as at 31.03.2020 of BK Ltd., after the redemption carried out.

Answer

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	84,500	
	To Equity Share Capital A/c			84,500
	(Being the issue of 8,450 Equity Shares of ₹ 10 each as per Board's Resolution No.....dated.......)			
	9% Redeemable Preference Share Capital A/c	Dr.	2,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	20,000	
	To Preference Shareholders A/c			2,20,000
	(Being the amount paid on redemption transferred to Preference Shareholders Account)			
	Bank A/c	Dr.	40,500	
	Profit and Loss A/c (loss on sale) A/c	Dr.	4,500	
	To Investment A/c			45,000
	(Being investment sold at loss of ₹ 4,500)			
	Preference Shareholders A/c	Dr.	2,20,000	
	To Bank A/c			2,20,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	20,000	
	To Premium on Redemption of Preference Shares A/c			20,000
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)			
	General Reserve A/c Profit & Loss A/c	Dr.	80,000	
	To Capital Redemption Reserve A/c	Dr.	35,500	
	(Being the amount transferred to Capital Redemption Reserve Account)			1,15,500

Balance Sheet as on......... [Extracts]

	Particulars	Notes No.	₹
	EQUITY AND LIABILITIES		
1.	Shareholders' funds		
	Share capital	1	3,84,500
	Reserves and Surplus ASSETS	2	1,70,500
	Current Assets		
2.	Cash and cash equivalents		
	(1,95,000 + 84,500+ 40,500 – 2,20,000)		1,00,000

Notes to accounts

1.	Share Capital	
	38,450 Equity shares (30,000 + 8,450) of ₹10 each fully paid up	3,84,500
2.	Reserves and Surplus	
	General Reserve	40,000
	Profit and loss account	NIL
	Capital Redemption Reserve	1,15,500
	Investment Allowance Reserve	15,000
		1,70,500

Working Note:

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

Face value of shares redeemed		₹2,00,000
Less: Profit available for distribution as dividend:		
–General Reserve: ₹ (1,20,000–40,000)	₹80,000	
–Profit and Loss (60,000 less 20,000 set aside for adjusting premium payable on redemption of Pref. shares less 4,500 loss on sale of investments)	₹35,500	₹(1,15,500)
		₹ 84,500

Therefore, No. of shares to be issued = 84,500/₹10 = 8,450 shares.

CHAPTER 8 Redemption of Debentures

Question 1
May - 2018

Gurudev Limited purchases for immediate cancellation 6,000 of its own 12% debentures of Rs. 100 each on 1st November, 2017. The dates of interest being 31st March, and 30th September. Pass necessary journal entries relating to the cancellation if:

(i) Debentures are purchased at Rs.98 ex-interest.

(ii) Debentures are purchased at Rs.98 cum-interest.

Answer

In case of ex-interest:
In the books of Gurudev Limited
Journal Entry

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.11.17	Own Debentures A/c Dr.	5,88,000	
	Debentures Interest A/c Dr. [6,000 x 100 x 12% x (1/12)]	6,000	
	To Bank A/c		5,94,000
	(Purchase of 6,000 Debentures @ 98 ex interest for immediate cancellation)		
1.11.17	12% Debentures A/c Dr.	6,00,000	
	To Own Debentures A/c		5,88,000
	To Capital reserve A/c (Profit on cancellation of debentures)		12,000
	Being profit on cancellation of 6,000 Debentures transferred to capital reserve account		

(i) In case of cum interest

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.11.17	Own Debenture A/c Dr.	5,82,000	
	Debenture Interest Account A/c Dr.	6,000	
	6,000 x100 x12% x (1/12)]		
	To Bank A/c		5,88,000
	Being 6,000 debentures purchased @ Rs.98 cum interest for immediate cancellation)		
1.11.17	12% Debenture A/c Dr.	6,00,000	
	To Own Debentures A/c		5,82,000
	To Capital reserve A/c (Profit on cancellation of debentures)		18,000
	Being profit on cancellation of 6,000 Debentures transferred to capital reserve account)		

Question 2
Nov – 2018

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 uninvested 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.

Answer

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 debentures	800	31.12.17	By interest on DRFI (10% of Rs.42,800)	4,280
	To Balance c/d	57,892		By interest on own debentures (ie. 12% on Rs.11,000)	1,320
		59,100			59,100
			1.1.18	To Balance b/d	57,892

Debenture Redemption Fund Investment Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.1.17	To Balance b/d (428 x Rs.101)	43,228	31.12.17	By Bank A/c	40,800
1.1.17	To Bank	10,272		By Debenture redemption Fund (1% of Rs.40,800)	408
31.12.17	To capital Reserve (Profit on cancellation of Debentures	728		By 12% Debentures	11,000
				By Balance c/d	2,020

Date	Particulars	Rs.	Date	Particulars	Rs.
		54,228			**54,228**
1.1.18	To Balance b/d	2,020			

Question 3
Nov – 2019

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

Answer

Calculation of number of equity shares to be allotted

Particulars	Number of debentures
Total number of debentures	40,000
Less: Debenture holders not opted for conversion	(5,000)
Debenture holders opted for conversion	35,000
Option for conversion	20%
Number of debentures to be converted (20% of 35,000)	7,000

Redemption value of 7,000 debentures at a premium of 5%

[7,000 x (100 + 5)] = Rs.7,35000

Equity shares of Rs.10 each issued to debenture holders on redemption

[Rs.7,35,000/Rs.15] = 49,000 shares

Amount of cash to be paid

Amount to be paid into cash [42,00,000 (40,000 x Rs.105) – 7,35,000]

on redemption = Rs.34,65,000

Question 4
Nov – 2020

Sumit Ltd (an unlisted company other than AIFI, Banking company, NBFC and HFC) had 8,000 9% debentures of Rs 100 each outstanding as on 1st April, 2019 redeemable on 31st March, 2020.

On 1st April, 2019, the following balances appeared in the books of accounts.

- Investments in 1000, 7% secured Govt. Bonds of Rs 100 each, Rs 1,00,000
- Debentures Redemption Reserve is Rs 50,000

Interest on investments is received yearly at the end of financial year.

1,000 own debentures were purchased on 30th March, 2020 at an average price of Rs 96.50 and cancelled on the same date.

On 31st March, 2020 the investments were realized at par and the debentures were redeemed. You are required to write up the following accounts for the year ended 31st March, 2020

(1) 12% Debentures

(2) Debentures Redemption Reserve Account

(3) DRR Investment Account.

(4) Own Debentures Account.

Answer

9% Debenture Account

Date	Particulars	Rs.	Date	Particulars	Rs.
30th March 2020	To Own Debentures A/c	96,500	1st April, 2019	By Balance b/d	8,00,000
30th March 2020	To Profit on Cancellation	3,500			
31st March 2020	To Bank A/c	7,00,000			
		8,00,000			**8,00,000**

Debenture Redemption Reserve (DRR) Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31st March, 2020	To General Reserve A/c	80,000	1st April, 2019	By Balance b/d	50,000
			1st April, 2019	By Profit and loss A/c [Refer Working Note 3]	30,000
		80,000			**80,000**

Debenture Redemption Reserve (DRRI) Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1st April 2019	To Balance b/d	1,00,000	31st March, 2020	By Bank A/c (1,000 x 100 x 15%) (Refer Working Note 2)	15,000
1st April 2019	To Bank A/c (Refer Working Note 1)	20,000	31st March, 2020	By Bank A/c (Refer Working Note 2)	1,05,000
		1,20,000			1,20,000

Own Debentures A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
30th March, 2020	To Bank A/c*	96,500	30th March, 2020	By 9% Debentures	96,500
		96,500			**96,500**

* interest not considered.

<u>Working Notes:</u>

Debenture Redemption Reserve Investment A/c

The company would be required to invest an amount equivalent to 15% of the value of the debentures in specified investments which would be equivalent to: = Total No of debentures X Face value per debenture X 15%

= 8,000 X 100 X 15% = Rs.1,20,000/-

The company has already invested in specified investments i.e. 7% Govt bonds for an amount of Rs.1,00,000 as per the information given in the question. The balance amount of Rs.20,000 (i.e. Rs. 1,20,000 less Rs. 1,00,000) would be invested by the company on 1 April 2019.

Redemption of Debenture Redemption Reserve Investments on 31.3.2020

Since the company purchased 1,000 own debentures on 31 March 2020, the company would also realize the investments of 15% corresponding to these debentures for which computation is as follows:

= No of own debentures to be bought X Face value per debenture X 15%

= 1,000 X 100 X 15% = Rs. 15,000/-

The remaining debentures i.e. total debentures less own debentures would be redeemed on 31 March 2020 and hence the company would also realize the balance investments of 15% corresponding to these debentures for which computation is as follows:

= (Total no of debentures - No of own debentures) X Face value per debenture X 15% = (8,000

- 1,000) X 100 X 15% = Rs.1,05,000/-

Debenture Redemption Reserve

The company would be required to transfer an amount equivalent to 10% of the value of the debentures in Debentures Redemption Reserve Account. The value of debentures is 8,00,000 thus 10% of it i.e. 80,000 should be there in DRR a/c. The available balance in DRR a/c is only 50,000 therefore 30,000 (80,000 - 50,000) additional amount will be transferred from General Reserve or Profit and loss A/c to DRR A/c.

Question 5
Jan – 2021

During the year 2019-2020, A Limited (a listed company) made a public issue in respect of which the following information is available :

(i) No. of partly convertible debentures issued – 1,00,000; face value and issue price Rs.100 per debenture. (Whose issue was underwritten by X Ltd.)

(ii) Convertible portion per debenture – 60%, date of conversion – on expiry of 6 months from the date of closing of issue.

(iii) Date of closure of subscription lists – 1st May, 2019, date of allotment – 1st June, 2019, rate of interest on debenture – 15% p.a. payable from the date of allotment, value of equity shares for the purpose of conversion – Rs.60 (face value Rs.10)

(iv) Underwriting Commission – 2%

(v) No. of debentures applied for by public – 80,000

(vi) Interest is payable on debentures half yearly on 30th September and 31st March each year.

Pass relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2020 (including cash and bank entries)

Answer

Journal Entries in the books of A Ltd.

Date	Particulars		Amount Dr.	Amount Cr.
1.5.2019	Bank A/c To Debenture Application A/c (Application money received on 80,000 debentures @ 100 each)	Dr.	80,00,000	 80,00,000

Date	Particulars		Amount Dr.	Amount Cr.
1.6.2019	Debenture Application A/c Underwriters A/c To 15% Debentures A/c (Allotment of 80,000 debentures to applicants and 20,000 debentures to underwriters)	Dr. Dr.	80,00,000 20,00,000	1,00,00,000
	Underwriting Commission A/c To Underwriters A/c (Commission payable to underwriters @ 2% on 1,00,00,000)	Dr.	2,00,000	2,00,000
	Bank A/c To Underwriters A/c (Amount received from underwriters in settlement of account)	Dr.	18,00,000	18,00,000
1.6.2019	Debenture Redemption Investment A/c To Bank A/c (100,000 X 100 x 15% X 40%) (Being Investments made for redemption purpose)	Dr.	6,00,000	6,00,000

Date	Particulars		Amount Dr.	Amount Cr.
30.9.2019	Debenture Interest A/c To Bank A/c (Interest paid on debentures for 4 months @ 15% on ₹ 1,00,00,000)	Dr.	5,00,000	 5,00,000
31.10.2019	15% Debentures A/c To Equity Share Capital A/c To Securities Premium A/c (Conversion of 60% of debentures into shares of 60 each with a face value of 10)	Dr.	60,00,000	 10,00,000 50,00,000
31.3.2020	Debenture Interest A/c To Bank A/c (Interest paid on debentures for the half year) (*Refer working note below*)	Dr.	3,75,000	 3,75,000

<u>**Working Note:**</u>

Calculation of Debenture Interest for the half year ended 31st March, 2020 On ₹ 40,00,000 for 6 months @ 15% = 3,00,000
On 60,00,000 for 1 months @ 15% = 75,000 **3,75,000**

CHAPTER 9 Investment Accounts

Question 1
May- 2018

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
01.01.2016	600	Buy @ Rs.20 per share
15.03.2016	900	Buy @ Rs.25 per share
20.05.2016	1000	Buy @ Rs.23 per share
25.07.2016	2500	Bonus Shares received
20.12.2016	1500	Sale @ Rs.22 per share
01.02.2017	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.

Answer

Investment in Equity shares of JP Power Ltd.

Date	Particulars	No.	Dividend	Amount	Date	Particulars	No.	Dividend	Amount
1.1.16	To Bank A/c	600		12,000	31.3.16	By Bal. c/d	1,500		34,500
15.3.16	To Bank A/c	900		22,500			–		–
		1,500		34,500			1,500		34,500
1.4.16	To Bal. b/d	1,500		34,500	15.9.16	By Bank dividend		4,500	
20.5.16	To Bank A/c	1,000		23,000	20.12.16	By Bank	1,500		33,000
25.7.16	To Bonus Shares	2,500		–	1.2.17	By Bank	1,000		24,000
20.12.16	To P&L A/c (profit on sale)			15,187.50 *					
1.2.17	To P&L A/c (profit on sale)		4,500	12,125					
31.3.17	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 on 20.5.17].

    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 31st March, 2016.

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.

Profit on sale of equity shares As on 20.12.16

Sales price (1,500 shares at Rs.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 1.2.17	
Sales price (1,000 shares at Rs.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 31.3.17 will be valued at Rs.36,812.50 (at rate of Rs.11.875 per share

Question 2
Nov – 2018

Following transactions of Nisha took place during the financial year 2017-18:

Date	Description
1st April, 2017	Purchased Rs.9,000 8% bonds of Rs.100 each at Rs.80.50 cum-interest. Interest is payable on 1st November and 1st May.
1st May, 2017	Received half year's interest on 8% bonds.

Date	Description
10 July, 2017	Purchased 12,000 equity shares of Rs.10 each in Moon Limited for Rs.44 each through a broker, who charged brokerage @ 2%.
1st October 2017	Sold 2,250 8% bonds at Rs.81 Ex-interest.
1st November, 2017	Received half year's interest on 8% bonds.
15th January, 2018	Moon Limited made a rights issue of one equity share for every four Equity shares held at Rs.5 per share. Nisha exercised the option for 40% of her entitlements and sold the balance rights in the market at Rs.2.25 per share.
15th March, 2018	Received 18% interim dividend on equity shares of Moon Limited.

Prepare separate investment account for 8% bonds and equity shares of Moon Limited in the books of Nisha for the year ended on 31st March, 2018. Assume that the average cost method is followed.

Answer

In the books of Nisha

8% Bonds for the year ended 31st March, 2018

Date	Particulars	No	Income	Amount	Date	Particulars	No	Dividend	Amount
1 Apr. 2017	To Bank A/c	9,000	30,000	6,94,500	1 May 2017	By Bank-Interest	-	36,000	
1 Oct. 2018	To P & L A/c (W.N.1)	-	-	8,625	1 Oct 2017	By Bank A/c	2,250	7,500	1,82,250
Mar.31	To P & L A/c		40,500		1 Nov 2018	By Bank-Interest		27,000	
					31 Mar. 2018	By Balance c/d (W.N.2)	6,750	-	5,20,875
		9,000	70,500	7,03,125			9,000	70,500	7,03,125

Investment in Equity shares of Moon Ltd. for the year ended 31st March, 2018

Date	Particulars	No	Income	Amount	Date	Particulars	No	Dividend	Amount
2017 July 10	To Bank A/c	12,000	–	5,38,560	2018 Mar.15	By Bank dividend *	–	23,760	–
2018 Jan.15	To Bank A/c (W.N. 3)	1,200	–	6,000	Mar.31	By Balance c/d (bal. fig.)	13,200	–	5,44,560
Mar.31	To P & L A/c	–	23,760	–					
		13,200	**23,760**	**5,44,560**			**13,200**	**23,760**	**5,44,560**

* Considering that dividend was received on right shares also.

Working Notes:

1. Profit on sale of 8% Bonds

Sales price	Rs.1,82,250
Less: Cost of bond sold = 6,94,500/9,000x 2,250	Rs.(1,73,625)
Profit on sale	Rs.8,625

Closing balance as on 31.3.2018 of 8 % Bonds

6,94,500/ 9,000 x 6,750= Rs.5,20,875

Calculation of right shares subscribed by Moon Ltd.

Right Shares = 12,000/4 x 1= 3,000 shares

Shares subscribed by Nisha = 3,000 x 40%= 1,200 shares

Value of right shares subscribed = 1,200 shares @ Rs.5 per share = Rs.6,000

Calculation of sale of right entitlement by Moon Ltd.

No. of right shares sold = 3,000 – 1,200 = 1,800 rights for Rs.4,050

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

Question 4 :
Nov – 2019

Mr. Harsh provides the following details relating to his holding in 10% debentures (face value of Rs.100 each) of Exe Ltd. held as current assets:

1.4.2018	opening balance – 12,500 debentures, cost Rs.12,25,000
1.6.2018	purchased 9,000 debentures@ Rs.98 each ex-interest
1.11.2018	purchased 12,000 debentures @ Rs.115 each cum interest
31.1.2019	sold 13,500 debentures@ Rs.110 each cum-interest
31.3.2019	Market value of debentures @ Rs.115 each

Due dates of interest are 30th June and 31st December.

Brokerage at 1% is to be paid for each transaction. Mr. Harsh closes his books on 31.3.2019. Show investment account as it would appear in his books assuming FIFO method is followed.

Answer

Investment Account of Mr. Harsh for the year ending on 31-3-2019 (Scrip: 10% Debentures of Exe Limited)

(Interest Payable on 30th June and 31st December)

Date	Particulars	Nominal Value	Interest	Cost	Date	Particulars	Nominal Value	Interest	Cost
1.4.18	To Balance b/d	12,50,000	31,250	12,25,000	30.6.18	By Bank 21,500 x 100 x 10% x 1/2	–	1,07,500	–
1.6.18	To Bank (ex-Interest) (W.N.1)	9,00,000	37,500	8,90,820	31.12.19	By Bank 33,500 x 100x10% x 1/2	–	1,67,500	–
1.11.18	To Bank (cum-Interest) (W.N.2)	12,00,000	40,000	13,53,800	31.1.19	By Bank (W.N.3)	13,50,000	11,250	14,58,900

Date	Particulars	Nominal Value	Interest	Cost	Date	Particulars	Nominal Value	Interest	Cost
31.1.19	To Profit & Loss A/c (W.N.3)	–	–	1,34,920	31.3.19	By Balance c/d (W.N.4)	20,00,000	50,000	21,45,640
31.3.19	To Profit & Loss A/c (Bal. fig.)	–	2,27,500	–					
		33,50,000	3,36,250	36,04,540			33,50,000	3,36,250	36,04,540

Working Notes :

1. **Purchase of debentures on 1.6.18**

   Interest element = 9,000 x 100 x 10% x 5/12 = Rs.37,500

   Investment element = (9,000 x 98) + [1%(9,000 x 98)] = Rs.8,90,820

2. **Purchase of debentures on 1.11.2018**

   Interest element = 12,000 x 100 x 10% x 4/12 = Rs.40,000

   Investment element = (12,000 x 115 x 101%) less 40,000 = Rs.13,53,800

3. **Profit on sale of debentures as on 31.1.19**

Particulars	Rs.
Sales price of debentures (13,500 x Rs. 110)	14,85,000
Less: Brokerage @ 1%	(14,850)
	14,70,150
Less: Interest (1,35,000/ 12)	(11,250)
	14,58,900
Less: Cost of Debentures [(12,25,000 + (890820 X 1,00,000/9,00,000)]	(13,23,980)
Profit on sale	1,34,920

4. **Valuation of closing balance as on 31.3.2019 :**

   Market value of 20,000 Debentures at Rs.115 =Rs.23,00,000 Cost of

8,000 Debentures	=	8,90,820/ 9,000 X 8,000	=	7,91,840
12,000 Debentures			=	13,53,800
Total				21,45,640

Value at the end is Rs.21,45,640, i.e., which is less than market value of Rs.23,00,000.

Question 6
Nov – 2020

On 1st April, 2019 Mr H had 30,000 equity shares of ABC Ltd. at a book value of Rs 18 per share (Nominal Value of Rs 10 per share) . On 10th June 2019, H purchased another 10,000 equity shares of the ABC Limited at Rs 16 per share through a broker who charged 1.5% brokerage.

The director of ABC Ltd. announced a bonus and a right issue. The terms of the issue were as follows.

1. Bonus shares were declared at the rate of one equity share for every four shares held on 15th July, 2019.
2. Right shares were to be issued to the existing equity shareholders on 31st August, 2019. The company decides to issue one right share for every five equity shares held at 20% premium and the due date for payment will be 30th September, 2019. Shareholders were entitled to transfer their rights in full or in part.
3. No dividend was payable on these issues.

Mr. H subscribed 60% of the rights entitlement and sold the remaining rights for consideration of Rs 5 share.
Dividends for the year ending 31st March, 2019 was declared by ABC Ltd. at the rate of 20% and received by Mr. H on 31st October, 2019.
On 15th Jan, 2020, Mr H sold half of his shareholdings at Rs 17.50 per share and brokerage was charged @ 1%.
You are required to prepare Investment Account in the books of Mr. H. for the year ending 31st March, 2020, assuming the shares are valued at average cost.

Answer

In the books of Mr. H Investment in equity shares of ABC Ltd. for the year ended 31st March, 2020

Date	Particulars	No.	Income Rs.	Amount Rs	Date	Particulars	No.	Income Rs.	Amount Rs
2019 April 1	To Balance b/d	30,000	–	5,40,000	2019 Oct.	By Bank A/c (W.N. 5)	–	60,000	20,000
June	To Bank A/c	10,000	–	1,62,400	20X2 Jan.	By Bank A/c (W.N.4)	28,000	–	4,85,100
July	To Bonus Issue (W.N. 1)	10,000	–	–	March 31	By Balance c/d (W.N. 6)	28,000	–	3,77,200
Sept.	To Bank A/c (W.N. 2)	6,000	–	72,000					
2020 Jan.	To P & L A/c (W.N. 4)	–	–	1,07,900					
March 31	To P & L A/c	–	60,000	–					
		56,000	60,000	8,82,300			56,000	60,000	8,82,300

Working Notes:

1. Calculation of no. of bonus shares issued

   Bonus Shares = (30,000 + 10,000) divided by 4= 10,000 shares

2. Calculation of right shares subscribed

   $$\text{Right Shares} = \frac{30000 \text{ shares} + 10000 \text{ shares} + 10000 \text{ shares}}{5}$$

   = 10000 shares

   Shares subscribed 10,000 x 60% = 6,000 shares

   Value of right shares subscribed = 6,000 shares @ Rs. 12 per share

   = Rs. 72,000

3. Calculation of sale of right entitlement

   Amount received from sale of rights will be 4,000 shares x Rs. 5 per share = Rs. 20,000 and it will be credited to statement of profit and loss.

4. Calculation of profit/loss on sale of shares–

   Total holding = 30,000 shares original

   10,000 shares purchased

10,000 shares bonus

6,000 shares right shares

56,000

50% of the holdings were sold i.e., 28,000 shares (56,000 x1/2) were sold.

Cost of total holdings of 56,000 shares

= Rs. 5,40,000 + Rs. 1,62,400 + Rs. 72,000 Rs. 20,000 = Rs. 7,54,400

Average cost of shares sold would be:

$= \frac{7,54,400}{56,000} \times 28,000 = \text{Rs. } 3,77,200$

Sale proceeds of 28,000 shares (28,000 x Rs.17.50)	4,90,000
Less: 1% Brokerage	(4,900)
	4,85,100
Less: Cost of 28,000 shares sold	(3,77,200)
Profit on sale	1,07,900

5. Dividend received on investment held as on 1st April, 2019

   = 30,000 shares x Rs. 10 x 20%

   = Rs. 60,000 will be transferred to Profit and Loss A/c and

   Dividend received on shares purchased on 10th June, 2019

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

6. Calculation of closing value of shares (on average basis) as on 31st March, 2020

   $\frac{7,54,400}{56,000} \times 28,000 = \text{Rs. } 3,77,200$

CHAPTER 10 Insurance Claims - Loss of Stock & Loss of Profit

Question 1

May - 2018

On 30th March, 2018 fire occurred in the premises of M/s Alok & Co. The concern had taken an insurance policy of Rs.1,20,000 which was subject to the average clause. From the books of accounts the following particulars are available relating to the period 1st January to 30th March, 2018:

(i)	Stock as per Balance Sheet at 31st December, 2017	Rs.1,91,200
(ii)	Purchases (including purchase of machinery costing Rs.60,000)	Rs.3,40,000
(iii)	Wages (including wages Rs.6,000 for installation of machinery)	Rs.1,00,000
(iv)	Sales (including goods sold on approval basis amounting to Rs.99,000)	Rs.5,50,000

No approval has been received in respect of 2/3rd of the goods sold on approval.

(v) The average rate of gross profit is 20% of sales.

(vi) The value of the salvaged goods was Rs.24,600

You are required to compute the amount of the claim to be lodged to the Insurance Company.

Answer

Computation of claim for loss of stock

	Rs.
Stock on the date of fire i.e. on 30th March, 2018 (W.N.1)	1,25,200
Less: Value of salvaged stock	(24,600)
Loss of stock	1,00,600

	Rs.
Amount of claim = $\frac{\text{Insured value}}{\text{Total cost of stock on the date of fire}} \times$ Loss of stock $= \frac{120000}{125200} \times 100600$	96,422 (approx.)

A claim of Rs.96,422 (approx.) should be lodged by M/s Alok & Co. to the insurance company.

Working Notes :

Calculation of closing stock as on 30th March, 2018

Memorandum Trading Account for (from 1st January, 2018 to 30th March, 2018)

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening stock	1,91,200	By Sales (W.N.3)	4,84,000
To Purchases (3,40,000– 60,000)	2,80,000	By Goods with customers (for approval) (W.N.2)	52,800*
To Wages (1,00,000 – 6,000)	94,000	By Closing stock (Bal. fig.)	1,25,200
To Gross profit (20% on sales)	96,800		
	6,62,000		**6,62,000**

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

1. **Calculation of goods with customers**

   Since no approval for sale has been received for the goods of Rs.66,000 (i.e. 2/3 of Rs.99,000) hence, these should be valued at cost i.e. Rs.66,000 – 20% of Rs.66,000 = Rs.52,800.

2. **Calculation of actual sales**

Total sales – Sale of goods on approval (2/3rd) = Rs.5,50,000 – Rs.66,000 = Rs.4,84,000.

Question 2

Nov – 2018

A fire engulfed the premises of a business of M/S Kite Ltd. in the morning, of 1st October, 2017. The entire stock was destroyed except, stock salvaged of Rs.50,000. Insurance Policy was for Rs.5,00,000 with average clause.

The following information was obtained from the records saved for the period from 1st April to 30th September, 2017:

Particulars	Rs.
Sales	27,75,000
Purchases	18,75,000
Carriage inward	35,000
Carriage outward	20,000
Wages	40,000
Salaries	50,000
Stock in hand on 31st March, 2017	3,50,000

Additional Information:

(1) Sales upto 30th September, 2017, includes Rs.75,000 for which goods had not been dispatched.

(2) On 1st June, 2017, goods worth Rs.1,98,000 sold to Hari on approval basis which was included in sales but no approval has been received in respect of 2/3rd of the goods sold to him till 30th September, 2017.

(3) Purchases upto 30th September, 2017 did not include Rs.1,00,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown.

(4) Past records show the gross profit rate of 25% on sales.

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

Answer

Computation of claim for loss of stock

Particulars	Rs.
Stock on the date of fire (i.e. on 1.10.2017)	3,75,000
Less: Stock salvaged	(50,000)
Stock destroyed by fire (Loss of stock)	3,25,000

Insurance claim = Rs.3,25,000

(Average clause is not applicable as insurance policy amount (Rs.5,00,000) is more than the value of closing stock ie. Rs.3,75,000)

Memorandum Trading A/c (1.4.17 to 30.9.17)

Particulars	(Rs.)	Particulars	(Rs.)
To Opening stock	3,50,000	By Sales	25,68,000
To Purchases (Rs.18,75,000+Rs.1,00,000)	19,75,000	By Goods with customers* (for approval) (W.N.1)	99,000
To Carriage inward	35,000	By Closing stock (bal. fig.)	3,75,000
To Wages	40,000		
To Gross profit (Rs.25,68,000 x 25%)	6,42,000		
	30,42,000		**30,42,000**

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

Working Notes:

1. **Calculation of goods with customers**

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

2. **Calculation of actual sales**

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

Question 3
May – 2019

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

Actual turnover from 25th May, 2017 to 30th September, 2017	Rs.1,75,000
Turnover from 25th May, 2016 to 30th September, 2016	Rs.6,00,000
Net profit for last financial year	Rs.2,00,000
Insured standing charges for the last financial year	Rs.1,75,000
Total standing charges for the last financial year	Rs.3,00,000
Turnover for the last financial year	Rs.15,00,000
Turnover for one year from 25th May, 2016 to 24th May, 2017	Rs.14,00,000

You are required to calculate the loss of profit claim amount, assuming that entire sales during the interrupted period was due to additional expenses.

Answer

Computation of the amount of claim for the loss of profit :

1. **Reduction in turnover**

Rs. Turnover from 25th May, 2016 to 30th September, 2016	6,00,000
Add: 10% expected increase	60,000
	6,60,000
Less: Actual Turnover from 25th May, 2017 to 30th September,2017	(1,75,000)
Short Sales	4,85,000

2. **Calculation of loss of Profit :**

Gross Profit on reduction in turnover @ 25% on Rs.4,85,000
1,21,250 (see working note 1)
Add: Additional Expenses Lower of
(i) Actual = Rs.30,000

(ii) Additional Exp. x $\dfrac{\text{G.P. on Adjusted Annual Turnover}}{\text{G.P. as above + Uninsured Standing Charges}}$

30,000 x [3,85,000/(3,85,000 + 1,25,000)] = Rs.22,647

(iii) G.P. on sales generated by additional expenses

175000 x 25% = Rs.43,750

It is given that entire sales during the interrupted period was due to additional expenses.

Therefore, lower of above is (i, ii & iii)	Rs.22,647
	1,43,897
Less: Saving in Insured Standing Charges	(5,000)
Amount of claim before application of Average Clause	1,38,897

3. **Application of Average Clause:**

$\dfrac{\text{Amount of Policy}}{\text{G.P. on Annual Turnover}}$ x Amount of Claim

(3,50,000/3,85,000) x 1,38,897= Rs.1,26,270

Amount of claim under the policy = Rs.1,26,270

Working Notes:

1. **Rate of Gross Profit for last Financial Year:**

	Rs.
Net Profit for last financial year	2,00,000
Add: Insured Standing Charges	1,75,000
Gross Profit	3,75,000
Turnover for the last financial year	15,00,000

Rate of Gross Profit = $\dfrac{3,75,000}{15,00,000}$ x 100 = 25%

2.	**Annual Turnover (adjusted):**	
	Turnover from 25 May, 2016 to 24 May, 2017	14,00,000
	Add: 10% expected increase	1,40,000
		15,40,000
	Gross Profit on Rs.15,40,000 @ 25%	3,85,000
	Standing charges not Insured (3,00,000 – 1,75,000)	1,25,000
	Gross profit + Uninsured standing charges	5,10,000

Question 4
Nov – 2019

A fire occurred in the premises of M/s Kirti & Co. on 15th December, 2018. The working remained disturbed upto 15th March, 2019 as a result of which sales got adversely affected. The firm had taken out an insurance policy with an average clause against consequential losses for Rs.2,50,000.

Following details are available from the quarterly sales tax return filed/GST return filed:

Sales	2015-16 (Rs.)	2016-17 (Rs.)	2017-18 (Rs.)	2018-19 (Rs.)
From 1st April to 30th June	3,80,000	3,15,000	4,11,900	3,24,000
From 1st July to 30th September	1,86,000	3,92,000	3,86,000	4,42,000
From 1st October to 31st December	3,86,000	4,00,000	4,62,000	3,50,000
From 1st January to 31st March	2,88,000	3,19,000	3,80,000	2,96,000
Total	**12,40,000**	**14,26,000**	**16,39,900**	**14,12,000**

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

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

Net profit was Rs.2,50,000 and standing charges (all insured) amounted to Rs.77,980 for the year ending 31st March, 2018.
You are required to calculate the loss of profit claim amount.

Answer

Gross profit ratio

Net profit for the year 2017-18	2,50,000
Add: Insured standing charges	77,980
	3,27,980

Ratio of Gross profit $= \frac{3,27,980}{1639900} = 20\%$

Calculation of Short sales

Indemnity period: 16.12.2018 to 15.3.19

Standard sales to be calculated on basis of corresponding period of year 2017-18

	Rs.
Sales for period 16.12.2017 to 31.12.17	68,000
Sales for period 1.1.2018 to 15.3.2018 (Note 1)	2,60,000
Sales for period 16.12.2017 to 15.3.2018	3,28,000
Add: upward trend in sales (15%) (Note 2)	49,200
Standard Sales (adjusted)	3,77,200
Actual sales of disorganized period	
Calculation of sales from 16.12.18 to 15.3.19	
Sales for period 16.12.18 to 31.12.18	Nil
Sales for 1.1.19 to 15.3.19 (2,96,000 – 40,000)	2,56,000
Actual Sales	2,56,000
Short Sales (3,77,200 – 2,56,000)	1,21,200

Loss of gross profit

Short sales x gross profit ratio = 1,21,200 x 20% = 24,240

Application of average clause

$$\text{Net claim} = \text{Gross claim} \times \frac{\text{policy value}}{\text{gross profit on annual turnover}}$$

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

Amount of loss of profit claim = Rs. 18,575

Working Notes:

1. **Sales for period 1.1.18 to 15.3.18**

	Rs.
Sales for 1 Jan. to 31 March (2017-18) (given)	3,80,000
Less: Sales for 16.3.18 to 31.3.18 (given)	(1,20,000)
Sales for period 1.1.18 to 15.3.18	2,60,000

2. **Calculation of upward trend in sales**

Total sales in year 2015-16	=	12,40,000
Increase in sales in year 2016-17 as compared to 2015-16 =		1,86,000

% increase = $\frac{1,86,000\ (14,26,000 - 12,40,000)}{12,40,000}$ = 15%

Increase in sales in year 2017-18 as compared to year 2016-17

% increase = $\frac{2,13,900\ (16,39,900 - 14,26,000)}{14,26,000}$ = 15%

Thus, annual percentage increase trend is of 15%

3. **Gross profit on annual turnover**

	Rs.
Sales from 16.12.17 to 30.12.17 (adjusted) (68,000 x 1.15)	78,200
1.1.18 to 31.3.18 (adjusted) (3,80,000 x1.15)	4,37,000
1.4.18 to 30.6.18	3,24,000
1.7.18 to 30.9.18	4,42,000
1.10.18 to 15.12.18 (3,50,000 - Nil)	3,50,000
Sales for 12 months just before date of fire*	16,31,200
Gross profit on adjusted annual sales @ 20%	3,26,240

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

Question 5
Nov – 2020

A fire occurred in the premises of M/s. B & Co. on 30th Sept, 2019. The firm had taken an insurance policy for Rs 1,20,000 which was subject to an average clause. Following particulars were ascertained from the available records for the period from 1st April, 2018 to 30th Sept, 2019.

Particulars	Amount (Rs)
Stock at cost on 1/4/2018	2,11,000
Stock at cost on 31/3/2019	2,52,000
Purchase during 2018-19	6,55,000
Wages during 2018-19	82,000
Sales during 2018-19	8,60,000
Purchases from 1/4/2019 to 30/9/2019 (including purchase of machinery costing Rs 58,000)	4,48,000
Wages from 1/4/2019 to 30/9/2019 (including wages for installation on machinery costing Rs 7,000)	85,000
Sales from 1/4/2019 to 30/9/2019	6,02,000
Sale value of goods drawn by partners (1/4/19 to 30/9/19)	52,000
Cost of goods sent to consignee on 18th Sept, 2019 lying unsold with them	44,800
Cost of goods distributed as free samples	8,500

While valuing the stock at 31st March, 2019, Rs 8,000 were written off in respect of a slow moving item, cost of which was Rs 12,000. A portion of these goods were sold at a loss of Rs 4,000 on the original cost Rs 9,000. The reminder of the stock is estimated to be worth the original cost. The value of goods salvaged was estimated at Rs 35,000.
You are required to ascertain the amount of claim to be lodged with the insurance company for the loss of stock.

Answer

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

Particulars	Normal Items Rs.	Abnormal Items Rs.	Total Rs.	Particulars	Normal Items Rs.	Abnormal Items Rs.	Total
To Opening stock	2,48,000	12,000	2,60,000	By Sales	5,97,000	5,000	6,02,000
To Purchases (W.N. 2)	3,39,900	–	3,39,900	By Goods sent to consignee	44,800	–	44,800
To Wages (85,000 – 7,000)	78,000	–	78,000	By Loss	–	4,000	4,000
To Gross profit @ 20%	1,19,400	–	1,19,400	By Closing stock (Bal. fig.)	1,43,500	3,000	1,46,500
	7,85,300	**12,000**	**7,97,300**		**7,85,300**	**12,000**	**7,97,300**

Statement of Claim for Loss of Stock

Particulars	Rs.
Book value of stock as on 30.9.2019	1,46,500
Less: Stock salvaged	(35,000)
Loss of stock	1,11,500

Amount of claim to be lodged with insurance company

$$= \text{Loss of stock} \times \frac{\text{Policy Value}}{\text{Value of stock on the date of fire}}$$

Working Notes:

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

Trading Account for the year ended 31st March, 2019

Particulars	Rs.	Particulars		Rs.
To Opening Stock	2,11,000	By Sales		8,60,000
To Purchases	6,55,000	By Closing stock	2,52,000	
To Wages	82,000	Add: written off	8,000	2,60,000
To Gross Profit (b.f.)	1,72,000			
	11,20,000			**11,20,000**

Rate of Gross Profit in 2018-19

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

= 1,72,000 X 100 / 8,60,000 = 20%

2. **Calculation of Adjusted Purchases**

Particulars	Rs.
Purchases (4,48,000 – 58,000)	3,90,000
Less: Drawings [52,000 – (20 % of 52,000)]	(41,600)
Free samples	(8,500)
Adjusted purchases	3,39,900

Note: The answer has been given considering that the value of stock (at cost) on 31.3.19 amounting Rs.2,52,000 is after adjustment of written off amount in respect of slow-moving item.

Question 6
Jan – 2021

A fire occurred in the premises of M/s. MJ & Co., on 31st December, 2019. From the following particulars related to the period from 1st April, 2019 to 31st December, 2019, you are required to ascertain the amount of claim to be filed with the insurance company for the loss of stock. The company has taken an insurance policy for Rs.1,00,000 which is subject to average clause. The value of goods salvaged was estimated at Rs.31,000. The average rate of gross profit was 20% throughout the period :

Sr.	Particulars	Amount (Rs.)
(i)	Opening stock as on 1st April, 2019	1,50,000
(ii)	Purchases during the year	4,20,000
(iii)	Goods withdrawn by the proprietor for his self use at Sales Value	10,000
(iv)	Goods distributed as charity at cost	4,000
(v)	Purchases include Rs.5,000 of Tools purchased, these Tools should have been capitalized	
(vi)	Wages (include wages paid for the installation of machinery Rs.6,000)	90,000
(vii)	Sales during the year	6,10,000
(viii)	Cost of goods sent to consignee on 1st November, 2019, lying unsold with the consignee.	25,000
(ix)	Sales Return	10,000

Answer

Memorandum Trading Account for the period 1st April, 2019 to 31st Dec 2019

		Rs.		Rs.
To Opening Stock		1,50,000	By Sales (6,10,000 – 10,000)	6,00,000
To Purchases	4,20,000		By Consignment stock	25,000
Less: Tools purchased	(5,000)		By Closing Stock (Bal. fig.)	1,32,000
Goods distributed as Charity	(4,000)			
Cost of goods taken by proprietor	(8,000)	4,03,000		
To Wages (90,000 – 6,000)		84,000		
To Gross Profit [20% of Sales)		1,20,000		
		7,57,000		7,57,000

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

Statement of Insurance Claim

	Rs.
Value of stock destroyed by fire	1,32,000
Less: Salvaged Stock	(31,000)
Loss of stock	1,01,000

Note:

Since policy amount is less than value of stock on date of fire, average clause will apply. Therefore, claim amount will be computed by applying the formula:

$$\text{Claim} = \frac{\text{Insured value}}{\text{Total cost}} \times \text{Loss suffered}$$

Claim amount = Rs. 1,01,000/1,32,000X1,00,000 = Rs. 76,515 (Rounded off)

Note: The average rate of 20% has been given in the question. In the above solution, Gross Profit is calculated @ 20% on sales. Alternative answer considering Gross Profit of 20% is also possible.

CHAPTER 11

Hire Purchase & Installment Sales Transactions

Question 1
May – 2019

M/s Amar bought six Scooters from M/s Bhanu on 1st April, 2015 on the following terms: Down payment Rs.3,00,000 1st instalment payable at the end of 1st year Rs.1,59,000 2nd instalment payable at the end of 2nd year Rs.1,47,000 3rd instalment payable at the end of 3rd year Rs.1,65,000 Interest is charged at the rate of 10% per annum. M/s Amar provides depreciation @ 20% per annum on the diminishing balance method. On 31st March, 2018 M/s Amar failed to pay the 3rd instalment upon which M/s Bhanu repossessed two Scooters. M/s Bhanu agreed to leave the other four Scooters with M/s Amar and adjusted the value of the repossessed Scooters against the amount due. The Scooters taken over were valued on the basis of 30% depreciation per annum on written down value. The balance amount remaining in the vendor's account after the above adjustment was paid by M/s Amar after 5 months with interest@ 15% per annum. M/s Bhanu incurred repairing expenses of Rs.15,000 on repossessed scooters and sold scooters for Rs.1,05,000 on 25th April, 2018.

You are required to :

(1) Calculate the cash price of the Scooters and the interest paid with each instalment.

(2) Prepare Scooters Account and M/s Bhanu Account in the books of M/s Amar.

(3) Prepare Goods Repossessed Account in the books of M/s Bhanu.

Answer

Calculation of Interest and Cash Price

No. of installments	Outstanding balance at the end after the payment of installment	Amount due at the time of installment	Outstanding balance at the end before the payment of installment	Interest	Outstanding balance at the beginning
[1]	[2]	[3]	[4] = 2 + 3	[5] = 4 x 10/110	[6]4 – 5
3rd	–	1,65,000	1,65,000	15,000	1,50,000
2nd	1,50,000	1,47,000	2,97,000	27,000	2,70,000

No. of installments	Outstanding balance at the end after the payment of installment	Amount due at the time of installment	Outstanding balance at the end before the payment of installment	Interest	Outstanding balance at the beginning
1st	2,70,000	1,59,000	4,29,000	39,000	3,90,000
Down Payment					3,00,000
	Total of interest and Total cash price			81,000	6,90,000

(i) In The books of M/s. Amar Scooters Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2015	To Bhanu A/c	6,90,000	31.3.2016	By Depreciation A/c	1,38,000
				By Balance c/d	5,52,000
		6,90,000			6,90,000
1.4.2016	To Balance b/d	5,52,000	31.3.2017	By Depreciation A/c	1,10,400
				Balance c/d	4,41,600
		5,52,000			5,52,000
1.4.2017	To Balance b/d	4,41,600	31.3.2018	By Depreciation A/c	88,320
				By M/s Bhanu a/c (Value of 2 Scooters taken over)	78,890
				By Profit and Loss A/c (Bal. fig.)	38,870
				By Balance c/d (4,41,600 – 88,320)	2,35,520
		4,41,600			4,41,600

(ii) M/s.Bhanu Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.15	To Bank (down payment)	3,00,000	1.4.15	By Scooters A/c	6,90,000
31.3.16	To Bank (1st Installment)	1,59,000	31.3.16	By Interest A/c	39,000
	To Balance c/d	2,70,000			
		7,29,000			**7,29,000**
31.3.17	To Bank (2nd Installment)	1,47,000	1.4.2016	By Balance b/d	2,70,000
	To Balance c/d	1,50,000	31.3.2017	By Interest A/c	27,000
		2,97,000			**2,97,000**
31.3.18	To Scooter A/c	78,890	1.4.2017	By Balance b/d	1,50,000
	To Balance c/d (b.f.)	86,110	31.3.2018	By Interest A/c	15,000
		1,65,000			**1,65,000**
31.08.2018		91,492	1.4.2018	By Balance b/d	86,110
			31.8.2018	By Interest A/c (@ 15 % on bal.) (86,110 x 5/12 x 15/100)	5,382
		91,492			**91,492**

(iii) In the Books of M/s Bhanu Goods Repossessed A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31.3.18	To Amar A/c	78,890	31.3.2018	By Balance c/d	78,890
		78,890			78,890
1.04.2018	To Balance b/d	78,890	25.4.2018	By Bank (Sale)	1,05,000

Date	Particulars	Rs.	Date	Particulars	Rs.
25.4.2018	To Repair A/c	15,000			
25.4.2018	To Profit & Loss A/c	11,110			
		1,05,000			1,05,000

Working Note :

Value of Scooters taken over

Particulars	Rs.
2 Scooters (6,90,000/6 x 2)	2,30,000
Depreciation @ 30% WDV for 3 years (69,000 + 48,300 + 33,810)	(1,51,110)
	78,890

Question 2
Nov – 2020

On 1st April, 2017, Mr Nilesh acquired a Tractor on Hire purchase from Raj Ltd. The terms of contract were as follows.

1. The cash price of the tractor was Rs 11,50,000
2. Rs 2,50,000 were to be paid as down payment on the date of purchase.
3. The balance was to be paid in annual installments of Rs 3,00,000 plus interest at the end of the year.
4. Interest chargeable on the outstanding balance was 8% PA.
5. Depreciation @ 10% PA is to be written off using straight line method.

Mr. Nilesh adopted the interest suspense method for recording his hire purchase transactions. You are required to:

Prepare the Tractor Account, Interest suspense Account and Raj's Ltd. account in the books of Mr. Nilesh.

Answer

Tractor Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2017	To Raj	11,50,000	31.3.2018	By Dep.	1,15,000
				By Balance c/d	10,35,000
		11,50,000			**11,50,000**
1.4.2018	To Balance b/d	10,35,000	31.3.2019	By Dep.	1,15,000
				By Balance c/d	9,20,000
		10,35,000			**10,35,000**

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2019	To balance b/d	9,20,000	31.3.2020	By Dep.	1,15,000
				By Balance c/d	8,05,000
		9,20,000			**9,20,000**

H.P. Interest Suspense Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2017	To Raj Ltd. A/c (W.N.)	1,44,000	31.3.2018	By Interest A/c	72,000
			31.3.2018	By Balance c/d	72,000
		1,44,000			**1,44,000**
1.4.2018	To Balance b/d	72,000	31.3.2019	By Interest A/c	48,000
			31.3.2019	By Balance c/d	24,000
		72,000			**72,000**
1.4.2019	To Balance b/d	24,000	31.3.2020	By Interest A/c	24,000

Total Interest = Rs.72,000 + Rs.48,000 + Rs.24,000 = Rs.1,44,000

Raj Ltd. Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2017	To Bank A/c	2,50,000	1.4.2017	By Tractor A/c	11,50,000
31.3.2018	To Bank A/c	3,72,000		By H.P. Interest Suspense A/c	1,44,000
	To Balance c/d	6,72,000			
		12,94,000			12,94,000
31.3.2019	To Bank A/c	3,48,000	1.4.2018	By Balance b/d	6,72,000
	To Balance c/d	3,24,000			
		6,72,000			6,72,000
31.3.2020	To Bank A/c	3,24,000	1.4.2019	By Balance b/d	3,24,000

Question 3
Jan – 2021

Jai Ltd., purchased a machine on hire purchase basis from KM Ltd. on the following terms:

(a) Cash price Rs.1,20,000.

(b) Down payment at the time of signing the agreement on 1-1-.2016, Rs.32,433.

(c) 5 annual instalments of Rs.23,100, the first to commerce at the end of twelve months from the date of down payment.

(d) Rate of interest is 10% p.a.

You are required to calculate the total interest and interest included in each instalment. Also prepare the Ledger Account of KM Ltd. in the books of Jai Ltd.

Answer

Calculation of Interest

Particulars	Total (₹)	Interest in each instalment (1)	Cash price in each instalment (2)
Cash Price *Less*: Down Payment Balance due after down payment	1,20,000 (32,433) 87,567	Nil	₹ 32,433
Interest/Cash Price of 1st Instalment Less: Cash price of 1st instalment Balance due after 1st instalment	- (14,343) 73,224	87,567x10/100 = 8757	23,100 - 8,757 = 14,343
Interest/cash price of 2nd instalment	-	73,224x 10/100 = 7322	23,100 - 7,322 = 15,778
Less: Cash price of 2nd instalment Balance due after 2nd instalment	(15,778) 57,446		
Interest/Cash price of 3rd instalment	-	₹ 57,446 x 10/100 = ₹ 5745	₹ 23,100 - ₹ 5745= ₹ 17,355

Particulars	Total (₹)	Interest in each instalment (1)	Cash price in each instalment (2)
Less: Cash price of 3rd instalment	(17,355)		
Balance due after 3rd instalment	40,091		
Interest/Cash price of 4th instalment Less: Cash price of 4th instalment Balance due after 4th instalment	– (19,091) 21,000	₹40,091x10/100= ₹ 4,009	₹ 23,100 – ₹ 4,009= ₹ 19,091
Interest/Cash price of 5th instalment Less: Cash price of 5th instalment	– (21,000)	₹21,000 x10/100 = ₹ 2,100	₹ 23,100 – ₹ 2,100=21,000
Total	Nil	₹ 27,933	₹1,20,000

Total interest can also be calculated as follow: (Down payment + instalments) – Cash Price = ₹ [32,433 +(23,100 x 5)] – 1,20,000 = 27,933

KM Ltd. Account in the books of Jai Ltd

Date	Particulars	Amount	Date	Particulars	Amount
1.1. 2016	To Bank A/c	32,433	1.1. 2016	By Machine A/c	1,20,000
31.12.2016	To Bank A/c	23,100	31.12.2016	By Interest A/c	8,757
31.12.2016	To Balance C/d	73,224			
		1,28,757			**1,28,757**
31.12.2017	To Bank A/c	23,100	1.1.2017	By Balance b/d	73,224
31.12.2017	To Balance C/d	57,446	31.12.2017	By Interest A/c	7,322
		80,546			**80,546**

Date	Particulars	Amount	Date	Particulars	Amount
31.12.2018	To Bank A/c	23,100	1.1.2018	By Balance b/d	57,446
31.12.2018	To Balance C/d	40,091	31.12.2018	By Interest A/c	5,745
		63,191			**63,191**
31.12.2019	To Bank A/c	23,100	1.1.2019	By Balance b/d	40,091
31.12.2019	To Balance C/d	21,000	31.12.2019	By Interest A/c	4,009
		44,100			**44,100**
31.12.2019	To Balance C/d	23,100	1.1.2019	By Balance b/d	21,000
			31.12.2019	By Interest A/c	2,100
		23,100			**23,100**

CHAPTER 12 Departmental Accounts

Question 1 :

May – 2018

M/s. Delta is a Departmental Store having three departments X, Y and Z. The information regarding three departments for the year ended 31st March, 2018 are given below:

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

Addition Information:

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

Prepare Departmental Trading and Profit & Loss Account for the year ended 31st March, 2018 after providing provision for Bad Debts at 5%.

Answer:

In the Books of M/s Delta

Departmental Trading and Profit and Loss Account

for the year ended 31st March, 2018

Particulars	Dept.X (Rs.)	Dept.Y (Rs.)	Dept.Z (Rs.)	Total (Rs.)	Particulars	Dept.X (Rs.)	Dept.Y (Rs.)	Dept.Z (Rs.)	Total (Rs.)
To Stock (opening)	18,000	12,000	10,000	40,000	By Sales	90,000	67,500	45,000	2,02,500
To Purchases	66,000	44,000	22,000	1,32,000	By Stock (closing)	22,500	8,750	10,500	41,750
To Carriage Inwards	750	500	250	1,500					
To Gross Profit c/d (b.f.)	27,750	19,750	23,250	70,750					
	1,12,500	76,250	55,500	2,44,250		1,12,500	76,250	55,500	2,44,250
To Carriage Outwards	1,200	900	600	2,700	By Gross Profit b/d	27,750	19,750	23,250	70,750
To Electricity	1,500	1,000	500	3,000	By Discount received	900	600	300	1,800
To Salaries	10,000	8,000	6,000	24,000					
To Advt.	1,200	900	600	2,700					
To Discount allowed	1,000	750	500	2,250					
To Depreciation	400	400	200	1,000					
To Provision for Bad Debts @ 5% of debtors	375	250	250	875					
To Labour welfare exp.	1,000	800	600	2,400					
To Net Profit (b.f.)	8,975	4,850	12,300	26,125					
	28,650	20,350	23,550	72,550		28,650	20,350	23,550	72,550

Working note :

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

Question 2 :

Nov – 2018

Axe Limited has four departments, A, B, C and D. Department A sells goods to other departments at a profit of 25% on cost. Department B sells goods to other department at a profit of 30% on sales. Department C sells goods to other departments at a profit of 10% on cost, Department D sells goods to other departments at a profit of 15% on sales.

Stock lying at different departments at the year-end was as follows:

	Department A	Department B	Department C	Department D
Transfer from Department A	–	45,000	50,000	60,000
Transfer from Department B	50,000	–	–	75,000
Transfer from Department C	33,000	22,000	–	–
Transfer from Department D	40,000	10,000	65,000	–

Departmental managers are entitled to 10% commission on net profit subject to unrealized profit on departmental sales being eliminated.

Departmental profits after charging manager's commission, but before adjustment of unrealized profit are as under:

	Rs.
Department A	2,25,000
Department B	3,37,500
Department C	1,80,000
Department D	4,50,000

Calculate the correct departmental profits after charging Manager's commission.

Answer:

Calculation of correct departmental Profits

	Department A	Department B	Department C	Department D
Profit after charging managers' commission	2,25,000	3,37,500	1,80,000	4,50,000
Add back: Managers' commission (1/9)	25,000	37,500	20,000	50,000
	2,50,000	3,75,000	2,00,000	5,00,000
Less: Unrealized profit on stock (Working Note)	31,000	37,500	5,000	17,250
Profit before Manager's Commission	2,19,000	3,37,500	1,95,000	4,82,750
Less: Commission for Department Manager @ 10%	21,900	33,750	19,500	48,275
Correct Departmental Profits after manager's Commission	**1,97,100**	**3,03,750**	**1,75,500**	**4,34,475**

Working Note :

Stock lying with

	Dept. A	Dept. B	Dept. C	Dept. D	Total
Unrealized Profit of:					
Department A		45,000 x 25/125 = 9,000	50,000 x 25/125 =10,000	60,000 x 25/125 = 12,000	31,000
Department B	50,000 x 0.3 = 15,000			75,000 x 0.3 = 22,500	37,500
Department C	33,000 x10/110 = 3,000	22,000x 10/110 = 2,000			5,000
Department D	40,000x 0.15 = 6,000	10,000x 0.15 = 1,500	65,000x 0.15 =9,750		17,250

Question 3 :

Nov – 2019

ABC Ltd. has several departments. Goods supplied to each department are debited to a Memorandum Departmental Stock Account at cost plus a fixed percentage (mark-up) to give the normal selling price. The amount of mark-up is credited to a Memorandum Departmental Markup account. If the selling price of goods is reduced below its normal selling prices, the reduction (mark-down) will require adjustment both in the stock account and the mark-up account. The mark-up for department X for the last three years has been 20%. Figures relevant to department X for the year ended 31st March, 2019 were as follows:

Stock as on 1st April, 2018, at cost	Rs.1,50,000
Purchases at cost	Rs.4,30,000
Sales	Rs.6,50,000

It is further ascertained that:

(1) Shortage of stock found in the year ending 31.3.2019, costing Rs.4,000 were written off.

(2) Opening stock on 1.4.2018 including goods costing Rs.12,000 had been sold during the year and had been marked-down in the selling price by Rs.1,600. The remaining stock had been sold during the year.

(3) Goods purchased during the year were marked down by Rs.3,600 from a cost of Rs.30,000. Marked-down stock costing Rs.10,000 remained unsold on 31.3.2019.

(4) The departmental closing stock is to be valued at cost subject to adjustment for mark-up and mark-down.

You are required to prepare for the year ended 31st March, 2019 :

(i) Departmental Trading Account for department X for the year ended 31st March, 2019 in the books of head office.

(ii) Memorandum Stock Account for the year ended 31st March, 2019.

(iii) Memorandum Mark-Up account for the year ended 31st March, 2019.

Answer

(i) Department Trading Account for Department X For the year ending on 31.03.2019 In the books of Head Office

Particulars	Amount	Particulars	Amount
To Opening Stock	1,50,000	By Sales	6,50,000
To Purchases	4,30,000	By Shortage	4,000
To Gross Profit c/d	1,05,000	By Closing Stock	31,000
	6,85,000		**6,85,000**

(ii) Memorandum Stock Account (for Department X) (at selling price)

Particulars	Amount	Particulars	Amount
To Balance b/d (Rs.1,50,000+20% of Rs.1,50,000)	1,80,000	By Profit & Loss A/c (Cost of Shortage)	4,000
To Purchases (Rs.4,30,000+20% of Rs. 4,30,000)	5,16,000	By Memorandum Departmental Mark up A/c (Load on Shortage) (Rs.4,000 x 20%)	800

Particulars	Amount	Particulars	Amount
		By Memorandum Departmental Mark-up A/c (Mark-down on Current Purchases)	3,600
		By Debtors A/c (Sales)	6,50,000
		By Memorandum Departmental Mark-up A/c (Mark down on opening stock)	1600
		By Balance c/d	36,000
	6,96,000		6,96,000

(iii) Memorandum Departmental Mark-up Account

Particulars	Amount	Particulars	Amount
To Memorandum Departmental Stock A/c (Rs.4,000 × 20/100)	800	By Balance (Rs.1,80,000 x 20/12	30,000
To Memorandum Departmental Stock A/c	3,600	By Memorandum Departmental Stock A/c (Rs.5,16,000 x 20/120)	86,000
To Memorandum Departmental Stock A/c	1,600		
To Gross Profit transferred to Profit & Loss A/c	1,05,000		
To Balance c/d [(Rs.36,000 + 1,200*) x 20/120 –Rs.1,200]	5,000		
	1,16,000		**1,16,000**

*[Rs.3,600 × 10,000/30,000] = Rs.1,200. Alternatively, this adjustment of Rs.1,200 may be routed through Memorandum Stock Account.

Working Notes:

(i) Calculation of Cost of Sales

		Rs.
A	Sales as per Books	6,50,000
B	Add: Mark-down in opening stock (given)	1,600
C	Add: mark-down in sales out of current Purchases (Rs.3,600 x 20,000 /30,000)	2,400
D	Value of sales if there was no mark-down (A+B+C)	6,54,000
E	Less: Gross Profit (20/120 of Rs.6,54,000) subject to Mark Down	(1,09,000)
F	Cost of sales (D-E)	5,45,000

(ii) Calculation of Closing Stock

		Rs.
A	Opening Stock	1,50,000
B	Add: Purchases	4,30,000
C	Less: Cost of Sales	(5,45,000)
D	Less: Shortage	(4,000)
E	Closing Stock (A+B-C-D)	31,000

Question 4 :

Nov - 2020

Department A sells goods to Department B at a profit of 20% on cost and to Department C at 50% on cost. Department B sells goods to Department A and Department C at a profit of 15% and 10% on sales respectively. Department C sells goods to Department A and Department B at profit of 10% and 5% on cost respectively.

Stock lying at different departments at the end of the year are as follows

	Department A (Rs)	Department B (Rs)	Department C (Rs)
Transfer from Department A		1,14,000	60,000
Transfer from Department B	55,000		15,200
Transfer from Department C	52,800	1,11,300	

Calculate Department wise unrealized profit on Stock.

Answer

	Dept. A Rs.	Dept. B Rs.	Dept. C Rs.	Total Rs.
Unrealized Profit of:				
Department A		1,14,000 x 20/120 = 19,000	60,000 x 50/150 = 20,000	39,000
Department B	55,000 x .15 = 8,250		15,200 x.10 = 1,520	9,770
Department C	52,800 x 10/110 = 4,800	1,11,300 x 5/105 = 5,300		10,100

Question 5 :
Jan – 2021

XYZ garage consist of 3 departments : Spares, Service and Repairs, each department being managed by a departmental manager whose commission was respectively 5%, 10% and 10% of the respective departmental profit subject to a minimum of Rs.5,000 in each case. Inter departmental transfers take place at a "loaded" price as follows:

From Spares to Service	5% above cost
From Spares to Repairs	10% above cost
From Repairs to Service	10% above cost

In respect of the year ended March 31st 2019 the firm had already prepared and closed the departmental trading and profit and loss account. Subsequently it was discovered that the closing stocks of department had included inter-departmentally transferred goods at "loaded" price instead of the correct cost price.

From the following information, you are required to prepare a statement –re-comparing the departmental profit or loss:

	Spares	Service	Repairs
Final Net Profit / Loss (after charging commission)	38,000 (Loss)	50,400 (Profit)	72,000 (Profit)
Inter-departmental transfers included at "loaded" price in the departmental stocks		65000 (21,000 from Spares and 44,000 from repairs)	4,202 (from Spares)

Answer

Calculation of correct Departmental Profits or Losses

	Department Spares	Department Service	Department Repair
Profit after charging Manager's Commission *Add:* Manager's Commission (1/9)	(38,000) 5,000 (Minimum)	50,400 5,600	72,000 8,000
 Less: Unrealized profit on Stock (WN)	(33,000) (1,382)	56,000	80,000 (4,000)
Profit Before Manager's Commission *Less:* Manager's Commission 10%	(34,382) (5,000)	56,000 (5,600)	76,000 (7,600)
Correct Profit after Manager's Commission	(39,382)	50,400	68,400

Working Note:

	Department Spares	Department Service	Department Repair	Total
Unrealized Profit of:				
Department Spares		21,000X5/105 = 1,000	4202X10/110 = 382	1,382
Department Repair		44000X10/110 = 4000		4,000

CHAPTER 13

Accounting for Branches including Foreign Branches

Question 1:
May – 2018

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

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

Ayan closes its books on 31st March, 2018.

Answer

In the books of Head Office Branch Stock Account

Particulars	Amount	Particulars	Amount
To Balance b/d	3,60,000	By Bank A/c (cash Sales)	21,60,000
To Goods sent to Branch A/c	24,00,000	By Branch Debtors A/c (Credit Sales)	1,20,000

Particulars	Amount	Particulars	Amount
To Branch Adjustment A/c – balancing fig. (Surplus)***	36,000	By Goods sent to Branch A/c (Returns to H.O.)	1,20,000
		By Branch Adjustment A/c* (Rs.24,000 x 25/100)	6,000
		By Branch P&L A/c * (Cost of Abnormal Loss)	18,000
		By Branch Adjustment A/c** (Invoice price of normal loss)	36,000
		By Balance c/d:	
		In hand	2,88,000
		In transit	48,000
	27,96,000		**27,96,000**

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

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

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

Branch Stock Adjustment Account

Particulars	Amount	Particulars	Amount
To Branch Stock A/c (Loading on Abnormal Loss)	6,000	By Stock Reserve A/c (Rs.3,60,000 x 25/100)	90,000
To Branch Stock A/c (Normal Loss)	36,000	By Goods Sent to Branch A/c (Rs.24,00,000 – Rs.1,20,000) x 25/100	5,70,000
To Stock Reserve A/c (Rs.3,36,000 x 25/100)	84,000	By Branch Stock A/c (Surplus)	36,000

Particulars	Amount	Particulars	Amount
To Gross Profit t/f to P & L A/c	5,70,000		
	6,96,000		6,96,000

Branch Profit and Loss Account

Particulars	Amount	Particulars	Amount
To Branch Stock A/c (Cost of Abnormal Loss)	18,000	By Branch Adjustment A/c (Gross Profit)	5,70,000
To Net Profit t/f to General P & L A/c	5,52,000		
	5,70,000		5,70,000

Question 2 :
May – 2019

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

Particulars	(Rs. in thousands)	
Stock on 1st April, 2018	600	–
Purchases and Sales	1,600	2,400
Sundry Debtors and Creditors	800	600
Bills of Exchange	240	480
Wages	1,120	–
Rent, rates and taxes	720	–
Sundry Expenses	320	–
Computers	600	–
Bank Balance	520	–
Singapore Office A/c	–	3,040
Total	6,520	6,520

Additional information:

(a) Computers were acquired from a remittance of Singapore dollar 12,000 received from Singapore Head Office and paid to the suppliers. Depreciate Computers at the rate of 40% for the year.

(b) Closing Stock of Delhi branch was Rs.15,60,000 on 31st March, 2019.

(c) The Rates of Exchange may be taken as follows :

(d) on 1.4.2018 @ Rs.50 per Singapore Dollar

(e) on 31.3.2019 @ Rs.52 per Singapore Dollar

(i) Average Exchange Rate for the year @ Rs.51 per Singapore Dollar.

(ii) Conversion in Singapore Dollar shall be made upto two decimal accuracy.

(f) Delhi Branch Account showed a debit balance of Singapore Dollar 59,897.43 on 31.3.2019 in the Head office books and there were no items pending for reconciliation.

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

(1) Revenue statement for the year ended 31st March, 2019 (in Singapore Dollar)

(2) Balance Sheet as on that date. (in Singapore Dollar)

Answer

Revenue Statement
for the year ended 31st March, 2019

Particulars	Singapore dollar	Particulars	Singapore Dollar
To Opening Stock	12,000.00	By Sales	47,058.82
To Purchases	31,372.55	By Closing stock	30,000.00
To Wages	21,960.78	(15,60,000/52)	
To Gross profit b/d	11,725.49		
	77,058.82		**77,058.82**
To Rent, rates and taxes	14,117.65	By Gross profit c/d	11,725.49
To Sundry Expenses	6,274.51	By Net loss b/d	13,466.67
To Depreciation on computers	4,800.00		

Particulars	Singapore dollar	Particulars	Singapore Dollar
(Singapore dollar 12,000 × 0.4)			
	25,192.16		**25,192.16**

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

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

Working Note :

M/s Rani & Co. Delhi Branch Trial Balance in (Singapore $) as on 31st March, 2019

			Conversion rate per Singapore dollar Rs.	Dr. Singapore dollar	Cr. Singapore dollar
Stock on 1.4.18	6,00,000.00		50	12,000.00	–
Purchases and sales	16,00,000.00	24,00,000.00	51	31,372.55	47,058.82
Sundry Debtors and Creditors	8,00,000.00	6,00,000.00	52	15,384.61	11,538.46

			Conversion	Dr.	Cr.
			rate per Singapore dollar	Singapore dollar	Singapore dollar
			Rs.		
Bills of exchange	2,40,000.00	4,80,000.00	52	4,615.38	9,230.77
Wages	11,20,000.00		51	21,960.78	-
Rent, rates and Taxes	7,20,000.00		51	14,117.65	-
Sundry Expenses	3,20,000.00		51	6,274.51	-
Computers	6,00,000.00		-	12,000.00	-
Bank balance	5,20,000.00		52	10,000.00	-
Singapore office A/c					59,897.43

Question 3
Nov – 2020

Vijay & Co. of Jaipur has a branch in Patna to which goods are sent @ 20% above cost. The branch makes both cash & Credit sales. Branch expenses are paid directly from head office and the branch has to remit all cash received into the bank account of head office. Branch doesn't maintain any books of accounts, but sends monthly returns to the head office.

Following further details are given for the year ended 31st March, 2020:

Particulars	Amount (Rs)
Goods received from Head Office at Invoice Price	8,40,000
Goods returned to Head office at Invoice price	60,000
Cash sales for the year 2019 -2020	1,85,000
Credit sales for the year 2019 -2020	6,25,000
Stock at branch as on 1/4/2019 at invoice price	72,000
Debtors at Patna branch as on 1/4/2019	96,000
Cash received from debtors	4,38,000
Discount allowed to debtors	7,500
Goods returned by customers at Patna Branch	14,000

Particulars	Amount (Rs)
Bad debts written off	5,500
Amount recovered from bad debts previously written off as bad	1,000
Rent, rates & Taxes at branch	24,000
Salaries & Wages at Branch	72,000
Office Expenses (At branch)	9,200
Stock at branch as on 31/3/2020 at cost price	1,25,000

Prepare necessary ledger accounts in the books of Head office by following stock and debtors method and ascertain branch profit.

Answer

Branch Stock Account

		Rs.			Rs.	Rs.	Rs.
1.4.19	To Balance b/d (opening stock)	72,000	31.3.20	By Sales:			
31.3.20	To Goods Sent to Branch A/c	8,40,000		Cash		1,85,000	
	To Branch P & L	94,000		Credit	6,25,000		
				Less: Return	(14,000)	6,11,000	7,96,000
				By Goods sent to branch			60,000
				By Balance c/d (closing stock)			1,50,000
		10,06,000					**10,06,000**
1.4.20	To Balance b/d	1,50,000					

Branch Debtors Account

		Rs.			Rs.
1.4.19	By Balance b/d	96,000	31.3.20	By Cash	4,38,000
31.3.20	By Sales	6,25,000		By Returns	14,000
				By Discounts	7,500
				By Bad debts	5,500
				By Balance c/d	2,56,000
		7,21,000			**7,21,000**
1.4.20	By Balance b/d	2,56,000			

Branch Expenses Account

		Rs.			Rs.
31.3.20	To Salaries & Wages	72,000	31.3.20	By Branch P&L A/c	1,18,200
	To Rent, Rates & Taxes	24,000			
	To Office Expenses	9,200			
	To Discounts	7,500			
	To Bad Debts	5,500			
		1,18,200			**1,18,200**

Branch Profit & Loss Account for year ended 31.3.20

		Rs.			Rs.
31.3.20	To Branch Expenses A/c	1,18,200	31.3.20	By Branch stock	94,000
	To Net Profit transferred to General P & L A/c	93,800		By Branch Stock Adjustment account	1,17,000
				By Bad debts recovered	1,000
		2,12,000			**2,12,000**

Branch Stock Adjustment Account for year ended 31.3.20

		Rs.			Rs.
31.3.20	To Goods sent to branch (60,000x1/6) – returns	10,000	31.3.20	By Balance b/d (72,000x1/6)	12,000
	To Branch P & L A/c	1,17,000		By Goods sent to branch (8,40,000 x 1/6)	1,40,000
	To Balance c/d (1,50,000 x 1/6)	25,000			
		1,52,000			**1,52,000**

Question 4
Jan – 2021

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

(1) Branch paid Rs.5,000 as salary to H.O. supervisor, but the amount paid by branch has been debited to salary account in the books of branch.

(2) Asset Purchased by branch for Rs.25,000, but the Asset was retained in H.O. Books.

(3) A remittance of Rs.8,000 sent by the branch has not been received by H.O.

(4) H.O. collected Rs.25,000 directly from the customer of Branch but fails to give the intimation to branch.

(5) Remittance of funds by H.O. to branch Rs.5,000 not entered in branch books.

Answer

Sr.	Particulars		Dr. Amount	Cr. Amount
(i)	Head office account	Dr.	5,000	
	To Salaries account			5,000

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

CHAPTER 14

Accounts from Incomplete Records

Question 1 :

Nov – 2018

Aman, a readymade garment trader, keeps his books of account under single entry system. On the closing date, i.e., on 31st March, 2017 his statement of affairs stood as follows:

Liabilities	Amount(Rs.)	Assets	Amount(Rs.)
Aman's capital	4,80,000	Building	3,25,000
Loan	1,50,000	Furniture	50,000
Creditors	3,10,000	Motor car	90,000
		Stock	2,00,000
		Debtors	1,70,000
		Cash in hand	20,000
		Cash at bank	85,000
	9,40,000		**9,40,000**

Riots occurred and a fire broke out on the evening of 31st March, 2018, destroying the books of accounts. On that day, the cashier had absconded with the available cash. You are furnished with the following information:

1. Sales for the year ended 31st March, 2018 were 20% higher than the previous year's sales, out of which, 20% sales were for cash. He always sells his goods at cost plus 25%. There were no cash purchases
2. Collection from debtors amounted to Rs.14,00,000, out of which Rs.3,50,000 was received in cash.
3. Business expenses amounted to Rs.2,00,000, of which Rs.50,000 were outstanding on 31st March, 2018 and Rs.60,000 paid by cheques.
4. Gross profit as per last year's audited accounts was Rs.3,00,000.
5. Provide depreciation on building and furniture at 5% each and motor car at 20%.

6. His private records and the Bank Pass Book disclosed the following transactions for the year 2017-18:

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

7. Stock level was maintained at Rs.3,00,000 all throughout the year.
8. The amount defalcated by the cashier is to be written off to the Profit and Loss Account. You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2018 and Balance Sheet as on that date of Aman. All the workings should form part of the answer.

Answer

Trading and Profit and Loss Account of Aman
for the year ended 31st March, 2018

	Rs.		Rs.
To Opening Stock	2,00,000	By Sales	18,00,000
To Purchases (Bal. fig.)	15,40,000	By Closing Stock	3,00,000
To Gross Profit c/d	3,60,000		
	21,00,000		21,00,000
To Business Expenses	2,00,000	By Gross Profit b/d	3,60,000
To Repairs	10,000		
To Depreciation:			
Building 16,250			
Machinery 2,500			
Motor Car 18,000	36,750		
To Travelling Expenses	15,000		
To Loss by theft (cash defalcated)	20,000		
To Net Profit	78250		
	3,60,000		**3,60,000**

Balance Sheet of Aman as at 31st March, 2018

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

Working Notes :

1. **Cash and Bank Account**

Particulars	Cash	Bank	Assets	Cash	Bank
To Balance b/d	20,000	85,000	By Payt. to Creditor	–	13,75,000
To Collection from Debtors	3,50,000	10,50,000	By Business Expenses	90,000	60,000
To Sales (18,00,000 x 20%)	3,60,000	–	By Repairs	10,000	–
			By Cash (c) (withdrawal)	–	1,20,000
To Cash (C)	–	7,15,000	By Bank (C)	7,15,000	–
To Bank (C)	1,20,000	–	By Travelling Expenses	15,000	–
			By Private Drawings	–	75,000
			By Balance c/d	–	2,20,000
			By Cash defalcated (balancing fig.)	20,000	–
	8,50,000	**18,50,000**		**8,50,000**	**18,50,000**

2. **Calculation of sales during 2017-18**

	Rs.
Gross profit (last year i.e. for year ended 31.3.2017	3,00,000
Goods sold at cost plus 25% i.e. 20% of sales	15,00,000
Sales for 2016-17 3,00,000/0.2	18,00,000
Sales for 2017-18 (15,00,000 x 1.2)	14,40,000
Credit sales for 2017-18	(80% of 18,00,000)

3. **Debtors Account**

Particulars	Amount	Particulars	Amount
To Bal. b/d.	1,70,000	By Cash	3,50,000
To Sales (18,00,000 x 80%)	14,40,000	By Bank	10,50,000
		By Bal. c/d	2,10,000
	16,10,000		16,10,000

4. **Creditors Account**

Particulars	Amount	Particulars	Amount
To Bank	13,75,000	By Bal. b/d	3,10,000
To Bal. c/d (bal. fig.)	4,75,000	By Purchases	15,40,000
	18,50,000		**18,50,000**

Question 2 :

May - 2019

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

	As on 31-03-2018	As on 31-03 -2019
	(Rs.)	(Rs.)
Land and Building	2,50,000	2,50,000
Plant and Machinery	1,10,000	1,65,000

	As on 31-03-2018	As on 31-03 -2019
Office Equipment	52,500	42,500
Sundry Debtors	77,750	1,10,250
Creditors for Purchases	47,500	?
Provision for office expenses	10,000	7,500
Stock	?	32,500
Long Term loan from ABC Bank @ 10% per annum	62,500	50,000
Bank	12,500	?
Capital	4,65,250	?

Other information was as follows:

	in (Rs.)
Collection from Sundry Debtors	4,62,500
Payments to Creditors for Purchases	2,62,500
Payment of office Expenses	21,000
Salary paid	16,000
Selling Expenses paid	7,500
Total sales	6,25,000
Credit sales (80% of Total sales)	
Credit Purchases	2,70,000
Cash Purchases (40% of Total Purchases)	
Gross Profit Margin was 25% on cost	
Discount Allowed	2,750
Discount Received	2,250
Bad debts	2,250

- Depreciation to be provided as follows:
  Land and Building – 5% per annum
  Plant and Machinery – 10% per annum
  Office Equipment – 15% Per annum
- On 01.10.2018 the firm sold machine having book value, Rs.20,000 (as on 31.03.2018) at a loss of Rs.7,500. New machine was purchased on 01.01.2019.

- Office equipment was sold at its book value on 01.04.2018.
- Loan was partly repaid on 31.03.2019 together with interest for the year. You are required to prepare:

(i) Trading and Profit & Loss account for the year ended 31st March, 2019.

(ii) Balance Sheet as on 31st March 2019.

Answer

Trading and Profit and Loss A/c for the year ended 31.3.2019

		Rs.			Rs.
To Opening stock (Balancing figure)		82,500	By Sales– Cash (W.N.1)	1,25,000	
To Purchases– Cash	1,80,000		Credit	5,00,000	6,25,000
Credit (W.N.1)	2,70,000	4,50,000	By Closing stock		32,500
To Gross profit c/d		1,25,000			
		6,57,500			6,57,500
To Loss on sale of Machine		7,500	By Gross profit b/d		1,25,000
To Depreciation			By Discount received		2,250
Land & Building	12,500				
Plant & Machinery	11,875				
Office Equipment	6,375	30,750			
To Expenses paid					
Salary	16,000				
Selling Expenses	7,500				
Office Expenses	18,500	42,000			
To Bed debt		2,250			

		Rs.			Rs.
To Discount allowed		2,750			
To Interest on loan		6,250			
To Net profit		35,750			
		1,27,250			1,27,250

Balance Sheet as on 31-3-2019

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

Working Notes :

1. **Calculation of Sales and Purchases**

Total sales = Rs.6,25,000

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

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

Gross Profit 25% on cost = 6,25,000x25/125 = Rs. 1,25,000

Credit purchases = Rs.2,70,000

Credit purchases = 60% of total purchases

Cash purchases = 40% of total purchases

Total purchases = 2,70,000 x 100/60 = Rs.4,50,000

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

2. Plant & Machinery

	Rs.		Rs.
To Balance b/d	1,10,000	By Sale of Machinery A/c	20,000
To Cash-purchase (Bal. Fig.)	75,000	By Balance c/d	1,65,000
	1,85,000		**1,85,000**

Depreciation on Plant and Machinery :

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

Sale of Machinery Account

	Rs.		Rs.
To Plant and Machinery	20,000	By Depreciation (20,000 x 10% x ½)	1000
		By Profit and Loss A/c	7,500
		By Bank (Balancing figure)	11,500
	20,000		20,000

Creditors Account

	Rs.		Rs.
To Cash	2,62,500	By Balance b/d	47,500
To Discount received	2,250	By Credit purchases (W.N.2)	2,70,000

	Rs.		Rs.
To Balance c/d (Bal. Fig.)	52,750		
	3,17,500		**3,17,500**

Debtors Account

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

Provision for Office Expenses Account

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

Bank Account

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

2. **Equipment Account**

	Rs.		Rs.
To balance b/d	52,500	By Sales	10,000
		By balance c/d	42,500
	52,500		**52,500**

Question 3 :
Nov – 2019

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

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

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

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

Additional Information:

(i) Discount allowed to trade debtors and received from trade creditors amounted to Rs.4,000 and Rs.42,500 respectively (for the year ended 31st March, 2019).

(ii) Annual fire insurance premium of Rs.9,000 was paid every year on 1st August for the renewal of the policy.

(iii) Furniture & fixtures were subject to depreciation @ 15% p.a. on diminishing balance method.

(iv) The following are the balances as on 31st March, 2019:

Stock = Rs.9,75,000

Trade debtors = Rs.3,43,000

Outstanding expenses = Rs.55,200

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

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

Answer

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

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

	Rs.			Rs.
	14,35,500			14,35,500

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

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

Working Notes :

1. **Trade Debtors Account**

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

2. **Memorandum Trading Account**

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

3. Trade Creditors Account

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

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

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

Question 4 :

Nov – 2020

M/s. Rohan & Sons runs a business of Electrical goods on wholesale basis. The books of accounts are closed on 31st March every year. The balance sheet as on 31st March, 2019 is as follows

Liabilities	Rs	Assets	Rs
Capital	12,50,000	Fixed assets	6,50,000
Trade Creditors	1,90,000	Stock	3,75,000
Profit and Loss A/c	1,45,000	Trade Debtors	3,65,000
		Cash and Bank	1,95,000
	15,85,000		**15,85,000**

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

Particulars	Upto 31/3/2020	Feb 2020	March 2020
Purchase	16,20,000	1,40,000	1,25,000
Sales	20,75,000	2,10,000	1,75,000

All sales and Purchase are on credit basis. It was decided to invest Rs.1,50,000 in purchase of Fixed Assets, which are depreciated @ 10% on book value. A fixed assets of book value as on 1/4/2019, Rs 60,000 was sold for Rs 56,000 on 31st March, 2020. The time lag for payment to trade creditors for purchase is one month and receipt from trade debtors for sales is two months. The business earns a gross profit of 25% on turnover. The expenses against gross profit amounts to 15% of the turnover. The amount of depreciation is not included in these expenses. Prepare trading & Profit & Loss account for the year ending 31st March, 2020 and draft a balance sheet as at 31st March, 2020 assuming that creditors are all trade creditors for purchases and debtors are all trade debtors for sales and there are no other current assets and liabilities apart from stock and cash and bank balance.

Also, prepare cash & bank account and Fixed assets account for the year ending 31st March, 2020.

Answer

Trading and Profit & Loss account of M/s Rohan & Sons

for the year ending 31st March 2020

	Rs.		Rs.
To Opening stock	3,75,000	By Sales	24,60,000
To Purchases	18,85,000	By Closing stock	4,15,000
To Gross Profit c/d (25%)	6,15,000	(Balancing Figure)	
	28,75,000		**28,75,000**
To Depreciation	80,000	By Gross profit b/d	6,15,000

	Rs.		Rs.
To Expenses (15% of Rs.24,60,000)	3,69,000	By Profit on sale of Fixed assets	2,000
To Net Profit (b.f.)	1,68,000		
	6,17,000		**6,17,000**

Balance Sheet of M/s Rohan Sons as on 31st March, 2020

Liabilities	Rs.	Assets	Rs.
Capital	12,50,000	Fixed assets (less Dep.)	6,66,000
Profit & Loss A/c (1,45,000 + 1,68,000)	3,13,000	Stock	4,15,000
		Debtors	3,85,000
Trade Creditors	1,25,000	Cash and bank	2,22,000
	16,88,000		**16,88,000**

Cash and Bank Account

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

Fixed Assets Account

	Rs.		Rs.
To Bal. b/d	6,50,000	By Cash	56,000
To Profit on sale of Fixed asset	2,000	By Depreciation on sold fixed asset	6,000
To Bank A/c	1,50,000	By Depreciation (59,000 + 15,000)	74,000

	Rs.		Rs.
		By Bal. c/d	6,66,000
	8,02,000		**8,02,000**

Question 5 :

Jan – 2021

Mr. Prakash furnishes following information for his readymade garments business :

(i) Receipts and Payments during 2019-20:

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Bank Balances as on 1-4-2019	16,250	Payment to Sundry Creditors	3,43,000
Received from Sundry Debtors	4,81,000	Salaries	75,000
Cash Sales	1,70,800	General Expenses	22,500
Capital brought in the business during the year	50,000	Rent and taxes	11,800
Interest on Investment received	9,750	Drawings	96,000
		Cash Purchases	1,22,750
		Balance at Bank on 31.03.2020	36,600
		Cash in hand on 31.03.2020	20,150
	7,27,800		7,27,800

(ii) Particulars of other Assets and Liabilities are as follows :

	1st April, 2019	31st March, 2020
	Rs.	Rs.
Machinery	85,000	85,000
Furniture	24,500	24,500
Trade Debtors	1,55,000	?
Trade Creditors	60,200	?

	1st April, 2019	31st March, 2020
	Rs.	Rs.
Stock	38,600	55,700
12% Investment	85,000	85,000
Outstanding Salaries	12,000	14,000

(iii) Additional information :

(1) 20% of Total sales and 20% of total purchases are in cash.

(2) Of the Debtors, a sum of Rs.7,200 should be written off as Bad debt and further a reserve for doubtful debts is to be provided @ 2%

(3) Provide depreciation @10% p.a. on Machinery and Furniture.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2020, and Balance Sheet as on that date.

Trading and Profit & Loss Account for the year ended 31-03-2020

	₹	₹		₹
To Opening Inventory		38,600	By Sales	8,54,000
To Purchases		6,13,750	By Closing Inventory	55,700
To Gross profit c/d (b.f.)		2,57,350		
		9,09,700		9,09,700
To Salaries (75,000+14,000-12,000)		77,000	By Gross Profit b/d	2,57,350
To Rent		11,800	By Interest on investment (9,750+450)	10,200
To General expenses To Depreciation:		22,500		
Machinery @ 10%	8,500			
Furniture @ 10%	2,450	10,950		
To Bad Debts	7200			
To Provision for doubtful debts	7,000	14,200		
To Balance being profit				

	₹	₹		₹
carried to Capital A/c (b.f.)		1,31,100		
		2,67,550		2,67,550

Balance Sheet as on 31st March, 2020

Liabilities	₹	₹	Assets	₹	₹
A. Adamjee's Capital			Machinery Less: Depreciation	85,000	
on 1st April, 2019	3,32,150		Furniture	(8,500)	76,500
Add: Fresh Capital	50,000		Less: Depreciation	24,500	
			Inventory-in-trade		
Add: Profit for the year	1,31,100		Sundry debtors	(2,450)	22,050
	5,13,250		Less: Provision for Doubtful debts		
Less: Drawings	(96,000)	4,17,250	Investment		55,700
			(including accrued interest ₹ 450)	3,57,200	
Sundry creditors		2,08,200	Cash at bank Cash in hand		
Outstanding expenses		14,000		(14,200)	3,43,000
					85,450
					36,600
					20,150
		6,39,450			6,39,450

Working Notes:

1. Balance sheet as on 1-4-2019

	₹		₹
Sundry creditors	60,200	Machinery	85,000
Capital	3,32,150	Furniture	24,500
(balancing figure)		Inventory	38,600
Outstanding salaries	12,000	Sundry debtors	1,55,000
		Investments	85,000
		Bank balance (from cash statement)	16,250

	₹		₹
	4,04,350		4,04,350

2. Total Debtors Account

		₹			₹
1.4.19	To Balance b/d	1,55,000	31.3.20	By Cash	4,81,000
31.3.20	To Credit sales (1,70800/20x80)	6,83,200	31.3.20	By Bad debts	7,200
				By Balance c/d (Bal. Fig.)	3,50,000
		8,38,200			8,38,200

3. Total Creditors Account

		₹			₹
31.3.20	To Cash	3,43,000	1.4.19	By Balance b/d	60,200
31.3.20	To Balance c/d (Bal. Fig.)	2,08,200	31.3.20	By Credit Purchases (1,22,750/20x80)	4,91,000
		5,51,200			5,51,200

CHAPTER15

Miscellaneous Topics

AS 4 – Contingencies and Events Occurring After the Balance Sheet Date

Question 1:
Nov – 2018

The accounting year of Dee Limited ended on 31st March, 2018 but the accounts were approved on 30th April, 2018. On 15th April, 2018 a fire occurred in the factory and office premises. The loss by fire is of such a magnitude that it was not possible to expect the enterprise Dee Limited to start operation again.

State with reasons, whether the loss due to fire is an adjusting or non- adjusting event and how the fact of loss is to be disclosed by the company in the context of the provisions of AS-4 (Revised).

Answer

As per AS 4 (Revised) "Contingencies and Events occurring after the Balance Sheet Date", an event occurring after the balance sheet date should be an adjusting event even if it does not reflect any condition existing on the balance sheet date, if the event is such as to indicate that the fundamental accounting assumption of going concern is no longer appropriate.

The fire occurred in the factory and office premises of an enterprise after 31 March, 2018 but before approval of financial statement of 30.4.18. The loss by fire is of such a magnitude that it is not reasonable to expect the Dee Ltd. to start operations again, i.e., the going concern assumption is not valid. Since the fire occurred after 31/03/18, the loss on fire is not a result of any condition existing on 31/03/18. But the loss due to fire is an adjusting event the entire accounts need to be prepared on a liquidation basis with adequate disclosures by the company by way of note in its financial statements in the following manner:

"Major fire occurred in the factory and office premises on 15th April, 2018 which has made impossible for the enterprise to start operations again. Therefore, the financial statements have been prepared on liquidation basis."

Question 2:
May- 2019

State whether the following statements are 'True' or 'False'. Also give reason for your answer.

- ✓ As per the provisions of AS-5, extraordinary items should not be disclosed in the statement of profit and loss as a part of net profit or loss for the period.
- ✓ As per the provisions of AS-12, government grants in the nature of promoters' contribution which become refundable should be reduced from the capital reserve.
- ✓ As per the provisions of AS-2, inventories should be valued at the lower of cost and selling price.
- ✓ As per the provisions of AS-13, a current investment is an investment, that by its nature, is readily realisable and is intended to be held for not more than six months from the date on which such investment is made.
- ✓ As per the provisions of AS-4, a contingency is a condition or situation, the ultimate outcome of which (gain or loss) will be known or determined only on the occurrence of one or more uncertain future events.

Answer

- ✓ **False**: The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.
- ✓ **True**: When grants in the nature of promoters' contribution becomes refundable, in part or in full to the government on non-fulfillment of some specified conditions, the relevant amount refundable to the government is reduced from the capital reserve.
- ✓ **False**: Inventories should be valued at the lower of cost and net realizable value (not selling price) as per AS 2.
- ✓ **False**: A current investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made.
- ✓ **False**: A contingency is a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.

Question 3:
May- 2019

The financial statements of PQ Ltd. for the year 2017-18 approved by the Board of Directors on 15th July, 2018. The following information was provided :

- ✓ A suit against the company's advertisement was filed by a party on 20th April, 2018, claiming damages of ₹ 25 lakhs.
- ✓ The terms and conditions for acquisition of business of another company have been decided by March, 2018. But the financial resources were arranged in April, 2018 and amount invested was ₹ 50 lakhs.
- ✓ Theft of cash of ₹ 5 lakhs by the cashier on 31st March, 2018 but was detected on 16th July, 2018.
- ✓ Company sent a proposal to sell an immovable property for ₹ 40 lakhs in March, 2018. The book value of the property was ₹ 30 lakhs on 31st March, 2018. However, the deed was registered on 15th April, 2018.
- ✓ A, major fire has damaged the assets in a factory on 5th April, 2018. However, the assets are fully insured.

With reference to AS-4 "Contingencies and events occurring after the balance sheet date", state whether the abovementioned events will be treated as contingencies, adjusting events or non-adjusting events occurring after the balance sheet date.

Answer

- ✓ Suit filed against the company is a contingent liability, but it was not existing as on balance sheet date as the suit was filed on 20th April after the balance Sheet date. As per AS 4, 'Contingencies' used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. Hence, it will have no effect on financial statements and will be a non-adjusting event.
- ✓ In the given case, terms and conditions for acquisition of business were finalized and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2018. This is clearly an event occurring after the balance sheet date. Hence, necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st March 2018.
- ✓ Only those significant events which occur between the balance sheet date

and the date on which the financial statements are approved, may indicate the need for adjustment to assets and liabilities existing on the balance sheet date or may require disclosure. In the given case, theft of cash was detected on 16th July, 18 after approval of financial statements by the Board of Directors, hence no treatment is required.

- ✓ Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. In the given case, sale of immovable property was under proposal stage (negotiations also not started) on the balance sheet date. Therefore, no adjustment to assets for sale of immovable property is required in the financial statements for the year ended 31st March, 2018.
- ✓ The condition of fire occurrence was not existing on the balance sheet date. Only the disclosure regarding event of fire and loss being completely insured may be given in the report of approving authority.

AS 5 – Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

Question 1:
May- 2018

PQR Ltd. is in the process of finalizing its accounts for the year ended 31 st March, 2018. The company seeks your advice on the following:

(i) Goods worth Rs.5,00,000 were destroyed due to flood in September, 2015. A claim was lodged with insurance company. But no entry was passed in the books for insurance claim in the financial year 2015-16. In March, 2018, the claim was passed and the company received a payment of Rs. 3,50,000 against the claim. Explain the treatment of such receipt in final account for the year ended 31 st March, 2018.

(ii) Company created a provision for bad and doubtful debts at 2.5% on debtors in preparing the financial statements for the year 2017-18. Subsequently, on a review of the credit period allowed and financial capacity of the customers, the company decides to increase the provision to 8% on debtors as on 31.03.2018. The accounts were not approved by the Board of Directors till the date of decision. While applying the relevant accounting standard, can this revision be considered as an extra-ordinary item or prior period item?

Answer

(i) As per the provisions of AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", prior period items are income or expenses, which arise, in the current period as a result of error or omissions in the preparation of financial statements of one or more prior periods. Further, the nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on current profit or loss can be perceived.

In the given instance, it is clearly a case of error/omission in preparation of financial statements for the year 2015-16. Hence, claim received in the financial year 2017- 18 is a prior period item and should be separately disclosed in the statement of Profit and Loss.

(ii) In the given case, a limited company created 2.5% provision for doubtful debts for the year 2017-2018. Subsequently, the company revised the estimates based on the changed circumstances and wants to create 8% provision.

As per AS 5, the revision in rate of provision for doubtful debts will be considered as change in estimate and is neither a prior period item nor an extraordinary item.

The effect of such change should be shown in the profit and loss account for the year ending 31st March, 2018.

AS 22 – Accounting for Taxes on Income

Question 1:
May- 2018

Rohit Ltd. has provided the following information

Particulars	₹
Depreciation as per accounting records	2,50,000
Depreciation as per tax records	5,50,000
Unamortised preliminary expenses as per tax record	40,000

There is adequate evidence of future profit sufficiency. How much deferred tax assets/liability should be recognized as transition adjustment when the tax rate is 50%?

Answer

Table showing calculation of deferred tax asset / liability

Particulars	Amount	Timing difference	Deferred tax	Amount @ 50%
	₹			₹
Excess depreciation as per tax records (₹ 5,50,000 – ₹ 2,50,000)	3,00,000	Timing	Deferred tax liability	1,50,000
Unamortised preliminary expenses as per tax records	40,000	Timing	Deferred tax asset	(20,000)
Net deferred tax liability				1,30,000

Net deferred tax liability amounting 1,30,000 should be recognized as transition adjustment.

Question 2:
Nov- 2019

Sheetal Ltd. has provided the following information for the year ended 31st March, 2019:

Particulars	Amount (Rs)
Accounting profit	9,00,000
Book profit as per MAT	5,25,000
Profit as per Income Tax Act	95,000
Tax Rate	30%
MAT Rate	7.5%

You are required to calculate the deferred tax asset/liability as per AS-22 and amount of tax to be debited to the profit and loss account for the year.

Answer

Tax as per accounting profit 9,00,000×30%= 2,70,000

Tax as per Income-tax Profit 95,000×30% = 28,500

Tax as per MAT 5,25,000×7.50%= ₹ 39,375

Tax expense= Current Tax +Deferred Tax

2,70,000 = 28,500+ Deferred tax

Deferred Tax liability as on 31-03-2019

= 2,70,000 - 28,500 = ₹ 2,41,500

Amount of tax to be debited in Profit and Loss account for the year 31 -03-2019

Current Tax + Deferred Tax liability + Excess of MAT over current tax

= 28,500 + 2,41,500+ 10,875 (39,375 - 28,500)

= 2,80,875

Question 3:
May– 2019

Write short note on Timing difference and Permanent Difference as per AS 22.

Answer

Matching of taxes against revenue for a period poses special problems arising from the fact that in number of cases, taxable income may be different from the accounting income. The divergence between taxable income may be different from the accounting income arises due to two main reasons: Firstly, there are differences between items of revenue and expenses as appearing in the statement of profit and loss and the items which are considered as revenue, expenses or deductions for tax purposes, known as Permanent Difference. Secondly, there are differences between the amount in respect of a particular item of revenue or expense as recognised in the statement of profit and loss and the corresponding amount which is recognised for the computation of taxable incom e, known as Timing Difference.

Permanent differences are the differences between taxable income and accounting income which arise in one accounting period and do not reverse subsequently. For example, an income exempt from tax or an expense that is not allowable as a deduction for tax purposes.

Timing differences are those differences between taxable income and accounting income which arise in one accounting period and are capable of reversal in one or more subsequent periods. For e.g., Depreciation, Bonus, etc.

AS 17 – Segment Reporting

Question 1:
Nov- 2019

Mac Ltd. gives the following data regarding to its six segments:

(Rs. in lakhs)

Particulars	A	B	C	D	E	F	Total
Segment assets	80	160	60	40	40	20	400
Segment results	100	(380)	20	20	(20)	60	(200)
Segment revenue	600	1,240	160	120	160	120	2,400

The accountant contends that segments 'A' and 'B' alone are reportable segments. Is he justified in his view? Discuss in the context of AS-17 'Segment Reporting'.

Answer

As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

Its segment result whether profit or loss is 10% or more of combined result of all segments in profit; or combined result of all segments in loss, whichever is greater in absolute amount; or

Its segment assets are 10% or more of the total assets of all segments.

If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments.

On the basis of turnover criteria segments A and B are reportable segments.

On the basis of the result criteria, segments A, B and F are reportable segments (since their results in absolute amount is 10% or more of 400 lakhs).

On the basis of asset criteria, all segments except F are reportable segments.

Since all the segments are covered in at least one of the above criteria all segments have to be reported upon in accordance with Accounting Standard (AS) 17. Hence, the opinion of accountant is wrong.

Dissolution of Partnership Firm

Question 1:
May- 2018

A and B carrying on business in partnership sharing profits and losses equally, wished to dissolve the firm and sell the business to AB Limited Company on 31.03.2018 when the firm's position was as follows:

Liabilities	(Rs)	Assets	(Rs)
A's Capital	7,50,000	Land & Building	5,00,000
B's Capital	5,00,000	Furniture	2,00,000
Sundry Creditors	3,00,000	Stock	5,00,000
		Debtors	3,30,000
		Cash	20,000
	15,50,000		15,50,000

The arrangement with AB Limited Company was as follows:

i. Land and Building was purchased at 20% more than the book value.

ii. Furniture and stock were purchased at book value less 15%.

iii. The Goodwill of the firm was valued at 2,00,000.

iv. The firm's debtors, cash and creditors were not to be taken over, but the company agreed to collect the book debts of the firm and discharge the creditors of the firm as an agent, for which services the company was to be paid 5% on all collections from the firm's debtors and 3% on cash paid to firm's creditors.

v. The purchase price was to be discharged by the company in fully paid equity shares of 10 each at a premium of 2 per share.

The company collected all the amounts from the debtors. The creditors were paid off less by 5,000 allowed as discount. The company paid the balance due to the vendors in cash.

Prepare the Realisation A/c, the Capital Accounts of the Partners and the Cash Account in the books of the Partnership firm.

Answer

In the Books of Partnership Firm Realization Account

		Rs.				Rs.
To	Land & Building	5,00,000	By	Sundry Creditors		3,00,000
To	Furniture	2,00,000	By	AB Ltd. Co. – Purchase consideration – (W.N.1)		13,95,000
To	Stock	5,00,000	By	AB Ltd. Company – Sundry Debtors	3,30,000	
To	Debtors	3,30,000		Less: Commission 5% on 3,30,000	16,500	3,13,500
To	AB Ltd. Co. – Sundry Creditors (3,00,000 – 5000)	2,95,000				
To	AB Ltd. Co (Commission 3% on 2,95,000)	8,850				
To	Profits transferred to: A's Capital A/c 87,325 B's Capital A/c 87,325	1,74,650				
		20,08,500				20,08,500

Capital Accounts of Partners

		A	B			A	B
		Rs.	Rs.			Rs.	Rs.
To	Shares in AB Ltd. Co.– (W.N.2)	8,19,900	5,75,100	By	Balance b/d	7,50,000	5,00,000

To	Cash – Final Payment	17,425	12,225	By	Realization a/c – Profit	87,325	87,325
		8,37,325	5,87,325			8,37,325	5,87,325

Cash Account

		Rs.			Rs.
To	Balance b/d	20,000	By	A's Capital A/c– Final payment	17,425
To	AB Ltd. Co. (Amount realized from Debtors less amount paid to creditors) –(W.N.3)	9,650	By	B's Capital A/c– Final Payment	12,225
		29,650			29,650

Working Notes:

1. **Calculation of Purchase consideration**:

	Rs.
Land & Building	6,00,000
Furniture	1,70,000
Stock	4,25,000
Goodwill	2,00,000
	13,95,000

2. Distribution of shares among partners

The shares received from the company have been distributed between the two partners A & B in the ratio of their final claims i.e., 8,37,325: 5,87,325*.

No. of shares received from the company = 13,95,000/12= 1,16,250

A gets [(1,16,250 X 8,37,325)/14,24,650] = 68,325 shares valued at 68,325 x 12 = 8,19,900. B gets the remaining 47,925 shares, valued at 5,75,100 (47,925 × 12)

3. Calculation of net amount received from AB Ltd on account of amount realized from debtors less amount paid to creditors.

		Rs.
Amount realized from Debtors		3,30,000
Less:	Commission for realization from debtors (5% on 3,30,000)	16,500
		3,13,500
Less:	Amount paid to creditors	2,95,000
		18,500
Less:	Commission for cash paid to creditors (3% on 2,95,000)	8,850
Net amount received		9,650

Note: In the above situation, shares received from AB Ltd. Company have been distributed between two partners A and B in the ratio of their final claims. Alternatively, shares received from AB Ltd. can be distributed among the partners in their profit-sharing ratio i.e. 13,95,000 x ½ = 6,97,500 each. In that case, firm will pay cash amounting Rs. 1,39,825 to A and will receive cash 1,10,175 from B. Partners' capital accounts and cash account will, accordingly get changed.

Question 2:
Nov- 2018

E, F and G were partners in a firm, sharing profits and losses in the ratio of 3:2:1, respectively. Due to extreme competition, it was decided to dissolve the partnership on 31st December, 2017. The balance sheet on that date was as follows:

Liabilities		Rs.	Assets	Rs.
Capital accounts:			Machinery	1,54,000
E	1,13,100		Furniture & fittings	25,800
F	35,400		Investments	5,400
G	31,500	1,80,000	Stock	97,700
Current accounts:			Debtors	56,400
E	26,400		Bank	29,700
G	6,000	32,400	Current account: F	18,000
Reserves		1,08,000		
Loan account: G		15,000		
Creditors		51,600		
		3,87,000		3,87,000

The realization of assets is spread over the next few months as follows:

February, Debtors, 51,900; March, Machinery, 1,39,500; April, Furniture, etc. 18,000; May, G agreed to take over investment at 6,300; June, Stock, 96,000.

Dissolution expenses, originally provided, were 13,500, but actually amounted to 9,600 and were paid on 30th April. The partners decided that after creditors were settled for 50,400, all cash received should be distributed at the end of each month in the most equitable manner.

You are required to prepare a statement of actual cash distribution as received using "Maximum loss basis" method.

Answer

Statement of Distribution of Cash by 'Maximum Loss Method'

		Creditors Rs.	G 's Loan Rs.	E Rs.	F Rs.	G Rs.	Total Rs.
Feb: Balance due		51,600	15,000	1,93,500	53,400	55,500	3,02,400*
Cash available	29,700						
Collection from debtors	51,900						
	81,600						
Less: prov for expenses	13,500						
	68,100						
Creditors & Loan paid (50,400 +15,000)	65,400	(50,400)	(15,000)				
		1,200	–				
Discount written off		(1,200)					
Available for E, F & G	2,700	–					
Maximum possible loss (3,02,400–2,700) =2,99,700							
In ratio of 3:2:1				(1,49,850)	(99,900)	(49,950)	(2,99,700)
				43,650	(46,500)	5,550	
Adjustment for F's deficiency in ratio of 1,13,100: 31,500				(36,370)	46,500	(10,130)	
				7,280	–	(4,580)	

	Creditors Rs.	G 's Loan Rs.	E Rs.	F Rs.	G Rs.	Total Rs.
Adjustment for G's deficiency			(4,580)	–	4,580	
			2,700			
Cash paid to E			2,700			
Balance due March			1,90,800	53,400	55,500	(2,99,700)
Cash available 1,39,500						
Maximum possible loss 2,99,700 – 1,39,500						
= 1,60,200 in ratio of 3:2:1			(80,100)	(53,400)	(26,700)	(1,60,200)
Cash paid			1,10,700	–	28,800	1,39,500
Balance April			80,100	53,400	26,700	1,60,200
18,000 +3,900 (saving in expenses) = 21,900						
Maximum possible loss 1,60,200–21,900= 1,38,300 in ratio of 3:2:1			(69,150)	(46,100)	(23,050)	(1,38,300)
Cash paid			10,950	7,300	3,650	21,900
Balance May			69,150	46,100	23,050	1,38,300
Investment taken by G					6300	6300
Balance			69150	46100	16750	132000
Maximum loss (1,38,300 less 6,300)			(66,000)	(44,000)	(22,000)	(1,32,000)
Balance			3,150	2,100	1,050	6,300
Cash brought by G (6,300 less 1,050)					5,250	5,250
Cash paid to E and F			(3,150)	(2,100)		(5,250)
Balance			66,000	44,000	22,000	1,32,000
June						
Stock 96,000						
Maximum loss (1,32,000 – 96,000)			(18,000)	(12,000)	(6,000)	36,000
Cash paid			48,000	32,000	16,000	96,000
Unpaid balance			(18,000)	(12,000)	(6,000)	36,000

*Partners' capital balances after adjusting reserves and current A/c balance.

Working Note:

Statement showing the cash available for distribution:

Feb. 29,700 + 51,900 – 13,500 = 68,100

March 1,39,500

April 18,000 + 3,900 = 21,900

May – Nil

June 96,000

Question 3:
Nov- 2018

Amit paid ₹ 50,000 as premium to other partners of the firm at the time of his admission to the firm, with a condition that it will not be dissolved before expiry of five years. The firm is dissolved after three years. Amit claims refund of premium. Explain –

1. Whether he is entitled to get a refund of the premium? If yes, list the criteria for the calculation of the amount of the refund.
2. Also explain any two conditions when no claim in this respect will arise.

Answer

If the firm is dissolved before the term expires, as is the case, Amit, being a partner who has paid premium on admission, will have to be repaid / refunded.

The criteria for calculation of refund amount are:

i. Terms upon which admission was made,

ii. The time period for which it was agreed that the firm will not be dissolved,

iii. The time period for which the firm has already been in existence No claim for refund will arise if:

iv. The firm is dissolved due to death of a partner or If the dissolution of the firm is basically because of misconduct of,

v. If the dissolution is through an agreement and such agreement does not have a stipulation for refund of premium.

Question 4:
Nov- 2019

G, S & J were partners sharing profits and losses in the ratio of 4:3:2, no partnership salary or interest on capital being allowed. Their Balance Sheet as on 31.3.2019 is as follows:

Liabilities	Amount (Rs)	Amount (Rs)	Assets	Amount (Rs)	Amount (Rs)
Partners' fixed capital accounts:			Fixed assets:		
G	24,000		Goodwill	48,000	
S	24,000		Land	9,600	
J	12,000	60,000	Plant & Machinery	15,360	
Partners' current accounts:			Motor car	840	73,800
G	600		Current assets:		
S	10,800		Stock		4,680
J	(480)	10,920	Trade debtors	2,400	
Loan from G		9,600	Less: provision	120	2,280
Trade creditors		14,880	Cash at bank		240
			Miscellaneous losses:		
			Profit & loss sale		14,400
		95,400			95,400

On 1st April, 2019, the partnership was dissolved. Motor car was taken over by G at a value of ₹ 600, but no cash was given specifically in respect of this transaction. Sale of other assets realized the following amounts:

Particulars	₹
Goodwill	Nil
Land	8,400
Plant & machinery	6,000
Stock	3,600
Trade debtors	1,920

Trade creditors were paid ₹ 14,040 in full settlement of their debts. The cost of dissolution amounted to ₹ 1,800. The loan from G was repaid; G and S both were fully solvent and able to bring in any cash required but J was forced into bankruptcy and was only able to bring 1/2 of the amount due.

You are required to prepare:

i. Cash & Bank account

ii. Realization account, and Partners' Fixed Capital Accounts (after transferring current accounts balances) Apply Garner Vs. Murray rule.

Answer

Cash & Bank Account

	Rs.		Rs.
To Balance b/d	240	By Realisation A/c– Creditors	14,040
To Realisation A/c–		By Realisation A/c– Expenses	1,800
Land	8,400	By G's Loan A/c	9,600
Plant and Machinery	6,000	By G's Capital A/c	16,280
Stock	3,600	By S's Capital A/c	28,680
Trade Debtors	1,920		
To Capital Accounts:			
G 27,200			
S 20,400			
J 2,640	50,240		
	70,400		70,400

Realisation Account

	Rs.			Rs.
To Goodwill	48,000	By Trade Creditors		14,880
To Land	9,600	By Provision for Bad Debts		120
To Plant and Machinery	15,360	By Bank:		
To Motor Car	840	Land	8,400	
To Stock	4,680	Plant and Machinery	6,000	
To Sundry Debtors	2,400	Stock	3,600	
To Bank (Creditors)	14,040	Debtors	1,920	19,920
To Bank (Expenses)	1,800	By G (Car)		600

	Rs.			Rs.
		By Capital Accounts: (Loss)		
		G	27,200	
		S	20,400	
		J	13,600	61,200
	96,720			96,720

Partners' Fixed Capital Accounts

	G	S	J		G	S	J
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Current A/c (Transfer)	5,800	—	3,680	By Balance b/d	24,000	24,000	12,000
To Realisation A/c (Loss)	27,200	20,400	13,600	Current A/c (Transfer)	—	6,000	—
To Realisation A/c (Car)	600	–	—	By Bank	—	—	2,640
To J's Capital A/c (Deficiency)	1,320	1,320		By Bank* (realisation loss)	27,200	20,400	—
To Bank*	16,280	28,680	—	By G & S (Deficiency)	—	—	2,640
	51,200	50,400	17,280		51,200	50,400	17,280

Note:

1. G, S and J will bring cash to make good their share of the loss on realization.
2. As per Garner Vs. Murray rule, solvent partners- G and S have to bear the loss due to insolvency of a partner J in their fixed capital ratio.

*Alternatively, posting may be done for the net amount being received from /paid to G and S respectively.

Working Note:

Current account balances of partners have been arrived after adjusting profit and loss account debit balance as follows:

	Current account balance	Profit & loss		
G	600	(6,400)	5,800	Dr.
S	10,800	(4,800)	6,000	Cr.
J	(480)	(3,200)	3,680	Dr.

Question 5:
Nov- 2019

AD, BD & SD are partners sharing profits and losses in the ratio of 5:3:2. There capitals were Rs. 13,440, Rs. 8,400, Rs. 11,760 respectively.

Liabilities and assets of the firm are as under:

Liabilities:	Rs.
Trade creditors	2.800
Loan from partners	1,400
Assets of the firm:	
Patent	1,400
Furniture	2,800
Machinery	1,680
Stock	5,600

The assets realized in full in the order in which they are listed above. BD is insolvent.

You are required to prepare a statement showing the distribution of cash as and when available, applying maximum possible loss procedure.

Answer

Statement of Distribution of Cash

	Realization	Trade Creditor	Loans from partners	Partners' Capitals			
				AD	BD	SD	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs,
Balances due (1)		2,800	1,400	13,440	8,400	11,760	33,600
(i) Sale of Patent	1,400	(1,400)	–				
		1,400	1,400				
(ii) Sale of furniture	2,800	(1,400)	(1,400)				
(iii) Sale of machinery	1,680						
Maximum possible loss (total of capitals ₹ 33,600 less cash available ₹ 1,680) allocated to partners in the profit sharing ratio i.e. 5 : 3 : 2	₹ 31,920			(15,960)	(9,576)	(6,384)	(31,920)
Amounts at credit				(2,520)	(1,176)	5,376	1,680
Deficiency of AD and BD written off against SD				2,520	1,176	(3,696)	–
Amount paid (2)				–	–	1,680	1,680
Balances in capital accounts (1 – 2) = (3)				13,440	8,400	10,080	31,920
(iv) Sale of stock	5,600						
Maximum possible loss (₹ 31,920 – ₹ 5,600) allocated	26,320						

	Realization	Trade Creditor	Loans from partners	Partners' Capitals			
				AD	BD	SD	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs,
to partners in the ratio 5 : 3 : 2				(13,160)	(7,896)	(5,264)	(26,320)
Amounts at credit and cash paid (4)				280	504	4,816	5,600
Balances in capital accounts left unpaid— Loss (3 – 4) = (5)				13,160	7,896	5,264	26,320

Partnership Accounts

Question 1:
May- 2018

Write short notes on extent of liability of LLP and its Partners.

Answer

Extent of Liability of LLP and its partners

Every partner of an LLP for the purpose of its business is an agent of the LLP but is not an agent of other partners. Obligations of LLP are solely its obligations and liabilities of LLP are to be met out of properties of LLP.

The partners of an LLP in the normal course of business are not liable for the debts of the LLP. The LLP is liable if a partner of LLP is liable to any person as a result of wrongful or omission on his part in the course of business of the LLP or with his authority. However, a partner will be liable for his own wrongful acts or commissions, but will not be liable for the wrongful acts or commissions of other partners of the LLP. Thus a partner may be called to pay the liability of an LLP under exceptional circumstances.

If an LLP or any of its partners act with the intent to defraud creditors of the LLP or any other person or for any fraudulent purpose, then the liability of the LLP and the concerned partners is unlimited. However, where the fraudulent act is carried out by a partner, the LLP is not liable if it is established by the LLP that the act was without the knowledge or authority of the LLP. Where the business is carried out with fraudulent intent or for fraudulent purpose, every person who was knowingly a party is punishable with imprisonment and fine.

Question 2:
May- 2019

The following is the Balance Sheet of M/s Red and Black as on 31st March, 2018:

Liabilities		(₹)	Assets	(₹)
Red's Capital	80,000		Building	1,00,000
Black's Capital	1,00,000	1,80,000	Closing Stock	60,000
Red's Loan		20,000	Sundry Debtors	40,000
General Reserve		20,000	Investment	40,000

Liabilities		(₹)	Assets	(₹)
Sundry Creditors		40,000	(6% Debentures in Cool Ltd.) Cash	20,000
		2,60,000		**2,60,000**

It was agreed that Mr. White is to be admitted for a fifth share in the future profits from 1st April, 2018. He is required to contribute cash towards goodwill and ₹ 20,000 towards capital.

The following further information is furnished

(i) The partners Red and Black shared the profits in the ratio of 3 : 2.

(ii) Mr. Red was receiving a salary of ₹ 1,000 p.m. from the very inception of the firm in addition to the share of profit

(iii) The future profit ratio between Red, Black and White will be 3 : 1 : 1. Mr. Red will not get any salary after the admission of Mr. White.

(iv) The goodwill of the firm should be determined on the basis of 2 years' purchase of the average profits from business of the last 5 years. The particulars of profits/losses are as under :

Year Ended	(₹)	Profit/Loss
31.3.2014	40,000	Profit
31.3.2015	20,000	Loss
31.3.2016	40,000	Profit
31.3.2017	50,000	Profit
31.3.2018	60,000	Profit

The above profits and losses are after charging the salary of Mr. Red. The profit of the year ended 31st March, 2014 included an extraneous profit of ₹ 60,000 and the loss for the year ended 31st March, 2015 was on account of loss by strike to the extent of ₹ 40,000.

(v) It was agreed that the value of the goodwill should not appear in the books of the firm.

(a) Trading profit for the year ended 31st March, 2019 was ₹ 80,000 (Before charging depreciation)

(b) Each partner had drawn ₹ 2,000 per month as drawing during the year 2018-19.

(c) On 31st March, 2019 the following balances appeared

in the books: Building (Before Depreciation) ₹ 1,20,000

Closing Stock	₹ 80,000
Sundry Debtors	Nil
Sundry Creditors	Nil
Investment	₹ 40,000

(d) Interest was @ 6% per annum on Red's loan was not paid during the year.

(e) Interest on Debenture was received during the year.

(f) Depreciation is to be provided @ 5% on Closing Balance of Building.

(vi) Partners applied for conversion of the firm into a private Limited Company i.e. RBW Private Limited. Certificate received on 1.4.2019.in addition to the share of profit.

(vii) The future profit ratio between Red, Black and White will be 3 : 1 : 1. Mr. Red will not get any salary after the admission of Mr. White.

(viii) The goodwill of the firm should be determined on the basis of 2 years' purchase of the average profits from business of the last 5 years. The particulars of profits/losses are as under:

They decided to convert Capital accounts of the partners into share capital, in the ratio of 3: 1: 1 (on the basis of total Capital as on 31.3.2019). If necessary, partners have to subscribe to fresh capital or withdraw.

You are required to prepare:

(1) Profit & Loss Account for the year ended 31st March, 2019 in the books of M/s Red and Black.

(2) Balance Sheet as on 1st April, 2019 in the books of RBW Private Limited.

Answer

M/s Red, Black and White
Statement of Profit & Loss for the year ended on 31st March, 2019

Particulars	Rs.	Particulars	Rs.
To Depreciation on Building (1,20,000 x 5%)	6,000	By Trading Profit	80,000
To Interest on Red's loan (20,000 x 6%)	1,200	By Interest on	2,400
To Net Profit to :		Debentures	
Red's Capital A/c	45,120		
Black's Capital A/c	15,040		
White's Capital A/c	15,040		

Particulars	Rs.	Particulars	Rs.
	82,400		82,400

Balance Sheet of the RBW Pvt. Ltd. as on 1-4-2019

		Notes No.	₹
I	Equity and Liabilities		
	Shareholders funds		2,39,040
	Non-current liabilities		
	Long term borrowings	1	21,200
	Total		2,60,240
II	Assets		
	Non-current assets		
	Property, Plant & Equipment		
	Tangible assets	2	1,14,000
	Non-current investments		40,000
	Current assets		
	Inventories		80,000
	Cash and cash equivalents		26,240
	Total		2,60,240

Notes to Accounts

		₹
1.	Borrowings	
	Loan from Red	21,200
2.	Tangible assets	
	Land and Building ₹ (1,20,000 – 6,000)	1,14,000

Working Notes:

1. Calculation of goodwill Year ended March, 31

Particulars	2014	2015	2016	2017	2018
Book Profits	40,000	(20,000)	40,000	50,000	60,000
Adjustment for extraneous profit of 2014 and abnormal loss for 2015	(60,000)	40,000	—	—	—
	(20,000)	20,000	40,000	50,000	60,000
Add Back: Remuneration of Red	12,000	12,000	12,000	12,000	12,000
	(8,000)	32,000	52,000	62,000	72,000
Less: Debenture Interest being non– operating income	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)
	(10,400)	29,600			69,600
Total Profit from 2015 to 2018			49,600	59,600	2,08,400
Less: Loss for 2014					(10,400)
Accumulated Profit					1,98,000
Average Profit					39,600
Goodwill equal to 2 years' purchase					79,200
Contribution from White, equal to 1/5					15,840

2. Partners' Capital Accounts

Particulars	Red	Black	White	Particulars	Red	Black	White
To Drawings	24,000	24,000	24,000	By Balance b/d	80,000	1,00,000	–
To Black A/c			15,840	By General	12,000	8,000	
To Balance c/d	1,13,120	1,14,880	11,040	Reserve			
				By White A/c		15,840	—
				By Bank A/c	—	—	35,840
				By Profit & Loss A/c	45,120	15,040	15,040
Total	**1,37,120**	**1,38,880**	**50,880**	**Total**	**1,37,120**	**1,38,880**	**50,880**

Balance Sheet as on 31st March, 2019

Liabilities		Rs	Assets		Rs
Red's Capital		1,13,120	Land & Building	1,20,000	
Black's Capital		1,14,880	Less: Depreciation	(6,000)	1,14,000
White's Capital		11,040	Investments		40,000
Red's Loan	20,000		Stock-in-trade		80,000
Add: Interest due	1,200	21,200	Cash (Balancing figure)		26,240*
		2,60,240			2,60,240

3. Conversion into Company

Particulars		Rs
Capital:	Red	1,13,120
	Black	1,14,880
	White	11,040
Share Capital		2,39,040
Distribution of share:	Red (3/5)	1,43,424
	Black (1/5)	47,808
	White (1/5)	47,808

Red should subscribe shares of ₹ 30,304 (₹ 1,43,424 – ₹ 1,13,120) and White should subscribe shares of ₹ 36,768 (₹ 47,808 less 11,040). Black withdraws ₹ 67,072 (₹ 47,808 – ₹ 1,14,880).

4. Adjustment for Goodwill

	To be raised in old Ratio	To be written off in new ratio	Difference
Red	47,520	47,520	Nil
Black	31,680	15,840	15,840 Cr.
White		15,840	15,840 Dr.

5. Closing cash balance* can also be derived as shown below:

Particulars	Rs	Rs
Trading profit (assume realised)		80,000
Add: Debenture Interest		2,400
Add: Decrease in Debtors Balance		40,000
		1,22,400
Less: Increase in stock	20,000	
Less: Decrease in creditors	40,000	(60,000)
Cash Profit		62,400
Add: Opening cash balance		20,000
Add: Cash brought in by White		35,840
		1,18,240
Less: Drawings	72,000	
Less: Additions to Building	20,000	(92,000)
		26,240

Question 3:
May- 2019

State the circumstances when Garner V/s Murray rule is not applicable.

Answer

Garner vs Murray rule is non-applicable in the following cases:

- When the solvent partner has a debit balance in the capital account.
- Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner.
- When the firm has only two partners.
- When there is an agreement between the partners to share the deficiency in capital account of insolvent partner.
- When all the partners of the firm are insolvent

Question 4:

Nov- 2019

Give an analytical statement of distinction between an ordinary partnership firm and a limited liability partnership.

Answer

Distinction between an ordinary partnership firm and an LLP

	Key Elements	Partnerships	LLPs
1	Applicable Law	Indian PartnershiAct 1932 p	The Limited Liability Partnerships Act, 2008
2	Registration	Optional	Compulsory with ROC
3	Creation	Created by an Agreement	Created by Law
4	Body Corporate	No	Yes
5	Separate Legal Entity	No	Yes
6	Perpetual Succession	Partnerships do not have perpetual succession	It has perpetual succession and individual partners may come and go
7	Number of Partners	Minimum 2 and Maximum 20 (subject to 10 for banks)	Minimum 2 but no maximum limit
8	Ownership of Assets	Firm cannot own any assets. The partners own the assets of the firm	The LLP as an independent entity can own assets
9	Liability of Partners/ Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets	Limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner.

	Key Elements	Partnerships	LLPs
10	Principal Agent Relationship	Partners are the agents of the firm and of each other	Partners are agents of the firm only and not of other partners