CA Inter (New Syllabus) – Paper – 1 - Accounting

Question No. 1 is compulsory. Attempt any four out of remaining five questions. Working notes should form part of your answer.

1. (a)

M/s First Limited began a construction of a new building on 1.4.2017. It obtained Rs. 2 lakh as a special loan to finance the construction of a factory buildings on 1.1.2017 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 the company's other outstanding non-specific loans were:

Loans	**rate of interest**
Rs. 4,00,000	9%
Rs. 5,00,000	12%
Rs. 3,00,000	14%

The expenditure that was made on the buildings project were as follows:

Date	Amount `
1st April, 2017	3,00,000
31st May, 2017	2,40,000
1st August , 2017	4,00,000
31st December, 2017	3,60,000

Construction of Building was completed by 31.03.2018. As per the provisions of AS-16, you are required to:

1. Calculate the amount of interest to be capitalized and
2. Pass Journal entry for capitalizing the cost and borrowing cost in respect of the factory building.

Suggested Answer:

First step.

Calculation of average accumulated expenses

3,00,000 x 12/12	3,00,000
2,40,000 x 10/12	2,00,000
4,00,000 x 9/12	3,00,000
3,60,000 x 3/12	90,000
Total	8,90,000

Second step:

Total Expenditure incurred : 8,50,000

Financing: out of Specific/Special borrowings 2,00,000 ; out of General Borrowings/ Non- Specific 6,90,000

3rd Step:

Calculation of weighted average rate of interest:

Non- Specific Loan	Interest %	interest	Weighted Average Rate of Interest:
4,00,000	9%	36,000	
5,00,000	12%	60,000	(1,38,000/ 12,00,000) x 100
3,00,000	14%	42,000	= 11.5%
12,00,000		1,38,000	

4th Step:

Interest to be capitalised:

Specific/Special borrowings Rs. 2,00,000 x 8%	= 16,000
General borrowings Rs. 6,90,000 x 11.5%	= 79,350
Interest to be capitalised for buildings	**= 95,350**

5th Step

Amount to be capitalised for buildings

Cost of Building:	3,00,000 + 2,40,000 + 4,00,000 + 3,60,000	13,00,000
Interest to be capitalised	As per step four	95,350
Total amount to be capitalised		13,95,350

(b)

On 15th June, 2018, Y limited wants to re-classify its investments in accordance with AS- 13. 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 reclassified as current investments. The original cost was Rs. 14 lakhs, but had been written down by Rs. 2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15th June, 2018 was Rs. 11 lakhs.
2. Another portion of long term investments purchased on 15th January, 2017 are to be re-classified as current investments. The original cost of these investments was Rs. 7 lakhs but had been written down to Rs. 5 lakhs (to recognise '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 reclassified 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 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 –

1. As per AS- 13, if long term investments are reclassified into current investments, then transfer is made at lower of cost (that is 14 lakhs) and carrying amount (that is 14 lakhs less 2 lakhs = 12 lakhs) of such investments. Thus transfer shall be made at Rs. 12 lakhs.
2. In this case, cost is Rs. 7 lakhs and carrying amount is Rs. 5 lakhs therefore transfer shall be made at Rs. 5 lakhs
3. As per AS13,When current investments are reclassified as long term investments, then transfer is made at the lower of cost and fair value of current investments on the date of transfer.
In the this case , the fair value is Rs. 8.5 lakhs which is higher than cost of Rs. 7 lakhs. Thus transfer shall be carried at Rs. 7 lakhs.
4. In this case, MV is Rs. 3.8 lakhs while cost is Rs. 4 lakhs. Thus transfer shall be at Rs. 3.8 lakhs and loss of Rs. 8.5 lakhs shall be charged to profit and loss a/c

(c)

State whether the following statements are True or False. Also give reasons for your answer:

1. As per provisions of AS-5 extra-ordinary items should not be disclosed in the statement of profit and loss as a part of net profit or loss for the period.
2. As per provisions of AS 12, government grants in the nature of promoters' contribution which become refundable should be reduced from capital reserve.

3. As per provisions of AS-2, inventories should be valued at the lower of cost and selling price.
4. As per provisions of AS 13, a current investment is an investment that is by its nature is readily realisable and in intended to be held for not more than six months from the date on which such investments is made.
5. As per 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.

Suggested Response:

1. False. As per provisions of AS-5 extra-ordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period as a separate item so as to analyze the impact on the current year's profit.
2. True. Government grant in the nature of promoters' contribution is credited to capital reserve at the time of receipt therefore at the time of refund capital reserve should be debited (reduced).
3. False: As per provisions of AS-2, inventories should be valued at the lower of cost and **Net Realisable Value.**
4. False. As per provisions of AS 13, a current investment is an investment that is by its nature is readily realisable and in intended to be held for not more than **twelve months** from the date on which such investments is made.
5. True. As per provisions of AS- 4, a contingency is a condition or situation, the ultimate outcome of which (gain or loss that is inflow of funds or outflow of funds) will be known or determined only on the occurrence of one or more uncertain future events.

(d)

The financial statements of PQ limited for the year 2017-18 approved by the Board of Directors on 15th July, 2018. The following information was provided:

(i) A suit against the company's advertisement was filed by a party on 20th April, 2018, claiming damages of Rs. 25 lakhs.

(ii) The terms and conditions for acquisitions of business of another company have been decided by March, 2018. But the financial resources were arranged in April, 2018 and amount invested was Rs. 50 lakhs.

(iii) Theft of cash of Rs. 5 lakhs by the cashier on 31st March, 2018 but detected on 16th July, 2018.

(iv) Company sends a proposal to sell an immovable property for Rs. 40 lakhs in March, 2018. The book value of the property is Rs. 30 lakhs on 31st March, 2018. However, the deed was registered on 15th April, 2018.

(v) 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', state whether the above mentioned events will be treated as contingencies, adjusting events or non-adjusting events occurring after the balance sheet date.

Suggested Response :

(i) Adjusting Event: Since the theft of cash is just additional information it should adjusted in the financial statements of the company for the period.

(ii) Non-Adjusting Event: It is a case of an event taking place after the after preparation of Balance sheet regarding which no clue or condition was existing on the Balance Sheet date. Thus Investments in April, 2018 in the acquisition of another company should be disclosed in the Report of the Board of the Directors.

(iii) Adjusting Event: Since the theft of cash is just additional information it should adjusted in the financial statements of the company for the period.
(iv) Adjusting Event: Agreement took place before the B/S date and Registration of the sale deed after the B/S date and it provides additional information relating to the conditions existing at the B/S date therefore adjustment to assets for sale of immovable property is necessary in the financial statements for the period.
(v) Non- Adjusting Event: It is a case of an event taking place after the after preparation of Balance sheet regarding which no clue or condition was existing on the Balance Sheet date.

2. (a)
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 on the diminishing balance method.
on 31st March, 2018 M/s Amar failed to pay 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 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

Suggested Answer:
(1) Ratio of interest and amount due = $\frac{\text{Rate of interest}}{100 + \text{Rate of interest}} = \frac{10}{110} = \frac{1}{11}$

Calculation of Interest and Cash Price			
No. of instalments	Amount due at the time of instalment	Interest	Cash price
[1]	**[2]**	**[3]**	**[4]**
3rd	1,65,000	1/11 of Rs. 1,65,000 = Rs. 15,000	1,50,000
2nd	2,97,000 (1,50,000 + 1,47,000)	1/11 of Rs. 2,97,000 = Rs. 27,000	1,20,000 (1,47,000-27,000)
1st	4,29,000 (1,50,000 + 1,20,000+1,59,000)	1/11of Rs. 4,29,000 = Rs. 39,000	1,20,000 (1,59,000-39,000)

Total cash price = Rs. 1,50,000+ 1,20,000 + 1,20,000 + 3,00,000 (down payment) = Rs. 6,90,000.
(2)

Books of Hire Purchaser (M/s Amar)

Hire- Vendor Account (M/s Bhanu)

Date	Particulars	Amount	Date	Particulars	Amount
1.04.15	Bank	3,00,000	1.04.15	Scooter a/c	6,90,000
31.03.16	Bank	1,59,000	31.3.16	Interest	39,000

	Bal. c/d – bal Fig.	2,70,000			
		7,29,000			**7,29000**
31.03.17	Bank	1,47,000	1.04.16	Bal. b/d	2,70,000
	Bal c/d – bal Fig.	1,50,000	31.03.17	Interest	27,000
		2,97,000			**2,97,000**
31.03.18	Bank - Default	-	1.04.17	Bal b/d	1,50,000
	Scooters (WN)	78,890	31.03.18	Interest	15,000
	Bal. c/d	86,110			
		1,65,000			**1,65,000**
1.09.18	Bank A/c : 86,110 + 5,382	91,492	1.04.18	Bal. b/d	86,110
			1.09.18	Interest : 86,110 x15% x 5/ 12	5,382
		91,492			**91,492**

Scooter Account

Date	Particulars	Amount	Date	Particulars	Amount
1.04.15	Hire Vendor a/c	6,90,000	31.03.16	Depreciation a/c	1,38,000
				Bal c/d – bal. fig.	5,52,000
		6,90,000			**6,90,000**
1.04.16	Bal b/d	5,52,000	31.03.17	Depreciation	1,10,400
				Bal. c/d	4,41,600
		5,52,000			**5,52,000**
1.04.17	Bal. b/d	4,41,600	31.03.18	Depreciation	88,320
				H.V A/c (repossession)	78,890
				Profit and loss a/c bal. fig.	**38,870**
				Bal c/d as per WN	2,35,520
		4,41,600			**4,41,600**

Workings:

Value of 2 Scooters taken back –				Value of 4 Scooters still with the purchaser		
Cost	(6,90,000 /6) x 2	2,30,000		Cost	6,90,000 x 4 6	4,60,000
Less	Dep. for 1st year @ 30%	69,000		Less:	Dep. @ 20%	92,000
	Balance	1,61,000			Balance	3,68,000
Less	Dep. for 2nd Year @30%	48,300		Less:	Dep. @ 20%	73,600
	Balance	1,12,700			Balance	2,94,400
Less	Dep. for 3rd Year @ 30%	33,810		Less:	Dep. @ 20%	58,880
	Value at which scooters repossessed	78,890		Value of scooters retained		2,35,520

Books of M/s Bhanu (Hire Vendor)

Goods Repossessed Account

31.03.18	Hire Purchaser a/c	78,890	25.04.18	Bank - Sale	1,05,000
	Bank - Expenses	15,000			
	P/L a/c : Profit	11,110			

		1,05,000			1,05,000

(b) A Fire occurred in the premises of M/s Bright on 25th May, 2017. As a result of fire, sales adversely affected upto 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.

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

1) Calculation of short sales:

	Rs.
Sales for the period 25.05.16 to 30.09.16	6,00,000
Add: 10% increase in sales	60,000
Estimated sales in current year	6,60,000
Less: Actual sales from 25.05.17 to 30.09.17	(1,75,000)
Short sales	4,85,000

(2) Calculation of gross profit:

Gross profit = $\frac{\text{Net profit+Insured standing charges}}{\text{Turnover}} \times 100$

$= \frac{2,00,000 + 1,75,000}{15,00,000} \times 100$

= 25%

(3) Calculation of loss of profit:

Short sales x Gross profit Ratio

Rs. 4,85,000 x 25% =Rs. 1,21,250

(4) Adjusted Turnover and Gross Profit on Adjusted turnover

Adjusted turnover	Rs.
Turnover of one year preceding the date of fire (given)	14,00,000
Add: 10% increase	1,40,000
	15,40,000
Gross profit on additional Turnover 25% of 15,40,000	3,85,000

(5) Calculation of claim for increased cost of working:

Least of the following:

(i) Actual expense= Rs. 30,000

(ii) Expenditure x $\frac{\text{Gross profit on adjusted turnover}}{\text{Gross profit as above + Uninsured standing charges}}$

30,000 x 3,85,000 = 22,647

3,85,000 + 1,25,000

(iii)

Gross profit on sales generated due to additional expenditure = 25% x Rs. 1,75,000 = Rs. 43,750
Rs. 22,647 being the least, shall be the increased cost of working.

(6) Calculation of total loss of profit

	Rs.
Loss of profit	1,21,250
Add: Increased cost of working	22,647
	1,43,897
Less: Saving in insured standing charges	(5,000)
	1,38,897

(6) Calculation of insurable amount:

Adjusted turnover x G.P rate
= Rs. 15,40,000 x 25% = Rs. 3,85,000

(7)

Total claim for consequential loss of profit:
for Insurable profits of Rs. 3,85,000 Policy/claim amount is Rs. 3,50,000
therefore for Loss of profit of Rs. 1,38,897 Claim amount shall be : (3,50,000 x 1,38,897) ÷ 3,85,000 = Rs. 1,26,270

3. (a)

→ The following information appeared in the books of M/s Sunshine Traders: (a)

	Balance as on 31st March, 2018 Rs.	Balance as on 31st March, 2019 Rs.
Land & Building	2,50,000	2,50,000
Plant and Machinery	1,10,000	1,65,000
Office Equipment	52,500	42,500
Sundry Debtors	77,750	1,10,250
Creditors for Purchases	47,500	?
Provision for office expenses	10,000	7,500
Stock	?	32,500
Long term Loan from ABC Bank @ 10% p.a.	62,500	50,000
Bank	12,500	?
Capital	4,65,250	?

→ Other information:

	Rs.		Rs.
Collection from Debtors	4,62,500	Credit Purchases	2,70,000
Payments to Creditors for Purchases	2,62,500	Cash Purchases	(40% of Total Purchases)
Payment of office expenses	21,000	Gross Profit Margin	25% on cost
Salary paid	16,000	Discount allowed	2,750

Selling expenses Paid	7,500	Discount Received	2,250
Total Sales Credit sales (80% of total sales)	6,25,000	Bad debts	2,250

→ Depreciation to be provided as follows:
L/B : 5% p.a.
P/M : 10% p.a.
O/E : 15% p.a.

→ On 01.10.18 the firm sold machine having book value of Rs. 20,000 (as on 31.03.18) 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 and Loss account for the year ended 31st March, 2019.
ii. Balance Sheet as on 31st March 2019

Suggested Answer

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

	Rs.		Rs.
To Opening Stock	82,500	By Sales (cash and credit)	6,25,000
(balancing figure)		By Closing Stock	32,500
To Purchases (cash and credit)	4,50,000		
To Gross profit c/d @ 25/125 % on sales	1,25,000		
	6,57,500		6,57,500
Salaries	16,000	By Gross profit b/d	1,25,000
Selling Expenses	7,500	By Discount Received	2,250
To office expenses 21,000 + 7,500 - 10,000	18,500		
Interest on loan	6,250	Capital A/c (b.f.)	
To Depreciation:			
Land & Building Rs.	12,500		
Plant & Machinery Rs.	11,875		
Office Equipment	6,375		
Discount allowed	2,750		
Bad debts	2,250		
Loss on sale of P/M	7,500		
Net Profit t/f to capital a/c	35,750		
	1,27,250		1,27,250

Balance Sheet as on 31st March, 2019

Liabilities		Rs.	Assets		Rs.
Capital as on 1st	4,65,250		Land and Building	2,50,000	
April, 2018			Add: Addition		
Add: Net profit	35,750	5,01,000	during the year	-	

				2,50,000	
			Less: Provision for depreciation	(12,500)	2,37,500
			Plant and Machinery	1,10,000	1,54,125
			Office Equipment	52,500	
Creditors for Purchases	47,500	52,750	Sold	(52,500)	-
Provision for office expenses	10,000	7,500	Add: Addition during the year	42,500	
Long term loan @ 10%	62,500	50,000	Less: Depreciation @ 15%	(6,375)	36,125
			Debtors	77,750	1,10,250
			Stock	82,500	32,500
			Bank	12,500	40,750
		6,11,250			6,11,250

Working Notes:

(i)	Sundry Debtors Account		
	Rs.		Rs.
To Balance b/d	77,750	By Bank A/c	4,62,500
To Sales A/c (credit) 6,25,000 x 80%	5,00,000	By Discount allowed A/c	2,750
		By Bad debts A/c	2,250
		By Balance c/d	1,10,250
	5,77,750		5,77,750

(ii)	Creditors for Purchases Account		
	Rs.		Rs.
To Cash/Bank A/c	2,62,500	By Balance b/d	47,500
To Discount received A/c	2,250	By credit Purchases A/c	2,70,000
To Balance c/d: B.F	52,750		
	3,17,500		3,17,500

(iii)	Plant and Machinery Account		
	Rs.		Rs.
To Balance b/d	1,10,000	By Bank/Cash A/c	11,500
To Bank A/c	75,000	By Depreciation A/c (20,000 x 10% x 6/12)	1,000
		By Profit and loss A/c (loss on sale)	7,500
		By bal. c/d	1,65,000
Bal b/d	1,65,000	By Depreciation A/c (75,000 x 10% x 3/12) + 90,000 x 10% x 12/12 = 1,875 + 9,000	10,875
		By Balance c/d B.f.	1,54,125

(iv)	Cash/Bank Account		
	Rs.		Rs.
Opening bal. b/d	12,500	Creditors	2,62,500
Debtors a/c	4,62,500	Office expenses	21,000
Cash Sales : 6,25,000 x 20%	1,25,000	Salaries	16,000
Plant and Machinery	11,500	Selling expenses	7,500
Office Equipment sold	52,500	Cash purchases (2,70,000 x 100/60) x 40%	1,80,000
		Plant and Machinery	75,000
		Office Equipment purchased	42,500
		Loan a/c : repayment	12,500
		Interest on loan : 62,500 x 10%	6,250
		Bal. c/d (B.F.)	40,750
	6,64,000		6,64,000

(vii) Opening Balance Sheet of Mr. G-99			
Capital	4,65,250	Land and building	2,50,000
Creditors	47,500	P/M	1,10,000
Provision for Office expenses	10,000	O/E	52,500
Long term loan @ 10%	62,500	Debtors	77,750
		Stock	82,500
		Bank	12,500
	5,85,250		5,85,250

(b) M/s Rani & Co. has head office at Singapore and branch at Delhi (India). Delhi branch is an integral foreign operation of Rani & Co.

Delhi branch furnishes you with its trial balance as on 31st March, 2019 and the additional information given thereafter:

	Dr.	Cr.
	Rupees 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 40% for the year.

(b) Closing stock of Delhi branch was worth Rs. 15,60,000 on 31st March, 2019.
(c) The rates of exchange may be taken as follows:
(i) On 1.4.2018 @ Rs. 50 per Singapore dollar
(ii) On 31.3.2019 @ Rs. 52 per Singapore dollar
(iii) Average exchange rate for the year @ Rs. 51 per Singapore Dollar
(iv) Conversion in Singapore Dollar shall be made upto two decimal accuracy.
(d) Delhi branch account showed a debit balance of Singapore $ 59,897.43 on 31.3.2019 in Singapore books and there were no items pending reconciliation.
You are asked to prepare in Singapore dollars
(i) the revenue statement for the year ended 31st March, 2019 and
(ii) the balance sheet as on that date .

Suggested Answer;

M/s Rani & Co.

Delhi Branch Trial Balance in (Singapore Dollar) as on 31st March, 2019

	Conversion	**Dr.**	**Cr.**
	rate per Singapore dollar	**Singapore dollar**	**Singapore dollar**
	(Rs.)		
Stock on 1.4.18	50	12,000.00	-
Purchases and sales	51	31,372.55	47,058.82
Sundry debtors and creditors	52	15,384.61	11,538.46
Bills of exchange	52	4,615.38	9,230.77
Wages	51	21,960.78	-
Rent, rates and taxes	51	14,117.65	-
Sundry Expenses	51	6,274.51	-
Computers	Actual	12,000	-
Bank balance	52	10,000	-
Singapore office A/c	Actual	-	59,897.43
		1,27,725.48	1,27,725.48

Revenue Statement for the year ended 31st March, 2019

	Singapore dollar		**Singapore dollar**
To Opening Stock	12,000.00	By Sales	47,058.82
To Purchases	31,372.55	By Closing stock	
		(15,60,000/52)	30,000.00
To Wages	21,960.78		
To Gross profit : B.F	11,725.49		
	77,058.82		**77,058.82**
To Rent, rates and taxes	14,117.65	By Gross Profit b/d	11,725.49
To Sundry charges	6,274.51	By Net Loss c/d (B.F)	13,466.67
To Depreciation on computers	4,800.00		
(US $ 12,000 × 0.40)			
	25,192.16		25,192.16

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

Liabilities		**US $**	**Assets**	**US $**	**US $**

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**

4.

The following is the Balance Sheet of Messer's Red and Black as on 31st March 2018:

Liabilities		Rs.	Assets	Rs.
Red 's Capital	80,000		Buildings	1,00,000
Black's Capital	1,00,000	1,80,000	Closing Stock	60,000
Red 's Loan		20,000	Debtors	40,000
General Reserve		20,000	Investment in	
Liabilities		40,000	6% Debentures in Cool Ltd.	40,000
			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 Rs. 10,000 towards capital.

(a) The following further information is furnished:

(i) The partners Red and Black shared the profits in the ratio 3:2.

(ii) Mr. Red was receiving a salary of Rs. 1,000 p.m. from the very inception of the firm in addition to 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 the profits are as under:

			Rs.
Year ended	31-3-14	Profit	40,000
Year ended	31-3-15	Loss	20,000
Year ended	31-3-16	Profit	40,000
Year ended	31-3-17	Profit	50,000
Year ended	31-3-18	Profit	60,000

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 Rs. 60,000 and the loss of the year ended 31st March 2015 was on account of loss by strike to the extent of Rs. 40,000.

(v) It was agreed that the value of the goodwill of the firm should not appear in the books of the firm.

(b) The trading profit for the year ended 31st March, 2019 was Rs. 80,000 before depreciation.

(c) The partners had drawn each Rs. 2,000 p.m. during 2018-19.

(d) The value of the other assets and liabilities as on 31st March, 2019 were as under:

	Rs.
Building (before depreciation)	1,20,000
Closing Stock	80,000

Debtors	Nil
Investment	40,000
Sundry Creditors	Nil

(e) Interest at 6% on Red's loan was not paid during the year.
(f) Interest on debenture received during the year.
(g) Provide depreciation at 5% on closing balance of buildings.
(h) Partners applied for conversion of the firm into a Private Limited Company i.e. RBW Pvt. Ltd... Certificate received on 1-4-2019. They decided to convert Capital A/cs 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.
1. Prepare the Statement of Profit and Loss for the year ended 31st March, 2019 and
2. The Balance Sheet of the company.

Suggested Answer:

Note: R= Red, B= Black and W= White

1st step **Messer's R, B and W**

Statement of Profit & Loss for the year ended on 31st March, 2019

Particular	Rs.	Particulars	Rs.
To Dep. Building (1,20,000 x 5%)	6,000	By Trading Profit	80,000
To Interest on R's loan (20,000 x 6%)	1,200	By Interest on Debentures	2,400
To Net Profit to :		20,000 x 6%	
R's Capital A/c	45,120		
B's Capital A/c	15,040		
W's Capital A/c	15,040		
	82,400		82,400

2nd Step

Calculation of Goodwill

	Year ended March, 31				
	2014	2015	2016	2017	2018
	Rs.	Rs.	Rs.	Rs.	Rs.
Book Profits	40,000	(20,000)	40,000	50,000	60,000
Adjustment for extraneous profit 2014 and abnormal loss 2015	(60,000)	40,000			
	(20,000)	20,000	40,000	50,000	60,000
Add Back: Remuneration of R	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	49,600	59,600	69,600
Total Profit					1,98,000
Average Profit					39,600
Goodwill equal to 2 years' purchase					79,200
Contribution from W, equal to 1/5					15,840

3rd step:

Partners' Capital Accounts							
	R	B	W		R	B	W
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Drawings	24,000	24,000	24,000	By Balance b/d	80,000	1,00,000	—
To Goodwill	47,520	15,840	15,840	By General Reserve	12,000	8,000	—
To Balance c/d	1,13,120	1,14,880	11,040	By Goodwill	47,520	31,680	—
				By Bank	—	—	35,840
				By Profit & Loss A/c	45,120	15,040	15,040
	1,84,640	1,54,720	50,880		1,84,640	1,54,720	50,880

4th Step

Balance Sheet as on 31st March, 2019

Liabilities		Rs.	Assets		Rs.
R's Capital		1,13,120			
B's Capital		1,14,880	Land & Building	1,20,000	
W's Capital		11,040	Less : Dep.	(6,000)	1,14,000
A's Loan	20,000		Investments		40,000
Add : Int. due	1,200	21,200	Stock-in-trade		80,000
			Cash (Balancing figure) #		26,240
		2,60,240			2,60,240

5th Step:

Conversion into Company					
					Rs.
Capital :	R				1,13,120
	B				1,14,880
	W				11,040
Share Capital					2,39,040
Distribution of share :	R (3/5)				1,43,424
	B (1/5)				47,808
	W (1/5)				47,808

R should subscribe shares of Rs. 30,304 (Rs. 1,43,424 - Rs. 1,13,120) and W should subscribe shares of Rs. 36,768 (Rs. 47,808 - Rs. 11,040) B withdraws Rs. 67,072 (Rs. 1,14,880 - Rs. 47,808) subscribing to shares worth Rs. 31,824.

6th step:

Balance Sheet of the RBW Pvt. Ltd. as on 1-4-2019

	Notes No.	Rs.
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		
Fixed assets		
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

		Rs.
1.	Long term borrowings	
	Loan from R	21,200
2.	Tangible asset, (net)	
	Land and Building (1,20,000 - 6,000)	1,14,000

#Also, the closing cash balance can be derived as shown below:

	(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 C		17,920
		1,18,240
Less: Drawings	72,000	
Less: Additions to Building	20,000	(92,000)
		26,240

5. (a) The Summarised balance sheet of Clean limited as on 31st March, 2019 is as follows

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	
Assets:		
1. Non-Current Assets		
(a) Property, Plant and Equipment		
Tangible Assets	6,90,000	
(b) Non-current Investments	37,000	
2. Current Assets:		

Cash and cash Equivalents : Bank	62,000	
Total	7,89,000	

The share capital of the company consists of Rs. 50 each Equity shares of Rs. 4,50,000 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 shares 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 as on completion of the above transactions.

Suggested Answer:

Journal

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
1.	Preference Share Capital A/c	Dr.	1,30,000	
	Premium on Redemption of P. Shares a/c	Dr.	13,000	
	To Preference Shareholders A/c			1,43,000
	(For amount payable on redemption of preference shares)			
2.	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)			
3.	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)			
4.	Bank a/c 1,250[WN] x 60	Dr.	75,000	
	To Equity share capital 1,250 x 50			62,500
	To Security Premium a/c 1,250 x 10			12,500
4.	Profit and Loss A/c	Dr.	67,500	
	To Capital Redemption Reserve A/c			67,500
	(For transfer to CRR out of divisible profits) Nominal value of Pref. shares to be redeemed: 1,30,000 Less Nominal value of fresh Issue : 62,500 Utilisation of Reserves/P/L : 67,500			
5.	Preference Shareholders A/c	Dr.	1,43,000	
	To Bank A/c			1,43,000
	(For payment of preference shareholders)			

Balance Sheet (after redemption)

Date	Particulars	Notes No.	(Rs.)
	EQUITY AND LIABILITIES		

1.	Shareholders' funds		
	a) Share capital	1	5,12,500
	b) Reserves and Surplus	2	88,500
2.	Current liabilities		
	Trade Payables		1,13,000
	Total		**7,14,000**
	ASSETS		
1.	Fixed Assets		
	Tangible asset		6,90,000
2.	Current Assets		
	Cash and cash equivalents (bank)	3	24,000
	Total		**7,14,000**

Notes to accounts

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

Working Note:

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

(b)

Following information was provided by M/s PQR limited for the year ended 31st March, 2019:

(I) Company sold goods for cash only.

(2 Gross Profit Ratio was 25% for the year, gross profit amounts to Rs. 3,75,000.

(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 Rs35,000.

(10) Amount paid to trade payables during the year Rs. 6,10,000.

(11) Income Tax paid during the year amounts to Rs. 55,000 (Provision for taxation as on 31.03.2019 Rs. 30,000).

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

(13) Depreciation on furniture amounts to Rs. 40,000.
(14). Depreciation on tangible assets amounts to Rs. 20,000
(15) Plant and machinery purchased on 15th November, 2018 for Rs. 3,50,000.
(16) on 31st March, 2019, Rs. 2,00,000, 7% Debentures issued at face value in exchange for a plant.
(17) Cash and Cash Equivalents on 31st March, 2018 Rs. 2,25,000
Prepare :
A. Cash flow Statement for the year ended 31st March, 2019 using Direct Method
B. Calculate cash flow from operating activities, using indirect method

Suggested Answer:

A.

M/s 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 x 100/ 25)		15,00,000
Less: Cash payments for trade payables	(6,10,000)	
Wages Paid	(5,55,000)	
Office and selling expenses	(50,000)	(12,15,000)
Cash generated from operations before taxes		2,85,000
Income tax paid		(55,000)
Net cash generated from operating activities (A)		2,30,000
Cash flows from investing activities		
Sale of investments (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

B.

M/s PQR Ltd.

Cash Flows from operating activities for the year ended 31st March, 2019 (Using indirect method)

Particulars	Rs.	Rs.
Cash flows from Operating Activities		
Net profit after tax		2,50,000
Add: provision for tax		30,000
Depreciation 40,000 + 20,000		60,000
Interest		5,000
Less: Profit on sale of investments		20,000
Cash generated from operations before taxes and adjustment for WCC		3,25,000

Increase in Inventory		(25,000)
Decrease in trade payables		(15,000)
Cash generated from operations before taxes		2,85,000
Less taxes Paid		55,000
Net cash generated from operating activities (A)		2,30,000

Workings:

Particulars	Rs.	Rs.
Sales		15,00,000
Less cost of goods sold : 15,00,000 x 75%		11,25,000
Gross Profit		3,75,000
Add: Profit on sale of Investments		20,000
Less: office and selling expenses		50,000
Less interest		5,000
Less: Depreciation		40,000
Less: depreciation on tangible assets		20,000
Less: Provision for tax		30,000
		2,50,000

6.

(a) Write short on Timing Difference and Permanent Difference as per AS 22:

Suggested Response:

In current practices, companies, in general, prepare books of accounts as per Companies Act, 2013 generating Accounting Profit/Loss and Income-tax Act, 1961 generating Taxable Profit/Loss. Accounting income and taxable income for a period are seldom the same. Permanent differences are those which arise in one period and do not reverse subsequently. For e.g., an income exempt from tax or an expense that is not allowable as a deduction for tax purposes. Timing differences are those which arise in one period and are capable of reversal in one or more subsequent periods. For e.g., Depreciation, Bonus, etc.

b. Summarised balance sheet of Cloth Trader as on 31.03.2017 is given below:

Liabilities	Amount	Assets	Amount
Proprietors capital	3,00,000	Fixed Assets	3,60,000
Profit and loss a/c	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 and 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 realisable value of stock on 31.03.18 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 amortised 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 and Loss account for the year 2017-18
2. Balance sheet as on 31st March, 2018.

Suggested Answer:

1.

Profit and Loss Account of Cloth Trader for the year ended 31st March, 2018
(Assuming Entity is not a going concern)

Particulars	Rs	Particulars	Rs
To Opening Stock	1,50,000	Sales	27,50,000
To Purchases	22,50,000	Discount on payment of Trade Payables 75,000 x 10%	7,500
To Expenses	78,000	Closing stock	2,50,000
To Fixed Assets written off (3,60,000 -3,25,000)	35,000		
To Provision For Doubtful Debts(5,000 + 25,000)	30,000		
To Deferred Expenditure	50,000		
To Pre-Payment Penalty Charges	25,000		
To Net Profit	3,89,500		
	30,07,500		**30,07,500**

2.

Balance Sheet as at 31.03.18

Liabilities	Rs	Assets	Rs
Proprietor' capital	3,00,000	Fixed Assets	3,25,000
P/L : 1,25,000 + 3,89,500	5,14,500	Closing Stock	2,50,000
10% Loan a/c	2,10,000	Sundry Debtors :1,50,000 - 30,000	1,20,000
Penalty Charges payable	25,000	Cash & Bank	4,22,000
Sundry Creditors 75,000- 7,500	67,500		
	11,17,000		11,17,000

(c) Tarun limited was incorporated on 1.7.2018 to acquire a running business of Vinay Sons and sons with effect from 1.4.2018. 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 of the company amounted to Rs. 4,15,000. The expenses debited to the profit and loss account included:

- Directors' fee Rs. 25,000
- Bad debts Rs. 6,500
- Advertising Rs. 18,000 (under a contract amounting to Rs. 1,500 per month)
- Company audit fee Rs. 15,000
- Tax Audit Fee Rs. 10,000

Prepare a statement showing the calculation of Profits for the Pre-Incorporation and Post Incorporation Periods for the year ended 31st March, 2019.

Suggested Answer:

Statement showing Pre and Post Incorporation Profits for the year ended 31.03.19

Particulars	Total Amount	Basis of Allocation	Pre-Incorporation	Post-Incorporation
Gross Profit	4,15,000	Sales	41,500	3,73,500
Less: Directors' fee	25,000	Post	-	25,000
Bad debts	6,500	Sales	650	5,850
Advertising	18,000	As per contract	4,500	13,500
Company Audit Fee	15,000	Post	-	15,000
Tax Audit Fee	10,000	Time	2,500	7,500
Net Profit	3,40,500		33,850	3,06,650
Profit Transfer To :			Capital Reserve	P/L

Working Notes:

1. Analysis

Pre – period 3 months Post period 9 months

1.4.18 1.7.18 31.3.19

Date of Receipt of COR

2. Sales ratio:

Particulars	Rs.
Sales for period up to 30.09.2018 i.e. first six month	2,40,000
Sales for period from 01.10.2018 to 31.03.2019 (12,00,000 - 2,40,000)	9,60,000

c. Sales Analysis:

A	M	J	JL	A	S	O	N	D	J	F	M
40,000	40,000	40,000	40,000	40,000	40,000	80,000	80,000	80,000	80,000	80,000	80,000

Total Sales for first 3 months: 1,20,000

total sales for next 9 months : 10,80,000

Thus, Sales Ratio = 1 : 9

3. Time ratio:

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

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

(d) State the circumstances when Garner Versus Murray Rule is not Applicable

The practical effect of Garner Versus Murray Rule is that the loss due to the insolvency of a partner has to be borne by the solvent partners in the ratio of their capitals standing just prior to dissolution.

However Garner Vs Murray shall not apply :

When there is a specific agreement in the deed that loss due to insolvency of a partner shall be borne in Profit sharing Ratio.

When solvent partners shall have debit balances .

(e) 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).

Suggested Response:

According to AS - 2, 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 amount of normal loss will be included in computing the cost of inventories (finished goods) at the year end.

Total Material used 16,000 MT

Normal Loss 5% that is 800 MT

abnormal loss = 950 - 800 = 150 MT

		Rs.
Cost of Material	16,000 MT	30,40,000 (16,000 x 190)
Less Normal loss	800 MT	-
Net quantity	15,200 MT	30,40,000
Cost per MT : Rs. 30,40,000/15,200 MT		200 per MT
Value of abnormal loss : 150 MT x Rs. 200		30,000