KONCEPT EDUCATION

Workbook
Subject – Accounting

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Chapter 1 - Formulation of Accounting Standards, Ind ASs, IFRSs & various other International Accounting Standards

Question 1

"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.

(5 marks)

Solution

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 variations 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

Explain the objective of "Accounting Standards" in brief. State the advantages of setting Accounting Standard.

(4 marks)

Solution

Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. These standards harmonize the diverse accounting policies and practices at present in use in India. The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements.

Question 3

Explain the need of convergence of IFRS as Global Standards.

(4 marks)

Solution

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRSs issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRSs requirements and extensive discussion with various takeholders. Accordingly, while formulating IFRS-converged Indian Accounting Standards (Ind AS), efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/ IFRS and departures have been made where considered absolutely essential.

Chapter 2 - Framework for Preparation & Presentation of Financial Statements as per Accounting Standards

Question 1

Balance sheet of a trader on 31st March, 20X1 is given below:

Liabilities	**₹**	**Assets**	**₹**
Capital	60,000	Fixed Assets	65,000
Profit and loss Account	25,000	Stock	30,000
10% Loan	35,000	Trade receivables	20,000
Trade payables	10,000	Deferred Costs	10,000
		Bank	5,000
	1,30,000		1,30,000

Additional Information:

a. The remaining life of fixed assets is 5 years. The pattern of use of the asset is even. The net realizable value of fixed assets on 31.03.X2 was ₹ 60,000.
b. The trader's purchases and sales in 20X1-X2 amounted to ₹ 4 lakh and ₹ 4.5 lakh respectively.
c. The cost and net realizable value of stock on 31.03.X2 were ₹ 32,000 and ₹ 40,000 respectively.
d. Expenses for the year amounted to ₹ 14,900.
e. Deferred cost is amortized equally over 4 years.
f. Debtors on 31.03.X2 is ₹ 25,000, of which ₹ 2,000 is doubtful. Collection of another ₹ 4,000 depends on successful re-installation of certain product supplied to the customer.
g. Closing trade payable is ₹ 12,000, which is likely to be settled at 5% discount.
h. Cash balance on 31.03.X2 is ₹ 37,100.
i. There is an early repayment penalty for the loan ₹ 2,500.

The Profit and Loss Accounts and Balance Sheets of the trader are shown below in two cases (i) assuming going concern (ii) not assuming going concern.

(5 marks)

Solution

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

	Case(i)₹	Case(ii)₹		Case(i)₹	Case(ii)₹
To opening stock	30,000	30,000	By sales	4,50,000	4,50,000
To purchase	4,00,000	4,00,000	by closing stock	32,000	40,000
To Expenses	14,900	14,900	by trade payables	-	600
To depreciation	13,000	5,000			
To provision for doubtful debts	2,000	6,000			
To deferred cost	2,500	10,000			
To loan penalty		2,500			
To net profit	19,600	22,200			
	4,82,000	**4,90,600**		**4,82,000**	**4,90,600**

Balance Sheet as at 31st March, 20X2

Liabilities	Case(i)₹	Case(ii)₹	Assets	Case(i)₹	Case(ii)₹
Capital	60,000	60,000	Fixed Assets	52,000	60,000
Profit & loss A/c	44,600	47,200	Stock	32,000	40,000
10% Loan	35,000	37,500	Trade Receivables (less provision)	23,000	19,000
Trade Payables	12,000	11,400	Deferred costs	7,500	Nil
			Bank	37,100	37,100
	1,51,600	**1,56,100**		**1,51,600**	**1,56,100**

Question 2

Balance Sheet of Anurag Trading Co. on 31st March, 20X1 is given below:

Liabilities	Amount(₹)	Assets	Amount(₹)
Capital	50,000	Fixed Assets	69,000
Profit and loss A/c	22,000	Stock in Trade	36,000
10% Loan	43,000	Trade Receivables	10,000
Trade Payables	18,000	Defferred Expenditure	15,000
		Bank	3,000
	1,33,000		1,33,000

Additional Information:

i. Remaining life of fixed assets is 5 years with even use. The net realisable value of fixed assets as on 31st March, 20X2 was ₹ 64,000.
ii. Firm's sales and purchases for the year 20X1-X2 amounted to ₹ 5 lacs and ₹4.50 lacs respectively.
iii. The cost and net realisable value of the stock were ₹34,000 and ₹38,000 respectively.
iv. General Expenses for the year 20X1-X2 were ₹16,500.
v. Deferred Expenditure is normally amortised equally over 4 years starting from F.Y. 20X0-X1 i.e. ₹5,000 per year.
vi. Out of debtors worth ₹10,000, collection of ₹4,000 depends on successful redesign of certain product already supplied to the customer.
vii. Closing trade payable is ₹10,000, which is likely to be settled at 95%.
viii. There is pre-payment penalty of ₹2,000 for Bank loan outstanding.

Prepare Profit & loss Account for the year ended 31st March, 20X2 by assuming it is not a Going Concern.

(5 marks)

Solution

Profit and Loss Account of Anurag Trading Co. for the year ended 31st March, 20X2

(Assuming business is not a going concern)

	₹		₹
To opening stock	36,000	By sales	5,00,000
To purchases	4,50,000	By trade payables	500
To General expenses	16,500	By closing stock	38,000
To Depreciation(69,000 - 64,000)	5,000		
To Provision for doubtful debts	4,000		
To deferred expenditure	15,000		
To loan penalty	2,000		
To Net Profit(b.f)	10,000		
	5,38,500		5,38,500

Question 3

Explain main elements of Financial Statements.

(5 marks)

Solution

Elements of Financial Statements

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.

Question 4

A Ltd. has entered into a binding agreement with Gamma Ltd. to buy a custom-made machine ₹ 1,00,000. At the end of 20X1-X2, before delivery of the machine, A Ltd. had to change its method of production. The new method will not require the machine ordered and it will be scrapped after delivery. The expected scrap value is nil.

You are required to advise the accounting treatment and give necessary journa l entry in the year 20X1-X2.

(5 marks)

Solution

A liability is recognised when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured. In the given case, A Ltd. should recognise a liability of ₹ 1,00,000 to Gamma Ltd..

When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognised as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognised as an expense.

Journal entry

Loss on change in production Method	Dr.	1,00,000	
To Gamma Ltd.			1,00,000
(loss due to change in production method)			
Profit and loss A/c	Dr.	1,00,000	
To Loss on change in production Method			1,00,000
(Loss transferred to profit and loss account)			

Question 5
Explain in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the Balance Sheet or Statement of Profit and Loss.

(5 marks)

Solution
The Framework for Recognition and Presentation of Financial statements recognizes four alternative measurement bases for the purpose of determining the value at which an element can be recognized in the balance sheet or statement of profit and loss. These bases are: (i)Historical Cost; (ii)Current cost (iii) Realizable (Settlement) Value and (iv) Present Value.

A brief explanation of each measurement basis is as follows:

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

Question 6
"One of the characteristic of the financial statement is neutrality."Do you agree with this statement? Explain in brief.

(5 marks)

Solution

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.

Chapter 3 - Accounting Standards

Question 1

In the books of M/s Prashant Ltd., closing inventory as on 31.03.2015 amounts to ₹ 1,63,000 (on the basis of FIFO method).

The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory from the year 2014-15. On the basis of weighted average method, closing inventory as on 31.03.2015 amounts to ₹ 1,47,000. Realisable value of the inventory as on 31.03.2015 amounts to ₹ 1,95,000.

Discuss disclosure requirement of change in accounting policy as per AS-1.

(5 marks)

Solution

As per AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus Prashant Ltd. should disclose the change in valuation method of inventory and its effect on financial statements. The company may disclose the change in accounting policy in the following manner:

'The company values its inventory at lower of cost and net realisable value. Since net realisable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost. In the present year i.e. 2014-15, the company has changed to weighted average method, which better reflects the consumption pattern of inventory, for ascertaining inventory costs from the earlier practice of using FIFO for the purpose. The change in policy has reduced current profit and value of inventory by ₹ 16,000.

Question 2

In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting in wastage of 300 MT. Cost per MT of input is ₹ 1,000. The entire quantity of waste is on stock at the year end. State with reference to Accounting Standard, how will you value the inventories in this case?

(5 marks)

Solution

As per AS 2 (Revised), 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.

In this case, normal waste is 250 MT and abnormal waste is 50 MT. The cost of 250 MT will be included in determining the cost of inventories (finished goods) at the year end.

The cost of abnormal waste (50 MT x 1,052.6315 = ₹ 52,632) will be charged to the profit and loss statement.

Cost per MT (Normal Quantity of 4,750 MT) = 50,00,000 / 4,750

= ₹ 1,052.6315

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

Question 3

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

(i) Interest paid by financial enterprise

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

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

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

(v) Bad debts written off

(5 marks)

Solution

(i) Interest paid by financial enterprise

Cash flows from operating activities

(ii) TDS on interest received from subsidiary company

Cash flows from investing activities

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

Cash flows from investing activities

(iv) Insurance claim received against loss of fixed asset by fire

Extraordinary item to be shown as a separate heading under 'Cash flow from

investing activities'

(v) Bad debts written off

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

Question 4

Entity A purchased an asset on 1st January 2013 for ₹ 1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil.

On 1st January 2017, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years.

Calculate the amount of depreciation for each year, if company charges depreciation on Straight Line basis.

(5 marks)

Solution

The entity has charged depreciation using the straight-line method at ₹ 10,000 per annum i.e (₹ 1,00,000/10 years).

On 1st January 2017, the asset's net book value is [₹ 1,00,000 – (10,000 x 4)] ₹60,000. The remaining useful life is 4 years.

The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of four years.

Consequently, it should charge depreciation for the next 4 years at ₹15,000 per annum i.e. (₹ 60,000 / 4 years).

Note: Depreciation is recognised even if the Fair value of the Asset exceeds its Carrying Amount. Repair and maintenance of an asset do not negate the need to depreciate it.

Question 5

A Ltd. purchased fixed assets costing ₹ 3,000 lakhs on 1.1.2016 and the same was fully financed by foreign currency loan (U.S. Dollars) payable in three annual equal installments. Exchange rates were 1 Dollar = ₹

40.00 and ₹ 42.50 as on 1.1.2016 and 31.12.2016 respectively. First installment was paid on 31.12.2016. The entire difference in foreign exchange has been capitalised.

You are required to state, how these transactions would be accounted for.

(5 marks)

Solution

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 recognised as income or expenses in the period in which they arise. Thus exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets are recognised as income or expense.

Calculation of Exchange Difference:

Foreign currency loan = ₹ 3,000 lakhs / ₹40 = 75 lakhs US Dollars

Exchange difference = 75 lakhs US Dollars × (42.50 – 40.00) = ₹187.50 lakhs

(Including exchange loss on payment of first installment)

Therefore, entire loss due to exchange differences amounting ₹ 187.50 lakhs should be charged to profit and loss account for the year.

Note: The above answer has been given on the basis that the company has not exercised the option of capitalisation available under paragraph 46 of AS 11. However, if the company opts to avail the benefit given in paragraph 46A, then nothing is required to be done since the company has done the correct treatment.

Question 6

Z Ltd. purchased a fixed asset for ₹ 50 lakhs, which has the estimated useful life of 5 years with the salvage value of ₹ 5,00,000. On purchase of the assets government granted it a grant for ₹ 10 lakhs. Pass the necessary journal entries in the books of the company for first two years if the grant is treated as deferred income.

(5 marks)

Solution

Journal in the books of Z Ltd.

Year	Particulars		₹(Dr.)	₹(Cr.)
1st	Fixed Assets Account	Dr.	50,00,000	
	To bank Account(Being fixed Assets purchased)			50,00,000
	Bank Account	Dr.	10,00,000	
	To deferred Government grant Account (Being grant received from the government)			10,00,000
	Depreciation Account	Dr.	9,00,000	
	To Fixed asssets Account(Being depreciation charged on SLM)			9,00,000
	Profit & Loss Account	Dr.	9,00,000	
	To depreciation Account (Being Depreciation transferred to P/L Account)			9,00,000
	Deferred Government Grant Account	Dr.	2,00,000	
	to profit & loss Account (Being Proportinate government grant taken to P/L Account)			2,00,000
2nd	Depreciation Account	Dr.	9,00,000	
	To Fixed Assetrs Account(Being Depreciation charged on SLM)			9,00,000
	Profit & loss Account	Dr.	9,00,000	
	To depreciation Account			9,00,000
	Deferred Government Grant Account	Dr.		2,00,000
	To Profit & loss Account (Being proportionate government grant taken to P/L Account)		2,00,000	

Question 7

On 1.4.2014, ABC Ltd. received Government grant of ₹ 300 lakhs for acquisition of machinery costing ₹ 1,500 lakhs. The grant was credited to the cost of the asset. The life of the machinery is 5 years. The machinery is depreciated at 20% on WDV basis. The Company had to refund the grant in May 2017 due to non-fulfillment of certain conditions.

How you would deal with the refund of grant in the books of ABC Ltd.?

(5 marks)

Solution

According to para 21 of AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset should be recorded by increasing the book value of the asset or by reducing deferred income balance, as appropriate, 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.

		₹ in Lakhs
1st April, 2014	Acquisition cost of machinery (₹1,500-₹300)	1,200.00
31st March, 2015	Less: Depreciation @ 20%	(240.00)
31st March, 2016	Book Value	960.00
31st March, 2017	Less: Depreciation @ 20%	192.00
1st April, 2017	Book value	768.00
May, 2017	Less: Depreciation @ 20%	(153.60)
	Book value	614.40

	Add: Refund of grant	300.00
	Revised book value	914.40

Depreciation @ 20% on the revised book value amounting ₹ 914.40 lakhs is to be provided prospectively over the residual useful life of the asset.

Question 8

ABC Ltd. wants to re-classify its investments in accordance with AS 13 (Revised). Decide and state on the amount of transfer, based on the following information:

1. A portion of current investments purchased for ₹ 20 lakhs, to be reclassified as long term investment, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 25 lakhs.
2. Another portion of current investments purchased for ₹ 15 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was ₹ 6.5 lakhs.
3. Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹ 18 lakhs but had been written down to ₹ 12 lakhs to recognise other than temporary decline as per AS 13 (Revised).

(5 marks)

Solution

As per AS 13 (Revised), where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.

1. In the first case, the market value of the investment is ₹ 25 lakhs, which is higher than its cost i.e. ₹ 20 lakhs. Therefore, the transfer to long term investments should be carried at cost i.e. ₹ 20 lakhs.
2. In the second case, the market value of the investment is ₹ 6.5 lakhs, which is lower than its cost i.e. ₹ 15 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value i.e. ₹ 6.5 lakhs. The loss of ₹ 8.5 lakhs should be charged to profit and loss account.

As per AS 13 (Revised), where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

3. In the third case, the book value of the investment is ₹ 12 lakhs, which is lower than its cost i.e. ₹ 18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at ₹ 12 lakhs.

Question 9

X Ltd. began construction of a new building on 1st January, 2016. It obtained ₹ 1 lakh special loan to finance the construction of the building on 1st January, 2016 at an interest rate of 10%. The company's other outstanding two non-specific loans were:

Amount	Rate of Interest
₹ 5,00,000	11%
₹ 9,00,000	13%

The expenditures that were made on the building project were as follows:

	₹
January 2016	2,00,000
April 2016	2,50,000
July 2016	4,50,000
December 2016	1,20,000

Building was completed by 31st December, 2016. Following the principles prescribed in AS 16 'Borrowing Cost,' calculate the amount of interest to be capitalised and pass one Journal Entry for capitalising the cost and borrowing cost in respect of the building.

(5 marks)

Solution

i. Computation of average accumulated expenses

		₹
₹ 2,00,000 x 12/12	=	2,00,000
₹ 2250,000 x 9/12	=	1,87,500
₹4,50,000 x 6/12	=	2,25,000
₹1,20,000 x 1/12	=	10,000
		6,22,500

ii. Calculation of average interest rate other than for specific borrowings

Amount of loan (₹)	Rate of interest	Amount of interest(₹)
5,00,000	11%	= 55,000
9,00,000	13%	= 1,17,000
14,00,000		1,72,000
Weighted Average rate of interest		= 12.285% (approx)
c 1,72,000/14,00,000 m * 100		

iii. Interest on average accumulated expenses

		₹
Specific borrowings(₹ 1,00,000 x 10%)	=	10,000
non-specific borrowings (₹5,22,500* x 12.285%)	=	64,189
Amount of interest to be capitalised	=	74,189

iv. Total expenses to be capitalised for building

	₹
Cost of building ₹ (2,00,000 + 2,50,000 + 4,50,000 + 1,20,000)	10,20,000
Add: Amount of interest to be capitalized	74,189
	10,94,189

v.

Date	**Particulars**		**Dr.(₹)**	**Cr. (₹)**
31.12.2016	Building account	Dr.	10,94,189	
	To Bank Account			10,94,189

	(Being amount of cost of building and borrowing cost thereon capitalised)			

*(₹ 6,22,500 - ₹ 1,00,000)

Question 10

M/s XYZ Ltd. has three segments namely X, Y, Z. The total Assets of the Company are ₹ 10.00 crores. Segment X has ₹2.00 crores, segment Y has ₹ 3.00 crores and segment Z has ₹ 5.00 crores. Deferred tax assets included in the assets of each segments are X- ₹ 0.50 crores, Y— ₹ 0.40 crores and Z— ₹ 0.30 crores. The accountant contends that all the three segments are reportable segments. Comment.

(5 marks)

Solution

According to AS 17 "Segment Reporting", segment assets do not include income tax assets.

Therefore, the revised total assets are ₹ 8.8 crores [₹ 10 crores – (₹ 0.5 + ₹ 0.4 + ₹ 0.3)].

Segment X holds total assets of ₹ 1.5 crores (₹ 2 crores – ₹ 0.5 crores);

Segment Y holds ₹ 2.6 crores (₹ 3 crores – ₹ 0.4 crores);

and Segment Z holds ₹ 4.7 crores (₹ 5 crores – ₹ 0.3 crores).

Thus all the three segments hold more than 10% of the total assets, all segments are reportable segments.

Question 11

Explain briefly the accounting treatment needed in the following cases as per AS 11 as on 31.3.2017.

Trade receivables include amount receivable from Umesh ₹ 5,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US $ 1= ₹ 58.50.

Long term loan taken from a U.S. Company, amounting to ₹ 60,00,000. It was recorded at

US $ 1 = ₹ 55.60, taking exchange rate prevailing at the date of transaction.

US $ 1 = ₹ 61.20 on 31.3.2017.

(5 marks)

Solution

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 recognised 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 amortised over the balance period of such long-term asset/ liability, by recognition as income or expense in each of such periods.

Trade Receivables	Foreign Currency Rate	₹
Initial recognition US $ 8,547 (5,00,000/58.50)	1 US $ = ₹ 58.50	5,00,000
Rate on Balance Sheet Date	1 US $ = ₹ 61.20	
Exchange difference Gain US $ 8,547 x (61.20-58.50)		23,077
Treatment: Credit Profit and loss A/c by ₹ 23,077		
Long term Loan		
Initial recognition US $ 1,07,913.67 (60,00,000/55.60)	1 US $ = ₹ 55.60	60,00,000
Rate on Blanace sheet date	1 US $ = ₹ 61.20	
Exchange Difference Loss US $ 1,07,913.67 x (61.20 - 55.60)		6,04,317
Treatment : Credit Loan A/c		
And Debit FCMITD A/C or Profit and Loss A/c by ₹ 6,04,317		

Thus Exchange Difference on Long term loan amounting ₹ 6,04,317 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 ₹ 23,077 is required to be transferred to Profit and Loss A/c.

Question 12

On 1st April, 2016, Amazing Construction Ltd. obtained a loan of ₹ 32 crores to be utilised as under:

(i) Construction of sealink across two cities : ₹ 25 crores

(work was held up totally for a month during the year due to high water levels)

(ii) Purchase of equipments and machineries : ₹ 3 crores

(iii) Working capital : ₹ 2 crores

(iv) Purchase of vehicles : ₹ 50,00,000

(v) Advance for tools/cranes etc. : ₹ 50,00,000

(vi) Purchase of technical know-how : ₹ 1 crores

(vii) Total interest charged by the bank for the year ending 31st March, 2017 : ₹ 80,00,000

Show the treatment of interest by Amazing Construction Ltd.

(5 marks)

Solution

According to AS 16 'Borrowing costs', qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised 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.

The treatment of interest by Amazing Construction Ltd. can be shown as:

	Qualifying Asset	Interest to be capitalised	Interest to be charged to profit & Loss A/c	
		₹	₹	
Construction of sea-link	Yes	62,50,000		[80,00,0000x(25/32)]
Purchase of equipment and machinery	No		7,50,000	[80,00,000x(3/32)]
Working capital	No		5,00,000	[80,00,000x(2/32)]
Purchase of vehicle	No		1,25,000	[80,00,000x(0.5/32)]
Advance for tools, cranes etc.	No		1,25,000	[80,00,000x(0.5/32)]
Purchase of technical know-how	No		2,50,000	[80,00,000x(1/32)]
Total		62,50,000	17,50,000	

Question 13

Briefly explain disclosure requirements for Investments as per AS-13.

(5 marks)

Solution

The disclosure requirements as per AS 13 (Revised) are as follows:

(i) Accounting policies followed for valuation of investments.

(ii) Classification of investment into current and long term.

(iii) The amount included in profit and loss statements for

(a) Interest, dividends and rentals for long term and current investments, disclosing therein gross income and tax deducted at source thereon;

(b) Profits and losses on disposal of current investment and changes in carrying amount of such investments;

(c) Profits and losses and disposal of long term investments and changes in carrying amount of investments.

(iv) Aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments;

(v) Any significant restrictions on investments like minimum holding period for sale/disposal, utilisation of sale proceeds or non- remittance of sale proceeds of investment held outside India.

(vi) Other disclosures required by the relevant statute governing the enterprises

Question 14

A private limited company manufacturing fancy terry towels had valued its closing inventory of inventories of finished goods at the realizable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.

You are required to advise the company on the valuation of the inventories in line with the provisions of AS 2.

(5 marks)

Solution

Accounting Standard 2 "Valuation of Inventories" states that inventories should be valued at lower of historical cost and net realizable value. The standard states, "at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods are often valued at net realizable value at certain stages of production."

Terry Towels do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing inventory of finished goods (Fancy terry towel) should have been valued at lower of cost and net realizable value and not at net realizable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing inventory of inventories of finished goods is not correct.

Question 15

Power Track Ltd. purchased a plant for US$ 50,000 on 31st October, 2016 payable after 6 months. The company entered into a forward contract for 6 months @₹ 64.25 per Dollar. On 31st October, 2016, the exchange rate was ₹ 61.50 per Dollar.

You are required to calculate the amount of the profit or loss on forward contract to be recognized in the books of the company for the year ended 31st March, 2017.

(5 marks)

Solution

Calculation of profit or loss to be recognized in the books of Power Track Limited

	₹
Forward contract rate	64.25
Less: Spot rate	(61.50)
Loss on forward contract	2.75
Forward Contract Amount	$ 50,000
Total loss on entering into forward contract = ($ 50,000 × ₹ 2.75)	₹1,37,500
Contract period	6 months

Loss for the period 1st November, 2016 to 31st March, 2017 i.e.	5 months
5 months falling in the year 2016-2017	
Hence, Loss for 5 months will be ₹ 1,37,500 $\times \frac{5}{6}$ =	₹ 1,14,583

Thus, the loss amounting to ₹ 1,14,583 for the period is to be recognized in the year ended 31st March, 2017.

Question 16

Preet Ltd. is installing a new plant at its production facility. It has incurred these costs:

1.	Cost of the plant (cost per supplier's invoice plus taxes)	₹ 50,00,000
2.	Initial delivery and handling costs	₹ 4,00,000
3.	Cost of site preparation	₹ 12,00,000
4.	Consultants used for advice on the acquisition of the plant	₹ 14,00,000
5.	Interest charges paid to supplier of plant for deferred credit	₹ 4,00,000
6.	Estimated dismantling costs to be incurred after 7 years	₹ 6,00,000
7.	Operating losses before commercial production	₹ 8,00,000

Please advise Preet Ltd. on the costs that can be capitalised in accordance with AS 10 (Revised).

(5 marks)

Solution

According to AS 10 (Revised), these costs can be capitalised:

1.	Cost of the plant	₹ 50,00,000
2.	Initial delivery and handling costs	₹ 4,00,000
3.	Cost of site preparation	₹ 12,00,000
4.	Consultant's fees	₹ 14,00,000
5.	Estimated dismantling costs to be incurred after 7 years	₹6,00,000
		₹86,00,000

Note: Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of ₹ 4,00,000 and operating losses before commercial production amounting to ₹ 8,00,000 are not regarded as directly attributable costs and thus cannot be capitalised. They should be written off to the Statement of Profit and Loss in the period they are incurred.

Question 17

Zen Bridge Construction Limited obtained a loan of ₹ 64 crores to be utilized as under:

(i)	Construction of Hill link road in Kedarnath	₹ 50 crores
(ii)	Purchase of Equipment and Machineries	₹ 6 crores
(iii)	Working Capital	₹ 4 crores
(iv)	Purchase of Vehicles	₹ 1crore
(v)	Advances for tools/cranes etc.	₹ 1crore
(vi)	Purchase of T echnical Know how	₹ 2 crores
(vii)	T otal Interest charged by the Bank for the year ending 31st March, 2018	₹ 1.6 crores

Show the treatment of Interest according to Accounting Standard by Zen Bridge Construction Limited.

(5 marks)

Solution

According to AS 16 'Borrowing costs', qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use. As per the standard, 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. Capitalization of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.

The treatment of interest by Zen Bridge Construction Ltd. can be shown as:

	Qualifying Asset	Interest to be capitalized ₹ in crores	Interest to be charged to Profit & Loss A/c ₹ in crores	
Construction of hill road*	Yes	1.25		1.6/64 x 50
Purchase of equipment				
and machineries	No		0.15	1.6/64 x 6
Working capital	No		0.10	1.6/64 x 4
Purchase of vehicles	No		0.025	1.6/64 x 1
Advance for tools, cranes				
etc.	No		0.025	1.6/64 x 1
Purchase of technical				

know-how	No		0.05	1.6/64 x 2
Total		1.25	0.35	

*Note: It is assumed that construction of hill road will normally take more than a year (substantial period of time), hence considered as qualifying asset.

Question 18

A specific government grant of ₹ 15 lakhs was received by USB Ltd. for acquiring the Hi-Tech Diary plant of ₹ 95 lakhs during the year 2014-15. Plant has useful life of 10 years. The grant received was credited to deferred income in the balance sheet. During 2017-18, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was ₹ 10.50 lakhs and written down value of plant was ₹ 66.50 lakhs.

(i) What should be the treatment of the refund of the grant and the effect on cost of plant and the amount of depreciation to be charged during the year 2017-18 in profit and loss account?

(ii) What should be the treatment of the refund, if grant was deducted from the cost of the plant during 2014-15 assuming plant account showed the balance of ₹ 56 lakhs as on 1.4.2017?

You are required to explain in the line with provisions of AS 12.

(5 marks)

Solution

As per para 21 of AS 12, 'Accounting for Government Grants', "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

(i) In this case the grant refunded is ₹ 15 lakhs and balance in deferred income is ₹ 10.50 lakhs, ₹ 4.50 lakhs shall be charged to the profit and loss account for the year 2017-18. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years.

(ii) If the grant was deducted from the cost of the plant in the year 2014-15 then, para 21 of AS 12 states that the amount refundable in respect of grant which relates to specific fixed assets should be recorded by increasing the book value of the assets, by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case, the book value of the plant shall be increased by ₹ 15 lakhs. The increased cost of ₹ 15 lakhs of the plant should be amortized over 7 years (residual life). Depreciation charged during the year 2017-18 shall be (56+15)/7 years = ₹ 10.14 lakhs presuming the depreciation is charged on SLM.

Chapter 4 - Redemption of Preference Shares & Redemption of Debentures

Redemption of Preference shares

Question 1

The capital structure of Chand Ltd. consists of 20,000 Equity Shares of ₹10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹100 each fully paid up (issued on 1.4.20X1).

Undistributed reserve and surplus stood as: General Reserve ₹ 80,000; Profit and Loss Account ₹ 20,000; Investment Allowance Reserve is ₹ 10,000 out of which ₹ 5,000 is not free for distribution as dividend; Cash at bank amounted to ₹98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve and surplus, subject to the conditions that a sum of ₹ 20,000 shall be retained in general reserve and which should not be utilized.

Pass Journal Entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out.

(10 marks)

Solution

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank a/c	Dr.	25,000	
	To equity share capital A/c			25,000
	(Being the issue of 2,500 equity shares of ₹10 eacg at par as per Board's Resolution No....Dated.....)			
	8% Redeemable preference share Capital A/c	Dr.	1,00,000	
	Premium on redemption of preference shares A/c	Dr.	10,000	
	To Preference shareholders a/c			1,10,000
	(Being the amount paid on redemption transferred to prefernce shareholders account)			
	Preference shareholders A/c	Dr.	1,10,000	
	To bank a/c			1,10,000
	(Being the amount paid on redemption of prefernce shares)			
	Profit & Loss A/c	Dr.	10,000	
	To Premium on redemption of preference shares A/c			10,000
	(Being the premium payable on redemption is adjusted against profit and loss Account)			
	General Reserve A/c	Dr.	60,000	
	Profit and loss A/c	Dr.	10,000	
	Investment Allowance Reserve A/c	Dr.	5,000	
	To capital Redemption Reserve A/c			75,000
	(Being the amount transferred to capital redemption reserve account as per the requirement of the Act)			

Balance sheet as on ....[Extracts]

		Particulars	Notes No.	₹
		Equity and liabilities		
1		**Shareholders' Fund**		
	a	Share capital	1	2,25,000
	b	Reserves and surplus	2	1,02,000
		Total		?
2		**Current Assets**		
		cash and cash equipments		13,000
		(98,000 + 25,000 - 1,10,000)		
		Total		?

Notes to accounts

1. Share capital	
22,500 Equity shares (20,000 + 2,500) of ₹ 10 each fully paid up	2,25,000
2. Reserves and surplus	
General Reserve	20,000
Capital Redemption Reserve	75,000
Investment allowance Reserve	5,000
	1,00,000

Working notes:

No of shares to be issued for redemption of preference shares:		
Face value of shares redeemed	₹ 1,00,000	
Less: Profit available for distribution as dividend:		
General Reserve: ₹ (80,000 - 20,000)	₹ 60,000	
profit and loss (20,000 - 10,000 set aside for adjusting premium payable on redemption of preference shares)	₹ 10,000	
Investment allowance Reserve: (₹ 10,000 - 5,000)	₹ 5,000	₹ 75,000
₹ 25,000		₹ 25,000

therefore, No. of shares to be issued = 25,000/₹10 = 2,500 shares.

Question 2

The books of B Ltd. showed the following balance on 31st December, 20X3:

30,000 Equity Shares of ₹10 each fully paid; 18,000 12% Redeemable Preference Shares of ₹10 each fully paid; 4,000 10% Redeemable Preference Shares of ₹10 each, ₹8 paid up (all shares issued on 1st April, 20X2).

Undistributed Reserve and Surplus stood as: Profit and Loss Account ₹80,000; General Reserve ₹1,20,000; Securities Premium Account ₹15,000 and Capital Reserve ₹21,000.

Preference shares are redeemed on 1st January, 20X1 at a premium of ₹2 per share. The whereabouts of the holders of 100 shares of ₹10 each fully paid are not known.

For redemption, 3,000 equity shares of ₹10 each are issued at 10% premium. At the same time, a bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account.

Show the necessary Journal Entries to record the transactions.

(5 marks)

Solution

In the books of B Limited

Journal Entries

Date 20X1	**Particulars**		**Dr.(₹)**	**Cr. (₹)**
Jan 1	12% Redeemable Preference Share Capital A/c	Dr.	1,80,000	
	Premium on Redemption of preference shares A/c	Dr.	36,000	
	To Preference Shareholders A/c (Being the amount payable on redemption of 18,000 12% Redeemable Preference Shares transferred to shareholders Account)			2,16,000
	Preference Shareholders A/c	Dr.	2,14,800	
	To bank A/c (Being the amount paid on redemption of 17,900 Preference shares)			2,14,800
	Bank A/c	Dr.	33,000	
	To Equity share Capital A/c			30,000
	To Securities Premium A/c (being the issue of 3,000 equity shares of ₹10 each at a premium of 10% as per Board's Resolution No.....Dated..........)			3,000
	General Reserve A/c	Dr	1,20,000	
	Profit & Loss A/c	Dr.	30,000	
	To Capital Redemption Reserve A/c (Being the amount transferred to capital redemption reserve A/c as per the requirement)			1,50,000
	Capital Redemption Reserve A/c	Dr.	1,20,000	
	To Bonus to shareholder (Being the amount appointrd for issue of bonus share in the ratio of 5:2 as per shareholders resolution No.....Dated.......)			1,20,000
	Bonus to shareholders A/c	Dr.	1,20,000	
	To equity Share capital A/c (Being the utilisation of bonus dividend for issue of 12,000 equity shares of ₹10 each flly paid)			1,20,000
	Profit & Loss A/c	Dr.	36,000	
	To Premium on redemption of preference share A/c			36,000

	(Being premium on redemption of preference shares adjusted against to profit & Loss Account)			

Working Note:

(1) Partly paid-up preference shares cannot be redeemed.

(2) Amount to be Transferred to Capital Redemption Reserve Account

Face value of share to be redeemed	₹ 1,80,000
Less: Proceeds from fresh issue (excluding premium)	(₹ 30,000)
	₹ 1,50,000

(3) No bonus shares on 3,000 equity shares issued for redemption.

Question 3

The capital structure of a company consists of 20,000 Equity Shares of ₹10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹100 each fully paid up (issued on 1.4.20X1).

Undistributed reserve and surplus stood as: General Reserve ₹80,000; Profit and Loss Account ₹20,000; Investment Allowance Reserve out of which ₹5,000, (not free for distribution as dividend) ₹10,000; Securities Premium ₹2,000, Cash at bank amounted to ₹98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of ₹20,000 shall be retained in general reserve and which should not be utilised.

Pass Journal Entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out.

(8 marks)

Solution

In the books of ....

Journal Entries

Date	Particular		Dr.(₹)	Cr. (₹)
	Bank A/c	Dr.	25,000	
	To equity Share Capital A/c (Being the issue of 2,500 Equity Shares of ₹10 each at a premium of Re. 1 per share as per Board's Resolution No....dated.......)			25,000
	8% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
	Premium on Redemption of Preference Shares A/c		10,000	
	To Preference Shareholders A/c (Being the amount paid on redemption transferred to preference shareholders account)			1,10,000
	Preference Shareholders A/c	Dr.	1,10,000	
	To bank A/c			1,10,000

	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	10,000	
	To Premium on Redemption of preference Shares A/c (Being the premium payable on redemption is adjusted against profit & Loss Account)			10,000
	General Reserve A/c	Dr.	60,000	
	Profit & Loss A/c	Dr.	10,000	
	Investment Allowance Reserve A/c	Dr.	5,000	
	To capital Redemption Reserve A/c (Being the amount transferred to capital Redemption Reserve Account as per the requirement of the Act)			75,000

Balance Sheet as on ....[Extracts]

Date	Particulars	Notes No.	(₹)
	EQUITY AND LIABILITIES		
1.	**Shareholders' funds**		
	a) Share capital	1	2,25,000
	b) Reserves and Suplus	2	1,02,000
	Total		?
	ASSETS		
2.	**Current Assets**		
	Cash and Cash Equivalents (98,000 + 25,000 - 1,10,000)		13,000
	Total		?

Notes to Accounts

1.	**Share Capital**		
	22,500 Equity Shares (20,000 + 2,500) of ₹10 Each fully paid up		2,25,000
2.	**Reserves and surplus**		
	General Reserve		20,000
	Securities Premium		2,000
	Capital Redemption Reserve		75,000
	Investment Allowance Reserve		5,000
			1,02,000

Working Note:

No of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed ₹1,00,000

Less: Profit available for distribution as dividend:

General Reserve : ₹(80,000-20,000) ₹60,000

Profit and Loss (20,000 – 10,000 set aside for adjusting premium payable on redemption of preference shares)	₹10,000
Investment Allowance Reserve: (₹ 10,000-5,000)	₹ 5,000 (₹ 75,000)
	₹ 25,000

Therefore, No. of shares to be issued = 25,000/₹10 = 2,500 shares.

Question 4

The Board of Directors of a Company decide to issue minimum number of equity shares of ₹9 to redeem ₹5,00,000 preference shares. The maximum amount of divisible profits available for redemption is ₹3,00,000.

Calculate the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of ₹50 only.

(5 marks)

Solution

Nominal value of preference shares	₹5,00,000
Maximum possible redemption out of profits	₹3,00,000
Minimum proceeds of fresh issue	₹5,00,000 - 3,00,000 =₹2,00,000
Proceed of one share	= ₹9
Minimum number of shares	= 2,00,000/9 = 22,222.22shares

As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shares.

If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 22,250. Hence, a minimum number of shares to be issued in such a case is 22,250 shares.

Redemption of Debentures

Question 1

YZ Ltd (an unlisted company other than AIFI, Banking company, NBFC and HFC) had 16,000, 12% debentures of Rs.100 each outstanding as on 1st April, 20X1, redeemable on 31st March, 20X2.

On 1 April 20X1, the following balances appeared in the books of accounts- Investment in 2,000 9% secured Govt. bonds of Rs. 100 each. DRR is Rs. 1,00,000. Interest on investments is received yearly at the end of financial year.

2,000 own debentures were purchased on 31st March 20X2 at an average price of Rs. 99 and cancelled on the same date.

On 31st March, 20X2, the investments were realised at par and the debentures were redeemed. You are required to write up the following accounts for the year ended 31st March 20X2:

(1) 12% Debentures Account

(2) Debenture Redemption Reserve Account

(3) Debenture Redemption Investments Account.

(10 marks)

Solution

12% Debentures Account

Date	Particulaars	Rs.	Date	Particulars	Rs.
31st March, 20X2	To Own Debentures A/c	1,98,000	1st April, 20X1	By Balance b/d	16,00,000
31st March, 20X2	To Profit on cancellation	2,000			
31st March, 20X2	To Bank A/c	14,00,000			
		16,00,000			**16,00,000**

Debenture redemption Reserve Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31st March, 20X2	To General Reserve A/c	1,60,000	1st April, 20X1	By Balance b/d	1,00,000
			1st April, 20X1	By profit and loss A/c [(16,00,000 × 10%)-1,00,000]	60,000
		1,60,000			**1,60,000**

Debenture redemption Investments A/c

Date	Particulars	Amount	Date	Particulars	Amount
1st April 20X1	To Balance b/d	2,00,000	30th March 20X2	By Bank A/c (2,000 × 100 × 15%) (Refer Working Note 2)	30,000

1st April 20X1	To Bank A/c (Refer working Note 1)	40,000	30th March 20X2	By bank A/c (Refer Working Note 3)	2,10,000
		2,40,000			2,40,000

Working Note 1:

Debenture Redemption 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%

= 16,000 X 100 X 15%

= Rs.2,40,000/-

The company has already invested in specified investments i.e. 9% Govt bonds for an amount of Rs.2,00,000 as per the information given in the question.

The balance amount of Rs. 40,000 (i.e. Rs. 2,40,000 less Rs. 2,00,000) would be invested by the company on 1 April 20X1.

Working Note 2:

Redemption of Debenture Redemption Investments on 30 March 20X2 amounting to Rs. 30,000

Since the company purchased 2,000 own debentures on 31 March 20X2, 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%

= 2,000 X 100 X 15% = Rs 30,000/-

These investments have been realized a day before purchasing own debentures. Alternatively, these investments may also be realized on 31 March 20X2.

Working Note 3:

Redemption of Debenture Redemption Investments on 31 March 20X2 amounting to Rs. 2,10,000

The remaining debentures i.e. total debentures less own debentures would be redeemed on 31 March 20X2 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%

= (16,000 - 2,000) X 100 X 15%

= Rs. 2,10,000/-

These investments have been realized a day before redemption of debentures. Alternatively, these investments may also be realized on 31 March 20X2.

Question 2

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

	₹
Liabilities:	
Share capital: 9,000 equity shares of ₹ 10 each, fully paid up	90,000
General Reserve	38,000
Debenture Redemption Reserve	35,000
12% Convertible Debenture : 1,200 Debentures of ₹ 50 each	60,000
Unsecured Loans	28,000
Short Term Borrowings	19,000
	2,70,000
Assets:	
Fixed assets (Ar cost less depreciation)	72,000
Debenture Redemption Reserve Investments	34,000
Cash And bank Balances	86,000
Other Current Assets	78,000
	2,70,000

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

Assuming that:

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

(ii) The investments realized ₹ 56,000 on sale,

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

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

You are required to

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

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

(8 marks)

Solution

Spices Ltd.

Balance Sheet as on 01.04.2018

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

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

Notes to Accounts

		₹
1 Share Capital		
11,000 Equity shares of ₹ 10 each		1,10,000
(Out of above, 2000 shares issued to debentures holders who opted for conversion into shares)		
2 Reserve and Surplus		
General Reserve	38,000	
Add: Debenture Redemption Reserve Transfer	35,000	
	73,000	
Add: Profit on sale of investments	22,000	
	95,000	
Less: Premium on redemption of debentures (1,200 x ₹5)	(6,000)	89,000
Securities Premium Account (2,000 x ₹1)		2,000
		91,000

Working Notes:

(i) Calculation of number of shares to be allotted ₹

Total number of debentures	1,200
Less: Number of debentures not opting for conversion	200
	1,000
40% of 1,000	400
Redemption value of 400 debentures (400 x ₹ 55)	₹ 22,000

Number of Equity Shares to be allotted 22,000/11 = 2,000 shares of ₹ 10 each.

(ii) Calculation of cash to be paid ₹

Number of debentures	1,200
Less: Number of debentures to be converted into equity shares	(400)
	800

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

(iii) Cash and Bank Balance ₹

Balance before redemption	86,000
Add: Proceeds of investments sold	56,000
	1,42,000
Less: Cash paid to debenture holders	(44,000)
	98,000

Question 3

On 1st January, 2008 Raman Ltd. allotted 20,000 9% Debentures of ₹ 100 each at par, the total amount having been received along with applications.

(i) On 1st January, 2010 the Company purchased in the open market 2,000 of its own debentures @ ₹ 101 each and cancelled them immediately.

(ii) On 1st January, 2013 the company redeemed at par debentures for ₹6,00,000 by draw of a lot.

(iii) On 1st January, 2014 the company purchased debentures of the face value of ₹4,00,000 for 3,95,600 in the open market, held them as investments for one year and then cancelled them.

(iv) Finally, as per resolution of the board of directors, the remaining debentures were redeemed at a premium of 2% on 1st January, 2018 when Securities Premium Account in the company's ledger showed a balance of ₹60,000.

Pass journal entries for the above mentioned transactions ignoring debenture redemption reserve, debenture - interest and interest on own' debentures.

(12 marks)

Solution

Journal

		(₹)Dr.	**(₹)Cr.**
2008 Jan 1	Bank Dr.	20,00,000	
	To 9% Debenture Applications & Allotment Account (Being application money on 20,000 Debentures @ ₹ 100 per debenture received)		20,00,000
	9% Debentures applications & Allotment Account Dr.	10,00,000	
	To 9% Debentures Account (Being allotment of 20,000 9% Debentures of ₹ 100 each at par)		20,00,000
(i) 2010 Jan. 1	9% Debenture Account Dr.	2,00,000	
	Loss on Redemption of Debentures Account Dr.	2,000	
	To bank (Being redemption of 2,000 9% Debentures of ₹ 100 each by purchase in the open markket @ ₹101 each)		2,02,000
" "	Profit and loss Account/ Securities Premium Account Dr.	2,000	

	To loss on redemption of debentures Account (Being loss on redemption of debentures being written off by transfer to profit and loss Account or securities premium account)		2,000
(ii) 2013 Jan.1	9% Debentures Account Dr.	6,00,000	
	To Sundry Debentureholders (Being amount payable to debentureholders on redemption debentures for ₹ 6,00,000 at par by draw of a lot)		6,00,000
" "	Sundry Debentureholders Dr.	6,00,000	
	To bank (Being payment made to sundry debentureholders for redeeming debentures of ₹6,00,000)		6,00,000
(iii) 2014 Jan. 1	Own Debenture Dr.	3,95,600	
	To bank (Being purchase of own debenture of the face value of ₹4,00,000 for ₹ 3,95,600)		3,95,600
2015 "	9% Debentures Dr.	4,00,000	
	To own Debentures		3,95,600
	To Profit on cancelation of own Debentures Account (Being Cancellation of own debentures of the face value ofd ₹4,00,000 purchased last year for ₹3,95,600)		4,400
" "	Profit on cancellation of own Debentures Account Dr.	4,400	
	To Capital Reserve Account (Being transfer of profit on cancellation of own debentures to capital reserve)		4,400
(iv) 2018 Jan.	9% Debenture Account Dr.	8,00,000	
	Premium on Redemption of Debenture Account Dr.	16,000	
	To sundry Debentureholders (Being amount payable to holders of debentures of the face value of ₹8,00,000 on redemption at a premium of 2% as per resolution of the board of director)		8,16,000
" "	Sundry Debenture holders Dr.	8,16,000	
	To bank Account (Being payment to sundry debentureholders)		8,16,000
" "	Securities Premium Account Dr.	16,000	
	To Premium on redemption of debentures account (Being utilisation of a part of the balance in securities premium account to write off premium paid on redemption of debentures)		16,000

Question 4

On 1st April, 20X1, in MK Ltd.'s (unlisted company other than AIFI, Banking company, NBFC and HFC) ledger, 9% debentures appeared with a opening balance of ₹ 50,00,000 divided into 50,000 fully paid debentures of ₹ 100 each issued at par.

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

On 31.5.20X1, the company purchased 8,000 debentures of its own @ ₹ 98 (ex-interest) per debenture.

On the same day, it cancelled the debentures acquired.

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

(8 marks)

Solution

MK Ltd.'s Ledger

(i) Debentures Account

		₹			₹
31.5.X1	To Own Debentures (8,000 x 98)	7,84,000	1.4.X1	By Balance b/d	50,00,000
31.5.X1	To Profit on cancellation	16,000			
31.3.X2	To balance c/d	42,00,000			
		50,00,000			**50,00,000**

(ii) Interest on Debentures Account

		₹			₹
31.5.X1	To Bank (Interest for 2 months on 8,000 Debentures) (Refer Working Note)	12,000	31.3.X2	By Profit and loss A/c (b.f.)	3,90,000
30.9.X1	To Bank (Interest for 6 months on 42,000 debentures) (Refer Working Note)	1,89,000			
31.3.X2	To bank (Interest for 6 months on 42,000 debentures)	1,89,000			
		3,90,000			**3,90,000**

(iii) Debentures Redemption Reserve A/c

		₹			₹
31.5.X1	By General Reserve (8,000 x 100 x 10%)	80,000	01.4.X1	To Profit & Loss A/c (50,000 x 100 x 10%)	5,00,000
31.3.X2	By Balance c/d	4,20,000			
		5,00,000			**5,00,000**

(iv) Debentures Redemption Reserve Investments A/c

		₹			₹
01.4.X1	To Bank A/c	7,50,000	30.5.X1	By Bank A/c (8,000 x 100 x 15%)	1,20,000
			31.3.X2	To Balance b/d	6,30,000
		7,50,000			**7,50,000**

Working Notes

31.5.X1	Acquired 8,000 Debentures @ 98 per debenture(ex-interest)	₹
	Purchase price of debenture (8,000 x ₹98)	7,84,000
31.5.X1	Interest for 2 months [₹8,00,000 x 9% x 2/12]	12,000
30.9.X1	Interest on other debentures (₹ 42,00,000 x 9% x 1/2)	1,89,000

Question 5

A Company had issued 20,000, 13% debentures of ₹ 100 each on 1st April, 20X1. The debentures are due for redemption on 1st July, 20X2. 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 ₹ 10) at a price of ₹ 15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders exercising the option to the maximum.

(5 marks)

Solution

Calculation of number of equity shares to be allotted

	Number of Debentures
Total Number of debentures	20,000
Less:Debenture holders not opted for conversion	(2,500)
Debenture holders opted for conversion	17,500
Option for conversion	20%
Number of debentures to be converted (20% of 17,500)	3,500

Redemption value of 3,500 debentures at a premium of 5%

[3,500 x (100+5)] ₹ 3,67,500

Equity shares of ₹ 10 each issued on conversion

[₹ 3,67,500/ ₹ 15]	24,500 shares

Question 6

The summarised Balance Sheet of Convertible Limited (unlisted company other than AIFI, Banking company, NBFC and HFC), as on 30th June, 20X1, stood as follows:

Liabilities	₹
Share Capital : 5,00,000 equity shares of ₹ 10 each fully paid	50,00,000
General Reserve	90,00,000
Profit and loss A/c	10,00,000
Debenture Redemption Reserve	10,00,000
13.5% Convertible Debentures, 1,00,000 Debentures of ₹ 100 each	1,00,00,000
Other loans	65,00,000
Current Liabilities and Provisions	1,25,00,000
	4,50,00,000
Assets :	
Fixed Assets (at cost less depreciation)	1,60,00,000
Debenture Redemption Reserve Investments	15,00,000
Cash and bank Balances	75,00,000
Other Current Assets	2,00,00,000
	4,50,00,000

The debentures are due for redemption on 1st July, 20X1. The terms of issue of debentures provided that they were redeemable at a premium 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares at a predetermined price of ₹ 15.75 per share and the payment in cash.

Assuming that :

(i) except for 100 debenture holders holding totally 25,000 debentures, the rest of them exercised the option for maximum conversion.

(ii) the investments were realise at par on sale; and

(iii) all the transactions are put through, without any lag, on 1st July, 20X1.

Redraft the balance sheet of the company as on 1st July, 20X1 after giving effect to the redemption. Show your calculations in respect of the number of equity shares to be allotted and the cash payment.

(10 marks)

Solution

Convertible Limited

Balance Sheet as on July 1, 20X1

Particulars	**Note No**	**Figures as at the end of current reporting period**
I. Equity And Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	60,00,000
(b)Reserves and Suplus	2	1,10,75,000
(2)Non-Current Liabilities		
(a) Long-term borrowing - unsecured Loans		65,00,000
(3) Current Liabilities		
(a)Short-term Provisions		1,25,00,000
		3,60,75,000
II. Assets		
(1) Non-current Assets		
(a) Property, Plant and Equipment		
(i)Tangible Assets		1,60,00,000
(2)Current Assets		
(a) Cash and bank Balances (Refer WN (iii))		75,000
(b) Other Current Assets		2,00,00,000
Total		**3,60,75,000**

Notes to Accounts

			₹
1.	Share capital		
	6,00,000 Equity Shares (5,00,000 + 1,00,000) of ₹ 10 each (Refer WN (i))		60,00,000
2.	Reserve and Surplus		
	General Reserve	90,00,000	
	Profit aand loss	10,00,000	
	Add: Debenture Redemption Reserve Transfer	10,00,000	
		110,00,000	
	Less: Premium on redemption of debentures (1,00,000 Debentures × 5 per debenture)	(5,00,000)	1,05,00,000
	Securities Premium Account (1,00,000 x 5.75) (refer WN (i))		5,75,000
			1,10,75,000

Working Notes

(i) Calculation of number of shares to be allotted :

Total number of debentures	1,00,000
Less : Number of debentures for which debentureholders Did not opt for conversion	(25,000)

	<u>75,000</u>
20% of 75,000	15,000
Redemption value of 15,000 debentures (15,000 x 105)	₹ 15,75,000

Number of Equity Shares to be allotted :

= 15,75,000/15.75 = 1,00,000 Shares of ₹ 10 each.

(ii) Calculation of cash to be paid :	₹
Number of debentures	1,00,000
Less : number of debentures to be converted into equity shares	<u>(15,000)</u>
	<u>85,000</u>
Redemption value of 85,000 debentures (85,000 × ₹ 105)	₹ 89,25,000

(iii) Cash and Bank Balance :

Balance before redemption	75,00,000
Add : Proceeds of investments sold	<u>15,00,000</u>
	90,00,000
Less : Cash paid to debenture holders	(89,25,000)
	75,000

Question 7

Sencom Limited (listed company) issued ₹ 1,50,000 5% Debentures on 30th September 20X0 on which interest is payable half yearly on 31st March and 30th September. The company has power to purchase debentures in the open market for cancellation thereof. The following purchases were made during the year ended 31st December, 20X2 and the cancellation were made on the same date. On 31December 20X0, investments made for the purpose of redemption were ₹ 22,500.

1st March 20X2 - ₹ 25,000 nominal value purchased for ₹ 24,725 ex-interest.

1st September 20X2 - ₹ 20,000 nominal value purchased for ₹ 20,125 cum-interest.

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

(i) Debentures Account; and

(ii) Own Debenture (Investment) Account.

Ignore taxation.

(5 marks)

Solution

Sencom Limited

Debenture Account

20X2		₹	**20X2**		₹
Mar 1	To own debentures	24,725	Jan. 1	By Balance b/d	1,50,000
Mar 1	To profit on cancellation (25,000 - 24,725)	275			

Sep 1	To own Debenture A/c (Note 3)	19,708			
Sep 1	To profit on cancellation (20,000 - 19,708)	1,05,000			
Dec 31	Balance c/d	1,05,000			
		1,50,000			**1,05,000**

Own Debenture Investment Account

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

Working Notes:

1. 25,000 × 5% × 5/12 = 521

2. 20,000 × 5% × 5/12 = 417

3. 20125 – 417 = 19,708

Chapter 5 - Accounting for Bonus Issue & Right Issue

Question 1

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

(5 marks)

Solution

Ex-right value of the shares =

(Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + Rights No. of shares)

= (₹ 360 x 2 Shares + ₹ 180 x 1 Share) / (2 + 1) Shares

= ₹ 900 / 3 shares = ₹ 300 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= ₹ 360 – ₹ 300 = ₹ 60 per share.

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

Question 2

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

	₹
Sources of funds	
Authorized Capital	
50,000 Equity shares of ₹ 10 each	5,00,000
10,000 Preference shares of ₹ 100 each (8% redeemable)	10,00,000
	15,00,000
Issued, subscribed and paid up	
30,000 equity shares of ₹ 10 each	3,00,000
5,000, 8% Redeemable preference shares of ₹ 100 each	5,00,000
Reserves & surplus	
Securities Premium	6,00,000
General Reserve	6,50,000
profit and loss A/c	40,000
Trade payables	4,20,000
	25,10,000
Application of funds	
PPE (net)	7,80,000
Investments (Market value ₹5,80,000)	4,90,000
Deferred tax assets	3,40,000
Trade receivables	6,20,000
Cash and Bank balance	2,80,000
	25,10,000

In Annual General Meeting held on 20th June, 2019 the company passed the following resolutions:

(i) To split equity share of ₹ 10 each into 5 equity shares of ₹ 2 each from 1st July, 2019.

(ii) To redeem 8% preference shares at a premium of 5%.

(iii) To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On 10th July, 2019 investments were sold for ₹ 5,55,000 and preference shares were redeemed.

The bonus issue was concluded by 12th September, 2019

You are required to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30th September, 2019. All working notes should form part of your answer.

(12 marks)

Solution

Bumbum Limited

Journal Entries

2019			**Dr. (₹)**	**Cr. (₹)**
July 1	Equity share capital A/c (₹ 10 each)	Dr.	3,00,000	
	To equity share capital A/c (₹ 2 each)			3,00,000
	(being equity share of ₹ 10 each splitted into 5 equity shares of ₹ 2 each){1,50,000 × 2}			
July 10	Cash & Bank Balance A/c	Dr.	5,55,000	
	To Investment A/c			4,90,000
	To Profit and loss A/c			65,000
	(Being investment sold out and profit on sale credited to profit and loss A/c)			
July 10	8% Redeemable preference share capital A/c	Dr.	5,00,000	
	Premium on redemption of preference share A/c	Dr.	25,000	
	To Preference shareholders A/c			5,25,000
	(Being amount payable to preference share holders on redemption)			
July 10	Preference shareholders A/c	Dr.	5,25,000	
	To cash and bank A/c			5,25,000
	(Being amount paid to preference shareholders)			
July 10	General Reserve A/c	Dr.	5,00,000	
	To capital Redemption reserve a/c			5,00,000
	(Being amount equal to nominal value of preference shares transferred to capital redemption reserve A/c on its redemption as per the law)			
Sept. 12	Capital redcemption reserve A/c	Dr.	1,00,0000	
	To bonus to shareholders A/c			1,00,000
	(Being balance in capital redemption reserve capitalized to issue bonus shares)			
sept. 12	Bonus to shareholders A/c	Dr.	1,00,000	
	to equaty share capital A/c			1,00,000

	(Being 50,000 fully paid equaity shares of ₹ 2 each issued as bonus in ratio of 1 shares for every 3 shares held)			
Sept. 30	Securities Premium A/c	Dr.	25,000	
	to premium on redemption of preference shares A/c			25,000
	(Being premium on prefrence shares adjusted from securities premium account)			

Balance sheet as at 30th september, 2019

		Particulars	Notes	₹
		Equity and liabilities		
1		**shareholders' Funds**		
	a	share capital	1	4,00,000
	b	Reserves and surplus	2	12,30,000
2		**Current liabilities**		
	a	Trade payables		4,20,000
				20,50,000
		Assets		
1		**Non-current assets**		
	a	PPE		7,80,000
	b	Deferred tax asset		3,40,000
2		**Current assets**		
		Trade receivables		6,20,000
		Cash and cash equivalents		3,10,000
		Total		**20,50,000**

Notes to accounts

1	**Share capital**	₹	₹
	Authorized share capital		
	2,50,000 Equity shares of ₹ 2 each	5,00,000	
	10,000 8% Preference shares of ₹ 100 each	10,00,000	15,00,000
	Issued, subscribed and paid up		
	2,00,000 equity shares of ₹ 2 each		4,00,000
2	**Reserves and surplus**		
	Securities Premium A/c		
	Balance as per balance sheet	6,00,000	
	Less: Adjustment for premium in preference shares	(25,000)	
	Balance		5,75,000
	Capital Redemption reserve (5,00,000 - 1,00,000)		4,00,000
	General reserve (6,50,000 - 5,00,000)		1,50,000
	Profit and loss A/c	40,000	
	Add: profit on sale of investment	65,000	1,05,000
			12,30,000

Working notes:

		₹
1.	**Redemption of preference shares**	
	5,000 prefernece shares of ₹100 each	5,00,000

	Premium on redemption @ 5%	25,000
	amount payable	5,25,000
2.	**Issue of bonus shares**	
	Existing equity shares after split (30,000 x 5)	1,50,000 shares
	Bonus shares (1 share for every 3 shares held) to be issued	50,000 shares
3.	**Cash and bank balance**	
	Balance as per balance sheet	2,80,000
	Add: Realization on sale of investment	5,55,000
		8,35,000
	Less: Paid to preference share holders	(5,25,000)
	Balance	3,10,000

Question 3

A company offers new shares of ₹ 100 each at 25% premium to existing shareholders on one for four basis. The cum-right market price of a share is ₹ 150. Calculate the value of a right.

(4 marks)

Solution

Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares Issue Price) / (Existing Number of shares + Rights Number of shares)

= (₹ 150 X 4 Shares + ₹ 125 X 1 Share) / (4 + 1) Shares

= ₹ 725 / 5 shares = ₹ 145 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= ₹ 150 – ₹ 145 = ₹ 5 per share.

Chapter 6 – Preparation of Financial Statements - Profit and Loss, Balance Sheet

Question 1

From the following particulars furnished by Megha Ltd., prepare the Balance Sheet as on 31st March 20X1 as required by Part I, Schedule III of the Companies Act, 2013.

Particulars		Debit Rs.	Credit Rs.
Equity Share Capital (Face value of Rs. 100 each)			50,00,000
Call in Arrears		5,000	
Land & Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Inventory:			
Raw Materials	2,50,000		
Finished Goods	10,00,000	12,50,000	
Provision for Taxation			6,40,000
Trade receivables		10,00,000	
Short term Advances		2,13,500	
Profit & Loss Account			4,33,500
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Unsecured Loan			6,05,000
Trade payables (for Goods and Expenses)			8,00,000
Loans & advances from related parties			2,00,000

The following additional information is also provided:

(i) 10,000 Equity shares were issued for consideration other than cash.

(ii) Trade receivables of Rs. 2,60,000 are due for more than 6 months.

(iii) The cost of the Assets were:

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

(iv) The balance of Rs. 7,50,000 in the Loan Account with State Finance Corporation is inclusive of Rs. 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes Rs. 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.

(vi) Transfer Rs. 20,000 to general reserve is proposed by the Board of directors.

(15 marks)

Solution

Alpha Ltd.

Balance Sheet as on 31st March, 20X1

		Particulars		Notes	Rs.
		Equity and Liabilities			
1		**Shareholders' funds**			
	a	Share capital		1	49,95,000
	b	Reserves and Surplus		2	11,82,907
2		**Non-current liabilities**			
		Long-term borrowings		3	13,17,500
3		**Current liabilities**			
	a	Trade Payables			8,00,000
	b	Other current liabilities		4	3,38,093
	c	Short-term provisions		5	6,40,000
	d	Short-term borrowings			2,00,000
			Total		**94,73,500**
		Assets			
		Non-current assets			
1		Property, Plant and Equipment		6	56,25,000
		Tangible assets			
		Current assets			
2	a	Inventories		7	12,50,000
	b	Trade receivables		8	10,00,000
	c	Cash and bank balances		9	13,85,000
	d	Short-term loans and advances			2,13,500
			Total		**94,73,500**

Notes to accounts

		Rs.
1. Share capital		
Equity Share capital		
Issued & Subscribed & called up		

50,000 equity shares of Rs. 100 each		
(of the above 10,000 shares have been issued for consideration other than cash)	50,00,000	
Less: Calls in arrears	(5,000)	49,95,000
Total		**49,95,000**
2. Reserves and surplus		
General Reserve	10,50,000	
Add: Current year transfer	20,000	10,70,000
Profit and loss Balance		
Profit for the year	4,33,500	
Less: Appropriations:		
Transfer to General Reserve	(20,000)	
Dividend payable (Refer W N)	(2,49,750)	
DDT on dividend (Refer W N)	(50,843)	1,12,907
Total		**11,82,907**
3. Long term borrowings		
Secured Term Loan		
State Financial Corporation Loan (7,50,000-37,500)		
(Secured by hypothecation of plant and machinery)		7,12,500
Unsecured Loan		6,05,000
Total		**13,17,500**
4. Other Current Liabilities		
Interest Accured but not due on loans (SFC)		37,500
Dividend (Refer W N)	2,49,750	
DDT on dividend (Refer W N)	50,843	3,00,593
		3,38,093
5. Short-term provision		
Provision for taxation		6,40,000
6. Tangible assets		
Land and building	30,00,000	
	(2,50,000)	27,50,000
Less: Depreciation	(b.f)	
Plant & Machinery	35,00,000	
	(8,75,000)	
Less: Depreciation	(b.f.)	
Furniture & Fittings	3,12,500	
Less: Depreciation	(62,500)(b.f.)	2,50,000
Total		**56,25,000**
7. Inventories		
Raw Materials		2,50,000
Finished goods		10,00,000
Total		**12,50,000**
8. Trade receivables		
Outstanding for a period exceeding six months		2,60,000
Other Amount		7,40,000
Total		**10,00,000**
9. Cash and bank balances		
Cash and cash equivalents		
cash at bank		
with Scheduled banks	12,25,000	

With other (Omega Bank Ltd.)	10,000	12,35,000
Cash in hand		1,50,000
Other bank balances		Nil
Total		**13,85,000**

Question 2

The following extract of Balance Sheet of Gaurav Ltd. was obtained:

Balance Sheet (Extract) as on 31st March, 2018

Liabilities	**Rs.**
Authorised Capital:	
90,000, 14% Preference shares of ₹100	90,00,000
9,00,00,000 Equity shares of ₹100 each	9,00,00,000
	9,90,00,,000
Issued and subscribed Capital:	
67,500, 14% Preference shares of ₹100 each fully paid	67,50,000
5,40,000 equity shares of ₹100 each, ₹ 80 paid-up	4,32,00,000
Share Suspense Account	90,00,00
Reserve and surplus	
Capital reserves (₹6,75,000 is revaluation reserve)	8,77,500
Securities premium	2,25,000
Secured Loans:	
15% Debentures	2,92,50,000
Unsecured Loans:	
Public Deposits	16,65,000
Cash credit loan from SBI (Short term)	5,92,500
Current Liabilities:	
Trade Payables	15,52,500
Assets:	
Investment in shares, debentures, etc.	3,37,50,000
Profit and loss account (Dr. balance)	68,62,500

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 Gaurav Ltd.is an investment company?

(5 marks)

Solution

Computation of effective capital:

	Where Gaurav Ltd.is a non-investment company	**Where Gaurav Ltd.is is an investment company**
Paid-up share capital —		
67,500, 14% Preference shares	67,50,000	67,50,000

5,40,000 Equity shares	4,32,00,000	4,32,00,000
Capital reserves	2,02,500	2,02,500
Securities premium	2,25,000	2,25,000
15% Debentures	2,92,50,000	2,92,50,000
Public Deposits	16,65,000	16,65,000
(A)	8,12,92,500	8,12,92,500
Investments	3,37,50,000	-
Profit and Loss account (Dr. balance)	68,62,500	68,62,500
(B)	4,06,12,500	68,62,500
Effective capital (A–B)	4,06,80,000	7,44,30,000

Question 3

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

	₹		₹
To Administrative, selling and distribution expenses	8,22,542	By balance b/d	5,72,350
To Directors fees	1,34,780	By balance from trading A/c	40,25,365
To Interest on debentures	31,240	By Subsidies received from Govt.	2,73,925
To Managerial Remuneration	2,85,350		
To Depreciation on fixed assets	5,22,543		
To provision for taxation	12,42,500		
To general Reserve	4,00,000		
To Investment Revaluation Reserve	12,500		
To Balance c/d	14,20,185		
	48,71,640		**48,71,640**

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was ₹ 5,75,345. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.

(5 marks)

Solution

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

	₹	₹
Balance from Trading A/c		40,25,365
Add: Subsidied received from Government		2,73,925
		42,99,290
Less: Administrative, selling and distribution expenses	8,22,542	
Director's fees	1,34,780	
Interest on debentures	31,240	
Depreciation on Fixed asset as per schedule II	5,75,345	15,63,907
Profit u/s 198		27,35,383

Maximum Managerial remuneration under Companies Act, 2013=11% of ₹27,35,383= ₹ 3,00,892

Chapter 7 – Cash Flow Statement

Question 1

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 ₹ 20 lakhs:

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

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

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

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

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

(f) Compensation received ₹ 90,000 by the company in a suit filed.

(ii) Income tax paid during the year ₹ 10,50,000.

(iii) 15,000, 10% preference shares of ₹ 100 each were redeemed on 31.3.2019 at a premium of 5%. Further the company issued 50,000 equity shares of ₹ 10 each at a premium of 20% on 2.4.2018. Dividend on preference shares were paid at the time of redemption.

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

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

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

	As on 31.3.2018	**As on 31.3.2019**
	₹	**₹**
Inventory	12,00,000	13,18,000
Trade receivables	2,58,000	2,53,100
Cash in hand	1,96,300	35,300
Trade payables	2,11,000	2,11,300
Outstanding expenses	75,000	81,800

(10 marks)

Solution

X Ltd.

Cash Flow Statement

for the year ended 31st March, 2019

	₹	₹
Cash flow from operating Activities		
Net profit before income tax and extraordinary items:		20,00,000
adjustment for:		
Depreciation 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
Adjustment 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)
		16,44,000
Cash flow from extraordinary items:		
Compensation received in a suit field		90,000
Net cash flow from operation 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 investing activities		3,80,000
Cash flow from financial 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)
Add: Cash and cash equivalent 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 2

The Balance Sheet of Harry Ltd. for the year ending 31st March, 2018 and 31st March, 2017 were summarised as follows:

	2018 (₹)	**2017 (₹)**
Equity share capital	1,20,000	1,00,000
Reserves:		
Profit and Loss Account	9,000	8,000
Current Liabilities:		
Trade Payables	8,000	5,000
Income tax payable	3,000	2,000
Declared Dividends	4,000	2,000

	1,44,000	**1,17,000**
Fixed Assets (at W.D.V) :		
Building	19,000	20,000
Furniture & Fixture	34,000	22,000
Cars	25,000	16,000
Long Term Investments	32,000	28,000
Current Assets:		
Inventory	14,000	8,000
Trade Receivables	8,000	6,000
Cash & Bank	12,000	17,000
	1,44,000	**1,17,000**

The Profit and Loss account for the year ended 31st March, 2018 disclosed:

	₹
Profit before tax	8,000
Income Tax	(3,000)
Profit after tax	5,000
Declared Dividends	(4,000)
Retained Profit	1,000

Further Information is available:

1. Depreciation on Building ₹ 1,000.

2. Depreciation on Furniture & Fixtures for the year ₹ 2,000.

3. Depreciation on Cars for the year ₹ 5,000. One car was disposed during the year for ₹ 3,400 whose written down value was ₹2,000.

4. Purchase investments for ₹ 6,000.

5. Sold investments for ₹ 10,000, these investments cost ₹ 2,000.

You are required to prepare Cash Flow Statement as per AS-3 (revised) using indirect method.

(10 marks)

Solution

Harry Ltd.

Cash Flow Statement

for the year ended 31st March, 2018

	₹	₹
Cash flows from operating activities		

Net Profit before taxation	8,000	
Adjustments for:		
Depreciation (1,000 + 2,000 +5,000)	8,000	
Profit on sale of Investment	(8,000)	
Profit on sale of car	(1,400)	
Operating profit before working capital changes	6,600	
Increase in Trade receivables	(2,000)	
Increase in inventories	(6,000)	
Increase in Trade payables	3,000	
Cash generated from operations	1,600	
Income taxes paid	(2,000)	
Net cash generated from operating activities (A)		(400)
Cash flows from investing activities		
Sale of car	3,400	
Purchase of car	(16,000)	
Sale of Investment	10,000	
Purchase of Investment	(6,000)	
Purchase of Furniture & fixtures	(14,000)	
Net cash used in investing activities (B)		(22,600)
Cash flows from financing activities		
Issue of shares for cash	20,000	
Dividends paid*	(2,000)	
Net cash from financing activities(C)		18,000
Net decrease in cash and cash equivalents (A + B +C)		(5,000)
Cash and cash equivalents at beginning of period		17,000
Cash and cash equivalents at end of period		12,000

* Dividend declared for the year ended 31st March, 2017 amounting ₹ 2,000 must have been paid in the year 2017-18. Hence, it has been considered as cash outflow for preparation of cash flow statement of 2017-18.

Working Notes:

1.Calculation of Income taxes paid

	₹
Income tax expenses for the year	3,000
Add: Income tax liability at the beginning of the year	2,000
	5,000
Less:income tax liability at the end of the year	(3,000)

	2,000

2. Calculation of Fixed assets acquisitions

	Furniture & Fixtures (₹)	Car (₹)
W.D.V. at 31.3.2018	34,000	25,000
Add back: Depreciation for the year	2,000	5,000
Desposals	-	2,000
	36,000	32,000
Less: W.D.V. At 31.3.2017	(22,000)	(16,000)
Acquisitions during 2016-2018	14,000	16,000

Question 3

A company provides you the following information:

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

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

(iii) Purchases for the year amounted to ₹ 220 crores out of which credit purchase was 80%.

Balance in creditors as on

1.4.2016 ₹ 84 crores

31.3.2017 ₹ 92 crores

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

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

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

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

(viii) ₹ 26 crores were paid by way of income tax.

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

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

(xi) Dividends amounting ₹ 15 crores (including dividend distribution tax of ₹ 2.7 crores)

was also paid.

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

(xiii) On 31st March 2016, Balance with Bank and Cash on hand was ₹ 2 crores. On the basis of the above information, you are required to prepare a Cash Flow Statement for the year ended 31st March, 2017 (Using direct method).

(8 marks)

Solution

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

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

Working Note:

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

	(₹ in crores)
Opening Balance in creditors Account	84
Add: Purchases (220x .8)	176
Total	260
Less: Closing balance in Creditors Account	92
Cash paid to suppliers of goods	168

Add: Cash purchases (220x .2)	44
Total cash paid for purchases to suppliers (a)	212
Add: Cash paid to suppliers of other consumables and services (b)	19
Add: Payment to employees (c)	20
Total cash paid to suppliers of goods & services and to employees [(a)+ (b) + (c)]	251

Question 4

ABC Ltd. gives you the following information. You are required to prepare Cash Flow Statement by using indirect methods as per AS 3 for the year ended 31.03.20X1:

Balance Sheet as on

Liabilities	**31st March 20X0 ₹**	**31st March 20X1 ₹**	**Assets**	**31st March 20X0 ₹**	**31st March 20X1 ₹**
Capital	50,00,000	50,00,000	Plant & Machinery	27,30,000	40,70,000
Retained Earnings	26,50,000	36,90,000	Less: Depreciation	(6,10,000)	(7,90,000)
Debentures	-	9,00,000		21,20,000	32,80,000
Current Liabilities			Current Assets		
Trade Payables	8,80,000	8,20,000	Trade Receivables	23,90,000	28,30,000
Bank loans	1,50,000	3,00,000	Less: Provision	(1,50,000)	(1,90,000)
Liability for Expenses	3,30,000	2,70,000		22,40,000	26,40,000
Dividend Payable	1,50,000	3,00,000	Cash	15,20,000	18,20,000
			Marketable Securities	11,80,000	15,00,000
			Inventories	20,10,000	19,20,000
			Prepaid Expenses	90,000	1,20,000
	91,60,000	**1,12,80,000**		**91,60,000**	**1,12,80,000**

Additional Information:

(i) Net profit for the year ended 31st March, 20X1, after charging depreciation ₹ 1,80,000 is ₹ 22,40,000.

(ii) Trade receivables of ₹ 2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account during the year.

(iii) ABC Ltd. declared dividend of ₹ 12,00,000 for the year 20X0-20X1.

(8 marks)

Solution

Cash Flow Statement of ABC Ltd. for the year ended 31.3.20X1

Cash Flows From Operating Activities	₹	₹
Net Profit	22,40,000	
Add: Adjustment for Depreciation (₹7,90,000 - ₹6,10,000)	1,80,000	
Operating profit Before working Capital Changes	24,20,000	
Add: Decrease in Inventories (₹ 20,10,000 - ₹ 19,20,000)	90,000	
Increase in Provision for Doubtful Debts (₹4,20,000 - ₹1,50,000)	2,70,000	

		27,80,000	
Less: Increase in Current Assets:			
Trade Receivables (₹30,60,000 - ₹23,90,000)	6,70,000		
Prepaid Expenses (₹ 1,20,000 - ₹ 90,000)	30,000		
Decrease in Current Liabilities:			
Trade Payables (₹8,80,000 - ₹ 8,20,000)	60,000		
Expenses Outstanding (₹3,30,000 - ₹ 2,70,000)	60,000	(8,20,000)	
Net cash From operating Activities			19,60,000
Cash Flows from investing Activities			
Purchase of plant & equipment (₹ 40,70,000 - ₹ 27,30,000)		13,40,000	
Net cash used in investing Activities			(13,40,000)
Cash Flows from Financing Activities			
Bank Loan Raised (₹3,00,000 - ₹1,50,000)		1,50,000	
Issued of Debentures		9,00,000	
Payment of Dividend (₹12,00,000 - ₹ 1,50,000)		(10,50,000)	
Net Cash Used in financing Activities			Nil
Net Increase in cash during the year			6,20,000
Add: Cash and cash Equivalent As On 1.4.20X0 (₹15,20,000 + ₹ 11,80,000)			27,00,000
Cash and cash Equivalent As on 31.3.20X1 (₹ 18,20,000 + ₹ 15,00,000)			33,20,000

Note : Bad debts amounting ₹2,30,000 were written off against provision for doubtful debts account during the year. In the above solution, Bad debts have been added back in the balances of provision for doubtful debts and trade receivables as on 31.3.20X1. Alternatively, the adjustment of writing off bad debts may be ignored and the solution can be given on the basis of figures of trade receivables and provision for doubtful debts as appearing in the balance sheet on 31.3.20X1.

Question 5

The Balance Sheet of New Light Ltd. for the years ended 31st March, 20X0 and 20X1 are as follows:

Liabilities	31st March 20X0 (₹)	31st March 20X1 (₹)	Assets	31st March 20X0 (₹)	31st March 20X1 (₹)
Equity share capital	12,00,000	16,00,000	Fixed Assets	32,00,000	38,00,000
10% Preference share capital	4,00,000	2,80,000	Less:Depreciation	9,20,000	11,60,000
Capital Reserve	-	40,000		22,80,000	26,40,000
General Reserve	6,00,000	7,60,000	Investment	4,00,000	3,20,000
profit and loss A/c	2,40,000	3,00,000	Cash	10,000	10,000
9% Debentures	4,00,000	2,80,000	Other current Assets	11,10,000	13,10,000
Current liabilities	4,80,000	5,20,000			
Dividend Payables	1,20,000	1,60,000			
Provision for tax	3,60,000	3,40,000			
	38,00,000	**42,80,000**		**38,00,000**	**42,80,000**

Additional information:

(i) The company sold one fixed asset for ₹ 1,00,000, the cost of which was ₹ 2,00,000 and the depreciation provided on it was ₹80,000.

(ii) The company also decided to write off another fixed asset costing ₹ 56,000 on which depreciation amounting to ₹ 40,000 has been provided.

(iii) Depreciation on fixed assets provided ₹ 3,60,000.

(iv) Company sold some investment at a profit of ₹ 40,000, which was credited to capital reserve.

(v) Debentures and preference share capital redeemed at 5% premium.

(vi) Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The inventory according to books on 31.3.20X0 was ₹ 2,16,000. The inventory on 31.3.20X1 was correctly valued at ₹ 3,00,000.

Prepare Cash Flow Statement as per revised Accounting Standard 3 by indirect method.

(12 marks)

Solution

New Light Ltd.

Cash Flow Statement for the year ended 31st March, 20X1

A.	**Cash Flow from operating Activities**	**₹**	**₹**
	Profit after appropriation		
	Increase in profit and loss A/c after onventory		
	Adjustment[₹30,000 - (₹2,40,000 + ₹ 24,000)]	36,000	
	Transfer to general Reserve	1,60,000	
	Dividend payable	1,60,000	
	Provision for tax	3,40,000	
	Net profit before taxation and extraordinary item	6,96,000	
	Adjustments for :		
	Depreciation	3,60,000	
	Loss on sale of fixed assets	20,000	
	Decrease in value of fixed assets	16,000	
	Premium on redemption of preference share capital	6,000	
	Premium on redemption of debentures	6,000	
	Operating profit before working capital changes	11,04,000	
	Increase in current liabilities (₹5,20,000 - ₹4,80,000)	40,000	
	Increase in other current assets [₹13,10,000 - (₹ 11,10,000 + ₹ 24,000)]	(1,76,000)	
	Cash generated from operations	9,68,000	
	Income tax paid	(3,60,000)	
	Net cash generated from operating activities		6,08,000
B.	Cash flow from investing activities		
	Purchase of fixed assets (W.N.3)	(8,56,000)	
	Proceeds from sale of fixed assets (W.N.3)	1,00,000	
	Proceeds from sale of investments (W.N.2)	1,20,000	
	Net Cash from investing activities		(6,36,000)
C.	Cash flow from financing activities		

	Proceeds from issuance of share capital	4,00,000	
	Redemption of preference share capital (₹1,20,000 + ₹6,000)	(1,26,000)	
	Redemption of debentures (₹1,20,000 + ₹6,000)	(1,26,000)	
	Dividend paid	(1,20,000)	
	Net cash from financing activities		28,000
	Net increase/decrease in cash and cash equivalent during the year		Nil
	Cash and cash equivalent at the beginning of the year		10,000
	Cahs and cash equivalent at the end of the year		10,000

Working Notes :

1. Revaluation of inventory will increase opening inventory by ₹ 24,000.

2,16,000/90 x 100 = ₹ 24,000.

Therefore, opening balance of other current assets would be as follows:

₹ 11,10,000 + ₹ 24,000 = ₹ 11,34,000

Due to under valuation of inventory, the opening balance of profit and loss account be increased by ₹ 24,000.

The opening balance of profit and loss account after revaluation of inventory will be ₹ 2,40,000 + ₹ 24,000 = ₹ 2,64,000

2. Investment Account

	₹		₹
To balance b/d	4,00,000	By Bank A/c (Balancing figure being investment sold)	1,20,000
To capital Reserve A/c (Profit on sale of investment)	40,000	By balance c/d	3,20,000
	4,40,000		4,40,000

3. Fixed Assets Account

		₹			₹	₹
To	Balance b/d	32,00,000	By	Bank A/c (Sale of assets)	10,000	
To	Bank A/c (Balancing figure being assets purchased)	8,56,000	By	Accumulated Depriciation A/c	80,000	
			By	Profit and loss A/c (Loss on sales of assets)	20,000	2,00,000
			By	Accumulated depriciation A/c	40,000	
			By	Profit and loss A/c	16,000	56,000

				(assets written off)		
			By	Balance c/d		38,00,000
		40,56,000				**40,56,000**

4. Accumulated Depreciation Account

		₹			₹
To	Fixed assets A/c	80,000	By	Balance b/d	9,20,000
To	Fixed assets A/c	40,000	By	profit and loss A/c (Depreciation for the period)	3,60,000
To	Balance C/d	11,60,000			
		12,80,000			**12,80,000**

Chapter 8 - Profit (Loss) prior to Incorporation

Question 1

The partners of Shri Enterprises decided to convert the partnership firm into a Private Limited Company Shreya (P) Ltd. with effect from 1st January, 2018. However, company could be incorporated only on 1st June, 2018. The business was continued on behalf of the company and the consideration of ₹ 6,00,000 was settled on that day along with interest @ 12% per annum. The company availed loan of ₹ 9,00,000 @ 10% per annum on 1st June, 2018 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2019 and presents you the following summarized profit and loss account:

	₹	₹
Sales		19,80,000
Cost of goods sold	11,88,000	
Discount to dealers	46,200	
Director's remuneration	60,000	
salaries	90,000	
Rent	1,35,000	
Interest	1,05,000	
Depreciation	30,000	
Office expense	1,05,000	
Sales promotion expenses	33,000	
Preliminary expenses (to be written off in first year itself)	15,000	18,07,200
Profit		1,72,800

Sales from June, 2018 to December, 2018 were 2½ times of the average sales, which further increased to 3½ times in January to March quarter, 2019. The company recruited additional work force to expand the business. The salaries from July, 2018 doubled. The company also acquired additional showroom at monthly rent of ` 10,000 from July, 2018.

You are required to prepare a Profit and Loss Account showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods.

(10 marks)

Solution

Shreya (P) Limited

Profit and Loss Account

for 15 months ended 31st March, 2019

	Pre. inc. (5 Months) (₹)	Post. inc. (10 Months) (₹)		Pre. inc. (5 Months) (₹)	Post. inc. (10 Months) (₹)
To cost of sales	1,80,000	10,08,000	By sales (W.N.1)	3,00,000	16,80,000
To Gross profit	1,20,000	6,72,000			
	3,00,000	16,80,000		3,00,000	16,80,000
To discount to dealers	7,000	39,200	By gross profit	1,20,000	6,72,000
To director's remuneration	-	60,000	By loss	750	

To salaries (W.N.2)	18,750	71,250			
To Rent (W.N.3)	15,000	1,20,000			
To Interest (W.N.4)	30,000	75,000			
To Depreciation	10,000	20,000			
To Office expenses	35,000	70,000			
To priliminary expenses	-	15,000			
ToSales promotion expenses	5,000	28,000			
To net profit	-	1,73,550			
	1,20,750	6,72,000		1,20,750	6,72,000

Working Notes:

1. **Calculation of sales ratio:**

Let the average sales per month in pre-incorporation period be x

average sales (Pre-incorporation) = x X 5 = 5x

Sales (post incorporation) from June to December, 2018 =2½ x X7 = 17.5x

From January to March, 2019 = 3½ x X3 = <u>10.5x</u>

Total Sales <u>28.0 x</u>

Sales ratio of pre-incorporation & post incorporation is 5x : 28x

2. **Calculation of ratio for salaries**

Let the average salary be x

Pre-incorporation salary = x X5=5x

Post incorporation salary

June, 2018 = x

July 18 to March, 2019 = <u>x X 9 X 2</u> = <u>18x</u>

<u>19X</u>

Ratio is 5 : 19

3. **calculation of rent** ₹

Total rent 1,35,000

Less: Additional rent for 9 months @ ₹ 10,000 p.m. <u>90,000</u>

Rent of old premises apportioned in time ratio <u>45,000</u>

Apportionment	Pre inc.	Post. inc.
Old Premises rent	15,000	30,000
Additional Rent	____	<u>90,000</u>
	<u>15,000</u>	<u>1,20,000</u>

4. Calculation of interest

Pre-incorporation period from January, 2018 to May, 2018

$$\left(\frac{6,00,000 \times 12 \times 5}{100 \times 12}\right) = \quad ₹\ 30,000$$

post incorporation period from June, 2018 to March, 2019

$$\left(\frac{9,00,000 \times 10 \times 10}{100 \times 12}\right) = \quad \underline{₹\ 75,000}$$

$$\underline{₹\ 1,05,000}$$

Question 2

ABC Ltd. was incorporated on 1.5.20X1 to take over the business of DEF and Co. from 1.1.20X1. The summarised Profit and Loss Account as given by ABC Ltd. for the year ending 31.12.20X1 is as under:

Summarised Profit and Loss Account

	₹		₹
To Rent and taxes	90,000	By Gross Profit	10,64,000
To salaries including manager's salary of ₹85,000	3,31,000	By Interest on investments	36,000
To carriage Outwards	14,000		
To printing and stationary	18,000		
To Interest on Debentures	25,000		
To sales commission	30,800		
To bad debts (Related to sales)	91,000		
To Underwriting commission	26,000		
To Preliminary Expenses	28,000		
To audit fees	45,000		
To Loss on sale of investments	11,200		
To net profit	3,90,000		
	11,00,000		**11,00,000**

Prepare a Statement showing allocation of expenses and calculations of pre-incorporation and post-incorporation profits after considering the following information:

(i) G.P. ratio was constant throughout the year.

(ii) Sales for January and October were 1½ times the average monthly sales while sales for December were twice the average monthly sales.

(iii) Bad Debts are shown after adjusting a recovery of ₹ 7,000 of Bad Debt for a sale made in July, 20X0.

(iv) Manager's salary was increased by ₹ 2,000 p.m. from 1.5.20X1.

(v) All investments were sold in April, 20X1.

(vi) The entire audit fees relates to the company.

(8 marks)

Solution

Pre-incorporation period is for four months, from 1st January, 20X1 to 30th April, 20X1. 8 months' period (from 1st May, 20X1 to 31st December, 20X1) is post-incorporation period.

Statement showing calculation of profit/losses for pre and post incorporation periods

Particulars	Pre Inc ₹	Post inc ₹
Gross Profit	3,42,000	7,22,000
Interest on Investments	36,000	-
Bad debts recovery	7,000	-
	3,85,000	**7,22,000**
Less:Rent and Taxes	30,000	60,000
Salaries		
Manager's Salary (85,000- refer note below)	23,000	62,000
Other salaries (3,31,000 - 85,000)	82,000	1,64,000
Printing and stationery	6,000	12,000
Audit fees	-	45,000
Carriage Outwards	4,500	9,500
Sales commission	9,900	20,900
Bad Debts (91,000 + 7,000)	31,500	66,500
Interest on debentures	-	25,000
Underwriting Commission	-	26,000
Preliminary Expenses	-	28,000
Loss on sale of Investments	11,200	-
Net Profit	**1,86,900**	**2,03,100**

Working Notes :

(i) Calculation of Sales ratio

Let average monthly sales be x.

Thus Sales from January to April are 4½ x (i.e., 1.5x + x + x + x) and sales from

May to December are 9½ x (x + x + x + x + x + 1.5x + x + 2x).

Sales are in the ratio of 9/2x : 19/2x or 9 : 19.

Calculation of Time Ratio

Pre-incorporation period = 1.1.20X1 to 30.4.20X1 = 4 months

Post-incorporation period = 1.5.20X1 to 31.12.20X1 = 8 months

Time ratio = 1:2

(ii) Gross profit, carriage outwards, sales commission and bad debts written off (after adjustment for bad debt recovery) have been allocated in pre and post incorporation periods in the ratio of Sales i.e. 9 : 19.

(iii) Rent, salaries (subject to increase in manager's salary), printing and stationery are allocated on time basis.

(iv) Interest on debentures, underwriting commission and preliminary expenses are allocated in post incorporation period.

(v) Interest on investments, loss on sale of investments and bad debt recovery are allocated in pre-incorporation period.

Note :

Let Pre-incorporation period manager's monthly salary be x

Total pre-incorporation period manager's monthly salary = 4x

Post-incorporation period manager's monthly salary = x + 2,000

Total pre-incorporation period manager's monthly salary = 8(x+2,000)

Total manager's salary (pre and post) = ₹ 85,000

Thus, 4x + 8(x+2,000) = 85,000

x = 5,750

Total pre-incorporation period manager's monthly salary = 4 x 5,750 = ₹ 23,000

Total pre-incorporation period manager's monthly salary = 8(5,750 + 2,000) = ₹ 62,000

Question 3

Inder and Vishnu, working in partnership registered a joint stock company under the name of Fellow Travellers Ltd. on May 31, 20X1 to take over their existing business. It was agreed that they would take over the assets of the partnership from January 1st, 20X1 for a sum of ₹ 3,00,000 and that until the amount was discharged they would pay interest on the amount at the rate of 6% per annum. The amount was paid on June 30, 20X1. To discharge the purchase consideration, the company issued 20,000 equity shares of ₹ 10 each at a premium of ₹ 1 each and allotted 7% Debentures of the face value of ₹ 1,50,000 to the vendors at par.

The summarised Profit and Loss Account of the "Fellow Travellers Ltd." for the year ended 31st December, 20X1 was as follows:

	₹		₹
To Purchase, including inventory	1,40,000	By sales:	
To Freight and carriage	5,000	1st january to 31st May 20X1	60,000
To Gross Profit c/d	60,000	1st June to 31st Dec, 20X1	1,20,000
		By inventory in hand	25,000
	2,05,000		**2,05,000**
To Salaries and wages	10,000	By gross Profit B/d	60,000
To debenture Interest	5,250		
To Depreciation	1,000		
To Interest on purchase Consideration (up to 30-6-20X1)	9,000		
To selling Commission	9,000		
To Directors' Fee	600		
To Preliminary Expenses	900		
To Provision for taxes (Entirely related with company)	6,000		
To Dividend paid on Equity share @ 5%	5,000		
To balance c/d	13,250		

	60,000		**60,000**

Prepare statement apportioning the expenses and calculate profits/losses for the 'post' and 'pre-incorporation' periods and also show how these figures would appear in the Balance Sheet of the company.

(10 marks)

Solution

Fellow Travellers Ltd.

Statement showing calculation of profit /losses for pre and post incorporation periods

		Ratio	Pre-incorporation	Post-incorporation
Gross profit allocated on the basis of sale		1:2	20,000	40,000
Less: Administrative Expenses Allocated				
On this basis:				
(i) salaries and wages	10,000			
(ii) Depreciation	1,000			
	11,000	5:7	4,583	6,417
Selling commission on the basis of sales interest on purchase consideration		1:2	3,000	6,000
(Time basis)		5:1	7,500	1,500
Expenses applicable wholly to the post-incorporation period:				
Debenture Interest (1,50,000 x 7% x 6/12)	5,250			
Director's Fees	600			5,850
Preliminary Expenses				900
Provision for taxes				6,000
Balance c/d to Balance sheet			**4,917**	**13,333**

Time Ratio

Pre incorporation period = 1 January 20X1 to 31 May 20X1 = 5 months

Post incorporation period = 1 June 20X1 to 31 December 20X1 = 7 months

Time ratio = 5: 7

Sales Ratio

Sales in pre incorporation period (1 January 20X1 to 31 May 20X1) = ₹ 60,000

Sales in post incorporation period (1 June 20X1 to 31 December 20X1) = ₹ 1,20,000

Sales ratio = 1:2

Fellow Travellers Ltd.

Extract from the Balance Sheet as on 31st Dec., 20X1

	Particulars	Notes	₹
	Equity And Liabilities		
1	**Shareholders' funds**		
a	Share capital	1	2,00,000
b	Reserves ad surplus	2	33,250
2	**Non-current liabilities**		
a	Long-term borrowings	3	1,50,000
3	**Current Liabilities**		

a	Short term provisions	4	6,000
	Total		**3,89,250**

Notes to accounts

			₹
1.	**Share Capital**		
	20,000 equity shares of ₹10 each fully paid		2,00,00
2.	**Reserves and surplus**		
	Profit prior to incorporation		4,917
	Securities Premium Account		20,000
	Profit and loss Account	13,333	
	Less: Dividend on equity Share	(5,000)	8,333
	Total		**33,250**
3.	**Long term borrowings**		
	Secured		
	7% Debentures		1,50,000
4.	**Other current liabilities**		
	Provision for taxes		6,000

Chapter 9 - Investment Accounting

Question 1

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

(1) On 1st April, 2019 she purchased 40,000 equity shares of ₹ 1 each fully paid up for ₹ 60,000.

(2) On 15th May 2019, Meera sold 8,000 shares for ₹ 15,200.

(3) At a meeting on 15th June 2019, the company decided:

(i) To make a bonus issue of one fully paid up share for every four shares held on 1st June 2019, and

(ii) To give its members the right to apply for one share for every five shares held on 1st June 2019 at a price of ₹ 1.50 per share of which 75 paise is payable on or before 15th July 2019 and the balance, 75 paise per share, on or before 15th September, 2019.

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

(a) Meera received her bonus shares and took up 4,000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30th September 2019.

(b) On 15th March 2020, she received a dividend from Kumar Ltd. of 15 per cent in respect of the year ended 31st Dec 2019.

(c) On 30th March 2020, she received ₹ 28,000 from the sale of 20,000 shares.

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

(8 marks)

Solution

Investment account (shares in Kumar Limited) in the books of Meera

Date	Particulars	No. of shares	Income	Amount	Date	Particulars	No.of Shares	Income	Amount
2019			₹	₹	**2019**			₹	₹
April 1	To bank (purchases)	40,000	-	60,000	May 15	By Bank (sale)	8,000	-	15,200
May 15	To Profit and loss A/c (W.N.1)	-	-	3,200					
June 15	To Bonus issue	8,000	-	Nil	2020				
July 15	To bank (@75 paid on 4,000 Shares)	4,000	-	3,000	Mar. 15	By bank (dividend @ 15% on ₹32,000)		4,800	-
Sept.	To Bank (@ 75 paid on 4,000 Shares)	-	-	3,000	Mar. 30	By bank (sale)	20,000	-	28,000
2020 Mar. 31	To Profit and loss A/c (W.N.2)			3,455	Mar. 31	By Balance c/d*	24,000	-	29,455
	To profit and loss A/c	-	4,800						
		52,000	4,800	72,655			52,000	4,800	72,655

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

Working notes:

(1)	**Profit on sale on 15-5-2019:**		
	Cost of 8,000 Shares @ ₹1.50	12,000	
	Less: sales price	15,200	
	Profit		3,200
(2)	**Cost of 20,000 shares sold:**		
	Cost of 44,000 shares (48,000 ÷ 6,000)		54,000
	∴ Cost of 20,000 shares $\left(\frac{54{,}000}{44{,}000\,Shares}\times 20{,}000\,Shares\right)$		24,545
	Profit on sale of 20,000 shares (₹ 28,000 - ₹ 24,545)		3,455

Question 2

On 1.4.20X1, Sundar had 25,000 equity shares of 'X' Ltd. at a book value of ₹ 15 per share (Nominal value ₹ 10). On 20.6.20X1, he purchased another 5,000 shares of the company at ₹ 16 per share. The directors of 'X' Ltd. announced a bonus and rights issue. No dividend was payable on these issues. The terms of the issue are as follows :

Bonus basis 1:6 (Date 16.8.20X1).

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

Due date for payment 30.9.20X1.

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

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

On 15.11.20X1, Sundar sold 25,000 equity shares at a premium of ₹ 5 per share.

You are required to prepare in the books of Sundar.

1. Investment Account

2. Profit & Loss Account.

For your exercise, assume that the books are closed on 31.12.20X1 and shares are valued at average cost.

(8 marks)

Solution

Books of Sundar

INVESTMENT ACCOUNT

(Scrip: Equity Shares in X Ltd.)

		No.	Amount			No.	Amount
			₹				₹
1.4.20X1	To Bal b/d	25,000	3,75,000	31.10.20X1	By bank (Dividend on shares acquired on 20/6/20X1)(W.N.4)	-	10,000
20.6.20X1	To bank	5,000	80,000	15.11.20X1	By bank (Sale of shares)	25,000	3,75,000
16.8.20X1	To Bonus (W.N.1)	5,000	-	31.12.20X1	By Bal. c/d (W.N.6)	20,000	2,64,444
30.9.20X1	To bank (Rights shares)(W.N.3)	10,000	1,50,000				
15.11.20X1	To profit (On Sale of shares)		44,444				
		45,000	**6,49,444**			**45,000**	**6,49,444**

Profit and Loss Account (An extract)

To balance c/d	1,04,444	By Profit transferred	44,444
		By Sales of rights (W.N.3)	10,000
		By Dividend (W.N.4)	50,000
	1,04,444		**1,04,444**

Working Notes :

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

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

3. Right shares renounced = 15,000×1/3 = 5,000 shares

Sale of right shares = 5,000 x 2 = ₹ 10,000

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

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

4. Dividend received = 25,000 (shares as on 1st April 20X1) × 10 × 20% = ₹ 50,000

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

5. Profit on sale of 25,000 shares

= Sales proceeds – Average cost

Sales proceeds = ₹ 3,75,000

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

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

6. Cost of shares on 31.12.20X1

(3,75,000 + 80,000 + 1,50,000–10,000)/45,000 × 20,000 = ₹ 2,64,444

Question 3

The following transactions of Nidhi took place during the year ended 31st March 20X2:

1st April	Purchased ₹ 12,00,000, 8% bonds at ₹ 80.50 cum-interest. Interest is payable on 1st November and 1st May.
12th April	Purchased 1,00,000 equity shares of ₹10 each in X Ltd. for ₹ 40,00,000
1st May	Received half-year's interest on 8% bonds.
15th May	X Ltd. made a bonus issue of three equity shares for every two held. Nidhi sold 1,25,000 ,bonus shares for ₹ 20 each.
1st October	Sold ₹ 3,00,000, 8% bonds at ₹ 81 ex-interest.
1st November	Received half-year's bond interest.
1st December	Received 18% dividend on equity shares in X Ltd.

Prepare the relevant investment account in the books of Nidhi for the year ended 31st March, 20X2.

(10 marks)

Solution

In the books of Nidhi

8% BONDS ACCOUNT

(Interest Payable: 1st November & 1st May)

Date	Particulars	Nominal Value	Interest	amount	Date	Particulars	Nominal Value	Interest	Amount
		(₹)	(₹)	(₹)			(₹)	(₹)	(₹)
1.4.20X1	To bank A/c (W.N.1)	12,00,000	40,000	9,26,000	1.5.20X1	By bank A/c (12,00,000 x 8% x 6/12)	-	48,000	-
1.10.20X1	To profit & Loss A/c(W.N.6)			11,500	1.10.20X1	By Bank A/c (W.N.2)	3,00,000	10,000	2,43,000
31.3.20X2	To profit & Loss A/c		84,000		1.11.20X1	By bank A/c (W.N.3)	-	36,000	-
					31.3.20X2	By balance c/d (W.N.4)	9,00,000	30,000	6,94,500
		12,00,000	**1,24,000**	**9,37,500**			**12,00,000**	**1,24,000**	**9,37,500**

Investment in Equity Shares of X Ltd. Account

Date	Particulars	No.	Dividend	Amount	Date	Particulars	No.	Dividend	Amount
			(₹)	(₹)				(₹)	(₹)
12.4.20X1	To bank A/c	1,00,000		40,00,000	15.5.20X1	By bank A/c	1,25,000		25,00,000
15.5.20X1	To bonus issue	1,50,000			1.12.20X1	By bank A/c (W.N.7)		2,25,000	
31.3.20X2	To profit & Loss A/c (W.N.5)		2,25,000	5,00,000	31.3.20X2	By balance c/d (W.N.8)	1,25,000		20,00,000
		2,50,000	**2,25,000**	**45,00,000**			**2,50,000**	**2,25,000**	**45,00,000**

Working Notes :

1. Cost of investment purchased on 1st April, 20X1

12,000, 8% bonds were purchased @ ₹ 80.50 cum-interest. Total amount paid 12,000 bonds x ₹ 80.50 = 9,66,000 which includes accrued interest for 5 months, i.e., 1st November, 20X0 to 31stMarch, 20X1.

Accrued interest will be ₹ 12,00,000 x 8/100x 5/12 = ₹ 40,000.

Therefore, cost of investment purchased = ₹ 9,66,000 – 40,000 = ₹ 9,26,000.

Note : It has been assumed that the nominal value of a bond is ₹ 100.

2. Sale of bonds on 1st October, 20X1

3,000 bonds were sold@ ₹ 81 ex-interest, i.e.,

Total amount received = 3,000 x 81 + accrued interest for 5 months =₹ 2,43,000 + ₹10,000 (3,00,000 x 8/100 x 5/12)

3. Interest received on 1st November, 20X1

Interest will be received for 9,000 bonds @ 8% for 6 months, i.e., ₹ 9,00,000 x 8/100x1/2 = ₹ 36,000.

4. Cost of bonds on 31.3.20X1

Cost of bonds on 31.3.20X1 will be ₹ 9,26,000/ 12,000 x 9,000 = ₹ 6,94,500.

Interest accrued on bonds on 31.3.20X1 = 9,00,000 x 8% x 5/12 = ₹ 30,000

5. Profit on sale of bonus shares

Cost per share after bonus = ₹ 40,00,000/ 2,50,000 = ₹ 16 (average cost method being followed)

Profit per share sold (₹ 20 – ₹ 16) = ₹ 4.

Therefore, total profit on sale of 1,25,000 shares = ₹ 4 x 1,25,000 = ₹ 5,00,000.

6. Profit on sale of bonds	**₹**
Sale Value	= 2,43,000
Cost of ₹ 3,00,0008% bonds = 9,26,000/12,00,000 x 3,00,000	= 2,31,500
Profit	= 11,500

7. Dividend on equity shares = 1,25,000 x 10 x 18% = Rs. 2,25,000

8. Value of equity at end of year

Cost per share after bonus = ₹ 16

Number of shares = 1,25,000

Value of equity at end of year = 1,25,000 x 16 = ₹ 20,00,000

Chapter 10 – Insurance claims for Loss of Stock & Loss of Profit

Question 1

On 27th July, 2017, a fire occurred in the godown of M/s. Vijay Exports and most of the stocks were destroyed. However goods costing ₹5,000 could be salvaged. Their fire fighting expenses were amounting to ₹ 1,300.

From the salvaged accounting records, the following information is available relating to the period from 1.4.2017 to 27.7.2017:

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

Other Information:

(i) While valuing the stock on 31.3.2017, ₹ 1,000 had been written off in respect of certain slow moving items costing ₹ 4,000. A portion of these goods were sold in June, 2017 at a loss of ₹ 700 on original cost of ₹ 3,000. The remainder of these stocks is now estimated to be worth its original cost.

(ii) Past record shows the normal gross profit rate is 20%.

(iii) The insurance company also admitted fire fighting expenses. The Company had taken the fire insurance policy of ₹ 55,000 with the average clause.

You are required to compute the amount of claim of stock destroyed by fire, to be lodged to the Insurance Company. Also prepare Memorandum Trading Account for the period 1.4.2017 to 27.7.2017 for normal and abnormal items.

(10 marks)

Solution

Memorandum Trading Account for the period 1st April, 2017 to 27th July, 2017

	Normal Items ₹	**Abnormal Items** ₹	**Total** ₹		**Normal Items** ₹	**Abnormal Items** ₹	**Total** ₹
To Opening stock (W.N.5)	60,000	4,000	64,000	By Sales (W.N. 3)	4,00,000	2,300	4,02,300
To Purchases (W.N. 1)	2,80,000	-	2,80,000	By Loss	-	700	700

To Wages (W.N. 4)	50,000	-	50,000	By Goods on Approval (W.N. 2)	8,000	-	8,000
To Gross profit @ 20%	80,000	-	80,000	By Closing stock (Bal. fig.)	62,000	1,000	63,000
	4,70,000	**4,000**	**4,74,000**		**4,70,000**	**4,000**	**4,74,000**

Statement of Claim for Loss of Stock

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

Amount of claim to be lodged with insurance company

$$=\text{loss} \times \frac{Policy\,Value}{Value\,of\,Stock\,on\,the\,date\,of\,fire}$$

= ₹59,300 x (55,000/63,000) = ₹51,770 (rounded off)

Working Notes:

1.Calculation of Adjusted Purchases

	₹
Purchases	2,92,000
Less: Purchase of Machinery	(10,000)
Less: Free samples	(2,000)
Adjusted purchases	2,80,000

2. Calculation of Goods with Customers

Approval for sale has not been received = ₹ 40,000 X 1/4 = ₹ 10,000.

Hence, these should be valued at cost i.e. (₹ 10,000 – 20% of ₹ 10,000)

= ₹ 8,000

3. Calculation of Actual Sales

Total Sales	₹ 4,12,300
Less: Approval for sale not received (1/4 X ₹ 40,000)	₹ 10,000

Actual Sales ₹ 4,02,300

4. Calculation of Wages

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

5. Value of Opening Stock

Original cost of stock as on 31st March,2018

= ₹ 63,000 + 1,000 (Amount written off)

= ₹ 64,000.

Question 2

Monalisa & Co. runs plastic goods shop. Following details are available from quarterly sales tax return filed.

Sales	20X1	20X2	20X3	20X4
	₹	₹	₹	₹
From 1st January to 31st March	1,80,000	1,70,000	2,05,950	1,62,000
From 1st April to 30th June	1,28,000	1,86,000	1,93,000	2,21,000
From 1st July to 30th September	1,53,000	2,10,000	2,31,000	1,75,000
From 1st October to 31st December	1,59,000	1,47,000	1,90,000	1,48,000
Total	**6,20,000**	**7,13,000**	**8,19,950**	**7,06,000**

Period	₹
Sales from 16-09-20X3 to 30-09-20X3	34,000
Sales from 16-09-20X4 to 30-09-20X4	Nil
Sales from 16-12-20X3 to 31-12-20X3	60,000
Sales from 16-12-20X4 to 31-12-20X4	20,000

A loss of profit policy was taken for ₹ 1,00,000. Fire occurred on 15th September, 20X4. Indemnity period was for 3 months. Net Profit was ₹ 1,20,000 and standing charges (all insured) amounted to ₹ 43,990 for year ending 31st December, 20X3. Determine the Insurance Claim.

(10 marks)

Solution

(1) Gross profit ratio

	₹
Net profit in year 20X3	1,20,000
Add: Insured standing charges	43,990
Gross profit	1,63,990

$$\text{Ratio of gross profit} = \frac{1,63,990}{8,19,950} = 20\%$$

(2) Calculation of Short sales

Indemnity period: 16.9.20X4 to 15.12.X4

Standard sales to be calculated on basis of corresponding period of year 20X3

	₹
Sales for period 16.9.20X3 to 30.9.20X3	34,000
Sales for period 1.10.20X3 to 15.12.20X3 (Note 1)	1,30,000
Sales for period 16.9.20X3 to 15.12.20X3	1,64,000
Add: upward trend in sales (15%) (Note 2)	24,600
Standard Sales (adjusted)	1,88,600
Actual sales of disorganized period	
Calculation of sales from 16.9.20X4 to 15.12.20X4	
Sales for period 16.9.20X4 to 30.9.20X4	Nil
Sales for 1.10.20X4 to 15.12.20X4 (₹ 1,48,000 – ₹ 20,000)	1,28,000
Actual Sales	1,28,000
Short Sales (₹ 1,88,600 - ₹ 1,28,000)	60,600

(3) Loss of gross profit

Short sales x gross profit ratio = 60,600 x 20% 12,120

(4) Application of average clause

Net claim = Gross claim x $\frac{Policy Value}{Gross profit on turnover}$

= 12,120 X $\frac{1,00,000}{1,63,120 (W.N.3)}$

Amount of claim = ₹ 7,430

Working Notes:

1. Sales for period 1.10.X3 to 15.12.X3

	₹
Sales for 1.10.X3 to 31.12.X3 (given)	1,90,000
Sales for 16.12.X3 to 31.12.X3 (given)	60,000
Sales for period 1.10.X3 to 15.12.X3	1,30,000

2. Calculation of upward trend in sales

Total sales in year 20X1 = ₹ 6,20,000

Increase in sales in year 20X2 as compared to 20X1 = ₹ 93,000

% Increase = $\frac{93,000 (7,13,000 - 6,20,000)}{6,20,000}$ =15%

Increase in sales in year 20X3 as compared to year 20X2

$$\% \text{ increase} = \frac{1{,}06{,}950(8{,}19{,}950 - 7{,}13{,}000)}{7{,}13{,}000} = 15\%$$

Thus annual percentage increase trend is of 15%.

3. Gross profit on annual turnover

	₹
Sales from 16.9.X3 to 30.9.X3(adjusted)(34,000 x1.15)	39,100
1.10.X3 to 31.12.X3(adjusted)(1,90,000 x1.15)	2,18,500
1.1.X4 to 31.3.X4	1,62,000
1.4.X4 to 30.6.X4	2,21,000
1.7.20X4 to 15.9.20X4 (1,75,000 – Nil)	1,75,000
Sales for 12 months just before date of fire	**8,15,600**
Gross profit on adjusted annual sales @ 20%	1,63,120

Question 3

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

Sum insured (from 31st December 20X1)	₹ 4,00,000
Period of indemnity	12 months
Date of damage	1st January, 20X2
Date on which disruption of business ceased	31st October, 20X2

The subject matter of the policy was gross profit but only net profit and insured standing charges are included.

The books of account revealed:

(a) The gross profit for the financial year 20X1 was ₹ 3,60,000.

(b) The actual turnover for financial year 20X1 was ₹ 12,00,000 which was also the turnover in this case.

(c) The turnover for the period 1st January to 31st October, in the year preceding the loss, was ₹ 10,00,000.

During dislocation of the position, it was learnt that in November-December 20X1, there has been an upward trend in business done (compared with the figure of the previous years) and it was stated that had the loss not occurred, the trading results for 20X2 would have been better than those of the previous years.

The Insurance company official appointed to assess the loss accepted this view and adjustments were made to the pre-damaged figures to bring them up to the estimated amounts which would have resulted in 20X2.

The pre-damaged figures together with agreed adjustments were:

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

Rate of Gross Profit 30% (actual for 20X1), 32% (adjusted for 20X2).

Increased cost of working amounted to ₹ 1,80,000.

There was a clause in the policy relating to savings in insured standard charges during the indemnity period and this amounted to ₹28,000.

Standing Charges not covered by insurance amounted to ₹ 20,000 p.a. The annual turnover for January was nil and for the period February to October 20X2 ₹ 8,00,000

(8 marks)

Solution

1. Short sales

Period	Adjusted Standard Turnover	Actual Turnover	Shortage
	₹	₹	₹
January	1,00,000	-	1,00,000
Feb. to October	9,60,000	8,00,000	1,60,000
	10,60,000	**8,00,000**	**2,60,000**

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

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

Or

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

= 4,06,400 – 20,000 = 3,86,400

$$\frac{3,86,400}{12,70,000} \times 100 = 30.425\%$$

3. Amount allowable in respect of additional expenses

Least of the following:

(i) Actual expenses = 1,80,000

(ii) Gross profit on sales during 10 months period = 8,00,000 x 30.425% =2,43,400

(iii)

$$\frac{3,86,400}{3,86,400 + 20,000} \times 1,80,000 = 1,71,142 \text{ (approx.)}$$

Least i.e. = ₹ 1,71,142 is admissible.

4. Amount of Claim

	₹
Gross profit on short sales = ₹2,60,000 x 30.425/100	79,105
Add; Amount allowable in respect of additional expense	1,71,142
	2,50,247
Less: Savings in insured standing charges	(28,000)
	2,22,247

On the amount of final claim, the average clause will not apply since the amount of the policy ₹ 4,00,000 is higher than gross profit on annual adjusted turnover ₹ 3,86,400.

Therefore, insurance claim will be ₹ 2,22,247.

Chapter 11 – Hire-purchase & Installment Sale Transactions

Question 1

Krishan bought 2 cars from 'Fair Value Motors Pvt. Ltd. on 1.4.2015 on the following terms (for both cars):

	Rs.
Down payment	6,00,000
1st Installment at the end of first year	4,20,000
2nd Installment at the end of 2nd year	4,90,000
3rd Installment at the end of 3rd year	5,50,000

Interest is charged at 10% p.a.

Krishan provides depreciation @ 25% on the diminishing balances.

On 31.3.2018 Krishan failed to pay the 3rd installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Krishan agreed to leave one car with Fair Value Motors Pvt. Ltd. and adjusted the value of the car against the amount due. The car taken over was valued on the basis of 40% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Krishan after 3 months with interest @ 20% p.a.

You are required to: Calculate the cash price of the cars and the interest paid with each installment. and prepare Car Account in the books of Krishan for the year 2017-18 assuming books are closed on March 31, every year. Figures may be rounded off to the nearest rupee.

(5 marks)

Solution

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	-	5,50,000	5,50,000	50,000	5,00,000
2nd	5,00,000	4,90,000	9,90,000	90,000	9,00,000
1st	9,00,000	4,20,000	13,20,000	1,20,000	12,00,000

Total cash price = Rs. 12,00,000+ 6,00,000 (down payment) = Rs. 18,00,000.

Cars Account in the books of Krishan for the year ended 31st March, 18

1.4.2017	To Balance b/d	10,12,500 [18,00,000 less	31.3.2018	By Depreciation A/c	2,53,125

		depreciation (4,50,000 + 3,37,500)]			
				By Fair Value Motors A/c (Value of 1 Car taken over after depreciation for 3 years @ 40% p.a.) [9,00,000 - (3,60,000 + 2,16,000 + 1,29,600)]	1,94,400
				By Loss transferred to Profit and Loss A/c on surrender (Bal. fig.)	1,85,288
				By Balance c/d ½ (10,12,500-2,53,125)	3,79,687
		10,12,500			**10,12,500**

Question 2

A acquired on 1st January, 20X1 a machine under a Hire-Purchase agreement which provides for 5 half-yearly instalments of ₹ 6,000 each, the first instalment being due on 1st July, 20X1. Assuming that the applicable rate of interest is 10 per cent per annum, calculate the cash value of the machine. All working should form part of the answer.

(5 marks)

Solution

STATEMENT SHOWING CASH VALUE OF THE MACHINE ACQUIRED ON HIRE PURCHASE BASIS

Particulars	**Instalment Amount**	**Interest @ 5% half yearly (10% p.a.) = 5/105 = 1/21 (In each instalment)**	**Principal amount (in each instalment)**
	₹	₹	₹
5th Instalment	6,000	286	5,714
Less: Interest	(286)		
	5,714		
Add: 4th instalment	6,000		
	11,714	558	5,442
Less: Interest	(558)		(6,000-558)
	11,156		
Add: 3rd instalment	6,000		
	17,156	817	5,183
Less: interest	(817)		(6,000 - 817)
	16,339		
Add:2nd instalment	6,000		
	22,339	1,063	4,937
Less: interest	(1,063)		(6,000 - 1,063)
	21,276		

Add: 1st Instalment	6,000		
	27,276	1,299	4,701
Less:Interest	(1,299)		(6,000 - 1,299)
	25,977	4,023	25,977

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

Question 3

X Ltd. purchased 3 milk vans from Super Motors costing ₹ 75,000 each on hire purchase system. Payment was to be made: ₹ 45,000 down and the remainder in 3 equal instalments together with interest @ 9%. X Ltd. writes off depreciation @ 20% on the diminishing balance. It paid the instalment at the end of the 1st year but could not pay the next. Super Motor agreed to leave one milk van with the purchaser, adjusting the value of the other two milk vans against the amount due. The milk vans were valued on the basis of 30% depreciation annually on written down value basis. X Ltd. settled the seller's dues after three months.

You are required to give necessary journal entries and the relevant accounts in the books of X Ltd.

(8 marks)

Solution

In the Books of X Ltd.

Journal Entries

		Dr. (₹)	Cr. (₹)
I year			
Milk Vans Purchased:			
Milk Vans A/c	Dr.	2,25,000	
to vendor A/c			2,25,000
On Down Payment:			
Vendor A/c	Dr.	45,000	
To bank			45,000
I year end			
Interest A/c (₹ 1,80,000 @ 9%)	Dr.	16,200	
To vendor A/c			16,200
Vendor A/c	Dr.	76,200	
To Bank A/c (60,000 + 16,200)			76,200
Depreciation @ 2%			
Depreciation A/c	Dr.	45,000	
To Milk Vans A/c			45,000
Profit & Loss A/c	Dr.	61,200	
To depreciation			45,000
To Interest A/c			16,200
II year end			
Depreciation @ 20%			
Depreciation A/c	Dr.	36,000	
To milk vans A/c			36,000
Interest A/c	Dr.	10,800	
(1,20,000 @ 9%)			
To Vendor A/c			10,800
for Loss in Repossession:			

Super Motors A/c (1,50,000 - 45,000 - 31,500)	Dr.	73,500	
Profit & Loss A/c (b.f.)	Dr.	22,500	
To milk Vans A/c [(2,25,000 - 45,000 - 36,000) X 2/3]			96,000
IIIrd Year Depreciation			
Depreciation A/c (48,000 X 20%)	Dr.	9,600	
To milk Vans A/c			9,600
Settlement of A/cs			
Vendor A/c Dr.	Dr.	57,300	
To bank			57,300

Milk Vans Account

Year		₹	Year		₹
1	To super Motors A/c	2,25,000	1 end	By Depreciation A/c	45,000
			"	By balance c/d	1,80,000
		2,25,000			**2,25,000**
2	To balance b/d	1,80,000	2 end	By depreciation	36,000
				By super Motors (Value of 2 vans after depreciation for 2 years @ 30%)	73,500
				By P & L A/c (balancing figure)	22,500
				By balance c/d (one van less depreciation for 2 years) @ 20%	48,000
		1,80,000			**1,80,000**

Super Motors Account

year		₹	year		₹
1	To bank A/c	45,000	1	By milk Vans A/c	2,25,000
	To bank A/c	76,200		By interest @9% on ₹ 1,80,000	16,200
	to balance c/d	1,20,000			
		2,41,200			**2,41,200**
2	To milk van A/c	73,500	2	By balance b/d	1,20,000
	To Balance c/d	57,300		By Interest A/c	10,800
		1,30,800			**1,30,800**
3	To bank A/c	57,300	3	By Balance B/d	57,300

Question 4

Happy Valley Florists Ltd. acquired a delivery van on hire purchase on 01.04.20X1 from Ganesh Enterprises. The terms were as follows :

Particulars	Amount(₹)
Hire Purchase Price	1,80,000
Down Payment	30,000
1st Installment payable after 1 year	50,000
2nd installment after 2 years	50,000
3rd inatallment after 3 years	30,000
4th installment after 4 years	20,000

Cash price of van ₹ 1,50,000 You are required to calculate Total Interest and Interest included in each instalment.

(5 marks)

Solution

Calculation of total Interest and Interest included in each installment

Hire Purchase Price (HPP) = Down Payment + instalments

= 30,000 + 50,000 + 50,000 + 30,000 + 20,000 = 1,80,000

Total Interest = 1,80,000 – 1,50,000 = 30,000

Computation of IRR (considering two guessed rates of 6% and 12%)

year	Cash flow	DF @6%	PV	DF @ 12%	PV
0	30,000	1.00	30,000	1.00	30,000
1	50,000	0.94	47,000	0.89	44,500
2	50,000	0.89	44,500	0.80	40,000
3	30,000	0.84	25,200	0.71	21,300
4	20,000	0.79	15,800	0.64	12,800
		NVP	1,62,500	NPV	1,48,600

Interest rate implicit on lease is computed below by interpolation:

Interest rate implicit on lease = $6\% + \dfrac{1{,}62{,}500 - 1{,}50{,}000}{1{,}62{,}500 - 1{,}48{,}600} \times (12-6)$ = 11.39%.

Thus, repayment schedule and interest would be as under :

Installment No.	Principle at beginning	interest included in each installment	Gross amount	Installment	Principal at end
Cash down	1,50,000		1,50,000	30,000	1,20,000
1	1,20,000	13,668	1,33,668	50,000	83,668
2	83,668	9,530	93,198	50,000	43,198
3	43,198	4,920	48,118	30,000	18,118
4	18,118	2,064	20,182	20,000	182*
		30,182*			
*the difference is on account of approximations.					

Chapter 12 - Departmental Accounting

Question 1

(a) How will you allocate the following expenses among different departments:

(i) Rent, rates and taxes, repairs and maintenance, insurance of building;

(ii) Maintenance of capital assets

(iii) PF/ESI contributions

(iv) Carriage inward/ Discount received

(v) Lighting and Heating expenses

(b) There is transfer/sale among the three departments as below:

Department X sells goods to Department Y at a profit of 25% on cost and to Department Z at 20% profit on cost.

Department Y sells goods to X and Z at a profit of 15% and 20% on sales respectively.

Department Z charges 20% and 25% profit on cost to Departments X and Y respectively.

Department Managers are entitled to 10% commission on net profit subject to urealised profit on departmental sales being eliminated.

Departmental profits after charging Managers' commission, but before adjustment of unrealised profit are as under:

	₹
Department X	1,80,000
Department Y	1,35,000
Department Z	90,000

Stock lying at different departments at the end of the year are as under:

	Dep. X	Dep. Y	Dep. Z
Transfer from department X	-	75,000	57,000
Transfer from department Y	70,000	-	60,000
Transfer from department Z	30,000	25,000	-

Find out the correct departrmental profit after charging manager's commission.

(8 marks)

Solution

(a) (i) Floor area occupied by each department (if given) otherwise on time basis;

(ii) Value of assets of each department otherwise on time basis;

(iii) Wages and salaries of each department;

(iv) Purchases of each department;

(v) Consumption of energy by each department.

(b) Calculation of Correct Profit

	Department X	Department Y	Department Z
	₹	₹	₹
Profit after charging managers' commission	1,80,000	1,35,000	90,000
Add: back: Managers' Commission (1/9)	20,000	15,000	10,000
	2,00,000	1,50,000	1,00,000
Less: Unrealized profit on stock (W.N.)	(24,500)	(22,500)	(10,000)
Profit before manager's commission	1,75,500	1,27,500	90,000
Less: Commision for department managers @ 10%	(17,500)	(12,750)	(9,000)
Departmental profits after manager's commssion	1,57,950	1,14,750	81,000

Working Note:

Stock lying with

	Dept. X	Dept. Y	Dept. Z	Total
	₹	₹	₹	₹
Unrealized profit of:				
Department X		1/5 × 75,000 =15,000	20/120 × 57,000 = 9,500	24,500
Department Y	0.15 × 70,000 = 10,500		0.20 × 60,000 = 12,000	22,500
Department Z	20/120 × 30,000 = 5,000	25/125 × 25,000 = 5,000		10,000

Question 2

Martis 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 mark-up is credited to a memorandum departmental 'Mark-up account', any reduction in selling prices (mark-down) will require adjustment in the stock account and in mark-up account. The mark up for Department A for the last three years has been 25%. Figures relevant to Department A for the year ended 31st March, 20X2 were as follows:

Opening stock as on 1st April, 20X1, at cost	₹ 65,000
Purchase at cost	₹ 2,00,000
Sales	₹ 3,00,000

It is further ascertained that :

(1) Shortage of stock found in the year ending 31.03.20X2, costing ₹ 1,000 were written off.

(2) Opening stock on 01.04.20X1 including goods costing ₹ 6,000 had been sold during the year and bad been marked down in the selling price by ₹ 600. The

remaining stock had been sold during the year.

(3) Goods purchased during the year were marked down by ₹ 1,200 from a cost of ₹ 15,000. Marked-down stock costing ₹ 5,000 remained unsold on 31.03.20X2.

(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:

(i) A Departmental Trading Account for Department A for the year ended 31st March, 20X2 in the books of Head Office.

(ii) A Memorandum Stock Account for the year.

(iii) A Memorandum Mark-up Account for the year.

(10 marks)

Solution

(i) Department Trading Account

For the year ending on 31.03.20X2

In the books of Head Office

Particulars	₹	Particulars	₹
To opening Stock	65,000	By sales	3,00,000
To purchases	2,00,000	By shortage	1,000
To gross Profit c/d (b.f.)	58,880	By closing Stock	22,880
	3,23,880		**3,23,880**

(ii) Memorandum stock account (for Department A) (at selling price)

Particulars	₹	Particulars	₹
To balance b/d (₹ 35,000 + 25% of ₹65,000)	81,250	By profit & Loss A/c	1,000
To purchases (₹ 2,00,000 + 25% of ₹2,00,000)	2,50,000	By memorandum Departmental Mark up A/c (Loan on Shortage) (₹1,000 x 25%)	250
		By Memorandum Departmental Mark-up a/c (Mark-down on current purchases)	1,200
		By Debtor A/c (Sales)	3,00,000
		By Memorandum Departmental Mark up A/c (Mark Down on Opening stock)	600
		By balance c/d (b.f.)	28,200
	3,31,250		**3,31,250**

(iii) Memorandum Departmental Mark-up Account

Particulars	₹	Particulars	₹
To memorandum Departmental stock A/c (₹10,000 x 25/100)	250	By balance b/d (₹ 81,250 x 25/125)	16,250
To Memorandum Departmental stock A/c	1,200	By Memorandum Departmental Stock a/c (₹ 2,50,000 x 25/125)	50,000
To Memorandum Departmental Stock A/c	600		
To gross Profit Transferred to profit & Loss A/c	58,880		

To balance c/d [(₹ 28,200 + 400*) X 25/125 - ₹ 400]	5,320		
	66,250		**66,250**

*[₹ 1,200 ×5,000/15,000] = ₹ 400

Working Notes:

(i) Calculation of Cost of Sales

		₹
A	Sales as per Books	3,00,000
B	Add: Mark-down in opening stock (given)	600
C	Add: Mark-down in sale out of current purchases (₹ 1,200 x 10,000/15,000)	800
D	Value of sale if there was no mark-down (A+B+C)	30,01,400
E	Less Gross Profit (25/125 of ₹3,01,400) Subject to Mark-down (₹ 600 + ₹ 800)	(60,280)
F	Cost of sales (D-E)	2,41,120

(ii) Calculation of Closing stock

	₹
A Opening Stock	65,000
B Add: Purchases	2,00,000
C Less: Cost of Sales	(2,41,120)
D Less: Shortage	(1,000)
E Closing Stock (A + B + C)	22,800

Note : It has been assumed that mark up (given in question) is determined as a percentage of cost.

Question 3

M/s Omega is a departmental store having three departments X, Y and Z. The information regarding three departments for the year ended 31st March, 20X1 are given below:

	X	Y	Z
	₹	₹	₹
Opening Stock	36,000	24,000	20,000
Purchases	1,32,000	88,000	44,000
Debtors at end	15,000	10,000	10,000
Sales	1,80,000	1,35,000	90,000
Closing stock	45,000	17,500	21,000
Value of furniture in each department	20,000	20,000	10,000
Floor space occupied by each department (in sq. ft.)	3,000	2,500	2,000
Number of employees in each Department	25	20	15
Electricity consumed by each department (in units)	300	200	100

The balances of other revenue items in the books for the year are given below:

	Amount (₹)
Carriage inwards	3,000
Carriage outwards	2,700
Salaries	48,000
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

You are required to prepare Departmental Trading and Profit and Loss Account for the year ended 31st March, 20X1 after providing provision for Bad Debts at 5%.

(10 marks)

Solution

In the Books of M/s Omega

Departmental Trading and Profit and Loss Account

for the year ended 31st March, 20X1

Particulars	**Deptt.X**	**Deptt.Y**	**Deptt.Z**	**Total**	**Particulars**	**Deptt.X**	**Deptt.Y**	**Deptt.Z**	**Total**
	₹	₹	₹	₹		₹	₹	₹	₹
To Stock (opening)	36,000	24,000	20,000	80,000	By Sales	1,80,000	1,35,000	90,000	4,05,000
To Purchases	1,32,000	88,000	44,000	2,64,000	By Stock (closing)	45,000	17,500	21,000	83,500
To Carriage Inwards	1,500	1,000	500	3,000					
To Gross Profit c/d (b.f.)	55,500	39,500	46,500	1,41,500					
	2,25,000	1,52,500	1,11,000	4,88,500		2,25,000	1,52,500	1,11,000	4,88,500
To Carriage Outwards	1,200	900	600	2,700	By Gross Profit b/d	55,500	39,500	46,500	1,41,500
To Electricity	1,500	1,000	500	3,000	By Discount received	900	600	300	1,800
To Salaries	20,000	16,000	12,000	48,000					
To Advertisement	1,200	900	600	2,700					

To Discount allowed	1,000	750	500	2,250					
To Rent, Rates and Taxes	3,000	2,500	2,000	7,500					
To Depreciation	400	400	200	1,000					
To Provision for Bad	750	500	500	1,750					
Debts @ 5% of debtors									
To Labour welfare expenses	1,000	800	600	2,400					
To Net Profit (b.f.)	26,350	16,350	29,300	72,000					
	56,400	40,100	46,800	1,43,300		56,400	40,100	46,800	1,43,300

Working notes:

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 4

Department X sells goods to Department Y at a profit of 50% on cost and to Department Z at 20% on cost. Department Y sells goods to Department X and Y at a profit of 25% and 15% respectively on sales. Department Z charges 30% profit on the cost to department X and 40 profit on the sale to Y.

Stocks lying at different departments at the end of the year are as under:

Particulars	Dept. X ₹	Dept. Y ₹	Dept. Z ₹
Transfer from Department X	-	75,000	48,000
Transfer from Department Y	50,000	-	82,000
Transfer from Department Z	52,000	56,000	-

Calculate the unrealized profit of each department and also total unrealized profit.

(4 marks)

Solution

Calculation of unrealized profit of each department and total unrealized profit

Particulars	Dept. X (₹)	Dept. Y (₹)	Dept. Z ₹	Total (₹)
Unrealized profit of:	-	-	-	-
Department X	-	$75{,}000 \times \frac{50}{150}$ = 25,000	$48{,}000 \times \frac{20}{120}$ = 8,000	= 33,000
Department Y	50,000 $\times$ 0.25 = 12,500	-	82,000 $\times$ 0.15 = 12,300	= 24,800
Department Z	$52{,}000 \times \frac{30}{130}$ = 12,000	$56{,}000 \times \frac{40}{100}$ = 22,400	-	= 34,400
-	-	-	-	92,200

Chapter 13 – Accounting for Branches including Foreign Branches

Question 1

On 31st March, 2019 Chennai Branch submits the following trial balance to its head office at lucknow:

Debit Balances	**₹ in lacs**
Furniture and Equipment	18
Depreciation on furniture	2
Salaries	25
Rent	10
Advertising	6
Telephone, postage and stationery	3
Sundry office Expenses	1
Stock on 1st April, 2018	60
Goods Received from head Office	288
Debtors	20
Cash at bank and in hand	8
Carriage inwards	7
	448
Credit Balance	
Outstanding Expenses	3
Goods Returned to Head Office	5
Sales	360
Head office	80
	448

Additional Information:

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

You are required to :(i) pass Journal Entries in the books of the Branch to make the necessary adjustments and (ii) prepare Final Accounts of the Branch including Balance Sheet.

(8 marks)

Solution

(i) Books of Branch

Journal Entries

			(₹ in lacs)
		Dr.	**Cr.**
Goods in transit A/c	Dr.	10	
To head Office A/c			
(Goods dispatched by head office but not received by branch before 1st April, 2019)			
Expenses A/c	Dr.	1	
To Head office A/c			1
(Amount charged by head office for centralised services)			

(ii) Trading and profit and loss Account of the Branch

For the year ended 31st March, 2019

		₹ in lacs		**₹ in lacs**
To Opening Stock		60	By Sales	360
To Goods received from			By closing stock	62
Head office	188			
Less: Returns	(5)	283		
To carriage inwards		7		
To gross Profit c/d		72		
		422		422
To salaries		25	By gross Profit b/d	72
To Depreciation on furniture		2		
To Rent		10		
To Advertising		6		
To telephone, postage & Stationery		3		
To sundry office expenses		1		
To Head office Expenses		1		
To net profit transferred to				
Head office A/c		24		
		72		72

Balance sheet as on 31st March, 2019

Liabilities	**₹ in lacs**		**Assets**	**₹ in lacs**	
Head office	80		Furniture & Equipment	20	
Add: Goods in transit	10		Less: Depreciation	(2)	18
Head office Expenses	1		Stock in hand		62
Net profit	24	115	Goods in Transit		10
Outstanding Expenses		3	Debtors		20
			Cash at bank and in hand		8
		118			118

Question 2

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

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

	Dr.	**Cr.**
	(Rupees in thousands)	
Stock on 1st April, 2017	300	
Purchases and sales	800	1,200
Sundry Debtor & Creditors	400	300
Bills of Exchange	120	240
Wages & Salaries	560	-
Rent, Rates & Taxes	360	-
Sundry Charges	160	-

Computers	240	-
Bank Balance	420	-
New york Office A/c	-	1,620
	3,360	3,360

Additional Information:

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

(b) Unsold stock of Bangalore branch was worth ₹ 4,20,000 on 31st March, 2018.

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

- On 01.04.2017 @ ₹ 55 per US $
- On 31.03.2018 @ ₹ 60 per US $
- Average exchange rate for the year @ ₹ 58 per US $
- Conversion in $ shall be made up to two decimal accuracy.

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

(10 marks)

Solution

M/s ABC & Co.

Bangalore Branch Trial Balance in (US $)

as on 31st March, 2018

	Conversion rate per US $ (₹)	Dr. US $	Cr. US $
Stock on 1.4.17	55	5,454,55	-
Purchases and Sales	58	13,793.10	20,689.66
Sundry debtors and creditors	60	6,666.67	5,000.00
Bills of Exchange	60	2,000.00	4,000.00
Wages and salaries	58	9,655,17	-
Rent, Rates and taxes	58	6,206.90	-
Sundry charges	58	2,758.62	-
Computers	-	6,000.00	-
Bank Balance	60	7,000.00	-
New York office A/c	-	-	29,845.35
		59,535.01	**59,535.01**

Trading and Profit & Loss Account

for the year ended 31st March, 2018

	US $		US $
To Opening Stock	5,454.55	By sales	20,689.66
To Purchases	13,793.10	By closing stock (₹ 4,20,000/60)	7,000.00

To wages and salaries	9,655.17	By Gross Loss c/d	1,213.16
	28,902.82		**28,902.82**
To Gross Loss b/d	1,213.16	By net Loss	13,778.68
To Rent, rates and taxes	6,206.90		
To sundry charges	2,758.62		
To Depreciation on Computers (US $ 6,000 x 0.6)	3,600.00		
	13,778.68		**13,778.68**

Balance Sheet of Bangalore Branch

as on 31st March, 2018

Liabilities		**US $**	**Assets**	**US $**	**US $**
New York Office A/c	29,845.35		Computers	6,000.00	
Less: Net Loss	(13,778.68)	16,066.67	Less:	(3,600.00)	2,400.00
			Depreciation		
Sundry creditors		5,000.00	Closing stock		7,000.00
Bills payable		4,000.00	Sundry debtors		6,666.67
			Bills receivable Bank balance		2,000.00 7,000.00
		25,066.67			**25,066.67**

Question 3

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

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

	₹
Goods received from Head Office at invoice price	6,00,000
Returns to Head Office at invoice price	12,000
Stock at Cochin as on 1st Jan., 20X1	60,000

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

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

(10 marks)

Solution

Books of Hindustan Industries, Mumbai

Cochin Branch Stock Account

	₹		₹
To Balance b/d	60,000	By Bank A/c (Cash sales)	2,00,000
To Goods sent to Branch A/c	6,00,000	By Branch Debtors (Cr. sales)	3,60,000
To Branch Debtors A/c (sales return)	8,000	By Goods sent to Branch (Return. to H.O.)	12,000
To Branch P & L A/c (surplus)	24,000	By Balance c/d (closing stock)	1,20,000
	6,92,000		**6,92,000**

Cochin Branch Stock Adjustment Account

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

	1,32,000		**1,32,000**

Goods Sent to Branch Account

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

Branch Debtors Account

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

Branch Expenses Account

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

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

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

Question 4

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

Branch Balance Sheet was as follows :

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

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

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

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

(12 marks)

Solution

Journal Entries

20X1 30 Sept.		Dr. (₹)	Cr. (₹)
Salary Advance A/c	Dr.	2,000	
To Salaries A/c			2,000
(The amount paid as advance adjusted by debit to Salary Advance Account)			
Prepared Insurance A/c (3,200 x 6/12)	Dr.	1,600	
To Fire Insurance A/c			1,600
(Six months premium transferred to the Prepaid Insurance A/c)			
Head Office Account	Dr.	88,400	
To Purchases A/c			48,000
To Wages A/c			20,000
To Salaries A/c (6,400 – 2,000)			4,400
To General Expenses A/c			1,600
To Fire Insurance A/c (3,200 x 6/12)			1,600
To Manager's Salary A/c			4,800
To Discount Allowed A/c			8,000
(Transfer of various revenue accounts (Dr.) to the H.O. Account for closing the accounts)			
Sales Accounts Discount Earned A/c	Dr.	2,40,000	
To Head Office A/c	Dr.	1,200	
[Revenue accounts (Cr.) transferred to H.O.]			2,41,200
Head Office A/c	Dr.	4,000	
To Building A/c			4,000
(Transfer of amounts spent on building extension to H.O. A/c)			

Head Office Account

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

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

Liabilities	₹	Assets	₹
Creditors Balances	26,800	Debtors Balances	2,72,000
Head Office Account	2,78,400	Salary Advance	2,000
		Prepaid Insurance	1,600
		Building Extension A/c	
		transferred to H.O.	—
		Cash in Hand	1,600
		Cash at Bank	28,000
	3,05,200		**3,05,200**

Cash and Bank Account

Liabilities	₹	Assets	₹
To Balance b/d	8,000	By Wages	20,000
To Collection from Debtors	1,60,000	By Salaries	6,400
		By Insurance	3,200
		By General Exp.	1,600
		By H.O. A/c	38,400
		By Manager's Salary	4,800

		By Creditors	60,000
		By Building	4,000
		By balance c/d Cash in Hand 1,600 Cash at bank 28,000	29,600
	1,68,000		**1,68,000**

Debtors Account

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

Creditors Account

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

Chapter 14 - Accounts from Incomplete Records

Question 1

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

	31.3.2018 **₹**	**31.3.2019** **₹**
Furniture and Fixtures	2,60,000	2,34,000
Stock	2,45,000	3,20,000
Debtors	1,25,000	?
Cash in hand & Bank	1,10,000	?
Creditors	1,35,000	1,90,000
Bills Payable	70,000	80,000
Outstanding salaries	19,000	20,000

An analysis of the cash book revealed the following:

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

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

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

(15 marks)

Solution

Trading & profit and loss Account in the books of Mr. Maan

For the year ended 31st March, 2019

Particulars	**Amount**	**Particulars**	**Amount**
	₹		₹
To opening stock	2,45,000	By sales:	
To purchases:		Cash	16,20,000
Cash	6,15,000	Credit (W.N.3)	11,00,000
Credit (W.N.2)	15,00,000	By Closing Stock	3,20,000
To Gross profit c/d	6,80,000		
	30,40,000		30,40,000
To salaries (W.N.5)	2,37,000	By gross profit b/d	6,80,000
To Rent	1,32,000	By discount received	32,000

To Sundry trade expenses	81,000		
To discount allowed	20,000		
To Depreciation on furniture & Fixtures	26,000		
To net profit	2,16,000		
	7,12,000		7,12,000

Balance sheet

as at 31st March, 2019

Liabilities		**Amount**		**Amount**
		₹		₹
Capital			Fixed assets	
Opening balance (W.N.7)	5,16,000		Furniture & Fixtures	2,34,000
Add: Net profit	2,16,000		Current Assets:	
	7,32,000		Stock	3,20,000
Less: Drawings	1,20,000	6,12,000	Debtors (W.N.4)	1,47,000
current liabilities & provisions:			Cash & Bank (W.N.6)	2,01,000
Creditors		1,90,000		
Bills Payable		80,000		
Outstanding Salaries		20,000		
		9,02,000		9,02,000

Working Notes:

1. Bills payable Account

	₹		₹
To cash/bank	4,30,000	By Balance b/d	70,000
To balance c/d	80,000	By trade creditors (Bal. fig.)	4,40,000
	5,10,000		5,10,000

2. Creditors Account

	₹		₹
To cash/bank	9,73,000	By balance b/d	1,35,000
To bills payable a/c (W.N.1)	4,40,000	By credit purchases (Bal. fig.)	15,00,000
To discount received	32,000		
To Balance c/d	1,90,000		
	16,35,000		16,35,000

3. Calculation of credit sales

		₹
Opening stock		2,45,000
Add: Purchases		
Cash purchases	6,15,000	
Credit Purchases	15,00,000	21,15,000
		23,60,000
Less: Closing stock		3,20,000

Cost of goods sold		20,40,000
Gross profit ratio on sales		25%
Total Sales $\left[20{,}40{,}000 \times \frac{100}{75}\right]$		27,20,000
Less: Cash sales		16,20,000
		11,00,000

4. Debtors Account

	₹		₹
To balance b/d	1,25,000	By cash/bank	10,58,000
To credit Sales (W.N.3)	11,00,000	By discount allowed	20,000
		By balance c/d (Bal. Fig.)	1,47,000
	12,25,000		**12,25,000**

5. Salaries

	₹
Salaries paid during the year	2,36,000
Add: Outstanding salaries as on 31.3.2019	20,000
	2,56,000
Less: Outstanding Salaries as on 31.03.2018	19,000
	2,37,000

6. Cash/ Bank Account

	₹		₹
To balance b/d	1,10,000	By cash purchases	6,15,000
To cash sales	16,20,000	By creditors	9,73,000
To Debtors	10,58,000	By Bills payables	4,30,000
		By Drawings	1,20,000
		By salaries	2,36,000
		By Rent	1,32,000
		By Sundry trade Expenses	81,000
		By Balance c/d	2,01,000
	27,88,000		27,88,000

7. Balance sheet as at 31st March, 2018

	₹		₹
Creditors	1,35,000	Furniture & Furnitures	2,60,000
Bills Payables	70,000	Stock	2,45,000
Outstanding salaries	19,000	Debtors	1,25,000
Capital (Bal.fig.)	5,16,000	Cash & Bank	1,10,000
	7,40,000		7,40,000

Question 2

The following is the Balance Sheet of Manish and Suresh as on 1st April, 2016:

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

They give you the following additional information:

(i) Creditors' Velocity∗ 1.5 month & Debtors' Velocity* 2 months.

(ii) Stock level is maintained uniformly in value throughout all over the year.

(iii) Depreciation on machinery is charged @ 10%, Depreciation on building @ 5% in the current year.

(iv) Cost price will go up 15% as compared to last year and also sales in the current year will increase by 25% in volume.

(v) Rate of gross profit remains the same.

(vi) Business Expenditures are ₹ 50,000 for the year. All expenditures are paid off in cash.

(vii) Closing stock is to be valued on LIFO Basis.

(viii) All sales and purchases are on credit basis and there are no cash purchases and sales.

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

(8 marks)

Solution

Trading and Profit and Loss account

for the year ending 31st March, 2017

	Particulars	₹		Particulars	₹
To	Opening Stock	40,000	By	Sales	4,31,250
To	Purchases (Working Note)	3,45,000	By	Closing Stock	40,000
To	Gross Profit c/d (20% on sales)	86,250			
		4,71,250			4,71,250
To	Business Expenses	50,000	By	Gross Profit b/d	86,250
To	Depreciation on: Machinery 6,500 Building 5,000	11,500			

To	Net profit	24,750			
		86,250			**86,250**

Trade Debtors Accounts

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

Trade Creditor Account

Particulars		₹	Particulars		₹
To	Bank (Balancing figure)	3,31,875	By	Balancing b/d	30,000
To	Balance c/d/ (1/8 of 3,45,000)	43,125	By	Purchases	3,45,000
		3,75,000			**3,75,000**

Working Notes:

		₹
(i)	Calculation of Rate of Gross Profit earned during previous year	
A	Sales during previous year (₹ 50,000 x 12/2)	3,00,000
B	Purchases (₹ 30,000 x 12/1.5)	2,40,000
C	Cost of Goods Sold (₹ 40,000 + ₹ 2,40,000 – ₹ 40,000)	2,40,000
D	Gross Profit (A-C)	60,000
E	Rate of Gross Profit $\frac{60,000}{3,00,000} \times 100$	20%
(ii)	Calculation of sales and Purchases during current year	
A	Cost of goods sold during previous year	2,40,000
B	Add: Increases in volume @ 25 %	60,000
		3,00,000
C	Add: Increase in cost @ 15%	45,000

D	Cost of Goods Sold during Current Year	3,45,000
E	Add: Gross profit @ 25% on cost (20% on sales)	86,250
	Sales for current year [D+E]	4,31,250

Question 3

A trader keeps his books of account under single entry system. On 31st March, 2015 his statement of affairs stood as follows :

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

The following was the summary of Cash–book for the year ended 31st March, 2016:

Receipts	**₹**	**Payments**	**₹**
Cash in Hand and at Bank on 1st April, 2016		Payments to Trade Creditors	75,07,000
	80,000	Payments for Bills payable	8,15,000
Cash Sales	73,80,000	Sundry Expenses paid	6,20,700
Receipts from Trade Debtors	15,10,000	Drawings	2,40,000
Receipts for Bills Receivable	3,40,000	Cash in Hand and at Bank	
		on 31st March, 2016	1,27,300
	93,10,000		**93,10,000**

Discount allowed to trade debtors and received from trade creditors amounted to ₹ 36,000 and ₹ 28,000 respectively. Bills endorsed amounted to ₹ 15,000. Annual Fire Insurance premium of ₹ 6,000 was paid every year on 1st August for the renewal of the policy. Furniture, fixtures and fittings were subject to depreciation @ 15% per annum on diminishing balances method.

You are also informed about the following balances as on 31st March, 2016 :

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

The trader maintains a steady gross profit ratio of 10% on sales. Prepare Trading and Profit and Loss Account for the year ended 31st March, 2016 and Balance Sheet as at that date.

(12 marks)

Solution

Trading and Profit and Loss Account

for the year ended 31st March, 2017

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

Balance Sheet as at 31st March, 2016

Liabilities		**Amount ₹**	**Assets**		**Amount ₹**
Capital			Furniture & Fittings	1,00,000	
Operning balance	2,50,000		Less: Depreciation	(15,000)	85,000
Less:Drawing	(2,40,000)		Stock		6,50,000
	10,000		Trade debtors		1,52,000
Add: Net profit for the years	3,26,300	3,36,300	Bills receivables		75,000
Bills payable		1,40,000	Unexpired insurance		2,000
Trade Creditors		6,10,000	Cash in hand & at bank		1,27,300
Outstanding Expenses		5,000			
		10,91,300			**10,91,300**

Working Notes

1. Bills Receivable Account

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

2. Trade Debtors Account

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

3. Memorandum Trading Account

	₹		₹
To opening Stock	6,10,000	By sales	93,00,000
To purchase (Balancing figure)	84,10,000	By closing stock	6,50,000
To gross Profit (10% on sales)	9,30,000		
	99,50,000		**99,50,000**

4. Bills Payable Account

	₹		₹
To cash/Bank	8,15,000	By balance b/d	1,25,000
To Balance c/d	1,40,000	By creditors (Balancing figure)	8,30,000
	9,55,000		**9,55,000**

5. Trade Creditors Account

	₹		₹
To cash/bank	75,07,000	By Balance b/d	5,80,000
To discount Received	28,000	By purchase (as calculated in W.N.3)	84,10,000
To bill receivable	15,000		
To bill payable	8,30,000		
To balance c/d (balancing figure)	6,10,000		

	89,90,000		**89,90,000**

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

	₹
Sundry expenses paid (as per cash book)	6,20,700
Add : Prepaid expenses as on 31–3–2015	2,000
	6,22,700
Less : Outstanding expenses as on 31–3–2015	(45,000)
	5,77,700
Add : Outstanding expenses as on 31–3–2016	5,000
	5,82,700
Less : Prepaid expenses as on 31–3–2016 (Insurance paid till July, 2016) (6,000 x 4/12)	(2,000)
	5,80,700