CA- INTER GROUP - I

ACCOUNTING

COMPILER

Version 5.0

RAHUL MALKAN

: KEY FEATURES :

- Covers RTP and Past Papers
- Chapter wise
- Along with Solutions
- All Chapters Covered
- All AS Covered

CA INTERMEDIATE
GROUP – 1

Rahul Malkan

TABLE OF CONTENTS

ACCOUNTING – COMPILER – VERSION 5.0

CA INTERMEDIATE GROUP - 1

Rahul Malkan

TABLE OF CONTENTS

CHAPTER

1

INTRODUTION TO ACCOUNTING STANDARD

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : Nov – 2018 – Paper

"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.

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 : Nov – 2020 – RTP

What are the issues, with which Accounting Standards deal?

Solution :

Accounting Standards deal with the issues of (i) Recognition of events and transactions in the financial statements, (ii) Measurement of these transactions and events, (iii) Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and (iv) Disclosure requirements.

Question 3 : Jan – 2021 – Paper

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

Solution :

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

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

(i) Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

(ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.

(iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.

(iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year.

(v) Holding and subsidiary entities of any one of the above.

Question 4 : May – 2022 – RTP

A company with a turnover of Rs. 225 crores and borrowings of Rs. 51 crore during the year ended 31st March, 2021, wants to avail the exemptions available in adoption of Accounting Standards applicable to companies for the year ended 31.3.2021. Advise the management on the exemptions that are available as per the Companies (Accounting Standards) Rules, 2021.

Solution :

The question deals with the issue of Applicability of Accounting Standards for corporate entities. The companies can be classified under two categories viz SMCs and Non-SMCs under the Companies (Accounting Standards) Rules, 2021. As per the Companies (Accounting Standards) Rules, 2021, criteria for above classification as SMCs, are:

"Small and Medium Sized Company" (SMC) means, a company-

- whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- which is not a bank, financial institution or an insurance company;
- whose turnover (excluding other income) does not exceed rupees two-fifty crores in the immediately preceding accounting year;
- which does not have borrowings (including public deposits) in excess of rupees fifty crores at any time during the immediately preceding accounting year; and
- which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Since, XYZ Ltd.'s turnover was Rs. 225 crores which does not exceed Rs. 250 crores but borrowings of Rs. 51 crore are more than Rs. 50 crores, it is not a small and medium sized company (SMC). The exemptions available to SMC are not available to this company.

Question 5 : May – 2022 – RTP

An organization whose objects are charitable or religious, believes that the Accounting Standards are not applicable to it since only a very small proportion of its activities are business in nature. Comment.

Solution :

Accounting Standards apply in respect of any enterprise (whether organized in corporate, co-operative or other forms) engaged in commercial, industrial or business activities, whether or not profit oriented and even if established for charitable or religious purposes. Accounting Standards however, do not apply to enterprises solely carrying on the activities, which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the Accounting Standards would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature. Even if a very small proportion of the activities of an enterprise were considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those, which are not commercial, industrial or business in nature.

Question 6 : Nov – 2022 – Paper

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

Thanks ....

Rahul Malkan

CHAPTER

2

FRAMEWORK FOR PREPARATION & PRESENTATION OF FINANCIAL STATEMENTS

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : May – 2018 – RTP / May – 2018 – Paper

Explain main elements of Financial Statements.

Solution :

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 2 : Nov – 2018 – RTP

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.

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 3 : Nov – 2018 – RTP

Mohan started a business on 1st April 2017 with Rs.12,00,000 represented by 60,000 units of Rs.20 each. During the financial year ending on 31st March, 2018, he sold the entire stock for Rs.30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Mohan in the year 2017-18 if Financial Capital is maintained at historical cost.

Solution :

Particulars	Financial Capital Maintenance at Historical Cost (Rs.)
Closing equity (Rs.30 x 60,000 units)	18,00,000 represented by cash
Opening equity	60,000 units x Rs.20 = 12,00,000
Permissible drawings to keep Capital intact	6,00,000 (18,00,000 – 12,00,000)

Question 4 : Nov – 2018 – Paper

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

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.

Question 5 : May – 2019 – RTP / Nov – 2020 – RTP / May – 2021 - RTP

With regard to financial statements name any four.

(1) Users

(2) Qualitative characteristics

(3) Elements

Solution :

(1) Users of financial statements:

Investors, Employees, Lenders, Supplies/Creditors, Customers, Government & Public

(2) Qualitative Characteristics of Financial Statements:

Understandability, Relevance, Comparability, Reliability & Faithful Representation

(3) Elements of Financial Statements:

Asset, Liability, Equity, Income/Gain and Expense/Loss

Question 6 : Nov – 2019 – RTP / May – 2021 - RTP

Aman started a business on 1st April 20X1 with Rs.24,00,000 represented by 1,20,000 units of Rs.20 each. During the financial year ending on 31st March, 20X2, he sold the entire stock for Rs.30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Aman in the year 20X1-X2 if Financial Capital is maintained at historical cost.

Solution :

Particulars	Financial Capital Maintenance at Historical Cost (Rs.)
Closing equity (Rs.30 x 1,20,000 units)	36,00,000 represented by cash

Opening equity	1,20,000 units x Rs.20 = 24,00,000
Permissible drawings to keep Capital intact	12,00,000 (36,00,000 - 24,00,000)

Question 7 : May - 2019 - RTP / Nov - 2019 - Paper

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

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

Liabilities	**Rs.**
Issued and subscribed capital:	
30,000, 12% preference shares of Rs.100 each (fully paid)	30,00,000
24,00,000 equity shares of Rs.10 each, Rs.8 paid up	1,92,00,000
Share suspense account	40,00,000
Reserves and Surplus:	
Securities premium	1,00,000
Capital reserves (Rs.3,00,000 is revaluation reserve)	3,90,000
Secured loans:	
12% debentures	1,30,00,000
Unsecured loans:	
Public deposits	7,40,000
Current liabilities:	
Trade payables	6,90,000
Cash credit from SBI (short term)	9,30,000
Assets	**Rs.**
Investments in shares, debentures etc.	1,50,00,000
Profit & loss account (Dr. balance)	30,50,000

Share suspense account represents application money received on shares, the allotment of which is not yet made.

You are required to compute effective capital as per the provisions of Schedule V. Would your answer differ if Prabhat Ltd. is an investment company?

Solution :

Computation of effective capital

	Where Prabhat Ltd. Is a non-investment company Rs.	**Where Prabhat Ltd. is an investment company Rs.**
Paid-up share capital —		
30,000, 12% Preference shares	30,00,000	30,00,000
24,00,000 Equity shares of Rs.8 paid up	1,92,00,000	1,92,00,000
Capital reserves (3,90,000 - 3,00,000)	90,000	90,000

Securities premium	1,00,000	1,00,000
12% Debentures	1,30,00,000	1,30,00,000
Public Deposits	7,40,000	7,40,000
(A)	36,130,000	36,130,000
Investments	1,50,00,000	—
Profit and Loss account (Dr. balance)	30,50,000	30,50,000
(B)	1,80,50,000	30,50,000
Effective capital (A–B)	1,80,80,000	3,30,80,000

Question 8 : May – 2020 – RTP

A Ltd. has entered into a binding agreement with Gamma Ltd. to buy a custom-made machine Rs.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 journal entry in the year 20X1-X2.

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 Rs.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 9 : Nov – 2020 – Paper

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

Solution :

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

1. **Understandability**: The financial statements should present information in a manner as to be readily understandable by the users with reasonable knowledge of business and economic activities and accounting.
2. **Relevance:** The financial statements should contain relevant information only. Information, which is likely to influence the economic decisions by the users, is said to be relevant. Such information may help the users to evaluate past, present or future events or may help in confirming or correcting past evaluations. The relevance of a piece of information should be judged by its materiality. A piece of information is said to be material if its misstatement (i.e., omission or erroneous statement) can influence economic decisions of a user.
3. **Reliability:** To be useful, the information must be reliable; that is to say, they must be free from material error and bias. The information provided are not likely to be reliable unless transactions and events reported are faithfully represented. The reporting of transactions and events should be neutral, i.e. free from bias and be reported on the principle of 'substance over form'. The information in financial statements must be complete. Prudence should be exercised in reporting uncertain outcome of transactions or events.
4. **Comparability:** Comparison of financial statements is one of the most frequently used and most effective tools of financial analysis. The financial statements should permit both inter-firm and intra-firm comparison. One essential requirement of comparability is disclosure of financial effect of change in accounting policies.

Question 10 : Nov – 2020 – Paper

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

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital	1,50,000	Fixed Assets	1,05,000
11% Bank Loan	80,000	Closing Stock	76,000
Trade Payables	52,000	Debtors	68,000
Profit & Loss A/c	56,000	Deferred Expenditure	24,000
		Cash & Bank	65,000
	3,38,000		**3,38,000**

Additional information:

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

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

Solution :

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

	Rs.		Rs.
To Opening Stock	76,000	By Sales	7,80,000
To Purchases	6,25,000	By Trade payables	2,400
To General expenses	53,800	By Closing Stock	66,000
To Depreciation (1,05,000 less 90,000)	15,000		
To Provision for doubtful debts	15,000		
To Deferred expenditure	24,000		
To Loan penalty	4,000		
To Net Profit (b.f.)	35,600		
	8,48,400		**8,48,400**

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

Liabilities and Capital		Rs.	Assets	Rs.
Capital		1,50,000	Fixed assets	90,000
Profit & Loss A/c			Debtors	
opening balance	56,000		(65,000 less provision for doubtful debts Rs.15,000)	50,000

Profit earned during the year	35,600	91,600	Closing stock	66,000
11% Loan		84,000	Cash & Bank balance	1,65,200
Trade payables		45,600		
		3,71,200		**3,71,200**

Question 11 : Jan – 2021 – Paper

Explain how financial capital is maintained at historical cost?

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

Solution :

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

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

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

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

Question 12 : Jan – 2021 – Paper

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

	Amount (Rs.)		**Amount (Rs.)**
To Administrative expenses	4,99,200	By Balance B/d	6,27,550
To Advertisement	1,18,200	By Balance from Trading A/c.	38,15,890
To Commission on sales	95,225	By subsidies recd. From Govt.	2,50,000

To Directors Fees	1,35,940	By Profit on sale of forfeited shares	20,000
To Interest on debentures	28,460		
To Managerial remuneration	2,75,550		
To Depreciation on fixed assets	4,82,565		
To Provision of Taxation	11,50,200		
To General Reserve	4,50,000		
To Investment Revaluation Reserve	52,800		
To Balance c/d	14,25,300		
	47,13,440		**47,13,440**

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

Solution :

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

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

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

Note:

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

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

Question 13 : July – 2021 – Paper

A trader commenced business on April 1, 2020 with Rs.1,20,000, represented by 6000 units of a certain product at Rs.20 per unit. During the year 2020-21 he sold these units at Rs.30/- per unit and had withdrawn Rs.60,000. The price of the product at the end of financial year was Rs.25/- per unit. Compute retained profit of the trader under the concept of physical capital maintenance at current cost. Also state, whether answer would be different if the trader had not withdrawn any amount.

Solution :

Current cost of opening stock	$= \frac{1,20,000}{20} \times 25 = 1,50,000$
Current cost of closing cash	= 1,80,000 – 60,000 = 1,20,000
Opening equity at current cost	= 6,000 × 25 = 1,50,000
Closing Equity at current cost	= 1,20,000
∴Retained profit	= 1,20,000 – 150,000 = 30,000

Question 14 : Nov – 2021 – RTP

What is meant by 'Measurement'? What are the bases of measurement of Elements of Financial Statements? Explain in brief.

Solution :

Measurement is the process of determining money value at which an element can be recognized in the balance sheet or statement of profit and loss. The framework recognizes four alternative measurement bases for the purpose. These bases can be explained as:

Historical cost	This is the Acquisition price. According to this, assets are recorded at an amount of cash and cash equivalent paid or the fair value of the assets at time of acquisition.
Current Cost	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.
Realisable (Settlement) Value	For assets, amount currently realizable on sale of the asset in an orderly disposal. For liabilities, this is the undiscounted amount expected to be paid on settlement of liability in the normal course of business.
Present Value	Assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities 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.

In preparation of financial statements, all or any of the measurement basis can be used in varying combinations to assign money values to financial items.

Question 15 : Dec – 2021 – Paper

Mrs.A is showing the consolidated aggregate opening balance of equity, liabilities and assets of Rs.6 lakh, 4 lakh and 10 lakh respectively. During the current year Mrs.A has the following transactions :

1. Received 20% dividend on 10,000 equity shares of Rs.10 each held as investment.
2. The amount of Rs.70,000 is paid to creditors for settlement of Rs.90,000.
3. Salary is pending by Rs.20,000.
4. Mrs.A's drawing Rs.20,000 for her personal use.

You are required to prepare the statement of the effect of aforesaid each transactions on closing balance sheet in the form of Assets – Liabilities = Equity after each transaction.

Solution :

Effect of each transaction on Balance sheet of Mrs. A is shown below:

Transactions	Assets Rs.lakh	-	Liabilities Rs.lakh	=	Equity Rs.lakh
Opening	10.00	-	4.00	=	6.00
(1) Dividend earned	10.20	-	4.00	=	6.20
	[10.00+0.20]				[6.00+0.20]
(2) Settlement of Creditors	9.50	-	3.10	=	6.40
	[10.20-0.70]		[4.00-0.90]		[6.20+0.20]
(3) Salary Outstanding	9.50	-	3.30	=	6.20
			[3.10+0.20]		[6.40-0.20]
(4) Drawings	9.30	-	3.30	=	6.00
	[9.50-0.20]				[6.20-0.20]

Question 16 : Dec – 2021 – Paper

What is meant by 'Measurement'? What are the bases of measurement of Elements of Financial Statements? Explain in brief.

Solution :

Measurement is the process of determining money value at which an element can be recognized in the balance sheet or statement of profit and loss. The Framework for Preparation 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 17 : May – 2022 – RTP

Summarised Balance Sheet of Cloth Trader as on 31.03.2020 is given below:

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

Additional Information is as follows:

(1) The remaining life of fixed assets is 8 years. The pattern of use of the asset is even. The net realizable value of fixed assets on 31.03.2021 was Rs. 3,25,000.

(2) Purchases and Sales in 2020-21 amounted to Rs. 22,50,000 and Rs. 27,50,000 respectively.

(3) The cost and net realizable value of stock on 31.03.2021 were Rs. 2,00,000 and Rs. 2,50,000 respectively.

(4) Expenses for the year amounted to Rs. 78,000 which includes interest on 10% loan amount for the year.

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

(6) Trade receivables on 31.03.2021 are Rs. 1,50,000 of which Rs. 5,000 is doubtful. Collection of another Rs. 25,000 depends on successful re-installation of certain product supplied to the customer;

(7) Closing trade payables are Rs. 75,000, likely to be settled at 10% discount.
(8) Cash balance as on 31.03.2021 is Rs. 4,22,000.
(9) There is an early repayment penalty for the loan of Rs. 25,000.

You are required to prepare: (Not assuming going concern)
(1) Profit & Loss Account for the year 2020-21.
(2) Balance Sheet as on 31st March, 2021.

Solution :

Books of Cloth Trader

Profit and Loss Account for the year ended 2020-21 (not assuming going concern)

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

Balance Sheet as at 31st March, 2021 (not assuming going concern)

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

Question 18 : Nov – 2022 – RTP

Summarised Balance Sheet of Cloth Trader as on 31.03.2021 is given below:

Equity & Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Proprietor's Capital	3,00,000	Property, plant and equipment	3,60,000
Profit & Loss Account	1,25,000	Closing Inventory	1,50,000
10% Loan Account	2,10,000	Trade receivables	1,00,000
Trade payables	50,000	Deferred Expenses	50,000
		Cash & Bank	25,000
	6,85,000		**6,85,000**

Additional Information is as follows :

(1) The remaining life of Property, plant and equipment is 8 years. The pattern of use of the asset is even. The net realisable value of Property, plant and equipment on 31.03.2022 was Rs. 3,25,000.

(2) Purchases and Sales in 2021-22 amounted to Rs. 22,50,000 and Rs. 27,50,000 respectively.

(3) The cost and net realizable value of inventory on 31.03.2022 were Rs. 2,00,000 and Rs. 2,50,000 respectively.

(4) Expenses including interest on loan for the year amounted to Rs. 78,000.

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

(6) Sundry Debtors on 31.03.2022 are Rs. 1,50,000 of which Rs. 5,000 is doubtful. Collection of another Rs. 25,000 depends on successful re-installation of certain product supplied to the customer;

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

(8) Cash balance as on 31.03.2022 is Rs. 4,22,000.

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

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

(1) Profit & Loss Account for the year 2021-22.

(2) Balance Sheet as on 31st March, 2022.

Solution :

Profit and Loss Account for the year ended 2021-22(not assuming going concern)

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

Balance Sheet as at 31st March, 2022 (not assuming going concern)

Liabilities	Amount Rs.	Assets	Amount Rs.
Capital	3,00,000	Fixed Assets	3,25,000
Profit & Loss A/c	5,14,500	Inventory	2,50,000
10% Loan	2,35,000	Trade receivables (less provision)	1,20,000
Trade payables	67,500	Deferred expenses	Nil

		Bank	4,22,000
	11,17,000		**11,17,000**

Question 19 : Nov – 2022 – Paper

As on 1st April, 2021 opening Balance Sheet of Mr.Mohanty is showing the aggregate value of Assets, Liabilities and Equity at Rs.12 Lakhs, 3 Lakhs and 9 lakhs respectively.

During the accounting period 01/04/2021 to 31/03/2022, Mr.Mohanty has the following transactions :

(1) A liability of Rs.50,000 was finally settled at a discount of 2%.

(2) Dividend earned @15% on 1000 (F.V. Rs.100 each) Equity shares held @ Rs.12,000.

(3) Rent of the premises paid Rs.20,000.

(4) Mr.Mohanty withdrew Rs.10,000 for personal purpose and also withdrew Goods worth Rs.5,000 for personal purposes.

(5) Rs.15,000 were received against Bill Receivables.

You are required to show the effect of the above transactions on Balance Sheet in the form of Asset – Liabilities = Equity equation after each transaction.

Thanks ....

CHAPTER

3

AS 1 – DISCLOSURE OF ACCOUNTING POLICIES

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : Nov – 2018 – Paper

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

Total value of stock Rs.120 lakhs

Provision required based on technical evaluation Rs.3.00 lakhs.

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

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

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

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

Solution :

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

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

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

Question 2 : May – 2019 – RTP

What are fundamental accounting assumptions?

Solution :

Fundamental Accounting Assumptions :
Accrual, Going Concern and Consistency

Question 3 : May – 2020 – RTP

ABC Ltd. was making provision for non-moving inventories based on no issues for the last 12 months up to 31.3.2019.

The company wants to provide during the year ending 31.3.2020 based on technical evaluation:

Total value of inventory	Rs.100 lakhs
Provision required based on 12 months issue	Rs.3.5 lakhs
Provision required based on technical evaluation	Rs.2.5 lakhs

Does this amount to change in Accounting Policy? Can the company change the method of provision?

Solution :

The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made. In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from Rs. 3.5 lakhs to Rs. 2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2019-20:

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

Question 4 : May – 2020 – RTP

State whether the following statements are 'True' or 'False'. Also give reason for your answer.

1. Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
2 If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
3. All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
4. Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.

Solution :

1. False; As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.
2. False; As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
3. True; To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.
4. False; Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

Question 5 : Nov – 2020 – RTP

What are the three fundamental accounting assumptions recognized by Accounting Standard (AS) 1? Briefly describe each one of them.

Solution :

Accounting Standard (AS) 1 recognizes three fundamental accounting assumptions. These are as follows:

(i) **Going Concern:** The financial statements are normally prepared on the assumption that an enterprise will continue its operations in the foreseeable future and neither there is intention, nor there is need to materially curtail the scale of operations.

(ii) **Consistency:** The principle of consistency refers to the practice of using same accounting policies for similar transactions in all accounting periods unless the change is required (i) by a statute, (ii) by an accounting standard or (i ii) for more appropriate presentation of financial statements.

(iii) **Accrual basis of accounting:** Under this basis of accounting, transactions are recognised as soon as they occur, whether or not cash or cash equivalent is actually received or paid.

Question 6 : May – 2021 – RTP

The draft results of Surya Ltd. for the year ended 31st March, 2020, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of Rs. 10 crores. The board in consultation with the managing director, decided to value year-end inventory at works cost (Rs. 50 crores) instead of the hitherto method of valuation of inventory at prime cost (Rs. 30 crores). As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2019-2020.

Solution :

As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, 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. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts:

"During the year inventory has been valued at factory cost, against the practice of valuing it at prime cost as was the practice till last year. This has been done to take cognizance of the more capital intensive method of production on account of heavy capital expenditure during the year. As a result of this change, the year-end inventory has been valued at Rs. 50 crores and the profit for the year is increased by Rs. 20 crores."

Question 7 : Dec – 2021 – Paper

(i) ABC Ltd. was previously making provisions for non-moving stock based on not issued for the last 12 months up to 31.03.2020. Now, the company wants to make provision based on technical evaluation during the year ending 31.03.2021.
Total value of stock Rs.133.75 lakhs.
Provision required based on technical evaluation Rs.4.00 lakhs
Provision required based on 12 months not issued Rs.5.00 lakhs

(ii) In the books of M/s.Kay Ltd., Closing stock as on 31st March, 2021 amounts to Rs.1,24,000 (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 2020.2021. On the basis of weighted average method, closing stock as on 31st March, 2021 amounts to Rs.1,15,000. Realisable value of the inventory as on 31st March, 2021 amounts to Rs.1,54,000.

Discuss Disclosure Requirements of change in accounting policy in above cases as per AS 1.

Solution :

(i) The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made.
In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from Rs. 5 lakhs to Rs. 4 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2020-21:

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

(ii) 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 company 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 realizable value. Since net realizable 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. 2020-21, 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 Rs. 9,000."

Question 8 : May – 2022 – Paper

State whether the following statements are 'True' or 'False'. Also give reason for your answer.

(i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.

(ii) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.

(iii) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.

(iv) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the facts need not to be indicated.

Solution :

(i) **False:** As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

(ii) **False:** As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

(iii) **True:** To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.

(iv) **False:** Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

Thanks ....

Rahul Malkan

CHAPTER

4

AS 2 – VALUATION OF INVENTORY

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : May – 2018 – RTP

A private limited company manufacturing fancy terry towels had valued its closing inventory of inventories of finished goods at the realisable 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.

Solution :

Accounting standard 2 "Valuation of Inventory" states that inventories should be valued at cost or net realisable value whichever is lower.

Accordingly, the practice of the company to value at inventory at net relisable value which includes profit and export incentive is wrong. The inventory should be valued at cost.

Also export incentive should be recorded when sales takes place. So policy adopted by company is wrong. The inventory is not yet transferred as to ownership so closing inventory should be recorded in books of company.

Question 2 : Nov – 2018 – RTP / Nov – 2020 – RTP

A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2017.

	Rs. Per unit
Raw Material X	
Cost price	380
Unloading Charges	20
Freight Inward	40
Replacement cost	300
Chemical Y	

Material consumed	440
Direct Labour	120
Variable Overheads	80

Additional Information:

(i) Total fixed overhead for the year was Rs.4,00,000 on normal capacity of 20,000 units.

(ii) Closing balance of Raw Material X was 1,000 units and Chemical Y was Rs.2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when

(i) Net realizable value of Chemical Y is Rs.800 per unit

(ii) Net realizable value of Chemical Y is Rs.600 per unit

Solution :

As per AS-2 "Valuation of Inventory"

1) Closing stock of raw material should be valued at cost. However if SP of FY < CP of FY then raw material should be valued at replacement cost.

2) Closing stocks of finished goods should be valued at lower of cost or net reliasable value.

1) Raw Material

A) Cost

	Rs.
Cost price	380
Unloading charges	20
Freight charges	40
	440

B) Replacement value = Rs.300

2) Finished goods

A) Cost

	Rs.
Material consumed	440
Direct labour	120
Variable overhead	80
Fixed overhead (4,00,000/20,000)	20
	660

Alt 1: Net realisable value of Chemical y is Rs.800/unit

Value of closing stocks

	Qty	**Rate**	**Amount**
Raw material	1,000	440	4,40,000

Finished goods	2,400	660	15,84,000
			20,24,000

Alt 2: Net realisable value of Chemical y is Rs.600/unit

Value of closing stock

	Qty	Rate	Amount
Raw material	1,000	300	3,00,000
Finished goods	2,400	600	14,40,000
			17,40,000

Question 3 : May – 2019 – RTP

On 31st March 2017, a business firm finds that cost of a partly finished unit on that date is Rs.530. The unit can be finished in 2017-18 by an additional expenditure of Rs.310. The finished unit can be sold for Rs.750 subject to payment of 4% brokerage on selling price. The firm seeks your advice regarding the amount at which the unfinished unit should be valued as at 31st March, 2017 for preparation of final accounts. Assume that the partly finished unit cannot be sold in semi finished form and its NRV is zero without processing it further.

Solution :

As per AS 2 "Valuation of Inventory" the closing stocks of work in progress should be valued at lower of cost or net realisable value whichever is less.

A) Cost of work in progress Rs.530

B) Net realisable value

Estimated selling price of F.Y.	750
– Estimated cost of completion	310
– Estimated cost to sales (750 ´ 4%)	30
Total	410

∴Closing stocks should be valued at Rs.410.

Question 4 : May – 2019 – Paper

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

You are required to :

(1) Calculate the amount of abnormal loss.

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

Solution :

1) As per AS 2 "Valuation of inventory" abnormal wastage of material, labour and overhead should be excluded from cost of inventory and such cost should be recognised as expense in the period in which they are incurred.
The normal loss will be included in determination of cost of closing stock.

2) Material used = 16,000 × 190 = Rs.30,40,000
Normal loss = 16,000 × 5% = 800
Normal production = 16,000 – 800 = 15,200
$\therefore$ C.P.U. = $\frac{30{,}40{,}000}{15{,}200}$ = Rs.200/unit

3) Actual loss = 950 units
Normal loss = 800 units
$\therefore$ Abnormal loss = 950 – 800 = 150 units
Amount = 150 × 200 = Rs.3,000 should be charged to profit and loss account.

Question 5 : Nov – 2019 – RTP

Hello Ltd. purchased goods at the cost of Rs.20 lakhs in October. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at Rs.5 lakhs. The expected sale value is Rs.5.5 lakhs and a commission at 10% on sale is payable to the agent. You are required to ascertain the value of closing stock?

Solution :

As per AS 2 "Valuation of Inventory" closing stock should be valued at cost or net relisable value whichever is lower.

Accordingly

a) Cost of closing stock = 20 25% = 5 lakh

b) Net Realisable value

Estimated selling price –Estimated cost to sale (5.5 × 10%)	5.5 0.55
Total	4.95

$\therefore$ Closing stocks should be valued at 4.95 lakh

Question 6 : Nov – 2019 – Paper

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

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

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

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

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

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

Solution :

As per AS 2 "Valuation of Inventory" closing stocks should be valued at cost or net realisable value whichever is lower.

i) Raw material is be valued a cost. However SP of FY < CP of FY then closing stock of raw material should be valued at replacement cost.

ii) WIP and finished goods should be valued at lower of cost or net realisable value.

Accordingly

	Units	Cost	RC/NRV	Valued At	Amt.
Raw material	800	140	190	140	1,12,000
W.I.P.	650	310	300	300	1,95,000
Finished goods	1800	360	350	350	6,30,000
					9,37,000

Notes :

1) Raw material is valued at cost because it is lower than its replacement cost.

2) It is assumed that work in progress cannot be sold in semi finished form and its NRV is Nil without further processing.

Question 7 : May - 2020 - RTP

Particulars		kg.	Rs.
Opening Inventory:	Finished Goods	1,000	25,000
	Raw Materials	1,100	11,000
Purchases		10,000	1,00,000
Labour			76,500
Overheads (Fixed)			75,000
Sales		10,000	2,80,000
Closing Inventory:	Raw Materials	900	
	Finished Goods	1200	

The expected production for the year was 15,000 kg of the finished product. Due to fall in market demand the sales price for the finished goods was Rs.20 per kg and the replacement cost for the raw material was Rs.9.50 per kg on the closing day. You are required to calculate the closing inventory as on that date.

Solution :

As per AS 2 "Valuation of inventory" inventory should be valued at lower of cost or net realisable value.

1) Raw material should be valued "At cost". However if SP of FY < CP of FY then raw material should be valued at replacement cost.

Cost of raw material = 1,00,000/10,000 = Rs.10

Replacement cost = Rs.9.5

2) Finished goods should be valued at lower of cost or net realisable value

Cost of finished goods

Raw material consumed (units) = 1,100 + 10,000 – 900 = 10,200

Cost of raw material (10,200 × 10)	1,02,000
Direct labour	76,500
Fixed overheads (Working note)	51,000
Total	2,29,500

i.e. CPU = $\frac{2,29,500}{10,200}$ = Rs.22.50

Net realisable value = Rs.20

Working Note :

Fixed overheads should be absorbed at lower of actual CPU or budgeted CPU.

Budgeted CPU	Actual CPU
$\frac{75,000}{15,000}$ = Rs.5/unit	$\frac{75,000}{10,200}$ = Rs.7.35/unit

∴ Fixed O/H = 10,200 × 5 = Rs.51,000

3) Valuation of closing stock

	Units	CPU	Amt.
Raw material	900	9.5	8,550
Finished goods	1,200	20	24,000
			32,550

Question 8 : Jan – 2021 – Paper

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

(i) 900 units of Raw Material X (purchased @ Rs.100 per unit). Replacement cost of Raw Material X as on 31.03.2019 is Rs.80 per unit.

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

(iii) 800 unit of Finished goods P and total cost incurrent is Rs.295 per unit.
Expected selling price of product P is Rs.280 per unit, subject to a payment of 5% brokerage on selling price.
Determine how each item of inventory will be valued as on 31.03.2019.

Also calculate the value of total in Inventory as on 31.03.2019.

Solution :

As per AS 2 "Valuation of Inventories".

1) Raw material should be valued at cost. If SP of FY < CP of FY raw material should be valued at replacement cost.
2) WIP and finished goods should be valued at lower of cost or net realisable value

Valuation of inventory

	Units	Cost	RL/NRV	Valued At	Amt.
Raw material	900	100	80	80	72,000
Work in progress	400	245	216	216	86,400
Finished goods	800	295	266	266	2,12,800
					3,71,200

Notes :

1) NRV of Finished goods =

Estimated Selling price	280
Estimated cost of sale (5%)	14
Total	266

2) NRV of Work in Progress =

Estimated SP of Finished goods	280
Estimated cost to Sale (5%)	14
Estimated cost of completion	50
Total	216

Question 9 : May – 2021 – RTP

The inventory of Rich Ltd. as on 31st March, 2020 comprises of Product – A: 200 units and Product – B: 800 units.

Details of cost for these products are:

Product – A: Material cost, wages cost and overhead cost of each unit are Rs. 40, Rs. 30 and Rs. 20 respectively, Each unit is sold at Rs. 110, selling expenses amounts to 10% of selling costs.

Product – B: Material cost and wages cost of each unit are Rs. 45 and Rs. 35 respectively and normal selling rate is Rs. 150 each, however due to defect in the manufacturing process 800 units of Product-B were expected to be sold at Rs. 70.

You are requested to value closing inventory according to AS 2 after considering the above.

Solution :

As per AS 2 "Valuation of Inventory" should be at lower of cost or net realisable value.

1) Product A

Cost :			**NRV :**	
Raw material Wages Overhead	40 30 20		Estimate SP - Cost to sales (10%)	110 11
	90	-		99

2) Product B

Cost :			**NRV :**	
Raw material Wages cost	45 35		Estimate SP	70
	80	-		70

3) Valuation of inventory

	Units	**CPU**	**Amt.**
Product A	200	90	18,000
Product B	800	70	56,000
			74,000

Question 10 : July – 2021 – Paper

Joy Ltd. purchased 20,000 kilograms of Raw Material @ Rs.20 per kilogram during the year 2020-21. They have furnished you with the following further information for the year ended 31st March, 2021:

Particulars	**Units**	**Amount (Rs.)**
Opening Inventory :		
Finished Goods	2,000	1,00,000
Raw Materials	2,200	44,000
Direct Labour		3,06,000
Fixed Overheads		3,00,000
Sales	20,000	11,20,000
Closing Inventory :		
Finished Goods	2,400	
Raw Materials	1,800	

The plant has a capacity to produce 30,000 Units of finished product per annum. However, the actual production of finished products during the year 2020-21 was 20,400 Units. Due to a fall in the market demand, the price of the finished goods in which the raw materials has been utilized is expected to be sold @ Rs.40 per unit. The replacement cost of the raw material was Rs.19 per kilogram.

You are required to ascertain the value of closing inventory as at 31st March, 2021 as per AS 2.

Solution :

As per AS 2 "Valuation of Inventory" closing stocks should be valued at lower of cost or net realisable value.

1) Raw material should be valued at cost if SP of FY < CP of FY the raw material should be valued at replacement cost.

Cost of raw material = Rs.20/unit

Replacement cost = Rs.19/unit

2) Finished goods should be valued at cost or net realisable value whichever is lower.

Cost of finished goods

Raw material consumed (units) = 2,200 + 20,000 – 1,800 = 20,400

Cost of RM (20,400 × 20)	4,08,000
Direct labour	3,06,000
Fixed overhead (3,00,000/30,000 × 20,400)	2,04,000
Total	9,18,000

Net $\therefore$ CPU = $\frac{9,18,000}{20,400}$ = Rs.45/unit

NRV = Rs.40/unit

3) Valuation of Inventory

	Units	CPU	Amt.
Raw material	1,800	19	34,200
Finished goods	2,400	40	96,000
			1,30,200

Question 11 : Nov – 2021 – RTP

On 31st March 2020, a business firm finds that cost of a partly finished unit on that date is Rs. 430. The unit can be finished in 2020-21 by an additional expenditure of Rs. 310. The finished unit can be sold for Rs. 750 subject to payment of 2% brokerage on selling price. The firm seeks your advice regarding the amount at which the unfinished unit should be valued as at 31st March, 2020 for preparation of final accounts. Assume that the partly finished unit cannot be sold in semi-finished form and its NRV is zero without processing it further.

Solution :

As per AS 2 "Valuation of inventory" closing stock of work in progress should be valued at lower of cost or net reliable value.

A) Cost of work in progress Rs.430

B) Net realisable value

Estimated selling price of Finished goods	750
– Estimated cost of sale (2%)	15

– Estimated cost of completion	310
Total	Rs.425

∴Closing stock of work in progress should be valued at Rs.425/unit

Question 12 : May – 2022 – RTP

"In determining the cost of inventories, it is appropriate to exclude certain costs and recognize them as expenses in the period in which they are incurred". Provide examples of such costs as per AS 2 'Valuation of Inventories'.

Solution :

As per AS 2 "Valuation of Inventories" , certain costs are excluded from the cost of the inventories and are recognised as expenses in the period in which incurred. Examples of such costs are: (a) abnormal amount of wasted materials, labour, or other production costs; (b) storage costs, unless those costs are necessary in the production process prior to a further production stage; (c) administrative overheads that do not contribute to bringing the inventories to their present location and condition; and (d) selling and distribution costs.

Question 13 : May – 2022 – RTP

On the basis of information given below, find the value of inventory (by periodic inventory method) as per AS 2, to be considered while preparing the Balance Sheet as on 31st March, 2021 on weighted Average Basis.

Details of Purchases:

Date of purchase	**Unit (Nos.)**	**Purchase cost per unit (Rs.)**
01-03-2021	20	108
08-03-2021	15	107
17-03-2021	30	109
25-03-2021	15	107

Details of issue of Inventory:

Date of purchase	**Unit (Nos.)**
03-03-2021	10
12-03-2021	20
18-03-2021	10
24-03-2021	20

Net realizable value of inventory as on 31st March, 2021 is Rs. 107.75 per unit.

You are required to compute the value of Inventory as per AS 2?

Solution :

Net Realisable Value of Inventory as on 31st March, 2021

= Rs. 107.75 x 20 units = Rs. 2,155

Value of inventory as per Weighted Average basis

Total units purchased and total cost:

01.03.2021	Rs. 108 x 20 units = Rs. 2160
08.3.2021	Rs. 107 x 15 units = Rs. 1605
17.03.2021	Rs. 109 x 30 units = Rs. 3270
25.03.2021	Rs. 107 x 15 units = Rs. 1605
Total	80 units = Rs. 8640

Weighted Average Cost = Rs. 8640/80 units = Rs.108

Total cost = Rs. 108 x 20 units = Rs. 2,160

Value of inventory to be considered while preparing Balance Sheet as on 31st March, 2021 is, Cost or Net Realisable value whichever is lower i.e. Rs. 2,155.

Question 14 : May – 2022 – RTP

Rohan Pvt. Ltd., a wholesaler in agriculture products, has valued the inventory on Net Realizable Value on the ground that AS 2 does not apply to inventory of agriculture products.

Solution :

AS 2 does not apply to producers of agricultural products but applies to traders in agricultural products. Hence AS 2 will apply to Rohan Pvt. Ltd. and it will have to value inventory at lower of cost or market value.

Question 15 : May – 2022 – Paper

SM Enterprises is a leading distributor of petrol. A detail inventory of petrol in hand is taken when the books are closed at the end of each month. For the end month of June 2021 following information is available:

(i) Sales for the month of June 2021 was Rs.30,40,000.

(ii) General overheads cost Rs.4,00,000.

(iii) Inventory at beginning 10,000 litres @ Rs.92 per litre.

(iv) Purchases - June 1, 2021, 20,000 litres @ Rs.90 per litre, June 30, 2021, 10,000 litres @ Rs.95 per litre.

(v) Closing inventory 13,000 litres.

You are required to compute the following by FIFO method as per AS 2 :

(i) Value of Inventory on 30th June, 2021.

(ii) Amount of cost of goods sold for June, 2021.

(iii) Profit/Loss for the month of June, 2021

Solution :

	Rs.
Cost of closing inventory for 13,000 litres as on 30th June 2021	
10,000 litres @ Rs. 95	9,50,000
3,000 litres @ Rs. 90	2,70,000
Value of inventory (determined at cost in absence of NRV)	________

	12,20,000
Calculation of cost of goods sold	
Opening inventories (10,000 litres @ Rs. 92)	9,20,000
Purchases June – 1 (20,000 litres @ Rs. 90)	18,00,000
June – 30 (10,000 litres @ 95)	9,50,000
	36,70,000
Less: Closing inventories	(12,20,000)
Cost of Goods Sold	24,50,000
Calculation of Profit	
Sales (Given) (A)	30,40,000
Cost of Goods Sold	24,50,000
Add: General Overheads	4,00,000
Total Cost (B)	28,50,000
Profit (A-B)	1,90,000

Question 16 : Nov – 2022 – RTP

The closing stock of finished goods (at cost) of a company amounted to Rs. 4,50,000. The following items were included at cost in the total:

(a) 100 coats, which had cost Rs. 2,200 each and normally sold for Rs. 4,000 each. Owing to a defect in manufacture their NRV was determined at 50% of their normal selling price.

(b) Shirts which had cost Rs. 50,000, their net realizable value at Balance sheet date was Rs. 55,000. Commission @ 10% on sales is payable to agents.

What should the inventory value be according to AS 2 after considering the above items?

Solution :

Valuation of closing stock

	Rs.
Closing stock at cost	4,50,000
Less: Adjustment for 100 coats (Working Note 1)	(20,000)
Value of inventory	4,30,000

Working Notes:

1. Adjustment for Coats

	Rs.
Cost included in Closing Stock	2,20,000
NRV of Coats	2,00,000
Adjustment to be made as NRV is less than Cost	20,000

2. No adjustment required for shirts as their NRV is more than their cost which was included in value of inventory.

Question 17 : Nov – 2022 – Paper

Following information of Sarah Limited is given :

Sarah Limited uses Raw Material 'A' for production of Finished Goods 'B'

Closing balances of Raw Material 'A' in units on 31st March, 2022	750
	Price Per Unit in Rs.
Cost Price	150
Freight inward	10
Replacement Cost	152
Closing balance of Finished Goods 'B' in units on 31st March, 2022	1600
	Price Per Unit in Rs.
Material Consumed	225
Direct Labour	75
Direct variable overhead	60

Total fixed Overheads amounts to Rs.1,00,000 on normal capacity of 20,000 units.

Your are required to calculate the value of Closing Stock of Raw materials and Closing Stock of Finished Goods, as on 31st March, 2022, as per AS 2, when selling price of Finished Goods 'B' is Rs.360 per unit.

Thanks ....

CHAPTER

5

AS 3 – CASH FLOW STATEMENTS

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : May – 2018 – RTP

A company provides you the following information:

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

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

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

1.4.2016	Rs.84 crores
31.3.2017	Rs.92 crores

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

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

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

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

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

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

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

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

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

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

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

Solution :

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

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

Working Note :

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

	(Rs. in crores)
Opening Balance in creditors Account	84
Add: Purchases (220x .8)	176
Total	260
Less: Closing balance in Creditors Account	92
Cash paid to suppliers of goods	168
Add: Cash purchases (220x .2)	44
Total cash paid for purchases to suppliers (a)	212
Add: Cash paid to suppliers of other consumables and services (b)	19

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

Question 2 : May – 2018 – Paper

Classify the following activities as

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

(1) Cash receipts from Trade Receivables

(2) Marketable Securities

(3) Purchase of investment

(4) Proceeds from long term borrowings

(5) Wages and Salaries paid

(6) Bank overdraft

(7) Purchase of Goodwill

(8) Interim dividend paid on equity shares

(9) Short term Deposits

(10) Underwriting commission paid

Solution :

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

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

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

(d) **Cash Equivalent** : 2

Question 3 : Nov – 2018 – RTP

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

	2018 (Rs.)	2017 (Rs.)
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 :

	Rs.
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 Rs.1,000.
2. Depreciation on Furniture & Fixtures for the year Rs.2,000.
3. Depreciation on Cars for the year Rs.5,000. One car was disposed during the year for Rs.3,400 whose written down value was Rs.2,000.
4. Purchase investments for Rs.6,000.
5. Sold investments for Rs.10,000, these investments cost Rs.2,000.

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

Solution :

Calculation of Fixed assets acquisitions

	Furniture & Fixtures (Rs.)	**Car (Rs.)**
W.D.V. at 31.3.2018	34,000	25,000
Add back: Depreciation for the year	2,000	5,000
Disposals	–	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 4 : May – 2019 – RTP

Preet Ltd. presents you the following information for the year ended 31st March, 2019:

		(Rs. in lacs)
(i)	Net profit before tax provision	72,000
(ii)	Dividend paid	20,404

(iii)	Income-tax paid	10,200
(iv)	Book value of assets sold	444
	Loss on sale of asset	96
(v)	Depreciation debited to P & L account	48,000
(vi)	Capital grant received - amortized to P & L A/c	20
(vii)	Book value of investment sold	66,636
	Profit on sale of investment	240
(viii)	Interest income from investment credited to P & L A/c	6,000
(ix)	Interest expenditure debited to P & L A/c	24,000
(x)	Interest actually paid (Financing activity)	26,084
(xi)	Increase in working capital	1,34,580
	[Excluding cash and bank balance]	
(xii)	Purchase of fixed assets	44,184
(xiii)	Expenditure on construction work	83,376
(xiv)	Grant received for capital projects	36
(xv)	Long term borrowings from banks	1,11,732
(xvi)	Provision for Income-tax debited to P & L A/c	12,000
	Cash and bank balance on 1.4.2018	12,000
	Cash and bank balance on 31.3.2019	16,000

You are required to prepare a cash flow statement as per AS-3 (Revised).

Solution :

Cash Flow Statement as per AS 3

Cash flows from operating activities:		**Rs. in lacs**
Net profit before tax provision		
Add: Non cash expenditures:		
Depreciation	48,000	
Loss on sale of assets	96	
Interest expenditure (non-operating activity)	24,000	72,096
		1,44,096
Less: Non cash income		
Amortisation of capital grant received	(20)	
Profit on sale of investments (non-operating income)	(240)	
Interest income from investments (non-operating income)	(6,000)	6,260
Operating profit		1,37,836
Less: Increase in working capital		(1,34,580)
Cash from operations		3,256
Less: Income tax paid		(10,200)

Net cash generated from operating activities		(6,944)
Cash flows from investing activities:		
Sale of assets (444 – 96)	348	
Sale of investments (66,636+240)	66,876	
Interest income from investments	6,000	
Purchase of fixed assets	44,184)	
Expenditure on construction work	(83,376)	
Net cash used in investing activities		(54,336)
Cash flows from financing activities:		
Grants for capital projects	36	
Long term borrowings	1,11,732	
Interest paid	(26,084)	
Dividend paid	(20,404)	
Net cash from financing activities		65,280
Net increase in cash		4,000
Add: Cash and bank balance as on 1.4.2018		12,000
Cash and bank balance as on 31.3.2019		16,000

Question 5 : May – 2019 – Paper

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

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

(2) Company sold goods for cash only.

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

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

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

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

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

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

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

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

(11) Income Tax paid during the year amounts to Rs.55,000
(Provision for taxation as on 31st March, 2019 Rs.30,000)·

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

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

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

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

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

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

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

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

Solution :

(i) **PQR Ltd.**

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

(Using direct method)

Particulars	**Rs.**	**Rs.**
Cash flows from Operating Activities		
Cash sales (Rs.3,75,000/25%)		15,00,000
Less: Cash payments for trade payables	(6,10,000)	
Wages Paid	(5,55,000)	
Office and selling expenses Rs.(35,000 + 15,000)	(50,000)	(12,15,000)
Cash generated from operations before taxes		2,85,000
Income tax paid		(55,000)
Net cash generated from operating activities (A)		2,30,000
Cash flows from Investing activities		
Sale of investments Rs.(8,20,000 + 20,000)	8,40,000	
Payments for purchase of Plant & machinery	(3,50,000)	
Net cash used in investing activities (B)		4,90,000
Cash flows from financing activities		
Bank loan repayment (including interest)	(2,05,000)	
Dividend paid (including dividend distribution tax)	(40,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,75,000
Cash and cash equivalents at beginning of the period		2,25,000
Cash and cash equivalents at end of the period		7,00,000

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

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

Increase in inventory	25,000	(40,000)
Cash generated from operations before taxes		2,85,000

Working Note:

Calculation of net profit earned during the year

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

Question 6 : Nov – 2019 – RTP

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

Balance Sheets

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

	(c) Cash & Cash Equivalents			32,000	17,000
	Total			5,66,000	4,37,000

Note 1 : Share Capital

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

Note 2 : Reserve and Surplus

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

Note 3 : Current Liabilities

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

Note 4 : Tangible Assets

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

Additional Information:

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

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

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

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

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

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

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

Solution :

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

		Particulars	Rs.	Rs.
1		**Cash Flow from Operating Activities**		
	A	Closing balance as per Profit and Loss Account		27,000
		Less: Opening balance as per Profit and Loss Account		(18,000)
		Add: Dividend declared during the year		37,000
		Add: Interim dividend paid during the year		10,000
		Add: Transfer to reserve		10,000
		Add: Provision for Tax		32,000
	B	Net profit before taxation, and extra-ordinary item		98,000
	C	Add: Items to be added		
		Depreciation	18,000	
		Loss on sale of Plant	3,000	
		Goodwill written off	13,000	34,000
	D	Less: Dividend Income		(1,500)
	E	Operating profit before working capital changes [B + C - D]		1,30,500
	F	Add: Decrease in Current Assets and Increase in Current Liabilities		
		Decrease in Inventories	7,000	
		Increase in Trade Payables	21,000	28,000
	G	Less: Increase in Trade Receivables		(33,000)
	H	Cash generated from operations (E+F-G)		1,25,500
	I	Less: Income taxes paid		(28,000)
	J	Net Cash from (used in) operating activities		97,500
2		**Cash Flows from investing activities:**		
		Purchase of Plant		(1,34,000)
		Sale of Land		50,000
		Sale of plant		12,000
		Purchase of investments		(25,600)
		Dividend Received		2,100
		Net cash used in investing activities		(95,500)
3		**Cash Flows from Financing Activities:**		
		Proceeds from issue of equity share capital		1,00,000
		Redemption of preference shares		(50,000)
		Interim Dividend (inclusive of DDT) paid		(10,000)
		Final dividend (inclusive of DDT) paid		(27,000)
		Net cash from financing activities		13,000

4		**Net increase in cash and cash equivalents (1 + 2 + 3)**		15,000
5		**Cash and cash equivalents at beginning of period**		17,000
6		**Cash and cash equivalents at end of period (4 + 5)**		32,000

1. **Land and Building Account**

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

2. **Plant and Machinery Account**

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

3. **Investment Account**

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

Question 7 : Nov – 2019 – Paper

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

Particulars	**Amount (Rs.)**
Machinery acquired by issue of shares at face value	2,00,000
Claim received for loss of machinery in earthquake	55,000
Unsecured loans given to associates	5,00,000
Interest on loan received from associate company	70,000
Pre-acquisition dividend received on investment made	52,600
Debenture interest paid	1,45,200
Term loan repaid	4,50,000
Interest received on investment (TDS of Rs.8,200 was deducted on the above interest)	73,800

Purchased debentures of X Ltd., on. 1st December, 2018 which are redeemable within 3 months	3,00,000
Book value of plant & machinery sold (loss incurred Rs.9,600)	90,000

Solution :

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

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

Note :

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

Question 8 : May – 2020 – RTP / Nov – 2020 - Paper

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

(i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was Rs.20 lakhs:
    (a) Depreciation on Property, Plant & Equipment Rs.5 lakhs.
    (b) Discount on issue of Debentures written off Rs.30,000.
    (c) Interest on Debentures paid Rs.3,50,000.
    (d) Book value of investments Rs.3 lakhs (Sale of Investments for Rs.3,20,000).
    (e) Interest received on investments Rs.60,000.

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

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

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

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

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

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

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

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

	As on 31.3.2018 Rs.	As on 31.3.2019 Rs.
Inventory	12,00,000	13,18,000
Trade receivables	2,58,000	253,100
Cash in hand	1,96,300	35,300
Trade payables	2,11,000	2,11,300
Outstanding expenses	75,000	81,800

Solution :

X Ltd.

Cash Flow Statement

for the year ended 31st March, 2019

	Rs.	Rs.
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		20,00,000
Adjustments for:		
Depreciation on PPE	5,00,000	
Discount on issue of debentures	30,000	
Interest on debentures paid	3,50,000	
Interest on investments received	60,000)	
Profit on sale of investments	(20,000)	8,00,000
Operating profit before working capital changes		28,00,000
Adjustments for:		
Increase in inventory	(1,18,000)	
Decrease in trade receivable	4,900	
Increase in trade payables	300	
Increase in outstanding expenses	6,800	(1,06,000)
Cash generated from operations		26,94,000

Income tax paid		(10,50,000)
		16,44,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		90,000
Net cash flow from operating activities		17,34,000
Cash flow from Investing Activities		
Sale proceeds of investments	3,20,000	
Interest received on investments	60,000	
Net cash flow from investing activities		3,80,000
Cash flow from Financing Activities		
Proceeds by issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(15,75,000)	
Preference dividend paid	(1,50,000)	
Interest on debentures paid	(3,50,000)	
Dividend paid (5,00,000 + 3,00,000)	(8,00,000)	
Net cash used in financing activities		22,75,000)
Net decrease in cash and cash equivalents during the year		(1,61,000)
Add: Cash and cash equivalents as on 31.3.2018		1,96,300
Cash and cash equivalents as on 31.3.2019		35,300

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

Question 9 : May – 2020 – RTP

Classify the following activities as (1) Operating Activities, (2) Investing Activities, (3) Financing Activities (4) Cash Equivalents.

a. Proceeds from long-term borrowings.
b. Proceeds from Trade receivables.
c. Trading Commission received.
d. Redemption of Preference Shares.
e. Proceeds from sale of investment
f. Interim Dividend paid on equity shares.
g. Interest received on debentures held as investment.
h. Dividend received on shares held as investments.
i. Rent received on property held as investment.
j. Dividend paid on Preference shares.
k. Marketable Securities

Solution :

(1) Operating Activities : b, c.

(2) **Investing Activities** : e, g, h, i.

(3) **Financing Activities** : a, d, f, j.

(4) **Cash Equivalent** : k.

Question 10 : Nov – 2020 – RTP

Prepare Cash Flow Statement of Light Ltd. for the year ended 31st March, 2020, in accordance with AS 3 (Revised) from the following Summary Cash Account:

Summary Cash Account

	Rs. in '000	Rs. in '000
Balance as on 01.04.2019		315
Receipts from Customers		24,894
Sale of Investments (Cost Rs. 1,35,000)		153
Issue of Shares		2,700
Sale of Fixed Assets		1,152
		29,214
Payment to Suppliers	18,306	
Purchase of Investments	117	
Purchase of Fixed Assets	2,070	
Wages & Salaries	621	
Selling & Administration Expenses	1,035	
Payment of Income Tax	2,187	
Payment of Dividends	720	
Repayment of Bank Loan	2,250	
Interest paid on Bank Loan	450	(27,756)
Balance as on 31.03.2020		1,458

Solution :

Cash Flow Statement of Light Ltd. for the year ended 31st March, 2020

Cash flows from operating activities	Rs. in '000	Rs. in '000
Cash receipts from customers	24,894	
Cash payments to suppliers	(18,306)	
Cash paid to employees	(621)	
Other cash payments (for Selling & Administrative expenses)	(1,035)	
Cash generated from operations	4,932	
Income taxes paid	(2,187)	
Net cash from operating activities		2,745
Cash flows from investing activities		
Payments for purchase of fixed asset	(2,070)	
Proceeds from sale of fixed assets	1,152	

Purchase of investments	(117)	
Sale of investments	153	
Net cash used in investing activities		-882
Cash flows from financing activities		
Proceeds from issuance of share capital	2,700	
Bank loan repaid	(2,250)	
Interest paid on bank loan	(450)	
Dividend paid	(720)	
Net cash used in financing activities		(720)
Net increase in cash and cash equivalents		1,143
Cash and cash equivalents at beginning of period		315
Cash and cash equivalents at end of period		1,458

Question 11 : Jan – 2021 – Paper

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

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

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

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

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

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

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

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

(7) Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 105. The inventory according to books on 31.03.2020 was Rs.14,76,000. The inventory on 31.03.2019 was correctly valued at Rs.13,50,000.

(8) Current Assets and Current Liabilities in the beginning and at the end of year 2019-2020 were as :

	As on 1st April, 2019 Rs.	As on 31st March, 2020 Rs.
Inventory	13,50,000	14,76,000

Trade Receivables	3,27,000	3,13,200
Cash & Bank Balances	2,40,700	3,70,500
Trade Payables	2,84,700	2,87,300
Outstanding Expenses	97,000	1,04,400

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

Solution :

S Ltd.

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

	Rs.	Rs.
Cash flows from operating activities		30,00,000
Net profit before taxation*		
Adjustments for:		
Depreciation on PPE	7,00,000	
Discount on debentures	45,000	
Profit on sale of investments	(25,000)	
Interest income on investments	(70,000)	
Interest on debentures	4,35,000	
Stock adjustment	1,64,000	
{14,76,000 less 16,40,000(14,76,000/90X100)}		
Operating profit before working capital changes		12,49,000
Changes in working capital		42,49,000
(Excluding cash and bank balance):		
Less: Increase in inventory	(2,90,000)	
{16,40,000(14,76,000/90X100) less 13,50,000}		
Add: Decrease in Trade receivables	13,800	
Increase in trade payables	2,600	
Increase in o/s expenses	4,400	(2,69,200)
Cash generated from operations		39,79,800
Less: Income taxes paid		(12,80,000)
Net cash generated from operating activities		26,99,800
Cash flows from investing activities		
Sale of investments	3,75,000	
Interest received	70,000	
Payments for purchase of fixed assets	(1,00,000)	
(7,00,000 – 6,00,000)		
Net cash used in investing activities		3,45,000
Cash flows from financing activities		

Redemption of Preference shares	(21,00,000)	
Issue of shares	7,20,000	
Interest paid	(4,35,000)	
Dividend paid	(11,00,000)	
Net cash used in financing activities		(29,15,000)
Net increase in cash		1,29,800
Cash at beginning of the period		2,40,700
Cash at end of the period		3,70,500

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

Question 12 : May – 2021 – RTP

The following are the extracts of Balance Sheet and Statement of Profit and Loss of Supriya Ltd.:

Extract of Balance Sheet

		Particulars	Notes	2021 (Rs.'000)	2020 (Rs.'000)
		Equity and Liabilities			
1		**Shareholder's funds**			
	(a)	Share capital	1	500	200
2		**Non- current liabilities**			
	(a)	Long term loan from bank		-	250
3		**Current liabilities**			
	(a)	Trade Payables		1,000	3,047
		Assets			
1		**Non-current assets**			
	(a)	Property, Plant and Equipment		230	128
2		**Current assets**			
	(a)	Trade receivables		2,000	4,783
	(b)	Cash & cash equivalents (Cash balance)		212	35

Extract of Statement of Profit and Loss

	Particulars	Notes	2021 (Rs.'000)	2020 (Rs.'000)
I	**Expenses:**			
	Employee benefits expense		69	25
	Other expenses	2	115	110
II	**Tax expense:**			
	Current tax (paid during year)		243	140

Notes to accounts

		2021 (Rs.'000)	2020 (Rs.'000)
1	**Share Capital**		
	Equity Shares of Rs.10 each, fully paid up	500	200
2	**Other expenses**		
	Overheads	115	110

Prepare Cash Flow Statement of Supriya Ltd. for the year ended 31st March, 2021 in accordance with AS-3 (Revised) using direct method. All transactions were done in cash only. There were no outstanding/prepaid expenses as on 31st March, 2020 and on 31st March, 2021. Ignore deprecation. Dividend amounting Rs.80,000 was paid during the year ended 31st March, 2021.

Solution :

Supriya Ltd.

Cash Flow Statement for the year ended 31st March, 2021

(Using direct method)

		(Rs.'000)
Cash flows from operating activities		
Cash receipts from customers	2,783	
Cash payments to suppliers	(2,047)	
Cash paid to employees	(69)	
Other cash payments (for overheads)	(115)	
Cash generated from operations	552	
Income taxes paid	(243)	
Net cash from operating activities		309
Cash flows from investing activities		
Payments for purchase of Property, Plant and Equipment	(102)	
Net cash used in investing activities		(102)
Cash flows from financing activities		
Proceeds from issuance of share capital	300	
Bank loan repaid	(250)	
Dividend paid	(80)	
Net cash used in financing activities		(30)
Net increase in cash and cash equivalents		177
Cash and cash equivalents at beginning of period		35
Cash and cash equivalents at end of period		212

Question 13 : July – 2021 – Paper

Prepare cash flow statement of Gama Limited for the year ended 31st March, 2021 in accordance with AS-3(Revised) from the following cash account summary :

Cash summary Account

Inflows	**Rs. ('000)**	**Outflows**	**Rs. ('000)**
Opening Balance	945	Payment to suppliers	54,918
Receipts from Customers	74,682	Purchase of Investments	351
Sale of Investments (Cost Rs.4,05,000)	459	Property, plant and equipment acquired	6,210
Issue of Shares	8,100	Wages and salaries	1,863
Sale of Property, Plant and equipment	3,456	Payment of Overheads	3,105
		Taxation	6,561
		Dividends	2,160
		Repayment of Bank Overdraft	6,750
		Interest paid on Bank Overdraft	1,350
		Closing Balance	4,374
	87,642		**87,642**

Solution :

Cash flow statement for Gama ltd. For the year ended 31/3/2021 as per AS – 3 (Revised)

	Particulars	**Rs.**	**Rs.**
(I)	Cash from operating activities		
	Receipt from customer		74,682
	Payment to supplier	54,918	
	Wages and Salaries	1,863	
	Payment of overhead	3,105	59,886
			14,796
	Less payment of taxation		6,561
			8,235
(II)	Cash from investing activity		
	Sale of investments	459	
	Sale of property, plant ad equipment	3,456	
	Purchase of investments	(351)	
	Purchase of property plant and Equipment	(6,210)	(2,646)
(III)	Cash from financing Activity		
	Issue of shares	8,100	
	Payment of dividend	(2,160)	

	Payment of Bank overdraft Interest on Bank o/d	(6,750) (1,350)	(2,160)
	Net : Cash or equivalent generated		3,429
	Add : Opening cash or Equivalent		945
	Closing cash or Equivalent		43,74

Question 14 : Nov – 2021 – RTP

On the basis of the following information prepare a Cash Flow Statement for the year ended 31st March, 2021 (Using direct method):

(i) Total sales for the year were Rs. 597 crores out of which cash sales amounted to Rs. 393 crores.

(ii) Receipts from credit customers during the year, totalled Rs. 201 crores.

(iii) Purchases for the year amounted to Rs. 330 crores out of which credit purchases were 80%. Balance in creditors as on

1.4.2020 Rs. 126 crores

31.3.2021 Rs. 138 crores

(iv) Suppliers of other consumables and services were paid Rs. 28.5 crores in cash.

(v) Employees of the enterprises were paid 30 crores in cash.

(vi) Fully paid preference shares of the face value of Rs. 48 crores were redeemed. Equity shares of the face value of Rs. 30 crores were allotted as fully paid up at premium of 20%.

(vii) Debentures of Rs. 30 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.

(viii) Rs. 39 crores were paid by way of income tax.

(ix) A new machinery costing Rs. 15 was purchased.

(x) Investment costing Rs. 27 cores were sold at a loss of Rs. 3 crores.

(xi) Dividends totalling Rs. 22.5 crores was also paid.

(xii) Debenture interest amounting Rs. 3 crore was paid.

(xiii) On 31st March 2020, Balance with Bank and Cash on hand totalled Rs. 3 crores.

Solution :

Cash flow statement (using direct method) for the year ended 31st March, 2021

	(Rs.in crores)	(Rs.in crores)
Cash flow from operating activities		
Cash sales	393	
Cash collected from credit customers	201	
Less: Cash paid to suppliers for goods & services and to employees (Refer Working Note)	(376.5)	
Cash from operations	217.5	

Less: Income tax paid	(39)	
Net cash generated from operating activities		178.5
Cash flow from investing activities		
Payment for purchase of Machine	(15)	
Proceeds from sale of investments	24	
Net cash used in investing activities		9
Cash flow from financing activities		
Redemption of Preference shares	(48)	
Proceeds from issue of Equity shares	36	
Debenture interest paid	(3)	
Dividend Paid	(22.5)	
Net cash used in financing activities		(37.5)
Net increase in cash and cash equivalents		150
Add: Cash and cash equivalents as on 1.04.2020		3
Cash and cash equivalents as on 31.3.2021		153

Working Note:

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

	(Rs. in crores)
Opening Balance in creditors Account	126
Add: Purchases (330x .8)	264
Total	390
Less: Closing balance in Creditors Account	138
Cash paid to suppliers of goods	252
Add: Cash purchases (330x .2)	66
Total cash paid for purchases to suppliers (a)	318
Add: Cash paid to suppliers of other consumables and services	28.5
Add: Payment to employees (c)	30
Total cash paid to suppliers of goods & services and to employees [(a)+ (b) + (c)]	376.5

Question 15 : Dec – 2021 – Paper

Following are the extracts from the Balance Sheet of ABC Ltd.

Liabilities	**31.3.2020**	**31.3.2021**
Equity Share Capital	25,00,000	35,60,000
10% Preference Share capital	7,00,000	6,00,000
Securities Premium Account	5,00,000	5,50,000
Profit & Loss A/c	20,00,000	28,00,000

Equity Share Capital for the year ended 31st March, 2021 includes Rs.60,000 of equity shares issued to Grey Ltd. at par for supply of Machinery of Rs.60,000.
Profit & Loss account on 31st March, 2021 includes Rs.50,000 of dividend received on Equity shares invested in X Ltd.
Show how the related items will appear in the Cash Flow Statement of ABC Ltd. as per AS-3 (Revised).

Solution :

The related items given in the question will appear in the Cash Flow Statement of ABC Limited for the year ended 31st March, 2021 as follows:

		Rs.	Rs.
Cash flows from operating activities			
Closing Balance as per Profit and Loss Account		28,00,000	
Less: Opening Balance as per Profit and Loss Account		(20,00,000)	
		8,00,000	
Less: Dividend received		50,000	
			7,50,000
Cash flows from investing activities			
Dividend received			50,000
Cash flows from financing activities			
Proceeds from issuance of share capital			
Equity shares issued for cash	Rs. 10,00,000		
Proceeds from securities premium			
(Rs. 5,50,000 – 5,00,000)	Rs. 50,000		
		10,50,000	
Less: Redemption of Preference shares			
(Rs. 7,00,000 – Rs. 6,00,000)		(1,00,000)	9,50,000

Note:

1. Machinery acquired by issue of shares does not amount to cash outflow, hence also not considered in the cash flow statement.
2. ABC Ltd. has been considered as a non-financial company in the given answer.

Question 16 : May – 2022 – RTP

From the following details relating to the accounts of Omega Ltd. prepare Cash Flow Statement for the year ended 31st March, 2021:

	31.03.2021(Rs.)	31.03.2020 (Rs.)
Share Capital	14,00,000	11,20,000
General Reserve	5,60,000	3,50,000
Profit and Loss Account	1,40,000	84,000

Debentures	2,80,000	-
Provision for taxation	1,40,000	98,000
Trade payables	9,80,000	11,48,000
Plant and Machinery	9,80,000	7,00,000
Land and Building	8,40,000	5,60,000
Investments	1,40,000	-
Trade receivables	7,00,000	9,80,000
Inventories	5,60,000	2,80,000
Cash in hand and at Bank	2,80,000	2,80,000

(i) Depreciation @ 20% was charged on the opening value of Plant and Machinery.

(ii) At the year end, one old machine costing 70,000 (WDV 28,000) was sold for Rs. 49,000. Purchase of machinery was also made at the year end.

(iii) Rs. 70,000 was paid towards Income tax during the year.

(iv) Land & Building is not subject to any depreciation. Expenses on renovation of building amount Rs. 2,80,000 were incurred during the year.

Prepare Cash Flow Statement.

Solution :

Omega Ltd.

Cash Flow Statement for the year ended 31st March, 2021

Cash Flow from Operating Activities		
Increase in balance of Profit and Loss Account	56,000	
Provision for taxation	1,12,000	
Transfer to General Reserve	2,10,000	
Depreciation	1,40,000	
Profit on sale of Plant and Machinery	(21,000)	
Operating Profit before Working Capital changes	4,97,000	
Increase in Inventories	(2,80,000)	
Decrease in Trade receivables	2,80,000	
Decrease in Trade payables	(1,68,000)	
Cash generated from operations	3,29,000	
Income tax paid	(70,000)	
Net Cash from operating activities		2,59,000
Cash Flow from Investing Activities		
Purchase of plant & machinery	(4,48,000)	
Expenses on building	(2,80,000)	
Increase in investments	(1,40,000)	
Sale of old machine	49,000	
Net Cash used in investing activities		(8,19,000)
Cash Flow from Financing activities		
Proceeds from issue of shares	2,80,000	

Proceeds from issue of debentures	2,80,000	
Net cash from financing activities		5,60,000
Net increase in cash or cash equivalents		NIL
Cash and Cash equivalents at the beginning of the year		2,80,000
Cash and Cash equivalents at the end of the year		2,80,000

Working Notes:

Provision for taxation account

	Rs.		Rs.
To Cash (Tax Paid)	70,000	Balance b/d	98,000
To Balance c/d	1,40,000	Profit and Loss A/c (Balancing figure)	1,12,000
	2,10,000		**2,10,000**

Plant and Machinery account

	Rs.		Rs.
To Balance b/d	7,00,000	By Depreciation	1,40,000
To Profit and Loss A/c (profit on sale of machine)	21,000	By Cash (sale of machine)	49,000
To Cash (Balancing figure)	4,48,000	By Balance c/d	9,80,000
	11,69,000		**11,69,000**

Question 17 : May – 2022 – Paper

The following information is provided by Alpha Limited, for the year ended 31st March, 2022.

(i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was Rs.40 lakhs.

(ii) Depreciation on Fixed Assets Rs.10 lakhs.

(iii) Discount on issue of Debentures written off Rs.60,000.

(iv) Interest on Debentures paid Rs.7,00,000.

(v) Book value of investments Rs.6 lakhs (Sale of Investments for Rs.6,40,000).

(vi) Interest received on investments Rs.1,20,000.

(vii) Compensation received Rs.1,80,000 by the company in a suit filed.

(viii) Income tax paid Rs.21,00,000

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

	As on 31.3.2021 Rs.	As on 31.3.2022 Rs.
Stock	24,00,000	26,36,000
Sundry Debtors	4,16,000	4,26,200
Cash in hand	3,92,600	70,600

Bills Receivable	1,00,000	80,000
Bills Payable	90,000	80,000
Sundry Creditors	3,32,000	3,42,600
Outstanding Expenses	1,50,000	1,63,600

You are required to prepare Cash Flow Statement from Operative Activities in accordance with AS-3 (revised) using the indirect method for the year ended 31st March, 2022.

Solution :

	Rs.	Rs.
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		40,00,000
Adjustments for:		
Depreciation on Property, plant and equipment	10,00,000	
Discount on issue of debentures	60,000	
Interest on debentures paid	7,00,000	
Interest on investments received	(1,20,000)	
Profit on sale of investments	(40,000)	16,00,000
Operating profit before working capital changes		56,00,000
Adjustments for:		
Increase in inventory	(2,36,000)	
Increase in Sundry Debtors	(10,200)	
Decrease in Bills receivables	20,000	
Increase in Sundry Creditors	10,600	
Increase in Bills payables	(10,000)	
Increase in outstanding expenses	13,600	(2,12,000)
Cash generated from operations		53,88,000
Income tax paid		(21,00,000)
Cash flow from ordinary items		32,88,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		1,80,000
Net cash flow from operating activities		34,68,000

Question 18 : Nov - 2022 - RTP

The Balance Sheet of Max Ltd. for the year ending 31st March, 2022 and 31st March, 2021 were summarised as :

Particulars	Note No	2022 Rs.	2021 Rs.
Equity and Liabilities			
Shareholders' funds			

Equity share capital		1,20,000	1,00,000
Reserves	1	9,000	8,000
Current Liabilities			
(i) Trade Payables		8,000	5,000
(ii) Short term provision	2	7,000	4,000
		1,44,000	1,17,000
Non-current assets			
(i) PPE (at W.D.V)	3	78,000	58,000
(ii) Long Term Investments		32,000	28,000
Current Assets			
(i) Inventory		14,000	8,000
(ii) Trade Receivables		8,000	6,000
(iii) Cash & Bank		12,000	17,000
		1,44,000	1,17,000

Note to accounts :

		2022	2021
1	**Reserves and Surplus**		
	Profit & Loss A/c	9,000	8,000
2	**Short term provision**		
	provision for Income tax	7,000	4,000
3	**PPE**		
	Building	19,000	20,000
	Furniture & Fixture	34,000	22,000
	Cars	25,000	16,000
		78,000	58,000

The Profit and Loss statement for the year ended 31st March, 2022 disclosed:

	Rs.
Profit before tax	8,000
Income Tax	(7,000)
Profit after tax	1,000

Further Information is available:

1. Depreciation on Building for the year Rs. 1,000
2. Depreciation on Furniture & Fixtures for the year Rs. 2,000
3. Depreciation on Cars for the year Rs. 5,000. One car was disposed during the year for Rs.3,400 whose written down value was Rs. 2,000.
4. Purchase investments for Rs. 6,000.
5. Sold investments for Rs. 10,000, these investments cost Rs. 2,000.

Prepare Cash Flow Statements for the year ended 31st March, 2022 as per AS-3 (revised) using indirect method.

Solution :

Max Ltd.

Cash Flow Statement for the year ended 31st March, 2022

	Rs.	Rs.
Cash flows from operating activities		
Net Profit before taxation	8,000	
Adjustments for:		
Depreciation Rs. (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	(4,000)	
Net cash generated from operating activities (A)		(2,400)
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	
Net cash from financing activities(C)		20,000
Net decrease in cash and cash equivalents (A + B +C)		(5,0000
Cash and cash equivalents at beginning of period		17,000
Cash and cash equivalents at end of period		12,000

Working Notes:

1. Calculation of Income taxes paid

	Rs.
Income tax expense for the year	7,000
Add: Income tax liability at the beginning of the year	4,000
	11,000

Less: Income tax liability at the end of the year	(7,000)
	4,000

2. Calculation of Fixed assets acquisitions

	Furniture & Fixtures (Rs.)	Car (Rs.)
W.D.V. at 31.3.2022	34,000	25,000
Add back: Depreciation for the year	2,000	5,000
Disposals	-	2,000
	36,000	32,000
Less: W.D.V. at 31.3.2021	(22,000)	(16,000)
Acquisitions during 2021-2022	14,000	16,000

Question 19 : Nov – 2022 – Paper

Ridgeway Limited, a Non-Financial company has the following activities :

(i) Dividend paid for the year.

(ii) TDS on interest income earned on investments made.

(iii) Loans and advances given to suppliers and interest earned from them.

(iv) Deposit with bank for a term of two years.

(v) Highly liquid Marketable Securities (without risk of changes in value).

(vi) Investments made and dividend earned on them.

(vii) Insurance claims received against loss of stock or loss profits.

(viii) Loans and advances given to subsidiaries and interest earned from them.

(ix) Issue of Bonus Shares.

(x) Term loan repaid.

You are required to classify the above activities in Cash Flow Statement as per 'AS-3'.

Thanks ....

Rahul Malkan

CHAPTER

6

AS 10 – PROPERTY PLANT & EQUIPMENT

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : May - 2018 - RTP

In the year 2016-17, an entity has acquired a new freehold building with a useful life of 50 years for Rs.90,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows :

Component	Useful life (Years)	Cost
Land	Infinite	Rs.20,00,000
Roof	25	Rs.10,00,000
Lifts	20	Rs.5,00,000
Fixtures	10	Rs.5,00,000
Remainder of building	50	Rs.50,00,000
		Rs.90,00,000

You are required to calculate depreciation for the year 2016-17 as per componentization method.

Solution :

As per AS 10 "Property, Plant & Equipment"

Statement showing depreciation as per Componentization Method

Component	Cost	Life	Depreciation
Land	20,00,000	Infinite	Nil
Roof	10,00,000	25	40,000
Lifts	5,00,000	20	25,000
Fixtures	5,00,000	10	50,000
Remainder of Building	50,00,000	50	1,00,000
			2,15,000

Question 2 : Nov – 2018 – RTP

ABC Ltd. is installing a new plant at its production facility. It provides you the following information:

	Rs.
Cost of the plant (cost as per supplier's invoice)	31,25,000
Estimated dismantling costs to be incurred after 5 years	2,50,000
Initial Operating losses before commercial production	3,75,000
Initial delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants used for advice on the acquisition of the plant	6,50,000

You are required to compute the costs that can be capitalised for plant by ABC Ltd., in accordance with AS 10: Property, Plant and Equipment.

Solution :

As per AS 10 "Property, Plant & Equipment", PPE should initially be valued "at cost".

Cost includes :

1) Cost of purchase
2) Direct cost
3) Estimated cost of dismantling

Accordingly cost of Property, Plant and Equipment would be :

	Rs.
Cost of the plant	31,25,000
Dismantling cost	2,50,000
Delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants' fees	6,50,000
Total cost of Plant	46,60,000

Note : Operating losses before commercial production cannot be capitalized.

Question 3 : Nov – 2018 – Paper

Neon Enterprise operates a major chain of restaurants located in different cities. The company has acquired a new restaurant located at Chandigarh. The new-restaurant requires significant renovation expenditure. Management expects that the renovations will last for 3 months during which the restaurant will be closed.

Management has prepared the following budget for this period –

Salaries of the staff engaged in preparation of restaurant before its opening	Rs.7,50,000
Construction and remodelling cost of restaurant	Rs.30,00,000

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

Solution :

As per AS 10 "Property, Plant & Equipment".

Any cost directly attributable to bring an asset to its location and condition necessary for it being capable of being in use in intended manner should be capitalised.

1) Cost of construction and remodeling should be capitalised. The restaurant cannot be opened and cannot function in intended manner
2) Cost of salaries to staff amounting to Rs.7,50,000 cannot be capitalised. They are operating expenses and will be required even after asset is put to use.

Question 4 : May – 2019 – RTP

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

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

Solution :

As per AS 10 "Property, Plant & Equipment", PPE should be initially valued at cost.

Cost includes :

1) Initial purchase price
2) Direct cost
3) Estimated cost of dismantling

According :

1.	Cost of the plant	Rs. 50,00,000
2.	Delivery and handling costs	Rs. 4,00,000
3.	Cost of site preparation	Rs. 12,00,000
4.	Consultants' fees	Rs.14,00,000
5.	Dismantling cost	Rs. 6,00,000
		Rs. 86,00,000

Note:

1) Operating losses cannot be capitalised.
2) Interest on deferred credit cannot be capitalised.

Question 5 : Nov – 2019 – RTP / Nov – 2020 - RTP

Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were Rs.1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of Rs.45,000 per month. The technician's services were given by Department B to Department A, which billed the services at Rs.49,500 per month after adding 10% profit margin.

The machine was purchased at Rs.1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. Rs.55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of Rs.30,000 to supervise machinery installation at the factory site.

Ascertain the amount at which the Machinery should be capitalized under AS 10 considering that IGST credit is availed by the Shristhi Limited. Internally booked profits should be eliminated in arriving at the cost of machine.

Solution :

As per AS 10 "Property, Plant & Equipment", PPE should be initially measured "it cost"

Cost of Asset

Particulars	Rs.
Purchase price (1,58,34,000 × 100/112)	1,41,37,500
Site prepared cost	1,41,870
Technician salary (45,000 × 3)	1,35,000
Initial delivery cost	55,770
Architect fees	30,000
Total Cost of Asset	1,45,00,140

Question 6 : May – 2020 – RTP

Entity A has a policy of not providing for depreciation on PPE capitalized in the year until the following year, but provides for a full year's depreciation in the year of disposal of an asset. Is this acceptable?

Solution :

As per AS 10 "Property, Plant & Equipment".

PPE should be depreciated from the date it is ready for intended use. Depreciation should cease the day the asset is derecognised.

Thus the policy of company is not acceptable. They should charge depreciation from the date asset is put to use. Also depreciation should cease or date of derecognition.

Question 7 : May – 2020 – RTP

Entity A purchased an asset on 1st January 2016 for Rs.1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil. On 1st January 2020, 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.

Solution :

As per AS 10 "Property, Plant & Equipment". Entity should reestimate the estimated scrap value and estimated life at the end of each financial year. Any change in depreciation should be accounted for AS change in accounting estimate.

Accordingly,

	2016	2017	2018	2019	2020
Cost/Carrying Amt.	1,00,000	90,000	80,000	70,000	60,000
Life	10	9	8	7	4
Depreciation	10,000	10,000	10,000	10,000	15,000
Carrying Amt.	90,000	80,000	70,000	60,000	45,000

Question 8 : May – 2020 – RTP

The following items are given to you:

ITEMS

(1) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment);

(2) Costs of conducting business in a new location or with a new class of customer (including costs of staff training);

(3) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

(4) Costs of opening a new facility or business, such as, inauguration costs;

(5) Purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

With reference to AS 10 "Property, Plant and Equipment", classify the above items under the following heads:

HEADS

(i) Purchase Price of PPE

(ii) Directly attributable cost of PPE or

(iii) Cost not included in determining the carrying amount of an item of PPE.

Solution :

(1) Cost of testing to checking the functioning of asset. After deducting the net proceeds from selling the items produced during testing is "direct cost attributable to asset" to bring the asset to its current location and condition.

(2) Cost of conducting business in new location or with new class of customer is not directly attributable to asset and therefore it cannot be capitalised.
$\therefore$ It should not be included in determining the carrying amount of PPE.

(3) Any costs directly attributable to brining the asset to the location and condition necessary for it to be capable of operating in manner intended by management should be classified as "direct cost attributable to asset."

(4) Cost of opening new facility or business such as inauguration cost "should not be included in carrying amount of PPE".

(5) Purchase price including import duties and non-refundable purchase taxes after deducting trade discount and rebates should be included in "purchase price of PPE".

Question 9 : Nov – 2020 – Paper

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

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

Solution :

Depreciation as per AS 10 "Property, Plant & Equipment would be

(1) Machinery purchased on 1/4/15 for Rs.10 lakhs

Depreciation = $\frac{10-10}{5}$ = Nil

Note : Since scrap value is equal to cost of asset depreciation would be Nil.

(2) Land for Rs.50 lakhs

Deprecation = Nil

Note : Land does not have finite life hence depreciation would be Nil.

(3) Machinery is constructed for 5,00,000

Depreciation = $\frac{5,00,000}{10} \times \frac{12}{12}$ = 50,000

Note : Depreciation should start from the date asset is ready for its intended use.

(4) Machinery purchased for Rs.50,000 on 1/4/17.

CA = 50,000 – $\frac{50,000}{5} \times 2$ = 30,000

Depreciation for 31/3/2020 = $\frac{30,000}{2}$ = 15,000

Note : Changes in estimated life should be treated as change in accounting estimated and effected prospectively.

Question 10 : May – 2021 – RTP

You are required to give the correct accounting treatment for the following in line with provisions of AS 10:

(a) Trozen Ltd. operates a major chain of supermarkets all over India. It acquires a new store in Pune which requires significant renovation expenditure. It is expected that the renovations will be done in 2 months during which the store will be closed. The budget for this period, including expenditure related to construction and remodelling costs (Rs. 18 lakhs), salaries of staff (Rs. 2 lakhs) who will be preparing the store before its opening and related utilities costs (Rs. 1.5 lakhs), is prepared. The cost of salaries of the staff and utilities are operating expenditures that would be incurred even after the opening of the supermarket. What will the treatment of all these expenditures in the books of accounts?

(b) ABC Ltd is setting up a new refinery outside the city limits. In order to facilitate the construction of the refinery and its operations, ABC Ltd. is required to incur expenditure on the construction/development of railway siding, road and bridge. Though ABC Ltd. incurs the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Can ABC Ltd. capitalize expenditure incurred on these items as property, plant and equipment (PPE)?

Solution :

(A) As per AS 10 "Property, Plant & Equipment"

Cost of remodeling	= Rs.18 lakhs – Capitalised	
Cost of salaries	= Rs.2 lakhs	Charged to
Utility cost	= Rs.1.5 lakhs	P/L

Note : Cost incurred to bring the asset to its location and function intended by management should be capitalised.

(B) AS 10 states that asset should be recognised if

(a) it is probable that future economic benefit associated with the item will flow to the entity and

(b) the cost can be measured reliably.

In the given case, railway siding, road and bridge are required to facilitate the construction of refinery and its operations. Such cost are required to derive economic benefit from other assets and hence should be capitalised.

Question 11 : July – 2021 – Paper

(i) A Limited has contracted with a supplier to purchase machinery which is to be installed at its new plant in four months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were Rs.2,10,000. These activities were supervised by an Architect during the entire period, which is employed for this purpose at a salary of Rs.35,000 per month. The machinery was purchased for Rs.1,27,50,000 and a sum of Rs.2,12,500 was incurred towards transportation charges to bring the machinery to plant site. An Engineer was appointed at a fees of Rs.37,500 to supervise the installation of the machinery at the plant site. You are required to ascertain the amount at which the machinery should be capitalized in the books of A Limited.

(ii) B Limited, which operates a major chain of retail stores, has acquired a new store location. The new location requires substantial renovation expenditure. Management expects that the renovation will last for 4 months during which the store will be closed. Management has prepared the budget for this period including expenditure related to construction and re-modelling costs, salary of staff who shall be preparing the store before its opening and related utilities cost. How would such expenditure be treated in the books of B Limited ?

Solution :

(i) As per AS – 10 property plant and machinery, PPE should initially be valued at cost

Cos of PPE	
Purchas Price	1,27,50,000
Add : Cost of site preparation	2,10,000
Add : Installation expense	2,12,500
Add : Architect fee (35,000 × 4)	1,40,000
Add : Fees for supervision	37,500
Total Cost of Asset	1,33,50,000

(ii) As per AS – 10, management should capitalize the cost of construction and remodeling the super market, because they are necessary to bring the store to the condition necessary for it to be capable of operating in the manner intended by management.
However, the cost of staff salaries and related utilities cost cannot be capitalised. They are costs that are not necessary for bringing the asset to condition necessary for it be capable of operating in the manner intended by management and should be expensed.

Question 12 : Nov – 2021 – RTP

A property costing Rs. 10,00,000 is bought on 1.4.2020. Its estimated total physical life is 50 years. However, the company considers it likely that it will sell the property after 25 years.

The estimated residual value in 25 years' time, based on current year prices, is:

Case (a) Rs. 10,00,000

Case (b) Rs. 9,00,000

You are required to compute the amount of depreciation charged for the year ended 31.3.2021.

Solution :

Case A :

The company considers residual value, based on prices prevailing at balance sheet date which is Rs.10,00,000

Since it is equal to cost depreciation will be Nil.

Case B :

Residual value = 9,00,000

Depreciation amount = 10,00,000 – 9,00,000 = 1,00,000

Depreciation = $\frac{1,00,000}{25}$ = Rs.4,000/year.

Question 13 : May – 2022 – RTP

A Ltd. has incurred the following costs. Determine if the following costs can be added to the invoiced purchase price and included in the initial recognition of the cost of the item of property, plant and equipment:

1. Import duties paid
2. Shipping costs and cost of road transport for taking the machinery to factory
3. Insurance for the shipping
4. Inauguration costs for the factory
5. Professional fees charged by consulting engineer for the installation process
6. Costs of advertising and promotional activities
7. Administration and other general overhead costs
8. Cost of site preparation.

Solution :

Included in Cost:

Point no. 1,2,3,5,8

Excluded from Cost:

Point no. 4,6,7

Question 14 : May – 2022 – Paper

XYZ Limited provided you the following information for the year ended 31st March, 2022:-

(i) The carrying amount of a property at the end of the year amounted to Rs.2,16,000 (cost / value Rs.2,50,000 and accumulated depreciation Rs.34,000). On this date the property was revalued and was deemed to have a fair value of Rs.1,90,000. The balance on the revaluation surplus relating to a previous revaluation gain for this property was Rs.20,000.

You are required to calculate the revaluation loss as per AS-10 (Revised) and give its treatment in the books of accounts.

(ii) An asset that originally cost Rs.76,000 and had accumulated depreciation of Rs.62,000 was disposed of during the year for Rs.4,000 cash.

You are required to explain how the disposal should be accounted for in the financial statements as per AS-10 (Revised).

Solution :

(i) As per AS 10, a decrease in the carrying amount of an asset arising on revaluation should be charged to the statement of profit and loss. However, the decrease should be debited directly to owners' interests under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Calculation of revaluation loss and its accounting treatment

		Rs.
Carrying value of the asset as on 31st March, 2022	a	2,16,000
Revalued amount of the asset	b	(1,90,000)
Total revaluation loss on asset	c = a - b	26,000
Adjustment of previous revaluation reserve	d	(20,000)
Net revaluation loss to be charged to the Profit and loss account	e = c - d	6,000

(ii) AS 10 states that the carrying amount of an item of property, plant and equipment is derecognized on disposal of the asset. It further states that the gain or loss arising from the derecognition of an item of property, plant and equipment should be included in the statement of profit and loss when the item is derecognized. Gains should also not be classified as revenue.

Calculation of loss on disposal of the asset and its accounting treatment

		Rs.
Original cost of the asset	a	76,000
Accumulated depreciation till date	b	62,000
Carrying value of the asset as on 31st March, 2022	c = a – b	14,000

Cash received on disposal of the asset	d	4,000
Loss on disposal of asset charged to the Profit and loss account	e = c – d	10,000

Question 15 : Nov – 2022 – RTP

RS Ltd. has acquired a heavy plant at a cost of Rs. 2,00,00,000. The estimated useful life is 10 years. At the end of the 2nd year, one of the major components i.e. the Boiler has become obsolete (which was acquired at price of Rs. 50,00,000) and requires replacement, as further maintenance is uneconomical. The remainder of the plant is perfect and is expected to last for next 8 years. The cost of a new boiler is Rs. 60,00,000.

Can the cost of the new boiler be recognised as an asset, and, if so, what should be the carrying value of the plant at the end of second year?

Solution :

Recognition of Asset: The new boiler will produce economic benefits to RS Ltd., and the cost is measurable. Hence, the item should be recognized as an asset. The cost old boiler should be de-recognized and the new boiler will be added .

Statement showing cost of new boiler and machine after year 2

Original cost of plant	Rs. 2,00,00,000
Less: Accumulated depreciation [(2,00,00,000 /10) x 2]	Rs. 40,00,000
Carrying value of the plant after two years	Rs. 1,60,00,000
Less: Current Cost of Old Boiler to be derecognized	
Less: WDV of Boiler (replaced) after 2 years (50,00,000/10 x 8)	40,00,000
	1,20,00,000
Add: Cost of new Boiler to be recognized	60,00,000
Revised carrying amount of Plant	1,80,00,000

Thanks ....

CHAPTER 7

AS 11 – THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : May – 2018 – RTP

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 @Rs.64.25 per Dollar. On 31st October, 2016, the exchange rate was Rs.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.

Solution :

As per AS 11 "The Effects of Changes in Foreign Exchange Rates",

	Rs./$
Forward contract rate	64.25
Spot rate	61.50
Loss on forward contract	2.75
Amount payable	$ 50,000
Contract period	6 months
Period till 31/3 falling in the year 2016-2017	5 months
Hence, Loss for 5 months will be = $\frac{50,000 \times 2.75 \times 5}{6}$	1,14,583

Question 2 : May – 2018 – Paper

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

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

You are required to pass necessary journal entries in the books of ABC Ltd. as per AS 11.

Solution :

As per AS 11 "The Effects of Changes in Foreign Exchange Rates",

Journal

Date	Particulars		Rs. (Dr.)	Rs. (Cr.)
Jan. 01, 2017	Bank Account	Dr.	342,50,000	
	To Foreign Loan Account			342,50,000
	(5,00,000 x 68.50)			
Mar. 31, 2017	Foreign Exchange Difference Account	Dr.	5,00,000	
	To Foreign Loan Account			5,00,000
	[5,00,000 x (69.50-68.50)]			
Jul. 31, 2017	Foreign Exchange Difference Account	Dr.	2,50,000	
	To Foreign Loan Account			2,50,000
	[5,00,000 x (70-69.5)]			
Jul. 31, 2017	Foreign Loan Account	Dr.	3,50,00,000	
	To Bank Account			3,50,00,000
	(5,00,000 × 70)			

Question 3 : Nov – 2018 – RTP / Nov – 2020 - RTP

(a) Classify the following items as monetary or non-monetary item:

Share Capital

Trade Receivables

Investment in Equity shares

Fixed Assets.

(b)

	Exchange Rate per $
Goods purchased on 1.1.2017 for US $ 15,000	Rs.75
Exchange rate on 31.3.2017	Rs.74
Date of actual payment 7.7.2017	Rs.73

You are required to ascertain the loss/gain for financial years 2016-17 and 2017-18, also give their treatment as per AS 11.

Solution :

(a)

Share capital	Non-monetary
Trade receivables	Monetary
Investment in equity shares	Non-monetary
Fixed assets	Non-monetary

(b) As per AS 11 "The Effects of Changes in Foreign Exchange Rates",

Date of Purchase	01-01-2017
Amount = 15,000 × 75	11,25,000
Date of balance Sheet (Yr.16-17)	31-03-2017
Exchange Rate	Rs./$ 74
Foreign exchange gain = 15,000 × 1(75 – 74)	15,000
Amount payable	11,10,000
Date of Payment (Yr. 17-18)	07-07-2017
Exchange Rate	Rs./$ 73
Foreign exchange gain = 15,000 × 1(74 – 73)	15,000
Amount Payable / Paid	10,95,000

Question 4 : Nov – 2018 – Paper

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

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

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

Solution :

(i) As per AS 11 "The Effects of Changes in Foreign Exchange Rates",

Initial Recognition = Rs./$ 60				$\frac{30,00,000}{60}$ = $ 50,000
Amount of loan outstanding = 50,000 × 62 =				Rs.31,00,000
As per "AS 11"				
Foreign Exchange loss A/c	Dr.	1,00,000		
To Foreign Currency Loan A/c			1,00,000	
(31,00,000 – 30,00,0000)				

ii)

Initial recognition = Rs/$ 59	$\frac{10,00,000}{59}$ = $ 16,949.15
Rate on Balance sheet date Rs./$ 62	
Amount receivable = 16,949.15 × 62	Rs.10,50,847
As per "AS 11"	
Debtor A/c Dr. 50,847	
To Foreign Exchange gain 50,847	
(10,50,847 – 10,00,000)	

Question 5 : Nov – 2018 – Paper

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

On 1st January, 2018 Rs.60.75 per dollar

On 31st March, 2018 Rs.63.00 per dollar

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

Solution :

As per AS 11 "The Effects of Changes in Foreign Exchange Rates",

Forward contract rate	Rs./$ 62.50
Spot Rate	Rs./$ 60.75
Loss on forward contract	Rs./$ .1.75
Amount payable	$ 5,00,000
Contract period	5 months
Period till 31/3	3 months

Amount to be recognised in

P & L till 31/3 = $\frac{5,00,000 \times 1.75}{5} \times 3$ = 5,25,000

Question 6 : May – 2019 – RTP

Rau Ltd. purchased a plant for US$ 1,00,000 on 01st February 2016, payable after three months. Company entered into a forward contract for three months @ Rs.49.15 per dollar. Exchange rate per dollar on 01st Feb. was Rs.48.85. How will you recognise the profit or loss on forward contract in the books of Rau Ltd.?

Solution :

As per AS 11 "The Effects of Changes in Foreign Exchange Rates",

Forward contract rate	Rs./$ 49.15
Spot Rate	Rs./$ 48.85
Loss on forward contract	0.30
Amount payable	$ 1,00,000
Contract period	3 months
Period till 31/3	2 months

Amount to be recognised in

P & L till 31/3 = $\frac{1,00,000 \times 0.30}{3} \times 2$ = Rs.20,000

Question 7 : Nov – 2019 – RTP

(i) Rs. 31.3.2019 in the books of XYZ Ltd. include an amount receivable from Umesh Rs.5,00,000 recorded at the prevailing exchange rate on the date of sales, i.e. at US $ 1= Rs.58.50. US $ 1 = Rs.61.20 on 31.3.2019.

Explain briefly the accounting treatment needed in this case as per AS 11 as on 31.3.2019.

(ii) Power Track Ltd. purchased a plant for US$ 50,000 on 31st October, 2018 payable after 6 months. The company entered into a forward contract for 6 months @Rs.64.25 per Dollar. On 31st October, 2018, the exchange rate was Rs.61.50 per Dollar.

You are required to recognise the profit or loss on forward contract in the books of the company for the year ended 31st March, 2019.

Solution :

(i) As per AS 11 "The Effects of Changes in Foreign Exchange Rates",

Initial recognition = $\frac{5,00,000}{58.50}$ =	$ 8,547
Exchange rate on 31/3/2019 = 8,547 × 61.20 =	Rs.5,23,077
Foreign exchange gain = 5,23,077 – 5,00,000 =	Rs.23,077
Trade Receivables A/c Dr. 23,077	
To Foreign Exchange gain 23,077	

(ii) Similar to Question 1 – May – 2018 – RTP

Question 8 : May – 2020 – RTP

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

On 1st January, 2018 Rs.60.75 per dollar

On 31st March, 2018 Rs.63.00 per dollar

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

(ii) Assets and liabilities and income and expenditure items in respect of integral foreign operations are translated into Indian rupees at the prevailing rate of exchange at the end of the year. The resultant exchange differences in the case of profit, is carried to other Liabilities Account and the Loss, if any, is charged to revenue. You are required to comment in line with AS 11.

Solution :

(i) Similar to Question 5 – Nov – 2018 – Paper

(ii) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", for integral operation

1) Income and expenses should be converted at average rate or spot rate
2) Fixed Asset = at Actual
3) Current Assets = At Closing Rate
4) Current liability = At Closing Rate
5) The resulted difference should be charged to profit and loss account.

∴The treatment given by management of translating all assets and liability, income and expense at rate are prevailing on balance sheet date is wrong.

Question 9 : Jan – 2021 – Paper

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

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

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

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

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

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

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

Solution :

(i) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", monetary items should be recorded at closing rate at balance sheet date.

Accordingly,

Initial recognition = $\frac{9,00,000}{72}$ = \$ 12,500

Rate on Balance sheet date = Rs.73.50

Exchange gain = 12,500 × 1.5 (73.50 – 72) = Rs.18,750

(ii)

Long term loan	1/4/19
Exchange Rate	Rs/\$ 72.50
Rs. Amount	75,00,000
\$ Amount $\frac{75,00,000}{72.50}$ =	\$ 1,03,448.2758
Part payment	31/12/2019
Exchange rate	Rs/& 70.50
Rs. Amount	5,00,000
\$ Amount = $\frac{5,00,000}{70.50}$ =	\$ 7,092.19858
Exchange gain = 7,092.19858 × 2 (72.50 – 70.50)	Rs.14,184.40
Balance payable = 1,03,448.258 – 7,092.19858	\$ 96,356.08
Balance sheet date	31/3/2020
Exchange rate	Rs.73.50
Rs. Amount = 96,356.08 × 73.50	70,82,172
Exchange loss = 70,82,172 – 70,00,000	82,172

Question 10 : May – 2021 – RTP

(a) Classify the following items into Monetary and Non-monetary:

(i) Share capital; (ii) Trade Payables; (iii) Cash balance; (iv) Property, plant and equipment

(b) Trade payables of CAT Ltd. include amount payable to JBB Ltd., Rs.10,00,000 recorded at the prevailing exchange rate on the date of transaction, transaction recorded at US \$1 = Rs.80.00. The exchange rate on balance sheet date (31.03.2020) was US \$1 = Rs.85.00. You are required to calculate the amount of exchange difference and also explain the accounting treatment needed for this as per AS 11 in the books of CAT Ltd.

Solution :

(a)

Share capital	-	Non-monetary
Trade Payables	-	Monetary
Cash balance	-	Monetary
Property, plant and equipment	-	Non-monetary

(b)

Amount payable	Rs.10,00,000
Exchange rate	Rs./$ 80
$ Amount = $\frac{10,00,000}{80}$	$ 12,500
Exchange rate on balance sheet date	Rs./$ 85
Amount payable = 12,500 × 85	Rs.10,62,500
Exchange loss	Rs.62,500

Question 11 : Nov - 2021 - RTP

Mona Ltd. purchased a plant for US$ 1,00,000 on 01st December 2020, payable after three months. Company entered into a forward contract for three months @ Rs. 49.15 per dollar. Exchange rate per dollar on 01st December was Rs. 48.85. How will you recognize the profit or loss on forward contract in the books of Mona Ltd for the year ended 31st March, 2021?

Solution :

	Rs./$
Forward rate	49.15
Spot rate	48.85
Exchange loss	Rs.0.35
Contract amount	$ 1,00,000
Total loss to be booked for year 31/3/2021 = 1,00,000 × 0.30	Rs.30,000
Hence, Loss for 5 months will be = $\frac{50,000 \times 2.75 \times 5}{6}$	1,14,583

Question 12 : Dec - 2021 - Paper

(i) PP Ltd. an Indian Company acquired long term finance from WW (P) Ltd., a U.S. company, amounting to Rs.40,88,952. The transaction was recorded at US $1 = Rs.72.00, taking exchange rate prevailing at the date of transaction. The exchange rate on balance sheet date (31.03.2021) is US S1 = Rs.73.60.

(ii) Trade receivables of PP Ltd. include amount receivable from Preksha Ltd., Rs.20,00,150 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US \$1 = Rs.73.40. The exchange rate on balance sheet date (31.03.2021) is US \$ = Rs.73.60. Exchange rate on 1st April, 2020 is US \$1 = Rs.74.00.

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

Solution :

(i) Long term Finance

	Foreign Currency Rate	Rs.
Initial recognition US \$ 56,791 (40,88,952/72)	1 US \$ = Rs. 72	40,88,952
Rate on Balance sheet date Exchange Difference Loss [US \$ 56,791 x (73.60 – 72)]	1 US \$ = Rs. 73.60	90,866 (rounded off)

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

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

Treatment needed in this case: PP Ltd. can either Debit Foreign Currency Monetary Item Translation Difference (FCMITD) A/c or Debit Profit and Loss A/c by Rs. 90,866 and Credit Loan A/c

(ii) Trade Receivables

	Foreign Currency Rate	Rs.
Initial recognition US \$ 27,250 (20,00,150/ 73.40)	1 US \$ = Rs. 73.40	20,00,150
Rate on Balance sheet date Exchange Difference Gain [US \$ 27,250 X (73.60-73.40)]	1 US \$ = Rs. 73.60	5,450

As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences on trade receivables amounting Rs. 5,450 is required to be transferred to Profit and Loss A/c. Treatment needed in this case: Credit Profit and loss account by Rs. 5,450.

Question 13 : May – 2022 – RTP

Kumar Ltd. borrowed US $ 3,00,000 on 31-12-2020 which will repaid as on 30-06-2021. Kumar Ltd. prepares its financial statements ending on 31-03-2021. Rate of exchange between reporting currency (Rupee) and foreign currency (US$) on different dates are as under :

31-12-2020	1 US $ = Rs. 44.00
31-03-2021	1 US $ = Rs. 44.50
30-06-2021	1 US $ = Rs. 44.75

(i) Calculate Borrowings in reporting currency to be recognized in the books on above mentioned dates and also show journal entries for the same.

(ii) if borrowings were repaid on 28-2-2021 on which date exchange rate was 1 US $ = Rs. 44.20 then what entry should be passed?

Solution :

(i) As per AS 11 'The Effect of Changes in Foreign Exchange Rates", a foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Moreover, at each balance sheet date, foreign currency monetary items should be reported using the closing rate. Accordingly, on 31.12.2020 borrowings will be recorded at Rs. 1,32,00,000 (i.e., Rs. 3,00,000 × Rs. 44.00). On 31.3.2021 borrowings (monetary items) will be recorded at Rs. 1,33,50,000 (i.e. $ 3,00,000 × Rs. 44.50).

Journal of Kumar Ltd.

Date	Particular		Dr. (Rs.)	Cr. (Rs.)
31-12-2020	Bank A/c	Dr.	1,32,00,000	
	To Foreign Loan Account			1,32,00,000
31-03-2021	Foreign Exchange Difference Account A/c	Dr.	1,50,000	
	To Foreign Loan Account			1,50,000
30-06-2021	Foreign Loan Account A/c	Dr.	1,33,50,000	
	Foreign Exchange Difference Account A/c	Dr.	75,000	
	To Bank A/c			1,34,25,0000

(ii) In case borrowings were repaid before Balance Sheet Date, then the entry would be as follows:

Date	Particular	Dr. (Rs.)	Cr. (Rs.)
28-02-2021	Foreign Loan Account A/c Dr.	1,32,00,000	
	Foreign Exchange Difference Account A/c Dr.	60,000	
	To Bank A/c		1,32,60,000

Working Notes:

(i) The exchange difference of Rs. 1,50,000 is arising because the transaction has been reported at different rate (Rs. 44.50 = 1 US $) from the rate initially recorded (i.e., Rs. 44 = 1 US $) from the rate initially recorded (i.e., Rs. 44 = 1 US $)

(ii) The exchange difference of Rs. 75,000 is arising because the transaction has been settled at an exchange rate (Rs. 44.75 = 1 US$) different from the rate at which reported in the last financial statements (Rs. 44.50 = 1 US$).

(iii) The exchange difference of Rs. 60,000 is arising because the transaction has been settled at a different rate (i.e., Rs. 44.20 = 1 US $) than the rate at which initially recorded (1 US $ = Rs. 44.00)

Question 14 : Nov – 2022 – RTP

A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2022, when the exchange rate was Rs. 43 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2022 when the exchange rate was Rs. 47 per US Dollar. However, on 31st March, 2022, the rate of exchange was Rs. 48 per US Dollar. The company passed an entry on 31st March, 2022 adjusting the cost of raw materials consumed for the difference between Rs. 47 and Rs. 43 per US Dollar.

In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

Solution :

As per AS 11 (revised 2003), 'The Effects of Changes in Foreign Exchange Rates', monetary items denominated in a foreign currency should be reported using the closing rate at each balance sheet date. The effect of exchange difference should be taken into profit and loss account. Trade payables is a monetary item, hence should be valued at the closing rate i.e, Rs. 48 at 31st March, 2022 irrespective of the payment for the same subsequently at lower rate in the next financial year. The difference of Rs. 5 (Rs. 48-Rs. 43) per US dollar should be shown as an exchange loss in the profit and loss account for the year ended 31st March, 2022 and is not to be adjusted against the cost of raw materials. In the subsequent year, the company would record an exchange gain of Rs. 1 per US dollar, i.e., the difference between Rs. 48 and Rs. 47 per US dollar. Hence, the accounting treatment adopted by the company is incorrect.

Question 15 : Nov – 2022 – Paper

(i) Jared Limited purchased a Machine for US $ 20,000 on 31st December, 2021 payable after four months. It entered into a forward contact for four months @ Rs.78.85 per US $. On 31st December, 2021, the exchange rate was Rs.77.50 per US $.

How will you recognized the Profits or Loss on Forward Contact for the year ended 31st March, 2022 in the books of Jared Limited?

(ii) Trade Payables of Jared Limited includes amount due to Sterling Limited Rs.9,75,000 recorded at the prevailing exchange rate on the date of purchase; transaction recorded at US $ 1 = Rs.75.00 The exchange rate on Balance Sheet date (31st March, 2022) was US $ 1 = Rs.79.00. The payment was made on 1st May, 2022 when the exchange rate was US $ 1 = Rs.78.30

You are required to calculate the amount of exchange difference on 31st March, 2022 and 1st May, 2022 and also explain the accounting treatment needed in the above case as per AS ii in the books of Jared Limited.

Thanks ....

CHAPTER

8

AS 12 – ACCOUNTING FOR GOVERNMENT GRANTS

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : May – 2018 – RTP

D Ltd. acquired a machine on 01-04-2012 for Rs.20,00,000. The useful life is 5 years. The company had applied on 01-04-2012, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2015. The Company's Fixed Assets Account for the financial year 2015-16 shows a credit balance as under:

Particulars	Rs.
Machine (Original Cost)	20,00,000
Less: Accumulated Depreciation (from 2012-13- to 2014-15 on Straight Line Method)	12,00,000
	8,00,000
Less: Grant received	(16,00,000)
Balance	8,00,000)

You are required to explain how should the company deal with this asset in its accounts for 2015-16?

Solution :

As per "AS 12 – Accounting for Government Grants" the entity can govt. grant for asset as

(a) Reduction to asset

(b) Credit to deferred grant

From the above it is clear that entity has accounted for govt. grant as reduction to asset.

Accordingly, since grant received is 16,00,000 and asset shows carrying amount of Rs.8,00,000, Rs.8,00,000 should be credited to asset and balance 8,00,000 should be credited to profit and loss A/c.

There is no need to depreci0ation for 2015-16. Since depreciation amount is Nil.

Grant 16,00,000

80,00,000 Asset

8,00,000 Cr. to P & L

Question 2 : May – 2018 – Paper

On 01.04.2014, XYZ Ltd. received Government grant of Rs.100 Lakhs for an acquisition of new machinery costing Rs.500 lakhs. The grant was received and credited to the cost of the assets. The life span of the machinery is 5 years. The machinery is depreciated at 20% on WDV method.

The company had to refund the entire grant in 2nd April, 2017 due to non-fulfilment of certain conditions which was imposed by the government at the time of approval of grant.

How do you deal with the refund of grant to the Government in the books of XYZ Ltd., as per AS 12?

Solution :

As per "AS 12"

		(Rs. in lakhs)
1.4.14	Cost of Machinery	500
	- Grant received (Credited to Asset)	100
	Net Book value of Asset	400
31.3.15	Depreciation @ 20%	80
		320
31.3.16	Depreciation @ 20%	64
		256
31.3.17	Depreciation @ 20%	51.2
1.4.17	Book Value of Asset	204.80

The refund on 2.4.17 should be debited to Asset. ∴ The carrying amount of asset would be 204.80 + 100 = 304.80

Depreciation for 17-18 = 304.80 × 20% = 60.96

Question 3 : Nov – 2018 – RTP

A specific government grant of Rs.15 lakhs was received by USB Ltd. for acquiring the Hi-Tech Diary plant of Rs.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 Rs.10.50 lakhs and written down value of plant was Rs.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 Rs.56 lakhs as on 1.4.2017?

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

Solution :

As per "As-12 Accounting for Government grants"

1) Since the grant was credited to deferred grant. The refund should be recorded by reducing the balance of deferred income and any excess should be debited to P & L A/c. Grant refunded amounted to Rs.15 lakh which should dr. to deferred income balance of 10.5 lakh and balance 4.5 should be debited to P & L.

   Refund 15

   10.5 — Deferred Income

   4.5 — Dr. to P & L

   There would be no change in cost of asset and depreciation will be same as changed in earlier year i.e. $\frac{95}{10}$ = 9.5

2) If grant received was adjusted to cost of asset then refund of grant should also be debited to asset.

Balance as asset (1.4.2017)	56
+ Refund of grant	15
New carrying amount of asset	71

   Depreciation for year 2017-18 = $\frac{71}{7}$ = 10.14

Question 4 : May – 2019 – RTP

Viva Ltd. received a specific grant of Rs.30 lakhs for acquiring the plant of Rs.150 lakhs during 2014-15 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet and was not deducted from the cost of plant. 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 Rs.21 lakhs and written down value of plant was Rs.105 lakhs. What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2017-18 in profit and loss account?

Solution :

As per AS-12, 'Accounting for Government Grants', the amount refundable in respect of a government grant which was earlier credited to deferred income, should be debited to deferred income to be extend of outstanding balance and any excess should be debited to P & L A/c.

In this case grant refunded amounted Rs.30 lakh, Rs.21 lakh should be debited to deferred grand and balance 9 lakh should be debited to profit and loss A/c.

Amount refunded 30

21 — Dr. Deferred Income

9 — Dr. P & L A/c

Question 5 : Nov – 2019 – RTP

Samrat Limited has set up its business in a designated backward area which entitles the company for subsidy of 25% of the total investment from Government of India. The company has invested Rs. 80 crores in the eligible investments. The company is eligible for the subsidy and has received Rs. 20 crores from the government in February 2019. The company wants to recognize the said subsidy as its income to improve the bottom line of the company.

Do you approve the action of the company in accordance with the Accounting Standard?

Solution :

As per AS 12 "Accounting for Government Grants", the grant received from government in nature of promoters contribution should be credited to capital reserve.

In this case, the contribution received by entity is to set up business in designated backward area is in nature of promoter contribution and should be credited to capital reserve.

The treatment of company is wrong and it cannot be credited to profit and loss account i.e. credited as income.

Question 6 : May – 2020 – RTP / Nov – 2020 - RTP

How would you treat the following in the accounts in accordance with AS 12 'Government Grants'?

(i) Rs.35 Lakhs received from the Local Authority for providing Medical facilities to the employees.

(ii) Rs.100 Lakhs received as Subsidy from the Central Government for setting up a unit in a notified backward area.

(iii) Rs.10 Lakhs Grant received from the Central Government on installation of anti-pollution equipment.

Solution :

As per AS 12 "Accounting for Government Grants",

1) Rs.35 lakhs received from local authority for providing medical facility to the employees is of revenue nature. Such grant can be
   (a) Disclosed separately to the credit of profit and loss A/c. under the head "other income".
   (b) Alternatively it may also be deducted from related expenses.
2) Rs.100 lakh received as subsidy from central government for setting up a unit in a notified backward area is in nature of promoter contribution and should be credited to capital reserve.
3) Rs.10 lakh grant received from central government on installation of anti-pollution equipment is grant for fixed asset. It can be
   (a) Deducted from cost of asset or alternatively
   (b) Credited to deferred income

Question 7 : Nov – 2020 - Paper

On 1st April, 2016, Mac Ltd. received a government grant of Rs 60 lakhs for acquisition of machinery costing Rs 300 lakhs. The grant was credited to the cost of the Asset. The estimated useful life of the machinery is 10 years. The machinery is depreciated @10% on WDV basis. The company had to refund the grant in June 2019 due to non compliance of certain conditions.

How the refund of the grant is dealt with in the books of Mac Ltd. assuming that the company did not charge any depreciation for year 2019-20.

Pass necessary journal entries for the year 2019-20.

Solution :

As per AS 12 "Accounting for Government Grants",

		(Rs.in lakhs)
1.4.16	Cost of Machinery	300
	– Government grant	60
		240
	- Depreciation @ 10%	24
1.4.17	Carrying amount of asset	216
	– Depreciation @ 10%	21.6
1.4.18	Carrying amount of asset	194.40
	– Depreciation @ 10%	19.44
1.4.19	Carrying amount of asset	174.96
	– Depreciation @ 10% (2 months)	2.916
1.6.19	Carrying amount	172.044
	+ Refund of grant	60
	Carrying amount	232.44

Question 8 : Jan – 2021 - Paper

Darshan Ltd. purchased a Machinery on 1st April, 2016 for Rs.130 lakhs (Useful life is 4 years). Government grant received is s.40 lakhs for the purchase of above Machinery.
Salvage value at the end of useful life is estimated at Rs.60 lakhs.
Darshan Ltd. decides to treat the grant as deferred income.
You are required to calculate the amount of depreciation and grant to be recognised in profit & loss account for the year ending 31st March, 2017, 31st March, 2018, 31st March, 2019 & 31st March, 2020.
Darshan Ltd. follows straight line method for charging depreciation.

Solution :

As per AS 12 "Accounting for Government Grants",

	Asset		Deferred Income
1/4/16	130		40
- Depreciation	17.5	- Amortisation	10
1/4/17	112.5		30
- Depreciation	17.5	- Amortisation	10
1/4/18	95		20
- Depreciation	17.5	- Amortisation	10
1/4/19	77.5		10
- Depreciation	17.5	- Amortisation	10
	60		Nil

* Depreciation = $\frac{130-60}{4}$ = 17.5/yr.

Deferred income amortised = $\frac{40}{4}$ = 10/yr.

Question 9 : May – 2021 - RTP

(i) Hygiene Ltd. had received a grant of Rs. 50 lakh in 2012 from a State Government towards installation of pollution control machinery on fulfilment of certain conditions. The company, however, failed to comply with the said conditions and consequently was required to refund the said amount in 2020.
The company debited the said amount to its machinery account in 2020 on payment of the same. It also reworked the depreciation for the said machinery from the date of its purchase and passed necessary adjusting entries in the year 2020 to incorporate the retrospective impact of the same. State whether the treatment done by the company is correct or not.

(ii) ABC Ltd. received two acres of land received for set up of plant. It also received Rs.2 lakhs received for purchase of machinery of Rs. 10 lakhs. Useful life of machinery is 5 years. Depreciation on this machinery is to be charged on straight-line basis. How should ABC Ltd. recognize these government grants in its books of accounts?

Solution :

(i) As per AS 12 "Accounting for Government Grants", grant received for asset can be

1) Shown as reduction to asset or
2) Credited to deferred income.

From the fact of case it is clear that grant was credited to asset. Due to non-compliance when grant was refunded asset was debited. In such cases as per "AS 12" the refund showed debited to asset and depreciation should be charged to revised value of asset as per change in accounting estimates with respective effect.

The treatment of entity to adjust deprecation retrospectively is wrong.

(ii) (a) A grant received in form of 2 acres of land is non monetary grant and showed be recorded at nominal value.

(b) Grant received for Rs.2 lakh for purchase of asset can be

i) Credited to cost of asset i.e. shown AS reduction to cost of asset
ii) Credited to deferred income.

Question 10 : July – 2021 - Paper

Alps Limited has received the following Grants from the Government during the year ended 31st March, 2021 :

(i) Rs.120 Lacs received as Subsidy from the Central Government for (Setting up an Industrial undertaking in Medak, a notified backward area.

(ii) Rs.15 Lacs Grant received from the Central Government on installation of Effluent Treatment Plant.

(iii) Rs.25 Lacs received from State Government for providing Medical facilities to its workmen during the pandemic.

Advise Alps Limited on the treatment of the above Grants in its books of Account in accordance with AS-12 "Government Grants".

Solution :

(i) As per AS – 12 'Accounting for government grant' the amount of Rs.120 lakhs received as subsidy from central govt. for setting up industrial undertaking in medak, a notified backward area should be created to capital reserve as they are given with reference to the total investment by the way of promoters contribution.

(ii) Rs.15 lakhs received on installation of effluent treatment plant is related to fixed asset. As per AS-12, there are 2 alternatives.

Alt 1 : Credited to cost of asset

Bank	xx	
To Asset		xx

Alt 2 : Credited to deferred grant

Bank	xx	
To deferred grant		xx

(iii) Rs.25 lakh of grant received from state govt. for providing medical facilities to its workmen during the pandemic is revenue in nature. Such grant can be should be shown in the revenue statement either as separate item under the head 'other income' or as 'deduction to related expense'.

Question 11 : Nov – 2021 – RTP

D Ltd. acquired a machine on 01-04-2017 for Rs. 20,00,000. The useful life is 5 years. The company had applied on 01-04-2017, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2020. The Company's Fixed Assets Account for the financial year 2020-21 shows a credit balance as under:

Particulars	Rs.
Machine (Original Cost)	20,00,000
Less: Accumulated Depreciation (from 2017-18- to 2019-20 on Straight Line Method)	12,00,000
	8,00,000
Less: Grant received	(16,00,000)
Balance	(8,00,000)

Solution :

From the above account, it is inferred that the Company has deducted grant from the book value of asset for accounting of Government Grants. Accordingly, out of the Rs. 16,00,000 that has been received, Rs. 8,00,000 (being the balance in Machinery A/c) should be credited to the machinery A/c.

The balance Rs. 8,00,000 may be credited to P&L A/c, since already the cost of the asset to the tune of Rs. 12,00,000 had been debited to P & L A/c in the earlier years by way of depreciation charge, and Rs. 8,00,000 transferred to P&L A/c now would be partial recovery of that cost.

There is no need to provide depreciation for 2020-21 or 2021-22 as the depreciable amount is now Nil.

Question 12 : May – 2022 – RTP

A fixed asset is purchased for Rs. 30 lakhs. Government grant received towards it is Rs. 12 lakhs. Residual Value is Rs. 6 lakhs and useful life is 4 years. The company charges depreciation based on Straight-Line method. Asset is shown in the balance sheet net of grant. After 1 year, grant becomes refundable to the extent of Rs. 7.5 lakhs due to non-compliance with certain conditions. You are required to give necessary journal entries for second year.

Solution :

Journal Entries

Year	**Particulars**		**Rs. in lakhs (Dr.)**	**Rs. in lakhs (Cr.)**
2nd	Fixed Asset Account	Dr.	7.5	
	To Bank Account			7.5
	(Being government grant on asset partly refunded which increased the cost of fixed asset)			
	Depreciation Account (W.N.)	Dr.	5.5	
	To Fixed Asset Account			5.5
	(Being depreciation charged on SLM on revised value of fixed asset prospectively)			
	Profit & Loss Account	Dr.	5.5	
	To Depreciation Account			5.5
	(Being depreciation transferred to Profit and Loss Account at the end of year 2)			

Working Note:

Depreciation for Year 2

	Rs. in lakhs
Cost of the Asset	30
Less: Government grant received	(12)
	18
Less: Depreciation for the first year [18-64]	3
	15
Add: Government grant refundable	7.5
	22.5
Depreciation for the second year [22.5-63]	5.5

Question 13 : May – 2022 - Paper

Suraj Limited provides you the following information :

(i) It received a Government Grant @40% towards the acquisition of Machinery worth Rs.25 Crores.

(ii) It received a Capital Subsidy of Rs.150 Lakhs from Government for setting up a Plant costing Rs.300 Lakhs in a notified backward region.

(iii) It received Rs.50 Lakhs from Government for setting up a project for supply of arsenic free water in a notified area.

(iv) It received Rs.5 Lakhs from the Local Authority for providing Corona Vaccine free of charge to its employees and their families.

(v) It also received a performance award of Rs.500 Lakhs from Government with a condition of major renovation in the Power Plant within 3 years. Suraj Limited incurred 90% of amount towards Capital expenditure and balance for Revenue Expenditure.

State, how you will treat the above in the books of Suraj Limited.

Solution :

(i) As per AS 12 "Accounting for Govt. Grants", two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives. Under the first alternative, the grant of Rs. 10 crores (40% of 25 crores) is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognized the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Under second alternative method, grant amounting Rs. 10 crores is treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

(ii) In the given case, the grant amounting Rs. 150 lakhs received from the Central Government for setting up a plant in notified backward area may be considered as in the nature of promoters' contribution. Thus, amount of Rs. 150 lakhs should be credited to capital reserve and the plant will be shown at Rs. 300 lakhs.

(iii) Rs. 50 lakhs received from Govt. for setting up a project for supply of arsenic free water in notified area should be credited to capital reserve.
Alternatively, if it is assumed that the project consists of capital asset only, then the amount of Rs. 50 lakhs received from Govt. for setting up a project for supply of arsenic free water should either be deducted from cost of asset of the project concerned in the balance sheet or treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

(iv) Rs. 5 lakhs received from the local authority for providing corona vaccine to the employees is a grant received in nature of revenue grant. Such grants are generally presented as a credit in the profit and loss account, either separately or under a general heading 'Other Income'. Alternatively, Rs. 5 lakhs may be deducted in reporting the related expense i.e. employee benefit expenses.

(v) Rs. 500 Lakhs will be reduced from the renovation cost of power plant or will be treated as deferred income irrespective of the expenditure done by the entity out of it as it was specifically received for the purpose major renovation of power plant. However, it may be, later on, decided by the Govt. whether the grant will have to be refunded or not due to non-compliance of conditions attached to the grant.

Question 14 : Nov – 2022 - RTP

Samrat Limited has set up its business in a designated backward area which entitles the company for subsidy of 25% of the total investment from Government of India. The company has invested Rs. 80 crores in the eligible investments. The company is eligible for the subsidy and has received

Rs. 20 crores from the government in February 2022. The company wants to recognize the said subsidy as its income to improve the bottom line of the company.

Do you approve the action of the company in accordance with the Accounting Standard?

Solution :

As per AS 12 "Accounting for Government Grants", where the government grants are in the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, Central Investment Subsidy Scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

The subsidy received by Samrat Ltd. for setting up its business in a designated backward area will be treated as grant by the government in the nature of promoter's contribution as the grant is given with reference to the total investment in an undertaking i.e. subsidy is 25% of the eligible investment and also no repayment is apparently expected in respect thereof.

Since the subsidy received is neither in relation to specific fixed assets nor in relation to revenue. Thus, the company cannot recognize the said subsidy as income in its financial statements in the given case. It should be recognized as capital reserve which can be neither distributed as dividend nor considered as deferred income.

Thanks ....

Rahul Malkan

CHAPTER

9

AS 13 – ACCOUNTING FOR INVESTMENTS

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : May - 2018 - RTP

Alpha Ltd. purchased 5,000, 13.5% Debentures of Face Value of Rs.100 each of Pergot Ltd. on 1st May 2017 @ Rs.105 on cum interest basis. The interest on these instruments is payable on 31st & 30th of March & September respectively. On August 1st 2017 the company again purchased 2,500 of such debentures @ Rs.102.50 each on cum interest basis. On October 1st, 2017 the company sold 2,000 Debentures @ Rs.103 each on ex- interest basis. The market value of the debentures as at the close of the year was Rs.106. You are required to prepare the Investment in Debentures Account in the books of Alpha Ltd. for the year ended 31st Dec. 2017 on Average Cost Basis.

Solution :

Books of Alpha Ltd.

Investment in 13.5% Debentures in Pergot Ltd. Account

(Interest payable on 31st March & 30th September)

Date 2017	Particulars	Nominal Rs.	Interest Rs.	Amount Rs.	Date 2017	Particulars	Nominal Rs.	Interest Rs.	Amount Rs.
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank (6 months Int.)		50,625	
Aug. 1	To Bank	2,50,000	11,250	2,45,000					
Oct.1	To P&L A/c			2,167	Oct.1	By Bank	2,00,000		2,06,000
Dec.31	To P&L A/c		52,313						
					Dec.31	By Balance c/d	5,50,000	18,563	5,60,542
		7,50,000	**69,188**	**7,66,542**			**7,50,000**	**69,188**	**7,66,542**

Note: Cost being lower than Market Value the debentures are carried forward at Cost.

Working Notes:

1. Interest paid on Rs.5,00,000 purchased on May 1st, 2017 for the month of April 2017, as part of purchase price: 5,00,000 x 13.5% x 1/12 = Rs.5,625

2. Interest received on 30th Sept. 2017

On Rs.5,00,000 = 5,00,000 x 13.5% x ½ = 33,750

On Rs.2,50,000 = 2,50,000 x 13.5% x ½ = 16,875

Total Rs.50,625

3. Interest paid on Rs.2,50,000 purchased on Aug. 1st 2017 for April 2017 to July 2017 as part of purchase price:

2,50,000 × 13.5% × 4/12 = Rs.11,250

4. Loss on Sale of Debentures

Cost of acquisition

(Rs.5,19,375 + Rs.2,45,000) × Rs.2,00,000/Rs.7,50,000	=	2,03,833
Less: Sale Price (2,000 × 103)	=	2,06,000
Profit on sale	=	Rs.2,167

5. Cost of Balance Debentures

(Rs.5,19,375 + Rs.2,45,000) × Rs.5,50,000/Rs.7,50,000 = Rs.5,60,542

6. Interest on Closing Debentures for period Oct.-Dec. 2017 carried forward (accrued interest)

Rs.5,50,000 × 13.5% × 3/12 = Rs.18,563

Question 2 : May – 2018 – RTP / May – 2021 – RTP

Paridhi Electronics Ltd. invested in the shares of another unlisted company on 1st May 2012 at a cost of Rs.3,00,000 with the intention of holding more than a year. The published accounts of unlisted company received in January, 2017 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics Ltd. may not fetch more than Rs.45,000.

You are required to explain how you will deal with the above in the financial statements of the Paridhi Electronics Ltd. as on 31.3.17 with reference to AS 13?

Solution :

As per AS 13, "Accounting for Investments" Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.

On this basis, the facts of the case given in the question clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares to Rs.45,000 in the financial statements for the year ended 31st March, 2017 and charge the difference of loss of Rs.2,55,000 to profit and loss account.

Question 3 : May – 2018 – Paper

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

Date	No. of Shares	Terms
01.01.2016	600	Buy @ Rs.20 per share
15.03.2016	900	Buy @ Rs.25 per share
20.05.2016	1000	Buy @ Rs.23 per share
25.07.2016	2500	Bonus Shares received
20.12.2016	1500	Sale @ Rs.22 per share
01.02.2017	1000	Sale @ Rs.24 per share

Addition information:

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

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

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

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

Solution :

Investment in Equity shares of JP Power Ltd.

Date	Particulars	No. Rs.	Dividend Rs.	Cost Rs.	Date	Particulars	No. Rs.	Dividend Rs.	Cost Rs.
1.1.16	To Bank A/c	600		12,000	31.3.16	By Balance c/d	1,500		34,500
15.3.16	To Bank A/c	900		22,500			-		-
		1,500		34,500			1,500		34,500
1.4.16	To Balance b/d	1,500		34,500	15.9.16	By Bank dividend		4,500	3,000
20.5.16	To Bank A/c	1,000		23,000	20.12.16	By Bank	1,500		33,000
25.7.16	To Bonus shares	2,500		-	1.2.17	By Bank	1,000		24,000
12.11.16	To Bank A/c	600		12,000	31.3.17	By Balance c/d	3,100		36,812.50*
20.12.16	To P& L A/c (profit on sale)			15,187.50*					
1.2.17	To P& L A/c (profit on sale)			12,125					

31.3.17	To P & L A/c (dividend)		4,500						
		5,600	**4,500**	**96,812.50**			**5,600**	**4,500**	**96,812.50**

Working Notes:

1. **Calculation of Weighted average cost of equity shares**

   600 shares purchased at Rs.12,000

   900 shares purchased at Rs.22,500

   1,000 shares purchased at Rs.23,000

   2,500 shares at nil cost

   600 right shares purchased at Rs.12,000

   Total cost of 5,600 shares is Rs.66,500 [Rs.69,500 less Rs.3,000 (pre-acquisition dividend received on 1,000 shares purchased on 20.5.17].

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

2. It has been considered that no dividend was received on bonus shares as the dividend pertains to the year ended 31st March, 2016.

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

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

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

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

   Calculation of sale of right renouncement

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

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

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

4. Profit on sale of equity shares

   As on 20.12.16

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

   As on 1.2.17

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

   Balance of 3,100 shares as on 31.3.17 will be valued at Rs.36,812.50 (at rate of Rs.11.875 per share)

Question 4 : Nov – 2018 – RTP

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

The terms of bonus and right issue were -

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

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

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

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

(5) Dividend for the year ended 31st March 2017, at the rate of 20% was declared by the company and received by Akash Ltd., on 20th January 2018.

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

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

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

Solution :

Investment Account-Equity Shares in X Ltd.

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

Mar.31	To Profit & Loss A/c (Dividend income)		8,000						
		8,000	8,000	1,00,250			8,000	8,000	1,00,250
Apr.1	To Balance b/d	4,000		42,250					

Working Notes:

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

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

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

2. Value of investment at the end of the year

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

3. Calculation of sale of right entitlement

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

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

4. Dividend received on investment held as on 1st April, 2017

= 4,000 shares x Rs.10 x 20%

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

Dividend received on shares purchased on 1st Sep. 2017

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

Note: It is presumed that no dividend is received on bonus shares as bonus shares are declared on 30th Sept., 2017 and dividend pertains to the year ended 31.3.2017.

Question 5 : Nov – 2018 – RTP

M/s Active Builders Ltd. invested in the shares of another company (with an intention to hold the shares for short term period)on 31st October, 2016 at a cost of Rs.4,50,000. It also earlier purchased Gold of Rs.5,00,000 and Silver of Rs.2,25,000 on 31st March, 2014.

Market values as on 31st March, 2017 of the above investments are as follows:

Shares Rs.3,75,000; Gold Rs.7,50,000 and Silver Rs.4,35,000

You are required explain how will the above investments be shown in the books of account of M/s Active Builders Ltd. for the year ending 31st March, 2017 as per the provisions of AS 13?

Solution :

As per AS 13 'Accounting for Investments', if the shares are purchased with an intention to hold for short-term period then investment will be shown at the realizable value. In the given case, shares purchased on 31st October, 2016, will be valued at Rs.3,75,000 as on 31st March, 2017.

Gold and silver are generally purchased with an intention to hold it for long term period until and unless given otherwise. Hence, the investment in gold and silver (purchased on 31st March, 2014) shall continue to be shown at cost as on 31st March, 2017 i.e., Rs.5,00,000 and Rs.2,25,000 respectively, though their realizable values have been increased.

Thus the shares, gold and silver will be shown at Rs.3,75,000, Rs.5,00,000 and Rs.2,25,000 respectively and hence, total investment will be valued at Rs.11,00,000 in the books of account of M/s Active Builders for the year ending 31st March, 2017 as per provisions of AS 13.

Question 6 : Nov – 2018 – Paper

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

1st April, 2017	Purchased 9,000 8% bonds of Rs.100 each at Rs.80.50 cum-interest. Interest is payable on 1st November and 1st May.
1st May, 2017	Received half year's interest on 8% bonds.
10 July, 2017	Purchased 12,000 equity shares of Rs.10 each in Moon Limited for Rs.44 each through a broker, who charged brokerage @ 2%.
1st October 2017	Sold 2,250 8% bonds at Rs.81 Ex-interest.
1st November, 2017	Received half year's interest on 8% bonds.
15th January, 2018	Moon Limited made a rights issue of one equity share for every four Equity shares held at Rs.5 per share. Nisha exercised the option for 40% of her entitlements and sold the balance rights in the market at Rs.2.25 per share.
15th March, 2018	Received 18% interim dividend on equity shares of Moon Limited.

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

Solution :

In the books of Nisha

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

Date	Particulars	No Rs.	Interest Rs.	Amount Rs.	Date	Particulars	No Rs.	Interest Rs.	Amount Rs.
1 Apr.2017	To Bank A/c	9,000	30,000	6,94,500	1 May 2017	By Bank-Interest	-	36,000	
1 Oct.2018	To P & L A/c (W.N.1)	-	-	8,625	1 Oct.2017	By Bank A/c	2,250	7,500	1,82,250

Mar.31	To P & L A/c		63,000		1 Nov.2018	By Bank- Interest		27,000	
					31 Mar.2018	By Balance c/d (W.N.2)	6,750	22,500	5,20,875
		9,000	**93,000**	**7,03,125**			**9,000**	**93,000**	**7,03,125**

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

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

* Considering that dividend was received on right shares also.

Working Notes :

1. **Profit on sale of 8% Bonds**

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

2. **Closing balance as on 31.3.2018 of 8 % Bonds**

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

3. **Calculation of right shares subscribed by Moon Ltd.**

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

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

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

4. **Calculation of sale of right entitlement by Moon Ltd.**

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

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

Question 7 : May – 2019 – RTP

A Ltd. purchased on 1st April, 2018 8% convertible debenture in C Ltd. of face value of Rs.2,00,000 @ Rs.108. On 1st July, 2018 A Ltd. purchased another Rs.1,00,000 debenture @ Rs.112 cum interest. On 1st October, 2018 Rs.80,000 debenture was sold @ Rs.105. On 1st December, 2018, C Ltd. give option for conversion of 8% convertible debentures into equity share of Rs.10 each. A Ltd. receive 5,000 equity share in C Ltd. in conversion of 25% debenture held on that date. The market price of debenture and equity share in C Ltd. at the end of year 2018 is Rs.110 and Rs.15 respectively.

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

The accounting year of A Ltd. is calendar year.

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

Solution :

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

Scrip : 8% Convertible Debentures in C Ltd.

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

Date	Particulars	Nominal Value Rs.	Interest Rs.	Cost Rs.	Date	Particulars	Nominal Value Rs.	Interest Rs.	Cost Rs.
1.4.18	To Bank A/c	2,00,000	-	2,16,000	30.9.18	By Bank A/c [Rs.3,00,000 x 8% x (6/12)]	-	12,000	-
1.7.18	To Bank A/c (W.N.1)	1,00,000	2,000	1,10,000					
31.12.18	To P & L A/c [Interest]	-	14,033	-	1.10.18	By Bank A/c	80,000	-	84,000
					1.10.18	By P&L A/c (loss) (W.N.1)	-	-	2,933
					1.12.18	By Bank A/c (Accrued interest) (Rs.55,000 x .08x 2/12)	-	733	-
					1.12.18	By Equity shares in C Ltd. (W.N. 3 and 4)	55,000	-	59,767
					31.12.18	By Balance c/d (W.N.5)	1,65,000	3,300	1,79,300
		3,00,000	**16,033**	**3,26,000**			**3,00,000**	**16,033**	**3,26,000**

SCRIP : Equity Shares in C Ltd.

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

Working Notes:

(i) Cost of Debenture purchased on 1st July = Rs.1,12,000 – Rs.2,000 (Interest)
= Rs.1,10,000

(ii) Cost of Debentures sold on 1st Oct.
= (Rs.2,16,000 + Rs.1,10,000) x 80,000/3,00,000 = Rs.86,933

(iii) Loss on sale of Debentures = Rs. 86,933– Rs.84,000 = Rs.2,933
Nominal value of debentures converted into equity shares = Rs.55,000
[(Rs.3,00,000 – 80,000) x.25]
<u>Interest received before the conversion of debentures</u>
Interest on 25% of total debentures = 55,000 x 8% x 2/12 = 733

(iv) Cost of Debentures converted = (Rs.2,16,000 + Rs.1,10,000) x 55,000/3,00,000
= Rs.59,767

(v) Cost of closing balance of Debentures = (Rs.2,16,000 + Rs.1,10,000) x 1,65,000 / 3,00,000
= Rs.1,79,300

(vii) Closing balance of Debentures has been valued at cost.

(viii) 5,000 equity Shares in C Ltd. will be valued at cost of Rs.59,767 being lower than the market value Rs.75,000 (Rs.15 x 5,000)

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

Question 8 : May – 2019 – RTP

Paridhi Electronics Ltd. has current investment (X Ltd.'s shares) purchased for Rs.5 lakhs, which the company want to reclassify as long term investment on 31.3.2018. The market value of these investments as on date of Balance Sheet was Rs.2.5 lakhs. How will you deal with this as on 31.3.18 with reference to AS-13?

Solution :

As per AS 13 'Accounting for Investments', where investments are reclassified from current to long-term, transfers are made at the lower of cost or fair value at the date of transfer.
In the given case, the market value of the investment (X Ltd. shares) is Rs.2.50 lakhs, which is lower than its cost i.e. Rs.5 lakhs. Therefore, the transfer to long term investments should be made at cost of Rs.2.50 lakhs. The loss of Rs.2.50 lakhs should be charged to profit and loss account.

Question 9 : May – 2019 – Paper

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

(1) A portion of long term investments purchased on 1st March, 2017 are to be re-classified as current investments. The original cost of these investments was Rs.14 lakhs but had been written down by Rs.2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15th June, 2018 was Rs.11 lakhs.

(2) Another portion of long term investments purchased on 15th January, 2017 are to be re-classified as current investments. The original cost of these investments was Rs.7 lakhs but had been written down to Rs.5 lakhs (to recognize 'other than temporary' decline in value). The fair value of these investments on 15th June, 2018 was Rs.4.5 lakhs.

(3) A portion of current investments purchased on 15th March, 2018 for Rs.7 lakhs are to be re-classified as long term investments, as the company has decided to retain them. The market value of these investments on 31st March, 2018 was Rs.6 lakhs and fair value on 15th June 2018 was Rs.8.5 lakhs,

(4) Another portion of current investments purchased on 7th December, 2017 for Rs.4 lakhs are to be re-classified as long term investments. The market value of these investments was:
on 31st March, 2018 Rs.3.5 lakhs
on 15th June, 2018 Rs.3.8 lakhs

Solution :

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

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

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

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

(iii) In this case, reclassification of current investment into long-term investments will be made at Rs.7 lakhs as cost is less than its fair value of Rs.8.5 lakhs on the date of transfer.

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

Question 10 : Nov – 2019 – RTP

A Pvt. Ltd. follows the calendar year for accounting purposes. The company purchased 5,000 (nos.) 13.5% Convertible Debentures of Face Value of Rs.100 each of P Ltd. on 1st May 2018 @ Rs.105 on cum interest basis. The interest on these instruments is payable on 31st March & 30th September respectively. On August 1st 2018 the company again purchased 2,500 of such debentures @ Rs.102.50 each on cum interest basis. On 1st October, 2018 the company sold 2,000 Debentures @ Rs.103 each. On 31st December, 2018 the company received 10,000 equity shares of Rs.10 each in P Ltd. on conversion of 20% of its holdings. Interest for 3 months on converted debentures was also received on 31.12.2018. The market value of the debentures and equity shares as at the close of the year were Rs.106 and Rs.9 respectively. Prepare the Debenture Investment Account & Equity Shares Investment Account in the books of A Pvt. Ltd. for the year 2018 on Average Cost Basis.

Solution :

Books of A Pvt. Ltd.

Investment in 13.5% Convertible Debentures in P Ltd. Account

(Interest payable 31st March & 30th September)

Date	Particulars	Nominal Rs.	Interest Rs.	Amount Rs.	Date	Particulars	Nominal Rs.	Interest Rs.	Amount Rs.
2018					2018				
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank (6 months Int)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000	Oct.31	By Bank	2,00,000		2,06,000
Oct.1	To P&L A/c			2,167		By Equity share	1,10,000		1,12,108
Dec.31	To P&L A/c		52,313			By Bank (See note 1)		3,713	
						By Balance c/d	4,40,000	14,850	4,48,434
		7,50,000	**69,188**	**7,66,542**			**7,50,000**	**69,188**	**7,66,542**

Note 1: Rs.3,713 received on 31.12.2018 represents interest on the debentures converted till date of conversion.

Note 2: Cost being lower than Market Value the debentures are carried forward at Cost.

Investment in Equity P Ltd. Account

Date	Particulars	Nominal Rs.	Amount Rs.	Date	Particulars	Nominal Rs.	Amount Rs.
2018				**2018**			
Dec.31	To 13.5% Deb.	1,00,000	1,12,108	Dec.31	By P&L A/c		22,108
				Dec.31	By Bal. c/d	1,00,000	90,000
		1,00,000	**1,12,108**			**1,00,000**	**1,12,108**

Note 1: Cost being higher than Market Value the shares are carried forward at Market Value.

Working Notes:

1. Interest paid on Rs.5,00,000 purchased on May 1st, 2018 for the month of April 2018, as part of purchase price: 5,00,000 x 13.5% x 1/12 = Rs.5,625
2. Interest received on 30th Sept. 2018

   On Rs.5,00,000 = 5,00,000 x 13.5% x ½ = 33,750

   On Rs.2,50,000 = 2,50,000 x 13.5% x ½ = 16,875

   Total Rs.50,625
3. Interest paid on Rs.2,50,000 purchased on Aug. 1st 2018 for April 2018 to July 2018 as part of purchase price:

   2,50,000 x 13.5% x 4/12 = Rs.11,250
4. Loss on Sale of Debentures

   Cost of acquisition

   (Rs.5,19,375 + Rs.2,45,000) x Rs.2,00,000/Rs.7,50,000 = 2,03,833

   Less: Sale Price (2,000 x 103) = 2,06,000

   Profit on sale = Rs.2,167
5. Interest on 1,100 Debentures (being those converted) for 3 months i.e. Oct-Dec. 2018

   1,10,000 x 13.5% x 3/12 = Rs.3,713
6. Cost of Debentures converted to Equity Shares

   (Rs.5,19,375 + Rs.2,45,000) x 1,10,000/7,50,000= Rs.1,12,108
7. Cost of Balance Debentures

   (Rs.5,19,375 + Rs.2,45,000) x Rs.4,40,000/Rs.7,50,000 = Rs.4,48,434
8. Interest on Closing Debentures for period Oct.- Dec. 2018 carried forward (accrued interest)

   Rs.4,40,000 x 13.5% x 3/12 = Rs.14,850

Question 11 : Nov – 2019 – RTP

Z Bank has classified its total investment on 31-3-2018 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI Guidelines.

'Held to maturity' investments are carried at acquisition cost less amortized amount. 'Available for sale' investments are carried at marked to market. 'Held for trading' investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored.

You are required to comment whether the policy of the bank is in accordance with AS 13?

Solution :

As per AS 13 'Accounting for Investments', the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds. In this case Z Bank is a bank, therefore, AS 13 does not apply to it. For banks, the RBI has issued separate guidelines for classification and valuation of its investment and Z Bank should comply with those RBI Guidelines/Norms. Therefore, though Z Bank has not followed the provisions of AS 13, yet it would not be said as non-compliance since, it is complying with the norms stipulated by the RBI.

Question 12 : Nov – 2019 – Paper

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

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

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

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

Solution :

Investment Account of Mr. Harsh
for the year ending on 31-3-2019
(Scrip: 10% Debentures of Exe Limited)
(Interest Payable on 30th June and 31st December)

Date	Particulars	Nominal Value Rs.	Interest Rs.	Cost Rs.	Date	Particulars	Nominal Value Rs.	Interest Rs.	Cost Rs.
1.4.18	To Balance b/d	12,50,000	31,250	12,25,000	30.6.18	By Bank 21,500 x 100 x 10% x 1/2	-	1,07,500	-
1.6.18	To Bank (ex-Interest) (W.N.1)	9,00,000	37,500	8,90,820	31.12.19	By Bank 33,500 x 100x10% x 1/2	-	1,67,500	-
1.11.18	To Bank (cum-Interest) (W.N.2)	12,00,000	40,000	13,53,800	31.1.19	By Bank (W.N.3)	13,50,000	11,250	14,58,900
31.1.19	To Profit & Loss A/c (W.N.3)	-	-	1,34,920	31.3.19	By Balance c/d (W.N.4)	20,00,000	50,000	21,45,640
31.3.19	To Profit & Loss A/c (Bal. fig.)	-	2,27,500	-					

		33,50,000	3,36,250	36,04,540			33,50,000	3,36,250	36,04,540

Working Notes :

1. Purchase of debentures on 1.6.18

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

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

2. Purchase of debentures on 1.11.2018

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

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

3. Profit on sale of debentures as on 31.1.19

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

4. Valuation of closing balance as on 31.3.2019 :

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

Cost of

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

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

Question 13 : May – 2020 – RTP

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

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

(2) On 15th May 2019, Meera sold 8,000 shares for Rs.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 Rs.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 interim dividend from Kumar Ltd. of 15 per cent in respect of the current financial year.

(c) On 30th March 2020, she received Rs.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.

Solution :

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

Date	Particulars	No. of shares Rs.	Income Rs.	Amount Rs.	Date	Particulars	No. of shares Rs.	Income Rs.	Amount Rs.
Apr.1	To Bank (Purchases)	40,000	-	60,000	May 15	By Bank (Sale)	8,000	-	15,200
May 15	To Profit & Loss A/c (W.N.1)	-	-	3,200	2020 Mar.15	By Bank (Dividend @ 15% on Rs.32,000)	-	4,800	-
June 15	To Bonus Issue	8,000	-	Nil	Mar.30	By Bank (Sale)	20,000	-	28,000
July 15	To Bank (@ 75 p. paid on 4,000 shares)	4,000	-	3,000	Mar.31	By Balance c/d*	24,000	-	29,455
Sept.	To Bank (@ 75 p. paid on 4,000 shares)	-	-	3,000					
2020 Mar.31	To Profit & Loss A/c (W.N.2)	-	-	3,455					
	To Profit & Loss A/c	-	4,800						
		52,000	**4,800**	**72,655**			**52,000**	**4,800**	**72,655**

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

Working Notes :

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

	Profit on sale of 20,000 shares (Rs.28,000 – Rs.24,545)	Rs.3,455

Question 14 : May – 2020 – RTP

Omega Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13. State the values, at which the investments have to be reclassified in the following cases:

(i) Long term investments in Company A, costing Rs.8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to Rs.6.5 lakhs to recognize a permanent decline in value. The fair value on date of transfer is Rs.6.8 lakhs.

(ii) Current investment in Company C, costing Rs.10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is Rs.12 lakhs.

(iii) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these investments was Rs.18 lakhs but had been written down to Rs.12 lakhs to recognize permanent decline as per AS 13.

Solution :

As per AS 13 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. And where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer. Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs.6.5 lakhs in the books.

(ii) In this case, reclassification of current investment into long-term investments will be made at Rs.10 lakhs as cost is less than its market value of Rs.12 lakhs.

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

Question 15 : Nov – 2020 – RTP

(a) In 2018, Royal Ltd. issued 12% fully paid debentures of Rs. 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year. On 1st December, 2019, M/s. Kumar purchased 10,000 of these debentures at Rs. 101 (cum-interest) price. On 1st March, 2020 the firm sold all of these debentures at Rs. 106 (cum-interest) price.
You are required to prepare Investment (Debentures) Account in the books of M/s. Kumar for the period 1st December, 2019 to 1st March, 2020.

(b) Mr. X acquires 200 shares of a company on cum-right basis for Rs. 60,000. He subsequently receives an offer of right to acquire fresh shares in the company in the proportion of 1:1 at Rs. 105 each. He does not subscribe but sells all the rights for Rs. 15,000. The market value of the shares after their becoming ex-rights has also gone down to Rs. 50,000. What should be the accounting treatment in this case?

Solution :

(a) **Investment Account in the books of M/s Kumar**
for the period from 1st December 2019 to 1st March, 2020
(Scrip: 12% Debentures of Royal Ltd.)

Date	Particulars	Nominal Value (Rs.)	Interest	Cost (Rs.)	Date	Particulars	Nominal Value (Rs.)	Interest	Cost (Rs.)
1.12.2019	To Bank A/c (W.N.1)	10,00,000	20,000	9,90,000	1.03.2020	By Bank A/c (W.N.2)	10,00,000	50,000	10,10,000
1.3.2020	To Profit & loss A/c		30,000	20,000					
		10,00,000	**50,000**	**10,10,000**			**10,00,000**	**50,000**	**10,10,000**

Working Notes :

(i)	Cost of 12% debentures purchased on 1.12.2019		Rs.
	Cost Value (10,000 × Rs.101)	=	10,10,000
	Less: Interest (10,000 × 100 × 12% × 2/12)	=	(20,000)
	Total	=	9,90,000
(ii)	Sale proceeds of 12% debentures sold on 1st March, 2020		Rs.
	Sales Price (10,000 Rs.106)	=	10,60,000
	Less: Interest (10,000 x 100 x12% x 5/12)	=	(50,000)
	Total	=	10,10,000

(b) As per AS 13, where the investments are acquired on cum-right basis and the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, it may be appropriate to apply the sale proceeds of rights to reduce the carrying amount of such investments to the market value. In this case, the amount of the ex-right market value of 200 shares bought by X immediately after the declaration of rights falls to Rs.50,000. In this case, out of sale proceeds of Rs. 15,000, Rs. 10,000 may be applied to reduce the carrying amount to bring it to the market value Rs.50,000 and Rs. 5,000 would be credited to the profit and loss account.

Question 16 : Nov – 2020 – RTP

A Ltd. on 1-1-2020 had made an investment of Rs. 600 lakhs in the equity shares of B Ltd. of which 50% is made in the long term category and the rest as temporary investment. The realizable value of all such investment on 31-3-2020 became Rs. 200 lakhs as B Ltd. lost a case of copyright. How will you recognize the reduction in the value of the investment in the financial statements for the year ended on 31-3-2020 as per AS 13 considering this downfall in the value of shares as non-temporary?

Solution :

A limited invested Rs. 600 lakhs in the equity shares of B Ltd. Out of the same, the company intends to hold 50% shares for long term period i.e. Rs. 300 lakhs and remaining as temporary (current) investment i.e. Rs. 300 lakhs. Irrespective of the fact that investment has been held by A Limited only for 3 months (from 1.1.2020 to 31.3.2020), AS 13 lays emphasis on intention of the investor to classify the investment as current or long term even though the long-term investment may be readily marketable.

In the given situation, the realizable value of all such investments on 31.3.2020 became Rs. 200 lakhs i.e. Rs. 100 lakhs in respect of current investment and Rs. 100 lakhs in respect of long-term investment.

As per AS 13, 'Accounting for Investment', the carrying amount for current investments is the lower of cost and fair value. In respect of current investments for which an active market exists, market value generally provides the best evidence of fair value.

Accordingly, the carrying value of investment held as temporary investment should be shown at realizable value i.e. at Rs. 100 lakhs. The reduction of Rs. 200 lakhs in the carrying value of current investment will be charged in the profit and loss account.

Standard further states that long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of long-term investment, the carrying amount is reduced to recognize the decline.

Here, B Limited has lost a case of copyright which drastically reduced the realizable value of its shares to one third which is quiet a substantial figure. Losing the case of copyright may affect the business and the performance of the company in long run. Accordingly, it will be appropriate to reduce the carrying amount of long-term investment by Rs. 200 lakhs and show the investments at Rs. 100 lakhs as the downfall in the value of shares is not temporary. The reduction of Rs. 200 lakhs in the carrying value of long-term investment will be charged to the profit and loss account.

Question 17 : Nov – 2020 – Paper

A Limited invested in the shares of XYZ Ltd. on 1st Dec, 2019 at a cost of Rs 50,000. Out of these shares Rs 25,000 shares were purchased with an intention to hold for 6 months and Rs 25,000 shares were purchased with an intention to hold as long term investments.

A Limited also earlier purchased gold of Rs 1,00,000 and silver of Rs 30,00,000 on 1st April, 2019. Market Value as on 31st March, 2020 of above investments are as follows.

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

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

Solution :

As per AS 13 (Revised) 'Accounting for Investments, for investment in shares - if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value.

In the given case Rs. 25,000 shares held as current investment will be carried in the books at Rs.23,750 (Rs. 47,500/2).

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

Gold and silver are generally purchased with an intention to hold them for long term period (more than one year) until and unless given otherwise.

Hence, the investment in Gold and Silver (purchased on 1st March, 2019) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2020. Thus Gold at Rs. 1,00,000 and Silver at Rs. 30,00,000 respectively will be shown in the books.

Question 18 : Nov – 2020 – Paper

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

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

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

Mr. H subscribed 60% of the rights entitlement and sold the remaining rights for consideration of Rs 5 share.

Dividends for the year ending 31st March, 2019 was declared by ABC Ltd. at the rate of 20% and received by Mr. H on 31st October, 2019.

On 15th Jan, 2020, Mr H sold half of his shareholdings at Rs 17.50 per share and brokerage was charged @ 1%.

You are required to prepare Investment Account in the books of Mr. H. for the year ending 31st March, 2020, assuming the shares are valued at average cost.

Solution :

In the books of Mr. H

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

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

Working Notes:

1. Calculation of no. of bonus shares issued

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

2. Calculation of right shares subscribed

   Right Shares = $\frac{30{,}000\text{ shares} + 10{,}000\text{ shares} + 10{,}000\text{ shares}}{5}$

   = 10,000 shares

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

   Value of right shares subscribed = 6,000 shares @ Rs. 12 per share = Rs. 72,000

3. Calculation of sale of right entitlement

   Amount received from sale of rights will be 4,000 shares x Rs. 5 per share

   = Rs. 20,000 and it will be credited to statement of profit and loss.

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

   Total holding = 30,000 shares original

   10,000 shares purchased

   10,000 shares bonus

   6,000 shares right shares

   56,000

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

   Cost of total holdings of 56,000 shares

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

Average cost of shares sold would be:

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

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

5. Dividend received on investment held as on 1st April, 2019
   = 30,000 shares x Rs. 10 x 20%
   = Rs. 60,000 will be transferred to Profit and Loss A/c and
   Dividend received on shares purchased on 10th June, 2019
   = 10,000 shares x Rs. 10 x 20% = Rs.20,000 will be adjusted to Investment A/c
6. Calculation of closing value of shares (on average basis) as on 31st March, 2020
   $$\frac{7,54,400}{56,000} \times 28,000 = \text{Rs. } 3,77,200$$

Question 19 : Jan – 2021 – Paper

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

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

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

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

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

Solution :

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

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

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs. 9 lakhs in the books.

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

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

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

Question 20 : Jan - 2021 - Paper

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

The term of bonus and right issue were :

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

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

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

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

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

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

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

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

Solution :

Investment Account-Equity Shares in K Ltd.

Date		No. of shares	Dividend Rs.	Amount Rs.	Date		No. of shares	Dividend Rs.	Amount Rs.
1.4.19	To Bal.b/d	8,000	-	1 ,20,000	20.1.20	By Bank (dividend) [8,000 x 10 x 20%] and [2,000 x 10 x 20%]		16,000	4,000
1.9.19	To Bank	2,000	-	28,000	1.2.20	By Bank	8,000	-	1,12,000
30.9.19	To Bonus Issue	4,000	-	-					
31.12.19	To Bank (Right) (W.N.1)	2,000	-	25,000	31.3.20	By Balance c/d (W.N. 3)	8,000	-	84,500
20.1.20	To Profit & Loss A/c (Dividend income)	-	16,000	-					
1.2.20	To P & L A/c (profit on sale)	-	-	27,500					
		16,000	**16,000**	**2,00,500**			**16,000**	**16,000**	**2,00,500**

Working Notes:

1. Right shares

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

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

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

No. of right shares sold = 2,000 shares

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

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

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

Profit on sale	27,500

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

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

Here, Net realizable value is Rs.13 per share i.e., 8,000 shares x Rs. 13 = Rs. 1,04,000 and cost = 84,500. Therefore, value of investment at the end of the year will be Rs. 84,500.

Question 21 : May – 2021 – RTP

On 1st April, 2019 Mr. Shyam had an opening balance of 1000 equity shares of X Ltd Rs. 1,20,000 (face value Rs.100 each).

On 5.04.2019 he further purchased 200 cum-right shares for Rs. 135 each. On 8.04.2019 the director of X Ltd announced right issue in the ratio of 1:6.

Mr. Shyam waived off 100% of his entitlement of right issue in the favour of Mr. Rahul at the rate of Rs. 20 each.

All the shares held by Shyam had been acquired on cum right basis and the total market price (ex-right) of all these shares after the declaration of rights got reduced by Rs. 3,400.

On 10.10.2019 Shyam sold 350 shares for Rs. 140 each.

31.03.2020 The market price of each share is Rs. 125 each.

You are required to prepare the Investment account in the books of Mr. Shyam for the year ended 31.03.2020 assuming that the shares are being valued at average cost.

Solution :

In the books of Mr. Shyam
for the year ending on 31-3-2020
(Scrip: Equity Shares of X Limited)

Date	Particulars	Qty	Amount	Date	Particulars	Qty	Amount
1.4.2019	To Balance b/d	1000	1,20,000	8.04.2019	By Bank A/c (W.N.1)		3,400
5.04.2019	To Bank (200 x Rs.135)	200	27,000	10.10.2019	By Bank A/c (350 x Rs.140)	350	49,000
10.10.2019	To Profit & Loss A/c (W.N.2)		7,117	31.3.2020	By Balance c/d (W.N.3)	850	1,01,717
		1200	**1,54,117**			**1200**	**1,54,117**

Working Notes:

1. Sale of Rights Rs. 4,000

The market price of all shares of X Ltd after shares becoming ex-rights has been reduced by Rs. 3,400

In this case out of sale proceeds of Rs.4,000; Rs. 3,400 may be applied to reduce the carrying amount to the market value and Rs. 600 would be credited to the profit and loss account.

2. Profit on sale of 350 shares

	Amount
Sale price of 350 shares (350 shares X 140 each) Less: Cost of 350 shares [(1,20,000 + 27,000 – 3,400) × 350]/1200	Rs.49,000 Rs.41,883
Profit	Rs.7,117

3. Valuation of 850 shares as on 31.03.2020

Particulars	**Amount**
Cost price of 850 shares [(1,20,000 +27,000 -3,400) x 850/1,200]	Rs.1,01,717
Fair Value as on 31.03.2020 [850 x Rs.125 each]	Rs.1,06,250
Cost price or fair value whichever is less	Rs.1,01,717

Question 22 : July – 2021 – Paper

Mr. Z has made following transactions during the financial year 2020-21 : 20

Investment 1 : 8% Corporate Bonds having face value Rs.100.

Date	**Particulars**
01-06-2020	Purchased 36,000 Bonds at Rs.86 cum-interest. Interest is payable on 30th September and 31st March every year
15-02-2021	Sold 24,000 Bonds at Rs.92 ex-interest

Interest on the bonds is received on 30th September and 31st March

Investment 2 : Equity Shares of G Ltd having face value Rs.10

Date	**Particulars**
01.04.2020	Opening balance 8000 equity shares at a book value of Rs.190 per share
01.05.2020	Purchased 7,000 equity shares @ Rs.230 on cum right basis Brokerage of 1% was paid in addition.
15.06.2020	The company announced a bonus issue of 2 shares for every 5 shares held.
01.08.2020	The company made a rights issue of 1 share for every 7 shares held at Rs.230 per share. The entire money was payable by 31.08.2020.

25.08.2020	Rights to the extent of 30% of his entitlements was sold @ Rs.75 per shares. The remaining rights were subscribed.
15.09.2020	Dividend @ Rs.6 per share for the year ended 31.03.2020 was received on 16.09.2020. No dividend payable on Right issue and Bonus issue.
01.12.2020	Sold 7,000 shares @ 260 per share. Brokerage of 1% was incurred extra.
25.01.2021	Received interim dividend @ Rs.3 per share for the year 2020-21.
31.03.2021	The shares were quoted in the stock exchange @ Rs.260.

Both investments have been classified as Current investment in the books of Mr. Z. On 15th May 2021, Mr. Z decides to reclassify investment in equity shares of Z Ltd. as Long term Investment. On 15th May 2021, the shares were quoted in the stock exchange @ Rs.180.

You are required to :

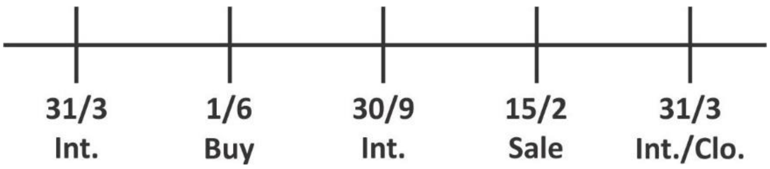
(i) Prepare Investment Accounts in the books of Mr. Z for the year 2020-21, assuming that the average cost method is followed.

(ii) Profit and loss Account for the year 2020-21, based on the above information.

(iii) Suggest values at which investment in equity shares should be reclassified in accordance with AS 13.

Solution :

1) Investment 1 = 8% Corporate Bonds



Dr. 8% Corporate bond Cr.

Date	Particular	FV	Interest	Cost	Date	Particular	FV	Interest	Cost
1/6	To Bank	36,00,000	48,000	30,48,000	30/9	By Bank	-	1,44,000	-
15/2	To P/L	-	-	1,76,000	15/2	By Bank	24,00,000	72,000	22,08,000
					31/3	By Bank	-	48,000	-
31/3	To P/L	-	2,16,000	-	31/3	By Bal. c/d.	12,00,000	-	10,16,000
		36,00,000	**2,64,000**	**32,24,000**			**36,00,000**	**2,64,000**	**32,24,000**

Working Note :

Profit / Loss in sale or 15/2/2021

36,00,000 30,48,000

24,00,000 20,32,000 CP

22,08,000 SP

1,76,000 Profit

2) Investment 2 : Equity shares of G Ltd.

Dr. **Cr.**

Date	Particular	No.	Cost	Div.	Date	Particular	No.	Cost	Div.
1/4/20	To Op.	8,000	15,20,000	-	15/9	By Bank	-	42,000	48,000
1/5/20	To Bank	7,000	16,26,100	-	1/12	By Bank	7,000	18,01,800	-
15/6/20	To Bonus	6,000	-	-	25/1	By bank	-	-	48,300
25/8/20	To Bank	2,100	4,83,000	-	31/3	By Bal. c/d.	16,100	25,00,100	-
1/12	To P/L	-	7,14,800	-					
31/3	To P/L	-	-	96,300					
		23,100	**43,43,900**	**96,300**			**23,100**	**43,43,900**	**96,300**

Working Note :

1. Bonus 15/6 2 for 5

   i.e. 15,000 $\times \frac{2}{5}$ = 6,000

2. Right 1 for 7

   i.e. 21,000 $\times \frac{1}{7}$ = 3,000

   buy = 3,000 $\times$ 70 = 2,100

3. Dividend on 15/9

   Received = 15,000 $\times$ 6 = 90,000

   Pre Acquisition = 7,000 $\times$ 6 = 42,000

   48,000

4. Profit / Loss on sale on 1/12

Cost	8,000	15,20,000	
+	7,000	16,26,100	
+	6,000	-	
+	2,100	4,83,000	
-	-	(42,000)	
	23,100	35,87,100	
	7,000	10,87,100	CP
		18,01,800	SP
		7,14,800	Profit

5. Closing Balance

Cost	=	25,00,100
NRV	= 16,100 × 260 =	41,86,000
Value at cost i.e.		25,00,100

3) Investment 3 : Investments in equity of 2

15/3 short term investment are classified s long term investments.

As per AS – 13 accounting for investment the reclassification should be close at cost or fair value whichever is lower at date of transfer.

Question 23 : Nov – 2021 – RTP

Following transactions of Meeta took place during the financial year 2020-21:

1st April, 2020	Purchased Rs. 4,500 8% bonds of Rs. 100 each at Rs. 80.50 cum-interest. Interest is payable on 1st November and 1st May.
1st May, 2020	Received half year's interest on 8% bonds.
10-Jul-20	Purchased 6,000 equity shares of Rs. 10 each in Kamal Limited for Rs. 44 each through a broker, who charged brokerage @ 2%.
1st October 2020	Sold 1,125 8% bonds at Rs. 81 Ex-interest.
1st November, 2020	Received half year's interest on 8% bonds.
15th January, 2021	Received 18% interim dividend on equity shares of Kamal Limited.
15th March, 2021	Kamal Limited made a rights issue of one equity share for every four Equity shares held at Rs. 5 per share. Meeta exercised the option for 40% of her entitlements and sold the balance rights in the market at Rs. 2.25 per share.

Prepare separate investment account for 8% bonds and equity shares of Kamal Limited in the books of Meeta for the year ended on 31st March, 2021. Assume that the average cost method is followed.

Solution :

In the books of Meeta

8% Bonds for the year ended 31st March, 2021

Date	Particulars	No.	Income Rs.	Amount Rs.	Date	Particulars	No.	Income Rs.	Amount Rs.
2020					1 May 2020	By Bank-Interest	-	18,000	-
1 April, Oct. 1	To Bank A/c	4,500	15,000	3,47,250	1 Oct. 2020	By Bank A/c	1,125	3,750	91,125
2021	To P & L A/c (W.N.1)	-	-	4,312.50	1 Nov. 2021	By Bank-Interest		13,500	-
Mar-31	To P & L A/c	-	20,250	-	2021 Mar. 31	By Balance c/d (W.N.2)	3,375	-	2,60,437.50
		4,500	**35,250**	**3,51,562.50**			**4,500**	**35,250**	**3,51,562.50**

Investment in Equity shares of Kamal Ltd. for the year ended 31st March, 2021

Date	Particulars	No.	Income Rs.	Amount Rs.	Date	Particulars	No.	Income Rs.	Amount Rs.
2020 July 10	To Bank A/c	6,000	-	2,69,280	2021 Jan 15	By Bank – dividend	-	10,800	-
2021 March 15	To Bank A/c (W.N. 3)	600	-	3,000	Mar. 31	By Balance c/d (bal. fig.)	6,600	-	2,72,280
Mar. 31	To P & L A/c	-	10,800	-					
		6,600	**10,800**	**2,72,280**			**6,600**	**10,800**	**2,72,280**

Working Notes:

1. **Profit on sale of 8% Bonds**

Sales price	Rs. 91,125
Less: Cost of bonds sold = 3,47,250/4,500x 1,125	(Rs. 86,812.50)
Profit on sale	Rs. 4,312.50

2. **Closing balance as on 31.3.2021 of 8 % Bonds**
   3,47,250/4,500x 3,375= Rs. 2,60,437.50
3. **Calculation of right shares subscribed by Kamal Ltd.**
   Right Shares = 6,000/4 x 1= 1,500 shares
   Shares subscribed by Meeta = 1,500 x 40%= 600 shares
   Value of right shares subscribed = 600 shares @ Rs. 5 per share = Rs. 3,000
4. **Calculation of sale of right entitlement by Kamal Ltd.**
   No. of right shares sold = 1,500 – 600 = 900 rights for 2,025

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

Question 24 : Nov – 2021 – RTP

Z Bank has classified its total investment on 31-3-2021 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI Guidelines.

'Held to maturity' investments are carried at acquisition cost less amortised amount. 'Available for sale' investments are carried at marked to market. 'Held for trading' investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored. Comment whether the policy of the bank is in accordance with AS 13?

Solution :

As per AS 13 'Accounting for Investments', the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds. In this case Z Bank is a bank, therefore, AS 13 does not apply to it. For banks, the RBI has issued guidelines for classification and valuation of its investment and Z Bank should comply with those RBI Guidelines/Norms. Therefore, though Z Bank has not followed the provisions of AS 13, yet it would not be said as non-compliance since, it is complying with the norms stipulated by the RBI.

Question 25 : Dec – 2021 – Paper

Mr.Mohan has invested some money in various Mutual funds. Following information in this regard is given :

Mutual Funds	Date of Purchase	Purchase cost (Rs.)	Brokerage Cost (Rs.)	Stamp duty (Rs.)	Market value as on 31.03.2021 (Rs.)
A	01.05.2017	50,000	200	20	48,225
B	05.08.2020	25,000	150	25	24,220
C	01.01.2021	75,000	300	75	78,190
D	07.05.2020	70,000	275	50	65,880

You are required to :

1. Classify his investment in accordance with AS-13 (revised).
2. Value of Investment in mutual fund as on 31.03.2021.

Solution :

As per AS 13 "Accounting for Investments", a current investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made. The carrying amount for current investments is the lower of cost and fair value.

A long-term investment is an investment other than a current investment. Long term investments are usually carried at cost. If there is a decline, other than temporary, in the value of a long-term investment; the carrying amount is reduced to recognize the decline.

Mutual Funds	Classification	Cost (Rs.)	Market value (Rs.)	Carrying value (Rs.)
A	Long-term Investment	50,220	48,225*	50,220
B	Current Investment	25,175	24,220	24,220
C	Current Investment	75,375	78,190	75,375
D	Current Investment	70,325	65,880	65,880
Total				2,15,695

Note: *The reduction in value of Mutual fund A is considered to be temporary. If reduction in Market value is assumed as other than temporary in nature, then the carrying value of Rs.48,225 will be considered.

Question 26 : Dec – 2021 – Paper

During the year ended 31st March, 2021, Purple Ltd. entered into the following transactions :-

1st April, 2020	Purchased Rs.4,00,000, 10% Govt. loan (interest payable on 30th April and 31st October) at Rs.70 cum interest.
1st April, 2020	Purchased 6,00,000 Equity shares of Rs.5 each in XY Ltd. for Rs.1,26,000.
1st October, 2020	Sold Rs.80,000, 10% Govt. loan at 75 ex-interest.

15th January, 2021	XY Ltd. made a bonus issue of four equity shares for every three shares held. Purple Ltd. sold all of the bonus shares for Rs.10 each.
1st March, 2021	Received dividend @ 22% on shares in XY Ltd. For the year ended 31st December, 2020.

Prepare Investment accounts in the books of Purple Ltd.

Solution :

In the books of Purple Ltd.

10% Govt. Loan

[Interest Payable: 30th April & 31st October]

Date	Particulars	Nominal Value (Rs.)	Interest (Rs.)	Cost (Rs.)	Date	Particulars	Nominal Value (Rs.)	Interest (Rs.)	Cost (Rs.)
1.4.20	To Bank A/c (W.N.1)	4,00,000	16,667	2,63,333	30.4.20	By Bank A/c (4,00,000 x 10% x 6/12)	-	20,000	-
1.10.20	To Profit & Loss A/c (W.N 5)	-	-	7,333	1.10.20	By Bank A/c (W.N.2)	80,000	3,333	60,000
31.3.21	To Profit & Loss A/c	-	35,999	-	31.10.20	By Bank A/c	-	16,000	-
					31.3.21	By Balance c/d (W.N.3)	3,20,000	13,333	2,10,666
		4,00,000	**52,666**	**2,70,666**			**4,00,000**	**52,666**	**2,70,666**

Investment in Equity Shares of XY Ltd. Account (of Rs. 5 each)

Date	Particulars	No.	Dividend (Rs.)	Cost (Rs.)	Date	Particulars	No.	Dividend (Rs.)	Cost (Rs.)
1.4.20	To Bank A/c	6,000		1,26,000	15.1.21	By Bank A/c	8,000		80,000
15.1.21	To Bonus Issue	8,000			1.3.21	By Bank A/c (W.N.6)		4,950	1,650
15.1.21	To Profit & Loss A/c. (W.N.4)			8,000	31.3.21	By Balance c/d	6,000		52,350
31.3.21	To Profit & Loss A/c		4,950						
		14,000	**4,950**	**1,34,000**			**14,000**	**4,950**	**1,34,000**

Working Notes:

1. **Cost of investment purchased on 1st April, 2020**

   4,000, 10% Govt. loan were purchased @ Rs. 70 cum-interest. Total amount paid 4,000 bonds x Rs. 70 = 2,80,000 which includes accrued interest for 5 months, i.e., 1st November, 2020 to 31st March, 2021. Accrued interest will be Rs. 4,00,000 x 10% x 5/12 = Rs. 16,667. Therefore, cost of investment purchased = Rs. 2,80,000 – Rs. 16,667 = Rs. 2,63,333.

2. **Sale of 10% Govt. loan on 1st October, 2020**

800, 10% Govt. loan were sold@ Rs. 75 ex-interest, i.e., Total amount received = 800 x 75 + accrued interest for 5 months = Rs. 60,000 + Rs. 3333

3. **Cost of 10% Govt. loan on 31.3.2021**

   Cost of 10% Govt. loan on 31.3.2021 will be Rs. 2,63,333 x 3,20,000/4,00,000 = Rs. 2,10,666.

   Interest accrued on 10% Government Loan on 31.3.2021 = Rs. 3,20,000 x 10% x 5/12 = Rs. 13,333

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

   Cost per share after bonus = Rs. 1,26,000/ 14,000 = Rs. 9 (average cost method being followed)

   Profit per share sold (Rs. 10 – Rs. 9) = Rs. 1.

   Therefore, total profit on sale of 8,000 shares = 8,000 x Rs. 1 = Rs. 8,000.

5. **Profit on sale of 10% Govt. loan**

	Rs.
Sale value	= 60,000
Cost of Rs. 80,000 10% Government Loan = 2,63,333 x 80,000/ 4,00,000	= 52,667
Profit	= 7,333

6. Dividend on equity shares = 6,000 x 5 x 22% = Rs. 6,600 out of which Rs. 1,650 will be treated as capital receipt as it has been received for the period of 3 months during which shares were not held.

Note: It has been considered that dividend received relates for the period of 12 months ended 31st Dec., 2020, strictly based on the information, given in the question. Hence, dividend received for the period of 3 months (1st January, 20 to 31st March, 20) has been treated as pre-acquisition.

Question 27 : May – 2022 – RTP

Mr. Wise had 12% Debentures of Face Value Rs. 100 of Alpha Ltd. as current investments.

He provides the following details relating to the investments.

1-4-2020	Opening balance 4,000 debentures costing Rs. 98 each
1-6-2020	Purchased 2,000 debentures @ Rs. 120 cum interest
1-9-2020	Sold 3,000 debentures @ Rs. 110 cum interest
1-12-2020	Sold 2,000 debentures @ Rs. 105 ex interest
31-1-2021	Purchased 3,000 debentures @ Rs. 100 ex interest
31-3-2021	Market value of the investments Rs. 105 each

Interest due dates are 30th June and 31st December.

Mr. Wise closes his books on 31-3-2021. He incurred 2% brokerage for all his transactions.

Show investment account in the books of Mr. Wise assuming FIFO method is followed.

Solution :

Investment A/c of Mr. Wise

for the year ending on 31-3-2021

(Scrip: 12% Debentures of Alpha Limited)

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

Amount in Rs.

Date	Particulars	Nominal Value	Interest	cost	Date	Particulars	Nominal Value	Interest	cost
1.4.2020	To Balance b/d	4,00,000	12,000	3,92,000	30.6.2020	By Bank (6,00,000 x 6%)	-	36,000	-
1.6.2020	To Bank	2,00,000	10,000	2,34,800	1.9.2020	By Bank	3,00,000	6,000	3,17,400
1.9.2020	To Profit & Loss A/c			23,400	1.12.2020	By Bank	2,00,000	10,000	2,05,800
31.1.2021	To Bank	3,00,000	3,000	3,06,000	1.12.2020	By Profit & Loss a/c	-	-	9,600
31.3.2021	To Profit & Loss A/c (Bal. fig.)		45,000		31.12.20	By Bank (1,00,000 x 6%)	-	6,000	-
					31.3.2021	By Profit & Loss A/c	-	-	3,400
					31.3.2021	By Balance c/d	4,00,000	12,000	4,20,000
		9,00,000	**70,000**	**9,56,200**			**9,00,000**	**70,000**	**9,56,200**

Working Notes:

1. Valuation of closing balance as on 31.3.2021

	Rs.	Rs.
Market value of 4,000 Debentures at Rs. 105		4,20,000
Cost price of 1,000 debentures at	1,17,400	
3,000 debentures at	3,06,000	4,23,400
Value at the end = Rs. 4,20,000 i.e. whichever is less		

2. Profit on sale of debentures as on 1.9.2020

	Rs.
Sales price of debentures (3,000 x Rs. 110)	3,30,000
Less: Brokerage @ 2%	(6,600)
	3,23,400
Less: Interest for 2 months	(6,000)
Less: Cost price of Debentures $\left(3{,}92{,}000 \times \frac{3{,}00,}{4{,}000}\right)$	(2,94,000)
Profit on sale	23,400

3. Loss on sale of debentures as on 1.12.2020

	Rs.
Sales price of debentures (2,000 x Rs. 105)	2,10,000
Less: Brokerage @ 2%	(4,200)
	2,05,800
Less: Cost price of Debentures (98,000 + 1,17,400)	(2,15,400)

Loss on sale	9,600

4. Purchase Cost of 2,000 debentures on 1.6.2020

	Rs.
2000 Debentures @Rs. 120 cum interest	2,40,000
Add: Brokerage @ 2%	4,800
	2,44,800
Less: Interest for 5 months	(10,000)
Purchase cost of 2,000 debentures	2,34,800

5. Sale value for 3,000 debentures on 1.9.2020

	Rs.
Sales price of debentures cum interest (3,000 x Rs. 110)	3,30,000
Less: Brokerage @ 2%	(6,600)
	3,23,400
Less: Interest for 2 months	(6,000)
Sale value for 3,000 debentures	3,17,400

Question 28 : May – 2022 – RTP

JVR Limited has made investment of Rs. 97.84 Crores in Equity Shares of QSR Limited in 2016-17. The investment has been made at par. QSR Limited has been in continuous losses for the last 2 years. JVR Limited is willing to re-assess the carrying amount of its investment in QSR Limited and wish to provide for diminution in value of investment for the year ended 31st March, 2021. Discuss whether the connection of JVR Limited to bring down the carrying Amount of investment in QSR Limited is in accordance with Accounting Standards.

Solution :

The investments are classified into two categories as per AS 13, *viz.*, Current Investments and Long-term Investments. A current Investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made. The carrying amount for current investments is the lower of cost and fair value. Any reduction to fair value and any reversals of such reductions are included in the statement of profit and loss. A long-term investment is an investment other than a current investment. The investments referred in the question can be classified as long-term investments and long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long-term investment, the carrying amount is reduced to recognize the decline. The contention of the company to bring down the value of investment may be correct if the decline in value is permanent in nature and the reduction in carrying amount may be charged to the statement of profit and loss. The reduction in carrying amount is reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist.

Question 29 : May – 2022 – Paper

On 1st April, 2021 Ms. Jayshree has 5,000 equity shares of Ram a Limited (a listed company) of face value of Rs.10 each. Ms. Jayshree has purchased the above shares at Rs.15 per share and paid a brokerage of 2% and stamp duty of 1 %.

On 15th May, 2021 Ms. Jayshree purchased another 5,000 shares of Rama Limited at Rs.18 including brokerage and stamp duty.

On 26th August, 2021 Rama Limited issued one bonus equity share for every 1 equity share held by the shareholders.

On 23rd October, 2021 Rama Limited announced a Right Issue which entitles the holders to subscribe 1 equity share for every 2 equity shares held at Rs.20 per share. Shareholders can exercise their rights in full or in part. Ms. Jayshree sold 1/4th of entitlement to Mr. Mike for a consideration of Rs.10 per share and subscribed the rest on 1st November 2021.

Ms. Jayshree also sold 10,000 shares at Rs.25 per share on 1st November, 2021.

The shares of Rama Limited were quoted at Rs.11 per share on 31st March, 2022.

You are required to prepare Investment account for Ms. Jayshree for the year ended 31st March 2022.

Solution :

In the books of Ms. Jayshree

Investment Account

Equity shares in Rama Ltd.)

Date	Particulars	No. of shares	Amount (Rs.)	Date	Particulars	No. of shares	Amount (Rs.)
1.4.21	To Balance b/d	5,000	77,250	1.11.21	By Bank A/c	10,000	2,50,000
15.5.21	To Bank A/c	5,000	90,000	31.3.22	By Balance c/d	17,500	1,92,500
26.8.21	To Bonus issue (W.N.1)	10,000	-	31.3.22	By Profit & Loss A/c (loss on valuation)	-	9,386
1.11.21	To Bank A/c (right shares) (W.N.4)	7,500	1,50,000				
1.11.21	To Profit & Loss A/c	-	1,34,636				
		27,500	**4,51,886**			**27,500**	**4,51,886**

Working Notes:

(1) Profit on sale of shares (average cost basis) on 1.11.21

10,000 shares @ Rs. 25 per share = 2,50,000

Cost of shares sold = [(77,250 + 90,000 + 1,50,000)/27,500 x 10,000]

= Rs. 1,15,364

Profit on sale of shares = Rs. 1,34,636

(2) Value of shares on 31.3.22 [(77,250 + 90,000 + 1,50,000)/27,500 x 17,500]

= Rs. 2,01,886 or Rs. 1,92,500 (17,500 shares at Rs. 11)

Shares will be valued at Rs., 1,92,500 as market value is less than cost.

Note: Average cost basis has been considered for valuation of shares at the year end and for calculation of cost of shares sold in the given answer.

Question 30 : Nov – 2022 – RTP

Alpha Ltd. purchased 5,000, 13.5% Debentures of Face Value of Rs. 100 each of Pergot Ltd. on 1st May 2021 @ Rs. 105 on cum interest basis. The interest on these debentures is payable on 31st & 30th of March & September respectively. On August 1st 2021 the company again purchased 2,500 of such debentures @ Rs. 102.50 each on cum interest basis. On October 1st, 2021 the company sold 2,000 Debentures @ Rs. 103 each on ex- interest basis. The market value of the debentures as at the close of the year was Rs. 106. You are required to prepare the Investment in Debentures Account in the books of Alpha Ltd. for the year ended 31st Dec. 2021 on Average Cost Basis.

Solution :

Books of Alpha Ltd.

Investment in 13.5% Debentures in Pergot Ltd. Account

(Interest payable on 31st March & 30th September)

Date 2021	Particulars	Nominal Rs.	Interest Rs.	Amount Rs.	Date 2021	Particulars	Nominal Rs.	Interest Rs.	Amount Rs.
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank (6 months Int)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000					
Oct.1	To P&L A/c			2,167	Oct.1	By Bank	2,00,000		2,06,000
Dec.31	To P&L A/c		52,313		Dec.31	By Balance c/d	5,50,000	18,563	5,60,542
		7,50,000	**69,188**	**7,66,542**			**7,50,000**	**69,188**	**7,66,542**

Note: Cost being lower than Market Value the debentures are carried forward at Cost.

Working Notes:

1. Interest paid on Rs. 5,00,000 purchased on May 1st, 2021 for the month of April 2021, as part of purchase price: 5,00,000 x 13.5% x 1/12 = Rs. 5,625

2. Interest received on 30th Sept. 2021

   On Rs. 5,00,000 = 5,00,000 x 13.5% x ½ = 33,750

   On Rs. 2,50,000 = 2,50,000 x 13.5% x ½ = <u>16,875</u>

   Total Rs. <u>50,625</u>

3. Interest paid on Rs. 2,50,000 purchased on Aug. 1st 2021 for April 2021 to July 2021 as part of purchase price:

   2,50,000 x 13.5% x 4/12 = Rs. 11,250

4. Loss on Sale of Debentures

   Cost of acquisition

   (Rs. 5,19,375 + Rs. 2,45,000) x Rs. 2,00,000/Rs. 7,50,000 = 2,03,833

Less: Sale Price (2,000 x 103)	=	2,06,000
Profit on sale	=	Rs. 2,167

5. Cost of Balance Debentures
(Rs. 5,19,375 + Rs. 2,45,000) x Rs. 5,50,000/Rs. 7,50,000 = Rs. 5,60,542

6. Interest on Closing Debentures for period Oct.-Dec. 2021 carried forward (accrued interest)
Rs. 5,50,000 x 13.5% x 3/12 = Rs. 18,563

Question 31 : Nov – 2022 – RTP

Mother Mart Ltd., wants to re-classify its investment in accordance with AS 13. Decide the treatment to be given in each of the following cases assuming that the market value has been determined in an arm's length transaction between knowledgeable and willing buyer and seller:

(i) A portion of current investments purchased for Rs. 25 lakhs to be reclassified as long-term investments, as the company has decided to retain them. The market value as on the date of balance sheet was Rs. 30 lakhs. The fair value of the investments on the date of transfer is same as the market value on the balance sheet date

(ii) Another portion of current investments purchased for Rs. 20 lakhs has to be re-classified as long-term investments. The Fair value of these investments as on the date of the balance sheet was Rs. 12.5 lakhs.

(iii) One portion of long-term investments, no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was Rs. 15 lakhs, but had been written down to Rs. 11 lakhs to recognize permanent decline as per AS 13.

Solution :

As per AS 13 'Accounting for Investments', 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. When 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.

(i) In the first case, the market value of the investments is Rs. 30 lakhs, which is higher than its cost i.e. Rs. 25 lakhs. Therefore, the transfer to long term investments should be made at cost i.e. Rs. 25 lakhs

(ii) In the second case, the market value of the investment is Rs. 12.5 lakhs, which is lower than its cost i.e. Rs. 20 lakhs. Therefore, the transfer to long term investments should be made in the books at the market value i.e. Rs. 12.5 lakhs. The loss of Rs. 7.50 lakhs (20-12.5) should be charged to Profit and Loss statement.

(iii) In the third case, the book value of the investments is Rs. 11 lakhs, which is lower than its cost, i.e. Rs. 15 lakhs. As the transfer should be at carrying amount, hence this re-classified current investment should be carried at Rs. 11 lakhs.

Question 32 : Nov – 2022 – Paper

(i) An unquoted long term investment made in the shares of Rachel Limited is caried in the books of Ziva Limited at a cost of Rs.1,00,000. The audited financial statements of Rachel Limited received in May, 2021 showed that the company had been incurring cash losses with declining market share and the long term investment may not fetch more than Rs.55,000.

(ii) On 1st December, 2021 Ziva Limited had made an investment of Rs.5,00,000 in 4000 Equity Shares of Garry Limited at a price of Rs.125 per share with an intention to hold it for not more than six months. In the first week of March, 2022, Garry Limited suffered heavy loss due to an earthquake; the loss was not covered by an insurance policy. On 31st March, 2022, the shares of Garry Limited were trading at a price of Rs.80 per share on the Stock Exchange.

How would you deal with the above investments in the books of Ziva Limited for the year ended 31st March, 2022 as per the provision of Accounting Standard 13 'Accounting for Investments'?

Question 33 : Nov – 2022 – Paper

Mr.Saurabh held 10,000 equity share of BT Limited on 1st April, 2021. Nominal value of the shares is Rs.2 each and their book values is Rs.7 per share.

- On 4th July, 2021 he purchased another 7,500 shares at Rs.10 each.
- On 31st July, 2021 the company announced a Bonus and Right issue.
- Bonus was declared of one shares for every five shares held and was received on 5th August, 2021.
- Right issue to be issued on 12th September 2021, which entitled the holders to subscribe to additional shares of 2 share for every 7 shares held at Rs.2 per share. Shareholders were entitled to transfer their rights in full or part. Mr.Saurabh sold whole of his entitlements to Mr.Nihal at Rs.1.50 per share.
- Dividend was declared for the year ended 31st March 2021 @ 25% and received by Mr.Saurabh on 19th September 2021.
- On 11th December 2021 Mr.Saurabh sold 7,500 share at Rs.8 per share.
- The market price of the shares on 31st March, 2022 was Rs.7 per shares.

You are required to prepare the Investment Account of Mr.Saurabh on 31st March, 2022 considering the above mentioned points, also state the value of shares held on that date. (Assume investment as current investment).

Thanks ....

CHAPTER

10

AS – 16 BORROWING COST

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : May – 2018 – RTP / Nov – 2019 – RTP / Nov – 2021 – RTP

In May, 2016, Capacity Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2017 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was Rs.18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2017 amounted to Rs.25 lakhs.

Can Rs.25 lakhs be treated as part of the cost of factory building and thus be capitalized on the plea that the loan was specifically taken for the construction of factory building? Explain the treatment in line with the provisions of AS 16.

Solution :

As per "AS 16 Borrowing Cost", borrowing cost on qualifying asset should be capitalised. Capitalisation should be cease when asset is ready for intended use.

From the facts of the above case it is clear that asset was ready for its intended use on Jan.2017. Hence borrowing cost only to the extend of Rs.18,00,000 can be capitalised. It cannot be extended to Rs.25 lakh. Balance of Rs.7,00,000 should be charged to P & L.

Question 2 : Nov – 2018 – RTP

A company incorporated in June 2017, has setup a factory within a period of 8 months with borrowed funds. The construction period of the assets had reduced drastically due to usage of technical innovations by the company. Whether interest on borrowings for the period prior to the date of setting up the factory should be capitalized although it has taken less than 12 months for the assets to get ready for use. You are required to comment on the necessary treatment with reference to AS 16.

Solution :

As per "AS 16 Borrowing Cost", borrowing cost on qualifying asset should be capitalised. Qualifying asset is on asset that necessarily takes a substantial period of time to be ready for its intended use or sale.

Generally a period of 12 months is considered substantial. However, a period shorter than 12 months can also be considered substantial on the basis of fact and circumstances of case.

In the above question construction of asset was drastically reduced because of technical innovations. Based on this fact a period of 8 months can be considered substantial and hence borrowing cost should be capitalised.

Question 3 : May – 2019 – RTP

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

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

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

Solution :

As per "AS 16 Borrowing Cost" on qualifying asset should be capitalised.

Qualifying assets is an asset that necessarily takes a substantial period of time to be ready for its intended use.

		Total	QA	NQA
1)	Construction of hill road in Kedranath	50	50	-
2)	Purchase of equipment's	6	-	-
3)	Working Capital	4	-	4
4)	Purchase of vehicles	1	-	1
5)	Advance for tools	1	-	1
6)	Purchase of technical know how	2	-	2
		64	50	14

Total interest = 1.6 crore

A) Amount to be capitalised = $\frac{1.6}{64} \times 50$ = 1.25 Cr.

B) Amount to be charged to profit & Loss A/c = $\frac{1.6}{64} \times 14$ = 0.35 Cr.

Question 4 : May – 2019 – Paper

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

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

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

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

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

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

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

Solution :

As per "AS 16 Borrowing Cost" on qualifying asset should be capitalised.

1) An asset was constructed from specific loan and also from general loans.

A) Specific loan = Rs.2,00,000 @ 8%

B) General loan = Capitalisation rate

Amount	Rate	Interest
4,00,000	9%	36,000
5,00,000	12%	60,000
3,00,000	14%	42,000
12,00,000		1,38,000

Capitalisation Rate = $\frac{1,38,000}{12,00,000} \times 100$ = 11.5%

2) Borrowing cost to be capitalisied

1/4/17	31/5/17	1/8/17	31/12/17	31/3/18
3,00,000	2,40,000	4,00,000	3,60,000	

A) 1/4/17 3,00,000

2,00,000	1,00,000
× 8%	× 11.5%
× 12/12	× 12/12
16,000	11,500

B) 31/5/17 = 2,40,000 × 11.5% × 10/12 = 23,000

C) 1/8/17 = 4,00,000 × 11.5% × 8/12 = 30,667

D) 31/12/17 = 3,60,000 × 11.5% × 3/12 = 10,350

Total Borrowing Cost to be capitalised 91,517

3) Journal Entry

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
31.3.2018	Building A/c Dr.	13,91,517	
	To Bank A/c		13,00,000
	To Borrowing costs A/c		91,517

Question 5 : May – 2020 – RTP

Govind Ltd. issued 12% secured debentures of Rs. 100 Lakhs on 01.04.2018, to be utilized as under:

Particulars	Amount (Rs. in lakhs)
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2019, construction of the factory building was completed and machinery was installed and ready for its intended use. Total interest on debentures for the financial year ended 31.03.2019 was Rs.12,00,000. During the year 2018-19, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of Rs.3,00,000.

You are required to show the treatment of interest under Accounting Standard 16 and also explain nature of assets.

Solution :

As per "AS 16 Borrowing Cost". Qualifying asset is an asset that takes substantial period of time to be ready for its intended use

If asset is constructed from specific loan the borrowing cost should be calculated on interest period paid less interest received from temporary investment.

Thus Borrowing Cost = 12,00,000 – 3,00,000 = Rs.9,00,000

		Total	QA	NQA
1)	Construction of factory building	40	40	-
2)	Purchase of Machinery	35	-	35
3)	Working Capital	25	-	25
	Total	100	40	60

Total Borrowing cost = 9,00,000

A) Amount capitalised = 9,00,000 $\times \frac{40}{100}$ = 3,60,000

B) Amount charged to P & L = 9,00,000 $\times \frac{60}{100}$ = 5,40,000

Question 6 : Nov – 2020 – RTP

Vital Limited borrowed an amount of Rs.150 crores on 1.4.2019 for construction of boiler plant @ 10% p.a. The plant is expected to be completed in 4 years. Since the weighted average cost of capital is 13% p.a., the accountant of Vital Ltd. capitalized Rs. 19.50 crores for the accounting period ending on 31.3.2020. Due to surplus fund out of Rs.150 crores, an income of Rs. 1.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard.

Solution :

As per "AS 16 'Borrowing Costs", borrowing cost on qualifying asset should be capitalised. Borrowing cost of funds borrowed funds specifically for the purpose of obtaining qualifying asset is eligible for capitalisation.

If qualifying asset is obtain from general loan then borrowing cost should be calculated using capitalisation rate.

From the facts of above question it is clear that specific loan @ 10% was taken for construction of boiler plant. Therefore weighted average cost of capital @ 13% cannot be used. Further any income received from investment of surplus funds should be subtracted from borrowing funds to be capitalised.

The treatment of accountant of Vital Ltd. is incorrect. The amount to be capitalised should be

Interest paid (150 × 10%)	15 Crores
Interest received from temporary investments	1.5 Cror
Borrowing cost to be capitalised	13.5 Crore

Question 7 : Nov – 2020 – RTP / May – 2021 – RTP

When capitalization of borrowing cost should cease as per Accounting Standard 16? Explain in brief.

Solution :

As per "AS 16 Borrowing cost", borrowing cost on qualifying asset should be capitalised.

Further capitalisation of borrowing cost should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Question 8 : Nov – 2020 – Paper

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

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

In March, 2020 construction of shed was completed and machinery was installed. Total interest charged by the bank for the year ending 31st March, 2020 was Rs 40 lakhs.

In the context of provisions of AS 16 – "Borrowing costs" show the treatment of interest and also explain the nature of Assets.

Solution :

As per "AS 16 Borrowing Cost", borrowing cost on qualifying asset should be complete. Qualifying asset are those which takes substantial period of time to be ready for its intended use

		Total	QA	NQA
1)	Construction of factory shed	240	240	-
2)	Purchase of Machinery	30	-	30
3)	Working capital	24	-	24
4)	Purchase of vehicles	12	-	12
5)	Advance for bob/cranes	8	-	8
6)	Purchase of technical know how	6	-	6
	Total	320	240	80

Total Borrowing cost = 40

A) Borrowing cost to be capitalised = $40 \times \frac{240}{320} = 30$

B) Borrowing cost to be charged to P & L = $40 \times \frac{80}{320} = 10$

Question 9 : May – 2021 – RTP

Shan Builders Limited has borrowed a sum of US $ 10,00,000 at the beginning of Financial Year 2019-20 for its residential project at 4 %. The interest is payable at the end of the Financial Year. At the time of availment, exchange rate was Rs. 56 per US $ and the rate as on 31st March, 2020 Rs. 62 per US $. If Shan Builders Limited had borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%. You are required to compute Borrowing Cost and exchange difference for the year ending 31st March, 2020 as per applicable Accounting Standards.

Solution :

AS per "AS 16 Borrowing Cost", borrowing cost on qualifying asset should be capitalised.
Borrowing cost includes :

1)	Interest ($10,00,000 × 4% × 62)	24,80,000
2)	Ancillary Cost	-
3)	Discount / Premium written off	-
4)	Finance charge (Finance lease)	-
5)	Exchange difference	34,00,000
		58,80,000

*Exchange difference to the extent it is considered as adjustment to borrowing cost. It is the amount not exceeding the savings from foreign currency borrowing.

Exchange loss [$10,00,000 × 6(62 – 56)] 60,00,000

Savings 34,00,000 | 26,00,000

$ Loan interest = $10,00,000 × 4% ×62 = 24,80,000
Rs. Loan interest savings = $10,00,000 × 56 × 10.5% = 58,80,000
34,00,000

Note : Exchange loss of Rs.26,00,000 should be charged to P & L as exchange loss.

Question 10 : Nov – 2021 – RTP

In May, 2020, Omega Ltd. took a bank loan from a Bank. This loan was to be used specifically for the construction of a new factory building. The construction was completed in January, 2021 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was Rs. 18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2021 amounted to Rs. 25 lakhs.
the company wants to treat Rs. 25 lakhs as part of the cost of factory building and thus capitalize it on the plea that the loan was specifically taken for the construction of factory building? Explain the treatment in line with the provisions of AS 16.

Solution :

AS 16 clearly states that capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Therefore, interest on the amount that has been used for the construction of the building up to the date of completion (January, 2021) i.e. Rs. 18 lakhs alone can be capitalized. It cannot be extended to Rs. 25 lakhs.

Question 11 : May – 2022 – RTP

An enterprise has constructed a complex piece of equipment (qualifying asset) that is to be installed on the production line of a manufacturing plant. The equipment has been constructed over a period of 15 months. However, on installation, certain calibrations are required to achieve the desired level of production before it is finally commissioned. This process is expected to take approximately 2 months during which test runs will be made. Should the borrowing costs attributable to borrowings pertaining to the 2 months test run period be capitalized?

Solution :

As per AS 16 Borrowing Costs "Capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete". On installation of the equipment, an evaluation has to be made to conclude whether substantially all the activities necessary to prepare the asset are complete. After an equipment has been installed it is usually tested and adjusted for commercial production before it is finally commissioned. The calibrations and adjustments required during this period are performed in order to bring the equipment up to the stage at which it is ready to commence commercial production. Until the asset reaches the stage when it is ready to support commercial levels of production, it is not appropriate to conclude that substantially all the activities necessary to prepare the asset are complete. Thus, the borrowing cost incurred during the normal period of test runs (after the installation) are required to be capitalized.

Question 12 : May – 2022 – RTP

Should capitalization of borrowing costs be continued when the qualifying asset has been constructed but marketing activities to sell the asset are still in progress?

Solution :

As per provisions of AS 16, capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Further, the standard also explains that "An asset is normally ready for its intended use or sale when its physical construction or production is complete even though routine administrative work might sill continue. If minor modifications, such as the decoration of a property to the user's specification, are all that are outstanding, this indicates that substantially all the activities are complete". The emphasis in the Standard is on "to prepare the qualifying asset for its intended use or sale" and not the actual activity of sale. Therefore, where the physical construction of the asset is complete, substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Therefore, in the given case, the borrowing costs pertaining to the period during which the marketing activities to sell the asset are still in progress should not be capitalized as part of the cost of the asset.

Question 13 : May – 2022 – Paper

Zebra Limited began construction of a new plant on 1st April, 2021 and obtained a special loan of Rs.20,00,000 to finance the construction of the plant. The rate of interest on loan was 10%.
The expenditure that was incurred on the construction of plant was as follows :

	Rs.
1st April, 2021	10,00,000
1st August, 2021	24,00,000
1st January, 2022	4,00,000

The company's other outstanding non-specific loan was Rs.46,00,000 at an interest rate of 12%.
The construction of the plant completed on 31st March, 2022.

You are required to :

(a) Calculate the amount of interest to be capitalized as per the provisions of AS 16 "Borrowing Cost".

(b) Pass a journal entry for capitalizing the cost and the borrowing cost in respect of the plant.

Solution :

Total expenses to be capitalized for borrowings as per AS 16 "Borrowing Costs":

	Rs.
Cost of Plant (10,00,000 + 24,00,000 + 4,00,000)	38,00,000
Add: Amount of interest to be capitalized (W.N.)	3,24,000
	41,24,000

Journal Entry

			Rs.	Rs.
31st March, 2022	Plant A/c	Dr.	41,24,000	
	To Bank A/c			41,24,000
	[Being amount of cost of plant and borrowing cost thereon capitalized]			

Working Note:

Computation of interest to be capitalized:

	Expenditure			Rs.
1st April, 2021	10,00,000	On specific borrowing	Rs.10,00,000 x 10%	1,00,000

1st August, 2021	24,00,000	On specific borrowing	Rs.10,00,000 x 10%	1,00,000
1st August, 2021		On non-specific borrowings	Rs.14,00,000 x $\frac{8}{12} \times 12\%$	1,12,000
1st January, 2022	4,00,000	On non-specific borrowings	Rs.4,00,000 x $\frac{3}{12} \times 12\%$	12,000
				3,24,000

Alternatively, interest cost to be capitalized can be derived by computing average accumulated expenses in the following manner.

Computation of Average Accumulated Expenses:

1st April, 2021	10,00,000 x 12/12	10,00,000
1st August, 2021	10,00,000 x 12/12	10,00,000
	14,00,000 x 8/12	9,33,333
1st January, 2022	4,00,000 x 3/12	1,00,000
		30,33,333

Computation of interest to be capitalized:

		Rs.
On specific borrowing	Rs. 20,00,000 x 10%	2,00,000
On non-specific borrowing	Rs. (30,33,333- 20,00,000) x 12%	1,24,000
		3,24,000

NOTE: Since specific borrowings are earmarked for construction of a particular qualifying asset, it cannot be used for construction of any other qualifying asset except for temporary investment. Therefore, once the commencement of capitalization of borrowing cost criteria are met, actual borrowing cost incurred on specific borrowing shall be capitalized irrespective of the fact that amount had been utilized in parts.

Question 14 : Nov – 2022 – RTP

Harish Construction Company is constructing a huge building project consisting of four phases. It is expected that the full building will be constructed over several years but Phase I and Phase II of the building will be started as soon as they are completed.

Following is the detail of the work done on different phases of the building during the current year:

(Rs. in lakhs)

	Phase I Rs.	Phase II Rs.	Phase III Rs.	Phase IV Rs.
Cash expenditure	10	30	25	30
Building purchased	24	34	30	38
Total expenditure	34	64	55	68

Total expenditure of all phases				221
Loan taken @ 15% at the beginning of the year				200

During mid of the current year, Phase I and Phase II have become operational. Find out the total amount to be capitalized and to be expensed during the year.

Solution :

	Particulars	Rs.
1	Interest expense on loan Rs. 2,00,00,000 at 15%	30,00,000
2	Total cost of Phases I and II (Rs. 34,00,000 +64,00,000)	98,00,000
3	Total cost of Phases III and IV (Rs. 55,00,000 + Rs. 68,00,000)	1,23,00,000
4	Total cost of all 4 phases	2,21,00,000
5	Total loan	2,00,00,000
6	Interest on loan used for Phases I & II, based on proportionate Loan amount = $\frac{30,00,000}{2,21,00,000} \times 98,00,000$	13,30,317 (approx.)
7	Interest on loan used for Phases III & IV, based on proportionate Loan amount = $\frac{30,00,000}{2,21,00,000} \times 1,23,00,000$	16,69,683 (approx.)

Accounting treatment:

1. For Phase I and Phase II

Since Phase I and Phase II have become operational at the mid of the year, half of the interest amount of Rs. 6,65,158.50 (i.e. Rs. 13,30,317/2) relating to Phase I and Phase II should be capitalized (in the ratio of asset costs 34:64) and added to respective assets in Phase I and Phase II and remaining half of the interest amount of Rs. 6,65,158.50 (i.e. Rs.13,30,317/2) relating to Phase I and Phase II should be expensed during the year.

2. For Phase III and Phase IV

Interest of Rs. 16,69,683 relating to Phase III and Phase IV should be held in Capital Work-in-Progress till assets construction work is completed, and thereafter capitalized in the ratio of cost of assets. No part of this interest amount should be charged/expensed off during the year since the work on these phases has not been completed yet.

Thanks ....

CHAPTER

11

FINANCIAL STATEMENT OF COMPANIES

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : May – 2018 – RTP / May – 2021 – RTP

Kapil Ltd. has authorized capital of Rs.50 lakhs divided into 5,00,000 equity shares of Rs.10 each. Their books show the following balances as on 31st March, 2017:

Particulars	Rs.	Particulars	Rs.
Inventory 1.4.2016	6,65,000	Bank Current Account	20,000
Discounts & Rebates allowed	30,000	Cash in hand	8,000
Carriage Inwards	57,500	Interest (bank overdraft)	1,11,000
Patterns	3,75,000	Calls in Arrear @ Rs.2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity share capital (2,00,000 shares of Rs.10 each)	20,00,000
Furniture & Fixtures	1,50,000	Bank Overdraft	12,67,000
Purchases	12,32,500	Trade Payables (for goods)	2,40,500
Wages	13,68,000	Sales	36,17,000
Freehold Land	16,25,000	Rent (Cr.)	30,000
Plant & Machinery	7,50,000	Transfer fees received	6,500
Engineering Tools	1,50,000	Profit & Loss A/c (Cr.)	67,000
Trade Receivables	4,00,500	Repairs to Building	56,500
Advertisement	15,000	Bad debts	25,500
Commission & Brokerage	67,500		
Business Expenses	56,000		

The inventory (valued at cost or market value, which is lower) as on 31st March, 2017 was Rs.7,08,000. Outstanding liabilities for wages Rs.25,000 and business expenses Rs.36,000. Dividend declared @ 12% on paid-up capital and it was decided to transfer to reserve @ 2.5% of profits. Charge depreciation on closing written down amount of Plant & Machinery @ 5%, Engineering Tools @ 20%; Patterns @ 10%; and Furniture & Fixtures @10%. Provide 25,000 as doubtful debts after writing off Rs.16,000 as bad debts. Provide for income tax @ 30%. Corporate Dividend Tax Rate @ 17.304 (wherein Base Rate is 15%).

You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2017 and Balance Sheet as on that date.

Solution :

Kapil Ltd.

Balance Sheet as at 31st March, 2017

	Particulars	Note No.	Rs.
I	**Equity and Liabilities**		
	(1) Shareholders' Funds		
	(a) Share Capital	1	19,90,000
	(b) Reserves and Surplus	2	59,586
	(2) Current Liabilities		
	(a) Trade Payables		2,40,500
	(b) Other Current Liabilities	3	13,28,000
	(c) Short-Term Provisions	4	4,07,414
	Total		**40,25,500**
II	**ASSETS**		
	(1) Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible Assets	5	29,30,000
	(2) Current Assets		
	(a) Inventories		7,08,000
	(b) Trade Receivables	6	3,59,500
	(c) Cash and Cash Equivalents	7	28,000
	Total		**40,25,500**

Kapil Ltd.

Statement of Profit and Loss for the year ended 31st March, 2017

	Particulars	Note No.	(Rs.)
I	Revenue from Operations		36,17,000
II	Other Income	8	36,500
III	**Total Revenue [I + II]**		**36,53,500**
IV	Expenses:		
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,08,000]		-43,000
	Employee Benefits Expenses	9	13,93,000
	Finance Costs	10	1,11,000

	Depreciation and Amortization Expenses		1,20,000
	Other Expenses	11	4,40,000
	Total Expenses		**32,53,500**
V	**Profit before Tax (III-IV)**		4,00,000
VI	**Tax Expenses @ 30%**		(1,20,000)
VII	**Profit for the period**		2,80,000

Notes to Accounts :

1. Share Capital :

Authorized Capital	
5,00,000 Equity Shares of Rs.10 each	50,00,000
Issued Capital	
2,00,000 Equity Shares of Rs.10 each	20,00,000
Subscribed Capital and fully paid	
1,95,000 Equity Shares of Rs.10 each	19,50,000
Subscribed Capital but not fully paid	
5,000 Equity Shares of Rs.10 each Rs.8 paid	40,000
(Call unpaid Rs.10,000)	19,90,000

2. Reserves and Surplus

General Reserve		7,000
Surplus i.e. Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	2,80,000	
Less: Transfer to Reserve @ 2.5%	(7,000)	
Less: Equity Dividend [12% of (20,00,000-10,000)]	(2,38,800)	
Less: Corporate Dividend Tax (Working note)	(48,614)	52,586
		59,586

3. Other Current Liabilities :

Bank Overdraft	12,67,000
Outstanding Expenses [25,000+36,000]	61,000
	13,28,000

4. Short-term Provisions :

Provision for Tax	1,20,000
Equity Dividend payable	2,38,800
Corporate Dividend Tax	48,614
	4,07,414

5. **Tangible Asset**

Particulars	Value given (Rs.)	Depreciation rate	Depreciation Charged (Rs.)	Written down value at the end (Rs.)
Land	16,25,000		-	16,25,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Patterns	3,75,000	10%	37,500	3,37,500
Engineering Tools	1,50,000	20%	30,000	1,20,000
	30,50,000		1,20,000	29,30,000

6. **Trade Receivables :**

Trade receivables (4,00,500-16,000)	3,84,500
Less: Provision for doubtful debts	(25,000)
	3,59,500

7. **Cash and Cash Equivalent :**

Cash Balance	8,000
Bank Balance in current A/c	20,000
	28,000

8. **Other Income :**

Miscellaneous Income (Transfer fees)	6,500
Rental Income	30,000
	36,500

9. **Employee benefits expenses :**

Wages	13,68,000
Add : Outstanding wages	25,000
	13,93,000

10. **Finance Cost**

Interest on Bank overdraft	1,11,000

11. **Other Expenses**

Carriage Inward	57,500
Discount & Rebates	30,000
Advertisement	15,000

Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,000] (Business Expenses)	92,000
Bad Debts [25,500+16,000]	41,500
Provision for Doubtful Debts	25,000
	4,40,000

Working Note :

Calculation of grossing-up of dividend:

Particulars	Rs.
Dividend distributed by Company	2,38,800
Add: Increase for the purpose of grossing up of dividend	42,141
2,38,800 x [15/(100-15)]	
Gross dividend	2,80,941
Dividend distribution tax @ 17.304%	48,614

Question 2 : Nov – 2018 – RTP

You are required to prepare a Balance Sheet as at 31st March 2018, as per Schedule III of the Companies Act, 2013, from the following information of Mehar Ltd. :

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Term Loans (Secured)	40,00,000	Investments (Non-current)	9,00,000
Trade payables	45,80,000	Profit for the year	32,00,000
Other advances	14,88,000	Trade receivables	49,00,000
Cash and Bank Balances	38,40,000	Miscellaneous Expenses	2,32,000
Staff Advances	2,20,000	Loan from other parties	8,00,000
Provision for Taxation	10,20,000	Provision for Doubtful Debts	80,000
Securities Premium	19,00,000	Stores	16,00,000
Loose Tools	2,00,000	Fixed Assets (WDV)	2,26,00,000
General Reserve	62,00,000	Finished Goods	30,00,000
Capital Work-in- progress	8,00,000		

Additional Information :-

1. Share Capital consist of-
   (a) 1,20,000 Equity Shares of Rs.100 each fully paid up.
   (b) 40,000, 10% Redeemable Preference Shares of Rs.100 each fully paid up.
2. The company declared dividend @ 5% of equity share capital. The dividend distribution tax rate is 17.304%. (15% CDT, surcharge 12%, Education Cess 2% and SHEC @ 1%)
3. Depreciate Assets by Rs.20,00,000.

Solution :

Balance Sheet of Mehar Ltd. as at 31st March, 2018

			Note	Rs.
(I)	**EQUITY AND LIABILITIES:**			
	(1)	(a) Share Capital	1	1,60,00,000
		(b) Reserves and Surplus	2	98,64,424
	(2)	**Non-current Liabilities**		
		Long term Borrowings- Terms Loans (Secured)		40,00,000
	(3)	**Current Liabilities**		
		(a) Trade Payables	-	45,80,000
		(b) Other current liabilities	3	20,03,576
		(c) Short-term Provisions (Provision for taxation)		10,20,000
		Total		**3,74,68,000**
(II)	**ASSETS**			
	(1)	**Non-current Assets**		
		(a) Fixed Assets:		
		(i) Tangible Assets	4	2,06,00,000
		(ii) Capital WIP		8,00,000
		(b) Non- current Investments		9,00,000
	(2)	**Current Assets:**		
		(a) Inventories	5	48,00,000
		(b) Trade Receivables	6	48,20,000
		(c) Cash and Cash Equivalents		38,40,000
		(d) Short-term Loans and Advances	7	17,08,000
		Total		**3,74,68,000**

Note to accounts

			Rs.
	Share Capital		
1	Authorized, issued, subscribed & called up		
	1,20,000, Equity Shares of Rs. 100 each	1,20,00,000	
	40,000 10% Redeemable Preference Shares of 100 each	40,00,000	1,60,00,000
2	**Reserves and Surplus**		
	Securities Premium Account	19,00,000	
	General reserve	62,00,000	
	Profit & Loss Balance		
	Opening balance		

	Profit for the period	32,00,000		
	Less: Miscellaneous Expenditure written off	(2,32,000)		
		29,68,000		
	Less: Appropriations			
	Dividend	(10,00,000)		
	Dividend distribution tax	(2,03,576)	17,64,424	98,64,424
3	**Other current liabilities**			
	Loan from other parties		8,00,000	
	Dividend		10,00,000	
	Dividend Distribution tax [W.N]		2,03,576	20,03,576
4	**Tangible assets**			
	Fixed Assets			
	Opening balance		2,26,00,000	
	Less: Depreciation		(20,00,000)	2,06,00,000
	Closing balance			
5	**Inventories**			
	Finished Goods		30,00,000	
	Stores		16,00,000	
	Loose Tools		2,00,000	48,00,000
6	**Trade Receivables**			
	Trade receivables		49,00,000	
	Less: Provision for Doubtful Debts		(80,000)	48,20,000
7	**Short term loans & Advances**			
	Staff Advances		2,20,000	
	Other Advances		14,88,000	17,08,000

Working Note:

Calculation of Dividend distribution tax

(i) Grossing-up of dividend :

		Rs.
Dividend distributed by Mehar Ltd.		
Equity shares dividend	6,00,000	
Preference share dividend	4,00,000	10,00,000
Add: Increase for the purpose of grossing up of dividend		1,76,470
10,00,000 x [15 /(100-15)]		
Gross dividend		11,76,470

(ii) Dividend distribution tax @ 17.304% 2,03,576

Question 3 : Nov – 2018 – RTP

PQ Ltd., a non-investment company has been incurring losses for the past few years. The company provides the following information for the current year:

	(Rs. in lakhs)
Paid up equity share capital	180
Paid up preference share capital	30
Reserves (including Revaluation reserve Rs.15 lakhs)	225
Securities premium	60
Long term loans	60
Deposits repayable after one year	30
Application money pending allotment	1080
Accumulated losses not written off	30
Investments	270

PQ Ltd. has only one whole-time director, Mr. Hello. You are required to calculate the amount of maximum remuneration that can be paid to him as per provisions of Companies Act, 2013, if no special resolution is passed at the general meeting of the company in respect of payment of remuneration for a period not exceeding three years.

Solution :

Calculation of effective capital and maximum amount of monthly remuneration

	(Rs. in lakhs)
Paid up equity share capital	180
Paid up Preference share capital	30
Reserve excluding Revaluation reserve (225-15)	210
Securities premium	60
Long term loans	60
Deposits repayable after one year	30
	570
Less: Accumulated losses not written off	(30)
Investments	(270)
Effective capital for the purpose of managerial remuneration	270

Since PQ Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration, managerial remuneration will be calculated on the basis of effective capital of the company, therefore maximum remuneration payable to the Managing Director should be @ Rs.60,00,000 per annum*.

*If the effective capital is less then 5 Crore, limit of yearly remuneration payable should not exceed Rs.60 lakhs as per Companies Act, 2013.

Question 4 : May – 2019 – RTP

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

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

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

1. Closing Stock was valued at Rs.4,27,500.
2. Purchases include Rs.15,000 worth of goods and articles distributed among valued customers.
3. Salaries and Wages include Rs.6,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".
4. Bills Receivable include Rs.4,500 being dishonoured bills. 50% of which had been considered irrecoverable.

5. Bills Receivable of Rs.6,000 maturing after 31st March were discounted.
6. Depreciation on Furniture to be charged at 10% on Written Down Value.
7. Investment in shares is to be treated as non-current investments.
8. Interest on Debentures for the half year ending on 31st March was due on that date.
9. Provide Provision for taxation Rs.12,000.
10. Technical Knowhow Fees is to be written off over a period of 10 years.
11. Salaries and Wages include Rs.30,000 being Director's Remuneration.
12. Trade receivables include Rs.18,000 due for more than six months.

Solution :

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

	Particulars	Note	Rs.
I	Revenue from Operations		20,11,050
II	Other income (Divided income)		12,750
III	Total Revenue (I &+ II)		20,23,800
IV	Expenses:		
	(a) Purchases (14,71,500 – Advertisement Expenses 15,000)		14,56,500
	(b) Changes in Inventories of finished Goods / Work in progress (4,35,600 – 4,27,500)		8,100
	(c) Employee Benefits expense	**9**	1,20,000
	(d) Finance costs	**10**	51,900
	(e) Depreciation & Amortization Expenses [10% of (1,05,000 + 6,000)]		11,100
	(f) Other Expenses	**11**	3,47,550
	Total Expenses		**19,95,150**
V	Profit before exceptional, extraordinary items and tax (III-IV)		28,650
VI	Exceptional items		-
VII	Profit before extra ordinary items and tax (V-IV)		28,650
VIII	Extraordinary items		-
IX	Profit before tax (VII-VIII)		28,650
X	Tax expense:		
	Current Tax		12,000
XI	Profit/Loss for the period (after tax)		16,650

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

		Particulars as on 31st March	Note	Rs.
I	**Equity and Liabilities**			

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

Note: There is a Contingent liability for Bills receivable discounted with Bank Rs.6,000.

Notes to accounts

			Rs.
1	**Share Capital**		
	Authorized		
	90,000 Equity Shares of Rs.10 each	9,00,000	
	6,000 6% Preference shares of Rs.100 each	6,00,000	15,00,000
	Issued, subscribed & called up		
	60,000, Equity Shares of Rs.10 each	6,00,000	
	6,000 6% Redeemable Preference Shares of 100 each	6,00,000	12,00,000
2	**Reserves and Surplus**		
	Balance as on 1st April, 2017	85,500	
	Add: Surplus for current year	16,650	1,02,150

	Less: Preference Dividend			36,000
	Balance as on 31st March, 2018			66,150
3	**Long Term Borrowings**			
	5% Mortgage Debentures (Secured against Freehold Properties)			4,50,000
4	**Short Term Borrowings**			
	Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables)			4,50,000
5	**Other Current liabilities**			
	Interest Accrued and due on Borrowings (5% Debentures)		11,250	
	Unpaid Preference Dividends		18,000	29,250
6	**Tangible Fixed assets**			
	Furniture			
	Furniture at Cost Less depreciation Rs.45,000 (as given in Trial Balance		1,05,000	
	Add: Depreciation		45,000	
	Cost of Furniture		1,50,000	
	Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages		6,000	
	Total Gross block of Furniture A/c		1,56,000	
	Accumulated Depreciation Account: Opening Balance- given in Trial Balance	45,000		
	Depreciation for the year:			
	On Opening WDV at 10% i.e. (10% x 1,05,000)	10,500		
	On additional purchase during the year at 10% i.e. (10% x 6,000) 600	600		
	Less: Accumulated Depreciation		56,100	99,900
	Freehold property (at cost)			10,50,000
				11,49,900
7	**Intangible Fixed Assets**			
	Technical knowhow		4,50,000	
	Less: Written off		45,000	4,05,000
8	**Trade Receivables**			
	Sundry Debtors			
	(a) Debt outstanding for more than six months		18,000	
	(b) Other Debts (refer Working Note)		1,34,550	

	Bills Receivable (1,24,500 -4,500)	1,20,000	2,72,550
9	**Employee benefit expenses**		
	Amount as per Trial Balance	1,56,000	
	Less: Wages incurred for installation of electrical fittings to be capitalised	6,000	
	Less: Directors' Remuneration shown separately	30,000	
	Balance amount		1,20,000
10	**Finance Costs**		
	Interest on bank overdraft	29,400	
	Interest on debentures	22,500	51,900
11	**Other Expenses**		
	Payment to the auditors	18,000	
	Director's remuneration	30,000	
	Selling expenses	2,37,300	
	Technical knowhow written of (4,50,000/10)	45,000	
	Advertisement (Goods and Articles Distributed)	15,000	
	Bad Debts (4,500 x50%)	2,250	3,47,550

Working Note :

Calculation of Sundry Debtors-Other Debts

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

Question 5 : May – 2019 – Paper

Summarised Balance Sheet of Cloth Trader as on 31.03.2017 is given below :

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

Additional Information is as follows :

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

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

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

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

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

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

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

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

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

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

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

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

Solution :

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

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

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

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

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

Question 6 : Nov – 2019 – RTP

The following balance appeared in the books of Oliva Company Ltd. as on 31-03-2019.

Particulars		Rs.	Particulars		Rs.
Inventory 01-04-2018			Sales		17,10,000
Raw Material	30,000		Interest		3,900
Finished goods	46,500	76,500	Profit and Loss A/c		48,000
Purchases		12,15,000	Share Capital		3,15,000
Manufacturing Expenses		2,70,000	Secured Loans:		
Salaries and wages		40,200	Short-term	4,500	
General Charges		16,500	Long-term	21,000	25,500
Interim Dividend paid (inclusive of Dividend Distribution Tax)		27,000	Fixed Deposits (unsecured):		
Building		1,01,000	Short -term	1,500	
Plant and Machinery		70,400	Long - term	3,300	4,800
Furniture		10,200	Trade payables		3,27,000
Motor Vehicles		40,800			
Stores and Spare Parts Consumed		45,000			
Investments:					
Current	4,500				
Non-Current	7,500	12,000			
Trade receivables		2,38,500			
Cash in Bank		2,71,100			
		24,34,200			**24,34,200**

From the above balance and the following information, prepare the company's Profit and Loss Account for the year ended 31st March, 2019 and Company's Balance Sheet as on that date:

1. Inventory on 31st March,2019 Raw material Rs.25,800 & finished goods Rs.60,000.
2. Outstanding Expenses: Manufacturing Expenses Rs.67,500 & Salaries & Wages Rs.4,500.
3. Interest accrued on Securities Rs.300.
4. General Charges prepaid Rs.2,490.
5. Provide depreciation: Building @ 2% p.a., Machinery @ 10% p.a., Furniture @ 10% p.a. & Motor Vehicles @ 20% p.a.
6. Current maturity of long term loan is Rs.1,000.
7. The Taxation provision of 40% on net profit is considered.

Solution :

Oliva Company Ltd.

Statement of Profit and loss for the year ended 31.03.2019

(Rs.)

	Particulars	Note	Amount.
I	Revenue from operations		17,10,000
II	Other income (3,900 +300)		4,200
III	**Total Revenue (I +II)**		17,14,200
IV	Expenses:		
	Cost of materials consumed	10	12,64,200
	Purchases of inventory-in-trade		--
	Changes in inventories of finished goods, work-in-progress and inventory-in-Trade	11	-13,500
	Employee benefit expenses	12	44,700
	Finance costs		--
	Depreciation and amortization expenses		18,240
	Other expenses	13	3,51,510
	Total Expenses		16,65,150
V	Profit before exceptional and extraordinary items and tax		49,050
VI	Exceptional items		--
VII	Profit before extraordinary items and tax		49,050
VIII	Extraordinary items		--
IX	Profit before tax		49,050
X	Tax expense (40% of 49,050)		19,620
XI	Profit/Loss for the period from continuing operations		29,430

Oliva Company Ltd.

Balance Sheet for the year ended 31.03.2019

		Particulars	Note	Amount
I	**Equity and Liabilities**			
	1	**Shareholders' funds**		
		(a) Share Capital		3,15,000
		(b) Reserves and surplus	1	50,430
	2	**Non-current liabilities**		
		(a) Long-term borrowings	2	23,300
	3	**Current Liabilities**		
		(a) Short -term borrowings	3	6,000
		(b) Trade payables		3,27,000
		(c) Other current liability	4	73,000

		(d)	Short term provision	5	19,620
II	ASSETS				8,14,350
	1	**Non current assets**			
		(a)	Property, Plant & equipment		
			(i) Tangible assets	6	2,04,160
		(b)	Non-current investments		7,500
	2	**Current assets**			
		(a)	Current investments		4,500
		(b)	Inventories	7	85,800
		(c)	Trade receivables		2,38,500
		(d)	Cash and cash equivalents		2,71,100
		(e)	Short-term loans and advances	8	2,490
		(f)	Other current assets	9	300
					8,14,350

Notes to accounts

No.	Particulars		Amount	Amount
1	**Reserve & Surplus**			
	Profit & Loss Account: Balance b/f		48,000	
	Net Profit for the year		29,430	
	Less: Interim Dividend including DDT		(27,000)	50,430
2	**Long term borrowings**			
	Secured loans (21,000 less current maturities 1,000)		20,000	
	Fixed Deposits: Unsecured		3,300	23,300
3	**Short term borrowings**			
	Secured loans		4,500	
	Fixed Deposits -Unsecured		1,500	6,000
4	**Other current liabilities**			
	Expenses Payable (67,500 + 4,500)		72,000	
	Current maturities of long term borrowings		1,000	73,000
5	**Short term provisions**			
	Provision for Income tax			19,620
6	**Tangible Assets**			
	Building	1,01,000		
	Less: Depreciation @ 2%	(2,020)	98,980	
	Plant & Machinery	70,400		
	Less: Depreciation @10%	(7,040)	63,360	
	Furniture	10,200		

	Less: Depreciation @10%	(1,020)	9,180	
	Motor vehicles	40,800		
	Less: Depreciation @20%	(8,160)	32,640	2,04,160
7	**Inventory:**			
	Raw Material		25,800	
	Finished goods		60,000	85,800
8	**Short term Loans & Advances**			
	General Charges prepaid			2,490
9	**Other Current Assets:**			
	Interest accrued			300
10	**Cost of material consumed**			
	Opening inventory of raw Material & Stores	30,000		
	Add: Purchases	12,15,000		
	Stores & Spare parts consumed	(45,000)	12,90,000	
	Less: Closing inventory		(25,800)	12,64,200
11	**Changes in inventory of Finished Goods & WIP**			
	Closing Inventory of Finished Goods		60,000	
	Less: Opening Inventory of Finished Goods		46,500	13,500
12	**Employee Benefit expenses**			
	Salary & Wages (40,200 + 4,500)			44,700
13	**Other Expenses:**			
	Manufacturing Expenses		3,37,500	
	(2,70,000 + 67,500)			
	General Charges (16,500 – 2,490)		14,010	3,51,510

Question 7 : Nov – 2019 – RTP

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

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

Liabilities	Rs.
Authorized capital:	
15,000, 14% preference shares of Rs.100	15,00,000
1,50,000 Equity shares of Rs.100 each	1,50,00,000
	1,65,00,000
Issued and subscribed capital:	
15,000, 14% preference shares of Rs.100 each fully paid	15,00,000
1,20,000 Equity shares of Rs.100 each, Rs.80 paid-up	96,00,000
Capital reserves (Rs.1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000

Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,25,000

You are required to compute Effective Capital as per the provisions of Schedule V to the Companies Act, 2013.

Solution :

Computation of Effective Capital

		Rs.
Paid-up share capital-		
15,000, 14% Preference shares		15,00,000
1,20,000 Equity shares		96,00,000
Capital reserves (excluding revaluation reserve)		45,000
Securities premium		50,000
15% Debentures		65,00,000
	(A)	1,76,95,000
Investments		75,00,000
Profit and Loss account (Dr. balance)		15,25,000
	(B)	90,25,000
Effective capital	(A-B)	86,70,000

Question 8 : Nov – 2019 – Paper

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

Particulars	**Debit (Rs.)**	**Credit (Rs.)**
Equity share capital (face value of Rs.10 each)		15,00,000
Calls-in-arrears	5,000	
Land	5,50,000	
Building	4,85,000	
Plant & machinery	5,60,000	
General reserve		2,70,000
Loan from State Financial Corporation		2,10,000
Inventories	3,15,000	
Provision for taxation		72,000
Trade receivables	2,95,000	
Short-term loans & advances	58,500	
Profit & loss account		1,06,800
Cash in hand	37,300	
Cash at bank	2,85,000	

Unsecured loans		1,65,000
Trade payables		2,67,000
Total	**25,90,800**	**25,90,800**

The following additional information is also provided :

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

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

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

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

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

Solution :

Prashant Ltd.

Balance Sheet as on 31st March, 2019

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

Notes to accounts :

			Rs.
1	Share Capital		
	Equity share capital		
	Issued & subscribed & fully paid up		
	1,50,000 Equity Shares of Rs.10 each		
	(of the above 10,000 shares have been issued for consideration other than cash)	15,00,000	
	Less: Calls in arrears	(5,000)	14,95,000
2	Reserves and Surplus		
	General Reserve		2,70,000
	Profit & Loss balance		1,06,800
	Total		**3,76,800**
3	Long-term borrowings		
	Secured		
	Loan from State Financial Corporation (2,10,000-10,000)		
	(Secured by hypothecation of Plant and Machinery)		2,00,000
	Unsecured Loan		1,65,000
	Total		**3,65,000**
4	Other current liabilities		
	Interest accrued but not due on loans (SFC)		10,000
5	Short-term provisions		
	Provision for taxation		72,000
6	Property, Plant & Equipment		
	Land		5,50,000
	Building	5,50,000	
	Less: Depreciation(b.f.)	(65,000)	4,85,000
	Plant & Machinery	6,25,000	
	Less: Depreciation (b.f.)	(65,000)	5,60,000
	Total		**15,95,000**
7	Trade receivables		
	Outstanding for a period exceeding six months		55,000
	Other Amounts		2,40,000
	Total		**2,95,000**
	Cash and bank balances		
	Cash and cash equivalents		
	Cash at bank		2,85,000

	Cash in hand		37,300
	Other bank balances		Nil
	Total		**3,22,300**

Question 9 : May – 2020 – RTP

On 31st March 2019, Gaurav Ltd. provides you the following particulars:

Particulars		**Debit Rs.**	**Credit Rs.**
Equity Share Capital (Face value of Rs.100 each)			12,50,000
Call in Arrears		1,250	
Land & Building		6,87,500	
Plant & Machinery		6,56,250	
Furniture		62,500	
General Reserve			2,62,500
Loan from State Financial Corporation			1,87,500
Stock:			
Raw Materials	62,500		
Finished Goods	2,50,000	3,12,500	
Provision for Taxation			1,60,000
Trade receivables		2,50,000	
Advances		53,375	
Profit & Loss Account			1,08,375
Cash in Hand		37,500	
Cash at Bank		3,08,750	
Unsecured Loan			1,51,250
Trade payables			2,50,000

The following additional information is also provided:

(i) 2,500 Equity shares were issued for consideration other than cash.

(ii) Debtors of Rs.65,000 (included in trade receivables) are due for more than 6 months.

(iii) The cost of the Assets were:

Building Rs.7,50,000, Plant & Machinery Rs.8,75,000 and Furniture Rs.78,125

(iv) The balance of Rs.1,87,500 in the Loan Account with State Finance Corporation is inclusive of Rs.9,375 for Interest accrued but not due. The loan is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes Rs.2,500 with Global Bank Ltd., which is not a Scheduled Bank.

You are required to prepare the Balance sheet of Gaurav Ltd. as on 31st March, 2019 as per Schedule III to the Companies Act, 2013.

Solution :

Gaurav Ltd.

Balance Sheet as on 31st March, 2019

		Particulars	Notes	Rs.
I		**Equity and Liabilities**		
	1	**Shareholders' funds**		
	(a)	Share capital	**1**	12,48,750
	(b)	Reserves and Surplus	**2**	3,70,875
	2	**Non-current liabilities**		
		Long-term borrowings	**3**	3,29,375
	3	**Current liabilities**		
	(a)	Trade Payables		2,50,000
	(b)	Other current liabilities	**4**	9,375
	(c)	Short-term provisions	**5**	1,60,000
		Total		**23,68,375**
II		**Assets**		
	1	**Non-current assets**		
		PPE	**6**	14,06,250
	2	**Current assets**		
	(a)	Inventories	**7**	3,12,500
	(b)	Trade receivables	**8**	2,50,000
	(c)	Cash and cash equivalents	**9**	3,46,250
	(d)	Short-term loans and advances		53,375
		Total		**23,68,375**

Notes to accounts :

			Rs.
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	12,500 Equity Shares of Rs.100 each		
	(of the above 2,500 shares have been issued consideration other than cash)	12,50,000	
	Less: Calls in arrears	(1,250)	12,48,750
	Total		**12,48,750**
2	**Reserves and Surplus**		
	General Reserve		2,62,500
	Surplus (Profit & Loss A/c)		1,08,375
	Total		**3,70,875**

	Long-term borrowings		
	Secured Term Loan		
	State Financial Corporation Loan (1,87,500 - 9,375)		
	(Secured by hypothecation of Plant and Machinery)		1,78,125
	Unsecured Loan		1,51,250
	Total		**3,29,375**
4	**Other current liabilities**		
	Interest accrued but not due on loans (SFC)		9,375
5	**Short-term provisions**		
	Provision for taxation		1,60,000
	PPE		
	Land and Building	7,50,000	
	Less: Depreciation	(62,500)	6,87,500
	Plant & Machinery	8,75,000	
	Less: Depreciation	(2,18,750)	6,56,250
	Furniture & Fittings	78,125	
	Less: Depreciation	(15,625)	62,500
	Total		**14,06,250**
7	**Inventories**		
	Raw Materials		62,500
	Finished goods		2,50,000
	Total		**3,12,500**
8	**Trade receivables**		
	Outstanding for a period exceeding six months		65,000
	Other Amounts		1,85,000
	Total		**2,50,000**
9	**Cash and cash equivalents**		
	Cash at bank		
	with Scheduled Banks	3,06,250	
	with others (Global Bank Ltd.)	2,500	3,08,750
	Cash in hand		37,500
	Total		**3,46,250**

Question 10 : May – 2020 – RTP / Nov – 2020 - Paper

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

	Rs.		Rs.
To Administrative, Selling and distribution expenses	41,12,710	Balance b/d	28,61,750
To Directors fees	6,73,900	Balance from Trading A/c	201,26,825

To Interest on debentures	1,56,200	Subsidies received from Govt.	13,69,625
To Managerial remuneration	14,26,750		
To Depreciation on fixed assets	26,12,715		
To Provision for Taxation	62,12,500		
To General Reserve	20,00,000		
To Investment Revaluation Reserve	62,500		
To Balance c/d	71,00,925		
	243,58,200		**243,58,200**

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

Solution :

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

	Rs.	Rs.
Balance from Trading A/c		201,26,825
Add: Subsidies received from Government		13,69,625
		214,96,450
Less: Administrative, selling and distribution expenses	41,12,710	
Director's fees	6,73,900	
Interest on debentures	1,56,200	
Depreciation on fixed assets as per Schedule II	28,76,725	(78,19,535)
Profit u/s 198		136,76,915

Question 11 : Nov – 2020 – RTP

On 31st March, 2020, Om Ltd. provides to you the following ledger balances after preparing its Profit and Loss Account for the year ended 31st March, 2020:

Credit Balances :

	Rs.
Equity shares capital (fully paid shares of Rs. 10 each)	1,05,00,000
General Reserve	21,84,000
Loan from State Finance Corporation	15,75,000
(Secured by hypothecation of Plant & Machinery - Repayable within one year Rs. 3,00,000)	
Loans: Unsecured (Long term)	12,70,500
Sundry Creditors for goods & expenses (Payable within 6 months)	21,00,000
Profit & Loss Account	10,50,000
Provision for Taxation	12,25,350

	199,04,850

Debit Balances :

	Rs.
Calls in arrear	10,500
Land	21,00,000
Buildings	30,75,000
Plant and Machinery	55,12,500
Furniture & Fixture	5,25,000
Inventories : Finished goods	21,00,000
Raw Materials	5,25,000
Trade Receivables	21,00,000
Advances: Short-term	4,48,350
Cash in hand	3,15,000
Balances with banks	25,93,500
Patents & Trade marks	6,00,000
	199,04,850

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

(i) 6,30,000 fully paid equity shares were allotted as consideration for land & buildings.

(ii) Cost of Building Rs. 42,00,000
Cost of Plant & Machinery Rs. 73,50,000
Cost of Furniture & Fixture Rs. 6,56,250

(iii) Trade receivables for Rs. 5,70,000 are due for more than 6 months.

(iv) The amount of Balances with Bank includes Rs. 27,000 with a bank which is not a scheduled Bank and the deposits of Rs. 7,50,000 are for a period of 9 months.

(v) Unsecured loan includes Rs. 3,00,000 from a Bank and Rs. 1,50,000 from related parties.

You are not required to give previous year figures. You are required to prepare the Balance Sheet of the Company as on 31st March, 2020 as required under Schedule III of the Companies Act, 2013.

Solution :

Om Ltd.

Balance Sheet as on 31st March, 2020

		Particulars	**Notes**	**Figures at the end of current reporting period (Rs.)**
I.		**Equity and Liabilities**		
1		**Shareholders' funds**		
	a	Share capital	1	1,04,89,500
	b	Reserves and Surplus	2	32,34,000

2		**Non-current liabilities**		
	a	Long-term borrowings	3	25,45,500
3		**Current liabilities**		
	a	Trade Payables		21,00,000
	b	Other current liabilities	4	3,00,000
	c	Short-term provisions	5	12,25,350
		Total		**1,98,94,350**
II.		**Assets**		
1		**Non-current assets**		
	a	Property, Plant and Equipment	6	1,12,12,500
	b	Intangible assets (Patents & Trade Marks)		6,00,000
2		**Current assets**		
	a	Inventories	7	26,25,000
	b	Trade receivables	8	21,00,000
	c	Cash and cash equivalents	9	29,08,500
	d	Short-term loans and advances		4,48,350
		Total		**1,98,94,350**

Note to Accounts :

			Rs.
1	**Share Capital**		
	Equity share capital		
	Issued, subscribed and called up		
	10,50,000 Equity Shares of Rs. 10 each (Out of the above 6,30,000 shares have been issued for consideration other than cash)	1,05,00,000	
	Less: Calls in arrears	(10,500)	1,04,89,500
	Total		**1,04,89,500**
2	**Reserves and Surplus**		
	General Reserve		21,84,000
	Surplus (Profit & Loss A/c)		10,50,000
	Total		**32,34,000**
3	**Long-term borrowings**		
	Secured		
	Term Loans		
	Loan from State Finance Corporation		
	(Rs. 15,75,000 less Rs. 3,00,000) (Secured by hypothecation of Plant and Machinery)		12,75,000
	Unsecured		

	Bank Loan	3,00,000	
	Loan from related parties	1,50,000	
	Others	8,20,500	12,70,500
	Total		**25,45,500**
4	**Other current liabilities**		
	Loan Instalment repayable within one year		3,00,000
5	**Short-term provisions**		
	Provision for taxation		12,25,350
6	**Property, Plant and Equipment**		
	Land		21,00,000
	Buildings	42,00,000	
	Less: Depreciation	(11,25,000)	30,75,000
	Plant & Machinery	73,50,000	
	Less: Depreciation	(18,37,500)	55,12,500
	Furniture & Fittings	6,56,250	
	Less: Depreciation	(1,31,250)	5,25,000
	Total		**1,12,12,500**
7	**Inventories**		
	Raw Material		5,25,000
	Finished goods		21,00,000
			26,25,000
8	**Trade receivables**		
	Debts outstanding for a period exceeding six months		5,70,000
	Other Debts		15,30,000
	Total		**21,00,000**
9	**Cash and cash equivalents**		
	Cash at bank with Scheduled Banks including Bank deposits for period of 9 months amounting Rs. 7,50,000	25,66,500	
	with others	27,000	25,93,500
	Cash in hand		3,15,000
	Total		**29,08,500**

Question 12 : Nov – 2020 – RTP

Kartik Ltd. is a non-investment company and has been incurring losses for the past few years. The company provides the following information for the current year:

	(Rs. in lakhs)
Paid up equity share capital	270
Paid up Preference share capital	45
Reserves (including Revaluation reserve Rs. 22.5 lakhs)	337.5

Securities premium	90
Long term loans	90
Deposits repayable after one year	45
Application money pending allotment	1620
Accumulated losses not written off	45
Investments	405

Kartik Ltd. has only one whole-time director, Mr. Kumar. You are required to calculate the amount of maximum remuneration that can be paid to him as per provisions of the Companies Act, 2013, if no special resolution is passed at the general meeting of the company in respect of payment of remuneration.

Solution :

Calculation of effective capital and maximum amount of monthly remuneration

	(Rs. in lakhs)
Paid up equity share capital	270
Paid up Preference share capital	45
Reserve excluding Revaluation reserve (337.5 – 22.5)	315
Securities premium	90
Long term loans	90
Deposits repayable after one year	45
Less : Accumulated losses not written off	855
Investments	(45)
Effective capital for the purpose of managerial remuneration	(405)
	405

Kartik Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration. Effective capital of the company is less than 5 crores, maximum remuneration payable to the Managing Director should be @ Rs. 60,00,000 per annum. (Revaluation reserve and application money pending allotment are not included while computing effective capital of Kartik Ltd.)

Question 13 : May – 2021 – RTP

XYZ Ltd. is having inadequacy of profits in the year ending 31-03-2021 and it proposes to declare 10% dividend out of General Reserves.

From the following particulars ascertain the amount that can be utilized from general reserves, according to the Companies (Declaration of Dividend out of Reserves) Rules, 2014: 5,00,000 Equity

Shares of Rs. 10 each fully paid up	50,00,000
General Reserves	25,00,000
Revaluation Reserves	6,50,000
Net profit for the year	1,42,500

Average rate of dividend during the last five years has been 12%.

Solution :

Amount that can be drawn from reserves for (10% dividend on Rs. 50,00,000 i.e. Rs. 5,00,000)

Profits available

Current year profit — Rs. 1,42,500

Amount which can be utilized from reserves (Rs. 5,00,000 – 1,42,500) — Rs. 3,57,500

Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 20X1:

Condition I

Since 10% is lower than the average rate of dividend (12%), 10% dividend can be declared.

Condition II

Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital plus free reserves ie. Rs. 7,50,000 [10% of (50,00,000 + 25,00,000)]

Condition III

The balance of reserves after drawl Rs. 21,42,500 (Rs. 25,00,000 - Rs. 3,57,500) should not fall below 15 % of its paid up capital ie. Rs. 7,50,000 (15% of Rs. 50,00,000]

Since all the three conditions are satisfied, the company can withdraw Rs. 3,57,500 from accumulated reserve (as per Declaration and Payment of Dividend Rules, 2014).

Question 14 : May – 2021 – RTP

Mohit Ltd. provides the following information as on 31st March, 2021:

Liabilities	**Rs.**
Authorized capital:	
1,00,000, 14% preference shares of Rs.100	1,00,00,000
10,00,000 Equity shares of Rs.100 each	10,00,00,000
	11,00,00,000
Issued and subscribed capital:	
77,500, 14% preference shares of Rs. 100 each fully	77,50,000
5,40,000 Equity shares of Rs. 100 each, Rs. 80 paid-up	4,32,00,000
Share suspense account	90,00,000
Reserves and surplus	
Capital reserves (Rs. 5,00,000 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.	3,50,50,000
Profit and Loss account (Dr. balance)	68,50,000

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

Solution :

Computation of effective capital:

Liabilities	**Where Mohit Ltd.is a non-investment company**	**Where Mohit Ltd.is an investment company**
Paid-up share capital —		
77,500, 14% Preference shares	77,50,000	77,50,000
5,40,000 Equity shares	4,32,00,000	4,32,00,000
Capital reserves	3,77,500	3,77,500
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)	8,24,67,500	8,24,67,500
Investments	3,50,50,000	-
Profit and Loss account (Dr. balance)	68,50,000	68,50,000
(B)	4,19,00,000	68,50,000
Effective capital (A–B)	4,05,67,500	7,56,17,500

Question 15 : July – 2021 – Paper

The following is the Trial Balance of H Ltd. as on 31st March, 2021.

	Dr.	**Cr.**
Equity Capital (Shares of 100 each)		8,05,000
5,000, 6% preference shares of Rs.100 each		5,00,000
9% Debentures		4,00,000
General Reserve		40,00,000
Profit & Loss A/c. (of previous year)		72,000
Sales		60,00,000
Trade Payables		10,40,000
Provision for Depreciation on Plant & Machinery		1,72,000
Suspense Account		40,000
Land at Cost	24,00,000	

Plant & Machinery at cost	7,70,000	
Trade Receivables	19,60,000	
Inventories (31.03.2020)	9,50,000	
Bank	2,30,900	
Adjusted Purchases	22,32,100	
Factory Expenses	15,00,000	
Administration Expenses	3,00,000	
Selling Expenses	14,00,000	
Debentures Interest	36,000	
Goodwill	12,50,000	
	1,30,29,000	**1,30,29,000**

Additional Information :

(i) The authorised share capital of the company is :

5,000, 6% preference shares of Rs.100 each 5,00,000

10,000, equity shares of Rs.100 each 10,00,000

Issued equity capital as on 1st April 2020 stood at Rs.7,20,000, that is 6,000 shares fully paid and 2,000 shares Rs.60 paid. The directors made a call of Rs.40 per share on 1st October 2020. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ Rs.90 per share as fully paid.

(ii) On 31st March 2021, the Erectors declared a dividend of 5% on equity shares, transferring any amount that may be required from General Reserve. Ignore Taxation.

(iii) The company on the advice of independent vainer wishes to revalue the land at Rs.36,00,000.

(iv) Suspense account of Rs.40,000 represents amount received for the sale of some of the machines on 1-4-2020, the cost of the machinery was Rs.1,00,000 and the accumulated depreciation thereon being Rs.30,000.

(v) Depreciation is to be provided on plant and machinery at 10% on cost.

(vi) Amortize 1/5th of Goodwill.

You are required to prepare H Limited's Balance Sheet as on 31-3-2021 and Statement of Profit and Loss with notes to accounts for the year ended 31-3,2021 as per Schedule III of the Companies Act, 2013. Ignore previous years' figures and taxation.

Solution :

M/s.H Ltd.

Balance Sheet as on 31.03.2021

	Particulars	Note	(Rs.)
I	**EQUITY AND LIABILITES**		
	(1) Shareholder's Funds		
	(a) Share Capital	1	13,00,000

	(b) Reserves and Surplus	2	53,81,900
	(2) Non-Current Liabilities		
	(a) Long term Borrowings	3	4,00,000
	(3) Current Liabilities		
	(a) Trade Payables	-	10,40,000
	(b) Other Current Liabilities	4	80,000
	Total		82,01,900
II	<u>**ASSETS**</u>		
	(1) Non-current Assets		
	(a) Property, Plant & Equipment	5	40,61,000
	(b) Intangible Assets	6	10,00,000
	(2) Current Assets		
	(a) Inventories		9,50,000
	(b) Trade Receivables		19,60,000
	(c) Cash & Cash Equivalents		2,30,900
	Total		82,01,900

Income Statement for year ended 31/3/2021

	Particulars	Note	(Rs.)
	Income		
1)	Revenue from operation		60,00,000
2)	Other income		-
	Total		**60,00,000**
	Expenses		
1)	Adjusted purchase		22,32,100
2)	Finance Cost	7	36,000
3)	Depreciation & Amortization	8	3,17,000
4)	Other Expenses	9	32,30,000
	Total		**58,15,100**
	Net Profit for the year		1,84,900

Notes to Accounts :

	Particulars	(Rs.)
1)	<u>**Share Capital**</u>	
	<u>Authorised :</u>	
	5,000, 6% Preference share of Rs.100 each	5,00,000
	10,000, equity shares of Rs.100 each	10,00,000
		15,00,000

	Issued, Subscribed & Paid up		
	5,000, 6% Preference share of Rs.100 each		5,00,000
	8,000 equity of Rs.100 each		8,00,000
			13,00,000
2)	**Reserves and surplus**		
	Capital Reserve		5,000
	General Reserve		40,00,000
	Profit & Loss A/c	72,000	
	+ Profit	1,84,900	
	- Dividend	80,000	1,76,900
	Revaluation Reserve		12,00,000
	Total		53,81,900
3)	**Long Term Borrowing**		
	9% Debenture		4,00,000
4)	**Other Current Liability**		
	Dividend on Equity		80,000
5)	**Property, Plant & Equipment**		
	Land & Building	24,00,000	
	+ Revaluation	12,00,000	36,00,000
	Plant & Machinery (7,70,000 - 1,00,000)	6,70,000	
	- PFD (1,72,000 - 30,000 + 67,000)	2,09,000	4,61,000
			40,61,000
6)	**Intangible Assets**		
	Goodwill	12,50,000	
		2,50,000	10,00,000
7)	**Finance Cost**		
	Debenture Interest		36,000
8)	**Depreciation & Amortization**		
	Depreciation on Property, Plant & Equipment		67,000
	Amortization of goodwill		2,50,000
			3,17,000
9)	**Other Expenses**		
	Factory Expenses		15,00,000
	Administrative expenses		3,00,000
	Selling expenses		14,00,000
	Loss on sale of Asset		30,000
			32,30,000

Working Note :

Sale of Asset					
Wrong Entry	=	Bank A/c	Dr.	40,000	
		To Suspense			40,000
Right Entry	=	Bank A/c	Dr.	40,000	
		PFD A/c	Dr.	30,000	
		Loss A/c	Dr.	30,000	
		To Asset			1,00,000
Reverse of wrong	=	Suspense A/c	Dr.	40,000	
		To Bank			40,000
Rectified	=	Suspense A/c	Dr.	40,000	
		PFD A/c	Dr.	30,000	
		Loss A/c	Dr.	30,000	
		To Asset			1,00,000

Question 16 : Nov – 2021 – RTP

Om Ltd. has the Authorised Capital of Rs. 15,00,000 consisting of 6,000 6% Redeemable Preference shares of Rs. 100 each and 90,000 equity Shares of Rs.10 each. The following was the Trial Balance of the Company as on 31st March, 2021:

Particulars	Dr.	Cr.
Investment in shares at cost (non-current investment)	1,50,000	
Purchases	14,71,500	
Selling expenses	2,37,300	
Inventory as at the beginning of the year	4,35,600	
Salaries and wages (included Rs. 30,000 being Director's Remuneration)	1,56,000	
Cash on hand	84,000	
Bills receivable	1,24,500	
Interest on Bank overdraft	29,400	
Interest on debentures upto 30th Sep (1st half year)	11,250	
Sundry Debtors and Sundry Creditors	1,50,300	2,63,550
Freehold property at cost	10,50,000	
Furniture at cost less depreciation of Rs. 45,000	1,05,000	
6% Redeemable Preference share capital		6,00,000
Equity share capital fully paid up		6,00,000
5% mortgage debentures secured on freehold properties		4,50,000
Dividends received		12,750
Profit and Loss A/c (opening balance)		85,500

Sales (Net)		20,11,050
Bank overdraft (secured by hypothecation of stocks and receivables)		4,50,000
Technical knowhow fees (cost paid during the year)	4,50,000	
Audit fees	18,000	
Total	**44,72,850**	**44,72,850**

Other Information:

1. Closing Stock was valued at Rs. 4,27,500.
2. Purchases include Rs. 15,000 worth of goods and articles distributed among valued customers.
3. Salaries and Wages include Rs. 6,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".
4. Bills Receivable include Rs. 4,500 being dishonoured bills. 50% of which had been considered irrecoverable.
5. Bills Receivable of Rs. 6,000 maturing after 31st March were discounted.
6. Depreciation on Furniture to be charged at 10% on Written Down Value.
7. Interest on Debentures for the half year ending on 31st March was due on that date.
8. Technical Knowhow Fees is to be written off over a period of 10 years.
9. Trade receivables include Rs. 18,000 due for more than six months.

You are required to prepare the Balance Sheet as at 31st March, 2021 and Statement of Profit and Loss for the year ended 31st March, 2021 as per Schedule III to the Companies Act, 2013 after taking into account the above information. Ignore taxation.

Solution :

Balance sheet of Om Ltd. as at 31st March, 2021

		Note	Rs.
(I)	**Equity and Liabilities**		
	(1) Shareholders' funds:		
	(a) Share capital	1	12,00,000
	(b) Reserves and surplus	2	1,14,150
	(2) Non-current liabilities:		
	Long term borrowings	3	4,50,000
	(3) Current liabilities:		
	(a) Short term borrowings	4	4,50,000
	(b) Trade payables		2,63,550
	(c) Other current liabilities	5	11,250
	Total		**24,88,950**
(II)	**ASSETS**		
	(1) Non- Current Assets:		
	(a) Pro perty, plant and equipment	6	11,49,900

	(b) Intangible assets	7	4,05,000
	(c) Non-current investments (Shares at cost)		1,50,000
(2)	Current Assets:		
	(a) Inventories		4,27,500
	(b) Trade receivables	8	2,72,550
	(c) Cash and Cash equivalents – Cash on hand		84,000
Total			**24,88,950**

Note: There is a Contingent liability for Bills receivable discounted with Bank Rs. 6000.

Statement of Profit and Loss of Om Ltd. for the year ended 31st March, 2021

	Particulars	**Note**	**Rs.**
I	Revenue from Operations		20,11,050
II	Other income (Dividend income)		12,750
III	Total Revenue (I &+ II)		20,23,800
IV	Expenses:		
	(a) Purchases of Inventory (14,71,500 – Advertisement Expenses 15,000)		14,56,500
	(b) Changes in Inventories of finished Goods / Work progress & inventory (4,35,600 – 4,27,500)		8,100
	(c) Employee Benefits expense	9	1,20,000
	(d) Finance costs	10	51,900
	(e) Depreciation & Amortization Expenses	11	56,100
	(f) Other Expenses	12	3,02,550
	Total Expenses		19,95,150
V	Profit before exceptional, extraordinary items and tax		28,650
VI	Exceptional items		-
VII	Profit before extra-ordinary items and tax		28,650
VIII	Extraordinary items		-
IX	Profit before tax		28,650

Notes to accounts

	Particulars		**Rs.**
1	***Share Capital***		
	Authorized capital:		
	90,000 Equity Shares of Rs. 10 each.	9,00,000	
	6,000 6% Preference shares of Rs. 100 each	6,00,000	
	Issued, subscribed & called up:		
	60,000, Equity Shares of Rs. 10 each	6,00,000	
	6,000 6% Redeemable Preference Shares of 100 each	6,00,000	

				12,00,000
2	**Reserves and Surplus**			
	Balance as on 1st April, 2020		85,500	
	Add: Surplus for current year		28,650	
	Balance as on 31st March, 2021			1,14,150
3	**Long Term Borrowings**			
	5% Mortgage Debentures (Secured against Freehold Properties)			4,50,000
4	**Short Term Borrowings**			
	Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables)			4,50,000
5	**Other Current liabilities**			
	Interest due on Borrowings (5% Debentures)			11,250
6	**Property, plant and equipment Furniture**			
	Furniture at Cost Less depreciation Rs. 45,000 (as given in Trial Balance		1,05,000	
	Add: Depreciation		45,000	
	Cost of Furniture		1,50,000	
	Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages		6,000	
	Total Gross block of Furniture A/c		1,56,000	
	Accumulated Depreciation Account: Opening Balance-given in Trial Balance	45,000		
	Depreciation for the year:			
	On Opening WDV at 10% i.e.			
	10% x 1,05,000)	10,500		
	On additional purchase during the year at 10% i.e. (10% x 6,000)	600		
	Less: Accumulated Depreciation		56,100	99,900
	Freehold property (at cost)			10,50,000
				11,49,900
7	**Intangible Assets**			
	Technical knowhow		4,50,000	
	Less: Written off		45,000	4,05,000
8	**Trade Receivables**			
	Sundry Debtors (a) Debt outstanding due more than six months		18,000	

	(b) Other Debts (refer Working Note)	1,34,550	
	Bills Receivable (1,24,500 - 4,500)	1,20,000	2,72,550
9	**Employee benefit expenses**		
	Salaries & Wages	1,56,000	
	Less: Wages incurred for installation of electrical fittings to be capitalised	6,000	
	Less: Directors' Remuneration shown separately	30,000	
	Balance amount		1,20,000
10	**Finance Costs**		
	Interest on bank overdraft	29,400	
	Interest on debentures	22,500	
			51,900
11	**Depreciation & Amortisation Expenses**		
	Depreciation [10% of (1,05,000 + 6,000)]	11,100	
	Technical knowhow written of (4,50,000/10)	45,000	56,100
12	**Other Expenses**		
	Payment to the auditors	18,000	
	Director's remuneration	30,000	
	Selling expenses	2,37,300	
	Advertisement (Goods and Articles Distributed)	15,000	
	Bad Debts (4,500 x 50%)	2,250	3,02,550

Working Note :

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

Question 17 : Nov – 2021 – RTP

Star Ltd. gives the following information the year ended 31st March, 2021:

	Rs.
Gross profit	60,38,048
Subsidies received from Govt.	4,10,888
Administrative, Selling and distribution expenses	12,33,813
Directors' fees	2,02,170

Interest on debentures	46,860
Managerial remuneration	4,28,025
Depreciation on Property, plant and equipment (PPE)	7,83,815
Provision for Taxation	18,63,750
Transfer to General Reserve	6,00,000
Transfer to Investment Revaluation Reserve	18,750

Depreciation on PPE as per Schedule II of the Companies Act, 2013 was Rs. 8,63,018

You are required to calculate the maximum amount of the managerial remuneration as allowed as per Companies Act, 2013.

Solution :

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

	Rs.	Rs.
Gross profit		60,38,048
Add: Subsidies received from Government		4,10,888
Less: Administrative, selling and distribution expenses	12,33,813	64,48,936
Director's fees	2,02,170	
Interest on debentures	46,860	
Depreciation on PPE as per Schedule II	8,63,018	(23,45,861)
Profit u/s 198		41,03,075

Maximum Managerial remuneration under Companies Act, 2013 = 11% of Rs.41,03,075 = Rs.4,51,338

Question 18 : Nov – 2021 – RTP

State under which head these accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:

(i) Share application money received in excess of issued share capital.

(ii) Share option outstanding account.

(iii) Unpaid matured debenture and interest accrued thereon.

(iv) Uncalled liability on shares and other partly paid investments.

(v) Calls unpaid.

Solution :

(i) Current Liabilities/ Other Current Liabilities

(ii) Shareholders' Fund / Reserve & Surplus

(iii) Current liabilities/Other Current Liabilities

(iv) Contingent Liabilities and Commitments

(v) Shareholders' Fund / Share Capital

Question 19 : Dec – 2021 – Paper

X Ltd., a non investment company has been incurring losses for the past few years. The company provides the following information for the current year :

	Rs. In lakhs
Paid up equity share capital	Rs.90
Paid up preference share capital	Rs.10
Reserves (including revaluation reserve Rs.5 lakhs)	Rs.75
Securities premium	Rs.30
Long term loans	Rs.20
Deposit repayable after one year	Rs.10
Application money pending allotment	Rs.360
Accumulated losses not written off	Rs.40
Investment	Rs.90

X Ltd. has only whose time director, Mr.Y. You are required to calculate the amount of maximum remuneration that can be paid to him if no special resolution is passed at the general meeting of the company in respect of payment of remuneration for period not exceeding three year.

Solution :

Calculation of effective capital and maximum amount of managerial remuneration

	(Rs. In lakhs)
Paid up equity share capital	90
Paid up Preference share capital	10
Reserve excluding Revaluation reserve (75 – 5)	70
Securities premium	30
Long term loans	20
Deposits repayable after one year	10
	230
Less: Accumulated losses not written off	(40)
Investments	(90)
Effective capital for the purpose of managerial remuneration	100

Since X Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration, managerial remuneration will be calculated on the basis of effective capital of the company as the effective capital is less than 5 crores. Therefore, maximum remuneration payable to the Managing Director should be @ Rs. 60,00,000 per annum.

Note: Revaluation reserve, and application money pending allotment are not included while computing effective capital of Kumar Ltd.

Question 20 : May – 2022 – RTP

Following is the trial balance of Delta limited as on 31.3.2021.

(Figures in Rs. '000)

Particulars	Debit	Particulars	Credit
Land at cost	800	Equity share capital (shares of Rs. 10 each)	500
Calls in arrears	5	10% Debentures	300
Cash in hand	2	General reserve	150
Plant & Machinery at cost	824	Profit & Loss A/c (balance on 1.4.20)	75
Trade receivables	120	Securities premium	40
Inventories (31-3-21)	96	Sales	1200
Cash at Bank	28	Trade payables	30
Adjusted Purchases	400	Provision for depreciation	150
Factory expenses	80	Suspense Account	10
Administrative expenses	45		
Selling expenses	25		
Debenture Interest	30		
	2455		**2455**

Additional Information :

(i) The authorized share capital of the company is 80,000 shares of Rs. 10 each.

(ii) The company revalued the land at Rs. 9,60,000.

(iii) Equity share capital includes shares of Rs. 50,000 issued for consideration other than cash.

(iv) Suspense account of Rs. 10,000 represents cash received from the sale of some of the machinery on 1.4.2020. The cost of the machinery was Rs. 24,000 and the accumulated depreciation thereon being Rs. 20,000. The balance of Plant & Machinery given in trial balance is before adjustment of sale of machinery.

(v) Depreciation is to be provided on plant and machinery at 10% on cost.

(vi) Balance at bank includes Rs. 5,000 with ABC Bank Ltd., which is not a Scheduled Bank.

(vii) Make provision for income tax @30%.

(viii) Trade receivables of Rs. 50,000 are due for more than six months.

You are required to prepare Delta Limited's Balance Sheet as at 31.3.2021 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.2021 as per Schedule Ill. Ignore previous year's figures & taxation.

Solution :

Delta Limited

Balance Sheet as at 31st March 2021

Particulars	Note No.	(Rs. in '000)
A. Equity and Liabilities		
1. Shareholders' funds		

	(a) Share Capital	1	495.00
	(b) Reserves and Surplus	2	807.20
2.	**Non-Current Liabilities**		
	(a) Long Term Borrowings	3	300.00
3.	**Current Liabilities**		
	(a) Trade Payables		30.000
	(b) Short- term provision	4	163.800
	Total		1796.000
B.	**Assets**		
1.	**Non-Current Assets**		
	(a) Property, Plant and Equipment	5	1,550.00
2.	**Current Assets**		
	(a) Inventories		96.00
	(b) Trade Receivables	6	120.00
	(c) Cash and Cash equivalents	7	30.00
	Total		1,796.00

Statement of Profit and Loss for the year ended 31st March 2021

Particulars		Note No.	(Rs. in '000)
I.	Revenue from Operations		1200.00
II.	Other Income	8	6.00
III.	Total Income (I +II)		1206.00
IV.	Expenses:		
	Purchases (adjusted)		400.00
	Finance Costs	9	30.00
	Depreciation (10% of 800)		80.00
	Other expenses	10	150.00
	Total Expenses		660.00
V.	Profit / (Loss) for the period before tax (III - IV)		546.00
VI.	Tax expenses @30%		163.80
VII.	Profit for the period		382.20

Notes to Accounts

	Particulars		(Rs. in '000)
1	Share Capital		
	Equity Share Capital		
	Authorised		
	80,000 Shares of Rs. 10/- each		800
	Issued, Subscribed and Called-up		
	50,000 Shares of Rs. 10/- each	500	

	(Out of the above 5,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	(5)	495
2	Reserves and Surplus		
	Securities Premium		40.00
	Revaluation Reserve Rs. (960 – 800)		160.00
	General Reserve		150.00
	Surplus i.e. Profit & Loss Account Balance		
	Opening Balance	75.00	
	Add: Profit for the period	382.20	457.20
			807.20
3	Long-Term Borrowings		
	10% Debentures		300
4	Short – term provision		
	Provision for tax		163.80
5	Property, plant & equipment		
	Land		
	Opening Balance	800	
	Add: Revaluation adjustment	160	
	Closing Balance		960
	Plant and Machinery		
	Opening Balance	824	
	Less: Disposed off	(24)	
		800	
	Less: Depreciation Rs. (150 – 20 + 80)	(210)	
	Closing Balance		590
	Total		1,550
6	Trade receivables		
	Debits outstanding for a period exceeding six months	50	
	Other debts	70	120
7	Cash and Cash Equivalents		
	Cash at Bank With scheduled banks	23	
	With others (ABC Bank Limited)	5	
	Cash in hand	2	30
8	Other Income		
	Profit on sale of machinery		
	Sale value of machinery	10	
	Less: Book value of machinery (24 – 20)	(4)	6
9	Finance Costs		

	Debenture Interest		30
10	Other Expenses:		
	Factory expenses	80	
	Selling expenses	25	
	Administrative expenses	45	150

Question 21 : May – 2022 – RTP

"Current maturities of long term borrowing are disclosed separately under the head Other current liabilities in the balance sheet of a company." You are required to comment in line with schedule III to the Companies Act 2013.

Solution :

Current maturities of loan term borrowing are shown under 'short term borrowings' and not under 'Other current liabilities' as per the amendment to Schedule III vide MCA notification dated 24th March, 2021. Hence the statement given in the question is not valid.

Question 22 : May – 2022 – RTP

The following is the extract of Balance Sheet of Jupiter Ltd. as at 31st March 2021:

	Rs.
Equity and Liabilities	
Authorized Capital:	
40,000, 14% preference shares of Rs. 100	40,00,000
4,00,000 Equity shares of Rs. 100 each	4,00,00,000
	4,40,00,000
Issued and Subscribed Capital:	
30,000, 14% Preference Shares of Rs.100 each, fully paid up	30,00,000
2,40,000 Equity Shares of Rs.100 each, Rs.80 paid-up	1,92,00,000
Share Suspense Account	40,00,000
Reserve & Surplus:	
Capital reserves (60% is revaluation reserve)	5,00,000
Securities Premium	1,00,000
Secured loans:	
15% Debentures	1,30,00,000
Unsecured loans:	
Public deposits	7,40,000
Cash credit loan from IDBI (short term)	9,30,000
Current Liabilities:	
Trade payables	6,90,000
Assets	

Investment in Shares, debentures, etc.	1,50,00,000
Profit and Loss Account	30,50,000
Preliminary expenses not written off	1,10,000

Share Suspense Account represents application money received on shares, the allotment of which is not yet made.

Jupiter Ltd. has been incurring losses for the last few years. Jupiter Ltd. has only one whole-time director.

You are required to compute effective capital as per provisions of schedule V to the Companies Act, 2013. Would your answer differ if Jupiter Ltd. is an investment company? Also calculate the amount of maximum remuneration that can be paid if no special resolution is passed at the general meeting of the company in respect of payment for a period not exceeding three years.

Solution :

Calculation of effective capital

Particulars	**Where Jupiter Ltd. is a non-investment Company (Rs.)**	**Where Jupiter Ltd. is an investment Company (Rs.)**
Paid-up share capital		
30,000, 14% Preference Shares	30,00,000	30,00,000
2,40,000 Equity Shares	1,92,00,000	192,00,000
Capital Reserves excluding revaluation reserve	2,00,000	2,00,000
Securities Premium	1,00,000	1,00,000
15% Debentures	1,30,00,000	1,30,00,000
Public Deposits	7,40,000	7,40,000
Total (A)	362,40,000	362,40,000
Investments	1,50,00,000	
Profit and Loss Account (Dr. balance)	30,50,000	30,50,000
Preliminary Expenses not written off	1,10,000	1,10,000
Total (B)	181,60,000	31,60,000
Effective Capital [A – B]	1,80,80,000	3,30,80,000

Effective capital of the company for both the situations is less than 5 crores. Hence maximum remuneration payable to director should be @ Rs. 60,00,000 per annum.

Question 23 : May – 2022 – Paper

The following information is provided by Exe Limited for 31st March, 2022 :

Particulars	**Rs.**
Net Profit before Income Tax and Managerial Remuneration, but after Depreciation and Provision for Repairs	9,40,000
Depreciation provided in the Books	4,05,000

Provision for repairs for Machinery during the year	35,000
Depreciation Allowable under Schedule II	3,40,000
Actual Expenditure incurred on Repairs during the year	25,000
Provision for Income Tax	1,50,000

You are required to calculate the Managerial Remuneration for Exe Limited as on 31st March, 2022 in the following situations :

(i) There is only one Whole Time Director.

(ii) There are two Whole Time Directors.

(iii) There are two Whole Time Directors, a part time Director and a Manager.

Solution :

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

	Rs.	Rs.
Net profit before income tax and managerial remuneration but after depreciation and provision for repairs		9,40,000
Add: Depreciation provided	4,05,000	
Provision for repairs	35,000	4,40,000
		13,80,000
Less : Repairs	25,000	
Depreciation as per schedule III	3,40,000	3,65,000
Profit u/s 198		10,15,000

Maximum Managerial remuneration under Companies Act, 2013

(i) When there is only one Whole time director: The remuneration payable to any one managing director; or whole-time director or manager should not exceed 5% of the net profits of the company. Therefore Managerial remuneration will be Rs. 50,750 i.e 5% of Rs.10,15,000.

(ii) When there are two Whole time directors: if there are more than one such director, remuneration should not exceed 10% of the net profits to all such directors and manager taken together. Therefore Managerial remuneration will be Rs.1,01,500 i.e 10% of Rs.10,15,000.

(iii) When there are two whole time directors, a part time director and a manager, then 11% of the net profits of the company. Therefore Managerial remuneration will be Rs. 1,11,650 i.e 11% of Rs.10,15,000.

Question 24 : Nov – 2022 – RTP

The following balance appeared in the books of Oliva Ltd. as on 31-03-2022.

Particulars		Rs.	Particulars		Rs.
Inventory 01-04-2021			Sales		17,10,000
– Raw materials	30,000		Interest		3,900

- Finished goods	46,500	76,500	Profit and Loss A/c		21,000
Purchases of raw material		12,60,000	Share Capital		3,15,000
Manufacturing Expenses		2,70,000	Secured Loans:		
Salaries and wages		40,200	Short-term	4,500	
General Charges		16,500	Long-term	21,000	25,500
Building		1,01,000	Fixed Deposits (unsecured):		
Plant and Machinery		70,400	Short -term	1,500	
Furniture		10,200	Long - term	3,300	4,800
Motor Vehicles		40,800	Trade payables		3,27,000
Investments:					
Current	4,500				
Non-Current	7,500	12,000			
Trade receivables		2,38,500			
Cash in Bank		2,71,100			
		24,07,200			**24,07,200**

From the above balance and the following information, prepare the company's statement of Profit and Loss for the year ended 31st March, 2022 and company's Balance Sheet as on that date:

1. Inventory on 31st March,2022- Raw material Rs. 25,800 and finished goods Rs. 60,000.
2. Outstanding Expenses: Manufacturing Expenses Rs. 67,500 & Salaries & Wages Rs. 4,500.
3. Interest accrued on Securities Rs. 300.
4. General Charges prepaid Rs. 2,490.
5. Provide depreciation: Building @ 2% p.a., Machinery @ 10% p.a., Furniture @ 10% p.a. & Motor Vehicles @ 20% p.a.
6. Current maturity of long term loan is Rs. 1,000.
7. The Taxation provision of 40% on net profit is considered.

Solution :

Oliva Ltd.

Balance Sheet as at 31.03.2022

			Note	Amount.
(1)	**Equity and Liabilities**			
	(i) Shareholders' funds			
	(a) Share Capital			3,15,000
	(b) Reserves and surplus		1	50,430
(2)	**Non-current liabilities**			
	(a) Long-term borrowings		2	23,300

(3)	**Current Liabilities**			
	(a) Short -term borrowings		3	7,000
	(b) Trade payables			3,27,000
	(c) Other current liability		4	72,000
	(d) Short term provision		5	19,620
				8,14,350
II	**ASSETS**			
(1)	**Non-current assets**			
	(a) Property, Plant & equipment		6	2,04,160
	(b) Non-current investments			7,500
(2)	**Current assets**			
	(a) Current investments			4,500
	(b) Inventories		7	85,800
	(c) Trade receivables			2,38,500
	(d) Cash and cash equivalents			2,71,100
	(e) Short-term loans and advances		8	2,490
	(f) Other current assets		9	300
				8,14,350

Oliva Ltd.

Statement of Profit and loss for the year ended 31.03.2022

(Rs.)

	Particulars	**Note**	**Amount**
I	Revenue from operations		17,10,000
II	Other income (3,900 +300)		4,200
III	**Total income (I +II)**		**17,14,200**
IV	Expenses:		
	Cost of materials consumed	10	12,64,200
	Purchases of inventory-in-trade		--
	Changes in inventories of finished goods, work-in-progress and inventory-in-Trade	11	(13,500)
	Employee benefit expenses	12	44,700
	Finance costs		--
	Depreciation and amortization expenses		18,240
	Other expenses	13	3,51,510
	Total Expenses		**16,65,150**
V	Profit before exceptional and extraordinary items and tax		49,050
VI	Exceptional items		--
VII	Profit before extraordinary items and tax		49,050

VIII	Extraordinary items		--
IX	Profit before tax		49,050
X	Tax expense (40% of 49,050)		19,620
XI	Profit/Loss for the period from continuing operations		29,430

Note to Accounts

	Particulars		Amount	Amount
1	**Reserve & Surplus**			
	Profit & Loss Account: Balance b/f		21,000	
	Net Profit for the year		29,430	50,430
2	**Long term borrowings**			
	Secured loans (21,000 less current maturities 1,000)		20,000	
	Fixed Deposits: Unsecured		3,300	23,300
3	**Short term borrowings**			
	Secured loans		4,500	
	Fixed Deposits -Unsecured		1,500	
	Current maturities of long term borrowings		1,000	7,000
4	**Other current liabilities**			
	Expenses Payable (67,500 + 4,500)		72,000	72,000
5	**Short term provisions**			
	Provision for Income tax			19,620
6	**Property, plant and equipment**			
	Building	1,01,000		
	Less: Depreciation @ 2%	(2,020)	98,980	
	Plant & Machinery	70,400		
	Less: Depreciation @10%	(7,040)	63,360	
	Furniture	10,200		
	Less: Depreciation @10%	(1,020)	9,180	
	Motor vehicles	40,800		
	Less: Depreciation @20%	(8,160)	32,640	2,04,160
7	**Inventory**			
	Raw Material		25,800	
	Finished goods		60,000	85,800
8	**Short term Loans & Advances**			
	General Charges prepaid			2,490
9	**Other Current Assets**			
	Interest accrued			300
10	**Cost of material consumed**			

	Opening inventory of raw Material	30,000		
	Add: Purchases	12,60,000	12,90,000	
	Less: Closing inventory		(25,800)	12,64,200
11	**Changes in inventory of Finished Goods & WIP**			
	Closing Inventory of Finished Goods		60,000	
	Less: Opening Inventory of Finished Goods		(46,500)	13,500
12	**Employee Benefit expenses**			
	Salary & Wages (40,200 + 4,500)			44,700
13	**Other Expenses:**			
	Manufacturing Expenses		3,37,500	
	(2,70,000 + 67,500)			
	General Charges (16,500 – 2,490)		14,010	3,51,510

Question 25 : Nov – 2022 – RTP

The following information of X Ltd. (a non-investment company) as on 31st March, 2022 was obtained:

	Rs.
Authorized capital:	
15,000, 14% preference shares of Rs. 100	15,00,000
1,50,000 Equity shares of Rs. 100 each	1,50,00,000
	1,65,00,000
Issued and subscribed capital:	
14,000, 14% preference shares of Rs. 100 each fully paid	14,00,000
1,30,000 Equity shares of Rs. 100 each, Rs. 90 paid-up	1,17,00,000
Capital reserves (Rs. 1,75,000 is revaluation reserve)	2,00,000
Securities premium	50,000
15% Debentures	70,00,000
Investment in shares, debentures, etc.	60,00,000
Profit and Loss account (debit balance)	13,50,000

You are required to compute Effective Capital as per the provisions of Schedule V to the Companies Act, 2013.

Solution :

Computation of Effective Capital

	Rs.
Paid-up share capital-	
14,000, 14% Preference shares	14,00,000
1,30,000 Equity shares	1,17,00,000
Capital reserves (excluding revaluation reserve)	25,000

Securities premium		50,000
15% Debentures		70,00,000
	(A)	2,01,75,000
Investments		60,00,000
Profit and Loss account (Dr. balance)		13,50,000
	(B)	73,50,000
Effective capital	(A - B)	1,28,25,000

Question 26 : Nov – 2022 – Paper

The following is the Trial Balance of Anmol Limited as on 31st March, 2022 :

Debit Balances	Amount (Rs.)	Credit Balances	Amount (Rs.)
Purchases	82,95,000	Sales	1,25,87,000
Wages and Salaries	12,72,000	Commission	72,500
Rent	2,20,000	Equity Share Capital	10,00,000
Rates and Taxes	50,000		
Selling & Distribution Expenses	4,36,000		
Directors Fees	32,000		
Bad Debts	38,500		
Interest on Term Loan	8,05,000		
Land	24,00,000		
Factory Building	36,80,000		
Plant & Machinery	62,50,000		
Furniture & Fittings	8,25,000		
Trade Receivables	64,75,000		
Advance Income Tax Paid	37,500		
Stock (1st April, 2021)	9,25,000		
Bank Balances	9,75,000		
Cash on Hand	1,31,875		
Total	**3,28,47,875**		**3,28,47,875**

Following information is provided :

(1) The Authorized Share Capital of the Company is 2,00,000 Equity Shares of Rs.10 each. The Company has issued 1,00,000 Equity Shares of Rs.10 each.

(2) Rent of Rs.20,000 and Wages of Rs.1,56,500 are outstanding as on 31st March, 2022.

(3) Provide Depreciation @10% per annum on Plant and Machinery, 10% on Furniture and Fittings and 5% on Factory Building on written down value basis.

(4) Closing Stock as on 31st March, 2022 is Rs.11,37,500.

(5) Make a provision for Doubtful Debts @5% on Debtors.

(6) Make a provision of25% for Corporate Income Tax.

(7) Transfer Rs.1,00,000 to General Reserve.

(8) Term Loan from Public Sector Bank is secured against Hypothecation of Plant and machinery. Installment of Term Loan falling due within one year is Rs.17,00,000.

(9) Trade Receivables of Rs.85,600 are outstanding for more than six months.

(10) The Board declared a divided @10% on Paid up Share Capital on 5th April, 2022.

You are required to prepare Balance Sheet as on 31st March 2022 and Statement of Profit and Loss with Note to Accounts for the year ending 31st March, 2022 as per Schedule III of the Companies Act, 2013. Ignore previous years' figures.

Question 27 : Nov – 2022 – Paper

The following information is provided by Sarovar Limited, a Non-Investment company, incurring losses from past 2 years :

Particulars	Amount in Rs.
Share Capital (Issued and subscribed)	1,05,73,000
Capital Reserve	90,000
Securities Premium	67,000
Public Deposits	14,50,000
Trade Payables	1,98,000
Investment in other Co's Shares	50,00,000
Profit & Loss (Dr.)	10,25,000

Sarovar Limited has a one Whole time Directors Mr.Shyam.

You are required to calculate the effective capital and the maximum remuneration that can be paid to Mr.Shyam, if no special resolution is passed at the General Meeting of the company for the payment of remuneration for a period not exceeding three years.

Thanks ....

CHAPTER

12

PROFIT OR LOSS PRIOR TO INCORPORATION

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : May – 2018 – RTP / May – 2021 – RTP

The Business carried on by Kamal under the name "K" was taken over as a running business with effect from 1st April, 2020 by Sanjana Ltd., which was incorporated on 1st July, 2020. The same set of books was continued since there was no change in the type of business and the following particulars of profits for the year ended 31st March, 2021 were available.

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

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

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

Solution :

Working Notes:

1. **Calculation of Time Ratio**

Date of Takeover = 1.4.2020

Date of Incorporation = 1.7.2020

Book Closing = 31.3.2021

Pre Incorporation period (1.4.2020 to 1.7.2020) = 3 Months

Post Incorporation period (1.7.2020 to 31.3.2021) = 9 Months

Ratio = 3:9 OR **1:3**

2. **Calculation of Sales Ratio**

Pre Incorporation Sales = 10000

Post Incorporation Sales = 40000

Ratio = 10000 : 40000 OR **1:4**

3. **Calculation of Purchase Price Ratio**

Let the Purchase Price in Pre incorporation period be x per month

There fore

Pre Incorporation Purchase = 3x

Post Incorporation Purchase = 9x + 10% = 9.9x

Ratio =3:9.9 OR **1:3.3**

4. **Conclusion**

Pre Incorporation Loss of 251 to be added to Goodwill

Post Incorporation Profit to be transferred to Profit and Loss A/c

Statement showing the calculation of profits/losses for pre incorporation and Post incorporation period profits of Sanjana Ltd.

for the year ended 31st March, 2021

Particulars	Total Amount	Basis of Allocation	Ratio	Pre Incorporation	Post Incorporation
Sales				10,000	40,000
Less: Purchases	25000	Purchase	1:3.3	5,814	19,186
Carriage Inwards	1019	Purchase	1:3.3	237	782
Gross Profit (i)	23981			3,949	20,032
Less: Selling Expenses	3500	Sales	1:4	700	2,800
Preliminary Expenses	1200	Post			1,200
Salaries	3600	Time	1:3	900	2,700

Director Fees	1200	Post			1,200
Interest on capital	700	Actual		700	
Depreciation	2800	Time	1:3	700	2,100
Rent	4800	Time	1:3	1,200	3,600
Total of Expenses(ii)	17800			4,200	13,600
Capital Loss/Net Profit (i-ii)	**6181**			**(251)**	**6,432**

Question 2 : May – 2018 – Paper

The promoters of Shiva Ltd. took over on behalf of the company a running business with effect from 1st April 2020. The company got incorporated on 1st August 2020. The annual accounts were made up to 31st March, 2021 which revealed that the sales for the whole year totalled Rs.2400 lakhs out of which sales till 31st July, 2017 were for Rs.600 lakhs. Gross profit ratio was 20%.

The expenses from 1st April 2020, till 31st March, 2021 were as follows:

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

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

Solution :

Working Notes :

1. **Calculation of Time Ratio**

   Date of Takeover = 1.4.2020

   Date of Incorporation = 1.8.2020

   Book Closing = 31.3.2021

   Pre Incorporation period (1.4.2020 to 1.8.2020) = 4 Months

   Post Incorporation period (1.8.2020 to 31.3.2021) = 8 Months

   Ratio = 4:8 OR **1:2**

2. **Calculation of Sales Ratio**

   Pre Incorporation Sales = 600

Post Incorporation Sales (2400-600)= 1800
Ratio = 600 : 1800 OR **1:3**

3. **Conclusion**
Pre Incorporation Profit of 41 Lakhs to be transferred to Capital Reserve
Post Incorporation Profit to be transferred to Profit and Loss A/c

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

Particulars	Total Amount (Rs.in lakhs)	Basis of Allocation	Ratio	Pre-incorporation (Rs.in lakhs)	Post-incorporation (Rs.in lakhs)
Gross Profit (i) (20% of Rs.2,400)	480	Sales	1:3	120	360
Less: Salaries	75	Time	1:2	25	50
Rent, rates and Insurance	30	Time	1:2	10	20
Sundry office expenses	72	Time	1:2	24	48
Travellers' commission	20	Sales	1:3	5	15
Discount allowed	16	Sales	1:3	4	12
Bad debts	8	Sales	1:3	2	6
Directors' fee	30	Post		-	30
Tax Audit Fees	16	Sales	1:3	4	12
Depreciation on tangible assets	15	Time	1:2	5	10
Debenture interest	14	Post		-	14
Total of Expenses (ii)	296			79	217
Net profit (i)-(ii)	**184**			**41**	**143**

Question 3 : Nov – 2018 – RTP / Nov – 2019 – RTP

Roshani & Reshma working in partnership, registered a joint stock company under the name of Happy Ltd. on May 31st 2020 to take over their existing business. The summarized Profit & Loss A/c as given by Happy Ltd. for the year ending 31st March, 2021 is as under:

Happy Ltd.

Profit & Loss Account for the year ending March 31, 2021

Particulars	Amount	Particulars	Amount
To Salary	1,44,000	By Gross Profit	4,50,000

To Interest on Debenture	36,000		
To Sales Commission	18,000		
To Bad Debts	49,000		
To Depreciation	19,250		
To Rent	38,400		
To Audit fees (Company Audit)	12,000		
To Net Profit	1,33,350		
Total	**4,50,000**	**Total**	**4,50,000**

You are required to prepare a Statement showing allocation of expenses and calculation of pre-incorporation and post- incorporation profits after considering the following information:

(i) GP ratio was constant throughout the year.

(ii) Depreciation includes Rs.1,250 for assets acquired in post incorporation period.

(iii) Bad debts recovered amounting to Rs.14,000 for a sale made in 2017-18 has been deducted from bad debts mentioned above.

(iv) Total sales were Rs.18,00,000 of which Rs.6,00,000 were for April to September.

(v) Happy Ltd. had to occupy additional space from 1st Oct. 2020 for which rent was Rs.2,400 per month.

Solution :

Working Notes :

1. Calculation of Time Ratio

Date of Takeover = 1.4.2020

Date of Incorporation = 31.5.2020

Book Closing = 31.3.2021

Pre Incorporation period (1.4.2020 to 31.5.2020) = 2 Months

Post Incorporation period (1.6.2020 to 31.3.2021) = 10 Months

Ratio = 2:10 OR **1:5**

2. Calculation of Sales Ratio

Pre Incorporation Sales = 200000 (Assuming 600000 equally spread in first 6 months)

Post Incorporation Sales (400000 + 1200000)= 1600000

Ratio = 2 : 16 OR **1:8**

3. Calculation of depreciation

Common Depreciation = 19250 – 1250 = 18000

As per Time ratio

Pre Incorporation period = 3000

Post Incorporation period = 15000

Add related to post period = 1250
Total Post Incorporation period = 16250

4. **Calculation of Rent**

Common Rent = 38400 – 14400 (2400 x 6) = 24000
As per Time ratio
Pre Incorporation period = 4000
Post Incorporation period = 20000
Add related to post period = 14400
Total Post Incorporation period = 34400

5. **Conclusion**

Pre Incorporation Profit of 38000 to be transferred to Capital Reserve
Post Incorporation Profit to be transferred to Profit and Loss A/c

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

Particulars	Total Amount	Basis of Allocation	Ratio	Pre Incorporation Rs.	Post Incorporation Rs.
Gross Profit	450000	Sales	1:8	50,000	4,00,000
Bad debts Recovery	14000	Actual		14,000	-
(i)	464000			64,000	4,00,000
Less: Salaries	144000	Time	1:5	24,000	1,20,000
Audit fees	12000	Post	--	-	12,000
Depreciation	19250	Note 3	--	3,000	16,250
Sales commission	18000	Sales	1:8	2,000	16,000
Bad Debts (49,000 + 14,000)	63000	Sales	1:8	7,000	56,000
Interest on Debentures	36000	Post	--	-	36,000
Rent	38400	Note 4	--	4,000	34,400
Total of Expenses (ii)	316650			26,000	2,90,650
Net Profit (i) – (ii)	**147350**			**38,000**	**1,09,350**

Question 4 : Nov – 2018 – Paper

Sun Limited took over the running business of a partnership firm M/s A & N Brothers with effect from 1st April, 2020. The company was incorporated on 1st September, 2020. The following profit and loss account has been prepared for the year ended 31st March, 2021.

Particulars	Amount	Particulars	Amount
To salaries	1,33,000	By Gross Profit b/d	7,50,000

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

Additional Information:

1. Trend of sales during April, 2020 to March, 2021 was as under:

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

2. Sun Limited took over a machine worth Rs.7,20,000 from A&N Brothers and purchased a new machine on 1st February, 2021 for Rs.4,80,000. The company decides to provide depreciation @ 10% p.a.
3. The company occupied additional space from 1st October, 2020 @ rent of Rs.6,000 per month.
4. Out of travelling expenses, Rs.30,000 were incurred by office staff while remaining expenses were incurred by salesmen.
5. Audit fees pertains to the company.
6. Salaries were doubled from the date of incorporation.

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

Solution :

Working Notes:

1. **Calculation of Time Ratio**

Date of Takeover = 1.4.2020

Date of Incorporation = 1.9.2020

Book Closing = 31.3.2021

Pre Incorporation period (1.4.2020 to 1.9.2020) = 5 Months

Post Incorporation period (1.9.2020 to 31.3.2021) = 7 Months

Ratio = **5:7**

2. **Calculation of Sales Ratio**

Pre incorporation		**Post Incorporation**	
April	85000	September	120000
May	85000	October	140000
June	105000	November	140000
July	105000	December	150000
August	120000	January	150000
		February	150000
		March	150000
Total	500000	Total	1000000

Ratio = **1:2**

3. **Calculation of depreciation**

Common Depreciation = 80000 – 8000 (480000 x 10% x 2/12) = 72000

As per Time ratio

Pre Incorporation period = 30000

Post Incorporation period = 42000

Add related to post period = 8000

Total Post Incorporation period = 50000

4. **Calculation of Rent**

Common Rent = 96000 – 36000 (6000 x 6) = 60000

As per Time ratio

Pre Incorporation period = 25000

Post Incorporation period = 35000

Add related to post period = 36000

Total Post Incorporation period = 71000

5. **Calculation of Salaries Ratio**

Let the salary for Pre Incorporation be x per month =5 X x =5x

Therefore Salary for Post Incorporation will be 2x per month = 7 X 2x = 14x

Ratio = **5:14**

6. **Conclusion**

Pre Incorporation Profit of 64000 to be transferred to Capital Reserve

Post Incorporation Profit to be transferred to Profit and Loss A/c

Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.2021

Particulars	Total Amount	Basis of Allocation	Ratio	Pre-incorporation period	Post-incorporation period
				Rs.	Rs.
Gross profit (i)	750000	Sales	1:2	2,50,000	5,00,000
Less: Salaries	133000	Note 5	5:14	35,000	98,000
Carriage outward	75000	Sales	1:2	25,000	50,000
Audit fee	12000	Post	--	-	12,000
Travelling expenses (office)	30000	Time	5:7	12,500	17,500
Travelling expenses (Salesman)	36000	Sales	1:2	12,000	24,000
Commission on sales	48000	Sales	1:2	16,000	32,000
Printing & stationary	24000	Time	5:7	10,000	14,000
Rent (office building)				25,000	71,000
Electricity charges	30000	Time	5:7	12,500	17,500
Depreciation	80000	Note 3	--	30,000	50,000
Advertisement	24000	Sales	1:2	8,000	16,000
Preliminary expenses	9000	Post	--	-	9,000
MD remuneration	8000	Post	--	-	8,000
Total of Expenses (ii)	605000			186000	419000
Net Profit (i) – (ii)	**145000**			**64000**	**81000**

Question 5 : May – 2019 – RTP

Lotus Ltd. was incorporated on 1st July, 2020 to acquire a running business of Feel goods with effect from 1st April, 2020. During the year 2020-21, the total sales were Rs.48,00,000 of which Rs.9,60,000 were for the first six months. The Gross profit of the company Rs.7,81,600. The expenses debited to the Profit & Loss Account included:

(i) Director's fees Rs.60,000

(ii) Bad debts Rs.14,400

(iii) Advertising Rs.48,000 (under a contract amounting to Rs.4,000 per month)

(iv) Salaries and General Expenses Rs.2,56,000

(v) Preliminary Expenses written off Rs.20,000

(vi) Donation to a political party given by the company Rs.20,000.

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2021.

Solution :

1. **Calculation of Time Ratio**

Date of Takeover = 1.4.2020

Date of Incorporation = 1.7.2020

Book Closing = 31.3.2021

Pre Incorporation period (1.4.2020 to 1.7.2020) = 3 Months

Post Incorporation period (1.7.2020 to 31.3.2021) = 9 Months

Ratio = 3:9 OR **1:3**

2. **Calculation of Sales Ratio**

Pre Incorporation Sales = 480000 (960000 x 3/6)

Post Incorporation Sales (4800000 - 480000)= 43200000

Ratio = **1:9**

3. **Conclusion**

Pre Incorporation Profit of 720 to be transferred to Capital Reserve

Post Incorporation Profit to be transferred to Profit and Loss A/c

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

For the year ended 31st March, 2021

Particulars	**Total Amount**	**Basis of Allocation**	**Ratio**	**Pre-incorporation**	**Post-incorporation**
Gross Profit (i)	7,81,600	Sales	1:9	78,160	7,03,440
Less: Directors' fee	60,000	Post	--		60,000
Bad debts	14,400	Sales	1:9	1,440	12,960
Advertising	48,000	Time	1:3	12,000	36,000
Salaries & general expenses	2,56,000	Time	1:3	64,000	1,92,000
Preliminary expenses	20,000	Post	--		20,000
Donation to Political Party	20,000	Post	--		20,000
Total Expense (ii)				77,440	3,40,960
Net Profit (i) – (ii)				**720**	**3,62,480**

Question 6 : May – 2019 – Paper

Tarun Ltd. was incorporated on 1st July, 2020 to acquire a running business of Vinay Sons with effect from 1st April, 2020. During the year 2020-21, the total sales were Rs.12,00,000 of which Rs.2,40,000 were for the first six months. The Gross Profit for the year is Rs.4,15,000. The expenses debited to the Profit and Loss account included:

(i) Director's fees Rs.25,000

(ii) Bad Debts Rs.6,500

(iii) Advertising Rs.18,000 (under a contract amounting to Rs.1,500 per month)

(iv) Company Audit Fees Rs.15,000

(v) Tax Audit Fees Rs.10,000

(1) Prepare a statement showing pre-incorporation and post incorporation profit for the year ended 31st March, 2019.

(2) Explain how profits are to be treated

Solution :

1. <u>Calculation of Time Ratio</u>

Date of Takeover = 1.4.2020

Date of Incorporation = 1.7.2020

Book Closing = 31.3.2021

Pre Incorporation period (1.4.2020 to 1.7.2020) = 3 Months

Post Incorporation period (1.7.2020 to 31.3.2021) = 9 Months

Ratio = 3:9 OR **<u>1:3</u>**

2. <u>Calculation of Sales Ratio</u>

Pre Incorporation Sales = 120000 (240000 x 3/6)

Post Incorporation Sales (1200000 - 120000)= 1080000

Ratio = **<u>1:9</u>**

3. <u>Conclusion</u>

Pre Incorporation Profit of 35350 to be transferred to Capital Reserve

Post Incorporation Profit to be transferred to Profit and Loss A/c

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

For the year ended 31st March, 2021

Particulars		Total Amount	Basis of Allocation	Ratio	Pre-incorporation	Post-incorporation
Gross Profit	(i)	4,15,000	Sales	1:9	41,500	3,73,500
Less: Directors' fee		25,000	Post	--		25,000

Bad debts	6,500	Sales	1:9	650	5,850
Advertising	18,000	Time	1:3	4,500	13,500
Company Audit Fees	15,000	Post	--		15,000
Tax Audit Fee	10,000	Sales	1:9	1,000	9,000
Total Expense (ii)	74500			6,150	68,350
Net Profit (i) – (ii)	**3,40,500**			**35,350**	**3,05,150**

Question 7 : Nov – 2019 – Paper

The partners of C&G decided to convert their existing partnership business into a private limited called CG trading Pvt. Ltd. with effect from 1.7.2020. The same books of accounts were continued by the company which closed its accounts for the first term on 31.3.2021. The summarized profit & loss account for the year ended 31.3.2021 is below:

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

The following additional information was provided :

(i) The average monthly sales doubled from 1.7.2020, GP ratio was constant.

(ii) All investments were sold on 31.5.2020.

(iii) Average monthly salaries doubled from 1.10.2020.

(iv) The company occupied additional space from 1.7.2020 for which rent of Rs.20,000 per month was incurred.

(v) Bad debts recovered amounting to Rs.60,000 for a sale made in 2017-18 has been deducted from bad debts mentioned above.

(vi) Audit fees pertains to the company.

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

Solution :

1. **Calculation of Time Ratio**

   Date of Takeover = 1.4.2020

   Date of Incorporation = 1.7.2020

   Book Closing = 31.3.2021

   Pre Incorporation period (1.4.2020 to 1.7.2020) = 3 Months

   Post Incorporation period (1.7.2020 to 31.3.2021) = 9 Months

   Ratio = 3:9 OR **1:3**

2. **Calculation of Sales Ratio**

   Let the average sales per month be x

   Pre Incorporation Sales = 3 X x = 3x

   Post Incorporation Sales =9 X 2x = 18x

   Ratio = 3:18 OR **1:6**

3. **Calculation of Salaries Ratio**

   Let the salary for first six months be x

   Therefore Salary for second six months will be will be 2x

   Salary for Pre Incorporation be 3 X x = 3x

   Salary for Post Incorporation be (3 X x) + (6 X 2x) = 15x

   Ratio = **1:5**

4. **Calculation of Rent**

   Common Rent = 550000 – 180000 (20000 x 9) = 370000

   As per Time ratio

   Pre Incorporation period = 93333

   Post Incorporation period = 277667

   Add related to post period = 180000

   Total Post Incorporation period = 457767

5. **Conclusion**

   Pre Incorporation Profit of 16.16 Lakhs to be transferred to Capital Reserve

   Post Incorporation Profit to be transferred to Profit and Loss A/c

C G Trading Private Limited

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

Rs. In lakhs

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

Question 8 : May – 2020 – RTP

The partners of Shri Enterprises decided to convert the partnership firm into a Private Limited Company Shreya (P) Ltd. with effect from 1st January, 2020. However, company could be incorporated only on 1st June, 2020. The business was continued on behalf of the company and the consideration of Rs.6,00,000 was settled on that day along with interest @ 12% per annum. The company availed loan of Rs.9,00,000 @ 10% per annum on 1st June, 2020 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2021 and presents you the following summarized profit and loss account:

	Rs.	**Rs.**
Sales		19,80,000
Cost of goods sold	11,88,000	
Discount to dealers	46,200	
Directors' remuneration	60,000	
Salaries	90,000	

Rent	1,35,000	
Interest	1,05,000	
Depreciation	30,000	
Office expenses	1,05,000	
Sales promotion expenses	33,000	
Preliminary expenses	15,000	18,07,200
Profit		1,72,800

Sales from June, 2020 to December, 2020 were $2\frac{1}{2}$ times of the average sales, which further increased to $3\frac{1}{2}$ times in January to March quarter, 2021. The company recruited additional work force to expand the business. The salaries from July, 2020 doubled. The company also acquired additional showroom at monthly rent of Rs.10,000 from July, 2020.

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

Solution :

1. **Calculation of Time Ratio**

Date of Takeover = 1.1.2020

Date of Incorporation = 1.6.2020

Book Closing = 31.3.2021

Pre Incorporation period (1.1.2020 to 1.6.2020) = 5 Months

Post Incorporation period (1.6.2020 to 31.3.2021) = 10 Months

Ratio = 5:10 OR **1:2**

2. **Calculation of Sales Ratio**

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

Average Sales (Pre-incorporation) = $x \times 5$	=	5x
Sales (Post incorporation) from June to December, 2018 = $2\frac{1}{2}$ $x \times 7$	=	17.5x
From January to March, 2019 = $3\frac{1}{2}$ x X 3	=	10.5x
Total Sales		28.0x

Ratio = **5:28**

3. **Calculation of salaries ratio**

Let the average salary be x

Pre-incorporation salary = $x \times 5$	=	5x
Post incorporation salary		
June, 2020	=	x
July 2020 to March, 2021 = $x \times 9 \times 2$	=	18x
		19x

Ratio is **5:19**

4. **Calculation of Rent**

Common Rent = 135000 – 90000 (10000 x 9) = 45000

As per Time ratio

Pre Incorporation period = 15000

Post Incorporation period = 30000

Add related to post period = 90000

Total Post Incorporation period = 120000

5. **Calculation of interest**

Pre-incorporation period from January, 2020 to May, 2020

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

Post incorporation period from June, 2020 to March, 2021

$\left(\frac{9,00,000 \times 10 \times 10}{100 \times 12}\right)$ = Rs.75,000

Rs.1,05,000

6. **Conclusion**

Pre Incorporation Loss of 750 to be added to Goodwill

Post Incorporation Profit to be transferred to Profit and Loss A/c

Shreya Private Limited

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

Particulars	Total Amount	Basis of Allocation	Ratio	Pre-incorporation	Post-incorporation
Sales	19,80,000	Sales	5:28	300,000	16,80,000
Less: Cost of goods sold	11,88,000	Sales	5:28	1,80,000	10,08,000
Gross Profit (i)	7,92,000			1,20,000	6,72,000
Less:					
To Discount to dealers	46,200	Sales	5:28	7,000	39,200
Directors Remuneration	60,000	Post	--	-	60,000
Salaries	90,000	Note 3	5:19	18,750	71,250
Rent	1,35,000	Note 4	--	15,000	1,20,000
Interest	1,05,000	Note 5	--	30,000	75,000
Depreciation	30,000	Time	1:2	10,000	20,000
Office Expense	1,05,000	Time	1:2	35,000	70,000
Preliminary Expenses	15,000	Post	--	-	15,000
Sales Promotion Expenses	33,000	Sales	5:28	5,000	28,000

Total Expenses (ii)	6,19,200			1,20,750	4,98,450
Net Profit [(i) – (ii)]	**1,72,800**			**(750)**	**1,73,550**

Question 9 : Nov – 2020 – RTP

Green Ltd. took over a running business with effect from 1st April, 2020. The company was incorporated on 1st August, 2020. The following summarized Profit and Loss Account has been prepared for the year ended 31.3.2021:

	Rs.		Rs.
To Salaries	72,000	By Gross profit	4,80,000
To Stationery	7,200		
To Travelling expenses	25,200		
To Advertisement	24,000		
To Miscellaneous trade expenses	56,700		
To Rent (office buildings)	39,600		
To Electricity charges	6,300		
To Director's fee	16,800		
To Bad debts	4,800		
To Commission to selling agents	33,000		
To Debenture interest	4,500		
To Interest paid to vendor	6,300		
To Selling expenses	37,800		
To Depreciation on fixed assets	14,400		
To Net profit	1,31,400		
	4,80,000		**4,80,000**

Additional information:

(a) Sales ratio between pre and post incorporation periods was 1:3.

(b) Rent of office building was paid @ Rs. 3,000 per month up to September, 2020 and thereafter it was increased by Rs. 600 per month.

(c) Travelling expenses include Rs. 7,200 towards sales promotion. Travelling expenses are to be allocated between pre and post incorporation periods on time basis.

(d) Depreciation include Rs. 900 for assets acquired in the post incorporation period.

(e) Purchase consideration was discharged by the company on 30th September, 2020 by issuing equity shares of Rs. 10 each.

You are required to prepare Statement showing calculation of profits and allocation of expenses between pre and post incorporation periods.

Solution :

1. **Calculation of Time Ratio**

Date of Takeover = 1.4.2020
Date of Incorporation = 1.8.2020
Book Closing = 31.3.2021
Pre Incorporation period (1.4.2020 to 1.8.2020) = 4 Months
Post Incorporation period (1.8.2020 to 31.3.2021) = 8 Months
Ratio = 4:8 OR **1:2**

2. **Calculation of Rent**
Common Rent = 39600 – 3600 (600 x 6) = 36000
As per Time ratio
Pre Incorporation period = 12000
Post Incorporation period = 24000
Add related to post period = 3600
Total Post Incorporation period = 27600

3. **Calculation of Interest**
Pre Incorporation Period = 6300 x 4/6 = 4400
Post Incorporation Period = 6300 x 2/6 = 2100

4. **Calculation of depreciation**
Common Depreciation = 14400 – 900 = 13500
As per Time ratio
Pre Incorporation period = 4500
Post Incorporation period = 9000
Add related to post period = 900
Total Post Incorporation period = 9900

5. **Conclusion**
Pre Incorporation Profit of 19200 to be transferred to Capital Reserve
Post Incorporation Profit to be transferred to Profit and Loss A/c

Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.2021

Particulars	Total Amount	Basis of Allocation	Ratio	Pre-incorporation	Post-incorporation
Gross profit (i)	4,80,000	Sales	1:3	1,20,000	3,60,000
Less: Salaries	72,000	Time	1:2	24,000	48,000
Stationery	7,200	Time	1:2	2,400	4,800

Advertisement	24,000	Sales	1:3	6,000	18,000
Travelling expenses (25200-7200)	18,000	Time	1:2	6,000	12,000
Sales promotion expenses	7,200	Sales	1:3	1,800	5,400
Misc. trade expenses	56,700	Time	1:2	18,900	37,800
Rent (office building)	39,600	Note 2	--	12,000	27,600
Electricity charges	6,300	Time	1:2	2,100	4,200
Director's fee	16,800	Post	--	--	16,800
Bad debts	4,800	Sales	1:3	1,200	3,600
Selling agents commission	33,000	Sales	1:3	8,250	24,750
Debenture interest	4,500	Post	--		4,500
Interest pd to vendor	6,300	Note 3	2:1	4,200	2,100
Selling expenses	37,800	Sales	1:3	9,450	28,350
Depreciation on fixed assets	14,400	Note	--	4,500	9,900
Total Expense (ii)	3,48,600			1,00,800	2,47,800
Net Profit (i) – (ii)	**1,31,400**			**19,200**	**1,12,200**

Question 10 : Nov – 2020 – Paper

Moon Ltd was incorporated on 1st August, 2020 to take over the running business of a partnership from w.e.f 1st April, 2020. The summarized profit & Loss Account for the year ended 31st March, 2021 is as under.

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

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

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

Solution :

Working Notes:

1. **Calculation of Time Ratio**

   Date of Takeover = 1.4.2020

   Date of Incorporation = 1.8.2020

   Book Closing = 31.3.2021

   Pre Incorporation period (1.4.2020 to 1.8.2020) = 4 Months

   Post Incorporation period (1.8.2020 to 31.3.2021) = 8 Months

   Ratio = 4:8 OR **1:2**

2. **Calculation of Sales Ratio**

   Let the average sales per month in Pre Incorporation period be x

   Post Incorporation period Sales Per month will be x +25% = 1.25x

   Pre Incorporation Sales = 4 X x = 4x

   Post Incorporation Sales =8 X 1.25x = 10x

   Ratio = 4:10 OR **2:5**

3. **Conclusion**

   Pre Incorporation Profit of 72400 to be transferred to Capital Reserve

   Post Incorporation Profit to be transferred to Profit and Loss A/c

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

Particulars	Total Amount	Basis of Allocation	Ratio	Pre-incorporation	Post-incorporation
Gross Profit (i)	6,30,000	Sales		1,80,000	4,50,000
Less: Salaries	1,56,000	Time		52,000	1,04,000
Rent, rates and taxes	72,000	Time		24,000	48,000
Commission on sales	40,600	2:5 (sales)		11,600	29,000
Depreciation	60,000	Time		20,000	40,000
Interest on debentures	36,000	Post			36,000
Directors' fee	24,000	Post			24,000
Advertisement	48,000	Post			48,000
Total Expense (ii)	436600			1,07,600	3,29,000
Net profit (i)- (ii)	**193400**			**72,400**	**1,21,000**

Question 11 : May – 2021 – RTP

Megha Ltd. was incorporated on 1.7.2020 to take over the running business of M/s Happy from 1.4.2020. The accounts of the company were closed on 31.3.2021.

The average monthly sales during the first three months of the year (2020-21) was twice the average monthly sales during each of the remaining nine months.

You are required to compute time ratio and sales ratio for pre and post incorporation periods.

Solution :

1. **Calculation of Time Ratio**

   Date of Takeover = 1.4.2020

   Date of Incorporation = 1.7.2020

   Book Closing = 31.3.2021

   Pre Incorporation period (1.4.2020 to 1.7.2020) = 3 Months

   Post Incorporation period (1.7.2020 to 31.3.2021) = 9 Months

   Ratio = 3:9 OR **1:3**

2. **Calculation of Sales Ratio**

   Let the average sales per month in Pre Incorporation period be x

   Post Incorporation period Sales Per month will be 0.5x

   Pre Incorporation Sales = 3 X x = 3x

   Post Incorporation Sales =9 X 0.5x = 4.5x

   Ratio = **2:3**

Question 12 : July – 2021 – Paper

S Ltd. was incorporated on 30^{th} November 2020 to take over the running Business of proprietorship firm of Mr.S. The various expenses debited to the profits and loss Account for the year 2020-21 included :

(i) Directors fees
(ii) Preliminary expenses written off
(iii) Salaries general expenses
(iv) Statutory Audit fees
(v) Tax Audit fees u/s 44 AB of the Income Tax Act, 1961
(vi) Commission to travelling agents
(vii) Sales promotion expenses
(viii) Advertisement expenses
(ix) Rent expenses
(x) Bad debts

You are required to determine the basis of apportionment of above expenses between pre incorporation and post incorporation periods.

Solution :

(i) Director fess = Post Incorporation
(ii) Preliminary expenses written off = Post
(iii) Salaries general expenses = Time Ratio
(iv) Statutory Audit fees = Post
(v) Tax Audit fees u/s 44 AB of the Income Tax Act, 1961 = Sales Ratio
(vi) Commission to travelling agents = Sales Ratio
(vii) Sales promotion expenses = Sales Ratio
(viii) Advertisement expenses = Sales Ratio
(ix) Rent expenses = Time Ratio
(x) Bad debts = Sales Ratio

Question 13 : Nov – 2021 – RTP

New Limited was incorporated on 01.08.2020 to take-over the business of a partnership firm w.e.f. 01.04.2020. It provides you the following information for the year ended 31.03.2021:

	Rs.
Gross profit	9,00,000
Expenses:	
Salaries	1,80,000
Rent, Rates & Taxes	1,20,000
Depreciation	37,500
Commission on Sales	31,500
Interest on Debentures	48,000
Director's Fees	18,000
Advertisement	54,000
Net Profit for the Year	4,11,000

(i) New Limited initiated an advertising campaign which resulted increase in monthly average sales by 25% post incorporation.
(ii) The Gross profit ratio post incorporation increased to 30% from 25%.

You are required to apportion the profit for the year between pre-incorporation and post-incorporation periods.

Solution :

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

Particulars	Total Amount	Basis of Allocation	Pre-incorporation	Post-incorporation
	Rs.		Rs.	Rs.

Gross Profit	9,00,000	1 : 3	2,25,000	6,75,000
Less: Salaries	1,80,000	Time	60,000	1,20,000
Rent, rates and taxes	1,20,000	Time	40,000	80,000
Commission on sales	31,500	Sales(2:5)	9,000	22,500
Depreciation	37,500	Time	12,500	25,000
Interest on debentures	48,000	Post		48,000
Directors' fee	18,000	Post		18,000
Advertisement	54,000	post	______	54,000
Net profit	4,11,000		1,03,500	3,07,500

Working Notes:

1. Sales ratio

Let the monthly sales for first 4 months (i.e. from 1.4.2020 to 31.7.2020) be = x

Then, sales for 4 months = 4x

Monthly sales for next 8 months (i.e. from 1.8.20 to 31.3.2021) = x + 25% of x= 1.25x

Then, sales for next 8 months = 1.25x X 8 = 10x

Total sales for the year = 4x + 10x = 14x

Sales Ratio = 4 x :10x i.e. 2:5

2. Gross profit ratio

From 1.4.2020 to 31.7.2020 gross profit is 25% of sales

Then, 25% of 4x= 1x

Gross profit for next 8 months (i.e. from 1.8.20 to 31.3.2021) is 30%

Then, 30% of 10x = 3x

Therefore gross profit ratio will be 1:3

3. Time ratio

1st April, 2020 to 31st July, 2020 : 1st August, 2020 to 31st March, 2021

= 4 months: 8 months = 1:2

Thus, time ratio is 1:2.

Question 14 : Dec – 2021 – Paper

Peek Ltd. was incorporated on 01.07.2020 to take over the existing business of Rich & Co. with effect from 01.04.2020. Date of closing books of accounts is 31.03.2021.

Total sales were Rs.75,00,000, Rate of Gross profit is 10% on sales.

The expenses charged to profit and loss statements includes;

Salesmen's Commission	Rs.30,000
Discount Allowed	Rs.15,000
Carriage outward	Rs.45,000
Free Sample	Rs.60,000

After sales service charge	Rs.90,000
Director's fees	Rs.1,50,000
Audit fees (Statutory audit of company)	Rs.70,000
Tax audit fees to Chartered Accountant	Rs.15,000
Salary of general staff	Rs.16,000
Formation Expenses	Rs.30,000
Rent (Office Building)	Rs.27,000
General Expenses	Rs.48,000
Donation to political party	Rs.51,000
General travelling Expenses	Rs.60,000

The sales per month in the first half year were half of what they were in the later half year.

Rent of office building was paid @ Rs.2,000 p.m. upto 30th September, 2020 and thereafter it was increased by Rs.500 p.m.

Prepare a statement showing pre incorporation and post incorporation profit for the year ended 31.03.2021 and also compute the amount to be transferred to capital reserve account.

Solution :

(i) Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.2021

Particulars	**Basis of allocation**	**Pre-incorporation period Rs.**	**Post-incorporation period Rs.**
Gross profit	Sales	1,25,000	6,25,000
Less: Salesmen commission	Sales	5,000	25,000
Discount allowed	Sales	2,500	12,500
Carriage outwards	Sales	7,500	37,500
Free samples	Sales	10,000	50,000
After sale service charges	Sales	15,000	75,000
Director's fee (post-incorporation)	Post	--	1,50,000
Company Audit fee	Post	--	70,000
Tax audit fee	Sales	2,500	12,500
Salaries	Time	4,000	12,000
Formation Expenses	Post	--	30,000
Rent (office building)	W.N. 3	6,000	21,000
General expenses	Time	12,000	36,000
Donation to political party (assumed to be paid by company)	Post	--	51,000
General Travelling expenses	Sales	10,000	50,000
Net profit/loss (Bal. Fig.)		50,500	(7,500)

(ii) Transfer to capital reserve = Pre incorporation profit is treated as capital profit, hence amount transfer to capital reserve is Rs. 50,500.

Working Notes:

1. **Time Ratio**

   Pre incorporation period = 1st April, 2020 to 30th June, 2020 i.e. 3 months
   Post incorporation period is 9 months
   Time ratio is 1: 3.

2. **Sales ratio**

   Let the monthly sales for first 6 months (i.e from 1.4.2020 to 30.09.2020) be x
   Monthly sales for next 6 months (i.e. from 1.10.20 to 31.3.2021) = 2x
   Sales in the pre incorporation period =3x
   Total sales for post-incorporation period =3x+12x=15x
   Sales Ratio = 1 : 5

3. **Rent**

		Rs.
Rent for pre-incorporation period (Rs. 2,000 x 3)		6,000 (pre)
Rent for post incorporation period		
July, August& September, 2020 (Rs. 2,000 x 3)	6,000	
October,2020 to March,2021 (Rs. 2,500 x 6)	15,000	21,000 (post)

Note:

1. General Travelling expenses have been divided on the basis of turnover ratio. Alternatively, it may be divided on time basis (1:3).
2. In the above solution, it has been assumed as donation is paid by the company. Alternatively, it can be divided in time ratio also.

Question 15 : May – 2022 – RTP

The partners of Shamsher converted their partnership firm into a Private Limited Company named Smriti (P) Ltd. w.e.f 1st January, 2020 which was incorporated on 1st June, 2020. The purchase consideration amounting to Rs. 11,40,000 was payable later on an interest of 12% per annum. To make the payment of purchase consideration and meet working capital requirements a loan worth Rs. 17,10,000 @ 10% per annum was availed on 1st June, 2020 & payment for purchase consideration was made. The company obtained a building on lease at a monthly rent of Rs. 19,000 on 1st July, 2020.Following is the information of the company as on 31st March, 2021 (for the period of 15 months):

	Rs.	**Rs.**
Sales		37,62,000
Less:		
Cost of goods sold	22,57,200	
Discount	87,780	
Director's remuneration	1,14,000	
Salaries	1,71,000	
Rent	2,56,500	
Interest	1,99,500	

Depreciation	57,000	
Office expenses	1,99,500	
Sales promotion expenses	62,700	
Preliminary expenses	28,500	(34,33,680)
Profit		3,28,320

Sales between June 2020 and December, 2020 were 2 $\frac{1}{2}$ times of the average sales, which further increased to 3$\frac{1}{2}$ times in January to March quarter, 2021. The salaries from July, 2020 doubled. Prepare a statement showing the calculation of profits or losses for the pre-incorporation and post-incorporation periods.

Solution :

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

Particulars	Total Amount	Basis of Allocation	Pre. Inc.	Pos. Inc.
Sales	37,62,000	Sale Ratio	5,70,000	31,92,000
Less: Cost of goods sold	22,57,200	Sales Ratio	3,42,000	19,15,200
Discount	87,780	Sales Ratio	13,300	74,480
Director's Remuneration	1,14,000	Post	-----	1,14,000
Salaries	1,71,000	(W.N. 3)	35,625	1,35,375
Rent	2,56,500	(W.N. 4)	28,500	2,28,000
Interest	1,99,500	(W.N. 5)	57,000	1,42,500
Depreciation	57,000	Time Ratio	19,000	38,000
Office Expenses	1,99,500	Time Ratio	66,500	1,33,000
Preliminary Expenses	28,500	Post	-----	28,500
Sales Promotion expenses	62,700	Sales Ratio	9,500	53,200
Net Profit/loss			(1,425)	3,29,745

Working Notes:

1. Calculation of Time ratio

Date of Purchase : 01/01/2020

Date of Incorporation: 01/06/2020

Date of Closing of Books of Accounts : 31/03/2021

Time Ratio = 5:10 i.e 1:2

2. Computation of sales ratio:

Let average Sale per month= 1

Then average Sale for June to Dec. 20 = 2.5 per month

Average Sale from January to March 21 = 3.5 per month

Month Sale	Average Sale	Month Sale	Average Sale
January	1	September	2.5
February	1	October	2.5
March	1	November	2.5

April	1	December	2.5
May	1	January	3.5
June	2.5	February	
July	2.5	March	
August	2.5		

Total Sale during Pre-Incorporation Period = 5

& Post Incorporation Period = 28

Hence Sales Ratio = 5:28

3. **Computation of ratio for salaries:**

Let Salary from January 20 to June 20 = 1 per month

Then Salary from July 20 to March 21 = 2 per month

Month Sale	Average Salary	Month Sale	Average Salary
January	1	September	2
February	1	October	2
March	1	November	2
April	1	December	2
May	1	January	2
June	1	February	2
July	2	March	2
August	2		

Total Salary during Pre-Incorporation Period = 5

& Post Incorporation Period = 19

Hence Salary Ratio = 5:19

4. **Computation of Rent:**

Total rent		2,56,500
Less: Building rent for 9 months @ 19,000 p.m.		1,71,000
Rent of old premises apportioned in time ratio		85,500

Apportionment	Pre Inc.	Post Inc.
Old premises rent	28,500	57,000
Building Rent	____	1,71,000
	28,500	2,28,000

5. **Computation of interest:**

Pre-incorporation period from Jan, 2020 to May, 2020

$$\left[\frac{11,40,000 \times 12 \times 5}{100 \times 12}\right] = 57,000$$

Post incorporation period from June, 2020 to March, 2021

$$\left[\frac{17,10,000 \times 10 \times 10}{100 \times 12}\right] \quad 1,42,500$$

1,99,500

Question 16 : May – 2022 – Paper

Cool Limited was formed to take over a running business of Fire Enterprises with effect from 1st April, 2021. The company was incorporated in August, 2021 and the certificate of commencement of business was received on 1st October 2021. No entries relating to the transfer of the business were entered in the books which were continued until 31st March, 2022. The following Trial Balance was extracted from the books as on 31st March, 2022

Particulars	Dr. (Rs.)	Cr. (Rs.)
Sales		19,20,000
Cost of Goods sold	15,54,000	
Rent	80,000	
Salaries	42,000	
Travelling Expenses	16,800	
Depreciation	9,600	
Carriage outward	800	
Printing & Stationary	4,800	
Advertisement	16,000	
Miscellaneous Expenses	25,200	
Directors' fees	1,200	
Managing Director's Remuneration	8,200	
Bad debts	3,200	
Commission & Brokerage to selling Agents	16,000	
Audit fees	6,000	
Interest on Debentures	3,000	
Interest to Vendors	4,200	
Selling & Distribution Expenses	24,000	
Preliminary Expenses	3,000	
Underwriting Commission	1,800	
Fixed Assets	7,30,000	
Current Assets	87,600	
Cool Limited's Capital as on 1^{st} April, 2021		5,56,000
Current Liabilities		61,400
Debentures		1,00,000
Total	**26,37,400**	**26,37,400**

Additional Information :

(a) Total Sales for the year arose evenly up to the date of the certificate of commencement where-after they spurted to record an increase of two-third during the rest of the year

(b) The Company deal in one type of product, The unit cost of goods sold was reduced by 10% since 1st August, 2021 as compared to the pre-incorporation period.

(c) Rent of old office building wan increased by 20% since 1st November, 2021. It had to also occupy additional apace from 1st July, 2021 for which rent was Rs.6,000 p.m.

(d) The Salaries were tripled from 1st July, 2021,

(e) Travelling Expenses include Rs.4,800 towards sales promotion.

(f) Depreciation includes Rs.600 for new assets acquired in August 2021.

(g) Purchase consideration was discharged by the company on 30th September, 2021 by issuing 60,000 Equity shares of Rs.10 each.

You are required to prepare the Profit & Loss Statement in a columnar form for the year ended 31st March, 2022 showing the allocation of profits pre-incorporation and post-incorporation periods indicating the basis of apportionment.

Solution :

Statement of Profit & Loss of Cool Limited for the year ended 31st March,2022 showing the allocation of profits between pre and post incorporation periods

	Particulars	Note	Pre-incorporation Rs.	Post-incorporation Rs.
	Revenue from Operations (W.N 2)		4,80,000	14,40,000
	Other Income		-	-
I.	Total Income		4,80,000	14,40,000
II.	Expenses:			
	Costs of Goods sold (W.N. 3)		4,20,000	11,34,000
	Employee Benefits Expense	1	8,400	41,800
	Finance Costs	2	2,800	4,400
	Depreciation and Amortization Expense	3	3,000	6,600
	Other Expenses	4	44,200	1,54,600
	Total Expenses		4,78,400	13,41,400
III.	Profit for the Period (I-II)		1,600	98,600

Notes relating to apportionment of expenses for pre and post incorporation periods for the year ended 31.3.2022

		Ratio	Total	Pre Incorporation Rs.	Post Incorporation Rs.
	Employee benefit expenses:				
	Salaries (W.N.5)	1:4	42,000	8,400	33,600
	Managing director's remuneration	post	8,200	-	8,200
				8,400	41,800
	Finance cost:				
	Debenture interest (post-incorporation)	post	3,000	-	3,000
	Interest paid to vendor (2:1) (W.N.7)		4,200	2,800	1,400
				2,800	4,400

	Other expenses:				
	Rent (office building) (W.N.4)		80,000	14,000	66,000
	Travelling expenses (W.N.6)	1:2	12,000	4,000	8,000
	Carriage outward	1:3	800	200	600
	Printing & Stationery	1:2	4,800	1,600	3,200
	Advertisement	1:3	16,000	4,000	12,000
	Misc. expenses	1:2	25,200	8,400	16,800
	Sales promotion expenses (W.N.6)		4,800	1,200	3,600
	Commission & brokerage	1:3	16,000	4,000	12,000
	Selling & distribution expenses	1:3	24,000	6,000	18,000
	Audit fee*	post	6,000	-	6,000
	Director's fee (post- incorporation)	post	1,200	-	1,200
	Bad debts	1:3	3,200	800	2,400
	Preliminary expenses	post	3,000	-	3,000
	Underwriting commission	post	1,800	-	1,800
				44,200	1,54,600
	Depreciation on fixed assets (W.N.8)		9,600	3,000	6,600

*Audit fee considered to be relating with company audit. If considered as related with tax audit, it will be divided in pre and post incorporation periods on the basis of turnover.

Working Notes:

1. Time Ratio

Pre incorporation period = 1st April, 2021 to 31st July, 2021

i.e. 4 months

Post incorporation period is 8 months

Time ratio is 1: 2.

2. Sales ratio

Let the monthly sales for first 6 months (i.e. from 1.4.2021 to 30.09. 2021) be x

Then, sales for 6 months = 6x

Monthly sales for next 6 months (i.e. from 1.10.21 to 31.3.2022) = $x + \frac{2}{3}x = \frac{5}{3}x$

Then, sales for next 6 months = $\frac{5}{3}x \times 6 = 10x$

Total sales for the year = 6x + 10x = 16x

Monthly sales in the pre incorporation period = Rs. 19,20,000/16 = Rs. 1,20,000

Total sales for pre-incorporation period = Rs. 1,20,000 × 4 = Rs. 4,80,000

Total sales for post incorporation period = Rs. 19,20,000 – Rs. 4,80,000 = Rs. 14,40,000

Sales Ratio = 4,80,000 : 14,40,000

Sales Ratio = 1 : 3

3. Cost of goods sold

Cost of goods ratio between pre and post incorporation periods can be calculated as follows:

Let cost of goods sold in the pre-incorporation period be Rs.100
Then cost of goods sold in the post-incorporation period is Rs.90
Sales Ratio (as calculated above) = 1:3
Then, cost of goods sold ratio = (100 x 1): (90 x 3) = 100: 270= 10:27

4. Apportionment of Rent Rs.

Total Rent	80,000
Less: additional rent from 1.7.2021 to 31.3.2022	54,000
Rent of old premises for 12 months	26,000

Let monthly rent for old building is x pm.
Rent for April to July will be 4x and rent from Aug to March will be :
9x i.e. (x + x + x + 1.2x + 1.2x + 1.2x + 1.2x + 1.2x)

	Pre	Post
Apportionment of rent for old space (Rs. 26,000 in 4:9 ratio)	8,000	18,000
Add: Rent for new space	6,000	48,000
Total	14,000	66,000

5. Apportionment of Salary

Let the salary per month from 01.04.2021 to 30.06.2021 is x
Salary per month from 01.7.2021 to 31.03.2022 will be 3x
Hence, pre incorporation salary (01.04.2021 to 31.07.2021) = 6x
Post incorporation salary from 01.08.2021 to 31.03.2022 = (3x X 8) i.e.24x
Ratio for division 6x: 24x or 1: 4
i.e. pre = Rs. 8,400 and
for post = Rs. 33,600

6. Travelling expenses and sales promotion expenses

	Pre Rs.	Post Rs.
Traveling expenses Rs. 12,000 (i.e. Rs. 16,800- Rs. 4,800) distributed in Time ratio (1:2)	4,000	8,000
Sales promotion expenses Rs. 4,800 distributed in Sales ratio (1:3)	1,200	3,600

7. Interest paid to vendor till 30th September, 2021

	Pre Rs.	Post Rs.
Interest for pre-incorporation period $\left(\frac{Rs.4,200}{6} \times 4\right)$	2,800	

Interest for post incorporation period i.e. for August, 2021 & September, 2021 = $\left(\frac{Rs.4,200}{6} \times 2\right)$		1,400

8. Depreciation

		Pre Rs.	Post Rs.
Total depreciation	9,600		
Less: Depreciation exclusively for post incorporation period	600		600
Remaining (for pre and post incorporation period)	9,000		
Depreciation for pre-incorporation period $\left[9,000 \times \frac{4}{12}\right]$		3,000	
Depreciation for post incorporation period $\left[9,000 \times \frac{8}{12}\right]$		———	6,000
		3,000	6,600

Question 17 : Nov – 2022 – RTP

The promotors of Shiva Ltd. took over on behalf of the company a running business with effect from 1st April 2021. The company got incorporated on 1st August 2021. The annual accounts were made up to 31st March, 2022 which revealed that the sales for the whole year totalled Rs. 24 lakhs out of which sales till 31st July, 2021 were for Rs. 6 lakhs. Gross profit ratio was 20%.

The expenses from 1st April 2021, till 31st March, 2022 were as follows:

Particulars	Rs.
Salaries	75,000
Rent, Rates and Insurance	30,000
Sundry Office Expenses	72,000
Traveller's Commission	20,000
Discount allowed	16,000
Bad Debts	8,000
Directors' Fee	30,000
Tax Audit Fee	16,000
Depreciation on Property, Plant & Equipment	15,000
Debenture Interest	14,000

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

Solution :

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

Particulars	Total Amount	Basis of Allocation	Pre-in-corporation	Post-in-corporation
	Rs.		Rs.	Rs.
Gross Profit (20% of Rs. 24,00,000)	4,80,000	Sales	1,20,000	3,60,000
Less: Salaries	75,000	Time	25,000	50,000
Rent, rates and Insurance	30,000	Time	10,000	20,000
Sundry office expenses	72,000	Time	24,000	48,000
Travellers' commission	20,000	Sales	5,000	15,000
Discount allowed	16,000	Sales	4,000	12,000
Bad debts	8,000	Sales	2,000	6,000
Directors' fee	30,000	Post	-	30,000
Tax Audit Fees*	16,000	Sales	4,000	12,000
Depreciation on PPE	15,000	Time	5,000	10,000
Debenture interest	14,000	Post	-	14,000
Net profit	1,84,000		41,000	1,43,000

* Tax Audit Fees allocated in the ratio of sales.

Thus, pre-incorporation profits is Rs. 41,000 and post- incorporation profit is Rs. 1,43,000.

Working Notes:

1. Sales ratio

	Rs.
Sales for the whole year	24,00,000
Sales up to 31st July, 2021	6,00,000
Therefore, sales for the period from 1st August, 2021 to 31st March, 2022	18,00,000

Thus, sale ratio = 600 : 1800 = 1 : 3

2. Time ratio

1st April, 2021 to 31st July, 2021 : 1st August, 2021 to 31st March, 2022

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

Thanks ....

CHAPTER

13

ACCOUNTING FOR BONUS & RIGHT ISSUE

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : May - 2018 - RTP / Nov - 2018 - RTP / May - 2019 - RTP / Nov - 2019 - RTP / May - 2021 - RTP

Following is the extract of the Balance Sheet of Manoj Ltd. as at 31st March, 20X1 :

	Rs.
Authorized capital:	
30,000 12% Preference shares of Rs.10 each	3,00,000
4,00,000 Equity shares of Rs.10 each	40,00,000
	43,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of Rs.10 each fully paid	2,40,000
2,70,000 Equity shares of Rs.10 each, Rs.8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 20X1, the Company has made final call @ Rs.2 each on 2,70,000 equity shares. The call money was received by 20th April, 20X1. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

You are required to prepare necessary journal entries in the books of the company and prepare the relevant extract of the balance sheet as on 30th April, 20X1 after bonus issue.

Solution :

Journal Entries in the books of Manoj Ltd.

			Rs.	Rs.
1-4-20X1	Equity share final call A/c	Dr.	5,40,000	

	To Equity share capital A/c (For final calls of Rs.2 per share on 2,70,000 equity shares due as per Board's Resolution dated....)		5,40,000
20-4-20X1	Bank A/c Dr. To Equity share final call A/c (For final call money on 2,70,000 equity shares received)	5,40,000	5,40,000
	Securities Premium A/c Dr. Capital redemption reserve A/c Dr. General Reserve A/c Dr. Profit and Loss A/c (b.f.) Dr. To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held)	75,000 1,20,000 3,60,000 1,20,000	6,75,000
	Bonus to shareholders A/c Dr. To Equity share capital A/c (For issue of bonus shares)	6,75,000	6,75,000

Extract of Balance Sheet as at 30th April, 20X1 (after bonus issue)

	Rs.
Authorised Capital	
30,000 12% Preference shares of Rs.10 each	3,00,000
4,00,000 Equity shares of Rs.10 each	40,00,000
Issued and subscribed capital	
24,000 12% Preference shares of Rs.Rs.10 each, fully paid	2,40,000
3,37,500 Equity shares of Rs.10 each, fully paid	33,75,000
Out of the above, 67,500 equity shares @ Rs.10 each were issued by way of bonus shares)	
Reserves and surplus	
Profit and Loss Account	4,80,000

Question 2 : May – 2018 – RTP / Nov – 2019 – RTP / Nov – 2020 – RTP / May – 2021 - RTP

Omega company offers new shares of Rs.100 each at 25% premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is Rs.200.

You are required to calculate the (i) Ex-right value of a share; (ii) Value of a right share?

Solution :

Ex-right value of the shares

= (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + No. of right shares) = (Rs. 200 x 5 Shares + Rs. 125 x 1 Share) / (5 + 1) Shares

= Rs.1,125 / 6 shares = Rs. 187.50 per share.

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

= Rs. 200 – Rs. 187.50 = Rs. 12.50 per share.

Question 3 : May – 2018 – Paper

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

Issued and Subscribed Capital:

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

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

Solution :

Arya Ltd.

Journal Entries

2018			**Dr. Rs.**	**Cr. Rs.**
1-Apr	Equity Share Final Call A/c	Dr.	2,00,000	
	To Equity Share Capital A/c			2,00,000
	(Final call of Rs. 2 per share on 1,00,000 equity shares due as per Board's Resolution dated....)			
15-Apr	Bank A/c	Dr.	2,00,000	
	To Equity Share Final Call A/c			2,00,000
	(Final Call money on 1,00,000 equity shares received)			
	Securities Premium A/c	Dr.	25,000	
	General Reserve A/c*	Dr.	1,75,000	
	To Bonus to Shareholders A/c			2,00,000

	(Bonus issue @ one share for every 5 shares held by utilizing various reserves as per Board's Resolution dated...)		
15-Apr	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Capitalization of profit)	2,00,000	2,00,000

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

Question 4 : Nov - 2018 - RTP / May - 2020 - RTP

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

Solution :

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

Value of right = Cum-right value of the share – Ex-right value of the share
= Rs.360 – Rs.300 = Rs.60 per share.

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

Question 5 : May - 2019 - RTP

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

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)
= (Rs.150 X 4 Shares + Rs.125 X 1 Share) / (4 + 1) Shares
= Rs.725 / 5 shares = Rs.145 per share.

Value of right = Cum-right value of the share – Ex-right value of the share
= Rs.150 – Rs.145 = Rs.5 per share.

Question 6 : Nov – 2019 – Paper

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

	Rs.
Authorized capital:	
3,00,000 equity shares of Rs.10 each	30,00,000
25,000,10% preference shares of Rs.10 each	2,50,000
	32,50,000
Issued and subscribed capital:	27,00,000
2,70,000 equity shares of Rs.10 each fully paid up	2,40,000
24,000, 10% preference shares of Rs.10 each fully paid up	29,40,000
Reserves and surplus:	
General reserve	3,60,000
Capital redemption reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and loss account	6,00,000
	11,55,000

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

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

Solution :

Prem Ltd.

Journal Entries

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

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

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

Notes to accounts :

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

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

Question 7 : Nov – 2020 – RTP / Nov – 2021 – RTP

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

	Rs.
Authorized capital:	
45,000 12% Preference shares of Rs. 10 each	4,50,000
6,00,000 Equity shares of Rs. 10 each	60,00,000
	64,50,000

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

On 1st April, 2020, the Company has made final call @ Rs. 2 each on 4,05,000 equity shares. The call money was received by 20th April, 2020. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held by utilizing the balance of profit and loss account to the minimum extent.

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

Solution :

Journal Entries in the books of Madhu Ltd.

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

Extract of Balance Sheet as at 30th April, 2020 (after bonus issue)

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

Question 8 : Jan – 2021 – Paper

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

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

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

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

Pass necessary journal entries in the Books of Star Ltd.

Solution :

Journal Entries in the books of Star Ltd.

2019		Dr. Rs.	Cr. Rs.
1-Apr	Equity Share Final Call A/c Dr.	1,60,000	
	To Equity Share Capital A/c		1,60,000
	(Final call of Rs. 2 per share on 80,000 equity shares made due)		
	Bank A/c Dr.	1,60,000	

	To Equity Share Final Call A/c (Final call money on 80,000 equity shares received)			1,60,000
1-Jun	Capital Redemption Reserve A/c Capital Reserve Securities Premium A/c General Reserve A/c (b.f.)	Dr. Dr. Dr. Dr.	75,000 45,000* 60,000 1,40,000**	
	To Bonus to Shareholders A/c (Bonus issue of two shares for every five shares held, by utilizing various reserves as per Board's resolution dated…….)			3,20,000
	Bonus to Shareholders A/c To Equity Share Capital A/c (Capitalization of profit)	Dr.	3,20,000	 3,20,000

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

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

Question 9 : May – 2021 – RTP

Beta Ltd. having share capital of 20,000 equity shares of Rs.10 each decides to issue rights share at the ratio of 1 for every 8 shares held at par value. Assuming all the share holders accepted the rights issue and all money was duly received, pass journal entry in the books of the company.

Solution :

		Rs.	Rs.
Bank A/c To Equity share capital A/c (For rights share issued at par value in the ratio of 1:8 equity shares due as per Board's Resolution dated….)	Dr.	25,000	 25,000

Working Note:

Number of Rights shares to be issued- 20,000/8 $\times$ 1 = 2,500 shares

Question 10 : July – 2021 – Paper

Following is the extract of the Balance Sheet of K Ltd. (listed company) as at 31st March, 2020

	Rs.
Authorised capital :	
3,00,000 Equity shares of Rs.10 each	30,00,000

	30,00,000
Issued and Subscribed capital :	
2,00,000 Equity shares of Rs.10 each, Rs.8 paid up	16,00,000
Reserves and surplus :	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (not realised in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2020, the Company has made final call @ Rs.2 each on 2,00,000 equity shares. The call money was received by 25th April, 2020. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue.

Solution :

Journal of K Ltd.

			Rs.	Rs.
1/4/20	Share final Call	Dr.	4,00,000	
	To Share Capital A/c			4,00,000
	(2,00,000 $\times$ 2)			
25/4/20	Bank A/c	Dr.	4,00,000	
	To Share Final Call			4,00,000
25/4/20	Bonus 1 for 4 i.e. 2,00,000 $\times \frac{1}{4}$ = 50,000			
	Capital Received Reserve A/c	Dr.	75,000	
	Profit & Loss A/c	Dr.	4,25,000	
	To bonus to share holder A/c			5,00,000
25/4/20	Bonus to Share	Dr.	5,00,000	
	To Equity Share Capital			5,00,000

Extract of Balance Sheet

Authorised Capital

3,00,000 equity share of Rs.00 each	30,00,000
	30,00,000

Issued and subscribed

2,50,000 equity shares of 10 each	25,00,000

Reserve and surplus

General Reserve	3,60,000
Security Premium (Not real in cash)	75,000
Profit and Loss A/c	1,75,000
	6,10,000

Question 11 : Nov – 2021 – RTP

Raman Ltd. gives the following information as at 31st March, 2021:

	Rs.
Authorised capital:	
45,000 12% Preference shares of Rs. 10 each	4,50,000
6,00,000 Equity shares of Rs. 10 each	60,00,000
	64,50,000
Issued and Subscribed capital:	
36,000 12% Preference shares of Rs. 10 each fully paid	3,60,000
4,05,000 Equity shares of Rs. 10 each, Rs. 8 paid up	32,40,000
Reserves and surplus:	
General Reserve	5,40,000
Capital Redemption Reserve	1,80,000
Securities premium (collected in cash)	1,12,500
Profit and Loss Account	9,00,000

On 1st April, 2021, the Company has made final call @ Rs. 2 each on 4,05,000 equity shares. The call money was received by 20th April, 2021. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company.

Solution :

Journal Entries in the books of Raman Ltd.

			Rs.	Rs.
01-04-2021	Equity share final call A/c	Dr.	8,10,000	
	To Equity share capital A/c			8,10,000
	(For final calls of Rs. 2 per share on 4,05,000 equity shares due as per Board's Resolution dated....)			
20-04-2021	Bank A/c	Dr.	8,10,000	
	To Equity share final call A/c			8,10,000
	(For final call money on 4,05,000 equity shares received)			
	Securities Premium A/c	Dr.	1,12,500	

	Capital Redemption Reserve A/c	Dr.	1,80,000	
	General Reserve A/c	Dr.	5,40,000	
	Profit and Loss A/c (b.f.)	Dr.	1,80,000	
	To Bonus to shareholders A/c			10,12,500
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	10,12,500	
	To Equity share capital A/c			10,12,500
	(For issue of bonus shares)			

Question 12 : Nov – 2021 – RTP

Super company offers new shares of Rs. 100 each at 20% premium to existing shareholders on the basis one for four shares. The cum-right market price of a share is Rs. 190.

You are required to calculate the value of a right share.

Solution :

Value of right = Cum-right value of the share – Ex-right value of the share (as computed in Working Note)

= Rs. 190 – Rs. 176 = Rs. 14 per share.

Working Note:

Ex-right value of the shares

= (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + No. of right shares) = (Rs. 190 X 4 Shares + Rs. 120 X 1 Share) / (4 + 1) Shares

= Rs. 880 / 5 shares = Rs. 176 per share.

Question 13 : May – 2022 – RTP

Mobile Limited has authorized share capital of 1,00,000 equity shares @ Rs. 10 each. The company has already issued 60% of its capital for cash. Now the company wishes to issue bonus shares in the ratio 1:5 to its existing shareholders. The following is the status of Reserve and Surplus of the company:

General Reserve	Rs. 1,60,000
Plant Revaluation Reserve	Rs. 25,000
Securities Premium Account (Realised in cash)	Rs. 60,000
Capital Redemption Reserve	Rs. 80,000

Answer the following questions:

(a) What is the number of Bonus shares to be issued?

(b) Can company issue Bonus out of General Reserve only?

(c) Give Journal Entries and also give the extracts of the balance-sheet after such Bonus issue.

(d) Is it possible for the company to issue partly paid-up bonus shares?

Solution :

(a) Number of Bonus shares to be issued:

Existing paid up Capital = 60,000 Shares

Number of Bonus Shares = (60,000 × 1) ÷ 5 = 12,000 Shares (i.e. for Rs. 1,20,000)

(b) Bonus out of General Reserve:

It is a usual practice to utilize specific reserve (available for specific purpose). Therefore, if CRR and Securities Premium are available, then company should utilize these reserves in priority over other free reserves. It is clear that company should not use General Reserve, in the given example, as Capital Redemption Reserve and Securities Premium are sufficiently available

(c) Journal Entries in the Books of Mobile Ltd.

		Dr. (Rs.)	Cr. (Rs.)
Capital Redemption Reserve A/c	Dr.	80,000	
Securities Premium A/c	Dr.	40,000	
To Bonus to Shareholders A/c			1,20,000
(Being issue of 1 Share for every 5 Shares held, by utilizing various reserves as per Board's Resolution dated .....)			
Bonus to Shareholders A/c	Dr.	1,20,000	
To Equity Share Capital A/c			1,20,000
(Capitalization of profits)			

Extracts of the Balance-Sheet after Bonus issue

	Particulars	Note No.	Amount (Rs.)
	EQUITY AND LIABILITIES		
1	**Shareholder's funds**		
	(a) Share Capital	1	7,20,000
	(b) Reserves and Surplus	2	2,05,000

Notes to Accounts

1	**Share capital**		
	Authorised Capital		
	1,00,000 Equity Shares @ Rs. 10 each		10,00,000
	Issued, Called up & Paid up Capital		
	72,000 Equity Shares @ Rs. 10 each		7,20,000
	(Out of above, 12,000 shares have been issued as bonus shares).		

2	**Reserve and Surplus**		
	Plant Revaluation Reserve	25,000	
	Securities Premium A/c	20,000	
	General Reserve	1,60,000	2,05,000

(d) Fully Paid up bonus shares only

As per section 63 of the Companies Act, 2013, only fully paid up bonus shares can be issued. Therefore, it is not possible for the company to issue partly paid-up bonus shares.

Question 14 : May – 2022 – RTP

A company offers new right shares of Rs. 100 each at 20% premium to existing shareholders on one for four shares. The cum-right market price of a share is Rs. 140. You are required to calculate (i) Ex-right value of a share; (ii) Value of a right.

Solution :

(i) Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares × Issue Price) / (Existing Number of shares + No. of right shares)

= (Rs. 140 × 4 Shares + Rs. 120 × 1 Share) / (1 + 4) Shares

= Rs. 680 / 5 shares = Rs. 136 per share.

(ii) Value of right = Cum-right value of the share – Ex-right value of the share

= Rs. 140 – Rs. 136 = Rs. 4 per share.

Question 15 : May – 2022 – RTP

A company having 1,00,000 shares of Rs. 10 each as its issued share capital, and having a market value of Rs. 45 issues rights shares in the ratio of 1:5 at an issue price of Rs. 25. Pass journal entry for issue of right shares.

Solution :

The entry at the time of subscription of right shares by the existing shareholders will be:

Bank A/c	Dr.	5,00,000	
To Equity Share Capital A/c			2,00,000
To Securities Premium A/c			3,00,000

(Being issue of 20,000 right shares @ Rs. 25 offered)

Question 16 : May – 2022 – Paper

Following is the extract of the Balance Sheet of Sujata Food Limited as at 31stMarch, 2021:

Particulars	Rs.
Authorised Capital	
1,00,000 12% Prefercncc shares off Rs.10 each	10,00,000

5,00,000 Equity shares off Rs.10 each	50,00,000
	60,00,000
Issued and Subscribed capital	
8,000 12% Preference shares of Rs.10 each fully paid	80,000
90,000 Equity shares off 10 each, Rs.8 paid up	7,20,000
Reserves and Surplus	
General Reserve	1,20,000
Capital Redemption Reserve	75,000
Securities Premium (Collected in cash)	25,000
Profit and Loss Account	2,00,000
Revaluation Reserve	80,000

On 1st April 2021, the company has made final call @ Rs.2 each on 90,000 equity shares. The call money was received by 15th April, 2021. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held, it also decided that there should be minimum reduction in free reserves.

On 1st June 2021, the Company issued Rights shares at the rate of two shares for every five shares held on that date at issue price of Rs.12 per share. All the rights shares were accepted by the existing shareholders and the money was duly received by 20th June, 2021,

You are required to pass necessary journal entries in the books of the Sujata Foods Limited for bonus issue and rights issue.

Solution :

Journal Entries in the books of Sujata Foods Ltd.

2021			Dr. Rs.	Dr. Rs.
Apr-01	Equity Share Final Call A/c	Dr.	1,80,000	
	To Equity Share Capital A/c			1,80,000
	(Final call of Rs. 2 per share on 90,000 equity shares made due)			
Apr-15	Bank A/c	Dr.	1,80,000	
	To Equity Share Final Call A/c			1,80,000
	(Final call money on equity shares received)			
	Capital Redemption Reserve A/c	Dr.	75,000	
	Securities Premium A/c	Dr.	25,000	
	General Reserve A/c	Dr.	1,20,000	
	Profit and Loss A/c	Dr.	5,000	
	To Bonus to Shareholders A/c			2,25,000

	(Bonus issue of one share for every four shares held, by utilising various reserves as per Board's resolution dated.......)		
	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Capitalization of profit)	2,25,000	2,25,000
Jun-20	Bank A/c Dr. To Securities Premium A/c To Equity Share Capital A/c (Being Right issue of 2 shares for every 5 shares held as per board resolution dated ....)	5,40,000	90,000 4,50,000

Question 17 : Nov – 2022 – RTP

Pass Journal Entries in the following circumstances:

(i) Rise Limited with subscribed capital of Rs. 7,50,000 consisting of 75,000 Equity shares of Rs. 10 each; called up capital Rs. 7.50 per share. A bonus of Rs. 1,87,500 declared out of General Reserve to be applied in making the existing shares fully paid up.

(ii) A Limited company having fully paid up capital of Rs. 75,00,000 consisting of Equity shares of Rs. 10 each, had General Reserve of Rs. 13,50,000. It was resolved to capitalize Rs. 7,50,000 out of General Reserve by issuing 75,000 fully paid bonus shares of Rs. 10 each, each shareholder to get one such share for every ten shares held by him in the company.

Solution :

Journal Entries

		Rs.	Rs.
(i)	General Reserve A/c Dr. To Bonus to shareholders A/c (For making provision of bonus issue)	1,87,500	1,87,500
	Share final call A/c Dr. To Equity share capital A/c (For final calls of Rs. 2.50 per share on 75,000 equity shares due as per Board's Resolution dated....)	1,87,500	1,87,500
	Bonus to shareholders A/c Dr. To Share final call A/c (For bonus money applied for call)	1,87,500	1,87,500
(ii)	General Reserve A/c Dr. To Bonus to shareholders A/c (For making provision of bonus issue)	7,50,000	7,50,000
	Bonus to shareholders A/c Dr.	7,50,000	

	To Equity share capital A/c (For issue of 75,000 bonus shares at Rs. 10)		7,50,000

Question 18 : Nov – 2022 – RTP

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

Solution :

Ex-right value of the shares	= (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing Number of shares + No. of right shares)
	= (Rs. 360 x 2 Shares + Rs. 180 x 1 Share) / (2 + 1) Shares
	= Rs. 900 / 3 shares = Rs. 300 per share.
Value of right	= Cum-right value of the share – Ex-right value of the share
	= Rs. 360 – Rs. 300 = Rs. 60 per share.

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

Thanks ....

CHAPTER

14 REDEMPTION OF PREFERENCE SHARES

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : May - 2018 - RTP / Nov - 2018 - RTP / Nov - 2019 - RTP / Nov - 2020 - RTP / May - 2021 - RTP

The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 20X1:

Share capital : 50,000 Equity shares of Rs.10 each fully paid – Rs.5,00,000; 1,500 10% Redeemable preference shares of Rs.100 each fully paid – Rs.1,50,000.

Reserve & Surplus : Capital reserve – Rs.1,00,000; General reserve –Rs.1,00,000; Profit and Loss Account – Rs.75,000.

On 1st January 20X2, the Board of Directors decided to redeem the preference shares at premium of 10% by utilization of reserves.

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

Solution :

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
20X2				
Jan.1	10% Redeemable Preference Share Capital A/c	Dr.	1,50,000	
	Premium on Redemption of Preference Shares	Dr.	15,000	
	To Preference Shareholders A/c		1,65,000	
	Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,65,000	
	To Bank A/c			1,65,000
	(Being the amount paid on redemption of preference shares)			
	General Reserve A/c	Dr.	1,00,000	

	Profit & Loss A/c	Dr.	50,000	
	To Capital Redemption Reserve A/c			1,50,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			
	Profit & Loss A/c	Dr.	15,000	
	To Premium on Redemption of Preference Shares A/c			15,000
	(Being premium on redemption charged to Profit and Loss A/c)			

Note : Capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

Question 2 : May – 2018 – Paper

Dheeraj Limited had 5,000, 10% Redeemable Preference Shares of Rs.100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

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

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

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

Solution :

In the books of Dheeraj Limited

Journal Entries

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

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

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

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

Question 3 : Nov – 2018 – Paper

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

Solution :

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

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

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

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

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

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

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

(3) Shareholders retain their equity interest.

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

(1) There will be dilution of future earnings;

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

Question 4 : May – 2019 – RTP / May – 2020 – RTP

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

Undistributed reserve and surplus stood as: General Reserve Rs.80,000; Profit and Loss Account Rs.20,000; Investment Allowance Reserve out of which Rs.5,000, (not free for distribution as dividend) Rs.10,000; Cash at bank amounted to Rs.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 Rs.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.

Solution :

In the books of AP Ltd.

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	Dr.	25,000	
	To Equity Share Capital A/c			25,000
	(Being the issue of 2,500 Equity Shares of Rs.10 each 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 Preference Shareholders Account)			
	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			10,000
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)			
	General Reserve A/c	Dr.	60,000	
	Profit & Loss A/c	Dr.	10,000	

	Investment Allowance Reserve A/c Dr. To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	5,000	75,000

Balance Sheet as on ………….[Extracts]

		Particulars	Notes	Amount (Rs.)
I	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**		
	(a)	Share capital	1	2,25,000
	(b)	Reserves and Surplus	2	1,00,000
		Total		**?**
II	**ASSETS**			
	2	**Current Assets**		
		Cash and cash equivalents		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 Rs.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 Note:

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

Face value of shares redeemed		Rs.1,00,000
Less: Profit available for distribution as dividend:		
General Reserve : Rs.(80,000 – 20,000)	Rs.60,000	
Profit and Loss (20,000 – 10,000 set aside for adjusting premium payable on redemption of preference shares)	Rs.10,000	
Investment Allowance Reserve: (Rs.10,000-5,000)	Rs.5,000	(Rs.75,000)
		Rs.25,000

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

Question 5 : May – 2019 – Paper

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

		Particulars	Amount (Rs.)
I	EQUITY AND LIABILITIES		
	1	**Shareholders' funds**	
	(a)	Share capital	5,80,000
	(b)	Reserves and Surplus	96,000
	2	**Current Liabilities:**	
		Trade Payables	1,13,000
		Total	**7,89,000**
II	ASSETS		
	1	**Non-Current Assets**	
		Property, Plant and Equipment Tangible Assets	6,90,000
		Non-current investments	37,000
	2	**Current Assets**	
		Cash and cash equivalents (Bank)	62,000
		Total	**7,89,000**

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

Reserves and Surplus comprises statement of profit and loss only.

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

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

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

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

You are required to

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

(2) Prepare Balance Sheet after completion of the above transactions.

Solution :

Journal Entries

	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Bank A/c Dr.	75,000	
	To Share Application A/c		75,000

	(For application money received on 1,250 shares @ Rs.60 per share)			
2	Share Application A/c	Dr.	75,000	
	To Equity Share Capital A/c			62,500
	To Securities Premium A/c			12,500
	(For disposition of application money received)			
3	Preference Share Capital A/c	Dr.	1,30,000	
	Premium on Redemption of Preference Shares A/c	Dr.	13,000	
	To Preference Shareholders A/c			1,43,000
	(For amount payable on redemption of preference shares)			
4	Profit and Loss A/c	Dr.	13,000	
	To Premium on Redemption of Preference Shares A/c			13,000
	(For writing off premium on redemption out of profits)			
5	Bank A/c	Dr.	30,000	
	Profit and Loss A/c (loss on sale) A/c	Dr.	7,000	
	To Investment A/c			37,000
	(For sale of investments at a loss of Rs.3,500)			
6	Preference Shareholders A/c	Dr.	1,43,000	
	To Bank			1,43,000
	(Being amount paid to Preference shareholders)			
7	Profit and Loss A/c	Dr.	67,500	
	To Capital Redemption Reserve A/c			67,500
	(For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds (face value of equity shares) i.e., Rs.1,30,000 - Rs.62,500)			

Balance Sheet of Clean Ltd. (after redemption)

		Particulars	Notes	Amount (Rs.)
I	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**		
	(a)	Share capital	1	5,12,500
	(b)	Reserves and Surplus	2	88,500
	2	**Current liabilities**		
		Trade Payables		1,13,000
		Total		**7,14,000**
II	**ASSETS**			
	1	**Non-Current Assets**		

		Property Plant and Equipments Tangible asset		6,90,000
	2	**Current Assets**		
		Cash and cash equivalents (bank)	3	**24,000**
		Total		**7,14,000**

Notes to accounts :

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

Working Note:

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

Question 6 : Nov – 2020 – Paper

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

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

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

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

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

Solution :

Journal Entries

			Rs.	Rs.
1	10% Preference Share Final Call A/c	Dr.	6,00,000	
	To 10% Preference Share Capital A/c			6,00,000
	(For final call made on preference shares @ Rs. 20 each to make them fully paid up)			
2	Bank A/c	Dr.	6,00,000	
	To 10% Preference Share Final Call A/c			6,00,000
	(For receipt of final call money on preference shares)			
3	Bank A/c	Dr.	3,00,000	
	To Equity Share Application A/c			3,00,000
	(For receipt of application money on 1,50,000 equity shares @ Rs. 2 per share)			
4	Equity Share Application A/c	Dr.	3,00,000	
	To Equity Share Capital A/c			3,00,000
	(For capitalization of application money received)			
5	Equity Share Allotment A/c	Dr.	10,50,000	
	To Equity Share Capital A/c			7,50,000
	To Securities Premium A/c			3,00,000
	(For allotment money due on 1,50,000 equity shares @ Rs. 7 per share including a premium of Rs. 2 per share)			
6	Bank A/c	Dr.	10,50,000	
	To Equity Share Allotment A/c			10,50,000
	(For receipt of allotment money on equity shares)			
7	10% Preference Share Capital A/c	Dr.	30,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	3,00,000	
	To Preference Shareholders A/c			33,00,000
	(For amount payable to preference shareholders on redemption at 10 % premium)			
8	General Reserve A/c	Dr.	3,00,000	
	To Premium on Redemption A/c			3,00,000
	(Writing off premium on redemption of preference shares)			
9	General Reserve A/c	Dr.	19,50,000	

	To Capital Redemption Reserve A/c (For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 30,00,000 - 3,00,000 - 7,50,000)			19,50,000
10	Preference Shareholders A/c	Dr.	33,00,000	
	To Bank A/c			33,00,000
	(For amount paid to preference shareholders)			

Balance Sheet (extracts)

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

Notes to Accounts :

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

Note:

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

received on allotment towards share capital) and balance Rs. 19,50,000 to taken from general reserve account.

Question 7 : Jan – 2021 – Paper

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

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

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

Company also sold investment of 4500 Equity Shares in G Ltd. costing Rs.45,000 at Rs.9 per share. Pass Journal entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet as at 31.03.2020 of BK Ltd., after the redemption carried out.

Solution :

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	Dr.	84,500	
	To Equity Share Capital A/c			84,500
	(Being the issue of 8,450 Equity Shares of Rs. 10 each as per Board's Resolution No…..dated…….)			
	9% Redeemable Preference Share Capital A/c	Dr.	2,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	20,000	
	To Preference Shareholders A/c			2,20,000
	(Being the amount paid on redemption transferred to Preference Shareholders Account)			
	Bank A/c	Dr.	40,500	
	Profit and Loss A/c (loss on sale) A/c	Dr.	4,500	
	To Investment A/c			45,000
	(Being investment sold at loss of Rs. 4,500)			
	Preference Shareholders A/c	Dr.	2,20,000	
	To Bank A/c			2,20,000

	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being the premium payable on redemption is adjusted against Profit & Loss Account)	Dr.	20,000	20,000
	General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account)	Dr. Dr.	80,000 35,500	1,15,500

Balance Sheet as on ………[Extracts]

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

Notes to accounts

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

Working Note:

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

Face value of shares redeemed		Rs.2,00,000
Less: Profit available for distribution as dividend:		
General Reserve: Rs. (1,20,000-40,000)	Rs.80,000	
Profit and Loss (60,000 less 20,000 set aside for adjusting premium payable on redemption of Pref.		

shares less 4,500 loss on sale of investments) Rs.35,500

Rs. (1,15,500)

Rs. 84,500

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

Question 8 : Nov – 2021 – RTP

Neeraj Ltd.'s capital structure consists of 45,000 Equity Shares of Rs. 10 each fully paid up and 3,000 9% Redeemable Preference Shares of Rs. 100 each fully paid up as on 31.03.2021. The other particulars as at 31.03.2021 are as follows:

	Amount (Rs.)
General Reserve	1,80,000
Profit & Loss Account	90,000
Investment Allowance Reserve (not free for distribution as dividend)	22,500
Cash at bank	2,92,500

Preference Shares are to be redeemed at a premium of 10%. For the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve & surplus, subject to the conditions that a sum of Rs. 60,000 shall be retained in General Reserve and which should not be utilized. Company also sold investment of 6,750 Equity Shares in Kumar Ltd., costing Rs.67,500 at Rs. 9 per share.

Pass Journal entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet as at 31.03.2021 of Neeraj Ltd. after the redemption is carried out.

Solution :

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	Dr.	1,26,750	
	To Equity Share Capital A/c			1,26,750
	(Being the issue of 12,675 Equity Shares of Rs. 10 each as per Board's Resolution No....dated....)			
	9% Redeemable Preference Share Capital A/c	Dr.	3,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	30,000	
	To Preference Shareholders A/c			3,30,000
	(Being the amount paid on redemption transferred to Preference Shareholders Account)			
	Bank A/c	Dr.	60,750	
	Profit and Loss A/c (loss on sale) A/c	Dr.	6,750	

	To Investment A/c (Being investment sold at loss of Rs. 6,750)			67,500
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	3,30,000	3,30,000
	Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being the premium payable on redemption is adjusted against Profit & Loss Account)	Dr.	30,000	30,000
	General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account)	Dr. Dr.	1,20,000 53,250	1,73,250

Balance Sheet as at 31.3.2021[Extracts]

	Particulars	Notes No.	Rs.
	EQUITY AND LIABILITIES		
1	Shareholders' funds		
	a Share capital	1	5,76,750
	b Reserves and Surplus	2	2,55,750
	ASSETS		
2	Current Assets		
	Cash and cash equivalents		
	(2,92,500 + 1,26,750+ 60,750 – 3,30,000)		1,50,000

Notes to accounts

1	Share Capital	
	57,675 Equity shares (45,000 + 12,675) of Rs.10 each fully paid up	5,76,750
2	Reserves and Surplus	
	General Reserve	60,000
	Profit and loss account	NIL
	Capital Redemption Reserve	1,73,250
	Investment Allowance Reserve	22,500
		2,55,750

Working Note:

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

Face value of shares redeemed Rs. 3,00,000

Less: Profit available for distribution as dividend:

General Reserve: Rs. (1,80,000-60,000)		Rs. 1,20,000
Profit and Loss (90,000 less 30,000 set aside for adjusting premium payable on redemption of Pref. shares less 6,750 loss on sale of investments)	Rs. 53,250	
	Rs. (1,73,250)	
	Rs. 1,26,750	

Therefore, No. of shares to be issued = Rs. 1,26,750/Rs.10 = 12,675 shares.

Question 9 : Dec – 2021 – Paper

The following is the summarized Balance Sheet of R Limited as at 31st March, 2021 :

	Rs.
Liabilities	
Authorised Capital	
1,50,000 Equity shares of Rs.10 each	15,00,000
30,00,000 Redeemable Preference shares of Rs.100 each	30,00,000
	45,00,000
Issued, subscribed and paid up	
90,000 Equity shares of Rs.10 each	9,00,000
15,000 Redeemable Preference shares of Rs.100 each	15,00,000
Reserves & Surplus	
Securities Premium	18,00,000
General Reserve	16,50,000
Profit & Loss A/c	1,20,000
7500, 9% Debentures of Rs.100 each	7,50,000
Sundry Creditors	2,12,500
	69,32,500
Assets	
Non-Current Assets	
Property Plant & Equipment	31,60,000
Investments (Market Value Rs.17,40,000)	14,70,000
Debtors	17,60,000
Cash & Bank Balance	5,42,500
	69,32,500

In Annual General Meeting held on 15th May, 2021 the company passed the following resolutions :

(i) To redeem 10% preference shares at a premium of 5%.

(ii) To redeem 9% Debentures by making offer to Debenture holders to convert their holding into equity shares at Rs.40 per share or accept cash redemption.

(iii) To issue fully paid bonus shares in the ratio of one equity share for every three shares held on 31st March, 2021.

(iv) Redemption of preference shares and debentures will be paid through company's cash and bank balance subject to leaving a minimum cash and bank balance of Rs.2,00,000.

(v) To issue sufficient number of equity shares @ Rs.40 per share as required to finance redemption of Preference Shareholders and debenture holders.

On 5th June, 2021 investments were sold for Rs.16,80,000 and preference shares were redeemed. 30% of Debenture holders exercised their option to accept cash and their claims were settled on 1st August, 2021. The bonus issue was concluded by 10th August 2021.

You are requested to journalize the above transactions including cash transactions and prepare Balance sheet as at 30th September, 2021. All working notes should form part of your answer.

Solution :

Journal Entries in the Books of R Limited

			Rs.	Rs.
June 5	Cash & Bank A/c	Dr.	16,80,000	
	To Investment A/c			14,70,000
	To Profit & Loss A/c			2,10,000
	(Being investment sold out and profit on sale credited to Profit & Loss A/c)			
June 5	10% Redeemable preference share capital A/c	Dr.	15,00,000	
	Premium on redemption of pref. share A/c	Dr.	75,000	
	To Preference shareholders A/c			15,75,000
	(Being amount payable to preference shareholders on redemption)			
June 5	Preference shareholders A/c	Dr.	15,75,000	
	To Cash & bank A/c			15,75,000
	(Being amount paid to preference shareholders)			
June 5	General reserve* A/c	Dr.	15,00,000	
	To Capital redemption reserve A/c			15,00,000
	(Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law)			
Aug. 1	9% Debentures A/c	Dr.	7,50,000	
	Interest on debentures A/c	Dr.	22,500	
	(Rs. 7,50,000 x 9% x 4/12)			7,72,500
	To Debenture holders A/c			
	(Being amount payable to debenture holders along with interest payable)			

Aug. 1	Debenture holders A/c Dr. To Cash & bank A/c (2,25,000 + 22,500) To Equity share capital A/c (13,125 XRs. 10) To Securities premium A/c (13,125 x Rs. 30) (Being claims of debenture holders satisfied) (refer W.N.1)	7,72,500	 2,47,500 1,31,250 3,93,750
Aug. 10	Capital Redemption Reserve A/c Dr. To Bonus to shareholders A/c (Being balance in capital redemption reserve capitalized to issue bonus shares)	3,00,000	 3,00,000
Aug. 10	Bonus to shareholders A/c Dr. To Equity share capital A/c (Being 30,000 fully paid equity shares of Rs. 10 each issued as bonus in ratio of 1 share for every 3 shares held)	3,00,000	 3,00,000
Sept.30	General Reserve* A/c Dr. To Premium on redemption of preference shares A/c (Being premium on preference shares adjusted from general reserve)	75,000	 75,000
Sept.30	Profit & Loss A/c Dr. To Interest on debentures A/c (Being interest on debentures transferred to Profit and Loss Account)	22,500	 22,500

Balance Sheet as at 30th September, 2021

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	13,31,250
	b	Reserves and Surplus	2	37,76,250
2		Current liabilities		
	a	Trade Payables		2,12,500
		Total		53,20,000
		Assets		
1		Non-current assets		
	a	Property, Plant and Equipment		31,60,000
2		Current assets		
	a	Trade receivables		17,60,000

	b	Cash and bank balances (W.N.2)		4,00,000
		Total		53,20,000

Notes to accounts:

			Rs.	Rs.
1	**Share Capital**			
	Authorized share capital			
	1,50,000 Equity shares of Rs. 10 each		15,00,000	
	30,000 Redeemable Preference shares of Rs. 100 each		30,00,000	
	Issued, subscribed and paid up			
	1,33,125 Equity shares of Rs. 10 each [90,000+13,125+30,000] (Out of which 1,33,125 shares were issued for the consideration other than cash)			13,31,250
2	**Reserves and Surplus**			
	Securities Premium			
	Balance as per balance sheet		18,00,000	
	Add: Premium on equity shares issued on conversion of debentures (13,125 x 30)		3,93,750	
	Balance			21,93,750
	Capital Redemption Reserve (15,00,000 - 3,00,000)			12,00,000
	General Reserve			
	Opening Balance	16,50,000		
	Less Transfer to Capital Redemption Reserve	(15,00,000)		
		1,50,000		
	Less: Premium on redemption of preference shares	(75,000)		75,000
	Profit & Loss A/c		1,20,000	
	Add: Profit on sale of investment		2,10,000	
	Less: Interest on debentures		(22,500)	3,07,500
	Total			37,76,250

Working Notes:

		Rs.
1	**Redemption of Debentures**	
	7,500 Debentures of Rs. 100 each	7,50,000
	Less: Cash option exercised by 30% holders	(2,25,000)

	Conversion option exercised by remaining 70%	5,25,000
	Equity shares issued on conversion = 5,25,000/40 = 13,125 shares	
2	**Cash and Bank Balance**	
	Balance as per balance sheet	5,42,500
	Add: Realization on sale of investment	16,80,000
		22,22,500
	Less: Paid to preference share holders	(15,75,000)
	Paid to Debenture holders (2,25,000 + 22,500)	(2,47,500)
	Balance	4,00,000

Note:

1. There is no need to issue fresh equity shares as the company is having sufficient cash balance.
2. Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and comply with the Accounting Standards prescribed for them. Alternative considering otherwise also possible by utilizing securities premium.

Question 10 : May – 2022 – RTP

Rohan Ltd. gives you following information as at 31st March, 2021:

Particulars		Rs.	Rs.
Equity and Liabilities			
Issued & subscribed capital:			
Equity shares capital:			
60,000 Equity shares of Rs. 10 each fully paid up		6,00,000	
12% Redeemable Preference share Capital:			
5,000 share of Rs. 100 each	5,00,000		
Less: Calls in arrear	(4,000)	4,96,000	10,96,000
(final call of Rs. 20 on 200 shares)			
Reserve & surplus			
Profit and Loss Account		3,00,000	
Securities Premium Account		30,000	3,30,000
Non- current liability			
Long term borrowings: 14% Debentures			1,50,000
Current liabilities			
Trade payables			74,000
Assets			
Non-current Assets			
(i) Property, Plant & Equipment			13,00,000
(ii) Non- current Investment			1,00,000

Current Assets		
(i) Inventory		50,000
(ii) Trade Receivables		20,000
(iii) Bank		1,80,000

On April 1, 2021, the Board of Directors decided to redeem the preference shares (excluding 200 shares on which there are calls in arrear) at 10% premium and to sell the investment at its market price of Rs. 80,000. They also decided to issue sufficient number of equity shares of Rs. 10 at a premium of Rs. 1 per share and the balance in profit and loss account was to be maintained at Rs. 1,00,000. Premium on redemption can't be set off against securities premium account as Rohan Ltd. is governed by section 133 of the Companies act, 2013 and comply with Accounting Standards.

You are required to show the journal entries and the balance sheet of the company immediately after completion of redemption as per Schedule III. Show working for availability of profits for redemption and determination of bank balance at the end. All the above formalities and transactions were completed up to the end of 15th May, 2021.

Solution :

Journal Entries in the books of Rohan Ltd.

		Dr. (Rs.)	Cr. (Rs.)
Bank A/c	Dr.	80,000	
Profit & Loss A/c (Loss on sale)	Dr.	20,000	
To Investment A/c			1,00,000
(Being sale of Investments and transfer of Loss to Profit and Loss A/c)			
12% Preference Share Capital A/c	Dr.	4,80,000	
Premium Payable on Redemption A/c	Dr.	48,000	
To Preference Shareholders Account			5,28,000
(Being amount payable to Preference Shareholders on redemption of Preference Shares at a premium of 10%)			
Bank Account	Dr.	3,82,800	
To Equity Share Application & Allotment A/c			3,82,800
(Being application money received on Equity Shares issued)			
Equity Share Application & Allotment A/c	Dr.	3,82,800	
To Equity Share Capital A/c			3,48,000
To Securities Premium A/c			34,800
(Being the allotment of 34,800 equity shares of Rs. 10 each at a premium of Rs. 1 per share)			
Profit & Loss Account	Dr.	1,32,000	
To Capital Redemption Reserve Account			1,32,000

Being creation of CRR to the extent of nominal value of Preference Shares redeemed out of profits.)			
Profit & loss Account	Dr.	48,000	
To Premium Payable on Redemption A/c			48,000
(Being Premium Payable on Redemption written off.)			
Preference Shareholders Account	Dr.	5,28,000	
To Bank Account			5,28,000
(Being amount paid to Preference Shareholders holding 4,800 preference shares on Redemption.)			

Balance Sheet of Rohan Limited

As at 15th May 2021 (After Redemption of Preference Shares)

	Particulars	Note No.	Amount (Rs.)
I	**EQUITY AND LIABILITIES**		
	1. Shareholders' funds		
	(a) Share Capital	1	9,64,000
	(b) Reserve and surplus	2	2,96,800
	2. Non-Current Liabilities		
	Long Term Borrowings (14% Debentures)		1,50,000
	3. Current Liabilities		
	(a) Trade Payables		74,000
	Total		**14,84,800**
II	**ASSETS**		
	1. Non-current Assets		
	(a) PPE		13,00,000
	2. Current Assets		
	(a) Inventories		50,000
	(b) Trade Receivables		20,000
	(c) Cash and Cash Equivalent (W.N -4)		1,14,800
	Total		**14,84,800**

Notes to Accounts

		Rs.	Rs.
1	**Share Capital**		
	Equity Share Capital		
	Issued Subscribed and paid up:		
	94,800 Equity Shares of Rs. 10 each fully paid up		9,48,000
	12% Preference share Capital		
	200, 12% Preference Shares fully called up	20,000	

	Less: Calls-in-arrears (@ Rs. 20 per share)	(4,000)	16,000
	Total		**9,64,000**
2	**Reserve and Surplus**		
	(a) Capital redemption Reserve Account		1,32,000
	(Transfer from Profit and Loss A/c)		
	(b) Securities Premium Account		
	Opening Balance	30,000	
	Add: Received on Fresh Issue (34,800 Shares × Rs. each)	34,800	64,800
	(c) Profit and Loss A/c balance		1,00,000
	Total		**2,96,800**

Working Notes:

1. 200 preference shares having calls in arrears, will not be redeemed. The amount of fresh issue under section 55 of the Companies Act has been calculated taking into consideration the redemption of 4,800 Preference shares, which are fully paid-up.

2 **Calculation of Profits Available for Redemption**

Balance given in the Question	3,00,000
Less: Loss on sale of Investment (1,00,000 - 80,000)	(20,000)
Less: Minimum balance to be maintained in P& L A/c	(1,00,000)
Less: Premium on redemption of Preference shares	(48,000)
Closing Balance	1,32,000

3 **No. of shares to be issued**

Total Nominal Value of Preference Shares	4,80,000
Less: Amount of profit available for redemption of Preference shares	(1,32,000)
Amount required out of fresh issue	3,48,000

$$\text{No. of Shares to be issued} = \left(\frac{\text{Amount required out of proceeds of fresh issue of shares}}{\text{Par value per share (proposed issue)}}\right)$$

$$= \frac{3,48,000}{10} = \text{34,800 shares of Rs.10 each}$$

4. **Determination of closing bank balance**

Opening bank balance	1,80,000
Add: Proceeds from sale of Investment	80,000
Add: Proceeds from fresh issue of 34,800 equity shares @ Rs. 11	3,82,800
Less: Paid to Preference Shareholders on Redemption (4,800 × Rs. 110)	(5,28,000)
Closing Balance	1,14,800

Question 11 : May – 2022 – Paper

Given below is the extracts of Balance Sheet of Daisy Limited as at 31stMarch, 2021.

Particulars	Rs.
15% 650 Redeemable Preference Shares of Rs.100 each, Rs.80 per share paid up	52,000
22,500 Equity Shares of Rs.10 each, Rs.9.50 per share paid up	2,13,750
Revaluation Reserve	45,000
Capital Reserve (realized in cash)	500
General Reserve	40,000
Securities Premium	500
Profit & Loss Account	40,500
Current Liabilities	1,07,750
Fixed Assets	3,71,500
Non-Current Investments [Face value Rs.50,000]	1,00,000
Bank Balance	28,500

The following information are provided :

- On 1st April, 2021, the Board of Directors decided to make a final call of Rs.20 on Redeemable Preference Shares and to redeem the same at a premium of 10% on 1st June, 2021.
- The investments of the face value of Rs.20,000 are sold at the market price which was 150% of the face value.
- It is decided to issue sufficient number of Equity Shares of Rs.10 each at a premium of 25% after leaving a balance of Rs.50,000 in bank account.
- It was also decided to convert the pertly paid-up Equity Shares into fully paid up without requiring the shareholders to pay for the same.
- On 1st July, 2021 the Board decided to issue fully paid bonus shares to the equity shareholders in the ratio of one for five.

You are required to pass the necessary journal entries for the above.

Solution :

Journal Entries

2021			Dr. (Rs.)	Cr. (Rs.)
Apr-01	15% Redeemable Preference Share Final Call A/c	Dr.	13,000	
	To 15% Preference Share Capital A/c			13,000
	(For final call made on 650 preference shares @ Rs. 20 each to make them fully paid up)			
	Bank A/c	Dr.	13,000	
	To 15% Preference Share Final Call A/c			13,000
	(For receipt of final call money on preference shares)			
Jun-01	15% Redeemable preference share capital A/c	Dr.	65,000	
	Premium on redemption of pref. share A/c	Dr.	6,500	

	To Redeemable Preference Shareholders A/c (Being amount payable to preference shareholders on redemption)			71,500
	Cash & Bank balance A/c	Dr.	30,000	
	Profit & Loss A/c	Dr.	10,000	
	To Investment A/c (Being investment sold out and loss on sale debited to Profit & Loss A/c) [Book value Rs. 1,00,000 x Rs. 20,000/ Rs. 50,000 = Rs. 40,000. Sale proceeds = Rs. 20,000 x 150/100 = Rs. 30,000]			40,000
	Bank A/c	Dr.	50,000	
	To Equity share capital A/c			40,000
	To securities premium A/c (Being 4,000 equity shares of Rs. 10 issued at premium of Rs. 2.50 per share)			10,000
	Preference shareholders A/c	Dr.	71,500	
	To Cash & bank A/c (Being amount paid to preference shareholders)			71,500
	Profit and loss A/c/ General reserve A/c *	Dr.	25,000	
	To Capital redemption reserve A/c (Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law i.e. face value shares redeemed 65,000 less fresh equity shares issued Rs. 40,000)			25,000
	Profit and Loss A/c **	Dr.	6,500	
	To Premium on redemption of preference shares A/c (Being premium on preference shares adjusted from Securities Premium A/c)			6,500
	Profit & Loss/ General reserve A/c*	Dr.	11,250	
	To Bonus to shareholders A/c (Being 50 paisa for 22,500 shares making partly) paid up as fully paid up)			11,250
	Share final call A/c	Dr.	11,250	
	To Equity share capital A/c (for making the final call due)			11,250
	Bonus to shareholders A/c	Dr.	11,250	
	To Equity share final call A/c			11,250

	(Adjusted at final call)		
Jul-01	Capital Redemption Reserve A/c Dr.	25,000	
	Securities Premium A/c Dr.	4,000	
	Capital Reserve A/c Dr.	500	
	Profit & Loss A/c / General Reserve* Dr.	23,500	
	To Bonus to shareholders A/c		53,000
	(Being balance in reserves capitalized to issue bonus shares)		
	Bonus to shareholders A/c Dr.	53,000	
	To Equity share capital A/c		53,000
	(Being 5,300 fully paid equity shares of Rs. 10 each issued as bonus in ratio of 1 share for every 5 shares held (22,500+4,000) divided by 5)		

Note: *Different combination of utilisation of available balances of general reserve and P& L A/c is possible in the given entries.

** Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and hence the company has to comply with the prescribed Accounting Standards.

*** As per the sequence of the information given in the question it has been considered that the fresh issue of equity shares is made at the time of the redemption of preference shares. Alternatively, it may be assumed that shares are issued after the redemption of preference shares. In that case the amount transferred to Capital Redemption Reserve will get changed.

Question 12 : Nov – 2022 – RTP

Dheeraj Limited had 5,000, 10% Redeemable Preference Shares of Rs. 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

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

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

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

Solution :

In the books of Dheeraj Limited

Journal Entries

Date	Particulars	Dr.(Rs.)	Cr.(Rs.)
	Bank A/c Dr.	4,00,000	
	To Equity Share Capital A/c		4,00,000

	(Being the issue of 40,000 equity shares of Rs. 10 each at par as per Board's resolution No…dated..)			
	Bank A/c To 12% Debenture A/c (Being the issue of 2,000 Debentures of Rs. 100 each as per Board's Resolution No…..dated……)	Dr.	2,00,000	 2,00,000
	10% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)	Dr. Dr.	5,00,000 50,000	 5,50,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	5,50,000	 5,50,000
	Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being the adjustment of premium on redemption against Profits & Loss Account)	Dr.	50,000	 50,000
	Profit & Loss A/c To Capital Redemption Reserve A/c (Working Note) (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr.	1,00,000	 1,00,000

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

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

Question 13 : Nov – 2022 – Paper

Given below are the extracts of Balance Sheet of Sea Chemicals Limited as on 31st March, 2022 :

Particulars	Amount in Rs.
9% Redeemable Preference Shares Capital	10,00,000
Calls in arrears (Redeemable Preference Shares)	20,000
General Reserve	7,00,000
Securities Premium	80,000

It is provided that :

- Preference Shares are of Rs.100 each fully-called, due for immediate redemption at a premium of 5%.
- Calls-in-arrears are on account of final call on 1000 shares held by four members whose whereabouts are not known.
- Balance of General Reserve and Securities Premium to be fully utilised for the purposes of redemption and the shortfall to be made good by issue of equity shares of Rs.10 each at par.
- The redemption of preference shares was duly carried out.

You are required to pass the necessary journal entries (narration not required) to give effect to the above redemption.

Thanks ....

CHAPTER

15

REDEMPTION OF DEBENTURES

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : May – 2018 – RTP / May – 2019 – RTP

On 1st January, 2006 Raman Ltd. allotted 20,000 9% Debentures of Rs.100 each at par, the total amount having been received along with applications.

(i) On 1st January, 2008 the Company purchased in the open market 2,000 of its own debentures @ Rs.101 each and cancelled them immediately.

(ii) On 1st January, 2011 the company redeemed at par debentures for Rs.6,00,000 by draw of a lot.

(iii) On 1st January, 2012 the company purchased debentures of the face value of Rs.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, 2016.

You are required to prepare required journal entries for the above-mentioned transactions ignoring debenture redemption reserve, debenture interest and interest on own debentures.

Solution :

Journal Entries

	Particulars		Dr. (Rs.)	Cr. (Rs.)
2006 Jan 1	Bank	Dr.	20,00,000	
	To 9% Debenture Applications& Allotment Account			20,00,000
	(Being application money on 20,000 debentures @ Rs.100 per debenture received)			
	9% Debentures Applications & Allotment Account	Dr.	20,00,000	
	To 9% Debentures Account			20,00,000

	(Being allotment of 20,000 9% Debentures of Rs.100 each at par)			
(i) 2008 Jan 1	9% Debenture Account Loss on Redemption of Debentures Account To Bank (Being redemption of 2,000 9% Debentures of Rs.100 each by purchase in the open market @ Rs.101 each)	Dr. Dr.	2,00,000 2,000	
2008 Jan 1	Profit & Loss Account To Loss on Redemption of Debentures Account (Being loss on redemption of debentures being written off by transfer to Profit and Loss Account)	Dr.	2,000	 2,000
(ii) 2011 Jan 1	9% Debentures Account To Sundry Debenture holders (Being Amount payable to debenture holders on redemption debentures for Rs.6,00,000 at par by draw of a lot)	Dr.	6,00,000	 6,00,000
2011 Jan 1	Sundry Debenture holders To Bank (Being Payment made to sundry debenture holders for redeeming debentures of Rs.6,00,000 at par)	Dr.	6,00,000	 6,00,000
(iii) 2012 Jan 1	Own Debentures To Bank (Being purchase of own debentures of the face value of Rs.4,00,000 for Rs.3,95,600)	Dr.	3,95,600	 3,95,600
2013 Jan 1	9% Debentures To Own Debentures To Profit on Cancellation of Own Debentures Account (Being Cancellation of own debentures of the face value of Rs.4,00,000 purchased last year for Rs.3,95,600)	Dr.	4,00,000	 3,95,600 4,400
2013 Jan 1	Profit on Cancellation of Own Debentures Account To Capital Reserve Account (Being transfer of profit on cancellation of own debentures to capital reserve)	Dr.	4,400	 4,400
(iv) 2016 Jan 1	9% Debentures Account Premium on Redemption of Debentures Account To Sundry Debenture holders	Dr. Dr.	8,00,000 16,000	 8,16,000

	(Being amount payable to holders of debentures of the face value of Rs.8,00,000 on redemption at a premium of 2% as per resolution of the board of directors)		
2016 Jan 1	Sundry Debenture holders Dr. To Bank Account (Being payment to sundry debenture holders)	8,16,000	 8,16,000
2016 Jan 1	Profit & Loss Account Dr. To Premium on Redemption of Debentures Account (Being utilization of a part of the balance in Securities Premium Account to write off premium paid on redemption of debentures)	16,000	 16,000

Question 2 : May – 2018 – Paper

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

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

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

Solution :

In the books of Gurudev Ltd.

Journal Entries

(i) In case of ex-interest

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

(ii) In case of cum interest

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

Question 3 : Nov – 2018 – RTP

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

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

The debentures are due for redemption on 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 Rs.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 Rs.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.

Solution :

Spices Ltd.

Balance Sheet as on 01.04.2018

		Particulars	Notes	Amount (Rs.)
I	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**		
	(a)	Share capital	1	1,10,000
	(b)	Reserves and Surplus	2	91,000
	2	**Non-Current Liabilities**		
	(a)	Long-term borrowings - Unsecured Loans		28,000
	3	**Current Liabilities**		
	(a)	Short-term borrowings		19,000
		Total		**2,48,000**
II	**ASSETS**			
	1	**Non-Current Assets**		
	(a)	Fixed assets		
		(i) Tangible assets		72,000
	2	**Current Assets**		
	(a)	Cash and cash equivalents		98,000
	(b)	Other current assets		78,000
		Total		**2,48,000**

Notes to accounts :

		Rs.
Share Capital 11,000 Equity Shares of Rs.10 each (Out of above, 2000 shares issued to debentures holders who opted for conversion into shares)		 1,10,000

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 Rs.5)	(6,000)	89,000
Securities Premium Account (2,000 x Rs.1)		2,000
		91,000

Working Notes:

(i) Calculation of number of shares to be allotted

	Rs.
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 Rs.55)	Rs.22,000

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

(ii) Calculation of cash to be paid

	Rs.
Number of debentures	1,200
Less: Number of debentures to be converted into equity shares	(400)
	800
Redemption value of 800 debentures (800 × Rs. 55)	Rs.44,000

(iii) Cash and Bank Balance

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

Question 4 : Nov – 2018 – Paper

A Company had issued 1,000 12% debentures of Rs.100 each redeemable at the company's option at the end of 10 years at par or prior to that by purchase in open market or at Rs.102 after giving 6 months notice. On 31st December, 2016, the accounts of the company showed the following balances: Debenture redemption fund Rs.53,500 represented by 10% Govt. Loan of a nominal value of Rs.42,800 purchased at an average price of Rs.101 and Rs.10,272 uninvested cash in hand.

On 1st January 2017, the company purchased Rs.11,000 of its own debentures at a cost of Rs.10,272. On 30th June, 2017, the company gave a six months notice to the holders of Rs.40,000 debentures and on 31st December, 2017 carried out the redemption by sale of Rs.40,800 worth of Govt. Loan at par and also cancelled the own debentures held by it.

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

Solution :

Debenture Redemption Fund Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31.12.17	To Debenture Redemption Fund Investment A/c	408	1.1.17	By Balance b/d	53,500
	To Premium on redemption debentures	800	31.12.17	By interest on DRFI (10% of Rs.42,800)	4,280
	To Balance c/d	57,892		By interest on own debentures (ie. 12% on Rs.11,000)	1,320
		59,100			59,100
			1.1.18	To Balance b/d	57,892

Debenture Redemption Fund Investment Account

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

Question 5 : Nov – 2019 – RTP

Omega Limited (a manufacturing company) recently made a public issue in respect of which the following information is available:

(a) No. of partly convertible debentures issued- 2,00,000; face value and issue price- Rs.100 per debenture.

(b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue i.e 31.10.20X1.

(c) Date of closure of subscription lists- 1.5.20X1, date of allotment- 1.6.20X1, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- Rs.60 (Face Value Rs.10).

(d) Underwriting Commission- 2%.

(e) Number of debentures applied for - 1,50,000.

(f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 20X2 (including cash and bank entries).

Solution :

Journal Entries in the books of Omega Ltd.

Journal Entries

	Particulars		Dr. (Rs.)	Cr. (Rs.)
1.5.20X1	Bank A/c	Dr.	1,50,00,000	
	To Debenture Application A/c			1,50,00,000
	(Application money received on 1,50,000 debentures @ Rs.100 each)			
1.6.20X1	Debenture Application A/c	Dr.	1,50,00,000	
	Underwriters A/c	Dr.	50,00,000	
	To 15% Debentures A/c			2,00,00,000
	(Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)			
	Underwriting Commission	Dr.	4,00,000	
	To Underwriters A/c			4,00,000
	(Commission payable to underwriters @ 2% on Rs.2,00,00,000)			
	Bank A/c	Dr.	46,00,000	
	To Underwriters A/c			46,00,000
	(Amount received from underwriters in settlement of account)			
01.6.20X1	Profit & Loss A/c	Dr.	20,00,000	
	To Debenture Redemption Reserve A/c (200,000 X 100 X 25% X 40%)			20,00,000
	(Being Debenture Redemption Reserve created on non-convertible debentures)			
	Debenture Redemption Reserve Investment A/c	Dr.	12,00,000	
	To Bank A/c (200,000 X 100 x 15% X 40%)			12,00,000

	(Being Investments made for redemption purpose)		
30.9.20X1	Debenture Interest A/c Dr.	10,00,000	
	To Bank A/c		10,00,000
	(Interest paid on debentures for 4 months @ 15% on 2,00,00,000)		
31.10.20X1	15% Debentures A/c Dr.	1,20,00,000	
	To Equity Share Capital A/c		20,00,000
	To Securities Premium A/c		1,00,00,0000
	(Conversion of 60% of debentures into shares of Rs.60 each with a face value of Rs.10)		
31.3.20X2	Debenture Interest A/c Dr.	7,50,000	
	To Bank A/c		7,50,000
	(Interest paid on debentures for the half year) (refer working note below)		

Working Note :

Calculation of Debenture Interest for the half year ended 31st March, 20X2

On Rs.80,00,000 for 6 months @ 15%	=	Rs.6,00,000
On Rs.1,20,00,000 for 1 months @ 15%	=	Rs.1,50,000
		Rs.7,50,000

Question 6 : Nov – 2019 – Paper

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

Solution :

Calculation of number of equity shares to be allotted

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

Redemption value of 7,000 debentures at a premium of 5%	
[7,000 x (100 + 5)]	Rs.7,35,000
Equity shares of Rs.10 each issued to debenture holders on redemption	
[Rs.7,35,000/Rs.15]	49,000 shares
Amount of cash to be paid	
Amount to be paid into cash [42,00,000 (40,000 x Rs.105) – 7,35,000]	
on redemption	Rs.34,65,000

Question 7 : May – 2020 – RTP / May – 2021 – RTP

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

(i) 10 % Debentures Rs.37,50,000

(ii) Balance of DRR Rs.1,25,000

(iii) DRR Investment 5,62,500 represented by 10% Rs.5,625 Secured Bonds of the Government of India of Rs.100 each.

Annual contribution to the DRR was made on 31st March every year. On 31-3-20X2, balance at bank was Rs.37,50,000 before receipt of interest. Interest on Debentures had already been paid. The investment were realized at par for redemption of debentures at a premium of 10% on the above date.

Lakshya Ltd. is an unlisted company (other than AIFI, Banking company, NBFC and HFC). You are required to prepare Debenture Redemption Reserve Account, Debenture Redemption Reserve Investment Account and Bank Account in the books of Lakshya Ltd. for the year ended 31st March, 20X2.

Solution :

Debenture Redemption Reserve Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31st March, 20X2	To General reserve A/c note 1 (Refer Note 1)	3,75,000	1st April, 20X1	By Balance b/d	1,25,000
			1st April, 20X1	By Profit and loss A/c (Refer Note 1)	2,50,000
		3,75,000			**3,75,000**

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

Date	Particulars	Rs.	Date	Particulars	Rs.
1st April, 20X1	To Balance b/d	5,62,500	31st March, 20X2	By Bank A/c	5,62,500
		5,62,500			**5,62,500**

Bank Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31st Mar., 20X2	To Balance b/d	37,50,000	31st Mar., 20X2	By Debenture holders A/c (110% of 37,50,000)	41,25,000
	To Interest on DRR Investment (5,62,500 x 10%)	56,250			
	To DRR Investment A/c	5,62,500		By Balance c/d	2,43,750
		43,68,750			**43,68,750**

Working note :

Calculation of DRR before redemption = 10% of Rs.37,50,000 = 3,75,000

Available balance = Rs.1,25,000

DRR required =3,75,000 – 1,25,000 = Rs.2,50,000.

Question 8 : Nov – 2020 – RTP

XYZ Ltd. has issued 1,000, 12% convertible debentures of Rs. 100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of Rs. 10 each at a price of Rs. 20 per share and balance in cash. Debenture holders amounting Rs. 20,000 opted to get their debentures converted into equity shares as per terms of the issue. You are required to calculate the number of shares issued and cash paid for redemption of Rs. 20,000 debenture holders.

Solution :

	Number of debentures
Debenture holders opted for conversion (20,000 /100)	200
Option for conversion	20%
Number of debentures to be converted (20% of 200)	40

Redemption value of 40 debentures at a premium of 5% [40 x (100+5)]	Rs. 4,200
Equity shares of Rs. 10 each issued on conversion	
[Rs. 4,200/ Rs. 20]	210 shares
Calculation of cash to be paid :	Rs.
Number of debentures	200
Less: number of debentures to be converted into equity shares	(40)
	160

Redemption value of 160 debentures (160 × Rs. 105) i.e. Rs. 16,800.

Question 9 : Nov – 2020 – Paper

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

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

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

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

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

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

(1) 12% Debentures

(2) Debentures Redemption Reserve Account

(3) DRR Investment Account.

(4) Own Debentures Account.

Solution :

9% Debenture Account

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

Debenture Redemption Reserve (DRR) Account

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

Debenture Redemption Reserve (DRRI) Account

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

Own Debentures A/c

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

* interest not considered.

Working Notes:

1. **Debenture Redemption Reserve Investment A/c**

   The company would be required to invest an amount equivalent to 15% of the value of the debentures in specified investments which would be equivalent to:

   = Total No of debentures X Face value per debenture X 15%

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

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

2. **Redemption of Debenture Redemption Reserve Investments on 31.3.2020**

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

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

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

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

   = (Total no of debentures - No of own debentures) X Face value per debenture X 15% = (8,000 - 1,000) X 100 X 15% = Rs.1,05,000/-

3. **Debenture Redemption Reserve**

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

Question 10 : Jan – 2021 – Paper

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

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

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

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

(iv) Underwriting Commission – 2%

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

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

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

Solution :

Journal Entries in the books of A Ltd.

Date	Particulars		Amount Dr.	Amount Cr.
1.5.2019	Bank A/c	Dr.	80,00,000	
	To Debenture Application A/c			80,00,000
	(Application money received on 80,000 debentures @ Rs.100 each)			
1.6.2019	Debenture Application A/c	Dr.	80,00,000	
	Underwriters A/c	Dr.	20,00,000	
	To 15% Debentures A/c			1,00,00,000
	(Allotment of 80,000 debentures to applicants and 20,000 debentures to underwriters)			
	Underwriting Commission	Dr.	2,00,000	
	To Underwriters A/c			2,00,000
	(Commission payable to underwriters @ 2% on Rs. 1,00,00,000)			
	Bank A/c	Dr.	18,00,000	
	To Underwriters A/c			18,00,000

	(Amount received from underwriters in settlement of account)			
01.06.2019	Debenture Redemption Investment A/c	Dr.	6,00,000	
	To Bank A/c			6,00,000
	(100,000 X 100 x 15% X 40%)			
	(Being Investments made for redemption purpose)			
30.9.2019	Debenture Interest A/c	Dr.	5,00,000	
	To Bank A/c			5,00,000
	(Interest paid on debentures for 4 months @ 15% on Rs. 1,00,00,000)			
31.10.2019	15% Debentures A/c	Dr.	60,00,000	
	To Equity Share Capital A/c			10,00,000
	To Securities Premium A/c			50,00,000
	(Conversion of 60% of debentures into shares of Rs. 60 each with a face value of Rs. 10)			
31.3.2020	Debenture Interest A/c	Dr.	3,75,000	
	To Bank A/c			3,75,000
	(Interest paid on debentures for the half year)			
	(Refer working note below)			

Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 2020

On Rs. 40,00,000 for 6 months @ 15% =	Rs.3,00,000
On Rs. 60,00,000 for 1 months @ 15% =	Rs.75,000
	Rs.3,75,000

Question 11 : July – 2021 – Paper

AB Limited (a listed company) recently made a public issue in respect of which the following information is available :

(i) No. of partly convertible 8% debentures issued 3,00,000; face value and issue price Rs.100 per debenture.

(ii) Convertible portion per debenture – 60%, date of conversion – on expiry of 7 months from the date of closing issue.

(iii) Date of closure of subscription lists 1-5-2020, date of allotment 1.6.2020, rate of interest on debenture 8% payable from the date of allotment, market value of equity share as on date of conversion Rs.60 (Face Value Rs.10).

(iv) Underwriting Commission 1%

(v) No. of debentures applied for 2,50,000.

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

Write relevant journal entries for all transactions arising out of the above during the year ended 31st. March, 2021 (including cash and bank entries)

Solution :

Journal Entry in books of AB Ltd.

Date	Particulars		Dr. Rs.	Cr. Rs.
1/5/20	Bank A/c.	Dr.	2,50,00,000	
	To Debenture Application A/c			2,50,00,000
	(Being Application money received on 2,50,000 debts)			
1/6/20	Debenture Application A/c	Dr.	2,50,00,000	
	Underwriting A/c	Dr.	50,00,000	
	To 8% Debtor			3,00,00,000
	(Being debenture Allotment made)			
1/6/20	Underwriting Commission A/c.	Dr.	3,00,000	
	To Underwriter A/c			3,00,000
	(Being underwriting commission recorded @ 1% i.e. 3,00,00,000 × 1%))			
1/6/20	Bank A/c	Dr.	47,00,000	
	To Underwriter A/c			47,00,000
	(Being amount due from underwriter received)			
1/6/20	Debenture Redemption Investments A/c	Dr.	18,00,000	
	To Bank			18,00,000
	(Being debenture investment made for the purpose of redemption) (3,00,00,000 × 15% × 40%)			
30/9/20	Debenture Interest A/c.	Dr.	8,00,000	
	To bank A/c			8,00,000
	(3,00,00,000 × 8% × 4/12)			
	(Being debenture interest paid)			
31/11/20	8% Debenture	Dr.	1,80,00,000	
	To Equity share capital			30,00,000
	To Security Premium			1,50,00,000
	(Being 60% debenture converted into equity)			
31/3/20	Debenture Interest A/c	Dr.	7,20,000	
	To bank			7,20,000
	(1,80,00,000 × 8% × 2/12 = 2,40,000			
	1,20,00,000 × 8% × 6/12 = <u>4,80,000</u>			
	(7,20,000)			
	(Being debenture interest paid)			

Question 12 : Nov – 2021 – RTP

Jeet Limited (listed company) recently made a public issue in respect of which the following information is available:

(a) No. of partly convertible debentures issued - 1,00,000; face value and issue price- Rs. 100 per debenture.

(b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue i.e 31.10.2020.

(c) Date of closure of subscription lists - 1.5.2020, date of allotment- 1.6.2020, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- Rs. 60 (Face Value Rs. 10).

(d) Underwriting Commission- 2%.

(e) Number of debentures applied for - 75,000.

(f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2021 (including cash and bank entries).

Solution :

Journal Entries in the books of Jeet Ltd.

Journal Entries

Date	Particulars		Amount Dr.	Amount Cr.
1.5.2020	Bank A/c	Dr.	75,00,000	
	To Debenture Application A/c			75,00,000
	(Application money received on 75,000 debentures @ Rs. 100 each)			
1.6.2020	Debenture Application A/c	Dr.	75,00,000	
	Underwriters A/c	Dr.	25,00,000	
	To 15% Debentures A/c			1,00,00,000
	(Allotment of 75,000 debentures to applicants and 25,000 debentures to underwriters)			
	Underwriting Commission	Dr.	2,00,000	
	To Underwriters A/c			2,00,000
	(Commission payable to underwriters @ 2% on Rs. 1,00,00,000)			
	Bank A/c	Dr.	23,00,000	
	To Underwriters A/c			23,00,000
	(Amount received from underwriters in settlement of account)			
1.6.2020	Debenture Redemption Reserve Investment A/c	Dr.	6,00,000	
	To Bank A/c (1,00,000x100x15%x 40%)			6,00,000

	(Being Investments made for redemption purpose)			
30.9.2020	Debenture Interest A/c	Dr.	5,00,000	
	To Bank A/c			5,00,000
	(Interest paid on debentures for 4 months @ 15% on Rs. 1,00,00,000)			
31.10.2020	15% Debentures A/c	Dr.	60,00,000	
	To Equity Share Capital A/c			10,00,000
	To Securities Premium A/c			50,00,000
	(Conversion of 60% of debentures into shares of Rs. 60 each with a face value of Rs. 10)			
31.3.2021	Debenture Interest A/c	Dr.	3,75,000	
	To Bank A/c			3,75,000
	(Interest paid on debentures for the half year) (refer working note below)			

Working Note :

Calculation of Debenture Interest for the half year ended 31st March, 2021

On Rs. 40,00,000 for 6 months @ 15% =	Rs. 3,00,000
On Rs. 60,00,000 for 1 months @ 15% =	Rs. 75,000
	Rs. 3,75,000

Question 13 : Dec – 2021 – Paper

A company had issued 25,000, 12% Debentures of Rs.100 each on 1st April, 2018. The Debentures were due for redemption on 1st July, 2020. The terms of issue of Debentures provided that they will be redeemable at a premium of 5% and also conferred option to convert 20% of their holding into equity Shares (Nominal value Rs.10 each) at a price of Rs.20 per share.

Debenture holders holding 5,000 Debentures did not exercise the option. Calculate the number of Equity shares to be allotted to the debentures holders exercising the option to the maximum.

Solution :

Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	25,000
Less: Debenture holders not opted for conversion	(5,000)
Debenture holders opted for conversion	20,000
Option for conversion	20%
Number of debentures to be converted (20% of 20,000)	4,000
Redemption value of 4,000 debentures at a premium of 5% [4,000 x (100+5)]	Rs.4,20,000
Equity shares of Rs. 10 each issued on conversion [Rs. 4,20,000/ Rs. 20]	21,000 shares

Question 14 : May – 2022 – RTP

Case Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following information as at 31st March, 2021:

Particulars	Rs.
Shareholder's Funds	
(a) Share Capital	
Authorized share capital:	
45,000 equity shares of Rs. 10 each fully paid	4,50,000
Issued and subscribed share capital:	
30,000 equity shares of Rs. 10 each fully paid	3,00,000
(b) Reserves and Surplus	
Profit & Loss Account	1,62,000
Debenture Redemption Reserve	18,000
Non-current liabilities	
(a) Long term borrowings	
12% Debentures	1,80,000
Current Liabilities	
(a) Trade payables	1,72,500
Non-current assets	
(a) Property, Plant and Equipment (Freehold property)	1,72,500
(b) Non-current Investment: DRR Investment	27,000
Current assets	
(a) Inventories	2,02,500
(b) Trade receivables	1,12,500
(c) Cash and bank balances:	
Cash at bank	2,73,000
Cash in hand	45,000

At the Annual General Meeting on 1.4.2021, it was resolved:

(a) To give existing shareholders the option to purchase one Rs. 10 share at Rs. 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.

(b) To issue one bonus share for every five shares held.

(c) To repay the debentures at a premium of 3%.

Give the necessary journal entries and the company's Balance Sheet after these transactions are completed.

Solution :

Journal Entries in the Books of Case Ltd.

		Dr. Rs.	Cr. Rs.
Bank A/c	Dr.	1,12,500	
To Equity Shareholders A/c			1,12,500
(Application money received on 7,500 shares @ Rs. 15 per share to be issued as rights shares in the ratio of 1:4)			

Equity Shareholders A/c	Dr.	1,12,500	
To Equity Share Capital A/c			75,000
To Securities Premium A/c			37,500
(Share application money on 7,500 shares @ Rs. 10 per share transferred to Share Capital Account, and Rs. 5 per share to Securities Premium Account vide Board's Resolution dated…)			
Securities Premium A/c	Dr.	37,500	
Profit & Loss A/c	Dr.	37,500	
To Bonus to Shareholders A/c			75,000
(Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated…)			
Bonus to Shareholders A/c	Dr.	75,000	
To Equity Share Capital A/c			75,000
(Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated….)			
12% Debentures A/c	Dr.	1,80,000	
Premium Payable on Redemption A/c (@ 3%)	Dr.	5,400	
To Debenture holders A/c			1,85,400
(Amount payable to debentures holders)			
Profit and loss A/c	Dr.	5,400	
To Premium Payable on Redemption A/c			5,400
(Premium payable on redemption of debentures charged to Profit & Loss A/c)			
Debenture Redemption Reserve A/c	Dr.	18,000	
To General Reserve			18,000
(For DRR transferred to general reserve)			
Bank A/c	Dr.	27,000	
To Debenture Redemption Reserve Investment			27,000
(for DRR Investment realised)			
Debenture holders A/c	Dr.	1,85,400	
To Bank A/c			1,85,400
(Amount paid to debenture holders on redemption)			

Balance Sheet of Case Ltd. as at...... (after completion of transactions)

Particulars		Note No.	Rs.
I	**Equity and liabilities**		
	(1) Shareholder's Funds		
	(a) Share Capital	1	4,50,000
	(b) Reserves and Surplus	2	1,37,100

	(2) Current Liabilities		
	(a) Trade payables		1,72,500
	Total		**7,59,600**
II	**Assets**		
	(1) Non-current assets		
	(a) Property, Plant and Equipment	3	1,72,500
	(2) Current assets		
	(a) Inventories		2,02,500
	(b) Trade receivables		1,12,500
	(c) Cash and bank balances	4	2,72,100
	Total		**7,59,600**

Notes to Accounts

			Rs.
1	**Share Capital**		
	45,000 shares of Rs. 10 each fully paid (7,500 shares of Rs. 10 each, fully paid issued as bonus shares out of securities premium and P&L Account)		4,50,000
2	**Reserve and Surplus**		
	Profit & Loss Account	1,62,000	
	Less: Premium on redemption of debenture	(5,400)	
	Less: Utilisation for issue of bonus shares	(37,500)	
		1,19,100	
	General Reserve	18,000	1,37,100
3	**Property, Plant and Equipment**		
	Freehold property		1,72,500
4	**Cash and bank balances**		
	Cash at bank	2,27,100	
	(2,73,000 + 1,12,500 - 1,85,400 + 27,000)		
	Cash in hand	45,000	2,72,100

Question 15 : Nov – 2022 – RTP

XYZ Ltd. has issued 1,000, 12% convertible debentures of Rs. 100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of Rs. 10 each at a price of Rs. 20 per share and balance in cash. Debenture holders amounting Rs. 20,000 opted to get their debentures converted into equity shares as per terms of the issue. You are required to calculate the number of shares issued and cash paid for redemption of Rs. 20,000 debenture holders.

Solution :

	Number of debentures
Debenture holders opted for conversion (20,000 /100)	200
Option for conversion	20%
Number of debentures to be converted (20% of 200)	40
Redemption value of 40 debentures at a premium of 5% [40 x (100+5)]	Rs. 4,200
Equity shares of Rs. 10 each issued on conversion [Rs. 4,200/ Rs. 20]	210 shares

Calculation of cash to be paid:	**Rs.**
Number of debentures	200
Less: number of debentures to be converted into equity shares	(40)
	160

Redemption value of 160 debentures (160 × Rs. 105) ie. Rs. 16,800.

Question 16 : Nov – 2022 – Paper

On 1st April, 2021, the following balances appeared in the books of Globe Limited (as unlisted company other than AIFI, Banking Company, NBFC and HFC) :

(i) 50,000 9% Debentures of Rs.100 each issued at par.

(ii) Balance of Debentures Redemption Reserve (DRR) Rs.5,00,000.

(iii) Debenture Redemption Reserve (DRR) Investment Rs.5,00,000 represented by 8.75% Secured Bonds of the Government of India of Rs.100 each.

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

On 31st May, 2021, the company purchased 8,000 Debentures of its own @ Rs.98 (ex-interest) per debenture and cancelled them on the same date.

The funds required for purchased the aforesaid debentures were partly raised by selling off the DRR Investment.

On 30th March, 2022, the remaining investments were realized at par and the debentures were redeemed on 31st March, 2022.

You are required to prepare the following accounts for the year ended 31st March, 2022 :

(1) 9% Debentures Account.

(2) Debenture Redemption Reserve Account.

(3) Debenture Redemption Reserve Investment Account.

(4) Interest on Debentures Account.

Thanks ....

CHAPTER

16

INSURANCE CLAIMS – LOSS OF STOCK & LOSS OF PROFIT

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : May – 2018 – RTP

The premises of Anmol Ltd. caught fire on 22nd January 2017, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2016 the stock at cost was Rs.6,63,600 as against Rs.4,81,100 on 31st March, 2015.

Purchases from 1st April, 2016 to the date of fire were Rs.17,41,350 as against Rs.22,62,500 for the full year 2015-16 and the corresponding sales figures were Rs.24,58,500 and Rs.26,00,000 respectively. You are given the following further information:

(i) In July, 2016, goods costing Rs.50,000 were given away for advertising purposes, no entries being made in the books.

(ii) During 2016-17, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged Rs.1,000 per week from 1st April, 2016 until the clerk was dismissed on 18th August, 2016.

(iii) The rate of gross profit is constant.

You are required to calculate the value of stock in hand on the date of fire with the help of above information.

Solution :

Ascertainment of rate of gross profit for the year 2015-16

Trading A/c for the year ended 31-3-2016

	Rs.		Rs.
To Opening stock	4,81,100	By Sales	26,00,000
To Purchases	22,62,500	By Closing stock	6,63,600
To Gross profit	5,20,000		
	32,63,600		**32,63,600**

Rate of gross profit = $\frac{\text{GP}}{\text{Sales}} \times 100$

$$= \frac{5,20,000}{26,00,000} \times 100 = 20\%$$

Memorandum Trading A/c for the period from 1-4-2016 to 22-01-2017

	Rs.	Rs.		Rs.	Rs.
To Opening stock		6,63,600	By Sales	24,58,500	
To Purchases	17,41,350		Add: Unrecorded cash sales (W.N.)	20,000	24,78,500
Less: Goods used for advertisement	(50,000)	16,91,350	By Closing stock		3,72,150
To Gross profit (20% of Rs.24,78,500)		4,95,700			
		28,50,650			**28,50,650**

Estimated stock in hand on the date of fire was Rs.3,72,150.

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 1.4.2016 to 18.8.2016= 140 days

Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks × Rs.1,000 = Rs.20,000.

Question 2 : May – 2018 – Paper

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

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

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

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

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

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

Solution :

Computation of claim for loss of stock

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

Loss of stock	1,00,600
Amount of claim = $\frac{\text{Insured value}}{\text{Total cost of stock on the date of fire}} \times$ Loss of stock $= \left(\frac{1,20,000}{1,25,200} \times 1,00,600 = 96,422 \text{ (approx)}\right)$	96,422 (approx.)

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

Working Notes :

1. Calculation of closing stock as on 30th March, 2018

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

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

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

2. Calculation of goods with customers

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

3. Calculation of actual sales

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

Question 3 : Nov – 2018 – RTP

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 Rs.5,000 could be salvaged. Their fire fighting expenses were amounting to Rs.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	Rs.63,000
2	Purchases (including purchase of machinery costing Rs.10,000	Rs.2,92,000

3	Wages (including wages paid for installation of machinery Rs.3,000)	Rs.53,000
4	Sales (including goods sold on approval basis amounting to Rs.40,000. No approval has been received in respect of 1/4th of the goods sold on approval)	Rs.4,12,300
5	Cost of goods distributed as free sample	Rs.2,000

Other Information:

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

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

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

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

Solution :

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

	Normal Items Rs.	Abnormal Items Rs.	Total Rs.		Normal Items Rs.	Abnormal Items Rs.	Total Rs.
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

	Rs.
Book value of stock as on 27th July, 2017	62,000
Add: Abnormal Stock	1,000

Less: Stock salvaged	(5,000)
Loss of stock	58,000
Add: Fire fighting expenses	1,300
Total Loss	59,300

Amount of claim to be lodged with insurance company

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

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

Working Notes:

1. **Calculation of Adjusted Purchases**

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

2. **Calculation of Goods with Customers**

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

   Hence, these should be valued at cost i.e. (Rs.10,000 – 20% of Rs.10,000) = Rs.8,000

3. **Calculation of Actual Sales**

Total Sales	Rs.4,12,300
Less: Approval for sale not received (1/4 X Rs.40,000)	Rs.10,000
Actual Sales	Rs.4,02,300

4. **Calculation of Wages**

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

5. **Value of Opening Stock**

   Original cost of stock as on 31st March,2018

   = Rs.63,000 + 1,000 (Amount written off)

   = Rs.64,000.

Question 4 : Nov – 2018 – Paper

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

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

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

Additional Information:

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

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

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

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

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

Solution :

Computation of claim for loss of stock

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

Insurance claim = Rs.3,25,000

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

Memorandum Trading A/c

(1.4.17 to 30.9.17)

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

To Gross profit (Rs.25,68,000 x 25%)	6,42,000		
	30,42,000		**30,42,000**

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

Working Notes:

1. Calculation of goods with customers

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

2. Calculation of actual sales

Total sales – Goods not dispatched - Sale of goods on approval (2/3rd) =

Sales (Rs.27,75,000 – 75,000 – Rs.1,32,000) = Rs.25,68,000

Question 5 : May – 2019 – RTP

A fire engulfed the premises of a business of M/s Preet on the morning of 1st July 2018. The building, equipment and stock were destroyed and the salvage recorded the following:

Building – Rs.4,000; Equipment – Rs.2,500; Stock – Rs.20,000. The following other information was obtained from the records saved for the period from 1st January to 30th June 2018:

	Rs.
Sales	11,50,000
Sales Returns	40,000
Purchases	9,50,000
Purchases Returns	12,500
Cartage inward	17,500
Wages	7,500
Stock in hand on 31st December, 2017	1,50,000
Building (value on 31st December, 2017)	3,75,000
Equipment (value on 31st December, 2017)	75,000
Depreciation provision till 31st December, 2017 on:	
Building	1,25,000
Equipment	22,500

No depreciation has been provided since December 31st 2017. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method.

Normally business makes a profit of 25% on net sales. You are required to prepare the statement of claim for submission to the Insurance Company.

Solution :

Memorandum Trading Account for the Period from 1.1.2018 to 30.6.2018

		Rs.			Rs.
To Opening Stock (1.1.2018)		1,50,000	By Sales	11,50,000	
To Purchases	9,50,000		Less: Sales Returns	(40,000)	11,10,000
Less: Returns	(12,500)	9,37,500	By Closing Stock (Bal. Fig.)		2,80,000
To Cartage Inwards		17,500			
To Wages		7,500			
To Gross Profit (25% of Rs. 11,10,000)		2,77,500			
		13,90,000			**13,90,000**

Stock Destroyed Account

	Rs.		Rs.
To Trading Account	2,80,000	By Stock Salvaged Account	20,000
		By Balance c/d (For Claim)	2,60,000
	2,80,000		**2,80,000**

Statement of Claim

Items	Cost Rs.	Depreciation Rs.	Salvage Rs.	Claim Rs.
A	B	C	D	(E = B - C - D)
Stock	2,80,000		20,000	2,60,000
Buildings	3,75,000	1,25,000 + 9,375	4,000	2,36,625
Equipment	75,000	22,500 + 5,625	2,500	44,375
				5,41,000

Question 6 : May – 2019 – Paper

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

The firm incurred an additional expenditure of Rs.30,000 to maintain the sales.

There was a saving of Rs.5,000 in the insured standing charges.

Actual turnover from 25th May, 2017 to 30th September, 2017	Rs.1,75,000
Turnover from 25th May, 2016 to 30th September, 2016	Rs.6,00,000

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

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

Solution :

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

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

2. Calculation of loss of Profit :

Gross Profit on reduction in turnover @ 25% on Rs.4,85,000 — 1,21,250

(see working note 1)

Add: Additional Expenses

Lower of

(i) Actual = Rs.30,000

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

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

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

175000 x 25% = Rs.43,750

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

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

3. Application of Average Clause:

$$\frac{\text{Amount of Policy}}{\text{G.P. on Annual Turnover}} \times \text{Amount of Claim}$$

(3,50,000/3,85,000) x 1,38,897=	Rs.1,26,270
Amount of claim under the policy =	Rs.1,26,270

Working Notes:

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

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

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

Question 7 : Nov – 2019 – RTP

On 2.6.2019 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the records saved :

	Rs.
Stock at cost on 1.4.2018	1,35,000
Stock at 90% of cost on 31.3.2019	1,62,000
Purchases for the year ended 31.3.2019	6,45,000
Sales for the year ended 31.3.2019	9,00,000
Purchases from 1.4.2019 to 2.6.2019	2,25,000
Sales from 1.4.2019 to 2.6.2019	4,80,000

Sales up to 2.6.2019 includes Rs.75,000 being the goods not dispatched to the customers. The sales (invoice) price is Rs.75,000.

Purchases up to 2.6.2019 includes a machinery acquired for Rs.15,000.

Purchases up to 2.6.2019 does not include goods worth Rs.30,000 received from suppliers, as invoice not received up to the date of fire. These goods have remained in the godown at the time of fire.

The insurance policy is for Rs.1,20,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock.

Solution :

In the books of Mr. Black

Trading Account for the year ended 31.3.2019

	Rs.		Rs.
To Opening Stock	1,35,000	By Sales	9,00,000
To Purchases	6,45,000	By Closing Stock at cost	1,80,000
To Gross Profit	3,00,000	$\left(1{,}62{,}000 \times \frac{100}{90}\right)$	
	10,80,000		**10,80,000**

Memorandum Trading A/c

for the period from 1.4.2019 to 02.06.2019

		Rs.			Rs.
To Opening Stock (at cost)		1,80,000	By Sales	4,80,000	
To Purchases	2,25,000		Less: Goods not dispatched	75,000	4,05,000
Add: Goods received but invoice not received	30,000		By Closing stock (Balancing figure)		1,50,000
	2,55,000				
Less: Machinery	15,000	2,40,000			
To Gross Profit (Refer W.N.)		1,35,000			
		5,55,000			**5,55,000**

Calculation of Insurance Claim

Claim subject to average clause = $\left(\frac{\text{Acutal loss of stock}}{\text{Value of stock on the date of fire}} \times \text{Amount of policy}\right)$

= 1,20,000 x $\left(\frac{1{,}50{,}000}{1{,}50{,}000}\right)$ = Rs.1,20,000

Working Note :

G.P. ratio = $\frac{3{,}00{,}000}{9{,}00{,}000}$ x 100 = $33\frac{1}{3}$%

Amount of Gross Profit = Rs.4,05,000 x $33\frac{1}{3}$% = Rs.1,35,000

Question 8 : Nov – 2019 – Paper

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

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

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

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

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

Net profit was Rs.2,50,000 and standing charges (all insured) amounted to Rs.77,980 for the year ending 31st March, 2018.

You are required to calculate the loss of profit claim amount.

Solution :

Gross profit ratio	**Rs.**
Net profit for the year 2017-18	2,50,000
Add: Insured standing charges	77,980
Ratio of Gross profit = $\frac{3,27,980}{16,39,900}$ = 20%	3,27,980

Calculation of Short sales

Indemnity period: 16.12.2018 to 15.3.19

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

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

Loss of gross profit

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

Application of average clause

Net claim $= \text{Gross claim} \times \dfrac{\text{Policy value}}{\text{Gross profit on annual turnover}}$

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

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

Working Notes:

1. Sales for period 1.1.18 to 15.3.18

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

2. Calculation of upward trend in sales

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

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

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

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

Thus annual percentage increase trend is of 15%

3. Gross profit on annual turnover

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

NOTE*: Alternatively, the annual adjusted turnover may be computed as Rs.7,98,000 (Rs.15,64,000 X 1.15) considering the annual % increase trend for the entire period of last 12 months preceding to the date of fire. In that case, the gross profit on adjusted annual sales @ 20% will be computed as Rs.3,59,720 and net claim will be computed accordingly.

Question 9 : May – 2020 – RTP

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

	Rs.
Turnover in last financial year	36,00,000
Standing charges in last financial year	7,20,000

Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.

Increase in turnover expected 25%.

To achieve additional sales, trader has to incur additional expenditure of Rs.50,000.

Solution :

(a) Calculation of Gross Profit

$$\text{Gross Profit} = \frac{\text{Net profit} + \text{Standing Charges}}{\text{Turnover}} \times 100$$

= (3,60,000 + 7,20,000)/36,00,000= 30%

(b) Calculation of policy amount to cover loss of profit

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

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

Question 10 : Nov – 2020 – RTP / May – 2021 – RTP

Shyam's godown caught fire on 29th August, 2020, and a large part of the stock of goods was destroyed. However, goods costing Rs. 54,000 could be salvaged. The trader provides you the following additional information:

	Rs.
Cost of stock on 1st April, 2019	3,55,250
Cost of stock on 31st March, 2020	3,95,050
Purchases during the year ended 31st March, 2020	28,39,800
Purchases from 1st April, 2020 to the date of fire	16,55,350
Cost of goods distributed as samples for advertising from 1st April, 2020 to the date of fire	20,500
Cost of goods withdrawn by trader for personal use from 1st April, 2020 to the date of fire	1,000
Sales for the year ended 31st March, 2020	40,00,000

Sales from 1st April, 2020 to the date of fire	22,68,000

Shyam had taken the fire insurance policy for Rs. 2,50,000 with an average clause.

Calculate the amount of the claim that will be admitted by the insurance company. Consider that the rate of gross profit up to date of fire is same as that of previous accounting year.

Solution :

Memorandum Trading Account for the period 1st April, 2020 to 29th August 2020

		Rs.		Rs.
To Opening Stock		3,95,050	By Sales	22,68,000
To Purchases	16,55,350		By Closing stock (Bal. fig.)	4,41,300
Less: Advertisement	(20,500)			
Drawings	(1,000)	16,33,850		
To Gross Profit [30% of Sales] [W N]		6,80,400		
		27,09,300		**27,09,300**

Statement of Insurance Claim

	Rs.
Value of stock on date of fire	4,41,300
Less: Salvaged Stock	(54,000)
stock destroyed	3,87,300

Application of Average Clause

Amount of Insurance claim= Rs. 3,87,300/ 4,41,300 X 2,50,000 = Rs. 2,19,409 (rounded off)

Working Note:

Trading Account for the year ended 31st March, 2020

	Rs.		Rs.
To Opening Stock	3,55,250	By Sales	40,00,000
To Purchases	28,39,800	By Closing stock	3,95,050
To Gross Profit	12,00,000		
	43,95,050		**43,95,050**

Rate of Gross Profit in 2019-2020

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100 = 12,00,000/40,00,000 \times 100 = 30\%$$

Question 11 : Nov – 2020 – Paper

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

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

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

You are required to ascertain the amount of claim to be lodged with the insurance company for the loss of stock.

Solution :

Memorandum Trading Account

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

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

Statement of Claim for Loss of Stock

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

Amount of claim to be lodged with insurance company

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

= Rs.1,11,500 x 1,20,000/1,46,500 = Rs.91,331 (approx.)

Working Notes:

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

Trading Account for the year ended 31st March, 2019

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

Rate of Gross Profit in 2018-19

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

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

2. Calculation of Adjusted Purchases

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

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

Question 12 : Jan – 2021 – Paper

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

	Particulars	**Amount (Rs.)**
(i)	Opening stock as on 1st April, 2019	1,50,000
(ii)	Purchases during the year	4,20,000
(iii)	Goods withdrawn by the proprietor for his self use at Sales Value	10,000

(iv)	Goods distributed as charity at cost	4,000
(v)	Purchases include Rs.5,000 of Tools purchased, these Tools should have been capitalized	
(vi)	Wages (include wages paid for the installation of machinery Rs.6,000)	90,000
(vii)	Sales during the year	6,10,000
(viii)	Cost of goods sent to consignee on 1st November, 2019, lying unsold with the consignee.	25,000
(ix)	Sales Return	10,000

Solution :

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

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

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

Statement of Insurance Claim

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

Note:

Since policy amount is less than value of stock on date of fire, average clause will apply.

Therefore, claim amount will be computed by applying the formula:

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

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

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

Question 13 : July – 2021 – Paper

On 13th Jan, 2021 fire occurred in the premises of Mr. X, a cloth merchant. The Goods were totally destroyed. From the books of account, for the period 01-04-2020 to the date of fire the following particulars were available:

Particulars	Rs.
Stock as on 01.04.2020	57,000
Purchases	3,05,000
Manufacturing Expenses	60,000
Selling Expenses	24,200
Sales	4,98,000

At the time of valuing stock as on 31st March, 2020, a sum of Rs.7,000 was written off on a particular item, which was originally purchased for Rs.20,000 and was sold during the year for Rs.18,000. Barring the transaction relating to this item, the gross profit earned during the period was 25% on sales. Mr. X has insured his stock for Rs.40,000. Compute the amount of the claim.

Solution :

1) Date of fire = 13/1/2021
   Year ending = 31/3
   Previous year = 19/20
   Current period = 1/4/20 to 13/1/2021

2) G.P. Ratio for previous year = NA

3) G.P. rates for current period = 255

4) Calculation of stock on the date of fire memorandum trading A/c. for the period from 1/4/20 to 31/1/2021

	N	A	T		N	A	T
To Opening Stock	44,000	20,000	64,000	By Sales	4,80,000	18,000	4,98,000
To Purchase	3,05,000	-	3,05,000	By P/L	-	2,000	2,000
To Manufacturing Expenses	60,000	-	60,000	By Stock on date of fire	49,000	-	49,000
To G.P.	1,20,000	-	1,20,000				
	5,29,000	**20,000**	**5,49,000**		**5,29,000**	**20,000**	**5,49,000**

Normal 44,000 (57,000 – 13,000)

Opening Stocks 57,000

Abnormal cost 20,000 valued 13,000

5) Loss of Stock

Stock on date of fire	49,000
- Salvage	-
	49,000

6) Amount of claim = Amount of Policy $\times \frac{\text{Stock on date of fire}}{\text{Loss of stock}}$

$40{,}000 \times \frac{49{,}000}{49{,}000}$ = Rs.40,000

Question 14 : Nov - 2021 - RTP

On 2.6.2021 the stock of Mr. Heera was destroyed by fire. However, following particulars were furnished from the records saved:

	Rs.
Stock at cost on 1.4.2020	2,02,500
Stock at 90% of cost on 31.3.2021	2,43,000
Purchases for the year ended 31.3.2021	9,67,500
Sales for the year ended 31.3.2021	13,50,000
Purchases from 1.4.2021 to 2.6.2021	3,37,500
Sales from 1.4.2021 to 2.6.2021	7,20,000

Sales up to 2.6.2021 includes Rs. 1,12,500 being the goods not dispatched to the customers. The sales (invoice) price is Rs. 1,12,500.

Purchases up to 2.6.2021 includes a machinery acquired for Rs. 22,500.

Purchases up to 2.6.2021 does not include goods worth Rs. 45,000 received from suppliers, as invoice not received up to the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for Rs. 1,80,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock.

Solution :

In the books of Mr. Heera

Trading Account for the year ended 31.3.2021

	Rs.		Rs.
To Opening Stock	2,02,500	By Sales	13,50,000
To Purchases	9,67,500	By Closing Stock at cost	2,70,000
To Gross Profit	4,50,000	$\left(2{,}43{,}000 \times \frac{100}{90}\right)$	
	16,20,000		**16,20,000**

Memorandum Trading A/c
for the period from 1.4.2021 to 02.06.2021

		Rs.			Rs.
Opening Stock (at cost)		2,70,000	By Sales	7,20,000	
Purchases	3,37,500		Less: Goods not dispatched	1,12,500	6,07,500
Add: Goods received but invoice not received	45,000		By Closing stock (Balancing figure)		2,25,000
	3,82,500				
Less: Machinery	22,500	3,60,000			
Gross Profit (Refer W.N.)		2,02,500			
		8,32,500			**8,32,500**

Calculation of Insurance Claim

Claim subject to average clause $= \left(\dfrac{\text{Actual loss of stock}}{\text{Value of stock on the date of fire}} \times \text{Amount of policy}\right)$

$= 1,80,000 \times \left(\dfrac{2,25,000}{2,25,000}\right)$ = Rs.1,80,000

Working Note:

G.P. ratio = $\dfrac{4,50,000}{13,50,000} \times 100 = 33\dfrac{1}{3}\%$

Amount of Gross Profit = Rs.6,07,500 x $33\dfrac{1}{3}\%$ = Rs.2,02,500

Question 15 : Dec – 2021 – Paper

The Godown of X Ltd. caught fire on 01.06.2021, records saved from fire show the following particulars :

	Rs.
Stock at cost on 01.01.2020	50,000
Stock at cost on 31.12.2020	80,000
Purchases for the year 2020	4,75,000
Purchase returns for the year 2020	5,000
Carriage inward for the year 2020	20,000
Sales for the year 2020	5,60,000
Sales returns for the year 2020	10,000

Following information is given for the period of 1^{st} January 2021 to 1^{st} June 2021.

Credit sales of Rs.2,50,000, which constituted 25% of total sales.

Sales return Rs.9,500, Good used for personal purpose costing Rs.5,000, Good distributed as free sample costing Rs.2,700, Wages Rs.25,000.

Sales include goods sold on approval basis amounting to Rs.81,000, no confirmation had been received in respect of 50% of such goods sold on approval basis.

Stock on 31st December, 2020 was calculated at 20% less than cost.
Purchases for the period 1st January, 2021 to 1st June, 2021 is Rs.6,75,000, purchase returns Rs.10,000.
Selling price was increased by 20% with effect from 01.01.2021.
Company had taken an insurance policy of Rs.70,000 which was subject to an average clause. The value of salvaged goods was Rs.21,967. You are required to compute the amount of the claim.

Solution :

X Ltd.
Trading Account for the year ending 31st December, 2020
(To determine the rate of gross profit)

	Rs.		**Rs.**
To Opening Stock	50,000	By Sales A/c	5,50,000
To Purchases	4,70,000	(5,60,000 – 10,000)	
(4,75,000 – 5,000)		Closing Stock:	1,00,000
To Carriage inward	20,000	(80,000/80x100)	
To Gross Profit (b.f.)	1,10,000		
	6,50,000		**6,50,000**

The (normal) rate of gross profit to sales is = Rs. 1,10,000/ 5,50,000 x100= 20%

Memorandum Trading Account for the period
1st January, 2021 to 1st June, 2021

		Rs.		**Rs.**
To Opening Stock		1,00,000	By Sales (W.N. 2)	9,50,000
To Purchases	6,75,000		By Goods with customers	27,000
Less: Returns	(10,000)		(for approval) (W.N.1)*	
Samples	(2,700)		By Closing stock (Bal. fig.)	1,21,967
Drawings	(5,000)	6,57,300		
To Wages		25,000		
To Gross Profit [1/3 of Sales - Refer W.N. 3]		3,16,667		
		10,98,967		**10,98,967**

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

Statement of claim for loss of stock on 18.06.2021

Book value of stock	Rs. 1,21,967
Less: Salvaged value of stock	Rs. 21,967
Loss of stock	1,00,000

$$\text{Amount of claim} = \frac{\text{Insured Value}}{\text{Total cost of stock on the date of fire}} \times \text{Loss of stock}$$

$\left(\frac{70,000}{1,21,967} \times 1,00,000\right)$ = 57,393 (rounded off)

A claim of Rs. 57,393 (rounded off) should be lodged to the insurance company.

Working Notes:

1. Calculation of goods with customers

Since no approval for sale has been received for the goods of Rs. 40,500 (i.e. 1/2 of Rs. 81,000) hence, these should be valued at cost i.e. Rs. 27,000 (40,500/120 x 80)

2. Calculation of actual sales

Total sales – Returns - Sale of goods on approval (1/2)

= Rs. 10,00,000 – Rs. 9,500 – Rs. 40,500 (81,000/2) = Rs. 9,50,000

3. Calculation of Gross Profit Ratio

For year 2020 : Cost of goods sold was 80, Gross profit rate 20% and sales 100

For year 2021 : Cost of goods sold was 80, Gross profit rate 33.33% (1/3 of sales) and sales 120

Note: It is given in the question, that selling price was increased by 20% with effect from 01.01.2021. While solving the question in the given answer, new gross profit ratio has been computed and applied to arrive at the value of closing stock. Alternatively, instead of computing new gross profit ratio, sales can be reduced to the levels before increase and old gross profit ratio can be applied to arrive at the value of closing stock.

Question 16 : May – 2022 – RTP

A fire occurred in the premises of M/s Star & Sons on 21st March 2020. The concern had taken Insurance Policy of Rs. 70,000 which was subject to average clause. From the books of accounts, the following particulars are available relating to the period 1st April 2019 to March 21st 2020:

(i)	Stock as on April 1st 2019	Rs. 1,50,500
(ii)	Purchases (including purchase of Rs. 40,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown)	Rs. 3,17,000
(iii)	Cost of goods distributed as, samples for advertising from April 1st 2019 to the date of fire, included in above purchases	Rs. 32,000
(iv)	Sales (excluding goods sold on approval basis having sale value Rs. 35,000)	Rs. 4,55,000
	Approval has been received for all goods sold on approval basis, before the date of fire.	
(v)	Purchase return	Rs. 15,000
(vi)	Wages (including salary of Manager Rs. 10000)	Rs. 65,000
(vii)	Average Rate of Gross Profit @ 20% on sales.	
(viii)	Cost of goods salvaged	Rs. 12,000

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

Solution :

Books of M/s Star & Sons

Memorandum Trading Account for the period 1st April, 2019 to 21st March, 2020

		Rs.		Rs.
To Opening Stock		1,50,500	By Sales (4,55,000 + 35,000)	4,90,000
To Purchases	3,17,000		By Closing Stock (Bal. fig.)	83,500
Less: Returns	(15,000)			
Goods distributed as samples	(32,000)	2,70,000		
To Wages		55,000		
To Gross Profit		98,000		
(20% of Sales)				
		5,73,500		**5,73,500**

Statement of Insurance Claim

	Rs.
Value of stock destroyed by fire	83,500
Less: Salvaged Stock	12,000
Loss of stock	71,500

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

Claim = $\frac{\text{Insured value}}{\text{Total Cost}}$ × Loss suffered

Claim amount = Rs. 71,500X 70,000/ 83,500= Rs. 59,940 (rounded off)

Question 17 : May – 2022 – Paper

Surya Limited, which operates a wholesale warehouse, had a fire in the premises on January 31st, 2022 which destroyed most of the building, although stock of the value off 3.96 lakhs was salvaged. The company has an insurance policy covering the stock for Rs.600 Lakhs, and loss of profits including standing charges for Rs.250 Lakhs with a six-month period of indemnity.

The company's last annual accounts for the year ended December 31st, 2021 showed the following position :

Particulars	**Rs. (in Lakhs)**	**Particulars**	**Rs. (in Lakhs)**
To Opening Stock	412.50	By Sales	2000.00
To Purchases	1812.50	By Closing Stock	525.00
To Gross Profit c/d	300.00		
	2525.00		**2525.00**
To Variable Expenses	80.00	By Gross Profit b/d	300.00
To Standing Charges	167.50		

To Net Profit	52.50		
	300.00		**300**

The company's record show that the turnover for January 2022 of Rs.100 Lakhs had been the same as for the corresponding month in the previous year, payments made in January 2022 to trade creditors were Rs.106.68 Lakhs and at the end of that month the balance owing to trade creditors had increased by Rs.3.32 Lakhs.

The company's business was disrupted until the end of April 2022, during which period the turnover fell by Rs.180.00 Lakhs compared with the same period in the previous year.

You are required to compute the claim to be lodged with the Insurance Company for Loss of Stock and Loss of Profit.

Solution :

Computation of claim for Loss of Stock

Calculation of the value of stock destroyed by fire:	**Rs. (in lakhs)**
Value of stock as per Memorandum Trading A/c (W.N. 1)	550.00
Less: Salvaged value of stock	3.96
Value of claim to be lodged for loss of stock	546.04

As Policy amount is Rs. 600 lakhs and the insurable amount is 550 lakhs so average clause will not be applicable. The value of claim is equal to value of loss i.e. Rs. 546.04 lakhs.

Computation of claim for loss of profit

		Rs. (in lakhs)
Short sales (given in the question)		180
Gross Profit:		
Net Profit for the last financial year	52.50	
Add: Insured Standing Charges	167.50	
	220.00	
Turnover for the last financial year		
Rate of Gross Profit = 220/2,000 X 100 = 11%		
Sales for 12 months up to date of loss is Rs. 2,000 lakhs		
Claim : Loss of profit for short sales (11% of Rs.180 lakhs)		19.80
G.P. on sales up to the date of loss of fire is Rs. 220 lakhs		
Insurable amount = Rs. 220 lakhs		
Loss of profit policy taken = Rs. 250 lakhs		
As policy amount is more than insurable amount average clause will not be applicable.		
Value of claim to be lodged for loss of profit = Rs. 19.80 lakhs		

Working Notes:

1. **Memorandum Trading Account**

	Rs. (in lakhs)		Rs. (in lakhs)
To Opening Stock	525	By Sales	100
To Purchases	110	By closing stock (bal. fig.)	550
To Gross profit* (15% of 100 Lakhs)	15		
	650		**650**

Gross profit ratio = 300/2000 = 15%

2. Trade Creditors A/c

	Rs. (in lakhs)		Rs. (in lakhs)
To Bank A/c	106.68	By Balance b/d	106.68
To Balance c/d (106.68 + 3.32)	110.00	By Purchases	110.00
	216.68		**216.68**

Note: It is assumed that all standing charges are insured for the purpose of computation of gross profit.

Question 18 : Nov – 2022 – RTP

On 27th July, 2022, a fire occurred in the godown of M/s. Vijay Exports and most of the stocks were destroyed. However goods costing Rs. 5,000 could be salvaged.

From the salvaged accounting records, the following information is available relating to the period from 1.4.2022 to 27.7.2022:

1.	Stock as per balance sheet as on 1.4.2022	Rs. 63,000
2.	Purchases (including purchase of machinery costing Rs. 10,000)	Rs. 2,92,000
3.	Wages (including wages paid for installation of machinery Rs. 3,000)	Rs. 53,000
4.	Sales (including goods sold on approval basis amounting to Rs. 40,000). No approval has been received in respect of 1/4th of the goods sold on approval.	Rs. 4,12,300
5.	Cost of goods distributed as free sample	Rs. 2,000

Other Information:

(i) While valuing the stock on 31.3.2022, Rs. 1,000 had been written off in respect of certain slow moving items costing Rs. 4,000. A portion of these goods were sold in June, 2022 at a loss of Rs. 700 on original cost of Rs. 3,000. The remainder of these stocks is now estimated to be worth its original cost.

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

(iii) The Company had taken the fire insurance policy of Rs. 55,000 with the average clause.

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 1.4.2022 to 27.7.2022 for normal and abnormal items.

Solution :

Memorandum Trading Account for the period 1st April, 2022 to 27th July, 2022

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

Statement of Claim for Loss of Stock

	Rs.
Book value of stock as on 27th July, 2022	62,000
Add: Abnormal Stock	1,000
Less: Stock salvaged	(5,000)
Loss of stock	58,000

Amount of claim to be lodged with insurance company

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

= Rs. 58,000 x (55,000/ 63,000) = Rs. 50,635 (rounded off)

Working Notes :

1. Calculation of Adjusted Purchases

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

2. Calculation of Goods with Customers

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

Hence, these should be valued at cost i.e. (Rs. 10,000 – 20% of Rs. 10,000) = Rs. 8,000

3. Calculation of Actual Sales

Total Sales	Rs. 4,12,300
Less: Approval for sale not received (1/4 X Rs. 40,000)	Rs. 10,000
Actual Sales	Rs.4,02,300

4. Calculation of Wages

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

5. Value of Opening Stock

Original cost of stock as on 31st March,2022

= Rs. 63,000 + Rs.1,000 (Amount written off)

= Rs. 64,000.

Question 19 : Nov – 2022 – Paper

A fire occurred in the premises of M/s.Preet Enterprises on the night of 28th September, 2022. The first has taken an Insurance Policy for Rs.5,00,000 which is subject to average clause. The value of goods salvaged was estimated at 62,500. The first continue to maintain the same rate of Gross Profit as during the preceding year.

The following information were available :

	Particulars	Rs.
(i)	Stock at Cost on 1st April, 2021	5,25,000
(ii)	Stock at Cost on 31st March, 2022	4,25,000
(iii)	Purchases for the year ended 31st March, 2022	37,35,000
(iv)	Sale for the year ended 31st March, 2022	48,00,000
(v)	Purchases from 1st April, 2022 to 28th September, 2022	27,22,000
(vi)	Sales from 1st April, 2022 to 28th September, 2022	33,30,000

Additional Information :

(i) Purchases up to 28th September, 2022 did not include Rs.1,20,000 for which purchase invoice had not been received from suppliers through the goods had been received the warehouse.

(ii) Sales value of goods distributed for advertisement from 1st April, 2022 to 28th September, 2022 is Rs.90,000.

(iii) Sales up to 28th September, 20022 include Rs.90,000 for which the goods had not been dispatched.

(iv) On 1st July, 2022, goods worth Rs.1,50,000 was sold to Ram and Co. on approval basis which was included in the Sales but no approval had been received for 2/3rd of the goods sold to them till 28th September, 2022.

You are required to ascertain the amount of claim to be lodged with the Insurance Company for Loss of Stock.

Thanks ....

CHAPTER

17

HIRE PURCHASE & INSTALLMENT SALE TRANSACTIONS

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : May – 2018 – RTP / Nov – 2019 – RTP

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

Down payment	6,00,000
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.

Srikumar provides depreciation @ 25% on the diminishing balances.

On 31.3.2017 Srikumar failed to pay the 3rd installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Srikumar agreed to leave one car with Fair Value Motors Pvt. Ltd. and adjusted the value of the car against the amount due. The car taken over was valued on the basis of 40% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Srikumar after 3 months with interest @ 20% p.a.

You are required to:

(i) Calculate the cash price of the cars and the interest paid with each installment.

(ii) Prepare Cars Account in the books of Srikumar assuming books are closed on March 31, every year.

Figures may be rounded off to the nearest rupee.

Solution :

(i) 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.

(ii) **In the books of Srikumar**

Cars Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2014	To Fair Value Motors A/c	18,00,000	31.3.2015	By Depreciation A/c	4,50,000
				By Balance c/d	13,50,000
		18,00,000			18,00,000
1.4.2015	To Balance b/d	13,50,000	31.3.2016	By Depreciation A/c	3,37,500
				By Balance c/d	10,12,500
		13,50,000			13,50,000
1.4.2016	To Balance b/d	10,12,500	31.3.2017	By Depreciation A/c	2,53,125
				By Fair Value Motors A/c (Value of 1 Car taken over after depreciation for 3 years @ 40% p.a.) [9,00,000 - (3,60,000 + 2,16,000 + 1,29,600)]	1,94,400
				By Loss transferred to Profit and Loss A/c on surrender (Bal. fig.)	1,85,288
				By Balance c/d $\frac{1}{2}$ (10,12,500-2,53,125)	3,79,687
		10,12,500			**10,12,500**

Question 2 : Nov – 2018 – RTP / May – 2019 – RTP / Nov – 2020 – RTP

The following particulars relate to hire purchase transactions:

(a) X purchased three cars from Y on hire purchase basis, the cash price of each car being Rs.2,00,000.

(b) The hire purchaser charged depreciation @ 20% on diminishing balance method.

(c) Two cars were seized by on hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.

(d) The hire vendor spent Rs.10,000 on repairs of the cars and then sold them for a total amount of Rs.1,70,000.

You are required to compute:

(i) Agreed value of two cars taken back by the hire vendor.

(ii) Book value of car left with the hire purchaser.

(iii) Profit or loss to hire purchaser on two cars taken back by their hire vendor.

(iv) Profit or loss of cars repossessed, when sold by the hire vendor.

Solution :

			Rs.
(i)	Price of two cars = Rs.2,00,000 x 2		4,00,000
	Less: Depreciation for the first year @ 30%		1,20,000
			2,80,000
	Less: Depreciation for the second year = Rs.2, 80,000 x $\frac{30}{100}$		84,000
	Agreed value of two cars taken back by the hire vendor		1,96,000
(ii)	Cash purchase price of one car		2,00,000
	Less: Depreciation on Rs.2,00,000 @20% for the first year		40,000
	Written drown value at the end of first year		1,60,000
	Less: Depreciation on Rs.1,60,000 @ 20% for the second year		32,000
	Book value of car left with the hire purchaser		1,28,000
(iii)	Book value of one car as calculated in working note (ii) above		1,28,000
	Book value of Two cars = Rs.1,28,000 x 2		2,56,000
	Value at which the two cars were taken back, calculated in working note (i) above		1,96,000
	Hence, loss on cars taken back = Rs.2,56,000 – Rs.1,96,000 =		Rs.60,000
(iv)	Sale proceeds of cars repossessed		1,70,000
	Less: Value at which Cars were taken back	Rs.1,96,000	
	Repair	Rs.10,000	2,06,000
	Loss on resale		36,000

Question 3 : May – 2019 – Paper

M/s Amar bought six Scooters from M/s Bhanu on 1st April, 2015 on the following terms:

Down payment Rs.3,00,000

1st instalment payable at the end of 1st year	Rs.1,59,000
2nd instalment payable at the end of 2nd year	Rs.1,47,000
3rd instalment payable at the end of 3rd year	Rs.1,65,000

Interest is charged at the rate of 10% per annum.

M/s Amar provides depreciation @ 20% per annum on the diminishing balance method.

On 31st March, 2018 M/s Amar failed to pay the 3rd instalment upon which M/s Bhanu repossessed two Scooters. M/s Bhanu agreed to leave the other four Scooters with M/s Amar and adjusted the value of the repossessed Scooters against the amount due. The Scooters taken over were valued on the basis of 30% depreciation per annum on written down value. The balance amount remaining in the vendor's account after the above adjustment was paid by M/s Amar after 5 months with interest@ 15% per annum.

M/s Bhanu incurred repairing expenses of Rs.15,000 on repossessed scooters and sold scooters for Rs.1,05,000 on 25th April, 2018.

You are required to :

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

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

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

Solution :

(i) Calculation of Interest and Cash Price

No. of installments	Outstanding balance at the end after the payment of installment	Amount due at the time of installment	Outstanding balance at the end before the payment of installment	Interest	Outstanding balance at the beginning
[1]	[2]	[3]	[4] = 2 + 3	[5] = 4 x 10/110	[6]4 - 5
3rd	-	1,65,000	1,65,000	15,000	1,50,000
2nd	1,50,000	1,47,000	2,97,000	27,000	2,70,000
1st	2,70,000	1,59,000	4,29,000	39,000	3,90,000
Down payment					3,00,000
Total of interest and Total cash price				81,000	6,90,000

(ii) In The books of M/s.Amar

Scooters Account

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

				By Profit and Loss A/c (Bal. fig.)	38,870
				By Balance c/d $\frac{4}{6}(4{,}41{,}600 - 88{,}320)$	2,35,520
		4,41,600			4,41,600

(iii) **M/s.Bhanu Account**

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

(iv) **In the Books of M/s Bhanu**

Goods Repossessed A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31.3.18	To Amar A/c	78,890	31.3.2018	By Balance c/d	78,890
		78,890			78,890
1.04.2018	To Balance b/d	78,890	25.4.2018	By Bank (Sale)	1,05,000
25.4.2018	To Repair A/c	15,000			
25.4.2018	To Profit & Loss A/c	11,110			
		1,05,000			1,05,000

Working Note :

Value of Scooters taken over

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

Question 4 : May – 2020 – RTP

On January 1, 20X1 Kasturi Ltd. acquired a Pick-up Van on hire purchase from Shorya Ltd. The terms of the contract were as follows:

(a) The cash price of the van was Rs.25,000.

(b) Rs.10,000 were to be paid on signing of the contract.

(c) The balance was to be paid in annual instalments of Rs.5,000 plus interest.

(d) Interest chargeable on the outstanding balance was 6% p.a.

(e) Depreciation at 10% p.a. is to be written-off using the straight-line method.

You are required to show the Van account & Shorya Ltd. account in the books of Kasturi Ltd. from January 1, 20X1 to December 31, 20X3.

Solution :

Ledger Accounts in the books of Kasturi

Van Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.1.20X1	To Shorya Ltd.	25,000	31.12.20X1	Depreciation A/c	2,500
			31.12.20X1	Balance c/d	22,500
		25,000			25,000
1.1.20X2	To Balance b/d	22,500	31.12.20X2	Depreciation A/c	2,500
			31.12.20X2	Balance c/d	20,000
		22,500			22,500
1.1.20X3	To Balance b/d	20,000	31.12.20X3	Depreciation A/c	2,500
			31.12.20X3	Balance c/d	17,500
		20,000			20,000

Shorya Ltd. Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.1.20X1	To Bank A/c	10,000	1.1.20X1	By Van A/c	25,000
31.12.20X1	To Bank A/c	5,900	31.12.20X1	By Interest A/c	900
31.12.20X1	To Balance c/d	10,000			
		25,900			25,900
31.12.20X2	To Bank A/c	5,600	1.1.20X2	Balance b/d	10,000

31.12.20X2	To Balance c/d	5,000	31.12.20X2	Interest A/c	600
		10,600			10,600
31.12.20X3	To Bank A/c	5,300	1.1.20X3	By Balance b/d	5,000
			31.12.20X3	By Interest A/c	300
		5,300			5,300

Question 5 : Nov – 2020 – Paper

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

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

Mr Nilesh adopted the interest suspense method for recording his hire purchase transactions.

You are required to:

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

Solution :

Tractor Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2017	To Raj	11,50,000	31.3.2018	By Dep.	1,15,000
				By Balance c/d	10,35,000
		11,50,000			**11,50,000**
1.4.2018	To Balance b/d	10,35,000	31.3.2019	By Dep.	1,15,000
				By Balance c/d	9,20,000
		10,35,000			**10,35,000**
1.4.2019	To balance b/d	9,20,000	31.3.2020	By Dep.	1,15,000
				By Balance c/d	8,05,000
		9,20,000			**9,20,000**

H.P. Interest Suspense Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2017	To Raj Ltd. A/c (W.N.)	1,44,000	31.3.2018	By Interest A/c	72,000
			31.3.2018	By Balance c/d	72,000
		1,44,000			**1,44,000**

1.4.2018	To Balance b/d	72,000	31.3.2019	By Interest A/c	48,000
			31.3.2019	By Balance c/d	24,000
		72,000			**72,000**
1.4.2019	To Balance b/d	24,000	31.3.2020	By Interest A/c	24,000

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

Raj Ltd. Account

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

Question 6 : Jan – 2021 – Paper

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

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

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

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

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

You are required to calculate the total interest and interest included in each instalment.

Also prepare the Ledger Account of KM Ltd. in the books of Jai Ltd.

Solution :

Calculation of interest

	Total (Rs.)	Interest in each instalment (1)	Cash price in each instalment (2)
Cash Price	1,20,000		
Less: Down Payment	(32,433)	Nil	Rs. 32,433
Balance due after down payment	87,567		

Interest/Cash Price of 1st instalment	-	Rs. 87,567 x 10/100 = 8,757	Rs. 23,100 – Rs. 8,757 = Rs. 14,343
Less: Cash price of 1st instalment	(14,343)		
Balance due after 1st instalment	73,224		
Interest/cash price of 2nd instalment	-	Rs. 73,224 x 10/100 = Rs. 7,322	Rs. 23,100 - Rs. 7,322 = Rs. 15,778
Less: Cash price of 2nd instalment	(15,778)		
Balance due after 2nd instalment	57,446		
Interest/Cash price of 3rd instalment	-	Rs. 57,446 x 10/100 = Rs. 5,745	Rs. 23,100 - Rs. 5745 = Rs. 17,355
Less: Cash price of 3rd instalment	(17,355)		
Balance due after 3rd instalment	40,091		
Interest/Cash price of 4th instalment	-	Rs. 40,091 x 10/100 = Rs. 4,009	Rs. 23,100 - Rs. 4,009 = Rs. 19,091
Less: Cash price of 4th instalment	(19,091)		
Balance due after 4th instalment	21,000		
Interest/Cash price of 5th instalment	-	Rs.21,000 x 10/100 = Rs. 2,100	Rs. 23,100 – Rs. 2,100 = 21,000
Less: Cash price of 5th instalment	(21,000)		
Total	Nil	Rs. 27,933	Rs.1,20,000

Total interest can also be calculated as follow:

(Down payment + instalments) – Cash Price = Rs. [32,433 +(23,100 x 5)] – Rs.1,20,000 = Rs. 27,933

KM Ltd. Account in the books of Jai Ltd

Date	Particulars	Rs.	Date	Particulars	Rs.
1.1. 2016	To Bank A/c	32,433	1.1.2016	By Machine A/c	1,20,000
31.12.2016	To Bank A/c	23,100	31.12.2016	By Interest A/c	
31.12.2016	To Balance c/d	73,224			
		1,28,757			1,28,757
31.12.2017	To Bank A/c	23,100	1.1.2017	By Balance b/d	73,224
31.12.2017	To Balance c/d	57,446	31.12.2017	By Interest A/c	7,322
		80,546			80,546
31.12.2018	To Bank A/c	23,100	1.1.2018	By Balance b/d	57,446
31.12.2018	To Balance c/d	40,091	31.12.2018	By Interest A/c	5,745

		63,191			63,191
31.12.2019	To Bank A/c	23,100	1.1.2019	By Balance b/d	40,091
31.12.2019	To Balance c/d	21,000	31.12.2019	By Interest A/c	4,009
		44,100			44,100
31.12.2020	To Bank A/c	23,100	1.1.2020	By Balance b/d	21,000
			31.12.2020	By Interest A/c	2,100
		23,100			23,100

Question 7 : May – 2021 – RTP

What is meant by repossession. What is the treatment for repossession in the books of Hire Purchaser?

Solution :

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

Question 8 : May – 2021 – RTP

On 1st April 2018 M/s KMR acquired a machine on hire purchase from M/s PQR on the following terms:

(1) Cash price of the machine was Rs.2,40,000.

(2) The down payment at the time of signing the contract was Rs.96,000.

(3) The balance amount is to be paid in 3 equal annual instalments plus interest.

(4) Interest is chargeable @ 8% p.a.

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

Solution :

In the books of M/s KMR (purchaser)

H.P. Interest Suspense Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.18	To M/s PQR A/c (W.N.)	23,040	31.3.19	By Interest A/c	11,520
			31.3.19	By Balance c/d	11,520
		23,040	31.3.20		23,040
1.4.19	To Balance b/d	11,520	31.3.20	By Interest A/c	7,680
			31.3.21	By Balance c/d	3,840
		11,520			11,520

1.4.20	To Balance b/d	3,840		By Interest A/c	3,840

M/s PQR Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.18	To Bank/Cash A/c	96,000	1.4.18	By Machine A/c	2,40,000
31.3.19	To Bank/Cash A/c	59,520	1.4.18	By H.P. Interest Suspense A/c	23,040
31.3.18	To Balance c/d	1,07,520			
		2,63,040			2,63,040
31.3.20	To Bank/Cash A/c	55,680	1.4.19	By Balance b/d	1,07,520
31.3.20	To Balance c/d	51,840			
		1,07,520			1,07,520
31.3.21	To Bank/Cash A/c	51,840	1.4.20	By Balance b/d	51,840

Working Note:

Cash Price	2,40,000
Down Payment	96,000
	1,44,000

Rs.1,44,000 to be paid in 3 instalments ie. Rs.48,000 plus interest

Total interest = Rs.11,520 + Rs.7,680 + Rs.3,840 = Rs.23,040

Question 9 : July – 2021 – Paper

An Engineer purchased a compressing machine on hire purchase system. As per the terms he is required to pay Rs.1,40,000 down, Rs.1,06,000 at the end of first year, Rs.98,000 at the end of the second year, 87,000 at the end of the third year and Rs.55,000 at the end of fourth year. Interest charged @ 12% p.a. You are required to calculate total cash price of the machine and the interest paid with each installment.

Solution :

	Cash Price	Principle	Interest	Installment
Opening	4,09,646	-	-	-
Down payment	1,40,000	1,40,000	-	1,40,000
	2,69,646			
1st	73,642	73,642	32,358	1,06,000
	1,96,004			
2nd	74,480	74,480	23,520	98,000
	1,21,524			
3rd	72,417	72,417	14,583	87,000

	49,107			
4th	49,107	49,107	5,893	55,000
	-			

Calculation of Interest

4th = $55,000 \times \frac{12}{112}$ = 5,893

3rd = $49,107 + 87,000 \times \frac{12}{112}$ = 14,583

2nd = $1,21,524 + 98,000 \times \frac{12}{112}$ = 23,520

1st = $1,96,004 + 1,06,000 \times \frac{12}{112}$ = 32,358

Question 10 : Nov – 2021 – RTP

On January 1, 2018 M/s Hello acquired a Machine on hire purchase from M/s Pass. The terms of the contract were as follows:

(a) The cash price of the Machine was Rs. 2,00,000.

(b) Rs. 80,000 were to be paid on signing of the contract.

(c) The balance was to be paid in annual instalments of Rs. 40,000 plus interest. The first instalment was to be paid on 31st Dec. 2018.

(d) Interest chargeable on the outstanding balance was 6% p.a.

(e) Depreciation at 10% p.a. is to be written-off using the WDV method.

You are required to give Journal Entries in the books of M/s Hello from January 1, 2018 to December 31, 2020.

Solution :

In the books of M/s Hello

Journal Entries

Date	Particulars		Dr. Rs.	Cr. Rs.
2018 Jan. 1	Machine A/c To M/s Pass A/c Being the purchase of a Machine on hire purchase from M/s Pass)	Dr.	2,00,000	2,00,000
"	M/s Pass A/c To Bank A/c	Dr.		

	(Being the amount paid on signing the H.P. contract)			
Dec. 31	Interest A/c	Dr.	7,200	
	To M/s Pass A/c			7,200
	(Being the interest payable @ 6% on Rs. 1,20,000			
"	M/s Pass A/c (Rs. 40,000+Rs. 7,200)	Dr.	47,200	
	To Bank A/c			47,200
	(Being the payment of 1st instalment along with interest)			
"	Depreciation A/c	Dr.	20,000	
	To Machine A/c			20,000
	(Being the depreciation charged @ 10% p.a. on Rs. 2,00,000)			
"	Profit & Loss A/c	Dr.	27,200	
	To Depreciation A/c			20,000
	To Interest A/c			7,200
	(Being the depreciation and interest transferred to Profit and Loss Account)			
2019 Dec. 31	Interest A/c	Dr.	4,800	
	To M/s Pass A/c			4,800
	(Being the interest payable @ 6% on Rs. 80,000)			
	M/s Pass A/c (Rs. 40,000 + Rs. 4,800)	Dr.	44,800	
	To Bank A/c			44,800
	(Being the payment of 2nd instalment along with interest)			
	Depreciation A/c	Dr.	18,000	
	To Machine A/c			18,000
	(Being the depreciation charged @ 10% p.a.)			
	Profit & Loss A/c	Dr.	22,800	
	To Depreciation A/c			18,000
	To Interest A/c			4,800
	Being the depreciation and interest charged to Profit and Loss Account)			
2020 Dec. 31	Interest A/c	Dr.	2,400	
	To M/s Pass A/c			2,400
	(Being the interest payable @ 6% on Rs. 40,000)			
	M/s Pass A/c (Rs. 40000 + Rs. 2,400)	Dr.	42,400	
	To Bank A/c			42,400
	(Being the payment of final instalment along with interest)			

	Depreciation A/c To Machine A/c (Being the depreciation charged @ 10% p.a.)	Dr.	16,200	 16,200
	Profit & Loss A/c To Depreciation A/c To Interest A/c (Being the interest and depreciation charged to Profit and Loss Account)	Dr.	18,600	 16,200 2,400

Question 11 : Dec – 2021 – Paper

ABC Ltd. acquired a Machine on hire purchase from P Ltd. with term of payments is four equal annual installments. The annual installment is commencing from the date of agreement signed by both the parties.

The payment of annual installments is Rs25,000 at the end of each year. The interest is charged @ 25% and is included in the annual installment. ABC Ltd. could not pay third annual installment and declared "Purchaser Defaulted" whereupon the P Ltd. act to repossess the Machinery.

ABC Ltd. is providing depreciation on Machinery at the rate of 20% per annum on the diminishing balance method.

You are required to prepare Machinery Account and P Ltd. account in the books of ABC Ltd. Working notes will form part of the answer

Solution :

In the books of ABC Ltd.

Machinery Account

		Rs.			Rs.
I Yr.	To Hire Vendor A/c (W.N.)	73,800	I Yr.	By Depreciation A/c	14,760
				By Balance c/d	59,040
		73,800			73,800
II Yr.	To Balance b/d	59,040	II Yr.	By Depreciation A/c	11,808
				By Balance c/d	47,232
		59,040			59,040
III Yr.	To Balance b/d	47,232	III Yr.	By Depreciation A/c	9,446
				By Hire Vendor	25,000
				By Profit and Loss A/c (Loss on surrender) (Balancing figure)	12,786
		47,232			**47,232**

P Ltd. Account

		Rs.			Rs.
I Yr.	To Bank A/c (1st Installment)	25,000	I Yr.	By Machinery A/c	73,800
End of year	To Bank A/C (2nd Installment)	25,000		By Interest A/c	12,200
	To Balance c/d	36,000			
		86,000			86,000
II Yr.	To Bank A/c (3rd Installment)	25,000	II Yr.	By Balance b/d	36,000
	To Balance c/d	20,000		By Interest A/c	9,000
		45,000			45,000
III Yr.	To Machinery A/c (transfer)	25,000	III Yr.	By Balance b/d	20,000
				By Interest A/c	5,000
		25,000			25,000

Working Note:

		Installment Amount	Interest	Principal
			Rs.	Rs.
4th Installment		25,000		
Interest	25,000 x 25/125	5,000	5,000	20,000
		20,000		
Add: 3rd Installment		25,000		
		45,000		
Interest	45,000 x 25/125	9,000	9,000	16,000
		36,000		
Add: 2nd Installment		25,000		
		61,000		
Interest	61,000 x 25/125	12,200	12,200	12,800
		48,800		
Add: 1st Installment (Down Payment)		25,000		25,000
		73,800	26,200	73,800

Note: In the question, it is given that "the annual instalment is commencing from the date of agreement signed by both the parties. The payment of annual instalment Rs. 25,000 at the end of each year". It has been assumed in the above answer that first instalment is paid on the date of agreement and rest instalments are paid at the end of each year. Alternative answer assuming that the first instalment is paid at the end of first year is also possible. The solution under this assumption will get changed and will be given as follows:

Machinery Account

		Rs.			Rs.
I Yr.	To Hire Vendor A/c (W.N.)	59,040	I Yr.	By Depreciation A/c	11,808
				By Balance c/d	47,232
		59,040			59,040
II Yr.	To Balance b/d	47,232	II Yr.	By Depreciation A/c	9,446
				By Balance c/d	37,786
		47,232			47,232
III Yr.	To Balance b/d	37,786	III Yr.	By Depreciation A/c	7,557
	To Profit and Loss A/c (profit on surrender) (Balancing figure)	14,771		By Hire Vendor	45,000
		52,557			52,557

P Ltd. Account

		Rs.			Rs.
I Yr.	To Bank A/c	25,000	I Yr.	By Machinery A/c	59,040
	To Balance c/d	48,800		By Interest A/c	14,760
		73,800			73,800
II Yr.	To Bank A/c	25,000	II Yr.	By Balance b/d	48,800
	To Balance c/d	36,000		By Interest A/c	12,200
		61,000			61,000
III Yr.	To Machinery A/c (transfer)	45,000	III Yr.	By Balance b/d	36,000
				By Interest A/c	9,000
		45,000			45,000

Working Note:

		Instalment Amount	Interest	Principal
4th Instalment		25,000	Rs.	Rs.
Interest	25,000 x 25/125	5,000	5,000	20,000
		20,000		
Add: 3rd Instalment		25,000		
		45,000		
Interest	45,000 x 25/125	9,000	9,000	16,000
		36,000		
Add: 2nd Instalment		25,000		
		61,000		

Interest	61,000 x 25/125	12,200	2,200	12,800
		48,800		
Add: 1st Instalment		25,000		
		73,800		
Interest	73,800 x 25/125	14,760	14,760	10,240
		59,040	40,960	59,040

Question 12 : May – 2022 – RTP

M/s Beta Enterprises bought 3 trucks from Gamma Ltd. on 01-04-2017 on the following terms:

	Rs.
Down Payment 3 Instalments to be paid, each at the end of each year: 1st Instalment Rs. 3,55,000 2nd Instalment Rs. 3,38,000 3rd Instalment Rs. 3,30,000 Interest is charged @ 10 % p.a. and included in above instalments. M/s Beta Enterprises provides depreciation @ 20 % on the diminishing balance of the Trucks	6,50,000

On 31st March, 2020, M/s Beta Enterprises failed to pay the 3rd Instalment upon which Gamma Ltd. repossessed 1 truck. Gamma Ltd. agreed to leave 2 trucks with M/s Beta Enterprises and adjusted the value of 1 truck against the amount due.

The truck taken over was valued on the basis of 30% depreciation annually on written down value basis.

The balance amount remaining in the Vendor's Account after the above adjustment was paid by M/s. Beta Enterprises after 2 months with interest @ 18 % p.a.

You are required to:

(i) Calculate the Cash Price of the trucks and the amount of Interest paid with each instalment.

(ii) Prepare Truck Account, Gamma Ltd.'s Account in the books of M/s Beta Enterprises assuming that the books of accounts are closed on 31st March every year.

Solution :

(i) Calculation of Interest and Cash Price

No. of instalments	Outstanding balance at the end after the payment of instalment	Amount due at the time of instalment	Outstanding balance at the end before the payment of instalment	Interest	Outstanding balance the beginning
[1]	[2]	[3]	[4] = 2 + 3	[5] = 4 x 10/110	[6] = 4 - 5
3rd	-	3,30,000	3,30,000	30,000	3,00,000
2nd	3,00,000	3,38,000	6,38,000	58,000	5,80,000
1st	5,80,000	3,55,000	9,35,000	85,000	8,50,000

Total cash price = Rs. 8, 50,000+ 6, 50,000 (down payment) = Rs. 15, 00,000.

(ii) **In the books of M/s Beta Enterprises**

Trucks Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2017	To Gamma Ltd. A/c.	15,00,000	31.3.2018	By Depreciation A/c	3,00,000
				Balance c/d	12,00,000
		15,00,000			**15,00,000**
1.4.2018	To Balance b/d	12,00,000	31.3.2019	By Depreciation A/c	2,40,000
				Balance c/d	9,60,000
		12,00,000			**12,00,000**
1.4.2019	To Balance b/d	9,60,000	31.3.2020	By Depreciation A/c	1,92,000
				By Gamma Ltd. A/c (Value of 1 truck taken over after depreciation for 3 years @30% p.a.) {5,00,000 - (1,50,000 + 1,05,000 + 73,500)}	1,71,500
				By Loss transferred to Profit and Loss a/c on surrender (Bal. fig.) or (2,56,000 -1,71,500)	84,500
				By Balance c/d 2/3 (9,60,000 - 1,92,000 = 7,68,000)	5,12,000
		9,60,000			**9,60,000**

Gamma Ltd. Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.17	To Bank (down payment)	6,50,000	1.4.17	By Trucks A/c	15,00,000
31.3.18	To Bank (1st Instalment)	3,55,000	31.3.18	By Interest A/c	85,000
	To Balance c/d	5,80,000			
		15,85,000			**15,85,000**
31.3.19	To Bank (2nd Instalment)	3,38,000	1.4.18	By Balance b/d	5,80,000
31.3.19	To Balance c/d	3,00,000	31.3.19	By Interest a/c	58,000
		6,38,000			**6,38,000**
31.3.20	To Trucks A/c	1,71,500	1.4.19	By Balance b/d	3,00,000
31.3.20	To Balance c/d (b.f.)	1,58,500	31.3.20	By Interest A/c	30,000
		3,30,000			**3,30,000**
31.5.20	To Bank (Amount settled after 2 months)	1,63,255	1.4.20	By Balance b/d	1,58,500
			31.5.20	By Interest A/c (@ 18% on bal.) (1,58,500x2/12 x 18/100)	4,755
		1,63,255			**1,63,255**

Question 13 : May – 2022 – Paper

The following particulars relate to hire purchase transactions :

(i) Mita purchased three bikes from Nita on hire purchase basis, the cash price of each bike being Rs.1,00,000

(ii) Mita charged depreciation @ 20% on written down value method.

(iii) Two bikes were seized by the Nita when second instalment was not paid at the end of the second year. Nita valued the two bikes at cash price less 30% depreciation charged under it written down valued method.

(iv) Nita spent Rs.5,000 on repairs of the bikes and then sold them for a total amount of Rs.85,000.

You are required to compute :

(i) Agreed value of two bikes taken back by Nita.

(ii) Book value of the bike left with Mita.

(iii) Profit or loss to Mita on two bikes taken back by Nita.

(iv) Profit or loss of bikes repossessed, when sold by Nita.

Solution :

			Rs.
(i)	Price of two Bikes = Rs. 1,00,000 x 2		2,00,000
	Less: Depreciation for the first year @ 30%		60,000
			1,40,000
	Less: Depreciation for the second year = Rs. 1,40,000 x $\frac{30}{100}$		42,000
	Agreed value of two Bikes taken back by the hire vendor		98,000
(ii)	Cash purchase price of one Bike		1,00,000
	Less: Depreciation on Rs. 1,00,000 @20% for the first year		20,000
	Written drown value at the end of first year		80,000
	Less: Depreciation on Rs. 80,000 @ 20% for the second year		16,000
	Book value of Bike left with the hire purchaser		64,000
(iii)	Book value of one Bike as calculated above		64,000
	Book value of Two Bikes = Rs. 64,000 x 2		1,28,000
	Value at which the two Bikes were taken back, calculated in (i) above		98,000
	Hence, loss to hire purchaser on machine taken back by hire vendor (Rs. 1,28,000 – Rs. 98,000)		Rs. 30,000
(iv)	Profit or loss on Bikes repossessed when sold by hire vendor		
	Sale proceeds		85,000
	Less: Value at which Bikes were taken back	98,000	
	Repairs	5,000	(1,03,000)
	Loss on resale		18,000

Question 14 : Nov – 2022 – RTP

Leena Transport Limited purchased from Ethnic Motors, 4 tempos costing Rs. 2,75,000 each on the hire purchase system on 1.1.2020. Payment was to be made Rs. 2,00,000 down and the balance in 3 equal annual instalments payable on 31.12.2020, 31.12.2021 and 31.12.2022 together with interest @ 12% p.a.

Leena Transport Ltd. charge depreciation at the rate of 10% p.a. on the diminishing balance. It paid the instalment due at the end of the first year, i.e., 31.12.2020, but could not pay the next on 31.12.2021. Ethnic Motors decided to takeover 2 tempos and to leave the other 2 tempos with the purchaser on 1.1.2022, adjusting the value of the 2 tempos (taken over) against the amount due on 31.12.2021. The tempos taken over were valued on the basis of 15% depreciation(W.D.V method) annually. Show the necessary accounts in the books of Leena Transport Ltd. for the years 2020, 2021 and 2022 assuming the balance was paid to ethnic Motors Ltd. on 31.12.2022.

Solution :

In the books of Leena Transport Limited

Tempos Account

		Rs.			Rs.
2020			2020		
Jan.01	To Ethnic Motors	11,00,000	Dec. 31	By Depreciation – 10% on Rs. 11,00,000	1,10,000
	Rs. (2,75,000 x 4)			By Balance c/d	9,90,000
		11,00,000			**11,00,000**
2021			2021		
Jan. 1	To Balance b/d	9,90,000	Dec.31	By Depreciation A/c	99,000
				By Ethnic Motors A/c (Value of 2 tempos taken away)	3,97,375
				By Profit & Loss A/c (Balancing figure)	48,125
				By Balance c/d (Value of two tempos left)	4,45,500
		9,90,000			**9,90,000**
2022			2022		
Jan. 1	To Balance b/d	4,45,500	Dec. 31	By Depreciation A/c	44,550
				By Balance b/d	4,00,950
		4,45,500			**4,45,500**

Ethnic Motors Limited

		Rs.			Rs.
2020			2020		
Jan-01	To Bank (Down Payment)	2,00,000	Jan-01	By Tempos A/c	11,00,000
Dec-31	To Bank	4,08,000	Dec-31	By Interest (12% on Rs. 9,00,000)	1,08,000

	To Balance c/d	6,00,000			
		12,08,000			**12,08,000**
2021			2021		
Jan-01	To Tempo	3,97,375	Jan-01	By Balance b/d	6,00,000
Dec-31	To Balance c/d	2,74,625	Dec-31	By Interest (12% on Rs. 6,00,000)	72,000
		6,72,000			**6,72,000**
2022			2022		
Dec-31	To Bank	3,07,580	Jan-01	By Balance b/d	2,74,625
			Dec-31	By Interest (12% on Rs. 2,74,625)	32,955
		3,07,580			**3,07,580**

Working Notes:

(1) Value of Two Tempos left with the buyer

	Rs.
Cost Rs. (2,75,000 x 2)	5,50,000
Depreciation @ 10% p.a. under WDV method for 2 years [i.e. Rs.55,000 + Rs.49,500]	(1,04,500)
Value of the Tempos left with the buyer at the end of 2nd year	4,45,500

(2) Value of a Tempos taken away by the seller – Number of tempos - 2

	Rs.
Cost – (Rs. 2,75,000 x 2)	5,50,000
Depreciation @ 15% p.a. under WDV method for 2 years [i.e. Rs. 82,500 + Rs. 70,125]	(1,52,625)
Value of Tempos taken away at the end of 2nd year	3,97,375

Question 15 : Nov – 2022 – Paper

Surabhi purchased a car on Hire Purchase from M/S.Pawan Automobiles on 1st April, 2019. The Hire Purchase price was Rs.3,00,000 and the same was payable in 5 half yearly installments of Rs.60,000 each, the first installment being due on 1st October, 2019. Interest is payable @10% per annum and the same is included in the half yearly installment of Rs.60,000.

You are required to calculate the cash price of the car and the interest paid on each installment.

Thanks ....

CHAPTER

18

DEPARTMENTAL ACCOUNTS

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : May – 2018 – RTP

Following is the Trial Balance of Mr. Mohan as on 31.03.2017:

	Particulars	Debit (Rs.)	Credit (Rs.)
Capital Account			40,000
Drawing Account		1,500	
Opening Stock	Department A	8,500	
	Department B	5,700	
	Department C	1,200	
Purchases	Department A	22,000	
	Department B	17,000	
	Department C	8,000	
Sales	Department A		54,000
	Department B		33,000
	Department C		21,000
Sales Returns	Department A	4,000	
	Department B	3,000	
	Department C	1,000	
Freight and Carriage	Department A	1,400	
	Department B	800	
	Department C	200	
Furniture and fixtures		4,600	
Plant and Machinery		20,000	
Motor Vehicles		40,000	
Sundry Debtors		12,200	
Sundry Creditors			15,000
Salaries		4,500	

Power and water		1,200	
Telephone charges		2,100	
Bad Debts		750	
Rent and taxes		6,000	
Insurance		1,500	
Wages	Department A	800	
	Department B	550	
	Department C	150	
Printing and Stationeries		2,000	
Advertising		3,500	
Bank Overdraft			12,000
Cash in hand		850	
		1,75,000	1,75,000

You are required to prepare Department Trading, Profit and Loss Account and the Balance Sheet taking into account the following adjustments:

(a) Outstanding Wages: Department B- Rs.150, Department C – Rs.50.

(b) Depreciate Plant and Machinery and Motor Vehicles at the rate of 10%.

(c) Each Department shall share all expenses in proportion to their sales.

(d) Closing Stock: Department A - Rs.3,500, Department B - Rs.2,000, Department C - Rs.1,500.

Solution :

Trading and Profit and Loss Account

for the year ended on 31st Match, 2017

Particulars	A (Rs.)	B (Rs.)	C (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (Rs.)
To Opening Stock	8,500	5,700	1,200	By Sales less Sales returns	50,000	30,000	20,000
To Purchases	22,000	17,000	8,000	By Closing Stock	3,500	2,000	1,500
To Freight & carriage	1,400	800	200				
To Wages	800	700	200				
To Gross profit	20,800	7,800	11,900				
	53,500	32,000	21,500		53,500	32,000	21,500
To Salaries	2,250	1,350	900	By Gross Profit	20,800	7,800	11,900
To Power & Water	600	360	240	By Net Loss	-	465	-
To Telephone Charges	1,050	630	420				
To Bad Debts	375	225	150				
To Rent & Taxes	3,000	1,800	1,200				

To Insurance	750	450	300				
To Printing & Stationery	1,000	600	400				
To Advertising	1,750	1,050	700				
To Depreciation (2,000 +4,000)	3,000	1,800	1,200				
To Net Profit	7,025		6,390				
	20,800	8,265	11,900		20,800	8,265	11,900

Balance Sheet as at 31.03.2017

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Capital A/c	40,000		Furniture & Fixtures		4,600
Add: Net Profit (Rs.7,025 + Rs.6,390)	13,415		Plant & Machinery	20,000	
	53,415		Less: Depreciation	2,000	18,000
Less: Net loss in Dept	465		Motor Vehicles	40,000	
	52,950		Less: Depreciation	4,000	36,000
Less: Drawings	1,500	51,450	Sundry Debtors		12,200
Sundry Creditors		15,000	Cash in hand		850
Bank Overdraft		12,000	Closing Stock		7,000
Wages Outstanding		200			
		78,650			78,650

Note: All expenses have been allocated among departments in proportion of their sales in the solution as per the specific requirement of the question.

Question 2 : May – 2018 – Paper

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

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

Addition Information :

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

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

Solution :

In the Books of M/s Delta

Departmental Trading and Profit and Loss Account

for the year ended 31st March, 2018

Particulars	Deptt.X (Rs.)	Deptt.Y (Rs.)	Deptt.Z (Rs.)	Total (Rs.)	Particulars	Deptt.X (Rs.)	Deptt.Y (Rs.)	Deptt.Z (Rs.)	Total (Rs.)
To Stock (opening)	18,000	12,000	10,000	40,000	By Sales	90,000	67,500	45,000	2,02,500
To Purchases	66,000	44,000	22,000	1,32,000	By Stock (closing)	22,500	8,750	10,500	41,750
To Carriage Inwards	750	500	250	1,500					
To Gross Profit c/d (b.f.)	27,750	19,750	23,250	70,750					
	1,12,500	76,250	55,500	2,44,250		1,12,500	76,250	55,500	2,44,250
To Carriage Outwards	1,200	900	600	2,700	By Gross Profit b/d	27,750	19,750	23,250	70,750
To Electricity	1,500	1,000	500	3,000	By Discount received	900	600	300	1,800
To Salaries	10,000	8,000	6,000	24,000					
To 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 Debts	375	250	250	875					

@ 5% of debtors									
To Labour welfare expenses	1,000	800	600	2,400					
To Net Profit (b.f.)	8,975	4,850	12,300	26,125					
	28,650	20,350	23,550	72,550		28,650	20,350	23,550	72,550

Working note :

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

Question 3 : Nov – 2018 – RTP / May – 2019 - RTP

The following balances were extracted from the books of M/s Division. You are required to prepare Departmental Trading Account and Profit and Loss account for the year ended 31st December, 2017 after adjusting the unrealized department profits if any.

	Deptt. A Rs.	**Deptt. B Rs.**
Opening Stock	50,000	40,000
Purchases	6,50,000	9,10,000
Sales	10,00,000	15,00,000

General expenses incurred for both the departments were Rs.1,25,000 and you are also supplied with the following information: (a) Closing stock of Department A Rs.1,00,000 including goods from Department B for Rs.20,000 at cost of Department A. (b) Closing stock of Department B Rs.2,00,000 including goods from Department A for Rs.30,000 at cost to Department B. (c) Opening stock of Department A and Department B include goods of the value of Rs.10,000 and Rs.15,000 taken from Department B and Department A respectively at cost to transferee departments. (d) The rate of gross profit is uniform from year to year.

Solution :

Departmental Trading and Profit and Loss Account of M/s Division
For the year ended 31st December, 2017

	Deptt. A Rs.	Deptt. B Rs.		Deptt. A Rs.	Deptt. B Rs.
To Opening stock	50,000	40,000	By Sales	10,00,000	15,00,000
To Purchases	6,50,000	9,10,000	By Closing stock	1,00,000	2,00,000
To Gross profit	4,00,000	7,50,000			
	11,00,000	17,00,000		11,00,000	17,00,000
To General Expenses (in ratio of sales)	50,000	75,000	By Gross profit	4,00,000	7,50,000
To Profit ts/f to general profit and loss account	3,50,000	6,75,000			
	4,00,000	7,50,000		4,00,000	7,50,000

General Profit and Loss Account

	Rs.		Rs.
To Stock reserve required (additional)		By Profit from:	
Stock in Deptt. A		Deptt. A	3,50,000
50% of (Rs.20,000 – Rs.10,000) (W.N.1)	5,000	Deptt. B	6,75,000
Stock in Deptt. B			
40% of (Rs.30,000 – Rs.15,000) (W.N.2)	6,000		
To Net Profit	10,14,000		
	10,25,000		**10,25,000**

Working Notes:

1. Stock of department A will be adjusted according to the rate gross profit applicable to department B = [(7,50,000 ÷ 15,00,000) x 100] = 50%
2. Stock of department B will be adjusted according to the gross profit rate applicable to department A = [(4,00,000 ÷ 10,00,000) x 100] = 40%

Question 4 : Nov – 2018 – Paper

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

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

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

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

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

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

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

Solution :

Calculation of correct departmental Profits

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

Working Note :

Stock lying with

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

Question 5 : Nov – 2019 – RTP

A firm has two departments--Sawmill and Furniture. Furniture is made with wood supplied by the Sawmill department at its usual selling price. From the following figures prepare Departmental Trading and Profit and Loss Account for the year 2018 :

	Sawmill Rs.	Furniture Rs.
Opening Stock on 1st January, 2018	1,50,000	25,000
Sales	12,00,000	2,00,000
Purchases	10,00,000	7,500
Supply to Furniture Department	1,50,000	--
Selling expenses	10,000	3,000
Wages	30,000	10,000
Closing Stock on 31st December, 2018	1,00,000	30,000

The value of stocks in the furniture department consist of 75% wood and 25% other expenses. The Sawmill Department earned Gross Profit at 15 % on sales in 2017. General expenses of the business as a whole came to Rs. 55,000. The firm adopts FIFO method for assigning costs to inventories.

Solution :

Departmental Trading and Profit and Loss Account

Particulars	Sawmill	Furniture	Particulars	Sawmill	Furniture
To Opening stock	1,50,000	25,000	By Sales	12,00,000	2,00,000
To Purchase	10,00,000	7,500	By Transfer to furniture department	1,50,000	

To Wages	30,000	10,000	By Closing stock	1,00,000	30,000
To Transfer from saw mill	-	1,50,000			
To Gross profit	2,70,000	37,500			
	14,50,000	2,30,000		14,50,000	2,30,000
To Selling expenses	10,000	3,000	By Gross profit	2,70,000	37,500
To Net Profit	2,60,000	34,500			
	2,70,000	37,500		2,70,000	37,500

General Profit and Loss Account

Particulars	Amount	Particulars	Amount
To General Expenses	55,000	By Net Profit from	
To Stock reserve (WN-2)	4,500	Saw Mill	2,60,000
To Net Profit	2,37,813	Furniture	34,500
		By stock reserve (opening WN-1)	2,813
	2,97,313		**2,97,313**

Working Notes

1. **Calculation of Stock Reserve (opening)**
   25,000 x 75% wood x 15% = Rs.2,813
2. **Calculation of closing stock reserve**
   Gross profit Rate of Saw Mill of 2018
   2,70,000 / (12,00,000 + 1,50,000) x 100 = 20%
   30,000 x 75% x 20% = Rs.4,500

Question 6 : Nov – 2019 – Paper

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

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

It is further ascertained that:

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

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

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

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

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

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

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

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

Solution :

(i) Department Trading Account for Department X

For the year ending on 31.03.2019

In the books of Head Office

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

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

Particulars	Amount	Particulars	Amount
To Balance b/d (Rs.1,50,000+20% of Rs.1,50,000)	1,80,000	By Profit & Loss A/c (Cost of Shortage)	4,000 800
To Purchases (Rs.4,30,000 + 20% of Rs.4,30,000)	5,16,000	By Memorandum Departmental Mark up A/c (Load on Shortage) (Rs.4,000 x 20%)	
		By Memorandum Departmental Mark-up A/c (Mark-down on Current Purchases)	3,600
		By Debtors A/c (Sales)	6,50,000
		By Memorandum Departmental Mark-up A/c	1,600

		(Mark Down on Opening Stock)	
		By Balance c/d	36,000
	6,96,000		6,96,000

(iii) Memorandum Departmental Mark-up Account

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

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

Working Notes:

(i) Calculation of Cost of Sales

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

(ii) Calculation of Closing Stock

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

E	Closing Stock (A+B-C-D)	31,000

Question 7 : May – 2020 – RTP

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

Solution :

(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.

Question 8 : May – 2020 – RTP

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:

	Rs.
Department X	1,80,000
Department Y	1,35,000
Department Z	90,000

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

	Dept. X	Dept. Y	Dept. 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 departmental profits after charging Managers' commission.

Solution :

Calculation of Correct Profit

	Dept. X Rs.	Dept. Y Rs.	Dept. Z Rs.
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
Less: Unrealized profit on stock (W.N.)	2,00,000	1,50,000	1,00,000
Profit before Manager's commission	(24,500)	(22,500)	(10,000)
Less: Commission for Department	1,75,500	1,27,500	90,000
Manager @ 10%	(17,550)	(12,750)	(9,000)
Departmental Profits after manager's commission	1,57,950	1,14,750	81,000

Working Note :

	Dept. X Rs.	Dept. Y Rs.	Dept. Z Rs.	Total Rs.
Unrealized Profit				
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 9 : Nov – 2020 – RTP

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 Z at a profit of 25% and 15% respectively on sales. Department Z charges 30% profit on cost to Department X and 40% profit on sale to Y. Stocks lying at different departments at the end of the year are as under:

	Dept. X Rs.	Dept. Y Rs.	Dept. Z Rs.
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.

Solution :

Calculation of unrealized profit of each department and total unrealized profit

	Dept. X Rs.	Dept. Y Rs.	Dept. Z Rs.	Total Rs.
Unrealized Profit of:				
Department X		75,000 x 50/150 = 25,000	48,000 x 20/120 = 8,000	33,000
Department Y	50,000 x .25 = 12,500		82,000 x .15 = 12,300	24,800
Department Z	52,000 x 30/130 = 12,000			34,400
				92,200

Question 10 : Nov – 2020 – Paper

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

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

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

Calculate Department wise unrealized profit on Stock.

Solution :

	Dept. A Rs.	Dept. B Rs.	Dept. C Rs.	Total Rs.
Unrealized Profit of:				
Department A		1,14,000 x 20/120 = 19,000	60,000 x 50/150 = 20,000	39,000
Department B	55,000 x .15 = 8,250		15,200 x.10 = 1,520	9,770

Department C	52,800 x 10/110 = 4,800	1,11,300 x 5/105 = 5,300		10,100

Question 11 : Jan – 2021 – Paper

XYZ Garage consist of 3 departments : Spares, Service and Repairs, each department being managed by a departmental manager whose commission was respectively 5%, 10% and 10% of the respective departmental profit subject to a minimum of Rs.5,000 in each case.

Inter departmental transfers take place at a "loaded" price as follows :

From Spares to Service 5% above cost

From Spares to Repairs 10% above cost

From Repairs to Service 10% above cost

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

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

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

Solution :

Calculation of correct Departmental Profits or Losses

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

Correct Profit after Manager's Commission	(39,382)		68,400

Working Note :

	Department Spares (Rs.)	Department Service (Rs.)	Department Repair (Rs.)	Total (Rs.)
Unrealized Profit of:				
Department Spares		21,000 X 5/105 = 1,000	4202 X 10/110 = 382	1,382
Department Repair		44000 X 10/110 = 4000		4,000

Question 12 : May – 2021 – RTP

Below balances are taken from the records of M/s Big Shopping Complex for the year ended 31st March, 2020:

Details	Department P (Rs.)	Department Q (Rs.)
Opening Stock	1,00,000	80,000
Purchases	13,00,000	18,20,000
Sales	20,00,000	30,00,000

- Closing stock of Department P was Rs. 2,00,000 including goods transferred from Department Q for Rs. 40,000.
- Closing stock of Department Q was Rs. 4,00,000 including goods transferred from Department P for Rs. 60,000.
- Opening stock of Department P included goods for Rs. 20,000 transferred from Department Q and Opening stock of Department Q included goods for Rs. 30,000 transferred from Department P.
- Assume that above transfer amounts are cost to the transferee departments and the rate of gross profit is uniform from year to year.
- Total selling expenses incurred were Rs. 2,50,000 for both the departments.

From the above information, prepare Departmental Trading Account and Profit & Loss Account for the year ended 31st March 2020, after adjusting the unrealized departmental profits, if any.

Solution :

Departmental Trading and Profit & Loss A/c for M/s Big Shopping Complex
For the year ended 31st March 2020

Details	Deptt. P (Rs.)	Deptt. Q (Rs.)	Details	Deptt. P (Rs.)	Deptt. Q (Rs.)
To Opening Stock	1,00,000	80,000	By Sales	20,00,000	30,00,000
To Purchases	13,00,000	18,20,000		2,00,000	4,00,000

To Gross Profit	8,00,000	15,00,000	By Closing Stock		
	22,00,000	34,00,000		22,00,000	34,00,000
To Selling Exp (in ratio of sales)	1,00,000	1,50,000	By Gross Profit	8,00,000	15,00,000
To Profit transferred to General P&L A/c	7,00,000	13,50,000			
	8,00,000	15,00,000		8,00,000	15,00,000

General Profit and Loss A/c for M/s Big Shopping Complex
For the year ended 31st March 2020

Details	Amount (Rs.)	Details	Amount (Rs.)
To Stock Reserve		By Profit transferred from	
Deptt. P WN 1 & 2		Deptt. P	7,00,000
50% x (40,000 – 20,000)	10,000	Deptt. Q	13,50,000
Deptt. Q WN 1 & 3			
40% x (60,000 – 30,000)	12,000		
To Net Profit	20,28,000		
	20,50,000		**20,50,000**

Working Notes :

1. Gross Profit Ratios are: Deptt. P = 8,00,000 / 20,00,000 = 40% and of Deptt. Q = 15,00,000 / 30,00,000 = 50%.
2. Stock Reserve for Deptt. P shall be adjusted as per the gross profit ratio of Deptt. Q i.e. 50% (On Closing Stock – Opening Stock)
3. Stock Reserve for Deptt. Q shall be adjusted as per the gross profit ratio of Deptt. P i.e. 40% (On Closing Stock – Opening Stock)

Question 13 : July – 2021 – Paper

The firm, M/s. K creations has two Departments, Dyed fabric and readymade garments. Readymade garments are made by the firm itself. Both dyed fabric and readymade garments have independent market. Some of readymade garment department's requirement is supplied by Dyed Fabric Department at its usual Selling Price.

From the following figures, prepare Departmental Trading and Profit and Loss Account for the year ended 31st March 2021.

Particulars	Dyed Fabric Department	Readymade garments department
Opening stock as on April 1, 2020	5,40,000	15,20,000
Purchases (excluding inter department transfers)	20,12,080	1,50,00,000

Sales (excluding inter department transfers)	31,06,000	3,12,50,000
Transfer to Readymade garments	5,00,000	-
Direct wages	3,00,000	67,30,000
Direct Expenses	1,00,000	19,50,000
Plant and Equipment's for dyeing/stitching readymade garments (WDV as on April 1, 2020)	5,00,000	15,00,000
Rent and warehousing	4,50,000	12,00,000
Stock as on March 31st 2021	6,00,000	22,50,000

The following further information are available for necessary consideration :

(i) The Stock in Readymade garments department may be considered as consisting of 60% of dyed fabric and 40% of Other Expenses.

(ii) The Dyed Fabric Department earned a Gross Profit @ 30% in 2019-2020.

(iii) On the plant and equipment, Depreciation @ 20% p.a. to be provided.

(iv) The following expenses incurred for both the departments were not apportioned between the departments:

		Rs.
(a)	Salaries	2,70,000
(b)	Advertisement expenses	90,000
(c)	General expenses	8,00,000

(v) Salaries in 1 : 2 ratio, Advertisement expenses in the turnover ratio and General expenses in 1 : 3 ratio are to be apportioned between the Dyed Fabric Department and Readymade Department respectively.

Solution :

M/s.K creations
Departmental Trading & Profit & Loss A/c
For the year ended 31/3/2021

Particulars	Dyed	R.M.	Particulars	Dyed	R.M.
To Opening Stock	5,40,000	15,20,000	By Sales	31,06,000	3,12,50,000
To Purchase	20,12,080	1,50,00,000	By Transfer	5,00,000	-
To Transfer	-	5,00,000	By closing Stocks	6,00,000	22,50,000
To Direct Wages	3,00,000	67,30,000			
To Direct Expense	1,00,000	19,50,000			
To Gross Profit	12,53,920	78,00,000			
	42,06,000	**3,35,00,000**		**42,06,000**	**3,35,00,000**
To Rent & Warehousing	4,50,000	12,00,000	By Gross profit	12,53,920	78,00,000
To Depreciation	1,00,000	3,00,000			
To Salary	90,000	1,80,000			
To Advt. Expenses	8,137	81,863			
To General Expenses	2,00,000	6,00,000			
To Net Profit	4,05,783	54,38,137			
	12,53,920	**28,00,000**		**12,53,920**	**28,00,000**

Dr. General Profit & Loss Account Cr.

Particulars	Amt.	Particulars		Amt.
To Stock Reserve (Closing)	4,69,395	By Net Profit		
To Net Profit	56,48,125	Dyed	4,05,783	
		Readymade	54,38,137	58,43,920
		By Stock Reserve opening		2,73,600
	61,17,520			**61,17,520**

Working Note :

Stock Reserve = Dyed $\rightarrow$ Readymade

		Opening Stock	Closing Stock
1.	G.P. Ratio	30%	$\frac{12,53,920}{31,06,000 + 5,00,000} \times 100$ = 34.77%
2.	Content	15,20,000 × 60% = 9,12,000	22,50,000 × 60% = 13,50,000
3.	Stock Reserve	2,73,600	4,69,395

Question 14 : Nov – 2021 – RTP

M/s. Hero is a Departmental Store having three departments X, Y and Z. The information regarding three departments for the year ended 31st March, 2021 are given below:

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

Additional Information:

	Amount (Rs.)
Carriage inwards	1,500
Carriage outwards	2,700
Salaries	24,000
Advertisement	2,700

Discount allowed	2,250
Discount received	1,800
Rent, Rates and Taxes	7,500
Depreciation on furniture	1,000
Electricity Expenses	3,000
Labour welfare expenses	2,400

Prepare Departmental Trading and Profit & Loss Account for the year ended 31st March, 2021 after providing provision for Bad Debts at 5%.

Solution :

In the Books of M/s Hero
Departmental Trading and Profit and Loss Account
for the year ended 31st March, 2021

Particulars	Deptt.X Rs.	Deptt.Y Rs.	Deptt.Z Rs.	Total Rs.	Particulars	Deptt.X Rs.	Deptt.Y Rs.	Deptt.Z Rs.	Total Rs.
To Stock (opening)	18,000	12,000	10,000	40,000	By Sales	90,000	67,500	45,000	2,02,500
To Purchases	66,000	44,000	22,000	1,32,000	By Stock (closing)	22,500	8,750	10,500	41,750
To Carriage Inwards	750	500	250	1,500					
To Gross Profit c/d (b.f.)	27,750	19,750	23,250	70,750					
	1,12,500	**76,250**	**55,500**	**2,44,250**		**1,12,500**	**76,250**	**55,500**	**2,44,250**
To Carriage Outwards	1,200	900	600	2,700	By Gross Profit b/d	27,750	19,750	23,250	70,750
To Electricity	1,500	1,000	500	3,000	By Discount received	900	600	300	1,800
To Salaries	10,000	8,000	6,000	24,000					
To 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 Debts @ 5% of debtors	375	250	250	875					

To Labour welfare expenses	1,000	800	600	2,400					
To Net Profit (b.f.)	8,975	4,850	12,300	26,125					
	28,650	**20,350**	**23,550**	**72,550**		**28,650**	**20,350**	**23,550**	**72,550**

Working Note:

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

Question 15 : Dec – 2021 – Paper

M/s. Wee has two Departments X and Y. From the following particulars. Prepare Departments Trading Account and Consolidated Trading Account for the year ending 31st March, 2021.

Particulars	**Department X Rs.**	**Department Y Rs.**
Opening stock (at Cost)	1,40,000	1,08,000
Purchases	4,28,000	3,32,000
Carriage Inwards	12,000	12,000
Carriage Outwards	5,000	4,000
Wages	42,000	48,900
Sales	5,70,000	4,74,000
Purchased goods transferred by Dept.Y to Dept.X	60,000	-
Purchased goods transferred by Dept.X to Dept.Y	-	48,000
Finished gods transferred by Dept.Y to Dept.X	1,60,000	-
Finished gods transferred by Dept.X to Dept.Y	-	2,00,000
Closing Stock of Purchases Goods	24,000	30,000
Closing Stock of finished Goods	1,54,000	1,20,000

Purchased goods have been transferred mutually at their respective departmental purchases cost and finished goods at departmental market price and that 15% of the finished stock (closing) at each department represented finished goods received from the other department.

Solution :

M/s Wee

Departmental Trading A/c for the year ending 31st March, 2021

	Deptt. X. Rs.	Deptt. Y Rs.		Deptt. X. Rs.	Deptt. Y Rs.
To Stock	1,40,000	1,08,000	By Sales	5,70,000	4,74,000
To Purchases	4,28,000	3,32,000	By Purchased Goods transferred	48,000	60,000
To Wages	42,000	48,900	By Finished goods transferred	2,00,000	1,60,000
To Carriage inward	12,000	12,000	By Closing Stock:		
To Purchased Goods transferred	60,000	48,000	Purchased Goods	24,000	30,000
To Finished Goods transferred	1,60,000	2,00,000	Finished Goods	1,54,000	1,20,000
To Gross profit c/d (b.f.)	1,54,000	95,100			
	9,96,000	**8,44,000**		**9,96,000**	**8,44,000**

Consolidated Trading Account for the year ending 31st March 2021

	Rs.		Rs.
To Opening Stock	2,48,000	By Sales	10,44,000
To Purchases	7,60,000	By Closing Stock:	
To Wages	90,900	Purchased Goods	54,000
To Carriage inward	24,000	Finished Goods	2,74,000
To Stock Reserve*	7,065		
To Gross Profit c/d	2,42,035		
	13,72,000		**13,72,000**

Working Note:

	Deptt. X	Deptt. Y
Sale	5,70,000	4,74,000
Add: Transfer	2,00,000	1,60,000
Net Sales plus Transfer	7,70,000	6,34,000
Rate of Gross profit	1,54,000/7,70,000 x 100 = 20%	95,100/6,34,000 x 100 = 15%
Closing Stock out of transfer (15% of closing stock)	1,54,000 x 15% = 23,100	1,20,000 x 15% = 18,000
Unrealized Profit	23,100 × 15% = 3,465	18,000 × 20% = 3,600

Note: *Stock reserve has been shown separately in the above solution and the closing stock has been given at the full value without reducing stock reserve from it. Alternatively, stock reserve may not be shown and the closing stock can be shown at the net amount (after deducting amount of stock reserve).

Question 16 : May – 2022 – RTP

P Ltd. has two Departments X and Y. From the following particulars you are required to prepare Departmental Trading Account and Combined Trading and P & L Account for the year ending 31st March, 2021.

	Department X Rs.	Department Y Rs.
Opening stock (at Cost)	70,000	54,000
Purchase	2,14,000	1,66,000
Carriage inwards	6,000	6,000
Wages	21,000	24,450
Sales	3,10,000	2,54,000
Purchased goods transferred by Dept. Y to Dept. X	30,000	-
Purchased goods transferred by Dept. X to Dept. Y	-	24,000
Finished goods transferred by Dept. Y to Dept. X	80,000	-
Finished goods transferred by Dept. X to Dept. Y	-	1,00,000
Return of Finished Goods by Dept. Y to Dept. X	25,000	-
Return of Finished Goods by Dept. X to Dept. Y	-	17,000
Closing Stock of Purchased Goods	12,000	15,000
Closing Stock of Finished Goods	60,000	35,000

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 20% of the finished stock (closing) at each department represented finished goods received from the other department.

Solution :

P Ltd.

Departmental Trading A/c for the year ending 31st March, 2021

	Deptt. X. Rs.	Deptt. Y Rs.		Deptt. X. Rs.	Deptt. Y Rs.
To Stock	70,000	54,000	By Sales	3,10,000	2,54,000
To Purchases	2,14,000	1,66,000	By Purchased Goods transferred	24,000	30,000
To Wages	21,000	24,450	By Finished goods transferred	1,00,000	80,000

To Carriage inward	6,000	6,000	Return of finished Goods	17,000	25,000
To Purchased Goods transferred	30,000	24,000	By Closing Stock:		
To Finished Goods transferred	80,000	1,00,000	Purchased Goods	12,000	15,000
To Return of finished Goods	25,000	17,000	Finished Goods	60,000	35,000
To Gross profit c/d	77,000	47,550			
	5,23,000	**4,39,000**		**5,23,000**	**4,39,000**

Combined Trading and P & L Account for the year ending 31st March, 2021

	Rs.		Rs.
To Opening Stock (Rs. 70,000 + Rs. 54,000)	1,24,000	By Sales (Rs. 3,10,000 + Rs. 2,54,000)	5,64,000
To Purchases (Rs. 2,14,000 + Rs. 1,66,000)	3,80,000	By Closing Stock:	
To Wages (Rs. 21,000 + Rs. 24,450)	45,450	Purchased Goods (Rs. 12,000 + Rs. 15,000)	27,000
To Carriage (Rs. 6,000 + Rs. 6,000)	12,000	Finished Goods (Rs. 60,000 + Rs. 35,000)	95,000
To Gross Profit c/d	1,24,550		
	6,86,000		**6,86,000**
To Stock Reserve	3,200	By Gross Profit b/d	1,24,550
To Net Profit	1,21,350		
	1,24,550		**1,24,550**

Working note:

1.

Calculation of Rate of Gross Profit	**Deptt. X**	**Deptt. Y**
Closing Stock out of transfer (20%)	12,000	7,000
Sale	3,10,000	2,54,000
Add: Transfer	1,00,000	80,000
	4,10,000	3,34,000
Less: Returns	-25,000	-17,000
Net Sales plus Transfer	3,85,000	3,17,000
Rate of Gross profit	$\frac{77,000}{3,85,000} \times 100$ = 20%	$\frac{47,550}{3,17,000} \times 100$ = 15%

2. Unrealized Profit Deptt. X Rs. 12,000 × 15% = Rs. 1,800
Deptt. Y Rs. 7,000 × 20% = Rs. 1,400

Question 17 : May – 2022 – Paper

PQR Limited has three departments L, M and N. The following information is provided for the year ended 31.3.2022 :

	L Rs.	M Rs.	N Rs.
Opening stock	10,000	16,000	3,000
Opening reserve for unrealized Profit	-	4,000	6,000
Materials Consumed	32,000	40,000	-
Direct labour	18,000	20,000	-
Closing stock	10,000	40,000	10,000
Sales		-	1,60,000
Area occupied (sq. mtr.)	5,000	3,000	2,000
No. of employees	60	40	20

The following informations are provided :

- Stocks of each department are valued at cost to the department concerned.
- Stocks of L are transferred to M at cost plus 20% and stocks of M are transferred to N at a gross profit of 20% on sales.
- Other common expenses are salaries and staff welfare Rs.36,000 and Rent Rs.12,000.

You are required to prepare Departmental Trading, Profit and Loss Account for the year ending 31.3.2022.

Solution :

PQR Ltd.

Departmental Trading and Profit and Loss Account

for the year ended 31st March, 2022

	L Rs.	M Rs.	N Rs.	Total Rs.		L Rs.	M Rs.	N Rs.	Total Rs.
To Opening stock	10,000	16,000	38,000	64,000	By Sales	-	-	1,60,000	1,60,000
To Material consumed	32,000	40,000	-	72,000	By Inter-depart-mental transfer	60,000	1,20,000	-	1,80,000
To Direct labour	18,000	20,000	-	38,000	By Closing stock	10,000	40,000	10,000	60,000
To Inter-depart-mental transfer	-	60,000	1,20,000	1,80,000					
To Gross profit	10,000	24,000	12,000	46,000					
	70,000	**1,60,000**	**1,70,000**	**4,00,000**		**70,000**	**1,60,000**	**1,70,000**	**4,00,000**

To Salaries and staff welfare	18,000	12,000	6,000	36,000	By Gross profit b/d	10,000	24,000	12,000	46,000
To Rent	6,000	3,600	2,400	12,000	By Net loss	14,000	-	-	14,000
To Net profit	-	8,400	3,600	12,000					
	24,000	**24,000**	**12,000**	**60,000**		**24,000**	**24,000**	**12,000**	**60,000**

Combined Profit and loss account for the year ended 31st March, 2022

	Rs.		Rs.
To Net loss (L)	14,000	Stock reserve b/d	10,000
To Stock reserve	6,000	(M 4,000 + N 6,000)	
(M 3,333 + N 2,667)		Net profit	12,000
(Refer W.N.)		(M 8,400 + N 3,600)	
To Balance transferred to profit and loss account	2,000		
	22,000		**22,000**

Working Notes:

1. **Calculation of Inter Department Transfer**

   (i) From Dept L to Dept M

   Opening Stock + Material Consumed + Direct Labour Cost – Closing Stock

   10,000 + 32,000 + 18,000 -10,000 = 50,000/-

   Profit on transfer is 20% of Cost = Rs. 10,000/-. Hence transfer = Rs. 60,000

   (ii) From Dept M to Dept N

   Opening Stock + Material Consumed + Direct Labour + Inward Transfer – Closing Stock

   16,000 + 40,000 + 20,000 + 60,000 – 40,000 = Rs. 96,000/-

   Profit on transfer = 20% of sale value i.e. 25% of cost price = Rs. 24,000

   Hence, stock transferred to N at a value of Rs. 1,20,000

2. **Calculation of unrealized profit on closing stock**

   (i) Stock reserve of M department

	Rs.
Cost - Material consumed + Direct labour cost	60,000
Transfer from L department	60,000
	1,20,000
Closing Stock of M department	40,000

Proportion of stock of L department = Rs. 40,000 $\times \frac{Rs.60,000}{Rs.1,20,000}$ = Rs. 20,000

Stock reserve =Rs. 20,000 $\times \frac{20}{120}$ = Rs. 3,333 (approx.)

(ii) Stock reserve of N department

	Rs.
Closing Stock (being stock transferred from M department)	10,000
Less: Profit (stock reserve) 10,000 $\times$ 20%	(2,000)
Cost to M department	8,000

Proportion of stock of L department = Rs. 8,000 $\times \frac{Rs.60,000}{Rs.1,20,000}$ = Rs. 4,000

Stock reserve = 4,000 $\times \frac{20}{120}$ = Rs. 667 (approx.)

Total stock reserve = Rs. 2,000 + Rs. 667 = Rs. 2,667

Question 18 : Nov – 2022 – RTP

M/s. Bombay Cotton has 2 Departments Y and Z. The following information is provided for the year ended 31st March, 2022:

Particulars	Department Y (Rs.)	Department Z (Rs.)
Opening Stock	60,000	40,000
Purchases	1,20,000	3,05,400
Wages	70,000	32,000
Sales	3,10,300	3,72,700
Closing Stock	23,700	40,700

Other Expenses are :

Particulars	Amount in (Rs.)
Salaries	30,000
Rent	9,000
Advertisement	24,000
General Expenses	3,000
Depreciation	18,000

All Expenses are to be allocated between the Departments in the ratio of their Gross Profit.

Department Y sells goods to Department Z at a profit of 25% on sales. Department Z sells goods to Department Y at a profit of 28% on cost.

Each Department Manager is entitled to 10% Commission on Net Profit subject to unrealized profit on departmental sales being eliminated.

Stock Transfer during the year from Department Y to Department Z was Rs. 40,000 and from Department Z to Department Y was Rs. 50,000.

Closing Stock includes transfer from Department Y to Department Z Rs. 12,000 and from Department Z to Department Y Rs. 21,200. Opening stocks do not include any inter department transfer.

Prepare Departmental Trading and Profit & Loss Account for the year ended 31st March, 2022.

Solution :

Departmental Trading and Profit & Loss Account in the books of M/s. Bombay Cotton for the year ended 31st March, 2022

Particulars	Department Y (Rs.)	Department Z (Rs.)		Department Y (Rs.)	Department Z (Rs.)
To Opening Stock	60,000	40,000	By Sales	3,10,300	3,72,700
To Purchase	1,20,000	3,05,400	By Transfers	40,000	50,000
To Wages	70,000	32,000	By Closing Stock	23,700	40,700
To Transfers	50,000	40,000			
To Gross Profit c/d	74,000	46,000			
	3,74,000	**4,63,400**		**3,74,000**	**4,63,400**
To Salaries	18,500	11,500	By Gross Profit b/d	74,000	46,000
To Rent	5,550	3,450			
To Advertisement	14,800	9,200			
To General Expenses	1,850	1,150			
To Depreciation (all expenses divided in ratio of 37: 23)	11,100	6,900			
To Net profit c/d	22,200	13,800			
	74,000	**46,000**		**74,000**	**46,000**
To Unrealized profit	3,000	4,638	By Net Profit b/d	22,200	13,800
To Manager's commission	1,920	916			
To Net profit	17,280	8,246			
	22,200	**13,800**		**22,200**	**13,800**

Working notes:

1. Unrealized profit included in the closing stock

Department Y = 21,200 $\times \frac{28}{128}$ = 4,637.50 (rounded off as Rs. 4,638)

Department Z = 12,000 $\times$ 25%= 3,000

2. Calculation of Manager's Commission

Particulars	Department Y (Rs.)	Department Z (Rs.)
Net Profit	22,200	13,800
Less: Stock Reserve	3,000	4,638
	19,200	9,162
Manager's Commission @ 10%	1,920	916

Question 19 : Nov – 2022 – Paper

Grooming Enterprises has 2 Departments, Department A and Department B. Department A manufacture Dyed Thread which is used by Department B for its Clothes product. Total production of Department A is sold to Department B at Cost plus profit.

The following information is provide for year ending 31st March, 2022 :

	Department A Amount in Rs.	**Department B Amount in Rs.**
Opening Stock	1,25,000	4,20,000
Purchases	12,60,000	22,90,000 (Includes purchases from department A
Sales	15,50,000	30,40,000
Wages	1,25,000	5,60,000
Closing Stock	3,47,500	5,36,000

Both Opening and Closing Stock of Department B consist 80% of Department A. Department A earned a Gross Profit of 20% in previous year.

Other information :

(a) Rent paid Rs.60,000.

(b) Carriage outward Rs.540,000.

(c) Other administrative expenses Rs.1,55,000.

You are required to prepare Department Trading and Profit & Loss account for the year ended 31st March, 2022.

Thanks ....

CHAPTER

19 ACCOUNTING FOR BRANCHES INCLUDING FOREIGN BRANCHES

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : May – 2018 – RTP / May – 2021 – RTP

Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit at selling price is constant at 25 per cent throughout the year to 31st March, 2017.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal in 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch in head office.

The following details for the year ended 31st March, 2017 are given as follows:

Particulars	Rs.	Particulars	Rs.
Opening Stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,328
Sales	3,61,280		
Manager's commission paid on account	2,400		

From the above details, you are required to calculate the commission due to manager for the year ended 31st March, 2017.

Solution :

Step 1: Calculation of Deficiency

Branch stock account (at invoice price)

Particulars	Rs.	Particulars	Rs.
To Opening Stock (Rs.74,736 + 1/3 of Rs.74,736)	99,648	By Sales	3,61,280
To Goods sent to Branch A/c (Rs.2,89,680 + 1/3 of Rs.2,89,680)	3,86,240	By Closing Stock	1,23,328
		By Deficiency at sale price [Balancing figure]	

	4,85,888		**4,85,888**

Step 2: Calculation of Net Profit before Commission

Branch account

Particulars	Rs.	Particulars	Rs.
To Opening [Rs.74,736 + 1/3 of Rs.74,736]	99,648	By Sales	3,61,280
To Gross sent to Branch A/c (Rs.2,89,680 + 1/3 of Rs.2,89,680)	3,86,240	By Closing Stock	1,23,328
To Expenses	49,120	By Stock Reserve A/c	24,912
To Stock Reserve A/c (Rs.1,23,328 x 25/100]	30,832	By goods sent to Branch A/c	96,560
To Net Profit - subject to manager's commission	40,240		
	6,06,080		**6,06,080**

Step 3 : Calculation of Commission still due to manager

		Rs.
A	Calculation at 10% profit before charging his commission [Rs.40,240 x 10/100]	4,024
B	Less: 25% of cost of deficiency in stock (25% of (75% of Rs.1,280)	(240)
C	Commission for the year [A-B]	3,784
D	Less: Paid on account	(2,400)
E	Balance due (C-D)	1,384

Question 2 : May - 2018 - Paper

Ayan Ltd. invoices goods to its branch at cost plus $33\frac{1}{3}\%$. From the following particulars prepare Branch Stock Account, Branch Stock Adjustment Account and Branch Profit and Loss Account as they would appear in the books of head office.

	Rs.
Stock at commencement at Branch at invoice Price	3,60,000
Stock at close at Branch at Invoice Price	2,88,000
Goods sent to Branch during the year at invoice price (including goods invoiced at Rs.48,000 to Branch on 31.03.2018 but not received by Branch before close of the year).	24,00,000
Return of goods to head office (invoice Price)	1,20,000
Credit Sales at Branch	1,20,000

Invoice value of goods pilfered	24,000
Normal loss at Branch due to wastage and deterioration of stock (at invoice price)	36,000
Cash Sales at Branch	21,60,000

Ayan closes its books on 31st March, 2018.

Solution :

In the books of Head Office

Branch Stock Account

Particulars	Amount	Particulars	Amount
To Balance b/d	3,60,000	By Bank A/c (cash Sales)	21,60,000
To Goods sent to Branch A/c	24,00,000	By Branch Debtors A/c (Credit Sales)	1,20,000
To Branch Adjustment A/c – balancing fig. (Surplus)***	36,000	By Goods sent to Branch A/c (Returns to H.O.)	1,20,000
		By Branch Adjustment A/c* (Rs.24,000 x 25/100)	6,000
		By Branch P&L A/c * (Cost of Abnormal Loss)	18,000
		By Branch Adjustment A/c** (Invoice price of normal loss)	36,000
		By Balance c/d:	
		In hand	2,88,000
		In transit	48,000
	27,96,000		**27,96,000**

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

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

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

Branch Stock Adjustment Account

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

To Stock Reserve A/c (Rs.3,36,000 x 25/100)	84,000	By Branch Stock A/c (Surplus)	36,000
To Gross Profit t/f to P & L A/c	5,70,000		
	6,96,000		**6,96,000**

Branch Profit and Loss Account

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

Question 3 : Nov – 2018 – RTP

Pass necessary Journal entries in the books of an independent Branch of M/s TPL Sons, wherever required, to rectify or adjust the following transactions:

(i) Branch paid Rs.5,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.

(ii) A remittance of Rs.1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.

(iii) Branch assets accounts retained at head office, depreciation charged for the year Rs.15,000 not recorded by Branch.

(iv) Head Office expenses Rs.75,000 allocated to the Branch, but not yet been recorded by the Branch.

(v) Head Office collected Rs.60,000 directly from a Branch Customer. The intimation of the fact has not been received by the Branch.

(vi) Goods dispatched by the Head office amounting to Rs.50,000, but not received by the Branch till date of reconciliation.

(vii) Branch incurred advertisement expenses of Rs.10,000 on behalf of other Branches, but not recorded in the books of Branch.

(viii) Head office made payment of Rs.16,000 for purchase of goods by branch, but not recorded in branch books.

Solution :

Books of Branch

Journal Entries

			Dr.(Rs.)	Cr.(Rs.)
(i)	Head Office Account	Dr.	5,000	
	To Salaries Account			5,000

	(Being rectification of salary paid on behalf of Head Office)		
(ii)	No entry in Branch Books is required.		
(iii)	Depreciation A/c Dr. To Head Office Account (Being depreciation of assets accounted for)	15,000	15,000
(iv)	Expenses Account Dr. To Head Office Account (Being allocated expenses of Head Office recorded)	75,000	75,000
(v)	Head Office Account Dr. To Debtors Account (Being adjustment entry for collection from Branch Debtors directly by Head Office)	60,000	60,000
(vi)	Goods in-transit Account Dr. To Head Office Account (Being goods sent by Head Office still in-transit)	50,000	50,000
(vii)	Head Office Account Dr. To expenses Account (Being expenditure incurred, wrongly recorded in books)	10,000	10,000
(viii)	Purchases account A/c Dr. To Head Office Account (Being purchases booked)	16,000	16,000

Question 4 : May – 2019 – RTP

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.
	(Rs. in thousands)	
Stock on 1st April, 2017	300	-
Purchases and Sales	800	1,200
Sundry Debtors & 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 Rs.4,20,000 on 31st March, 2018.

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

- On 01.04.2017 @ Rs.55 per US $
- On 31.03.2018 @ Rs.60 per US $
- Average exchange rate for the year @ Rs.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.

Solution :

M/s ABC & Co.

Bangalore Branch Trial Balance in (US $)

as on 31st March, 2018

	Conversion rate per US $ (Rs.)	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

	Rs.		Rs.
To Opening Stock	5,454.55	By Sales	20,689.66
To Purchases	13,793.10	By Closing stock (Rs.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 To Rent, rates and taxes To Sundry charges To Depreciation on computers (US $ 6,000 × 0.6)		By Net Loss	13,778.68
	13,778.68		13,778.68

Balance Sheet of Bangalore Branch
as on 31st March, 2018

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

Question 5 : May – 2019 – Paper

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

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

Additional information :

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

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

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

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

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

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

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

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

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

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

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

Solution :

Revenue Statement
for the year ended 31st March, 2019

	Singapore dollar		Singapore dollar
To Opening Stock	12,000.00	By Sales	47,058.82
To Purchases	31,372.55	By Closing stock	30,000.00
To Wages	21,960.78	(15,60,000/52)	
To Gross profit b/d	11,725.49		
	77,058.82		77,058.82
To Rent, rates and taxes	14,117.65	By Gross profit c/d	11,725.49
To Sundry Expenses	6,274.51	By Net loss b/d	13,466.67
To Depreciation on computers (Singapore dollar 12,000 × 0.4)	4,800.00		
	25,192.16		25,192.16

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

Liabilities	Singapore dollar	Singapore dollar	Assets	Singapore dollar	Singapore dollar
Singapore Office A/c	59,897.43		Computers	12,000.00	
Less: Net Loss	(13,466.67)	46,430.76	Less: Depreciation	(4,800.00)	7,200.00
Sundry creditors		11,538.46	Closing stock		30,000.00

Bills payable		9,230.77	Sundry debtors		15,384.61
			Bank balance		10,000.00
			Bills receivable		4,615.38
		67,199.99			67,199.99

Working Note :

M/s Rani & Co.

Delhi Branch Trial Balance in (Singapore $)

as on 31st March, 2019

			Conversion	**Dr.**	**Cr.**
			rate per Singapore dollar	**Singapore dollar**	**Singapore dollar**
			Rs.		
Stock on 1.4.18	6,00,000.00		50	12,000.00	-
Purchases and sales	16,00,000.00	24,00,000.00	51	31,372.55	47,058.82
Sundry Debtors and Creditors	8,00,000.00	6,00,000.00	52	15,384.61	11,538.46
Bills of exchange	2,40,000.00	4,80,000.00	52	4,615.38	9,230.77
Wages	11,20,000.00		51	21,960.78	-
Rent, rates and taxes	7,20,000.00		51	14,117.65	-
Sundry Expenses	3,20,000.00		51	6,274.51	-
Computers	6,00,000.00		-	12,000.00	-
Bank balance	5,20,000.00		52	10,000.00	-
Singapore office A/c			-		59,897.43
				1,27,725.48	1,27,725.48

Question 6 : Nov – 2019 – RTP

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

		Rs.
Stock at Branch on January 1, 2018		10,000
Branch Debtors on January 1, 2018		4,000
Branch Debtors on Dec. 31, 2018		4,900
Petty cash at branch on January 1, 2018		500
Furniture at branch on January 1, 2018		2,000
Prepaid fire insurance premium on January 1, 2018		150
Salaries outstanding at branch on January 1, 2018		100

Good sent to Branch during the year		80,000
Cash Sales during the year		1,30,000
Credit Sales during the year		40,000
Cash received from debtors		35,000
Cash paid by the branch debtors directly to the Head Office		2,000
Discount allowed to debtors		100
Cash sent to branch for Expenses:		
Rent	2,000	
Salaries	2,400	
Petty Cash	1,000	
Annual Insurance up to March 31, 2019	600	6,000
Goods returned by the Branch		1,000
Goods returned by the debtors		2,000
Stock on December 31,2018		5000
Petty Cash spent by branch		850
Provide depreciation on furniture 10% p.a.		

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

Solution :

Pune Branch Account

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

To Net Profit		78,950	Debtors		650
		1,81,600	Furniture (2,000 - 10% depreciation)		4,900
			Prepaid insurance		1,800
			(1/4 x Rs.600)		150
		1,81,600			**1,81,600**

Working Notes :

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

Question 7 : May – 2020 – RTP

On 31st March, 2019 Chennai Branch submits the following Trial Balance to its Head Office at Lucknow:

Debit Balances	**Rs. 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 Balances	
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 Rs.62 lacs. On 29th March, 2019 the Head Office dispatched goods costing Rs.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 Rs.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.

Solution :

(i) **Books of Branch**

Journal Entries

		Dr.(Rs.)	Cr.(Rs.)
Goods in Transit A/c	Dr.	10	
To Head Office A/c			10
(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 & Loss Account of the Branch for the year ended 31st March, 2019**

		Rs. In lacs		Rs. In lacs
To Opening Stock		60	By Sales	360
To Goods received from			By Closing Stock	62
Head Office	288			
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	Rs. In lacs		Assets	Rs. 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 8 : Nov – 2020 – RTP

M & S Co. of Lucknow has an integral foreign branch in Canberra, Australia. At the end of 31st March 2020, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra branch.

	Lucknow office (Rs. In thousand)		Canberra Branch (Aust. Dollars in thousand)	
	Dr.	Cr.	Dr.	Cr.
Capital		1,500		
Reserves & Surplus		1,500		
Land	500			
Buildings (Cost)	1,000			
Buildings - Accumulated Dep.		200		
Plant and Machinery (Cost)	2,500		200	
Plant and Machinery - Accumulated Dep.		600		130
Debtors/Creditors	280	200	60	30
Stock as on 1- 4-2019	100		20	123
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salaries	75		45	

Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	4,880	4,880	390	390

You are required to convert the Branch Trial Balance given above into rupees by using the following exchange rates:

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

Solution :

M & S Co. Ltd.

Canberra, Australia Branch Trial Balance

As on 31st March 2020

	($ 'thousands)				(Rs.'thousands
	Dr.	**Cr.**	**Conversion rate per $**	**Dr.**	**Cr.**
Plant & Machinery (cost)	200		Rs.46	9,200	
Plant & Machinery (Accumulated Dep.)		130	Rs.46		5,980
Debtors/Creditors	60	30	Rs.53	3,180	1,590
Stock (1.4.2019)	20		Rs.50	1,000	
Cash & Bank Balances	10		Rs.53	530	
Purchase / Sales	20	123	Rs.51	1,020	6,273
Goods received from H.O.	5		Actual	100	
Wages & Salaries	45		Rs.51	2,295	
Rent	12		Rs.51	612	
Office expenses	18		Rs.51	918	
Commission Receipts		100	Rs.51		5,100
H.O. Current A/c		7	Actual		120
				18,855	19,063
Foreign Exchange Loss (bal. fig.)				208	
	390	390		19,063	19,063

Question 9 : Nov – 2020 – Paper

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

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

	Amount (Rs)
Goods received from Head Office at Invoice Price	8,40,000
Goods returned to Head office at Invoice price	60,000
Cash sales for the year 2019 -2020	1,85,000
Credit sales for the year 2019 -2020	6,25,000
Stock at branch as on 1/4/2019 at invoice price	72,000
Debtors at Patna branch as on 1/4/2019	96,000
Cash received from debtors	4,38,000
Discount allowed to debtors	7,500
Goods returned by customers at Patna Branch	14,000
Bad debts written off	5,500
Amount recovered from bad debts previously written off as bad	1,000
Rent, rates & Taxes at branch	24,000
Salaries & Wages at Branch	72,000
Office Expenses (At branch)	9,200
Stock at branch as on 31/3/2020 at cost price	1,25,000

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

Solution :

Branch Stock Account

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

Branch Debtors Account

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

Branch Expenses Account

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

Branch Profit & Loss Account for year ended 31.3.20

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

Branch Stock Adjustment Account for year ended 31.3.20

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

Question 10 : Jan – 2021 – Paper

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

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

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

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

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

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

Solution :

Journal Entries in Books of Branch A

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

Question 11 : July – 2021 – Paper

Manohar of Mohali has a branch at Noida to which the goods are supplied from Mohali but the cost thereof is not recorded in the Head Office books. On 31st March, 2020 the Branch Balance Sheet was as follows:

Liabilities	Rs.	Assets	Rs.
Creditors Balance	62,000	Debtors Balance	2,24,000
Head Office	1,88,000	Building Extension A/c	
		Closed by transfer to H.O. A/c.	-

		Cash at Bank	26,000
	2,50,000		**2,50,000**

During the six months ending on 30.09.2020, the following transactions took place at Noida:

	Rs.		Rs.
Sales	2,78,000	Manager's salary	16,400
Purchases	64,500	Collections from debtors	2,57,000
Wages paid	24,000	Discounts allowed	16,000
Salaries (inclusive of advance of 5,000)	15,600	Discount earned	4,600
General Expenses	7,800	Cash paid to creditors	88,500
Fire Insurance (paid for one year)	11,200	Building Account further payment)	14,000
Remittance to H.O.	52,900	Cash in Hand	5,600
		Cash at Bank	47,000

Set out the Head Office Account in Noida Books and the Branch Balance Sheet as on 30.09.2020. Also give journal entries in the Noida books.

Solution :

Journal of Noida

			Rs.	Rs.
30/9/20	Advance Salary A/c	Dr.	5,000	
	To Salary A/c			5,000
30/9/20	Prepaid Insurance A/c	Dr.	5,600	
	To Insurance			5,600
30/9/20	Head Office A/c.	Dr.	1,44,900	
	To Purchase A/c			64,500
	To Wages A/c			24,000
	To Salary (15,600 – 5,000)			10,600
	To General Expense			7,800
	To Fire insurance (11,200 – 5,600)			5,600
	To Manger salary			16,400
	To Discount Allowed			16,000
30/9/20	Discount earned A/c	Dr.		4,600
	Sales A/c	Dr.		2,78,000
	To Head office A/c			2,82,600
30/9/20	Head Office A/c	Dr.	14,000	
	To Building A/c			14,000

Dr. **Head Office A/c** Cr.

Particulars	Amt.	Assets	Amt.
To Sundry (Rev. A/c)	1,44,900	By Balance b/d.	1,88,000
To Building	14,000	By Sundry (Rev. A/c)	2,82,600
To Cash Remittance	52,900		
To Balance c/d.	2,58,800		
	4,70,600		**4,70,600**

Balance Sheet of Noida on 30/9/2020

Liabilities	Amt.	Assets	Amt.
Head Office A/c	2,58,800	Debtors A/c	2,29,000
Creditors A/c	33,400	Advance Salary	5,000
		Prepaid insurance	5,600
		Building Extension	-
		Cash at Bank	47,000
		Cash in Hand	5,600
	2,92,200		**2,92,200**

Dr. **Debtor A/c** Cr.

Particulars	Amt.	Assets	Amt.
Op.	2,24,000	By Bank A/c	2,57,000
Sales	2,78,000	By Discount Allowed	16,000
		By Balance c/d.	2,29,000
	5,02,000		**5,02,000**

Dr. **Creditor A/c** Cr.

Particulars	Amt.	Assets	Amt.
To Bank	88,500	By Balance b/d.	62,000
To Discount Received	4,600	By Purchase	64,500
To Balance c/d.	33,400		
	1,26,500		**1,26,500**

Question 12 : Nov – 2021 – RTP

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

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

	Amount (Rs.)
Goods received from Head office at Invoice Price	4,20,000
Goods returned to Head office at Invoice Price	30,000
Cash sales for the year 2019-20	92,500
Credit Sales for the year 2019-20	3,12,500
Stock at Branch as on 01-04-2019 at Invoice price	36,000
Sundry Debtors at Patna branch as on 01-04-2019	48,000
Cash received from Debtors	2,19,000
Discount allowed to Debtors	3,750
Goods returned by customer at Patna Branch	7,000
Bad debts written off	2,750
Amount recovered from Bad debts previously written off as Bad	500
Rent, Rates & taxes at Branch	12,000
Salaries & wages at Branch	36,000
Office Expenses (at Branch)	4,600
Stock at Branch as on 31-03-2020 at cost price	62,500

Prepare necessary ledger accounts in the books of Head office by following Stock and Debtors method and ascertain Branch profit.

Solution :

Branch Stock Account

		Rs.			Rs.	Rs.	Rs.
1.4.19	To Balance b/d opening stock)	36,000	31.3.20	By Sales:			
31.3.20	To Goods Sent to Branch A/c	4,20,000		Cash		92,500	
	To Branch P&L	47,000		Credit	3,12,500		
				Less: Return	(7,000)	3,05,500	3,98,000
				By Goods sent to branch -returns			30,000
				By Balance c/d (closing stock)			75,000
		5,03,000					**5,03,000**
1.4.20	To Balance b/d	75,000					

Branch Debtors Account

		Rs.			Rs.
1.4.19	To Balance b/d	48,000	31.3.20	By Cash	2,19,000
31.3.20	To Sales	3,12,500		By Returns	7,000
				By Discounts	3,750

				By Bad debts	2,750
				By Balance c/d	1,28,000
		3,60,500			**3,60,500**
1.4.20	To Balance b/d	1,28,000			

Branch Expenses Account

		Rs.			Rs.
31.3.20	To Salaries & Wages	36,000	31.3.20	By Branch P & L A/c	59,100
	To Rent, Rates & Taxes	12,000			
	To Office Expenses	4,600			
	To Discounts	3,750			
	To Bad Debts	2,750			
		59,100			**59,100**

Branch Profit & Loss Account for year ended 31.3.20

		Rs.			Rs.
31.3.20	To Branch Expenses A/c	59,100	31.3.20	By Branch stock	47,000
	To Net Profit transferred to General P & L A/c	46,900		By Branch Stock Adjustment account	58,500
				By Bad debts recovered	500
		1,06,000			**1,06,000**

Branch Stock Adjustment Account for year ended 31.3.20

		Rs.			Rs.
31.3.20	To Goods sent to branch (30,000x1/6) -returns	5,000	31.3.20	By Balance b/d (36,000 x 1/6)	6,000
	To Branch P & L A/c	58,500		By Goods sent to branch (4,20,000 x 1/6)	70,000
	To Balance c/d (75,000x1/6)	12,500			
		76,000			**76,000**

Question 13 : Dec – 2021 – Paper

Delta Ltd. has a branch at Kanpur. Goods are invoiced from head office to Branch at cost plus 50%. Branch remits all cash received to head office and all expenses are met by head office.

Prepare necessary Ledger accounts in the books of Delta Ltd. under Stock and Debtors system to show profit earned at the branch for the year ending 31st March, 2021.

Following information related to Branch is given :

Stock on 1st April, 2020 (Invoice price)	31,200	Goods returned by Debtors	3,000
Debtors on 1st April, 2020	17,400	Surplus in stock (Invoice price)	600
Goods invoiced at cost	72,000	Expenses at Branch	13,400
Sales at Branch : Cash sales	20,000	Discount allowed to Debtors	700
Credit sales	68,200	Debtors on 31st March, 2021	14,300

Solution :

Books of Delta Ltd.

Kanpur Branch Stock Account

	Rs.		Rs.
To Balance b/d – Opening Stock	31,200	By Bank A/c – Cash Sales	20,000
To Branch Debtors A/c – Sales Return	3,000	By Branch Debtors A/c - Credit Sales	68,200
To Goods sent to Branch A/c (72,000 + 50% of 72,000)	1,08,000	By Balance c/d - Closing stock	54,600
To Surplus in stock	600		
	1,42,800		**1,42,800**

Kanpur Branch Stock Adjustment Account

	Rs.		Rs.
To Branch Profit and Loss Account	28,400	By Balance b/d (1/3 of Rs. 31,200)	10,400
To Balance c/d (1/3 of 54,600)	18,200	By Goods sent to Branch A/c (1/3 of Rs. 1,08,000)	36,000
		By Surplus in stock	200
	46,600		**46,600**

Goods Sent to Branch Account

	Rs.		Rs.
To Kanpur Branch Stock Adjustment A/c	36,000	By Kanpur Branch Stock A/c	1,08,000
To Purchases A/c	72,000		
	1,08,000		**1,08,000**

Branch Debtors Account

	Rs.		Rs.
To Balance b/d	17,400	By Bank (Bal fig.)	67,600
To Branch Stock A/c	68,200	By Branch Expenses A/c (Discount allowed)	700

		By Branch Stock - Sales Returns	3,000
		By Balance c/d	
	85,600		**85,600**

Branch Expenses Account

	Rs.		Rs.
To Bank A/c (expenses)	13,400	By Branch Profit & Loss A/c (Transfer)	14,100
To Branch Debtors A/c (Discount allowed)*	700		
	14,100		**14,100**

Branch Profit & Loss Account for the year ending 31st March 2021

	Rs.		Rs.
To Branch Expenses A/c	14,100	By Branch Adjustment A/c	28,400
To Net Profit	14,700	By surplus in stock (Cost)	400
	28,800		**28,800**

Note: * Discount allowed to debtors may be shown in Branch Profit and Loss account directly instead of transferring it through Branch Expenses account.

Question 14 : May – 2022 – RTP

Mr. Chena Swami of Chennai trades in Refined Oil and Ghee. It has a branch at Salem. He despatches 30 tins of Refined Oil @ Rs. 1,500 per tin and 20 tins of Ghee @ Rs. 5,000 per tin on 1st of every month. The Branch has incurred expenditure of Rs. 45,890 which is met out of its collections; this is in addition to expenditure directly paid by Head Office.

Following are the other details:

	Chennai H.O. Amount (Rs.)	Salem B.O. Amount (Rs.)
Purchases:		
Refined Oil	27,50,000	
Ghee	48,28,000	
Direct Expenses	6,35,800	
Expenses paid by H.O.		76,800
Sales:		
Refined Oil	24,10,000	5,95,000
Ghee	38,40,500	14,50,000
Collection during the year		20,15,000
Remittance by Branch to Head Office		19,50,000

Chennai H.O.		
Balance as on	**1/4/2020 Amount (Rs.)**	**31-03-2021 Amount (Rs.)**
Stock:		
Refined Oil	44,000	8,90,000
Ghee	10,65,000	15,70,000
Building	5,10,800	7,14,780
Furniture & Fixtures	88,600	79,740

Salem Brach Office		
Balance as on	**1/4/2020 Amount (Rs.)**	**31-03-2021 Amount (Rs.)**
Stock:		
Refined Oil	22,500	19,500
Ghee	40,000	90,000
Sundry Debtors	1,80,000	?
Cash in hand	25,690	?
Furniture & Fixtures	23,800	21,420

Additional information:

(i) Addition to Building on 01-04-2020 Rs. 2,41,600 by H.O.

(ii) Rate of depreciation: Furniture & Fixtures @ 10% and Building @ 5% (already adjusted in the above figure)

(iii) The Branch Manager is entitled to 10% commission on Branch profits (after charging his commission).

(iv) The General Manager is entitled to a salary of Rs. 20,000 per month.

(v) General expenses incurred by Head Office is Rs. 1,86,000.

You are requested to prepare Branch Account in the Head Office books and also prepare Chena Swami's Trading and Profit & loss Account (excluding branch transactions) for the year ended 31st March, 2021.

Solution :

In the books of Mr. Chena Swami

Salem Branch Account

	Rs.		**Rs.**
To Balance b/d		By Bank (Remittance to H.O.)	
Opening stock:		By Balance c/d	
Ghee	40,000	Closing stock:	
Refined Oil	22,500	Refined oil	19,500
Debtors	1,80,000	Ghee	90,000
Cash on hand	25,690	Debtors (W.N. 1)	2,10,000

Furniture & fittings	23,800	Cash on hand (W.N. 2)	44,800
To Goods sent to Branch A/c		Furniture & fittings	21,420
Refined Oil (30 x Rs. 1,500x12)	5,40,000		
Ghee (20 x Rs. 5,000 x12)	12,00,000		
To Bank (Expenses paid by H.O.)	76,800		
To Manager's commission in profits 10% (2,26,930x10/110)	20,630		
To Net Profit transferred to General P & L A/c	2,06,300		
	23,35,720		**23,35,720**

Mr. Chena Swami

Trading and Profit and Loss account for the year ended 31st March, 2021

(Excluding branch transactions)

		Rs.		Rs.
To Opening Stock:			By Sales:	
Refined Oil		44,000	Refined Oil	24,10,000
Ghee		10,65,000	Ghee	38,40,500
To Purchases:			By Closing Stock:	
Refined Oil	27,50,000		Refined Oil	8,90,000
Less: Goods sent to Branch	(5,40,000)	22,10,000	Ghee	15,70,000
Ghee	48,28,000			
Less: Goods sent to Branch	(12,00,000)	36,28,000		
To Direct Expenses		6,35,800		
To Gross Profit		11,27,700		
		87,10,500		**87,10,500**
To Manager's Salary		2,40,000	By Gross Profit	11,27,700
To General Expenses		1,86,000	By Branch Profit transferred	2,06,300
To Depreciation				
Furniture (88,600 - 79,740)		8,860		
Building (5,10,800 + 2,41,600 - 7,14,780)		37,620		
To Net profit		8,61,520		
		13,34,000		**13,34,000**

Working Notes:

(1) **Debtors Account :**

	Rs.		Rs.
To Balance b/d	1,80,000	By Cash Collections	20,15,000
To Sales made during the year :		By Balance c/d (Bal. Figure)	2,10,000

Refined oil	5,95,000		
Ghee	14,50,000		
	22,25,000		**22,25,000**

(2) **Branch Cash Account**

	Rs.		Rs.
To Balance b/d	25,690	By Remittance	19,50,000
To Collections	20,15,000	By Exp.	45,890
		By Balance c/d (Bal. Figure)	44,800
	20,40,690		**20,40,690**

Question 15 : May – 2022 – Paper

Walkaway Footwears has its head office at Nagpur and Branch at Patna. It invoiced goods to its branch at 20% less than the list price which is cost plus 100%, with instruction that cash sales were to be made at invoice price and credit sales at catalogue price (i.e. list price).

The following information was available at the branch for the year ended 31st March, 2022.

(Figures in Rs.)

Stock on 1st April, 2021 (invoice price)		12,000
Debtors on 1st April, 2021		10,000
Goods received from head office (invoice price)		1,32,000
Sales: Cash	46,000	
Credit	1,00,000	1,46,000
Cash received from debtors		85,000
Expenses at branch		17,500
Debtors on 31st March, 2022		25,000
Stock on 31st March, 2022 (invoice price)		17,600
Remittances to head office		1,20,000

You are required to prepare Branch Stock Account, Branch Adjustment Account, Branch Profit & Loss Account and Debtor Account for the year ended 31st March, 2022.

Solution :

In the books of walkaway footwears

Patna Branch Stock Account

	Particulars	Amount (Rs.)		Particulars	Amount (Rs.)
1.1.21	To Balance b/d	12,000	31.12.21	By Bank A/c (Cash sales)	46,000
	Goods sent to			By Branch debtors A/c (credit sales)	1,00,000
31.12.21	To Branch A/c	1,32,000	31.12.21	By Shortage in stock A/c	400
	To Branch adjustment A/c	20,000		By Balance c/d	17,600

	(Surplus over invoice price)				
		1,64,000			**1,64,000**

Patna Branch Adjustment Account

	Particulars	Amount (Rs.)		Particulars	Amount (Rs.)
31.12.21	To Stock reserve - Rs. 17,600 x 60/160 (closing stock)	6,600	31.12.21	By Stock reserve – Rs. 12,000 x 60/160 (Opening stock)	4,500
	To Shortage (400x 60/160)	150		By Goods sent to branch A/c	49,500
	To Branch profit & loss A/c (Gross profit)	67,250		(Rs. 1,32,000 x 60/160)	
				By Branch stock A/c	20,000
		74,000			**74,000**

Branch Profit & Loss Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Branch expenses A/c	17,500	By Branch adjustment A/c (Gross Profit)	67,250
To Shortage in stock A/c	250		
To Net profit (transferred to Profit & Loss A/c)	49,500		
	67,250		**67,250**

Branch Debtors Account

	Particulars	Amount (Rs.)		Particulars	Amount (Rs.)
1.1.21	To Balance b/d	10,000	31.12.21	By Bank A/c	85,000
31.12.21	To Branch stock A/c	1,00,000		By Balance c/d (bal. fig.)	25,000
		1,10,000			**1,10,000**

Question 16 : Nov – 2022 – RTP

M & S Co. of Lucknow has a branch(integral foreign operation) in Canberra, Australia. As on 31st March 2022, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.

	Lucknow office (Rs. In thousand)		Canberra Branch (Aust. Dollars in thousand	
	Dr.	**Cr.**	**Dr.**	**Cr.**

Capital		2,000		
Reserves & Surplus		1,000		
Land	500			
Buildings (Cost)	1,000			
Buildings Dep. Reserves		200		
Plant and Machinery (Cost)	2,500		200	
Plant and Machinery Dep. Reserves		600		130
Debtors/Creditors	280	200	60	30
Stock as on 1-4-2021	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salary	75		45	
Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	4,880	4,880	390	390

The following information is also available:

(i) Stock as at 31st March, 2022

Lucknow Rs. 1,50,000

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

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

(iii) Provision is to be made for doubtful debts at 5%

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

You are required to:

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

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

(2) Prepare Trading and Profit and Loss Account for the year ended 31st March 2022 showing to the extent possible H.O. results and Branch results separately.

Solution :

M & S Co. Ltd.

Canberra, Australia Branch Trial Balance as on 31st March 2022

	($ 'thousands)			(Rs. 'thousands)	
	Dr.	Cr.	Conversion rate per $	Dr.	Cr.
Plant & Machinery (cost)	200		Rs. 46	9,200	
Plant & Machinery Dep. Reserve		130	Rs. 46		5,980
Trade receivable/payable	60	30	Rs. 53	3,180	1,590
Stock (1.4.2021)	20		Rs. 50	1,000	
Cash & Bank Balances	10		Rs. 53	530	
Purchase / Sales	20	123	Rs. 51	1,020	6,273
Goods received from H.O.	45		Actual	100	
Wages & Salaries	12		Rs. 51	2,295	
Rent	18		Rs. 51	612	
Office expenses		100	Rs. 51	918	
Commission Receipts		7	Rs. 51		5,100
H.O. Current A/c			Actual		120
				18,855	19,063
Foreign Exchange Loss (bal. fig.)				208	
	390	390		19,063	19,063
Closing stock	3.125		53	165.625*	

Trading and Profit & Loss Account for the year ended 31st March, 2022

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

To Exchange Loss			208.000	By Branch stock reserve			4.000
To Balance c/d			4,668.625				
			4,906.625				**4,906.625**

Working Note:

Calculation of Depreciation

	H.O Rs. '000	Branch Rs.'000
Building – Cost	1,000	
Less: Dep. Reserve	(200)	
	800	
Depreciation @ 10% (A)	80	
Plant & Machinery Cost	2,500	9,200
Less: Dep. Reserve	(600)	(5,980)
	1,900	3,220
Depreciation @ 20% (B)	380	644
Total Depreciation (A+B)	460	644

Question 17 : Nov – 2022 – Paper

Modern Stores of Delhi operates a retail branch at Nagpur. The Head office affects all the purchases and the branch is charged at cost plus 60%. All the cash received by the Nagpur Branch is remitted to Delhi. The Branch expenses are met by the Branch out of an Imprest Account which is reimbursed by the Delhi Head Office every month. The Branch maintain a Sales Ledger and certain essential subsidiary records, but otherwise all branch transactions are recorded at Delhi.

The following branch transactions took place during the year ended 31st March, 2022 :

	Rs.
Goods received from Delhi at Selling Price	1,50,000
Cash Sales	69,000
Goods returned to Delhi at Selling Price	3,000
Credit Sales (Net of returns)	63,000
Authorized Reduction in selling Price of Goods Sold	1,500
Cash Received from Debtors	48,000
Debtors written off as irrecoverable	2,000
Cash Discount allowed to Debtors	1,500

- On 1st April, 2021 the Stock in trade at the Branch at Selling Price amounted to Rs.60,000 and the debtors were Rs.40,000.
- A consignment of goods sent to the Branch on 27th March, 2022 with a Selling Price of Rs.1,800 was not received until 5th April, 2022 and had not been accounted for in stock.
- The Closing Stock at Selling Price was Rs.72,900.

- The expenses relating to the Branch for the year ended 31st March, 2022 amounted to Rs.18,000.

You are required to prepare the Branch Stock Account, Branch Debtors Account, Branch Adjustment Account and Branch Profit and Loss Account maintained at Delhi under Stock and Debtors method. Any stock unaccounted for is to be regarded as normal wastage.

Thanks ....

Rahul Malkan

CHAPTER

20

ACCOUNTS FROM INCOMPLETE RECORDS

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

Question 1 : May - 2018 - RTP / Nov - 2020 - RTP

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

Liabilities	Rs.	Assets	Rs.
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 Rs.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.

Solution :

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

Particulars		Rs.	Particulars	Rs.
To Opening Stock		40,000	By Sales	4,31,250
To Purchases (Working Note)		3,45,000	By Closing Stock	40,000
To Gross Profit c/d (20% on sales)		86,250		
		4,71,250		4,71,250
To Business Expenses		50,000	By Gross Profit b/d	86,250
To Depreciation on:				
Machinery	6,500			
Building	5,000	11,500		
To Net profit		24,750		
		86,250		86,250

Trade Debtors Account

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

Trade Creditors Account

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

Working Note :

	Particulars	Rs.
(i)	Calculation of Rate of Gross Profit earned during previous year	
A	Sales during previous year (Rs.50,000 x 12/2)	3,00,000
B	Purchases (Rs.30,000 x 12/1.5)	2,40,000
C	Cost of Goods Sold (Rs.40,000 + Rs.2,40,000 – Rs.40,000)	2,40,000
D	Gross Profit (A-C)	60,000
E	Rate of Gross Profit $\frac{\text{Rs.}60{,}000}{\text{Rs.}3{,}00{,}000} \times 100$	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
F	Sales for current year [D+E]	4,31,250

Question 2 : Nov – 2018 – RTP

The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and Profit & Loss A/c for the year ended 31st March, 2017 and a Balance Sheet as on that date.

(a) Assets and Liabilities as on :

		in Rs.
Particulars	**1.4.2016**	**31.3.2017**
Furniture	60,000	63,500
Inventory	80,000	70,000
Sundry Debtors	1,60,000	?
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000
Cash in Hand & Bank Balance	12,000	26,250

(b) Cash transaction during the year:

(i) Collection from Debtors, after allowing discount of Rs.15,000 amounted to Rs.5,85,000.

(ii) Collection on discounting of Bills of Exchange, after deduction of discount of Rs.1,250 by bank, totalled to Rs.61,250.

(iii) Creditors of Rs.4,00,000 were paid Rs.3,92,000 in full settlement of their dues.

(iv) Payment of Freight inward of Rs.30,000.

(v) Amount withdrawn for personal use Rs.70,000.

(vi) Payment for office furniture Rs.10,000.

(vii) Investment carrying annual interest of 6% were purchased at Rs.95 (200 shares, face value Rs.100 each) on 1st October 2016 and payment made thereof.

(viii) Expenses including salaries paid Rs.95,000.

(ix) Miscellaneous receipt of Rs.5,000.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to Rs.1,00,000. Of these, bills of exchange of Rs.20,000 were endorsed in favour of creditors. An endorsed bill of exchange of Rs.4,000 was dishonoured.

(d) Goods costing Rs.9,000 were used as advertising material.

(e) Goods are invariably sold to show a gross profit of 20% on sales.

(f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC enterprises.

(g) Provide at 2% for doubtful debts on closing debtors.

Solution :

Trading and Profit and Loss Account of ABC enterprise for the year ended 31st March, 2017

Particulars		Rs.	Particulars	Rs.
To Opening Inventory		80,000	By Sales	6,08,750
To Purchases	4,56,000		By Closing inventory	70,000
Less: For advertising	(9,000)	4,47,000		
To Freight inwards		30,000		
To Gross profit c/d		1,21,750		
		6,78,750		6,78,750
To Sundry expenses		92,000	By Gross profit b/d	1,21,750
To Advertisement		9,000	By Interest on investment	600
To Discount allowed –			(20,000 x 6/100 x $\frac{1}{2}$)	
Debtors	15,000		By Discount received	8,000
Bills Receivable	1,250	16,250	By Miscellaneous income	5,000
To Depreciation on furniture		6,500		
To Provision for doubtful debts		1,455		
To Net profit		10,145		
		1,35,350		1,35,350

Balance Sheet as on 31st March 2017

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital as on 1.4.2016	1,88,000		Furniture (w.d.v.)	60,000	
Less: Drawings	(91,000)		Additions during the year	10,000	
	97,000		Less: Depreciation	(6,500)	63,500
Add: Net Profit	10,145	1,07,145	Investment (200 x 95)		19,000
Sundry creditors		1,50,000	Interest accrued		600
Outstanding expenses		18,000	Closing inventory		70,000
			Sundry debtors	72,750	

			Less: Provision for doubtful debts	1,455	71,295
			Bills receivable		17,500
			Cash in hand and at bank		26,250
			Prepaid expenses		7,000
		2,75,145			2,75,145

Working Notes:

(1) Capital on 1st April, 2016

Balance Sheet as on 1st April, 2016

Liabilities	Rs.	Assets	Rs.
Capital (Bal.fig.)	1,88,000	Furniture (w.d.v.)	60,000
Creditors	1,10,000	Closing Inventory	80,000
Outstanding expenses	20,000	Sundry debtors	1,60,000
		Cash in hand and at bank	12,000
		Prepaid expenses	6,000
	3,18,000		3,18,000

(2) Purchases made during the year

Sundry Creditors Account

Liabilities	Rs.	Assets	Rs.
To Cash and bank A/c	3,92,000	By Balance b/d	1,10,000
To Discount received A/c	8,000	By Sundry debtors A/c	4,000
To Bills Receivable A/c	20,000	By Purchases A/c	4,56,000
To Balance c/d	1,50,000	(Balancing figure)	
	5,70,000		**5,70,000**

(3) Sales made during the year

		Rs.
Opening inventory		80,000
Purchases	4,56,000	
Less: For advertising	(9,000)	4,47,000
Freight inwards		30,000
		5,57,000
Less: Closing inventory		(70,000)
Cost of goods sold		4,87,000
Add: Gross profit (25% on cost)		1,21,750
		6,08,750

(4) Debtors on 31st March, 2017

Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	1,60,000	By Cash and bank A/c	5,85,000
To Sales A/c	6,08,750	By Discount allowed A/c	15,000
To Sundry creditors A/c (bill dishonoured)	4,000	By Bills receivable A/c	1,00,000
		By Balance c/d (Bal. fig.)	72,750
	7,72,750		**7,72,750**

(5) Additional drawings by proprietors of ABC enterprises

Cash and Bank Account

	Rs.		Rs.
To Balance b/d	12,000	By Freight inwards A/c	30,000
To Sundry debtors A/c	5,85,000	By Furniture A/c	10,000
To Bills Receivable A/c	61,250	By Investment A/c	19,000
To Miscellaneous income A/c	5,000	By Expenses A/c	95,000
		By Creditors A/c	3,92,000
		By Drawings A/c [Rs.70,000 + Rs.21,000) (Additional drawings)]	91,000
		By Balance c/d	26,250
	6,63,250		**6,63,250**

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

Sundry Expenses Account

	Rs.		Rs.
To Prepaid expenses A/c (on 1.4.2016)	6,000	By Outstanding expenses A/c (on 1.4.2016)	20,000
To Bank A/c	95,000	By Profit and Loss A/c (Balancing figure)	92,000
To Outstanding expenses A/c (on 31.3.2017)	18,000	By Prepaid expenses A/c (on 31.3.17)	7,000
	1,19,000		**1,19,000**

(7) Bills Receivable on 31st March, 2017

Bills Receivable Account

	Rs.		Rs.
To Debtors A/c	1,00,000	By Creditors A/c	20,000
		By Bank A/c	61,250

		By Discount on bills receivable A/c	1,250
		By Balance c/d (Balancing figure)	17,500
	1,00,000		**1,00,000**

Note: All sales and purchases are assumed to be on credit basis.

Question 3 : Nov – 2018 – Paper

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

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

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

1. Sales for the year ended 31st March, 2018 were 20% higher than the previous year's sales, out of which, 20% sales were for cash. He always sells his goods at cost plus 25%. There were no cash purchases.
2. Collection from debtors amounted to Rs.14,00,000, out of which Rs.3,50,000 was received in cash.
3. Business expenses amounted to Rs.2,00,000, of which Rs.50,000 were outstanding on 31st March, 2018 and Rs.60,000 paid by cheques.
4. Gross profit as per last year's audited accounts was Rs.3,00,000.
5. Provide depreciation on building and furniture at 5% each and motor car at 20%.
6. His private records and the Bank Pass Book disclosed the following transactions for the year 2017-18:

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

Cash withdrawn from bank	1,20,000

7. Stock level was maintained at Rs.3,00,000 all throughout the year.
8. The amount defalcated by the cashier is to be written off to the Profit and Loss Account.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2018 and Balance Sheet as on that date of Aman. All the workings should form part of the answer.

Solution :

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

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

Balance Sheet of Aman as at 31st March, 2018

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

Working Notes :

1. Cash and Bank Account

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

2. Calculation of sales during 2017-18

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

3. Debtors Account

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

4. Creditors Account

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

Question 4 : May – 2019 – RTP

From the following information in respect of Mr. Preet, prepare Trading and Profit and Loss Account for the year ended 31st March, 2018 and a Balance Sheet as at that date:

		31-03-2017	31-03-2018
(1)	Liabilities and Assets	Rs.	Rs.
	Stock in trade	1,60,000	1,40,000
	Debtors for sales	3,20,000	?
	Bills receivable	-	?
	Creditors for purchases	2,20,000	3,00,000
	Furniture at written down value	1,20,000	1,27,000
	Expenses outstanding	40,000	36,000
	Prepaid expenses	12,000	14,000
	Cash on hand	4,000	3,000
	Bank Balance	20,000	1,500
(2)	Receipts and Payments during 2017-2018:		
	Collections from Debtors		
	(after allowing 2-1/2% discount)		11,70,000
	Payments to Creditors		
	(after receiving 2% discount)		7,84,000
	Proceeds of Bills receivable discounted at 2%)		1,22,500
	Proprietor's drawings		1,40,000
	Purchase of furniture on 30.09.2017		20,000
	12% Government securities purchased on 1-10-2017		2,00,000
	Expenses		3,50,000
	Miscellaneous Income		10,000
(3)	Sales are effected so as to realize a gross profit of 50% on the cost.		
(4)	Capital introduced during the year by the proprietor by cheques was omitted to be recorded in the Cash Book, though the bank balance on 31st March, 2018 (as shown above), is after taking the same into account.		
(5)	Purchases and Sales are made only on credit.		
(6)	During the year, Bills Receivable of Rs.2,00,000 were drawn on debtors. out of these, Bills amount to Rs.40,000 were endorsed in favour of creditors. Out of this latter amount, a Bill for Rs.8,000 was dishonoured by the debtor.		

Solution :

Trading and Profit and Loss Account of Mr. Preet
for the year ended 31st March, 2018

	Rs.		Rs.
To Opening stock	1,60,000	By Sales	13,98,000
To Purchases (W.N.5)	9,12,000	By Closing stock	1,40,000

To Gross profit c/d (Bal.fig.)	4,66,000		
	15,38,000		15,38,000
To Expenses (W.N.7)	3,44,000	By Gross profit b/d	4,66,000
To Discount allowed (W.N.9)	32,500	By Discount received (W.N.10)	16,000
To Depreciation on furniture (W.N.1)	13,000	By Interest on Govt. Securities (W.N.8)	12,000
To Net profit	1,14,500	By Miscellaneous income	10,000
	5,04,000		**5,04,000**

Balance Sheet of Mr. Preet as on 31st March, 2018

Liabilities		**Rs.**	**Assets**	**Rs.**
Capital (W.N.6)	3,76,000		Furniture	1,27,000
Add: Additional capital (W.N.2)	1,72,000		12% Government Securities	2,00,000
Add: Profit during the year	1,14,500		Accrued interest on Govt. securities (W.N.8)	12,000
	6,62,500		Debtors (W.N.3)	3,26,000
Less: Drawings	(1,40,000)	5,22,500	Bills Receivable (W.N.4)	35,000
Creditors		3,00,000	Stock	1,40,000
Outstanding expenses		36,000	Prepaid expenses	14,000
			Cash on hand	3,000
			Bank balance	1,500
		8,58,500		8,58,500

Working Notes :

1. **Furniture account**

	Rs.		**Rs.**
To Balance b/d	1,20,000	By Depreciation (bal.fig.)	13,000
To Bank	20,000	By Balance c/d	1,27,000
	1,40,000		**1,40,000**

2. **Cash and Bank account**

	Rs.		**Rs.**
To Balance b/d		By Creditors	7,84,000
Cash	4,000	By Drawings	1,40,000
Bank	20,000	By Furniture	20,000
To Debtors	11,70,000	By 12% Govt. securities	2,00,000
To Bill Receivable	1,22,500	By Expenses	3,50,000

To Miscellaneous income	10,000	By Balance c/d	
To Additional Capital (bal.fig.)	1,72,000	Cash	3,000
		Bank	1,500
	14,98,500		**14,98,500**

3. **Debtors account**

	Rs.		Rs.
To Balance b/d	3,20,000	By Cash and Bank	11,70,000
To Creditors (Bills receivable dishonoured)	8,000	By Discount	30,000
To Sales (W.N.11)	13,98,000	By Bills Receivable	2,00,000
		By Balance c/d (bal.fig.)	3,26,000
	17,26,000		**17,26,000**

4. **Bills Receivable account**

	Rs.		Rs.
To Debtors	2,00,000	By Bank	1,22,500
		By Discount	2,500
		By Creditors	40,000
		By Balance c/d (bal. fig.)	35,000
	2,00,000		**2,00,000**

5. **Creditors Account**

	Rs.		Rs.
To Bank	7,84,000	By Balance b/d	2,20,000
To Discount	16,000	By Debtors (Bills receivable dishonoured)	8,000
To Bills receivable	40,000	By Purchases (bal. fig.)	9,12,000
To Balance c/d	3,00,000		
	11,40,000		**11,40,000**

6. **Balance Sheet as on 1st April, 2017**

Liabilities	**Rs.**	**Assets**	**Rs.**
Creditors	2,20,000	Furniture	1,20,000
Outstanding expenses	40,000	Debtors	3,20,000
Capital (balancing figure)	3,76,000	Stock	1,60,000
		Prepaid expenses	12,000
		Cash	4,000

		Bank balance	20,000
	6,36,000		**6,36,000**

7. **Expenses incurred during the year**

		Rs.
Expenses paid during the year		3,50,000
Add: Outstanding expenses as on 31.3.2018	36,000	
Prepaid expenses as on 31.3.2017	12,000	48,000
		3,98,000
Less: Outstanding expenses as on 31.3.2017	40,000	
Prepaid expenses as on 31.3.2018	14,000	(54,000)
Expenses incurred during the year		3,44,000

8. **Interest on Government securities**

2,00,000 x 12% x 6/12 = Rs.12,000

Interest on Government securities receivables for 6 months = Rs.12,000

9. **Discount allowed**

		Rs.
Discount to Debtors	$\left(\frac{11{,}70{,}000}{97.5\%} \times 2.5\%\right)$	30,000
Discount on Bills Receivable	$\left(\frac{1{,}22{,}500}{98\%} \times 2\%\right)$	2,500
		32,500

10. **Discount received**

		Rs.
Discount to Debtors	$\left(\frac{7{,}84{,}000}{98\%} \times 2\%\right)$	16,000

11. **Credit sales**

Cost of Goods sold = Opening stock + Net purchases – Closing stock
= Rs.1,60,000 + Rs.9,12,000 – Rs.1,40,000
= Rs.9,32,000

Sale price = Rs.9,32,000 + 50% of 9,32,000 = Rs.13,98,000

Question 5 : May – 2019 – Paper

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

	As on 31-03-2018	As on 31-03-2019
	(Rs.)	(Rs.)
Land and Building	2,50,000	2,50,000
Plant and Machinery	1,10,000	1,65,000
Office Equipment	52,500	42,500
Sundry Debtors	77,750	1,10,250
Creditors for Purchases	47,500	?
Provision for office expenses	10,000	7,500
Stock	?	32,500
Long Term loan from ABC Bank @ 10% per annum	62,500	50,000
Bank	12,500	?
Capital	4,65,250	?

Other information was as follows:

	in (Rs.)
Collection from Sundry Debtors	4,62,500
Payments to Creditors for Purchases	2,62,500
Payment of office Expenses	21,000
Salary paid	16,000
Selling Expenses paid	7,500
Total sales	6,25,000
Credit sales (80% of Total sales)	
Credit Purchases	2,70,000
Cash Purchases (40% of Total Purchases)	
Gross Profit Margin was 25% on cost	
Discount Allowed	2,750
Discount Received	2,250
Bad debts	2,250

- Depreciation to be provided as follows:
  - Land and Building - 5% per annum
  - Plant and Machinery - 10% per annum
  - Office Equipment - 15% Per annum
- On 01.10.2018 the firm sold machine having book value, Rs.20,000 (as on 31.03.2018) at a loss of Rs.7,500. New machine was purchased on 01.01.2019.
- Office equipment was sold at its book value on 01.04.2018.
- Loan was partly repaid on 31.03.2019 together with interest for the year.

You are required to prepare:

(i) Trading and Profit & Loss account for the year ended 31st March, 2019.

(ii) Balance Sheet as on 31st March 2019.

Solution :

Trading and Profit and Loss A/c for the year ended 31.3.2019

		Rs.			Rs.
To Opening stock (Balancing figure)		82,500	By Sales- Cash (W.N.1)	1,25,000	
To Purchases-Cash	1,80,000		Credit	5,00,000	6,25,000
Credit (W.N.1)	2,70,000	4,50,000	By Closing stock		32,500
To Gross profit c/d		1,25,000			
		6,57,500			6,57,500
To Loss on sale of Machine		7,500	By Gross profit b/d		1,25,000
To Depreciation			By Discount received		2,250
Land & Building	12,500				
Plant & Machinery	11,875				
Office Equipment	6,375	30,750			
To Expenses paid					
Salary	16,000				
Selling Expenses	7,500				
Office Expenses	18,500	42,000			
To Bed debt		2,250			
To Discount allowed		2,750			
To Interest on loan		6,250			
To Net profit		35,750			
		1,27,250			1,27,250

Balance Sheet as on 31-3-2019

Liabilities		**Rs.**	**Assets**		**Rs.**
Capital (Balancing Figure)	4,65,250		Land & Building	2,50,000	
Add: Net profit	35,750	5,01,000	Less: Depreciation	(12,500)	2,37,500
Sundry creditors (W.N.3)		52,750	Plant & Machinery	1,65,000	
Bank loan		50,000	Less: Depreciation	(10,875)	1,54,125
Provision for expenses		7,500	Office Equipment	42,500	
			Less: Depreciation	(6,375)	36,125
			Debtors		1,10,250
			Stock		32,500
			Bank balance (W.N.4)		40,750
		6,11,250			**6,11,250**

Working Notes :

1. Calculation of Sales and Purchases

Total sales = Rs.6,25,000

Cash sales = 20% of total sales (6,25,000) = Rs.1,25,000

Credit sales = 80% of total sales = (6,25,000) Rs.5,00,000

Gross Profit 25% on cost = 6,25,000 x $\frac{25}{125}$ = Rs.1,25,000 25 125

Credit purchases = Rs.2,70,000

Credit purchases = 60% of total purchases

Cash purchases = 40% of total purchases

Total purchases = $\frac{2,70,000}{60}$ x 100 = Rs.4,50,000

Cash purchases = 4,50,000 – 2,70,000 = Rs.1,80,000

2. Plant & Machinery

	Rs.		Rs.
To Balance b/d	1,10,000	By Sale of Machinery A/c	20,000
To Cash-purchase (Bal. Fig.)	75,000	By Balance c/d	1,65,000
	1,85,000		**1,85,000**

Depreciation on Plant and Machinery :

@ 10% p.a. on Rs.20,000 for 6 months	=	1,000
@ 10% p.a. on Rs.90,000 (i.e. Rs.1,10,000 -Rs.20,000)	=	9,000
@ 10% p.a. on Rs.75,000 for 3 months (i.e. during the year)	=	1,875
		11,875

Sale of Machinery Account

	Rs.		Rs.
To Plant and Machinery	20,000	By Depreciation (20,000 x 10% x 1/2	1000
		By Profit and Loss A/c	7,500
		By Bank (Balancing figure)	11,500
	20,000		20,000

3. Creditors Account

	Rs.		Rs.
To Cash	2,62,500	By Balance b/d	47,500
To Discount received	2,250	By Credit purchases (W.N.2)	2,70,000
To Balance c/d (Bal. Fig.)	52,750		

	3,17,500		**3,17,500**

Debtors Account

	Rs.		Rs.
To Balance b/d (Given)	77,750	By Cash	4,62,500
To Sales (Credit)	5,00,000	By Discount allowed	2,750
		By Bad debts	2,250
		By Balance c/d	1,10,250
	5,77,750		**5,77,750**

Provision for Office Expenses Account

	Rs.		Rs.
To Bank	21,000	By balance b/d	10,000
To balance c/d	7,500	By Expenses. (Bal. fig.)	18,500
	28,500		**28,500**

4. Bank Account

	Rs.		Rs.
To Balance b/d	12,500	By Creditors	2,62,500
To Debtors	4,62,500	By Purchases	1,80,000
To Office Equipment (sales)	10,000	By Expenses	44,500
To Cash sales (W.N.1)	1,25,000	Rs.(16,000 + 7,500 + 21,000)	
To Machine sold	11,500	By Bank loan paid	18,750
		By Machine purchased (W.N.4)	75,000
		By Balance c/d (Bal. Fig.)	40,750
	6,21,500		**6,21,500**

5. Office Equipment Account

	Rs.		Rs.
To balance b/d	52,500	By Sales	10,000
		By balance c/d	42,500
	52,500		**52,500**

Question 6 : Nov – 2019 – RTP

Following is the incomplete information of Jyotishikha Traders:

The following balances are available as on 31.03.2018 and 31.03.2019

Balances	31-03-2018	31-03-2019
Land and Building	5,00,000	5,00,000
Plant and Machinery	2,20,000	3,30,000

Office equipment	1,05,000	85,000
Debtors (before charging for Bad debts)	?	2,25,000
Creditors for purchases	95,000	?
Creditors for office expenses	20,000	15,000
Stock	?	65,000
Long term loan from SBI @ 12%.	1,60,000	100,000
Bank	25,000	?

Other Information	**In Rs.**
Collection from debtors	9,25,000
Payment to creditors for purchases	5,25,000
Payment of office expenses (excluding interest on loan)	42,000
Salary paid	32,000
Selling expenses	15,000
Cash sales	2,50,000
Credit sales (80% of total sales)	
Credit purchases	5,40,000
Cash purchases (40% of total purchases)	
GP Margin at cost plus 25%	
Discount Allowed	5,500
Discount Received	4,500
Bad debts (2% of closing debtors)	
Depreciation to be provided as follows:	
Land and Building	5%
Plant and Machinery	10%
Office Equipment	15%

Other adjustments:

(i) On 01.10.18 they sold machine having Book Value Rs.40,000 (as on 31.03.2018) at a loss of Rs.15,000. New machine was purchased on 01.01.2019.

(ii) Office equipment was sold at its book value on 01.04.2018.

(iii) Loan was partly repaid on 31.03.19 together with interest for the year.

You are required to prepare Trading, Profit & Loss Account and Balance Sheet as on 31.03.2019.

Solution :

In the Books of Jyotishikha Traders

Trading Account for the year ended 31.03.2019

Particulars	**Rs.**	**Particulars**	**Rs.**
To Opening Stock A/c (Bal. fig.)	1,65,000	By Sales (W.N.1)	12,50,000
To Purchases (W.N.2)	9,00,000	By Closing Stock	65,000

To Gross profit (12,50,000 x 25/125)	2,50,000		
	13,15,000		**13,15,000**

Profit and Loss Account for the year ended 31.03.2019

Particulars		Rs.	Particulars	Rs.
To Discount		5,500	By Gross profit	2,50,000
To Salaries Expenses	32,000		By Discount	4,500
To Office expenses (W.N.3)	37,000			
To Selling expenses	15,000	84,000		
To Interest on loan (12% on Rs.1,60,000)		19,200		
To Bad debts (2% of Rs.2,25,000)		4,500		
To Loss on sale of Machinery		15,000		
To Depreciation:				
Land & Building	25,000			
Plant &Machinery (W.N 4b)	23,750			
Office Equipment (W.N. 5)	12,750	61,500		
To Net profit after tax		64,800		
		2,54,500		**2,54,500**

Balance Sheet as on 31.3.2019

Liabilities		Rs.	Assets	Rs.
Capital (W.N. 6)	8,95,500		Land and Building (5,00,000-25,000)	4,75,000
Add: Net Profit	64,800	9,60,300	Plant and Machinery (W.N.4a) (3,30,000-21,750)	3,08,250
Creditors for Purchases (W.N. 8)		1,05,500	Office Equipment (85,000-12,750)	72,250
Outstanding expenses		15,000	Debtors less Bad debts (W.N. 7)	2,20,500
Loan from SBI		1,00,000	Stock	65,000
			Bank Balance (W.N. 9)	39,800
		11,80,800		**11,80,800**

Working Notes :

1. Calculation of Total Sales

	Rs.
Cash Sales	2,50,000
Credit Sales (80% of total sales)	
Cash Sales (20% of total sales)	
Thus total Sales (250000 x 100/20)	12,50,000
Credit Sales (1250000 x 80/100)	10,00,000

2. Calculation of Total Purchases

	Rs.
Credit Purchases	5,40,000
Cash Purchases (40% of total purchases)	
Credit Purchases (60% of total purchases)	
Thus total Purchases (5,40,000 x 100/60)	9,00,000
Cash Purchases 9,00,000 x 40/100)	3,60,000

3. Office Expenses Account

	Rs.		Rs.
To Bank A/c	42,000	By Balance b/d	20,000
To Balance c/d	15,000	By Profit & loss A/c	37,000
	57,000		**57,000**

4. (a) Plant and Machinery Account

	Rs.		Rs.
To Opening balance	2,20,000	By Sale	40,000
To Purchases	1,50,000	By Closing Balance	3,30,000
	3,70,000		**3,70,000**

(b) Depreciation calculations on Plant & Machinery

		Rs.
Depreciation on	1,80,000 x 10% (for full year)	18,000
	1,50,000 x 10% x 3/12 (for 3 months)	3,750
	40,000 x 10% x 6/12 (for 6 months)	2,000
		23,750

(c) Sale of Machinery Account

	Rs.		Rs.
To Plant & Machinery	40,000	By Depreciation	2,000
		By Profit and Loss A/c	15,000

		By Bank	23,000
	40,000		**40,000**

5. **Depreciation calculations on Office Equipments :**

	Rs.
Opening Balance	1,05,000
Less: Closing Balance	85,000
Sale of Office Equipment	20,000
Balance of Office Equipment after sale	85,000
Depreciation @15%	12,750

6. **Opening Balance Sheet as on 31.03.2018**

	Rs.		**Rs.**
Creditors	95,000	Land & Building	5,00,000
Creditor for Exp.	20,000	Plant & Machinery	2,20,000
Loan	1,60,000	Office Equipment	1,05,000
Capital (Bal. fig.)	8,95,500	Debtors	1,55,500
		Stock	1,65,000
		Bank	25,000
	11,70,500		**11,70,500**

7. **Sundry Debtors A/c**

	Rs.		**Rs.**
To Balance b/d	1,55,500	By Bank	9,25,000
To Sales	10,00,000	By Discount	5,500
		By Bad debts	4,500
		By Bal. c/d	2,20,500
	11,55,500		**11,55,500**

8. **Sundry Creditors A/c**

	Rs.		**Rs.**
To Bank	5,25,000	By Balance b/d	95,000
To Discount	4,500	By Purchases	5,40,000
To Balance c/d	1,05,500		
	6,35,000		**6,35,000**

9. **Bank Account**

	Rs.		**Rs.**
To Balance b/d	25,000	By Creditors	5,25,000

To Debtors	9,25,000	By Office Expenses	42,000
To Cash Sales	2,50,000	By Salary Expense	32,000
To Sale of Machinery (W.N. 4c)	23,000	By Selling Expenses	15,000
To Sale of equipment	20,000	By Purchases (cash)	3,60,000
		By Purchase of Machinery	1,50,000
		By Bank Loan & Interest	79,200
		By Balance c/d	39,800
	12,43,000		**12,43,000**

Question 7 : Nov – 2019 – Paper

Archana Enterprises maintain their books of accounts under single entry system. The Balance-Sheet as on 31st March, 2018 was as follows :

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital A/c	6,75,000	Furniture & fixtures	1,50,000
Trade creditors	7,57,500	Stock	9,15,000
Outstanding expenses	67,500	Trade debtors	3,12,000
		Prepaid insurance	3,000
		Cash in hand & at bank	
	15,00,000		**15,00,000**

The following was the summary of cash and bank book for the year ended 31st March, 2019:

Receipts	**Rs.**	**Payments**	**Rs.**
Cash in hand & at Bank 1st April, 2018	1,20,000	Payment to trade creditors	1,24,83,000
Cash sales	1,10,70,000	Sundry expenses paid	9,31,050
Receipts from trade debtors	27,75,000	Drawings	3,60,000
		Cash in hand & at Bank on 31st March, 2019	1,90,950
	1,39,65,000		**1,39,65,000**

Additional Information:

(i) Discount allowed to trade debtors and received from trade creditors amounted to Rs.54,000 and Rs.42,500 respectively (for the year ended 31st March, 2019).

(ii) Annual fire insurance premium of Rs.9,000 was paid every year on 1st August for the renewal of the policy.

(iii) Furniture & fixtures were subject to depreciation @ 15% p.a. on diminishing balance method.

(iv) The following are the balances as on 31st March, 2019:

Stock	Rs.9,75,000
Trade debtors	Rs.3,43,000

Outstanding expenses Rs.55,200

(v) Gross profit ratio of 10% on sales is maintained throughout the year.

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

Solution :

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

	Rs.			Rs.
To Opening Stock	9,15,000	By Sales		
To Purchases (W.N. 2)	125,97,000	Cash	110,70,000	
To Gross profit c/d (10% of 139,30,000)	13,93,000	Credit (W.N. 1)	28,60,000	139,30,000
		By Closing stock		9,75,000
	149,05,000			149,05,000
To Sundry expenses (W.N. 4)	9,18,750	By Gross profit b/d		13,93,000
To Discount allowed	54,000	By Discount received		42,500
To Depreciation (15% Rs.1,50,000)	22,500			
To Net Profit (b.f.)	4,40,250			
	14,35,500			14,35,500

Working Notes :

1. Trade Debtors Account

	Rs.		Rs.
To Balance b/d	3,12,000	By Cash/Bank	27,75,000
To Credit sales (Bal. fig.)	28,60,000	By Discount allowed	54,000
		By Balance c/d	3,43,000
	31,72,000		**31,72,000**

2. Memorandum Trading Account

	Rs.		Rs.
To Opening stock	9,15,000	By Sales	139,30,000
To Purchases (Balancing figure)	125,97,000	By Closing stock	9,75,000
To Gross Profit (10% on sales)	13,93,000		
	149,05,000		149,05,000

3. **Trade Creditors Account**

	Rs.		Rs.
To Cash/Bank	124,83,000	By Balance b/d	7,57,500
To Discount received	42,500	By Purchases (as calculated in W.N. 2)	125,97,000
To Balance c/d (balancing figure)	8,29,000		
	133,54,500		**133,54,500**

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

	Rs.
Sundry expenses paid (as per cash and Bank book)	9,31,050
Add: Prepaid expenses as on 31-3-2018	3,000
	9,34,050
Less: Outstanding expenses as on 31-3-2018	(67,500)
	8,66,550
Add: Outstanding expenses as on 31-3-2019	55,200
	9,21,750
Less: Prepaid expenses as on 31-3-2019 (Insurance paid till July, 2019) (9,000 x 4/12)	(3,000)
	9,18,750

Question 8 : May – 2020 – RTP

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

	31.3.2018	31.3.2019
	Rs.	Rs.
Furniture & 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:

	Rs.
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.

Solution :

Trading & Profit and Loss Account In the books of Mr. Maan
for the year ended 31st March, 2019

	Rs.		Rs.
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		Rs.	Assets	Rs.
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**

	Rs.		Rs.
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**

	Rs.		Rs.
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**

		Rs.
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 $\left[Rs.20,40,000 \times \frac{100}{75}\right]$		27,20,000
Less: Cash sales		16,20,000
Credit sales		11,00,000

4. **Debtors Account**

	Rs.		Rs.
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**

	Rs.
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**

	Rs.		Rs.
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 payable	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**

	Rs.		Rs.
Creditors	1,35,000	Furniture & fixtures	2,60,000
Bills payable	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 9 : Nov – 2020 – Paper

M/s. Rohan & Sons runs a business of Electrical goods on wholesale basis. The books of accounts are closed on 31st March every year. The balance sheet as on 31st March, 2019 is as follows

Liabilities	**Rs**	**Assets**	**Rs**
Capital	12,50,000	Fixed assets	6,50,000
Trade Creditors	1,90,000	Stock	3,75,000
Profit and Loss A/c	1,45,000	Trade Debtors	3,65,000

		Cash and Bank	1,95,000
	15,85,000		**15,85,000**

The management estimates the purchase and sales for the year ended 31st March, 2020 as under

Particulars	Upto 31/1/2020	Feb 2020	March 2020
Purchase	16,20,000	1,40,000	1,25,000
Sales	20,75,000	2,10,000	1,75,000

All sales and Purchase are on credit basis. It was decided to invest Rs.1,50,000 in purchase of Fixed Assets, which are depreciated @ 10% on book value. A fixed assets of book value as on 1/4/2019, Rs 60,000 was sold for Rs 56,000 on 31st March, 2020.

The time lag for payment to trade creditors for purchase is one month and receipt from trade debtors for sales is two months. The business earns a gross profit of 25% on turnover. The expenses against gross profit amounts to 15% of the turnover. The amount of depreciation is not included in these expenses. Prepare trading & Profit & Loss account for the year ending 31st March, 2020 and draft a balance sheet as at 31st March, 2020 assuming that creditors are all trade creditors for purchases and debtors are all trade debtors for sales and there are no other current assets and liabilities apart from stock and cash and bank balance.

Also, prepare cash & bank account and Fixed assets account for the year ending 31st March, 2020.

Solution :

Trading and Profit and Loss Account of M/s Rohan & Sons for the year ended 31st March, 2020

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

Balance Sheet of M/s Rohan Sons as on 31st March, 2020

Liabilities	Rs.	Assets	Rs.
Capital	12,50,000	Fixed assets (less Dep.)	6,66,000
Profit & Loss A/c (1,45,000 + 1,68,000)	3,13,000	Stock	4,15,000
		Debtors	3,85,000

Trade Creditors	1,25,000	Cash and bank	2,22,000
	16,88,000		**16,88,000**

Cash and Bank Account

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

Fixed Assets Account

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

Question 10 : Jan – 2021 – Paper

Mr.Prakash furnishes following information for his readymade garments business :

(i) Receipts and Payments during 2019-20 :

Receipts	**Amount (Rs.)**	**Payments**	**Amount (Rs.)**
Bank Balances as on 1-4-2019	16,250	Payment to Sundry Creditors	3,43,000
Received from Sundry Debtors	4,81,000	Salaries	75,000
Cash Sales	1,70,800	General Expenses	22,500
Capital brought in the business during the year	50,000	Rent and taxes	11,800
Interest on Investment received	9,750	Drawings	96,000
		Cash Purchases	1,22,750
		Balance at Bank on 31.03.2020	36,600
		Cash in hand on 31.03.2020	20,150

	7,27,800		**7,27,800**

(ii) Particulars of other Assets and Liabilities are as follows :

	1st April, 2019 Rs.	31st March, 2020 Rs.
Machinery	85,000	85,000
Furniture	24,500	24,500
Trade Debtors	1,55,000	?
Trade Creditors	60,200	?
Stock	38,600	55,700
12% Investment	85,000	85,000
Outstanding Salaries	12,000	14,000

(iii) Additional information :

(1) 20% of Total sales and 20% of total purchases are in cash.

(2) Of the Debtors, a sum of Rs.7,200 should be written off as Bad debt and further a reserve for doubtful debts is to be provided @ 2%.

(3) Provide depreciation @10% p.a. on Machinery and Furniture.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2020, and Balance Sheet as on that date.

Solution :

Trading and Profit & Loss Account for the year ended 31-03-2020

	Rs.	Rs.		Rs.
To Opening Inventory		38,600	By Sales	8,54,000
To Purchases		6,13,750	By Closing Inventory	55,700
To Gross profit c/d (b.f.)		2,57,350		
		9,09,700		**9,09,700**
To Salaries (75,000+14,000-12,000)		77,000	By Gross Profit b/d	2,57,350
			By Interest on investment (9,750 + 450)	10,200
To Rent		11,800		
To General expenses		22,500		
To Depreciation:				
Machinery @ 10%	8,500			
Furniture @ 10%	2,450	10,950		
To Bad Debts	7,200			
To Provision for doubtful debts	7,000	14,200		

To Balance being profit carried to Capital A/c (b.f.)		1,31,100		
		2,67,550		**2,67,550**

Balance Sheet as on 31st March, 2020

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
A. Adamjee's Capital on 1st April, 2019	3,32,150		Machinery	85,000	
Add: Fresh Capital	50,000		Less: Depreciation	(8,500)	76,500
Add: Profit for the year	1,31,100		Furniture	24,500	
	5,13,250		Less: Depreciation	(2,450)	22,050
Less: Drawings	(96,000)	4,17,250	Inventory-in-trade		55,700
			Sundry debtors	3,57,200	
Sundry creditors		2,08,200	Less: Provision for Doubtful debts	(14,200)	3,43,000
Outstanding expenses		14,000	Investment (including accrued interest Rs. 450)		85,450
			Cash at bank		36,600
			Cash in hand		20,150
		6,39,450			**6,39,450**

Working Notes:

1. Balance sheet as on 1-4-2019

	Rs.		Rs.
Sundry creditors	60,200	Machinery	85,000
Capital (balancing figure)	3,32,150	Furniture	24,500
		Inventory	38,600
Outstanding salaries	12,000	Sundry debtors	1,55,000
		Investments	85,000
		Bank balance (from Cash statement)	16,250
	4,04,350		**4,04,350**

2. Total Debtors Account

		Rs.			Rs.
1.4.19	To Balance b/d	1,55,000	31.3.20	By Cash	4,81,000
31.3.20	To Credit sales (1,70800/20x80)	6,83,200	31.3.20	By Bad debts	7,200
				By Balance c/d (Bal. Fig.)	3,50,000
		8,38,200			**8,38,200**

3. Total Creditors Account

		Rs.			Rs.
31.3.20	To Cash	3,43,000	1.4.19	By Balance b/d	60,200
31.3.20	To Balance c/d (Bal. Fig.)	2,08,200	31.3.20	By Credit Purchases (1,22,750/20 x 80)	4,91,000
		5,51,200			**5,51,200**

Question 11 : May – 2021 – RTP

Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained Rs. 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	As on 1.4.2020	As on 31.3.2021
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?
Ram's capital	3,00,000	?

Analysis of his bank pass book reveals the following information:

(a) Payment to creditors Rs. 7,00,000

(b) Payment for business expenses Rs. 1,20,000

(c) Receipts from debtors Rs. 7,50,000

(d) Loan Rs. 1,00,000 taken on 1.10.2020 at 10% per annum

(e) Cash deposited in the bank Rs. 1,00,000

He informs you that he paid creditors for goods Rs. 20,000 in cash and salaries Rs. 40,000 in cash. He has drawn Rs. 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales. All purchases are on credit basis. You are required to prepare: Trading and Profit and Loss Account for the year ended 31.3.2021 and Balance Sheet as at 31st March, 2021.

Solution :

Trading and Profit and Loss Account of Ram
for the year ended 31st March, 2021

	Rs.			Rs.
To Opening stock	2,80,000	Sales		
To Purchases	7,70,000	Cash	2,40,000	
To Gross Profit @ 25%	3,10,000	Credit	10,00,000	12,40,000

		Closing Stock (bal.fig.)	1,20,000
	13,60,000		**13,60,000**
To Salaries	40,000	Gross Profit	3,10,000
To Business expenses	1,20,000		
To Interest on loan	5,000		
(10% of 1,00,000 x 6/12)			
To Net Profit	1,45,000		
	3,10,000		**3,10,000**

Balance Sheet of Ram as at 31st March, 2021

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	1,45,000		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000
Less: Drawings	(80,000)	3,65,000		
Loan (including interest due)		1,05,000		
Sundry Creditors		90,000		
		5,60,000		**5,60,000**

Working Notes:

1. Sundry Debtors Account

	Rs.		**Rs.**
To Balance b/d	1,00,000	By Bank A/c	7,50,000
To Credit sales (Bal. fig)	10,00,000	By Balance c/d	3,50,000
	11,00,000		**11,00,000**

2. Sundry Creditors Account

	Rs.		**Rs.**
To Bank A/c	7,00,000	By Balance b/d	40,000
To Cash A/c	20,000	By Purchases (Bal. fig.)	7,70,000
To Balance c/d	90,000		
	8,10,000		**8,10,000**

3. Cash and Bank Account

	Cash Rs.	**Bank Rs.**		**Cash Rs.**	**Bank Rs.**
To Balance b/d	10,000		By Balance b/d		50,000
To Sales (bal. fig)	2,40,000		By Bank A/c (C)	1,00,000	

To Cash (C)		1,00,000	By Salaries	40,000	
To Debtors		7,50,000	By Creditors	20,000	7,00,000
To Loan		1,00,000	By Drawings	80,000	
			By Business expenses		1,20,000
			By Balance c/d	10,000	80,000
	2,50,000	**9,50,000**		**2,50,000**	**9,50,000**

Question 12 : July – 2021 – Paper

Mr.Arun runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 0200 was as follows :

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital A/c.	5,05,000	Furniture	50,000
Creditors	1,02,500	Closing Stock	3,50,000
		Debtors	1,25,000
		Cash in Hand	35,000
		Cash at Bank	47,500
	6,07,500		**6,07,500**

You are furnished with following information :

(1) His sales, for the year ended 31st March, 2021 were 20% higher than the sales of previous year, out of which 20% sales was cash sales
Total Sales during the year 2019-20 were Rs.6,25,000.

(2) Payments for all the purchases were made by cheques only.

(3) Goods were sold for cash and credit both. Credit customers pay by cheques only.

(4) Deprecation on furniture is to be charged 10/. p.a.

(5) Mr.Arun sen, to the bank the collection of the month at the last date of each month after paying salary of Rs.2,500 to die clerk, office expanses Rs.1,500 and personal expanses Rs.625.

Analysis of bank pass book for the year ending 31st March, 2021 disclosed the following:

	Rs.
Payment to creditors	3,75,000
Payment to rent up to 31st March, 2021	20,000
Cash deposited into bank during the year	1,00,000

The following are the balances on 31st March, 2021 :

	Rs.
Stock	2,00,000
Debtors	1,50,000
Creditors for goods	1,82,500

On the evening of 31st March, 2021, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c. for the year ended 31st March, 2021 and Balance Sheet as on that date. All the working should form part of the answer.

Solution :

Mr.Arjun Sen

Trading and Profit and Loss A/c for the year ended 31/3/2021

Particulars	Amount	Particulars		Amount
To Opening stock	3,50,000	By Sales		
To Purchase	4,55,000	Cash	1,50,000	
To Gross profit	1,45,000	Credit	6,00,000	7,50,000
		By Closing stocks		2,00,000
	9,50,000			**9,50,000**
To Dep. On furniture	5,000	By Gross profit		1,45,000
To Salary (2,500 × 12)	30,000			
To office Exp. (1,500 × 12)	18,000			
To Rent	20,000			
To Loss by theft	9,500			
To Net Profit	62,500			
	1,45,000			**1,45,000**

Balance Sheet as on 31/3/21

Liabilities		Amount.	Assets		Amount
Capital	5,05,000		Furniture	50,000	
– Drawings	7,500		Depreciation 10%	5,000	45,000
+ Net profit	72,000		Stocks		2,00,000
	62,500	5,60,000	Debtor		1,50,000
Creditor		1,82,500	Bank		3,47,500
		7,42,500			**7,42,500**

Dr. Creditor Cr.

Particulars	Amt.	Particulars	Amt.
To Bank	3,75,000	By Balance b/d.	1,02,500
To Balance c/d.	1,82,500	By Purchase	4,55,000
	5,57,500		**5,57,500**

Dr. Debtor Cr.

Particulars	Amt.	Particulars	Amt.
To Balance b/d.	1,25,000	By Bank A/c	5,75,000
To Sales	6,00,000	By Balance c/d.	1,50,000

	7,25,000		**7,25,000**

Dr. **Cash/bank Account** **Cr.**

Particulars	Cash	Bank	Particulars	Cash	Bank
To Balance b/d.	35,000	47,500	By Salary	30,000	-
To Sales	1,50,000	-	By Rent	18,000	-
To Cash	-	1,00,000	By Drawings	7,500	-
To Debtor	-	5,75,000	By Creditor	-	3,75,000
			By Rent	20,000	-
			By Bank	1,00,000	-
			By Loss by theft	9,500	-
			By Bal. c/d.	-	3,47,500
	1,85,000	**7,22,500**		**1,85,000**	**7,22,500**

Working note :

Sales for 2019 – 20 = 6,25,000

Sales for 2020 – 21 = 6,25,000 + 20% = 7,50,000

Cash sales = 7,50,000 × 20% = 1,50,000

Credit sales = 7,50,000 – 1,50,000 = 6,00,000

Question 13 : Nov – 2021 – RTP

From the following details furnished by Mittal ji, prepare Trading and Profit and Loss account for the year ended 31.3.2021. Also draft his Balance Sheet as at 31.3.2021:

	1.4.2020 Rs.	**31.3.2021 Rs.**
Creditors	3,15,400	2,48,000
Expenses outstanding	12,000	6,600
Plant and Machinery	2,32,200	2,40,800
Stock in hand	1,60,800	2,22,400
Cash in hand	59,200	24,000
Cash at bank	80,000	1,37,600
Sundry debtors	3,30,600	?
Details of the year's transactions are as follows:		
Cash and discount credited to debtors		12,80,000
Returns from debtors		29,000
Bad debts		8,400
Sales (Both cash and credit)		14,36,200
Discount allowed by creditors		14,000
Returns to creditors		8,000
Capital introduced by cheque		1,70,000
Collection from debtors (Deposited into bank after receiving cash)		12,50,000
Cash purchases		20,600

Expenses paid by cash		1,91,400
Drawings by cheque		8,600
Machinery acquired by cheque		63,600
Cash deposited into bank		1,00,000
Cash withdrawn from bank		1,84,800
Cash sales		92,000
Payment to creditors by cheque		12,05,400

Note: Mittalji has not sold any machinery during the year.

Solution :

In the books of Mittal ji
Trading and Profit and Loss Account
for the year ended 31st March, 2021

	Rs.	Rs.		Rs.	Rs.
To Opening stock		1,60,800	By Sales:		
To Purchases:			Cash	92,000	
Cash	20,600		Credit	13,44,200	
Credit (W.N. 3)	11,60,000			14,36,200	
	11,80,600		Less: Returns	29,000)	14,07,200
Less: Returns	(8,000)	11,72,600			
To Gross Profit c/d		2,96,200	By Closing stock		2,22,400
		16,29,600			16,29,600
To Discount allowed		30,000	By Gross profit b/d		2,96,200
To Bad debts		8,400	By Discount		14,000
To General expenses (W.N. 5)		1,86,000			
To Depreciation (W.N. 4)		55,000			
To Net profit		30,800			
		3,10,200			**3,10,200**

Balance Sheet as at 31st March, 2021

Liabilities		Rs.	**Assets**		Rs.
Capital (W.N. 1)	5,35,400		Plant & Machinery	2,32,200	
Add: Additional capital	1,70,000		Add: New machinery	63,600	
Net profit	30,800			2,95,800	
	7,36,200		Less: Depreciation	(55,000)	2,40,800
Less: Drawings	(8,600)	7,27,600	Stock in trade		2,22,400
Sundry creditors		2,48,000	Sundry debtors (W.N.2)		3,57,400
Expenses outstanding		6,600	Cash in hand		24,000
			Cash in Bank		1,37,600
		9,82,200			**9,82,200**

Working Notes:

(1) **Statement of Affairs as at 31st March, 2020**

Liabilities	Rs.	Assets	Rs.
Sundry creditors	3,15,400	Plant & Machinery	2,32,200
Outstanding expenses	12,000	Stock	1,60,800
Mittal's Capital (Balancing figure)	5,35,400	Debtors	3,30,600
		Cash in hand	59,200
		Cash at Bank	80,000
	8,62,800		**8,62,800**

(2) **Sundry Debtors Account**

	Rs.		Rs.
To Balance b/d	3,30,600	By Cash	12,50,000
To Sales	13,44,200	By Discount	30,000
(14,36,200 – 92,000)		By Returns (sales)	29,000
		By Bad debts	8,400
		By Balance c/d (Bal. fig.)	3,57,400
	16,74,800		**16,74,800**

(3) **Sundry Creditors Account**

	Rs.		Rs.
To Bank – Payments	12,05,400	By Balance b/d	3,15,400
To Discount	14,000	By Purchases credit	11,60,000
To Returns	8,000	(Balancing figure)	
To Balance c/d (closing balance)	2,48,000		
	14,75,400		**14,75,400**

(4)

Depreciation on Plant & Machinery:	**Rs.**
Opening balance	2,32,200
Add: Additions	63,600
	2,95,800
Less: Closing balance	(2,40,800)
Depreciation	55,000
Expenses (in cash)	1,91,400
Add: Outstanding of 2021	6,600
	1,98,000
Less: Outstanding of 2020	12,000
	1,86,000

(5) Expenses to be shown in profit and loss account

Expenses (in cash)	1,91,400
Add: Outstanding of 2021	6,600
	1,98,000
Less: Outstanding of 2020	12,000
	1,86,000

(6) Cash and Bank Account

	Cash Rs.	Bank Rs.		Cash Rs.	Bank Rs.
To Balance b/d	59,200	80,000	By Purchases	20,600	
To Capital		1,70,000	By Expenses	1,91,400	
To Debtors		12,50,000	By Plant and Machinery		63,600
To Bank	1,84,800		By Drawings		8,600
To Cash		1,00,000	By Creditors		12,05,400
To Sales	92,000		By Cash		1,84,800
			By Bank	1,00,000	
			By Balance c/d	24,000	1,37,600
	3,36,000	**16,00,000**		**3,36,000**	**16,00,000**

Question 14 : Dec – 2021 – Paper

A Company sold 20% of the Goods on Cash Basis and the balance on Credit basis. Debtors are allowed 1.5 month's credit and their balance as on 31st March, 2021 is Rs.1,50,000. Assume that sale is evenly spread throughout the year.

Purchases during the year Rs.9,50,000

Closing stock is Rs.10,000 less than the Opening Stock. Average stock maintained during the year Rs.60,000.

Direct Expenses amounted to Rs.35,000.

Calculate Credit sales, Total sales and Gross profit for the year ended 31st March, 2021.

Solution :

Calculation of Credit Sales, Total Sales and Gross Profit

Credit Sales for the year ended 31st March, 2021 = Debtors x $\frac{12 \text{ months}}{1.5 \text{ months}}$

= Rs. 1,50,000 x $\frac{12 \text{ months}}{1.5 \text{ months}}$

= Rs. 12,00,000

Total sales for the year ended 2020 -21 $= \text{Credit sales} \times \frac{100\%}{80\%}$

$= \text{Rs. } 12,00,000 \times \frac{100\%}{80\%}$

= Rs. 15,00,000

Trading Account for the year ended 31st March, 2021

	Rs.		Rs.
To Opening stock	65,000	By Sales	15,00,000
To Direct expenses	35,000	By Closing Stock	55,000
To Purchases	9,50,000		
To Gross profit	5,05,000		
	15,55,000		**15,55,000**

Working Note:

Calculation of opening stock and closing stock

If closing stock is x then opening stock is x + 10,000

Average stock Rs. 60,000

Average stock = Opening stock + Closing stock /2

Thus Opening stock is Rs. 65,000 and closing stock is Rs. 55,000.

Question 15 : May – 2022 – RTP

The following is the Balance Sheet of Mr. Kumar as on 31st March, 2020:

Equity and Liabilities	Rs.	Assets	Rs.
Capital Account	4,10,000	Machinery	1,60,000
Sundry Creditors for purchases	60,000	Furniture	35,000
		Stock	25,000
		Debtors	1,45,000
		Cash in Hand	25,000
		Cash at Bank	80,000
	4,70,000		**4,70,000**

Riots occurred and fire broke out on the evening of 31st March, 2021, destroying the books of account and furniture. The cash available in the cash box was stolen.

The trader gives you the following information:

(i) Sales are 25% for cash and the balance on credit. His total sales for the year ended 31st March, 2021 were 25% higher than the previous year. All the sales and purchases of goods were evenly spread throughout the year (as also in the last year).

(ii) Terms of credit

Debtors 2 Months

Creditors 1 Month

(iii) Stock level was maintained at Rs. 25,000 all throughout the year.

(iv) A steady Gross Profit rate of 25% on the turnover was maintained throughout the year. Creditors are paid by cheque only, except for cash purchases of Rs. 60,000.

(v) His private records and the Bank Pass-book disclosed the following transactions for the year.

a.	Miscellaneous Business expenses	Rs. 1,85,500 (including Rs. 20,000 paid by cheque)
b.	Travelling expenses	Rs. 24,000 (paid by cash)
c.	Addition to Machinery	Rs. 1,00,000 (paid by cheque) (on 1st April, 2020)
d.	Private drawings	Rs. 10,000 (paid by cash)
e.	Introduction of additional capital by deposited into the Bank	Rs. 25,000

(vi) Collection from debtors were all through cheques.

(vii) Depreciation on Machinery is to be provided @ 15% p.a.

(viii) The Cash stolen is to be charged to the Profit and Loss Account,

(ix) Loss of furniture is to be adjusted from Capital Account.

Prepare Trading, Profit and Loss Account for the year ended 31st March, 2021 and a Balance Sheet as on that date.

Solution :

Trading and Profit and Loss Account of Mr. Kumar for the year ended 31st March, 2021

	Rs.		Rs.
To Opening Stock	25,000	By Sales	14,50,000
To Purchases	10,87,500	By Closing Stock	25,000
To Gross Profit c/d	3,62,500		
	14,75,000		**14,75,000**
To Business Expenses	1,85,500	By Gross Profit b/d	3,62,500
To Repairs	4,000	By Net loss	14,000
To Depreciation (WDV basis)	39,000		
To Travelling Expenses	20,000		
To Loss by theft	1,28,000		
	3,76,500		**3,76,500**

Balance Sheet of Mr. Kumar as at 31st March, 2021

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	4,10,000		Machinery	1,60,000	
			Add: additions	1,00,000	
				2,60,000	
Add: Additional Capital	25,000		Less: Dep. @ 15%	(39,000)	2,21,000

Less: Net Loss	(14,000)		Stock in Trade		25,000
	4,56,000		Sundry Debtors		1,81,250
Less: Loss of Furniture	(35,000)		Bank		34,375
Drawings	(10,000)	3,76,000			
Sundry Creditors		85,625			
		4,61,625			**4,61,625**

Working Notes :

1	Sales during 2020-2021	Rs.
	Debtors as on 31st March, 2020	1,45,000
	(Being equal to 2 months' sales)	
	Total credit sales in 2019- 2020, Rs. 1,45,000 × 6	8,70,000
	Cash Sales, being equal to 1/3rd of credit sales or 1/4th of the total	2,90,000
	Sales in 2019-2020	11,60,000
	Increase, 25% as stated in the problem	2,90,000
	Total sales during 2020-2021	14,50,000
	Cash sales: 1/4th	3,62,500
	Credit sales: 3/4th	10,87,500
2	Purchases	
	Sales in 2020-2021	14,50,000
	Gross Profit @ 25%	3,62,500
	Cost of goods sold being purchases (no change in stock level)	10,87,500
3	Debtors equal to two months credit sales	1,81,250
4	Sundry Creditors for goods	
	(Rs. 10,87,500 – Rs. 60,000) /12 = Rs. 10,27,500/12	85,625
5	Collections from Debtors	
	Opening Balance	1,45,000
	Add: Credit Sales	10,87,500
		12,32,500
	Less: Closing Balance	(1,81,250)
		10,51,250
6	Payment to Creditors	
	Opening Balance	60,000
	Add: Credit Purchases (Rs. 10,87,500 – Rs. 60,000)	10,27,500
		10,87,500
	Less: Closing Balance	(85,625)
	Payment by cheque	10,01,875

7. Cash and Bank Account

	Cash	Bank		Cash	Bank
To Balance b/d	25,000	80,000	By Payment to Creditors	60,000	10,01,875
To Collection from Debtors	-	10,51,250	By Misc. Expenses	1,75,500	10,000
To Sales	3,62,500	-	By Addition to Machinery	-	1,00,000
To Additional Capital	-	50,000	By Travelling Expenses	24,000	-
			By Private Drawings	10,000	-
			By Loss by theft	1,18,000	-
			By Balance c/d		69,375
	3,87,500	**11,81,250**		**3,87,500**	**11,81,250**

Question 16 : May – 2022 – Paper

Stevie and Alicia arc in partnership sharing profits profits losses equally. They maintain their books on Single Entry System.

The following balances are available from their books as on 31.3.2021 and 31.3.2022:

Particulars	31.3.2021 Rs.	31.3.2022 Rs.
Building	3,00,000	3,00,000
Equipment	4,80,000	5,44,000
Furniture	50,000	50,000
Debtors	?	2,00.000
Creditors	1,30,000	?
Stock	?	1,40,000
Bank loan	90,000	70,000
Cash	1,20,000	?

The transactions during the year ended 31.3.2022 were the following :

	Rs.
Collection from Debtors	7,60,000
Payment to Creditors	5,00,000
Expenses Paid	80,000
Drawings by Stevie	60,000
Discount allowed	11,000
Discount received	9,600

Other information:

(i) On 1.4.2021, an equipment of book value Rs.40,000 was sold for Rs.30,000. On 1.10.2021, some more equipment were purchased.
(ii) Cash sales amounted to 10% of total sales.
(iii) Credit sales amounted to Rs.9,00,000.
(iv) Credit purchases were 80% of total purchases.
(v) Cash Purchases amounted to Rs.1,30,000.
(vi) The firm sells goods at cost plus 25%
(vii) Outstanding expenses were Rs.6,000 as on 31.3.2022
(viii) Capital of Stevie as on 31.3.2021 was Rs.30,000 more than the capital of Alicia, equipment and furniture to be depreciated at 10% p a. and building @ 2% p.a. (apply depreciation of new equipment for $\frac{1}{2}$ year)

You are required to prepare:

(i) Trading and Profit and Loss Account for the year ended 31.3.2022 and;
(ii) The Balance Sheet as on that date.

Solution :

Trading and Profit and Loss A/c for the year ended 31.3.2022

		Rs.			Rs.
To Opening stock (W.N.3)		2,90,000	By Sales - Cash (W.N.1)	1,00,000	
To Purchases-Cash	1,30,000		Credit	9,00,000	10,00,000
Credit (W.N.2)	5,20,000	6,50,000	By Closing stock		1,40,000
To Gross profit c/d		2,00,000			
		11,40,000			11,40,000
To Loss on sale of equipment (40,000-30,000)		10,000	By Gross profit b/d		2,00,000
To Depreciation			By Discount received		9,600
Building	6,000				
Furniture	5,000				
Equipment (W.N.4)	49,200	60,200			
To Expenses paid	80,000				
Add: Outstanding expenses	6,000	86,000			
To Discount allowed		11,000			
To Net profit transferred to:					
Stevie's capital A/c	21,200				
Alicia's capital A/c	21,200	42,400			
		2,09,600			**2,09,600**

Balance Sheet as on 31st March, 2022

Equity and Liabilities		Rs.	Assets		Rs.
Stevie's capital (W.N.7)	5,60,500		Building	3,00,000	
Less: Drawings	(60,000)		Less: Depreciation	(6,000)	2,94,000
	5,00,500		Equipment	5,44,000	

Add: Net profit	21,200	5,21,700	Less: Depreciation	(49,200)	4,94,800
Alicia's capital (W.N.7)	5,30,500		Furniture	50,000	
Add: Net profit	21,200	5,51,700	Less: Depreciation	(5,000)	45,000
Sundry creditors (W.N.5)		1,40,400	Debtors		2,00,000
Bank loan		70,000	Stock		1,40,000
Outstanding expenses		6,000	Cash balance (W.N.8)		1,16,000
		12,89,800			**12,89,800**

Working Notes:

1. Calculation of total sales

Cash sales = 10% of total sales

Credit sales = 90% of total sales = Rs. 9,00,000

Total sales = $\frac{9,00,000}{90} \times 100$ = 10,00,000

Cash sales = 10% of 10,00,000 = Rs. 1,00,000

2. Calculation of total purchases

Cash purchases = Rs. 1,30,000

Credit purchases = 80% of total purchases

Cash purchases = 20% of total purchases

Total purchases = $\frac{1,30,000}{20} \times 100$ = Rs. 6,50,000

Credit purchases = 6,50,000 – 1,30,000 = Rs. 5,20,000

3. Calculation of opening stock

Stock Account

	Rs.		**Rs.**
To Balance b/d (Bal. Fig.)	2,90,000	By Cost of goods sold $\frac{10,00,000}{125} \times 100$	8,00,000
To Total purchases (W.N.2)	6,50,000	By Balance c/d	1,40,000
	9,40,000		**9,40,000**

4. Purchase of equipment & depreciation on equipment

Equipment Account

	Rs.		**Rs.**
To Balance b/d	4,80,000	By Cash -equipment sold	30,000
To Cash-purchase (Bal. Fig.)	1,04,000	By Profit and Loss Account (Loss on sale)	10,000
		By Balance c/d	5,44,000
	5,84,000		**5,84,000**

Depreciation on equipment:

@ 10% p.a. on Rs. 4,40,000 (i.e. Rs. 4,80,000 – Rs. 40,000)	=	44,000
@ 10% p.a. on Rs. 1,04,000 for 6 months (i.e. during the year)	=	5,200
		49,200

5. **Calculation of closing balance of creditors**

Creditors Account

	Rs.		Rs.
To Cash	5,00,000	By Balance b/d	1,30,000
To Discount received	9,600	By Credit purchases (W.N.2)	5,20,000
To Balance c/d (Bal. Fig.)	1,40,400		
	6,50,000		**6,50,000**

6. **Calculation of opening balance of debtors**

Debtors Account

	Rs.		Rs.
To Balance b/d (Bal. Fig.)	71,000	By Cash	7,60,000
To Sales (Credit)	9,00,000	By Discount allowed	11,000
		By Balance c/d	2,00,000
	9,71,000		**9,71,000**

7. **Calculation of capital accounts of Stevie & Alicia as on 31.3.2021**

Balance Sheet as on 31.3.2021

Liabilities	**Rs.**	**Assets**	**Rs.**
Combined Capital Accounts of Stevie & Alicia (Bal. Fig.)	10,91,000	Building	3,00,000
Creditors	1,30,000	Equipment	4,80,000
Bank Loan	90,000	Furniture	50,000
		Debtors (W.N.6)	71,000
		Stock (W.N.3)	2,90,000
		Cash balance	1,20,000
	13,11,000		**13,11,000**

	Rs.
Combined Capitals of Stevie & Alicia	10,91,000
Less: Difference in capitals of Stevie & Alicia	(30,000)
	10,61,000

Stevie's capital as on 31.3.2021= $\frac{10,61,000}{2}$ = 5,30,500 + 30,000 = Rs. 5,60,500

Alicia's capital as on 31.3.2021 = $\frac{10,61,000}{2}$ = Rs. 5,30,500

8. **Cash Account**

	Rs.		Rs.
To Balance b/d	1,20,000	By Creditors	5,00,000
To Debtors	7,60,000	By Purchases	1,30,000
To Equipment (sales)	30,000	By Expenses	80,000
To Cash sales (W.N.1)	1,00,000	By Stevie's drawings	60,000
		By Bank loan paid (90,000-70,000)	20,000
		By Equipment purchased (W.N.4)	1,04,000
		By Balance c/d (Bal. Fig.)	1,16,000
	10,10,000		**10,10,000**

Question 17 : Nov – 2022 – RTP

Aman, a readymade garment trader, keeps his books of account under single entry system. On the closing date, i.e. on 31st March, 2021 his statement of affairs stood as follows:

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

Riots occurred and a fire broke out on the evening of 31st March, 2022, destroying the books of accounts. On that day, the cashier had absconded with the available cash. You are furnished with the following information:

1. Sales for the year ended 31st March, 2022 were 20% higher than the previous year's sales, out of which, 20% sales were for cash. He always sells his goods at cost plus 25%. There were no cash purchases.
2. Collection from debtors amounted to Rs. 14,00,000, out of which Rs. 3,50,000 was received in cash.
3. Business expenses amounted to Rs. 2,00,000, of which Rs. 50,000 were outstanding on 31st March, 2022 and Rs. 60,000 paid by cheques.

4. Gross profit as per last year's audited accounts was Rs. 3,00,000.
5. Provide depreciation on building and furniture at 5% each and motor car at 20%.
6. His private records and the Bank Pass Book disclosed the following transactions for the year 2021-22:

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

7. Stock level was maintained at Rs. 3,00,000 all throughout the year.
8. The amount defalcated by the cashier is to be written off to the Profit and Loss Account.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2022 and Balance Sheet as on that date of Aman. All the workings should form part of the answer.

Solution :

Trading and Profit and Loss Account of Aman
for the year ended 31st March, 2022

		Rs.		Rs.
To Opening Stock		2,00,000	By Sales	18,00,000
To Purchases (Bal. fig.)		15,40,000	By Closing Stock	3,00,000
To Gross Profit c/d		3,60,000		
		21,00,000		**21,00,000**
To Business Expenses		2,00,000	By Gross Profit b/d	3,60,000
To Repairs		10,000		
To Depreciation :				
Building	16,250			
Machinery	2,500			
Motor Car	18,000	36,750		
To Travelling Expenses		15,000		
To Loss by theft (cash defalcated)		20,000		
To Net Profit		78,250		
		3,60,000		**3,60,000**

Balance Sheet of Aman as at 31st March, 2022

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	4,80,000		Building	3,25,000	
Add:			Less: Depreciation	(16,250)	3,08,750
Net Profit	78,250		Furniture	50,000	

Drawings	(75,000)	4,83,250	Less: Depreciation	(2,500)	47,500
Loan		1,50,000	Motor car	90,000	
Sundry Creditors		4,75,000	Less: Depreciation	(18,000)	72,000
Outstanding business Expenses		50,000	Stock in Trade		3,00,000
			Sundry Debtors		2,10,000
			Bank Balance		2,20,000
		11,58,250			**11,58,250**

Working Notes:

1. Cash and Bank Account

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

2. Calculation of sales during 2021-22

	Rs.
Gross profit (last year i.e. for year ended 31.3.2021	3,00,000
Goods sold at cost plus 25% i.e. 20% of sales	15,00,000
Sales for 2020-21 3,00,000/0.2	18,00,000
Sales for 2021-22 (15,00,000 x 1.2)	14,40,000
Credit sales for 2021-22	(80% of 18,00,000)

3. Debtors Account

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

4. **Creditors Account**

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

Question 18 : Nov – 2022 – Paper

Ramesh had Rs.3,30,000 in the bank account on 1st January, 2021 when he started his business. He closed his accounts on 31st march, 2022. His single-entry books (in which he did not maintain any bank account for the bank) showed his position as follows :

	31.03.2021 Rs.	31.03.2021 Rs.
Stock	20,900	31,900
Debtors	1,100	3,200
Cash	2,200	3,300
Creditors	5,500	4,300

On and from 1st February 2021, he began drawings at Rs.770 per month for his personal expenses from the cash box for the business. His account with the bank had the following entries :

	Deposits Rs.	Withdrawals Rs.
1.1.2021 to 31.3.2021	–	2,45,300
1.4.2021 to 31.3.2022	2,53,000	2,97,000

- The above withdrawals included payment by cheque of Rs.2,20,000 and Rs.66,000 during the period from 1st January, 2021 to 31st March, 2021 and from 1st April, 2021 to 31st March, 2022 respectively for the purchase of Machines for the business.
- The deposits after 1st January, 2021 consisted wholly of sale proceeds received from the customers by cheques.
- On customer (Suresh) had directly deposited a cheque of Rs.2,700 on 25th March, 2022 into bank account of Ramesh. Ramesh has no knowledge of this and this cheque is not include in the deposits for the period 1st April, 2021 to 31st March, 2022 given above.

You are required to draw up Ramesh;s Statement of affairs as at 31st March, 2021 and 31st March, 2022 respectively and work out his Profit or Loss for the year ended 31st March, 20221 and 31st March, 2022.

Thanks ....

About The Author

Rahul Malkan is a proficient faculty of Financial Reporting and Strategic Financial Management at CA Final level. He is an MBA in business financial. He has 20 years of experience in teaching industry and has authored 20 books in academics.

A good mentor for students and guides them to the path of success by assisting in other subjects as well.