Test Paper 1 - Solution

National Test Series

Subject: Accounting.

Marks: 100 Marks **Duration:** 3 Hrs.

Question 1.

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

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

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

(5 Marks)

Solution :-

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

'The company values its inventory at lower of cost and net 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. 2014-15, the company has changed to weighted average method, which better reflects the consumption pattern of inventory, for ascertaining inventory costs from the earlier practice of using FIFO for the purpose. The change in policy has reduced current profit and value of inventory by Rs. 16,000.

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

(5 Marks)

Solution:-

As per AS 2 (Revised), abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred.

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

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

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

= Rs1,052.6315

Total value of inventory= 4,700 MT x Rs. 1,052.6315

= Rs. 49,47,368.

(C) Opportunity Ltd. purchased an equipment costing Rs. 24,00,000 on 1.4.2015 and the same was fully financed by foreign currency loan (US Dollars) payable in four annual equal installments. Exchange rates were 1 Dollar = Rs. 60.00 and Rs. 62.50 as on 1.4.2015 and 31.3.2016 respectively. First installment was paid on 31.3.2016. The entire difference in foreign exchange has been capitalized. You are required to state that how these transactions would be accounted for.

(5 Marks)

Solution:-

As per AS 11 'The Effects of Changes in Foreign Exchange Rates', exchange differences arising on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, should be recognized as income or expenses in the period in which they arise. Thus, exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets will be recognized as income or expense.

Calculation of Exchange Difference:

Foreign Currency Loan =	Rs.24,00,000/60= 40,000 US Dollars
Exchange Difference=	40,000 US Dollars x (62.50-60.00)= Rs. 1,00,000

(including exchange loss on payment of first installment)

Therefore, entire loss due to exchange differences amounting Rs. 1,00,000 should be charged to profit and loss account for the year.

Note: The above answer has been given on the basis that the company has not availed the option for capitalization of exchange difference as per paragraph 46/ 46A of AS 11.

However, as per paragraph 46A of the standard, the 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, in so far as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and should be depreciated over the balance life of the asset.

Accordingly, in case Opportunity Ltd. opts for capitalizing the exchange difference, then the entire amount of exchange difference of Rs. 1,00,000 will be capitalized to 'Equipment account'. This capitalized exchange difference will be depreciated over the useful life of the asset.

Initial cost of equipment Rs.24,00,000

Add: Exchange Difference Rs.1,00,000

Total cost on the reporting date Rs.25,00,000

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

(i) Construction of sealink across two cities (work was held up totally for a month during the year due to high water levels)	: Rs. 25 crores
(ii) Purchase of equipments and machineries	: Rs. 3 crores
(iii) Working capital	: Rs. 2 crores
(iv) Purchase of vehicles	: Rs. 50,00,000
(v) Advance for tools/cranes etc.	: Rs. 50,00,000
(vi) Purchase of technical know-how	: Rs. 1 crores
(vii) Total interest charged by the bank for the year ending 31st March, 2017	: Rs. 80,00,000

Show the treatment of interest by Amazing Construction Ltd.

(5 Marks)

Solution:-

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

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred.

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

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

Question 2.

(A) 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 and 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 and advances	58,500	
Profit and 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 ` 55,000 are due for more than six months.
3. The cost of building and plant & machinery is ` 5,50,000 and ` 6,25,000 respectively.
4. The loan from State Financial Corporation is secured by hypothecation of plant & machinery. The balance of ` 2,10,000 in this account is inclusive of ` 10,000 for interest accrued but not due.
5. Balance at Bank included ` 15,000 with Aakash Bank Ltd., which is not a scheduled bank.

(10 Marks)

Solution:-

Prashant Ltd.
Balance sheet as on 31st March, 2019

		Particulars	**Notes**	**Rs.**
		Equity and Liabilities		
1.		**Shareholder's 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**
		Assets		
1.		**Non-current assets**		
		Property, Plant and machinery	6	15,95,000
2.		**Current assets**		

	a	Inventories		3,15,000
	b	Trade receivables	7	2,95,000
	c	Cash and bank balance	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)	1,50,000	
	Less: calls in arrears	(5,000)	14,95,000
2.	Reserves and Surplus		
	General Reserve		2,70,000
	Profit and 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 and machinery		
	Land		5,50,000
	Building	5,50,000	
	Less: Depreciation (b.f.)	(65,000)	4,85,000
	Plant and machinery	6,25,000	
	Less: Depreciation (b.f.)	(65,000)	5,60,000
			15,95,000
7.	Trade receivables		
	Outstanding for a period exceeding six months		55,000
	Other amounts		2,40,000
	Total		2,95,000

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

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

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

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

(1) 12% Debentures Account

(2) Debenture Redemption Reserve Account

(3) Debenture Redemption Investments Account.

(10 Marks)

Solution:-

12% Debentures Account

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

Debenture redemption Reserve Account

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

Debenture redemption Investments A/c

Date	Particulars	Amount	Date	Particulars	Amount
1st April 20X1	To Balance b/d	2,00,000	30th March 20X2	By Bank A/c (2,000 × 100 × 15%) (Refer Working Note 2)	30,000
1st April	To Bank A/c (Refer	40,000	30th March	By bank A/c (Refer	2,10,000

20X1	working Note 1)		20X2	Working Note 3)	
		2,40,000			2,40,000

Working Note 1:

Debenture Redemption Investment A/c

The company would be required to invest an amount equivalent to 15% of the value of the debentures in specified investments which would be equivalent to:

= Total No of debentures X Face value per debenture X 15%

= 16,000 X 100 X 15%

= Rs.2,40,000/-

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

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

Working Note 2:

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

Since the company purchased 2,000 own debentures on 31 March 20X2, the company would also realize the investments of 15% corresponding to these debentures for which computation is as follows:

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

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

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

Working Note 3:

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

The remaining debentures i.e. total debentures less own debentures would be redeemed on 31 March 20X2 and hence the company would also realize the balance investments of 15% corresponding to these debentures for which computation is as follows:

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

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

= Rs. 2,10,000/-

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

Question 3.

(A) The partners of Shri Enterprises decided to convert the partnership firm into a Private Limited Company Shreya (P) Ltd. with effect from 1st January, 2018. However, company could be incorporated only on 1st June, 2018. The business was continued on behalf of the company and the consideration of 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, 2018 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2019 and presents you the following summarized profit and loss account:

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

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

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

(10 Marks)

Solution:-

Shreya (P) Limited
Profit and Loss Account
for 15 months ended 31st March, 2019

	Pre. inc. (5 Months) (Rs.)	**Post. inc. (10 Months) (Rs.)**		**Pre. inc. (5 Months) (Rs.)**	**Post. inc. (10 Months) (Rs.)**
To cost of sales	1,80,000	10,08,000	By sales (W.N.1)	3,00,000	16,80,000
To Gross profit	1,20,000	6,72,000			

	3,00,000	16,80,000		3,00,000	16,80,000
To discount to dealers	7,000	39,200	By gross profit	1,20,000	6,72,000
To director's remuneration	-	60,000	By loss	750	
To salaries (W.N.2)	18,750	71,250			
To Rent (W.N.3)	15,000	1,20,000			
To Interest (W.N.4)	30,000	75,000			
To Depreciation	10,000	20,000			
To Office expenses	35,000	70,000			
To preliminary expenses	-	15,000			
ToSales promotion expenses	5,000	28,000			
To net profit	-	1,73,550			
	1,20,750	6,72,000		1,20,750	6,72,000

Working Notes:

1. **Calculation of sales ratio:**

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

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

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

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

Total Sales <u>28.0x</u>

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

2. **Calculation of ratio for salaries**

Let the average salary be x

Pre-incorporation salary = x X5=5x

Post incorporation salary

June, 2018 =

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

<u>19X</u>

Ratio id 5 : 19

3. calculation of rent **Rs.**

	Rs.	
Total rent	1,35,000	
Less: Additional rent for 9 months @ Rs. 10,000 p.m.		90,000
Rent of old premises apportioned in time ratio		45,000

Apportionment	Pre inc.	Post. inc.
Old Premises rent	15,000	30,000
Additional Rent	_____	90,000
	15,000	1,20,000

4. Calculation of interest

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

$$\left(\frac{6,00,000 \times 12 \times 5}{100 \times 12}\right) = \text{Rs. } 30,000$$

post incorporation period from June, 2018 to March, 2019

$$\left(\frac{9,00,000 \times 10 \times 10}{100 \times 12}\right) = \text{Rs. } 75,000$$

Rs. 1,05,000

(B) The Balance Sheet of Harry Ltd. for the year ending 31st March, 2018 and 31st March, 2017 were summarized 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 wasRs.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.

(10 Marks)

Solution:-

Harry Ltd.
Cash Flow Statement
for the year ended 31st March, 2018

	Rs.	**Rs.**
Cash flows from operating activities		
Net Profit before taxation	8,000	
Adjustments for:		
Depreciation (1,000 + 2,000 +5,000)	8,000	
Profit on sale of Investment	(8,000)	
Profit on sale of car	(1,400)	
Operating profit before working capital changes	6,600	
Increase in Trade receivables	(2,000)	
Increase in inventories	(6,000)	

Increase in Trade payables	3,000	
Cash generated from operations	1,600	
Income taxes paid	(2,000)	
Net cash generated from operating activities (A)		(400)
Cash flows from investing activities		
Sale of car	3,400	
Purchase of car	(16,000)	
Sale of Investment	10,000	
Purchase of Investment	(6,000)	
Purchase of Furniture & fixtures	(14,000)	
Net cash used in investing activities (B)		(22,600)
Cash flows from financing activities		
Issue of shares for cash	20,000	
Dividends paid*	(2,000)	
Net cash from financing activities(C)		18,000
Net decrease in cash and cash equivalents (A + B +C)		(5,000)
Cash and cash equivalents at beginning of period		17,000
Cash and cash equivalents at end of period		12,000

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

Working Notes:

1. **Calculation of Income taxes paid**

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

2. **Calculation of Fixed assets acquisitions**

	Furniture & Fixtures (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.

(A) Gopal holds 2,000, 15% Debentures of Rs. 100 each in Ritu Industries Ltd. as on April 1, 2015 at a cost of Rs. 2,10,000. Interest is payable on June, 30 and December, 31 each year. On May 1, 2015, 1,000 debentures are purchased cum-interest at Rs. 1,07,000. On November 1, 2015, 1,200 debentures are sold ex-interest at Rs. 1,14,600. On November 30, 2015, 800 debentures are purchased ex-interest at Rs. 76,800. On December 31, 2015, 800 debentures are sold cum-interest for Rs. 1,10,000. You are required to prepare the Investment Account showing value of holdings on March 31, 2016 at cost, using FIFO Method.

(10 Marks)

Solution:-

Investment Account of Gopal
For the year ended 31.3.2016
(Script: 15% Debentures in Ritu Industries Ltd.)
(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.
1.04.15	To Balance A/c	2,00,000	7,500	2,10,000	30.06.15	By Bank A/c	-	22,500	
1.05.15	To Bank A/c	1,00,000	5,000	1,02,000	1.11.15	By Bank A/c	1,20,000	6,000	1,14,600
30.11.15	To Bank A/c	80,000	5,000	76,800	1.11.15	By Profit & Loss A/c	-	-	11,400
31.12.15	To profit and loss A/c			20,000	31.12.15	By bank A/c	80,000	6,000	1,04,000
31.03.16	To profit and loss A/c (Bal. fig.)		37,250		31.12.15	By Bank A/c	-	13,500	-
					31.12.15	By bank A/c	-	6,750	-
					31.3.16	By Bal. c/d	1,80,000	-	1,78,800
		3,80,000	54,750	4,08,800			3,80,000	54,750	4,08,800

Working Notes:

(i) Accrued Interest as on 1st April, 2015 = Rs. 2,00,000 x $\frac{15}{100} \times \frac{3}{12}$ = Rs.7,500

(ii) Accrued Interest as on 1.5.2015 = Rs. 1,00,000 x $\frac{15}{100} \times \frac{4}{12}$ = Rs.5,000

(iii) Cost of Investment for purchase on 1st May = Rs. 1,07,000 – Rs. 5,000 = Rs. 1,02,000

(iv) Interest received as on 30.6.2015 = Rs. 3,00,000 x $\frac{15}{100} \times \frac{6}{12}$ = Rs. 22,500

(v) Accrued Interest on debentures sold on 1.11.2015

= Rs. 1,20,000 x $\frac{15}{100} \times \frac{4}{12}$ = Rs. 6,000

(vi) Accrued Interest = Rs. 80,000 x $\frac{15}{100} \times \frac{5}{12}$ = Rs. 5,000

(vii) Accrued Interest on sold debentures 31.12.2015 = Rs. 80,000 x $\frac{15}{100} \times \frac{6}{12}$ = Rs. 6,000

(viii) Sale Price of Investment on 31st Dec. = Rs. 1,10,000-Rs. 6,000 = Rs. 1,04,000

(ix) Loss on Sale of Debenture on 1.1.2015

Sale Price of debenture	1,14,600
Less: Cost Price of debenture	
$\frac{2,10,000}{2,00,000}$ x Rs.1,20,000	<u>1,26,000</u>
Loss on sale	11,400

(x) Accrued interest as on 31.12.2015 = Rs. 1,80,000 x $\frac{15}{100} \times \frac{6}{12}$ = Rs. 13,500

(xi) Accrued Interest = Rs. 1,80,000 x $\frac{15}{100} \times \frac{3}{12}$ = Rs. 6,750

(xii) Cost of investment as on 31st March = Rs. 1,02,000 + Rs. 76,800 = Rs. 1,78,800

(xiii) Profit on debentures sold on 31st December

= Rs. 1,04,000 –(Rs. 2,10,000 x 800/2,000) =Rs. 20,000.

(B) 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.

(10 Marks)

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 ofRs. 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.

(A) 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.)	1500	1,250	1,000
Number of employees in each	25	20	15

Department			
Electricity consumed by each Department (in units)	300	200	100

Additional Information:

	Amount (Rs.)
Carriage inwards	1,500
Carriage outward	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%.

(10 Marks)

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	Deptt.Y	Deptt.Z	Total	Particulars	Deptt.X	Deptt.Y	Deptt.Z	Total
		Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	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)

(B) On 31st December, 2016 the following balances appeared in the books of Kolkata Branch of an English firm having its HO office in New York:

	Amount in Rs.	**Amount inRs.**
Stock on 1st Jan., 2016	2,34,000	
Purchases and Sales	15,62,500	23,43,750
Debtors and Creditors	7,65,000	5,10,000
Bills Receivable and Payable	2,04,000	1,78,500
Salaries and Wages	1,00,000	-
Rent, Rates and T axes	1,06,250	-
Furniture	91,000	-
Bank A/c	5,68,650	
New York Account	-	5,99,150
	36,31,400	**36,31,400**

Stock on 31st December, 2016 was Rs. 6,37,500.

Branch account in New York books showed a debit balance of \$ 13,400 on 31st December, 2016 and Furniture appeared in the Head Office books at \$ 1,750.

The rate of exchange on 31st December, 2015 was Rs. 52 and on 31st December, 2016 was Rs. 51. The average rate for the year was Rs. 50.

Prepare in the Head Office books the Profit and Loss a/c and the Balance Sheet of the Branch.

(10 Marks)

Solution:-

In the books of English Firm (Head Office in New York)
Kolkata Branch Profit and Loss Account
for the year ended 31st December, 2016

	$		$
To Opening stock	4,500	By Sales	46,875
To Purchases	31,250	By Closing stock (6,37,500 / 51)	12,500
To Gross profit c/d	23,625		
	59,375		59,375
To Salaries	2,000	By Gross profit b/d	23,625
To rent, rates and taxes	2,125		
To exchange translation loss	2,000		
To net profit c/d	17,500		
	23,625		**23,625**

Balance Sheet of Kolkata Branch

as on 31st December, 2016

Liabilities	$	$	Assets	$
Head Office A/c	13,400		Furniture	1,750
Add : Net profit	17,500	30,900	Closing Stock	12,500
Trade creditors		10,000	Trade Debtors	15,000
Bills Payable		3,500	Bills Receivable	4,000
			Cash at bank	11,150
		44,400		**44,400**

Working Note:

Require for calculation of Exchange Translation Loss
Kolkata Branch Trial Balance (converted in $)
as on 31st December, 2016

	Dr.	Cr.	Conversion	Dr.	Cr.
	Rs.	Rs.	rate	($)	($)
Stock on 1st Jan., 2016	2,34,000		52	4,500	
Purchases & Sales	15,62,500	23,43,750	50	31,250	46,875
Debtors & creditors	7,65,000	5,10,000	51	15,000	10,000
Bills Receivable and Bills Payable	2,04,000	1,78,500	51	4,000	3,500
Salaries and wages	1,00,000		50	2,000	
Rent, Rates and T axes	1,06,250		50	2,125	

Furniture	91,000			1,750	
Bank A/c	5,68,650		51	11,150	
New York Account		5,99,150			13,400
Exchange translation loss (bal. fig.)				2,000	
	36,31,400	**36,31,400**		**73,775**	**73,775**

Question 6.

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

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

Additional Information:

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

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

(5 Marks)

Solution:-

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

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

Balance Sheet as at 31st March, 20X2

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

(B) 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.

(5 Marks)

Solution:-

Journal Entries in the books of Manoj Ltd.

			₹	₹
1-4-20X1	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated….)			
20-4-20X1	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital redemption reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to shareholders			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 20X1 (after bonus issue)

	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
Issued and subscribed capital	
24,000 12% Preference shares of 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

(C) Om Ltd. purchased a machine on hire purchase basis from Kumar Machinery Co. Ltd. on the following terms:

a) Cash price Rs. 80,000
b) Down payment at the time of signing the agreement on 1.1.20X1 Rs. 21,622.
c) 5 annual installments of Rs. 15,400, the first to commence 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 cash installment.

(5 Marks)

Solution:-

Calculation of interest

	Total (Rs.)	**Interest in each installment (1)**	**Cash price in each installment (2)**
Cash price	80,000		
Less: Down payment	(21,622)	Nil	Rs.21,622
Balance due after down payment	58,378		
Interest/cash price of 1st installment	-	Rs.58,378x10/100 = Rs.5,838	Rs.15,400 - Rs.5,838 = Rs.9,562
Less: cash price of 1st installment	(9,562)		
Balance due after 1st installment	48,816		
Interest/cash price of 2nd installment	-	Rs.48,816x10/100	Rs.15,400- Rs.4,882
		= Rs.4,882	= Rs.10,518
Less:Cash prize of 2nd installment	(10,518)		
Balance due after 2nd installment	38,298		
Interest/cash price of 3rd installment	-	Rs.38,298x10/100	Rs.15,400 - Rs.3,830
		= Rs.3,830	= Rs.11,570
Less:Cash price of 3rd installment	(Rs.11,570)		
Balance due after 3rd installment	26,728		
Interest/cash price of 4th installment	-	Rs.26,728x10/100	Rs.15,400- Rs.2,672
		= Rs.2,672	= Rs. 12,728
Less: cash price of 4th installment	(12,728)		
Balance due after 4th installment	14,000		
Interest/cash price of 5th installment	-	Rs.14,000x10/100	Rs.15,400-Rs.1,400

		= Rs.1,400	= 14,000
Less:Cash price of 5th installment	(14,000)		
Total	Nil	Rs. 18,622	Rs. 80,000

Total interest can also be calculated as follow:

(Down payment+installments) – Cash Price = Rs. [21,622+(15400 x 5)] – Rs. 80,000 = Rs. 18,622

(D) The Income Tax Officer, on assessing the income of Shri Moti for the financial years 2015-2016 and 2016-2017 feels that Shri Moti has not disclosed the full income. He gives you the following particulars of assets and liabilities of Shri Moti as on 1st April, 2015 and 1st April, 2017.

				Rs.
1-4-2015	Assets	:	Cash in hand	25,500
			Inventory	56,000
			Sundry debtors	41,500
			Land and Building	1,90,000
			Wife's Jewellery	75,000
	Liabilities	:	Owing to Moti's Brother	40,000
			Sundry creditors	35,000
1-4-2017	Assets	:	Cash in hand	16,000
			Inventory	91,500
			Sundry debtors	52,500
			Land and Building	1,90,000
			Motor Car	1,25,000
			Wife's Jewellery	1,25,000
			Loan to Moti's Brother	20,000
	Liabilities	:	Sundry creditors	55,000

During the two years the domestic expenditure was Rs. 4,000 p.m. The declared income of the financial years were Rs. 1,05,000 for 2015-2016 and Rs. 1,23,000 for 2016-2017 respectively.

State whether the Income-tax Officer's contention is correct. Explain by giving your workings.

(5 Marks)

Solution:-

Capital Account of Shri Moti

		1-4-2015		**1-4-2017**
		Rs.	**Rs.**	**Rs.**
Assets				
Cash in hand		25,500		16,000
Inventory		56,000		91,500
Sundry debtors		41,500		52,500
Land & Building		1,90,000		1,90,000
Wife's Jewellery		75,000		1,25,000
Motor car		-		1,25,000
Loan to moti's Brother		-		20,000
		3,88,000		6,20,000
Liabilities:	40,000		-	
Owing to Moti's Brother Sundry Creditors Capital	35,000	75,000	55,000	55,000
		3,13,000		5,65,000
Income during the two years:				
Capital as on 1-4-2017				5,65,000
Add: Drawings – Domestic Expenses for the two years (Rs. 4,000 × 24 months)				96,000
				6,61,000
Less: Capital as on 1-4-2015				(3,13,000)
				3,48,000
Income earned in 2015-2016 and 2016-2017 Income declared (Rs. 1,05,000 + Rs.1,23,000)				2,28,000
Suppressed Income				1,20,000

The Income-tax officer's contention that Shri Moti has not declared his true income is correct. Shri Moti's true income is in excess of the disclosed income by Rs. 1,20,000.

Also Don't forget to fill the feedback form:

https://docs.google.com/forms/d/13yDq2pvHR0SApyRJ4KYK_GU-GXYUcgE67rpcOesuIv0/edit

Contact Details

Call: 9228446565

Mail: info@konceptca.com