National Test Series - II

Test Paper 1 – Solution

Subject: Accounting

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

Question 1.

(A) 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, 2020.

	₹ Per unit
Raw Material X	
Cost price	400
Freight Inward	40
Replacement cost	320
Chemical Y	
Material consumed	440
Direct Labour	120
Variable Overheads	80

Additional Information:

(i) Total fixed overhead for the year was ₹ 4,00,000 on normal capacity of 25,000 units.

(ii) Closing balance of Raw Material X was 1,000 units and Chemical Y was 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 Net realizable value of Chemical Y is ₹ 600 per unit.

(5 Marks)

Solution:-

Net Realizable Value of the Chemical Y (Finished Goods) is ₹ 600 per unit which is less than its cost ₹ 656 per unit. Hence, Raw Material is to be valued at replacement cost and Finished Goods are to be valued at NRV since NRV is less than the cost.

Value of Closing Stock:

	Qty.	Rate (₹)	Amount (₹)
Raw Material X	1,000	320	3,20,000
Finished Goods Y	2,400	600	14,40,000
Total Value of Closing Stock			17,60,000

Working Note:

Statement showing cost calculation of Raw material X and Chemical Y

Raw Material X	₹
Cost Price	400
Add: Freight Inward Cost	40
	440
Chemical Y	₹
Materials consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (₹4,00,000/25,000 units)	16
Cost	656

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

I. ₹ 35 Lakhs received from the Local Authority for providing Medical facilities to the employees.

II. ₹ 100 Lakhs received as Subsidy from the Central Government for setting up a unit in notified backward area.

(5 Marks)

Solution:-

I. ₹ 35 lakhs received from the local authority for providing medical facilities to the employees is a grant received in the nature of revenue grant. Such grants are generally presented as a credit in the profit and loss statement, either separately or under a general heading such as 'Other Income'. Alternatively, ₹ 35 lakhs may be deducted in reporting the related expense i.e. employee benefit expenses.

II. 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 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. In the given case, the subsidy received from the Central Government for setting up a unit in notified backward area is neither in relation to specific fixed asset nor in relation to revenue. Thus, amount of ₹ 100 lakhs should be credited to capital reserve.

(C) Omega Ltd. contracted with a supplier to purchase machinery which is to be installed in its one department 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 ₹ 1,40,000. These activities were supervised by a technician during the entire period, who is employed for this purpose of ₹ 45,000 per month.

The machine was purchased at ₹ 1,58,00,000 and ₹ 50,000 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of ₹ 30,000 to supervise machinery installation at the factory site.

You are required to ascertain the amount at which the Machinery should be capitalized under AS 10.

(5 Marks)

Solution:-

Calculation of Cost of Fixed Asset (i.e. Machinery)

Particulars		₹
Purchase Price	Given	1,58,00,000
Add: Site Preparation Cost	Given	1,40,000
Technician's Salary	Specific/Attributable overheads for 3 months (45,000 x3)	1,35,000
Initial Delivery Cost	Transportation	50,000
Professional Fees for Installation	Architect's Fees	30,000
Total Cost of Asset		1,61,55,000

(D) Vital Limited borrowed an amount of ₹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 ₹ 19.50 crores for the accounting period ending on 31.3.2020. Due to surplus fund out of ₹150 crores, an income of ₹ 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. **(5 Marks)**

Solution:-

Para 10 of AS 16 'Borrowing Costs' states that to the extent the funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings. The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Hence, in the above case, treatment of accountant of Vital Ltd. is incorrect. The amount of borrowing costs capitalized for the financial year 2019-20 should be calculated as follows:

Actual interest for 2019-20 (10% of ₹ 150 Crores)	₹ 15.00 Crores
Less: Income on temporary investment from specific borrowings	(₹ 1.50 Crores)
Borrowing costs to be capitalized during year 2019-2020	₹ 13.50 Crores

Question 2.

(A) 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 Balance

	₹
Equity shares capital (fully paid shares of ₹ 10 each)	1,05,00,000
General Reserve	21,84,000
Loan from State Finance Corporation (Secured by	15,75,000

hypothecation of Plant & Machinery - Repayable within one year ₹ 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 Balance

	₹
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 ₹ 42,00,000
Cost of Plant & Machinery ₹ 73,50,000
Cost of Furniture & Fixture ₹ 6,56,250

iii. Trade receivables for ₹ 5,70,000 are due for more than 6 months.

iv. The amount of Balances with Bank includes ₹27,000 with a bank which is not a scheduled Bank and the deposits of ₹ 7,50,000 are for a period of 9 months.

v. Unsecured loan includes ₹ 3,00,000 from a Bank and ₹ 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.

(10 Marks)

Solution:-

Om Ltd.

Balance sheet as on 31st March, 2020

		Particulars	**Notes**	**Figures at the end of current reporting period (₹)**
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
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 equipments	9	29,08,500
	d	Short term loans and advances		4,48,350
		Total		1,98,94,350

Notes to accounts

			₹
1	**Share capital**		
	Equity share capital		

	issued, subscribed and called up 10,50,000 equity shares of ₹ 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 and loss A/c)		10,50,000
	Total		32,34,000
3	**Long-term borrowings**		
	Secured		
	Term Loans		
	Loan from state finance corporation (₹ 15,75,000 less ₹ 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	
	Other	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 and machinery	73,50,000	
	Less: Depreciation	(18,37,500)	55,12,500
	Furniture and 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
	Total		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 equipments**		
	Cash at bank with scheduled banks	25,66,500	
	including bank deposits for period if 9 months amounting ₹ 7,50,000		
	with others	27,000	25,93,500
	Cash in hand		3,15,000
	Total		29,08,500

(B) The following balances appeared in the books of Paradise Ltd (unlisted company other than AIFI, Banking company, NBFC and HFC)as on 1-4-20X1:

i. 12 % Debentures ₹ 7,50,000
ii. Balance of DRR ₹ 25,000
iii. DRR Investment 1,12,500 represented by 10% ₹ 1,125 secured bonds of government of India of ₹ 100 each.

Annual contribution to the DRR was made on 31st March every year. On 31-3-20X2, balance at bank was ₹ 7,50,000 before receipt of interest. The investment were realised at par for redemption of debentures at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended 31st march, 20X2:
(1) Debentures Account
(2) DRR Account
(3) DRR Investment Account
(4) Bank Account
(5) Debenture Holders Account.

(10 Marks)

Solution:-

1. 12% Debentures Account

Date	Particulars	₹	Date	Particulars	₹
31st March, 20X2	To debenture holders A/c	7,50,000	1st April, 20X1	By Balance b/d	7,50,000
		7,50,000			**7,50,000**

2. DRR Account

Date	Particulars	₹	Date	Particulars	₹
31st March, 20X2	To General Reserve A/c (Bal.fig.)	75,000	1st April, 20X1	By Balance b/d	25,000
			1st April, 20X1	by Profit and Loss A/c (Refer Note 1)	50,000
		75,000			**75,000**

3. 10% Secured Bonds of Govt. (DRR Investment) A/c

		₹			₹
1st April,20X1	To Balance b/d	1,12,500	31st March,20X2	By Bank A/c	1,12,500
		1,12,500			**1,12,500**

4. **Bank A/c**

		₹			₹
31st March, 20X2	To Balance b/d	7,50,000	31st March, 20X2	By Debenture Holder A/c	8,25,000
	To Interest on DDR Investment (1,12,500 x 10%)	11,250		By balance c/d	48,750
	To DRR Investment A/c	1,12,500			
		8,73,750			**8,73,750**

5. **Debenture Holders A/c**

		₹			₹
31st March, 20X2	To Bank A/c	8,25,000	31st March, 20X2	By 12% Debentures	7,50,000
				By Premium on redemption of debenture(7,50,000 × 10%)	75,000
		8,25,000			**8,25,000**

Note 1 -

Calculation of DRR before redemption = 10% of 7,50,000 = 75,000

Available balance = 25,000

DRR require = 75,000 - 25,000 = 50,000.

Question 3.

(A) From the following details relating to the Accounts of Grow More Ltd. prepare Cash Flow Statement:

Liabilities	31.3.20X1 (₹)	31.3.20X0 (₹)
Share capital	10,00,000	8,00,000
Reserve	2,00,000	1,50,000
Profit and loss Account	1,00,000	60,000
Debentures	2,00,000	-
Provision for taxation	1,00,000	70,000
Dividend payable	2,00,000	1,00,000
Trade payables	7,00,000	8,20,000
	25,00,000	20,00,000
Assets		
Plant and machinery	7,00,000	5,00,000
Land and building	6,00,000	4,00,000
Investments	1,00,000	-

Trade receivables	5,00,000	7,00,000
Inventories	4,00,000	2,00,000
Cash and hand/ bank	2,00,000	2,00,000
	25,00,000	**20,00,000**

(i) Depreciation @ 25% was charged on the opening value of Plant and Machinery.

(ii) At the year end, one old machine costing 50,000 (WDV 20,000) was sold for ₹35,000. Purchase was also made at the year end.

(iii) ₹50,000 was paid towards Income tax during the year.

(iv) Building under construction was not subject to any depreciation.

Prepare Cash flow Statement.

(10 Marks)

Solution:-

Grow More Ltd
Cash Flow Statement
for the year ended 31st March, 20X1
Cash Flow from Operating Activities

Particulars	**₹**	**₹**
Increase in balance of profit and loss Account (1,00,000 - 60,000)	40,000	
Dividend payable	2,00,000	
Provision for taxation (W.N.1)	80,000	
Transfer to general reserve (2,00,000 - 1,50,000)	50,000	
Depreciation (W.N.2)	1,25,000	
Profit on sale of plant and machinery	(15,000)	
Operating profit before working capital charges	4,80,000	
Increase in inventories	(2,00,000)	
Decrease in Trade receivables	2,00,000	
Decrease in trade payables	(1,20,000)	
Cash generated from operations	3,60,000	
Income tax paid	(50,000)	
Net cash from operating activities		3,10,000

Cash Flow from Investing Activities

Purchase of fixed assets	(3,45,000)	
Expenses on building (6,00,000 - 4,00,000)	(2,00,000)	
Increase in investments	(1,00,000)	
Sale of old machine	35,000	
Net cash used in investing activities		(6,10,000)

Cash Flow from Financing activities

Proceeds from issue of shares (10,00,000 - 8,00,000)	2,00,000	

Proceeds from issue of debentures	2,00,000	
Dividend paid	(1,00,000)	
Net cash used in financing activities		(3,00,000)
Net increase in cash or cash equivalents		NIL
Cash and cash equivalents at the beginning of the year		2,00,000
Cash and cash equivalents at the end of the year		2,00,000

Working Notes:

1. Provision for taxation account

Particulars	₹	Particulars	₹
To cash (Paid)	50,000	By balance b/d	70,000
To balance c/d	1,00,000	By Profit and loss A/c (Balancing figure)	80,000
	1,50,000		**1,50,000**

2. Plant and Machinery account

Particulars	₹	Particulars	₹
To balance b/d	5,00,000	By depreciation	1,25,000
To profit and loss a/c (Profit on sale of machine)	15,000	By cash (Sale of machine)	35,000
To cash (Balancing figure)	3,45,000	By balance c/d	7,00,000
	8,60,000		**8,60,000**

(B) Green Ltd. took over a running business with effect from 1st April, 2019. The company was incorporated on 1st August, 2019. The following summarized Profit and Loss Account has been prepared for the year ended 31.3.2020:

	₹		₹
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 @ ₹ 3,000 per month up to September, 2019 and thereafter it was increased by ₹ 600 per month.

(c) Travelling expenses include ₹ 7,200 towards sales promotion. Travelling expenses are to be allocated between pre and post incorporation periods on time basis.

(d) Depreciation include ₹ 900 for assets acquired in the post incorporation period.

(e) Purchase consideration was discharged by the company on 30th September, 2019 by issuing equity shares of ₹ 10 each.

You are required to prepare Statement showing calculation of profits and allocation of expenses between pre and post incorporation periods.

(10 Marks)

Solution:-

Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.2020

Particulars	**Pre-incorporation period ₹**	**Post-incorporation Period ₹**
A. Gross profit (1:3)	1,20,000	3,60,000
Less: Salaries (1:2)	24,000	48,000
Stationery (1:2)	2,400	4,800
Advertisement (1:3)	6,000	18,000
Travelling Expenses (W.N.3)	6,000	12,000
Sales promotion expenses (W.N.3)	1,800	5,400
Misc. trade expenses (1:2)	18,900	37,800
Rent (office building) (W.N.2)	12,000	27,600
Electricity charges (1:2)	2,100	4,200
Director's fee		16,800
Bad debts (1:3)	1,200	3,600
Selling agents commission (1:3)	8,250	24,750
Debenture interest		4,500
Interest paid to vendor (2:1) (W.N.4)	4,200	2,100
Selling expenses (1:3)	9,450	28,350
Depreciation on fixed assets (W.N.5)	4,500	9,900
B.	1,00,800	2,47,800
Pre-incorporation profit (A less B)	19,200	
Post-incorporation profit (A less B)		1,12,200

Working Notes:

1. Time Ratio

Pre incorporation period = 1st April, 2019 to 31st July, 2019

i.e. 4 months

Post incorporation period is 8 months

Time ratio is 1: 2.

2. Rent

		₹
Rent for pre-incorporation period (₹ 3,000×4)		12,000 (Pre)
Rent for post incorporation period		
August, 2019 & September, 2019 (₹ 3000×2)	6,000	
October, 2019 to March,2020 (₹ 3,600×6)	21,600	27,600 (post)

3. Travelling expenses and sales promotion expenses

	Pre ₹	Post ₹
Travelling expenses ₹ 18,00 (i.e. ₹ 25,200 - ₹ 7,200) distributed in 1:2 ratio	6,000	12,000
Sales promotion expenses ₹ 7,200 distributed in 1:3 ratio	1,800	5,400

4. Interest paid to vendor till 30th September, 2019

	Pre ₹	Post ₹
Interest for pre-incorporation period ₹ 6,300×4/6	4,200	
Interest for post incorporation period i.e. for August, 2019 & September, 2019 = ₹ 6,300×2/6		2,100

5. Depreciation

		Pre ₹	Post ₹
Total depreciation	14,400		
Less: Depreciation exclusively for post incorporation period	900		900
	13,500		
Depreciation for pre-incorporation period (13,500×4/12)		4,500	
Depreciation for post-incorporation period (13,500×8/12)			9,000
		4,500	9,900

Question 4.

(A) Lucky bought 2 tractors from Happy on 1-10-20X1 on the following terms:

	₹
Down payment	5,00,000
1st installment at the end of first year	2,65,000
2nd installment at the end of 2nd year	2,45,000
3rd installment at the end of 3rd year	2,75,000

Interest is charged at 10% p.a.

Lucky provides depreciation @ 20% on the diminishing balances.

On 30-9-20X4 Lucky failed to pay the 3rd installment upon which Happy repossessed 1 tractor. Happy agreed to leave one tractor with Lucky and adjusted the value of the tractor against the amount due. The tractor taken over was valued on the basis of 30% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Lucky after 3 months with interest @ 18% p.a.

You are required to :

1. Calculate the cash price of the tractors and the interest paid with each installment.
2. Prepare Tractor Account and Happy Account in the books of Lucky assuming that books are closed on September 30 every year. Figures may be rounded off to the nearest rupee.

(10 Marks)

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 at the beginning

[1]	[2]	[3]	[4]= 2+3	[5] = 4x10/110	[6]=4-5
3rd	-	2,75,000	2,75,000	25,000	2,50,000
2nd	2,50,000	2,45,000	4,95,000	45,000	4,50,000
1st	4,50,000	2,65,000	7,15,000	65,000	6,50,000

Total cash price = ₹ 6,50,000+ 5,00,000 (down payment) =₹ 11,50,000.

(ii) In the books of Lucky

Tractors Account

Date	Particulars	₹	Date	Particulars	₹
1.10.20X1	To Happy A/c	11,50,000	30.9.20X2	By Depreciation A/c	2,30,000
				Balance c/d	9,20,000
		11,50,000			**11,50,000**
1.10.20X2	To Balance b/d	9,20,000	30.9.20X3	By Depreciation A/c	1,84,000
				Balance c/d	7,36,000
		9,20,000			**9,20,000**
1.10.20X3	To Balance b/d	7,36,000	30.9.20X4	By Depreciation A/c	1,47,200
				By Happy A/c (Value of 1 tractor taken over after depreciation for 3 years @ 30% p.a.) {5,75,000 - (1,72,500 + 1,20,750 + 84,525)}	1,97,225
				By Loss transferred to profit and Loss a/c on surrender (Bal. fig.) or (2,94,400 - 1,97,225)	97,175
				By balance c/d 1/2x(7,36,000 - 1,47,200) = 5,88,800	2,94,400
		7,36,000			**7,36,000**

Happy Account

Date	Particulars	₹	Date	Particulars	₹
1.10.X1	To bank (Down payment)	5,00,000	1.10.X1	By tractors a/c	11,50,000
30.9.X2	To bank (1st installment)	2,65,000	30.9.X2	By Interest a/c	65,000
	To Balance c/d	4,50,000			
		12,15,000			**12,15,000**
30.9.X3	To bank (2nd Installment)	2,45,000	1.10.X2	By balance b/d	4,50,000
	To Balance c/d	2,50,000	30.9.X3	By interest a/c	45,000
		4,95,000			**4,95,000**
30.9.X4	To tractor a/c	1,97,225	1.10.X3	By Balance b/d	2,50,000
	To Balance c/d (b.f.)	77,775	30.9.X4	By interest5 a/c	25,000

		2,75,000			**2,75,000**
31.12.X4	To Bank (Amount settled after 3 Months)	81,275	1.10.X4	By Balance b/d	77,775
				By Interest a/c (@ 18% on bal.) (77,775x3/12x18/100)	3,500
		81,275			**81,275**

(B) Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹ 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.

The following information is given to you:

Assets and Liabilities	As on 1.4.20X1	As on 31.3.20X2
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 passbook reveals the following information:

(a) Payment to creditors ₹ 7,00,000

(b) Payment for business expenses ₹ 1,20,000

(c) Receipts from debtors ₹ 7,50,000

(d) Loan from Laxman ₹ 1,00,000 taken on 1.10.2016 at 10% per annum

(e) Cash deposited in the bank ₹ 1,00,000

He informs you that he paid creditors for goods ₹ 20,000 in cash and salaries ₹ 40,000 in cash. He has drawn ₹ 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.

You are required to prepare:

(i) Trading and Profit and Loss Account for the year ended 31.3.20X2.

(ii) Balance Sheet as at 31s t March, 20X2.

(10 Marks)

Solution:-

Trading and Profit and Loss Account

for the year ended 31st March, 20X2

	₹			₹
To opening	2,80,000	By sale		
To purchase	7,70,000	Cash	2,40,000	
Ro Gross Profit @ 25%	3,10,000	Credit	10,00,000	12,40,000
		By closing stock (bal. fig)		1,20,000
	13,60,000			13,60,000
To Salaries	40,000	By Gross profit		3,10,000
To Business expenses	1,20,000			
To Interest on loan (10% of 1,00,000*6/12)	5,000			
To Net profit	1,45,000			
	3,10,000			**3,10,000**

Balance Sheet as at 31st March, 20X2

Liabilities	₹	₹	Assets	₹
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 from Laxman (including interest due)		1,05,000		
Sundry Creditors		90,000		
		5,60,000		**5,60,000**

Working Notes:

1. Sundry Debtors Account

	₹		₹
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

	₹		₹
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	Bank		Cash	Bank
	₹	₹		₹	₹
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 Laxman's 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 5.

(A) Gram Udyog, a retail store, has two departments, 'Khadi and Silks' for each of which stock account and memorandum 'mark up' accounts are kept. All the goods supplied to each department are debited to the stock account at cost plus a 'mark up', which together make-up the selling-price of the goods and in the account of the sale proceeds of the goods are credited. The amount of 'mark-up' is credited to the Departmental Mark up Account. If the selling price of any goods is reduced below its normal selling price, the reduction 'marked down' is adjusted both in the Stock Account and the Departmental 'Mark up' Account. The rate of 'Mark up' for Khadi Department is 33-1/3% of the cost and for Silks Department it is 50% of the cost.

The following figures have been taken from the books for the year ended December 31,20X1 :

	Khadi Deptt.	Silks Deptt.
Stock as on January 1st at cost	10,500	18,600
Purchases	75,900	93,400
Sales	95,600	1,25,000

(1) The stock of Khadi on January 1, 20X1 included goods the selling price of which had been marked down by ₹1,260. These goods were sold during the year at the reduced prices.

(2) Certain stock of the value of ₹ 6,900 purchased for the Khadi Department were later in the year transferred to the Silks department and sold for ₹10,350. As a result though cost of the goods is included in the Khadi Department the sale proceeds have been credited to the Silks Department.

(3) During the year 20X1 to promote sales the goods were marked down as follows:

	Cost	Marked Down
	₹	₹
Khadi	5,600	360
Silk	10,000	2,000

All the goods marked down, were sold except Silks of the value of ₹ 5,000 marked down by ₹ 1,000.

(4) At the time of stock-taking on December 31, 20X1 it was discovered that Khadi cloth of the cost of ₹390 was missing and it was decided that the amount be written off.

You are required to prepare for both the departments for the year 20X1.

(a) The Memorandum Stock Account; and

(b) The Memorandum Mark up Account.

(10 Marks)

Solution:-

Silk Stock Account

20X1		₹	20X1	₹
To Balance b/d			By Sales A/c	1,25,000
To Cost	18,600		By Mark-up A/c	2,000
Mark-up @50%	9,300	27,900	By Balance c/d (bal. fig.)	51,350
To Purchases	93,400			
Mark-up @50%	46,700	1,40,100		
To Khadi A/c	6,900			
Mark-up @50%	3,450	10,350		
		1,78,350		1,78,350

Silk Mark-up Account

20X1	₹	20X1	₹
To Stock A/c	2,000	By Balance b/d	9,300
To Profit & Loss A/c (bal.fig.)	41,000	By Stock A/c	46,700
To Balance c/d [(1/3* of {51,350 + 1,000}) - 1,000]	16,450	By Stock A/c	3,450
	59,450		59,450

*1/2 on cost is equal to 1/3 on sales

Working Notes:

Verification of Profit

Sales	1,25,000
Add : Mark down in goods sold	1,000
	1,26,000
Gross Profit 1/3	42,000
Less : Mark down	(1,000)
Gross profit as per books	41,000

Khadi Stock Account

20X1		₹	20X1		₹
To Balance b/d (10,500 + 2,240*)		12,740	By Sales		95,600
To Purchases	75,900		By Silk Deptt.	6,900	
Markup @33-1/3%	25,300	1,01,200	Markup A/c @33-1/3%	2,300	9,200
			By Loss of stock A/c	390	
			Markup A/c @33-1/3%	130	520
			By Markup A/c		360
			By Balance c/d (b.f)		8,260
		1,13,940			1,13,940

*[(10,500 x 33-1/3%) – 1,260] = ₹ 2,240

[(10,500 x 33-1/3%) – 1,260] = ₹ 2,240

Khadi Mark-up Account

20X1	₹	20X1	₹
To Stock A/c (transfer)	2,300	By Balance b/d (3,500 - 1,260)	2,240
To Stock A/c (re-sale)	130	By Stock A/c	25,300
To Stock A/c (mark down)	360		
To Profit & Loss A/c	22,685		
To Balance (1/4 of ₹ 8,260)	2,065		
	27,540		27,540

Working Notes:

Verification of Profit

Sales as per books	95,600
Add : Mark-down (1,260+360)	1,620
	97,220
Gross Profit on fixed selling price @ 25% on ₹97,220	24,305
Less : Mark down	(1,620)
	22,685

(B) 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, 20X2 and the additional information given thereafter:

	Dr.	**Cr.**
	(Rupees in thousands)	
Stock on 1st April, 20X1	300	
Purchases and sales	800	1,200
Sundry Debtor & Creditors	400	300
Bills of Exchange	120	240
Wages & Salaries	560	-
Rent, Rates & Taxes	360	-
Sundry Charges	160	-
Computers	240	-
Bank Balance	420	-
New york Office A/c	-	1,620
	3,360	3,360

Additional Information:

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

(b) Unsold stock of Bangalore branch was worth ₹ 4,20,000 on 31st March, 20X2.

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

- On 01.04.20X1 @ ₹ 55 per US $
- On 31.03.20X2 @ ₹ 60 per US $
- Average exchange rate for the year @ ₹ 58 per US $
- Conversion in $ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 20X2 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 31.3.20X2 in New York books and there were no items pending reconciliation.

(10 Marks)

Solution:-

M/s ABC & Co.

Bangalore Branch Trial Balance in (US $)

as on 31st March, 20X2

	Conversion rate per US $ (₹)	Dr. US $	Cr. US $
Stock on 1.4.X1	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, 20X2

	US $		US $
To Opening Stock	5,454.55	By sales	20,689.66
To Purchases	13,793.10	By closing stock (₹ 4,20,000/60)	7,000.00
To wages and salaries	9,655.17	By Gross Loss c/d	1,213.16
	28,902.82		**28,902.82**
To Gross Loss b/d	1,213.16	By net Loss	13,778.68
To Rent, rates and taxes	6,206.90		
To sundry charges	2,758.62		
To Depreciation on Computers (US $ 6,000 x 0.6)	3,600.00		
	13,778.68		**13,778.68**

Balance Sheet of Bangalore Branch

as on 31st March, 20X2

Liabilities		US $	Assets	US $	US $
New York Office A/c	29,845.35		Computers	6,000.00	
Less: Net Loss	(13,778.68)	16,066.67	Less: 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 6.

(A) Following is the extract of the Balance Sheet of Madhu Ltd. as at 31st March, 2020

	₹
Authorized capital:	
45,000 12% Preference shares of ₹ 10 each	4,50,000
6,00,000 Equity shares of ₹ 10 each	60,00,000
	64,50,000
Issued and Subscribed capital:	
36,000 12% Preference shares of ₹ 10 each fully paid	3,60,000
4,05,000 Equity shares of ₹ 10 each, ₹ 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 @ ₹ 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.

(5 Marks)

Solution:-

Journal Entries in the books of Madhu Ltd.

			₹	₹
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 ₹ 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	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)

	₹
Authorized Capital	
45,000 12% Preference shares of ₹ 10 each	4,50,000
6,00,000 Equity shares of ₹ 10 each	60,00,000
Issued and subscribed capital	
36,000 12% Preference shares of ₹₹10 each, fully paid	3,60,000
5,06,250 Equity shares of ₹ 10 each, fully paid	50,62,500
(Out of the above, 1,01,250 equity shares @ ₹ 10 each were issued by way of bonus shares)	
Reserves and surplus	
Profit and Loss Account	7,20,000

(B) The premises of Anmol Ltd. caught fire on 22nd January 20X2, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 20X1 the stock at cost was ₹ 6,63,600 as against ₹ 4,81,100 on 31st March, 20X0.

Purchases from 1st April, 20X1 to the date of fire were ₹ 17,41,350 as against ₹ 22,62,500 for the full year 20X0-X1 and the corresponding sales figures were ₹ 24,58,500 and ₹ 26,00,000 respectively. You are given the following further information:

i. In July, 20X1, goods costing ₹ 50,000 were given away for advertising purposes, no entries being made in the books.
ii. During 20X1-X2, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged ₹ 1,000 per week from 1st April, 20X1 until the clerk was dismissed on 18th August, 20X1.
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.

(5 Marks)

Solution:-

Ascertainment of rate of gross profit for the year 20X0-X1
Trading A/c for the year ended 31-3-20X1

	₹		₹
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 = $\frac{GP}{Sales} \times 100$

$= \frac{5,20,000}{26,00,000} \times 100$ = 20%.

Memorandum Trading A/c for the period from 1-4-20X1 to 22-01-20X2

		₹			₹
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 24,78,500)		4,95,700			
		28,50,650			**28,50,650**

Estimated stock in hand on the date of fire was ₹ 3,72,150.

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 1.4.20X1 to 18.8.20X1= 140 days

Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks × ₹ 1,000 = ₹ 20,000.

(C) The following are the extracts from the Balance Sheet of Hari Ltd. as on 31st March, 2020:

Share capital: 75,000 Equity shares of ₹10 each fully paid – ₹7,50,000; 2,250 10% Redeemable preference shares of ₹100 each fully paid – ₹ 2,25,000.

Reserve & Surplus: Capital reserve – ₹ 1,50,000; General reserve –₹ 1,50,000; Profit and Loss Account – ₹1,12,500.

On 1st April 2020, 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.

(5 Marks)

Solution:-

In the books of Hari Limited

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
2020				
April 1	10% Redeemable preference share capital A/c	Dr.	2,25,000	
	Premium on Redemption of preference Shares	Dr.	22,500	
	To Preference Shareholders A/c			2,47,500
	(Being the amount payable on redemption transferred to preference shareholders Account)			
	Preference shareholders A/c	Dr.	2,47,500	
	To Bank A/c			2,47,500
	(Being the amount paid on redemption of preference shares)			
	General Reserve A/c	Dr.	1,50,000	
	Profit and loss A/c	Dr.	75,000	
	To Capital Redemption Reserve A/c			2,25,000
	(Being the amount transferred to capital Redemption Reserve Account as per the requirement of the act)			
	Profit and loss A/c	Dr.	22,500	
	To Premium on Redemption of Preference shares A/c			22,500
	(Being premium on Redemption charged to profit and loss A/c)			

Note: Capital Reserve cannot be utilized for transfer to capital Redemption Reserve.

(D) What are the qualitative characteristics of the financial statements which improve the usefulness of the information furnished therein?

(5 Marks)

Solution:-

The qualitative characteristics are attributes that improve the usefulness of information provided in financial statements. The qualitative characteristics of financial statements are as follows:

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: It is not right to think that more information one discloses the better it is. A mass of irrelevant information creates confusion and can be even more harmful than non-disclosure.

   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:

   a) Transactions and events reported are faithfully represented.
   b) Transactions and events are reported on the principle of 'substance over form.
   c) The reporting of transactions and events are neutral, i.e. free from bias.
   d) Prudence is exercised in reporting uncertain outcome of transactions or events.
   e) The information in financial statements must be complete.

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.