## PAPER – 1 : ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **four** questions from the remaining **five** questions.*

*Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates.*

*Working Notes should form part of the answer.*

### Question 1

*Answer the following questions:*

*(a) Joy Ltd. purchased 20,000 kilograms of Raw Material @ ₹ 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 (₹) |
|---|---:|---:|
| 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 material has been utilized is expected to be sold @ ₹ 40 per unit. The replacement cost of the raw material was ₹ 19 per kilogram.*

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

*(b) (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 ₹ 2,10,000. These activities were supervised by an Architect during the entire period, who is employed for this purpose at a salary of ₹ 35,000 per month. The machinery was purchased for ₹ 1,27,50,000*

*and a sum of ₹ 2,12,500 was incurred towards transportation charges to bring the machinery to the plant site. An Engineer was appointed at a fees of ₹ 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 ?*

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

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

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

*(iii) ₹ 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".*

*(d) 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 | ₹ ('000) | Outflows | ₹ ('000) |
|---|---|---|---|
| Opening Balance | 945 | Payment to suppliers | 54,918 |
| Receipts from Customers | 74,682 | Purchase of Investments | 351 |
| Sale of Investments (Cost ₹ 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* |

***(4 Parts x 5 Marks = 20 Marks)***

**Answer**

**(a) Statement Showing the Computation of Value of Closing Inventory**

Value of Closing Finished Goods

| Particulars | Amount (₹) |
|---|---|
| Cost of Raw Material consumed (20,400 units X ₹ 20 per kg) | 4,08,000 |
| Direct Labour | 3,06,000 |
| Fixed Overheads (3,00,000/30,000 x 20,400) | 2,04,000 |
| Cost of Production | 9,18,000 |
| Cost of Closing Inventory of Finished Goods per unit (₹ 9,18,000/20,400) | 45 |
| Net Realizable Value (NRV) per unit | 40 |

Since net realizable value is less than cost, closing inventory of Finished Goods will be valued at ₹ 40 per unit

Value of Closing Raw Materials

As NRV of finished goods is less than its cost, the relevant raw material will be valued at its replacement cost, which is the best available measure of its NRV i.e. @ ₹ 19 per kg.

Therefore, value of closing inventory would be as under:

| | |
|---|---|
| Finished Goods 2,400 units @ ₹ 40/- per unit | ₹ 96,000 |
| Raw Materials 1,800 kg @ ₹ 19/- per kg | ₹ 34,200 |
| Total | ₹ 1,30,200 |

**Working Note:**

**Calculation of raw material consumed during the year**

| Particulars | Unit (Kg) |
|---|---|
| Opening Inventory | 2,200 |
| Purchases | 20,000 |
| Less: Closing Inventory | (1,800) |
| Raw Material Consumed | 20,400 |

**(b) (i) Statement Showing the Computation of the amount at which the Machinery should be capitalized in the books of A Limited**

| **Particulars** | | **Amount (₹)** |
|---|---|---|
| Purchase cost of machinery | Given | 1,27,50,000 |
| Add: Site Preparation Cost | Given | 2,10,000 |
| Architect's Salary | Specific / Attributable overheads for 4 months (₹ 35,000 x 4) | 1,40,000 |
| Initial Delivery Cost | Transportation | 2,12,500 |
| Professional Fees for Installation | Engineer's Fees | 37,500 |
| Total Cost of Machinery to be capitalized | | 1,33,50,000 |

**(ii)** Management should capitalize the costs of construction and remodelling the store, 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. The store cannot be opened without incurring the remodelling expenditure, and thus the expenditure should be considered part of the asset. However, if the cost of salaries, utilities and storage of goods are in the nature of operating expenditure that would be incurred if the store was open, then these costs are not necessary to bring the store to the condition necessary for it to be capable of operating in the manner intended by management and should be expensed.

**(c)** (i) 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 an industrial undertaking in Medak is neither in relation to specific fixed asset nor in relation in revenue. Thus, the amount of ₹ 120 Lacs should be credited to capital reserve.

(Note: Subsidy for setting up an industrial undertaking is considered to be in the nature of promoter's contribution)

(ii) As per AS 12 'Accounting for Government Grants', two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives –

(a) The grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Where the grant equals the whole, or virtually the whole, of the cost of the asset, the asset is shown in the balance sheet at a nominal value.

(b) Grants related to depreciable asset are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

In the given case, ₹ 15 Lacs was received as grant from the Central Government for installation of Effluent Treatment Plant. Since the grant was received for a fixed asset, either of the above methods can be adopted.

(iii) ₹ 25 lacs received from State Government for providing medical facilities to its workmen during the pandemic is a grant received in 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, ₹ 25 lacs may be deducted in reporting the related expense i.e., employee benefit expense.

**(d)** **Gama Limited**

**Cash Flow Statement**

**For the Year Ended 31st March 2021**

| **Particulars** | **Amount (₹'000)** | **Amount (₹'000)** |
|---|---|---|
| **Cash flow from Operating Activities:** | | |
| Cash receipts from customers | 74,682 | |
| Cash payments to suppliers | (54,918) | |
| Cash payments for wages & salaries | (1,863) | |
| Cash payments of overheads | (3,105) | |
| Cash Generated from Operations | 14,796 | |
| Payment of Taxation | (6,561) | |
| **Net Cash from Operating Activities** | | 8,235 |
| **Cash Flow from Investing Activities:** | | |
| Proceeds from sale of investments | 459 | |
| Proceeds from sale of Property, Plant and Equipment | 3,456 | |
| Purchase of Investments | (351) | |
| Purchase of Property, Plant and Equipment | (6,210) | |
| **Net Cash Used in Investing Activities** | | (2,646) |

| | | |
|---|---|---|
| **Cash Flow from Financing Activities:** | | |
| Proceeds from issue of shares | 8,100 | |
| Payment of Dividend | (2,160) | |
| Repayment of Bank Overdraft | (6,750) | |
| Interest paid on Bank Overdraft | (1,350) | |
| **Net Cash Used in Financing Activities** | | (2,160) |
| **Net Increase in Cash & Cash Equivalent** | | 3,429 |
| **Cash and Cash Equivalent in the Beginning of the year** | | 945 |
| **Cash and Cash Equivalent in the end of the year** | | 4374 |

**Question 2.**

*Mr. Z has made following transactions during the financial year 2020-21:*

*Investment 1: 8% Corporate Bonds having face value ₹ 100.*

| *Date* | *Particulars* |
|---|---|
| *01-06-2020* | *Purchased 36,000 Bonds at ₹ 86 cum-interest. Interest is payable on 30th September and 31st March every year* |
| *15-02-2021* | *Sold 24,000 Bonds at ₹ 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 ₹ 10*

| *Date* | *Particulars* |
|---|---|
| *01-04-2020* | *Opening balance 8000 equity shares at a book value of ₹ 190 per share* |
| *01-05-2020* | *Purchased 7,000 equity shares@ ₹ 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 ₹ 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 @ ₹ 75 per share. The remaining rights were subscribed.* |
| *15-09-2020* | *Dividend @ ₹ 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 @ ₹ 3 per share for the year 2020-21.* |
| *31-:03-2021* | *The shares were quoted in the stock exchange @ ₹ 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 @ ₹ 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.* ***(20 Marks)***

**Answer**

**I. In the books of Mr. Z**

**Investment in 8% Corporate Bonds Account**

**For the period 01 April 2020 to 31 March 2021**

| Date | Particulars | Nos | Interest (₹) | Amount (₹) | Date | Particulars | Nos | Interest (₹) | Amount (₹) |
|---|---|---|---|---|---|---|---|---|---|
| 1/6/20 | To Bank A/c (WN1) | 36,000 | 48,000 | 30,48,000 | 30/9/20 | By Bank A/c (Interest 36,000 x 100 x 8% x 6/12) | | 1,44,000 | |
| 15/2/21 | To Profit & Loss A/c (WN 3) | | | 1,76,000 | 15/2/21 | By Bank A/c (WN2) | 24,000 | 72,000 | 22,08,000 |
| 31/3/21 | To Profit & Loss A/c | | 2,16,000 | | 31/3/21 | By Bank A/c (Interest 12,000 x 100 x 8% x 6/12) | | 48,000 | |
| | | | | | | By Balance c/d (WN 4) | 12,000 | | 10,16,000 |
| | **Total** | 36,000 | 2,64,000 | 32,24,000 | | **Total** | 36,000 | 2,64,000 | 32,24,000 |

**Note:** For computing the interest on the bonds sold on 15 Feb 2021, if number of days (138 days) is taken instead of months, the interest received on 15.02.2021 should be ₹72,592 and the total interest transferred to Profit & Loss Account should be ₹ 2,16,592.

* *Wrongly printed as Z Ltd. in the question paper. It should have been given as G Ltd.*

**Investment in Equity Shares of G Ltd**

**For the period 1st April 2020 to 31 March 2021**

| Date | Particulars | Nos | Dividend (₹) | Amount (₹) | Date | Particulars | Nos | Dividend (₹) | Amount (₹) |
|---|---|---|---|---|---|---|---|---|---|
| 01/4/20 | To Balance b/d | 8,000 | | 15,20,000 | 16/9/20 | By Bank A/c (WN 7) | | 48,000 | 42,000 |
| 01/5/20 | To Bank A/c (WN 5) | 7,000 | | 16,26,100 | 1/12/20 | By Bank A/c (WN 8) | 7000 | | 18,01,800 |
| 15/6/20 | To Bonus Shares | 6,000 | | | 25/1/21 | By Bank A/c (WN 10) | | 48,300 | |
| 25/8/20 | To Bank A/c (Right Shares) (WN 6) | 2,100 | | 4,83,000 | | | | | |
| 01/12/20 | To Profit & Loss A/c (Sale of shares) (WN 9) | | | 7,14,800 | | | | | |
| 31/3/21 | To Profit & Loss A/c | | 96,300 | | | | | | |
| | | | | | 31/3/21 | By Balance c/d (WN 11) | 16,100 | | 25,00,100 |
| | Total | 23,100 | 96,300 | 43,43,900 | | Total | 23,100 | 96,300 | 43,43,900 |

**Working Notes**

**1. Computation of the Interest element in the bonds purchased on 01 June 2020**

| | |
|---|---|
| No of Bonds purchased | 36,000 |
| Face value per bond | ₹ 100 |
| Face value of the bonds purchased | ₹ 36,00,000 |
| Interest Rate | 8% |
| Interest Amount | 36,00,000 x 8% x 2/12<br>₹ 48,000 |
| Cum-interest per bond | ₹ 86 |
| Value of bond excluding interest | 36,000 x 86 – 48,000<br>₹ 30,48,000 |

**2. Computation of the Interest element in the bonds sold on 15 Feb 2021**

| | |
|---|---|
| No of Bonds sold | 24,000 |
| Face value per bond | ₹ 100 |

| | |
|---|---|
| Face value of the bonds sold | ₹ 24,00,000 |
| Interest Rate | 8% |
| Interest Amount | 24,00,000 x 8% x 4.5/12<br>= ₹ 72,000 |

**3. Computation of Profit on Sale of Bonds on 15 Feb 2021**

| | |
|---|---|
| No of Bonds sold | 24,000 |
| Face value per bond | ₹ 100 |
| Ex- interest Rate per bond | ₹ 92 |
| Sales proceeds | ₹ 22,08,000 |
| Average Cost of Bonds | (30,48,000/36,000) x 24,000<br>₹ 20,32,000 |
| Profit on sale of bonds | Sale Proceeds – Average Cost<br>22,08,000 – 20,32,000<br>₹ 1,76,000 |

**4. Valuation of Bonds as on 31 March 2021**

| | |
|---|---|
| No of Bonds held as on 31 Mar 2021 | 12,000 |
| Average Cost of Bonds | (30,48,000/36,000) x 12,000<br>₹ 10,16,000 |

**5. Computation of the cost of the equity shares purchased on 01 May 2020**

| | |
|---|---|
| No of shares purchased | 7,000 |
| Cum right price per share | ₹ 230 |
| Cost of purchase | ₹ 16,10,000 |
| Brokerage @1% | ₹ 16,100 |
| Cost including brokerage | ₹ 16,26,100 |

**6. Right Shares**

| | |
|---|---|
| No of Right Shares Issued | (8,000+7,000+6,000)/7 = 3,000 shares |
| No of right shares sold | 3,000 shares x 30% = 900 shares |
| Proceeds from sale of right shares to be credited to statement of profit & loss | 900 shares x ₹ 75 = ₹ 67,500 |
| No of right shares subscribed | 3,000-900 = 2,100 shares |
| Amount of right shares subscribed | 2,100 x 230 = ₹ 4,83,000 |

**7. Computation of Dividend Received on 16 Sept 2020**

| | |
|---|---|
| No of shares held during the period of dividend | 8,000 shares |
| Dividend per share | ₹ 6 |
| Dividend Amount | 8,000 x 6 = ₹ 48,000 |
| No of shares received after the period of dividend (excluding bonus & right shares) | 7,000 shares |
| Dividend per share | ₹ 6 |
| Dividend Amount | 7,000 x 6 = ₹ 42,000 |

The amount of dividend for the period for which the shares were not held by the investor has been treated as capital receipt. Thus ₹ 42,000 shall be treated as capital receipt

**8. Sale Proceeds for the shares sold on 1st Dec. 2020**

| | |
|---|---|
| No of shares sold | 7,000 Shares |
| Sale price per share | ₹ 260 |
| Proceeds from sale of share | 7,000 x 260 = ₹ 18,20,000 |
| Less: Brokerage @ 1% | ₹ 18,200 |
| Net Sale Proceeds | ₹ 18,01,800 |

**9. Profit on sale of shares on 1st Dec. 2020**

| | |
|---|---|
| Sales Proceeds | ₹ 18,01,800 |
| Average Cost | (15,20,000+16,26,100+4,83,000-42,000)/23,100x7000 |
| | = ₹ 10,87,000 |
| Profit on sale of shares | Sales Proceeds – Average Cost |
| | = ₹ 18,01,800-10,87,000<br>= ₹ 7,14,800 |

**10. Computation of Amount of Interim Dividend**

| | |
|---|---|
| No of shares held | 8,000+7,000+6,000+2,100-7,000 |
| | = 16,100 |
| Dividend per share | ₹ 3 per share |
| Dividend Received | 16,100 shares x ₹ 3 per share |
| | = ₹ 48,300 |

**11. Valuation of Shares as on 31 March 2021**

| | |
|---|---|
| Cost of Shares | (15,20,000 + 16,26,100 + 4,83,000 – 42,000) / 23,100 x 16,100 |
| | = 25,00,100 |
| Market Value of Shares | ₹ 260 x 16,100 = ₹ 41,86,000 |

Closing stock of equity shares has been value at ₹ 25,00,100 i.e. cost being lower than its market value.

**(II)** **Profit & Loss Account (Extract)**

**For the period 01 April 2020 to 31 March 2021**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To Balance c/d | 12,70,600 | By Investment in 8% Corporate Bonds Account (Profit on sale of bonds) | 1,76,000 |
| | | By Investment in 8% Corporate Bonds Account (Interest on bonds) | 2,16,000 |
| | | By Sale of Right Shares | 67,500 |
| | | By Investment in Equity Shares of G Ltd (Profit on sale of shares) | 7,14,800 |
| | | By Investment in Equity Shares of G Ltd (Dividend Income) | 96,300 |

**(III)** As per AS 13, when investments are classified from Current Investments to Long term Investments, transfer is made at Cost and Fair value, whichever is less (as on the date of transfer). So, in the given case valuation shall be done as follows:

Date of reclassification/transfer – 15 May 2021

Per Unit Cost of 16,100 shares held – ₹ 25,00,100/16,100 shares – ₹ 155.29

Market Price/Fair Value per share – ₹ 180

As the cost per unit is lower than its fair value, the shares are to be transferred at its cost i.e., at ₹ 155.29 per share on 15 May 2021

**Note:**

1. In the eight last line of the question, investment in equity shares of G Ltd. was wrongly printed as Z Ltd. in the question paper. In the above solution, it has been considered as investment in G Ltd. If considered as Investment in equity shares in Z Ltd. (some other investment and not investment in G Ltd.), then the cost of the investment for shares in Z Ltd. will not be available.

2. The entire amount of sale proceeds from rights has been credited to Profit and Loss account in the above solution. However, the sale proceeds of rights in respect of 7,000 shares (purchased cum right on 1.5.20) can be applied to reduce the carrying amount of such investments (without crediting it to profit and loss account) considering that the value of these shares has reduced after becoming their ex-right. In that case, ₹ 22,500 (67,500X 7/21) will be applied to reduce the carrying amount of investment and ₹ 45,000 will be credited to profit and loss account.

**Question 3**

*(a) 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* | ₹ | *Assets* | ₹ |
|---|---|---|---|
| *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* | | *2,00,000* |

*During the six months ending on 30-09-2020, the following transactions took place at Noida:*

| | ₹ | | ₹ |
|---|---|---|---|
| *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.* ***(10 Marks)***

(b) *Mr. Arun runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2020 was as follows :*

| *Liabilities* | ₹ | *Assets* | ₹ |
|---|---|---|---|
| *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 ₹ 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 sent to the bank the collection of the month at the last date of each month after paying salary of ₹ 2,500 to the clerk, office expenses ₹ 1,500 and personal expenses ₹ 625.*

*Analysis of bank pass book for the year ending 31st March, 2021 disclosed the following:*

| | ₹ |
|---|---|
| *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:*

| | ₹ |
|---|---|
| *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.* ***(10 Marks)***

**Answer**

**(a) Journal Entries in the Books of Noida Branch**

| **Particulars** | | **Debit (₹)** | **Credit (₹)** |
|---|---|---|---|
| Salary Advance A/c | Dr. | 5,000 | |
| To Salaries A/c | | | 5,000 |
| (Being the amount paid as advance adjusted by debit to Salary Advance A/c) | | | |
| Prepaid Insurance A/c (11,200 X 6/12) | Dr. | 5,600 | |
| To Fire Insurance A/c | | | 5,600 |
| (Being the six months premium transferred to the Prepaid Insurance A/c) | | | |
| Head Office A/c | Dr. | 1,44,900 | |
| To Purchases A/c | | | 64,500 |
| To Wages A/c | | | 24,000 |
| To Salaries A/c (15,600 - 5000) | | | 10,600 |
| To General Expenses A/c | | | 7,800 |
| To Fire Insurance A/c (11,200 X 6/12) | | | 5,600 |
| To Manager's Salary A/c | | | 16,400 |
| To Discount Allowed A/c | | | 16,000 |
| (Being the transfer of various revenue accounts to the HO A/c for closing the accounts) | | | |
| Sales A/c | Dr. | 2,78,000 | |
| Discount Earned A/c | Dr. | 4,600 | |
| To Head Office A/c | | | 2,82,600 |
| (Being the transfer of various revenue accounts to HO) | | | |
| Head Office A/c | Dr. | 14,000 | |
| To Building A/c | | | 14,000 |
| (Being the transfer of amounts spent on building extension to HO A/c) | | | |

**Head Office Account**

| 2020 | Particulars | Amount (₹) | 2020 | Particulars | Amount (₹) |
|---|---|---|---|---|---|
| Sept 30 | To Cash Remittance | 52,900 | April 1 | By Balance b/d | 1,88,000 |
| | To Sundries* (Revenue) | 1,44,900 | | By Sundries* (Revenue) | 2,82,600 |
| | To Building A/c | 14,000 | | | |
| | To Balance c/d | 2,58,800 | | | |
| | Total | 4,70,600 | | Total | 4,70,600 |

** Instead of using Sundries (Revenue) A/c, the concerned revenue accounts can be posted in the ledger.*

**Balance Sheet of Noida Branch**
**As at 30th Sept 2020**

| Liabilities | Amt (₹) | Assets | Amt (₹) |
|---|---|---|---|
| Creditors | 33,400 | Debtors | 2,29,000 |
| Head Office A/c | 2,58,800 | Salary Advance | 5,000 |
| | | Prepaid Insurance | 5,600 |
| | | Building Extension A/c transferred to HO | |
| | | Cash in Hand | 5,600 |
| | | Cash at Bank | 47,000 |
| Total | 2,92,200 | Total | 2,92,200 |

**Working Notes**

**Cash and Bank Account**

| Particulars | Amt (₹) | Particulars | Amt (₹) |
|---|---|---|---|
| To Balance b/d | 26,000 | By Wages | 24,000 |
| To Collection from debtors | 2,57,000 | By Salaries | 15,600 |
| | | By Insurance | 11,200 |
| | | By General Expenses | 7,800 |
| | | By HO A/c | 52,900 |
| | | By Manager's Salary | 16,400 |
| | | By Creditors | 88,500 |
| | | By Building A/c | 14,000 |
| | | By Balance c/d | |

| | | | |
|---|---|---|---|
| | | - Cash in Hand | 5,600 |
| | | - Cash at bank | 47,000 |
| Total | 2,83,000 | Total | 2,83,000 |

**Debtors Account**

| Particulars | Amt (₹) | Particulars | Amt (₹) |
|---|---|---|---|
| To Balance b/d | 2,24,000 | By Cash Collection | 2,57,000 |
| To Sales A/c | 2,78,000 | By Discount (Allowed) | 16,000 |
| | | By Balance c/d | 2,29,000 |
| Total | 5,02,000 | Total | 5,02,000 |

**Creditors Account**

| Particulars | Amt (₹) | Particulars | Amt (₹) |
|---|---|---|---|
| To Cash A/c | 88,500 | By Balance b/d | 62,000 |
| To Discount (Earned) | 4,600 | By Purchases | 64,500 |
| To Balance c/d | 33,400 | | |
| Total | 1,26,500 | Total | 1,26,500 |

**Note:**

Since the date of payment of fire insurance has not been mentioned in the question, it is assumed that it was paid on 01 April 2020. Alternative answer considering otherwise also possible.

**(b) In the books of Mr. Arun**

**Trading and Profit and Loss Account for the Year Ended 31st March 2021**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To Opening Stock | 3,50,000 | By Sales (W.N. 3) | |
| To Purchases (W.N.1) | 4,55,000 | Credit | 6,00,000 |
| To Gross Profit (b.f.) | 1,45,000 | Cash | 1,50,000 |
| | | By Closing Stock | 2,00,000 |
| Total | 9,50,000 | Total | 9,50,000 |
| To Salary (₹ 2,500 x 12) | 30,000 | By Gross Profit | 1,45,000 |
| To Rent | 20,000 | | |
| To Office Expenses (₹ 1,500 x 12) | 18,000 | | |

| | | | |
|---|---|---|---|
| To Loss of Cash (W.N.6) | 29,500 | | |
| To Depreciation on furniture | 5,000 | | |
| To Net Profit (b.f.) | 42,500 | | |
| Total | 1,45,000 | Total | 1,45,000 |

**Balance Sheet**

**As on 31st March 2021**

| Liabilities | | Amount (₹) | Assets | | Amount (₹) |
|---|---|---|---|---|---|
| Arun's Capital | 5,05,000 | | Furniture | 50,000 | |
| Add: Profit | 42,500 | | Less: Depreciation | (5,000) | 45,000 |
| Less: Drawings | (7,500) | 5,40,000 | Stock | | 2,00,000 |
| (₹ 625 X12) | | | Debtors | | 1,50,000 |
| Creditors | | 1,82,500 | Cash at bank | | 3,27,500 |
| Total | | 7,22,500 | Total | | 7,22,500 |

**Working Notes:**

**(1) Calculation of Purchases**

**Creditors Account**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To Bank A/c | 3,75,000 | By Balance b/d | 1,02,500 |
| To Balance c/d | 1,82,500 | By Purchases (Bal Fig) | 4,55,000 |
| Total | 5,57,500 | Total | 5,57,500 |

**(2) Calculation of Total Sales**

| Particulars | Amount (₹) |
|---|---|
| Sales for the year 2019-20 | 6,25,000 |
| Add: 20% increase | 1,25,000 |
| Total sales for the year 2020-21 | 7,50,000 |

**(3) Calculation of Credit Sales**

| Particulars | Amount (₹) |
|---|---|
| Total Sales | 7,50,000 |
| Less: Cash sales (20% of total sales) | (1,50,000) |
| Credit sales | 6,00,000 |

**(4) Calculation of cash collected from debtors**

**Debtors Account**

| Particulars | (₹) | Particulars | (₹) |
|---|---|---|---|
| To Balance b/d | 1,25,000 | By Bank A/c (Bal Fig) | 5,75,000 |
| To Sales A/c | 6,00,000 | By Balance c/d | 1,50,000 |
| Total | 7,25,000 | Total | 7,25,000 |

**(5) Calculation of closing balance of cash at bank**

**Bank Account**

| Particulars | (₹) | Particulars | (₹) |
|---|---|---|---|
| To Balance b/d | 47,500 | By Creditors A/c | 3,75,000 |
| To Debtors A/c | 5,75,000 | By Rent A/c | 20,000 |
| To Cash A/c | 1,00,000 | By Balance c/d (b.f) | 3,27,500 |
| Total | 7,22,500 | Total | 7,22,500 |

**(6) Calculation of the amount of cash defalcated by the cashier**

| Particulars | Amount (₹) |
|---|---|
| Cash Balance as on 1st April 2020 | 35,000 |
| Add: Cash sales during the year | 1,50,000 |
| Less: Salary | (30,000) |
| Office Expenses | (18,000) |
| Drawings of Arun | (7,500) |
| Cash deposited into bank during the year | (1,00,000) |
| Cash Balance as on 31 March 2021 (defalcated by the cashier) | 29,500 |

**Question 4**

*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 ₹ 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* | |
| *Debenture 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 ₹ 100 each* *5,00,000*

*10,000, equity shares of ₹ 100 each* *10,00,000*

*Issued equity capital as on 1st April 2020 stood at ₹ 7,20,000, that is 6,000 shares fully paid and 2,000 shares ₹ 60 paid. The directors made a call of ₹ 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 @ ₹ 90 per share as fully paid.*

*(ii) On 31st March 2021, the Directors 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 valuer wishes to revalue the land at ₹ 36,00,000.*

*(iv) Suspense account of ₹ 40,000 represents amount received for the sale of some of the machinery on 1-4-2020. The cost of the machinery was ₹ 1,00,000 and the accumulated depreciation thereon being ₹ 30,000.*

* *This should have been given as 31.3.2021.*

*(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 & taxation.* ***(20 Marks)***

**Answer**

**H Ltd**

**Balance Sheet as at 31st March 2021**

| Particulars | Note No | Amount in ₹ |
|---|---|---|
| **Equity and Liabilities** | | |
| **I. Shareholders' Funds** | | |
| a. Share Capital | 1 | 13,00,000 |
| b. Reserves and Surplus | 2 | 53,91,900 |
| **II. Non-Current Liabilities** | | |
| a. Long Term Borrowings | 3 | 4,00,000 |
| **III. Current Liabilities** | | |
| a. Trade Payables | 4 | 10,40,000 |
| b. Other Current Liabilities | 5 | 70,000 |
| Total | | 82,01,900 |
| **Assets** | | |
| **I. Non-Current Assets** | | |
| a. Property, Plant and Equipment | 6 | 40,61,000 |
| b. Intangible Assets | 7 | 10,00,000 |
| **II. Current Assets** | | |
| a. Inventories | | 9,50,000 |
| b. Trade Receivables | | 19,60,000 |
| c. Cash and Cash equivalents | | 2,30,900 |
| Total | | 82,01,900 |

**Statement of Profit and Loss for the year ended 31st March 2021**

| Particulars | Note No | Amount in ₹ |
|---|---|---|
| **I. Revenue from operations** | | 60,00,000 |
| **Total Revenue** | | 60,00,000 |

| | | | |
|---|---|---|---|
| **II.** | **Expenses** | | |
| | Purchases (adjusted) | | 22,32,100 |
| | Finance Costs | 8 | 36,000 |
| | Depreciation and Amortization | 9 | 3,17,000 |
| | Other Expenses | 10 | 32,30,000 |
| | **Total Expenses** | | 58,15,100 |
| **III.** | **Profit/(Loss) for the period** | | 1,84,900 |

**Notes to Accounts** **(Amount in ₹)**

| | | | |
|---|---|---|---|
| 1 | **Share Capital** | | |
| | a. Authorized Capital | | |
| | 5,000, 6% Preference shares of ₹ 100/- each | | 5,00,000 |
| | 10,000 Equity Shares of ₹100/- each | | 10,00,000 |
| | | | 15,00,000 |
| | b. Issued & Subscribed Capital | | |
| | 5,000, 6% Preference shares of ₹100/- each | | 5,00,000 |
| | 8,000, Equity shares of ₹100/- each | | 8,00,000 |
| | Total | | 13,00,000 |
| 2 | **Reserves & Surplus** | | |
| | Capital Reserve (100 X (90-40)) | | 5,000 |
| | Revaluation Reserve (36,00,000-24,00,000) | | 12,00,000 |
| | General Reserve | | 40,00,000 |
| | Surplus | 1,84,900 | |
| | Add: Balance from previous year | 72,000 | |
| | Less: | | |
| | Dividends declared | (70,000) | |
| | Profit/(Loss) carried forward to Balance Sheet | | 1,86,900 |
| | Total | | 53,91,900 |
| 3 | **Long-Term Borrowings** | | |
| | Secured | | |
| | 9% Debentures | | 4,00,000 |
| 4 | **Trade Payables** | | 10,40,000 |

| | | | | |
|---|---|---|---|---|
| 5 | **Other Current Liabilities** | | | |
| | Dividend Payable | | | |
| | Preference Dividend | | 30,000 | |
| | Equity Dividend | | 40,000 | |
| | | Total | | 70,000 |
| 6 | **Property, Plant and Equipment** | | | |
| | Land | | | |
| | Opening balance | | 24,00,000 | |
| | Add: Revaluation Adjustment | | 12,00,000 | |
| | Closing Balance | | | 36,00,000 |
| | Plant and Machinery | | | |
| | Opening Balance | | 7,70,000 | |
| | Less: Disposed off | | (1,00,000) | |
| | Depreciation | | (2,09,000) | |
| | Closing Balance | | | 4,61,000 |
| | | Total | | 40,61,000 |
| 7 | **Intangible Assets** | | | |
| | Goodwill | | 12,50,000 | |
| | Less: Amortized (1/5$^{th}$) | | (2,50,000) | |
| | | Total | | 10,00,000 |
| 8 | **Finance Costs** | | | |
| | Debenture Interest | | | 36,000 |
| 9 | **Depreciation and Amortization** | | | |
| | Plant and Machinery | | 67,000 | |
| | Goodwill | | 2,50,000 | |
| | | Total | | 3,17,000 |
| 10 | **Other Expenses** | | | |
| | Factory Expenses | | 15,00,000 | |
| | Selling Expenses | | 14,00,000 | |
| | Administrative Expenses | | 3,00,000 | |
| | Loss on sale of Plant and Machinery | | | |
| | Book Value | | | |
| | (1,00,000-30,000) | 70,000 | | |

| | | | | |
|---|---|---|---|---|
| | Less: Sale Value | (40,000) | 30,000 | |
| | | Total | | 32,30,000 |

**Note**

1. The inventories (31.3.20) amounting ₹ 9, 50,000 (given in the trial balance of the question) should have been as closing inventory i.e. as on 31.3.21. In the above solution, this inventory has been considered as closing inventory i.e. for 31.3.21. If this is considered as inventory of 31.3.20, the closing inventory (as on 31.3.21) will not be available for the balance sheet as on 31.3.21 and in that case, the balance sheet will not tally without using suspense account amounting ₹ 9,50,000.
2. The financial statements given in the above answer include adjustment for dividend declared on 31st March, 2021, strictly, as per the information given in the question. However, practically dividends are declared in the annual general meetings which take place after the reporting date.

**Question 5**

*(a) 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 & 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 garment* | *5,00,000* | *-* |
| *Direct wages* | *3,00,000* | *67,30,000* |
| *Direct expenses* | *1,00,000* | *19,50,000* |
| *Plant and Equipment 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:*

| | | ₹ |
|---|---|---|
| *(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.* ***(10 Marks)***

*(b) 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 ₹ 100 per debenture.*

*(ii) Convertible portion per debenture- 60%, date of conversion- on expiry of 7 months from the date of closing of 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 ₹ 60 (Face Value ₹ 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).* ***(10 Marks)***

**Answer**

**(a)** **M/s K Creations**

**Departmental Trading and Profit & Loss Account**

**For the Year Ended 31st March 2021**

| Particulars | Dyed Fabric Department (₹) | Readymade Garments Department (₹) | Total (₹) | Particulars | Dyed Fabric Department (₹) | Readymade Garments Department (₹) | Total (₹) |
|---|---|---|---|---|---|---|---|
| To Opening Stock | 5,40,000 | 15,20,000 | 20,60,000 | By Sales | 31,06,000 | 3,12,50,000 | 3,43,56,000 |
| To Purchases | 20,12,080 | 1,50,00,000 | 1,70,12,080 | By Transfer to Readymade Garments | 5,00,000 | | 5,00,000 |
| To Transfer from Dyed Fabric Department | | 5,00,000 | 5,00,000 | By Closing Stock | 6,00,000 | 22,50,000 | 28,50,000 |
| To Direct Wages | 3,00,000 | 67,30,000 | 70,30,000 | | | | |
| To Direct Expenses | 1,00,000 | 19,50,000 | 20,50,000 | | | | |
| To Depreciation* | 1,00,000 | 3,00,000 | 4,00,000 | | | | |
| To Gross Profit | 11,53,920 | 75,00,000 | 86,53,920 | | | | |
| Total | 42,06,000 | 3,35,00,000 | 3,77,06,000 | Total | 42,06,000 | 3,35,00,000 | 3,77,06,000 |
| To Rent and Warehousing | 4,50,000 | 12,00,000 | 16,50,000 | By Gross Profit | 11,53,920 | 75,00,000 | 86,53,920 |
| To Salaries | 90,000 | 1,80,000 | 2,70,000 | | | | |
| To Advertisement Expenses | 8,137 | 81,863 | 90,000 | | | | |
| To General Expenses | 2,00,000 | 6,00,000 | 8,00,000 | | | | |
| To Net Profit | 4,05,783 | 54,38,137 | 58,43,920 | | | | |
| Total | 11,53,920 | 75,00,000 | 86,53,920 | Total | 11,53,920 | 75,00,000 | 86,53,920 |

**Profit and Loss Account (Combined)**

| Particulars | Amt (₹) | Particulars | Amt (₹) |
|---|---|---|---|
| To Unrealized Profit (WN) | 1,58,400 | By Net Profit | 58,43,920 |
| To General Net Profit | 56,85,520 | | |
| Total | 58,43,920 | Total | 58,43,920 |

* *Shown here as it relates with property, plant & equipment used for dyeing/stitching garments.*

**Calculation of Stock Reserve**

Rate of Gross Profit of Dyed Fabric Department for the year 2020-21

= 11, 53,920 X (31, 06,000+5, 00,000) X 100 = 32%

Closing stock of Dyed Fabric in Readymade Garments Department

= 22, 50,000 x 60% = ₹ 13, 50,000

Stock reserve required for unrealized profit @ 32% on closing stock

= 13, 50,000 x 32% = ₹ 4, 32,000

Stock reserve for unrealized profit included in opening stock of Readymade Garments Department = ₹ 15, 20,000 x 60% x 30% = ₹ 2, 73,600

Additional stock reserve required = ₹ 4, 32,000 - ₹ 2, 73,600 = ₹ 1, 58,400

**(b)**

| Date | Particulars | Debit (₹) | Credit (₹) |
|---|---|---|---|
| 1.05.2020 | 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 debentures @ ₹100/- each) | | |
| 1.06.2020 | Debenture Application A/c Dr. | 2,50,00,000 | |
| | Underwriters A/c Dr. | 50,00,000 | |
| | To 8% Debentures A/c | | 3,00,00,000 |
| | (Being allotment of 2,50,000 debentures to applicants and 50,000 debentures to underwriters) | | |
| 1.06.2020 | Underwriting Commission A/c Dr. | 3,00,000 | |
| | To Underwriters A/c | | 3,00,000 |
| | (Being commission payable to underwriters @ 1% on ₹ 3,00,00,000) | | |
| 1.06.2020 | Bank A/c Dr. | 47,00,000 | |
| | To Underwriters A/c | | 47,00,000 |
| | (Being amount received from underwriters in settlement) | | |
| 1.06.2020 | Debenture Redemption Investments A/c Dr. | 18,00,000 | |
| | To Bank A/c | | 18,00,000 |
| | (3, 00,000 x 100 x 15% x 40% - Being investments for redemption purposes) | | |

| | | | |
|---|---|---|---|
| 30.09.2020 | Debenture Interest A/c Dr.<br>To Bank<br>(Being interest paid on debentures for 4 months @ 8% on ₹ 3,00,00,000) | 8,00,000 | <br>8,00,000 |
| 30.11.2020 | 8% Debentures A/c Dr.<br>To Equity Share Capital A/c<br>To Securities Premium A/c<br>(Being conversion of 60% of the debentures into shares of ₹ 60 each with a face value of ₹10/-) | 1,80,00,000 | <br>30,00,000<br>1,50,00,000 |
| 31.03.2021 | Debenture Interest A/c Dr.<br>To Bank A/c<br>(Being interest paid on debentures for 6 months @ 8%) | 7,20,000 | <br>7,20,000 |

**Working Note:**

Calculation of Debenture Interest for the half year ended 31st March, 2021

On ₹ 1, 20, 00,000 for 6 months @ 8% = ₹4, 80,000

On ₹ 1, 80, 00,000 for 2 months @ 8% = ₹ 2, 40,000

₹7, 20,000

**Question 6**

*Answer any* ***four*** *of the following:*

*(a) A trader commenced business on April 1, 2020 with ₹ 120,000, represented by 6000 units of a certain product at ₹ 20 per unit. During the year 2020-21 he sold these units at ₹ 30/- per unit and had withdrawn ₹ 60,000. The price of the product at the end of financial year was ₹ 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.*

*(b) 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* | *₹* |
|---|---|
| *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 ₹ 7,000 was written off on a particular item, which was originally purchased for ₹ 20,000 and was sold during the year for ₹ 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 ₹ 40,000. Compute the amount of the claim.*

(c) *An Engineer purchased a compressing machine on hire purchase system. As per the terms he is required to pay ₹ 1,40,000 down, ₹ 1,06,000 at the end of first year, ₹ 98,000 at the end of the second year ₹ 87,000 at the end of the third year and ₹ 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.*

(d) *S. Ltd. was incorporated on 30th November 2020 to take over the running Business of proprietorship firm of Mr. S. The various expenses debited to the profit and loss Account for the year 2020-21 included:*

(i) *Directors fees*

(ii) *Preliminary expenses written off*

(iii) *Salaries and 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) *Sale 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.*

(e) *Following is the extract of the Balance Sheet of K Ltd (listed company) as at 31st March, 2020*

| | |
|---|---|
| *Authorized capital:* | ₹ |
| *3,00,000 Equity shares of ₹ 10 each* | 30,00,000 |
| | 30,00,000 |
| *Issued and Subscribed capital:* | |
| *2,00,000 Equity shares of ₹ 10 each,* | *16,00,000* |
| *₹ 8 paid up* | |

| | |
|---|---|
| *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 @ ₹ 2 each on 2,00,000 equity shares. The call money was received by 25th 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.*

*Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue.* ***(4 Parts x 5 Marks = 20 Marks)***

**Answer**

**(a) Physical Capital Maintenance at Current Cost**

In the given case, the specific price index applicable to the product is 125 (25/20X100).

Current cost of opening stock = (₹ 1, 20,000 / 100) x 125 Or 6,000 units x ₹ 25 = ₹ 1, 50,000

Current cost of closing cash = ₹ 1, 20,000 (₹ 1, 80,000 – ₹ 60,000)

Opening equity at closing current costs = ₹ 1, 50,000

Closing equity at closing current costs = ₹ 1, 20,000

Retained Profit = ₹ 1, 20,000 – ₹ 1, 50,000 = (-) ₹ 30,000

The negative retained profit indicates that the trader has failed to maintain his capital. The available fund of ₹ 1, 20,000 is not sufficient to buy 6,000 units again at increased price of ₹ 25 per unit. The drawings should have been restricted to ₹ 30,000 (₹ 60,000 – ₹ 30,000).

**If the trader had not withdrawn any amount, then the answer would have been as below:**

Current cost of opening stock = ₹ 1, 80,000

Opening equity at closing current costs = ₹ 1, 50,000

Retained Profit = ₹ 1, 80,000 – ₹ 1, 50,000 = ₹ 30,000

If the trader had not withdrawn any amount, then the retained profit would have been ₹ 30,000.

**(b) Computation of claim for loss of stock**

**Memorandum Trading Account as on 13.01.2021**

| Particulars | Normal | Abnormal | Total | Particulars | Normal | Abnormal | Total |
|---|---|---|---|---|---|---|---|
| To Opening Stock | 44,000 | 13,000 | 57,000 | By Sales | 4,80,000 | 18,000 | 4,98,000 |
| To Purchases | 3,05,000 | - | 3,05,000 | By Closing Stock | 49,000 | - | 49,000 |
| To Manufacturing Expenses | 60,000 | - | 60,000 | | | | |
| To Gross Profit | 1,20,000 | 5,000 | 1,25,000 | | | | |
| Total | 5,29,000 | 18,000 | 5,47,000 | Total | 5,29,000 | 18,000 | 5,47,000 |

Insurance policy was for ₹ 40,000 as such goods are under-insured. The amount of claim should be restricted to the policy amount, ie. ₹ 40,000.

**(c)** Ratio of interest and amount due = $\frac{\text{Rate of interest}}{100 + \text{Rate of interest}} = \frac{12}{112}$

| No of instalments | Instalment amount (₹) | Amount due at the time of instalment (₹) | Interest (₹) | Principal due at the beginning (₹) |
|---|---|---|---|---|
| (1) | | (2) | (3) | (4) |
| 4th | 55,000 | 55,000 | 5,893 | 49,107 |
| 3rd | 87,000 | 1,36,107 | 14,583 | 1,21,524 |
| 2nd | 98,000 | 2,19,524 | 23,520 | 1,96,004 |
| 1st | 1,06,000 | 3,02,004 | 32,358 | 2,69,646 |

Total Cash Price = ₹ 1,40,000 + ₹ 2,69,646 = ₹ 4,09,646

**(d)**

| No. | Particulars | Basis of apportionment |
|---|---|---|
| (i) | Directors Fees | Charge to Post incorporation period |
| (ii) | Preliminary Expenses written off | Charge to Post incorporation period |
| (iii) | Salaries and general expenses | Time ratio |
| (iv) | Statutory Audit Fees | Charge to Post incorporation period |

| | | |
|---|---|---|
| (v) | Tax Audit Fees u/s 44 AB of the Income Tax Act, 1961 | On the basis of sales /turnover ratio in the respective periods |
| (vi) | Commission to travel agents | On the basis of sales / turnover ratio in the respective periods |
| (vii) | Sales Promotion expenses | On the basis of sales / turnover ratio in the respective periods |
| (viii) | Advertisement Expenses | On the basis of sales / turnover ratio in the respective periods |
| (ix) | Rent Expenses | Time Ratio |
| (x) | Bad Debts | On the basis of sales / turnover ratio in the respective periods |

**(e)** **Journal Entries**

| Date | Particulars | | ₹ | ₹ |
|---|---|---|---|---|
| 1.04.2020 | Equity Share Final Call A/c | Dr. | 4,00,000 | |
| | To Equity Share Capital A/c | | | 4,00,000 |
| | (Being final call of ₹ 2/- per share on 2,00,000 equity shares due as per Board's resolution dated ………..) | | | |
| 25.04.2020 | Bank A/c | Dr. | 4,00,000 | |
| | To Equity Share Final Call A/c | | | 4,00,000 |
| | (Final Call money on 2,00,000 equity shares received) | | | |
| | Capital Redemption Reserve A/c | Dr. | 1,20,000 | |
| | General Reserve A/c | Dr. | 3,60,000 | |
| | Profit and Loss A/c | Dr. | 20,000 | |
| | To Bonus to shareholders | | | 5,00,000 |
| | (Being provision for bonus shares at one share for every four shares held as per Board's resolution dated…………)* | | | |
| | Bonus to shareholders | Dr. | 5,00,000 | |
| | To Equity Share Capital A/c | | | 5,00,000 |
| | (Being issue of bonus shares) | | | |

**Any other logical method for utilization of reserves may be followed as per the Companies Act, 2013.*

**Extract of Balance Sheet**

| | |
|---|---|
| ***Authorized Capital*** | ₹ |
| 3,00,000 Equity shares of ₹ 10/- each | 30,00,000 |
| ***Issued and Subscribed Capital*** | |
| 2,50,000 Equity shares of ₹10/- each, fully paid | 25,00,000 |
| (Out of the above 50,000 Equity shares ₹10/- each were issued by way of bonus shares) | |
| ***Reserves and Surplus*** | |
| Securities premium (not realized in cash) | 75,000 |
| Profit and Loss Account | 5,80,000 |

**Note:** As per SEBI regulations, securities premium should be realized in cash, whereas under the Companies Act, 2013 there is no such requirement. In accordance with Section 52, securities premium may arise on account of issue of shares other than by way of cash. Thus, for unlisted companies, securities premium (not realized in cash) may be used for issue of bonus shares, whereas the same cannot be used in case of listed companies.