PAPER – 1 : ACCOUNTING

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

*Answer any **five** questions from the remaining **six** 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

(a) *Following information of M/s BS Products Ltd. is given :*

(i) *Goods of ₹ 2,00,000 sold to M/s Den Ltd. on 20-03-2020 but at the request of the buyer these were delivered on 10-04-2020.*

(ii) *On 15-01-2020 goods of ₹ 3,00,000 were sent on consignment basis, of which 20% of the goods unsold are lying with the consignee as on 31-03-2020.*

(iii) *₹ 4,00,000 worth of goods were sold on approval basis on 01-12-2019. The period of approval was 3 months after which they were considered as sold. Buyer sent approval for 75% goods upto 31-01-2020 and no approval or disapproval received for the remaining goods till 31-03-2020.*

(iv) *Apart from the above, M/s BS Products Ltd. sells goods to dealers also. One of the condition of sale is that interest is payable @ 2% p.m. for delayed payments by dealers. Percentage of interest recovery is only 10% i.e. ₹ 50,000 on such overdue outstanding due to various reasons. During the year 2019-20, company wants to recognize the entire interest receivable of ₹ 60,000.*

You are required to advise the accountant of M/s BS Products Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9 and also determine the total revenue to be recognized for the year ending 31-03-2020.

(b) *The closing inventory at cost of a company amounted to ₹ 11,38,800 as on 31st March, 2020. The following items were included at cost in the total:*

(i) *1600 units of coats, which had cost of ₹ 150 each. These goods can be sold for ₹ 300 each subject to 5% brokerage on proceeds. Owing to the defect in manufacture, they were all sold after the balance sheet date at 50% of their selling price.*

(ii) *2000 units of partly finished sets of dresses, cost incurred till date (31st March, 2020) is ₹ 220 per unit. These units can be sold in next year by incurring additional expense of ₹ 80 per unit. Expected Selling price is ₹ 310 subject to selling expenses of ₹ 15 per unit.*

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

(c) *A construction contractor has a fixed price contract for ₹ 36,000 lakhs to build a bridge in 3 years time frame. A summary of some of the financial data is as under:*

(Amount in lakhs)

Particulars	*Year 1*	*Year2*	*Year3*
Initial amount for revenue agreed in contract	*36,000*	*36,000*	*36,000*
Variation in revenue (+)		*800*	*800*
Construction cost incurred upto the reporting date	*8,372*	*24,672**	*32,800***
Estimated Profit for whole contract	*3,800*	*4,000*	*4,000*

* *includes ₹ 400 lakhs for standard materials stored at the site to be used in year 3 to complete the work.*

** *includes ₹ 400 lakhs for standard material brought forward from year 2.*

The variation of cost and revenue in year 2 has been approved by customer.

Compute year wise amount of revenue, expenses, contract cost to complete and profit or loss to be recognized in the statement of profit & loss as per AS- 7 (Revised).

(d) Fast Ltd. decides to absorb Slow Ltd. Following, particulars of Slow Ltd. are given:

Particulars	*Amount (₹)*
56,000 Equity shares of ₹ 10 each fully paid up	*5,60,000*
9% Preference Shares of ₹ 100 each	*4,00,000*
7% Debentures of ₹ 100 each	*3,50,000*

Other information:

(i) 7% Debenture holders of Slow Ltd. will be discharged by Fast Ltd. at 10% premium by issuing 6% New Debentures of Fast Ltd.

(ii) 9% Preference Shareholders of Slow Ltd. will be discharged at 5% premium by issuing necessary number of 10% preference shares of Fast Ltd. (Face value ₹ 100 each)

(iii) Equity shareholders of Slow Ltd. will be issued 6 equity shares of Fast Ltd. for 7 Equity shares of Slow Ltd. at par. Nominal Value of each equity share of Fast Ltd. is ₹ 10 each,

(iv) Equity Shareholders of Slow Ltd. will get ₹ 2 in cash for each share they held in Slow Ltd.

Compute Purchase consideration as per AS 14. ***(4 Parts X 5 Marks= 20 Marks)***

Answer

(a) As per AS 9 “Revenue Recognition”, in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i)

The sale is complete but delivery has been postponed at buyer's request. M/s BS Products Ltd. should recognize the entire sale of ₹ 2,00,000 for the year ended 31st March, 2020.

Case (ii)

20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹2,40,000 (80% of ₹ 3,00,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (iii)

In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 4,00,000 as the time period for rejecting the goods had expired.

Case (iv)

As per the standard, "where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty involved. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made". In this case, interest should be recognized only if the ultimate collection is certain and the company expects to realize interest for the delayed payments for ₹ 50,000 only. Hence, based on the past experience, the realization of interest for the delayed payments by the agent is certain only to the extent of this amount and not ₹ 60,000. Therefore, the interest income of ₹ 50,000 should be recognized in the books for the year ended 31st March, 2020.

Thus total revenue amounting ₹8,90,000 (2,00,000 + 2,40,000+ 4,00,000+ 50,000) will be recognized for the year ended 31st March, 2020 in the books of M/s BS Products Ltd.

(b) **Valuation of Closing Stock**

Particulars	₹	₹
Closing Stock at cost		11,38,800
Less: Adjustment for dresses-		
Cost of 2,000 units of partly finished set of dresses	4,40,000	

(2,000 x ₹ 220)		
Less: Net Realizable Value [2,000 x ₹ 215]	4,30,000	(10,000)
Value of Closing Stock		11,28,800

Note: No adjustment for coats has been done in the above answer because coats are to be valued at ₹ 150 each [lower of cost ₹ 150 and selling price ₹ 285 (₹ 300 less 5% brokerage)] Moreover, if the selling price of ₹ 150 (being 50% of normal selling price of ₹ 300) is assumed and brokerage is ignored, then also no adjustment is required is to be done because in that case, cost and selling price both will be equal i.e. ₹ 150.

However, if it is assumed that the brokerage of 5% is also on selling price of ₹ 150, then the answer will get changed and, in that case, the following answer will be given:

Alternative Solution

Particulars	₹	₹
Closing Stock at cost		11,38,800
Less: Adjustment for dresses-		
Cost of 2,000 units of partly finished set of dresses (2,000 x ₹ 220)	4,40,000	
Less: Net Realizable Value [2,000 x ₹ 215]	4,30,000	(10,000)
Less: Adjustment for coats		
Cost of 1,600 coats (1,600 x ₹ 150)	2,40,000	
Less: Net Realizable Value [1,600 x ₹ 142.50 (150 – 5% of 150)]	2,28,000	(12,000)
Value of closing stock		11,16,800

Note: It is assumed that the partly finished unit cannot be sold in semi-finished form and its NRV is zero without processing it further.

Working Note:

Value of inventory for partly finished set of dress will be determined as below:

	₹
Net selling price	310
Less: Estimated cost of completion	(80)
	230
Less: Selling expense	(15)
Net Realizable Value	215
Cost of inventory (included in the value of ₹11,38,800)	220
Value of inventory (Lower of cost and net realizable value)	215

(c) Amounts of revenue, expenses and profit recognized in the statement of profit and loss in three years are computed below:

(Amount in ₹ lakhs)

	Up to reporting date	*Recognized in previous years*	*Recognized in current year*
Year 1			
Revenue (36,000 x 26%)	9,360	-	9,360
Expenses (32,200 x 26%)	8,372	-	8,372
Profit	988	-	988
Year 2			
Revenue (36,800x 74%)	27,232	9,360	17,872
Expenses (32,800 x 74%)	24,272	8,372	15,900
Profit	2,960	988	1,972
Year 3			
Revenue (36,800x 100%)	36,800	27,232	9,568
Expenses (32,800 x 100%)	32,800	24,272	8,528
Profit	4,000	2,960	1,040

Working Note:

	Year 1	*Year 2*	*Year 3*
Revenue after considering variations	36,000	36,800	36,800
Less: Estimated profit for whole contract	3,800	4,000	4,000
Estimated total cost of the contract (A)	32,200	32,800	32,800
Actual cost incurred up to the reporting date (B)	8,372	24,272 (24,672-400)	
Degree of completion (B/A)	26%	74%	100%

(d) Computation of purchase consideration

		₹	Form
9% Preference shareholders:	4,000 X ₹ 100 X105%	4,20,000	10% Pref. shares
Equity shareholders:	56,000 X 6/7X ₹ 10	4,80,000	Equity shares
	56,000 X ₹ 2	1,12,000	Cash
		10,12,000	

Note: According to AS 14, ‘consideration’ excludes any amount payable to debenture-holders. The liability in respect of debentures of Slow Ltd. will be taken by Fast Ltd., which will then be settled by issuing new 6% debentures.

Question 2

Summarized Balance Sheet of R Ltd. and V Ltd. as on 31st March, 2020 was as under:

	R Ltd.	V Ltd.
Liabilities		
Share Capital:		
Equity Shares of ₹ 10 each	5,00,000	1,50,000
9% Preference Shares of ₹ 100 each	50,000	-
10% Preference Shares of ₹ 100 each		50,000
General Reserve		35,000
Capital Reserve	35,000	
Unsecured Loan	25,000	10,000
Trade Payables	65,000	40,000
	6,75,000	2,85,000
Assets		
Non-Current assets		
Building	1,70,000	60,000
Machinery	2,50,000	75,000
Current Assets		
Inventory	1,25,000	61,000
Trade Receivables	1,00,000	50,000
Cash at Bank	30,000	39,000
	6,75,000	2,85,000

R Ltd. took over all assets (except cash and Bank Balance) and all liabilities (except trade payables) of V Ltd. on the following terms:

(a) *10% Preference shareholders of V Ltd. are to be paid at 10% premium by issue of 9% preference shares of R Ltd.*

(b) *V Ltd.'s Building to be valued at ₹ 75,000 and Machinery at ₹ 80,000.*

(c) *V Ltd.'s Inventory to be taken over at 10% less Book value*

(d) *Equity shareholders of V Ltd. will be issued 20,000 equity shares of ₹ 10 each.*

(e) *Liquidation Expenses to be reimbursed by R Ltd. to the extent of ₹ 5,000. Actual liquidation expenses are ₹ 8,000.*

(f) *Trade payables of V Ltd. were settled by V Ltd. at 10% discount.*

Prepare necessary Ledger Accounts to close the books of V Ltd. and show the acquisition entries in the books of R Ltd. Also draft the Balance Sheet after absorption as at 31st March, 2020. ***(16 Marks)***

Answer

Calculation of Purchase consideration

	₹	Form
10% Preference shareholders: 500 X ₹ 100 X110%	55,000	9% Pref. shares
Equity shareholders: 20,000 x ₹ 10	2,00,000	Equity shares
Total Purchase consideration	2,55,000	

Acquisition entries in the books of R Ltd.

Business Purchase A/c	Dr.	2,55,000	
To Liquidator of V Ltd.			2,55,000
(Amount payable to V Ltd. as per agreement dated....)			
Building	Dr.	75,000	
Machinery	Dr.	80,000	
Inventory	Dr.	54,900	
Bills receivable	Dr.	50,000	
Goodwill	Dr.	5,100	
To Unsecured loan			10,000
To Business Purchases Account			2,55,000
(Various assets and liabilities taken over from V Ltd. Goodwill ascertained as a balancing figure)			
Liquidator of V Ltd.	Dr.	2,55,000	
To 9% Preference Share Capital A/c			55,000
To Equity Share Capital A/c			2,00,000
(Payment by issue of shares in satisfaction of purchase consideration)			
Goodwill Account	Dr.	5,000	
To Cash Account			5,000
(Amount paid towards liquidation expenses on V Ltd.)			
Capital reserve	Dr.	5,000	
To Goodwill A/c			5,000
(Goodwill written off)			

Ledger Accounts in the books of V Limited

Realization Account

	Particulars	₹		*Particulars*	₹
To	Building	60,000	By	Unsecured loan	10,000
To	Machinery	75,000	By	R Ltd. (P.C.)	2,55,000
To	Inventory	61,000	By	Trade Payables	4,000
To	Bills receivable	50,000		(discount received on	
To	Cash (excess expenses of liquidation)	3,000		payment to creditors)	
To	Preference Shareholders	5,000			
To	Equity Shareholders (profit transferred)	15,000			
		2,69,000			2,69,000

Cash and Bank Account

	Particulars	₹		*Particulars*	₹
To	Balance b/d	39,000	By	Realization A/c (liquidation expenses)	3,000
To	R Ltd. (liquidation expenses)	5,000	By	R Ltd.	5,000
			By	Trade payables	36,000
		44,000			44,000

R Ltd. Account

	Particulars	₹		*Particulars*	₹
To	Realization A/c	2,55,000	By	9% preference shares holders	55,000
To	Cash & Bank A/c	5,000	By	Equity shares holders A/c	2,00,000
			By	Cash & Bank A/c	5,000
		2,60,000			2,60,000

Preference Shareholders Account

	Particulars	₹		*Particulars*	₹
To	9% Preference shares in R Limited	55,000	By	10% Preference shares capital A/c	50,000
			By	Realization A/c	5,000
		55,000	By		55,000

Equity Shareholders Account

	Particulars	₹		*Particulars*	₹
To	Equity shares in R Limited	2,00,000	By	Equity share capital A/c	1,50,000
			By	General reserve	35,000
			By	Realization A/c (profit)	15,000
		2,00,000			2,00,000

Trade Payables Account

	Particulars	₹		*Particulars*	₹
To	Realization A/c	4,000	By	Bal. b/d	40,000
To	Cash A/c	36,000			
		40,000			40,000

Balance Sheet of R Ltd. (After absorption)
as at 31st March, 2020

		Particulars	**Notes**	**₹**
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	8,05,000
	B	Reserves and Surplus	2	30,000
2		Long term Borrowings		
	A	Unsecured Loan*	3	35,000
3		Current liabilities		
	A	Trade Payables		65,000
		Total		9,35,000
		Assets		
1		Non-current assets		
	A	Property, Plant and Equipment	4	5,75,000
	B	Intangible Assets (Goodwill)	5	5,100
2		Current assets		
	A	Inventories	6	1,79,900
	B	Trade receivables	7	1,50,000
	C	Cash and cash equivalents (30,000 - 5,000)		25,000
		Total		9,35,000

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	70,000 Equity Shares of ₹ 10 each fully paid (Out of above 20,000 Equity Shares were issued to V Ltd. in consideration other than for cash)		7,00,000
	Preference share capital		
	1,050 9% Preference Shares of ₹ 100 each (Out of above 550 Preference Shares were issued in consideration other than for cash)		1,05,000
	Total		8,05,000
2	Reserves and Surplus		
	Capital Reserve (35,000 – 5,000)		30,000
3	Unsecured Loan		
	R Ltd.	25,000	
	V Ltd.	10,000	35,000
4	Property, Plant and Equipment		
	Buildings R Ltd.	1,70,000	
	V Ltd.	75,000	2,45,000
	Machinery R Ltd.	2,50,000	
	V Ltd.	80,000	3,30,000
	Total		5,75,000
5	Intangible Assets		
	Goodwill		5,100
6	Inventories R Ltd.	1,25,000	
	V Ltd.	54,900	1,79,900
7	Trade receivables R Ltd.	1,00,000	
	V Ltd.	50,000	1,50,000

* *Unsecured Loan has been shown as Long-term borrowings in the answer. Alternatively, it may be shown as short-term borrowings depending upon the time period.*

Question 3

(a) *The partners of TP Enterprise decided to convert the partnership firm into a private limited company named BD Private Ltd. with effect from 1st February, 2019. However, the* *company could be incorporated only on 1st June, 2019. The business was continued on behalf of the company and the consideration of ₹ 10,00,000 was settled on that date (i.e on 1st June, 2019) along with interest @ 15% per annum. The company availed loan of ₹ 15,00,000 @ 10% per annum on 1st June, 2019 to pay purchase consideration and working capital. The company closed its accounts for the first time on 31st March, 2020 and presents you the following summarized profit and loss account:*

Particulars	*(₹)*	*(₹)*
Sales		*22,68,000*
Cost of Goods sold	*12,48,000*	
Discount to dealers	*57,600*	
Director's remuneration	*80,000*	
Salaries	*1,08,000*	
Rent	*1,90,000*	
Interest	*1,75,000*	
Depreciation	*42,000*	*-*
Office expenses	*1,26,000*	
Sales promotion expenses	*48,000*	
Preliminary expenses (to be written off in first year itself)	*25,000*	*20,99,600*
Profit		*1,68,400*

Additional information:

(i) Sales from 1st June, 2019 to 31st October, 2019 were 1.5 times of the average sales, which further increased to 2.5 times in November, 2019 to 31st March, 2020.

(ii) The company recruited additional work force to expand the business. The salary from 1st August, 2019 was 1.5 times of the previous rate.

(iii) The company also acquired additional shop at monthly rent of ₹ 15,000 from August, 2019.

You are required to prepare a Profit and Loss Account showing appropriation of cost and revenue between pre-incorporation and post incorporation periods. ***(10 Marks)***

(b) Big B Enterprise furnishes you the following information for the period June to September, 2020:

(1) Total sales amounted to ₹ 2,50,000 including sale of old Machinery for ₹ 50,000 (book value ₹ 45,000). Total credit sales were 50% more than cash sales.

(2) Cash collection from debtors amounted to 70% of the aggregate of the opening debtors (amounting to ₹ 60,000) and credit sales for the period. Debtors were allowed discount of ₹ 15,000.

(3) Bills receivables drawn during the period for ₹ 30,000, of which one third was dishonoured for non-payment as the party became insolvent and his estate realized 50 paisa in a rupee.

(4) Bills Receivables collected ₹ 10,000

(5) A sum of ₹ 2,000 was written off as bad debts, ₹ 17,000 was realized against bad debts written off in earlier years and provision of ₹ 16,000 was made for doubtful debts.

You are required to prepare Debtors Ledger Adjustment Account in the General Ledger.

(6 Marks)

Answer

(a) Profit & Loss Account of BD Private Ltd.

for the year ended 31st March, 2020

for pre-incorporation and post-incorporation periods ₹

	Ratio	*Total*	*Pre Incorporation*	*Post Incorporation*
Sales	1:5	22,68,000	3,78,000	18,90,000
Less: Cost of goods sold	1:5	12,48,000	2,08,000	10,40,000
Gross Profit (i)		10,20,000	1,70,000	8,50,000
Sales promotion expenses	1:5	48,000	8,000	40,000
Office expenses	2:5	1,26,000	36,000	90,000
Discount to dealers	1:5	57,600	9,600	48,000
Director's remuneration	Post	80,000		80,000
Preliminary expenses	Post	25,000		25,000
Salaries	W.N. 2	1,08,000	24,000	84,000
Rent	W.N.3	1,90,000	20,000	1,70,000
Depreciation	2:5	42,000	12,000	30,000
Interest on Borrowing	W.N. 4	1,75,000	50,000	1,25,000
(ii)		8,51,600	1,59,600	6,92,000
Net Profit [(i) – (ii)]		1,68,400	10,400	1,58,000

Working Notes:

1. **Calculation of Sales Ratio**

Let the average sales per month be x

Total sales from 01.02.2019 to 31.05.2019 will be 4x

Average sales per month from 01.06.19 to 31.10.19 will be 1.5x

Total sales from 01.06.19 to 31.10.19 will be 1.5x X 5 months = 7.5 x

Total sales from 1.11.19 to 31.3.20 will be 2.5x X 5 months = 12.5 x

Ratio of Sales will be 4x: 20x = 1:5

2. **Salary**

Salary from 1.2.19 to 31.5.19 = 4 x

Salary from 1.6.19 to 31.7.19 = 2 x

Salary from 1.8.19 to 31.3.20 = 1.5x X 8 months = 12x

Ratio of salary between pre and post incorporation periods is 4x:14x i.e. 4:14

3. **Apportionment of Rent**

	₹	
Total Rent	1,90,000	
Less: Additional rent from 1.8.2019 to 31.3.2020	1,20,000	
Rent of old premises for 14 months	70,000	
	Pre	**Post**
Apportionment in time ratio (2:5)	20,000	50,000
Add: Rent for new space	______	1,20,000
Total	20,000	1,70,000

4. **Interest on borrowing**

Company's Borrowing Interest = ₹ 15,00,000 x 10% x 10/12 = ₹ 1,25,000

Interest for Pre-incorporation period = ₹1,75,000 – ₹ 1,25,000 = ₹ 50,000

5. **Calculation of time Ratio**

4 Months: 10 Months i.e. 4:10 or 2:5

(b) **General Ledger**

Debtors' Ledger Adjustment Account

Dr. (1.6.20 to 30.9.20)		₹	(1.6.20 to 30.9.20)		*Cr.* ₹
To	Balance b/d	60,000	By	General Ledger	
To	General Ledger			Adjustment A/c:	
	Adjustment A/c:			Collection (Cash& Bank)	1,26,000
	Sales	1,20,000		Discount	15,000
	Bills receivable dishonoured	10,000		Bills Receivable	30,000
				Collection from Dishonoured Bill Receivable (Cash & Bank)	5,000
				Bad Debts (2,000+5,000)	7,000
			By	Balance c/d	7,000
		1,90,000			1,90,000

Working Notes:

1. If cash sales is ₹100, credit sales will be ₹150. Total credit sales shall be 1.5 times of the cash sales i.e. Cash sales will be ₹80,000 and credit sales will be ₹ 1,20,000 (total sales ₹ 2,00,000).
2. Collection of cash/bank i.e.70% of ₹ 1,80,000 (60,000+1,20,000) = ₹ 1,26,000

Question 4

The following is the Balance Sheet of Mr. LMN as on 31st March, 2020:

Liabilities	₹	*Assets*	₹
Capital Account	*4,10,000*	*Machinery*	*1,60,000*
Sundry Creditors for purchases	*60,000*	*Furniture*	*35,000*
		Stock	*25,000*
		Debtors	*1,45,000*
		Cash in Hand	*25,000*
		Cash at Bank	*80,000*
	4,70,000		*4,70,000*

Riots occurred and fire broke out on the evening of 31st March, 2021, destroying the books of account and furniture. The cash available in the cash box was stolen.

The trader gives you the following information:

(i) Sales are 25% for cash and the balance on credit. His total sales for the year ended 31st March, 2021 were 25% higher than the previous year. All the sales and purchases of goods were evenly spread throughout the year (as also in the last year).

(ii) Terms of credit

Debtors	*2 Months*
Creditors	*1 Month*

(iii) Stock level was maintained at ₹ 25,000 all throughout the year.

(iv) A steady Gross Profit rate of 25% on the turnover was maintained throughout the year. Creditors are paid by cheque only, except for cash purchases of ₹ 60,000.

(v) His private records and the Bank Pass-book disclosed the following transactions for the year.

a.	*Miscellaneous Business expenses*	*₹ 1,85,500 (including ₹ 10,000 paid by cheque)*
b.	*Repairs*	*₹ 4,000 (paid by cash)*
c.	*Addition to Machinery*	*₹ 1,00,000 (paid by cheque) (on 1st April, 2020)*
d.	*Private drawings*	*₹ 10,000 (paid by cash)*
e.	*Travelling expenses*	*₹ 20,000 (paid by cash)*
f.	*Introduction of additional capital by deposited into the Bank*	*₹ 50,000*

(vi) Collection from debtors were all through cheques.

(vii) Depreciation on Machinery is to be provided @ 15% p.a.

(viii) The Cash stolen is to be charged to the Profit and Loss Account,

(ix) Loss of furniture is to be adjusted from Capital Account.

Prepare Trading, Profit and Loss Account for the year ended 31st March, 2021 and a Balance Sheet as on that date. ***(16 Marks)***

Answer

Trading and Profit and Loss Account of Mr. LMN

for the year ended 31st March, 2021

	₹		₹
To Opening Stock	25,000	By Sales	14,50,000

To	Purchases	10,87,500	By	Closing Stock	25,000
To	Gross Profit c/d	3,62,500			
		14,75,000			14,75,000
To	Business Expenses	1,85,500	By	Gross Profit b/d	3,62,500
To	Repairs	4,000	By	Net loss	4,000
To	Depreciation (WDV basis)	39,000			
To	Travelling Expenses	20,000			
To	Loss by theft	1,18,000			
		3,66,500			3,66,500

Balance Sheet of Mr. LMN as at 31st March, 2021

Liabilities	₹	₹	Assets	₹	₹
Capital	4,10,000		Machinery	1,60,000	
			Add: additions	1,00,000	
				2,60,000	
Add: Additional Capital	50,000		*Less*: Dep. @ 15%	(39,000)	2,21,000
Less: Net Loss	(4,000)		Stock in Trade		25,000
	4,56,000		Sundry Debtors		1,81,250
Less: Loss of Furniture	(35,000)		Bank		69,375
Drawings	(10,000)	4,11,000			
Sundry Creditors		85,625			
		4,96,625			4,96,625

Working Notes:

1.	**Sales during 2020-2021**	₹
	Debtors as on 31st March, 2020	1,45,000
	(Being equal to 2 months' sales)	
	Total credit sales in 2019- 2020, ₹1,45,000 × 6	8,70,000
	Cash Sales, being equal to 1/3rd of credit sales or 1/4th of the total	2,90,000
	Sales in 2019-2020	11,60,000
	Increase, 25% as stated in the problem	2,90,000
	Total sales during 2020-2021	14,50,000
	Cash sales: 1/4th	3,62,500
	Credit sales: 3/4th	10,87,500

2.	Purchases	
	Sales in 2020-2021	14,50,000
	Gross Profit @ 25%	3,62,500
	Cost of goods sold being purchases (no change in stock level)	10,87,500
3	Debtors equal to two months credit sales	1,81,250
4.	Sundry Creditors for goods	
	(₹10,87,500 – ₹60,000) /12 = ₹10,27,500/12	85,625
5.	Collections from Debtors	
	Opening Balance	1,45,000
	Add: Credit Sales	10,87,500
		12,32,500
	Less: Closing Balance	(1,81,250)
		10,51,250
6.	Payment to Creditors	
	Opening Balance	60,000
	Add: Credit Purchases (₹ 10,87,500 – ₹ 60,000)	10,27,500
		10,87,500
	Less: Closing Balance	(85,625)
	Payment by cheque	10,01,875

7. **Cash and Bank Account**

Particulars	Cash	Bank	Particulars	Cash	Bank
To Balance b/d	25,000	80,000	By Payment to Creditors	60,000	10,01,875
To Collection from Debtors	–	10,51,250	By Misc. Expenses	1,75,500	10,000
To Sales	3,62,500	–	By Repairs	4,000	–
To Additional Capital	–	50,000	By Addition to Machinery	–	1,00,000
			By Travelling Expenses	20,000	–
			By Private Drawings	10,000	–
			By Loss by theft	1,18,000	
			By Balance c/d		69,375
	3,87,500	11,81,250		3,87,500	11,81,250

Question 5

(a) *ABC Ltd. holds 2,000, 15% Debentures of ₹ 100 each in XYZ Ltd. as on April 1, 2020 at a cost of ₹ 2,50,000.*

Interest is payable on June, 30 and December, 31 each year.

Following are the details of 15% Debentures purchased and sold during the year 2020-21

Particulars
On May 1, 2020, 1000 debentures are purchased cum-interest at ₹ 1,05,000.
On November 1, 2020, 1200 debentures are sold ex-interest at ₹ 1,28,200.
On November 30, 2020, 500 debentures are purchased ex-interest at ₹ 54,500.
On December 31, 2020, 900 debentures are sold cum-interest for ₹ 1,18,000

You are required to prepare the investment Account showing value of holdings on March 31, 2021 at cost, using FIFO Method. ***(8 Marks)***

(b) *On account of a fire on 15th June, 2019 in the business house of R. Ramesh & Co, the working remained disturbed upto 15th December, 2019 as a result of which it was not possible to affect any sales. The company had taken out an insurance policy with an average clause against consequential losses for ₹ 5,60,000 and a period of 7 months has been agreed upon as indemnity period. An increase of 25% as marked in the current year's sales as compared to the last year. The company incurred an additional expenditure of ₹ 48,000 to make sales possible and made a saving of ₹ 8,000 in the insured standing charges.*

Particulars	*Amount (₹)*
Actual sales from 15th June, 2019 to 15th December, 2019	*2,80,000*
Sales from 15th June, 2018 to 15th December, 2018	*9,60,000*
Net Profit for last financial year	*3,20,000*
Insured Standing charges for the last financial year	*2,80,000*
Total standing charges for the last financial year	*4,80,000*
Turnover for the last financial year	*24,00,000*
Turnover for one year: 16th June, 2018 to 15th June, 2019	*22,40,000*

From the above information, compute the amount of claim under the loss of profit policy.

(8 Marks)

Answer

(a) **In the Books of ABC Ltd**

15% Debentures (Investment) Account

Particulars		*Nominal Value*	*Interest*	*Principal*	*Particulars*		*Nominal Value*	*Interest*	*Principal*
		₹	₹	₹			₹	₹	₹
1.4.20	To Balance b/d	2,00,000	7,500	2,50,000	30.6.20	By Bank A/c		22,500	
					1.11.20	By Bank A/c	1,20,000	6,000	1,28,200
1.5.20	To Bank A/c	1,00,000	5,000	1,00,000	1.11.20	By P&L A/c			21,800
					31.12.20	By Bank A/c	90,000	6,750	1,11,250
30.11.20	To Bank A/c	50,000	3,125	54,500	31.12.20	By Bank A/c		10,500	
31.12.20	To P&L A/c			1,250	31.3.21	By Balance c/d	1,40,000	5,250	1,44,500
31.3.21	To P&L A/c (Transfer)		35,375						
		3,50,000	51,000	4,05,750			3,50,000	51,000	4,05,750

Working Notes:

1. **Loss on sale of debentures on 1.11.20**

   Cost = 2,50,000/2,000X 1,200 = ₹ 1,50,000

   Sale proceeds = ₹ 1,28,200

   Loss = ₹ 1,50,000 less ₹ 1,28,200 = ₹ 21,800

2. **Profit on sale of debentures on 31.12.20**

   Cost = 2,50,000/2,000X 800 + 1,00,000/1,000X 100 = ₹ 1,10,000 (1,00,000+10,000)

   Sale proceeds = ₹ 1,11,250

   Loss = ₹ 1,11,250 less ₹ 1,10,000 = ₹ 1,250

3. **Calculation of closing balance on 31.3.21**

	Units		₹
Debentures remained in hand at 31.3.21			
Purchased on 1st May, 20	900	1,00,000X9/10	90,000
Purchased on 30th Nov. 20	500	54,500	54,500
	1,400		1,44,500

(b)

	₹
Sales for the period 15.6.2018 to 15.12.2018	9,60,000
Add: 25% increase in sales	2,40,000
Estimated sales in current year	12,00,000
Less: Actual sales from 15.6.2019 to 15.12.2019	(2,80,000)
Short sales	9,20,000

Calculation of gross profit:

Gross profit $= \dfrac{\text{Net profit + Insured standing charges}}{\text{Turnover}} \times 100$

$= \dfrac{₹\ 3,20,000 + ₹\ 2,80,000}{₹\ 24,00,000} \times 100$

= 25%

Calculation of loss of profit:

₹ 9,20,000 x 25% = ₹ 2,30,000

Calculation of claim for increased cost of working:

Least of the following:

(i) Actual expense= ₹ 48,000

(ii) $\text{Increased cost of working} \times \dfrac{\text{G.P. on Adjusted Annual Turnover}}{\text{G.P. as above + Uninsured Standing Charges}}$

$₹\ 48,000 \times \dfrac{(25/100) \times ₹\ 28,00,000}{[(25/100) \times ₹\ 28,00,000] + ₹\ 2,00,000}$ = ₹37,333 approx.

Where,

Adjusted turnover	₹
Turnover from 16.06.2018 to 15.06.2019	22,40,000
Add: 25% increase	5,60,000
	28,00,000

(iii) Gross profit on sales generated due to additional expenditure = 25% x ₹ 2,80,000 = ₹ 70,000.

₹ 37,333 being the least, shall be the increased cost of working.

Calculation loss of profit

	₹
Loss of profit	2,30,000
Add: Increased cost of working	37,333
	2,67,333
Less: Saving in insured standing charges	(8,000)
Loss of Profit	2,59,333

Calculation of insurable amount:

Adjusted annual turnover x G.P. rate

= ₹ 28,00,000 x 25% = ₹ 7,00,000

Claim for consequential loss of profit (Application of Average Clause)

$$= \frac{\text{Insured amount}}{\text{Insurable amount}} \times \text{Total loss of profit}$$

= ₹ 5,60,000/ ₹ 7,00,000 x ₹ 2,59,333

= ₹ 2,07,466.40 or ₹ 2,07,466 (rounded off)

Question 6

A, B and C were partners sharing profits in the ratio of 7:5:3 respectively. On 31st March, 2020, B retired when the firm's Balance Sheet was as follows:

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Capital Accounts:		*Land and Building*	*6,00,000*
A	*4,50,000*	*Plant and Machinery*	*2,18,000*
B	*3,20,000*	*Furniture, Fixture and Fittings*	*1,40,000*
C	*2,15,000*	*Stock*	*90,800*
General Reserve	*1,05,000*	*Trade Debtors*	*1,00,000*
Trade Creditors	*1,02,550*	*Cash at Bank*	*43,750*
	11,92,550		*11,92,550*

It was agreed that:

(i) Land and Building be appreciated by 20%.

(ii) There is an unrecorded Asset of tools ₹ 5,000.

(iii) Provision for bad debts to be made equal to 5% of trade debtors.

(iv) Goodwill of the firm be valued at ₹ 1,80,000 and B's Capital Account be credited with his share of goodwill without raising goodwill account.

(v) Half of the amount due to B be immediately paid off to him by means of a cheque and the balance be treated as loan bearing interest @ 12% per annum.

After B's retirement, A and C admitted Kay (son of Mr. B) as a new partner with effect from 1st April, 2020. At the time of admitting Kay as partner, it was decided among partners that Partner A and Partner B[1] will sacrifice 1/10th each from their share towards partner Kay. Kay brought ₹ 2,00,000 in cash including payment for his share of goodwill as valued by the old firm. The entire amount of ₹ 2,00,000 was credited to Kay's Capital Account. Adjustments were made in the capital accounts for Kay's share of goodwill.

You are required to:

(a) Pass journal entries for all the above transactions without any narration, and

(b) Prepare the Capital Account of all the partners. ***(16 Marks)***

Answer

(a) **Journal Entries**

31st March, 2020

			₹	₹
1.	Land and Building	Dr.	1,20,000	
	To Revaluation A/c			1,20,000
2.	Tool A/c	Dr.	5,000	
	To Revaluation A/c			5,000
3.	Revaluation A/c	Dr	5,000	
	To Provision for bad debts			5,000
	[(₹ 1,00,000 x 5%) - ₹ 5000]			
4.	Revaluation A/c	Dr.	1,20,000	
	To A's Capital A/c			56,000
	To B's Capital A/c			40,000
	To C's Capital A/c			24,000
5.	A's Capital A/c	Dr.	42,000	
	C's Capital A/c	Dr.	18,000	
	To B's Capital A/c			60,000
6.	General reserve A/c	Dr.	1,05,000	
	To A's Capital A/c			49,000

[1] *Partner B to be read as Partner C.*

	To B's Capital A/c			35,000
	To C's Capital A/c			21,000
7.	B's Capital A/c	Dr.	4,55,000	
	To Bank A/c			2,27,500
	To B's Loan A/c			2,27,500
8.	Cash A/c	Dr.	2,00,000	
	To Kay's Capital A/c			2,00,000
9.	Kay's Capital A/c (₹1,80,000x 2/10)	Dr.	36,000	
	To A's Capital A/c			18,000
	To C's Capital A/c			18,000

Capital Accounts of partners

	Amount (₹)					*Amount (₹)*			
	A	*B*	*C*	*Kay*		*A*	*B*	*C*	*Kay*
31.3.20					31.3.20				
To B	42,000		18,000		By Bal. b/d	4,50,000	3,20,000	2,15,000	
To Bank A/c		2,27,500			By general reserve	49,000	35,000	21,000	
To B's Loan A/c		2,27,500			By A		42,000		
					By C		18,000		
To Bal. c/d	5,13,000		2,42,000		By Revaluation A/c	56,000	40,000	24,000	
	5,55,000	4,55,000	2,60,000			5,55,000	4,55,000	2,60,000	
1.4.20					1.4.20				
To A				18,000	By Bal. b/d	5,13,000		2,42,000	
To C				18,000	By Cash				2,00,000
To Bal. c/d	5,31,000		2,60,000	1,64,000	By Kay	18,000		18,000	
	5,31,000		2,60,000	2,00,000		5,31,000		2,60,000	2,00,000

Working Notes:

1. **Calculation of Gaining ratio after retirement of B on 31st March, 2020**

   Old Ratio (A : B : C) 7/15 : 5/15 : 3/15

   New Ratio (A : C) 7/10 : 3/10

   Gain of A New Ratio - Old Ratio = 7/10 - 7 / 15 =35 / 150

   Gain of C 3/10 – 3/15 = 15/150

   Gaining Ratio = 35 : 15 = 7 : 3

2. **Calculation of New ratio and Sacrificing ratio**

1st April, 2020	7:3 (ratio between old partners)		
	A	C	Kay
	7/10 - 1/10= 6/10	3/10 - 1/10 = 2/10	
New ratio	6/10	2/10	2/10
New ratio	6:2:2		
Sacrificing ratio	1:1		

Question 7

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

(a) *Based upon criteria for rating of non-corporate entity, categorize the following as Level I, Level II (SMEs) and Level III (SMEs) entities for the purpose of compliance of Accounting Standards in India.*

(a) *Moon India Co. is having insurance business in India.*

(b) *Rama Textiles whose turnover (excluding other income) exceeds one crore but does not exceed rupees fifty crore in the immediately preceding accounting year.*

(c) *Star Industries is having borrowings (including public deposits) in excess of rupees one crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.*

(d) *Newman Industries is having borrowings (including public deposits) less than rupees fifty lakh at any time during the immediately preceding accounting year.*

(e) *SS Finance is a financial institution carrying its business in India since last 10 years.*

(f) *DD Finance, holding company of SS Finance. (Entity mentioned at Point (e) above)*

(g) *Reliable Co-op Bank, a co-operative bank, carrying banking operations since last 15 years.*

(h) *PQR Granites whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.*

(b) *The following summary cash account has been extracted from the company's accounting records:*

Summary Cash Account

Particulars	*('000)*	*('000)*
Balance as on 01.04.2019		*175.00*
Receipts from customers		*13,915.00*
Issue of Shares		*1,500.00*

Sale of fixed assets		*640.00*
		16,230.00
Payments to suppliers	*10,235.00*	
Payments for fixed assets	*1,150.00*	
Payments for overhead	*575.00*	
Wages and Salaries	*345.00*	
Taxation	*1,215.00*	
Dividends	*400.00*	
Repayments of bank loan	*1,250.00*	*(15,170.00)*
Balance as on 31.12.2019[2]		*1,060.00*

Compute cash flow from Operating activities of the company Raja Ltd. for the year ended 31st March, 2020 in accordance with AS-3 (Revised)

(c) *Two traders R and S buy goods from one another, each allowing the other 30 days credit. At the end of 3 months the accounts rendered are as follows:*

	Goods sold by R to S		*Goods sold by S to R*
15/02/2021	*1,200*	*28/02/2021*	*600*
16/03/2021	*1,500*		

Calculate the date upon which the balance should be paid so that no interest is due either to R or S. (Take 17th Feb, 2021 as base date).

(d) *Kamal purchased a Bus on hire purchase system. As per terms he is required to pay ₹ 2,80,000 down, ₹ 2,12,000 at the end of first year, ₹ 1,96,000 at the end of second year and ₹ 2,20,000 at the end of the third year. Interest is charged @ 10% p.a.*

You are required to calculate the total cash price of the Bus and the interest paid with each installment.

(e) *The following is the Balance Sheet of Anita and Kavita, who are equal partners as on 31.12.2019*

From 01.01.2020, the partners decided to share profit and losses in the ratio of 2:1. For this purpose, the goodwill of the firm is valued at ₹ 30,000 which will not be shown in the Balance Sheet.

Pass necessary Journal Entries and re-draft the Balance Sheet.

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Capital Accounts:		*Sundry Assets*	*1,40,000*

[2] *To be read as 31.3.20.*

Anita	*60,000*		
Kavita	*30,000*		
Reserves	*30,000*		
Accounts Payables	*20,000*		
	1,40,000		*1,40,000*

(4 Parts X 4 Marks = 16 Marks)

Answer

(a) Based upon criteria for applicability of Accounting Standards for non-corporate entities:

(a) Level I Entity – Moon India Banks is having insurance business in India.

(b) Level II Entity – Rama textiles, whose turnover (excluding other income) exceeds rupees one crore but does not exceed rupees fifty crore in the immediately preceding accounting year.

(c) Level II Entity – Star industries is having borrowings (including public deposits) in excess of rupees one crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.

(d) Level III Entity (SMEs) – Newman Industries is having borrowings (including public deposits) less than rupees fifty lakhs at any time during the immediately preceding accounting year.

(e) Level I Entity – SS is a financial institutions carrying its business in India since last 10 years.

(f) Level I Entity – DD finance, Holding company of SS finance (Entity mentioned in point (e)* above).

(g) Level I Entity – Reliable co-operative banks carrying on insurance business since last 15 years.

(h) Level I Entity – PQR Granites whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.

Thus entities given in (a), (e) (g) and (h) are Level I Entities at the end of the relevant accounting period. However (b) and (c) are Level II and (d) is level III.

(b) **Raja Ltd.**

Cash Flow from operating activities

for the year ended 31st March 2020

Cash flows from operating activities	*(₹'000)*
Cash receipts from customers	13,915
Cash payments to suppliers	(10,235)

Cash paid to employees	(345)
Other cash payments (for overheads)	(575)
Cash generated from operations	2,760
Income taxes paid	(1,215)
Net cash flow from operating activities	1,545

(c) Taking 17th Feb. 2021 as the base date: For S's payments:

Date of Transactions	*Due Date*	*Amount*	*No. of days from the base date*	*Products*
(1)	*(2)*	*(3)*	*(4)*	*(5)*
15 Feb	17 March	1,200	28	33,600
16 March	15 April	1,500	57	85,500
Amount Due to R		2,700	Total products	1,19,100

For R's payments Taking 17th Feb. 2021 as the base date:

Date of Transactions	Due Date	Amount	No. of days from the base date	Products
(1)	(2)	(3)	(4)	(5)
28 Feb.	30 March	600	41	24,600
Amount Due to S		600	Total products	24,600

Excess of S's products over R's = 1,19,100 – 24,600 = 94,500

Excess amount due to R ₹ 2,700 – 600 = ₹ 2,100.

Number of days from the base date to the date of settlement = 94,500/2,100 = 45 days

Hence the date of settlement of the balance is 45 days after 17th Feb i.e., on April 3. 2021

On April 3, S has to pay R, ₹ 2,100 to clear the account.

(d) Ratio of interest and amount due = $\frac{\text{Rate of interest}}{100+\text{Rate of interest}} = \frac{10}{110} = \frac{1}{11}$

Calculation of Interest and Cash Price

No. of installments	*Amount due at the time of installment*	*Interest*	*Cash price*
[1]	*[2]*	*[3]*	*[4]*
3rd	2,20,000	1/11 of ₹ 2,20,000 = ₹ 20,000	2,00,000
2nd	*3,96,000	1/11 of ₹ 3,96,000 = ₹ 36,000	3,60,000
1st	**5,72,000	1/11of ₹ 5,72,000 = ₹ 52,000	5,20,000

Total cash price = ₹ 5,20,000+ 2,80,000 (down payment) = ₹ 8,00,000.

*₹ 2,00,000 + 2nd installment of ₹ 1,96,000 = ₹ 3,96,000.

** ₹ 3,60,000 + 1st installment of ₹ 2,12,000 = ₹ 5,72,000.

(e) **In the books of the firm**

Journal Entry

Particulars		*Dr.* ₹	*Cr.* ₹
Reserves A/c	Dr.	30,000	
To Anita's Capital A/c			15,000
To Kavita's Capital A/c			15,000
(Being reserve transferred to the Partners' Capital Accounts in the old ratio before change in the constitution)			
Anita's Capital A/c (Refer W.N.)		5,000	
To Kavita's Capital A/c			5,000
(Being the adjustment for goodwill made through the Partners' Capital Accounts)			

Balance Sheet of Anita and Kavita as at 1.1.2020

Liabilities	₹	*Assets*	₹
Capital Accounts:		Sundry Assets	1,40,000
Anita: ₹ (60,000+15,000-5,000)	70,000		
Kavita: ₹ (30,000+15,000+5,000)	50,000		
Account Payables	20,000		
	1,40,000		1,40,000

Working Note:

Adjustment of goodwill among partners

	Anita	Kavita
Old ratio (1:1)	$\frac{1}{2}$	$\frac{1}{2}$
New ratio (2:1)	$\frac{2}{3}$	$\frac{1}{3}$
	(Gain) $\frac{1}{6}$	(Sacrifice) $\frac{1}{6}$
	30,000 x 1/6 = (5,000)	30,000 x 1/6 = 5,000