

## 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 31<sup>st</sup> 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	<u>₹ 1,30,200</u>

**Working Note:****Calculation of raw material consumed during the year**

Particulars	Unit (Kg)
Opening Inventory	2,200
Purchases	20,000
Less: Closing Inventory	<u>(1,800)</u>
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	<u>37,500</u>
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 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 31<sup>st</sup> March 2021**

Particulars	Amount (₹'000)	Amount (₹'000)
<b>Cash flow from Operating Activities:</b>		
Cash receipts from customers	74,682	
Cash payments to suppliers	(54,918)	
Cash payments for wages & salaries	(1,863)	
Cash payments of overheads	<u>(3,105)</u>	
Cash Generated from Operations	14,796	
Payment of Taxation	<u>(6,561)</u>	
<b>Net Cash from Operating Activities</b>		8,235
<b>Cash Flow from Investing Activities:</b>		
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	<u>(6,210)</u>	
<b>Net Cash Used in Investing Activities</b>		(2,646)

<b>Cash Flow from Financing Activities:</b>		
Proceeds from issue of shares	8,100	
Payment of Dividend	(2,160)	
Repayment of Bank Overdraft	(6,750)	
Interest paid on Bank Overdraft	<u>(1,350)</u>	
<b>Net Cash Used in Financing Activities</b>		<u>(2,160)</u>
<b>Net Increase in Cash &amp; Cash Equivalent</b>		3,429
<b>Cash and Cash Equivalent in the Beginning of the year</b>		<u>945</u>
<b>Cash and Cash Equivalent in the end of the year</b>		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 8,000 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.
16-09-2020	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 15<sup>th</sup> May 2021, Mr. Z decides to reclassify investment in equity shares of Z\* Ltd. as Long term Investment. On 15<sup>th</sup> May 2021, the shares were quoted in the stock exchange @ ₹ 180.

You are required to:

- Prepare Investment Accounts in the books of Mr. Z for the year 2020-21, assuming that the average cost method is followed.
- Profit and loss Account for the year 2020-21, based on the above information.
- 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
	<b>Total</b>	36,000	2,64,000	32,24,000		<b>Total</b>	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	31/3/21	By Balance c/d (WN 11)	16,100		25,00,100
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						
	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
	₹ 48,000
Cum-interest per bond	₹ 86
Value of bond excluding interest	36,000 x ₹ 86 – ₹48,000
	₹ 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 = ₹ 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 ₹ 20,32,000
Profit on sale of bonds	Sale Proceeds – Average Cost ₹ 22,08,000 – ₹ 20,32,000 ₹ 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 ₹ 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	$8,000 \times 6 = ₹ 48,000$
No of shares received after the period of dividend (excluding bonus & right shares)	7,000 shares
Dividend per share	₹ 6
Dividend Amount	$7,000 \times ₹ 6 = ₹ 42,000$

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	$7,000 \times 260 = ₹ 18,20,000$
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	$(15,20,000 + 16,26,100 + 4,83,000 - 42,000) / 23,100 \times 7,000$ = ₹ 10,87,000
Profit on sale of shares	Sales Proceeds – Average Cost = ₹ 18,01,800 - ₹ 10,87,000 = ₹ 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	$16,100 \text{ shares} \times ₹ 3 \text{ per share}$ = ₹ 48,300

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

Cost of Shares  $(15,20,000 + 16,26,100 + 4,83,000 - 42,000) / 23,100 \times 16,100$   
 $= 25,00,100$

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	<u>26,000</u>
	<u>2,50,000</u>		2,50,000

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	<u>47,500</u>
	<u>6,07,500</u>		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) Depreciation 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 31 <sup>st</sup> March, 2021	20,000
Cash deposited into bank during the year	<u>1,00,000</u>

The following are the balances on 31st March, 2021:

	₹
Stock	2,00,000
Debtors	1,50,000
Creditors for goods	<u>1,82,500</u>

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

## 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	Amount (₹)	Assets	Amount (₹)
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	Amount (₹)	Particulars	Amount (₹)
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	Amount (₹)	Particulars	Amount (₹)
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	Amount (₹)	Particulars	Amount (₹)
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 31<sup>st</sup> 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 31<sup>st</sup> 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 X 12)			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 31<sup>st</sup> 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 1<sup>st</sup> April 2020 stood at ₹ 7,20,000, that is 6,000 shares fully paid and 2,000 shares of ₹ 60 paid. The directors made a call of ₹ 40 per share on 1<sup>st</sup> 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 31<sup>st</sup> 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.

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\* This should have been given as 31.3.2021.

- (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.
- (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 31<sup>st</sup> March 2021**

Particulars	Note No	Amount in ₹
<b>Equity and Liabilities</b>		
<b>I. Shareholders' Funds</b>		
a. Share Capital	1	13,00,000
b. Reserves and Surplus	2	53,91,900
<b>II. Non-Current Liabilities</b>		
a. Long Term Borrowings	3	4,00,000
<b>III. Current Liabilities</b>		
a. Trade Payables	4	10,40,000
b. Other Current Liabilities	5	70,000
Total		82,01,900
<b>Assets</b>		
<b>I. Non-Current Assets</b>		
a. Property, Plant and Equipment	6	40,61,000
b. Intangible Assets	7	10,00,000
<b>II. Current Assets</b>		
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 31<sup>st</sup> March 2021

Particulars	Note No	Amount in ₹
<b>I. Revenue from operations</b>		60,00,000
<b>Total Revenue</b>		60,00,000
<b>II. Expenses</b>		
Purchases (adjusted)		22,32,100
Finance Costs	8	36,000
Depreciation and Amortization	9	3,17,000
Other Expenses	10	32,30,000
<b>Total Expenses</b>		58,15,100
<b>III. Profit/(Loss) for the period</b>		1,84,900

## Notes to Accounts

(Amount in ₹)

<b>1</b>	<b>Share Capital</b>		
	a. <u>Authorized Capital</u>		
	5,000, 6% Preference shares of ₹ 100/- each		5,00,000
	10,000 Equity Shares of ₹100/- each		<u>10,00,000</u>
			<u>15,00,000</u>
	b. <u>Issued &amp; Subscribed Capital</u>		
	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
<b>2</b>	<b>Reserves &amp; Surplus</b>		
	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

<b>3</b>	<b>Long-Term Borrowings</b>		
	Secured		
	9% Debentures		4,00,000
<b>4</b>	<b>Trade Payables</b>		10,40,000
<b>5</b>	<b>Other Current Liabilities</b>		
	Dividend Payable		
	Preference Dividend		30,000
	Equity Dividend		40,000
	Total		70,000
<b>6</b>	<b>Property, Plant and Equipment</b>		
	Land		
	Opening balance	24,00,000	
	Add: Revaluation Adjustment	<u>12,00,000</u>	
	Closing Balance		36,00,000
	Plant and Machinery		
	Opening Balance	7,70,000	
	Less: Disposed off	(1,00,000)	
	Depreciation	<u>(2,09,000)</u>	
	Closing Balance		4,61,000
	Total		40,61,000
<b>7</b>	<b>Intangible Assets</b>		
	Goodwill		12,50,000
	Less: Amortized (1/5 <sup>th</sup> )		(2,50,000)
	Total		10,00,000
<b>8</b>	<b>Finance Costs</b>		
	Debenture Interest		36,000
<b>9</b>	<b>Depreciation and Amortization</b>		
	Plant and Machinery		67,000
	Goodwill		2,50,000
	Total		3,17,000
<b>10</b>	<b>Other Expenses</b>		
	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	<u>(40,000)</u>	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

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

**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

**Calculation of Stock Reserve**

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

$$= 11,53,920 / (31,06,000 + 5,00,000) \times 100 = 32\%$$

Closing stock of Dyed Fabric in Readymade Garments Department

$$= 22,50,000 \times 60\% = ₹ 13,50,000$$

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

$$= 13,50,000 \times 32\% = ₹ 4,32,000$$

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. To Debenture Application A/c (Being application money received on 2,50,000 debentures @ ₹100/- each)	2,50,00,000	2,50,00,000
1.06.2020	Debenture Application A/c Dr. Underwriters A/c Dr. To 8% Debentures A/c (Being allotment of 2,50,000 debentures to applicants and 50,000 debentures to underwriters)	2,50,00,000 50,00,000	3,00,00,000
1.06.2020	Underwriting Commission A/c Dr. To Underwriters A/c (Being commission payable to underwriters @ 1% on ₹ 3,00,00,000)	3,00,000	3,00,000
1.06.2020	Bank A/c Dr. To Underwriters A/c	47,00,000	47,00,000

1.06.2020	(Being amount received from underwriters in settlement)		
	Debenture Redemption Investments A/c Dr. To Bank A/c (3,00,000 x 100 x 15% x 40% - Being investments for redemption purposes)	18,00,000	18,00,000
30.09.2020	Debenture Interest A/c Dr. To Bank (Being interest paid on debentures for 4 months @ 8% on ₹ 3,00,00,000)	8,00,000	8,00,000
30.11.2020	8% Debentures A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being conversion of 60% of the debentures into shares of ₹ 60 each with a face value of ₹10/-)	1,80,00,000	30,00,000 1,50,00,000
31.03.2021	Debenture Interest A/c Dr. To Bank A/c (Being interest paid on debentures for 6 months @ 8%)	7,20,000	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
	<u>₹7,20,000</u>

**Question 6**

Answer any **four** of the following:

- (a) A trader commenced business on April 1, 2020 with ₹1,20,000 represented by 6,000 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	<u>30,00,000</u>
	<u>30,00,000</u>
Issued and Subscribed capital:	
2,00,000 Equity shares of ₹ 10 each, ₹ 8 paid up	16,00,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (not realised in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2020, the Company has made final call @ ₹ 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 =  $\frac{\text{Rate of interest}}{100 + \text{Rate of interest}} = \frac{12}{112}$**

$$100 + \text{Rate of interest} = 112$$

No of instalments	Instalment amount (₹)	Amount due at the time of instalment (₹)	Interest (₹)	Principal due at the beginning (₹)
(1)		(2)	(3)	(4)
4 <sup>th</sup>	55,000	55,000	5,893	49,107
3 <sup>rd</sup>	87,000	1,36,107	14,583	1,21,524
2 <sup>nd</sup>	98,000	2,19,524	23,520	1,96,004
1 <sup>st</sup>	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. To Equity Share Capital A/c (Being final call of ₹ 2/- per share on 2,00,000 equity shares due as per Board's resolution dated .....)	4,00,000	4,00,000
25.04.2020	Bank A/c Dr. To Equity Share Final Call A/c (Final Call money on 2,00,000 equity shares received)	4,00,000	4,00,000
	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 (Being provision for bonus shares at one share for every four shares held as per Board's resolution dated.....)*			5,00,000
Bonus to shareholders	Dr.	5,00,000	
To Equity Share Capital A/c (Being issue of bonus shares)			5,00,000

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

#### Extract of Balance Sheet

<b>Authorized Capital</b>	₹
3,00,000 Equity shares of ₹ 10/- each	<u>30,00,000</u>
<b>Issued and Subscribed Capital</b>	
2,50,000 Equity shares of ₹10/- each, fully paid (Out of the above 50,000 Equity shares ₹10/- each were issued by way of bonus shares)	25,00,000
<b>Reserves and Surplus</b>	
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.