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:

(a) A Ltd. had following assets. Calculate depreciation for the year ended 31st March, 2020 for each asset as per AS 10 (Revised):

(i) Machinery purchased for ₹ 10 lakhs on 1st April, 2015 and residual value after useful life of 5 years, based on 2015 prices is ₹ 10 lakhs.

(ii) Land for ₹ 50 lakhs.

(iii) A Machinery is constructed for ₹ 5,00,000 for its own use (useful life is 10 years). Construction is completed on 1st April, 2019, but the company does not begin using the machine until 31st March, 2020.

(iv) Machinery purchased on 1st April.2017 for ₹ 50,000 with useful life of 5 years and residual value is NIL. On 1st April, 2019, management decided to use this asset for further 2 years only.

(b) On 1st April, 2016, Mac Ltd. received a Government Grant of ₹ 60 lakhs for acquisition of machinery costing ₹ 300 lakhs. The grant was credited to the cost of the asset. The estimated useful life of the machinery is 10 years. The machinery is depreciated @ 10% on WDV basis. The company had to refund the grant in June 2019 due to non-compliance of certain conditions.

How the refund of the grant is dealt with in the books of Mac Ltd. assuming that the company did not charge any depreciation for the year 2019-20.

Pass necessary Journal Entries for the year 2019-20.

(c) A Limited invested in the shares of XYZ Ltd. on 1st December, 2019 at a cost of ₹ 50,000. Out of these shares, ₹ 25,000 shares were purchased with an intention to hold for 6 months and ₹ 25,000 shares were purchased with an intention to hold as long-term Investment.

A Limited also earlier purchased Gold of ₹ 1,00,000 and Silver of ₹ 30,00,000 on 1st April, 2019. Market value as on 31st March, 2020 of above investments are as follows:

Shares ₹ 47,500 (Decline in the value of shares is temporary.)

Gold ₹ 1,80,000

Silver ₹ 30,55,000

How above investments will be shown in the books of accounts of M/s A Limited for the year ended 31st March, 2020 as per the provisions of AS 13 (Revised)?

(d) *On 15th April, 2019 RBM Ltd. obtained a Term Loan from the Bank for ₹ 320 lakhs to be utilized as under:*

	₹ (in lakhs)
Construction for factory shed	*240*
Purchase of Machinery	*30*
Working capital	*24*
Purchase of Vehicles	*12*
Advance for tools/cranes etc.	*8*
Purchase of technical know how	*6*

In March, 2020 construction of shed was completed and machinery was installed. Total interest charged by the bank for the year ending 31st March, 2020 was ₹ 40 lakhs.

In the context of provisions of AS 16 'Borrowing Costs', show the treatment of interest and also explain the nature of Assets. ***(4 Parts X 5 Marks = 20 Marks)***

Answer

(a) Computation of amount of depreciation as per AS 10

		₹
(i)	Machinery purchased on 1/4/15 for ₹ 10 lakhs (having residual value of ₹ 10 lakhs) Reason: The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost. Therefore, there is no depreciable amount and depreciation is correctly zero.	Nil
(ii)	Land (50 lakhs) (considered freehold) Reason: Land has an unlimited useful life and therefore, it is not depreciated.	Nil
(iii)	Machinery constructed for own use (₹ 5,00,000/10) Reason: The entity should begin charging depreciation from the date the machine is ready for use i.e. 1st April,2019. The fact that the machine was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation.	50,000
(iv)	Machinery having revised useful life Reason: The entity has charged depreciation using the straight-line method at ₹ 10,000 per annum i.e (50,000/5 years). On 1st April,2019 the	15,000

	asset's net book value is [50,000 – (10,000 x 2)] i.e. ₹ 30,000. The remaining useful life is 2 years as per revised estimate. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of 2 years. Consequently, it should charge depreciation for the next 2 years at ₹ 15,000 per annum i.e. (30,000 / 2 years).	

(b)

		(₹ in lakhs)
1st April, 2016	Acquisition cost of machinery	300.00
	Less: Government Grant	60.00
		240.00
31st March, 2017	Less: Depreciation @ 10%	(24.00)
1st April, 2017	Book value	216.00
31st March, 2018	Less: Depreciation @ 10%	(21.60)
1st April, 2018	Book value	194.40
31st March, 2019	Less: Depreciation @ 10%	(19.44)
1st April, 2019	Book value	174.96
	Less: Depreciation @10% for 2 months	(2.916)
1st June, 2019	Book value	172.044
June 2019	Add: Refund of grant*	60.00
	Revised book value	232.044

Depreciation @10% on the revised book value amounting to ₹ 232.044 lakhs is to be provided prospectively over the residual useful life of the machinery.

**considered refund of grant at beginning of June month and depreciation for two months already charged. Alternative answer considering otherwise also possible.*

Journal Entries

Machinery Account	Dr.	60	
To Bank Account			60
(Being government grant on asset partly refunded which increased the cost of fixed asset)			
Depreciation Account	Dr.	19.337	
To Machinery Account			19.337
(Being depreciation charged on revised value of fixed asset prospectively for 10 months)			
Profit & Loss Account	Dr.	22.253	

To Depreciation Account (Being depreciation transferred to Profit and Loss Account amounting to ₹ (2.916 + 19.337= 22.253)			22.253

(c) As per AS 13 (Revised) 'Accounting for Investments, for investment in shares - if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value.

In the given case ₹ 25,000 shares held as current investment will be carried in the books at ₹ 23,750 (₹ 47,500/2).

If equity shares are acquired with an intention to hold for long term period (more than one year), then should be considered as long-term investment to be shown at cost in the Balance Sheet of the company. However, provision for diminution should be made to recognize a decline, if other than temporary, in the value of the investments. Hence, ₹ 25,000 shares held as long-term investment will be carried in the books at ₹ 25,000.

Gold and silver are generally purchased with an intention to hold them for long term period (more than one year) until and unless given otherwise.

Hence, the investment in Gold and Silver (purchased on 1st March, 2019) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2020. Thus Gold at ₹ 1,00,000 and Silver at ₹ 30,00,000 respectively will be shown in the books.

(d) As per AS 16 A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Other investments and those inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired also are not qualifying assets. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred.

Construction of factory shed amounting ₹ 240 lakhs is qualifying asset in the given case. The interest for this amount during the year will be added to the cost of factory shed. All others (purchase of machinery, vehicles and technical know how, working capital, advance for tools/cranes) are non-qualifying assets and related borrowing cost will be charged to Profit and Loss statement.

Qualifying Asset as per AS 16 (construction of a shed) = ₹ 240 lakhs

Borrowing cost to be capitalized = ₹ 40 lakhs x 240/320 = ₹ 30 lakhs

Interest to be debited to Profit or Loss account: ₹ (40 – 30) = ₹ 10 lakhs.

Note: Assumed that construction of factory shed completed on 31st March, 2020.

Question 2

(a) *Vijay & Co. of Jaipur has a branch in Patna to which goods are sent @ 20% above cost. The branch makes both cash & credit sales. Branch expenses are paid direct from Head office and the branch has to remit all cash received into the bank account of Head office. Branch doesn't maintain any books of accounts, but sends monthly returns to the head office.*

Following further details are given for the year ended 31st March, 2020:

	Amount (₹)
Goods received from Head office at Invoice Price	*8,40,000*
Goods returned to Head office at Invoice Price	*60,000*
Cash sales for the year 2019-20	*1,85,000*
Credit Sales for the year 2019-20	*6,25,000*
Stock at Branch as on 01-04-2019 at Invoice price	*72,000*
Sundry Debtors at Patna branch as on 01-04-2019	*96,000*
Cash received from Debtors	*4,38,000*
Discount allowed to Debtors	*7,500*
Goods returned by customer at Patna Branch	*14,000*
Bad debts written off	*5,500*
Amount recovered from Bad debts previously written off as Bad	*1,000*
Rent, Rates & taxes at Branch	*24,000*
Salaries & wages at Branch	*72,000*
Office Expenses (at Branch)	*9,200*
Stock at Branch as on 31-03-2020 at cost price	*1,25,000*

Prepare necessary ledger accounts in the books of Head office by following Stock and Debtors method and ascertain Branch profit.

(b) *M/s Rohan & Sons runs a business of Electrical goods on wholesale basis. The books of accounts are closed on 31st March every year. The Balance Sheet as on 31st March, 2019 is as follows :*

Liabilities	*₹*	*Assets*	*₹*
Capital	*12,50,000*	*Fixed Assets*	*6 50,000*
		Closing stock	*3,75,000*
		Trade Debtors	*3,65,000*
Trade Creditors	*1,90,000*	*Cash & Bank*	*1,95,000*

Profit & Loss A/c	*1,45,000*		
	15,85,000		*15,85,000*

The management estimates the purchase & sales for the year ended 31st March,2020 as under:

Particulars	*Upto 31.01.2020 (₹)*	*February 2020 (₹)*	*March 2020 (₹)*
Purchases	*16,20,000*	*1,40,000*	*1,25,000*
Sales	*20,75,000*	*2,10,000*	*1,75,000*

All Sales and Purchases are on credit basis. It was decided to invest ₹ 1,50,000 in purchase of Fixed assets, which are depreciated @ 10% on book value. A Fixed Asset of book value as on 01.04.2019, ₹ 60,000 was sold for ₹ 56,000 on 31st March, 2020.

The time lag for payment to Trade Creditors for purchases is one month and receipt from Trade debtors for sales, is two months. The business earns a gross profit of 25% on turnover. The expenses against gross profit amounts to 15% of the turnover. The amount of depreciation is not included in these expenses.

Prepare Trading & profit & Loss Account for the year ending 31st March, 2020 and draft a Balance Sheet as at 31st March, 2020 assuming that creditors are all Trade creditors for purchases and debtors are all Trade debtors for sales and there is no other current asset and liability apart from stock and cash and bank balances.

Also, prepare Cash & Bank account and Fixed Assets account for the year ending 31st March, 2020. ***(10+10=20 Marks)***

Answer

(a) **Branch Stock Account**

			₹				₹	₹	₹
1.4.19	To	Balance b/d (opening stock)	72,000	31.3.20	By	Sales:			
31.3.20	To	Goods Sent to Branch A/c	8,40,000			Cash		1,85,000	
						Credit	6,25,000		
	To	Branch P&L	94,000			Less: Return	(14,000)	6,11,000	7,96,000
					By	Goods sent to branch - returns			60,000
					By	Balance c/d (closing stock)			1,50,000

			10,06,000					10,06,000
1.4.20	To	Balance b/d	1,50,000					

Branch Debtors Account

			₹				₹
1.4.19	To	Balance b/d	96,000	31.3.20	By	Cash	4,38,000
31.3.20	To	Sales	6,25,000		By	Returns	14,000
					By	Discounts	7,500
					By	Bad debts	5,500
					By	Balance c/d	2,56,000
			7,21,000				7,21,000
1.4.20	To	Balance b/d	2,56,000				

Branch Expenses Account

			₹				₹
31.3.20	To	Salaries & Wages	72,000	31.3.20	By	Branch P&L A/c	1,18,200
	To	Rent, Rates & Taxes	24,000				
	To	Office Expenses	9,200				
	To	Discounts	7,500				
	To	Bad Debts	5,500				
			1,18,200				1,18,200

Branch Profit & Loss Account for year ended 31.3.20

			₹				₹
31.3.20	To	Branch Expenses A/c	1,18,200	31.3.20	By	Branch stock	94,000
	To	Net Profit transferred to			By	Branch Stock Adjustment account	1,17,000
		General P & L A/c	93,800		By	Bad debts recovered	1,000
			2,12,000				2,12,000

Branch Stock Adjustment Account for year ended 31.3.20

			₹				₹
31.3.20	To	Goods sent to branch (60,000x1/6) - returns	10,000	31.3.20	By	Balance b/d (72,000x1/6)	12,000
	To	Branch P & L A/c	1,17,000		By	Goods sent to branch (8,40,000x1/6)	1,40,000
	To	Balance c/d (1,50,000x1/6)	25,000				
			1,52,000				1,52,000

(b) Trading and Profit and Loss Account of M/s Rohan & Sons

for the year ended 31st March, 2020

	₹		₹
To Opening stock	3,75,000	By Sales	24,60,000
To Purchases	18,85,000	By Closing stock	4,15,000
To Gross Profit c/d (25%)	6,15,000	(Balancing Figure)	
	28,75,000		28,75,000
To Depreciation	80,000	By Gross profit b/d	6,15,000
To Expenses (15% of ₹ 24,60,000)	3,69,000	By Profit on sale of Fixed assets	2,000
To Net Profit (b.f.)	1,68,000		
	6,17,000		6,17,000

Balance Sheet of M/s Rohan Sons as on 31st March, 2020

Liabilities		*Assets*	₹
Capital	12,50,000	Fixed assets (less Dep.)	6,66,000
Profit & Loss A/c (1,45,000 + 1,68,000)	3,13,000	Stock	4,15,000
Trade Creditors	1,25,000	Debtors	3,85,000
		Cash and bank	2,22,000
	16,88,000		16,88,000

Cash and Bank Account

To Bal. b/d	1,95,000	By Creditors (1,90,000 + 16,20,000 + 1,40,000)	19,50,000
To Debtors (3,65,000 + 20,75,000)	24,40,000	By Expenses	3,69,000
To Fixed assets	56,000	By Fixed assets	1,50,000
		By Bal. c/d	2,22,000
	26,91,000		26,91,000

Fixed Assets Account

To Bal. b/d	6,50,000	By Cash	56,000
To Profit on sale of Fixed asset	2,000	By Depreciation on sold fixed asset	6,000
		By Depreciation (59,000 + 15,000)	74,000
To Bank A/c	1,50,000	By Bal. c/d	6,66,000
	8,02,000		8,02,000

Question 3

(a) *On 1st April, 2019 Mr. H had 30,000 equity shares of ABC Ltd. at book value of ₹ 18 per share (Nominal value 10 per share). On 10th June, 2019, H purchased another 10,000 equity shares of the ABC ltd. at ₹ 16 per share through a broker who charged 1.5% brokerage.*

The directors of ABC Ltd. announced a bonus and a right issue. The terms of the issues were as follows:

(i) Bonus shares were declared at the rate of one equity share for every four shares held on 15th July, 2019.

(ii) Right shares were to be issued to the existing equity shareholders on 31st August, 2019. The company decides to issue one right share for every five equity shares held at 20% premium and the due date for payment will be 30th September, 2019. Shareholders were entitled to transfer their rights in full or in part.

(iii) No dividend was payable on these issues.

Mr. H subscribed 60% of the rights entitlements and sold the remaining rights for consideration of ₹ 5 per share.

Dividends for the year ending 31st March, 2019 was declared by ABC Ltd. at the rate of 20% and received by Mr. H on 31st October, 2019.

On 15th January, 2020 Mr. H sold half of his shareholdings at ₹ 17.50 per share and brokerage was charged @1 %.

You are required to prepare Investment account in the books of Mr. H for the year ending 31st March, 2020, assuming the shares are valued at average cost.

(b) A Fire occurred in the premises of M/s B & Co. on 30th September, 2019. The firm had taken an insurance policy for ₹ 1,20,000 which was subject to an average clause. Following particulars were ascertained from the available records for the period from 1st April, 2018 to 30th September, 2019:

	Amount (₹)
Stock at cost on 1-04-2018	*2,11,000*
Stock at cost on 31-03-2019	*2,52,000*
Purchases during 2018-19	*6,55,000*
Wages during 2018-19	*82,000*
Sales during 2018-19	*8,60,000*
Purchases from 01-04-2019 to 30-09-2019 (including purchase of machinery costing ₹ 58,000)	*4,48,000*
Wages from 01-04-2019 to 30-09-2019 (including wages for installation of machinery costing ₹ 7,000)	*85,000*
Sales from 01-04-2019 to 30-09-2019	*6,02,000*
Sale value of goods drawn by partners (1-4-19 to 30-9-19)	*52,000*
Cost of Goods sent to consignee on 18th September, 2019 lying unsold with them	*44,800*
Cost of Goods distributed as free samples(1-4-19 to 30-9-19)	*8,500*

While valuing the Stock at 31st March, 2019, ₹ 8,000 were written off in respect of a slow moving item, cost of which was ₹ 12,000. A portion of these goods was sold at a loss of ₹ 4,000 on the original cost of ₹ 9,000. The remainder of the stock is estimated to be worth the original cost. The value of Goods salvaged was estimated at ₹ 35,000.

You are required to ascertain the amount of claim to be lodged with the Insurance Company for the loss of stock. ***(10+10=20 Marks)***

Answer

(a) **In the books of Mr. H**

Investment in equity shares of ABC Ltd. for the year ended 31st March, 2020

Date	Particulars	No.	Income ₹	Amount ₹	Date	Particulars	No.	Income ₹	Amount ₹
2019 April 1	To Balance b/d	30,000	-	5,40,000	2019 Oct.	By Bank A/c (W.N. 5)	-	60,000	20,000
June	To Bank A/c	10,000	--	1,62,400	20X2 Jan.	By Bank A/c (W.N.4)	28,000	-	4,85,100
July	To Bonus Issue (W.N. 1)	10,000	-	-	March 31	By Balance c/d (W.N. 6)	28,000	-	3,77,200
Sept.	To Bank A/c (W.N. 2)	6,000	-	72,000					
2020 Jan.	To P & L A/c (W.N. 4)	-	-	1,07,900					
March 31	To P & L A/c	-	60,000	-					
		56,000	60,000	8,82,300			56,000	60,000	8,82,300

Working Notes:

1. Calculation of no. of bonus shares issued

   Bonus Shares = (30,000 + 10,000) divided by 4= 10,000 shares

2. Calculation of right shares subscribed

   Right Shares = $\frac{\text{30,000 shares} + \text{10,000 shares} + \text{10,000 shares}}{5}$

   = 10,000 shares

   Shares subscribed 10,000 x 60% = 6,000 shares

   Value of right shares subscribed = 6,000 shares @ ₹ 12 per share = ₹ 72,000

3. Calculation of sale of right entitlement

   Amount received from sale of rights will be 4,000 shares x ₹ 5 per share

   = ₹ 20,000 and it will be credited to statement of profit and loss.

4. Calculation of profit/loss on sale of shares-

   Total holding = 30,000 shares original

   10,000 shares purchased

   10,000 shares bonus

6,000 shares right shares

56,000

50% of the holdings were sold i.e. 28,000 shares (56,000 x1/2) were sold.

Cost of total holdings of 56,000 shares

= ₹ 5,40,000 + ₹ 1,62,400 + ₹ 72,000– ₹ 20,000 = ₹ 7,54,400

Average cost of shares sold would be:

$= \frac{7,54,400}{56,000} \times 28,000$ = ₹ 3,77,200

	₹
Sale proceeds of 28,000 shares (28,000 x ₹17.50)	4,90,000
Less: 1% Brokerage	(4,900)
	4,85,100
Less: Cost of 28,000 shares sold	(3,77,200)
Profit on sale	1,07,900

5. Dividend received on investment held as on 1st April, 2019

   = 30,000 shares x ₹ 10 x 20%

   = ₹ 60,000 will be transferred to Profit and Loss A/c and

   Dividend received on shares purchased on 10th June, 2019

   = 10,000 shares x ₹ 10 x 20% = ₹20,000 will be adjusted to Investment A/c

6. Calculation of closing value of shares (on average basis) as on 31st March, 2020

   $\frac{7,54,400}{56,000} \times 28,000$ = ₹ 3,77,200

(b)

Memorandum Trading Account

for the period 1st April, 2019 to 30th September, 2019

	Normal Items ₹	Abnormal Items ₹	Total ₹		Normal Items ₹	Abnormal Items ₹	Total ₹
To Opening stock	2,48,000	12,000	2,60,000	By Sales	5,97,000	5,000	6,02,000
To Purchases (W.N. 2)	3,39,900	-	3,39,900	By Goods sent to consignee	44,800	-	44,800

To Wages (85,000 – 7,000)	78,000	-	78,000	By Loss	-	4,000	4,000
To Gross profit @20%	1,19,400	-	1,19,400	By Closing stock (Bal. fig.)	1,43,500	3,000	1,46,500
	7,85,300	12,000	7,97,300		7,85,300	12,000	7,97,300

Statement of Claim for Loss of Stock

	₹
Book value of stock as on 30.9.2019	1,46,500
Less: Stock salvaged	(35,000)
Loss of stock	1,11,500

Amount of claim to be lodged with insurance company

$$= \text{Loss of stock} \times \frac{\text{Policy value}}{\text{Value of stock on the date of fire}}$$

= ₹ 1,11,500 x 1,20,000/1,46,500 = ₹91,331 (approx.)

Working Notes:

1. Rate of gross profit for the year ended 31st March, 2019

Trading Account for the year ended 31st March, 2019

	₹		₹
To Opening Stock	2,11,000	By Sales	8,60,000
To Purchases	6,55,000	By Closing stock 2,52,000	
		Add: written off 8,000	
To Wages	82,000		2,60,000
To Gross Profit (b.f.)	1,72,000		
	11,20,000		11,20,000

Rate of Gross Profit in 2018-19

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

= 1,72,000 X 100 / 8,60,000 = 20%

2. Calculation of Adjusted Purchases

	₹
Purchases (4,48,000 – 58,000)	3,90,000

Less: Drawings [52,000 – (20 % of 52,000)]	(41,600)
Free samples	(8,500)
Adjusted purchases	3,39,900

Note: The answer has been given considering that the value of stock (at cost) on 31.3.19 amounting ₹ 2,52,000 is after adjustment of written off amount in respect of slow-moving item.

Question 4

(a) The following figures have been extracted from the books of Manan Jo Limited for the year ended on 31.3.2020. You are required to prepare the Cash Flow statement as per AS 3 using indirect method.

(i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 30 lakhs :

(a) Depreciation on Property, Plant & Equipment ₹ 7.50 lakhs.

(b) Discount on issue of Debentures written off ₹ 45,000.

(c) Interest on Debentures paid ₹ 5,25,000.

(d) Book value of investments ₹ 4.50 lakhs (Sale of Investments for ₹ 4,80,000).

(e) Interest received on investments ₹ 90,000.

(ii) Compensation received ₹1,35,000 by the company in a suit filed.

(iii) Income tax paid during the year ₹ 15,75,000.

(iv) 22,500, 10% preference shares of ₹ 100 each were redeemed on 02-04-2019 at a premium of 5%.

(v) Further the company issued 75,000 equity shares of ₹10 each at a premium of 20% on 30.3.2020 (Out of 75,000 equity shares, 25,000 equity shares were issued to a supplier of machinery)

(vi) Dividend for FY 2018-19 on preference shares were paid at the time of redemption.

(vii) Dividend on Equity shares paid on 31.01.2020 for the year 2018-2019 ₹ 7.50 lakhs (including dividend distribution tax) and interim dividend paid ₹ 2.50 lakhs for the year 2019-2020.

(viii) Land was purchased on 02.4.2019 for ₹3,00,000 for which the company issued 22,000 equity shares of ₹ 10 each at a premium of 20% to the land owner and balance in cash as consideration.

(ix) Current assets and current liabilities in the beginning and at the end of the years were as detailed below :

	As on 01.04.2019	As on 31.3.2020
	₹	₹
Inventory	*18,00,000*	*19,77,000*
Trade receivables	*3,87,000*	*3,79,650*
Cash in hand	*3,94,450*	*16,950*
Trade payables	*3,16,500*	*3,16,950*
Outstanding expenses	*1,12,500*	*1,22,700*

(b) Sumit Ltd. (an unlisted company other than AIFI, Banking company, NBFC and HFC) had 8,000, 9% debentures of ₹ 100 each outstanding as on 1st April, 2019, redeemable on 31st March, 2020.

On 1st April, 2019, the following balances appeared in the books of accounts:

- *Investment in 1,000, 7% secured Govt. bonds of ₹ 100 each, ₹ 1,00,000.*
- *Debenture Redemption Reserve is ₹ 50,000.*

Interest on investments is received yearly at the end of financial year.

1,000 own debentures were purchased on 30th March, 2020 at an average price of ₹ 96.50 and cancelled on the same date.

On 31st March, 2020, the investments were realized at par and the debentures were redeemed. You are required to write up the following accounts for the year ended 31st March, 2020.

(1) 9% Debentures Account.

(2) Debenture Redemption Reserve Account.

(3) DRR Investment Account.

(4) Own Debentures Account. **(10+10=20 Marks)**

Answer

(a)

Manan Ltd.

Cash Flow Statement

for the year ended 31st March, 2020

	₹	₹
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		30,00,000
Adjustments for:		
Depreciation on Property, plant and equipment	7,50,000	

Discount on issue of debentures	45,000	
Interest on debentures paid	5,25,000	
Interest on investments received	(90,000)	
Profit on sale of investments	(30,000)	12,00,000
Operating profit before working capital changes		42,00,000
Adjustments for:		
Increase in inventory	(1,77,000)	
Decrease in trade receivable	7,350	
Increase in trade payables	450	
Increase in outstanding expenses	10,200	(1,59,000)
Cash generated from operations		40,41,000
Income tax paid		(15,75,000)
Cash flow from ordinary items		24,66,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		1,35,000
Net cash flow from operating activities		26,01,000
Cash flow from Investing Activities;		
Sale proceeds of investments	4,80,000	
Interest received on investments	90,000	
Purchase of land (3,00,000 less 2,64,000)	(36,000)	
Net cash flow from investing activities		5,34,000
Cash flow from Financing Activities		
Proceeds of issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(23,62,500)	
Preference dividend paid	(2,25,000)	
Interest on debentures paid	(5,25,000)	
Dividend paid (7,50,000 + 2,50,000)	(10,00,000)	
Net cash used in financing activities		(35,12,500)
Net decrease in cash and cash equivalents during the year		(3,77,500)
Add: Cash and cash equivalents as on 31.3.2019		3,94,450
Cash and cash equivalents as on 31.3.2020		16,950

(b) **9% Debentures Account**

Date	*Particulars*	₹	*Date*	*Particulars*	₹
30th March, 2020	To Own Debentures A/c	96,500	1st April, 2019	By Balance b/d	8,00,000
March, 2020	To Profit on cancellation	3,500			
31st March, 2020	To Bank A/c	7,00,000			
		8,00,000			8,00,000

Debenture Redemption Reserve (DRR) Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
			1st April, 2019	By Balance b/d	50,000
31st March, 2020	To General Reserve A/c	80,000	1st April, 2019	By Profit and loss A/c [Refer Working Note 3]	30,000
		80,000			80,000

Debenture Redemption Reserve Investments (DRRI) Account

Date	Particulars	Amount	Date	Particulars	Amount
1st April 2019	To Balance b/d	1,00,000	31st March, 2020	By Bank A/c (1,000 x 100 x 15%) (Refer Working Note 2)	15,000
1st April 2019	To Bank A/c (Refer Working Note 1)	20,000	31st March, 2020	By Bank A/c (Refer Working Note 2)	1,05,000
		1,20,000			1,20,000

Own Debentures A/c

Date	Particulars	Amount	Date	Particulars	Amount
30th March, 2020	To Bank A/c*	96,500	30th March, 2020	By 9% Debentures	96,500
		96,500			96,500

* interest not considered.

Working Notes:

1. Debenture Redemption Reserve Investment A/c

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

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

= 8,000 X 100 X 15% = ₹1,20,000/-

The company has already invested in specified investments i.e. 7% Govt bonds for an amount of ₹1,00,000 as per the information given in the question. The balance amount of ₹20,000 (i.e. ₹ 1,20,000 less ₹ 1,00,000) would be invested by the company on 1 April 2019.

2. Redemption of Debenture Redemption Reserve Investments on 31.3.2020

Since the company purchased 1,000 own debentures on 31 March 2020, the company would also realize the investments of 15% corresponding to these debentures for which computation is as follows:

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

= 1,000 X 100 X 15% = ₹ 15,000/-

The remaining debentures i.e. total debentures less own debentures would be redeemed on 31 March 2020 and hence the company would also realize the balance investments of 15% corresponding to these debentures for which computation is as follows:

= (Total no of debentures - No of own debentures) X Face value per debenture X 15% = (8,000 - 1,000) X 100 X 15% = ₹1,05,000/-

3. Debenture Redemption Reserve

The company would be required to transfer an amount equivalent to 10% of the value of the debentures in Debentures Redemption Reserve Account. The value of debentures is 8,00,000 thus 10% of it i.e. 80,000 should be there in DRR a/c. The available balance in DRR a/c is only 50,000 therefore 30,000 (80,000 – 50,000) additional amount will be transferred from General Reserve or Profit and loss A/c to DRR A/c.

Question 5

(a) On 1st April, 2017, Mr. Nilesh acquired a Tractor on Hire purchase from Raj Ltd. The terms of contract were as follows:

(i) The Cash price of the Tractor was ₹ 11,50,000.

(ii) ₹ 2,50,000 were to be paid as down payment on the date of purchase.

(iii) The Balance was to be paid in annual instalments of ₹ 3,00,000 plus interest at the end of the year.

(iv) Interest chargeable on the outstanding balance was 8% p.a.

(v) Depreciation @ 10% p.a. is to be charged using straight line method.

Mr. Nilesh adopted the Interest Suspense method for recording his Hire purchase transactions.

You are required to :

Prepare the Tractor account, Interest Suspense account and Raj Ltd.'s account in the books of Mr. Nilesh for the period of hire purchase.

(b) The Books of Arpit Ltd. shows the following Balances as on 31st December, 2019:

	Amount (₹)
6,00,000 Equity shares of ₹ 10 each fully paid up	60,00,000
30,000, 10% Preference shares of ₹ 100 each, ₹ 80 paid up	24,00,000
Securities Premium	6,00,000
Capital Redemption Reserve	18,00,000
General Reserve	35,00,000

Under the terms of issue, the Preference Shares are redeemable on 31st March, 2020 at a premium of 10%. In order to finance the redemption, the Board of Directors decided to make a fresh issue of 1,50,000 Equity shares of ₹10 each at a premium of 20%, ₹ 2 being payable on application, ₹ 7 (including premium) on allotment and the balance on 1st January, 2021. The issue was fully subscribed and allotment made on 1st March, 2020. The money due on allotment was received by 20th March, 2020.

The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are required to pass the necessary Journal Entries and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out on 31st March, 2020. ***(8+12=20 Marks)***

Answer

(a) Tractor Account

Date	Particulars	₹	Date	Particulars	₹
1.4.2017	To Raj	11,50,000	31.3.2018	By Dep.	1,15,000
				By Balance c/d	10,35,000
		11,50,000			11,50,000
1.4.2018	To Balance b/d	10,35,000	31.3.2019	By Dep.	1,15,000

				By Balance c/d	9,20,000
		10,35,000			10,35,000
1.4.2019	To balance b/d	9,20,000	31.3.2020	By Dep.	1,15,000
				By Balance c/d	8,05,000
		9,20,000			9,20,000

H.P. Interest Suspense Account

Date	Particulars	₹	Date	Particulars	₹
1.4.2017	To Raj Ltd. A/c (W.N.)	1,44,000	31.3.2018	By Interest A/c	72,000
			31.3.2018	By Balance c/d	72,000
		1,44,000			1,44,000
1.4.2018	To Balance b/d	72,000	31.3.2019	By Interest A/c	48,000
			31.3.2019	By Balance c/d	24,000
		72,000			72,000
1.4.2019	To Balance b/d	24,000	31.3.2020	By Interest A/c	24,000

Total Interest = ₹ 72,000 + ₹ 48,000 + ₹ 24,000 = ₹ 1,44,000

Raj Ltd. Account

Date	Particulars	₹	Date	Particulars	₹
1.4.2017	To Bank A/c	2,50,000	1.4.2017	By Tractor A/c	11,50,000
31.3.2018	To Bank A/c	3,72,000		By H.P. Interest Suspense A/c	1,44,000
	To Balance c/d	6,72,000			
		12,94,000			12,94,000
31.3.2019	To Bank A/c	3,48,000	1.4.2018	By Balance b/d	6,72,000
	To Balance c/d	3,24,000			
		6,72,000			6,72,000
31.3.2020	To Bank A/c	3,24,000	1.4.2019	By Balance b/d	3,24,000

(b) **Journal Entries**

			₹	₹
1	10% Preference Share Final Call A/c	Dr.	6,00,000	
	To 10% Preference Share Capital A/c			6,00,000
	(For final call made on preference shares @ ₹ 20 each to make them fully paid up)			

2	Bank A/c	Dr.	6,00,000	
	To 10% Preference Share Final Call A/c			6,00,000
	(For receipt of final call money on preference shares)			
3	Bank A/c	Dr.	3,00,000	
	To Equity Share Application A/c			3,00,000
	(For receipt of application money on 1,50,000 equity shares @ ₹ 2 per share)			
4	Equity Share Application A/c	Dr.	3,00,000	
	To Equity Share Capital A/c			3,00,000
	(For capitalization of application money received)			
5	Equity Share Allotment A/c	Dr.	10,50,000	
	To Equity Share Capital A/c			7,50,000
	To Securities Premium A/c			3,00,000
	(For allotment money due on 1,50,000 equity shares @ ₹ 7 per share including a premium of ₹ 2 per share)			
6	Bank A/c	Dr.	10,50,000	
	To Equity Share Allotment A/c			10,50,000
	(For receipt of allotment money on equity shares)			
7	10% Preference Share Capital A/c	Dr.	30,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	3,00,000	
	To Preference Shareholders A/c			33,00,000
	(For amount payable to preference shareholders on redemption at 10 % premium)			
8	General Reserve A/c	Dr.	3,00,000	
	To Premium on Redemption A/c			3,00,000
	(Writing off premium on redemption of preference shares)			
9	General Reserve A/c	Dr.	19,50,000	
	To Capital Redemption Reserve A/c			19,50,000
	(For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 30,00,000 - 3,00,000 - 7,50,000)			
10	Preference Shareholders A/c	Dr.	33,00,000	

	To Bank A/c (For amount paid to preference shareholders)			33,00,000

Balance Sheet (extracts)

		Particulars	Notes No.	As at 31.3.2020	As at 31.12.2019
				₹	₹
	EQUITY AND LIABILITIES				
1.	Shareholders' funds				
	a)	Share capital	1	70,50,000	84,00,000
	b)	Reserves and Surplus	2	59,00,000	59,00,000

Notes to Accounts:

		As at 31.3.2020	As at 31.12.2019
1.	Share Capital		
	Issued, Subscribed and Paid up:		
	6,00,000 Equity shares of ₹ 10 each fully paid up	60,00,000	60,00,000
	1,50,000 Equity shares of ₹10 each ₹ 7 paid up	10,50,000	-
	30,000, 10% Preference shares of ₹ 100 each, ₹80 paid up	-	24,00,000
		70,50,000	84,00,000
2.	Reserves and Surplus		
	Capital Redemption Reserve	37,50,000	18,00,000
	Securities Premium	9,00,000	6,00,000
	General Reserve	12,50,000	35,00,000
		59,00,000	59,00,000

Note:

1. Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and comply with the Accounting Standards prescribed for them.
2. Amount received (excluding premium) on fresh issue of shares till the date of redemption should be considered for calculation of proceeds of fresh issue of shares. Thus, proceeds of fresh issue of shares are ₹10,50,000 (₹3,00,000

application money plus ₹ 7,50,000 received on allotment towards share capital) and balance ₹ 19,50,000 to taken from general reserve account.

Question 6

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

(a) *Department A sells goods to Department B at a profit of 20% on cost and to Department C at 50% on cost. Department B sells goods to Department A and Department C at a profit of 15% and 10% on sales respectively. Department C sells goods to Department A and Department B at a profit of 10% and 5% on cost respectively.*

Stock lying at different departments at the end of the year are as follows:

	Department A (₹)	*Department B (₹)*	*Department C (₹)*
Transfer from Department A		*1,14,000*	*60,000*
Transfer from Department B	*55,000*		*15,200*
Transfer from Department C	*52,800*	*1,11,300*	

Calculate Department wise unrealized profit on Stock.

(b) *What are the qualitative characteristics of the Financial Statements which improve the usefulness of the information furnished therein?*

(c) *Following is the draft Profit & Loss Account of X Ltd. for the year ended 31st March, 2020:*

	Amount (₹)		*Amount (₹)*
To Administrative Expenses	*5,96,400*	*By Balance b/d*	*7,25,300*
To Advertisement Expenses	*1,10,500*	*By Balance from Trading A/c*	*42,53,650*
To Sales Commission	*1,05,550*	*By Subsidies received from Government*	*3,50,000*
To Director's fees	*1,48,900*		
To Interest on Debentures	*56,000*		
To Managerial Remuneration	*3,05,580*		
To Depreciation on Fixed Assets	*5,78,530*		
To Provision for taxation	*12,50,600*		
To General Reserve	*5,50,000*		
To Investment Revaluation Reserve	*25,800*		

To Balance c/d	*16,01,090*		
	53,28,950		*53,28,950*

Depreciation on Fixed Assets as per Schedule II of the Companies Act, 2013 was ₹ 6,51,750. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.

(d) *Following is the Balance Sheet of M/s. S Traders as on 31st March, 2019:*

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital	*1,50,000*	*Fixed Assets*	*1,05,000*
11% Bank Loan	*80,000*	*Closing stock*	*76,000*
Trade payables	*52,000*	*Debtors*	*68,000*
Profit & Loss A/c	*56,000*	*Deferred Expenditure*	*24,000*
		Cash & Bank	*65,000*
	3,38,000		*3,38,000*

Additional Information:

(i) *Remaining life of Fixed Assets is 6 years with even use. The net realizable value of Fixed Assets as on 31st March, 2020 is ₹ 90,000.*

(ii) *Firm's Sales & Purchases for the year ending 31st March, 2020 amounted to ₹ 7,80,000 and ₹ 6,25,000 respectively.*

(iii) *The cost & net realizable value of the stock as on 31st March, 2020 was, ₹ 60,000 and ₹ 66,000 respectively.*

(iv) *General expenses (including interest on Loan) for the year 2019-20 were ₹ 53,800.*

(v) *Deferred expenditure is normally amortised equally over 5 years starting from the Financial year 2018-19 i.e. ₹ 6,000 per year.*

(vi) *Debtors on 31st March, 2020 is ₹ 65,000 of which ₹ 5,000 is doubtful. Collection of another ₹ 10,000 debtors depends on successful re-installation of certain products supplied to the customer.*

(vii) *Closing Trade payable ₹ 48,000, which is likely to·be settled at 5% discount.*

(viii) *There is a prepayment penalty of ₹ 4,000 for Bank loan outstanding.*

(ix) *Cash & Bank balances as on 31st March, 2020 is ₹ 1,65,200.*

Prepare Profit & Loss Account for the year ended 31st March, 2020 and Balance Sheet as on 31st March, 2020 assuming the firm is not a going concern.

(e) Moon Ltd. was incorporated on 1st August, 2019 to take over the running business of a partnership firm w.e.f. 1st April, 2019. The summarized Profit & Loss Account for the year ended 31st March, 2020 is as under:

		Amount (₹)
Gross Profit		*6,30,000*
Less: Salaries	*1,56,000*	
Rent, Rates & Taxes	*72,000*	
Commission on sales	*40,600*	
Depreciation	*60,000*	
Interest on Debentures	*36,000*	
Director's fees	*24,000*	
Advertisement	*48,000*	*4,36,600*
Net Profit for the year		*1,93,400*

Moon Ltd. initiated an advertising campaign which resulted in increase of monthly sales by 25% post incorporation.

You are required to prepare a statement showing the profit for the year between pre-incorporation and post-incorporation. Also, explain how these profits are to be treated in the accounts? ***(4 Parts X 4 Marks = 16 Marks)***

Answer

(a) Calculation of unrealized profit of each department

	Dept. A	*Dept. B*	*Dept. C*	*Total*
	₹	₹	₹	₹
Unrealized Profit of:				
Department A		1,14,000 x 20/120 = 19,000	60,000 x 50/150 = 20,000	39,000
Department B	55,000 x .15 = 8,250		15,200 x.10 = 1,520	9,770
Department C	52,800 x 10/110 = 4,800	1,11,300 x 5/105 5,300		10,100

(b) The qualitative characteristics are attributes that improve the usefulness of information provided in financial statements. Financial statements are required to show a true and fair view of the performance, financial position and cash flows of an enterprise. The framework for Preparation and Presentation of Financial Statements suggests that the financial statements should maintain the following four qualitative characteristics to improve the usefulness of the information furnished therein.

1. **Understandability**: The financial statements should present information in a manner as to be readily understandable by the users with reasonable knowledge of business and economic activities and accounting.
2. **Relevance:** The financial statements should contain relevant information only. Information, which is likely to influence the economic decisions by the users, is said to be relevant. Such information may help the users to evaluate past, present or future events or may help in confirming or correcting past evaluations. The relevance of a piece of information should be judged by its materiality. A piece of information is said to be material if its misstatement (i.e., omission or erroneous statement) can influence economic decisions of a user.
3. **Reliability:** To be useful, the information must be reliable; that is to say, they must be free from material error and bias. The information provided are not likely to be reliable unless transactions and events reported are faithfully represented. The reporting of transactions and events should be neutral, i.e. free from bias and be reported on the principle of 'substance over form'. The information in financial statements must be complete. Prudence should be exercised in reporting uncertain outcome of transactions or events.
4. **Comparability:** Comparison of financial statements is one of the most frequently used and most effective tools of financial analysis. The financial statements should permit both inter-firm and intra-firm comparison. One essential requirement of comparability is disclosure of financial effect of change in accounting policies.

(c) Calculation of net profit of X Ltd. as per the Companies Act, 2013

	₹	₹
Balance from Trading A/c		42,53,650
Add: Subsidies received from Government		3,50,000
		46,03,650
Less: Administrative expenses	5,96,400	
Advertisement expenses	1,10,500	
Sales commission	1,05,550	
Director's fees	1,48,900	

Interest on debentures	56,000	
Depreciation on fixed assets as per Schedule II	6,51,750	(16,69,100)
Profit u/s 198		29,34,550

Maximum Managerial remuneration under Companies Act, 2013 = 11% of ₹ 29,34,550 = ₹ 3,22,800 (rounded off).

(d) Profit and Loss Account of M/s S Traders for the year ended 31st March, 2020 (business is not a going concern)

	₹		₹
To Opening Stock	76,000	By Sales	7,80,000
To Purchases	6,25,000	By Trade payables	2,400
To General expenses	53,800	By Closing Stock	66,000
To Depreciation (1,05,000 less 90,000)	15,000		
To Provision for doubtful debts	15,000		
To Deferred expenditure	24,000		
To Loan penalty	4,000		
To Net Profit (b.f.)	35,600		
	8,48,400		8,48,400

Balance Sheet M/s S Traders as on 31st March, 2020

Liabilities and Capital		₹	Assets	₹
Capital		1,50,000	Fixed assets	90,000
Profit & Loss A/c			Debtors	
opening balance	56,000		(65,000 less provision for doubtful debts ₹ 15,000)	50,000
Profit earned during the year	35,600	91,600	Closing stock	66,000
11% Loan		84,000	Cash & Bank balance	1,65,200
Trade payables		45,600		
		3,71,200		3,71,200

(e) Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods

Particulars	*Total Amount*	*Basis of Allocation*	*Pre-incorporation*	*Post-incorporation*
	₹		₹	₹
Gross Profit (W.N.2)	6,30,000	2:5 (sales)	1,80,000	4,50,000
Less: Salaries	1,56,000	Time	(52,000)	(1,04,000)
Rent, rates and taxes	72,000	Time	(24,000)	(48,000)
Commission on sales	40,600	2:5 (sales)	(11,600)	(29,000)
Depreciation	60,000	Time	(20,000)	(40,000)
Interest on debentures	36,000	Post		(36,000)
Directors' fee	24,000	Post		(24,000)
Advertisement	48,000	Post		(48,000)
Net profit			72,400	1,21,000

Pre-incorporation profit will be transferred to Capital Reserve.

Post-incorporation profit will be transferred to Profit & Loss Account.

Working Notes:

1. Sales ratio

Let the monthly sales for first 4 months (i.e. from 1.4.2019 to 31.7.2019) be = x

Then, sales for 4 months = 4x

Monthly sales for next 8 months (1st August, 2019 to 31st March, 2020)

= x + 25% of x= 1.25x Then, sales for next 8 months = 1.25x X 8 = 10x

Total sales for the year = 4x + 10x = 14x. Hence Sales Ratio = 4 x :10x i.e. 2:5

2. Time ratio

1st April, 2019 to 31st July, 2019 : 1st August, 2019 to 31st March, 2020

= 4 months: 8 months = 1:2. Thus, time ratio is 1:2.