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) Glen Ltd. began construction of a new building on 1st January, 2022. On 1st April, 2022, following two loans were obtained to fund the construction cost:

(i) Loan of ₹ 60,00,000 from Data Bank Ltd. was taken at interest rate of 8% per annum. This loan was fully utilized for construction of the new building.

(ii) Loan of ₹ 20,00,000 from Satya Bank Ltd. Out of this, loan amount of ₹ 6,00,000 was utilized for working capital purpose. Total interest of ₹ 1,92,000 were paid to Satya Bank Ltd. for the financial year 2022-23.

Construction of the new building was completed on 31st January, 2023 and was ready for its intended use on the same date.

None of the loan was repaid during the year. The building is a qualifying asset for the purpose of AS-16.

Out of loan from Data Bank Ltd., surplus funds were temporarily invested for the short period of time. This temporary investment earned interest of ₹ 30,000.

You are required to calculate the amount of interest (a) to be capitalized, (b) to be charged to profit and loss account from the total interest incurred as borrowing cost during the year 2022-23 (as per AS-16). ***(5 Marks)***

(b) Karna Ltd., an Indian Company, has the following foreign currency transactions during the financial year 2022-23:

(i) On 1st July, 2022, imported goods from Try Ltd., a German based company, amounting to ₹ 30,96,000.

(ii) On 1st October, 2022, imported plant and machinery from Lucy Ltd., a German based company, for € 18,500. The amount was paid on the date of import itself. (Ignore depreciation).

(iii) On 1st December, 2022, exported good on credit to Cream Ltd., a German based company, amounting to ₹ 50,40,000.

All the above transactions were recorded in the books of account at the prevailing exchange rate on the date of the transactions. Ignore taxes and duty on the above transactions.

Payment due from Cream Ltd. and payment due to Try Ltd. is outstanding as on 31st March, 2023.

Rate of exchange between reporting currency (₹) and foreign currency (€) on different dates are as under:

On 1st July, 2022 1 € = ₹ 86

On 1st October, 2022 1 € = ₹ 88

On 1st December, 2022 1 € = ₹ 84

On 31st March, 2023 1 € = ₹ 90

You are required, as per AS-11:

(i) To show value at which above items will appear in Balance sheet as on 31st March, 2023;

(ii) To calculate the amount of gain/loss on each of above transactions on account of exchange differences, if any. ***(5 Marks)***

(c) In the following cases, find the value of closing stock as per AS 2:

(i) Sonu is a retailer dealing in toys. During the year, he purchased items worth ₹ 1,47,000 and made a total sale ₹ 1,54,000. The average percentage of gross margin is 10% on cost. Opening stock of toys at cost was ₹ 20,000.

(ii) On 21st March, 2023, Mohan purchased 250 chairs at ₹ 300 each. The selling price of the chair is ₹ 400 each. Owing to a manufacturing defect, net realisable value of the whole lot of chair was determined at 70% of their normal selling price. No chairs were sold during the year. ***(5 Marks)***

(d) A Ltd. purchased a Machinery for ₹ 75 Lakhs. Government Grant received towards this Machinery is ₹ 10, Lakhs. Residual Value of Machinery at the end of useful life of 6 Years is ₹ 5 Lakhs.

Asset is shown in Balance Sheet at net of grant.

At the beginning of the 3rd year, an amount becomes refundable to the extent of ₹ 8 Lakhs due to non-compliance of certain conditions of grant.

You are required to give necessary Journal entries for the 1st year and the 3rd year in the books of A Ltd. ***(5 Marks)***

Answer

(a) According to AS 16 "Borrowing Costs", 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. The amount of borrowing costs eligible for capitalization should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

The standard also states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost on Loan of data bank to be capitalized:

= ₹(60,00,000 x 8%)x 10/12 - ₹30,000

= ₹4,00,000 - ₹ 30,000

= ₹3,70,000

Loan	*Particulars*	*Nature of assets*	*(a) Interest to be Capitalized (₹)*	*(b) Interest to be charged to Profit & Loss Account (₹)*
Data bank	Construction of factory building	Qualifying Asset	3,70,000	(4,80,000 - 4,00,000) 80,000
Satya Bank	Construction of factory building	Qualifying Asset	(1,92,000x14/20) x 10/12 = 1,12,000	(1,92,000 x 14/20) x 2/12 = 22,400
Satya Bank	Working Capital	Not a Qualifying Asset	NIL	(1,92,000x6/20) = ₹57,600
	Total		₹4,82,000	₹1,60,000

Note: Loan from Satya bank is considered to be specific borrowings.

(b) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", Foreign currency monetary items should be reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction. Exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or as expenses in the period in which they arise.

(i) Items given in the question will appear in the Balance Sheet at the following values:

Trade Payables (30,96,000/86= 36,000 German Currency) x ₹ 90 = ₹ 32,40,000

Plant and Machinery 18,500 German Currency X ₹ 88 = ₹16,28,000

Trade Receivables (50,40,000/84= 60,000 German Currency) x ₹ 90 = ₹ 54,00,000

(ii) Amount of gain / loss on each transaction on account of exchange difference:

Exchange loss on Transaction of import of goods from Try Ltd. = ₹ (1,44,000)

[36,000 German Currency X ₹ 4 (i.e. 90-86)]

Exchange gain on Transaction of export of goods to Cream Ltd = ₹ 3,60,000

[60,000 German Currency X ₹ 6 (i.e. 90-84)]

(c) (i) Cost of closing inventory is shown below:

	₹
Sale value of opening stock and purchases (₹ 20,000 + ₹1,47,000) x 1.10	1,83,700
Sales	(1,54,000)
Sale value of unsold stock	29,700
Less: Gross Margin (₹ 29,700 / 1.10) x 0.10	(2,700)
Cost of closing inventory	27,000

(ii)

Closing stock at cost (250X ₹ 300) (i)	75,000
Net Realizable value of closing stock (₹ 280* × 250) (ii)	70,000
Value of closing stock [lower of (i) and (ii)]	70,000

(d) Journal Entries in the Books of A Ltd.

Year	*Particulars*		*₹ in lakhs (Dr.)*	*₹ in lakhs (Cr.)*
1	Machinery Account	Dr.	75	
	To Bank Account			75
	(Being machinery purchased)			
	Bank Account	Dr.	10	
	To Machinery Account			10
	(Being grant received from the government reduced from the cost of machinery)			

	Depreciation Account (W.N.1) To Machinery Account (Being depreciation charged on Straight Line method (SLM))	Dr.	10	10
	Profit & Loss Account To Depreciation Account (Being depreciation transferred to Profit and Loss Account at the end of year 1)	Dr.	10	10
3	Machinery Account To Bank Account (Being government grant on machinery partly refunded which increased the cost of fixed asset)	Dr.	8	8
	Depreciation Account (W.N.2) To Machinery Account (Being depreciation charged on SLM on revised value of fixed asset prospectively)	Dr.	12	12
	Profit & Loss Account To Depreciation Account (Being depreciation transferred to Profit and Loss Account at the end of year 3)	Dr.	12	12

Working Notes:

1. **Depreciation for Year 1**

	₹ in lakhs
Cost of the Machinery	75
Less: Government grant received	(10)
	65
Depreciation $\left[\frac{65-5}{6}\right]$	**10**

2. **Depreciation for Year 3**

	₹ in lakhs
Cost of the Machinery	75
Less: Government grant received	(10)
	65
Less: Depreciation for the first two years	20
	45

Add: Government grant refundable	8
	53
Depreciation for the third year $\left[\frac{53-5}{4}\right]$	**12**

Question 2

(a) *Mr. Harry had taken out a fire policy of the loss of stock for ₹ 11,00,000 and a loss of profits policy for ₹ 17,00,000 having an indemnity period of 6 months. Trading and Profit & Loss Account for the year ended 31-03-2023 were as follows:*

Trading and Profit & Loss Account of Mr. Harry for the year ended 31-03-2023.

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To Opening Stock	*1,70,000*	*By Sales*	*85,00,000*
To Purchases	*49,30,000*	*By Closing Stock*	*7,65,000*
To Manufacturing Expenses	*14,45,000*		
To Gross Profit c/d	*27,20,000*		
	92,65,000		***92,65,000***
To Salary to permanent employees	*5,30,000*	*By Gross Profit b/d*	*27,20,000*
To Advertisement Expenses	*70,000*		
To Interest on Mortgage Loan	*1,65,000*		
To Rent	*2,80,000*		
To Net Profit	*16,75,000*		
	27,20,000		***27,20,000***

On 1st July 2023, a fire occurred on the premises of Mr. Harry and as a result, sales were seriously affected for 3 months. The entire stock was gutted with nil salvage value. The following information is available for the period 1-04-23 to 30-06-23:

Particulars	*Amount (₹)*
Purchases	*12,60,000*
Manufacturing expenses	*3,74,500*
Sales	*21,16,000*

Other information:

Sales during the period 1-07-23 to 30-09-23 were ₹ 7,43,750.

The standing charges insured were ₹ 8,75,000.

Additional expenses incurred after the fire were ₹ 5,10,000.

The general trend of the industry shows an increase in sales by 15% and a decrease in Gross Profit by 5% due to increased costs.

Ascertain the claim for stock and loss of profit. **(12 Marks)**

(b) *Mr. Anuj bought eight Scooters from Bee Motors on 1st April, 2020 on the following Hire Purchase agreement terms:*

Down payment	*₹ 10,00,000*
1st installment payable at the end of 1st year	*₹ 5,30,000*
2nd installment payable at the end of 2nd year	*₹ 4,90,000*
3rd installment payable at the end of 3rd year	*₹ 5,50,000*

Interest is charged at the rate of 10% p.a.

Mr. Anuj provides depreciation @ 20% p.a. on the diminishing balances.

On 31st March, 2023, Mr. Anuj failed to pay the 3rd installment, upon which Bee Motors repossessed three Scooters. Bee Motors agreed to leave the remaining Scooters with Mr. Anuj and adjusted the value of the repossessed Scooters against the amount due. The Scooters repossessed were valued at ₹ 3,94,450. The balance amount remaining in the vendor's account after the above adjustment was paid by Mr. Anuj after 3 months with interest @ 18% p.a.

You are required to:

(i) *Calculate the cash price of the Scooters and the interest payable with each installment.*

(ii) *Prepare the Scooters Account and Bee Motors Account (up to the final payment made) in the books of Mr. Anuj.* **(8 Marks)**

Answer

(a) (A) Calculation of Claim for loss of stock

(i) Calculation of G.P. ratio = $\frac{\text{Gross profit}}{\text{Net Sales of previous year}} \times 100$

$= \frac{27,20,000}{85,00,000} \times 100 = 32\%$

= Less: fall in G.P. rate = <u>(5%)</u>

<u>27%</u>

(ii) Calculation of value of stock on 1.7.23

Memorandum Trading A/c for the period 1.4.23 to 30.6.23

Particulars	₹	Particular	₹
To Opening Stock	7,65,000	By Sales	21,16,000
To Purchases	12,60,000	By Closing stock (Bal figure)	8,54,820
To Manufacturing Expenses	3,74,500		
To Gross Profit (21,16,000 × 27%)	5,71,320		
	29,70,820		29,70,820

(iii) Value of Claim

Value of Stock on 1.7.23	8,54,820
Less: Salvage value	Nil
Value of stock to be claimed	8,54,820

As policy amount is more than insurable value of stock so full claim amount would be allowed.

Thus, value of claim for loss of stock will be ₹ 8,54,820

(B) Calculation of the amount of claim under the Loss of Profit Policy

(1) Calculation of short sales:

	₹
Sales for the period 01.07.2022 to 30.09.2022 [(66,60,000 x 3/9) Refer W.N 9]	22,20,000
Add: 15% increase in turnover	3,33,000
Estimated sales	25,53,000
Less: Actual Sales from 01.07.2023 to 30.09.2023	7,43,750
Short Sales	18,09,250

(2) Rate of gross profit:

	₹
Net profit for the year 22-23	16,75,000
Add: Insured standing charges	8,75,000
	25,50,000

Sales for the year 22-23	85,00,000
Rate of GP for the year 2022-23	$\frac{25,50,000}{85,00,000} \times 100$ = 30%
Rate of GP for the current year	30% - 5% = 25%

(3) Calculation of Loss of Profit on short sales

₹ 18,09,250 X 25% = ₹ 4,52,312* (rounded off)

(4) Calculation of claim for the increased cost of working

Least of the following:

(a) Actual Expenses = ₹ 5,10,000

(b) $\frac{\text{Actual additional expense} \times \text{GP on adjusted turnover}}{\text{G.P. on adjusted turnover + uninsured standing charges}}$

$5,10,000 \times \frac{24,43,750}{24,43,750 + 1,00,000^*}$

* (5,30,000+1,65,000+2,80,000 -8,75,000)

= ₹ 4,89,951

(c) Gross Profit on sales generated due to additional expenses

₹ 7,43,750 X 25% = ₹ 1,85,938** (rounded off)

₹ 1,85,938 being the least, shall be the increased cost of working.

(5) Calculation of total loss of profit:

	₹
Loss of profit on short sales	4,52,312**
Add: Increased cost of working	1,85,938
	6,38,250

(6) Calculation of adjusted annual sales:

	₹
Sales from 1.7.22 to 31.3.23	66,60,000
Sales for 1.4.23 to 30.6.23	21,16,000
Sales for 12 months preceding the date of fire	87,76,000
Add: 15% increases in sales (66,60,000)	9,99,000
Adjusted annual sales	97,75,000

(7) Calculation of insurable amount:

Adjusted annual sales X G.P. Rate = ₹ 97,75,000 X 25% = ₹ 24,43,750

(8) Claim amount under Loss of Profit Policy (Average Clause):

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

$$₹\ 6,38,250 \times \frac{17,00,000}{24,43,750}$$

$$= ₹\ 4,44,000$$

9. Breakup of the sales for the year 2022-23

Sales for 01.04.22 to 30.06.22	
₹ 21,16,000/115 X 100	18,40,000
Sales for the remaining period (85,00,000 – 18,40,000)	66,60,000
	85,00,000

The sales figure of 1.4.23 to 30.6.23 was already trend adjusted.

**Alternatively, it may be rounded off as and ₹ 1,85,937 and ₹ 4,52,313 (rounded off). Accordingly, the corresponding figures will get changed.

(b) (i) Calculation of Interest and Cash Price

No. of instalments	*Outstanding balance at the end after the payment of instalment*	*Amount due at the time of instalment*	*Outstanding balance at the end before the payment of instalment*	*Interest*	*Outstanding balance at the beginning*
[1]	*[2]*	*[3]*	*[4] = 2 +3*	*[5] = 4 x 10/110*	*[6] = 4-5*
3rd	-	5,50,000	5,50,000	50,000	5,00,000
2nd	5,00,000	4,90,000	9,90,000	90,000	9,00,000
1st	9,00,000	5,30,000	14,30,000	1,30,000	13,00,000

Total cash price = ₹13,00,000 + 10,00,000 (down payment) = ₹ 23,00,000.

(ii) In the books of Anuj

Scooters Account

Date	*Particulars*	*₹*	*Date*	*Particulars*	*₹*
1.04.20	To Bee Motors A/c	23,00,000	31.3.21	By Depreciation A/c	4,60,000
				By Balance c/d	18,40,000

		23,00,000			23,00,000
1.04.21	To Balance b/d	18,40,000	31.3.22	By Depreciation A/c	3,68,000
				By Balance c/d	14,72,000
		18,40,000			18,40,000
1.04.22	To Balance b/d	14,72,000	31.3.23	By Depreciation A/c	2,94,400
				By Bee Motors A/c (Value of 3 Scooter taken over)	3,94,450
				By Loss transferred to Profit and Loss a/c on surrender (Bal. fig.)	47,150
				By Balance c/d [(14,72,000-2,94,400) 11,77,600] × $\frac{5}{8}$	7,36,000
		14,72,000			14,72,000

Bee Motors Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
1.04.20	To Bank (down payment)	10,00,000	1.04.20	By Scooters A/c	23,00,000
31.3.21	To Bank (1st Instalment)	5,30,000	31.3.21	By Interest A/c	1,30,000
31.3.21	To Balance c/d	9,00,000			
		24,30,000			24,30,000
31.3.22	To Bank (2nd Instalment)	4,90,000	1.04.21	By Balance b/d	9,00,000
	To Balance c/d	5,00,000	31.3.22	By Interest A/c	90,000
		9,90,000			9,90,000
31.3.23	To Scooters A/c	3,94,450	1.04.22	By Balance b/d	5,00,000
	To Balance c/d (b.f.)	1,55,550	31.3.23	By Interest A/c	50,000
		5,50,000			5,50,000
30.6.23	To Bank (Amount settled after 3 months)	1,62,550	1.04.23	By Balance b/d	1,55,550
			30.06.23	By Interest A/c (@ 18% on bal.) (1,55,550 x 3/12 x 18/100)	7,000
		1,62,550			1,62,550

Question 3

(a) *Following information is given by Mr. Happy (stock broker) relating to his holding in 10% Government Bonds:*

Opening Balance as on 1st April, 22 was 5,000 units (Nominal value ₹ 100 each), Cost ₹ 4,85,000
On 1st June, 22, Purchased 600 units, cum-interest @ ₹ 99
On 1st August, 22, Purchased 2400 units, ex-interest @ ₹ 97.50
On 1st October, 22, Sold 2,500 units @ ₹ 98.50, ex-interest
On 1st January, 23, Sold 3,000 units @ ₹ 99 cum interest

Interest is received on 30th June and 31st December each year. Mr. Happy closes his books on 31st March each year.

Prepare Investment Account in the books of Mr. Happy assuming that FIFO method of valuation is followed by Mr. Happy. ***(10 Marks)***

(b) *Jolly Industries of Delhi is a trader in spices. It has a branch at Jalandhar to which Head office invoice goods at 20% on sales. The Jalandhar branch sells spices both on cash and credit. Branch remit all the cash received to Head Office Bank account, thus all expenses of branch are also directly paid from head office.*

From the following information given, Prepare Branch Accounts in the Head office ledger using Stock and Debtors Method.

Branch does not maintain any books of account, but send fortnightly returns to Head office.

	₹
Stock at Jalandhar Branch as on 1st April, 2022 (Cost Price)	*1,00,000*
Sundry Debtors at Jalandhar as on 1st April, 2022	*1,10,000*
Cash received from Debtors	*3,45,000*
Bad debts during the year	*9,500*
Discount allowed to Debtors	*5,500*
Goods received from Head Office at Invoice Price	*6,00,000*
Returns to Head office at Invoice Price	*60,000*
Normal loss of goods during transport (Out of Goods sent by H.O. to Branch)	*12,000*
Sales returns at Jalandhar Branch	*11,000*
Salaries and staff welfare expenses at Branch	*54,000*
Rent and taxes at Branch	*9,000*
Other Office Expenses	*2,500*

Sundry Debtors at Branch as at 31st March 2023	*1,55,000*
Stock at Jalandhar as on 31st March, 2023 (Cost Price)	*1,20,000*

Credit sales at Branch are four times of the cash Sales at Branch. ***(10 Marks)***

Answer

(a) **In the Books of Mr. Happy**

10% Government Bonds (Investment) Account

Particulars		Nominal Value	Interest	Principal	Particulars		Nominal Value	Interest	Principal
2022-23		₹	₹	₹	2022-23		₹	₹	₹
April1	To Balance b/d (W.N.1)	5,00,000	12,500	4,85,000	June. 30	By Bank A/c (W.N.3)		28,000	
June 1	To Bank A/c (W.N.2)	60,000	2,500	56,900	Oct. 1	By Bank A/c (W.N.4)	2,50,000	6,250	2,46,250
					Dec.31	By Bank A/c (W.N.6)		27,500	
Aug. 1	To Bank A/c	2,40,000	2,000	2,34,000	Jan. 1	By Bank A/c (W.N.7)	3,00,000		2,97,000
Oct. 1	To P&L A/c (W.N.5)			3,750	March31	By Balance c/d (W.N. 9 & W.N.10)	2,50,000	6,250	2,43,483
Jan. 1	To P&L A/c (b.f.) (W.N.8)			7,083					
March 31	To P&L A/c (Transfer)		51,000						
		8,00,000	68,000	7,86,733			8,00,000	68,000	7,86,733

Working Notes:

1. Interest element in opening balance of bonds = 5,00,000 x 10% x 3/12 = ₹ 12,500
2. Purchase of bonds on 1.6.22

   Interest element in purchase of bonds = 600 x 100 x 10% x 5/12 = ₹ 2,500

   Investment element in purchase of bonds = (600 X 99) = ₹ 59,400 - ₹ 2,500 = 56,900
3. Interest for half-year ended 30.6.22 = ₹ 5,60,000 x 10% x 6/12 = ₹ 28,000
4. Sale of bonds on 1.10.2022

   Interest element = 2,500 x 100 x 10% x 3/12 = ₹ 6,250

   Investment element = 2,500 x 98.50 = ₹ 2,46,250

5. Profit on sale of bonds on 1.10.22

   Cost of bonds = (4,85,000/5,000 X 2,500) = 2,42,500

   Sale proceeds = ₹ 2,46,250

   Profit element = ₹ 3,750

6. Interest for half-year ended 31 December 2022

   = 5,500 x 100 x 10% x 6/12 = ₹ 27,500

7. Sale of bonds on Jan.1 ,23

   Interest element = 0 (Nil)

   Investment element = 3000 x ₹ 99 = ₹2,97,000

8. Profit on sale of bonds on Jan 1, 23

   Cost of bonds = [2,42,500+56,900X5/6] = 2,42,500 + 47,417 = 2,89,917

   Sale proceeds = ₹ 2,97,000

   Profit element = ₹ 7,083

9. Closing value of investment

Calculation of closing balance:	*Nominal value*	*₹*
Bonds in hand remained in hand on 1.4.22		---
Purchased on 1st June,22	10,000	9,483
Purchased on 1st August,22	2,40,000	2,34,000
	2,50,000	2,43,483

10. Interest element in closing balance of bonds = 2,500 x 100 x 10% x 3/12 = ₹6,250.

(b)

Books of Jolly Industries, Delhi

Jalandhar Branch Stock Account

Particulars	***₹***	***Particulars***	***₹***
To Balance b/d – Op Stock	1,25,000	By Bank A/c – Cash Sales	1,04,000
To Branch Debtors A/c – Sales Return	11,000	By Branch Debtors A/c - Credit Sales	4,16,000
To Goods sent to Branch A/c (6,00,000 +12,000)	6,12,000	By Goods sent to Branch (Returns to H.O.)	60,000
		By Branch Stock Adjustment A/c (Normal Loss)	12,000

		By Branch Stock Adjustment A/c (Abnormal Loss) (bal. fig.)	6,000
		By Balance c/d - Closing stock	1,50,000
	7,48,000		7,48,000

Jalandhar Branch Stock Adjustment Account

Particulars	***₹***	***Particulars***	***₹***
To Goods sent to Branch A/c (1/5 of ₹60,000) (on returns)	12,000	By Balance b/d (20% of 1,25,000)	25,000
To Branch Stock A/c (abnormal Loss) (6,000x1/5)	1,200	By Goods sent to Branch A/c (1/5 of ₹ 6,12,000)	1,22,400
To Branch Stock A/c (Normal Loss)	12,000		
To Balance c/d (1/5 of ₹ 1,50,000)	30,000		
To Branch P & L A/c (Profit on sale) – Bal fig	92,200		
	1,47,400		1,47,400

Goods Sent to Branch Account

Particulars	***₹***	***Particulars***	***₹***
To Jalandhar Branch Stock Adjustment A/c	1,22,400	By Jalandhar Branch Stock A/c	6,12,000
To Jalandhar Branch Stock A/c (Returns)	60,000	By Jalandhar Branch Stock Adjustment A/c	12,000
To Purchases A/c	4,41,600		
	6,24,000		6,24,000

Branch Debtors Account

Particulars	***₹***	***Particulars***	***₹***
To Balance b/d	1,10,000	By Bank	3,45,000
To Branch Stock A/c	4,16,000	By Branch P&L A/c - Discount	5,500
		By Branch P&L A/c - Bad Debts	9,500
		By Branch Stock - Sales Returns	11,000

		By Balance c/d	1,55,000
	5,26,000		5,26,000

Branch Expenses Account

Particulars	**₹**	***Particulars***	**₹**
To Bank A/c (Rent & Taxes)	9,000	By Branch Profit & Loss A/c (Transfer)	65,500
To Bank A/c (Salaries & Staff Welfare expenses)	54,000		
To Bank A/c (office expenses)	2,500		
	65,500		65,500

Branch Profit & Loss Account for the year ending 31st March 2023

Particulars	**₹**	***Particulars***	**₹**
To Branch Expenses A/c	**65,500**	By Branch Stock Adj. A/c	**92,200**
To Branch Debtors A/c	5,500		
To Branch Debtors A/c	9,500		
To Abnormal Loss (cost)	4,800		
To Net Profit transferred to Profit & Loss A/c	6,900		
	92,200		92,200

Question 4

The following is the Trial Balance of Falgun Ltd., as on 31st March, 2023:

Particulars	*Debit Amt. in (₹)*	*Credit Amt. in (₹)*
Equity Share Capital (Fully paid-up shares of ₹ 100 each)		*10,00,000*
10% Preference Share Capital of Face Value ₹ 100 each		*4,00,000*
General Reserve		*2,85,000*
2,000 10% Debentures of ₹ 100 each		*2,00,000*
Securities Premium Account		*50,000*
Land (at Cost)	*7,00,000*	
Plant and Machinery	*14,70,000*	
Furniture	*4,00,000*	

Provision for Depreciation - Plant and Machinery		*3,00,000*
Provision for Depreciation - Furniture		*1,90,000*
Trade Receivables	*3,10,000*	
Trade Payables		*72,000*
Cash-in-Hand	*1,34,000*	
Cash-at-Bank	*3,05,000*	
Bank Over Drafts from Nationalized bank (Long Term)		*2,00,000*
(Secured by Hypothecation of Stocks)		
6% Secured Loan from State Finance Corporation (repayable after 3 years) (Secured by Hypothecation of Plant and Machinery)		*4,50,000*
Unclaimed Dividend		*23,000*
Loan from Director (Short Term)		*1,00,000*
Adjusted Purchases	*2,25,000*	
Closing Stock	*1,12,000*	
Sales		*8,46,000*
Carriage Inward	*17,200*	
Miscellaneous Expenses	*10,200*	
Selling and Distribution Expenses	*46,600*	
Depreciation	*1,80,000*	
Salaries	*72,000*	
Director's Fees	*40,000*	
Travelling Expenses (include ₹ 50,000/- for foreign tour)	*1,30,000*	
Profit and Loss Account		*40,000*
Office Expenses	*28,000*	
Rent Received		*24,000*
Total	*41,80,000*	*41,80,000*

Additional Information:

(i) Authorized Capital - divided into -

(a) 20,000 equity shares of ₹ 100 each.

(b) 10,000 10% preference shares or ₹ 100 each

(ii) Equity shares include, 2,500 equity shares issued for consideration other than cash.

(iii) The company has land professionally valued and decides to include it in the Balance sheet at its valuation of ₹ 8,50,000.

(iv) It is proposed to capitalize part of the undistributed profits by making bonus issue to the shareholders by allocating one equity share of ₹ 100 each for every 5 shares held.

(v) Trade Receivables of ₹ 46,000 are due for more than six· months.

There is no doubtful amount.

(vi) Depreciation expenses include depreciation of ₹ 1,10,000 on Plant and Machinery and that of ₹ 70,000 on Furniture.

(vii) Cash-at-Bank include ₹ 55,000 with Desire Bank Ltd., which is not scheduled Bank.

(viii) Miscellaneous expenses included ₹ 5,000 being audit fees paid to auditors.

(ix) Bill Receivables for ₹ 35,000 maturing on 31st July, 2023 has been discounted.

(x) Balance of secured loan from State Finance Corporation is inclusive of ₹ 36,000 for interest accrued but not due.

(xi) Directors declared final dividend @ 8% on 6th April, 2023, transferring any amount that may be required from General Reserve. Ignore Taxation.

(xii) Interest on debenture for the year is outstanding as on 31st March, 2023. You are required to prepare Balance Sheet as on 31st March, 2023 and Statement of Profit and Loss with Notes to Accounts for the year ending 31st March, 2023 as per Schedule III of the Companies Act, 2013. Ignore previous years' figures. (Ignore taxation).

(All workings should form part of the answer) ***(20 Marks)***

Answer

Statement of Profit and Loss of Falgun Ltd.
for the year ended 31st March, 2023

	Particulars	*Notes*	₹
I.	Revenue from operations		8,46,000
II.	Other income (Rent income)		24,000
III.	Total Income (I + II)		8,70,000
IV.	Expenses:		
	Cost of materials consumed / Cost of purchases	9	2,42,200
	Changes in inventories of finished goods, work-in-progress and Inventory-in-Trade		-
	Employee benefits expense	10	72,000

	Finance costs (Interest on debentures)	11	20,000
	Depreciation and amortization expenses	12	1,80,000
	Other expenses	13	2,54,800
	Total expenses		7,69,000
V.	Profit (Loss) for the period (III - IV)		1,01,000

Balance Sheet of Falgun Ltd. as at 31st March, 2023

Particulars	***Note No***	**₹**
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	14,00,000
b Reserves and Surplus	2	6,26,000
2 Non-current liabilities		
a Long-term borrowings	3	8,14,000
3 Current liabilities		
a Short term borrowings	4	1,00,000
b Trade Payables		72,000
c Other current liabilities	5	79,000
d Short term provisions		
Total		30,91,000
ASSETS		
1 Non-current assets		
a Property, plant and equipment	6	22,30,000
2 Current assets		
a Inventories		1,12,000
b Trade receivables	7	3,10,000
c Cash and bank equivalents	8	4,39,000
d Short term loans & advances		
Total		30,91,000

Note: There is a Contingent Liability for bills discounted but not yet matured amounting ₹ 35,000.

Notes to accounts:

			₹
	Share Capital		
1	Authorised capital:		
	10,000, 10% preference shares of ₹ 100		10,00,000
	20,000 Equity shares of ₹ 100 each		20,00,000
			30,00,000
	Issued and subscribed capital:		
	4,000, 10% preference shares of ₹ 100 each fully paid		4,00,000
	10,000 Equity shares of ₹ 100 each, fully paid		10,00,000
	(of the above 2,500* shares have been issued for consideration other than cash)		14,00,000
2	Reserves and Surplus		
	Securities premium	50,000	
	Revaluation reserve	1,50,000	
	General Reserve	2,85,000	4,85,000
	Surplus (Profit & Loss balance)		
	Opening balance	40,000	
	Profit for the year	1,01,000	1,41,000
	Total		6,26,000
3.	Long-term borrowings		
	Debentures		
	2,000 10% Debentures of ₹ 100 each	2,00,000	
	Secured: Term Loans		
	6% Loan from State Finance Corporation [repayable after 3years (₹ 4,50,000 - ₹ 36,000 for interest accrued but not due)] (secured by hypothecation of Plant and machinery)	4,14,000	
	Others		
	Bank overdraft from Nationalized bank (secured by hypothecation of stocks)	2,00,000	
	Total		8,14,000
4.	Short-term borrowings		
	Loan from Directors		1,00,000

5	Other current liabilities			
	Unclaimed dividend		23,000	
	Interest on Debentures		20,000	
	Interest accrued but not due on loans (SFC)		36,000	79,000
6	Property, plant and equipment			
	Land	7,00,000		
	Add: Revaluation Adjustment	1,50,000		8,50,000
	Plant & Machinery		14,70,000	
	Less: Provision for depreciation		(3,00,000)	11,70,000
	Furniture		4,00,000	
	Less: Provision for depreciation		(1,90,000)	2,10,000
		Total		22,30,000
7	Trade receivables			
	Debts outstanding for a period exceeding six months			46,000
	Other Debts			2,64,000
				3,10,000
8	Cash and cash equivalents			
	Cash at bank with Scheduled Banks (3,05,000-55,000)		2,50,000	
	with others		55,000	
	Cash in hand		1,34,000	4,39,000
9	Cost of materials consumed/Cost of purchases			
	Adjusted purchases		2,25,000	
	Carriage inward		17,200	2,42,200
10	Employee benefit expense			
	Salaries			72,000
11	Finance cost			
	Debenture interest			20,000
12	Depreciation and amortization expenses			
	Plant and Machinery	1,10,000		
	Furniture	70,000		
				1,80,000
13	Other expenses			
	Misc. expenses (10,200-5,000)		5,200	

Audit fee	5,000	
Selling & Distribution expenses	46,600	
Director's fee	40,000	
Travelling expenses (including foreign tour)	1,30,000	
Office expenses	28,000	2,54,800

Notes:

1. The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 2023. Such dividends will be disclosed in notes only.
2. Since Bonus issue is in proposal state, no adjustment has been made in the given answer.

Question 5

(a) *Mr. Gurmeet runs the retail business and maintain books under single entry system. He has furnished the following information:*

Balance Sheet as on 31st March, 2022

	Amount (₹)
Assets:	
Furniture	*60,000*
Stock	*1,15,000*
Trade Receivables	*65,000*
Cash at Bank	*1,05,000*
Cash in Hand	*8,000*
Total	*3,53,000*
Liabilities:	
Gurmeet's Capital A/c	*3,08,000*
Trade Payables	*45,000*
Total	*3,53,000*

(i) Goods are invariably sold to earn a gross profit of 20% on cost.

(ii) Depreciation is provided on furniture @ 10% p.a. on diminishing balance.

(iii) Payment for purchases is always made by cheque.

(iv) Goods are sold for cash and credit both. Credit customers are paid by cheque only.

(v) It is practice of Mr. Gurmeet to send to the bank all collection of the month at last date of each month after paying:

Salaries	*₹ 3,000 p.m.*
Office expenses	*₹ 1,800 p.m.*
Personal withdrawals	*₹ 1,500 p.m.*

(vi) Analysis of passbook for the year ending 31st March, 2023 disclosed the following information:

	Amount (₹)
Cash deposited in bank during the year	2,12,000
Receipts from credit customers	12,28,000
Payment to creditors	12,15,000
Payment of insurance premium (for one year ending 30th June, 2023)	2,400
Miscellaneous Receipts - sale of old papers	1,400

(vii) Balances as on 31st March, 2023 are:

Trade Receivables	*₹ 17,000*
Trade Payable	*₹ 35,000*
Stock	*₹ 90,000*

(viii) Claim against Mr. Gurmeet for damages of ₹ 15,000 is under dispute. He anticipates defeat in the suit.

(ix) On physical verification of cash in cash box carried on 31st March, 2023; shortage of ₹ 10,000 was found. It was noticed that the cashier absconded with-the shortage amount. Further, it is not possible to recover cash from cashier.

You are required to prepare:

(i) Trading and Profit and Loss Account for the year ending 31st March, 2023;

(ii) Balance sheet as on 31st March, 2023.

(All workings should form part of the answer)

(b) Discuss Disclosure requirements in following cases as per AS 1.

(i) Accountant of A Ltd. charges a probable loss of losing a suit in books of accounts and also disclosed the same fact in financial statements. The probability of losing the suit is 25%.

(ii) Accountant of A Ltd. capitalized all the revenue expenses of repair and maintenance during the year to Plant & Machinery and is also disclosing the same as company policy in financial statements.

(iii) A Ltd. has followed accrual basis of accounting since incorporation. The chief accountant also disclosed this fact in financial statements.

(iv) A Ltd. was providing for after sales expenses @ 2% of sales for covering expenses during the warranty period. Now A Ltd. observes that actual after sales expenses were much less as compared to provision because of better technology used in manufacturing of the products. Now, the Board of A Ltd. decides to account for these expenses as and when they occur. Sales during the period are ₹ 50 crores.

(15 + 5 = 20 Marks)

Answer

(a) Trading and Profit and Loss Account of Mr. Gurmeet

for the year ended 31st March, 2023

Particulars	***₹***	***Particulars***	***₹***
To Opening stock	1,15,000	By Sales Cash 2,96,000 Credit 11,80,000	14,76,000
To Purchases	12,05,000	By Closing stock	90,000
To Gross Profit c/d	2,46,000		
	15,66,000		15,66,000
To Salaries (₹ 3,000 x 12)	36,000	By Gross profit b/d	2,46,000
To Office expenses (₹1,800 x 12)	21,600	By Misc. receipt	1,400
To Insurance premium 2,400 Less: Prepaid 600	1,800		
To Depreciation on furniture	6,000		
To Provision for suit	15,000		
To Loss of cash by theft	10,000		
To Net Profit (b.f.)	1,57,000		
	2,47,400		2,47,400

Balance Sheet of Mr. Gurmeet

as at 31st March, 2023

Liabilities		***₹***	***Assets***	***₹***
Capital as on 1.4.2022	3,08,000		Furniture 60,000 Less: depreciation (6,000)	54,000
Add: Profit	1,57,000		Stock	90,000
	4,65,000		Trade receivables	17,000
Less: Drawings	(18,000)	4,47,000	Prepaid insurance	600

Trade payables		35,000	Cash at bank	3,29,000
Provision for suit		15,000	Cash in hand (W.N 6)	6,400
		4,97,000		4,97,000

Working Notes:

(1) *Purchases*

Trade payables Account

Particulars	₹	*Particulars*	₹
To Bank A/c	12,15,000	By Balance b/d	45,000
To Balance c/d	35,000	By Purchases A/c (Bal. fig.)	12,05,000
	12,50,000		12,50,000

(2) Total sales

Particulars	₹
Opening stock	**1,15,000**
Add: Purchases	12,05,000
	13,20,000
Less: Closing stock	(90,000)
Cost of goods sold	**12,30,000**
Add: Gross profit @ 20% on cost	2,46,000
Total Sales	14,76,000

(3) Credit Sales

Trade receivables Account

Particulars	₹	*Particulars*	₹
To Balance b/d	65,000	By Bank A/c	12,28,000
To Sales A/c (Bal. fig.)	11,80,000	By Balance c/d	17,000
	12,45,000		12,45,000

(4) Cash Sales

	₹
Total sales	14,76,000
Less: Credit Sales	(11,80,000)
Cash sales	2,96,000

(5) Bank balance as on 31.3.2023

Bank Account

Particulars	₹	*Particulars*	₹
To Balance b/d	1,05,000	By Trade payables A/c	12,15,000
To Trade receivables A/c	12,28,000	By Insurance premium A/c	2,400
To Misc. receipts (sale of newspaper)	1,400		
To Cash A/c	2,12,000	By Balance c/d (b.f.)	3,29,000
	15,46,400		15,46,400

(6) Cash balance as on 31.3.2023

Cash Account

Particulars	₹	*Particulars*	₹
To Balance b/d	8,000	By Salaries (₹ 3,000 x 12)	36,000
To Cash sales	2,96,000	By office expenses (₹1,800 x 12)	21,600
		By Deposit into bank	2,12,000
		By Loss of cash by theft	10,000
		By Drawings	18,000
		By Balance c/d (b.f.)	6,400
	3,04,000		3,04,000

(b) (i) In this case, accountant of company created a provision for damages of probability of losing a suit by a charge against profits. Unless the probability of losing the suit is more than probability of not losing it, there should not be any creation of provision for such probable losses. So there is no need to charge such loss against profit and disclosing the same in financial statements.

(ii) Repairs and maintenance are revenue expenditure and should not be added to the value of assets, as these expenses do not increase the capacity of asset. Hence such expenses should be charged to profit & loss statement.

Further the chief accountant also disclosed its policy of adding repairs to value of assets by way of notes to accounts. As per AS 1 disclosure is not a method to correct the wrong treatments. So the contention of chief accountant is wrong.

(iii) Accrual is one of the Fundamental accounting assumptions. If fundamental accounting assumptions are followed properly then no specific disclosure is required.

Disclosure is required only when there is deviation and the company is not following fundamental accounting assumptions. So the company need not disclose this in financial statements.

(iv) As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Accordingly, the notes on accounts should properly disclose the change and its effect.

Note: So far, the company has been providing 2% of sales for meeting after sales expenses during the warranty period. Now the company has improved the quality of its products with better technology and has been observing that actual expenses are very less than the provision, Hence, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is increased by ₹1 crore than would have been the case if the old policy were to continue.

Question 6

Answer the followings:

(a) *Following is the Profit and Loss Account of Erick Ltd. for the year ended 31st March, 2023:*

	Amount (₹)
Income:	
Gross Profit	*26,20,500*
Profit on Sale of Land	*1,20,000*
Subsidy received from State Government	*3,00,000*
Total	*30,40,500*
Expenses:	
Administrative and Selling Expenses	*58,500*
Salaries and Wages	*5,80,000*
Director's Fees	*32,000*
Development Rebate Reserve	*15,000*
Depreciation	*4,80,000*
Managerial Remuneration	*1,25,000*
Income Tax	*2,40,000*
Interest on Debentures	*90,000*
Total	*16,20,500*
Net Profit c/f	*14,20,000*
Total	*30,40,500*

Additional Information:

(i) Administrative and selling expenses include the cost of construction of new office building amounting to ₹ 8,000.

(ii) Depreciation as per Companies Act, 2013 was ₹ 3,95,000.

You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013. ***(5 Marks)***

EITHER

(b) Z Ltd. decides to increase its existing share capital by making right issue to its existing shareholders.

The company is offering 2 new shares for every 5 existing shares held by the shareholders. The market value of shares is ₹ 420 per share.

Company is offering each share at ₹ 245 per share.

Calculate the value of right and the ex-right market price of a share. ***(5 Marks)***

OR

List down the applicable criteria under the companies (Accounting Standards) Rule, 2021, to classify a company as Small and Medium Sized Company (SMC).

(c) Vision Ltd. was incorporated on 1st June, 2022 to take over the running business of Dwar Brothers with effect from 1st April 2022. The following information for the year ended 31st March, 2023 is provided:

	Amount (₹)
Gross Profit	32,63,000
Expenses:	
Rent, Rates and Taxes	6,72,000
General expenses	10,96,000
Carriage outward	1,92,400
Share issue expenses	55,000

Additional information:

- *Monthly sales from 1st April, 2022 to 30th September, 2022 were evenly spread and monthly sales thereafter increased by two third during rest of the year.*
- *General expenses include ₹ 1,96,000 towards sales promotion.*
- *All investments were sold on 15th June, 2022 at a profit of ₹ 63,000. Profit on the sale of investment was inadvertently included in gross profit.*

You are required to:

(i) Calculate the time ratio and the sales ratio.

(ii) Prepare a Statement ascertaining Pre-incorporation and Post-Incorporation Profits/Losses for the year ending 31-03-2023. ***(10 Marks)***

Answer

(a) Calculation of net profit u/s 198 of the Companies Act, 2013

Particulars	₹	₹
Gross profit		26,20,500
Add: Subsidy received from Government		3,00,000
		29,20,500
Less: Administrative and selling expenses (58,500-8,000)	50,500	
Salaries and wages	5,80,000	
Director's fees	32,000	
Interest on debentures	90,000	
Depreciation on PPE as per Companies Act	3,95,000	(11,47,500)
Profit u/s 198		17,73,000

Maximum Managerial remuneration under Companies Act, 2013

= 11% of ₹17,73,000 = ₹1,95,030

Alternatively,

Particulars	₹	₹
Net Profit as per Statement of Profit and Loss		14,20,000
Add Back:		
Capital Expenditure included in Adm & Selling Expenses	8,000	
Development Rebate Reserve	15,000	
Depreciation in excess of Companies Act (4,80,000-3,95,000)	85,000	
Managerial Remuneration	1,25,000	
Income Tax	2,40,000	4,73,000
Total		18,93,000
Less: Profit on Sale of Land		(1,20,000)
Profit u/s 198		17,73,000

Maximum Managerial remuneration under Companies Act, 2013

= 11% of ₹17,73,000 = ₹1,95,030

(b) Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares X Issue Price) / (Existing Number of shares + No. of right shares)

= (₹420 X 5 Shares + ₹245 X 2 Share) / (5 + 2) Shares

= ₹ 2,590 / 7 shares = ₹370 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= ₹420 – ₹370 = ₹50 per share

Note: In the question, the market value of share is given at ₹ 420 per share. It has been considered that this value is cum right.

OR

Criteria for classification of Companies under the Companies (Accounting Standards) Rules, 2021 to classify a company as Small and Medium-Sized Company (SMC):

"Small and Medium Sized Company" (SMC) means, a company-

(i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;

(ii) which is not a bank, financial institution or an insurance company;

(iii) whose turnover (excluding other income) does not exceed rupees two-fifty crores in the immediately preceding accounting year;

(iv) which does not have borrowings (including public deposits) in excess of rupees fifty crores at any time during the immediately preceding accounting year; and

(v) which is not a holding or subsidiary company of a company which is not a small and medium-sized company

(c) Calculation of time ratio and sales ratio
Time ratio

Pre incorporation period : 1st April, 22 to 31st May, 22 i.e. 2 Months

Post incorporation period : 10 months

Time ratio = 2:10 = 1:5

Sales ratio

Let the monthly sales for first six months = x

Sales for pre-incorporation period = 2x

Monthly sales for next six months = $\left(x+\frac{2}{3}x\right)$ X 6

= 5/3 x X 6= 10x

Sales for post-incorporation period = 4x+10x

= 14x

Sales ratio = 2:14 = 1:7

Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.2023

Particulars	***Pre-incorporation period*** ₹	***Post- incorporation period*** ₹
Gross profit (1:7)	4,00,000	28,00,000
Add: Profit on Sale of Investments		63,000
		28,63,000
Less: Rent, rates & taxes (1:5)	1,12,000	5,60,000
General Expenses (1:5)	1,50,000	7,50,000
Sales promotion expenses (1:7)	24,500	1,71,500
Carriage outward (1:7)	24,050	1,68,350
Share issue expenses	-	55,000
Net profit/ loss	89,450	11,58,150