SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- ACCOUNTS

Test Code - CIM 8411 M

BRANCH - () (Date :)

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ANSWER -1

In the books of Mr. Black

Trading Account for the year ended 31.3.2019

	Rs.		**Rs.**
To Opening Stock To Purchases To Gross Profit	1,35,000 6,45,000 3,00,000	By Sales By Closing Stock at cost $\left(1{,}62{,}000 \times \frac{100}{90}\right)$	9,00,000 1,80,000
	10,80,000		**10,80,000**

(2 MARKS)

Memorandum Trading A/c

For the period from 1.4.2019 to 02.06.2019

		Rs.			**Rs.**
To Opening Stock (at cost)		1,80,000	By Sales	4,80,000	
To Purchases	2,25,000		Less : Goods not dispatched	75,000	4,05,000
Add : Goods received but invoice not received	30,000		By Closing stock (Balancing figure)		1,50,000
	2,55,000				
Less : Machinery	15,000	2,40,000			
To Gross Profit		1,35,000			
		5,55,000			5,55,000

(4 MARKS)

Calculation of Insurance Claim

Claim subject to average clause = $\left(\frac{Actual\ loss\ of\ stock}{Value\ of\ stock\ on\ the\ date\ of\ fire} \times Amount\ of\ policy\right)$

= 1,20,000 × $\left(\frac{1{,}50{,}000}{1{,}50{,}000}\right)$ = Rs. 1,20,000

Working Note :

G.P. ratio = $\frac{3{,}00{,}000}{9{,}00{,}000} \times 100$ = 331/3%

Amount of Gross Profit = Rs. 4,05,000 × 331/3% = Rs, 1,35,000

(2 MARKS)

ANSWER -2

Date	Particulars	Nominal value (Rs.)	Interest (Rs.)	Cost (Rs.)	Date	Particulars	Nominal Value (Rs.)	Interest (Rs.)	Cost (Rs.)
1.4.18	To Bank A/c.	2,00,000	-	2,16,000	30.09.18	By Bank A/c.	-	12,000	-
1.7.18	To Bank A/c.	1,00,000	2,000	1,10,000		[Rs. 3,00,000 × 8% × 6/12]			
	(W.N.1)				1.10.18	By Bank A/c.	80,000		84,000
31.12.18	To P & L A/c.	-	14,033	-	1.10.18	By P & L A/c (loss)			2,933
	[Interest]					(W.N.1)			
					1.12.18	By Bank A/c (Accrued interest)		733	
						(Rs. 55,000 × .08 × 2/12)			
					1.12.18	By Equity share in C	55,000		59,767
						Ltd. (W.N. 3 and 4)			
					31.12.18	By Balance c/d (W.N.5)	1,65,000	3,300	1,79,300
		3,00,000	16,033	3,26,000			3,00,000	16,033	3,26,000

(6 MARKS)

SCRIP : Equity Shares in C LTD.

Date	Particulars	Cost (Rs.)	Date	Particulars	Cost (Rs.)
1.12.18	To 8% debentures	59,767	31.12.18	By balance c/d	59,767

(1 MARK)

Working Notes :

(i) Cost of Debenture purchased on 1st July = Rs. 1,12,000 – Rs. 2,000 (Interest)

= Rs. 1,10,000

(ii) Cost of Debentures sold on 1st Oct.

= (Rs. 2,16,000 + Rs. 1,10,000) × 80,000/3,00,000 = Rs. 86,933

(iii) Loss on sale of Debenture = Rs. 86,933 – Rs. 84,000 = Rs. 2,933

Nominal value of debentures converted into equity shares = Rs. 55,000

[(rs. 3,00,000 – 80,000) × .25]

<u>Interest received before the conversion of debentures</u>

Interest on 25% of total debentures – 55,000 × 8% × 2/12 = 733

(iv) Cost of Debenture converted = (Rs. 2,16,000 + Rs. 1,10,000) × 55,000/ 3,00,000

= Rs. 59,767

(v) Cost of closing balance of Debentures = (Rs. 2,16,000 + Rs. 1,10,000)

× 1,65,000/ 3,00,000

= Rs. 1,79,300

(vi) Closing balance of Debentures has been valued at cost being lower than the market value i.e. Rs. 1,81,500 (Rs. 1,65,000@ Rs. 110)

(vii) 5,000 equity shares in C Ltd. will be valued at cost of Rs. 59,767 being lower than the market value Rs. 75,000 (Rs. 15 × 5,000)

Note : It is assumed that interest on debentures, which are converted into cash, has been received at the time of conversion.

(5 MARKS)

Alternative Solution

In the books of A Ltd.

Investment in 8% Debenture of Ltd. A/c

		Nominal Value	**Int. (Rs.)**	**Cost (Rs.)**			**N.V. (Rs.)**	**Int (Rs.)**	**Cost (Rs.)**
1.4.18	To Bank A/c.	2,00,000	-	2,16,000	30.9.18	By Bank A/c.	-	12,000	-
						[3,00,000 × $\frac{8}{100} \times \frac{6}{12}$]			
1.7.18	To Bank A/c. (W.N.1)	1,00,000	2,000	1,10,000	1.10.18	By Bank [w.N.2]	80,000	-	86,400
31.12.18	To P & L A/c.		14,033		1.10.18	By P /L A/c [loss] [W.N. 3]	-	-	533
	[Int. Bal. fig]				1.12.18	By Equity shares in C Ltd. [W.N. 3]	55,000	-	59,767
					1.12.18	By Bank A/c. [W.N. 4]	-	733	-
					31.12.18	By Accrued Int. [W.N.5]		3,300	-
					31.12.18	By balance c/d [W.N. 6]	1,65,000	-	1,73,930
		3,00,000	16,033	3,26,000			3,00,000	16,033	3,26,000

SCRIP : - Equity Shares in C Ltd.

1.12.18	To 8% Deb of C Ltd.	59767	31.12.18	By balance b/d	59767

Working Note : 1

Calculation of cost and Interest of Purchase on 1.7.18

Bank / Cash payment = 1,000 deb × 112 Rs.

= Rs. 1,12,000

Cost

1,10,000

Interest

$= 1,00,000 \times \frac{8}{100} \times \frac{3}{12}$

= 2,000

Working Note : 2

Calculation of selling Price, & Profit / loss on sale on 1.10.18

Selling Price = 800 deb × Rs. 108 = Rs. 86,400

Cost of debentures sold =	**N.V.**	**Cost**
	2,00,000	2,16,000
	1,00,000	1,10,000
Total cost	3,00,000	3,26,000
	80,000	86,933

Loss on Sale = Cost – Selling Price

= 86,933 – 86,400

= 533

Working Notes : 3

Nominal Value of debentures converted into equity shares

= [3,00,000 – 80,000] × 25%

= Rs. 55,000

Cost of debenture converted :

N.V.	**Cost**
2,00,000	2,16,000
1,00,000	1,10,000
(80,000)	(86,933)
2,20,000	2,39,067
55,000	59,767

Working Notes : 4

Interest received on conversion of debentures

Interest on 25% of total deb = (2,20,000) × 25% × $\frac{2}{12} \times \frac{8}{10}$ = Rs. 733

Working Notes : 5

Calculation of Accrued Interest on debenture on 31.12.18

Accrued Interest = 1,65,000 × $\frac{8}{100} \times \frac{3}{12}$

= Rs. 3,300

Working Notes : 6

Valuation of Debentures as on 31.12.2018

Valuation is an least of the following :

(1) Cost (2,16,000 + 1,10,000 – 86,400 – 533 – 59767) = 1,79,300

(2) Market Value = (16,500 × 110) = 1,81,500

$\therefore$ Valuation of debentures will be at cost = 1,79,300

ANSWER -3

Fellow Travellers Ltd.

Statement showing calculation of profit /losses for pre and post incorporation periods

		Ratio	Pre-incorporation	Post-incorporation
Gross profit allocated on the basis of sale		1:2	20,000	40,000
Less: Administrative Expenses allocated				
On time basis:				
(i) Salaries and wages	10,000			
(ii) Depreciation	1,000			
	11,000	5:7	4,583	6,417
Selling Commission on the basis of sales		1:2	3,000	6,000
Interest on Purchase Consideration (Time basis)		5:1	7,500	1,500
Expenses applicable wholly to the				
Post-incorporation period:				
Debenture Interest (1,50,000 x 7% x 6/12)	5,250			
Director's Fee	600			5,850
Preliminary expenses				900

Provision for taxes				6,000
Balance c/d to Balance Sheet			4,917	13,333

Time Ratio

Pre incorporation period = 1 January 20X1 to 31 May 20X1 = 5 months

Post incorporation period = 1 June 20X1 to 31 December 20X1 = 7 months

Time ratio = 5: 7

Sales Ratio

Sales in pre incorporation period (1 January 20X1 to 31 May 20X1) = Rs. 60,000

Sales in post incorporation period (1 June 20X1 to 31 December 20X1) = Rs. 1,20,000

Sales ratio = 1:2

(8 MARKS)

Fellow Travellers Ltd.

Extract from the Balance Sheet as on 31st Dec., 20X1

	Particulars	Notes	Rs.
	Equity and Liabilities		
1	**Shareholders' funds**		
a	Share capital	1	2,00,000
b	Reserves and Surplus	2	33,250
2	Non-current liabilities		
a	Long-term borrowings	3	1,50,000
3	Current liabilities		
a	Short term provisions	4	6,000
	Total		**3,89,250**

Notes to accounts

			Rs.
1.	Share Capital		
	20,000 equity shares of Rs. 10 each fully paid		2,00,000
2.	Reserves and Surplus		
	Profit Prior to Incorporation		4,917
	Securities Premium Account		20,000
	Profit and loss Account	13,333	
	Less: Dividend on equity share	(5,000)	8,333
	Total		**33,250**
3.	Long term borrowings		

	Secured	
	7% Debentures	1,50,000
4.	Other Current liabilities	
	Provision for Taxes	6,000

(4 MARKS)

ANSWER -4

Computation of the amount of claim for the loss of profit

Reduction in turnover	Rs.
Turnover from 1st Feb. 20X1 to 30th June, 20X1	2,00,000
Add: 15% expected increase	30,000
	2,30,000
Less: Actual Turnover from 1st Feb., 20X2 to 30th June, 20X2	(80,000)
Short Sales	1,50,000
Gross Profit on reduction in turnover @ 30% on Rs. 1,50,000 (see working note 1)	45,000

Add: Additional Expenses

Lower of

(i) Actual =Rs. 6,700

(ii) Additional Exp. x $\frac{\text{G.P. on Adjusted Annual Turnover}}{\text{G.P. as above + Uninsured Standing Charges}}$

6,700 x $\frac{1,55,250}{1,63,250} = 6,372$

(iii) G.P. on sales generated by additional expenses — not available

Therefore, lower of above is	6,372
	51,372
Less: Saving in Insured Standing Charges	(2,450)
Amount of claim before Application of Average Clause	48,922

Application of Average Clause:

$\frac{\text{Amount of Policy}}{\text{G.P. on Annual Turnover}}$ x Amount of Claim

= $\frac{1,25,000}{1,55,250}$ x 48,922 39,390

Amount of claim under the policy = Rs. 39,390

(8 MARKS)

Working Notes:

(i) Rate of Gross Profit for last Financial Year:

	Rs.
Gross Profit:	
Net Profit	70,000
Add: Insured Standing Charges	56,000
	1,26,000
Turnover for the last financial year	4,20,000

Rate of Gross Profit = $\frac{1,26,000}{4,20,000}$ x 100 = 30%

(ii) Annual Turnover (adjusted):

Turnover from 1st Feb., 20X1 to 31st January, 20X2	4,50,000
Add: 15% expected increase	67,500
	5,17,500
Gross Profit on Rs. 5,17,500 @ 30%	1,55,250
Standing charges not Insured (64,000 – 56,000)	8,000
Gross Profit plus non-insured standing charges	1,63,250

(2*2 = 4 MARKS)

ANSWER -5

Investment in 12% Debentures of Ram Ltd A/c

Date	Particulars	FV	Int.	Cost	Date	Particulars	FV	Int.	Cost
01.12.17	To Bank A/c.	10,00,000	20,000	10,00,100	01.03.18	By Bank A/c	10,00,000	50,000	9,99,400
31.03.18	To P & L – Int.Tfr. (Bal .fig)	-	30,000	-	31.03.18	By P & L A/c. (Loss Tfr)	-	-	700 (Bal.fig.)
	Total	10,00,000	50,000	10,00,100		Total	10,00,000	50,000	10,00,100

(2 MARKS)

Working Notes: 1. Computation of Cost of Purchase on 01.12.2017

	Particulars	Rs.
	Amount Paid (10,000 x Rs. 101)	10,10,000
Less:	Interest (Cum-Interest Purchase only) (for Oct and Nov 2017)	
	(10,00,000 x 12% x 2/12)	(20,000)
Add:	Brokerage at 1% of amount paid	10,100
	Net Cost of Purchase	**10,00,100**

(2 MARKS)

2. Computation of Net Sale Value of Investments on 01.03.2018

	Particulars	Rs.
	Sale Proceeds (10,000 x Rs.106)	10,60,000
Less:	Brokerage @ l%	(10,600)
	Net Sale Proceeds	10,49,400
Less:	Interest Component (from 1st Oct 2017 to 28 Feb 2018)	
	(10,000 x 100 x 12% x 5/12)	(50,000)
	Net Sale Value	**9,99,400**

(2 MARKS)