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CA INTERMEDIATE

SUBJECT- ACCOUNTS

Test Code – CIM 8475

BRANCH - () (Date :)

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ANSWER 1**Statement of profit and Loss of Shweta Ltd. for the year ended 31st March, 2018**

	Particulars	Note	Rs.
I	Revenue from Operations		20,11,050
II	Other income (Divided income)		12,750
III	Total Revenue (I & II)		20,23,800
IV	Expenses :		
	(a) Purchases (14,71,500 – Advertisement Expenses 15,000)		14,56,500
	(b) Changes in Inventories of finished Goods /Work in progress (4,35,600 – 4,27,500)		8,100
	(c) Employee Benefits expense	9	1,20,000
	(d) Finance costs	10	51,900
	(e) Depreciation & Amortization Expenses [10% of (1,05,000 + 6,000)]		11,100
	(f) Other Expenses	11	3,47,550
	Total Expenses		19,95,150
V	Profit before exceptional, extraordinary items and tax (III – IV)		28,650
VI	Exceptional items		-
VII	Profit before extra ordinary items and tax (V – IV)		28,650
VIII	Extraordinary items		-
IX	Profit before tax (VII – VIII)		28,650
X	Tax expense :		
	Current Tax		12,000
XI	Profit / Loss for the period (after tax)		16,650

(5 MARKS)**Balance sheet of Shweta Ltd. as on 31st March, 2018**

	Particulars as on 31 st March	Note	
I			
(1)	Shareholders' funds :		
	(a) Share Capital	1	12,00,000
	(b) Reserves and surplus	2	66,150
(2)	Non current liabilities :		
	Long term borrowings	3	4,50,000
(3)	Current Liabilities :		
	(a) Short term borrowings	4	4,50,000
	(b) Trade payables		2,63,550
	(c) Other current liabilities	5	29,250
	Total		<u>24,58,950</u>

II	ASSETS		
(1)	Non – current Assets		
	(a) Property, Plant & Equipment		
	(i) Tangible assets	6	11,49,900
	(ii) Intangible assets	7	4,05,000
	(b) Non current investments (Shares at cost)		1,50,000
	Current Assets :		
	(a) Inventories		4,27,500
	(b) Trade receivables	8	2,72,550
	(c) Cash and Cash equivalents – Cash on hand		36,000
	(d) Short term loans and advances – Income tax (paid 30,000 – Provision 12,000)		18,000
	Total		24,58,950

Note : There is a Contingent liability for Bills receivable discounted with Bank Rs. 6,000.

*** Alternatively Provision for tax can be shown as short term provision on the liability side.**

(6 MARKS)

Notes to accounts

			(Rs.)
1.	Share Capital		
	Authorized		
	90,000 Equity shares of Rs. 10 each	9,00,000	
	6,000 6% Preference shares of Rs. 100 each	<u>6,00,000</u>	15,00,000
	Issued, subscribed & called up		
	60,000, Equity Shares of Rs. 10 each	6,00,000	
	6,000 6% Redeemable Preference shares of 100 each	<u>6,00,000</u>	12,00,000
2.	Reserves and Surplus		
	Balance as on 1 st April, 2017	85,500	
	Add: surplus for current year	<u>16,650</u>	1,02,150
	Less : Preference Dividend		36,000
	Balance as on 31 st March, 2018		<u>66,150</u>
3.	Long Term Borrowings		
	5% Mortgage Debentures (Secured against Freehold Properties)		4,50,000
4.	Short Term Borrowings		
	Secured Borrowings : Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables)		4,50,000
5.	Other Current liabilities		
	Interest Accrued and due on Borrowings (5% Debentures)	11,250	
	Unpaid Preference Dividends	<u>18,000</u>	29,250

6.	Tangible Fixed assets		
	Furniture		
	Furniture at Cost Less depreciation Rs. 45,000 (as given in Trial Balance)	1,05,000	
	Add : Depreciation	<u>45,000</u>	
	Cost of Furniture	1,50,000	
	Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages	6,000	
	Total Gross block of Furniture A/c.	1,56,000	
	Accumulated Depreciation Account : Opening Balance – given in Trial Balance	45,000	
	Depreciation for the year : On Opening WDV at 10% i.e. (10% × 1,05,000)	10,500	
	On additional purchase during the year at 10% i.e. (10% × 6,000)	<u>600</u>	
	Less : Accumulated Depreciation	<u>56,100</u>	99,900
	Freehold property (at cost)		10,50,000
			<u>11,49,900</u>
7.	Intangible Fixed Assets		
	Technical Knowhow	4,50,00	
	Less : Written off	<u>45,000</u>	4,05,000
8.	Trade Receivables		
	Sundry Debtors (a) Debt outstanding for more than six months	18,000	
	(b) Other Debts(refer Working Note)	1,34,550	
	Bills receivable (1,24,500 – 4,500)	1,20,000	2,72,550
9.	Employee benefit expenses		
	Amount as per Trial Balance	1,56,000	
	Less : Wages incurred for installation of electrical fittings to be capitalised	6,000	
	Less : Directors' Remuneration shown separately	<u>30,000</u>	120000
	Balance Amount		
10.	Finance Costs		
	Interest on bank overdraft	29,400	
	Interest on debentures	<u>22,500</u>	51,900
11.	Other Expenses		
	Payment to the auditors	18,000	
	Director's remuneration	30,000	
	Selling expenses	2,37,300	
	Technical knowhow written of (4,50,000/10)	45,000	
	Advertisement (Goods and Articles Distributed)	15,000	

Bad Debts (4,500 × 50%)		2,250	3,47,550
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NOTE : Presentation for Schedule 6 might differ, but final answer of Schedule 6 need to be consider

Working Note

Calculation of Sundry Debtors – Other Debts	1,50,300
Sundry Debtors as given in Trial Balance	4,500
Add Back : Bills Receivables Dishonoured	<u>1,54,800</u>
Less : Bad Debts written off – 50% Rs. 4,500	(2,250)
Adjusted Sundry Debtors	<u>1,52,550</u>
Less : Debts due for more than 6 months (as per information given)	(18,000)
Total of other Debtors i.e. Debtors outstanding for less than 6 months	<u>1,34,550</u>

(6 MARKS)

ANSWER 2

In the Books of Jyotishikha Traders

Trading Account for the year ended 31.03.2019

	Particulars	Rs.		Particulars	Rs.
To	Opening Stock A/c (Bal. fig.)	1,65,000	By	Sales (W.N.1)	12,50,000
To	Purchases (W.N.2)	9,00,000	By	Closing Stock	65,000
To	Gross profit (12,50,000x25/125)	<u>2,50,000</u>			
		<u>13,15,000</u>			<u>13,15,000</u>

(1.5 MARKS)

Profit and Loss Account for the year ended 31.03.2019

	Particulars	Rs.		Particulars	Rs.
To	Discount	5,500	By	Gross profit	2,50,000
To	Salaries Expenses	32,000	By	Discount	4,500
To	Office expenses (W.N.3)	37,000			
To	Selling expenses	<u>15,000</u>			
To	Interest on loan (12% on Rs.1,60,000)	19,200			
To	Bad debts (2% of Rs.2,25,000)	4,500			
To	Loss on sale of Machinery	15,000			
To	Depreciation:				
	Land & Building	25,000			
	Plant & Machinery (W.N 4b)	23,750			
	Office Equipment (W.N. 5)	<u>12,750</u>			
To	Net profit after tax	<u>64,800</u>			
		<u>2,54,500</u>			<u>2,54,500</u>

(3.5 MARKS)

Balance sheet as on 31.3.2019

Liabilities	Rs.	Rs.	Assets	Rs.
Capital (W.N. 6)	8,95,500		Land and Building (5,00,000-25,000)	4,75,000
Add: Net Profit	<u>64,800</u>	9,60,300	Plant and Machinery (W.N.4a) (3,30,000-21,750)	3,08,250
Creditors for Purchases		1,05,500	Office Equipment (85,000-12,750)	72,250
(W.N. 8) Outstanding expenses		15,000	Debtors less Bad debts (W.N. 7)	2,20,500
Loan from SBI		1,00,000	Stock	65,000
			Bank Balance (W.N. 9)	39,800
		<u>11,80,800</u>		<u>11,80,800</u>

(5 MARKS)

Working Notes:

1. Calculation of Total Sales

	Rs.
Cash Sales	2,50,000
Credit Sales (80% of total sales)	
Cash Sales (20% of total sales)	
Thus total Sales (250000 x 100/20)	12,50,000
Credit Sales (1250000 x 80/100)	10,00,000

2. Calculation of Total Purchases

	Rs.
Credit Purchases	5,40,000
Cash Purchases (40% of total purchases)	
Credit Purchases (60% of total purchases)	
Thus total Purchases (5,40,000 x 100/60)	9,00,000
Cash Purchases 9,00,000 x 40/100)	3,60,000

3. Office Expenses Account

	Rs.		Rs.
To Bank A/c	42,000	By Balance b/d	20,000
To Balance c/d	15,000	By Profit & loss A/c	37,000
	<u>57,000</u>		<u>57,000</u>

4 (a). Plant and Machinery Account

	Rs.		Rs.
To Opening balance	2,20,000	By Sale	40,000
To Purchases	1,50,000	By Closing Balance	3,30,000
	<u>3,70,000</u>		<u>3,70,000</u>

(b) Depreciation calculations on Plant & Machinery

	Rs.
Depreciation on 1,80,000 x 10% (for full year)	18,000
1,50,000 x 10% x 3/12 (for 3 months)	3,750
40,000 x 10% x 6/12 (for 6 months)	<u>2,000</u>
	<u>23,750</u>

(c) Sale of Machinery Account

	Amount (Rs.)		Amount (Rs.)
To Plant & Machinery	40,000	By Depreciation	2,000
		By Profit and Loss A/c	15,000
		By Bank	<u>23,000</u>
	<u>40,000</u>		<u>40,000</u>

5.. Depreciation calculations on Office Equipments

	Rs.
Opening Balance	1,05,000
Less: Closing Balance	<u>85,000</u>
Sale of Office Equipment	<u>20,000</u>
Balance of Office Equipment after sale	<u>85,000</u>
Depreciation @15%	<u>12,750</u>

6. Opening Balance Sheet as on 31.03.2018

	Rs.		Rs.
Creditors	95,000	Land & Building	5,00,000
Creditor for Exp.	20,000	Plant & Machinery	2,20,000
Loan	1,60,000	Office Equipment	1,05,000
Capital (Bal. fig.)	8,95,500	Debtors	1,55,500
		Stock	1,65,000
		Bank	25,000
	<u>11,70,500</u>		<u>11,70,500</u>

7. Sundry Debtors A/c

	Rs.		Rs.
To Balance b/d	1,55,500	By Bank	9,25,000
To Sales	10,00,000	By Discount	5,500
		By Bad debts	4,500
		By Bal. c/d	<u>2,20,500</u>
	<u>11,55,500</u>		<u>11,55,500</u>

8. Sundry Creditors A/c

	Rs.		Rs.
To Bank	5,25,000	By Balance b/d	95,000
To Discount	4,500	By Purchases	5,40,000

To	Balance c/d	1,05,500		
		6,35,000		6,35,000

9. Bank Account

		Rs.			Rs.
To	Balance b/d	25,000	By	Creditors	5,25,000
To	Debtors	9,25,000	By	Office Expenses	42,000
To	Cash Sales	2,50,000	By	Salary Expense	32,000
To	Sale of Machinery (W.N. 4c)	23,000	By	Selling Expenses	15,000
To	Sale of equipment	20,000	By	Purchases (cash)	3,60,000
			By	Purchase of Machinery	1,50,000
			By	Bank Loan & Interest	79,200
			By	Balance c/d	39,800
		12,43,000			12,43,000

(5 MARKS)

ANSWER 3 (a)

Computation of effective capital :

	Where Gaurav Ltd. is a non - investment company	Where Gaurav Ltd. is an investment company
Paid – up share capital -		
67,500, 14% Preference shares	67,50,000	67,50,000
5,40,000 Equity shares	4,32,00,000	4,32,00,000
Capital reserves	2,02,500	2,02,500
Securities premium	2,25,000	2,25,000
15% Debentures	2,92,50,000	2,92,50,500
Public Deposits	16,65,000	16,65,000
(A)	8,12,92,500	8,12,92,500
Investments	3,37,50,000	-
Profit and Loss account (Dr. balance)	68,62,500	68,62,500
(B)	4,06,12,50	68,62,500
Effective capital (A – B)	4,06,80,000	7,44,30,000

(6 MARKS)

ANSWER 3 (b)

1. Computation of Net Profits

Particulars	Rs.	Rs.
Balance from Trading Account		38,35,414
Add: Interest on Investments		10,964
Transfer Fees Received		537

Profit on Sale of Plant		8,000
Total		38,54,915
Less: Administrative, Selling and Finance Expenses	5,75,804	
Contribution to National Defence Fund	20,000	
Directors Fees	54,780	
Interest on Debentures	21,380	
Depreciation of Fixed Assets	4,69,713	11,41,677
Net Profits for Managerial Remuneration		27,13,238

(4 MARKS)

- Profit on sale of Plant:** It is assumed that the cost of Plant and Machinery is over and above Rs. 40,000 (given a WDV of Rs. 32,000 and the value realized being Rs. 40,000) Profits to extent of the difference between the Original Cost and WDV can be considered for the purpose of determining the Net Profit . Hence in this case, the entire Rs. 8,000 has been considered for determining the Net Profit.
- Maximum Remuneration Payable to the Managing Director :**
= 5% of Net Profit (Computed) = 5% x Rs. 27,13,238 = Rs. 1,35,662
However, Managing Director's Remuneration as per the above P & L Account is Rs.3,70,500.
- Maximum Remuneration Payable under Schedule V (Inadequate Profits):** Where the Company has no profits or its profits are inadequate, it may pay Remuneration to any Managerial Person, within the limits specified in Schedule V. The ceiling limits are based on the Effective Capital of the Company. In the above case, the Effective Capital of the Company is not known. However, presuming the basic limit of Effective Capital of "Negative or Less than Rs. 5 Crores", the Maximum Permissible Remuneration is Rs. 60,00,000 p.a.
- Audit Observation:** Remuneration of Rs. 3,70,500 paid to Managing Director exceeds the limits u/s 197, but is within the limits specified by Schedule V.

(2 MARKS)

ANSWER 3 (c)

1. Computation of Operating Cycle:

Details	Days
(a) Raw Materials Holding Period	30
(b) Packing Materials Lead Time & Holding Time	90
(c) WIP Holding Time	30
(d) Finished Goods Holding Time	30
(e) Credit Period given for Debtors	60
Operating Cycle	240

(2 MARKS)

2. Treatment of Packing Materials:

- Packing Materials are used in relation to Finished Goods (at the time of sale). Lead Time + Holding Time = 180 days in relation to Packing Materials.
- As the time taken for manufacturing Finished Goods (from the date of procurement of raw material) is 90 days, the lead time & packing materials of 180 days is already

assumed to have included the 90 days referred above. Hence, the effective time limit considered for Operating Cycle in relation to Packing Materials is 90 days (180-90).

(2 MARKS)

3. Treatment of Sundry Creditors:

- (a) As per ICAI Guidance Note on Revised Schedule VI, Credit Period given by the Suppliers (12.5 months or 330 days) shall be ignored while calculating Operating Cycle, since the relevant Working Capital in any case would have been used for conversion purposes.
- (b) Also, if the Credit Period offered by Creditors is 12.5 months, then it will be classified as “Non Current Liabilities”, since neither it is payable within 12 months nor within 1 Operating Cycle of 240 days
- (c) If the credit period of Sundry Creditors is 330 days, then it will be classified as “Current Liability” since it is not payable within 1 Operating Cycle of 240 days, but payable within 12 months.

(2 MARKS)