



**J.K. SHAH<sup>®</sup>**  
**TEST SERIES**  
Evaluate Learn Succeed

**SUGGESTED SOLUTION**

**CA INTERMEDIATE**

**SUBJECT- FM , ECONOMICS AND ACCOUNTS**

**Test Code – CIM 8678**

**BRANCH - () (Date :)**

**Head Office : Shraddha, 3<sup>rd</sup> Floor, Near Chinai College, Andheri (E), Mumbai – 69.**

**Tel : (022) 26836666**

- NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.  
 (2) INTERNAL WORKING NOTES SHOULD ALSO BE CONSIDERED.  
 (3) NEW QUESTION SHOULD BE ON NEW PAGE

## ANSWER -1

Workings:

### 1. Sale receipts

Month	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Forecast sales (\$)	1,000	1,000	1,000	1,250	1,500	2,000	1,900	2,200
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
S×15	15,000	15,000	15,000	18,750	22,500	30,000	28,500	33,000
Debtors pay:								
1 month 40%		6,000	6,000	6,000	7,500	9,000	12,000	11,400
2 month 60%		-	9,000	9,000	9,000	11,250	13,500	18,000
	-	-	15,000	15,000	16,500	20,250	25,500	29,400

### 2. Payment for materials – books produced two months before sale

Month	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Qty produced (Q)	1,000	1,250	1,500	2,000	1,900	2,200	2,200	2,300
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Materials (Q×5)	5,000	6,250	7,500	10,000	9,500	11,000	11,000	11,500
Paid (2 months after)	-	-	5,000	6,250	7,500	10,000	9,500	11,000

### 3. Variable overheads

Month	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Qty produced (Q)	1,000	1,250	1,500	2,000	1,900	2,200	2,200	2,300
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Var. overhead (Q×2)	2,000	2,500	3,000	4,000	3,800			
Var. overhead (Q×2.50)						5,500	5,500	5,750
Paid one month later		2,000	2,500	3,000	4,000	3,800	5,500	5,500

### 3. Wages payments

Month	Dec	Jan	Feb	Mar	Apr	May	Jun
Qty produced (Q)	1,250	1,500	2,000	1,900	2,200	2,200	2,300
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Wages (Q × 4)	5,000	6,000	8,000				
Wages (Q × 4.50)				8,550	9,900	9,900	10,350
75% this month	3,750	4,500	6,000	6,412	7,425	7,425	7,762
25% this month		1,250	1,500	2,000	2,137	2,475	2,475
		5,750	7,500	8,412	9,562	9,900	10,237

(3 MARKS)

**Cash budget – six months ended June**

	Jan	Feb	Mar	Apr	May	Jun
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Receipts:						
Credit sales	15,000	15,000	16,500	20,250	25,500	29,400
Premises disposal	-	-	-	-	25,000	-
	15,000	15,000	16,500	20,250	50,500	29,400
Payments:						
Materials	5,000	6,250	7,500	10,000	9,500	11,000
Var. overheads	2,500	3,000	4,000	3,800	5,500	5,500
Wages	5,750	7,500	8,412	9,562	9,900	10,237
Fixed assets	-	-	-	-	10,000	-
Corporation tax	-	-	10,000	-	-	-
	13,250	16,750	29,912	23,362	34,900	26,737
Net cash flow	1,750	(1,750)	(13,412)	(3,112)	15,600	2,663
Balance b/f	1,500	3,250	1,500	(11,912)	(15,024)	576
Cumulative cash flow	3,250	1,500	(11,912)	(15,024)	576	3,239

(7 MARKS)

**ANSWER -2**

**Cash flow Statement for the year ending 31<sup>st</sup> March, 2019**

	<i>Particulars</i>	Rs.	Rs.
1	<b>Cash Flow from Operating Activities</b>		
A.	Closing balance as per Profit and Loss Account		27,000
	<i>Less:</i> Opening balance as per Profit and Loss Account		(18,000)
	<i>Add:</i> Dividend declared during the year		37,000
	<i>Add:</i> Interim dividend paid during the year		10,000
	<i>Add:</i> Transfer to reserve		10,000
	<i>Add:</i> Provision for Tax		<u>32,000</u>
B.	Net profit before taxation, and extra-ordinary item		98,000
C.	<i>Add:</i> Items to be added		
	Depreciation	18,000	
	Loss on sale of Plant	3,000	
	Goodwill written off	<u>13,000</u>	34,000
D.	<i>Less:</i> Dividend Income		<u>(1,500)</u>
E.	Operating profit before working capital changes [B + C - D]		1,30,500
F.	<i>Add:</i> Decrease in Current Assets and Increase in Current Liabilities		
	Decrease in Inventories	7,000	
	Increase in Trade Payables	<u>21,000</u>	28,000
G.	<i>Less:</i> Increase in Trade Receivables		<u>(33,000)</u>

	H	Cash generated from operations (E+F-G)	1,25,500
	I	Less: Income taxes paid	<u>(28,000)</u>
	J	Net Cash from (used in) operating activities	<u>97,500</u>
II.		<b>Cash Flows from investing activities:</b>	
		Purchase of Plant	(1,34,000)
		Sale of Land	50,000
		Sale of plant	12,000
		Purchase of investments	(25,600)
		Dividend Received	<u>2,100</u>
		Net cash used in investing activities	<u>(95,500)</u>
III.		<b>Cash Flows from Financing Activities:</b>	
		Proceeds from issue of equity share capital	1,00,000
		Redemption of preference shares	(50,000)
		Interim Dividend (inclusive of DDT) paid	(10,000)
		Final dividend (inclusive of DDT) paid	<u>(27,000)</u>
		Net cash from financing activities	<u>13,000</u>
IV.		<b>Net increase in cash and cash equivalents (I+II+III)</b>	15,000
V.		<b>Cash and cash equivalents at beginning of period</b>	<u>17,000</u>
VI.		<b>Cash and cash equivalents at end of period (IV+V)</b>	<u>32,000</u>

(10 MARKS)

1. **Land and Building Account**

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Balance b/d	1,00,000	By Bank A/c (Sale)	50,000
To Capital Reserve A/c (Profit on sale/revaluation)	25,000	By Balance c/d	75,000
	<u>1,25,000</u>		<u>1,25,000</u>

2. **Plant and Machinery Account**

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Balance b/d	90,000	By Depreciation A/c	18,000
To Bank A/c (Purchase)	1,34,000	By Bank A/c (sale)	12,000
		By Profit and Loss A/c (Loss on sale)	3,000
		By Balance c/d	<u>1,91,000</u>
	<u>2,24,000</u>		<u>2,24,000</u>

**3. Investments Account**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	10,000	By Bank A/c (Div. received)	600
To bank A/c (Purchase)	<u>25,600</u>	By Balance c/d	<u>35,000</u>
	35,600		35,600

**ANSWER -3**

**ANSWER -A**

**1. Weekly Collection Pattern**

- Since Annual Sales = Rs. 8,400 Lakhs, Weekly Sales =  $\frac{\text{Rs. 8,400 Lakhs}}{50 \text{ weeks}} = 168 \text{ lakhs.}$
- Collection Pattern of weekly sales is as under -

Day	Mon	Tue	Wed	Thu	Fri	Total
Proportion of Collection	2	2	1	1	1	7
Sales Collection apportioned ( Rs. Lakhs)	48.00	48.00	24.00	24.00	24.00	168.00

**2. Computation of Interest Cost of Tuesday and Friday Banking**

Collection Day	Collection Amount	Deposit Day	Delay Days	Interest Cost per week
Mon	Rs. 48,00,000	Tue	1	$\text{Rs. } 48,00,000 \times \frac{1}{360} \times 15\% = 2,000$
Tue	Rs. 48,00,000	Tue	0	$\text{Rs. } 48,00,000 \times \frac{0}{360} \times 15\% = -$
Wed	Rs. 24,00,000	Fri	2	$\text{Rs. } 24,00,000 \times \frac{2}{360} \times 15\% = 2,000$
Thu	Rs. 24,00,000	Fri	1	$\text{Rs. } 24,00,000 \times \frac{1}{360} \times 15\% = 1,000$
Fri	Rs. 24,00,000	Fri	0	$\text{Rs. } 24,00,000 \times \frac{1}{360} \times 15\% = -$
	<b>Total</b>			<b>5,000</b>

**Note:** In case of daily banking, there is no delay in remittance, and hence no Interest Cost.

**3. Cost Comparison of different banking options**

Particulars	Daily Banking	Tuesday & Friday Banking
Interest Cost per week	Nil	Rs. 5,000
Operating Cost per week	5 visits x Rs. 2,500 = Rs. 12,500	2 visits x Rs. 2,500 = Rs. 5,000
Total Costs per week	Rs. 12,500	Rs. 10,000

**Decision:** Since Total Cost per week is lower in “Tuesday and Friday Banking” Option, it may be preferred.

**(5 MARKS)**

**ANSWER –B****Determination of Optimum Cash Balance according to William J. Baumol's Model**

$$C = \sqrt{\frac{2UP}{S}}$$

Where,

C = Optimum cash balance

U = Annual cash disbursement

P = Fixed cost per transaction

S = Opportunity cost of one-rupee p.a.

Therefore, Optimum Cash Balance

$$= \sqrt{\frac{2 \times \text{Rs.}22,50,000 \times \text{Rs.}15}{0.12}} = \sqrt{56,25,00,000}$$

$$= \text{Rs.}23,717.08 \text{ or } \text{Rs.}23,717$$

(5 MARKS)

**ANSWER -4****Gamma Ltd.****Cash Flow Statement for the year ended 31st March, 20X1 (Using direct method)**

<i>Particulars</i>	<i>Rs. in crores</i>	<i>Rs. in crores</i>
Cash flows from operating activities		
Cash sales (60% of 135)	81	
Cash receipts from Debtors	49	
[45+ (135x40%) - 50]		
Cash purchases (20% of 55)	(11)	
Cash payments to suppliers	(42)	
[21+ (55x80%) - 23]		
Cash paid to employees	(22)	
Cash payments for overheads (Adm. and selling)	(18)	
Cash generated from operations	37	29
Income tax paid	(8)	
Net cash generated from operating activities		
Cash flows from investing activities		
Sale of investments (12+ 2.40)	14.4	
Payments for purchase of fixed assets (21 - 10)	(11)	
Net cash used in investing activities		3.4
Cash flows from financing activities		
Redemption of debentures (22-15)	(7)	
Interest paid	(1.5)	
Dividend paid	(11.7)	
Net cash used in financing activities		(20.2)

Net increase in cash		12.2
Cash at beginning of the period		6.0
Cash at end of the period		18.2

(10 MARKS)

**ANSWER -5**

**ANSWER -A**

NI = GDP (MP) – Depreciation + NFIA - Net Indirect Tax

Where GDP (MP) = Value of output - intermediate consumption

Value of Output = Sales + change in stock

$$= 700 + (400 - 500)$$

$$= 600$$

$$\text{GDP (MP)} = 600 - 350 = 250$$

$$\text{Therefore NI} = 250 - 150 + 30 - (110 - 50)$$

$$= 70 \text{ Crore}$$

(3 MARKS)

**ANSWER –B**

GDP measures what is produced or created over the current time period and excludes all non-production transactions. Only incomes earned by owners of primary factors of production for services rendered in production are included in national income. Transfer payments, both private and government, are made without goods or services being received in return. These payments do not correspond to return for contribution to production because they do not directly absorb resources or create output. Therefore, transfer incomes such as pensions and other social security payments are excluded from national income.

(2 MARKS)

**ANSWER -C**

- i. Being an intermediate good, electricity sold to a steel plant will not be included in national income calculation. The underlying principle is that only finished goods and services which are directly sold to the consumer for final consumption would be included.
- ii. Electric power sold to a consumer household would be included in the calculation of GDP since it is a final good consumed by the end user.
- iii. The value of parts and components procured from the market by a car manufacturer will not be included in national income calculation because these are intermediate goods used in car production.
- iv. The value of the robot bought by a computer producer for use in the production of computers would be included in national income calculation because the computer producer is the "final consumer" of the robot and the robot is not resold in the market after value addition.

(5 MARKS)