SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- F.M. AND ADVANCED ACCOUNTS

Test Code – CIM 8684

BRANCH - () (Date :)

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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

Trading and Profit & Loss Account for the year ending 31st March

Particulars	Rs.	Particulars	Rs.
To Opening Stock (Given)	4,50,000	By Sales (WN 1)	90,00,000
To Purchases (Bal.fig.)	65,70,000	By Closing Stock (WN 1)	7,20,000
To Gross Profit (30% on Sales)	27,00,000		
Total	**97,20,000**	**Total**	**97,20,000**
To Other Expenses (Bal.fig.)	76,923	By Gross Profit b/d	27,00,000
To Net Profit EBIT c/d (WN 2)	26,23,077		
Total	**27,00,000**		**27,00,000**
To Interest on Debt at 14% (WN 2)	7,00,000	By EBIT b/d (WN 2)	26,23,077
To Tax at 35% of 19,23,077	6,73,077		
To Net Profit (EAT) (WN 2)	12,50,000		
Total	**26,23,077**	**Total**	**26,23,077**

Working Notes:

1. Computation of Sales & Closing Stock

(a) Debt Equity Ratio = $\frac{\text{Debt}}{\text{Equity}} = \frac{50{,}00{,}000}{\text{Equity}} = \frac{2}{1}$ So, Equity =Rs. 25,00,000

(b) So, Total Capital Employed = Debt + Equity = 50,00,000 + 25,00,000 = Rs. 75,00,000

(c) Capital Turnover Ratio = $\frac{\text{Turnover}}{\text{Capital Employed}} = \frac{\text{Turnover}}{75{,}00{,}000}$ = 1.2. Hence Turnover

= Rs. 75,00,000 x 1.2 =Rs. 90,00,000.

(d) Closing Stock = 8% of Sales =Rs. 90,00,000 x 8% =Rs. 7,20,000

2. Computation of EBIT

(a) Return on Equity (assumed Post-Tax) = $\frac{\text{EAT}}{\text{Equity}}$ = 50%. So, EAT = 50% of 25,00,000 (Equity) =Rs. 12,50,000.

(b) Since Tax Rate is 35%, EAT represents 100% - 35% = 65% of EBT. So, EBT= $\frac{12{,}50{,}000}{65\%}$

= Rs. 19,23,077.

(c) Interest =Rs. 50,00,000 x 14% =Rs. 7,00,000

(d) EBIT = EBT + Interest = 19,23,077 + 7,00,000 =Rs. 26,23,077

Note: If ROE is assumed as Pre-Tax, the above numbers will stand modified as EBT = Rs.12,50,000, Tax = Rs. 4,37,500, EAT =Rs. 8,12,500, EBIT =Rs. 19,50,000, and Other Expenses as per P&L = Rs. 7,50,000.

(10 MARKS)

ANSWER -2

BT Limited

Liquidator's Statement of Account

Receipts		Rs.	Payments		Rs.
To Assets realized: Bank		75,700	By Liquidation expenses		45,000
Other assets:					
Land & building	24,50,000		By Liquidator Remuneration (W.N.1)		1,29,600
Plant & Machinery	9,00,000		By Debenture holders:		
Furniture	2,85,000		Debentures	10,00,000	
Patents	90,000		Interest accrued	1,20,000	
Stock	2,80,000		Interest 1-4-18 to 30-6-18	30,000	11,50,000
Trade receivables	3,15,000	43,20,000	By Unsecured creditors	7,36,250	
			(+) Preferential creditors	75,000	8,11,250
			By Preferential shareholders		
			Preference capital	10,00,000	
			Arrear of Dividend	1,20,000	11,20,000
					32,55,850
			By Equity shareholders -		
			Rs. 32.995 on 20,000 Shares		6,59,900
			Rs. 47.995 on 10,000 shares		4,79,950
		43,95,700			**43,95,700**

(6 MARKS)

Working Notes:

(1) Liquidator's remuneration 43,20,000 × 3/100 =Rs. 1,29,600

(2) As the company is solvent, interest on the debentures will have to be paid for the period 1-4-2018 to 30-6-2018

10,00,000 x 12% x3/12 = Rs. 30,000

(3) Total equity capital - paid up (7,50,000 +12,00,000) Rs. 19,50,000

Less: Balance available after payment to unsecured and preference shares

(43,95,700 — 32,55,850) Rs. (11,39,850)

Rs.8,10,150

Loss to be born by 30,000 equity shares

Loss per share Rs.27.005

Hence, Refund for share on Rs. 60 paid share (60 - 27.005) Rs.32.995

Refund for share on Rs. 75 paid (75 - 27.005) Rs.47.995

(4 MARKS)

ANSWER -3

ANSWER -A

(a) Inventory turnover = $\frac{\text{Cost of goods sold}}{\text{Average inventory}}$

Since gross profit margin is 15 percent, the cost of goods sold should be 85 percent of the sales.

Cost of goods sold = 0.85 x Rs.6,40,000 = Rs.5,44,000.

Thus, = $\frac{Rs.5,44,000}{\text{Average inventory}} = 5$

Average inventory = $\frac{\text{Rs.5,44,000}}{5} = Rs.1,08,800$

(b) Average collection period = $\frac{\text{Average Receivables}}{\text{Credit Sales}}$ x 360 days

Average Receivables = $\frac{(\text{Opening Receivables+ Closing Receivables})}{2}$

Closing balance of receivables is found as follows:

	Rs.	Rs.
Current assets (2.5 of current liabilities)		2,40,000
Less: Inventories	48,000	
Cash	16,000	64,000
$\therefore$ Receivables		1,76,000

Average Receivables = $\frac{(Rs.1,76,000 + Rs.\ 80,000)}{2}$

= Rs. 2,56,000 ÷2 =Rs. 1,28,000

Average collection period = $\frac{Rs.1,28,000}{Rs.6,40,000}$ x 360 = 72 days

(2.5*2 = 5 MARKS)

ANSWER –B

$$\frac{\text{Long term debt}}{\text{Net Worth}} = 0.5 = \frac{\text{Long term debt}}{2,00,000}$$

Long term debt =Rs.1,00,000

Total liabilities and net worth = Rs.4,00,000

Total assets = Rs.4,00,000

$$\frac{\text{Sales}}{\text{Total Assets}} = 2.5 = \frac{\text{Sales}}{4,00,000} = \text{Sales} = \text{Rs.}10,00,000$$

Cost of goods sold = (0.9) (Rs.10,00,000) = Rs.9,00,000

$$\frac{\text{Cost of goods sold}}{\text{Inventory}} = \frac{9,00,000}{\text{Inventory}}$$ = 9 = Inventory = Rs.1,00,000

$$\frac{\text{Receivables x 360}}{10,00,000} = 18 \text{ days}$$

Receivables = Rs.50,000

$$\frac{\text{Cash + 50,000}}{1,00,000} = 1$$

Cash=Rs.50,000

Plant and equipment =Rs. 2,00,000

Balance Sheet

	Rs.		**Rs.**
Cash	50,000	Notes and payables	1,00,000
Accounts receivable	50,000	Long-term debt	1,00,000
Inventory	1,00,000	Common stock	1,00,000
Plant and equipment	2,00,000	Retained earnings	1,00,000
Total assets	4,00,000	Total liabilities and equity	4,00,000

(5 MARKS)

ANSWER -4

Statement of Liabilities of B list contributors (showing the amount realized)

Creditors Outstanding on the date of ceasing to be member	P 1,500 Shares Rs.	D 2,000 Shares Rs.	B 700 Shares Rs.	S 300 Shares Rs.	Amount to be paid to the creditors Rs.
a) 9,000	3,000	4,000	1,400	600	9,000
b) 3,000	-	2,000	700	300	3,000
c) 1,500	-	-	1,050	450	1,500
d) 1,000	-	-	-	1,000	1,000
Total (a)	3,000	6,000	3,150	2,350	
(b) maximum liability on shares held	7,500	10,000	3,500	1,500	
(c) Amount to be realized (a) or (b)					
Whichever is lower	3,000	6,000	3,150	1,500	

(5 MARKS)

Working Notes :

1. C will not be liable since he transferred his shares prior to one year preceding the date of winding up.
2. P will not be responsible for further debts incurred after 01.01.2017 (from the date when he ceases to be a member). Similarly, D & B will not be liable for the debts incurred after the date of their transfer of shares.
3. The increase between 1st August 2017 and 15th September 2017, is solely the responsibility of S. Liability of S has been restricted to the maximum allowable limit of Rs. 1,500. Therefore, amount payable by S on 15.09.2017 is Rs. 1,500 only.
4. Ratio of discharge of liability will be in the ratio of no. of shares held by B List Contributories which is as follows :

Calculation of Ratio for discharge of Liabilities

Date	Cumulative liability Rs.	Increase in liabilities Rs.	Ratio of no. of shares held by L, M, N, O
01.01.2017	9,000	-	15 : 20 : 7 : 3
01.04.2017	12,000	3,000	20 : 7 : 3
01.08.2017	13,500	1,500	7: 3
15.09.2017	14,500	1,000	Only S

(5 MARKS)

ANSWER -5

Statement of Affairs of Insol Ltd. (in Liquidation)

as on 30th September, 2016

					Estimated Realisable Value (Rs.)
Assets not specifically pledged (As per list A) :					
Other fixed assets					18,00,000
Current assets					35,00,000
					53,00,000
Assets specifically pledged(As per List B)					
	Estimated realisable value	**Due to secured creditors**	**Deficiency**	**Surplus**	
	Rs.	**Rs.**	**Rs.**	**Rs.**	
Land & Buildings	11,00,000	10,00,000		1,00,000	1,00,000
	Estimated total assets available to unsecured creditors				54,00,000
	Summary of Gross Assets				
	Gross realisable value of assets specifically pledged			11,00,000	
	Other assets			53,00,000	
	Gross Assets			64,00,000	
Gross liabilities Rs.	**Liabilities**				
	Secured Creditors (as per list B) to the extent to which claims are estimated to be covered by assets				
10,00,000	Specifically pledged				
1,50,000	Preferential creditors (as per list C)				1,50,000
					52,50,000
	Unsecured creditors(as per list E)				
20,00,000	Unsecured Loans				20,00,000
35,00,000	Trade creditors				35,00,000
1,00,000	Contingent Liability on Bills Discounted				1,00,000
67,50,000	Estimated deficiency as regards creditors				3,50,000
	(67,50,000 — 64,00,000)				
	2,50,000 Equity Shares of Rs. 10 each : (as per list G)				25,00,000
	Estimated deficiency as regards members				28,50,000

(10 MARKS)