SUGGESTED SOLUTION

CA INTERMEDIATE NOV'19

SUBJECT- ACCOUNTS

Test Code - CIM 8322

BRANCH - () (Date :)

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ANSWER-1

Cash Flow Statement of ABC Ltd. for the year ended 31.3.20X1

Cash Flows From Operating Activities		**Rs.**	**Rs.**
NetProfit		22,40,000	
Add: Adjustment For Depreciation (Rs.7,90,000 – Rs.6,10,000)		1,80,000	
Operating Profit Before Working Capital Changes		24,20,000	
Add: Decrease In Inventories (Rs. 20,10,000 – Rs. 19,20,000)		90,000	
Increase In Provision For Doubtful Debts (Rs. 4,20,000 – Rs.1,50,000)		2,70,000	
		27,80,000	
Less: Increase In Current Assets:			
Trade Receivables (Rs. 30,60,000 – Rs.23,90,000)	6,70,000		
Prepaid Expenses (Rs. 1,20,000 – Rs.90,000)	30,000		
Decrease In Current Liabilities:			
Trade Payables (Rs. 8,80,000 – Rs. 8,20,000)	60,000		
Expenses Outstanding (Rs. 3,30,000 – Rs.2,70,000)	60,000	(8,20,000)	
Net Cash From Operating Activities			19,60,000
Cash Flows From Investing Activities			
Purchase Of Plant & Equipment(Rs. 40,70,000 – Rs. 27,30,000)		13,40,000	
Net Cash Used In Investing Activities			(13,40,000)
Cash Flows From Financing Activities			
Bank Loan Raised (Rs. 3,00,000 – Rs. 1,50,000)		1,50,000	
Issue Of Debentures		9,00,000	
Payment Of Dividend (Rs. 12,00,000 – Rs. 1,50,000)		(10,50,000)	
Net Cash Used In Financing Activities			Nil
Net Increase In Cash During The Year			6,20,000
Add: Cash And Cash Equivalents As On 1.4.20X0			
(Rs. 15,20,000 + Rs. 11,80,000)			27,00,000

Cash And Cash Equivalents As On 31.3.20X1 (Rs. 18,20,000 + Rs. 15,00,000)	33,20,000

Note : Bad debts amounting Rs.2,30,000 were written off against provision for doubtful debts account during the year. In the above solution, Bad debts have been added back in the balances of provision for doubtful debts and trade receivables as on 31.3.20X1. Alternatively, the adjustment of writing off bad debts may be ignored and the solution can be given on the basis of figures of trade receivables and provision for doubtful debts as appearing in the balance sheet on 31.3.20X1.

(8 MARKS)

ANSWER-2

1. Statement of Affairs of Somesh as on 31st March 2012 (Opening Balance Sheet)

Capital and Liabilities	Rs.	Properties and Assets	Rs.
Somesh's Capital (balancing figure)Non-Current Liabilities:	1,07,712	Non-Current Assets: Furniture & Fittings Building (House)	22,500 90,000
Loan from Brother	18,000	Current Assets: Stock (24,390x$\frac{100}{125}$)	19,512
Current Liabilities: Creditors	32,940	Debtors	11,025
		Cash-in-Hand & at Bank	15,615
Total	**1,58,652**	**Total**	**1,58,652**

(3 MARKS)

2. Statement of Affairs of Somesh as on 31st March 2018 (Closing Balance Sheet)

Capital and Liabilities	Rs.	Properties and Assets	Rs.
Somesh's Capital (balancing figure)	2,70,112	Non-Current Assets: Furniture & Fittings	40,500
		Building (House)	90,000
Current Liabilities: Creditors	37,800	Car	33,750
		Debentures in 'X Ltd'	33,750
		Loan to Brother	13,500
		Current Assets: Stock (54,330 x 75%)	40,747
		Debtors	26,640
		Cash-in-Hand & at Bank	29,025
Total	**3,07,912**	**Total**	**3,07,912**

(3 MARKS)

3. Statement of Profit for the period 01.04.2012 to 31.03.2018 (Capital Comparison Method)

Particulars	**Rs.**

	Capital as on 31st March 2018 (as per Statement of Affairs WN 2)	2,70,112
Add:	Drawings (6 financial years period)	
	(13,500 + 18,000 + 27,000 + 31,500 + 31,500 + 31,500)	1,53,000
	Total of above	4,23,112
Add:	Amount stolen in May 2017	13,500
	Total of above	4,36,612
Less:	Opening Capital as on 31st March 2012 (as per Statement of Affairs WN 1)	(1,07,712)
	Actual Profits for the period, as per Capital Comparison Method	3,28,900
Less:	Profit as shown to IT Dept. (6 financial years period as above)	
	(33,075 + 33,300 + 35,415 + 61,875 + 54,630 + 41,670)	(2,59,965)
Under-Statement of Income		68,935

Note: In the absence of the information regarding Depreciation in the question, no Depreciation has been provided or Building (House) and Car.

(4 MARKS)

ANSWER-3

Solution: **1. Computation of Current Assets and Current Liabilities**

Particulars	2017	2018
(a) Given Net Working Capital (from B/s) NWC = CA less CL	100	80
(b) So, Current Assets (CA) = NWC + CL =	100 + CL	80 + CL
(c) Current Ratio (given) = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{100+CL}{CL}=1.4$	$\frac{80+CL}{CL}=1.5$
(d) On solving, we get Current Liabilities (CL)	250	160
(e) Out of CL, given Interest Payable and Taxes Payable	5 + 3 = 8	4 + 6 = 10
(f) Hence, Balance CL = Creditors = (d - e)	242	150
(g) Current Assets (CA) = CL + NWC = (d + a)	**350**	**240**
(h) Out of CA, given Current Assets = Dividend Receivable		
+ Interest Receivable + Cash + Short		
Term Investments	4 + 2 +10+ 2 = 18	2 + 3 + 7 + 3 = 15
(i) So, Balance CA = Stock + Debtors = (g - h)	332	225
(j) Acid Test Ratio (given) = $\frac{\text{Current Assets -= Stock}}{\text{Current Liabilities}}$	Let Stock be 'S'	

	$\frac{350-S}{250}=0.8$	$\frac{240-S}{160}=1.1$
Assumed Prepaid Expenses, Overdraft, etc. = Nil		
(k) On solving, Stock =	**150**	**64**
(1) Hence, Debtors = (i - k)	**182**	**161**

2. Sundry Debtors A/c

Particulars	Rs.	Particulars	Rs.
To balance b/d (WN 11) To Sales (given)	182 600	By Cash Received (balancing figure) By balance c/d (WN 11)	621 161
Total	**782**	**Total**	**782**

3. Sundry Creditors A/c

Particulars	Rs.	Particulars	Rs.
To Cash paid (balancing figure) To balance c/d (WN If)	406 150	By balance b/d (WN If) By Purchases (See Note below)	242 314
Total	**556**	**Total**	**556**

Note: Cost of Sales 400 = Opening Stock 150 + Purchases (P) - Closing Stock 64. On solving, Purchases(P)= 314

4. Provision for Taxation (Tax Payable) A/c

Particulars	Rs.	Particulars	Rs.
To Bank A/c (balancing figure) To balance c/d	27 5	By balance b/d By Provision for Tax	3 30
Total	**33**	**Total**	**33**

5. Fixed Assets A/c

Particulars	Rs.	Particulars	Rs.
To balance b/d To Bank (FA Purchased) (balancing figure)	100 120	By Bank (asset sold) By P8iL A/c (Loss on Sale of Equipment) By balance c/d	25 15

			50
Total	**220**	**Total**	**220**

6. Equity Share Capital A/c

Particulars	**Rs.**	**Particulars**	**Rs.**
To Bank A/c (buy back) (balancing figure)	10	By balance b/d	110
To balance c/d	150	By 8% Debentures (conversion)	20
		By Bank A/c (fresh issue)	30
Total	**160**	**Total**	**160**

Note:

- Capital Redemption Reserve is created during the year. So, it is implied that there has been a buy-back during the year
- Debentures Outstanding as at the beginning of the year =40 Lakhs. Conversion of 50% of the Debentures (20 Lakhs) does not involve any payment of cash.

7. **Interest Expense paid during the year** = Opg P'ble 5 + Current Year Expense in P&L 5 less Closing P'ble 4 = Paid 6

8. **Incomes Received during the year is calculated as under -**

Particulars	**Interest**	**Dividends**	**Particulars**	**Interest**	**Dividends**
To balance b/d	2	4	By Bank (balancing figure)	3	4
To Income Accrued for the year	4	2	By balance c/d	3	2
Total	**6**	**6**	**Total**	**6**	**6**

(15 MARKS)

9. **Cash Flow Statement for the year ending 31st March 2018 (Direct Method)**

Particulars	
A. CASH FLOW FROM OPERATING ACTIVITIES:	
Cash Receipts from Customers (WN 2)	621
Cash Payments to Suppliers (WN 3)	(406)
Establishment Charges	(30)
Selling and Distribution Expenses	(60)
Cash Generated from Operations	125

Less: Income Tax paid(WN 4)		(27)	
		98	
Add:	Extra-Ordinary Income	14	
	Net Cash Flow from / (used in) Operating Activities [A]		**112**
B.	**CASH FLOW FROM INVESTING ACTIVITIES**		
	Sale of Fixed Assets(WN5)	25	
	Purchase of Fixed Assets (WN 5)	(120)	
	Sale of Long Term Investments (50-40)	10	
	Interest Income(WN8)	3	
	Dividend Income(WN8)	4	
	Net Cash Flow from / (used in) Investing Activities [B]		**(78)**
C.	**CASH FLOW FROM FINANCING ACTIVITIES**		
	Proceeds from Issue of Equity Shares(WN 6)	30	
	Buy back of Equity Shares(WN 6)	(10)	
	Redemption of Preference Shares(40-10)	(30)	
	Term Loans Repayment(30-15)	(15)	
	Dividend Expense	(15)	
	Interest Expense(WN 7)	(6)	
	Net Cash Flow from / (used in) Financing Activities [C]		**(46)**
D,	Net Increase / (Decrease) in Cash and Cash Equivalents		
	during the year		(12)
	Add: Foreign Exchange Gain (given)		10
	Net Increase / (Decrease) in Cash and Cash Equivalents		
	(Net of Forex Gains)		(2)
E.	Cash and Cash Equivalents at the beginning of the year (10 + 2)		12
F.	Cash and Cash Equivalents at the end of the year (7 + 3)		10

Note: Alternative treatments / assumptions exist with respect to Foreign Exchange Gain.

(5 MARKS)

ANSWER-4

Trading and Profit & Loss Account for the year ended 31.12.2007

Dr. Cr.

	Rs.		Rs.
To Opening stock	50,000	By Sales (W.N.8)	3,25,000
To Purchases (W.N.7)	2,72,500	By Closing stock	62,500
To Gross profit (W.N.6)	65,000		
	3,87,500		3,87,500
To Expenses	49,250	By Gross profit	65,000
To Loss on sale of fixed asset	750		
To Depreciation on fixed assets	1,000		
To Net Profit	14,000		
	65,000		65,000

(3 MARKS)

Balance Sheet as at 31.12.2007

Liabilities	Rs.	Rs.	Assets	Rs.
Capital as on 1.1.2007	1,69,000		Fixed Assets	9,000
Add: Net profit	14,000		Debtors	87,500
Additional capital	5,000		Stock	62,500
	1,88,000		Bank	50,000
Less: Drawings	25,000	1,63,000		
Creditors		46,000		
		2,09,000		2,09,000

(2 MARKS)

Working Notes: **(7 MARKS)**

1. **Balance Sheet as at 1.1.2007**

Liabilities	Rs.	Assets	Rs.
Capital (Bal. Fig.)	1,69,000	Fixed Assets	7,500
Creditors	53,500	Debtors	1,02,500
		Stock	50,000
		Bank Balance	62,500
	2,22,500		**2,22,500**

2. **Bank account**

		Rs.			*Rs.*
To	Balance b/d (Bal. Fig.)	62,500	By	Creditors	2,80,000
To	Debtors	3,40,000	By	Expenses	49,250
To	Capital	5,000	By	Drawings	25,000
To	Fixed Assets	1,750	By	Fixed Assets (purchased)	5,000
			By	Balance c/d	50,000
		4,09,250			4,09,250

3. **Debtors account**

		Rs.			Rs.
To	Balance b/d (Bal. Fig.)	1,02,500	By	Bank	3,40,000
To	Sales (W.N.8)	3,25,000	By	Balance c/d	87,500
		4,27,500			4,27,500

4. **Creditors account**

		Rs.			Rs.
To	Bank	2,80,000	By	Balance b/d (Bal. Fig.)	53,500
To	Balance c/d	46,000	By	Purchases (W.N.7)	2,72,500
		3,26,000			3,26,000

5. **Fixed Assets account**

		Rs.			Rs.
To	Balance b/d	7,500	By	Bank (Sale)	1,750
To	Bank	5,000	By	Profit and Loss A/c (loss on sale)	750
			By	Depreciation (Bal. Fig.)	1,000
			By	Balance c/d	9,000
		12,500			12,500

6. Gross Profit = Rs. 2,60,000 x 25% = Rs.65,000

7. Cost of goods sold = Opening stock + Purchases – Closing stock

   Rs. 2,60,000 = Rs. 50,000 + Purchases - Rs.62,500

   Purchases = Rs. 2,72,500

8. Sales = Cost of goods sold + gross profit

   = Rs. 2,60,000 + Rs.65,000

   = Rs. 3,25,000.