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SUGGESTED SOLUTION

Intermediate May19 EXAM

SUBJECT-Accounts and Advance Accounts

Test Code –CIM 8026

BRANCH - () (Date: 19/08/2018)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.
Tel : (022) 26836666

Answer 1:

Gamma Ltd.

Cash Flow Statement for the year ended 31st March, 20X1 (Using direct method)

Particulars	` in crores	` in crores
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	
Income tax paid	(8)	
Net cash generated from operating activities		29
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 2:

Fellow Travelers 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

(4 marks)

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 (1 mark)

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 (1 mark)

Fellow Travelers 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**

(2 mark)

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	<u>(5,000)</u>	8,333
	Total		**33,250**
3.	Long term borrowings		
	Secured		
	7% Debentures		1, 50,000
4.	Other Current liabilities		
	Provision for Taxes		6,000

(2 marks)

Answer 3:

(A) Accounting Entries in the books of fund

			Rs.	Rs.
31.12.2015	Investment in X Ltd.'s shares A/c (5,000 x Rs. 40)	Dr.	2,00,000	
	Investment in Y Ltd.'s shares A/c (4,000 x Rs. 60)	Dr.	2,40,000	
	To Bank A/c			4,40,000
	(Being investment made in X Ltd. and YLtd.)			
31.3.2016	Revenue A/c [5,000 x Rs. (40-38)]	Dr.	10,000	
	To Provision for Depreciation A/c			10,000
	(Being provision created for the reduction in the value of X Ltd.'s shares)			
31.3.2016	Investment in Y Ltd.'s shares A/c [4,000 x Rs. (64-60)]	Dr.	16,000	
	To Unrealised Appreciation Reserve A/c			16,000
	(Being appreciation in the market value of Y Ltd.'s shares transferred to Unrealized Appreciation Reserve A/c)			
01.04.2016	Unrealised Appreciation Reserve A/c	Dr.	16,000	
	To Investment in Y Ltd.'s shares A/c			16,000
	(Being last year's unrealized appreciation reserve balance reversed at the beginning of the current year)			
30.6.2016	Bank A/c (5,000 x Rs. 37)	Dr.	1,85,000	
	Loss on disposal of Investment A/c	Dr.	15,000	
	To Investment in X Ltd.'s shares A/c			

	(5,000 x Rs. 40)			2,00,000
	(Being shares of X Ltd. disposed off at a loss of Rs. 15,000)			
30.6.2016	Provision for Depreciation A/c	Dr.	10,000	
	Revenue A/c	Dr.	5,000	
	To Loss on disposal of Investment A/c			15,000
	(Being net loss on disposal of X Ltd.'s shares charged to revenue account)			
30.6.2016	Bank A/c (4,000 x Rs. 67)	Dr.	2,68,000	
	To Investment in Y Ltd.'s shares A/c (4,000 x Rs. 60)			2,40,000
	To Revenue A/c			28,000
	(Being shares of Y Ltd. disposed off at a Profit of Rs. 28,000)			

(8 marks)

(B) Market Value (1 mark)

(C) Opened Ended Mutual Fund is a fund which permits entry by subscription or exit by sale of units on a continuous basis. (1mark)

Answer 4:

K V Trading Private Limited

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

Rs. in lakhs

	Ratio	Total	Pre Incorporation	Post Incorporation
Sales	1:6	240.00	34.29	205.71
Interest on Investments	Pre	6.00	6.00	-
Bad debts recovered	Pre	0.50	0.50	-
	(i)	246.50	40.79	205.71
Cost of goods sold	1:6	102.00	14.57	87.43

Advertisement	1:6	3.00	0.43	2.57
Sales commission	1:6	6.00	0.86	5.14
Salary (W.N.3)	1:5	18.00	3.00	15.00
Managing directors remuneration	Post	6.00	-	6.00
Interest on Debentures	Post	2.00	-	2.00
Rent (W.N.4)		5.50	0.93	4.57
Bad debts (1 + 0.5)	1:6	1.50	0.21	1.29
Underwriting commission	Post	2.00	-	2.00
Audit fees	Post	2.00	-	2.00
Loss on sale of Investment	Pre	1.00	1.00	-
Depreciation	1:3	4.00	1.00	3.00
	(ii)	153.00	22.00	131.00
Net Profit [(i) – (ii)]		93.50	18.79	74.71

(6 marks)

Working Notes: (1 * 4 = 4 marks)

1. **Calculation of Sales Ratio**

   Let the average sales per month be x

   Total sales from 01.04.20X2 to 30.06.20X2 will be 3x

   Average sales per month from 01.07.20X2 to 31.03.20X3 will be 2x

   Total sales from 01.07.20X2 to 31.03.20X3 will be 2x X 9 =18x

   Ratio of Sales will be 3x: 18x i.e. 3:18 or 1:6

2. **Calculation of time Ratio**

   3 Months: 9 Months i.e. 1:3

3. **Apportionment of Salary**

   Let the salary per month from 01.04.20X2to 30.09.20X2 is x

   Salary per month from 01.10.20X2 to 31.03.20X3 will be 2x

   Hence, pre incorporation salary (01.04.20X2 to 30.06.20X2) = 3x

   Post incorporation salary from 01.07.20X2 to 31.03.20X3 = (3x + 12x) i.e.15x

   Ratio for division 3x: 15x or 1: 5

4. **Apportionment of Rent**

	Rs. Lakhs		
Total Rent	5.5		
Less: additional rent from 1.7.20X2 to 31.3.20X3	1.8		
Rent of old premises for 12 months	3.7		
Apportionment in time ratio		0.925	2.775
Add: Rent for new space		-	1.80
Total		0.925	4.575

Answer 5:

(A)

1. Computation of NAV per unit

$$NAV = \frac{\text{Net Assets}}{\text{No. of share (in Rs.)}}$$

=

$$\frac{\left[(10{,}000x18.50)+(35{,}000x38.40)+(10{,}000x263.60)+(75{,}000x575.60)+(20{,}000x27.65)\right]}{5{,}00{,}000 \text{ units}} = \text{Rs.}120$$

(1 mark)

2. ReviserPosition of Fund (after Suresh Cheque)

Shares	No. of Shares	1st April (MPS)	Amount Rs.= No. of Shares x MPS	2nd April (MPS)	Amount T = No. of Shares x MPS
A Ltd	10,000	18.50	1,85,000	21.30	2,13,000
B Ltd	35,000	384.40	1,34,54,000	417.00	1,45,95,000
C Ltd	25,000	263.60	65,90,000	289.80	72,45,000
D Ltd	75,000	575.60	4,31,70,000	512.20	3,84,15,000
E Ltd	20,000	27.65	5,53,000	35.00	7,00,000
Cash		[75,00,000 - (15,000 x 263.60)] = 35,46,000			35,46,000
Net Assets Value	**6,74,98,000**				**6,47,14,000**
Net Assets Value p.u. = $\frac{6,74,98,000}{56,250} = Rs.120$ p.u.				$\frac{6,47,14,000}{5,62,500} = Rs.115.05 p.u.$	

(3 marks)

(B)

Given the Total Initial Investments is Rs. 185 Lakhs, out of Issue Proceeds of Rs. 200 Lakhs. So, the balance of Rs. 15 Lakhs is attributed towards to Initial Issue Expenses (Rs. 12 Lakhs) and Opening Cash Balance (Rs. 3 Lakhs bal.figure).

1. Computation of Closing Cash Balance

Receipts	**Rs.Lakhs**	**Payments**	**Rs. Lakhs**
To Opening Balance	3.00	By Purchase of Securities	56.00
To Dividends Received	2.00	By Management Expenses (8.00 less 10% payable)	7.20
To Sale Proceeds of Investments	63.00	By Earnings Distributed (Note) (Rs. 5 Lakhs x 80%)	4.00
		By Closing Balance (balancing figure)	0.80
Total	**68.00**	**Total**	**68.00**

Note: Realised Earnings = Gain on Sale of Securities + Dividends Received = (63 - 60) + 2 = Rs. 5 Lakhs.

(3 marks)

2. Computation of Closing NAV

Particulars	Rs. Lakhs
1. Market Value of Capital Market Instruments (Given)	198.00
2. Cash in Hand (WN 1)	0.80
Total of Assets	**198.80**
Liabilities: Outstanding Expenses (Rs. 8 Lakhs x 10%)	**0.80**
Net Asset Value (Rs. Lakhs)	**198.00**
No. of Units Outstanding (In Lakhs)	**20.00**
NAV Per Unit = $\frac{\text{Net Assets of the Scheme}}{\text{Number of Units outstanding}} = \frac{198.00}{20.00} = \text{Rs.}9.90$	

(3 marks)

Answer 6:

(A)

An Extract of Cash Flow Statement for the year ending 31.3.20X2

Closing balance as per Profit & Loss A/c	90,000
Less: Opening balance as per Profit & Loss Alc.	(50,000)
Add: Goodwill amortization	25,000
Add: Discount on issue of Debentures	10,000
Interest on Debentures	75,000
Net Cash from Operating Activities	1,50,000

(2 marks)

Cash flows from financing activities:

Proceeds from debentures	2,15,000
Interest paid on Debentures [less unpaid]	(70,000)
Net Cash from Financing Activities	1,45,000

(1 mark)

Working Note:

(i) Discount on issue of Debentures Account (2 marks)

To Balance b/d	90,000	By Profit & Loss A/c (w/o)	10,000
To 15% Debentures A/c (Bal. fig.)	35,000	By Balance c/d	1,15,000
	1,25,000		1,25,000

(ii) 15% Debentures Account (2 marks)

To Balance c/d	7,50,000	By Balance b/d	5,00,000
		By Bank A/c (Bal. fig.)	2,15,000
		By Discount on issue of Debentures A/c	35,000
	7,50,000		7,50,000

(B)

As per Para 18 of AS 3 (Revised) on Cash Flow Statements, an enterprise should report cash flows from operating activities using either:

(a) The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

(3 marks)