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INTERMEDIATE M'19 EXAM

SUBJECT- ACCOUNTS AND F.M.

Test Code – CIM 8076 A

(Date :)

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ANSWER-1

Computation of Operating and Financial Leverage

Actual Production and Sales: 60% of 10,000 = 6,000 units

Contribution per unit: Rs. 30 – Rs. 20 = Rs. 10

Total Contribution: 6,000 · Rs. 10 = Rs. 60,000

Financial Plan Situation	XY		XM	
	A	B	A	B
	Rs.	Rs.	Rs.	Rs.
Contribution (C)	60,000	60,000	60,000	60,000
Less: Fixed Cost	20,000	25,000	20,000	25,000
Operating Profit or EBIT	40,000	35,000	40,000	35,000
Less: Interest	4,800	4,800	1,200	1,200
Earnings before tax (EBT)	35,200	30,200	38,800	33,800
Operating Leverage = $\frac{C}{EBIT}$	60,000	60,000	60,000	60,000
	40,000 =1.5	35,000 =1.71	40,000 =1.5	35,000 =1.71
Financial Leverage = $\frac{EBIT}{EBT}$	40,000	35,000	40,000	35,000
	35,200 = 1.14	30,200 = 1.16	38,800 = 1.03	33,800 = 1.04

(10 MARKS)

ANSWER-2**1. Computation of Interest at 8% p.a. on various dates**

Date	Particulars	FV(Rs.)	Period(months)	Interest Amt at 8% p.a (Rs.)
01.07.2017	Interest on Ex-Interest Purchase(100 x Rs. 100)	10,000	3	200
30.09.2017	Interest Received on Holding(1,20,000 + 10,000)	1,30,000	6	5,200
01.10.2017	Interest on Ex-Interest Sale(200 x Rs. 100)(No Interest, since the Interest Date is only 30.09.2017)	20,000	—	Nil
01.01.2018	Interest on Cum-interest Purchase(50 x Rs. 100)	5,000	3	100
01.02.2018	Interest on Ex-Interest Sale(200 x Rs. 100)	20,000	4	533
31.03.2018	Interest Received on Closing Balance(Note)	95,000	6	3,800

Note: FV of holding on 31st March = 1,30,000 (upto 30th Sep) - 20,000 + 5,000 - 20,000 = Rs. 95,000. **(3 MARKS)**

2. Computation of Cost of Purchase

Particulars	01.07.2017	01.01.2018
Amount paid	9,800	4,900
Less: Interest (for Cum-Interest purchase only)	-	5,000 x 8% x 3/12= (100)
Add: Brokerage at 1% of amount paid	98	48
Net Cost of Purchase	9,898	4,848

(1.5 MARKS)**3. Computation of Profit / (Loss) on sale of Investments**

Particulars	01.10.2017	01.02.2018
Sale Proceeds	20,000	19,800
Less: Brokerage at 1%	(200)	(198)
Net Sale Proceeds	19,800	19,602
Less: Cost on FIFO basis	$1,80,000 \times \frac{20}{120} = (19,667)$	$1,18,000 \times \frac{20}{120} = (19,667)$
Profit / (Loss) on Sale	133	(65)

(1.5 MARKS)**4. Investment in 8% Debentures of P Ltd A/c**

Date	Particulars	FV	Int.	Cost	Date	Particulars	FV	Int.	Cost
01.04.17	To bal. b/d	1,20,000	-	1,18,000	30.09.17	By Bank	-	5,200	-
01.07.17	To Bank	10,000	200	9,898	01.10.17	By Bank	20,000	-	19,800
01.10.17	To P&L- Pft tfr	-	-	133	01.02.18	By Bank	20,000	533	19,602
01.01.18	To Bank	5,000	100	4,848	01.02.18	By P&L- Loss	-	-	65
31.03.18	To P&L- Int tfr	(b/fig)	9,233	-	31.03.18	By bal. c/d	95,000	3,800	93,412
	Total	1,35,000	9,533	1,32,879		Total	1,35,000	9,533	1,32,879

Note:

- Net Gain on Sale of Investments (**from WN 3**) = Rs. 133 - Rs. 65 = Rs. 68, can be transferred to P&L A/c at the end of the year. In the above a/c, Gain of Rs. 133 and Loss of Rs. 65 are separately transferred to P&L, on the dates of sale itself.
- Market Value of Investments at year-end = 950 x Rs. 99 = Rs. 94,050. Cost as per above A/c (Closing Balance = bal. figure = Rs. 93,412. So, B/Sheet Value = Lower of Cost or Market Value = **Cost Rs. 93,412.** **(4 MARKS)**

ANSWER-3

ANSWER-A

Trading and Profit & Loss Account of Mr. Anup for the year ended 31-12-2016

	Rs.	Rs.		Rs.	Rs.
To Opening Inventory		1,10,000	By Sales	9,59,750	
To Purchases	4,54,100		Less: Sales Return	(1,200)	9,58,550
Less: Purchases Return	(4,200)	4,49,900	By Closing Inventory		1,90,000
To Gross Profit (b.f.)		5,88,650			
		11,48,550			11,48,550
To Wages (9,200 x12)		1,10,400	By Gross Profit		5,88,650
To Electricity & Tel. Charges(18,700+2,200)		20,900	By Discount		2,700
To Legal expenses		17,000			
To Discount (2,400+750)		3,150			
To Shop exp.(600 x12)		7,200			
To Provision for claims for damages		1,55,000			
To Shop Rent		20,000			
To Net Profit (b.f.)		2,57,700			

5,91,350

5,91,350

(2.5 MARKS)

Balance-Sheet as on 31-12-2016

Liabilities	Rs.		Assets	Rs.
Capital A/c (W.N.vi)	2,38,200		Building (from summary cash and bank A/c)	3,72,000
Add : Fresh capital introduced Maturity value from LIC	20,000		Furniture	25,000
Rent	14,000		Inventory	1,90,000
Add : Net Profit	2,57,700		Sundry debtors	92,000
	5,29,900		Bills receivable	6,000
Less : Drawing(14,00 x12)	(16,800)	5,13,100	Cash at Bank	87,000
Rent outstanding		20,000	Cash in Hand	5,300
Sundry creditors		56,000		
Bills Payable		14,000		
Outstanding expenses				
Legal Expenses	17,000			
Electricity & Telephone charges	2,200	19,200		
Provision for claims for damages		1,55,000		
		7,77,300		7,77,300

(2.5 MARKS)

Working Notes :**(i) Sundry Debtors Account**

	Rs.		Rs.
To Balance b/d	70,000	By Bill Receivable A/c-Bills accepted by customers	40,000
To Bill receivable A/c-Bills dishonoured	3,000	By Bank A/c -Cheque received	5,700
To Bank A/c-Cheque dishonoured	5,700	By Cash (from summary cash and bank account)	8,97,150
To Credit sales (Balancing Figure)	9,59,750	By Return inward A/c	1,200
		By Discount A/c	2,400
		By Balance c/d	92,000
	10,38,450		10,38,450

(2 MARKS)

(ii) Bills Receivable Account

	Rs.		Rs.
To Balance b/d	15,000	By Sundry Creditors A/c (Bills endorsed)	10,000
To Sundry Debtors A/c. (Bills accepted)	40,000	By Bank A/c. (20,000 – 750)	19,250
		By Discount A/c. (Bills discounted)	750
		By Bank Bills collected on maturity	16,000
		By Sundry Debtors Bills dishonoured (Bal.fig.)	3,000
		By Balance c/d	6,000
	55,000		55,000

(2 MARKS)**(iii) Sundry Creditors Account**

	Rs.		Rs.
To Bank	3,20,000	By Balance c/d	40,000
To Cash	77,200	By Credit purchase (Balancing figure)	4,54,100
To Bill Payable A/c	24,000		
To Bill Receivable A/c	10,000		
To Return Outward A/c	4,200		
To Discount Received A/c	2,700		
To Balance b/d	56,000		
	4,94,100		4,94,100

(2 MARKS)**(iv) Bills Payable A/c**

	Rs.		Rs.
To Bank A/c (Balance figure)	22,000	By Balance b/d	12,000
To Balance c/d	14,000	By Sundry creditors A/c Bills accepted	24,000
	36,000		36,000

(1 MARK)**(v) Summary Cash and Bank A/c**

	Cash Rs.	Bank Rs.		Cash Rs.	Bank Rs.
To Balance b/d	5,200	90,000	By Bank	7,62,750	
To Sundry debtors (Bal. Fig)	8,97,150		By Cash		1,21,000
To Cash		7,62,750	By Shop exp. (600 x 12)	7,200	
To Bank	1,21,000		By Wages (9,200 x 12)	1,10,400	
To Sunday Debtors		5,700	By Drawing A/c	16,800	

To Bills receivable		19,250	(1,400 x 12) By Bills Payable		22,000
To Bills receivable		16,000	By Sundry creditors	77,200	3,20,000
To Capital (maturity value of LIC policy)		20,000	By Furniture	25,000	
To Capital (Rent received)		14,000	By Sundry Debtors		5,700
			By Electricity & Tel. Charges	18,700	
			By Building (Bal. fig)		3,72,000
			By Balance c/d	5,300	87,000
	10,23,350	9,27,700		10,23,350	9,27,700

(2 MARKS)

(vi) Statement of Affairs as on 31-12-2015

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	40,000	Inventory	1,10,000
Bills Payable	12,000	Debtors	70,000
Capital (Balancing figure)	2,38,200	Bills receivable	15,000
		Cash at Bank	90,000
		Cash in Hand	5,200
	2,90,200		2,90,200

(1 MARK)

ANSWER-B

1. Total Debtors A/c

Particulars	Rs.	Particulars	Rs.
To balance b/d (given)	70,000	By Cash/ Bank A/c (Cash Received)	1,56,000
To Bills Receivable A/c (Dishonoured)	5,000	By Discount Allowed A/c	9,000
To Creditors A/c (Dishonour of endorsed B/R)	3,000	By Bills Receivable A/c (B/R Received)	47,000
To Bank A/c (Discounted B/R dishonoured)	2,000	By Sales Returns A/c	11,000
To Sales A/c (bal. fig. = Credit Sales)	2,25,000	By balance c/d (given)	82,000
Total	3,05,000	Total	3,05,000

(2 MARKS)

2. Total Creditors A/c

Particulars	Rs.	Particulars	Rs.
To Cash/ Bank A/c (Payment)	1,72,000	By balance b/d	81,000
To Discount Received A/c	7,000	By Debtors A/c	
To Bills Payable A/c (Issued)	53,000	(Dishonour of endorsed B/R)	3,000
To Bills Receivable (Endorsement)	27,000	By Purchases A/c (bal. fig. = Credit Pure.)	2,70,000
To balance c/d (given)	95,000		
Total	3,54,000	Total	3,54,000

Answer:

1. Total Sales = Credit Sales Rs. 2,25,000 + Cash Sales Rs. 1,68,000 = Rs. 3,93,500
2. Total Purchases = Credit Purchases Rs. 2,70,000 + Cash Purchases Rs. 1,97,800 = Rs.4,67,800. **(3 MARKS)**

ANSWER-4

ANSWER-A

1. Basic Computations

Particulars	Computation	Rs.
(a) Cost of Shares purchased on 1st May	$(800 \times 50 = 40,000) + (5\% \text{ of } 40,000) + 0.2\% \text{ of } 40,000$	42,080
(b) Sale Proceeds of Share sold on 30th November	$(200 \times \text{Rs. } 60) - 5\% \text{ Brokerage}$	11,400
(c) Profit on Sale of Bonus Share on 30th November	Sale Proceeds= 11,400 Less : Average Cost $42,080 \times \frac{200}{1,000} = (8,416)$	2,984
d) Valuation of Equity Shares of 31st December	Cost $42,080 \times \frac{800}{1,000} = 33,664$ Market Value : 800 Shares of Rs.60 = 48,000	Least of the two 33,664

(3 MARKS)

2. Investment (Equity Shares of Fillco Limited) Account (in Mishra's Books)

Date	Particulars	FV	Cost	Date	Particulars	FV	Cost
1st May	To Bank	8,000	42,080	30th Nov	By Bank	2,000	11,400
31st Oct	To Bonus Issue (1:4)	2,000	-	31st Dec	By balance	8,000	(b/f)33,664

31st Dec	To P&L (Profit)	-	2,984		c/d		
	Total	10,000	45,064		Total	10,000	45,064

(2 MARKS)

ANSWER-B

(5 MARKS)

(i) Degree of operating leverage = $\frac{\% \text{ Change in Operating income}}{\% \text{ Change in Revenues}}$

PQR Ltd. = 25% / 27% = 0.9259

RST Ltd. = 0.32 / 0.25 = 1.28

TUV Ltd. = 0.36 / 0.23 = 1.5652

WXY Ltd. = 0.40 / 0.21 = 1.9048

It is level specific.

(ii) High operating leverage leads to high beta. So when operating leverage is lowest i.e.

0.9259, Beta is minimum (1) and when operating leverage is maximum i.e. 1.9048, beta is highest i.e. 1.40