INTER CA – MAY 2018

Sub: Costing & Advanced Accountancy
Topics: Reconciliation Statement, Stock Valuation & Control, Material Cost Control, NBFC + MF Accounts, Amalgamation & Absorption
Test Code – M12
Branch: MULTIPLE   Date: 24.12.2017

(50 Marks)

*Note: **All** questions are compulsory.*

Question 1 (8 marks)

Computation of EOQ under Trial and Error Method (Purchase Price Approach) (1 ½ mark for each)

Lot Size	Buying Cost p.a. =No. of Orders x Cost per order	Carrying Cost per annum =Avg Inv. X CC p.u. p.a.	Associated Cost p.a.	Purchase Cost per annum for 9,600 units	Total Cost per annum
(1)	$(2) = \frac{9{,}600 \text{ units}}{\text{Col. }(1)} \times \text{Rs}250$	$(3) = \frac{\text{Col. }(1)}{2} \times \text{Rs}12.50 \text{ pu}$	(4)= (2)+(3)	(5)=9,600 units x Purchase Price p.u.	(6)= (4) +(5)
400	24 x 250 =6,000	200 x 12.50 =2,500	8,500	9,600 x 40= 3,84,000	3,92,500
800	12 x250 = 3,000	400 x 12.50 = 5,000	8,000	9,600 x 40=3,84,000	3,92,000
2,400	4 x 250 =1,000	12 x 12.50 =15,000	16,000	9,600 x 38=3,64,800	3,80,800
4,800	2 x 250 =500	2400 x 12.50 =30,000	30,500	9,600 x 36 =3,45,600	**3,76,100**
9,600	1 x 250 =250	4800 x 12.50 =60,000	60,250	9,600 x 36 =3,45,600	4,05,850

Note : Purchase Price for 2,001 to 4,000 units =Rs.40 -5% =Rs. 38, for Qtty > 4,000 units =Rs.40 -10% = Rs. 36.

(Conclusion : From the above table , the Optimum Order Size (i.e. EOQ) is **4,800 units** (i.e. purchase every six months) since the Total Cost is the least at that level. **(1 ½ mark)**

Question 2 (4 Marks)

It exercises discriminating control over different items of stores classified on the basis of investment involved.

'A' category of items consists of only a small %age i.e. approximately 10% of total items handled by stores but requires heavy investment, about 70% of inventory value, because of their high prices or heavy requirement or both.

'B' category of items are relatively less important. They may be approximately 20% of the total items of materials handled by stores. The %age of investment required is approximately 20% of total investment in inventories.

'C' category of items do not require much investment. It may be about 10% of total inventory value but they are nearly 70% of the total items handled by store.

EOQ, re-order level concepts are usually used in case of 'A' category items.

Question 3 (8 Marks) Stores Ledger under WAC Method (1/2 mark for each entry)

Date	Trans	Receipts			Issues			Balance		
		Quantity	Rate	Value	Quantity	Rate	Value	Quantity	Rate	Value
Apr 1	Bal b/d							1,500	4.80	7,200
Apr 4	Issue				1,100	4.80	5,280	400	4.80	1,920
Apr 10	Receipt	1,600	5.00	8,000				2,000	4.96	9,920
Apr 20	Receipt	2,400	4.90	11,760				4,400	4.93	21,680

Apr 24	Issue				1,600	4.93	7,888	2,800	4.93	13,792
May 5	Receipt	1,000	5.100	5,100				3,800	4.97	18,892
May 10	Issue				1,500	4.97	7,455	2,300	4.97	11,437
May 17	Receipt	1,100	5.20	5,720				3,400	5.05	17,157
May 25	Receipt	800	5.25	4,200				4,200	5.09	21,357
May 26	Issue				1,700	5.09	8,653	2,500	5.08	12,704
May 31	Shortage				80	-	-	2,420	5.25	12,704
Jun 11	Receipt	900	5.40	4,860				3,320	5.29	17,564
Jun 15	Issue				1,500	5.29	7,935	1,820	5.29	9,629
Jun 21	Issue				1,200	5.29	6,348	620	5.29	3,281
Jun 24	Receipt	1,400	5.50	7,700				2,020	5.44	10,981
Jun 30	Shortage				60	-	-	**1,960**	**5.60**	**10,981**

Note :

- Closing Stock on 10th Apr is valued as $\frac{(400 \text{ kg} \times 4.80)+(1{,}600\text{kg} \times 5.00)}{2{,}000 \text{ kg}}$=**Rs. 4.96 per kg.** Other days' Closing Stock balance is valued on the same principles.
- Since Shortage is treated as inflating the price of remaining material on account of shortage , it is not assigned any value /cost .The balance materials will be automatically valued at an inflated rate.

Question 4 (8 Marks)

1.Cost Sheet (4 marks)

Particulars	**Senior (3000 units)**		**Sub- Junior (700 units)**		**Grand Total**
	Per unit	**Total**	**Per unit**	**Total**	
Direct Materials Direct Labour	80 140	240,000 420,000	60 11	42,000 77,000	282000 497,000
Prime Cost **Add:** Factory Overheads at 100% of Wages	**220** 140	**660,000** 420,000	**170** 110	**1,19,000** 77,000	**779,000** 497,000
Factory Cost **Add:** R& D,QC,AOH related to Production	**360** Nil	**1080,000** Nil	**280** Nil	**1,96,000** Nil	**1296,000** Nil
Cost of production **Add:** General AOH at 25% of Factory Cost	**360** 90	**1080,000** 270,000	**280** 70	**1,96,000** 49,000	**1296,000** 319,000
Total Cost **Add:** Profit (bal.fig)	**450** 50	**1350,000** 15,0000	**350** 40	**2,45,000** 28,000	**1615000** 178000
Sales	**500**	**1,50,000**	**390**	**2,73,000**	**1793,000**

2. Financial Profit and Loss Account (2 marks)

Particulars	**Senior**	**Sub-Junior**	**Total**	**Particulars**	**Senior**	**Sub-Junior**	**Total**
To Material	240,000 (80 x 3000)	42,000 (60 x 700)	282,000	By Sales	1,500,000	2,73,000	1,773,000
To Labour To Works OH To Office OH **To Profit (b/f)**	420,000 (140 x3000)	77,000 (110 x 700)	497,000 1,20,000 68,000 **806,000**		(3000 x 500)	(700 x 390)	
Total			**1,773,000**	**Total**			**1,773,000**

3. memorandum Reconciliation Account (2 marks)

Particulars	**Rs.**	**Particulars**	**Rs.**
To AOH over absorbed (319,000-68,000)	251,000	By Profit as per Financial P & L A/c	806,000
To Profit as per Cost Records (bal.fig)	**178,000**	By FOH under absorbed (1,20,000 -497,000)	377,000
Total	**429,000**	Total	**429,000**

Question 5 (6 Marks)

Statements showing Classification of Assets (` Lakhs)

Assets	Particulars	Amt	Amt
Standard Assets **(2 marks)**	Accounts (Balancing figure) 200 Accounts overdue for a period for 2 Months 24 Accounts overdue for a period by 3 Months	86 40 24	150
Sub-Standard Assets **(1 mark)**	4 Accounts identified as Sub-Standard Asset for a period less than 12 months		14
Doubtful Assets **(2 marks)**	6 Accounts identified as Sub-Standard Asset for a period more than12months 4 Accounts identified as Sub-Standard Asset for a period more than 3 months		6 20
Loss Assets **(1 mark)**	1 Account identified by Management as Loss Asset		10
			200

Question 6 (16 Marks)

In the Books of Kanak Ltd.

	Particulars		Dr. Amount ₹	Cr. Amount ₹
01.04.2016				
	Equity share capital A/c	Dr.	45,00,000	
	To Equity share capital A/c			45,00,000
	(Being sub-division of one share of ₹ 100 each into 10 shares of ₹ 10 each)			
	Equity share capital A/c	Dr.	22,50,000	
	To Capital reduction A/c			22,50,000
	(Being reduction of Equity capital by 50%)			
	Capital reduction A/c	Dr.	40,500	
	To Bank A/c			40,500
	(Being payment in cash of 10% of arrear of preference dividend)			
	Bank A/c (2,400 x 98)	Dr.	2,35,200	
	To Own debentures A/c (2,400 x 96)			2,30,400
	To Capital reduction A/c			4,800
	(Being profit on sale of own debentures of ₹ 2,40,000 transferred to capital reduction A/c)			

	12% Debentures A/c	Dr.	3,60,000	
	To Own debentures A/c			3,45,600
	To Capital reduction A/c			14,400
	(Being profit on cancellation of own debentures transferred to capital reduction A/c)			
	12% Debentures A/c	Dr.	8,40,000	
	Capital reduction A/c	Dr.	60,000	
	To Machinery A/c			9,00,000
	(Being machinery taken up by debenture holders for ₹ 8,40,000)			
	Trade payables A/c	Dr.	1,95,000	
	Capital reduction A/c (balancing figure)	Dr.	87,000	
	To Trade receivables A/c			1,83,000
	To Inventory A/c			99,000
	(Being assets and liabilities revalued)			
	Capital reduction A/c	Dr.	12,99,000	
	To Goodwill A/c			60,000
	To Discount on debentures A/c			6,000
	To Profit and Loss A/c			12,33,000
	(Being the above assets written off)			
	Capital reduction A/c	Dr.	45,000	
	To Bank A/c			45,000
	(Being penalty paid for avoidance of capital commitments)			
	Capital reduction A/c	Dr.	7,37,700	
	To Capital reserve A/c			7,37,700
	(Being the credit balance in Capital Reduction A/c transferred to Capital Reserve)			
02.04.2016				
	Business Purchase A/c	Dr.	39,60,000	
	To Liquidators of Ronak Ltd.			39,60,000
	(Being the purchase consideration payable to Ronak Ltd.)			

Fixed Assets A/c Dr.		22,80,000	2 marks
Inventory A/c Dr.		20,40,000	
Trade receivables A/c Dr.		13,20,000	
Cash at Bank A/c Dr.		3,90,000	
To Trade payables A/c			6,75,000
To 12% Debentures A/c of Ronak Ltd.			6,00,000
To Profit and Loss A/c			45,000
To General reserve A/c ₹ (5,10,000+2,40,000*)			7,50,000
To Business purchase A/c			39,60,000
(Being the take over of all assets and liabilities of Ronak Ltd. by Kanak Ltd.)			
Liquidators of Ronak Ltd. A/c Dr.		39,60,000	
To Equity Share Capital			30,00,000
To 9% Preference share capital			9,60,000
(Being the purchase consideration discharged)			
12% Debentures of Ronak Ltd. A/c Dr.		6,00,000	
To 12% Debentures A/c			6,00,000
(Being Kanak Ltd. issued their 12% Debentures in against of every Debentures of Ronak Ltd.)			

(all other entries will carry ½ mark)

Balance Sheet of Kanak Ltd. as at 2.4.2016 (3 mark)

Particulars	*Note No*	*Amount(`)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	77,10,000
(b) Reserves and Surplus	2	20,72,700
(2) Non-current Liabilities		
(a) Long-term borrowings - 12% Debentures		12,00,000
(3) Current Liabilities		
(a) Trade payables		17,25,000
Total		1,27,07,700
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets		58,80,000
(2) Current assets		
(a) Inventories		31,20,000
(b) Trade receivables		30,90,000
(c) Cash and cash equivalents		6,17,700
Total		1,27,07,700

* ` 2,40,000 is the balancing figure adjusted to general reserve A/c as per AS 14 "Accounting for Amalgamation".

Notes to Accounts

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1	Share Capital **(1/2 mark)**		
	Equity Share Capital		52,50,000
	9% Preference share capital		24,60,000
			77,10,000
2	Reserves and Surplus **(1 mark)**		
	Profit and Loss A/c		45,000
	General Reserve		
	Share Capital of Ronak Ltd. (Equity + Preference)	42,00,000	
	Less: Share Capital issued by Kanak Ltd.	39,60,000	
	General reserve (resulted due to absorption)	2,40,000	
	Add: General reserve of Ronak Ltd.	5,10,000	
	General reserve of Kanak Ltd.	5,40,000	12,90,000
	Capital Reserve		7,37,700
			20,72,700

Working Notes: (1 ½ marks)

1. Arrear dividend to Preference Shareholders

Preference Share Capital ` 15,00,000 @ 9% will yield dividend of ` 1,35,000 per year and for 3 years = ` 4,05,000. Out of this only 10% is paid and the balance is waived off. Hence, amount paid = ` 40,500.

2. Profit on redemption of own debentures

Own Debentures with Nominal Value of ` 2,40,000 sold for ` 98 per deb = 2,40,000 x 98/100 = ` 2,35,200.

Book Value = ` 5,76,000/ 6,00,000 X 2,40,000 = ` 2,30,400. Profit on own debentures sold = ` 2,35,200 – ` 2,30,400 = ` 4,800

Balance of Own Debentures = ` 5,76,000 – 2,30,400 = ` 3,45,600 which are cancelled

3. Purchase Consideration

Equity share capital 30,000 x 50/5 x 10	= 30,00,000
9% Preference share capital 12,000 x 4/5 x 100	= 9,60,000
	` 39,60,000

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