INTER CA – MAY 2018

Sub – Financial Management & Accountancy

Topic – Accounting Ratios, Leverages, Fire Insurance Claims (a) Loss of Profit (b) Loss of stock, Piecemeal Distribution, Amalgamation, Conversion

Test Code – M4

Branch: Multiple Date:10.12.2017

(50 Marks)

Note: All questions are compulsory.

Question 1 (8 Marks)

Working Notes:

(i) Cost of Goods Sold =Sales - Gross Profit (28% of Sales)

=Rs.50,00,000 – Rs.14,00,000

=Rs.36,00,000 (1/2 mark)

(ii)Closing Stock =Cost of Goods Sold/Stock Turnover

=Rs.36,00,000/6 =Rs.6,00,000(1 /2mark)

(iii) Fixed Assets =Cost of Goods Sold/Fixed Assets Turnover

=Rs.36,00,000/1.5 =Rs.24,00,000(1/2 mark)

(iv) Current Assets :Current Ratio

=1.5 and Liquid Ratio =1

Stock =1.5 – 1=0.5

Current Assets =Amount of Stock x 1.5/0.5

=Rs.6,00,000 x 1.5/0.5 =Rs.18,00,000(1/2 mark)

(v) Liquid Assets (Debtors and Cash & Cash equivalents)

=Current Assets –Stock

=Rs.18,00,000-Rs.6,00,000

=Rs.12,00,000(1/2 mark)

(vi) Debtors =Sales x Debtors Collection Period(days)/360days

=Rs.50,000 x $\frac{45}{360}$ =Rs.6,25,000(1/2 mark)

(vii) Cash & Cash equivalents

=Liquid Assets –Debtors

=Rs.12,00,000-Rs.6,25,000=Rs.5,75,000(1/2 mark)

(viii)Net worth = Fixed Assets / 1.2

=Rs.24,00,000/1.2=Rs.20,00,000(1/2 mark)

(ix) Reserves and Surplus

Reserves & Surplus and Share Capital =0.6+1=1.6

Reserves and Surplus =Rs.20,00,000 x 0.6/1.6=Rs.7,50,000(1/2 mark)

(x)Share Capital =Net worth –Reserves and Surplus

=Rs.20,00,000 – Rs.7,50,000

=Rs.12,50,000(1 /2mark)

(xi)Current Liabilities =Current Assets /Current Ratio

=Rs.18,00,000/1.5 =Rs. 12,00,000(1/2 mark)

(xii)Long term Debts

Capital Gearing Ratio =Long term Debts /Equity Shareholders 'Fund(Net worth)

Or, Long term Debts =Rs.20,00,000 x 0.5= Rs.10,00,000(1/2 mark)

Balance Sheet as at 31st March ,2016(2 marks)

Liabilities	Amount (Rs).	Assets		Amount(Rs.)
Equity Share Capital	12,50,000	Fixed Assets		24,00,000
Reserves and Surplus	7,50,000	Current Assets		
Long term Debts	10,00,000	Stock	6,00,000	
Current Liabilities	12,00,000	Debtors	6,25,000	
		Cash & Cash eq.	5,75,000	18,00,000
	42,00,000			42,00,000

Question 2 (6 Marks)

Working:

(i) Financial Leverage := $\frac{\text{EBIT}}{\text{EBIT}-\text{Interest}}$ or, 2 = $\frac{\text{EBIT}}{\text{EBIT}-5{,}000}$

Or, EBIT = Rs. 10,000 (1/2 mark)

(ii) Operating Leverage: = $\frac{\text{Contribution}}{\text{EBIT}}$ or, 3 = $\frac{\text{Contribution}}{\text{Rs.}10{,}000}$

Or, Contribution = Rs. 30,000(1/2 mark)

(iii)Sales = $\frac{\text{Contribution}}{\text{P/V Ratio}} = \frac{\text{Rs.}30{,}000}{25\%}$ =Rs.1,20,000(1/2 mark)

(iv)Fixed Cost = Contribution-Fixed cost=EBIT

=Rs.30,000-Fixed cost =Rs.10,000

Or Fixed cost =Rs.20,000(1/2 mark)

Income Statement for the year ended 31st December 2016 (4 marks)

Particulars	Amount (Rs.)
Sales	1,20,000
Less :Variable Cost (75%of Rs.1,20,000)	(90,000)
Contribution	30,000
Less: Fixed Cost(Contribution - EBIT)	(20,000)
Earnings Before Interest and Tax (EBIT)	10,000
Less: Interest	(5,000)
Earnings Before Tax(EBT	5,000
Less Income Tax@30%	(1,500)
Earnings after Tax (EAT or PAT)	3,500

Question 3 (10Marks)

M/s DEF & CO.
Memorandum Trading A/c
(2 marks)

(1.4.16 to 13.9.16)

Particulars	(`)	*Particulars*	(`)
To Opening stock (Refer W.N.)	9,60,000	By Sales	45,98,200
To Purchases	35,49,900	By goods with customer	18,750
To Gross profit (25% of sales)	11,49,550	By Closing stock (bal. fig.)	10,42,500
	56,59,450		56,59,450

Computation of insurance claims(3 marks)

		`
Stock on the date of fire (i.e. on 13.09.2016)		10,42,500
Less: Stock salvaged	40,000	
Agreed value of damaged stock	20,000	(60,000)
Loss of stock		9,82,500

Claim subject to average clause:

$$\text{Insurance claim} = \frac{\text{Loss of stock}}{\text{Value of stock on the date of fire}} \quad \text{Amount of policy}$$

= 9,00,000/10,42,500 9,82,500 = ` 8,48,201

Working Notes:

1. Calculation of original cost of the stock as on 31st March, 2016 (1 mark)
   Stock as on 31st March, 2016 was valued at 10% lower than cost.

   Hence, original cost of the stock would be ` 9,60,000 (8,64,000/90 *100)

2. Purchases for the period of 1.4.16 to 13.9.16 (2 marks)

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Purchases	35,29,900
Add: purchases where goods have been received in godown although	
purchase invoice had not been received	60,000
Less: Purchase of machinery included in purchases	40,000
	35,49,900

3. Sales for the period of 1.4.16 to 13.9.16(1 mark)

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Sales	46,93,200
Less: goods not been dispatched	70,000
Less: goods sent on approval basis but not yet confirmed	25,000
	45,98,200

4. Goods with customer on 13.9.16 Since no approval for sale has been received for the goods for ` 25,000 These should be valued at cost i.e. 25,000 – (25,000 x 25/100) = 18,750(1 mark)

Question 4 (10 Marks)

1. Adjustment for raising and writing off of goodwill (2 marks)

	Raised in old profit sharing ratio		*Total*	*Written off in new ratio*	*Difference*
	Bhalla & Co.	Chand& Co.			
	3:2 `	5:3 `	`	`	`
Maan	2,70,000	---	2,70,000 Cr.	2,76,000 Dr.	6,000 Dr.
Hello	1,80,000	1,50,000	3,30,000 Cr.	3,45,000 Dr.	15,000 Dr.
Proud	---	90,000	90,000 Cr.	69,000 Dr.	21,000 Cr.
	4,50,000	2,40,000	6,90,000	6,90,000	Nil

2. Balance Sheet of Chand Bhalla & Co. (New firm) as on 31.3.2016 (3 marks)

Liabilities	`	*Assets*	`
Capital Accounts:		Vehicle	4,44,000
Maan	10,32,000	Machinery	6,00,000
Hello	12,90,000	Building	12,00,000
Proud	2,58,000	Stock	4,20,000
Current Accounts:		Debtors	7,86,000
Maan	1,32,000	Cash & Bank	4,20,000
Proud	1,08,000		
Creditors	10,50,000		

	38,70,000		38,70,000

Working Notes:

1. Balance of Capital Accounts at the time of amalgamation of firms (3 marks)

	Maan's Capital `	*Hello's Capital* `
Bhalla & Co. Profit and loss sharing ratio 3:2		
Balance as per Balance Sheet	9,00,000	6,00,000
Add: Reserves	1,80,000	1,20,000
Revaluation profit (Building)	1,80,000	1,20,000
Less: Revaluation loss (Machinery)	(72,000)	(48,000)
Provision for doubtful debt	(18,000)	(12,000)
	11,70,000	7,80,000
	Hello's Capital `	*Proud's Capital* `
Chand & Co. Profit and loss sharing ratio 5:3		
Balance as per Balance sheet	4,50,000	3,00,000
Add: Reserves	1,50,000	90,000
Less: Revaluation (vehicle)	(60,000)	(36,000)
Provision for doubtful debts	(15,000)	(9,000)
	5,25,000	3,45,000

2. Balance of Capital Accounts in the balance sheet of the new firm as on 31.3.2016 (2 marks)

		Maan `	*Hello* `	*Proud* `
Balance b/d:	Bhalla & Co.	11,70,000	7,80,000	--
	Chand& Co.	--	5,25,000	3,45,000
		11,70,000	13,05,000	3,45,000
Adjustment for goodwill		(6,000)	(15,000)	21,000
		11,64,000	12,90,000	3,66,000
Total capital `25,80,000 (Hello's capital* ` 4:5:1 ratio.		10,32,000	12,90,000	2,58,000
Transfer to Current Account		1,32,000	---	1,08,000

Question 5 (16 Marks)

(a) Balance Sheet of the PQR Pvt Ltd. as on 1-4-2012 (3 marks)

	Note No.	`
Equity and Liabilities		
Shareholders funds		
Share Capital	1	1,90,000
Current liabilities		
Trade Payables		48,000
Total		2,38,000
Assets		
Non-current assets		
Fixed Assets		
Tangible Assets	2	1,22,000
Intangible Assets	3	36,000
Current assets		
Inventories		50,000
Trade Receivables		30,000
Total		2,38,000

Notes to Accounts (3 marks)

		`
1.	Share Capital	
	Equity share capital 18,000 fully paid shares of ` 10 each	1,80,000
	Preference share capital (9% Preference Shares)	10,000
	(All the shares have been issued for consideration other than cash)	
		1,90,000
2.	Tangible assets	
	Plant and Machinery	1,02,000
	Fixtures	20,000
		1,22,000
3.	Intangible asset	
	Goodwill	36,000

(b) In the books of Partnership Firm

Partners' Capital Accounts

(3 marks)

	P `	Q `	R `		P `	Q `	R `
To Plant and machinery A/c	3,000	2,000	1,000	By Balance b/d	50,000	30,000	20,000
To Equity shares in PQR Pvt. Ltd.	90,000	60,000	30,000	By Reserve fund	30,000	20,000	10,000
To 9% Preference shares in PQR Pvt. Ltd.	5,000		5,000	By Realization* A/c (Profit on sale of business)	18,000	12,000	6,000
	98,000	62,000	36,000		98,000	62,000	36,000

(c) Statement showing the final settlement between the Partners taking Q's capital as basis (3 marks)

	P `	Q `	R `	Total `
Value of Equity Shares to be allotted, taking Q's capital as basis P's Capital =60,000 × 3/2 R's Capital =60,000 × 1/2	90,000	60,000	30,000	
Total value of Equity Shares allotted to P,Q and R				1,80,000
9% Preference Shares to be allotted to P ` (95,000-90,000)	5,000			
9%Preference Shares to be allotted to R ` (35,000-30,000)			5,000	
Total Value of Preference Shares allotted to P and R				10,000
Total Purchase Consideration (W.N.2)				1,90,000

Taking Q's capital as basis, both P and R have ` 5,000 each as excess in their capital account balances. Since interest on capital is meant to compensate those whose capital is in excess of proportionate limits and since in the case of partners it is an appropriation of profit, it will be proper to give 9% preference shares to P and R for ` 5,000 each and the remaining amount of ` 1,80,000 in the form of Equity Shares to be divided among P, Q and R in the ratio 3:2:1. They will then share the company's profit in the ratio 3:2:1 after allowing preference dividend.

Note: The question requires that the profit sharing ratio should be maintained even after conversion of partnership firm into a company. Further, it also requires that priority in regard to repayment of capital should also be preserved. Therefore, it is also possible that 9% preference shares equivalent and proportionate to the capital balance of partners as on 31.3.2012 may be issued, so that such preference shares earn dividend equivalent to the interest on such capital @ 9%. Further, priority in regard to repayment of capital should be ensured to the extent of preference share capital and dividend thereon. Thereafter, to maintain the profit sharing ratio, equity share capital may be issued in the ratio of sharing profits and losses.

In that case, 1,00,000, 9% Preference shares will be issued to P, Q and R in the proportion of 5:3:2 and Equity shares will be issued to P, Q and R in the proportion of 3:2:1.

Working Notes:

1. Calculation of goodwill (2 marks)

	2007-08 `	*2008-09* `	*2009-10* `	*2010-11* `	*2011-12* `
Profits	10,000	(5,000)	18,000	27,000	30,000
Adjustment for abnormal loss in 2008-09	—	10,000	—	—	—
	10,000	5,000	18,000	27,000	30,000
					`
Total Profit from 2007-08 to 2011-12					90,000
Average Profit (90,000 / 5)					18,000
Goodwill equal to 2 years' purchase					36,000

2. Computation of Purchase consideration (2 marks)

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Assets:	
Goodwill	36,000
Plant and Machinery	1,02,000
Fixtures	20,000
Stock	50,000
Sundry Debtors	30,000
	2,38,000
Less: Liabilities:	
Creditors	48,000
Purchase Consideration	1,90,000

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