SUGGESTED ANSWERS

CA INTER

Test Code – JK-ACC-12

Date – 17-09-2020

Head Office: Shraddha, 3rd Floor, Near Chinai College, Andheri E, Mumbai – 69

Tel: (022) 26836666

Q.1

(a)

New Jersey Branch Trial Balance as on 31-3-2020

(₹ ’000)

	Conversion rate Per $	**Dr.**	**Cr.**
Plant & Machinery (Cost)	₹ 24	4,800	–
Plant & Mach. Dep. reserve	₹ 24	–	3,120
Debtors/Creditors	₹ 24	1,440	720
Opening Stock	₹ 20	400	–
Cash & Bank Balances	₹ 24	240	–
Purchases/Sales	₹ 22	440	2,706
Goods received from H.O.	–	100	–
Salaries	₹ 22	990	–
Office Rent	₹ 22	264	–
Admin Expenses	₹ 22	396	–
Commission Receipts	₹ 22	–	2,200
H.O. Current Account			120
		9,070	**8,866**
Exchange profit (Balance figure) (as per AS-11)			204
		9070	**9070**

(b)

Computation of borrowing cost as per AS-16 and amount of exchange difference as per AS-11

(i) Interest for the period 2019-2020
= US $ 125,00,000 X 6% X 48= ₹ 3,60,00,000

(ii) Increase in the liability towards principal amount = US $ 125,00,000 X (48-45)
=₹ 375,00,000

(iii) Interest that would have resulted if the loan was taken in Indian currency
= ₹ 1,25,00,000 X 45 X 12% = ₹ 6,75,00,000

(iv) Difference between interest on local currency borrowing and foreign currency borrowing
= ₹ 6,75,00,000- ₹ 3,60,00,000= ₹ 3,15,00,000

Therefore out of □ 3,75, 00,000 increases in liability towards principal amount, only □ 3,15,00,000 will be considered borrowing cost. Thus, total borrowing cost would be □ 6,75,00,000 being the aggregate of interest of □ 3,60,00,000 on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of □ 3,15,00,000.

Hence □ 3,15,00,000 would be considered as the borrowing cost to be accounted for as per AS-16 and the remaining □ 60,00,000 (□ 3,75,00,000- □ 3,15,00,000) would be considered as the exchange difference to be account for as per AS-11.

(c)

(a) The stock of empty bottles is an asset of the company being a resource controlled by the company as a result of past events from which future economic benefits are expected to flow to it.

(b) The stock of empty bottles existing at the balance sheet date is the inventory of the company.

(c) The stock of empty bottles should be valued at the lower of cost and net realisable value. The same is not considered as income. In case, the cost of empty bottles is Nil, the total stock of bottles should be reflected at the nominal value of Re.1 in balance sheet.

(d)

As per para 21 of AS-12, the grant refundable should be first adjusted against the unamortized deferred credit balance & to the extent of the amount refundable exceeds any such deferred credit balance, the amount should be charged to profit and loss statement.

(a) In this case the grant refunded is □ 400 lakhs and balance in deferred income is □ 280 lakhs, □ 120 lakhs shall be charged to the profit and loss account for the year 2019-20. There will be no effect on the cost of the fixed asset and depreciation charged will be same as charged in earlier year.

(b) As per para 21 of AS-12, the amount refundable in respect of grant which related to specific fixed assets should be recorded by increasing the book value of the assets by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case the book value of the plant shall be increased by □ 400 lakhs. Depreciation charged during the year 2109 – 20 shall be (1200/10 + 400/7) = 177.14 lakhs. Presuming the depreciation on SLM.

Q.2

(a)

Partner Capital A/c

(2017 - 2018)

	Particulars	V	S		Particulars	V	S
31.3.18	To Drawings	1,800	750	1.4.17	By Balance b/d	7.800	-
31.3.18	To V A/c	-	170	1.4.17	By Cash / Bank	-	1,500
31.3.18	To Bal. C/d	8,250	1,500	31.3.18	By Interest on Capital	390	75
				31.3.18	By Profit	1,690	845
				31.3.18	By S A/c (Premium)	170	-
		10,050	**2,420**			**10,050**	**2,420**

(3 Marks)

(2018 - 2019)

	Particulars	V	S		Particulars	V	S
31.3.19	To Drawings	1,620	750	1.4.18	By Balance b/d	8,250	1,500
31.3.19	To V A/c	-	152	31.3.19	By Interest on Capital	413	75
				31.3.19	By Profit	1,655	827
31.3.19	To Bal. b/d	8,850	1,500	31.3.19	By S A/c (Premium)	152	-
		10,470	**2,402**			**10,470**	**2,402**

(2.5 Marks)

(2019 - 2020)

	Particulars	V	S		Particulars	V	S
31.3.20	To Drawings	1,740	750	1.4.19	By Balance b/d	8,850	1,500
31.3.20	To V A/c	-	578	31.3.20	By Interest on Capital	443	75
				31.3.20	By Profit	2,615	1,307
31.3.20	To Bal. b/d	10,746	1,554	31.3.20	By S A/c	578	-
		12,486	**2,882**			**12,486**	**2,882**

(2.5 Marks)

Working Note 1:

Calculation of Profit	17 – 18	18 -19	19 -20
Closing Capital:-			
Assets	15,000	14,850	17,100
Less: Liabilities	(5,250)	(4,500)	(4,800)
Closing Capital	**9,750**	**10,350**	**12,300**
Add: Drawing:-			
V………..	1,800	1,620	1,740
S………..	750	750	750
Less: Opening Capital:-			
V………..	(7,800)	(8,250)	(8,850)
S………..	(1,500)	(1,500)	(1,500)
Less: Interest on Capital:-			
V……….	(390)	(413)	(443)
S………..	(75)	(75)	(75)
Net Profit……….	**2,535**	**2,482**	**3,922**
V's share of profit (2/3)……	1,690	1,655	2,615
S's share of profit (1/3) ……	845	827	1,307

(4 Marks)

Working Note 2:

Adjustment for Premium	17 – 18	18 -19	19 -20
'S' Capital			
Share of Profit	845	827	1,307
Add: Interest on capital	75	75	75
Total	**920**	**902**	**1,382**
Less: Drawings	(750)	(750)	(750)
Surplus (Premium)	170	152	632
			↓
			Restricted to 578 as

Total premium is 900
So (900 – 170 -152 = 578)

(3 Marks)

(b)

	Total	Option 1	Option 2	Option 2
FV of old Debenture	8,00,000	3,42,000	2,88,000	1,70,000
Add: P.O.R 2%	16,000	6,840	5,760	3,400
Total Payable	**8,16,000**	**3,48,840**	**2,93,760**	**1,73400**
		÷ Issue Price 22.50 = 15,504 5% Pref. shares of ₹ 20 each at ₹ 22.50	÷ Issue Price 96 = 3,060 6% Deb. of ₹ 100 each at ₹ 96	Pay Cash

(5 Marks)

Q.3

(a)

Working Note 1:

Calculation& Breakup of Shares

No. of Equity Shares in issued capital = 1,30,000

↓ ↓ ↓

Original Shares		**Bonus shares Given that**	**Fresh Issue balancing figure**
2 original shares	:	1 Bonus Shares	
60,000 shares	:	30,000 shares	40,000 shares

(2Marks)

Working Note 2:

FV of Pref. Share Redeemed = 10 : P.O.R (10%) = 1

6,00,000   60,000

↓

Use Securities Premium

6,00,000 splits into:

Proceeds of Fresh issue of Equity shares (40,000 x FV10) = 4,00,000

Create CRR 2,00,000

↓

use dividend Equilisation Reserve

(2 Marks)

Journal of A. M. Ltd.

	Particulars	L. F.	Debit (₹)	Credit (₹)	Marks
1.	Bank A/c Dr. To Investment A/c To P / L A/c (Being Investment sold)		1,10,000	 1,00,000 10,000	**2**
2.	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being fresh issue made)		4,40,000	 4,00,000 40,000	**1**
3.	Dividend Equilisation Reserve A/c Dr. To Capital Redemption Reserve A/c (Being CRR Created)		2,00,000	 2,00,000	**1**
4.	14% Pref. share Capital A/c Dr. Premium on Redemption A/c Dr. To Pref. shareholders A/c (Being Redemption due)		6,00,000 60,000	 6,60,000	**1**
5.	Pref. Shareholders A/c Dr. To Bank A/c (Being Pref. shareholders paid)		6,60,000	 6,60,000	**1**
6.	Securities Premium A/c Dr. To Premium on Redemption A/c (Being P.O.R. w/off)		60,000	 60,000	**1**
7.	Capital Redemption Reserve A/c Dr. Securities Premium A/c Dr. Capital Reserve A/c Dr. To Bonus to Equity share holders A/c (Being Bonus Declared)		2,00,000 50,000 50,000	 3,00,000	**1**
8.	Bonus to Equity Share holders A/c Dr. To Equity Share Capital A/c (Being Bonus shares issued)		3,00,000	 3,00,000	**1**
9.	P / L A/c Dr. To Goodwill A/c (Being Goodwill w/off)		20,000	 20,000	**1**
10.	Capital Reserve A/c Dr. To Preliminary Expenses A/c (Being Preliminary expenses w/off)		10,000	 10,000	**1**

(b)

a. Long Term Borrowings
b. Inventories
c. Other Current Liabilities
d. Intangible Assets
e. Long term provisions
f. Inventories
g. Other Current Liabilities
h. Other non-current Assets
i. Short – term Borrowings
j. Intangible Assets

(0.5 Marks each)

Q.4

(a)

Books of Investor Mr. A
Investments in 6% Debentures of Sigma Ltd.

	Particulars	F.V.	Int.	Amt.		Particulars	F.V.	Int.	Amt.
1.1.19	To Balance b/d	2,00,000	-	1,82,000	1.9.19	By Bank A/c	60,000	2,400	57,600
1.4.19	To Bank A/C	40,000	600	38,600	1.12.19	By Bank A/c	80,000	4,400	74,800
1.9.19	To P/L (WN 2)	-	-	2,450	31.12.19	By Bank A/c	1,00,000	6,000	89,000
1.12.19	To P/L (WN 2)	-	-	1,267	31.12.19	By P/L (WN 2)	-	-	2, 917
31.12.19	To P/L A/c	-	12,200	-					
		2,40,000	**12,800**	**2,24,317**			**2,40,000**	**12,800**	**2,24,317**

(4.5 Marks)

Working Note 1:

F.V.	Transaction	Amount
2,00,000 40,000	Opening Balance Purchase	1,82,000 38,600
2,40,000 (60,000)	**Total** (Sale)	**2,20,600** (55,150)
1,80,000 (80,000)	**Balance** (Sale)	**1,65,450** (73,533)
1,00,000 (1,00,000)	**Balance** (Sale)	**91,917** (91,917)
NIL	**Closing Balance**	**NIL**

(2 Marks)

Working Note 2:
Profit/Loss on Sale

	01.09.19	01.12.19	31.12.19
Selling Price	57,600	74,800	89,000
(-) Wt. Avg. Cost	(55,150)	(73,533)	(91,917)
	2,450 (Profit)	1,267 (Profit)	(2,917) Loss

(1.5 Marks)

(b)

P/L Statement of M/s You Do it Ltd. For the Period ended 31.3.20

Particulars		Basis	Pre	Post
Gross Profit:-	Customers	Pre	85,000	-
(W. N. 2 & 3)	Retailer	1 : 5	9,333	46,667
	Whole sellers	Post	-	1,20,000
	Exports	Post	-	50,000
Total			**94,333**	**2,16,667**
Less: Expenses:-				
Administrative Expenses		WN 6	(8,000)	(32,000)
Rent of office Building		WN 4	(36,000)	(1,24,000)
Dep. on fixed Assets		WN 5	(12,000)	(36,000)
Interest paid to vendors		WN 7	(12,000)	(12,000)
Net Profit Trf to capital Res.			**26,333**	**-**
Net Profit Trf to B/s		**-**		**12,667**

(3.5 Marks)

Working Note 1:

Time Ratio

Date of Purchase	**Date of Incorporation**	**Date of Final A/c**
01.01.2019	01.05.2019	31.03.2020

Pre — Post

4 Months — 4:11 — 11 months

(0.5 Mark)

Working Note 2:

Calculation of G.P

(A) Sale to Customers

Cost	+	G.P.	=	SP
100	+	100	=	200
85,000	+	85,000		1,70,000

(0.5 Mark)

(B) Sale to Retailers

Cost	+	G.P.	=	SP
100	+	87.5	=	187.5 (200 – 6.25%)
64,000	+	56,000		1,20,000

(0.5 Mark)

(C) Sale to Whole sellers

Cost	+	G.P.	=	SP
100	+	60	=	160 (200 – 20%)
2,00,000	+	1,20,000		3,20,000

(0.5 Mark)

(D) Sale to Exports

Cost	+	G.P.	=	SP
100	+	50	=	150 (200 – 25%)
1,00,000	+	50,000		1,50,000

(0.5 Mark)

Working Note 3:

Sales to Retailers

J	F	M	A	M	J	J	A	S	O	N	D	J	F	M
1	1	1	1	1	1	2	2	2	2	2	2	2	2	2

$\underbrace{\text{Pre}}_{4}$ $\underbrace{\text{Post}}_{20}$

1 : 5

(0.5 Mark)

Working Note 4:

Sales Ratio:

Particulars	Pre	Post
(a) Customers	1,70,000	-
(b) Retailers (1 : 5)	20,000	1,00,000
(c) Whole Seller	-	3,20,000
(d) Export	-	1,50,000
Total	**1,90,000**	**5,70,000**

1 : 3

(1 Mark)

Working Note 4: Rent Given = 1,60,000

Normal Rent
1,44,000 (balance. figure)

Pre 36,000

Post 1,08,000

Additional Rent
From 1.12.19 to 31.3.20
= 4 months x 4,000
= 16,000 (post)

∴ Total Pre (36,000 + NIL) = 36,000
Total Post (1,08,000 + 16,000) = <u>1,24,000</u>
<u>1,60,000</u>

(1 Mark)

Normal Rent

J	F	M	A	M	J	J	A	S	O	N	D	J	F	M
9000	9000	9000	9000	9000	9000	10000	10000	10000	10000	10000	10000	10000	10000	10000
Pre				Post										
36,000				1,08,000										

(0.5 Mark)

Working Note 5:

Depreciation given = 48,000

Dep. old Asset
45,000 (balance. figure)

TR (4 : 11)

Pre 12,000

Post 33,000

Dep. New Asset
3,000 (Post)

∴ Total Pre (12,000 + NIL) = 12,000
Total Post (33,000 + 3,000) = <u>36,000</u>
<u>48,000</u>

(1 Mark)

Working Note 6:

Administration expenses (given) = 40,000

Selling Expense		**Other**	
16,000		24,000	
SR = 1 : 3		1 : 5	
Pre	**Post**	**Pre**	**Post**
4,000	12,000	4,000	20,000

∴ Total Pre (4,000 + 4,000) = 8,000

Total Post (12,000 + 20,000) = <u>32,000</u>

<u>40,000</u>

(1 Mark)

Other Administration Expenses

J	F	M	A	M	J	J	A	S	O	N	D	J	F	M
1	1	1	1	1	1	2	2	2	2	2	2	2	2	2

Pre: 4

Post: 20

1 : 5

(0.5 Mark)

Working Note 7:

Interest paid to vendors

Date of Purchase	**Date of Incorporation**	**Date of Payment**
01.01.2019	01.05.2019	01.09.2020

Pre: 4 Months

Post: 4 months

1 : 1

(0.5 Mark)

Q.5

(a)

(I)

Memorandum Trading A/c (01.01.20 to 31.03.20)

Particular	Local	Export	Particular	Local	Export
To Op. Stock	1,92,000	20,000	By Sales	3,00,000	3,00,000
To Purchases	1,15,300	2,09,500			
To Carr. Inward	15,000	40,500	By Stock on Fire Date	82,300	NIL
To G.P.	60,000	30,000	(Balance Figure)		
	3,82,300	**3,00,000**		**3,82,300**	**3,00,000**

(2 Marks)

(II) Statement of Claim

	₹
Stock on fie Date…….	82,300
Less: Salvage	(2,300)
Amount of Loss of Stock	**80,000**

(1 Mark)

(III) Statement of Claim

If Stock 100 : Then Policy 75

∴ Loss 80,000 : Claim = ?

$$= \frac{80,000 \times 75}{100} = \boxed{60,000}$$

(0.5 Mark)

Working Note 1:

Trading A/c for the year ended 31.12.19

Particular	Local	Export	Particular	Local	Export
To Op. Stock	2,93,400	1,20,000	By Sales	9,81,750	5,00,000
To Purchases	6,00,000	3,00,000	By Closing Stock	1,92,000	20,000
To Carr. Inward	84,000	50,000			
To G.P. $\frac{1,96,350}{9,81,750} \times 100$ = 20%	1,96,350	50,000			
	11,73,750	**5,20,000**		**11,73,750**	**5,20,000**

(2 Marks)

Working Note 2:

For Export		Last Year		Current Year
Opening Stock		1,20,000		20,000
Add: Purchases		3,00,000		2,09,500
Add: Carr. Inward		50,000		40,500
Less: Closing Stock		(20,000)		-
Cost	90	4,50,000	90	2,70,000
Add: G.P.	10	50,000	10	30,000
Sales	100	**5,00,000**	**100**	**3,00,000**

(3 Marks)

∴ Local Sales (14,81,750 – 5,00,000) (6,00,000 – 3,00,000)
(Total Sales – Export Sales) = 9,81,750 = 3,00,000

Working Note 3:
Salvage of Local Goods

Cost	80	4,000
Add: G.P.	20	1,000
Normal Selling Price	100	5,000
Less: Repairs		(2,700)
Net Selling Price		**2,300**

(1.5 Marks)

(b)

Journal of Head office

	Particulars	L. F.	Debit (₹)	Credit (₹)	Marks
1.	Benarus Branch A/c Dr. To Amdavad Branch A/c (Being goods Transferred)		2,000	2,000	**1**
2.	Amdavad Branch A/c Dr. To Debtors A/c (Being amount collected)		2,500	2,500	**1**
3.	Purchase A/c Dr. To Benarus Branch (Being goods purchased)		5,000	5,000	**1**
4.	Cash-in-Transit A/c Dr. To Amdavad Branch A/c (Being Amount not received by H.O.)		5,000	5,000	**1**
5.	Benarus Branch A/c Dr. To Dividend Received A/c (Being Dividend Received)		1,500	1,500	**1**
6.	Benarus Branch A/c Dr. To H.O. P/L A/c (Being branch Net Profit Trf.)		5,400	5,400	**1**
7.	H.O. P/L A/c Dr. To Amdavad Branch (Being Branch Net Loss Trf.)		1,250	1,250	**1**

Books of Head Office

Amdavad Branch A/c

Particular	₹	Particular	₹
To Balance b/d	30,450	By Benarus Branch	2,000
To Debtors	2,500	By Cash-in-Transit	5,000
		By HO P/L	1,250
		By Balance c/d	24,700
	32,950		**32,950**

(1.5 Marks)

Benarus Branch A/c

Particular	₹	Particular	₹
To Balance b/d	45,000	By Purchase	5,000
To Amdavad Branch	2,000		
To Dividend Recd.	1,500		
To H.O. P/L	5,400	By Balance c/d	48,900
	53,900		**53,900**

(1.5 Marks)

Q.6

(a)

		₹
Cash Price on 01.04.17		7,87,107
Less: Down Payment		(2,40,000)
O/s Cash Price	100	5,47,107
Add: Interest 31.03.18	10	54,711
Total	110	6,01,818
Less: 1st Installment		(2,20,000)
O/s Cash Price 01.04.18	100	3,81,818
Add: Interest 31.03.19	10	38,182
Total	110	4,20,000
Less: 2nd Installment		(2,20,000)
O/s Cash Price	100	2,00,000
Add: Interest 31.03.20	10	20,000
Total	110	2,20,000
Less: 3rd Installment		(2,20,000)
O/s Cash Price		**NIL**

(5 Marks)

(b)

As per AS-10, each part of an item of PPE that has a cost that is significant when compared to the total cost of the item should be depreciated separately. As it appears that imported asset of ₹ 750 lakhs, which is component of plant and machinery, has significant cost as compared to the total cost. Therefore, it should be depreciated separately. The company's policy to write off over two years is correct.

(5 Marks)

(c)

Books of H.O.

Patna Branch A/c

Particular		₹	Particular		₹
To Balance b/d			**By Cash/Bank**		
Stock	58,900		Cash Sales	3,15,800	
Debtor	14,700		Recd. from Debtors	1,37,900	4,53,700
Petty Cash	720	74,320	By Goods sent to Branch (Returns)		1,800
To Goods sent to branch A/c		3,29,400	**By Balance c/d**		
To Cash/Bank			Stock	55,400	
Rent	12,000		Debtor	17,200	
Salaries	36,000		Petty Cash	730	73,330
Petty Cash	7,000	55,000			
To Profit Trf. To Ho P/L		70,110			
		5,28,830			**5,28,830**

(4.5 Marks)

Memorandum Debtors A/c

Particular	₹	Particular	₹
To Balance b/d	14,700	By Cash	1,37,900
To Cr. Sales	1,40,400	By Balance c/d	17,200
	1,55,100		**1,55,100**

(0.5 Mark)

(d)

The primary consideration in the selection of accounting policies by an enterprise is that the financial statements prepared and presented on the basis of such accounting policies should represent a true and fair view of the state of affairs of the enterprise as at the balance sheet date and of the profit or loss for the period ended on that date.

For this purpose, the major considerations governing the selection and application of accounting policies are:

a. Prudence: In view of the uncertainty attached to future events, profits are not anticipated but recognised only when realised though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

b. Substance over Form: The accounting treatment and presentation in financial statements of transactions and events should be governed by their substance and not merely by the legal form.

c. Materiality: Financial statements should disclose all "material" items, i.e. items the knowledge of which might influence the decisions of the user of the financial statements.

(5 Marks)

(e)

Departmental Trading A/c for the year ended 31.03.20

Particulars	A	B	C	Particulars	A	B	C
To Opening Stock	14,400	10,800	30,000	By Sales	2,08,000	4,41,000	7,65,000
To Purchase	1,20,000	2,70,000	4,50,000	By Closing Stock	9,600	16,200	21,000
To GP	83,200	1,76,400	3,06,000				
	2,17,600	**4,57,200**	**7,86,000**		**2,17,600**	**4,57,200**	**7,86,000**

(1 Mark)

Working Note 1:

If all purchased Qty. is sold

Total Sales (5,000 x 40) + (10,000 x 45) + (15,000 x50)	=	14,00,000
Total Purchase	=	8,40,000
Gross Profit	=	**5,60,000**

$$GP\% = \frac{5,60,000}{14,00,000} \times 100 = 40\%$$

(0.5 Mark)

Working Note 2:
Calculation of Cost:-

	A	**B**	**C**
Selling Price **Less:** GP (40%)	40 (16)	45 (18)	50 (20)
Cost	**24**	**27**	**30**

(0.5 Mark)

Working Note 3:

A Department	Opening Stock 600 x 24	+ Purchases + 5,000 x 24	– Closing Stock – 400 x 24	= Sales = 5,200 x 40
	14,400	**1,20,000**	**9,600**	**2,08,000**
B Department	Opening Stock 400 x 27	+ Purchases + 10,000 x 27	– Closing Stock – 600 x 27	= Sales = 9,800 x 45
	10,800	**2,70,000**	**16,200**	**4,41,000**
C Department	Opening Stock 1,000 x 30	+ Purchases + 15,000 x 30	– Closing Stock – 700 x 30	= Sales = 15,300 x 50
	30,000	**4,50,000**	**21,000**	**7,65,000**

(3 Marks)