SUGGESTED ANSWERS

CA INTER

Test Code – JK-ACC-11

Date – 02-08-2020

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

Tel: (022) 26836666

Q.1

(a)

Cost element	Total Cost	X	Y	Z
Raw material	100,000			
Less: Scrap	(5,000)			
	95,000			
Less: Cost of by-product	(15,000)			15,000
	80,000			
Add;				
Wages	50,000			
Fixed overheads	50,000			
Variable overheads	30,000			
Distributed in 2 : 1 ratio, X(60 X 4000): Y(40 X 3000)	210,000	140,000	70,000	-

Cost of by-product at the point of separation:

Sale price by - product		18,000
Less:		
Separate processing	1,000	
Packing	2,000	3,000
		15,000

Closing Stock Valuation:

	X	Y
(a) Total cost	140,000	70,000
(b) Numbers of unit produced	4,000	3,000
(c) Closing stock	500	100
Value of closing stock (a/b X C)	17,500	2,333

(b)

Calculation of cost of Machine as per AS-10

	(Rupees in Lakhs)
Price of machine	370.44
Less: Trade discount 2%	7.41
	363.03
Add : GST 8%	29.04
	392.07
Transport Charges 0.25% on ₹ 370.44	0.93
Installation Charges 1% of ₹ 370.44	3.70
	396.70
Calculation of borrowings cost -	
30-09-2019 to 01-12-2019	
300 x 15/100 x 2/12	7.50
	404.20
Add: Expenses on trial run	1.10
Total Cost	**405.30**

As per AS-16, the capitalization of interest should cease when substantially all the activities necessary for intended use are completed. Therefore interest for the period 1-12-2012 to 1-5-2013 should be expensed.

Alternatively the entire borrowing cost can be transferred to P&L A/c. stating that the Machinery does not take substantial period of time to get ready for its intended use as in this case it has taken only 2 months which may not be substantial, so the Cost of the Machine will be **` 397.80 lacs. (405.3 – 7.50)**

(c)

The action of the Sunder Ltd. is not justified in view of Para 10 of AS- 12. As per Para 10 of AS-12 "Accounting for Govt. Grants '

"Where the Govt. grants are of the nature of promoter contribution i.e. they are given with reference to the total investment in an undertaking or by way of promoters contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof the grants are treated as capital reserve, which can be neither distributed as dividend nor considered as deferred income."

Therefore it is inappropriate to recognize Government grants in the profit & loss statement for the year ended 31-3-2020. Since they are not earned but represent an incentive provided by Government without related cost.

(d)

As per AS 13 "Accounting for Investments", pre – acquisition dividend if any received should be deducted from the Cost of the Investment to arrive at its Carrying Amount.

In the given case, Sumit Ltd., has declared dividend for the financial year 2018 – 19 on 16.08.2019 which is a pre – acquisition dividend for Amit Ltd., as these shares were purchased on 01.08.2019 by Amit Ltd. So to arrive at the Carrying Values of these investments as on 31.03.2020, Amit Ltd should deduct the the pre – acquisition dividend received of ` 24,000 (60,000 x 40%) from the Cost of ` 5,00,000.

Therefore the carrying value of Investments in Sumit Ltd., as on 31.03.2020 will be ` 4,76,000 (5,00,000 – 24,000).

Q.2

(a)

Journal of M/S. __________

Date	Particulars	L.F.	Debit (₹)	Credit (₹)	Marks
01.01.16	Bank A/c Dr. To Red. Pref. Sh. Cap. A/c (Being Pref. Shs. Issued at par)		1,80,000	1,80,000	**0.5**
30.06.18	P/L A/c Dr. To Capital Redemption Reserve A/c (Being CRR Created)		60,000	60,000	**1**
30.06.18	Red. Pref. Sh. Cap. A/c Dr. To Pref. Shareholders A/c (Being Redemption Due)		60,000	60,000	**0.5**
30.06.18	Pref. Shareholders A/c Dr. To Bank (Being amount paid)		60,000	60,000	**0.5**
30.06.19	P/L A/c Dr. To Cap. Red. Res. A/c (Being CRR created)		40,000	40,000	**1**
30.06.19	Red. Pref. Sh. Cap. A/c Dr. To Pref. Shareholders A/c (Being Redemption due)		40,000	40,000	**0.5**

30.06.19	Pref. Shareholders A/c Dr. To Bank (Being Amount paid)		40,000	40,000	**0.5**
Dec.19	Bank A/c. Dr. To Equity Share Cap. A/c To Securities Prem. A/c (Being fresh issue made)		61,200	60,000 1,200	**1.5**
31.12.19	P/L A/c. Dr. To Cap. Red. Res. A/c (Being CRR Created)		20,000	20,000	**2**
31.12.19	Red. Pref. Share Cap. A/c Dr. To Pref. Shareholders A/c (Being Redemption due)		80,000	80,000	**1**
31.12.19	Pref. Shareholders A/c Dr. To Bank A/c (Being payment made)		80,000	80,000	**1**

(b)

(1) No. of Equity Shares = $\frac{\text{Amount Payable}}{\text{Issue Price}} = \frac{100000}{12.5} = 8000\,\text{sh.}$ **(0.5 Marks)**

Journal of M/s. A Ltd.

Date	Particulars	L. F.	Debit (₹)	Credit (₹)	Marks
2017	P/L A/c. Dr. To Cap. Red. Res. A/c (Being CRR created)		20,000	20,000	**0.5**
2017	Pref. Share Capital A/c. Dr. To Pref. Shareholder A/c (Being Redemption due)		1,00,000	1,00,000	**0.5**
2017	Pref. Shareholder A/c Dr. To Equity Share Capital A/c (8000 x FV 10) To Securities Premium A/c (8000 x 2.5) (Being Pref. shareholders paid by conversion)		1,00,000	80,000 20,000	**1**

(2)	No. of Deb. Issued = $\frac{\text{Amount payable}}{\text{Issue Price}} = \frac{95000}{95}$ = 1000 Deb.				**0.5**
	Journal of B Ltd.				
2018	P/L A/c Dr. To Capital Redemption Reserve A/c (Being CRR created)		95,000	95,000	**0.5**
2018	Pref. Share Capital A/c Dr. To Pref. Shareholders A/c (Being redemption due)		95,000	95,000	**0.5**
2018	Pref. Shareholders A/c Dr. Discount on issue of debenture (1000 x 5) Dr. To 10% Debentures (1000 x 100) (Being pref. shareholders paid by conversion)		95,000 5,000	1,00,000	**1**
3	No. of Equity $= \frac{\text{Amount payable}}{\text{Issue Price}} = \frac{125000}{20}$ = 6250 Shares				**0.5**
	Journal of 'C' ltd.				
2020	P/L A/c Dr. To Capital Redemption Reserve A/c (Being CRR created)		37,500	37,500	**0.5**
2020	Pref. Share Capital A/c Dr. (10000 x 10) Premium on Redemption A/c Dr. (10000 x 2.5) To Pref. shareholders A/c (Being redemption due)		1,00,000 25,000	1,25,000	**1.5**
2020	Pref. Shareholder A/c Dr. To Eq. Sh. Cap. A/c (6250 x 10) To Sec. Prem. A/c (6250 x 10) (Being payment by conversion)		1,25,000	62,500 62,500	**1.5**
2020	P/L A/c Dr. To Premium on Redemption A/c (Being P.O.R. W/off) alternately Sec. Prem. A/c. can be used)		25,000	25,000	**1**

Q.3

(a)

Calculation of Net Profit U/s. 198

			₹	₹
	Profits earned by company			2,50,000
Add:	**(1)**	Depreciation on Fixed Assets	47,800	
	(2)	Provision for Income Tax	1,22,500	
	(3)	Capital Expenditure	12,500	+1,82,800
Less:	Depreciation as per Schedule II			(32,800)
Net Profit for calculation of managerial remuneration				4,00,000

(3 Marks)

Let Remuneration to Whole Time Directors be x.

And let remuneration to Part Time Directors be y.

$\therefore$ x = 10% of (4,00,000 – y) and y = 1% of (4,00,000 – x)

Substitute y in x $\therefore$ y = 4000 – 0.01x

x = 10% of [4,00,000 – (4,000 – 0.01x)]

x = 10% of (4,00,000 – 4,000 + 0.01 x)

x = 10% of (3,96,000 + 0.01x)

x = 39,600 + 0.001x

x – 0.001x = 39,600

0.999 x = 39.600

0.999 x = 39,600

$$X = \frac{39600}{0.999} = 39639.63 \cong 39640 \text{ (Rounded off)}$$

Y = [4,000 – (0.01 x 39,640)]

$\therefore$ y = 4,000 – 396.4 = 3603.60

Rounded off to 3604

Hence Remuneration to whole time directors = ₹39,640.

Remuneration of part time Directors = ₹3,604.

(7 Marks)

(b)

Statement of P/L for the year ended 30.09.2020

	Basis	**Pre (₹)**	**Post (₹)**
Gross Profit (WN 5)	S.R.	16,000	80,000
Less :			
(1) Salary (WN 2)	4:21	(24,00)	(12,600)
(2) Wages	WN3	(960)	(4,500)
(3) Directors Salary	Post	–	(8,000)
Net profit tr. To Capital Reserve		12,640	–
Net Profit trf. To balance sheet			54,900

(5 Marks)

WN–1: Time Ratio

Date of Purchase	**Date of Incorporation**	**Date of Final A/c**
01.10.2019	01.01.2020	30.09.2020

Pre		Post
3 Months	1:3	9 months

(1 Marks)

WN–2: Salary

Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun	Jul	Aug	Sep
4	4	4	7	7	7	7	7	7	7	7	7

Pre: 12 | Post: 63

$\boxed{4:21}$

(1.5 Marks)

WN–3: Wages

Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun	Jul	Aug	Sep
4	4	4	5	5	5	5	5	5	5	5	5

Pre: 12 x 80 = 960

Post: 45 x 100 = 4,500

(1.5 Marks)

WN– 4: Sales Ratio:

Total Sales = 2,40,000

Pre 40,000 Post 2,00,000

1 : 5 **(0.5 Marks)**

WN–5: Gross Profit

= Net Profit + Expenses

= 67,540 + 15,000 + 5,460 + 8,000 **(0.5 Marks)**

= 96,000

Q.4

(a)

WN - 1: Weighted Average Cost Calculation

Face Value	Transaction	Amount (₹)
12000	Op.Bal.	5,22,000
(2,000)	(Sale)	(87,000)
5,000	Bonus	–
3,000	Rights	75,000
18,000	Cl.Bal.	5,10,000

(2 Marks)

WN - 2: P/L on Sale

Selling Price	=	1,80,000
Less : Wt. Avg. cost	=	(87,000)
Profit on sale	**=**	**93,000**

(1 Marks)

WN - 3: Bonus

2 held : 1 bonus

1000 500

(0.5 Marks)

WN - 4: Rights

5 held : 1 Right

1500 300

(0.5 Marks)

WN -5: Final Dividend on 1000 Shs x 4 = 4000 (Post)

(0.5 Marks)

WN - 6: Interim Dividend on 31.12.2019

(i)	On (Op. Bal. – Sale) = FV 10000 x 30% x 9/12		2250 Post
(ii)	On Bonus	FV = 5000 x 30% x 3/12	375 Post
(iii)	On Rights	FV 3000 x 30% x 2/12	150 Post
			2775 Post

(1.5 Marks)

Books of Investor Mr. Y

Investment in Equity Shares of ITC Ltd.

Date	Particulars	FV	Dividend	Amount	Date	Particulars	FV	Dividend	Amount
1.4.19	To Bal. b/d	12,000	–	5,22,000	15.5.19	By Bank (Sale)	2,000	–	1,80,000
15.5.19	To P/L A/.c (WN 2) (Profit on sale)	–	–	93,000	15.6.19	By Bank A/c. (WN 5)	–	4,000	–
30.9.19	To Bonus (WN 3)	5,000	–	–	31.12.19	By Bank A/.c (WN 6)	–	2,775	–
1-11-19	To Bank A/c.	3,000	–	75,000					
31.3.20	To P/L A/c.	–	6,775	–	31.3.20	By Bal. C/d	18,000	–	5,10,000
		20,000	**6,775**	**6,90,000**			**20,000**	**6,775**	**6,90,000**

* Since market price is not given carrying amount is valued at Weighted Average Cost.

(4 Marks)

(b)

I. Books of ....

Memorandum Trading A/c. (From 1.1.20 to 30.4.20)

Particulars	₹	Particulars	₹
To Opening Stock	18,320	By Sales (WN 1)	94,130
To Purchases	73,680	By Stock on fire date	16,696
To GP (94130 x 20%)	18,826		
	1,10,826		**1,10,826**

(4 Marks)

II. Statement of Loss

Stock on Fire Date =	16,696
Less: Salvage (WN 2)	(11,578)
Amount of Loss of Stock	**5,118**

(1 Marks)

III. Calculation of claim

Since policy amount is not given it is assumed to be equal Insurance, hence claim = loss = **5118**

(1 Marks)

WN-1:

Debtors A/c (from 1.1.20 to 30.4.20)

Particulars	₹	Particulars	₹
To Opening Balance	19,660	By Cash /Bank A/c.	92,550
To Credit Sales	94,130	By Closing Balance c/d	21,240
	1,13,790		**1,13,790**

(1 Marks)

WN – 2:

Trading Account (from 1.5.20 to 5.5.20)

Particulars	₹	Particulars	₹
To Opening Stock (Salvage)	11,578	By Sales	4,375
To Purchases	6,872	By Closing Stock	14,950
To GP (4375 x 20%)	875		
	19,325		**19,325**

(3 Marks)

Q.5

(a)

Books of Head Office (X Ltd.)

Branch Stock A/c.

Particulars	₹	Particulars	₹
To Opening Balance b/d.(6,00,000 + 30,000 GIT)	6,30,000	By Branch Cash (Sales)	6,30,000
To Goods sent to Branch A/c. (18,00,000 – 30,000)	17,70,000	By Branch Stock Adj. A/c (Reduction in Selling Price)	30,000
To Branch Stock Adj. A/c (Excess Selling price)	7,500	By Branch Debtors A/c	12,00,000
To Surplus	7,500	By Goods sent to branch A/c (Returns)	90,000
		By Balance c/d	4,65,000
	24,15,000		**24,15,000**

(4 Marks)

Branch Stock Adjustment A/c

Particulars	₹	Particulars	₹
To Branch Stock A/c.	30,000	By Bal. b/d. (Op. stock Res.)	2,10,000
To Goods sent to Branch	30,000	By Goods sent to Branch A/c	5,90,000
To G.P. Trf. To Br. P/L A/c.	5,95,000	By Branch Stock A/c	7,500
To Bal. C/d (closing Stock Reserve)	1,55,000	By Surplus	2,500
	8,10,000		**8,10,000**

(4 Marks)

Branch P/L A/c

Particulars		₹	Particulars	₹
To Branch expense A/c			By Br. Stock Adj. A/c. (G.P.)	5,95,000
Bad Debts	20,000		By Surplus	5,000
Branch Exps.	40,000	60,000	(Invoice Price – loading)	
To Net Profit Trf. To HO P/L A/c		5,40,000		
		6,00,000		**6,00,000**

(2 Marks)

(b) **Trading, P/L A/c. of Doll & Dolly for the year ended 31.03.20**

Particulars		₹	Particulars		₹
To Opening Stock		44,000	By Sales		
To Purchases			Cash	32,000	
Cash	-		Credit	2,31,250	2,63,250
Credit	2,16,600	2,16,600			
To Gross Profit (WN 5)		52,650	By Closing Stock		50,000
		3,13,250			**3,13,250**
To Salaries		22,000	By Gross Profit		52,650
To Rent		4,400	By Disc. Earned		2,400
To Advertising		1,800			
To Printing	1,600				
Add : O/S.	500	2,100			
To General Expenses		19,100			
To Disc. Allowed		2,800			
To Dep. On furniture		600			
To Net Profit Trf. To					
Doll	1,125				
Dolly	1,125	2,250			
		55,050			**55,050**

(2 + 2 Marks)

Balance Sheet of Doll and Dolly as on 31.3.2020

Liabilities		₹	Assets		₹
Capitals			Furniture	6,000	
Doll	61,900		Less : Dep.10%	(600)	5,400
Dolly	61,900	1,23,800	Debtors		70,000
O/S Printing		500	Closing Stock		50,000
Creditors		37,000	Cash in hand		35,900
		1,61,300			**1,61,300**

(2 Marks)

WN - 1:

Opening balance sheet as on 1.4.2019

Liabilities	₹	Assets	₹
Capitals		Furniture	6,000
Doll (W N 6)	64,775		
Dolly	60,775	Debtors	1,11,500
Total Capital	1,25,550	Stock in Trade	44,000
Creditors	46,800	Cash in hand	10,800
	1,72,350		**1,72,350**

(0.5 Marks)

WN - 2:

Total Debtors A/c

Particulars	₹	Particulars	₹
To Opening bal b/d	1,11,550	By Cash / Bank	2,70,000
To Credit Sales	2,31,250	By Disc. Allowed	2,800
		By Closing Balance c/d	70,000
	3,42,800		**3,42,800**

(0.5 Marks)

WN - 3:

Total Creditors A/c

Particulars	₹	Particulars	₹
To Cash / Bank	2,24,000	By Opening balance b/d	46,800
To Disc. Earned	2,400	By Credit purchase	2,16,600
To Closing Balance	37,000		
	2,63,400		**2,63,400**

(0.5 Marks)

WN - 4:

Partners Capital A/c. (1:1 PSR)

Particulars	Doll	Dolly	Particulars	Doll	Dolly
To Drawings	4,000	–	By Balance b/d	64,775	60,775
To Bal. C/d	61,900	61,900	By Net Profit	1,125	1,125
	65,900	**61,900**		**65,900**	**61,900**

(0.5 Marks)

WN - 5:

Cost + GP = Sales

80 + 20 = 100

210600 + ? (52650) = 2,63,250

Cash 32,000

Credit 2,31,250

(1 Marks)

WN - 6: Calculation of Op. Cap.

Doll + Dolly = Total Opening Capital

(x + 4,000) + x = 1,25,550

2x + 4,000 = 1,25,550

2x = 1,25,550 – 4,000

X $= \frac{121550}{2}$ = 60,775 (Dolly Cap)

∴ Doll Cap. = 60775 + 4000 = 64,775.

(1 Marks)

Q.6

(a)

1. Dislocation Period (1^{st} July to 31^{st} Oct.) 4 months

2. Indemnity Period <u>6 months</u>

∴ Calculation for whichever is less **<u>4 months</u>**

Step - 1: Find GP %

$$GP\% = \frac{\text{Operating Net Profit + Insured Standing charges}}{\text{Financial Turnover}} \times 100$$

$$= \frac{18000 + 32000}{200000} \times 100 = \boxed{25\%}$$

(0.5 Marks)

Step - 2: Find Short Sales

Short sales = Adjusted Standard Turnover – Actual Turnover

= (65000 + 10%) – 25,000

= 71500 – 25,000

$\boxed{= 46500}$

(0.5 Marks)

Step - 3: Find Loss of Profit

Loss of Profit = Short Sales x GP %

= 46,500 x 25%

$\boxed{= 11,625}$

(0.5 Marks)

WN Find GP on Adjusted Annual Turnover

Annual Turnover	2,40,000
Add : Trend 10%	<u>24,000</u>
Adjusted Annual Turnover	2,64,000
X GP %	<u>x 25%</u>
GP on Adjusted Annual Turnover	**<u>66,000</u>**

(0.5 Marks)

Step - 4: Find Claim for Additional Expenses

(a)	Actual amount spent (600 x 4 months)	2,400
(b)	GP on Additional Sales (6000 x 25%)	1,500
(c)	Proportionate Amount	

$$\frac{\text{GP on Adj. Annual Turnover}}{\text{GP as above + Uninsured standing charges}} \times \text{Actual Amount Spent}$$

$= \frac{66000}{66000 + 10000} \times 2400$	2,084
For claim a/b/c whichever is less	$\boxed{1,500}$

(1 Marks)

Step 5: Saving in cost = 4725 x $\frac{4}{12}$	$\boxed{1,575}$

(1 Marks)

Step -6: Find Gross Claim

(a)	Loss of Profit (Step 3)	11,625
(b)	Add: Additional expense (Step 4)	1,500
(c)	Less: Saving in cost (Step 5)	(1,575)
	Gross Claim	11,550

(0.5 Marks)

Step -7: Policy amount ` 50,000

GP on Adj. Annual T/O. ` 66,000

$\therefore$ Under insurance, average clause is applicable

$$\text{Claim} = \frac{\text{Gross Claim} \times \text{Policy Amount}}{\text{GP on Adjusted Annual Turnover}}$$

$$= \frac{11500 \times 50000}{66000}$$

$$= \boxed{\mathbf{8,750}}$$

(0.5 Marks)

(b)

As per AS 10 "Property, Plant & Equipment", size of the expenditure is not the basis to decide whether subsequent expenditure should be capitalized. The important question is whether the expenditure increases the expected future benefits from the asset beyond its pre- assessed standard of performance only then it should be capitalised. Since in this case, only the benefits are maintained at existing level, the expenditure should not be capitalized. If under the circumstances the amount is material the auditor should qualify his report.

(c)

Departmental P/L A/c. for the year ended 31.03.2020

Particulars	A	B	C	Particulars	A	B	C
To Purchases	160000	125000	–	By Sales	175000	140000	–
To Spares	–	–	80000	By Services	–	–	35000
To Salaries & Wages	12000	24000	12000	By Closing Stock	60100	20300	44600
To Rent	2400	2400	6000	By Net Loss	–	–	19500
To Sundry Exps.*	5500	4400	1100				
To Net Profit	55200	4500	–				
	2,35,100	**1,60,300**	**99,100**		**2,35,100**	**1,60,300**	**99,100**

Note:

Sundry expenses are apportioned in the ratio of Turnover (5:4:1) i.e. 1,75,000 : 1,40,000 : 35,000

(5 Marks)

(d)

The following disclosure are required as per AS 13 :

- ♦ Accounting policies followed for valuation of investment.
- ♦ Classification of investment into current and long term in addition to classification as per Schedule III of Companies Act in case of company.
- ♦ Aggregate amount of quoted & unquoted securities separately.
- ♦ Any significant restriction on investment like minimum holding period for sale/disposal, utilization of sale proceeds, or non-remittance of sale proceeds of investment held outside India.

(e)

	Cash Price as on 1.4.2014	10,514	
Less:	Down payment	(3,048)	
	O/S. C.P. as on 1.4.2014	7,466	100
Add :	Interest 31.3.15	747	10
	Total as on 1.4.15	8,213	110
Add :	Interest 31.3.16	821	11
	Total	**9,034**	121
Less:	1st Instalment	(3,600)	
	O/S. C.P. as on 1.4.16 (Bal. fig.)	5,434	100
Add :	Interest 31.3.17	543	10
	Total	**5,977**	110
Add:	Interest 31.3.18	598	11
	Total	**6,575**	121
Less:	2nd instalment	(3,600)	
	O/S C.P. as on 1.4.18 (Bal. fig.)	2,975	100 (assume)
Add :	Interest 31.3.19	298	10
	Total (3600 – 327)	**3,273**	110
Add :	Interest 31.3.20	327	11
	Total	**3,600**	121
Less:	Last instalment	(3,600)	
	O/S C.P.	**Nil**	
* Hint Reverse calculation			

(5 Marks)